All data in the edition are the last available data, published as of August , 2019

The quoted data set in this report are the last available data, published in the official source's web sites. The sources are Ministry of Finance, Bulgarian National Bank, National Statistic Institute, National Employment Agency, Bulgarian Industrial Association. The electronic system used for collecting the data from the official sources is CEIC Data Manager.

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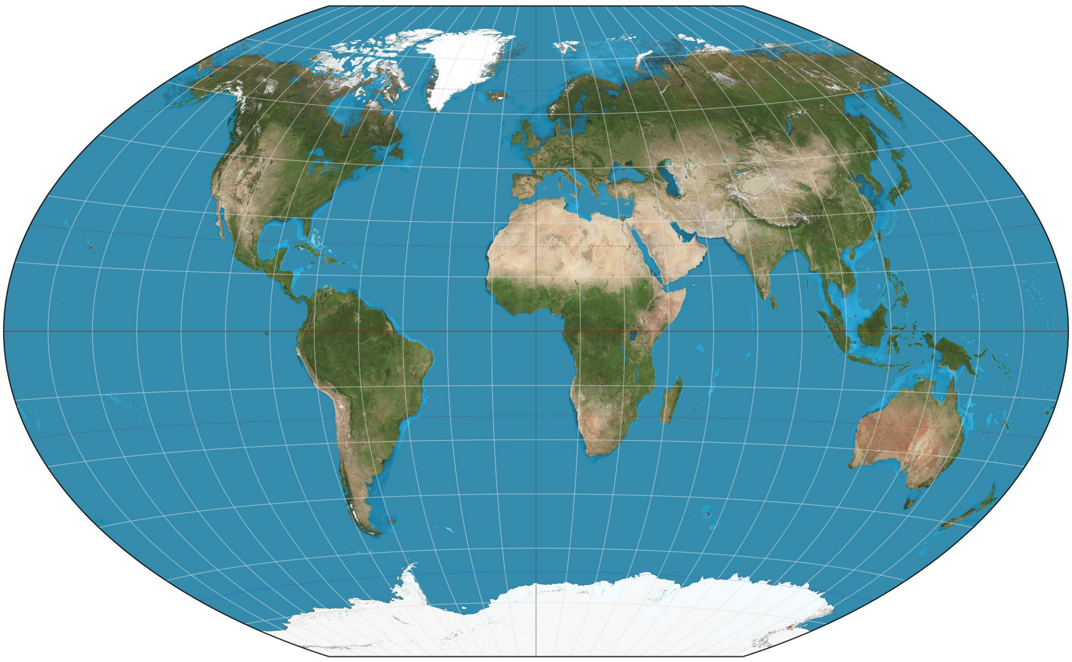
HIGHLIGHTS AND FORECASTS

MONTHLY ECONOMIC REPORT



August, 2019

Sofia

- *The Eurozone economy grew 0.2% qoq in Q2 2019, easing from a 0.4% expansion in the previous period. Compared with the same quarter of the previous year, the Euro Area economy grew 1.1% in the Q2, easing from 1.2% expansion in the previous period. That was the weakest growth rate since the Q4 of 2013. The Euro Area seasonally-adjusted unemployment rate fell to 7.5% in June 2019 from an upwardly revised 7.6% in the previous month and in line with market expectations. It was the lowest jobless rate since July 2008 as the number of unemployed continued to decline. Considering the European Union as a whole, the unemployment rate was unchanged at 6.3% in June, the lowest since the start of the EU monthly unemployment series in January 2000. The annual inflation rate in the Euro Area is expected to fall to 1.1% in July of 2019 from 1.3% in the previous month. It is the lowest inflation rate since February last year, mainly due to a slowdown in cost of energy and services. The annual core inflation, which excludes volatile prices of energy, food, alcohol & tobacco and at which the ECB looks in its policy decisions, is likely to slow to 0.9% in July from 1.1% in the prior month.*
- *Italy's economy stagnated in Q2 of 2019 with 0% growth, following a 0.1% growth in the previous three-month period. Yoy, the GDP was unchanged in the second quarter 0%, following a 0.1% fall in the previous three-month period. European commission expects GDP growth at 0.1% in 2019, slowing from 0.9% in 2018. The annual inflation rate in Italy fell to 0.4% in July of 2019 from 0.7% in the previous month. On a monthly basis, consumer prices showed 0% growth, after a 0.1% gain in the previous month. The seasonally adjusted unemployment rate in Italy decreased to 9.7% in June of 2019 from a downwardly revised 9.8% in the previous month. It was the lowest jobless rate since January of 2012. Matteo Salvini, the deputy prime minister and leader of the right wing League party, has called for early elections, declaring the government unworkable. The League has now presented a no-confidence motion against Prime Minister Giuseppe Conte. The League are currently leading in the polls, and Salvini may see an early election as his chance to win power outright. Only President Sergio Mattarella has the power to dissolve parliament and he may be unwilling to do so ahead of preparatory work in September for the 2020 budget, which must be presented to parliament and the European Commission the following month.*
- *Britain's economy shrank -0.2% in Q2 of 2019, following a 0.5% growth in the previous three-month period. That was the first quarter of contraction since the last quarter of 2012. On the production side, industrial output dropped 1.4%, the most since the last quarter of 2012, driven by the largest decline in manufacturing since the first quarter of 2009 amid high stock levels and ongoing Brexit uncertainty. On the expenditure side, gross capital formation (GCF) made a negative contribution of 4.01% to overall GDP growth. Household consumption increased 0.5% (vs 0.6% in Q1). The annual inflation rate in the United Kingdom was at 2% in June 2019, unchanged from the previous month. The annual core inflation rate, which excludes prices of energy, food, alcohol and tobacco, advanced to 1.8% from an over 2-year low of 1.7% in May. The UK unemployment rate edged up to 3.9% in the second quarter of 2019 from a 44-year low of 3.8% in the previous period. The British economy will continue to suffer from Brexit-related uncertainty as well as disruptions to supply capacity in the medium to longer run. Brexit negotiations will eventually, but most likely after substantial postponement, result in an outcome that is acceptable for both the UK and the EU, without fully derailing economic momentum.*
- *The US economy grew by an annualized 2.1% in Q2 of 2019, following a 3.1% expansion in the previous three-month period. Household consumption and government spending increased at faster rates, while a slump in exports and a smaller inventory build made a negative contribution to growth. Business investment declined for the first time in three years by 0.6%, compared to a 4.4% advance in the previous three-month period. The US annual inflation rate rose to 1.8% in July 2019 from a four-month low of 1.6% in the previous month, boosted by food prices and a range of other goods while energy deflation eased. The core inflation rate, which excludes volatile items such as food and energy, edged up to 2.2% in July. On a monthly basis, consumer prices advanced 0.3% in July, after a 0.1% gain in June, mainly driven by increases in gasoline and shelter prices. The US unemployment rate stood at 3.7% in July 2019, unchanged from the previous month's figure.*

- *The Japanese economy advanced 0.4% qoq in Q2 of 2019, following an upwardly revised 0.7% growth in the previous period. Private demand expanded 0.7% in Q2 (vs 0.3% in Q1), as household consumption grew by the most in two years (0.6% vs 0.1%) on the back of demand for cars and air conditioners. Also, capital expenditure rose sharply (1.5% vs 0.4%). On an annualized basis, the economy grew by 1.8% in the second quarter, after an upwardly revised 2.8% expansion in the March quarter. Japan's consumer price inflation came in at 0.7% yoy in June 2019, unchanged from the previous month. Annual core consumer inflation, which excludes fresh food, fell to 0.6% in June, the lowest since July 2017, from 0.8% in May. On a seasonally adjusted monthly basis, consumer prices were flat for the second sucessive month. The unemployment rate in Japan decreased to a 4-month low of 2.3% in June 2019 from 2.4% in May.*
- *The trade war between USA and China continues to escalate. US President Donald Trump announced in August 1, 2019 that additional 10% tariff will be levied on the "remaining USD 300 billion of goods". American President delays some of the tariffs in August 13, 2019. USD 110 billion worth will still take place on September 1, but USD 160 billion will not take effect until the end of December. In retaliation, the central bank of China (PBOC) let the renminbi fall over 2 % in three days to the lowest point since 2008 as it was hit by strong sales due to the threat of tariffs. The U.S. Department of Treasury officially declared China as a Currency Manipulator in August 5, 2019. China orders state-owned enterprises in August 5, 2019 to stop buying US agricultural products, totaling USD 20 billion per year before the trade war and USD 20 billion per year as of July 2019. China's trade surplus with the US narrowed to USD 27.97 billion in July from USD 29.92 billion in June. Unemployment Rate in China decreased to 3.61% in the second quarter of 2019 from 3.67% in the first quarter of 2019. China's annual inflation rate rose to 2.8% in July 2019 from 2.7% in the previous month.*
- *Industrial production in June posted -3.9% drop compared to previous year in calendar adjusted terms. Intermediate and capital goods with -8.1% and -5.8% yoy change have dragged down production performance. Seasonally adjusted drop on monthly basis was also disappointing at -3.7%. Textile, basic metals and automotive production among export oriented sectors in June declined -4.8%, -12.3% and -4.7% respectively while machinery and equipment as an indicator of future investments has declined -13.0% yoy. According to Bloomberg analyst' survey budget deficits will reach a 7-year high 3.7% of GDP by the end of 2019. Turkey's jobless rate rose to 12.8% in May 2019 from 9.7% in the same period of the previous year. The non-agricultural jobless rate climbed to 15.0% in May from 11.6% in the previous year. On a seasonally adjusted basis, the unemployment rate rose to 14.0% in May from 13.8% in April. Turkey's annual inflation rate increased to 16.65% in July of 2019 from June's one-year low of 15.72%. Annual core inflation rate, which excludes energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold, advanced to 16.20% in July from 14.86% in June.*
- *At 25 July 2019's meeting the Governing Council of the European Central Bank (ECB) decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.40% respectively. The Governing Council expects the key ECB interest rates to remain at their present or lower levels at least through the first half of 2020, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to its aim over the medium term. In this context, the Governing Council has tasked the relevant Eurosystem Committees with examining options, including ways to reinforce its forward guidance on policy rates, mitigating measures, such as the design of a tiered system for reserve remuneration, and options for the size and composition of potential new net asset purchases. Monetary policy measures of ECB, including the forthcoming new series of targeted longer-term refinancing operations (TLTRO III), will help to safeguard favorable bank lending conditions and will continue to support access to financing, in particular for small and medium-sized enterprises.*
- *The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting ending on 31 July 2019, the MPC voted unanimously to maintain Bank Rate at 0.75%. The Committee voted unanimously to maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at GBP 10 billion.*

- *The Committee also voted unanimously to maintain the stock of UK government bond purchases, financed by the issuance of central bank reserves, at GBP 435 billion. Increased uncertainty about the nature of EU withdrawal means that the economy could follow a wide range of paths over coming years. The appropriate path of monetary policy will depend on the balance of the effects of Brexit on demand, supply and the exchange rate. The monetary policy response to Brexit, whatever form it takes, will not be automatic and could be in either direction. In all circumstances, the Committee will set monetary policy appropriately to achieve the 2% inflation target.*
- *Information received since the Federal Open Market Committee met in June indicates that the labor market remains strong and that economic activity has been rising at a moderate rate. Although growth of household spending has picked up from earlier in the year, growth of business fixed investment has been soft. On a 12-month basis, overall inflation and inflation for items other than food and energy are running below 2%. In light of the implications of global developments for the economic outlook as well as muted inflation pressures, the Committee decided to lower the target range for the federal funds rate to 2 to 2.25% (with 0.25%). This action supports the Committee's view that sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2% objective are the most likely outcomes, but uncertainties about this outlook remain. The Committee will conclude the reduction of its aggregate securities holdings in the System Open Market Account in August, two months earlier than previously indicated.*
- *At the Monetary Policy Meeting held July 30, 2019, the Policy Board of the Bank of Japan decided upon the following: The short-term policy interest rate: The Bank will apply a negative interest rate of minus -0.1% to the Policy-Rate Balances in current accounts held by financial institutions at the Bank. The Bank will purchase Japanese government bonds (JGBs) so that 10-year JGB yields will remain at around 0%. The Bank will conduct purchases in a flexible manner so that their amount outstanding will increase at an annual pace of about 80 trillion JPY. The Bank will purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) so that their amounts outstanding will increase at annual paces of about 6 trillion JPY and about 90 billion JPY, respectively. As for CP and corporate bonds, the Bank will maintain their amounts outstanding at about 2.2 trillion JPY and about 3.2 trillion JPY, respectively. Bank of Japan will continue expanding the monetary base until the yoy rate of increase in the observed consumer price index (CPI, all items less fresh food) exceeds 2% and stays above the target in a stable manner. As for policy rates, the Bank intends to maintain the current extremely low levels of short- and long-term interest rates for an extended period of time, at least through around spring 2020.*
- *Speech of Pan Gongsheng, PBOC Deputy Governor and State Administration of Foreign Exchange Administrator. The short-term adjustments lately seen in the RMB exchange rate were spontaneous reactions of financial markets to the surprise US announcements of unexpected tariffs. Despite that the RMB exchange rate will be subject to trade frictions and other external shocks, PBOC judges it will not depreciate in disorder, and the foreign exchange market will eventually return to fundamentals after a brief shock. Firstly, economic performance has been stable and is expected to firm going forward. Secondly, cross-border capital flows are generally stable. Thirdly, China's external debt has been more stable. In recent years, China's external debt growth is not high compared with its economic size. Fourthly, the RMB exchange rate showed more two-way fluctuations, and foreign exchange market entities became more adaptive and rational. PBOC have the confidence and capability to effectively prevent risks arising out of external shocks, maintain stability of the foreign exchange market, and promote stable and sound development of the financial market and the financial system.*
- *The Monetary Policy Committee of Central bank of Turkey has decided to reduce the policy rate (one-week repo auction rate) from 24% to 19.75%. Inflation outlook continued to improve. In the second quarter, inflation displayed a significant fall with the contribution from a deceleration in unprocessed food and energy prices. Domestic demand conditions and the tight monetary policy continue to support disinflation. Underlying trend indicators, supply side factors, and import prices lead to an improvement in the inflation outlook. In light of these developments, recent forecast revisions suggest that inflation is likely to materialize slightly below the projections of the April Inflation Report by the end of the year. Accordingly, considering all the factors affecting inflation outlook, the Monetary Policy Committee of Central bank of Turkey decided to reduce the policy rate by 425 basis points. This is relatively high interest rate cut with 4.25% (425 bp) and decrease of basic interest rate from 24% to 19.75%. The development of USD/TRY exchange rate is the crucial variable in the TCMB's reaction function. We expect the lira TRY to depreciate substantially after interest rate cut and consequently a sharp rise in inflation, increase the level of dollarization, deterioration in the financial statement of Turkish banks, decline in GDP and increase in unemployment over the coming months. Credit rating agency Fitch downgraded Turkey's sovereign debt by one notch on 12.07.2019 in a move that comes following Moody's lowering of its credit rating for Ankara in June. The move also came less than one week after Turkish President Recep Tayyip Erdogan dismissed the country's central bank chief from his post .*

- *The Organization of the Petroleum Exporting Countries (OPEC) on 16.098.2019 presented nega-tive prospects for the oil market for the remainder of 2019, while economic growth slowed and highlighted the challenges for 2020. In their monthly OPEC report, they cut their forecast for 2019 oil demand by 40,000 BBL per day. The organization expects to see a slight surplus in the market in 2020. Crude oil dropped by -0.02 USD/BBL or -0.04% to 56.2416 on Tuesday 20 August from 56.2616 in the previous trading session. Brent oil dropped by -0.17 USD/BBL or -0.28% to 59.630 on 20 August from 59.8006 in the previous trading session. Bearish market sentiment amid a slowdown in the global economy, a trade conflict between the US and China and Brexit may force OPEC and its allies, including Russia, to continue supporting a policy of shrinking production to support prices.*
- *The middle of August 2019 brought a new decrease in FOB prices of grain contracts on the global stock markets. In the US, wheat decreased by USD -4.00 and traded at 211.00 USD/ton, in France it was minus EUR -2.00 to 167.00 EUR/ton, and in Ukraine and Russia a unanimous change of mi-nus USD -1.00 193.00 and 194.00 USD/ton respectively. For maize, the movement overseas was sharply down - minus USD -26.00 to 164.00 USD/ ton, in France the corn again lost positions by EUR -2.00 to 171.00 EUR/ ton, and Ukraine for November delivery also lowered its price almost to US - minus USD -5.00 to 165.00 USD/ton. In the Grain sub-circle of the Sofia Commodity Exchange AD after the deals in high quality wheat, the quotations of IIB group return to the usual levels. Wheat bread is locally requested at 340.00 BGN/ton, supply is from 350.00 to 370.00 BGN/ton. Feed wheat is available at 320.00 BGN/ton.*

- In January-June 2019 the net flows of foreign direct investment in Bulgaria presented according to the directional principle recorded a a positive value of EUR 457.1 million (0.8% of GDP) in January – June 2019, growing by EUR 304.5 million from January – June 2018 (positive value of EUR 152.6 million, 0.3% of GDP).
- In January-June 2019 the net flows of foreign direct investment in Bulgaria presented according to the directional principle recorded a a positive value of EUR 457.1 million (0.8% of GDP) in January – June 2019, growing by EUR 304.5 million from January – June 2018 (positive value of EUR 152.6 million, 0.3% of GDP).
- At the end of July 2019, the BNB's international reserves exceed BGN 49.9 billion (EUR 25.5 billion), increased by 1.3% mom and by 1.9% yoy and maintain the stability of the currency board in Bulgaria.
- Bulgaria's GDP expanded with 3.3% in Q2 2019 yoy and by 0.6% qoq. GDP in Q2 2019 increased by 0.2% in the EU-28 compared to the previous quarter by seasonally adjusted data. The economy will grow in the third quarter as well. Expectations are to maintain rates similar to Q1 acceleration. Gross domestic product then accelerated to 3.5% yoy, up from 3% in the Q4 of 2018. The weaker growth in the euro area countries, negative trends, as well as ongoing structural problems in some of the large economies in the EU, together with the ambiguity of the course of Brexit, will begin to have an increasingly tangible impact on the Bulgarian economy. External shocks in the short and medium term may be mitigated by a sharp increase in new investment, productivity gains, and possibly activation of projects funded under operational programs.
- In July 2019, the overall business climate indicator remained approximately at the level of the previous month at the level of 29.5%. The decrease in the economic situation was observed in industry up to 24.7% and construction up to 34.6%, while in retail trade the level of June remained (44.9%). In the services sector alone, the indicator rises to 18.3%.
- The deteriorating external environment is a factor in the overall negative trend in the industry. According to preliminary data, in June 2019 the seasonally adjusted index of industrial production in Bulgaria decreased by 1.9% compared to May 2019. In June 2019, the calendar-adjusted industrial production index registered a decrease of 3.6% compared to the corresponding month of 2018.
- According to the preliminary seasonally adjusted data in June 2019 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices kept the level of the previous month. Retail Sales yoy in Bulgaria is expected to be -0.90% by the end of 2019. Looking forward, we estimate Retail Sales yoy in Bulgaria to stand at 2.8% in 2020 and 4.5% in 2021.
- According to NSI preliminary data, in June 2019 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 0.5% below the level of the previous month. In June 2019 the working day adjusted index of production in construction increased by 1.5% in comparison with the same month of 2018. Construction Output in Bulgaria is expected to be 3.7% by the end of 2019. Construction Output in Bulgaria to stand at 4.2% in 2020 and 3% in 2021.
- The consumer price index for July 2019 compared to June 2019 is 100.8%, ie monthly inflation is 0.8%. Since the beginning of the year, inflation has been 2.0% and annual inflation has been 2.9%. The average annual inflation for the period July 2018 - June 2019 compared to the period July 2017 - June 2018 is 3.3%. Our forecast is for inflation to reach 2.5% in 2019, 2.3% in 2020. and 2.1% in 2021.
- Total Producer Price Index in June 2019 decreases by 1.1% compared to the previous month; compared to the same month of 2018 the prices rose by 0.9%. Producer Price Index on Domestic Market in June 2019 fell by 0.3% compared to the previous month; compared to the same month of 2018 the domestic prices grew by 2.6%.The total income average per household member during Q2 of 2019 is BGN 1 547 and increases by 4.9% yoy. The total expenditure average per household member during Q2 2019 is BGN 1 402 and increases by 5.3% yoy.The consumption of main food products average per household member during Q2 2019 yoy does change.

- *In Q2 2019 Bulgaria's unemployment rate was 4.2%, by 1.3 percentage points lower compared to Q2 2018. There were 61.2 thousand discouraged persons aged 15 - 64, representing 5.2% of the economically inactive population in the same age group. The activity rate for population aged 15 - 64 was 73.8%, by 2.0 percentage points higher compared to the second quarter of 2018. The employment rate for population aged 15 - 64 increased by 2.8 percentage points from the same quarter of 2018 and achieved 70.7%. The expectations for the Bulgarian labor market are one-direction. For 2019, employment is expected to increase by 0.4%. The unemployment rate is expected to rise again in H2 2019, with unemployment estimated at 4.6% in 2019 and 4.5% in 2020. Employers will have difficulty hiring skilled workers, so the benefits related to low unemployment are limited in the short term and there are concerns about the medium and long term.*
- *According to preliminary NSI data, the number of employees under employment and employment relationship in Bulgaria at the end of June 2019 increased by 1.5% compared to the end of March 2019 and reached 2.35 million. In Q2 2019, the average gross monthly salary increased by 4.3% compared to the first quarter of 2019 and reached BGN 1 260. The labor market is expected to continue to exert pressure on employers and new changes are yet to come. Low unemployment will continue to push for wage increases, including the projected increase in the minimum wage to BGN 610 from the beginning of 2020.*
- *In January-June 2019 Bulgaria' CFP balance on a cash basis is positive, amounting to 3,025.8 million BGN and presented 2.6% of forecasted GDP. The fiscal reserve as of 30.06.2019 amounts to 11.7 billion BGN. Based on the preliminary data and estimates, the Consolidated Fiscal Programme (CFP) balance on a cash basis as of July 2019 is expected to be positive, amounting to BGN 2,979.1 million (2.8% of the projected GDP).*
- *In January – June 2019, Bulgaria's central government sub-sector debt amounted to EUR 11,691.4 million and accounted for 19.8% of projected GDP. According MF "Government debt Management Strategy for 2019-2021" Bulgaria's public debt/GDP ratio will stood at 19.1% in 2019, 17.7% in 2020 and 16.5% in 2021.*
- *At the end of June 2019 broad money (monetary aggregate M3) amounted at BGN 95.821 billion (82.8% of GDP) and increased by 7.8% yoy. Domestic credit – was BGN 58.115 billion and increased by 3% yoy.*
- *In July 2019, SOFIX fell 1.21% to 580.68 points, BGBX 40 decreased 1.48% to 114.61 points. The weighted BG TR30 dropped 0.23% to 511.13 points. The only measure of BGREIT real estate companies rose in July by 0.81% to 126.85 points.*
- *As of the end of June 2019, the aggregate net profit of the banking system amounted to BGN 918 million and increased by 14.6% yoy. The gross credit portfolio of the banking sector for the first six months of 2019 increased by 7.2% yoy to BGN 63.1 billion and presented 55.3% of full year projected GDP. At the end of June 2019, deposits from customers of the banking system amounted to BGN 86.5 billion and increased by 0.2% mom and by 7.1% yoy, respectively. Their relative share in GDP is 74.8%. The relative share of non-performing loans decreased to 7.2%.*

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GLOBAL TRENDS

ADVANCED COUNTRIE'S ECONOMIES

Eurozone

The Eurozone economy grew 0.2% qoq in Q2 of 2019, easing from a 0.4% expansion in the previous period. Compared with the same quarter of the previous year, the Euro Area economy grew 1.1% in the Q2, easing from 1.2% expansion in the previous period. That was the weakest growth rate since the Q4 of 2013. The Euro Area seasonally-adjusted unemployment rate fell to 7.5% in June 2019 from an upwardly revised 7.6% in the previous month and in line with market expectations. It was the lowest jobless rate since July 2008 as the number of unemployed continued to decline. Considering the European Union as a whole, the unemployment rate was unchanged at 6.3% in June, the lowest since the start of the EU monthly unemployment series in January 2000. The annual inflation rate in the Euro Area is expected to fall to 1.1% in July of 2019 from 1.3% in the previous month. It is the lowest inflation rate since February last year, mainly due to a slowdown in cost of energy and services. The annual core inflation, which excludes volatile prices of energy, food, alcohol & tobacco and at which the ECB looks in its policy decisions, is likely to slow to 0.9% in July from 1.1% in the prior month.

The Eurozone economy grew 0.2% qoq in Q2 of 2019, easing from a 0.4% expansion in the previous period and matching market expectations. Among countries for which data is already available, Italy's economy stagnated in Q2, following a 0.1% growth in the previous three-month period; while GDP growth slowed in France (0.2% vs 0.3%), Spain (0.5% vs 0.7%), Austria (0.3% vs 0.4%), Belgium (0.2% vs 0.3%), and Lithuania (0.9% vs 1.2%). By contrast, Latvia's economy expanded 0.8% in the second quarter, recovering from a 0.1% contraction in the previous period. Germany's gross domestic product contracted -0.1% (vs 0.4% in Q1), mainly due to a slump in exports. Compared with the same quarter of the previous year, the Euro Area economy grew 1.1% in the Q2, easing from 1.2% expansion in the previous period and compared to market expectations of 1%. That was the weakest growth rate since the Q4 of 2013. Considering the European Union as a whole, GDP growth eased to 0.2% qoq (vs 0.5% in Q1); and to 1.3% yoy (vs 1.6% in Q1). The Euro Area seasonally-adjusted unemployment rate fell to 7.5% in June 2019 from an upwardly revised 7.6% in the previous month and in line with market expectations. It was the lowest jobless rate since July 2008 as the number of unemployed continued to decline. Considering the European Union as a whole, the unemployment rate was unchanged at 6.3% in June, the lowest since the start of the EU monthly unemployment series in January 2000. Among EU Member States, the lowest unemployment rates in June were recorded in Czechia (1.9%) and Germany (3.1%). The highest unemployment rates were observed in Greece (17.6% in April 2019) and Spain (14.0%). Compared with a year ago, the largest decreases were registered in Greece (17.6% from 19.8% between April 2019 and April 2018), Cyprus (6.5% from 8.3%), Croatia (7.1% from 8.6%), Ireland (4.5% from 5.9%) and Slovakia (5.4% from 6.7%). The youth unemployment rate was 14.1% in the EU28 and 15.4% in the Euro Area, compared with 15.2% and 17.0% respectively in June 2018. The lowest rates were observed in Germany (5.5%), the Netherlands (6.5%) and Czechia (6.6%), while the highest were recorded in Greece (39.6% in Q1 2019), Spain (32.4%) and Italy (28.1%).The annual inflation rate in the Euro Area is expected to fall to 1.1% in July of 2019 from 1.3% in the previous month and in line with market expectations, a preliminary estimate showed. It is the lowest inflation rate since February last year, mainly due to a slowdown in cost of energy and services. Yoy, prices should rise at a softer pace for energy (0.6% from 1.7% in June) and services (1.2% from 1.6%). Meantime, cost of food, alcohol and tobacco is expected to advance to 2% from 1.6% in June, boosted by processed food, alcohol and tobacco (2% from 1.9%) and unprocessed food (1.7% from 0.7%). Also, prices of non-energy industrial goods are seen rising further (0.4% from 0.3%). The annual core inflation, which excludes volatile prices of energy, food, alcohol & tobacco and at which the ECB looks in its policy decisions, is likely to slow to 0.9% in July from 1.1% in the prior month and below market expectations of 1%.

Italy

Italy's economy stagnated in Q2 of 2019 with 0% growth, following a 0.1% growth in the previous three-month period. Yoy, the GDP was unchanged in Q2 at 0%, following a 0.1% fall in the previous three-month period. European commission expects GDP growth at 0.1% in 2019, slowing from 0.9% in 2018. The annual inflation rate in Italy fell to 0.4% in July of 2019 from 0.7% in the previous month. On a monthly basis, consumer prices showed 0% growth, after a 0.1% gain in the previous month. The seasonally adjusted unemployment rate in Italy decreased to 9.7% in June of 2019 from a downwardly revised 9.8% in the previous month. %. It was the lowest jobless rate since January of 2012. Matteo Salvini, the deputy prime minister and leader of the right wing League party, has called for early elections, declaring the government unworkable. The League has now presented a no-confidence motion against Prime Minister Giuseppe Conte. The League are currently leading in the polls, and Salvini may see an early election as his chance to win power outright. Only President Sergio Mattarella has the power to dissolve parliament and he may be unwilling to do so ahead of preparatory work in September for the 2020 budget, which must be presented to parliament and the European Commission the following month.

Italy's economy stagnated in Q2 of 2019 with 0% growth, following a 0.1% growth in the previous three-month period and compared to market expectations of a 0.1% contraction. From the demand side, both trade and domestic demand made zero 0% contribution to growth. From the production side, declines in industry and agriculture sectors were enough to offset an expansion in services activity. Yoy, the GDP was unchanged in Q2 at 0%, following a 0.1% fall in the previous three-month period and compared to market expectations of a 0.2% contraction. European commission expects GDP growth at 0.1% in 2019, slowing from 0.9% in 2018. The annual inflation rate in Italy fell to 0.4% in July of 2019 from 0.7% in the previous month and below preliminary estimates of 0.5%. It was the lowest inflation since November of 2016, as a fall in prices of regulated energy products (-5.2% from 4.3%) was only slightly offset by higher prices of unprocessed food (1.5% from 0.7%), services related to transport (1.8% from 1.5%). Annual core inflation rate, which excludes energy and unprocessed food, increased to 0.5% in July from 0.4% in June and above flash estimates of 0.4%. Excluding only energy, inflation increased to 0.6% from 0.5% in June and compared with preliminary estimates of 0.5%. On a monthly basis, consumer prices showed 0% growth, after a 0.1% gain in the previous month and missing flash estimates of 0.1%. The harmonized index of consumer prices rose 0.3% from the previous year (from 0.8% in June); and fell -1.8% mom, after rising 0.1% in June. The seasonally adjusted unemployment rate in Italy decreased to 9.7% in June of 2019 from a downwardly revised 9.8% in the previous month and below market expectations of 10%. It was the lowest jobless rate since January of 2012. Matteo Salvini, the deputy prime minister and leader of the right wing League party, has called for early elections, declaring the government unworkable. The League has now presented a no-confidence motion against Prime Minister Giuseppe Conte. The League are currently leading in the polls, and Salvini may see an early election as his chance to win power outright. Only President Sergio Mattarella has the power to dissolve parliament and he may be unwilling to do so ahead of preparatory work in September for the 2020 budget, which must be presented to parliament and the European Commission the following month. Former Italian Prime Minister Matteo Renzi has proposed to form a technical government without the far-right League party. The "institutional government" would include left and centre-right parties for the sake of national unity. The idea of a "technical government of president Mattarella" is also gaining ground.

Great Britain

Britain's economy shrank -0.2% in Q2 of 2019, following a 0.5% growth in the previous three-month period. That was the first quarter of contraction since the last quarter of 2012. On the production side, industrial output dropped 1.4%, the most since the last quarter of 2012, driven by the largest decline in manufacturing since the first quarter of 2009 amid high stock levels and ongoing Brexit uncertainty. On the expenditure side, gross capital formation (GCF) made a negative contribution of 4.01% to overall GDP growth. Household consumption increased 0.5% (vs 0.6% in Q1). The annual inflation rate in the United Kingdom was at 2% in June 2019, unchanged from the previous month. The annual core inflation rate, which excludes prices of energy, food, alcohol and tobacco, advanced to 1.8% from an over 2-year low of 1.7% in May. The UK unemployment rate edged up to 3.9% in the second quarter of 2019 from a 44-year low of 3.8% in the previous period. The British economy will continue to suffer from Brexit-related uncertainty as well as disruptions to supply capacity in the medium to longer run. Brexit negotiations will eventually, but most likely after substantial postponement, result in an outcome that is acceptable for both the UK and the EU, without fully derailing economic momentum.

Britain's economy shrank 0.2% in Q2 of 2019, compared to forecasts that had pointed to stagnation and following a 0.5% growth in the previous three-month period. That was the Q1 of contraction since the last quarter of 2012. On the production side, industrial output dropped 1.4%, the most since the last quarter of 2012, driven by the largest decline in manufacturing since Q1 of 2009 amid high stock levels and ongoing Brexit uncertainty. The fall in manufacturing output was driven by a 5.2% contraction in transport equipment output, which largely reflected the partial closures of various car manufacturing plants. There were also declines in the manufacturing output of pharmaceutical, chemical and metal products. Services output growth slowed to 0.1%, the weakest quarterly figure in three years. There has been an easing in wholesale, retail and motor trades, which slowed to 0.2% (vs 1.2% in Q1), with all three sectors weakening compared with the first three months of the year. Financial and insurance activities output shrank 0.2%, continuing the decline seen since Q1 2017. Construction output fell 1.3%, following a 1.4% advance in Q1. On the expenditure side, gross capital formation (GCF) – which includes gross fixed capital formation (GFCF), changes in inventories and acquisitions less disposal of valuables – made a negative contribution of 4.01% to overall GDP growth. This decline broadly represents a fall-back from the first quarter, where GCF was boosted by the build-up of stocks held by some businesses ahead of the UK's original exit date from the European Union at the end of March, alongside notable movements in unspecified goods. Meanwhile, household consumption increased 0.5% (vs 0.6% in Q1), amid ongoing concerns over the wider economy; and government consumption rose 0.7%, driven by increases in government spending in a number of sectors, including healthcare and spending by local authorities. The UK trade deficit narrowed sharply to GBP 4.373 billion from a record GBP 21.582 in the previous period. Exports dropped 3.3% (vs 1.5% in Q1) while imports plunged 12.9% (vs 10.8% in Q1). The annual inflation rate in the United Kingdom was at 2% in June 2019, unchanged from the previous month and matching market expectations. Cost of food and -non-alcoholic beverages rose further while prices slowed for transport and housing & utilities. The consumer prices index including owner occupiers' housing costs (CPIH) stood at 1.9% in June, unchanged from the prior month. The annual core inflation rate, which excludes prices of energy, food, alcohol and tobacco, advanced to 1.8% from an over 2-year low of 1.7% in May. On a monthly basis, consumer prices were flat 0%, afer a 0.3% gain in May. The UK unemployment rate edged up to 3.9% in the second quarter of 2019 from a 44-year low of 3.8% in the previous period, while markets had forecast the rate to remain unchanged. Meanwhile, total pay growth picked up to 3.7%, the fastest since June 2008. Total earnings growth, including bonuses, rose by an annual 3.7% in Q2, the highest rate since June 2008. Annual growth in both total pay (including bonuses) and regular pay (excluding bonuses) has accelerated in recent months. Uncertainty surrounding the Brexit negotiations will continue to weigh on sentiment and investment decisions. The British economy will continue to suffer from Brexit-related uncertainty as well as disruptions to supply capacity in the medium to longer run. Brexit negotiations will eventually, but most likely after substantial postponement, result in an outcome that is acceptable for both the UK and the EU, without fully derailing economic momentum.

USA

The US economy grew by an annualized 2.1% in Q2 of 2019, following a 3.1% expansion in the previous quarter. Household consumption and government spending increased at faster rates, while a slump in exports and a smaller inventory build made a negative contribution to growth. Business investment declined for the first time in three years by 0.6%, compared to a 4.4% advance in the previous three-month period. The US annual inflation rate rose to 1.8% in July 2019 from a four-month low of 1.6% in the previous month, boosted by food prices and a range of other goods while energy deflation eased. The core inflation rate, which excludes volatile items such as food and energy, edged up to 2.2% in July. On a monthly basis, consumer prices advanced 0.3% in July, after a 0.1% gain in June, mainly driven by increases in gasoline and shelter prices. The US unemployment rate stood at 3.7% in July 2019, unchanged from the previous month's figure.

The US economy grew by an annualized 2.1% in Q2 of 2019, beating market expectations of 1.8% and following a 3.1% expansion in the previous three-month period, the advance estimate showed. Household consumption and government spending increased at faster rates, while a slump in exports and a smaller inventory build made a negative contribution to growth. Positive contributions from personal consumption expenditures (2.85%), federal government spending (0.51%), and state and local government spending (0.35%) were partly offset by negative contributions from private inventory investment (-0.86%), exports (-0.63%), nonresidential fixed investment (-0.08%) and residential fixed investment (-0.06%). Imports, which are a subtraction in the calculation of GDP, increased, posting a negative contribution of 0.01%. Personal consumption expenditures (PCE) jumped 4.3% in the second quarter, the most since the fourth quarter of 2017, mainly boosted by consumption of goods (8.3% vs 1.5% in Q1), in particular durable goods (12.9% vs 0.3%). Also, services consumption growth accelerated (2.5% vs 1%). Federal government spending climbed 7.9% (vs 2.2% in Q1) and state and local government spending rose 3.2% (vs 3.3% in Q1). By contrast, exports plunged 5.2% in the second quarter, after a 4.1% increase in Q1, due to lower sales of both goods (-5% vs 4.6%) and services (-5.6% vs 3.3%). On the other hand, imports edged 0.1% higher led by purchases of goods (0.2% vs -2.8%). ratio was 60.7%. Both measures were little changed over the month and over the year.

Business investment declined for the first time in three years by 0.6%, compared to a 4.4% advance in the previous three-month period, dragged by a contraction in structures investment (-10.6% vs 4%), which includes oil and gas well drilling. Meanwhile, investment in intellectual property products continued to rise solidly (4.7% vs 10.8%), and that in equipment rebounded (0.7% vs -0.1%). Residential investment shrank for the sixth straight period (-1.5% vs -1%), the first such instance since the financial crisis. The US annual inflation rate rose to 1.8% in July 2019 from a four-month low of 1.6% in the previous month and above market consensus of 1.7%, boosted by food prices and a range of other goods while energy deflation eased. The core inflation rate, which excludes volatile items such as food and energy, edged up to 2.2% in July, also beating market consensus of 2.1%. On a monthly basis, consumer prices advanced 0.3% in July, after a 0.1% gain in June and in line with market forecasts, mainly driven by increases in gasoline and shelter prices. The US unemployment rate stood at 3.7% in July 2019, unchanged from the previous month's figure and in line with market expectations. The number of unemployed increased by 88 thousand to 6.1 million while employment went up by 283 thousand to 157.3 million. In July, the labor force participation rate was 63.0%, and the employment- population ratio was 60.7%. Both measures were little changed over the month and over the year.

Japan

The Japanese economy advanced 0.4% qoq in Q2 of 2019, following an upwardly revised 0.7% growth in the previous period. Private demand expanded 0.7% in Q2 (vs 0.3% in Q1), as household consumption grew by the most in two years (0.6% vs 0.1%) on the back of demand for cars and air conditioners. Also, capital expenditure rose sharply (1.5% vs 0.4%). On an annualized basis, the economy grew by 1.8% in the second quarter, after an upwardly revised 2.8% expansion in the March quarter. Japan's consumer price inflation came in at 0.7% yoy in June 2019, unchanged from the previous month. Annual core consumer inflation, which excludes fresh food, fell to 0.6% in June, the lowest since July 2017, from 0.8% in May. On a seasonally adjusted monthly basis, consumer prices were flat for the second successive month. The unemployment rate in Japan decreased to a 4-month low of 2.3% in June 2019 from 2.4% in May.

The Japanese economy advanced 0.4% qoq in Q2 2019, easily beating market expectations of a 0.1% expansion and following an upwardly revised 0.7% growth in the previous period, a preliminary estimate showed. Private demand expanded 0.7% in Q2 (vs 0.3% in Q1), as household consumption grew by the most in two years (0.6% vs 0.1%) on the back of demand for cars and air conditioners. Also, capital expenditure rose sharply (1.5% vs 0.4%), far above forecasts of a 0.7% rise. Construction of hotels and leisure facilities led the gains, boosted by a steady stream of inbound tourists and an expected surge in demand ahead of the 2020 Tokyo Olympic Games. In addition, public demand growth accelerated significantly (0.9% vs 0.2%), with government spending rebounding strongly (0.9% vs -0.1%) and public investment advancing further (1% vs 1.4%). Meanwhile, external demand subtracted 0.3% to GDP growth. Exports of goods and services dropped 0.1% (vs -2% in Q1), while imports rose 1.6% (vs -4.3% in Q1). On an annualized basis, the economy grew by 1.8% in Q2, after an upwardly revised 2.8% expansion in Q1 and far above estimates of a 0.4% advance. Japan's consumer price inflation came in at 0.7% yoy in June 2019, unchanged from the previous month and matching market expectations. A faster rise in cost of food and housing was offset by a steeper decline in prices of transport and communication. Annual core consumer inflation, which excludes fresh food, fell to 0.6% in June, the lowest since July 2017, from 0.8% in May and also in line with estimates. The latest figure remained well below the Bank of Japan's 2% target. Meantime, stripping away the effect of fresh food and energy, consumer prices rose by 0.5% yoy in June, the same as in a month earlier and slightly below estimates of a 0.6% rise. On a seasonally adjusted monthly basis, consumer prices were flat for the second sucessive month. The unemployment rate in Japan decreased to a 4-month low of 2.3% in June 2019 from 2.4% in May and compared to market expectations of 2.4%. The jobs-to-applications ratio declined to 1.61 from 1.62 in the previous month and slightly below market consensus of 1.62.

China

The trade war between USA and China continues to escalate. US President Donald Trump announced in August 1, 2019 that additional 10% tariff will be levied on the "remaining USD 300 billion of goods". American President delays some of the tariffs in August 13, 2019. USD 110 billion worth will still take place on September 1, but USD 160 billion will not take effect until the end of December. In retaliation, the central bank of China (PBOC) let the renminbi fall over 2% in three days to the lowest point since 2008 as it was hit by strong sales due to the threat of tariffs. The U.S. Department of Treasury officially declared China as a Currency Manipulator in August 5, 2019. China orders state-owned enterprises in August 5, 2019 to stop buying US agricultural products, totaling USD 20 billion per year before the trade war and USD 20 billion per year as of July 2019. China's trade surplus with the US narrowed to USD 27.97 billion in July from USD 29.92 billion in June. Unemployment Rate in China decreased to 3.61% in the second quarter of 2019 from 3.67% in the first quarter of 2019. China's annual inflation rate rose to 2.8% in July 2019 from 2.7% in the previous month.

The trade war between USA and China continues to escalate. US President Donald Trump announced in August 1, 2019 that additional 10% tariff will be levied on the "remaining USD 300 billion of goods". American President delays some of the tariffs in August 13, 2019. USD 110 billion worth will still take place on September 1, but USD 160 billion will not take effect until the end of December. In retaliation, the central bank of China (PBOC) let the renminbi fall over 2 % in three days to the lowest point since 2008 as it was hit by strong sales due to the threat of tariffs. The U.S. Department of Treasury officially declared China as a Currency Manipulator in August 5, 2019. China announces an accelerated decrease in holdings of US treasury holdings in August 9, 2019, targeting 25% of its current holdings of USD 1.1 trillion. China orders state-owned enterprises in August 5, 2019 to stop buying US agricultural products, totaling USD 20 billion per year before the trade war and USD 20 billion per year as of July 2019. These tariffs complement the earlier ones in the trade war when the President Donald Trump boosted 25% tariffs in May 5, 2019 on USD 200 billion in goods from China. In retaliation, China has raised tariffs on USD 60 billion worth of US goods in June 1 2019. Trump said in G20 Osaka summit June 29 2019, he would allow American companies to sell their products to Huawei, but the company would remain on the U.S. trade blacklist. However, the extent of how much this plan to temporarily exempt Huawei from previous bans would be implemented later became unclear and, in the weeks later, there was no clear indication of the reversal of Huawei bans. Recent Hong-Kong crisis is also an obstacle of US-China trade negotiations. There is no expectations of new meeting between American and Chinese Presidents in the near future. China's trade surplus with the US narrowed to USD 27.97 billion in July from USD 29.92 billion in June. Unemployment Rate in China decreased to 3.61% in the second quarter of 2019 from 3.67% in the first quarter of 2019. China's annual inflation rate rose to 2.8% in July 2019 from 2.7% in the previous month and above market estimates of 2.7%. That was the highest rate since February 2018 boosted by the fastest increase in food prices since January 2012, as pork prices were persistently high in the wake of an outbreak of African swine fever. The politically sensitive food inflation surged to 9.1% in July, its highest since January 2012, as pork prices jumped 27% after a 21.1% climb in June. Annual core inflation, which strips out volatile food and energy prices, came in at 1.6% in July, unchanged from the previous month. On a monthly basis, consumer prices rose 0.4% in July, the most since February, following a 0.1% decline in June while markets had expected a 0.2% gain. Meanwhile, China's producer price index declined 0.3% yoy in July, after being unchanged in June and compared to market expectations of a 0.1% drop.

Turkey

Industrial production in June posted -3.9% drop compared to previous year in calendar adjusted terms. Intermediate and capital goods with -8.1% and -5.8% yoy change have dragged down production performance. Seasonally adjusted drop on monthly basis was also disappointing at -3.7%. Textile, basic metals and automotive production among export oriented sectors in June declined -4.8%, -12.3% and -4.7% respectively while machinery and equipment as an indicator of future investments has declined -13.0% yoy. According to Bloomberg analyst' survey budget deficits will reach a 7-year high 3.7% of GDP by the end of2019. Turkey's jobless rate rose to 12.8% in May 2019 from 9.7% in the same period of the previous year. The non-agricultural jobless rate climbed to 15.0% in May from 11.6% in the previous year. On a seasonally adjusted basis, the unemployment rate rose to 14.0% in May from 13.8% in April. Turkey's annual inflation rate increased to 16.65% in July of 2019 from June's one-year low of 15.72%. Annual core inflation rate, which excludes energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold, advanced to 16.20% in July from 14.86% in the June.

Industrial production in June posted -3.9% drop compared to previous year in calendar adjusted terms. This numbers was worse than market consensus of -1.0%. Seasonally adjusted drop on monthly basis was also disappointing at -3.7%. Improvement in industrial production seems to have halted in June which may lead to downward revisions in annual GDP growth estimates should no sharp revival is seen in second half data. Intermediate and capital goods with -8.1% and -5.8% yoy change have dragged down production performance. Textile, basic metals and automotive production among export oriented sectors in June declined -4.8%, -12.3% and -4.7% respectively while machinery and equipment as an indicator of future investments has declined -13.0% yoy. Production in the second quarter of the year posted -3.0% decline whereas drop was -4.7% in Q1 2019. In unadjusted terms, which is used in the GDP calculation, production decline has been -3.4%, lower than -5.6% registered in Q1 2019. This confirms view that GDP growth may post a lesser contraction in Q2 than seen in Q1. GDP contracted by -2.6% in Q1 2019. According to Bloomberg analyst' survey budget deficits will reach a 7-year high 3.7% of GDP by the end of 2019. Turkey's jobless rate rose to 12.8% in May 2019 from 9.7% in the same period of the previous year. The non-agricultural jobless rate climbed to 15.0% in May from 11.6% in the previous year. Youth unemployment rate, measuring job-seekers between 15 and 24 years old, also rose sharply to 23.3% from 17.8% in the same month a year ago. On a seasonally adjusted basis, the unemployment rate rose to 14.0% in May from 13.8% in April. Turkey's annual inflation rate increased to 16.65% in July of 2019 from June's one-year low of 15.72% and below market expectations of 16.9%, mainly due to a rise in prices of housing and utilities and transport. Annual core inflation rate, which excludes energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold, advanced to 16.20% in July from 14.86% in the June. On a monthly basis, consumer prices went up 1.36%, faster than a 0.03% gain in June and below market expectations of 1.6%.

POLICY OF THE CENTRAL BANKS

European Central Bank (ECB)

At 25 July 2019's meeting the Governing Council of the European Central Bank (ECB) decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.40% respectively. The Governing Council expects the key ECB interest rates to remain at their present or lower levels at least through the first half of 2020, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to its aim over the medium term. In this context, the Governing Council has tasked the relevant Eurosystem Committees with examining options, including ways to reinforce its forward guidance on policy rates, mitigating measures, such as the design of a tiered system for reserve remuneration, and options for the size and composition of potential new net asset purchases. Monetary policy measures of ECB, including the forthcoming new series of targeted longer-term refinancing operations (TLTRO III), will help to safeguard favorable bank lending conditions and will continue to support access to financing, in particular for small and medium-sized enterprises.
Monetary policy decisions 25 July 2019 At t25 July 2019's meeting the Governing Council of the European Central Bank (ECB) decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.40% respectively. The Governing Council expects the key ECB interest rates to remain at their present or lower levels at least through the first half of 2020, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to its aim over the medium term. The Governing Council intends to continue reinvesting, in full, the principal payments from maturing securities purchased under the asset purchase programme for an extended period of time past the date when it starts raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation. The Governing Council also underlined the need for a highly accommodative stance of monetary policy for a prolonged period of time, as inflation rates, both realised and projected, have been persistently below levels that are in line with its aim. Accordingly, if the medium-term inflation outlook continues to fall short of its aim, the Governing Council is determined to act, in line with its commitment to symmetry in the inflation aim. It therefore stands ready to adjust all of its instruments, as appropriate, to ensure that inflation moves towards its aim in a sustained manner. In this context, the Governing Council has tasked the relevant Eurosystem Committees with examining options, including ways to reinforce its forward guidance on policy rates, mitigating measures, such as the design of a tiered system for reserve remuneration, and options for the size and composition of potential new net asset purchases. *Press Conference Mario Draghi, President of the ECB, Luis de Guindos, Vice-President of the ECB, Frankfurt am Main, 25 July 2019* Incoming information since the last Governing Council meeting in early June indicates that, while further employment gains and increasing wages continue to underpin the resilience of the economy, softening global growth dynamics and weak international trade are still weighing on the euro area outlook. Moreover, the prolonged presence of uncertainties, related to geopolitical factors, the rising threat of protectionism, and vulnerabilities in emerging markets, is dampening economic sentiment, notably in the manufacturing sector. In this environment, inflationary pressures remain muted and indicators of inflation expectations have declined. Therefore, a significant degree of monetary stimulus continues to be necessary to ensure that financial conditions remain very favourable and support the euro area expansion, the ongoing build-up of domestic price pressures and, thus, headline inflation developments over the medium term. Incoming economic data and survey information continue to point to somewhat slower growth in the second and third quarters of this year. This mainly reflects the ongoing weakness in international trade in an environment of prolonged global uncertainties, which are particularly affecting the euro area manufacturing sector. The risks surrounding the euro area growth outlook remain tilted to the downside, reflecting the prolonged presence of uncertainties, related to geopolitical factors, the rising threat of protectionism, and vulnerabilities in emerging markets. Looking through the recent volatility due to temporary factors, measures of underlying inflation remain generally muted. Indicators of inflation expectations have declined. Monetary policy measures of ECB, including the forthcoming new series of targeted longer-term refinancing operations (TLTRO III), will help to safeguard favorable bank lending conditions and will continue to support access to financing, in particular for small and medium-sized enterprises. To sum up, a cross-check of the outcome of the economic analysis with the signals coming from the monetary analysis confirmed that an ample degree of monetary accommodation is still necessary for the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.

Bank of England (BoE)

The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting ending on 31 July 2019, the MPC voted unanimously to maintain Bank Rate at 0.75%. The Committee voted unanimously to maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at GBP 10 billion. The Committee also voted unanimously to maintain the stock of UK government bond purchases, financed by the issuance of central bank reserves, at GBP 435 billion. Increased uncertainty about the nature of EU withdrawal means that the economy could follow a wide range of paths over coming years. The appropriate path of monetary policy will depend on the balance of the effects of Brexit on demand, supply and the exchange rate. The monetary policy response to Brexit, whatever form it takes, will not be automatic and could be in either direction. In all circumstances, the Committee will set monetary policy appropriately to achieve the 2% inflation target.

Monetary Policy Summary and minutes of the Monetary Policy Committee meeting Published on01 August 2019. The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting ending on 31 July 2019, the MPC voted unanimously to maintain Bank Rate at 0.75%. The Committee voted unanimously to maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at GBP 10 billion. The Committee also voted unanimously to maintain the stock of UK government bond purchases, financed by the issuance of central bank reserves, at GBP 435 billion. Since May, global trade tensions have intensified and global activity has remained soft. This has led to a substantial decline in advanced economies' forward interest rates and a material loosening in financial conditions, including in the United Kingdom. An increase in the perceived likelihood of a no-deal Brexit has further lowered UK interest rates and led to a marked depreciation of the sterling exchange rate. Brexit-related developments, such as stock building ahead of previous deadlines, are making UK data volatile. Looking through recent volatility, underlying growth appears to have slowed since 2018 to a rate below potential, reflecting both the impact of intensifying Brexit-related uncertainties on business investment and weaker global growth on net trade. Evidence from companies, up to the middle of July, suggests that uncertainty over the United Kingdom's future trading relationship with the European Union has become more entrenched. The labour market remains tight. Annual pay growth has been relatively strong. Consumer spending has remained resilient. CPI inflation was 2.0% in June and core CPI inflation was 1.8%. The Committee's updated projections are set out in the accompanying August Inflation Report. They continue to assume a smooth adjustment to the average of a range of possible outcomes for the United Kingdom's eventual trading relationship with the European Union. In the central projection, conditioned on prevailing asset prices, underlying output growth is subdued in the near term, reflecting more entrenched Brexit uncertainties. This means that a margin of excess supply persists over the first year of the projection. Thereafter, GDP is projected to accelerate to robust growth rates, reflecting a gradual recovery in global growth and firming UK domestic demand growth, driven in large part by a recovery in investment growth as uncertainties dissipate in line with the Brexit conditioning assumption. The acceleration in GDP results in a significant build-up of excess demand, to around 1.75% of potential GDP by the end of the forecast period. After falling in the near term, CPI inflation is projected to rise above the 2% target, as building excess demand leads to firmer domestic inflationary pressures. Conditioned on prevailing asset prices, CPI inflation reaches 2.4% by the end of the three-year forecast period. These projections are affected by an inconsistency between the smooth Brexit conditioning assumption underpinning the forecast and the prevailing market asset prices on which the forecasts are also conditioned. These asset prices reflect market participants' perceptions of the likelihood and consequences of a no-deal Brexit. If, as assumed, Brexit proceeds smoothly to some form of deal, market interest rates would likely rise and the sterling exchange rate would likely appreciate. A more consistent forecast would therefore have somewhat lower paths for GDP growth and CPI inflation. Increased uncertainty about the nature of EU withdrawal means that the economy could follow a wide range of paths over coming years. The appropriate path of monetary policy will depend on the balance of the effects of Brexit on demand, supply and the exchange rate. The monetary policy response to Brexit, whatever form it takes, will not be automatic and could be in either direction. In all circumstances, the Committee will set monetary policy appropriately to achieve the 2% inflation target. The MPC judges at this meeting that the existing stance of monetary policy is appropriate. Assuming a smooth Brexit and some recovery in global growth, a significant margin of excess demand is likely to build in the medium term. Were that to occur, the Committee judges that increases in interest rates, at a gradual pace and to a limited extent, would be appropriate to return inflation sustainably to the 2% target.

USA Federal Reserve

Information received since the Federal Open Market Committee met in June indicates that the labor market remains strong and that economic activity has been rising at a moderate rate. Although growth of household spending has picked up from earlier in the year, growth of business fixed investment has been soft. On a 12-month basis, overall inflation and inflation for items other than food and energy are running below 2%. In light of the implications of global developments for the economic outlook as well as muted inflation pressures, the Committee decided to lower the target range for the federal funds rate to 2 to 2.25% (with 0.25%). This action supports the Committee's view that sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2% objective are the most likely outcomes, but uncertainties about this outlook remain. The Committee will conclude the reduction of its aggregate securities holdings in the System Open Market Account in August, two months earlier than previously indicated.

Federal Reserve issues FOMC statement July 31, 2019 Press Release Information received since the Federal Open Market Committee met in June indicates that the labor market remains strong and that economic activity has been rising at a moderate rate. Job gains have been solid, on average, in recent months, and the unemployment rate has remained low. Although growth of household spending has picked up from earlier in the year, growth of business fixed investment has been soft. On a 12-month basis, overall inflation and inflation for items other than food and energy are running below 2%. Market-based measures of inflation compensation remain low; survey-based measures of longer-term inflation expectations are little changed. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. In light of the implications of global developments for the economic outlook as well as muted inflation pressures, the Committee decided to lower the target range for the federal funds rate to 2 to 2.25%. This action supports the Committee's view that sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2% objective are the most likely outcomes, but uncertainties about this outlook remain. As the Committee contemplates the future path of the target range for the federal funds rate, it will continue to monitor the implications of incoming information for the economic outlook and will act as appropriate to sustain the expansion, with a strong labor market and inflation near its symmetric 2% objective. In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its maximum employment objective and its symmetric 2% inflation objective. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments. The Committee will conclude the reduction of its aggregate securities holdings in the System Open Market Account in August, two months earlier than previously indicated.

Bank of Japan (BoJ)

At the Monetary Policy Meeting held July 30, 2019, the Policy Board of the Bank of Japan decided upon the following: The short-term policy interest rate: The Bank will apply a negative interest rate of minus -0.1% to the Policy-Rate Balances in current accounts held by financial institutions at the Bank. The Bank will purchase Japanese government bonds (JGBs) so that 10-year JGB yields will remain at around 0%. The Bank will conduct purchases in a flexible manner so that their amount outstanding will increase at an annual pace of about 80 trillion JPY. The Bank will purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) so that their amounts outstanding will increase at annual paces of about 6 trillion JPY and about 90 billion JPY, respectively. As for CP and corporate bonds, the Bank will maintain their amounts outstanding at about 2.2 trillion JPY and about 3.2 trillion JPY, respectively. Bank of Japan will continue expanding the monetary base until the yoy rate of increase in the observed consumer price index (CPI, all items less fresh food) exceeds 2% and stays above the target in a stable manner. As for policy rates, the Bank intends to maintain the current extremely low levels of short- and long-term interest rates for an extended period of time, at least through around spring 2020.

At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided upon the following: At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided upon the following: Yield curve control, the Bank decided, by a 7-2 majority vote, to set the following guideline for market operations for the intermeeting period. The short-term policy interest rate, the Bank will apply a negative interest rate of minus -0.1% to the Policy-Rate Balances in current accounts held by financial institutions at the Bank. The long-term interest rate, the Bank will purchase Japanese government bonds (JGBs) so that 10-year JGB yields will remain at around 0%. While doing so, the yields may move upward and downward to some extent mainly depending on developments in economic activity and prices.1With regard to the amount of JGBs to be purchased, the Bank will conduct purchases in a flexible manner so that their amount outstanding will increase at an annual pace of about JPY 80 trillion. Guidelines for asset purchases With regard to asset purchases other than JGB purchases, the Bank decided, by a unanimous vote, to set the following guidelines. a) The Bank will purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) so that their amounts outstanding will increase at annual paces of about JPY 6 trillion and about JPY 90 billion, respectively.

With a view to lowering risk premium of asset prices in an appropriate manner, the Bank may increase or decrease the amount of purchases depending on market conditions. b) As for CP and corporate bonds, the Bank will maintain their amounts outstanding at about JPY 2.2 trillion and about JPY 3.2 trillion, respectively. The Bank will continue with "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control," aiming to achieve the price stability target of 2%, as long as it is necessary for maintaining that target in a stable manner. It will continue expanding the monetary base until the yoy rate of increase in the observed consumer price index (CPI, all items less fresh food) exceeds 2% and stays above the target in a stable manner. As for policy rates, the Bank intends to maintain the current extremely low levels of short- and long-term interest rates for an extended period of time, at least through around spring 2020, taking into account uncertainties regarding economic activity and prices including developments in overseas economies and the effects of the scheduled consumption tax hike. It will examine the risks considered most relevant to the conduct of monetary policy and make policy adjustments as appropriate, taking account of developments in economic activity and prices as well as financial conditions, with a view to maintaining the momentum toward achieving the price stability target. In particular, in a situation where downside risks to economic activity and prices, mainly regarding developments in overseas economies, are significant, the Bank will not hesitate to take additional easing measures if there is a greater possibility that the momentum toward achieving the price stability target will be lost.

PBoC

Speech of Pan Gongsheng, PBOC Deputy Governor and State Administration of Foreign Exchange Administrator. The short-term adjustments lately seen in the RMB exchange rate were spontaneous reactions of financial markets to the surprise US announcements of unexpected tariffs. Despite that the RMB exchange rate will be subject to trade frictions and other external shocks, PBOC judges it will not depreciate in disorder, and the foreign exchange market will eventually return to fundamentals after a brief shock. Firstly, economic performance has been stable and is expected to firm going forward. Secondly, cross-border capital flows are generally stable. Thirdly, China's external debt has been more stable. In recent years, China's external debt growth is not high compared with its economic size. Fourthly, the RMB exchange rate showed more two-way fluctuations, and foreign exchange market entities became more adaptive and rational. PBOC have the confidence and capability to effectively prevent risks arising out of external shocks, maintain stability of the foreign exchange market, and promote stable and sound development of the financial market and the financial system.

Deepen Financial Reform, Expand Financial Opening-up and Unswervingly Follow the Development Path with Chinese Characteristics Speech of Pan Gongsheng, PBOC Deputy Governor and State Administration of Foreign Exchange Administrator

Since 1994, especially since July 2005, China has been continuously pushing ahead with the reform of the RMB exchange rate formation mechanism. As a result, the RMB exchange rate has seen its formation and adjustment more and more marketized and its flexibility increasing. At the same time, financial institutions and market participants have become better adapted to RMB exchange rate fluctuations and adjustments, with risk hedging tools more diversified and RMB internationalization making constant progress. Financial reform will continue to go deeper and financial opening-up will be further expanded. PBOC will follow unswervingly, as always, the path of development with Chinese characteristics. The short-term adjustments lately seen in the RMB exchange rate were spontaneous reactions of financial markets to the surprise US announcements of unexpected tariffs. Since April 2018, the US has triggered and kept escalating trade frictions with China, which have become the primary influence on short-term movements of the RMB exchange rate. On August 2, the US further threatened to increase tariffs on the remaining USD300 billion of Chinese goods, leading to sharp fluctuations in the RMB exchange rate. After the start of trading on August 5, the offshore and onshore RMB weakened beyond 7 per USD successively. For the two trading days of August 2 and August 5, the onshore CNY/USD spot rate fell by 1.9% approximately. All these fluctuations were natural market responses to external impact on the RMB. PBOC will continue to implement the managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies, persistently push forward market oriented exchange rate reform, and improve the RMB exchange rate formation mechanism, so as to keep the exchange rate basically stable at a reasonable and equilibrium level. As a responsible big country, China adopted a responsible attitude during the Asian financial crisis and global financial crisis, and made significant contributions to the gradual post-crisis recovery of the world economy. PBOC will remain firmly committed to the previous G20 summits' commitments including non-adoption of competitive devaluation and no use of the exchange rate as a tool to cope with international trade disputes. The resilience and potential of the Chinese economy provide a solid base for the stability of RMB exchange rate. Despite that the RMB exchange rate will be subject to trade frictions and other external shocks, PBOC judges it will not depreciate in disorder, and the foreign exchange market will eventually return to fundamentals after a brief shock. Firstly, economic performance has been stable and is expected to firm going forward. The fundamentals for sound economic growth over the long term remain unchanged as economic growth is expected to outpace most major economies and the RMB remains a strong currency. According to Bank for International Settlements, from 2005 to June 2019, RMB appreciated by 38% in terms of nominal effective exchange rate, and 47% in terms of real effective exchange rate, topping all other G20 countries. Though there have been huge uncertainties in recent China-US trade frictions, the marginal effect of US tariffs on China has been declining. Since the beginning of 2019, with favorable fundamentals, the Chinese economy has on the whole maintained stability while making steady progress, and the major macroeconomic indicators have performed within a reasonable range.

Achievements have been made in economic structural adjustments, with growth resilience enhanced and macro leverage ratio remaining basically stable. *Secondly,* cross-border capital flows are generally stable. As China gradually expanded areas of opening up and comprehensively implemented the management model of pre-establishment national treatment plus a negative list, the domestic business environment has been further improved and foreign direct investment still enjoys great development potential. In recent years, China has continuously promoted high-level opening up of the financial market, and created a favorable policy environment for foreign investors, including those from the US, to allocate more resources to RMB assets. So far, the sizes of Chinese bond market and stock market have been ranking high in the world, but only around 2% and 3% of the financial assets were held by foreign investors. With Chinese bond market and stock market more widely included in major international indices, given the relatively high yield in the Chinese bond market against the expansion of negative interest rates worldwide, there is still great potential for foreign investment. *Thirdly,* China's external debt has been more stable. In recent years, China's external debt growth is not high compared with its economic size. By end-2018, China's external debt ratio (outstanding external debts/GDP), debt ratio (outstanding external debts/annual export proceeds in foreign exchange) and debt servicing ratio (external debt principal and interest repayment/annual export proceeds in foreign exchange) stood at 14.4%, 74.1% and 5.5% respectively, far lower than the internationally accepted alarm level. The structure of external debt continued to optimize, as foreign central bank investors continued to increase their holdings of Chinese bonds for medium- to long-term asset allocation. As a result, the proportion of debt securities in outstanding external debt increased continuously from 8% at end-2014 to 22% at end-2018. Such kind of capital is relatively stable, hence unlikely to be "deleveraged" in times of exchange rate changes. *Fourthly,* the RMB exchange rate showed more two-way fluctuations, and foreign exchange market entities became more adaptive and rational. Since the "8.11" exchange rate reform, the RMB exchange rate has been more flexible, with its fluctuation ratio approaching that of currencies of major developed economies. The two-way fluctuations of the RMB exchange rate have become regular, and the depreciation pressure has been timely released. At present, individual foreign currency purchases have been more stable, outbound direct investment by enterprises has been more reasonable and orderly, foreign currency stockpiling has been gradually disappearing, and enterprises' awareness of exchange rate risk management has been further enhanced. PBOC firmly believes that in the future, China's foreign exchange administration will adapt to the opening-up in a more open environment; capital account opening-up, two-way opening-up of the financial market and the RMB internationalization will be promoted in a coordinated way at a higher level; and the liberalization and facilitation of cross-border trade and investment will be further advanced. PBOC have the confidence and capability to effectively prevent risks arising out of external shocks, maintain stability of the foreign exchange market, and promote stable and sound development of the financial market and the financial system.

Central Bank of Turkey

The Monetary Policy Committee of Central bank of Turkey has decided to reduce the policy rate (one-week repo auction rate) from 24% to 19.75%. Inflation outlook continued to improve. In the second quarter, inflation displayed a significant fall with the contribution from a deceleration in unprocessed food and energy prices. Domestic demand conditions and the tight monetary policy continue to support disinflation. Underlying trend indicators, supply side factors, and import prices lead to an improvement in the inflation outlook. In light of these developments, recent forecast revisions suggest that inflation is likely to materialize slightly below the projections of the April Inflation Report by the end of the year. Accordingly, considering all the factors affecting inflation outlook, the Monetary Policy Committee of Central bank of Turkey decided to reduce the policy rate by 425 basis points. This is relatively high interest rate cut with 4.25% (425 bp) and decrease of basic interest rate from 24% to 19.75%. The development of USD/TRY exchange rate is the crucial variable in the TCMB's reaction function. We expect the lira TRY to depreciate substantially after interest rate cut and consequently a sharp rise in inflation, increase the level of dollarization, deterioration in the financial statement of Turkish banks, decline in GDP and increase in unemployment over the coming months. Credit rating agency Fitch downgraded Turkey's sovereign debt by one notch on 12.07.2019 in a move that comes following Moody's lowering of its credit rating for Ankara in June. The move also came less than one week after Turkish President Recep Tayyip Erdogan dismissed the country's central bank chief from his post.

Decision of the Monetary Policy Committee of Central bank of Turkey 25 July 2019. The Monetary Policy Committee (the Committee) has decided to reduce the policy rate (one-week repo auction rate) from 24% to 19.75%. Recently released data indicate a moderate recovery in the economic activity. Goods and services exports continue to display an upward trend despite the weakening in the global economic outlook, indicating improved competitiveness. In particular, strong tourism revenues support the economic activity through direct and indirect channels. Looking forward, net exports are expected to contribute to the economic growth and the gradual recovery is likely to continue with the help of the disinflation trend and the partial improvement in financial conditions. The composition of growth is having a positive impact on the external balance. Current account balance is expected to maintain its improving trend. Recently, weaker global economic activity and heightened downside risks to inflation have strengthened the possibility that advanced economy central banks will take expansionary monetary policy steps.

While these developments support the demand for emerging market assets and the risk appetite, rising protectionism and uncertainty regarding global economic policies are closely monitored in terms of their impact on both capital flows and international trade. Inflation outlook continued to improve. In the second quarter, inflation displayed a significant fall with the contribution from a deceleration in unprocessed food and energy prices. Domestic demand conditions and the tight monetary policy continue to support disinflation. Underlying trend indicators, supply side factors, and import prices lead to an improvement in the inflation outlook. In light of these developments, recent forecast revisions suggest that inflation is likely to materialize slightly below the projections of the April Inflation Report by the end of the year. Accordingly, considering all the factors affecting inflation outlook, the Committee decided to reduce the policy rate by 425 basis points. The Committee assesses that maintaining a sustained disinflation process is the key for achieving lower sovereign risk, lower long-term interest rates, and stronger economic recovery. Keeping the disinflation process in track with the targeted path requires the continuation of a cautious monetary stance. In this respect, the extent of the monetary tightness will be determined by considering the indicators of the underlying inflation trend to ensure the continuation of the disinflation process. The Central Bank will continue to use all available instruments in pursuit of the price stability and financial stability objectives. It should be emphasized that any new data or information may lead the Committee to revise its stance. This is relatively high interest rate cut with 4.25% (425 bp) and decrease of basic interest rate from 24% to 19.75%. The development of USD/TRY exchange rate is the crucial variable in the TCMB‘s reaction function. We expect the lira TRY to depreciate substantially after interest rate cut and consequently a sharp rise in inflation, increase the level of dollarization, deterioration in the financial statement of Turkish banks, decline in GDP and increase in unemployment over the coming months. Credit rating agency Fitch downgraded Turkey’s sovereign debt by one notch on 12.07.2019 in a move that comes following Moody's lowering of its credit rating for Ankara in June. The move also came less than one week after Turkish President Recep Tayyip Erdogan dismissed the country’s central bank chief from his post. “The firing of the central bank governor risks damaging already weak domestic confidence (evidenced by rising dollarization), jeopardizing the inflow of foreign capital needed to meet Turkey’s large external financing requirement, and worsening economic outcomes. The move adds to uncertainties over the prospects for structural reforms and management of the public sector finances” Fitch said.

INTERNATIONAL COMMODTITY PRICES

Petrol

The Organization of the Petroleum Exporting Countries (OPEC) on 16.098.2019 presented negative prospects for the oil market for the remainder of 2019, while economic growth slowed and highlighted the challenges for 2020. In their monthly OPEC report, they cut their forecast for 2019 oil demand by 40,000 BBL per day. The organization expects to see a slight surplus in the market in 2020. Crude oil dropped by -0.02 USD/BBL or -0.04% to 56.2416 on 20 August from 56.2616 in the previous trading session. Brent oil dropped by -0.17 USD/BBL or -0.28% to 59.6306 on Tuesday 20 August from 59.8006 in the previous trading session. Bearish market sentiment amid a slowdown in the global economy, a trade conflict between the US and China and Brexit may force OPEC and its allies, including Russia, to continue supporting a policy of shrinking production to support prices.

The Organization of the Petroleum Exporting Countries (OPEC) on 16.098.2019 presented negative prospects for the oil market for the remainder of 2019, while economic growth slowed and highlighted the challenges for 2020, Reuters reports. Meanwhile, OPEC's competitors continue to pump more oil, creating conditions for the cartel to delay supplies. In their monthly OPEC report, they cut their forecast for 2019 oil demand by 40,000 BBL per day. The organization expects to see a slight surplus in the market in 2020. Crude oil dropped by -0.02 USD/BBL or -0.04% to 56.2416 on 20 August from 56.2616 in the previous trading session. Brent oil dropped by -0.17 USD/BBL or -0.28% to 59.6306 on Tuesday 20 August from 59.8006 in the previous trading session. Bearish market sentiment amid a slowdown in the global economy, a trade conflict between the US and China and Brexit may force OPEC and its allies, including Russia, to continue supporting a policy of shrinking production to support prices. Already, a Saudi representative has hinted at further steps to support the market. "While market prospects are somewhat bearish for the rest of the year, and given the slowdown in economic growth, the ongoing problems of global trade and the slowdown in oil demand growth, it remains critical to keep a close eye on supply and demand, and to help market stability in the coming months, "the OPEC report states. OPEC's policy of supporting prices by limiting supply gives a permanent advantage to US shale production and other competitors outside the cartel. And OPEC's latest report suggests the world will have less need for the organization's oil next year. OPEC oil demand is expected to average 29.41 million BBL a day next year, down 1.3 million BBL a day from 2019. Still, the 2020 forecast increased by 140 thousand BBL a day compared to the forecast of the previous month.

Agricultural Goods

The middle of August brought a new decrease in FOB prices of grain contracts on the global stock markets. In the US, wheat decreased by USD -4.00 and traded at 211.00 USD/ton, in France it was minus EUR -2.00 to 167.00 EUR/ton, and in Ukraine and Russia a unanimous change of minus USD -1.00 193.00 and 194.00 USD/ton respectively. For maize, the movement overseas was sharply down - minus USD -26.00 to 164.00 USD/ ton, in France the corn again lost positions by EUR -2.00 to 171.00 EUR/ ton, and Ukraine for November delivery also lowered its price almost to US - minus USD -5.00 to 165.00 USD/ ton. In the Grain sub-circle of the Sofia Commodity Exchange AD after the deals in high quality wheat, the quotations of IIB group return to the usual levels. Wheat bread is locally requested at 340.00 BGN/ton, supply is from 350.00 to 370.00 BGN/ ton. Feed wheat is available at 320.00 BGN/ton.

The middle of August brought a new decrease in FOB prices of grain contracts on the global stock markets. After the July storm triggered by a correction in over-optimistic harvest forecasts, this month brought reassurance and a fall in prices - the forecasts were actually less bad. In the US, wheat decreased by USD -4.00 and traded at 211.00 USD/ton, in France it was minus EUR -2.00 to 167.00 EUR/ton, and in Ukraine and Russia a unanimous change of minus USD -1.00 193.00 and 194.00 USD/ ton respectively. For maize, the movement overseas was sharply down - minus USD -26.00 to 164.00 USD/ ton, in France the corn again lost positions by EUR -2.00 to 171.00 EUR/ ton, and Ukraine for November delivery also lowered its price almost to US - minus USD -5.00 to 165.00 USD/ton. For barley, Ukraine quotes plus USD 1.00 to 179.00 USD/ton, while France trades brewery barley at minus EUR -3.00 to 157.00 EUR/ton. Rapeseed in the European Union / Euronext / is only expensive because of the expected lower yield - plus EUR 5.00 to 379.00 EUR/ton. The unrefined sunflower oil on the stock exchange in Rotterdam rose from USD 10.00 to 762.00 USD/ton after a serious fall in price from two weeks ago. Refined sugar fluctuates again and "rises" from USD 3 to 313.50 USD/ton on the London Stock Exchange, with delivery coming in August. In the Grain sub-circle of the Sofia Commodity Exchange AD after the deals in high quality wheat, the quotations of IIB group return to the usual levels. Wheat bread is locally requested at 340.00 BGN/ton, supply is from 350.00 to 370.00 BGN/ton. Feed wheat is available at 320.00 BGN/ton. Barley feed is sought at 240.00-260.00 BGN/ton, while maize also has requests for purchases slightly down respectively at 260.00-280.00 BGN/ton and supply of BGN 290.00 BGN/ton. All prices are without VAT.

BULGARIA

EXTERNAL SECTOR

In January – June 2019 the current and capital account was positive amounting to EUR 2,219.5 million (3.8% of GDP), compared with a surplus of EUR 461 million (0.8% of GDP) in January – June 2018.

The current and capital account recorded a surplus of EUR 945.6 million in June 2019, compared with a surplus of EUR 434.1 million in June 2018. In January – June 2019 the current and capital account was positive amounting to EUR 2,219.5 million (3.8% of GDP), compared with a surplus of EUR 461 million (0.8% of GDP) in January – June 2018. The current account was positive amounting to EUR 880.3 million in June 2019, compared with a surplus of EUR 341.9 million in June 2018. In January – June 2019 the current account was positive and amounted to EUR 1,758.6 million (3% of GDP), compared with a surplus of EUR 266.3 million (0.5% of GDP) in January – June 2018. The balance on goods recorded a surplus of EUR 29.6 million in June 2019, compared with a deficit of EUR 202.2 million in June 2018. In January – June 2019 the balance on goods was negative amounting to EUR 539.5 million (0.9% of GDP), compared with a deficit of EUR 1,333.8 million (2.4% of GDP) in January – June 2018. Exports of goods amounted to EUR 2,333.3 million in June 2019, dropping by EUR 59.8 million (2.5%) from June 2018 (EUR 2,393.1 million). In January – June 2019 exports of goods totalled EUR 13,879.1 million (23.5% of GDP), growing by EUR 944.9 million (7.3%) yoy (from EUR 12,934.2 million, 23.4% of GDP). In January – June 2018 exports grew by 0.3% yoy. Imports of goods amounted to EUR 2,303.7 million in June 2019, dropping by EUR 291.6 million (11.2%) from June 2018 (EUR 2,595.3 million). In January – June 2019 imports of goods totalled EUR 14,418.6 million (24.4% of GDP), growing by EUR 150.6 million (1.1%) from January – June 2018 (EUR 14,268 million, 25.9% of GDP). In January – June 2018 imports grew by 7.1% yoy. Services recorded a positive balance of EUR 499.7 million in June 2019, compared with a surplus of EUR 486.4 million in June 2018. In January – June 2019 services recorded a surplus of EUR 1,226.4 million (2.1% of GDP) compared with a positive balance of EUR 1,050.2 million (1.9% of GDP) in the same period of 2018. The net primary Income (which reflects the receipt and payment of income related to the use of resources (labour, capital, land), taxes of production and imports and subsidies) recorded a deficit of EUR 13.8 million, compared with a deficit of EUR 67.6 million in June 20183. In January – June 2019 the balance on primary income was negative and equated to EUR 129.1 million (0.2% of GDP), compared with a deficit of EUR 389.5 million (0.7% of GDP) in January – June 2018. The net secondary income (which reflects the redistribution of income) recorded a surplus of EUR 364.9 million, compared with a positive balance of EUR 125.3 million in June 2018. In January – June 2019 the net secondary income was positive amounting to EUR 1,200.8 million (2% of GDP), compared with a positive balance of EUR 939.4 million (1.7% of GDP) in the same period of 2018. The capital account recorded a surplus of EUR 65.3 million, compared with a positive balance of EUR 92.2 million in June 2018. In January – June 2019 the capital account recorded a surplus of EUR 460.9 million (0.8% of GDP), compared with a positive balance of EUR 194.6 million (0.4% of GDP) in January – June 2018. The financial account recorded a positive balance of EUR 283.6 million, compared with a positive value of EUR 312.7 million in June 2018. In January – June 2019 the financial account recorded a net inflow of EUR 746.4 million (1.3% of GDP) compared with an inflow of EUR 1,294.9 million (2.3% of GDP) in January – June 2018. The net direct investment compiled in accordance with the Sixth Edition of the Balance of Payments and International Investment Position Manual was negative amounting to EUR 335.3 million, compared with a positive balance of EUR 20.9 million in June 2018. In January – June 2019 direct investment recorded a negative balance of EUR 286.8 million (0.5% of GDP), compared with a positive balance of EUR 25.6 million (0.05% of GDP) in January – June 2018. Direct investment – assets grew by EUR 25.3 million compared with an increase of EUR 176.1 million in June 2018. In January – June 2019 direct investment – assets grew by EUR 174.6 million (0.3% of GDP) compared with an increase of EUR 465.4 million (0.8% of GDP) in the same period of 2018. Direct investment – liabilities grew by EUR 360.6 million in June 2019, compared with an increase of EUR 155.2 million in June 2018. In January – June 2019 direct investment – liabilities grew by EUR 461.4 million (0.8% of GDP), compared with an increase of EUR 439.8 million (0.8% of GDP) in the same period of 2018. In January – June 2019 the balance was positive and equated to EUR 584 million (1% of GDP), compared with a positive balance of EUR 628.3 million (1.1% of GDP) million in January – June 2018. Portfolio investment – assets grew by EUR 246.3 million. In January – June 2019 they rose by EUR 560.3 million (0.9% of GDP) compared with an increase of EUR 492.8 million (0.9% of GDP) in January – June 2018. Portfolio investment – liabilities dropped by EUR 9.7 million compared with an increase of EUR 179.7 million in June 2018.

In January – June 2019 portfolio investment – liabilities dropped by EUR 23.7 million (0.04% of GDP) compared with a decline of EUR 135.5 million (0.2% of GDP) in January – June 2018. The balance on other investment was positive amounting to EUR 147.3 million, compared with a negative balance of EUR 260.7 million in June 2018. In January – June 2019 the balance was positive and equated to EUR 609.2 million (1% of GDP), compared with a positive balance of EUR 696.3 million (1.3% of GDP) in January – June 2018. Other investment – assets decreased by EUR 91.3 million, compared with a decrease of EUR 131.9 million in June 2018. In January – June 2019 they grew by EUR 593.5 million (1% of GDP) compared with an increase of EUR 982.5 million (1.8% of GDP) in January – June 2018. Other investment – liabilities decreased by EUR 238.6 million compared with a decrease of EUR 128.8 million in June 2018. In January – June 2019 they dropped by EUR 15.6 million compared with an increase of EUR 286.1 million (0.5% of GDP) in January – June 2018. The BNB reserve assets5 increased by EUR 238.7 million, compared with an increase of EUR 732.9 million in June 2018. In January – June 2019 they dropped by EUR 100.3 million (0.2% of GDP), compared with a decline of EUR 143.6 million (0.3% of GDP) in the same period of 2018. The net errors and omissions were negative amounting to EUR 662 million compared with a negative value of EUR 121.4 million in June 2018. According to preliminary data, the item was negative totaling EUR 1,473 million (2.5% of GDP) in January – June 2019, compared with a positive value of EUR 833.9 million (1.5% of GDP) in the same period of 2018.

Bulgaria: Balance of payments	June 2018	June 2019	Change in EUR million	January - June 2018	January - June 2019	Change in EUR million
Current and capital account	434.1	945.6	511.5	461.0	2219.5	1758.5
Current account	341.9	880.3	538.4	266.3	1758.6	1492.3
Trade balance	-202.2	29.6	231.7	-1333.8	-539.5	794.3
Services, net	486.4	499.7	13.3	1050.2	1226.4	176.2
Primary income, net	486.4	499.7	13.3	1050.2	1226.4	176.2
Secondary income, net	125.3	364.9	239.6	939.4	1200.8	261.4
Capital account	92.2	65.3	-26.9	194.6	460.9	266.2
Capital transfers, net	56.4	31.5	-24.9	148.8	295.1	146.3
Financial account	312.7	283.6	-29.0	1294.9	746.4	-548.4
Source: BNB						

In January-June 2019 the net flows of foreign direct investment in Bulgaria presented according to the directional principle recorded a a positive value of EUR 457.1 million (0.8% of GDP) in January – June 2019, growing by EUR 304.5 million from January – June 2018 (positive value of EUR 152.6 million, 0.3% of GDP).

According to preliminary data, the net flows of foreign direct investment in Bulgaria presented according to the directional principle recorded a positive value of EUR 457.1 million (0.8% of GDP) in January – June 2019, growing by EUR 304.5 million from January – June 2018 (positive value of EUR 152.6 million, 0.3% of GDP). Foreign direct investment in Bulgaria recorded an inflow of EUR 328.3 million in June 2019, compared with an inflow of EUR 61.3 million in June 2018. Equity (acquisition/disposal of shares and equities in cash and contributions in kind by non-residents in/from the capital and reserves of Bulgarian enterprises, and receipts/payments from/for real estate deals in the country) recorded a negative value of EUR 687.6 million in January – June 2019, dropping by EUR 495.1 million from a negative value of EUR 192.6 million in January – June 2018. Real estate investments of non-residents recorded a positive value of EUR 3.3 million, compared with EUR 10.9 million in January – June 2018. The largest inflow of real estate investment was from Russia (EUR 1.1 million), Latvia (EUR 0.5 million), and Kazakhstan (EUR 0.5 million). Reinvestment of earnings (the share of non-residents in the undistributed earnings/loss of the enterprise based on preliminary profit and loss data) was estimated at a positive value of EUR 48.5 million, compared with a positive one of EUR 76.7 million in January – June 2018. The net flow on debt instruments (the change in the net liabilities between affiliated enterprises on financial loans, suppliers' credits and debt securities) totalled EUR 1,096.2 million in January – June 2019, compared with EUR 268.4 million in January – June 20185. The largest net direct investment inflows in Bulgaria for January – June 2019 were from Germany (EUR 125 million), the UK (EUR 119.3 million), and the Netherlands (EUR 101.7 million). According to preliminary data, direct investment abroad recorded a positive value of EUR 170.3 million (0.3% of GDP), compared with a positive value of EUR 178.2 million (0.3% of GDP) in January – June 2018. It recorded a negative value of EUR 7 million in June 2019, compared with EUR 82.2 million in June 2018. According to preliminary data, the stocks of foreign direct investment in Bulgaria stood at EUR 43,277.8 million at end- March 2019, compared with EUR 43,035.6 million at end-2018. Equity and reinvestment of earnings totaled EUR 33,819.5 million, declining by EUR 49.2 million from EUR 33,868.7 million in December 2018. Debt instruments amounted to EUR 9,458.3 million, increasing by EUR 291.3 million from December 2018 (EUR 9,166.9 million).

Bulgaria: Direct investments	June 2018	June 2019	January-June 2018	January-June 2019	Change in EUR million, mom	Channge in EUR million, yoy
Direct investments, net	**20.9**	**-335.3**	**25.6**	**-286.8**	**-356.2**	**-312.5**
Direct investments in abroad	**82.2**	**-7.0**	**178.2**	**170.3**	**-89.2**	**-7.9**
Equity	4.4	0.4	4.1	94.9	-4.0	90.8
Reinvestments of earnings	-3.7	1.6	1.1	5.6	5.3	4.5
Debt investments	81.6	-9.0	173.3	69.8	-90.6	-103.5
Direct investments in a country	**61.3**	**328.3**	**152.6**	**457.1**	**267.0**	**304.5**
Equity	53.5	-103.3	-192.6	-687.6	-156.8	-495.0
Reinvestments of earnings	-4.8	73.9	76.7	48.5	78.7	-28.2
Debt investments	12.6	357.7	268.4	1096.2	345.1	827.8
Source: BNB						

At the end of July 2019, the BNB's international reserves exceed BGN 49.9 billion (EUR 25.5 billion), increased by 1.3% mom and by 1.9% yoy and maintain the stability of the currency board in Bulgaria.
According to BNB data, as of the end of July 2019, the BNB's international reserves amounted to BGN 49.9 billion (EUR 25.5 billion) and increase by 1.3% mom and by 1.9% yoy, respectively. Cash provided in foreign currency amounted to BGN 25 billion and increased by 6.1% mom and by 5.6% yoy, respectively. Investments in monetary gold amounted to BGN 3.3 billion and increased by 3.6% on a monthly basis and by 11.1% on an annual basis. Investments in securities amounted to BGN 26.6 billion and decreased by 2.3% mom and by 1.7% yoy under conditions of negative interest rates as well as negative yields on government bonds instruments on the international markets. Money in circulation amounted to BGN 17.7 billion and increased by 2.2% mom on a monthly basis and by 5.3% yoy. Liabilities to banks amounted to BGN 12.4 billion and decrease by 3.4% mom and by 15.3% yoy, respectively. Liabilities to the budget increased by 5.1% mom and by 18.6% yoy, respectively to BGN 11.4 billion. Liabilities to other depositors amounted to BGN 2.3 billion and increase by 0.2% mom and by 8.5% yoy, respectively. The Banking Department's deposit amounted to BGN 6 billion and increased by 2.2% mom and by 5.9% yoy, respectively. Bulgaria's international liquidity position, expressed through the ratio of foreign reserves to short-term external debt, slightly decline, but still maintain high level of 295.1% at the end of May 2019 compared to 295.8% at the end of May 2018.

Cover Ratio: Foreign reserves/Short term foreign debt (%)	May 2018	June 2018	July 2018	Aug 2018	Sep 2018	Oct 2018	Nov 2018	Dec 2018	Jan 2019	Feb 2019	March 2019	Apr 2019	May 2019
Short-term foreign debt (EUR mn)	7 715	7 794	7 903	8 105	8 052	8 161	8 365	8168.7	8 206	8293.3	8427.2	8573.0	8397.70
Foreign reserves (EUR mn)	22 825	23 510	23 731	23 960	24 540	24 137	24 161	25 072	24 398	24 767	25 026	24 760	24 784
Cover Ratio FR /STD(%)	**295.9**	**301.6**	**300.3**	**295.6**	**304.8**	**295.8**	**288.8**	**306.9**	**297.3**	**298.6**	**297.0**	**288.8**	**295.1**
Source: BNB, UBB's calculations													

REAL SECTOR

Bulgaria's GDP expanded with 3.3% in Q2 2019 yoy and by 0.6% qoq. GDP in Q2 2019 increased by 0.2% in the EU-28 compared to the previous quarter by seasonally adjusted data. The economy will grow in the third quarter as well. Expectations are to maintain rates similar to Q1 acceleration. Gross domestic product then accelerated to 3.5% yoy, up from 3% in the Q4 of 2018. The weaker growth in the euro area countries, negative trends, as well as ongoing structural problems in some of the large economies in the EU, together with the ambiguity of the course of Brexit, will begin to have an increasingly tangible impact on the Bulgarian economy. External shocks in the short and medium term may be mitigated by a sharp increase in new investment, productivity gains, and possibly activation of projects funded under operational programs.

According to NSI flash GDP estimates for Q2 2019, the GDP at current prices amounted to BGN 28 099 million. Gross Value Added in Q22019 amounted to BGN 24 241 million. In the structure of GDP by the expenditure approach the largest share has the final consumption (76.3%), which in nominal terms is BGN 21 445 million. In Q2 of 2019 gross capital formation is BGN 5 683 million and has a share of 20.2% in GDP. The external balance (exports minus imports) has a positive sign. According to the seasonally adjusted data, the GDP growth rate in Q2 2019 is 0.6% compared to the previous quarter. GVA increase in Q2 2019 is 0.8%. According to the flash estimates by final expenditure, the GDP growth at seasonally adjusted data in Q2 2019 compared to Q1 of 2019 is determined by the gross fixed capital formation increase with 0.8% and final consumption increase with 0.1%. On an anual basis, the Q2 2019 GDP at seasonally adjusted data increased by 3.3% yoy.. Gross value added increased by 3.1%.As regards the expenditure components of GDP, the final consumption registered a positive economic growth of 2.7%. Gross fixed capital formation increased by 2.2% in Q2 of 2019 compared to the same quarter of the previous year at seasonally adjusted data. Exports of goods and services increased by 3.3%, while imports of goods and services decreased by 5.5%.

In Q2 2019 the GDP increased by 0.2% in the EU-28 compared to the previous quarter by seasonally adjusted data. For the same period, GDP in Bulgaria increased by 0.6%. Compared to the previous quarter, in Q2 2019, Hungary recorded the highest economic growth - 1.1%, Romania - 1.0%, Lithuania and Finland - 0.9% each, while a decrease is observed in United Kingdom - by 0.2%, Germany and Sweden - by 0.1% each. Compared to the same quarter of the previous year, seasonally adjusted data showed an increase of GDP in the EU-28 by 1.3% and in Bulgaria - by 3.3%. In Q2 of 2019, compared to the same quarter of the previous year, the highest economic growth is observed in Hungary - 5.1%, Romania - 4.6%, Poland - 4.1% and Lithuania - 4.0%.

Bulgaria: Growth rates of GDP components	Growth rate, current quarter compared with the previous quarter (%)				Growth rate, current quarter compared with the same quarter of the previous year (%)			
	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2018	Q4 2018	Q1 2019	Q2 2019
Gross Value Added by economic sectors:	0.7	0.8	0.7	0.8	3.0	2.9	3.0	3.1
Adjustments	0.4	1.2	5.1	-1.9	3.7	4.6	8.2	4.8
Gross Domestic Product	0.7	0.8	1.2	0.6	3.1	3.2	3.5	3.3
By final use components:	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Final consumption	1.4	-0.1	1.3	0.1	6.9	5.0	4.5	2.7
Gross capital formation	.	.	.	.	.	.	.	.
Gross fixed capital formation	-1.5	2.8	0.2	0.8	7.0	6.6	2.5	2.2
Balance (exports - imports)	.	.	.	.	.	.	.	.
Exports of goods and services	1.7	3.1	1.9	-3.3	-3.6	1.4	5.1	3.3
Imports of goods and services	-0.8	2.4	1.5	-8.4	4.0	1.6	3.9	-5.5
Statistical discrepancy	.	.	.	.	.	.	.	.
Source: NSI								

Forecast: *The economy will grow in the third quarter as well. Expectations are to maintain rates similar to Q1 acceleration. Gross domestic product then accelerated to 3.5% yoy, up from 3% in the Q4 of 2018. The weaker growth in the euro area countries, negative trends, as well as ongoing structural problems in some of the large economies in the EU, together with the ambiguity of the course of Brexit, will begin to have an increasingly tangible impact on the Bulgarian economy. External shocks in the short and medium term may be mitigated by a sharp increase in new investment, productivity gains, and possibly activation of projects funded under operational programs.*

In July 2019, the overall business climate indicator remained approximately at the level of the previous month at the level of 29.5%. The decrease in the economic situation was observed in industry up to 24.7% and construction up to 34.6%, while in retail trade the level of June remained (44.9%). In the services sector alone, the indicator rises to 18.3%. According NSI data in July 2019, the total business climate indicator remains approximately to its level from the previous month at 29.5%. A reduction of the business conjuncture is observed in industry and construction, while in retail trade preserves its June level. Only in service sector, the indicator is increased.

Industry. The composite indicator 'business climate in industry' decreases by 1.7 percentage points to 24.7% as a result of the slightly worsened industrial entrepreneurs' assessments and expectations about the business situation of the enterprises. The inquiry registers also more unfavorable forecasts about the export and production activity the next 3 months. The average capacity utilization from April to July increases by 1.2 percentage points and it reaches 76.9%, as regards the expected demand over the next months a surplus of capacity is foreseen. The shortage of labor and uncertain economic environment continue to be the main obstacles for the business in the sector. Concerning the selling prices in industry, certain expectations for an increase are reported, although the majority of the managers do not foresee a change over the next 3 months.
Construction. In July 2019 the composite indicator 'business climate in construction' decreases by 0.8 percentage points to 34.6%, which is due to the shifting of the construction entrepreneurs' assessments about the present business situation of the enterprises from 'good' towards 'satisfactory'. As regards the construction activity over the last 3 months, the inquiry registers certain decrease in comparison with June, as the forecasts over the next 3 months remain reserved. The shortage of labor, uncertain economic environment and competition in the branch are the factors limiting with the most extent the activity. As regards the selling prices in construction, the managers foresee certain increase over the next 3 months.
Retail trade. The composite indicator 'business climate in retail trade' preserves its level from the previous month at 44.7%. The retailers' expectations about the business development in the sector over the next 6 months are positive. At the same time, their forecasts about the volume of sales and orders placed with suppliers over the next 3 months remain favorable, though more reserved in comparison with June. The competition in the branch, insufficient demand and uncertain economic environment continue to be the most serious obstacles for the business. In the last month strengthen of the negative influence of the factor 'shortage of labor' is observed. Concerning the selling prices, the managers' expectations are for preservation of their level over the next 3 months.
Service sector. In July the composite indicator 'business climate in service sector' increases by 1.7 percentage points to 16.6% mainly due to the optimistic managers' assessments about the present business situation of the enterprises. As regards the demand for services, the present tendency is assessed as improved, but their expectations over the next 3 months are more unfavorable. The main difficulties for the development of the activity remain connected with the competition in the branch, uncertain economic environment and shortage of labor. The managers foresee certain increase of the selling prices in the service sector, although the majority of them do not expect a change over the next 3 months.

Bulgaria: Business conjunktion indicators	6.2018	7.2018	8.2018	9.2018	10.2018	11.2018	12.2018	1.2019	2.2019	3.2019	4.2019	5.2019	6.2019
Total busiess climate indicator (%)	32.2	32.1	29.2	27.7	25.8	26.4	25.9	27.8	27.7	28	29.9	31.2	29.9
Business climate in industry (%)	31.8	29.6	27.7	27.6	25.2	27.0	24.3	28.4	26.1	25.7	27.7	27.5	26.4
Business climate in construction (%)	33.7	35.3	31.5	25.7	28.3	26.1	26.5	27.7	29.0	29.0	30.3	37.2	35.4
Business climate in retail trade(%)	43.3	44.0	40.0	40.1	37.6	38.6	41.8	40.1	39.7	42.3	42.7	44.8	44.7
business climate in services (%)	20.5	21.8	19.0	17.3	12.8	13.2	13.0	14.2	17.6	17.5	20.9	18.7	16.6

Source: NSI

The deteriorating external environment is a factor in the overall negative trend in the industry. According to preliminary data, in June 2019 the seasonally adjusted index of industrial production in Bulgaria decreased by 1.9% compared to May 2019. In June 2019, the calendar-adjusted industrial production index registered a decrease of 3.6% compared to the corresponding month of 2018. Industrial Production in Bulgaria is expected to be 2.9% by the end of 2019. Looking forward, we estimate Industrial Production in Bulgaria to stand at 3.7% in 2020 and 3.3% in 2021.
According to NSI preliminary data in June 2019 the Industrial Production Index, seasonally adjusted,
decreased by 1.9% mom. In June 2019 the working day adjusted Industrial Production Index fell by 3.6% yoy. In June 2019 as compared to May 2019, the seasonally adjusted Industrial Production Index decreased in the mining and quarrying industry by 12.5%, in the electricity, gas, steam and air conditioning supply by 1.3% and in the manufacturing by 1.2%. The most significant production decreases in the manufacturing were registered in the manufacture of tobacco products by 33.4%, in the manufacture of leather and related products by 13.8%, in the manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials by 9.8%, in the manufacture of paper and paper products by 8.1%. Major increases were seen in the manufacture of computer, electronic and optical products by 9.5%, in the manufacture of textiles by 8.9%, in the repair and installation of machinery and equipment by 6.3%, in the manufacture of fabricated metal products, except machinery and equipment by 4.8%.On annual basis in June 2019 Industrial Production Index calculated from working day adjusted data went down in the mining and quarrying industry by 20.0%, in the electricity, gas, steam and air conditioning supply by 4.6% and in the manufacturing by 1.7%. In the manufacturing, the more considerable decreases compared to the same month of the previous year were registered in the manufacture of tobacco products by 47.1%, in the manufacture of basic metals by 21.0%, in the manufacture of wearing apparel by 11.8%, in the manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials by 10.4%. Important increases were seen in the printing and reproduction of recorded media by 15.2%, in the other manufacturing by 10.7%, in the manufacture of computer, electronic and optical products by 10.3%.
Projection: *Industrial Production in Bulgaria is expected to be 2.9% by the end of 2019. Looking forward, we estimate Industrial Production in Bulgaria to stand at 3.7% in 2020 and 3.3% in 2021.*

According to the preliminary seasonally adjusted data in June 2019 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices kept the level of the previous month. Retail Sales yoy in Bulgaria is expected to be -0.90% by the end of 2019. Looking forward, we estimate Retail Sales yoy in Bulgaria to stand at 2.8% in 2020 and 4.5% in 2021.

According to NSI preliminary seasonally adjusted data in June 2019 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices kept the level of the previous month. In June 2019, the working day adjusted4 turnover in 'Retail trade, except of motor vehicles and motorcycles' was without change in comparison with the same month of the previous year. In June 2019 compared to the previous month, decrease of turnover was observed in the 'Retail sale of automotive fuel' and 'Retail sale of non-food products except fuel' - by 0.5% and 0.4% respectively, while in the 'Retail sale of food, beverages and tobacco' was registered growth - by 1.2%. In the 'Retail sale of non-food products except fuel' a more significant turndown was reported in the 'Retail sale of computers, peripheral units and software; telecommunications equipment' - by 4.6%. A rise was observed in the 'Retail sale of textiles, clothing, footwear and leather goods' - by 1.2%. In June 2019 compared to the same month of 2018, the turnover increased in the 'Retail sale of automotive fuel' (by 5.1%). A decrease was registered in 'Retail sale of non-food products except fuel' (by 1.1%) and in the 'Retail sale of food, beverages and tobacco' (by 0.9%). More major decline in 'Retail sale of non-food products except fuel' was observed in the 'Dispensing chemist; retail sale of medical and orthopaedic goods, cosmetic and toilet articles' - by 9.8%. More significant growth was reported in the 'Retail sale via mail order houses or via Internet' and in the 'Retail sale of audio and video equipment; hardware, paints and glass; electrical household appliances' respectively by 7.0% and 6.3%.

Projection: *Retail Sales yoy in Bulgaria is expected to be -0.90% by the end of 2019. Looking forward, we estimate Retail Sales yoy in Bulgaria to stand at 2.8% in 2020 and 4.5% in 2021.*

According to NSI preliminary data, in June 2019 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 0.5% below the level of the previous month. In June 2019 the working day adjusted index of production in construction increased by 1.5% in comparison with the same month of 2018. Construction Output in Bulgaria is expected to be 3.7% by the end of 2019. Construction Output in Bulgaria to stand at 4.2% in 2020 and 3% in 2021.

According to NSI preliminary data, in June 2019 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 0.5% mom. In June 2019 working day adjusted data showed an increase by 1.5% in the construction production, compared to the same month of 2018. In June 2019 the construction production index, calculated from the seasonally adjusted data, was below the level of the previous month. Index the production of civil engineering decreased by 1.4%, while production of building construction observed an increase by 0.2%. On an annual basis in June 2019, the increase of production in construction, calculated from working day adjusted data, was determined from the positive rate in the building construction, where the growth was by 5.8%, while in the civil engineering was registered a decline by 4.1%

Projection: *Construction Output in Bulgaria is expected to be 3.7% by the end of 2019. Construction Output in Bulgaria to stand at 4.2% in 2020 and 3% in 2021.*

The consumer price index for July 2019 compared to June 2019 is 100.8%, ie monthly inflation is 0.8%. Since the beginning of the year, inflation has been 2.0% and annual inflation has been 2.9%. The average annual inflation for the period July 2018 - June 2019 compared to the period July 2017 - June 2018 is 3.3%. Our forecast is for inflation to reach 2.5% in 2019, 2.3% in 2020. and 2.1% in 2021.

The consumer price index in July 2019 compared to June 2019 was 100.8%, i.e. the monthly inflation was 0.8%. The inflation rate since the beginning of the year (July 2019 compared to December 2018) has been 2.0% and the annual inflation in July 2019 compared to July 2018 was 2.9%. The annual average inflation, measured by CPI, in the last 12 months (August 2018 - July 2019) compared to the previous 12 months (August 2017 - July 2018) was 3.3%. In July, prices of food and non-alcoholic beverages increased by 0.3%, alcohol and cigarettes by 0.2% and overheads by 1.2%. The highest increase was in airline tickets - by 1.7%, tourist packages - by 15.2%, hotel nights - by 22.1%. Clothing and footwear fell by 2.9% and gasoline and diesel by 0.7%. The harmonized index of consumer prices in July 2019 compared to June 2019 was 101.3%, i.e. the monthly inflation was 1.3%. The inflation rate since the beginning of the year (July 2019 compared to December 2018) has been 2.8% and the annual inflation in July 2019 compared to July 2018 was 2.6%. The annual average inflation, measured by HICP, in the last 12 months (August 2018 - July 2019) compared to the previous 12 months (August 2017 - July 2018) was 2.9%.

Bulgaria: CPI	2018 Weights (%)	June 2019 Change mom (%)	June 2019 Change yend 2018 (%)	June 2019 Change yoy (%)
Total CPI	**100.00**	**100.80**	**102**	**102.9**
Foods	31.55	100.2	103.2	104.7
Non-foods	35.206	99.5	100.5	100.3
Catering	5.363	100.4	103	105.2
Services	27.881	103	102.3	103.8
Source: NSI				

Forecast: *There will be a slight increase in inflation in Q3 2019, with the major impact factors being higher oil futures with delivery times in September, shocks in global supply - such as pork - as well as higher administrative ones. prices of electricity and heat in Bulgaria, which have been in force since June. In the opposite direction to the current levels, crude oil prices will remain stable and will remain stable. Since the beginning of the year, inflation tends to go slightly up -2.8% in Q2 2019 from 2.5% in Q1 2019. Our forecast is for inflation to reach 2.5% in 2019, 2.3% in 2020. and 2.1% in 2021.*

Total Producer Price Index in June 2019 decreases by 1.1% compared to the previous month; compared to the same month of 2018 the prices rose by 0.9%. Producer Price Index on Domestic Market in June 2019 fell by 0.3% compared to the previous month; compared to the same month of 2018 the domestic prices grew by 2.6%.

The Total Producer Price Index in Industry in June 2019 fell by 1.1% mom. Lower prices were registered in manufacturing by 1.4% and in the mining and quarrying industry by 0.3%, while in the electricity, gas, steam and air conditioning supply prices remained unchanged. In the manufacturing, more significant decrease in prices were reported in the manufacturing of basic metals by 3.0% and in the manufacture of leather and related products by 1.4%. Prices went up in the manufacture of food products by 0.4%, in the manufacture of beverages and in the manufacture rubber and plastic products - both by 0.3%. The Total Producer Price Index in June 2019 increased by 0.9% yoy. The prices rose in the electricity, gas, steam and air conditioning supply by 7.6%, while the prices decreased in the mining and quarrying industry by 6.3% and in manufacturing by 0.7%. In the manufacturing decrease in prices were seen in the manufacture of basic metals by 7.2%. Increase in prices was reported in the repair and installation of machinery and equipment by 3.4%, in the manufacture of wearing apparel by 3.1% and in the manufacture of food products by 3.0%.

Producer Price Index on Domestic Market in June 2019 decreased by 0.3% compared to the previous month. The domestic prices went down in mining and quarrying industry by 3.6%, and in manufacturing by 0.7%, while in the electricity, gas, steam and air conditioning supply the prices went up by 0.6%. In the manufacturing, compared to the previous month the prices went down in the manufacture of leather and related products by 3.0% and in the manufacture of chemicals and chemical products by 1.8%. The domestic prices went up in the manufacture of food products, in the manufacture of beverages and in the repair and installation of machinery and equipment - all by 0.4%. Producer Price Index on Domestic Market in June 2019 increased by 2.6% yoy. The prices rose in the electricity, gas, steam and air conditioning supply by 7.3%, and in manufacturing by 0.8%, while in the mining and quarrying industry the prices went down by 9.4%.

In the manufacturing compared to June 2018 more compelling price increase was reported in the repair and installation of machinery and equipment by 5.0%, and in the manufacture of machinery and equipment n.e.c. by 3.8%. The prices fell in the manufacture of basic metals by 5.5%.

Producer Price Index on Non-domestic Market in June 2019 fell by 2.2% mom. In the manufacturing the non-domestic prices went down by 2.2%. More significant price decrease was reported in manufacture of basic metals by 3.4%, and in the manufacture of wood and of products of wood and cork, except furniture, manufacture of articles of straw and plaiting materials by 1.4%. Prices went up in the manufacture of rubber and plastic products and in the manufacture of food products - both by 0.3%. Producer Price Index on Non-domestic Market in June 2019 decreased by 1.5% yoy. In the manufacturing, the prices went down by 2.0%. The non-domestic prices fell most dramatically in the manufacture of basic metals by 7.6% and in the manufacture of chemicals and chemical products by 1.4%. The prices went up in the manufacture of rubber and plastic products by 3.9% and in the manufacture of leather and related products by 3.8%.

Bulgaria: Producer Price Indexes 2015=100	6.2018	7.2018	8.2018	9.2018	10.2018	11.2018	12.2018	1.2019	2.2019	3.2019	4.2019	5.2019	6.2019
Total Producer Price Index	106.8	106.0	105.8	106.2	107.6	107.2	106.4	106.0	107.8	108.6	109.1	109.0	107.8
Total Producer Price Index on Domestic Market	105.4	105.5	105.7	106.0	106.8	106.9	106.4	106.6	108.2	108.2	108.6	108.5	108.1
Total Producer Price Index on Noin-domestic Market	109	106.7	106.1	106.5	108.8	107.7	106.4	105	107.3	109.3	109.8	109.8	107.4
Sopurce: NSI													

HOUSEHOLDS INCOME

The total income average per household member during Q2 of 2019 is BGN 1 547 and increases by 4.9% yoy. The total expenditure average per household member during Q2 2019 is BGN 1 402 and increases by 5.3% yoy.The consumption of main food products average per household member during Q2 2019 yoy does change.

The total income average per household member during Q2 of 2019 is BGN 1 547 and increases by 4.9% yoy. The highest relative share of income within the total income is this from wages and salaries (57.8%). The relative share of income from pensions is 27.6% and from self-employment - 6.2%.

Compare to the second quarter of 2018 the relative share of income from wages and salaries increases by 1.1 percentage points (pp), the income from pensions decreases by 0.5 pp and the self-employment income decreases by 0.4 pp. The nominal income by source average per capita during the second quarter of 2019 compared to the second quarter of 2018 changes as follows: Income from wages and salaries increases from BGN 835 to BGN 894 (by 7.0%); Income from pensions increases from BGN 413 to BGN 427 (by 3.4%); Self-employment income decreases from BGN 97 to BGN 95 (by 1.8%); Income from social benefits increases from BGN 35 to BGN 46 (by 33.0%). The relative share of monetary income into the total income during Q2 of 2019 is 99.1% and the share of income in kind is 0.9%.

Bulgaria: Total Households Income	Q1 2019			Q2 2019		
	Relative share (%)	Average per household in BGN	Average per person in BGN	Relative share (%)	Average per household in BGN	Average per person in BGN
Total income	100	3345.69	1518.57	100	3378.05	1546.87
Total gross income	96.6	3233.32	1467.57	96.6	3262.49	1493.95
Wages and salaries	57.6	1926.49	874.41	57.8	1951.91	893.81
Other earnings	0.6	21.41	9.72	0.7	25.01	11.45
Self-employment income	6.4	212.47	96.44	6.2	208.14	95.31
Property income	0.2	6.45	2.93	0.3	10.08	4.61
Pensions	27.9	934.31	424.07	27.6	933.37	427.41
Unemployment benefits	0.4	11.92	5.41	0.2	5.76	2.64
Family allowances	1.3	42.88	19.46	1.2	41.99	19.23
Other social benefits	0.7	22.32	10.13	1.6	53.47	24.49
Regular transfers from other households	1.6	55.08	25	1	32.75	15
Receipt sale	0.2	6.57	2.98	0.3	9.81	4.49
Miscellaneous	3.2	105.8	48.02	3.1	105.75	48.43
Withdrawn savings	x	85.5	38.81	x	77.76	35.61
Loans anc credits	x	12.34	5.6	x	15	6.87
Source: NSI						

The total expenditure average per household member during the second quarter of 2019 is BGN 1 402 and increases by 5.3% yoy. The greatest share in forming the total expenditure has expenditure on food - 31.4% as well as expenditure on housing - 15.5%, taxes and social insurance contributions - 14.2% and transport and communication - 11.7%.The expenditure by group average per capita are change as absolute values during the second quarter of 2019 compared to the same quarter of 2018 as follows: Expenditure on food and non-alcoholic beverages increases from BGN 419 to BGN 440 (by 5.0%); Expenditure on alcoholic beverages and tobacco increases from BGN 59 to BGN 61 (by 4.4%); Expenditure on clothing and footwear decreases from BGN 44 to BGN 43 (by 3.2%); Expenditure on housing (water, electricity, heating, furnishing and maintenance of the house) increases from BGN 213 to BGN 217 (by 2.3%); Expenditure on health increases from BGN 77 to BGN 96 (by 25.0%); Expenditure on transport and communication increases from BGN 161 to BGN 165 (by 2.5%);Expenditure on recreation, culture and education increases from BGN 53 to BGN 57 (by 7.0%); Expenditure on taxes and social insurance contributions increases from BGN 182 to BGN 200 (by 9.5%).

Bulgaria: Total Households Expenditures	Q1 2019			Q2 2019		
	Relative share (%)	Average per household in BGN	Average per person in BGN	Relative share (%)	Average per household in BGN	Average per person in BGN
Total expenditure	100	3 090.39	1 402.69	100	3061.67	1401.99
Consumer monetary expenditure	81.6	2 522.92	1 145.13	81.1	2483.64	1137.3
Foods and non-alcoholic beverages	30.2	931.8	422.93	31.4	960.45	439.81
Alcoholic beverages and tobacco	4.2	129.08	58.59	4.4	134.28	61.49
Clothing and footwear	3	93.07	42.24	3.1	93.83	42.97
Housing, water, electricity, gas and other fuels	14.2	438.46	199.01	12.3	375.76	172.07
Furnishing and maintenance of the house	4	123.11	55.88	3.2	99.04	45.35
Health	6	186.09	84.46	6.8	209.22	95.81
Transport	7.6	236.27	107.24	7.1	218.85	100.21
Communication	4.5	138.51	62.87	4.6	140.75	64.45
Recreation, culture and education	3.5	108.55	49.27	4	123.44	56.53
Miscellaneous goods and services	4.5	137.99	62.63	4.2	128.02	58.62
Taxes	6.1	187.85	85.27	6.1	186.53	85.41
Social insurance contributions	7.9	242.98	110.29	8.1	249.18	114.1
Regular transfers to others households	1.2	38.3	17.39	1.1	34.19	15.66
Other expenditure	3.2	98.32	44.63	3.5	108.13	49.51
Saving deposits	x	167.91	76.21	x	183.19	83.89
Debt paid out and loan granted	x	77.59	35.22	x	74.73	34.22
Source: NSI						

The consumption of main food products average per household member during Q2 2019 compared to the same quarter of 2018 does change. Increase is observed in the consumption of meat - from 8.6 kg to 8.9 kg and eggs – from 39 to 40 numbers. More foods have a reduction in consumption. Most significantly reduces consumption of bread and paste products - from 21.3 kg to 20.4 kg, vegetables - from 19.0 kg to 18.0 kg, yoghurt - from 7.9 kg to 7.5 kg, fruit from 8.9 kg to 8.5 kg. The consumption of meat products, white cheese, dry beans and sugar is without change.

LABOR MARKET

In Q2 2019 Bulgaria's unemployment rate was 4.2%, by 1.3 percentage points lower compared to Q2 2018. There were 61.2 thousand discouraged persons aged 15 - 64, representing 5.2% of the economically inactive population in the same age group. The activity rate for population aged 15 - 64 was 73.8%, by 2.0 percentage points higher compared to the second quarter of 2018. The employment rate for population aged 15 - 64 increased by 2.8 percentage points from the same quarter of 2018 and achieved 70.7%. The expectations for the Bulgarian labor market are one-direction. For 2019, employment is expected to increase by 0.4%. The unemployment rate is expected to rise again in H2 2019, with unemployment estimated at 4.6% in 2019 and 4.5% in 2020. Employers will have difficulty hiring skilled workers, so the benefits related to low unemployment are limited in the short term and there are concerns about the medium and long term.

According NSI dta in Q2 2019 there were 142.0 thousand **unemployed persons**, of whom 82.7 thousand (58.2%) men and 59.3 thousand (41.8%) women. The unemployment rate was 4.2% and went down by 1.3 percentage points from Q2 2018. The unemployment rate decreased from 6.1% to 4.6% for men and from 4.7% to 3.7% for women. Among all unemployed persons, 15.1% had higher level of educational attainment, 45.1% had completed upper secondary education and 39.8% had at most lower secondary education. The unemployment rate by level of educational attainment was as follows: 2.0% for higher education, 3.4% for upper secondary and 12.2% for education lower than upper secondary. In Q2 2019 there were 84.5 thousand long-term unemployed persons (unemployed for one or more years), representing 59.5% of all unemployed persons. The long-term unemployment rate was 2.5%, down by 0.7 percentage points from the second quarter of 2018. The long-term unemployment rate was 2.7% for men and 2.2% for women. Of all unemployed people 25.1 thousand (17.7%) were looking for a first job. In Q2 2019, the unemployment rate for the age group 15 - 29 years was 6.9%, by 2.4 percentage points lower than in a year earlier. The unemployment rate was 7.3% for men (15 - 29 years) and 6.3% for women. In comparison with the second quarter of 2018, this rate went down by 3.0 percentage points for men and by 1.5 percentage points for women. There were 2 564.3 thousand economically inactive persons, of them 1 046.8 thousand (40.8%) men and 1 517.5 thousand (59.2%) women. In the age group 15 - 64 years 1 173.1 thousand persons were economically inactive, accounting for 26.2% of population in the same age group. Participation in education or training and personal or family reasons were the most common causes for economic inactivity - they concerned 36.9% and 23.1% of persons out of labor force aged 15 - 64.

In Q2 2019 there were 3 262.8 thousand **employed persons** aged 15 years and over, of whom 1 733.2 thousand men and 1 529.7 thousand women. The share of employed persons in the total population aged 15 years and over was 54.7% (60.5% for men and 49.2% for women). In Q2 2019, 2 065.3 thousand persons, representing 63.3% of all employed persons, worked in the service sector, 980.2 thousand persons (30.0%) worked in the industry sector and 217.4 thousand persons (6.7%) worked in agriculture, forestry and fishing. Of all employed persons 3.6% (116.5 thousand) were employers, 6.5% (213.4 thousand) were self-employed persons without employees, 89.3% (2 912.6 thousand) were employees and 0.6% (20.4 thousand) were unpaid family workers. Of all employees 2 217.5 thousand persons (76.1%) worked in private sector while 695.1 thousand (23.9%) worked in public sector. Of all employees, 134.0 thousand persons (4.6%) had temporary job. In Q2 2019, the employment in specific age groups was as follows: There were 3 165.1 thousand employed persons aged from 15 to 64 years. The employment rate for the same age group was 70.7% (74.0% for men and 67.3% for women). The employment rate for the age group 15 - 29 years was 42.8% (47.5% for men and 37.7% for women). The employment rate for the age group 20 - 64 years was 75.7%, 79.3% and 72.1% for men and women respectively. This rate was by 3.1 percentage points higher than in the second quarter of 2018, registering almost the same increase for men and women. There were 621.1 thousand employed persons aged from 55 to 64 years, representing 65.0% of population in the same age group (68.8% of men and 61.5% of women). In comparison with a year ago, the employment rate (55 - 64 years) went up by 4.0 percentage points.
Forecast: *The expectations for the Bulgarian labor market are one-direction. For 2019, employment is expected to increase by 0.4%. The unemployment rate is expected to rise again in H2 2019, with unemployment estimated at 4.6% in 2019 and 4.5% in 2020. Employers will have difficulty hiring skilled workers, so the benefits related to low unemployment are limited in the short term and there are concerns about the medium and long term.*

According to preliminary NSI data, the number of employees under employment and employment relationship in Bulgaria at the end of June 2019 increased by 1.5% compared to the end of March 2019 and reached 2.35 million. In Q2 2019, the average gross monthly salary increased by 4.3% compared to the first quarter of 2019 and reached BGN 1 260. The labor market is expected to continue to exert pressure on employers and new changes are yet to come. Low unemployment will continue to push for wage increases, including the projected increase in the minimum wage to BGN 610 from the beginning of 2020.

According to the preliminary NSI data at the end of June 2019 the number of employees under labour contract increased by 33.9 thousand or 1.5% as compared to the end of March 2019 and reached 2.35 million. The highest increase was observed in economic activities: 'Accommodation and food service activities' - 28.4%, 'Real estate activities' - 7.9% and in 'Agriculture, forestry and fishing' - by 3.6%. The highest decrease of the number of employees was recorded in 'Education' - by 2.4%. In the structure of employees by economic activities the biggest relative share of employees was in 'Manufacturing' - 21.3% and 'Wholesale and retail trade; repair of motor vehicles and motorcycles' - 17.0%. At the end of June 2019 as compared to June 2018 the number of employees under labour contract decreased by 3.0 thousand or 0.1%. The highest decrease in absolute figures was observed in economic activities 'Manufacturing' - 13.0 thousand, 'Transportation and storage' - 2.8 thousand, and 'Agriculture, forestry and fishing' - 2.6 thousand and the highest increase - in 'Information and communication'- 6.0 thousand. In percentages the highest decrease at the end of June 2019 as compared to June 2018 was in economic activity 'Mining and quarrying' - by 5.0% and 'Other service activities' - by 4.9%, as the highest increase was reported in 'Real estate activities' - by 5.0%. The average monthly wages and salaries of the employees under labour contract in April was BGN 1 281, in May - BGN a1 246 nd in June 2019 - BGN.1 253. In Q2 2019 in comparison with Q1 of 2019 the average monthly wages and salaries increased by 4.3% getting BGN 1 260. The highest increase in wages and salaries was reported in 'Electricity, gas, steam and air conditioning supply' - by 9.1%, and in 'Accommodation and food service activities' and 'Education' - by 7.3%. Compared to the second quarter of 2018 the average monthly wages and salaries in the second quarter of 2019 rose by 12.0%. The highest growth rates were recorded in economic activities: 'Other service activities' - 17.3%, 'Real estate activities' - 16.5% and 'Education' - 15.5%. The economic activities with the highest wages and salaries in Q2 2019 were:

'Information and communication' - BGN 3 053; 'Financial and insurance activities' - BGN 2 174; 'Electricity, gas, steam and air conditioning supply' - BGN.2 048. The lowest wages and salaries were recorded in: 'Accommodation and food service activities' - BGN 782; 'Other service activities' - BGN 924; 'Construction' - BGN 974; In comparison with a year earlier the average monthly wages and salaries in public sector grew by 11.0% while in private sector - by 12.4%.

Forecast: *Against the background of record low unemployment in the country, wages will continue to rise and we can expect an increase in the minimum wage. The current state of the Bulgarian labor market is extremely dynamic. The country has not been in this situation for the last 30 years. The labor market is expected to continue to exert pressure on employers and new changes are yet to come. This will continue to push for wage increases, including the projected increase in the minimum wage to BGN 610 from the beginning of 2020. External market pressure on the European Union (EU) will directly affect Bulgaria. In the last few years, many of the companies that have entered the manufacturing sector in the country are expanding their number of employees and increasing their salaries. The rise in wages and consumption shows that consumer confidence is increasing. This will be an impetus for the internal market.*

FISCAL SECTOR

In January-June 2019 Bulgaria' CFP balance on a cash basis is positive, amounting to 3,025.8 million BGN and presented 2.6% of forecasted GDP. The fiscal reserve as of 30.06.2019 amounts to 11.7 billion BGN. Based on the preliminary data and estimates, the Consolidated Fiscal Programme (CFP) balance on a cash basis as of July 2019 is expected to be positive, amounting to BGN 2,979.1 million (2.8% of the projected GDP).

According MF data the Consolidated Fiscal Programme (CFP) balance on a cash basis as of end-June 2019 is positive, amounting to BGN 3.225,0 million, or 2.8% of the projected GDP, and is formed by an excess of revenues over expenditures of BGN 3,108.0 million under the national budget and of BGN 116.9 million under EU funds. The CFP revenues and grants as of June 2019 stand at BGN 22,285.6 million, or 50.8% of the annual estimates. Compared to the same period of the previous year, tax and non-tax revenues have risen by BGN 2,622.4 million (14.2%), while grant proceeds (mostly EU programme and fund grants) – have risen by BGN 453.0 million. As of the first six months of the year, the performance of revenues complies with the plan for the period and with the tax calendar specifics on the basis of which a considerable part of the annual proceeds under some taxes (corporate tax, PIT, etc.) is concentrated in the first half of the year. This is the reason why revenues in this period traditionally exceed 50 per cent of the annual plan. Tax proceeds, including revenues from social security contributions, total BGN 17,686.3 million, which accounts for 51.2% of the tax revenues planned for the year. Direct tax revenues amount to BGN 3,333.1 million, or 50.8% of those planned for the year. Indirect tax revenues amount to BGN 8,533.9 million, which accounts for 51.9% of the annual estimates. VAT proceeds amount to BGN 5,549.0 million, or 51.2% of those planned.

The excise duty revenues amount to BGN 2,849.0 million, or 53.4% of the annual estimates. Customs duty proceeds amount to BGN 114.8 million, or 48.4% of the annual estimates. Proceeds from other taxes, including property taxes and other taxes under the Corporate Income Tax Law, amount to BGN 708.1 million, or 60.5% of the annual estimates. Revenues from social security and health insurance contributions are BGN 5,111.2 million, which accounts for 49.2% of the estimates for the year. Compared to the same period of the previous year, the revenues from social security contributions have risen by 11.5 per cent in nominal terms. Non-tax revenues amount to BGN 3,448.2 million, or 52.0% of the annual estimates. It should be noted that a baseline effect appears in the non-tax revenue part relating to the revenues under the Electricity System Security Fund due to the amendments to the Energy Law in force as from 1 July 2018 which have changed the mechanism for collection of revenues under the Fund's budget. The revenues under the Fund's budget for the first half of 2019 are therefore higher than the proceeds for the same period of 2018. Grant proceeds amount to BGN 1,151.1 million.CFP expenditures, including the contribution of the Republic of Bulgaria to the EU budget, amount to BGN 19,060.7 million as of June 2019, which accounts for 42.9% of the annual estimates. It is evident that the absorption of expenditures is behind the revenue performance, which is also the reason for the excess of revenues over expenditures for the period. The planned pension indexation, which is set in the annual estimates, will take place in the second half of the year. In addition to that a majority of the capital expenditures planned for the year will be made in the second half of the year due to the construction season and some other factors. Compared to the same period of the previous year, the CFP expenditures grow by 8.9 per cent in nominal terms, which is mainly due to the higher amount of staff costs (a 10% increase in the wage bill for the public sector and the next step of increasing the remunerations in the education sector), the higher social and health insurance payments (a baseline effect from the pension increase in July 2018 and an increase in the health insurance payments set out in the 2019 NHIF Budget Law), an increase in subsidy expenditures, etc. Non-interest expenditures amount to BGN 17,930.0 million, which accounts for 42.4% of the annual estimates. Non-interest current expenditures as of June 2019 amount to BGN 16,416.7 million, capital expenditures (including net increment of state reserve) amount to BGN 1,499.7 million. The current and capital transfers to other countries amount to BGN 13.7 million. Interest payments amount to BGN 413.1 million, or 61.7% of those planned for 2019. The part of Bulgaria's contribution to the EU budget, as paid from the central budget as of 30.06.2019, amounts to BGN 717.5 million, which complies with the existing legislation in the area of EU own resources. The fiscal reserve as of 30 June 2019 is BGN 11.7 billion, including BGN 11.3 billion of fiscal reserve deposits in the BNB and in banks and BGN 0.4 billion of receivables under the EU Funds for certified expenditures, advance payments, etc.

Bulgaria: Fiscal reserve (BGN million)	31.01.2019	28.02.2019	31.03.2019	30.04.2019	30.05.2019	30.06.2019
Total fiscaal reserve, including:	**10518.8**	**10 417.5**	**10 333.4**	**10 617.6**	**11 307.6**	**11 667.8**
I. Fuoiscal reserve on deposits	**9333.3**	**9 993.3**	**9 974.0**	**10 065.6**	**10 293.2**	**11 268.9**
Fiscal reserv deposits at BNB	8920.8	9 591.8	9 578.5	9 669.6	9 839.0	10 819.0
II.. Receivables from EU funds for certified expenditures, advances and others	**1184.7**	**424.2**	**359.5**	**552.0**	**1 014.4**	**398.9**
MF National Fund	153.1	140.9	177.9	151.9	137.0	114.0
Paying Agency under State Fund Agricultural	1031.6	283.3	181.6	400.2	877.4	284.9
Source: Ministry of finance						

Projection: *Based on the preliminary data and estimates, the Consolidated Fiscal Programme (CFP) balance on a cash basis as of July 2019 is expected to be positive, amounting to BGN 3,246.2 million (2.8% of the projected GDP). On a monthly basis, the CFP budget balance is close to balance only for July.The key factors behind the forecast excess of revenues over expenditures for the first seven months of 2019 are the positive revenue development, on the one hand, and the relatively low performance of expenditures as a result of concentrating the majority of investment and other expenditures in Q3 and Q4, on the other hand. Having in mind the above reasons, budget performance in the first half of the year is traditionally characterised by an excess of revenues over expenditures, while the second half, in particular Q4, reports a negative budget balance. The budget balance for the first seven months of the year cannot therefore be correlated to the annual fiscal goal set by the estimates to the 2019 State Budget of Republic of Bulgaria Law.*

In January – June 2019, Bulgaria's central government sub-sector debt amounted to EUR 11,691.4 million and accounted for 19.8% of projected GDP. According MF "Government debt Management Strategy for 2019-2021" Bulgaria's public debt/GDP raio will stood at 19.1% in 2019, 17.7% in 2020 and 16.5% in 2021.

According MF data Bulgaria's central government debt stands at EUR 11,691.4 million as at end-June 2019. Domestic debt amounts to EUR 2,661.5 million and external debt – to EUR 9,029.9 million. Compared to the previous month, the debt has increased by EUR 126.2 million due to the government securities issued on the domestic market. At the end of the reporting period the central government debt-to-GDP ratio is 19.8%, with the share of domestic debt being 4.5% and of external debt – 15.3% of GDP. In the central government debt structure, at the end of the period domestic debt amounts to 22.8%, and external debt – to 77.2%.

As of 30 June 2019, central government guaranteed debt amounts to EUR 76.5 million. Domestic guarantees amount to EUR 34.0 million and external guarantees – to EUR 42.4 million. The central government guaranteed debt/GDP ratio is 0.1%. According to the official register of government and government guaranteed debt kept by the Ministry of Finance on the grounds of Article 38(1) of the Government Debt Law, at end-June 2019 the government debt reaches EUR 10,889.1 million, or 18.4% of GDP. Domestic debt amounts to EUR 2,459.5 million and external debt – to EUR 8,429.6 million. Government guaranteed debt amounts to EUR 914.5 million in June 2019. Domestic guarantees amount to EUR 34.0 million, with the government guaranteed debt-to-GDP ratio being 1.5%.

Bulgaria: Central Government Debt Amount (million EUR)	31.12.2018	31.01.2019	28.02.2019	31.03.2019	30.04.2019	31.05.2019	30.06.2019
Domestic debt	3 121.40	2745.4	2595.6	2574.8	2532	2509.2	2 661.50
External Debt	9093.9	9094.3	9093.6	9093.6	9080.1	9056	9 029.90
Central Government debt, total	12 215.30	11 839.70	11689.2	11668.4	11612.1	11565.1	11 691.40
Total Centrral government debt/GDP (%)	22.1	20.1	19.8	19.8	19.7	19.6	19.8
Domestic central government debt/GDP (%)	5.7	4.7	4.4	4.4	4.3	4.3	4.5
External central government debt/GDP (%)	16.5	15.4	15.4	15.4	15.4	15.3	15.3
Source: Ministry of Finance							

***Projection**: According MF "Government debt Management Strategy for 2019-2021" Bulgaria's public debt/GDP ratio will stood at 19.1% in 2019, 17.7% in 2020 and 16.5% in 2021.*

MONETARY SECTOR

At the end of June 2019 broad money (monetary aggregate M3) amounted at BGN 95.821 billion (82.8% of GDP) and increased by 7.8% yoy. Domestic credit – was BGN 58.115 billion and increased by 3% yoy.

In June 2019 broad money (monetary aggregate M3) increased annually by 7.8% compared to 9.1% annual growth as in May 2019. At the end of June 2019 M3 was BGN 95.821 billion (82.8% of GDP) compared to BGN 95.445 billion (82.5% of GDP) in May 2019. Its most liquid component – monetary aggregate M1 – increased by 12.5% yoy in June 2019 (13.5% yoy growth in May 2019). At the end of June 2019, deposits of the non-government sector were BGN 79.738 billion (68.9% of GDP), increasing annually by 7.2% (8.6% yoy growth in May 2019). Deposits of Non-financial corporations were BGN 23.247 billion (20.1% of GDP) at the end of June 2019. Compared to the same month of 2018 they increased by 2.6% (6% yoy growth in May 2019). Deposits of financial corporations increased by 28.2% yoy in June 2019 (29.5% annual growth in May 2019) and at the end of the month they reached BGN 3.439 billion (3% of GDP). Deposits of Households and NPISHs were BGN 53.053 billion (45.8% of GDP) at the end of June 2019. They increased by 8.2% compared to the same month of 2018 (8.5% yoy growth in May 2019). Net domestic assets were BGN 58.777 billion at the end of June 2019. They increased by 5.4% compared to the same month of 2018 (7.6% yoy growth in May 2019). At the end of the month their basic component – domestic credit – was BGN 58.115 billion and increased by 3% compared to June 2018 (5% annual growth in May 2019). In June 2019 claims on the non-government sector increased by 6.9% yoy (7.9% yoy increase in May 2019) reaching BGN 61.021 billion. At the end of June 2019, claims on loans to the non-government sector amounted to BGN 59.372 billion (51.3% of GDP) compared to BGN 58.931 billion (50.9% of GDP) at the end of May 2019. They increased yoy by 6.8 % in June 2019 (7.1% yoy growth in May 2019). The change of loans to the non-government sector was influenced also by net sales of loans by Other monetary financial institutions (Other MFIs) - their volume for the last twelve months was Net domestic assets were BGN 58.777 billion at the end of June 2019. They increased by 5.4% compared to the same month of 2018 (7.6% yoy growth in May 2019). At the end of the month their basic component – domestic credit – was BGN 58.115 billion and increased by 3% compared to June 2018 (5% yoy growth in May 2019). In June 2019 claims on the non-government sector increased by 6.9% yoy (7.9% annual increase in May 2019) reaching BGN 61.021 billion. At the end of June 2019, claims on loans to the non-government sector amounted to BGN 59.372 billion (51.3% of GDP) compared to BGN 58.931 billion (50.9% of GDP) at the end of May 2019. They increased by 6.8% yoy in June 2019 (7.1% yoy growth in May 2019). The change of loans to the non-government sector was influenced also by net sales of loans by Other monetary financial institutions (Other MFIs) - their volume for the last twelve months was BGN 429.9 million. On an annual basis, loans sold by Other MFIs were BGN 429.9 million (of which BGN 57.4 million in June 2019), whereas there were no loan repurchases in the last 12-month period. In June 2019, loans to Non-financial corporations increased by 4.6% yoy (4.8% yoy growth in May 2019) and at the end of the month amounted to BGN 33.534 billion (29% of GDP). Loans to Households and NPISHs were BGN 22.740 billion (19.6% of GDP) at the end of June 2019. They increased by 8.1% compared to the same month of 2018 (8% yoy growth in May 2019). At the end of June 2019 loans for house purchases were BGN 11.128 billion and increased by 11.8% yoy (11.7% yoy growth in May 2019). Consumer loans amounted to BGN 9.664 billion and compared to June 2018 they increased by 10.6% (10.8% yoy growth in May 2019). On an annual basis other loans decreased by 38.5% (39.5% yoy decline in May 2019) and reached BGN 626.7 million. Loans granted to financial corporations were BGN 3.099 billion at the end of June 2019 (2.7% of GDP). Compared to June 2018, they increased by 23.6% (29.7% yoy growth in May 2019).

CAPITAL MARKET

In July 2019, SOFIX fell 1.21% to 580.68 points, BGBX 40 decreased 1.48% to 114.61 points. The weighted BG TR30 dropped 0.23% to 511.13 points. The only measure of BGREIT real estate companies rose in July by 0.81% to 126.85 points.

According to the data of BSE-Sofia, in July 2019 the Bulgarian benchmark SOFIX reported a decrease of 1.21% to 580.68 points and realized a monthly turnover of BGN 4 410 587. The index of the most liquid companies BGBX 40 decreased by 1.48% to 114,610 points, with a monthly turnover of BGN 6,272,754 in July 2019. The index of the most liquid companies BGBX 40 decreased by 1.48% to 114,610 points, with a monthly turnover of BGN 6,272,754 in July 2019. The weighted BG TR30 dropped by 0.23% to 511.13 points in July 2019 and realized a monthly turnover of BGN 5 101 600. The only measure of BGREIT real estate companies rose in July by 0.81% to 126.85 points and realized a monthly turnover of BGN 1 279 768. Of the SOFIX listed companies, in July 2019, the ratio of pay-to-loss issues is 6:9. In July, unlike June, there is no double-digit issue, but there is one company whose shares are at a loss of 10.10% (Eurohold). In July 2019 statistics show that there was one issue with a turnover of over BGN 1 million (Doverie United Holding - BGN 1 152 745). Sirma Group Holding (BGN 586 147), Advance Terrafund REIT (BGN 463 888), Chimimport (BGN 285 833) and Sopharma (BGN 231 293) also have high turnover. In July, Sopharma maintained its market capitalization position (BGN 440 789 130), followed by: Chimimprot (BGN 427 768 587), Gradus (BGN 414 134 807), Eurohold Bulgaria (BGN 369 372 872) and TB First Investment Bank (BGN 352 0-00 000). There are already six holdings in SOFIX after March 18, of which three are profitable in July: Sirma Group Holding (+ 5.22%), Doverie Merger Holding (+ 3.85%) and Industrial Holding Bulgaria (+ 1.00%). There are also three losses: Eurohold Bulgaria (-10.10%), Stara Planina Hold (-3.48%) and Holding Varna (-1.94%). The company with the highest turnover for July 2019 is Bullland Investments REIT, with a realized volume of BGN 1 102 068. Second place is Eurohold Bulgaria AD with realized volume of BGN 1,051,668. There are three representatives of special investment purpose companies in the ranking - Bullland Investments REIT, Real Estate Fund Bulgaria REIT and Advance Terrafund REIT. The smallest number of transactions in the ranking are Capital Concept Limited, Synthetics AD and Formoplast AD, and the largest Sirma Group Holding, Advance Terrafund REIT and Real Estate Fund Bulgaria REIT. The most profitable company in July 2019 was CBA Asset Management AD, which achieved double-digit growth of 20.69%. Second place is Alterco AD, followed by Central Cooperative Bank AD with a growth of 7.10%. The last two companies in the ranking also recorded single-digit growths, respectively, Sirma Group Holding AD with growth of 5.22% and Sofia Commerce-Pawnshops AD with growth of 5.16%. The top 5 losers in July 2019 are led by Eurohold Bulgaria AD with a decrease of 10.10%. Agria Group Holding was second with a decrease of 8.99%, followed by Zarneni Hrani Bulgaria AD, which recorded a decrease of 5.22% in July. Last but not least, Sopharma AD is down by 4.11%. The last company in the ranking also recorded a single-digit decline.

Bulgarian Stock Exchange Indexes on Monthly Basis

Date	SOFIX	BGBX40	BGREIT	BGTR30
05.2018	636.6	126.3	115.5	528.3
06.2018	634.3	124.9	116.2	525.4
07.2018	634.0	122.7	115.9	525.5
08.2018	631.8	122.3	117.1	521.6
09.2018	624.4	121.9	117.8	520.3
10.2018	596.8	117.0	117.2	499.3
11.2018	592.1	115.1	117.5	489.6
12.2018	594.5	115.9	121.1	496.1
01.2019	585.8	115.0	120.8	492.0
02.2019	585.4	116.1	120.9	506.0
03.2019	583.9	116.3	120.6	506.0
04.2019	575.1	114.8	120.8	504.0
05.2019	582.5	115.7	121.5	505.9
06.2019	582.5	115.7	121.5	505.9
07.2019	580.7	114.6	126.9	511.1

Source: Bulgarian Stock Exchange-Sofia

BANKING SECTOR

As of the end of June 2019, the aggregate net profit of the banking system amounted to BGN 918 million and increased by 14.6% yoy. The gross credit portfolio of the banking sector for the first six months of 2019 increased by 7.2% yoy to BGN 63.1 billion and presented 55.3% of full year projected GDP. At the end of June 2019, deposits from customers of the banking system amounted to BGN 86.5 billion and increased by 0.2% mom and by 7.1% yoy, respectively. Their relative share in GDP is 74.8%. The relative share of non-performing loans decreased to 7.2%.

According to the BNB, as of the end of June 2019, the aggregate net profit of the banking system amounted to BGN 918 million and increased by 14.6% yoy. The levels of return on assets (ROA) and return on equity (ROE) of the banking system on an annual basis are respectively 1.7% and 13%. Impairment charges for financial assets not carried at fair value through profit or loss for the current six months decreased by 11.8% yoy to BGN 138 million.

Indicator (BGN'000)	30.06. 2018	30.06. 2019	Y/Y (%)
Interest Income	1 496 945	1 522 674	1.7
Interest Expence	150 107	143 131	-4.6
Net interest Income	**1 346 838**	**1 379 543**	**2.4**
Impairment	207 146	182 791	-11.8
Divident income	**149 807**	**138 357**	-7.6
Fee and commission income	601 049	645 949	7.5
Fee and commission expenses	83 250	101 037	21.4
Net fee and commission income	**517 799**	**544 912**	**5.2**
Administration costs	827 080	820 056	-0.8
Personal costs	418 307	440 651	5.3
Total operating income, net	1 996 282	2 132 571	6.8
Net Profit	**800 985**	**917 874**	**14.6**

Source:BNB, UBB's Calculations

The banking system's assets at the end of June 2019 amounted to BGN 108.6 billion, growing by 8.4% yoy. Their relative share in GDP is 93.7%. The gross credit portfolio of the banking sector for the first six months of 2019 increased by 7.2% yoy to BGN 63.1 billion. Its relative share in GDP is 55.3%. Household loans increased by 7.8% yoy to BGN 22.3 billion. Mortgage loans increased by 1.2% mom and by 13.5% yoy to BGN 11.6 billion. Consumer loans increased by 0.8% mom and by 19.2% yoy to BGN 11.9 billion, which is due not only to the seasonal growth but also to a change in the manner and scope of reporting on some loans in the group of households loans. Loans to non-financial corporations increased by 4.8% yoy, up by 0.5%mom. Claims on other financial corporations increased by 1.9% mom and by 28.9% yoy, respectively to BGN 3.1 billion. At the end of June 2019, deposits from customers of the banking system amounted to BGN 86.5% and increased by 0.2% mom and by 7.1% yoy, respectively. Their relative share in GDP is 74.8%. Household deposits increased by 0.5% mom and by 8.2% yoy, respectively to BGN 54.9 billion. Government sector deposits amounted to BGN 2.6 billion and increased by 8.3% yoy. Deposits from non-banking institutions amounted to BGN 3.7 billion and increased by 18.9% yoy. Deposits from companies amount to BGN 25.1 billion and increase by 3.2% yoy.

Bulgaria Intermediation Indicators	30.06.2018 BGN'000	31.12.2018 BGN'000	31.05.2019 BGN'000	30.06.2018 BGN'000	Change m/m (%)	Change y/y (%)	Change yend (%)	Share in GDP (%)
BANKING SYSTEM TOTAL ASSETS	**100 135 063**	**105 556 619**	**108 200 141**	**108 578 751**	**0.3**	**8.4**	**2.9**	**93.7**
Loans to central governments	620 234	741 199	774 218	778 729	0.6	25.6	5.1	0.7
Loans to non-financial corporations	34 245 215	34 871 435	35 678 653	35 872 899	0.5	4.8	2.9	30.9
Loans to financial corporrations	2 718 319	3 220 084	3 439 274	3 504 967	1.9	28.9	8.8	3.0
Retail loans, incl.:	21 326 775	22 075 378	23 899 947	22 989 092	-3.8	7.8	4.1	20.7
Mortgage loans	10 233 209	10 906 245	11 472 311	11 615 648	1.2	13.5	6.5	9.9
Consumer loans	10 021 461	10 332 669	11 850 918	11 949 678	0.8	19.2	15.6	10.3
Micro credits and other loans	1 072 105	836 464	576 718	-576 234	-199.9	-153.7	-168.9	0.5
TOTAL LOANS	**58 910 543**	**60 908 096**	**63 792 092**	**63 145 687**	**-1.0**	**7.2**	**3.7**	**55.3**
ATRACTED SOURCES FROM CLIENTS, incl.:	**80 749 429**	**84 571 339**	**86 298 474**	**56 737 921**	**-34.3**	**-29.7**	**-32.9**	**74.8**
Local government deposits	2 439 034	2 696 635	2 737 408	2 641 370	-3.5	8.3	-2.0	2.4
Non-financial corporations deposits	24 409 714	25 277 991	25 054 794	25 184 803	0.5	3.2	-0.4	21.7
Financial corporations deposits	3 149 142	3 213 474	3 831 262	3 726 945	-2.7	18.3	16.0	3.3
Households and NPISHs deposits	50 751 539	53 383 239	54 675 010	25 184 803	-53.9	-50.4	-52.8	47.4
Equity	12 045 780	13 857 523	**14 010 675**	14 143 289	0.9	17.4	2.1	12.1
Net profit (annualised)	**800 985**	1 677 846	**762 297**	**917 874**		14.6		
BANKING INDICATORS (%)								
ROE	13.3	12.1	13.1	13.0	-0.1	-0.3	0.9	
ROA	1.6	1.6	1.7	1.7	0.0	0.1	0.1	
Capital adequacy		20.4	n.a.	n.a				
LCR (%)	315.1	294.1	262.9	260.6	-2.3	n.a	n.a	
NPL	9.1	7.6	n.a.	7.2		-1.9	-0.4	
GDP, BGN '000	105 609 000	107 295 000	115 437 000	115 437 000				
EUR/BGN	1.95583	1.95583	1.95583	1.95583				

Source: BNB, MF, UBB Calculations

At the end of June 2019, the gross amount of non-performing loans and advances amounted to BGN 6478 million and their share in the total amount of gross loans and advances was 7.2% (against 9.1% at end-June 2018). The net worth of non-performing loans and advances is BGN 3199 million, accounting for 3.7% of the total net value of loans and advances.

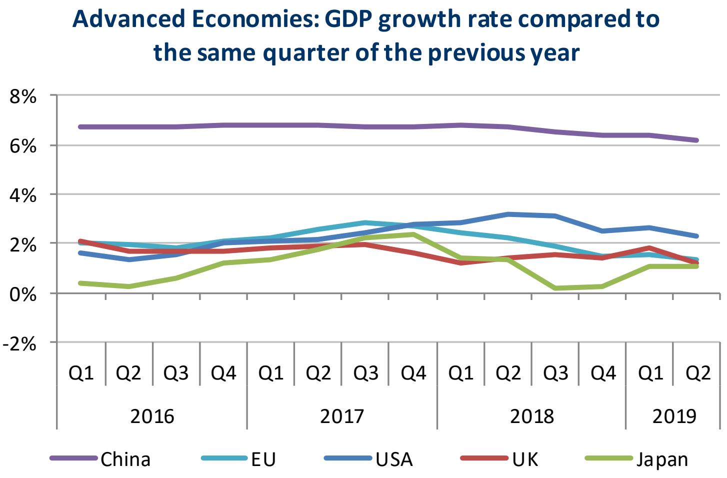
	Gross book value / nominal value					Cumulative impairment, accumulated negative changes in fair value due to credit risk and provisions	Non-performing loans	Relative share of non-performing loans (%)
		Performed	Non-performed				> 90 days	
Non-performing loans Total			Unlikely to be repaid, without arrears or overdue ≤ 90 days	Overdue > 90 days <= 180 days	Overdue > 180 days			
Loans and Advances	**90 575 368**	**84 097 319**	**2 111 597**	**511 638**	**3 854 814**	**-3 942 770**	**6 478 049**	**7.2**
Central banks	12 911 157	12 911 157	0	0	0	-213	0	0.0
General governments	778 729	772 446	912	3 894	1 477	-9 570	5 371	0.7
Credit Institutions	14 513 254	14 512 655	0	0	599	-4 338	599	0.0
Other financial corporations	3 504 967	3 343 436	1 878	85 999	73 654	-87 795	159 653	4.6
Non-financial corporations	35 878 168	31 493 054	1 569 634	258 812	2 556 668	-2 445 296	2 815 480	7.8
Retail Eexposures, including	22 989 093	21 064 571	539 173	162 933	1 222 416	-1 395 558	1 385 349	6.0
Of which: Loans secured by residential property	11 615 646	10 713 027	309 030	70 187	523 402	-433 032	593 589	5.1
Of which Consumer Loans	11 949 678	10 857 694	304 768	98 348	688 868	-965 932	787 216	6.6
Source: BNB, Calculations UBB								

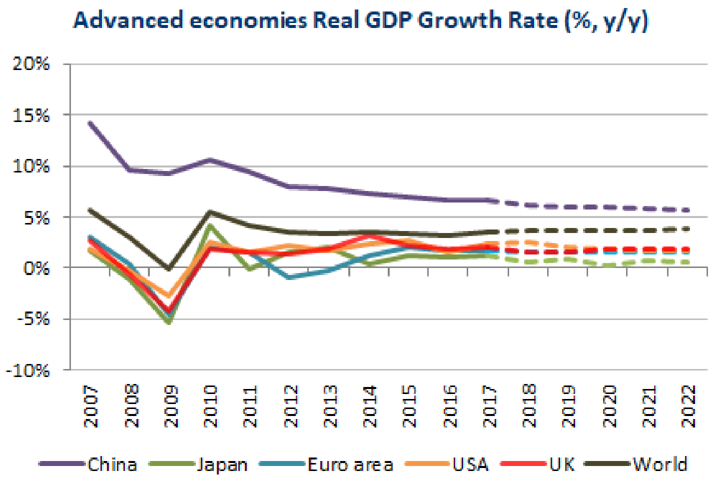
The liquidity coverage ratio as of June 30, 2019 is 260.6%. At the end of the reporting period, the liquidity buffer was BGN 27.8 billion and the net outflows were BGN 10.7 billion.

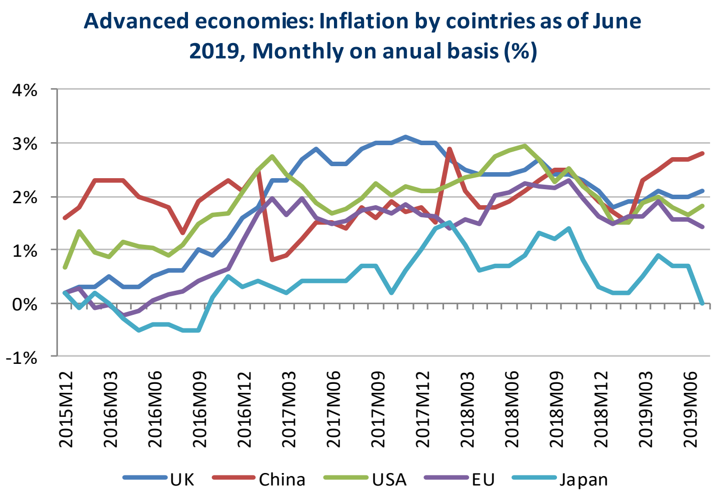
Equity in the balance sheet of the banking system amounts to BGN 14.1 billion. Dynamics is influenced by the payment of dividends and the increase in profit.

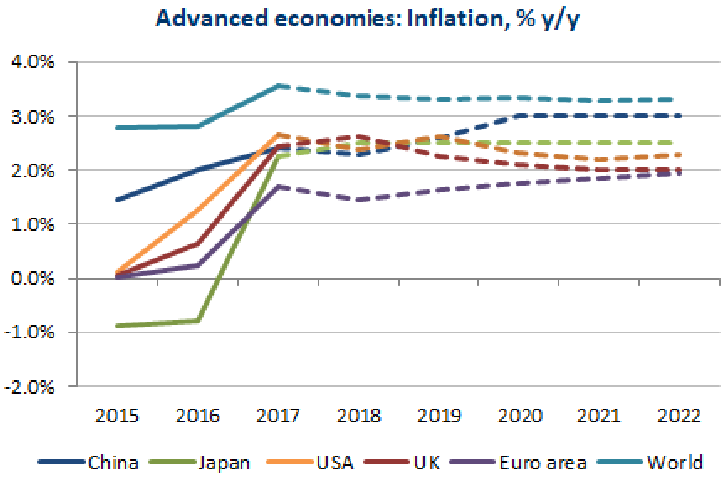
Appendix

ADVANCE ECONOMIES KEY INDICATORS



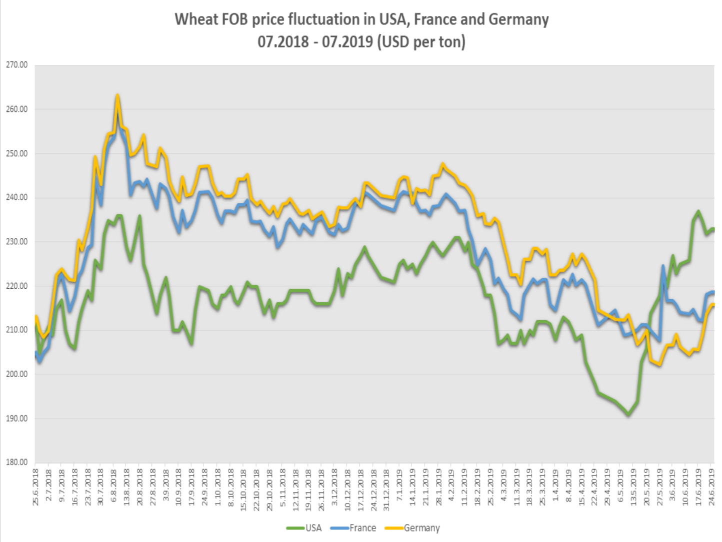


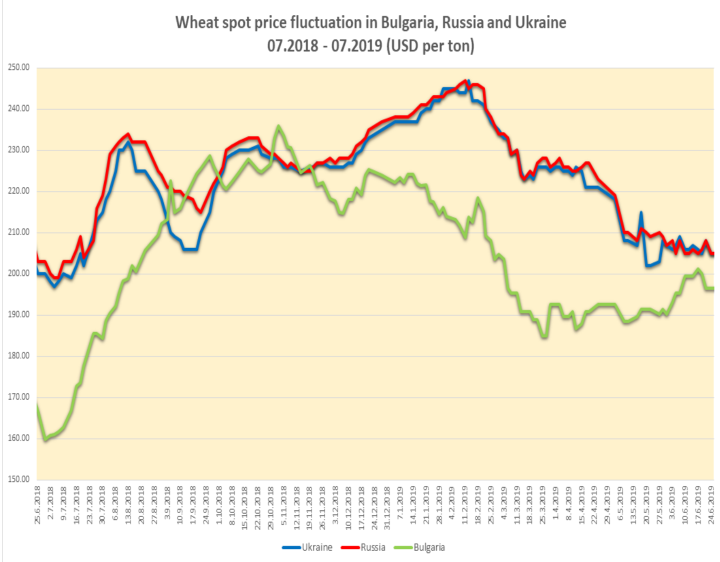


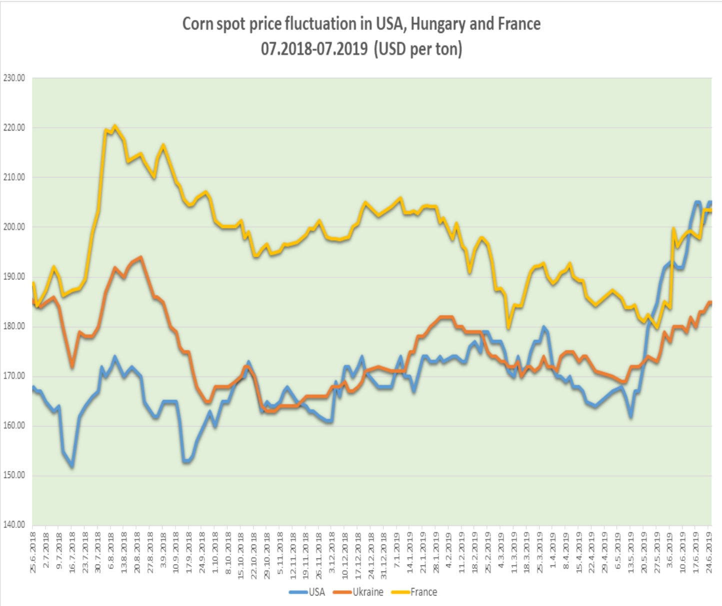


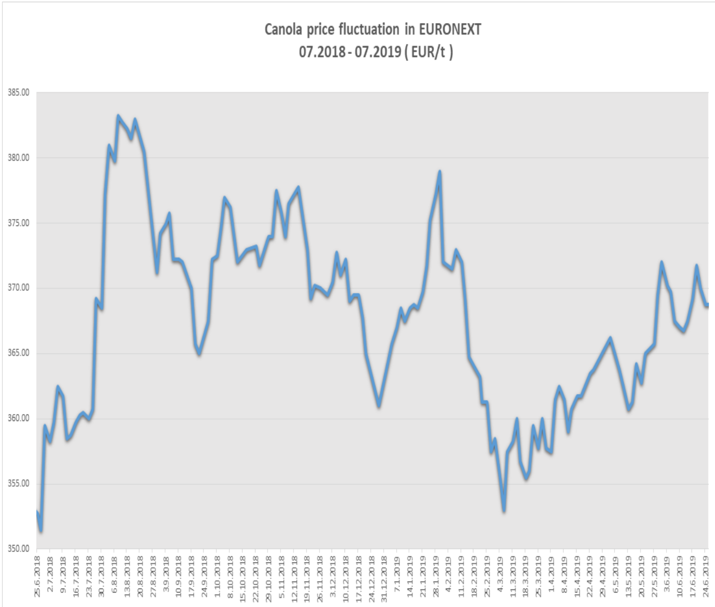
Source: IMF

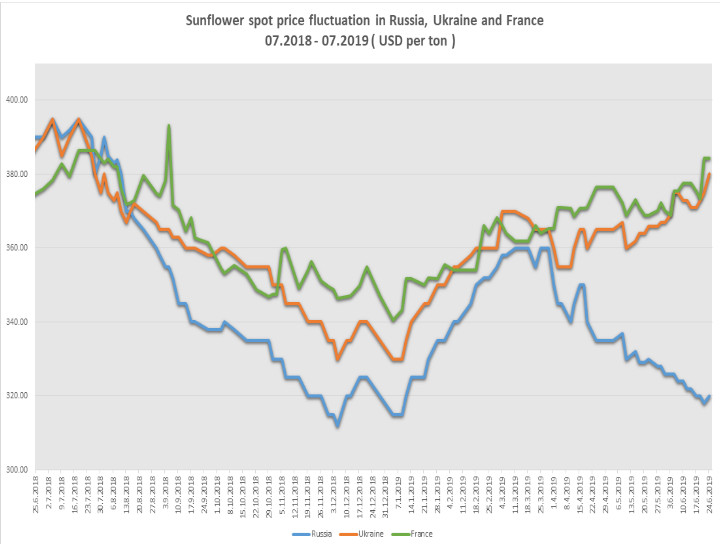
International Prices of Agriculture Products

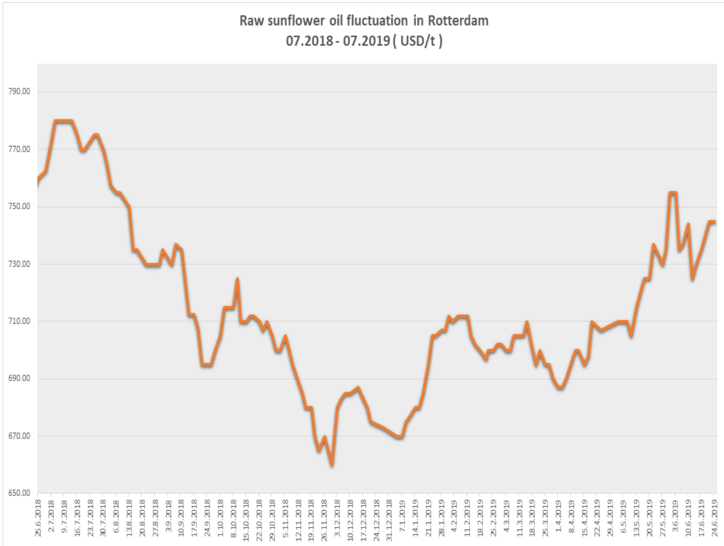






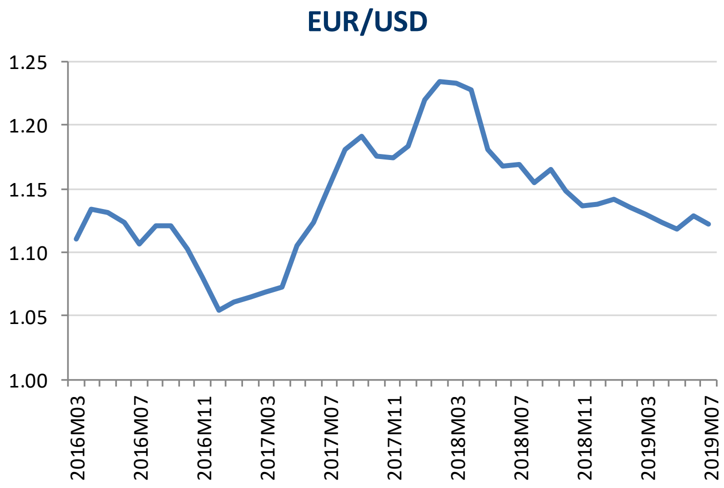


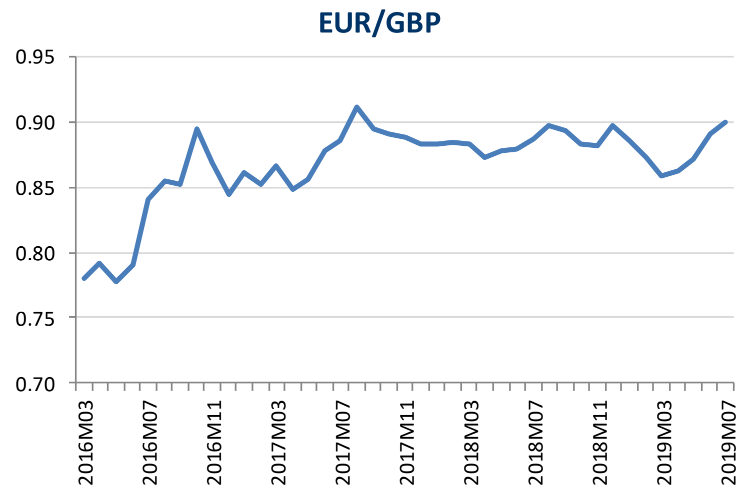


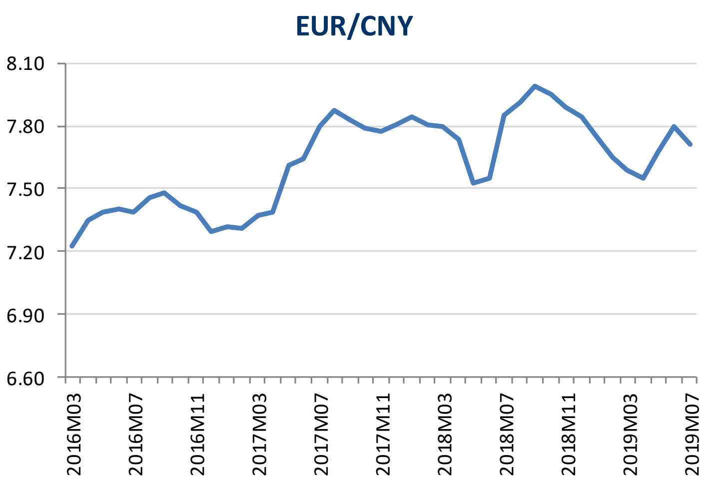


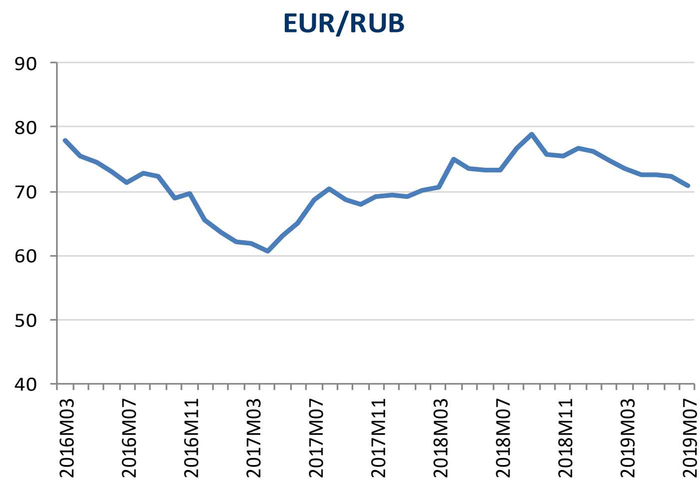
Source: SCE

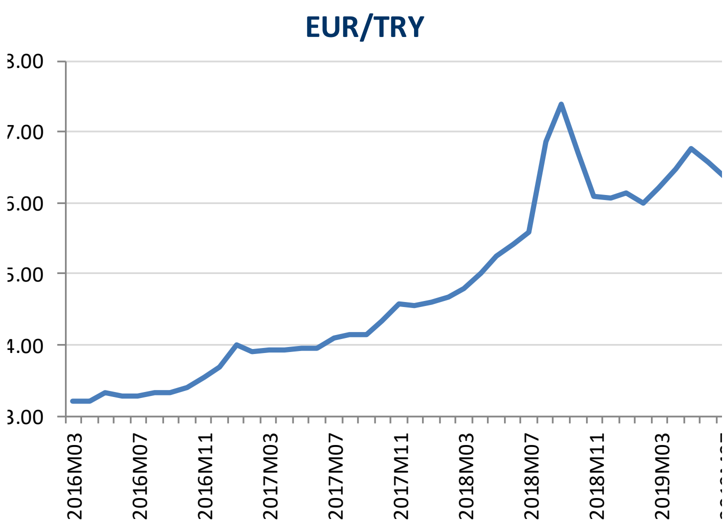
Overseas FX Rates

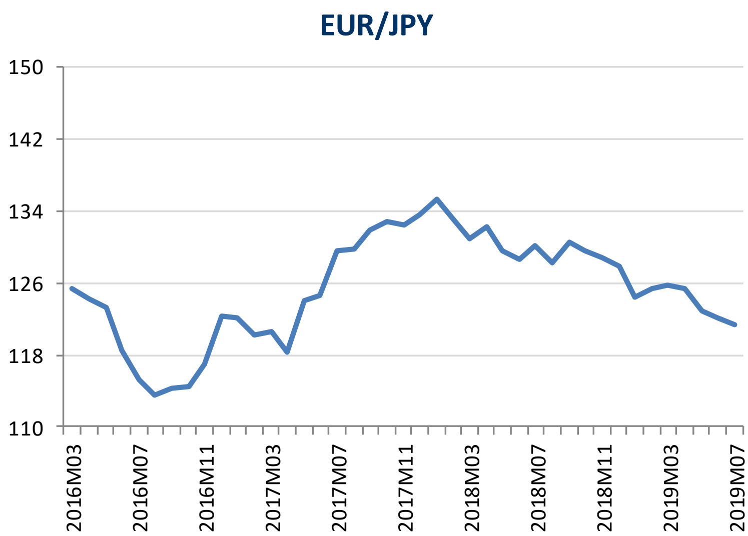






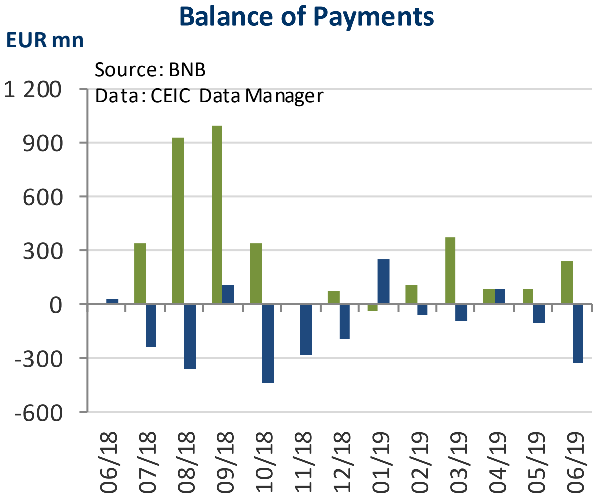


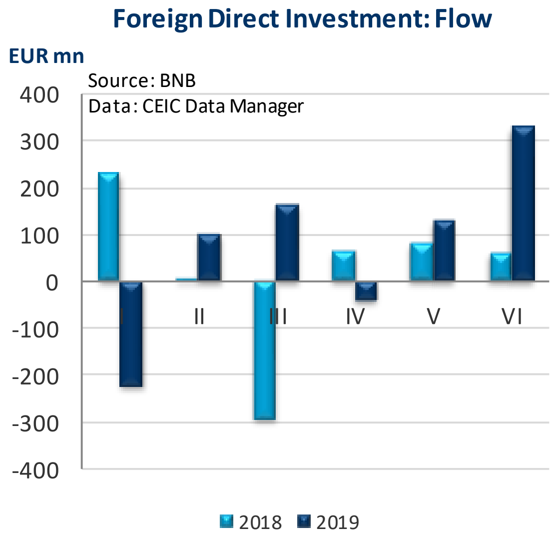


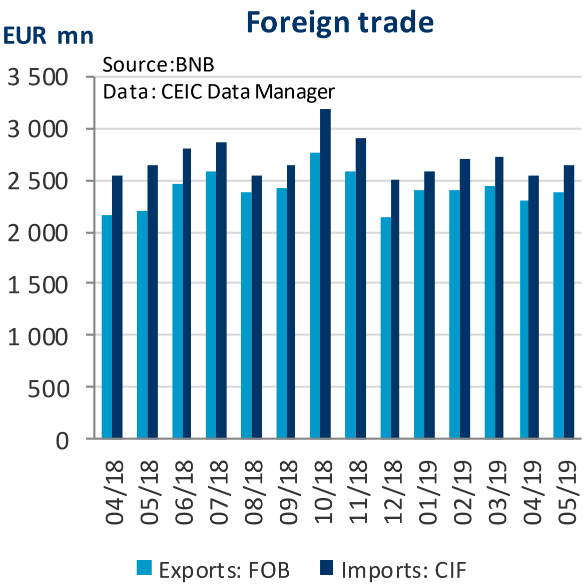


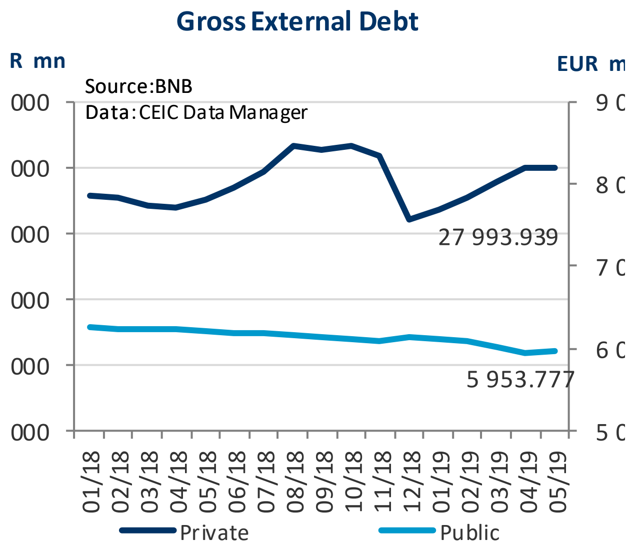
Source: ECB

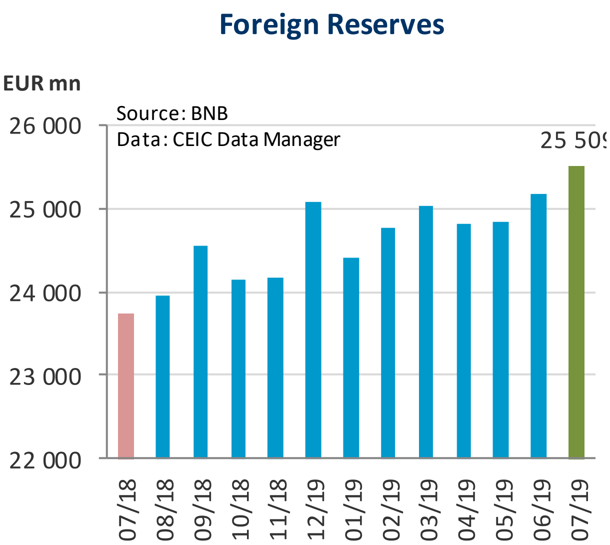
Bulgaria: External Sector Indicators





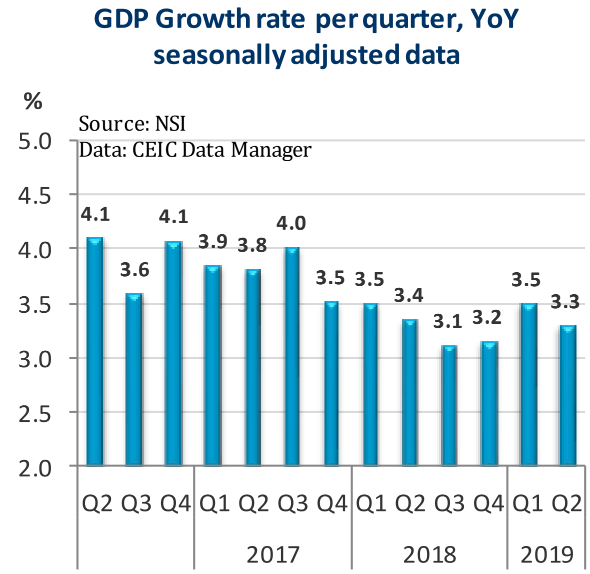


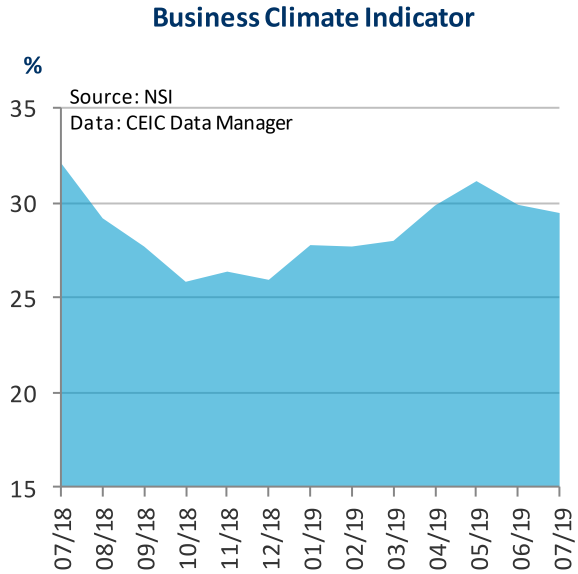


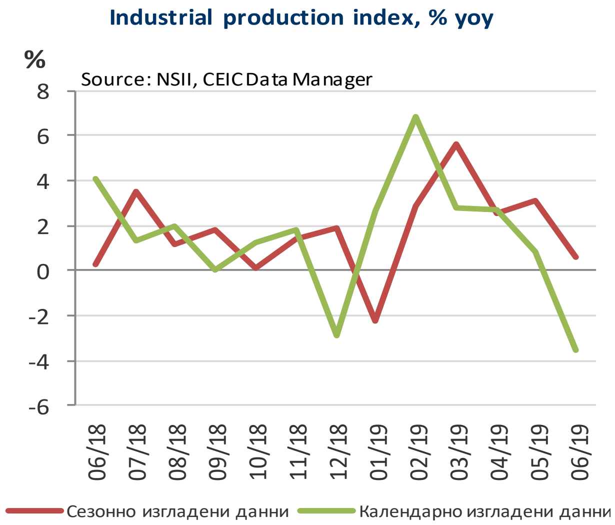


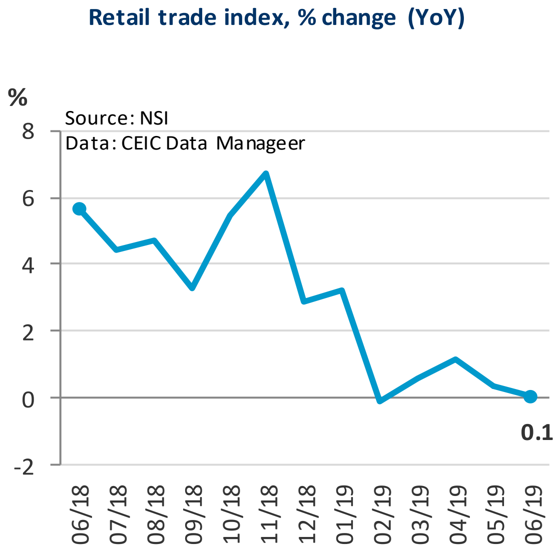
Source: BNB

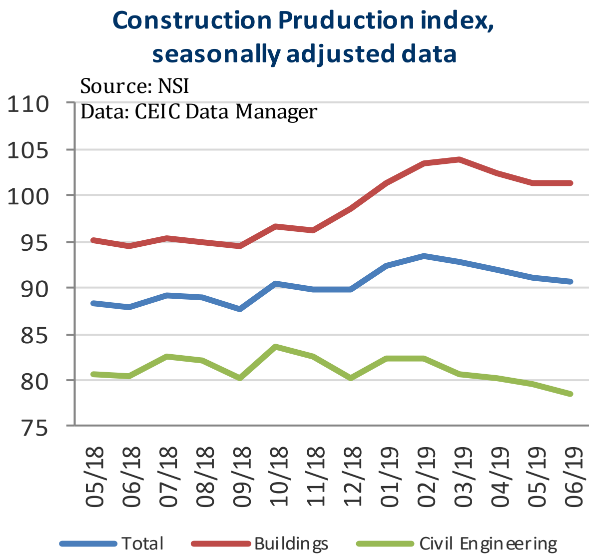
Bulgaria: Real Sector Indicators

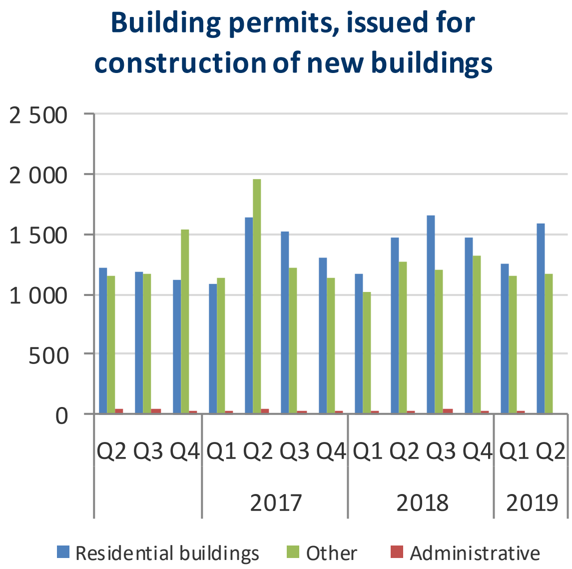






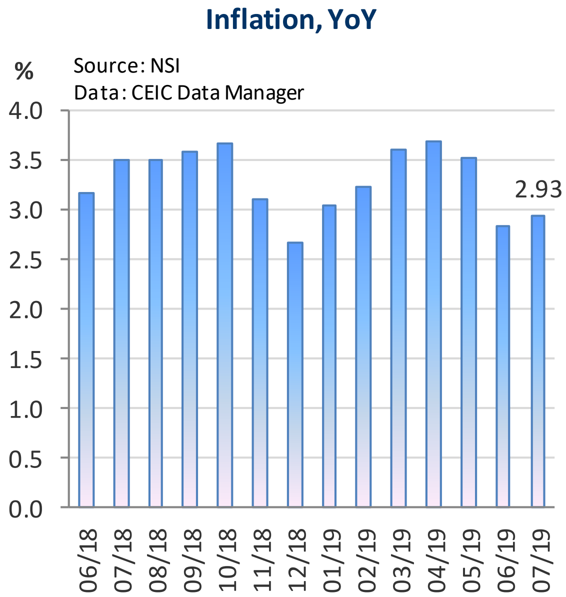


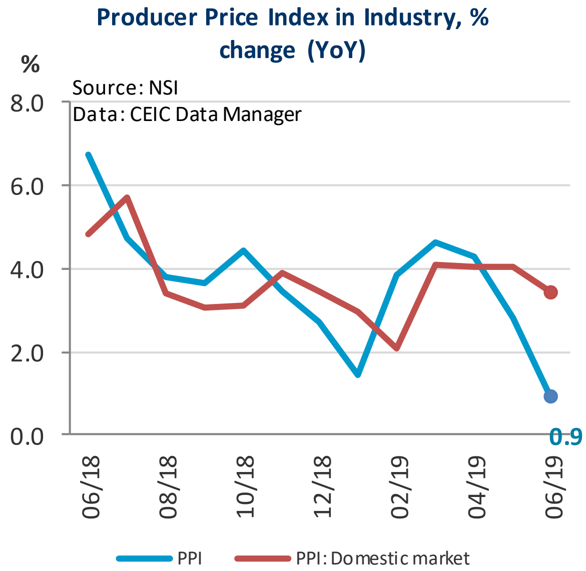


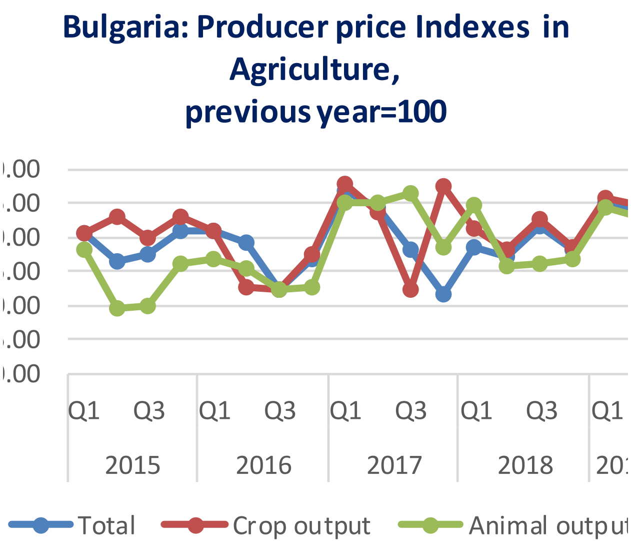


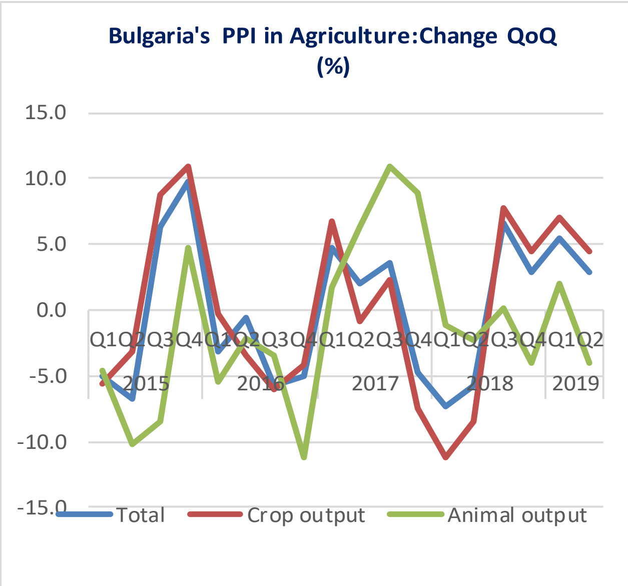
Source: NSI

Bulgaria: Prices Indicators



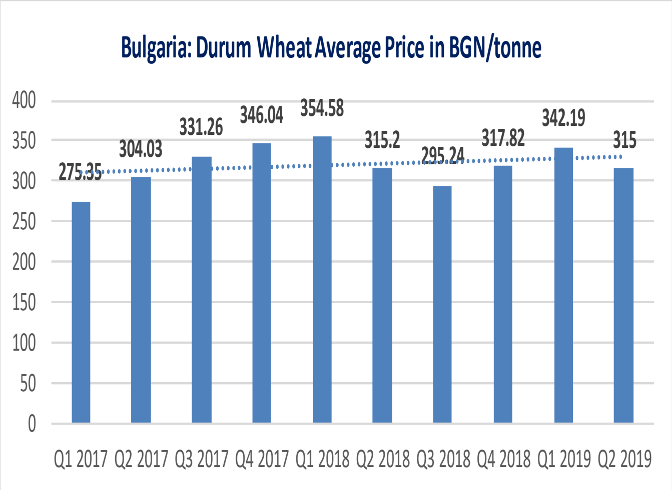


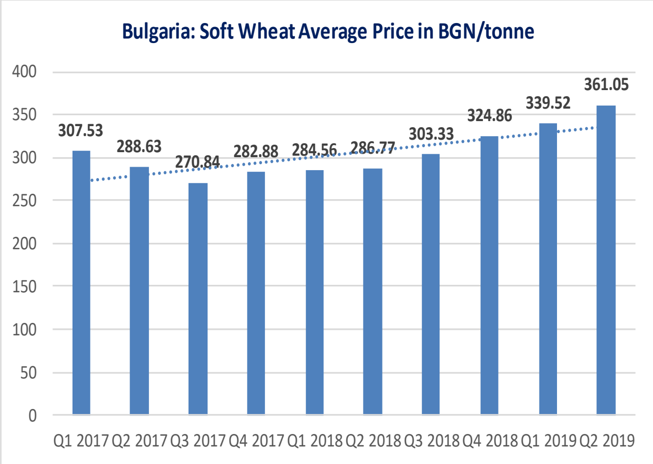


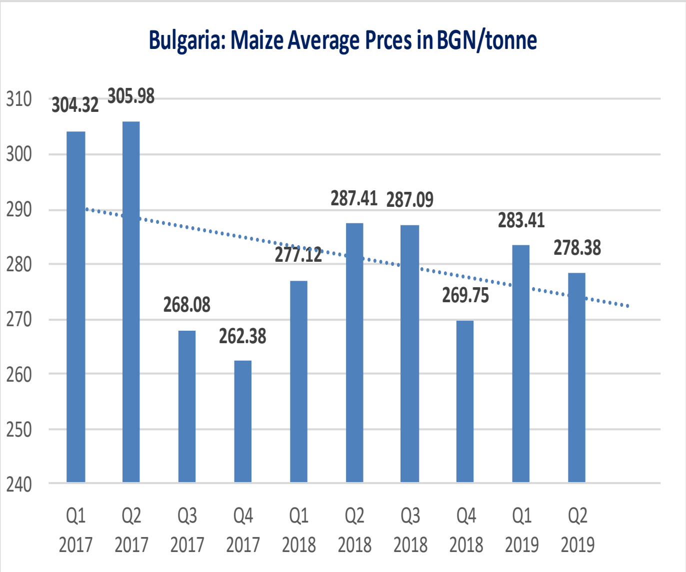


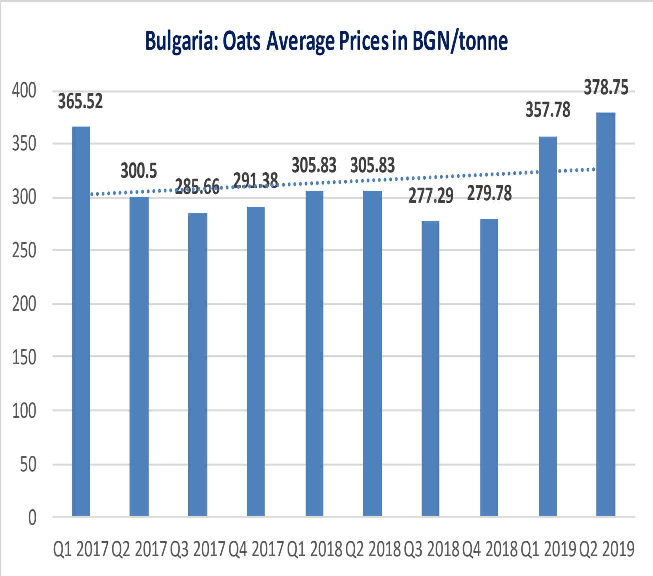
Source: NSI, EC

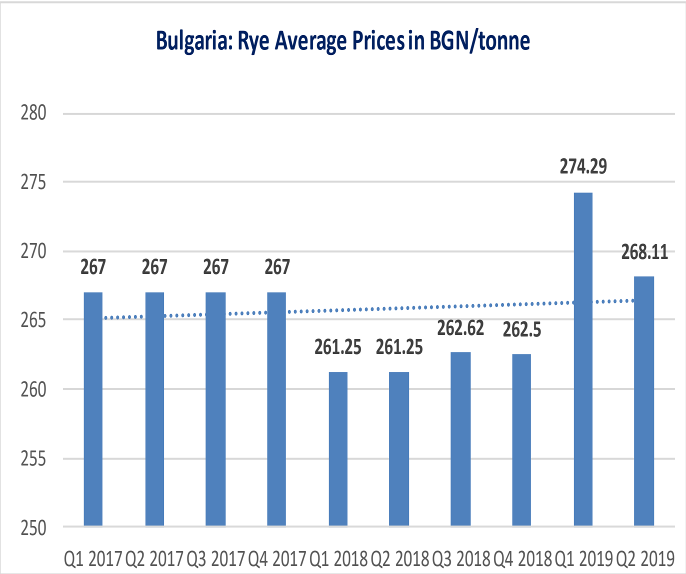
Bulgaria: Cereals Prices

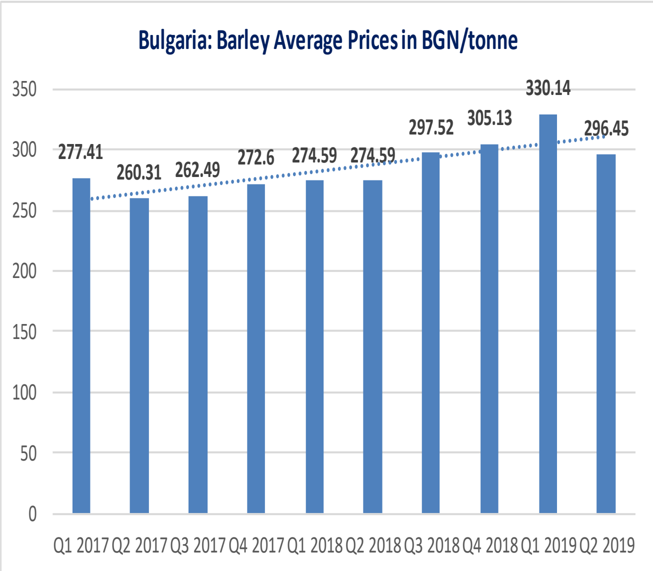






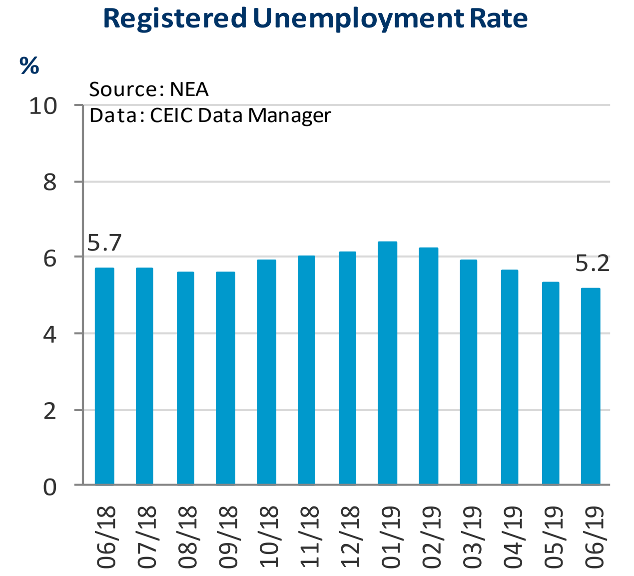


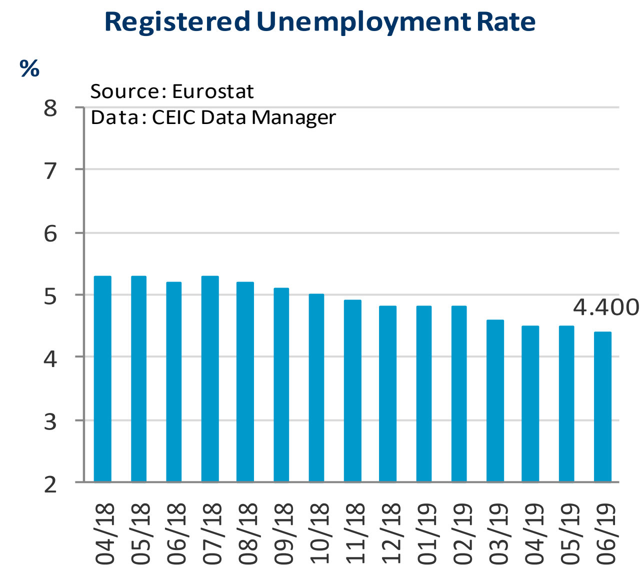


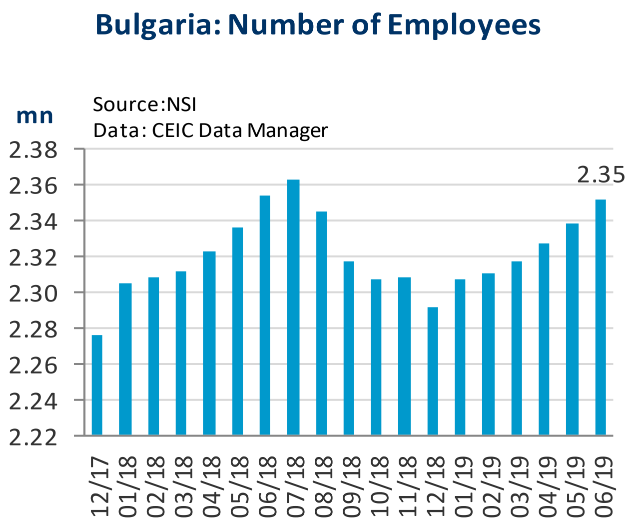


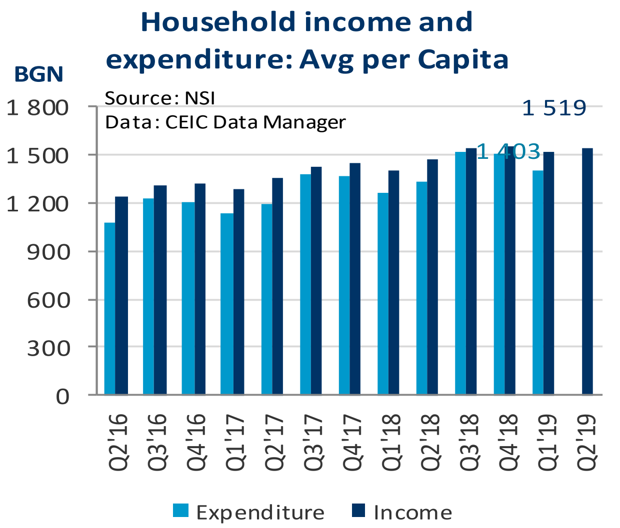
Source: NSI

Bulgaria: Labor Market Indicators



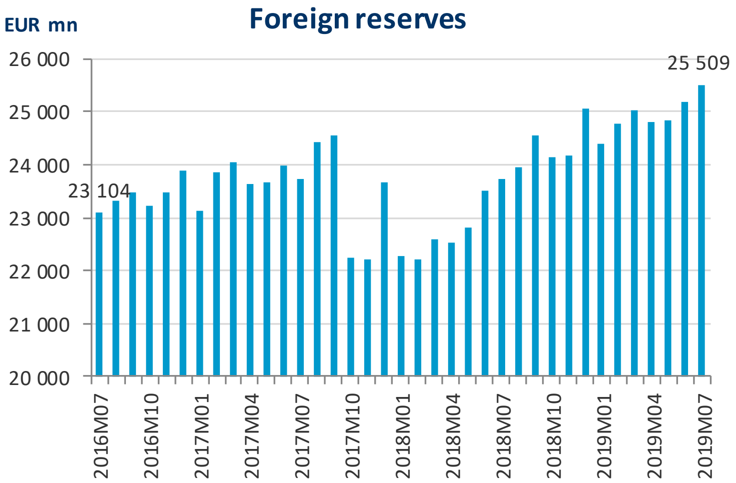


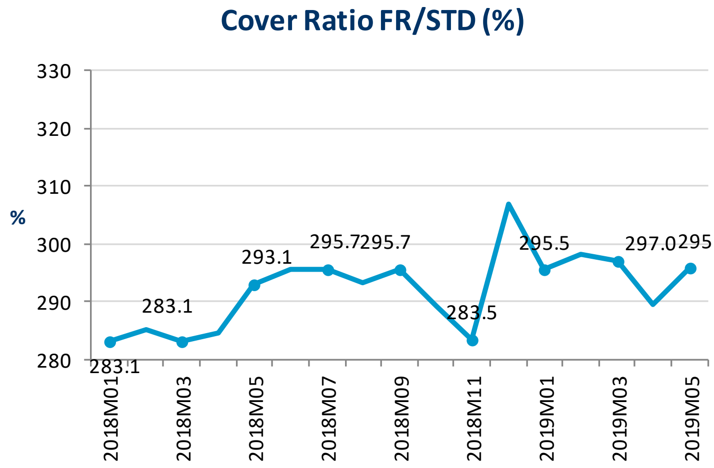


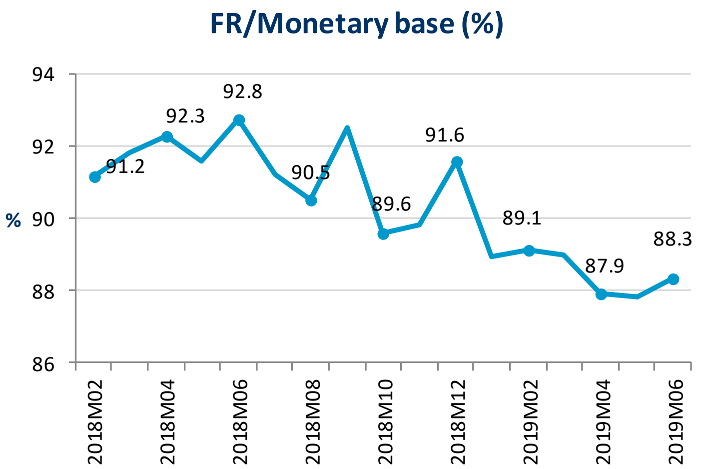


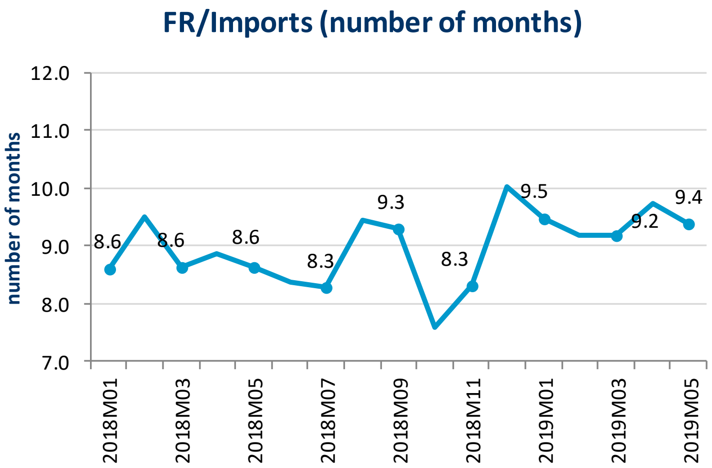
Source: NSI, EC

Bulgaria: Monetary Sector Indicators



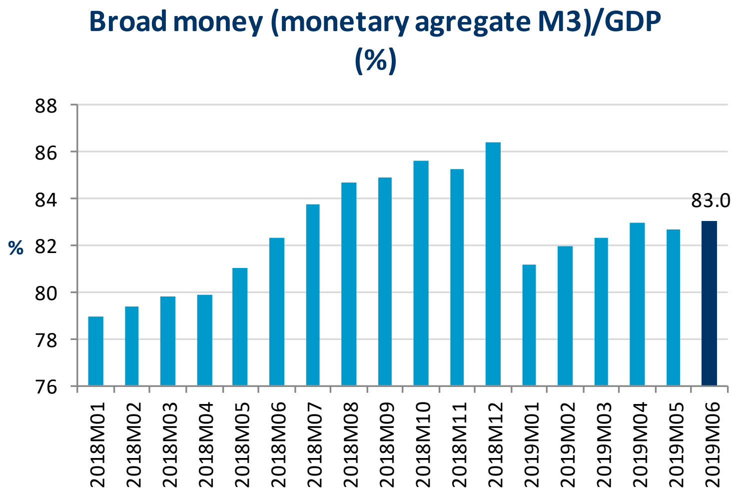


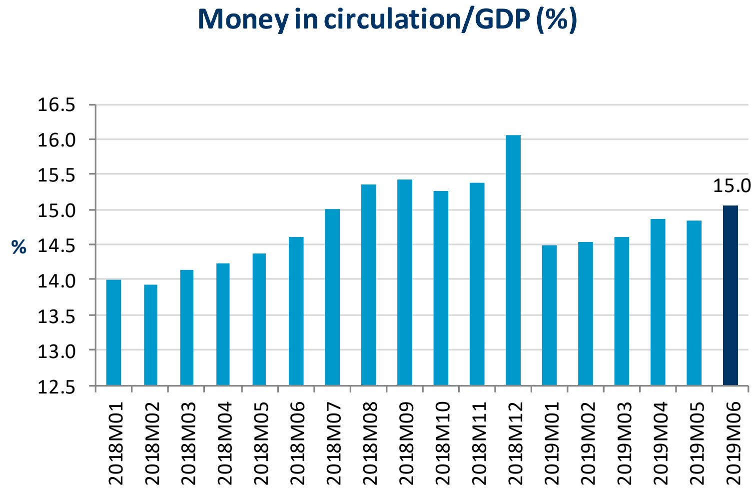


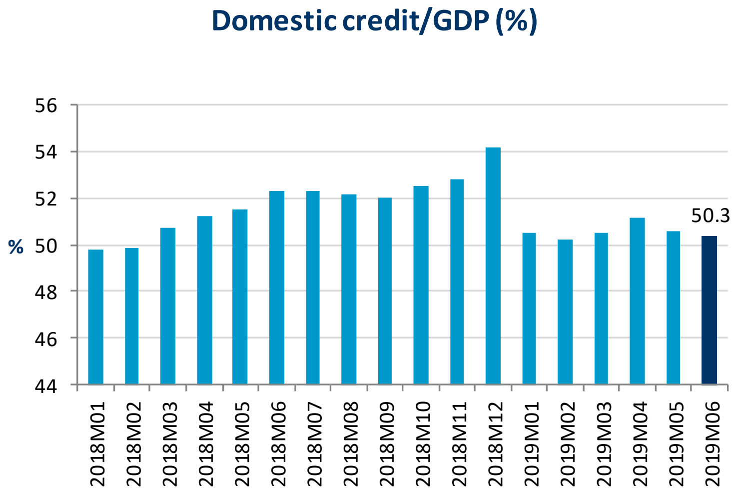


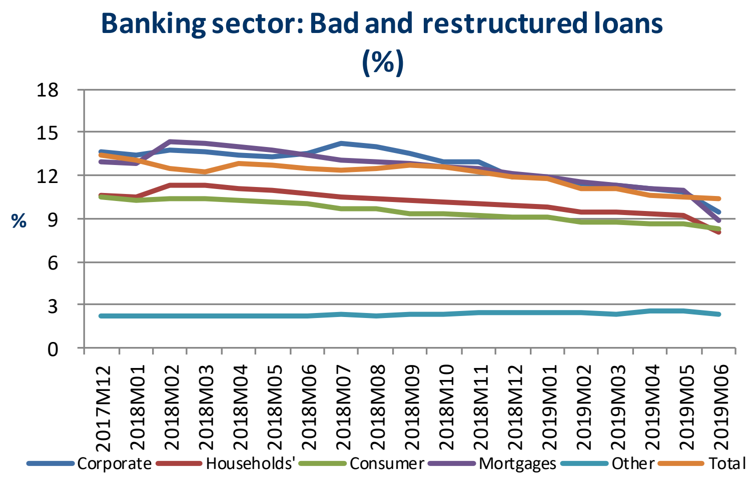
Source: BNB

Bulgaria: Monetary Sector Indicators





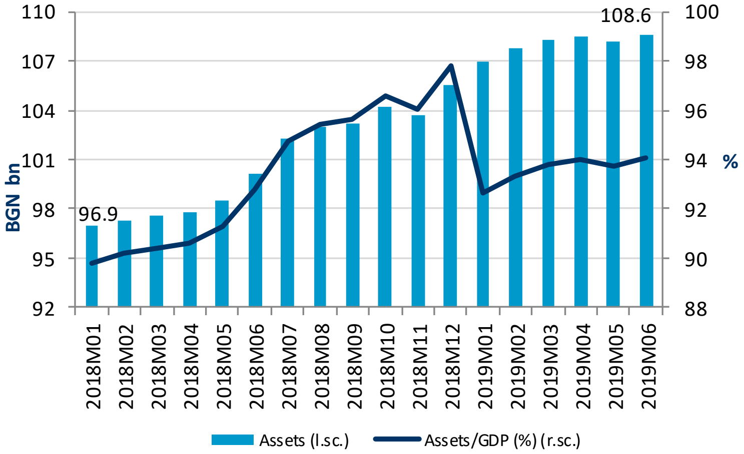




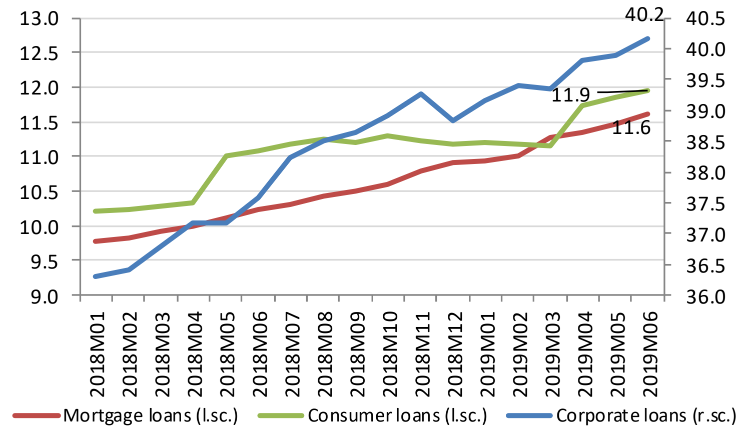
Source: BNB

Bulgaria: Banking Sector Indicators

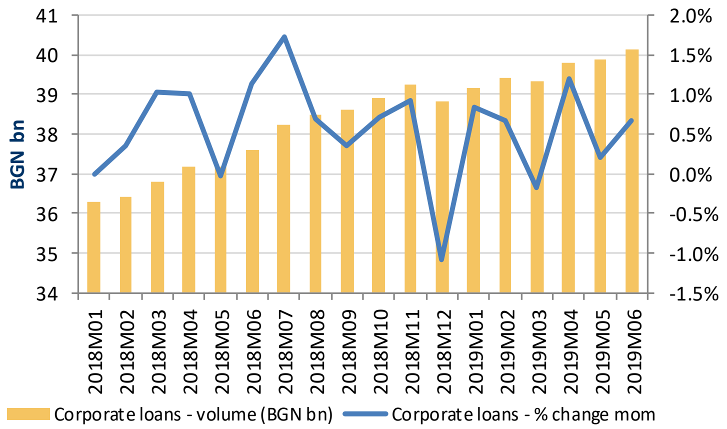
Assets



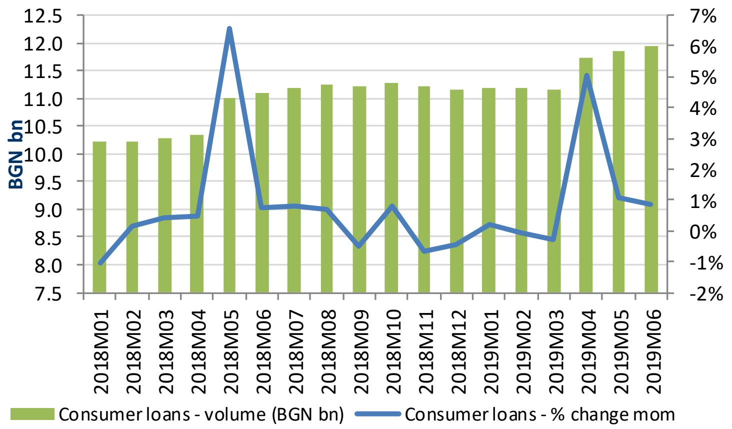
Loans (BGN bn)



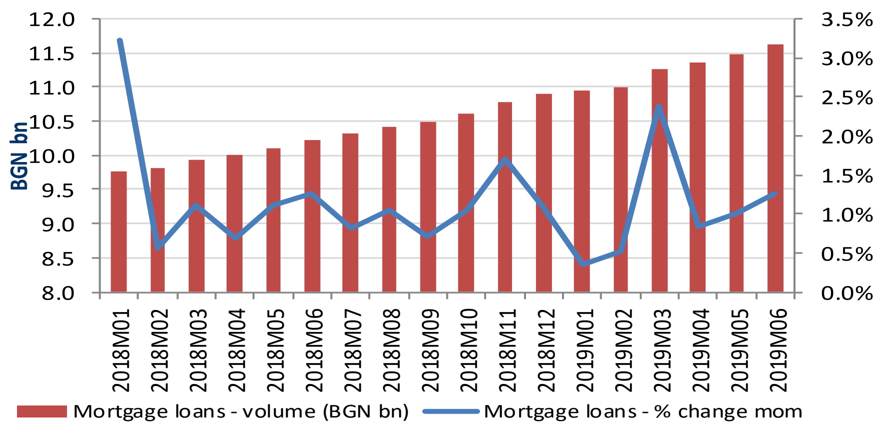
Corporate Loans



Consumer Loans

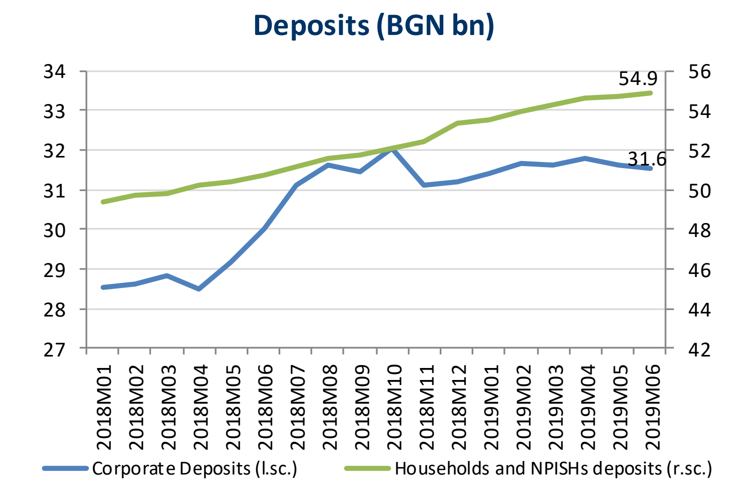


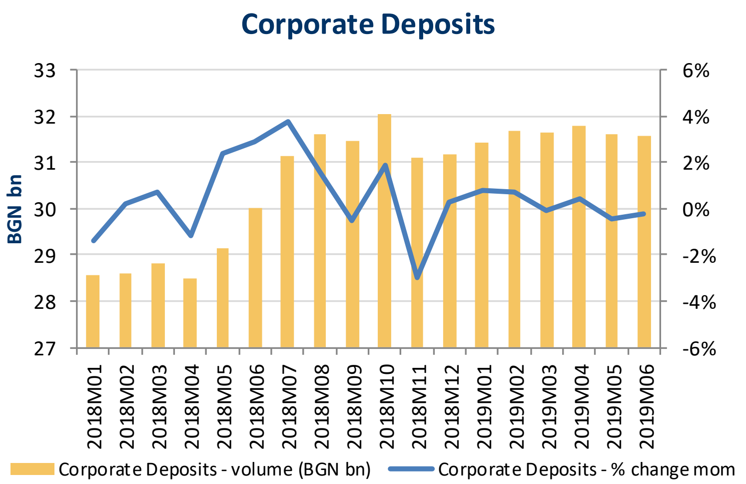
Mortgage Loans

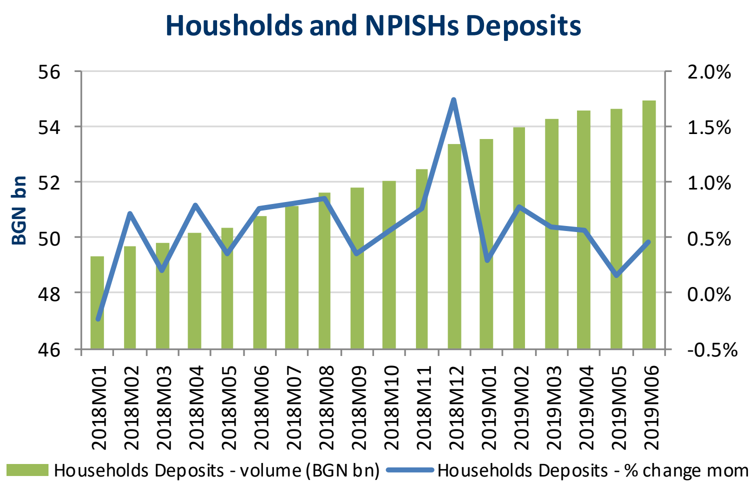


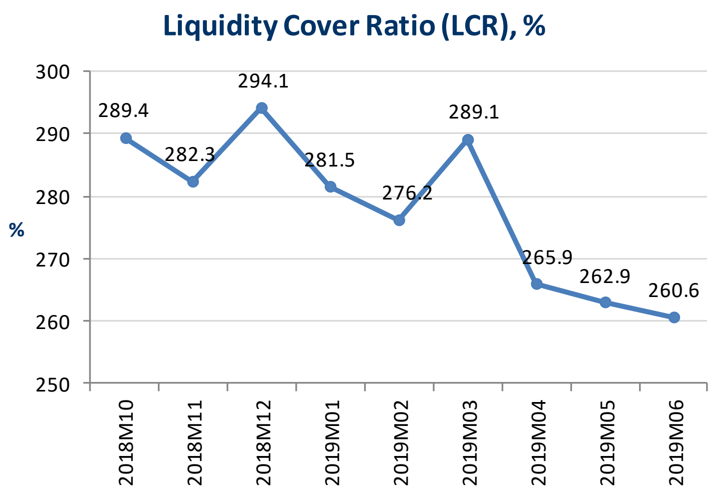
Source: BNB

Bulgaria: Banking Sector Indicators



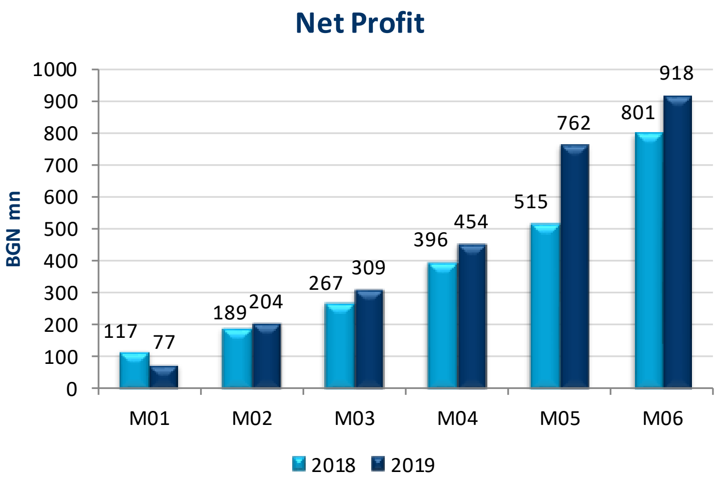


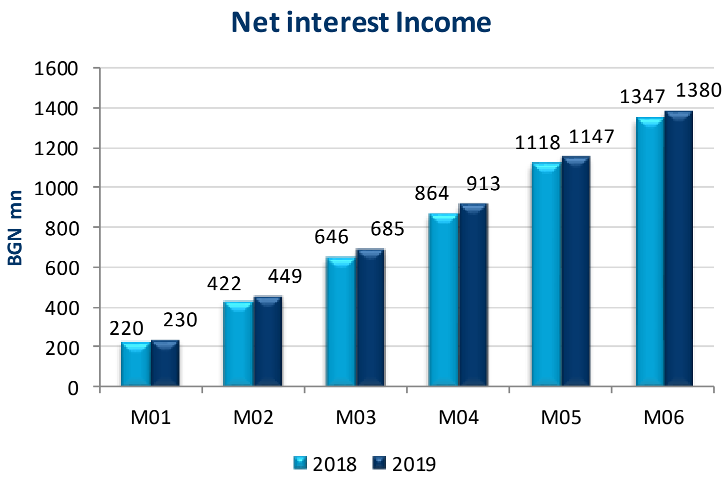


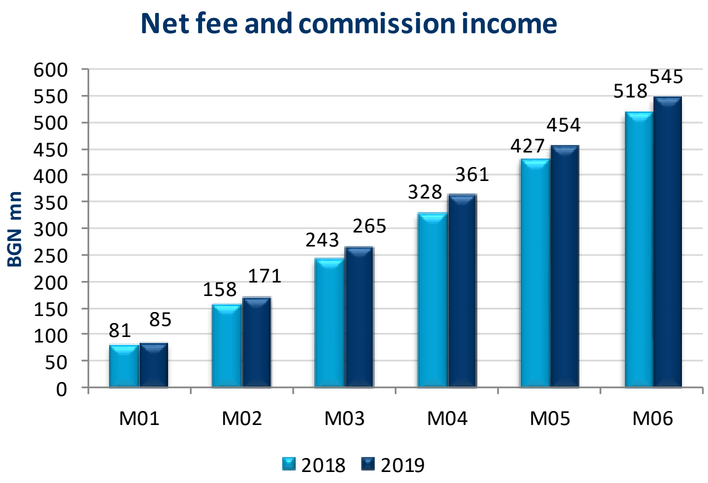


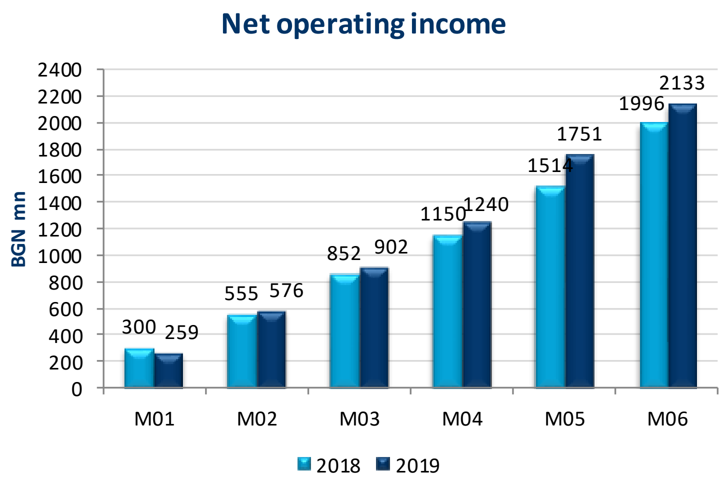
Source: BNB

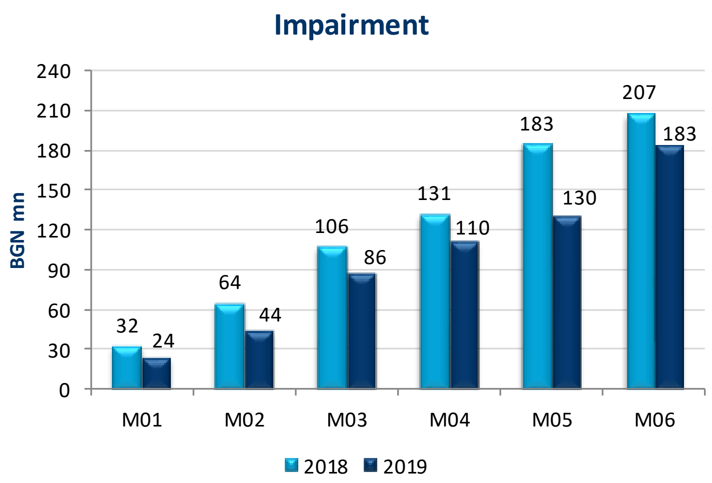
Bulgaria: Banking Sector Indicators





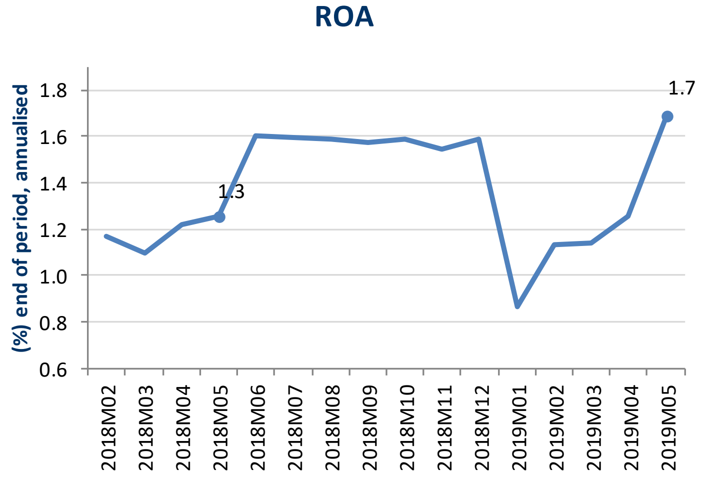


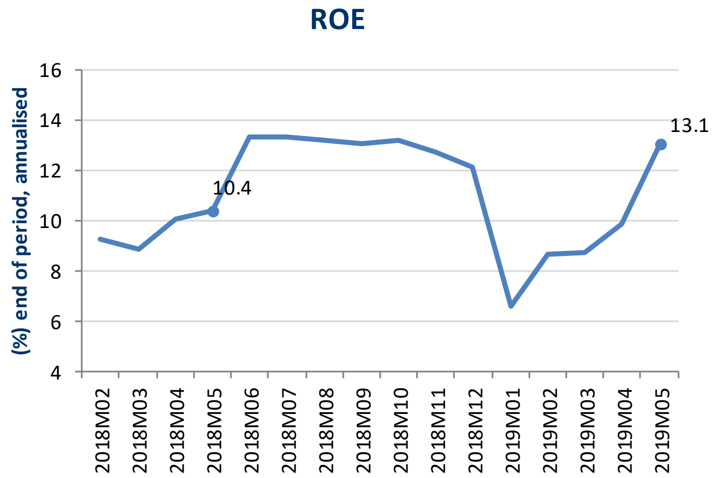


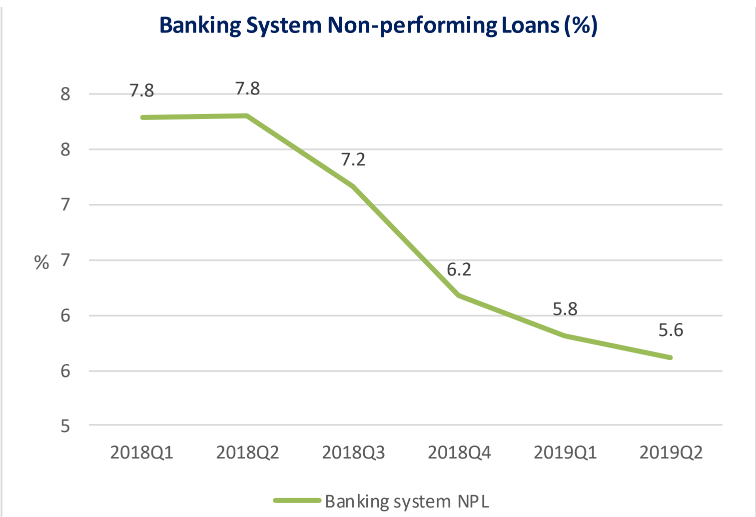


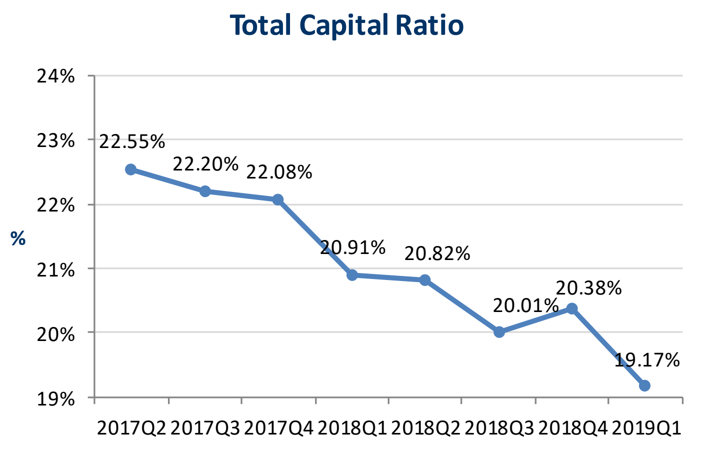
Source: BNB

Bulgaria: Banking Sector Indicators



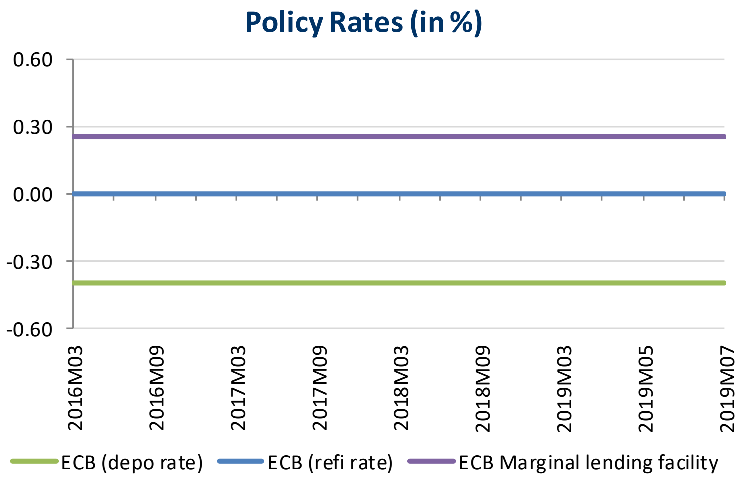


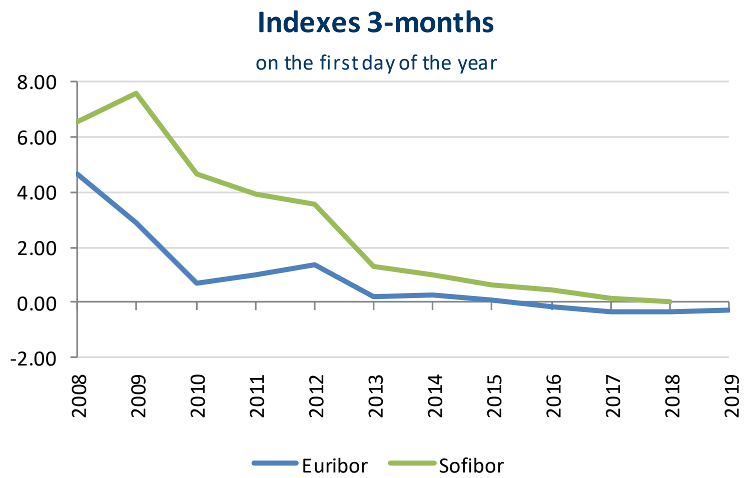


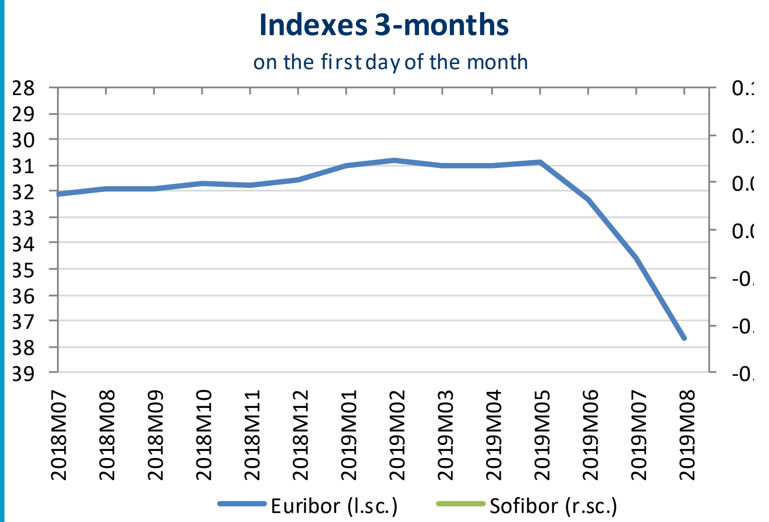


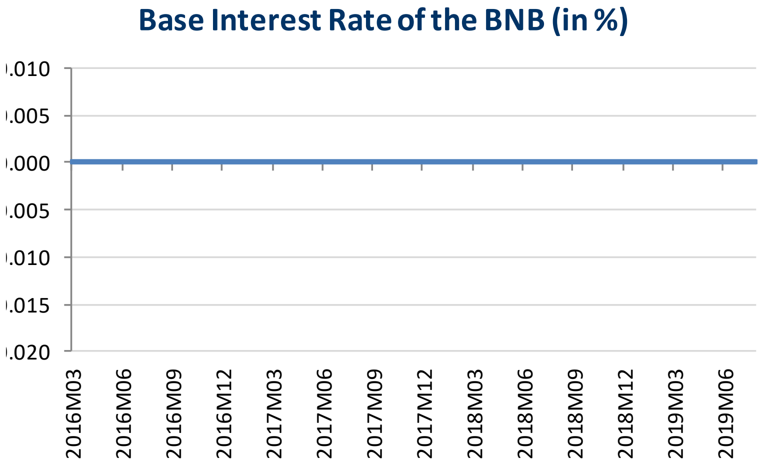
Source: BNB

Bulgaria: Indexes and Interest Rates



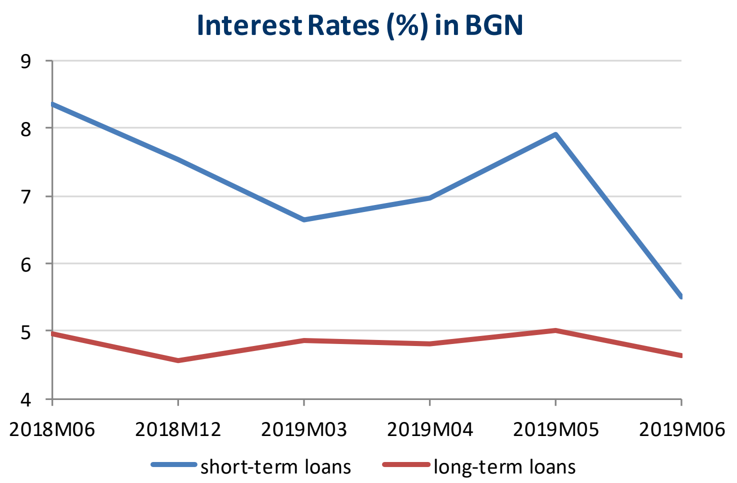


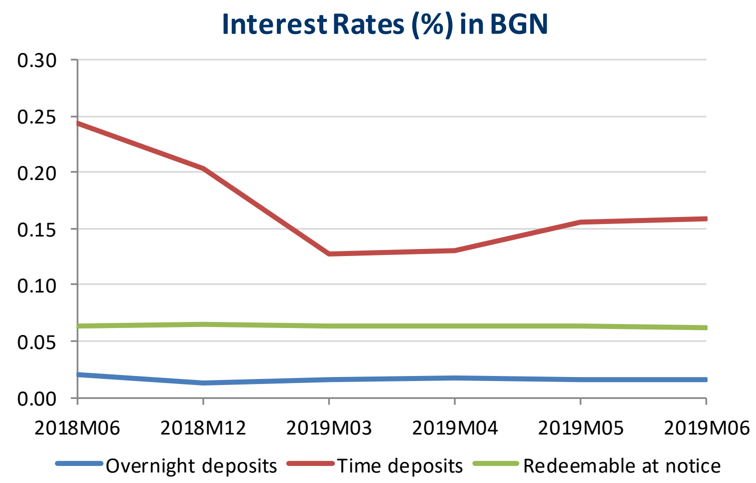


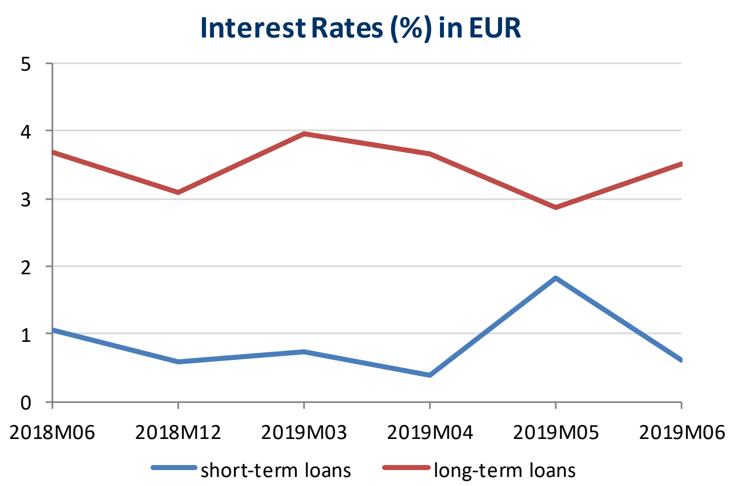


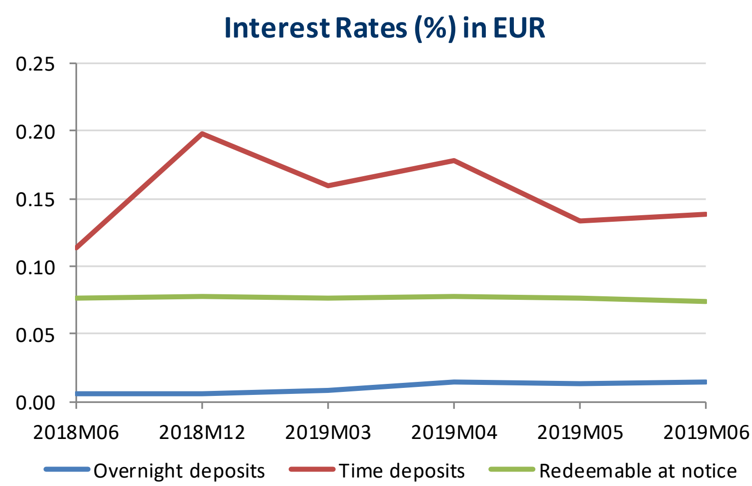
Source: ECB, BNB

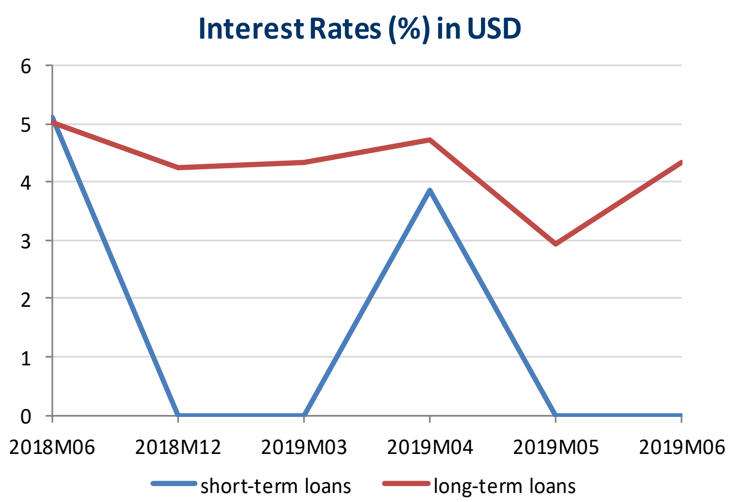
Bulgaria: Interest Rates of New Business on Deposits and New Loans Interest Rates

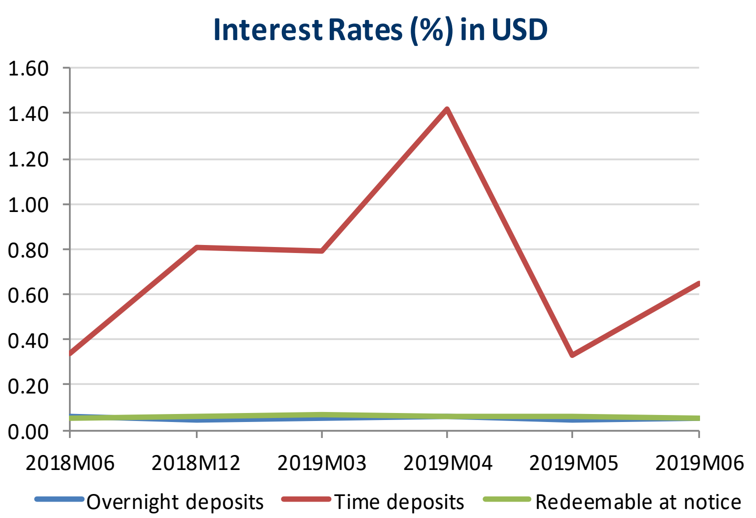






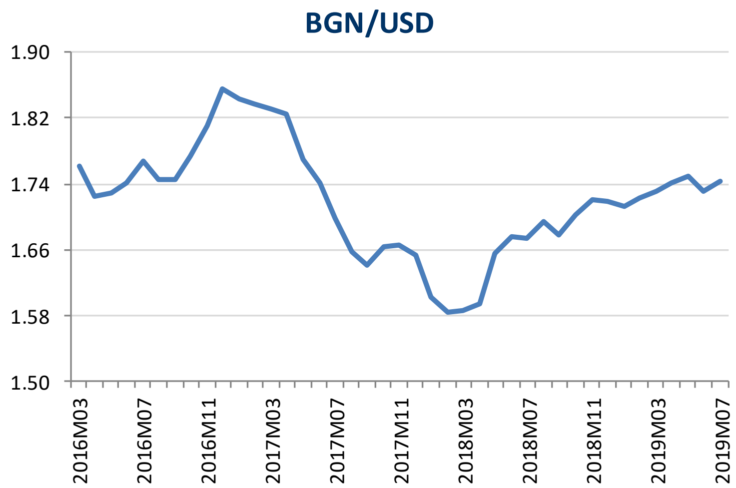


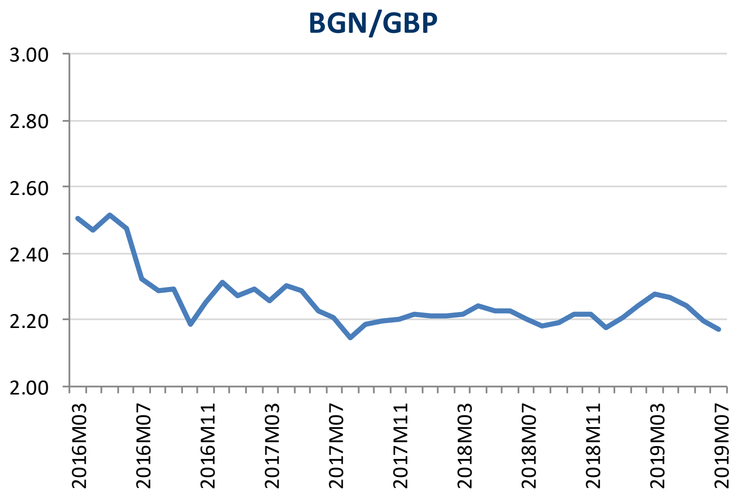


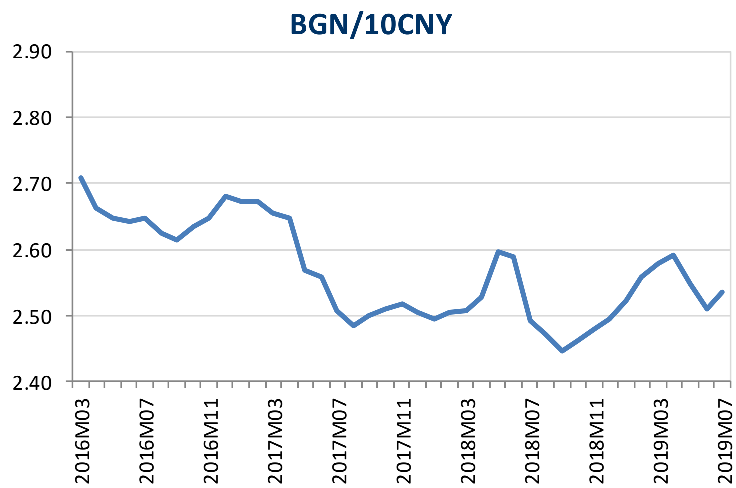


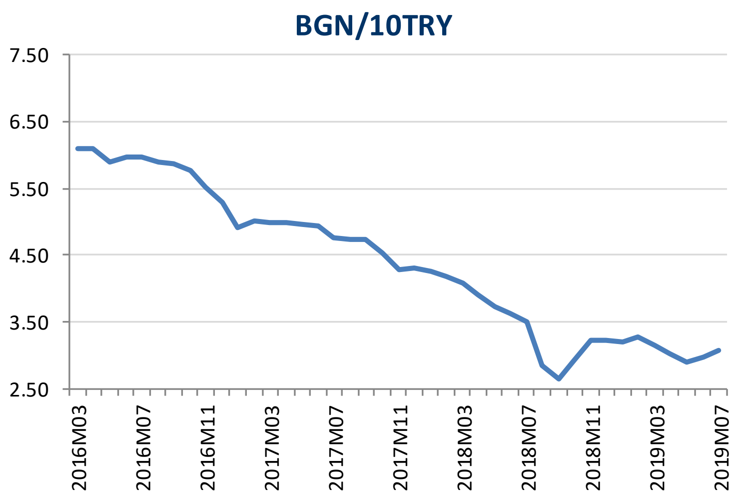
Source: BNB

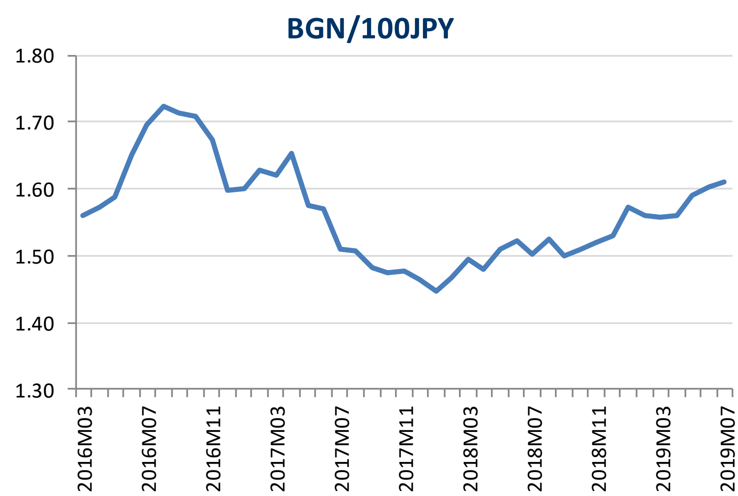
Bulgaria: FX Rates

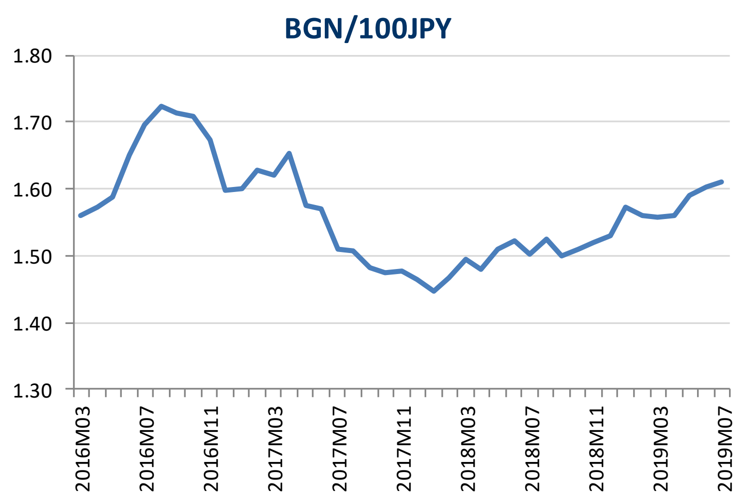












Source: ECB

DEFINITIONS AND METHODOLOGICAL NOTES

The Governing Council of the ECB sets the key interest rates for the euro area, as follows: The interest rate on the main refinancing operations (MRO), which provide the bulk of liquidity to the banking system. The MRO rate defines the cost at which banks can borrow from the central bank for a period of one week. The rate on the deposit facility, which banks may use to make overnight deposits with the Eurosystem. The deposit facility rate is one of the three interest rates the ECB sets every six weeks as part of its monetary policy. The rate defines the interest banks receive for depositing money with the central bank overnight. Since June 2014, this rate has been negative. The rate on the marginal lending facility, which offers overnight credit to banks from the Eurosystem. If banks need money overnight, they can borrow from the marginal lending facility at a higher rate.

EXTERNAL SECTOR

CURRENT ACCOUNT

Starting from April 17th 2015, in accordance with the Statistical Data Realease Calendar, BNB starts the regular dissemination of monthly balance of payments data, compiled in accordance with the Sixth Edition of the Balance of Payments and International Investment Position Manual. The implementation of the new methodological requirements of BPM6 by the EU countries was coordinated by the European System of Central Banks (ESCB) and the European Statistical System (ESS). With the implementation of the Sixth Edition of the Balance of Payments and International Investment Position Manual (IMF,2008) significant methodological changes in the reporting of trade in goods and trade in services were introduced. Based on their economic nature, certain items were reclassified from Goods (exports and imports) to Services (exports and imports), and vice versa. These methodological changes resulted in differences between the data on goods (exports and imports) compiled by the BNB for the balance of payments statistics, and the external trade statistics compiled by the NSI. Thus, the exports, imports and trade balance data compiled by the NSI do not equate to the exports, imports and trade balance data compiled by the BNB for the purposes of balance of payments statistics. According to external trade statistics, exports of goods amounted to EUR 3,483.1 mn in January – February 2015, growing by EUR 249.1 mn (7.7 %) year-on-year (compared with EUR 3,234 mn in January – February 2014). Imports of goods amounted to EUR 3,856.9 mn in January – February 2015, growing by EUR 58.9 mn (1.6 %) year-on-year (from EUR 3,797.9 mn in January – February 2014). The trade balance recorded a deficit of EUR 373.8 mn (0.9 % of GDP) in the reporting period, dropping by EUR 190.2 mn year-on-year (from a deficit of EUR 564 mn, 1.3 % of GDP in January – February 2014). Taking into consideration the analytical importance of the data on goods (exports and imports) in the external trade statistics, the BNB shall continue its practice of preparing a short text on the external trade dynamics, and maintaining the relevant data series. These materials are included in the Balance of Payments publication, and are published on the BNB website. More detailed information on these methodological changes is available in the material Compilation of the balance of payments in accordance with the methodology of the sixth edition of the Balance of Payments and International Investment Position Manual. As far as the direct investment data is concerned, the sixth edition of the Balance of Payments and International Investment Position Manual introduced principally different approach for their presentation – the Asset/Liability presentation. Taking into consideration the analytical importance of the directional principle presentation (based on the direction of the initial investment), the BNB shall continue disseminating the direct investment data according to it in the Annex Direct Investment of the Balance of Payments monthly publication as well as in the direct investment tables. In accordance with the directional principle presentation, foreign direct investment in Bulgaria amounted to EUR 53.9 mn compared with EUR 94.7 mn in February 2014. In January – February 2015 the foreign direct investment in Bulgaria inflow equated to EUR 128.2 mn compared with an inflow of EUR 137.7 mn in January – February 2014. Direct investment abroad recorded a net increase of EUR 9.4 mn in February 2015, compared with an increase of EUR 5.7 mn in February 2014. In January – February 2015 the direct investment abroad decreased by EUR 16.6 mn, against an increase of EUR 108.7 mn in the same period of 2014. More detailed information on the direct investment is available in the annex Direct Investment (January-February 2015) and in table 10. Direct Investment of the monthly Balance of Payments publication. The Current Account comprises the acquisition and provision of goods and services, income, and current transfers between the country and the rest of the world. The flows recorded on the credit side represent that part of the gross domestic product, which is provided to the rest of the world (exports of goods and services), as well as the provision of factors of production expressed by income receivable – compensation of employees and investment income (interest, dividends, etc.). Recorded are also offsets for non-refundable real and financial resources received (transfers). The flows on the debit side represent the gross product created in the rest of the world and acquired by the domestic economy (imports of goods and services), as well as the acquisition of factors of production expressed by income payable. Recorded are also offsets to non-refundable real and financial resources provided. The Goods component of the BOP Current Account covers movable goods for which changes of ownership between residents and non-residents occur. The data on imports and exports FOB (Free on board) is based on customs declarations, as the codes used in them are after the Harmonized System for Description and Coding of Commodities of the World Customs Organization, introduced in 1988 and supplemented in 1992. With the January 2006 data the Bulgarian National Bank and the National Statistics Institute jointly apply developed by them methodology for compilation of imports at FOB prices and receipts and payments regarding the freight transportation.2 The methodology is based on the analysis of the CIF-FOB correlations for the imports of goods depending on the different imports delivery categories, as well as on the different mode of transportation and nationality of the carrier.

The geographical breakdown of the Goods item of the BOP is based on the following principles:

For the intra EU trade in goods:

- In case of exports (or dispatches) is the country (or Member State) of final destination of the goods - In case of imports (or arrivals) is the country (or Member State) of consignment of the goods.

For the trade with third countries (outside EU)

- In case of exports – partner country is the country of final destination of the goods - In case of imports - partner country is the country of origin of the goods.

The Services component comprises transportation, travel, and other services. The Bulgarian National Bank derives the data on freight transportation from foreign trade data and the data on passenger transportation from travel data on the basis of estimates. With the January 2006 data the BNB introduced a new methodology for compilation of receipts and payments regarding the freight transportation. The freight transportation receipts are set up on the basis of estimated receipts of resident carriers related to the country exports of goods. The payments are calculated as an estimation of the payments made by residents on behalf of non-resident carriers related to the country imports of goods. The receipts and payments are estimated according to mode of transportation and nationality of the carrier. With the introduction of the system INTRASTAT with the January 2007 data changes in the way of compilation of receipts and payments regarding the freight transportation of Bulgaria with the rest of the EU member states took place. Due to the delay in receiving the detailed data on trade of Bulgaria with the rest of the EU member states from the NSI, as of the date of publication of the preliminary balance of payments report for the corresponding month (42 days after the close of the reporting period) the preliminary compilation of receipts and payments of freight transportation is based on data for preceding years. These estimates are subject to revisions after receiving the preliminary detailed data (with breakdown by trade partners and by type of goods) on trade with the rest of the EU member states for the reporting month.

Travel covers goods and services, including those related to health and education, acquired by travelers for business and personal purposes. By the end of 2006 the data on travel is based on data from the Ministry of Internal Affairs on the number of travelers crossing the borders and on estimates of per capita expenditures, the latter based on the methodology for estimation of the receipts and expenditures from travel services – “Methodology For Estimation of the Receipts and Expenditures from Travel in the Bulgarian Balance of Payments” (Bulgarian National Bank, Ministry of Trade and Tourism, 18 November 1999). As of the beginning of 2007 data for the number and the structure of foreigners who visited the country are based on information from the border police and NSI estimates. With the January 2010 data the BNB applies new methodology for estimation of the receipts and expenditures for travel and passenger transportation. The estimation model for the Travel item is based on the product of the number of travelers and the expenditure respective for a certain type of purpose of the travel (for more detailed information and questions, related to the methodologies applied, please contact us through the following e-mail: press_office@bnbank.org). The estimates of the expenditures (receipts) by purpose of the travel are based on the data collected during the Border Survey among Traveling Bulgarians and Foreigners conducted by the BNB during the period July 2997 – August 2008. The new methodology was applied for the first time with the data for January 2010, with back data revisions for the months of 2007, 2008 and 2009.

Other services item covers receipts and payments related to services other than transportation and travel (communication, construction, financial, leasing, insurance, cultural, sport and recreational services, etc.).

Income consists of two categories: (i) compensation of employees, and (ii) investment income. Compensation of employees covers wages, salaries and other benefits paid to non-resident workers in the country or received by resident workers abroad. The compensation of employees comprises also income due to illegal employment. By the end of 2006 the BNB estimates this flow in accordance with the Methodology for Estimation of Flows due to Illegal Employment (14 March 2006).3 With the January 2010 data the BNB applies new methodology for estimation of the Compensation of employees, credit. The new methodology was applied for the first time with the data for January 2010, with back data revisions for the months of 2007, 2008 and 2009.

Investment income covers receipts and payments of income associated with external financial assets and liabilities. Included are receipts and payments on direct investment, portfolio investment, other investment, and receipts on reserve assets.

Transfers are all real resources and financial items provided without a quid-pro-quo from one economy to another. Current transfers directly affect the level of disposable income of the economy, and the consumption of goods and services. That is, current transfers reduce the income and consumption potential of the donor and increase the income and consumption potential of the recipient. Included in the Current transfers are the EU pre-acquisition grants, other grants, gifts, inheritances, prizes won from lotteries, pensions, current taxes, social security contributions, etc. Sources: The Bulgarian National Bank receives information on current transfers from the Ministry of Finance, the Bulgarian Red Cross, the Agency for Foreign Aid, and from the reporting system of banks on transactions between residents and non-residents.

The item Workers remittances, credit is a sub-item of the Current transfers, credit in the Current account of the balance of payments and is a balancing item for transfers without a quid-pro-quo in cash or in kind. Applying of a new methodology for estimation of these flows became necessary not only because the above described circumstances demanded it but because of the necessity to capture inflows transferred through both official and unofficial channels. The estimates of the workers' remittances are based on the product of the number of Bulgarian emigrants, transferring money to their relatives and the amount of the average transfer. Such calculations are made separately for the official and the unofficial transfer channels. The sum of the money transferred via those two channels is recorded as the amount of Workers' remittances to Bulgaria. The data on the number of the Bulgarian emigrants are based on information from the State Agency for Bulgarians abroad, from the Bulgarian embassies and from Eurostat. The data on the percentage of the Bulgarian emigrants, transferring money; the shares of the official and unofficial channels and the average transfer for each of the channels used are based on the data collected via the Border survey. The new methodology was applied for the first time with the data for January 2010, with back data revisions for the months of 2007, 2008 and 2009.

CAPITAL ACCOUNT

The Capital Account consists of two categories: (i) capital transfers and (ii) acquisition or disposal of non-produced, non-financial assets. If in kind, a capital transfer consists of (i) a transfer of ownership of fixed assets, or (ii) forgiveness of a liability by a creditor when no counterpart is received in return. If in cash, a transfer is a capital transfer when it is linked to, or conditional on, the acquisition or disposal of fixed assets (for example, an investment grant).

FINANCIAL ACCOUNT

The Financial Account comprises all transactions (actual and imputed) in the external financial assets and liabilities of an economy. The external assets and liabilities are primarily classified according to type of investment. Included in Financial Account are (i) direct investment, (ii) portfolio investment and (iii) other investment.

Direct investment covers direct investment abroad, direct investment in reporting economy and mergers and acquisitions. Direct investment is a category of international investment in which a resident of one economy – a direct investor – acquires a lasting interest (at least 10 % of the ordinary shares or the voting power) in an enterprise resident in another economy – a direct investment enterprise. The direct investment includes both the initial transaction, through which the relationship between the direct investor and the direct investment enterprise is established, and all subsequent transactions between them. The direct investment covers transactions relating to changes in the direct investor's share in the equity capital of the direct investment enterprise, inter-company debt transactions as well as the share of the direct investor in the undistributed earnings/loss of the direct investment enterprise. Direct investment is reported on a directional basis: direct investment abroad – as an asset, and direct investment in the reporting country – as a liability.

The sub item Mergers and Acquisitions shows the transactions related to mergers and acquisitions. The purpose of its inclusion was to eliminate the influence of such deals over the reported foreign direct investment data. The international practice shows that these transactions have hardly any real impact on the production capacities and employment and the conclusions drawn from the interpretation of foreign direct investment data in which data on mergers and acquisitions are included might be misleading about investment flows, developments, branch and geographical structure. (“European Central Bank, Eurostat, Foreign Direct Investment Task Force Report”, March 2004, para.332).

Portfolio investment includes portfolio investment, assets and portfolio investment, liabilities. Portfolio investment covers transactions in shares and equity if the investor’s share in the capital is less than 10 %, transactions in bonds, notes, money market and other tradable securities.

Other investment covers trade credits, loans, currency deposits, and other assets and liabilities.

According to the balance of payments conventions trade credit arise from the direct extension of credit from a supplier to a buyer, i.e this is a credit extended by a trade partner without issue of a tradable security. Loans item includes received and paid principals on short- and long-term loans between non-bank financial institutions, insurance companies and pension funds, the Bulgarian National Bank and the Ministry of Finance.

Other investment covers trade credits, loans, currency deposits, and other assets and liabilities.

According to the balance of payments conventions trade credit arise from the direct extension of credit from a supplier to a buyer, i.e this is a credit extended by a trade partner without issue of a tradable security. Loans item includes received and paid principals on short- and long-term loans between residents and non-residents if no issue of a tradable security is involved with these loans. Transactions concerning disbursements and repayments of principals on IMF loans and disbursements on loans on BOP support are not included in the item Loans. They are recorded in the relative items of group E. Reserves and Related Items.

The Currency and Deposits component presents on the assets side the changes in the residents’ currency deposits held abroad, and on the liabilities side – the changes in the liabilities of the resident banks to non-residents in domestic and foreign currency. Following the basic accounting principle and conventions set in the “Balance of Payments Manual” (IMF, 1993), when compiling that item the Bulgarian National Bank excludes any changes therein due to exchange rate changes.

Items Other assets and Other liabilities includes all transactions on miscellaneous accounts receivable and payable not included elsewhere and transactions in arrears. The Net errors and omissions component is an offsetting item. This component exists in the BOP presentation because the compilation system used by the Bulgarian National Bank is not a closed one but is a combination of different sources of information. Unlike other statistical reports, such as for example the monetary statistics, the collecting of the data necessary for the balance of payments compilation could not be restricted to the accounting records of the banks as the only source of information.

The fluctuations in the Net errors and omissions, both in sign and in size, are mainly due to: (i) revisions of export and import data, (ii) the development of the methodology for compilation of certain balance of payments’ components and (iii) the existence of objective obstacles to the collection of data on certain balance of payments’ items.

RESERVES AND RELATED ITEMS

Reserve assets include those external assets that are readily available to and controlled by the central bank (government) for direct financing of balance of payments imbalances. The reserve assets comprise monetary gold, SDRs, reserve position in the Fund, foreign exchange assets (consisting of currency and deposits and securities), and other claims. The entries under this category pertain to transactions in the BNB's external holdings which are administered by the Issue Department. The data on reserve assets changes included in the BOP table excludee valuation changes, due to exchange rate and market price changes.

This group in the analytic presentation of the balance of payments includes also Use of Fund credit and the item Exceptional Financing. The exceptional financing comprises the BOP support as well as deferred/rescheduled payments and payments on arrears, resulting from balance of payments difficulties. In accordance with the methodology for accounting the exceptional financing transactions ("Balance of Payments Manual", Fifth Edition (IMF, 1993), p. 454), the principal repayments on the BOP support credits are included in the Financial Account – Other investment – Liabilities – Loans – General Government.

REAL SECTOR

Gross Domestic Product - production approach

Gross domestic product by production approach, characterized the outcome of economic activity and is measured by value added generated in the production of goods and services by the resident units of the economic territory of the country. The GDP by production approach at market prices is calculated as the sum of gross value added at basic prices for total economy and adjustments, which include net taxes on products, non-deductible VAT and duties on imports.

GDP - INCOME APPROACH

The income approach is an integral part of the primary distribution of income accounts. This approach reflect income as an element of value added created in the production process. Balance sheet item of income approach is the gross operating surplus / gross mixed income.

GROSS DOMESTIC PRODUCT BY FINAL EXPENDITURE

GDP by expenditure approach is calculated as the sum of individual consumption (including final consumption expenditure of households, final consumption expenditure of non-profit institutions serving households, final government expenditure on individual consumption), collective consumption (final cost of the government, which satisfy the needs of society as a whole), gross fixed capital formation (investments made in fixed assets), changes in inventories and foreign trade balance of goods and services (the difference between exports and imports of goods and services).

BUSINESS SURVEY IN INDUSTRY, CONSTRUCTION, TRADE AND SERVICE SECTOR

The business surveys in industry, construction, retail trade and service sector gather information about the entrepreneurs' opinions about the situation and development of their business. The replies to the questions included in the different questionnaires are presented in a three-option ordinal scale. The results are in the form of balances which are the difference between the positive and negative answering options. The survey also calculates the so-called composite indicators, such as the confidence indicator (arithmetic average of the balances of answers to specific questions), and business climate indicator (geometric average of the balances of opinions about the present and expected business situation). Some of the indicators represent numerical assessment, e.g. production assurance with orders (number of months), capacity utilization (%), etc.

CONSUMER SURVEY

The survey is a part of the harmonized program of European Union for business and consumer surveys and it is representative for the population of 16 years and older.

The persons of 16 years and older are the object of the survey; the sample method is random, clustered, proportional to the population by regions, incl. urban/rural inhabitants (154 clusters with 8 persons per cluster). The interviewing method is face to face. The questionnaire contains standardized questions about the financial situation of households, general economic situation, inflation, unemployment, saving, intentions of making major purchases on durable goods or purchasing/building a home or buying a car. The proposed variants of answers give an opportunity to arrange them from optimistic, through neutral to pessimistic. The balance of opinions is calculated as a difference between relative shares of positive opinions and relative shares of negative opinions, as there is one specification: the strong positive opinions and the strong negative opinions are given a coefficient of 1, and the more moderate positive and negative opinions - a coefficient of 0.5.

The survey results are used to capture the direction of change of surveyed variables incl. that of the consumer confidence level, which gives an opportunity to analyze the tendencies in the development of public opinions on significant economic phenomena.

The consumer confidence indicator is an arithmetic mean of the balances of the expectations about the development over the next 12 months of the financial situation of households, general economic situation, savings and unemployment, as the last is taken with a negative sign.

INVESTMENT ACTIVITY IN INDUSTRY

The survey gathers information about the carried out investment and investment plans of the enterprises. The inquiry is conducted twice a year - in March and in October, and the questionnaires have different content. Based on the results from the March survey is calculated the expected percentage change of the investment carried out during the current year in comparison with the investment from the previous year. Based on the data from the October survey is calculated the percentage change of the investment carried out during the current year compared to the previous year, and also the expected investment for the next year compared to the current year.

INDUSTRIAL PRODUCTION INDEX; INDUSTRIAL TURNOVER INDICES

The Industrial Production Index is the most important short-term economic business indicator, which aims to measure at a monthly frequency the ups and downs of industrial production during the long period of time. Monthly survey allows identifying the turning points in economic development at an early stage; also, the timely industrial production index is one of the most important measures of economic activity. The Industrial Turnover Index is other important short-term indicator, which measure the development of the market of goods and services. Turnover index gives measure of the development of the receipts of sales including the sales of goods, merchant goods and services provided to other enterprises. Monthly Industrial Production and Industrial Turnover Indexes measure changes in production and respectively in turnover between two different periods of time. This information is suitable for monitoring of current economic developments and short-term forecasts. The survey do not attempt to measure the actual production level, it aims to measure the average change in value of production between two points of time.

TOURISM

The definitions recommended by the World Tourist Organization and the Methodological manual for tourism by Eurostat are applied by the National Statistical Institute.

In accordance with these definitions an international tourist is any person who travels to a country other than his/her permanent residence for at least 24 hours but no more than one year and whose main purpose is not doing any activity for payment.

The purposes of visiting a country are the following:

• Excursion, holiday or entertainment (visits to cultural or historical landmarks, sport events and other);
• Visiting friends and relatives;
• Professional purposes (business trips, participation in conferences, congresses, concluding deals, and etc.);
• Other (education, medical treatment, and etc.) purposes.

Statistical data on the trips of Bulgarian citizens travelling abroad and visits by foreigners to Bulgaria are obtained on the basis of monthly information received from the Ministry of Interior and sample survey of the National Statistical Institute among Bulgarian and foreign citizens passing through border check points.

Data on the number of the trips of the citizens of the European Union are estimated on the basis of the information obtained from the Ministry of Interior and the airport authorities. Data on the number of citizens from 'third countries' are obtained directly from the Ministry of Interior.

Data on the purposes of the trips are obtained on the basis of the NSI's regular monthly sample survey of passing Bulgarian and foreign citizens through the border check points.

CONSUMER PRICE INDICES (CPI)

The consumer price index (CPI) is the official measure of inflation in the Republic of Bulgaria. It measures the total relative price change of goods and services used by households for private (non-production) consumption and is calculated by applying the structure of the final monetary consumption expenditures of Bulgarian households. The main source of information for the expenditures is the household budget survey in the country. CPI in year *t* is calculated with the expenditures structure of year *t- 1*.

HARMONIZED INDICES OF CONSUMER PRICES (HICP)

The Harmonized Index of Consumer Prices (HICP) is the comparable measure of inflation across EU Member states. It is one of the criterions of price stability and readiness of Bulgaria to join the euro-zone. HICP, as well as CPI, measure the total relative price change of goods and services. Both indices are calculated using the same basket of goods and services, but differ with respect to the weights used. HICP is calculated through the use of weights, which reflect the individual and the collective consumption of all households (incl. institutional and foreign households) on the economic territory of the country. The main source of information for HICP weights is the national accounts data. HICP in year *t* is calculated with the weights of year *t - 2*. In compliance with Regulation (EC) No 2015/2010 since January 2016 the base year for HICP has been changed and the all indices have been calculated and published at 2015 as a base year.

PRODUCER PRICE INDICES ON DOMESTIC AND ON NON-DOMESTIC MARKET IN INDUSTRY

Producer Price Index (PPI) is one of the main short-term business indicators; it is regarded as one of the important measures of the economic situation in the Country. The indices measure the average change in the prices of industrial products, which are produced and sold by Bulgarian enterprises. This is done on the bases of constant sample of groups of products, produced by the activity and sold on the domestic market or directly exported on non-domestic market and that sample is representative for total industrial production.

The surveys about the prices in agriculture are carried out in accordance with the main requirements of the EU Handbook for Agricultural Price Indices. In this way harmonization with the EU practices in the domain of agricultural price statistics is achieved from the point of view of:

- Definitions used
- Techniques of prices registration
- Type of calculated indices
- Survey periodicity
- Nomenclatures used
- Defining of the selected products by their quality, quantity, variety and other price characteristics.

The object of observation are the producer prices of produced by the farm crops, live animals and animal products and prices of products and services of goods and services currently consumed in agriculture.

Producer price in agriculture is the price received by farm selling its own agricultural products/live animals. It is recorded at the first market stage of goods - „farm gate price”. Producer price excludes subsidies on agricultural products/animals, transport costs and taxes. VAT is also excluded in the price.

The examination of prices of goods and services currently consumed in agriculture (Input I) includes five surveys which supply the information about the prices of:

- Mineral fertilizers
- Feeding stuffs
- Plant protection products
- Veterinary medicinal products
- Seeds and planting stocks.

The object of observation is the purchase price of goods and services currently consumed in agriculture. The observed unit price is the price that the buyer actually paid for the means of production. It includes taxes and fees and excludes subsidies and VAT refunded.

Statistical unit

Observation units within the surveys of agricultural prices are farms - juridical and physical persons and agricultural and veterinary pharmacies. For each survey a list of respondents is established and during the years stable number of price registrations of products/livestock categories and means of production is maintained.

The conducted surveys are exhaustive and include all units above certain threshold defined in value terms. For the survey on the producer prices in agriculture as selection criteria a value of sales of agricultural products/animals is used and for the surveys on the prices of goods and services currently consumed in agriculture - the expenditures rising from purchases of goods and services for intermediate consumption. The representativeness of prices is assured, both by the maintaining of regular number of price registrations and coverage of at least of 50 % of value of sales for each product/livestock category or purchase value of goods and services for intermediate consumption in the respective year.

Data sources

The sources of information are statistical questionnaires for collection of qualitative and quantitative characteristics of agricultural products/live animals and goods and services currently consumed in agriculture and quarterly questionnaires supplying information about the producer prices of agricultural products/live animals and purchasing prices of goods and services currently consumed in agriculture.

The questionnaires on the qualitative and quantitative characteristics of agricultural products/live animals and goods and services currently consumed in agriculture supply data for establishment of list of representative products defined with their quantitative and qualitative, variety and other characteristics which may have influence on the variation of prices. The established lists of products are periodically updated, as usual in the years ending to 0 or 5, when the Eurostat weighting scheme is rebased.

The quarterly questionnaires supply regular data about the prices of included in the scope of surveys agricultural products/live animals or goods and services currently consumed in agriculture.

Calculation of average prices

Within the quarterly surveys average monthly and quarterly prices are calculated. The average monthly prices are calculated as arithmetical mean derived from all registered prices. The quarterly prices are calculated as arithmetical mean from monthly prices.

Type of index and calculation

The calculation of price indices is carried out by the Laspeyres formula. This type of index has a constant weighting scheme, so that the base period of weights and prices is the same. For calculation of producer price indices as weights the value of sales of agricultural output is used and for the indices of prices of goods and services currently consumed in agriculture - the value of purchased intermediate consumption. The weights are calculated within satellite economic accounts for agriculture.

The indices are calculated at three bases: previous year, corresponding quarter of previous year and the year ending in 0 or 5 (Eurostat base).

The total index of goods and services currently consumed in agriculture (Input I) is calculated on the base of price indices of five groups of products as well as on the indices of goods and services calculated within the Survey on consumer prices index.

Classifications

For the survey of producer prices in agriculture the National classification of production in agriculture, forestry and fisheries (PRODAGRO) is used. Classification PRODAGRO is used as a basis for further product breakdown in accordance with their qualitative and quantitative characteristics. For the surveys on prices of goods and services currently consumed in agriculture own proper classifications are used. These classifications are compiled within the surveys for establishment of lists of representative products. For calculation and providing Eurostat with harmonized data of price indices in agriculture classification PRAG (Nomenclature of agricultural prices in the Eurostat New CRONOS database) is used.

Consideration of the impact of quality on the prices of agricultural products

To eliminate differences in prices associated with changes in the quality, type, quantity, packaging, selected products are defined by quality, quantity, species and other characteristics that affect the changes of prices. When particular product is dropped down from the list it has to be replaced by a new one defined by same or approximately similar characteristics. The new product should also be representative.

The calculation of the indices of goods and services contributing to the agricultural investments (Input II)

The calculation of price index of goods and services contributing to agricultural investments is also done by a Laspeyres formula. As weights the values of goods and services purchased by farms for further investments, calculated within the satellite economic accounts for agriculture are used. For calculation of total index of goods and services contributing to agricultural investments indices from other surveys conducted by NSI in the domain of the Consumer prices Statistics, Foreign trade statistics and Short-term business statistics are also used.

On the basis of indices of goods and services currently consumed in agriculture and contributing to agricultural investments, total index of prices of means of production used in agriculture (Total Input) is calculated.

MONETARY AGGREGATES

Net Foreign Assets – a balance between gross foreign assets and liabilities of the banking sector. Gross foreign assets are reported by instrument and include Bulgaria's international forex reserves and other foreign assets of the BNB and commercial banks. Gross foreign liabilities reflect liabilities of the BNB and commercial banks to the foreign sector.

Domestic credit – incorporates credit to the consolidated general government sector and non-government sector. Credit to the consolidated general government sector includes net claims on the central government and gross claims on local government, and social security funds. Credit to the non-government sector includes gross claims on non-financial corporations, financial corporations, households and NPISHs.

Fixed assets – movable or immovable non-financial assets which monetary financial institutions intend to use over a period longer than one year in their main activity.

Other items (net) – consolidates all components of the balance sheets of the BNB and commercial banks which are not included in the instruments displayed above. They include relations between commercial banks (net), other assets and liabilities (net) and relations between the BNB and commercial banks (net). Accrued and overdue interest, derivatives, depreciation, provisions, as well as assets and liabilities which are not included elsewhere are part of the Other assets and liabilities (net) item. The balance on the Relations between the BNB and Commercial Banks (net) item reflects the float as a result of netting of claims and liabilities between commercial banks and the BNB.

Broad money (money supply) comprises liabilities with money character of banks to the resident sector with the exception of the liabilities to the central government and the banking sector (money-holding sectors). Monetary aggregate instruments are grouped by liquidity and are presented by currency and sector.

The following monetary aggregates are used: M1, M2, and M3. The M1 monetary aggregate, commonly referred to as narrow money, includes the most liquid instruments used in settlements (currency outside banks and overnight deposits in national and foreign currency). The M2 monetary aggregate comprises quasi-money and the M1 monetary aggregate. Quasi-money comprises deposits with agreed maturity of up to two years and deposits redeemable at notice of up to three months (including savings deposits). The least liquid financial instruments include repos and debt securities issued up to two years. They are denominated in national and foreign currency and together with M2 form the broadest monetary aggregate, M3, commonly referred to as money supply (broad money).

Long-term liabilities and monetary financial institutions – include liabilities of monetary financial institutions with maturity of over two years or with a notice of over three months, as well as capital and reserves. Capital and reserves comprise the statutory fund of the banking system reserves and financial result.

Money supply is based on commercial bank monetary base (currency outside banks and bank reserves) multiplication. Money supply is determined by using M1, M2 and M3 monetary aggregates.

Monetary base (reserve money) consists of currency outside banks and commercial bank funds (bank reserves). The latter include commercial bank deposits with the BNB and cash in commercial bank vaults. Commercial bank deposits include minimum required reserves and excess reserves (overnight deposits and deposits with agreed maturity). Dynamics of reserves depends on the amount of required reserves (comprising a set portion of deposits) and excess reserves. The amount of required reserves is set by the Managing Board of the BNB and is the only instrument of the central bank monetary policy under a currency board. The amounts of excess reserves reflect the liquidity of commercial banks and the trend toward greater security.

MONEY SUPPLY MECHANISM

Money supply (M3) may be expressed as a product of monetary base and the money multiplier variable. Money multiplier characterizes the degree of multiplication effect as a result of commercial bank activity. This effect is measured by the ratios of broad money (M3) or individual monetary aggregates (M1 and M2) to reserve money. The money multiplier reflects the currency outside banks to deposits ratio and the bank reserves to deposits ratio, known as factors in determining money supply. The currency outside banks to deposits ratio depends primarily on the public behavior, while the bank reserves to deposits ratio reflects commercial bank behavior. Sources of Reserve Money: Under a stable money multiplier, total money supply may be influenced through reserve money sources. Foreign assets (net) reflect an increase/decrease in Bulgaria's forex reserves. Under a currency board changes in forex reserves at the expense of government deposit do not directly affect the monetary base and it is automatically sterilized. Claims on central government (net) – the net position of the government is a result of assets netting (balances on lev loans disbursed prior to June 1997 pursuant to the former Law on the BNB and balances on forex loans under Article 45 of the Law on the BNB) its liabilities. Claims on non-government sector include only claims on shares and other equity on the non-government sector. Claims on commercial banks – the balance sheet reports balances on loans extended prior to June 1997 and unpaid interest on these loans. Remaining items (net) include assets and liabilities, which are not classified to any other item.

CAPITAL MARKET

SOFIX Index:

Initial date: 20 October 2000; Initial value: 100

SOFIX is an index based on the market capitalization of the included issues of common shares, adjusted with the free-float of each of them. The index covers the 15 issues of shares complying with the general requirements for selection of constituent issues that have the greatest market value of the free-float. An issue included in the index base of SOFIX shall also meet the following criteria: 1) The issues should have been traded on a market, organized by the Exchange, for at least 3 (three) months before their introduction into the SOFIX portfolio. Provided an issue has been transferred for trading from one market segment to another, the first quotation date of the issue shall be assumed as its first trading date; 2) The market capitalization of the issue shall not be less than BGN 40,000,000 and the free-float shall not be less than 25 %* of the amount of the issue, or the market value of the free-float shall not be less than BGN 10,000,000; 3) The number of shareholders of the issue shall not be less than 500 persons; 4) The turnover of the issue during the last 12 months shall not be less than BGN 2,000,000; 5) The number of transactions executed in the issue during the last 12 months shall not be less than 750.

* The free-float as one of the requirements for SOFIX, shall be defined as follows: 1) As from 1st September 2010 – 15 (fifteen) %; 2) As from 1st March 2011 – 20 (twenty) %; 2) As from 1st September 2011 – 25 (twenty-five) %

BG REIT Index:

Initial date: 03 September 2007; Initial value: 100

BG REIT is an index based on the free-float-adjusted market capitalization and shall cover 7 (seven) issues of common shares of special investment purpose companies that operate in the field of securitization of real estates and/or land, i.e. real estate investment trusts (REITs), with the greatest market value of the free-float and the highest median value of the weekly turnover during the last 6 (six) months. The two criteria shall have equal weight. Beside the general requirements an issue included in the index base of BG REIT shall meet the following criteria: 1) To have been traded on a market, organized by BSE-Sofia, for at least 3 (three) months before its introduction into the BG REIT portfolio. Provided an issue has been transferred for trading from one market segment to another, the first quotation date of the issue shall be assumed as its first trading date; 2) The market capitalization of the issue shall not be less than BGN 5,000,000 (five mn. Bulgarian Leva); 3) The free-float shall not be less than 25 (twenty-five)* % of the total volume of the issue;

* The free-float requirements for BG REIT constituents shall be defined as follows: 1) As from 1st September 2010 – 15 (fifteen) %; 2) As from 1st March 2011 – 20 (twenty) %; 3) As from 1st September 2011 – 25 (twenty-five) %

BG 40 Index:

Initial date: 01 February 2005; Initial value: 100

BG 40 is an index based on the price performance of the issues and shall cover 40 (forty) issues of common shares of the companies with the greatest number of transactions and the highest median value of the daily turnover during the last 6 (six) months as the two criteria shall have equal weight. Beside the general requirements the issues included in the calculation of the index should meet the following additional requirement: To have been traded on a market, organized by the Exchange, for at least 3 (three) months before their introduction into the BG 40 portfolio. Provided an issue has been transferred for trading from one market segment to another, the first quotation date of the issue shall be assumed as its first trading date. In case of more than 3 (three) companies belonging to one economic group, all compliant with the additional requirements above, only the three issues of companies belonging to that economic group with the greatest number of transactions and the highest median value of the daily turnover shall be admitted to the ranking. If as a result of the ranking it occurs that two or more issues of companies belonging to one economic group have been ranked at the same place, the issues with the greater number of transactions executed during the last 6 (six) months shall be treated with priority with respect to the inclusion.

BGTR30 Index (BG Total Return 30):

Initial date: 03 September 2007; Initial value: 1,000

BG TR30 is an index based on the price performance of the common shares included in the index portfolio, as each constituent issue shall have equal weight. The issues included in the calculation of the index should meet the following criteria: 1) The market capitalization of each issue should not be less than BGN 10,000,000 (10 mn.); 2) The free-float (number of shares hold by minority shareholders, i.e. by holders of not more than 5 % of the votes in the General Meeting of the issuing company) should not be less than 10 % of the total volume of the issue; 3) The size (amount) of each issue should not be less than 250,000 shares. All issues meeting the conditions above are graded to the following criteria of equal weight: 1) Market capitalization; 2) Number of transactions in the last 6 months; 3) Turnover during the last 6 months; 4) Free-float.