All data in the edition are the last available data, published as of September 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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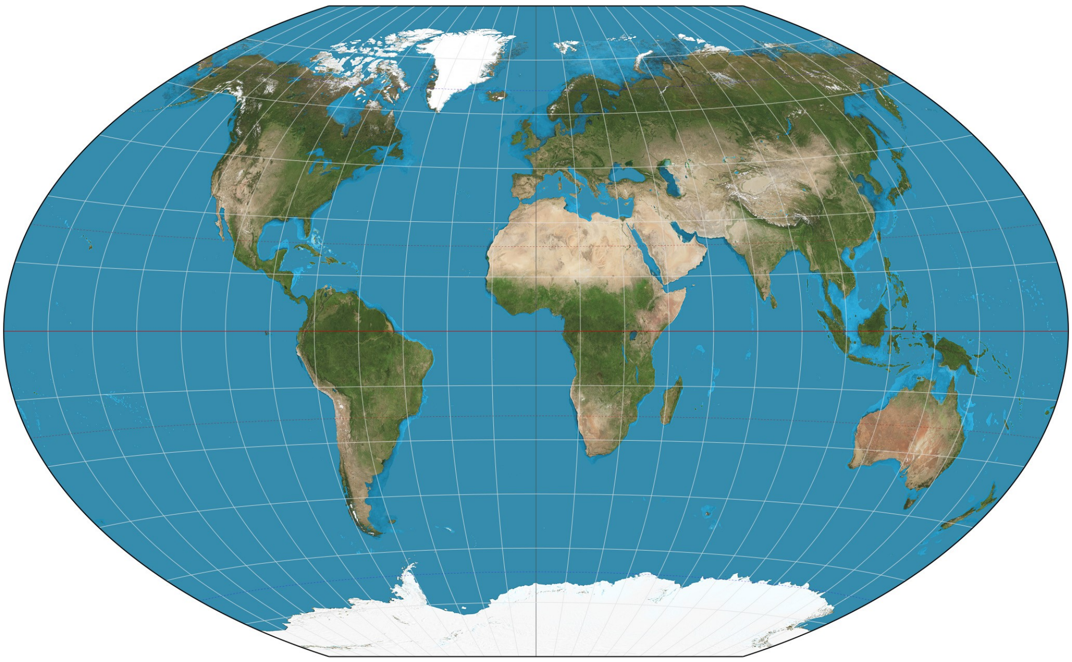
HIGHLIGHTS AND FORECASTS

MONTHLY ECONOMIC REPORT



September, 2019

Sofia

- *The Eurozone quarterly economic growth was confirmed at 0.2% in Q2 of 2019, slowing from a 0.4% expansion in the previous period. Household consumption and fixed investment supported the expansion while net trade contributed negatively to growth and change in inventories was negligible. Compared with the same quarter of the previous year, the Euro Area economy expanded 1.2% in Q2 2019, easing from an upwardly revised 1.3% growth in Q1. Among the bloc's largest economies, Germany's GDP contracted -0.1% in Q2, after expanding 0.4% in the first three months of the year. Considering the European Union as a whole, the economy advanced 0.2% (vs 0.5% in Q1); and grew 1.4% yoy (vs 1.6% in Q1). The Euro Area seasonally-adjusted unemployment rate stood at 7.5% in July 2019, unchanged from the previous month's 11-year low and in line with market expectations. The number of unemployed continued to decline. Among EU Member States, the lowest unemployment rates in July were recorded in Czechia (2.1%) and Germany (3.0%). The highest unemployment rates were observed in Greece (17.2% in May 2019) and Spain (13.9%). The annual inflation rate in the Euro Area came in at 1% in August 2019, unchanged from the previous month, a preliminary estimate showed. It remained the lowest inflation rate since November 2016, as cost of energy is expected to fall while prices of food, alcohol & tobacco and services are seen rising further. 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 remain unchanged at 0.9%.*
- *Italy's economy shrank -0.1% yoy, the same as in Q1 of the year and below a preliminary estimate 0%. European commission expects GDP growth at 0.1% in 2019, slowing from 0.9% in 2018. The seasonally adjusted unemployment rate in Italy rose slightly to 9.9% in July 2019 from an upwardly revised 9.8% in the previous month. Italy's annual inflation rate is expected to rise to 0.5% in August 2019 from 0.4% in the previous month, mainly due to higher prices of food. Annual core inflation rate, which excludes energy and unprocessed food, should edge up to 0.6% in August from 0.5% in the previous month. In August 2019, Deputy Prime Minister Salvini announced a motion of no confidence against Prime Minister Conte, after growing tensions within the majority. On 28 August, Democratic Party's leader announced at the Quirinal Palace his favorable position on forming a new government with the Five Stars with Giuseppe Conte at its head. On 9-10 September 2019 the Chamber of Deputies and the Senate of the Republic granted the confidence to the new government.*
- *Britain's gross domestic product expanded 1.2% yoy in Q2 of 2019, slowing from 1.8% in the previous period. It has not been weaker since the start of 2018. On the expenditure side, household expenditure rose 1.8% in Q2 (vs 1.9% in Q1); and government spending advanced 2.7% (vs 1.6% in Q1). Meanwhile, fixed investment growth slowed to 0.5% (vs 0.9% in Q1) amid a further decline in business investment (-1.6% vs -1.5%). On the production side, the service industries expanded 1.6% (vs 2.1% in Q1). Industrial production fell 0.5% (vs 0.3% in Q1), as output contracted for manufacturing (-0.9% vs 0.9%) and utilities (-0.3% vs -6.3%). The UK unemployment rate fell to 3.8% in the three months to July 2019, back to its joint lowest since the October to December 1974 period. Total pay growth picked up to 4%, the fastest since mid-2008. The consumer price inflation rate in the United Kingdom rose to 2.1% yoy in July 2019. British Parliament has passed a law that aims to block the UK leaving the EU without a deal on 31 October. The new law tries to avoid a no-deal Brexit on 31 October, but it can't rule out a no-deal Brexit in the future.*
- *The US economy grew by an annualized 2% in Q2 of 2019, slightly below a preliminary estimate of 2.1%. The revision primarily reflected downward revisions to state and local government spending, exports, private inventory investment, and residential investment that were partly offset by an upward revision to personal consumption expenditures (PCE). 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 Gross Domestic Product (GDP) in the United States expanded 2.30% yoy in Q2 of 2019 over the same quarter of the previous year. The US unemployment rate came in at 3.7% in August 2019, unchanged from the previous two month's figures. The US annual inflation rate fell to 1.7% in August 2019 from 1.8% in the previous month.*
- *Japan's quarterly economic growth was revised lower to 0.3% in Q2 of 2019 from a preliminary estimate of 0.4% and compared to the previous period's 0.5% growth. There was a sharp downward revision of capital expenditure amid weakness in the global economy and worsening trade*

protectionism. On an annualized basis, the economy grew 1.3% in the second quarter, weaker than the preliminary reading of 1.8% and after a revised 2.2% expansion in the previous quarter. The unemployment rate in Japan fell to 2.2% in July 2019, the lowest since October 1992. Japan's consumer price inflation fell to 0.5% yoy in July 2019 from 0.7% in the previous month. Annual core consumer inflation, which excludes fresh food, was at 0.6% in July, unchanged from June's 2-year low. The latest reading remained well below the Bank of Japan's 2% target.

- *China's slowdown deepens; industrial output growth falls to 17-1/2 year low. Industrial output growth unexpectedly weakened to 4.4% in August from the same period a year earlier, the slowest pace since February 2002 and receding from 4.8% in July. Retail sales missed expectations, with growth easing to 7.5%, from 7.6% in July. Fixed-asset investment also disappointed. It rose 5.5% for the first eight months of the year from the same period in 2018, down from Jan-July's 5.7%. Premier Li Keqiang said in an interview published ahead of the data on 16.09.2019 that it was "very difficult" for the economy to grow at 6% or more and that it faced "downward pressure". China's annual inflation rate was at 2.8% in August 2019, unchanged from the previous month. It remained the highest consumer inflation rate since February 2018, driven by persistently high pork prices amid an outbreak of African swine fever. China's producer price index fell 0.8% yoy in August 2019, following a 0.3% decrease in the previous. It was the sharpest fall in producer prices since August 2016. The protracted trade war escalated dramatically last month, with President Donald Trump announcing new tariffs on Chinese goods from Sept. 1, and China letting its yuan currency sharply weaken days later. After Beijing hit back with retaliatory tariffs, Trump said existing levies would also be raised in coming months, in October and December. Both sides have taken steps to show goodwill, and U.S. officials are considering an interim deal to delay tariffs with China, according to Bloomberg.*
- *The Turkish economy shrank by -1.5% yoy in Q2 of 2019, easing from a downwardly revised -2.4% contraction in the previous three-month period. On the expenditure side, household consumption decreased -1.1% in Q2 (vs -4.8% in Q1); and fixed investment plummeted -22.8% (vs -12.4% in Q1). Meanwhile, government spending went up 3.3% (vs 6.6% in Q1), and net external demand contributed positively to the GDP growth. On the production side, services output dropped -0.3% (vs -3.4% in Q1), mainly due to professional, administrative and support service activities (-4.3% vs -12.5%) and other service activities (-2.9% vs -1.7%). On a seasonally adjusted quarterly basis, the economy expanded by 1.2% in the second quarter, following an upwardly revised 1.6% growth in the previous period. Turkey's unemployment rate rose to 13.0% in June 2019 from 10.2% in the same period of the previous year. Turkey's annual inflation rate fell to 15.01% in August of 2019 from 16.65% in the previous month. A Turkish regulator on Tuesday told banks to write off USD 8.1 billion of loans by year end and set aside loss reserves. The regulation is aimed mostly at loans made to the hard-hit energy and construction sectors, and is expected to raise banks' non-performing loan (NPL) ratio to 6.3% from 4.6%.*
- *At 12 September 2019 meeting the Governing Council of the ECB took the following monetary policy decisions: (1) The interest rate on the deposit facility will be decreased by 10 basis points to -0.50%. The interest rate on the main refinancing operations and the rate on the marginal lending facility will remain unchanged at their current levels of 0.00% and 0.25% respectively. (2) Net purchases will be restarted under the Governing Council's asset purchase programme (APP) at a monthly pace of EUR 20 billion as from 1 November. (3) Reinvestments of the principal payments from maturing securities purchased under the APP will continue, in full, for an extended period of time past the date when the Governing Council starts raising the key ECB interest rates. (4) The modalities of the new series of quarterly targeted longer-term refinancing operations (TLTRO III) will be changed to preserve favourable bank lending conditions, ensure the smooth transmission of monetary policy and further support the accommodative stance of monetary policy. (5) In order to support the bank-based transmission of monetary policy, a two-tier system for reserve remuneration will be introduced, in which part of banks' holdings of excess liquidity will be exempt from the negative deposit facility rate.*

- *At its meeting ending on 18 September 2019, the Bank of England's Monetary Policy Committee (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. It is possible that political events could lead to a further period of entrenched uncertainty about the nature of, and the transition to, the United Kingdom's eventual future trading relationship with the European Union. The longer those uncertainties persist, particularly in an environment of weaker global growth, the more likely it is that demand growth will remain below potential, increasing excess supply. In such an eventuality, domestically generated inflationary pressures would be reduced. In the event of a no-deal Brexit, the exchange rate would probably fall, CPI inflation rise and GDP growth slow. The Committee's interest rate decisions would need to balance the upward pressure on inflation, from the likely fall in sterling and any reduction in supply capacity, with the downward pressure from any reduction in demand. In this eventuality, the monetary policy response would not be automatic and could be in either direction.n the event of greater clarity that the economy is on a path to a smooth Brexit, and assuming 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. In all circumstances, the Committee will set monetary policy appropriately to achieve the 2% inflation target.*
- *Federal Reserve issues FOMC statement September 18, 2019. Although household spending has been rising at a strong pace, business fixed investment and exports have weakened. 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 FOMC 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 FOMC decided to lower the target range for the federal funds rate to 1.75% to 2%. As the FOMC 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. Economic Projections from the September 17 - 18 Federal Open Market Committee meeting. The Federal Reserve on September 18 2019 signaled easing interest rates this year but signaled no interest rate cuts in 2020 following its two-day monetary policy-setting meeting. The so-called dot plot, in which individual Federal Reserve map his forecasts for interest rates, showed the Federal Reserve sees no further rate cuts in 2019 and 2020.*
- *At the Monetary Policy Meeting (MPM) held September 19, 2019, the Policy Board of the Bank of Japan decided upon the following. Yield curve control The Bank of Japan 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 of Japan 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 of Japan. The long-term interest rate: The Bank of Japan will purchase Japanese government bonds (JGBs) so that 10-year JGB yields will remain at around 0%. In regard to the amount of JGBs to be purchased, the Bank of Japan will conduct purchases in a flexible manner so that their amount outstanding will increase at an annual pace of about JPY 80 trillion. The Bank of Japan 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 yen and about JPY 90 billion, respectively. As for CP and corporate bonds, the Bank of Japan will maintain their amounts outstanding at about JPY 2.2 trillion and about JPY 3.2 trillion, respectively. The Bank of Japan 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 CPI (all items less fresh food) exceeds 2% and stays above the target in a stable manner. As for policy rates, the Bank of Japan 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. In particular, in a situation where downside risks to economic activity and prices, mainly regarding developments in overseas economies, are significant, the Bank of Japan 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.*

- ***People's Bank of China (PBOC) has decided to lower the required reserve ratio for financial institutions by 0.5% on September 16, 2019 (excluding finance companies, financial leasing companies, and auto finance companies). In addition, in an effort to increase the support for micro and small businesses and private enterprises, rural commercial banks operating solely within provincial administrative regions will additionally enjoy a targeted cut of 1% in the required reserve ratio. Long-term funds worth around CNY 900 billion will be released. In specific, around CNY 800 billion will be released from the comprehensive required reserve ratio cut, and around CNY 100 billion from the targeted cut.***
- ***12 September 2019 Decision of the Monetary Policy Committee. The Monetary Policy Committee (the Committee) has decided to reduce the policy rate (one-week repo auction rate) from 19.75% to 16.50%. Inflation outlook continued to improve. In addition to the stable course of the Turkish lira, improvement in inflation expectations and mild domestic demand conditions supported the disinflation in core indicators. In August, consumer inflation displayed a significant fall with the contribution of core goods, energy and food groups. Domestic demand conditions and the level of monetary tightness 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 July 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 325 basis points. At this point, the current monetary policy stance, to a large part, is considered to be consistent with the projected disinflation path.***
- ***Oil prices are on track to rise more than 7%, the highest jump since months. The appreciation on 20.09.2019 came after a Saudi-led international coalition launched a military operation north of the port city of Hodeida in Yemen. In the meantime, the US continues to work with countries in the Middle East and Europe in an attempt to form a coalition against Iran following a drone attack on Saudi oil targets in 14.09.2019. The price of Brent increased by 0.29 USD/BBL or 0.45% to 64.74 USD/BBL, or the week, the increase was 7.48%. In turn, the price of crude oil goes up by 0.45 USD/BBL or 0.77% to 58.67 USD/BBL, or the increase was 6.99%. Production in Saudi Arabia has fallen by almost half since the September 14, 2019 attack on a country's key crude oil refinery. Authorities in Riyadh have promised that production will be restored by the end of the month, and by the end of November capacity in the kingdom will once again return to its level of 12 million BBL per day. The US and Saudi Arabia blame Iran for the drone attack.***
- ***After the August FOB downturn, grain prices on global stock markets returned to normal levels. In the US, wheat has once again aroused the interest of mutual funds, they returned to the contract and the price rose from USD 17.00 to 215.00 USD/ton. France also went up, but much less - plus EUR 3.00 to 168.00 EUR/ton, and in Ukraine and Russia unanimous change down to 184.00 USD/ton respectively minus USD -3.00 and minus USD -5.00. For maize, the movement overseas is almost imperceptible, plus USD 1.00 to 160.00 USD/ton, in France the corn added EUR 2.00 to 166.00 EUR/ton, and Ukraine for delivery November lowered the price again by minus USD -5.00 to 156.00 USD/ton. In the Grain sub-circle of the Sofia Commodity Exchange AD the quotations remain calm and slightly down. Wheat bread is offered from 310.00 BGN/ton to 350.00 BGN/ton. Feed wheat is offered at 290.00 BGN/ton, demand is at 250.00 BGN/ton.***

- *In January – July 2019 the current and capital account was positive amounting to EUR 3,564.7 million (6% of GDP), compared with a surplus of EUR 1,643 million (3% of GDP) in January – July 2018.*
- *In January-July 2019 the net flows of foreign direct investment in Bulgaria presented according to the directional principle recorded a a positive value of EUR 532.7 million (0.9% of GDP) in January – July 2019, growing by EUR 363.2 million from January – July 2018 (positive value of EUR 169.5 million, 0.3% of GDP).*
- *In August 2019, the BNB's international reserves amounted to BGN 48.4 billion (EUR 24.7 billion), decreasing by 2.9% mom, increasing by 5.3% yoy and maintain the stability of the currency board in Bulgaria.*
- *In Q2 of 2019 Bulgaria's GDP at current prices amounted to BGN 29 107 million. In Euro terms GDP is EUR 14 882 million or EUR 2 128 per person. According to NSI seasonally adjusted data, the GDP growth rate in Q2 of 2019 is 3.5% compared to the same quarter of the previous year and 0.8% compared to Q1 of 2019. In Bulgaria the economy will continue to grow in Q3 2019 even with slower trend. The weaker growth in the euro area countries, the 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, as well as the exalting crisis in Turkey 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 August 2019, the business conjuncture in the country is assessed as unfavorable. The total business climate indicator decreases by 3.1 percentage points compared to its July level as reduction of the indicator is registered in all observed sectors - industry, construction, retail trade and services.*
- *According to the preliminary data in July 2019 the Industrial Production Index, seasonally adjusted, rose by 0.8% as compared to June 2019. In July 2019 the working day adjusted Industrial Production Index fell by 0.9% in comparison with the same 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 the preliminary seasonally adjusted data in July 2019 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 1.0% compared to the previous month. In July 2019, the working day adjusted4 turnover in 'Retail trade, except of motor vehicles and motorcycles' marked an increase from 3.7% in comparison with the same month of the previous year. 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 July 2019 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 1.7% above the level of the previous month. In July 2019 the working day adjusted index of production in construction increased by 4.3% 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 harmonized index of consumer prices (HIPC) for August 2019 compared to July 2019 is 100.2%, ie monthly inflation was 0.2%. Since the beginning of the year, inflation has been 3.0% and annual inflation for August 2019 compared to August 2018 was 2.5%. The average annual inflation for the period September 2018 - August 2019 compared to the period September 2017 - August 2018 is 2.8%. There will be a slight increase in inflation in Q3 and Q4 of 2019, with the major impact factors being higher oil futures with delivery times in September and December, shocks in global supply - for example, the oil crisis in Saudi Arabia, expectations for rising fuel prices, transportation services and consumer goods. Since the beginning of the year, inflation has tended to go up slightly, registering 2.8% growth in Q2 from 2.5% in Q1 2019. Our forecast is for the inflation in Bulgaria is to reach 2.5% in 2019, 2.3% in 2020 and 2.1% in 2021.*
- *Total Producer Price Index in July 2019 increased by 1.3% compared to the previous month; compared to the same month of 2018 the prices rose by 3.0%. Producer Price Index on Domestic Market in July 2019 rose by 1.4% compared to the previous month; compared to the same*

month of 2018 the domestic prices grew by 3.9%.

- *In August 2019, the registered unemployment rate in Bulgaria remained at 5.3% compared to the previous month and decreased by 0.3 pps on an annual basis. For 2019, employment is expected to increase by 0.4%. Unemployment will continue to contract slightly, following the trend of a net decrease of the Bulgarian population by 50,000 people a year. According to the preliminary data, GDP per person employed increased by 3.5% in the second quarter of 2019 compared to the same quarter of the previous year.*
- *In January-July 2019 Bulgaria' CFP balance on a cash basis is positive, amounting to 3,223.6 million BGN and presented 2.8% of forecasted GDP. The fiscal reserve as of 31.07.2019 amounts to 12.4 billion BGN. Based on the preliminary data and estimates, the Consolidated Fiscal Programme (CFP) balance on a cash basis as of August July 2019 is expected to be positive, amounting to BGN 1104.2 million (1% of the projected GDP).). On a monthly basis, the CFP budget balance is negative only for August. After the adoption of the Law amending and supplementing the 2019 State Budget of the Republic of Bulgaria Law and the ratification by the National Assembly of the international contracts for the purchase of F-16 Block 70 fighter aircraft, armament and related systems for long-term operation and maintenance, as well as for the comprehensive training of pilots and auxiliary personnel, in August the Ministry of Defense transferred the amount of USD 1.2 billion to a US government account. The significant amount of the expenditures for the implementation of this investment project has led to a reduction of the currently reported excess of revenues over expenditures as of end-August to around 1% of GDP.*
- *In January – June 2019, Bulgaria's central government sub-sector debt amounted to EUR 11,877.7 million and accounted for 20.1% 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.*
- *Moody's Investors Service has changed the outlook on Bulgaria's ratings to positive from stable and has affirmed Bulgaria's long-term issuer in foreign and local currency at Baa2.*
- *At the end of July 2019 broad money (monetary aggregate M3) amounted at BGN 97.570 billion (84.3% of GDP) and increased by 7.9% yoy. Domestic credit – was BGN 58.371 billion and increased by 3.4% yoy.*
- *In August 2019 all four leading indexes of BSE-Sofia decreased as SOFIX declined to to 567.45 points, BG TR30 to 502.53 points, BGBX 40 to 112.31 points and BGREIT to 126.38 points, respectively.*
- *At the end of July 2019, the assets of the banking system increased by 1.6% mom and by 10.3% yoy, respectively to BGN 110.3 billion, accounting for 94.1% of projected GDP. Gross loans from clients of the banking system increase by 0.8% mom and their relative share in GDP is 55.2%. Household loans increased by 1.2% mom to BGN 23.9 billion, while those for non-financial corporations increased by 0.6% mom to BGN36.1 billion. Deposits from customers in the banking system amounted to BGN 87.9 billion, up 1.4% mom. Their relative share in the estimated GDP is 74.9%. Deposits by households and non-financial corporations increased by 0.6% and 3.4% mom to BGN 55.2 billion and BGN 26.1 billion, respectively.*

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GLOBAL TRENDS

ADVANCED COUNTRIE'S ECONOMIES

Eurozone

The Eurozone quarterly economic growth was confirmed at 0.2% in Q2 of 2019, slowing from a 0.4% expansion in the previous period. Household consumption and fixed investment supported the expansion while net trade contributed negatively to growth and change in inventories was negligible. Compared with the same quarter of the previous year, the Euro Area economy expanded 1.2% in the three months to June, easing from an upwardly revised 1.3% growth in Q1. Among the bloc's largest economies, Germany's GDP contracted -0.1% in Q2, after expanding 0.4% in the first three months of the year. Considering the European Union as a whole, the economy advanced 0.2% (vs 0.5% in Q1); and grew 1.4% yoy (vs 1.6% in Q1). The Euro Area seasonally-adjusted unemployment rate stood at 7.5% in July 2019, unchanged from the previous month's 11-year low and in line with market expectations. The number of unemployed continued to decline. Among EU Member States, the lowest unemployment rates in July were recorded in Czechia (2.1%) and Germany (3.0%). The highest unemployment rates were observed in Greece (17.2% in May 2019) and Spain (13.9%). The annual inflation rate in the Euro Area came in at 1% in August 2019, unchanged from the previous month, a preliminary estimate showed. It remained the lowest inflation rate since November 2016, as cost of energy is expected to fall while prices of food, alcohol & tobacco and services are seen rising further. 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 remain unchanged at 0.9%.

The Eurozone quarterly economic growth was confirmed at 0.2% in Q2 of 2019, slowing from a 0.4% expansion in the previous period. Household consumption and fixed investment supported the expansion while net trade contributed negatively to growth and change in inventories was negligible. From the expenditure side, the largest positive contribution to the GDP growth came from household final consumption expenditure (0.1%) and gross fixed capital formation (0.1%); while net trade substracted 0.1% as exports made no contribution and imports contributed negatively (-0.1%). Household consumption increased 0.2% in the second quarter of the year (vs 0.4% in Q1) and government spending went up 0.3% (vs 0.4% in Q1). Also, fixed investment advanced 0.5%, following a 0.2% expansion in the previous period. Exports were flat (0% vs 0.9% in Q1) while imports rose (0.2% vs 0.4% in Q1). From the production side, services activity was the main driver of growth led by trade, transport, accommodation and food service activities (0.1% vs 1.0%); administration and other public services (0.3% vs 0.1%); professional and support service activities (0.6% vs 0.2%); real estate activities (0.4%, the same as in Q1); information and communication (0.5% vs 1.3%); financial and insurance activities (0.7% vs a flat reading); and arts, entertainment and other services (0.1% vs 0.6%). Also, construction advanced 0.1%, after a 1.5% gain in Q1. Meanwhile, industry output shrank (0.7% vs a flat reading in Q1), mostly due to manufacturing production (-0.8% vs -0.1% in Q1). Among the bloc's largest economies, Germany's GDP contracted -0.1% in Q2, after expanding 0.4% in the first three months of the year while Italian economy stagnated, following a 0.1% growth. In addition, Spain's economy grew 0.5%, slowing from a 0.7% expansion in Q1; while France's gross domestic growth was steady at 0.3%. Compared with the same quarter of the previous year, the Euro Area economy expanded 1.2% in the three months to June, easing from an upwardly revised 1.3% growth in Q1. Considering the European Union as a whole, the economy advanced 0.2% (vs 0.5% in Q1); and grew 1.4% yoy (vs 1.6% in Q1). The Euro Area seasonally-adjusted unemployment rate stood at 7.5% in July 2019, unchanged from the previous month's 11-year low and in line with market expectations. The number of unemployed continued to decline. Compared with June, the number of unemployed in the Euro Area decreased by 16,000 to 12.322 million. Compared with the previous year, it fell by 898,000. Considering the European Union as a whole, the unemployment rate was unchanged at 6.3% in July, the lowest since the start of the EU monthly unemployment series in January 2000. There were 15.613 million people unemployed, an increase of 27,000 from the previous month and a decline of 1.093 million from July 2018. Among EU Member States, the lowest unemployment rates in July were recorded in Czechia (2.1%) and Germany (3.0%). The highest unemployment rates were observed in Greece (17.2% in May 2019) and Spain (13.9%). Compared with a year ago, the largest decreases were registered in Greece (17.2% from 19.4% between May 2019 and May 2018), Croatia (7.1% from 8.4%), Cyprus (7.0% from 8.3%), Slovakia (5.3% from 6.5%), and Spain (13.9% from 15.0%). The youth unemployment rate was 14.3% in the EU28 and 15.6% in the Euro Area, compared with 15.0% and 16.7% respectively in July 2018. The lowest rates were observed in Germany (5.6%), the Netherlands (6.7%) and Czechia (7.0%), while the highest were recorded in Greece (39.6% in Q1 2019), Spain (32.1%) and Italy (28.9%). The annual inflation rate in the Euro Area came in at 1% in August 2019, unchanged from the previous month and in line with market consensus, a preliminary estimate showed. It remained the lowest inflation rate since November 2016, as cost of energy is expected to fall while prices of food, alcohol & tobacco and services are seen rising further. 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 remain unchanged at 0.9%, below market forecasts of 1%.

Italy

Italy's economy shrank -0.1% yoy, the same as in Q1 and below a preliminary estimate 0%. European commission expects GDP growth at 0.1% in 2019, slowing from 0.9% in 2018. The seasonally adjusted unemployment rate in Italy rose slightly to 9.9% in July 2019 from an upwardly revised 9.8% in the previous month. Italy's annual inflation rate is expected to rise to 0.5% in August 2019 from 0.4% in the previous month, mainly due to higher prices of food. Annual core inflation rate, which excludes energy and unprocessed food, should edge up to 0.6% in August from 0.5% in the previous month. In August 2019, Deputy Prime Minister Salvini announced a motion of no confidence against Prime Minister Conte, after growing tensions within the majority. On 28 August, Democratic Party's leader announced at the Quirinal Palace his favorable position on forming a new government with the Five Stars with Giuseppe Conte at its head. On 9-10 September 2019 the Chamber of Deputies and the Senate of the Republic granted the confidence to the new government.

Italy's economy shrank -0.1% yoy, the same as in the first quarter of the year and below a preliminary estimate and market consensus of no growth. European commission expects GDP growth at 0.1% in 2019, slowing from 0.9% in 2018. The seasonally adjusted unemployment rate in Italy rose slightly to 9.9% in July 2019 from an upwardly revised 9.8% in the previous month and above market expectations of 9.6%. Youth unemployment rate, measuring job-seekers between 15 and 24 years old, went up to 28.9% from 28.1% in June. The country's overall employment rate, one of the lowest in the Euro Area, edged down to 59.1% in July from 59.2% in the preceding month. Italy's annual inflation rate is expected to rise to 0.5% in August 2019 from 0.4% in the previous month, mainly due to higher prices of food, a preliminary estimate showed. Annual core inflation rate, which excludes energy and unprocessed food, should edge up to 0.6% in August from 0.5% in the previous month. Excluding only energy, inflation is likely to advance to 0.7% from 0.6% in July. On a monthly basis, consumer prices should increase 0.5%, after being flat in the prior month and exceeding market expectations of a 0.3% gain. The harmonized index of consumer prices is expected to rise 0.5% from the previous year (from 0.3% in July); and to be unchanged mom (from -1.8% in July). In August 2019, Deputy Prime Minister Salvini announced a motion of no confidence against Prime Minister Conte, after growing tensions within the majority. Many political analysts believe the no confidence motion was an attempt to force early elections to improve Lega's standing in Parliament, ensuring Salvini could become the next Prime Minister. On 20 August, following the parliamentary debate in which Conte harshly accused Salvini of being a political opportunist who "had triggered the political crisis only to serve his personal interest", the Prime Minister resigned his post to President Sergio Mattarella. On 21 August, Mattarella started the consultations with all the parliamentary groups. On the same day, the national direction of the Democratic Party (PD) officially opened to a cabinet with the Five Star Movement, based on pro-Europeanism, green economy, sustainable development, fight against economic inequality and a new immigration policy. On 28 August, Democratic Party's leader announced at the Quirinal Palace his favorable position on forming a new government with the Five Stars with Giuseppe Conte at its head. On same day, Mattarella summoned Conte to give him the task of forming a new cabinet. On 9-10 September 2019 the Chamber of Deputies and the Senate of the Republic granted the confidence to the new government.

Great Britain

Britain's gross domestic product expanded 1.2% yoy in Q2 of 2019, slowing from 1.8% in the previous period. It has not been weaker since the start of 2018. On the expenditure side, household expenditure rose 1.8% in Q2 (vs 1.9% in Q1); and government spending advanced 2.7% (vs 1.6% in Q1). Meanwhile, fixed investment growth slowed to 0.5% (vs 0.9% in Q1) amid a further decline in business investment (-1.6% vs -1.5%). On the production side, the service industries expanded 1.6% (vs 2.1% in Q1). Industrial production fell 0.5% (vs 0.3% in Q1), as output contracted for manufacturing (-0.9% vs 0.9%) and utilities (-0.3% vs -6.3%). The UK unemployment rate fell to 3.8% in the three months to July 2019, back to its joint lowest since the October to December 1974 period. Total pay growth picked up to 4%, the fastest since mid-2008. The consumer price inflation rate in the United Kingdom rose to 2.1% yoy in July 2019. British Parliament has passed a law that aims to block the UK leaving the EU without a deal on 31 October. The new law tries to avoid a no-deal Brexit on 31 October, but it can't rule out a no-deal Brexit in the future.

Britain's gross domestic product expanded 1.2% yoy in Q2 of 2019, slowing from 1.8% in the previous period and missing market consensus of 1.4%. It has not been weaker since the start of 2018. On the expenditure side, household expenditure rose 1.8% in the second quarter (vs 1.9% in Q1); and government spending advanced 2.7% (vs 1.6% in Q1). Meanwhile, fixed investment growth slowed to 0.5% (vs 0.9% in Q1) amid a further decline in business investment (-1.6% vs -1.5%). Exports rose 0.5%, after a 3% advance in Q1; while imports fell 0.8%, compared to a 14.3% jump in the previous period. As a result, the trade deficit narrowed to GBP 4.373 billion from GBP 6.286 billion in Q2 2018. On the production side, the service industries expanded 1.6% (vs 2.1% in Q1) as output rose for: distribution, hotels and restaurants (2.6% vs 4.4%); transport storage and communications (4.6% vs 4.8%); business services and finance (0.7% vs 0.8%); and government and other services (0.9% vs 1.2%). Industrial production fell 0.5% (vs 0.3% in Q1), as output contracted for manufacturing (-0.9% vs 0.9%) and utilities (-0.3% vs -6.3%). By contrast, mining and quarrying output grew 1.9% (vs 4.9% in Q1) and water supply, sewerage, waste management and remediation activities rose 0.9% (vs 0.5% in Q1). Construction expansion slowed to 1.4% from 3.2% in Q1. The UK unemployment rate fell to 3.8% in the three months to July 2019, back to its joint lowest since the October to December 1974 period and slightly below market expectations of 3.9%. Unemployment declined by 11,000 to 1.294 million and employment rose by 31,000 to 32.777 million, below forecasts of a 53,000 increase. Meanwhile, total pay growth picked up to 4%, the fastest since mid-2008. The consumer price inflation rate in the United Kingdom rose to 2.1% yoy in July 2019, beating market expectations of 1.9%. The annual core inflation rate, which excludes prices of energy, food, alcohol and tobacco, advanced to 1.9% in July, the highest in six months. On a monthly basis, consumer prices were flat 0% for the second straight month, defying market consensus of a -0.1% fall. British Parliament has passed a law that aims to block the UK leaving the EU without a deal on 31 October. Under the act Boris Johnson might have to request a Brexit extension on 19 October, pushing the deadline back to 31 January 2020. But there are two scenarios in which he would not have to do this: 1)British Parliament approves a Brexit deal in another meaningful vote or 2)British Parliament votes in favour of leaving the EU without a deal. In either of these scenarios, the law would not force any Brexit extension to be requested. The law states that it is the prime minister himself who would have to request an extension directly to the president of the European Council. It even includes the exact wording of the letter. The new law tries to avoid a no-deal Brexit on 31 October, but it can't rule out a no-deal Brexit in the future

USA

The US economy grew by an annualized 2% in Q2 of 2019, slightly below a preliminary estimate of 2.1%. The revision primarily reflected downward revisions to state and local government spending, exports, private inventory investment, and residential investment that were partly offset by an upward revision to personal consumption expenditures (PCE). 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 Gross Domestic Product (GDP) in the United States expanded 2.30% yoy in the second quarter of 2019 over the same quarter of the previous year. The US unemployment rate came in at 3.7% in August 2019, unchanged from the previous two month's figures. The US annual inflation rate fell to 1.7% in August 2019 from 1.8% in the previous month.

The US economy grew by an annualized 2% in Q2 of 2019, slightly below a preliminary estimate of 2.1% and following a 3.1% expansion in the previous three-month period, the second estimate showed. The revision primarily reflected downward revisions to state and local government spending, exports, private inventory investment, and residential investment that were partly offset by an upward revision to personal consumption expenditures (PCE).

The Gross Domestic Product (GDP) in the United States expanded 2.30% yoy in the second quarter of 2019 over the same quarter of the previous 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. The US unemployment rate came in at 3.7% in August 2019, unchanged from the previous two month's figures and in line with market expectations. The number of unemployed persons decreased by 19 thousand to 6.0 million while employment rose by 590 thousand to 157.9 million. The US annual inflation rate fell to 1.7% in August 2019 from 1.8% in the previous month and below market consensus of 1.8%. The core inflation rate, which excludes volatile items such as food and energy, rose to 2.4% in August, the highest in a year and above market consensus of 2.3%. On a monthly basis, consumer prices advanced 0.1% in August, after a 0.3% gain in July and in line with market forecasts.

Japan

Japan's quarterly economic growth was revised lower to 0.3% in Q2 of 2019 from a preliminary estimate of 0.4% and compared to the previous period's 0.5% growth. There was a sharp downward revision of capital expenditure amid weakness in the global economy and worsening trade protectionism. On an annualized basis, the economy grew 1.3% in Q2, weaker than the preliminary reading of 1.8% and after a revised 2.2% expansion in the previous quarter. The unemployment rate in Japan fell to 2.2% in July 2019, the lowest since October 1992. Japan's consumer price inflation fell to 0.5% yoy in July 2019 from 0.7% in the previous month. Annual core consumer inflation, which excludes fresh food, was at 0.6% in July, unchanged from June's 2-year low. The latest reading remained well below the Bank of Japan's 2% target.

Japan's quarterly economic growth was revised lower to 0.3% in Q2 of 2019 from a preliminary estimate of 0.4% and compared to the previous period's 0.5% growth. There was a sharp downward revision of capital expenditure amid weakness in the global economy and worsening trade protectionism. In the June quarter, positive contributions came from private demand (0.3%), while changes in private inventories were neutral. On the other hand, net exports contributed negatively to the GDP. Capital spending rose just 0.2% in the second quarter, much lower than a preliminary 1.5% rise and compared to a 0.2% contraction in the previous three-month period. Private consumption, which accounts for some 60% of GDP, increased 0.6%, the most in two years, after showing no growth in the first quarter. Also, public investment rose 1.8%, the most since Q2 2017 and faster than a preliminary 1%. Exports of goods and services were flat (0% vs -2% in Q1), while imports jumped (1.7% vs -4.3% in Q1). On an annualized basis, the economy grew 1.3% in the second quarter, weaker than the preliminary reading of 1.8% and after a revised 2.2% expansion in the previous quarter. The unemployment rate in Japan fell to 2.2% in July 2019, the lowest since October 1992 and below market expectations of 2.4%. The jobs-to-applications ratio declined to 1.59, the lowest since March 2018 and also below consensus of 1.61. Japan's consumer price inflation fell to 0.5% yoy in July 2019 from 0.7% in the previous month and in line with market expectations. This was the lowest inflation rate since March, amid a slowdown in food prices and a further fall in cost of transport and communication. Annual core consumer inflation, which excludes fresh food, was at 0.6% in July, unchanged from June's 2-year low and also matching estimates. The latest reading remained well below the Bank of Japan's 2% target.

China

China's slowdown deepens, industrial output growth falls to 17-1/2 year low. Industrial output growth unexpectedly weakened to 4.4% in August from the same period a year earlier, the slowest pace since February 2002 and receding from 4.8% in July. Retail sales missed expectations, with growth easing to 7.5%, from 7.6% in July. Fixed-asset investment also disappointed. It rose 5.5% for the first eight months of the year from the same period in 2018, down from Jan-July's 5.7%. Premier Li Keqiang said in an interview published ahead of the data on 16.09.2019 that it was "very difficult" for the economy to grow at 6% or more and that it faced "downward pressure". China's annual inflation rate was at 2.8% in August 2019, unchanged from the previous month. It remained the highest consumer inflation rate since February 2018, driven by persistently high pork prices amid an outbreak of African swine fever. China's producer price index fell 0.8% yoy in August 2019, following a 0.3% decrease in the previous. It was the sharpest fall in producer prices since August 2016. The protracted trade war escalated dramatically last month, with President Donald Trump announcing new tariffs on Chinese goods from Sept. 1, and China letting its yuan currency sharply weaken days later. After Beijing hit back with retaliatory tariffs, Trump said existing levies would also be raised in coming months, in October and December. Both sides have taken steps to show goodwill, and U.S. officials are considering an interim deal to delay tariffs with China, according to Bloomberg.

China's slowdown deepens; industrial output growth falls to 17 year low. Industrial output growth unexpectedly weakened to 4.4% in August from the same period a year earlier, the slowest pace since February 2002 and receding from 4.8% in July. Analysts polled by Reuters had forecast a pick-up to 5.2%. In particular, the value of delivered industrial exports fell 4.3% yoy, the first monthly decline since at least two years, Reuters records showed, reflecting the toll that the escalating Sino-U.S. trade war is taking on Chinese manufacturers. Retail sales missed expectations, with growth easing to 7.5%, from 7.6% in July. Analysts had forecast a slight rebound to 7.9%. Growth in sales of consumer goods slowed to 7.2%, the lowest since April this year. Auto sales have slumped all year, prompting the statistics bureau to recently start reporting a new reading on consumption. Fixed-asset investment also disappointed. It rose 5.5% for the first eight months of the year from the same period in 2018, down from Jan-July's 5.7%. Analysts had expected 5.6%. Industrial investment appeared to be the main drag as investment growth in the mining and the manufacturing sectors eased off in the first eight months. But infrastructure investment - a key driver of growth - picked up to 4.2% in the first eight months this year, from 3.8% in January-July period. Premier Li Keqiang said in an interview published ahead of the data on 16.09.2019 that it was "very difficult" for the economy to grow at 6% or more and that it faced "downward pressure". 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 was at 2.8% in August 2019, unchanged from the previous month and above market forecasts of 2.6%. It remained the highest consumer inflation rate since February 2018, driven by persistently high pork prices amid an outbreak of African swine fever. Annual core inflation, which strips out volatile food and energy prices, edged down to 1.5% in August from 1.6% in July. On a monthly basis, consumer prices went up 0.7% in August, the most since February, following a 0.4% gain in July and higher than market expectations of a 0.5% rise. China's producer price index fell 0.8% yoy in August 2019, following a 0.3% decrease in the previous month and compared with market expectations of a 0.9% decline. It was the sharpest fall in producer prices since August 2016. The protracted trade war escalated dramatically last month, with President Donald Trump announcing new tariffs on Chinese goods from Sept. 1, and China letting its yuan currency sharply weaken days later. After Beijing hit back with retaliatory tariffs, Trump said existing levies would also be raised in coming months, in October and December. While the two sides are set to resume face-to-face negotiations in early October, Reuters analysts do not expect a durable trade deal, or even a significant de-escalation, any time soon. Negotiators from China and the U.S. plan to have two rounds of face-to-face negotiations in coming weeks. Both sides have taken steps to show goodwill, and U.S. officials are considering an interim deal to delay tariffs with China, according to Bloomberg.

Turkey

The Turkish economy shrank by -1.5% yoy in Q2 of 2019, easing from a downwardly revised -2.4% contraction in the previous three-month period. On the expenditure side, household consumption decreased -1.1% in the second quarter (vs -4.8% in Q1); and fixed investment plummeted -22.8% (vs -12.4% in Q1). Meanwhile, government spending went up 3.3% (vs 6.6% in Q1), and net external demand contributed positively to the GDP growth. On the production side, services output dropped -0.3% (vs -3.4% in Q1), mainly due to professional, administrative and support service activities (-4.3% vs -12.5%) and other service activities (-2.9% vs -1.7%). On a seasonally adjusted quarterly basis, the economy expanded by 1.2% in Q2, following an upwardly revised 1.6% growth in the previous period. Turkey's unemployment rate rose to 13.0% in June 2019 from 10.2% in the same period of the previous year. Turkey's annual inflation rate fell to 15.01% in August of 2019 from 16.65% in the previous month. A Turkish regulator on Tuesday told banks to write off USD 8.1 billion of loans by year end and set aside loss reserves. The regulation is aimed mostly at loans made to the hard-hit energy and construction sectors, and is expected to raise banks' non-performing loan (NPL) ratio to 6.3% from 4.6%.

The Turkish economy shrank by -1.5% yoy in Q2 of 2019, easing from a downwardly revised -2.4% contraction in the previous three-month period and compared with market expectations of -2% fall. On the expenditure side, household consumption decreased -1.1% in Q2 (vs -4.8% in Q1); and fixed investment plummeted -22.8% (vs -12.4% in Q1). Meanwhile, government spending went up 3.3% (vs 6.6% in Q1), and net external demand contributed positively to the GDP growth, as exports jumped 8.1% (vs 9.2% in Q1) buoyed by a persistent currency weakness and imports tumbled -16.9% (vs -28.9% in Q1). On the production side, services output dropped -0.3% (vs -3.4% in Q1), mainly due to professional, administrative and support service activities (-4.3% vs -12.5%) and other service activities (-2.9% vs -1.7%); while growth was recorded for information and communication (2.4% vs 1.4%), financial and insurance activities (9.3% vs 2.1%), real estate activities (2.8% vs 1.6%), and public administration, education, human health and social work activities (2.5% vs 8.9%). In addition, agriculture, forestry and fishing grew at a faster pace (3.4% vs 1.3%). Meanwhile, industrial output slumped -2.7% (vs -3.9% in Q1) due to manufacturing weakness (-3.3% vs -4.2%), while construction output tumbled -12.7% (vs -9.3% in Q1). On a seasonally adjusted quarterly basis, the economy expanded by 1.2% in the second quarter, following an upwardly revised 1.6% growth in the previous period. Turkey's unemployment rate rose to 13.0% in June 2019 from 10.2% in the same period of the previous year. The non-agricultural jobless rate jumped to 15.3% in June from 12.1% in the previous year.

Youth unemployment rate, measuring job-seekers between 15 and 24 years old, also rose to 24.8% from 19.4% in the same month a year ago. On a seasonally adjusted basis, the unemployment rate went down to 13.9% in June from 14.0% in May, which was the highest level since at least January 2005. Turkey's annual inflation rate fell to 15.01% in August of 2019 from 16.65% in the previous month and below market expectations of 15.51%. It was the lowest rate since May 2018. Annual core inflation rate, which excludes energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold, eased to 13.60% in August from 16.20% in the July. On a monthly basis, consumer prices went up 0.86%, slowing from a 1.36% gain in July and below market expectations of 1.3%. A Turkish regulator on Tuesday told banks to write off USD 8.1 billion of loans by year end and set aside loss reserves, one of Ankara's most aggressive moves to clean up the worst remnants of currency crisis. The regulation is aimed mostly at loans made to the hard-hit energy and construction sectors, and is expected to raise banks' non-performing loan (NPL) ratio to 6.3% from 4.6%, the Reuters analyst said. The Turkish banks' capital adequacy ratio, or CAR, would slip by 50 basis points to a still high 17.7%, due in part to the dictate on non-performing loans.

POLICY OF THE CENTRAL BANKS

European Central Bank (ECB)

At 12 September 2019 meeting the Governing Council of the ECB took the following monetary policy decisions: (1) The interest rate on the deposit facility will be decreased by 10 basis points to -0.50%. The interest rate on the main refinancing operations and the rate on the marginal lending facility will remain unchanged at their current levels of 0.00% and 0.25% respectively. (2) Net purchases will be restarted under the Governing Council's asset purchase programme (APP) at a monthly pace of €20 billion as from 1 November. (3) Reinvestments of the principal payments from maturing securities purchased under the APP will continue, in full, for an extended period of time past the date when the Governing Council starts raising the key ECB interest rates. (4) The modalities of the new series of quarterly targeted longer-term refinancing operations (TLTRO III) will be changed to preserve favourable bank lending conditions, ensure the smooth transmission of monetary policy and further support the accommodative stance of monetary policy. (5) In order to support the bank-based transmission of monetary policy, a two-tier system for reserve remuneration will be introduced, in which part of banks' holdings of excess liquidity will be exempt from the negative deposit facility rate.

At 12 September 2019 meeting the Governing Council of the ECB took the following monetary policy decisions: (1) The interest rate on the deposit facility will be decreased by 10 basis points to -0.50%. The interest rate on the main refinancing operations and the rate on the marginal lending facility will remain unchanged at their current levels of 0.00% and 0.25% respectively. The Governing Council now expects the key ECB interest rates to remain at their present or lower levels until it has seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within its projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics. (2) Net purchases will be restarted under the Governing Council's asset purchase programme (APP) at a monthly pace of €20 billion as from 1 November. The Governing Council expects them to run for as long as necessary to reinforce the accommodative impact of its policy rates, and to end shortly before it starts raising the key ECB interest rates. (3) Reinvestments of the principal payments from maturing securities purchased under the APP will continue, in full, for an extended period of time past the date when the Governing Council 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. (4) The modalities of the new series of quarterly targeted longer-term refinancing operations (TLTRO III) will be changed to preserve favourable bank lending conditions, ensure the smooth transmission of monetary policy and further support the accommodative stance of monetary policy. The interest rate in each operation will now be set at the level of the average rate applied in the Eurosystem's main refinancing operations over the life of the respective TLTRO. For banks whose eligible net lending exceeds a benchmark, the rate applied in TLTRO III operations will be lower, and can be as low as the average interest rate on the deposit facility prevailing over the life of the operation. The maturity of the operations will be extended from two to three years. (5) In order to support the bank-based transmission of monetary policy, a two-tier system for reserve remuneration will be introduced, in which part of banks' holdings of excess liquidity will be exempt from the negative deposit facility rate. The two-tier system will apply to excess liquidity held in current accounts with the Eurosystem but will not apply to holdings at the ECB's deposit

The volume of reserve holdings in excess of minimum reserve requirements that will be exempt from the deposit facility rate – the exempt tier – will be determined as a multiple of an institution's minimum reserve requirements. The multiplier will be the same for all institutions. The Governing Council will set the multiplier such that euro short-term money market rates are not unduly influenced. The two-tier system will first be applied in the seventh maintenance period of 2019 starting on 30 October 2019. The multiplier that will be applicable as of that maintenance period will be set at 6. The multiplier may be adjusted by the Governing Council in line with changing levels of excess liquidity holdings. Any adjustment to the multiplier will be announced and will apply as of the following maintenance period after such decision is made. The size of the exempt tier is determined on the basis of average end-of-calendar-day balances in the institutions' reserve accounts over a maintenance period. The exempt tier of excess liquidity holdings will be remunerated at an annual rate of 0%. The non-exempt tier of excess liquidity holdings will continue to be remunerated at zero percent or the deposit facility rate, whichever is lower.

Bank of England (BoE)

At its meeting ending on 18 September 2019, the Bank of England's Monetary Policy Committee (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. It is possible that political events could lead to a further period of entrenched uncertainty about the nature of, and the transition to, the United Kingdom's eventual future trading relationship with the European Union. The longer those uncertainties persist, particularly in an environment of weaker global growth, the more likely it is that demand growth will remain below potential, increasing excess supply. In such an eventuality, domestically generated inflationary pressures would be reduced. In the event of a no-deal Brexit, the exchange rate would probably fall, CPI inflation rise and GDP growth slow. The Committee's interest rate decisions would need to balance the upward pressure on inflation, from the likely fall in sterling and any reduction in supply capacity, with the downward pressure from any reduction in demand. In this eventuality, the monetary policy response would not be automatic and could be in either direction.n the event of greater clarity that the economy is on a path to a smooth Brexit, and assuming 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. In all circumstances, the Committee will set monetary policy appropriately to achieve the 2% inflation target.

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 18 September 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 the MPC's previous meeting, the trade war between the United States and China has intensified, and the outlook for global growth has weakened. Monetary policy has been loosened in many major economies. Shifting expectations about the potential timing and nature of Brexit have continued to generate heightened volatility in UK asset prices, in particular the sterling exchange rate has risen by over 3.5%. Brexit-related developments are making UK economic data more volatile, with GDP falling by 0.2% in 2019 Q2 and now expected to rise by 0.2% in Q3. The Committee judges that underlying growth has slowed, but remains slightly positive, and that a degree of excess supply appears to have opened up within companies. Brexit uncertainties have continued to weigh on business investment, although consumption growth has remained resilient, supported by continued growth in real household income. The weaker global backdrop is weighing on exports. The Government has announced a significant increase in departmental spending for 2020-21, which could raise GDP by around 0.4% over the MPC's forecast period, all else equal. CPI inflation fell to 1.7% in August, from 2.1% in July, and is expected to remain slightly below the 2% target in the near term. The labour market appears to remain tight, with the unemployment rate having been just under 4% since the beginning of this year. Annual pay growth has strengthened further to the highest rate in over a decade. Unit wage cost growth has also risen, to a level above that consistent with meeting the inflation target in the medium term. The labour market does not appear to be tightening further, however, with official and survey measures of employment growth softening. For most of the period following the EU referendum, the degree of slack in the UK economy has been falling and global growth has been relatively strong. Recently, however, entrenched Brexit uncertainties and slower global growth have led to the re-emergence of a margin of excess supply. Increased uncertainty about the nature of EU withdrawal means that the economy could follow a wide range of paths over coming years.

The appropriate response of monetary policy will depend on the balance of the effects of Brexit on demand, supply and the sterling exchange rate. It is possible that political events could lead to a further period of entrenched uncertainty about the nature of, and the transition to, the United Kingdom's eventual future trading relationship with the European Union. The longer those uncertainties persist, particularly in an environment of weaker global growth, the more likely it is that demand growth will remain below potential, increasing excess supply. In such an eventuality, domestically generated inflationary pressures would be reduced. In the event of a no-deal Brexit, the exchange rate would probably fall, CPI inflation rise and GDP growth slow. The Committee's interest rate decisions would need to balance the upward pressure on inflation, from the likely fall in sterling .The Committee's interest rate decisions would need to balance the upward pressure on inflation, from the likely fall in sterling and any reduction in supply capacity, with the downward pressure from any reduction in demand. In this eventuality, the monetary policy response would not be automatic and could be in either direction. In the event of greater clarity that the economy is on a path to a smooth Brexit, and assuming 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. 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.

USA Federal Reserve

Federal Reserve issues FOMC statement September 18, 2019. Although household spending has been rising at a strong pace, business fixed investment and exports have weakened. 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 FOMC 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 FOMC decided to lower the target range for the federal funds rate to 1.75% to 2%. As the FOMC 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. Economic Projections from the September 17 - 18 Federal Open Market Committee meeting. The Federal Reserve on September 18 2019 signaled easing interest rates this year but signaled no interest rate cuts in 2020 following its two-day monetary policy-setting meeting. The so-called dot plot, in which individual Federal Reserve map his forecasts for interest rates, showed the Federal Reserve sees no further rate cuts in 2019 and 2020.

Federal Reserve issues FOMC statement September 18, 2019. Information received since the Federal Open Market FOMC met in July 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 household spending has been rising at a strong pace, business fixed investment and exports have weakened. 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 FOMC 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 FOMC decided to lower the target range for the federal funds rate to 1.75% to 2%. This action supports the FOMC's view that sustained expansion of economic activity, strong labor market conditions, and inflation near the FOMC's symmetric 2% objective are the most likely outcomes, but uncertainties about this outlook remain. As the FOMC 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 FOMC 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. Economic Projections from the September 17 - 18 Federal Open Market Committee meeting. The Federal Reserve on September 18 2019 signaled easing interest rates this year but signaled no interest rate cuts in 2020 following its two-day monetary policy-setting meeting. The so-called dot plot, in which individual Federal Reserve map his forecasts for interest rates, showed the Federal Reserve sees no further rate cuts in 2019 and 2020. Other Economic Projections: The median projection for 2019 GDP growth was changed at 2.2% from 2.1% and there are no revisions in 2020 and 2021; The median unemployment rate forecasts in 2019 is higher by a 0.1%. There are no revisions in 2020 and 2021; Officials see the jobless rate most consistent with full employment in the long run at 4.2%, the same as in June; Officials didn't change estimates for their preferred inflation gauge. The personal consumption expenditures price index is expected to increase just 1.5% in 2019. By 2020, the main and core gauges are both projected to rise 1.9%, below the target.

Bank of Japan (BoJ)

At the Monetary Policy Meeting (MPM) held September 19, 2019, the Policy Board of the Bank of Japan 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 of Japan 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 of Japan. The long-term interest rate: The Bank of Japan will purchase Japanese government bonds (JGBs) so that 10-year JGB yields will remain at around 0%. In regard to the amount of JGBs to be purchased, the Bank of Japan will conduct purchases in a flexible manner so that their amount outstanding will increase at an annual pace of about JPY 80 trillion. The Bank of Japan 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 yen and about JPY 90 billion, respectively. As for CP and corporate bonds, the Bank of Japan will maintain their amounts outstanding at about JPY 2.2 trillion and about JPY 3.2 trillion, respectively. The Bank of Japan 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 CPI (all items less fresh food) exceeds 2% and stays above the target in a stable manner. As for policy rates, the Bank of Japan 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. In particular, in a situation where downside risks to economic activity and prices, mainly regarding developments in overseas economies, are significant, the Bank of Japan 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.

Bank of Japan Statement on Monetary Policy September 19, 2019. At the Monetary Policy Meeting (MPM) held September 19, 2019, the Policy Board of the Bank of Japan of Japan 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 of Japan 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 of Japan. The long-term interest rate: The Bank of Japan 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. With regard to the amount of JGBs to be purchased, the Bank of Japan will conduct purchases in a flexible manner so that their amount outstanding will increase at an annual pace of about JPY 80 trillion. With regard to asset purchases other than JGB purchases, the Bank of Japan decided, by a unanimous vote, to set the following guidelines. The Bank of Japan 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 yen and about JPY 90 billion, respectively. With a view to lowering risk premia of asset prices in an appropriate manner, the Bank of Japan may increase or decrease the amount of purchases depending on market conditions. As for CP and corporate bonds, the Bank of Japan will maintain their amounts outstanding at about JPY 2.2 trillion and about JPY 3.2 trillion, respectively. Japan's economy has been on a moderate expanding trend, with a virtuous cycle from income to spending operating, although exports, production, and business sentiment have been affected by the slowdown in overseas economies. Overseas economies have been growing moderately on the whole, although slowdowns have continued to be observed. In this situation, exports have shown some weakness. On the other hand, with corporate profits staying at high levels on the whole, business fixed investment has continued on an increasing trend. Private consumption has been increasing moderately, albeit with fluctuations, against the background of steady improvement in the employment and income situation. Housing investment and public investment have been more or less flat. Although exports have shown some weakness, industrial production also has been more or less flat, reflecting the increase in domestic demand, and labor market conditions have remained tight. Meanwhile, financial conditions are highly accommodative. On the price front, the yoy rate of change in the consumer price index (CPI, all items less fresh food) is at around 0.5%. Inflation expectations have been more or less unchanged. With regard to the outlook, Japan's economy is likely to continue on a moderate expanding trend, despite being affected by the slowdown in overseas economies for the time being. Domestic demand is expected to follow an uptrend, with a virtuous cycle from income to spending being maintained in both the corporate and household sectors, mainly against the background of highly accommodative financial conditions and the underpinnings through government spending, despite being affected by such factors as the scheduled consumption tax hike. Although exports are projected to show some weakness for the time being, they are expected to be on a moderate increasing trend on the back of overseas economies growing moderately on the whole. The yoy rate of change in the CPI is likely to increase gradually toward 2%, mainly on the back of the output gap remaining positive and medium- to long-term inflation expectations rising. Risks to the outlook include the following: the U.S. macroeconomic policies and their impact on global financial markets; the consequences of protectionist moves and their effects; developments in emerging and commodity-exporting economies such as China, including the effects of the two aforementioned factors; developments in global adjustments in IT-related goods; negotiations on the United Kingdom's exit from the European Union (EU) and their effects; and geopolitical risks. Downside risks concerning overseas economies seem to be increasing, and it also is necessary to pay close attention to their impact on firms' and households' sentiment in Japan.

The Bank of Japan 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 CPI (all items less fresh food) exceeds 2% and stays above the target in a stable manner. As for policy rates, the Bank of Japan 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 of Japan 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. Given that, recently, slowdowns in overseas economies have continued to be observed and their downside risks seem to be increasing, the Bank of Japan judges that it is becoming necessary to pay closer attention to the possibility that the momentum toward achieving the price stability target will be lost. Taking this situation into account, the Bank of Japan will reexamine economic and price developments at the next MPM, when it updates the outlook for economic activity and prices.

PBoC

People's Bank of China (PBOC) has decided to lower the required reserve ratio for financial institutions by 0.5% on September 16, 2019 (excluding finance companies, financial leasing companies, and auto finance companies). In addition, in an effort to increase the support for micro and small businesses and private enterprises, rural commercial banks operating solely within provincial administrative regions will additionally enjoy a targeted cut of 1% in the required reserve ratio. Long-term funds worth around CNY 900 billion will be released. In specific, around CNY 800 billion will be released from the comprehensive required reserve ratio cut, and around CNY 100 billion from the targeted cut.

Aiming to further support the development of the real economy and lower financing costs, the People's Bank of China (PBOC) has decided to lower the required reserve ratio for financial institutions by 0.5% on September 16, 2019 (excluding finance companies, financial leasing companies, and auto finance companies). In addition, in an effort to increase the support for micro and small businesses and private enterprises, rural commercial banks operating solely within provincial administrative regions will additionally enjoy a targeted cut of 1% in the required reserve ratio. The reduction will be implemented on October 15 and November 15, with a cut of 0.5% each time. Long-term funds worth around CNY 900 billion will be released. In specific, around CNY 800 billion will be released from the comprehensive required reserve ratio cut, and around CNY 100 billion from the targeted cut. The PBOC will continue to implement the sound monetary policy, focus on targeted adjustment instead of massive supply of liquidity, strike a balance both internally and externally, intensify the countercyclical adjustments, keep the liquidity reasonably adequate, maintain the growth of broad money (M2) and aggregate financing to the real economy (AFRE) basically aligned with that of nominal GDP, so as to create a favorable monetary and financial environment for high-quality economic development and the supply-side structural reforms.

Central Bank of Turkey

12 September 2019 Decision of the Monetary Policy Committee. The Monetary Policy Committee (the Committee) has decided to reduce the policy rate (one-week repo auction rate) from 19.75% to 16.50%. Inflation outlook continued to improve. In addition to the stable course of the Turkish lira, improvement in inflation expectations and mild domestic demand conditions supported the disinflation in core indicators. In August, consumer inflation displayed a significant fall with the contribution of core goods, energy and food groups. Domestic demand conditions and the level of monetary tightness 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 July 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 325 basis points. At this point, the current monetary policy stance, to a large part, is considered to be consistent with the projected disinflation path.

Decision of the Monetary Policy Committee of Central bank of Turkey 12 September 2019. The Monetary Policy Committee (the Committee) has decided to reduce the policy rate (one-week repo auction rate) from 19.75% to 16.50%. Recently released data indicate that moderate recovery in economic activity continues. In the first half of the year, the contribution of net exports to economic growth continued, while investment demand remained weak and the contribution of private consumption gradually increased. 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. Leading indicators point to a partial improvement in the sectoral diffusion of economic activity. Looking forward, net exports are expected to contribute to economic growth and the gradual recovery is likely to continue with the help of the disinflation trend and the 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, advanced economy central banks have started to adopt more expansionary policies as global economic activity weakened and downside risks to inflation heightened. 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 addition to the stable course of the Turkish lira, improvement in inflation expectations and mild domestic demand conditions supported the disinflation in core indicators. In August, consumer inflation displayed a significant fall with the contribution of core goods, energy and food groups. Domestic demand conditions and the level of monetary tightness 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 July 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 325 basis points. At this point, the current monetary policy stance, to a large part, is considered to be consistent with the projected disinflation path. 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.

INTERNATIONAL COMMODTITY PRICES

Petrol

Oil prices are on track to rise more than 7%, the highest jump since months. The appreciation on 20.09.2019 came after a Saudi-led international coalition launched a military operation north of the port city of Hodeida in Yemen. In the meantime, the US continues to work with countries in the Middle East and Europe in an attempt to form a coalition against Iran following a drone attack on Saudi oil targets in 14.09.2019. The price of Brent increased by 0.29 USD/BBL or 0.45% to 64.74 USD/BBL, or the increase was 7.48%. In turn, the price of crude oil goes up by 0.45 USD/BBL or 0.77% to 58.67 USD/BBL, or the increase was 6.99%. Production in Saudi Arabia has fallen by almost half since the September 14, 2019 attack on a country's key crude oil refinery. Authorities in Riyadh have promised that production will be restored by the end of the month, and by the end of November capacity in the kingdom will once again return to its level of 12 million BBL per day. The US and Saudi Arabia blame Iran for the drone attack.

Oil prices are on track to rise more than 7%, the highest jump since months as it continues to rise in Asian trade. The appreciation on 20.09.2019 came after a Saudi-led international coalition launched a military operation north of the port city of Hodeida in Yemen. In the meantime, the US continues to work with countries in the Middle East and Europe in an attempt to form a coalition against Iran following a drone attack on Saudi oil targets in 14.09.2019. The price of Brent increased by 0.29 USD/BBL or 0.45% to 64.74 USD/BBL, or the increase was 7.48%. In turn, the price of crude oil goes up by 0.45 USD/BBL or 0.77% to 58.67 USD/BBL, or the increase was 6.99%. Production in Saudi Arabia has fallen by almost half since the September 14, 2019 attack on a country's key crude oil refinery. Authorities in Riyadh have promised that production will be restored by the end of the month, and by the end of November capacity in the kingdom will once again return to its level of 12 million BBL per day. The US and Saudi Arabia blame Iran for the drone attack. The tropical storm Imelda, which forced a leading U.S. refinery to cut production and another key pipeline, as well as Texas terminals and canals, had to end the transfer of raw materials contributed to the rise in oil prices.

Agricultural Goods

After the August FOB downturn, grain prices on global stock markets returned to normal levels. In the US, wheat has once again aroused the interest of mutual funds, they returned to the contract and the price rose from USD 17.00 to 215.00 USD/ton. France also went up, but much less - plus EUR 3.00 to 168.00 EUR/ton, and in Ukraine and Russia unanimous change down to 184.00 USD/ton respectively minus USD -3.00 and minus USD -5.00. For maize, the movement overseas is almost imperceptible, plus USD 1.00 to 160.00 USD/ton, in France the corn added EUR 2.00 to 166.00 EUR/ton, and Ukraine for delivery November lowered the price again by minus USD -5.00 to 156.00 USD/ton. In the Grain sub-circle of the Sofia Commodity Exchange AD the quotations remain calm and slightly down. Wheat bread is offered from 310.00 BGN/ton to 350.00 BGN/ton. Feed wheat is offered at 290.00 BGN/ton, demand is at 250.00 BGN/ton.

Weekly Report of the Sofia Stock Exchange AD 10-13.09.2019. Fluctuations in harvest opinions eased in early September - this season proved to be good both quantitatively and qualitatively and after the August FOB downturn, grain prices on global stock markets returned to normal levels. In the US, wheat has once again aroused the interest of mutual funds, they returned to the contract and the price rose from USD 17.00 to 215.00 USD/ton. France also went up, but much less - plus EUR 3.00 to 168.00 EUR/ton, and in Ukraine and Russia unanimous change down to 184.00 USD/ton respectively minus USD -3.00 and minus USD -5.00. For maize, the movement overseas is almost imperceptible, plus USD 1.00 to 160.00 USD/ton, in France the corn added EUR 2.00 to 166.00 EUR/ton, and Ukraine for delivery November lowered the price again by minus USD -5.00 to 156.00 USD/ton. For barley, Ukraine quotes a unit down at 176.00USD/ton, while France trades in barley at 157.00 EUR/ton. Rapeseed in the European Union / Euronext / moved up by EUR 2.00 to 383.00 EUR/ton. Unrefined sunflower oil on the Rotterdam Stock Exchange went down USD 10.00 to 745.00 USD/ton. Refined sugar continues to fluctuate and this week is offset by moving up USD 12.60 to 317.00 USD/ton on the London Stock Exchange, with delivery coming in August. In the Grain sub-circle of the Sofia Commodity Exchange AD the quotations remain calm and slightly down. Wheat bread is offered from 310.00 BGN/ton to 350.00 BGN/ton. Feed wheat is offered at 290.00 BGN/ton, demand is at 250.00 BGN/ton. In the case of maize, there are also requests for purchases of 260.00-280.00 BGN/ton and supply of 290.00 BGN/ton, and forage barley is sold at 270.00 BGN/ton. All prices are without VAT.

BULGARIA

EXTERNAL SECTOR

Balance of payments

In January – July 2019 the current and capital account was positive amounting to EUR 3,564.7 million (6% of GDP), compared with a surplus of EUR 1,643 million (3% of GDP) in January – July 2018.

The current and capital account recorded a surplus of EUR 1110.7 million in July 2019, compared with a surplus of EUR 1059.8 million in July 2018. In January – July 2019 the current and capital account was positive amounting to EUR 3,564.7 million (6% of GDP), compared with a surplus of EUR 1,643 million (3% of GDP) in January – July 2018. The current account was positive amounting to EUR 955.9 million in July 2019, compared with a surplus of EUR 1002 million in July 2018. In January – July 2019 the current account was positive and amounted to EUR 2,975.6 million (5% of GDP), compared with a surplus of EUR 1,390.5 million (2.5% of GDP) in January – July 2018. The balance on goods recorded a deficit of EUR 8.9 million in July 2019, compared with a deficit of EUR 84.5 million in July 2018. In January – July 2019 the balance on goods was negative amounting to EUR 520.1 million (0.9% of GDP), compared with a deficit of EUR 1,177.3 million (2.1% of GDP) in January – July 2018. Exports of goods amounted to EUR 2,714.9 million in July 2019, increasing by EUR 162.3 million (6.4%) from July 2018 (EUR 2,552.6 million). In January – July 2019 exports of goods totalled EUR 16,564.2 million (28% of GDP), growing by EUR 840.5 million (5.3%) yoy (from EUR 15,723.6 million, 28.5% of GDP). In January – July 2018 exports grew by 2.8% year-on-year. Imports of goods amounted to EUR 2,723.8 million in July 2019, increasing by EUR 86.7 million (3.3%) from July 2018 (EUR 2,637.1 million). In January – July 2019 imports of goods totalled EUR 17,084.3 million (28.9% of GDP), growing by EUR 183.3 million (1.1%) from January – July 2018 (EUR 16,901 million, 30.6% of GDP). In January – July 2018 imports grew by 8.6% yoy. Services recorded a positive balance of EUR 739.1 million in July 2019, compared with a surplus of EUR 774.8 million in July 2018. In January – July 2019 services recorded a surplus of EUR 2,093.6 million (3.5% of GDP) compared with a positive balance of EUR 1,749.8 million (3.2% 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 surplus of EUR 70.7 million, compared with a deficit of EUR 48.6 million in July 20183. In January – July 2019 the balance on primary income was negative and equated to EUR 2.6 million, compared with a deficit of EUR 481.5 million (0.9% of GDP) in January – July 2018. The net secondary income (which reflects the redistribution of income) recorded a surplus of EUR 155 million, compared with a positive balance of EUR 360.3 million in July 2018. In January – July 2019 the net secondary income was positive amounting to EUR 1,404.7 million (2.4% of GDP), compared with a positive balance of EUR 1,299.5 million (2.4% of GDP) in the same period of 2018. The capital account recorded a surplus of EUR 154.8 million, compared with a positive balance of EUR 57.8 million in July 2018. In January – July 2019 the capital account recorded a surplus of EUR 589.1 million (1% of GDP), compared with a positive balance of EUR 252.5 million (0.5% of GDP) in January – July 2018. The financial account recorded a positive balance of EUR 667 million, compared with a positive value of EUR 655 million in July 2018. In January – July 2019 the financial account recorded a net inflow of EUR 1,744.7 million (2.9% of GDP) compared with an inflow of EUR 1,969.5 million (3.6% of GDP) in January – July 2018. The net direct investment compiled in accordance with the Sixth Edition of the Balance of Payments and International Investment Position Manual was positive amounting to EUR 38.8 million, compared with a negative balance of EUR 88.4 million in July 2018. In January – July 2019 direct investment recorded a negative balance of EUR 301.7 million (0.5% of GDP), compared with a negative balance of EUR 38.9 million (0.1% of GDP) in January – July 2018. Direct investment – assets grew by EUR 43.4 million compared with an increase of EUR 47.6 million in July 2018. In January – July 2019 direct investment – assets grew by EUR 171 million (0.3% of GDP) compared with an increase of EUR 418.2 million (0.8% of GDP) in the same period of 2018. Direct investment – liabilities grew by EUR 4.5 million in July 2019, compared with an increase of EUR 136 million in July 2018. In January – July 2019 direct investment – liabilities grew by EUR 472.7 million (0.8% of GDP), compared with an increase of EUR 457.1 million (0.8% of GDP) in the same period of 2018. The balance on portfolio investment was negative amounting to EUR 93.2 million, compared with a negative balance of EUR 60.8 million in July 2018. In January – July 2019 the balance was positive and equated to EUR 524.1 million (0.9% of GDP), compared with a positive balance of EUR 567.5 million (1% of GDP) million in January – July 2018. Portfolio investment – assets dropped by EUR 27 million compared to an increase of EUR 36.2 million in July 2018. In January – July 2019 they rose by EUR 535 million (0.9% of GDP) compared with an increase of EUR 529 million (1% of GDP) in January – July 2018.

Portfolio investment – liabilities grew by EUR 66.2 million compared with an increase of EUR 97 million in July 2018. In January – July 2019 portfolio investment – liabilities grew by EUR 10 million (0.02% of GDP) compared with a decline of EUR 38.5 million (0.1% of GDP) in January – July 2018. The balance on other investment was positive amounting to EUR 460.4 million, compared with a positive balance of EUR 532 million in July 2018. In January – July 2019 the balance was positive and equated to EUR 1,424.2 million (2.4% of GDP), compared with a positive balance of EUR 1,224.1 million (2.2% of GDP) in January – July 2018. Other investment – assets grew by EUR 610.3 million, compared with an increase of EUR 647.1 million in July 2018. In January – July 2019 they grew by EUR 1,457 million (2.5% of GDP) compared with an increase of EUR 1,555.5 million (2.8% of GDP) in January – July 2018. Other investment – liabilities grew by EUR 149.9 million compared with an increase of EUR 115.2 million in July 2018. In January – July 2019 they grew by EUR 32.7 million (0.1% of GDP) compared with an increase of EUR 331.4 million (0.6% of GDP) in January – July 2018. The BNB reserve assets5 grew by EUR 255.1 million, compared with an increase of EUR 287.7 million in July 2018. In January – July 2019 they grew by EUR 154.8 million (0.3% of GDP), compared with an increase of EUR 144.1 million (0.3% of GDP) in the same period of 2018. The net errors and omissions were negative amounting to EUR 443.7 million compared with a negative value of EUR 404.8 million in July 2018. According to preliminary data, the item was negative totaling EUR 1,820.1 million (3.1% of GDP) in January – July 2019, compared with a positive value of EUR 326.6 million (0.6% of GDP) in the same period of 2018.

Bulgaria: Balance of payments	July 2018	July 2019	Change in EUR million	January - July 2018	January - July 2019	Change in EUR million
Current and capital account	1059.8	1110.7	50.9	1643.0	3564.7	1921.8
Current account	1002.0	955.9	-46.1	1390.5	2975.6	1585.1
Trade balance	-84.5	-8.9	75.6	-1177.3	-520.1	657.2
Services, net	774.8	739.1	-35.7	1749.8	2093.6	343.8
Primary income, net	-48.6	70.7	119.3	-481.5	-2.6	479.0
Secondary income, net	360.3	155.0	-205.3	1299.5	1404.7	105.2
Capital account	57.8	154.8	96.9	252.5	589.1	336.6
Capital transfers, net	21.8	104.0	82.2	170.6	389.5	218.9
Financial account	655.0	667.0	12.0	1969.5	1744.7	-224.9
Source: BNB						

Foreign Direct Investments

In January-July 2019 the net flows of foreign direct investment in Bulgaria presented according to the directional principle recorded a a positive value of EUR 532.7 million (0.9% of GDP) in January – July 2019, growing by EUR 363.2 million from January – July 2018 (positive value of EUR 169.5 million, 0.3% of GDP).

According to BNB preliminary data, the net flows of foreign direct investment in Bulgaria presented according to the directional principle recorded a positive value of EUR 532.7 million (0.9% of GDP) in January – July 2019, growing by EUR 363.2 million from January – July 2018 (positive value of EUR 169.5 million, 0.3% of GDP). Foreign direct investment in Bulgaria recorded an inflow of EUR 8 million in July 2019, compared with an inflow of EUR 114.9 million in July 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 333.6 million in January – July 2019, dropping by EUR 324.2 million from a negative value of EUR 9.4 million in January – July 2018. Real estate investments of non-residents recorded a positive value of EUR 3.6 million, compared with EUR 12.9 million in January – July 2018. The largest inflow of real estate investment was from Russia (EUR 1.1 million), the Netherlands (EUR 0.6 million), and Latvia (EUR 0.6 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 negative value of EUR 72.1 million, compared with a positive one of EUR 26.5 million in January – July 2018. The net flow on debt instruments (the change in the net liabilities between affiliated enterprises on financial loans, suppliers' credits and debt securities) totaled EUR 938.4 million in January – July 2019, compared with EUR 152.4 million in January – July 2018. The largest net direct investment inflows in Bulgaria for January – July 2019 were from the Netherlands (EUR 221 million), Germany (EUR 188.6 million), and the UK (EUR 103.8 million). According to preliminary data, direct investment abroad recorded a positive value of EUR 231 million (0.4% of GDP), compared with a positive value of EUR 130.6 million (0.2% of GDP) in January – July 2018. It grew by EUR 46.8 million in July 2019, compared with EUR 26.5 million in July 2018. According to preliminary data, the stocks2 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).

International Reserves

In August 2019, the BNB's international reserves amounted to BGN 48.4 billion (EUR 24.7 billion), decreasing by 2.9% on a monthly basis, increasing by 5.3% on an annual basis

According to BNB data, international reserves amounted to BGN 48.4 billion (EUR 24.7 billion) at the end of August 2019 and decreased by 2.9% mom. On aa annual basis, the BNB's international reserves are up 5.3%. Cash and deposits in foreign currency amounted to BGN 17.7 billion and decreased by 13% mom and by 1.6% yoy, respectively. Investments in monetary gold amount to BGN 3.5 billion and increase by 7.4% mom and by 29.0% yoy, respectively. Investments in securities amounted to BGN 27.1 billion and increased by 2.1% mom and by 7.7% yoy. Money in circulation amounted to BGN 18.2 billion and increased by 2.1% mom and by 15.4% yoy. Liabilities to banks amount to BGN 12 billion and decrease by 3.4% mom and by 8.9% yoy, respectively. Investments in securities amounted to BGN 27.1 billion and increased by 2.1% mom and by 7.7% yoy, respectively. Money in circulation amounted to BGN 18.2 billion and increased by 2.1% mom and by 15.4% yoy, respectively. Liabilities to banks amounted to BGN 12 billion and decrease by 3.4% mom and by 8.9% yoy, respectively. Budget commitments amounted to BGN 9.6 billion and decreased by 18.8% mom and by 1.3% yoy, respectively as a result of covering part of the amount for US fighter jets from the country's fiscal reserve. Liabilities to other depositors amount to BGN 2.3 billion and are the level of the previous month on a monthly basis, but increase by 15.3% yoy. The deposit of the BNB "Banking" Department amounted to BGN 6.3 billion and increased by 4.5% mom and by 13.6% yoy, respectively. Bulgaria's international liquidity position, calculated as a ratio of international reserves to short-term external debt, is improving and at the end of June 2019 is 302% compared to 295.6% at the end of June 2018, gradually approaching the coverage ratio of 306.9% reported in December 2018.

Cover Ratio: Foreign reserves/Short term foreign debt (%)	July 2018	Aug 2018	Sep 2018	Oct 2018	Nov 2018	Dec 2018	Jan 2019	Feb 2019	March 2019	Apr 2019	May 2019	Jun 2019
Short-term foreign debt (EUR mn)	7 903	8 105	8 052	8 161	8 365	8168.7	8 206	8293.3	8427.2	8573.0	8353.3	8321.8
Foreign reserves (EUR mn)	23 731	23 960	24 540	24 137	24 161	25 072	24 398	24 767	25 026	24 760	24 784	25 130
Cover Ratio FR /STD(%)	**300.3**	**295.6**	**304.8**	**295.8**	**288.8**	**306.9**	**297.3**	**298.6**	**297.0**	**288.8**	**296.7**	**302.0**
Source: BNB, UBB's calculations												

REAL SECTOR

Gross Domestic Product (GDP)

In Q2 of 2019 Bulgaria's GDP at current prices amounted to 29 107 million. In Euro terms GDP is EUR 14 882 million or EUR 2 128 per person. According to NSI seasonally adjusted data, the GDP growth rate in Q2 of 2019 is 3.5% compared to the same quarter of the previous year and 0.8% compared to Q1 of 2019. In Bulgaria the economy will continue to grow in Q3 2019.even with slower trend. The weaker growth in the euro area countries, the 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, as well as the exalting crisis in Turkey 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 preliminary data, Bulgaria's GDP at current prices in Q2 of 2019 is BGN 29 107 million. The GDP per person amounted to BGN 4 162. In USD terms at average quarterly exchange rate of BGN 1.7398 per dollar, the GDP amounted to USD 16 730 million or USD 2 392 per person. Gross value added (GVA) at current prices in Q2 of 2019 equals to BGN 25 058 million. In the Q2 of 2019 compared with the second quarter of 2018, the relative share of the agricultural sector in the value added of the economy increases by 0.1 pps. The share of industrial sector decreases with 1.5 pps to 28.2%. The relative share of value added from service activities increases from 66.7% in Q2 of 2018, to 68.1 in Q2 of 2019. In the Q2 of 2019 the final consumption expenditure1 formed 74.6% of GDP. Investments (gross fixed capital formation2) composed 20.0% of GDP. The external balance (exports-imports) is positive. According to the seasonally adjusted data, GDP Q2 of 2019 increased by 0.8% compared with the previous quarter. In Q2 of 2019 gross value added of the total economy growth is 1.1%. According to preliminary seasonally adjusted data for Q2 of 2019 final consumption decreased by 0.1% while gross fixed capital formation increased by 0.7% compared to the previous quarter. In Q2 of 2019 seasonally adjusted exports of goods and services decreases its level compared to the previous quarter by 2.9% and imports of goods and services decreased by 5.0%.

During Q2 of 2019 GDP increases by 3.5% compared to the same quarter of the previous year according to the seasonally adjusted data. Gross value added increase is 3.4%. The indicators' movement is determined by the increase recorded in: Real estate activities - 6.7%, Financial and insurance activities - 6.2%, Information and communication - 3.3%, Professional, scientific and technical activities; administrative and support service activities - 2.7%, Public administration and defence; compulsory social security; education; human health and social work activities - 2.2%. As regards the expenditure components of GDP, main contributors to the registered positive economic growth are the collective final consumption - with growth of 3.7%, individual final consumption - with 2.8% and gross fixed capital formation - growth of 2.2%. Exports of goods and services increased by 3.7%, whereas imports of goods and services decreased by 2.0%.

Bulgaria	Gross Value Added											
Rates of change of Gross Value Added and Gross Domestic Product, yoy (%)	Agriculture, forestry and fishing	Mining and quarrying; manufacturing; electricity, gas, steam and air conditioning supply; water supply; sewerage, waste management and remediation activities	Construction	Wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities	Information and communication	Financial and insurance activities	Real estate activities	Professional, scientific and technical activities; administrative and support service activities	Public administration and defence; compulsory social security; education; human health and social work activities	Arts, entertainment and recreation, repair of household goods and other services	GVA	Adjustments (taxes less subsidies on products)
2018 Q1	0.4	2.0	3.0	2.7	6.7	3.4	7.2	2.2	1.5	0.6	3.1	5.0
2018 Q2	-0.9	1.8	2.3	2.4	6.2	3.6	7.1	3.8	3.6	1.4	3.0	5.0
2018 Q3	-1.9	1.7	2.4	2.7	5.2	5.1	8.3	3.7	2.4	-1.9	3.0	3.7
2018 Q4	-2.5	1.7	3.3	2.5	4.4	7.5	7.1	2.5	2.0	-1.9	2.9	4.6
2019 Q1	-0.2	1.8	0.8	2.5	4.1	3.0	6.5	2.9	1.6	0.8	3.0	8.2
2019 Q2	2.0	1.7	2.1	2.5	3.3	6.2	6.7	2.7	2.2	1.4	3.4	7.2

Source: NSI

Forecast: *In Bulgaria the economy will continue to grow in Q3 2019.even with slower trend. The weaker growth in the euro area countries, the 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, as well as the exalting crisis in Turkey 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.*

Business Climate

In August 2019, the business conjuncture in the country is assessed as unfavourable. The total business climate indicator decreases by 3.1 percentage points compared to its July level as reduction of the indicator is registered in all observed sectors - industry, construction, retail trade and services.

Industry. The composite indicator 'business climate in industry' decreases by 0.8 percentage points, which is due to the shifting of the industrial entrepreneurs' assessments about the business situation of the enterprises from 'good' towards 'satisfactory'. However, their forecasts about both the business situation and the production activity over the next months are favourable. In the last month the negative influence of the factor 'uncertain economic environment' is strengthened, which shifts to the second place the difficulties of the enterprises connected with the shortage of labour. As regards the selling prices in industry, the managers' expectations are for preservation of their level over the next 3 months.

Construction. In August the composite indicator 'business climate in construction' drops by 5.1 percentage points as a result of the more unfavourable construction entrepreneurs' assessments and expectations about the business situation of the enterprises. Their forecasts about the construction activity over the next 3 months are also reserved as the inquiry registers an increase of the number of clients with delay in payments. The shortage of labour continues to be the most serious obstacle for the business development. In second and third place are the competition in the branch and the uncertain economic environment, as in the last month a decrease of their negative impact is observed. Concerning the selling prices in construction, the managers foresee them to remain unchanged over the next 3 months.

Retail trade. The composite indicator 'business climate in retail trade' decreases by 3.5 percentage points, which is due to the more moderate retailers' assessments and expectations about the business situation of the enterprises. Their forecasts about the volume of sales and orders placed with suppliers over the next 3 months are also more reserved. The main factors limiting the activity of the enterprises remain the competition in the branch, insufficient demand and uncertain economic environment. As regards the selling prices, the retailers foresee certain increase, although the prevailing expectations are for preservation of their level over the next 3 months.

Service sector. In August the composite indicator 'business climate in service sector' decreases by 4.9 percentage points as a result of the shifting of the managers' assessments and expectations about the business situation of the enterprises from 'better' towards preserving 'the same'. Concerning the demand for services, the present tendency is assessed as improved, while the expectations over the next 3 months are more moderate. The competition in the branch, uncertain economic environment and shortage of labour continue to be the main obstacles for the business development in the sector, as the inquiry reports strengthening of the negative influence of the first factor. The majority of the managers expect the selling prices to remain unchanged over the next 3 months.

Industrial Production

According to the preliminary data in July 2019 the Industrial Production Index, seasonally adjusted, rose by 0.8% as compared to June 2019. In July 2019 the working day adjusted Industrial Production Index fell by 0.9% in comparison with the same 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 the preliminary data in July 2019 the Industrial Production Index, seasonally adjusted3, rose by 0.8% as compared to June 2019. In July 2019 the working day adjusted4 Industrial Production Index fell by 0.9% in comparison with the same month of 2018. In July 2019 as compared to June 2019, the seasonally adjusted Industrial Production Index increased in the mining and quarrying industry by 6.9% and in the electricity, gas, steam and air conditioning supply by 1.4%, while the production went down in the manufacturing by 0.1%. The most significant production decreases in the manufacturing were registered in the repair and installation of machinery and equipment by 12.5%, in the manufacture of textiles by 6.6%, in the manufacture of leather and related products by 5.4%. Major increases were seen in the manufacture of tobacco products by 39.8%, in the other manufacturing by 11.9%, in the manufacture of other transport equipment by 11.2%, in the manufacture of basic pharmaceutical products and pharmaceutical preparations by 7.1%. On annual basis in July 2019 Industrial Production Index calculated from working day adjusted data fell in the electricity, gas, steam and air conditioning supply by 2.4% and in the manufacturing by 1.1%, while the production rose in the mining and quarrying industry by 4.4%. In the manufacturing, the more considerable decreases compared to the same month of the previous year were registered in the manufacture of fabricated metal products, except machinery and equipment by 19.2%, in the manufacture of wearing apparel by 8.4%, in the manufacture of textiles by 6.9%, in the manufacture of basic metals by 5.1%. Important increases were seen in the other manufacturing by 29.5%, in the manufacture of other transport equipment by 25.8%, in the printing and reproduction of recorded media by 18.3%, in the manufacture of basic pharmaceutical products and pharmaceutical preparations by 13.4%.

Retail Sales

According to the preliminary seasonally adjusted data3 in July 2019 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 1.0% compared to the previous month. In July 2019, the working day adjusted4 turnover in 'Retail trade, except of motor vehicles and motorcycles' marked an increase from 3.7% in comparison with the same month of the previous year. 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.

In July 2019 compared to the previous month, increase of turnover was observed in the 'Retail sale of nonfood products except fuel' - by 1.5%, in the 'Retail sale of automotive fuel' - by 1.0% and in the 'Retail sale of food, beverages and tobacco' - by 0.9%. In the 'Retail sale of non-food products except fuel' a more significant growth was reported in the 'Retail sale of computers, peripheral units and software; telecommunications equipment' and in the 'Retail sale via mail order houses or via Internet' - by 8.2% and by 7.0% respectively. In July 2019 compared to the same month of 2018, the turnover increased in the 'Retail sale of automotive fuel' (by 6.9%), in the 'Retail sale of non-food products except fuel' (by 4.6%) and in the 'Retail sale of food, beverages and tobacco' (by 1.3%). More significant growth in the 'Retail sale of non-food products except fuel' was observed in the 'Retail sale via mail order houses or via Internet' - by 27.8%. A decline was reported in the 'Dispensing chemist; retail sale of medical and orthopaedic goods, cosmetic and toilet articles' - by 6.7%. **Projection**: *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.*

Construction Production

According to NSI preliminary data, in July 2019 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 1.7% above the level of the previous month. In July 2019 the working day adjusted index of production in construction increased by 4.3% 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 July 2019 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 1.7% above the level of the previous month. In July 2019 working day adjusted data showed an increase by 4.3% in the construction production, compared to the same month of 2018. In July 2019 the construction production index, calculated from the seasonally adjusted data, was above the level of the previous month. Index the production of civil engineering rose by 2.6% and production of building construction - by 1.0%. On an annual basis in July 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 8.3%, while in the civil engineering was registered a decline by 0.8%.

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.*

Inflation

The harmonized index of consumer prices (HIPC) for August 2019 compared to July 2019 is 100.2%, ie monthly inflation was 0.2%. Since the beginning of the year, inflation has been 3.0% and annual inflation for August 2019 compared to August 2018 was 2.5%. The average annual inflation for the period September 2018 - August 2019 compared to the period September 2017 - August 2018 is 2.8%. There will be a slight increase in inflation in Q3 and Q4 of 2019, with the major impact factors being higher oil futures with delivery times in September and December, shocks in global supply - for example, the oil crisis in Saudi Arabia, expectations for rising fuel prices, transportation services and consumer goods. Since the beginning of the year, inflation has tended to go up slightly, registering 2.8% growth in Q2 from 2.5% in Q1 2019. Our forecast is for the inflation in Bulgaria is to reach 2.5% in 2019, 2.3% in 2020 and 2.1% in 2021.

he consumer price index for August 2019 compared to July 2019 is 100.1%, ie monthly inflation is 0.1%. Since the beginning of the year, inflation has been 2.1% and annual inflation for August 2019 compared to August 2018 was 2.9%. The annual average inflation for the period September 2018 - August 2019 compared to the period September 2017 - August 2018 is 3.2%. In August prices slowed down in housing and utilities (3.8% versus 4% in July), leisure and culture (4% vs. 4.3%) and continued to fall in the transport sectors (1.3% versus 0.8 %) and communications (1.6% vs. 1.2%). At the same time prices are rising for food and non-alcoholic beverages (5.2% vs. 4.8%); restaurants and hotels (6.1% vs 6%) and furniture and household appliances (0.7% vs 0.3%). In August 2019, prices of medicinal products increased by 0.7%, while prices of medical and dental services remained at the level of the previous month. The harmonized index of consumer prices for August 2019 compared to July 2019 is 100.2%, ie monthly inflation was 0.2%. Since the beginning of the year, inflation has been 3.0% and annual inflation for August 2019 compared to August 2018 was 2.5%. The average annual inflation for the period September 2018 - August 2019 compared to the period September 2017 - August 2018 is 2.8%.For comparison, in August 2018, inflation accelerated to a 5-year high. The data is closely monitored, as low inflation is one of the conditions for convergence (the so-called Maastricht criteria) of EU Member States. In particular, Bulgaria must maintain low inflation, which does not exceed by more than 1.5 percentage points the average annual inflation (HICP) in the three EU countries with the lowest positive inflation. Bulgaria covered this requirement. Moderate inflation is related to the economic growth that our country is achieving.

Bulgaria: CPI	2018 Weights (%)	August 2019 Change mom (%)	August 2019 Change yend 2018 (%)	August 2019 Change yoy (%)
Total CPI	**100.00**	**100.10**	**102.1**	**102.9**
Foods	31.55	100.4	103.6	105.1
Non-foods	35.206	99.5	100	100.2
Catering	5.363	100.5	103.5	105.6
Services	27.881	100.3	102.6	103.4
Source: NSI				

Projection: *There will be a slight increase in inflation in Q3 and Q4 of 2019, with the major impact factors being higher oil futures with delivery times in September and December, shocks in global supply - for example, the oil crisis in Saudi Arabia, expectations for rising fuel prices, transportation services and consumer goods. Since the beginning of the year, inflation has tended to go up slightly, registering 2.8% growth in Q2 from 2.5% in Q1 2019. Our forecast is for the inflation in Bulgaria is to reach 2.5% in 2019, 2.3% in 2020 and 2.1% in 2021.*

Producer Prices

Total Producer Price Index in July 2019 increased by 1.3% compared to the previous month; compared to the same month of 2018 the prices rose by 3.0%. Producer Price Index on Domestic Market in July 2019 rose by 1.4% compared to the previous month; compared to the same month of 2018 the domestic prices grew by 3.9%.

The Total Producer Price Index in Industry in July 2019 rose by 1.3% compared to the previous month. Higher prices were registered in the electricity, gas, steam and air conditioning supply by 3.2%, in manufacturing by 0.7%, while in the mining and quarrying industry prices fell by 0.5%. In the manufacturing, more significant increase in prices were reported in the repair and installation of machinery and equipment by 1.4% and in the manufacture of chemicals and chemical products by 0.6%. Prices went down in the manufacture of basic metals and in the manufacture of paper and paper products - both by 0.8%. The Total Producer Price Index in July 2019 increases by 3.0% compared to the same month of 2018. The prices rose in the electricity, gas, steam and air conditioning supply by 9.8%, in the mining and quarrying industry by 1.7% and in manufacturing by 1.1%. In the manufacturing increase in prices was reported in the repair and installation of machinery and equipment by 4.5%, in the manufacture of wearing apparel by 3.5% and in the manufacture of food products by 2.9%. Decrease in prices were seen in the manufacture of basic metals and in the manufacture of paper and paper products - both by 0.4%.

in the relative share of industrial and services sectors. GDP per person employed is BGN 8 011.8 and GDP per hour worked is BGN 19.2. Gross value added per person employed increased in real terms by 4.4% and GVA per hour worked in real terms also increased by 4.5% in Q2 of 2019 compared to the corresponding quarter of the previous year. GVA per person employed in industrial sector is BGN 7 776.7 and GVA per hour worked is BGN 18.0 according to the preliminary data for Q2 of 2019. In service sector an average of 7 187.3 BGN. Gross value added is produced by person employed or an average of BGN 17.3 GVA per hours worked. The lowest labor productivity is in agricultural sector – BGN 1 469.8 GVA per person employed and 3.6 BGN per hours worked.

Producer Price Index on Domestic Market in July 2019 increases by 1.4% compared to the previous month. The domestic prices went up in the electricity, gas, steam and air conditioning supply by 3.1%, mining and quarrying industry by 0.7%, and in manufacturing by 0.5%. In the manufacturing, compared to the previous month the prices went up in the repair and installation of machinery and equipment by 2.1% and in the manufacture of chemicals and chemical products by 0.9%. The domestic prices went down in the manufacture of paper and paper products by 0.6% and in the manufacture of wearing apparel by 0.5%. Producer Price Index on Domestic Market in July 2019 increases by 3.9% compared to the same month of 2018. The prices rose in the electricity, gas, steam and air conditioning supply by 9.2%, and in manufacturing by 1.4%, while in the mining and quarrying industry the prices went down by 3.2%. In the manufacturing compared to July 2018 more compelling price increase was reported in the repair and installation of machinery and equipment by 6.7%, in the manufacture of chemicals and chemical products by 4.2% and in the manufacture of other transport equipment by 4.1%. The prices fell in the manufacture of leather and related products by 1.9% and in the manufacture of tobacco products by 0.3%.

Producer Price Index on Non-domestic Market in July 2019 rose by 1.0% compared to the previous month and by 1.7% compared to the same month of 2018.

LABOR MARKET

Unemployment

In August 2019, the registered unemployment rate in Bulgaria remained at 5.3% compared to the previous month and decreased by 0.3 pps on an annual basis. For 2019, employment is expected to increase by 0.4%. Unemployment will continue to contract slightly, following the trend of a net decrease of the Bulgarian population by 50,000 people a year.

According to the Employment Agency in August 2019, the registered unemployment rate in Bulgaria remains unchanged, with the reported value of 5.3% compare to previous month. The decline is 0.3 pps on an annual basis. At the end of August 2019, the number of registered unemployed at the Labor Offices was 172 643, with no change in the number compared to July. Compared to August 2018, they were down by 11 319. The newly registered unemployed are 21 645, of which 1 541 were inactive, ie. they were neither employed nor apprenticed and did not look for work. During the month, 14 512 unemployed persons were employed, 89.8% of them were employed in the real economy. Another 378 people in the retirement group, students and employed, have also found their new jobs. In the subsidized jobs, 1 480 people were employed in the month: 858 - under programs and measures for training and employment and 622 - under schemes of the Operational Program "Human Resources Development". Different forms of adult training (key competences and vocational training), funded by both the state budget and the European Social Fund, cover 157 new unemployed people. The number of graduates during the month is 1,271.The jobs announced in the primary labor market in August were 17,244, with 63.4% of them in the private sector. The largest share of job vacancies was reported in manufacturing (24.7%), education (16.0%), administrative and support activities (13.2%), trade, repair of motor vehicles and motorcycles (11.6%), hotels and restaurants (7.2%), and others**.** The most sought after occupational groups this month are: workers in the mining and processing industries, operators of stationary machinery and equipment; construction and transport; staff engaged in the field of personal services (bartenders, waiters, cooks, housekeepers, etc.); teachers; metallurgists, machine builders, etc.

GDP per person

GDP per person employed increased by 3.5% in the second quarter of 2019 compared to the same quarter of the previous year.

According to the preliminary data, GDP per person employed increased by 3.5% in Q 2 019 compared to the same quarter of the previous year. The number of persons employed in the economy is 3 633.1 thousands and the total number of hours worked is 1 518.9 million. Compared with the same quarter of the previous year the structure of employment by economic sector in Q2 of 2019 shows an increase in the relative share of industrial and services sectors. GDP per person employed is BGN 8 011.8 and GDP per hour worked is BGN 19.2. Gross value added per person employed increased in real terms by 4.4% and GVA per hour worked in real terms also increased by 4.5% in Q2 of 2019 compared to the corresponding quarter of the previous year. GVA per person employed in industrial sector is BGN 7 776.7 and GVA per hour worked is BGN 18.0 according to the preliminary data for Q2 of 2019. In service sector an average of 7 187.3 BGN. Gross value added is produced by person employed or an average of BGN 17.3 GVA per hours worked. The lowest labor productivity is in agricultural sector – BGN 1 469.8 GVA per person employed and 3.6 BGN per hours worked.

FISCAL SECTOR

Budget balance

In January-July 2019 Bulgaria' CFP balance on a cash basis is positive, amounting to 3,223.6 million BGN and presented 2.8% of forecasted GDP. The fiscal reserve as of 31.07.2019 amounts to 12.4 billion BGN. Based on the preliminary data and estimates, the Consolidated Fiscal Programme (CFP) balance on a cash basis as of August July 2019 is expected to be positive, amounting to BGN 1104.2 million (1% of the projected GDP).). On a monthly basis, the CFP budget balance is negative only for August.After the adoption of the Law amending and supplementing the 2019 State Budget of the Republic of Bulgaria Law and the ratification by the National Assembly of the international contracts for the purchase of F-16 Block 70 fighter aircraft, armament and related systems for long-term operation and maintenance, as well as for the comprehensive training of pilots and auxiliary personnel, in August the Ministry of Defence transferred the amount of USD 1.2 billion to a US government account. The significant amount of the expenditures for the implementation of this investment project has led to a reduction of the currently reported excess of revenues over expenditures as of end-August to around 1% of GDP.

According MF data the CFP balance on a cash basis as of July 2019 is positive, amounting to BGN 3,223.6 million (2.8 % of forecast GDP) and is formed by an excess of revenues over expenditures under the national budget of BGN 3,033.1 million and under EU funds of BGN 190.5 million. The CFP revenues, grants and donations as of July 2019 stand at BGN 25,979.9 million, or 59.2 % of the annual estimates. Compared to the same period of the previous year, tax and non-tax revenues have grown by BGN 2,855.5 million, (13.2 %), while proceeds from grants and donations (mainly grants under EU Programmes and Funds) have increased by BGN 576.9 million. Tax proceeds, including revenues from social security and health insurance contributions, total BGN 20,488.6 million, which is 59.3 % of the annual plans. Revenues from direct taxes amount to BGN 3,896.8 million, or 59.4 % of the annual estimates. Indirect tax revenues amount to BGN 9,778.0 million, or 59.5 % of the annual plans. The VAT proceeds amount to BGN 6,463.2 million, or 59.7 % of the plan. The excise duty revenues amount to BGN 3,151.9 million (59.1 % of the annual estimates). Custom duties revenues are BGN 134.2 million or 56.7 % of the annual plan. Proceeds from other taxes, including property taxes and other taxes under the Corporate Income Tax Law, amount to BGN 799.7 million, or 68.4 % performance of the annual estimates. Revenues from social security and health insurance contributions are BGN 6,014.0 million, or 57.9 % of those planned for the year. Non-tax revenues amount to BGN 4,041.7 million, or 61.0 % of the annual estimates. It should be noted that as regards non-tax revenues there is a baseline effect in the part of revenues to the budget of the Energy Security Fund due to the amendments to the Energy Law which entered into force on 01.07.2018 and changed the mechanism of collection of revenues to the Fund's budget. For this reason the revenues to the Fund's budget as of July 2019 were higher than the revenues for the same period of 2018. Proceeds from grants and donations amount to BGN 1,449.6 million. The expenditures under the CFP, including the contribution of the Republic of Bulgaria to the EU budget, amount to BGN 22,756.3 million as of July 2019, which is 42.9 % of the annual estimates. Compared to the same period of the previous year, CFP expenditures increase in nominal terms by 10.8 per cent, which is mainly due to the higher staff costs (due to the 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, the indexation of pensions in July 2019 and an increase in the health insurance payments set out in the 2019 NHIF Budget Law), the increase in expenditures on subsidies, etc. Non-interest expenditures amount to BGN 21,483.3 million, which is 48.7 % of the annual plans. Non-interest current expenditures as of July 2019 amount to BGN 19,632.7 million and capital expenditures (including net increment of state reserve) amount to BGN 1,833.5 million. The current and capital transfers to other countries amount to BGN 17.1 million. Interest payments amount to BGN 461.2 million, or 68.9 % of those planned for 2019. The part of Bulgaria's contribution to the EU budget, paid from the central budget as of 31.07.2019, amounts to BGN 811.9 million, which complies with the current legis-

Bulgaria: Fiscal reserve (BGN million)	31.01.2019	28.02.2019	31.03.2019	30.04.2019	30.05.2019	30.06.2019	31.07.2019	31.08.2019
Total fiscal reserve, including:	**10518.8**	**10 417.5**	**10 333.4**	**10 617.6**	**11 307.6**	**11 667.8**	**12 355.9**	**10 341.3**
I. Fuoiscal reserve on deposits	**9333.3**	**9 993.3**	**9 974.0**	**10 065.6**	**10 293.2**	**11 268.9**	**11 800.9**	**10 006.3**
Fiscal reserv deposits at BNB	8920.8	9 591.8	9 578.5	9 669.6	9 839.0	10 819.0	11 367.6	9 571.9
II.. Receivables from EU funds for certified expenditures, advances and others	**1184.7**	**424.2**	**359.5**	**552.0**	**1 014.4**	**398.9**	**554.9**	**335.0**
MF National Fund	153.1	140.9	177.9	151.9	137.0	114.0	48.704	140.6
Paying Agency under State Fund Agricultural	1031.6	283.3	181.6	400.2	877.4	284.9	506.238	194.4
Source: Ministry of finance								

Projection: *Based on preliminary data and estimates the balance of the Consolidated Fiscal Programme (CFP) on a cash basis as of August 2019 is expected to be positive, amounting to BGN 1,104.2 million (1.0 % of the forecast GDP). On a monthly basis, the CFP budget balance is negative only for August. After the adoption of the Law amending and supplementing the 2019 State Budget of the Republic of Bulgaria Law and the ratification by the National Assembly of the international contracts for the purchase of F-16 Block 70 fighter aircraft, armament and related systems for long-term operation and maintenance, as well as for the comprehensive training of pilots and auxiliary personnel, in August the Ministry of Defense transferred the amount of USD 1.2 billion to a US government account. Thus, the Bulgarian party fulfilled its commitment under the contracts concluded within the investment expenditure project "Acquisition of a New Type of Fighter Aircraft" for the Air Force of the Republic of Bulgaria and initiated their practical implementation. The significant amount of the expenditures for the implementation of this investment project has led to a reduction of the currently reported excess of revenues over expenditures as of end-August to around 1% of GDP.*

Central government sub-sector debt

In January – July 2019, Bulgaria's central government sub-sector debt amounted to EUR 11,877.7 million and accounted for 20.1% 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 the central government debt in January-July 2019 stood at EUR 11,877.7 million. Domestic debt amounted to EUR 2,847.2 million and external debt – to EUR 9,030.6 million. At the end of the reporting period the central government debt/gross domestic product (GDP) ratio was 20.1 %, with the share of domestic debt being 4.8 % and of external debt – 15.3 %. In the central government debt structure, domestic debt at the end of the period amounted to 24.0 %, and external debt – to 76.0 %. As of 31 July 2019, the central government guaranteed debt was EUR 76.3 million. Domestic guarantees amounted to EUR 33.6 million and external guarantees – to EUR 42.7 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, paragraph 1 of the Government Debt Law, at end-July 2019 the government debt reached EUR 11,094.2 million, being 18.8 % of GDP. Domestic debt amounted to EUR 2,664.0 million and external debt – to EUR 8,430.2 million. Government guaranteed debt in July 2019 amounted to EUR 915.1 million. Domestic guarantees amounted to EUR 33.6 million, the government guaranteed debt/ GDP ratio being 1.6 %.

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	31.07.2019	31.08.2019
Domestic debt	3 121.40	2745.4	2595.6	2574.8	2532	2509.2	2 661.50	2 847.2	2944.1
External Debt	9093.9	9094.3	9093.6	9093.6	9080.1	9056	9 029.90	9030.6	9027.2
Central Government debt, total	12 215.30	11 839.70	11689.2	11668.4	11612.1	11565.1	11 691.40	11877.7	11971.3
Total Centrral government debt/GDP (%)	22.1	20.1	19.8	19.8	19.7	19.6	19.8	20.1	20.3
Domestic central government debt/GDP (%)	5.7	4.7	4.4	4.4	4.3	4.3	4.5	4.8	5
External central government debt/GDP (%)	16.5	15.4	15.4	15.4	15.4	15.3	15.3	15.3	15.3
Source: Ministry of Finance									

Bulgaria's Credit rating

Moody's Investors Service has changed the outlook on Bulgaria's ratings to positive from stable and has affirmed Bulgaria's long-term issuer in foreign and local currency at Baa2.

The positive change reflects Bulgaria's strong fiscal metrics and favourable growth prospects. The Baa2 rating affirmation balances the positive fiscal and macroeconomic trends and the country's strong commitment to join the euro area against ongoing structural challenges related to worsened demographics and shortcomings in some policy areas. The Agency highlights on the country's strengthening fiscal profile and consistently prudent policy stance. Over the last years, Bulgaria has shown growing budgetary surpluses, steady progress in debt reduction, improved debt affordability, sizable fiscal reserve and positive contribution of the pension reform to fiscal sustainability. Moody's expects in 2020 headline fiscal balance to remain in surplus (0.8% of GDP), while public debt to continue its downward trend and reach 19% of GDP. According to Moody's Bulgaria's robust growth prospects are underpinned by ongoing EU integration and increased competitiveness. Since 2015 the economic growth expands above 3% per year and the agency expects positive developments to continue in coming years and to hover around the potential. Economic growth will also be supported by some important infrastructure projects, such as the Hemus and Struma motorways and the Sofia-Plovdiv railway line, and higher EU funds absorption rates. The increased competitiveness has been supported by the rising export market shares and current account surpluses reflecting the structural improvements in the economy since the crisis.Moody's expects the simultaneous ERM II and SSM accession to support sound macroeconomic policies and a further strengthening of institutions.

MONETARY SECTOR

At the end of July 2019 broad money (monetary aggregate M3) amounted at BGN 97.570 billion (84.3% of GDP) and increased by 7.9% yoy. Domestic credit – was BGN 58.371 billion and increased by 3.4% yoy.

According BNB data in July 2019 broad money (monetary aggregate M3) increased by 7.9% yoy compared to 7.8% annual growth as in June 2019. At the end of July 2019 M3 was BGN 97.570 billion (84.3% of GDP) compared to BGN 95.821 billion (82.8% of GDP) in June 2019. Its most liquid component – monetary aggregate M1 – increased by 12.7% yoy in July 2019 (12.5% yoy growth in June 2019). At the end of July 2019, deposits of the non-government sector6 were BGN 81.015 billion (70% of GDP), increasing by 7.7% (7.2% yoy growth in June 2019). Deposits of Non-financial corporations were BGN 24.144 billion (20.9% of GDP) at the end of July 2019. Compared to the same month of 2018 they increased by 3.9% (2.6% yoy growth in June 2019). Deposits of financial corporations increased by 35.1% annually in July 2019 (28.2% yoyl growth in June 2019) and at the end of the month they reached BGN 3.500 billion (3% of GDP). Deposits of Households and NPISHs were BGN 53.371 billion (46.1% of GDP) at the end of July 2019. They increased by 8.1% compared to the same month of 2018 (8.2% yoy growth in June 2019). Net domestic assets were BGN 58.763 billion at the end of July 2019. They increased by 5.8% compared to the same month of 2018 (5.4% annual growth in June 2019).

At the end of the month their basic component – domestic credit – was BGN 58.371 billion and increased by 3.4% compared to July 2018 (3% yoyl growth in June 2019). In July 2019 claims on the non-government sector increased by 6.5% yoy (6.9% yoyl increase in June 2019) reaching BGN 61.492 billion. At the end of July 2019, claims on loans to the non-government sector amounted to BGN 59.860 billion (51.7% of GDP) compared to BGN 59.372 billion (51.3% of GDP) at the end of June 2019. They increased y by 6.5 % yoy in July 2019 (6.8% yoy growth in June 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 403.6 million. On an annual basis, loans sold8 by Other MFIs were BGN 419.3 million (of which BGN 8.9 million in July 2019), while the amount of repurchased loans was BGN 15.7 million (of which BGN 15.7 million in July 2019). In July 2019, loans to Non-financial corporations increased by 4.3% annually (4.6% yoy growth in June 2019) and at the end of the month amounted to BGN 33.757 billion (29.2% of GDP). Loans to Households and NPISHs were BGN 22.985 billion (19.9% of GDP) at the end of July 2019. They increased by 8.7% compared to the same month of 2018 (8.1% yoy growth in June 2019). At the end of July 2019 loans for house purchases were BGN 11.275 billion and increased by 12.3% yoy (11.8% yoy growth in June 2019). Consumer loans amounted to BGN 9.783 billion and compared to July 2018 they increased by 11.2% (10.6% yoy growth in June 2019). On an annual basis other loans decreased by 40.5% (38.5% yoy decline in June 2019) and reached BGN 589.4 million. Loans granted to financial corporations were BGN 3.118 billion at the end of July 2019 (2.7% of GDP). Compared to July 2018, they increased by 17.6% (23.6% yoy growth in June 2019).

CAPITAL MARKET

In August 2019 all four leading indexes of BSE-Sofia decreased as SOFIX declined to to 567.45 points, BG TR30 to 502.53 points, BGBX 40 to 112.31 points and BGREIT to 126.38 points, respectively.

According to BSE-Sofia data, in August the Bulgarian SOFIX benchmark fell by 13.2 pps to 567.45 points. The BGBX 40 most liquid companies index fell 2.3 pps to 112.31 points in August 2019, after declining 1.48% to 114.61 points in July. The weighted BG TR30 dropped 8.3 ppss to 502.53 points in August 2019 after declining 0.23% to 511.13 points in July. BGREIT's real estate meter fell 0.47 pps to 126.38 points in August 2019 after rising 0.81pps to 126.85 points in July. Of the SOFIX listed companies, in August 2019, the ratio of profit-to-loss issues is 3:12. In August, as in July, there is no double-digit issue, but there is no company whose shares are more than 10% at a loss. Turnover in August increased by BGN 757,497 to BGN 5,168,084 after transactions in shares of 15 SOFIX companies for BGN 4 410,577 were reported in July. Unlike in July, in the eighth month of this year there was not one issue with a turnover of over BGN 1 million. The highest turnover Real Estate Fund Bulgaria REIT (BGN 789,103), followed by Advance Terrafund (BGN 649 806), Industrial Holding Bulgaria (BGN 596 287), Chimimport (BGN 566 437) and Stara Planina Hold (BGN 469 580). In August, Sopharma maintained its leading position in market capitalization (BGN 439,441,151), followed by: Chimimport (BGN)407,398,654, Gradus (BGN 406,826,546), Eurohold Bulgaria (BGN 371,348,128) and TB First Investment Bank (BGN 363,000,000). After March 18, SOFIX already has six holdings, of which only Eurohold Bulgaria (+ 0.53%) is profitable in August. The biggest decrease in the share price is Stara Planina Hold (-9.01%), followed by: Sirma Group Holding (-3.55%), Holding Varna (-2.97%), Industrial Holding Bulgaria (-1.98%) and Doverie United holding (-1.85%). The company with the highest turnover for the month of August 2019 is Green Town Projects AD, with realized volume of BGN 7 007 005. Holding Nov Vek AD ranks second with a realized volume of BGN 2 955 495. There are two representatives of special investment purpose companies in the ranking - Real Estate Fund Bulgaria REIT and Advance Terrafund REIT. The smallest number of concluded deals in the ranking are 235 Holdings AD, Elhim Iskra AD and VF Alternative AD, and the largest Albena AD, Advance Terrafund REIT and Real Estate Fund Bulgaria REIT. . The most profitable company in August 2019 was Holding Center AD, which achieved double-digit growth of 21.77%. Second place is VF Alternative AD, followed by Far AD with growth of 14.29%. The last two companies in the ranking also recorded double digits, respectively Green Town Projects AD with growth of 13.75% and Sofia Commerce-Pawnshops AD with growth of 12.16%. The list of losers in August 2019 is headed by Agria Group Holding AD with a decline of 11.11%. In second place is Stara Planina Hold AD with a decrease of 9.01%, followed by Atomenergoremont AD, which recorded a decrease of 7.89% in August. The penultimate position in the ranking is Central Cooperative Bank AD with a decrease of 6.69%.

BANKING SECTOR

At the end of July 2019, the assets of the banking system increased by 1.6% mom and by 10.3% yoy, respectively to BGN 110.3 billion, accounting for 94.1% of projected GDP. Gross loans from clients of the banking system increase by 0.8% mom and their relative share in GDP is 55.2%. Household loans increased by 1.2% mom to BGN 23.9 billion, while those for non-financial corporations increased by 0.6% mom to BGN36.1 billion. Deposits from customers in the banking system amounted to BGN 87.9 billion, up 1.4% mom. Their relative share in the estimated GDP is 74.9%. Deposits by households and non-financial corporations increased by 0.6% and 3.4% mom to BGN 55.2 billion and BGN 26.1 billion, respectively.

According to the BNB, as of July 31, 2019, the banking system's profit was BGN 1.045 billion, which is 10.0% more than in the same period a year ago. Impairment losses on financial assets that are not carried at fair value through profit or loss amount to BGN 220 million at the end of July (up from BGN 270 million a year earlier).

Indicator (BGN"000)	31.07. 2017	31.07. 2018	Y/Y (%)
Interest Income	1 755 359	1 783 350	1.6
Interest Expence	174 791	167 885	-4.0
Net interest Income	**1 580 568**	**1 615 465**	**2.2**
Impairment	270 135	220 483	-18.4
Divident income	***149 870***	**138 812**	**-7.4**
Fee and commission income	710 260	761 918	7.3
Fee and commission expenses	100 176	121 090	20.9
Net fee and commission income	**610 084**	**640 828**	**5.0**
Administration costs	968 296	963 182	-0.5
Personal costs	490 938	516 023	5.1
Total operating income, net	2 380 154	2 477 854	4.1
Net Profit	**950 556**	**1 045 539**	**10.0**

Source:BNB, UBB's Calculations

At the end of July 2019, the banking system's assets grew by 1.6% mom and by 10.3% yoy to BGN 110.3 billion and accounted for 94.1% of projected GDP. Loans and advances, other sight deposits, cash and debt securities of general government are increasing. The reported monthly dynamics of the assets does not lead to significant changes in the shares of the main groups of assets. At the end of July, the share of cash, cash balances with central banks and other sight deposits amounted to 16.8%. Securities portfolios account for 12.6% of total assets, and the carrying amount (net) of loans and advances - 64.9%. The gross loan portfolio of clients of the banking system reported a monthly increase of 0.8% mom and their relative share in GDP being 55.2%. For loans to households, the increase was by 1.2% mom and by 17.7% yoy up to BGN 23.9 billion, and for those for non-financial corporations - by 0.6% mom and by 5, 3% yoy to BGN 36.1 billion. Loans to other financial corporations and general government increased by 0.8% mom to BGN 3.3 billion and by 2.3% to BGN 797 million. At the end of July 2019, deposits from customers in the banking system amounted to BGN 87.9 billion, increasing by 1.4% mom and by 8.6% yoy, respectively. Their relative share in the estimated GDP is 74.9%. Deposits by households and non-financial corporations increased by 0.6% and 3.4% on a monthly basis, respectively, to BGN 55.2 billion and BGN 26.1 billion, respectively.

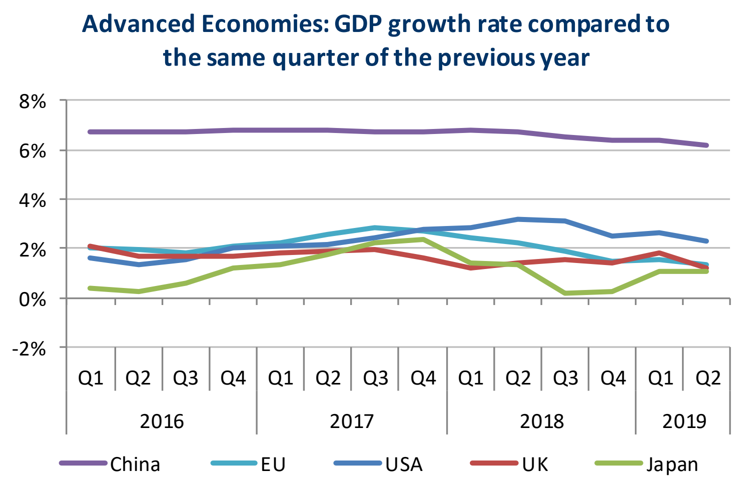
Bulgaria Intermediation Indicators	31.07.2018 BGN'000	31.12.2018 BGN'000	30.06.2019 BGN'000	31.07.2019 BGN'000	Change m/m (%)	Change y/y (%)	Change yend (%)	Share in GDP (%)
BANKING SYSTEM TOTAL ASSETS	**100 135 063**	**105 556 619**	**108 578 751**	**110 345 857**	**1.6**	**10.2**	**4.5**	**94.1**
Loans to central governments	620 234	741 199	778 729	796 513	2.3	28.4	7.5	0.7
Loans to non-financial corporations	34 245 215	34 871 435	35 872 899	36 070 525	0.6	5.3	3.4	31.1
Loans to financial corporrations	2 718 319	3 220 084	3 504 967	3 533 777	0.8	30.0	9.7	3.0
Retail loans, incl.:	**20 254 670**	**19 718 914**	**21 925 326**	**22 205 849**	**1.3**	**9.6**	**12.6**	**19.0**
Mortgage loans	10 233 209	10 086 245	10 675 648	10 842 051	1.6	5.9	7.5	9.2
Consumer loans	10 021 461	9 632 669	11 249 678	11 363 798	1.0	13.4	18.0	9.7
Micro credits and other loans	1 072 105	836 464	-576 234	620 182	-207.6	-42.2	-25.9	-0.5
TOTAL LOANS	**57 838 438**	**58 551 632**	**62 081 921**	**62 606 664**	**0.8**	**8.2**	**6.9**	**53.8**
ATRACTED SOURCES FROM CLIENTS, incl.:	**80 749 429**	**84 571 339**	**86 478 919**	**87 675 541**	**1.4**	**8.6**	**3.7**	**74.9**
Local government deposits	2 439 034	2 696 635	2 641 370	2 590 304	-1.9	6.2	-3.9	2.3
Non-financial corporations deposits	24 409 714	25 277 991	25 184 803	26 050 073	3.4	6.7	3.1	21.8
Financial corporations deposits	3 149 142	3 213 474	3 726 945	3 797 044	1.9	20.6	18.2	3.2
Households and NPISHs deposits	50 751 539	53 383 239	54 925 801	55 238 120	0.6	8.8	3.5	47.6
Equity	12 045 780	13 857 523	14 143 289	***14 091 001***	-0.4	17.0	1.7	12.3
Net profit (annualised)	**800 985**	**1 677 846**	**917 874**	**1 045 539**		30.5		
BANKING INDICATORS (%)								
ROE	13.3	12.1	13.0	12.7	-0.3	-0.6	0.6	
ROA	1.6	1.6	1.7	1.6	-0.1	0.0	0.0	
Capital adequacy	n.a.	20.4	20.5	n.a.	n.a			
LCR (%)	315.1	294.1	260.6	262.7	2.1	n.a	n.a	
NPL	9.1	7.6	7.2	n.a				
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				

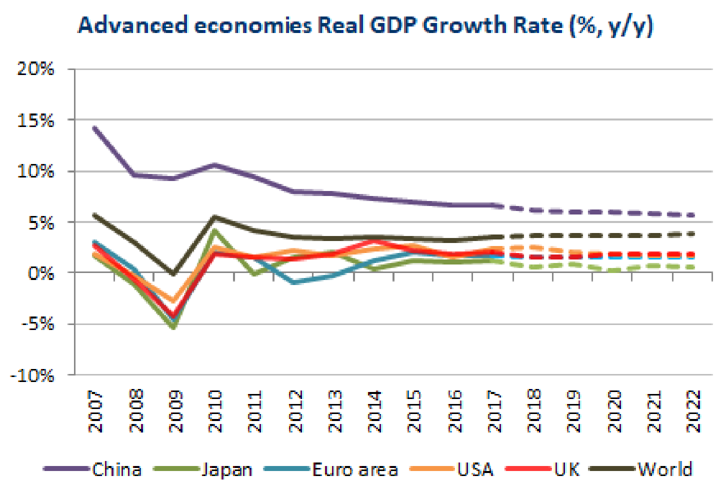
Source: BNB, MF, UBB Calculations

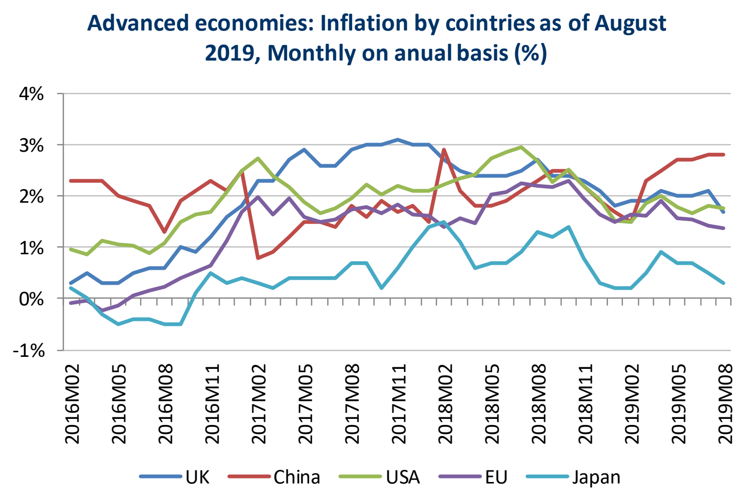
At the end of July, the liquidity coverage ratio was 262.7% (against 260.6% at the end of June). In the reporting month, the liquidity buffer increased to BGN 28.4 billion and the net outflows to BGN 10.8 billion. Equity in the balance sheet of the banking system decreases on a monthly basis by 0.4% as a result of dividends distribution. At the end of July, equity amounted to BGN 14.1 billion. As of June 30, 2019, Tier 1, Tier 1 and Tier 1 capital ratios were 19.36%, 19.72% and 20.54%, respectively. 17.88%, 18.27% and 19.17% at the end of March 2019).

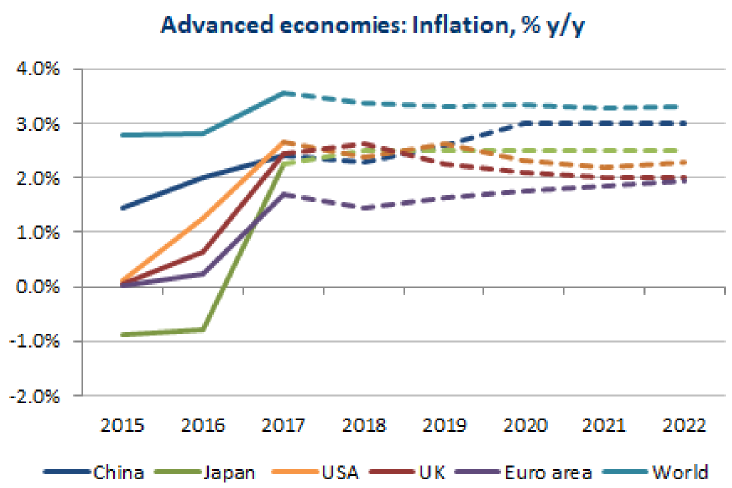
Appendix

ADVANCE ECONOMIES KEY INDICATORS



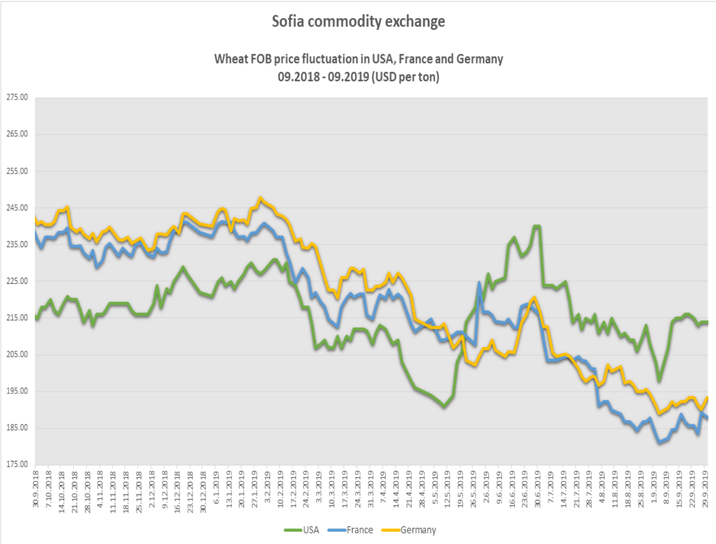


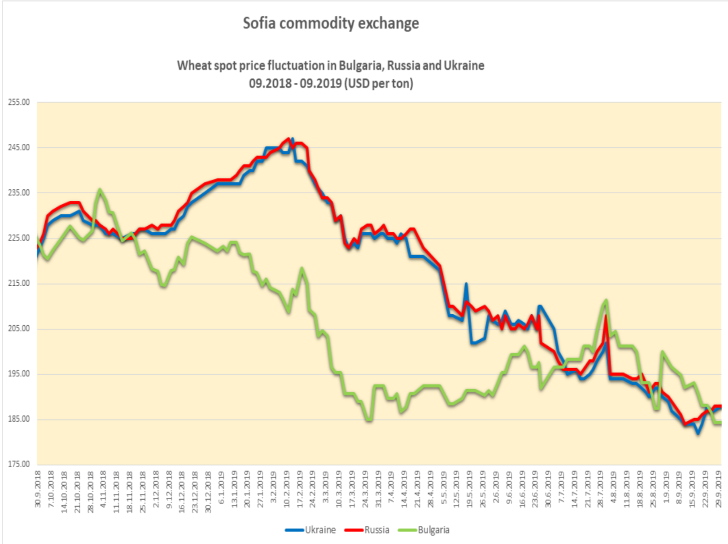


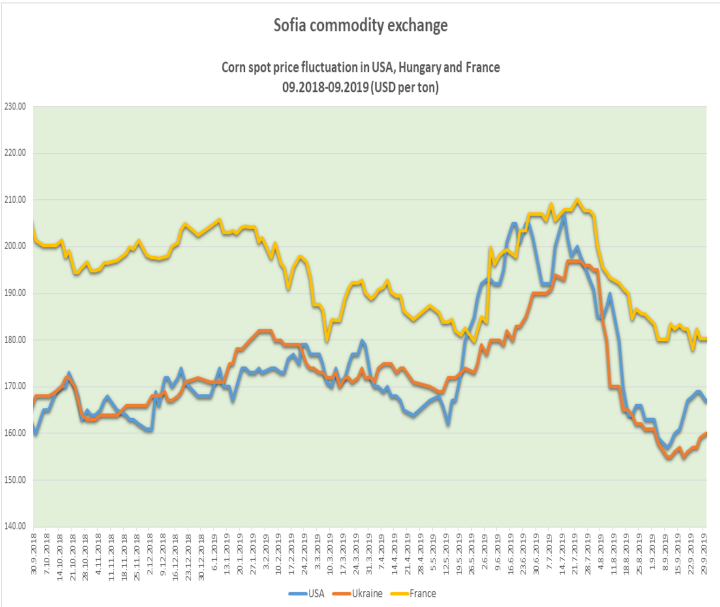


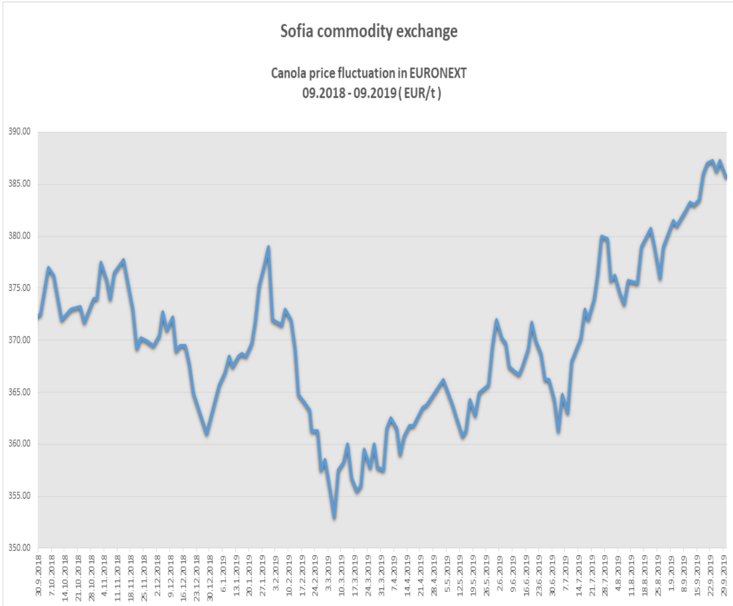
Source: IMF

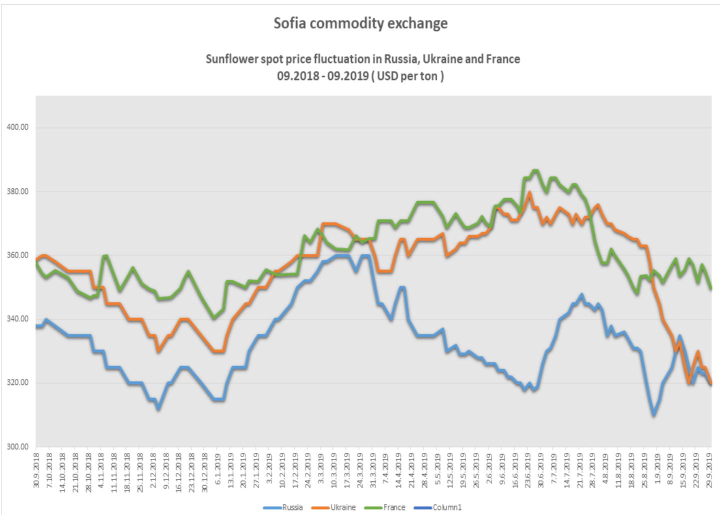
International Prices of Agriculture Products

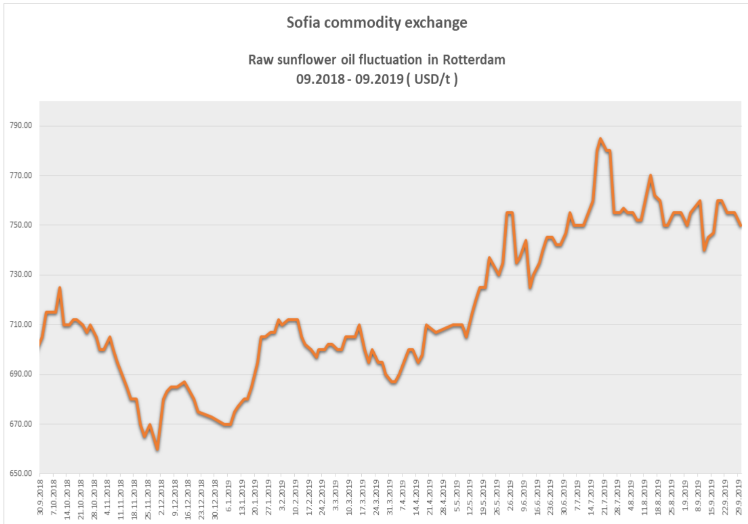






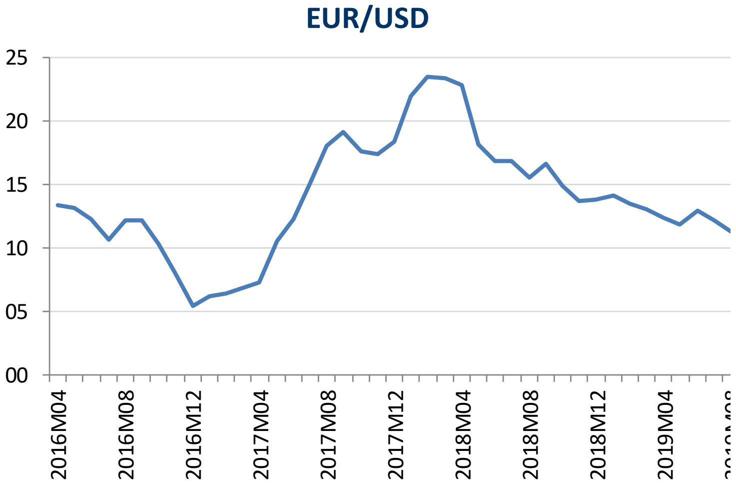


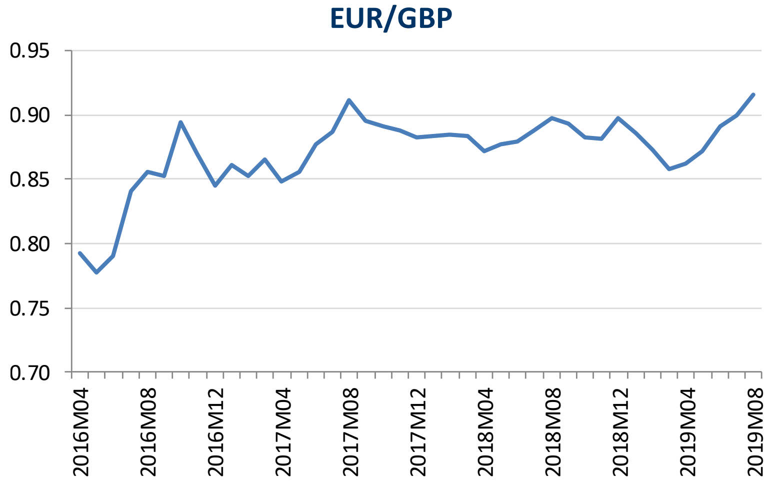


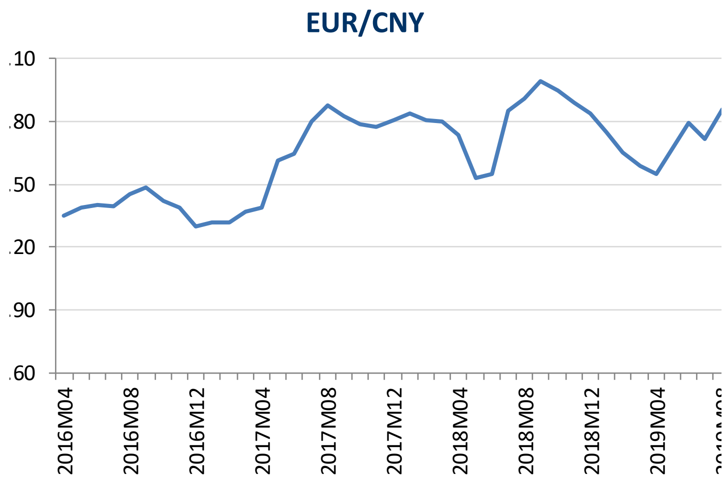


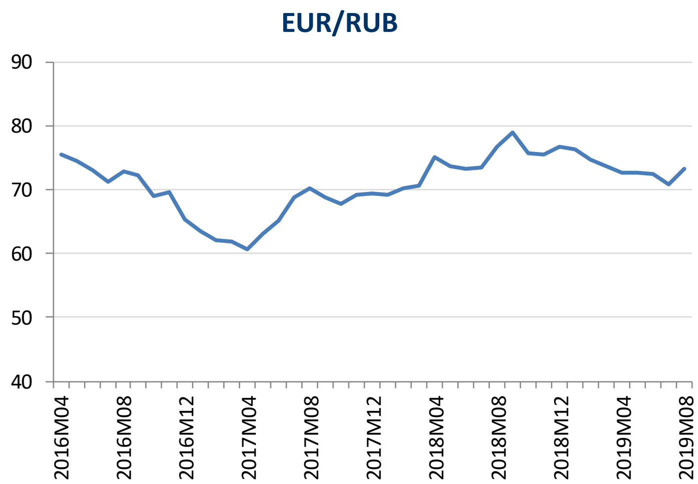
Source: SCE

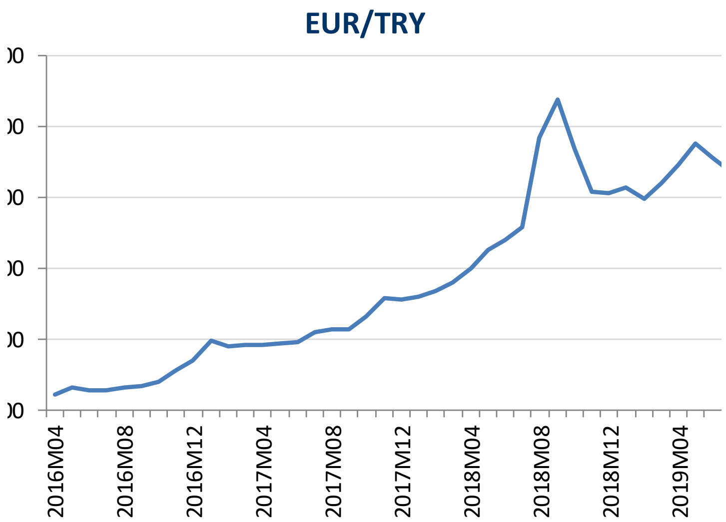
Overseas FX Rates

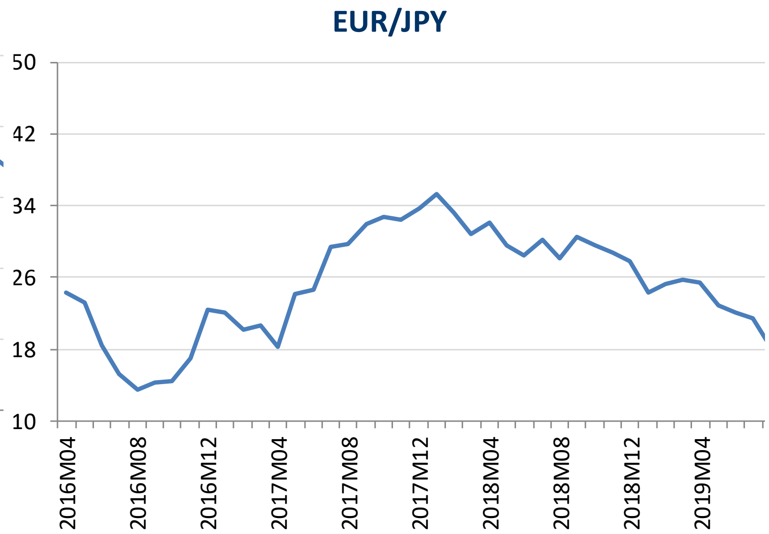






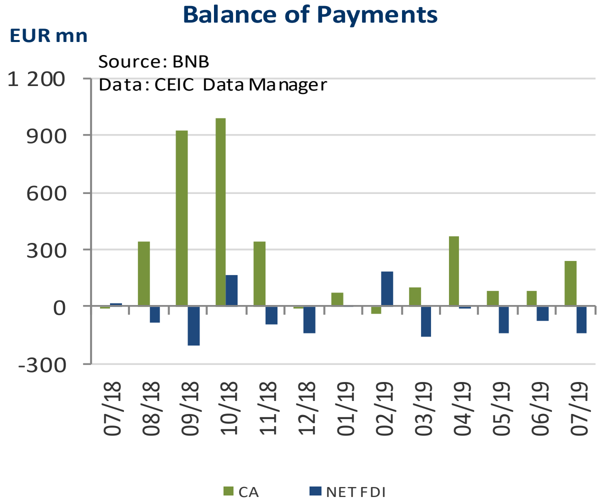


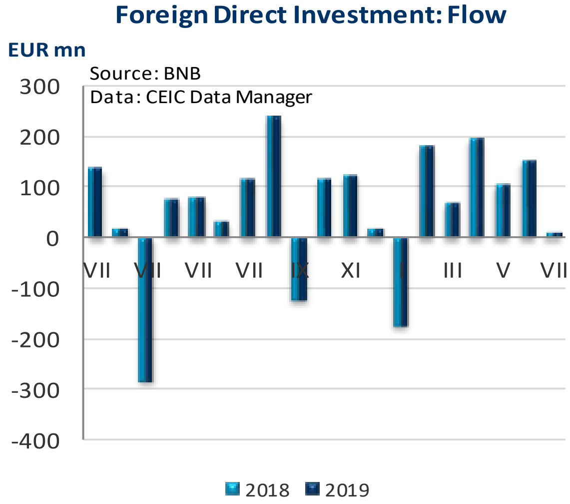


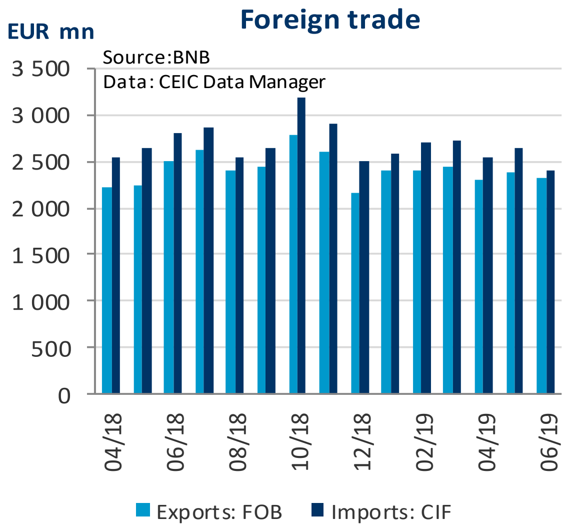


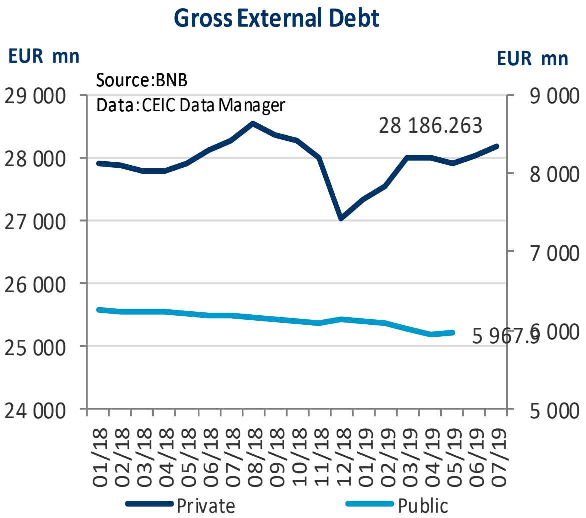
Source: ECB

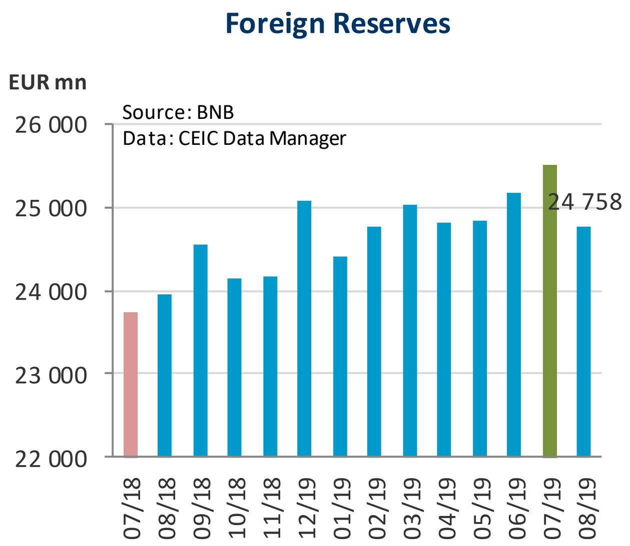
Bulgaria: External Sector Indicators





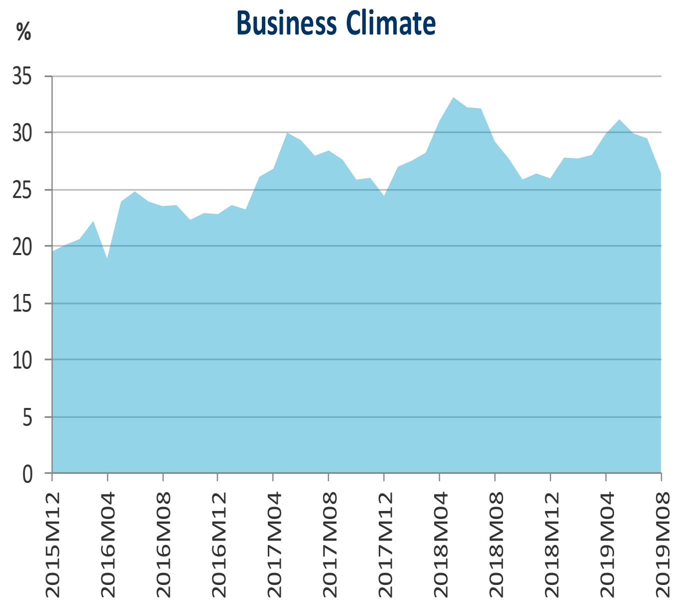


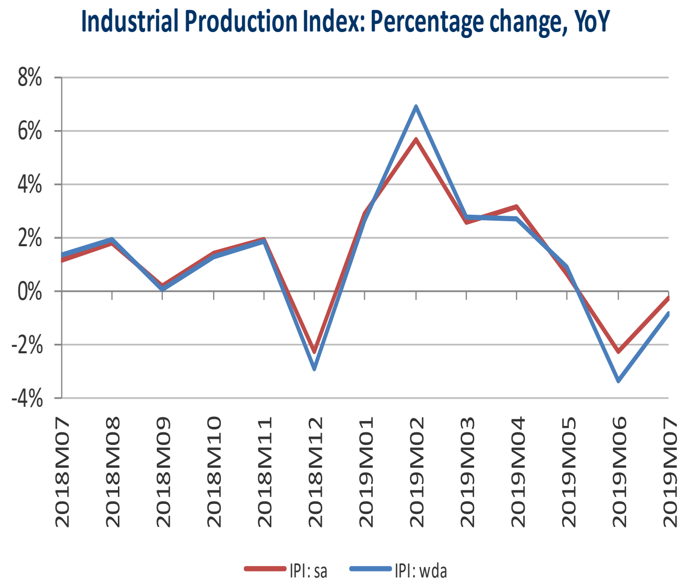


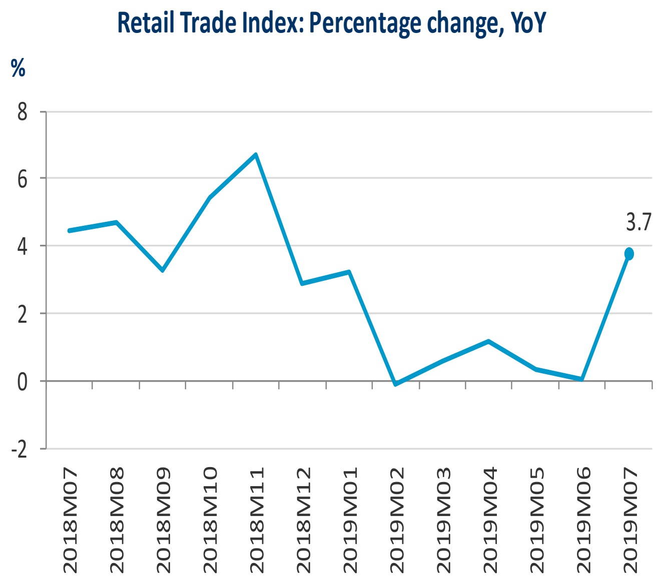


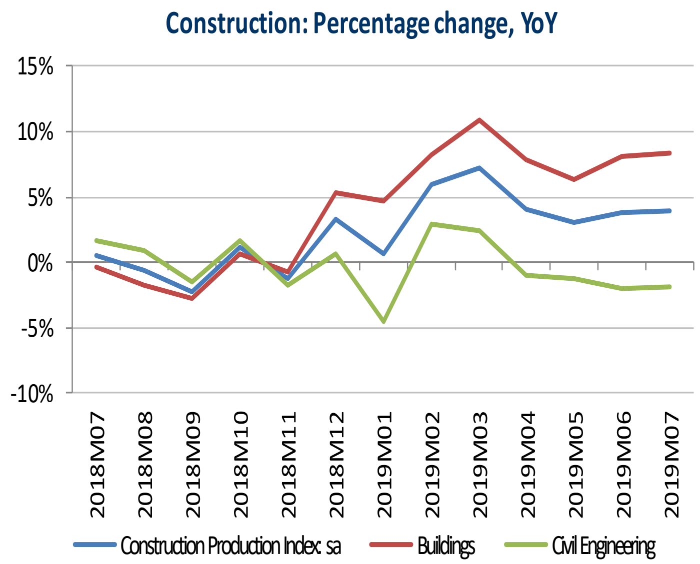
Source: BNB

Bulgaria: Real Sector Indicators



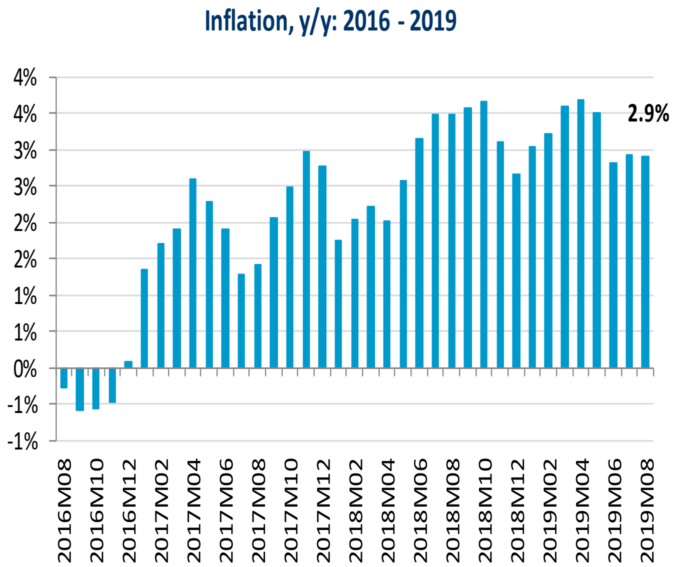


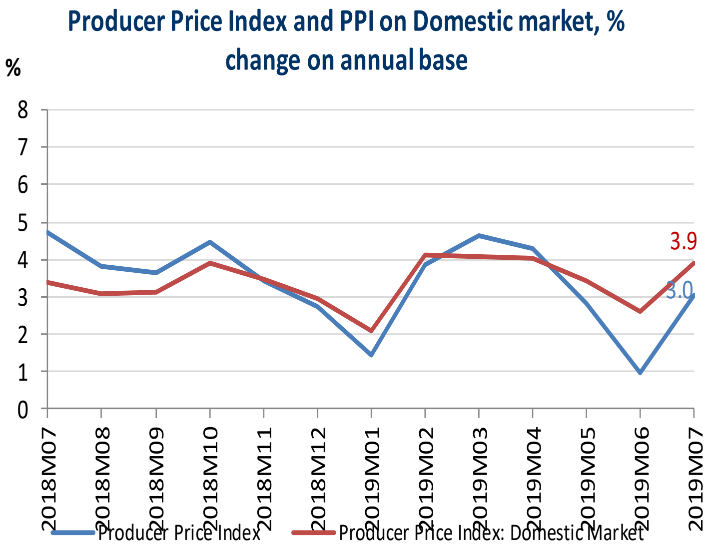


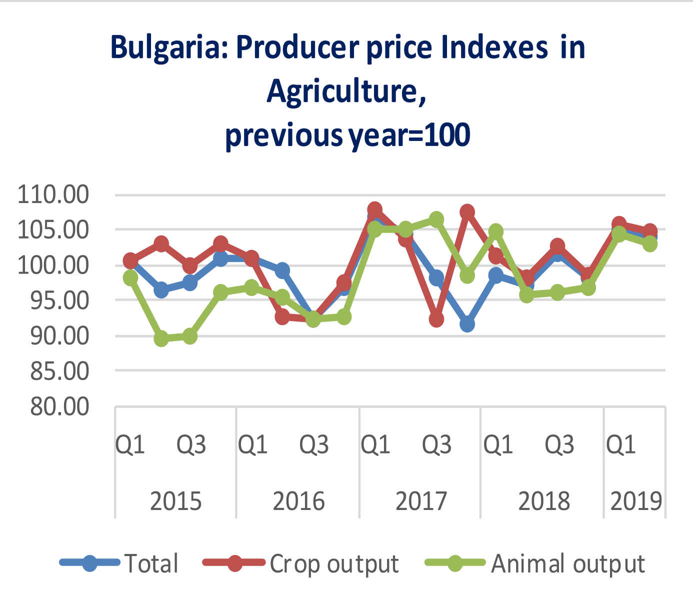


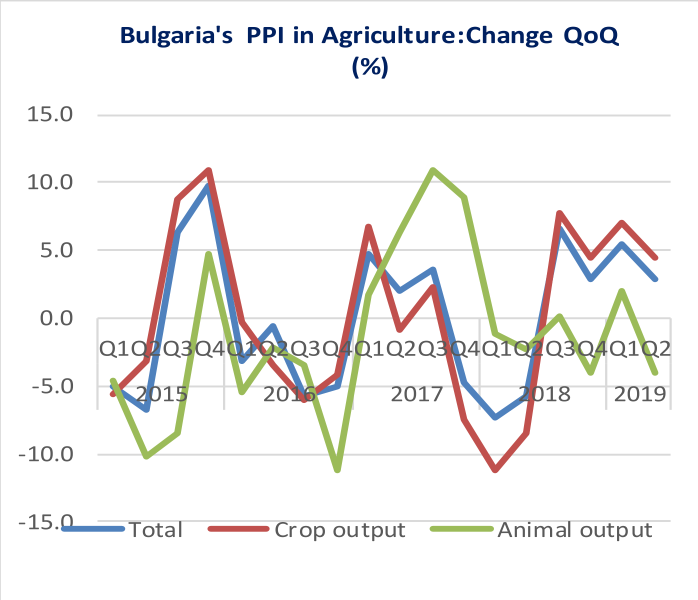
Source: NSI

Bulgaria: Prices Indicators



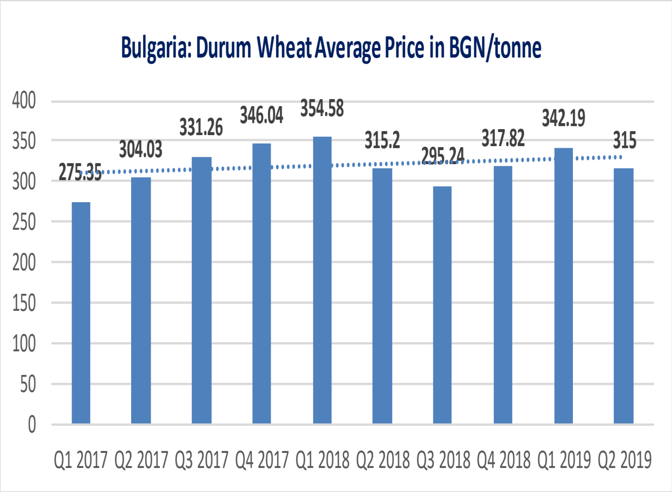


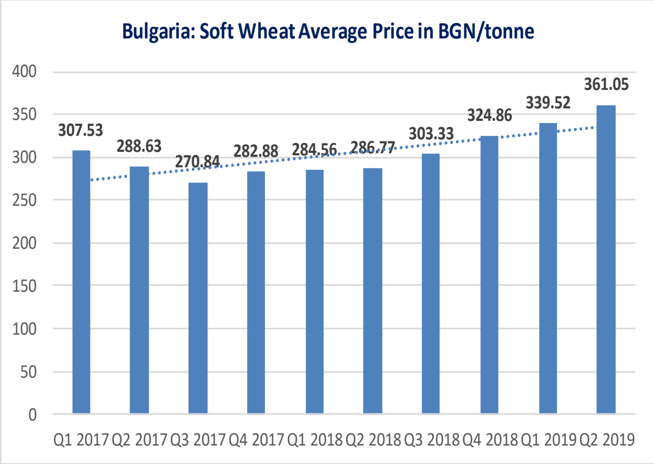


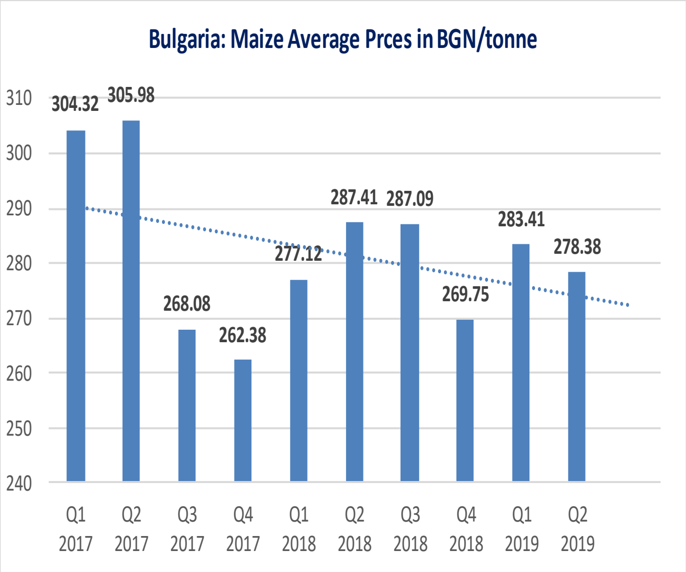


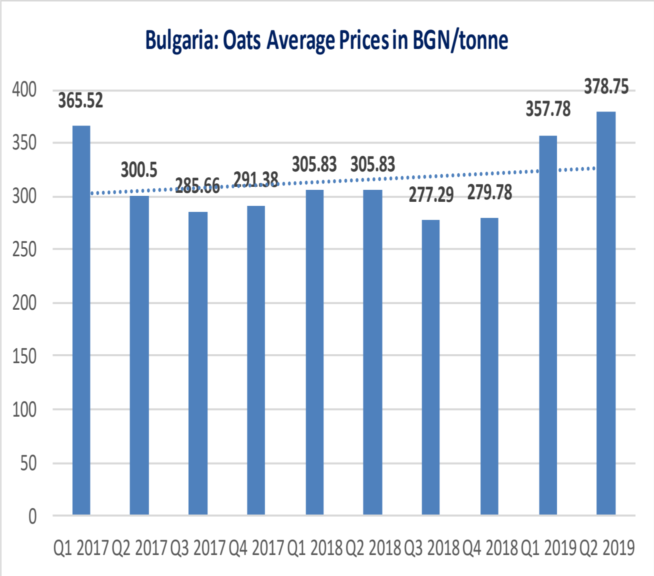
Source: NSI, EC

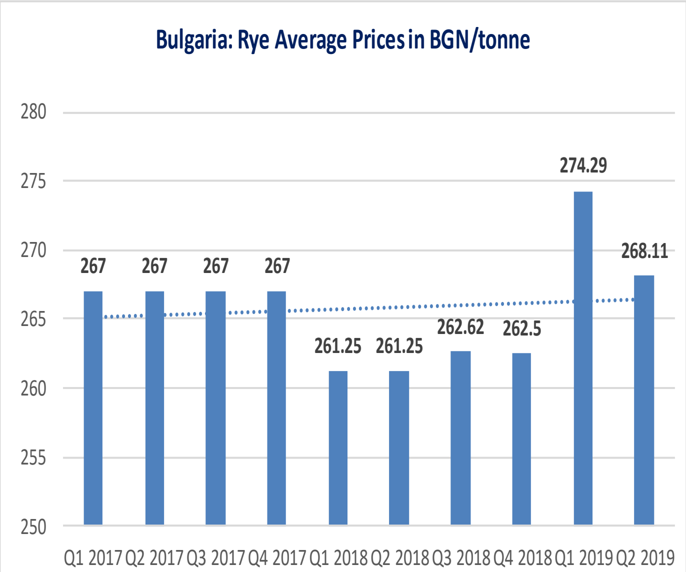
Bulgaria: Cereals Prices

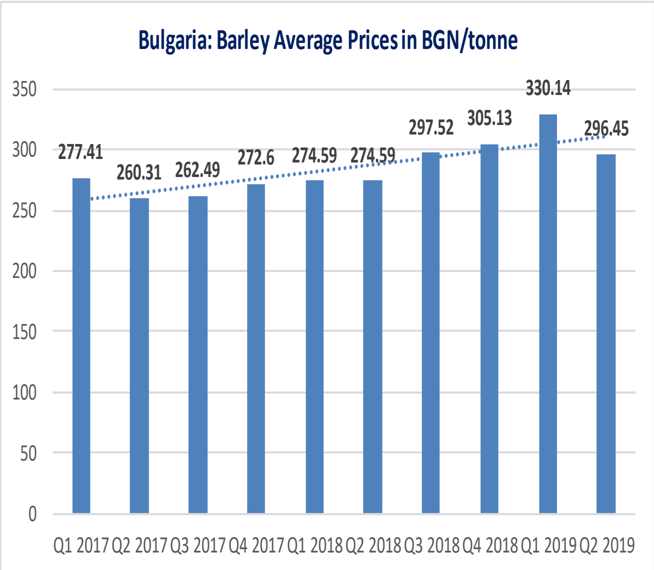






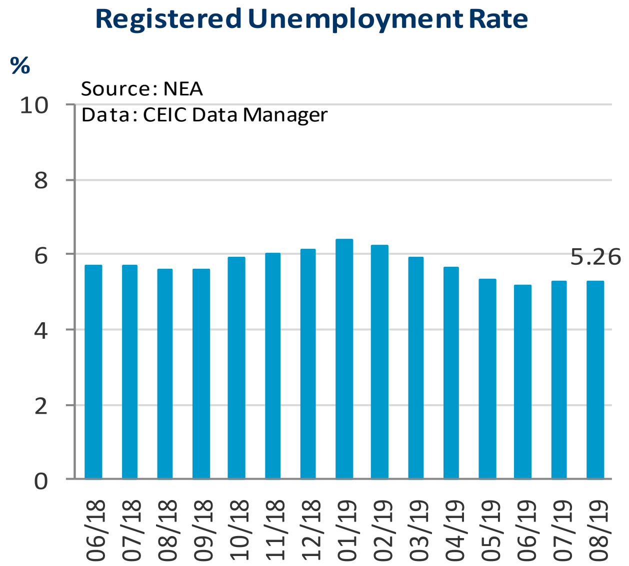


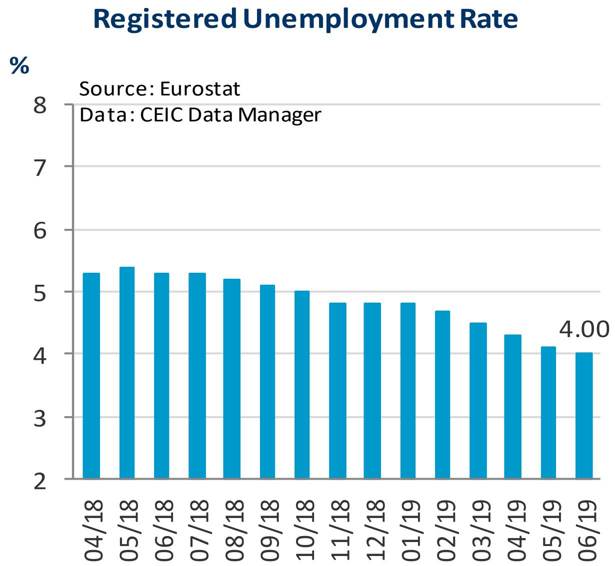


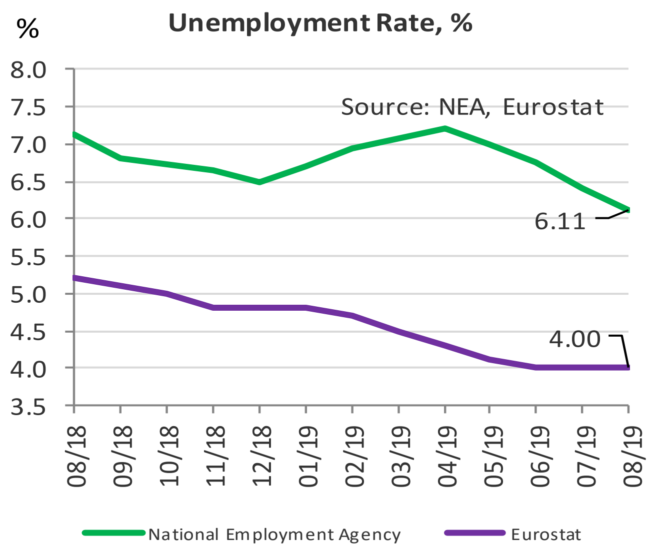


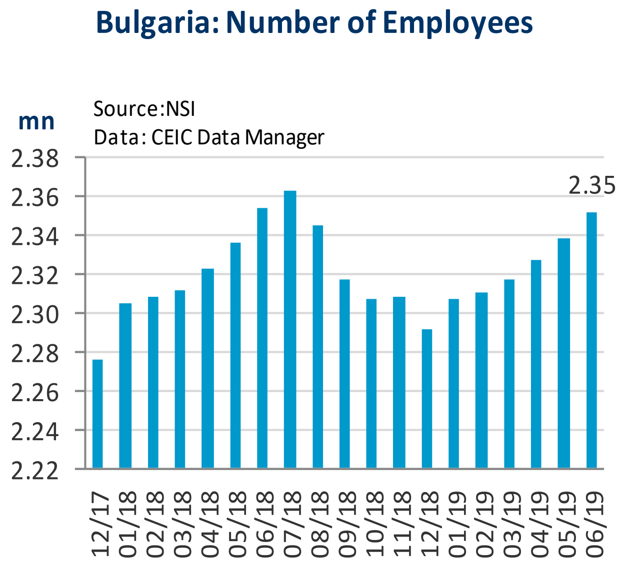
Source: NSI

Bulgaria: Labor Market Indicators



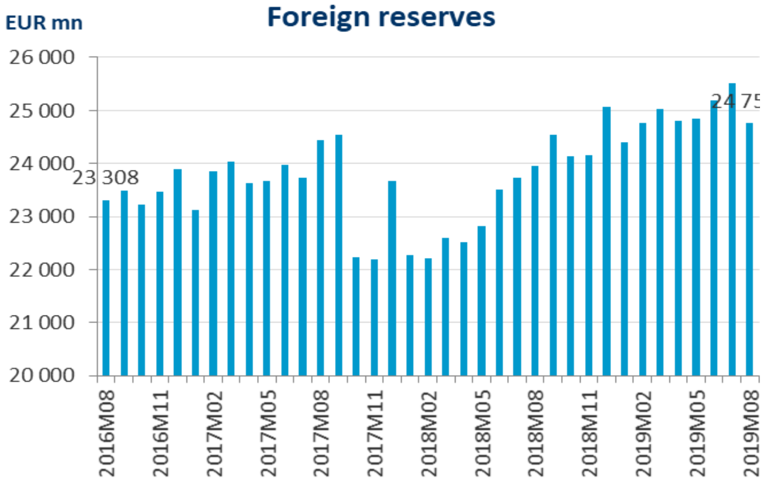


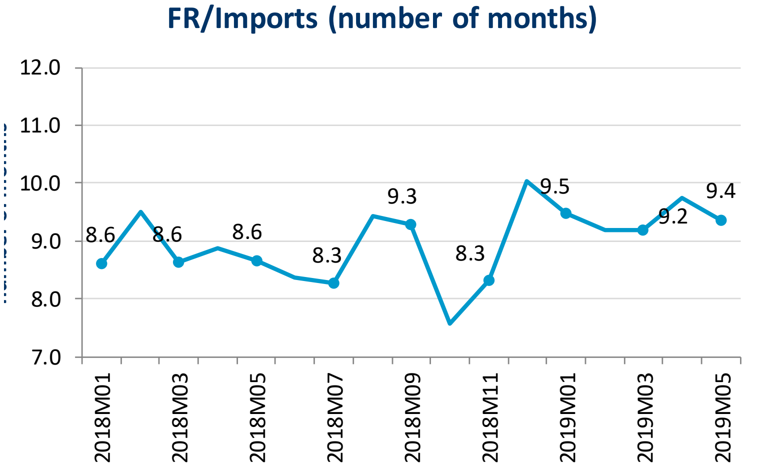


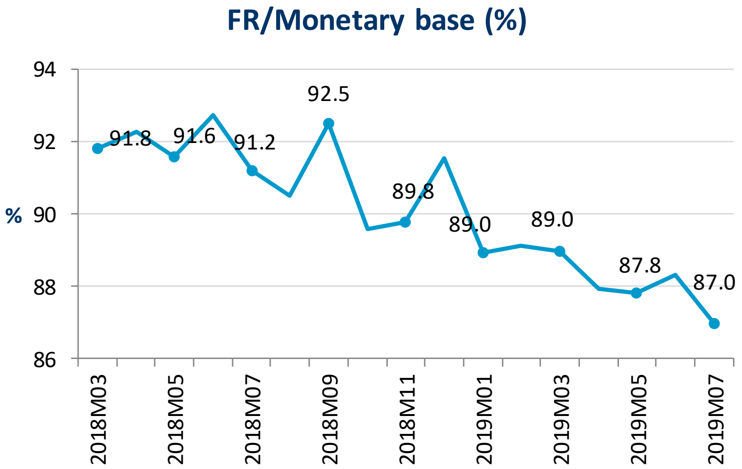


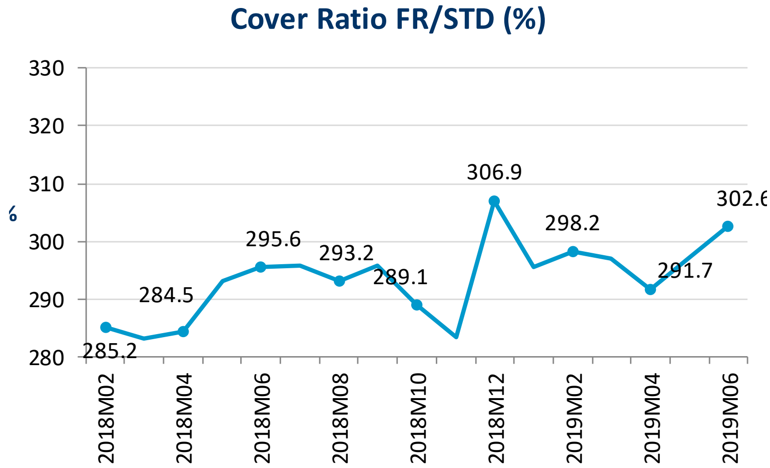
Source: NSI, EC

Bulgaria: Monetary Sector Indicators





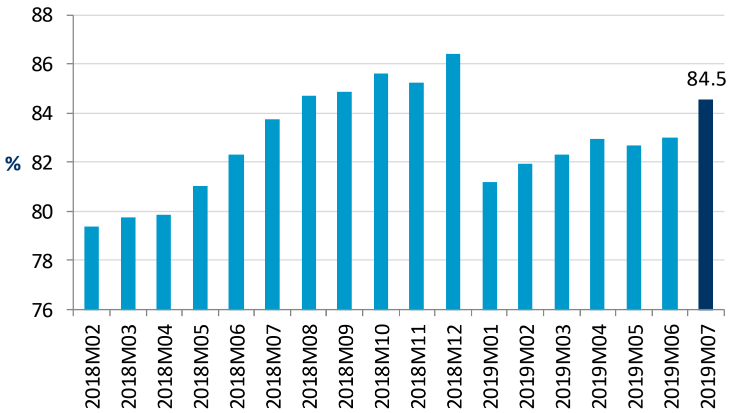




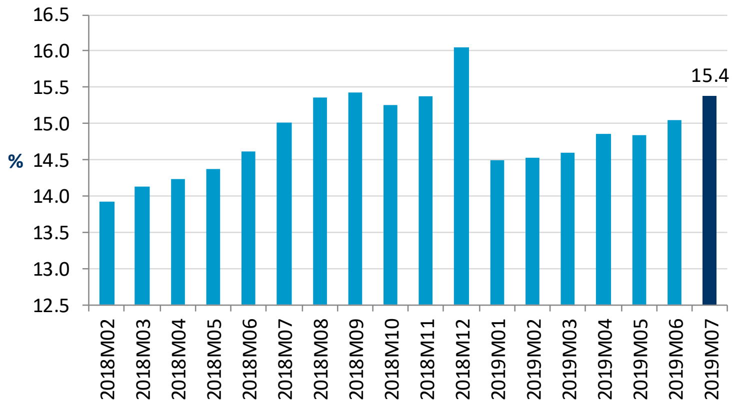
Source: BNB

Bulgaria: Monetary Sector Indicators

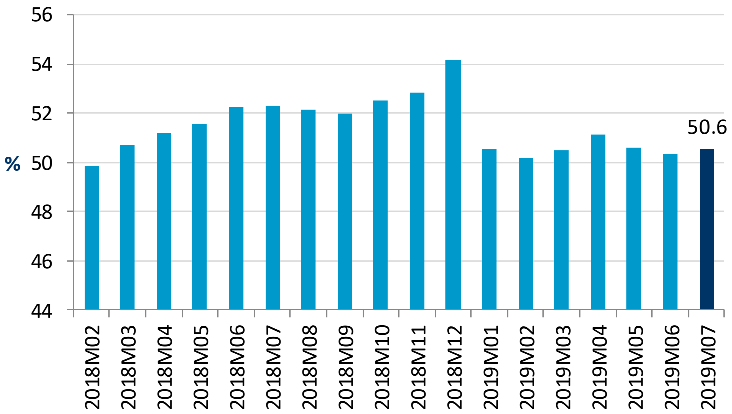
Broad money (monetary agregate M3)/GDP (%)



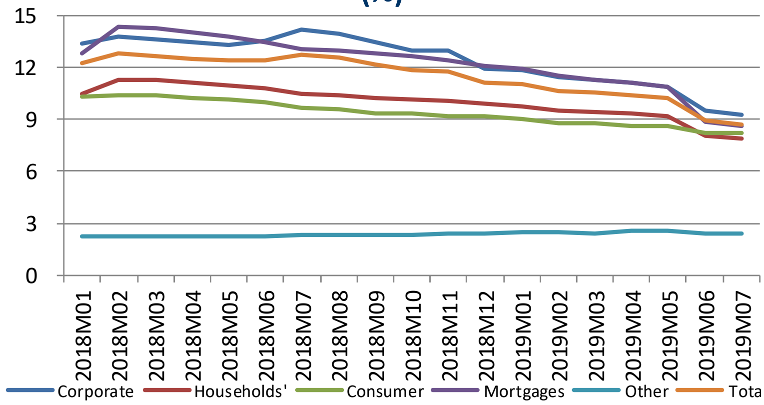
Money in circulation/GDP (%)



Domestic credit/GDP (%)

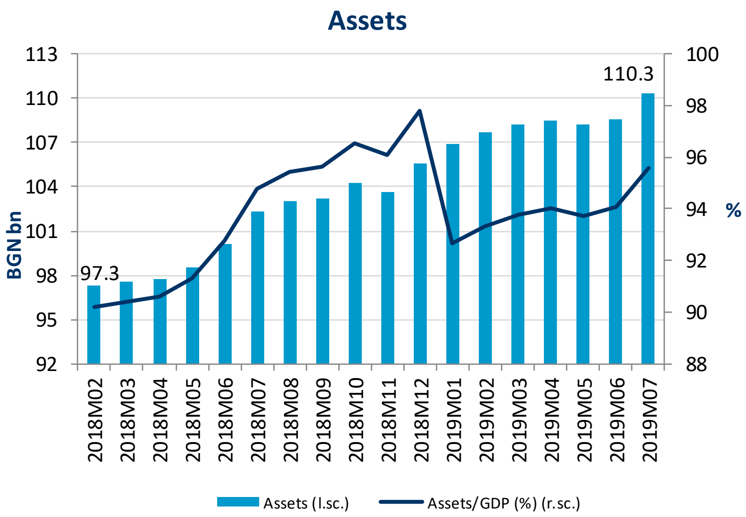


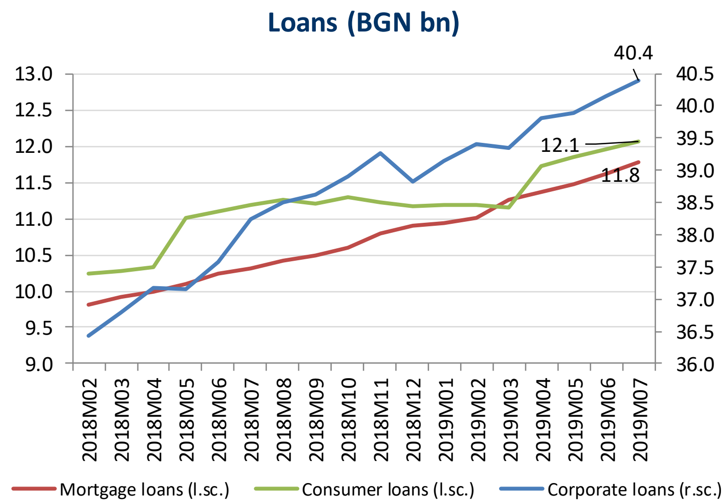
Banking sector: Bad and restructured loans (%)

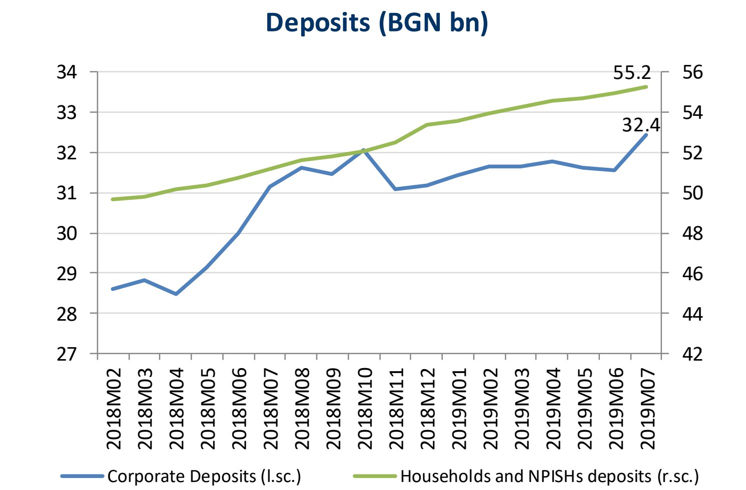


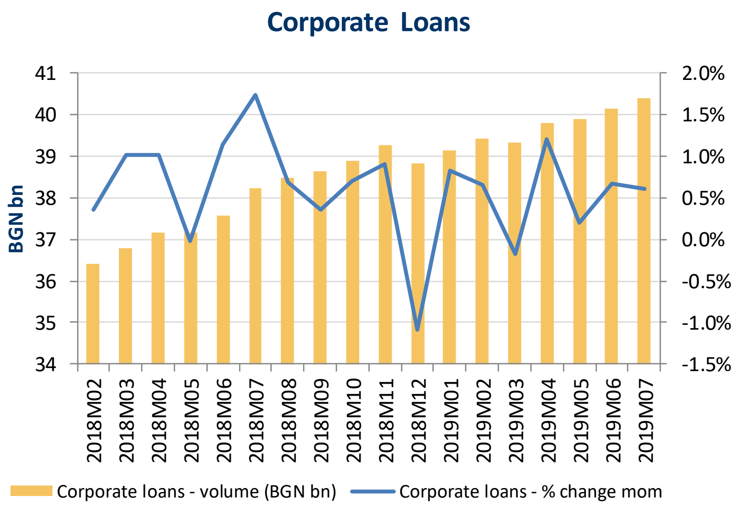
Source: BNB

Bulgaria: Banking Sector Indicators



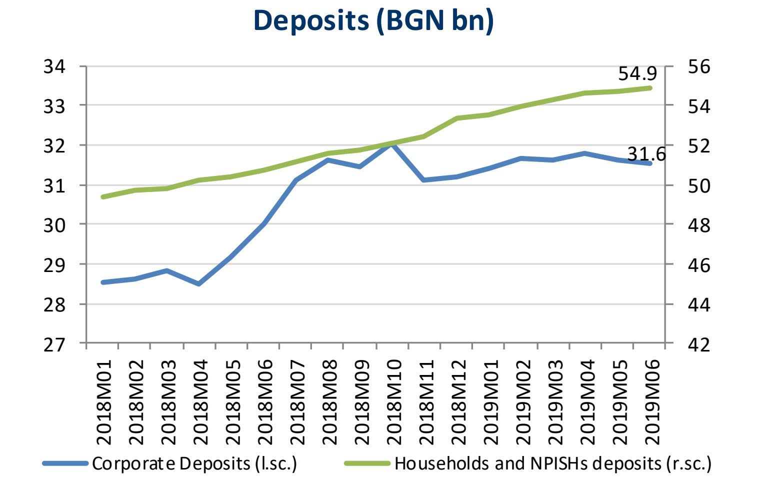


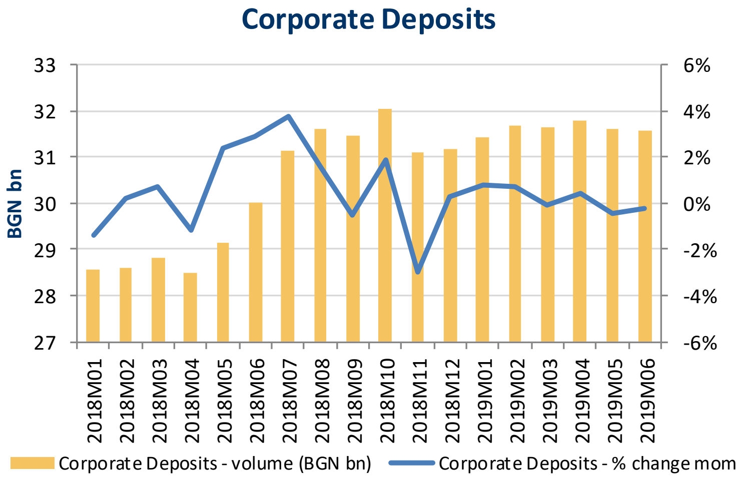


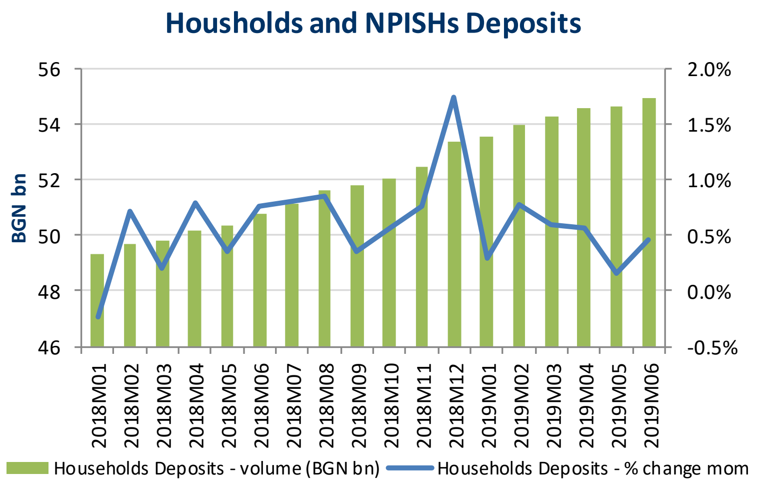


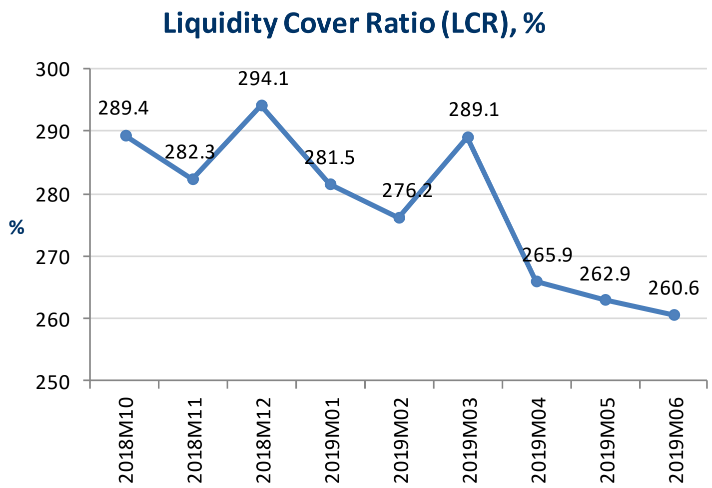
Source: BNB

Bulgaria: Banking Sector Indicators



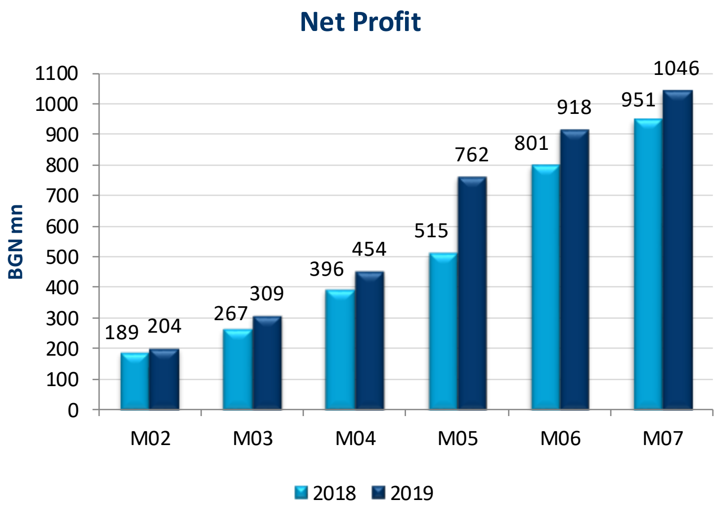


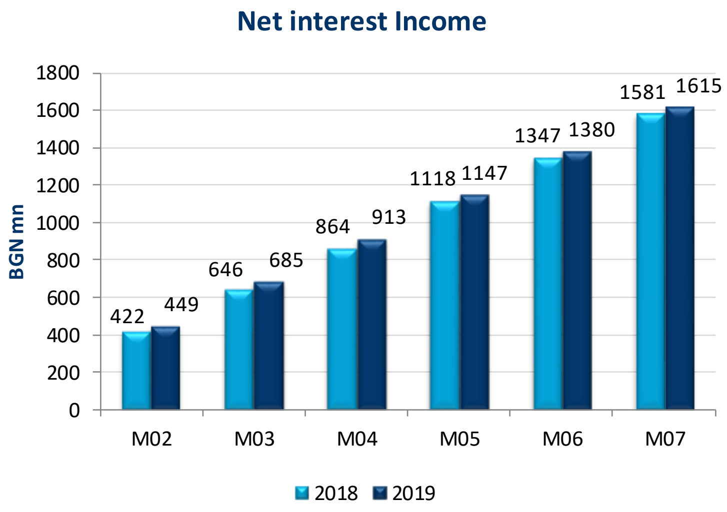


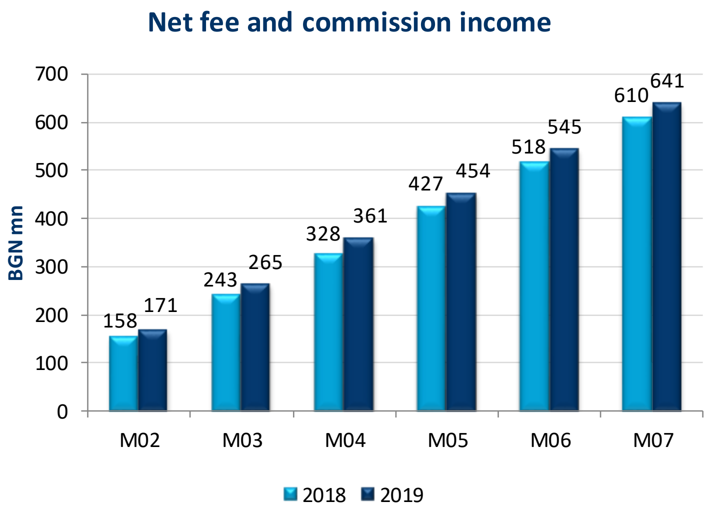


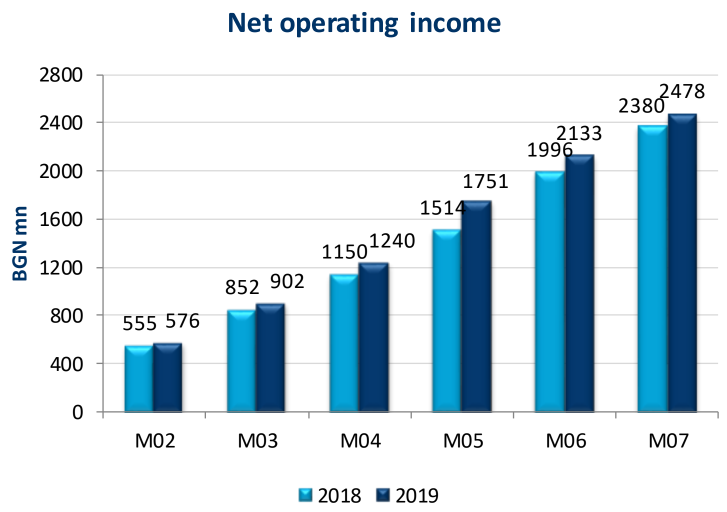
Source: BNB

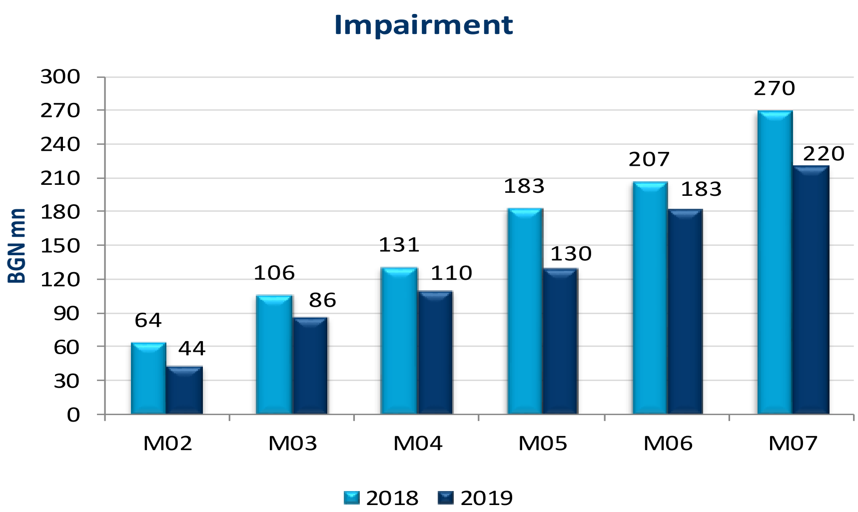
Bulgaria: Banking Sector Indicators





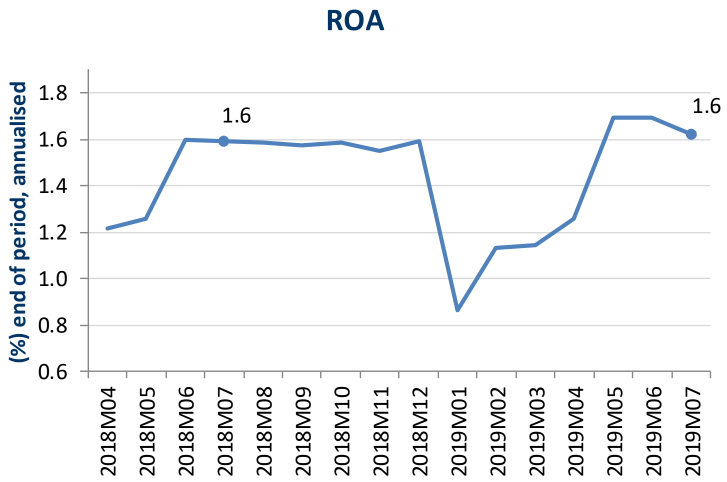


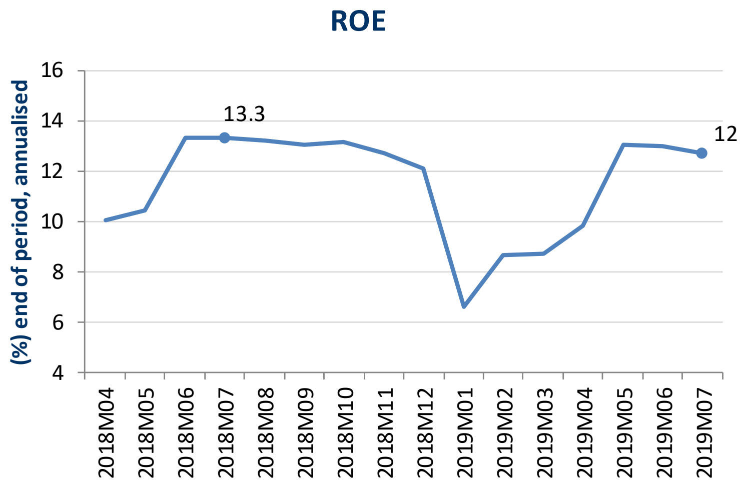


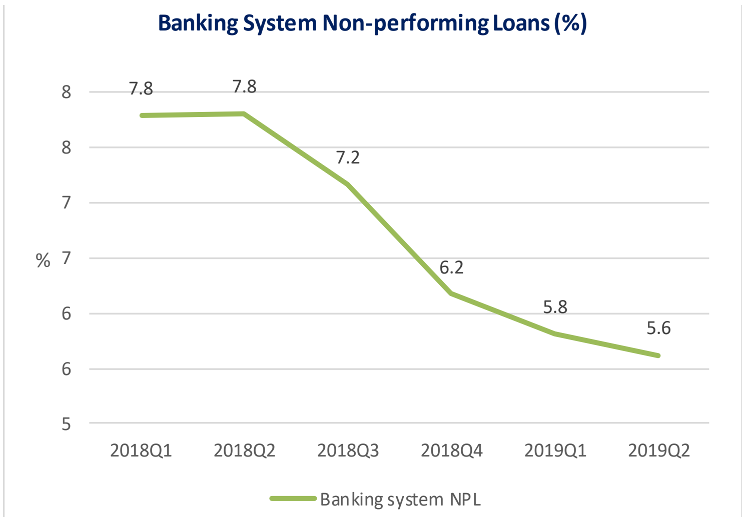


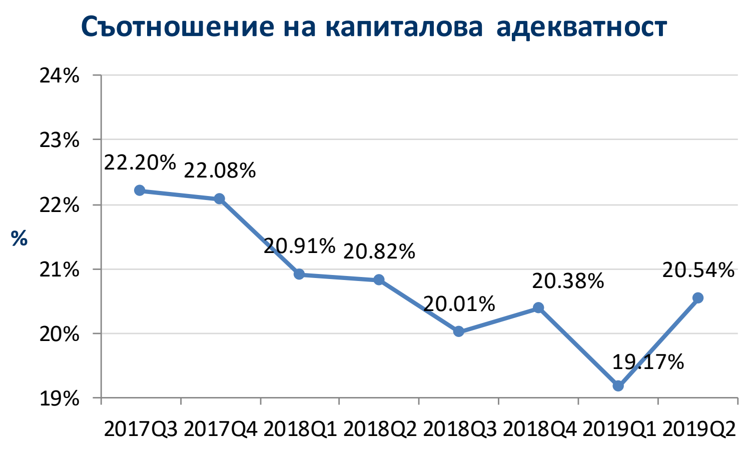
Source: BNB

Bulgaria: Banking Sector Indicators



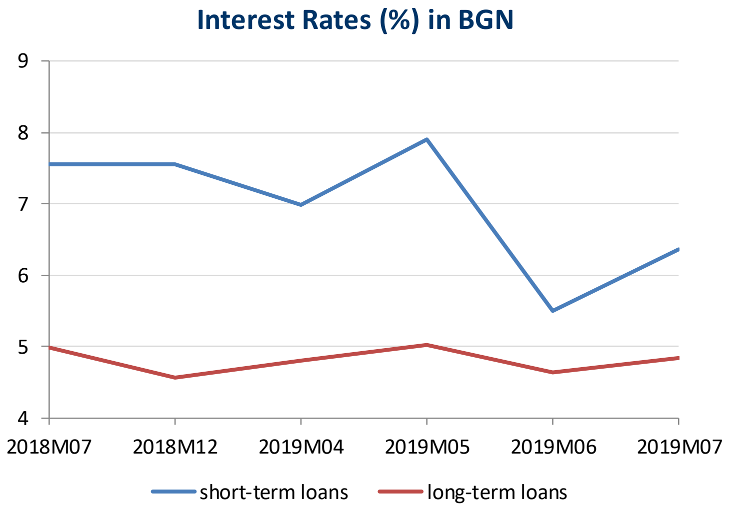


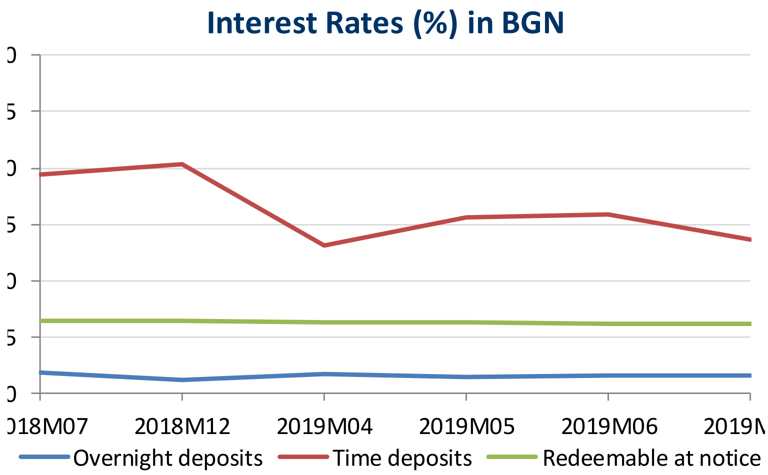


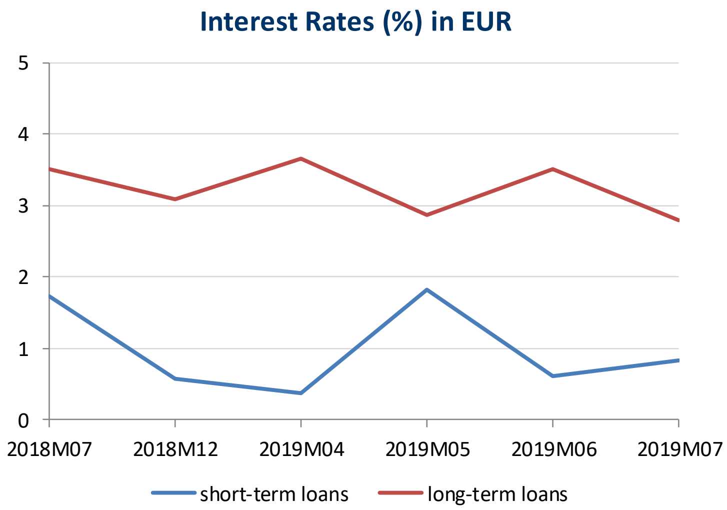


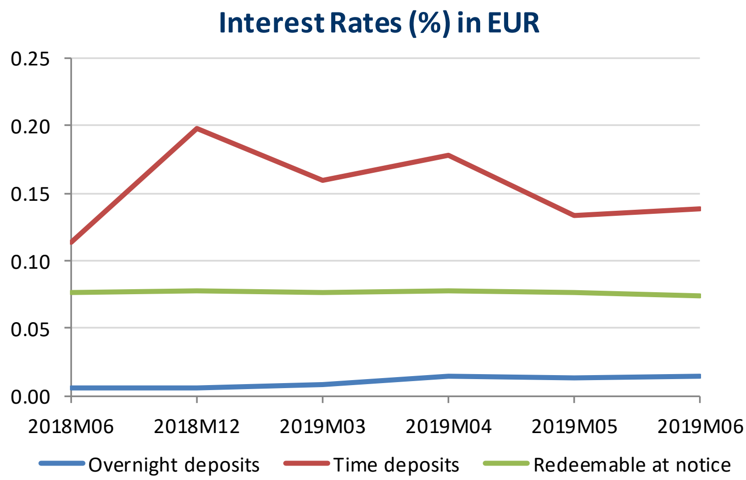
Source: BNB

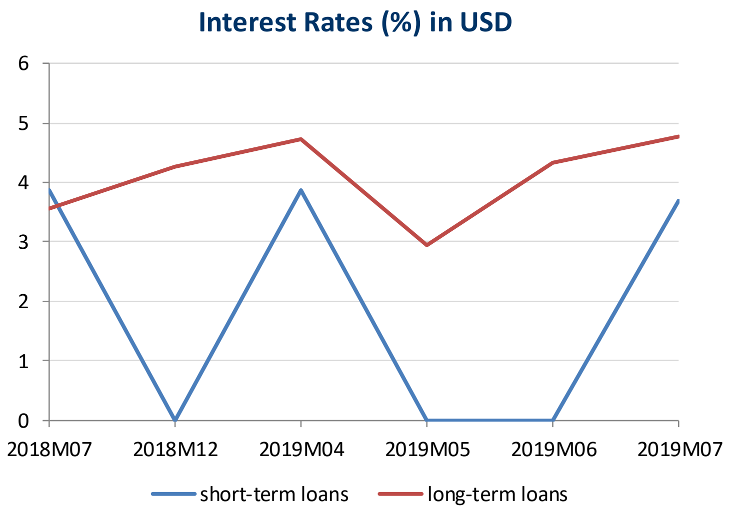
Bulgaria: Interest Rates of New Business on Deposits and New Loans Interest Rates

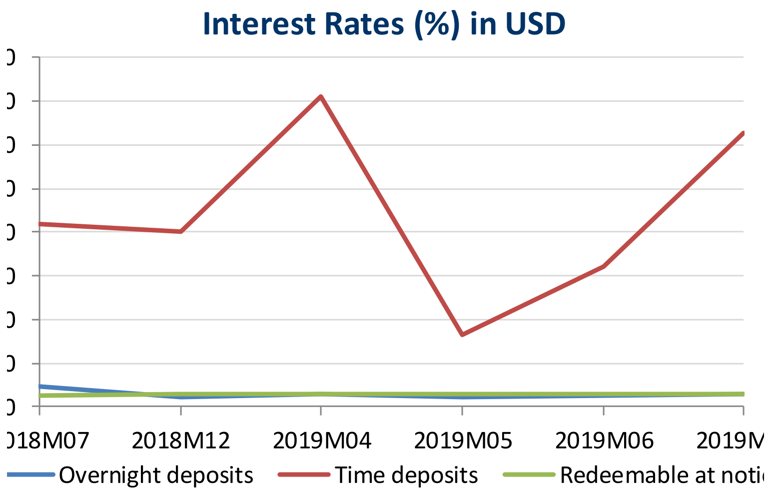






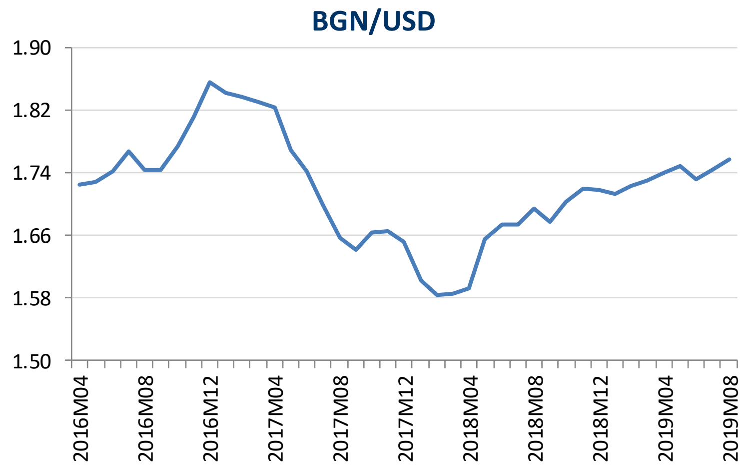


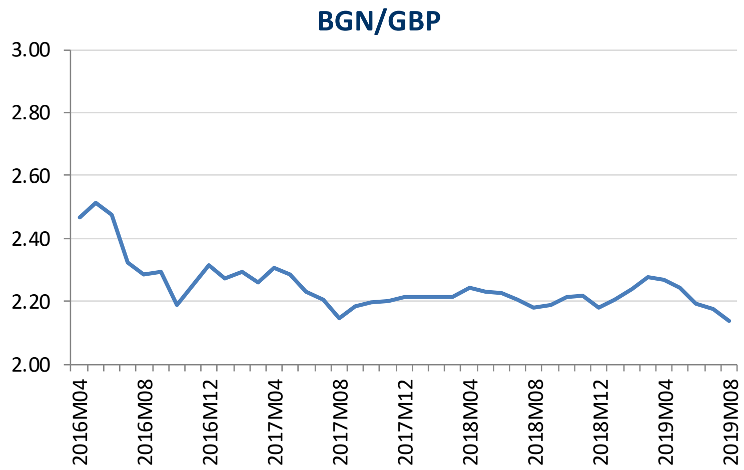


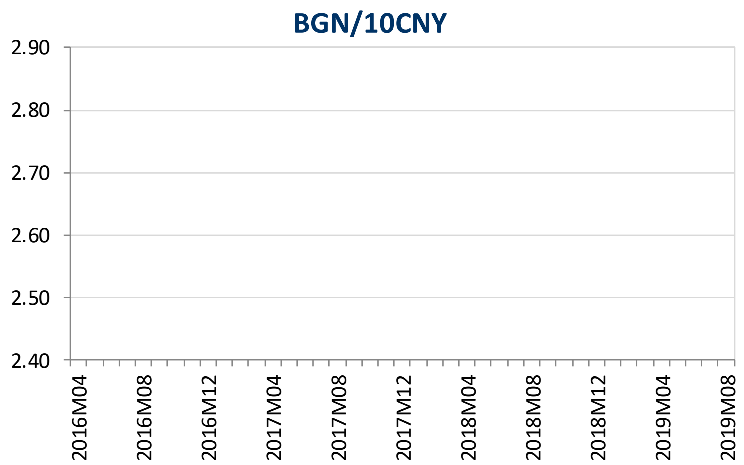


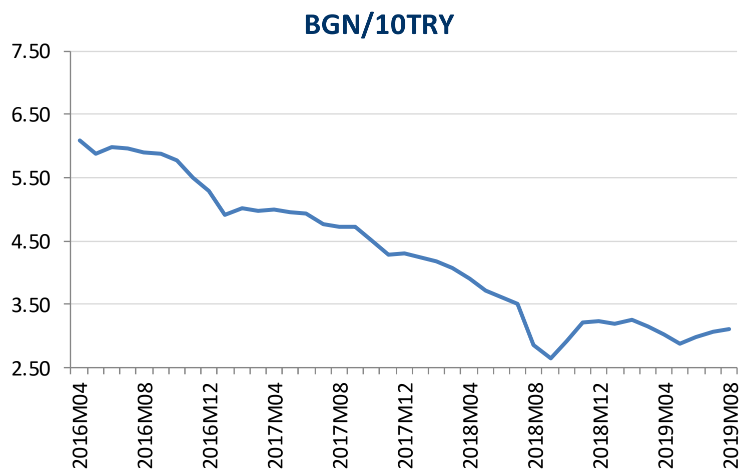
Source: BNB

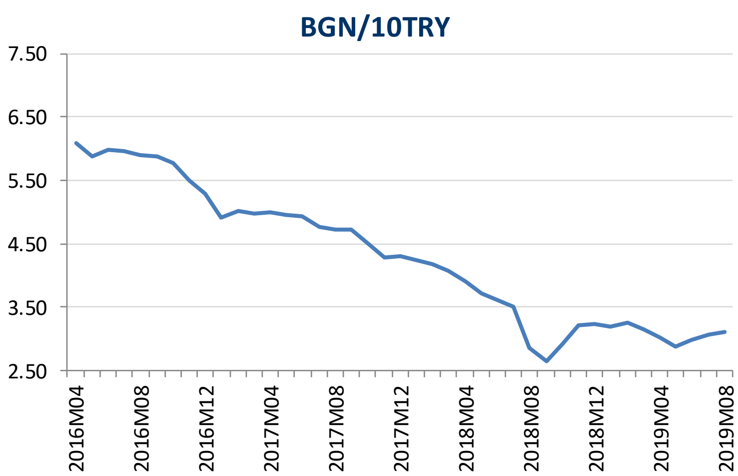
Bulgaria: FX Rates

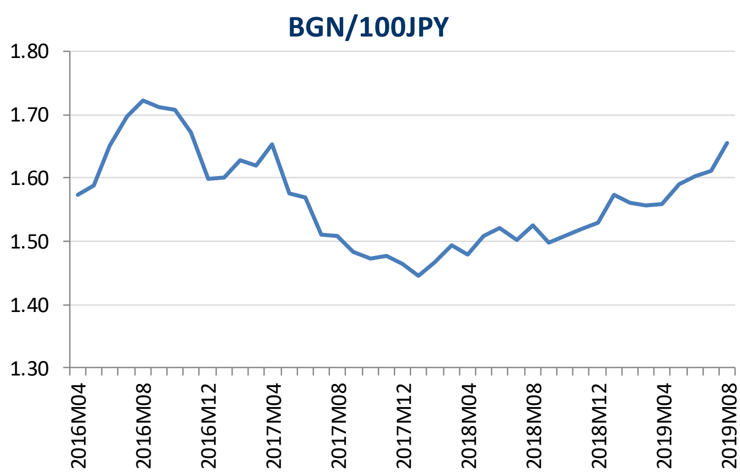












Source: ECB

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.