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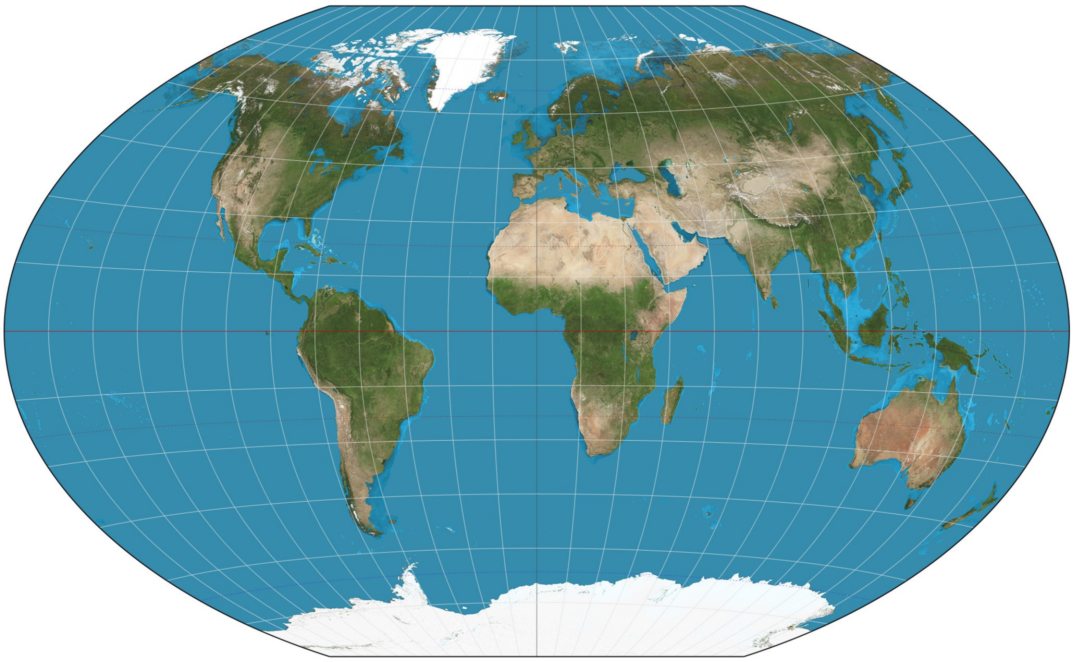
HIGHLIGHTS AND FORECASTS

MONTHLY ECONOMIC REPORT



October, 2019

Sofia

- *The IHS Markit Eurozone Manufacturing PMI fell to 45.7 in September of 2019 from 47.0 in the previous month. The IHS Markit Eurozone Services PMI dropped to 51.6 in September 2019 from 53.5 in the previous month. The Business Climate Indicator for the Euro Area dropped by 0.34 points from the previous month to -0.22 in September 2019. The Euro Area seasonally-adjusted unemployment rate dropped to 7.4% in August 2019, the lowest since May 2008, as the number of unemployed continued to decline. Considering the European Union as a whole, the unemployment rate edged down to 6.2% in August, the lowest since the start of the EU monthly unemployment series in January 2000. The annual inflation rate in the Euro Area is expected to ease to 0.9% in September 2019 from 1% in the previous month. It was the lowest inflation rate since November 2016, amid a slowdown in cost of food, alcohol & tobacco and a further fall in prices of energy. 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 increase to 1% from 0.9% in the prior month.*
- *Italy's new government, made up of the anti-establishment 5-Star Movement and the center-left Democratic Party, has promised an expansionary 2020 budget to try to revive chronically stagnant growth in the euro zone's third largest economy. The structural deficit will worsen by 0.1% next year, instead of the 0.6% improvement that Italy had committed to. Italy's finance minister told a conference organized by Italian business lobby Confindustria that the 2020 budget would renew the tax breaks, which would otherwise expire at the end of the year. "We also want to extend the incentives to those investments that support the transition to environmental sustainability," he added. The composite business morale index, combining surveys of the manufacturing, retail, construction and services sectors, declined to 98.5 from 98.8 in August to register its lowest level since February this year. The IHS Markit Italy Manufacturing PMI dropped to 47.8 in September 2019 from 48.7 in the previous month. The seasonally adjusted unemployment rate in Italy fell to 9.5% in August of 2019 from a downwardly revised 9.8% in the previous month. Italy's annual inflation rate came in at 0.4% in September of 2019, the same as in the previous month.*
- *On 17.10.2019 The European Commission has recommended the European Council (Article 50) to endorse the agreement reached at negotiator level on the Withdrawal Agreement, including a revised Protocol on Ireland / Northern Ireland, and approve a revised Political Declaration on the framework of the future EU-UK relationship. The Commission also recommends that the European Parliament give its consent to this agreement. Jean-Claude Juncker, President of the European Commission, said: "I hope that we can now bring this over the line and provide the certainty our citizens and businesses so deserve." Michel Barnier, the European Commission's Chief Negotiator, said: "We created a new and legally operative solution to avoid a hard border, and protect peace and stability on the island of Ireland. It is a solution that works for the EU, for the UK and for people and businesses in Northern Ireland." EU leaders voted unanimously to endorse the Brexit deal at the outset of a 17-18.10.2019 summit in Brussels. UK Parliament voted in favor of an amendment withholding approval of the deal until all the necessary legislation to implement it had been passed. UK Prime Minister sent "Parliament's letter" to Brussels - unsigned - and accompanied it with a second letter - which was signed - explaining why he believed a delay would be a mistake. Our prediction is that the likelihood of hard Brexit is very low now. The CBI Business Optimism Indicator for the UK plunged 19 points to -32 in the third quarter of 2019, the lowest reading since the third quarter of 2016, due to ongoing Brexit uncertainty. The IHS Markit/CIPS UK Manufacturing PMI rose to 48.3 in September 2019 from the previous month's six-and-a-half year low of 47.4. Still, the latest reading remained below the neutral 50.0 mark for five successive months, its longest sequence below that mark since mid-2009. The IHS Markit/CIPS UK Services PMI dropped to 49.5 in September 2019 from 50.6 in the previous month. UK gross domestic product fell -0.2% in the second quarter of 2019, unrevised from the previous estimate. The annual inflation rate in the United Kingdom fell to 1.7% in August 2019 from 2.1% in the previous month.*
- *The IHS Markit US Manufacturing PMI was revised slightly higher to 51.1 in September 2019 from a preliminary 51.0 and compared to the previous month's ten-year low of 50.3. The IHS Markit US Services PMI was confirmed at 50.9 in September 2019, compared to 50.7 in the previous month, signaling one of the slowest increases in output for over three years. The US unem-*

ployment rate decreased to 3.5 % in September 2019 from 3.7 % in the previous month. The last time the rate was this low was in December 1969, when it also was 3.5 %. The US annual inflation rate was unchanged at 1.7 % in September 2019, slightly below market consensus of 1.8 %, as a pick up in food inflation was offset by a further decline in energy prices. The core inflation rate, which excludes volatile items such as food and energy, was also flat at one-year high of 2.4%.

- ***The Bank of Japan's Tankan index for big manufacturers' sentiment fell to a six-year low of 5 in Q3 of 2019 from 7 in the prior period. The Jibun Bank Japan Manufacturing PMI was confirmed at 48.9 in September 2019, compared to a final 49.3 in August, signaling a sharper deterioration in the health of the manufacturing sector. The Jibun Bank Japan Services PMI was confirmed at 52.8 in September 2019, down from August's 22-month peak of 53.3. The unemployment rate in Japan remained unchanged at 2.2% in August 2019, the lowest since October 1992. A year earlier, the unemployment rate was higher at 2.4%. Japan's consumer price inflation fell to 0.3% yoy in August 2019 from 0.5% in the previous month. It was the lowest inflation rate in six months.***
- ***The Chinese economy advanced 6.0% yoy in the September quarter of 2019, slowing from a 6.2% expansion in the previous quarter. It was the lowest growth rate since the first quarter of 1992. On a quarterly basis, the economy expanded 1.5% in the three months to September 2019, following a 1.6% growth in the previous period. China and the United States have praised the inclusion of a dispute resolution mechanism as a key element of the interim trade deal reached in high -level talks last week in Washington. China's foreign ministry said that the two countries are now on the same page on the outlines of "phase one" of a comprehensive trade deal. The US administration announced that agreement will include US agricultural sales to China of USD40 billion to USD50 billion. That compares with the USD24 billion in such products the United States sold to China in 2017, before the trade war began. United States also indicated that it could walk back its decision to label China a currency manipulator. It is expect China to largely resist the pressure to change its technology policies, as China sees them as fundamental to its future growth and development strategy. The protests in Hong Kong have also surfaced as an important risk factor given the importance of Hong Kong to China's economy and its role as an international financial hub. China's annual inflation rose to 3% in September 2019 from 2.8% in the previous month. Annual core inflation, which strips out volatile food and energy prices, was at 1.5% in September, the same as in August. China's producer price index fell -1.2% yoy in September, following a -0.8% decrease in the previous month. It was the sharpest fall in producer prices since July 2016.***
- ***The business confidence index in Turkey dropped to 98.8 in September 2019 from 102.5 in the previous month, amid a deterioration in expectations over the next three months. Industrial Production index (IP) declined by -3.6% yoy in calendar adjusted terms in August. U.S. President Donald Trump halts a USD100 billion trade deal being hammered out between US and Turkey, raises tariffs on Turkish steel to 50% and imposes sanctions on senior Turkish officials and the country's Defense and Energy ministries. The United States reportedly wants to penalize Turkey for attacking a Kurdish faction which has been Washington's closest ally in Syria in the battle against the Islamic State (IS). The US agreed to refrain from imposing any new economic sanctions on Turkey and to withdraw sanctions that were imposed earlier this week once "a permanent cease-fire was in effect. Several European countries such as Germany, France, the Netherlands, Italy and Finland, have decided to suspend arms sales to Turkey over its ongoing operation. The EU condemns Turkey's unilateral military action in North East Syria which causes unacceptable human suffering, undermines the fight against Islamic state and threatens heavily European security during a summit of European Union leaders in Brussels 17-18.10.2019. Volkswagen has delayed finalizing plans to build a car plant in Turkey's Aegean city of Manisa. Turkey's unemployment rate rose to 13.9% in July 2019 from 10.8% in the same period of the previous year. Turkey's annual inflation rate fell to 9.26% in September 2019 from 15.01% in the previous month.***

- *ECB staff macroeconomic projections for the euro area, September 2019. Real GDP growth is projected to be 1.1% in 2019, 1.2% in 2020, before gradually increasing to 1.4% in 2021. Compared with the June 2019 projections, the short-term outlook has deteriorated due to weaker confidence indicators and continued global uncertainties, leading to downward revisions in 2019 and in 2020, which in 2020 are mainly due to carry-over effects. Beyond the short term the impact of negative external shocks is broadly offset by the impact of more favorable financing conditions and lower oil prices. HICP inflation is expected to moderate this year and remain subdued next year, 1.2% in 2019, 1.0% in 2020, before recovering to reach 1.5% in 2021. HICP inflation excluding energy and food will rise slightly by the end of 2019 (1.1%) and move sideways in the course of 2020 (1.2%) before strengthening in 2021(1.5%), supported by the expected pick-up in activity and the associated recovery in profit margins as past increases in labour costs feed into prices.*
- *Bank of England Inflation Report August 2019. Over the past few years, UK economy has needed interest rates to stay very low as UK recovered from the global financial crisis. As UK economy started to grow more quickly, and with inflation above the 2% target, it needed a little less support. So Bank of England raised the official interest rate from 0.25% to 0.5% in November 2017 and then from 0.5% to 0.75% in August 2018. Since then, the UK economy has slowed as firms' uncertainties about Brexit have become entrenched and growth in the world economy has eased. So Bank of England have kept interest rates unchanged. Growth in the UK economy has been volatile during the first half of this year in part because of Brexit preparations. If there is a Brexit deal, Bank of England thinks upward pressure on prices will build over the next few years and Bank of England will need to raise interest rates a bit more to keep inflation at target. If there is a 'no-deal' Brexit, our interest rate decision would need to balance the upward pressure on prices from the likely fall in the pound and any reduction in businesses' ability to supply goods and services, with the downward pressure from any cut in spending.*
- *Federal Reserve Statement Regarding Monetary Policy Implementation. To ensure that the supply of reserves remains ample, the Committee approved by notation vote completed on October 11, 2019 the following steps: The Federal Reserve will purchase Treasury bills at least into the second quarter of next year in order to maintain over time ample reserve balances at or above the level that prevailed in early September 2019. The Federal Reserve will conduct term and overnight repurchase agreement operations at least through January of next year to ensure that the supply of reserves remains ample even during periods of sharp increases in non-reserve liabilities, and to mitigate the risk of money market pressures that could adversely affect policy implementation.*
- *Haruhiko Kuroda Governor of the Bank of Japan Commencement Speech at the Graduation Ceremony of the National Graduate Institute for Policy Studies. Quantitative and qualitative monetary easing, or QQE, which was introduced immediately after I became Governor of the Bank of Japan last year, is a good example of an attempt to reconcile theory and practice. Since the late 1990s, the Bank of Japan had implemented a variety of unconventional monetary policies ahead of other central banks in its battle against the deflationary pressure that Japan's economy had been facing. These unconventional policies include a zero interest rate, quantitative easing, and forward guidance. Nevertheless, Japan's economy was unable to escape from deflation for 15 years. Thus, QQE was born as a result of an examination of both past experience and theoretical developments. In this way the Bank of Japan's monetary policies seemed have been insufficient in terms of affecting people's expectations because of the Bank's strong commitment.*
- *Speech and responses to press questions of Mr. Yi Gang, Governor of the People's Bank of China in the Press Center for the Celebration of the 70th Anniversary of the Founding of the People's Republic of China. The US Fed, the ECB, the Bank of Japan and central banks of many developing countries are adjusting their monetary policy stances through either interest rate cut or QE resumption. The current situations in China's economy shall be stabilized by strengthening countercyclical adjustment, ensuring that the growth of broad money supply (M2) and aggregate financing to the real economy (AFRE) is generally in line with the nominal GDP growth, and avoiding massive liquidity injection. A stable leverage ratio should be maintained to ensure the debt sustainability of the entire society. I want to make it clear that, unlike central banks of some other countries, we are in no hurry to resort to a considerable interest rate reduction or QE policy. We believe that China should adhere to sound monetary policy. In this process, people are worried that major developed countries may exhaust their monetary policy tools if there is an economic downturn, as they are on the verge of adopting zero or even negative interest rate policy. I believe that we should maintain normal policy space in monetary policy operation, so that the normal monetary policy can be implemented for as long as possible.*

- ***As banks reflected the increase in TRY funding costs on their loan pricing, personal, vehicle and housing loan rates increased and loan growth rates receded in this quarter. The loss of momentum in loan growth in this quarter stemmed mostly from the tightness in banks' lending standards and the sluggish loan demand. Consumer inflation fell by 3.99% to 15.72% in the second quarter of 2019 compared to the end of the previous quarter. Economic activity displayed a partial recovery in the first quarter of 2019. Domestic demand was the main driver of quarterly growth, while net exports remained flat. Turkish President Recep Tayyip Erdogan signaled that he expects further monetary easing by the central bank even though he has been satisfied with the pace of interest cuts thus far. We are already suggesting that policymakers may deliver another 150-200 basis-point rate cut when they next meet in October.***
- ***Oil prices are falling on 21.10.2019, as the main factor for their downward movement in today's trade is the unsatisfactory economic data of China and the emerging doubts about the feasibility of the US-China trade agreement. The Brent price drops -0.08 USD/BBL or -0.14% to 58.9747 USD/BBL on Monday, October 21st. For the week the decrease is -0.15%. On the other hand, the price of crude oil drops by USD -0.14 USD/BBL or -0.25% to 53.5837 USD/BBL. For the week the decrease is -1.43%. On 18.10.2019, the slowdown in the growth of the Chinese economy, the largest oil consumer in the world, was reported for the third quarter of this year to a minimum of 30 years. At the same time, US oil stocks have jumped 9.28 million barrels, with a projection of 4 million barrels. The number of wells in operation in the country is increasing for a second week. This data is sufficient to offset the positive impetus that oil prices can derive from geopolitical tensions in the Middle East.***
- ***The first half of October was pending new data in the USDA's Global Grain Balance Report. The announced slight reduction in wheat production due to adverse weather conditions in Australia and Argentina, as well as the expansion in exports were the main factors for the upturn in the prices of the two major grain contracts on the global stock markets. In the United States, the estimate for bread wheat was reduced by 500 thousand tons and quotations jumped from USD 13.00 to 229.00 USD/ton. In the EU and the rest of Europe, yields are also well within forecast, so France slightly raised quotes by EUR 3.25 to 181.25 EUR/ ton. In Russia and Ukraine, prices were influenced by the US and went up by USD 8.00 and USD 7.00 to USD 203.00 and 201.00 USD/ton, respectively. In the Grain sub-circle of the Sofia Commodity Exchange AD, quotations also moved. Wheat from the field is offered from 350.00 to 310.00 BGN/ton, demand is at 270.00-290.00 BGN/ton. In the case of feed wheat, traders are approaching positions with a slight upward movement, offering 280.00 BGN/ton, demand is 250.00-260.00 BGN/ton.***

- *In January – August 2019 the current and capital account was positive amounting to EUR 4,812.7 million (8.1% of GDP), compared with a surplus of EUR 2,800.7 million (5.1% of GDP).*
- *In January-August 2019 the net flows of foreign direct investment in Bulgaria presented according to the directional principle recorded a a positive value of EUR 603.5 million (1% of GDP), growing by EUR 196.3 million from January – August 2018 (positive value of EUR 407.2 million, 0.3% of GDP).*
- *In September 2019 the BNB's international reserves amount to BGN 49.4 billion (EUR 25.3 billion), increase by 2% mom and by 6.4% yoy, respectively and maintain the stability of the Currency Board in Bulgaria.*
- *In the Ministry of finance Macroeconomic Forecast: Wages are rising at an accelerated rate. Consumption drives the economy, unemployment is at a record low.*
- *IMF has raised its economic growth forecast for Bulgaria to 3.7% for 2019 and 3.2% for 2020.*
- *In September 2019, the total business climate indicator preserves its level from the previous month at 26.4 index points. An improvement of the indicator is observed in construction, retail trade and service sector, as only in industry a reduction is reported.*
- *According to the preliminary data in August 2019 the Industrial Production Index, seasonally adjusted, decreased by 0.1% as compared to July 2019. In August 2019 the working day adjusted Industrial Production Index fell by 1.3% in comparison with the same month of 2018.Industrial Production in Bulgaria is expected to be 1.9% by the end of 2019. Looking forward, we estimate Industrial Production in Bulgaria to stand at 3.1% in 2020 and 3.3% in 2021.*
- *According to the preliminary seasonally adjusted data in August 2019 the turnover in "Retail trade, except of motor vehicles and motorcycles" at constant prices decreased by 0.3% compared to the previous month. Retail Sales yoy in Bulgaria is expected to be 4.2% by the end of 2019. Looking forward, we estimate Retail Sales yoy in Bulgaria to stand at 4% in 2020 and 4.5% in 2021.*
- *According to the preliminary data, in August 2019 the index of production in section "Construction" calculated on the base of seasonally adjusted data was 0.2% below the level of the previous month. In August 2019 the working day adjusted index of production in construction increased by 3.4% in comparison with the same month of 2018.Construction Output in Bulgaria is expected to be 3.2% by the end of 2019. Construction Output in Bulgaria to stand at 4% in 2020 and 3% in 2021.*
- *The harmonized index of consumer prices (HIPC) in Bulgaria for September 2019 compared to August 2019 is 98.8%, ie. monthly inflation is minus 1.2%. Since the beginning of the year, inflation has been 1.8% and annual inflation for September 2019 compared to September 2018 is 1.6%. The average annual inflation for the period October 2018 - September 2019 compared to the period October 2017 - September 2018 is 2.6%, below the Maastricht demand for inflation no higher than 3%. Expectations are for a slight increase in consumer price growth by the end of 2019 due to higher oil prices. At the same time, it is expected that inflation in the services sector will slow down, mainly as a result of a slower rise in prices in tourism and road insurance. However, food will continue to have a positive effect on overall inflation, with one reason for the forecast being the poorer agricultural crop in the country. Our estimate is that inflation in Bulgaria will reach 2.5% in 2019, 2.3% in 2020 and 2.1% in 2021.*
- *Total Producer Price Index in August 2019 increased by 0.3% compared to the previous month; compared to the same month of 2018 the prices rose by 3.5%. Producer Price Index on Domestic Market in August 2019 rose by 0.7% compared to the previous month; compared to the same month of 2018 the domestic prices grew by 4.5%.*
- *In September 2019. the registered unemployment rate in Bulgaria remains at 5.3% for the third consecutive month, decreasing by 0.3 percentage points 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 50,000 people a year.*
- *Consolidated Fiscal Programme (CFP) balance on a cash basis as of end-August 2019 is positive, amounting to BGN 1,112.6 million, or 1.0% of the projected GDP, and is formed by an excess of revenues over expenditures of BGN 1,016.9 million under the national budget and of BGN 95.6 million under EU funds. Based on the preliminary data and estimates, the excess of revenues over expenditures under the Consolidated Fiscal Programme (CFP) as of September 2019 is ex-*

pected to amount to BGN 1,266.6 million (1.1% of the projected GDP).

- *In January – July 2019, Bulgaria's central government sub-sector debt amounted to EUR 11,971.3 million and accounted for 20.3% 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.*
- *On 7 October 2019 the Ministry of Finance reopened an issue of 20-year BGN-denominated government securities (GS) placed on 21 June 2019 and maturing on 21 June 2039.*
- *At the end of August 2019 broad money (monetary aggregate M3) amounted at BGN 98.507 billion (85.1% of GDP) and increased by 7.7% yoy. Domestic credit – was BGN 60.471 billion and increased by 7.5% yoy.*
- *In September 2019, SOFIX registered an increase to 570.58 points. The index of the most liquid companies BGBX 40 rose to 113.44 points. The weighted BG TR30 rose to 507.30 points. The BGREIT real estate meter rose to 128.08 points.*
- *In August 2019, the banking system's assets amounted to BGN 110.7 billion and accounted for 95.6% of GDP. Household loans reported a monthly decline of 1.7% and an increase of 8.2% yoy. Loans to non-financial corporations amount to BGN 35.9 billion and increase by 3.5% yoy. Loans to other financial corporations and the general government sector increased by 15.8% and 13.5% on an annual basis to BGN 3.5 billion and BGN 812 million, respectively. Deposits from households and non-financial corporations increased by 0.5% on a monthly basis and by 7.6% yoy to BGN 55.5 billion. Funds from non-financial corporations also increased by 1.3% on a monthly basis and by 2.4% yoy to BGN 26.4 billion and by other financial corporations (by 25.6% yoy to BGN 3.7 billion .*

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GLOBAL TRENDS

ADVANCED COUNTRIE'S ECONOMIES

Eurozone

The IHS Markit Eurozone Manufacturing PMI fell to 45.7 in September of 2019 from 47.0 in the previous month. The IHS Markit Eurozone Services PMI dropped to 51.6 in September 2019 from 53.5 in the previous month. The Business Climate Indicator for the Euro Area dropped by 0.34 points from the previous month to -0.22 in September 2019. The Euro Area seasonally-adjusted unemployment rate dropped to 7.4% in August 2019, the lowest since May 2008, as the number of unemployed continued to decline. Considering the European Union as a whole, the unemployment rate edged down to 6.2% in August, the lowest since the start of the EU monthly unemployment series in January 2000. The annual inflation rate in the Euro Area is expected to ease to 0.9% in September 2019 from 1% in the previous month. It was the lowest inflation rate since November 2016, amid a slowdown in cost of food, alcohol & tobacco and a further fall in prices of energy. 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 increase to 1% from 0.9% in the prior month.

The IHS Markit Eurozone Manufacturing PMI fell to 45.7 in September of 2019 from 47.0 in the previous month and above preliminary estimates of 45.6, final figures showed. Still, the latest reading pointed to the steepest contraction in the manufacturing sector October 2012, as output, new orders and purchasing all fall sharply during September. Also, jobs were cut for the fifth consecutive month and at the sharpest rate since April 2013. On the price front, input costs decline at joint-sharpest rate since April 2016. Finally, confidence about the future was little-changed since August, when sentiment was at its lowest level since November 2012. The IHS Markit Eurozone Services PMI dropped to 51.6 in September 2019 from 53.5 in the previous month and below preliminary estimates of 52, final data showed. The latest reading pointed to the weakest pace of expansion in the service sector since January, as new orders rose at a slower pace, especially from foreign clients and services exports declined. Backlogs of work fell for a second successive month and job creation growth softened to an eight-month low. On the price front, input costs increased at the weakest degree for 25 months and output prices were raised only modestly. Finally, confidence about the year ahead was stronger than in August. The Business Climate Indicator for the Euro Area dropped by 0.34 points from the previous month to -0.22 in September 2019, the lowest level since August 2013 and below market expectations of 0.11. All the components of the BCI worsened. The decline was particularly sharp in managers' assessments of past production, export order books and overall order books. Albeit to a lesser extent, also their production expectations, as well as their views on stocks of finished products deteriorated markedly. The Euro Area seasonally-adjusted unemployment rate dropped to 7.4% in August 2019, the lowest since May 2008 and slightly below market expectations of 7.5%, as the number of unemployed continued to decline. Considering the European Union as a whole, the unemployment rate edged down to 6.2% in August, the lowest since the start of the EU monthly unemployment series in January 2000. Among EU Member States, the lowest unemployment rates in July were recorded in Czechia (2.0%) and Germany (3.1%). The highest unemployment rates were observed in Greece (17.0% in June 2019) and Spain (13.8%). Compared with a year ago, the largest decreases were registered in Greece (17.0% from 19.2% between June 2019 and June 2018), Cyprus (6.8% from 8.2%), Bulgaria (4.0% from 5.2%), Spain (13.8% from 15.0%), and Croatia (6.9% from 8.1%). The youth unemployment rate was 14.2% in the EU28 and 15.4% in the Euro Area, compared with 15.1% and 16.8% respectively in August 2018. The lowest rates were observed in Czechia (5.1%), Germany (5.7%), and the Netherlands (6.9%), while the highest were recorded in Greece (33.0% in Q2 2019), Spain (32.2%) and Italy (27.1%). The annual inflation rate in the Euro Area is expected to ease to 0.9% in September 2019 from 1% in the previous month and slightly below market expectations of 1%, a preliminary estimate showed. It was the lowest inflation rate since November 2016, amid a slowdown in cost of food, alcohol & tobacco and a further fall in prices of energy. 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 increase to 1% from 0.9% in the prior month in line with market forecasts.

Italy

Italy's new government, made up of the anti-establishment 5-Star Movement and the center-left Democratic Party, has promised an expansionary 2020 budget to try to revive chronically stagnant growth in the euro zone's third largest economy. The structural deficit will worsen by 0.1% next year, instead of the 0.6% improvement that Italy had committed to. Italy's finance minister told a conference organized by Italian business lobby Confindustria that the 2020 budget would renew the tax breaks, which would otherwise expire at the end of the year. "We also want to extend the incentives to those investments that support the transition to environmental sustainability," he added. The composite business morale index, combining surveys of the manufacturing, retail, construction and services sectors, declined to 98.5 from 98.8 in August to register its lowest level since February this year. The IHS Markit Italy Manufacturing PMI dropped to 47.8 in September 2019 from 48.7 in the previous month. The seasonally adjusted unemployment rate in Italy fell to 9.5% in August of 2019 from a downwardly revised 9.8% in the previous month. Italy's annual inflation rate came in at 0.4% in September of 2019, the same as in the previous month.

Italy's new government, made up of the anti-establishment 5-Star Movement and the center-left Democratic Party, has promised an expansionary 2020 budget to try to revive chronically stagnant growth in the euro zone's third largest economy. Italy's government reportedly approved a budget deficit target for 2020 equal to 2.2% of GDP, including a reduction in government spending meant to avoid triggering an increase in VAT rates. Investment spending in Italy amounts to 2% of gross domestic product, a third less than at the start of the decade. Private investments are also below pre-crisis levels having shrunk by 30% between 2007 and 2013, according to the Bank of Italy. Italy's finance minister told a conference organized by Italian business lobby Confindustria that the 2020 budget would renew the tax breaks, which would otherwise expire at the end of the year. "We also want to extend the incentives to those investments that support the transition to environmental sustainability," he added. The structural deficit will worsen by 0.1% next year, instead of the 0.6% improvement that Italy had committed to. Italy's manufacturing confidence index decreased to 98.8 in September 2019 from a revised 99.6 in the previous month and below market expectations of 100.0. That was the fourth consecutive decline in morale and the lowest reading since October 2014, due to a deterioration in orders level (-17.8 vs -16.7 in August) and output outlook (3.7 vs 4.9). Stocks of inventories were unchanged (at 4.1). The composite business morale index, combining surveys of the manufacturing, retail, construction and services sectors, declined to 98.5 from 98.8 in August to register its lowest level since February this year. The IHS Markit Italy Manufacturing PMI dropped to 47.8 in September 2019 from 48.7 in the previous month and below market consensus of 48.0. The latest reading pointed to the 12th consecutive month of contraction in the manufacturing sector and the sharpest deterioration in business conditions in six months, led by declines in output and new orders. Export sales also dropped, amid reports of weaker demand from European and US customers. The IHS Markit Italy Services PMI rose to 51.4 in September 2019 from 50.6 in the previous month and well above market expectations of 50.4. New order growth accelerated despite a further decline in new export sales. Moreover, the rate of backlog depletion was steep and the fastest since March 2016. The seasonally adjusted unemployment rate in Italy fell to 9.5% in August of 2019 from a downwardly revised 9.8% in the previous month and below market expectations of 9.9%. It was the lowest jobless rate since November of 2011. Youth unemployment rate, measuring job -seekers between 15 and 24 years old, dropped 1.3% to 27.1%. Italy's annual inflation rate came in at 0.4% in September of 2019, the same as in the previous month while markets were expecting an increase to 0.6%, preliminary estimates showed. It remains at its lowest level since November 2016 as higher prices of processed food including alcohol and recreation services including repair and personal care were offset by lower cost of unprocessed food and transport services. Annual core inflation rate, which excludes energy and unprocessed food, should edge up to 0.6% in September from 0.5% in the previous month. Excluding only energy, inflation should be steady at 0.6%, the same as in August. On a monthly basis, consumer prices are likely to decrease 0.5%, down from a 0.4% gain in the prior month and compared with market expectations of a 0.2% drop. The harmonized index of consumer prices is expected to rise 0.3% from the previous year (from 0.5% in August); and to advance 1.5% month-over-month (from a flat reading in August).

Great Britain

On 17.10.2019 The European Commission has recommended the European Council (Article 50) to endorse the agreement reached at negotiator level on the Withdrawal Agreement, including a revised Protocol on Ireland / Northern Ireland, and approve a revised Political Declaration on the framework of the future EU-UK relationship. The Commission also recommends that the European Parliament give its consent to this agreement. Jean-Claude Juncker, President of the European Commission, said: "I hope that we can now bring this over the line and provide the certainty our citizens and businesses so deserve." Michel Barnier, the European Commission's Chief Negotiator, said: "We created a new and legally operative solution to avoid a hard border, and protect peace and stability on the island of Ireland. It is a solution that works for the EU, for the UK and for people and businesses in Northern Ireland." EU leaders voted unanimously to endorse the Brexit deal at the outset of a 17-18.10.2019 summit in Brussels. UK Parliament voted in favor of an amendment withholding approval of the deal until all the necessary legislation to implement it had been passed. UK Prime Minister sent "Parliament's letter" to Brussels - unsigned - and accompanied it with a second letter - which was signed - explaining why he believed a delay would be a mistake. Our prediction is that the likelihood of hard Brexit is very low now. The CBI Business Optimism Indicator for the UK plunged 19 points to -32 in the third quarter of 2019, the lowest reading since the third quarter of 2016, due to ongoing Brexit uncertainty. The IHS Markit/CIPS UK Manufacturing PMI rose to 48.3 in September 2019 from the previous month's six-and-a-half year low of 47.4. Still, the latest reading remained below the neutral 50.0 mark for five successive months, its longest sequence below that mark since mid-2009. The IHS Markit/CIPS UK Services PMI dropped to 49.5 in September 2019 from 50.6 in the previous month. UK gross domestic product fell -0.2% in the second quarter of 2019, unrevised from the previous estimate. The annual inflation rate in the United Kingdom fell to 1.7% in August 2019 from 2.1% in the previous month.

On 17.10.2019 The European Commission has recommended the European Council (Article 50) to endorse the agreement reached at negotiator level on the Withdrawal Agreement, including a revised Protocol on Ireland / Northern Ireland, and approve a revised Political Declaration on the framework of the future EU-UK relationship. The Commission also recommends that the European Parliament give its consent to this agreement. This follows a series of intensive negotiations between the European Commission and UK negotiators over the past few days. EU leaders voted unanimously to endorse the Brexit deal at the outset of a 17-18.10.2019 summit in Brussels. UK Parliament voted in favor of an amendment withholding approval of the deal until all the necessary legislation to implement it had been passed. UK Prime Minister sent "Parliament's letter" to Brussels - unsigned - and accompanied it with a second letter - which was signed - explaining why he believed a delay would be a mistake. Our prediction is that the likelihood of hard Brexit is very low now. Jean-Claude Juncker, President of the European Commission, said: "This agreement is a fair compromise between the EU and the UK. It is testament to the commitment and willingness of both sides to do what is best for EU and UK citizens. We now have a newly agreed Protocol that protects peace and stability on the island of Ireland and fully protects our Single Market. I hope that we can now bring this over the line and provide the certainty our citizens and businesses so deserve." Michel Barnier, the European Commission's Chief Negotiator, said: "We had difficult discussions over the past days. We have managed to find solutions that fully respect the integrity of the Single Market. We created a new and legally operative solution to avoid a hard border, and protect peace and stability on the island of Ireland. It is a solution that works for the EU, for the UK and for people and businesses in Northern Ireland." The CBI Business Optimism Indicator for the UK plunged 19 points to -32 in the third quarter of 2019, the lowest reading since the third quarter of 2016, due to ongoing Brexit uncertainty. Also, investment spending plans weakened again while optimism about export prospects for the year ahead worsened. Domestic and export orders declined at their fastest pace since the financial crisis and overall order books were below "normal" to the greatest extent since 2010. The IHS Markit/CIPS UK Manufacturing PMI rose to 48.3 in September 2019 from the previous month's six-and-a-half year low of 47.4, beating market consensus of 47.0. Still, the latest reading remained below the neutral 50.0 mark for five successive months, its longest sequence below that mark since mid-2009. Output continued to contract, amid lower inflows of new work from the domestic and overseas markets, and employment declined the most since February 2013. Companies reported that capacity had been reduced due to lower demand, efforts to control costs, redundancies and natural wastage. Meanwhile, input buying levels increased as part of restarting Brexit preparations. The IHS Markit/CIPS UK Services PMI dropped to 49.5 in September 2019 from 50.6 in the previous month and below market consensus of 50.3. The latest reading signalled a decline in service sector output, amid lower volumes of both new and outstanding business, with firms reporting that heightened uncertainty around Brexit had led to the postponement of orders by clients. In addition, new export business contracted at the fastest pace since March while employment fell for the first time in five months, and at the fastest rate since August 2010. UK gross domestic product fell -0.2% in the second quarter of 2019, unrevised from the previous estimate and compared to the previous period's figure of 0.6%.

Gross capital formation contracted sharply, while private consumption, government spending and net trade contributed positively to GDP growth. On the production side, industrial output fell the most since the fourth quarter of 2012. The annual inflation rate in the United Kingdom fell to 1.7% in August 2019 from 2.1% in the previous month and below market expectations of 1.9%. It was the lowest inflation rate since December 2016, amid a slowdown in cost of transport and a fall in clothing & footwear prices. The consumer prices index including owner occupiers' housing costs (CPIH) declined to 1.7% in August from 2% in the prior month. The annual core inflation rate, which excludes prices of energy, food, alcohol and tobacco, decreased to 1.5%, its lowest since November 2016, from 1.9% in July. On a monthly basis, consumer prices advanced to 0.4%, following a flat reading in the previous month.

USA

The IHS Markit US Manufacturing PMI was revised slightly higher to 51.1 in September 2019 from a preliminary 51.0 and compared to the previous month's ten-year low of 50.3. The IHS Markit US Services PMI was confirmed at 50.9 in September 2019, compared to 50.7 in the previous month, signaling one of the slowest increases in output for over three years. The US unemployment rate decreased to 3.5 % in September 2019 from 3.7 % in the previous month. The last time the rate was this low was in December 1969, when it also was 3.5 %. The US annual inflation rate was unchanged at 1.7 % in September 2019, slightly below market consensus of 1.8 %, as a pick up in food inflation was offset by a further decline in energy prices. The core inflation rate, which excludes volatile items such as food and energy, was also flat at one-year high of 2.4%.

The IHS Markit US Manufacturing PMI was revised slightly higher to 51.1 in September 2019 from a preliminary 51.0 and compared to the previous month's ten-year low of 50.3. The latest reading was the highest since April, but still signaled a modest overall improvement in manufacturing sector business conditions. The quarterly average indicated the worst performance across the sector since the same period in 2009. The IHS Markit US Services PMI was confirmed at 50.9 in September 2019, compared to 50.7 in the previous month, signaling one of the slowest increases in output for over three years. New business growth slipped further to the weakest level since data collection began in October 2009, as new business from abroad dropped at the fastest pace since 2014. in addition, outstanding business contracted the most since April 2014, while employment fell for the first time since February 2010, and at the sharpest rate since the end of 2009. On the price front, input costs fell for only the second time in the series history. Firms also cut their selling prices in an effort to remain competitive. Expectations towards output over the year ahead were at the second-weakest level in the series history, amid concerns surrounding ongoing business uncertainty and gloomier global economic growth projections. The US unemployment rate decreased to 3.5 % in September 2019 from 3.7 % in the previous month and above below market expectations of 3.7 %. The last time the rate was this low was in December 1969, when it also was 3.5 %. Over the month, the number of unemployed persons decreased by 275,000 to 5.8 million. The US annual inflation rate was unchanged at 1.7 % in September 2019, slightly below market consensus of 1.8 %, as a pick up in food inflation was offset by a further decline in energy prices. The core inflation rate, which excludes volatile items such as food and energy, was also flat at one-year high of 2.4 %, in line with market consensus. On a monthly basis, consumer prices were unchanged in September, after a 0.1 % gain in August and below market forecasts of 0.1 %.

Japan

The Bank of Japan's Tankan index for big manufacturers' sentiment fell to a six-year low of 5 in Q3 of 2019 from 7 in the prior period. The Jibun Bank Japan Manufacturing PMI was confirmed at 48.9 in September 2019, compared to a final 49.3 in August, signaling a sharper deterioration in the health of the manufacturing sector. The Jibun Bank Japan Services PMI was confirmed at 52.8 in September 2019, down from August's 22-month peak of 53.3. The unemployment rate in Japan remained unchanged at 2.2% in August 2019, the lowest since October 1992. A year earlier, the unemployment rate was higher at 2.4%. Japan's consumer price inflation fell to 0.3% yoy in August 2019 from 0.5% in the previous month. It was the lowest inflation rate in six months.

The Bank of Japan's Tankan index for big manufacturers' sentiment fell to a six-year low of 5 in the third quarter of 2019 from 7 in the prior period and compared to market expectations of 2. The Jibun Bank Japan Manufacturing PMI was confirmed at 48.9 in September 2019, compared to a final 49.3 in August, signaling a sharper deterioration in the health of the manufacturing sector. Both output and new orders declined at accelerated rates and overseas sales fell for the tenth month in a row, amid lower demand from China, the US and Europe. Also, firms tapered their purchasing of inputs, while pre-production stocks fell the most in eight months. The Jibun Bank Japan Services PMI was confirmed at 52.8 in September 2019, down from August's 22-month peak of 53.3. New orders climbed, boosted by the fastest increase in new export sales since July 2018, while employment growth was only slightly faster than August's one-and-a-half-year low.

On the price front, input costs accelerated, as expenses were driven by higher shipping, labor and rent costs. The unemployment rate in Japan remained unchanged at 2.2% in August 2019, the lowest since October 1992 and below market expectations of 2.3%. . A year earlier, the unemployment rate was higher at 2.4%. The jobs-to-applications ratio also remained steady at 1.59, the lowest since March 2018 but above market expectations of 1.58 Japan's consumer price inflation fell to 0.3% yoy in August 2019 from 0.5% in the previous month and well below market expectations of 0.6%. It was the lowest inflation rate in six months, raising the chances of further stimulus after the Bank of Japan decided to leave policy unchanged in its September meeting but left the window wide open for easing, calling for a review of prices and the economy in October.

China

The Chinese economy advanced 6.0% yoy in the September quarter of 2019, slowing from a 6.2% expansion in the previous quarter. It was the lowest growth rate since the first quarter of 1992. On a quarterly basis, the economy expanded 1.5% in the three months to September 2019, following a 1.6% growth in the previous period. China and the United States have praised the inclusion of a dispute resolution mechanism as a key element of the interim trade deal reached in high-level talks last week in Washington. China's foreign ministry said that the two countries are now on the same page on the outlines of "phase one" of a comprehensive trade deal. The US administration announced that agreement will include US agricultural sales to China of USD40 billion to USD50 billion. That compares with the USD24 billion in such products the United States sold to China in 2017, before the trade war began. United States also indicated that it could walk back its decision to label China a currency manipulator. It is expect China to largely resist the pressure to change its technology policies, as China sees them as fundamental to its future growth and development strategy. The protests in Hong Kong have also surfaced as an important risk factor given the importance of Hong Kong to China's economy and its role as an international financial hub. China's annual inflation rose to 3% in September 2019 from 2.8% in the previous month. Annual core inflation, which strips out volatile food and energy prices, was at 1.5% in September, the same as in August. China's producer price index fell -1.2% yoy in September, following a -0.8% decrease in the previous month. It was the sharpest fall in producer prices since July 2016.

China and the United States have praised the inclusion of a dispute resolution mechanism as a key element of the interim trade deal reached in high-level talks last week in Washington. China's foreign ministry said that the two countries are now on the same page on the outlines of "phase one" of a comprehensive trade deal. China conceded some ground on purchases of agricultural products, including soybeans and pork, according to Oxford Economics. The US administration announced that agreement will include US agricultural sales to China of USD40 billion to USD50 billion. That compares with the USD24 billion in such products the United States sold to China in 2017, before the trade war began. Last year, the United States sold just USD9.3 billion worth of agricultural goods to China. For China, agreeing to buy US agricultural products might be driven in part by its need to satisfy domestic demand for pork, particularly as swine fever has ravaged the country's pork industry. United States also indicated that it could walk back its decision to label China a currency manipulator. Most experts and analysts say that China's central bank has actually been taking measures to prop up its currency for years as a way to prevent companies and investors from pulling money out of the country. Huawei is "not part of this agreement," US Trade Representative Robert Lighthizer told. US restrictions on Chinese tech champion Huawei and several high-profile AI companies have aggravated that clash, and there's little sign that the two countries are close to resolving those issues. The United States added companies such as Sense Time and Hikvision to its trade blacklist. The United States has long been concerned about China's lax approach to intellectual property rights and forced technology transfers imposed on US companies operating in China. Resolutions to those deeper, structural issues are notably absent in "phase one" deal. It is expect China to largely resist the pressure to change its technology policies, as China sees them as fundamental to its future growth and development strategy. The protests in Hong Kong have also surfaced as an important risk factor given the importance of Hong Kong to China's economy and its role as an international financial hub. Hong Kong is China's third largest trading partner in terms of export destinations, receiving about 12% of China's exports. It also is seen as a gateway for investments flowing both in and out of China. Over 70% of foreign direct investment into China comes via Hong Kong and about 57%of China's overseas direct investment leaves China through Hong Kong. The Chinese economy advanced 6.0% yoy in the September quarter of 2019, slowing from a 6.2% expansion in the previous quarter and compared with market expectations of 6.1%. It was the lowest growth rate since the first quarter of 1992, amid persistent trade tensions with the US, weakening global demand and alarming off-balance-sheet borrowings by local governments. On a quarterly basis, the economy expanded 1.5% in the three months to September 2019, following a 1.6% growth in the previous period and matching market consensus. China's annual inflation rose to 3% in September 2019 from 2.8% in the previous month and above market expectations of 2.9%. This was the highest inflation rate since October 2013, mainly due to persistently high pork prices following an outbreak of African swine fever. Annual core inflation, which strips out volatile food and energy prices, was at 1.5% in September, the same as in August. On a monthly basis, consumer prices increased by 0.9% in September, the most since February, following a 0.7% gain in August and higher than market estimates of 0.7%. China's producer price index fell -1.2% yoy in September, following a -0.8% decrease in the previous month .

Turkey

The business confidence index in Turkey dropped to 98.8 in September 2019 from 102.5 in the previous month, amid a deterioration in expectations over the next three months. Industrial Production index (IP) declined by -3.6% yoy in calendar adjusted terms in August. U.S. President Donald Trump halts a USD100 billion trade deal being hammered out between US and Turkey, raises tariffs on Turkish steel to 50% and imposes sanctions on senior Turkish officials and the country's Defense and Energy ministries. The United States reportedly wants to penalize Turkey for attacking a Kurdish faction which has been Washington's closest ally in Syria in the battle against the Islamic State (IS). The US agreed to refrain from imposing any new economic sanctions on Turkey and to withdraw sanctions that were imposed earlier this week once a permanent cease-fire was in effect. Several European countries such as Germany, France, the Netherlands, Italy and Finland, have decided to suspend arms sales to Turkey over its ongoing operation. The EU condemns Turkey's unilateral military action in North East Syria which causes unacceptable human suffering, undermines the fight against Islamic state and threatens heavily European security during a summit of European Union leaders in Brussels 17-18.10.2019. Volkswagen has delayed finalizing plans to build a car plant in Turkey's Aegean city of Manisa. Turkey's unemployment rate rose to 13.9% in July 2019 from 10.8% in the same period of the previous year. Turkey's annual inflation rate fell to 9.26% in September 2019 from 15.01% in the previous month.

The business confidence index in Turkey dropped to 98.8 in September 2019 from 102.5 in the previous month, amid a deterioration in expectations over the next three months regarding output (109.9 vs 112.5 in August), export orders (117.0 vs 118.8), and employment (104.5 vs 106.1). Also, the current assessment on total amount of orders declined (75.6 vs 80.9), as well as that on amount of stocks of finished goods (94.8 vs 96.4). The fixed investment expenditure sub-index went down to 100.6 in September from 102.6 in August; and the gauge measuring general business situation fell to 97.3 from 101.9. Industrial Production index (IP) declined by -3.6% yoy in calendar adjusted terms in August. Seasonal and calendar adjusted (sca) IP also declined by -2.8% mom after the sharp increase in July (4.3% mom), signaling losing momentum in economic activity. The bad data signal actually stemmed from the headline IP, which contracted by -1.6% yoy in August. U.S. President Donald Trump halts a USD100 billion trade deal being hammered out between US and Turkey, raises tariffs on Turkish steel to 50% and imposes sanctions on senior Turkish officials and the country's Defense and Energy ministries. The United States reportedly wants to penalize Turkey for attacking a Kurdish faction which has been Washington's closest ally in Syria in the battle against the Islamic State (IS). Turkey could also face sanctions over its controversial purchase this year of Russian S-400 missile defense system. The US agreed to refrain from imposing any new economic sanctions on Turkey and to withdraw sanctions that were imposed earlier this week once a permanent cease-fire was in effect. Meanwhile, several European countries such as Germany, France, the Netherlands, Italy and Finland, have decided to suspend arms sales to Turkey over its ongoing operation. More punitive measures on a wider scale are expected during a summit of European Union leaders in Brussels 17-18.10.2019, a move that would further strain the already deteriorating relations between Turkey and the EU. Turkey could also face sanctions over its gas drilling activities off the shore of member state Cyprus, which the EU considers illegal. Volkswagen has delayed finalizing plans to build a car plant in Turkey's Aegean city of Manisa amid international condemnation of military operation against Kurdish-led militias in northeast Syria. The German car manufacturing giant believes going through with the project could lead to reputational fallout and is observing the situation "with great concern," Reuters quoted a company spokesman as saying to German newspaper Handelsblatt. Turkey's unemployment rate rose to 13.9% in July 2019 from 10.8% in the same period of the previous year. The non-agricultural jobless rate jumped to 16.5% in July from 12.9% in the previous year. Youth unemployment rate, measuring job-seekers between 15 and 24 years old, also rose to 27.1% from 19.9% in the same month a year ago. On a seasonally adjusted basis, the unemployment rate increased to 14.3% in July from 14.0% in June, the highest on record. Turkey's annual inflation rate fell to 9.26% in September 2019 from 15.01% in the previous month. It was the lowest rate since January 2017. Annual core inflation rate, which excludes energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold, eased to 7.54% in September from 13.60% in August. That was the lowest rate since December 2016. On a monthly basis, consumer prices went up 0.99%, following a 0.86% gain in August..

POLICY OF THE CENTRAL BANKS

European Central Bank (ECB)

ECB staff macroeconomic projections for the euro area, September 2019. Real GDP growth is projected to be 1.1% in 2019, 1.2% in 2020, before gradually increasing to 1.4% in 2021. Compared with the June 2019 projections, the short-term outlook has deteriorated due to weaker confidence indicators and continued global uncertainties, leading to downward revisions in 2019 and in 2020, which in 2020 are mainly due to carry-over effects. Beyond the short term the impact of negative external shocks is broadly offset by the impact of more favorable financing conditions and lower oil prices. HICP inflation is expected to moderate this year and remain subdued next year, 1.2% in 2019, 1.0% in 2020, before recovering to reach 1.5% in 2021. HICP inflation excluding energy and food will rise slightly by the end of 2019 (1.1%) and move sideways in the course of 2020 (1.2%) before strengthening in 2021(1.5%), supported by the expected pick-up in activity and the associated recovery in profit margins as past increases in labor costs feed into prices.

ECB staff macroeconomic projections for the euro area, September 2019. Following weak growth in the second quarter of 2019, recent short-term indicators suggest that the recovery in the second half of the year that was envisaged in the previous projection exercise will be postponed. Economic sentiment indicators have continued to worsen over recent months, notably in the industry sector. This reflects the ongoing weakness in global trade in an environment of continued global uncertainties, such as increased protectionism, a potential sharper slowdown in China and a disorderly Brexit. These factors are weighing on business expectations in the manufacturing sector and are expected to continue to hamper euro area activity in the near term. At the same time, sentiment in the domestically oriented services and construction sectors, as well as consumer confidence, continues to exhibit more resilience, while the labor market situation has continued to improve. The baseline is conditioned on the technical assumption of notably lower interest rates reflecting market expectations, an assumption of an orderly Brexit and some fiscal easing – all of which should support a return to the medium-term growth path foreseen in the June 2019 projections. In addition, having reached very low levels in 2019, foreign demand is expected to recover and to provide impetus to activity over the remainder of the projection horizon. Overall, real GDP growth is projected to be 1.1% in 2019, 1.2% in 2020, before gradually increasing to 1.4% in 2021. Compared with the June 2019 projections, the short-term outlook has deteriorated due to weaker confidence indicators and continued global uncertainties, leading to downward revisions in 2019 and in 2020, which in 2020 are mainly due to carry-over effects. Beyond the short term the impact of negative external shocks is broadly offset by the impact of more favorable financing conditions and lower oil prices. HICP inflation is expected to moderate this year and remain subdued next year, 1.2% in 2019, 1.0% in 2020, before recovering to reach 1.5% in 2021. HICP inflation excluding energy and food will rise slightly by the end of 2019 (1.1%) and move sideways in the course of 2020 (1.2%) before strengthening in 2021(1.5%), supported by the expected pick-up in activity and the associated recovery in profit margins as past increases in labor costs feed into prices. Compared with the June 2019 projections, HICP inflation has been revised downwards, largely owing to the energy component which is revised notably downwards for both 2019 and 2020, due to lower oil prices. In addition, HICP inflation excluding energy and food is also revised downwards, reflecting weaker data outturns, weaker activity, indirect effects from lower energy prices and persistent past over-predictions.

Bank of England (BoE)

Bank of England Inflation Report August 2019. Over the past few years, UK economy has needed interest rates to stay very low as UK recovered from the global financial crisis. As UK economy started to grow more quickly, and with inflation above the 2% target, it needed a little less support. So Bank of England raised the official interest rate from 0.25% to 0.5% in November 2017 and then from 0.5% to 0.75% in August 2018. Since then, the UK economy has slowed as firms' uncertainties about Brexit have become entrenched and growth in the world economy has eased. So Bank of England have kept interest rates unchanged. Growth in the UK economy has been volatile during the first half of this year in part because of Brexit preparations. If there is a Brexit deal, Bank of England thinks upward pressure on prices will build over the next few years and Bank of England will need to raise interest rates a bit more to keep inflation at target. If there is a 'no-deal' Brexit, our interest rate decision would need to balance the upward pressure on prices from the likely fall in the pound and any reduction in businesses' ability to supply goods and services, with the downward pressure from any cut in spending.

Bank of England Inflation Report August 2019. The interest rate decision. Over the past few years, UK economy has needed interest rates to stay very low as UK recovered from the global financial crisis. As UK economy started to grow more quickly, and with inflation above the 2% target, it needed a little less support. So Bank of England raised the official interest rate from 0.25% to 0.5% in November 2017 and then from 0.5% to 0.75% in August 2018.

Since then, the UK economy has slowed as firms' uncertainties about Brexit have become entrenched and growth in the world economy has eased. UK inflation has fallen back to our 2% target. So this month Bank of England have kept interest rates unchanged. Depending on the form Brexit takes, the economy could follow a wide range of paths. Growth in the UK economy has been volatile during the first half of this year in part because of Brexit preparations. Looking through those ups and downs, the speed at which the economy is growing has slowed. Two main factors explain this slowing in growth. First, economic growth in other countries has slowed. That has reduced the demand for our exports. Second, investment by UK companies has weakened a lot. It fell in the year to 2019 Q1, and has been weak since the EU referendum. Responses by businesses to surveys suggest this is mainly because of uncertainty about Brexit. If there is a Brexit deal, Bank of England thinks upward pressure on prices will build over the next few years and Bank of England will need to raise interest rates a bit more to keep inflation at target. Bank of England expects any rises in interest rates to happen at a gradual pace and to a limited extent. Interest rates are likely to remain substantially lower than before the financial crisis. If there is a 'no-deal' Brexit, our interest rate decision would need to balance the upward pressure on prices from the likely fall in the pound and any reduction in businesses' ability to supply goods and services, with the downward pressure from any cut in spending. Whatever happens, Bank of England will set interest rates to return inflation sustainably to target and provides what support Bank of England can to jobs and growth.

USA Federal Reserve

Federal Reserve Statement Regarding Monetary Policy Implementation. To ensure that the supply of reserves remains ample, the Committee approved by notation vote completed on October 11, 2019 the following steps: The Federal Reserve will purchase Treasury bills at least into the second quarter of next year in order to maintain over time ample reserve balances at or above the level that prevailed in early September 2019. The Federal Reserve will conduct term and overnight repurchase agreement operations at least through January of next year to ensure that the supply of reserves remains ample even during periods of sharp increases in non-reserve liabilities, and to mitigate the risk of money market pressures that could adversely affect policy implementation.

Federal Reserve Statement Regarding Monetary Policy Implementation. Consistent with its January 2019 Statement Regarding Monetary Policy Implementation and Balance Sheet Normalization, the Committee reaffirms its intention to implement monetary policy in a regime in which an ample supply of reserves ensures that control over the level of the federal funds rate and other short-term interest rates is exercised primarily through the setting of the Federal Reserve's administered rates, and in which active management of the supply of reserves is not required. To ensure that the supply of reserves remains ample, the Committee approved by notation vote completed on October 11, 2019 the following steps: 1) In light of recent and expected increases in the Federal Reserve's non-reserve liabilities, the Federal Reserve will purchase Treasury bills at least into the second quarter of next year in order to maintain over time ample reserve balances at or above the level that prevailed in early September 2019; 2) In addition, the Federal Reserve will conduct term and overnight repurchase agreement operations at least through January of next year to ensure that the supply of reserves remains ample even during periods of sharp increases in non-reserve liabilities, and to mitigate the risk of money market pressures that could adversely affect policy implementation. The Committee directs the Federal Reserve Bank of New York to conduct overnight reverse repurchase operations (and reverse repurchase operations with maturities of more than one day when necessary to accommodate weekend, holiday, or similar trading conventions) at an offering rate of 1.70 percent, in amounts limited only by the value of Treasury securities held outright in the System Open Market Account that are available for such operations and by a per-counterparty limit of USD 30 billion per day. The Committee directs the Federal Reserve Bank of New York to continue rolling over at auction all principal payments from the Federal Reserve's holdings of Treasury securities and to continue reinvesting all principal payments from the Federal Reserve's holdings of agency debt and agency mortgage-backed securities received during each calendar month. Principal payments from agency debt and agency mortgage-backed securities up to USD 20 billion per month will continue to be reinvested in Treasury securities to roughly match the maturity composition of Treasury securities outstanding; principal payments in excess of USD 20 billion per month will continue to be reinvested in agency mortgage-backed securities. Small deviations from these amounts for operational reasons are acceptable. The Committee also directs the Federal Reserve Bank of New York to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency mortgage-backed securities transactions.

Bank of Japan (BoJ)

Haruhiko Kuroda Governor of the Bank of Japan Commencement Speech at the Graduation Ceremony of the National Graduate Institute for Policy Studies. Quantitative and qualitative monetary easing, or QQE, which was introduced immediately after I became Governor of the Bank of Japan last year, is a good example of an attempt to reconcile theory and practice. Since the late 1990s, the Bank of Japan had implemented a variety of unconventional monetary policies ahead of other central banks in its battle against the deflationary pressure that Japan's economy had been facing. These unconventional policies include a zero interest rate, quantitative easing, and forward guidance. Nevertheless, Japan's economy was unable to escape from deflation for 15 years. Thus, QQE was born as a result of an examination of both past experience and theoretical developments. In this way the Bank of Japan's monetary policies seemed have been insufficient in terms of affecting people's expectations because of the Bank's strong commitment.

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PBoC

Speech and responses to press questions of Mr. Yi Gang, Governor of the People’s Bank of China in the Press Center for the Celebration of the 70th Anniversary of the Founding of the People’s Republic of China. The US Fed, the ECB, the Bank of Japan and central banks of many developing countries are adjusting their monetary policy stances through either interest rate cut or QE resumption. The current situations in China’s economy shall be stabilized by strengthening countercyclical adjustment, ensuring that the growth of broad money supply (M2) and aggregate financing to the real economy (AFRE) is generally in line with the nominal GDP growth, and avoiding massive liquidity injection. A stable leverage ratio should be maintained to ensure the debt sustainability of the entire society. I want to make it clear that, unlike central banks of some other countries, we are in no hurry to resort to a considerable interest rate reduction or QE policy. We believe that China should adhere to sound monetary policy. In this process, people are worried that major developed countries may exhaust their monetary policy tools if there is an economic downturn, as they are on the verge of adopting zero or even negative interest rate policy. I believe that we should maintain normal policy space in monetary policy operation, so that the normal monetary policy can be implemented for as long as possible.

Speech and responses to press questions of Mr. Yi Gang, Governor of the People’s Bank of China in the Press Center for the Celebration of the 70th Anniversary of the Founding of the People’s Republic of China. The US Fed, the ECB, the Bank of Japan and central banks of many developing countries are adjusting their monetary policy stances through either interest rate cut or QE resumption. What is China’s monetary policy stance against this backdrop? As we know, since China is a large economy and the monetary policy is devised mainly to serve the domestic economy, we usually prioritize domestic demand in making decisions on monetary policy and carry out anticipatory adjustment and fine tuning in line with domestic economic situations and price changes. China’s economy is performing within a reasonable range, and prices remain moderate. We’ve encountered some structural problems in the economic transformation and upgrading, and they are addressed majorly through the supply-side structural reform. Based on a comprehensive analysis of domestic situations and international background, we hold that China’s monetary policy should stay focused on a sound stance.

The current situations shall be stabilized by strengthening countercyclical adjustment, ensuring that the growth of broad money supply (M2) and aggregate financing to the real economy (AFRE) is generally in line with the nominal GDP growth, and avoiding massive liquidity injection. A stable leverage ratio should be maintained to ensure the debt sustainability of the entire society. In addition, we should also think long term to enhance structural adjustment, make vigorous efforts to smooth monetary policy transmission, reduce enterprises' financing costs with reforms, and promote the high-quality development of China's economy. Globally, for the monetary policy stances of developed countries like the US, Europe and Japan and developing countries, my view is that we need to look ahead to see which of the countries or major economies in particular will still practice a normal monetary policy in the next few years. Then these economies will be the highlights in the global economic landscape and win admiration in the market. At present, the world economy is indeed under downward pressure. China's economic statistics also show trends of downturn. But on the whole, we believe that the China's economy is still operating within a reasonable range. That is the first point. Second, currently China still has ample policy capacity to address the downward pressure in terms of macro-economic policies, especially fiscal and monetary policies. Let's take the monetary policy as an example. China's interest rates are moderate, and the current RRR level also leaves plenty of room for future macro policy adjustment. Unlike central banks of some other countries, we are in no hurry to resort to a considerable interest rate reduction or QE policy. China should adhere to sound monetary policy. Meanwhile, according to objective analyses, China has ample policy capacity in various aspects, including monetary policy tools and macro-prudential policy instruments. In this process, people are worried that major developed countries may exhaust their monetary policy tools if there is an economic downturn, as they are on the verge of adopting zero or even negative interest rate policy. China should maintain normal policy space in monetary policy operation, so that the normal monetary policy can be implemented for as long as possible. This is conducive to the sustainable development of China's economy and public well-being.

Central Bank of Turkey

As banks reflected the increase in TRY funding costs on their loan pricing, personal, vehicle and housing loan rates increased and loan growth rates receded in this quarter. The loss of momentum in loan growth in this quarter stemmed mostly from the tightness in banks' lending standards and the sluggish loan demand. Consumer inflation fell by 3.99% to 15.72% in the Q2 of 2019 compared to the end of the previous quarter. Economic activity displayed a partial recovery in the first quarter of 2019. Domestic demand was the main driver of quarterly growth, while net exports remained flat. Turkish President Recep Tayyip Erdogan signaled that he expects further monetary easing by the central bank even though he has been satisfied with the pace of interest cuts thus far. We are already suggesting that policymakers may deliver another 150-200 basis-point rate cut when they next meet in October.

Central Bank of Turkey Inflation Report 2019-III July 31. While Turkey's country risk premium diverged negatively from other emerging economies amid uncertainties and geopolitical tensions in the first half of the year, it has registered a significant decline since mid-June. Accordingly, during the Q2 of the year, Turkey saw portfolio outflows until June, followed by portfolio inflows, predominantly equity inflows, in the subsequent period. In the current reporting period, market interest rates fell across all maturities due to the lower sovereign risk premium and favorable macroeconomic developments. On the other hand, as banks reflected the increase in TRY funding costs on their loan pricing, personal, vehicle and housing loan rates increased and loan growth rates receded in this quarter. The loss of momentum in loan growth in this quarter stemmed mostly from the tightness in banks' lending standards and the sluggish loan demand. Consumer inflation fell by 3.99% to 15.72% in the second quarter of 2019 compared to the end of the previous quarter. The fall in inflation was led mainly by the food, core goods and energy groups, in descending order according to their relative contribution to the decline. Services inflation remained high in this quarter. While factors such as the tight monetary policy stance, the slowdown in unprocessed food inflation due to the rising product supply, the subdued domestic demand and the mild course of commodity prices were instrumental to the disinflation observed in this quarter, robust tourism demand, the course of the exchange rate and real unit labor costs and the backward-indexation in pricing behavior limited this improvement. Against this background, annual consumer inflation exhibited a notable decline in the second quarter of the year. Economic activity displayed a partial recovery in the first quarter of 2019, as envisaged in the April Inflation Report. Domestic demand was the main driver of quarterly growth, while net exports remained flat. The moderate recovery in economic activity continued and aggregate demand conditions supported disinflation in the second quarter of 2019. Turkish President Recep Tayyip Erdogan signalled that he expects further monetary easing by the central bank even though he has been satisfied with the pace of interest cuts thus far, reported Bloomberg. “Interest rates retreated to reasonable levels with the central bank's appropriate interventions, but I believe that they will fall further,” said Erdogan. On Governor Murat Uysal's watch, Central Bank of Turkey (TCMB) has cut rates by 750 basis points, including a record move in his first month on the job after Erdogan fired his predecessor in July 2019 for not cutting rates fast enough. Although the president's remarks show that he has been content with the pace of monetary easing, his suggestion to further cut the benchmark rate, which stands at 16.5%, will likely be considered by the Governor. After the inflation rate dropped to single digits last week, Turkey's real interest rate stood at a whopping 724 basis points, among the highest in emerging markets. We are already suggesting that policymakers may deliver another 150-200 basis-point rate cut when they next meet in October.

INTERNATIONAL COMMODTITY PRICES

Petrol

Oil prices are falling on 21.10.2019, as the main factor for their downward movement in today's trade is the unsatisfactory economic data of China and the emerging doubts about the feasibility of the US-China trade agreement. The Brent price drops -0.08 USD/BBL or -0.14% to 58.9747 USD/BBL on Monday, October 21st as the decrease is -0.15%. On the other hand, the price of crude oil drops by USD -0.14 USD/BBL or -0.25% to 53.5837 USD/BBL, as the decrease is -1.43%. On 18.10.2019, the slowdown in the growth of the Chinese economy, the largest oil consumer in the world, was reported for the third quarter of this year to a minimum of 30 years. At the same time, US oil stocks have jumped 9.28 million barrels, with a projection of 4 million barrels. The number of wells in operation in the country is increasing for a second week. This data is sufficient to offset the positive impetus that oil prices can derive from geopolitical tensions in the Middle East.

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Agricultural Goods

The first half of October was pending new data in the USDA's Global Grain Balance Report. The announced slight reduction in wheat production due to adverse weather conditions in Australia and Argentina, as well as the expansion in exports were the main factors for the upturn in the prices of the two major grain contracts on the global stock markets. In the United States, the estimate for bread wheat was reduced by 500 thousand tons and quotations jumped from USD 13.00 to 229.00 USD/ton. In the EU and the rest of Europe, yields are also well within forecast, so France slightly raised quotes by EUR 3.25 to 181.25 EUR/ ton. In Russia and Ukraine, prices were influenced by the US and went up by USD 8.00 and USD 7.00 to USD 203.00 and 201.00 USD/ton, respectively. In the Grain sub-circle of the Sofia Commodity Exchange AD, quotations also moved. Wheat from the field is offered from 350.00 to 310.00 BGN/ton, demand is at 270.00-290.00 BGN/ton. In the case of feed wheat, traders are approaching positions with a slight upward movement, offering 280.00 BGN/ton, demand is 250.00-260.00 BGN/ton.

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BULGARIA

EXTERNAL SECTOR

Balance of payments

In January – August 2019 the current and capital account was positive amounting to EUR 4,812.7 million (8.1% of GDP), compared with a surplus of EUR 2,800.7 million (5.1% of GDP).
The current and capital account recorded a surplus of EUR 1249 million in August 2019, compared with a surplus of EUR 1157.7 million in August 2018. In January – August 2019 the current and capital account was positive amounting to EUR 4,812.7 million (8.1% of GDP), compared with a surplus of EUR 2,800.7 million (5.1% of GDP) in January – August 2018. The current account was positive amounting to EUR 1,175.6 million in August 2019, compared with a surplus of EUR 1,022.9 million in August 2018. In January – August 2019 the current account was positive and amounted to EUR 4,150.2 million (7% of GDP), compared with a surplus of EUR 2,413.3 million (4.4% of GDP) in January – August 2018. The balance on goods recorded a surplus of EUR 155.1 million in August 2019, compared with a deficit of EUR 22.4 million in August 2018. In January – August 2019 the balance on goods was negative amounting to EUR 372.4 million (0.6% of GDP), compared with a deficit of EUR 1,199.7 million (2.2% of GDP) in January – August 2018. Exports of goods amounted to EUR 2,444 million in August 2019, increasing by EUR 106.6 million (4.6%) from August 2018 (EUR 2,337.4 million). In January – August 2019 exports of goods totaled EUR 18,920.1 million (32% of GDP), growing by EUR 859.1 million (4.8%) year-on-year (from EUR 18,061 million, 32.7% of GDP). In January – August 2018 exports grew by 2.8% year-on-year. Imports of goods amounted to EUR 2,288.9 million in August 2019, dropping by EUR 70.9 million (3%) from August 2018 (EUR 2,359.8 million). In January – August 2019 imports of goods totaled EUR 19,292.5 million (32.6% of GDP), growing by EUR 31.8 million (0.2%) from January – August 2018 (EUR 19,260.7 million, 34.9% of GDP). In January – August 2018 imports grew by 7.6% year-on-year. Services recorded a positive balance of EUR 860.1 million in August 2019, compared with a surplus of EUR 833.7 million in August 2018. In January – August 2019 services recorded a surplus of EUR 2,960.1 million (5% of GDP) compared with a positive balance of EUR 2,583.6 million (4.7% 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 (labor, capital, land), taxes of production and imports and subsidies) recorded a surplus of EUR 43.2 million, compared with a deficit of EUR 49.5 million in August 20183. In January – August 2019 the balance on primary income was positive and equated to EUR 40.4 million (0.1% of GDP), compared with a deficit of EUR 531 million (1% of GDP) in January – August 2018. The net secondary income (which reflects the redistribution of income) recorded a surplus of EUR 117.2 million, compared with a positive balance of EUR 261.1 million in August 2018. In January – August 2019 the net secondary income was positive amounting to EUR 1,522 million (2.6% of GDP), compared with a positive balance of EUR 1,560.5 million (2.8% of GDP) in the same period of 2018. The capital account recorded a surplus of EUR 73.4 million, compared with a positive balance of EUR 134.8 million in August 2018. In January – August 2019 the capital account recorded a surplus of EUR 662.5 million (1.1% of GDP), compared with a positive balance of EUR 387.3 million (0.7% of GDP) in January – August 2018. The financial account recorded a positive balance of EUR 689.5 million, compared with a positive value of EUR 444.6 million in August 2018. In January – August 2019 the financial account recorded a net inflow of EUR 2,460.4 million (4.2% of GDP) compared with an inflow of EUR 2,414.1 million (4.4% of GDP) in January – August 2018. The net direct investment compiled in accordance with the Sixth Edition of the Balance of Payments and International Investment Position Manual was negative amounting to EUR 71.5 million, compared with a negative balance of EUR 206.5 million in August 2018. In January – August 2019 direct investment recorded a negative balance of EUR 367.9 million (0.6% of GDP), compared with a negative balance of EUR 245.3 million (0.4% of GDP) in January – August 2018. Direct investment – assets dropped by EUR 18.7 million compared with an increase of EUR 36.6 million in August 2018. In January – August 2019 direct investment – assets grew by EUR 162.6 million (0.3% of GDP) compared with an increase of EUR 454.8 million (0.8% of GDP) in the same period of 2018. Direct investment – liabilities grew by EUR 52.8 million in August 2019, compared with an increase of EUR 243.1 million in August 2018. In January – August 2019 direct investment – liabilities grew by EUR 530.5 million (0.9% of GDP), compared with an increase of EUR 700.1 million (1.3% of GDP) in the same period of 2018. The balance on portfolio investment was positive amounting to

EUR 196.5 million, compared with a positive balance of EUR 118.2 million in August 2018. In January – August 2019 the balance was positive and equated to EUR 743 million (1.3% of GDP), compared with a positive balance of EUR 685.6 million (1.2% of GDP) million in January – August 2018. Portfolio investment – assets grew by EUR 188 million compared to an increase of EUR 97.2 million in August 2018. In January – August 2019 they increased by EUR 723.8 million (1.2% of GDP) compared with an increase of EUR 626.2 million (1.1% of GDP) in January – August 2018. Portfolio investment – liabilities dropped by EUR 8.5 million compared with a decline of EUR 20.9 million in August 2018. In January – August 2019 portfolio investment – liabilities decreased by EUR 19.2 million (0.03% of GDP) compared with a decline of EUR 59.4 million (0.1% of GDP) in January – August 2018. The balance on other investment was positive amounting to EUR 1,468.8 million, compared with a positive balance of EUR 303.9 million in August 2018. In January – August 2019 the balance was positive and equated to EUR 2,891.6 million (4.9% of GDP), compared with a positive balance of EUR 1,528 million (2.8% of GDP) in January – August 2018. Other investment – assets grew by EUR 1,253.3 million, compared with an increase of EUR 420.9 million in August 2018. In January – August 2019 they grew by EUR 2,711.4 million (4.6% of GDP) compared with an increase of EUR 1,976.4 million (3.6% of GDP) in January – August 2018. Other investment – liabilities dropped by EUR 215.5 million compared with an increase of EUR 117 million in August 2018. In January – August 2019 they declined by EUR 180.2 million (0.3% of GDP) compared with an increase of EUR 448.4 million (0.8% of GDP) in January – August 2018. The BNB reserve assets5 dropped by EUR 900.6 million, compared with an increase of EUR 230.5 million in August 2018. In January – August 2019 they declined by EUR 745.8 million (1.3% of GDP), compared with an increase of EUR 374.6 million (0.7% of GDP) in the same period of 2018. The net errors and omissions were negative amounting to EUR 559.6 million compared with a negative value of EUR 713.1 million in August 2018. According to preliminary data, the item was negative totalling EUR 2,352.3 million (4% of GDP) in January – August 2019, compared with a negative value of EUR 386.6 million (0.7% of GDP) in the same period of 2018.

Bulgaria: Balance of payments	August 2018	August 2019	Change in EUR million	January - August 2018	January - August 2019	Change in EUR million
Current and capital account	1157.7	1249.0	91.4	2800.7	4812.7	2012.1
Current account	1022.9	1175.6	152.8	2413.3	4150.2	1736.8
Trade balance	-22.4	155.1	177.5	-1199.7	-372.4	827.4
Services, net	833.7	860.1	26.4	2583.6	2960.1	376.5
Primary income, net	-49.5	43.2	92.7	-531.0	40.4	571.5
Secondary income, net	261.1	117.2	-143.9	1560.5	1522.0	-38.5
Capital account	134.8	73.4	-61.4	387.3	662.5	275.2
Capital transfers, net	112.1	51.8	-60.3	282.7	441.3	158.6
Financial account	444.6	689.5	244.9	2414.1	2460.4	46.3
Source: BNB						

Foreign Direct Investments

In January-August 2019 the net flows of foreign direct investment in Bulgaria presented according to the directional principle recorded a a positive value of EUR 603.5 million (1% of GDP), growing by EUR 196.3 million from January – Aguste 2018 (positive value of EUR 407.2 million, 0.3% of GDP).

According to preliminary data, the net flows of foreign direct investment in Bulgaria presented according to the directional principle recorded a positive value of EUR 603.5 million (1% of GDP) in January – August 2019, growing by EUR 196.3 million from January – August 2018 (positive value of EUR 407.2 million, 0.7% of GDP). Foreign direct investment in Bulgaria recorded an inflow of EUR 76 million in August 2019, compared with an inflow of EUR 237.7 million in August 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 327 million in January – August 2019, dropping by EUR 315 million from a negative value of EUR 12 million in January – August 2018. Real estate investments of non-residents recorded a positive value of EUR 3.4 million, compared with EUR 13.5 million in January – August 2018. The largest inflow of real estate investment was from Russia (EUR 1 million), Germany (EUR 0.7 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 120.8 million in January – August 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 1,002.6 million in January – August 2019, compared with EUR 298.4 million in January – August 2018. The largest net direct investment inflows in Bulgaria for January – August 2019 were from the Netherlands (EUR 241.9 million), Germany (EUR 191.4 million), and the UK (EUR 108.6 million). According to preliminary data, direct investment abroad recorded a positive value of EUR 235.6 million (0.4% of GDP), compared with a positive value of EUR 161.9 million (0.3% of GDP) in January – August 2018. It grew by EUR 4.5 million in August 2019, compared with EUR 31.3 million in August 2018. According to preliminary data, the stocks of foreign direct investment in Bulgaria stood at EUR 43,616.1 million at end June 2019, compared with EUR 42,831.4 million at end-2018. Equity and reinvestment of earnings totaled EUR 33,855.7 million, growing by EUR 139.1 million from EUR 33,716.6 million in December 2018. Debt instruments amounted to EUR 9,760.3 million, increasing by EUR 645.5 million from December 2018 (EUR 9,114.8 million).

International reserves

In September 2019 the BNB's international reserves amount to BGN 49.4 billion (EUR 25.3 billion), increase by 2% mom and by 6.4% yoy, respectively and maintain the stability of the Currency Board in Bulgaria.

According to the BNB, as of the end of August 2019. The BNB's international reserves amount to BGN 49.4 billion (EUR 25.3 billion) and increase by 2% mom and by 6.4% yoy, respectively. On the assets side, cash and deposits in foreign currency decreased by 0.7% mom and by 3.6% yoy, respectively to the amount of BGN 17.6 billion. Investments in monetary gold amount to BGN 3.6 billion and shrink by 0.5% mom, but their annual trend is high by 31.1%. Investments in securities amount to BGN 28.3 billion and increase by 4.3% mom and by 11% yoy, respectively. On the liabilities side, money outside banks amounted to BGN 18.3 billion and increased by 0.6% mom and by 13% yoy, respectively. Liabilities to banks amount to BGN 12.7 billion and increase by 5.6% mom, down 2.9% yoy, respectively. Liabilities to the government amount to BGN 9.7 billion and increase by 1.5% mom and by 1.1% yoy, respectively. Liabilities to other depositors amount to BGN 2.3 billion and increase by 9.9% yoy, down 0.2% mom, respectively. The deposit of BNB "Bank's management" Department amounted to BGN 6.4 billion and increased by 11% mom and by 17.3% yoy, respectively. Bulgaria's international liquidity position, calculated as a ratio of foreign reserves to short-term external debt, is high and at the end of July 2019 is 302.2% compared to 300.3% at the end of July 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	Jul 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	8424.2
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	25 454
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	302.2
Source: BNB, UBB's calculations													

REAL SECTOR

Gross Domestic Product

IMF has raised its economic growth forecast for Bulgaria to 3.7% for 2019 and 3.2% for 2020

IMF has raised its economic growth forecast for Bulgaria to 3.7% for 2019, before slowing to 3.2% in 2020, according to its October 2019 World Economic Outlook. In its April forecast, the Fund projected economic growth of 3.3% this year and 3% in 2020. Unemployment is seen as dropping from 5.3% in 2018 to 4.9% in 2019 and 4.8% for 2020. It also made a small upward revision for the annual average consumer price inflation (CPI) from to 2.4% to 2.5%, compared to 2.6% in 2018. The current account balance is forecast to remain positive, but dropping from 4.6% last year to 3.2% in 2019 and 2.5% in 2020. But although World Economic Outlook was positive on Bulgaria's immediate prospects, the global picture was much more downbeat, with the IMF cutting its 2019 world economic growth forecast to 3%, down from 3.3% in April projection and 3.6% in last year's October report. Its 2020 forecast was for a moderate rebound to 3.4%, down from 3.6% projected in the April report. This subdued growth is a consequence of rising trade barriers, elevated uncertainty surrounding trade and geopolitics, idiosyncratic factors causing macroeconomic strain in several emerging market economies, and structural factors, such as low productivity growth and aging demographics in advanced economies. A notable feature of the sluggish growth in 2019 is the sharp and geographically broad-based slowdown in manufacturing and global trade.

Higher tariffs and prolonged uncertainty surrounding trade policy have dented investment and demand for capital goods, which are heavily traded. In contrast to weak manufacturing and trade, the services sector across much of the globe continued to hold up, which helped wage growth in advanced economies, but the divergence between manufacturing and services has persisted for an atypically long duration, which raises concerns of whether and when weakness in manufacturing may spill over into the services sector. The IMF said that the growth figures were buoyed by monetary policy easing across advanced and emerging markets. This stimulus added 0.5 percentage points to growth in 2019 and 2020, helping offset the negative impact of US–China trade tensions, which the IMF estimated would impact global growth by 0.8 % next year. According IMF that its forecast faced significant downside risks, as trade barriers and heightened geopolitical tensions, including Brexit, could further disrupt supply chains and hamper confidence, investment, and growth. Such tensions, as well as other domestic policy uncertainties, could negatively affect the projected growth pickup in emerging market economies and the euro area. A realization of these risks could lead to an abrupt shift in risk sentiment and expose financial vulnerabilities built up over years of low

In the Ministry of finance Macroeconomic Forecast: Wages are rising at an accelerated rate. Consumption drives the economy, unemployment is at a record low.

The Ministry of Finance's autumn macroeconomic forecast takes into account current, at the time of its preparation, assumptions about the external environment in terms of external demand and prices. Compared to the spring forecast, the slowdown in global economic growth will be more noticeable this year and slightly lower in 2020, but global GDP growth will remain steady in the medium term. The slowdown in the growth of the European economy in 2019 is expected. International financial institutions confirm in their forecasts that in 2020 the European economy, as well as the euro area, will have higher economic growth than in the current year. Bulgaria, as well as other Central and Eastern European countries, is characterized by stable economic growth, compared to the sharp slowdown in economic activity in the first half of 2019 for some of the large countries in the euro area. For the first half of the current year, Bulgaria's real GDP growth was 4.1% compared to the corresponding period of the previous year. Higher growth was generated in the Q1, while in the second real GDP growth slowed down, largely due to a decline in exports and a decline in stocks. GDP growth is expected to slow down in the second half of the year, with growth forecast for the whole of 2019 at 3.4%. Economic growth will reach 3.3% in 2020, driven by consumption and investment. Exports are expected to recover but the negative contribution of net exports to GDP growth will increase as imports accelerate. In H1 of 2019, the number of employees increased and the unemployment rate reached a historic low. The favorable developments in the labor market are expected to continue in the second half of the year. Unemployment is projected to decline to 4.4% in 2019. In 2020, employment growth is expected to slow down to 0.2%, driven by restrictions on labor supply. Growth in compensation per employee is projected to reach 8% this year, supported by both the private and public sectors, as a result of incomes policy in sectors such as education and government. In 2020, the increase in compensation per employee is expected to slow slightly to 7.4% due to the weakening in the positive dynamics of the labor market. At the end of 2019, inflation is projected to be 2.8% (0.4 pp higher than in the spring forecast) and the annual average is 2.5%. Services and groceries will have the highest contribution to inflation at the end of the year. The impact of energy goods (directly and indirectly) on inflation in the country is expected to gradually diminish. Inflation is expected to be lower than 2019 next year, as international commodity prices, especially crude oil, are not expected to be a pro-inflation factor. The risks to the forecast are related to the unstable geopolitical environment and the increasing number of protectionist measures. The growth of the euro area is exposed to risks stemming from global demand and export opportunities. The deterioration of the external environment is the main risk facing the Bulgarian economy. It can negatively affect both exports and the expected increase in private investment over the forecast period.

BULGARIA: MACROECONOMIC INDICATORS	2017	2018	2019(p)	2020(p)	2021(p)	2022 (p)
REAL SECTOR						
GDP at current prices (BGN million)	**102 308**	**109 695**	**118 625**	**126 769**	**134 915**	**143 355**
GDP (real trend of change, %)	**3.5**	**3.1**	**3.4**	**3.3**	**3.3**	**3.3**
Consumption (%)	**3.9**	**4.6**	**5.7**	**5.2**	**4.5**	**3.7**
Gross capital formation (%)	**3.2**	**5.4**	**1.9**	**3.9**	**3.7**	**5.8**
Exports of goods and services (%)	**5.8**	**1.7**	**-0.4**	**2.3**	**2.5**	**2.5**
Imports of goods and services (%)	7.4	5.7	0.2	4.9	4.2	3.8
LABOR MARKET & PRICES						
Employment (ECC 2010, %)	1.8	-0.1	0.4	0.2	-0.1	-0.3
Unemployment (NRS, %)	6.2	5.2	4.4	4.1	4	4
Compensation per employee (%)	10.5	9.7	8	7.4	6.9	6.7
GDP Deflator (%)	3.9	4	4.6	3.5	3	2.9
Inflation (HIPC, av., %)	1.2	2.6	2.5	2.1	2.2	2.1
BALANCE OG PAYMENTS						
Current account (% of GDP)	3.5	5.4	5.2	4.1	3.2	2.5
Trade balance (% of GDP)	-1.5	-3.3	-2.7	-3.5	-4.2	-4.7
FDI (% of GDP)	3.4	1.9	2.4	2.6	2.6	2.5
MONETARY SECTOR						
M3 (%)	7.7	8.8	8.4	8.2	8.3	8.3
Receivables from Companies (%)	3.7	7.7	5.9	6.8	8.1	8.3
Receivables from Haiseholds (%)	6.1	11.2	9.8	8.8	8.4	8.2

Source: MF

Business Climate Indicator

In September 2019, the total business climate indicator preserves its level from the previous month at 26.4 index points. An improvement of the indicator is observed in construction, retail trade and service sector, as only in industry a reduction is reported.

According NSI data in September 2019, the total business climate indicator preserves its level from the previous month at 26.4Index points. An improvement of the indicator is observed in construction, retail trade and service sector, as only in industry a reduction is reported.

Industry. The composite indicator ‘business climate in industry’ drops by 2.1 percentage points as a result of the worsened industrial entrepreneurs’ expectations about the business situation of the enterprises over the next 6 months. The inquiry registers certain decrease of the production assurance with orders, which is also accompanied by reduced expectations about the activity over the next 3 months. The uncertain economic environment and shortage of labor continue to be the main problems for the business development pointed out respectively by 33.5% and 32.0% of the enterprises. Concerning the selling prices in industry, the managers do not foresee a change over the next 3 months.

Construction. In September the composite indicator “business climate in construction” increases by 0.8 percentage points which is due to the improved construction entrepreneurs’ assessments about the present business situation of the enterprises. However, their expectations both about the business situation of the enterprises over the next 6 months and the construction activity over the next 3 months are more reserved. The main factors limiting the business remain connected with the shortage of labor, competition in the branch and uncertain economic environment, as in the last month strengthen of their unfavorable influence is observed. As regards the selling prices in construction, certain expectations for an increase are registered, although the majority of the managers foresee preservation of their level over the next 3 months.

Retail trade. The composite indicator “business climate in retail trade” increases by 1.8 percentage points as a result of the optimistic retailers’ assessments and expectations about the business situation of the enterprises. Their forecasts about the volume of sales and orders placed with suppliers (from both domestic and foreign market) over the next 3 months are also improved. The competition in the branch continues to be the most serious problem, limiting the business development, followed by the insufficient demand and uncertain economic environment. The retailers expected the selling prices to remain unchanged over the next 3 months.

Service sector. In September the composite indicator “business climate in service sector” increases by 1.7 percentage points which is mainly due to the improved managers’ assessments about the present business situation of the enterprises. However, their opinions about the present and expected demand for services are more reserved. The most serious difficulties for the activity remain the competition in the branch, uncertain economic environment and shortage of labor, as in the last month strengthen of their negative impact is reported. As regards the selling prices in the service sector, the managers do not foresee

Bulgaria: Business climate indicators (%)	September 2018	October 2018	November 2018	December 2018	January 2019	February 2019	March 2019	April 2019	May 2019	June 2019	July 2019	August 2019	September 2019
Total busiess climate indicator (%)	27.7	25.8	26.4	25.9	27.8	27.7	28	29.9	31.2	29.9	29.5	26.4	26.4
Business climate in industry (%)	27.6	25.2	27.0	24.3	28.4	26.1	25.7	27.7	27.5	26.4	24.7	23.9	21.8
Business climate in construction (%)	25.7	28.3	26.1	26.5	27.7	29.0	29.0	30.3	37.2	35.4	34.6	29.5	30.3
Business climate in retail trade(%)	40.1	37.6	38.6	41.8	40.1	39.7	42.3	42.7	44.8	44.7	44.9	41.4	23.1
Business climate in services (%)	17.3	12.8	13.2	13.0	14.2	17.6	17.5	20.9	18.7	16.6	18.3	13.4	15.1

Source: NSI

Industrial Sales

According to the preliminary data in August 2019 the Industrial Production Index, seasonally adjusted, decreased by 0.1% as compared to July 2019. In August 2019 the working day adjusted Industrial Production Index fell by 1.3% in comparison with the same month of 2018.Industrial Production in Bulgaria is expected to be 1.9% by the end of 2019. Looking forward, we estimate Industrial Production in Bulgaria to stand at 3.1% in 2020 and 3.3% in 2021.

According to the preliminary data in August 2019 the Industrial Production Index, seasonally adjusted, decreased by 0.1% as compared to July 2019. In August 2019 the working day adjusted4 Industrial Production Index fell by 1.3% in comparison with the same month of 2018. In August 2019 as compared to July 2019, the seasonally adjusted Industrial Production Index went down in the mining and quarrying industry by 6.6% and in the electricity, gas, steam and air conditioning supply by 0.6%, while the production rose in the manufacturing by 0.8%. The most significant production increases in the manufacturing were registered in the manufacture of computer, electronic and optical products by 9.4%, in the manufacture of fabricated metal products, except machinery and equipment by 8.4%, in the manufacture of other transport equipment by 5.8%, in the manufacture of electrical equipment by 5.6%. Major decreases were seen in the other manufacturing by 29.1%, in the manufacture of tobacco products by 19.6%, in the manufacture of basic pharmaceutical products and pharmaceutical preparations by 10.3%, in the manufacture of chemicals and chemical products by 6.7%.

On annual basis in August 2019 Industrial Production Index calculated from working day adjusted data fell in the electricity, gas, steam and air conditioning supply by 4.6%, in the mining and quarrying industry by 1.3% and in the manufacturing by 0.8%. In the manufacturing, the more considerable decreases compared to the same month of the previous year were registered in the manufacture of tobacco products by 24.6%, in the manufacture of wearing apparel by 11.9%, in the repair and installation of machinery and equipment by 10.7%, in the manufacture of basic metals by 10.2%. Important increases were seen in the manufacture of other transport equipment by 51.9%, in the manufacture of computer, electronic and optical products by 15.0%, in the manufacture of beverages by 9.1%, in the printing and reproduction of recorded media by 6.7%.
Projection: *Industrial Production in Bulgaria is expected to be 1.9% by the end of 2019. Looking forward, we estimate Industrial Production in Bulgaria to stand at 3.1% in 2020 and 3.3% in 2021.*

Retail Sales

According to the preliminary seasonally adjusted data in August 2019 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices decreased by 0.3% compared to the previous month. Retail Sales yoy in Bulgaria is expected to be 4.2% by the end of 2019. Looking forward, we estimate Retail Sales yoy in Bulgaria to stand at 4% in 2020 and 4.5% in 2021.
According to the preliminary seasonally adjusted data compared to the previous month in August 2019 the turnover in "Retail trade, except of motor vehicles and motorcycles" at constant prices decreased by 0.3%. In August 2019, the working day adjusted increase from 2.0% in comparison with the same month of the previous year turnover in "Retail trade, except of motor vehicles and motorcycles" marked an In August 2019 compared to the previous month, decrease of turnover was observed in the 'Retail sale of automotive fuel' - by 0.6%, in the "Retail sale of non-food products except fuel" - by 0.5%, while in the "Retail sale of food, beverages and tobacco" was registered increase - by 0.2%. In the "Retail sale of non-food products except fuel" a more significant turn-down was reported in the "Retail sale via mail order houses or via Internet" and in the "Retail sale of computers, peripheral units and software; telecommunications equipment" - by 6.7% and by 3.4%, respectively. More substantial rise was noted in the „Retail sale of textiles, clothing, footwear and leather goods" - by 0.6%. In August 2019 compared to the same month of 2018, the turnover increased in the "Retail sale of automotive fuel" (by 3.6%), in the "Retail sale of non-food products except fuel" (by 2.0%) and in the "Retail sale of food, beverages and tobacco" (by 0.9%). 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 11.3%, in the "Retail sale of textiles, clothing, footwear and leather goods" - by 8.5%, in the "Retail sale of audio and video equipment; hardware, paints and glass; electrical household appliances" - by 5.7%. A decline was reported in the "Dispensing chemist; retail sale of medical and orthopedic goods, cosmetic and toilet articles" - by 7.1%.
Projection: *Retail Sales yoy in Bulgaria is expected to be 4.2% by the end of 2019. Looking forward, we estimate Retail Sales yoy in Bulgaria to stand at 4% in 2020 and 4.5% in 2021.*

Construction Output

According to the preliminary data, in August 2019 the index of production in section "Construction" calculated on the base of seasonally adjusted data was 0.2% below the level of the previous month. In August 2019 the working day adjusted index of production in construction increased by 3.4% in comparison with the same month of 2018.Construction Output in Bulgaria is expected to be 3.2% by the end of 2019. Construction Output in Bulgaria to stand at 4% in 2020 and 3% in 2021.
According to the preliminary data, in August 2019 the index of production in section "Construction" calculated on the base of seasonally adjusted data was 0.2% below the level of the previous month. In August 2019 working day adjusted data showed an increase by 3.4% in the construction production, compared to the same month of 2018. In August 2019 the construction production index, calculated from the seasonally adjusted data, was below the level of the previous month. Index the production of civil engineering decreased by 1.6%, while production of building construction observed an increase by 0.8%. On an annual basis in August 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 8.9%, while in the civil engineering was registered a decline by 3.6% (
Projection: *Construction Output in Bulgaria is expected to be 3.2% by the end of 2019. Construction Output in Bulgaria to stand at 4% in 2020 and 3% in 2021.*

Inflation

The harmonized index of consumer prices (HIPC) in Bulgaria for September 2019 compared to August 2019 is 98.8%, ie. monthly inflation is minus 1.2%. Since the beginning of the year, inflation has been 1.8% and annual inflation for September 2019 compared to September 2018 is 1.6%. The average annual inflation for the period October 2018 - September 2019 compared to the period October 2017 - September 2018 is 2.6%, below the Maastricht demand for inflation no higher than 3%. Expectations are for a slight increase in consumer price growth by the end of 2019 due to higher oil prices. At the same time, it is expected that inflation in the services sector will slow down, mainly as a result of a slower rise in prices in tourism and road insurance. However, food will continue to have a positive effect on overall inflation, with one reason for the forecast being the poorer agricultural crop in the country. Our estimate is that inflation in Bulgaria will reach 2.5% in 2019, 2.3% in 2020 and 2.1% in 2021.

According to NSI data, the harmonized index of consumer prices (HIPC) for September 2019 compared to August 2019 is 98.8%, ie. monthly inflation is minus 1.2%. Since the beginning of the year, inflation has been 1.8% and annual inflation for September 2019 compared to September 2018 is 1.6%. The average annual inflation for the period October 2018 - September 2019 compared to the period October 2017 - September 2018 is 2.6%, below the Maastricht demand for inflation no higher than 3%. The consumer price index for September 2019 compared to August 2019 is 99.7%, ie monthly inflation is minus 0.3%. The inflation since the beginning of the year is 1.7% and the annual inflation for September 2019 compared to September 2018 is 2.3%. The annual average inflation for the period October 2018 September 2019 compared to the period October 2017 - September 2018 is 3.1%. On a monthly basis, national statistics report deflation of 0.3%, which is largely due to the end of the summer tourist season in the country. Package services for holidays and tourist trips fell by 15.9% in September compared to August, while prices for hotel nights decreased by 20.5%. The cheaper airline tickets, on the other hand, pull down the average prices in the Transport sector as well, with monthly deflation of 1% here. One of the major drivers of inflation in the country is food prices, which make up one-third of the Bulgarian consumer basket. On a yearly basis, statistics still report a rise in food prices, but the pace is slowing. If the increase was 5.1% in August, it is now 4.1%, mainly because of the price of bread, which started to rise late last year as a result of the poor grain harvest. If it is disappointing this year, inflation is likely to increase again in the coming months. Consumer price growth in the services sector is also slowing - from 3.4% in August to 2.6% a month later. There may be a number of factors, but it is striking, for example, that airline tickets went up at double-digit rates during the summer months, and in September they became cheaper. The rise in hotel and tour operator prices is also slowing. On the other hand, several groups of goods report deflation on an annual basis in September. Probably because of end-of-season sales, statistics are seeing an average 2.7% drop in shoe prices. Fuels and lubricants for personal vehicles have also gone down for several months, with prices down 5.4% from a year ago in September. The Messaging sector has also seen deflation for several months (1.8% in September), coming from a decline in the prices of courier services, telephones and telephone services.

Forecast: *A slight increase in consumer price growth by the end of 2019 due to higher oil prices. At the same time, it is expected that inflation in the services sector will slow down, mainly as a result of a slower rise in prices in tourism and road insurance. However, food will continue to have a positive effect on overall inflation, with one reason for the forecast being the poorer agricultural crop in the country. Our estimate is that inflation in Bulgaria will reach 2.5% in 2019, 2.3% in 2020 and 2.1% in 2021.*

Bulgaria: CPI	2018 Weights (%)	September 2019 Change mom (%)	September 2019 Change yend 2018 (%)	September 2019 Change yoy (%)
Total CPI	**100.00**	**99.70**	**101.7**	**102.3**
Foods	31.55	100.6	104.2	104.1
Non-foods	35.206	100.2	100.1	99.9
Catering	5.363	100.5	104	105.6
Services	27.881	97.8	100.4	102.6
Source: NSI				

Producer Prices

Total Producer Price Index in August 2019 increased by 0.3% compared to the previous month; compared to the same month of 2018 the prices rose by 3.5%. Producer Price Index on Domestic Market in August 2019 rose by 0.7% compared to the previous month; compared to the same month of 2018 the domestic prices grew by 4.5%.

The Total Producer Price Index in Industry in August 2019 rose by 0.3% compared to the previous month. Higher prices were registered in the electricity, gas, steam and air conditioning supply by 2.2%, and in mining and quarrying industry by 1.0%, while in manufacturing prices fell by 0.3%. In the manufacturing, more significant decrease in prices were reported in the manufacture of paper and paper products by 1.0%. Prices went up in the manufacture of basic metals by 2.4%, in the manufacture of tobacco products and in the manufacture of leather and related products - both by 1.8%. The Total Producer Price Index in August 2019 increased by 3.5% yoy. The prices rose in the electricity, gas, steam and air conditioning supply by 11.8%, in the mining and quarrying industry by 5.4% and in manufacturing by 1.0%. In the manufacturing increase in prices was reported in the manufacture of leather and related products by 4.8%, in the repair and installation of machinery and equipment and in the manufacture of basic metals - both by 4.6%. Decrease in prices were seen in the manufacture of paper and paper products by 2.2%.

Producer Price Index on Domestic Market in August 2019 increased by 0.7% compared to the previous month. The domestic prices went up in the electricity, gas, steam and air conditioning supply by 2.3% and in the mining and quarrying industry by 1.0%, while in manufacturing the prices decreased by 0.2%. In the manufacturing, compared to the previous month the prices went down in the manufacture of machinery and equipment n.e.c. by 0.5% and in the manufacture of paper and paper products by 0.4%. The domestic prices went up in the manufacture of motor vehicles, trailers and semi-trailers by 1.1%, in the manufacture of wood and of products of wood and cork, except furniture and manufacture of articles of straw and plaiting materials, and in the manufacture of furniture - both by 0.6%. Producer Price Index on Domestic Market in August 2019 increased by 4.5% compared to the same month of 2018. The prices rose in the electricity, gas, steam and air conditioning supply by 11.6%, in manufacturing by 0.8%, and in the mining and quarrying industry by 0.3%. In the manufacturing compared to August 2018 more compelling price increase was reported in the repair and installation of machinery and equipment by 6.9%, in the manufacture of food products by 3.5% and in the manufacture of chemicals and chemical products by 3.2%. The prices fell in the manufacture of leather and related products by 1.5% and in the printing and reproduction of recorded media by 0.4%.

Producer Price Index on Non-domestic Market in August 2019 fell by 0.3% compared to the previous month and rose by 2.0% compared to the same month of 2018.

Bulgaria: Producer Price Indexes 2015=100	6.2018	7.2018	8.2018	9.2018	10.2018	11.2018	12.2018	1.2019	2.2019	3.2019	4.2019	5.2019	6.2019	7.2019	8.2019
Total Producer Price Index	106.8	106.0	105.8	106.2	107.6	107.2	106.4	106.0	107.8	108.6	109.1	109.0	107.8	109.2	109.6
Total Producer Price Index on Domestic Market	105.4	105.5	105.7	106.0	106.8	106.9	106.4	106.6	108.2	108.2	108.6	108.5	108.1	109.7	110.5
Total Producer Price Index on Noin-domestic Market	109	106.7	106.1	106.5	108.8	107.7	106.4	105	107.3	109.3	109.8	109.8	107.4	108.5	108.2
Source: NSI															

LABOR MARKET

Unemployment

In September 2019. the registered unemployment rate in Bulgaria remains at 5.3% for the third consecutive month, decreasing by 0.3 percentage points 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 50,000 people a year

According to the Employment Agency, the unemployment rate in Bulgaria in September 2019 remains at 5.3% for the third consecutive month. A 0.3 percentage point decrease was reported on an annual basis. The total number of registered unemployed in the Labor Offices is 172 781, the increase is minimal compared to August, and by 11 065 less annually. Newly registered unemployed persons in September were 26,662, of which 1,652 were inactive, ie. they were neither employed nor apprenticed and did not look for work. The number of unemployed persons who were employed in September was 18,881, with 92.3% of them employed in the real economy. Another 1,053 jobseekers from the group of pensioners, students and employed, also through their employment offices have found their new jobs. According to programs and measures for training and employment among the unemployed of the risk groups on the labor market, 1061 persons are employed, and under schemes of the Operational Program "Human Resources Development" - 387 persons. In September, 286 persons attended various forms of adult training and a total of 619 unemployed completed the month. The jobs announced in the primary labor market in September were 17,887, with 59.7% of them in the private sector. The largest share of job vacancies was reported in manufacturing (26.2%), education (18.1%), administrative and support activities (13.2%), trade, repair of motor vehicles and motorcycles (10.3%), hotels and restaurants (9.1%) and other. The most sought after groups of professions this month are: teachers; stationary machinery and equipment operators; staff caring for people; workers in the extractive and processing industries, construction and transport; sellers; skilled food, clothing, wooden and related workers; staff engaged in the field of personal services (bartenders, waiters, cooks, housekeepers, etc.); waste collection and related workers; motor vehicle drivers and mobile equipment and more.

Forecast: *For 2019, employment is expected to increase by 0.4%. Unemployment will continue to contract slightly, following the trend of a net decrease of 50,000 people a year..*

FISCAL SECTOR

Budget balance

Consolidated Fiscal Programme (CFP) balance on a cash basis as of end-August 2019 is positive, amounting to BGN 1,112.6 million, or 1.0% of the projected GDP, and is formed by an excess of revenues over expenditures of BGN 1,016.9 million under the national budget and of BGN 95.6 million under EU funds. Based on the preliminary data and estimates, the excess of revenues over expenditures under the Consolidated Fiscal Programme (CFP) as of September 2019 is expected to amount to BGN 1,266.6 million (1.1% of the projected GDP).

Based on the monthly reports from first-level spending units, the Consolidated Fiscal Programme (CFP) balance on a cash basis as of end-August 2019 is positive, amounting to BGN 1,112.6 million, or 1.0% of the projected GDP, and is formed by an excess of revenues over expenditures of BGN 1,016.9 million under the national budget and of BGN 95.6 million under EU funds. After the adoption of the Law amending the 2019 State Budget of the Republic of Bulgaria Law and after the ratification by the National Assembly of the international contracts on purchasing F-16 Block 70 aircraft, armament and related systems for long-term operation and maintenance and thorough preparation of pilots and supporting staff, in August the Ministry of Defence transferred the amount of USD 1.2 billion to a US government account. The Bulgarian side has thus fulfilled its commitment under the contracts signed under the acquisition of a new type of military aircraft investment expenditure project of the air forces of the Republic of Bulgaria and commenced the practical implementation thereof. The CFP revenues, grants and donations as of August 2019 stand at BGN 29,305.8 million, or 66.8% of the annual estimates. Compared to the same period of the previous year, CFP grants and donations have grown by BGN 3,330 million in nominal terms, including tax and non-tax revenues by BGN 3,031.9 million (12.3%), while grant and donation proceeds (mostly EU programme and fund grants) have risen by BGN 298.1 million. Tax proceeds, including revenues from social security contributions, total BGN 23,256.2 million, which accounts for 67.3% of the tax revenues planned for the year. Direct tax revenues amount to BGN 4,291.5 million, or 65.4% of those planned for the year. Indirect tax revenues amount to BGN 11,204.2 million, which accounts for 68.2% of the annual estimates. VAT proceeds amount to BGN 7,401.8 million, or 68.3% of those planned. The excise duty revenues amount to BGN 3,616.3 million, or 67.8% of the annual estimates. Customs duty proceeds amount to BGN 153.3 million, or 64.7% of the annual estimates. Proceeds from other taxes, including property and other taxes under the Corporate Income Tax Law, amount to BGN 869.5 million, or 74.3% of the annual estimates. Revenues from social security and health insurance contributions are BGN 6,890.9 million, which accounts for 66.4% of the estimates for the year. Non-tax revenues amount to BGN 4,463.4 million, or 67.3% of the annual estimates. It should be noted that a baseline effect appears in the non-tax revenue part relating to the revenues under the Electricity System Security Fund due to the amendments to the Energy Law in force as from 1 July 2018 which have changed the mechanism for collection of revenues under the Fund's budget. The revenues under the Fund's budget as of August 2019 are therefore higher than the proceeds for the same period of 2018. Grant and donation proceeds amount to BGN 1,586.2 million. CFP expenditures, including the contribution of the Republic of Bulgaria to the EU budget for August 2019, amount to BGN 28,193.3 million, which accounts for 60.9% of the annual estimates. The nominal increase in expenditures in comparison to the same period of the previous year is due to the expenditures incurred in August under the budget of the Ministry of Defence under the Acquisition of a New Type of Military Aircraft investment project for the air forces of the Republic of Bulgaria, as well as to the higher amount of staff costs (a 10% increase in the wage bill for the public sector and the next step of increasing the remunerations in the education sector), the higher social and health insurance payments (a baseline effect from the pension increase in July 2018 and July 2019 and an increase in the health insurance payments set out in the 2019 NHIF Budget Law), an increase in subsidy expenditures, etc. Non-interest expenditures amount to BGN 26,820.1 million, which accounts for 60.8% of the annual estimates. Non-interest current expenditures as of August 2019 amount to BGN 22,525.3 million, capital expenditures (including net increment of state reserve) amount to BGN 4,270.9 million. The current and capital transfers to other countries amount to BGN 23.8 million. Interest payments amount to BGN 469.5 million, or 70.2% of those planned for 2019. The part of Bulgaria's contribution to the EU budget, as paid from the central budget as of 31.08.2019, amounts to BGN 903.6 million, which complies with the existing legislation in the area of EU own resources. The fiscal reserve as of 31.08.2019 is BGN 10.3 billion, including BGN 10.0 billion of fiscal reserve deposits in the BNB and in banks and BGN 0.3 billion of receivables under the EU Funds for certified expenditures, advance payments, etc.

Projection: Based on the preliminary data and estimates, the excess of revenues over expenditures under the Consolidated Fiscal Programme (CFP) as of September 2019 is expected to amount to BGN 1,266.6 million (1.1% of the projected GDP). As of September 2019, CFP revenues and grants are expected to be BGN 32,808.7 million, which accounts for 74.8% of the annual estimate. Compared to the nine months of 2018, CFP revenues grow by BGN 3,645.1 million, with some growth being registered for both tax and non-tax revenues and proceeds from grants and donations where EU programme and fund grants are mainly received. The growth of tax revenues is BGN 2,125.1 million, non-tax revenues grow by BGN 1,111.0 million, while proceeds from grants and donations grow by BGN 409.1 million.

A baseline effect mostly appears with regard to non-tax revenues relating to the revenues under the Electricity System Security Fund due to the amendments to the Energy Law in force as from 1 July 2018. As of September 2019, the Consolidated Fiscal Programme expenditures, including the contribution of the Republic of Bulgaria to the EU budget, amount to BGN 31,542.1 million, which accounts for 68.1% of the annual estimates. For comparison, the CFP expenditures for the nine months of 2018 amount to BGN 26,500.9 million. The nominal increase in comparison to the same period of the previous year is due to the higher capital expenditures (mostly due to the expenditures related to the implementation of the investment project for the acquisition of a new type of military aircraft for the Bulgarian air forces), the staff costs (a 10% increase in the wage bill for the public sector and the next step of increasing the remunerations in the education sector), the higher social and health insurance payments (a baseline effect from the pension increase in July 2018 and July 2019 and an increase in the health insurance payments set out in the 2019 NHIF Budget Law), etc.

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. Fuolscal 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								

Central Government Sub-sector Debt

In January – August 2019, Bulgaria's central government sub-sector debt amounted to EUR 11,971.3 million and accounted for 20.3% 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.

Central government debt stands at EUR 11,971.3 million as at end-August 2019. Domestic debt amounts to EUR 2,944.1 million and external debt – to EUR 9,027.2 million. At the end of the reporting period the central government debt-to- GDP ratio is 20.3%, with the share of domestic debt being 5.0% and of external debt – 15.3% of GDP. In the central government debt structure, at the end of the period domestic debt amounts to 24.6%, and external debt – to 75.4%. As of 31 August 2019, central government guaranteed debt amounts to EUR 74.1 million. Domestic guarantees amount to EUR 33.4 million and external guarantees – to EUR 40.7 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(1) of the Government Debt Law, at end-August 2019 government debt reaches EUR 11,193.2 million, or 19.0% of GDP. Domestic debt amounts to EUR 2,766.2 million and external debt – to EUR 8,427.0 million. Government guaranteed debt amounts to EUR 912.4 million in August 2019. Domestic guarantees amount to EUR 33.4 million, with the government guaranteed debt-to-GDP ratio being 1.5%.

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

On 7 October 2019 the Ministry of Finance reopened an issue of 20-year BGN-denominated government securities (GS) placed on 21 June 2019 and maturing on 21 June 2039.

Governmnet securities on an aggregate nominal value of BGN 69.18 million were offered at the auction at a weighted average yield of 1.38%. The total subscribed amount reached BGN 132.25 million, which corresponds to a bid-to-cover ratio of 1.39. The spread reported to the analogous German Bunds is 170 basis points. The allocation of the earned volume of government securities type of investors was as follows: the biggest amount of GS was acquired by banks - 41.2%, followed by pension and guarantee funds – 34%, insurance companies – 20.2% and other investors – 4.6%.

MONETARY SECTOR

At the end of August 2019 broad money (monetary aggregate M3) amounted at BGN 98.507 billion (85.1% of GDP) and increased by 7.7% yoy. Domestic credit – was BGN 60.471 billion and increased by 7.5% yoy.

In August 2019 broad money (monetary aggregate M3) increased annually by 7.7% compared to 7.9% yoy growth as in July 2019. At the end of August 2019 M3 was BGN 98.507 billion (85.1% of GDP) compared to BGN 97.570 billion (84.3% of GDP) in July 2019. Its most liquid component – monetary aggregate M1 – increased by 12% yoy in August 2019 (12.7% annual growth in July 2019). At the end of August 2019, deposits5 of the non-government sector6 were BGN 81.591 billion (70.5% of GDP), increasing annually by 7.3% (7.7% yoy growth in July 2019). Deposits of Non-financial corporations were BGN 24.559 billion (21.2% of GDP) at the end of August 2019. Compared to the same month of 2018 they increased by 3.1% (3.9% annual growth in July 2019). Deposits of financial corporations increased by 29.7% annually in August 2019 (35.1% annual growth in July 2019) and at the end of the month they reached BGN 3.372 billion (2.9% of GDP). Deposits of Households and NPISHs were BGN 53.660 billion (46.4% of GDP) at the end of August 2019. They increased by 8.2% compared to the same month of 2018 (8.1% yoy growth in July 2019). Net domestic assets were BGN 61.199 billion at the end of August 2019. They increased by 10.6% compared to the same month of 2018 (5.8% yoy growth in July 2019). At the end of the month their basic component – domestic credit – was BGN 60.471 billion and increased by 7.5% compared to August 2018 (3.4% yoy growth in July 2019). In August 2019 claims on the non-government sector7 increased by 6% yoy (6.5% yoy growth in July 2019) reaching BGN 61.569 billion. At the end of August 2019, claims on loans to the non-government sector amounted to BGN 59.932 billion (51.8% of GDP) compared to BGN 59.860 billion (51.7% of GDP) at the end of July 2019. They increased annually by 6% in August 2019 (6.5% yoy growth in July 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 397.8 million. On an annual basis, loans sold by Other MFIs were BGN 413.5 million (of which BGN 4.6 million in August 2019), while the amount of repurchased loans was BGN 15.7 million (there were no loan repurchases in August 2019). In August 2019, loans to Non-financial corporations increased by 3.3% yoy (4.3% yoy growth in July 2019) and at the end of the month amounted to BGN 33.585 billion (29% of GDP). Loans to Households and NPISHs were BGN 23.212 billion (20.1% of GDP) at the end of August 2019. They increased by 8.8% compared to the same month of 2018 (8.7% yoy growth in July 2019). At the end of August 2019 loans for house purchases were BGN 11.406 billion and increased by 12.4% yoy (12.3% yoy growth in July 2019). Consumer loans amounted to BGN 9.893 billion and compared to August 2018 they increased by 11.2% (11.2% yoy growth in July 2019). On an annual basis other loans decreased by 39.7% (40.8% yoy decline in July 2019) and reached BGN 574.3 million. Loans granted to financial corporations were BGN 3.134 billion at the end of August 2019 (2.7% of GDP). Compared to August 2018, they increased by 17.4% (17.6% yoy growth in July 2019).

CAPITAL MARKET

In September 2019, SOFIX registered an increase to 570.58 points. The index of the most liquid companies BGBX 40 rose to 113.44 points. The weighted BG TR30 rose to 507.30 points. The BGREIT real estate meter rose to 128.08 points.

According to BSE-Sofia data, in September 2019 the Bulgarian stock benchmark increased by 0.55% to 570.58 points. In August, BSE-Sofia's main index fell by 2.28% to 567.45 points. BGBX 40's most liquid index rose 1.01% to 113.44 points in September after falling 2.01% to 112.31 points in August. The weighted BG TR30 rose 0.95% to 507.30 points in September, after falling 1.68% to 502.53 points in August. BGREIT's property meter rose 1.35% to 128.08 points in September after falling 0.37% to 126.38 points in August. Of the companies included in SOFIX, in September 2019 the ratio between the winning and losing issues is 12: 3. So many profitable companies included in the Bulgarian Blue Chips Index have not been reported in the last two years. A year earlier, in September 2018, the ratio was significantly worse - 6 winners and 9 losers. In September, as well as in August and July, there is no issue with double digits, but there is no company whose shares are at a loss of more than 5%. Turnover in September increased by BGN 3 926 907 to BGN 9 094 991 after transactions in shares of 15 SOFIX companies for August were reported for BGN 5 168 084. In contrast to August, when there were no issues with a turnover exceeding BGN 1 million, in September more than one million BGN were traded with 4 issues. The highest turnover is reported in SOFIX Albena (BGN 2 481 932) and Monbat (BGN 1 706 760). Following are Industrial Holding Bulgaria (BGN 1 089 890) and Eurohold Bulgaria (BGN 1 022 054). Sopharma retains its leading position in market capitalization (BGN 454 268 920), followed by: Gradus (BGN 419 006 981) , Chimimprot (BGN 408 596 885), Eurohold Bulgaria (BGN 367 397 616) and First Investment Bank (BGN 352 000 000). After September 24, five holdings remained in SOFIX, of which three were profitable in September - Industrial Holding Bulgaria (+ 5.05%), Sirma Group Holding (+ 4.41%) and Doverie United Holding (+ 3.77%). Holding Varna (-4.08%) followed the biggest fall in the share price, followed by Eurohold Bulgaria (-1.06%). The company with the highest turnover for the month of September 2019 is Velina AD, with realized volume of 7 800 428 BGN. Second place is Capital Concept Limited AD with realized volume of BGN 3 110 416. There are no representatives of special investment vehicles in the ranking.

The smallest number of deals in the ranking are Velina AD, Capital Concept Limited AD and Eurohold Bulgaria AD, and the largest M + C hydraulics AD, Stara Planina Hold AD, Albena AD and Monbat AD. The most profitable company in September 2019 was Velina AD, which achieved a three-digit growth of 200.36%. Second place ranks Alterco AD, followed by Green Town Projects AD with growth of 9.89%. The last two companies in the ranking recorded single-digit growth, respectively Himsnab Bulgaria AD with growth of 7.98% and Stara Planina Hold AD with growth of 5.94%. The worst losers in September 2019 are headed by HippoCredit AD with a decrease of 35.00%. Second place is M + C Hydraulic AD with a decrease of 10.00%, followed by Lavena AD, which recorded a decrease of 4.26% in September. Holding position in the ranking is Holding Varna AD with a decrease of 4.08%.

Bulgarian Stock Exchange Indexes on Monthly Basis

Date	SOFIX	BGBX40	BGREIT	BGTR30
05.2018	636.6	126.3	115.5	528.3
06.2018	634.3	124.9	116.2	525.4
07.2018	634.0	122.7	115.9	525.5
08.2018	631.8	122.3	117.1	521.6
09.2018	624.4	121.9	117.8	520.3
10.2018	596.8	117.0	117.2	499.3
11.2018	592.1	115.1	117.5	489.6
12.2018	594.5	115.9	121.1	496.1
01.2019	585.8	115.0	120.8	492.0
02.2019	585.4	116.1	120.9	506.0
03.2019	583.9	116.3	120.6	506.0
04.2019	575.1	114.8	120.8	504.0
05.2019	582.5	115.7	121.5	505.9
06.2019	582.5	115.7	121.5	505.9
07.2019	580.7	114.6	126.9	511.1
08.2019	567.5	112.3	126.4	502.5
09.2019	570.6	113.4	128.1	507.3

Source: Bulgarian Stock Exchange-Sofia

BANKING SECTOR

In August 2019, the banking system's assets amounted to BGN 110.7 billion and accounted for 95.6% of GDP. Household loans reported a monthly decline of 1.7% and an increase of 8.2% yoy. Loans to non-financial corporations amount to BGN 35.9 billion and increase by 3.5% yoy. Loans to other financial corporations and the general government sector increased by 15.8% and 13.5% on an annual basis to BGN 3.5 billion and BGN 812 million, respectively. Deposits from households and non -financial corporations increased by 0.5% on a monthly basis and by 7.6% yoy to BGN 55.5 billion. Funds from non-financial corporations also increased by 1.3% mom and by 2.4% yoy to BGN 26.4 billion and by other financial corporations (by 25.6% yoy to BGN 3.7 billion.

According to BNB data, as of August 31, 2019, the banking system's profit was BGN 1.2 billion, which is 11.4% (BGN 124 million) more than in the same period of 2018. which are not carried at fair value through profit or loss, amounted to BGN 241 million at the end of August (compared to BGN 301 million a year earlier).

Indicator (BGN'000)	30.08. 2018	30.08. 2019	Y/Y (%)
Interest Income	**2 010 218**	**2 043 852**	**1.7**
Interest Expence	199 169	193 035	-3.1
Net interest Income	**1 811 049**	**1 850 817**	**2.2**
Impairment	301 307	241 407	-19.9
Divident income	150 059	159 679	6.4
Fee and commission income	**818 648**	**875 406**	6.9
Fee and commission expenses	117 832	141 900	20.4
Net fee and commission income	**700 816**	**733 506**	**4.7**
Administration costs	1 108 199	1 096 627	-1.0
Personal costs	562 965	590 121	4.8
Total operating income, net	**2 721 601**	**2 834 681**	**4.2**
Net Profit	**1 087 961**	**1 212 251**	**11.4**

Source:BNB, UBB's Calculations

On a monthly basis, the assets of the banking system increased by 0.5% on a monthly basis and by 7.5% on an annual basis to 110, 7bn. loans at the end of August 2019. Loans and advances, other sight deposits, cash and debt securities of general government are increasing. The share of the five largest credit institutions in assets reaches 60.2%. The gross credit portfolio of clients of the banking system reported a monthly decrease of 0.8% and an annual growth of 5.9% to BGN 62.1 billion. Household loans reported a monthly decline of 1.7% and an increase of 8.2% yoy. Consumer credit adjustments should be reported here: from April 2019 to the amount of 1,100 million DSK credit reclassification and from May 2018 to 700 million BGN from a new player for the banking system - BNP Pariba. Mortgage loan adjustments: reclassification of loans to Eurobank-Bulgaria in the first quarter of 2019 and BGN 82 million to CCB to the mortgage loans segment in the third quarter of 2018 - by 0.6% (BGN 198 million). Loans to non-financial corporations amount to BGN 35.9 billion and increase by 3.5% yoy. Loans to other financial corporations and the general government sector increased by 15.8% and 13.5% on an annual basis to BGN 3.5 billion and BGN 812 million, respectively. At the end of August 2019, deposits from customers in the banking system amounted to BGN 88.1 billion, increasing by 0.5% on a monthly basis and by 5.9% on an annual basis. Deposits from households and non-financial corporations increased by 0.5% on a monthly basis and by 7.6% yoy to BGN 55.5 billion. Funds from non-financial corporations also increased by 1.3% on a monthly basis and by 2.4% yoy to BGN 26.4 billion and by other financial corporations (by 25.6% yoy to BGN3.7 billion. Deposits by general government decreased (by 5.1% mom and by 14.1% yoy to BGN 2.4 billion.

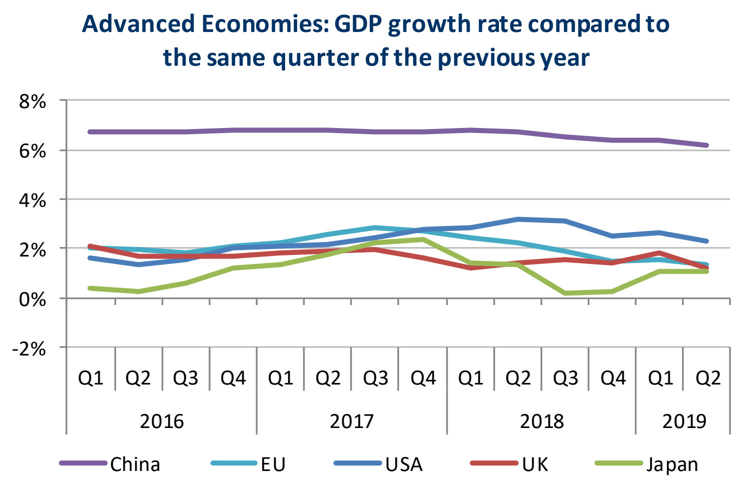
Bulgaria Intermediation Indicators	31.08.2018 BGN'000	31.12.2018 BGN'000	31.07.2019 BGN'000**	31.08.2019 BGN'000	Change m/m (%)	Change y/y (%)	Change yend (%)	Share in GDP (%)
BANKING SYSTEM TOTAL ASSETS	**103 004 025**	**105 556 619**	**110 345 857**	**110 773 017**	**0.4**	**7.5**	**4.9**	**95.6**
Loans to central governments	716 337	741 199	796 513	812 919	2.1	13.5	9.7	0.7
Loans to non-financial corporations	34 715 905	34 871 435	36 070 525	35 940 949	-0.4	3.5	3.1	31.2
Loans to financial corporrations	3 064 359	3 220 084	3 533 777	3 548 948	0.4	15.8	10.2	3.1
Retail loans, incl.:	**20 164 019**	20 555 378	**22 205 849**	**21 818 577**	**-1.7**	**8.2**	**6.1**	**19.2**
Mortgage loans	9 603 516	10 086 245	10 842 051	10 979 468	1.3	14.3	8.9	9.4
Consumer loans	9 535 688	9 632 669	11 363 798	11 472 285	1.0	20.3	19.1	9.8
Micro credits and other loans	1 024 815	836 464	620 182	-633 176	-202.1	-161.8	-175.7	0.5
TOTAL LOANS	**58 660 620**	**59 388 096**	**62 606 664**	**62 121 393**	**-0.8**	**5.9**	**4.6**	**54.2**
ATRACTED SOURCES FROM CLIENTS, incl.:	**83 220 001**	**84 571 339**	**87 675 541**	**88 100 711**	**0.5**	**5.9**	**4.2**	**76.0**
Local government deposits	2 862 103	2 696 635	2 590 304	2 458 841	-5.1	-14.1	-8.8	2.2
Non-financial corporations deposits	25 790 344	25 277 991	26 050 073	26 400 034	1.3	2.4	4.4	22.6
Financial corporations deposits	2 969 086	3 213 474	3 797 044	3 728 331	-1.8	25.6	16.0	3.3
Households and NPISHs deposits	51 598 468	53 383 239	55 238 120	55 513 505	0.5	7.6	4.0	47.9
Equity	**12 358 686**	**13 857 523**	**14 091 001**	**14 256 757**	1.2	15.4	2.9	12.2
Net profit (annualised)	**1 087 961**	**1 677 846**	**1 045 539**	**1 212 251**		11.4		
BANKING INDICATORS (%)								
ROE	13.2	12.1	12.7	12.8	0.0	-0.5	0.7	
ROA	1.6	1.6	1.6	1.6	0.0	0.1	0.0	
Capital adequacy	n.a.	20.4	n.a.	n.a.	n.a	n.a	n.a	
LCR (%)	349.2	294.1	262.7	262.9	0.2	n.a	n.a	
NPL	n.a.	7.6	n.a	n.a.	n.a	n.a	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				

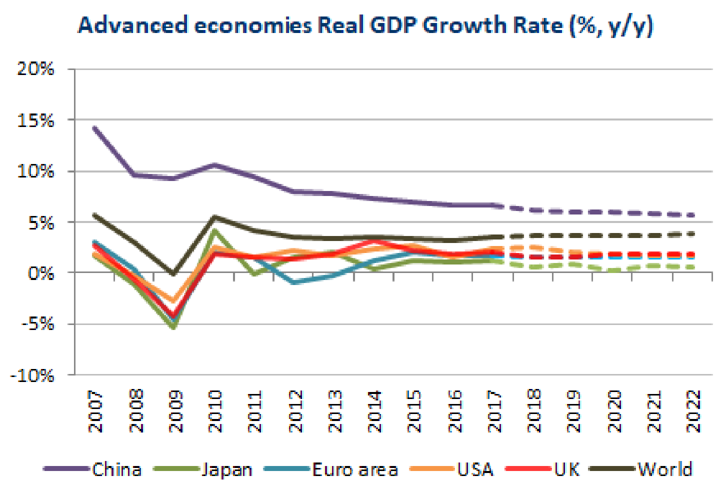
Source: BNB, MF, UBB Calculations

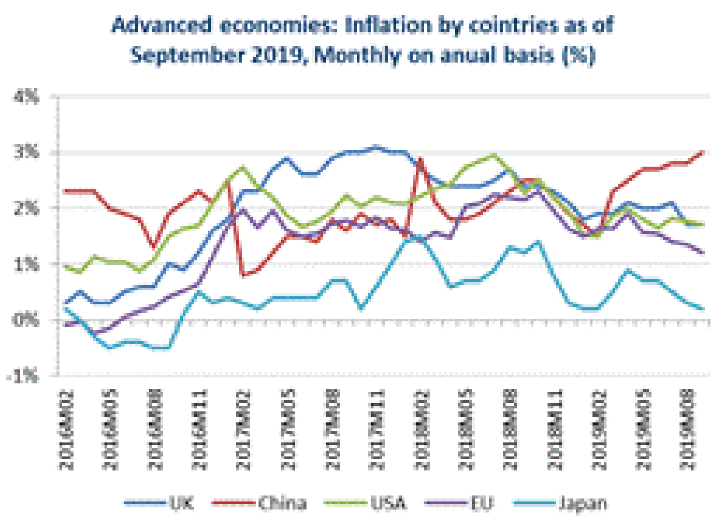
The ratio of liquidity coverage at the end of August was 262.9% (against 262.7% at the end of July). On a monthly basis, the liquidity buffer increased by BGN 403 million (1.4%) to BGN 28.8 billion, and net outflows by BGN 148 million (1.4%) to BGN 11.0 billion. Equity in the banking system's balance sheet increased by 1.2% on a monthly basis and by 15.4% on an annual basis to BGN 14.3 billion, resulting mainly from the distribution of dividends.

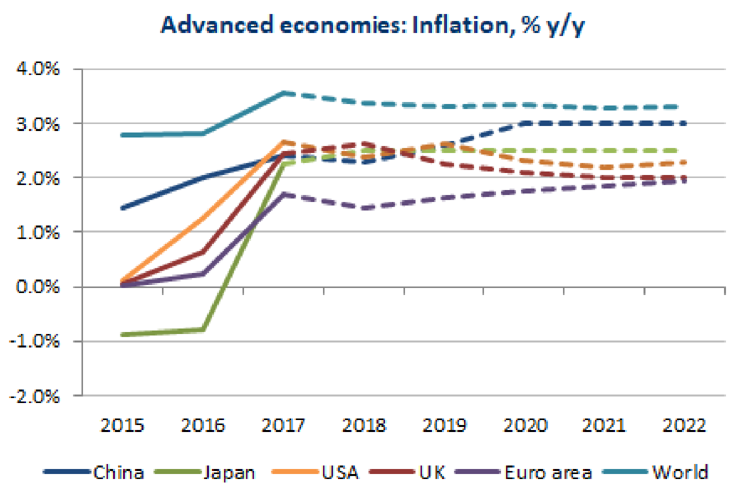
Appendix

ADVANCE ECONOMIES KEY INDICATORS







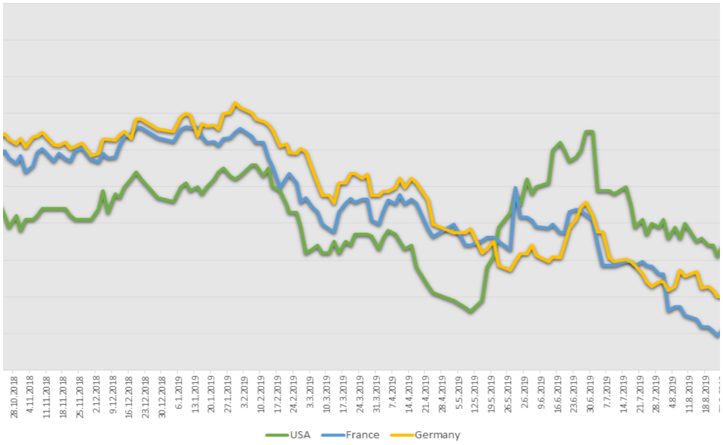


Source: IMF

International Prices of Agriculture Products

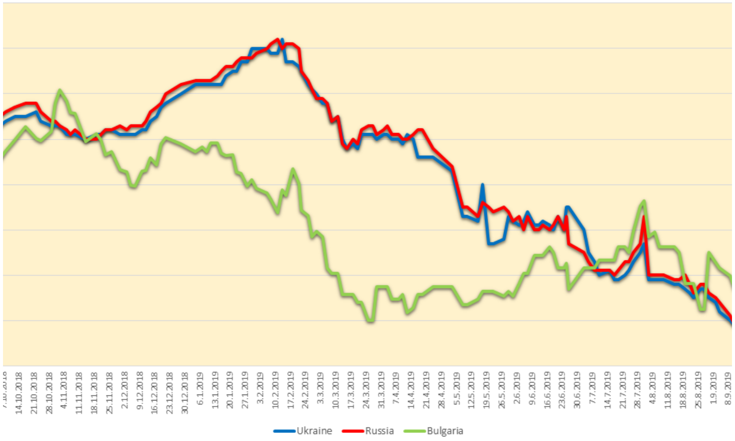
Sofia commodity exchange

Wheat FOB price fluctuation in USA, France and Germany
09.2018 - 09.2019 (USD per ton)



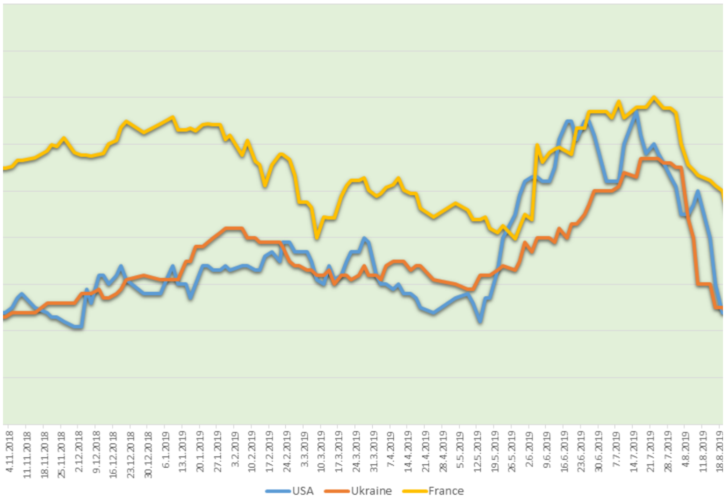
Sofia commodity exchange

Wheat spot price fluctuation in Bulgaria, Russia and Ukraine
09.2018 - 09.2019 (USD per ton)



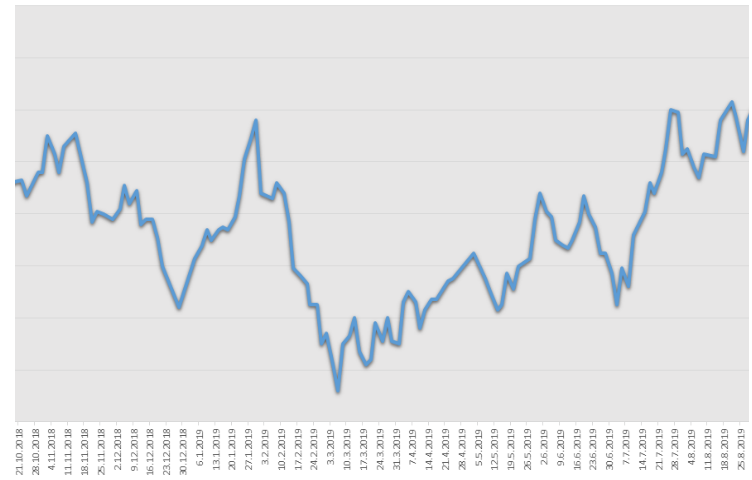
Sofia commodity exchange

Corn spot price fluctuation in USA, Hungary and France
09.2018-09.2019 (USD per ton)



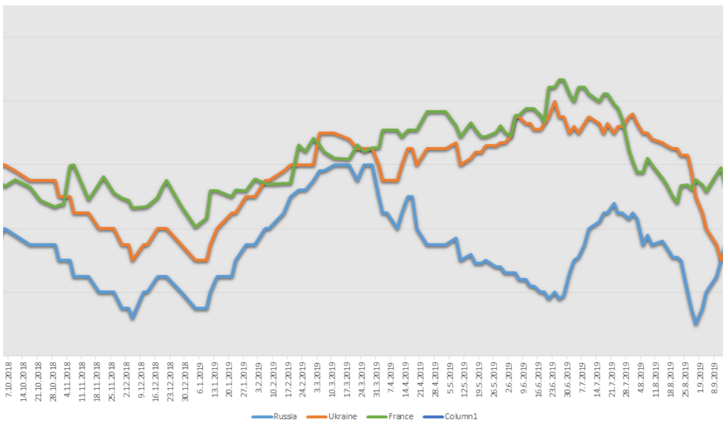
Sofia commodity exchange

Canola price fluctuation in EURONEXT
09.2018 - 09.2019 (EUR/t)



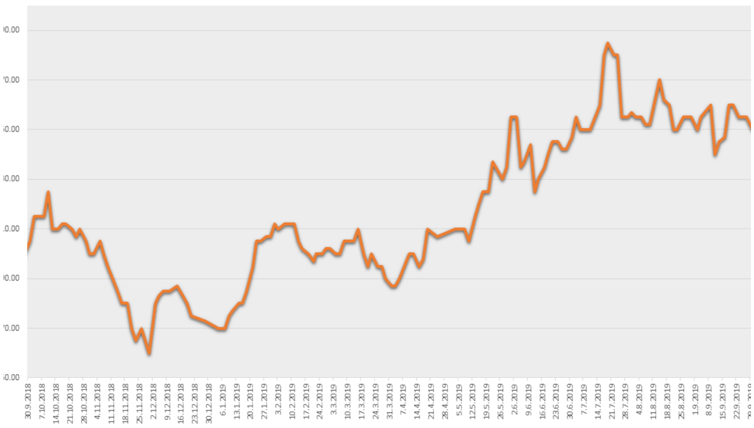
Sofia commodity exchange

Sunflower spot price fluctuation in Russia, Ukraine and France
09.2018 - 09.2019 (USD per ton)



Sofia commodity exchange

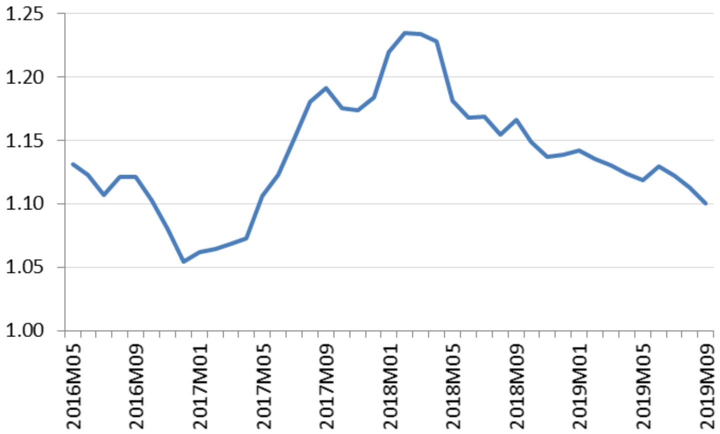
Raw sunflower oil fluctuation in Rotterdam
09.2018 - 09.2019 (USD/t)



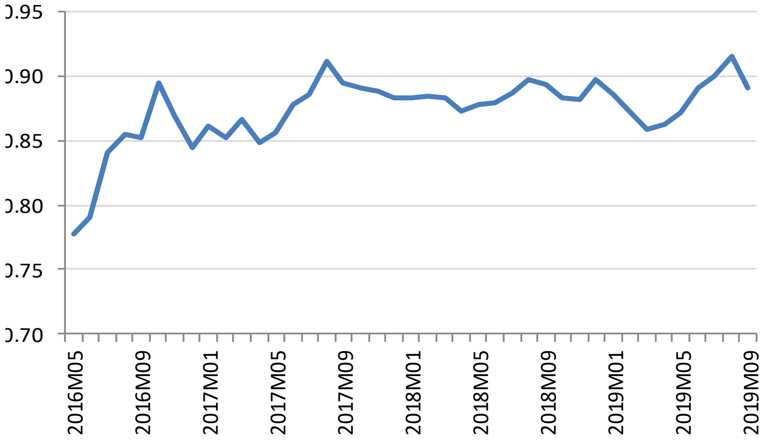
Source: SCE

Overseas FX Rates

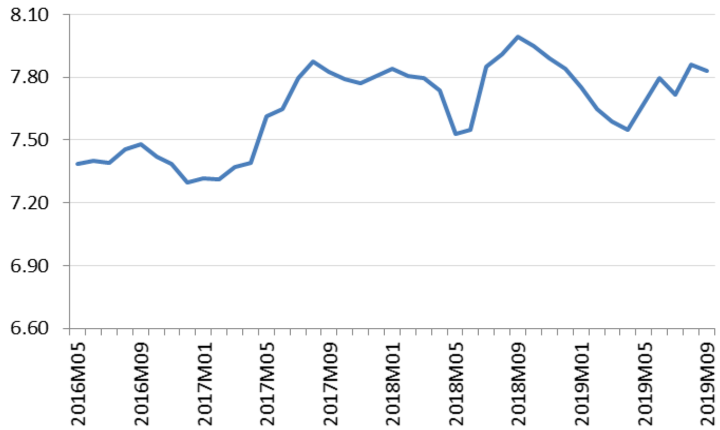
EUR/USD



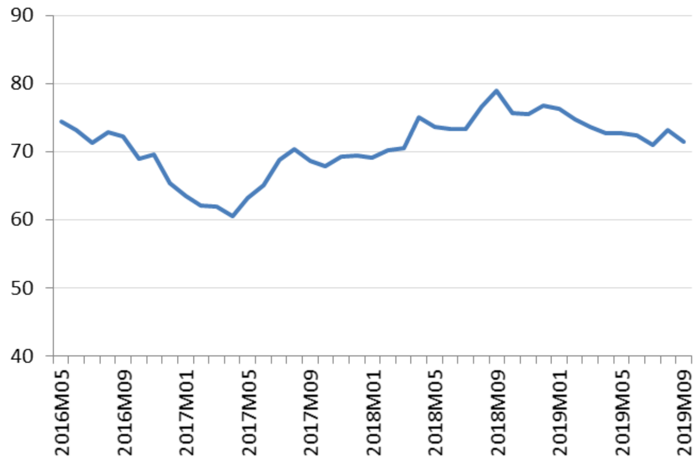
EUR/GBP



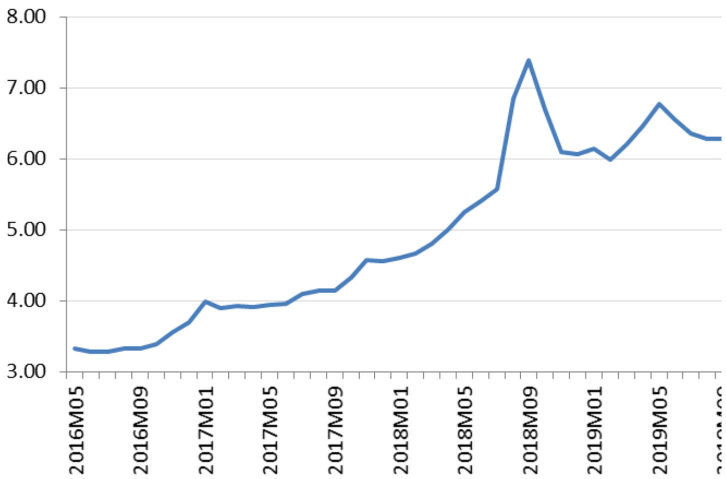
EUR/CNY



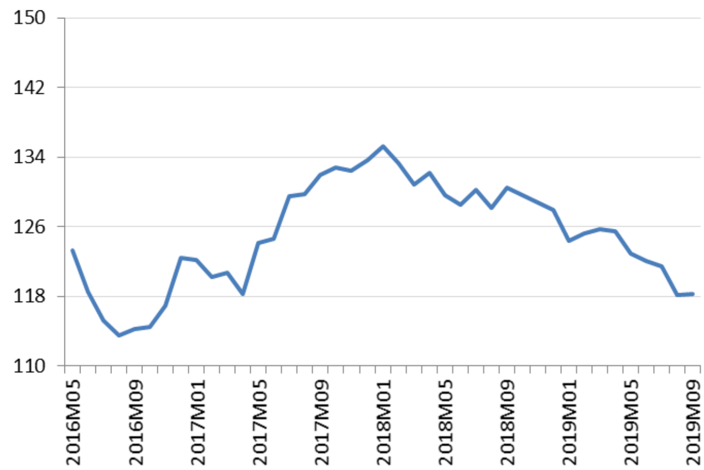
EUR/RUB



EUR/TRY

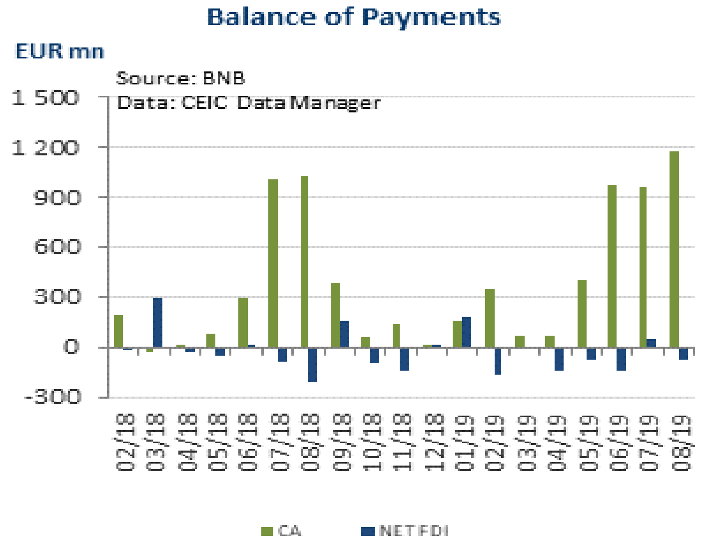


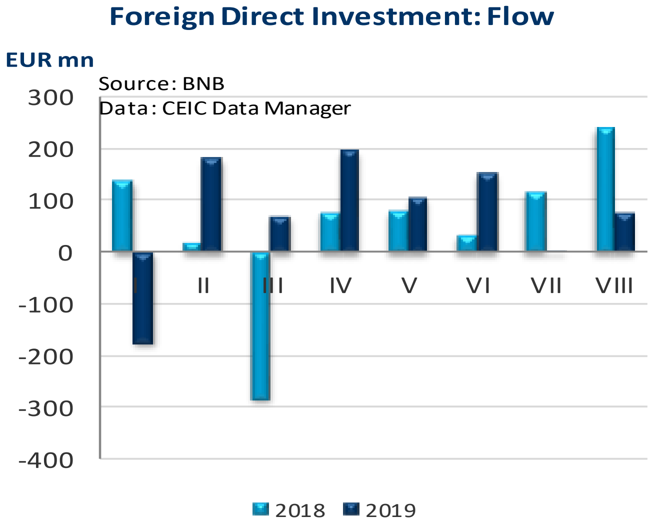
EUR/JPY

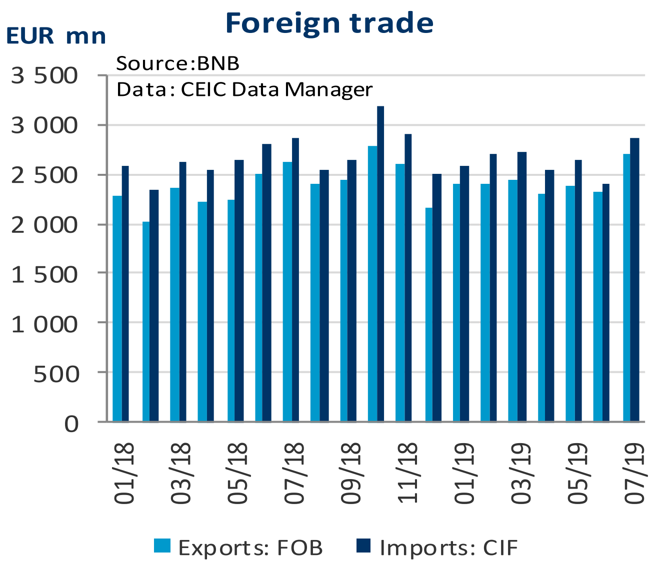


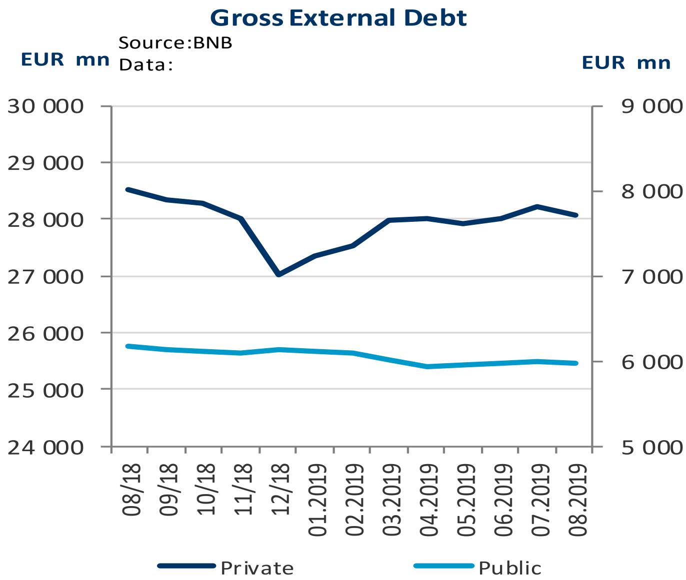
Source: ECB

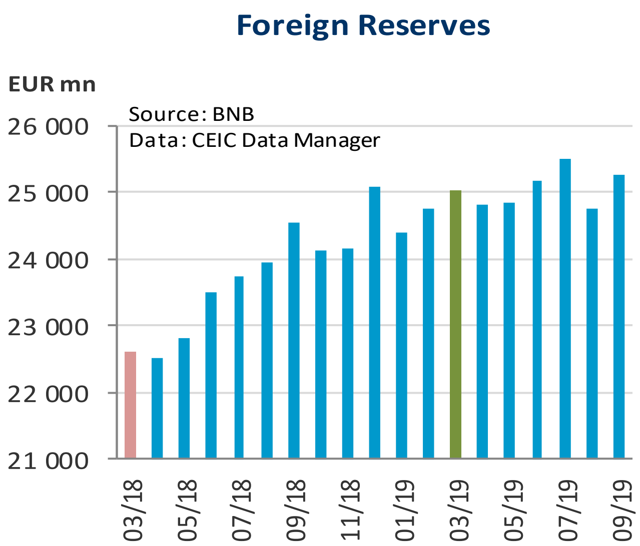
Bulgaria: External Sector Indicators





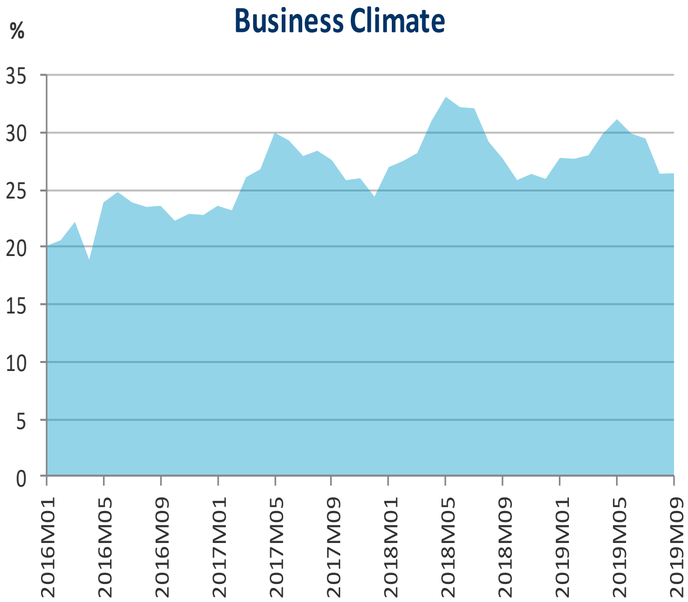


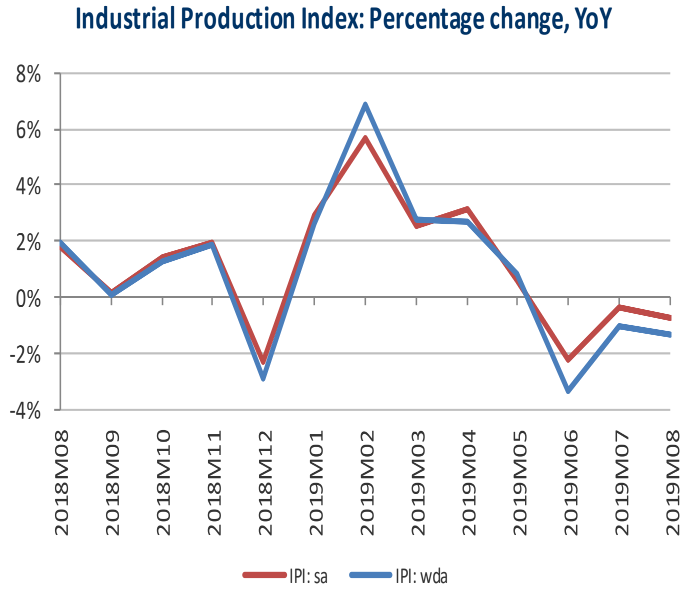


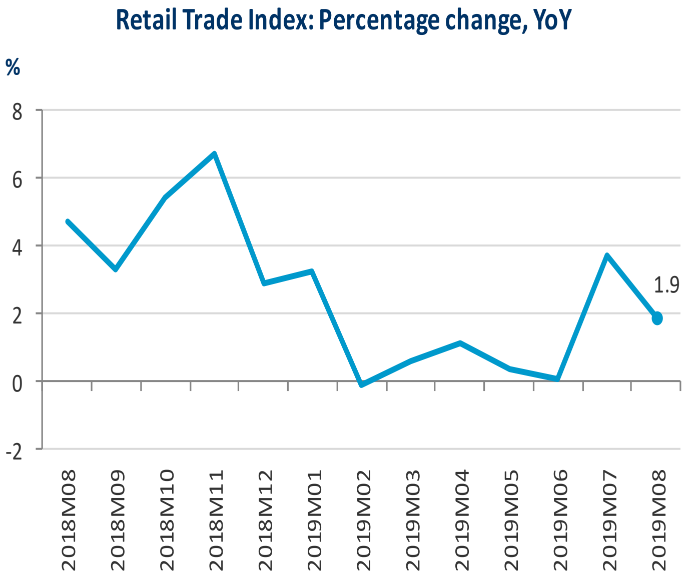


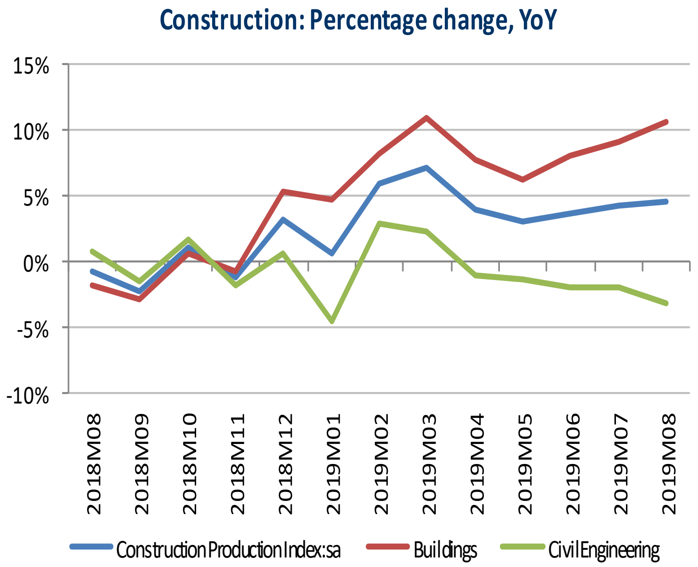
Source: BNB

Bulgaria: Real Sector Indicators



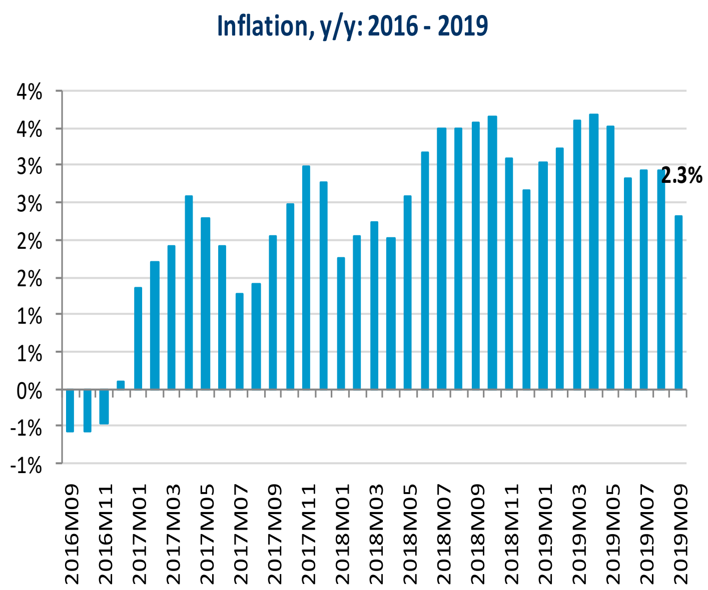


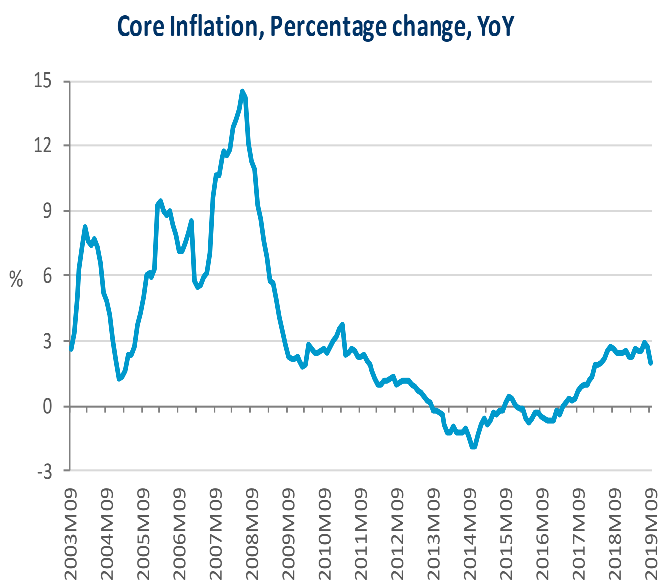


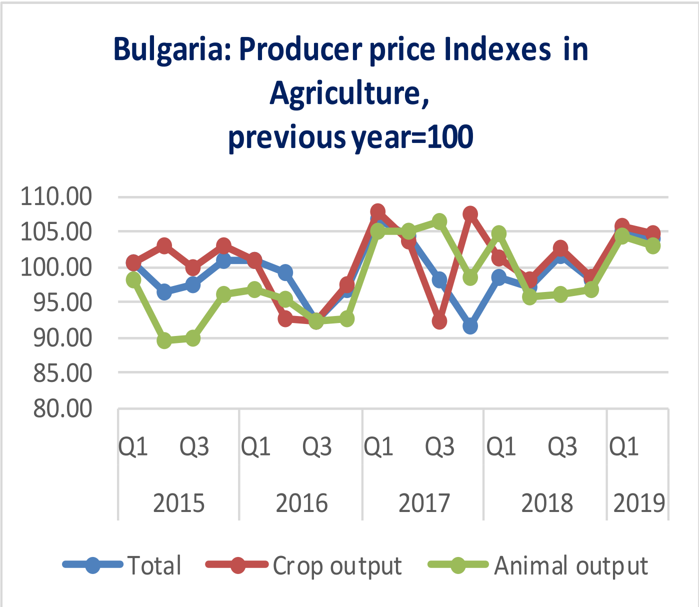


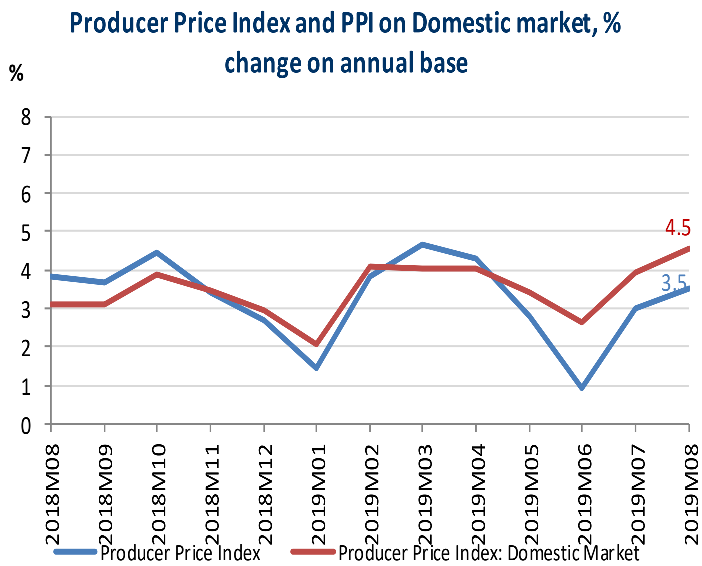
Source: NSI

Bulgaria: Prices Indicators



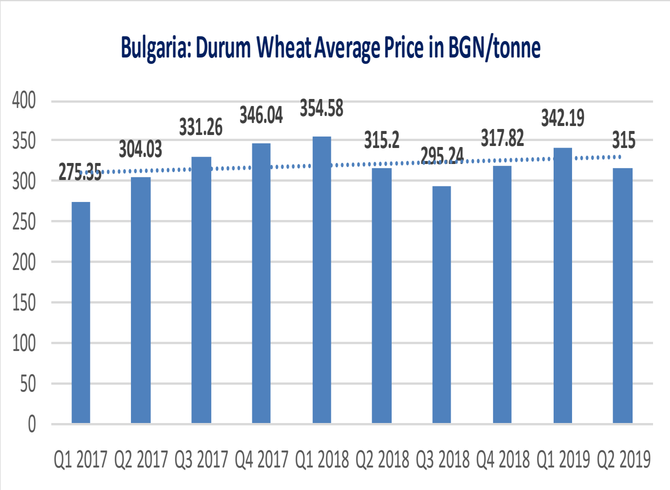


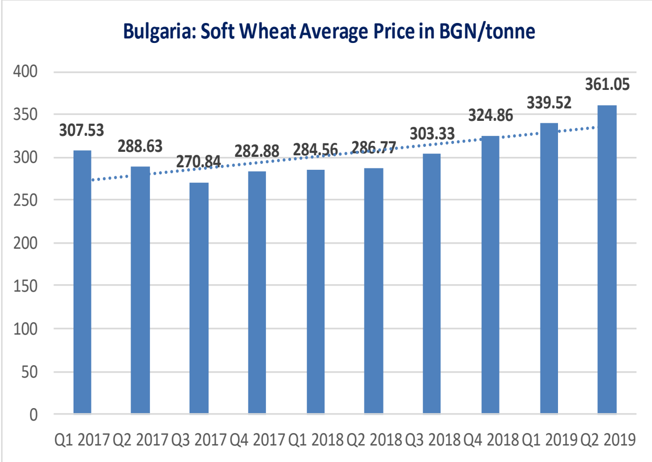


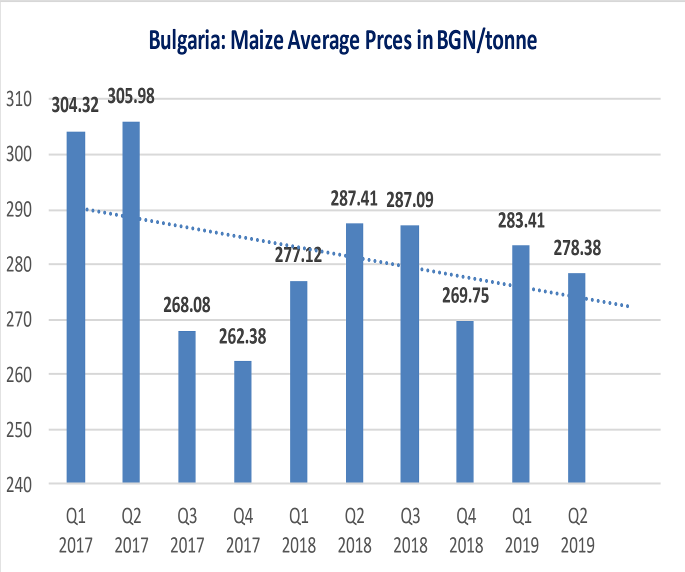


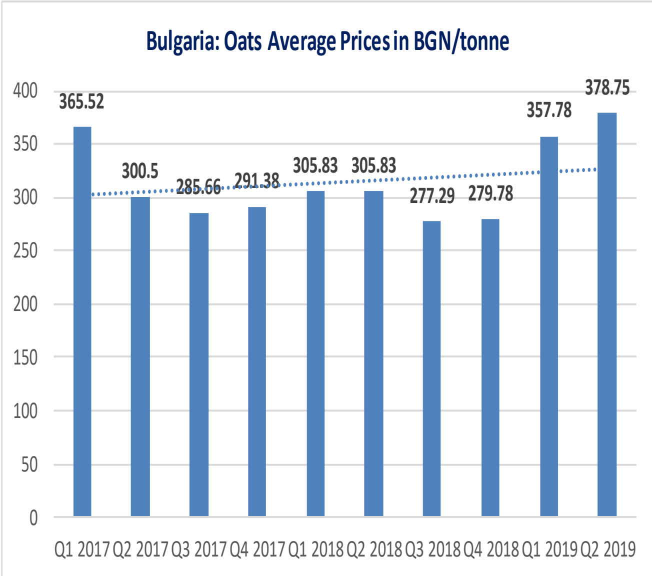
Source: NSI, EC

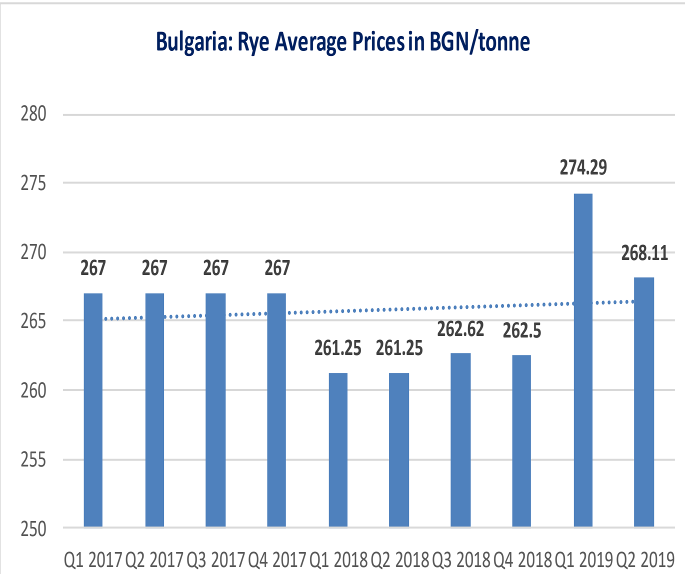
Bulgaria: Cereals Prices

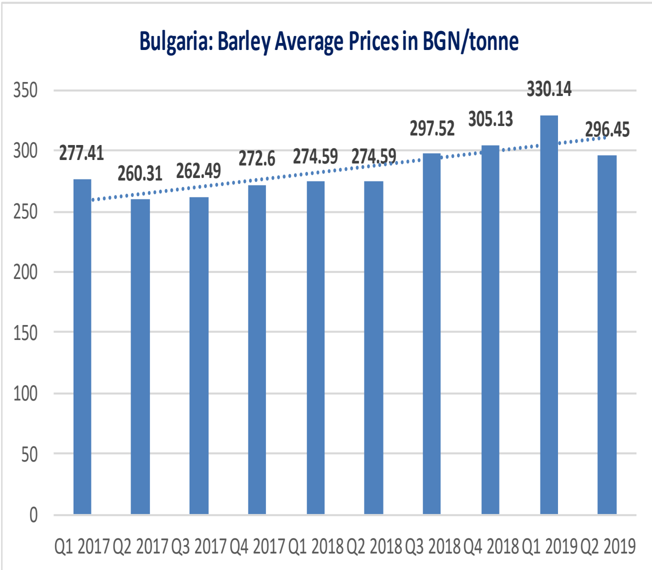






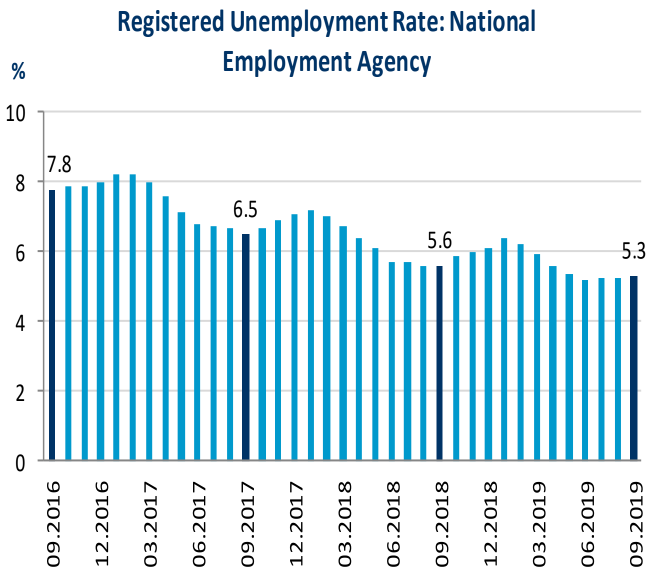


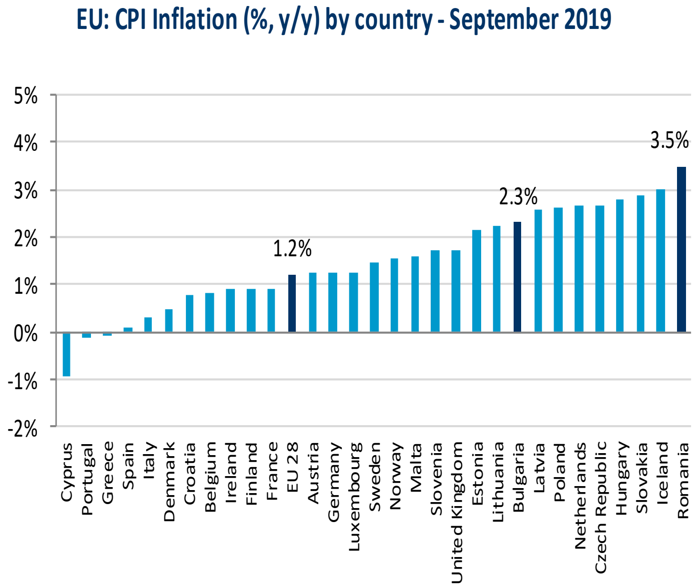


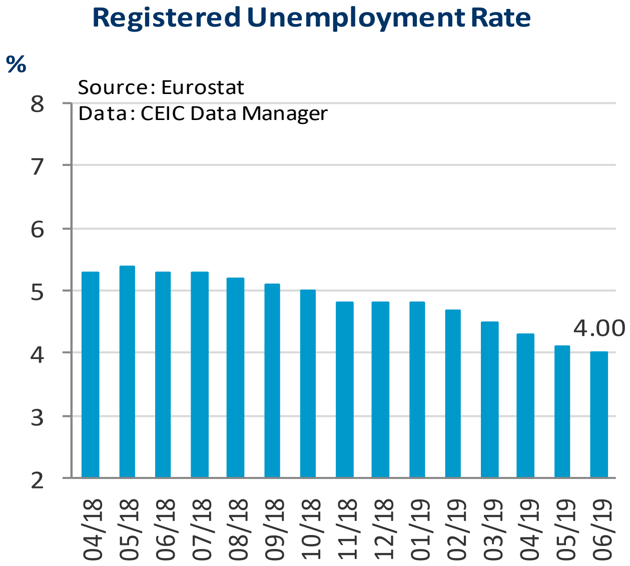


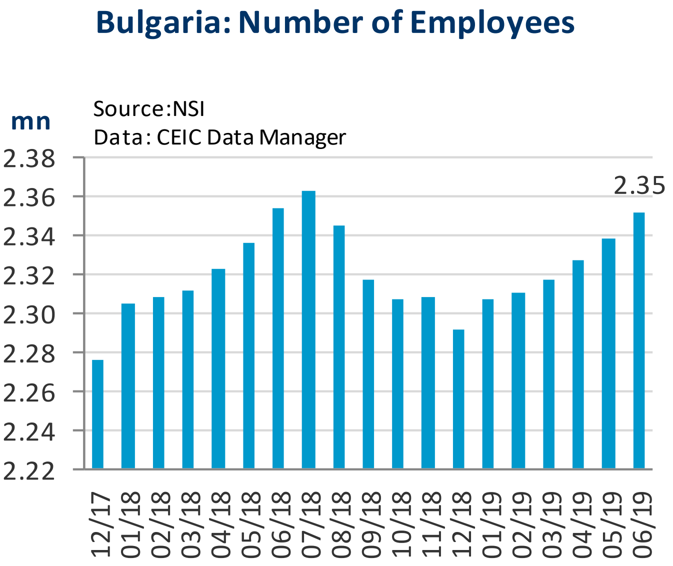
Source: NSI

Bulgaria: Labor Market Indicators



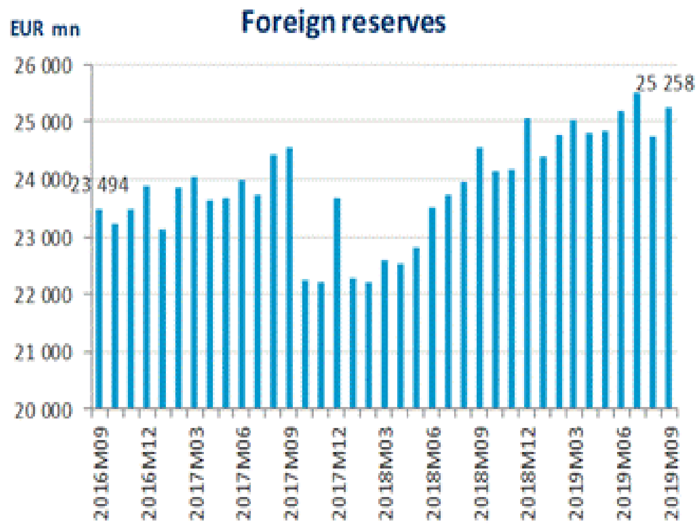


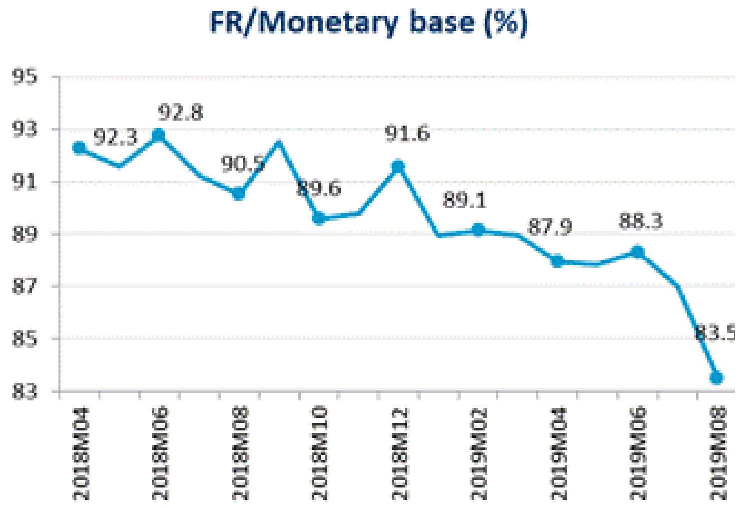


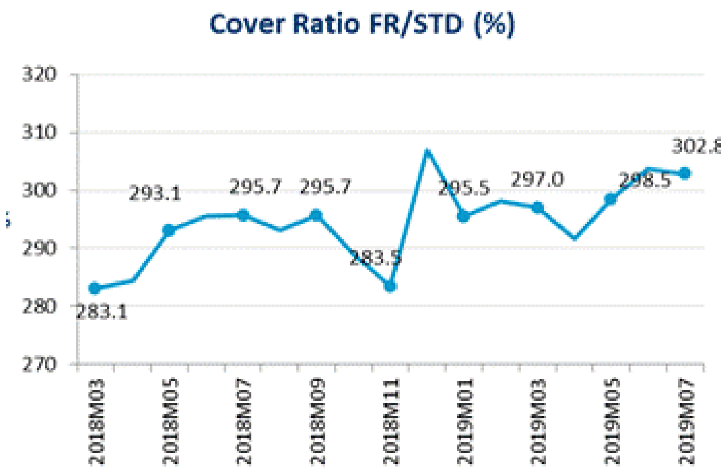


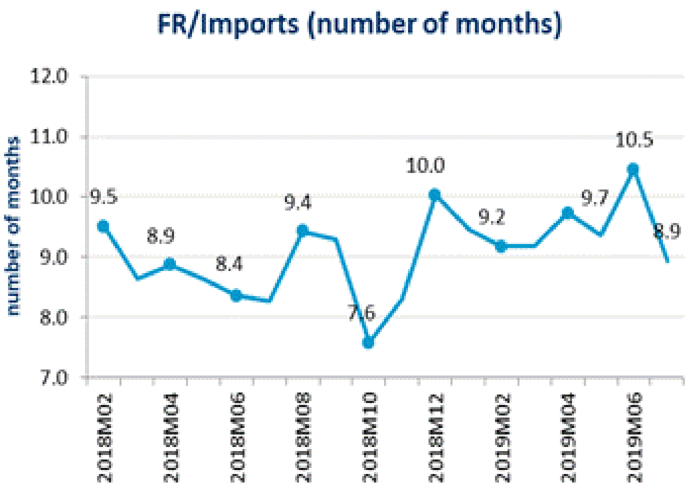
Source: NSI, EC

Bulgaria: Monetary Sector Indicators





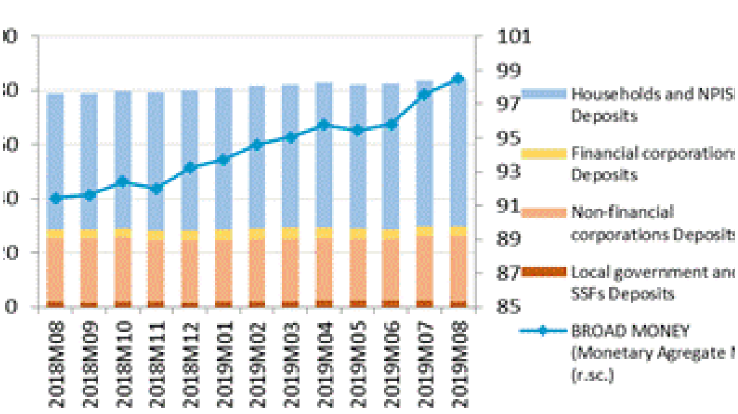




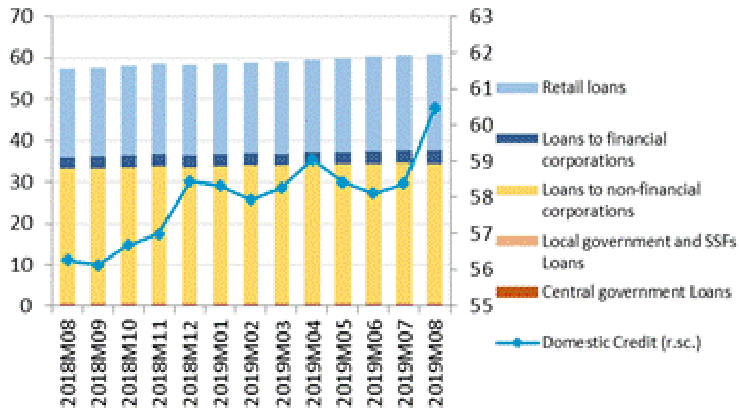
Source: BNB

Bulgaria: Monetary Sector Indicators

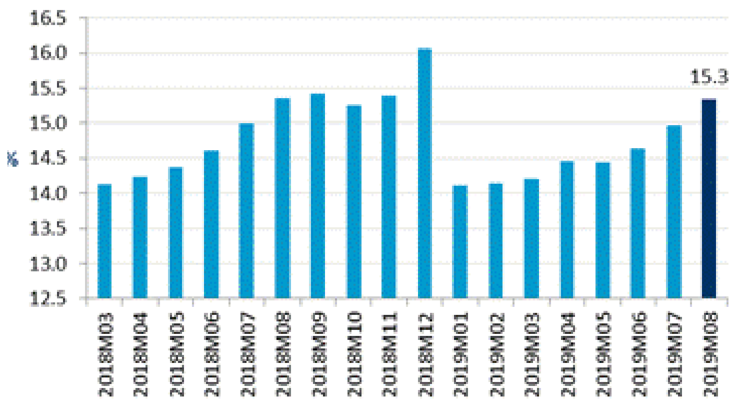
Deposits and Broad Money (M3), (BGN bn)



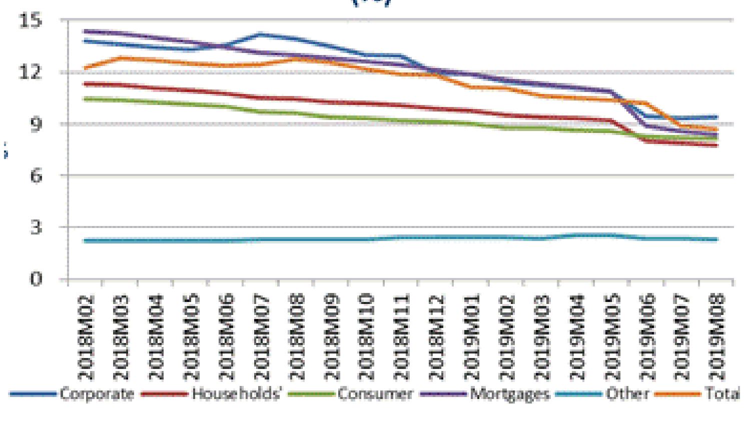
Loans and Domestic Credit (BGN bn)



Money in circulation/GDP (%)

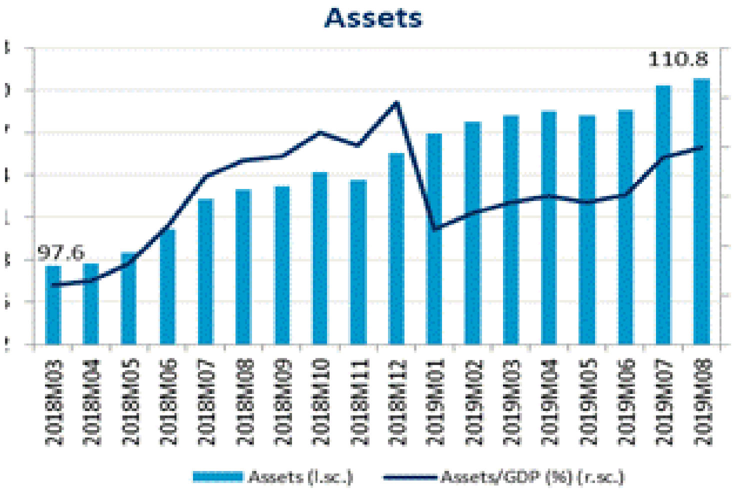


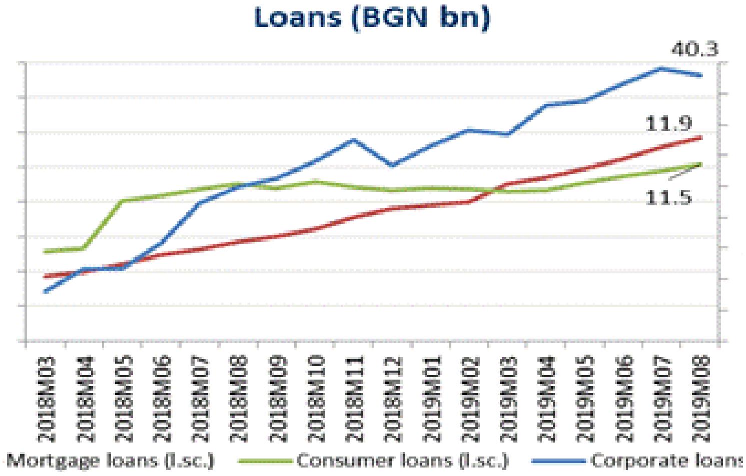
Banking sector: Bad and restructured loans (%)

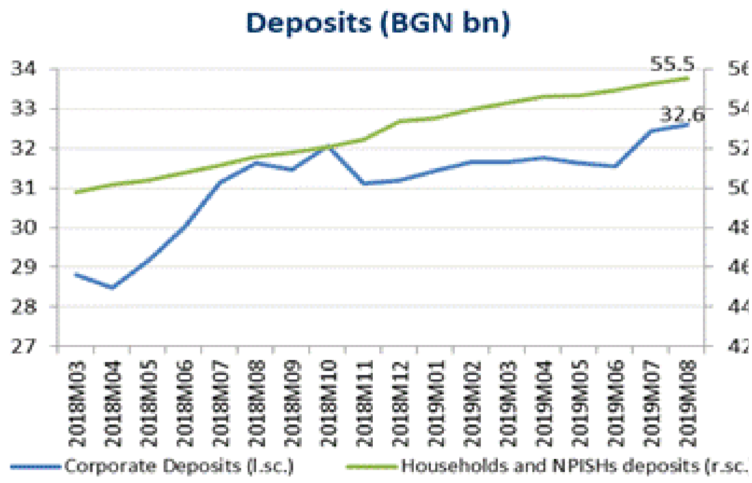


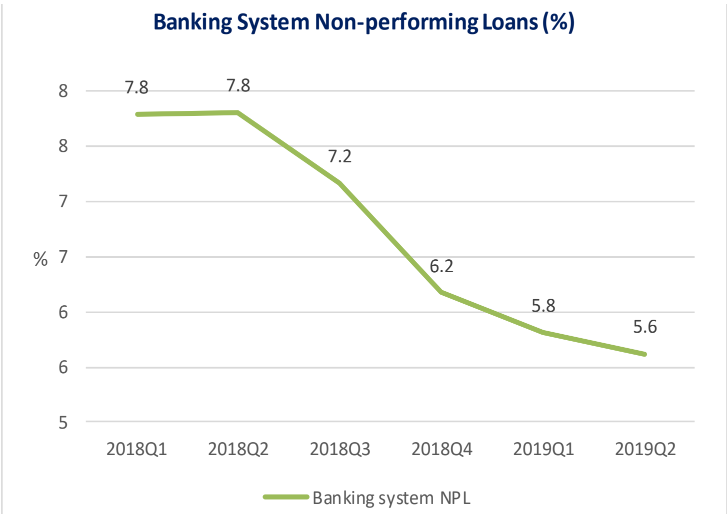
Source: BNB

Bulgaria: Banking Sector Indicators



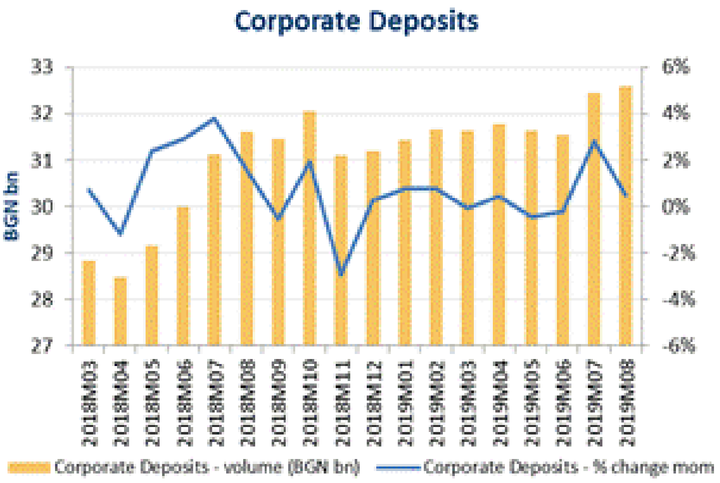


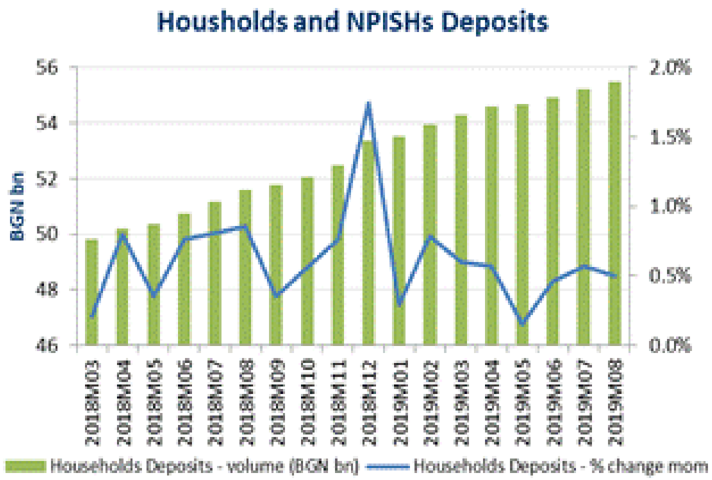


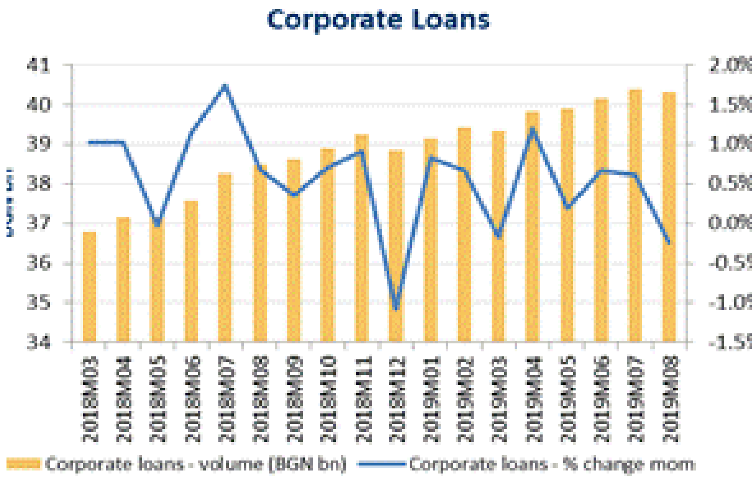


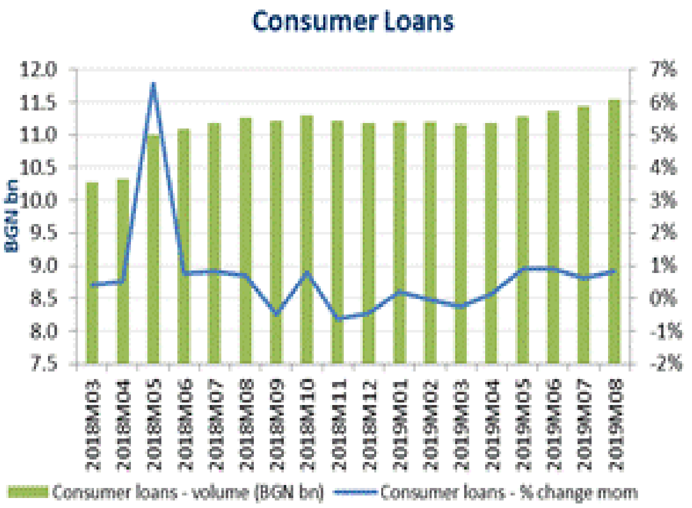
Source: BNB

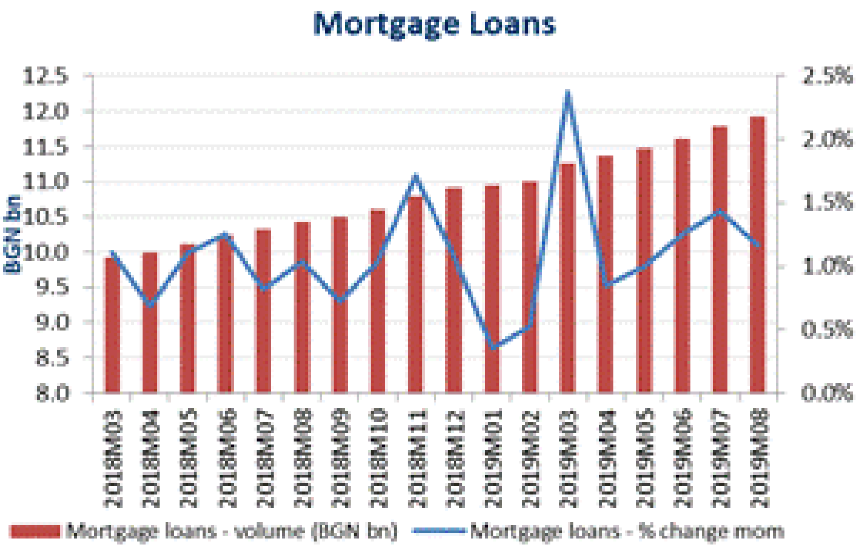
Bulgaria: Banking Sector Indicators





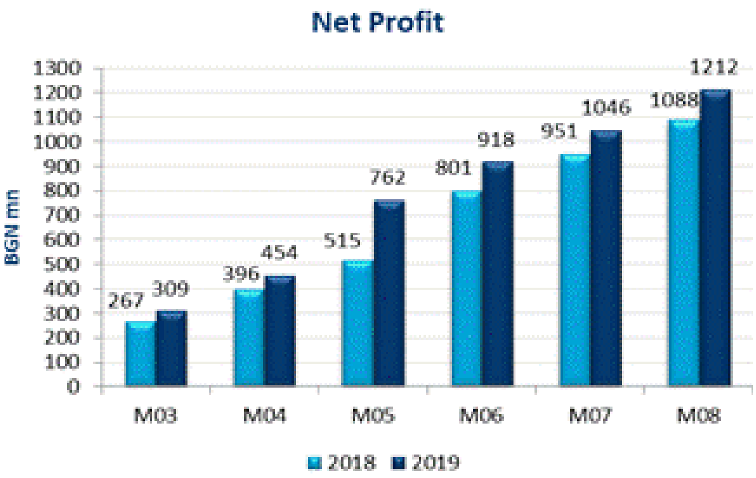


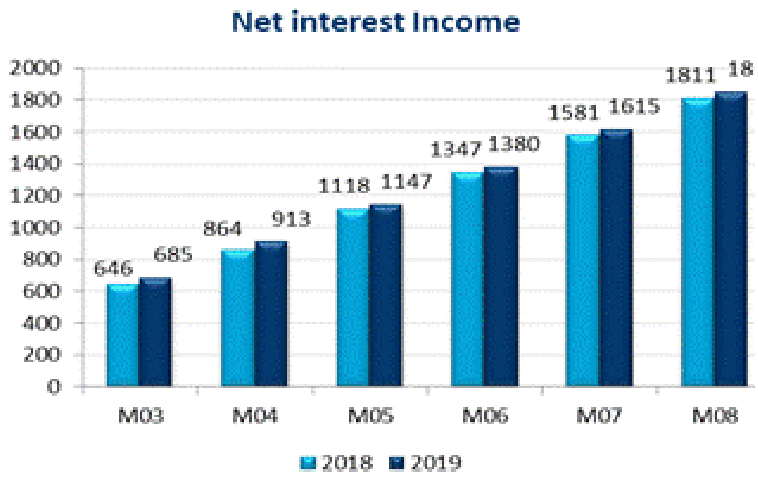


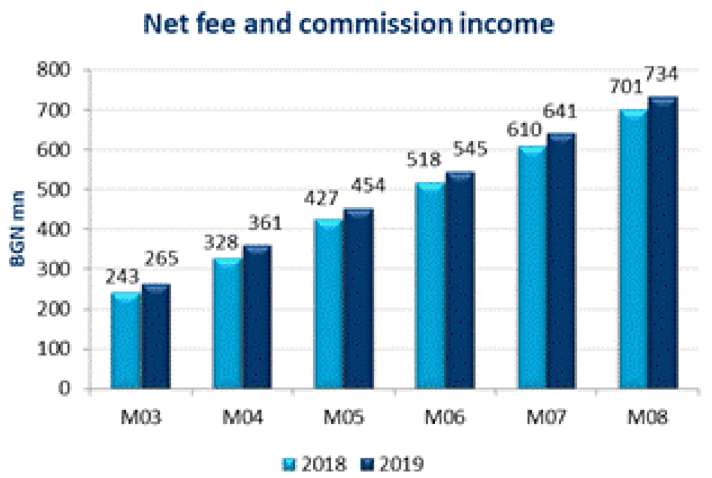


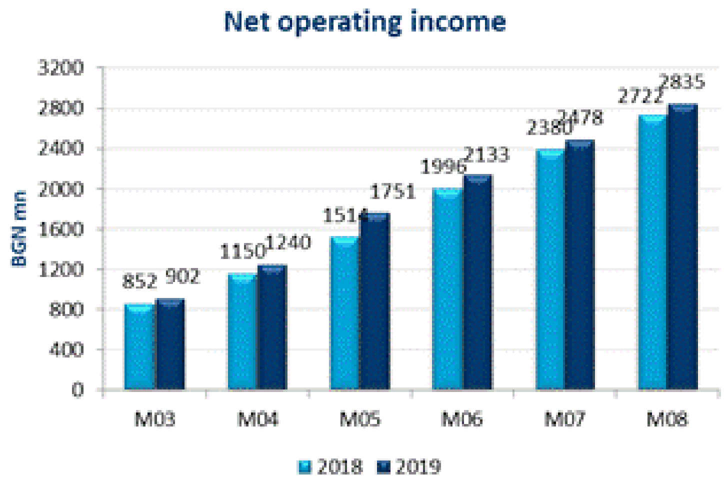
Source: BNB

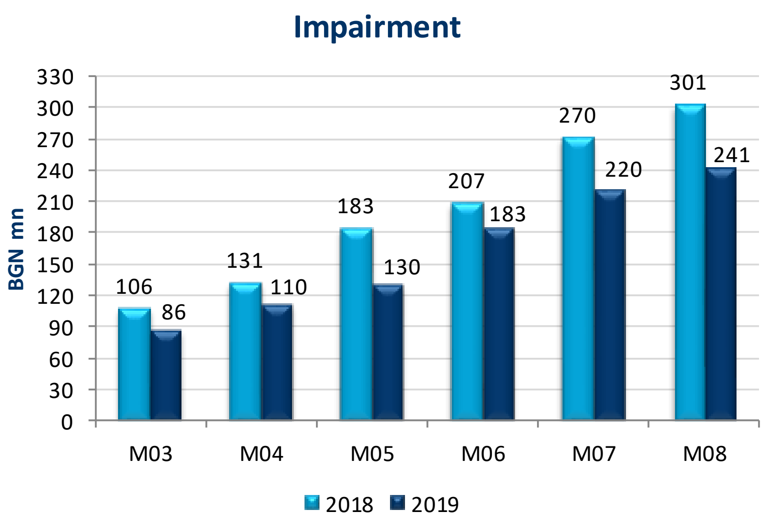
Bulgaria: Banking Sector Indicators





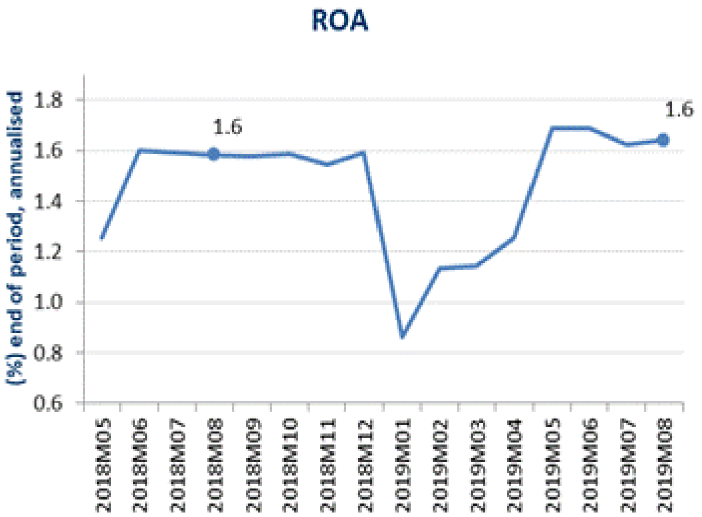


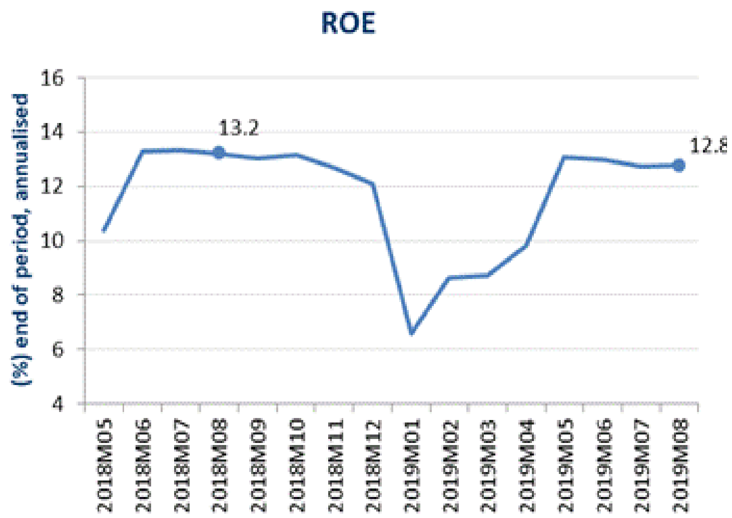


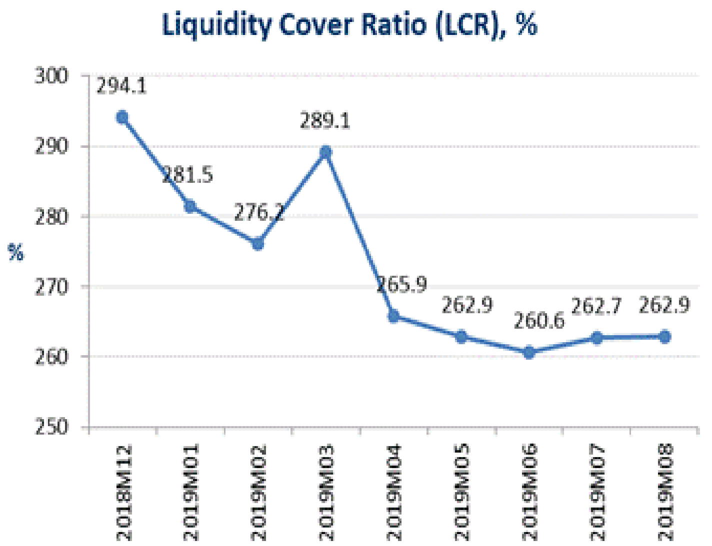


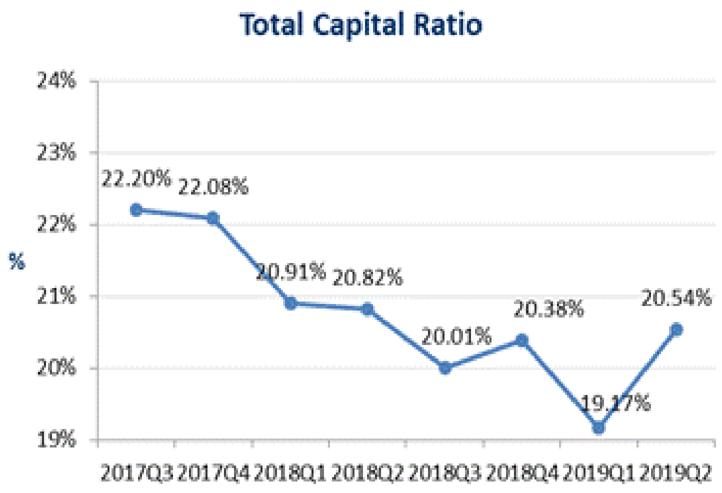
Source: BNB

Bulgaria: Banking Sector Indicators



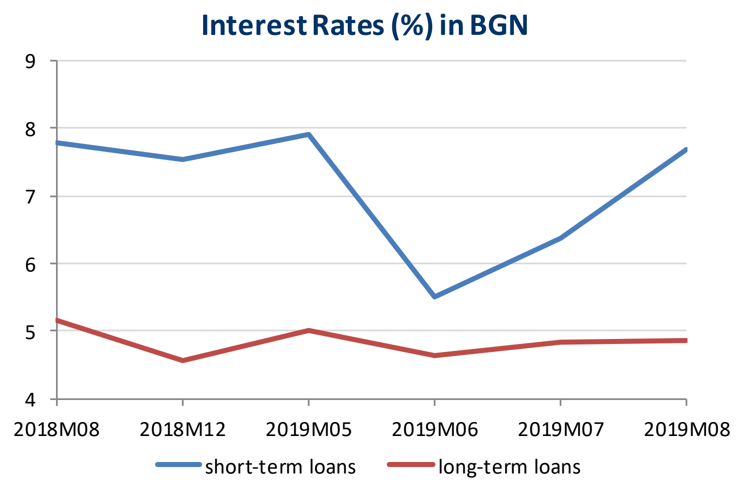


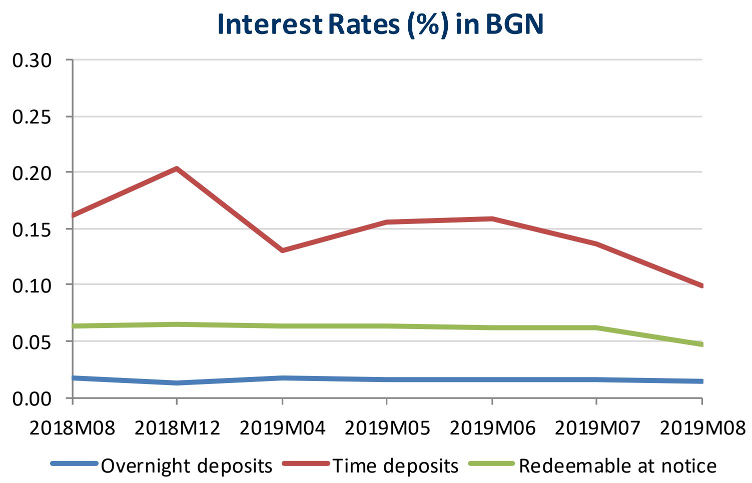


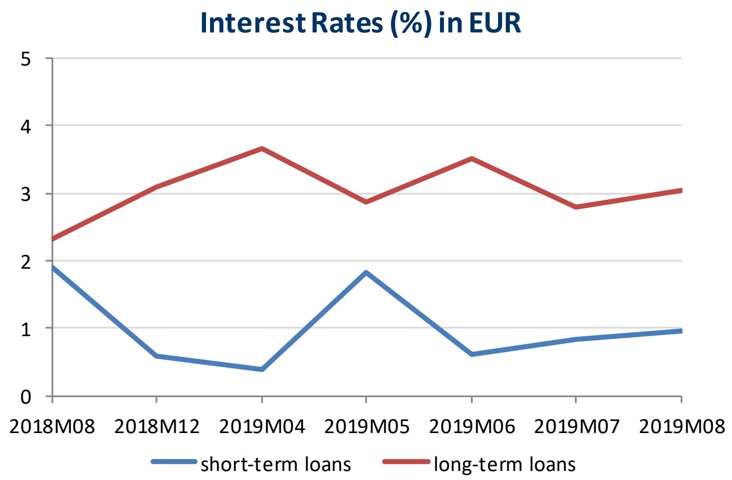


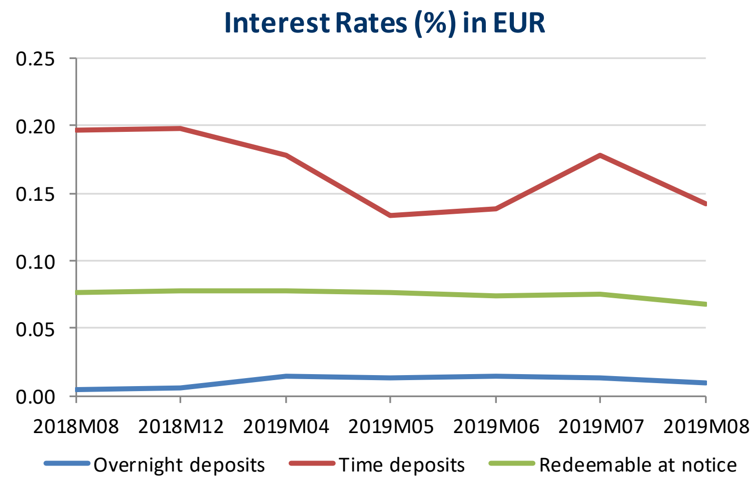
Source: BNB

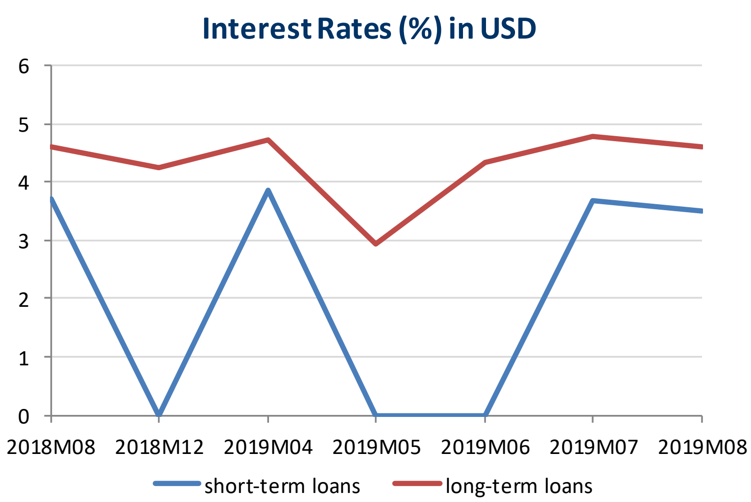
Bulgaria: Interest Rates of New Business on Deposits and New Loans Interest Rates

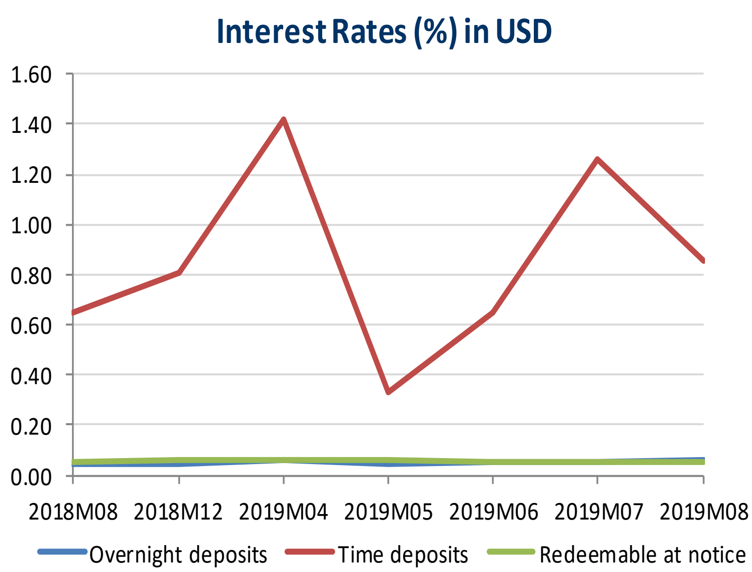






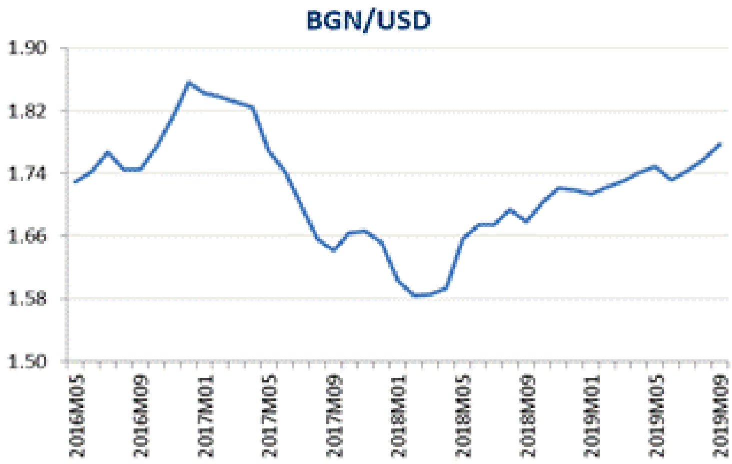


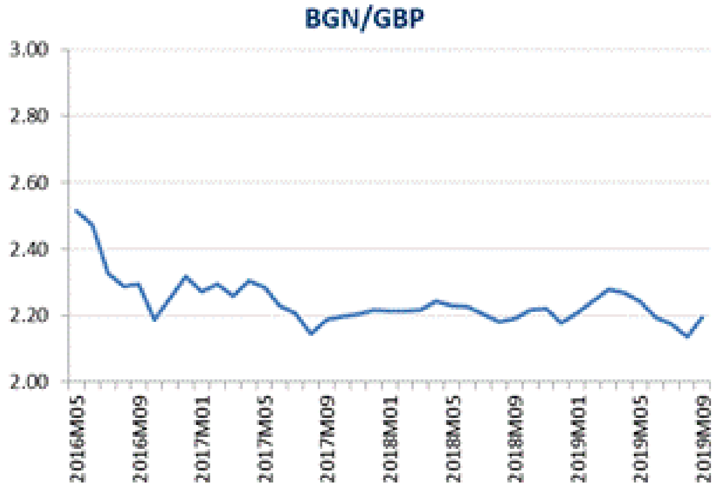


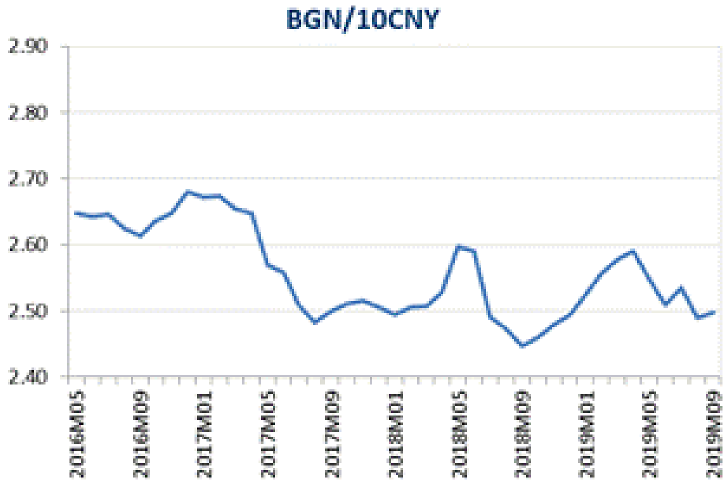


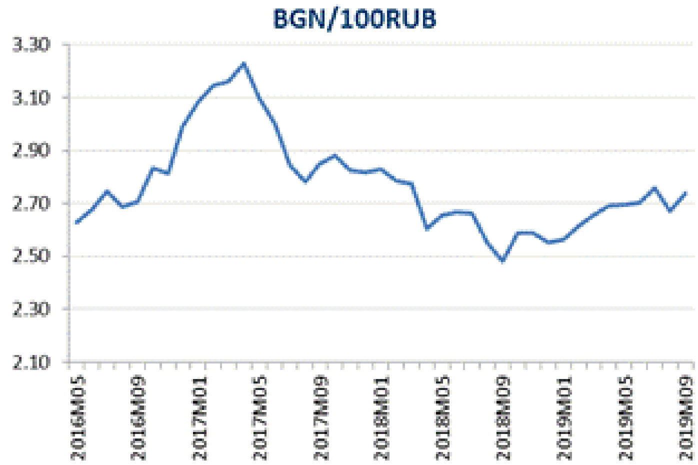
Source: BNB

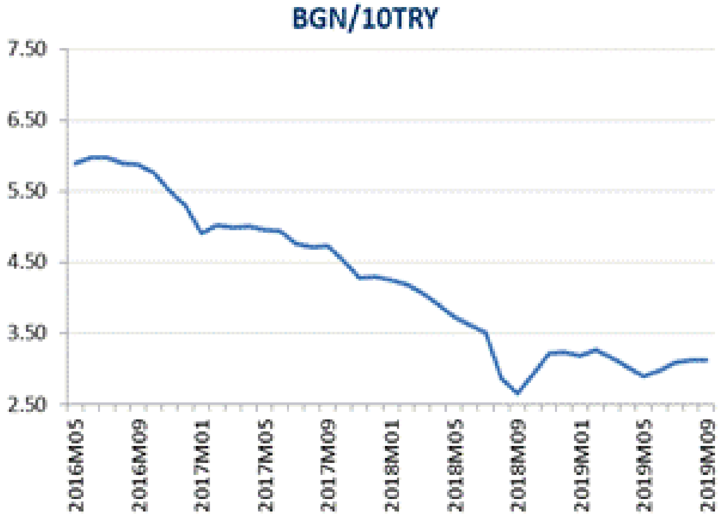
Bulgaria: FX Rates

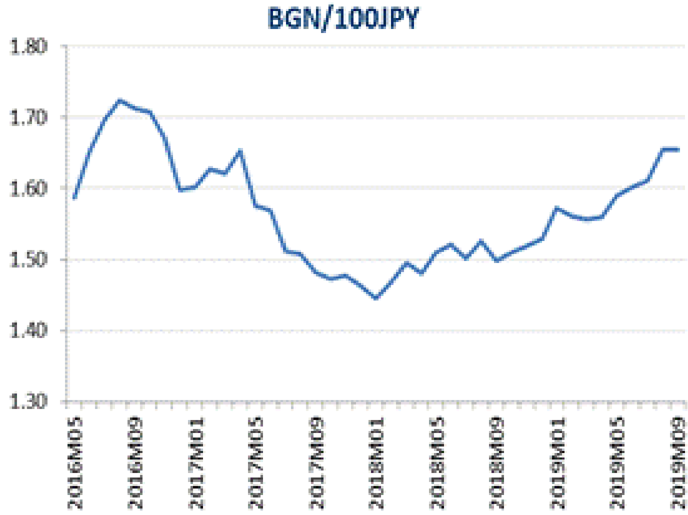












Source: ECB

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.