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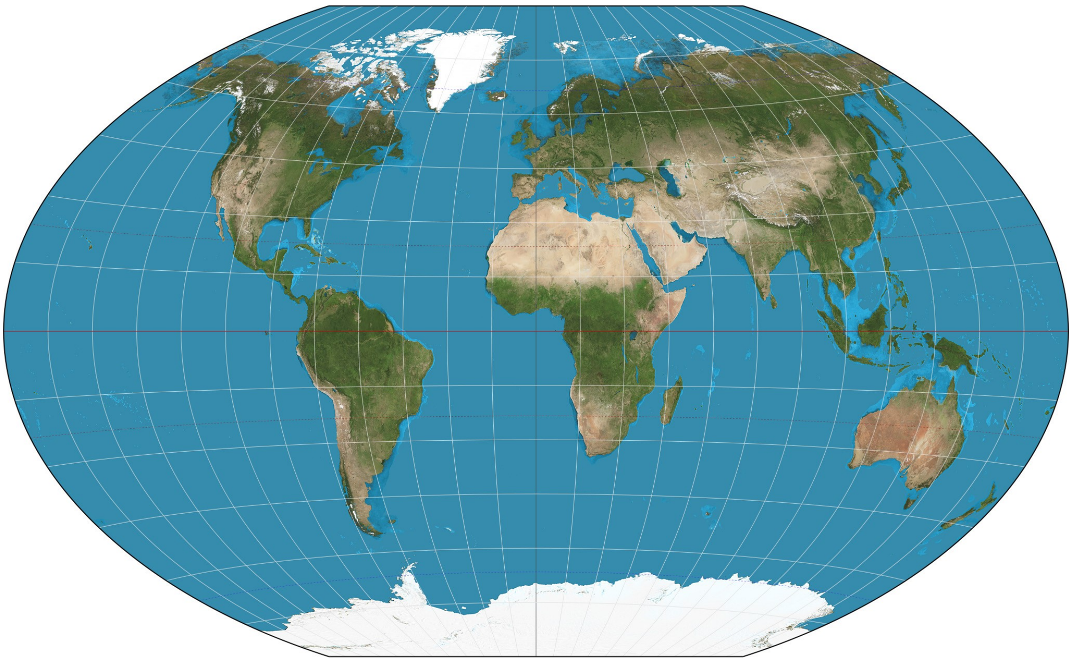
HIGHLIGHTS AND FORECASTS

MONTHLY ECONOMIC REPORT



December 2019

Sofia

- *Eurosystem staff macroeconomic projections for the euro area, December 2019. Following weak growth in the second and third quarters of 2019 (0.2% Q2 and Q3), real GDP growth is expected to remain subdued in the near term. Beyond the near term, the very favourable financing conditions (fostered by the ECB's highly accommodative monetary policy stance), the assumption of an orderly Brexit and some dissipation of other global uncertainties, the associated gradual recovery in foreign demand and notable fiscal easing should all support a sustained recovery in growth over the medium term. The projections foresee annual real GDP increasing by 1.2% in 2019, 1.1% in 2020 and 1.4% in both 2021 and 2022. After weakening in 2019, HICP inflation is expected to slow further in 2020, before gradually rising to 1.6% by 2022. The projections foresee annual HICP inflation at 1.2% in 2019, 1.1% in 2020, 1.4% in 2021 and 1.6% in 2022. The Euro Area inflation rate is expected to pick up to 1.0% in November 2019 from a near three-year low of 0.7% in the previous month. The Euro Area seasonally-adjusted unemployment rate fell to 7.5% in October 2019 from an upwardly revised 7.6% in the previous month. Considering the European Union as a whole, the unemployment rate was steady at 6.3% in October, remaining the lowest since the start of the EU monthly unemployment series in January 2000.*
- *Draft budget for 2020 prepared by the Italian government risk violating EU rules on debt and deficit reduction, the European Commission said on 11.12.2019, but the Commission did not request any immediate changes. The next assessment of the fiscal positions of euro zone's countries will be made in spring. Earlier in November the Commission forecast Italy, which has the largest debt in absolute terms in the EU, would see its debt burden increase to 136.2% of Gross Domestic Product (GDP) this year and rise further at least until 2021. The EU executive also forecast Italy's structural deficit, which excludes one-off expenditures and revenues and is key in the Commission's assessment, to worsen this year and next, contrary to rules dictating it should improve. Italy's economy grew 0.1% qoq in the three months to September 2019, the same pace as in the previous period and in line with preliminary estimates. From the expenditure side, the largest contribution to the GDP growth came from consumer spending (0.3%) and inventory changes (0.3%). On the other hand, negative contributions came from net exports, which subtracted 0.4% to growth while government spending and gross fixed investment were neutral. Italy's annual inflation rate is expected to pick up to 0.4% in November 2019 from 0.2% in the previous month. The seasonally adjusted unemployment rate in Italy decreased to 9.7% in October 2019 from 9.9% in the previous month. An Italian cabinet meeting approved an emergency decree on 14.12.2019 night to bail out ailing cooperative lender Banca Popolare di Bari.*
- *The Conservatives will have their biggest majority at Westminster since Margaret Thatcher's 1987 election victory. We will get Brexit done on time by the 31st of January, no ifs, no buts, no maybes. With this election we have put to end all those miserable threats of a second referendum" said Boris Johnson. European officials say they're "ready for the next steps." Charles Michel, President of the European Council, congratulated Mr. Johnson on his victory and said he expected a ratification on the Brexit withdrawal agreement "as soon as possible." European Council reconfirmed his statement. Notwithstanding the decisive outcome to the UK election, the achievement of a full free trade agreement between the UK and EU by the end of next year looks exceptionally ambitious, especially since the UK government envisages a notably limited agreement focused on goods trade to enable the UK greater scope to conclude trade deals with other countries. The CBI Business Optimism Indicator for the UK dropped to -44 in the Q4 of 2019 from -32 in the previous three-month period. It was the lowest reading since the third quarter of 2019, amid Brexit uncertainty. The IHS Markit/CIPS UK Manufacturing PMI was revised higher to 48.9 in November 2019 from a preliminary estimate of 48.3 and compared to October's final reading of 49.6. The IHS Markit/CIPS UK Services PMI was revised higher to 49.3 in November 2019 from a preliminary estimate of 48.6, but remained below October's final reading of 50.0. The consumer price inflation in the United Kingdom fell to 1.5% yoy in October 2019 from 1.7% in the previous month. The UK unemployment rate fell back to 3.8% in the three months to September 2019, its lowest level in nearly 45 years.*

- *The IHS Markit US Manufacturing PMI was revised up to 52.6 in November of 2019 from a pre-liminary of 52.2 and 51.3 in October. The reading pointed to the strongest expansion in factory activity in seven months, supported by quicker expansions in production and new orders, with both domestic and foreign client demand strengthening. The IHS Markit US Services PMI wa confirmed at 51.6 in November 2019, up from 50.6 in the previous month, signaling a further up-turn in output across the service sector. The University of Michigan's consumer sentiment for the US increased to 99.2 in December of 2019 from 96.8 in November, beating market forecasts o 97. The US annual inflation rate rose to 2.1% in November 2019 from 1.8% in the previous month That was the highest rate since November 2018. The unemployment rate in US decreased to 3.5% in November 2019 from 3.6% in the previous month. The number matched the September figure which was the lowest since 1969. Over the month, the number of unemployed persons decreased by 44,000.*
- *The Bank of Japan's Tankan index for big manufacturers' sentiment fell to over six-year low of in the fourth quarter of 2019 from 5 in the prior period. The Jibun Bank Japan Manufacturing PM came in at 48.8 in December 2019, little-changed from 48.9 in the prior month. Output, new or-ders and new export orders all declined, amid unfavorable demand conditions. The Jibun Bank Japan Services PMI rose to 50.6 in December 2019 from 50.3 in the previous month, signaling back-to-back months of growth in output as business activity recovers following the sale tax hike and typhoon in October. Japan's consumer price inflation stood at 0.2% yoy in October of 2019 unchanged from September. It remained the lowest inflation rate since February. The unemploy-ment rate in Japan remained steady at 2.4% in October 2019.*
- *The United States and China have agreed on the terms of a "phase one" trade deal that reduce some U.S. tariffs on Chinese goods while boosting Chinese purchases of American farm, energy and manufactured goods and addressing some U.S. complaints about intellectual property prac-tices. The United States will not proceed with 15% tariffs scheduled to go into effect on Sunday on nearly USD 160 billion worth of Chinese goods, including cell phones, laptop computers, toys and clothing. The United States will cut by half the tariff rate to 7.5%. China canceled its retaliatory tariffs due to take effect that same day, including a 25% tariff on U.S.-made autos. U.S. official say China agreed to increase purchases of American products and services by at least USD 20 billion over the next two years. China has committed to increase purchases of U.S. agriculture products by USD 32 billion over two years. U.S. officials said the deal includes improved access to China's financial services market for U.S. companies, including in banking, insurance, securitie and credit rating services. In any case, a phase one trade deal would not mean the end of the trade issues between the economies as fundamental problems remain and the technology war i set to continue in the coming years. China's annual inflation rose to 4.5% in November 2019 from 3.8% in the previous month. It is the highest inflation rate since January 2012. Pork prices, the most popular meat in China, jumped 110% yoy as hogs have been severely reduced due to the African Swine Fever since last year.*
- *The Turkish economy grew by 0.9% yoy in Q3 of 2019, rebounding from a revised 1.6% contrac-tion in the previous three-month period. This was the first quarter of economic growth in a year amid a rebound in household consumption and a faster rise in government spending. On a sea-sonally adjusted quarterly basis, the economy expanded by 0.4% in the third quarter, following downwardly revised 1.0% growth in the previous period. Turkey's annual inflation rate increase to 10.56% in November 2019 from a near three-year low of 8.55% in the previous month. Annua core inflation rate, which excludes volatile items such as energy, food and non-alcoholic beverag-es, alcoholic beverages, tobacco and gold, increased to 9.25% in November from 6.67% in the previous month. On a monthly basis, consumer prices went up 0.38%, following a 2% jump in Oc-tober. Turkey's unemployment rate increased to 13.8% in September 2019 from 11.4% in the same period of the previous year. The non-agricultural jobless rate jumped to 16.4% in Septem-ber from 13.5% in the previous year. Youth unemployment rate, measuring job-seekers betwee 15 and 24 years old, also increased to a record high of 28.6% from 21.6% in the same month year ago.*

- *At 12 December 2019 meeting the Governing Council of the European Central Bank (ECB) decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.50% respectively. The Governing Council expects the key ECB interest rates to remain at their present or lower levels until it has seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within its projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics. On 1 November net purchases were restarted under the Governing Council's asset purchase programme (APP) at a monthly pace of EUR 20 billion. The Governing Council expects them to run for as long as necessary to reinforce the accommodative impact of its policy rates, and to end shortly before it starts raising the key ECB interest rates. The Governing Council intends to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time past the date when it starts raising the key ECB interest rates.*
- *Published on 19 December 2019. The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting ending on 18 December 2019, the MPC voted by a majority of 7-2 to maintain Bank Rate at 0.75%. The Committee voted unanimously to maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at GBP 10 billion. The Committee also voted unanimously to maintain the stock of UK government bond purchases, financed by the issuance of central bank reserves, at GBP 435 billion. Monetary policy could respond in either direction to changes in the economic outlook in order to ensure a sustainable return of inflation to the 2% target. The Committee will, among other factors, continue to monitor closely the responses of companies and households to Brexit developments as well as the prospects for a recovery in global growth. If global growth fails to stabilise or if Brexit uncertainties remain entrenched, monetary policy may need to reinforce the expected recovery in UK GDP growth and inflation. Further ahead, provided these risks do not materialise and the economy recovers broadly in line with the MPC's latest projections, some modest tightening of policy, at a gradual pace and to a limited extent, may be needed to maintain inflation sustainably at the target.*
- *Federal Reserve issues FOMC statement December 11, 2019. Information received since the Federal Open Market Committee met in October indicates that the labor market remains strong and that economic activity has been rising at a moderate rate. The Committee judges that the current stance of monetary policy is appropriate to support sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2% objective. In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its maximum employment objective and its symmetric 2% inflation objective. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments. The Fed sees the federal funds rate ending 2020 at 1.6% at the median, indicating no further interest-rate changes through at least the end of next year. In 2021, the Fed sees a year-end federal funds rate of 1.9%, indicating one rate hike sometime before the end of that year, down from two previously. In 2022, the Fed sees a year-end federal funds rate of 2.1%, indicating one more rate hike in 2022. The previous year-end 2022 estimate was 2.4%.*
- *December 19, 2019 Bank of Japan Statement on Monetary Policy. The short-term policy interest rate: The Bank of Japan will apply a negative interest rate of minus -0.1% to the Policy-Rate Balances in current accounts held by financial institutions at the Bank of Japan. The long-term interest rate: The Bank of Japan will purchase Japanese government bonds (JGBs) so that 10-year JGB yields will remain at around zero 0%. While doing so, the yields may move upward and downward to some extent mainly depending on developments in economic activity and prices. With regard to the amount of JGBs to be purchased, the Bank of Japan will conduct purchases in a flexible manner so that their amount outstanding will increase at an annual pace of about JPY 80 trillion. The Bank of Japan will purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) so that their amounts outstanding will increase at annual paces of about JPY 6 trillion and about JPY 90 billion, respectively. As for CP and corporate bonds, the Bank of Japan will maintain their amounts outstanding at about JPY 2.2 trillion and about JPY 3.2 trillion, respectively. The Bank of Japan will continue with "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control," aiming to achieve the price stability target of 2%, as long as it is necessary for maintaining that target in a stable manner. It will continue expanding the monetary base until the yoy rate of increase in the observed CPI (all items less fresh food) exceeds 2% and stays above the target in a stable manner. As for the policy rates, the Bank of Japan expects short- and long-term interest rates to remain at their present or lower levels as long as it is necessary to pay close attention to the possibility that the momentum toward achieving the price stability target will be lost.*

- *China's central bank governor Yi Gang said in a signed article published on 01.12.2019 that Beijing should maintain "normal" monetary policy as long as possible since economic growth is still within a reasonable range and inflation is mild overall. China will not resort to quantitative easing even as the monetary policies of the world's major economies are approaching zero interest rates. "The world's economic downturn will likely stay for a long time. We should not let the money held by the Chinese people become worthless... Maintaining positive interest rates and upward-inclined yield curve is generally conducive to the economic entities, and in line with the Chinese people's saving culture, thus beneficial to the sustainable development of the economy," said Yi. China's rapid economic growth in the past few years was due to its GDP-centered policies. Since 2008 many economic structural problems such as high housing prices and asset bubbles have become increasingly serious, which have undermined the healthy development of the real economy. That's why China's macroeconomic policy has changed to structural transformation and high-quality development. Yi said the exchange rate of yuan was decided by supply and demand, and the authorities would not resort to a competitive devaluation of the currency.*
- *The Turkish Central Bank's Monetary Policy Committee (the Committee) has decided to reduce the policy rate (one-week repo auction rate) from 14% to 12%. Inflation outlook continued to improve while inflation expectations displayed a wide-spread decline. Thanks to the stable course of the Turkish lira as well as the developments in domestic demand conditions and producer prices, core inflation indicators have displayed a mild trend. The improvement in macroeconomic indicators, inflation in particular, supports the fall in country risk premium and contributes to a benign outlook in cost factors. Underlying trend indicators, supply side factors and import prices lead to an improvement in the inflation outlook. In light of these developments, recent forecasts suggest that inflation is likely to materialize close to the lower bound of the October Inflation Report projections for the end of the year, with risks around the disinflation path for 2020 being balanced. Accordingly, considering all the factors affecting inflation outlook, the Committee decided to reduce the policy rate by 200 basis points. It follows a 425 rate cut in July and a 325bps rate cut in September and 250bps rate cut in October, total 12% cut from 24% to 12%, as inflation outlook continues to improve amid a moderate recovery in economic activity. But such a rapid monetary expansion puts both the stability of the exchange rate and the sustained disinflation process at considerable risk.*
- *Brent crude and crude oil prices have soared last week to peak levels since September 16. This rise is due to the growing market optimism about the first phase of the US-China trade deal. Oil prices are dropping on December 18, 2019 due to data from the American Institute of Petroleum (ARI) for a significant increase in US oil reserves. The Brent price drops -0.03 USD/BBL or -0.05% to 65.7765 USD/BBL on Wednesday, December 18th. For the week, the increase was 2.78%. The price of crude oil drops by -0.13 USD/BBL or -0.22% to 60.4503 USD/BBL. On the other hand, the increase was 2.56% for the week.*
- *The second week of December brought slight and contradictory changes in the prices of the main grain contracts on the global stock markets. In the US, wheat recovered losses and rose from USD 4.00 to 240.00 USD/ton, maize continued to decline from USD 3.00 to 166.00 USD/ton. Wheat in France went down by the same EUR 4.75 it had picked up and again at 183.25 EUR/ ton, in Russia and Ukraine plus and minus USD -2.00 to respectively 210.00 USD/ton and USD 208.00 USD/ton. For maize in Ukraine, the price added a new USD 3.00 to 173.00 USD/ton, in France this time moving down by EUR -0.25 to 164.50 EUR/ton. In the Grain subcircle of the Sofia Commodity Exchange AD, wheat from the field offered supply prices from 390.00 to 350.00 BGN/ton, demand was lacking during the week. For feed wheat, buyers are at 280.00-290.00 BGN/ton and sellers are close to 300.00-310.00 BGN/ton. In the case of maize slightly upwards by 240.00-250.00 BGN/ton from the buyers and 270.00-290.00 BGN/ton from the sellers.*

- *In January – October 2019 the current and capital account was positive amounting to EUR 5,613.8 million (9.5% of GDP2), compared with a surplus of EUR 3,240.7 million (5.8% of GDP) in January – October 2018.*
- *In January- October 2019 the net flows of foreign direct investment in Bulgaria presented according to the directional principle recorded a positive value of EUR 714.5 million (1.2% of GDP) in January – October 2019, growing by EUR 431.1 million from January – September 2018 (positive value of EUR 283.4 million, 0.5% of GDP).*
- *In November 2019 the BNB's international reserves amount to BGN 48.8 billion (EUR 25 billion) and increase by 1% mom and by 1.7% yoy, respectively, maintaining the stability of the Currency Board in Bulgaria.*
- *In November 2019, the total business climate indicator increases by 1.2 percentage points to 26.2% in comparison with October due to the improved conjuncture in construction and retail trade.*
- *According to the preliminary data in October 2019 the Industrial Production Index, seasonally adjusted, rose by 1.1% mom. In October 2019 the working day adjusted Industrial Production Index increased by 1.7% yoy. 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 October 2019 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices kept the level of the previous month. In October 2019, the working day adjusted turnover in 'Retail trade, except of motor vehicles and motorcycles' marked an increase by 1.2% yoy. Retail Sales yoy in Bulgaria is expected to be 1.4% 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 October 2019 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 0.1% above the level of the previous month. In October 2019 the working day adjusted index of production in construction increased by 3.1% 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.*
- *Bulgaria's consumer price index in November 2019 compared to October 2019 was 100.5%, i.e. the monthly inflation was 0.5%. The inflation rate since the beginning of the year (November 2019 compared to December 2018) has been 3.1% and the annual inflation in November 2019 compared to November 2018 was 3.0%. The annual average inflation, measured by CPI, in the last 12 months was 3.0%. The harmonized index of consumer prices in November 2019 compared to October 2019 was 100.3%, i.e. the monthly inflation was 0.3%. The inflation rate since the beginning of the year (November 2019 compared to December 2018) has been 2.3% and the annual inflation in November 2019 compared to November 2018 was 2.2%. The annual average inflation, measured by HICP, in the last 12 months was 2.4%, below the Maastricht requirement for inflation no higher than 3%. 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 October 2019 decreased by 0.1% compared to the previous month; compared to the same month of 2018 the prices rose by 2.3%. Producer Price Index on Domestic Market in October 2019 rose by 0.1% compared to the previous month; compared to the same month of 2018 the domestic prices grew by 3.8%.*
- *In October 2019, registered unemployment was 5.6%, or 0.3 percentage points more than the previous month, due to the end of seasonal employment.*

- *Consolidated Fiscal Programme (CFP) balance on a cash basis as of end-October 2019 is positive, amounting to BGN 1,082.5 million, or 0.9% of the projected GDP, and is formed by an excess of revenues over expenditures of BGN 1,216.9 million under the national budget and of BGN 134.4 million under EU funds. The fiscal reserve as of 30.10.2019 is BGN 10.0 billion. Based on the preliminary data and estimates, as of November 2019, the excess of revenues over expenditures under the Consolidated Fiscal Programme (CFP) is expected to amount to BGN 1,072.2 million (0.9 % of the forecast GDP).*
- *In January – October 2019, Bulgaria's central government sub-sector debt amounted to EUR 11,981.4 million and accounted for 19.8% of projected GDP. According MF "Government debt Management Strategy for 2019-2021" Bulgaria's public debt/GDP ratio will stood at 19.1% in 2019, 17.7% in 2020 and 16.5% in 2021.*
- *Standard & Poor's Raised Its Credit Rating On Bulgaria To "BBB"; Outlook Positive.*
- *At the end of October 2019 Bulgaria's broad money (monetary aggregate M3) amounted at BGN 100.262 billion billion (86.6% of GDP) and increased by 8.5% yoy. Domestic credit – was BGN 62.151 billion and increased by 9.6% yoy.*
- *In November 2019 all BSE-Sofia stock indexes fell: SOFIX decreased to 546.57 points, BGBX 40 decreased to 108.79 points, BG TR30 decreased to 495.69 points and BGREIT decreased to 128.71 points.*
- *In October 2019, Bulgaria's banking system's assets grew by 1.6% mom and by 8.7% yoy to BGN 113.3 billion and account for 96.6% of GDP. The gross loan portfolio of clients of the banking system increased by 0.9% mom and by 7.2% yoy, respectively to BGN 65.2 billion. Household loans increased by 1.2% mom and 9.3% yoy, respectively to BGN 23.9 billion. Loans to non-financial corporations increased by 0.8% mom and by 5.1% yoy, respectively to BGN 36.7 billion. Household loans increased to BGN 23.9 billion. When adjusting BNB data to reclassify consumer loans to two banks as one bank for mortgages and eliminating the impact of a new entrant on the household loan market in May 2018, the retail growth rate the segment changes to 0.2% yoy (13.3% for mortgages and 2.4% for consumer loans). Loans to non-financial corporations increased by 0.8% mom and by 5.1% yoy to BGN 36.7 billion. In October 2019, customer deposits with the banking system increased by 1.1% mom and by 6.7% yoy to BGN 89.8 billion, contributed by all institutional sectors. As of September 30, 2019, Tier 1, Tier 1 and Tier 1 capital ratios were 19.84%, 20.22% and 21.02%, respectively (vs. 19.36%, 19, 72% and 20.54% by end-June*
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Table of content

GLOBAL TRENDS

ADVANCED COUNTRIE'S ECONOMIES

Eurozone

Eurosystem staff macroeconomic projections for the euro area, December 2019. Following weak growth in the second and third quarters of 2019 (0.2% Q2 and Q3), real GDP growth is expected to remain subdued in the near term. Beyond the near term, the very favourable financing conditions (fostered by the ECB's highly accommodative monetary policy stance), the assumption of an orderly Brexit and some dissipation of other global uncertainties, the associated gradual recovery in foreign demand and notable fiscal easing should all support a sustained recovery in growth over the medium term. The projections foresee annual real GDP increasing by 1.2% in 2019, 1.1% in 2020 and 1.4% in both 2021 and 2022. After weakening in 2019, HICP inflation is expected to slow further in 2020, before gradually rising to 1.6% by 2022. The projections foresee annual HICP inflation at 1.2% in 2019, 1.1% in 2020, 1.4% in 2021 and 1.6% in 2022. The Euro Area inflation rate is expected to pick up to 1.0% in November 2019 from a near three-year low of 0.7% in the previous month. The Euro Area seasonally-adjusted unemployment rate fell to 7.5% in October 2019 from an upwardly revised 7.6% in the previous month. Considering the European Union as a whole, the unemployment rate was steady at 6.3% in October, remaining the lowest since the start of the EU monthly unemployment series in January 2000..

Eurosystem staff macroeconomic projections for the euro area, December 2019

Following weak growth in the second and third quarters of 2019 (0.2% Q2 and Q3), real GDP growth is expected to remain subdued in the near term. Economic sentiment indicators have declined, mainly reflecting the ongoing weakness in global trade in an environment of continued global uncertainties (related to increased protectionism, a potential sharper slowdown in China and a no-deal Brexit). Nevertheless, the most recent indicators on manufacturing show some stabilisation, while sentiment in the construction sector and consumer confidence have exhibited more resilience, and the labour market situation remains favourable. Beyond the near term, the very favourable financing conditions (fostered by the ECB's highly accommodative monetary policy stance), the assumption of an orderly Brexit and some dissipation of other global uncertainties, the associated gradual recovery in foreign demand and notable fiscal easing should all support a sustained recovery in growth over the medium term. The projections foresee annual real GDP increasing by 1.2% in 2019, 1.1% in 2020 and 1.4% in both 2021 and 2022. Compared with the September 2019 projections, growth has been revised down by 0.1% in 2020, as the impact of sizeable downward revisions to foreign demand is only partially offset by the impact of more supportive fiscal and monetary policies and an effective depreciation of the euro. After weakening in 2019, HICP inflation is expected to slow further in 2020, before gradually rising to 1.6% by 2022. The projections foresee annual HICP inflation at 1.2% in 2019, 1.1% in 2020, 1.4% in 2021 and 1.6% in 2022. The profile for headline inflation in the coming quarters will be heavily affected by base effects in energy inflation. Following a rise at the end of 2019, HICP inflation excluding energy and food is expected to strengthen gradually over the projection horizon. It should be supported by strengthening economic growth, by relatively robust wage growth amid tight labour markets and by recovering profit margins as activity regains pace, aided by, among other things, the recent monetary policy package. Rising non-energy commodity prices should also support underlying inflation. Compared with the September 2019 projection exercise, HICP inflation has been revised upwards for 2020 owing to higher oil prices and revised slightly downwards for 2021 owing to lower external price pressures and weaker developments in wages and profit margins. The Euro Area inflation rate is expected to pick up to 1.0% in November 2019 from a near three-year low of 0.7% in the previous month, slightly beating market expectations of 0.9%, a preliminary estimate showed. Prices should increase at a faster pace for services (1.9% vs 1.5% in October), non-energy industrial goods (0.4% vs 0.3%), processed food, alcohol & tobacco (2.1% vs 1.8%), and unprocessed food (1.8% vs 0.7%).

Meanwhile, energy deflation is likely to deepen further (-3.2% vs -3.1%). 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 rise to 1.3% from 1.1% in the previous month, also above market consensus of 1.2%. That would be the highest rate since April. The Euro Area seasonally-adjusted unemployment rate fell to 7.5% in October 2019 from an upwardly revised 7.6% in the previous month and matching market expectations. It was the lowest rate recorded in the euro area since July 2018, as the number of unemployed declined. Compared with September, the number of unemployed in the Euro Area dropped by 31,000 to 12.334 million. Compared with the previous year, it fell by 761,000. Considering the European Union as a whole, the unemployment rate was steady at 6.3% in October, remaining the lowest since the start of the EU monthly unemployment series in January 2000. Among the Member States, the lowest unemployment rates in October 2019 were recorded in Czechia (2.2%), Germany (3.1%) and Poland (3.2%). The highest unemployment rates were observed in Greece (16.7% in August 2019) and Spain (14.2%). Compared with a year ago, the unemployment rate fell in 24 Member States, while it increased in Czechia (from 2.1% to 2.2%), Lithuania (from 6.1% to 6.4%), Denmark (from 4.9% to 5.3%) and Sweden (from 6.4% to 6.8%). The largest decreases were registered in Greece (from 18.9% to 16.7% between August 2018 and August 2019) and Estonia (from 5.7% to 4.3% between September 2018 and September 2019). The youth unemployment rate was 14.4% in the EU28 and 15.6% in the euro area, compared with 15.1% and 16.7% respectively in October 2018. The lowest rates were observed in Czechia (5.5%), Germany (5.8%) and the Netherlands (7.3%), while the highest were registered in Greece (33.1% in Q2 2019), Spain (32.8%) and Italy (27.8%).

Italy

Draft budget for 2020 prepared by the Italian government risk violating EU rules on debt and deficit reduction, the European Commission said on 11.12.2019, but the Commission did not request any immediate changes. The next assessment of the fiscal positions of euro zone's countries will be made in spring. Earlier in November the Commission forecast Italy, which has the largest debt in absolute terms in the EU, would see its debt burden increase to 136.2% of Gross Domestic Product (GDP) this year and rise further at least until 2021. The EU executive also forecast Italy's structural deficit, which excludes one-off expenditures and revenues and is key in the Commission's assessment, to worsen this year and next, contrary to rules dictating it should improve. Italy's economy grew 0.1% qoq in the three months to September 2019, the same pace as in the previous period and in line with preliminary estimates. From the expenditure side, the largest contribution to the GDP growth came from consumer spending (0.3%) and inventory changes (0.3%). On the other hand, negative contributions came from net exports, which subtracted 0.4% to growth while government spending and gross fixed investment were neutral. Italy's annual inflation rate is expected to pick up to 0.4% in November 2019 from 0.2% in the previous month. The seasonally adjusted unemployment rate in Italy decreased to 9.7% in October 2019 from 9.9% in the previous month. An Italian cabinet meeting approved an emergency decree on 14.12.2019 night to bail out ailing cooperative lender Banca Popolare di Bari.

Draft budget for 2020 prepared by the Italian government risk violating EU rules on debt and deficit reduction, the European Commission said on 11.12.2019, but the Commission did not request any immediate changes. The next assessment of the fiscal positions of euro zone's countries will be made in spring. Budgets are finalized by the end of the year. Earlier in November the Commission forecast Italy, which has the largest debt in absolute terms in the EU, would see its debt burden increase to 136.2% of Gross Domestic Product (GDP) this year and rise further at least until 2021. Under EU rules, countries with a debt above 60% of GDP must gradually reduce it. The EU executive also forecast Italy's structural deficit, which excludes one-off expenditures and revenues and is key in the Commission's assessment, to worsen this year and next, contrary to rules dictating it should improve. Italy's economy grew 0.1% qoq in the three months to September 2019, the same pace as in the previous period and in line with preliminary estimates. From the expenditure side, the largest contribution to the GDP growth came from consumer spending (0.3%) and inventory changes (0.3%). On the other hand, negative contributions came from net exports, which subtracted 0.4% to growth while government spending and gross fixed investment were neutral. Household consumption rose 0.4% in Q3, the highest since Q1 2018 and compared with a 0.1% increase in Q2. Also, government expenditure was up 0.1%, the same as in the prior period.

On the other hand, gross fixed capital formation dropped 0.2%, down from a 0.2% gain, mainly due to transport equipment (-1.9% vs 6.3%) and machinery, equipment and weapon systems (-0.5% vs 2.0%). Exports declined 0.1% (vs 0.9% in Q2) while imports rose 1.3% (vs 1.1% in Q2). From the production side, the services sector grew 0.1%, easing from a 0.3% rise in Q2. By contrast, the industrial sector fell -0.1%, less than a 0.4% drop and agriculture, forestry and fishing slumped -2.0%, after a 2.7% decline. Yoy, the GDP expanded 0.3%, after a 0.1% advance in the prior quarter and also matching flash estimates Italy's annual inflation rate is expected to pick up to 0.4% in November 2019 from 0.2% in the previous month and above market expectations of 0.3%, a preliminary estimate showed. It was the highest inflation since August, as higher costs of processed food including alcohol, non-durable goods and durable goods were only partially offset by a slowdown in prices of services related to transport. Annual core inflation rate, which excludes energy and unprocessed food, should rise to 1.0% in November from 0.7% in the previous month. On a monthly basis, consumer prices should be flat, after decreasing 0.1% and against market expectations of a 0.1% drop. The harmonized index of consumer prices is expected to advance 0.4% from the previous year (from 0.2% in October); and to decline 0.1% mom (from 0.2% in October). The seasonally adjusted unemployment rate in Italy decreased to 9.7% in October 2019 from 9.9% in the previous month and below market expectations of 9.8%. Unemployed persons declined 1.7% while employed people increased 0.2%. Youth unemployment rate, measuring job-seekers between 15 and 24 years old, fell 0.7% to 27.8% in October. An Italian cabinet meeting approved an emergency decree on 14.12.2019 night to bail out ailing cooperative lender Banca Popolare di Bari. The bank, the biggest lender in Italy's underdeveloped south, was placed under special administration by the Bank of Italy on 13.12.2019

Great Britain

The Conservatives will have their biggest majority at Westminster since Margaret Thatcher's 1987 election victory. We will get Brexit done on time by the 31st of January, no ifs, no buts, no maybes. With this election we have put to end all those miserable threats of a second referendum" said Boris Johnson. European officials say they're "ready for the next steps." Charles Michel, President of the European Council, congratulated Mr. Johnson on his victory and said he expected a ratification on the Brexit withdrawal agreement "as soon as possible." European Council reconfirmed his statement. Notwithstanding the decisive outcome to the UK election, the achievement of a full free trade agreement between the UK and EU by the end of next year looks exceptionally ambitious, especially since the UK government envisages a notably limited agreement focused on goods trade to enable the UK greater scope to conclude trade deals with other countries. The CBI Business Optimism Indicator for the UK dropped to -44 in the Q4 of 2019 from -32 in the previous three-month period. It was the lowest reading since the third quarter of 2019, amid Brexit uncertainty. The IHS Markit/CIPS UK Manufacturing PMI was revised higher to 48.9 in November 2019 from a preliminary estimate of 48.3 and compared to October's final reading of 49.6. The IHS Markit/CIPS UK Services PMI was revised higher to 49.3 in November 2019 from a preliminary estimate of 48.6, but remained below October's final reading of 50.0. The consumer price inflation in the United Kingdom fell to 1.5% yoy in October 2019 from 1.7% in the previous month. The UK unemployment rate fell back to 3.8% in the three months to September 2019, its lowest level in nearly 45 years.

The Conservatives will have their biggest majority at Westminster since Margaret Thatcher's 1987 election victory. Boris Johnson has said he will work "night and day" to repay the trust of voters after he led the Conservatives to an "historic" election victory. He reiterated the pledge to deliver "the democratic mandate of the people" and celebrated what he said was the biggest majority for the Conservatives since the 1980s. The Tories win 365 seats in the British parliament and have a majority of 40. The Prime Minister said it was a mandate to take the UK out of the EU next month. "We will get Brexit done on time by the 31st of January, no ifs, no buts, no maybes. With this election we have put to end all those miserable threats of a second referendum" said Boris Johnson. European officials say they're "ready for the next steps." Charles Michel, President of the European Council, congratulated Mr. Johnson on his victory and said he expected a ratification on the Brexit withdrawal agreement "as soon as possible." European Council reconfirmed his statement. The Brexit deadline, agreed by the European Council and the UK, is 31 January 2020. "The future relationship will have to be based on a balance of rights and obligations and ensure a level playing field." European Council conclusions, 13 December 2019. Notwithstanding the decisive outcome to the UK election, the achievement of a full free trade agreement between the UK and EU by the end of next year looks exceptionally ambitious, especially since the UK government envisages a notably limited agreement focused on goods trade to enable the UK greater scope to conclude trade deals with other countries. However, to the extent that the UK uses that scope, regulatory and other checks on trade with the EU will be increased (to prevent the integrity of the EU single market being compromised via the UK). The CBI Business Optimism Indicator for the UK dropped to -44 in the Q4 of 2019 from -32 in the previous three-month period. It was the lowest reading since the third quarter of 2019, amid Brexit uncertainty.

The CBI Business Optimism Indicator for the UK dropped to -44 in the Q4 of 2019 from -32 in the previous three-month period. It was the lowest reading since the third quarter of 2019, amid Brexit uncertainty. Also, optimism about export prospects for the year ahead worsened to the greatest extent since October 2001 and investment intentions deteriorated, with plans to spend on buildings, plant & machinery and training & retraining at their most negative since the financial crisis. New orders declined at the same pace as the previous quarter, still firms expect them to fall at a steeper rate in the three months to January. The IHS Markit/CIPS UK Manufacturing PMI was revised higher to 48.9 in November 2019 from a preliminary estimate of 48.3 and compared to October's final reading of 49.6. Output shrank at a faster pace and new orders fell for the seventh month in a row, with new export orders declining at one of the steepest rates over the past seven years, following the delay to Brexit and the ongoing uncertainty surrounding the political, economic and global trade situations. In addition, employment dropped the most since September 2012 due to cost reduction efforts, efficiencies, Brexit uncertainty, redundancies and staff restructuring. Finished goods inventories fell at the steepest rate in over two-and-a-half years, while input buying volumes fell to one of the greatest extents since early-2013. On the price front, input costs decreased for the first time since March 2016, linked to lower global commodity prices and exchange rate effects. The IHS Markit/CIPS UK Services PMI was revised higher to 49.3 in November 2019 from a preliminary estimate of 48.6, but remained below October's final reading of 50.0. Business activity declined the most in eight months and new work dropped at the fastest rate since July 2016, with new orders from abroad posting the sharpest fall since this index began in September 2014 due to a lack of clarity in relation to Brexit. Despite a sustained decline in workloads, latest data revealed a stabilisation in staffing numbers across the service economy. On the price front, input cost inflation was the weakest since August 2016 while prices charged rose only modestly, which suggested that subdued demand conditions continued to squeeze operating margins. Looking ahead, business confidence hit a four-month high. The consumer price inflation in the United Kingdom fell to 1.5% yoy in October 2019 from 1.7% in the previous month and below market expectations of 1.6%. That was the lowest rate since November 2016. The consumer prices index including owner occupiers' housing costs (CPIH) rose also 1.5%, slower than the 1.7% in September. The annual core inflation rate, which excludes prices of energy, food, alcohol and tobacco, held steady at 1.7%. On a monthly basis, consumer prices declined 0.2%, compared to market consensus of a 0.1% fall. The UK unemployment rate fell back to 3.8% in the three months to September 2019, its lowest level in nearly 45 years and slightly below market expectations of 3.9%. The number of people out of work declined by 23,000 to 1.306 million while the number of employed people dropped by 58,000 to 32.753 million, the biggest decrease since the three months to May 2015. Meanwhile, total pay growth slowed to 3.6%, below forecasts of 3.8%.

USA

The IHS Markit US Manufacturing PMI was revised up to 52.6 in November of 2019 from a preliminary of 52.2 and 51.3 in October. The reading pointed to the strongest expansion in factory activity in seven months, supported by quicker expansions in production and new orders, with both domestic and foreign client demand strengthening. The IHS Markit US Services PMI was confirmed at 51.6 in November 2019, up from 50.6 in the previous month, signaling a further upturn in output across the service sector. The University of Michigan's consumer sentiment for the US increased to 99.2 in December of 2019 from 96.8 in November, beating market forecasts of 97. The US annual inflation rate rose to 2.1% in November 2019 from 1.8% in the previous month. That was the highest rate since November 2018. The unemployment rate in US decreased to 3.5% in November 2019 from 3.6% in the previous month. The number matched the September figure which was the lowest since 1969. Over the month, the number of unemployed persons decreased by 44,000.

The ISM Manufacturing PMI in the US edged down to 48.1 in November of 2019 from 48.3 in October, well below market expectations of 49.2. The reading pointed to the fourth straight month of declining manufacturing activity, amid a steeper decline in new orders and employment. Global trade remains the most significant cross-industry issue. The ISM Non-Manufacturing PMI for the US fell to 53.9 in November of 2019 from 54.7 in the previous month and below market expectations of 54.5. Business activity slowed sharply while new orders and employment increased faster. Service providers hope for a resolution on tariffs and continue to be hampered by constraints in labor resources. The IHS Markit US Manufacturing PMI was revised up to 52.6 in November of 2019 from a preliminary of 52.2 and 51.3 in October. The reading pointed to the strongest expansion in factory activity in seven months, supported by quicker expansions in production and new orders, with both domestic and foreign client demand strengthening. Business confidence remained historically muted, however, as global economic uncertainty continued to weigh on expectations. The IHS Markit US Services PMI was confirmed at 51.6 in November 2019, up from 50.6 in the previous month, signaling a further upturn in output across the service sector. New business rebounded from the slight contraction seen in October and expanded at the fastest pace since August, despite a fourth month of declines in new business from abroad.

Employment increased for the first time since August, due to greater workloads, and the level of outstanding business at service sector firms also rose. Inflationary pressures were relatively subdued, with selling prices increasing only fractionally. Looking ahead, business confidence remained muted and close to historical lows, amid global economic uncertainty. The University of Michigan's consumer sentiment for the US increased to 99.2 in December of 2019 from 96.8 in November, beating market forecasts of 97. It is the highest reading since May and the second best in 2019, preliminary figures showed. Current conditions were assessed more positively and future expectations also improved. The US annual inflation rate rose to 2.1% in November 2019 from 1.8% in the previous month and above market consensus of 2.0%. That was the highest rate since November 2018. The core inflation rate, which excludes volatile items such as food and energy, was unchanged at 2.3%, in line with market expectations. On a monthly basis, consumer prices increased 0.3% in November, after a 0.4% gain in October and also above market forecasts of 0.2%, boosted by increases in the shelter and energy costs. Prices were also higher for medical care, recreation, and food. The unemployment rate in US decreased to 3.5% in November 2019 from 3.6% in the previous month while markets had expected it to be unchanged at 3.6%. The number matched the September figure which was the lowest since 1969. Over the month, the number of unemployed persons decreased by 44,000. The labor force participation rate edged down to 63.2% from 63.3% in October.

Japan

The Bank of Japan's Tankan index for big manufacturers' sentiment fell to over six-year low of 0 in Q4 of 2019 from 5 in the prior period. The Jibun Bank Japan Manufacturing PMI came in at 48.8 in December 2019, little-changed from 48.9 in the prior month. Output, new orders and new export orders all declined, amid unfavorable demand conditions. The Jibun Bank Japan Services PMI rose to 50.6 in December 2019 from 50.3 in the previous month, signaling back-to-back months of growth in output as business activity recovers following the sale tax hike and typhoon in October. Japan's consumer price inflation stood at 0.2% yoy in October of 2019, unchanged from September. It remained the lowest inflation rate since February. The unemployment rate in Japan remained steady at 2.4% in October 2019.

The Bank of Japan's Tankan index for big manufacturers' sentiment fell to over six-year low of 0 in the fourth quarter of 2019 from 5 in the prior period and missing market expectations of 2. Sentiment deteriorated among enterprises producing: business oriented machinery (0 vs 16 in Q3), motor vehicles (-11 vs 2), iron & steel (-2 vs 7), production machinery (4 vs 11), processed metals (-14 vs -8), shipbuilding & heavy machinery (-7 vs 0), textiles (3 vs 9), and chemicals (2 vs 5). In contrast, sentiment rose among firms producing pulp & paper (11 vs 0), petroleum & coal products (-12 vs -18), nonferrous metals (-15 vs -18), and food & beverages (10 vs 7). Meanwhile, big firms plan to raise their capital spending by 6.8%, above estimates of 6%. Among non-manufacturing large firms, sentiment eased to 20 from 21 in Q3, but beating forecasts of 16. The Jibun Bank Japan Manufacturing PMI came in at 48.8 in December 2019, little-changed from 48.9 in the prior month and slightly above market consensus of 48.4, a flash figure showed. Output, new orders and new export orders all declined, amid unfavorable demand conditions. In addition, employment growth slowed, while backlogs of work fell and supplier delivery times improved for the first time since April 2016. On the price front, output prices continued to fall, while input price inflation accelerated. Lastly, business sentiment strengthened. The Jibun Bank Japan Services PMI rose to 50.6 in December 2019 from 50.3 in the previous month, signaling back-to-back months of growth in output as business activity recovers following the sale tax hike and typhoon in October. New business and employment increased at the fastest pace in six months, while backlogs of work declined. On the price front, output prices decreased, while input price inflation eased. Lastly, sentiment weakened but remained positive. Japan's consumer price inflation stood at 0.2% yoy in October of 2019, unchanged from September and below market expectations of 0.3%. It remained the lowest inflation rate since February despite a sales tax hike during the month, with fuel prices falling for the first time in 31 months and cost of transport declining for the eleventh straight month. On a seasonally adjusted basis, consumer prices were flat for the third straight month. The Consumer Price Index in Japan decreased 0% in October of 2019 over the previous month. The unemployment rate in Japan remained steady at 2.4% in October 2019, matching market expectations despite steep declines in industrial production and exports in October. The jobs-to-applications ratio remained unchanged at 1.57, slightly above market expectations of 1.56. A year earlier, the unemployment rate was also at 2.4%.

China

The United States and China have agreed on the terms of a "phase one" trade deal that reduces some U.S. tariffs on Chinese goods while boosting Chinese purchases of American farm, energy and manufactured goods and addressing some U.S. complaints about intellectual property practices. The United States will not proceed with 15% tariffs scheduled to go into effect on December 15, 2019 by nearly USD 160 billion worth of Chinese goods, including cell phones, laptop computers, toys and clothing. The United States will cut by half the tariff rate to 7.5%. China canceled its retaliatory tariffs due to take effect that same day, including a 25% tariff on U.S.-made autos. U.S. officials say China agreed to increase purchases of American products and services by at least USD 200 billion over the next two years. China has committed to increase purchases of U.S. agriculture products by USD 32 billion over two years. U.S. officials said the deal includes improved access to China's financial services market for U.S. companies, including in banking, insurance, securities and credit rating services. In any case, a phase one trade deal would not mean the end of the trade issues between the economies as fundamental problems remain and the technology war is set to continue in the coming years. China's annual inflation rose to 4.5% in November 2019 from 3.8% in the previous month. It is the highest inflation rate since January 2012. Pork prices, the most popular meat in China, jumped 110% yoy as hogs have been severely reduced due to the African Swine Fever since last year.

The United States and China have agreed on the terms of a "phase one" trade deal that reduces some U.S. tariffs on Chinese goods while boosting Chinese purchases of American farm, energy and manufactured goods and addressing some U.S. complaints about intellectual property practices. The United States will not proceed with 15% tariffs scheduled to go into effect on December 15, 2091 by nearly USD 160 billion worth of Chinese goods, including cell phones, laptop computers, toys and clothing. The United States will cut by half the tariff rate to 7.5%. China canceled its retaliatory tariffs due to take effect that same day, including a 25% tariff on U.S.-made autos. U.S. tariffs of 25% on USD 250 billion worth of Chinese goods will remain unchanged, providing U.S. negotiating leverage for a second phase of negotiations next year. U.S. officials say China agreed to increase purchases of American products and services by at least USD 200 billion over the next two years, with an expectation that the higher purchases will continue after that period. The purchases include manufactured goods, agricultural goods, energy and services, and are expected to reduce the USD 419 billion U.S. trade deficit with China, officials said. China bought USD 130 billion in U.S. goods in 2017, before the trade war began, and USD 56 billion in services, U.S. data show. China has committed to increase purchases of U.S. agriculture products by USD 32 billion over two years. That would average an annual total of about USD 40 billion, compared to a baseline of USD 24 billion in 2017 before the trade war started. U.S. Trade Representative Robert Lighthizer said China agreed to make its best efforts to increase its purchases by another USD 5 billion annually to get close USD 50 billion. China has committed to reduce non-tariff barriers to agricultural products such as poultry, seafood and feed additives as well as approval of biotechnology products. The deal includes stronger Chinese legal protections for patents, trademarks, copyrights, including improved criminal and civil procedures to combat online infringement, pirated and counterfeit goods. The deal contains commitments by China to follow through on previous pledges to eliminate any pressure for foreign companies to transfer technology to Chinese firms as a condition of market access, licensing or administrative approvals and to eliminate any government advantages for such transfers. U.S. officials said the deal includes improved access to China's financial services market for U.S. companies, including in banking, insurance, securities and credit rating services. It aims to address a number of longstanding U.S. complaints about investment barriers in the sector including foreign equity limitations and discriminatory regulatory requirements. China, which has pledged for years to open up its financial services sector to more foreign competition, said the deal would boost imports of financial services from the United States. In any case, a phase one trade deal would not mean the end of the trade issues between the economies as fundamental problems remain and the technology war is set to continue in the coming years. China's annual inflation rose to 4.5% in November 2019 from 3.8% in the previous month, above market expectations of 4.2%. It is the highest inflation rate since January 2012. Pork prices, the most popular meat in China, jumped 110% yoy as hogs have been severely reduced due to the African Swine Fever since last year. The government recently said it will use its reserves to provide sufficient meat for China's Lunar New Year holidays in January. Non-food price inflation was at 1% in November, little-changed from 0.9% in October. On a monthly basis, consumer prices increased by 0.4% in November, after a 0.9% jump in October and compared to market estimates of 0.1%. Meantime, China's producer price index declined by -1.4% yoy in November, following a -1.6% decrease in the previous month and compared to market expectations of a -1.5% drop.

Turkey

The Turkish economy grew by 0.9% yoy in Q3 of 2019, rebounding from a revised 1.6% contraction in the previous three-month period. This was the first quarter of economic growth in a year, amid a rebound in household consumption and a faster rise in government spending. On a seasonally adjusted quarterly basis, the economy expanded by 0.4% in the third quarter, following a downwardly revised 1.0% growth in the previous period. Turkey's annual inflation rate increased to 10.56% in November 2019 from a near three-year low of 8.55% in the previous month. Annual core inflation rate, which excludes volatile items such as energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold, increased to 9.25% in November from 6.67% in the previous month. On a monthly basis, consumer prices went up 0.38%, following a 2% jump in October. Turkey's unemployment rate increased to 13.8% in September 2019 from 11.4% in the same period of the previous year. The non-agricultural jobless rate jumped to 16.4% in September from 13.5% in the previous year. Youth unemployment rate, measuring job-seekers between 15 and 24 years old, also increased to a record high of 28.6% from 21.6% in the same month a year ago.

The Turkish economy grew by 0.9% yoy in the Q3 of 2019, rebounding from a revised 1.6% contraction in the previous three-month period and compared with market expectations of 1% growth. This was the first quarter of economic growth in a year, amid a rebound in household consumption and a faster rise in government spending. On the expenditure side, household consumption increased 1.5% in the third quarter (vs -1.0% in Q2), and government spending went up 7.0% (vs 3.4% in Q2). Meanwhile, fixed investment fell at softer pace (-12.6% vs -22.4%), while net external demand contributed negatively to GDP growth, as exports rose 5.1% (vs 8.1% in Q2) and imports rose at a faster 7.6% (vs -17.0% in Q2). On the production side, services output rebounded (0.6% vs -0.1%), mainly due to professional, administrative and support service activities (0.7% vs -4.2%), public administration, education, human health and social work activities (4.8% vs 2.3%) and other service activities (1.6% vs -2.8%). Also, industrial output went up 1.6% (vs -2.6% in Q2) boosted by manufacturing (1.4% vs -3.3%). Agriculture, forestry and fishing continued to grow (3.8% vs 4.2%), while construction output shrank (-7.8% vs -12.4%). On a seasonally adjusted quarterly basis, the economy expanded by 0.4% in the third quarter, following a downwardly revised 1.0% growth in the previous period. Turkey's annual inflation rate increased to 10.56% in November 2019 from a near three-year low of 8.55% in the previous month, and slightly below market expectations of 11%. Prices rose at a faster pace for food & non-alcoholic beverages (8.89% vs 7.85% in October); transport (8.72% vs 1.36%); furnishing and household equipment (9.81% vs 6.06%); clothing & footwear (2.21% vs 1.90%); and miscellaneous goods and services (14.03% vs 13.43%). Meanwhile, inflation eased for both housing, water, electricity, gas & other fuels (9.58% vs 9.70%) and hotels, cafes & restaurants (13.07% vs 13.71%). Annual core inflation rate, which excludes volatile items such as energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold, increased to 9.25% in November from 6.67% in the previous month. On a monthly basis, consumer prices went up 0.38%, following a 2% jump in October. The highest monthly price increase was recorded for clothing & footwear (2.69%), followed by furnishing and household equipment (0.59%), communication (0.39%), housing, water, electricity, gas & other fuels (0.36%), and transportaion (0.33%). Turkey's unemployment rate increased to 13.8% in September 2019 from 11.4% in the same period of the previous year. The non-agricultural jobless rate jumped to 16.4% in September from 13.5% in the previous year. Youth unemployment rate, measuring job-seekers between 15 and 24 years old, also increased to a record high of 28.6% from 21.6% in the same month a year ago. On a seasonally adjusted basis, the unemployment rate edged down to 13.9% in September from 14.1% in August.

POLICY OF THE CENTTRAL BANKS

European Central Bank (ECB)

At 12 December 2019 meeting the Governing Council of the European Central Bank (ECB) decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.50% respectively. The Governing Council expects the key ECB interest rates to remain at their present or lower levels until it has seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within its projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics. On 1 November net purchases were restarted under the Governing Council's asset purchase programme (APP) at a monthly pace of EUR 20 billion. The Governing Council expects them to run for as long as necessary to reinforce the accommodative impact of its policy rates, and to end shortly before it starts raising the key ECB interest rates. The Governing Council intends to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time past the date when it starts raising the key ECB interest rates.

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Bank of England (BoE)

Published on 19 December 2019. The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting ending on 18 December 2019, the MPC voted by a majority of 7-2 to maintain Bank Rate at 0.75%. The Committee voted unanimously to maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at GBP 10 billion. The Committee also voted unanimously to maintain the stock of UK government bond purchases, financed by the issuance of central bank reserves, at GBP 435 billion. Monetary policy could respond in either direction to changes in the economic outlook in order to ensure a sustainable return of inflation to the 2% target. The Committee will, among other factors, continue to monitor closely the responses of companies and households to Brexit developments as well as the prospects for a recovery in global growth. If global growth fails to stabilize or if Brexit uncertainties remain entrenched, monetary policy may need to reinforce the expected recovery in UK GDP growth and inflation. Further ahead, provided these risks do not materialize and the economy recovers broadly in line with the MPC's latest projections, some modest tightening of policy, at a gradual pace and to a limited extent, may be needed to maintain inflation sustainably at the target.

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USA Federal Reserve

Federal Reserve issues FOMC statement December 11, 2019. Information received since the Federal Open Market Committee met in October indicates that the labor market remains strong and that economic activity has been rising at a moderate rate. The Committee judges that the current stance of monetary policy is appropriate to support sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2% objective. In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its maximum employment objective and its symmetric 2% inflation objective. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments. The Fed sees the federal funds rate ending 2020 at 1.6% at the median, indicating no further interest-rate changes through at least the end of next year. In 2021, the Fed sees a year-end federal funds rate of 1.9%, indicating one rate hike sometime before the end of that year, down from two previously. In 2022, the Fed sees a year-end federal funds rate of 2.1%, indicating one more rate hike in 2022. The previous year-end 2022 estimate was 2.4%.

Federal Reserve issues FOMC statement December 11, 2019.

Information received since the Federal Open Market Committee met in October indicates that the labor market remains strong and that economic activity has been rising at a moderate rate. Job gains have been solid, on average, in recent months, and the unemployment rate has remained low. Although household spending has been rising at a strong pace, business fixed investment and exports remain weak. On a 12‐month basis, overall inflation and inflation for items other than food and energy are running below 2%. Market-based measures of inflation compensation remain low; survey-based measures of longer-term inflation expectations are little changed. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee decided to maintain the target range for the federal funds rate at 1.5% to 1.75%. The Committee judges that the current stance of monetary policy is appropriate to support sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2% objective. The Committee will continue to monitor the implications of incoming information for the economic outlook, including global developments and muted inflation pressures, as it assesses the appropriate path of the target range for the federal funds rate. In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its maximum employment objective and its symmetric 2% inflation objective. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments.

The interest-rate projections are indicated in a document known as the Fed's dot plot, which shows where all of the Fed directors see interest rates going over the next few years. And the general takeaway from the December dot plot is that the FOMC sees rates lower than previously expected over the next few years: The Fed sees the federal funds rate ending 2020 at 1.6% at the median, indicating no further interest-rate changes through at least the end of next year. In 2021, the Fed sees a year-end federal funds rate of 1.9%, indicating one rate hike sometime before the end of that year, down from two previously. In 2022, the Fed sees a year-end federal funds rate of 2.1%, indicating one more rate hike in 2022. The previous year-end 2022 estimate was 2.4%. Growth in GDP (gross domestic product) is still expected to be 2.2% for 2019, followed by 2% and 1.9% in 2020 and 2021, respectively. Inflation expectations for 2019 fell to 1.6% from 1.8% previously, but stayed the same in 2020 (2.0%) and 2021 (2.2%).

Bank of Japan (BoJ)

December 19, 2019 Bank of Japan Statement on Monetary Policy. The short-term policy interest rate: The Bank of Japan will apply a negative interest rate of minus -0.1% to the Policy-Rate Balances in current accounts held by financial institutions at the Bank of Japan. The long-term interest rate: The Bank of Japan will purchase Japanese government bonds (JGBs) so that 10-year JGB yields will remain at around zero 0%. While doing so, the yields may move upward and downward to some extent mainly depending on developments in economic activity and prices. With regard to the amount of JGBs to be purchased, the Bank of Japan will conduct purchases in a flexible manner so that their amount outstanding will increase at an annual pace of about JPY 80 trillion. The Bank of Japan will purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) so that their amounts outstanding will increase at annual paces of about JPY 6 trillion and about JPY 90 billion, respectively. As for CP and corporate bonds, the Bank of Japan will maintain their amounts outstanding at about JPY 2.2 trillion and about JPY 3.2 trillion, respectively. The Bank of Japan will continue with "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control," aiming to achieve the price stability target of 2%, as long as it is necessary for maintaining that target in a stable manner. It will continue expanding the monetary base until the yoy rate of increase in the observed CPI (all items less fresh food) exceeds 2% and stays above the target in a stable manner. As for the policy rates, the Bank of Japan expects short- and long-term interest rates to remain at their present or lower levels as long as it is necessary to pay close attention to the possibility that the momentum toward achieving the price stability target will be lost. In particular, in a situation where downside risks to economic activity and prices, mainly regarding developments in overseas economies, are significant, the Bank of Japan will not hesitate to take additional easing measures if there is a greater possibility that the momentum toward achieving the price stability target will be lost.

December 19, 2019 Bank of Japan Statement on Monetary Policy.

At the Monetary Policy Meeting (MPM) held 19.12.2019, the Policy Board of the Bank of Japan decided upon the following. Yield curve control The Bank of Japan decided, by a 7-2 majority vote, to set the following guideline for market operations for the intermeeting period.The short-term policy interest rate: The Bank of Japan will apply a negative interest rate of minus -0.1% to the Policy-Rate Balances in current accounts held by financial institutions at the Bank of Japan. The long-term interest rate: The Bank of Japan will purchase Japanese government bonds (JGBs) so that 10-year JGB yields will remain at around zero 0%. While doing so, the yields may move upward and downward to some extent mainly depending on developments in economic activity and prices. With regard to the amount of JGBs to be purchased, the Bank of Japan will conduct purchases in a flexible manner so that their amount outstanding will increase at an annual pace of about JPY 80 trillion. Guidelines for asset purchases: With regard to asset purchases other than JGB purchases, the Bank of Japan decided, by a unanimous vote, to set the following guidelines. The Bank of Japan will purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) so that their amounts outstanding will increase at annual paces of about JPY 6 trillion and about JPY 90 billion, respectively. With a view to lowering risk premia of asset prices in an appropriate manner, the Bank of Japan may increase or decrease the amount of purchases depending on market conditions. As for CP and corporate bonds, the Bank of Japan will maintain their amounts outstanding at about JPY 2.2 trillion and about JPY 3.2 trillion, respectively. With regard to the outlook, Japan's economy is likely to continue on a moderate expanding trend, as the impact of the slowdown in overseas economies on domestic demand is expected to be limited, although the economy is likely to continue to be affected by the slowdown for the time being. Domestic demand is expected to follow an uptrend, with a virtuous cycle from income to spending being maintained in both the corporate and household sectors, mainly against the background of highly accommodative financial conditions and active government spending, despite being affected by such factors as the consumption tax hike. Although exports are projected to continue showing some weakness for the time being, they are expected to be on a moderate increasing trend on the back of overseas economies growing moderately on the whole. The yoy rate of change in the CPI is likely to increase gradually toward 2%, mainly on the back of the output gap remaining positive and medium- to long-term inflation expectations rising, despite such effects as of the decline in crude oil prices for the time being. Risks to the outlook include the following: the consequences of protectionist moves and their effects; developments in emerging and commodity-exporting economies such as China; developments in global adjustments in IT-related goods; developments in the United Kingdom's exit from the European Union (EU) and their effects; geopolitical risks; and developments in global financial markets under these circumstances.

Downside risks concerning overseas economies seem to remain significant, and it also is necessary to pay close attention to their impact on firms' and households' sentiment in Japan. The Bank of Japan will continue with "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control," aiming to achieve the price stability target of 2%, as long as it is necessary for maintaining that target in a stable manner. It will continue expanding the monetary base until the yoy rate of increase in the observed CPI (all items less fresh food) exceeds 2% and stays above the target in a stable manner. As for the policy rates, the Bank of Japan expects short- and long-term interest rates to remain at their present or lower levels as long as it is necessary to pay close attention to the possibility that the momentum toward achieving the price stability target will be lost. It will examine the risks considered most relevant to the conduct of monetary policy and make policy adjustments as appropriate, taking account of developments in economic activity and prices as well as financial conditions, with a view to maintaining the momentum toward achieving the price stability target. In particular, in a situation where downside risks to economic activity and prices, mainly regarding developments in overseas economies, are significant, the Bank of Japan will not hesitate to take additional easing measures if there is a greater possibility that the momentum toward achieving the price stability target will be lost.

PBoC

China's central bank governor Yi Gang said in a signed article published on 01.12.2019 that Beijing should maintain "normal" monetary policy as long as possible since economic growth is still within a reasonable range and inflation is mild overall. China will not resort to quantitative easing even as the monetary policies of the world's major economies are approaching zero interest rates. "The world's economic downturn will likely stay for a long time. We should not let the money held by the Chinese people become worthless… Maintaining positive interest rates and upward-inclined yield curve is generally conducive to the economic entities, and in line with the Chinese people's saving culture, thus beneficial to the sustainable development of the economy," said Yi. China's rapid economic growth in the past few years was due to its GDP-centered policies. Since 2008 many economic structural problems such as high housing prices and asset bubbles have become increasingly serious, which have undermined the healthy development of the real economy. That's why China's macroeconomic policy has changed to structural transformation and high-quality development. Yi said the exchange rate of yuan was decided by supply and demand, and the authorities would not resort to a competitive devaluation of the currency.

China's central bank governor Yi Gang said in a signed article published on 01.12.2019 that Beijing should maintain "normal" monetary policy as long as possible since economic growth is still within a reasonable range and inflation is mild overall. China will not resort to quantitative easing even as the monetary policies of the world's major economies are approaching zero interest rates. "The world's economic downturn will likely stay for a long time. We should not let the money held by the Chinese people become worthless... Maintaining positive interest rates and upward-inclined yield curve is generally conducive to the economic entities, and in line with the Chinese people's saving culture, thus beneficial to the sustainable development of the economy," said Yi. Just as Yi said in his article, developing the financial industry should not just copy the practices of foreign countries. China's monetary policymaking has learned from the experiences of not only other major economies but also itself in the past few years. In various historical stages, the results of unconventional monetary policies have not been as good as expected. Before the 1980s, developed economies resorted to an easy money policy to stimulate economic growth, which eventually resulted in serious stagnation that bothered the global economy for years. Since the global financial crisis broke out in 2008, major developed economies have injected unprecedented monetary stimulus through interest rate cuts, quantitative easing and even negative interest rates, which have actually aggravated the economic structural problems, especially in the medium and long run. Economic stimulus policies such as quantitative easing and negative interest rates generate more asset bubbles that endanger economic health, and further widen the gap between the rich and the poor. China's rapid economic growth in the past few years was due to its GDP-centered policies. Since 2008 many economic structural problems such as high housing prices and asset bubbles have become increasingly serious, which have undermined the healthy development of the real economy. That's why China's macroeconomic policy has changed to structural transformation and highquality development. China's monetary policy is in accordance with its development orientation and based on its own situation. According to Yi, China will combine both monetary policy and a macro-prudent policy to keep the currency stable and maintain financial stability. He said also that the central bank would continue to implement a prudent monetary policy, conduct countercyclical adjustments, improve monetary policy transmission and keep liquidity reasonably ample. Yi said the exchange rate of yuan was decided by supply and demand, and the authorities would not resort to a competitive devaluation of the currency. The central bank would continue to promote reforms of the yuan, maintain its flexibility and keep it basically stable on a reasonably balanced level, he said, adding that Beijing would conduct necessary macroprudential management in the foreign exchange market as needed. Yi said China would also strengthen the supervision of property financing markets.

Central Bank of Turkey

The Turkish Central Bank's Monetary Policy Committee (the Committee) has decided to reduce the policy rate (one-week repo auction rate) from 14% to 12%. Inflation outlook continued to improve while inflation expectations displayed a wide-spread decline. Thanks to the stable course of the Turkish lira as well as the developments in domestic demand conditions and producer prices, core inflation indicators have displayed a mild trend. The improvement in macroeconomic indicators, inflation in particular, supports the fall in country risk premium and contributes to a benign outlook in cost factors. Underlying trend indicators, supply side factors and import prices lead to an improvement in the inflation outlook. In light of these developments, recent forecasts suggest that inflation is likely to materialize close to the lower bound of the October Inflation Report projections for the end of the year, with risks around the disinflation path for 2020 being balanced. Accordingly, considering all the factors affecting inflation outlook, the Committee decided to reduce the policy rate by 200 basis points. It follows a 425 rate cut in July and a 325bps rate cut in September and 250bps rate cut in October, total 12% cut from 24% to 12%, as inflation outlook continues to improve amid a moderate recovery in economic activity. But such a rapid monetary expansion puts both the stability of the exchange rate and the sustained disinflation process at considerable risk.

The Turkish Central Bank's Monetary Policy Committee (the Committee) has decided to reduce the policy rate (one-week repo auction rate) from 14% to 12%. Recent data indicate that recovery in economic activity continues. Sectoral diffusion of economic activity continues to improve. However, investment demand remains weak. While favorable effects of improved competitiveness prevail, weakening global economic outlook tempers external demand. As the contribution of net exports to economic growth declines, economic recovery is expected to be sustained with the help of the ongoing disinflation process and improvement in financial conditions. Current account balance, which has recently recorded significant improvement, is expected to maintain a moderate course with the contribution of supportive policy measures. Weakness in global economic activity and low levels of global inflation strengthen expectations regarding the continuation of expansionary monetary policies in advanced economies. While current global financial conditions support the demand for emerging market assets and the risk appetite, rising protectionism and uncertainty regarding global economic policies are closely monitored in terms of their impact on both capital flows and international trade. Inflation outlook continued to improve while inflation expectations displayed a wide-spread decline. Thanks to the stable course of the Turkish lira as well as the developments in domestic demand conditions and producer prices, core inflation indicators have displayed a mild trend. The improvement in macroeconomic indicators, inflation in particular, supports the fall in country risk premium and contributes to a benign outlook in cost factors. Underlying trend indicators, supply side factors and import prices lead to an improvement in the inflation outlook. In light of these developments, recent forecasts suggest that inflation is likely to materialize close to the lower bound of the October Inflation Report projections for the end of the year, with risks around the disinflation path for 2020 being balanced. Accordingly, considering all the factors affecting inflation outlook, the Committee decided to reduce the policy rate by 200 basis points. At this point, the current monetary policy stance is considered to be consistent with the projected disinflation path. The Committee assesses that maintaining a sustained disinflation process is the key for achieving lower sovereign risk, lower long-term interest rates, and stronger economic recovery. Keeping the disinflation process in track with the targeted path requires the continuation of a cautious monetary stance. In this respect, the extent of the monetary tightness will be determined by considering the indicators of the underlying inflation trend to ensure the continuation of the disinflation process. The Central Bank will continue to use all available instruments in pursuit of the price stability and financial stability objectives. It should be emphasized that any new data or information may lead the Committee to revise its stance. This rate cut by 200 bps follows a 425 bps rate cut in July, a 325 bps rate cut in September and 250 bps rate cut in October, total 12% cut from 24% to 12%. But such a rapid monetary expansion puts both the stability of the exchange rate and the sustained disinflation process at considerable risk.

INTERNATIONAL COMMODTITY PRICES

Petrol

Brent crude and crude oil prices have soared last week to peak levels since September 16. This rise is due to the growing market optimism about the first phase of the US-China trade deal.
Oil prices are dropping on December 18, 2019 due to data from the American Institute of Petroleum (ARI) for a significant increase in US oil reserves. The Brent price drops -0.03 USD/BBL or -0.05% to 65.7765 USD/BBL on Wednesday, December 18th. For the week, the increase was 2.78%. The price of crude oil drops by -0.13 USD/BBL or -0.22% to 60.4503 USD/BBL. On the other hand, the increase was 2.56% for the week. Brent crude and crude oil prices have soared last week to peak levels since September 16. This rise is due to the growing market optimism about the first phase of the US-China trade deal. At the same time, API data released yesterday showed a strong increase in US oil reserves - by 4.7 million barrels and gasoline - by 5.6 million barrels.

Agricultural Goods

The second week of December brought slight and contradictory changes in the prices of the main grain contracts on the global stock markets.

Sofia Commodity Exchange Review 10-13.12.2019
The second week of December brought slight and contradictory changes in the prices of the main grain contracts on the global stock markets. In the US, wheat recovered losses and rose from USD 4.00 to 240.00 USD/ton, maize continued to decline from USD 3.00 to 166.00 USD/ton. Wheat in France went down by the same EUR 4.75 it had picked up and again at 183.25 EUR/ton, in Russia and Ukraine plus and minus USD -2.00 to respectively 210.00 USD/ton and USD 208.00 USD/ton. For maize in Ukraine, the price added a new USD 3.00 to 173.00 USD/ton, in France this time moving down by EUR -0.25 to 164.50 EUR/ton. In the case of barley in Ukraine, once again zero change - 188.00 USD/ton, in France minus -2.00 euro to 169.00 EUR/ton. European Union rapeseed (Euronext) continued its upward trend by EUR 4.75 to 399.25 EUR/ton. The unrefined sunflower oil on the Rotterdam exchange after a stagnation rose again from USD 15.00 to 790.00 USD/ton, experts say that despite the abundant availability, the demand potential is very high. Refined sugar also goes up by USD 9.00 to 354.30 USD/ton on the London Stock Exchange, December delivery. In the Grain subcircle of the Sofia Commodity Exchange AD, wheat from the field offered supply prices from 390.00 to 350.00 BGN/ton, demand was lacking during the week. For feed wheat, buyers are at 280.00-290.00 BGN/ton and sellers are close to 300.00-310.00 BGN/ton. In the case of maize slightly upwards by 240.00-250.00 BGN/ton from the buyers and 270.00-290.00 BGN/ton from the sellers. There was no demand for oilseed sunflower, the supply was from 550.00 to 600.00 BGN/ton. All prices are without VAT.

BULGARIA

EXTERNAL SECTOR

In January – October 2019 the current and capital account was positive amounting to EUR 6,208 million (10.5% of GDP), compared with a surplus of EUR 3,369.5 million (6% of GDP) in January – October 2018.

The current and capital account recorded a surplus of EUR 445.4 million in October 2019, compared with a surplus of EUR 128.8 million in October 2018. In January – October 2019 the current and capital account was positive amounting to EUR 6,208 million (10.5% of GDP), compared with a surplus of EUR 3,369.5 million (6% of GDP) in January – October 2018. The current account was positive amounting to EUR 399.1 million in October 2019, compared with a surplus of EUR 53 million in October 2018. In January – October 2019 the current account was positive and amounted to EUR 5,476.3 million (9.3% of GDP), compared with a surplus of EUR 2,850.6 million (5.1% of GDP) in January – October 2018. The balance on goods recorded a surplus of EUR 71.7 million in October 2019, compared with a deficit of EUR 212.8 million in October 2018. In January – October 2019 the balance on goods was positive amounting to EUR 95.9 million (0.2% of GDP), compared with a deficit of EUR 1,474.8 million (2.6% of GDP) in January – October 2018. Exports of goods amounted to EUR 2,770.5 million in October 2019, increasing by EUR 61.5 million (2.3%) from October 2018 (EUR 2,709.1 million). In January – October 2019 exports of goods totaled EUR 24,334.1 million (41.1% of GDP), growing by EUR 1,187.5 million (5.1%) year-on-year (from EUR 23,146.5 million, 41.3% of GDP). In January – October 2018 exports grew by 3.3% year-on-year. Imports of goods amounted to EUR 2,698.8 million in October 2019, dropping by EUR 223.1 million (7.6%) from October 2018 (EUR 2,921.8 million). In January – October 2019 imports of goods totaled EUR 24,238.2 million (41% of GDP), dropping by EUR 383.1 million (1.6%) from January – October 2018 (EUR 24,621.3 million, 43.9% of GDP). In January – October 2018 imports grew by 8.7% year-on-year. Services recorded a positive balance of EUR 236.8 million in October 2019, compared with a surplus of EUR 177.7 million in October 2018. In January – October 2019 services recorded a surplus of EUR 3,661.1 million (6.2% of GDP) compared with a positive balance of EUR 3,193.4 million (5.7% 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 33.6 million, compared with a deficit of EUR 12.9 million in October 20183. In January – October 2019 the balance on primary income was negative and equated to EUR 50.3 million (0.1% of GDP), compared with a deficit of EUR 591.8 million (1.1% of GDP) in January – October 2018. The net secondary income (which reflects the redistribution of income) recorded a surplus of EUR 57 million, compared with a positive balance of EUR 101 million in October 2018. In January – October 2019 the net secondary income was positive amounting to EUR 1,769.6 million (3% of GDP), compared with a positive balance of EUR 1,723.7 million (3.1% of GDP) in the same period of 2018. The capital account recorded a surplus of EUR 46.3 million, compared with a positive balance of EUR 75.8 million in October 2018. In January – October 2019 the capital account recorded a surplus of EUR 731.8 million (1.2% of GDP), compared with a positive balance of EUR 518.9 million (0.9% of GDP) in January – October 2018. The financial account recorded a positive balance of EUR 74.7 million, compared with a positive value of EUR 88.4 million in October 2018. In January – October 2019 the financial account recorded a net inflow of EUR 2,980.7 million (5% of GDP) compared with an inflow of EUR 2,897.3 million (5.2% of GDP) in January – October 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 140.6 million, compared with a negative balance of EUR 93.4 million in October 2018. In January – October 2019 direct investment recorded a negative balance of EUR 662.5 million (1.1% of GDP), compared with a negative balance of EUR 177 million (0.3% of GDP) in January – October 2018. Direct investment – assets dropped by EUR 65.3 million compared with an increase of EUR 94.1 million in October 2018. In January – October 2019 direct investment – assets grew by EUR 322.1 million (0.5% of GDP) compared with an increase of EUR 621.6 million (1.1% of GDP) in the same period of 2018. Direct investment – liabilities grew by EUR 75.4 million in October 2019, compared with an increase of EUR 187.5 million in October 2018. In January – October 2019 direct investment – liabilities grew by EUR 984.6 million (1.7% of GDP), compared with an increase of EUR 798.5 million (1.4% of GDP) in the same period of 2018. The balance on portfolio investment was positive amounting to EUR 151.3 million, compared with a positive balance of EUR 127.9 million in October 2018. In January – October 2019 the balance was positive and equated to EUR 1,115.9 million (1.9% of GDP), compared with a positive balance of EUR 931.2 million (1.7% of GDP) million in January – October 2018.

Portfolio investment – assets grew by EUR 115.1 million compared to an increase of EUR 147 million in October 2018. In January – October 2019 they increased by EUR 1,077.3 million (1.8% of GDP) compared with an increase of EUR 876.3 million (1.6% of GDP) in January – October 2018. Portfolio investment – liabilities dropped by EUR 36.2 million compared with an increase of EUR 19.1 million in October 2018. In January – October 2019 portfolio investment – liabilities decreased by EUR 38.7 million (0.1% of GDP) compared with a decline of EUR 54.9 million (0.1% of GDP) in January – October 2018. The balance on other investment was positive amounting to EUR 496.6 million, compared with a positive balance of EUR 539.2 million in October 2018. In January – October 2019 the balance was positive and equated to EUR 3,284.2 million (5.6% of GDP), compared with a positive balance of EUR 1,558.4 million (2.8% of GDP) in January – October 2018. Other investment – assets grew by EUR 777.5 million, compared with an increase of EUR 534.4 million in October 2018. In January – October 2019 they grew by EUR 3,316.4 million (5.6% of GDP) compared with an increase of EUR 1,989.3 million (3.5% of GDP) in January – October 2018. Other investment – liabilities grew by EUR 281 million compared with a decline of EUR 4.8 million in October 2018. In January – October 2019 they rose by EUR 32.2 million (0.1% of GDP) compared with an increase of EUR 430.9 million (0.8% of GDP) in January – October 2018. The BNB reserve assets5 decreased by EUR 415.7 million, compared with a decline of EUR 493.2 million in October 2018. In January – October 2019 they dropped by EUR 701.8 million (1.2% of GDP), compared with an increase of EUR 485 million (0.9% of GDP) in the same period of 2018. The net errors and omissions were negative amounting to EUR 370.8 million compared with a negative value of EUR 40.4 million in October 2018. According to preliminary data, the item was negative totaling EUR 3,227.3 million (5.5% of GDP) in January – October 2019, compared with a negative value of EUR 472.2 million (0.8% of GDP) in the same period of 2018.

In January-October 2019 the net flows of foreign direct investment in Bulgaria presented according to the directional principle recorded a positive value of EUR 953.3 million (1.6% of GDP) in January – October 2019, growing by EUR 553.8 million from January – October 2018 (positive value of EUR 399.5 million, 0.7% 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 953.3 million (1.6% of GDP3) in January – October 2019, growing by EUR 553.8 million from January – October 2018 (positive value of EUR 399.5 million, 0.7% of GDP). Foreign direct investment in Bulgaria recorded an inflow of EUR 141.1 million in October 2019, compared with an inflow of EUR 116.1 million in October 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 429.6 million in January – October 2019, dropping by EUR 615.3 million from a positive value of EUR 185.7 Real estate investments of non-residents recorded a positive value of EUR 3.4 million, compared with EUR 15.7 million in January – October 2018. The largest inflow of real estate investment was from Germany (EUR 1 million), the Netherlands (EUR 0.6 million), Latvia (EUR 0.5 million), and Kazakhstan (EUR 0.5 million). Reinvestment of earnings (the share of non-residents in the undistributed earnings/ loss of the enterprise based on preliminary profit and loss data) was estimated at a positive value of EUR 81.2 million, compared with a positive one of EUR 267.6 million in January – October 2018. The net flow on debt instruments (the change in the net liabilities between affiliated enterprises on financial loans, suppliers' credits and debt securities) totalled EUR 1,301.7 million in January – October 2019, compared with a negative value of EUR 53.8 million in January – October 2018. The largest net direct investment inflows in Bulgaria for January – October 2019 were from the Netherlands (EUR 422 million), Germany (EUR 233.7 million), and the UK (EUR 168.3 million). million in January – October 2018. According to preliminary data, direct investment abroad recorded a positive value of EUR 290.8 million (0.5% of GDP), compared with a positive value of EUR 222.5 million (0.4% of GDP) in January – October 2018. It grew by EUR 0.5 million in October 2019, compared with EUR 22.7 million in October 2018. According to preliminary data, the stocks2 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 totalled 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).

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

In November 2019 the BNB's international reserves amount to BGN 48.8 billion (EUR 25 billion) and increase by 1% mom and by 1.7% yoy, respectively, maintaining the stability of the Currency Board in Bulgaria.
According to the BNB, as of the end of November 2019, the BNB's international reserves amount to BGN 48.8 billion (EUR 25 billion) and increase by 1% mom and by 1.7% yoy, respectively. Cash and deposits in foreign currency amounted to BGN 14.4 billion and reported an annual decline of 18.5% against a monthly increase of 1.5%. Investments in monetary gold increased by 30.2% yoy, but decreased by 2.1% yoy, respectively. Investments in securities amount to BGN 30.8 billion and increase by 1% mom and by 12.3% yoy, respectively. Money in circulation amounted to BGN 18.3 billion and increased by 0.5% mom and by 10.2% yoy, respectively. Liabilities to banks amount to BGN 12.2 billion and increase by 0,4% mom with an annual decline of 8.4%. Liabilities to the government amounted to BGN 9.8 billion and increased by 4.2% mom, compared to a decrease of 7% yoy, respectively. Liabilities to other depositors amount to BGN 2.3 billion and increase by 12.9% yoy and by 1.2% mom, respectively. The Banking Department's deposit amounted to BGN 6.1 billion and increased by 12.8% yoy, down 1.3% yoy. Bulgaria's international liquidity position, calculated as a ratio of foreign reserves to short-term external debt, is at the level of 299.4% at the end of September 2019, compared to 295.6% at the end of August 2019 against 306.9% at the end of December 2018 and 304.6% as of the end of September 2018.

Cover Ratio: Foreign reserves/Short term foreign debt (%)	Sep 2018	Oct 2018	Nov 2018	Dec 2018	Jan 2019	Feb 2019	March 2019	Apr 2019	May 2019	Jun 2019	Jul 2019	Aug 2019	Sep 2019
Short-term foreign debt (EUR mn)	8 052	8 161	8 365	8168.7	8 206	8293.3	8427.2	8573.0	8353.3	8321.8	8424.2	8355.0	8434.9
Foreign reserves (EUR mn)	24 540	24 137	24 161	25 072	24 398	24 767	25 026	24 760	24 784	25 130	25 454	24705	25 258
Cover Ratio FR/STD(%)	**304.8**	**295.8**	**288.8**	**306.9**	**297.3**	**298.6**	**297.0**	**288.8**	**296.7**	**302.0**	**302.2**	**295.7**	**299.4**
Source: BNB, UBB's calculations													

REAL SECTOR

In November 2019, the total business climate indicator increases by 1.2 percentage points to 26.2% in comparison with October due to the improved conjuncture in construction and retail trade.
According NSI data in November 2019, the total business climate indicator increases by 1.2 percentage points to 26.2% in comparison with October due to the improved conjuncture in construction and retail trade.
Industry. The composite indicator ‘business climate in industry’ preserves approximately its level from the previous month. The inquiry registers certain managers’ optimism about the business situation of the enterprises over the next 6 months which is also accompanied by favourable expectations about their activity over the next 3 months.The uncertain economic environment and the shortage of labour continue to be the main obstacles for the business development. Concerning the selling prices in industry, the majority of the managers expect them to remain unchanged over the next 3 months.

Construction. In November the composite indicator ‘business climate in construction’ increases by 2.3 percentage points which is due to the more favourable construction entrepreneurs’ assessments and expectations about the business situation of the enterprises. In their opinion, the present production assurance with orders is increased, while their forecasts about the activity over the next 3 months are slightly worsened. The most serious difficulties for the activity in the sector remain the shortage of labour, uncertain economic environment and competition in the branch. As regards the selling prices in construction, the managers foresee preservation of their level over the next 3 months.
Retail trade. The composite indicator ‘business climate in retail trade’ increases by 2.7 percentage points as a result of the improved retailers’ assessments and expectations about the business situation of the enterprises. Their forecasts about the volume of sales over the next 3 months are also more favourable. The competition in the branch, insufficient demand and uncertain economic environment continue to be the main factors, limiting the business development, as in the last month strengthen of their negative influence is observed. Concerning the selling prices, the retailers expect them to remain unchanged over the next 3 months.
Service sector. In November, the composite indicator ‘business climate in service sector’ preserves its October level. The managers’ forecasts about the business development in the sector over the next 6 months are optimistic, as their expectations about the demand for services over the next 3 months are also improved.The most serious obstacle for the activity of the enterprises remains the competition in the branch, followed by uncertain economic environment and shortage of labour. As regards the selling prices in the service sector, the prevailing managers’ expectations are for preservation of their level over the next 3 months.

Bulgaria: Business climate indicators (%)	November 2018	December 2018	January 2019	February 2019	March 2019	April 2019	May 2019	June 2019	July 2019	August 2019	September 2019	October 2019	November 2019
Total busiess climate indicator (%)	26.4	25.9	27.8	27.7	28	29.9	31.2	29.9	29.5	26.4	26.4	25	26.2
Business climate in industry (%)	27.0	24.3	28.4	26.1	25.7	27.7	27.5	26.4	24.7	23.9	21.8	20.8	21.1.
Business climate in construction (%)	26.1	26.5	27.7	29.0	29.0	30.3	37.2	35.4	34.6	29.5	30.3	26.4	28.7
Business climate in retail trade(%)	38.6	41.8	40.1	39.7	42.3	42.7	44.8	44.7	44.9	41.4	43.2	40.9	43.6
Business climate in services (%)	13.2	13.0	14.2	17.6	17.5	20.9	18.7	16.6	18.3	13.4	15.1	16.0	12.6

Source: NSI

According to the preliminary data in October 2019 the Industrial Production Index, seasonally adjusted, rose by 1.1% mom. In October 2019 the working day adjusted Industrial Production Index increased by 1.7% yoy. 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 October 2019 the Industrial Production Index, seasonally adjusted, rose by 1.1% as compared to September 2019. In October 2019 the working day adjusted Industrial Production Index increased by 1.7% in comparison with the same month of 2018. In October 2019 as compared to September 2019, the seasonally adjusted Industrial Production Index went up in the manufacturing by 1.8% and in the mining and quarrying industry by 0.7%, while the production fell in the electricity, gas, steam and air conditioning supply by 4.6%. The most significant production increases in the manufacturing were registered in the other manufacturing by 18.1%, in the manufacture of food products by 6.0%, in the manufacture of other transport equipment by 5.3%, in the manufacture of leather and related products and in the manufacture of fabricated metal products, except machinery and equipment by 4.4%. Important decreases were seen in the manufacture of electrical equipment by 3.3%, in the manufacture of textiles by 2.8%, in the manufacture of tobacco products by 2.0%. On annual basis in October 2019 Industrial Production Index calculated from working day adjusted data rose in the mining and quarrying industry by 9.4% and in the manufacturing by 2.5%, while the production fell in the electricity, gas, steam and air conditioning supply by 6.8%. In the manufacturing, the more considerable increases compared to the same month of the previous year were registered in the other manufacturing by 36.3%, in the manufacture of basic metals by 17.9%, in the manufacture of food products by 13.0%, in the printing and reproduction of recorded media by 5.9%. Major decreases were seen in the manufacture of tobacco products by 28.1%, in the manufacture of paper and paper products by 8.4%, in the manufacture of basic pharmaceutical products and pharmaceutical preparations by 7.2%, in the manufacture of chemicals and chemical products by 5.9%.
Projection: *Industrial Production in Bulgaria is expected to be 1% 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 October 2019 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices kept the level of the previous month. In October 2019, the working day adjusted turnover in 'Retail trade, except of motor vehicles and motorcycles' marked an increase by 1.2% yoy. Retail Sales yoy in Bulgaria is expected to be 1.4% 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 in October 2019 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices kept the level of the previous month. In October 2019, the working day adjusted turnover in 'Retail trade, except of motor vehicles and motorcycles' marked an increase by 1.2% in comparison with the same month of the previous year. In October 2019 turnover in 'Retail sale of food, beverages and tobacco' kept the level of the previous month. Increase compared to the previous month was seen in retail trade with non-food goods-by 0.2% and decrease in 'Retail sales of automotive fuel'-by 1.4%. In the 'Retail sale of non-food products except fuel' a more significant growth in the 'Retail sale of computers, peripheral units and software; telecommunications equipment'-by 3.6%, in 'Retail sale via mail order houses or via Internet'-by 2.0% and in'Dispensing chemist; retail sale of medical and orthopaedic goods, cosmetic and toilet articles'-by 0.7%. In October 2019 compared to the same month of 2018, the turnover run up in the 'Retail sale of non-food products except fuel' (by 2.1%), and in 'Retail sales of automotive fuel' (by 1.6%). A decline was reported in the 'Retail sale of food, beverages and tobacco'-by 0.2%. More significant growth in the 'Retail sale of non-food products except fuel' was observed in the 'Retail sale of textiles, clothing, footwear and leather goods in specialised stores'-by 8.9%, 'Retail sale of computers, peripheral units and software; telecommunications equipment'-by 8.8% and in 'Other retail sale in nonspecialised stores'-by 6.3%. A decline was reported in the 'Dispensing chemist; retail sale of medical and orthopaedic goods, cosmetic and toilet articles'-by 10.7%.

Projection: *Retail Sales yoy in Bulgaria is expected to be 1.4% 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 October 2019 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 0.1% above the level of the previous month. In October 2019 the working day adjusted index of production in construction increased by 3.1% 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 October 2019 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 0.1% above the level of the previous month. In October 2019 working day adjusted data showed an increase by 3.1% in the construction production, compared to the same month of 2018. In October 2019 the construction production index, calculated from the seasonally adjusted data, was above the level of the previous month. Index the production of civil engineering rose by 0.2% and production of building construction was no change the level of the previous month. On an annual basis in October 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 7.9%, while in the civil engineering was registered a decline by 3.0%.

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.*

Bulgaria's consumer price index in November 2019 compared to October 2019 was 100.5%, i.e. the monthly inflation was 0.5%. The inflation rate since the beginning of the year (November 2019 compared to December 2018) has been 3.1% and the annual inflation in November 2019 compared to November 2018 was 3.0%. The annual average inflation, measured by CPI, in the last 12 months was 3.0%. The harmonized index of consumer prices in November 2019 compared to October 2019 was 100.3%, i.e. the monthly inflation was 0.3%. The inflation rate since the beginning of the year (November 2019 compared to December 2018) has been 2.3% and the annual inflation in November 2019 compared to November 2018 was 2.2%. The annual average inflation, measured by HICP, in the last 12 months was 2.4%, below the Maastricht requirement for inflation no higher than 3%. 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.

The consumer price index in November 2019 compared to October 2019 was 100.5%, i.e. the monthly inflation was 0.5%. The inflation rate since the beginning of the year (November 2019 compared to December 2018) has been 3.1% and the annual inflation in November 2019 compared to November 2018 was 3.0%. The annual average inflation, measured by CPI, in the last 12 months was 3.0%.

It was the highest inflation rate since May, as prices went up faster mostly for food and non-alcoholic beverages (6.0% vs 4.7% in October); health (2.4 % vs 2.3 %); restaurants & hotels (5.3 % vs 5.1%) and recreation and culture (3.4% vs 2.5 %). Additionally, transport cost fell at a much softer pace (-0.5 % vs -3.4 %). On the other hand, prices slowed for housing and utilities (2.6 % vs 3.1 %) and miscellaneous goods and services (1.1% vs 1.5 %). On a monthly basis, consumer prices went up 0.5 percent, after a 0.8 percent gain in the preceding month. Core consumer prices in Bulgaria increased 1.5% in November of 2019 over the same month in the previous year. The harmonized index of consumer prices in November 2019 compared to October 2019 was 100.3%, i.e. the monthly inflation was 0.3%. The inflation rate since the beginning of the year (November 2019 compared to December 2018) has been 2.3% and the annual inflation in November 2019 compared to November 2018 was 2.2%. The annual average inflation, measured by HICP, in the last 12 months was 2.4%.

Forecast: *It is expected that until the end of 2019 Bulgaria's 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 (%)	November 2019 Change mom (%)	November 2019 Change yend 2018 (%)	November 2019 Change yoy (%)
Total CPI	100.00	100.50	103.1	103
Foods	31.55	101.1	105.9	105.9
Non-foods	35.206	100.2	101.6	100.3
Catering	5.363	100.7	105.3	105.5
Services	27.881	100.3	101.2	102.6
Source: NSI				

Total Producer Price Index in October 2019 decreased by 0.1% compared to the previous month; compared to the same month of 2018 the prices rose by 2.3%. Producer Price Index on Domestic Market in October 2019 rose by 0.1% compared to the previous month; compared to the same month of 2018 the domestic prices grew by 3.8%.

The Total Producer Price Index in Industry in October 2019 fell by 0.1% mom. Lower prices were registered in the mining and quarrying industry by 1.0%, and in manufacturing - by 0.1%, while in the electricity, gas, steam and air conditioning supply prices rose by 0.3%. In the manufacturing, prices went down in the manufacture of paper and paper products by 1.0% and in the manufacture of basic metals by 0.7%. Significant increase in prices was reported in the printing and reproduction of recorded media, in the manufacture of fabricated metal products, except machinery and equipment and in the manufacture of leather and related products - all by 0.4%. The Total Producer Price Index in October 2019 increased by 2.3% yoy. The prices rose in the electricity, gas, steam and air conditioning supply by 10.2%, and in the mining and quarrying industry by 5.9%, while in manufacturing prices fell by 0.3%. In manufacturing decrease in prices were seen in the manufacture of paper and paper products by 3.2%, in the manufacture of wood and of products of wood and cork, except furniture and manufacture of articles of straw and plaiting materials by 1.6% and in the manufacture of chemicals and chemical products by 0.4%. More compelling increase in prices was reported in the manufacture of leather and related products by 4.5%, in the repair and installation of machinery and equipment by 4.3% and in the manufacture of basic pharmaceutical products and pharmaceutical preparations by 3.7%.

Producer Price Index on Domestic Market in October 2019 increased by 0.1% mom. The domestic prices went up in manufacturing by 0.2%, in the electricity, gas, steam and air conditioning supply by 0.1%, while in the mining and quarrying industry prices fell by 1.3%. In the manufacturing, compared to the previous month the prices went up in the manufacture of basic pharmaceutical products and pharmaceutical preparations by 1.2% and in the manufacture of leather and leather products by 0.9%. The domestic prices went down in the manufacture of motor vehicles, trailers and semi-trailers by 0.4% and in the manufacture of paper and paper products - by 0.3%. Producer Price Index on Domestic Market in October 2019 increased by 3.8% yoy. The prices rose in the electricity, gas, steam and air conditioning supply by 10.7%, while in the mining and quarrying industry prices fell by 0.3%, and in manufacturing prices remained unchanged. In the manufacturing compared to October 2018, more compelling price increase was reported in the repair and installation of machinery and equipment by 6.4%, in the manufacture of food products by 3.1%, and in the manufacture of motor vehicles, trailers and semi-trailers by 3.0%. The prices fell in the manufacture of leather and related products by 1.5% and in the manufacture of chemicals and chemical products by 1.0%.

Producer Price Index on Non-domestic Market in October 2019 went down by 0.3% compared to the previous month and remained unchanged compared to the same month of 2018.

Bulgaria: Producer Price Indexes 2015=100	10.2018	11.2018	12.2018	1.2019	2.2019	3.2019	4.2019	5.2019	6.2019	7.2019	8.2019	9.2019	10.2019
Total Producer Price Index	107.6	107.2	106.4	106.0	107.8	108.6	109.1	109.0	107.8	109.2	109.6	110.1	110.1
Total Producer Price Index on Domestic Market	106.8	106.9	106.4	106.6	108.2	108.2	108.6	108.5	108.1	109.7	110.5	110.8	110.9
Total Producer Price Index on Noin-domestic Market	108.8	107.7	106.4	105	107.3	109.3	109.8	109.8	107.4	108.5	108.2	109.2	108.8
Source: NSI													

LABOR MARKET

In October 2019, registered unemployment was 5.6%, or 0.3 percentage points more than the previous month, due to the end of seasonal employment.

According to the Employment Agency, the registered unemployment in Bulgaria in October 2019 is 5.6%, or 0.3 percentage points more than the previous month. The reason for the slight increase is the end of the seasonal employment. During the month, 182 529 people were registered with the labor offices, or 9748 more than in September. On an annual basis, they decreased by 10 970. The newly registered unemployed in October were 35 697, of which 2108 were inactive, ie. neither employed nor apprenticed and did not look for work. The average monthly number of inactive people on the labor market remains above 2000 people. The number of employed persons in October was 17,562, with 93.5% of them employed in the real economy. Another 515 jobseekers from the group of pensioners, students and employees, also through their employment offices have found their new jobs. Of the risk groups in the labor market, a further 1144 persons were employed in the subsidized jobs during the month, of which 536 were under training and employment programs and 608 were under schemes of the Operational Program “Human Resources Development”. The number of graduates during the month is 770 unemployed. Since the beginning of the year, the Employment Agency has helped 21 513 unemployed persons improve their skills or acquire new skills. The jobs announced for the primary labor market in October were 14,410, with 77.7% of them in the private sector. The largest share of job vacancies was reported in manufacturing (30.3%), trade, repair of motor vehicles and motorcycles (14.0%), administrative and support activities (10.1%), hotels and restaurants (8.2%), construction (7.1%) and other. The most sought after occupational groups this month are: construction workers; stationary machinery and equipment operators; workers in the mining and processing industries, transport; sellers; staff engaged in the field of personal services (bartenders, waiters, cooks, housekeepers, etc.); staff caring for people; skilled food, clothing, wooden and related workers; waste collection and related workers, and others

FISCAL SECTOR

Consolidated Fiscal Programme (CFP) balance on a cash basis as of end-October 2019 is positive,amounting to BGN 1,082.5 million, or 0.9% of the projected GDP, and is formed by an excess of revenues over expenditures of BGN 1,216.9 million under the national budget and of BGN 134.4 million under EU funds. The fiscal reserve as of 30.10.2019 is BGN 10.0 billion. Based on the preliminary data and estimates, as of November 2019, the excess of revenues over expenditures under the Consolidated Fiscal Programme (CFP) is expected to amount to BGN 1,072.2 million (0.9 % of the forecast GDP).

According MF data the Consolidated Fiscal Programme (CFP) balance on a cash basis as of end-October 2019 is positive, amounting to BGN 1,082.5 million, or 0.9% of the projected GDP, and is formed by an excess of revenues over expenditures of BGN 1,216.9 million under the national budget and a deficit of BGN 134.4 million under EU funds. The CFP revenues, grants and donations as of October 2019 stand at BGN 36,318.5 million, or 82.8% of the annual estimates. Compared to the same period of the previous year, CFP grants and donations have grown by BGN 3,705.6 million in nominal terms, including tax and non-tax revenues by BGN 3,421.5 million (11.0%), while grant and donation proceeds (mostly EU programme and fund grants) have risen by BGN 284.1 million. Tax proceeds, including revenues from social security contributions, total BGN 29,091.7 million, which accounts for 84.2% of the tax revenues planned for the year. Direct tax revenues amount to BGN 5,171.9 million, or 78.8% of those planned for the year. Indirect tax revenues amount to BGN 14,222.2 million, which accounts for 86.5% of the annual estimates. VAT proceeds amount to BGN 9,349.8 million, or 86.3% of those planned. The excise duty revenues amount to BGN 4,637.4 million, or 87.0% of the annual estimates. Customs duty proceeds amount to BGN 194.7 million, or 82.2% of the annual estimates. Proceeds from other taxes, including property and other taxes under the Corporate Income Tax Law, amount to BGN 1,026.6 million, or 87.8% of the annual estimates. Revenues from social security and health insurance contributions are BGN 8,671.1 million, which accounts for 83.5% of the estimates for the year. Non-tax revenues amount to BGN 5,442.9 million, or 82.1% of the annual estimates. 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 October 2019 are therefore higher than the proceeds for the same period of 2018. Grant and donation proceeds amount to BGN 1,783.8 million. CFP expenditures, including the contribution of the Republic of Bulgaria to the EU budget for October 2019, amount to BGN 35,236.0 million, which accounts for 76.1% of the annual estimates. The nominal increase in expenditures in comparison to the same period of the previous year is due to the higher capital expenditures (due to the higher national budget expenditures, including those related to the implementation of the investment project for the acquisition of a new type of military aircraft for the Bulgarian air forces, as well as under the EU fund accounts),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.

Non-interest expenditures amount to BGN 33,558.8 million, which accounts for 76.1% of the annual estimates. Non-interest current expenditures as of October 2019 amount to BGN 28,365.2 million, capital expenditures (including net increment of state reserve) amount to BGN 5,162.9 million. The current and capital transfers to other countries amount to BGN 30.7 million. Interest payments amount to BGN 586.2 million, or 87.6% of those planned for 2019. The part of Bulgaria's contribution to the EU budget, as paid from the central budget as of 31.10.2019, amounts to BGN 1,090.9 million, which complies with the existing legislation in the area of EU own resources. As of 31.10.2019, the fiscal reserve amounts to BGN 10.0 billion, including BGN 9.8 billion of fiscal reserve deposits in the BNB and in banks and BGN 0.2 billion of receivables under the EU Funds for certified expenditure, advance payments, etc.

Projection: *Based on the preliminary data and estimates, as of November 2019, the excess of revenues over expenditures under the Consolidated Fiscal Programme (CFP) is expected to amount to BGN 1,072.2 million (0.9 % of the forecast GDP). Revenues, grants and donations under CFP as of November 2019 are expected to be BGN 39,821.6 million, or 90,8 % of the annual estimates. As compared to November 2018, CFP revenues have risen by BGN 4,012.0 million, with growth being registered in both tax and non-tax revenues, and grants and donations where the grants under the EU programmes and funds are mostly recorded. The growth of tax revenues is BGN 2,737.6 million, of non-tax revenues – BGN 1,014.1 million, and of revenues from grants and donations – BGN 260.2 million. As regards non-tax revenues, there is mainly a baseline effect in the part of revenues under the Electricity System Security Fund due to the amendments to the Energy Law in force as from 1 July 2018. The Consolidated Fiscal Programme expenditures, including the contribution of the Republic of Bulgaria to the EU budget, as of November 2019 amount to BGN 38,749.4 million, which accounts for 83.7% of the annual estimates. For comparison, the expenditures under the CFP for the same period of 2018 amounted to BGN 32,913.1 million. The nominal increase in comparison to the same period of the previous year is due to the higher capital expenditures (due to the higher national budget expenditures, including those related to the implementation of the investment project for the acquisition of a new type of military aircraft for the Bulgarian air forces, as well as under the EU fund accounts), 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, the pension indexation in July 2019 and an increase in the health insurance payments set out in the 2019 NHIF Budget Law), etc. The part of Bulgaria's contribution to the EU budget, paid from the central budget as of 30.11.2019, amounts to BGN 1,135.6 million, which complies with the current legislation in the area of EU own resources.*

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	30.09.2019	31.10.2019
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**	**10 138.0**	**10 019.8**
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**	**10 120.3**	**9 826.3**
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	9 719.3	9 443.2
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**	**17.6**	**193.5**
MF National Fund	153.1	140.9	177.9	151.9	137.0	114.0	48.704	140.6	17.6	154.6
Paying Agency under State Fund Agricultural	1031.6	283.3	181.6	400.2	877.4	284.9	506.238	194.4	0.0	38.9
Source: Ministry of finance										

In January – October 2019, Bulgaria's central government sub-sector debt amounted to EUR 11,981.4 million and accounted for 19.8% of projected GDP. According MF "Government debt Management Strategy for 2019-2021" Bulgaria's public debt/GDP ratio will stood at 19.1% in 2019, 17.7% in 2020 and 16.5% in 2021.

Central government debt stands at EUR 11,981.4 million as at end-October 2019. Domestic debt amounts to EUR 2,973.4 million and external debt – to EUR 9,008.0 million. At the end of the reporting period the central government debt-to-gross domestic product ratio is 19.8%, with the share of domestic debt being 4.9% and of external debt – 14.9% of GDP. In the central government debt structure, at the end of the period domestic debt amounts to 24.8%, and external debt – to 75.2%. As of 31 October 2019, central government guaranteed debt amounts to EUR 70.8 million. Domestic guarantees amount to EUR 33.9 million and external guarantees – to EUR 36.9 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-October 2019 government debt reaches EUR 11,209.4 million, or 18.5% of GDP. Domestic debt amounts to EUR 2,801.6 million and external debt – to EUR 8,407.8 million.Government guaranteed debt amounts to EUR 898.1 million in October 2019. Domestic guarantees amount to EUR 33.9 million, with the government guaranteed debt-to-GDP ratio being 1.5%.

Bulgaria: Central Government Debt Amount (million EUR)	31.12.2018	31.01.2019	28.02.2019	31.03.2019	30.04.2019	31.05.2019	30.06.2019	31.07.2019	31.08.2019	30.09.2019	31.10.2019
Domestic debt	**3 121.40**	**2745.4**	**2595.6**	**2574.8**	**2532**	**2509.2**	**2 661.50**	**2 847.2**	**2944.1**	**2934.7**	**2973.4**
External Debt	**9093.9**	**9094.3**	**9093.6**	**9093.6**	**9080.1**	**9056**	**9 029.90**	**9030.6**	**9027.2**	**9022**	**9008**
Central Government debt, total	12 215.30	11 839.70	11689.2	11668.4	11612.1	11565.1	11 691.40	11877.7	11971.3	11956.7	11981.4
Total Centrral government debt/GDP (%)	22.1	20.1	19.8	19.8	19.7	19.6	19.8	20.1	20.3	19.7	19.8
Domestic central government debt/GDP (%)	5.7	4.7	4.4	4.4	4.3	4.3	4.5	4.8	5	4.8	4.9
External central government debt/GDP (%)	16.5	15.4	15.4	15.4	15.4	15.3	15.3	15.3	15.3	14.9	14.9
Source: Ministry of Finance											

Standard & Poor's Raised Its Credit Rating On Bulgaria To "BBB"; Outlook Positive

The international credit rating agency S&P Global Ratings raised its long-term and short-term foreign and local currency sovereign credit ratings on Bulgaria to "BBB/A-2" from "BBB-/A-3". The outlook is positive. The ratings were raised as a result of the resilient growth of Bulgaria's economy, without building macroeconomic imbalances. The country's fiscal and external balance sheets are strong, and progress on entering the Exchange Rate Mechanism II (ERM II) is steadfast. The positive outlook of the ratings reflects the expectations of S&P Global Ratings' analysts that Bulgaria's progressively strengthening fiscal and external position will continue as the country grows resiliently in a weaker external economy. The rating agency thinks that the country has completed its own deliverables under its action plan toward ERM II and Banking Union membership, but S&P also points out that the ultimate accession decision is not fully in its control. Institutional convergence has progressed. Legislative changes are made in the area of macroprudential supervision and central bank powers. Improvements are made in the framework for insolvency, state-owned enterprise (SOE) management, non-banking financial supervision and anti-money-laundering. The agency could raise the ratings if the economy continues to grow resiliently without reversing fiscal gains or if the country's external performance strengthened beyond the expectations of S&P Global Ratings. The ratings could also be raised if Bulgaria further entrenches structural and institutional improvements, for example on its path toward euro adoption. The credit rating agency could revise the outlook to stable if it observed external financing pressures or the buildup of significant macroeconomic imbalances.

MONETARY SECTOR

At the end of October 2019 Bulgasria's broad money (monetary aggregate M3) amounted at BGN 100.262 billion billion (86.6% of GDP) and increased by 8.5% yoy. Domestic credit – was BGN 62.151 billion and increased by 9.6% yoy.

In October 2019 broad money (monetary aggregate M3) increased annually by 8.5% compared to 8.3% yoy growth as in September 2019. At the end of October 2019 M3 was BGN 100.262 billion (86.6% of GDP3) compared to BGN 99.207 billion (85.7% of GDP) in September 2019. Its most liquid component – monetary aggregate M1 – increased by 12.9% yoy in October 2019 (12.8% yoy growth in September 2019). At the end of October 2019, deposits of the non-government sector were BGN 83.183 billion (71.9% of GDP), increasing by 7.9% yoy (7.9% yoy growth in September 2019). Deposits of Non-financial corporations were BGN 25.803 billion (22.3% of GDP) at the end of October 2019. Compared to the same month of 2018 they increased by 6.9% (6.4% yoy growth in September 2019). Deposits of financial corporations increased by 13.7% yoy in October 2019 (17.2% yoy growth in September 2019) and at the end of the month they reached BGN 3.192 billion (2.8% of GDP). Deposits of Households and NPISHs were BGN 54.188 billion (46.8% of GDP) at the end of October 2019. They increased by 8.2% compared to the same month of 2018 (8.2% yoy growth in September 2019). Net domestic assets were BGN 62.491 billion at the end of October 2019. They increased by 12% compared to the same month of 2018 (11.9% yoy growth in September 2019). At the end of the month their basic component – domestic credit – was BGN 62.151 billion and increased by 9.6% compared to October 2018 (9% annual growth in September 2019). In October 2019 claims on the non-government sector7 increased by 7.2% annually (7% annual growth in September 2019) reaching BGN 62.955 billion. At the end of October 2019, claims on loans to the non-government sector amounted to BGN 61.320 billion (53% of GDP) compared to BGN 60.731 billion (52.5% of GDP) at the end of September 2019. They increased annually by 7.3% in October 2019 (7.1% annual growth in September 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 382.4 million. On an annual basis, loans sold8 by Other MFIs were BGN 398.1 million (of which BGN 20.5 million in October 2019), while the amount of repurchased loans was BGN 15.7 million (there were no loan repurchases in October 2019). In October 2019, loans to Non-financial corporations increased by 5.2% yoy (4.8% yoy growth in September 2019) and at the end of the month amounted to BGN 34.436 billion (29.8% of GDP). Loans to Households and NPISHs were BGN 23.651 billion (20.4% of GDP) at the end of October 2019. They increased by 9.4% compared to the same month of 2018 (9.1% annual growth in September 2019). At the end of October 2019 loans for house purchases were BGN 10.515 billion and increased by 14.1% yoy(13.6% yoy growth in September 2019). Consumer loans amounted to BGN 11.226 billion and compared to October 2018 they increased by 10.8% (10.9% yoy growth in September 2019). On an annual basis other loans decreased by 38% (40.4% yoy decline in September 2019) and reached BGN 563.3 million. Loans granted to financial corporations were BGN 3.233 billion at the end of October 2019 (2.8% of GDP). Compared to October 2018, they increased by 16.4% (17.9% yoy growth in September 2019).

CAPITAL MARKET

In November 2019 all BSE-Sofia stock indexes fell: SOFIX decreased to 546.57 points, BGBX 40 decreased to 108.79 points, BG TR30 decreased to 495.69 points and BGREIT decreased to 128.71 points.

According to BSE-Sofia data, in November 2019 the BSE-Sofia core index SOFIX fell by 1.84% to 546.57 points. BGBX 40's most liquid companies index fell 0.95% to 108.79 points in November after falling 3.18% to 109.83 points in October. The weighted BG TR30 fell 0.79% to 495.69 points in November after registering a decrease of 1.51% to 499.66 points in October. The BGREIT property meter fell 1.31% to 128.71 points in November, after rising 1.83% to 130.42 points in October. Turnover in November 2019 increased by BGN 1,053,140 to BGN 6,674,059 after transactions in shares of 15 SOFIX companies were reported in October for BGN 5,620,919. In contrast to October, when there were no issues with a turnover over one million, in November two 4 issues had a turnover over BGN 1 million. In November 2019, the largest turnover reported Doverie United Holding (BGN 1 537 748), followed by: Eurohold Bulgaria (BGN 1 334 260), Albena (BGN 934 318), Varna Holding (BGN 641 487).) and Advance Tefanod REIT (BGN 447,851). In November, Sopharma maintained its leading position in market capitalization (BGN 459 660 36), followed by: Gradus (BGN 410 480 676), Chimimprot (BGN 395 416 341), First Investment Bank (BGN 325 600 000). and Eurohold Bulgaria (BGN 276,535,840). After September 24, five holdings remained in SOFIX, of which only Holding Varna (+ 1.02%) made profit in November, and Industrial Holding Bulgaria remained unchanged (0.00%). The biggest decrease was Eurohold Bulgaria (-12.50%), followed by: Sirma Group Holding (-2.26%) and Doverie United Holding (-1.33%). The company with the highest turnover for November 2019 is Capital Concept Limited AD, with realized volume of BGN 6 292 688. Second place is Assenova Krepost AD with realized volume of BGN 2 729 692. There is one sole representative of the special purpose vehicles in the ranking, and it is Capital Management REIT. With the smallest number of deals in the ranking are Assen Fortress AD, Capital Concept Limited, Capital Management REIT and Team-98 Holding AD, and the largest Stara Planina Hold AD, Doverie United Holding AD and Holding AD. The most profitable company in November 2019 is Hydropneumotechnika AD, which achieved a three-digit growth of 220.00%. Second place is Bulgar Czech Invest Holding AD, followed by Odessos Shipyard with growth of 20.71%. The fourth position is for Sofia Commerce-Pawnbrokers AD with a monthly growth of 17.59%. The last company in the ranking also posted double-digit growth, respectively, through CEZ Electro Bulgaria AD with a 16.16% growth. The most loss-making companies in November 2019 were Eurohold Bulgaria AD with a decrease of 16.67%. Alcomet AD ranks second with a decline of 11.88%, followed by the Bulgarian Stock Exchange AD, which declined in November by 8.84%. The penultimate position in the ranking is CCB Real Estate Fund REIT with a decrease of 5.46%.

BANKING SECTOR

In October 2019, Bulgaria's banking system's assets grew by 1.6% mom and by 8.7% yoy to BGN 113.3 billion and account for 96.6% of GDP. The gross loan portfolio of clients of the banking system increased by 0.9% mom and by 7.2% yoy, respectively to BGN 65.2 billion. Household loans increased by 1.2% mom and 9.3% yoy, respectively to BGN 23.9 billion. Loans to non-financial corporations increased by 0.8% mom and by 5.1% yoy, respectively to BGN 36.7 billion. Household loans increased to BGN 23.9 billion. When adjusting BNB data to reclassify consumer loans to two banks as one bank for mortgages and eliminating the impact of a new entrant on the household loan market in May 2018, the retail growth rate the segment changes to 0.2% yoy (13.3% for mortgages and 2.4% for consumer loans). Loans to non-financial corporations increased by 0.8% mom and by 5.1% yoy to BGN 36.7 billion. In October 2019, customer deposits with the banking system increased by 1.1% mom and by 6.7% yoy to BGN 89.8 billion, contributed by all institutional sectors. As of September 30, 2019, Tier 1, Tier 1 and Tier 1 capital ratios were 19.84%, 20.22% and 21.02%, respectively (vs. 19.36%, 19, 72% and 20.54% by end-June).

The banking system's profit at the end of October 2019 amounted to BGN 1.394 billion and compared to the same period of the previous year it increased by BGN 15 million (1.1%). Impairment losses on financial assets that are not carried at fair value through profit or loss amount to BGN 385 million for the ten months of this year (compared to BGN 365 million a year earlier).

Indicator (BGN '000)	31.10. 2018	31.10. 2019	Y/Y (%)
Interest Income	2 524 387	2 560 156	1.4
Interest Expence	248 634	241 697	-2.8
Net interest Income	**2 275 753**	**2 318 459**	**1.9**
Impairment	365 339	385 003	5.4
Divident income	**150 160**	160 100	6.6
Fee and commission income	1 031 524	1 104 386	7.1
Fee and commission expenses	150 564	178 966	18.9
Net fee and commission income	**759 685**	**925 420**	**21.8**
Administration costs	1 401 135	1 380 975	-1.4
Personal costs	706 829	740 106	4.7
Total operating income, net	3 445 576	3 515 375	2.0
Net Profit	**1 379 375**	**1 394 260**	**1.1**

Source:BNB, UBB's Calculations

In October 2019 the assets of the banking system increased by 1.6% mom and by 8.7% yoy, respectively to BGN 113.3 billion. Their relative share in GDP is 96.6%. The share of loans and advances in the balance sheet total reached 66.7% (compared to 65.0% at the end of September). The gross loan portfolio of clients of the banking system increased by 0.9%mom and by 7,2% yoy, respectively to BGN 65.2 billion. Household loans increased by 1.2% mom and by 9.3% yoy, respectively to BGN 23.9 billion. Loans to non-financial corporations increased by 0.8% mom and by 5.1% yoy, respectively to BGN 36.7 billion. Loans to general government increased by 13.5% and by 23.7% to BGN 913 million. Claims on other financial corporations decreased (by -1.8% mom to BGN 3.6 billion). The deposits from customers in the banking system in October 2019 increased by 1.1% mom and by 6.7% yoy, respectively to BGN 89.8 billion, which is contributed by all institutional sectors. Household deposits increased by 0.5% mom and by 7.8% yoy, respectively to BGN 56.1 billion. Deposits by non-financial corporations amount to BGN 27.8 billion and increase by 2% mom and by 6.1% yoy, respectively. Deposits from other financial corporations (by BGN 3.6 billion) and general government (by BGN 2.4 billion) have maintained their level since September 2019.

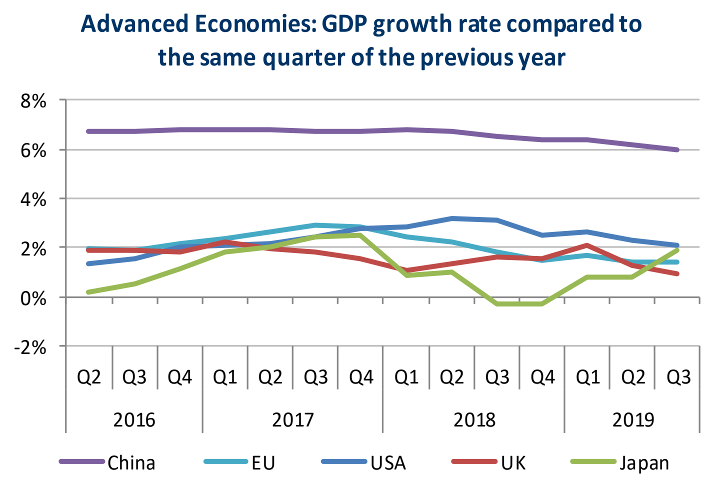
Bulgaria Intermediation Indicators	31.10.2018 BGN'000	31.12.2018 BGN'000	30.09.2019 BGN'000	31.10.2019 BGN'000	Change m/m (%)	Change y/y (%)	Change yend (%)	Share in GDP (%)
BANKING SYSTEM TOTAL ASSETS	**104 220 476**	**105 556 619**	**111 509 349**	**113 319 335**	**1.6**	**8.7**	**7.4**	**96.6**
Loans to central governments	738 186	741 199	804 760	913 090	13.5	23.7	23.2	0.7
Loans to non-financial corporations	34 976 693	34 871 435	36 453 240	36 749 427	0.8	5.1	5.4	31.6
Loans to financial corporrations	3 187 998	3 220 084	3 670 993	3 605 985	-1.8	13.1	12.0	3.2
Retail loans, incl.:	**21 899 508**	22 075 378	**23 661 444**	**23 935 511**	**1.2**	**9.3**	**8.4**	**20.5**
Mortgage loans	10 607 399	10 906 245	12 032 749	12 224 110	1.6	15.2	12.1	10.4
Consumer loans	10 314 361	10 332 669	12 270 566	12 365 302	0.8	19.9	19.7	10.6
Micro credits and other loans	977 748	836 464	-641 871	-653 901	1.9	-166.9	-178.2	-0.6
TOTAL LOANS	**60 802 385**	**60 908 096**	**63 761 393**	**63 761 393**	**0.0**	**4.9**	**4.7**	**55.2**
ATRACTED SOURCES FROM CLIENTS, incl.:	**84 124 872**	**84 571 339**	**88 808 176**	**89 766 982**	**1.1**	**6.7**	**6.1**	**76.9**
Local government deposits	2 753 048	2 696 635	2 286 297	2 342 684	2.5	-14.9	-13.1	2.0
Non-financial corporations deposits	26 208 159	25 277 991	27 272 149	27 811 525	2.0	6.1	10.0	23.6
Financial corporations deposits	3 092 275	3 213 474	3 427 745	3 493 818	1.9	13.0	8.7	3.0
Households and NPISHs deposits	52 071 390	53 383 239	55 821 985	56 118 955	0.5	7.8	5.1	48.4
Equity	**12 575 648**	13 857 523	**14 331 025**	**14 466 938**	0.9	15.0	4.4	12.4
Net profit (annualised)	**1 379 375**	1 677 846	**1 270 329**	***1 394 260***	**9.8**	**1.1**		
BANKING INDICATORS (%)								
ROE	13.2	12.1	11.8	11.6	-0.3	-1.6	-0.5	
ROA	1.6	1.6	1.5	1.5	0.0	-0.1	-0.1	
Capital adequacy	n.a.	20.4	21.0	n.a	n.a	n.a	n.a	
LCR (%)	289.4	294.1	264.0	269.2	5.2	-20.2	-24.9	
NPL	n.a.	7.6	5.0	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				

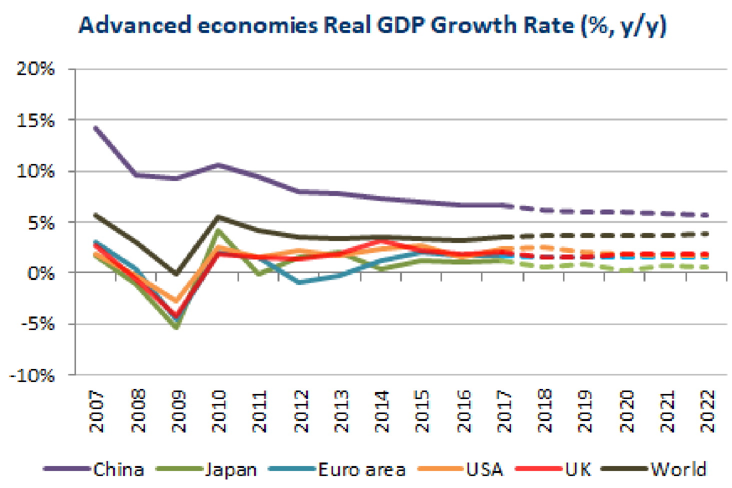
Source: BNB, MF, UBB Calculations

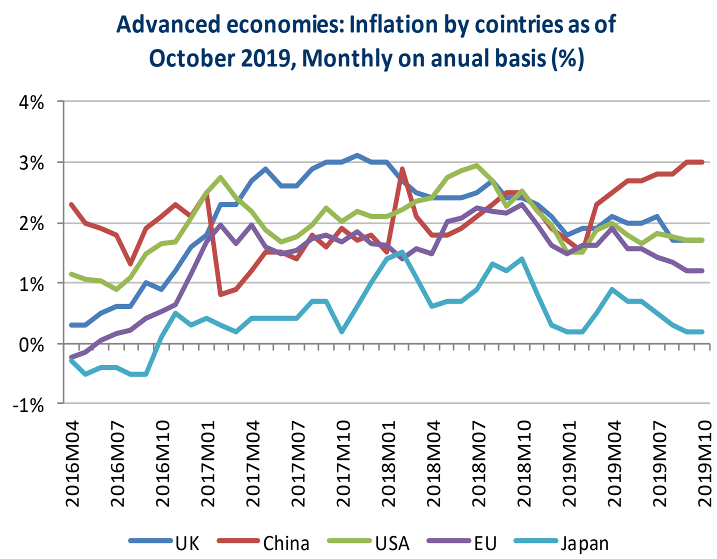
The liquidity coverage ratio at the end of October 2019 was 269.2% (compared to 264.0% at the end of September). At the end of the period, the liquidity buffer was BGN 29.2 billion and the net outflows were BGN 10.8 billion (against BGN 28.8 billion and BGN 10.9 billion at the end of September, respectively). Equity in the balance sheet of the banking system at the end of October was BGN 14.5 billion, having increased by BGN 136 million (0.9%) in the month. As of September 30, 2019, Tier 1, Tier 1 and Tier 1 capital ratios were 19.84%, 20.22% and 21.02%, respectively (vs. 19.36%, 19, 72% and 20.54% by end-June).

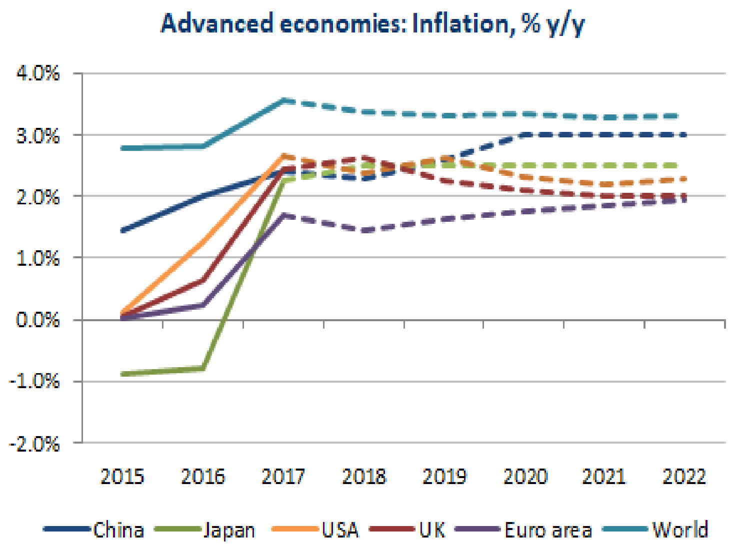
Appendix

ADVANCE ECONOMIES KEY INDICATORS



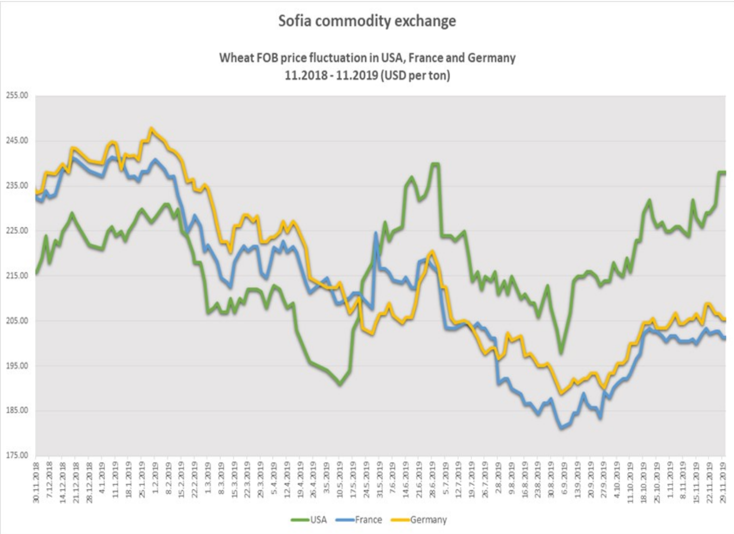


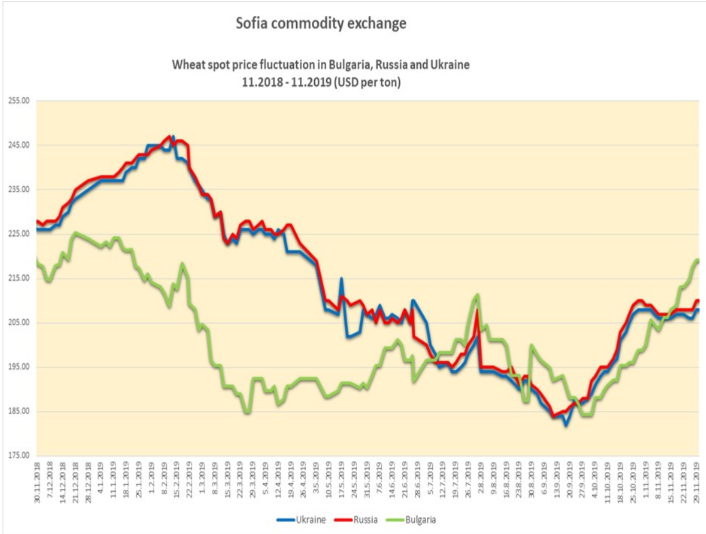


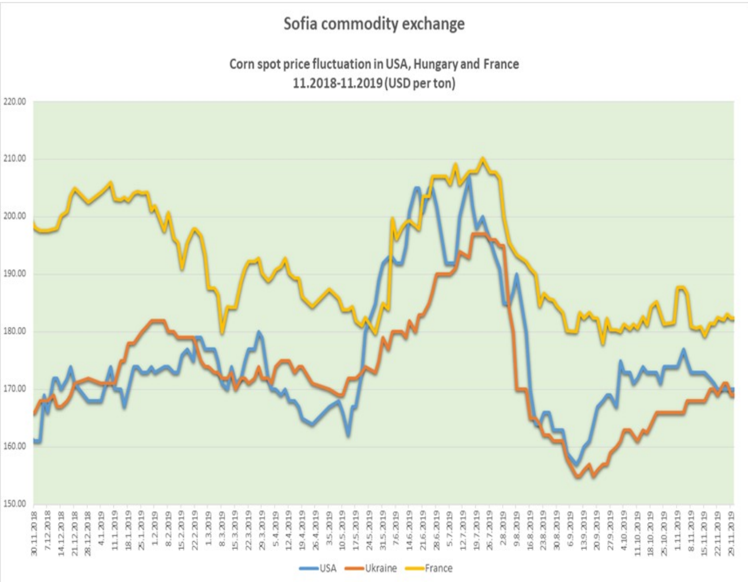


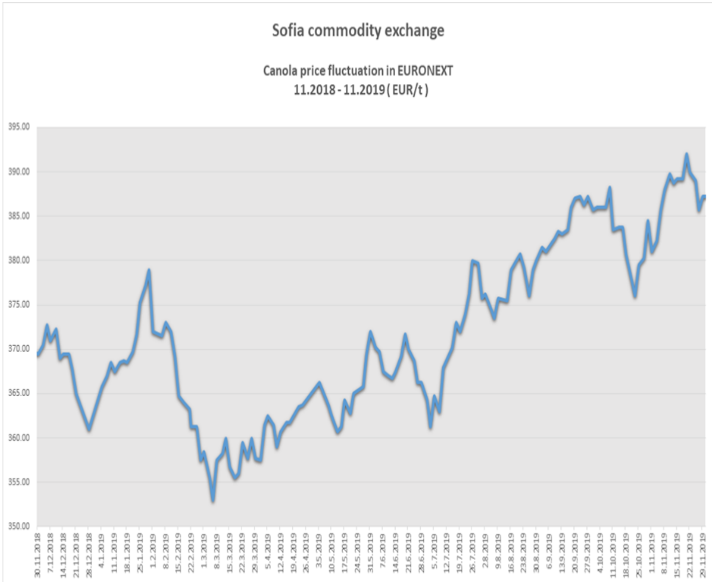
Source: IMF

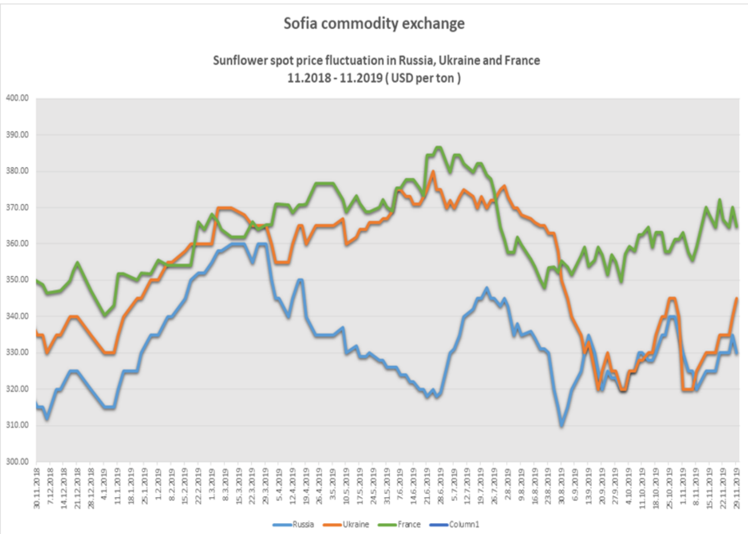
International Prices of Agriculture Products

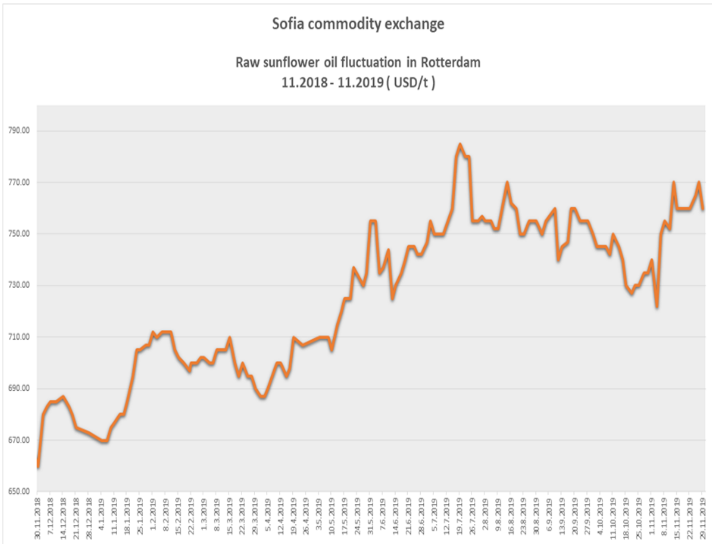






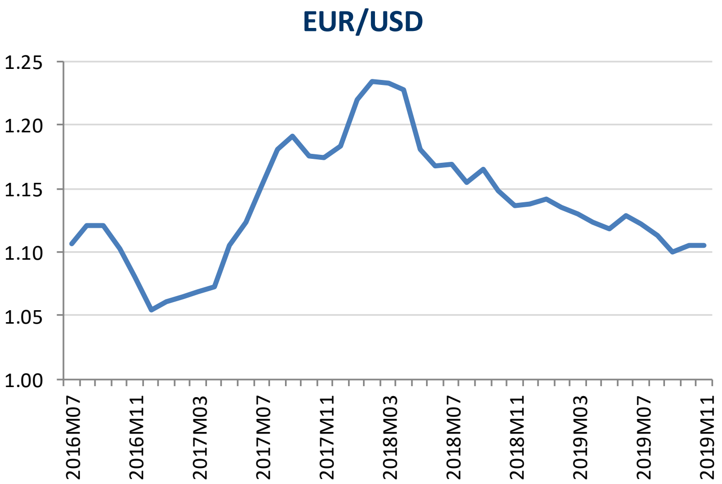


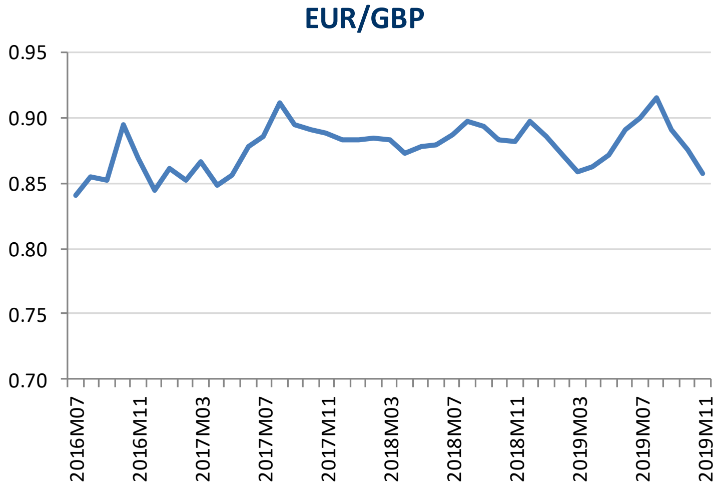


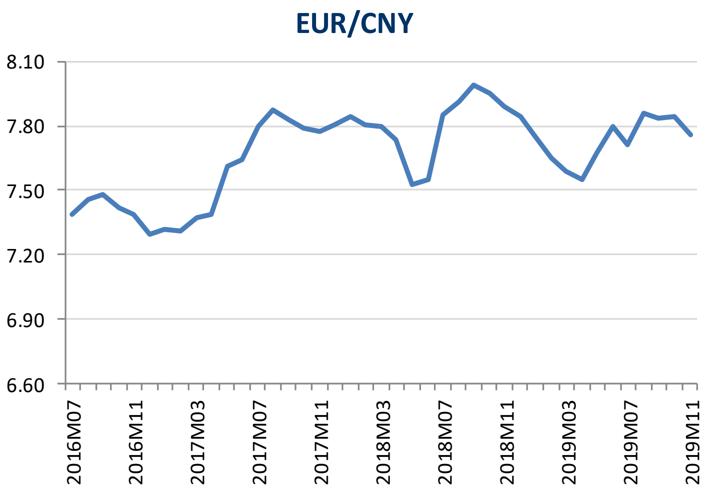


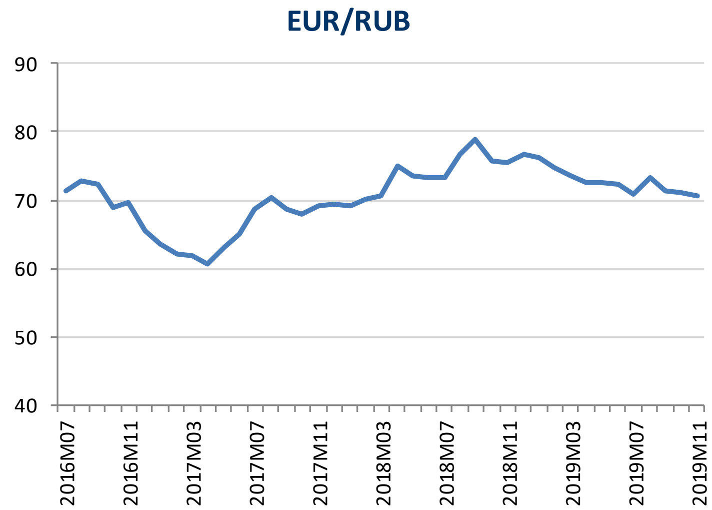
Source: SCE

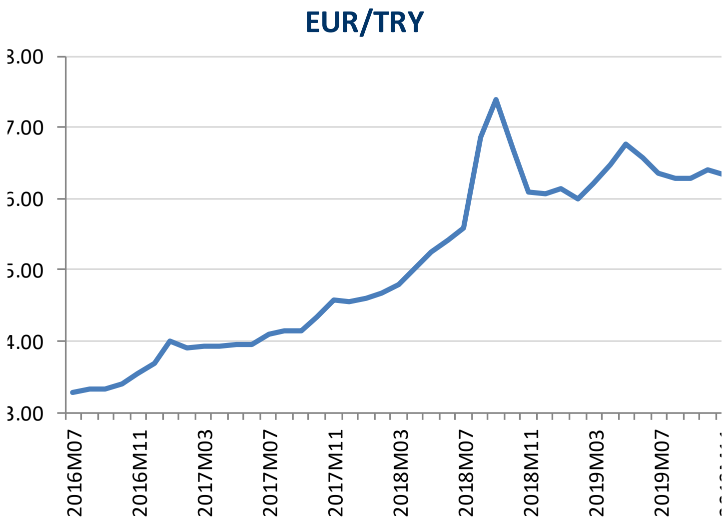
Overseas FX Rates

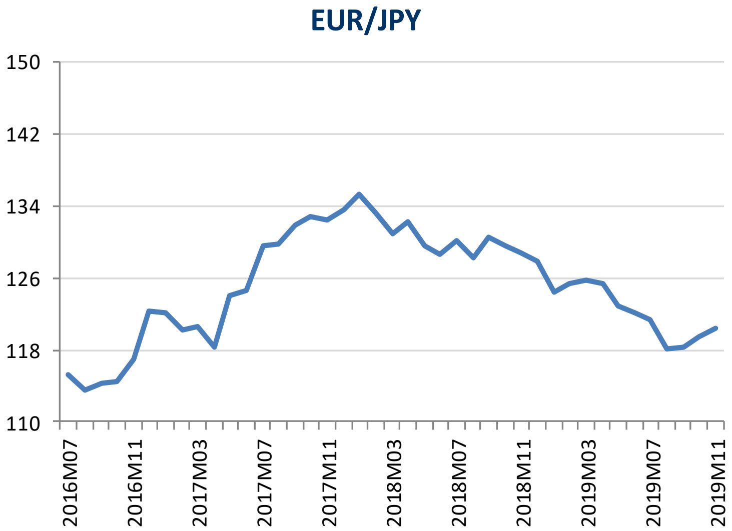






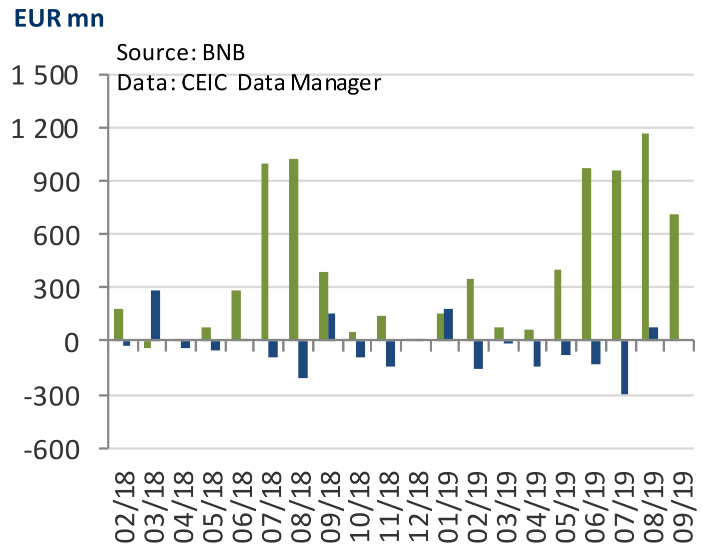


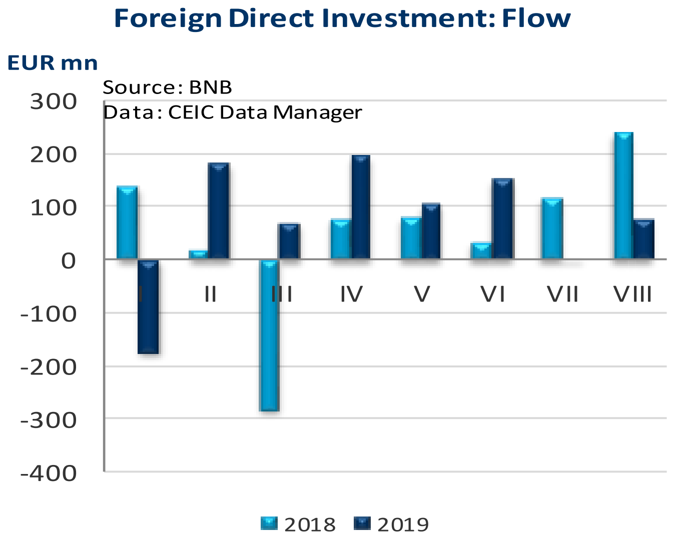


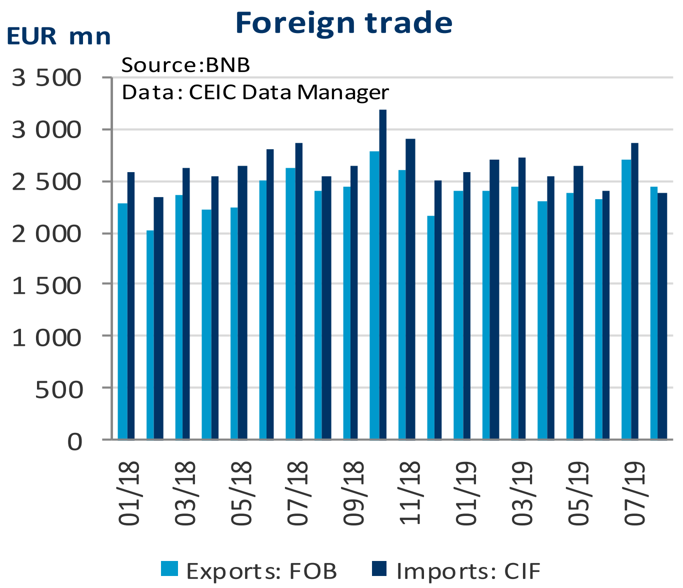


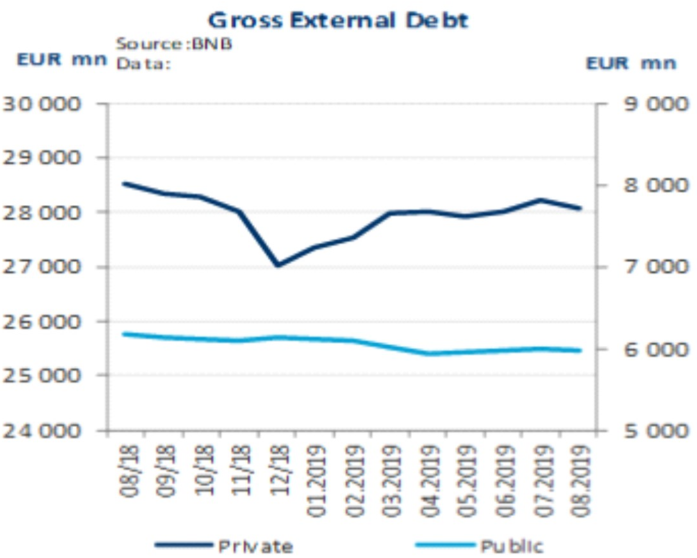
Source: ECB

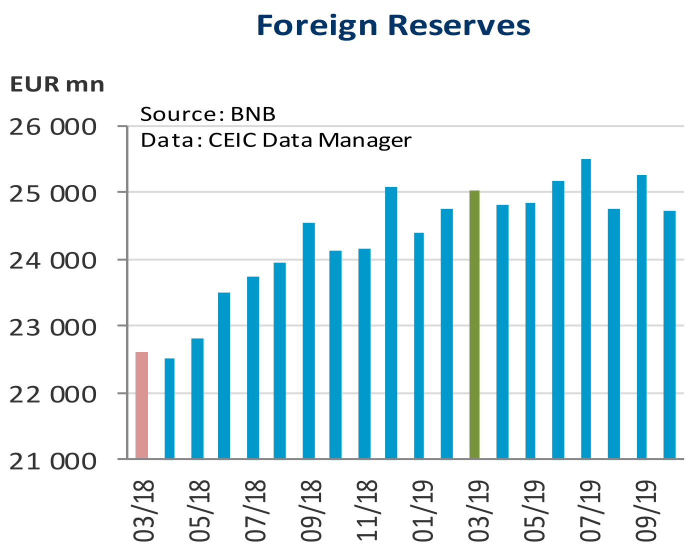
Bulgaria: External Sector Indicators







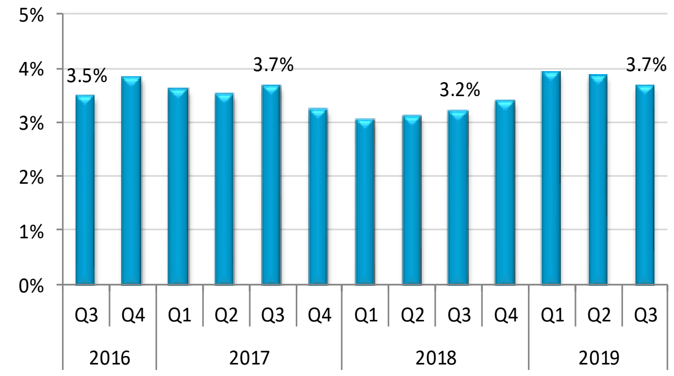




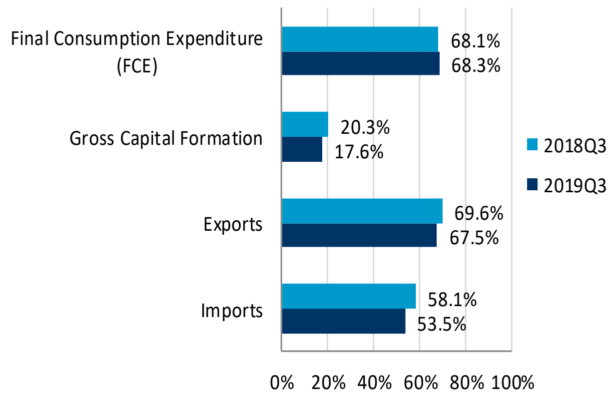
Source: BNB

Bulgaria: Real Sector Indicators

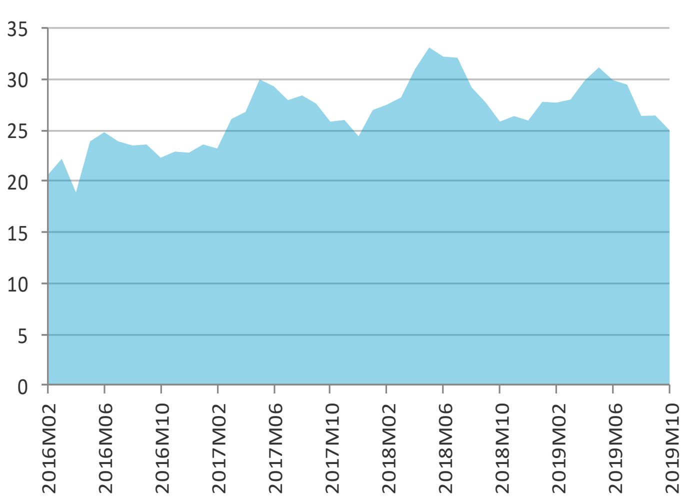
GDP Growth rate, compared to the same quarter previous year, seasonally adjusted data



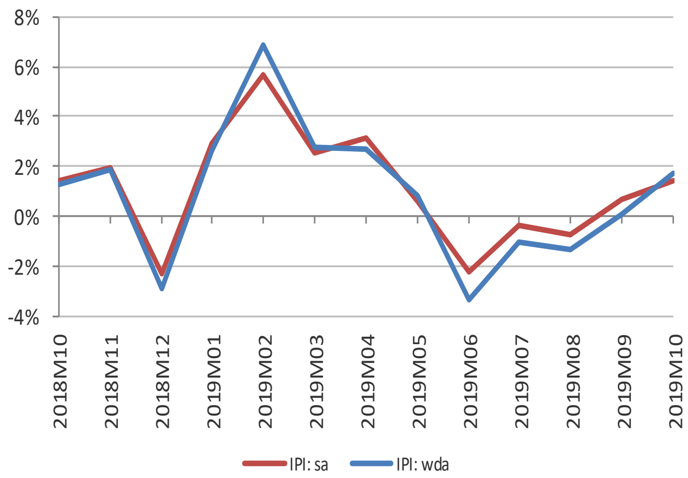
Structure of GDP by the expenditure approach for Q3 in 2018 and 2019



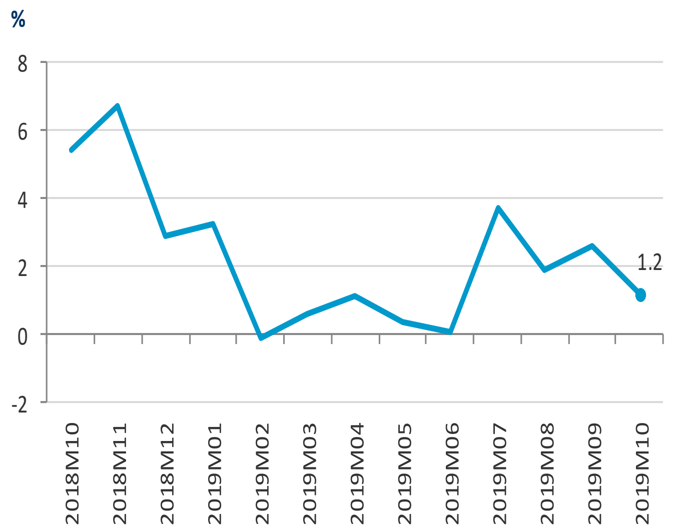
Business Climate



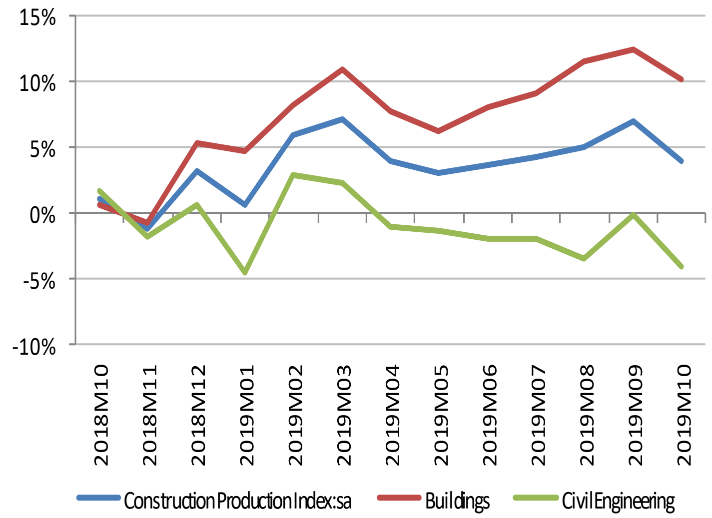
Industrial Production Index: Percentage change, YoY



Retail Trade Index: Percentage change, YoY

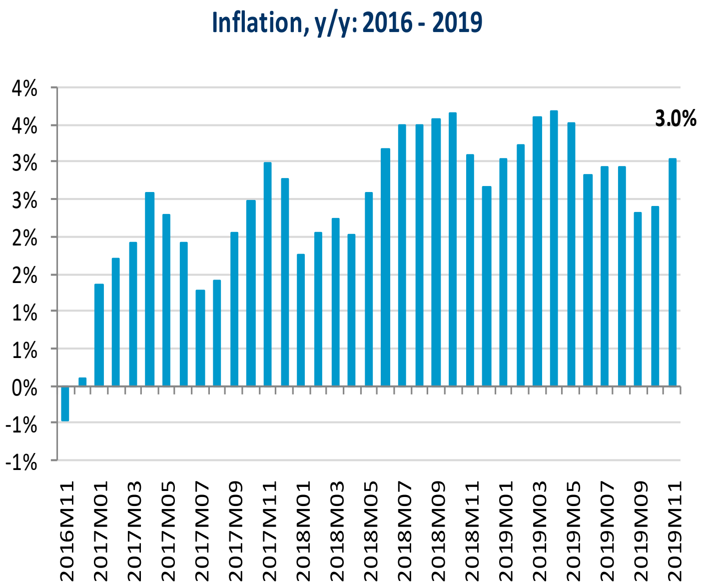


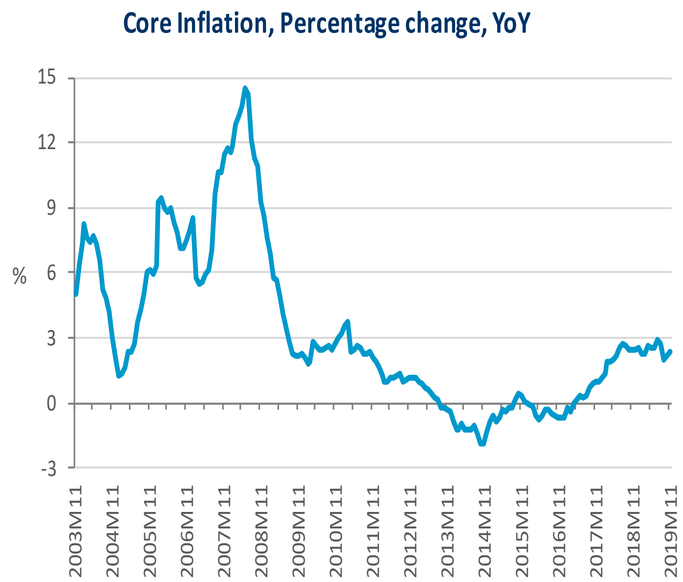
Construction: Percentage change, YoY

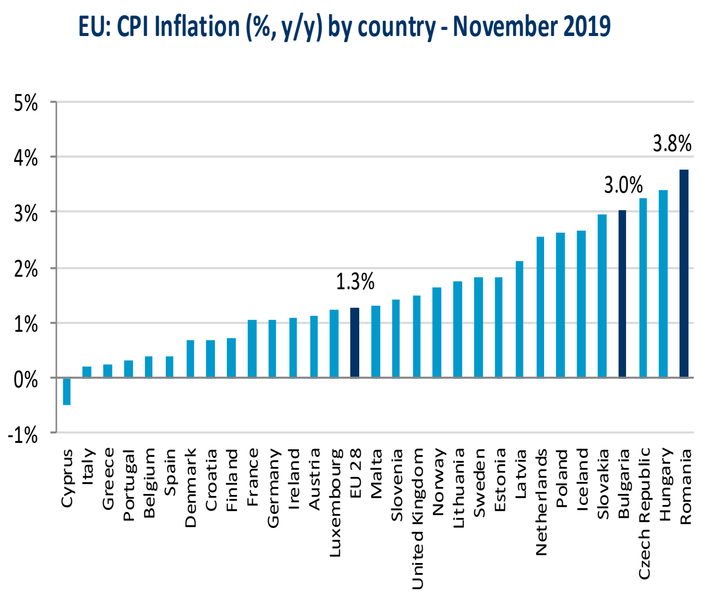


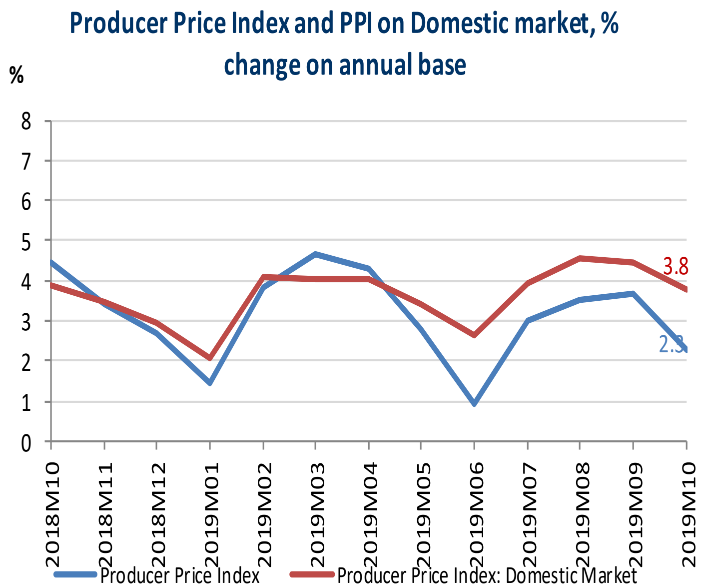
Source: NSI

Bulgaria: Prices Indicators



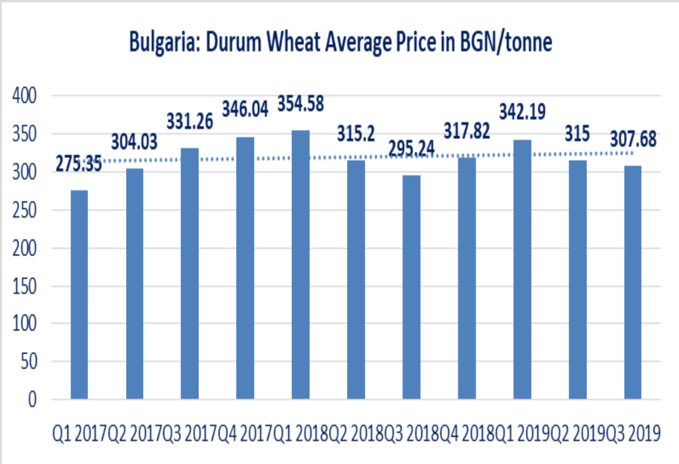


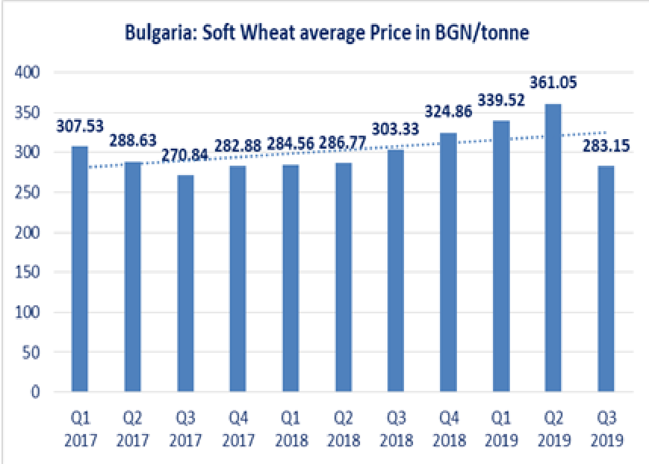


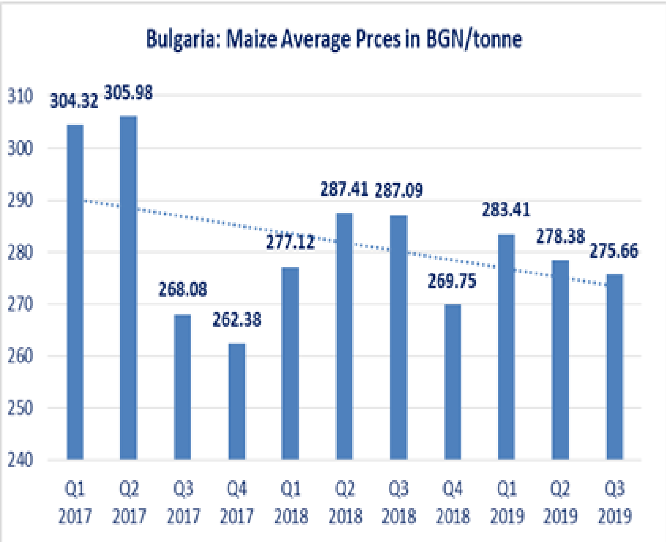


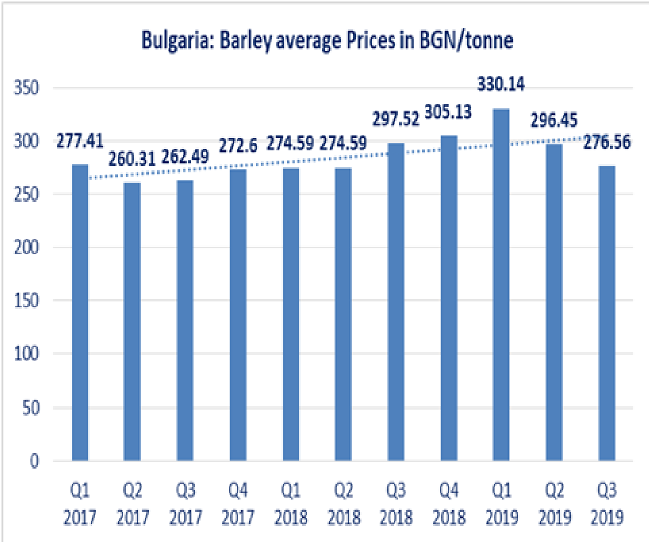
Source: NSI, EC

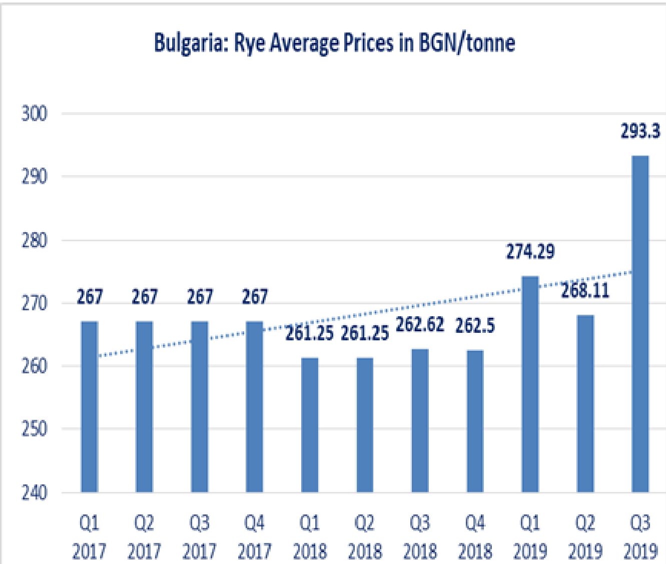
Bulgaria: Cereals Prices

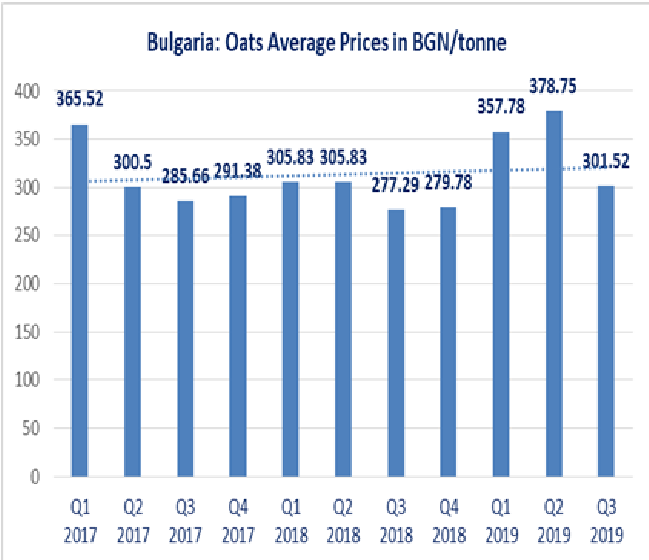






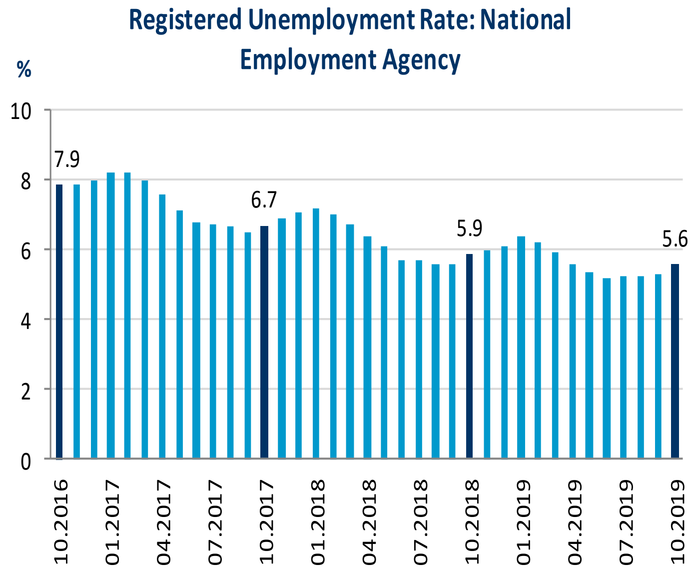


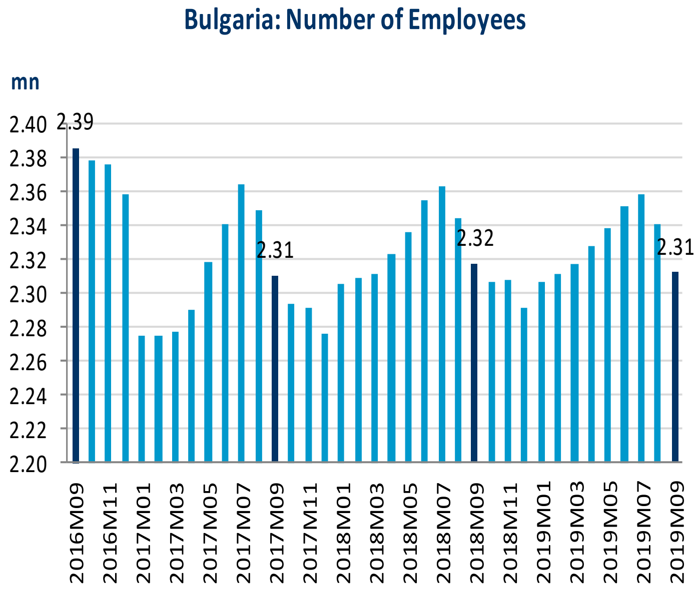


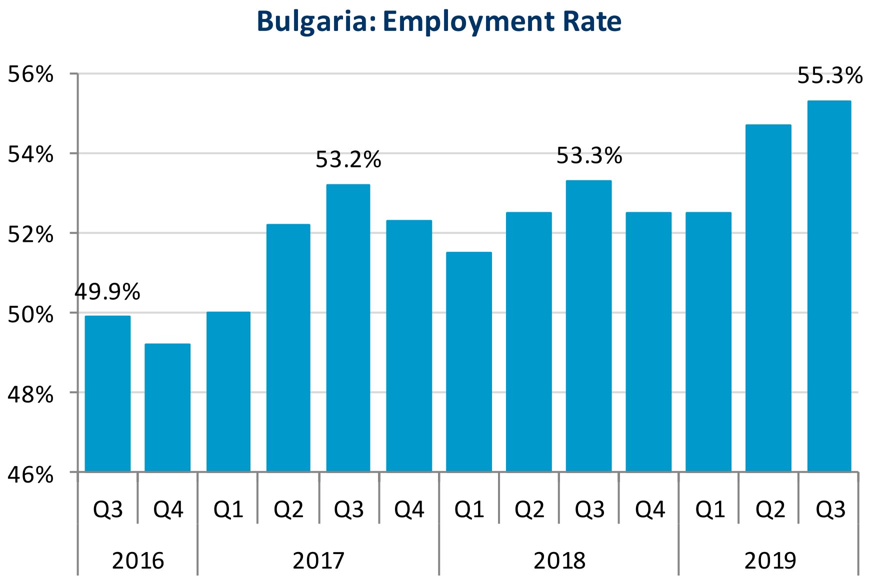


Source: NSI

Bulgaria: Labor Market Indicators

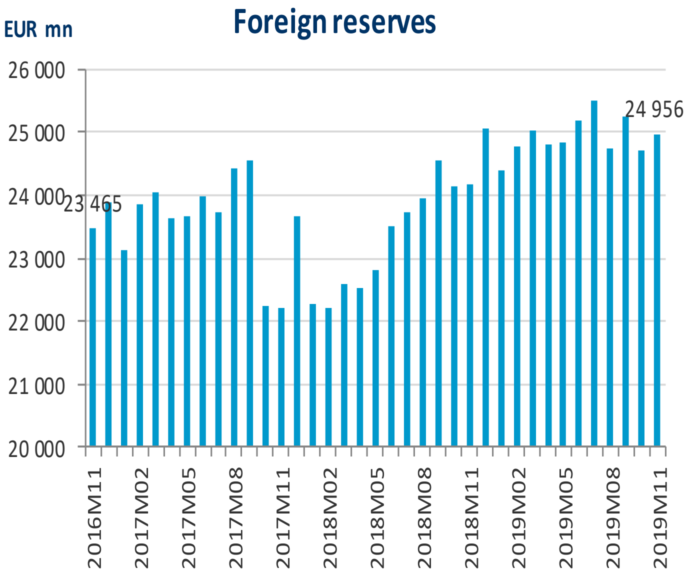


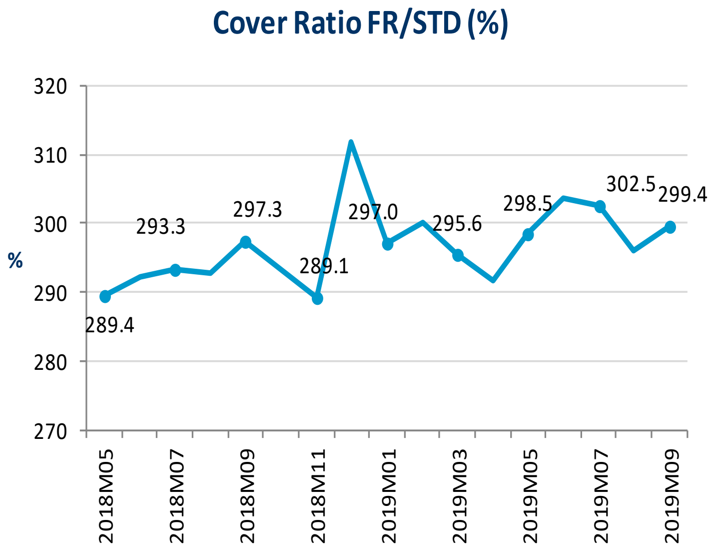


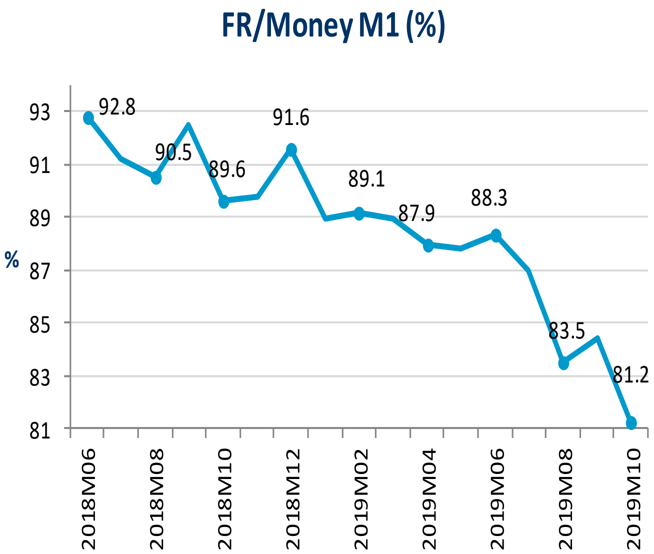


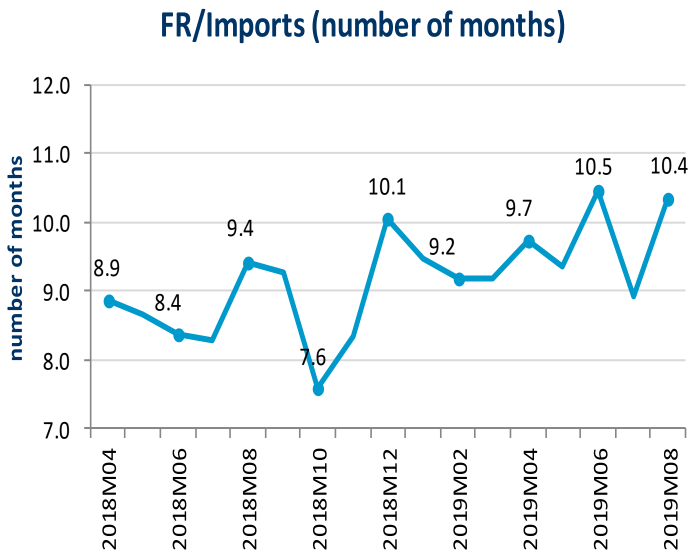
Source: NSI, EC

Bulgaria: Monetary Sector Indicators





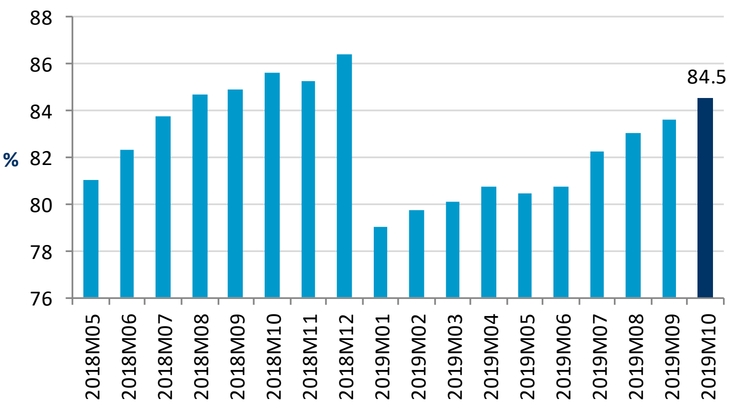




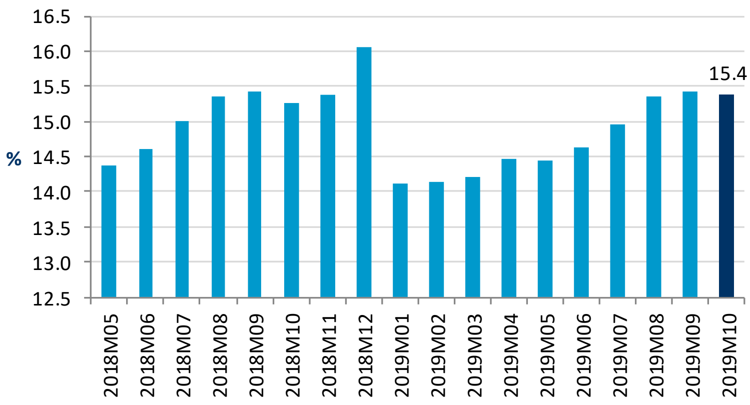
Source: BNB

Bulgaria: Monetary Sector Indicators

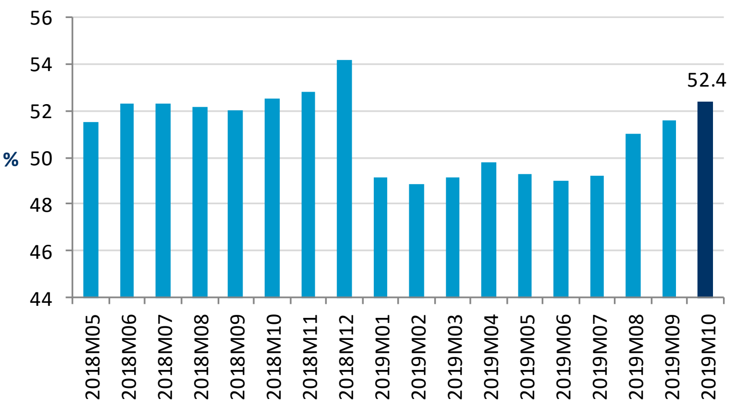
Broad money (monetary agregate M3)/GDP (%)



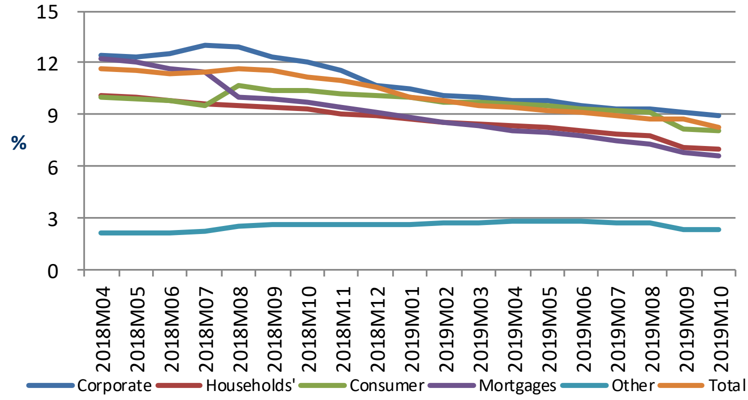
Money in circulation/GDP (%)



Domestic credit/GDP (%)

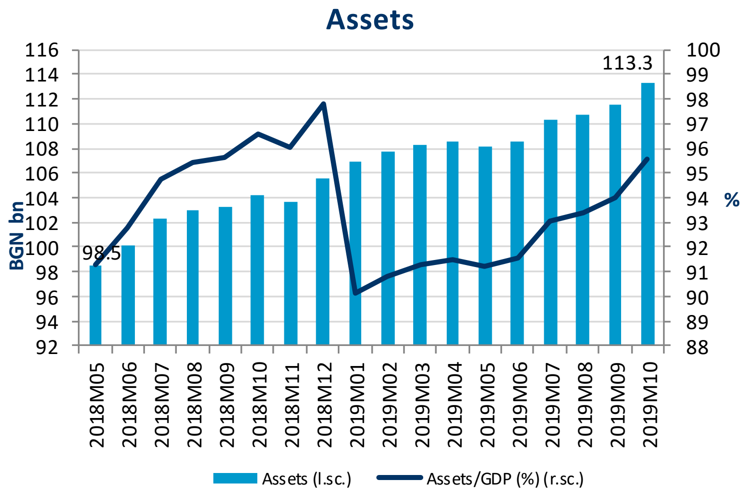


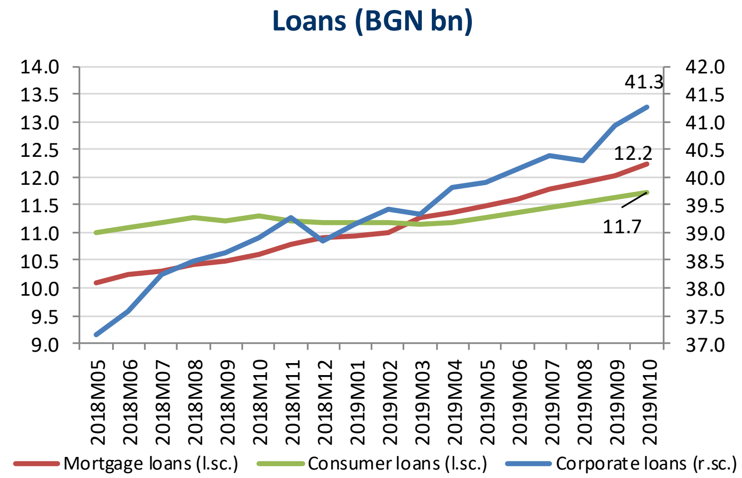
Banking sector: Bad and restructured loans (%)

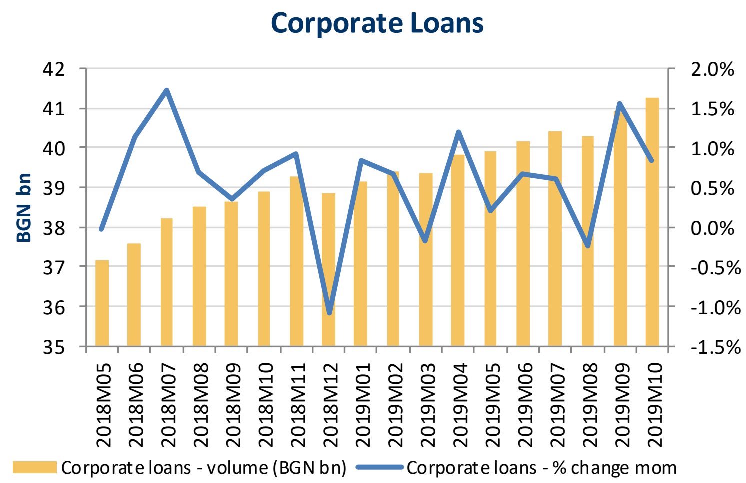


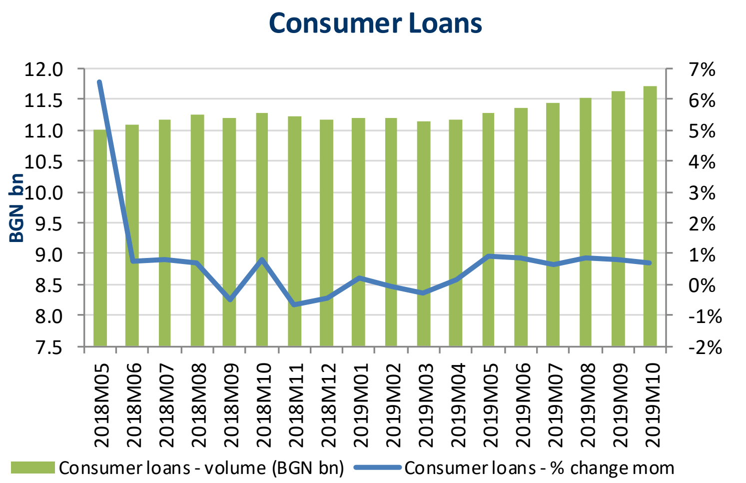
Source: BNB

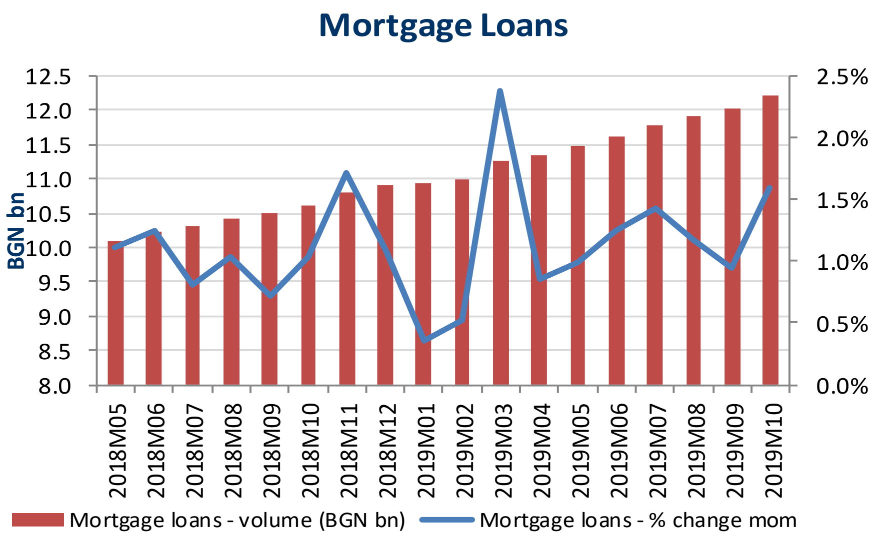
Bulgaria: Banking Sector Indicators





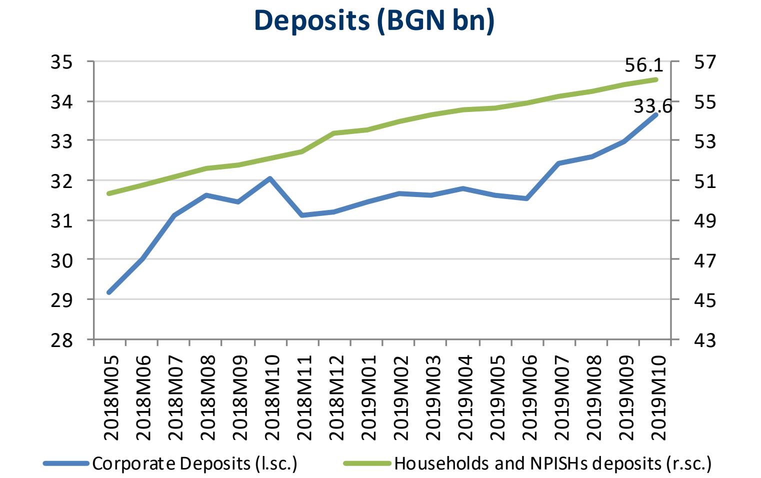


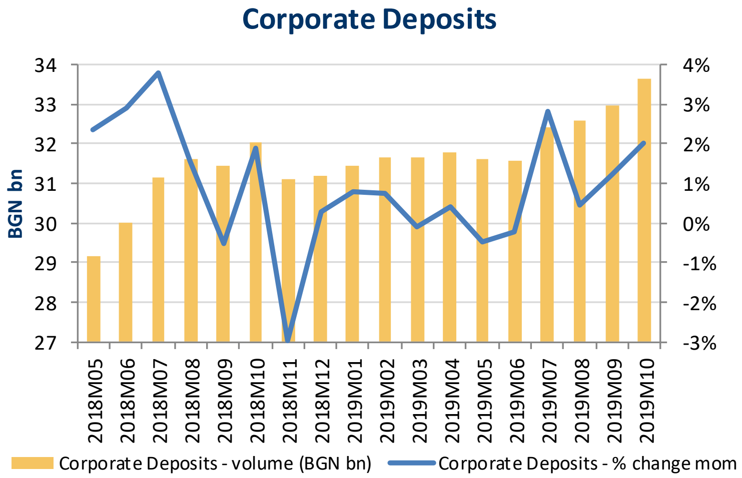


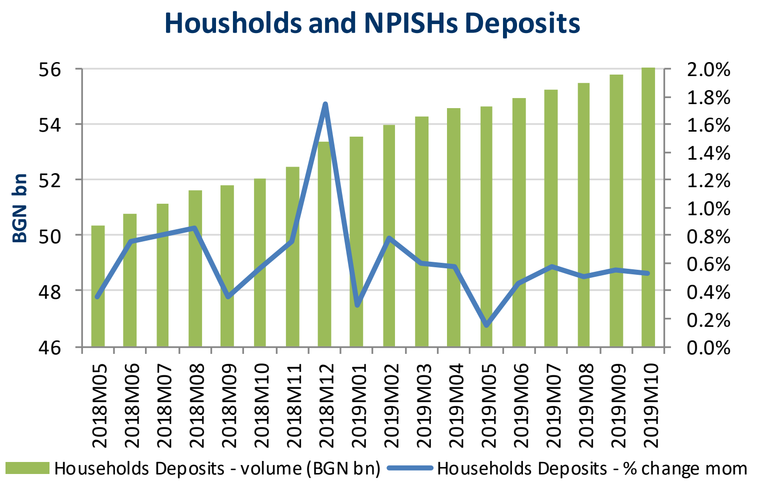


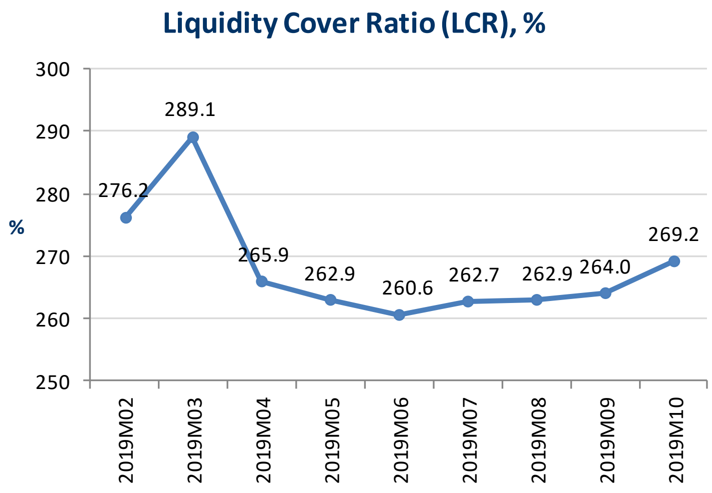
Source: BNB

Bulgaria: Banking Sector Indicators



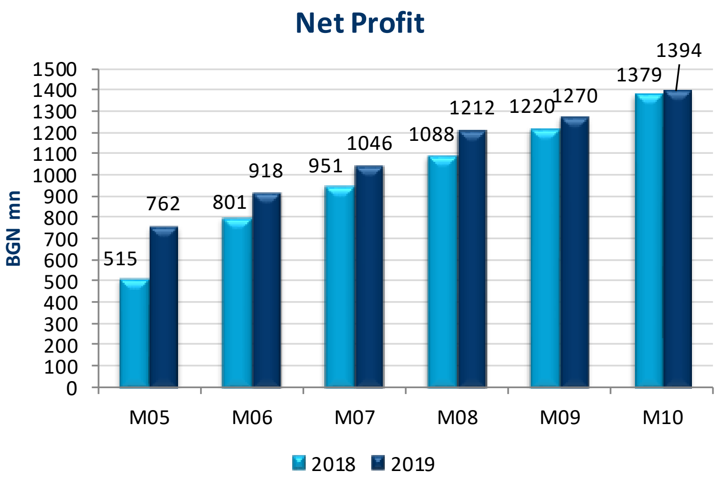


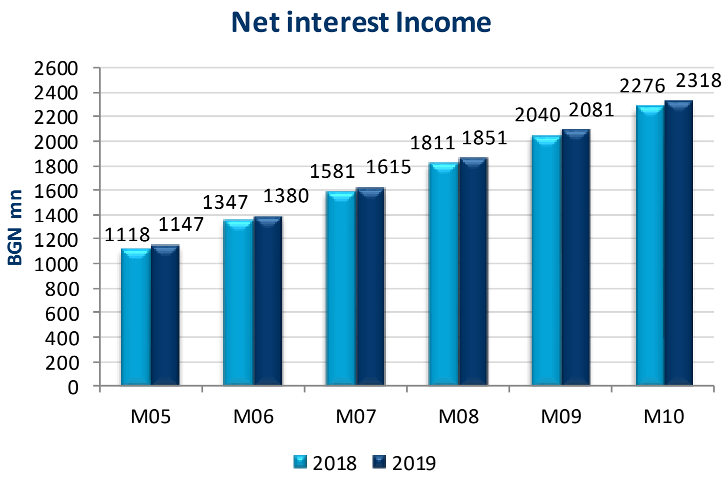


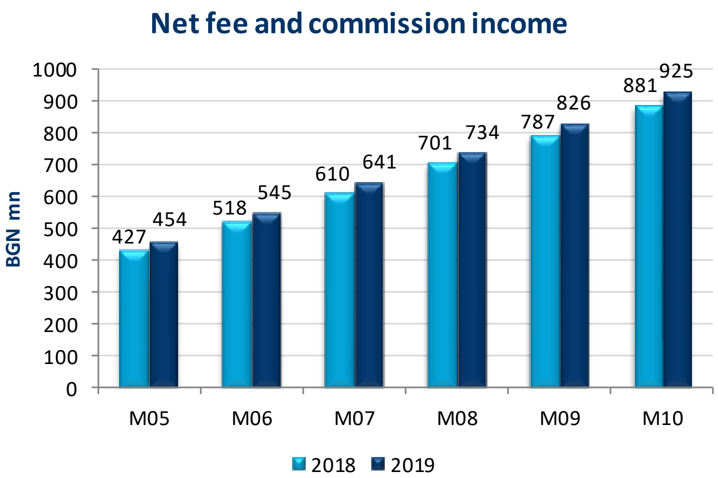


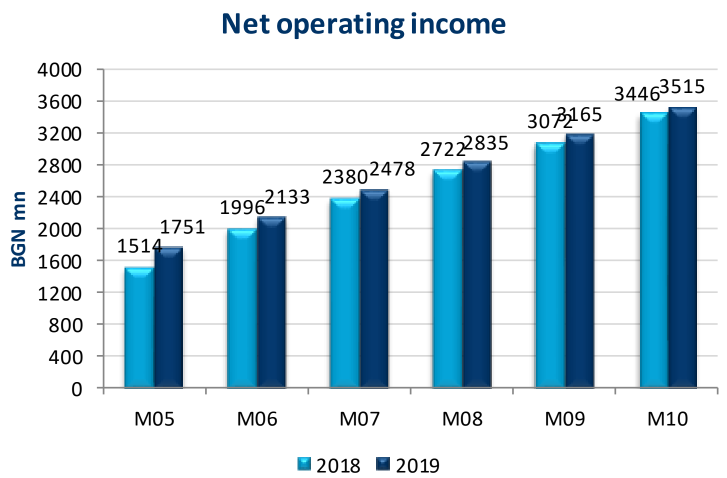
Source: BNB

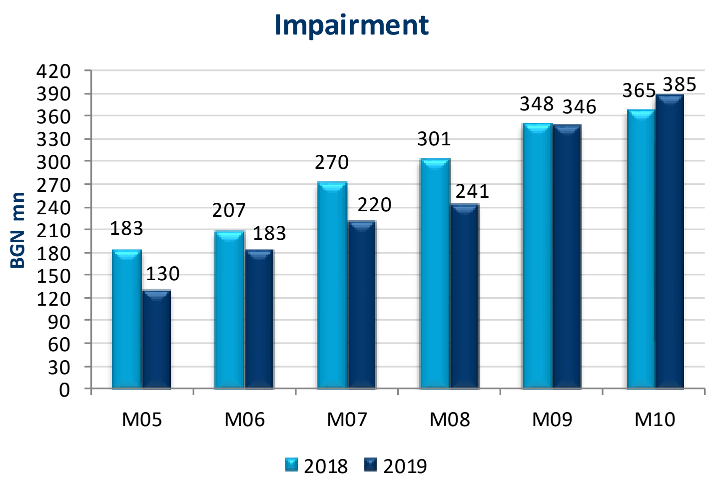
Bulgaria: Banking Sector Indicators





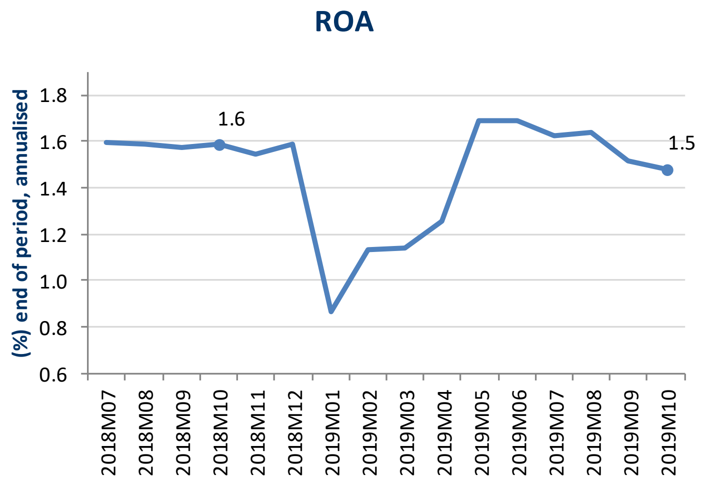


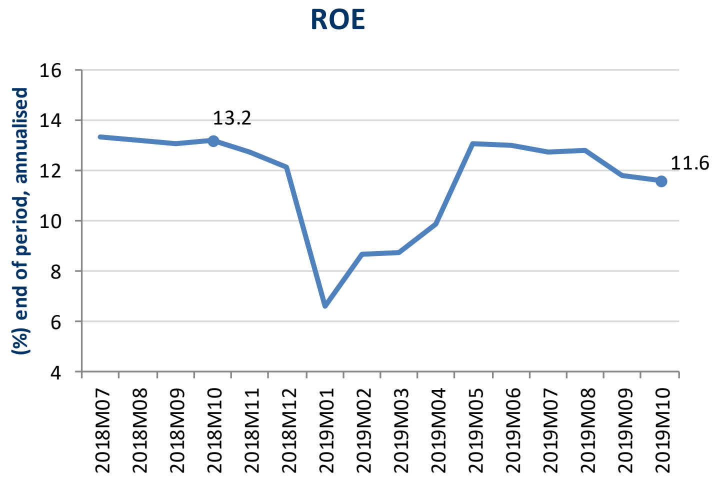


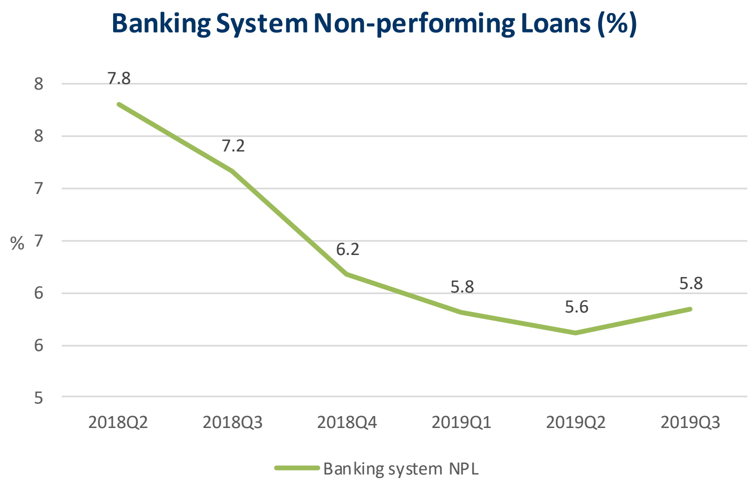


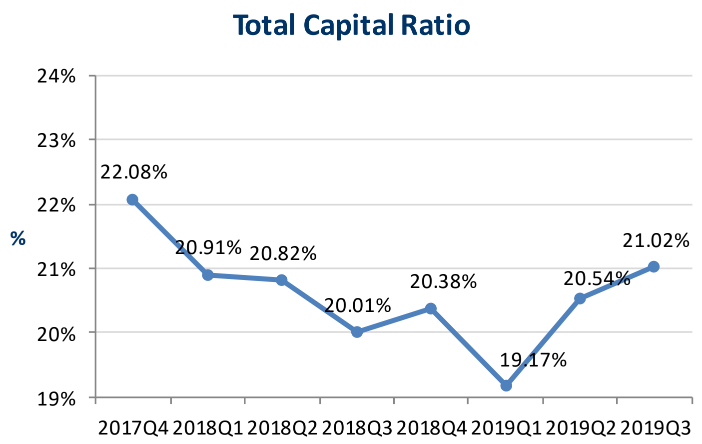
Source: BNB

Bulgaria: Banking Sector Indicators



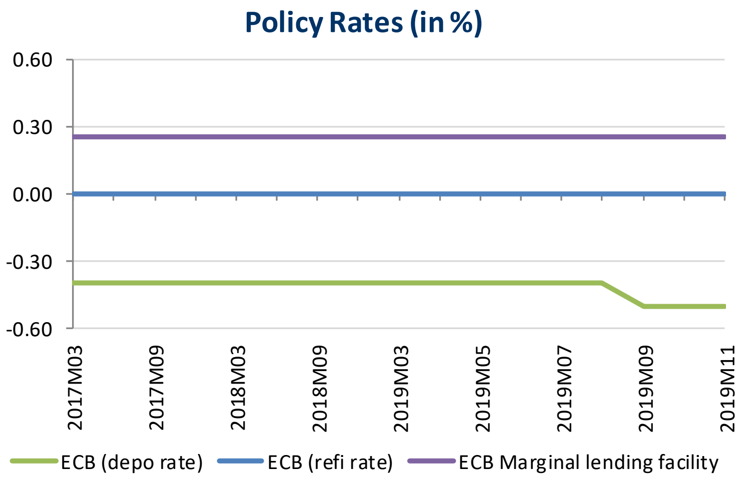


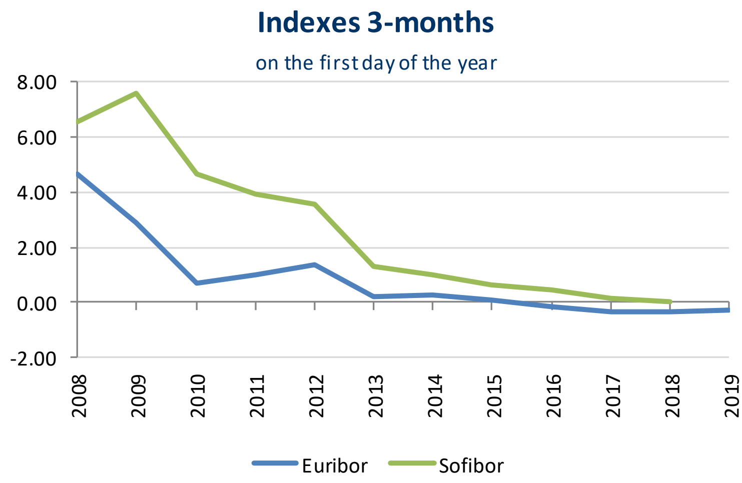


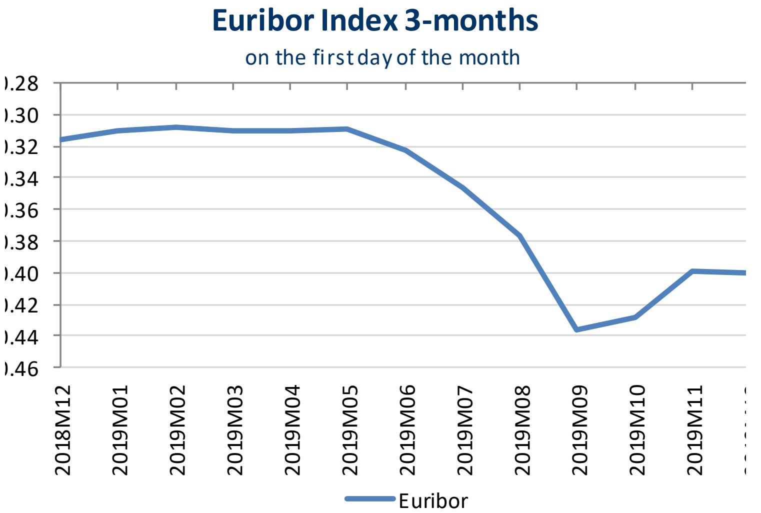


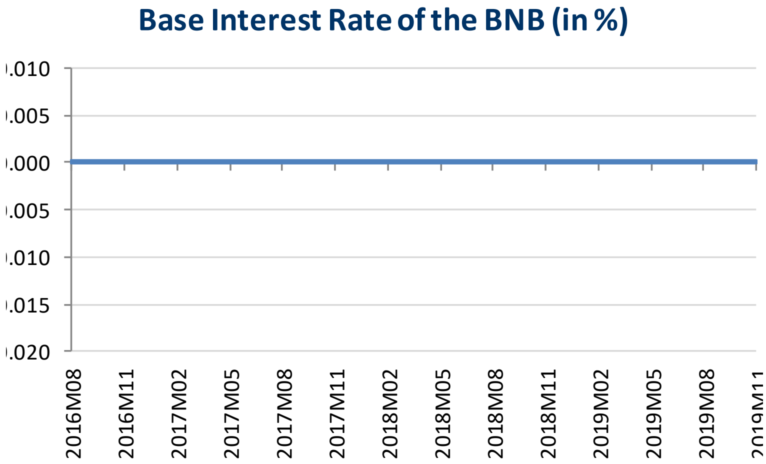
Source: BNB

Bulgaria: Indexes and Interest Rates



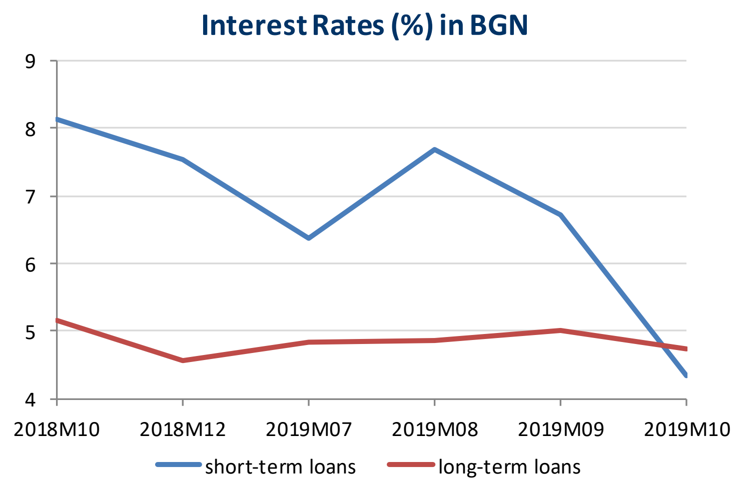


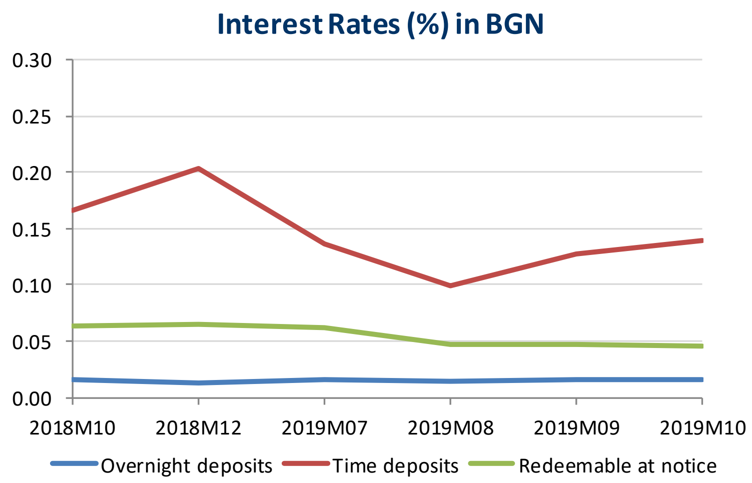


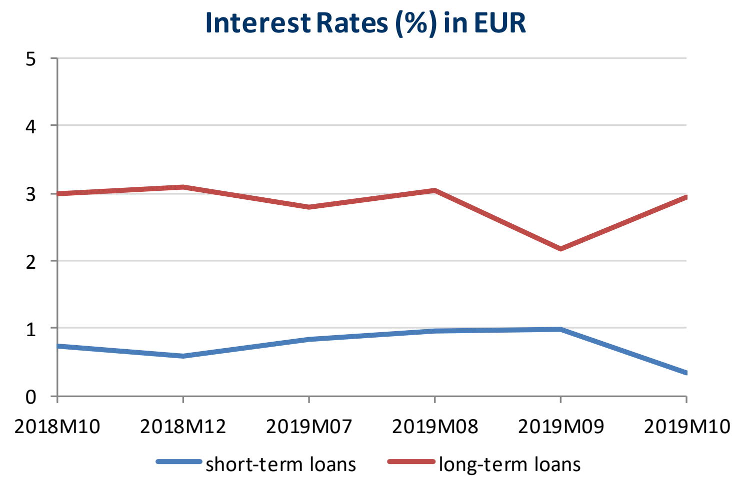


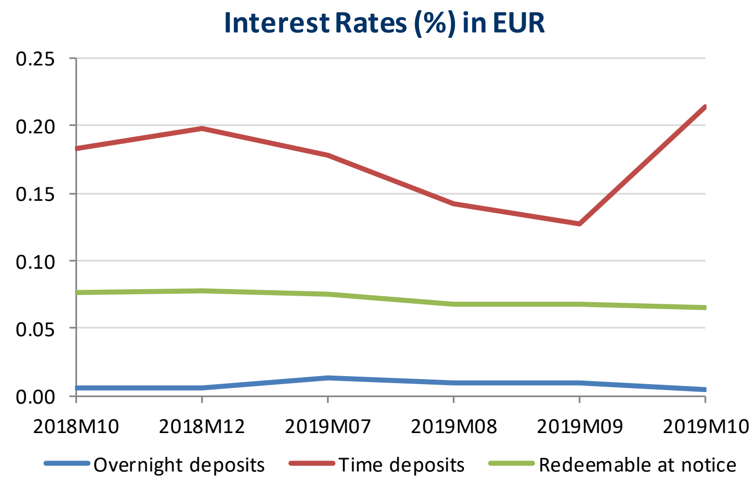
Source: ECB, BNB

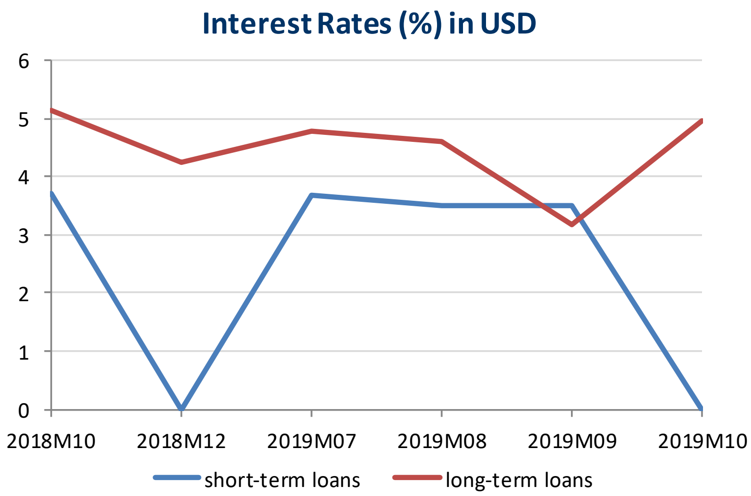
Bulgaria: Interest Rates of New Business on Deposits and New Loans Interest Rates

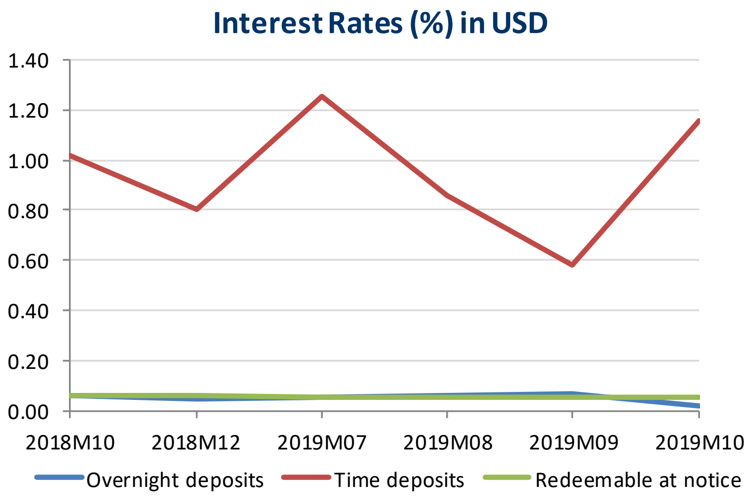








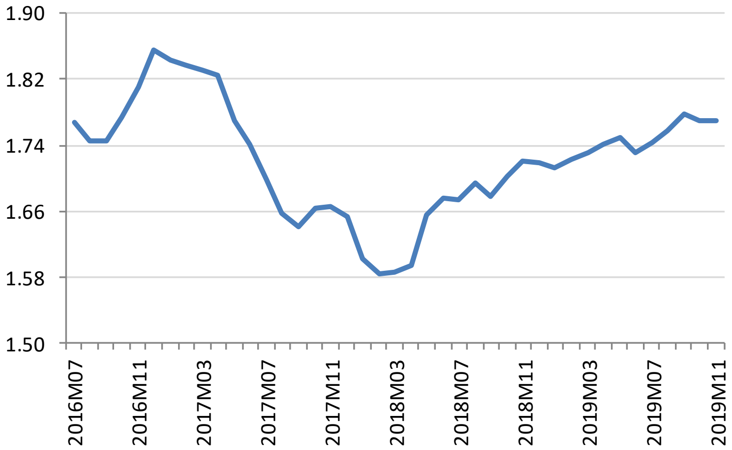




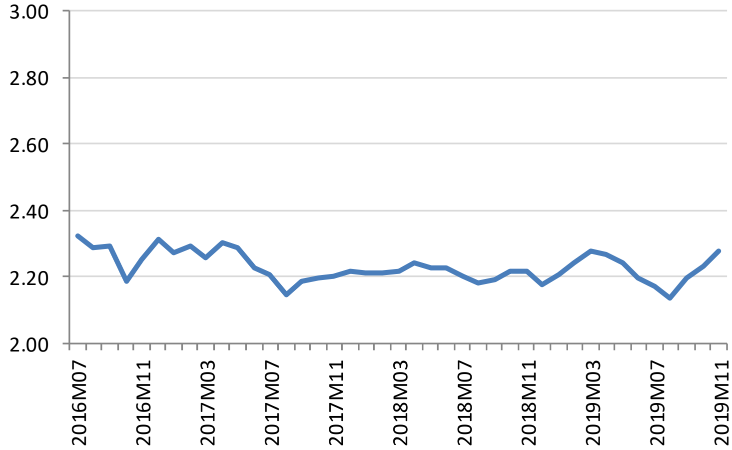
Source: BNB

Bulgaria: FX Rates

BGN/USD



BGN/GBP



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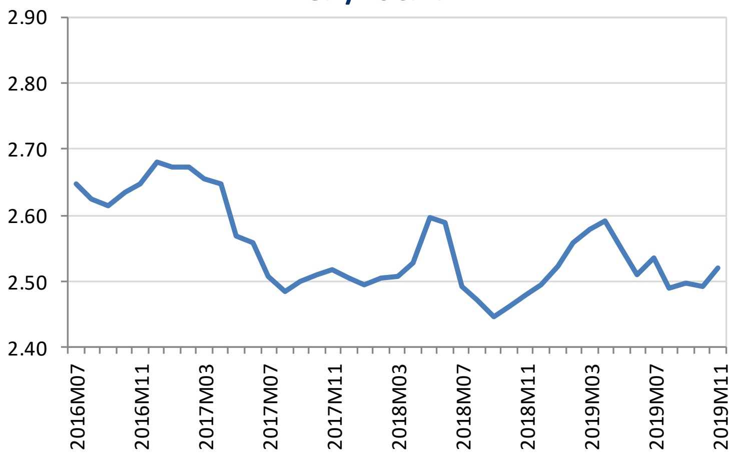
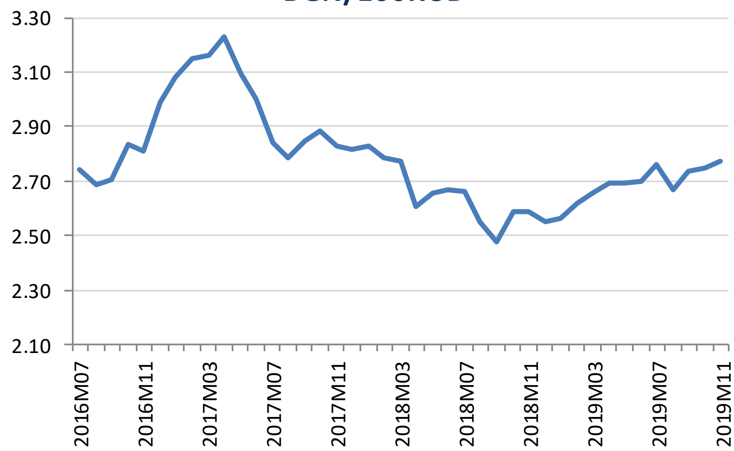
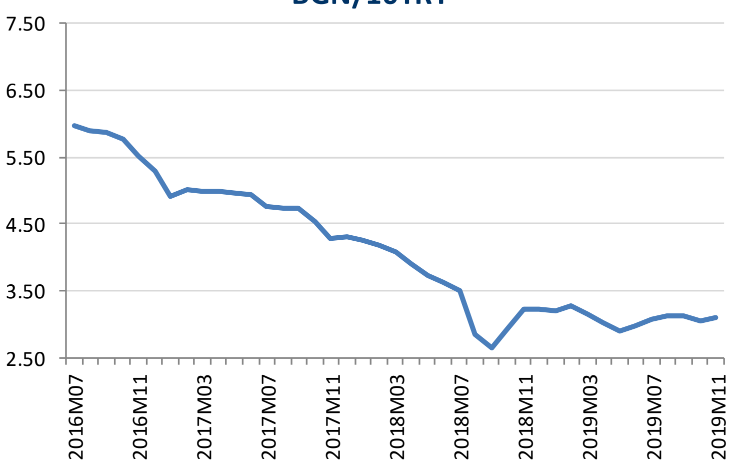


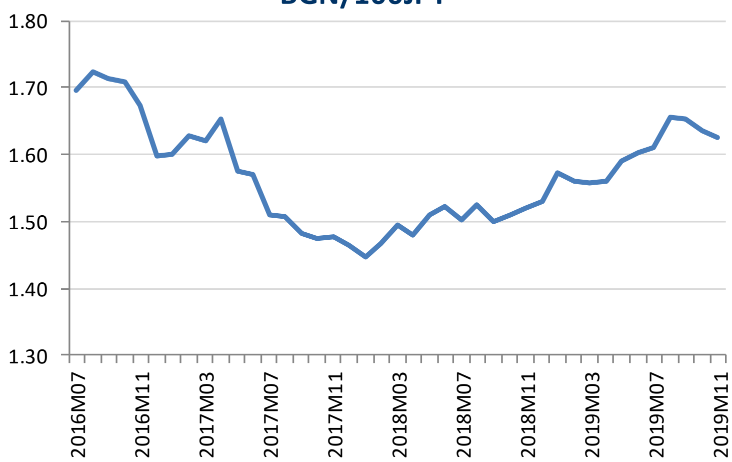
BGN/100RUB



BGN/10TRY



BGN/100JPY



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.