

BULGARIA: ECONOMIC AND MARKET ANALYSIS

Monthly report as of January 2017

All data in the edition are the last available data as of January 31, 2017



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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Source: www.geographicguide.net

- ◆ The current account was positive amounting to EUR 116 million in November 2016
- ◆ In January - November 2016 the value of all exported goods from Bulgaria amounted to BGN 42 128.9 million and in comparison with the corresponding period of 2015 the exports increased by 1.5%
- ◆ Gross external debt amounted to EUR 34,164.8 million (72.7% of GDP) at end-November 2016, increasing by EUR 76.4 million (0.2%) from end-2015 (EUR 34,088.5 million, 75.3% of GDP)
- ◆ In December 2016 BNB foreign reserves amounted to BGN 46.9 billion (EUR 23.9 billion) and rose by 1.8% m/m and by 17.8% y/y, respectively
- ◆ The annual inflation in December 2016 was 0.1%
- ◆ Industrial Production Index, seasonally adjusted, increased by 1.6% in November 2016 as compared to October 2016
- ◆ In November 2016 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 0.9% m/m
- ◆ In November 2016 the index of production in section 'Construction' calculated on the base of seasonally adjusted data³ was 4.7% above the level of the previous month
- ◆ In November 2016, the number of the trips of Bulgarian residents abroad was 373.5 thousand, or by 22.4% above the registered in November 2015
- ◆ In December 2016 the total business climate indicator remains to its level from the previous month
- ◆ Total Producer Price Index in Industry in November 2016 increased by 0.5% compared to the previous month
- ◆ The unemployment rate in December 2016 was 8.0%, which is the lowest level for this month for the past 8 years
- ◆ As of 30.11.2016 the fiscal reserve amounted to BGN 14.3 billion
- ◆ In November 2016 central government debt totaled EUR 13,204.1 million in nominal terms, including domestic debt of EUR 3,451.6 million and external debt of EUR 9,752.5 million
- ◆ In December 2016 broad money (monetary aggregate M3) increased annually by 7.6% y/y and Domestic credit declined by 4.3% y/y
- ◆ In 2016 SOFIX increased with 27.24%
- ◆ In December 2016 the aggregate profit of Bulgaria's banking amounted at BGN 1262 million and increased by 40.5% y/y

Bulgaria: Key Macroeconomic Indicators	2014 (a)	2015 (a)	2016 (p)	2017 (p)	2018 (p)	2019 (p)
Gross Domestic Product						
GDP (BGN million)	83 612	86 373	92 100	96 800	100 500	104 320
GDP (EUR million)	42 750	44 162	47 090	49 493	51 385	53 338
GDP (real growth, %)	1.5	3.6	3.5	3.5	3.6	3.7
Consumption	2.2	0.7	1.5	2	2.5	2.6
Gross capital formation	3.4	2.5	0.1	1.1	3.2	4.2
Exports of goods and services	-0.1	7.6	4.4	3.9	4.1	4.3
Imports of goods and services	1.5	4.4	3.5	3.8	4.1	4.5
Labour market and prices						
Employment (%)	0.4	0.4	1.1	0.6	0.6	0.6
Unemployment rate (%)	11.4	9.1	8	7.8	7.5	7.2
Compensation of one employee (%)	5.6	1.8	5.8	5.4	5.7	5.9
GDP Deflator (%)	0.4	-0.3	3.1	1.6	0.2	0.1
Average Inflation (%)	-1.6	-1.1	1	0.7	1.6	1.8
Balance of payments						
Current account (% of GDP)	0.9	1.4	2.3	2	1.8	1.4
Trade balance (% of GDP)	-6.5	-4.3	-3.2	-3.4	-3.5	-3.7
FDI (% of GDP)	3.6	3.6	3.7	3.7	3.8	3.8
Monetary sector						
M3 (% w/y growth)	1.1	8.8	8.6	9	9.3	9.5
Loans to companies (% w/y growth)	-10.8	-1.8	0	2.9	4.9	6.5
Loans to households (% w/y growth)	-1.6	-1.3	0.4	3.3	3.8	4.5

Source: IMF, BNB, NSI, UBB's Projection

I. EXTERNAL SECTOR

1. Balance of payments

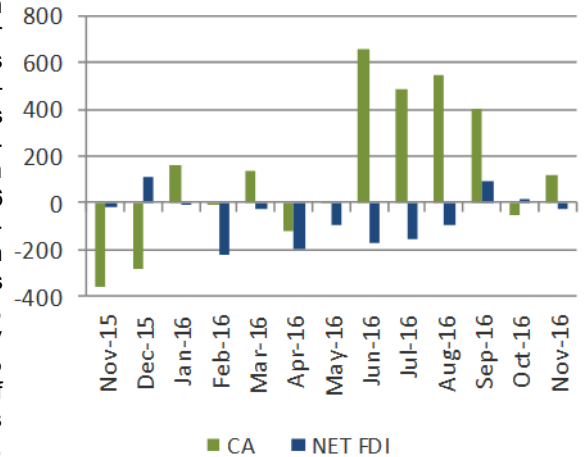
The current account was positive amounting to EUR 116 million in November 2016

The current account was positive amounting to EUR 116 million in November 2016, compared with a deficit of EUR 359.7 million in November 2015 (in November 2015 was reported a deficit of EUR 359.7 million). In January – November 2016 the current account was positive and amounted to EUR 2,315.1 million (4.9% of GDP), compared with a surplus of EUR 453.5 million (1% of GDP) in January – November 2015. The balance on goods recorded a deficit of EUR 138.6 million in November 2016, compared with a deficit of EUR 365.2 million in November 2015. In January – November 2016 the balance on goods was negative amounting to EUR 1,545.3 million (3.3% of GDP), compared with a deficit of EUR 2,271.7 million (5% of GDP) in January – November 2015³. Exports of goods amounted to EUR 2,167.9 million in November 2016, growing by EUR 371.5 million (20.7%) from November 2015 (EUR 1,796.4 million). In January – November 2016 exports of goods totaled EUR 20,699.7 million, increasing by EUR 468 million (2.3%) year-on-year (from EUR 20,231.7 million). In January – November 2015 exports grew by 4.5% year-on-year. Imports of goods amounted to EUR 2,306.4 million in November 2016, growing by EUR 144.8 million (6.7%) from November 2015 (EUR 2,161.6 million). In January – November 2016 imports of goods totaled EUR 22,245 million, dropping by EUR 258.4 million (1.1%) from January – November 2015 (EUR 22,503.3 million). In January – November 2015 imports grew by 3.4% year-on-year. Services recorded a positive balance of EUR 73.8 million in November 2016, compared with a surplus of EUR 90.4 million in November 2015. In January – November 2016 services recorded a surplus of EUR 3,313.3 million (7.1% of GDP) compared with a positive balance of EUR 2,986.7 million (6.6% of GDP) in the same period of 2015. 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 deficit of EUR 4 million in November 2016, compared with a deficit of EUR 51.4 million in November 2015⁴. In January – November 2016 the balance on primary income was negative and equated to EUR 959.5 million (2% of GDP), against a deficit of EUR 1,792.4 million (4% of GDP) in January – November 2015. The net secondary income (which reflects the redistribution of income) recorded a surplus of EUR 184.7 million, compared with a deficit of EUR 33.6 million in November 2015. In January – November 2016 the net secondary income was positive amounting to EUR 1,506.7 million (3.2% of GDP), compared with a positive balance of EUR 1,530.9 million (3.4% of GDP) in the same period of 2015. The capital account recorded a surplus of EUR 34.2 million, compared with a positive balance of EUR 156.6 million in November 2015. In January – November 2016 the capital account recorded a surplus of EUR 1,042.9 million (2.2% of GDP), compared with a positive balance of EUR 1,209.5 million (2.7% of GDP) in January – November 2015. The financial account recorded a net inflow of EUR 321.2 million, compared with a positive balance of EUR 110.3 million in November 2015. In January – November 2016 the financial account recorded a net inflow of EUR 3,121.2 million (6.6% of GDP) compared with an inflow of EUR 2,772.9 million (6.1% of GDP) in January – November 2015. 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 27.7 million, compared with a negative balance of EUR 19.6 million in November 2015. In January – November 2016 the balance was negative and equated to EUR 876.6 million (1.9% of GDP), compared with a negative balance of EUR 1,710.1 million (3.8% of GDP) million in January – November 2015. Direct investment – assets declined by EUR 10.8 million compared with an increase of EUR 68.9 million in November 2015. In January – November 2016 direct investment – assets rose by EUR 318.1 million, compared with a decline of EUR 30.2 million in the same period of 2015. Direct investment – liabilities recorded a net increase of EUR 16.9 million in November 2016, compared with an increase of EUR 88.5 million in November 2015. In January – November 2016 direct investment – liabilities grew by EUR 1,194.6 million, compared with an increase of EUR 1,679.8 million in the same period of 2015. Foreign direct investment in Bulgaria (under the directional principle) amounted to EUR 12.4 million in November 2016 according to preliminary data, compared with EUR 32.2 million in November 2015⁵. In January – November 2016 foreign direct investment in Bulgaria equated to EUR 953.7 million, compared with a total of EUR 1,780.4 million in January – November 2015. Direct investment abroad dropped by EUR 15.3 million in November 2016, compared with an increase of EUR 12.5 million in November 2015. In January – November 2016 the direct investment abroad increased by EUR 77.2 million, compared with an increase of EUR 70.4 million in the same period of 2015. More detailed information on direct investment is available in the annex Direct Investment (January – November 2016), and the data series can be found in table 10. Direct Investment of the monthly Balance of Payments paper. The balance on portfolio investment was positive amounting to EUR 250.5 million, compared with a positive balance of EUR 6.1 million in November 2015. In January – November 2016 the balance was negative and equated to EUR 917.6 million (2% of GDP), compared with a negative balance of EUR 910.6 million (2% of GDP) million in January – November 2015. Portfolio investment – assets grew by EUR 199.8 million, compared with an increase of EUR 11 million in November 2015. In January – November 2016 they rose by EUR 532.7 million compared with a decline of EUR 536 million in January – November 2015. Portfolio investment – liabilities dropped by EUR 50.8 million compared with an increase of EUR 4.9 million in November 2015. In January – November 2016 portfolio investment – liabilities grew by EUR 1,450.3 million, compared with an increase of EUR 374.7 million in January – November 2015. The balance on other investment was negative amounting to EUR 227.5 million, compared with a negative balance of EUR 286.4 million in November 2015. In January – November 2016 the balance was positive and equated to EUR 1,915.6 million (4.1% of GDP), compared with a positive balance of EUR 1,309.4 million (2.9% of GDP) in January – November 2015. Other investment – assets dropped by EUR 198.5 million, compared with a decrease of EUR 159.9 million in November 2015. In January – November 2016 they increased by EUR 1,510.9 million compared with a decline of EUR

Balance of Payments (EUR)

Source :BNB

Data provided by CEIC data Manager



1,381.4 million in January – November 2015. Other investment – liabilities increased by EUR 29 million compared with an increase of EUR 126.5 million in November 2015. In January – November 2016 they fell by EUR 404.7 million compared with a decline of EUR 2,690.8 million in January – November 2015. The BNB reserve assets⁶ rose by EUR 302.4 million, compared with an increase of EUR 386.4 million in November 2015. In January – November 2016 they grew by EUR 3,016.2 million (6.4% of GDP), compared with an increase of EUR 4,048.1 million (8.9% of GDP) in the same period of 2015. The net errors and omissions were positive amounting to EUR 171 million compared with a positive value of EUR 313.4 million in November 2015. According to preliminary data, the item was negative in January – November 2016 and totaled EUR 236.8 million (0.5% of GDP), against a positive value of EUR 1,109.9 million (2.5% of GDP) in the same period of 2015.

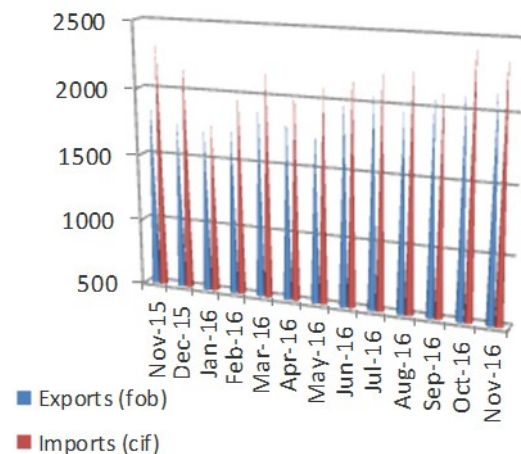
2. Foreign Trade

In the period January - November 2016 the value of all exported goods from Bulgaria amounted to BGN 42 128.9 million and in comparison with the corresponding period of 2015 the exports increased by 1.5%

According to the NSI in the period January - November 2016 the value of all exported goods from Bulgaria amounted to BGN 42 128.9 million and in comparison with the corresponding period of 2015 the exports increased by 1.5%. In November 2016 the total exports added up to BGN 4 230.3 million or by 14.6% more than the same month of the previous year. The total value of all the goods imported in the country in the period January - November 2016 amounted to BGN 46 398.6 million (at CIF prices), or by 1.8% less than the corresponding period of 2015. In November 2016 the total imports increased by 2.9% compared to the same month of the previous year and added up to BGN 4 706.8 million. The total foreign trade balance (exports FOB - import CIF) was negative in the period January - November 2016 and amounted to BGN 4 269.7 million. At FOB/FOB prices (after elimination of transport and insurance costs on imports) in the period January - November 2016 the total foreign trade balance was also negative and added up BGN 2 039.5 million. In November 2016 the total foreign trade balance (exports FOB - import CIF) was negative and amounted to BGN 476.5 million. The trade balance at FOB/FOB prices was also negative and added up BGN 241.8 million.

Foreign Trade (EUR mn)

Source: NSI
Data provided by CEIC Data Manager



3. External debt

Gross external debt amounted to EUR 34,164.8 million (72.7% of GDP) at end-November 2016, increasing by EUR 76.4 million (0.2%) from end-2015 (EUR 34,088.5 million, 75.3% of GDP)

Gross external debt amounted to EUR 34,164.8 million (72.7% of GDP) at end-November 2016, increasing by EUR 76.4 million (0.2%) from end-2015 (EUR 34,088.5 million, 75.3% of GDP). On a year-on-year basis gross external debt decreased by EUR 474.1 million (1.4%) from November 2015 (EUR 34,639 million, 76.5% of GDP). Long-term liabilities totaled EUR 26,311.2 million (77% of the total debt, 56% of GDP) at end-November 2016, growing by EUR 102 million (0.4%) from end-2015 (EUR 26,209.2 million, 76.9% of the total debt, 57.9% of GDP). On a year-on-year basis, long-term liabilities dropped by EUR 328.9 million (1.2%) from November 2015 (EUR 26,640 million, 58.8% of GDP). Short-term liabilities equaled EUR 7,853.7 million (23% of the total debt, 16.7% of GDP), decreasing by EUR 25.6 million (0.3%) from end-2015 (EUR 7,879.3 million; 23.1% of the total debt, 17.4% of GDP). On a year-on-year basis, short-term liabilities dropped by EUR 145.3 million (1.8%) from November 2015 (EUR 7,999 million, 17.7% of GDP). General government's gross external debt totaled EUR 6,345.4 million³ (13.5% of GDP) in end-November 2016. It rose by EUR 765.3 million (13.7%) from end-2015 (EUR 5,580.1 million, 12.3% of GDP), mostly due to the non-resident held securities from Bulgaria's bond issues on international capital markets in March 2016. On a year-on-year basis general government's debt increased by EUR 663.2 million (11.7%) from November 2015 (EUR 5,682.2 million, 12.5% of GDP). Banks' external debt totaled EUR 3,830.8 million (8.2% of GDP). It fell by EUR 295.5 million (7.2%) from end-2015 (EUR 4,126.4 million, 9.1% of GDP). On a year-on-year basis *banks'* debt decreased by EUR 383 million (9.1%), from EUR 4,213.9 million, 9.3% of GDP in November 2015. Other Sectors' external debt⁴ equaled EUR 11,503.5 million (24.5% of GDP). It dropped by EUR 228.2 million (1.9%) from end-2015 (EUR 11,731.7 million, 25.9% of GDP). On a year-on-year basis it fell by EUR 449.3 million (3.8%) from November 2015 (EUR 11,952.8 million, 26.4% of GDP). The stock of intercompany lending amounted to EUR 12,485.1 million (26.6% of GDP) at end-November 2016, dropping by EUR 165.2 million (1.3%) from end-2015 (EUR 12,650.3 million, 27.9% of GDP). On a year-on-year basis it decreased by EUR 305 million (2.4%) from November 2015 (EUR 12,790.1 million, 28.2% of GDP). The external financing received from non-residents equaled EUR 5,636.5 million (12% of GDP) in January – November 2016, compared with EUR 5,661.3 million (12.5% of GDP) in January – November 2015. They were distributed as follows: *general government* received EUR 1,574.4 million (27.9% of the total amount of disbursements), *banks* received EUR 699.6 million (12.4%), *other sectors*⁴ received EUR 1,876.9 million (33.3%), and *intercompany lending* totaled EUR 1,485.6 million (26.4%). Gross external debt service totaled EUR 5,451.9 million (11.6% of GDP) in January – November 2016, compared with EUR 7,814.3 million (17.3% of GDP) in January – November 2015. Net external debt totaled EUR 2,166.9 million at end-November 2016. It dropped by EUR 4,536.2 million (67.7%) from end-2015 (EUR 6,703.1 million). Its decline was due to the larger increase in *gross external assets* (by EUR 4,612.5 million, 16.8%) in comparison with the increase in gross external debt (by EUR 76.4 million, 0.2%). As a percentage of GDP, *net external debt* equated to 4.6%, from 15% at end-2015.

4. Foreign reserves

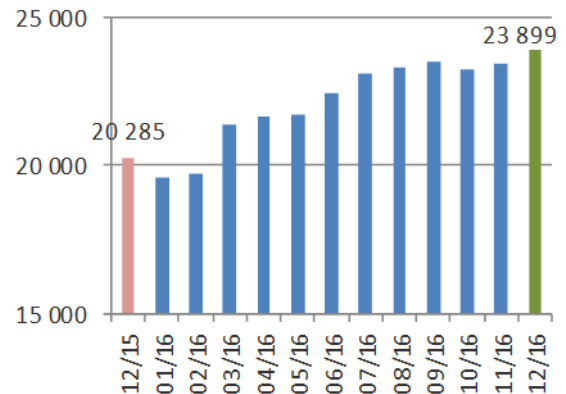
In December 2016 Bulgaria's foreign reserves amounted to BGN 46.9 billion (EUR 23.9 billion) and rose by 1.8% m/m and by 17.8% y/y, respectively

According to BNB data in December 2016 Bulgaria's foreign reserves amounted to BGN 46.9 billion (EUR 23.9 billion) and rose by 1.8% m/m and by 17.8% y/y, respectively. In terms of assets, cash and foreign currency deposits increased by 35.9% y/y to BGN 14.8 billion. For a period of one year the monetary gold increased by 12.7%, while investments in securities increased by 10.8% y/y, respectively. By liabilities side, the money in circulation increased by 11.2% y/y to BGN 14.2 billion. For a period of one year due to banks shrank by 2.2%, but on a monthly basis recorded a significant growth of 11.2%, reaching BGN 14.4 billion. Obligations to the government increased by 79% y/y to BGN 10.7 billion. Liabilities to other depositors grew up by 91.8% y/y and reached BGN 1.5 billion. The deposit of the "Bank" Department amounted to BGN 5.9 billion and rose by 9.9% y/y. International liquidity position of Bulgaria expressed by the ratio of short-term external debt / foreign reserves maintained a high level to 294.7% at the end of October 2016 compared to 256.6% at the end of 2015 and 260.7% at the end of October 2015.

Foreign Reserves in EUR mn

Source:BNB

Data provided by CEIC Data Manager



II. REAL SECTOR

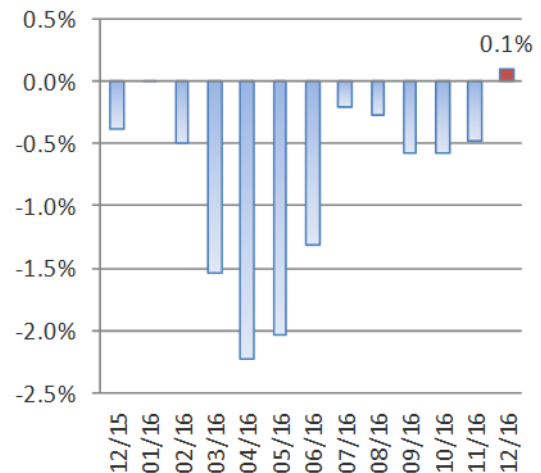
1. Inflation

The annual inflation in December 2016 compared to December 2015 was 0.1%

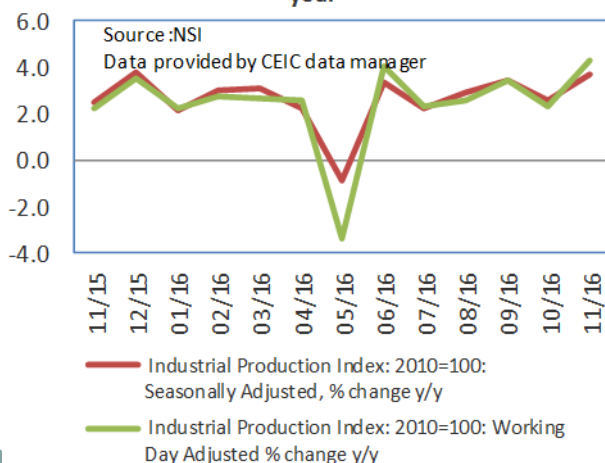
The annual inflation in December 2016 compared to December 2015 was 0.1%, show the NSI data. The consumer price index in December 2016 compared to November 2016 was 100.6%, i.e. the monthly inflation was 0.6%. The annual average inflation, measured by CPI, in the last 12 months (January - December 2016) compared to the previous 12 months (January - December 2015) was -0.8%. The harmonized index of consumer prices in December 2016 compared to November 2016 was 100.8%, i.e. the monthly inflation was 0.8%. The annual inflation in December 2016 compared to December 2015 was -0.5%. The annual average inflation, measured by HICP, in the last 12 months (January - December 2016) compared to the previous 12 months (January - December 2015) was -1.3%. The price index of a small basket in December 2016 compared to November 2016 was 100.6% and the overall increase since the beginning of the year (December 2016 compared to December 2015) has been 101.1%. In December 2016 compared to the previous month the prices of goods and services in the small basket for the 20% households with the lowest income changed as follows: Food products - an increase of 1.2%; Non-food products - a decrease of 0.3%; Services - the prices remained at the level of the previous month.

Inflation y/y

Source: NSI



Industrial production Index, % change compare the same month of the previous year



2. Industrial production

According to the preliminary data of the NSI, the Industrial Production Index, seasonally adjusted, increased by 1.6% in November 2016 as compared to October 2016

According to the preliminary data of the NSI, the Industrial Production Index, seasonally adjusted, increased by 1.6% in November 2016 as compared to October 2016. In November 2016 working day adjusted Industrial Production Index rose by 4.3% in comparison with the same month of 2015. On an annual basis in November 2016 Industrial Production Index calculated from working day adjusted data increased in the mining and quarrying industry by 9.8%, in the manufacturing by 4.9% and in the electricity, gas, steam and air conditioning supply by 1.0%. In the manufacturing, the more significant increases compared to the same month of the previous year were seen in the manufacture of computer, electronic and optical products by 20.0%, in the manufacture of machinery and equipment by 19.8%, in the

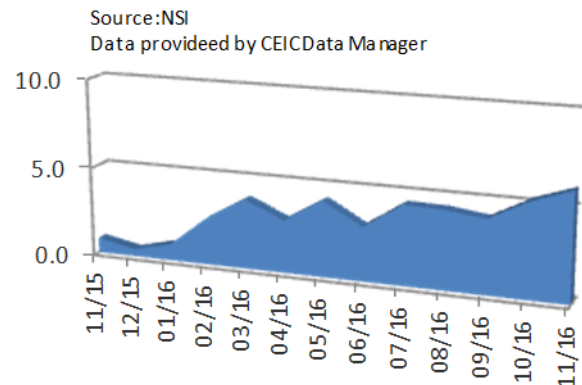
manufacture of chemicals and chemical products by 17.1%, in the manufacture of fabricated metal products, except machinery and equipment by 16.4%. Decreases were registered in the manufacture of other transport equipment by 26.0%, in the manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials by 19.3%, in the repair and installation of machinery and equipment by 13.0%, in the manufacture of tobacco products by 12.3%. In November 2016 as compared to October 2016, the seasonally adjusted Industrial Production Index increased in the manufacturing by 2.4% and in the mining and quarrying industry by 2.2%, while in the electricity, gas, steam and air conditioning supply a decrease by 1.3% was seen. The most significant increases of production in the manufacturing were registered in the manufacture of fabricated metal products, except machinery and equipment by 16.8%, in the manufacture of tobacco products by 12.8%, in the manufacture of machinery and equipment by 9.6%, in the manufacture of basic pharmaceutical products and pharmaceutical preparations by 9.0%. There were decreases in the manufacture of wearing apparel by 7.1%, in the manufacture of chemicals and chemical products by 6.4%, in the manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials by 4.6%, in the manufacture of beverages by 3.7%.

3. Retail sales

In November 2016 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 0.9% compared to the previous month

According to the preliminary seasonally adjusted data of the NSI, in November 2016 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 0.9% compared to the previous month. In November 2016, the working day adjusted turnover in 'Retail trade, except of motor vehicles and motorcycles' increased by 6.1% in comparison with the same month of the previous year. In November 2016 compared to the previous month the turnover increased in the 'Dispensing chemist; retail sale of medical and orthopedic goods, cosmetic and toilet articles' by 4.3%, in the 'Retail sale of audio and video equipment; hardware, paints and glass; electrical household appliances' and in the 'Retail sale of computers, peripheral units and software; telecommunications equipment' by 3.0%, in the 'Retail sale of textiles, clothing, footwear and leather goods' by 1.5% and in the 'Retail sale of automotive fuel' by 1.0%. A decrease was registered in the 'Retail sale via mail order houses or via Internet' - 3.0%, in the 'Retail sale in non-specialized stores' - 1.1% and in the 'Retail sale of food, beverages and tobacco' - 0.2%. In November 2016 compared to the same month of 2015 the turnover increased more significantly in the 'Retail sale of textiles, clothing, footwear and leather goods' by 12.9%, in the 'Retail sale of food, beverages and tobacco' by 11.9%, in the 'Retail sale of computers, peripheral units and software; telecommunications equipment' by 10.2% and in the 'Dispensing chemist; retail sale of medical and orthopedic goods, cosmetic and toilet articles' by 9.0%. A decrease was registered in the 'Retail sale in non-specialized stores' - 7.1%, in the 'Retail sale via mail order houses or via Internet' - 5.3% and in the 'Retail sale of automotive fuel' - 4.0%.

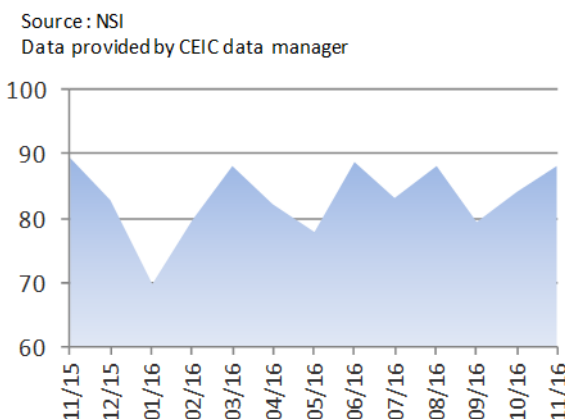
Retail Sales Index: YoY: sa Bulgaria Monthly
%



4. Construction

In November 2016 the index of production in section 'Construction' calculated on the base of seasonally adjusted data3 was 4.7% above the level of the previous month

Construction production index seasonally adjusted



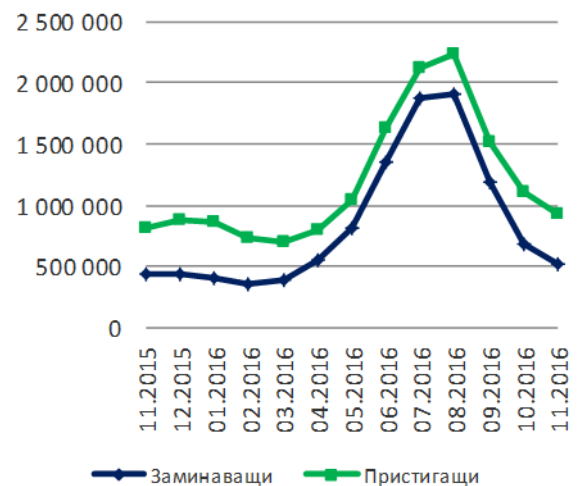
According to the preliminary data of the NSI, in November 2016 the index of production in section 'Construction' calculated on the base of seasonally adjusted data3 was 4.7% above the level of the previous month. In November 2016 working day adjusted data showed a decrease by 3.5% in the construction production, compared to the same month of 2015. In November 2016 the construction production, calculated from the seasonally adjusted data, was above the level of the previous month. Index of production of building construction increased by 5.7% and the production of civil engineering - by 3.7%. On an annual basis in November 2016, the decrease of production in construction, calculated from working day adjusted data, was determined mainly from the negative rate as well as in the civil engineering where the drop was by 5.9% and in the building construction - decline by 1.4%.

5. Tourism

In November 2016, the number of the trips of Bulgarian residents abroad was 373.5 thousand, or by 22.4% above the registered in November 2015

In November 2016, the number of the trips of Bulgarian residents abroad was 373.5 thousand, or by 22.4% above the registered in November 2015, show the NSI data. In comparison with the same month of the previous year an increase was observed in the total number of the trips of Bulgarians to: Italy - by 64.2%, Romania - by 43.5%, Austria - by 43.4%, Germany - by 42.6%, Serbia - by 24.6%, Greece - by 16.1%, the Former Yugoslav Republic of Macedonia - by 14.0%, the United Kingdom - by 13.5%, Turkey - by 9.5%, and etc. At the same time decreased the number of the trips of Bulgarians to: Israel - by 18.1%, Switzerland - by 10.0%, USA - by 8.5%, Hungary - by 7.4%, and etc. The trips with other purposes (as a guest, education and visit the cultural and sport events) in November 2016 composed the greatest share of the total number of trips of Bulgarian residents abroad - 46.7%, followed by the trips with professional purpose - 26.8%, and with holiday and recreation purpose - 26.5%. In comparison with November 2015 an increase was registered in the trips with all observed purposes: with professional purpose - by 29.0%, with other purposes - by 22.1%, and with holiday and recreation purpose - by 16.9%. In November 2016, the trips with other purposes formed 69.0% of all trips to Turkey. The trips with professional purpose to Russian Federation were 53.3%, as these to Spain and Italy with holiday and recreation purpose were 50.0% and 48.7% respectively of all trips of Bulgarian residents to these countries. In November 2016, the number of arrivals of visitors from abroad to Bulgaria was 524.1 thousand or by 20.0% more in comparison with November 2015. An increase was registered in the trips by all observed purposes: with professional purpose - by 25.2%, with holiday and recreation purpose - by 21.6%, and with other purposes - by 16.9%. The share of visits of EU citizens was 56.6% of the total number of foreigners' visits to Bulgaria in November 2016 or by 29.3% more in comparison with the same month of the previous year. An increase was registered in the visits of citizens from almost all observed countries: Spain - by 60.9%, Greece - by 47.1%, Germany - by 45.0%, Italy - by 33.1%, France - by 31.5%, the United Kingdom - by 28.1%, Austria - by 24.2%, Romania - by 18.0%, and etc. At the same time decreased the visits from Czech Republic - by 11.2%, Cyprus - by 10.8%, Hungary - by 7.4%, and etc. The visits of foreigners in the group 'Other European countries'¹ increased by 7.8%, as the highest growth was observed in the visits of citizens of the Former Yugoslav Republic of Macedonia - by 14.3%. In November 2016, the predominant share of the visits with other purposes (including as guest and passing transit) was 47.7%, followed by trips with holiday and recreation purpose - 31.7%, and with professional purpose - 20.6%. The visits with holiday and recreation purpose formed 93.4% of the arrivals from Israel and 85.3% - from the Former Yugoslav Republic of Macedonia. The visits with professional purpose were 52.6% of the arrivals from the Netherlands and 48.1% - from the United Kingdom, as with other purposes were 77.9% of all arrivals from Romania and 54.8% - from Greece.

Total Visitors/Departures



6. Business climate

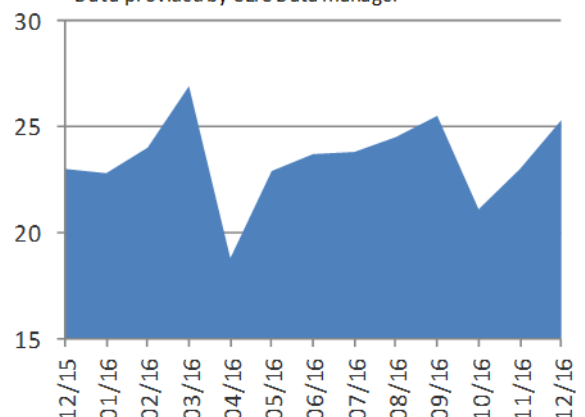
In December 2016 the total business climate indicator remains to its level from the previous month

In December 2016 the total business climate indicator remains to its level from the previous month. According to the NSI data an improvement of the business conjuncture is registered in industry and construction, while in retail trade and service sector a decrease is reported. The composite indicator 'business climate in industry' increases by 2.3 percentage points in comparison with November which is due to the improved industrial entrepreneurs' assessments and expectations about the business situation of the enterprises. However, the production assurance with orders is assessed as slight decrease, which is accompanied with decreased expectations about the production activity over the next 3 months. The uncertain economic environment continues to be the most serious problem limiting the activity of 46.4% of the enterprises. As regards the selling prices in industry the majority of the managers foresee preservation of their level over the next 3 months. In December the composite indicator 'business climate in construction' increases by 1.2 percentage points as a result of the favorable construction entrepreneurs' assessments and expectations about the business situation of the enterprises. Their opinions about the present construction activity, as well

Business Climate in Industry for the last 12 months, compare to the same month of the previous year

Source: NSI

Data provided by CEIC Data manager



as their forecasts over the next 3 months are also more moderate. The main obstacles for the business development remain connected with the uncertain economic environment and the competition in the branch. Concerning the selling prices in construction the managers' expectations are them to remain unchanged over the next 3 months. The composite indicator 'business climate in retail trade' drops by 5.2 percentage points compared to the previous month which is due to the worsened retailers' assessment and expectations about the business situation of the enterprises. Their forecasts about the volume of sales and orders placed with suppliers over the next 3 months are also more reserved. The competition in the branch, uncertain economic environment and insufficient demand continue to be the most serious factors limiting the activity of the enterprises. As regards the selling prices the prevailing retailers' expectations are for preservation of their level over the next 3 months. In December the composite indicator 'business climate in service sector' decreased by 1.3 percentage points mainly due to the more unfavorable managers' expectations about the business situation of the enterprises over the next 6 months. Their opinions about both the present and expected demand for services are also more reserved. The main obstacles for business development remain connected with the uncertain economic environment and the competition in the branch, although in the last month the inquiry registers a decrease of their negative impact. Concerning the selling prices in the service sector the majority of the managers foresee them to remain unchanged over the next 3 months.

7.Total Producer price index

Total Producer Price Index in Industry in November 2016 increased by 0.5% compared to the previous month

Total Producer Price Index in Industry in November 2016 increased by 0.5% compared to the previous month, show the NSI data. Higher prices were registered in the mining and quarrying industry by 6.4%, in the manufacturing and in the electricity, gas, steam and air conditioning supply by 0.3%. In the manufacturing decreases were reported in the manufacture of leather and related products by 1.2%, more significant prices increases were seen in the manufacture of basic metals by 5.9%, in the manufacture of tobacco products by 0.9% and in the manufacture of other transport equipment by 0.6%, while prices decreases were reported in the manufacture of leather and related products by 1.2%. while prices. Total Producer Price Index in November 2016 did not change compared to the same month of 2015. The prices rose in the mining and quarrying industry by 8.9% and in the manufacturing by 0.6%, while in the electricity, gas, steam and air conditioning supply the pieces fell by 3.0%. In the manufacturing more significant prices increases were seen in the manufacture of basic metals by 8.5%, in the repair and installation of machinery and equipment by 2.2% and in the manufacture of beverages by 1.9%, while the producer prices fell in the manufacture of chemicals and chemical products by 2.9% and in the manufacture of paper and paper products by 2.5%. Producer Price Index on Domestic Market in November 2016 increased by 0.2% compared to the previous month. The domestic prices rose in the mining and quarrying industry by 3.9% and in the electricity, gas, steam and air conditioning supply by 0.1%, while in the manufacturing the prices remained at the level of the previous month. In the manufacturing and in the manufacture of tobacco products by 1.1%, while the domestic prices declined in the manufacture of wood and of products of wood and cork, except furniture and in the repair and installation of machinery and equipment by 0.2%. 2, compared to the previous month the prices rose in the manufacture of basic metals by 7.8%. Producer Price Index on Domestic Market in November 2016 decreased by 0.6% compared to the same month of 2015. The domestic prices fell in the electricity, gas, steam and air conditioning supply by 2.7%, while the prices rose in the mining and quarrying industry by 4.6% and in the manufacturing by 0.2%. In the manufacturing compared to November 2015 the prices rose in the manufacture of basic metals by 9.7%, in the manufacture of computer, electronic and optical products by 2.8% and in the repair and installation of machinery and equipment by 2.6%. The prices decreases were reported in the manufacture of chemicals and chemical products by 3.9%, in the manufacture of wood and of products of wood and cork, except furniture by 2.2% and in the manufacture of rubber and plastic products by 0.9%. Producer Price Index on Non-domestic Market in November 2016 rose by 1.0% compared to the previous month. In the manufacturing compared to the previous month the non-domestic prices went up by 0.6%. More significant prices increases were reported in the manufacture of basic metals by 5.5% and in the manufacture of other transport equipment by 0.8%, while the prices fell in in the manufacture of leather and related products by 1.8% and in the manufacture of rubber and plastic products by 0.4%. Producer Price Index on Non-domestic Market in November 2016 increased by 1.3% compared to the same month of 2015. In the manufacturing, the prices rose by 1.2% compared to November 2015. The non-domestic prices went up in the manufacture of basic metals by 8.3% and in the manufacture of wood and of products of wood and cork, except furniture by 4.3%. The prices fell in the manufacture of paper and paper products by 9.4% and in the manufacture of computer, electronic and optical products by 2.9%.

9. Unemployment

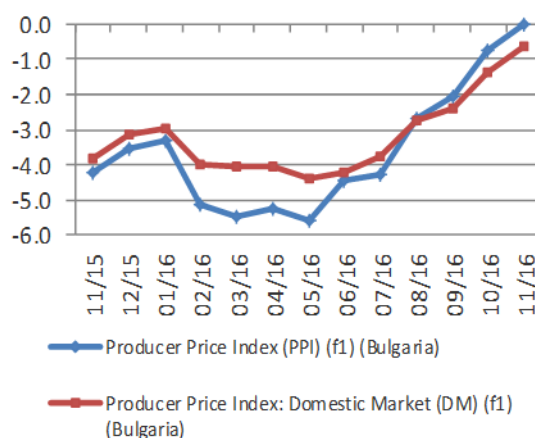
The unemployment rate in December 2016 was 8.0%, which is the lowest level for this month for the past 8 years

According to the NEA, the unemployment rate in December 2016 was

Producer Price Index and PPI on Domestic market, % change on annual base

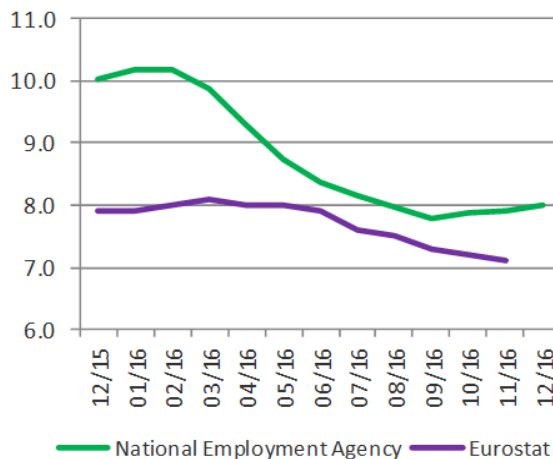
Source :NSI

Data Provided by CEIC Data Manager



The domestic prices rose in the mining and quarrying industry by 3.9% and in the electricity, gas, steam and air conditioning supply by 0.1%, while in the manufacturing the prices remained at the level of the previous month. In the manufacturing and in the manufacture of tobacco products by 1.1%, while the domestic prices declined in the manufacture of wood and of products of wood and cork, except furniture and in the repair and installation of machinery and equipment by 0.2%. 2, compared to the previous month the prices rose in the manufacture of basic metals by 7.8%. Producer Price Index on Domestic Market in November 2016 decreased by 0.6% compared to the same month of 2015. The domestic prices fell in the electricity, gas, steam and air conditioning supply by 2.7%, while the prices rose in the mining and quarrying industry by 4.6% and in the manufacturing by 0.2%. In the manufacturing compared to November 2015 the prices rose in the manufacture of basic metals by 9.7%, in the manufacture of computer, electronic and optical products by 2.8% and in the repair and installation of machinery and equipment by 2.6%. The prices decreases were reported in the manufacture of chemicals and chemical products by 3.9%, in the manufacture of wood and of products of wood and cork, except furniture by 2.2% and in the manufacture of rubber and plastic products by 0.9%. Producer Price Index on Non-domestic Market in November 2016 rose by 1.0% compared to the previous month. In the manufacturing compared to the previous month the non-domestic prices went up by 0.6%. More significant prices increases were reported in the manufacture of basic metals by 5.5% and in the manufacture of other transport equipment by 0.8%, while the prices fell in in the manufacture of leather and related products by 1.8% and in the manufacture of rubber and plastic products by 0.4%. Producer Price Index on Non-domestic Market in November 2016 increased by 1.3% compared to the same month of 2015. In the manufacturing, the prices rose by 1.2% compared to November 2015. The non-domestic prices went up in the manufacture of basic metals by 8.3% and in the manufacture of wood and of products of wood and cork, except furniture by 4.3%. The prices fell in the manufacture of paper and paper products by 9.4% and in the manufacture of computer, electronic and optical products by 2.9%.

Unemployment Rate, %



8.0%, which is the lowest level for this month from the last 8 years. According to the National employment agency the unemployment rate on monthly base slightly increases compare to November 2016. The number of the unemployed in November increased with 3 035 people. The seasonal increase of the registered unemployed rate is related mainly with the decrease of the business activity at the end of the year and is observed in almost all regions of the country, excluding Sofia-City, Blagoevgrad, Pernik and Vidin, where the number of the registered unemployed continue to decrease. At the end of 2016 the number of the registered unemployed was 261 015, which is with 67 90 people less than in December 2015. In December 2016, 13 553 unemployed had found a job, 12 650 of which on the primary market. 9082 free positions were declared in the State Labour Offices, from which 6 947 or 76.5% in the private sector. The greatest demand of the labour force in from the private sector was in Manufacturing (3 097), Trade (1554), Administrative and Support activities (755), Transport, Warehousing and Posts (512) Hotels and Restaurants (485), Education (398) and etc. In comparison with December 2015 the number of the vacancies on the primary market increased with 2 408 people.

III. FISCAL SECTOR

1. Government budget

As of 30.11.2016 the fiscal reserve amounted to BGN 14.3 billion

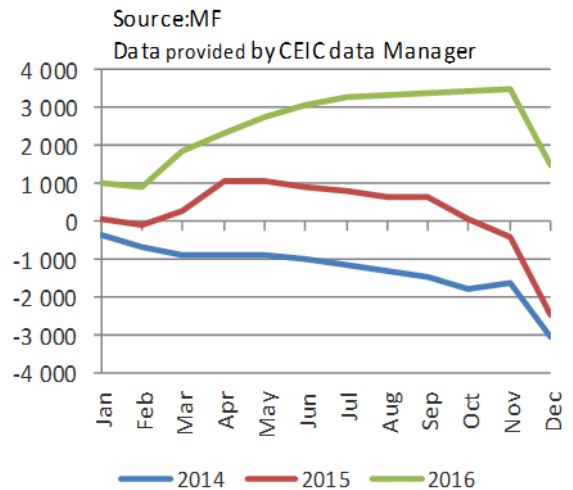
Based on the monthly reports for the cash execution of the primary budget suspenders the revenues and grants on the Consolidated Fiscal Program (CFP) at the end of November 2016 amounted to BGN 31 083,9 million, which is 94.1% of the annual reports, show the MF data. In comparison with the end of November 2015 the revenues and aids increase with BGN 2 007.8 million (6.9%). The increase on annual basis is due to the higher tax and non-tax revenues, which increased with BGN 2 331,3 million, while the revenues in the proportion of grants (paid back from the European Commission) are lower. It should be however noted that the revenues from aids currently exceed the annual plan. According to the plan the execution is 110.8%. Tax revenues (including the revenues from contributions) amount to BGN 24 440,1 million, which is 78.6% of the total revenues under the CFP for the period. The revenues in the group represent 94.0% of the annual plan and increase nominally with BGN 1 929,8 million (8,6%) compare to the reported as of November 2015. The revenues in the proportion of grants amount to BGN 4 336,3 million, which is 92,6% from the annual plan. The expenditures under the consolidated fiscal program (including the contribution of Bulgaria to the EU) as of 30.11.2016 amounted to BGN 27 618,9 million, which is 79.3% of the annual budget. In comparison the expenditures for the same month of the previous year amount to BGN 29 482,5 million. The lower absorption of costs in the past months is due to the capital expenditures slowdown (mainly in the accounts of the EU funds), which is due to the low absorption of the initial stage of the projects execution for the period 2014-2020. The payment of the Republic of Bulgaria in the EU general budget, paid as of 31.11.2016 from the central budget, amount to BGN 762,5 million which is in line with the current legislation in the EU own resources. The budget balance under the consolidated fiscal program at the end of November 2016 is positive and amount to BGN 1 764,5 million and surplus on the EU funds amounted to BGN 1 700,5 million. In comparison to the same period of 2015 was reported a deficit on the CFP, amounted to BGN 406,4 million (0.5% of GDP), which means that as a share in GDP the budgetary position improves with 4.3%. The factors which will continue to improve the budget position will be the lower utilization of the capital expenditures. In addition to the good parameters on the revenues of the national budget, influence over the current balance of the CFP, show also the accounts of the EU funds, where the exceed of the revenues over the expenditures is 1.9% of the GDP forecast. As of 30.11.2016 the fiscal reserve amounted to BGN 14.3 billion including BGN 12.6 billion deposits of the fiscal reserve in the BNB and other banks and BGN 1.7 billion receivables form EU funds for certified expenditures, advances and others.

2. Government debt

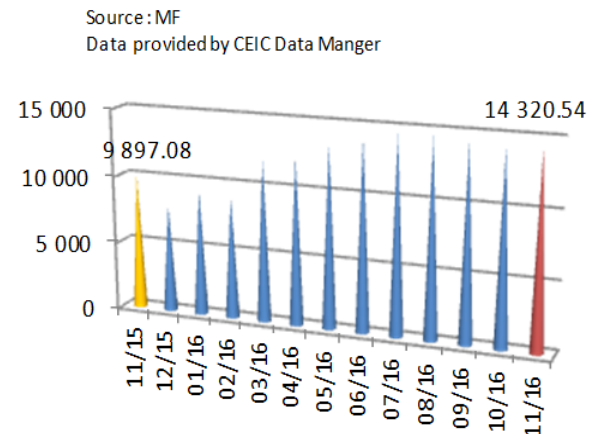
By end-November 2016 central government debt totaled EUR 13,204.1 million in nominal terms, including domestic debt of EUR 3,451.6 million and external debt of EUR 9,752.5 million

By end-November 2016 central government debt totaled EUR 13,204.1 million in nominal terms, including domestic debt of EUR 3,451.6 million and external debt of EUR 9,752.5 million. Central government debt posted a decrease of EUR 31.7 million on the end of the previous month. By end-November the central government debt to GDP ratio came to 29.1%. Ratios of domestic and external central government debts

BGN mn Budget position monthly



Fiscal Reserve Balance Bulgaria mn. BGN



accounted for 7.6 and 21.5%, respectively. In the structure of the debt by instrument as of the end of the period Eurobonds issued in international capital markets continued to comprise the largest share (57.1%), followed by GS issued in the domestic market (25.6%) and loans (17.3%). Central government debt payments for the period, since the beginning of 2016 till end of November, amounted to BGN 2,111.8 million, of which BGN 1,459.0 million repayments and BGN 652.8 million interest. Dominating were the repayments on budget financing government securities and interests on government securities issued in international markets. In the structure of central government guaranteed debt by sector, energy occupied the largest share (69.6 per cent), followed by education (18.1%) and other industries (12.3%).

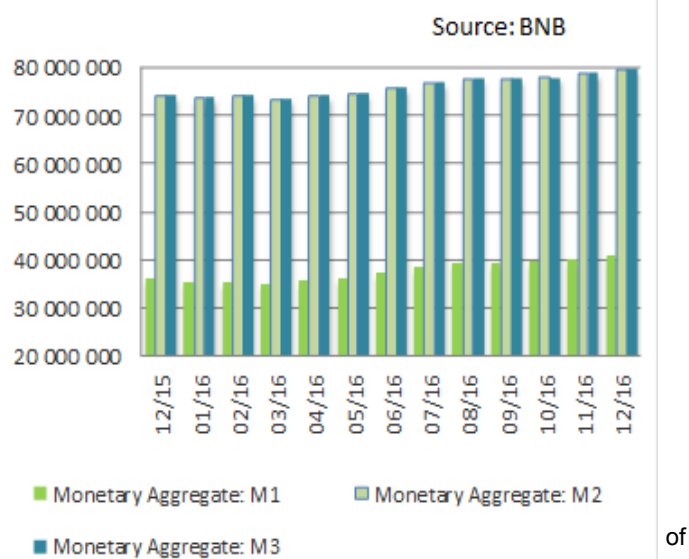
IV. MONETARY SECTOR

In December 2016 broad money (monetary aggregate M3) increased annually by 7.6% compared to 8.1% annual growth November 2016

In December 2016 broad money (monetary aggregate M3) increased annually by 7.6% compared to 8.1% annual growth in November 2016. At the end of December 2016 M3 was BGN 79.581 billion (86.6% of GDP) compared to BGN 78.641 billion (85.6% of GDP) in November 2016. Its most liquid component – monetary aggregate M1 – increased by 13.5% annually in December 2016 (13.5% annual growth in November 2016). At the end of December 2016, deposits⁵ of the non-government sector⁶ were BGN 68.189 billion (74.2% of GDP), increasing annually by 7% (7.9% annual growth in November 2016). Deposits of Non-financial corporations were BGN 19.369 billion (21.1% of GDP) at the end of December 2016. Compared to the same month of the previous year they increased by 6.3% (9.5% annual growth in November 2016). Deposits of financial corporations increased by 18.1% annually in December 2016 (20.3% annual growth in November 2016). At the end of the month they reached BGN 3.443 billion (3.7% of GDP). Deposits Households and NPISHs were BGN 45.377 billion (49.4% of GDP) at the end of December 2016, increasing by 6.6%

compared to the same month of 2015 (6.4% annual growth in November 2016). Net domestic assets were BGN 49.737 billion at the end of December 2016. They decreased by 3.7% compared to the same month of 2015 (3.5% annual decline in November 2016). At the end of the month their basic component – domestic credit – was BGN 50.942 billion and decreased by 4.3% compared to December 2015 (3.7% annual decline in November 2016). In December 2016 claims on the non-government sector⁷ increased by 1.8% annually (1.3% annual increase in November 2016) reaching BGN 51.680 billion. At the end of December 2016, claims on loans to the non-government sector amounted to BGN 50.536 billion (55% of GDP) compared to BGN 51.099 billion (55.6% of GDP) at the end of November 2016. They increased annually by 1.5% in December 2016 (1.1% annual increase in November 2016). The change of loans to the non-government sector was influenced by net sales of loans by Other monetary financial institutions (Other MFIs) – their volume for the last twelve months was BGN 225.7 million. On an annual basis, loans sold⁸ by Other MFIs were BGN 260.8 million (of which BGN 7.5 million in December 2016), while the amount of repurchased loans was BGN 35.2 million (of which BGN 1.9 million in December 2016). In December 2016, loans to Non-financial corporations increased by 0.3% annually (0.2% annual decline in November 2016) and at the end of the month amounted to BGN 30.577 billion (33.3% of GDP). Loans to Households and NPISHs were BGN 18.511 billion (20.1% of GDP) at the end of December 2016. They increased by 2% compared to the same month of 2015 (1.6% annual growth in November 2016). At the end of December 2016 loans for house purchases were BGN 8.768 billion and increased by 1.4% annually (1.6% annual growth in November 2016). Consumer loans amounted to BGN 7.314 billion and compared to December 2015 they increased by 0.6% (0.2% annual decrease in November 2016). On an annual basis other loans increased by 46.6% (29.7% annual growth in November 2016) and reached BGN 1.064 billion. Loans granted to financial corporations were BGN 1.449 billion at the end of December 2016 (1.6% of GDP). Compared to December 2015, they increased by 21.7% (27.9% annual growth in November 2016). In accordance with the ECB⁹ statistical reporting requirements, the BNB collects data for all balance sheet items of MFIs, including aggregated data on loans, which are restructured or non-performing past-due over 90 days. The banks provide aggregated data on these loans, because detailed data on the loans according to their past-due periods are not collected for the purpose of monetary and interest rate statistics. In accordance with the international practice, reporting of monetary statistics differs from supervisory reporting, including the reporting of loans, which are restructured or non-performing. Net foreign assets amounted to BGN 49.744 billion at the end of the reporting month compared to BGN 50.577 billion at the end of November 2016. They increased by 22.3% compared to December 2015 (23% annual growth in November 2016). At the end of December 2016 foreign assets increased by 17.5% annually (16.6% annual growth in November 2016), reaching BGN 59.175 billion. Foreign liabilities amounted to BGN 9.431 billion, marking a 2.5% annual decline (10% annual decrease in November 2016).

Monetary Aggregates in BGN/th



V. CAPITAL MARKET

In 2016 SOFIX increased with 27.24%

The Bulgarian benchmark SOFIX increased with 27.24% in 2016, and is on a third position in CEE. Before SOFIX are only the indexes of Kazakhstan and Hungary which rose with 58.11% and 33.79% respectively. Despite the difficult economic and political situation in Bulgaria during the year, all indexes on the Bulgarian Stock Exchange reported an increase. This is a positive signal for the potential investors in Bulgaria. The average monthly rate of SOFIX in December is 586.4 pp, 111.3pp for BGREIT, 459.19pp for BGTR30. This is the highest level of the indexes achieved in December for the past 8 years.

Bulgarian Stock Exchange Indexes on Monthly Basis				
Date	SOFIX	BGBX40	BGREIT	BGTR30
12.2015	460.9	92.8	97.0	383.8
01.2016	448.4	90.7	98.3	371.4
02.2016	447.4	89.9	100.5	373.4
03.2016	446.4	89.4	100.0	373.0
04.2016	442.6	89.1	100.3	372.0
05.2016	441.3	87.8	101.4	368.7
06.2016	455.6	89.2	102.2	377.8
07.2016	458.2	89.6	100.9	381.8
08.2016	464.7	90.0	102.5	384.9
09.2016	504.6	96.1	103.3	404.6
10.2016	531.8	100.9	104.6	420.1
11.2016	562.8	106.4	103.5	439.1
12.2016	586.4	111.3	108.1	459.2

Source: Bulgarian Stock Exchange-Sofia

VI. BANKING SECTOR

In December 2016 the aggregate profit of Bulgaria's banking was t BGN 1262 million and increased by 40.5% y/y.

In December 2016 the aggregate profit of Bulgaria's banking amounted at BGN 1262 million and increased by 40.5% y/y. At the end of December 2016 the amount of total net operating income was BGN 4.1 billion compared to BGN 4.2 billion for the same period of 2015. Accumulated since the start of 2016 impairment charges amounted to BGN 814 million compared to BGN 1.1 billion in 2015. At the end of December 2016 the total assets of the banking system increased to BGN 92.1 billion or by 5.2% y/y. Their relative share in full year GDP forecast is 104.3%. The share of cash and cash balances with central banks and other deposits in the banking system assets rose to 19.7%. The share of portfolios of debt and equity in total assets increased to 4.6%. The total volume of gross loans and advances to customers increased by 0.6% y/y to BGN 54.5 billion. Compared to end-2015 loans to non-financial enterprises decreased by BGN 104.6 million or by 0.3% y/y. Loans to households rose by 0.09% y/y and their amount was BGN 18.6 billion. Loans of sector "government" increased by 4% y/y, reaching BGN 686 million at the end of 2016. For the same period the loans for other financial enterprises increased by 8.6% y/y to BGN 2.025 billion. At the end of 2016, the attracted resources from clients in the banking system increased by 7% y/y, reaching BGN 74.1 billion. Their relative share in full year GDP projection presented 84%. The reported increase is primarily due to the deposits of households, which increased by BGN 2.7 billion or by with growth of 6.3% y/y and deposits of non-financial corporations which increased by BGN 1.7 billion or by 8.4% y/y. For a period of one year deposits of other financial corporations increased by 18.3% to BGN 3.9 billion. The deposits of the sector "government" decreased by 10.3% y/y to BGN 1.6 billion. In 2016 continued the downward trend of gross non-performing loans and advances of the banking system in Bulgaria, which in the end of December amounted to BGN 7975 million. compared to BGN 8313 million at the end of 2015. For a period of one year the share of non-performing loans decreased from 13.6% at the end of 2015 to 11.1% at the end of 2016, or 2.5 percentage points. At the end of December 2016 deposits and balance sheet assets of the banking system increased. The increase in cash and cash balances at the central bank and debt securities determines the growth of liquid assets. At the end of December, the liquidity ratio, calculated under Decree № 11 of BNB, reaches 38.24%. In December 2016 the equity in the balance sheet of the banking system reported BGN 12.1 billion. The dynamics of the position during the year was mainly due to changes in profits and interim dividends.

METHODOLOGICAL NOTES

EXTERNAL SECTOR

CURRENT ACCOUNT

Starting from April 17th 2015, in accordance with the Statistical Data Release 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 exclude 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

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) %; 3) 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 held 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.

REAL ESTATE

MARKET PRICES OF HOMES

This statistical survey is designed for price index calculation of homes (flats) built up by standard plans and comparable by pre-defined parameters which remain unchangeable for the whole process of observation. The purpose is to obtain representative data on average prices and indices of flats in district centers and for the total country. The object of the survey is the price of flats' real sales in the district centers. Data give the possibility to compare the total price change of dwellings for the current quarter with the total price change for the previous one as well as for a longer period.

The statistical data about the newly built residential buildings and dwellings are prepared on the basis of quarterly reports of the municipal administrations. In the scope of survey are newly built residential buildings with approved or valid usage license according to Regulation № 2/31.07.2003 of the Ministry of Regional Development and Public Works.

Living floor space is the floor space of living-rooms, bedrooms, recesses for sleeping, dining-rooms, living-rooms, cabinets and libraries of scientists and drawing-rooms but does not include the space of kitchens.

Service floor space is the floor space of rooms and kitchens with less than 4 square meters floor space, vestibules with a portal or other screen, corridors, bathrooms, toilets, larders, hanging closets, other service rooms such as drying-rooms, laundries or balconies regardless their space. The space of kitchens with over 4 sq. m. floor space is shown separately.

The useful floor space of dwelling is a sum of the living-floor-space, the service floor space and the space of the kitchens.

The average useful floor space is a ratio between the useful floor space and the number of dwellings.

Analyst Certification: This analysis is prepared on the base of Press realizes as well as an official data provided by NSI, by Bulgarian Ministry of finance, Bulgarian National bank, Internet Securities Bulgaria, EMIS, Emerging Markets Direct. The following analyst hereby certify that the views expressed in this research report accurately reflect my personal views about the macroeconomic indicators in Bulgaria and no part of them was, is, or will be directly used as specific recommendations for buying securities or other issues. Gergana Kosturska, Chief analyst, e-mail: kosturska_g@ubb.bg