

All data in the edition are the last available data as of May 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

BULGARIA: ECONOMIC AND MARKET ANALYSIS MONTHLY REPORT AS OF MAY 2017

- In March 2017 the current account was negative amounting to EUR 253.6 million, compared with a surplus of EUR 131 million in March 2016
- Foreign direct investment in Bulgaria in January – March 2017 was negative amounting to EUR 106 million (0.2% of GDP), dropping by EUR 323.2 million from January – March 2016 (EUR 217.2 million, 0.5% of GDP)
- In January - December 2016 exports (FOB) amounted to EUR 23,575.8 million compared with EUR 22,982.3 million in the same period of 2015, increasing by EUR 593.5 million (2.6%) year-on-year basis
- Gross external debt amounted to EUR 34,181.2 million (70.2% of GDP) at end-March 2017, decreasing by EUR 461.2 million (1.3%) from end-2016 (EUR 34,642.5 million, 73.1% of GDP)
- In May 2017 BNB foreign reserves amounted to EUR 23.7 billion, increasing by 0.1% m/m and by 8.8% y/y, respectively
- MF increased its forecast for growth of the Bulgarian economics of 3.0% in 2017, 3.1% in 2018 and 3.2% at the end of the forecasted period.
- In Q1 2017 Bulgaria's GDP expanded by 3.4% y/y and by 0.8% q/q, respectively. In Q1 of 2017 the GDP in EU increased by 2.0% y/y
- In April 2017 Bulgaria's CPI Inflation reported 2.6% y/y
- In March 2017 Bulgaria's construction production increased by 5.6% y/y
- In April 2017, the number of the trips of Bulgarian residents abroad was 548.8 thousand or by 17.7% above the registered in April 2016
- In March 2017 Bulgaria's turnover increased by 5.9% y/y
- In March 2017 Bulgaria's industrial production rose by 5.9% y/y
- In Q1 2017 Bulgaria's PPI in agriculture increased by 4.7% y/y
- In Q1 of 2017 in Bulgaria there were 224.4 thousand unemployed persons and the unemployment rate was 6.9%
- At the end of March 2017 the number of employees under labor contract increased by 6.2 thousand or 0.3% as compared to the end of December 2016 and reached 2.28 million
- In Q1 2017 the total income average per household member in Bulgaria is BGN 1 281 and increases by 3.5% q/q
- In May 2017, Bulgaria's total business climate indicator increases by 3.2 pps in comparison with April
- In April 2017b the CFP balance on a cash basis is positive, amounting to BGN 1,590.7 million, or 1.6% of the projected GDP. The balance of the CFP on a cash basis as of May 2017 is expected to be positive, amounting to BGN 1,653.1 million (1.7 % of the forecast GDP)
- The central government debt as at end-April 2017 stood at EUR 13,448.1 million
- At the end of April 2017 Bulgaria's broad money (M3) amounted at BGN 79.663 billion and presented 83.6% of GDP
- At the end of May 2017 the BSE-Sofia benchmark SOFIX rose by 3.94 pps on a monthly basis to 661.23
- In April 2017 Bulgaria's banking system assets amounted at BGN 93 billion and increased by 0.1% q/q

Bulgaria: Key Macroeconomic Indicators	2014 (a)	2015 (a)	2016 (e)	2017 (p)	2018 (p)	2019 (p)	2020 (p)
Gross Domestic Product							
GDP (BGN million)	83 612	86 373	92 635	97 156	102 012	107 422	113 062
GDP (EUR million)	42 750	44 162	47 364	49 675	52 158	54 924	57 808
GDP (real growth, %)	1.5	3.6	3.4	3.0	3.1	3.2	3.2
Consumption	2.2	0.7	1.8	2.6	2.8	2.9	2.9
Gross capital formation	3.4	2.5	-4	2.8	3.8	4.6	4.9
Exports of goods and services	-0.1	7.6	5.7	5.2	5.4	5.4	5.6
Imports of goods and services	1.5	4.4	2.8	4.8	5.3	5.6	5.9
Labour market and prices							
Employment (%)	0.4	0.4	1.1	0.5	0.6	0.5	0.4
Unemployment rate (%)	11.4	9.1	8	6.9	6.5	6.3	6.2
Compensation of one employee (%)	5.6	1.8	5.8	4.2	4.9	5.3	5.5
GDP Deflator (%)	0.4	-0.3	3.1	1.8	1.8	2	2
Average inflation (%)	-1.6	-0.8	0.6	1.2	1.3	1.7	1.8
Balance of payments							
Current account (% of GDP)	0.9	1.4	3.8	3.8	3.8	3.7	3.6
Trade balance (% of GDP)	-6.5	-4.3	-3.8	-3.5	-3.2	-3.2	-3.3
FDI (% of GDP)	2.7	5.7	2.3	2.3	2.3	2.3	2.4
Monetary sector							
M3 (% y/y growth)	1.1	8.8	7.6	8.1	8.4	8.7	8.9
Loans to companies (% y/y growth)	- 10.8	- 1.8	1.6	3.5	5.2	6.5	6.9
Loans to households (% y/y growth)	-1.6	-1.3	2	4.5	4.7	5.5	6.1

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

I. EXTERNAL SECTOR

1. Balance of payments

In March 2017 the current account was negative amounting to EUR 253.6 million, compared with a surplus of EUR 131 million in March 2016

According to the BNB data, the current and capital account recorded a deficit of EUR 200.4 million in March 2017, compared with a positive balance of EUR 499.9 million in March 2016. In January – March 2017 the current and capital account was positive amounting to EUR 212.9 million (0.4% of GDP), compared with a surplus of EUR 780 million (1.6% of GDP) in January – March 2016. The current account was negative amounting to EUR 253.6 million in March 2017, compared with a surplus of EUR 131 million in March 2016.

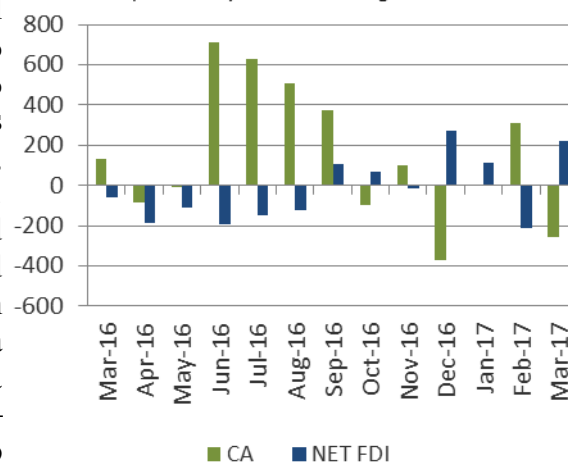
In January – March 2017 the current account was positive and amounted to EUR 59.9 million (0.1% of GDP), compared with a surplus of EUR 218.7 million (0.5% of GDP) in January – March 2016. The balance on goods recorded a deficit of EUR 343 million in March 2017, compared with a deficit of EUR 221.1 million in March 2016. In January – March 2017 the balance on goods was negative amounting to EUR 653.6 million (1.3% of GDP), compared with a deficit of EUR 355.5 million (0.8% of GDP) in January – March 2016.

Exports of goods amounted to EUR 2,240.9 million in March 2017, growing by EUR 442.8 million (24.6%) from March 2016 (EUR 1,798.1 million). In January – March 2017 exports of goods totalled EUR 6,039.7 million (12.4% of GDP), increasing by EUR 907.4 million (17.7%) year-on-year (from EUR 5,132.3 million, 10.8% of GDP). In January – March 2016 exports dropped by 2.1% year-on-year. Imports of goods amounted to EUR 2,583.9 million in March 2017, growing by EUR 564.7 million (28%) from March 2016 (EUR 2,019.2 million). In January – March 2017 imports of goods totalled EUR 6,693.4 million (13.7% of GDP), growing by EUR 1,205.6 million (22%) from January – March 2016 (EUR 5,487.8 million, 11.6% of GDP). In January – March 2016 imports dropped by 6.4% year-on-year. Services recorded a positive balance of EUR 37.2 million in March 2017, compared with a surplus of EUR 118.4 million in March 2016. In January – March 2017 services recorded a surplus of EUR 239.8 million (0.5% of GDP) compared with a positive balance of EUR 395.9 million (0.8% of GDP) in the same period of 2016. The net primary Income (which reflects the receipt and payment of income related to the use of resources (labour, capital, land), taxes of production and imports and subsidies) recorded a surplus of EUR 7.5 million in March 2017, compared with a deficit of EUR 93.7 million in March 2016. In January – March 2017 the balance on primary income was positive and equated to EUR 9.6 million (0.02% of GDP), against a deficit of EUR 319.7 million (0.7% of GDP) in January – March 2016. The net secondary income (which reflects the redistribution of income) recorded a surplus of EUR 44.7 million, compared with a surplus of EUR 327.4 million in March 2016. In January – March 2017 the net secondary income was positive amounting to EUR 464.1 million (1% of GDP), compared with a positive balance of EUR 498 million (1.1% of GDP) in the same period of 2016. The capital account recorded a surplus of EUR 53.2 million, compared with a positive balance of EUR 368.9 million in March 2016. In January – March 2017 the capital account recorded a surplus of EUR 152.9 million (0.3% of GDP), compared with a positive balance of EUR 561.3 million (1.2% of GDP) in January – March 2016. The financial account recorded a net inflow of EUR 137.2 million, compared with an inflow of EUR 490.7 million in March 2016. In January – March 2017 the financial account recorded a net inflow of EUR 766.6 million (1.6% of GDP) compared with an inflow of EUR 1,080.4 million (2.3% of GDP) in January – March 2016. The net direct investment compiled in accordance with the Sixth Edition of the Balance of Payments and International Investment Position Manual was positive amounting to EUR 221

Balance of Payments (EUR mn.)

Source:BNB

Data provided by CEIC data Manager

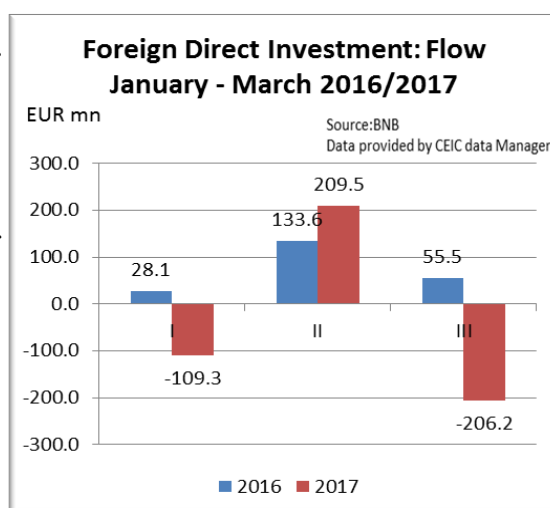


million, compared with a negative balance of EUR 57.4 million in March 2016. In January – March 2017 direct investment recorded a net inflow of EUR 123.6 million (0.3% of GDP), compared with an outflow of EUR 205.2 million (0.4% of GDP) million in January – March 2016. Direct investment – assets grew by EUR 183.4 million compared with an increase of EUR 8.7 million in March 2016. In January – March 2017 direct investment – assets rose by EUR 151.5 million (0.3% of GDP), compared with an increase of EUR 36.2 million (0.1% of GDP) in the same period of 2016. Direct investment – liabilities dropped by EUR 37.6 million in March 2017, compared with an increase of EUR 66 million in March 2016. In January – March 2017 direct investment – liabilities grew by EUR 27.8 million (0.1% of GDP), compared with an increase of EUR 241.4 million (0.5% of GDP) in the same period of 2016. The balance on portfolio investment was positive amounting to EUR 251.4 million, compared with a negative balance of EUR 1,264.9 million in March 2016. In January – March 2017 the balance was positive and equated to EUR 430.2 million (0.9% of GDP), compared with a negative balance of EUR 1,035.5 million (2.2% of GDP) million in January – March 2016. Portfolio investment – assets grew by EUR 146.6 million, compared with a decline of EUR 86.5 million in March 2016. In January – March 2017 they rose by EUR 201.1 million (0.4% of GDP) compared with an increase of EUR 66 million (0.1% of GDP) in January – March 2016. Portfolio investment – liabilities dropped by EUR 104.8 million compared with an increase of EUR 1,178.4 million in March 2016. In January – March 2017 portfolio investment – liabilities decreased by EUR 229.2 million (0.5% of GDP), compared with an increase of EUR 1,101.5 million (2.3% of GDP) in January – March 2016. The balance on other investment was negative amounting to EUR 584.2 million, compared with a positive balance of EUR 125.7 million in March 2016. In January – March 2017 the balance was positive and equated to EUR 135.6 million (0.3% of GDP), compared with a positive balance of EUR 1,449.2 million (3.1% of GDP) in January – March 2016. Other investment – assets dropped by EUR 420.3 million, compared with an increase of EUR 63.5 million in March 2016. In January – March 2017 they grew by EUR 21.6 million (0.04% of GDP) compared with an increase of EUR 935.1 million (2% of GDP) in January – March 2016. Other investment – liabilities increased by EUR 163.9 million compared with a decline of EUR 62.2 million in March 2016. In January – March 2017 they dropped by EUR 114 million (0.2% of GDP) compared with a decline of EUR 514.2 million (1.1% of GDP) in January – March 2016. The BNB reserve assets rose by EUR 237.7 million, compared with an increase of EUR 1,701.9 million in March 2016. In January – March 2017 they grew by EUR 77 million (0.2% of GDP), compared with an increase of EUR 927 million (2% of GDP) in the same period of 2016. The net errors and omissions were positive amounting to EUR 337.6 million compared with a negative value of EUR 9.2 million in March 2016. According to preliminary data, the item was positive in January – March 2017 and totalled EUR 553.7 million (1.1% of GDP), against a positive value of EUR 300.4 million (0.6% of GDP) in the same period of 2016.

2. Direct investment

Foreign direct investment in Bulgaria in January – March 2017 was negative amounting to EUR 106 million (0.2% of GDP), dropping by EUR 323.2 million from January – March 2016 (EUR 217.2 million, 0.5% of GDP)

According to the preliminary data of the BNB, foreign direct investment in Bulgaria presented according to the directional principle was negative amounting to EUR 106 million (0.2% of GDP) in January – March 2017, dropping by EUR 323.2 million from January – March 2016 (EUR 217.2 million, 0.5% of GDP). Foreign direct investment in Bulgaria declined by EUR 206.2 million in March 2017, compared with an increase of EUR 55.5 million in March 2016. That decline was in item debt instruments (by EUR 222.6 million), mostly due to a financial loan extended by a local entity to its direct investor



abroad. 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) amounted to EUR 9.1 million in January – March 2017, growing by EUR 16.6 million from a negative value of EUR 7.5 million in January – March 2016. Real estate investments of non-residents totalled EUR 1.3 million, compared with EUR 8.8 million attracted in January – March 2016. The largest inflow of real estate investment was from Russia (EUR 0.6 million, 46.5% of the total amount for January – March 2017), Kazakhstan (EUR 0.4 million, 26.8% of the total amount), and Austria (EUR 0.2 million, 14.7% of the total amount). 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 EUR 18.1 million for January – March 2017, compared with EUR 237.5 million in January – March 2016. The net debt instruments (the change in the net liabilities between affiliated enterprises on financial loans, suppliers' credits and debt securities) were negative totalling EUR 133.3 million in January – March 2017, compared with a negative balance of EUR 12.9 million in January – March 2016. The largest net direct investment inflow in Bulgaria for January – March 2017 was from Norway (EUR 17.8 million, 16.7% of the total amount for the period), Malta (EUR 15 million, 14.2%), and the Netherlands (EUR 12.3 million, 11.6%). According to preliminary data, direct investment abroad grew by EUR 17.6 million, compared with an increase of EUR 12 million in January – March 2016. Direct investment abroad rose by EUR 14.8 million in March 2017, compared with a decline of EUR 1.9 million in March 2016.

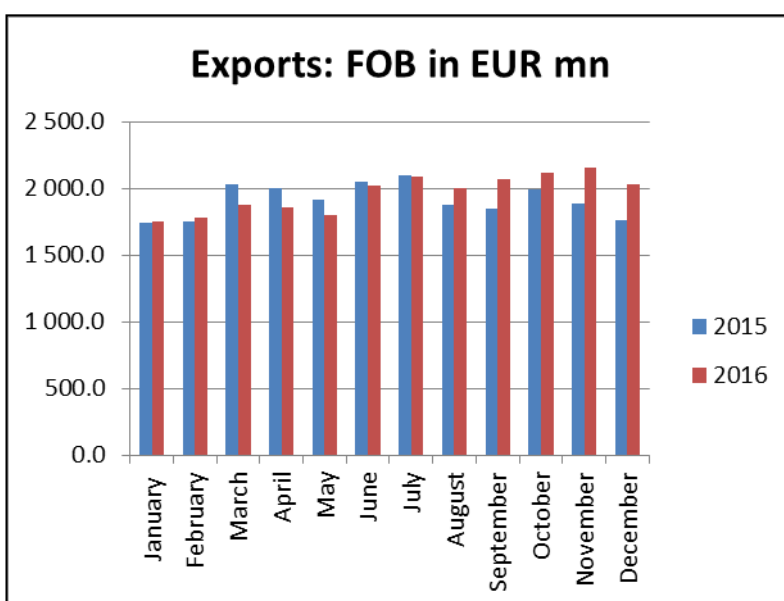
The money supply growth will gradually increase in the forecasted period of 2017-2020. In 2017 its growth rate is expected to be 8.1% with 7.6% at the end of 2016. This is due to the current dynamics and expectations for continuing increase of the foreign reserves of the country, as well that of the deposits in the bank system, which will keep growing. At the end of the 2018 and 2019 the broad money will speed up its growth, respectively to 8.4% and 8.7%.

3. External trade of Bulgaria

In January - December 2016 exports (FOB) amounted to EUR 23,575.8 million compared with EUR 22,982.3 million in the same period of 2015, increasing by EUR 593.5 million (2.6%) year-on-year basis

According to the BNB data, in January - December 2016 exports (FOB) amounted to EUR 23,575.8 million compared with EUR 22,982.3 million in the same period of 2015, increasing by EUR 593.5 million (2.6%) year-on-year basis. The increase in exports on a year-on-year basis could be attributed mostly to other investment goods by EUR 443.9 million (33.4%), and raw materials for the food industry by EUR 252.7 million (14.2%), and whereas the decrease was reported in the exports of nonferrous metals by EUR 504.9 million (22%) and petroleum products by EUR 202.2 million (10.6%). On year-on-year basis, increase in exports by commodity groups in January – December 2016 was due mostly to miscellaneous chemical products

(Division 38) – by EUR 208 million (191.8%), to cereals (Division 10) – by EUR 122.2 million (13.8%) and to oil seed oleaginous fruits; miscellaneous grain, seed, fruit etc. (Division 12) – by EUR 115.8 million (21.1%). The decrease was reported in the exports of copper and articles thereof (Division 74) by EUR 517.6 million (25.4%), and mineral fuels, oils & products of their distillation; etc. (Division 27) by EUR 288.5 million (11.7%) on a year-on-year basis. Exports to the European Union grew by EUR 1,076 million

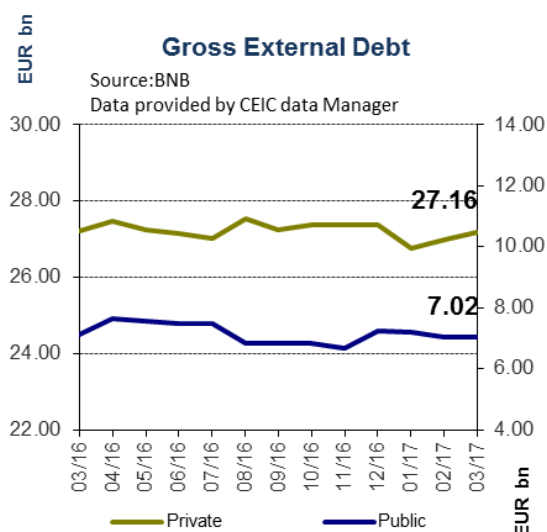


(7.2%) on a year-on-year basis, their share in total exports increasing from 64.6% in January - December 2015 to 67.6% in the same period of 2016. The largest increase on a year-on-year basis was that in the exports to Germany by EUR 320.1 million (11.1%), to Romania by EUR 181.6 million (9.6%), to Greece by EUR 139.6 million (9.2%), and to Spain by EUR 132 million (24.9%). Exports decreased to Belgium by EUR 201.5 million (23.8%). Exports to non-EU countries decrease by EUR 482.4 million (5.9%) year-on-years, its share in total exports dropped from 35.4% in January - December 2015 to 32.4% in the same period of 2016. The decrease in exports was contributed mostly to Turkey (by EUR 117.4 million, 5.9%), to China (by EUR 101.8 million, 19%), to Ukraine (by EUR 86.5 million, 53.9%), and to the USA (by EUR 75.6 million, 20.6%). Exports grew up to Macedonia by EUR 8.3 million (2.1%) on a year-on-year basis. The exports to Germany had the highest share in total exports (13.6% of total exports, EUR 3,213.8 million), followed by Italy (9.2%, EUR 2,170.2 million), Romania (8.8%, EUR 2,069.1 million), and Turkey (8%, EUR 1,888.8 million). Imports (CIF) amounted to EUR 26,090.1 million in January - December 2016, compared with EUR 26,356.6 million in the same period of 2015, decreasing by EUR 266.4 million (1%). The decrease in imports (CIF) on a year-on-year basis can be attributed mostly to crude oil and natural gas (by EUR 684.7 million, 23.2%), ores (by EUR 301.2 million, 22.9%), and oils 56 (by EUR 105 million, 11%). The increase was reported in the imports of fuels other than crude oil, natural gas and coal (by EUR 150.2 million, 78.3%), other investment goods (by EUR 130.5 million, 11.3%), clothing and footwear (by EUR 126.3 million, 20%), and food, drinks and tobacco (by EUR 119.2 million, 6.8%). The largest decrease in imports (CIF) on a year-on-year basis was that in mineral fuels, oils & products of their distillation; etc. (Division 27) – down by EUR 865.5 million (21%), and ores, slag and ash (Division 26) – by EUR 301.2 million (22.9%). The increase was reported in the imports of miscellaneous chemical products (Division 38) – by EUR 187.2 million (44.2%), of electrical machines, equipment parts thereof; sound recorders etc. (Division 85) – EUR 121.9 million (5.1%), and of articles of iron and steel (Division 73) – by EUR 120.9 million (22.2%). The imports from the EU increased by EUR 361.6 million (2.6%) on a year-on-year basis, its share in total imports growing from 53% in January - December 2015 to 54.9% in the same period of 2016. The highest rose in imports on a year-on-year basis was that from Poland by EUR 194.1 million (22.5%), and from Germany – by EUR 136.3 million (4.4%), and from Italy – by EUR 76.4 million (3.9%). Imports from Greece fell by EUR 70.8 million (6.7%). Imports from non-EU countries dropped on a year-on-year basis by EUR 628 million (5.1%), their share in total imports decreased from 47% in January - December 2015 to 45.1% in the same period of 2016. The decrease in imports was contributed mostly to Russia – down by EUR 865.2 million (27%), whereas imports from Turkey grew by EUR 158.6 million (11%), and from China by EUR 153.3 million (8%). The largest share in total imports (CIF) was held by Germany (12.3% of total imports, EUR 3,210.7 million), followed by Russia (9%, EUR 2,340.6 million), China (7.9%, EUR 2,071.2 million), and Italy (7.8%, EUR 2,037.7 million).

4. External debt

Gross external debt amounted to EUR 34,181.2 million (70.2% of GDP) at end-March 2017, decreasing by EUR 461.2 million (1.3%) from end-2016 (EUR 34,642.5 million, 73.1% of GDP)

According to the BNB data, gross external debt amounted to EUR 34,181.2 million (70.2% of GDP) at end-March 2017, decreasing by EUR 461.2 million (1.3%) from end-2016 (EUR 34,642.5 million, 73.1% of GDP). On a year-on-year basis gross external debt dropped by EUR 130.5 million (0.4%) from March 2016 (EUR 34,311.7 million, 72.4% of GDP). Long-term liabilities totalled EUR 26,236.1 million (76.8% of the total debt, 53.9% of GDP) at end-March 2017, dropping by EUR 419.1 million (1.6%) from end-2016 (EUR 26,655.2 million, 76.9% of the total debt, 56.3% of GDP). On a year-on-year basis, long-term liabilities decreased by EUR

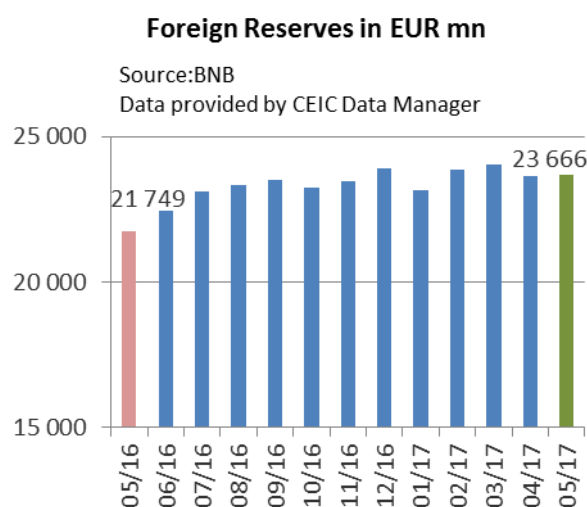


540 million (2%) from March 2016 (EUR 26,776.1 million, 56.5% of GDP). Short-term liabilities equalled EUR 7,945.1 million (23.2% of the total debt, 16.3% of GDP), decreasing by EUR 42.1 million (0.5%) from end-2016 (EUR 7,987.2 million; 23.1% of the total debt, 16.9% of GDP). On a year-on-year basis, short-term liabilities rose by EUR 409.5 million (5.4%) from March 2016 (EUR 7,535.6 million, 15.9% of GDP). General government's gross external debt totalled EUR 6,527.2 million (13.4% of GDP) in end-March 2017. It dropped by EUR 255.3 million (3.8%) from end-2016 (EUR 6,782.5 million, 14.3% of GDP). On a year-on-year basis general government's debt decreased by EUR 178.8 million (2.7%) from March 2016 (EUR 6,706.1 million, 14.2% of GDP). Banks' external debt totalled EUR 4,038 million (8.3% of GDP). It fell by EUR 124.9 million (3%) from end-2016 (EUR 4,162.9 million, 8.8% of GDP). On a year-on-year basis banks' debt grew by EUR 283.6 million (7.6%), from EUR 3,754.4 million, 7.9% of GDP in March 2016. Other Sectors' external debt equalled EUR 11,348.3 million (23.3% of GDP). It rose by EUR 145 million (1.3%) from end-2016 (EUR 11,203.3 million, 23.7% of GDP). On a year-on-year basis it grew by EUR 124.7 million (1.1%) from March 2016 (EUR 11,223.6 million, 23.7% of GDP). The stock of intercompany lending amounted to EUR 12,267.7 million (25.2% of GDP) at end-March 2017, dropping by EUR 226 million (1.8%) from end-2016 (EUR 12,493.7 million, 26.4% of GDP). On a year-on-year basis it decreased by EUR 359.9 million (2.9%) from March 2016 (EUR 12,627.6 million, 26.7% of GDP). The external financing received from non-residents equalled EUR 1,016.5 million (2.1% of GDP) in January – March 2017, compared with EUR 2,102.4 million (4.4% of GDP) in January – March 2016. They were distributed as follows: general government received EUR 21.6 million (2.1% of the total amount of disbursements), banks received EUR 227 million (22.3%), other sectors received EUR 310.6 million (30.6%), and intercompany lending totalled EUR 457.3 million (45%). Gross external debt service totalled EUR 1,052.9 million (2.2% of GDP) in January – March 2017, compared with EUR 1,417.9 million (3% of GDP) in January – March 2016. Net external debt totalled EUR 1,899.4 million at end-March 2017. It dropped by EUR 622.4 million (24.7%) from end-2016 (EUR 2,521.9 million). Its decline was due to the increase in gross external assets (by EUR 161.2 million, 0.5%) on the one hand, and on the other – to the decrease in gross external debt (by EUR 461.2 million, 1.3%). As a percentage of GDP, net external debt equated to 3.9%, from 5.3% at end-2016. On a year-on-year basis, net external debt decreased by EUR 2,907.7 million, 60.5% (from EUR 4,807.1 million, 10.1% of GDP in March 2016).

5. Foreign reserves

In May 2017 BNB foreign reserves amounted to EUR 23.7 billion, increasing by 0.1% m/m and by 8.8% y/y, respectively

According to BNB data, in May 2017 the BNB's international reserves amounted to BGN 46.3 billion (EUR 23.7 billion), rising by 0.1% m/m and by 8.8% y/y, respectively. Cash and deposits in foreign currency amounted to BGN 18.5 billion, increasing by 2.4% m/m and by 74% y/y, respectively. Monetary gold deposits amounted to BGN 2.8 billion and grew by 4.1% y/y, but down 2.3% m/m, respectively. Investment in securities decreased by 1.3% m/m and by 14.4% y/y, respectively and amounted to BGN 25 billion. The money in circulation amounted to BGN 13.9 billion and increased by 0.3% m/m and by 12% y/y, respectively. The liabilities to banks amounted to BGN 13.8 billion and increased by 1% m/m and by 18.1% y/y. The liabilities to the government and budget organizations amounted to BGN 11.7 billion and decreased by 1.2% m/m and increase of 2.6% y/y, respectively. Liabilities to other depositors amounted to BGN 0.8 billion and increased by 14.6% m/m and decreased by 12.9% y/y, respectively. The deposit of



the Banking Department amounted to BGN 5.9 billion and decreased by 1.9% m/m and by 0.5% y/y, respectively. Bulgaria's international liquidity position, calculated as a ratio of international reserves to short-term external debt as of end of March 2017, was 302.6% compared to 294.8% in December 2016 and 283.6% in March 2016.

II. REAL SECTOR

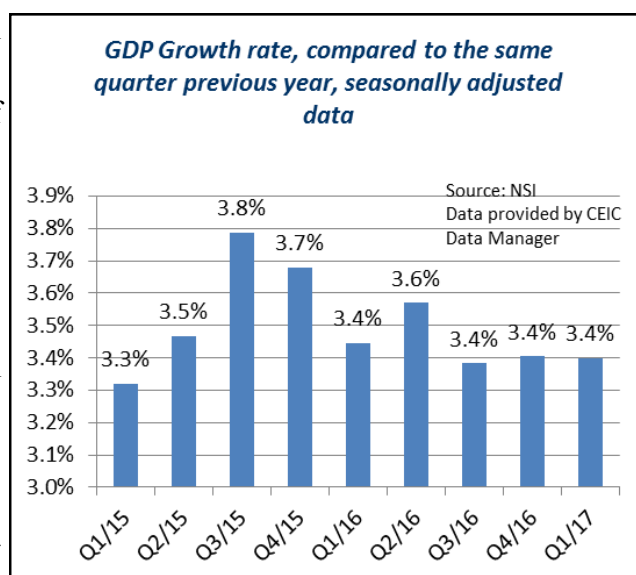
MF increased its forecast for growth of the Bulgarian economics of 3.0% in 2017, 3.1% in 2018 and 3.2% at the end of the forecasted period

In accordance to the Mid-term budget forecast for 2018-2020 of the MF, the Bulgarian economics is expected to grow by 3.0% in real values in 2017, where the domestic demand (consumption and investments) will have the biggest contribution to the growth. The economic growth will slightly speed up to 3.1% in 2018, supported by the favorable dynamics of the private consumption and investments. The GDP growth will slightly increase to 3.2% at the end of the forecasted period. Domestic demand will continue to be leading for the increase both of the consumption and investments. At the same time the contribution of the net export will gradually diminish, as the higher domestic demand will lead to higher increase of the import. The unemployment rate is forecasted to continue to decrease to average value of 6.9%, with a slower decrease compared to the previous year due to the more limited drop of the workforce as a result of the measures for retirement age and experience raising and the longer presence in the labor market. In the period 2018-2020, the unemployment rate is expected to gradually decrease to 6.2% in 2020 and the medium-term rate of employment growth to be around 0.5% per year. The average annual inflation in 2017 is expected to be positive at 1.2%, with annual consumer price increases is expected to reach 1.3% at the end of the year. The average annual HICP increase in 2018 is expected to be 1.3%, with inflation rising to 1.7% in 2019 and 1.8% in 2020, assuming higher international oil and non-energy raw materials and an increase in domestic demand. In the period 2018-2020 it is expected a gradual approach of the export and import prices. The export of goods and services will increase from 7% in 2018 to 7.3% in 2019, and the import – from 6.8% to 7.7%. The surplus of the current account, calculated as a ratio to GDP, will gradually decrease to 3.6% at the end of the period. The FDI forecast is to be at a level of about 2.3% of GDP in the period 2017-2020.

1. Gross domestic product

Gross Domestic Product (GDP) expanded with 3.4% in Q1 of 2017 compared to the same quarter of the previous year and with 0.8% compared to the fourth quarter of 2016 according to the seasonally adjusted data

Gross Domestic Product (GDP) expanded with 3.4% in Q1 of 2017 compared to the same quarter of the previous year and with 0.8% compared to the fourth quarter of 2016 according to the seasonally adjusted data. According to the flash GDP estimates for Q1 of 2017, the GDP at current prices amounted to BGN 19 594 million. Gross Value Added in Q1 of 2017 amounted to BGN 16 803 million. In the structure of GDP by the expenditure approach the largest share has the final consumption (87.6%), which in nominal terms amounted to BGN 17 170 million. In Q1 of 2017 gross capital formation is BGN 3 425 million and has a share of 17.5% in GDP. The external balance (exports minus imports) has a negative sign. According to the seasonally adjusted data,

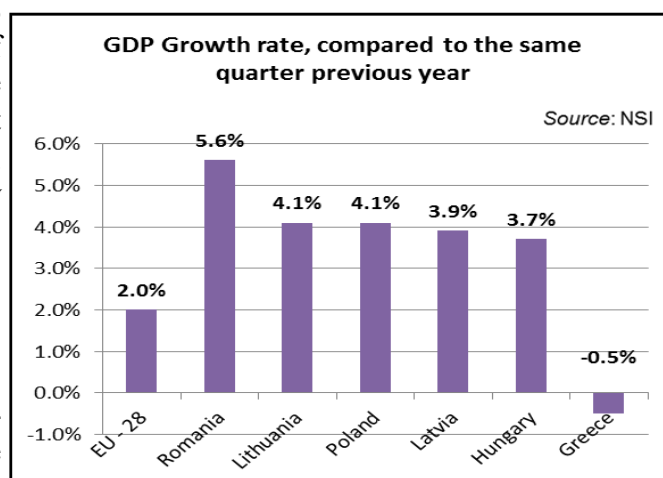


the GDP growth rate in Q1 of 2017 is 0.8% compared to the previous quarter. GVA increase in Q1 of 2017 is also 0.8%. According to the flash estimates by final expenditure the GDP growth in Q1 of 2017 is determined by increase of the final consumption with 1.7%. Q1 of 2017 GDP at seasonally adjusted data increased by 3.4% compared to the same quarter of the previous year. Gross value added increased by 3.1%. As regards the expenditure components of GDP, the final consumption registered a positive economic growth by 4.1%. Gross fixed capital formation decreased by 5.4% compared to the same quarter of the previous year. Exports and imports of goods and services increased by 7.2% and 10.6% respectively.

2. Gross Domestic Product – EU

In Q1 of 2017 the GDP in EU increased by 2.0% in comparison to the same quarter of the previous year

In Q1 of 2017 the GDP in EU increased by 0.5% compared to the previous quarter on the base of seasonally adjusted data. In Q1 of 2017 compared to the previous quarter, Romania reported the highest economic growth - 1.7%, Finland - 1.6%, Latvia - 1.5%, Lithuania - 1.4%, Hungary and the Czech Republic - by 1.3%, while Greece reported a decrease with 0.1%. Compared to the same quarter of the previous year, seasonally adjusted data show an increase in GDP of the EU-28 by 2.0%. In Q1 of 2017, compared to the same quarter of the previous year, Romania reported the highest economic growth - 5.6%, Lithuania and Poland - 4.1%, Latvia - 3.9%, Hungary - 3.7%, while Greece reported a decrease with 0.5%.

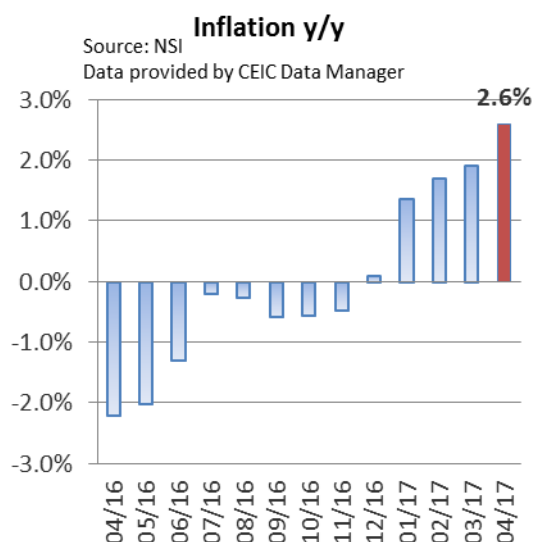


3. Inflation

The inflation rate since the beginning of the year (April 2017 compared to December 2016) has been 1.5% and the annual inflation in April 2017 compared to April 2016 was 2.6%

The consumer price index in April 2017 compared to March 2017 was 100.7%, i.e. the monthly inflation was 0.7%. The inflation rate since the beginning of the year (April 2017 compared to December 2016) has been 1.5% and the annual inflation in April 2017 compared to April 2016 was 2.6%. The annual average inflation, measured by CPI, in the last 12 months (May 2016 - April 2017) compared to the previous 12 months (May 2015 - April 2016) was 0.2%. In April 2017 compared to the previous month the prices of goods and services in the main consumer groups that contributed the most are as follows: Clothing and footwear - an increase of 5.2%; Housing, water, electricity, gas and other fuels - an increase of 1.2%; Communications - an increase of 1.6%; Recreation and culture - a decrease of 3.7%. The harmonized index of consumer prices in April 2017 compared to March 2017 was 100.5%, i.e. the monthly inflation was 0.5%. The inflation rate

since the beginning of the year (April 2017 compared to December 2016) has been 0.6% and the annual inflation in April 2017 compared to April 2016 was 1.7%. The annual average inflation, measured by HICP, in the last 12 months (May 2016 - April 2017) compared to the previous 12 months (May 2015 -

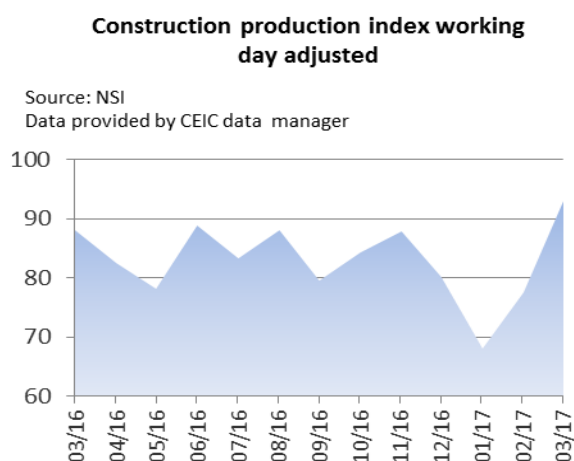


April 2016) was -0.5%. According to the spring forecast of the MF, the average annual inflation for 2017 is expected to be 1.2% and 1.3% in 2018.

4. Construction

In March 2017 working day adjusted data showed an increase by 5.6% in the construction production, compared to the same month of 2016

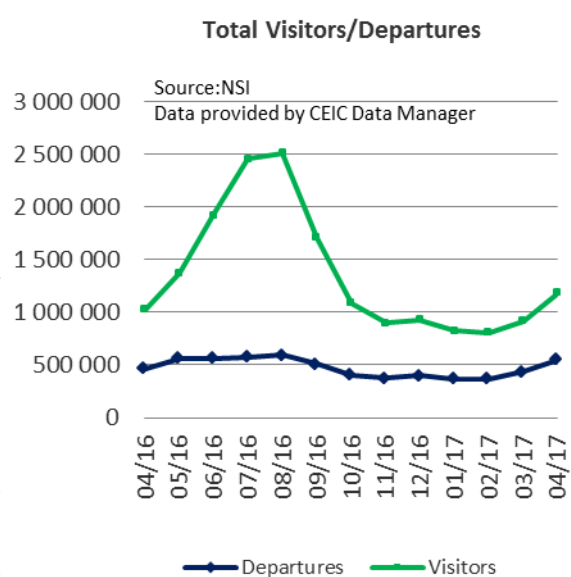
According to the preliminary data of the NSI, in March 2017 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 1.7% above the level of the previous month. In March 2017 working day adjusted data showed an increase by 5.6% in the construction production, compared to the same month of 2016. In March 2017 the construction production, calculated from the seasonally adjusted data, was above the level of the previous month. Index of production of civil engineering increased by 2.8% and the production of building construction - by 0.9%. On an annual basis in March 2017, the increase of production in construction, calculated from working day adjusted data, was determined mainly from the positive rate in the building construction, where the growth was by 12.1%, while in the civil engineering was registered a decrease by 1.6%.



5. Tourism

In April 2017, the number of the trips of Bulgarian residents abroad was 548.8 thousand or by 17.7% above the registered in April 2016

According to the NSI, in April 2017, the number of the trips of Bulgarian residents abroad was 548.8 thousand or by 17.7% above the registered in April 2016. 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 46.1%, Greece - by 38.1%, Austria - by 36.1%, Spain - by 24.4%, the United Kingdom - by 23.6%, Romania - by 19.6%, Germany - by 19.5%, the Former Yugoslav Republic of Macedonia - by 14.0%, Serbia - by 12.9%, Turkey - by 5.1%, France - by 4.8%, and etc. At the same time decreased the number of the trips of Bulgarians to: Portugal - by 25.8%, Ukraine - by 25.8%, Russian Federation - by 10.5%, Czech Republic - by 7.8%, and etc. The trips with other purposes (as a guest, education and visit the cultural and sport events) in April 2017 composed the greatest share of the total number of trips of Bulgarian residents abroad - 46.4%, followed by the trips with professional purpose - 27.6%, and with holiday and recreation purpose - 26.0%. In comparison with April 2016, an increase was registered in the trips with all observed purposes: with professional purpose - by



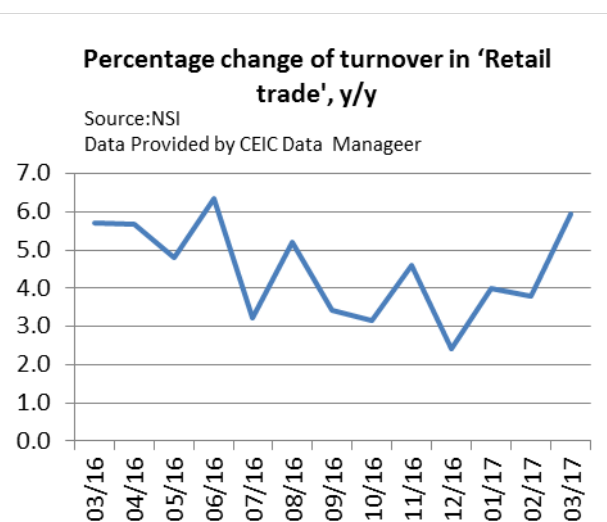
32.0%, with other purposes - by 18.8%, and with holiday and recreation purpose - by 4.0%. In April 2017, the trips with other purposes formed 67.4% of all trips to Turkey. The trips with professional purpose to Greece were 40.3%, as these to Spain and Italy with holiday and recreation purpose were 47.4% and 42.2% respectively of all trips of Bulgarian residents to these countries. In April 2017, the number of arrivals of visitors from abroad to Bulgaria was 633.7 thousand or by 13.5% more in comparison with April 2016. An increase was registered in the trips by all observed purposes: with professional purpose - by 19.5%, with other purposes - by 18.1%, and with holiday and recreation purpose - by 6.8%. The share of visits of EU citizens was 56.8% of the total number of foreigners' visits to Bulgaria in April 2017 or by 15.8% more in comparison with the same month of the previous year. An increase was registered in the visits of citizens from almost all countries in EU: Poland - by 43.9%, Italy - by 42.0%, Austria - by 34.5%, the United Kingdom - by 29.4%, Germany - by 26.8%, Romania - by 12.1%, and etc. The visits of foreigners in the group 'Other European countries' increased by 9.3%, as the highest growth was observed in the visits of citizens of Turkey - by 12.6%. In April 2017, the predominant share of the visits with holiday and recreation purpose was 40.2%, followed by trips with other purposes (including as guest and passing transit) - 38.7%, and with professional purpose - 21.1%. The visits with holiday and recreation purpose formed 96.1% of the arrivals from Israel and 84.1% - from the Former Yugoslav Republic of Macedonia. The visits with professional purpose were 62.1% of the arrivals from Spain, as with other purposes were 53.5% of all arrivals from Romania.

6. Retail sales

In March 2017, the working day adjusted turnover increased by 5.9% in comparison with the same month of the previous year

According to the preliminary seasonally adjusted data of the NSI, in March 2017 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 0.8% compared to the previous month. In March 2017, the working day adjusted turnover in 'Retail trade, except of motor vehicles and motorcycles' increased by 5.9% in comparison with the same month of the previous year. In March 2017 compared to the previous month, the turnover increased more significantly in the 'Retail sale of computers, peripheral units and software; telecommunications equipment' - 5.7%, in the 'Retail sale of textiles, clothing, footwear and leather goods' by 3.1% and in the 'Retail sale of audio and video

equipment; hardware, paints and glass; electrical household appliances' by 2.0%. A decrease was registered in the 'Retail sale via mail order houses or via Internet' - 3.0% and 'Retail sale of automotive fuel' - 1.5%. In March 2017 compared to the same month of 2016 the turnover increased more significantly in the 'Retail sale of computers, peripheral units and software; telecommunications equipment' by 20.5%, in the 'Retail sale of textiles, clothing, footwear and leather goods' by 17.9% and in the 'Retail sale in non-specialised stores' by 14.8%. A decrease was registered only in the 'Retail sale of automotive fuel' - 12.5%.

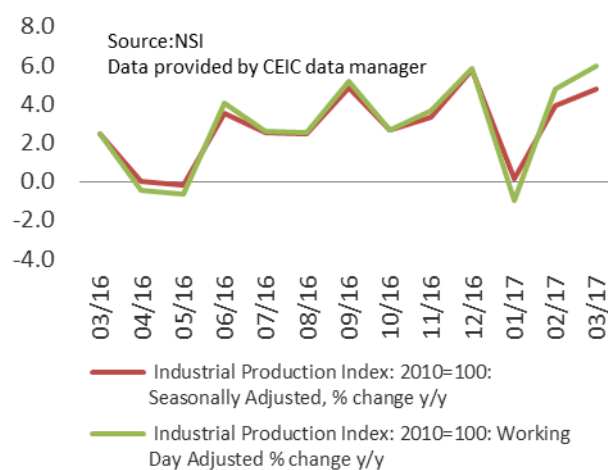


7. Industrial Production

In March 2017 working day adjusted Industrial Production Index rose by 5.9% in comparison with the same month of 2016

According to the preliminary data of the NSI, the Industrial Production Index, seasonally adjusted, increased by 0.8% in March 2017 as compared to February 2017. In March 2017 working day adjusted Industrial Production Index rose by 5.9% in comparison with the same month of 2016. In March 2017 as compared to February 2017, the seasonally adjusted Industrial Production Index increased in the manufacturing by 2.6%, while decreases were seen in the mining and quarrying industry by 5.4% and in the electricity, gas, steam and air conditioning supply by 6.8%. The most significant increases of production in the manufacturing were registered in the manufacture of computer, electronic and optical products by 11.2%, in the manufacture of leather and related products by 7.2%, in the printing and reproduction of recorded media by 6.4%, in the manufacture of rubber and plastic products by 5.8%. There were decreases in the manufacture of wood and of products of wood and cork, except furniture, manufacture of articles of straw and plaiting materials by 7.9%, in the manufacture of chemicals and chemical products by 7.0%, in the manufacture of textiles by 3.9%. On annual basis in March 2017 Industrial Production Index calculated from working day adjusted data increased in the manufacturing by 9.9% and in the mining and quarrying industry by 3.7%, while in the electricity, gas, steam and air conditioning supply a decrease by 6.1% was registered. In the manufacturing, the more significant increases compared to the same month of the previous year were seen in the manufacture of basic metals by 52.7%, in the manufacture of computer, electronic and optical products by 40.6%, in the manufacture of fabricated metal products, except machinery and equipment by 15.7%, in the manufacture of rubber and plastic products by 15.3%. Decreases were registered in the manufacture of other transport equipment by 13.8%, in the manufacture of wood and of products of wood and cork, except furniture, manufacture of articles of straw and plaiting materials by 10.0%, in the manufacture of textiles by 3.5%, in the manufacture of tobacco products by 2.8%.

Industrial production Index, % change y/y

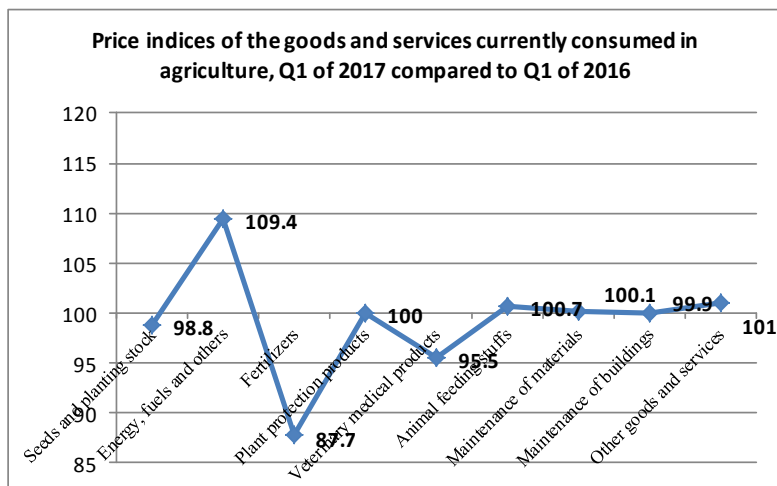


8. Agriculture

The producer price index in agriculture in the first quarter of 2017 increased by 4.7% in comparison with the same quarter of 2016

The producer price index in agriculture in the first quarter of 2017 increased by 4.7% in comparison with the same quarter of 2016, shows the NSI data. The crop output index increased by 6.7%, as well the animal output index - by 1.8%. In comparison with previous year the prices of agricultural output went up by 6.8% due to the increase in crop output price index - by 7.8% and in animal output price index - by 5.2%. In first quarter of 2017 compared to the same quarter of 2016 increase was observed in the prices of cereals - by 7.9%, industrial crops - by 2.5%, fresh vegetables - by 42.2%, potatoes - by 8.6% and fruit - by 7.7%.

Higher were the prices of soft wheat - by 7.4%, grain maize - by 10.8%, cucumbers under glass - by 44.6%, tomatoes under glass - by 26.7% and apples - by 9.0%. Decrease was observed in the prices of barley - by 3.0%, sunflower - by 2.6%, rape - by 13.8% and dry onions - by 21.0%. Compared to the corresponding quarter of 2016 decrease was observed in the price of live animals - by 4.4%, and increase in the prices of animal products - by 6.6%. In live animals increase was observed in the price of goats - by 9.7% and in pigs - by 5.2%.



For the rest of livestock categories decrease was observed. Decrease registered the price of poultry - by 16.6%, sheep - by 4.7% and cattle - by 1.7%. In animal products the biggest increase was in the prices of goat milk - by 19.1%, cow milk - by 10.1%, buffalo milk - by 6.4% and eggs for human consumption - by 9.4%. Compared to 2016 in the first quarter of 2017 increase was registered in the prices of all main crop group products but the biggest one was in the price of fresh vegetables - by 62.5%. Compare to 2016 the prices of cereals increased by 10.2%, fodder crops - by 8.6%, fruit - by 5.1% and potatoes - by 1.8%. In the animal output the prices of live animals went down - by 3.1% but in the animal products increased by 11.6%. In first quarter of 2017 compared to 2016 the biggest increase of prices was reported for the cucumbers under glass - by 91.5% and tomatoes under glass - by 40.8%. Higher were the prices of soft wheat - by 11.9%, barley - by 5.8%, grain maize - by 9.2% and apples - by 5.6%. In the animal output in first quarter of 2017 compared to 2016 decrease was reported in the prices of poultry - by 11.4% and sheep - by 4.0%. The prices of the other livestock categories went up and the biggest increase was observed in the price of goats - by 6.8% and pigs - by 2.3%. In the animal products output the biggest increase was registered in the price of eggs for human consumption - by 22.6%, honey - by 13.3% and cow milk - by 12.9%. The index of prices of goods and services currently consumed in agriculture in the first quarter of 2017 was 1.4% above the level in the same quarter of previous year and by 1.7% compared to 2016. In first quarter of 2017 compared to corresponding quarter of 2016 higher were only the prices of energy and fuels - by 9.4%. Lower were the prices of seeds and planting stock - by 1.2%, fertilizers - by 12.3% and veterinary medical products - by 4.5%. Compared to 2016 in first quarter of 2017 the price index of energy and fuels went up by 6.3%. Lower were the prices of seeds and planting stock - 1.3% and veterinary medical products - by 4.9%.

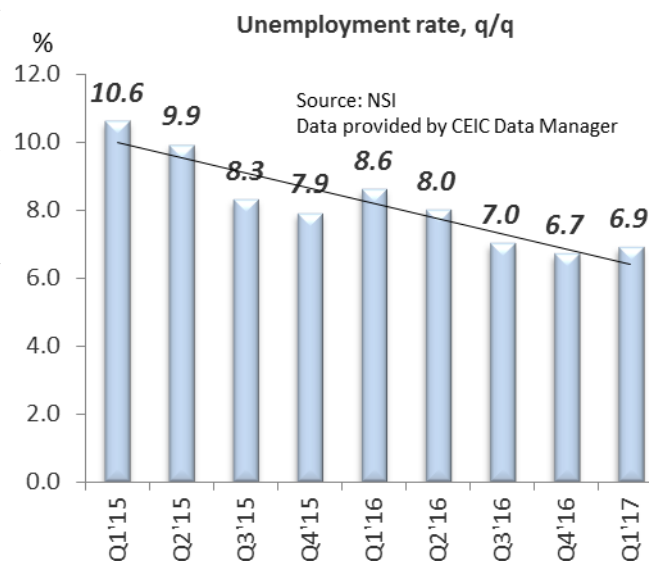
9. Unemployment

In Q1 of 2017 there were 224.4 thousand unemployed persons and the unemployment rate was 6.9%

In Q1 of 2017 there were 224.4 thousand unemployed persons and the unemployment rate was 6.9%, shows the NSI data. In comparison with the first quarter of 2016 the number of unemployed persons went down by 55.2 thousand and the unemployment rate decreased by 1.7 percentage points. Over the same period the unemployment rate declined to a greater extent for men and achieved 6.8% for men and 6.9% for women. Of the total number of unemployed persons in Q1 of 2017, 119.0 thousand (53.0%) were men and 105.4 thousand (47.0%) were women. Among all unemployed persons 12.5% had higher education, 48.7% had

upper secondary education and 38.8% had lower secondary education or less. In Q1 of 2017 there were 122.2 thousand long-term unemployed persons, representing 54.4% of all unemployed. The long-term unemployment rate was 3.7%, and in comparison with the respective quarter of 2016 it decreased by 1.1 percentage points. The long-term unemployment rate by sex was 3.9% for men and 3.6% for women. Of the total number of unemployed persons 33.0 thousand (14.7%) were looking for a first job. In Q1 of 2017 the unemployment rate for the age group 15 - 29 years was 10.8% (11.1% for men and 10.4% for women). In comparison with the first quarter of 2016 this rate was lower by 3.1 percentage points as the decline was higher for men than for women (by 4.7 and 0.7 percentage points respectively).

The number of registered unemployed persons in the National Employment Agency is 249 464, with a decrease of 4.7% compared to the previous month and an annual decrease of 18.3%. The registered unemployment rate in April 2017, defined as the share of registered unemployed persons in the economically active population aged 15-64 found in the Census 2011, is set at 7.6%. As compared to the previous month and on an annual basis there was a decrease in the unemployment rate, by 0.4 percentage points (pp) and 1.7 pp respectively.



10. Employed persons

According to the preliminary data of the NSI, at the end of March 2017 the number of employees under labour contract increased by 6.2 thousand or 0.3% as compared to the end of December 2016 and reached 2.28 million

According to the preliminary data of the NSI, at the end of March 2017 the number of employees under labour contract increased by 6.2 thousand or 0.3% as compared to the end of December 2016 and reached 2.28 million. The highest increase was observed in economic activities: 'Mining and quarrying' - 5.2% and 'Agriculture, forestry and fishing' - 2.6%. The highest decrease of the number of employees was recorded in 'Accommodation and food service activities' - by 2.7%. In the structure of employees by economic activities the biggest relative share of employees was in 'Manufacturing' - 22.5% and



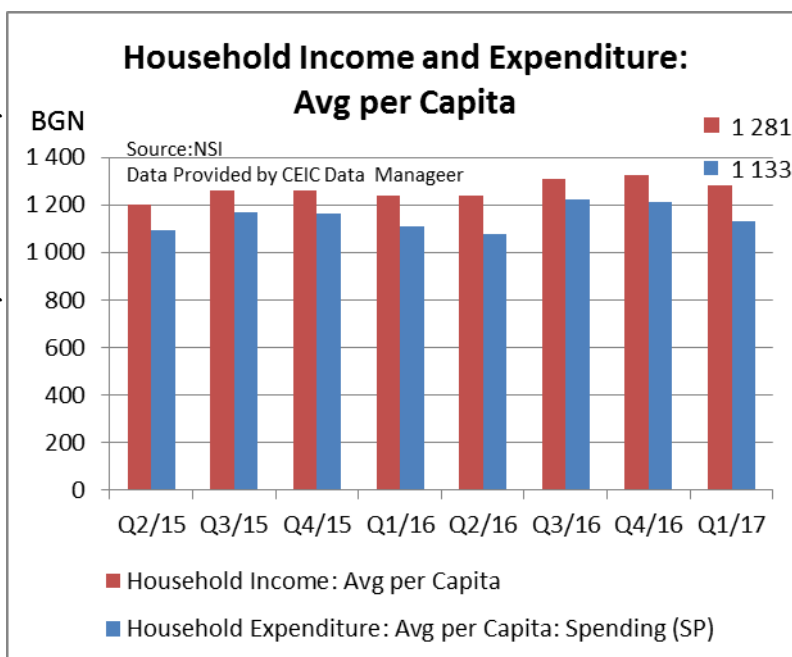
‘Wholesale and retail trade; repair of motor vehicles and motorcycles’ - 17.3%. At the end of March 2017 as compared to March 2016 the number of employees under labour contract decreased by 2.8 thousand or 0.1%. The highest decrease in absolute figures was observed in economic activities ‘Agriculture, forestry and fishing’ - 7.9 thousand, ‘Construction’ - 3.0 thousand and ‘Administrative and support service activities’ - 2.6 thousand. In percentages the highest decrease was also in ‘Agriculture, forestry and fishing’ - by 10.3% and ‘Construction’ - by 2.5%. The highest increase at the end of March 2017 as compared to March 2016 was registered in economic activity ‘Information and communication’ - in absolute figures by 4.5 thousand and in percentages - by 5.6%. The average monthly wages and salaries of the employees under labour contract in January was BGN 995, in February - BGN 987 and in March 2017 - BGN 1 036. In Q1 of 2017 in comparison with the fourth quarter of 2016 the average monthly wages and salaries increased by 1.6% getting BGN 1 006. The highest increase in wages and salaries was reported in ‘Administrative and support service activities’ - by 6.8%, ‘Real estate activities’ - by 5.5%, and ‘Wholesale and retail trade; repair of motor vehicles and motorcycles’ - by 4.7%. Compared to the first quarter of 2016 the average monthly wages and salaries in Q1 of 2017 rose by 9.1%. The highest growth rates were recorded in economic activities: ‘Professional, scientific and technical activities’ - 13.4%, ‘Real estate activities’ - 12.6%, and ‘Administrative and support service activities’ - 12.5%. The economic activities with the highest wages and salaries in Q1 of 2017 were: ‘Information and communication’ - BGN 2 347; ‘Electricity, gas, steam and air conditioning supply’ - BGN 1 701; ‘Financial and insurance activities’ - BGN 1 687. The lowest wages and salaries were recorded in: ‘Accommodation and food service activities’ - BGN 611; ‘Other services activities’ - BGN 713; ‘Construction’ - BGN 742. In comparison with a year earlier the average monthly wages and salaries in public sector grew by 7.3% while in private sector - by 9.7%.

11. Household income, expenditure and consumption

The total income average per household member during Q1 of 2017 is BGN 1 281 and increases by 3.5% compared to the same quarter of 2016

The total income average per household member during Q1 of 2017 is BGN 1 281 and increases by 3.5% compared to the same quarter of 2016. The highest relative share of income within the total income is this from wages and salaries (55.5%). The relative share of income from pensions is 29.1%, from self-employment - 5.6% and from social benefits - 3.2%. The relative share of income from wages and salaries decreases by 1.6 percentage points (pp) compare to the first quarter of 2016 and the income from pensions increases by 2.6 percentage points. The nominal income by source average per capita during Q1 of 2017 compared to the first quarter of 2016 changes as follows: Income from wages and salaries increases from BGN 706 to BGN 710 (by 0.6%); Income from pensions increases from BGN

328 to BGN 372 (by 13.7%); Self-employment income decreases from BGN 81 to BGN 72 (by 11.5%); Income from social benefits increases from BGN 36 to BGN 40 (by 12.8%). The relative share of monetary income into the total income during Q1 of 2017 is 99.5% and the share of income in kind is 0.5%. The total expenditure average per household member during Q1 of 2017 is BGN 1 133 and increases by 2.1% in



comparison to the same quarter of 2016. The greatest share in forming the total expenditure has expenditure on food - 30.5% as well as expenditure on housing - 20.1%, taxes and social insurance contributions - 13.4% and transport and communication - 11.0%. The relative share of expenditure on food and non-alcoholic beverages compare to the first quarter of 2016 decreases by 0.6 pp, transport and communication - by 1.0 pp and on housing increases by 2.0 pp. The expenditure by group average per capita changes as absolute values during Q1 of 2017 compared to the same quarter of 2016 as follows: The expenditure which increases are on: food and non-alcoholic beverages - from BGN 345 to BGN 346 (by 0.3%); housing (water, electricity, heating, furnishing and maintenance of the house) - from BGN 200 to BGN 228 (by 13.7%); health – from BGN 62 to BGN 67 (by 6.8%); alcoholic beverages and tobacco - from BGN 47 to BGN 50 (by 6.4%). The expenditure which decreases are on: transport and communication - from BGN 134 to BGN 125 (by 6.6%); miscellaneous goods and services - from BGN 50 to BGN 47 (by 7.2%). The consumption of main food products average per household member during Q1 of 2017 compared to the same quarter of 2016 does not change considerable. Increase is observed in the consumption of eggs - from 33 numbers to 34 numbers and yoghurt - from 6.2 kg to 6.4 kg. More significant decrease consumption of vegetables - from 10.4 kg to 9.1 kg, of fruit - from 10.4 kg to 9.9 kg and of milk - from 4.7 litres to 4.2 litres.

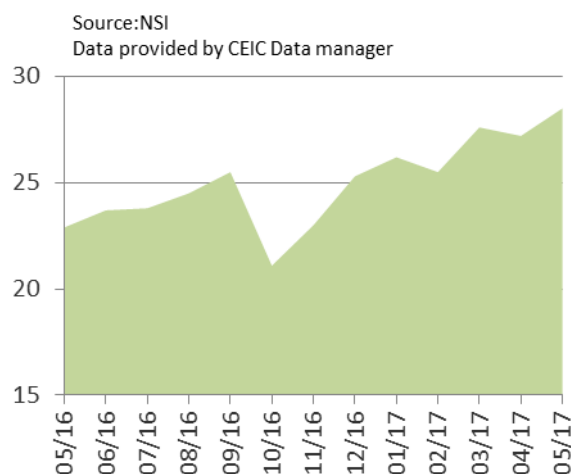
12. Business climate

In May 2017, the total business climate indicator increases by 3.2 percentage points in comparison with April

In May 2017, the total business climate indicator increases by 3.2 percentage points in comparison with April as a growth of the indicator is registered in all observed sectors - industry, construction, retail trade and services. The composite indicator 'business climate in industry' increases by 1.3 percentage points compared to the previous month mainly due to the optimistic industrial entrepreneurs' expectations about the business situation of the enterprises over the next 6 months. At the same time the present production activity is assessed as a slight improved, while their forecasts over the next 3 months are more reserved. The main factor limiting the activity remains the uncertain economic environment, followed by the shortage of labour. Concerning the selling prices in industry, the managers foresee preservation of their level over the next 3 months. In May, the composite indicator 'business climate in

construction' increases by 2.9 percentage points, which is due to the more favourable construction entrepreneurs' assessments and expectations about the business situation of the enterprises. Their opinions about the present construction activity, as well their expectation for the activity over the next 3 month are more optimistic. However, the last inquiry reports an increase in the number of the clients with delay in payments. The uncertain economic environment, competition in the branch and shortage of labour continue to be the main problems for the business development. As regards the selling prices in construction, the managers' expectations are them to remain unchanged over the next 3 months. Retail trade. The composite indicator 'business climate in retail trade' increases by 5.6 percentage points as a result of the improved retailers' assessments and expectations about the business situation of the enterprises. At the same time, increased optimism in their forecasts about the volume of sales and the orders placed with suppliers (from both domestic and foreign market) over the next 3 months is also registered. The main obstacles for the business development remain connected with the competition in the branch, insufficient demand and uncertain economic environment. Concerning the selling prices, the prevailing retailers' expectations are for preservation of their level over the next 3 months. In May, the composite indicator 'business climate in

Business Climate in Industry for the last 12 months



service sector' increases by 4.7 percentage points, which is due to the improved managers' assessments and expectations about the business situation of enterprises. Their opinions about the present and expected demand for services are also more favourable. The most serious difficulties for the activity in the sector continue to be the competition in the branch and uncertain economic environment, although in the last month a decrease of the negative impact of the second factor is observed. Concerning the selling prices the managers' expectations are them to remain unchanged over the next 3 months.

III. FISCAL SECTOR

1. Government budget

Based on the monthly reports from first-level spending units, the Consolidated Fiscal Programme (CFP) balance on a cash basis as of end-April 2017 is positive, amounting to BGN 1,590.7 million, or 1.6% of the projected GDP

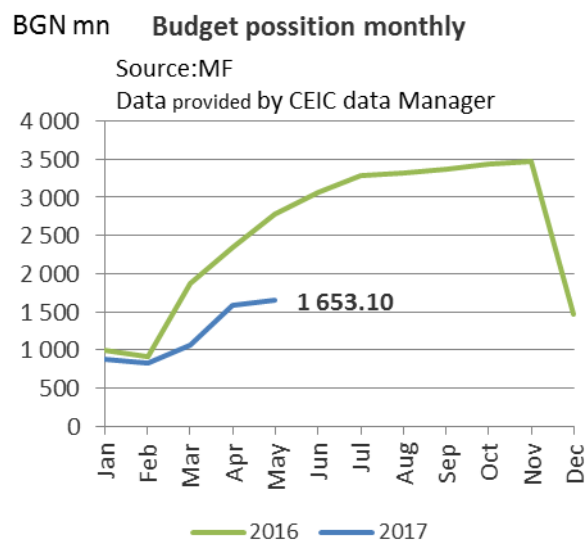
Based on the monthly reports from first-level spending units, the Consolidated Fiscal Programme (CFP) balance on a cash basis as of end-April 2017 is positive, amounting to BGN 1,590.7 million, or 1.6% of the projected GDP, and is formed by a national budget surplus of BGN 1,561.0 million and by a surplus of EU funds of BGN 29.7 million. The CFP revenues and grants in April 2017 stand at BGN 12,016.8 million, or 33.9% of the annual estimates. Compared to the same period of the previous year, tax and non-tax revenues have risen by BGN 736.5 million, or by 6.8%, with grant proceeds being lower. Tax proceeds, including revenues from social security contributions, total BGN 9,986.8 million, which accounts for 35.6% of the revenues planned for the year. Compared to the data as of April 2016, tax proceeds have risen in nominal terms by 8.7%, or by BGN 797.5 million. In structural terms, the most considerable growth is reported with regard to proceeds from indirect taxes and revenues from social security and health insurance contributions. Direct tax revenues amount to BGN 2,030.1 million, or 39.9% of the annual estimates, growing by BGN 139.9 million, or by 7.4% as against the same period of the previous year. Indirect tax revenues amount to BGN 4,831.3 million, which accounts for 34.5% of the annual estimates. Compared to the data as of April 2016, proceeds in this group have grown by BGN 316.7 million, or by 7.0% as against the same period of the previous year. VAT proceeds amount to BGN 3,291.5 million, or 37.5% of those planned. Compared to the previous year, the VAT revenues have risen by BGN 284.2 million, or by 9.4% as against the same period of the previous year. The amount of non-refunded VAT as of end-April 2017 is BGN 84.0 million. There is also a growth in excise duty revenues which amount to BGN 1,463.4 million, or 29.0% of the annual estimates, while as against April 2016 they have grown by 1.6%, or by BGN 23.4 million. Customs duty proceeds amount to BGN 63.8 million, or 38.4% of the estimates for the year. Proceeds from other taxes, including property taxes and other taxes under the Corporate Income Tax Law, amount to BGN 494.2 million, or 49.9% of the annual estimates. Revenues from social security and health insurance contributions are BGN 2,631.1 million, which accounts for 33.2% of the estimates for the year. Compared to the same period of the previous year, the revenues from social security contributions have risen by BGN 313.2 million, or 13.5%, in nominal terms. Non-tax revenues amount to BGN 1,586.6 million, or 33.3% of the annual estimates. Grant revenues amount to BGN 443.3 million, or 16.8% of those planned for the year. When comparing grant proceeds to the previous year, one should take into account the baseline effect in 2016 of the certified expenditures reimbursed to Bulgaria by the European Commission as from end-2015, being the peak for payments for projects under the previous 2007 - 2013 programming period. CFP

expenditures, including the contribution of the Republic of Bulgaria to the EU budget for February 2017, amount to BGN 10,426.1 million, which accounts for 28.4% of the annual estimates. For comparison, CFP expenditures for the same period of 2016 amount to BGN 9,818.7 million. The higher expenditures as against the first four months of 2016 are mainly due to the higher amount of social security and health insurance payments, the baseline effect of pension expenditures since their increase in July 2016, the subsidy expenditures and the increase in social security contributions linked to the higher contribution to the Pensions Fund for the persons pursuant to Article 69 of the Social Insurance Code by 20 pps as against 2016. Non-interest expenditures amount to BGN 9,739.0 million, which accounts for 28.2% of the annual estimates. Non-interest current expenditures as of April 2017 amount to BGN 9,280.2 million, or 32.8% of the estimates for the year, capital expenditures (including net increment of state reserve) amount to BGN 458.8 million, or 7.4% of the 2017 State Budget of the Republic Bulgaria Law estimates. Interest payments amount to BGN 401.5 million, or 48.6% of those planned for 2017. The part of Bulgaria's contribution to the EU budget, as paid from the central budget as of April 2017, amounts to BGN 285.6 million, which complies with the existing legislation in the area of EU own resources, i.e. Council Decision 2014/335/EU on the system of own resources of the European Union, Council Regulation (EU, Euratom) No 608/2014 of 26 May 2014 laying down implementing measures for the system of own resources of the European Union and Council Regulation (EU, Euratom) No 609/2014 of 26 May 2014 on the methods and procedure for making available the traditional, VAT and GNI-based own resources and on the measures to meet cash requirements, as amended by Council Regulation (EU, Euratom) 2016/804 of 17 May 2016. The fiscal reserve as of April 2017 is BGN 13.2 billion, including BGN 12.3 billion of fiscal reserve deposits in the BNB and in banks and BGN 0.9 billion of receivables under the EU Funds for certified expenditure, advance payments, etc.

2. Government budget – forecast

The balance of the Consolidated Fiscal Programme (CFP) on a cash basis as of May 2017 is expected to be positive, amounting to BGN 1,653.1 million (1.7 % of the forecast GDP)

Based on the MF preliminary data and estimates, the balance of the Consolidated Fiscal Programme (CFP) on a cash basis as of May 2017 is expected to be positive, amounting to BGN 1,653.1 million (1.7 % of the forecast GDP). Key CFP parameters on the basis of preliminary data and estimates: In May 2017, CFP revenues and grants are expected to be BGN 14,693.3 million (41.5 % of the annual estimates). Compared to the same period of the previous year, tax and non-tax revenues have grown by BGN 861.2 million, (6.5 %), while proceeds from grants were lower. Grants performance as compared to the annual estimates for 2017 is expected to be 20.1 %. The Consolidated Fiscal Programme expenditures, including the contribution of the Republic of Bulgaria to the EU budget, as of May 2017 are expected to amount to BGN 13,040.2 million, or 35.5 % of the annual estimates. The expenditures



for the same period of the previous year were to the amount of BGN 12,078.5 million. The growth as compared to the same period of the previous year is mostly due to the higher social security and health insurance payments, a baseline effect on expenditures on pensions from their increase as from July 2016, expenditures on subsidies and growth of insurance payments related to the higher insurance contribution for the Pensions for Persons under Article 69 Fund which increased by 20 percentage points as compared to 2016. The part of Bulgaria's contribution to the EU budget, paid from the central budget as of 31.05.2017, amounts to BGN 363.7 million, which complies with the current legislation in the area of EU own resources - Council Decision 2014/335/EU, Euratom on the system of own resources of the European Union, Council Regulation (EU, Euratom) No 608/2014 of 26 May 2014 laying down implementing measures for the system of own resources of the European Union, and Council Regulation (EU, Euratom) No 609/2014 of 26 May 2014 on the methods and procedure for making available the traditional, VAT and GNI-based own resources and on the measures to meet cash requirements as amended by Council Regulation (EU, Euratom) No 2016/804 of 17 May 2016.

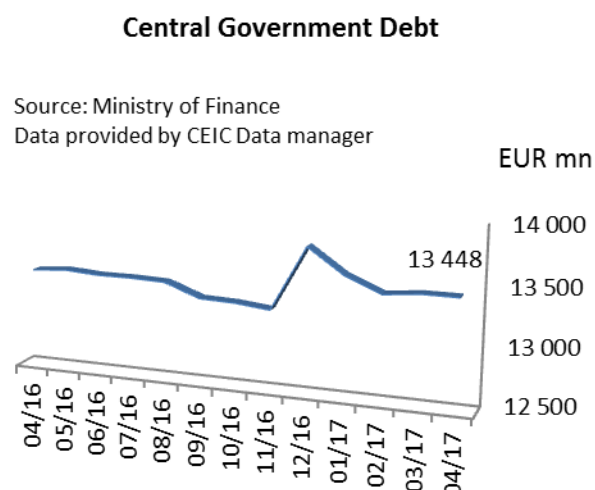
3. Government debt

The central government debt as at end-April 2017 stood at EUR 13,448.1 million

According to the MF data, the central government debt as at end-April 2017 stood at EUR 13,448.1 million.

Domestic debt amounted to EUR 3,229.9 million and external debt - to EUR 10,218.2 million. At the end of the reporting period the central government debt/gross domestic product (GDP) ratio was 27.1 %, with the share of domestic debt being 6.5 % and of external debt - 20.6 % of GDP. In the central government debt structure, domestic debt at the end of the period amounted to 24 %, and external debt - to 76 %. In April 2017, the central government guaranteed debt decreased to EUR 271.2 million as compared to end-March 2017. Domestic guarantees amounted to EUR 35.7 million, with the central government guaranteed

debt/GDP ratio being 0.5 %. According to the official register of government and government guaranteed debt, kept by the Ministry of Finance on the grounds of Article 38, paragraph 1 of the Government Debt Law, at end-April 2017 the government debt reached EUR 12,860.9 million, being 25.9% of GDP. Domestic debt amounted to EUR 3,167.8 million and external debt - to EUR 9,693.1 million. Government guaranteed debt in April 2017 amounted to EUR 898.4 million. Domestic guarantees amounted to EUR 35.7 million, the government guaranteed debt/ GDP ratio being 1.8 %.

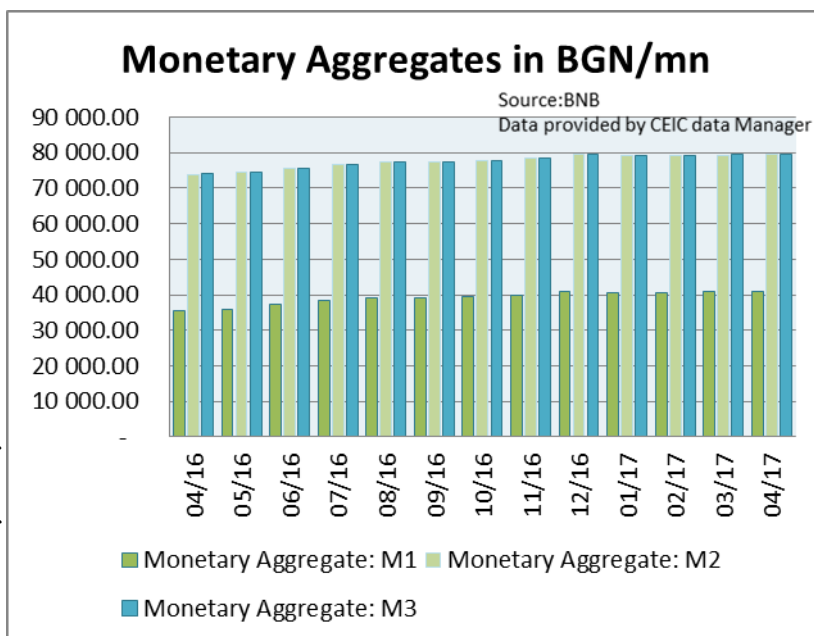


IV. MONETARY SECTOR

At the end of April 2017 Bulgaria's broad money (M3) was BGN 79.663 billion (83.6% of GDP) compared to BGN 79.463 billion (83.4% of GDP) in March 2017

According to BNB data, in April 2017 broad money (monetary aggregate M3) increased annually by 7.6% compared to 8.5% annual growth in March 2017. At the end of April 2017 M3 was BGN 79.663 billion (83.6% of GDP) compared to BGN 79.463 billion (83.4% of GDP) in March 2017. Its most liquid component – monetary aggregate M1 – increased by 16% annually in April 2017 (17.7% annual growth in March 2017). At the end of April 2017, deposits of the non-government sector were BGN 68.401 billion (71.8% of GDP), increasing annually by 7.6% (8.4% annual growth in March 2017). Deposits of Non-financial corporations were BGN 18.846 billion (19.8% of GDP) at the end of April 2017. Compared to the same

month of 2016 they increased by 9% (10.1% annual growth in March 2017). Deposits of financial corporations increased by 28.3% annually in April 2017 (28.4% annual growth in March 2017) and at the end of the month they reached BGN 3.920 billion (4.1% of GDP). Deposits of Households and NPISHs were BGN 45.635 billion (47.9% of GDP) at the end of April 2017. They increased by 5.5% compared to the same month of 2016 (6.4% annual growth in March 2017). Net domestic assets were BGN 49.050 billion at the end of April 2017. They increased by 5.1% compared to the same month of 2016 (5.5% annual growth in March 2017). At the end of the month their basic component – domestic credit – was BGN 50.767 billion and increased by 3.7% compared to April 2016 (4% annual growth in March 2017). In April 2017 claims on the non-government sector increased by 4.5% annually (3.9% annual increase in March 2017) reaching BGN 52.627 billion. At the end of April 2017, claims on loans to the non-government sector amounted to BGN 51.453 billion (54% of GDP) compared to BGN 51.014 billion (53.6% of GDP) at the end of March 2017. They increased annually by 4.3% in April 2017 (3.8% annual increase in March 2017). 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 135.9 million. On an annual basis, loans sold by Other MFIs were BGN 169.9 million (of which BGN 1.1 million in April 2017), while the amount of repurchased loans was BGN 34 million (of which BGN 4.7 million in April 2017). In April 2017, loans to Non-financial corporations increased by 3.3% annually (2.5% annual growth in March 2017) and at the end of the month amounted to BGN 31.058 billion (32.6% of GDP). Loans to Households and NPISHs were BGN 18.935 billion (19.9% of GDP) at the end of April 2017. They increased by 5.2% compared to the same month of 2016 (4.7% annual growth in March 2017). At the end of April 2017 loans for house purchases were BGN 8.897 billion and increased by 2.7% annually (2.4% annual growth in March 2017). Consumer loans amounted to BGN 7.437 billion and compared to April 2016 they increased by 3.4% (3.3% annual growth in March 2017). On an annual basis other loans increased by 78.5% (71.8% annual growth in March 2017) and reached BGN 1.274 billion. Loans granted to financial corporations were BGN 1.460 billion at the end of April 2017 (1.5% of GDP). Compared to April 2016, they increased by 18.1% (21.1% annual growth in March 2017). Net foreign assets amounted to BGN 50.163 billion at the end of the reporting month compared to BGN 50.510 billion at the end of March 2017 and increased by 8.2% compared to April 2016 (10% annual growth in March



2017). At the end of April 2017 foreign assets increased by 7.7% annually (8.6% annual growth in March 2017), reaching BGN 59.388 billion. Foreign liabilities amounted to BGN 9.226 billion, marking a 5.1% annual growth (1.4% annual increase in March 2017).

V. CAPITAL MARKET

At the end of May 2017 the BSE-Sofia benchmark SOFIX rose by 3.94 pps on a monthly basis to 661.23

According to BSE-Sofia at the end of May 2017, all stock indices continue to rise compared the end of 2016. Compared to the previous month, the SOFIX BSE-Sofia benchmark rose by 3.94 pps to 661.23. The BGBX40 and BGREIT indicators increased by 0.36 pps and by 2.73 pps to 130.6 and 111.12, respectively. At a loss of 3.2 pps in May 2017 was BGTR30, which declined to 516.72. For a period of one month, at the end of May 2017 the GGIX declined by 1.22 pps to 168.75. The turnover of the regulated market is just over BGN 8 565 331 and the most liquid company as of 31.05.2017 is Chimimport AD with traded 48 633 shares at a price of BGN 1.720 per share, followed by Zarneni Hrani Bulgaria AD - 30 420 securities at a price BGN 0.360 per lot. A strong investor interest is also to Sopharma AD and CB CCB AD. A total of 13,826 shares of three companies - Aktiv Properties, Advance Terrafund and Sopharma Properties, amounting to BGN 33,959 a total were sold to the segment for trading of securities of the Companies with special investment purpose (CSIPs). The market capitalization of BSE-Sofia as at 31.05.2017 is BGN 9 301 733 184.

Date	SOFIX	BGBX40	BGREIT	BGTR30
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
01.2017	602.3	117.0	107.3	470.4
02.2017	611.1	120.6	107.8	486.1
03.2017	634.0	124.9	108.6	503.8
04.2017	657.3	130.3	108.4	519.9
05.2017	661.2	130.6	111.1	516.7

Source: Bulgarian Stock Exchange-Sofia

VI. BANKING SECTOR

In April 2017 Bulgaria's banking system assets amounted at BGN 93 billion and increased by 0.1% q/q

According to the BNB data, in April 2017 a monthly growth was observed in assets, deposits and financial result of the banking system. At the end of the month, the liquid assets ratio, calculated under BNB Ordinance No. 11 remained high — 37.49%. The profit of the banking system as of 30 April amounted to BGN 413 million (compared to BGN 439 million for the same period of 2016). Within the first four months of 2017, impairment costs on loans and receivables of BGN 162 million were incurred (against BGN 219 million a year earlier). Compared to the end of March, the total amount of assets increased by 0.1% to BGN 93.0 billion. There was a decrease in the cash balances at central banks. Loans and receivables registered a month-on-month growth of 1.3% (BGN 714 million), and their share reached 61.4% of total assets. As of end-April investments in debt and equity instruments increased by BGN 55 million (0.4%), while their share in the total assets of the banking sector remained at 14.1%. The banking system's loan portfolio (excluding loans and advances to sectors "central banks" and "credit institutions") grew by BGN 458 million (0.8%) during the month. Loans to "non-financial corporations" (by BGN 232 million, 0.7%), to "households" (by BGN 193 million, 1.0%) and to "other financial corporations" (by 38 million, 1.9%) increased. There is a decrease in the loans to sector "general governments" (by BGN 5 million). The total deposits in the banking system amounted to BGN 79.2 billion as of end-April, marking a month-on-month growth of 0.5% (BGN 379 million). An increase was registered by the deposits of the "general

governments” sector (BGN 153 million), of “households” (BGN 105 million) and of “other financial corporations” (BGN 64 million). The monthly dynamics was also influenced by the growth in the resource from “credit institutions” (BGN 323 million), and by the decrease in the resource from “non-financial corporations” (by BGN 266 million). As of 31 March 2017 the capital adequacy ratios of the banking system increased compared to those reported at the end of the fourth quarter of 2016. At the end of March the ratios of Common Equity Tier 1 capital, Tier 1 capital and total capital adequacy were 20.86%, 21.34% and 22.66%, respectively (against 20.41%, 20.88% and 22.15% as of 31 December 2016). Compared to the end of March 2017, the balance sheet item equity capital of the banking system decreased by 2.0% to BGN 11.9 billion owing to the decrease in the retained earnings 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 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).

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.

CONSUMER SURVEY

The survey gathers information about the consumers' opinions about their financial situation, the general economic situation in the country, the inflation, unemployment, savings, etc. The replies to the questions are presented in a five-option ordinal scale. The results are in the form of balances which are the difference between the relative shares of the positive and the relative shares of the negative answering options, as there is one specification: the very positive and the very negative answering options are given a coefficient of 1, and the more moderate positive and negative options - a coefficient of 0.5. The composite confidence indicator is calculated as an arithmetic average of the balances of the expectations about the development over the next 12 months of: the financial situation and savings of the households, the general economic situation in the country and the unemployment, as the last balance is taken with a negative sign.

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 criteria 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.

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.

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.

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.

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.

AGRICULTURE

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.

LABOUR FORCE

NSI:

UNEMPLOYMENT

Unemployed are persons aged 15 to 74 who:

- did not work at all during the reference period;
- were actively seeking work within the preceding four weeks, including the reference one, or have found a new job or business that is expected to start within 3 months following the reference period;
- were available to start working within two weeks following the reference period.

Long-term unemployed are persons who have been unemployed for one or more years.

Economically inactive population (persons not in the labour force) includes persons aged 15 and over who were neither employed, nor unemployed during the reference period.

EMPLOYEES UNDER LABOUR CONTRACT AND GROSS AVERAGE WAGES AND SALARIES

The source of information is the Quarterly Survey on employees, hours worked, wages and salaries, and other expenditures paid by the employer. It is sample survey which main purpose is to make a study of the current state and dynamics of some main aspects of labour market. The sample used for the survey is a

stratified random sample without replacement. Stratification criteria used include: economic activity (NACE rev.2), size of the enterprise (according to the number of employees) and regional breakdown (28 districts, NUTS3).

HOUSEHOLD INCOME, EXPENDITURE AND CONSUMPTION

The source of data is the quarterly household budget survey. It is sample survey. The sample used for the survey is a random sample.

A regular household are two or more persons who live in one dwelling or part of a dwelling, having their meals together and having a common budget irrespective of the fact whether they are relatives. A household is also one person living alone, having meals separately and having his/her separate budget. Institutional households are not studied by the household budgets survey.

The main indicators for income, expenditure and consumption are estimated quarterly and annual as average values and relative share.

Household income in cash and kind includes all receipts of household members from: wages and salaries, pensions, entrepreneurship, unemployment benefits, social benefits, etc. Other regular or irregular transfers from other households and property sale are also included.

Household expenditure includes expenditure for food, beverages, tobacco, housing (water, electricity, heating, furnishing and maintenance), transport, communications, health, taxes, social insurance contributions, etc.

Consumption expenditure includes household expenditure for goods and services according to International Classifications of Individual Consumption by Purpose (COICOP).

Consumption average per household member includes the quantities of foods and beverages consumed at home. The catering data are not included.

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.

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 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.

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. Viktoria Tsekova, Chief analyst, e-mail tsekova_v@ubb.bg.