

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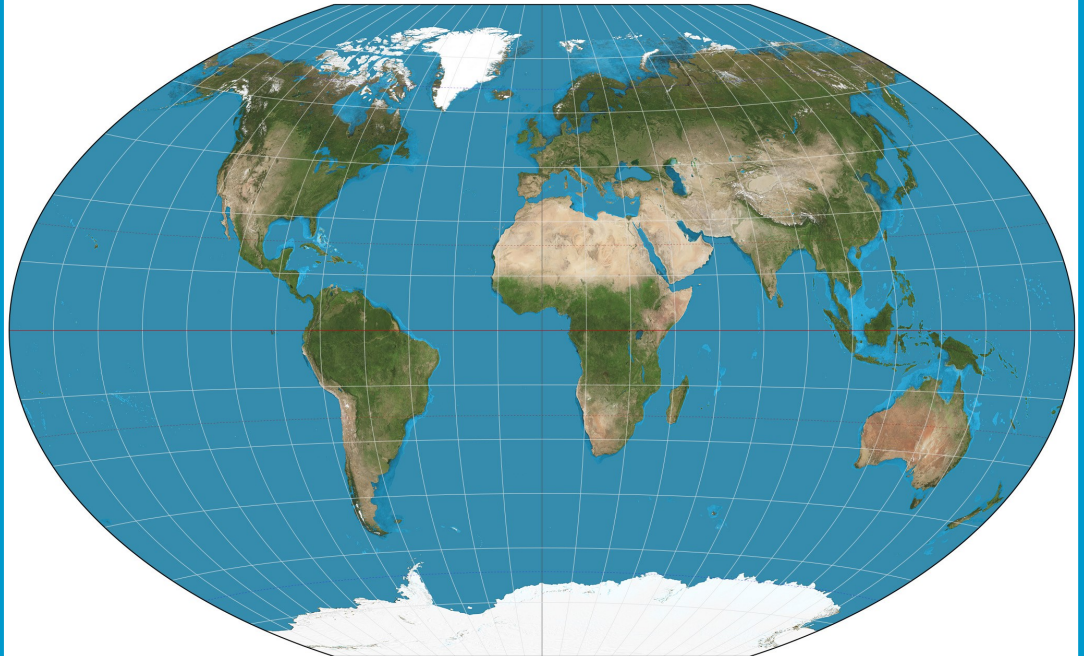
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HIGHLIGHTS AND FORECASTS

MONTHLY ECONOMIC REPORT



- *Central banks are discussing and preparing steps for a change in monetary policy. Interest rates in Europe and the US are rising*
- *Governing Council of the ECB decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00 %, 0.25 % and -0.40 % respectively*
- *Results of the Q3 2017 ECB Survey of Professional Forecasters: HICP inflation expectations have been revised downwards for 2017, 2018 and 2019. Longer-term HICP inflation expectations remain unchanged at 1.8 %. Expectations for HICP excluding food and energy have been revised upwards for 2017, but remained unchanged for forecast horizons further out. Real GDP growth expectations have been revised upwards for 2017, 2018 and 2019. Unemployment rate expectations have been revised downwards*
- *The Monetary Policy Committee of the Bank of England (MPC) sets monetary policy to meet the 2 % inflation target in a way that helps maintain growth and employment. At its meeting on August 2, 2017, the CPP continued to maintain an interest rate of 0.25 %.*
- *Bank of Japan (BoJ) Policy Council decided to apply a negative interest rate minus 0.1 % on current account balances held by financial institutions within the Bank. The Central bank will buy Japanese government bonds (JGB), so the 10-year-old and the yield to stay around zero percent*
- *The updated version of the IMF World Economic Forecasting report expects global GDP growth will be 3.5 % in 2017 and 3.6 % in 2018. Better growth in China, the Eurozone and Japan will offset the slower-than-expected US economy and Donald Trump's economic promises as well as the shrinking economy of the United Kingdom*
- *Estimates for 2017 were revised to increase in many euro area countries, including Germany, Spain, France and Italy, where growth in the first quarter of 2017 exceeded expectations due to higher-than-expected domestic demand.*
- *The US forecast was projected to grow from 2.1 % in 2017 and 2018 well below the 3 % growth that the government of Donald Trump seeks.*
- *For China, the forecasts were also raised - 6.7 % this year and 6.4 % in 2018 respectively*
- *Euro area GDP grew up by 0.6 % in Q2 2017, with growth rates also picking up slightly over the previous three months to 0.5 %. On an annual basis, the increase was 2.2 % versus 1.9 % in the first three months of the year*
- *The UK ended Q2 2017 with weak dynamics: the industry stagnated and the trade deficit unexpectedly expanded*
- *The slowdown in US inflation continues unabated as consumer inflation and inflation have generally fallen below forecasts, reducing the likelihood that the Federal Reserve will lower interest rates this year for the third time*
- *China's currency reserves rose for the sixth consecutive month in July 2017 amid a rising yuan and strong economic growth*
- *The Japanese economy reported an unexpectedly strong growth of 4 % yoy in the second quarter of 2017 and 1 % quarter on quarter as a result of increased private consumption and capital expenditures*
- *World demand for oil is strong and prices are expected to stabilize at around \$ 52-53 a barrel*
- *International steel prices are expected to be at USD 395 per ton in 2017 to USD 425 per ton in 2019*
- *Strong crops for maize and sunflower and slightly weaker for wheat, but with moderate price increases*

- *In June 2017 the current and capital account recorded a surplus of EUR 517.8 mn, compared with a positive balance of EUR 854.3 mn in June 2016*
- *Foreign direct investment in Bulgaria presented according to the directional principle totaled EUR 405 mn (0.8 % of GDP) in January – June 2017, dropping by EUR 355.9 mn (46.8 %)*
- *In May 2017 Bulgaria's external debt amounted to EUR 34,206.5 mn and presented 69.2 % of GDP*
- *In January - May 2017, exports (FOB) amounted to EUR 10495.5 mn, increasing by EUR 1423.8 mn (15.7 %) for the same period of 2016*
- *In July 2017 BNB's foreign reserves amounted to EUR 23.7 bn, reporting an increase by 2.7 % y/y, and decrease by 1 % m/m*
- *Gross Domestic Product (GDP) expanded with 3.6 % in Q2 of 2017 compared to the same quarter of the previous year and with 0.9 % compared to Q1 of 2017*
- *In July 2017, the total business climate indicator decreased by 1.4 pps to 27.9 % in comparison with June 2017 but continues to be above to its long-term average by 7.8 pps*
- *In June 2017 the Industrial Production Index, seasonally adjusted, decreased by 1.4 % as compared to May 2017, and increased by 3.6 % y/y based on the working day adjusted data*
- *In June 2017, the seasonally adjusted turnover in 'Retail trade, except of motor vehicles and motorcycles' reported a decrease of 0.5 % m/m, and increase by 2.6 % y/y based on the working day adjusted data*
- *In June 2017 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 0.2 % above the level of the previous month and reported a 7.9 % annual increase based on the working day adjusted data*
- *In Q2 of 2017 the issued building permits for residential buildings increased on quarterly base by 50.7 %, and by 35.4 % on annual base. The property market is in an upward period. This time the upward cycle is mainly driven by domestic demand and market-friendly macro-factors*
- *For Q2 of 2017, the construction of housing and industrial buildings in Bulgaria is strong. The house market is in ascending period. This time it has been driven mainly by the domestic demand and favorable for the market macro factors*
- *In June 2017, the number of the trips of Bulgarian residents abroad was 618.9 thousand and increased by 9.5 % y/y, with decrease by 5.3 % m/m*
- *In June 2017, the level of the registered unemployment is 6.8 %, reporting a decrease both on monthly and on annual base, respectively with 0.3 pp and 1.6 pp*
- *At the end of June 2017 the number of employees under labour contract increased by 63.4 thousand or 2.8 % as compared to the end of March 2017 and reached 2.34 mn*
- *During Q2 of 2017, the total income average per household member is BGN 1 355 and increases by 5.8 % on a quarterly base and by 9.4 % annually*
- *In July 2017 the consumer price index was 100.3 %, i.e. the monthly inflation was 0.3 %, and the annual inflation (July 2017 compared to July 2016) 1.3 %, as a result of the increase of the prices of the food and energy services*
- *In June 2017 Total Producer Price Index in industry decreased by 0.2 % m/m but accelerated by 3.1 % y/y, respectively*
- *In June 2017 Bulgaria's fiscal reserve is quite stable amounting at BGN 13.2 bn*
- *In June 2017 Bulgaria's central government debt as at end-June 2017 stand at EUR 13,456.2 mn and presented 27.1 % of GDP*
- *At the end of June 2017, Bulgaria's domestic credit amounted to BGN 51.6 bn, increasing by 1.3 % m/m and by 6.7 % y/y, respectively. The broad money (Monetary aggregate M3) amounted to BGN 80.8 bn, increasing by 0.6 % m/m and by 7.0 % y/y, respectively*
- *In July 2017, all stock indices continued to grow. SOFIX grew by 8.46 percentage points to 711.5*
- *At the end of June 2017 the profit of the banking sector in Bulgaria amounted to BGN 660 mn and decreased by 14.6 % y/y. Banking system total assets amounted at BGN 93 bn and presented 96.1 % of GDP*

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GLOBAL TRENDS

Policy of the Central Banks

Central banks are discussing and preparing steps for a change in monetary policy. Interest rates in Europe and the US are rising

Central banks are discussing and preparing steps for a change in monetary policy. The first step is to define new normal interest rates to make sure that banks do not cross the line of financial restrictions. The Federal Reserve estimates that this level is 3 %, which was to be reached in 2019 at 25 basis points rising every three or four months. This adaptation period may be longer. It may also be that the neutral rate is at a lower level if the recovery stops. In any case, there will be an increase in interest rates in the USA and Europe. The second important step is the reduction of central bank balances. They must sell the government securities and mortgage bonds they bought during the last decade. In the case of the Federal Reserve, it is about USD 3 trillion, including the reverse repo operations. Probably half of these assets will have to be sold at a rate of 30-50 billion dollars a month. Now the potential of the central bank to help the banking system in a crisis is very limited. The two parallel processes of withdrawing incentives should not affect lending and stop GDP growth. Slowing interest rates will continue to pour liquidity into equity and bond markets despite their high prices. The combination of sluggish growth, shrinking credit markets and expensive stocks is extremely dangerous for the stock market. It has the property of causing swift drops on exchanges that central banks fail to anticipate or stop. In the forex market, negative moods dominate the US dollar, despite rising interest rates. The focus of attention is on the economy, but capital flows are now heading more towards investment in Europe, and that supports the euro. The single currency still has no support for raising interest rates or even reducing the ECB's balance sheet. Europe's leading economies are recovering, but central bankers do not see inflation and wage increases.

ECB

Governing Council of the ECB decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00 %, 0.25 % and -0.40 % respectively

Governing Council of the ECB decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00 %, 0.25 % and -0.40 % respectively. The Governing Council expects the key ECB interest rates to remain at their present levels for an extended period of time, and well past the horizon of the net asset purchases. Regarding non-standard monetary policy measures, the Governing Council confirms that the net asset purchases, at the current monthly pace of EUR 60 billion, are intended to run until the end of December 2017, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim. The net purchases are made alongside reinvestments of the principal payments from maturing securities purchased under the asset purchase programme. If the outlook becomes less favorable, or if financial conditions become inconsistent with further progress towards a sustained adjustment in the path of inflation, the Governing Council stands ready to increase the programme in terms of size and/or duration.

The ECB will change its monetary policy early in 2018, when the euro moves to the range of 1.20-1.25 dollars over the next year. For now, the currency is expected to remain below the key level of 1.16 EUR / USD if the market follows the logic of what central bankers are doing.

Results of the Q3 2017 ECB Survey of Professional Forecasters: HICP inflation expectations have been revised downwards for 2017, 2018 and 2019. Longer-term HICP inflation expectations remain unchanged at 1.8 %. Expectations for HICP excluding food and energy have been revised upwards for 2017, but remained unchanged for forecast horizons further out. Real GDP growth expectations have been revised upwards for 2017, 2018 and 2019. Unemployment rate expectations have been revised downwards

Respondents to the ECB Survey of Professional Forecasters (SPF) for the third quarter of 2017 reported average point forecasts for inflation of 1.5 %, 1.4 % and 1.6 % in 2017, 2018 and 2019, respectively. That represents downward revisions of 0.1 percentage points at each of those three horizons. Average longer-term inflation expectations (which referred to 2022) remained un-

changed at 1.8 %. Expectations for the annual inflation rate of HICP excluding food and energy were revised upwards for 2017, to 1.1 %, but remained unchanged for all other forecast horizons (1.3 % in 2018, 1.5 % in 2019 and 1.7 % in 2022). SPF respondents revised their expectations for growth in euro area economic activity upwards for 2017 and 2018 by 0.2 percentage points to 1.9 %, and 1.8 %, respectively. Expectations for economic growth in 2019 were revised up by 0.1 percentage points to 1.6 %. There were no changes to longer-term economic growth expectations (1.6 %). Unemployment rate expectations continued to show a declining trajectory. The average point forecasts were 9.2 %, 8.8 % and 8.4 % for 2017, 2018 and 2019, respectively. Relative to the SPF for the second quarter of 2017, this represents downward revisions of 0.2, 0.3 and 0.3 percentage points for 2017, 2018 and 2019, respectively. The average point forecast for the longer-term unemployment rate (which referred to 2022) was revised downwards by 0.3 percentage points, to 8.1 %.

Results of the ECB Survey of Professional Forecasters for Q3 2017 (annual percentage changes, unless otherwise indicated)	2017	2018	2019	Longer term (1)
HICP inflation				
SPF Q3 2017	1.5	1.4	1.6	1.8
Previous SPF (Q2 2017)	1.6	1.5	1.7	1.8
HICP inflation excluding food and energy				
SPF Q3 2017	1.1	1.3	1.5	1.7
Previous SPF (Q2 2017)	1	1.3	1.5	1.7
Real GDP growth				
SPF Q3 2017	1.9	1.8	1.6	1.6
Previous SPF (Q2 2017)	1.7	1.6	1.5	1.6
Unemployment rate (2)				
SPF Q3 2017	9.2	8.8	8.4	8.1
Previous SPF (Q2 2017)	9.4	9.1	8.7	8.4

Source: ECB

1) Long term expectations refer to 2022 in Q3 2017 SPF and to 2012 in Q2 2017

2) As percentage of labour force

Federal Reserve

The Federal Reserve will withdraw the incentives according to the economic recovery. This means that when growth is accelerating and new jobs are rising rapidly, then there will be an increase in interest rates

The Federal Reserve is likely to change interest at the earliest on December 13, 2017, as fluctuations in inflation are strong and the economy does not open enough new jobs. During this time the assets will be gradually reduced. The Bank will raise short-term economic growth rates. In the period of growth weakness, only bonds will be sold, which will raise long-term interest rates (on corporate bonds, loans and government debt). This should avoid the situation of the last six months when short-term interest rates have risen and long-term rates have fallen. This led to deterioration in bank profits and they were forced to restrict lending.

Bank of England

The Monetary Policy Committee of the Bank of England (MPC) sets monetary policy to meet the 2 % inflation target in a way that helps maintain growth and employment. At its meeting on August 2, 2017, the CPP continued to maintain an interest rate of 0.25 %. The Committee unanimously voted to keep stock of corporate bonds with nonfinancial investments funded by the issue of central bank reserves at 10 billion pounds and to maintain stockpiles of government bonds in the UK funded by the issuance of reserve the central bank, at 435 billion pounds. The Committee voted unanimously to complete the TFS on 28 February 2018 as foreseen in the introduction of the scheme.

The overall assessment of the MPC on the outlook for inflation and activity is reflected in the August inflation outlook is broadly similar to that of May. In the CMP central forecast, GDP growth remains weak in the near future, as the pressure on real household incomes continues to weigh on consumption. Growth then rises slightly over its reduced potential proportion to the projected balance. Net trade balance and business investment are increasing and consumption growth is recovering in line with a modest rise in household incomes. Net trading is supported by strong global growth and the devaluation of sterling in the past.

The combination of high levels of profitability, especially in the export sector, low cost of capital and limited free capacity, supports British companies' investments during the forecast period, offsetting the effect of ongoing uncertainty surrounding Brexit. The consumer price index rose to 2.6 % in June from 2.3 % in March, as expected. The CCP expects inflation to rise further in the coming months and peak at around 3 % in October, as last depreciation of the pound continues to shift towards consumer prices. Under the conditional trend of the yield curve on the market, inflation is expected to stay above the CPI target over the projection horizon. This overrun fully reflects the effects of the referendum - a decline in sterling. As the effect of the rise in import prices on inflation is decreasing, domestic inflationary pressure is gradually rising over the projection horizon. With wage cuts, wage growth is expected to recover. In addition, the projections are that margins in the consumer sector will be restored after being pressed by the rise in import prices. Therefore, inflation remains at a level slightly above the 2 % target.

UK Averages of other forecasters' central projections (%)	2018 Q3	2019 Q3	2020 Q3
CPI Inflation	2.6	2.2	2
GDP growth	1.5	1.6	1.8
LFS unemployment rate	4.9	5	5.2

Source: Bank of England

The MPC's projections are based on the average value of a number of possible outcomes for the UK's possible trade relations with the European Union. Forecasts also suggest that, in the meantime, households and businesses are basing their decisions on the expectations of a smooth adjustment to these new commercial relationships. The MPC's projections are based on the average value of a number of possible outcomes for the UK's possible trade relations with the European Union. Forecasts also suggest that, in the meantime, households and businesses are basing their decisions on the expectations of a smooth adjustment to these new commercial relationships. Other important assessments include: that the lower sterling rate continues to increase consumer prices broadly, with no negative impact on future inflation expectations. Wage growth remains modest in the near future, but rises over the projection horizon. Moderate growth in household spending is largely offset by the accumulation of other demand components. Monetary policy cannot prevent the necessary real adjustment as the United Kingdom moves to its new international trade agreements or weaker real income growth that is likely to accompany this adjustment over the next few years. Attempts to fully offset the impact of weaker sterling on inflation would be achievable only at the cost of higher unemployment and, in all likelihood, even with lower income growth. For this reason, the CPP powers clarify that, in exceptional circumstances, the Committee must balance any compromises between the speed with which it intends to restore inflation sustainably to the target and the support that monetary policy provides for jobs and activities. For most of the forecast period, the economy operates with a low degree of free capacity and CPI inflation is above the target. By the end of the forecast, this compromise is eliminated. Free capacity is fully absorbed and inflation remains above the target. The Committee believes that, given the assumptions underlying its projections, including the closure of the TFS absorption period and allowing the effects of the recent decisions of the Financial Policy Committee and the Prudential Regulator, some constraints are necessary to achieve Sustainable return of inflation to the target. In particular, if the economy follows this trend, in line with the August forecast, monetary policy may need to be tightened slightly over the projection horizon than the trend of the yield curve based on Forecasts from August. The Committee will continue to closely monitor the incoming evidence and is ready to respond to changes in the economic outlook as they are being developed to ensure sustainable return on inflation to the 2 % target.

Bank of Japan

Bank of Japan (BoJ) Policy Council decided to apply a negative interest rate minus 0.1 % on current account balances held by financial institutions within the Bank. The Central bank will buy Japanese government bonds (JGB), so the 10-year-old and the yield to stay around zero percent

With regard to the number of JGBs that can be purchased, the Bank will make purchases at a more or less pace - annually. The rate of increase of outstanding JGB holdings of about 80 trillion yen - in order to reach the target level of the long-term interest rate. With regard to purchases of assets other than JGB's purchases, the Bank will buy ETFs and real estate in Japan Investment Trusts (J-REIT), so that their outstanding amounts grow on an annual basis with a step of about 6 trillion yen and about 90 bil-

lion yen respectively. As for CP and corporate bonds, the BoJ will keep outstanding amounts of about 2.2 trillion yen and around 3.2 trillion yen. The Japanese economy is likely to continue to grow on the back of high financial conditions and the consequences of the government's large-scale stimulus measures, with the growth rates of the overseas economies moderately rising and growth maintained. The economy is expected to continue to grow, although growth is expected to slow down to a cyclical delay of the business fixed investment and to the effect of the planned increase in consumption tax. The recent CPI has been relatively weak, excluding the effects of rising energy prices, mainly making wage-setting and wage-setting companies cautious. Such developments lead to an increase in medium to long-term inflation expectations of lagging behind. Nonetheless, medium to long-term inflation expectations are projected to increase, with companies gradually increasing salaries and commodity prices. Thus, the change in the CPI is likely to continue to rise and increase to 2 %. The risks to economic activity are that prices are skewed down, but the impulse of the economy is not permanent. As far as the conduct of monetary policy is concerned, the BoJ will continue with "QQE with curve yield control" aimed at achieving the price. The stability target of 2 % is needed to maintain this goal in a stable form. BoJ will make policy adjustments as appropriate to monitor developments in economic activity and prices as well as financial conditions in order to maintain the pace of achievement of the target price stability objective.

Bank of Japan: Medians of the Policy Board members' forecasts (%)	2017	2018	2019
GDP growth	1.8	1.4	0.7
CPI Inflation	1.1	1.5	2.3

Source: Bank of Japan

Global economic trends

IMF kept its forecast for the global economy

The updated version of the IMF World Economic Forecasting report expects global GDP growth will be 3.5 % in 2017 and 3.6 % in 2018. Better growth in China, the Eurozone and Japan will offset the slower-than-expected US economy and Donald Trump's economic promises as well as the shrinking economy of the United Kingdom

Estimates for 2017 were revised to increase in many euro area countries, including Germany, Spain, France and Italy, where growth in the first quarter of 2017 exceeded expectations due to higher-than-expected domestic demand.

The US forecast was projected to grow from 2.1 % in 2017 and 2018 well below the 3 % growth that the government of Donald Trump seeks.

For China, the forecasts were also raised - 6.7 % this year and 6.4 % in 2018 respectively.

According to the latest International Monetary Fund (IMF) report published on July 24, 2017, better growth in China, the Eurozone and Japan will compensate for the slower-than-expected US economy and Donald Trump's economic promises as well as the shrinking Economy of the United Kingdom. In its latest assessment, the IMF retained its April 2017 forecast for the global economy this year and the next, albeit revising its expectations for the Eurozone and China. The IMF predicts that global gross domestic product growth will be 3.5 % in 2017 and 3.6 % in 2018.

EC

The projections for 2017 were revised upwards in many euro area countries, including Germany, Spain, France and Italy, where growth in the first quarter of 2017 exceeded expectations due to higher than expected domestic demand.

Great Britain

IMF lowered its growth forecast for the UK economy from 2 % to 1.7 %. However, the IMF kept its forecast for 2018 when the UK economy is expected to grow by 1.5 %. The reason for the slowdown in growth is Brexit, although for the year that the country's economy has been sustainable.

USA

IMF predicts that Trump's entry into the White House will lead to a fiscal stimulus equal to 2 % of US gross domestic product, which will help increase Global growth. IMF, however, has revised the US forecast, which is expected to grow from 2.1 % in 2017 and 2.3 % in 2018, well below the 3 % target the Donald Trump government is seeking.

Japan

IMF expects Japan, the third largest economy in the world, to report a 1.3 % growth this year, raising its April forecast by 0.1 percentage points.

China

For China, estimates were up to 6.7 percent (+0.1pps) this year and 6.4 percent (+0.2 pps) in 2018.

Behind this wider recovery lies the continuing rise in world trade, with the volume of goods and services traded around the world expected to grow by 4 % in 2017 or by 0.2 pps faster than in April IMF forecast. If this forecast is to come true, world trade will grow again faster than total economic output despite the growing threats of protectionism expressed by Trump.

IMF economists warn in their report that the economic outlook is improving in the short term, but the long-term picture remains weak. This “moderate growth in the long run also carries risks”, they point out, highlighting the rising incomes and growing inequality in developed economies. Major emerging economies, such as Brazil and Russia, are still facing major economic challenges, while Latin America will grow slower than expected this year and next.

IMF Global Forecast (y/y, %)	Estimate		Projections	
	2015	2016	2017	2018
World Output	3.4	3.2	3.5	3.6
Advanced Economies	2.1	1.7	2	1.9
United States	2.6	1.6	2.1	2.1
Euro Area	2	1.8	1.9	1.7
Japan	1.1	1	1.3	0.6
United Kingdom	2.2	1.8	1.7	1.5
Canada	0.9	1.5	2.5	1.9
China	6.9	6.7	6.7	6.4
Memorandum				
World Growth Based on Market Exchange Rates	2.7	2.5	2.9	3
World Trade Volume (goods and services)	2.6	2.3	4	3.9
Advanced Economies	4	2.3	3.9	3.5
Emerging Market and Developing Economies	0.3	2.2	4.1	4.6
Commodity Prices (U.S. dollars)				
Oil	-47.2	-15.7	21.2	0.1
Nonfuel (average based on world commodity export weights)	-17.5	-1.8	5.4	-1.4
Consumer Prices				
Advanced Economies	0.3	0.8	1.9	1.8
Emerging Market and Developing Economies	4.7	4.3	4.5	4.6
London Interbank Offered Rate (%)				
On U.S. Dollar Deposits (six month)	0.5	1.1	1.6	2.2
On Euro Deposits (three month)	-0.0	-0.3	-0.3	-0.2
On Japanese Yen Deposits (six month)	0.1	0	0	0.1

Source: IMF

EU

Euro area GDP grew up by 0.6 % in Q2 2017, with growth rates also picking up slightly over the previous three months to 0.5 %. On an annual basis, the increase was 2.2 % versus 1.9 % in the first three months of the year

According to Eurostat data, the GDP of the European Union (EU) increased by 0.6 % in Q2 of 2017 on a quarterly basis. Thus, the EU economy accelerated slightly in the first quarter of this year, with growth reaching 0.5 %. On an annual basis, the EU economy expanded by 2.3 % between April and June. There was also a slight acceleration compared to the previous quarter when annual economic growth of 2.1 % was reported. Eurozone GDP also grew by 0.6 % in Q2 of 2017, with the pace also rising slightly from the previous three months to 0.5 %. On an annual basis, the increase was 2.2 % versus 1.9 % in the first three

months of the year. Among the EU Member States, the highest GDP growth is reported in the Czech Republic - 2.3 %, followed by Sweden (1.7 %) and Romania (1.6 %). The weakest growth on a quarterly basis is observed in Portugal - 0.2 %, and Finland is the only country where the economy shrinks - by 0.5 %. On an annual basis, Romania ranks first by 5.7 % from April to June. Immediately afterwards are Latvia with 4.8 % and the Czech Republic with 4.5 %. Belgium is the weakest with annual growth of 1.4 %. However, a number of countries, including Greece, are missing. For Bulgaria data show growth of 0.9 % quarter on quarter and 3.6 % on an annual basis.

Great Britain

The UK ended Q2 2017 with weak dynamics: the industry stagnated and the trade deficit unexpectedly expanded

Total industrial output is growing by 0.5 % on a monthly basis in June 2017, which is above expectations, but growth is due to higher oil production as it does not seem to have come to the summer closure of repair businesses. The industry, which accounts for the bulk of industrial output, remains unchanged, but car production shrinks by 6.7 %, the biggest decline since 2013

USA

The slowdown in US inflation continues unabated as consumer inflation and inflation have generally fallen below forecasts, reducing the likelihood that the Federal Reserve will lower interest rates this year for the third time

Consumer prices in the US unexpectedly dropped in July. The index is down 0.1 % on a monthly basis. In June, 0.1 % growth was reported. On an annual basis, inflation slowed down from 2 % in June to 1.9 % in July. Core inflation, excluding food, energy and commerce, remained zero on a monthly basis in July, after it was 0.2 % in July. On an annual basis, underlying inflation slowed down from 2 % in June to 1.9 % in July. In July, the Federal Reserve kept interest rates unchanged, citing concerns about the rising rate of inflation. US entrepreneurs have unveiled a record high number of jobs in June. This is a signal that stable recruitment in recent months is likely to continue. The US Department of Labor announced that posted jobs jumped 8 % to 6.2 million, which is the highest figure since 2000. President Donald Trump shook the markets late Tuesday, warning North Korea that threats to the United States would "be welcomed with fire and fury." But North Korea neglects the warning and said it was "carefully investigating" an attack plan for Guam where it is located US military base.

China

China's currency reserves rose for the sixth consecutive month in July 2017 amid a rising yuan and strong economic growth

Chinese exports are growing 7.2 % annually in dollar terms in July, and imports are up 11 %. In both cases, expectations were for higher growths. International foreign exchange reserves increased by USD 23.9 billion to USD 3.081 trillion in July 2017

Japan

The Japanese economy reported an unexpectedly strong growth of 4 % yoy in the second quarter of 2017 and 1 % quarter on quarter as a result of increased private consumption and capital expenditures

In Q2 of 2017, the Japanese economy grew by 1 % quarter on quarter and 4 % on an annual basis, surpassing market expectations. Private consumption, which represents about two thirds of GDP, rose by 0.9 % compared to the previous quarter, which is more than the average growth estimate of 0.5 %. This is an encouraging sign that consumer spending is no longer a weak spot in Japan's economic prospects. Capital expenditure rose by 2.4 % in the April-June period compared with the previous quarter, with an average markup of 1.2 %. This is the fastest growth in business investment since the first quarter of 2014. External demand shrank 0.3 percentage points from GDP growth in the quarter, partly due to increased imports. This is remarkable because Japan usually relies on exports to stimulate growth. Since the start of the quantitative easing in April 2013, the Japanese Central Bank (BOJ) postponed the target period of 2 % inflation six times in part due to weak consumer spending.

International Commodity Prices

Petrol

World demand for oil is strong and prices are expected to stabilize at around \$ 52-53 a barrel

British oil company BP expects global oil prices to run between USD 45 and USD 55 per a barrel next year, while shale oil production in the US is on the rise. After the slow start of the year, global demand for oil recovered in the second quarter of 2017 and is expected to grow by 1.4 to 1.5 million barrels per day. Global demand seems pretty strong and prices will stabilize at around USD 52-53 per a barrel. Brent crude oil price averaged 51.71 dollars per barrel in the first half of 2017 and is currently just under USD 53 per a barrel. In 2016 global demand was about 95 million barrels per day. Brent crude oil prices are expected to remain unchanged in 2018, as shale production in the US may expand to levels that effectively curb prices. Expectations for 2018 are oil prices to range from USD 45 to USD 55 per a barrel.

Metals

International steel prices are expected to be at USD 395 per ton in 2017 to USD 425 per ton in 2019

Much of the current state of the steel industry in the world is tied to the volumes of Chinese production. Due to the huge infrastructure needs over the past 10 years, China has significantly increased steel production. The Chinese authorities announced they would cut steel production by more than 165 million tons by 2020 or by 20 %. In 2014 China reached a peak in steel production of 822 million tons, compared with 803 million tons in 2015, or a decline of 3 % in production. At this rate, China seems to be on track to cut its production by 20 % by 2020. International steel prices are expected to be at USD 395 per ton in 2017 to USD 425 per ton in 2019. For the steel business in Europe, 2017 is expected to be a good year. The reason for this is the restrictive measures in the form of additional duties which the European Commission has imposed on Chinese imports of certain products and which already result. This will definitely give a boost to European producers, which are already protected against unfair competition at dumped prices. What still limits steel production is the lack of a significant increase in the consumption of steel products in Europe. Eurofer's expectations are that demand will increase by 1-1.5 % this year. It cannot be said that the European industry has actually come out of the zero point that has reached the crisis, and this directly affects the consumption of steel. The situation in the non-ferrous metallurgy is much safer. Zinc has reached over USD 2700 per ton, and lead is traded at around USD 2100-2300 per ton. The price of copper is at USD 5000-6000 per ton. The higher price in general means a better year, but not so much, because the global metal consumption is not expected to be big.

Prices of agricultural and food products

Strong crops for maize and sunflower and slightly weaker for wheat, but with moderate price increases

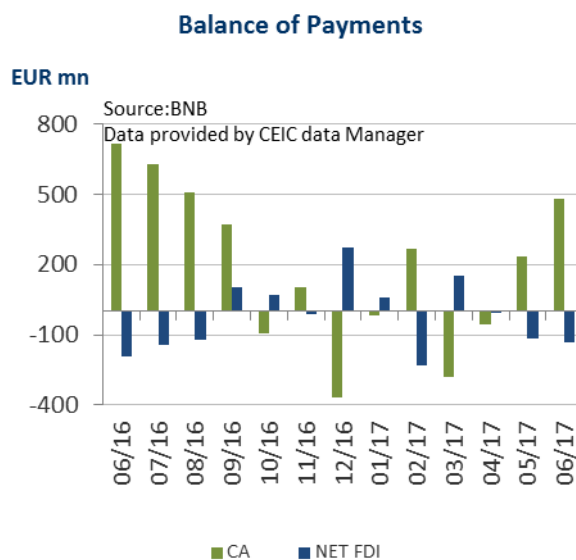
According to the EC forecast, in 2017, good grain yields are expected in the Black Sea basin, which is Bulgaria's competitive market, but there is a global decline in production in the EU and the United States. Cereals and oilseeds are among the top exports from the country, with annual exports of about 1.5-2 billion euros, together with processed oil. So the year is strong for both producers and probably for the economy and future exports. And if the EC forecasts come true, 2017 will be record for the production of sunflower in Bulgaria since 1993. According EU projection the cereals production will be lower than average this year, with droughts in different European countries being the main reason for this. Lower harvest is also expected in the United States for wheat and sunflower, but Russia and most Black Sea countries are likely to increase their production. World market prices are now higher than last year, mainly due to the significantly lower wheat and maize production expected in the United States. The Black Sea region is expected this year to be an extremely active player in the sector, which will not allow a more significant appreciation of the Bulgarian market. Record-breaking production and export of wheat from Russia are expected. Turkey, which is a traditional importer of wheat, also goes on a strong year and even to small quantities for export. According to the SARA Agricultural Research Center forecast at the beginning of the harvesting campaign the purchase prices for feed wheat in Bulgaria will start from BGN 240-255 per ton and the bakery will be traded at BGN 250-270 per ton. For the year 2017/2018 the expected price averages BGN 250 for feed and BGN 275 per ton for bread wheat. The average price per ton of rapeseed is expected to be around BGN 670 per ton. The areas with autumn crops for the new harvest are: wheat - 1.16 million ha, barley 0.17 million hectares and rape - 0.17 million hectares. These areas are almost the same in 2016, only an 11 % increase in barley is expected. The probable yield of ha in wheat is expected to be 453 kg, barley 411 kg and rape 248 kg. This means that the total wheat yield will be 5.2 million tons, the barley about 670 thousand tons and the rape – 450 thousand tons.

EXTERNAL SECTOR

Balance of payments

In June 2017 the current and capital account recorded a surplus of EUR 517.8 million, compared with a positive balance of EUR 854.3 million in June 2016

According to the data of BNB the current and capital account recorded a surplus of EUR 517.8 million in June 2017, compared with a positive balance of EUR 854.3 million in June 2016. In January – June 2017 the current and capital account was positive amounting to EUR 825.6 million (1.7 % of GDP), compared with a surplus of EUR 1,656.4 million (3.5 % of GDP) in January – June 2016. The current account was positive amounting to EUR 480.5 million in June 2017, compared with a surplus of EUR 713.6 million in June 2016. In January – June 2017 the current account was positive and amounted to EUR 634.5 million (1.3 % of GDP), compared with a surplus of EUR 844.8 million (1.8 % of GDP) in January – June 2016. The balance on goods recorded a deficit of EUR 24.8 million in June 2017, compared with a deficit of EUR 126.7 million in June 2016. In January – June 2017 the balance on goods was negative amounting to EUR 1168 million (2.4 % of GDP), compared with a deficit of EUR 835.6 million (1.8 % of GDP) in January – June 2016. Exports of goods amounted to EUR 2,374.9 million in June 2017, growing by EUR 432.4 million (22.3 %) from June 2016 (EUR 1,942.5 million). In January – June 2017 exports of goods totaled EUR 12,465.4 million (25.2 % of GDP), increasing by EUR 1,879.8 million (17.8 %) year-on-year (from EUR 10,585.6 million, 22.3 % of GDP). In January – June 2016 exports dropped by 3.4 % year-on-year. Imports of goods amounted to EUR 2,399.7 million in June 2017, growing by EUR 330.5 million (16 %) from June 2016 (EUR 2,069.2 million). In January – June 2017 imports of goods totaled EUR 13,633.4 million (27.6 % of GDP), growing by EUR 2,212.3 million (19.4 %) from January – June 2016 (EUR 11,421.1 million, 24.1 % of GDP). In January – June 2016 imports dropped by 5.6 % year-on-year. Services recorded a positive balance of EUR 438 million in June 2017, compared with a surplus of EUR 486.5 million in June 2016. In January – June 2017 services recorded a surplus of EUR 1,080.7 million (2.2 % of GDP) compared with a positive balance of EUR 1129.4 million (2.4 % 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 (labor, capital, land), taxes of production and imports and subsidies) recorded a surplus of EUR 17.7 million in June 2017, compared with a deficit of EUR 83.8 million in June 2016. In January – June 2017 the balance on primary income was negative and equated to EUR 105.5 million (0.2 % of GDP), against a deficit of EUR 584.8 million (1.2 % of GDP) in January – June 2016. The net secondary income (which reflects the redistribution of income) recorded a surplus of EUR 49.6 million, compared with a surplus of EUR 437.6 million in June 2016. In January – June 2017 the net secondary income was positive amounting to EUR 827.3 million (1.7 % of GDP), compared with a positive balance of EUR 1,135.7 million (2.4 % of GDP) in the same period of 2016. The capital account recorded a surplus of EUR 37.3 million, compared with a positive balance of EUR 140.7 million in June 2016. In January – June 2017 the capital account recorded a surplus of EUR 191 million (0.4 % of GDP), compared with a positive balance of EUR 811.6 million (1.7 % of GDP) in January – June 2016. The financial account recorded a net inflow of EUR 1.2 million, compared with an inflow of EUR 784.4 million in June 2016. In January – June 2017 the financial account recorded a net inflow of EUR 496.8 million (1 % of GDP) compared with an inflow of EUR 1,769.6 million (3.7 % of GDP) in January – June 2016. The net direct investment compiled in accordance with the Sixth Edition of the Balance of Payments and International Investment Position Manual was negative amounting to EUR 134.7 million, compared with a negative balance of EUR 195 million in June 2016. In January – June 2017 direct investment recorded a negative balance of EUR 272.2 million (0.6 % of GDP), compared with a negative balance of EUR 698.6 million (1.5 % of GDP) million in January – June 2016. Direct investment – assets grew by EUR 3.8 million compared with an increase of EUR 53.9 million in June 2016. In January – June 2017 direct investment – assets rose by EUR 101.4 million (0.2 % of GDP), compared with an increase of EUR 217 million (0.5 % of GDP) in the same period of 2016. Direct investment – liabilities grew by EUR 138.6 million in June 2017, compared with an increase of EUR 248.9 million in June 2016. In January – June 2017



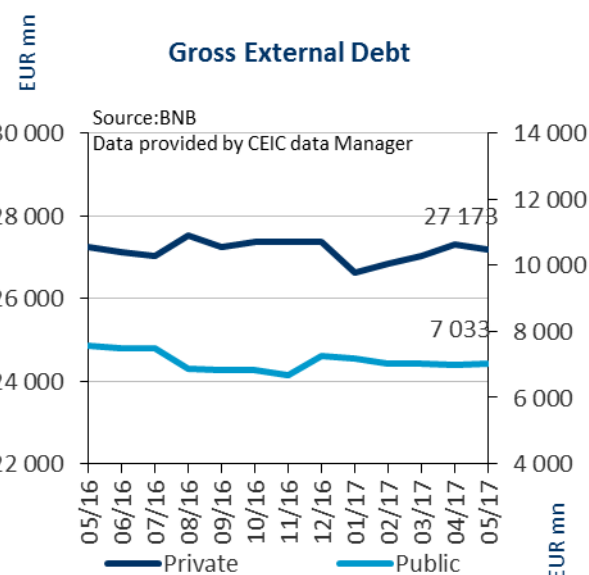
direct investment – liabilities rose by EUR 373.6 million (0.8 % of GDP), compared with an increase of EUR 915.6 million (1.9 % of GDP) in the same period of 2016. The balance on portfolio investment was positive amounting to EUR 91.4 million, compared with a positive balance of EUR 4.6 million in June 2016. In January – June 2017 the balance was positive and equated to EUR 629.2 million (1.3 % of GDP), compared with a negative balance of EUR 1,063.4 million (2.2 % of GDP) million in January – June 2016. Portfolio investment – assets grew by EUR 99.7 million, compared with a decline of EUR 39.2 million in June 2016. In January – June 2017 they rose by EUR 474.3 million (1 % of GDP) compared with a decrease of EUR 18.6 million (0.04 % of GDP) in January – June 2016. Portfolio investment – liabilities grew by EUR 8.3 million compared with a decline of EUR 43.7 million in June 2016. In January – June 2017 portfolio investment – liabilities decreased by EUR 154.9 million (0.3 % of GDP), compared with an increase of EUR 1,044.8 million (2.2 % of GDP) in January – June 2016. The balance on other investment was negative amounting to EUR 346 million, compared with a positive balance of EUR 456.7 million in June 2016. In January – June 2017 the balance was positive and equated to EUR 2.4 million, compared with a positive balance of EUR 1,755.5 million (3.7 % of GDP) in January – June 2016. Other investment – assets dropped by EUR 353 million, compared with an increase of EUR 212.2 million in June 2016. In January – June 2017 they grew by EUR 201.6 million (0.4 % of GDP) compared with an increase of EUR 1,588.4 million (3.4 % of GDP) in January – June 2016. Other investment – liabilities dropped by EUR 7 million compared with a decrease of EUR 244.5 million in June 2016. In January – June 2017 they rose by EUR 199.2 million (0.4 % of GDP) compared with a decline of EUR 167.2 million (0.4 % of GDP) in January – June 2016. The BNB reserve assets grew by EUR 381.1 million, compared with an increase of EUR 540.7 million in June 2016. In January – June 2017 they rose by EUR 173.1 million (0.3 % of GDP), compared with an increase of EUR 1,830.6 million (3.9 % of GDP) in the same period of 2016. The net errors and omissions were negative amounting to EUR 516.6 million compared with a negative value of EUR 69.9 million in June 2016. According to preliminary data, the item was negative in January – June 2017 and totaled EUR 328.8 million (0.7 % of GDP), against a positive value of EUR 113.2 million (0.2 % of GDP) in the same period of 2016.

Gross External Debt

In May 2017 Bulgaria's external debt amounted to EUR 34,206.5 million and presented 69.2 % of GDP

According to BNB data Bulgaria's external debt amounted to EUR 34,206.5 million (69.2 % of GDP) at end-May 2017, and decreasing by EUR 436 million (1.3 %) from end-2016 (EUR 34,642.5 million, 73.1 % of GDP). On an annual base the gross external debt dropped by EUR 599 million (1.7 %) from May 2016 (EUR 34,805.5 million, 73.5 % of GDP). Long-term liabilities totaled EUR 26,039.1 million (76.1 % of the total debt, 52.6 % of GDP) at end-May 2017, dropping by EUR 616.2 million (2.3 %) from end-2016 (EUR 26,655.2 million, 76.9 % of the total debt, 56.3 % of GDP). On an annual base long-term liabilities decreased by EUR 1,235.6 million (4.5 %) from May 2016 (EUR 27,274.7 million, 57.6 % of GDP). Short-term liabilities equaled EUR 8,167.4 million (23.9 % of the total debt, 16.5 % of GDP), increasing by EUR 180.2 million (2.3 %) from end-2016 (EUR 7,987.2 million; 23.1 % of the total debt, 16.9 % of GDP). On an annual base short-term liabilities rose by EUR 636.6 million (8.5 %) from May 2016 (EUR 7,530.8 million, 15.9 % of GDP). General government's gross external debt totaled EUR

6,435 million (13 % of GDP) in end-May 2017. It dropped by EUR 347.6 million (5.1 %) from end-2016 (EUR 6,782.5 million, 14.3 % of GDP). On an annual base general government's debt decreased by EUR 209.3 million (3.2 %) from May 2016 (EUR 6,644.3 million, 14 % of GDP). Banks' external debt totaled EUR 4,446.1 million (9 % of GDP). It grew by EUR 283.2 million (6.8 %) from end-2016 (EUR 4,162.9 million, 8.8 % of GDP). On an annual base banks' debt grew by EUR 726 million (19.5 %), from EUR 3,720.2 million, 7.9 % of GDP in May 2016. Other Sectors' external debt equaled EUR 11,215.5 million (22.7 % of GDP). It rose by EUR 12.2 million (0.1 %) from end-2016 (EUR 11,203.3 million, 23.7 % of GDP). On an annual base it dropped by EUR 436.1 million (3.7 %) from May 2016 (EUR 11,651.5 million, 24.6 % of GDP). The stock of intercompany lending amounted to EUR 12,110 million (24.5 % of GDP) at end-May 2017, dropping by EUR 383.7 million (3.1 %) from end-2016 (EUR 12,493.7 million,

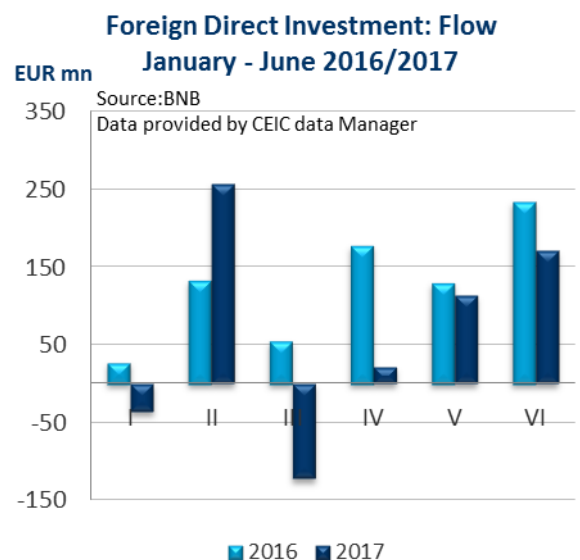


26.4 % of GDP). On an annual base it decreased by EUR 679.6 million (5.3 %) from May 2016 (EUR 12,789.5 million, 27 % of GDP). The external financing received from non-residents equaled EUR 1,616.1 million (3.3 % of GDP) in January – May 2017, compared with EUR 3,208.6 million (6.8 % of GDP) in January – May 2016. They were distributed as follows: general government received EUR 40.5 million (2.5 % of the total amount of disbursements), banks received EUR 713.1 million (44.1 %), other sectors⁴ received EUR 352.3 million (21.8 %), and intercompany lending⁴ totaled EUR 510.1 million (31.6 %). Gross external debt service totaled EUR 1,588.3 million (3.2 % of GDP) in January – May 2017, compared with EUR 2,094.5 million (4.4 % of GDP) in January – May 2016. Net external debt totaled EUR 1,871.9 million at end-May 2017. It dropped by EUR 650 million (25.8 %) from end-2016 (EUR 2,521.9 million). Its decline was due to the increase in gross external assets (by EUR 214 million, 0.7 %) on the one hand, and on the other – to the decrease in gross external debt (by EUR 436 million, 1.3 %). As a percentage of GDP, net external debt equated to 3.8 %, from 5.3 % at end-2016. On an annual base, net external debt decreased by EUR 2,935.5 million, 61.1 % (from EUR 4,807.4 million, 10.1 % of GDP in May 2016).

Foreign Direct Investments

Foreign direct investment in Bulgaria presented according to the directional principle totaled EUR 405 million (0.8 % of GDP) in January – June 2017, dropping by EUR 355.9 million (46.8 %)

According to preliminary data of BNB, foreign direct investment in Bulgaria presented according to the directional principle totaled EUR 405 million (0.8 % of GDP²) in January – June 2017, dropping by EUR 355.9 million (46.8 %) from January – June 2016 (EUR 760.9 million, 1.6 % of GDP). Foreign direct investment in Bulgaria grew by EUR 171.1 million in June 2017, compared with an increase of EUR 235.1 million in June 2016. Equity (acquisition/disposal of shares and equities in cash and contributions in kind by non-residents in/from the capital and reserves of Bulgarian enterprises, and receipts/payments from/for real estate deals in the country) recorded a negative value of EUR 123.9 million in January – June 2017, dropping by EUR 296.9 million from a positive value of EUR 172.9 million in January – June 2016. Real estate investments of non-residents totaled EUR 3.4 million, compared with EUR 48 million attracted in January – June 2016. The largest inflow of real estate investment was from Russia (EUR 1.6 million, 45.3 % of the total amount for January – June 2017), Ukraine (EUR 0.4 million, 11.3 % of the total amount), and Kazakhstan (EUR 0.3 million, 9.9 % of the total amount). Reinvestments 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 257.8 million for January – June 2017, compared with EUR 353 million in January – June 2016. The net debt instruments (the change in the net liabilities between affiliated enterprises on financial loans, suppliers' credits and debt securities) amounted to EUR 271.1 million in January – June 2017, compared with EUR 234.9 million in January – June 2016. The largest net direct investment inflows in Bulgaria for January – June 2017 were from the Netherlands (EUR 283.3 million) and Switzerland (EUR 104.6 million). According to preliminary data, direct investment abroad grew by EUR 132.8 million, compared with an increase of EUR 62.3 million in January – June 2016. Direct investment abroad increased by EUR 36.3 million in June 2017, compared with an increase of EUR 40.1 million in June 2016.



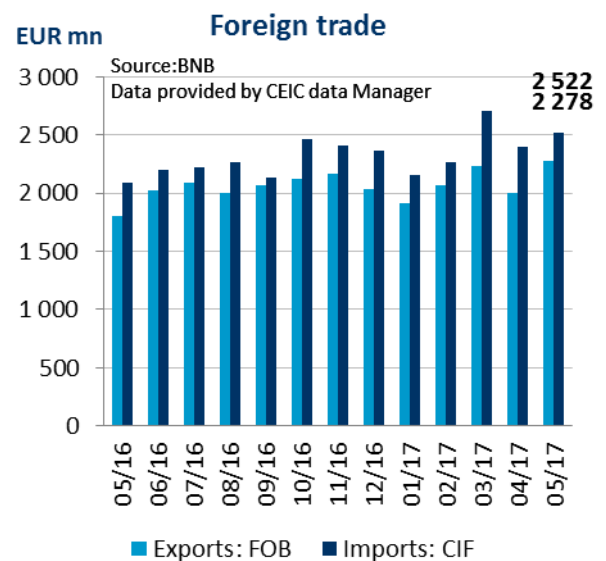
Foreign trade

In January - May 2017, exports (FOB) amounted to EUR 10495.5 million, compared with EUR 9071.6 million in the same period of 2016, increasing by EUR 1423.8 million (15.7 %)

According to the data of BNB, in January - May 2017, exports (FOB) amounted to EUR 10495.5 million, compared with EUR 9071.6 million in the same period of 2016, increasing by EUR 1423.8 million (15.7 %). The increase in exports on a year-on-year basis could be attributed mostly to non-ferrous metals groups - by EUR 563.4 million (93.5 %) and petroleum products by EUR 215.1 million (43.3 %), whereas the decrease was reported in the exports of Raw materials for the food industry by EUR 133.2 mn (-20.7 %). On year-on-year basis, the increase in exports by commodity groups, in January - May 2017 was due mostly to Copper and articles thereof - by 524 million euro (102.9 %) and Mineral Fuels, oils & products of their distillation, etc. – by EUR 259.0 million (39.7 % on an annual basis). The decrease was reported in the exports of Cereals - by EUR 87.5 million (-30 %), and Ores, Slag and ash by EUR 56.2 million (-25.5 %). Exports to the European Union increase by EUR 660.5 million (10.5 %) on a year-on-year basis, their share in total exports decreased from 67.6 % in January to May 2016

to 64.7 % in the same period of 2017. The largest increase on a year-on-year basis was that in the exports to Germany by EUR 242.7 million (19.7 %) and Belgium by EUR 188.5 million (102.4 %). Exports decreased to Italy - by EUR 55.9 million (-5.9 %) and Spain by EUR 31.4 million and (14.9 %). Exports to non-EU countries increase by EUR 763.3 million (26 %) year-on-years, its share in total exports increased from 32.4 % in January - May 2016 to 35.3 % in the same period of 2017. The increase in exports was contributed mostly to Turkey by EUR 155.7 million (20.8 %), China by EUR 88.4 million (50.6 %) and Russia by EUR 77.4 million (61.9 %). Exports decreased to Macedonia by EUR 2.2 million (-1.4 %) and the USA by 1.4m euros (-1.1 %) on a year-on-year basis. The exports to Germany had the highest share in total exports (14 % of total exports, EUR 1472.5 million), followed by Italy (8.6 %, EUR 897.9 million), Turkey (8.6 %, EUR 903.7 million) and Romania (7.9 %, EUR 829.1 million).

Imports (CIF) amounted to EUR 12,046.3 million in January – May 2017, compared with EUR 10,029 million in the same period in 2016, increasing by EUR 2017.1 million (20.1 %). The increase in the imports (CIF) on a year-on-year basis can be attributed mostly to Crude oil and Natural gas – by EUR 440.6 million (55.1 %), Ores – by EUR 358 million (121 %), Oils – by EUR 176.7 million (64 %) and Non-ferrous metals by EUR 136.5 million (55.6 %). The decrease was imported in the imports of the Raw skins - by EUR 8.7 million (19.3 %). The largest increase in imports (CIF) on a year-on-year basis was that in Mineral Fuels, oils & products of their distillation, etc. – by EUR 632.1 million (56.3 %), Ores, Slag and ash –by EUR 358 million (121 %) and Copper and articles thereof – by EUR 107.2 million (71 %). The decrease was reported in the imports of Articles of apparel & clothing accessories not knitted/crocheted – by 3.3 million (-3.2 %). The imports from the EU increased by EUR 586.5 million (10.4 %) on a year-on-year basis, its share in total imports decreasing from 56 % in January - May 2016 to 51.5 % in the same period of 2017. The highest rose in imports on a year-on-year basis was that from Romania - by EUR 140.7 million (27.3 %), Germany – by EUR 91.8 million (7.5 %), Poland - by EUR 62.4 million (16.8 %) and Greece by EUR 58.3 million Euro (15.6 %) and Italy – by EUR 56.5 million (6.7 %). Imports from non-EU countries increased on a year-on-year basis by 1430.6 million euro (32.4 %), their share in total imports increased from 44 % in January – May 2016 to 48.5 % in the same period of 2017. The increase in imports was contributed mostly to Russia by EUR 416.6 million (48.1 %) and Iraq with EUR 129.2 million (211.3 %), whereas the imports from the United States decreased by 3.3 million (-1.4 %). The largest share in total imports (CIF) was held by Germany (11 % of total imports, EUR 1322.3 million), followed by Russia (10.7 % of total imports, 1283.3 million), Italy (7.5 % of total imports, 902.1 % EUR million) and China (7.3 % of total imports, EUR 875 million).

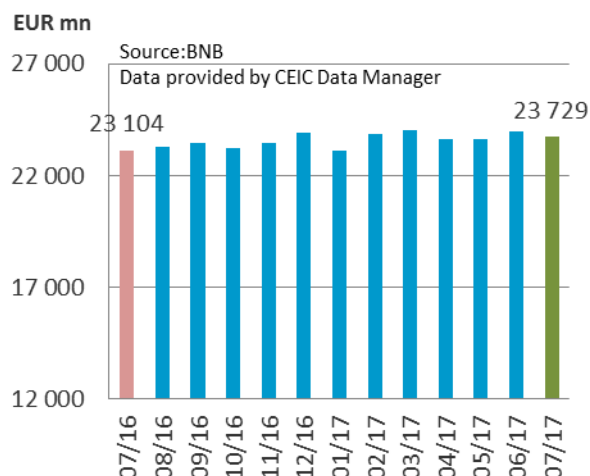


Foreign Reserves

In July 2017 BNB's foreign reserves amounted to EUR 23.7 billion, reporting an increase by 2.7 % y/y, and decrease by 1 % m/m

According to BNB data, in June 2017 the BNB's international reserves amounted to BGN 46.4 billion (EUR 23.7 billion) and increased by 2.7 % y/y, down by 1 % on a monthly basis. For a period of one month, cash and deposits in foreign currency decreased by BGN 601.7 million (3.1 %) to BGN 18.6 billion. Monetary gold deposits shrank by 1.1 % m/m, and 9.9 % y/y. Investments in securities increased by 0.6 % m/m, with decrease by 12.9 % y/y, respectively. Compared to the previous month, the money in circulation increased by 2.6 % and by 11.7 % on an annual basis. Liabilities to banks decreased by BGN 362.5 million (2.7 % m/m) with a 14 % y/y growth and amounted to BGN 14 billion. Liabilities to the government decreased by 11.3 % m/m and by 16.5 % y/y, respectively. Liabilities to other depositors increased by 10.7 % m/m and by 62.4 % y/y, respectively. Bulgaria's international liquidity position, calculated as a ratio of short-term external debt to international reserves, at a peak of 303.2 % in February 2017 is still high, although it decreased to 289.9 % in May 2017 according the last published BNB data.

Foreign Reserves



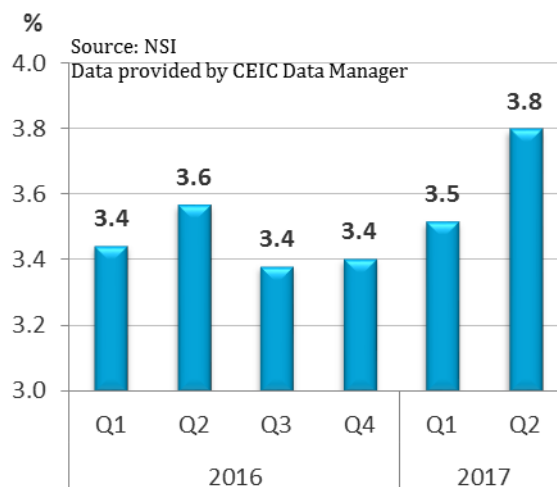
REAL SECTOR

Gross domestic product

Gross Domestic Product (GDP) expanded with 3.6 % in Q2 of 2017 compared to the same quarter of the previous year and with 0.9 % compared to Q1 of 2017

According to the flash GDP estimates of the NSI Gross Domestic Product (GDP) expanded with 3.6 % in Q2 of 2017 compared to the same quarter of the previous year and with 0.9 % compared to Q1 of 2017 according to the seasonally adjusted data. For Q2 of 2017, the GDP at current prices amounted to BGN 24 309 million. Gross Value Added in Q2 of 2017 amounted to BGN 20 958 million. In the structure of GDP by the expenditure approach the largest share has the final consumption (76.0 %), which in nominal terms amounted to BGN 18 482 million. In Q2 of 2017 gross capital formation is BGN 5 238 million and has a share of 21.6 % in GDP. The external balance (exports minus imports) has a positive sign. According to the seasonally adjusted data, the GDP growth rate in Q2 of 2017 is 0.9 % compared to the previous quarter. GVA increase in Q2 of 2017 is also 0.9 %. According to the flash estimates by final expenditure the GDP growth in Q2 of 2017 is determined by increase of the Gross fixed capital formation with 2.4 %, exports of goods and services with 1.7 % and final consumption with 0.4 %. The second quarter of 2017 GDP at seasonally adjusted data increased by 3.6 % compared to the same quarter of the previous year. Gross value added increased by 3.8 %. As regards the expenditure components of GDP, the final consumption registered a positive economic growth by 4.2 %. Gross fixed capital formation decreased by 0.9 % compared to the same quarter of the previous year. Exports and imports of goods and services increased by 6.1 % and 7.0 %, respectively.

GDP Growth rate per quarter, YoY
seasonally adjusted data

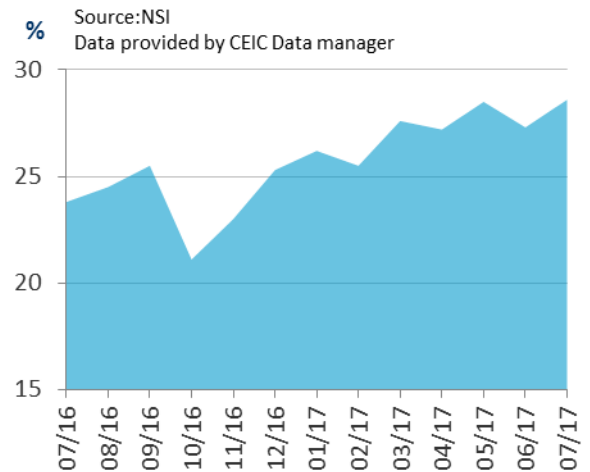


Business climate

In July 2017, the total business climate indicator decreased by 1.4 pps to 27.9 % in comparison with June 2017 but continues to be above to its long-term average by 7.8 pps

According to NSI data in July 2017, the total business climate indicator decreased by 1.4 pps in comparison with June - 27.9 %, but continues to be above to its long-term average by 7.8 pps. More unfavorable business climate is registered in construction, retail trade and service sector, while in industry an increase of the indicator is observed. The composite indicator "business climate in industry" increased by 1.3 pps compared to the previous month to 28.6 % as a result of the improved industrial entrepreneurs' assessments and expectations about the business situation of the enterprises. However, their forecasts about the export and production activity over the next 3 months are more unfavorable. At the same time in July in comparison with April, the average capacity utilization in industry decreased (by 0.8 pps) and it reaches 74.7 %. The main factor limiting the activity remains the uncertain economic environment followed by the shortage of labor pointed out respectively by 47.4 % and 25.2 % of the enterprises. Concerning the selling prices in industry, the managers expect preservation of their level over the next 3 months. In July, the composite indicator "business climate in construction" dropped by 3.2 pps to 28.3 % which is due to the shifting of the construction entrepreneurs' assessments and expectations about the business situation of the enterprises from "better" towards preserving "the same". The inquiry reports an improvement of the present construction activity, as the forecasts over the next 3 months remain favorable though more reserved compared to the previous month. The uncertain economic environment and competition in the branch continue to be the most serious difficulties for the business development. As regards the selling prices in construction, the managers' expectations are them to remain unchanged over the next 3 months. The composite indicator "business climate in retail trade" decreased by 2.9 pps to 38.8 % as a result of the more unfavorable retailers' expectations about the business situation of the enterprises over the next 6 months. However, in their forecasts about the volume of sales and orders placed with suppliers over the next 3 months slight optimism is registered. The main problems for the activity remain connected with competition in the branch, insufficient demand and uncertain economic environment; although in the last month a decrease of their negative impact is reported. Concerning the selling prices, the retailers foresee preservation of their level over the next 3 months. In July 2017 the composite business indicator for services sector decreased by 3.3 pps to 15.4 %, which is due to the change of the managers assessments and expectations about the business situation of the enterprises from "better" towards preserving "the same". Their opinions about the present and expected demand for services are also more reserved. The competition in the branch and uncertain economic environment continue to be the factors limiting with most extend the business in the sector. As regards the selling prices, the prevailing managers' expectations are them to remain unchanged over the next 3 months.

Business Climate in Industry for the last 12 months



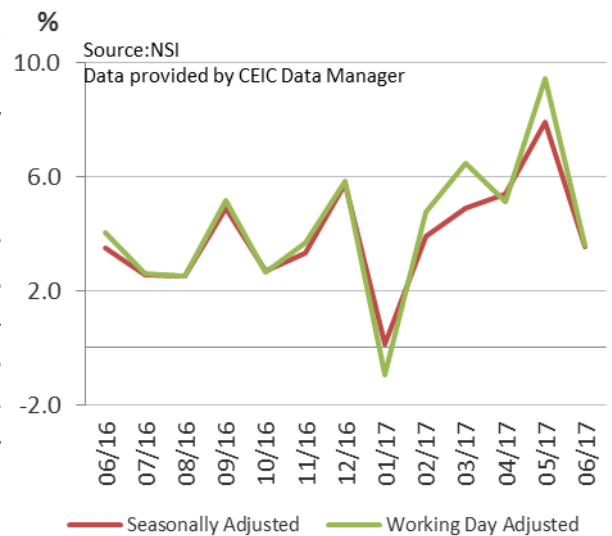
Industrial production index

In June 2017 the Industrial Production Index, seasonally adjusted, decreased by 1.4 % as compared to May 2017, and increased by 3.6 % y/y based on the working day adjusted data

According to the preliminary data of the NSI, the Industrial Production Index, seasonally adjusted, decreased by 1.4 % in June 2017 as compared to May 2017. In June 2017 working day adjusted Industrial Production Index rose by 3.6 % in comparison with the same month of 2016. In June 2017 as compared to May 2017, the seasonally adjusted Industrial Production Index increased in the mining and quarrying industry by 1.0 % and in the electricity, gas, steam and air conditioning supply by 1.1 %, while in the manufacturing the production decreased by 2.1 %. The most significant increases of production in the manufacturing were registered in the manufacture of computer, electronic and optical products by 9.9 %, in the manufacture of other transport equipment by 6.0 %, in the manufacturing of basic pharmaceutical products and pharmaceutical preparations by 5.4 %, in the manufacture of food products by 4.4 %. There were decreases in the repair and installation of machinery and equip-

ment by 13.7 %, in the manufacture of machinery and equipment by 9.9 %, in the manufacture of tobacco products by 8.9 %, in the manufacture of fabricated metal products, except machinery and equipment by 7.5 %. On annual basis in June 2017 Industrial Production Index calculated from working day adjusted data increased in the mining and quarrying industry by 7.6 % and in the manufacturing by 4.9 %, while in the electricity, gas, steam and air conditioning supply a decrease by 3.5 % was seen. 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 46.6 %, in the manufacture of computer, electronic and optical products by 26.5 %, in the manufacture of tobacco products by 20.7 %, in the manufacture of other transport equipment by 16.8 %, in the manufacturing of basic pharmaceutical products and pharmaceutical preparations by 16.1 %. Decreases were registered in the manufacture of fabricated metal products, except machinery and equipment by 8.3 %, in the manufacture of beverages by 6.4 %, in the manufacture of paper and paper products by 4.5 %, in the manufacture of motor vehicles, trailers and semitrailers by 2.3 %.

Industrial production Index, % change, YoY

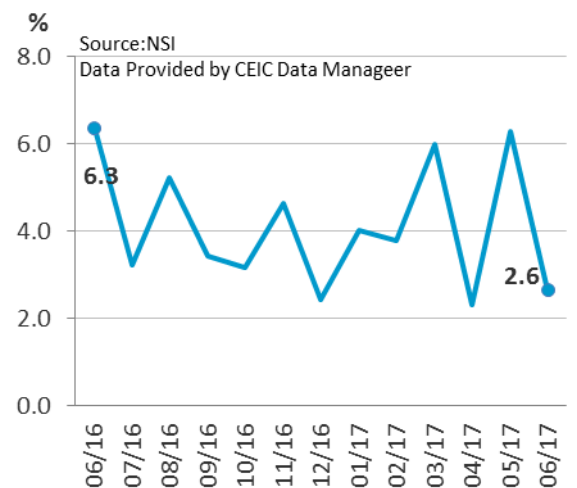


Retail sale

In June 2017, the seasonally adjusted turnover in 'Retail trade, except of motor vehicles and motorcycles' reported a decrease of 0.5 % m/m, and increase by 2.6 % y/y based on the working day adjusted data

According to the preliminary seasonally adjusted data of the NSI, in June 2017 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices decreased by 0.5 % compared to the previous month. In June 2017, the working day adjusted turnover in 'Retail trade, except of motor vehicles and motorcycles' increased by 2.6 % in comparison with the same month of the previous year. In June 2017 compared to the previous month, the turnover increased more significantly in the 'Retail sale of computers, peripheral units and software; telecommunications equipment' by 2.2 % and in the 'Retail sale of food, beverages and tobacco' by 0.1 %. A decrease was registered in the 'Retail sale of textiles, clothing, footwear and leather goods' - 3.2 %, in the 'Retail sale of automotive fuel' - 2.6 %, in the 'Retail sale of audio and video equipment; hardware, paints and glass; electrical household appliances' - 0.5 % and in the 'Dispensing chemist; retail sale of medical and orthopaedic goods, cosmetic and toilet articles' and in the 'Retail sale via mail order houses or via Internet' - 0.2 %. In June 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 16.2 %, in the 'Retail sale in non-specialised stores' by 13.9 %, in the 'Retail sale of audio and video equipment; hardware, paints and glass; electrical household appliances' by 8.5 % and in the 'Dispensing chemist; retail sale of medical and orthopaedic goods, cosmetic and toilet articles' by 7.0 %. A decrease was registered only in the 'Retail sale of automotive fuel' - 16.2 %.

Retail trade index, % change (YoY)

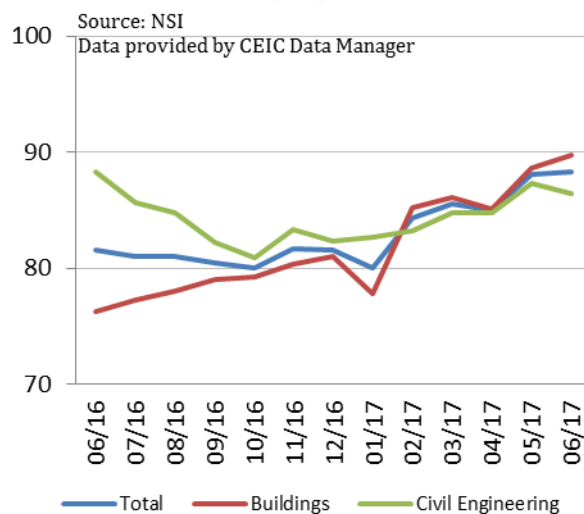


Construction

In June 2017 the index of production in section ‘Construction’ calculated on the base of seasonally adjusted data was 0.2 % above the level of the previous month and reported a 7.9 % annual increase based on the working day adjusted data

According to the preliminary data of the NSI, in June 2017 the index of production in section ‘Construction’ calculated on the base of seasonally adjusted data was 0.2 % above the level of the previous month. In June 2017 working day adjusted data showed an increase by 7.9 % in the construction production, compared to the same month of 2016. In June 2017 the construction production, calculated from the seasonally adjusted data, was above the level of the previous month. Index of production of building construction increased by 1.3 %, while the production of civil engineering decreased by 1.1 %. On an annual basis in June 2017, the increase of production in construction, calculated from working day adjusted data, was determined from the positive rate in the building construction, where the growth was by 15.0 %, and in the civil engineering - by 0.2 %.

Construction Production index, seasonally adjusted data

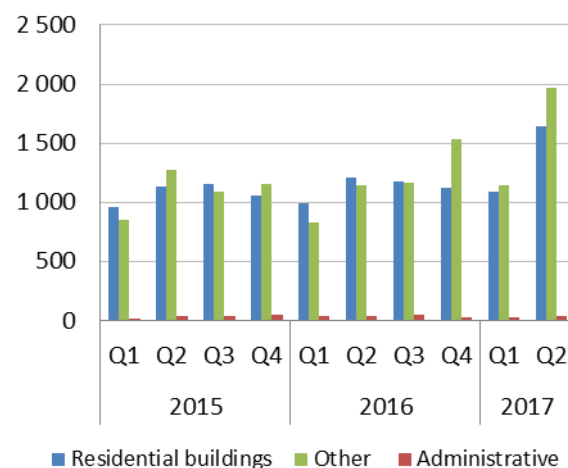


Real Estate Sector

In Q2 of 2017 the issued building permits for residential buildings increased on quarterly base by 50.7 %, and by 35.4 % on annual base. The property market is in an upward period. This time the upward cycle is mainly driven by domestic demand and market-friendly macro-factors

According NSI data, in Q2 of 2017, the municipal authorities issued building permits for construction of 1 647 residential buildings with 5 815 dwellings and 781 456 sq. m gross building area, of 40 administrative buildings/offices with 74 019 sq. m gross building area and 1 968 other buildings with 948 262 sq. m gross building area. As compared to Q1 2017 the issued building permits for residential buildings increased by 50.7 %, their dwellings - by 23.9 % and the gross building area - by 31.3 %. The issued building permits of administrative buildings rose by 37.9 %, but their gross building area fell by 4.2 %. The issued building permits of other buildings grew by 72.5 % and their gross building area - by 17.1 %. As compared to Q2 of 2016 the issued building permits for new residential buildings increased by 35.4 %, the number of dwellings - by 31.0 % and their gross building area - by 29.2 %. The number of issued building permits of administrative and other buildings marked an increase by 8.1 % and 71.9 % respectively and the rise of their gross building area was by 224.7 % and 87.8 %. The highest number

Building permits, issued for construction of new buildings



of building permits for new residential buildings was issued in the following districts: Plovdiv - 245, Sofia (capital) - 207, Sofia - 136 and Burgas - 133. Most dwellings are to be built in the districts: Sofia (capital) - 1 869, Plovdiv - 1 411, Varna - 432 and Burgas - 387. In Q2 of 2017 began the construction of 1 281 residential buildings with 3 842 dwellings and 526 070 sq. m gross building area, of 25 administrative buildings/offices with 7 797 sq. m gross building area and of 1 277 other buildings with 798 653 sq. m gross building area. As compared to the previous quarter the number of started residential buildings rose by 100.5 %, the number of their dwellings - by 19.4 % and their gross building area - by 29.0 %. The number of started administrative and other types of buildings increased by 56.3 % and 177.6 % respectively, but the gross building area of administrative buildings fell by 86.8 %, while the gross building area of other buildings grew by 174.7 %. As compared to Q2 of 2016 the started new residential buildings rose by 53.2 %, their dwellings - by 29.8 % and the gross building area - by 25.6 %. The number of started

administrative buildings increased by 8.7 %, but their gross building area fell by 89.9 %. The started other buildings marked a rise by 122.9 % and their gross building - by 177.1 %. The construction of the highest number of new buildings were started in the following districts: Plovdiv - 230 residential buildings, 6 administrative buildings and 146 other buildings; Stara Zagora - 84 residential buildings, 3 administrative buildings and 200 other buildings; Sofia - 101 residential buildings and 175 other buildings; Burgas - 118 residential buildings and 111 other buildings.

Real estate market in Bulgaria

For Q2 of 2017, the construction of housing and industrial buildings in Bulgaria is strong. The house market is in ascending period. This time it has been driven mainly by the domestic demand and favorable for the market macro factors

The Sofia, Plovdiv, Varna and Burgas districts are emerging as the leading engine of the construction sector in the country with strong growth rates in almost all segments of the construction sector. Building revival is also reflected in some of the other areas in the country with good communications and transport, such as Stara Zagora, Dobrich, Blagoevgrad, Haskovo, where the main growth comes from housing and industrial construction. When building permits are used as a future indicator of activity in the construction industry, at least as long as all projects will be realized, the residential and industrial segment will be most active over the next few years. The capital, Plovdiv, Varna and Bourgas are again the most active construction sites along with cities like Stara Zagora, Shumen, Blagoevgrad, Pazardzhik and others. The issued permits for construction of new residential buildings in Bulgaria for the period January-June 2017 increased by 24 % compared to the same period last year and the permits for new dwellings in them - by 33.5 %. For the group of other buildings including production and warehouse space, the growth rate reached 57 % on an annual basis for the period. Only in administrative buildings there is a decrease of almost 14 % of the issued building permits, although the tendency is to slightly increase the area, i.e. are building less, but large office buildings. An increase of 33 % for residential buildings and almost 30 % for housing was reported in construction. With 10 % more office buildings started, and the other buildings reported an increase of 84 %. The data show that the rates of housing construction in the capital and Plovdiv are almost identical given the concentration of jobs in the two cities. In Sofia for the first half of the year, 12 % more permits were issued for the construction of new residential buildings and the number of dwellings in them increased to 35 %. The increase in Plovdiv is 28 % and 65 % respectively. The number of buildings for which permits have been issued, Plovdiv leads to Sofia, but the number of dwellings is still lagging behind. In the capital are building smaller homes. In the construction of administrative buildings Sofia is the most preferred, and in this segment the activity remains stable in both cities. Plovdiv, however, is a not-for-profit leader in industrial construction. In this respect, the city faces competition from Stara Zagora because of its proximity to the motorways of Thrace and Maritsa and good communications. In the district of Varna issued permits for construction of new buildings for half a year report growth of just over 6 %, while for housing the increase is over 45 %. Bourgas, however, is declining, although the housing construction in the region is trying to wake up in the order of 6-8 % in Q1 of 2017. Stable is the activity in the construction of office buildings, concentrating mainly in Varna. However, in both areas the double growth of issued permits for construction of other buildings is reported. A strong push for industry in the region is expected, which can also provide additional support to the housing sector. Similar are the trends in the construction of other buildings in the two leading Black Sea regions.

The property market is in an upward period. This time the upward cycle is mainly driven by domestic demand and market-friendly macro-factors. The low unemployment rate, accelerating GDP growth, higher incomes, near-zero interest rates on deposits, and record low interest rates on credit contributed to the rise in property prices and sales volumes. People returned to housing as a form of investment.

Bulgaria: House price Index, y/y (%)	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017
Total Index	2.8	2.3	2.8	2.1	4	4.6	6.5	8.8	8.1	8.8
New dwellings	5.2	1.9	3.7	3.8	4.6	5.8	4.9	8	7	9.4
Existing dwellings	1.2	2.4	2.2	0.9	3.6	3.8	7.5	9.3	8.8	8.5

Source: Eurostat

Additional support comes from the rental market, which gives opportunities to realize a yield of 5-6 %, which can hardly be achieved through another asset. More and more people are looking for a rental purchase, including by buying a property with credit. With these parameters on the market, many sellers decide to wait, as it is logical with the continuing increase in de-

mand to rise and property prices. Every salesperson believes that this will get a higher wave of the market due to the greater interest in the property and thus will win more. On the one hand, every owner who wants to sell has the purpose of selling his property to the peak of the market and everyone asks when it is the right moment. With too much wait, vendors may miss out on some of the indexes on the market to suggest that the peak is approaching. This creates the main risk for the market. At some point in the market, there are more sellers than buyers, which is why a stagnant market is being formed. This means that the competition is entirely between sellers.

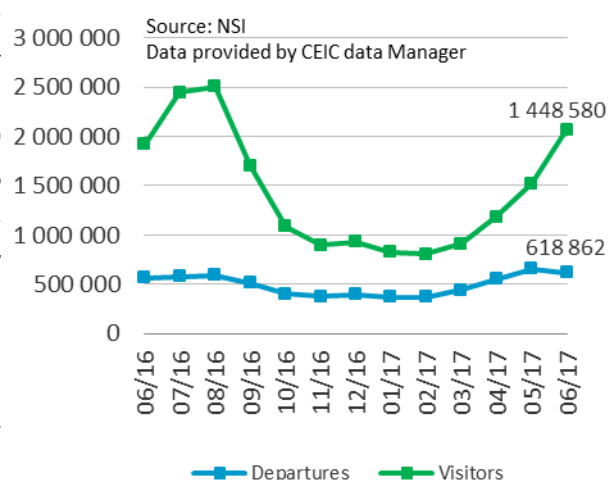
Tourism

In June 2017, the number of the trips of Bulgarian residents abroad was 618.9 thousand and increased by 9.5 % y/y, with decrease by 5.3 % m/m

According to NSI data in June 2017, the number of the trips of Bulgarian residents abroad was 618.9 thousand or by 9.5 % above the registered in June 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 30.2 %, Spain - by 19.4 %, Austria - by 15.3 %, Czech Republic - by 14.5 %, Romania - by 12.5 %, Belgium - by 12.5 %, Serbia - by 10.2 %, France - by 6.9 %, Greece - by 6.7 %, the Former Yugoslav Republic of Macedonia - by 6.6 %, Germany - by 6.6 %, Turkey - by 1.3 %, and etc. At the same time decreased the number of the trips of Bulgarians to: Israel - by 7.1 %, USA - by 4.1 %, Poland - by 1.8 %, and etc. The trips with other purposes (as a guest, education and visit the cultural and sport events) in June 2017 composed the greatest share of the total number of trips of Bulgarian residents abroad - 45.5 %, followed by the trips with holiday and recreation purpose - 30.6 %, and with professional purpose - 23.9 %. In comparison with June 2016, an increase was registered in the trips with all observed purposes:

with other purposes - by 19.0 %, with holiday and recreation purpose - by 3.1 %, and with professional purpose - by 2.1 %. In June 2017, the trips with other purposes formed 63.3 % of all trips to Serbia and 61.1 % to Turkey. The trips with professional purpose to Germany were 44.4 %, as these to Italy and Spain with holiday and recreation purpose were 59.8 % and 51.0 % respectively of all trips of Bulgarian residents to these countries. In June 2017, the number of arrivals of visitors from abroad to Bulgaria was 1 448.6 thousand or by 6.9 % more in comparison with June 2016. An increase was registered in the trips with other purposes - by 20.4 % and with holiday and recreation purpose - by 5.9 %, while those with professional purpose decreased by 17.1 %. The share of visits of EU citizens was 60.0 % of the total number of foreigners' visits to Bulgaria in June 2017 or by 4.4 % more in comparison with the same month of the previous year. An increase was registered in the visits of the citizens of the Netherlands - by 35.1 %, the United Kingdom - by 27.9 %, France - by 25.5 %, Poland - by 16.0 %, Belgium - by 13.7 %, Romania - by 2.3 %, Germany - by 1.1 %, and etc. At the same time decreased the visits from Hungary - 11.5 %, Czech Republic - by 2.4 %, Greece - by 1.8 %, and etc. The visits of foreigners in the group 'Other European countries' increased by 10.1 %, as the highest growth was observed in the visits of citizens of Ukraine - by 17.8 %. In June 2017, the predominant share of the visits with holiday and recreation purpose was 51.5 %, followed by trips with other purposes (including as guest and passing transit) - 36.2 %, and with professional purpose - 12.3 %. The visits with holiday and recreation purpose formed 97.8 % of the arrivals from Israel, 95.4 % - from Norway and 92.8 % - from Russian Federation. The visits with other purposes were 79.8 % of all arrivals from Romania and 58.2 % from Greece.

Total Visitors/Departures



Unemployment

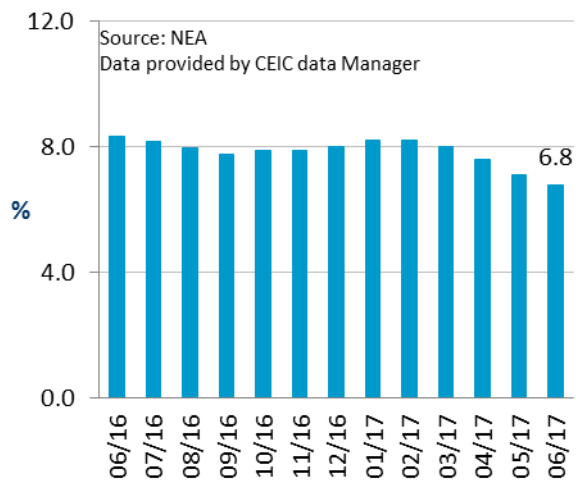
In June 2017, the level of the registered unemployment is 6.8 %, reporting a decrease both on monthly and on annual base, respectively with 0.3 pp and 1.6 pp

According to the National employment agency, in June 2017 the number of the registered unemployed at labor offices is 224 167, decreasing with 4.1 % m/m, and 18.3 % y/y. The level of the registered unemployment in June 2017, defined as a

share the registered unemployed to economically active population at the age of 15-64, set with the Census 2011 is 6.8 %. There is a decrease at the level of unemployment both in comparison with the previous month and on annual base, respectively with 0.3 pp and 1.6 pp. In June total 23 188 started work, decreasing with 13.3 % compared to the previous month. In June 2017 total 23 696 job vacancies were announced in the labor offices, reporting a decrease with 0.7 % compared May 2017 and an increase with 14.1 % on annual basis. The declared job vacancies for the primary market constitute 80.2 % of the total declared job vacancies, on schemes of Operational Programme Human Resources Development – 16.8 %, for programs – 2.7 % and measures of the Employment Promotion law – 0.3 %. On the primary market, there have been announced 19 016 job vacancies, decreasing with 4.6 % compared to the previous month, and increasing with 1.3 % on annual base. In June 2017 most of the job vacancies of the primary market in the labor offices have been announced from: manufacturing industry (6 129); trade (2 730); hotel and restaurant management (2 319); Administrative and support activities (1 647); construction (1 218); Agriculture, forestry and fisheries (738); Transport, storage and mail services (708); Real estate transaction (698); Government management (610) and etc.

According to the data of the NSI, in the second quarter of 2017 there were 213.9 thousand unemployed persons and the unemployment rate was 6.3 %. In comparison with the second quarter of 2016 the number of unemployed persons went down by 51.7 thousand and the unemployment rate declined by 1.7 percentage points.

Registered Unemployment Rate



Employees under labour contract

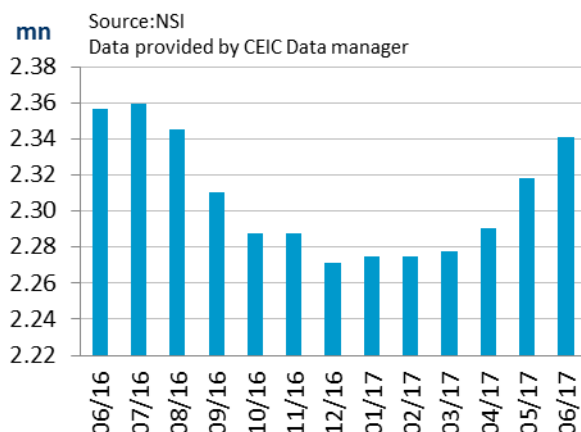
At the end of June 2017 the number of employees under labour contract increased by 63.4 thousand or 2.8 % as compared to the end of March 2017 and reached 2.34 million

According to the preliminary data of the NSI at the end of June 2017 the number of employees under labour contract increased by 63.4 thousand or 2.8 % as compared to the end of March 2017 and reached 2.34 million.

The highest increase was observed in seasonal economic activities: 'Accommodation and food service activities' - 44.9 %, 'Arts, entertainment and recreation' - 11.9 % and 'Agriculture, forestry and fishing' - 7.3 %. The highest decrease of the number of employees was recorded in 'Education' - by 3.0 %. In the structure of employees by economic activities the biggest relative share of employees was in 'Manufacturing' - 21.9 % and 'Wholesale and retail trade; repair of motor vehicles and motorcycles' - 16.8 %. At the end of June 2017 as compared to June 2016 the number of employees under labour contract decreased by 15.9 thousand or 0.7 %. The highest decrease in absolute figures was observed in economic activities 'Agriculture, forestry and fishing' - 9.7 thousand,

'Accommodation and food service activities' - 8.3 thousand and 'Wholesale and retail trade; repair of motor vehicles and motorcycles' - 4.6 thousand. In percentages the highest decrease was also in 'Agriculture, forestry and fishing' - by 11.6 % and 'Accommodation and food service activities' - by 5.3 %. The highest increase at the end of June 2017 as compared to June 2016 in absolute figures was registered in economic activity 'Information and communication' - by 4.1 thousand and in percentages - in 'Arts, entertainment and recreation' - by 9.0 %. The average monthly wages and salaries of the employees under labour contract in April was BGN 1 060, in May - BGN 1 035 and in June 2017 - BGN 1 027. In Q2 of 2017 in comparison with Q1 of 2017 the average monthly wages and salaries increased by 3.4 % getting 1 040 BGN. The highest increase in wages and salaries was reported in 'Financial and insurance activities' - by 7.6 %, and 'Construction' and 'Mining and quarrying' - by 7.3 %. Compared

Bulgaria: No of Employees



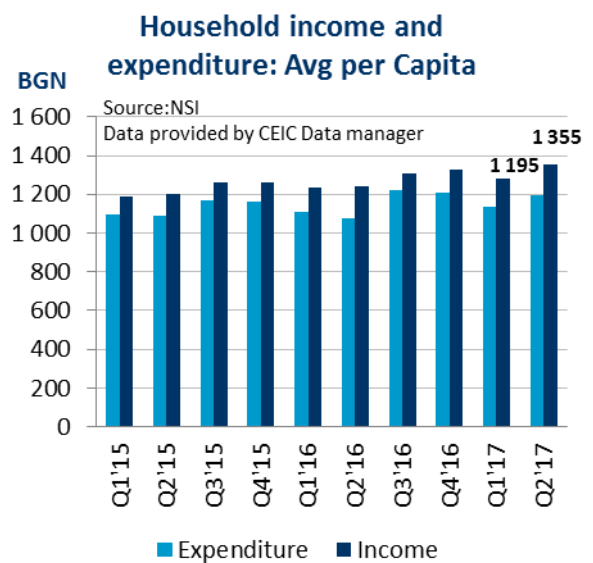
to Q2 of 2016 the average monthly wages and salaries in Q2 of 2017 rose by 9.9 %. The highest growth rates were recorded in economic activities: 'Real estate activities' - 16.0 %, 'Administrative and support service activities' - 13.4 % and 'Professional, scientific and technical activities' - 13.2 %. The economic activities with the highest wages and salaries in Q2 of 2017 were: 'Information and communication' - BGN 2 306; 'Financial and insurance activities' - BGN 1 815; 'Electricity, gas, steam and air conditioning supply' - BGN 1 769. The lowest wages and salaries were recorded in: 'Accommodation and food service activities' - BGN 635; 'Other services activities' - BGN 714; 'Construction' - BGN 796. In comparison with a year earlier the average monthly wages and salaries in public sector grew by 8.1 % while in private sector - by 10.6 %.

Household income, expenditures and consumption

During Q2 of 2017, the total income average per household member is BGN 1 355 and increases by 5.8 % on a quarterly base and by 9.4 % annually

The total income average per household member during Q2 of 2017 is BGN 1 355 and increases by 9.4 % compared to the same quarter of 2016. The highest relative share of income within the total income is this from wages and salaries (56.7 %). The relative share of income from pensions is 26.3 %, from self-employment - 6.8 % and from social benefits - 3.4 %. The relative share of income from wages and salaries increases by 1.9 percentage points (pp) compared to Q2 of 2016 and the income from pensions decreases by 3.0 pp. The nominal income by source average per capita during Q2 of 2017 compared to Q2 of 2016 changes as follows: Income from wages and salaries increases from BGN 679 to BGN 769 (by 13.3 %); Income from pensions decreases from BGN 363 to BGN 356 (by 1.8 %); Self-employment income increases from BGN 74 to BGN 93 (by 25.4 %); Income from social benefits increases from BGN 45 to BGN 46 (by 2.8 %). The relative share of monetary income into the total income during Q2 of 2017 is 99.0 % and the share of income in kind is 1.0 %.

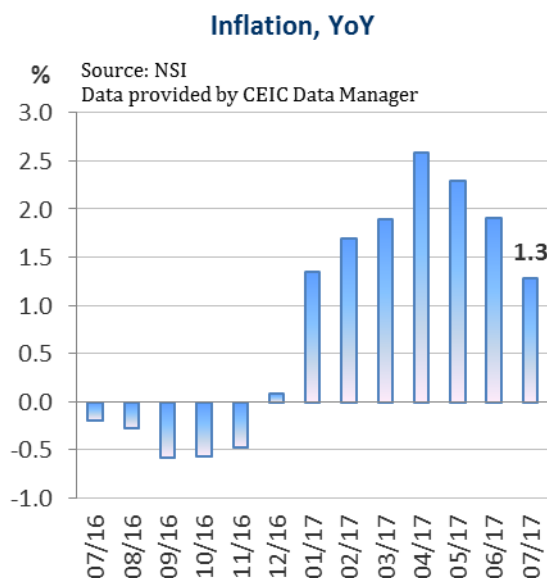
The total expenditure average per household member during Q2 of 2017 is BGN 1 195 and increases by 11.1 % in comparison to the same quarter of 2016. The greatest share in forming the total expenditure has expenditure on food - 32.5 % as well as expenditure on housing - 16.4 %, taxes and social insurance contributions - 13.6 % and transport and communication - 11.3 %. The relative share of expenditure on food and non-alcoholic beverages compare to Q2 of 2016 decreases by 0.7 pp, the share of taxes and social insurance contributions increases by 1.4 pp. The expenditure by group average per capita increases as absolute values during Q2 of 2017 compared to the same quarter of 2016 as follows: food and non-alcoholic beverages - from BGN 357 to BGN 388 (by 8.6 %); housing (water, electricity, heating, furnishing and maintenance of the house) - from 178 BGN to BGN 196 (by 9.6 %); transport and communication - from BGN 122 to BGN 135 (by 11.2 %); health - from BGN 63 to BGN 69 (by 11.1 %); alcoholic beverages and tobacco - from BGN 51 to BGN 53 (by 4.3 %); miscellaneous goods and services - from BGN 42 to BGN 54 (by 27.8 %). The consumption of main food products average per household member during Q2 of 2017 compared to the same quarter of 2016 does not change considerable. Increase is observed in the consumption of eggs, milk and fruit. Decrease is observed in the consumption of bread and paste products, meat, yoghurt, white cheese, potatoes and dry been. The consumption of vegetables and meat products is without change.



Inflation

In July 2017 the consumer price index was 100.3 %, i.e. the monthly inflation was 0.3 %, and the annual inflation (July 2017 compared to July 2016) 1.3 %, as a result of the increase of the prices of the food and energy services

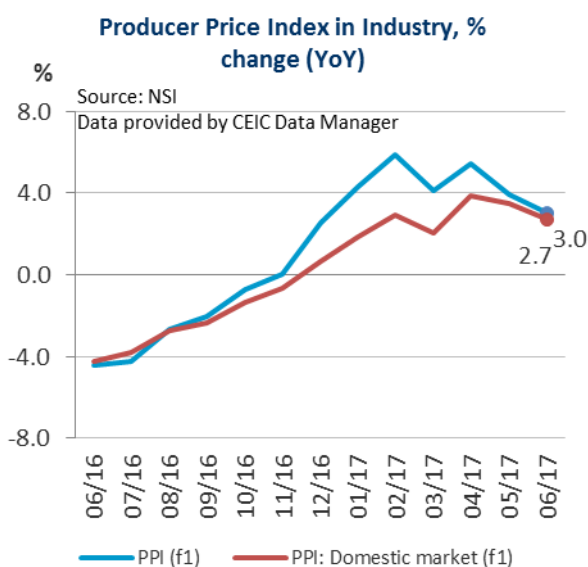
The consumer price index in July 2017 compared to June 2017 was 100.3 %, i.e. the monthly inflation was 0.3 %. The inflation rate since the beginning of the year (July 2017 compared to December 2016) has been 1.0 % and the annual inflation in July 2017 compared to July 2016 was 1.3 %. The annual average inflation, measured by CPI, in the last 12 months (August 2016 - July 2017) compared to the previous 12 months (August 2015 - July 2016) was 0.9 %. In July 2017 compared to the previous month the prices of goods and services in the main consumer groups with more significant change are as follows: Clothing and footwear - a decrease of 2.8 %; Housing, water, electricity, gas and other fuels - an increase of 0.8 %; Transport - a decrease of 0.5 %; Communications - the prices remained at the level of the previous month; Recreation and culture - an increase of 7.1 %; Restaurants and hotels - an increase of 1.0 %; The harmonized index of consumer prices in July 2017 compared to June 2017 was 100.5 %, i.e. the monthly inflation was 0.5 %. The inflation rate since the beginning of the year (July 2017 compared to December 2016) has been 0.8 % and the annual inflation in July 2017 compared to July 2016 was 0.6 %.



Producer Price Index in Industry

In June 2017 Total Producer Price Index in industry decreased by 0.2 % m/m but accelerated by 3.1 % y/y, respectively

According to NSI data Total Producer Price Index in Industry in June 2017 decreased by 0.2 % m/m. Lower prices were registered in the manufacturing by 0.3 % and in the electricity, gas, steam and air conditioning supply by 0.1 %, while in the mining and quarrying industry the prices rose by 0.8 %. In the manufacturing decreases were seen in the printing and reproduction of recorded media by 0.7 %, in the manufacture of wearing apparel and in the manufacture of other transport equipment by 0.4 %, while prices increases were reported in the manufacture of wood and of products of wood and cork, except furniture by 0.9 % and in the manufacture of paper and paper products by 0.7 %. Total Producer Price Index in June 2017 increased by 3.1 % y/y. The prices rose in the mining and quarrying industry by 8.7 %, in the manufacturing by 2.8 % and in the electricity, gas, steam and air conditioning supply by 3.0 %. In the manufacturing more significant prices increases were seen in the manufacture of basic metals by 12.5 %, in the manufacture of motor vehicles, trailers and semi-trailers by 5.0 % and in the manufacture of wood and of products of wood and cork, except furniture by 4.6 %, while the producer prices fell in the manufacture of machinery and equipment by 0.3 %. Producer Price Index on Domestic Market in June 2017 decreased by 0.4 % m/m. The domestic prices fell in the mining and quarrying industry by 2.1 %, in the manufacturing by 0.4 % and in the electricity, gas, steam and air conditioning supply by 0.1 %. In the manufacturing, compared to the previous month the prices went down in the manufacture of basic metals by 1.5 % and in the printing and reproduction of recorded media by 0.7 %, while the domestic prices rose in the manufacture of wood and of products of wood and cork, except furniture and in the manufacture of electrical equipment by 0.4 %. On an annual base Producer Price Index on Domestic Market in June 2017 increased by 2.7 %. The domestic prices rose in the mining and quarrying industry by 7.3 %, in the



manufacturing by 2.4 % and in the electricity, gas, steam and air conditioning supply by 2.8 %. In the manufacturing compared to June 2016 the prices went up in the manufacture of basic metals by 9.9 %, in the manufacture of chemicals and chemical products by 4.2 % and in the manufacture of electrical equipment by 4.1 %. The prices decreases were reported in the manufacture of leather and related products by 0.5 % and in the manufacture of computer, electronic and optical products by 0.4 %. Producer Price Index on Non-domestic Market in June 2017 did not change compared to the previous month. In the manufacturing the non-domestic prices fell by 0.2 %. More significant prices decreases were reported in the manufacture of chemicals and chemical products and in the manufacture of fabricated metal products, except machinery and equipment by 0.6 %, while the prices rose in the manufacture of paper and paper products by 1.9 % and in the manufacture of wood and of products of wood and cork, except furniture by 1.4 %. On an annual base Producer Price Index on Non-domestic Market in June 2017 increased by 3.7 % compared to the same month of 2016. In the manufacturing, the prices rose by 3.4 % compared to June 2016. The non-domestic prices went up in the manufacture of basic metals by 13.1 % and in the manufacture of paper and paper products by 10.9 %. The prices fell in the manufacture of machinery and equipment by 0.6 %.

FISCAL SECTOR

Budget Balance

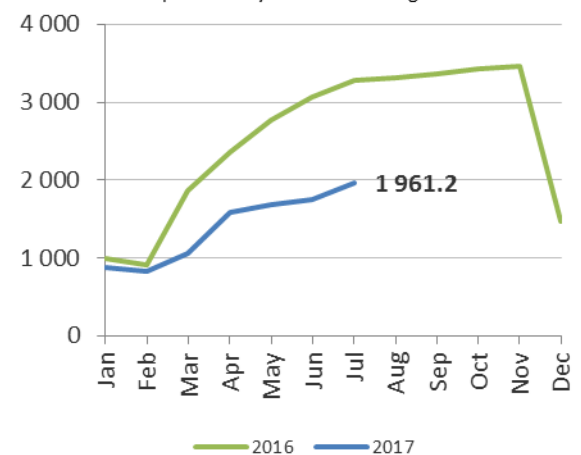
In June 2017 the Consolidated Fiscal Programme (CFP) balance on a cash basis is positive, amounting to BGN 1,746.7 million, or 1.8 % of the projected GDP. MF expects for the CFP balance on a cash basis as of July 2017 to be positive, amounting to BGN 1,961.2 million (2.0 % of the projected GDP)

According to MF data the Consolidated Fiscal Programme (CFP) balance on a cash basis as of end-June 2017 is positive, amounting to BGN 1,746.7 million, or 1.8 % of the projected GDP, and is formed by a national budget surplus of BGN 1,777.7 million and by a EU funds deficit of BGN 31.0 million. The CFP revenues and grants in June 2017 stand at BGN 17,481.8 million. The execution of the annual estimates in the group of tax revenues is good, with 51.9 per cent of the tax revenues planned for the entire 2017 collected for the first six months of the year. Non-tax revenues remain close to those reported for the first six months of 2016, while a decrease is reported for grant revenues mainly due to a baseline effect in 2016 related to the reimbursement from the Commission of some expenditures incurred by Bulgaria at the end of 2015 when was the peak of project payments for the previous 2007 - 2013 programming period. The overall CFP revenues and grants are therefore lower in nominal terms than those reported as of the first six months of 2016. Eliminating the influence of the EU funds, national budget revenues report a nominal growth of 6.8 per cent on a comparable basis.

Tax proceeds, including revenues from social security contributions, total BGN 14,537.8 million. Compared to the data as of June 2016, tax proceeds have risen in nominal terms by 7.8 %, or by BGN 1,049.1 million. Direct tax revenues amount to BGN 2,771.0 million or 54.4 % of the estimates planned for the year, growing by BGN 232.0 million, or by 9.1 %, as against the same period of the previous year. Indirect tax revenues amount to BGN 7,110.3 million, which accounts for 50.7 % of the annual estimates. Compared to the data as of June 2016, proceeds in this group have grown by BGN 275.6 million, or by 4.0 %. VAT proceeds amount to BGN 4,730.9 million, or 53.9 % of those planned. Compared to the previous year, the VAT revenues have risen by BGN 375.3 million, or by 8.6 %. The amount of non-refunded VAT as of end-June 2017 is BGN 64.9 million. The excise duty revenues amount to BGN 2,269.8 million, or 45.1 % of the annual estimates. Customs duty proceeds amount to BGN 93.2 million, or 56.1 % 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 627.9 million, or 63.4 % of the annual estimates. Revenues from social security and health insurance contributions are BGN 4,028.6 million, which accounts for 50.8 % 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 504.4 million, or 14.3 %, in nominal terms. Non-tax revenues amount to BGN 2,274.2 million, which accounts for 47.8 % of the annual estimates.

BGN mn **Budget position monthly**

Source:MF
Data provided by CEIC data Manager



Grant revenues amount to BGN 669.8 million, or 25.3 % of those planned for the year. CFP expenditures, including the contribution of the Republic of Bulgaria to the EU budget for June 2017, amount to BGN 15,735.1 million, which accounts for 42.8 % of the annual estimates. For comparison, CFP expenditures for the same period of 2016 amount to BGN 14,638.7 million. The higher expenditures as against end-June 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 higher staff costs, including due to the increase in social security contribution expenditures 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. Regardless of the nominal increase in the expenditures as against the same period of the previous year and compared to the annual estimates, the execution of the expenditures throughout the first six months has been in accordance with the funds planned in the 2017 State Budget of the Republic of Bulgaria Law, with no pressure from the expenditures on the budget balance being expected. Non-interest expenditures amount to BGN 14,812.4 million, which accounts for 42.9 % of the annual estimates. Non-interest current expenditures as of June 2017 amount to BGN 13,958.8 million, or 49.3 % of the estimates for the year, capital expenditures (including net increment of state reserve) amount to BGN 853.6 million, or 13.8 % of the 2017 State Budget of the Republic Bulgaria Law estimates. Interest payments amount to BGN 434.4 million, or 52.5 % of those planned for 2017. The part of Bulgaria's contribution to the EU budget, as paid from the central budget as of June 2017, amounts to BGN 488.3 million. Furthermore, the preliminary data and estimates of MF expects for the Consolidated Fiscal Programme (CFP) balance on a cash basis as of July 2017 to be positive, amounting to BGN 1,961.2 million (2.0 % of the projected GDP). The national budget balance reports an improvement in structural terms as compared to the same period of 2016 mainly due to the growth of tax and social security and health insurance contributions, while the balance of EU fund accounts has deteriorated this year due to a baseline effect in 2016 related to the EU grants reimbursed to Bulgaria at the beginning of 2016 for expenditures incurred at the end of 2015 when was the peak of project payments under the previous 2007 - 2013 programming period. As of July 2017, CFP revenues and grants are expected to be BGN 20,470.7 million, or 57.8 % of the annual estimates. The performance of tax and non-tax revenues is expected to be 59.8 % of the estimates for the year, which is a growth by BGN 1,237.4 million, or by 6.7 %. Grant revenues are lower than the same period of 2016, with execution as compared to the 2017 annual estimates expected to be 32.9 %. The Consolidated Fiscal Programme expenditures, including the contribution of the Republic of Bulgaria to the EU budget, are expected to amount to BGN 18,509.5 million, as of July 2017, which accounts for 50.3 % of the annual estimates. The expenditures for the same period of last year amount to BGN 17,269.8 million. The higher expenditures, as compared to end-July 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 higher staff costs, including due to the increase in social security contribution expenditures linked to the higher contribution to the Pensions to Persons Pursuant to Article 69 Fund of the Social Insurance Code by 20 pps as against 2016. The part of Bulgaria's contribution to the EU budget, as paid from the central budget as of end-July 2017, amounts to BGN 559.7 million.

Fiscal Reserve

In June 2017 Bulgaria's fiscal reserve is quite stable amounting at BGN 13.2 billion

According MF data Bulgaria's fiscal reserve as of end-June 2017 is BGN 13.2 billion, including BGN 12.2 billion of fiscal reserve deposits in the BNB and in banks and BGN 1.0 billion of receivables under the EU Funds for certified expenditures, advance payments, etc.

Central Government Debt

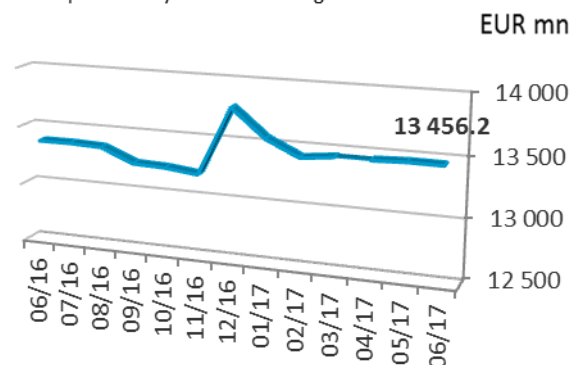
In June 2017 Bulgaria's central government debt as at end-June 2017 stand at EUR 13,456.2 million and presented 27.1 % of GDP

According to MF the central government debt as at end-June 2017 stand at EUR 13,456.2 million. Domestic debt amounts to EUR 3,290.3 million and external debt - to EUR 10,165.9 million. At the end of the reporting period the central government debt/gross domestic product (GDP) ratio is 27.1 %, with the share of domestic debt being 6.6 % and of external debt - 20.5 % of GDP. In the central government debt structure, domestic debt at the end of the period amounts to 24.5 %, and external debt - to 75.5 %. The weighted average interest rate on debt for the period January - June 2017 is 2.80 %, decreasing by 12 basis points as compared to the same period of 2016 (2.92 %). In June 2017, the central government guaranteed debt increases to EUR 405.6 million as compared to end-May 2017. Domestic guarantees amount to EUR 35.1 million, with the central government guaranteed debt/GDP ratio being 0.8 %. At end-June 2017 the government debt reaches EUR 12,884.2 million, or 25.9 % of GDP. Domestic debt amounts to EUR 3,243.8 million and external debt - to EUR 9,640.4 million. Government guaranteed debt amounts to EUR 1,029.2 million in June 2017. Domestic guarantees amount to EUR 35.1 million, with the government guaranteed debt/GDP ratio being 2.1 %.

Central Government Debt

Source: Ministry of Finance

Data provided by CEIC Data manager



MONETARY SECTOR

At the end of June 2017, Bulgaria's domestic credit amounted to BGN 51.6 billion, increasing by 1.3 % m/m and by 6.7 % y/y, respectively. The broad money (Monetary aggregate M3) amounted to BGN 80.8 billion, increasing by 0.6 % m/m and by 7.0 % y/y, respectively

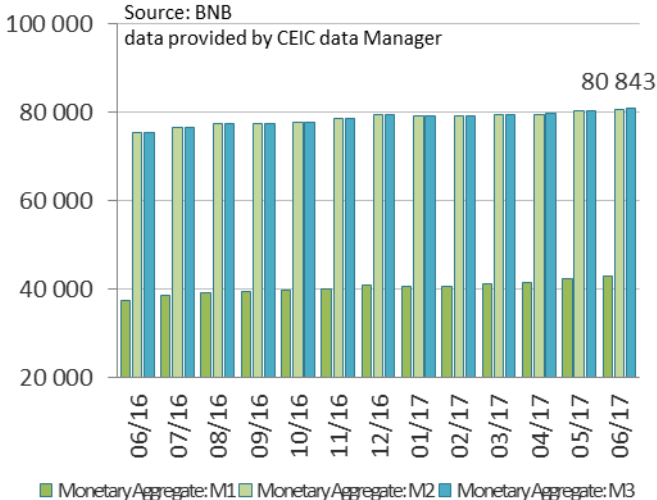
According to BNB data at the end of June 2017, Bulgaria's domestic credit amounted to BGN 51.6 billion and increased by 1.3 % m/m and by 6.7 % y/y, respectively. Its relative share in full year projected GDP is 53.1 %. Over the same period, the total volume of business loans granted by financial institutions was BGN 30.9 billion. Compared to the previous month, the indicator recorded a slight contraction of 0.2 %, but compared to a year earlier the increase was 2.1 %. KTB's crash in 2014 led to market stress, and its removal from statistics in November of the same year, after bankruptcy, formed a significant "hole" in corporate lending data. In recent months, however, the sector has gradually reversed the trend and regained its positive direction, although for the time being, the total amount of bank business loans remained below the peak of over BGN 36 billion in the last few years, achieved in the autumn of 2014. Household loans accelerate even more tangible. Consumer loans amounted to BGN 7.6 billion and increased by 1 % m/m and by 4.6 % y/y, respectively. The volume of mortgage loans amounted to BGN 9.0 billion and increased by 1.6 % m/m and by 4.4 % y/y, respectively. These are the highest credit growth in the retail segment since the summer of 2010. At the end of June 2017, the reported growth in the segment of other loans to households was 17 % y/y, with a monthly decrease of 3.1 %, reaching BGN 2.6 billion, including BGN 2.6 billion overdraft on loans to households. With the exception of the overdraft facility, the increase in other loans for a period of one year amounts to BGN 530 million, mainly due to the funding provided by the state-owned Bulgarian Development Bank under the National Program for Energy Efficiency of Multi- Residential buildings.

Monetary Aggregates

BGN mn

Source: BNB

data provided by CEIC data Manager



Among the factors driving credit growth are the record low interest rates charged by banks for the funding provided.

Bulgaria	30.06.2016	31.12.2016	31.05.2017	30.06.2017	Изменение	Изменение	Изменение	Дял в
Intermediation Indicators	BGN' 000	BGN 000	BGN' 000	BGN' 000	m/m (%)	y/y (%)	yend (%)	БВП (%)
DOMESTIC CREDIT	48 351 834	50 942 423	50 969 344	51 613 920	1.3	6.7	1.3	53.1
Central government Loans	466 831	499 170	480 452	480 069	-0.1	2.8	-3.8	0.5
Local government and SSFs Loans	202 990	210 336	201 282	208 124	3.4	2.5	-1.1	0.2
Loans to non-financial corporations	30 314 977	30 576 509	31 016 209	30 953 073	-0.2	2.1	1.2	31.9
Loans to financial corporations	1 472 182	1 448 855	2 084 533	1 862 726	-10.6	26.5	28.6	1.9
Retail loans, incl.:	18 174 068	18 511 070	19 127 276	19 265 611	0.7	6.0	4.1	19.8
Mortgage loans	8 713 297	8 768 195	8 954 654	9 099 146	1.6	4.4	3.8	9.4
Consumer loans	7 250 219	7 314 379	7 503 538	7 580 620	1.0	4.6	3.6	7.8
Other loans Households and NPISHs	2 210 552	2 428 496	2 669 084	2 585 845	-3.1	17.0	6.5	2.7
TOTAL LOANS	49 961 227	51 245 940	52 909 752	52 769 603	-0.3	5.6	3.0	54.3
BROAD MONEY (Monetary Agregare M3)	75 524 886	79 581 474	80 392 231	80 842 977	0.6	7.0	1.6	83.2
Local government and SSFs Deposits	1 269 003	1 017 033	1 452 666	1 493 355	2.8	17.7	46.8	1.5
Non-financial corporations Deposits	17 655 463	19 360 297	18 971 793	19 241 850	1.4	9.0	-0.6	19.8
Financial corporations Deposits	3 893 236	3 876 791	3 723 456	3 513 023	-5.7	-9.8	-9.4	3.6
Households and NPISHs Deposits	48 874 205	46 203 230	46 342 754	46 379 603	0.1	5.7	0.4	47.7
ATTRACTED SOURCES FROM CLIENTS, TOTAL	66 691 907	70 457 351	70 490 669	70 627 831	0.2	5.9	0.2	72.7
Bad and restructured loans	17.8	15.9	15.2	14.7	-0.5	-3.1	-1.2	
GDP, BGN '000	88 282 000	88 282 000	97 156 000	97 156 000				
EUR/BGN	1.95583	1.95583	1.95583	1.95583				

Source: BNB, MF, UBB Calculations
BNB Statistics Department, Monthly Statistics Data

Towards the end of June 2017 Bulgaria's broad money (Monetary aggregate M3) amounted to BGN 80.8 billion and increased by 0.6 % m/m and by 7 % y/y, respectively. Their relative share in GDP was 83.2 %. In June 2017, yield on deposit products of financial institutions was at an unprecedentedly low level, yet household savings continued to increase and in June 2017 reached a new record value of BGN 46.4 billion. For a period of one month their volume increased by BGN 36.3 million. At the end of June 2017 corporates deposits amounted to BGN 19.2 billion, which is by BGN 270 million more than reported in May 2017.

At the end of June 2017, the relative share of bad and restructured loans decreased to 14.07 %, incl. to 16.0 % for corporates loans and for housing loans falls below this threshold - to 15.5 %. In consumer credit, the decrease is even more pronounced - to 11.9 %, while in the other loans to households the value of the indicator decreased to 4.4 %. A significant impetus for the clearing of bank balances has given the process of preparing financial institutions for the unprecedented supervisory checks of the quality of their assets carried out last year. At the end of June 2017 the total amount of "bad and restructured" loans was BGN 7.4 billion compared to BGN 8.4 billion for the same period of the previous year.

Bulgaria	30.06.2016		31.12.2016		31.05.2017		30.06.2017	
Banking sector bad and restructured loans	BGN'000	%	BGN'000	%	BGN'000	%	BGN'000	%
CORPORATE LOANS	30 314 977	100.0	30 576 509	100.0	31 016 209	100.0	30 953 073	100.0
Standart Loans	24 759 583	81.7	25 339 772	82.9	25 866 127	83.4	25 989 933	84.0
Bad and restructured loans	5 555 394	18.3	5 236 737	17.1	5 150 082	16.6	4 963 140	16.0
HOUSEHOLDS LOANS	18 174 068	100.0	18 511 070	100.0	19 127 276	100.0	19 265 611	100.0
Standart Loans	15 368 182	84.6	15 955 985	86.2	16 654 654	87.1	16 839 144	87.4
Bad and restructured loans	2 805 886	15.4	2 555 085	13.8	2 472 622	12.9	2 426 467	12.6
Consumer loans	7 250 219	100.0	7 314 379	100.0	7 503 538	100.0	7 580 620	100.0
Standart Loans	6 301 253	86.9	6 398 282	87.5	6 586 354	87.8	6 681 176	88.1
Bad and restructured loans	948 966	13.1	916 097	12.5	917 184	12.2	899 444	11.9
Mortgage loans	8 713 297	100.0	8 768 195	100.0	8 954 654	100.0	9 099 146	100.0
Standart Loans	7 036 633	80.8	7 262 685	82.8	7 521 718	84.0	7 685 688	84.5
Bad and restructured loans	1 676 664	19.2	1 505 510	17.2	1 432 936	16.0	1 413 458	15.5
Other Loans	2 210 552	100.0	2 428 496	100.0	2 669 084	100.0	2 585 845	100.0
Standart Loans	2 030 296	91.8	2 295 018	94.5	2 546 582	95.4	2 472 280	95.6
Bad and restructured loans	180 256	8.2	133 478	5.5	122 502	4.6	113 565	4.4
TOTAL LOANS	48 489 045	100.0	49 087 579	100.0	50 143 485	100.0	50 218 684	100.0
Standart Loans	40 127 765	82.8	41 295 757	84.1	42 520 781	84.8	42 829 077	85.3
Bad and restructured loans	8 361 280	17.2	7 791 822	15.9	7 622 704	15.2	7 389 607	14.7

Source: BNB, calculations UBB

According to BNB data in June 2017, the interest rates on new corporate deposits with agreed maturity were 0.18 % for leva and 0.19 % for euro or for a period of one month decreased by 0.01 % pps and by 0.03pps, respectively. The interest rates on new deposits of households with agreed maturity decreased by 0.01 pps on a monthly basis to 0.45 % in leva and to 0.44 % in

euro, respectively. The average interest rates for new corporate loans in June 2017 were 3.79 % for leva loans (or by 0.18 pps up) and 3.83 % for euro loans (or 0.20 pps increase). For households, consumer loan interest for June 2017 was 7.78 % (lower by 0.75 pps) for leva loans and 5.07 % (or a decrease of 0.31 pps) for euro loans. Interest rates on mortgage loans decreased by 0.3 pps on a monthly basis to 3.93 % for loans in leva and by 0.40 pps to 3.92 % for loans in euro. Interest rates on "other loans" for households also dropped by 0.23 pps to 2.07 % for the leva and by 0.32 pps to 3.52 % for euro-denominated loans. Bulgaria has been working in a currency board arrangement since 1 July 1997. By comparing the interest rates on deposits and loans in the euro area for May 2017, Bulgaria has higher rates of interest rates on housing and corporate loans reflecting pricing and the specific risk for this country.

CAPITAL MARKET

In July 2017, all stock indices continued to grow. SOFIX grew by 8.46 percentage points to 711.5

According to BSE - Sofia at the end of July 2017 all stock indices continue to increase. Over a period of one month, SOFIX BSE-Sofia's benchmark index grew by 8.46 percentage points to 711.5. BGBX40 and BGREIT increased by 0.7 percentage points and 1.79 percentage points to 134.83 and 115.57, respectively. On a profit of 11.32 percentage points in July 2017 was BGTR30, which rose to 546.04. For a period of one month, at the end of July 2017. GGIX rose by 5.81 percentage points to 190.04. Chimimport AD with the highest turnover during the period with BGN 18.8 million, followed by Sopharma AD with BGN 18.1 million, Advance Terrafund REIT with BGN 16.5 million, Eurohold Bulgaria AD with 10, BGN 7 million, First Investment Bank AD with BGN 7 million, Spidi AD with BGN 6.5 million, Monbat A with BGN 6.4 million, Rodda Land Holding AD with BGN 6.3 million, CEZ Distribution Bulgaria AD with BGN 6.3 million and Doverie United Holding AD with BGN 5.9 million. The market capitalization of BSE-Sofia as at 31.07.2017 was BGN 9 436 816 686. The Bulgarian Stock Exchange - Sofia (BSE) initiated a procedure for exploring the opportunities to acquire Bulgarian Independent Energy Exchange (BENE). Bulgarian Energy Holding (BEH), which is the sole owner of the

Date	SOFIX	BGBX40	BGREIT	BGTR30
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
06.2017	703.0	134.0	113.8	534.1
07.2017	715.2	135.5	115.0	548.7

Source: Bulgarian Stock Exchange-Sofia

Energy Exchange, has agreed to launch a procedure for its sale. It is discussed the possibility of 100 % of the capital of the energy operator to be acquired by the Stock Exchange. The terms of the deal will be negotiated between the two parties after a legal and financial-economic analysis of the BENE. As a result of the analysis, the next steps regarding the possible acquisition of the shares of the Energy Exchange will be specified.

BANKING SEKTOR

At the end of June 2017 the profit of the banking sector in Bulgaria amounted to BGN 660 million and decreased by 14.6 % y/y. Banking system total assets amounted at BGN 93 billion and presented 96.1 % of GDP

According to BNB data at the end of June 2017, the aggregate profit of the banking sector was BGN 660 million, decreasing by 14.6 % y/y or by BGN 113 million less than the one reported for the first half of 2016. The reasons are two: the extra income last summer from the Visa card organization, valued by BNB at BGN 186 million, as well as the shrinking net interest income (by 17.7 % on an annual basis) due to low interest rates on loans. Impairment costs from the beginning of 2017 amounted to BGN 236 million compared to BGN 416 million for the first half of 2016 and reported a decrease of 43.3 % on an annual basis and contributed to the good result of the system.

Indicator (BGN"000)	30.06. 2016	30.06. 2017	Y/Y (%)
Interest Income	1 866 007	1 536 377	-17.7
Interest Expense	498 637	197 098	-60.5
Net interest income	1 367 370	1 339 279	-2.1
Impairment	416 797	236 266	-43.3
Fee and commission income	493 543	557 036	12.9
Fee and commission expenses	64 170	68 787	7.2
Net fee and commission income	429 373	488 249	13.7
Administration costs	877 577	787 276	-10.3
Personal costs	362 493	393 641	8.6
Total operating income, net	2 071 487	1 851 572	-10.6
Net Profit	773 475	660 400	-14.6

Source:BNB, UBB's Calculations

The assets of the banking system in June 2017 rose by 4.9 % y/y to BGN 93 billion, down from 0.4 % m/m. The relative share of assets in full year projected GDP is 96.1 %. The gross credit portfolio of the banking system increased by 2.7 % y/y. Household loans grew by 1.3 % on a monthly basis and by 6.9 % to BGN 19.5 billion. Consumer loans amounted to BGN 8.9 billion and increased by 0.9 % m/m and by 3.4 % y/y, respectively. Mortgage loans exceeded BGN 9 billion and increased by 0.9 % m/m and by 3.6 % y/y, respectively. Loans to non-financial corporations decreased by 0.8 % m/m and reported a slight increase of 0.4 % on an annual basis, amounting to BGN 33.0 billion. In June 2017, borrowed funds from customers declined by 0.7 % m/m with growth of 5.2 % on an annual basis, totaling more than BGN 74.4 billion and accounting for 77.1 % of projected GDP. Deposits of all institutional sectors increased except for the resources of other financial corporations, which decreased by 18.3 % m/m and by 17.7 % y/y to BGN 3.4 billion. Household deposits increased by 0.2 % m/m and by 5.3 % y/y, respectively, reaching BGN 47.6 billion. Deposits of companies grew by 0.8 % m/m and by 9.7 % y/y, respectively reaching BGN 21.6 billion.

Bulgaria	30.06.2016	31.12.2016	30.05.2017	30.06.2017	Change	Change	Change	Share in
Intermediation Indicators	BGN 000	BGN 000	BGN 000	BGN 000	m/m (%)	y/y (%)	yend (%)	GDP (%)
BANKING SYSTEM TOTAL ASSETS	88 650 280	92 094 979	93 406 386	93 016 075	-0.4	4.9	1.0	96.1
Loans to central governments	590 650	686 170	608 273	621 233	2.1	5.2	-9.5	0.6
Loans to non-financial corporations	32 884 991	33 180 349	33 281 802	33 019 133	-0.8	0.4	-0.5	34.3
Loans to financial corporations	1 973 684	2 025 583	2 017 779	2 406 225	19.3	21.9	18.8	2.1
Retail loans, incl.:	18 256 062	18 575 301	19 235 589	19 482 554	1.3	6.7	4.9	19.8
Mortgage loans	8 704 767	8 771 553	8 939 391	9 018 959	0.9	3.6	2.8	9.2
Consumer loans	8 671 987	8 677 385	8 888 986	8 964 702	0.9	3.4	3.3	9.1
Micro credits and other loans	879 308	1 126 363	1 407 212	1 498 893	6.5	n.a	33.1	1.4
TOTAL LOANS	53 705 387	54 467 403	55 143 443	55 143 443	0.0	2.7	1.2	56.8
ATTRACTED SOURCES FROM CLIENTS, incl.:	70 735 951	74 129 417	74 938 602	74 441 632	-0.7	5.2	0.4	77.1
Local government deposits	1 798 127	1 652 435	1 926 929	1 919 687	-0.4	6.8	16.2	2.0
Non-financial corporations deposits	19 649 323	21 375 024	21 379 556	21 555 461	0.8	9.7	0.8	22.0
Financial corporations deposits	4 123 905	3 905 721	4 155 529	3 395 294	-18.3	-17.7	-13.1	4.3
Households and NPIs deposits	45 164 596	47 196 237	47 476 588	47 571 190	0.2	5.3	0.8	48.9
Equity	11 799 710	12 133 492	11 877 879	11 976 927	0.8	1.5	-1.3	12.2
Net profit (annualised)	773 475	1 262 334	526 395	660 400	25.5	-14.6		
BANKING INDICATORS (%)								
ROE	13.1	10.4	10.6	11.0	0.2	-2.5	0.2	
ROA	1.7	1.4	1.4	1.4	0.0	-0.4	0.0	
Capital adequacy	22.7	22.2	n.a.	n.a.	n.a.	n.a.	n.a.	
Liquidity	36.6	38.2	37.9	36.9	-0.9	1.2	-0.4	
NPL	11.9	11.1	n.a.	10.5	n.a.	-1.4	-0.6	
GDP, BGN '000	88 282 000	88 282 000	97 156 000	97 156 000				
EUR/BGN	1.95583	1.95583	1.95583	1.95583				

Source: BNB, MF, UBB's Calculations

At the end of June 2017 the gross amount of non-performing loans and advances to customers in the banking system amounted to BGN 6.7 billion compared to BGN 9.6 billion for the same period of the previous year and from BGN 7.2 billion to the end In March 2017. Thus, their relative share in the total credit portfolio of the banking system decreased by 0.8 % on a quarterly

basis and by 1.4 % on an annual basis to 10.3 %.

Information on performing and non-performing exposures	TOTAL	Gross Performing Loans	%	Gross Loans Past-due </=90 Days	%	Gross Loans Past-due >90 to </=180 Days	%	Gross Loans past-due over 180 Days, </= 1 year above 180 days	%	Non-performing loans	%	Accumulated impairment, accumulated changes in fair value due to credit risk and provisions
Loans and Advances	64 524 516	55 062 250	85.34	2 669 886	4.14	476 741	0.74	6 315 639	9.79	6 792 380	10.53	-5 034 826
General governments	621 233	619 718	99.76	1 354	0.22	0	-	160	0.03	160	0.03	-1 190
Credit institutions	8 995 371	8 990 872	99.95	0	-	0	-	4 499	0.05	4 499	0.05	-4 499
Other financial corporations	2 406 325	2 348 013	97.58	3 965	0.16	5 107	0.21	49 240	2.05	54 347	2.26	-53 365
Non-financial corporations	33 019 133	26 173 863	79.27	1 896 585	5.74	306 863	0.93	4 641 822	14.06	4 948 685	14.99	-3 631 027
Retail Exposures, including	19 482 554	16 929 783	86.90	768 062	3.94	164 771	0.85	1 619 918	8.31	1 784 689	9.16	-1 344 745
Retail Residential Mortgage Loans	9 018 959	7 728 317	85.69	398 330	4.42	78 774	0.87	813 538	9.02	892 312	9.89	-430 812
Consumer Loans	8 964 701	7 964 953	88.85	337 955	3.77	81 553	0.91	580 230	6.47	661 783	7.38	-712 351

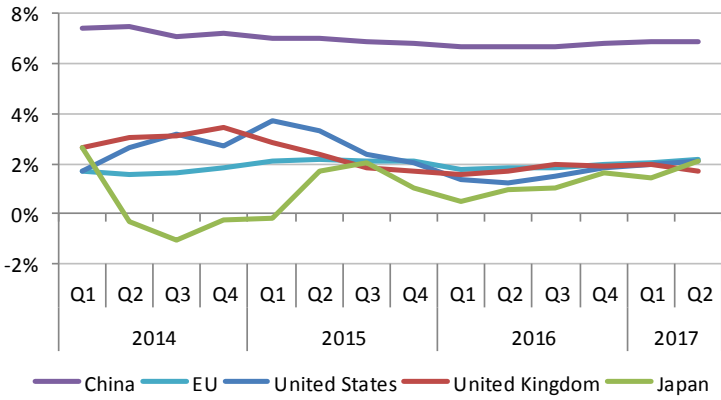
Source: BNB, Calculations UBB

NPL includes all credit and advances (without Central banks) over 90 days past due

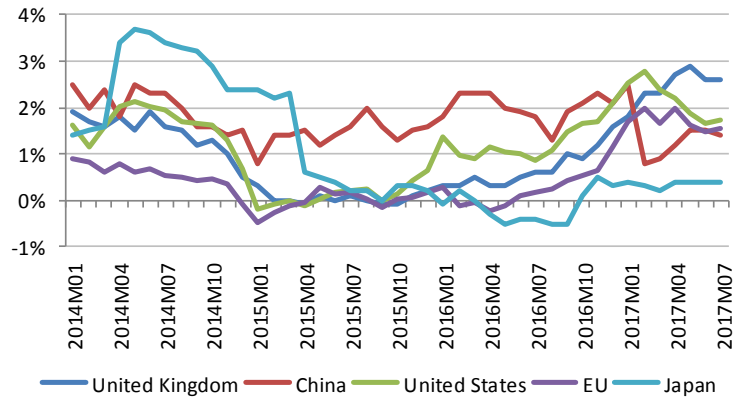
At the end of June 2017, the commercial banks' balance sheet total equity amounted to BGN 11.9 billion, increasing by 0.8 % m/m and by 1.5 % y/y, respectively and thus maintaining the stability of the system. At the end of June 2017, the liquid assets ratio, calculated according to BNB Ordinance No. 11, remained high - 36.92 %. In the structure of liquid assets, the cash and cash item of the BNB at the end of June stood at 51.8 %.

Appendix

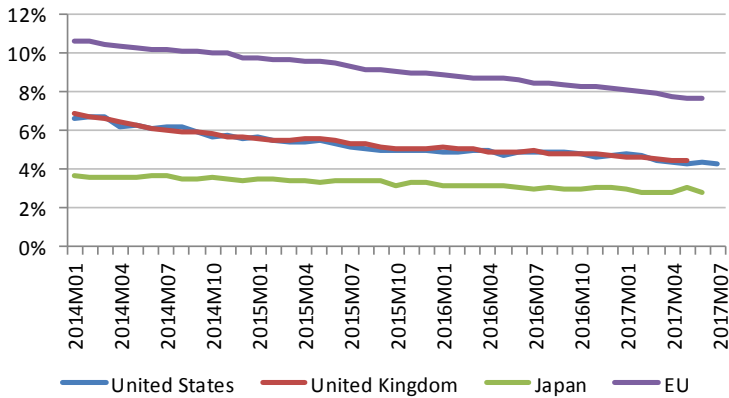
Advanced Economies: GDP growth rate compared to the same quarter of the previous year



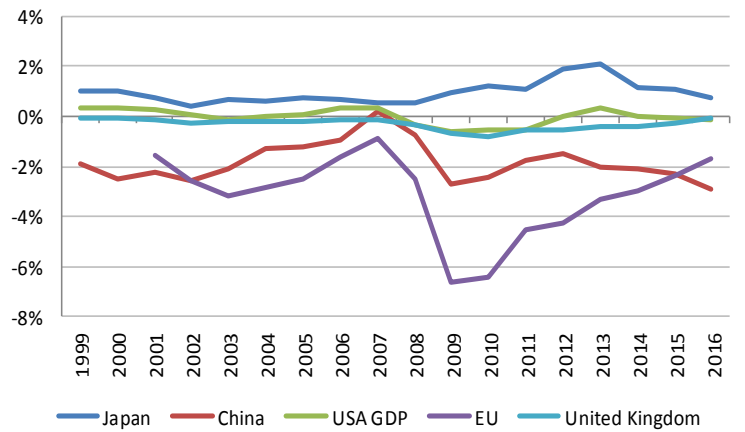
Advanced economies: Inflation by country, monthly (y/y)



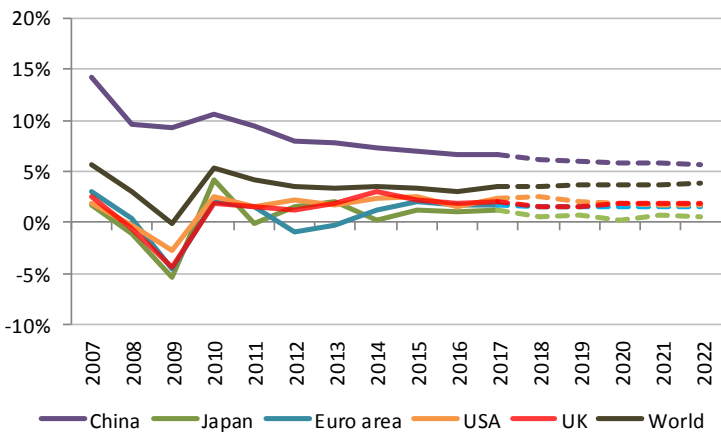
Advanced economies: Unemployment rates (%) by country on monthly basis



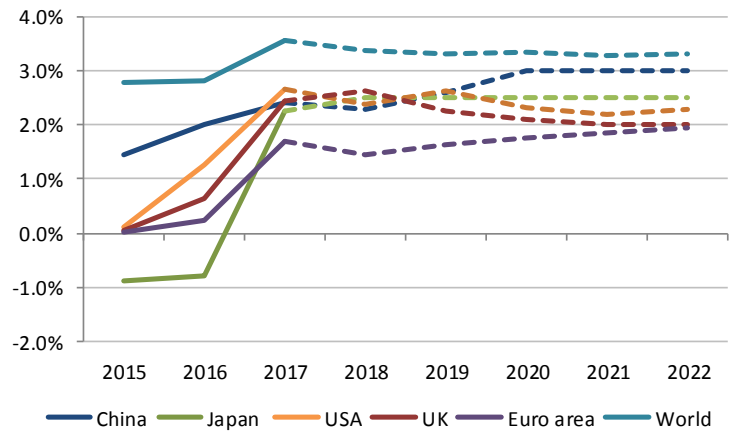
Advanced economies: Budget surplus/deficit to GDP (%)



Advanced economies Real GDP Growth Rate (% y/y)

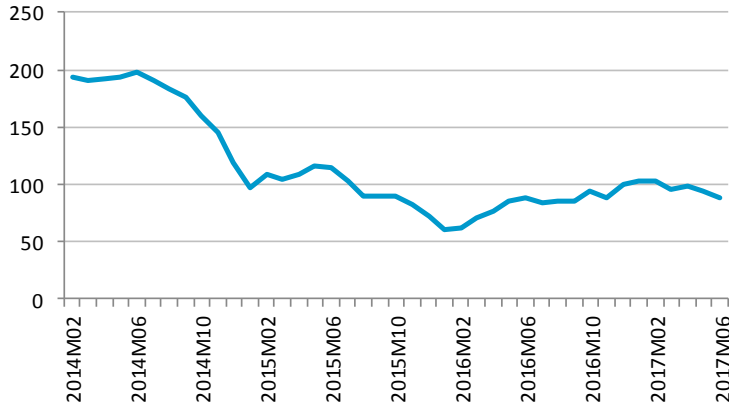


Advanced economies: Inflation average, % y/y

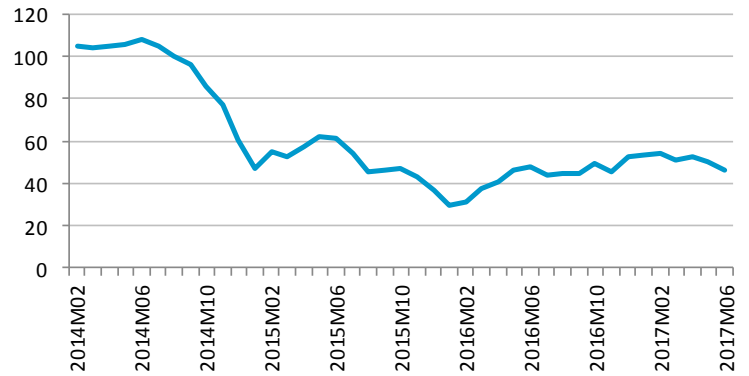


Overseas Prices of Oil Products, Agriculture products & Metals

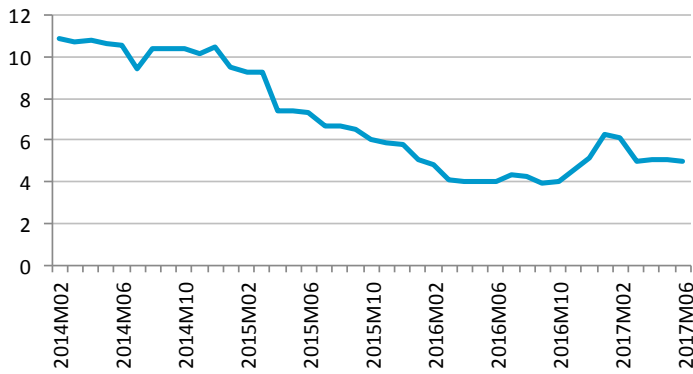
Fuel (Energy) Index, 2005 = 100, includes Crude oil (petroleum), Natural Gas, and Coal Price Indices



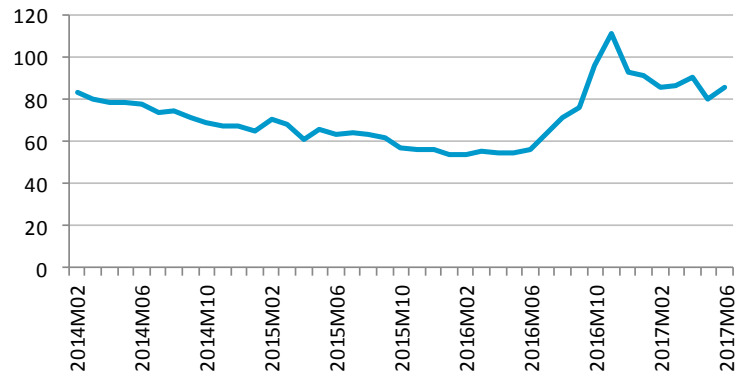
Crude Oil (petroleum), simple average of three spot prices; Dated Brent, West Texas Intermediate, and the Dubai Fateh



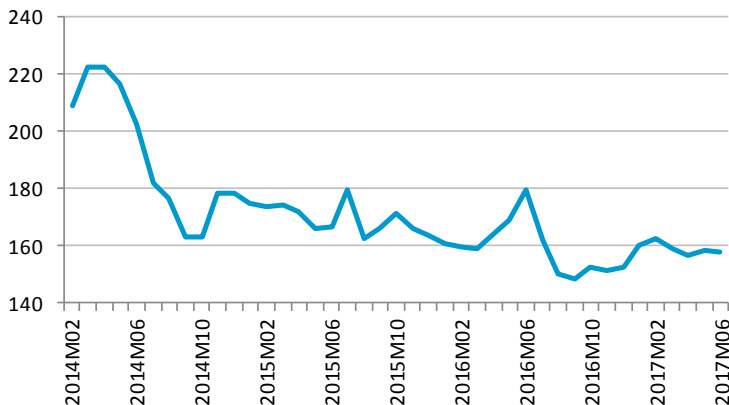
Natural Gas, Russian Natural Gas border price in Germany, US\$ per Million Metric British Thermal Unit



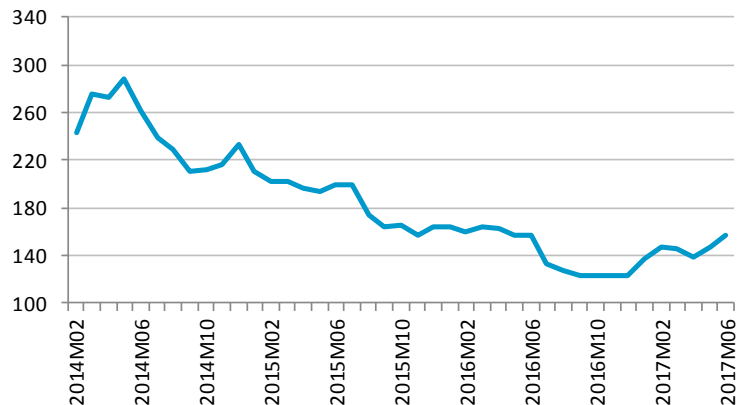
Coal, Australian thermal coal, 12,000- btu/pound, less than 1% sulfur, 14% ash, FOB Newcastle/Port Kembla, US\$ per metric ton



Maize (corn), U.S. No.2 Yellow, FOB Gulf of Mexico, U.S. price, US\$ per metric ton

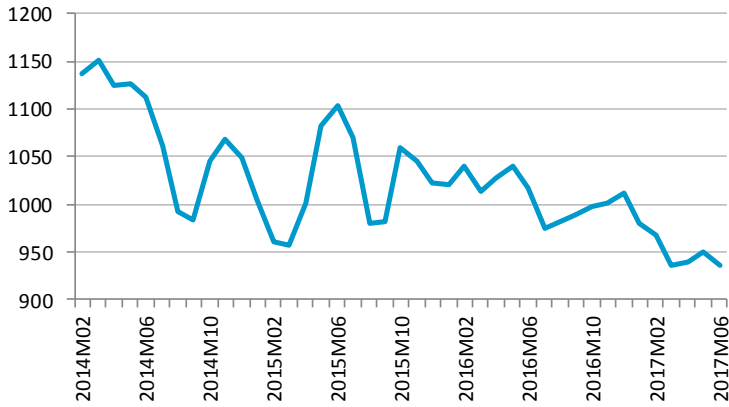


Wheat, No.1 Hard Red Winter, ordinary protein, Kansas City, US\$ per metric ton

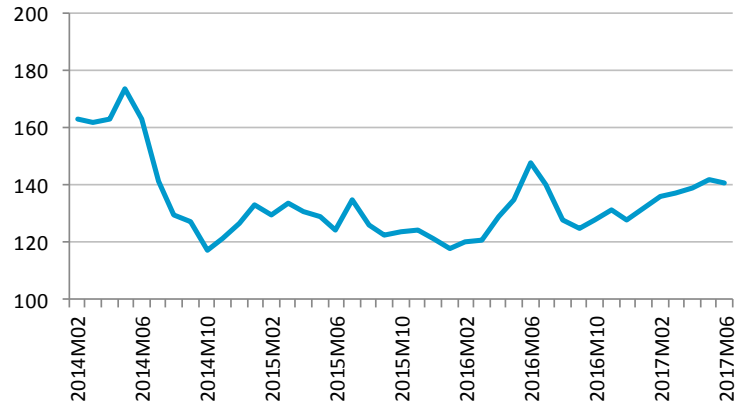


Overseas Prices of Oil Products, Agriculture products & Metals

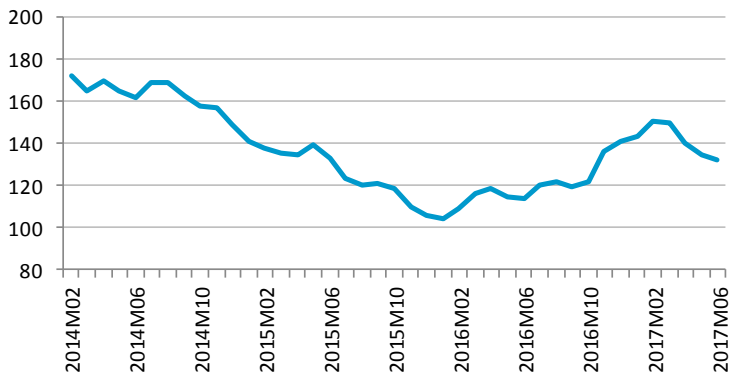
Sunflower oil, Sunflower Oil, US export price from Gulf of Mexico, US\$ per metric ton



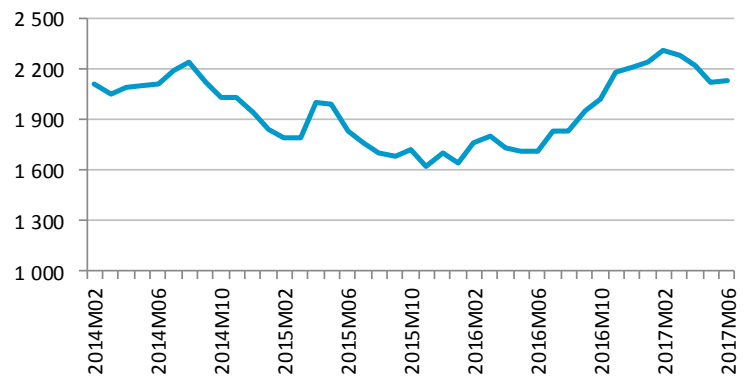
Barley, Canadian no.1 Western Barley, spot price, US\$ per metric ton



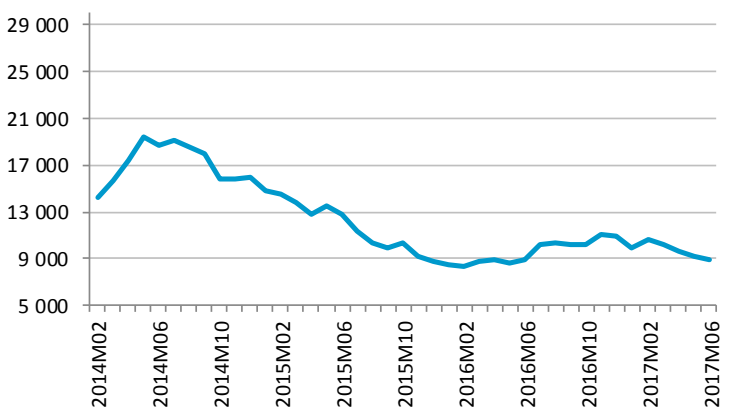
Metals Price Index, 2005 = 100, includes Copper, Aluminum, Iron Ore, Tin, Nickel, Zinc, Lead, and Uranium Price Indices



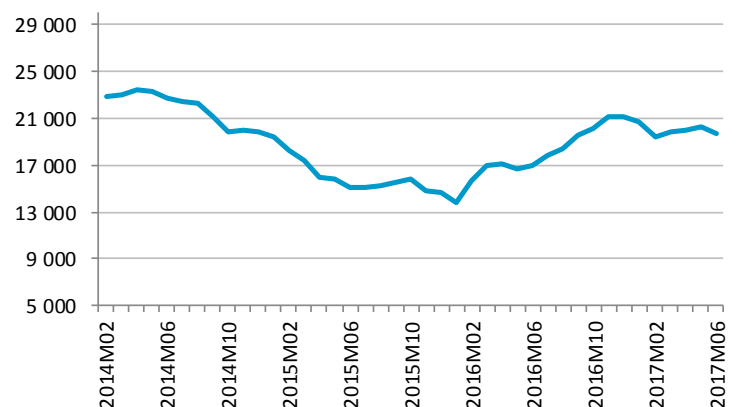
Lead, 99.97% pure, LME spot price, CIF European Ports, US\$ per metric ton



Nickel, melting grade, LME spot price, CIF European ports, US\$ per metric ton

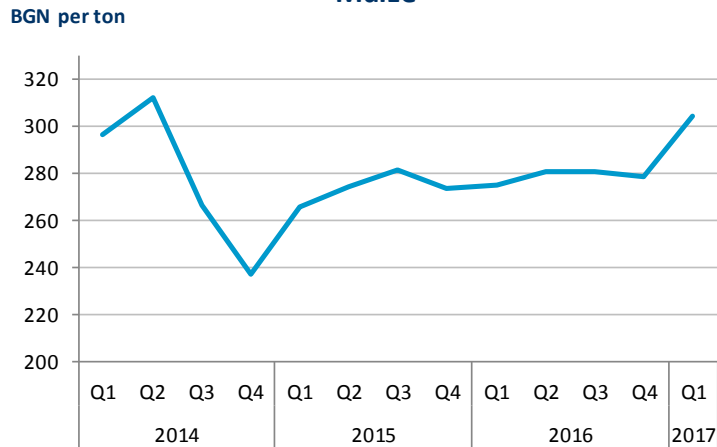


Tin, standard grade, LME spot price, US\$ per metric ton

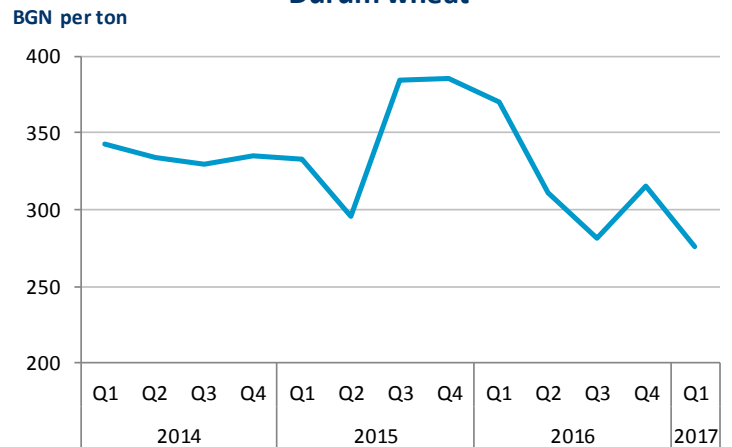


Overseas Prices of Oil Products, Agriculture products & Metals

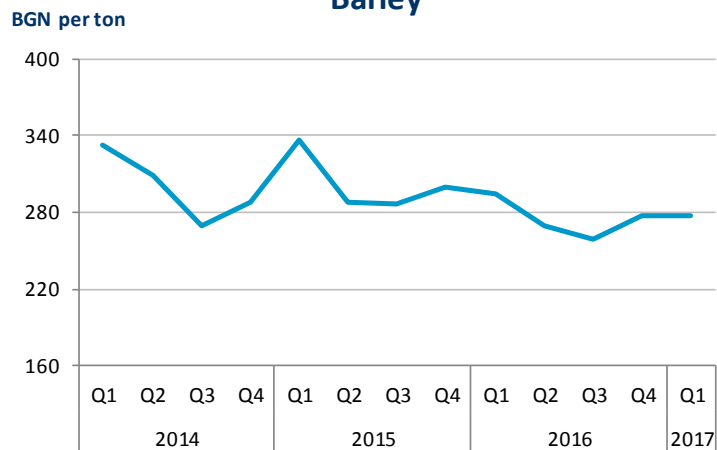
Maize



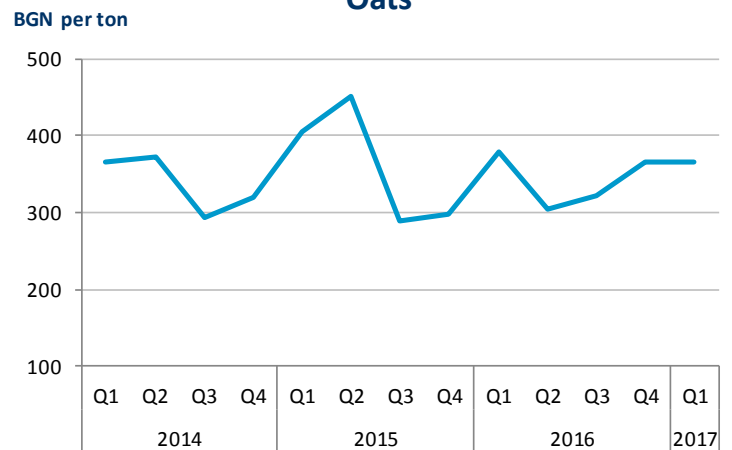
Durum wheat



Barley

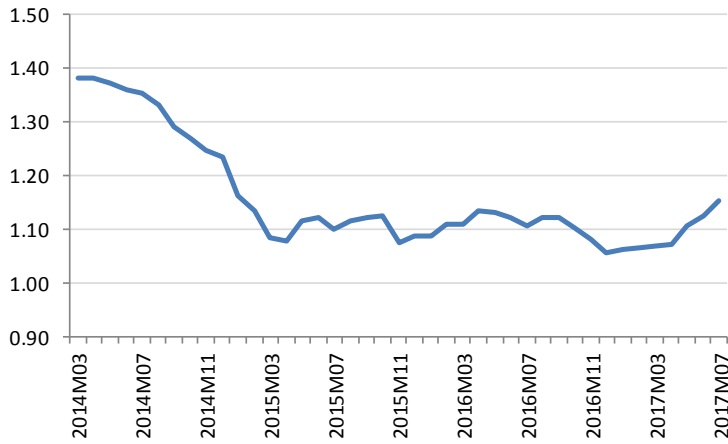


Oats

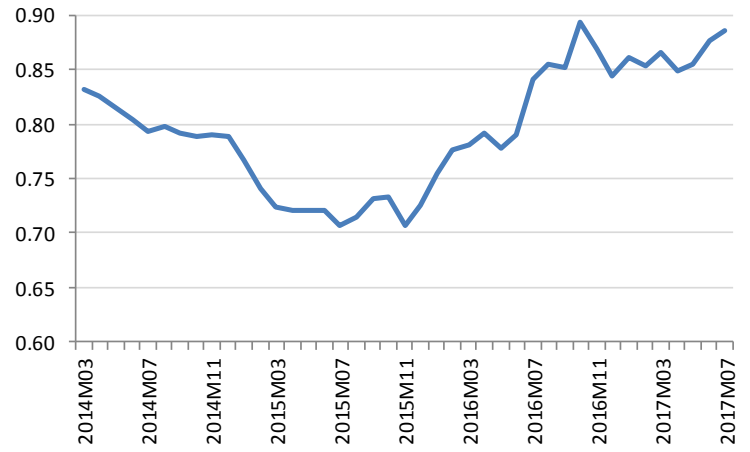


Overseas FX Rates

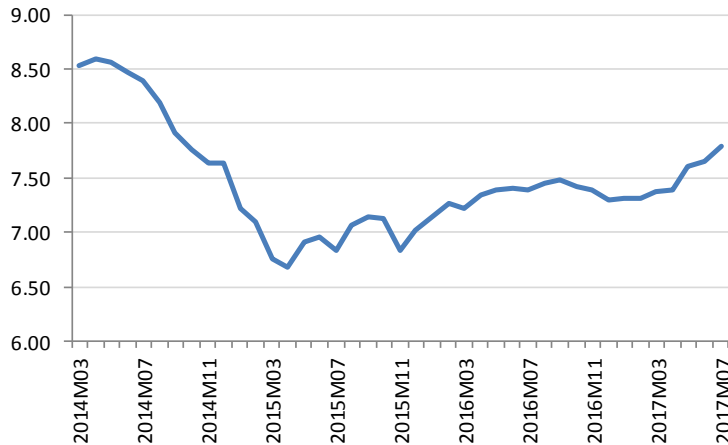
EUR/USD



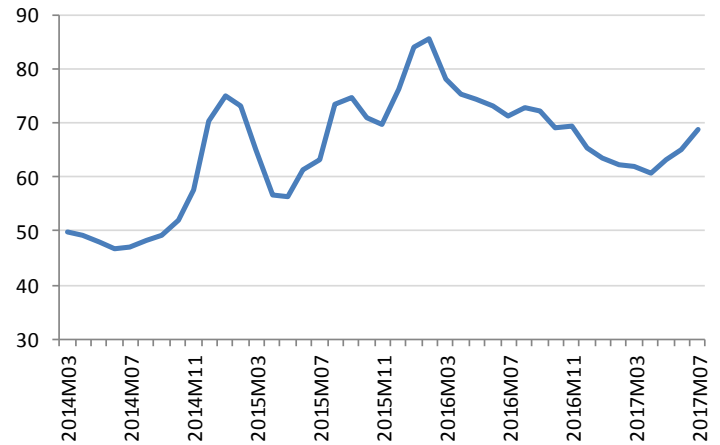
EUR/GBP



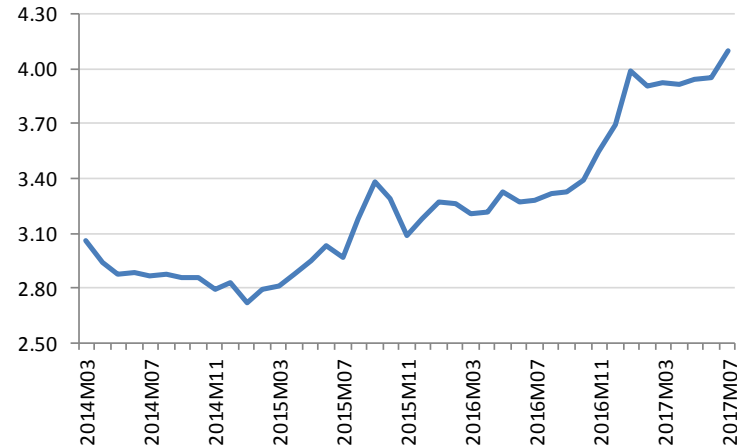
EUR/CHF



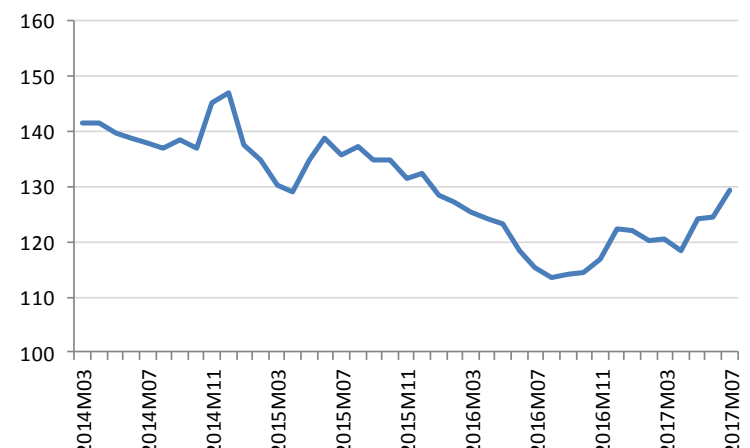
EUR/RUB



EUR/TRY

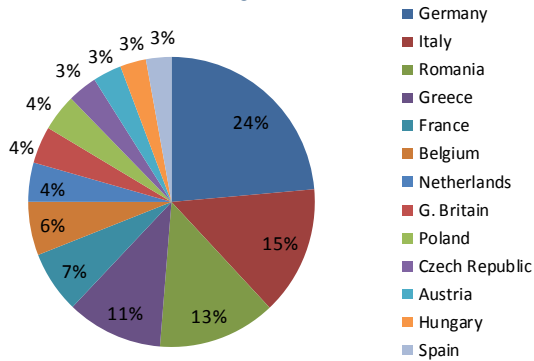


EUR/JPY

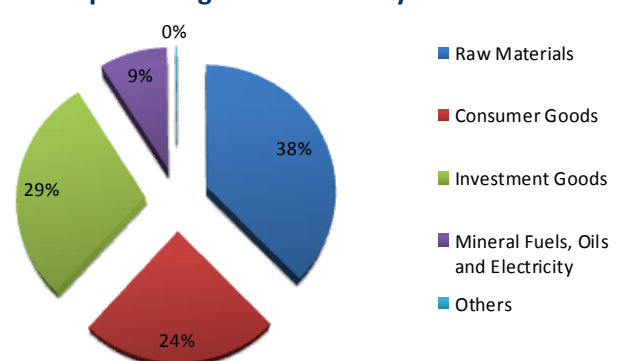


Bulgaria: External Sector Indicators

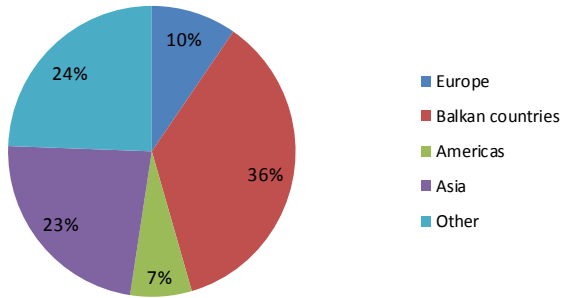
Exports: FOB by EU countries: January - May 2017



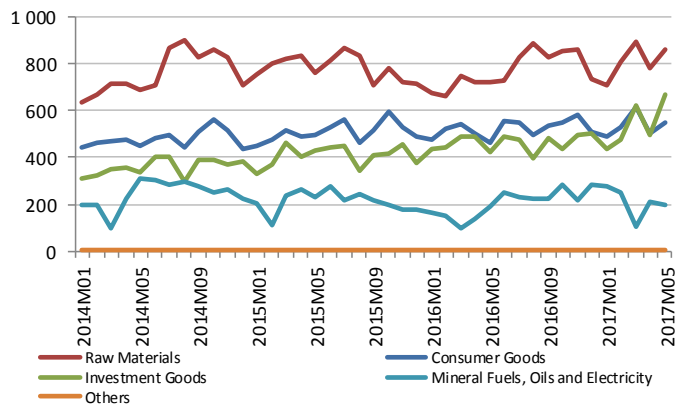
Exports: FOB: Commodity groups - percentage shares for May 2017



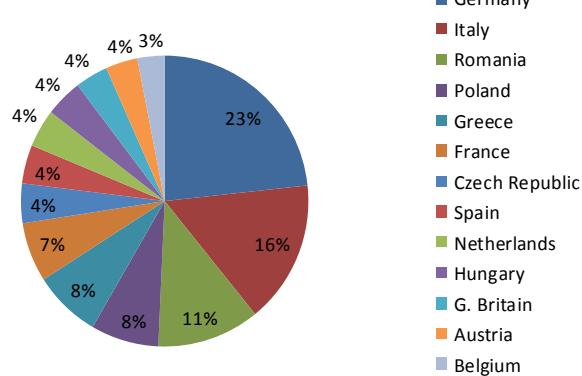
Exports: FOB by Non EU countries: January - May 2017



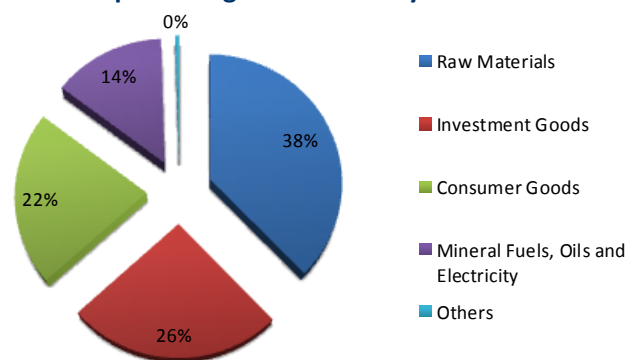
Exports by Commodity groups: 2014 - 2017



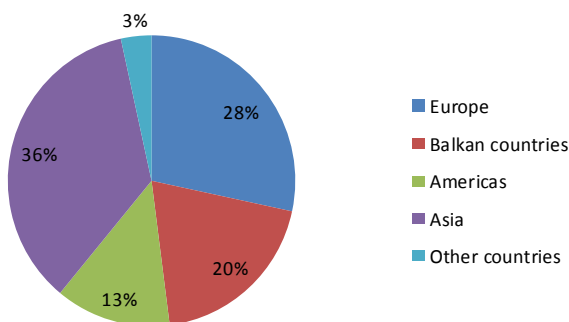
Imports: CIF by EU Countries: January - May 2017



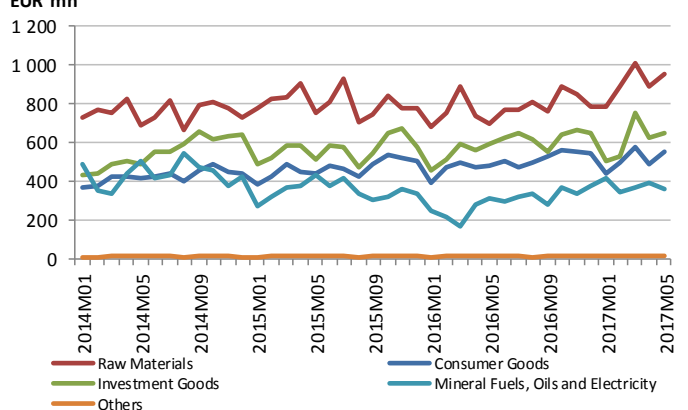
Imports: CIF - Commodities groups - percentage share for May 2017



Imports: CIF by Non EU Countries: January - May 2017

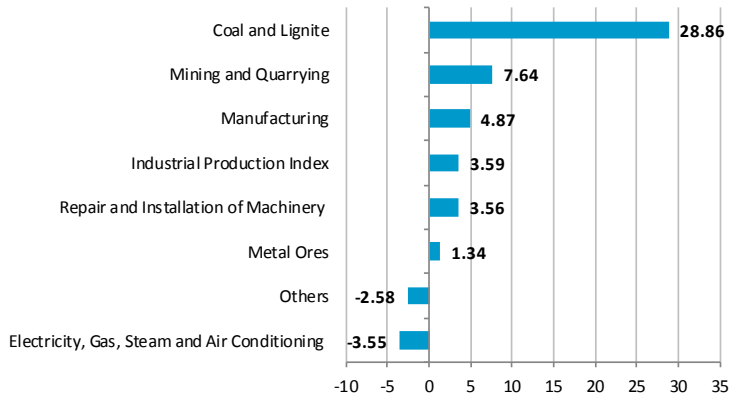


Imports by Commodity groups: 2014 - 2017

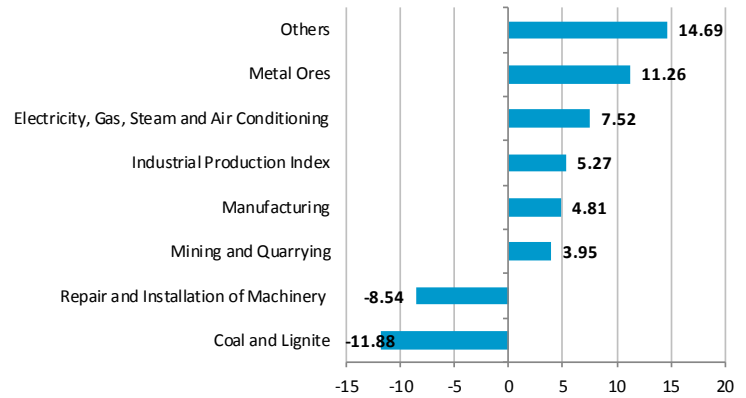


Bulgaria: Real Sector Indicators

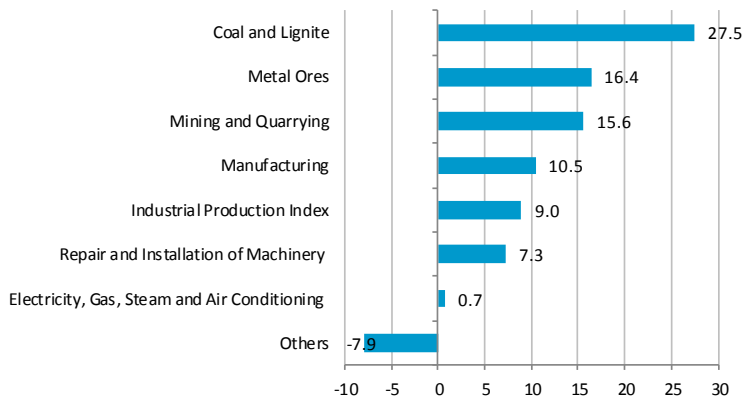
Industrial Production Indices: % change in June 2017 compared to June 2016



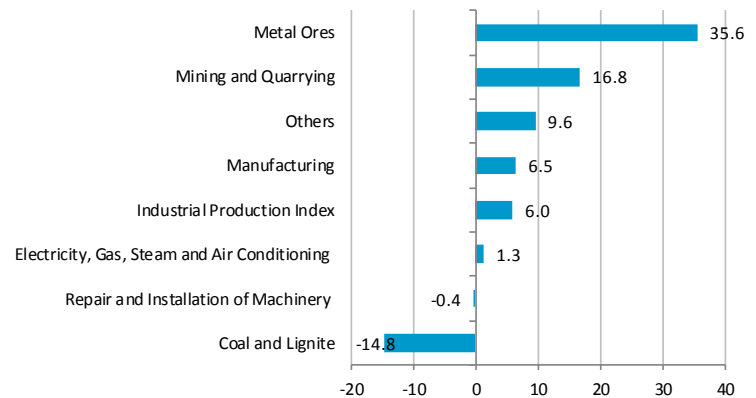
Industrial Production Indices: % change in June 2017 compared to May 2017



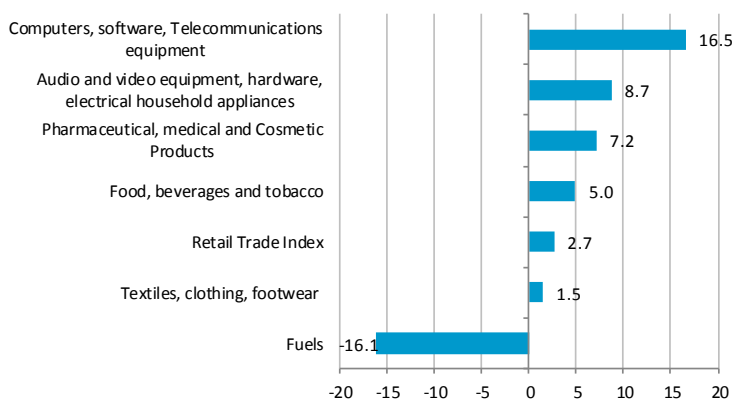
Industrial Turnover Index: % change in June 2017 compared to June 2016



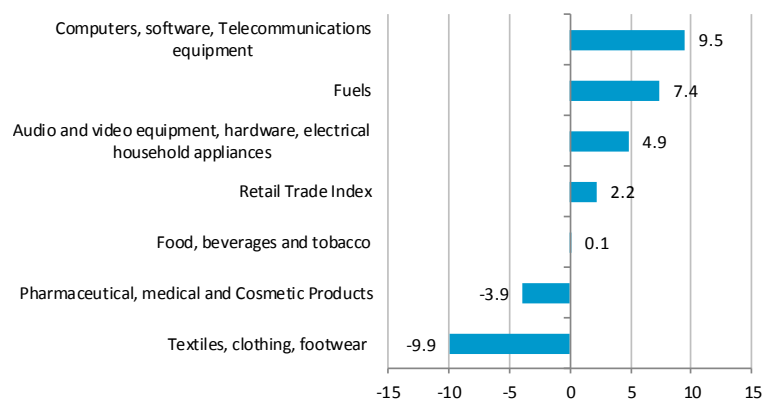
Industrial Turnover Index: % change in June 2017 compared to May 2017



Retail Trade Index: % change in June 2017 compared to June 2016

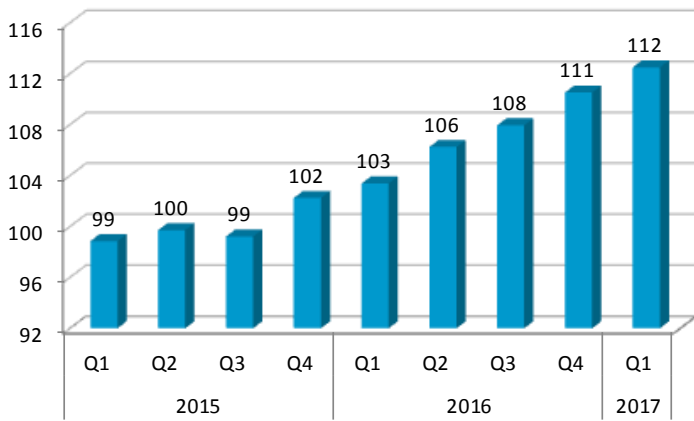


Retail Trade Index: % change in June 2017 compared to May 2016

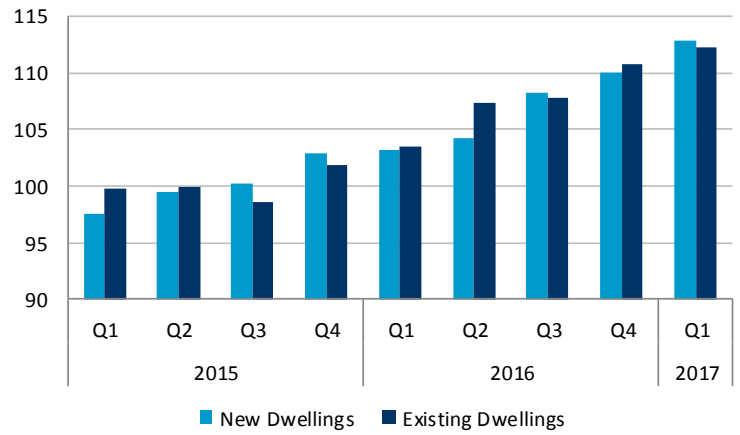


Bulgaria: Real Sector Indicators

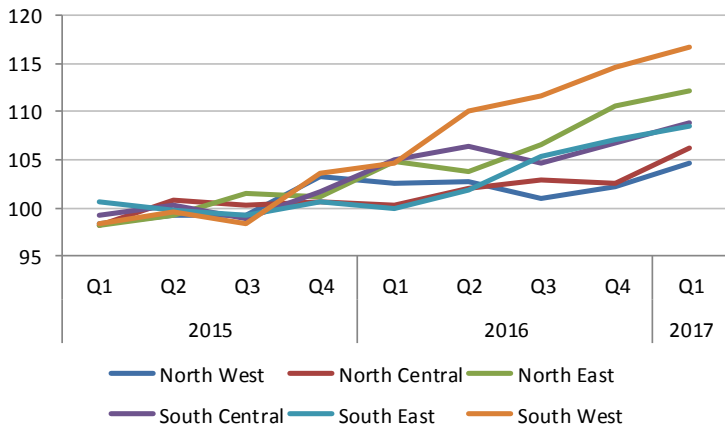
House Price Index (HPI)



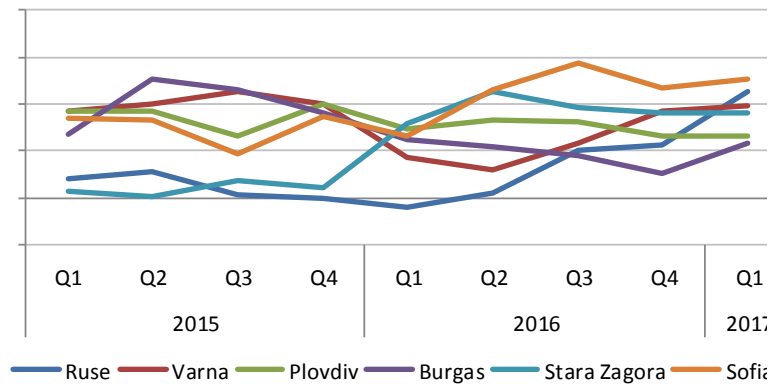
HPI: New and existing dwellings



House Price index by regions

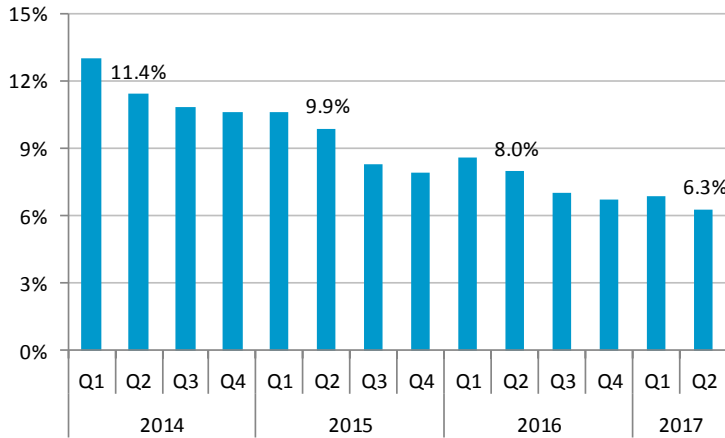


HPI for the 6 cities with population more than 120 000 inhabitants, % change YoY

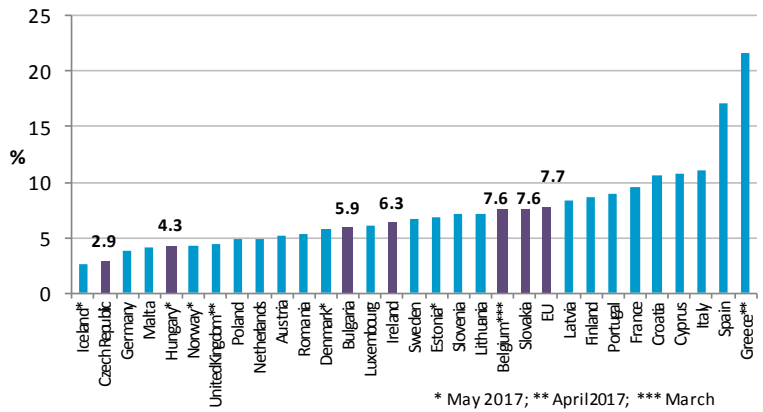


Bulgaria: Real Sector Indicators

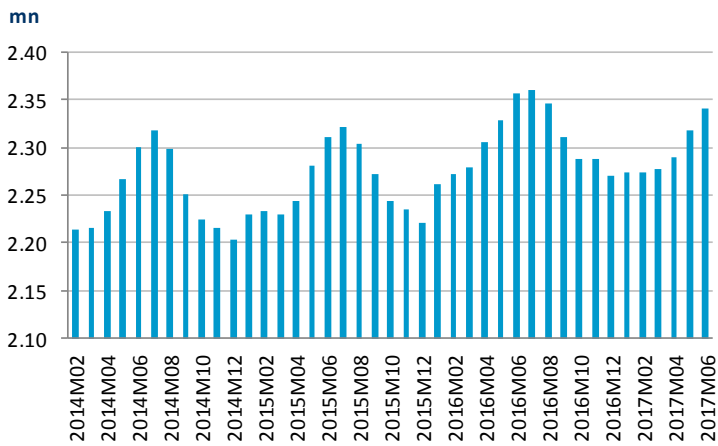
Unemployment Rate



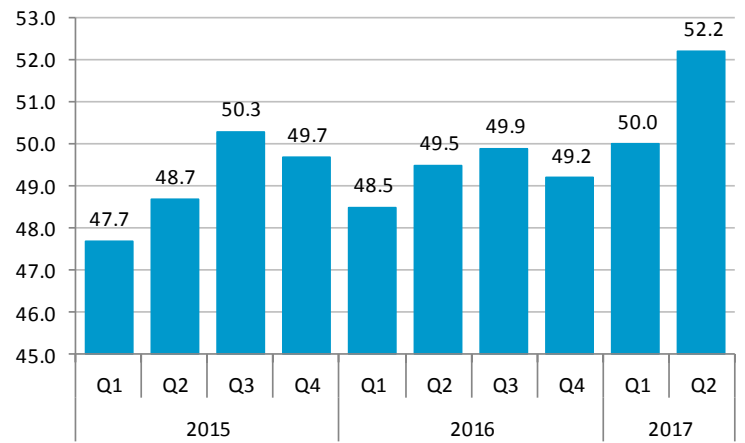
EU: Unemployment rate seasonally adjusted by country June 2017



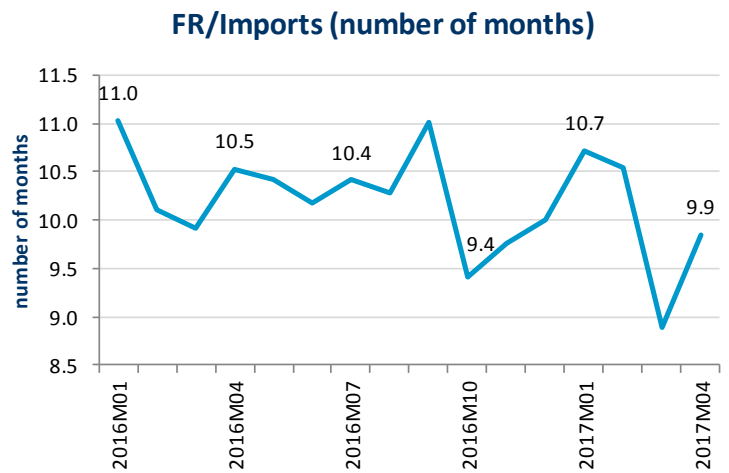
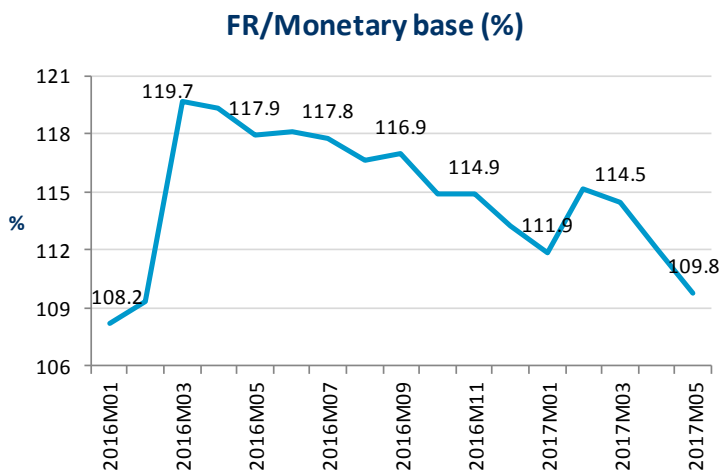
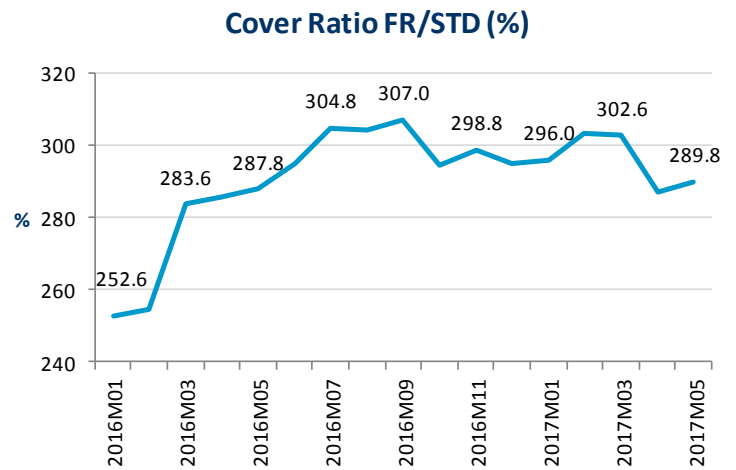
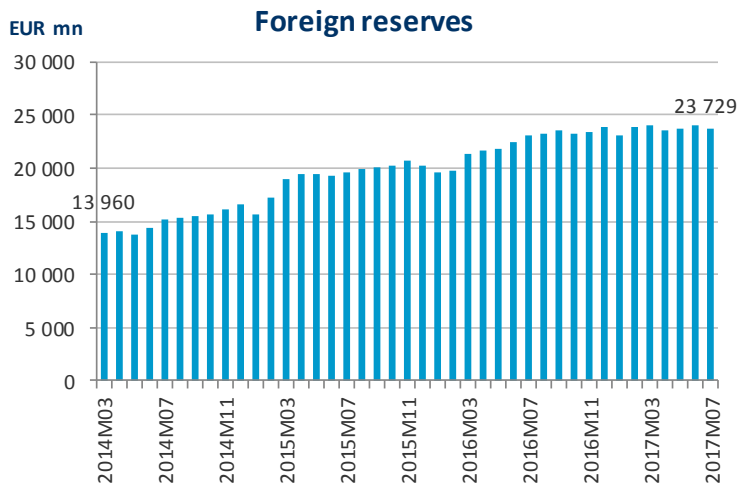
Bulgaria: Number of Employees



Bulgaria: Employment Rate

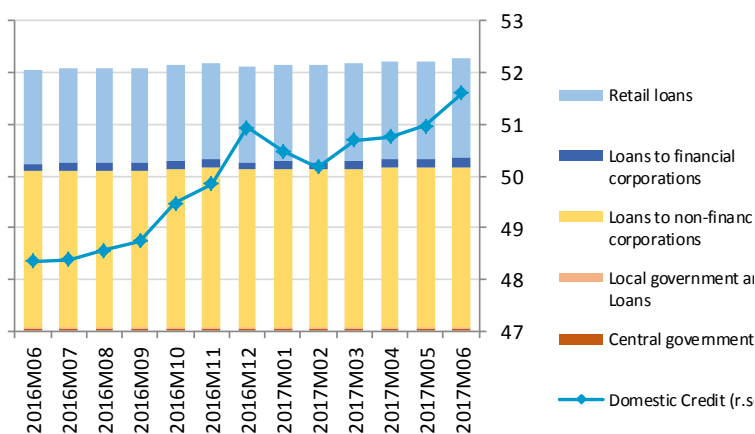


Bulgaria: Monetary Sector Indicators

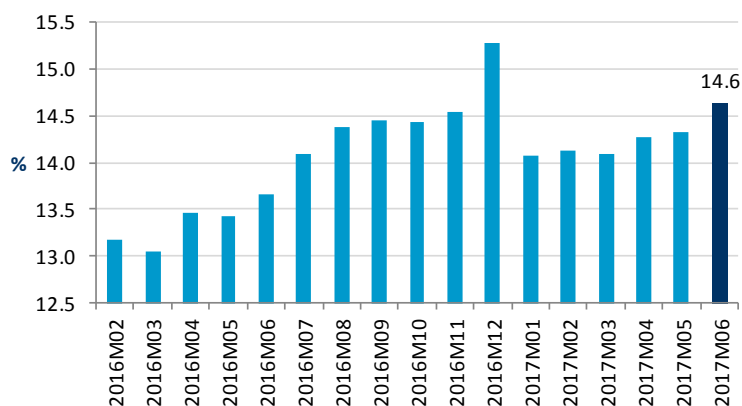


Bulgaria: Monetary Sector Indicators

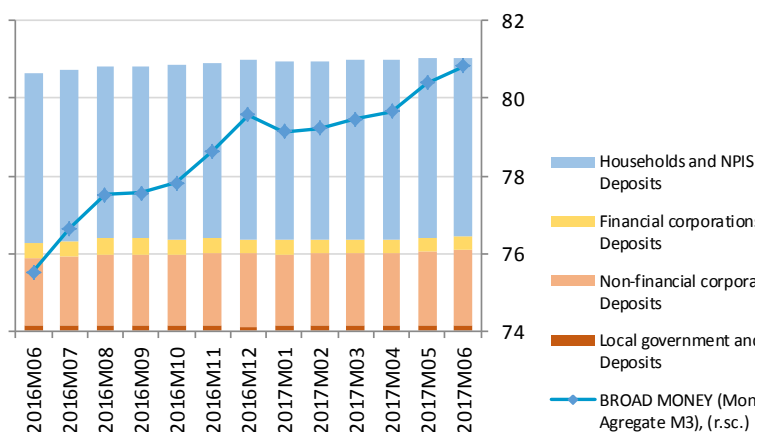
Loans and Domestic Credit (BGN bn)



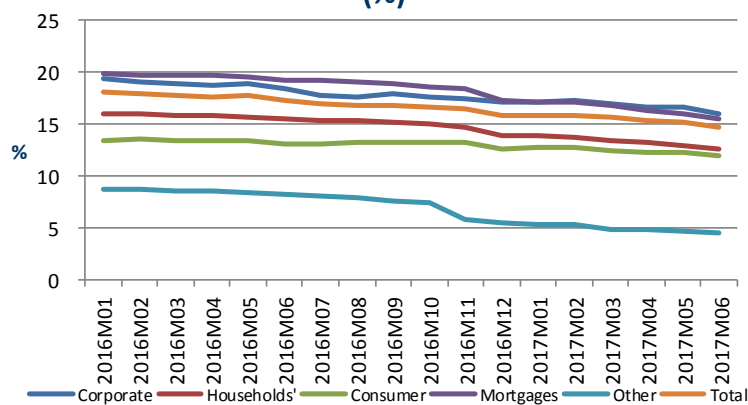
Money in circulation/GDP (%)



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

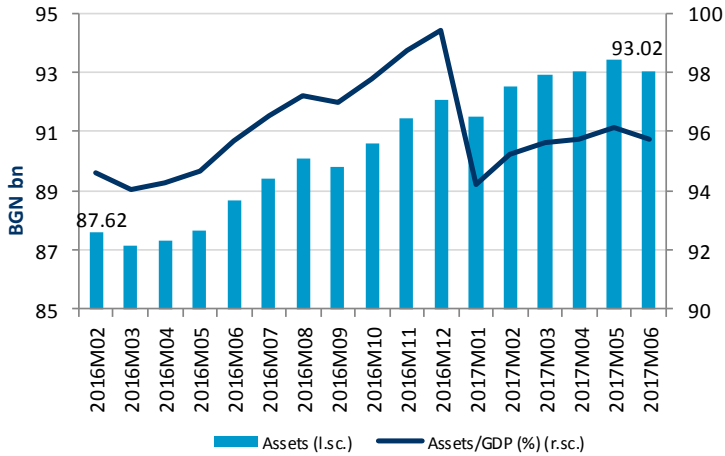


Banking sector: Bad and restructured loans (%)

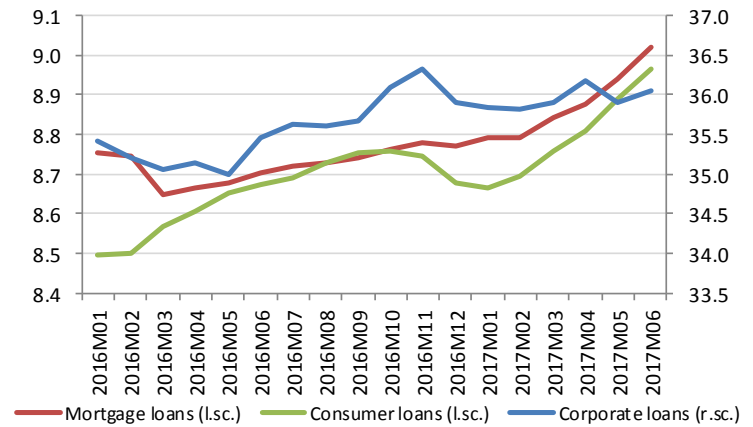


Bulgaria: Banking Sector Indicators

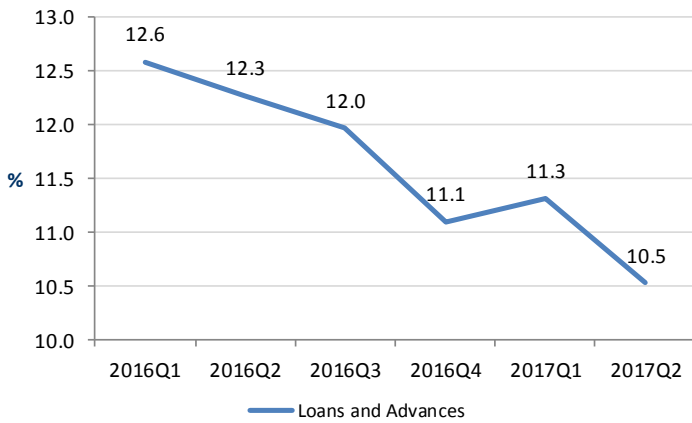
Assets



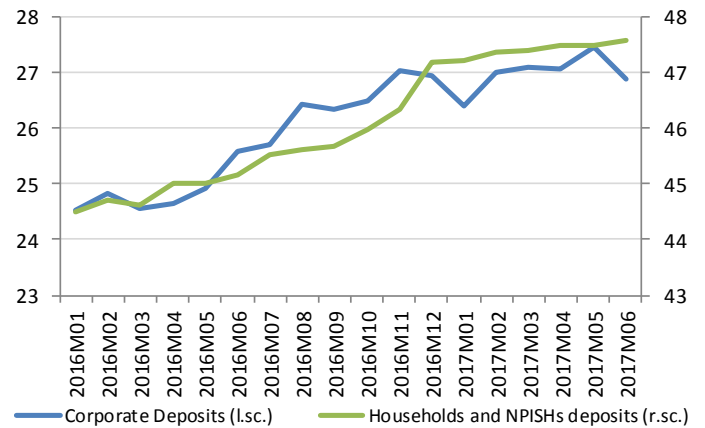
Loans (BGN bn)



Banking System Non Performing Loans (%)

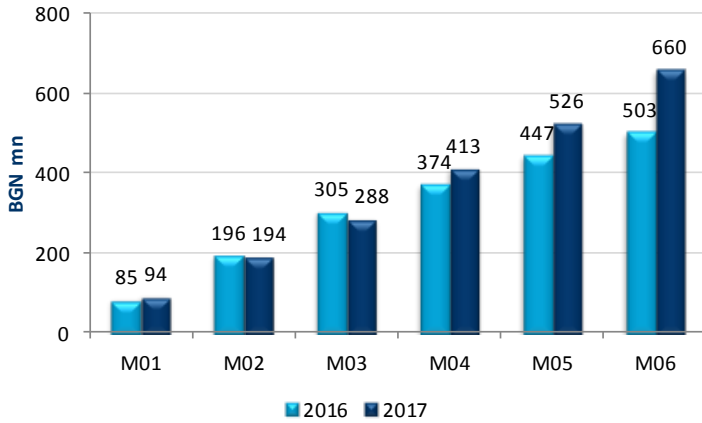


Deposits (BGN bn)

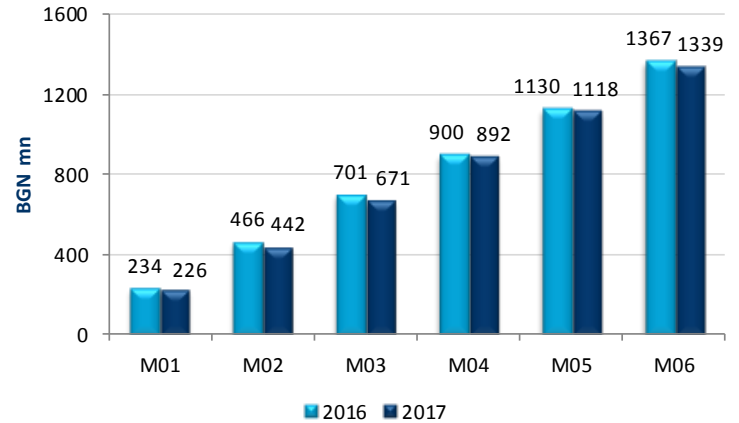


Bulgaria: Banking Sector Indicators

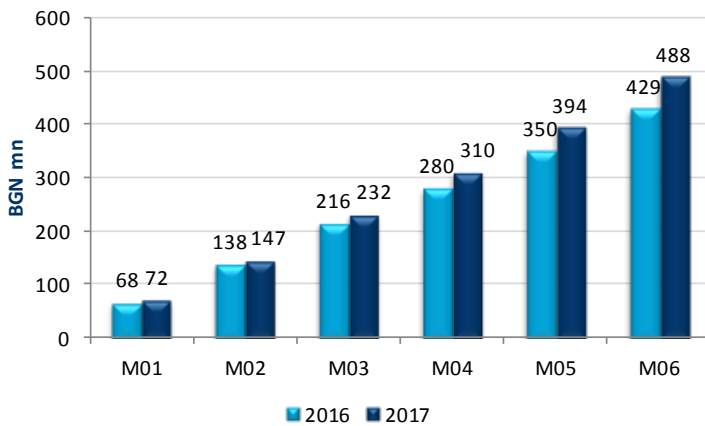
Net Profit



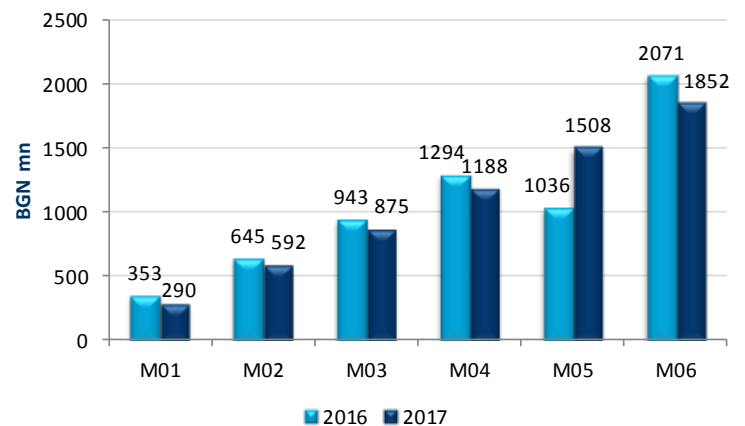
Net interest Income



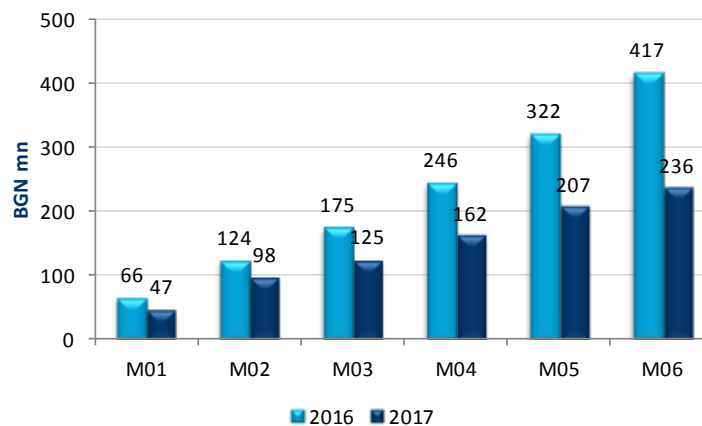
Net fee and commission income



Net operating income

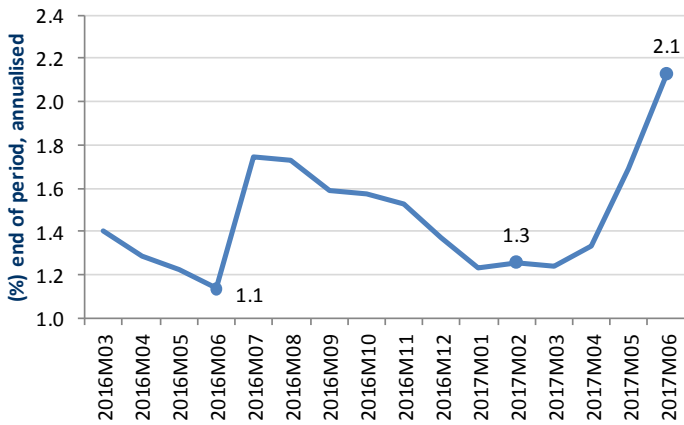


Impairment

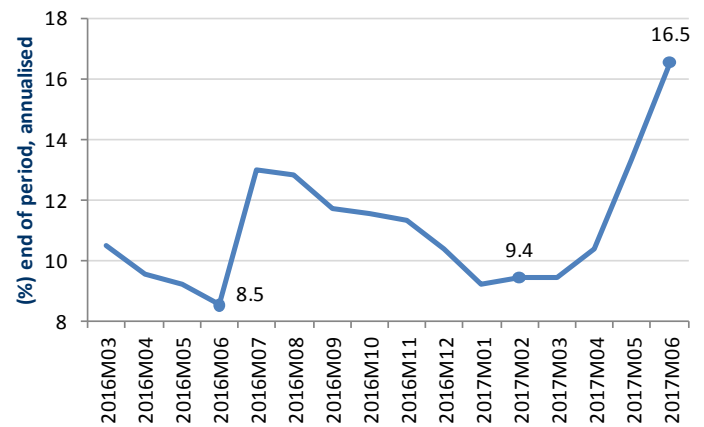


Bulgaria: Banking Sector Indicators

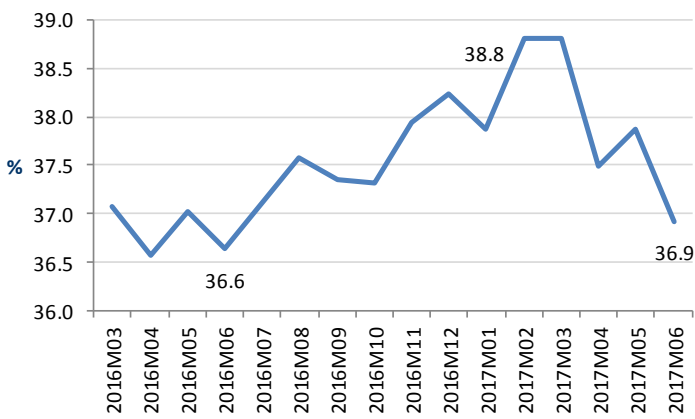
ROA



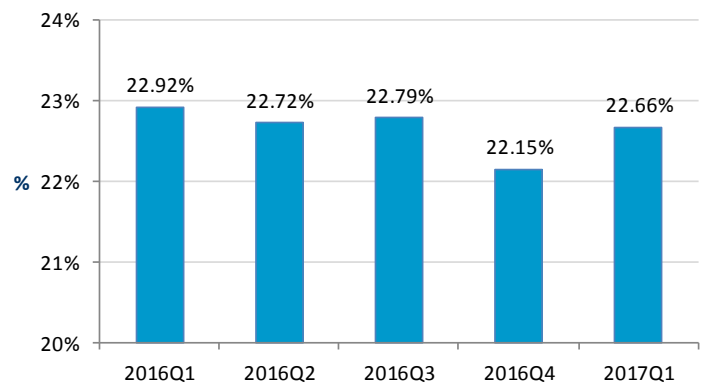
ROE



Liquid Assets Ratio (LAR)



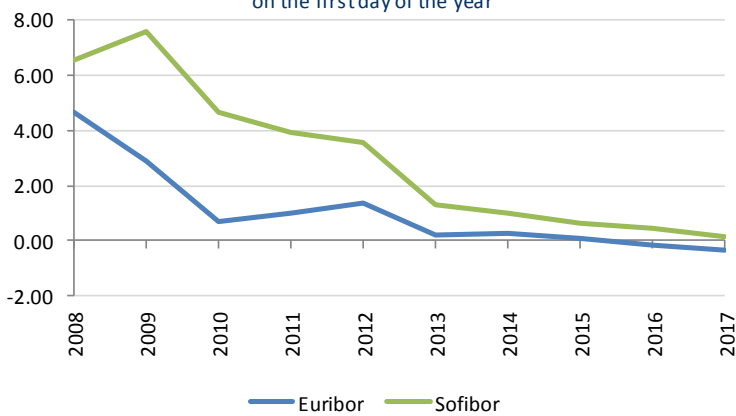
Total Capital Ratio



Bulgaria: Indexes and Interest Rates

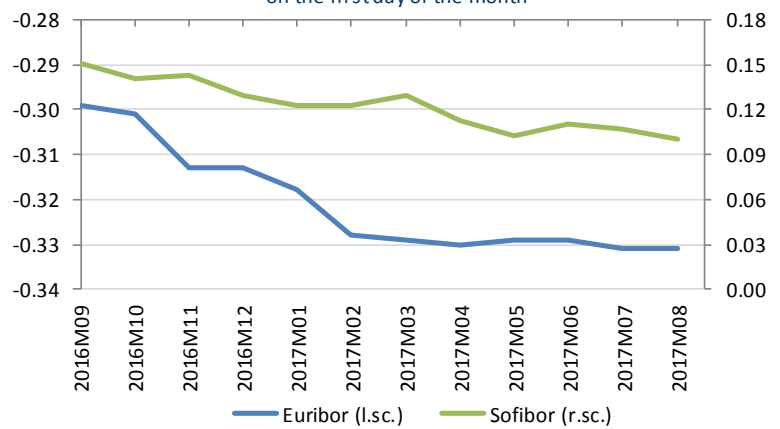
Indexes 3-months

on the first day of the year

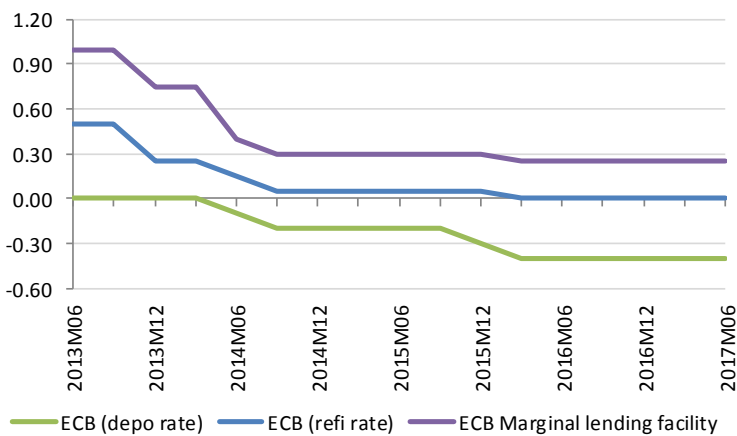


Indexes 3-months

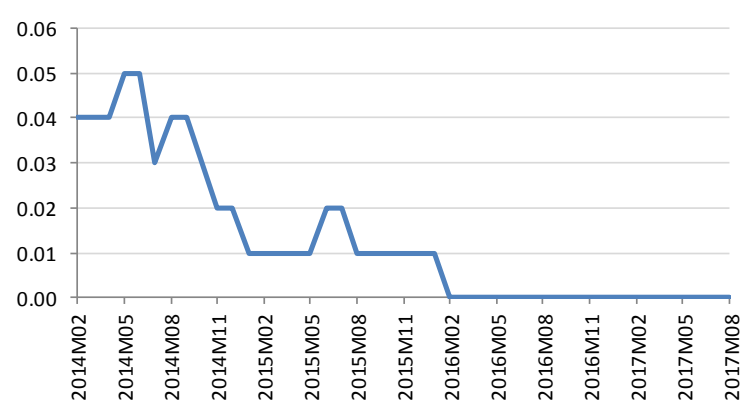
on the first day of the month



Policy Rates in (%)

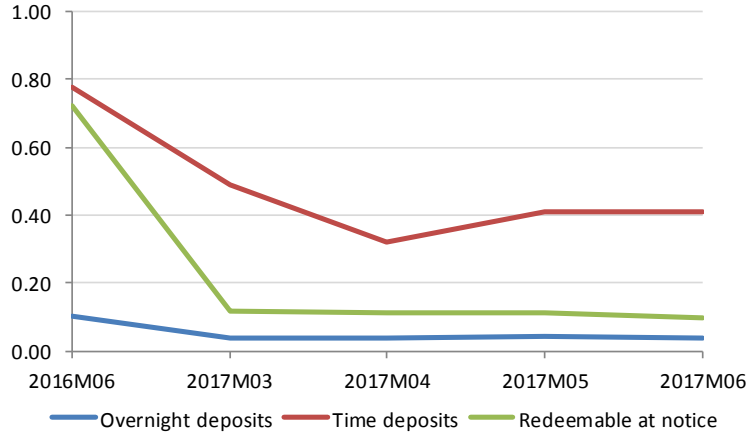


Base Interest Rate of the BNB in (%)

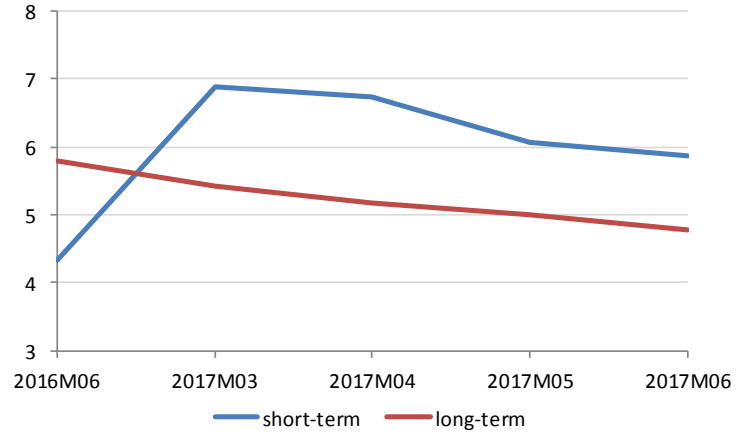


Bulgaria: Interest Rates of New Business on Deposits and New Loans Interest Rates

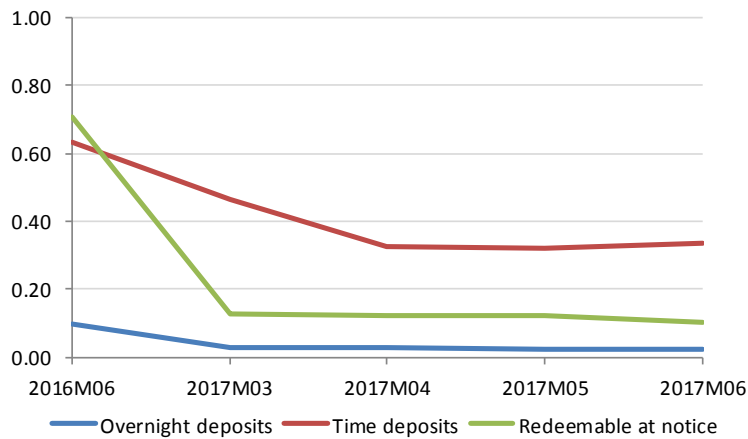
Interest Rates (%) in BGN



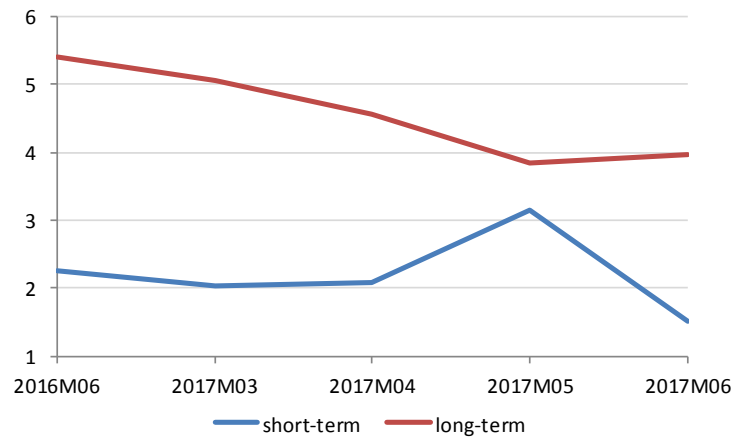
Interest Rates (%) in BGN



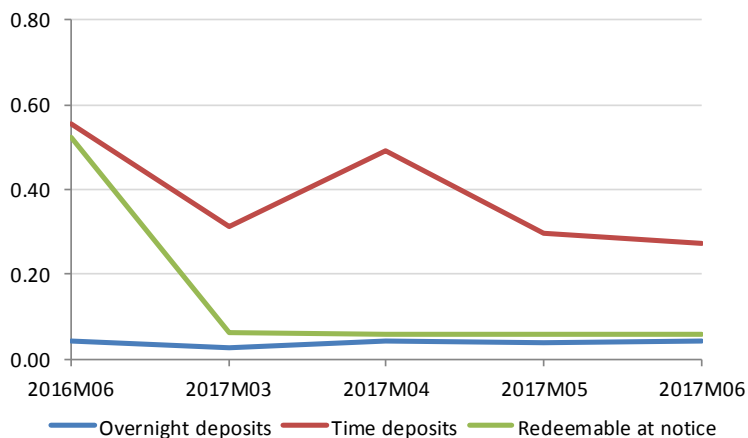
Interest Rates (%) in EUR



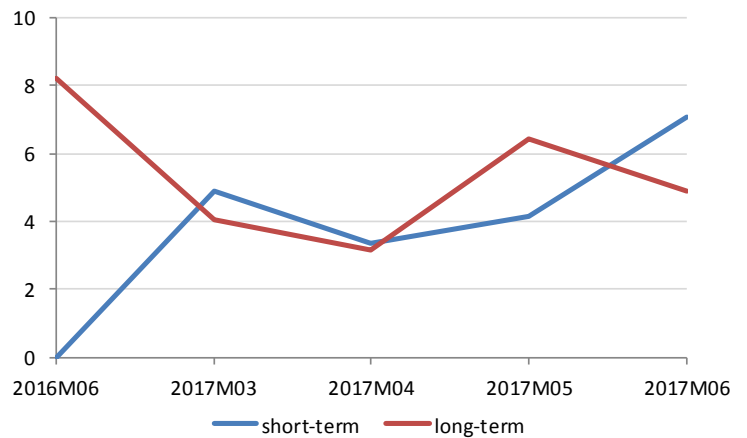
Interest Rates (%) in EUR



Interest Rates (%) in USD

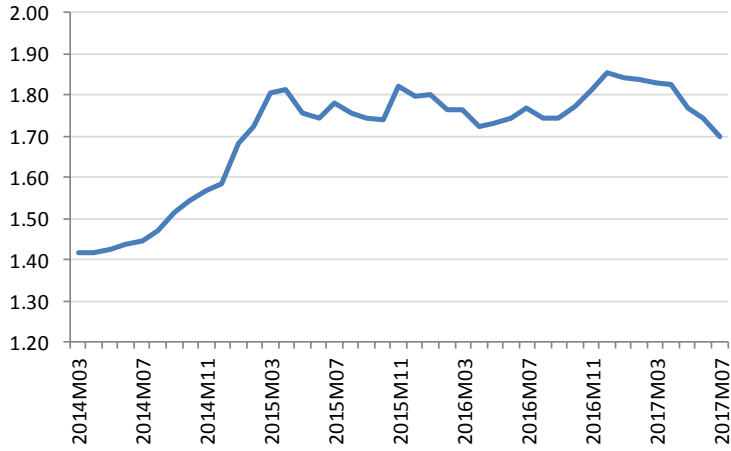


Interest Rates (%) in USD

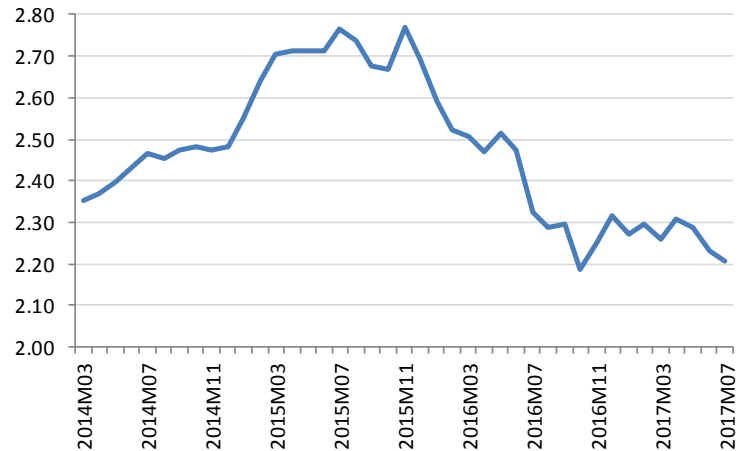


Bulgaria: FX Rates

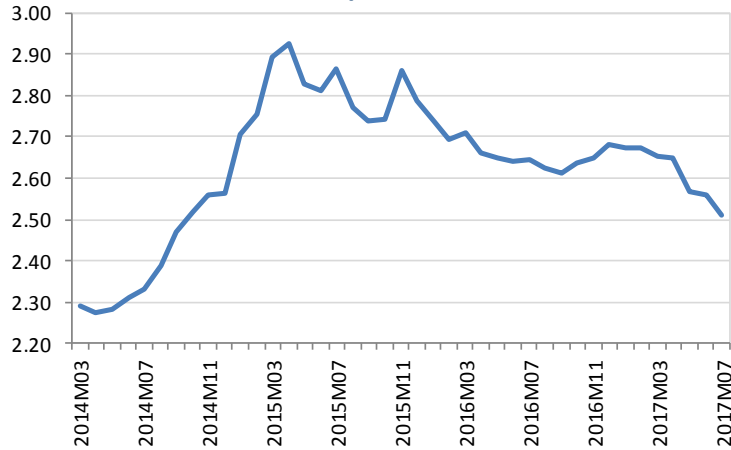
BGN/USD



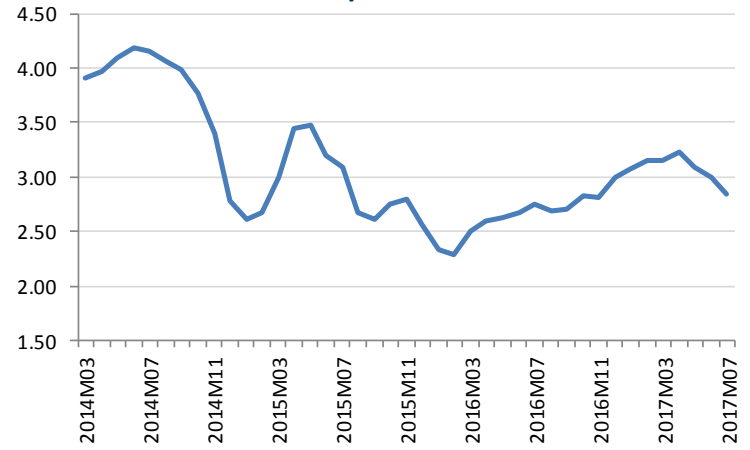
BGN/GBP



BGN/10CHY



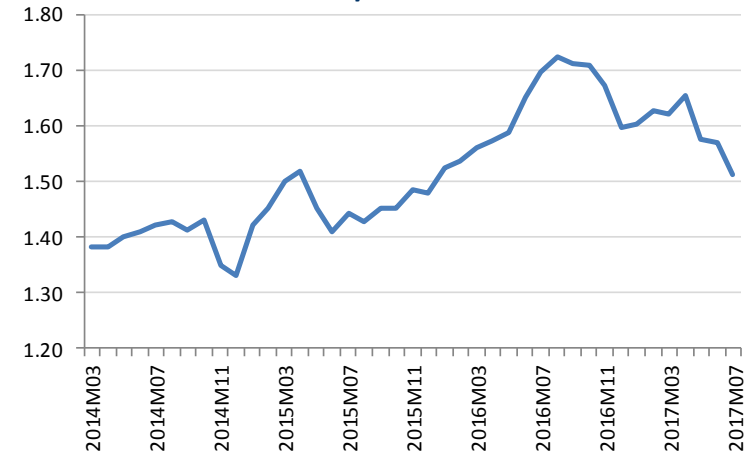
BGN/100RUB



BGN/10TRY



BGN/100JPY



DEFINITIONS AND METHODOLOGICAL NOTES

The Governing Council of the ECB sets the key interest rates for the euro area, as follows: The interest rate on the main refinancing operations (MRO), which provide the bulk of liquidity to the banking system. The MRO rate defines the cost at which banks can borrow from the central bank for a period of one week. The rate on the deposit facility, which banks may use to make overnight deposits with the Eurosystem. The deposit facility rate is one of the three interest rates the ECB sets every six weeks as part of its monetary policy. The rate defines the interest banks receive for depositing money with the central bank overnight. Since June 2014, this rate has been negative. The rate on the marginal lending facility, which offers overnight credit to banks from the Eurosystem. If banks need money overnight, they can borrow from the marginal lending facility at a higher rate.

EXTERNAL SECTOR

CURRENT ACCOUNT

Starting from April 17th 2015, in accordance with the Statistical Data 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 1997 – 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).

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.

INVESTMENT ACTIVITY IN INDUSTRY

The survey gathers information about the carried out investment and investment plans of the enterprises. The inquiry is conducted twice a year - in March and in October, and the questionnaires have different content. Based on the results from the March survey is calculated the expected percentage change of the investment carried out during the current year in comparison with the investment from the previous year. Based on the data from the October survey is calculated the percentage change of the investment carried out during the current year compared to the previous year, and also the expected investment for the next year compared to the current year.

INDUSTRIAL PRODUCTION INDEX; INDUSTRIAL TURNOVER INDICES

The Industrial Production Index is the most important short-term economic business indicator, which aims to measure at a monthly frequency the ups and downs of industrial production during the long period of time. Monthly survey allows identifying the turning points in economic development at an early stage; also, the timely industrial production index is one of the most important measures of economic activity. The Industrial Turnover Index is other important short-term indicator, which measure the development of the market of goods and services. Turnover index gives measure of the development of the receipts of sales including the sales of goods, merchant goods and services provided to other enterprises. Monthly Industrial Production and Industrial Turnover Indexes measure changes in production and respectively in turnover between two different periods of time. This information is suitable for monitoring of current economic developments and short-term forecasts. The survey do not attempt to measure the actual production level, it aims to measure the average change in value of production between two points of time.

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 op-

tions 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.

TOURISM

The definitions recommended by the World Tourist Organization and the Methodological manual for tourism by Eurostat are applied by the National Statistical Institute.

In accordance with these definitions an international tourist is any person who travels to a country other than his/her permanent residence for at least 24 hours but no more than one year and whose main purpose is not doing any activity for payment.

The purposes of visiting a country are the following:

- Excursion, holiday or entertainment (visits to cultural or historical landmarks, sport events and other);
- Visiting friends and relatives;
- Professional purposes (business trips, participation in conferences, congresses, concluding deals, and etc.);
- Other (education, medical treatment, and etc.) purposes.

Statistical data on the trips of Bulgarian citizens travelling abroad and visits by foreigners to Bulgaria are obtained on the basis of monthly information received from the Ministry of Interior and sample survey of the National Statistical Institute among Bulgarian and foreign citizens passing through border check points.

Data on the number of the trips of the citizens of the European Union are estimated on the basis of the information obtained from the Ministry of Interior and the airport authorities. Data on the number of citizens from 'third countries' are obtained directly from the Ministry of Interior.

Data on the purposes of the trips are obtained on the basis of the NSI's regular monthly sample survey of passing Bulgarian and foreign citizens through the border check points.

CONSUMER PRICE INDICES (CPI)

The consumer price index (CPI) is the official measure of inflation in the Republic of Bulgaria. It measures the total relative price change of goods and services used by households for private (non-production) consumption and is calculated by applying the structure of the final monetary consumption expenditures of Bulgarian households. The main source of information for the expenditures is the household budget survey in the country. CPI in year t is calculated with the expenditures structure of year $t-1$.

HARMONIZED INDICES OF CONSUMER PRICES (HICP)

The Harmonized Index of Consumer Prices (HICP) is the comparable measure of inflation across EU Member states. It is one of the 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.

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.

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 trans-

actions 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.

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