

All data in the edition are the last available data, published as of December, 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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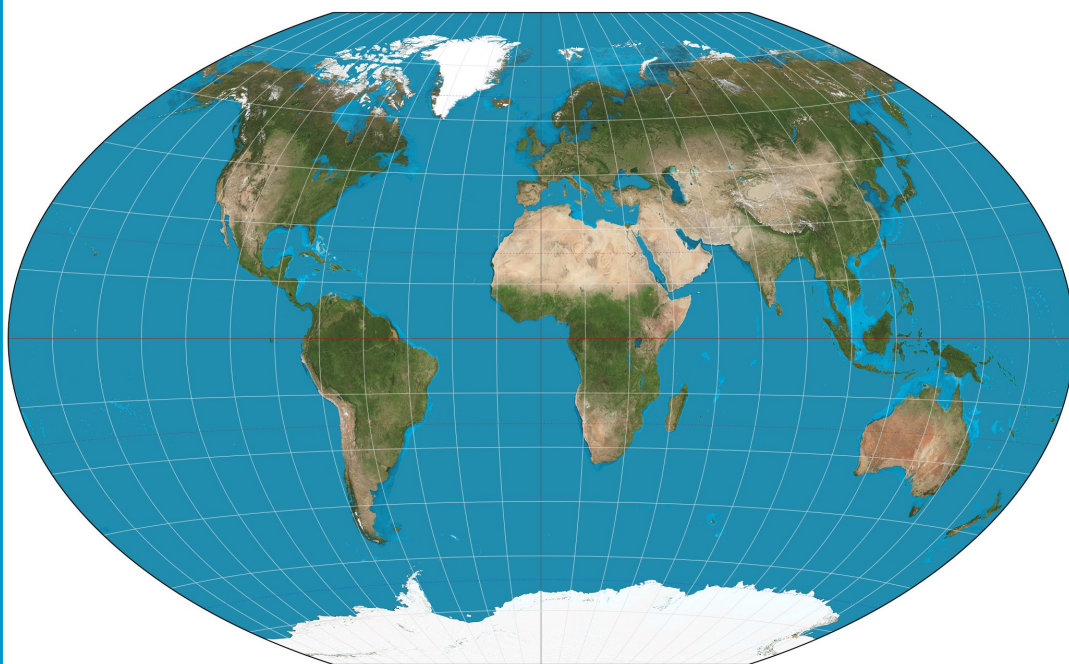
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Source: https://en.wikipedia.org/wiki/World_map

HIGHLIGHTS AND FORECASTS

MONTHLY ECONOMIC REPORT



December 2017

Sofia

- *In November 2017 inflation in the euro area increased by 0.1% m/m and by 1.5% y/y, respectively. ECB expects weakening of the inflation rate in the first months of 2018 as a result of the so-called "base price effect" originated on the surge in energy prices in early 2017. The PMI, measuring total business activity in the euro area, rose to 58.0 points in December from 57.5 points in November.*
- *In November 2017, inflation in the United Kingdom accelerated to 3.1% y/y. British Chamber of Commerce cut its forecast for GDP growth to 1.5% from 1.6%, and next year to 1.1% from a previous economic expansion estimate of 1.2%.*
- *In November 2017, the US consumer price index (CPI) rose 0.4 percent month on month after rising 0.1 percent in October. On an annual basis, inflation accelerated to 2.2% in November from 2.0% in October. In October 2017, unemployment in the United States stabilized at 4.1%*
- *In December 2017, the confidence index of large Japanese companies increased by 3 points from September to 25 points, the highest value since December 2006. In October 2017, industrial production in Japan is recovering. On a monthly basis, production increased by 0.5%*
- *In November 2017 production prices in China rose by 5.8% y/y, the lowest rate since July. Business activity in China's private sector is improving in November 2017. Chinese exports suddenly accelerated by 12.3% on an annual basis, the fastest pace since 8 months*
- *In December 2017 ECB decided to leave unchanged the base interest rate on the refinancing operations at the level of 0.00%, the deposit rate at a level of -0.4% and the interest rate on the level of 0.25%. ECB stressed that it would continue to pursue a stimulating monetary and interest rate policy until there is a lasting upward correction of CPI in line with the bank's target CPI of just under 2%*
- *The Central Bank of England has kept the main British interest rate at 0.5%, after a month ago the bank raised the interest rate by 0.25 pps for the first time in 10 years*
- *The US Fed took the expected decisions at the end of 2017 by raising interest rates by 0.25 pps - in the range of 1.25-1.5%, as expected, but did not change its forecast for interest rates in the next despite the politicians' expectations of a short-term acceleration of economic growth in the USA*
- *BoJ maintains a base interest rate of -0.1%. IMF has urged Japan to continue its massive monetary stimulus program to boost domestic demand and consumer prices. This fully covers the opinion of central bank members that incentives are necessary to permanently stabilize consumer price growth. Such a policy will be necessary until inflation in Japan reaches the target of 2%*
- *People's Bank of China raised short-term and medium-term interest rates by 5 pps to 2.45% in the 7-day repo and to 2.5% at 28-day repo deals, respectively. We now expect PBoC to raise interest rates by 35 basis points in 2018 to reach the 7-day repo rate to 2.85% by the end of 2018. Expectations are for a general increase in interest rates from PBoC in 2018 in amounting to 40 basis points against the backdrop of rising inflation and steady growth*
- *As of December 18, 2017, US light crude oil (WTI) futures rose 36 cents or by 0.6 percent to USD 57.66 a barrel. Futures of the European Brent rose 36 cents to USD 63.59 a barrel. Expectations are that the surplus on the market will remain in 2018. International copper prices remain impressive for the year to USD 6571 per metric ton*
- *In December 2017, the wheat to the warehouse of the buyer is sought at 315.00 BGN / t, the sellers offering the same 315.00 BGN / t, but from the place. Feed wheat is available at 300.00 BGN / t. For oilseed sunflower, the demand for organic certified remains at 800.00 BGN / ton, the offers slightly decreased to the price of 1050.00 BGN / t. There is also a demand for sunflower oil with high indices of 580.00 BGN / ton.*

- *In January-October 2017 Bulgaria's current and capital account amounted at EUR 3,058.7 million and presented 6.1% of GDP*
- *In January-October 2017 Bulgaria's FDI amounted at 855.5 million and presented 1.7% of GDP*
- *In November 2017 BNB foreign reserves decreased by 0.1% m/m and 5.4% y/y, respectively to EUR 22.2 billion*
- *In Q3 of 2017 Bulgaria's GDP expanded by 0.9% m/m and by 3.9% y/y, respectively*
- *In Q3 2017 the total income average per household member is BGN 1 431 and increased by 9.4% y/y. The total expenditure average per household member during Q32017 is BGN 1 382 and increased by 13.0% y/y*
- *In November 2017, the total business climate indicator remains approximately to its level from the previous month at 25.8%. An improvement of the business conjuncture is registered in industry and retail trade, while in service sector preserves its October level. Only in construction, the indicator is reduced*
- *In October 2017 Bulgaria's Industrial Production Index increased by 0.6% m/m and by 2.8% y/y, respectively*
- *In October 2017 Bulgaria's Retail Sales increased by 0.6% m/m and by 3.8% y/y, respectively*
- *In October 2017 Bulgaria's Construction Production Index increased by 1.8% m/m and by 10.1% y/y, respectively*
- *In November 2017 Bulgaria's CPI increased by 0.4% m/m and by 3.0% y/y, respectively. The annual average inflation stood at 1.8%*
- *In September 2017 total producer price index in industry increased by 0.5% m/m and by 5.6% y/y, respectively*
- *In October 2017 Producer Price Index on Domestic Market remains unchanged compared to the previous month and increased by 5.5% y/y*
- *In October 2017 Producer Price Index on Non-domestic Market increased by 1.4% m/m and by 5.8% y/y, respectively*
- *In Q3 2017 the producer price index in agriculture increased by 3.6% y/y*
- *The index of prices of goods and services currently consumed in agriculture in the third quarter of 2017 remained almost unchanged - 0.1% above the level in the same quarter of previous year and 0.1% lower compared to 2016*
- *In October 2017 the total revenues from nights spent reached BGN 44.8 million or increased by 0.8% y/y. An increase was registered in the revenues from foreign citizens - by 3.9%, while those from Bulgarians decreased by 2.6%*
- *The total revenues from nights spent in October 2017 reached 44.8 million BGN or by 0.8% more compared to October 2016. An increase was registered in the revenues from foreign citizens - by 3.9%, while those from Bulgarians decreased by 2.6%*
- *In October 2017, the number of the trips of Bulgarian residents abroad was 439.0 thousand and*

increased by 8.7% y/y

- *In Q3 2017, 1 991.8 thousand Bulgarian residents travelled both in the country and abroad*
- *In October 2017, unemployment rate in Bulgaria was 6.7%, decreasing by 0.2 percentage points on a monthly basis and by 1.2 percentage points on an annual basis*
- *In October 2017 the Consolidated fiscal program (CFP) on a cash basis is positive at BGN 2,493.4 million and presented 24.9% of GDP. Bulgaria's central government debt amounted at EUR 12,668.3 million and presented 24.9% of GDP*
- *Fitch Ratings has upgraded Bulgaria's Long-term foreign and local currency Issuer Default Rating (IDR) to 'BBB' from 'BBB-'. The Outlook on both IDRs is Stable. S&P Global Ratings has raised its long- and short-term foreign and local currency sovereign credit ratings on Bulgaria to 'BBB-/A-3' from 'BB+/B'*
- *In October 2017 broad money (monetary aggregate M3) increased annually by 8.2% to BGN 84.3 billion. Domestic credit amounted at BGN 52.8 billion and increased by 6.8% on annual basis*
- *In November 2017, three of the main indices of BSE Sofia registered a decrease compared to the previous month. SOFIX lost 6.37 pps on a monthly basis to 665.03. The index of the most liquid companies BGBX 40 declined by 0.7 pps per month to 130.49 points. BGREIT property company's indicator fell by 1.91 pps to 113.99 points in November. BG TR30 registered a growth of 27.81pps to 547.89 points.*
- *In October 2017 Bulgaria's banking system reported 2.9% y/y credit growth and 5,9% y/y deposits' growth*

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GLOBAL TRENDS

ADVANCED COUNTRIES' ECONOMIES

Euro zone

In November 2017 inflation in the euro area increased by 0.1% m/m and by 1.5% y/y, respectively. ECB expects weakening of the inflation rate in the first months of 2018 as a result of the so-called "base price effect" originated on the surge in energy prices in early 2017

According to Eurostat data in November 2017, the euro area consumer price index (CPI) rose by 0.1% m/m in November and rose by 1.5% y/y after reported increase of 1.4% in October. Despite the slight increase, euro area inflation still remains well below the ECB target of just under 2%. Impact on the well-known rise in inflation in November is driven by energy prices, which rose year-on-year by 4.7% after their growth of 3.0% in October. At the same time, food, beverage and tobacco prices grew to 2.2% from 2.3% a month earlier, while services prices rose for the second consecutive month by 1.2%. The Main Consumer Price Index (excluding volatile food, tobacco and energy prices) declined by 0.1% m/m and rose for the second consecutive month by only 0.9%. It should be borne in mind that the core consumer price index is closely monitored by the ECB as an indicator of the current and future behavior of inflation in the region. The ECB expects a weakening of the inflation rate in the first months of next year as a result of the so-called "base price effect". At the beginning of 2017 there was a sharp rise in energy prices, which means that they will have to rise even more strongly in early 2018 to help further accelerate inflation early in 2018. Eurostat also presented latest data on consumer prices across the European Union, with inflation in November 2017 rising 0.1% m/m and rising slightly to 1.8% y/y compared 1.7% in October. According to European statistics, the weakest annual inflation rate in November was recorded in Cyprus (up by only 0.2%), followed by Ireland (0.5%) and Finland (by 0.9%). At the same time, the highest inflation was recorded in Estonia (4.5% leap), Lithuania (4.2%) and the United Kingdom (up 3.1%). Against this background, the consumer price index in Bulgaria rose by 0.3% in November compared to October, while the harmonized inflation accelerated on an annual basis to 1.9% after an increase of 1.5% a month earlier. This represents the strongest growth in annual inflation in Bulgaria since February 2013, when the harmonized consumer price index rose 2.2%.

In December 2017 business activity in the euro area improved

The PMI, measuring total business activity in the euro area, rose to 58.0 points in December from 57.5 points in November. This represents the highest value of the index since February 2011. The industrial PMI index rose to 60.6 points from 60.1 points a month earlier, reaching a record high and exceeding the averaged forecast for financial markets to drop the index to 59.8 points. The index, measuring only industrial production, rose from 61.0 points to 62.0 points. At the same time, the PMI, ranking service activity index, rose to 56.5 points from 56.2 points in November, down from a forecast of 56.0 points, this being the highest level since April 2011.

In December 2017, there was a decline in investor confidence in the euro area

Eurozone investor confidence index declined in December to 31.1 points from 34.0 points in November, with financial market expectations falling to 33.4 points. The Sentix index, measuring the current economic situation in the euro area, advanced for the third consecutive month, reaching 46.5 points (the highest level since September 2007), compared to 45.8 points a month earlier, but at the same time the index of future investor sentiment dropped to a 4-month low of 16.8 points versus 22.8 in November. Germany's comparable investor confidence index declined to 39.1 points in December from a record 42.4 points in the previous month, partly as a result of the country's political crisis, in view of the inability to form a new ruling coalition after the parliamentary elections, held in late September. The current situation index dropped to 71.0 points from a record November peak of 71.8 points, while the expectation index in the future dropped from 16.3 points to 11.0 points in December.

United Kingdom

In November 2017, inflation in the United Kingdom accelerated to 3.1% y/y

According to ONS data in November 2017 the CPI in the UK rose by 0.3% m/m, following a 0.1% growth in October. On an annual basis, inflation rose by 3.1%, while the outlook for the financial markets was to stabilize it at the October level of 3%. This is the strongest growth in consumer prices since March 2012, with rising inflation mostly due to higher computer games and airline tickets over a year earlier. Basic inflation on a year-on-year basis (excluding food and energy prices) rose for the third consecutive month by 2.7% y/y, confirming expectations in financial markets.

There is expectation for 1.5% GDP growth in the United Kingdom for 2017

The British Chamber of Commerce (BCC) has lowered UK economic growth forecasts due to uncertainty about the Brexit process. For the current year, the British Chamber of Commerce cut its forecast for GDP growth to 1.5% from 1.6%, and next year to 1.1% from a previous economic expansion estimate of 1.2%. The Chamber of Commerce also expects the UK economy to grow by 1.3% instead of 1.4% in 2019. Although inflation is expected to reach a peak of 3% in the last quarter of 2017, it will slow down as it fades the impact on the fall in the pound since last year's referendum in support of the country's exit from the EU. The British Chamber of Commerce predicts that this year's inflation will increase by 2.7% and 2.8% in 2018, before slowing down to 2.5% in 2019. Nevertheless, the Chamber of Commerce suggests that inflation will continue to outperform income growth by 2019, devaluing real wages and burdening on consumer spending. At the same time, the United Kingdom's budget deficit for the fiscal 2017/2018 (April 2017 / March 2018) is expected to be 49.9 billion pounds against a previous deficit forecast of GBP 58.3 billion. For the next fiscal year (April 2018 / March 2019), the UK authorities forecast that the budget deficit would be below 2.0% of GDP, almost unchanged from the previous 1.9% deficit projection. However, weaker economic growth projections will lead to a larger budget deficit over the medium term, with a deficit of 1.3% of GDP expected in the financial year 2021/2022, which is almost double the previous deficit estimate to 0.7% of GDP.

USA

In November 2017, US inflation accelerated to 2.2% on an annual basis

According to Labor Department data, in November 2017, the US consumer price index (CPI) rose 0.4 percent month on month after rising 0.1 percent in October. On an annual basis, inflation accelerated to 2.2% in November from 2.0% in October, coinciding with average financial market forecasts. Highest support for inflation was the increase in energy prices by 3.9%, as a result of a 7.3% increase in gasoline prices, after a 2.4% drop in October, while food prices remained unchanged second consecutive month. The main CPI index (excluding food and energy prices) rose in November by only 0.1% on a monthly basis and grew by 1.7% y/y, while financial market expectations were to keep the October growth rate of 1.8%.

In October 2017, unemployment in the United States stabilized at 4.1%

According to data from the Labor Ministry in October 2017, unemployment in the US stabilized at 4.1%. Out-of-farm employment increased in November with 228,000 jobs, while the average earnings expectations on the financial markets were about 200,000. At the same time, the figures for the previous two months were revised upwards to 3,000 with September revisions up to 38,000 jobs, compared with a previous estimate of 18,000 as a result of the hurricane Harvey and Irma. For October they were downward revision to 244,000 jobs revealed at a previous estimate of their growth by 261,000. The share of Americans looking for work or so-called "employment rate," also stays at the October bottom of 62.7% - not far from the 40-year low of 62.4% reached in September 2015. In the private sector of the US economy, 221,000 jobs were unveiled in November, 7,000 new employees were employed in the public sector, while employment in the industrial sector increased by 31,000, and in construction the number of workers increased by 24,000, in view of efforts to recover affected by the hurricanes "Harvey" and "Irma" states Texas and Florida. A further 18,700 workers were employed in the retail trade. Average hourly labor costs in the United States increased by 5 cents in November (up 0.2% on growth expectations by 0.3%) to USD 26.55 per hour. On an annual basis, growth in average wages improved to 2.5% from 2.3% in October, while financial market outlook was up 2.7%. The average weekly working time increased to 34.5 from 34.4 hours.

Japan

The confidence of Japanese industrial companies reached 11-year high

According to data from the Japanese Central Bank, Japanese industrial companies are more optimistic about their future development and their confidence reached an 11-year maximum. In December 2017, the confidence index of large Japanese companies increased by 3 points from September to 25 points, the highest value since December 2006. Positive value means optimists are a majority. The data confirm the views of the Japanese Central Bank, according to which the country's economy is growing.

In October 2017 industrial production in Japan is recovering

According to preliminary data from the Ministry of Commerce in October 2017, industrial production in Japan is recovering. On a monthly basis, production increased by 0.5%. Growth is below median market expectations for an increase of 1.9%, followed by a revised decline of 1% in September. Industrial output grew in October due to the increased production of semiconductors, car parts and machines used to produce flat panel displays. Manufacturers surveyed by the Ministry of Economy, Trade and Industry expect production to grow by 2.8% in November and 3.5% in December.

China

In November 2017, production price inflation in China slowed down

In November 2017, production price inflation in China slowed down to a 4-month low. Production prices rose by 5.8% y/y, the lowest rate since July, according to data from the National Statistical Service. Growth is less than the 6.9% gain last month. On a monthly basis, prices rose by 0.5% in the penultimate month of the year. At the same time, consumer price inflation, which remained below the target of 3% this year, has also slowed further than expected in November to 1.7% from 1.9% last month due to lower food prices products.

In November 2017, Chinese exports grew

According to data from the General Customs Administration, in November 2017, the growth of Chinese exports suddenly accelerated by 12.3% on an annual basis, the fastest pace since 8 months. The rise was due to the strong sales of electronics and high-tech goods. Analysts' expectations were around 5%. Orders for raw materials encourage imports, which grow by 17.7% on an annual basis. Analysts' expectations were for an increase of 11.3%. Data is a boosted signal from the world's second-largest economy, which reported a GDP growth of 6.9% in the first nine months of the year.

Business activity in China's private sector is improving in November 2017

Economic activity in China's private sector improved in November 2017. The PMI, which measures activity only in the services sector, rose to 51.9 points in November from 51.2 points a month earlier and after the index reached the lowest level since December 2015 from 50.6 points in September. At the same time, the Caixin and Markit aggregate PMI index (including the industrial sector) rose to 51.6 points in November from a 16-month low at a level of 51.0 points reached in October. Caixin's PMI indices suggest that Chinese economic expansion remains stable and there is no immediate risk of a significant slowdown in growth. However, the economy may be under increasing inflationary pressure early next year in view of continued price increases.

Policy of the Central banks

ECB

The European Central Bank kept its key interest rates unchanged

The Governing Council of the ECB confirmed its decision in the October meeting that from the beginning of next year, it will reduce the amount of monthly purchases of financial assets to EUR 30 billion from the current EUR 60 billion and extend the

"quantitative easing" in 2018 years. The ECB decided to leave unchanged the base interest rate on the refinancing operations at the level of 0.00%, the deposit rate at a level of -0.4% and the interest rate on the level of 0.25%. The Governing Council of the ECB stressed that it would continue to pursue a stimulating monetary and interest rate policy until there is a lasting upward correction of inflation in line with the bank's target inflation rate of just under 2%. In the event that the economic outlook in the euro area becomes less favorable or if the financial conditions become inconsistent with the further progress of inflation to its target level, the Governing Council is ready to increase the "quantitative easing" program in terms of its size or its duration.

Bank of England

Bank of England kept the record low interest rate of 0.5%

The Central Bank of England has kept the main British interest rate at 0.5 %, after a month ago the bank raised the interest rate by 0.25 pps for the first time in 10 years. The decision was taken with complete unanimity (9 to 0 votes), while central bankers left the size of the GBP 435 billion sovereign bond purchase program unchanged, as well as the size of the corporate bond purchase program for GBP 10 billion. "The latest news on macroeconomic data has been mixed and relatively limited, while global economic growth remains strong. Domestically, however, some business activity indicators show that GDP growth in the fourth quarter may be slightly weaker than in Q3" the central bank said in a statement. The Central Bank of England noted that the breakthrough in the Brexit talks has reduced the risks of uncontrolled UK exit from the EU (the so-called "solid Brexit") and may contribute to boosting Britain's economic confidence, likely to support corporate and the confidence of British households. In this regard, the Bank of England indicated that it would analyze the progress of Brexit when it presented its new macroeconomic forecasts in February 2018.

USA Federal Reserve

The US Federal Reserve has confirmed that there will be three interest rates in 2018

The US Federal Reserve took the expected decisions at the end of 2017 by raising interest rates by 0.25 percentage points - in the range of 1.25-1.5%, as expected, but did not change its forecast for interest rates in the next despite the politicians' expectations of a short-term acceleration of economic growth in the United States. The decision of the last meeting for the year comes in terms of relatively strong economic data and represents a "victory" for the central bank, which promised to continue the gradual tightening of monetary policy. After raising the leading interest rate for the third time this year, the Federal Reserve forecasts three more increases over the next two years before reaching a long-term 2.8%. This confirms the latest forecasts made in September. The Federal Reserve notes that the economy is improving in 2017 by raising its economic growth forecast and lowering its unemployment expectations in the coming years. Gross domestic product is projected to grow by 2.5% in 2018 compared with a forecast of 2.1% in September, while the projected unemployment rate is down to 3.9% next year, compared with 4.1% before Outgoing Fed Chairman Janet Yelan said that most of her colleagues have included fiscal stimulus in their forecasts.

Bank of Japan (BoJ)

The Japanese central bank (BoJ) maintains a base interest rate of -0.1%

The Japanese central bank maintained its main short-term interest rate of -0.1%, as set at the October 2017 meeting. Politicians also retained target yields for 10-year government bonds at around zero percent, but increased the inflation forecast for 2017 from 0.8% to 1.1% as the position of companies for wage and price determination remained cautious. The interest rate in Japan was 2.88% from 1972 to 2017, reaching a high of 9% in December 1973 and a record low of -0.10% in January 2016. Meanwhile, the IMF has urged Japan to continue its massive monetary stimulus program to boost domestic demand and consumer prices. This fully covers the opinion of central bank members that incentives are necessary to permanently stabilize consumer price growth. Such a policy will be necessary until inflation in Japan reaches the target of 2%. The Japanese central bank is experiencing a serious wave of criticism of the massive incentive program in the form of asset redemptions. The consequence of this program, the Japanese core index, reached a new 26-year high in November 2017. Inflation, however, remains a

distant target for the central bank. That is why, from the IMF, they recommended the central bank to continue with its program.

People's Bank of China (PBC)

People's Bank of China raised short-term and medium-term interest rates by 5 pps to 2.45% in the 7-day repo and to 2.5% at 28-day repo deals, respectively

After the US Federal Reserve has decided on the third interest rate cut for the year, the example was followed by the central bank of China. The increase is minimal and short- and medium-term interest rates (for 7 and 28 days) increase by 5 basis points. Thus, the 7-day repo rate rose from 2.45% to 2.5% and the 28-day rate from 2.75% to 2.8%. Encouraged by the improving economy, the National Bank of China has raised interest rates several times this year as part of wider efforts to reduce the risks and indebtedness of the financial system after the years of debt-funded stimulus. This is the third raise in interest rates by Beijing's bank regulator this year after two rallies in March. The PBoC solution is a response to the upward trend in the market and the demand for leverage. We now expect PBoC to raise interest rates by 35 basis points in 2018 to reach the 7-day repo rate to 2.85% by the end of 2018. Expectations are for a general increase in interest rates from PBoC in 2018 in amounting to 40 basis points against the backdrop of rising inflation and steady growth.

International Commodity Prices

Petrol

As of December 18, 2017, US light crude oil (WTI) futures rose 36 cents or by 0.6 percent to USD 57.66 a barrel. Futures of the European Brent rose 36 cents to USD 63.59 a barrel. Expectations are that the surplus on the market will remain in 2018

Oil prices are rising after the North Sea crude oil supply pipeline has not yet recovered jobs, and rising crude oil production in the US may slow, although prospects for 2018 are to keep surpluses on the market, although the yields from the OPEC exporting countries and other countries outside the cartel, and Russia, are diminishing. By 18 December 2017, US light crude oil (WTI) futures rose 36 cents or 0.6 percent to USD 57.66 a barrel. Similarly, the price of European Brent futures rose 36 cents to USD 63.59 a barrel compared to closing levels last Friday. The main reason for the rise in oil prices is the abandonment of raw material from the North Sea due to damage to Britain's largest pipeline, while the increase in US yields is slowing. In the US, energy companies cut drills for the first time in six weeks to 747 oil platforms in the week ending 15 December 2017. However, drilling downs, yields are still well above those reported last year when the number of platforms was below 500 and actual US production rose 16% from mid-2016 to 9.8 million barrels per day, according to data Energy Information Agency (EIA). This means that crude oil production in the United States is rapidly approaching the world's largest producers - Saudi Arabia and Russia, which gain 10 million barrels and 11 million barrels per day. Increasing US production also undermines the efforts of exporting countries from OPEC and other countries outside the cartel, and Russia, to cut production to balance the market and raise crude oil prices. Mostly due to increased shale oil yields in the United States, the International Energy Agency (IEA) said global oil markets would show a slight surplus of about 200,000 barrels per day in the first half of 2018. EIA estimates also confirm this surplus for this period - up to 167,000 barrels per day for the whole of 2018.

Metals

International copper prices remain impressive for the year to USD 6571 per metric ton

Reserves of copper stored in global markets remain stubbornly high despite disruptions in supply from mines in China and Indonesia at the beginning of the year. A major increase in the reserves of the London Metal Exchange was the catalyst for a price collapse and recalled that the market was not suffering from a shortage. The forward contract curve also signals availability, which may persist in the coming months. Benchmark copper prices with delivery after three months are lower than those in contracts with a later date. This situation is called contango and is characteristic of the saturated markets. For example, zinc is the opposite - buyers pay significant premiums for short-term contracts because of the contraction prospects. Global growth

synergy has been a key driver for industrial metals this year, but fears that China's cooling-cooling measures will be counter-winds. Global growth synergy has been a key driver for industrial metals this year, but fears that China's cooling-cooling measures will be counter-winds. Premiums for delivery of copper to the largest consumer - China - have particularly high this year, suggesting that demand for copper in China will put pressure on supply. Copper sales have been partly triggered by concerns about the large volume of long positions in Shanghai futures contracts in recent months. Copper rose 19 percent since the beginning of this year to USD 6,570.50 a metric ton.

Agricultural products

In December 2017, the wheat to the warehouse of the buyer is sought at 315.00 BGN / t, the sellers offering the same 315.00 BGN / t, but from the place. Feed wheat is available at 300.00 BGN / t. For oilseed sunflower, the demand for organic certified remains at 800.00 BGN / ton, the offers slightly decreased to the price of 1050.00 BGN / t. There is also a demand for sunflower oil with high indices of 580.00 BGN / ton.

USD 2 billion a year is the trade turnover with agricultural products of Bulgaria with the countries of Initiative "16 + 1". According to data from the Ministry of Agriculture, Food and Forestry, the share of trade in agricultural products with these countries represents about 26-27% of the total agricultural trade of the country. For China, Bulgaria exports fresh fruits, wines, animal feeds, oilseeds, processed fruits and vegetables, meats, and more. The "16 + 1" format was created between the Central and Eastern European countries plus China for closer economic contacts. It helps for more intensive trade in agricultural commodities, as well as for the launching of projects promoting technological exchange and scientific cooperation. Since 2009, the agro-food industry has a positive external trade balance, which is increasing each year. In 2016 the country exported food and agricultural produce, which is by 1.2 billion more than the import value. Over 75% of exports are targeted at countries in the European Union.

According to data of the Sofia Stock Exchange, the wheat to the warehouse of the buyer is sought at 315.00 BGN / t, the sellers offering the same 315.00 BGN / t, but from the place. Feed wheat is available at 300.00 BGN / t. For oilseed sunflower, the demand for organic certified remains at 800.00 BGN / ton, the offers slightly decreased to the price of 1050.00 BGN / t. There is also a demand for sunflower oil with high indices of 580.00 BGN / ton. All prices are without VAT. In Chicago, the price of wheat dropped by nearly USD 5.00 to USD 150.36 / ton, in France the trend is the same with minus 3.00 euros to 160.00 EUR / ton, in Ukraine quotes are minus 2.00 to 190.00 USD / t, and in Russia the movement is back up with goals plus USD 5.00 to USD 197.00 / tonne. For corn, after a slight depreciation, prices went up slightly in the US plus USD 1.00 to USD 158.00 / tonne in Budapest without a change of 173.50 USD / tonne and in Russia by 2.00 to 168.00 USD / tonne. The rapeseed continues to become cheaper in the Eurasian Union (EURONEXT) with EUR 6.50 up to EUR 367.25 per tonne, and in Ukraine with USD 2 to 434 USD / t.

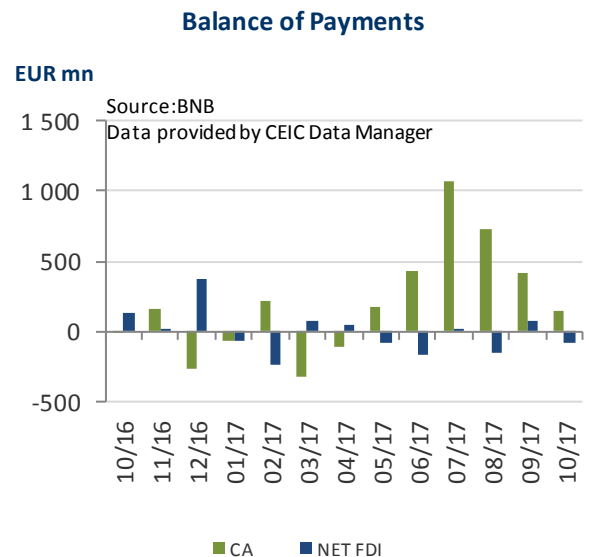
BULGARIA

EXTERNAL SECTOR

Balance of Payments

In January-October 2017 Bulgaria's current and capital account amounted at EUR 3,058.7 million and presented 6.1% of GDP

The current and capital account recorded a surplus of EUR 185.6 million in October 2017, compared with a surplus of EUR 13.7 million in October 2016. In January – October 2017 the current and capital account was positive amounting to EUR 3,058.7 million (6.1% of GDP), compared with a surplus of EUR 3,682.7 million (7.7% of GDP) in January – October 2016. The current account was positive amounting to EUR 146.1 million in October 2017, compared with a deficit of EUR 0.3 million in October 2016. In January – October 2017 the current account was positive and amounted to EUR 2,684 million (5.4% of GDP), compared with a surplus of EUR 2,673.6 million (5.6 % of GDP) in January – October 2016. The balance on goods recorded a deficit of EUR 106.3 million in October 2017, compared with a deficit of EUR 145.5 million in October 2016. In January – October 2017 the balance on goods was negative amounting to EUR 1,270.4 million (2.5% of GDP), compared with a deficit of EUR 753.8 million (1.6% of GDP) in January – October 2016. Exports of goods amounted to EUR 2,526.5 million in October 2017, growing by EUR 410.9 million (19.4%) from October 2016 (EUR 2,115.6 million). In January – October 2017 exports of goods totalled EUR 21,527.3 million (42.9% of GDP), increasing by EUR 2,601.9 million (13.7%) year-on-year (from EUR 18,925.4 million, 39.3% of GDP). In January – October 2016 exports grew by 2.7% year-on-year. Imports of goods amounted to EUR 2,632.7 million in October 2017, growing by EUR 371.6 million (16.4%) from October 2016 (EUR 2,261.1 million). In January – October 2017 imports of goods totalled EUR 22,797.8 million (45.4% of GDP), growing by EUR 3,118.6 million (15.8%) from January – October 2016 (EUR 19,679.2 million, 40.9% of GDP). In January – October 2016 imports dropped by 3.3% y/y. Services recorded a positive balance of EUR 181.1 million in October 2017, compared with a surplus of EUR 173.3 million in October 2016. In January – October 2017 services recorded a surplus of EUR 2,901.3 million (5.8% of GDP) compared with a positive balance of EUR 2,934 million (6.1% of GDP) in the same period of 2016. The net primary Income (which reflects the receipt and payment of income related to the use of resources (labour, capital, land), taxes of production and imports and subsidies) recorded a surplus of EUR 27.6 million in October 2017, compared with a deficit of EUR 35.1 million in October 2016. In January – October 2017 the balance on primary income was negative and equated to EUR 360.2 million (0.7% of GDP), against a deficit of EUR 854.5 million (1.8% of GDP) in January – October 2016. The net secondary income (which reflects the redistribution of income) recorded a surplus of EUR 43.7 million, compared with a positive balance of EUR 7 million in October 2016. In January – October 2017 the net secondary income was positive amounting to EUR 1,413.3 million (2.8% of GDP), compared with a positive balance of EUR 1,347.8 million (2.8% of GDP) in the same period of 2016. The capital account recorded a surplus of EUR 39.6 million, compared with a positive balance of EUR 14.1 million in October 2016. In January – October 2017 the capital account recorded a surplus of EUR 374.7 million (0.7% of GDP), compared with a positive balance of EUR 1,009.1 million (2.1% of GDP) in January – October 2016. The financial account recorded a net outflow of EUR 4.5 million, compared with an inflow of EUR 259.6 million in October 2016. In January – October 2017 the financial account recorded a net inflow of EUR 1,813.3 million (3.6% of GDP) compared with an inflow of EUR 3,568.3 million (7.4% of GDP) in January – October 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 77.5 million, compared with a positive balance of EUR 125.2 million in October 2016. In January – October 2017 direct investment recorded a negative balance of EUR 600.3 million (1.2% of GDP), compared with a negative balance of EUR 716.1 million (1.5% of GDP) million in January – October 2016. Direct investment – assets decreased by EUR 83.2 million compared with an increase of EUR 39.6 million in October 2016. In January – Oc-

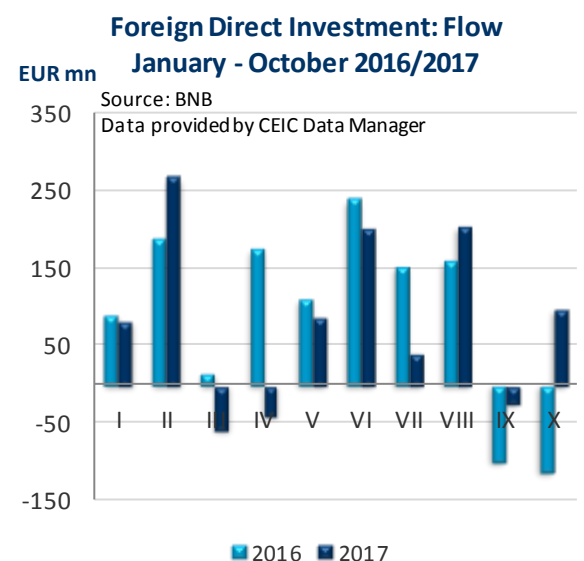


tober 2017 direct investment – assets rose by EUR 338.8 million (0.7% of GDP), compared with an increase of EUR 476 million (1% of GDP) in the same period of 2016. Direct investment – liabilities dropped by EUR 5.7 million in October 2017, compared with a decline of EUR 85.6 million in October 2016. In January – October 2017 direct investment – liabilities rose by EUR 939.1 million (1.9% of GDP), compared with an increase of EUR 1,192.2 million (2.5% of GDP) in the same period of 2016. Foreign direct investment in Bulgaria (under the directional principle) increased by EUR 96.6 million in October 2017 according to preliminary data, compared with a decline of EUR 112.7 million in October 2016. The balance on portfolio investment was positive amounting to EUR 660.5 million, compared with a positive balance of EUR 126.1 million in October 2016. In January – October 2017 the balance was positive and equated to EUR 1,982.3 million (4% of GDP), compared with a negative balance of EUR 1,144.1 million (2.4% of GDP) million in January – October 2016. Portfolio investment – assets increased by EUR 583.2 million, compared with an increase of EUR 158.9 million in October 2016. In January – October 2017 they rose by EUR 1,306.8 million (2.6% of GDP) compared with an increase of EUR 306.6 million (0.6% of GDP) in January – October 2016. Portfolio investment – liabilities dropped by EUR 77.3 million compared with an increase of EUR 32.8 million in October 2016. In January – October 2017 portfolio investment – liabilities decreased by EUR 675.5 million (1.3% of GDP), compared with an increase of EUR 1,450.7 million (3% of GDP) in January – October 2016. The balance on other investment was positive amounting to EUR 1,732.9 million, compared with a positive balance of EUR 167.4 million in October 2016. In January – October 2017 the balance was positive and equated to EUR 2,002 million (4% of GDP), compared with a positive balance of EUR 2,755.3 million (5.7% of GDP) in January – October 2016. Other investment – assets grew by EUR 1,597.2 million, compared with an increase of EUR 367.7 million in October 2016. In January – October 2017 they grew by EUR 2,049 million (4.1% of GDP) compared with an increase of EUR 2,053.4 million (4.3% of GDP) in January – October 2016. Other investment – liabilities dropped by EUR 135.7 million compared with an increase of EUR 200.3 million in October 2016. In January – October 2017 they rose by EUR 47 million (0.1% of GDP) compared with a decline of EUR 701.9 million (1.5% of GDP) in January – October 2016. The BNB reserve assets decreased by EUR 2,338.7 million, compared with a decline of EUR 177.6 million in October 2016. In January – October 2017 they dropped by EUR 1,568.4 million (3.1% of GDP), compared with an increase of EUR 2,713.8 million (5.6% of GDP) in the same period of 2016. The net errors and omissions were negative amounting to EUR 190.1 million compared with a positive value of EUR 245.9 million in October 2016. According to preliminary data, the item was negative in January – October 2017 and totaled EUR 1,245.4 million (2.5% of GDP), against a negative value of EUR 114.4 million (0.2% of GDP) in the same period of 2016.

Foreign direct investments

In January-October 2017 Bulgaria's FDI amounted at 855.5 million and presented 1.7% of GDP

According to BNB preliminary data, foreign direct investment in Bulgaria presented according to the directional principle totaled EUR 855.5 million (1.7% of GDP) in January – October 2017, dropping by EUR 57.3 million (6.3%) from January – October 2016 (EUR 912.8 million, 1.9% of GDP)³. Foreign direct investment in Bulgaria increased by EUR 96.6 million in October 2017, compared with a decline of EUR 112.7 million in October 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) amounted to EUR 149.6 million in January – October 2017, dropping by EUR 439.5 million from EUR 589.1 million in January – October 2016. Real estate investments of non-residents totaled EUR 9.7 million, compared with EUR 60.4 million attracted in January – October 2016. The largest inflow of real estate investment was from Russia (EUR 5.1 million, 52.4% of the total amount for January – October 2017), Germany (EUR 1.1 million, 11.7% of the total amount), and Ukraine (EUR 1.1 million, 11.3% 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) totalled EUR 28 million for January – October 2017, compared with EUR 363.5 million in January – October 2016. The net debt instruments (the change in the net

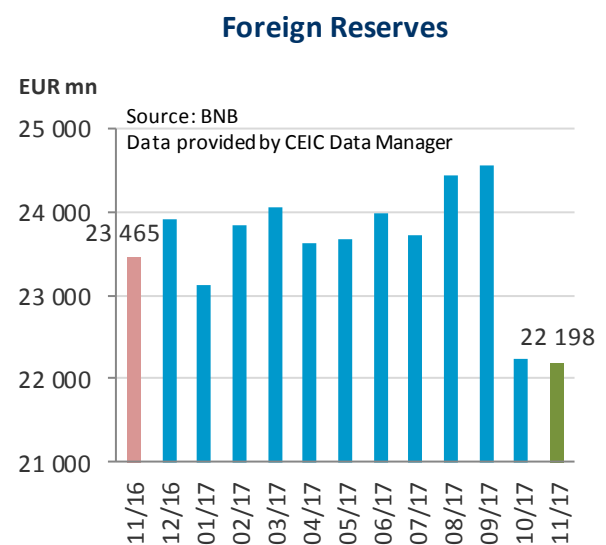


liabilities between affiliated enterprises on financial loans, suppliers' credits and debt securities) amounted to EUR 678 million in January – October 2017, compared with a negative value of EUR 39.8 million in January – October 2016. The largest net direct investment inflows in Bulgaria for January – October 2017 were from the Netherlands (EUR 728.6 million), from Switzerland (EUR 127.5 million) and Germany (EUR 61.3 million).

Foreign reserves

In November 2017 BNB foreign reserves decreased by 0.1% m/m and 5.4% y/y, respectively to EUR 22.2 billion

According to BNB data on 30 November 2017, the BNB's international reserves amounted to BGN 43.4 billion (EUR 22.2 billion) and decreased by 0.1% m/m and by 5.4% y/y, respectively. In terms of assets, in November 2017, there was a decrease of 1.2% m/m in "Cash and cash equivalents in foreign currency", which reached BGN 16.3 billion and increased on an annual basis by 18.2%. In November 2017, investment in securities grew up by 0.7% m/m, but recorded decline of 16.4% on an annual basis to BGN 24.3 billion. On the liabilities side, in November 2017, "Liabilities to banks" increased by 1.3% m/m, compared to the reported decline of 30.7% m/m in October 2017. Remembering, that as of October 4, 2017 BNB increased the negative interest rate on the excess reserves of banks held at the central bank from -0.4% to -0.6%. This affected directly the interbank market as well as the behavior of commercial banks. In October 2017, the liquidity of the Banking System amounted to BGN 4.5 billion ran out as a result of the reaction of part of the banks in Bulgaria, which, as part of international financial groups with subsidiaries in different EU countries, deposited some of their excess reserves through its parent companies at the ECB at -0.4%. This was the biggest decrease in the BNB's foreign reserves since the introduction of the Currency Board in Bulgaria (on July 1, 1999), but the reserves seemed adequate and the various money-backed indicators maintained their peak levels. The international liquidity position of Bulgaria, represented by the ratio of international reserves to short-term external debt at equal other terms, is expected to decrease from 328% at the end of September 2017 before the transaction to 297% in October 2017 and 296.6% at the end of November 2017



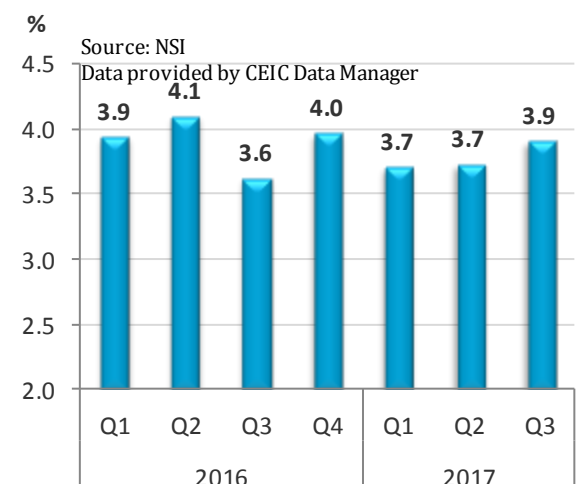
REAL SECTOR

Gross domestic product

In Q3 of 2017 Bulgaria's GDP expanded by 0.9% m/m and by 3.9% y/y, respectively

According to the NSI preliminary data, the Gross Domestic Product at current prices in Q3 2017 amounted to BGN 26 990 million. The GDP per person amounted to BGN 3 810. In USD terms at average quarterly exchange rate of 1.66646 BGN per dollar, the GDP amounted to 16 196 million dollars or 2 287 dollars per person. In Euro terms, the GDP amounted to 13 800 million Euro or 1 948 Euro per person. Gross value added (GVA) amounted at BGN 23 288 million at current prices. As compared to Q3 2016 the share of the agricultural sector in the gross value added of the economy decreases with 0.6 percentage points (pp) to 7.3%. The share of industrial sector decreases by 0.4 pp to 28.5%. The relative share of value added from service activities increases from 63.2% to 64.2% compared to the corresponding period of the

GDP Growth rate per quarter, YoY seasonally adjusted data



previous year. In Q3 of 2017 the final consumption expenditure¹ formed 68.7% of GDP. Investments (gross fixed capital formation²) formed 18.2% of GDP. The external balance (exports-imports) is positive. According to the seasonally adjusted data, GDP in the third quarter of 2017 increased by 0.9% compared with the previous quarter (Annex, Table 2). In the third quarter of 2017 gross value added of the total economy rises by 0.7%. According to the preliminary estimates of GDP by final expenditure, in the third quarter of 2017 compared with the previous quarter the final consumption increased by 0.9% compared to the previous quarter. For the same period, gross fixed capital formation decreased by 0.4%. In Q3 2017, seasonally adjusted exports and imports of goods and services increased their level compared to the previous quarter by 3.0% and 1.3%. During the third quarter of 2017 GDP increased by 3.9% compared to the same quarter of the previous year according to the seasonally adjusted data. Gross value added increased by 4.0% compared to the same quarter of previous year. The indicator's movement is determined by the increase recorded in: Financial and insurance activities - 6.1%, Real estate activities - 6.0%, Construction - 5.2%, Mining and quarrying; manufacturing; electricity, gas, steam and air conditioning supply; water supply, waste management and remediation activities - 3.9%, Wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities - 3.5%, Public administration and defence; compulsory social security; education; human health and social work activities - 3.4%, Professional, scientific and technical activities; administrative and support service activities - 3.0%, Arts, entertainment and recreation, repair of households goods and other services - 0.4%. As regards the expenditure components of GDP, main contributors to the registered positive economic growth are the individual final consumption of households with growth of 4.9%, individual final consumption of NPISH - 6.7% and Gross fixed capital formation - 4.3%. Exports of goods and services increased by 4.1%, Imports of goods and services increased by 5.1%.

Gross Domestic Product (GDP) in the third quarter of 2017 increased by 0.6% in the EU-28 compared to the previous quarter by seasonally adjusted data. For the same period, GDP in Bulgaria increased by 0.9%. Compared to the previous quarter, in the third quarter of 2017 Romania recorded the highest economic growth - 2.6%, Malta - 1.9%, Latvia - 1.5%, Poland - 1.2%, Slovenia - 1.0%, while Denmark registered decline by 0.6%. Compared to the same quarter of the previous year, seasonally adjusted data showed an increase in GDP in the EU-28 by 2.6% and in Bulgaria by 3.9%. In the third quarter of 2017, compared to the same quarter of the previous year, the highest economic growth was seen in Romania - 8.6%, Malta - 7.7%, Latvia - 6.2%, Poland - 5.2%, Czech Republic - 5.0%, while lowest economic growth is observed in Denmark and Greece - by 1.3%.

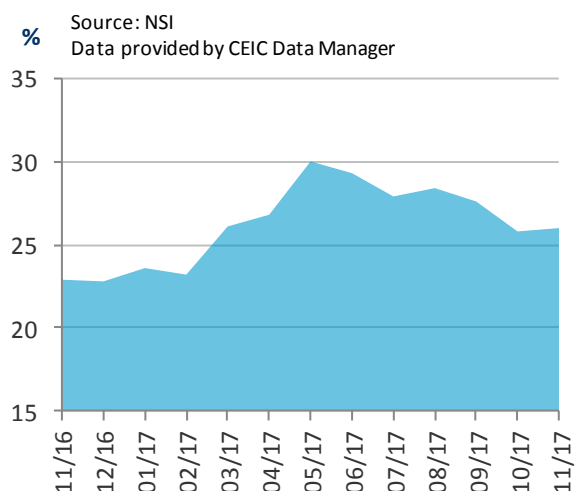
Business climate

In November 2017, the total business climate indicator⁴ remains approximately to its level from the previous month at 25.8%. An improvement of the business conjuncture is registered in industry and retail trade, while in service sector preserves its October level. Only in construction, the indicator is reduced

Industry. The composite indicator 'business climate in industry' increases by 1.2 percentage points as a result of the optimistic industrial entrepreneurs' expectations about the business situation of the enterprises over the next 6 months. At the same time, the present production activity is assessed as slight decreased, while the forecasts about the activity over the next 3 months are more favourable. The factor, limiting with the most extent the enterprises continues to be the uncertain economic environment, followed by the shortage of labour force. Concerning the selling prices in industry, the managers forecast preservation of their level over the next 3 months.

Construction. In November 2017, the composite indicator 'business climate in construction' decreases by 2.7 percentage points., which is due to the more reserved construction entrepreneurs' assessments and expectations about the business situation of the enterprises. In their opinion, certain improvement of the present construction activity is observed, but their forecasts over the next 3 months are more unfavourable. The uncertain economic environment, competition in the branch and shortage of labour remain

Business Climate Indicator



the main obstacles for the business development. As regards the selling prices in construction, the managers' expectations are them to remain unchanged over the next 3 months.

Retail trade. The composite indicator 'business climate in retail trade' increases by 1.0 percentage point in comparison with October as a result of the improved retailers' expectations about the business situation of the enterprises over the next 6 months. At the same time their forecasts about the volume of sales over the next 3 months also remain favorable, though more reserved compared to the previous month. The factors 'competition in the branch', 'insufficient demand' and 'uncertain economic environment' continue to limiting with most extend the activity of the enterprises. The retailers expect the selling prices to remain unchanged over the next 3 months.

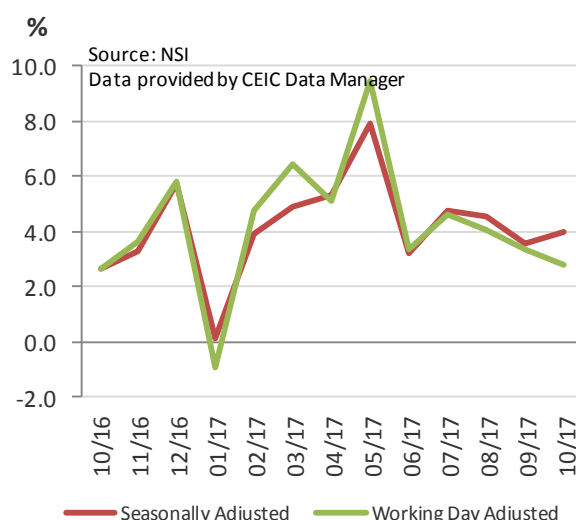
Service sector. In November, the composite indicator 'business climate in service sector' preserves its October level. The balance indicator of the present business situation of the enterprises decreases by 1.6 percentage points due to a shifting of the managers' assessments to the more moderate opinions. However they are optimistic in their forecasts about the business development over the next 6 months, as their expectations about the demand for services over next 3 months are favourable. The most serious problems for the activity remain connected with competition in the branch and uncertain economic environment. The majority of the managers expect the selling prices in the sector to preserve their level over the next 3 months.

Industrial production index

In October 2017 Bulgaria's Industrial Production Index increased by 0.6% m/m and by 2.8% y/y, respectively

According to the preliminary data the Industrial Production Index decreased by 0.6% in October 2017 as compared to September 2017 based on seasonally adjusted data. In October 2017 working day adjusted by 2.8% in comparison with the same month of 2016. Industrial Production Index rose. In October 2017 as compared to September 2017, the seasonally adjusted Industrial Production Index decreased in the electricity, gas, steam and air conditioning supply by 4.5% and in the mining and quarrying industry by 2.8%, while in the manufacturing the production rose by 0.1%. The most significant production increases in the manufacturing were registered in the manufacture of computer, electronic and optical products by 13.5%, in the manufacture of leather and related products by 5.9%, in the manufacture of fabricated metal products, except machinery and equipment by 3.8%, in the manufacture of chemicals and chemical products by 3.7%. There were decreases in the repair and installation of machinery and equipment by 14.6%, in the manufacture of basic pharmaceutical products and pharmaceutical preparations by 7.5%, in the manufacture of tobacco products by 5.4%, in the manufacture of other transport equipment by 4.7%. On annual basis in October 2017 Industrial Production Index calculated from working day adjusted data rose in the manufacturing by 5.5% and in mining and quarrying industry by 4.3%, while the production fell in the electricity, gas, steam and air conditioning supply by 8.8%. In the manufacturing, the more considerable increases compared to the same month of the previous year were registered in the manufacture of machinery and equipment by 17.1%, in the manufacture of fabricated metal products, except machinery and equipment by 15.8%, in the manufacture of motor vehicles, trailers and semi-trailers by 15.2%, in the manufacture of rubber and plastic products by 13.4%. Decreases were seen in the manufacture of tobacco products by 14.0%, in the manufacture of wearing apparel by 8.9%, in the repair and installation of machinery and equipment by 8.0%, in the manufacture of furniture by 5.8%.

Industrial production Index, % change, YoY



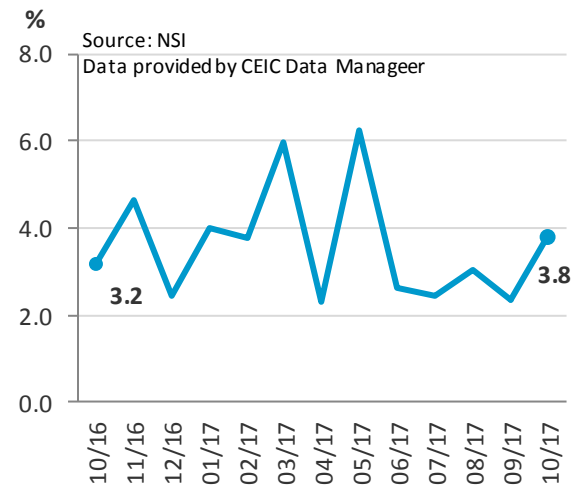
Retail trade

In October 2017 Bulgaria's Retail Sales increased by 0.6% m/m and by 3.8% y/y, respectively

According to the NSI preliminary seasonally adjusted data in October 2017 the turnover in 'Retail trade, except of motor vehi-

cles and motorcycles' at constant prices increased by 0.6% compared to the previous month. In October 2017, the working day adjusted⁴ turnover in 'Retail trade, except of motor vehicles and motorcycles' marked rise from 3.8% in comparison with the same month of the previous year. In October 2017 compared to the previous month increased of turnover was observed in the 'Retail sale of computers, peripheral units and software; telecommunications equipment' by 2.3%, in the 'Retail sale in non-specialized stores' by 1.2% and in the 'Retail sale of food, beverages and tobacco' by 1.1%. More significantly decrease was registered in the 'Retail sale via mail order houses or via Internet' - 2.2% and in the 'Retail sale of textiles, clothing, footwear and leather goods' - 0.7%. In October 2017 compared to the same month of 2016, the turnover increased in the 'Retail sale in non-specialized stores' by 13.8%, in the 'Dispensing chemist; retail sale of medical and orthopedics goods, cosmetic and toilet articles' by 11.2%, in the 'Retail sale of computers, peripheral units and software; telecommunications equipment' by 8.8%, in the 'Retail sale of audio and video equipment; hardware, paints and glass; electrical household appliances' by 6.8% and in the 'Retail sale of food, beverages and tobacco' by 5.8%. Decline was registered in the 'Retail sale of automotive fuel' - 9.1%, in the 'Retail sale of textiles, clothing, footwear and leather goods' - 1.8% and in the 'Retail sale via mail order houses or via Internet' - 0.5%.

Retail trade index, % change (YoY)



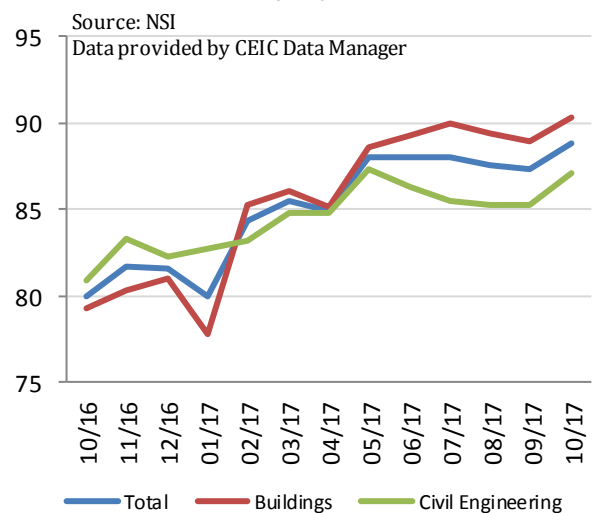
in the 'Retail sale of audio and video equipment; hardware, paints and glass; electrical household appliances' by 6.8% and in the 'Retail sale of food, beverages and tobacco' by 5.8%. Decline was registered in the 'Retail sale of automotive fuel' - 9.1%, in the 'Retail sale of textiles, clothing, footwear and leather goods' - 1.8% and in the 'Retail sale via mail order houses or via Internet' - 0.5%.

Construction

In October 2017 Bulgaria's Construction Production Index increased by 1.8% m/m and by 10.1% y/y, respectively

According to the preliminary data, in October 2017 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 1.8% above the level of the previous month. In October 2017 working day adjusted data⁴ showed an increase by 10.1% in the construction production, compared to the same month of 2016. In October 2017 the construction production, calculated from the seasonally adjusted data, was above the level of the previous month. Index of production of building construction rose by 1.5% and the production of civil engineering - by 2.2%. On an annual basis in October 2017, the growth of production in construction, calculated from working day adjusted data, was determined from the positive rate in the building construction, where the increase was by 15.1%, and the production of civil engineering - by 4.2%.

Construction Production index, seasonally adjusted data

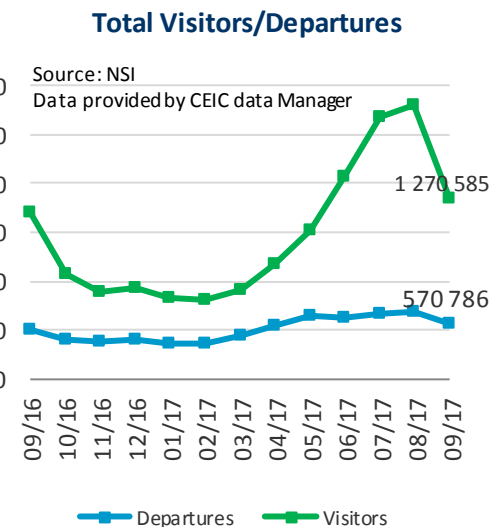


Tourism

In October 2017 the total revenues from nights spent reached BGN 44.8 million or increased by 0.8% y/y. An increase was registered in the revenues from foreign citizens - by 3.9%, while those from Bulgarians decreased by 2.6%

According NSI data in October 2017, 1 959 accommodation establishments - hotels, motels, camping sites, mountain chalets and other establishments for short-term accommodation with more than 10 bed-places were functioned in the country. The total number of the rooms in them was 73.0 thousand and the bed-places were 154.5 thousand. In comparison with October 2016, the total number of accommodation establishments (functioned during the period) decreased by 3.1%, and the bed-places in them - by 3.6%. The total number of the nights spent in all accommodation establishments registered in October 2017 was 864.7 thousand, or by 1.9% less in comparison with the same month of the previous year, as the greatest decrease (by 6.3%) was observed in 1 and 2 stars accommodation establishments. In October 2017, 72.1% of all nights spent by foreign citi-

zens and 35.3% of all nights spent by Bulgarians were realized in 4 and 5 stars hotels. In 3 stars accommodation establishments were spent 19.5% of all nights by foreigners and 30.0% of all nights by Bulgarian residents, while in the rest of accommodation establishments (with 1 and 2 stars) they were 8.4% and 34.7% respectively. In October 2017, the number of arrivals in all accommodation establishments decreased by 4.0% compared to the same month of 2016 and reached 422.2 thousand, as a decrease was registered by 5.1% for Bulgarians and by 2.1% for foreigners. Bulgarians spent the nights in accommodation establishments in October 2017 were 272.4 thousand and spent 1.9 nights on the average. The arrivals of foreigners were 149.8 thousand, as 70.3% of them spent nights in hotels with 4 and 5 stars. On the average 2.4 nights were spent by foreigners. In October 2017, the total occupancy of the bed-places in accommodation establishments was 20.0%, as compared to October 2016 decreased by 0.6 percentage points. The highest was occupancy of the bed-places in 4 and 5 stars accommodation establishments - 22.0%, followed by 3 stars accommodation establishments - 21.2%, and with 1 and 2 stars - 16.1%. The total revenues from nights spent in October 2017 reached BGN 44.8 million or by 0.8% more compared to October 2016. An increase was registered in the revenues from foreign citizens - by 3.9%, while those from Bulgarians decreased by 2.6%.



In October 2017, the number of the trips of Bulgarian residents abroad was 439.0 thousand and increased by 8.7% y/y

According to NSI data in comparison with the October of the previous year, an increase was observed in the total number of the trips of Bulgarians to: Austria - by 32.5%, Serbia - by 18.9%, Romania - by 13.5%, the Former Yugoslav Republic of Macedonia - by 6.8%, the United Kingdom - by 4.0%, Turkey - by 1.8%, Greece - by 0.2%, and etc. At the same time decreased the number of the trips of Bulgarians to: France - by 7.8%, Czech Republic - by 4.2%, Germany - by 0.6%, and etc. In comparison with October 2016, an increase was registered in the trips with all observed purposes: with professional purpose - by 22.8%, with holiday and recreation purpose - by 6.7%, and with other purposes - by 1.9%. The trips with other purposes (as a guest, education and visit the cultural and sport events) in October 2017 composed the greatest share of the total number of trips of Bulgarian residents abroad - 45.7%, followed by the trips with professional purpose - 30.1%, and with holiday and recreation purpose - 24.2%. In October 2017 most trips of Bulgarian citizens were made to: Greece - 102.6 thousand, Turkey - 88.0 thousand, Romania - 33.0 thousand, Serbia - 31.8 thousand, the Former Yugoslav Republic of Macedonia - 25.7 thousand, Germany - 24.3 thousand, the United Kingdom - 15.6 thousand, Austria - 15.4 thousand, Italy - 14.9 thousand, and Spain - 11.0 thousand. In October 2017, the number of arrivals of visitors from abroad to Bulgaria was 712.6 thousand or by 5.0% more in comparison with October 2016. An increase was registered in the trips by all observed purposes: with professional purpose - by 15.1%, with holiday and recreation purpose - by 3.5%, and with other purposes (including as guest and passing transit) - by 2.4%, Transit passes through the country were 25.1% (179.1 thousand) of all visits of foreigners to Bulgaria. The share of visits of EU citizens was 56.1% of the total number of foreigners' visits to Bulgaria in October 2017 or by 3.1% more in comparison with the same month of the previous year. An increase was registered in the visits of citizens from the Netherlands - by 62.5%, France - by 25.3%, the United Kingdom - by 23.0%, Belgium - by 15.7%, Romania - by 4.7%, Austria - by 3.2%, and etc. At the same time decreased the visits from Poland - by 12.6%, Italy - by 8.2%, Germany - by 1.7%, Greece - by 1.4%, and etc. The visits of foreigners in the group 'Other European countries'1 increased by 5.8%, as the highest growth was observed in the visits of citizens of Serbia - by 10.0%. In October 2017, the predominant share of the visits with other purposes was 45.6%, followed by trips with holiday and recreation purpose - 35.2%, and with professional purpose - 19.2%. In October 2017 the most visits to Bulgaria were from: Romania - 140.9 thousand, Turkey - 106.6 thousand, Greece - 97.2 thousand, the Former Yugoslav Republic of Macedonia - 54.6 thousand, Serbia - 43.1 thousand, Germany - 40.5 thousand, Ukraine - 19.7 thousand, Poland - 18.7 thousand, the United Kingdom - 18.2 thousand, and Italy - 14.4 thousand.

In Q3 2017, 1 991.8 thousand Bulgarian residents travelled both in the country and abroad

According to NSI data in Q3 2017, 1 991.8 thousand Bulgarian residents travelled both in the country and abroad and decreased by 21.6%. The majority (82.3%) of them travelled only within the country, 14.5% - only abroad and 3.2% - both in the

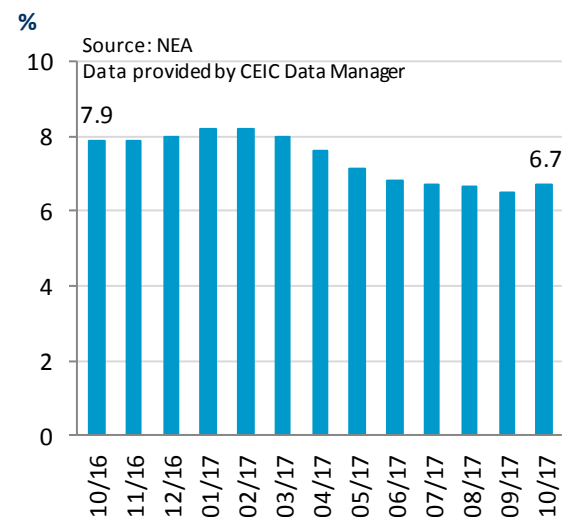
country and abroad. Compared to the same quarter of 2016 the total number of the travelled persons aged 15 and over increased by 31.2%, as the number of the Bulgarian residents travelled only in the country increased by 32.8%, travelled only abroad - by 43.3%. In Q3 2017, most Bulgarians aged 25 - 44 years traveled - 948.6 thousand or 47.7% of all traveled persons. In all age groups predominated the share of the trips in the country, as the highest was this share among the persons aged 25 - 44 years - 83.3% from the travelled in this age group. The majority of tourist trips of persons aged 15 and over in the country as well as abroad were for 'holiday and recreation', pointed out respectively by 67.6% and 78.5% of them (Figure 3). In Q3 of 2017, 2 441.0 thousand or 88.9% of the total number of the private tourist trips were registered as an independent. The relative share of the independent travels without booking of the trip in the country was 92.8%, while those abroad - 66.0%. In the structure of the expenditure by type with highest relative share was the expenditure on food as in domestic trips, as well as in outbound trips - 45.9% and 32.6% respectively. In Q3 of 2017 a person aged 15 and over spent on the average for private trip BGN 353.36 in the country and BGN 645.33 for private trip - abroad. At the same time the average expenditure per person for professional trip was BGN 163.88 for domestic trip and BGN 1 086.27 for professional outbound trip.

Unemployment

In October 2017, unemployment rate in Bulgaria was 6.7%, decreasing by 0.2 percentage points on a monthly basis and by 1.2 percentage points on an annual basis

According to data of the Employment Agency in October 2017, the registered unemployment rate in Bulgaria is 6.7%, increasing by 0.2 percentage points compared to September. In order to use the intermediary services at the labor offices, the completed work in summer seasonal activities is already intensively registered, mainly in the districts of Burgas and Varna. Compared to October 2016, the unemployment rate is significantly lower - by 1.2 percentage points. The registered unemployed at the end of the month were 220 172. Their number increased by 3.2% compared to the previous month, and compared to a year ago a significant decrease was registered - by 14.7%. From newly registered unemployed in October 1 054 were inactive, i.e. were neither employed nor students, nor were they looking for a job. The number of activators from mediators and intermediaries in labor offices and their partners since the beginning of the year reaches 10,389. The services provided at the labor offices are targeted, besides unemployed persons, to employed, students and pensioners. In the month as jobseekers, a total of 1,205 employees, students and pensioners were registered, bringing their number from the beginning of the year to 4,379. In October, 20 456 persons have been employed according to the data of the Employment Agency. Thus, the total number of persons employed in the ten months of 2017 reaches 208 260. Significant is the share of the work started in the real economy - 81.8% of the total. As a result of the active measures to promote employment in the month in subsidized employment, a total of 3,727 unemployed persons were included, incl. 1 483 on projects funded under the Operational Program for Human Resources Development. For the period January - October, a total of 26,782 unemployed persons were employed on jobs subsidized by the state budget and the European Social Fund. In line with the increased demand for qualified workforce, the Employment Agency continues training for acquiring professional qualifications and key competencies. The included unemployed in training during the month numbered 143 persons, and since the beginning of the year the number is 17 563. There are also group meetings for vocational guidance and active behavior on the labor market. 13 321 unemployed persons participated in the vocational orientation and activation events. 14 168 job vacancies in the primary market have been stated by employers, with more than half of them from the private sector - 75.3%. Businesses are looking for workforce in the following economic activities: Manufacturing (4 435); trade (2 445); hotel and restaurant management (1 017); administrative and ancillary activities (1 002); construction (859); education (656); government (651); transport, storage and mail (627); real estate transactions (370) and others. The most sought after professions in job positions in the labor offices are workers in the mining and processing industry; operators of stationary machinery and equipment; vendors; personnel employed in the personal services

Registered Unemployment Rate



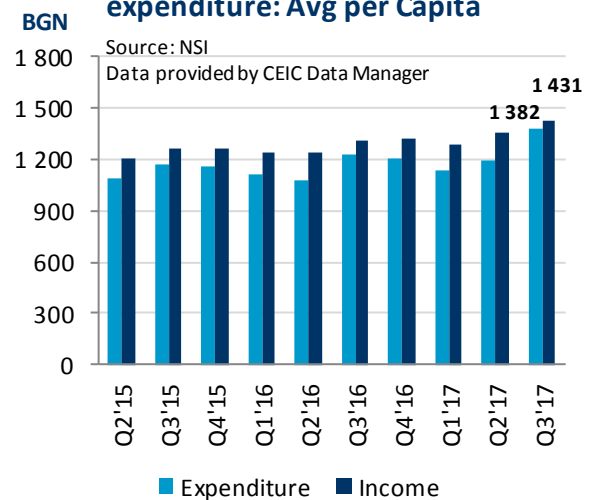
(bartenders, waiters, cabin crew, etc.); skilled workers in food, clothing, wood and related products; waste collectors and related workers; metallurgists, machine builders and related workers; drivers and mobile equipment; lecturers; installers and others.

Household income, expenditures and consumption

In Q3 2017 the total income average per household member is BGN 1 431 and increased by 9.4% y/y. The total expenditure average per household member during Q3 2017 is BGN 1 382 and increased by 13.0% y/y

According to NSI data the total income average per household member in Q3 2017 is BGN1 431 and increased 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 (54.4%). The relative share of income from pensions is 25.9%, from self-employment - 7.7% and from social benefits - 3.1%. The nominal income by source average per capita changes during the third quarter of 2017 compared to the third quarter of 2016 changes as follows: Income from wages and salaries increases from BGN 708 to BGN 778 (by 10.0%); Self-employment income increases from BGN 85 to BGN 110 (by 29.9%); Income from pensions remains unchanged - BGN 371; Income from social benefits remains without change - BGN 43. The relative share of monetary income into the total income during Q3 2017 is 98.2% and the share of income in kind is 1.8%. The total expenditure average per household member during Q3 2017 is BGN 1 382 and increased by 13.0% in comparison with the same quarter of 2016. Expenditure on food has the greatest share in forming the total expenditure - 30.1% as well as expenditure on housing - 17.7%, taxes and social insurance contributions - 12.0% and transport and communication - 11.2%. The expenditure by group average per capita changes as absolute values during the third quarter of 2017 compared to the same quarter of 2016 as follows: Expenditure on food and non-alcoholic beverages increases from BGN 387 to BGN 416 (by 7.6%); Expenditure on housing (water, electricity, heating, furnishing and maintenance of the house) increases from BGN 204 to BGN 245 (by 20.3%); Expenditure on transport and communication increases from BGN 132 to BGN 155 (by 17.6%); Expenditure on health increases from BGN 64 to BGN 66 (by 3.1%); Expenditure on alcoholic beverages and tobacco increases from 54 BGN to BGN 58 (by 7.3%); Expenditure on recreation, culture and education increases from BGN 80 to BGN 87 (by 7.7%). The consumption of main food products average per household member is without considerable change during Q3 2017 compared to the same quarter of 2016. Fruit and vegetables are an exception. Consumption of fruit increases by 0.9 kg - from 19.3 kg to 20.2 kg, consumption of vegetables decreases by 1.0 kg - from 27.2 kg to 26.2 kg.

Household income and expenditure: Avg per Capita

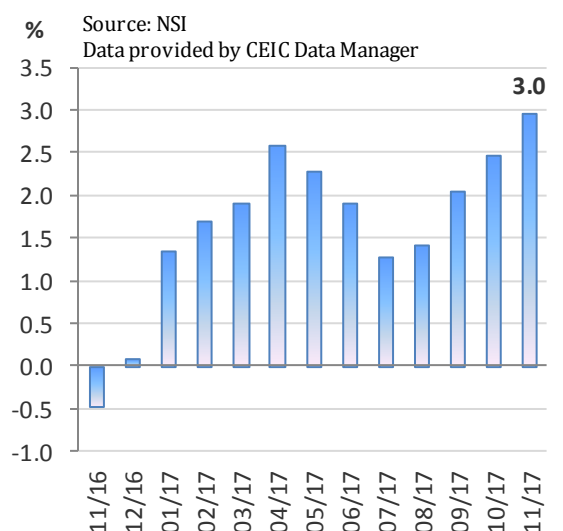


Inflation

In November 2017 Bulgaria's CPI increased by 0.4% m/m and by 3.0% y/y, respectively. The annual average inflation stood at 1.8%

Bulgaria's consumer price index in November 2017 compared to October 2017 was 100.4%, i.e. the monthly inflation was 0.4%. The inflation rate since the beginning of the year has been 2.4% and the annual inflation in November 2017 compared to November 2016 was 3.0%. The annual average inflation, measured by CPI, in the last 12 months was 1.8%. On a monthly basis, the appreciation was mainly due to the group of non-food goods - entertainment, clothing and footwear, gas, electricity, heating. The year-on-year increase stems from higher food, fuel and utility services. The harmo-

Inflation, YoY

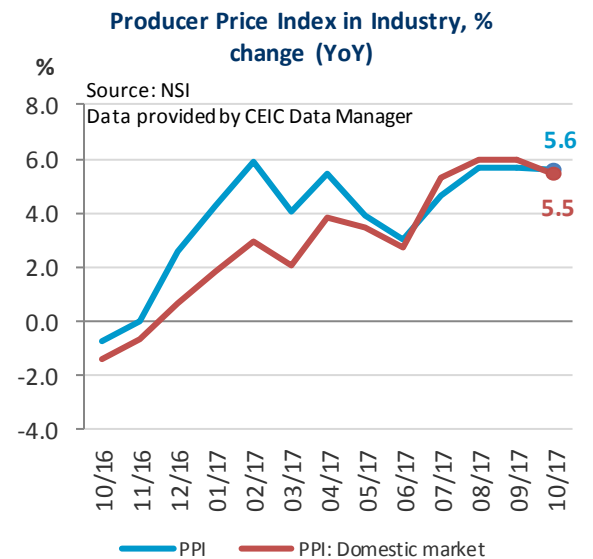


nized index of consumer prices in November 2017 compared to October 2017 was 100.3%, i.e. the monthly inflation was 0.3%. The inflation rate since the beginning of the year has been 1.1% and the annual inflation in November 2017 compared to November 2016 was 1.9%. The annual average inflation, measured by HICP, in the last 12 months (December 2016 - November 2017) compared to the previous 12 months (December 2015 - November 2016) was 1.0%.

Producer Price Index in Industry

In October 2017 total producer price index in industry increased by 0.5% m/m and by 5.6% y/y, respectively

Total Producer Price Index in Industry in October 2017 increased by 0.5% compared to the previous month. Higher prices were registered in the mining and quarrying industry by 2.1% and in the manufacturing by 0.6%, while in the electricity, gas, steam and air conditioning supply the prices declined by 0.1%. In the manufacturing³, more significant increase in prices were seen in the manufacture of basic metals by 4.2% and in the manufacture of chemicals and chemical products by 1.3%, while price decrease were reported in the manufacture of tobacco products by 1.6%, in the manufacture of food products by 0.5% and in the manufacture of wearing apparel by 0.1%. Total Producer Price Index in October 2017 increased by 5.6% compared to the same month of 2016. The prices rose in the mining and quarrying industry by 12.1%, in the electricity, gas, steam and air conditioning supply by 10.2%, and in the manufacturing by 3.8%. In the manufacturing more significant increase in prices were seen in the manufacture of basic metals by 18.0%, in the manufacture of wood and of products of wood and cork, except furniture, manufacture of articles of straw and plaiting materials by 6.7%, and in the manufacture of paper and paper products by 4.6%, while the producer prices fell in the manufacture of computer, electronic and optical products and in the manufacture of other transport equipment by 1.9%.



In October 2017 Producer Price Index on Domestic Market remains unchanged compared to the previous month and increased by 5.5% y/y

Producer Price Index on Domestic Market in October 2017 remains unchanged compared to the previous month. The domestic prices rose in the mining and quarrying industry by 1.6% and in the manufacturing by 0.1%, while in the electricity, gas, steam and air conditioning supply the prices declined by 0.4%. In the manufacturing², compared to the previous month the prices went up in the manufacture of basic metals by 3.7% and in the manufacture of chemicals and chemical products by 1.9%, while the domestic prices fell in the manufacture of tobacco products by 2.4% and in the manufacture of food products by 0.5%. Producer Price Index on Domestic Market in October 2017 increased by 5.5% compared to the same month of 2016. The domestic prices rose in the mining and quarrying industry by 12.6%, in the electricity, gas, steam and air conditioning supply by 10.1% and in the manufacturing by 2.4%. In the manufacturing compared to October 2016 the prices went up in the manufacture of basic metals by 16.9%, in the manufacture of wood and of products of wood and cork, except furniture by 6.3% and in the manufacture of electrical equipment by 5.2%. A decrease in the prices was reported in the manufacture of computer, electronic and optical products by 0.5% and in the manufacture of leather and related products by 0.4%.

In October 2017 Producer Price Index on Non-domestic Market increased by 1.4% m/m and by 5.8% y/y, respectively

Producer Price Index on Non-domestic Market in October 2017 increased by 1.4% compared to the previous month. In the manufacturing² the non-domestic prices rose by 1.2%. More significant price increases were reported in the manufacture of basic metals by 4.3%, in the manufacture of chemicals and chemical products by 0.8% and in the manufacture of paper and paper products by 0.7%, while the prices went down in the manufacture of food products by 0.6%. Producer Price Index on Non-domestic Market in October 2017 increased by 5.8% compared to the same month of 2016. In the manufacturing, the prices rose by 5.6%. The non-domestic prices rose in the manufacture of basic metals by 18.3% and in the manufacture of pa-

per and paper products by 12.2%. The prices fell in the manufacture of computer, electronic and optical products and in the manufacture of other transport equipment by 2.6%, in the manufacture of chemicals and chemical products by 2.0% and in printing and reproduction of recorded media by 1.7%.

In Q3 2017 the producer price index in agriculture increased by 3.6% y/y

According to NSI data the producer price index in agriculture in Q3 2017 increased by 3.6% in comparison with the same quarter of 2016. The crop output index increased by 2.3%, as well as the animal output index - by 10.9%. In comparison with previous year the prices of agricultural output went down by 1.9%. The crop output decreased by 3.4%, while in animal output an increase was observed by 6.8%. In Q3 2017 compared to the same quarter of 2016 increase was observed in the prices of cereals - by 2.7%, fresh vegetables - by 19.0%, and potatoes - by 15.2%. Decrease was reported in the price of industrial crops - by 2.5%. In comparison to third quarter of 2016 higher were the prices of soft wheat - by 4.3%, barley - by 3.3%, soya - by 9.1%, lavender (green) - by 42.1%, tomatoes under glass - by 5.4%, tomatoes in outdoor - by 28.1%, lettuces - by 13.1%, cucumbers under glass - by 10.0%, onions - by 15.4%, green pepper - by 11.1%, dry beans - by 5.7% and table grape - by 21.9%. Decrease was observed in the prices of grain maize - by 4.4%, rice (not husked) - by 15.2%, sunflower - by 11.2%, fodder peas - by 19.1%, peaches - by 15.3%, cherries - by 3.0% and walnuts - by 17.4%. Compared to the corresponding quarter of 2016 increase was observed in the price of live animals - by 7.1%, as well as in the prices of animal products - by 13.0%. In live animals increase was observed in the price of cattle - by 9.2%, sheep - by 5.7%, goats - by 11.7% and poultry - by 16.3%. Lower were only the prices of pigs - by 2.4%. In animal products higher were the prices of cow milk - by 17.3%, eggs for human consumption - by 24.7% and honey - by 1.8%. Decrease was reported in the prices of sheep milk - by 6.5% and goat milk - by 8.1%. Compared to 2016 in Q3 2017 increase was registered only in the prices of forage crops of - 29.4% and potatoes - by 5.9%. Lower were only the prices of cereals - by 2.2%, industrial crops - by 6.3% and fruit - by 5.9%. In Q3 2017 compared to 2016 increase was reported in the prices of cucumbers in outdoor - by 3.0%, lettuces - by 13.2%, carrots - by 24.8%, green beans - by 29.0%, pepper - by 17.4%, water melons - by 9.9%, apples - by 2.7%, plums - by 10.3%, sour cherries - by 32.0%, hay (from meadow) - by 51.5%. Lower were the prices of soft wheat - by 1.4%, barley - by 4.6%, oats - by 16.7%, rice (not husked) - by 24.3%, sunflower - by 15.6%, fodder peas - by 30.0%, dry beans - by 8.6%, green peas - by 14.3%, peaches - by 13.1%, cherries - by 32.5%, walnut - 20.4% and lucerne - by 5.5%. In third quarter of 2017 compared to 2016 the prices of live animals went down - by 1.2% while the prices of animal products went up - by 11.4%. Lower were the prices of sheep - by 2.7%, and of poultry - by 4.8%. Increase was observed in the prices of cattle - by 2.4%, goats - by 10.4% and of pigs - by 0.6%. In animal products increase was observed in the prices of cow milk - by 16.3% and of eggs for human consumption - by 9.9%. Lower were the prices of sheep milk - by 10.3%, goat milk - by 4.5% and honey - by 6.5%.

The index of prices of goods and services currently consumed in agriculture in the third quarter of 2017 remained almost unchanged - 0.1% above the level in the same quarter of previous year and 0.1% lower compared to 2016.

In third quarter of 2017 compared to corresponding quarter of 2016 higher were only the prices of energy and fuels - by 1.3%. Lower were the prices of seeds and planting stock - by 1.0%, fertilizers - by 0.6%, plant protection products - by 0.9%, veterinary medical products - by 3.7% and animal feeding stuff - by 0.9%. Compared to 2016 in third quarter of 2017 the price index of energy and fuels went up by 3.6%. Lower were the prices of seeds and planting stock - by 2.2%, fertilizers - by 6.6%, plant protection products - by 1.1%, veterinary medical products - by 3.7% and animal feeding stuffs - by 1.6%.

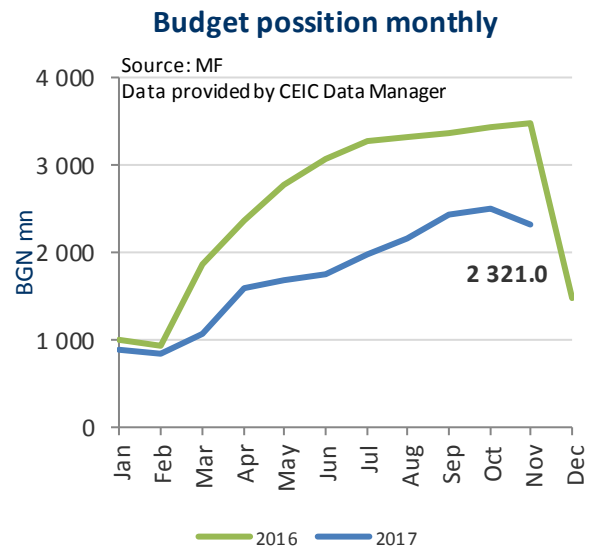
FISCAL SECTOR

Budget balance

In October 2017 the Consolidated fiscal program (CFP) on a cash basis is positive at BGN 2,493.4 million and presented 24.9 % of GDP

According to MF data the Consolidated Fiscal Programme (CFP) balance on a cash basis as of end-October 2017 is positive, amounting to BGN 2,493.4 million, or 2.5% of the projected GDP, and is formed by a national budget surplus of BGN 2,678.7 million and by a EU funds deficit of BGN 185.3 million. 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 revenues, including from 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. The CFP revenues and grants in October 2017 stand at BGN 29,166.7 million, or 82.3% of the annual estimates. Compared to the same period of the previous year, tax and non-tax revenues have risen by BGN 2,233.4 million, or by 8.7%, with grant proceeds being lower. Tax proceeds, including revenues from social security contributions, total BGN 24,469.0 million, which accounts for 87.3% of the revenues planned for the year. Compared to the data as of October 2016, tax proceeds have risen in nominal terms by 9.7%, or by BGN 2,160.4 million. Direct tax revenues amount to BGN 4,398.1 million, or 86.4% of the estimates planned for the year, growing by BGN 423.0 million (10.6%). Indirect tax revenues amount to BGN 12,296.4 million, which accounts for 87.7% of the annual estimates. Compared to the data as of October 2016, proceeds in this group have grown by BGN 825.1 million, or by 7.2%. VAT proceeds amount to BGN 7,923.7 million, or 90.2% of those planned. Compared to the previous year, VAT revenues have risen by BGN 647.7 million, or by 8.9%. The amount of non-refunded VAT as of end-October 2017 is BGN 56.9 million. The excise duty revenues amount to BGN 4,183.1 million, or 83.0% of the annual estimates. Customs duty proceeds amount to BGN 158.4 million, or 95.4% of the estimates for the year. Proceeds from other taxes, including property taxes and other taxes under the Corporate Income Tax Law, amount to BGN 905.8 million, or 91.4% of the annual estimates. Revenues from social security and health insurance contributions are BGN 6,868.7 million, which accounts for 86.6% 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 865.7 million, or by 14.4%, in nominal terms. Non-tax revenues amount to BGN 3,577.8 million, which accounts for 75.2% of the annual estimates. Grant revenues amount to BGN 1,120.0 million, or 42.4% of those planned for the year. CFP expenditures, including the contribution of the Republic of Bulgaria to the EU budget for October 2017, amount to BGN 26,673.3 million, which accounts for 72.5% of the annual estimates. For comparison, CFP expenditures for the same period of 2016 amount to BGN 24,854.6 million. The higher expenditures, as compared to end-October 2016, are mainly due to the greater amount of social security and health insurance payments, the baseline effect of pension expenditures since their increases as from July 2016 and July 2017, the two-step increase of the minimum pension in 2017 (as from July and October), as well as the higher 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. Non-interest expenditures amount to BGN 25,190.7 million, which accounts for 72.9% of the annual estimates. Non-interest current expenditure as of October 2017 amount to BGN 23,513.4 million, or 83.0% of the estimates for the year, capital expenditures (including net increment of state reserve) amount to BGN 1,677.3 million, or 27.0% of the 2017 State Budget of the Republic Bulgaria Law estimates. Interest payments amount to BGN 736.4 million, or 89.1% of those planned for 2017. The part of Bulgaria's contribution to the EU budget, as paid from the central budget as of 31 October 2017, amounts to BGN 746.2 million, which complies with the existing legislation in the area of EU own resources. The fiscal reserve as of 31 October 2017 is BGN 12.0 billion, including BGN 11.4 billion of fiscal reserve deposits in the BNB and in banks and BGN 0.6 billion of receivables under the EU Funds for certified expenditure, advance payments, etc.



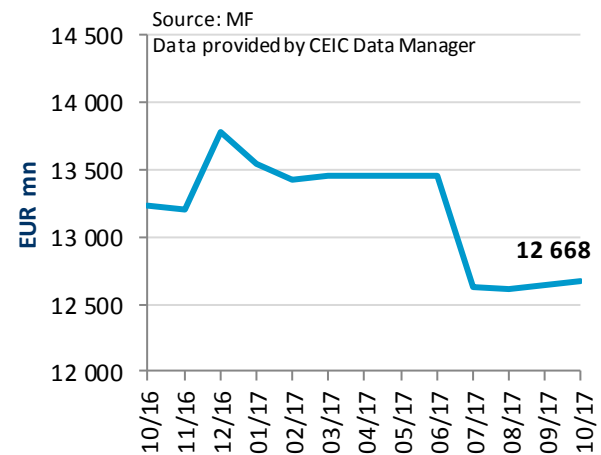
Central Government debt

In October 2017 the central government debt amounted at EUR 12,668.3 million and presented 24.9% of GDP

According to MF data the central government debt as at end-October 2017 stood at EUR 12,668.3 million. During the month, an issue of long-term bonds maturing in 7 years and 6 months was reopened on the domestic market. Domestic debt amounted to EUR 3,416.0 million and external debt – to EUR 9,252.3 million. At the end of the reporting period the central government debt/GDP ratio was 24.9%, with the share of domestic debt being 6.7% and of external debt – 18.2%. In the central government debt structure, domestic debt at the end of the period amounted to 27.0%, and external debt – to 73.0%. The weighted average interest rate on debt for the period January – October 2017 is 2.65%, decreasing by 26 basis points as compared to the same period of 2016 (2.91%). As of 31 October 2017, the central government guaranteed debt was EUR 378.8 million. Domestic guarantees amounted to EUR 36.0 million, with the central government guaranteed debt/GDP ratio being 0.7%. According to the official register of government and government guaranteed debt, kept by the Ministry of Finance on the grounds of Article 38, paragraph 1 of the Government Debt Law, at end-

October 2017 the government debt reached EUR 12,030.0 million, being 23.6% of GDP. Domestic debt amounted to EUR 3,375.9 million and external debt – to EUR 8,654.2 million. Government guaranteed debt in October 2017 amounted to EUR 1,027.6 million. Domestic guarantees amounted to EUR 36.0 million, the government guaranteed debt/GDP ratio being 2.0%. Based on preliminary data, the cash-based consolidated fiscal program (CFP) is expected to be positive at the end of November 2017 to the amount of BGN 2 321.0 million or 2.3% of the projected GDP. The monthly deficit is expected to reach BGN 172.4 million in November. In structural terms, the balance of the national budget is improving compared to the same period in 2016, mainly due to the growth of tax, while the balance on EU funds accounts for the current year is deteriorating due to a base effect in 2016. It is linked to EU grants reimbursed to Bulgaria at the beginning of 2016 for expenditure incurred by the end of 2015, when it was the peak of project payments for the previous programming period 2007-2013. Traditionally, some of the planned spending is concentrated in the last months of the year. This is mainly due to the higher costs associated with the payment of infrastructure and investment projects, given the stages of their implementation and completion of the construction season. In addition, during the autumn-winter season, social costs, maintenance costs, etc. are higher. Because of these factors, it is projected to exceed expenditure over revenue and to reduce the reported current budget surplus.

Central Government Debt



Fitch Ratings has upgraded Bulgaria's Long-term foreign and local currency Issuer Default Rating (IDR) to 'BBB' from 'BBB-'. The Outlook on both IDRs is Stable

The upgrade reflects Bulgaria's external finance metrics which are estimated to outperform the majority of its 'BBB' peers. According to Fitch, the country's net external creditor position strengthened to 8.6% of GDP in 2016 and it is forecast to improve further. Current account surpluses averaging 3.4% of GDP are also forecast for 2017-2019, supported by gains in export competitiveness and a diversifying export base. The second key rating driver is related to the strong Bulgaria's sovereign external buffer. Foreign reserves represent 49.7% of GDP, while the external liquidity ratio climbed up to 215% at end-2016, thus providing more than adequate liquidity support for Bulgaria's long-standing and credible currency board regime. The main factors that could, individually or collectively, lead to positive rating action are stronger medium-term GDP growth potential and progressive convergence towards income levels of higher rated peers. The factors that could, individually or collectively, lead to negative rating action are re-emergence of external imbalances, for example from prolonged widening of the current account deficit and/or deterioration of external competitiveness. Risks from public finances might occur in case of higher fiscal deficits that result in deterioration of the public debt trajectory and materialisation of contingent liabilities on the sovereign's balance sheet coming from state-owned enterprises.

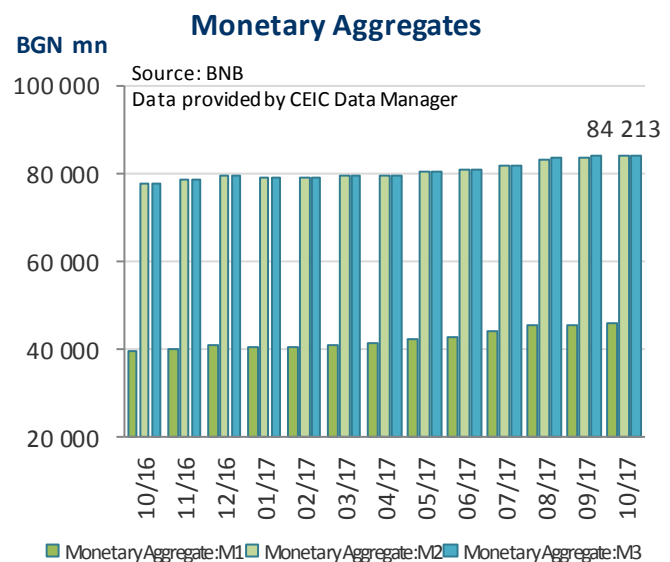
S&P Global Ratings has raised its long- and short-term foreign and local currency sovereign credit ratings on Bulgaria to 'BBB-/A-3' from 'BB+/B'

The upgrade reflects Bulgaria's improving external metrics, underpinned by a multiyear expansion of exports, amid a rise in domestic savings. According to S&P Global Ratings, the risk of material and abrupt shifts in external financing flows, particularly in foreign direct investment (FDI), have reduced significantly. Public financial management is estimated as prudent as well, thus defending the currency board regime. The stable outlook reflects balanced risks to the ratings on Bulgaria, with improving growth prospects, and a track record of conservative fiscal policy. S&P's might take a positive rating action over the next 24 months in case of strengthening economic recovery, further reductions in the Bulgarian banking sector's nonperforming loans, more substantial fiscal buffers and further bolster the credibility of Bulgaria's monetary framework through the Exchange Rate Mechanism (ERM) II. The factors that could lead to a negative rating action include re-emergence of external imbalances, growth falter, or fiscal performance deteriorate.

MONETARY SECTOR

In October 2017 broad money (monetary aggregate M3) increased annually by 8.2% to BGN 84.3 billion. Domestic credit amounted at BGN 52.8 billion and increased by 6.8% on annual basis

In October 2017 broad money (monetary aggregate M3) increased annually by 8.2% compared to 8.2% annual growth in September 2017. At the end of October 2017 M3 was BGN 84.213 billion (85.8% of GDP) compared to BGN 83.928 billion (85.5% of GDP) in September 2017. Its most liquid component – monetary aggregate M1 – increased by 16.2% annually in October 2017 (16.3% annual growth in September 2017). At the end of October 2017, deposits⁵ of the non-government sector⁶ were BGN 71.104 billion (72.5% of GDP), increasing annually by 6.7% (6.8% annual growth in September 2017). Deposits of Non-financial corporations were BGN 21.533 billion (21.9% of GDP) at the end of October 2017. Compared to the same month of 2016 they increased by 14% (13.5% annual growth in September 2017). Deposits of financial corporations decreased by 19.4% annually in October 2017 (14.4% annual decline in September 2017) and at the end of the month they reached BGN 2.971 billion (3% of GDP). Deposits of Households and NPISHs were BGN 46.600 billion (47.5% of GDP) at the end of October 2017. They increased by 5.7% compared to the same month of 2016 (5.9% annual growth in September 2017). Net domestic assets were BGN 51.779 billion at the end of October 2017. They increased by 8.6% compared to the same month of 2016 (8.9% annual growth in September 2017). At the end of the month their basic component – domestic credit – was BGN 52.824 billion and increased by 6.8% compared to October 2016 (7.4% annual growth in September 2017). In October 2017 claims on the non-government sector⁷ increased by 4.3% annually (5% annual increase in September 2017) reaching BGN 54.163 billion. At the end of October 2017, claims on loans to the non-government sector amounted to BGN 52.986 billion (54% of GDP) compared to BGN 52.814 billion (53.8% of GDP) at the end of September 2017. They increased annually by 4.2% in October 2017 (4.9% annual growth in September 2017). The change of loans to the non-government sector was influenced by net sales of loans by Other monetary financial institutions (Other MFIs) - their volume for the last twelve months was BGN 110.2 million. On an annual basis, loans sold⁸ by Other MFIs were BGN 167.7 million (of which BGN 1 million in October 2017), while the amount of repurchased loans was BGN 57.5 million (of which BGN 4.1 million in October 2017). In October 2017, loans to Non-financial corporations increased by 1.5% annually (3.1% annual growth in September 2017) and at the end of the month amounted to BGN 31.286 billion (31.9% of GDP). Loans to Households and NPISHs were BGN 19.662 billion (20% of GDP) at the end of October 2017. They increased by 6.3% compared to the same month of 2016 (5.9% annual growth in September 2017). At the end of October 2017 loans for house purchases were BGN 9.335 billion and increased by 6.4% annually (5.8% annual growth in September 2017). Consumer loans amounted to BGN 7.792 billion and compared to October 2016 they increased by 6.4% (5.7% annual growth in September 2017). On an annual



basis other loans⁹ increased by 30% (35.7% annual growth in September 2017) and reached BGN 1.226 billion. Loans granted to financial corporations were BGN 2.038 billion at the end of October 2017 (2.1% of GDP). Compared to October 2016, they increased by 34.1% (29.2% annual growth in September 2017).

CAPITAL MARKET

In November 2017, three of the main indices of BSE Sofia registered a decrease compared to the previous month

According to BSE-Sofia data, in November 2017 the main BSE index lost 6.37 pps on a monthly basis to 665.03. The index of the most liquid companies BGBX 40 declined by 0.7 pps per month to 130.49 points. The BGREIT property company's indicator fell by 1.91 pps to 113.99 points in November. Equally weighted BG TR30 registered a growth of 27.81pps to 547.89 points. For the fifth consecutive month, the losers included in SO-FIX are more than the profitable ones, with a November-to-June ratio of 6 and a single issue with no change in price. This is a much less negative ratio for the 15 issues in the blue chip index since early 2017. The biggest negative ratio was in October when the losers were 11 and only 4 were the winners. The company with the highest turnover in November 2017 is Texim Bank AD, with a total volume of BGN 6 487 569. Atomenergoremont AD ranked second with a total volume of BGN 4 590 696. Representatives of the special investment vehicles in the ranking are Balkan and Sea Properties REIT and Exclusive Property REIT, which occupy respectively the 9th and 10th position. With the smallest number of concluded deals in the ranking is Capital Concept Limited, and with the largest Sopharma AD. Most profitable company in November 2017 is Exclusive Property REIT, which achieved a growth of 14.47%. Second, there is another special investment vehicle - Aktiv Properties REIT, followed by CEZ Electro Bulgaria AD with a growth of 9.58%. The fourth company in the ranking marks one digit growth, respectively Bulgarian Stock Exchange - Sofia AD with a growth of 6.52%. The last company in the ranking is Eurohold Bulgaria AD, with a growth of 6.29%. Top 5 losers in November 2017 is headed by Zarneni Hrani Bulgaria AD with a decline of 15.30%. Second place is EKIP-98 Holding AD with a decline of 7.69%. The third position is occupied by Atomenergoremont AD. The last position in the ranking is Corado Bulgaria AD, which marks a decline of 5.63%.

Date	SOFIX	BGBX40	BGREIT	BGTR30
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	703.5	134.2	113.8	535.5
07.2017	715.2	135.5	115.0	548.7
08.2017	705.4	134.9	115.3	556.1
09.2017	688.1	134.3	114.9	559.3
10.2017	671.4	131.2	115.9	547.1
11.2017	665.0	130.5	114.0	547.9

Source: Bulgarian Stock Exchange-Sofia

BANKING SECTOR

In October 2017 Bulgaria's banking system reported 2.9% y/y credit growth and 5,9% y/y deposits' growth

According to BNB data, the aggregate net profit of the banking system as at 31 October 2017 amounted to BGN 1 billion (compared to BGN 1,187 billion for the ten months of the previous year) and decreased by 15.7% y/y. The depreciation costs incurred since the beginning of 2017 amounted to BGN 574.5 million (compared to BGN 615.8 million as at 31 October 2016).

Indicator (BGN '000)	31.10. 2016	31.10. 2017	Y/Y (%)
Interest Income	2 760 359	2 548 161	-7.7
Interest Expense	415 857	312 958	-24.7
Net interest income	2 344 502	2 235 203	-4.7
Impairment	615 806	584 595	-5.1
Fee and commission income	874 293	951 329	8.8
Fee and commission expenses	114 608	124 874	9.0
Net fee and commission income	759 685	759 685	0.0
Administration costs	1 298 360	1 317 705	1.5
Personal costs	621 953	657 765	5.8
Total operating income, net	3 413 619	3 190 202	-6.5
Net Profit	1 186 535	1 000 578	-15.7

Source:BNB, UBB's Calculations

The aggregate assets of the banking system reached BGN 95.4 billion and accounted for 98.2% of the projected GDP. In connection with the optimization of liquidity management of credit institutions' money position, cash balances with central banks and other sight deposits during the month reported a decrease of 10.1%. The monthly dynamics is determined by the decline in cash balances with central banks. At the same time, the amount of other sight deposits is doubled, so the liquidity position does not change significantly. Securities portfolios registered a monthly growth of 7.0% to BGN 13.3 billion and their share in total assets at the end of October reached 13.9%. In October 2017 the gross credit portfolio of the banking system grew up by 0.3% m/m and by 2.9% y/y, respectively to BGN 56.2 billion. The increase was observed in loans to households (by 0.8% m/m and by 7,3% y/y, respectively) and for other financial corporations (by 2.6% m/m and by 13.4% y/y, respectively). Credit declines were reported for non-financial corporations (by 0.2% m/m and on annual basis together) and loans to government institutions (by 0.1% m/m and by 6.9% y/y, respectively). Deposits from customers in the banking system recorded growth of 0.2% m/m and by 5.9% y/y, respectively to BGN 76.7 billion at the end of October. Deposits of non-financial corporations increased by 2% m/m and by 13.2% y/y, respectively to BGN 23 billion and for by households (by 0.4% m/m and by 4.9% on an annual basis to BGN 48,2 billion). A decrease was recorded for the deposits of other financial corporations and the general government sector.

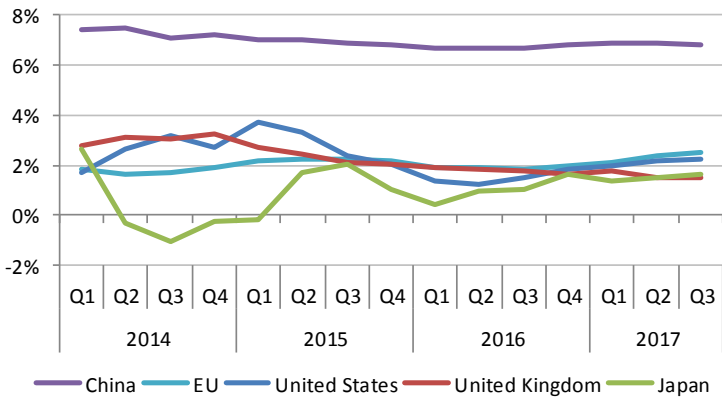
Bulgaria Intermediation Indicators	31.10.2016 BGN 000	31.12.2016 BGN 000	30.09.2017 BGN 000	31.10.2017 BGN 000	Change m/m (%)	Change y/y (%)	Change yend (%)	Relative share in GDP (%)
BANKING SYSTEM TOTAL ASSETS	90 572 201	92 094 979	95 112 404	95 432 133	0.3	5.4	3.6	98.2
Loans to central governments	580 482	686 170	621 361	620 759	-0.1	6.9	-9.5	0.6
Loans to non-financial corporations	33 458 812	33 180 349	33 464 761	33 397 621	-0.2	-0.2	0.7	34.4
Loans to financial corporations	2 048 490	2 025 583	2 263 932	2 322 819	2.6	13.4	14.7	2.4
Retail loans, incl.:	18 539 826	18 575 301	19 731 927	19 884 373	0.8	7.3	7.0	20.5
Mortgage loans	8 762 501	8 771 553	9 203 547	9 257 546	0.6	5.6	5.5	9.5
Consumer loans	8 755 998	8 677 385	9 147 200	9 214 569	0.7	5.2	6.2	9.5
Micro credits and other loans	1 021 327	1 126 363	1 381 180	1 412 258	2.3	38.3	25.4	1.5
TOTAL LOANS	54 627 610	54 467 403	56 081 981	56 225 572	0.3	2.9	3.2	57.9
ATTRACTED SOURCES FROM CLIENTS, incl.:	72 470 904	74 129 417	76 633 134	76 761 661	0.2	5.9	3.6	79.0
Local government deposits	1 663 293	1 652 435	1 865 308	1 831 917	-1.8	10.1	10.9	1.9
Non-financial corporations deposits	20 865 044	21 375 024	23 071 838	23 540 772	2.0	12.8	10.1	24.2
Financial corporations deposits	3 970 724	3 905 721	3 676 872	3 181 686	-13.5	-19.9	-18.5	3.3
Households and NPISHs deposits	45 971 843	47 196 237	48 019 116	48 207 286	0.4	4.9	2.1	49.6
Equity	12 338 370	12 133 492	12 262 779	12 365 453	0.8	0.2	1.9	12.7
Net profit (annualised)	1 186 535	1 262 334	871 772	1 000 578	14.8	-15.7		
BANKING INDICATORS (%)								
ROE	11.5	10.4	9.5	9.7	-0.9	-2.1	-0.9	
ROA	1.6	1.4	1.2	1.3	-0.1	-0.3	-0.1	
Capital adequacy	n.a.	22.2	22.2	n.a.	n.a.	n.a.	n.a.	
Liquidity	37.3	38.2	37.6	37.1	-0.5	0.3	-0.6	
NPL	n.a.	11.1	9.9		n.a.	n.a.	n.a.	
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

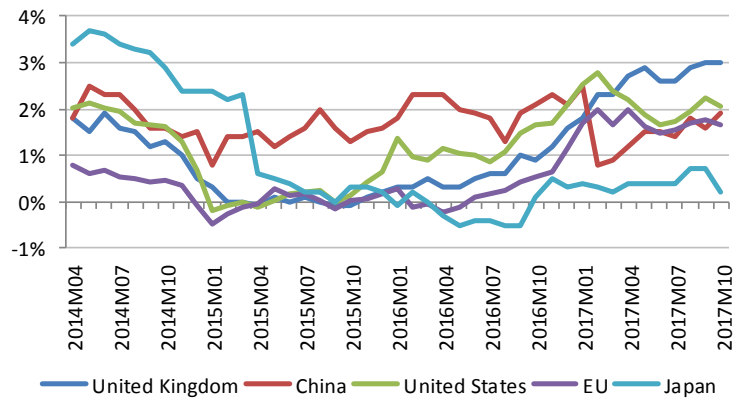
At the end of October 2017, the liquid assets amounted to BGN 30.6 billion. In their structure the share of cash and cash balances within the BNB decreased by 38.8%. The liquid assets ratio, calculated according to Ordinance No. 11, remains high at 37.13%. Equity in the balance sheet of the banking system at the end of October was BGN 12.4 billion, with the month increased of BGN 103 million (0.8%) due to the increase of the profit and the accumulated other comprehensive income. As of September 30, 2017, capital adequacy ratios of the banking system remain high. Equity Tier 1 ration, Tier 1 capital and total capital adequacy ratios at the end of September are 20.53%, 20.99% and 22.20% respectively (20.84%, 21.31% and 22.55% at the end of June 2017).

Appendix

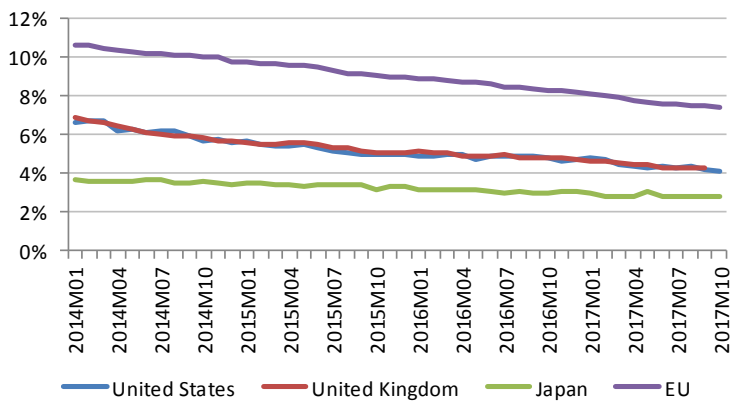
Advanced Economies: GDP growth rate compared to the same quarter of the previous year



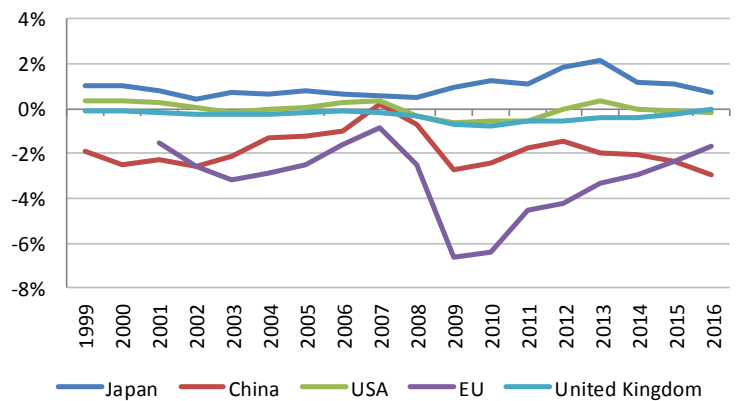
Advanced economies: Inflation by country, monthly (y/y)



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

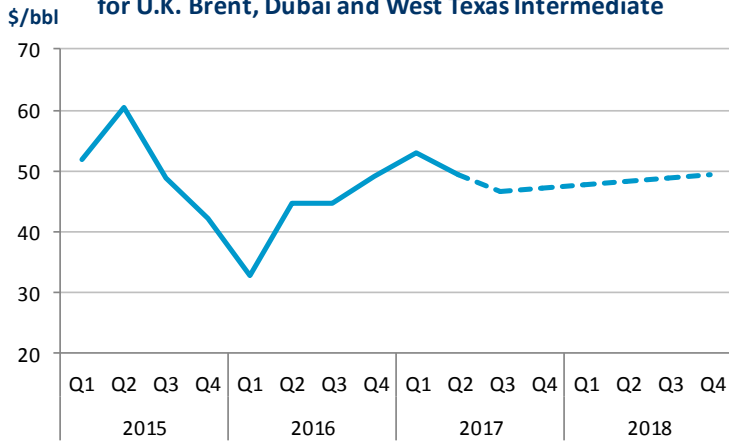


Advanced economies: Budget surplus/deficit to GDP (%)

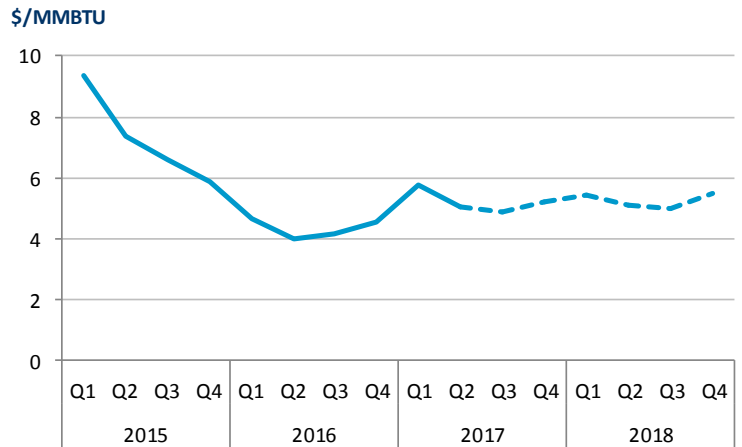


Overseas Prices of Oil Products

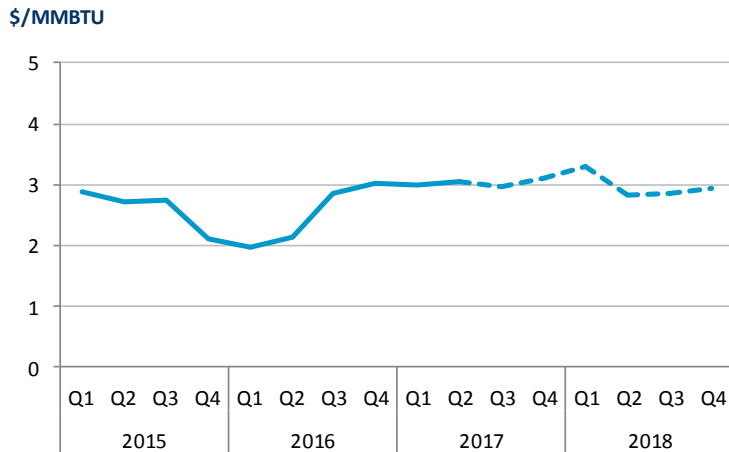
Spot Crude: Petroleum price - average of spot prices for U.K. Brent, Dubai and West Texas Intermediate



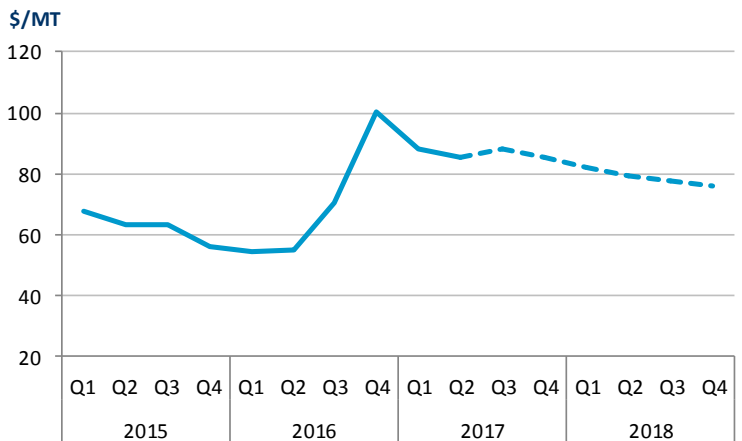
Natural Gas: Russian in Germany



Natural Gas: US, domestic market

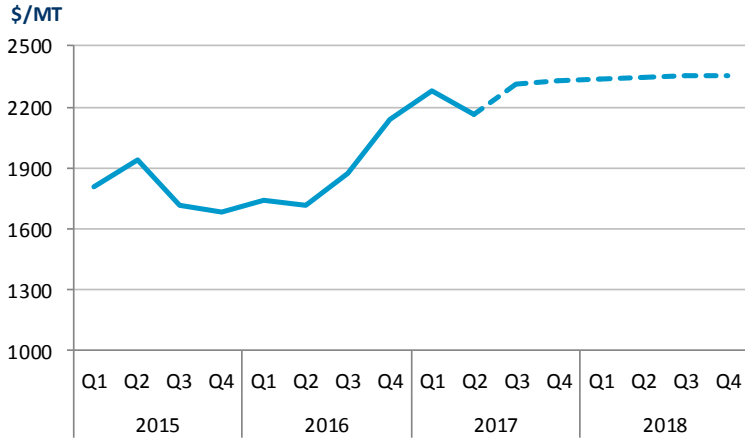


Coal: Australian, export markets

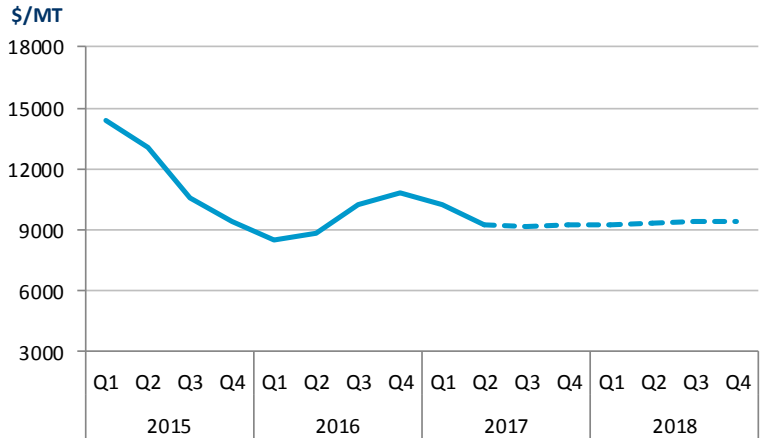


Overseas Prices of Metals

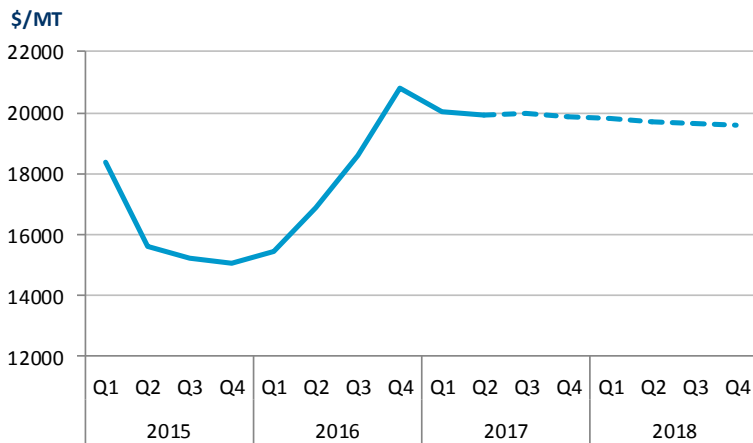
Lead



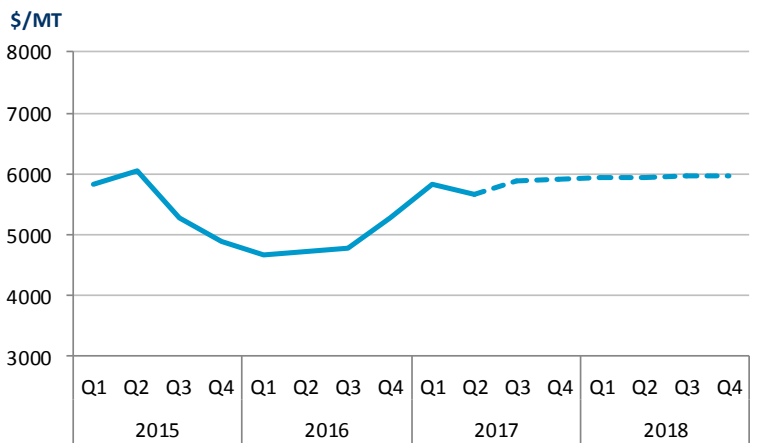
Nickel



Tin

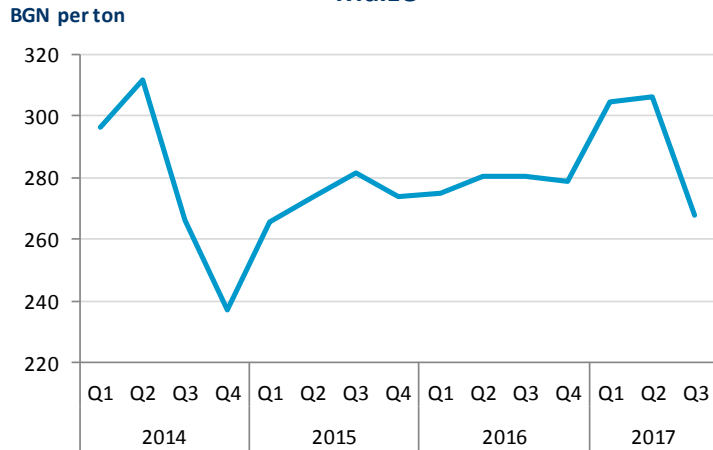


Copper

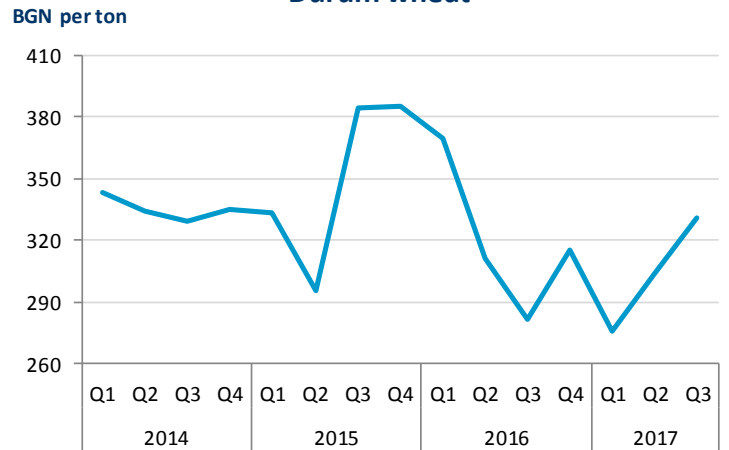


Bulgaria: Prices of Agriculture products

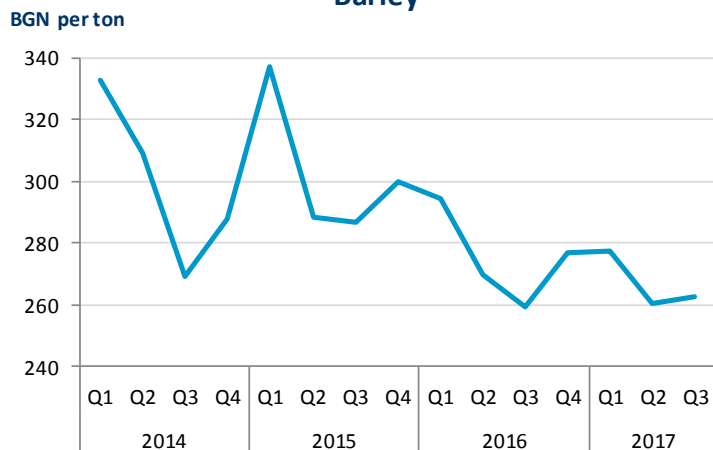
Maize



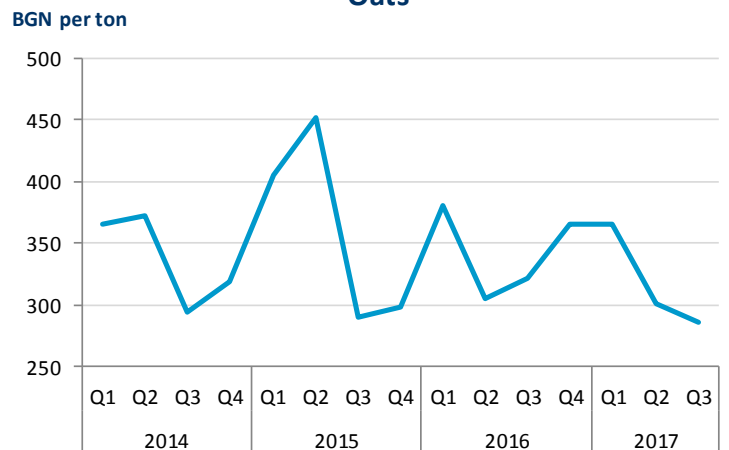
Durum wheat



Barley

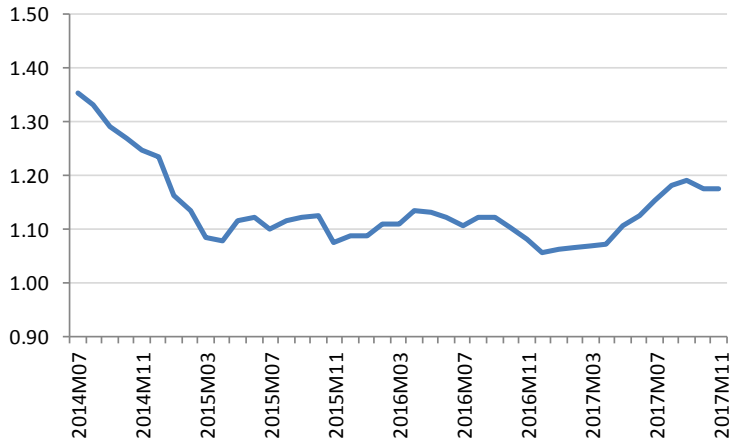


Oats

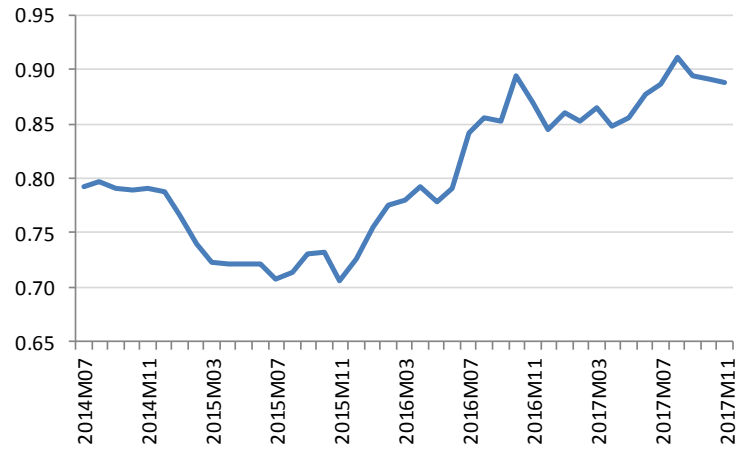


Overseas FX Rates

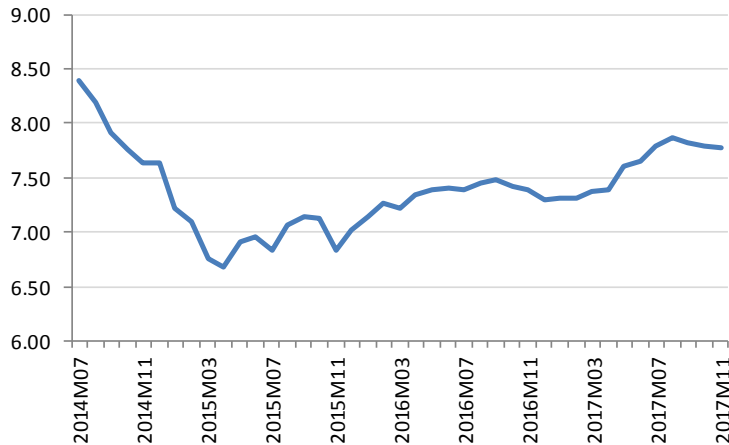
EUR/USD



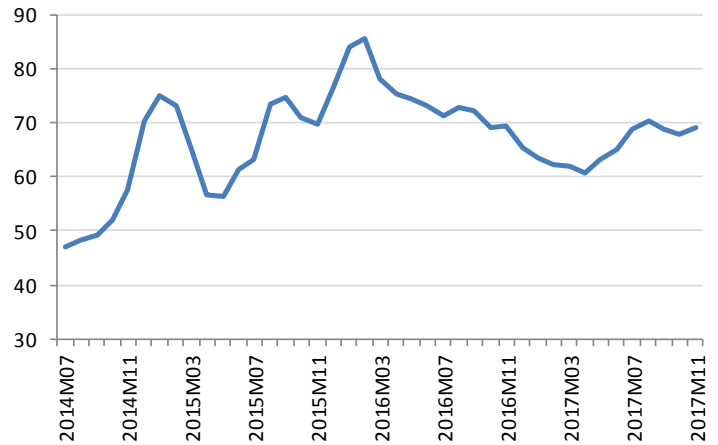
EUR/GBP



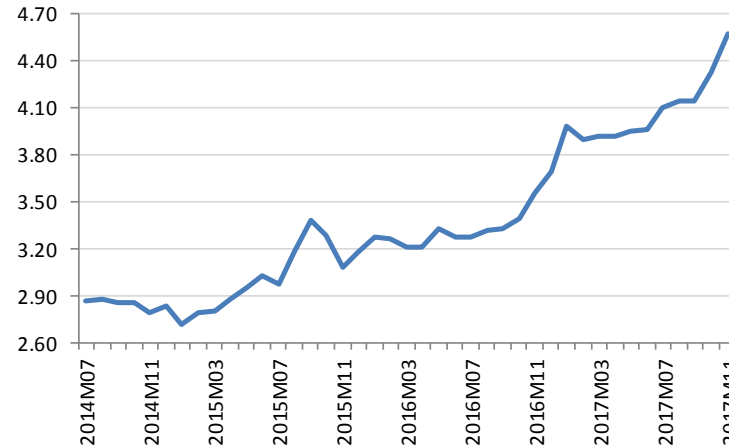
EUR/CHF



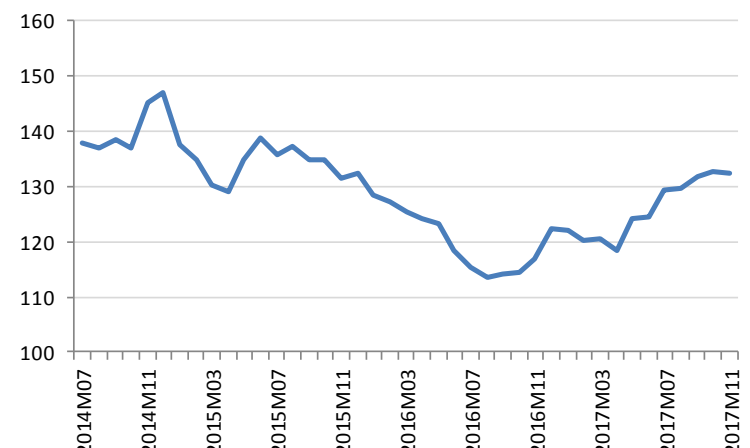
EUR/RUB



EUR/TRY

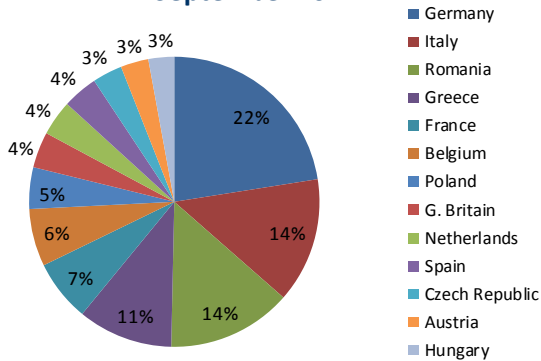


EUR/JPY

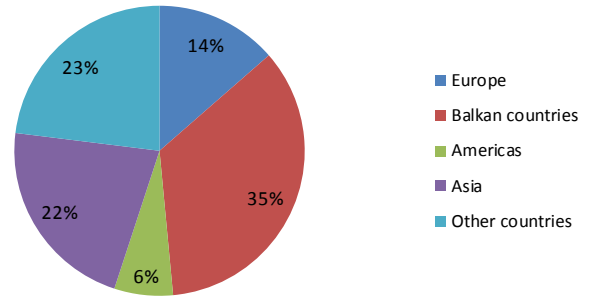


Bulgaria: External Sector Indicators

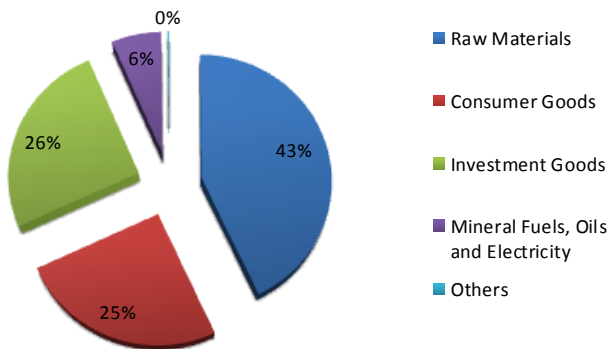
Exports: FOB by EU countries: January - September 2017



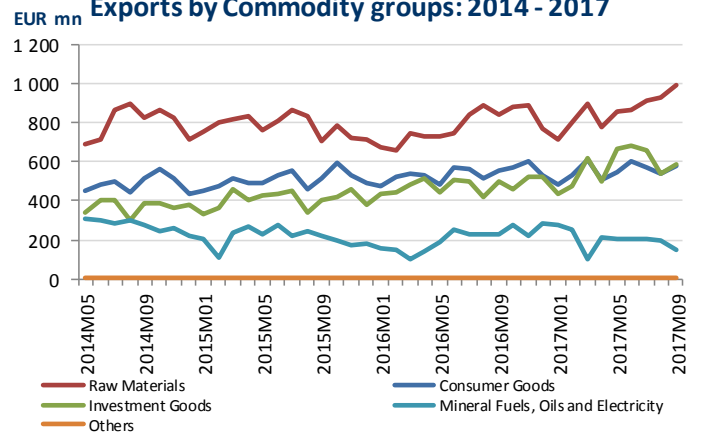
Exports: FOB by Non EU countries: January - September 2017



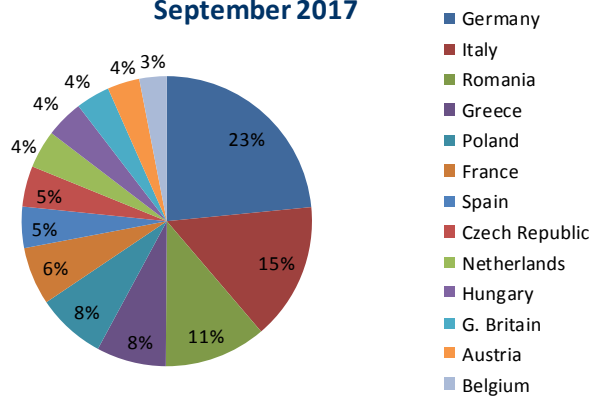
Exports: FOB: Commodity groups - percentage shares for September 2017



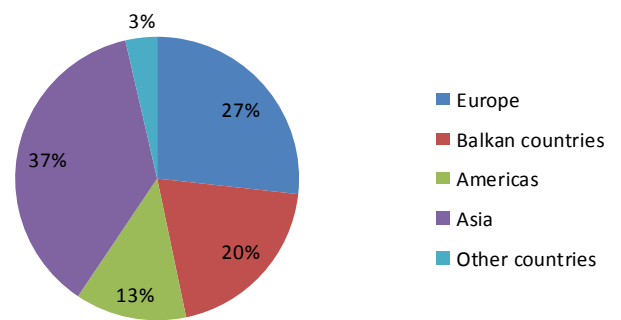
Exports by Commodity groups: 2014 - 2017



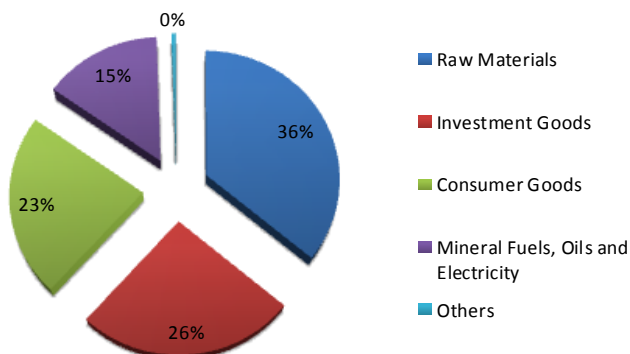
Imports: CIF by EU Countries: January - September 2017



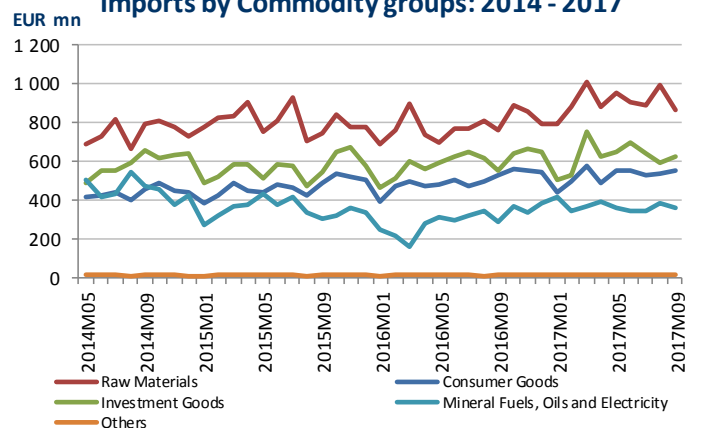
Imports: CIF by Non EU Countries: January - September 2017



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

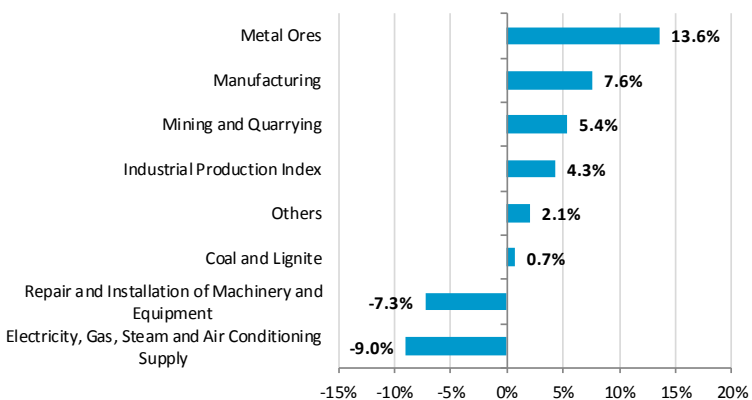


Imports by Commodity groups: 2014 - 2017

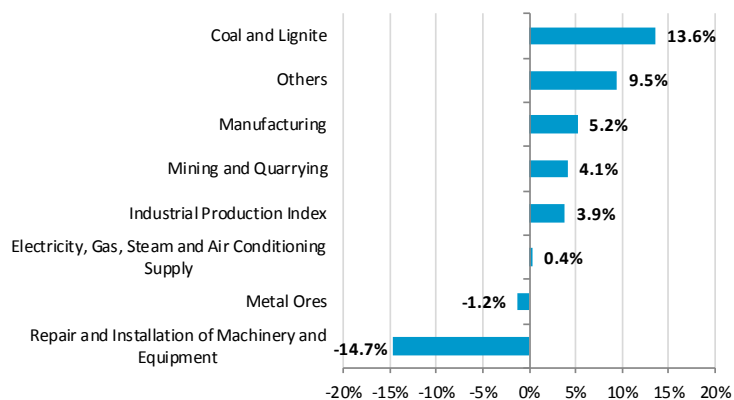


Bulgaria: Real Sector Indicators

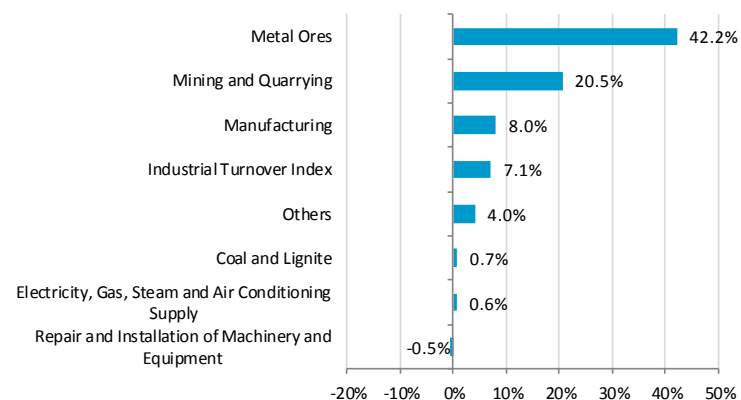
Industrial Production Indices: % change in October 2017 compared to October 2016



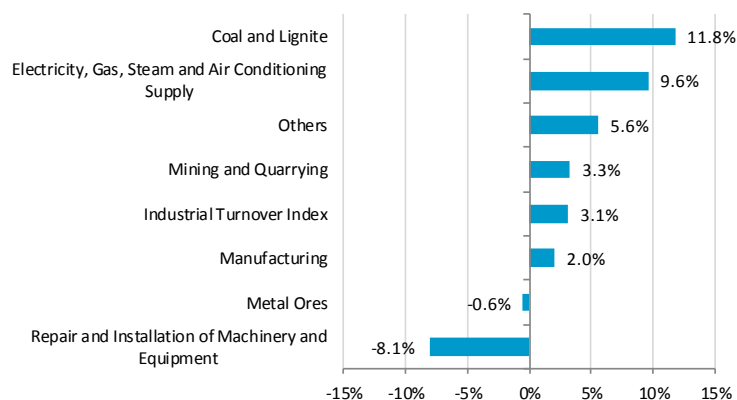
Industrial Production Indices: % change in October 2017 compared to September 2017



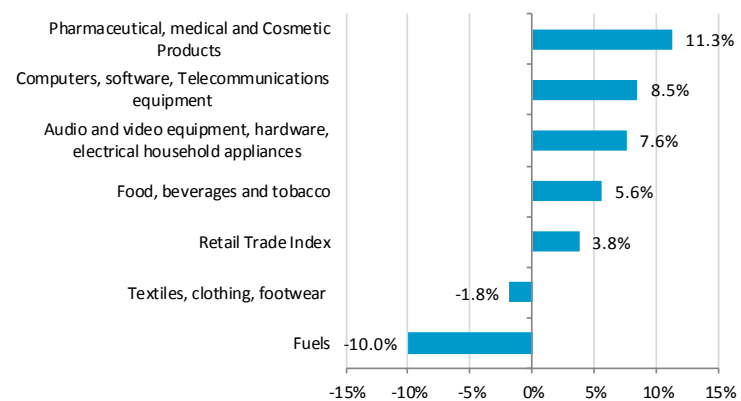
Industrial Turnover Index: % change in October 2017 compared to October 2016



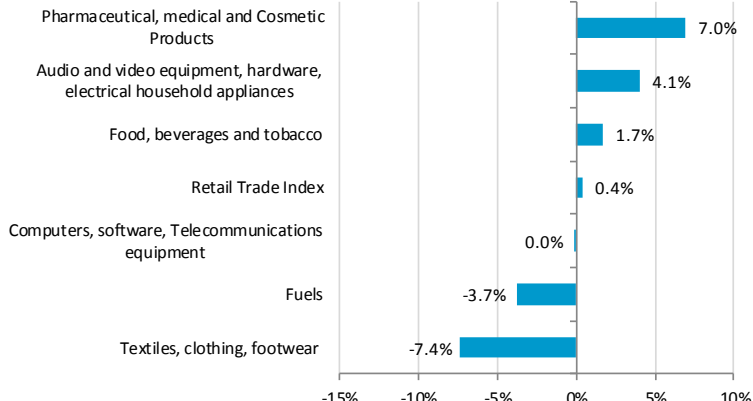
Industrial Turnover Index: % change in October 2017 compared to September 2017



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

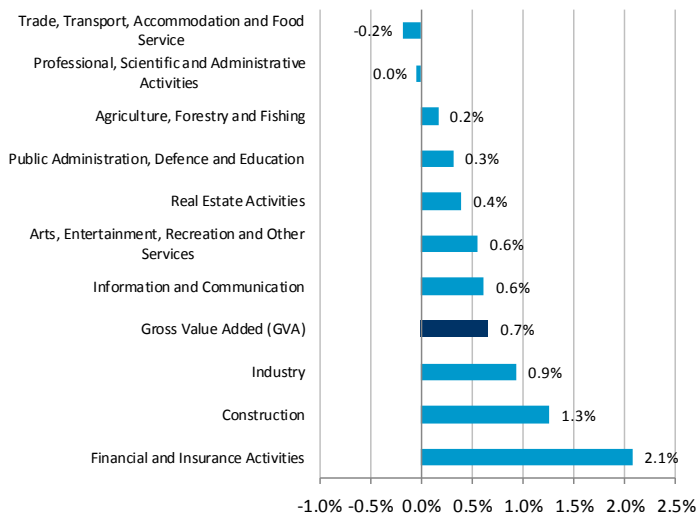


Retail Trade Index: % change in October 2017 compared to September 2017

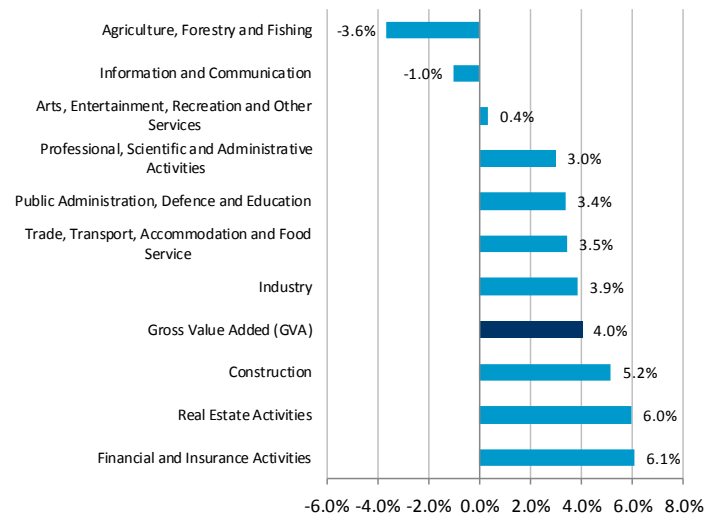


Bulgaria: Real Sector Indicators

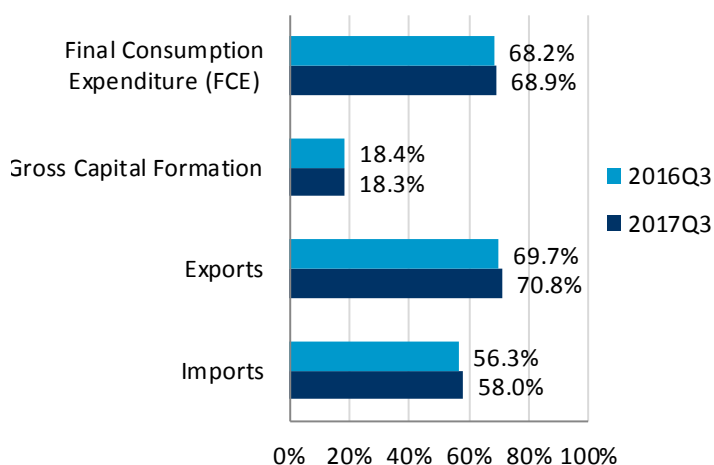
Gross Value Added by Economic Sectors: Percentage Change of Q3 2017 compared to Q2 2017



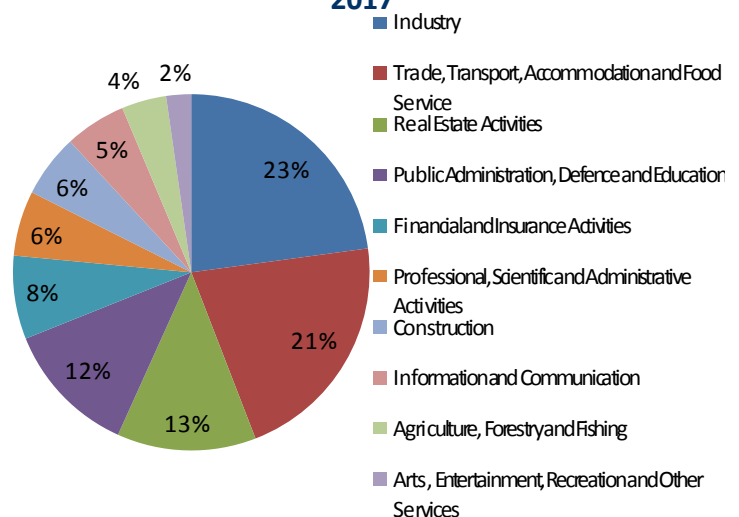
Gross Value Added by Economic Sectors: Percentage change of Q3 2017 compared to Q3 of 2016



Structure of GDP by the expenditure approach for Q3 in 2016 and 2017

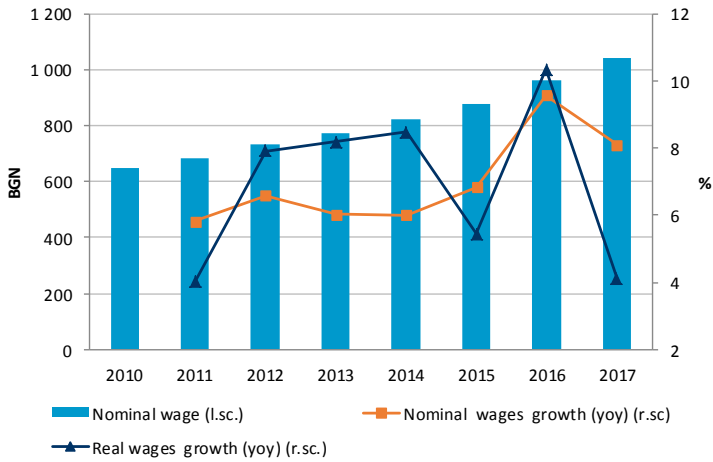


Bulgaria: Industries' relative share to GVA for Q3 2017

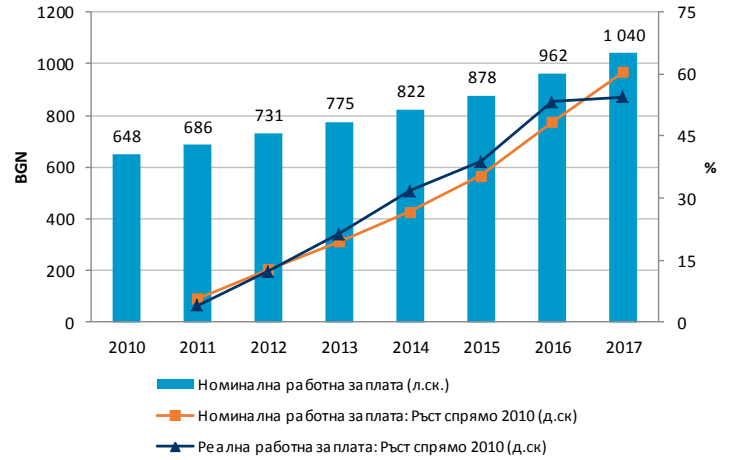


Bulgaria: Real Sector Indicators

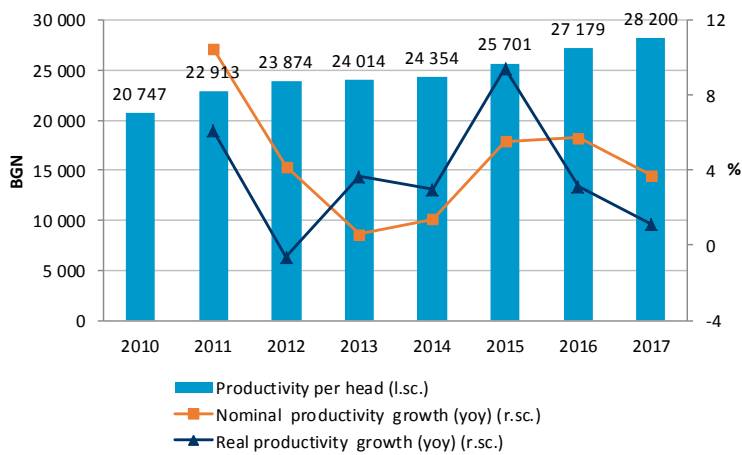
Nominal and Real Wage Dynamics: YoY (%)



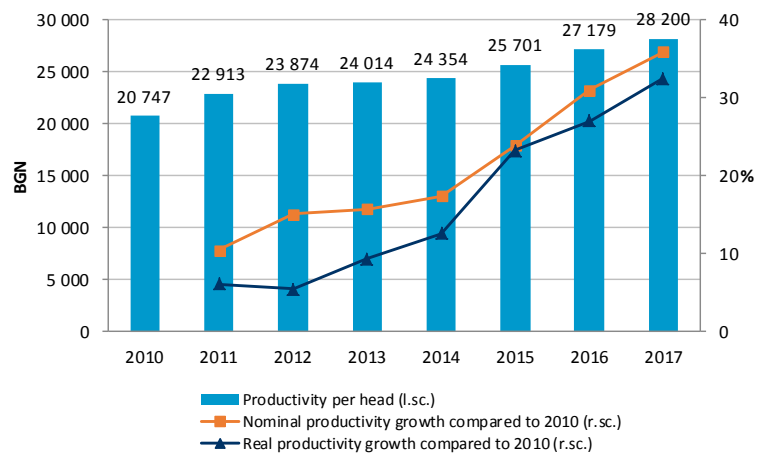
Nominal and Real Wage Dynamics compared to 2010 (%)



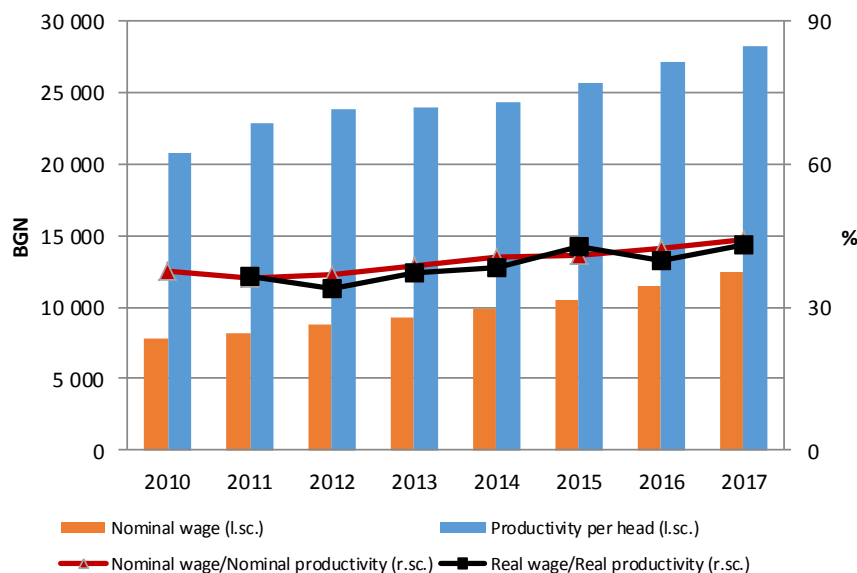
Nominal and Real Productivity per Head Dynamics, YoY (%)



Nominal and Real Productivity Dynamics compared to 2010 (%)

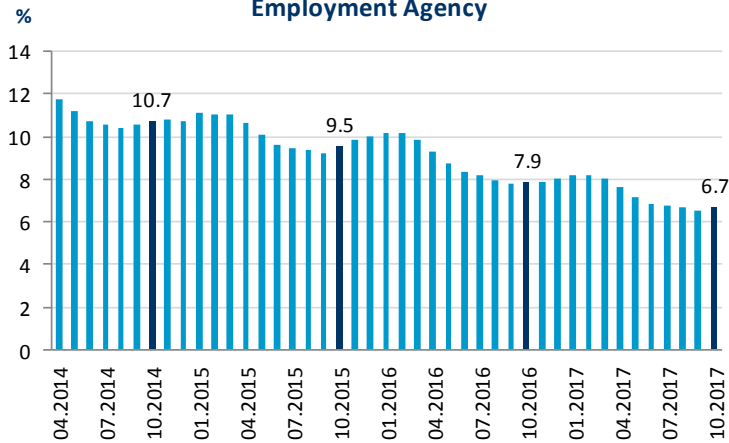


Average Wage to Productivity Ratio Dynamics, YoY (%)

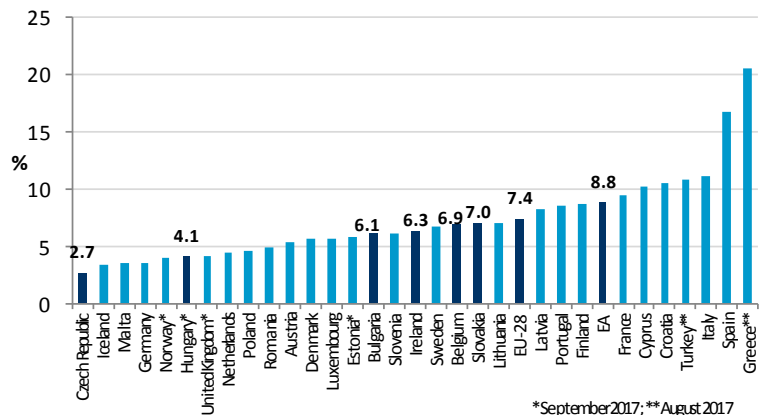


Bulgaria: Real Sector Indicators

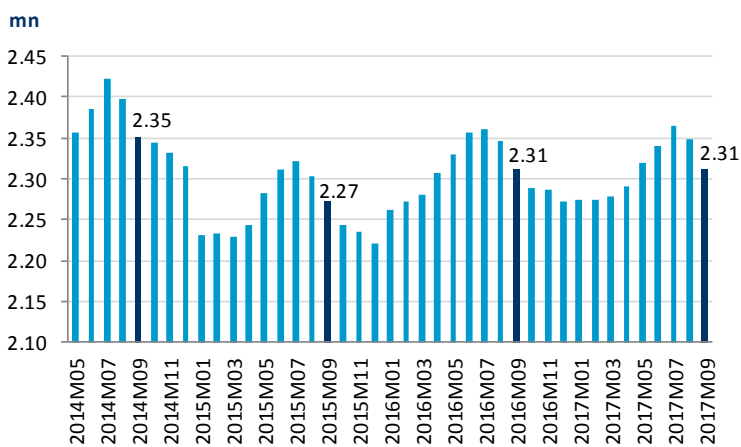
Registered Unemployment Rate: National Employment Agency



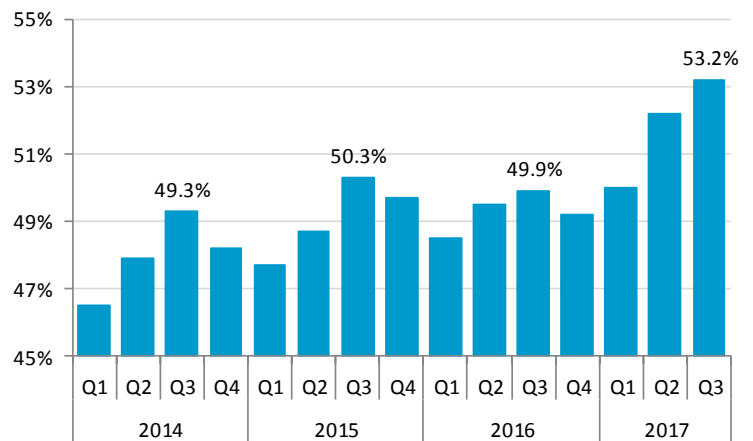
EU: Unemployment rate seasonally adjusted by country, October 2017



Bulgaria: Number of Employees

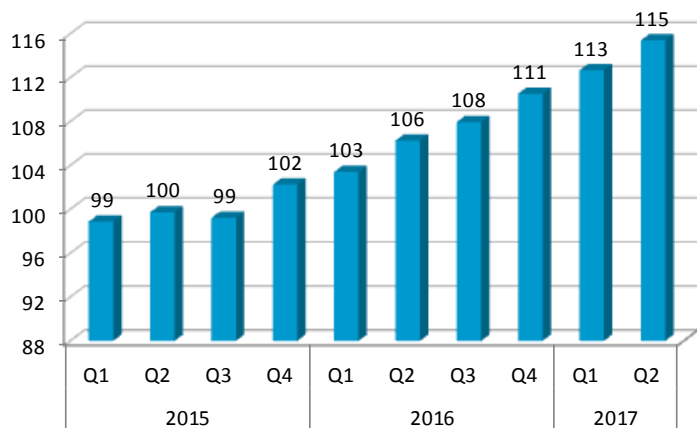


Bulgaria: Employment Rate

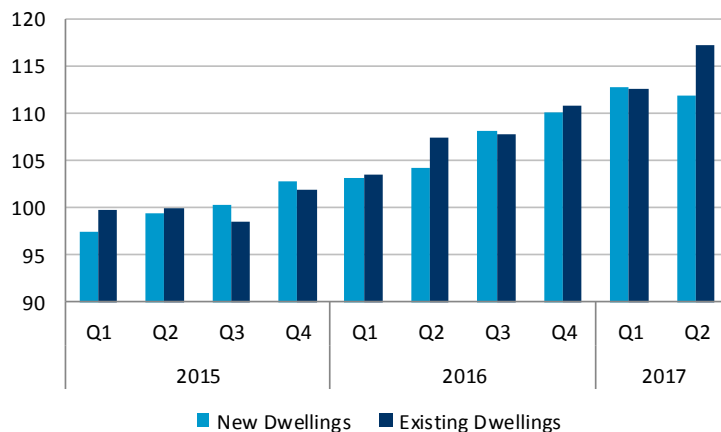


Bulgaria: Real Sector Indicators

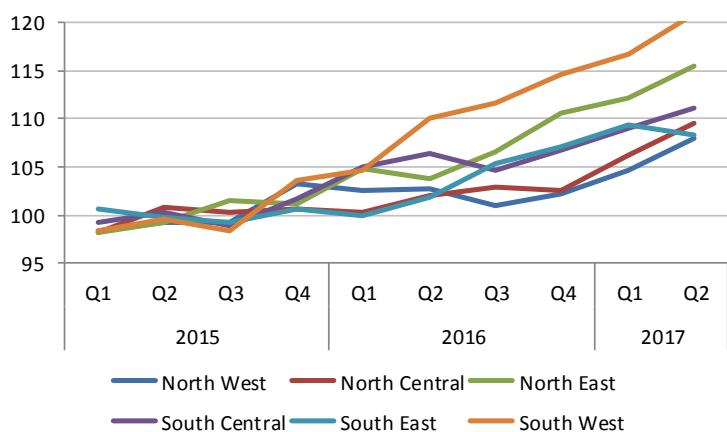
House Price Index (HPI)



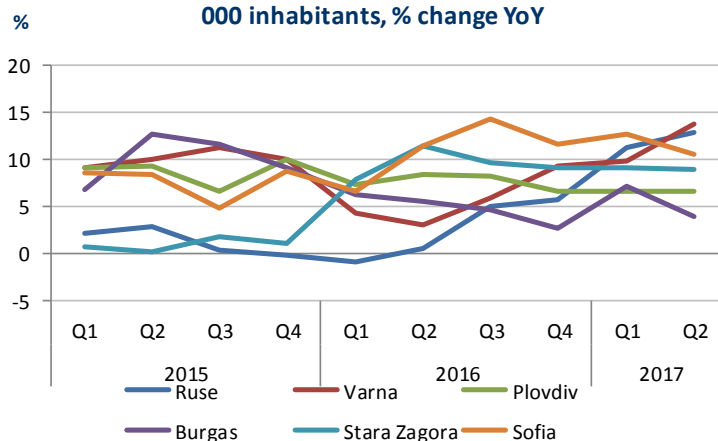
HPI: New and existing dwellings



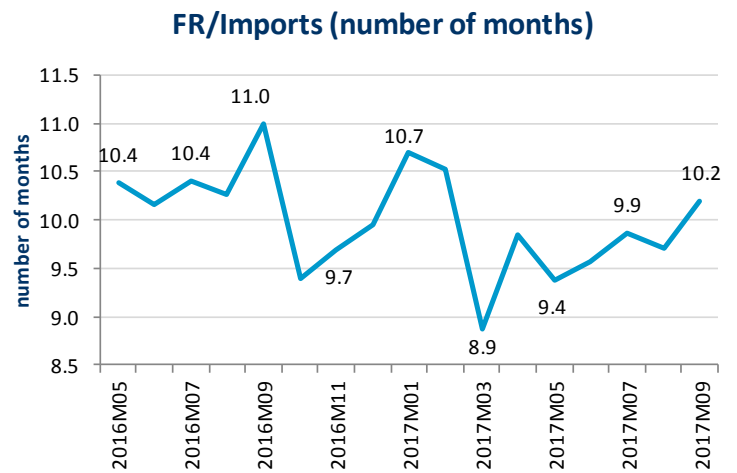
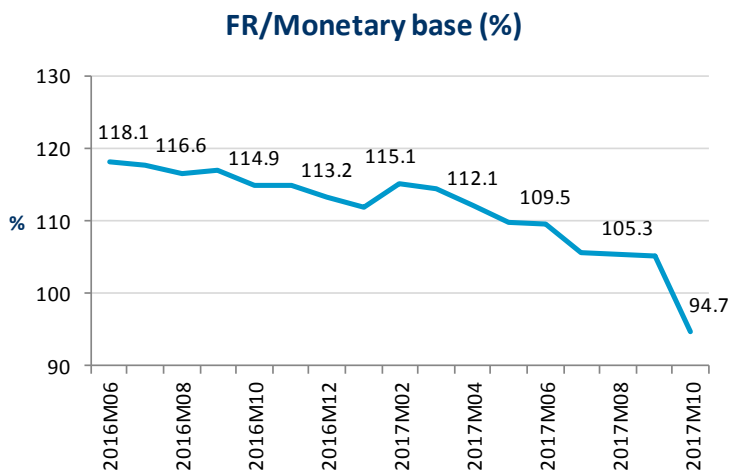
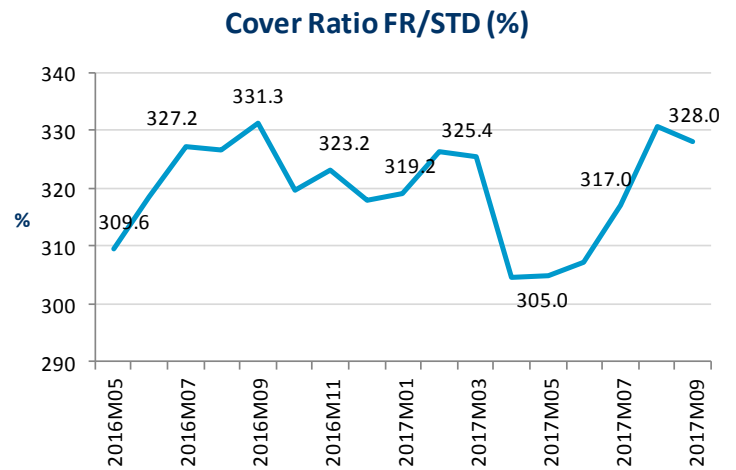
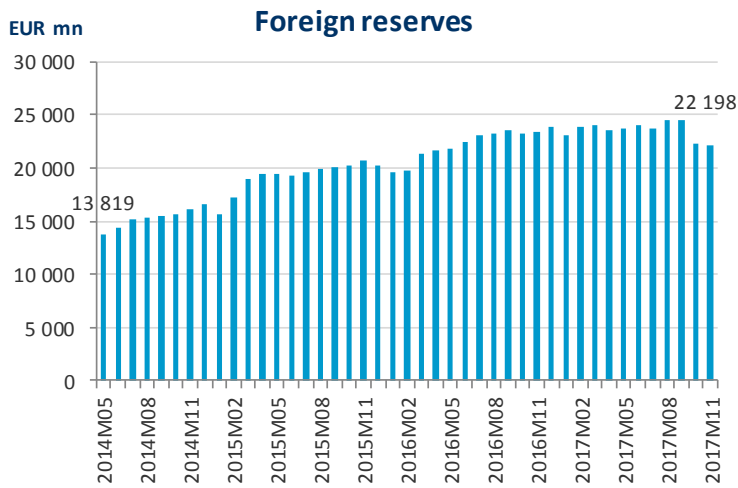
House Price index by regions



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

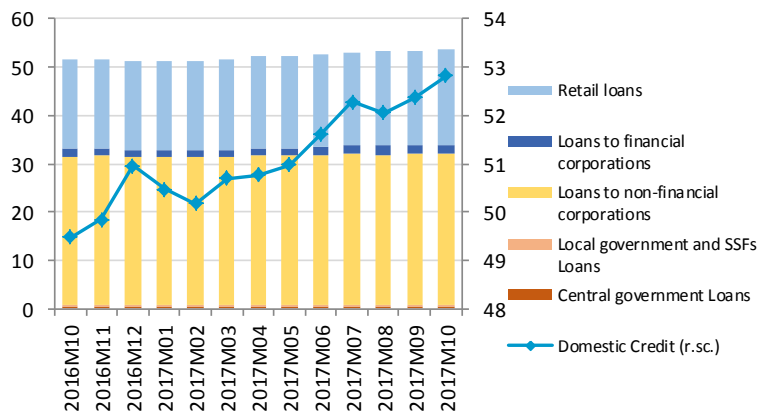


Bulgaria: Monetary Sector Indicators

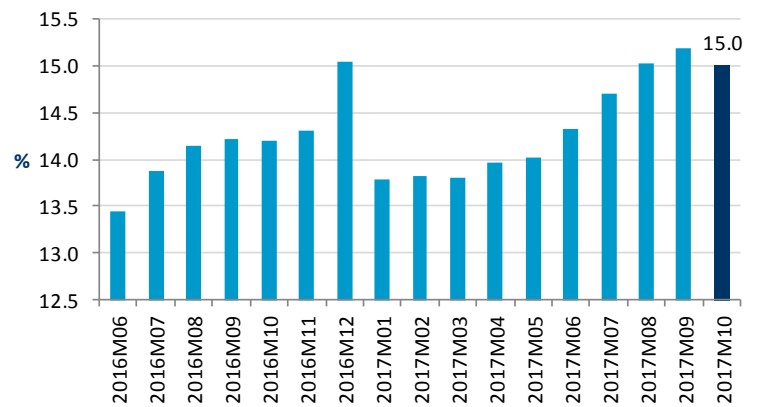


Bulgaria: Monetary Sector Indicators

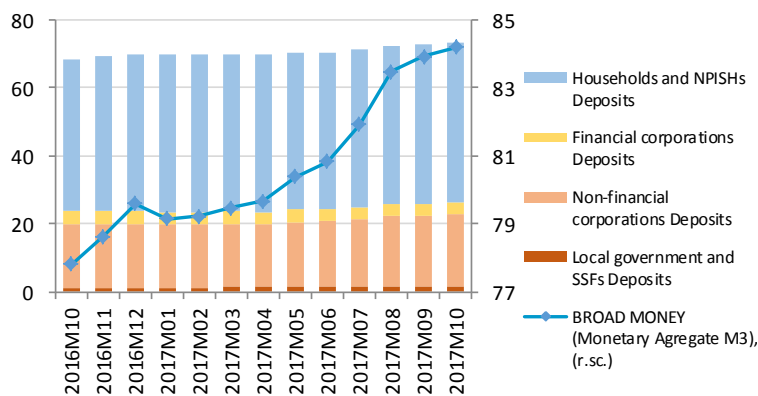
Loans and Domestic Credit (BGN bn)



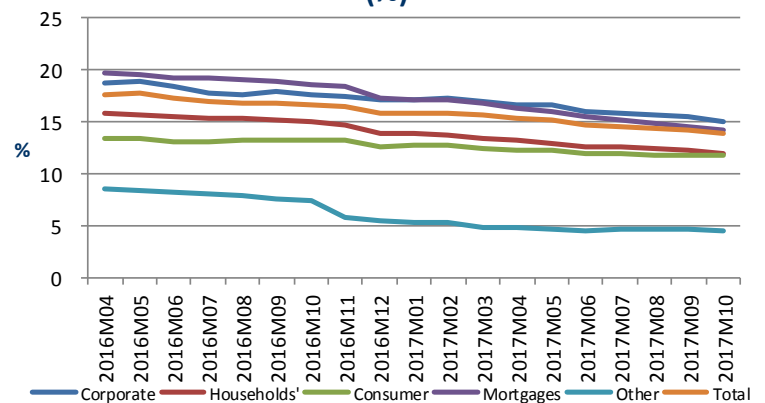
Money in circulation/GDP (%)



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

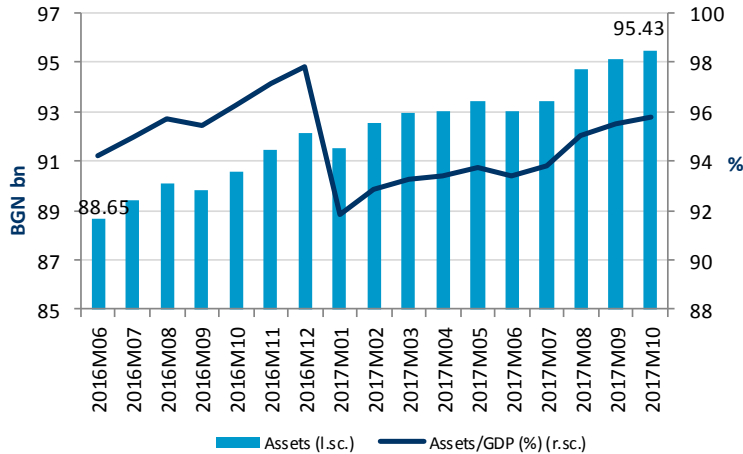


Banking sector: Bad and restructured loans (%)

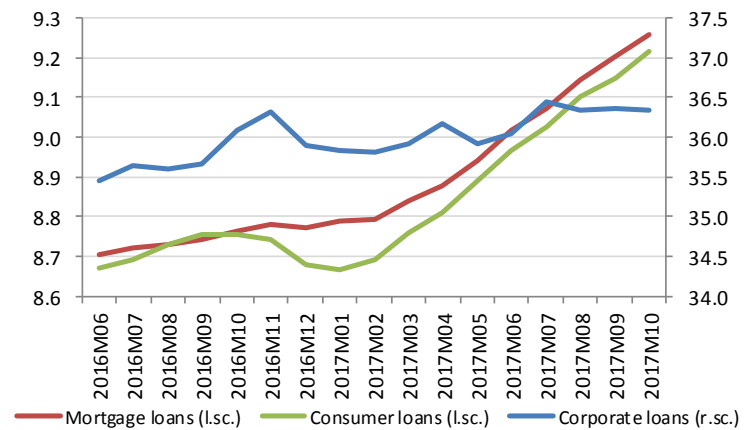


Bulgaria: Banking Sector Indicators

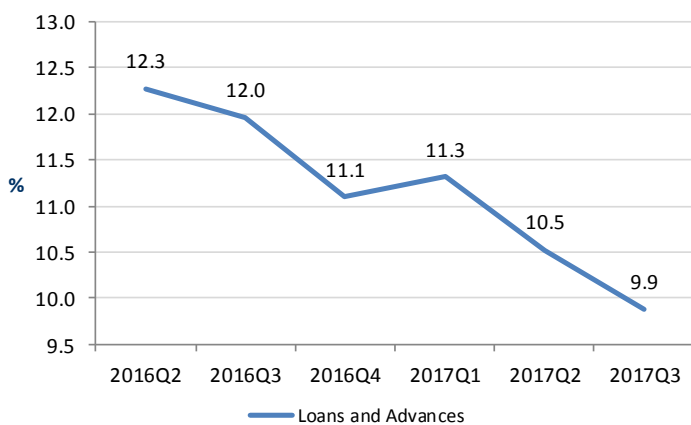
Assets



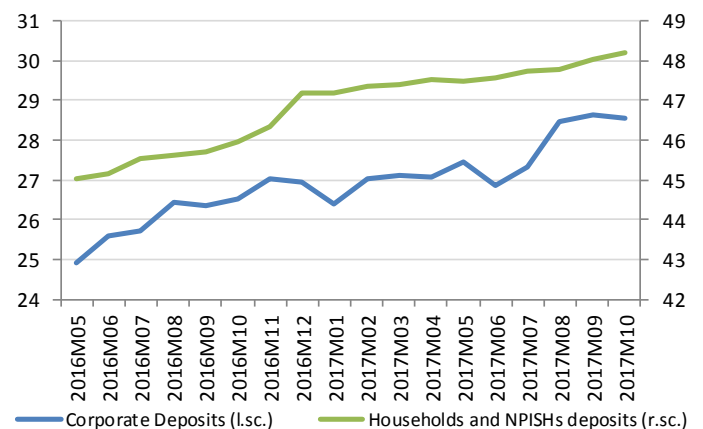
Loans (BGN bn)



Banking System Non Performing Loans (%)

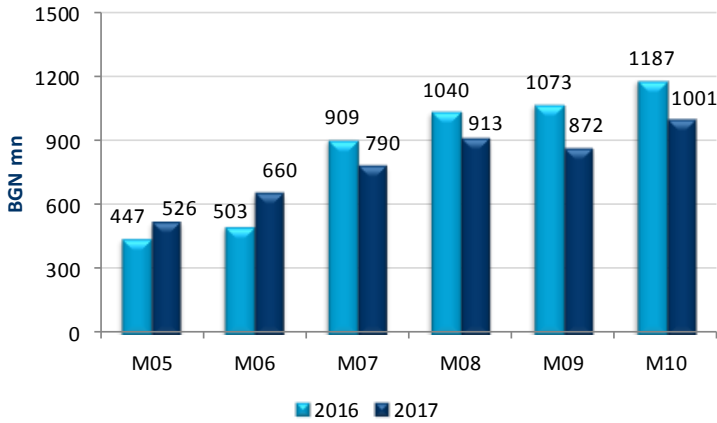


Deposits (BGN bn)

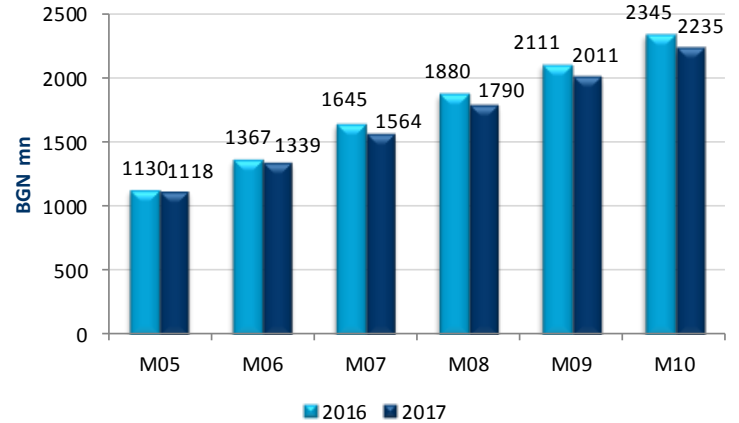


Bulgaria: Banking Sector Indicators

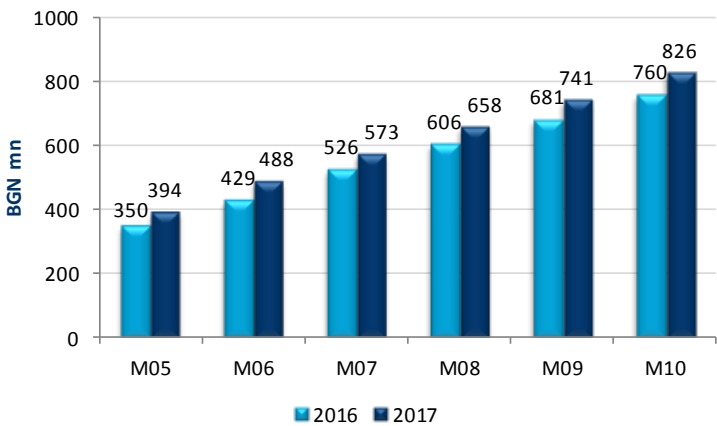
Net Profit



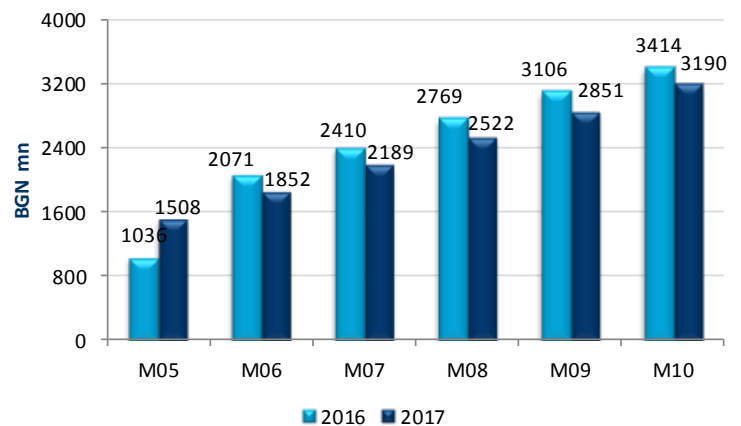
Net interest Income



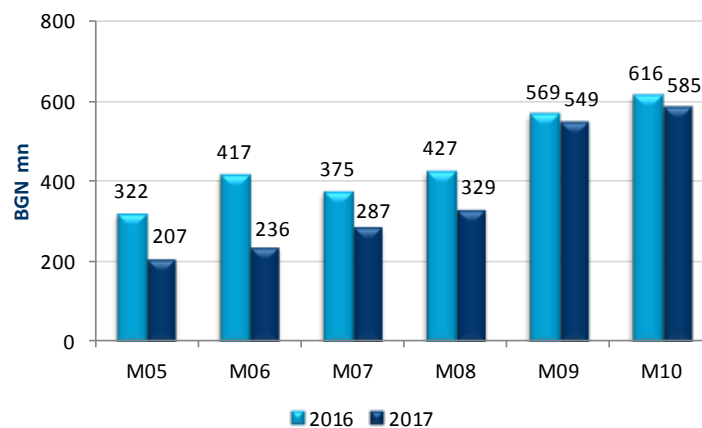
Net fee and commission income



Net operating income

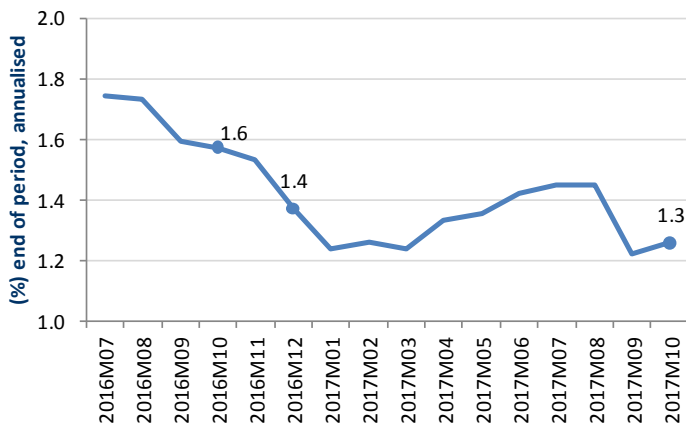


Impairment

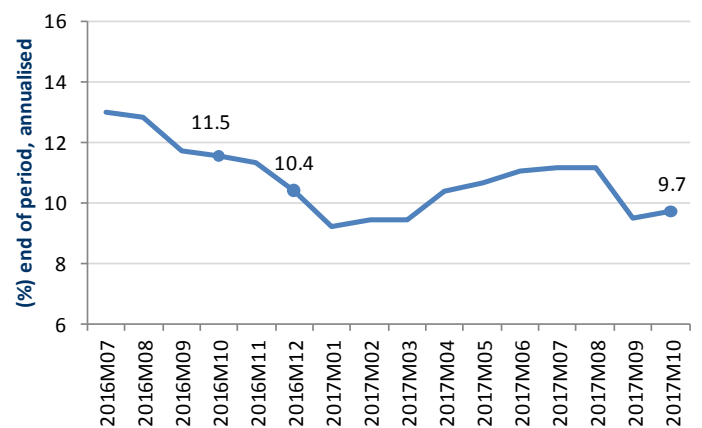


Bulgaria: Banking Sector Indicators

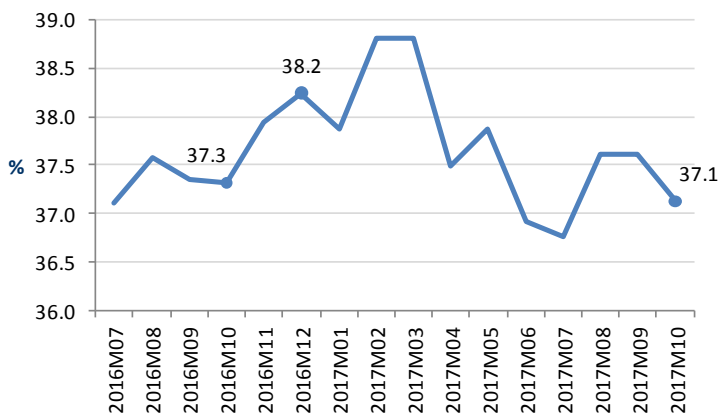
ROA



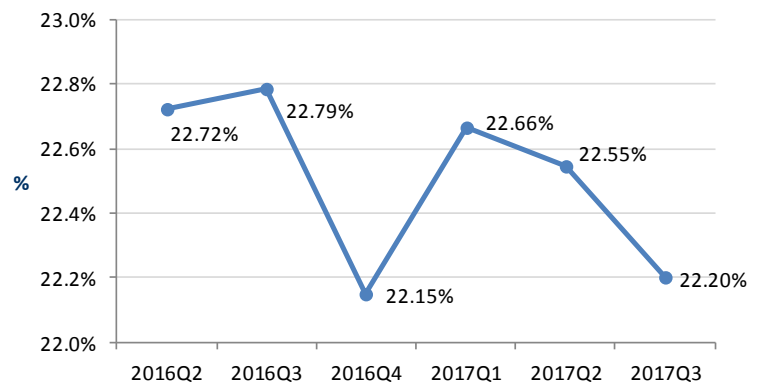
ROE



Liquid Assets Ratio (LAR)



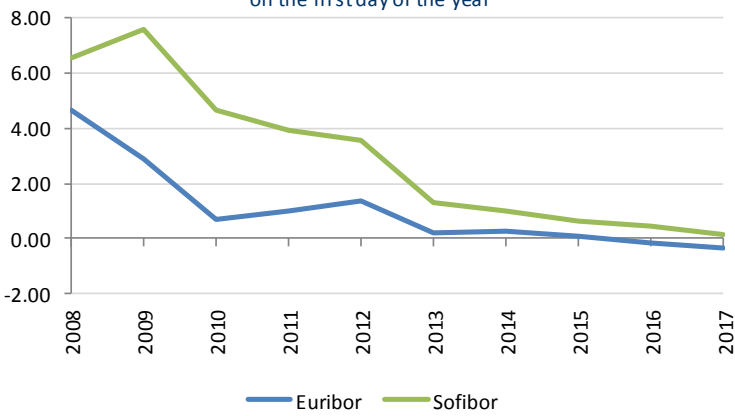
Total Capital Ratio



Bulgaria: Indexes and Interest Rates

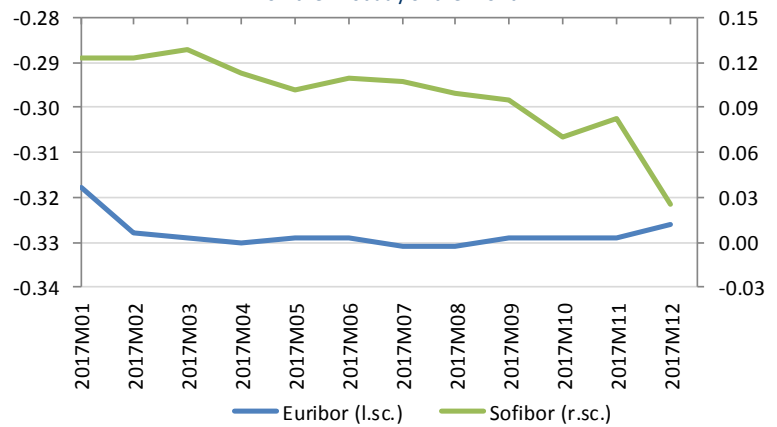
Indexes 3-months

on the first day of the year

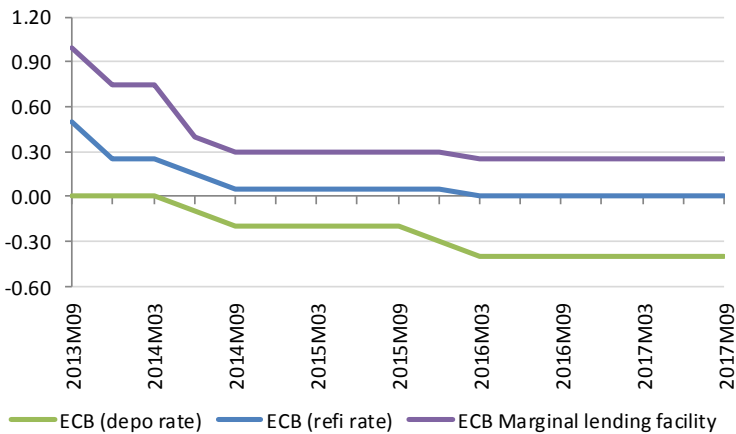


Indexes 3-months

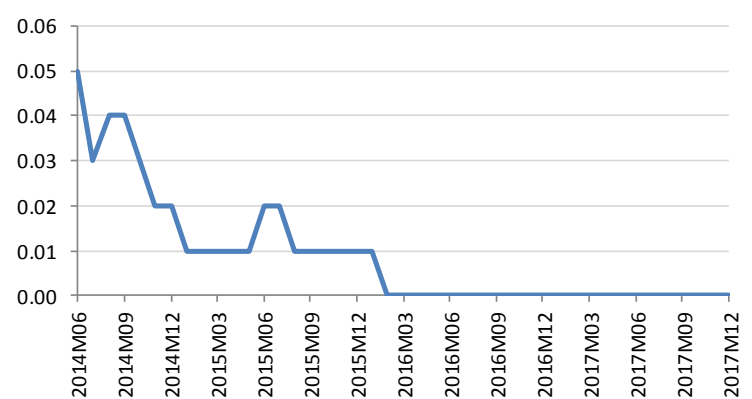
on the first day of the month



Policy Rates (in %)

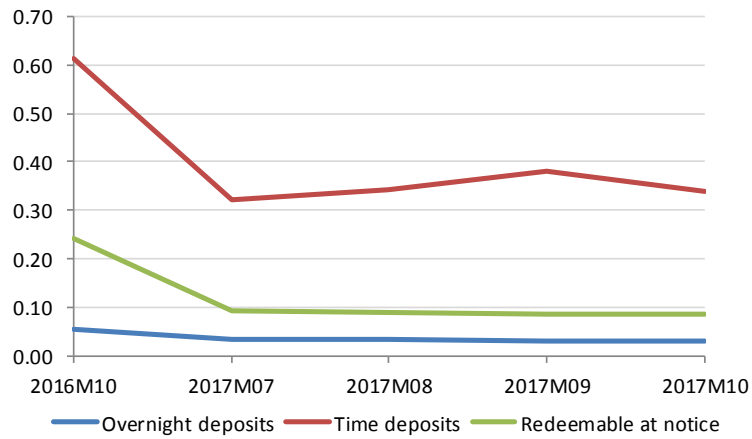


Base Interest Rate of the BNB (in %)

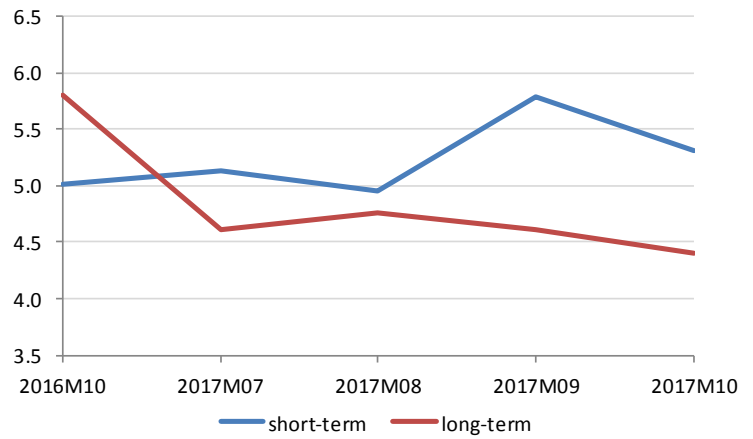


Bulgaria: Interest Rates of New Business on Deposits and New Loans Interest Rates

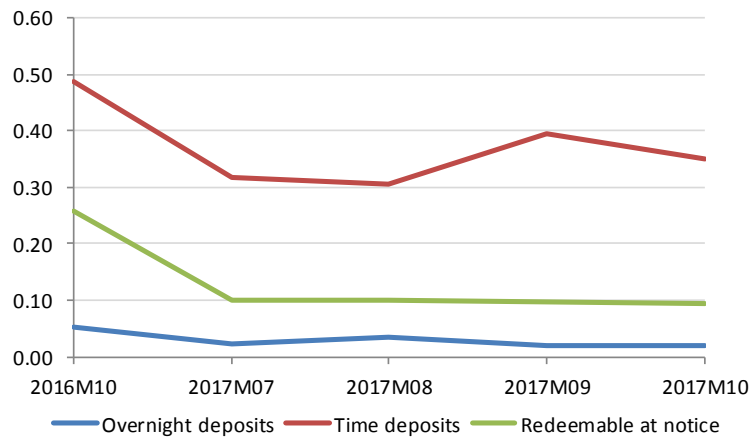
Interest Rates (%) in BGN



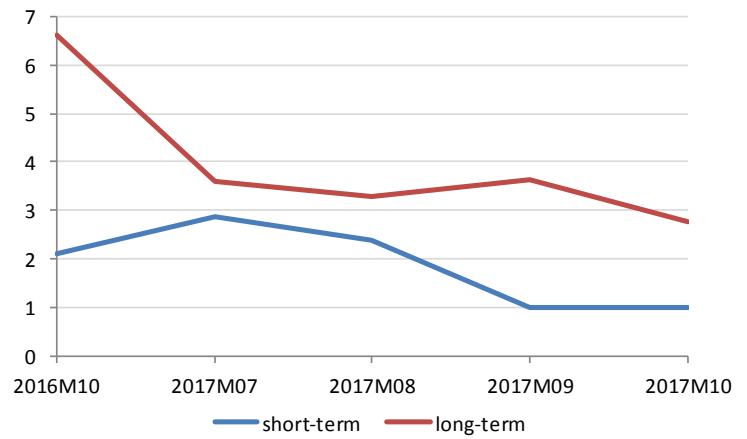
Interest Rates (%) in BGN



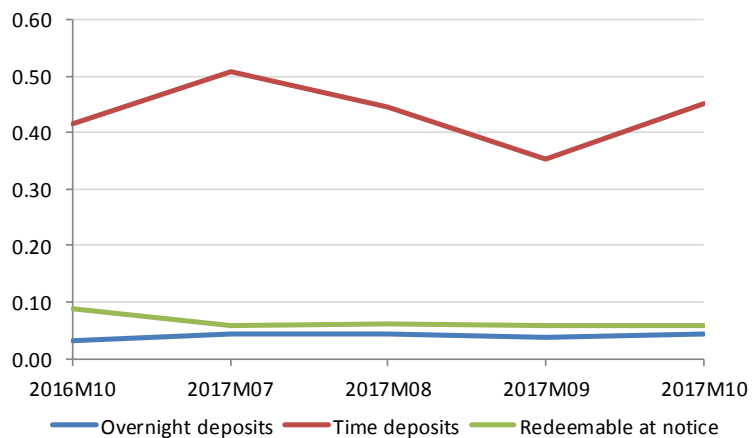
Interest Rates (%) in EUR



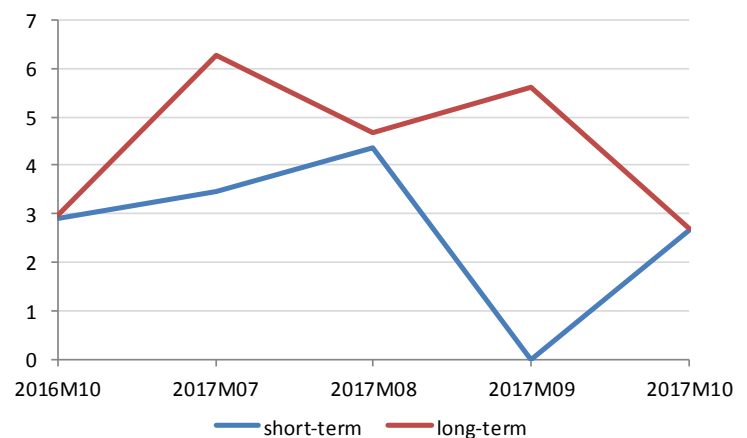
Interest Rates (%) in EUR



Interest Rates (%) in USD

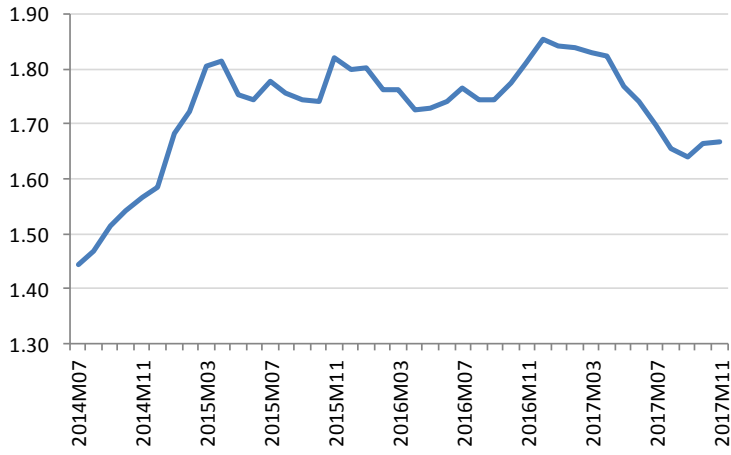


Interest Rates (%) in USD

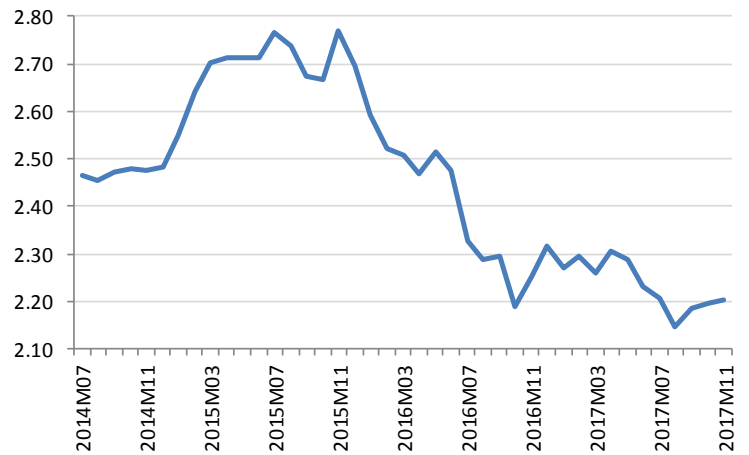


Bulgaria: FX Rates

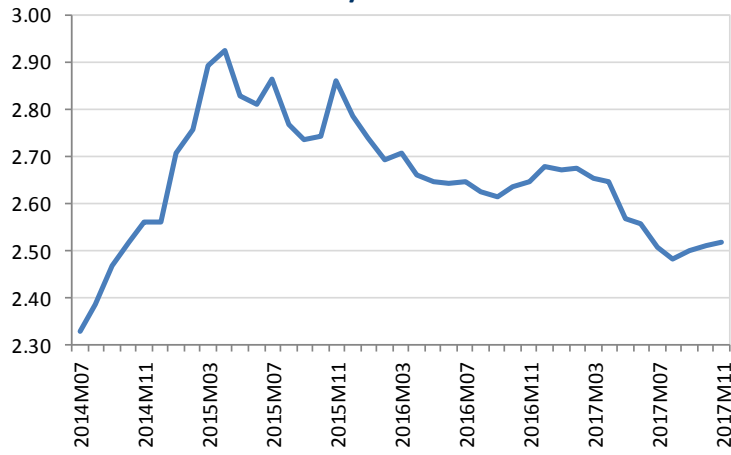
BGN/USD



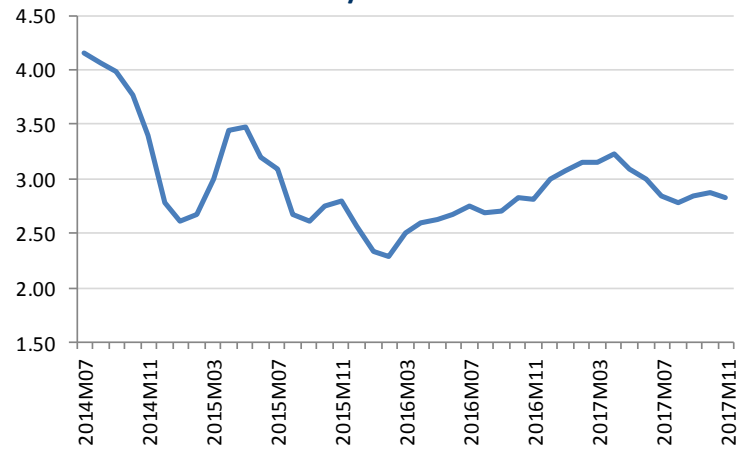
BGN/GBP



BGN/10CHY



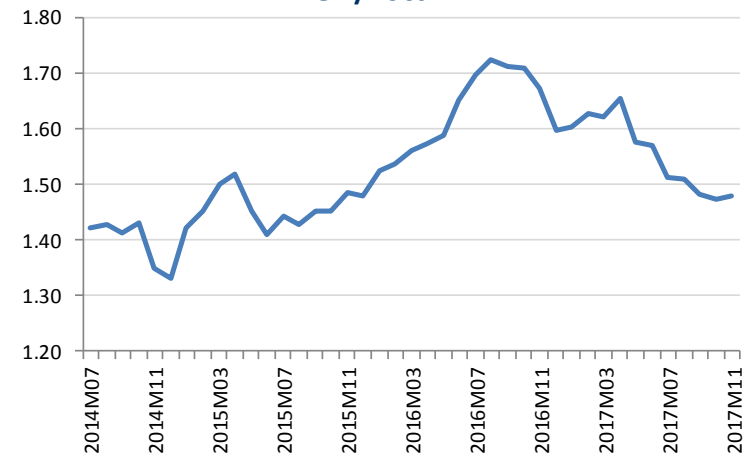
BGN/100RUB



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 2007 – 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.

CONSUMER SURVEY

The survey is a part of the harmonized program of European Union for business and consumer surveys and it is representative for the population of 16 years and older.

The persons of 16 years and older are the object of the survey; the sample method is random, clustered, proportional to the population by regions, incl. urban/rural inhabitants (154 clusters with 8 persons per cluster). The interviewing method is face to face. The questionnaire contains standardized questions about the financial situation of households, general economic situation, inflation, unemployment, saving, intentions of making major purchases on durable goods or purchasing/building a home or buying a car. The proposed variants of answers give an opportunity to arrange them from optimistic, through neutral to pessimistic. The balance of opinions is calculated as a difference between relative shares of positive opinions and relative shares of negative opinions, as there is one specification: the strong positive opinions and the strong negative opinions are given a coefficient of 1, and the more moderate positive and negative opinions - a coefficient of 0.5.

The survey results are used to capture the direction of change of surveyed variables incl. that of the consumer confidence level, which gives an opportunity to analyze the tendencies in the development of public opinions on significant economic phenomena.

The consumer confidence indicator is an arithmetic mean of the balances of the expectations about the development over the next 12 months of the financial situation of households, general economic situation, savings and unemployment, as the last is taken with a negative sign.

INVESTMENT ACTIVITY IN INDUSTRY

The survey gathers information about the carried out investment and investment plans of the enterprises. The inquiry is con-

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

INDUSTRIAL PRODUCTION INDEX; INDUSTRIAL TURNOVER INDICES

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

TOURISM

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

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

The purposes of visiting a country are the following:

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

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

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

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

CONSUMER PRICE INDICES (CPI)

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

HARMONIZED INDICES OF CONSUMER PRICES (HICP)

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

The surveys about the prices in agriculture are carried out in accordance with the main requirements of the EU Handbook for Agricultural Price Indices. In this way harmonization with the EU practices in the domain of agricultural price statistics is achieved from the point of view of:

- Definitions used
- Techniques of prices registration
- Type of calculated indices
- Survey periodicity
- Nomenclatures used
- Defining of the selected products by their quality, quantity, variety and other price characteristics.

The object of observation are the producer prices of produced by the farm crops, live animals and animal products and prices of products and services of goods and services currently consumed in agriculture.

Producer price in agriculture is the price received by farm selling its own agricultural products/live animals. It is recorded at the first market stage of goods - „farm gate price”. Producer price excludes subsidies on agricultural products/animals, transport costs and taxes. VAT is also excluded in the price.

The examination of prices of goods and services currently consumed in agriculture (Input I) includes five surveys which supply the information about the prices of:

- Mineral fertilizers
- Feeding stuffs
- Plant protection products
- Veterinary medicinal products
- Seeds and planting stocks.

The object of observation is the purchase price of goods and services currently consumed in agriculture. The observed unit price is the price that the buyer actually paid for the means of production. It includes taxes and fees and excludes subsidies and VAT refunded.

Statistical unit

Observation units within the surveys of agricultural prices are farms - juridical and physical persons and agricultural and veterinary pharmacies. For each survey a list of respondents is established and during the years stable number of price registrations of products/livestock categories and means of production is maintained.

The conducted surveys are exhaustive and include all units above certain threshold defined in value terms. For the survey on the producer prices in agriculture as selection criteria a value of sales of agricultural products/animals is used and for the surveys on the prices of goods and services currently consumed in agriculture - the expenditures rising from purchases of goods

and services for intermediate consumption. The representativeness of prices is assured, both by the maintaining of regular number of price registrations and coverage of at least of 50 % of value of sales for each product/livestock category or purchase value of goods and services for intermediate consumption in the respective year.

Data sources

The sources of information are statistical questionnaires for collection of qualitative and quantitative characteristics of agricultural products/live animals and goods and services currently consumed in agriculture and quarterly questionnaires supplying information about the producer prices of agricultural products/live animals and purchasing prices of goods and services currently consumed in agriculture.

The questionnaires on the qualitative and quantitative characteristics of agricultural products/live animals and goods and services currently consumed in agriculture supply data for establishment of list of representative products defined with their quantitative and qualitative, variety and other characteristics which may have influence on the variation of prices. The established lists of products are periodically updated, as usual in the years ending to 0 or 5, when the Eurostat weighting scheme is rebased.

The quarterly questionnaires supply regular data about the prices of included in the scope of surveys agricultural products/live animals or goods and services currently consumed in agriculture.

Calculation of average prices

Within the quarterly surveys average monthly and quarterly prices are calculated. The average monthly prices are calculated as arithmetical mean derived from all registered prices. The quarterly prices are calculated as arithmetical mean from monthly prices.

Type of index and calculation

The calculation of price indices is carried out by the Laspeyres formula. This type of index has a constant weighting scheme, so that the base period of weights and prices is the same. For calculation of producer price indices as weights the value of sales of agricultural output is used and for the indices of prices of goods and services currently consumed in agriculture - the value of purchased intermediate consumption. The weights are calculated within satellite economic accounts for agriculture.

The indices are calculated at three bases: previous year, corresponding quarter of previous year and the year ending in 0 or 5 (Eurostat base).

The total index of goods and services currently consumed in agriculture (Input I) is calculated on the base of price indices of five groups of products as well as on the indices of goods and services calculated within the Survey on consumer prices index.

Classifications

For the survey of producer prices in agriculture the National classification of production in agriculture, forestry and fisheries (PRODAGRO) is used. Classification PRODAGRO is used as a basis for further product breakdown in accordance with their qualitative and quantitative characteristics. For the surveys on prices of goods and services currently consumed in agriculture own proper classifications are used. These classifications are compiled within the surveys for establishment of lists of representative products. For calculation and providing Eurostat with harmonized data of price indices in agriculture classification PRAG (Nomenclature of agricultural prices in the Eurostat New CRONOS database) is used.

Consideration of the impact of quality on the prices of agricultural products

To eliminate differences in prices associated with changes in the quality, type, quantity, packaging, selected products are defined by quality, quantity, species and other characteristics that affect the changes of prices. When particular product is dropped down from the list it has to be replaced by a new one defined by same or approximately similar characteristics. The new product should also be representative.

The calculation of the indices of goods and services contributing to the agricultural investments (Input II)

The calculation of price index of goods and services contributing to agricultural investments is also done by a Laspeyres formula. As weights the values of goods and services purchased by farms for further investments, calculated within the satellite economic accounts for agriculture are used. For calculation of total index of goods and services contributing to agricultural investments indices from other surveys conducted by NSI in the domain of the Consumer prices Statistics, Foreign trade statistics and Short-term business statistics are also used.

On the basis of indices of goods and services currently consumed in agriculture and contributing to agricultural investments, total index of prices of means of production used in agriculture (Total Input) is calculated.

MONETARY AGGREGATES

Net Foreign Assets – a balance between gross foreign assets and liabilities of the banking sector. Gross foreign assets are reported by instrument and include Bulgaria's international forex reserves and other foreign assets of the BNB and commercial banks. Gross foreign liabilities reflect liabilities of the BNB and commercial banks to the foreign sector.

Domestic credit – incorporates credit to the consolidated general government sector and non-government sector. Credit to the consolidated general government sector includes net claims on the central government and gross claims on local government, and social security funds. Credit to the non-government sector includes gross claims on non-financial corporations, financial corporations, households and NPISHs.

Fixed assets – movable or immovable non-financial assets which monetary financial institutions intend to use over a period longer than one year in their main activity.

Other items (net) – consolidates all components of the balance sheets of the BNB and commercial banks which are not included in the instruments displayed above. They include relations between commercial banks (net), other assets and liabilities (net) and relations between the BNB and commercial banks (net). Accrued and overdue interest, derivatives, depreciation, provisions, as well as assets and liabilities which are not included elsewhere are part of the Other assets and liabilities (net) item. The balance on the Relations between the BNB and Commercial Banks (net) item reflects the float as a result of netting of claims and liabilities between commercial banks and the BNB.

Broad money (money supply) comprises liabilities with money character of banks to the resident sector with the exception of the liabilities to the central government and the banking sector (money-holding sectors). Monetary aggregate instruments are grouped by liquidity and are presented by currency and sector.

The following monetary aggregates are used: M1, M2, and M3. The M1 monetary aggregate, commonly referred to as narrow money, includes the most liquid instruments used in settlements (currency outside banks and overnight deposits in national and foreign currency). The M2 monetary aggregate comprises quasi-money and the M1 monetary aggregate. Quasi-money comprises deposits with agreed maturity of up to two years and deposits redeemable at notice of up to three months (including savings deposits). The least liquid financial instruments include repos and debt securities issued up to two years. They are denominated in national and foreign currency and together with M2 form the broadest monetary aggregate, M3, commonly referred to as money supply (broad money).

Long-term liabilities and monetary financial institutions – include liabilities of monetary financial institutions with maturity of over two years or with a notice of over three months, as well as capital and reserves. Capital and reserves comprise the statutory fund of the banking system reserves and financial result.

Money supply is based on commercial bank monetary base (currency outside banks and bank reserves) multiplication. Money supply is determined by using M1, M2 and M3 monetary aggregates.

Monetary base (reserve money) consists of currency outside banks and commercial bank funds (bank reserves). The latter include commercial bank deposits with the BNB and cash in commercial bank vaults. Commercial bank deposits include minimum required reserves and excess reserves (overnight deposits and deposits with agreed maturity). Dynamics of reserves depends on the amount of required reserves (comprising a set portion of deposits) and excess reserves. The amount of required reserves is set by the Managing Board of the BNB and is the only instrument of the central bank monetary policy under a currency board. The amounts of excess reserves reflect the liquidity of commercial banks and the trend toward greater security.

MONEY SUPPLY MECHANISM

Money supply (M3) may be expressed as a product of monetary base and the money multiplier variable. Money multiplier characterizes the degree of multiplication effect as a result of commercial bank activity. This effect is measured by the ratios of broad money (M3) or individual monetary aggregates (M1 and M2) to reserve money. The money multiplier reflects the currency outside banks to deposits ratio and the bank reserves to deposits ratio, known as factors in determining money supply. The currency outside banks to deposits ratio depends primarily on the public behavior, while the bank reserves to deposits ratio reflects commercial bank behavior. Sources of Reserve Money: Under a stable money multiplier, total money supply may be influenced through reserve money sources. Foreign assets (net) reflect an increase/decrease in Bulgaria's forex reserves. Under a currency board changes in forex reserves at the expense of government deposit do not directly affect the monetary base and it is automatically sterilized. Claims on central government (net) – the net position of the government is a result of assets net-

ting (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 me-

dian value of the daily turnover shall be admitted to the ranking. If as a result of the ranking it occurs that two or more issues of companies belonging to one economic group have been ranked at the same place, the issues with the greater number of transactions executed during the last 6 (six) months shall be treated with priority with respect to the inclusion.

BGTR30 Index (BG Total Return 30):

Initial date: 03 September 2007; Initial value: 1,000

BG TR30 is an index based on the price performance of the common shares included in the index portfolio, as each constituent issue shall have equal weight. The issues included in the calculation of the index should meet the following criteria: 1) The market capitalization of each issue should not be less than BGN 10,000,000 (10 mn.); 2) The free-float (number of shares hold by minority shareholders, i.e. by holders of not more than 5 % of the votes in the General Meeting of the issuing company) should not be less than 10 % of the total volume of the issue; 3) The size (amount) of each issue should not be less than 250,000 shares. All issues meeting the conditions above are graded to the following criteria of equal weight: 1) Market capitalization; 2) Number of transactions in the last 6 months; 3) Turnover during the last 6 months; 4) Free-float.

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