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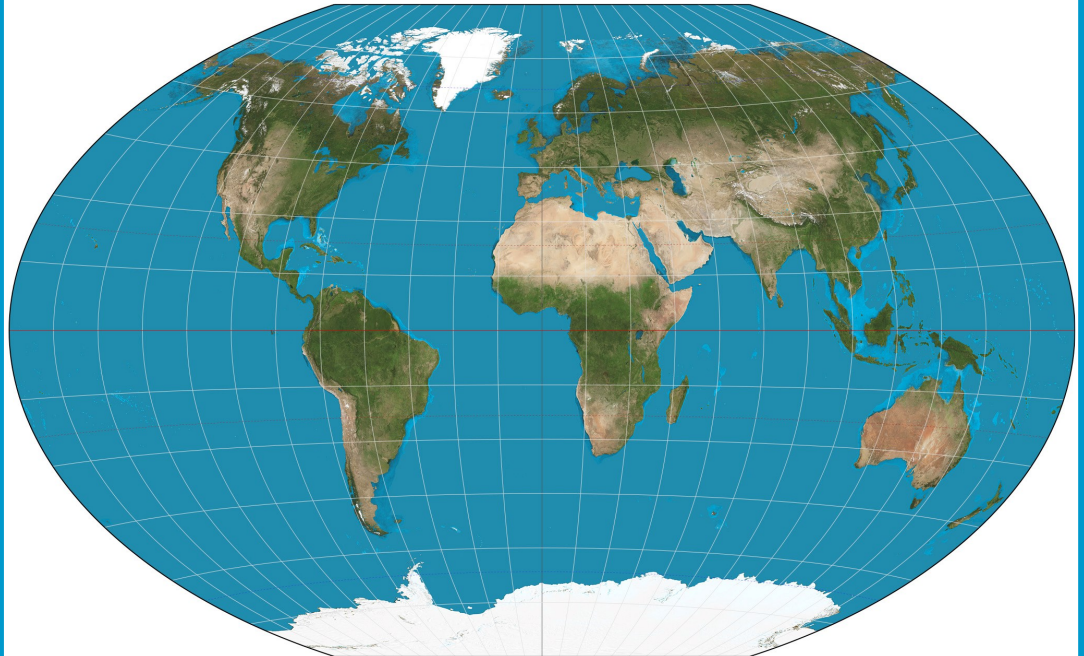
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Source: https://en.wikipedia.org/wiki/World_map

HIGHLIGHTS AND FORECASTS

MONTHLY ECONOMIC REPORT



July 2017

Sofia

- *ECB announced results of the June 2017 survey on credit terms and conditions in euro-denominated securities financing and over-the-counter derivatives markets (SESFOD). There is a small overall change in credit terms for secured funding. Less favorable non-price credit terms for non-cleared OTC derivatives were observed within the market. Worsened liquidity in domestic government bond market continued*
- *Governing Council decides to recommend amendment to Article 22 of Statute. Amendment to provide legal basis for Eurosystem to carry out role as central bank of issue under currently proposed review of EMIR. Amendment to enable Eurosystem to fulfil mandate of conducting monetary policy and ensuring stability of euro*
- *Euro remains unchallenged as the second most used currency, but the international role of the euro slightly declined in Q3 2016. Use of the euro as a funding currency declined. Share in foreign exchange reserves rebounded in Q1 2017*
- *Bank of England increased capital requirements for British banks by 11.4 billion pounds. The goal is to address the risks posed by consumer credit growth and to prepare for the uncertain outcome of the Brexit talks*
- *FOMC raised the target range of the federal funds interest rate by 0.25 percentage points at both meetings in March and June 2017, with the aim of reaching a range of 1 to 1-1.25%.*
- *Bank of Japan has assured that it will maintain the measures to stabilize prices and how this affects the financial stability of the country. BoJ balance exceeds 500 trillion yen, which is about 90% of Japan's GDP and close to the US Federal Reserve balance*
- *Bank of China doubled in June 2017 the injected liquidity for the banks. The aim was to alleviate the financial conditions at the end of the second quarter of 2017. China's bond market opens for foreign investors.*
- *The economy of the eurozone countries is in good shape, with the eurozone benefiting from reduced political uncertainty and a high degree of confidence of business and consumers.*
- *Outside the euro zone, the performance is a bit mixed. UK shows some fluctuations influenced by Brexit.*
- *The US economy is growing at a moderate pace this year. Despite the expectations, inflation-adjusted gross domestic product has increased by only 1-1.5% per year for Q1 2017, with recent economic fundamentals indicating that growth will recover in Q2 2017*
- *Japan's slow recovery in economic growth is largely due to export recovery and global demand, while domestic consumption remains weak*
- *The Chinese economy has achieved stable growth in the second quarter of 6.9%. The good result for GDP is accompanied by encouraging data on both industrial production, retail sales and investment*

- *In May 2017 the current and capital account recorded a surplus of EUR 242.6 million, compared with a positive balance of EUR 83.5 million in May 2016*
- *In January-May 2017 FDI in Bulgaria totaled EUR 119.8 million (0.2% of GDP) and declined by 77.2% y/y*
- *In January-April 2017, Bulgaria's exports (FOB) amounted to EUR 8217.4 million and grew by 13.0% y/y and imports (CIF) amounted to EUR 9524.8 million and increased by 19.9% y/y, respectively*
- *In June 2017 the BNB's international reserves amounted to BGN 46.9 billion (EUR 23.970 billion), rising by 1.3% m/m and 6.8% y/y, respectively*
- *In May 2017 the index of production in section 'Construction' was 3.7% above the level of the previous month*
- *The House Price indexes in Bulgaria slightly increase, influenced by the negative and low levels of inflation, which stimulate households to re-direct their free funds from deposits into residential investments*
- *In May 2017 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 1.3% compared to the previous month*
- *In May 2017 the Industrial Production Index, seasonally adjusted, increased by 2.7% as compared to April 2017*
- *Since the beginning of the year (June 2017 compared to December 2016) the inflation rate has been 0.7% and the annual inflation in June 2017 compared to June 2016 was 1.9%*
- *In May 2017 the number of the registered unemployed in the labor offices is 233 829, decreasing with 6.3% m/m and 18.3% y/y, respectively*
- *As of May 2017 the CFP balance on a cash basis is positive, amounting to BGN 1,683.4 million (1.7% of forecast GDP)*
- *For the first six month of 2017 the Consolidated Fiscal Programme (CFP) balance on a cash basis is expected to be positive, amounting to BGN 1,744.4 million (1.8 % of the projected GDP)*
- *As of the end of May 2017 the central government debt stood at EUR 13,459.1 million*
- *In May 2017 broad money (monetary aggregate M3) increased annually by 8% compared to 7.6% annual growth in April 2017*
- *At the end of June 2017, all indices of the BSE-Sofia increased, the most significant being the increase of the SOFIX benchmark by 41.84 pps to 703.04*
- *At the end of May 2017, the aggregated assets of the banking system in Bulgaria increased by 0.4% m/m and by 6.5% y/y, respectively to BGN 93.4 billion*

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GLOBAL TRENDS

Policy of the Central banks

ECB

Governing Council decides to recommend amendment to Article 22 of Statute. Amendment to provide legal basis for Eurosystem to carry out role as central bank of issue under currently proposed review of EMIR. Amendment to enable Eurosystem to fulfil mandate of conducting monetary policy and ensuring stability of euro

On June 23, 2017 the Governing Council of the European Central Bank (ECB) has adopted a Recommendation to amend Article 22 of the Statute of the European System of Central Banks and of the European Central Bank. The revised Article 22 would read as follows: “The ECB and national central banks may provide facilities, and the ECB may make regulations, to ensure efficient and sound clearing and payment systems, and clearing systems for financial instruments, within the Union and with other countries.” The amendment would provide the ECB with a clear legal competence in the area of central clearing, which would pave the way for the Eurosystem to exercise the powers that are foreseen for central banks issuing a currency under the review of the European Market Infrastructure Regulation (EMIR) proposed by the European Commission. Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 1095/2010 establishing a European Supervisory Authority (European Securities and Markets Authority) and amending Regulation (EU) No 648/2012 as regards the procedures and authorities involved for the authorization of CCPs and requirements for the recognition of third-country CCPs. . . .

These powers include a significantly enhanced role for central banks of issue in the supervisory system of central counterparties (CCPs), in particular with regard to the recognition and supervision of systemically important third-country CCPs clearing significant amounts of euro-denominated transactions. Under the proposed amendments to the EMIR framework, the Eurosystem will be able to continue to fulfil its role as the central bank issuing the single currency. The amendments will allow the Eurosystem to monitor and address risks associated with central clearing activities that could affect the conduct of monetary policy, the operation of payment systems and the stability of the euro.

Euro remains unchallenged as the second most used currency, but the international role of the euro slightly declined in Q3 2016. Use of the euro as a funding currency declined. Share in foreign exchange reserves rebounded in Q1 2017

According ECB announcement the use of the euro as a funding currency in international debt markets declined in 2016 and early 2017 compared to the same period last year, while the share of the euro in foreign exchange reserves rebounded. These are among the main findings of the report on The international role of the euro, which examines developments in the use of the euro by non-euro area residents in 2016 and early 2017. “The euro stays unchallenged as the second most used international currency in an environment where the share of non-traditional reserve currencies is gradually increasing”, said Benoit Coeuré, member of the Executive Board of the ECB. Heightened non-economic risks stemming in particular from geopolitical developments and economic policy uncertainty as well as the continued impact of the ECB’s asset purchases on financial markets were among the main developments affecting the international role of the euro. The international use of the euro declined slightly in 2016. The share of the euro in official holdings of foreign exchange reserves, which rebounded slightly in 2016 from 19.4 to 19.7% compared with the previous review period at constant exchange rates. The stabilization of the share of the euro in global foreign exchange reserves offers tentative evidence that its role as an official store of value remained resilient to the various shocks buffeting global financial markets in the review period. The share of the euro in international payments also increased. The share of the euro as an international currency as having declined over the review period. This was particularly due to the outstanding amounts of international loans, foreign exchange turnover and shipments of euro banknotes to destinations outside the euro area. Likewise, the share of the euro in outstanding international debt securities declined in 2016 and remains well below levels prevailing prior to the onset of the global financial crisis.

World (USD billions)	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017
Total foreign exchange reserves	10 926	10 969	10 994	10 636	10 820
Allocated Reserves	7 780	8 072	8 367	8 351	8 766
Claims in USD	5 096	5 269	5 417	5 505	5 709
Claims in EUR	1 518	1 561	1 641	1 614	1 707
Claims in Chinese renmindbi				79	83
Claims in Japanese yen	284	329	350	335	403
Claims in pound sterling	361	367	368	366	379
Claims in Australian dollars	134	137	150	146	162
Claims in Canadian dollars	140	148	160	165	171
Claims in Swiss francs	15	15	15	14	15
Claims in other currenccies	232	247	266	207	221
Unallocated Reserves	3 147	2 897	2 627	2 285	2 054
Source: IMF					

Global economic trends

EU

The economy of the eurozone countries is in good shape, with the eurozone benefiting from reduced political uncertainty and a high degree of confidence of business and consumers. This good performance will continue. Although consumer spending growth is slowing down, conditions are ripe for accelerating investment, especially since the ECB is expected to hold long-term interest rates at their current levels.

Great Britain

Outside the euro zone, the performance is a bit mixed. UK shows some fluctuations influenced by Brexit. Furthermore, the robust growth and rising inflationary pressures in Sweden suggest Riksbank will be the first major central bank in Europe to raise interest rates.

USA

The US economy is growing at a moderate pace this year. Despite the expectations, inflation-adjusted gross domestic product has increased by only 1-1.5% per year for Q1 2017, with recent economic fundamentals indicating that growth will recover in Q2 2017. In particular, household spending growth, which was weak in the first months, has risen in recent months and continues to be supported by employment incomes, rising household wealth and favorable consumer confidence. In addition, this year fixed business investment has risen.

Japan

Japan's inflation is only 0.3% and is expected to remain below 2% in the foreseeable future due to labor shortages. The slow recovery in economic growth is largely due to export recovery and global demand, while domestic consumption remains weak.

China

The Chinese economy has achieved stable growth in the second quarter of 6.9%. The good result for GDP is accompanied by encouraging data on both industrial production, retail sales and investment, while reflecting the sustainability of both domestic and external demand. The consumer price index in China rose by 1.5% y/y in June 2017.

ECB announced results of the June 2017 survey on credit terms and conditions in euro-denominated securities financing and over-the-counter derivatives markets (SESFOD). There is a small overall change in credit terms for secured funding. Less favorable non-price credit terms for non-cleared OTC derivatives were observed within the market. Worsened liquidity in domestic government bond market continued

ECB survey respondents reported that, on balance, credit terms offered in both securities financing and over-the-counter (OTC) derivatives transactions over the three-month reference period ending in May 2017 remained basically unchanged. The dispersion of responses, however, increased compared with the March 2017 survey. Regarding the provision of finance collateralized by euro-denominated securities, survey respondents reported a decrease in financing rates/spreads for many collateral types, particularly government bonds, a further increase in the use of central counterparties (CCPs) for securities financing transactions, and increased demand both for funding collateralized by equities and for longer term funding collateralized by domestic government bonds. They also reported a further deterioration in the liquidity and functioning of the market for domestic government bonds; for other asset classes covered by the survey only small changes in liquidity and functioning were reported for the March to May 2017 reference period, compared with the more significant deteriorations reported over the past two years. The implementation of the new European Market Infrastructure Regulation (EMIR) requirements for market participants to post initial and variation margins for OTC derivative contracts not cleared by a CCP was cited by survey respondents as one reason for tightening credit terms. Survey respondents highlighted in particular that the requirement to post variation margins which took effect on 1 March 2017 has been the main driver of less favourable margin call practices and changes in the collateral acceptable under new or renegotiated OTC derivatives master agreements. The SESFOD survey is conducted four times a year and covers changes in credit terms and conditions over the three-month reference periods ending in February, May, August and November. The June 2017 survey collected qualitative information on changes between March and May 2017. The results are based on responses from a panel of 28 large banks, comprising 14 euro area banks and 14 banks with head offices outside the euro area.

Bank of England

Bank of England increased capital requirements for British banks by 11.4 billion pounds. The goal is to address the risks posed by consumer credit growth and to prepare for the uncertain outcome of the Brexit talks

Bank of England plans to raise capital requirements for British creditors by 11.4 billion pounds (\$ 14.5 billion) to cope with the risks posed by consumer credit growth and prepare for uncertainty Results of negotiations around Brexit. The Bank has set the countercyclical capital margin at 0.5 % of risk-weighted assets for UK loans as of June 1, 2018. In the absence of a significant change in prospects, the central bank will raise its level again to 1 percent in November. Any 0.5% increase increases the buffers of Common Equity Tier 1 banks by 5.7 billion pounds. The Bank also proposes an increase in the debt ratio to 3.25% of the exposures, excluding the central bank's reserves.

Bank of England supported raising interest rates by the end of the year. This measured approach is likely to reduce the risk that banks are adjusting to, strengthening credit conditions, thereby minimizing the cost of the economy and making the banking system more sustainable

The Anti-Cyclical Capital Margin aims to provide protection against banks' tendency to increase lending in times of upsurge and to stop them at slumps potentially enhancing delays. The purpose of the regulations is to ensure that banks have sufficient capital to reduce losses and continue to lend to the economy. Immediately after the UK's exit from the EU last June, the Bank of England canceled the planned increase in the buffer to help prevent the economic

USA Federal Reserve

FOMC raised the target range of the federal funds interest rate by 0.25 percentage points at both meetings in March and June 2017, with the aim of reaching a range of 1 to 1-1.25%

FOMC strives to promote maximum employment and price stability. In H1 of 2017 the Committee continued to gradually reduce the amount of housing in monetary policy. In particular, FOMC raised the target range of the federal funds interest rate by 0.25 percentage points at both meetings in March and June 2017, with the aim of reaching a range of 1 to 1-1.25%. In doing so, the Committee acknowledged the significant progress the economy has achieved - and is expected to continue towards the set targets. Expectations are that factors that currently hold the neutral interest rate will decrease over time, with a gradual

increase in interest over the next few years in order to maintain economic expansion and recover inflation to a 2% target. However, the Committee continues to provide that the longer-term neutral level of the federal funds interest rate is likely to remain below the levels prevailing in the previous decades. The economic outlook is always subject to considerable uncertainty and monetary policy is not in a predetermined course. FOMC officials announced that they would adjust their assessments to the appropriate way to determine the federal funds interest rate in response to changes in their economic prospects and their estimates of the associated risks as informed by incoming data. In this respect, inflation remains below the 2% target and slightly decreases. The Committee will continue to monitor developments in inflation in the coming months.

In June 2017, the FOMC increased its policy normalization plans by providing further details of the process that will be followed in normalizing the size of the Fed's balance sheet

The Committee intends to gradually reduce exposures to Federal Reserve securities by reducing the reinvestment of the principal that it receives from the securities held in the system's open market system. In particular, these payments will be reinvested only to the extent that they exceed the gradually rising ceilings. Initially, these ceilings will be set at relatively low levels in order to limit the volume of securities that private investors will have to bear. Currently, the Committee expects that, provided the economy grows as expected and is likely to begin implementing the program this year.

Bank of Japan

Bank of Japan (BoJ) has assured that it will maintain the measures to stabilize prices. At the same time, the bank will monitor how this affects the financial stability of the country

The Bank of Japan (BoJ) will continue to implement the necessary monetary policy measures to stabilize prices. At the same time, the institution will monitor how this affects the financial stability of the country. The recent slowdown in the bond purchase rate is largely due to the stabilization of US government bond yields. This in turn exerts less pressure on long-term interest rates in Japan. It is difficult to say how the outcome of the ultra simplified monetary policy of BoJ will affect the financial health because it will depend on the rate of increase in short-term interest rates and outlook of Interest rate on yield. At the end of 2016, the ECB shifted its focus from interest rates (the deposit interest rate was negative at -0.1%) to controlling the yield curve of 10-year government bonds. Currently, the target level of this yield is 0%.

The BoJ's balance exceeds 500 trillion yen, which is about 90% of Japan's GDP and close to the US Federal Reserve balance

According to BoJ statistics data, at the end of May 2017, the bank's balance sheet rose to 500.8 trillion yen. In May 2016 it was 425.7 trillion yen. Since the start of the aggressive stimulus in 2013, the balance sheet of the Bank has risen more than three times, rising to 164.8 trillion yen. However, money issuance has failed to bring inflation in the country to a target of 2%. The increased central bank balance may complicate the future withdrawal of incentives, since any growth in bond yields triggered by expectations of tightening monetary policy risks a loss on major debt exposures. At the end of May 2017, the bonds held by BoJ rose by 70.7 trillion yen more than the same period of the previous year, or increased by more than 10% y/y within the official target of 80 trillion yen per year, accounting for the slowest rate for the latter two years. It is expected that the BoJ will continue to buy bonds and that it is premature to discuss publicly the termination of the incentive program. The purchase of large amounts of Japanese government bonds will become increasingly difficult as the central bank already owns 42% of all sovereign debt. BoJ further decided to slow the pace to around 60 trillion yen per year by the end of 2017.

Bank of China

The Chinese central bank doubled in June 2017 the injected liquidity for the banks. The aim was to alleviate the financial conditions at the end of the second quarter of 2017.

China's central bank injected 99.6 billion yuan (USD 14.65 billion) of liquidity into the financial system in June through short- and medium-term operations. This is close to double (95%) from the previous month and the goal was to ease the financial conditions at Q2 2017. The Chinese central bank took a stricter monetary policy stance earlier this year to counteract the debt build-up but still injected significant liquidity last month to avoid cash shortages at the end of the quarter. China's Central Bank injected 498 billion yuan in loans to financial institutions through Medium-Term Loan Facility (MLF) in June. Thus, by the end of the month, the accumulated funds under this instrument reached 4.2245 trillion yuan versus 4.1578 trillion yuan at the end of

May 2017. This means net injections of 66.7 billion yuan. The Bank has provided 46.77 billion yuan of loans to the standing lending facility (SLF). The total value at the end of June rose to 44.63 billion yuan from 11.82 billion yuan by the end of May 2017. Thus, the difference, i.e. the net injections, amounted to 32.8 billion yuan. The Central bank of China uses these two instruments to manage short- and medium-term liquidity in the country's banking system. Thus, liquidity in the banking system remains at satisfactory levels, but conditions may be tightened as a large amount of credit is due to be repaid over the next two weeks.

China's bond market opens for foreign investors. The bond market for 9 trillion. The dollar is the third largest in the world, but only 2% of it is held by foreigners

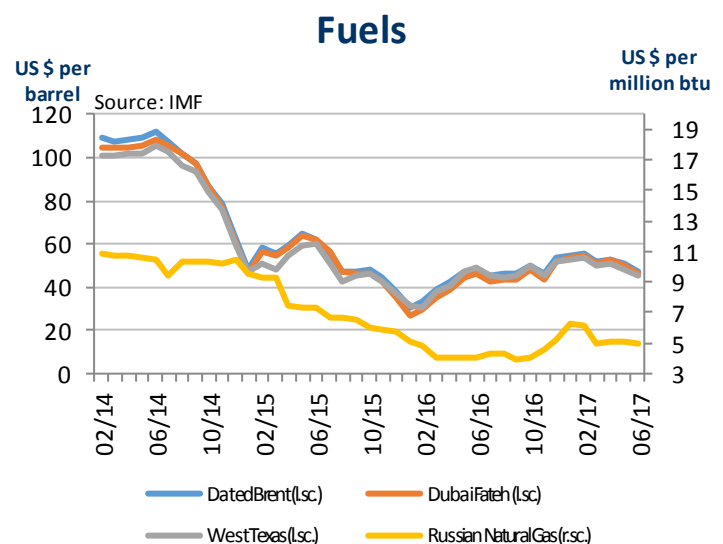
A long-awaited scheme that allows foreign investors to buy and sell Chinese bonds was launched. The Bond Connect program is another attempt by Beijing to open its financial markets and attract foreign capital. Chinese bond market worth 9 trillion. The dollar is the third largest in the world, but only 2% of it is held by foreigners. Initially, Chinese bonds could be bought by banks, insurers, and stock managers via Hong Kong. So far no date has been set for starting the program for Chinese investments in foreign bonds. HSBC Holdings and Bank of China's asset management unit were the first institutions to use the scheme, with bonds of about USD 300 million purchased in early trading. Buying Chinese bonds - mainly Chinese government and corporate debt - will give investors greater access to investments denominated in Chinese currency. International investors in the past have been particularly cautious, entering the market - partly because of the stability of the Chinese currency, as well as the lack of strong desire for Beijing to reform its financial markets. Meanwhile, there are also concerns about the authenticity of credit ratings in China. Recently, other similar systems are available that allow trading in Chinese shares. Since the end of last year, foreign investors in Hong Kong have been able to trade in some 900 companies on the Shenzhen Stock Exchange and back through a new relationship between the two markets. The program was launched after the introduction of Shanghai-Hong Kong Stock Connect in November 2014. Last month, the US supplier of indexes MSCI agreed for the first time to include mainland Chinese companies in its emerging market index.

International Commodity Prices

Petrol

Oil markets continue to struggle with oversupply started in 2014, and since then, prices have fallen by about 50%. The deal for shrinking output in OPEC, Russia and other producers has so far not brought much more tight market conditions and higher prices that producers hoped for. US light crude WTI fell 0.30% to USD 45.88 per barrel and European benchmark Brent recorded a decline of 0.25% to USD 48.30 per barrel as of July 19, 2017

According to the American petroleum institute, the oil reserves increased by 1.6 mn barrels as of 19th July 2017. A decrease of 3.74 mn barrels was expected on a weekly base. The US light crude WTI fell with 0.37% to USD 46.23\$ per barrel, and the European benchmark Brent wiped out 0.35% from its price to USD 48.67\$ per barrel as of 19th July 2017. Meanwhile, the service company in the oil industry Baker Hughes declared, that during the last five weeks the oil platforms in the USA has increased its number with 5 on average. The number is an important indicator for the oil drilling activity and serves as litmus for the extraction and the demand. In Asia the refinery activity continue to send signals for strong demand for June 2017. In particular, in June 2017 the refineries in China have increased the quantity of crude oil received to the highest levels in the history. Despite this, the oil markets has been struggling with the oversupply since 2014 and since then the price decreased with about 50%. The deal for the reduction of the oil volume extraction in OPEC, Russia and othe producers didn't lead to much tighter conditions on the market and higher prices, to which producers hope. The agreement has been in force

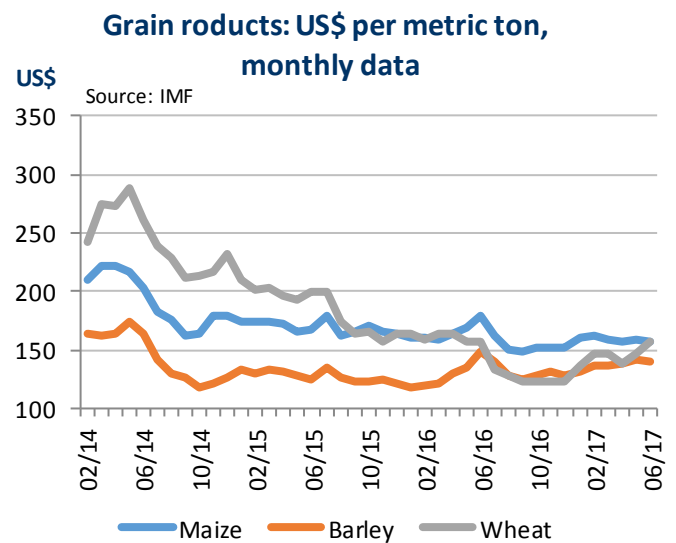


since the beginning of this year and was extended to the end of March 2018. To some extent, this is due to the fact that, the OPEC supply remain high, as there have been exceptions for Nigeria and Libya. Furthermore, the oil extraction in the USA keeps growing. Ecuador, a small OPEC producer, also stated that does not meet the requirement for its quota for reduction of 26 thousands barrels daily, due to the fiscal deficit, which is expected to reach 7.5% from GDP in 2017. Ecuador cuts about 60% of this number and in this way the yield becomes about 545 thousands barrels daily. The concerns are that other countries from the cartel may follow it.

Prices of agricultural and food products

In 2017-2027 period more dairy products are expected to be consumed, but growth in grain, meat and vegetable oil consumption will be slowing down. The prices of the grain and oil agricultural products are expected to increase fluently

According to the OECD COP Report "Agriculture Outlook for the period 2017-2026" over the next 10 years, more and more dairy products are expected to be consumed, but growth in grain, meat and vegetable oil consumption will be slowing down. The reasons for this delay, which should affect the real prices of most agricultural products, stem from the slowdown in China's economic growth and the demand for biofuels. Estimates suggest that demand for agricultural products destined for biofuel production will be stagnant due to the fall in energy prices and a more moderate biofuel policy in many countries. This will allow the main agricultural products to be reoriented to their normal destination - food, not energy. The food crisis in 2007 and 2008, which evolved in parallel with the financial crisis, stemmed from a rise in commodity prices, in particular some oil plants used for biofuels. They have become too expensive and this has led to hunger riots in some of the poorest countries in the world. Ten years later, such a crisis is much less likely. There are new mechanisms developed under the auspices of the G20 to allow real-time production of basic food products (meat, cereals, oil crops), world prices, country consumption and stocks. Grain consumption per person should remain virtually unchanged, with the exception of less developed countries where it will increase. Grain production is projected to increase by 12% by 2026, mainly due to increased yields. With regard to meat, demand is expected to grow on a regular basis, but it will be halted in many countries for various public reasons, as in India, for example. Overall, it must remain at 34.6 kg per person per year by 2026, with an increase of around 1.5% per year due to an increase in the world population. Prices for agricultural products will decrease, which will cause difficulties for small farmers. By 2026, dairy consumption is expected to increase, especially in India and Pakistan, which are mostly vegetarian eating habits and where they replace meat as a source of protein.



Metals

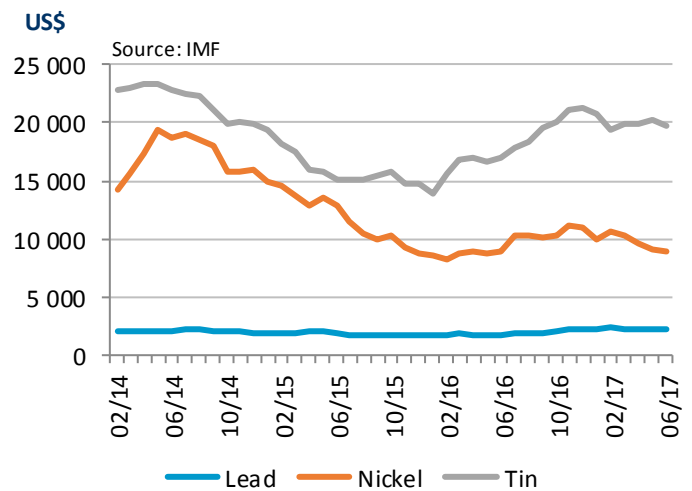
Overall, non-ferrous metals prices grew by almost 30% since early 2016, after three years of negative dynamics, and the value of zinc rose by more than 80%. Gold will reach USD 1 250 per ounce, copper will be sold at USD 5-6 thousand per ton. The price level is supported by the news of the stabilization of the Chinese economy, the program of the newly elected US President Donald Trump for investment in infrastructure as well as the closure of a number of mining enterprises.

The doubtful increase in the world markets started at the end of 2016, covered all extracted at home metals - copper, gold, lead, zinc. The world economy goes through an interesting period. From political point of view, we observe ambitious presidents in the USA, China and Russia, who follow their national programs. Economic areas such as the EU and separate countries (China, Japan) use debt generated fiscal incentives. The expectations are the world economy to grow up with 3-4%, where regarding India and China this growth will exceed 5-6%. This means that the volumes and prices of the raw materials will increase. This applies for the USA economy as well, which would grow with higher rate compared to 2016 and depends on the level the President Trump will implement his infrastructure program. This will positively influence the steel, copper, cement,

aluminum and the other similar raw materials. Politically, Europe is not in its best form. However, based on the strengths of countries like Germany and Poland and quantitative easing (QE) programs, which are already being applied by the ECB, the economy could rise with a deserving attention rate. Regarding the metals and its extraction, Europe appears to be a net consumer. A positive indicators comes from the Worldsteel, according to which “the recovery of the demand of steel from the EU is expected to continue, supported by the recovery in the construction”. China, at present, struggles with problems like budget deficit and capital outflow. These problems are complemented by the lack of control on the capital and etc. In case, these factors begin to dominate permanently, together with the weakening of the Yuan, the continuing house balloons and the policy for restrictions, it is difficult to forecast another boom of the raw material, exported from Chi-

na. On the contrary, in case China receives a statute of a market economy by the World Trade organization, it will cause damages both on the European and American mining and metallurgical companies with an increasing dumping of the prices of its production. China continues to be the factor, which will move the processes and the prices of the metals in 2017. According to the International Energy Agency data, the demand of the Asian economy is bigger than forecasted. The expectations are the price of the copper to grow during the next 2 years, reaching at least USD 3\$ per pound. The forecasts are that the prices of the copper will vary between USD 5\$ and 6\$ thousands pet tone. Amongst the main factors, which will influence the price of the copper are the economic data from China, the EUR/USD rate, as well the development of the USA economy.

Metals: US\$ per metric ton, monthly data



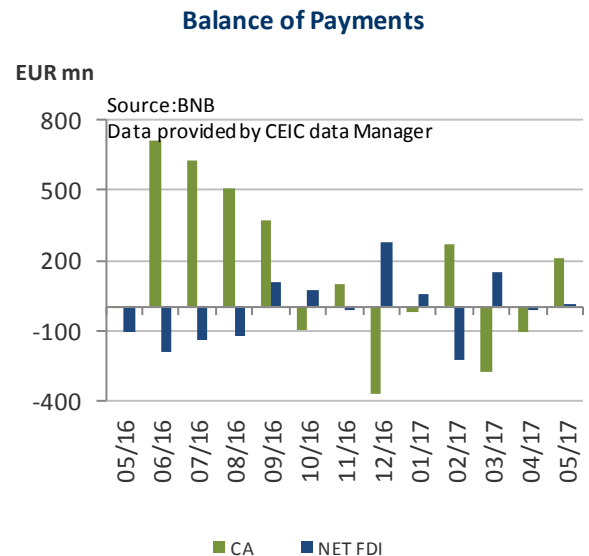
BULGARIA

EXTERNAL SECTOR

Balance of payments

In May 2017 the current and capital account recorded a surplus of EUR 242.6 million, compared with a positive balance of EUR 83.5 million in May 2016

The current and capital account recorded a surplus of EUR 242.6 million in May 2017, compared with a positive balance of EUR 83.5 million in May 2016. In January – May 2017 the current and capital account was positive amounting to EUR 232.7 million (0.5% of GDP), compared with a surplus of EUR 802.1 million (1.7% of GDP) in January – May 2016. The current account was positive amounting to EUR 210.6 million in May 2017, compared with a deficit of EUR 5.7 million in May 2016. In January – May 2017 the current account was positive and amounted to EUR 79.1 million (0.2% of GDP), compared with a surplus of EUR 131.2 million (0.3% of GDP) in January – May 2016. The balance on goods recorded a deficit of EUR 134.8 million in May 2017, compared with a deficit of EUR 213.2 million in May 2016. In January – May 2017 the balance on goods was negative amounting to EUR 1142 million (2.3% of GDP), compared with a deficit of EUR 708.8 million (1.5% of GDP) in January – May 2016. Exports of goods amounted to EUR 2,292.6 million in May 2017, growing by EUR 556.1 million (32%) from May 2016 (EUR 1,736.5 million). In January – May 2017 exports of goods totalled EUR 10,170.5 million (20.6% of GDP), increasing by EUR 1,527.4 million (17.7%) year-on-year (from EUR 8,643.1 million, 18.2% of GDP). In January – May 2016 exports dropped by 4% year-on-year. Imports of goods amounted to EUR 2,427.4 million in May 2017, growing by EUR 477.7 million (24.5%) from May 2016 (EUR 1,949.7 million). In January – May 2017 imports of goods totalled EUR 11,312.5 million (22.9% of GDP), growing by EUR 1,960.6 million (21%) from January – May 2016 (EUR 9,351.9 million, 19.7% of GDP). In January – May 2016 imports dropped by 6.4% year-on-year. Services recorded a positive balance of EUR 129.4 million in May 2017, compared with a surplus of EUR 162.3 million in May 2016. In January – May 2017 services recorded a surplus of EUR 562.4 million (1.1% of GDP) compared with a positive balance of EUR 642.9 million (1.4% of GDP) in the same period of 2016. The net primary income (which reflects the receipt and payment of income related to the use of resources (labour, capital, land), taxes of production and imports and subsidies) recorded a surplus of EUR 50.7 million in May 2017, compared with a deficit of EUR 85 million in May 2016. In January – May 2017 the balance on primary income was negative and equated to EUR 90.9 million (0.2% of GDP), against a deficit of EUR 501 million (1.1% of GDP) in January – May 2016. The net secondary income (which reflects the redistribution of income) recorded a surplus of EUR 165.2 million, compared with a surplus of EUR 130.1 million in May 2016. In January – May 2017 the net secondary income was positive amounting to EUR 749.5 million (1.5% of GDP), compared with a positive balance of EUR 698.1 million (1.5% of GDP) in the same period of 2016. The capital account recorded a surplus of EUR 32 million, compared with a positive balance of EUR 89.2 million in May 2016. In January – May 2017 the capital account recorded a surplus of EUR 153.7 million (0.3% of GDP), compared with a positive balance of EUR 670.9 million (1.4% of GDP) in January – May 2016. The financial account recorded a net inflow of EUR 289.5 million, compared with an inflow of EUR 392 million in May 2016. In January – May 2017 the financial account recorded a net inflow of EUR 470.3 million (1% of GDP) compared with an inflow of EUR 985.2 million (2.1% of GDP) in January – May 2016. The net direct investment compiled in accordance with the Sixth Edition of the Balance of Payments and International Investment Position Manual was positive amounting to EUR 0.5 million, compared with a negative balance of EUR 111.2 million in May 2016. In January – May 2017 direct investment recorded a negative balance of EUR 33.4 million (0.1% of GDP), compared with a negative balance of EUR 503.6 million (1.1% of GDP) million in January – May 2016. Direct investment – assets grew by EUR 32.1 million compared with an increase of EUR 101.1 million in May 2016. In January – May 2017 direct investment – assets rose by EUR 181.3 million (0.4% of GDP),

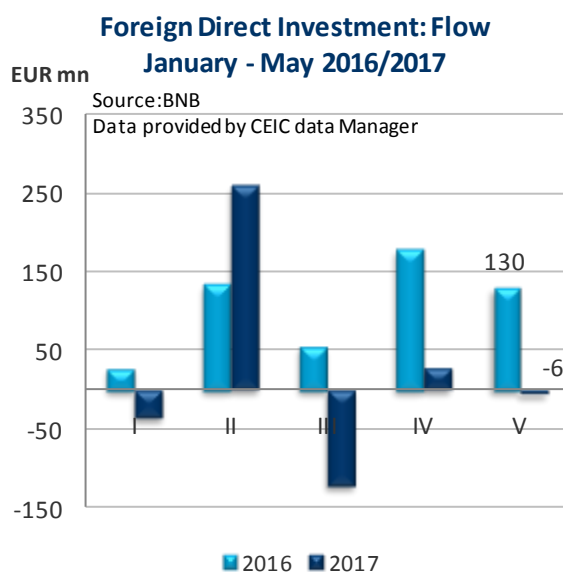


compared with an increase of EUR 163.1 million (0.3% of GDP) in the same period of 2016. Direct investment – liabilities grew by EUR 31.6 million in May 2017, compared with an increase of EUR 212.3 million in May 2016. In January – May 2017 direct investment – liabilities rose by EUR 214.7 million (0.4% of GDP), compared with an increase of EUR 666.7 million (1.4% of GDP) in the same period of 2016. The balance on portfolio investment was positive amounting to EUR 207.2 million, compared with a positive balance of EUR 78.8 million in May 2016. In January – May 2017 the balance was positive and equated to EUR 518.8 million (1% of GDP), compared with a negative balance of EUR 1,067.9 million (2.3% of GDP) million in January – May 2016. Portfolio investment – assets grew by EUR 139.6 million, compared with an increase of EUR 41.6 million in May 2016. In January – May 2017 they rose by EUR 372.9 million (0.8% of GDP) compared with an increase of EUR 20.6 million (0.04% of GDP) in January – May 2016. Portfolio investment – liabilities dropped by EUR 67.6 million compared with a decline of EUR 37.2 million in May 2016. In January – May 2017 portfolio investment – liabilities decreased by EUR 145.9 million (0.3% of GDP), compared with an increase of EUR 1,088.5 million (2.3% of GDP) in January – May 2016. The balance on other investment was positive amounting to EUR 19.6 million, compared with a positive balance of EUR 293.9 million in May 2016. In January – May 2017 the balance was positive and equated to EUR 238 million (0.5% of GDP), compared with a positive balance of EUR 1,298.8 million (2.7% of GDP) in January – May 2016. Other investment – assets rose by EUR 114.1 million, compared with an increase of EUR 287.4 million in May 2016. In January – May 2017 they grew by EUR 544.8 million (1.1% of GDP) compared with an increase of EUR 1,376.1 million (2.9% of GDP) in January – May 2016. Other investment – liabilities grew by EUR 94.5 million compared with a decrease of EUR 6.5 million in May 2016. In January – May 2017 they rose by EUR 306.8 million (0.6% of GDP) compared with an increase of EUR 77.3 million (0.2% of GDP) in January – May 2016. The BNB reserve assets⁵ grew by EUR 94.5 million, compared with an increase of EUR 119.2 million in May 2016. In January – May 2017 they decreased by EUR 208 million (0.4% of GDP), compared with an increase of EUR 1,289.9 million (2.7% of GDP) in the same period of 2016. The net errors and omissions were positive amounting to EUR 46.9 million compared with a positive value of EUR 308.5 million in May 2016. According to preliminary data, the item was positive in January – May 2017 and totalled EUR 237.6 million (0.5% of GDP), against a positive value of EUR 183.1 million (0.4% of GDP) in the same period of 2016.

Foreign direct investment

In January-May 2017 FDI in Bulgaria totaled EUR 119.8 million (0.2% of GDP) and declined by 77.2% y/y

According to preliminary data, *foreign direct investments in Bulgaria* presented according to the *directional principle* totaled EUR 119.8 million (0.2% of GDP) in January – May 2017, dropping by EUR 405.9 million (77.2%) from January – May 2016 (EUR 525.7 million, 1.1% of GDP). Foreign direct investments in Bulgaria dropped by EUR 6.2 million in May 2017, compared with an increase of EUR 130.2 million in May 2016. *Equity* (acquisition/disposal of shares and equities in cash and contributions in kind by non-residents in/from the capital and reserves of Bulgarian enterprises, and receipts/payments from/for real estate deals in the country) recorded a negative value of EUR 120.8 million in January – May 2017, dropping by EUR 238.7 million from a positive value of EUR 118 million in January – May 2016. *Real estate investments of non-residents* totalled EUR 2.3 million, compared with EUR 28.3 million attracted in January – May 2016. The largest inflow of real estate investment was from Russia (EUR 0.8 million, 34.6% of the total amount for January – May 2017), Kazakhstan (EUR 0.4 million, 15.2% of the total amount), the Czech Republic (EUR 0.3 million, 11.6% of the total amount), and Austria (EUR 0.3 million, 11% of the total amount). *Reinvestments of earnings* (the share of non-residents in the undistributed earnings/ loss of the enterprise based on preliminary profit and loss data) was estimated at EUR 202.2 million for January – May 2017, compared with EUR 294.9 million in January – May 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 38.4 million in January – May 2017, compared with EUR 112.9 million in January – May 2016. The largest net direct investment inflows in Bulgaria for January – May 2017 were from the Netherlands (EUR 147.3 million) and Swit-

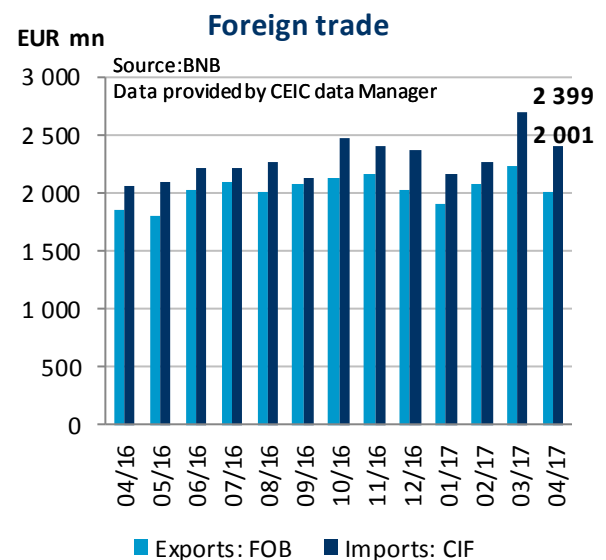


zerland (EUR 101.3 million). According to preliminary data, *direct investment abroad* grew by EUR 86.5 million, compared with an increase of EUR 22.1 million in January – May 2016. Direct investment abroad dropped by EUR 5.7 million in May 2017, compared with an increase of EUR 19 million in May 2016.

Foreign trade

In January-April 2017, Bulgaria's exports (FOB) amounted to EUR 8217.4 million and grew by 13.0% y/y and imports (CIF) amounted to EUR 9524.8 million and increased by 19.9% y/y, respectively

In January - April 2017, exports (FOB) amounted to EUR 8217.4 million, compared to EUR 7273.1 million in the same period in 2016, rising by EUR 944.3 million or 13.0% y/y. *By way of use*, the main raw material contributions to the increase in exports in January - April 2017 are the groups of raw materials - by EUR 387.6 million (13.8% y/y growth) and exports of investment goods by EUR 172.3 million or by 9.3% y/y increase. Exports of consumer goods increased by EUR 86.8 million or by 4.2% y/y. The volume of exported energy goods increased by EUR 296.7 million or by 54.0% y/y. For a period of one year, exports of chemical products decreased by 5.2%, raw materials by 15.1%, fertilizers by 20.5%, cement by 1.4%, tobacco by 20.3%, beverages by 8% b and clothing and shoes by 3.9%. *By commodity groups*, the largest growth of exports in January - April 2017 was observed in the groups of basic metals and their products (17.7%), mineral products and fuels (11.3%), machinery, vehicles, Chemical products, plastics and rubber (10.4%), textiles, leather goods, clothing, footwear and other consumer goods (13.2%) and products of animal and vegetable origin (13.1%). In January-April 2017, exports to the European Union increased by EUR 421.9 million (8.6%) on an annual basis, with a share of total exports shrinking from 67.4% in January-April 2016 to 64.8% in the same period in 2017. For a period of one year, exports to Germany increased by EUR 149.2 million (14.9%) and Belgium by EUR 141.0 million (94.5%). Exports to Italy decreased (by 10.5%) and to Spain (by 9.8%). For the period January - April 2017. Exports to non-EU countries increased by EUR 522.5 million (22.1%), with a share of total exports increasing from 32.6% in January-April 2016 to 35.2% in January-April 2017. The largest contribution to the increase was for exports Turkey (up by EUR 165.4 million, 20%), China (EUR 146.1 million, 25.8%), Serbia (by EUR 135.7 million or 23.3%). Exports to Germany (14% of total exports, EUR 1148.5 million), Italy (8.5%, EUR 700.4 million), Romania (7.8%, EUR 644.6 million), Turkey (8.7%, EUR 713.3 million) and Greece (6.4%, EUR 528.6 million). For January-April 2017, imports (CIF) amounted to EUR 9058.8 million against EUR 7566.7 million in the same period in 2016, rising by EUR 1492.3 million or 19.7% y/y. *By way of use*, primary commodity inputs (CIF) for January-April 2017 rose by 16.7% y/y (with an annual growth of EUR 509.8 million), investment goods by 13.1% (EUR 278.3 million), consumer goods with a growth of 9.8% (EUR 177.8 million). Energy commodities again contributed most to the increase in imports, with an increase of 68.5% y/y and an increase of EUR 615.4 million. *By commodity groups*, the largest increase of imports (CIF) in January - April 2017 was observed on mineral products and fuels (71%, EUR 821.8 million), followed by basic metals and their products (28.8%, EUR 214.0 million), food, beverages, tobacco (14.3%, EUR 125.8 million), chemicals, plastics and rubber (8.5%, EUR 127.6 million), textiles, leather goods, clothing, shoes and other consumer goods (3.2%, EUR 28.2 million), wood, paper, ceramics and glass (1.8%, EUR 5.3 million). Imports from the European Union grew on an annual basis by EUR 360.4 million (11%), with a share of total imports shrinking from 55.5% in January-March 2017 to 50.9% in the same period in 2017. Most Imports from Poland increased by 59.8 million euro (29.7%), Romania by 79.1 million (26.2), Czech Republic by 28.2 million (22.8%), Greece by 40.7 EUR million (19.1%). Imports from countries outside the European Union grew on an annual basis by EUR 404.0 million (9%), with a share of total imports falling from 56.2% in January - April 2016 to 51.1% in the same period in 2017. Imports from the European Union grew on an annual basis increased by EUR 404.6 million (9% y/y), with its share in total imports shrinking from 56.2% in January - April 2017 to 51.1% in the same period in 2017. The most increases on an annual basis reported the import from Romania by EUR 107.7 million (26.3%), Poland by EUR 57.6 million (15.8%), Germany—with EUR 50.3 million (5.1%). The imports from non-EU countries increased on an annual basis by EUR 1179.9 million (33.9%), with its share of total imports rising from 43.8% in January - April 2016 to 48.9% in the same period in 2017. Russia's biggest contribution to imports growth was



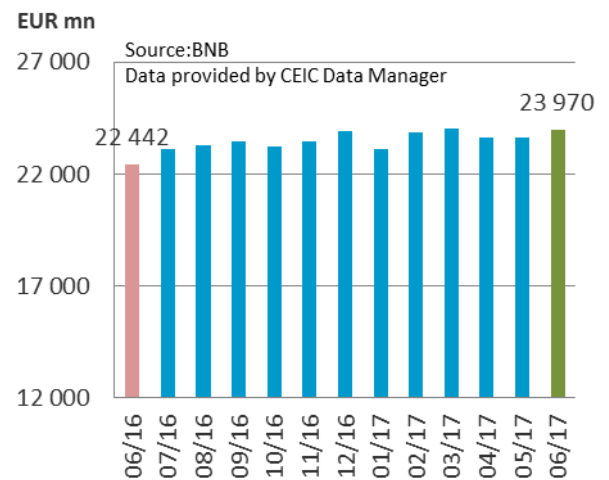
EUR 444.4 million (70.5%), while imports from Turkey rose by EUR 79.5 million (16.3%) and China by EUR 61.3 million (9.7%). An indisputable leader in imports for the period January-April 2017 is Iraq with a turnover of EUR 127.6 million or 344% growth rate on an annual basis. Imports from Russia presented 11.3% of total imports (EUR 1074.9 million), Germany (10.9% of total imports, EUR 1040.0 million), China (7.3%, EUR 693.9 million) and Turkey with relative share of 5.9% (or EUR 566.1 million).

Foreign reserves

In June 2017 the BNB's international reserves amounted to BGN 46.9 billion (EUR 23.970 billion), rising by 1.3% m/m and 6.8% y/y, respectively

According to the BNB data, in June 2017 the BNB's international reserves amounted to BGN 46.9 billion (EUR 23.970 billion), rising by 1.3% m/m and is 6.8% y/y, respectively. Cash and foreign currency denominated deposits are in the amount of BGN 19.192 billion, increasing by 4.0% m/m and 71.6% y/y, respectively. Monetary gold and other monetary gold instruments are in the amount of BGN 2.769 billion, reporting a decrease with respectively 3.5% m/m/ and 7.6% y/y. Investments in securities decrease with 0.2% m/m and 16.1% y/y and they are in the amount of BGN 24.921 billion. Notes and coins in circulation are in the amount of BGN 14.215 billion, increasing with 2.1% compared to the previous month and 12.3% compared to the same month of the previous year. Liabilities to banks are in the amount of BGN 13.623 billion, decreasing by 1.8% m/m, but increasing with 15.7% y/y. Liabilities to Government and to government budget institutions are in the amount of BGN 11.781 billion, reporting an increase of 0.3% m/m and a decrease of 3.4% y/y. Liabilities to other depositors grow by 78.3% m/m and 50.8% y/y and are the amount of BGN 1.526 billion. Banking Department deposit is in the amount of BGN 5.737 billion and decreases with 2.7% m/m and 8.2% y/y. Bulgaria's international liquidity position, calculated as a ratio of the international reserves and to the short-term external debt as of the end of April 2017 is 294.7% compared to 285.5% for April 2016.

Foreign Reserves



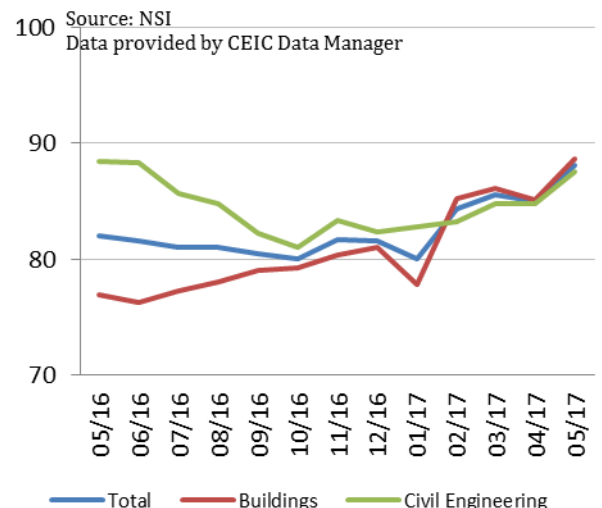
REAL SECTOR

Construction

In May 2017 the index of production in section 'Construction' was 3.7% above the level of the previous month

According to the preliminary data of the NSI, in May 2017 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 3.7% above the level of the previous month. In May 2017 working day adjusted data showed an increase by 12.0% in the construction production, compared to the same month of 2016. In May 2017 the construction production, calculated from the seasonally adjusted data, was above the level of the previous month. Index of production of building construction increased by 4.1% and the production of civil engineering - by 3.2%. On an annual basis in May 2017, the increase of production in construction, calculated from working day adjusted data, was determined from the positive rate in the building construction, where the growth was by 19.3%, and the civil engineering - by 3.9%.

Construction Production index, seasonally adjusted data



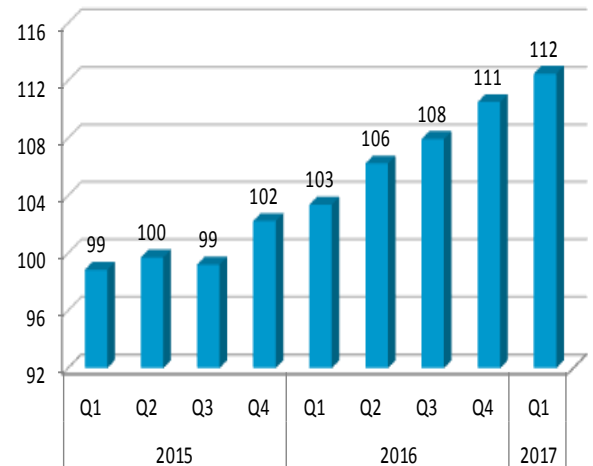
Housing market

The House Price indexes in Bulgaria slightly increase, influenced by the negative and low levels of inflation, which stimulate households to re-direct their free funds from deposits into residential investments

According to data of the Registry Agency, the total number of real estate transactions in Q2 2017 is 47% higher than the generally inactive Q1 but by 2.8% less compared to Q2 2016. At the end of H1 2017 transactions reached 93,674, which is 5.5% y/y less than. At the same time, the withdrawn mortgages for the period April-June 2017 were 16,816 and increased by almost 39% q/q. On an annual basis, growth stood at 30.8%. For H1 2017 the total number of mortgages is slightly below 28,900, up 29% y/y. In Sofia the number of transactions in Q2 2017 was 7,442, up by 48% q/q and almost 9% y/y, respectively. The number of transactions for H1 2017 is 12,465, up 4% compared to the same period in 2016. For the mortgages granted in Sofia city, the quarterly growth is 45.75% and on an annual basis it is 31%. Typical for the housing market in the country is that in major cities growth is reported in purchases. Apparently, in smaller villages there is a serious outflow of buyers, which reduces demand and leads to a general decline in transactions within the country. More

and more people are heading to big cities in search of work and higher incomes. However, the growth of large city deals is not at the high rates we have seen in previous years. Apparently prices have reached quite high levels, leading to more moderate growth. Besides prices, another reason for slowing growth is that people who postponed buying a home during the crisis have already acquired property. People who buy property just to put their money somewhere already have several apartments and their desire to buy is not so big currently. Of course, many people buy property for investment, but the growth of these deals is not at a high pace since previous years. The market is driven by young families as well as by people moving to larger cities. Property buyers and people with higher incomes who want to move into larger homes. In the explosive recovery of the market more than 2 years ago, the sharp growth in the big cities compensated the inactive smaller markets in the country, becoming the motor of the entire property sector. Now, however, growth in big cities can not compensate for the decline in smaller ones. Other factors that affect the data of the Registry Agency are the growing deals with properties under construction which are not reported anywhere until their final confession. Meanwhile, mortgages continue to account for strong growth, which is an indication of strong refinancing activity due to more favorable interest rates currently.

House Price Index (HPI)

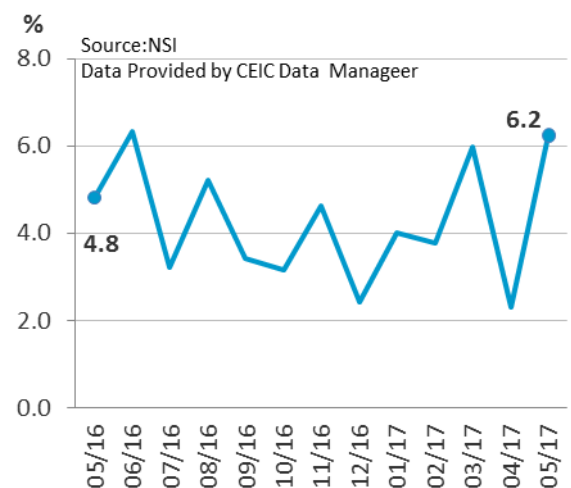


Retail trade

In May 2017 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 1.3% compared to the previous month

According to the preliminary seasonally adjusted data of the NSI, in May 2017 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 1.3% compared to the previous month. In May 2017, the working day adjusted turnover in 'Retail trade, except of motor vehicles and motorcycles' increased by 6.2% in comparison with the same month of the previous year. In May 2017 compared to the previous month, the turnover increased more significantly in the 'Retail sale of computers, peripheral units and software; telecommunications equipment' by 5.1%, in the 'Retail sale via mail order houses or via Internet' by 2.5%, in the 'Retail sale in non-specialised stores' by 2.4%, in the 'Retail sale of audio and video equipment; hardware, paints and glass; electrical household appliances' by 2.1%. In May 2017 compared to the same month of 2016, the turnover increased more significantly in the 'Retail sale in non-specialised stores' by 19.7%, in the 'Retail sale of textiles, clothing, footwear and leath-

Retail trade index, % change (YoY)



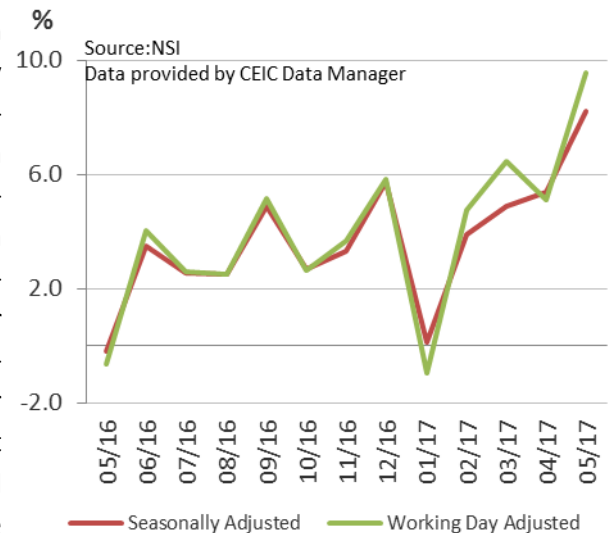
er goods' by 18.9%, in the 'Retail sale of computers, peripheral units and software; telecommunications equipment' by 18.1%, in the 'Retail sale of audio and video equipment; hardware, paints and glass; electrical household appliances' by 14.7%, in the 'Dispensing chemist; retail sale of medical and orthopaedic goods, cosmetic and toilet articles' by 12.2%. A decrease was registered only in the 'Retail sale of automotive fuel' - 11.8%.

Industrial production

In May 2017, the Industrial Production Index, seasonally adjusted, increased by 2.7% as compared to April 2017

According to the preliminary data of the NSI, the Industrial Production Index, seasonally adjusted, increased by 2.7% in May 2017 as compared to April 2017. In May 2017 working day adjusted Industrial Production Index rose by 9.6% in comparison with the same month of 2016. In May 2017 as compared to April 2017, the seasonally adjusted Industrial Production Index increased in the mining and quarrying industry by 3.8%, in the manufacturing by 2.6%, and in the electricity, gas, steam and air conditioning supply by 2.9%. The most significant increases of production in the manufacturing were registered in the manufacture of basic pharmaceutical products and pharmaceutical preparations by 13.9%, in the repair and installation of machinery and equipment by 13.0%, in the manufacture of machinery and equipment by 10.4%, in the manufacture of other transport equipment by 9.3%, in the manufacture of electrical equipment by 7.2%. There were decreases in the manufacture of fabricated metal products, except machinery and equipment by 11.7%, in the manufacture of computer, electronic and optical products by 8.1%, in the manufacture of chemicals and chemical products by 2.7%. On annual basis in May 2017 Industrial Production Index calculated from working day adjusted data increased in the manufacturing by 13.5% and in the mining and quarrying industry by 6.1%, while in the electricity, gas, steam and air conditioning supply a decrease by 3.6% was seen. In the manufacturing, the more significant increases compared to the same month of the previous year were seen in the manufacture of tobacco products by 60.1%, in the manufacture of basic metals by 41.9%, in the manufacture of fabricated metal products, except machinery and equipment by 37.2%, in the manufacture of machinery and equipment by 34.0%, in the repair and installation of machinery and equipment by 14.6%. Decreases were registered in the manufacture of textiles by 5.5%, in the manufacture of wearing apparel by 2.6%.

Industrial production Index, % change, YoY



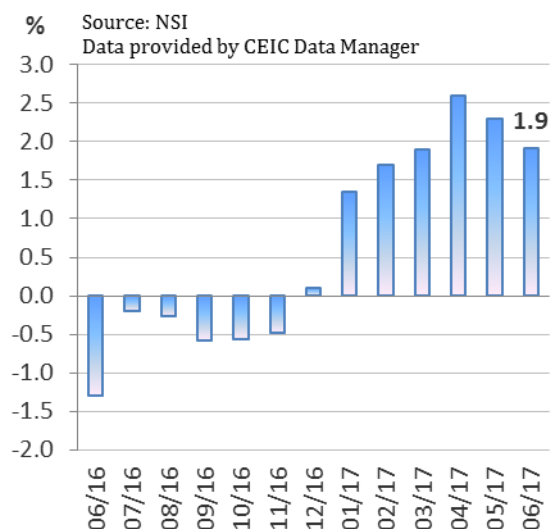
of computer, electronic and optical products by 8.1%, in the manufacture of chemicals and chemical products by 2.7%. On annual basis in May 2017 Industrial Production Index calculated from working day adjusted data increased in the manufacturing by 13.5% and in the mining and quarrying industry by 6.1%, while in the electricity, gas, steam and air conditioning supply a decrease by 3.6% was seen. In the manufacturing, the more significant increases compared to the same month of the previous year were seen in the manufacture of tobacco products by 60.1%, in the manufacture of basic metals by 41.9%, in the manufacture of fabricated metal products, except machinery and equipment by 37.2%, in the manufacture of machinery and equipment by 34.0%, in the repair and installation of machinery and equipment by 14.6%. Decreases were registered in the manufacture of textiles by 5.5%, in the manufacture of wearing apparel by 2.6%.

Inflation

Since the beginning of the year (June 2017 compared to December 2016) the inflation rate has been 0.7% and the annual inflation in June 2017 compared to June 2016 was 1.9%

According to the NSI data, the consumer price index in June 2017 compared to May 2017 was 99.5%, i.e. the monthly inflation was -0.5%. The inflation rate since the beginning of the year (June 2017 compared to December 2016) has been 0.7% and the annual inflation in June 2017 compared to June 2016 was 1.9%. The annual average inflation, measured by CPI, in the last 12 months (July 2016 - June 2017) compared to the previous 12 months (July 2015 - June 2016) was 0.8%. In June 2017 compared to the previous month the prices of goods and services in the main consumer groups that changed significantly are as follows: Food and non-alcoholic beverages - a decrease of 1.2%; Clothing and footwear - a decrease of 0.6%; Transport - a decrease of 1.6%; Restaurants and hotels - an increase of 0.9%; The harmonized index of consumer prices in June 2017 compared to May 2017 was 99.8%, i.e. the monthly inflation was -0.2%. The inflation

Inflation, YoY



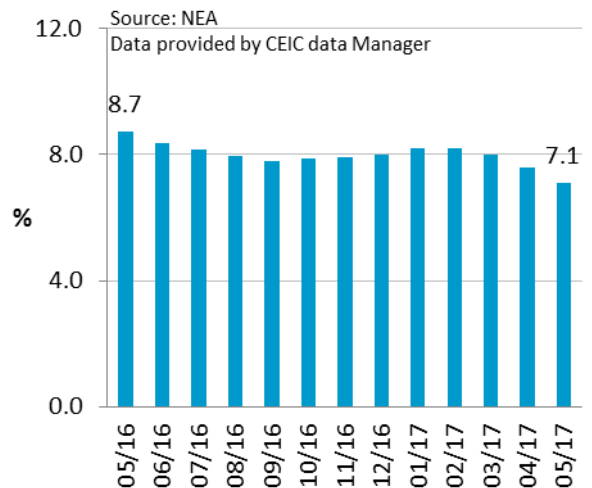
rate since the beginning of the year (June 2017 compared to December 2016) has been 0.3% and the annual inflation in June 2017 compared to June 2016 was 1.1%. The annual average inflation, measured by HICP, in the last 12 months (July 2016 - June 2017) compared to the previous 12 months (July 2015 - June 2016) was 0.1%.

Unemployment

In May 2017 the number of the registered unemployed in the labor offices is 233 829, decreasing with 6.3% m/m and 18.3% y/y

According to the National employment agency, in May 2017 the number of the registered unemployed at labor offices is 233 829, decreasing with 6.3% compared to the previous month, and 18.3% yearly. The level of the registered unemployment in May 2017, defined as a share the registered unemployed to economically active population at the age of 15-64, set with the Census 2011 is 7.1%. There is a decrease at the level of unemployment both in comparison with the previous month and on annual base, respectively with 0.5 pp and 1.5 pp. In May 2017 total 26 750 unemployed started work, increasing on monthly and annual bases, respectively with 6.0% and 10.1%. In May 2017 in the labor offices were announced total 23 875 job vacancies, reporting a decrease of 4.0% compared to April and an increase of 8.2% compared to the same month of the previous year. The declared job vacancies for the primary market constitute 83.5% of the total declared job vacancies, for programs – 8.6%, on schemes of Operational Programme Human Resources Development – 4.6% and measures of the Employment

Registered Unemployment Rate



Promotion law – 3.3%. On the primary market, there have been announced 19 939 job vacancies, decreasing with 13.2% compared to the previous month and increasing with 6.3% on annual. More than 2/3rd of the job vacancies have been announced by the private sector (82.3%), as their share increases with 1.4 pp compared to April 2017 and 6.9 pp compared to May 2016. In May 2017 most of the job vacancies of the primary market in the labor offices have been announced from: manufacturing industry (5 350); trade (3 463); hotel and restaurant management (3 393); construction (1 384); Agriculture, forestry and fisheries (1 329); Administrative and support activities (921); Real estate transaction (779); Transport, storage and mail services (721); Government management (453) and etc.

FISCAL SECTOR

Government budget

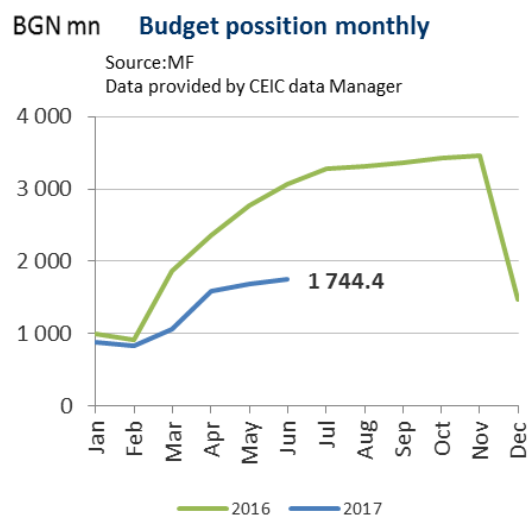
As of May 2017 the CFP balance on a cash basis is positive, amounting to BGN 1,683.4 million (1.7% of forecast GDP)

According to the MF data, the CFP balance on a cash basis as of May 2017 is positive, amounting to BGN 1,683.4 million (1.7% of forecast GDP) and is formed by a surplus under the national budget of BGN 1,707.1 million and a deficit under EU funds of BGN 23.7 million. The CFP revenues and grants as of May 2017 stand at BGN 14,716.5 million, or 41.5% of the annual estimates. Compared to the same period of the previous year, tax and non-tax revenues have grown by BGN 876.3 million, (6.6%), while proceeds from grants were lower. Tax proceeds, including revenues from social security and health insurance contributions, total BGN 12,197.2 million, which is 43.5% of the annual plans. Compared to the data for May 2016, tax revenues have risen by 7.7% (BGN 876.1 million) in nominal terms. Revenues from direct taxes amount to BGN 2,425.1 million, or 47.6% of the annual estimates, growing, as compared to same period of the previous year, by BGN 200.4 million (9.0%). Indirect tax revenues amount to BGN 5,886.4 million, or 42.0% of the annual plans. Compared to the data for May 2016, revenues in this group have grown by BGN 222.9 million (3.9%). The VAT proceeds amount to BGN 3,946.5 million, or 44.9% of the plan. Compared to the previous year, VAT revenues have risen by BGN 237.8 million. (6.4%). The amount of the non-refunded VAT as of 31.05.2017 is BGN 67.7 million. The excise duty revenues amount to BGN 1,845.7 million, (36.6% of the annual estimates). Custom duties revenues are BGN 78.1 million or 47.1% of the annual plan. Proceeds from other taxes, including property taxes and other taxes under the Corporate Income Tax Law, amount to BGN 556.6 million, or 56.2% performance of the annual estimates.

Revenues from social security and health insurance contributions are BGN 3,329.0 million, or 42.0% of those planned for the year. Compared to the same period of the previous year these revenues have risen by 14.3% (BGN 416.7 million) in nominal terms. Non-tax revenues amount to BGN 1,980.8 million or 41.6% of the annual plans. Proceeds from grants amount to BGN 538.5 million or 20.4% of the annual plan. When comparing proceeds in terms of grants from this year and from last year, one should bear in mind the base effect in 2016 from the reimbursements by the Commission to Bulgaria of certified expenditures from end-2015 which witnessed the peak of payments under projects from the previous programming period 2007 - 2013. The expenditures under the CFP, including the contribution of the Republic of Bulgaria to the EU budget, amount to BGN 13,033.1 million as of May 2017, which is 35.4% of the annual estimates. For comparison, the expenditures under the CFP for the same period of 2016 amounted to BGN 12,078.5 million. The growth of expenditures as compared to end-May 2016 is mostly due to the higher social security and health insurance payments, a baseline effect on expenditures on pensions from their increase as from July 2016, expenditures on subsidies and growth of insurance payments related to the higher insurance contribution for the Pensions for Persons under Article 69 Fund which increased by 20 percentage points as compared to 2016. Non-interest expenditures amount to BGN 12,247.6 million, which is 35.5% of the annual plans. Non-interest current expenditures as of May 2017 amount to BGN 11,620.5 million, or 41.0% of the annual plans, capital expenditures (including net increment of state reserve) amount to BGN 627.2 million, or 10.1% of the 2017 Annual Budget Law plans. Interest payments amount to BGN 421.7 million, or 51.0% of those planned for 2017. The part of Bulgaria's contribution to the EU budget, paid from the central budget as of 31.05.2017, amounts to BGN 363.7 million, which complies with the current legislation in the area of EU own resources - Council Decision 2014/335/EU, Euratom on the system of own resources of the European Union, Council Regulation (EU, Euratom) No 608/2014 of 26 May 2014 laying down implementing measures for the system of own resources of the European Union, and Council Regulation (EU, Euratom) No 609/2014 of 26 May 2014 on the methods and procedure for making available the traditional, VAT and GNI-based own resources and on the measures to meet cash requirements as amended by Council Regulation (EU, Euratom) No 2016/804 of 17 May 2016. Fiscal reserve as of 31.05.2017 is BGN 12.8 billion, including BGN 12.1 billion fiscal reserve deposits in BNB and banks and BGN 0.7 billion receivables under the EU Funds for certified expenditure, advance payments, etc.

For the first six month of 2017 the Consolidated Fiscal Programme (CFP) balance on a cash basis is expected to be positive, amounting to BGN 1,744.4 million (1.8 % of the projected GDP)

Based on the preliminary data and estimates of MF, the Consolidated Fiscal Programme (CFP) balance on a cash basis for the first six months of 2017 is expected to be positive, amounting to BGN 1,744.4 million (1.8 % of the projected GDP). The national budget balance reports an improvement in structural terms as compared to the first six months of 2016 mainly due to the growth of tax and social security and health insurance contributions, while the balance of EU fund accounts has deteriorated this year due to a baseline effect in 2016 related to the EU grants reimbursed at the beginning of 2016 for expenditures incurred at the end of 2015, being the peak of EU project payments under the previous 2007 - 2013 programming period. As of June 2017, CFP revenues and grants are expected to be BGN 17,483.9 million, or 49.3% of the annual estimates. The performance of tax and non-tax revenues is expected to be 51.3% of the estimates for the year, which is a growth by BGN 1,035.2 million, or by 6.6% as against the same period of the previous year. Grant revenues are lower than the first six months of 2016, with execution expected to be 25.4% compared to the 2017 annual estimates. The Consolidated Fiscal Programme expenditures, including the contribution of the Republic of Bulgaria to the EU budget, are expected to amount to BGN 15,739.5 million, as of June 2017, which accounts for 42.8% of the annual estimates. The expenditures for the same period of last year amount to BGN 14,638.7 million. The increasing expenditures as against the same period of the previous year are mainly due to the higher amount of social security and health insurance payments, the baseline effect of pension expenditures as a result of the increase in July 2016, the subsidy expenditures and the increase in social security contributions linked to the higher contribution to the Pensions Fund for the persons pursuant to Article 69 of the Social Insurance Code by 20 pps as against 2016. The part of Bulgaria's contribution to the EU



budget, as paid from the central budget as of end-June 2017, amounts to BGN 488.3 million, which complies with the existing legislation in the area of EU own resources, i.e. Council Decision 2014/335/EU on the system of own resources of the European Union, Council Regulation (EU, Euratom) No 608/2014 of 26 May 2014 laying down implementing measures for the system of own resources of the European Union and Council Regulation (EU, Euratom) No 609/2014 of 26 May 2014 on the methods and procedure for making available the traditional, VAT and GNI-based own resources and on the measures to meet cash requirements, as amended by Council Regulation (EU, Euratom) 2016/804 of 17 May 2016.

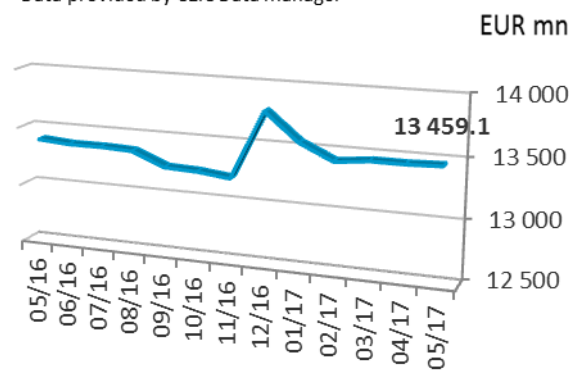
Government debt

As of the end of May 2017 the central government debt stood at EUR 13,459.1 million

According to the data of the MF, the central government debt as at end-May 2017 stood at EUR 13,459.1 million. Domestic debt amounted to EUR 3,263.6 million and external debt - to EUR 10,195.5 million. At the end of the reporting period the central government debt/gross domestic product (GDP) ratio was 27.1%, with the share of domestic debt being 6.6% and of external debt - 20.5%. In the central government debt structure, domestic debt at the end of the period amounted to 24.2%, and external debt - to 75.8%. The weighted average interest rate on debt for the period January - May 2017 is 2.80%, decreasing by 12 basis points as compared to the same period of 2016 (2.92%). In May 2017, the central government guaranteed debt increased to EUR 304.5 million as compared to end-April 2017. Domestic guarantees amounted to EUR 35.4 million, with the central government guaranteed debt/GDP ratio being 0.6%. 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-May 2017 the government debt reached EUR 12,889.0 million, being 25.9% of GDP. Domestic debt amounted to EUR 3,218.5 million and external debt - to EUR 9,670.5 million. Government guaranteed debt in May 2017 amounted to EUR 930.1 million. Domestic guarantees amounted to EUR 35.4 million, the government guaranteed debt/ GDP ratio being 1.9%.

Central Government Debt

Source: Ministry of Finance
Data provided by CEIC Data manager

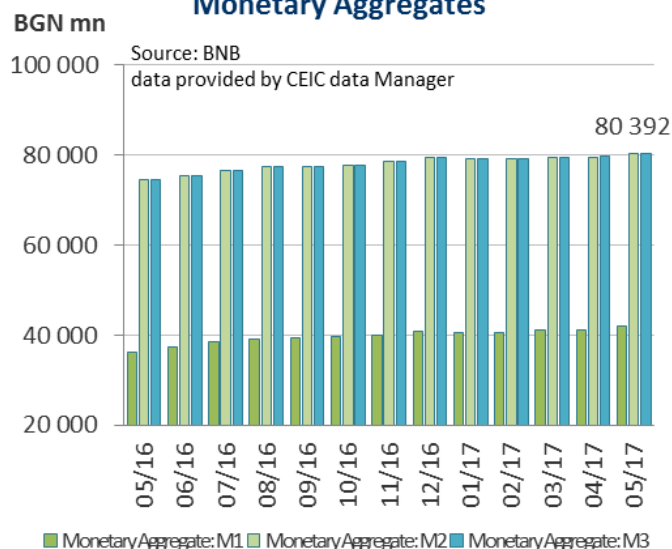


MONETARY SECTOR

In May 2017 broad money (monetary aggregate M3) increased annually by 8% compared to 7.6% annual growth in April 2017

According to the BNB data, in May 2017 broad money (monetary aggregate M3) increased annually by 8% compared to 7.6% annual growth in April 2017. At the end of May 2017 M3 was BGN 80.392 billion (84.4% of GDP) compared to BGN 79.663 billion (83.6% of GDP) in April 2017. Its most liquid component – monetary aggregate M1 – increased by 16.5% annually in May 2017 (16% annual growth in April 2017). At the end of May 2017, deposits of the non-government sector were BGN 69.014 billion (72.5% of GDP), increasing annually by 7.6% (7.6% annual growth in April 2017). Deposits of Non-financial corporations were BGN 19.434 billion (20.4% of GDP) at the end of May 2017. Compared to the same month of 2016 they increased by 10.1% (9% annual growth in April 2017). Deposits of financial corporations increased by 19.6% annually in May 2017 (28.3% annual growth in April 2017) and at the end of the month they reached BGN 3.913 billion (4.1% of GDP). Deposits of Households and

Monetary Aggregates



NPISHs were BGN 45.667 billion (47.9% of GDP) at the end of May 2017. They increased by 5.7% compared to the same month of 2016 (5.5% annual growth in April 2017). Net domestic assets were BGN 49.352 billion at the end of May 2017. They increased by 6.1% compared to the same month of 2016 (5.1% annual growth in April 2017). At the end of the month their basic component – domestic credit – was BGN 50.969 billion and increased by 5.2% compared to May 2016 (3.7% annual growth in April 2017). In May 2017 claims on the non-government sector increased by 4.8% annually (4.5% annual increase in April 2017) reaching BGN 52.792 billion. At the end of May 2017, claims on loans to the non-government sector amounted to BGN 51.621 billion (54.2% of GDP) compared to BGN 51.453 billion (54% of GDP) at the end of April 2017. They increased annually by 4.7% in May 2017 (4.3% annual increase in April 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 149.8 million. On an annual basis, loans sold by Other MFIs were BGN 184.1 million (of which BGN 14.9 million in May 2017), while the amount of repurchased loans was BGN 34.3 million (of which BGN 4.2 million in May 2017). In May 2017, loans to Non-financial corporations increased by 3.3% annually (3.3% annual growth in April 2017) and at the end of the month amounted to BGN 31.016 billion (32.6% of GDP). Loans to Households and NPISHs were BGN 19.127 billion (20.1% of GDP) at the end of May 2017. They increased by 5.8% compared to the same month of 2016 (5.2% annual growth in April 2017). At the end of May 2017 loans for house purchases were BGN 8.955 billion and increased by 3.2% annually (2.7% annual growth in April 2017). Consumer loans amounted to BGN 7.504 billion and compared to May 2016 they increased by 4% (3.4% annual growth in April 2017). On an annual basis other loans increased by 82.7% (78.5% annual growth in April 2017) and reached BGN 1.337 billion. Loans granted to financial corporations were BGN 1.477 billion at the end of May 2017 (1.6% of GDP). Compared to May 2016, they increased by 20% (18.1% annual growth in April 2017). Net foreign assets amounted to BGN 50.425 billion at the end of the reporting month compared to BGN 50.163 billion at the end of April 2017 and increased by 7.3% compared to May 2016 (8.2% annual growth in April 2017). At the end of May 2017 foreign assets increased by 6.9% annually (7.7% annual growth in April 2017), reaching BGN 59.593 billion. Foreign liabilities amounted to BGN 9.169 billion, marking a 5% annual growth (5.1% annual increase in April 2017). According to BNB preliminary data in May 2017, the relative share of bad and restructured loans decreased by 0.7 percentage points on an annual base to 15.3%. Their nominal value amounted to BGN 7.663 billion, incl. BGN 5.150 billion in bad and restructured corporate loans (16.6%) and BGN 2.473 billion in bad and restructured loans to households (12.9%).

Bulgaria	31.12.2016		31.03.2017		30.04.2017		31.05.2017	
Banking sector bad and restructured	BGN'000	%	BGN'000	%	BGN'000	%	BGN'000	%
CORPORATE LOANS	30 576 509	100.0	30 758 242	100.0	31 057 534	100.0	31 016 209	100.0
Standart Loans	25 339 772	82.9	25 556 100	83.1	25 876 648	83.3	25 866 127	83.4
Bad and restructured loans	5 236 737	17.1	5 202 142	16.9	5 180 886	16.7	5 150 082	16.6
HOUSEHOLDS LOANS	18 511 070	100.0	18 784 391	100.0	18 934 204	100.0	19 127 276	100.0
Standart Loans	15 955 985	86.2	16 272 843	86.6	16 448 558	86.9	16 654 654	87.1
Bad and restructured loans	2 555 085	13.8	2 511 548	13.4	2 485 646	13.1	2 472 622	12.9
Consumer loans	7 314 379	100.0	7 386 394	100.0	7 437 276	100.0	7 503 538	100.0
Standart Loans	6 398 282	87.5	6 475 830	87.7	6 528 905	87.8	6 586 354	87.8
Bad and restructured loans	916 097	12.5	910 564	12.3	908 371	12.2	917 184	12.2
Mortgage loans	8 768 195	100.0	8 847 574	100.0	8 896 778	100.0	8 954 654	100.0
Standart Loans	7 262 685	82.8	7 370 248	83.3	7 443 673	83.7	7 521 718	84.0
Bad and restructured loans	1 505 510	17.2	1 477 326	16.7	1 453 105	16.3	1 432 936	16.0
Other Loans	2 428 496	100.0	2 550 423	100.0	2 600 150	100.0	2 669 084	100.0
Standart Loans	2 295 018	94.5	2 426 765	95.2	2 475 980	95.2	2 546 582	95.4
Bad and restructured loans	133 478	5.5	123 658	4.8	124 170	4.8	122 502	4.6
TOTAL LOANS	49 087 579	100.0	49 542 633	100.0	49 991 738	100.0	50 143 485	100.0
Standart Loans	41 295 757	84.1	41 828 943	84.4	42 325 206	84.7	42 520 781	84.8
Bad and restructured loans	7 791 822	15.9	7 713 690	15.6	7 666 532	15.3	7 622 704	15.2

Source: BNB, calculations UBB

CAPITAL MARKET

At the end of June 2017, all indices of the BSE-Sofia increased, the most significant being the increase of the SOFIX benchmark by 41.84 pps to 703.04

According to BSE-Sofia data at the end of June 2017 all stock indices continue to rise. Compared to the previous month, SOFIX, BSE-Sofia benchmark rose by 41.84 pps to 703.04. The BGBX40 and BGREIT ratios are up 3.53 pps and 2.68 pps, respectively, to 134.13 and 113.78. In June 2017, BGTR30 grew up by 18.02 pps to 534.71. For a period of one month, at the end of June 2017, GGIX grew by 15.48 pps to 184.23. In the "Premium", segment, where the BSE-Sofia trades the best Bulgarian public companies, most liquid company as at 31.06.2017 was Chimimport AD - Sofia with 88 deals with shares at a price of 1.791 leva per share, followed by Sopharma AD with 24 deals with shares at a price of 4.500 leva. There is a strong investor interest to Monbat-Sofia and CB CCB AD. The market capitalization of BSE-Sofia as of 30.06.2017 is BGN 9 551 608 816 BGN, and 69.4% (BGN 6 615 381 211) of it is formed by the standard market, 24% (BGN 2 287 169 304) from the premium market and 27% (BGN 635 235 956) from the segment of companies with the special purpose vehicles.

Date	SOFIX	BGBX40	BGREIT	BGTR30
06.2016	455.6	89.2	102.2	377.8
07.2016	458.2	89.6	100.9	381.8
08.2016	464.7	90.0	102.5	384.9
09.2016	504.6	96.1	103.3	404.6
10.2016	531.8	100.9	104.6	420.1
11.2016	562.8	106.4	103.5	439.1
12.2016	586.4	111.3	108.1	459.2
01.2017	602.3	117.0	107.3	470.4
02.2017	611.1	120.6	107.8	486.1
03.2017	634.0	124.9	108.6	503.8
04.2017	657.3	130.3	108.4	519.9
05.2017	661.2	130.6	111.1	516.7
06.2017	703.0	134.0	113.8	534.1

Source: Bulgarian Stock Exchange-Sofia

BANKING SECTOR

At the end of May 2017, the aggregated assets of the banking system in Bulgaria increased by 0.4% m/m and by 6.5% y/y, respectively to BGN 93.4 billion

According to BNB data in May 2017, the net profit of the banking system in Bulgaria amounted to BGN 526 million (compared to BGN 502 million for the same period in 2016). Net interest income decelerated by 4.9% y/y as a result of declining interest income. Impairment of loans and receivables for the first five months of 2017 amounted to BGN 207 million compared to BGN 276 million a year earlier and decreased by 24.8% y/y. Net fee and commission income increased by 7.6 % y/y. Net operating income increased by 45.5% y/y and contributed to the final financial result of the system.

Indicator (BGN"000)	30.05. 2016	30.05. 2017	Y/Y (%)
Interest Income	1 398 388	1 284 612	-8.1
Interest Expense	223 107	166 833	-25.2
Net interest income	1 175 281	1 117 779	-4.9
Impairment	275 843	207 385	-24.8
Fee and commission income	428 447	449 973	5.0
Fee and commission expenses	62 621	56 241	-10.2
Net fee and commission income	365 826	393 732	7.6
Administration costs	669 275	650 521	-2.8
Personal cost	307 998	326 106	5.9
Total operating income, net	1 036 048	1 507 810	45.5
Net Profit	502 059	526 395	4.8

Source:BNB, UBB's Calculations

At the end of May 2017, the aggregated assets of the banking system in Bulgaria increased by 0.4% m/m and by 6.5% y/y, respectively to BGN 93.4 billion. Their relative share in GDP was 95.7%. Gross loan portfolio amounted to BGN 55.1 billion at the end of May and declined by 0.1% in the reporting month, which was influenced by credit sales, but increased by 3.7% on an annual basis. In May, loans to non-financial enterprises declined by BGN 263 million or by 0.8% m/m, but increased by 2% y/y, respectively reaching BGN 33.3 billion. Loans to the general government sector decreased by BGN 38 million or by 5.9% m/m with growth of 3.7% y/y, respectively amounting at BGN 608 million. Credit to financial enterprises increased by 1.8% m/m and by 10.1% y/y, respectively to BGN 2.0 billion. Household loans grew up by BGN 193 million or by 1% m/m and by 5.7% y/y, respectively to BGN 19.2 billion. Deposits from customers in the banking system increased by 0.5% m/m and by 7.2% y/y, respectively totaling BGN 74.9 billion, which presents for 76.7% of full year projected GDP. There was an increase in non-financial enterprises by BGN 478 million with growth of 2.3% m/n and by 10.5% y/y, respectively to BGN 21.4 billion. Deposits in the general government sector decreased by BGN 44 million or by 2.2% m/m reaching BGN 1.9 billion. Deposits of other financial corporations decreased by BGN 31 million or by 0.8% m/m to BGN 4.2 billion. As a result of the increased consumption household deposits decreased by 0.1% m/m with a growth of 5.56% y/y and their amount amounted to BGN 47.5 billion.

Bulgaria	30.05.2016	31.12.2016	31.04.2017	30.05.2017	Change	Change	Change	Share in
Intermediation Indicators	BGN 000	BGN 000	BGN 000	BGN 000	m/m (%)	y/y (%)	yend (%)	GDP (%)
BANKING SYSTEM TOTAL ASSETS	87 677 210	92 094 979	93 016 280	93 406 386	0.4	6.5	1.4	95.7
Loans to central governments	586 758	686 170	646 622	608 273	-5.9	3.7	-11.4	0.7
Loans to non-financial corporations	32 571 000	33 180 349	33 544 299	33 281 802	-0.8	2.2	0.3	34.5
Loans to financial corporations	1 832 263	2 025 583	1 982 025	2 017 779	1.8	10.1	-0.4	2.0
Retail loans, incl.:	18 191 249	18 575 301	19 043 054	19 235 589	1.0	5.7	3.6	19.6
Mortgage loans	8 678 770	8 771 553	8 878 096	8 939 391	0.7	3.0	1.9	9.1
Consumer loans	8 651 996	8 677 385	8 807 719	8 888 986	0.9	2.7	2.4	9.1
Micro credits and other loans	860 483	1 126 363	1 357 239	1 407 212	3.7	n.a.	24.9	1.4
TOTAL LOANS	53 181 270	54 467 403	55 216 000	55 143 443	-0.1	3.7	1.2	56.8
ATTRACTED SOURCES FROM CLIENTS, incl.:	69 929 116	74 129 417	74 563 498	74 563 498	0.0	6.6	0.6	76.7
Local government deposits	1 836 501	1 652 435	1 970 632	1 926 929	-2.2	n.a.	n.a.	2.0
Non-financial corporations deposits	19 340 555	21 375 024	20 901 817	21 379 556	2.3	10.5	0.0	21.5
Financial corporations deposits	3 737 976	3 905 721	4 187 018	4 155 529	-0.8	n.a.	n.a.	4.3
Households and NPISHs deposits	45 014 084	47 196 237	47 504 031	47 476 588	-0.1	5.5	0.6	48.9
Equity	11 639 665	12 133 492	11 935 120	11 877 879	-0.5	2.0	-2.1	
Net profit (annualised)	502 059	1 262 334	412 968	526 395	27.5	4.8		
BANKING INDICATORS (%)								
ROE	10.4	10.4	10.4	10.6	0.0	0.0	0.0	
ROA	1.4	1.4	1.3	1.4	0.0	0.0	0.0	
Capital adequacy	n.a.	22.2	n.a.	n.a.	n.a.	n.a.	n.a.	
Liquidity	37.2	38.2	37.5	37.9	-0.8	0.3	-0.8	
NPL	n.a.	11.1	n.a.	n.a.	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 Calculations

In May 2017 the liquid assets of the banking system in Bulgaria increased by 1.6% to BGN 30.5 billion. The liquidity ratio, calculated under Ordinance No. 11 of the BNB, was high - 37.87%. The equity in the balance sheet of the banking system at the end of May 2017 was BGN 11.9 billion and increased by 2% y/y. In May alone it fell by 0.5% mainly due to dividend distributions.

Macroeconomic projection 2017—2022

For the period 2017-2022 the expectations are the real GDP in Bulgaria to increase slightly from 3.5 % at the end of 2017 to 4 % at the end of 2022, which will be a good prerequisite for the development of the Bulgarian economy. Higher inflows of EU funds and private consumption growth will largely keep the economy in its stable growth rate. A slower than expected absorption of EU funds poses the main downside risk to Bulgaria's economy.

Bulgaria: Real GDP Growth Rate Forecast (%)	2017	2018	2019	2020
BNB (March 2017)	2.8	2.9		
MF (April 2017)	3	3.1	3.2	3.2
IMF(April 2017)	2.9	2.7		
WB (June 2017)	3.2	3.1	3.1	
EC (May 2017)	2.9	2.8		
EBRD (May 2017)	3.2	3		

The average annual inflation in Bulgaria in 2017 – 2022 is expected to be positive at the range of 1.2 % at the end of 2017, to 2.2 % at the end of 2022. The expected increase in international prices will be reflected in higher domestic energy and food prices. They will have a leading positive contribution to the inflation at the end of the year. Service prices are expected to grow slightly, backed by strong domestic demand, while non-food items (excluding energy) will continue to report declines, albeit at a slower pace.

Given the relatively high growth of the economy and increased domestic demand, unemployment is expected to decline to 7.2 % by the end of 2017 to 6.6 % at the end of 2022.

The growth of goods exports towards the end of May 2017 outstripped the growth rate of the economy, which is a sign of improved competitiveness. In 2017, imports are expected to be close to export growth and will depend mainly on imports of energy commodities, the level of inflation and the expansion of domestic consumption. The expectations are the trends to keep to the end of 2022.

Private sector lending will grow on the basis of increased private consumption, improved economic activity, accelerated growth in commodity imports, and accelerating growth in private investment.

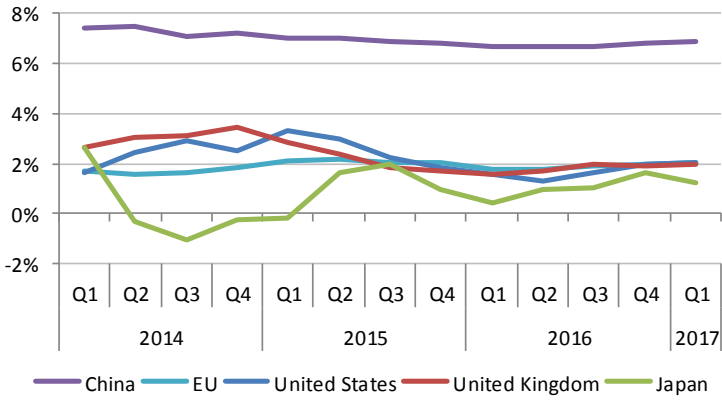
The growth rate of deposits will remain close to that of broad money (monetary aggregate M3). Households will have significant contribution for this trend. The expectations are the trends of the corporate deposits to shrink on the account of investments of the free funds in business development.

Bulgaria: Macroeconomic Indicators	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017(p)
REAL SECTOR										
Gross domestic product (million BGN)	69 295	68 322	74 771	80 759	82 040	82 166	83 634	88 571	92 635	97 156
Gross domestic product (million EUR)	35 430	34 932	38 230	41 291	41 947	42 011	42 762	45 286	47 364	49 675
Gross domestic product (annual nominal growth rate, %)	15.1	-1.4	9.4	8.0	1.6	0.2	1.8	5.9	4.6	4.9
Gross domestic product (annual real growth rate, %)	6.2	2.7	1.3	1.9	0.0	0.9	1.3	3.6	3.4	3.5
Deflator (%)	8.9	-4.1	8.1	6.1	1.6	-0.7	0.5	2.3	1.2	1.4
CPI average (%)	12.3	2.8	2.4	4.2	3.0	0.9	-1.4	-0.1	-0.8	1.2
Industrial production index (annual change, %)	0.7	-18.3	2.0	5.8	-0.4	-0.1	1.8	2.9	2.7	5.9
Unemployment (%)	5.6	6.8	10.2	11.2	11.4	11.8	10.7	10.0	8.0	7.6
Gross domestic product per capita (BGN)	9 280	9 206	10 146	11 022	11 262	11 340	11 612	12 381	12 949	13 581
Gross domestic product per capita (EUR)	4 745	4 707	5 188	5 635	5 758	5 798	5 937	6 330	6 621	6 944
PUBLIC FINANCE										
Deficit(-)/surplus(+) (million BGN)	1 157	-2 959	-2 208	-1 581	-420	-1 400	-3 048	-2 564	1 473	-2 500
Deficit(-)/surplus(+), % of GDP	1.7	-4.3	-3.0	-2.0	-0.5	-1.7	-3.6	-2.9	1.6	-2.6
Government and government guaranteed debt (million BGN)	10 710	10 641	11 778	12 826	14 682	14 894	22 758	23 300	26 800	27 900
Government and government guaranteed debt (% of GDP)	15.5	15.6	15.8	15.9	17.9	18.1	27.2	26.3	28.9	28.7
MONEY SUPPLY AND DOMESTIC CREDIT										
Domestic credit (million BGN)	44 533	47 574	50 022	53 781	55 094	57 062	52 051	53 204	54 468	57 313
Corporate loans (million BGN)	32 649	30 962	31 985	33 162	34 225	33 442	35 751	35 809	35 893	38 000
Retail loans (million BGN)	17 357	18 574	18 475	18 390	18 281	18 365	18 290	18 312	18 575	19 313
Money M3 (Broad money), million BGN	45 778	47 690	50 741	56 956	61 744	67 236	68 006	73 960	79 582	77 400
Corporate deposits (BGN, million)	19 568	17 558	17 752	19 389	19 634	21 612	22 707	24 869	26 933	27 400
Retail deposits (million BGN)	22 168	24 171	27 064	30 345	33 137	35 156	41 003	44 407	47 196	50 000
BNB international reserves (million BGN)	24 865	25 267	25 380	26 108	30 418	28 215	32 338	39 675	46 742	52 300
Domestic credit (% of GDP)	64.3	69.6	66.9	66.6	67.2	69.4	62.2	60.1	58.8	59.0
Money M3 (Broad money), % of GDP	66.1	69.8	67.9	70.5	75.3	81.8	81.3	83.5	85.9	79.7
INTEREST RATES										
Base interest rate	5.12	2.40	0.20	0.20	0.11	0.02	0.03	0.01	0.00	0.00
Interbank money market	5.29	2.43	0.30	0.24	0.11	0.05	0.06	0.02	-0.06	-0.17
SOFIBOR 3 months	7.14	5.72	4.12	3.76	2.25	1.14	0.78	0.54	0.16	0.11
Yield on long-term government securities	4.99	5.50	4.72	4.43	2.96	1.98	2.07	1.50	0.93	1.23
EXTERNAL SECTOR										
Gross external debt (million EUR)	37 246	37 816	37 026	36 295	37 714	36 936	39 357	34 542	34 165	34 000
Gross external debt (% GDP)	105.13	108.26	96.9	87.9	89.9	87.9	92.0	76.3	72.1	68.4
Current account (million EUR)	-8 182	-3 116	-476	361	-358	536	35	172	1 810	800
Exports (million EUR)	15 204	11 699	15 561	20 227	19 675	21 218	21 026	21 919	22 643	23 800
Imports (million EUR)	23 802	15 873	18 325	22 201	23 667	24 151	23 803	24 542	24 433	25 700
Trade balance (million EUR)	-8 598	-4 174	-2 764	-1 975	-3 992	-2 933	-2 777	-2 622	-1 790	-1 900
Foreign direct investment	6 728	2 437	1 151	1 330	1 321	1 384	1 161	1 692	683	650
Current account (% GDP)	-23.1	-8.9	-1.2	0.9	-0.9	1.3	0.1	0.4	3.8	1.6
Trade balance (% GDP)	-24.3	-11.9	-7.2	-4.8	-9.5	-7.0	-6.5	-5.8	-3.8	-3.8
Foreign direct investment (% GDP)	19.0	7.0	3.0	3.2	3.1	3.3	2.7	3.7	1.4	1.3
Currency board: fixed BGN/EUR rate	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558	1.95583	1.95583	1.95583
Exchange rate of BGN/USD	1.36	1.47	1.51	1.48	1.42	1.42	1.61	1.79	1.86	1.81
Population	7 467 119	7 421 766	7 369 431	7 327 224	7 284 552	7 245 677	7 202 198	7 153 784	7 153 784	7 153 784

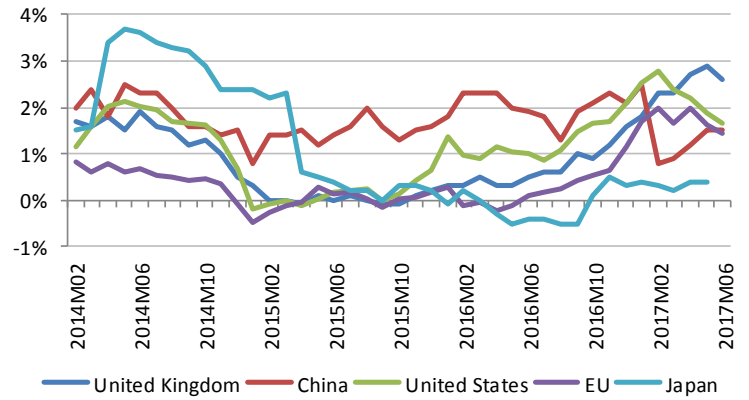
Source: BNB, MF, NSI, EC, UBB's projection

Appendix

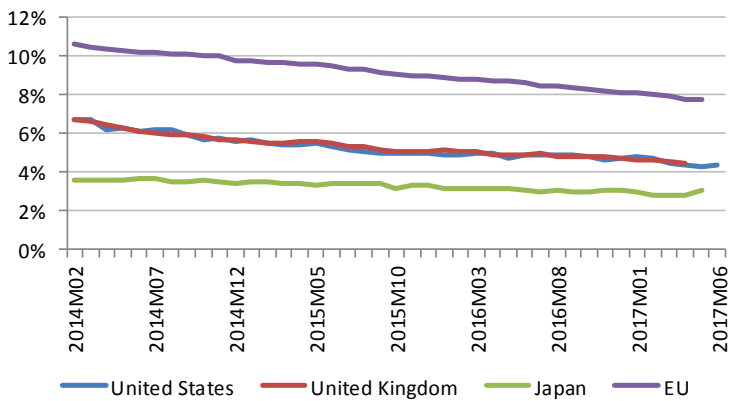
Advanced Economies: GDP growth rate compared to the same quarter of the previous year



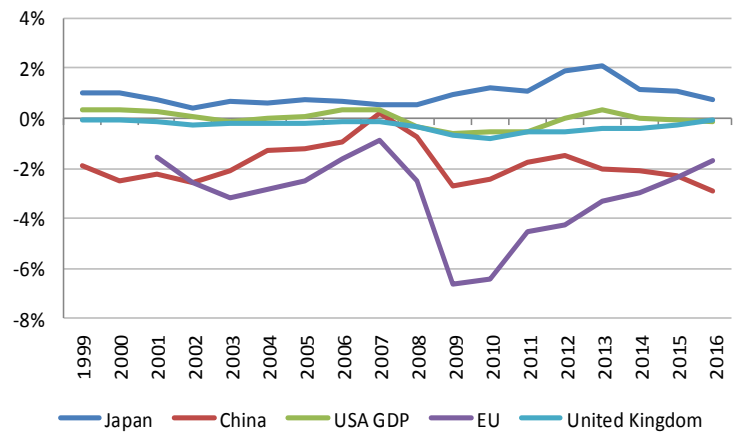
Advanced economies: Inflation by country, monthly (y/y)



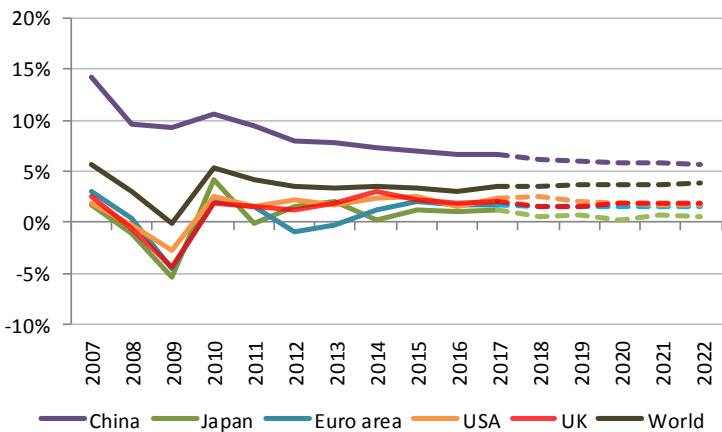
Advanced economies: Unemployment rates (%) by country on monthly basis



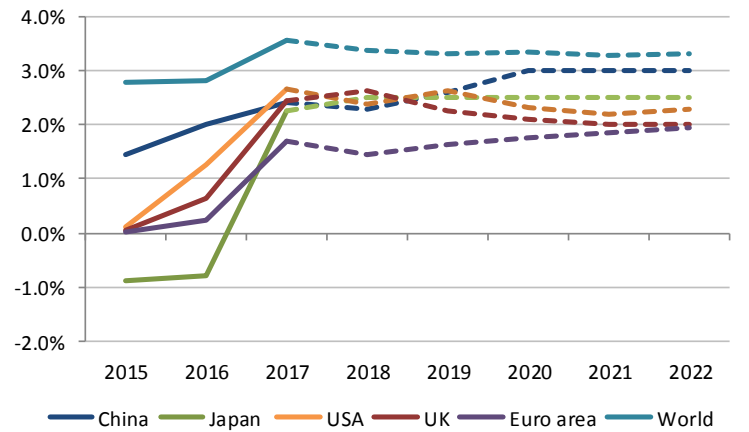
Advanced economies: Budget surplus/deficit to GDP (%)



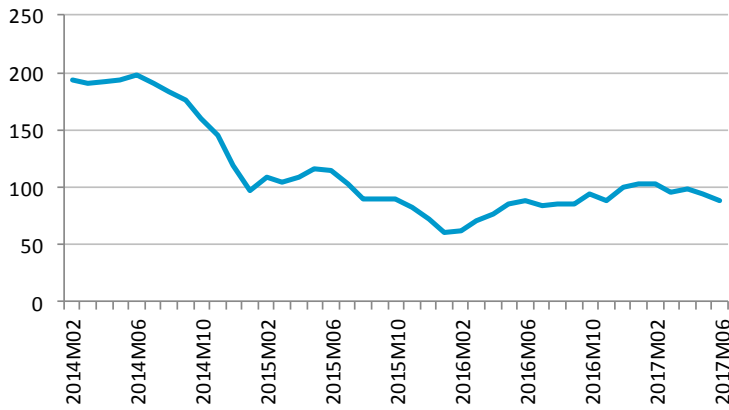
Advanced economies Real GDP Growth Rate (% y/y)



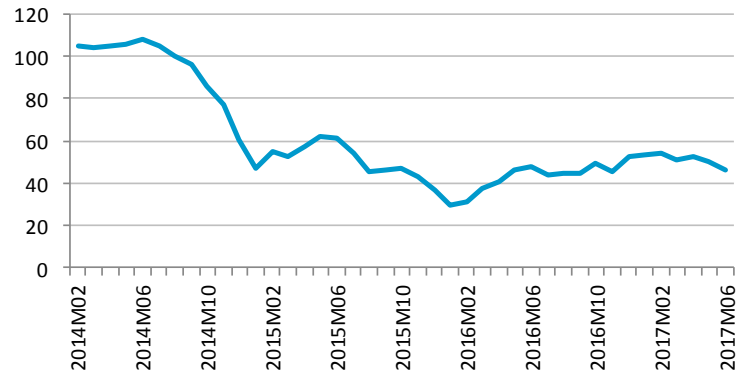
Advanced economies: Inflation average, % y/y



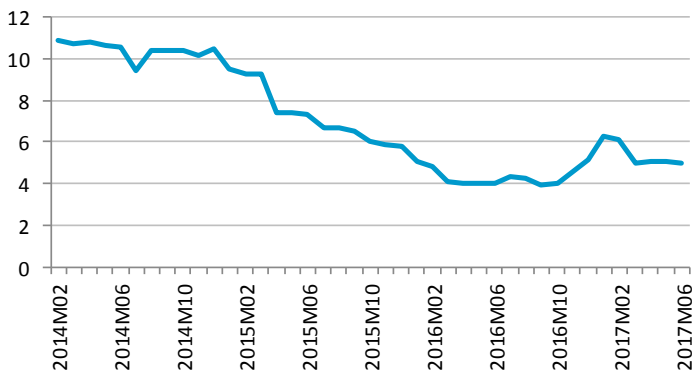
Fuel (Energy) Index, 2005 = 100, includes Crude oil (petroleum), Natural Gas, and Coal Price Indices



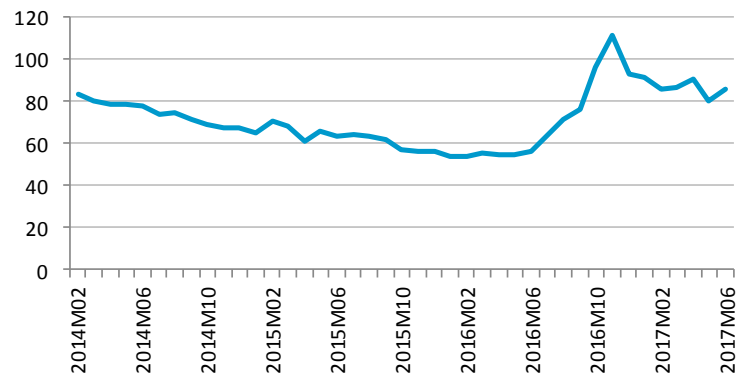
Crude Oil (petroleum), simple average of three spot prices; Dated Brent, West Texas Intermediate, and the Dubai Fateh



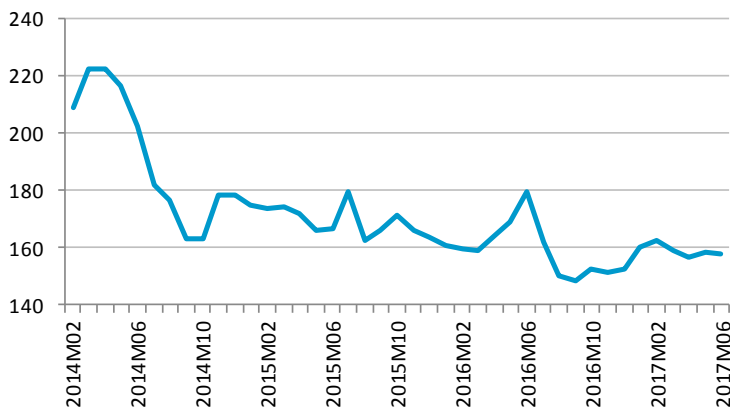
Natural Gas, Russian Natural Gas border price in Germany, US\$ per Million Metric British Thermal Unit



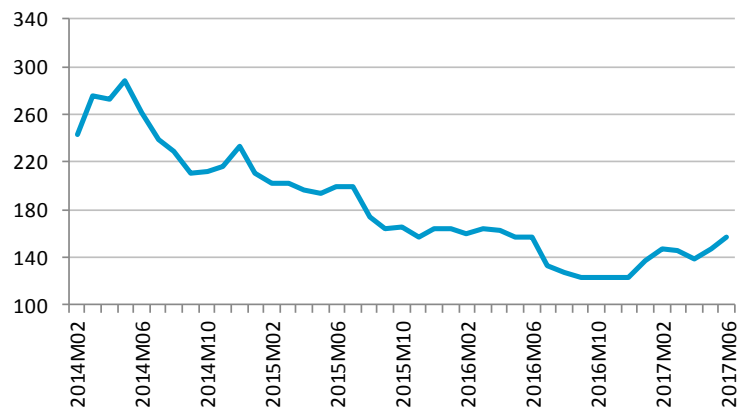
Coal, Australian thermal coal, 12,000- btu/pound, less than 1% sulfur, 14% ash, FOB Newcastle/Port Kembla, US\$ per metric ton



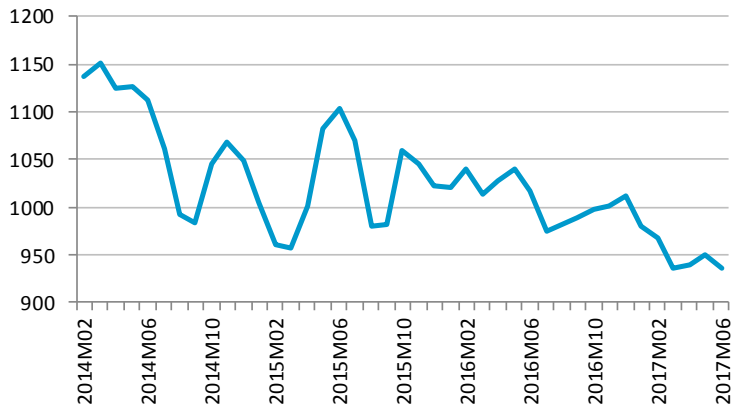
Maize (corn), U.S. No.2 Yellow, FOB Gulf of Mexico, U.S. price, US\$ per metric ton



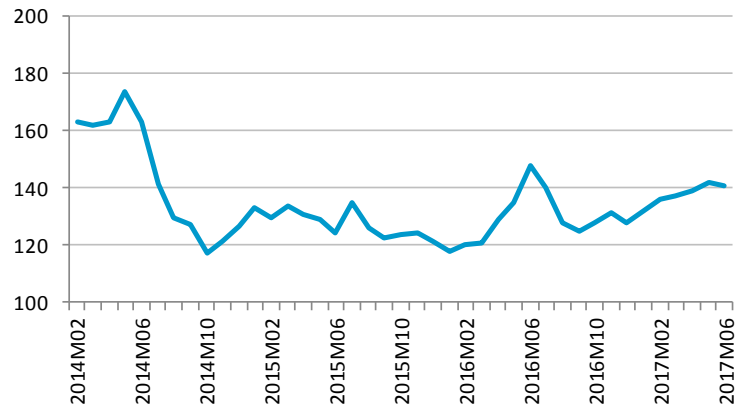
Wheat, No.1 Hard Red Winter, ordinary protein, Kansas City, US\$ per metric ton



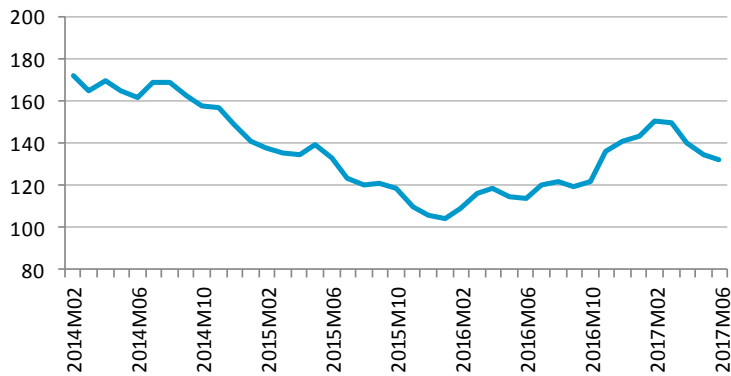
Sunflower oil, Sunflower Oil, US export price from Gulf of Mexico, US\$ per metric ton



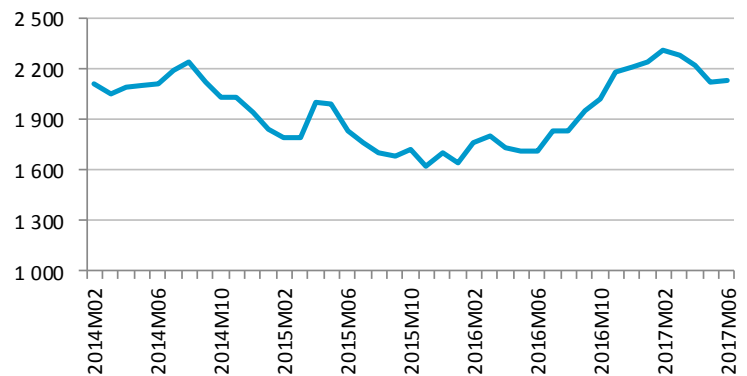
Barley, Canadian no.1 Western Barley, spot price, US\$ per metric ton



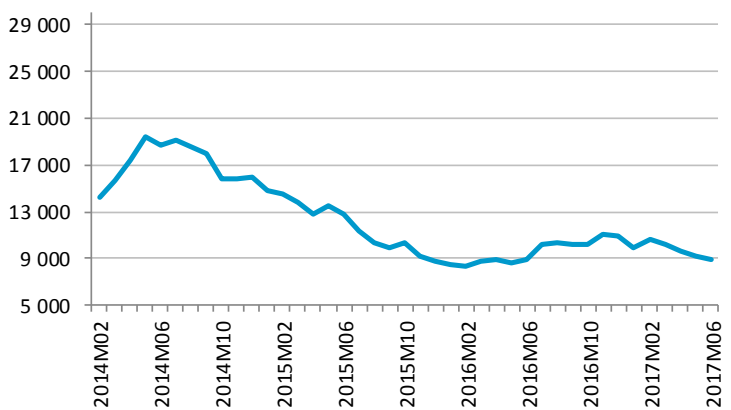
Metals Price Index, 2005 = 100, includes Copper, Aluminum, Iron Ore, Tin, Nickel, Zinc, Lead, and Uranium Price Indices



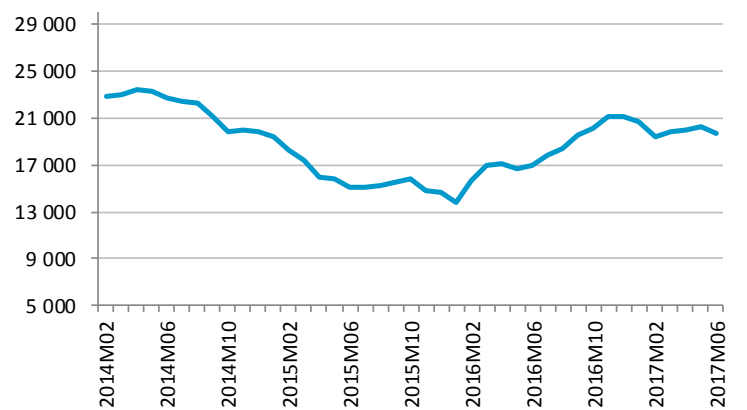
Lead, 99.97% pure, LME spot price, CIF European Ports, US\$ per metric ton



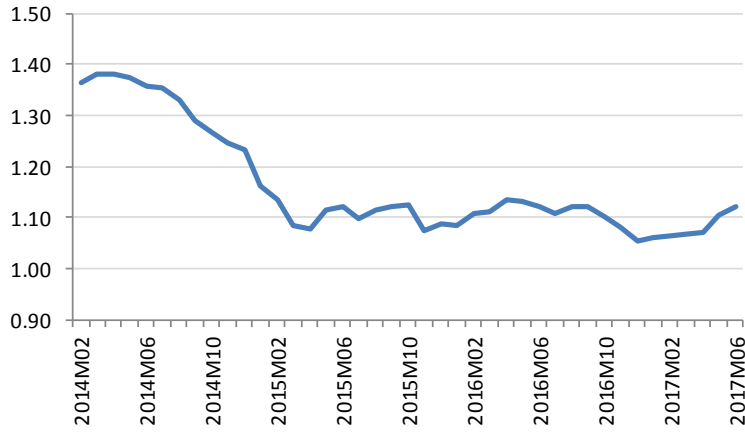
Nickel, melting grade, LME spot price, CIF European ports, US\$ per metric ton



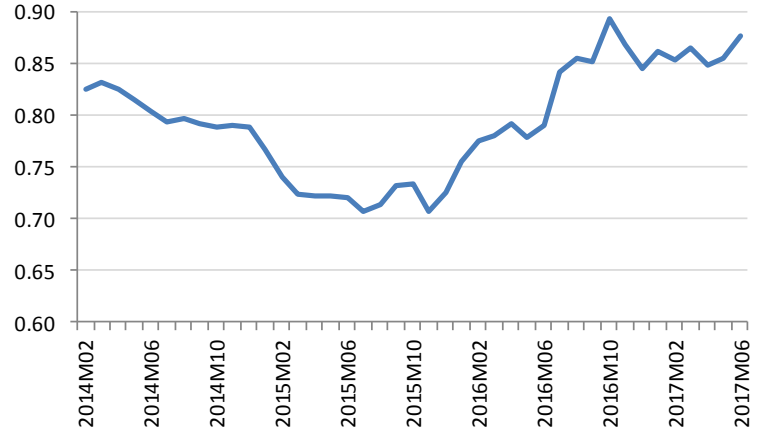
Tin, standard grade, LME spot price, US\$ per metric ton



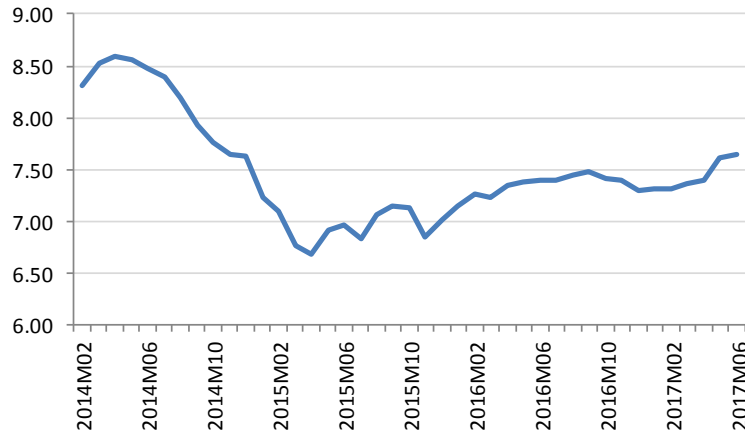
EUR/USD



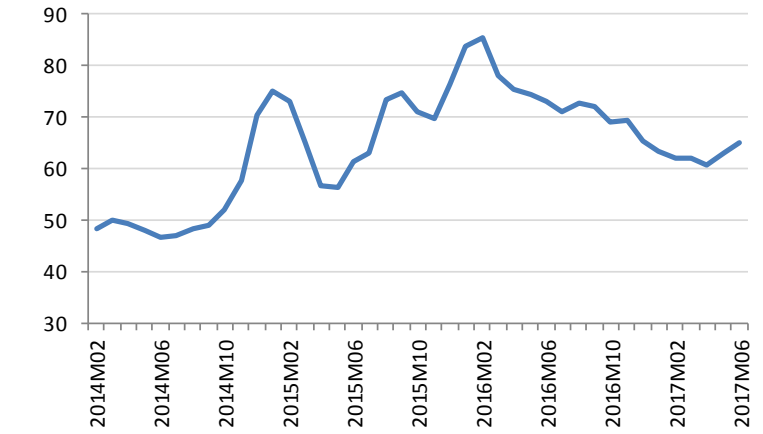
EUR/GBP



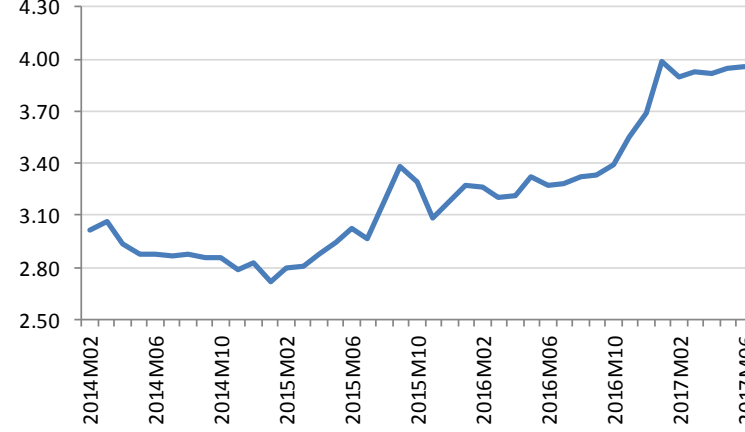
EUR/CHF



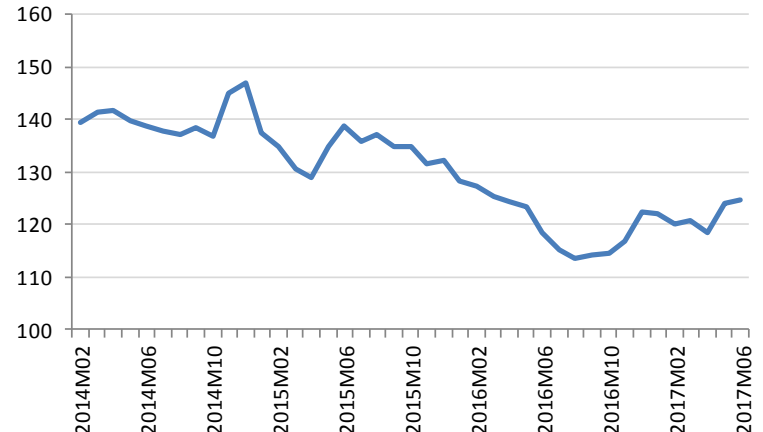
EUR/RUB



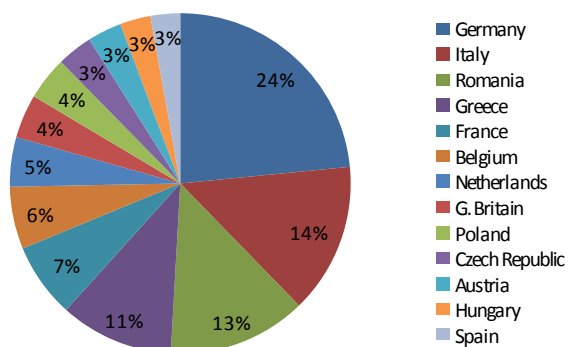
EUR/TRY



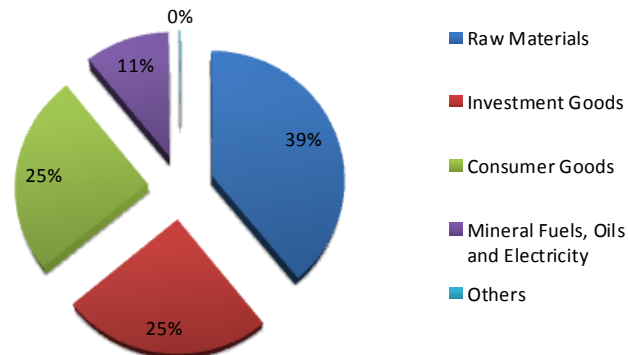
EUR/JPY



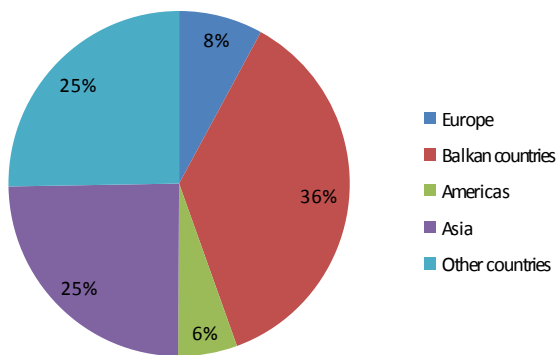
Exports: FOB by EU countries: January - April 2017



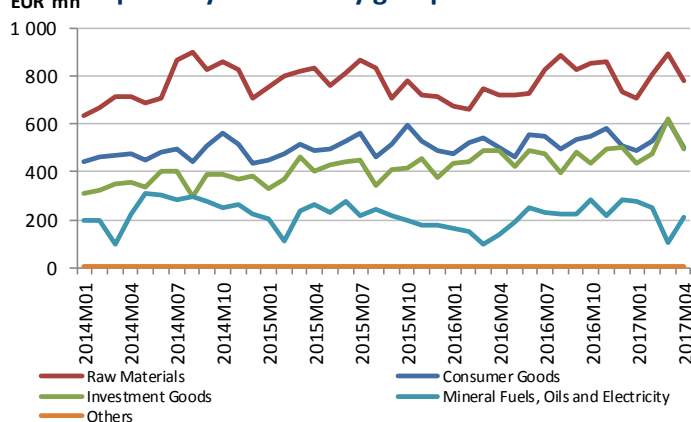
Exports: FOB: Commodity groups - percentage shares for April 2017



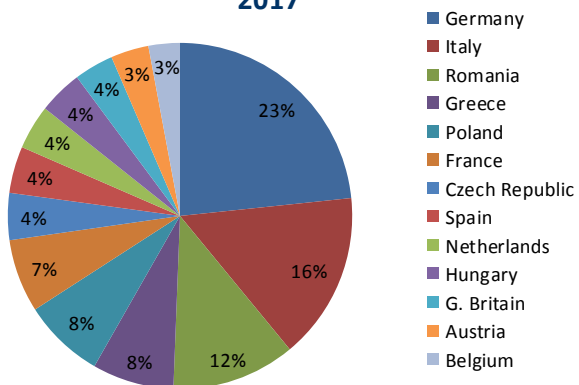
Exports: FOB by Non EU countries: January - April 2017



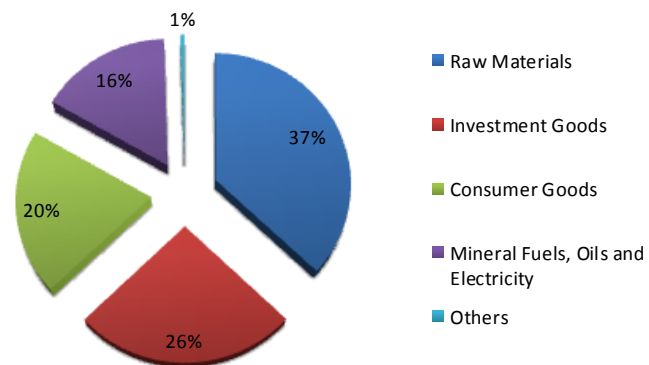
Exports by Commodity groups: 2014 - 2017



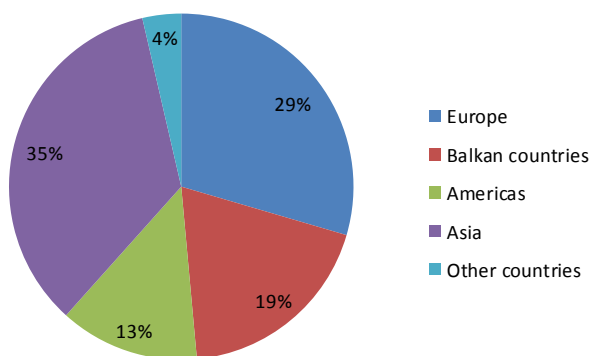
Imports by EU Countries: January - March 2017



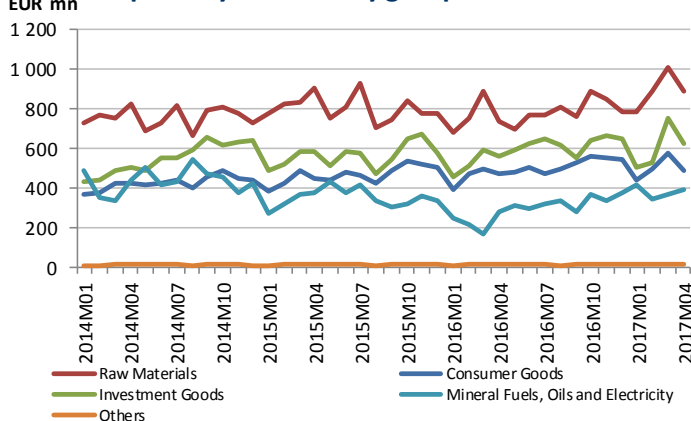
Imports: CIF - Commodity groups - percentage share for April 2017



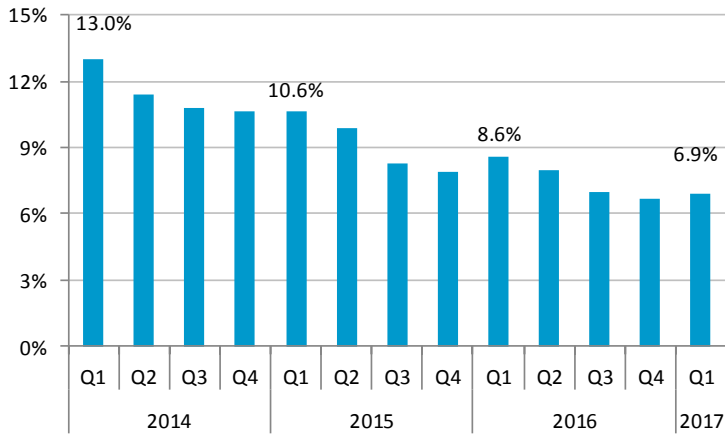
Imports by Non EU Countries: January - April 2017



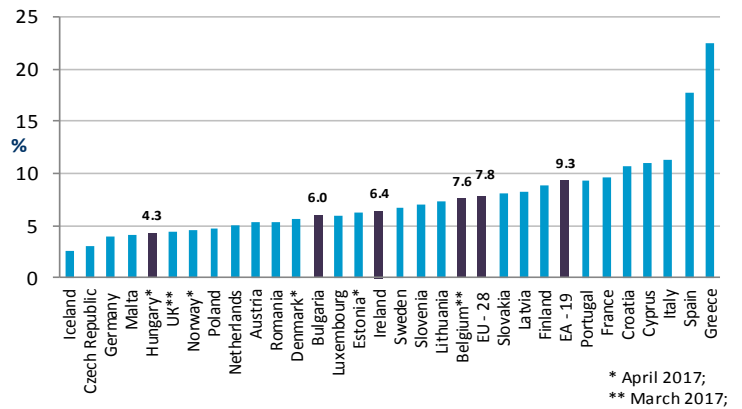
Imports by Commodity groups: 2014 - 2017



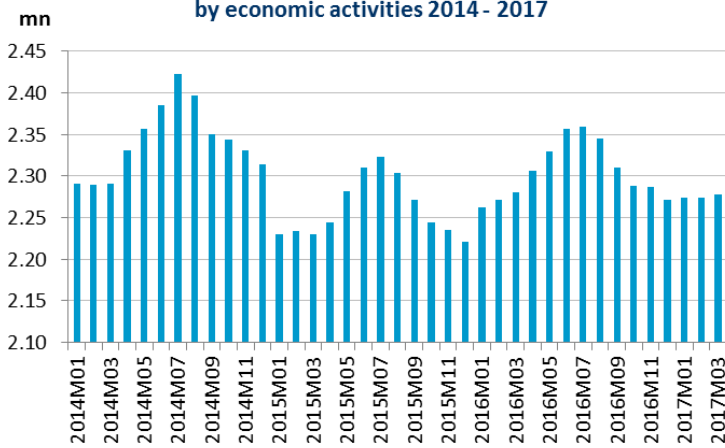
Unemployment Rate: NSI



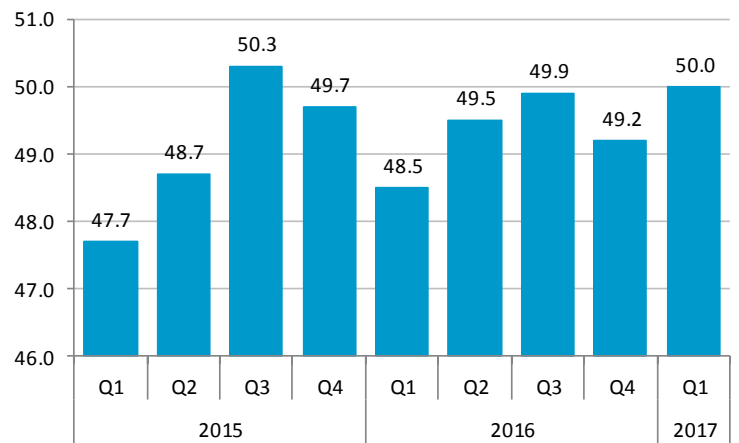
EU: Unemployment rate seasonally adjusted by country May 2017



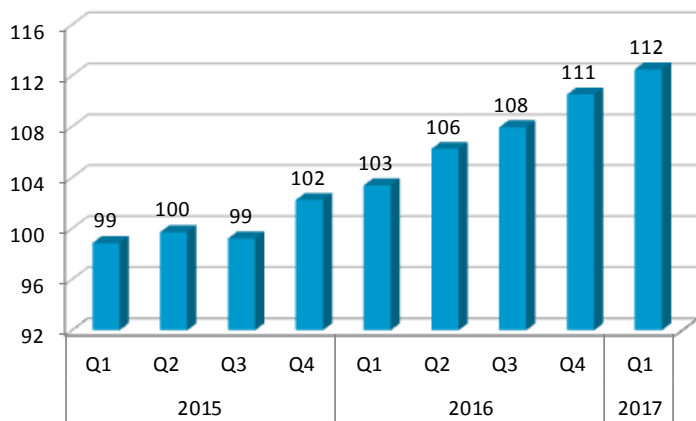
Employees under labour contract at the end of the month by economic activities 2014 - 2017



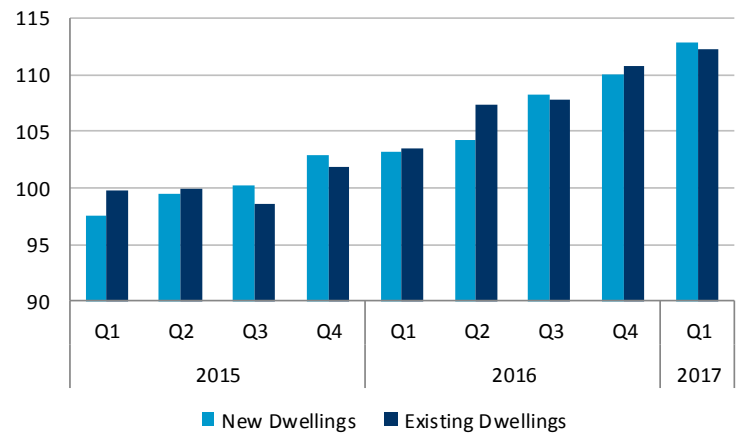
Bulgaria: Employment Rate



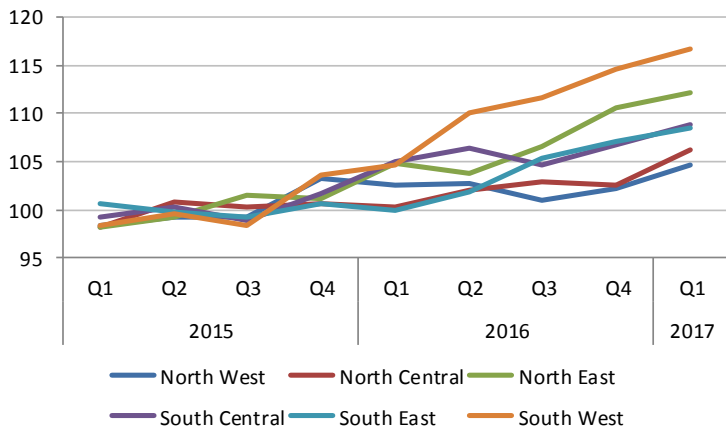
House Price Index (HPI)



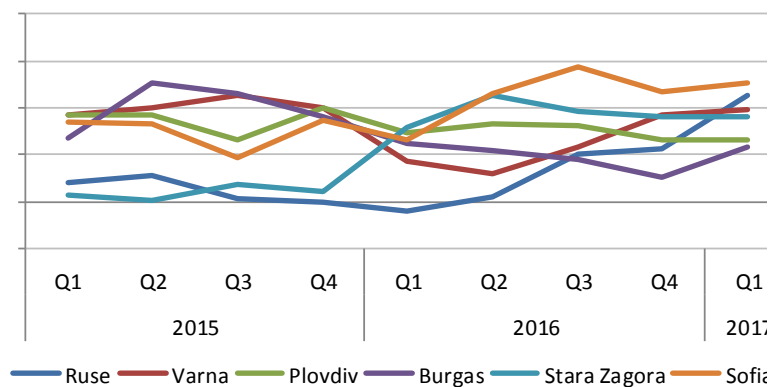
HPI: New and existing dwellings



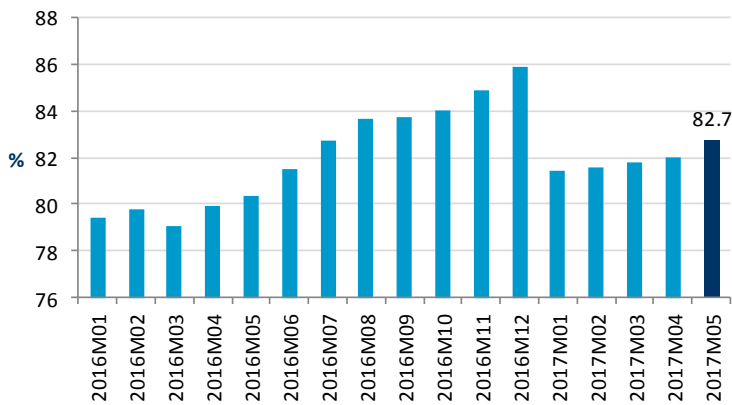
House Price index by regions



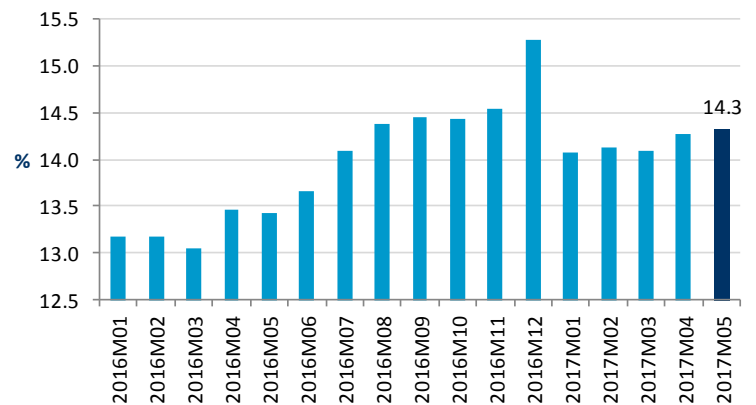
HPI for the 6 cities with population more than 120 000 inhabitants, % change YoY



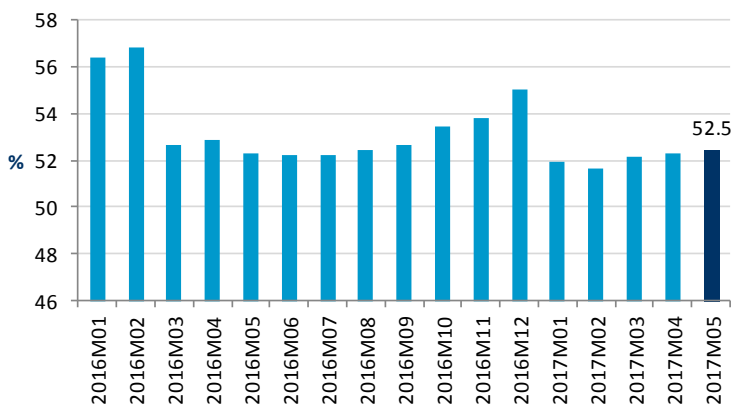
Broad money (monetary aggregate M3)/GDP (%)



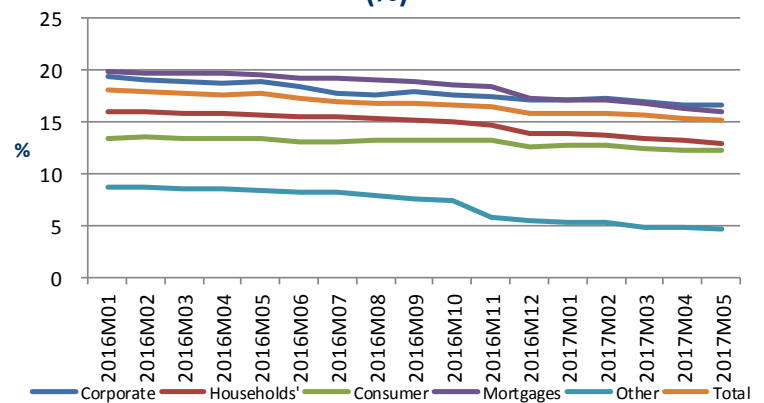
Money in circulation/GDP (%)



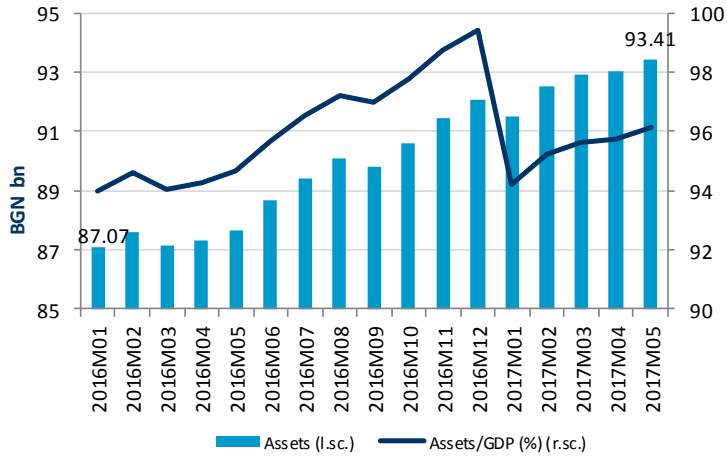
Domestic credit/GDP (%)



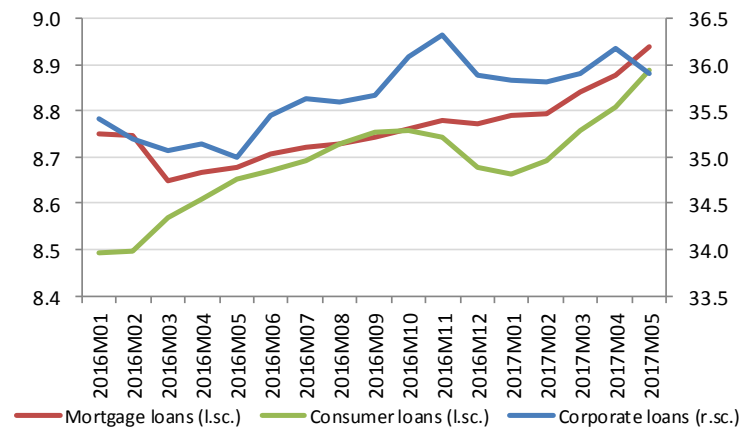
Banking sector: Bad and restructured loans (%)



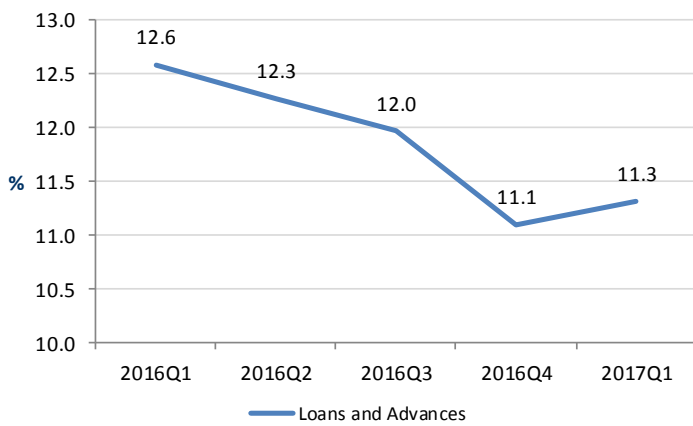
Assets



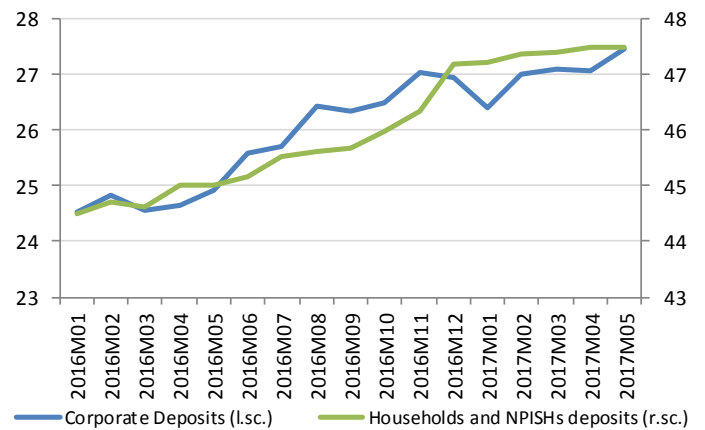
Loans (BGN bn)



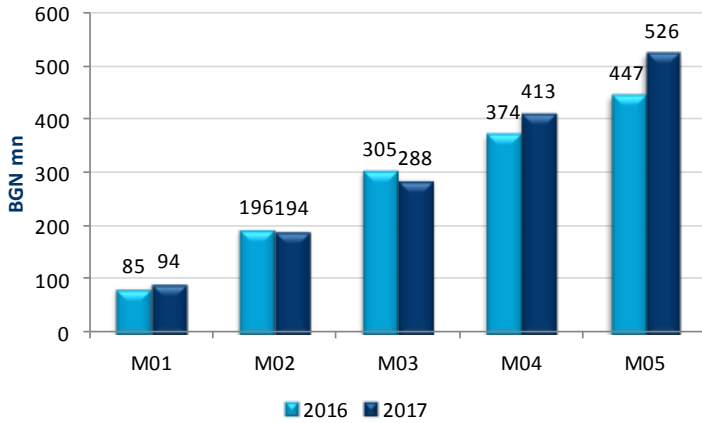
Banking System Non Performing Loans (%)



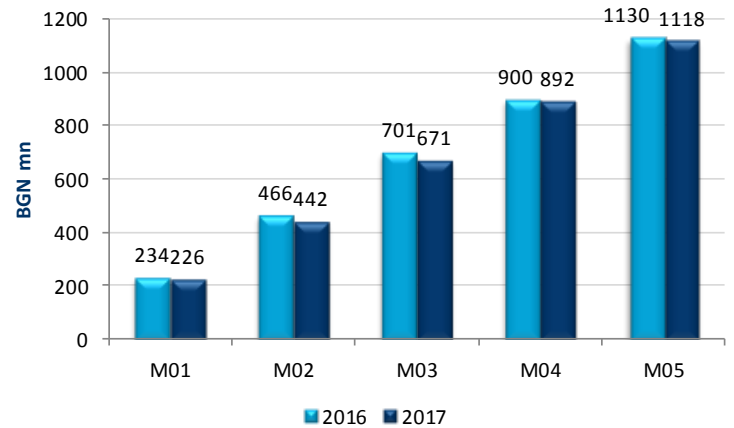
Deposits (BGN bn)



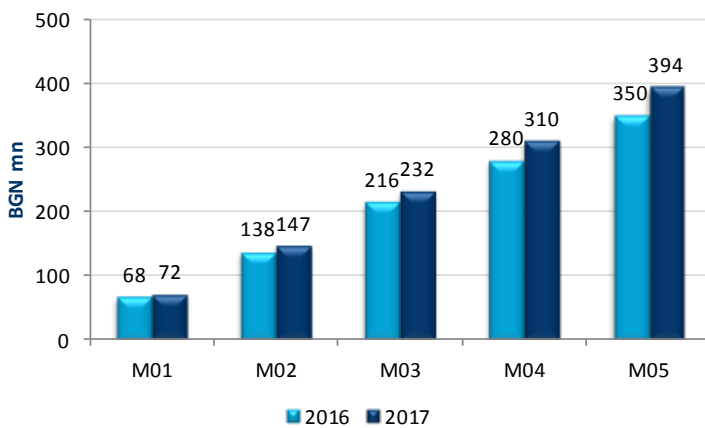
Net Profit



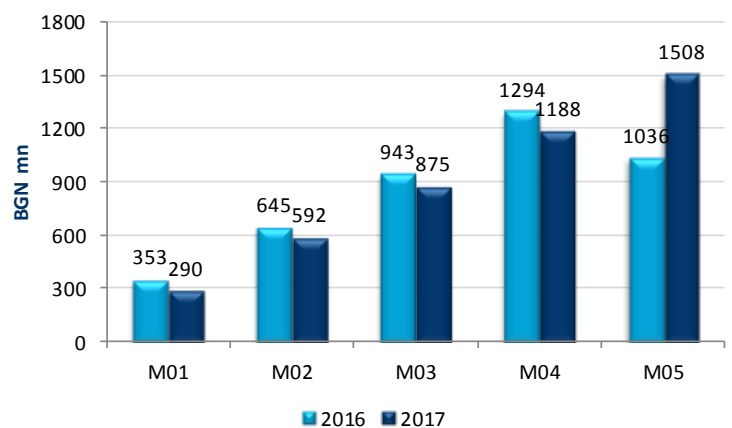
Net interest Income



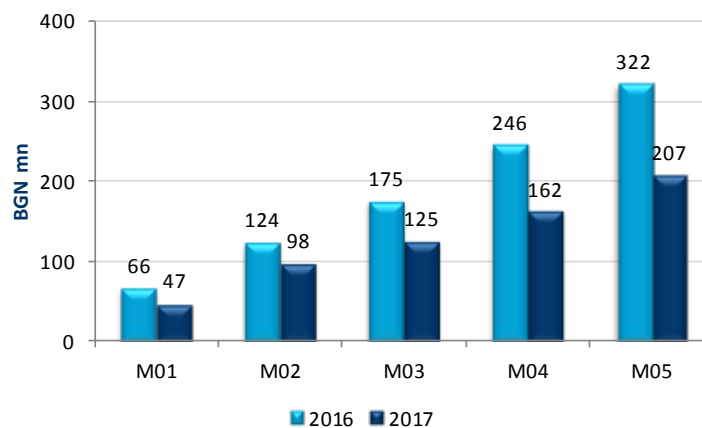
Net fee and commission income



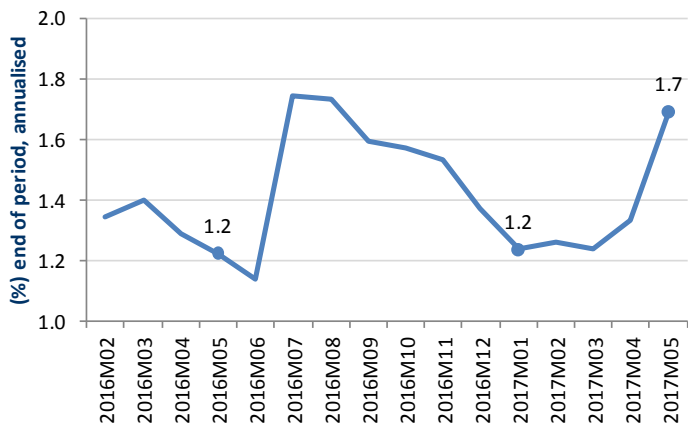
Net operating income



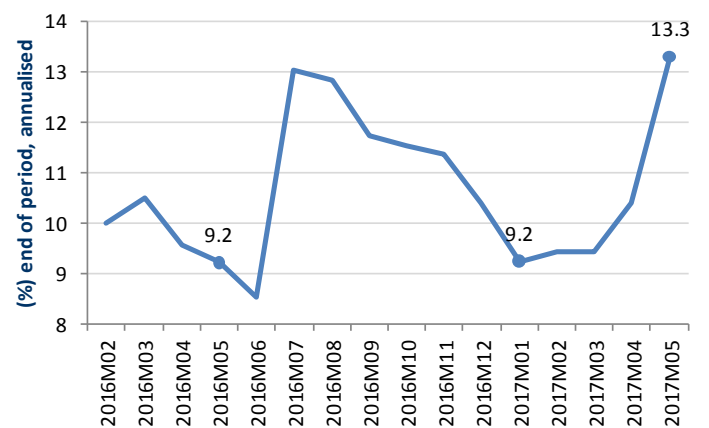
Impairment



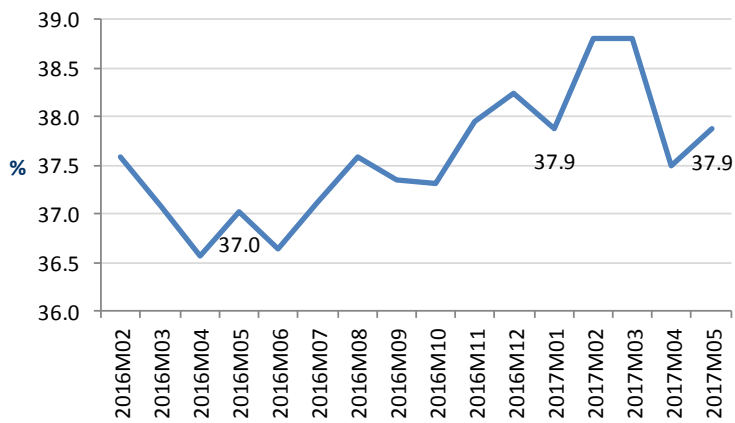
ROA



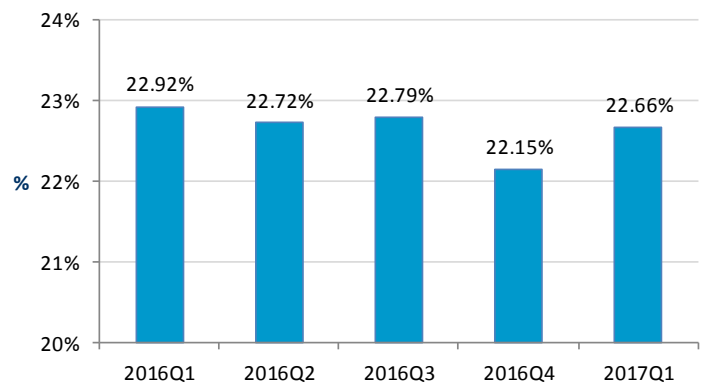
ROE



Liquid Assets Ratio (LAR)

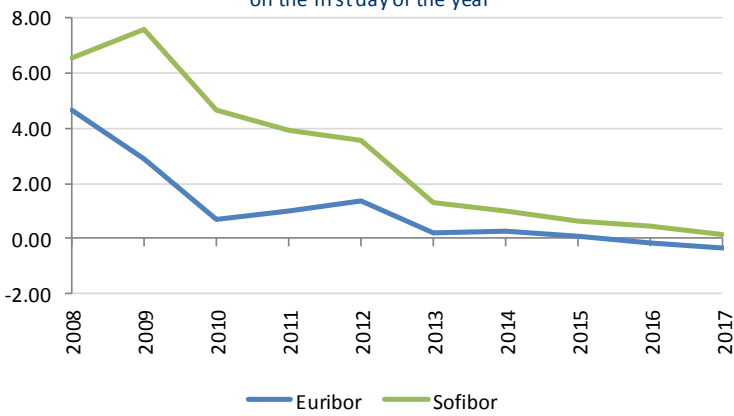


Total Capital Ratio



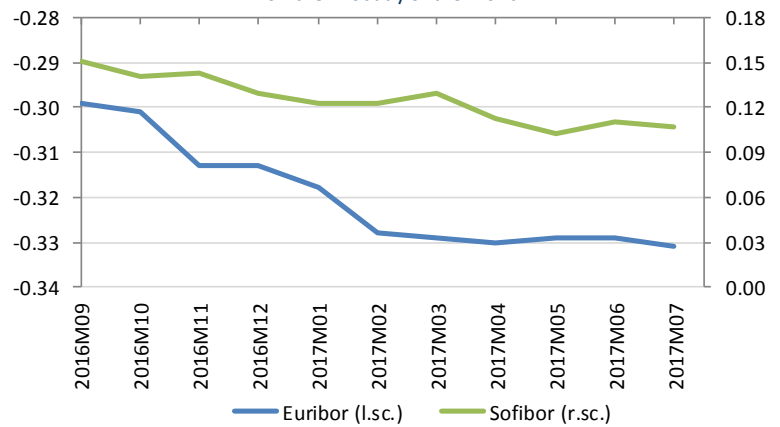
Indexes 3-months

on the first day of the year

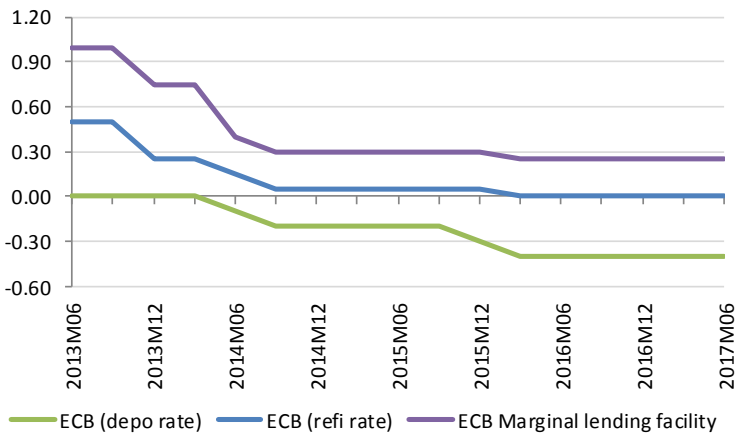


Indexes 3-months

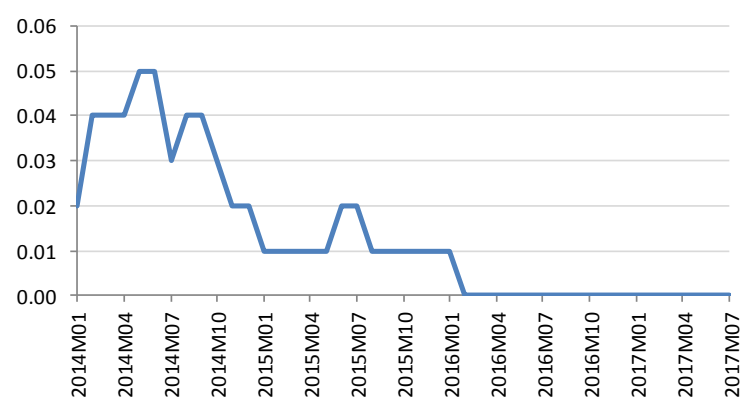
on the first day of the month



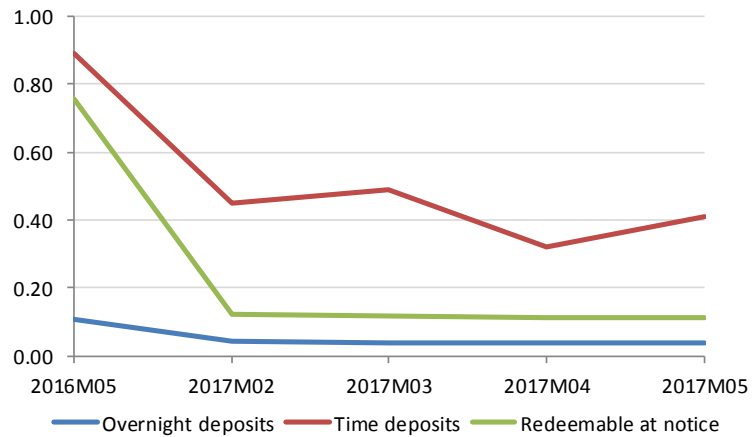
Policy Rates in (%)



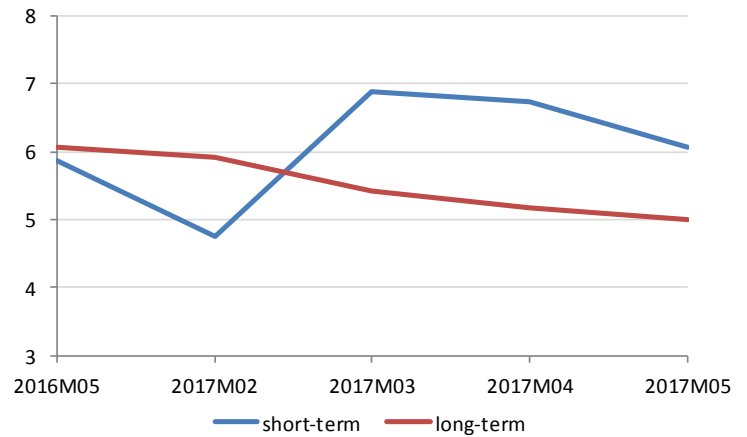
Base Interest Rate of the BNB in (%)



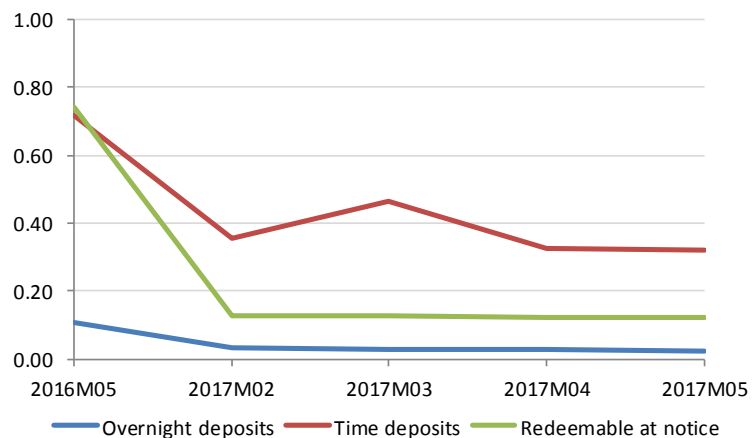
Interest Rates (%) in BGN



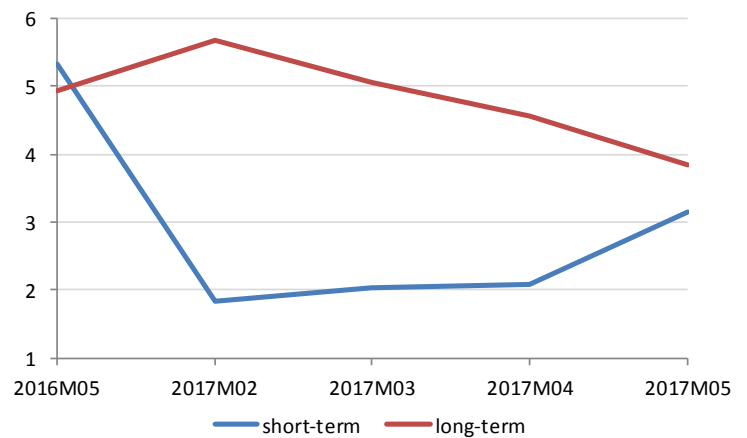
Interest Rates (%) in BGN



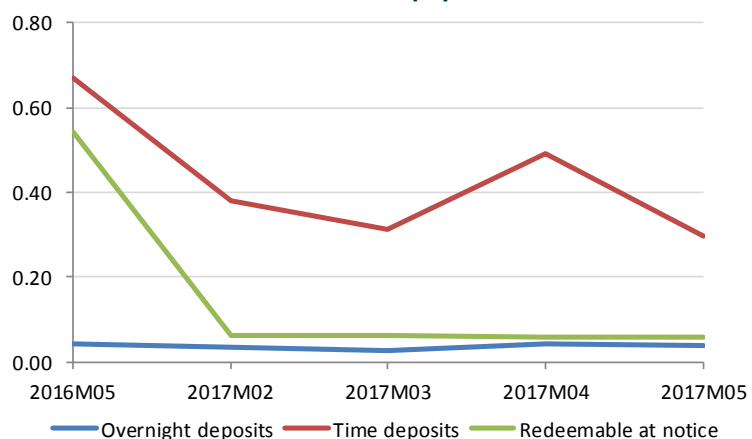
Interest Rates (%) in EUR



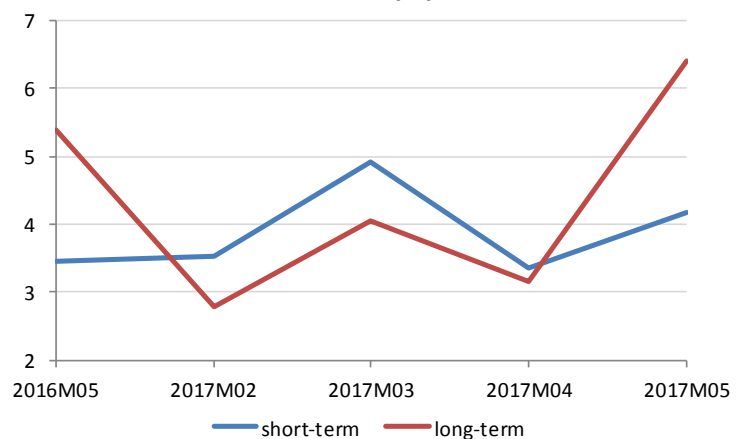
Interest Rates (%) in EUR

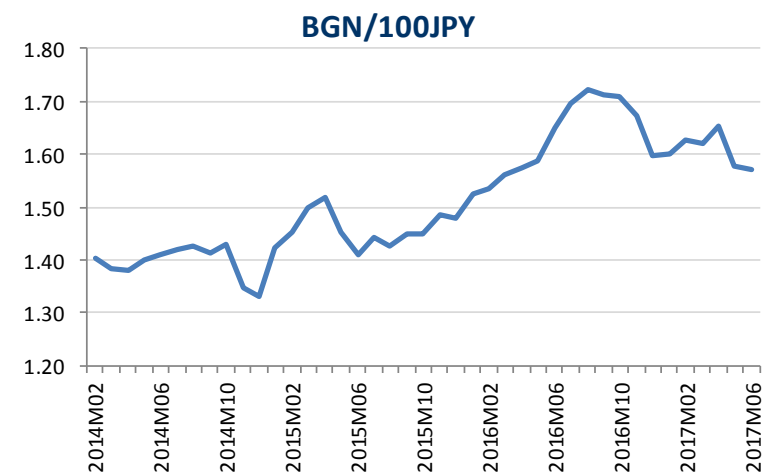
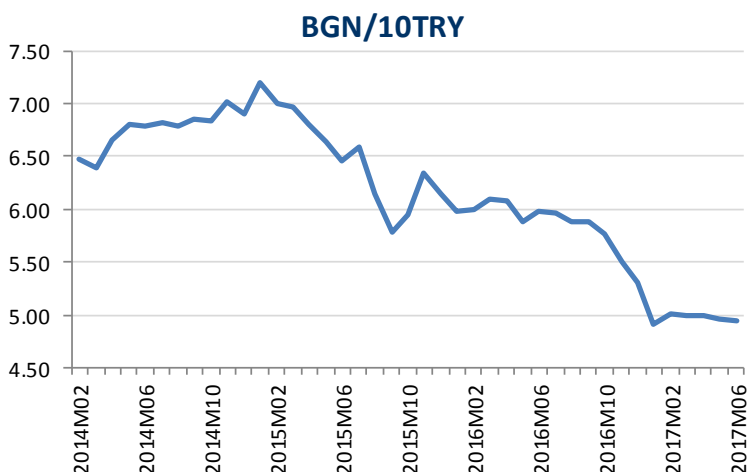
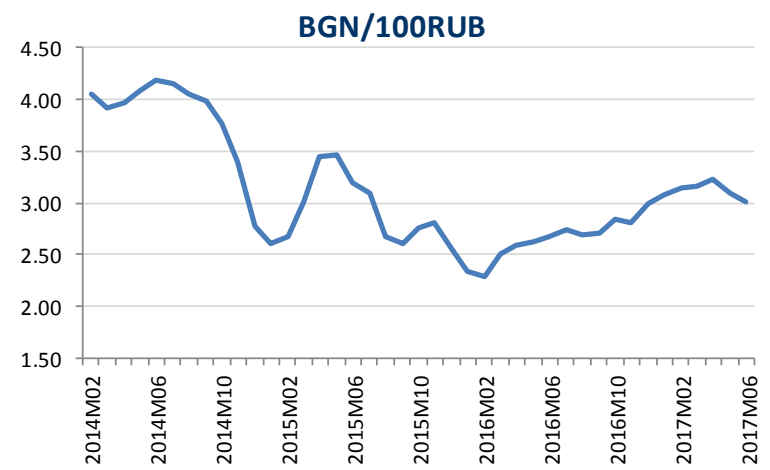
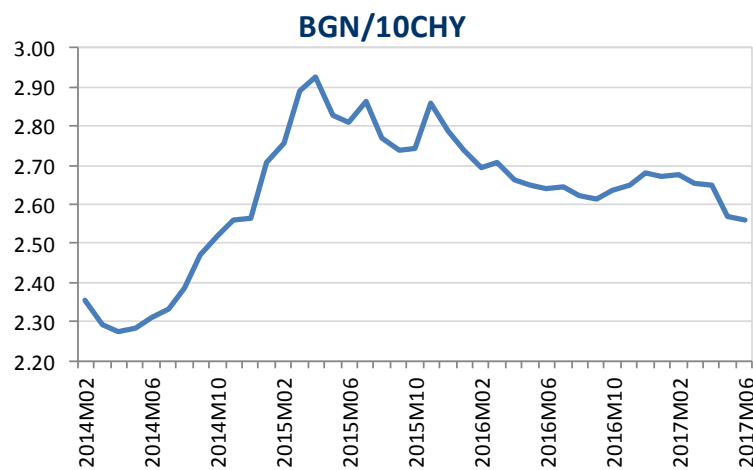
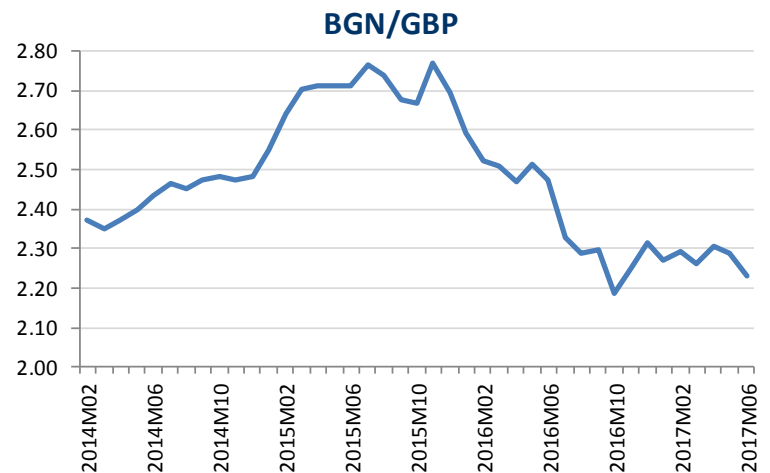
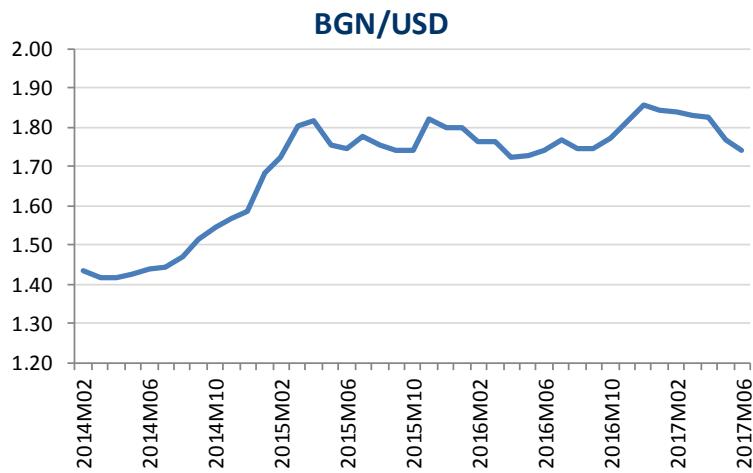


Interest Rates (%) in USD



Interest Rates (%) in USD





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 Descrip-

tion and Coding of Commodities of the World Customs Organization, introduced in 1988 and supplemented in 1992. With the January 2006 data the Bulgarian National Bank and the National Statistics Institute jointly apply developed by them methodology for compilation of imports at FOB prices and receipts and payments regarding the freight transportation.² The methodology is based on the analysis of the CIF-FOB correlations for the imports of goods depending on the different imports delivery categories, as well as on the different mode of transportation and nationality of the carrier.

The geographical breakdown of the Goods item of the BOP is based on the following principles:

For the intra EU trade in goods:

- In case of exports (or dispatches) is the country (or Member State) of final destination of the goods - In case of imports (or arrivals) is the country (or Member State) of consignment of the goods.

For the trade with third countries (outside EU)

- In case of exports – partner country is the country of final destination of the goods - In case of imports - partner country is the country of origin of the goods.

The Services component comprises transportation, travel, and other services. The Bulgarian National Bank derives the data on freight transportation from foreign trade data and the data on passenger transportation from travel data on the basis of estimates. With the January 2006 data the BNB introduced a new methodology for compilation of receipts and payments regarding the freight transportation. The freight transportation receipts are set up on the basis of estimated receipts of resident carriers related to the country exports of goods. The payments are calculated as an estimation of the payments made by residents on behalf of non-resident carriers related to the country imports of goods. The receipts and payments are estimated according to mode of transportation and nationality of the carrier. With the introduction of the system INTRASTAT with the January 2007 data changes in the way of compilation of receipts and payments regarding the freight transportation of Bulgaria with the rest of the EU member states took place. Due to the delay in receiving the detailed data on trade of Bulgaria with the rest of the EU member states from the NSI, as of the date of publication of the preliminary balance of payments report for the corresponding month (42 days after the close of the reporting period) the preliminary compilation of receipts and payments of freight transportation is based on data for preceding years. These estimates are subject to revisions after receiving the preliminary detailed data (with breakdown by trade partners and by type of goods) on trade with the rest of the EU member states for the reporting month.

Travel covers goods and services, including those related to health and education, acquired by travelers for business and personal purposes. By the end of 2006 the data on travel is based on data from the Ministry of Internal Affairs on the number of travelers crossing the borders and on estimates of per capita expenditures, the latter based on the methodology for estimation of the receipts and expenditures from travel services – “Methodology For Estimation of the Receipts and Expenditures from Travel in the Bulgarian Balance of Payments” (Bulgarian National Bank, Ministry of Trade and Tourism, 18 November 1999). As of the beginning of 2007 data for the number and the structure of foreigners who visited the country are based on information from the border police and NSI estimates. With the January 2010 data the BNB applies new methodology for estimation of the receipts and expenditures for travel and passenger transportation. The estimation model for the Travel item is based on the product of the number of travelers and the expenditure respective for a certain type of purpose of the travel (for more detailed information and questions, related to the methodologies applied, please contact us through the following e-mail: press_office@bnbank.org). The estimates of the expenditures (receipts) by purpose of the travel are based on the data collected during the Border Survey among Traveling Bulgarians and Foreigners conducted by the BNB during the period July 1997 – August 2008. The new methodology was applied for the first time with the data for January 2010, with back data revisions for the months of 2007, 2008 and 2009.

Other services item covers receipts and payments related to services other than transportation and travel (communication, construction, financial, leasing, insurance, cultural, sport and recreational services, etc.).

Income consists of two categories: (i) compensation of employees, and (ii) investment income. Compensation of employees covers wages, salaries and other benefits paid to non-resident workers in the country or received by resident workers abroad. The compensation of employees comprises also income due to illegal employment. By the end of 2006 the BNB estimates this flow in accordance with the Methodology for Estimation of Flows due to Illegal Employment (14 March 2006).³ With the January 2010 data the BNB applies new methodology for estimation of the Compensation of employees, credit. The new methodology was applied for the first time with the data for January 2010, with back data revisions for the months of 2007, 2008 and 2009.

Investment income covers receipts and payments of income associated with external financial assets and liabilities. Included are receipts and payments on direct investment, portfolio investment, other investment, and receipts on reserve assets.

Transfers are all real resources and financial items provided without a quid-pro-quo from one economy to another. Current transfers directly affect the level of disposable income of the economy, and the consumption of goods and services. That is, current transfers reduce the income and consumption potential of the donor and increase the income and consumption potential of the recipient. Included in the Current transfers are the EU pre-acquisition grants, other grants, gifts, inheritances, prizes won from lotteries, pensions, current taxes, social security contributions, etc. Sources: The Bulgarian National Bank receives

information on current transfers from the Ministry of Finance, the Bulgarian Red Cross, the Agency for Foreign Aid, and from the reporting system of banks on transactions between residents and non-residents .

The item Workers remittances, credit is a sub-item of the Current transfers, credit in the Current account of the balance of payments and is a balancing item for transfers without a quid-pro-quo in cash or in kind. Applying of a new methodology for estimation of these flows became necessary not only because the above described circumstances demanded it but because of the necessity to capture inflows transferred through both official and unofficial channels. The estimates of the workers' remittances are based on the product of the number of Bulgarian emigrants, transferring money to their relatives and the amount of the average transfer. Such calculations are made separately for the official and the unofficial transfer channels. The sum of the money transferred via those two channels is recorded as the amount of Workers' remittances to Bulgaria. The data on the number of the Bulgarian emigrants are based on information from the State Agency for Bulgarians abroad, from the Bulgarian embassies and from Eurostat. The data on the percentage of the Bulgarian emigrants, transferring money; the shares of the official and unofficial channels and the average transfer for each of the channels used are based on the data collected via the Border survey. The new methodology was applied for the first time with the data for January 2010, with back data revisions for the months of 2007, 2008 and 2009.

CAPITAL ACCOUNT

The Capital Account consists of two categories: (i) capital transfers and (ii) acquisition or disposal of non-produced, non-financial assets. If in kind, a capital transfer consists of (i) a transfer of ownership of fixed assets, or (ii) forgiveness of a liability by a creditor when no counterpart is received in return. If in cash, a transfer is a capital transfer when it is linked to, or conditional on, the acquisition or disposal of fixed assets (for example, an investment grant).

FINANCIAL ACCOUNT

The Financial Account comprises all transactions (actual and imputed) in the external financial assets and liabilities of an economy. The external assets and liabilities are primarily classified according to type of investment. Included in Financial Account are (i) direct investment, (ii) portfolio investment and (iii) other investment.

Direct investment covers direct investment abroad, direct investment in reporting economy and mergers and acquisitions. Direct investment is a category of international investment in which a resident of one economy – a direct investor – acquires a lasting interest (at least 10% of the ordinary shares or the voting power) in an enterprise resident in another economy – a direct investment enterprise. The direct investment includes both the initial transaction, through which the relationship between the direct investor and the direct investment enterprise is established, and all subsequent transactions between them. The direct investment covers transactions relating to changes in the direct investor's share in the equity capital of the direct investment enterprise, inter-company debt transactions as well as the share of the direct investor in the undistributed earnings/loss of the direct investment enterprise. Direct investment is reported on a directional basis: direct investment abroad – as an asset, and direct investment in the reporting country – as a liability.

The sub item Mergers and Acquisitions shows the transactions related to mergers and acquisitions. The purpose of its inclusion was to eliminate the influence of such deals over the reported foreign direct investment data. The international practice shows that these transactions have hardly any real impact on the production capacities and employment and the conclusions drawn from the interpretation of foreign direct investment data in which data on mergers and acquisitions are included might be misleading about investment flows, developments, branch and geographical structure. ("European Central Bank, Eurostat, Foreign Direct Investment Task Force Report", March 2004, para.332)

Portfolio investment includes portfolio investment, assets and portfolio investment, liabilities. Portfolio investment covers transactions in shares and equity if the investor's share in the capital is less than 10%, transactions in bonds, notes, money market and other tradable securities.

Other investment covers trade credits, loans, currency deposits, and other assets and liabilities.

According to the balance of payments conventions trade credit arise from the direct extension of credit from a supplier to a buyer, i.e this is a credit extended by a trade partner without issue of a tradable security. Loans item includes received and paid principals on short- and long-term loans between non-bank financial institutions, insurance companies and pension funds, the Bulgarian National Bank and the Ministry of Finance.

Other investment covers trade credits, loans, currency deposits, and other assets and liabilities.

According to the balance of payments conventions trade credit arise from the direct extension of credit from a supplier to a buyer, i.e this is a credit extended by a trade partner without issue of a tradable security. Loans item includes received and paid principals on short- and long-term loans between residents and non-residents if no issue of a tradable security is involved with these loans. Transactions concerning disbursements and repayments of principals on IMF loans and disbursements on loans on BOP support are not included in the item Loans. They are recorded in the relative items of group E. Reserves and Related Items. The Currency and Deposits component presents on the assets side the changes in the residents' currency deposits held abroad, and on the liabilities side – the changes in the liabilities of the resident banks to non-residents in domestic and foreign curren-

cy. Following the basic accounting principle and conventions set in the "Balance of Payments Manual" (IMF, 1993), when compiling that item the Bulgarian National Bank excludes any changes therein due to exchange rate changes.

Items Other assets and Other liabilities includes all transactions on miscellaneous accounts receivable and payable not included elsewhere and transactions in arrears. The Net errors and omissions component is an offsetting item. This component exists in the BOP presentation because the compilation system used by the Bulgarian National Bank is not a closed one but is a combination of different sources of information. Unlike other statistical reports, such as for example the monetary statistics, the collecting of the data necessary for the balance of payments compilation could not be restricted to the accounting records of the banks as the only source of information.

The fluctuations in the Net errors and omissions, both in sign and in size, are mainly due to: (i) revisions of export and import data, (ii) the development of the methodology for compilation of certain balance of payments' components and (iii) the existence of objective obstacles to the collection of data on certain balance of payments' items.

RESERVES AND RELATED ITEMS

Reserve assets include those external assets that are readily available to and controlled by the central bank (government) for direct financing of balance of payments imbalances. The reserve assets comprise monetary gold, SDRs, reserve position in the Fund, foreign exchange assets (consisting of currency and deposits and securities), and other claims. The entries under this category pertain to transactions in the BNB's external holdings which are administered by the Issue Department. The data on reserve assets changes included in the BOP table exclude valuation changes, due to exchange rate and market price changes. This group in the analytic presentation of the balance of payments includes also Use of Fund credit and the item Exceptional Financing. The exceptional financing comprises the BOP support as well as deferred/rescheduled payments and payments on arrears, resulting from balance of payments difficulties. In accordance with the methodology for accounting the exceptional financing transactions ("Balance of Payments Manual", Fifth Edition (IMF, 1993), p. 454), the principal repayments on the BOP support credits are included in the Financial Account – Other investment – Liabilities – Loans – General Government.

REAL SECTOR

Gross Domestic Product - production approach

Gross domestic product by production approach, characterized the outcome of economic activity and is measured by value added generated in the production of goods and services by the resident units of the economic territory of the country. The GDP by production approach at market prices is calculated as the sum of gross value added at basic prices for total economy and adjustments, which include net taxes on products, non-deductible VAT and duties on imports.

GDP - INCOME APPROACH

The income approach is an integral part of the primary distribution of income accounts. This approach reflect income as an element of value added created in the production process. Balance sheet item of income approach is the gross operating surplus / gross mixed income.

GROSS DOMESTIC PRODUCT BY FINAL EXPENDITURE

GDP by expenditure approach is calculated as the sum of individual consumption (including final consumption expenditure of households, final consumption expenditure of non-profit institutions serving households, final government expenditure on individual consumption), collective consumption (final cost of the government, which satisfy the needs of society as a whole), gross fixed capital formation (investments made in fixed assets), changes in inventories and foreign trade balance of goods and services (the difference between exports and imports of goods and services).

INVESTMENT ACTIVITY IN INDUSTRY

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

CONSUMER SURVEY

The survey gathers information about the consumers' opinions about their financial situation, the general economic situation in the country, the inflation, unemployment, savings, etc. The replies to the questions are presented in a five-option ordinal scale. The results are in the form of balances which are the difference between the relative shares of the positive and the relative

shares of the negative answering options, as there is one specification: the very positive and the very negative answering options are given a coefficient of 1, and the more moderate positive and negative options - a coefficient of 0.5. The composite confidence indicator is calculated as an arithmetic average of the balances of the expectations about the development over the next 12 months of: the financial situation and savings of the households, the general economic situation in the country and the unemployment, as the last balance is taken with a negative sign.

CONSUMER PRICE INDICES (CPI)

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

HARMONIZED INDICES OF CONSUMER PRICES (HICP)

The Harmonized Index of Consumer Prices (HICP) is the comparable measure of inflation across EU Member states. It is one of the criteria of price stability and readiness of Bulgaria to join the euro-zone. HICP, as well as CPI, measure the total relative price change of goods and services. Both indices are calculated using the same basket of goods and services, but differ with respect to the weights used. HICP is calculated through the use of weights, which reflect the individual and the collective consumption of all households (incl. institutional and foreign households) on the economic territory of the country. The main source of information for HICP weights is the national accounts data. HICP in year t is calculated with the weights of year $t-2$. In compliance with Regulation (EC) No 2015/2010 since January 2016 the base year for HICP has been changed and the all indices have been calculated and published at 2015 as a base year.

INDUSTRIAL PRODUCTION INDEX; INDUSTRIAL TURNOVER INDICES

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

PRODUCER PRICE INDICES ON DOMESTIC AND ON NON-DOMESTIC MARKET IN INDUSTRY

Producer Price Index (PPI) is one of the main short-term business indicators; it is regarded as one of the important measures of the economic situation in the Country. The indices measure the average change in the prices of industrial products, which are produced and sold by Bulgarian enterprises. This is done on the bases of constant sample of groups of products, produced by the activity and sold on the domestic market or directly exported on non-domestic market and that sample is representative for total industrial production.

BUSINESS SURVEY IN INDUSTRY, CONSTRUCTION, TRADE AND SERVICE SECTOR

The business surveys in industry, construction, retail trade and service sector gather information about the entrepreneurs' opinions about the situation and development of their business. The replies to the questions included in the different questionnaires are presented in a three-option ordinal scale. The results are in the form of balances which are the difference between the positive and negative answering options. The survey also calculates the so-called composite indicators, such as the confidence indicator (arithmetic average of the balances of answers to specific questions), and business climate indicator (geometric average of the balances of opinions about the present and expected business situation). Some of the indicators represent numerical assessment, e.g. production assurance with orders (number of months), capacity utilization (%), etc.

TOURISM

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

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

The purposes of visiting a country are the following:

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

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

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

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

MONETARY AGGREGATES

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

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

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

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

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

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

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

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

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

MONEY SUPPLY MECHANISM

Money supply (M3) may be expressed as a product of monetary base and the money multiplier variable. Money multiplier characterizes the degree of multiplication effect as a result of commercial bank activity. This effect is measured by the ratios of

broad money (M3) or individual monetary aggregates (M1 and M2) to reserve money. The money multiplier reflects the currency outside banks to deposits ratio and the bank reserves to deposits ratio, known as factors in determining money supply. The currency outside banks to deposits ratio depends primarily on the public behavior, while the bank reserves to deposits ratio reflects commercial bank behavior. Sources of Reserve Money: Under a stable money multiplier, total money supply may be influenced through reserve money sources. Foreign assets (net) reflect an increase/decrease in Bulgaria's forex reserves. Under a currency board changes in forex reserves at the expense of government deposit do not directly affect the monetary base and it is automatically sterilized. Claims on central government (net) – the net position of the government is a result of assets netting (balances on lev loans disbursed prior to June 1997 pursuant to the former Law on the BNB and balances on forex loans under Article 45 of the Law on the BNB) its liabilities. Claims on non-government sector include only claims on shares and other equity on the non-government sector. Claims on commercial banks – the balance sheet reports balances on loans extended prior to June 1997 and unpaid interest on these loans. Remaining items (net) include assets and liabilities, which are not classified to any other item.

CAPITAL MARKET

SOFIX Index:

Initial date: 20 October 2000; Initial value: 100

SOFIX is an index based on the market capitalization of the included issues of common shares, adjusted with the free-float of each of them. The index covers the 15 issues of shares complying with the general requirements for selection of constituent issues that have the greatest market value of the free-float. An issue included in the index base of SOFIX shall also meet the following criteria: 1) The issues should have been traded on a market, organized by the Exchange, for at least 3 (three) months before their introduction into the SOFIX portfolio. Provided an issue has been transferred for trading from one market segment to another, the first quotation date of the issue shall be assumed as its first trading date; 2) The market capitalization of the issue shall not be less than BGN 40,000,000 and the free-float shall not be less than 25 %* of the amount of the issue, or the market value of the free-float shall not be less than BGN 10,000,000; 3) The number of shareholders of the issue shall not be less than 500 persons; 4) The turnover of the issue during the last 12 months shall not be less than BGN 2,000,000; 5) The number of transactions executed in the issue during the last 12 months shall not be less than 750.

* The free-float as one of the requirements for SOFIX, shall be defined as follows: 1) As from 1st September 2010 – 15 (fifteen) %; 2) As from 1st March 2011 – 20 (twenty) %; 3) As from 1st September 2011 – 25 (twenty-five) %

BG REIT Index:

Initial date: 03 September 2007; Initial value: 100

BG REIT is an index based on the free-float-adjusted market capitalization and shall cover 7 (seven) issues of common shares of special investment purpose companies that operate in the field of securitization of real estates and/or land, i.e. real estate investment trusts (REITs), with the greatest market value of the free-float and the highest median value of the weekly turnover during the last 6 (six) months. The two criteria shall have equal weight. Beside the general requirements an issue included in the index base of BG REIT shall meet the following criteria: 1) To have been traded on a market, organized by BSE-Sofia, for at least 3 (three) months before its introduction into the BG REIT portfolio. Provided an issue has been transferred for trading from one market segment to another, the first quotation date of the issue shall be assumed as its first trading date; 2) The market capitalization of the issue shall not be less than BGN 5,000,000 (five mn. Bulgarian Leva); 3) The free-float shall not be less than 25 (twenty-five)* % of the total volume of the issue;

* The free-float requirements for BG REIT constituents shall be defined as follows: 1) As from 1st September 2010 – 15 (fifteen) %; 2) As from 1st March 2011 – 20 (twenty) %; 3) As from 1st September 2011 – 25 (twenty-five) %;

BG 40 Index:

Initial date: 01 February 2005; Initial value: 100

BG 40 is an index based on the price performance of the issues and shall cover 40 (forty) issues of common shares of the companies with the greatest number of transactions and the highest median value of the daily turnover during the last 6 (six) months as the two criteria shall have equal weight. Beside the general requirements the issues included in the calculation of the index should meet the following additional requirement: To have been traded on a market, organized by the Exchange, for at least 3 (three) months before their introduction into the BG 40 portfolio. Provided an issue has been transferred for trading from one market segment to another, the first quotation date of the issue shall be assumed as its first trading date. In case of more than 3 (three) companies belonging to one economic group, all compliant with the additional requirements above, only the three issues of companies belonging to that economic group with the greatest number of transactions and the highest median value of the daily turnover shall be admitted to the ranking. If as a result of the ranking it occurs that two or more issues of

companies belonging to one economic group have been ranked at the same place, the issues with the greater number of transactions executed during the last 6 (six) months shall be treated with priority with respect to the inclusion.

BGTR30 Index (BG Total Return 30):

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

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

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