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All data in the edition are the last available data, published as of June, 2017

The quoted data set in this report are the last available data, published in the official source's web sites. The sources are Ministry of Finance, Bulgarian National Bank, National Statistic Institute, National Employment Agency, Bulgarian Industrial Association The electronic system used for collecting the data from the official sources is CEIC Data Manager.

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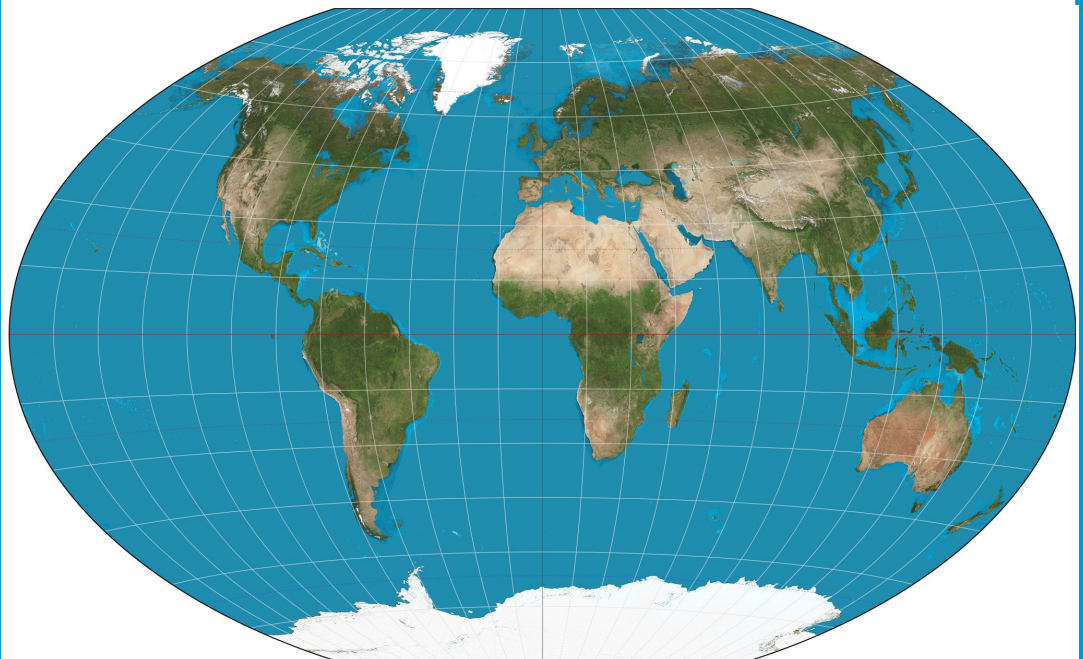
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HIGHLIGHTS AND FORECASTS

MONTHLY ECONOMIC REPORT



- *The ECB is considering abandoning the commitment to further increase the 'quantitative easing'. The promise of the ECB to speed up bond purchases again if necessary may be revised as economic expansion continues, and confidence in inflation prospects is further improving*
- *ECB completes foreign reserves investment in Chinese renminbi equivalent to €500 million. Investment reflects increased role of Chinese renminbi as global currency. Overall size of ECB's foreign reserves unchanged*
- *On June 8 2017 the Governing Council of the ECB decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.40% respectively*
- *The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting ending on 14 June 2017, the MPC voted by a majority of 5-3 to maintain Bank Rate at 0.25%*
- *The Board of Governors of the Federal Reserve System voted to raise the interest rate paid on required and excess reserve balances to 1.25 billion per day, as well as 1.25pps increase in the primary credit rate to 1.75%, effective since June 15, 2017.*
- *Bank of Japan (BOJ) will apply a negative interest rate of minus 0.1 % to the Policy-Rate Balances in current accounts held by financial institutions of the Bank*
- *The Board of Central bank of China kept unchanged the discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral at 1.375%, 1.75%, and 3.625%, respectively*
- *Currently the expectations are the key interest rates to remain at their present levels for an extended period of time, and well past the horizon of the net asset purchases. Furthermore, if the outlook becomes less favorable, or if financial conditions become inconsistent with further progress towards a sustained adjustment in the path of inflation, there central banks stands ready to increase the program for net assets purchases in terms of size and/or duration*
- *Current domestic inflationary pressures and inflation expectations are both mild. However, uncertainties remain in the global economy, and growth momentum in the domestic economies may slightly weaken or maintained levels in 2017 and during the years ahead. Taking into account the above factors and the expansionary fiscal policies implemented by the governments, the advanced economies Central bank's is expected to implement monetary policy stance to conduct prices and financial stability and help to foster economic growth*
- *Following the agreement among some major OPEC and non-OPEC producers to limit output, Brent prices are forecast to rise 27.7%, averaging USD 56.4 per barrel in 2017*
- *Non-energy commodity price indices are also projected to increase after five consecutive years on the decline*
- *Metal prices will rise 23.5% mainly due to subdued supplies and stronger demand expected from China and the United States*

- *The current account was negative amounting to EUR 97.3 million in April 2017, compared with a deficit of EUR 81.8 million in April 2016, but it'll improve till the end of 2017 due to the increase of tourism revenues*
- *Foreign direct investment in Bulgaria totaled EUR 125.7 million (0.3% of GDP) in January – April 2017, dropping by EUR 269.9 million (68.2%) from January – April 2016 (EUR 395.5 million, 0.8% of GDP)*
- *In January-March 2017 Bulgaria's exports (FOB) amounted at EUR 6216.7 million and increased by 14.8% y/y and imports (CIF) amounted to EUR 7125.7 million and increased by 21% y/y. The tendency of imports rate increase to exceed the exports pace will continue*
- *At end-April 2017 gross external debt amounted to EUR 34,112.3 million (70% of GDP), decreasing by EUR 530.1 million (1.5%) from end-2016 (EUR 34,642.5 million, 73.1% of GDP)*
- *In May 2017 BNB foreign reserves amounted to EUR 23.7 billion, increasing by 0.1% m/m and by 8.8% y/y, respectively and maintained the Currency board stability*
- *During Q1 of 2017 GDP increased by 3.5% q/q according to the seasonally adjusted data. This tendency will prevail during the rest part of the year and our expectation is Bulgarian economy to increase by 3.5% y/y in 2017*
- *In May 2017 the inflation rate since the beginning of the year has been 1.2% and the annual inflation in May 2017 compared to May 2016 was 2.3%. The rate of average inflation is expected to be 1.2% in 2017*
- *In April 2017 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 1.8% m/m below*
- *In April 2017 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices decreased by 0.5% m/m*
- *In April 2017 the Industrial Production Index, seasonally adjusted, decreased by 1.2% y/y*
- *In May 2017, the number of the trips of Bulgarian residents abroad was 653.3 thousand or by 15.7% above the registered in May 2016*
- *In June 2017, the total business climate indicator decreases by 0.7 percentage points compared to the previous month*
- *The number of the registered unemployed in the labor offices in May 2017 is 233 829, decreasing with 6.3% m/m and 18.3% y/y*
- *Total Producer Price Index in Industry in May 2017 decreased by 1.2% compared to the previous month*
- *In April 2017 the CFP balance on a cash basis is positive, amounting to BGN 1,590.7 million, or 1.6% of the projected GDP. The balance of the CFP on a cash basis as of May 2017 is expected to be positive, amounting to BGN 1,653.1 million (1.7 % of the forecast GDP)*
- *The central government debt as at end-April 2017 stood at EUR 13,448.1 million and presented 27.1 % of GDP*
- *At the end of April 2017 Bulgaria's broad money (M3) was BGN 79.663 billion (83.6% of GDP) compared to BGN 79.463 billion (83.4% of GDP) in March 2017*
- *At the end of May 2017 the BSE-Sofia benchmark SOFIX rose by 3.94 pps on a monthly basis to 661.23*
- *In April 2017, the total assets of the banking system in Bulgaria grew by 0.1% m/m and by 6.5% y/y, respectively to BGN 93.0 billion*

Table of content

GLOBAL TENDRS

| | |
|-------------------------------------|---|
| Policy of the Central banks | 5 |
| ECB | 5 |
| Bank of England | 6 |
| US Federal Reserve | 6 |
| Bank of Japan..... | 6 |
| Central bank of China | 7 |
| Global economic trends | 7 |
| International Commodity Prices..... | 7 |
| Petrol..... | 7 |
| Agricultural commodities..... | 8 |
| Metals..... | 8 |

BULGARIA

| | |
|---|----|
| External sector | 9 |
| Balance of payments..... | 9 |
| Direct investments | 10 |
| Foreign trade | 11 |
| Gross external debt..... | 11 |
| Foreign reserves..... | 12 |
| Real sector | 13 |
| Gross domestic product | 13 |
| Inflation | 13 |
| Construction | 14 |
| Retail sales | 14 |
| Industrial production | 14 |
| Tourism | 15 |
| Business climate | 16 |
| Unemployment..... | 16 |
| Producer price index | 17 |
| Fiscal sector..... | 17 |
| Government budget..... | 17 |
| Government debt | 19 |
| Monetary sector..... | 19 |
| Capital market..... | 20 |
| Banking sector..... | 20 |
| Appendix..... | 22 |
| Definitions and methodological notes..... | 30 |

GLOBAL TRENDS

Policy of the Central banks

ECB

It is being discussed normalization of central bank monetary policy. Currently the expectations are the key interest rates to remain at their present levels for an extended period of time, and well past the horizon of the net asset purchases.

After the European Central Bank (ECB) President Mario Draghi surprised the markets announcing defeat over deflation, the Swedish Central Bank said it was unlikely to raise interest rates in the short term. Bond yields are rising and the dollar weakens against the euro, the Canadian dollar and the British pound - currencies whose central banks have hinted at rising interest rates. Some analysts have begun to compare this period with the turmoil of 2013 when the first signals from the then US Federal Reserve Chairman Ben Bernanke came out that the central bank should start curtailing its bond purchase program.

Investors are paying close attention to the ECB. Draggy's comments on policy normalization have rocked the markets and, according to some analysts, could lead to a decision in September to start shrinking incentives. Joe Prendergast of Credit Suisse expects this process to start in early 2018, but this will not be a significant change in the direction of tightening the policy of the ECB. On June 8, 2017 the Governing Council of the ECB decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.40% respectively. ECB Governing Council confirms that the net asset purchases, at the current monthly pace of €60 billion, are intended to run until the end of December 2017, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim.

The ECB is considering abandoning the commitment to further increase the 'quantitative easing'. The promise of the ECB to speed up bond purchases again if necessary may be revised as economic expansion continues, and confidence in inflation prospects is further improving.

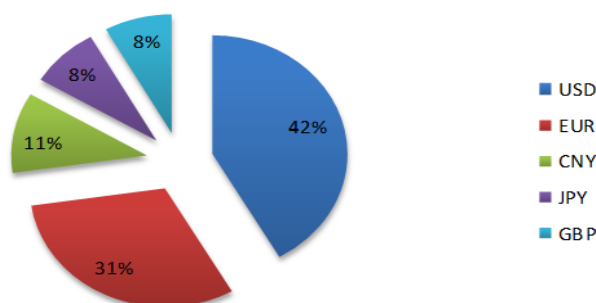
ECB members discussed at their meeting in June 2017 how to signal their growing confidence in the euro area economy and have considered giving up the current commitment to extend and/or increase the bond purchase program known as "quantitative easing". ECB took a small step towards reducing its major stimulating monetary policies at a meeting in early June, pointing out that it would hardly continue to cut interest rates away from the zero level. According to the shorthand of this meeting held in Estonia, at least one of the bank's members suggested that the ECB should go further and cancel its promise of a possible new increase in the Eurobond purchase program, given the improved economic outlook in the euro area. Other members of the bank have called for caution by addressing poor inflation figures. The promise of the ECB to speed up bond purchases again if necessary may be revised as economic expansion continues, and confidence in inflation prospects is further improving. Nevertheless, the bank's broad consensus that the current monetary policy remains appropriate, given the still weak inflation. It should be borne in mind that euro area inflation was down in June to 1.3% (lowest since the beginning of the year) - well below the target ECB inflation rate of just below 2%. At the meeting in early June, central bankers were also puzzled by the combination of rising economic growth and the weakening of inflation. The signals that the ECB has "opened the door" to overturn its previous commitment to a possible increase in the "quantitative easing" program have led to a new wave of sales of European bonds and, in particular, German government securities, contributing to their profitability growth. The yield on 10-year German bonds rose by almost 10 basis points to a new 18-month high of 0.57% (the highest level since January 2016) from 0.469%. This helped a cautious appreciation of the euro by 0.32% to a three-day high of 1.1397 dollars, 0.2% to 0.8807 British pounds and 0.4% to a new 15-month high of 129.11 Japanese yen. At the same time, European stock market investors react negatively to all of this, with the European Stoxx Europe 600 falling by 1.05%, the German DAX by 0.91% and the French CAC40 by 1.1%.

ECB completes foreign reserves investment in Chinese renminbi equivalent to €500 million. ECB investment reflects increased role of Chinese renminbi as global currency. Overall size of ECB's foreign reserves unchanged

The European Central Bank (ECB) completed an investment equivalent to €500 million of the ECB's foreign reserves in Chinese renminbi (CNY) during the first half of 2017, implementing a decision taken by the ECB Governing Council on 20 January 2017. The use of CNY as a global international currency has increased in recent years. The International Monetary Fund (IMF) determined the renminbi to be a freely usable currency in its five-yearly review of the Special Drawing Right (SDR) Currency Basket in 2015. Since October 2016, the IMF has approved its inclusion in the SDR basket as the fifth currency, alongside the US dollar, the euro, the Japanese yen and the British pound. The ECB's investment also reflects the importance of China as one of the euro area's largest trading partners. The investment in CNY was made by changing the current composition of the ECB's foreign reserves. The ECB sold a small portion of its US dollar holdings, which remain the largest portfolio, leaving the overall size of the

ECB's foreign reserves unchanged. The ECB's foreign reserves now comprise US dollars, Japanese yen, Chinese renminbi, gold and SDRs.

New CDR valuation basket relative weights (%)



Bank of England

Meanwhile, Andy Halden, chief economist at the Central Bank of England (CBE), has expressed support for tightening monetary policy in the United Kingdom. He pointed out that an increase of 25 basis points in 10 years may seem like a huge step, but it will still leave the monetary policy flexible enough for any historical standard. Any shrinkage of relief must go a long way before it begins to curb the expansionist policy of many of the central banks in the G10. And calls for normalization of monetary policy may be unfounded if weak wage growth undermines the belief that inflation is accelerating. The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting ending on 14 June 2017, the MPC voted by a majority of 5-3 to maintain Bank Rate at 0.25%. The Committee voted unanimously to maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at £10 billion. The Committee also voted unanimously to maintain the stock of UK government bond purchases, financed by the issuance of central bank reserves, at £435 billion.

US Federal Reserve

US Federal Reserve reports four increases of interest rates within 18 months. The weaker dollar suggests, according to investors, that other banks will shrink the leeway than the Federal Reserve could raise interest rates again this year. The Canadian Central Bank seems ready to raise interest rates. After the Fed, the Bank sent the clearest signal to normalize monetary policy. The Board of Governors of the Federal Reserve System voted unanimously to raise the interest rate paid on required and excess reserve balances to 1.25%, effective June 15, 2017. Effective June 15, 2017, the Federal Open Market Committee directs the Open Market Desk to undertake open market operations as necessary to maintain the federal funds rate in a target range of 1 to 1-1.25%, including overnight reverse repurchase operations at an offering rate of 1.00%, in amounts limited only by the value of Treasury securities held outright in the System Open Market Account that are available for such operations and by a per-counterparty limit of \$30 billion per day. Board of Governors of the Federal Reserve System voted unanimously to approve a 1.25pps increase in the primary credit rate to 1.75%, effective June 15, 2017.

Bank of Japan

The only leading central bank that does not signal a withdrawal from quantitative easing is Japan. She seems determined to continue buying bonds, leaving yields unchanged and raising the likelihood of the yen falling. BOJ will apply a negative interest rate of minus 0.1 % to the Policy-Rate Balances in current accounts held by financial institutions at the Bank. BoJ will purchase Japanese government bonds (JGBs) so that 10-year JGB yields will remain at around 0%. With regard to the amount of JGBs to be purchased, the Bank will conduct purchases at more or less the current pace -- an annual pace of increase in the amount outstanding of its JGB holdings of about 80 trillion yen -- aiming to achieve the target level of the long-term interest rate specified by the guideline. With regard to asset purchases other than JGB purchases, the BoJ will purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) so that their amounts outstanding will increase at annual paces of about 6 trillion yen and about 90 billion yen, respectively. As for CP and corporate bonds, the Bank will maintain their amounts outstanding at about 2.2 trillion yen and about 3.2 trillion yen, respectively.

Central bank of China

According to the Central bank of China, current domestic inflationary pressures and inflation expectations are both mild. Meanwhile, domestic real interest rate relative to GDP growth is still at an appropriate level among major economies. However, uncertainties remain in the global economy, and growth momentum in the domestic economy may slightly weaken in the second half of the year. Taking into account the above factors and the expansionary fiscal policies implemented by the government, the Board judged that a policy rate hold and an accommodative monetary policy stance are conducive to price and financial stability and help to foster economic growth. The Board of Central bank of China kept unchanged the discount rate, the rate on accommodations with collateral, and the rate on accommodations without collateral are at 1.375%, 1.75%, and 3.625%, respectively.

Global economic trends

Current domestic inflationary pressures and inflation expectations are both mild. However, uncertainties remain in the global economy, and growth momentum in the domestic economies may slightly weaken of maintained levels in 2017 and during the years ahead.

According to the World Bank forecast, the global economy will gain momentum this year and next due to stable commodity prices and the growth of global trade. The bank predicts a 2.7% growth in the global economy in 2017 and 2.9% in 2018. The World Bank also predicts a higher growth in the US economy, while in the euro area of 19 countries the growth will be less than last year, China's economy will continue to slow down. The Bank warns against protectionist risks, geopolitical conflicts and the possible financial consequences of the expected interest rate hike in the United States. Additionally, the Intermediate Contingent Fund (MBF) is 3.5% below the current level of 2017 in a fall of 3.1% in 2016.

Additionally, for 2018, the IMF expects 3.6% growth of the world's economy. IMF maintained its projection for US economy by 2.3% in 2017 and by 2.5% in 2018. The GDP growth forecast for Great Britain is from 0.5% to 2% in 2017 and for growth of 1.5% in 2018. The world economy recovers with a long-lasting cyclical recovery in investments, manufacturing and trade. The IMF estimates the economic recovery rate in China by 6.6% for 2017 and up to 6.2% in 2018. According to IMF projections the growth rate in Euro-zone will maintain the levels of 1.7% for 2017 and 1.6% for 2018.

Taking into account the above factors and the expansionary fiscal policies implemented by the governments, the advanced economies Central bank's is expected to implement monetary policy stance to conduct prices and financial stability and help to foster economic growth. Furthermore, if the outlook becomes less favorable, or if financial conditions become inconsistent with further progress towards a sustained adjustment in the path of inflation, there central banks stands ready to increase the program for net assets purchases in terms of size and/or duration.

International Commodity Prices

Petrol

Following the agreement among some major OPEC and non-OPEC producers to limit output, Brent prices are forecast to rise 27.7%, averaging USD 56.4 per barrel in 2017

In June 2017, the Brent crude oil forecast for 2017 was \$ 56.4 from the previous \$ 56.8. Oil futures prices for 2018-2019 are expected to be traded at or below \$ 50 a barrel to discourage further increases in shale oil production and to encourage OPEC to keep demand-driven production. The reduced forecast leads to many questions about the prospects of many companies that have a comparatively higher cost of production. Additionally, the downgraded forecast will affect shale companies in the United States. Banks in the US have very large credit exposures to these companies, which will begin to exert an increasingly negative impact on the financial position of shale companies at rising interest rates.

Agricultural commodities

Non-energy commodity price indices are also projected to increase after five consecutive years on the decline

According to UN FAO data in June 2017, growth in agricultural commodity prices was reported on world markets. Compared to June last year, the growth was almost 7%. The biggest contribution to the new increase is dairy products, whose index for one month jumped to 209 pps. By 4%, the grain has also risen, reaching its highest index this year, mainly due to higher prices for protein-rich wheat and rice. Corn has fallen after the rich harvest in South America. Meat has a growth of nearly 2 % while vegetable oil has dropped 4%. This is mainly due to the cheaper palm and soy oils from Southeast Asia and Latin America. 16-month negative record has been recorded for sugar, whose index has fallen by more than 13% - largely due to the high supply of Brazilian raw materials and the expected good beet harvest in Europe, while China's demand declined, the largest world importer.

Metals

Metal prices will rise 23.5% mainly due to subdued supplies and stronger demand expected from China and the United States

The world economy is going through an interesting period: from the political point of view, there are ambitious presidents in the US, China and Russia, who are pursuing their national programs. From a financial point of view, economic areas such as the EU and individual countries (China, Japan) use debt-generated fiscal incentives. The global economy is expected to grow by 3-4%. For India and China, this growth will exceed 5-6%. This means that the volumes and prices of raw materials will grow. This also applies to the US economy, which would grow at a faster pace than in 2016, and depends of the extent to which President Trump will implement his infrastructure program. This will be good for steel, copper, cement, aluminum and similar raw materials. With regard to metals and extraction, Europe is a net consumer. A positive signal comes from Worldsteel, which predicts that "the recovery of steel demand from the EU is expected to continue, supported by a recovery in construction." China continues to be the factor that will drive metal prices and prices in 2017. Recent data suggests that demand for the Asian economy is greater than forecast. Expectations are that the price of copper will rise over the next two years, reaching at least \$ 3 per pound.

BULGARIA

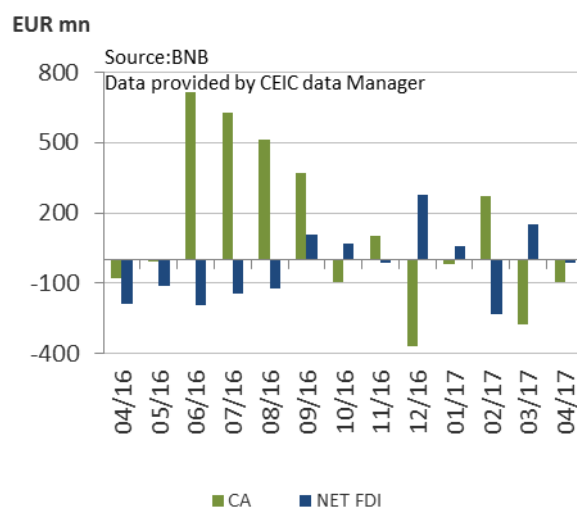
EXTERNAL SECTOR

Balance of payments

The current account was negative amounting to EUR 97.3 million in April 2017, compared with a deficit of EUR 81.8 million in April 2016

According to the BNB data, the current and capital account recorded a deficit of EUR 88.3 million in April 2017, compared with a negative balance of EUR 61.5 million in April 2016. In January – April 2017 the current and capital account was negative amounting to EUR 3.3 million (0.01% of GDP), compared with a surplus of EUR 718.6 million (1.5% of GDP) in January – April 2016. The current account was negative amounting to EUR 97.3 million in April 2017, compared with a deficit of EUR 81.8 million in April 2016. In January – April 2017 the current account was negative and amounted to EUR 124.9 million (0.3% of GDP), compared with a surplus of EUR 136.9 million (0.3% of GDP) in January – April 2016. The balance on goods recorded a deficit of EUR 289.6 million in April 2017, compared with a deficit of EUR 140.2 million in April 2016. In January – April 2017 the balance on goods was negative amounting to EUR 994 million (2% of GDP), compared with a deficit of EUR 495.7 million (1% of GDP) in January – April 2016. Exports of goods amounted to EUR 2,010.6 million in April 2017, growing by EUR 236.3 million (13.3%) from April 2016 (EUR 1,774.3 million). In January – April 2017 exports of goods totaled EUR 7,954.1 million (16.3% of GDP), increasing by EUR 1,047.5 million (15.2%) year-on-year (from EUR 6,906.6 million, 14.6% of GDP). In January – April 2016 exports dropped by 3.6% year-on-year. Imports of goods amounted to EUR 2,300.3 million in April 2017, growing by EUR 385.8 million (20.2%) from April 2016 (EUR 1,914.5 million). In January – April 2017 imports of goods totaled EUR 8,948.1 million (18.4% of GDP), growing by EUR 1,545.8 million (20.9%) from January – April 2016 (EUR 7,402.3 million, 15.6% of GDP). In January – April 2016 imports dropped by 7.6% year-on-year. Services recorded a positive balance of EUR 45.4 million in April 2017, compared with a surplus of EUR 84.7 million in April 2016. In January – April 2017 services recorded a surplus of EUR 426.3 million (0.9% of GDP) compared with a positive balance of EUR 480.6 million (1% of GDP) in the same period of 2016. The net primary Income (which reflects the receipt and payment of income related to the use of resources (labour, capital, land), taxes of production and imports and subsidies) recorded a surplus of EUR 34.5 million in April 2017, compared with a deficit of EUR 96.3 million in April 2016. In January – April 2017 the balance on primary income was negative and equated to EUR 141 million (0.3% of GDP), against a deficit of EUR 416 million (0.9% of GDP) in January – April 2016. The net secondary income (which reflects the redistribution of income) recorded a surplus of EUR 112.4 million, compared with a surplus of EUR 69.9 million in April 2016. In January – April 2017 the net secondary income was positive amounting to EUR 583.8 million (1.2% of GDP), compared with a positive balance of EUR 568 million (1.2% of GDP) in the same period of 2016. The capital account recorded a surplus of EUR 9 million, compared with a positive balance of EUR 20.3 million in April 2016. In January – April 2017 the capital account recorded a surplus of EUR 121.6 million (0.2% of GDP), compared with a positive balance of EUR 581.7 million (1.2% of GDP) in January – April 2016. The financial account recorded a net outflow of EUR 437 million, compared with an outflow of EUR 487.2 million in April 2016. In January – April 2017 the financial account recorded a net inflow of EUR 180.5 million (0.4% of GDP) compared with an inflow of EUR 593.2 million (1.3% of GDP) in January – April 2016. The net direct investment compiled in accordance with the Sixth Edition of the Balance of Payments and International Investment Position Manual was negative amounting to EUR 12.7 million, compared with a negative balance of EUR 187.2 million in April 2016. In January – April 2017 direct investment recorded a net outflow of EUR 33.6 million (0.1% of GDP), compared with an outflow of EUR 392.4 million (0.8% of GDP) million in January – April 2016. Direct investment – assets grew by EUR 9.3 million compared with an increase of EUR 25.8 million in April 2016. In January – April 2017 direct investment – assets rose by EUR 148.9 million (0.3% of GDP), compared with an increase of EUR 62 million (0.1% of GDP) in the same period of 2016. Direct investment – liabilities grew by EUR 21.9 million in April 2017, compared with an increase of EUR 213 million in April 2016. In January – April 2017 direct investment – liabilities rose by EUR 182.5 million (0.4% of GDP), compared with an increase of EUR 454.4 million (1% of GDP) in the same period of 2016. The balance on portfolio investment was negative amounting to EUR 131.9 million, compared with a negative balance of EUR 111.3 million in April 2016. In January – April 2017

Balance of Payments

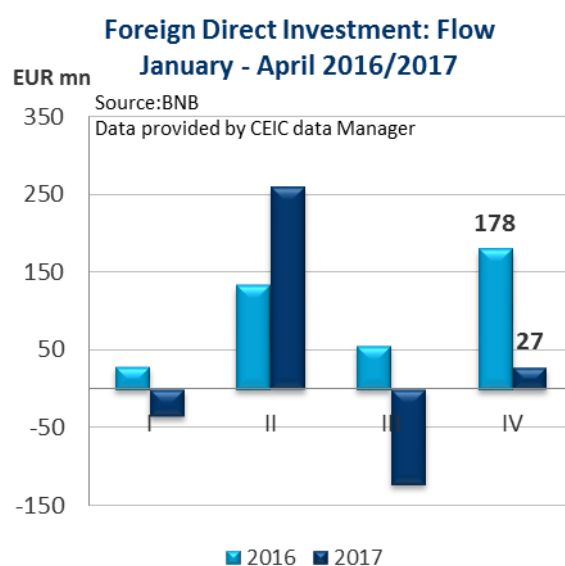


the balance was positive and equated to EUR 299.6 million (0.6% of GDP), compared with a negative balance of EUR 1,146.8 million (2.4% of GDP) million in January – April 2016. Portfolio investment – assets grew by EUR 6.1 million, compared with a decline of EUR 87.1 million in April 2016. In January – April 2017 they rose by EUR 207.2 million (0.4% of GDP) compared with a decrease of EUR 21 million (0.04% of GDP) in January – April 2016. Portfolio investment – liabilities grew by EUR 138 million compared with an increase of EUR 24.2 million in April 2016. In January – April 2017 portfolio investment – liabilities decreased by EUR 92.4 million (0.2% of GDP), compared with an increase of EUR 1,125.7 million (2.4% of GDP) in January – April 2016. The balance on other investment was positive amounting to EUR 100.1 million, compared with a negative balance of EUR 444.4 million in April 2016. In January – April 2017 the balance was positive and equated to EUR 229.9 million (0.5% of GDP), compared with a positive balance of EUR 1,004.9 million (2.1% of GDP) in January – April 2016. Other investment – assets rose by EUR 359.2 million, compared with an increase of EUR 153.6 million in April 2016. In January – April 2017 they grew by EUR 428.4 million (0.9% of GDP) compared with an increase of EUR 1,088.7 million (2.3% of GDP) in January – April 2016. Other investment – liabilities grew by EUR 259.1 million compared with an increase of EUR 598 million in April 2016. In January – April 2017 they rose by EUR 198.5 m million (0.4% of GDP) compared with an increase of EUR 83.8 million (0.2% of GDP) in January – April 2016. The BNB reserve assets dropped by EUR 379.5 million, compared with an increase of EUR 243.7 million in April 2016. In January – April 2017 they decreased by EUR 302.4 million (0.6% of GDP), compared with an increase of EUR 1,170.7 million (2.5% of GDP) in the same period of 2016. The net errors and omissions were negative amounting to EUR 348.7 million compared with a negative value of EUR 425.8 million in April 2016. According to preliminary data, the item was positive in January – April 2017 and totaled EUR 183.8 million (0.4% of GDP), against a negative value of EUR 125.4 million (0.3% of GDP) in the same period of 2016.

Foreign direct investments

Foreign direct investments in Bulgaria totaled EUR 125.7 million (0.3% of GDP) in January – April 2017, dropping by EUR 269.9 million (68.2%) from January – April 2016 (EUR 395.5 million, 0.8% of GDP)

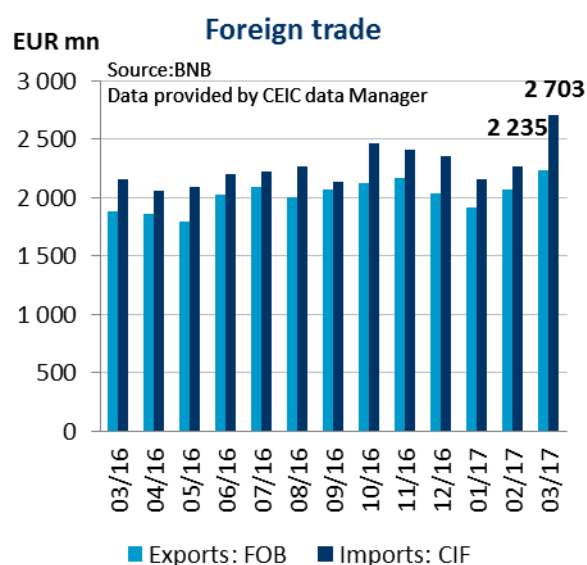
According to BNB preliminary data foreign direct investments in Bulgaria presented according to the directional principle totaled EUR 125.7 million (0.3% of GDP) in January – April 2017, dropping by EUR 269.9 million (68.2%) from January – April 2016 (EUR 395.5 million, 0.8% of GDP). Foreign direct investments in Bulgaria rose by EUR 26.8 million in April 2017, compared with an increase of EUR 178.4 million in April 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 109.8 million in January – April 2017, dropping by EUR 287.6 million from EUR 177.8 million in January – April 2016. Real estate investments of non-residents totaled EUR 1.7 million, compared with EUR 12.3 million attracted in January – April 2016. The largest inflow of real estate investment was from Russia (EUR 0.7 million, 43.6% of the total amount for January – April 2017), Kazakhstan (EUR 0.4 million, 20.8% of the total amount), and Austria (EUR 0.2 million, 11.3% of the total amount). Reinvestment of earnings (the share of non-residents in the undistributed earnings/loss of the enterprise based on preliminary profit and loss data) was estimated at EUR 202.2 million for January – April 2017, compared with EUR 191.4 million in January – April 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 33.3 million in January – April 2017, compared with EUR 26.4 million in January – April 2016. The largest net direct investment inflows in Bulgaria for January – April 2017 were from the Netherlands (EUR 143.5 million) and Switzerland (EUR 102.2 million). According to preliminary data, direct investments abroad grew by EUR 92.1 million, compared with an increase of EUR 3.2 million in January – April 2016. Direct investments abroad rose by EUR 14.1 million in April 2017, compared with a decline of EUR 8.8 million in April 2016.



Foreign trade

In January-March 2017 Bulgaria's exports (FOB) amounted at EUR 6216.7 million and increased by 14.8% y/y and imports (CIF) amounted to EUR 7125.7 million and increased by 21% y/y

In January - March 2017, exports (FOB) amounted to EUR 6216.7 million, compared to EUR 5414.3 million in the same period in 2016, up by EUR 802.4 million or 14.8% y/y. By way of use, raw materials are the main contributors to the increase in exports in January - March 2017 by EUR 326.6 million (15.7%) and exports of investment goods which increased by EUR 165.7 million or by 12.1% y/y. Exports of consumer goods increased by EUR 87.5 million or 5.7% y/y. The volume of exported energy goods grew by EUR 221.6 million or by 53.8% y/y. For a period of one year, exports of chemical products decreased by 6.5%, fertilizers by 15.3%, cement by 4.6%, tobacco by 19.4% and others by 2.2%, respectively. By commodity groups, the largest growth of exports in January - March 2017 was observed for the groups of basic metals and their products (50.5%), mineral products and fuels (29.0%), machinery, (10.6%), chemicals, plastics and rubber (10.4%), textiles, leather goods, clothing, footwear and other consumer goods (2.1%) and wood, paper and paper products Glass (2%). In January-March 2017, exports to the European Union increased year-on-year by EUR 439 million (12.2%), with a share of total exports shrinking from 66.6% in January-March 2016 to 65.1% in the same period in 2017. For one year period exports to Belgium increased by EUR 135.5 million (133.3%) and Germany by EUR 110.3 million (12.2%). Exports declined to Italy (by 12.7%) and to Spain (by 10.3%). In January-March 2017, exports to non-EU countries increased by EUR 363.5 million (20.1%), with a share of total exports increasing from 33.4% in January-March 2016 to 34.9% in January - March 2017. The largest contributors to the increase were exports to Turkey (up by EUR 88.8 million, 20%), China (by EUR 76.3 million, 33%), Serbia (15 million or 16, 8%). The largest share of total exports is exports to Germany with 13.7% of total exports (EUR 851.2 million), Turkey (8.5%, EUR 531.4 million), Italy (8.4%, EUR 519.4 million), Rumania (7.8%, EUR 478.2 million) and Greece (6.1%, EUR 379.5 million). For January-March 2017, imports (CIF) amounted to EUR 7125.7 million, compared to EUR 5886.8 million for the same period in 2016, rising by EUR 1238.9 million (21%). By way of use, the main commodity inputs (CIF) for January-March 2017, on an annual basis, are the groups of raw materials with 15.4% (with an annual increase of EUR 357 million), investment goods by 11.7% (EUR 217.6 million), consumer goods with a growth of 11.7% (EUR 157.8 million). Energy commodities have again made the most significant contribution to growth in imports, with an 82% y/y increase and an increase of volume of EUR 503.8 million. By commodity groups, the largest increase in imports (CIF) for January - March 2017 was observed on mineral products and fuels (67.8%, EUR 582.9 million), followed by base metals and products (33%), Food, beverages, tobacco (15.7%, EUR 103.2 million), chemicals, plastics and rubber (11.2%, EUR 126.2 million), textiles, leather goods, apparel, footwear and other consumer goods (5.9%, EUR 37.6 million), wood, paper, ceramics and glass (2.3%, EUR 5 million). Imports from the European Union grew on an annual basis by EUR 360.4 million (11%), with its share of total imports shrinking from 55.5% in January - March 2017 to 50.9% in the same period in 2017. Imports from Poland increased by EUR 59.8 million year-on-year (29.7%), Romania with EUR 79.1 million (26.2%), the Czech Republic with EUR 28.2 million (22.8%), Greece with EUR 40.7 million (19.1%). Imports from countries outside the European Union are growing on an annual basis EUR 878.5 million (33.6%), with its share of total imports increasing from 44.5% in January - March 2016 to 49.1% in the same period in 2017. The largest contribution to the increase in imports is that from Russia - Height from EUR 317.0 million (67.4%), while imports from Turkey increased by EUR 59.3 million (16.4%) and EUR 41.5 million (8.3%) from China. The largest share of total imports (CIF) was recorded in imports from Germany (11.1% of total imports) Imports (789.2 million) and Russia (11.1%, 787.4 million), China (7.6%, EUR 538.0 million) and Italy (6.9%, EUR 492.4 million).



4. Gross external debt

At end-April 2017 gross external debt amounted to EUR 34,112.3 million (70% of GDP), decreasing by EUR 530.1 million (1.5%) from end-2016 (EUR 34,642.5 million, 73.1% of GDP)

According to the BNB data, gross external debt amounted to EUR 34,112.3 million (70% of GDP) at end-April 2017, decreasing by EUR 530.1 million (1.5%) from end-2016 (EUR 34,642.5 million, 73.1% of GDP). On a year-on-year basis gross external debt dropped by EUR 973.2 million (2.8%) from April 2016 (EUR 35,085.5 million, 74.1% of GDP). Long-term liabilities totaled EUR 26,092.8 million (76.5% of the total debt, 53.6% of GDP) at end-April 2017, dropping by EUR 562.4 million (2.1%) from end-2016 (EUR 26,655.2 million, 76.9% of the total debt, 56.3% of GDP). On a year-on-year basis, long-term liabilities decreased by

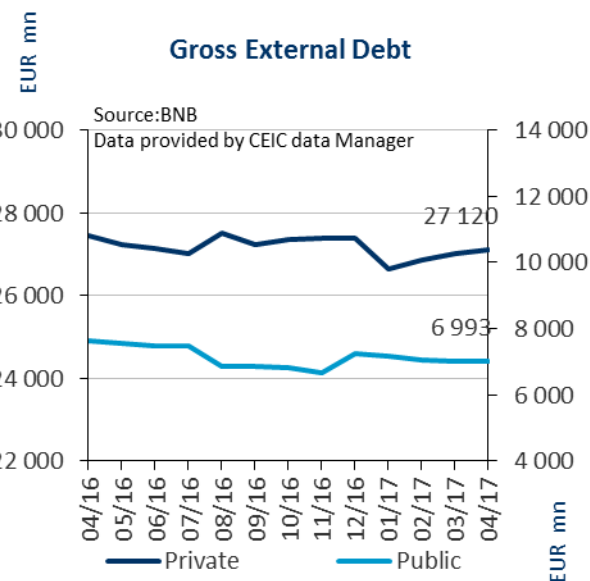
EUR 1,461.8 million (5.3%) from April 2016 (EUR 27,554.6 million, 58.2% of GDP). Short-term liabilities equaled EUR 8,019.5 million (23.5% of the total debt, 16.5% of GDP), increasing by EUR 32.3 million (0.4%) from end-2016 (EUR 7,987.2 million; 23.1% of the total debt, 16.9% of GDP). On a year-on-year basis, short-term liabilities rose by EUR 488.5 million (6.5%) from April 2016 (EUR 7,531 million, 15.9% of GDP). General government's gross external debt totaled EUR 6,505.4 million (13.4% of GDP) in end-April 2017. It dropped by EUR 277.1 million (4.1%) from end-2016 (EUR 6,782.5 million, 14.3% of GDP). On a year-on-year basis general government's debt decreased by EUR 192.2 million (2.9%) from April 2016 (EUR 6,697.7 million, 14.1% of GDP). Banks' external debt totaled EUR 4,160.2 million (8.5% of GDP). It fell by EUR 2.7 million (0.1%) from end-2016 (EUR 4,162.9 million, 8.8% of GDP). On a year-on-year basis banks' debt grew by EUR 406.9 million (10.8%), from EUR 3,753.3 million, 7.9% of GDP in April 2016. Other Sectors' external debt equaled EUR 11,263.9 million (23.1% of GDP). It rose by EUR 60.6 million (0.5%) from end-2016 (EUR 11,203.3 million, 23.7% of GDP). On a year-on-year basis it dropped by EUR 567.2 million (4.8%) from April 2016 (EUR 11,831.1 million, 25% of GDP). The stock of intercompany

lending amounted to EUR 12,182.7 million (25% of GDP) at end-April 2017, dropping by EUR 311 million (2.5%) from end-2016 (EUR 12,493.7 million, 26.4% of GDP). On a year-on-year basis it decreased by EUR 620.8 million (4.8%) from April 2016 (EUR 12,803.5 million, 27% of GDP). The external financing received from non-residents equaled EUR 1,220.6 million (2.5% of GDP) in January – April 2017, compared with EUR 2,946.3 million (6.2% of GDP) in January – April 2016. They were distributed as follows: general government received EUR 28.8 million (2.4% of the total amount of disbursements), banks received EUR 373.4 million (30.6%), other sectors received EUR 331.2 million (27.1%), and intercompany lending⁴ totaled EUR 487.2 million (39.9%). Gross external debt service totaled EUR 1,391.5 million (2.9% of GDP) in January – April 2017, compared with EUR 1,715.5 million (3.6% of GDP) in January – April 2016. Net external debt totaled EUR 1,882.5 million at end-April 2017. It dropped by EUR 639.4 million (25.4%) from end-2016 (EUR 2,521.9 million). Its decline was due to the increase in gross external assets (by EUR 109.2 million, 0.3%) on the one hand, and on the other – to the decrease in gross external debt (by EUR 530.1 million, 1.5%). As a percentage of GDP, net external debt equated to 3.9%, from 5.3% at end-2016. On a year-on-year basis, net external debt decreased by EUR 3,515.4 million, 65.1% (from EUR 5,397.9 million, 11.4% of GDP in April 2016).

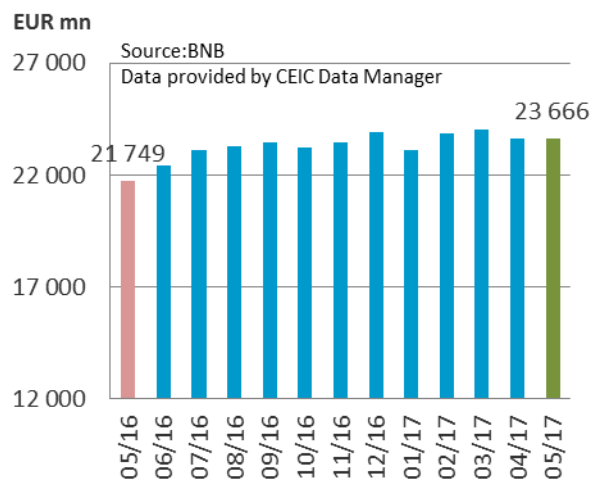
Foreign reserves

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

According to BNB data, in May 2017 the BNB's international reserves amounted to BGN 46.3 billion (EUR 23.7 billion), rising by 0.1% m/m and by 8.8% y/y, respectively. Cash and deposits in foreign currency amounted to BGN 18.5 billion, increasing by 2.4% m/m and by 74% y/y, respectively. Monetary gold deposits amounted to BGN 2.8 billion and grew by 4.1% y/y, but down 2.3% m/m, respectively. Investment in securities decreased by 1.3% m/m and by 14.4% y/y, respectively and amounted to BGN 25 billion. The money in circulation amounted to BGN 13.9 billion and increased by 0.3% m/m and by 12% y/y, respectively. The liabilities to banks amounted to BGN 13.8 billion and increased by 1% m/m and by 18.1% y/y. The liabilities to the government and budget organizations amounted to BGN 11.7 billion and decreased by 1.2% m/m and increase of 2.6% y/y, respectively. Liabilities to other depositors amounted to BGN 0.8 billion and increased by 14.6% m/m and decreased by 12.9% y/y, respectively. The deposit of the Banking Department amounted to BGN 5.9 billion and decreased by 1.9% m/m and by 0.5% y/y, respectively. Bulgaria's international liquidity position, calculated, as a ratio of international reserves to short-term external debt as of end of March 2017, was 302.6% compared to 294.8% in December 2016 and 283.6% in March 2016.



Foreign Reserves



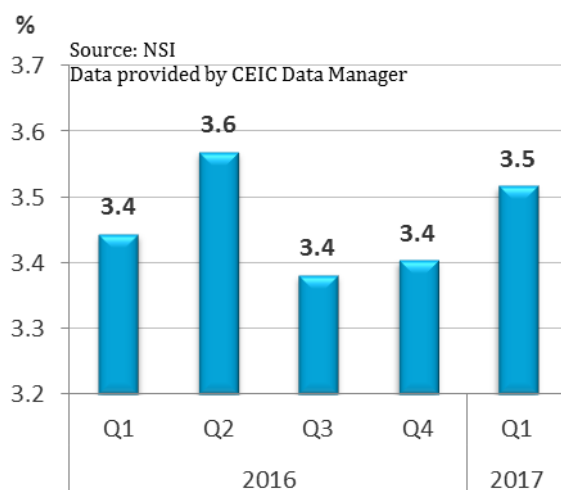
REAL SECTOR

Gross domestic product

In Q1 of 2017 Bulgaria's GDP increased by 3.5% q/q according to the seasonally adjusted data

According to NSI preliminary data the Gross Domestic Product (GDP) at current prices in Q1 of 2017 amounted to BGN 20 066 million. The GDP per person amounted to BGN 2 826. In USD terms at average quarterly exchange rate of BGN 1.83625 per dollar, the GDP amounted to USD 10 928 million or USD 1 539 dollars per person. In Euro terms, the GDP amounted to EUR 10 260 million or EUR 1 445 per person. Gross value added (GVA) at current prices in Q1 of 2017 amounted to BGN 17 528 million. As compared with Q1 of 2017 the share of the agricultural sector in the gross value added of the economy decreases with 0.1 pps to 2.5%. The share of industrial sector decreases by 0.7 pps to 29.3%. The relative share of value added from service activities increased and reached 68.2% compared to 67.4% in the corresponding period of the previous year. In Q1 of 2017 the final consumption expenditure formed 85.7% of GDP. Investments (gross fixed capital formation) formed 16.6% of GDP. The external balance (exports - imports) is negative. According to the seasonally adjusted data, GDP in Q1 of 2017 increased by 0.9% compared with the previous quarter. In Q1 of 2017 gross value added of the total economy rises by 1.2%. According to the preliminary estimates of GDP by final expenditure, in Q1 of 2017 compared with the previous quarter the final consumption increased by 1.9% compared to the previous quarter. For the same period, gross fixed capital formation decreased by 0.6%. In Q1 of 2017, exports and imports of goods and services increased their level compared to the previous quarter by 0.9 % and 1.9 %, respectively. In Q1 of 2017 GDP increased by 3.5% compared to the same quarter of the previous year according to the seasonally adjusted data. Gross value added increased by 3.5% compared to the same quarter of previous year. The indicator's movement is determined by the increase recorded in: Wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities - 4.4%, Information and communication - 3.0%, Real estate activities - 2.5%, Mining and quarrying; manufacturing; electricity, gas, steam and air conditioning supply; water supply, waste management and remediation activities - 1.4%. As regards the expenditure component of GDP, contributors to the registered positive economic growth are the final consumption with 4.3%. Exports and Imports of goods and services increased by 5.8% and 7.1% respectively compared with the corresponding quarter of the previous year.

GDP Growth rate per quarter, YoY seasonally adjusted data

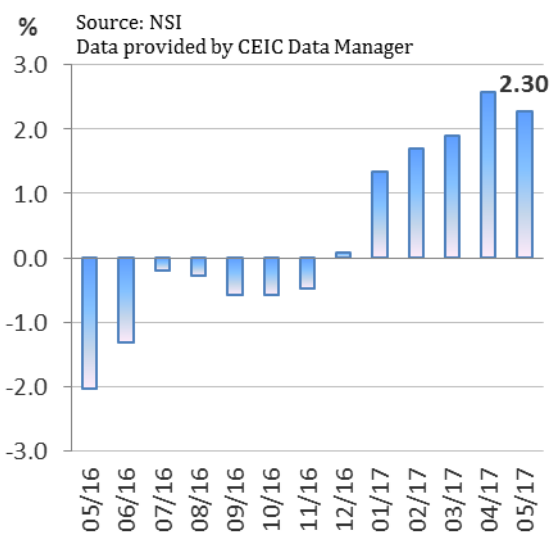


2. Inflation

The inflation rate since the beginning of the year (May 2017 compared to December 2016) has been 1.2% and the annual inflation in May 2017 compared to May 2016 was 2.3%

According to the NSI data, the consumer price index in May 2017 compared to April 2017 was 99.7%, i.e. the monthly inflation was -0.3%. The inflation rate since the beginning of the year (May 2017 compared to December 2016) has been 1.2% and the annual inflation in May 2017 compared to May 2016 was 2.3%. The annual average inflation, measured by CPI, in the last 12 months (June 2016 - May 2017) compared to the previous 12 months (June 2015 - May 2016) was 0.5%. In May 2017 compared to the previous month with more significant change in the prices of goods and services in the main consumer groups are as follows: Food and non-alcoholic beverages - a decrease of 0.6%; Clothing and footwear - an increase of 0.8%; Transport - a decrease of 0.8%; Recreation and culture - a decrease of 0.6%; The harmonized index of consumer prices in May 2017 compared to April 2017 was 99.8%, i.e. the monthly inflation was -0.2%. The inflation rate since the beginning of the year (May 2017 compared to December 2016) has been 0.4% and the annual inflation in May 2017 com-

Inflation, YoY

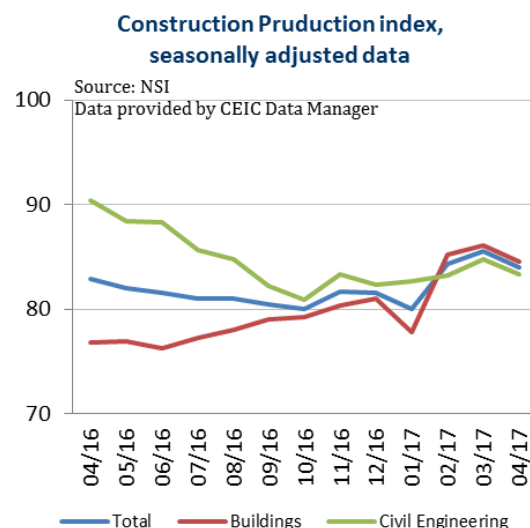


pared to May 2016 was 1.4%. The annual average inflation, measured by HICP, in the last 12 months (June 2016 - May 2017) compared to the previous 12 months (June 2015 - May 2016) was -0.2%.

Construction

In April 2017 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 1.8% m/m below

According to NSI preliminary data in April 2017 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 1.8% below the level of the previous month. In April 2017 working day adjusted data showed an increase by 2.0% in the construction production, compared to the same month of 2016. In April 2017 the construction production, calculated from the seasonally adjusted data, was below the level of the previous month. Index of production of building construction decreased by 1.8% and the production of civil engineering - by 1.7%. On an annual basis in April 2017, the increase of production in construction, calculated from working day adjusted data, was determined mainly from the positive rate in the building construction, where the growth was by 8.7%, while in the civil engineering was registered a decrease by 5.4%.

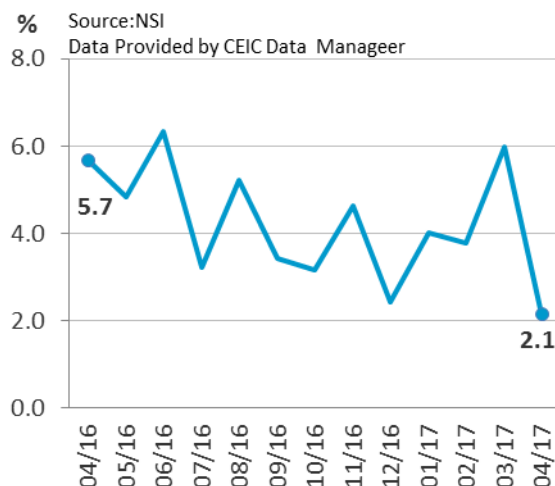


Retail trade

In April 2017 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices decreased by 0.5% compared to the previous month

According to the preliminary seasonally adjusted data of the NSI, in April 2017 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices decreased by 0.5% compared to the previous month. In April 2017, the working day adjusted turnover in 'Retail trade, except of motor vehicles and motorcycles' increased by 2.1% in comparison with the same month of the previous year. In April 2017 compared to the previous month, the turnover increased significantly in the 'Dispensing chemist; retail sale of medical and orthopedic goods, cosmetic and toilet articles' by 0.5% and in the 'Retail sale in non-specialized stores' by 0.4%. More significantly decrease was registered in the 'Retail sale of computers, peripheral units and software; telecommunications equipment' - 3.1%, in the 'Retail sale of automotive fuel' - 2.6% and in the 'Retail sale via mail order houses or via Internet' - 2.5%. In April 2017 compared to the same month of 2016 the turnover increased more significantly in the 'Dispensing chemist; retail sale of medical and orthopedic goods, cosmetic and toilet articles' by 10.8%, in the 'Retail sale in non-specialized stores' by 10.5% and in the 'Retail sale of textiles, clothing, footwear and leather goods' by 10.1%. A decrease was registered only in the 'Retail sale of automotive fuel' - 15.4% and in the 'Retail sale via mail order houses or via Internet' - 0.7%.

Retail trade index, % change (YoY)



Industrial Production

The Industrial Production Index, seasonally adjusted, decreased by 1.2% in April 2017 as compared to March 2017

According to the preliminary data of the NSI, the Industrial Production Index, seasonally adjusted, decreased by 1.2% in April 2017 as compared to March 2017. In April 2017 working day adjusted Industrial Production Index rose by 4.8% in comparison with the same month of 2016. In April 2017 as compared to March 2017, the seasonally adjusted Industrial Production Index decreased in the mining and quarrying industry by 2.9% and in the manufacturing by 1.7%, while in the electricity, gas, steam and air conditioning supply an increase by 3.6% was seen. The most significant decreases of production in the manufacturing were registered in the manufacture of basic pharmaceutical products and pharmaceutical preparations by 10.9%, in the printing and reproduction of recorded media by 8.0%, in the manufacture of wearing apparel by 6.7%, in the manufacture of computer, electronic and optical products by 6.5%. There were increases in the manufacture of fabricated metal products, ex-

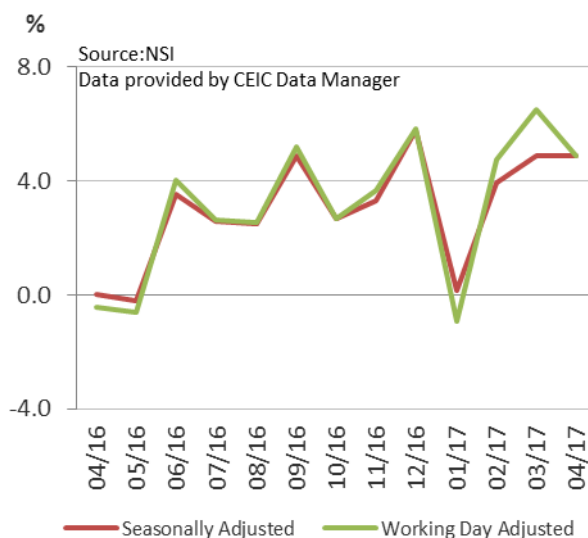
cept machinery and equipment by 17.9%, in the manufacture of chemicals and chemical products by 5.3%, in the manufacture of tobacco products by 4.5%, in the manufacture of wood and of products of wood and cork, except furniture, manufacture of articles of straw and plaiting materials by 3.2%. On annual basis in April 2017 Industrial Production Index calculated from working day adjusted data increased in the manufacturing by 8.4%, while decreases were registered in the electricity, gas, steam and air conditioning supply by 4.2% and in the mining and quarrying industry by 2.0%. In the manufacturing, the more significant increases compared to the same month of the previous year were seen in the manufacture of fabricated metal products, except machinery and equipment by 43.1%, in the manufacture of tobacco products by 35.0%, in the manufacture of computer, electronic and optical products by 30.6%, in the manufacture of chemicals and chemical products by 22.0%. Decreases were registered in the manufacture of other transport equipment by 23.5%, in the manufacture of beverages by 9.1%, in the manufacture of basic pharmaceutical products and pharmaceutical preparations by 7.7%, in the manufacture of wearing apparel by 6.0%.

Tourism

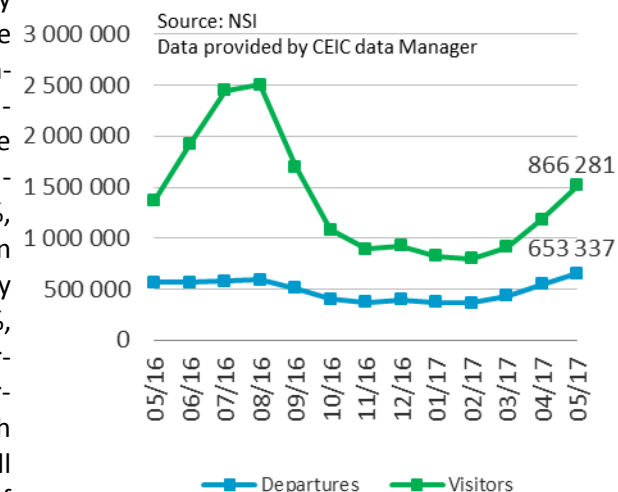
In May 2017, the number of the trips of Bulgarian residents abroad was 653.3 thousand or by 15.7% above the registered in May 2016

In May 2017, the number of the trips of Bulgarian residents abroad was 653.3 thousand or by 15.7% above the registered in May 2016. In comparison with the same month of the previous year an increase was observed in the total number of the trips of Bulgarians to: Spain - by 39.6%, the United Kingdom - by 34.4%, Germany - by 25.9%, Italy - by 21.5%, Serbia - by 18.4%, France - by 15.6%, the Former Yugoslav Republic of Macedonia - by 12.5%, Austria - by 11.4%, Turkey - by 10.9%, Greece - by 6.4%, Romania - by 1.6%, and etc. At the same time decreased the number of the trips of Bulgarians to: Israel - by 21.8%, Hungary - by 10.2%, and etc. The trips with other purposes (as a guest, education and visit the cultural and sport events) in May 2017 composed the greatest share of the total number of trips of Bulgarian residents abroad - 38.2%, followed by the trips with holiday and recreation purpose - 36.0%, and with professional purpose - 25.8%. In comparison with May 2016, an increase was registered in the trips with all observed purposes: with holiday and recreation purpose - by 30.3%, with professional purpose - by 23.1%, and with other purposes - by 0.9%. In May 2017, the trips with other purposes formed 70.0% of all trips to Turkey. The trips with professional purpose to Russian Federation were 53.5%, as these to France and Greece with holiday and recreation purpose were 58.3% and 49.5% respectively of all trips of Bulgarian residents to these countries. In May 2017, the number of arrivals of visitors from abroad to Bulgaria was 866.3 thousand or by 7.2% more in comparison with May 2016. An increase was registered in the trips by all observed purposes: with professional purpose - by 22.4%, with holiday and recreation purpose - by 5.3%, and with other purposes - by 3.9%. The share of visits of EU citizens was 63.8% of the total number of foreigners' visits to Bulgaria in May 2017 or by 9.1% more in comparison with the same month of the previous year. An increase was registered in the visits of the citizens of France - by 38.3%, Poland - by 20.8%, Italy - by 14.5%, Germany - by 10.2%, Romania - by 9.8%, the United Kingdom - by 5.9%, and etc. At the same time decreased the visits from Slovakia - by 24.3%, Hungary - 5.9%, Greece - by 0.3%, and etc. The visits of foreigners in the group 'Other European countries' increased by 2.1%, as the highest growth was observed in the visits of citizens of Serbia - by 11.3%. In May 2017, the predominant share of the visits with other purposes (including as guest and passing transit) was 46.0%, followed by trips with holiday and recreation purpose - 36.8%, and with professional purpose - 17.2%. The visits with holiday and recreation purpose formed 96.8% of the arrivals from Israel. The visits with professional purpose were 49.6% of the arrivals from Poland, as with other purposes were 77.1% of all arrivals from Romania.

Industrial production Index, % change, YoY



Total Visitors/Departures



Business climate

In June 2017, the total business climate indicator decreases by 0.7 percentage points compared to the previous month

According to the NSI data, in June 2017, the total business climate indicator decreases by 0.7 percentage points compared to the previous month as a result of the unfavorable managers' opinions in industry and services. The composite indicator 'business climate in industry' decreases by 1.2 percentage points in comparison with May which is due to the shifting of the industrial entrepreneurs' expectations about the business situation of the enterprises over the next 6 months from 'better' towards preserving 'the same'. At the same time, the inquiry registers certain improvement of the production assurance with orders, which is accompanied with favorable expectations about the production activity over the next 3 months. The uncertain economic environment and shortage of labor continue to be the main problems for business development. As regards the selling prices in industry, the prevailing managers' expectations are them to remain unchanged over the next 3 months. In June, the composite indicator 'business climate in construction' increases by 2.2 percentage points as a result of the optimistic construction entrepreneurs' assessments and expectations about the business situation of the enterprises. In their opinion, the present construction activity is improved in comparison with previous month,

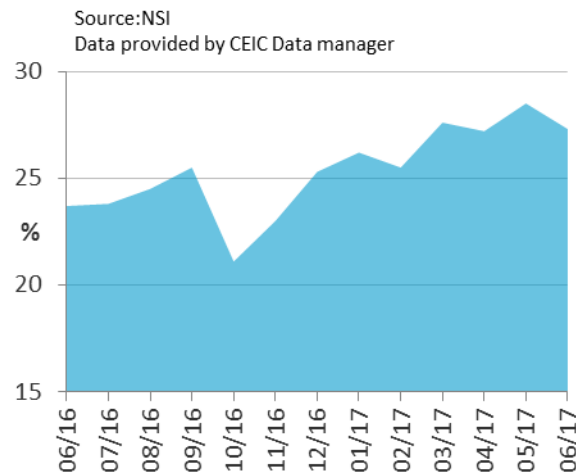
as their forecasts about the next 3 months are the activity to keep the same level. The main factors limiting the enterprises remain the uncertain economic environment, competition in the branch and shortage of labor, as the inquiry reports a decrease of the negative influence of the first two factors. Concerning the selling prices in construction, the majority of the managers expect preservation of their level over the next 3 months. The composite indicator 'business climate in retail trade' increases by 0.7 percentage points which is due to the improved retailers' assessments about the present business situation of the enterprises. However, concerning the volume of sales and orders placed with suppliers their expectations are more unfavorable. The competition in the branch, insufficient demand and uncertain economic environment continue to be most serious difficulties for business development. As regards the selling prices, the retailers' expectations are for certain increase over the next 3 months. In June, the composite indicator 'business climate in service sector' drops by 3.7 percentage points as a result of the shifting of the managers' expectations about the business situation of the enterprises over the next 6 months from 'better' towards preserving 'the same'. Concerning the demand for services the present tendency is assessed as slight improved, but their expectations over the next 3 months are more reserved. The main obstacles for the activity in the sector remain the competition in the branch and uncertain economic environment, although in the last month a decrease of their unfavorable impact is reported. With regard to the selling prices, the managers foresee preservation of their level over the next 3 months.

Unemployment

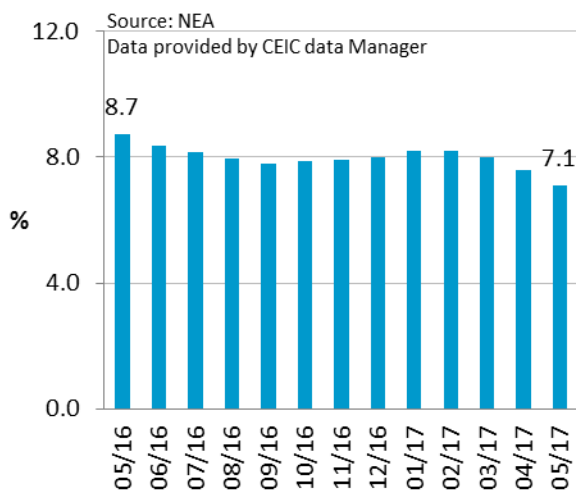
The number of the registered unemployed in the labor offices in May 2017 is 233 829, decreasing with 6.3% m/m and 18.3% y/y, respectively

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 Promotion law – 3.3%. On the primary market, there have

Business Climate in Industry for the last 12 months



Registered Unemployment Rate



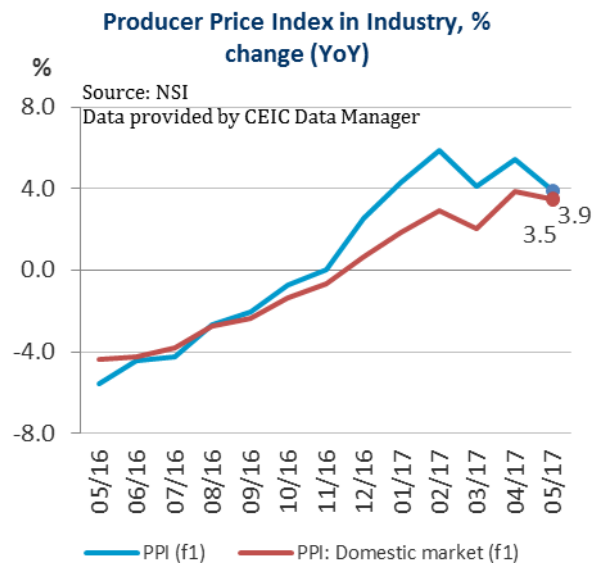
been announced 19 939 job vacancies, decreasing with 13.2% compared to the previous month and increasing with 6.3% on annual. More than 2/3rd of the job vacancies have been announced by the private sector (82.3%), as their share increases with 1.4 pp compared to April 2017 and 6.9 pp compared to May 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.

Producer price indices in industry

Total Producer Price Index in Industry in May 2017 decreased by 1.2% compared to the previous month

According to the data of the NSI, total Producer Price Index in Industry in May 2017 decreased by 1.2% compared to the previous month. Lower prices were registered in the manufacturing by 1.6%, in the mining and quarrying industry by 1.4% and in the electricity, gas, steam and air conditioning supply by 0.2%. In the manufacturing, more significant prices decreases were seen in the manufacture of basic metals by 3.4% and in the manufacture of chemicals and chemical products by 1.1%, while prices increases were reported in the manufacture of motor vehicles, trailers and semi-trailers by 1.0%, in the manufacture of wood and of products of wood and cork, except furniture and in the printing and reproduction of recorded media by 0.5%. Total Producer Price Index in May 2017 increased by 3.9% compared to the same month of 2016. The prices rose in the mining and quarrying industry by 5.2%, in the manufacturing by 4.2% and in the electricity, gas, steam and air conditioning supply by 2.9%. In the manufacturing more significant prices increases were seen in the manufacture of basic metals by 13.3%, in the manufacture of motor vehicles, trailers and semi-trailers by 6.1% and in the manufacture of electrical equipment by 3.8%, while the producer prices fell in the manufacture of machinery and equipment by 0.5%.

Producer Price Index on Domestic Market in May 2017 decreased by 0.5% compared to the previous month. The domestic prices fell in the mining and quarrying industry by 0.9% and in the manufacturing by 0.8%, while in the electricity, gas, steam and air conditioning supply the prices increased by 0.1%. In the manufacturing, compared to the previous month the prices went down in the manufacture of basic metals by 1.7% and in the manufacture of chemicals and chemical products by 1.0%, while the domestic prices rose in the printing and reproduction of recorded media by 0.6% and in the manufacture of food products by 0.3%. Producer Price Index on Domestic Market in May 2017 increased by 3.5% compared to the same month of 2016. The domestic prices rose in the mining and quarrying industry by 9.7%, in the manufacturing by 3.5% and in the electricity, gas, steam and air conditioning supply by 2.9%. In the manufacturing compared to May 2016 the prices went up in the manufacture of basic metals by 15.2%, in the manufacture of electrical equipment by 3.8% and in the manufacture of tobacco products by 3.0%. The prices decreases were reported in the manufacture of leather and related products by 0.5% and in the in the manufacture of computer, electronic and optical products by 0.4%. Producer Price Index on Non-domestic Market in May 2017 decreased by 2.6% compared to the previous month. In the manufacturing the non-domestic prices fell by 2.5%. More significant prices decreases were reported in the manufacture of basic metals by 3.7%, in the manufacture of chemicals and chemical products and in the manufacture of other transport equipment by 1.2%, while the prices rose in the manufacture of motor vehicles, trailers and semi-trailers by 1.3%, in the manufacture of paper and paper products and in the manufacture of rubber and plastic products by 1.1%. Producer Price Index on Non-domestic Market in May 2017 increased by 4.5% compared to the same month of 2016. In the manufacturing, the prices rose by 5.0% compared to May 2016. The non-domestic prices went up in the manufacture of basic metals by 12.9% and in the manufacture of paper and paper products by 8.6%. The prices fell in the manufacture of machinery and equipment by 0.7%.



FISCAL SECTOR

Government budget

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

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

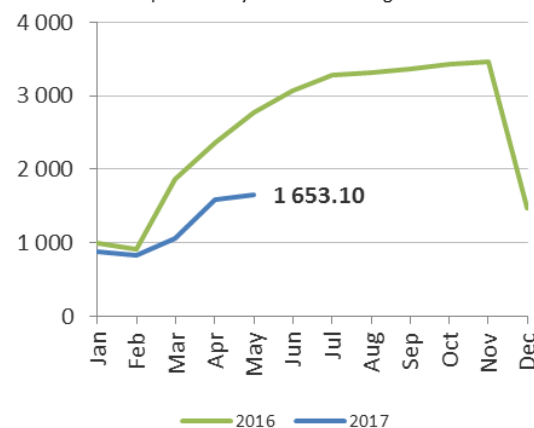
budget surplus of BGN 1,561.0 million and by a surplus of EU funds of BGN 29.7 million. The CFP revenues and grants in April 2017 stand at BGN 12,016.8 million, or 33.9% of the annual estimates. Compared to the same period of the previous year, tax and non-tax revenues have risen by BGN 736.5 million, or by 6.8%, with grant proceeds being lower. Tax proceeds, including revenues from social security contributions, total BGN 9,986.8 million, which accounts for 35.6% of the revenues planned for the year. Compared to the data as of April 2016, tax proceeds have risen in nominal terms by 8.7%, or by BGN 797.5 million. In structural terms, the most considerable growth is reported with regard to proceeds from indirect taxes and revenues from social security and health insurance contributions. Direct tax revenues amount to BGN 2,030.1 million, or 39.9% of the annual estimates, growing by BGN 139.9 million, or by 7.4% as against the same period of the previous year. Indirect tax revenues amount to BGN 4,831.3 million, which accounts for 34.5% of the annual estimates. Compared to the data as of April 2016, proceeds in this group have grown by BGN 316.7 million, or by 7.0% as against the same period of the previous year. VAT proceeds amount to BGN 3,291.5 million, or 37.5% of those planned. Compared to the previous year, the VAT revenues have risen by BGN 284.2 million, or by 9.4% as against the same period of the previous year. The amount of non-refunded VAT as of end-April 2017 is BGN 84.0 million. There is also a growth in excise duty revenues which amount to BGN 1,463.4 million, or 29.0% of the annual estimates, while as against April 2016 they have grown by 1.6%, or by BGN 23.4 million. Customs duty proceeds amount to BGN 63.8 million, or 38.4% of the estimates for the year. Proceeds from other taxes, including property taxes and other taxes under the Corporate Income Tax Law, amount to BGN 494.2 million, or 49.9% of the annual estimates. Revenues from social security and health insurance contributions are BGN 2,631.1 million, which accounts for 33.2% of the estimates for the year. Compared to the same period of the previous year, the revenues from social security contributions have risen by BGN 313.2 million, or 13.5%, in nominal terms. Non-tax revenues amount to BGN 1,586.6 million, or 33.3% of the annual estimates. Grant revenues amount to BGN 443.3 million, or 16.8% of those planned for the year. When comparing grant proceeds to the previous year, one should take into account the baseline effect in 2016 of the certified expenditures reimbursed to Bulgaria by the European Commission as from end-2015, being the peak for payments for projects under the previous 2007 - 2013 programming period. CFP expenditures, including the contribution of the Republic of Bulgaria to the EU budget for February 2017, amount to BGN 10,426.1 million, which accounts for 28.4% of the annual estimates. For comparison, CFP expenditures for the same period of 2016 amount to BGN 9,818.7 million. The higher expenditures as against the first four months of 2016 are mainly due to the higher amount of social security and health insurance payments, the baseline effect of pension expenditures since their increase in July 2016, the subsidy expenditures and the increase in social security contributions linked to the higher contribution to the Pensions Fund for the persons pursuant to Article 69 of the Social Insurance Code by 20 pps as against 2016. Non-interest expenditures amount to BGN 9,739.0 million, which accounts for 28.2% of the annual estimates. Non-interest current expenditures as of April 2017 amount to BGN 9,280.2 million, or 32.8% of the estimates for the year, capital expenditures (including net increment of state reserve) amount to BGN 458.8 million, or 7.4% of the 2017 State Budget of the Republic Bulgaria Law estimates. Interest payments amount to BGN 401.5 million, or 48.6% of those planned for 2017. The part of Bulgaria's contribution to the EU budget, as paid from the central budget as of April 2017, amounts to BGN 285.6 million, which complies with the existing legislation in the area of EU own resources, i.e. Council Decision 2014/335/EU on the system of own resources of the European Union, Council Regulation (EU, Euratom) No 608/2014 of 26 May 2014 laying down implementing measures for the system of own resources of the European Union and Council Regulation (EU, Euratom) No 609/2014 of 26 May 2014 on the methods and procedure for making available the traditional, VAT and GNI-based own resources and on the measures to meet cash requirements, as amended by Council Regulation (EU, Euratom) 2016/804 of 17 May 2016. The fiscal reserve as of April 2017 is BGN 13.2 billion, including BGN 12.3 billion of fiscal reserve deposits in the BNB and in banks and BGN 0.9 billion of receivables under the EU Funds for certified expenditure, advance payments, etc.

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

Based on the MF preliminary data and estimates, the balance of the Consolidated Fiscal Programme (CFP) on a cash basis as of May 2017 is expected to be positive, amounting to BGN 1,653.1 million (1.7 % of the forecast GDP). Key CFP parameters on the basis of preliminary data and estimates: In May 2017, CFP revenues and grants are expected to be BGN 14,693.3 million (41.5 % of the annual estimates). Compared to the same period of the previous year, tax and non-tax revenues have grown by BGN 861.2 million, (6.5 %), while proceeds from grants were lower. Grants performance as compared to the annual estimates for 2017 is expected to be 20.1 %. The Consolidated Fiscal Programme expenditures, including the contribution of the Republic of Bulgaria to the EU budget, as of May 2017 are expected to amount to BGN 13,040.2 million, or 35.5 % of the annual estimates. The expenditures for the same period of the previous year were to the amount of BGN 12,078.5 mil-

BGN mn **Budget position monthly**

Source: MF
Data provided by CEIC data Manager



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

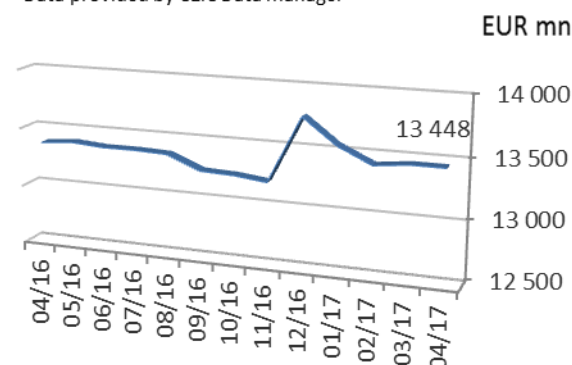
Government debt

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

According to the MF data, the central government debt as at end-April 2017 stood at EUR 13,448.1 million. Domestic debt amounted to EUR 3,229.9 million and external debt - to EUR 10,218.2 million. At the end of the reporting period, the central government debt/gross domestic product (GDP) ratio was 27.1 %, with the share of domestic debt being 6.5 % and of external debt - 20.6 % of GDP. In the central government debt structure, domestic debt at the end of the period amounted to 24 %, and external debt - to 76 %. In April 2017, the central government guaranteed debt decreased to EUR 271.2 million as compared to end March 2017. Domestic guarantees amounted to EUR 35.7 million, with the central government guaranteed debt/GDP ratio being 0.5 %. According to the official register of government and government guaranteed debt, kept by the Ministry of Finance on the grounds of Article 38, paragraph 1 of the Government Debt Law, at end-April 2017 the government debt reached EUR 12,860.9 million, being 25.9 % of GDP. Domestic debt amounted to EUR 3,167.8 million and external debt - to EUR 9,693.1 million. Government guaranteed debt in April 2017 amounted to EUR 898.4 million. Domestic guarantees amounted to EUR 35.7 million, the government guaranteed debt/ GDP ratio being 1.8 %.

Central Government Debt

Source: Ministry of Finance
Data provided by CEIC Data manager



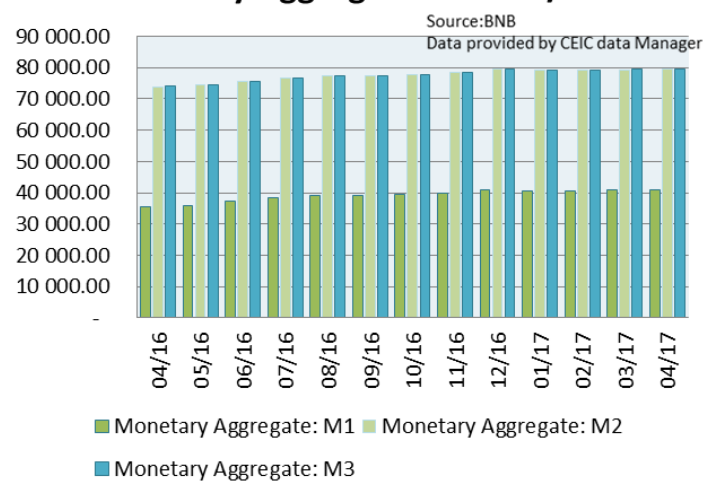
MONETARY SECTOR

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

According to BNB data, in April 2017 broad money (monetary aggregate M3) increased annually by 7.6% compared to 8.5% annual growth in March 2017. At the end of April 2017 M3 was BGN 79.663 billion (83.6% of GDP) compared to BGN 79.463 billion (83.4% of GDP) in March 2017. Its most liquid component – monetary aggregate M1 – increased by 16% annually in April 2017 (17.7% annual growth in March 2017). At the end of April 2017, deposits of the non-government sector were BGN 68.401 billion (71.8% of GDP), increasing annually by 7.6% (8.4% annual growth in March 2017). Deposits of Non-financial corporations were BGN 18.846 billion (19.8% of GDP) at the end of April 2017. Compared to the same month of 2016 they increased by 9% (10.1% annual growth in March 2017). Deposits of financial corporations increased by 28.3% annually in April 2017 (28.4% annual growth in March 2017) and at the end of the month they reached BGN 3.920 billion (4.1% of GDP). Deposits of Households and NPISHs were BGN 45.635 billion (47.9% of GDP) at the end of April 2017.

They increased by 5.5% compared to the same month of 2016 (6.4% annual growth in March 2017). Net domestic assets were BGN 49.050 billion at the end of April 2017. They increased by 5.1% compared to the same month of 2016 (5.5% annual growth

Monetary Aggregates in BGN/mn



in March 2017). At the end of the month their basic component – domestic credit – was BGN 50.767 billion and increased by 3.7% compared to April 2016 (4% annual growth in March 2017). In April 2017 claims on the non-government sector increased by 4.5% annually (3.9% annual increase in March 2017) reaching BGN 52.627 billion. At the end of April 2017, claims on loans to the non-government sector amounted to BGN 51.453 billion (54% of GDP) compared to BGN 51.014 billion (53.6% of GDP) at the end of March 2017. They increased annually by 4.3% in April 2017 (3.8% annual increase in March 2017). The change of loans to the non-government sector was influenced by net sales of loans by Other monetary financial institutions (Other MFIs) - their volume for the last twelve months was BGN 135.9 million. On an annual basis, loans sold by Other MFIs were BGN 169.9 million (of which BGN 1.1 million in April 2017), while the amount of repurchased loans was BGN 34 million (of which BGN 4.7 million in April 2017). In April 2017, loans to Non-financial corporations increased by 3.3% annually (2.5% annual growth in **March 2017**) and at the end of the month amounted to BGN 31.058 billion (32.6% of GDP). Loans to Households and NPISHs were BGN 18.935 billion (19.9% of GDP) at the end of April 2017. They increased by 5.2% compared to the same month of 2016 (4.7% annual growth in March 2017). At the end of April 2017 loans for house purchases were BGN 8.897 billion and increased by 2.7% annually (2.4% annual growth in March 2017). Consumer loans amounted to BGN 7.437 billion and compared to April 2016 they increased by 3.4% (3.3% annual growth in March 2017). On an annual basis other loans increased by 78.5% (71.8% annual growth in March 2017) and reached BGN 1.274 billion. Loans granted to financial corporations were BGN 1.460 billion at the end of April 2017 (1.5% of GDP). Compared to April 2016, they increased by 18.1% (21.1% annual growth in March 2017). Net foreign assets amounted to BGN 50.163 billion at the end of the reporting month compared to BGN 50.510 billion at the end of March 2017 and increased by 8.2% compared to April 2016 (10% annual growth in March 2017). At the end of April 2017 foreign assets increased by 7.7% annually (8.6% annual growth in March 2017), reaching BGN 59.388 billion. Foreign liabilities amounted to BGN 9.226 billion, marking a 5.1% annual growth (1.4% annual increase in March 2017). According to BNB preliminary data in April 2017, the relative share of bad and restructured loans decreased by 0.3 percentage points to 15.3%. Their nominal value amounted to BGN 7,667 billion, incl. BGN 5.188 billion in bad and restructured corporate loans (16.7%) and BGN 2.596 billion in bad and restructured loans to households (13.1%).

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

Source: BNB, calculations UBB

CAPITAL MARKET

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

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

| Date | SOFIX | BGBX40 | BGREIT | BGTR30 |
|---------|-------|--------|--------|--------|
| 05.2016 | 441.3 | 87.8 | 101.4 | 368.7 |
| 06.2016 | 455.6 | 89.2 | 102.2 | 377.8 |
| 07.2016 | 458.2 | 89.6 | 100.9 | 381.8 |
| 08.2016 | 464.7 | 90.0 | 102.5 | 384.9 |
| 09.2016 | 504.6 | 96.1 | 103.3 | 404.6 |
| 10.2016 | 531.8 | 100.9 | 104.6 | 420.1 |
| 11.2016 | 562.8 | 106.4 | 103.5 | 439.1 |
| 12.2016 | 586.4 | 111.3 | 108.1 | 459.2 |
| 01.2017 | 602.3 | 117.0 | 107.3 | 470.4 |
| 02.2017 | 611.1 | 120.6 | 107.8 | 486.1 |
| 03.2017 | 634.0 | 124.9 | 108.6 | 503.8 |
| 04.2017 | 657.3 | 130.3 | 108.4 | 519.9 |
| 05.2017 | 661.2 | 130.6 | 111.1 | 516.7 |

Source: Bulgarian Stock Exchange-Sofia

BANKING SECTOR

In April 2017, the total assets of the banking system in Bulgaria grew by 0.1% m/m and by 6.5% y/y, respectively to BGN 93.0 billion

According to BNB data in April 2017, Bulgaria's banking system reported a profit of BGN 412.9 million and increased by 10.3% y/y. The main factor contributing to this is the lower interest costs. By the end of April 2017, they amounted to BGN 134.9 million and decreased by 61.3% y/y. On the other hand, the low and still decreasing interest rates of the banks combined with the modest lending volumes shrink the net interest income in the sector to BGN 891.7 million. Compared to the same period of last year it decreased by 0.9%. Forecasts and expectations tend to remain until the end of 2017, but in 2018 there are expectations of reversing the trend. This will be determined by the ECB's monetary policy and interest rates, the effects of which will shift to Bulgaria. Banks continue to try to compensate for the contraction of interest revenue with a reduction in administrative costs, which shrinks by 8.3% y/y. However, along with the decrease in depreciation costs, net operating income shrank by 8.2% on an annual basis. For the four months of the year, depreciation costs were charged for BGN 162 million, down by 34% compared to the same period of the previous year.

| Indicator (BGN'000) | 30.04.2016 | 30.04.2017 | Y/Y (%) |
|--------------------------------------|------------------|------------------|-------------|
| Interest Income | 1 248 140 | 1 026 599 | -17.7 |
| Interest Expenditure | 348 444 | 134 935 | -61.3 |
| Net interest income | 899 696 | 891 664 | -0.9 |
| Impairment | 245 505 | 161 926 | -34.0 |
| Fee and commission income | 321 867 | 354 041 | 10.0 |
| Fee and commission expenses | 41 671 | 44 143 | 5.9 |
| Net fee and commission income | 280 196 | 309 898 | 10.6 |
| Administration costs | 567 140 | 520 317 | -8.3 |
| Personal cost | 245 307 | 259 439 | 5.8 |
| Total operating income, net | 1 294 280 | 1 187 592 | -8.2 |
| Net Profit | 374 377 | 412 968 | 10.3 |

Source:BNB, UBB's Calculations

According to BNB data in April 2017, the total assets of the banking system in Bulgaria grew by 0.1% m/m and by 6.5% y/y, respectively to BGN 93.0 billion. Their relative share in the forecasted GDP is 95.65%. In April 2017, lending increased in all three segments - corporate, mortgage and consumer. On an annual basis, the increase in corporate lending was 2.48% to BGN 33.5 billion, while for households 5.14% to BGN 19 billion. Separately, housing loans increased by 2.46% to BGN 8.9 billion and those for consumption by 2.33% %, reaching BGN 8.8 billion. Deposits from customers also increased by 9.08% y/y to BGN 20.9 billion for non-financial corporations and households by 5.55% y/y to BGN 47.5 billion. This is despite the extremely low interest rates on savings that combined with 1.5% inflation in practice do not bring income to their owners.

| Bulgaria Intermediation Indicators | 30.04.2016 BGN 000 | 31.12.2016 BGN 000 | 31.03.2017 BGN 000 | 30.04.2017 BGN 000 | Change m/m (%) | Change y/y (%) | Change yend (%) | Share in GDP (%) |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-------------------|-------------------|--------------------|---------------------|
| BANKING SYSTEM TOTAL ASSETS | 87 307 485 | 92 094 979 | 92 925 284 | 93 016 280 | 0.10 | 6.54 | 1.00 | 95.65 |
| Loans to central governments | 586 113 | 686 170 | 651 166 | 646 622 | - 0.70 | 10.32 | - 5.76 | 0.67 |
| Loans to non-financial corporations | 32 734 098 | 33 180 349 | 33 312 725 | 33 544 299 | 0.70 | 2.48 | 1.10 | 34.29 |
| Loans to financial corporations | 1 829 025 | 2 025 583 | 1 944 517 | 1 982 025 | 1.93 | 8.37 | - 2.15 | 2.00 |
| Retail loans, incl.: | 18 111 402 | 18 575 301 | 18 849 995 | 19 043 054 | 1.02 | 5.14 | 2.52 | 19.40 |
| Mortgage loans | 8 665 124 | 8 771 553 | 8 840 656 | 8 878 096 | 0.42 | 2.46 | 1.21 | 9.10 |
| Consumer loans | 8 607 041 | 8 677 385 | 8 756 720 | 8 807 719 | 0.58 | 2.33 | 1.50 | 9.01 |
| Micro credits and other loans | 839 237 | 1 126 363 | 1 252 619 | 1 357 239 | 8.35 | 61.72 | 20.50 | 1.29 |
| TOTAL LOANS | 53 260 638 | 54 467 403 | 54 758 403 | 55 216 000 | 0.84 | 3.67 | 1.37 | 56.36 |
| ATTRACTED SOURCES FROM CLIENTS, incl.: | 69 650 986 | 74 129 417 | 74 506 997 | 74 563 498 | 0.08 | 7.05 | 0.59 | 76.69 |
| Local government deposits | 1 928 398 | 1 652 435 | 1 817 569 | 1 970 632 | 8.42 | 2.19 | 19.26 | 1.87 |
| Non-financial corporations deposits | 19 161 581 | 21 375 024 | 21 168 020 | 20 901 817 | - 1.26 | 9.08 | - 2.21 | 21.79 |
| Financial corporations deposits | 3 556 152 | 3 905 721 | 4 122 560 | 4 187 018 | 1.56 | 17.74 | 7.20 | 4.24 |
| Households and NPISHs deposits | 45 004 855 | 47 196 237 | 47 398 848 | 47 504 031 | 0.22 | 5.55 | 0.65 | 48.79 |
| Equity | 11 743 409 | 12 133 492 | 12 184 741 | 11 935 120 | - 2.05 | 1.63 | - 1.63 | |
| Net profit (annualised) | 439 015 | 1 262 334 | 287 602 | 412 968 | 43.59 | -5.93 | | |
| BANKING INDICATORS (%) | | | | | | | | |
| ROE | 11.22 | 10.4 | 9.44 | 10.38 | -0.96 | -1.77 | -0.96 | |
| ROA | 1.51 | 1.4 | 1.24 | 1.33 | -0.13 | -0.27 | -0.13 | |
| Total capital adequacy | n.a. | 22.2 | 22.66 | n.a. | | | | |
| Liquidity | 36.57 | 38.2 | 38.80 | 37.49 | 0.56 | 2.23 | 0.56 | |
| NPL | n.a. | 11.1 | 11.20 | n.a. | | | | |
| GDP, BGN '000 | 88 282 000 | 88 282 000 | 96 800 000 | 97 156 000 | | | | |
| EUR/BGN | 1.95583 | 1.95583 | 1.95583 | 1.95583 | | | | |

Source: BNB, MF, UBB Calculations

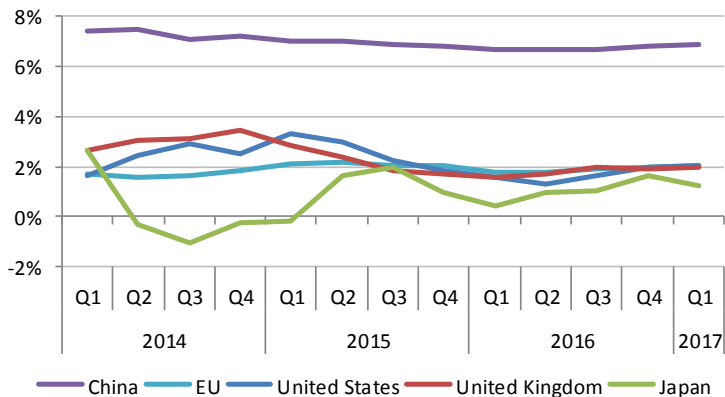
According to BNB data at the end of April 2017, the liquid assets ratio of the banking system, calculated according to BNB Ordinance No. 11, remains high - 37.49%. Compared to the end of March 2017, the equity position of the banking system decreased by 2.0% to BGN 11.9 billion as a result of the fall in retained earnings and interim dividends. The capital adequacy ratios of the banking system as of March 31, 2017 are rising compared to those reported at the end of the fourth quarter of 2016. Common Equity Tier 1, Tier 1 capital and total capital adequacy ratios at the end of March were 20.86%, 21.34% and 22.66% respectively, compared to 20.41%, 20.88% and 22.15%, respectively at 31 December 2016.

| Bulgaria: Macroeconomic Indicators | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016(e) | 2017(p) |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| REAL SECTOR | | | | | | | | | | | | |
| Gross domestic product (million BGN) | 51 783 | 60 185 | 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) | 26 476 | 30 772 | 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, %) | | 16.2 | 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, %) | 6.5 | 6.5 | 6.2 | 2.7 | 1.3 | 1.9 | 0.0 | 0.9 | 1.3 | 3.6 | 3.4 | 3.5 |
| Deflator (%) | | 9.7 | 8.9 | -4.1 | 8.1 | 6.1 | 1.6 | -0.7 | 0.5 | 2.3 | 1.2 | 1.4 |
| CPI average, % | 7.3 | 8.4 | 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, %) | 6.0 | 9.6 | 0.7 | -18.3 | 2.0 | 5.8 | -0.4 | -0.1 | 1.8 | 2.9 | 3.3 | 3.8 |
| Unemployment (%) | 9.0 | 6.9 | 5.6 | 6.8 | 10.2 | 11.2 | 11.4 | 11.8 | 10.7 | 10.0 | 8.0 | 7.2 |
| Gross domestic product per capita (BGN) | 6 838 | 8 005 | 9 280 | 9 206 | 10 146 | 11 022 | 11 262 | 11 340 | 11 612 | 12 381 | 12 949 | 13 581 |
| PUBLIC FINANCE | | | | | | | | | | | | |
| Deficit(-)/surplus(+) (million BGN) | 960.5 | 698.7 | 1 157 | -2 959 | -2 208 | -1 581 | -420 | -1 400 | -3 048 | -2 564 | 1 473 | -2 500 |
| Deficit(-)/surplus(+) (% of GDP) | 1.9 | 1.2 | 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) | 12 119.9 | 11 167.2 | 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) | 23.4 | 18.6 | 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 (mn BGN) | | | | | | | | | | | | |
| Domestic credit (Corporate loans and retail loans) | 21 091.4 | 33 486.2 | 44 533 | 47 574 | 50 022 | 53 781 | 55 094 | 57 062 | 52 051 | 53 204 | 50 942 | 53 200 |
| Money M3 (Broad money)(Corporate deposits and retail deposits) | 32 061.4 | 42 061.6 | 45 778 | 47 690 | 50 741 | 56 956 | 61 744 | 67 236 | 68 006 | 73 960 | 79 582 | 83 500 |
| BNB international reserves | 17 458.6 | 23 346.1 | 24 865 | 25 267 | 25 380 | 26 108 | 30 418 | 28 215 | 32 338 | 39 675 | 46 742 | 52 300 |
| Money M3, Broad money (% of GDP) | 61.9 | 69.9 | 66.1 | 69.8 | 67.9 | 70.5 | 75.3 | 81.8 | 81.3 | 83.5 | 85.9 | 85.9 |
| Domestic credit (% of GDP) | 40.7 | 55.6 | 64.3 | 69.6 | 66.9 | 66.6 | 67.2 | 69.4 | 62.2 | 60.1 | 55.0 | 54.8 |
| INTEREST RATES | | | | | | | | | | | | |
| Base interest rate | 2.69 | 3.93 | 5.12 | 2.40 | 0.20 | 0.20 | 0.11 | 0.02 | 0.03 | 0.01 | 0.00 | 0.00 |
| Interbank money market | 2.87 | 4.08 | 5.29 | 2.43 | 0.30 | 0.24 | 0.11 | 0.05 | 0.06 | 0.02 | -0.06 | -0.17 |
| SOFIBOR 3 months | 3.69 | 4.90 | 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 | 3.89 | 4.17 | 4.99 | 5.50 | 4.72 | 4.43 | 2.96 | 1.98 | 2.07 | 1.50 | 0.93 | 1.23 |
| EXTERNAL SECTOR (million EUR) | | | | | | | | | | | | |
| Gross external debt | 20 690.9 | 29 016.8 | 37 246 | 37 816 | 37 026 | 36 295 | 37 714 | 36 936 | 39 357 | 34 542 | 34 165 | 33 800 |
| Gross external debt (% GDP) | 78.1 | 94.3 | 105.13 | 108.26 | 96.9 | 87.9 | 89.9 | 87.9 | 92.0 | 76.3 | 72.1 | 68.0 |
| Current account | -4 647.8 | -7 755.2 | -8 182 | -3 116 | -476 | 361 | -358 | 536 | 35 | 172 | 1 810 | 800 |
| Exports | 12 011.9 | 13 511.9 | 15 204 | 11 699 | 15 561 | 20 227 | 19 675 | 21 218 | 21 026 | 21 919 | 22 643 | 23 800 |
| Imports | 17 574.1 | 20 757.2 | 23 802 | 15 873 | 18 325 | 22 201 | 23 667 | 24 151 | 23 803 | 24 542 | 24 433 | 25 100 |
| Trade balance | -5 562.3 | -7 245.3 | -8 598 | -4 174 | -2 764 | -1 975 | -3 992 | -2 933 | -2 777 | -2 622 | -1 790 | -1 300 |
| Foreign direct investment | 6 221.6 | 9 051.8 | 6 728 | 2 437 | 1 151 | 1 330 | 1 321 | 1 384 | 1 161 | 1 692 | 683 | 1 000 |
| Foreign direct investment/Current account deficit (%) | 133.9 | -85.7 | -121.6 | -127.9 | -41.3 | - | -27.1 | - | - | - | - | - |
| Current account (% GDP) | -17.6 | -25.2 | -23.1 | -8.9 | -1.2 | 0.9 | -0.9 | 1.3 | 0.1 | 0.4 | 3.8 | 1.6 |
| Trade balance (% GDP) | -10.7 | -23.5 | -24.3 | -11.9 | -7.2 | -4.8 | -9.5 | -7.0 | -6.5 | -5.8 | -3.8 | -2.6 |
| Foreign direct investment (% GDP) | 23.5 | 29.4 | 19.0 | 7.0 | 3.0 | 3.2 | 3.1 | 3.3 | 2.7 | 3.7 | 1.4 | 2.0 |
| Currency board: fixed BGN/EUR rate | 1.9558 | 1.9558 | 1.9558 | 1.9558 | 1.9558 | 1.9558 | 1.9558 | 1.9558 | 1.9558 | 1.9558 | 1.9558 | 1.9558 |
| Exchange rate of BGN/USD | 1.49 | 1.33 | 1.36 | 1.47 | 1.51 | 1.48 | 1.42 | 1.42 | 1.61 | 1.79 | 1.86 | 1.8 |
| Population | 7 572 673 | 7 518 002 | 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 |

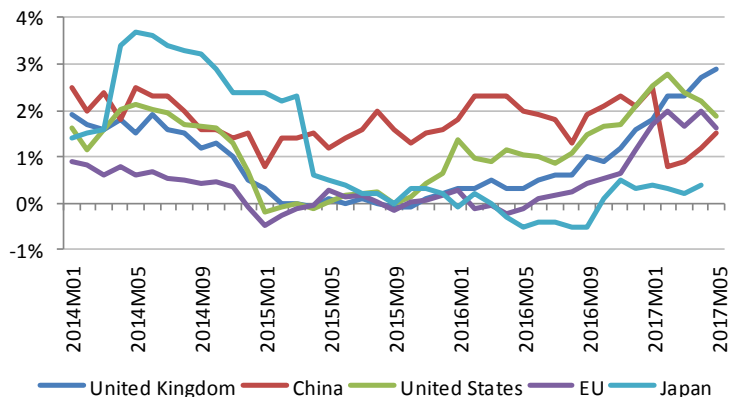
Source: BNB, MF, NSI, EC, UBB's projection

Appendix

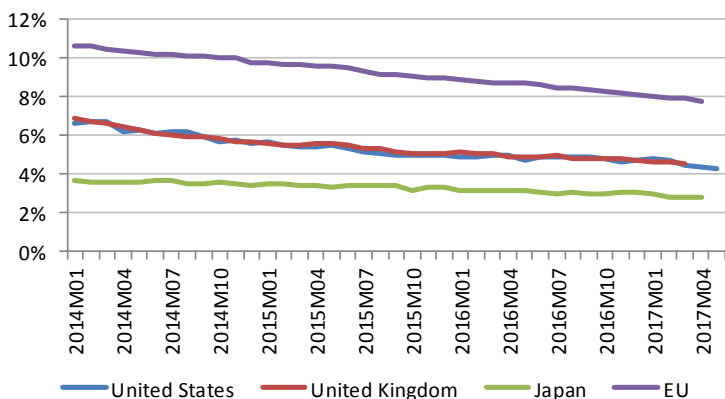
Advanced Economies: GDP growth rate compared to the same quarter of the previous year



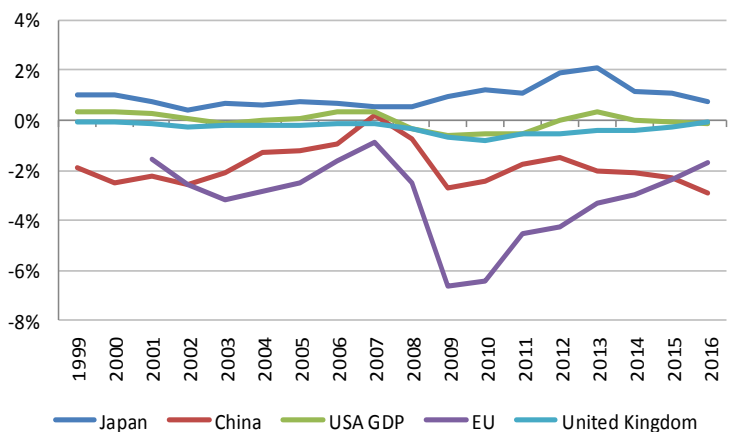
Advanced economies: Inflation by country, monthly (y/y)



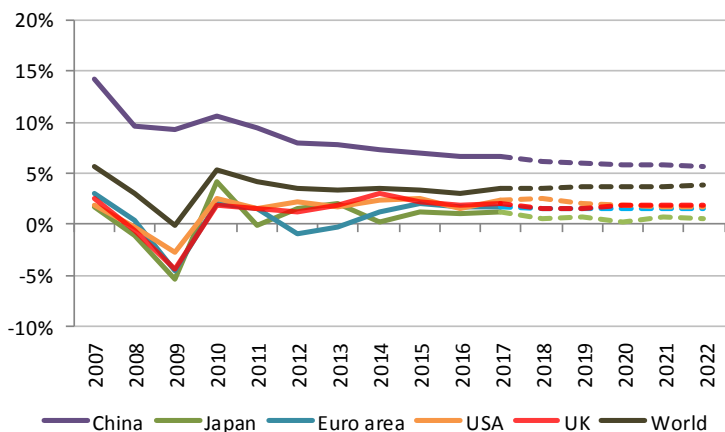
Advanced economies: Unemployment rates (%) by country on monthly basis



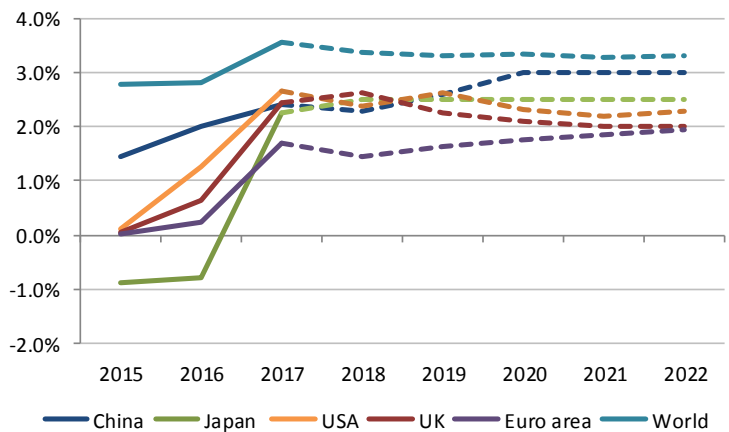
Advanced economies: Budget surplus/deficit to GDP (%)



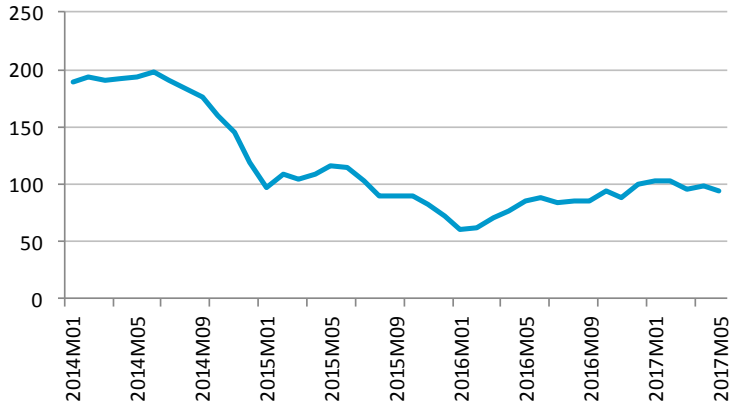
Advanced economies Real GDP Growth Rate (% y/y)



Advanced economies: Inflation average, % y/y



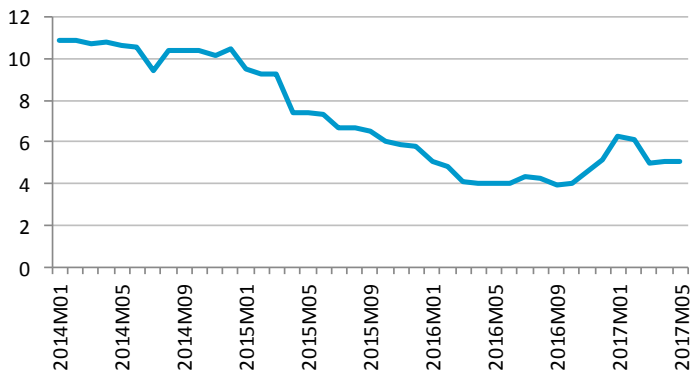
Fuel (Energy) Index, 2005 = 100, includes Crude oil (petroleum), Natural Gas, and Coal Price Indices



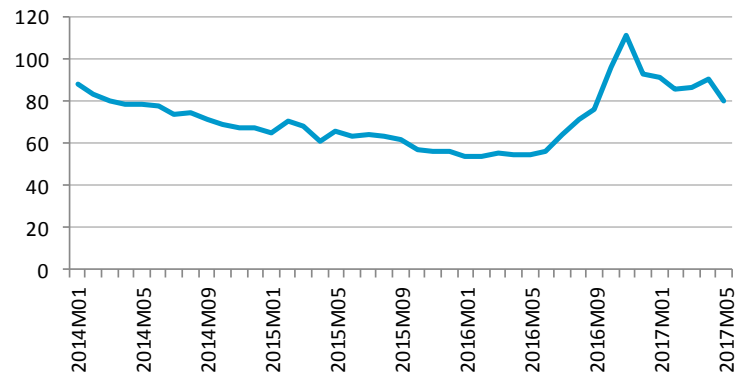
Crude Oil (petroleum), simple average of three spot prices; Dated Brent, West Texas Intermediate, and the Dubai Fateh



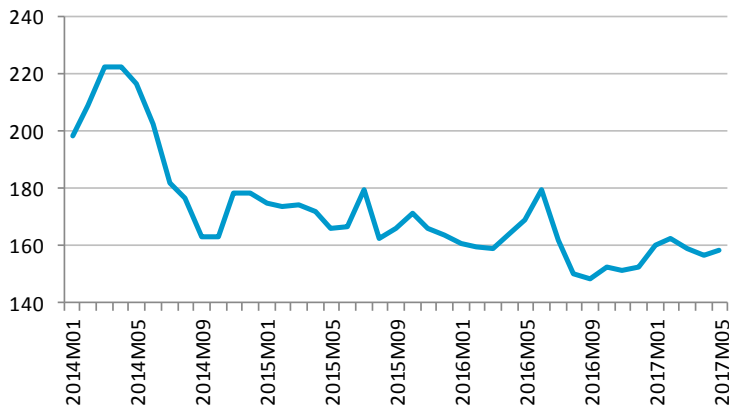
Natural Gas, Russian Natural Gas border price in Germany, US\$ per Million Metric British Thermal Unit



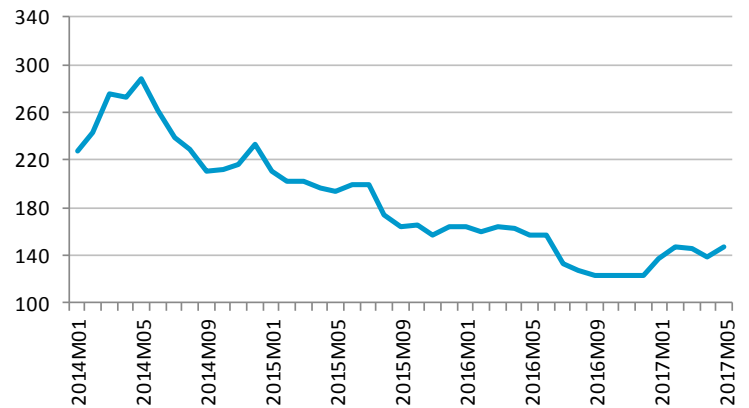
Coal, Australian thermal coal, 12,000- btu/pound, less than 1% sulfur, 14% ash, FOB Newcastle/Port Kembla, US\$ per metric ton



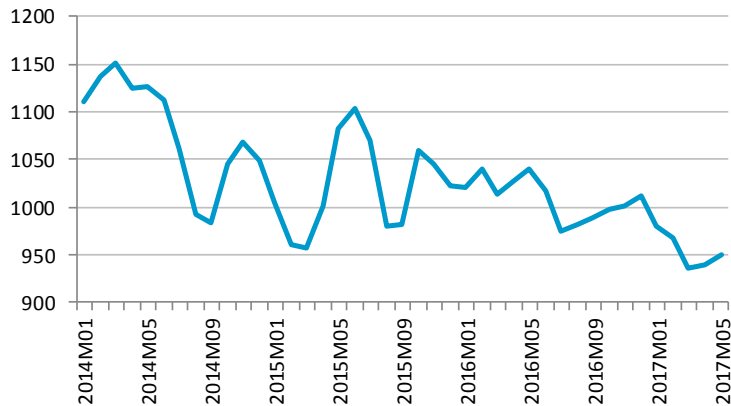
Maize (corn), U.S. No.2 Yellow, FOB Gulf of Mexico, U.S. price, US\$ per metric ton



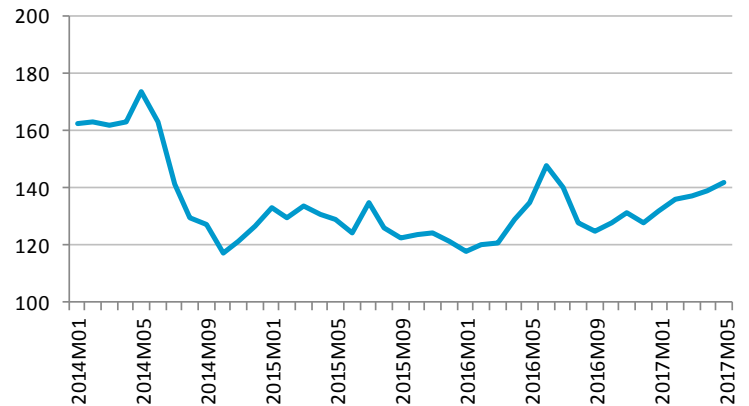
Wheat, No.1 Hard Red Winter, ordinary protein, Kansas City, US\$ per metric ton



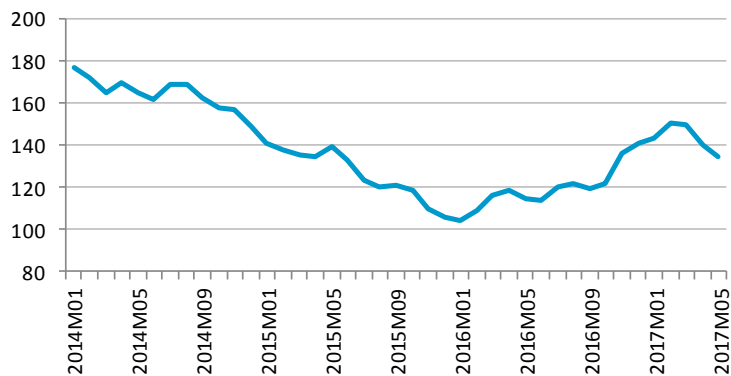
Sunflower oil, Sunflower Oil, US export price from Gulf of Mexico, US\$ per metric ton



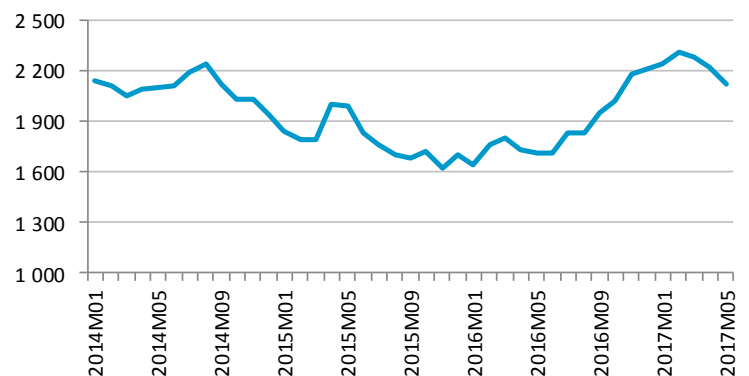
Barley, Canadian no.1 Western Barley, spot price, US\$ per metric ton



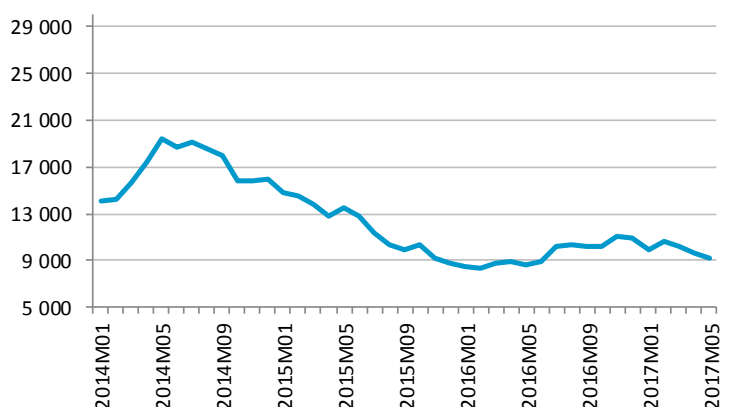
Metals Price Index, 2005 = 100, includes Copper, Aluminum, Iron Ore, Tin, Nickel, Zinc, Lead, and Uranium Price Indices



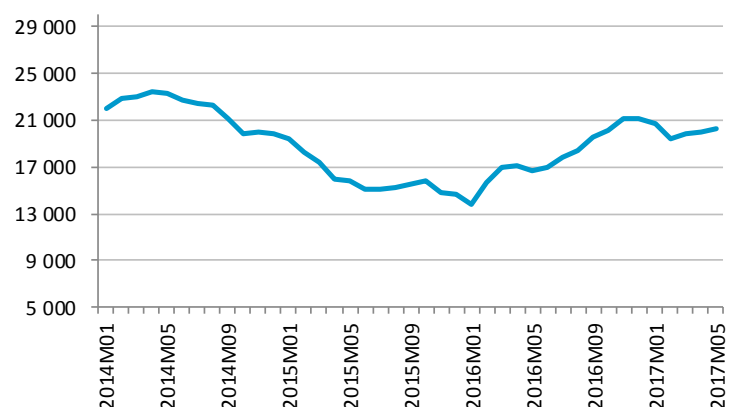
Lead, 99.97% pure, LME spot price, CIF European Ports, US\$ per metric ton



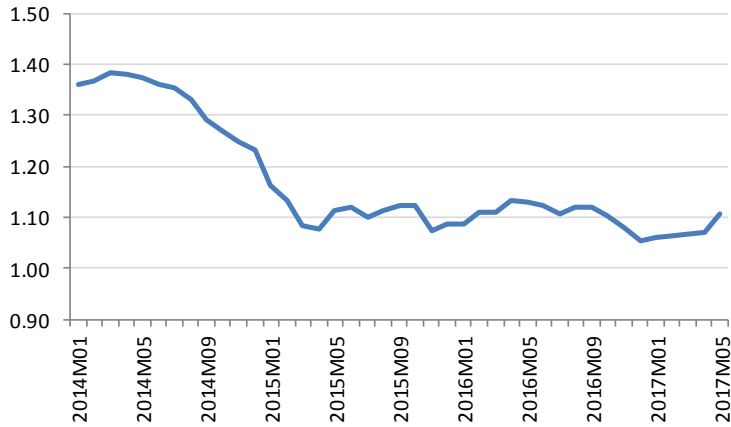
Nickel, melting grade, LME spot price, CIF European ports, US\$ per metric ton



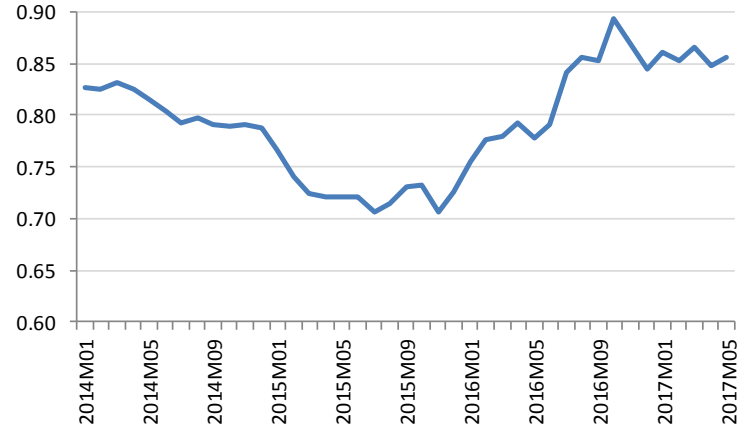
Tin, standard grade, LME spot price, US\$ per metric ton



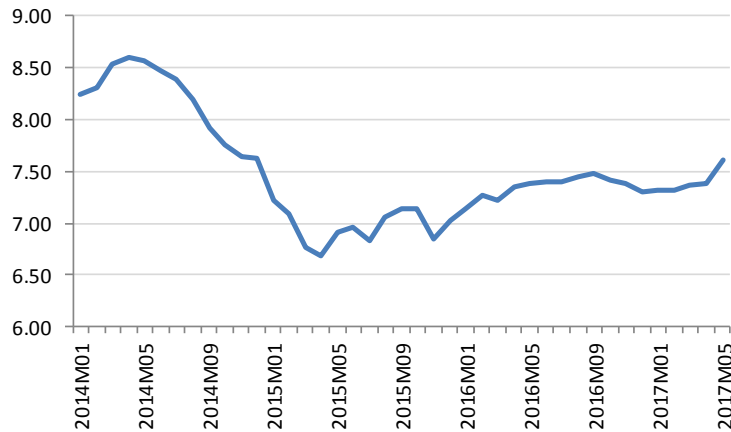
EUR/USD



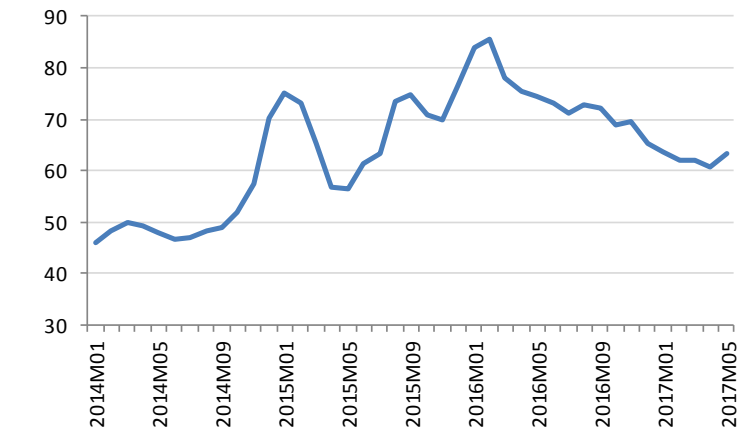
EUR/GBP



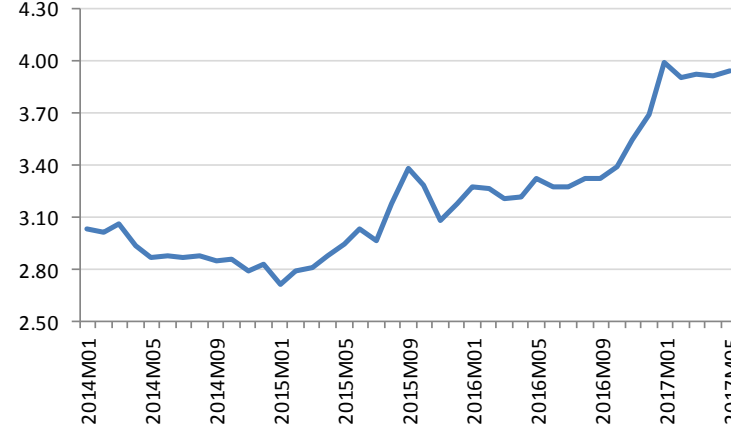
EUR/CHF



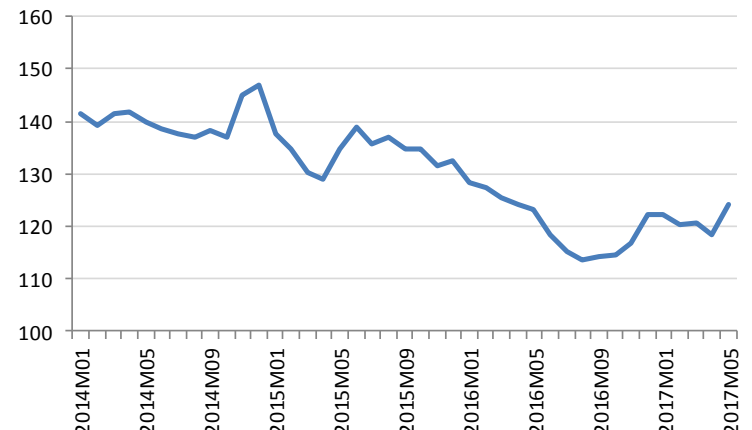
EUR/RUB



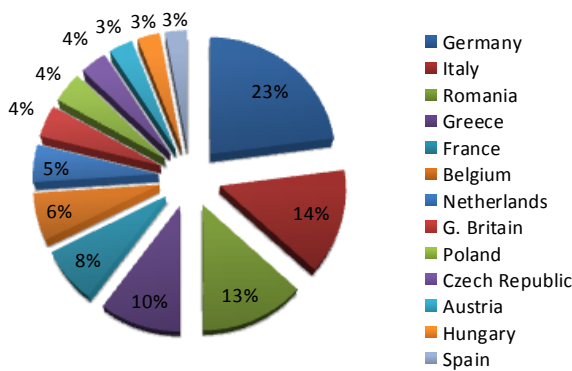
EUR/TRY



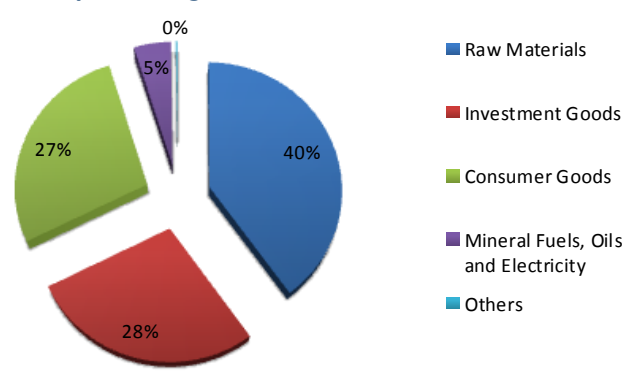
EUR/JPY



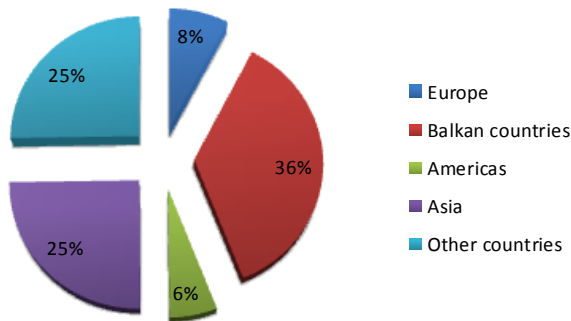
Exports: FOB by EU countries: January - March 2017



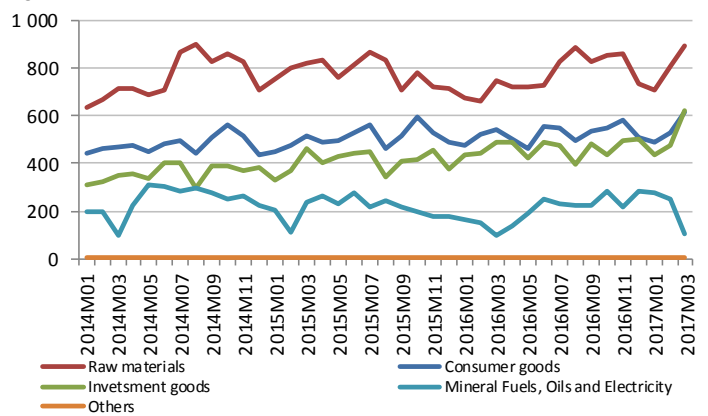
Exports: FOB: Commodity groups - percentage shares for March 2017



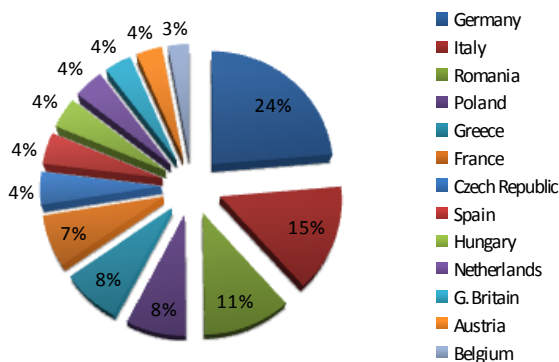
Exports: FOB by Non EU countries: January - March 2017



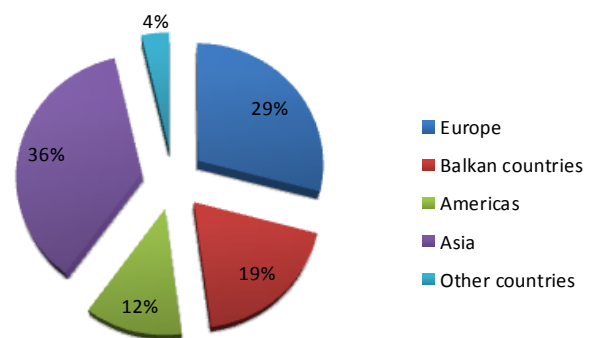
Exports by Commodity groups: 2014 - 2017



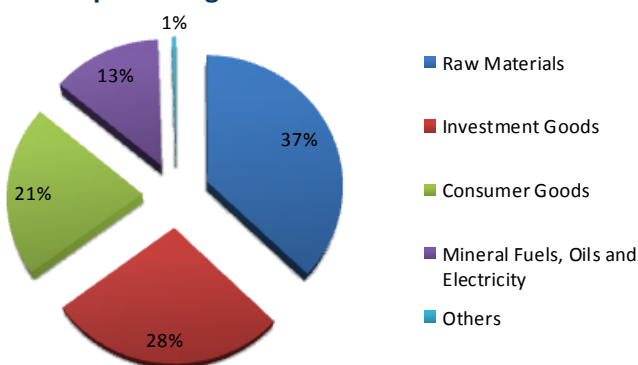
Imports by EU Countries: January - March 2017



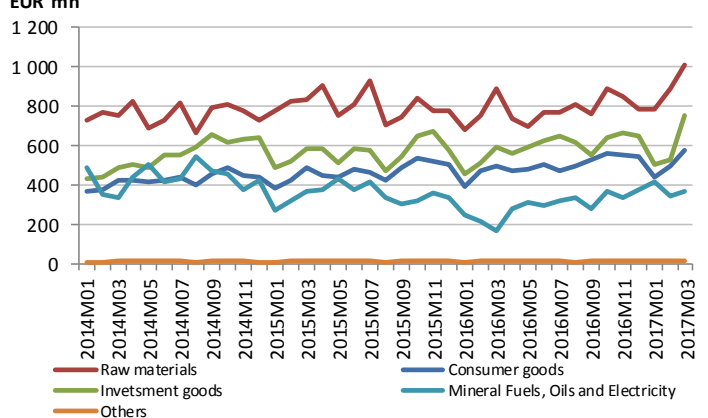
Imports by Non EU countries: January - March 2017



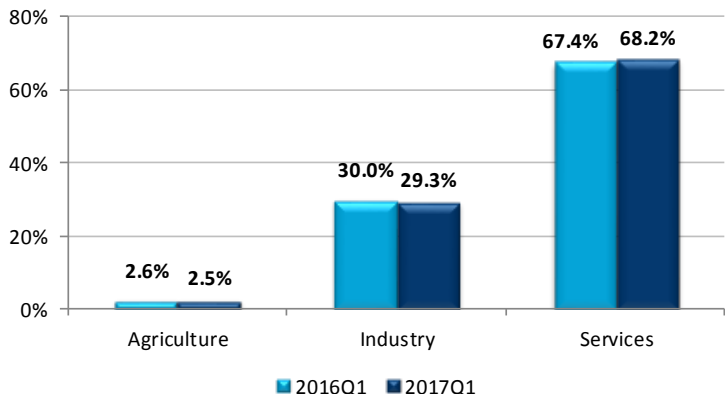
Imports: CIF - Commodity groups - percentage share for March 2017



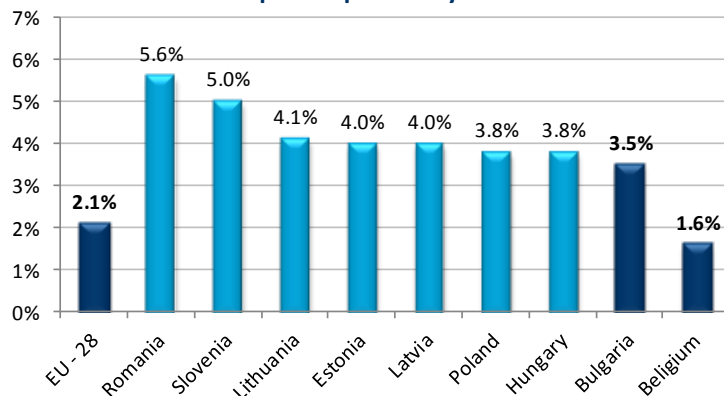
Imports by Commodity groups: 2014 - 2017



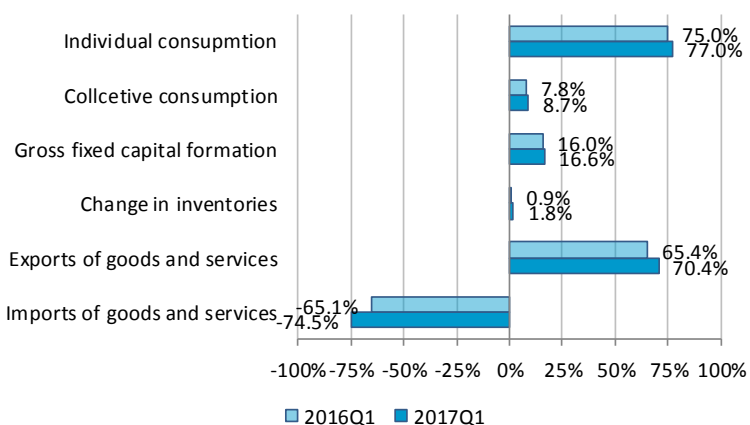
Structure of Gross Value Added by economic sectors in the first quarter of 2016 and 2017



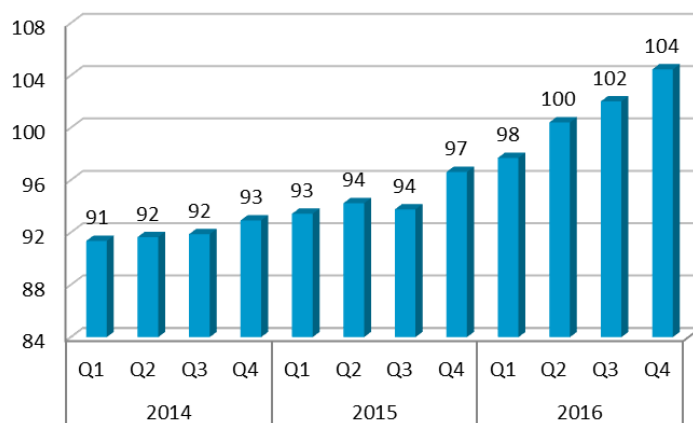
GDP Growth rates of 2017, compared to the same quarter previous year



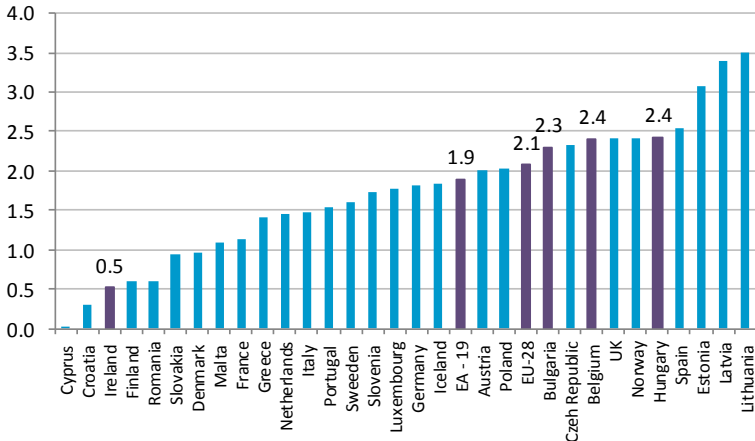
GDP and its components in Q1 of 2016 and 2017



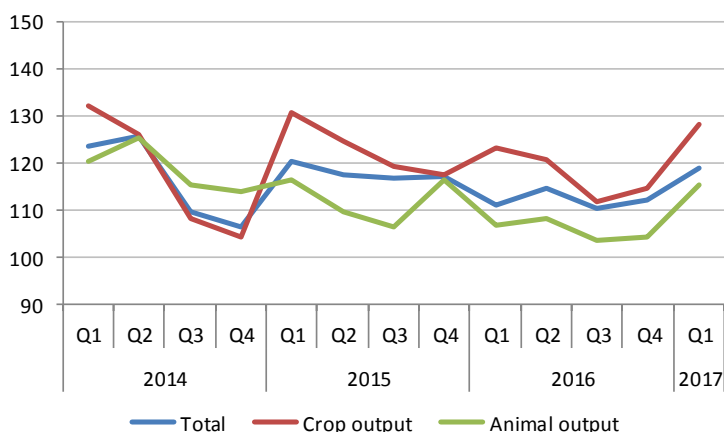
Bulgaria: House Price Index



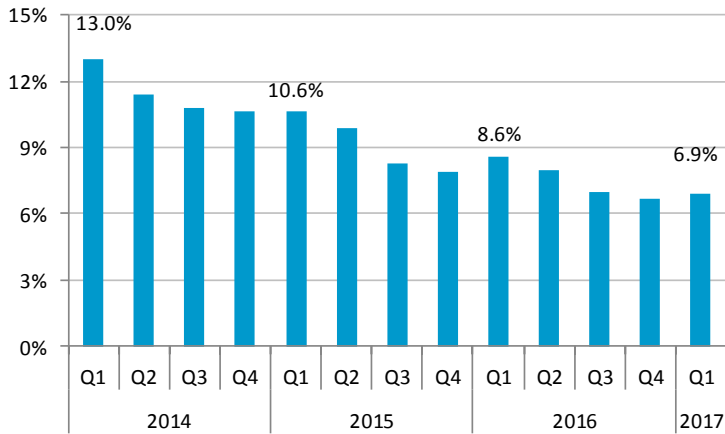
EU: CPI Inflation (% y/y) by country April 2017



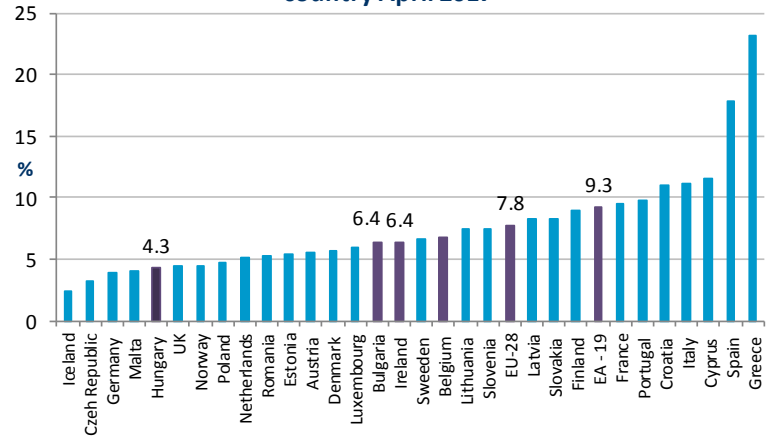
Producer prices indices in agriculture



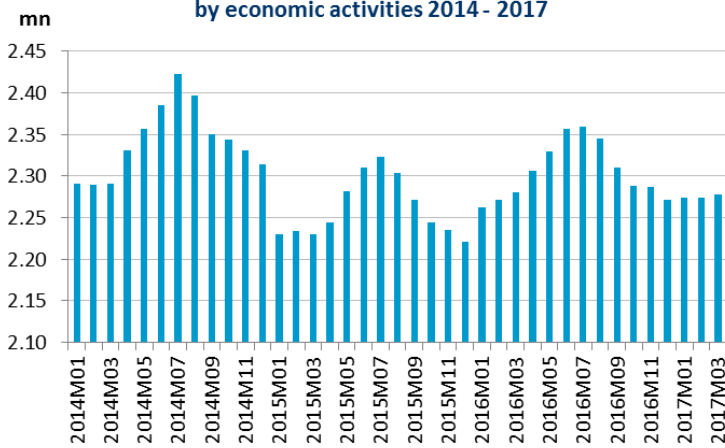
Unemployment Rate: NSI



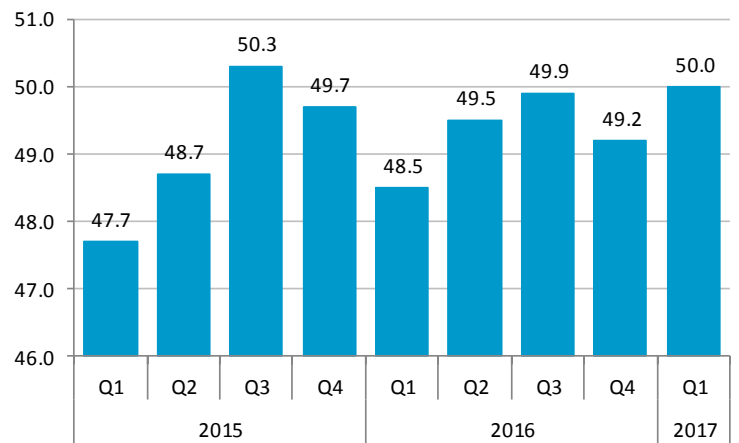
EU: Unemployment rate seasonally adjusted by country April 2017



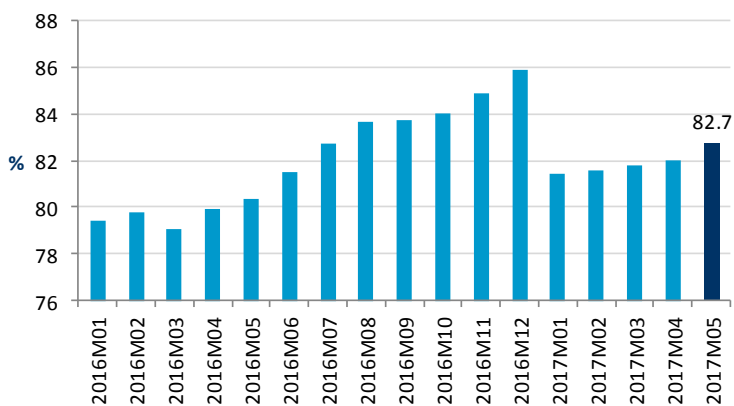
Employees under labour contract at the end of the month by economic activities 2014 - 2017



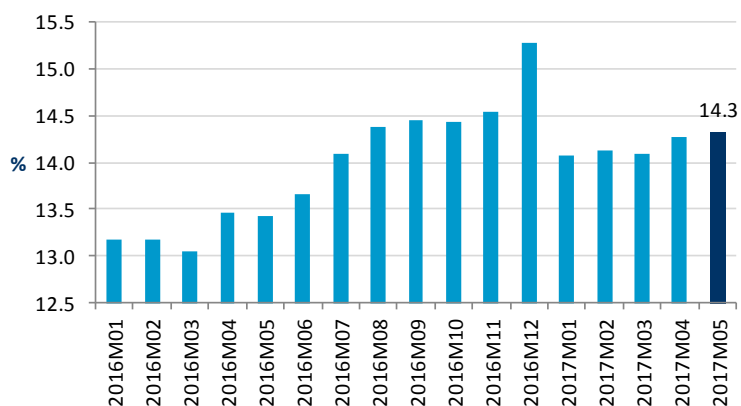
Bulgaria: Employment Rate



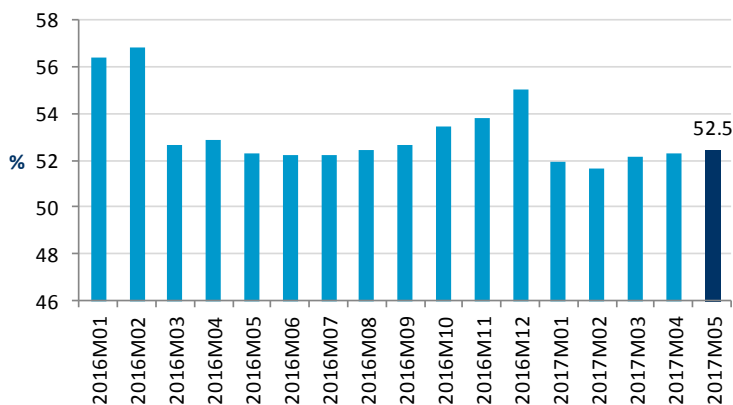
Broad money (monetary aggregate M3)/GDP (%)



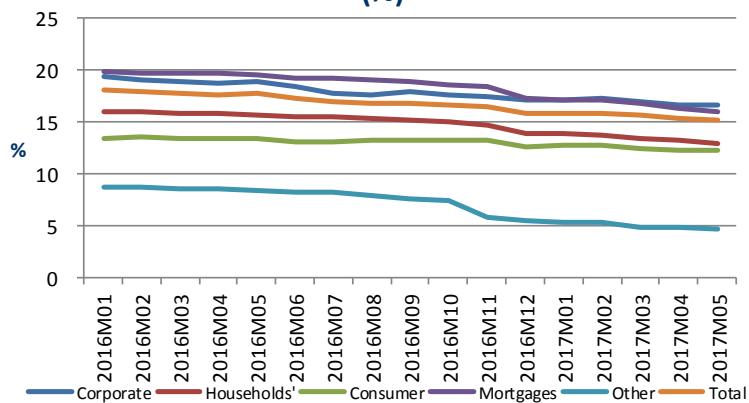
Money in circulation/GDP (%)



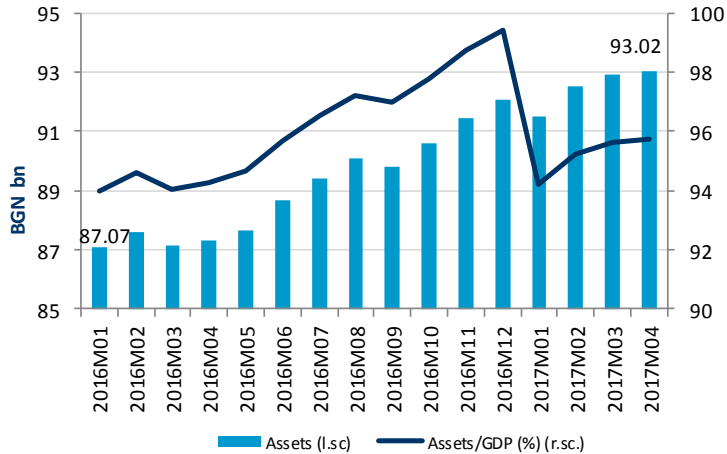
Domestic credit/GDP (%)



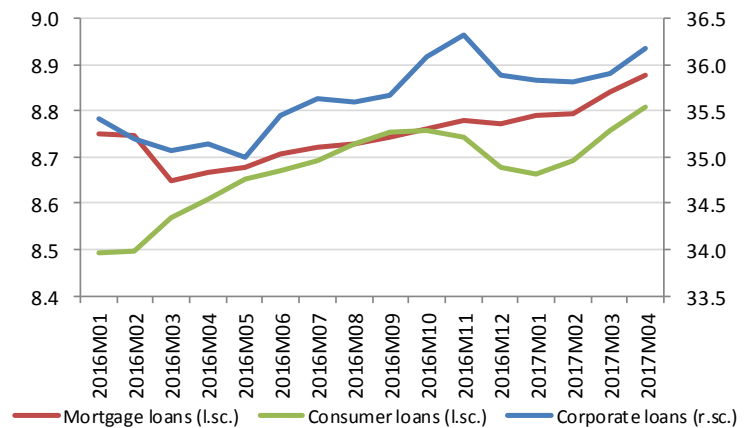
Banking sector: Bad and restructured loans (%)



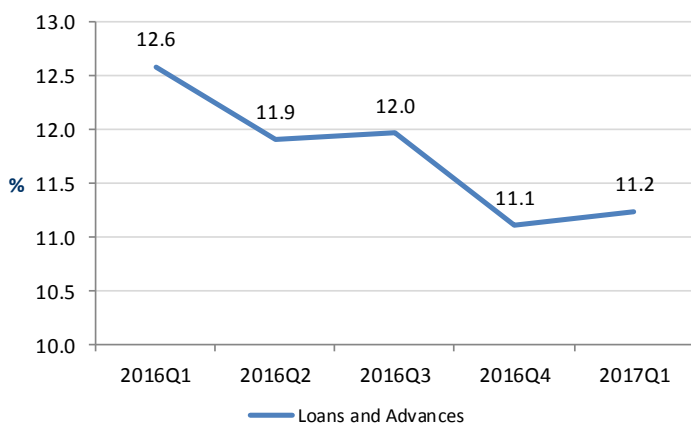
Assets



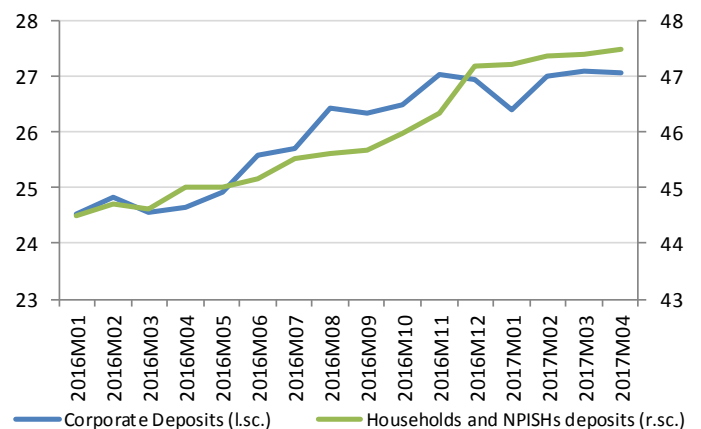
Loans (BGN bn)



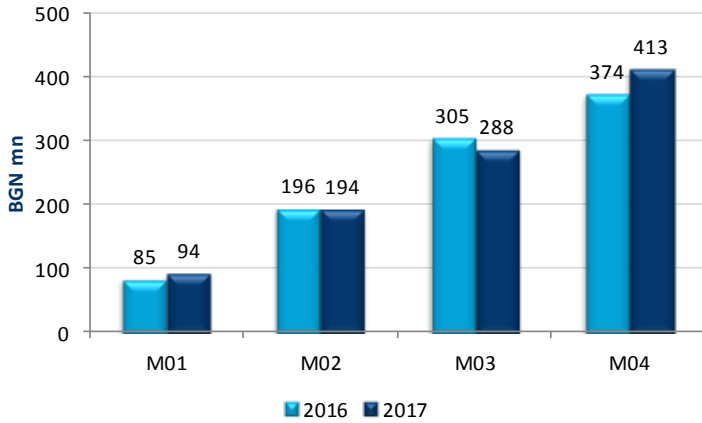
Banking System Non Performing Loans (%)



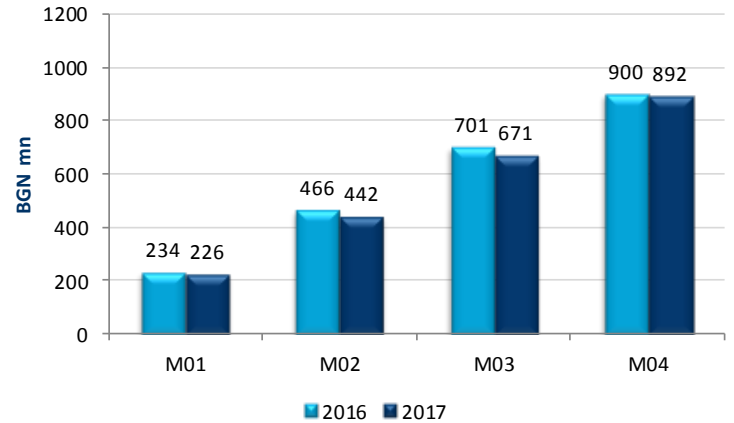
Deposits (BGN bn)



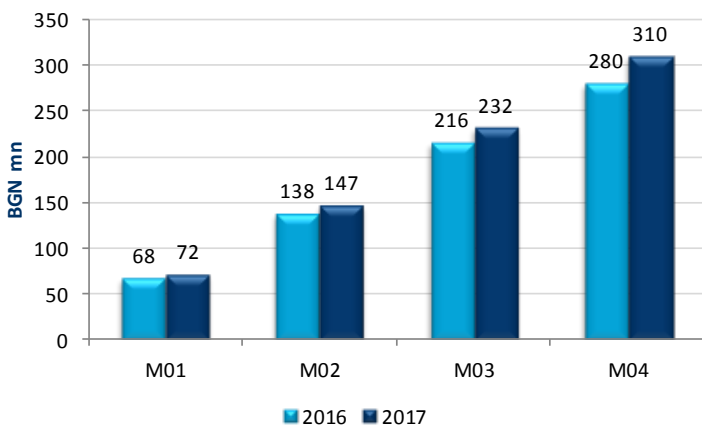
Net Profit



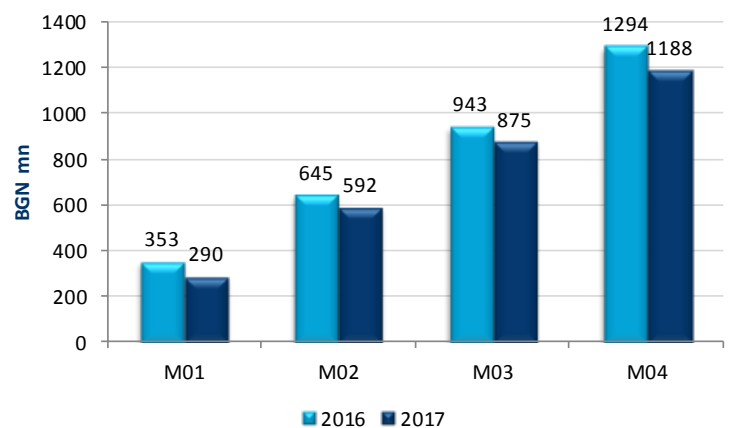
Net interest Income



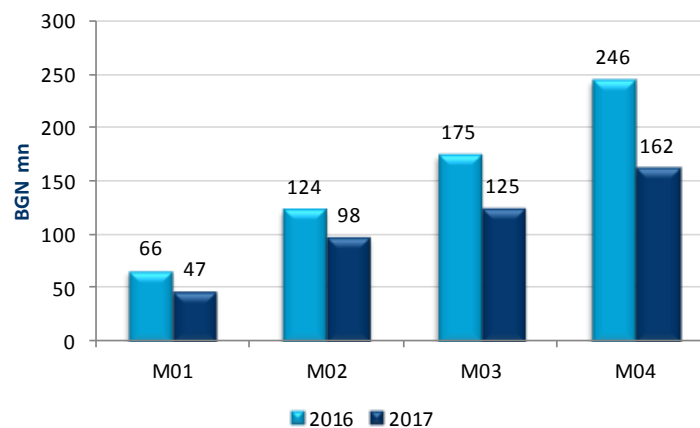
Net fee and commission income



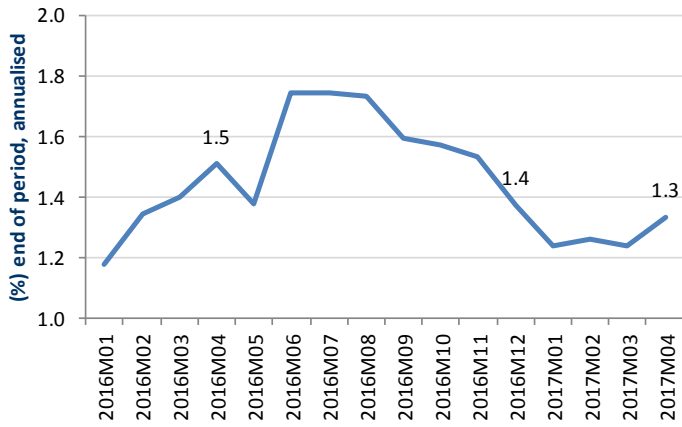
Net operating income



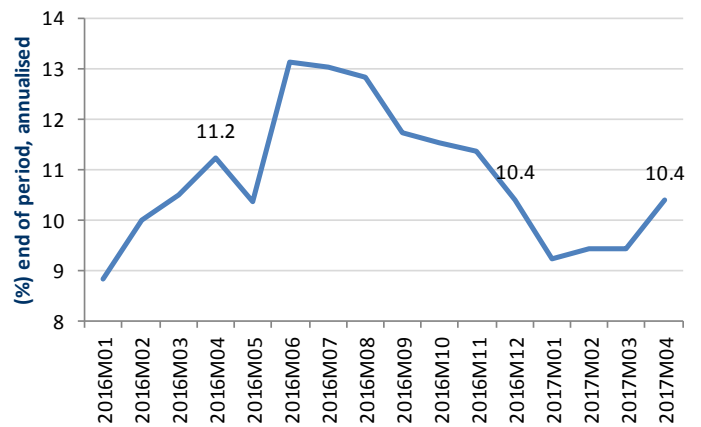
Impairment



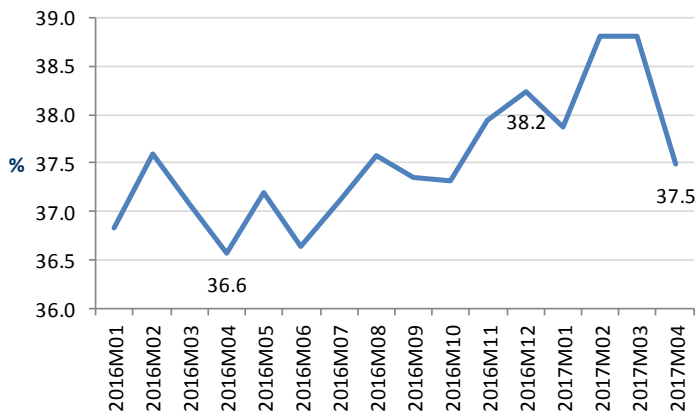
ROA



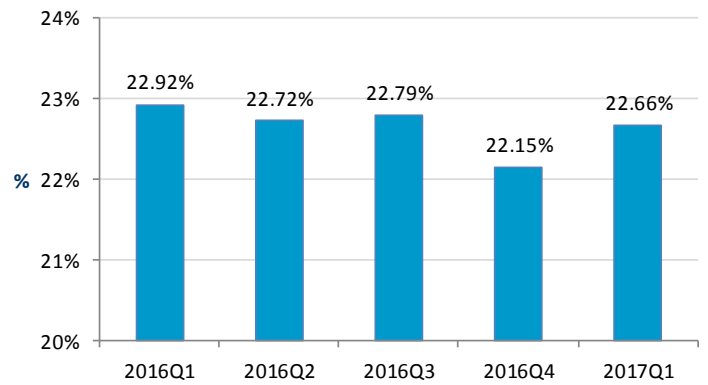
ROE



Liquid Assets Ratio (LAR)

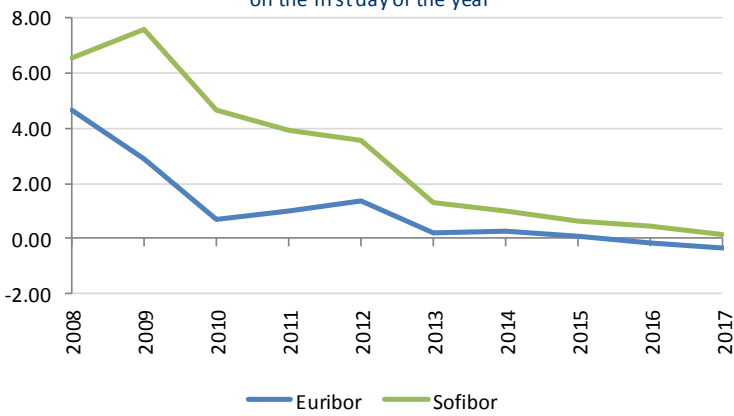


Tota Capital Ratio



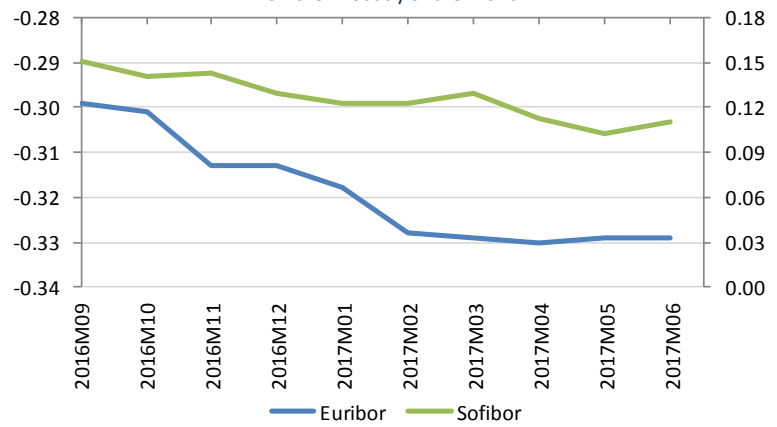
Indexes 3-months

on the first day of the year

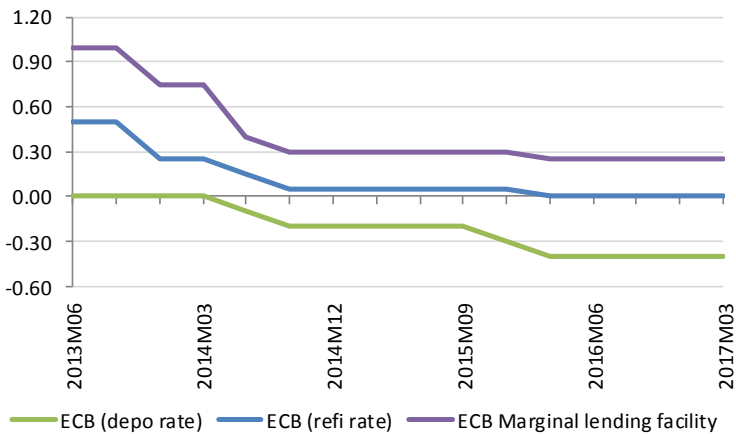


Indexes 3-months

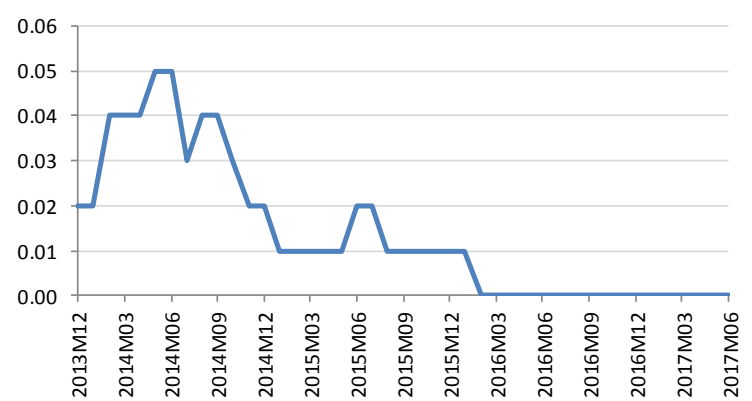
on the first day of the month



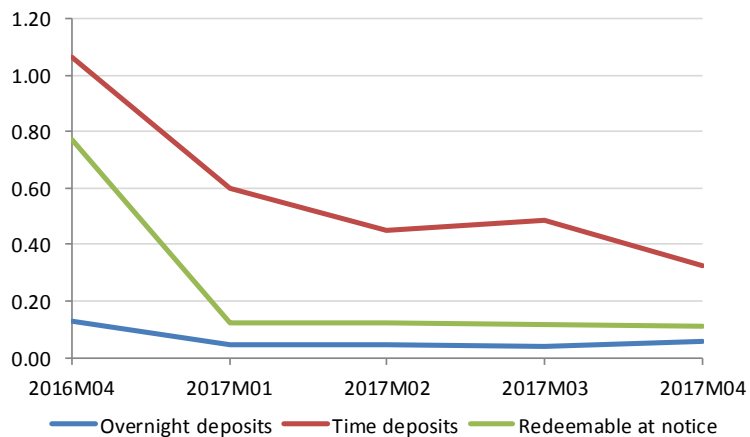
Policy Rates in (%)



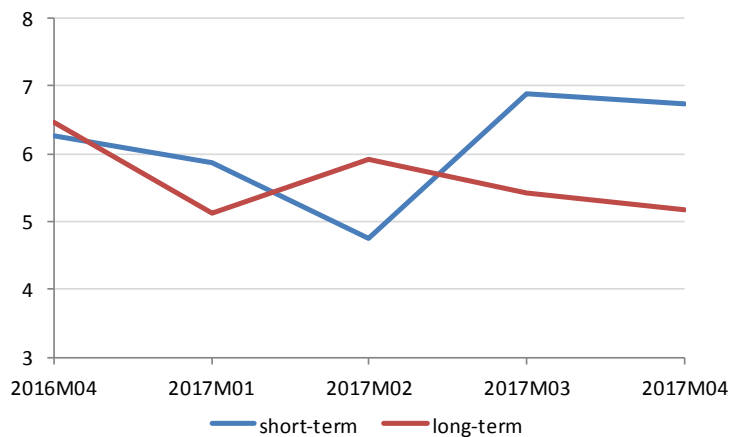
Base Interest Rate of the BNB in (%)



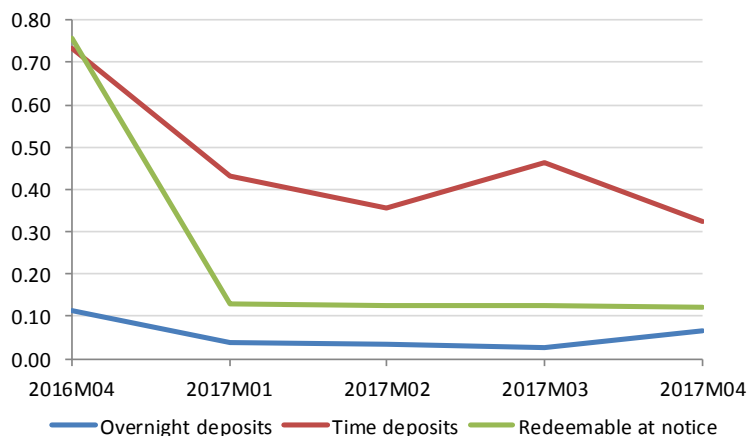
Interest Rates (%) in BGN



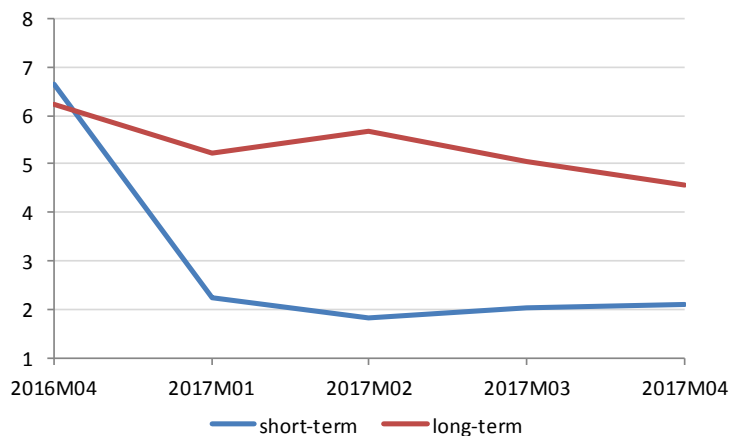
Interest Rates (%) in BGN



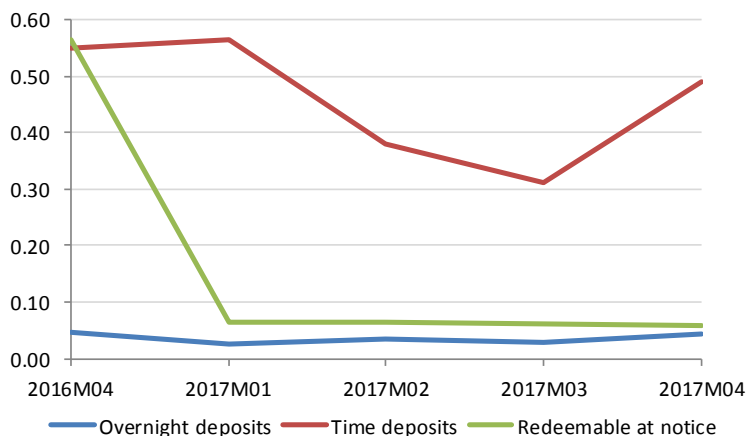
Interest Rates (%) in EUR



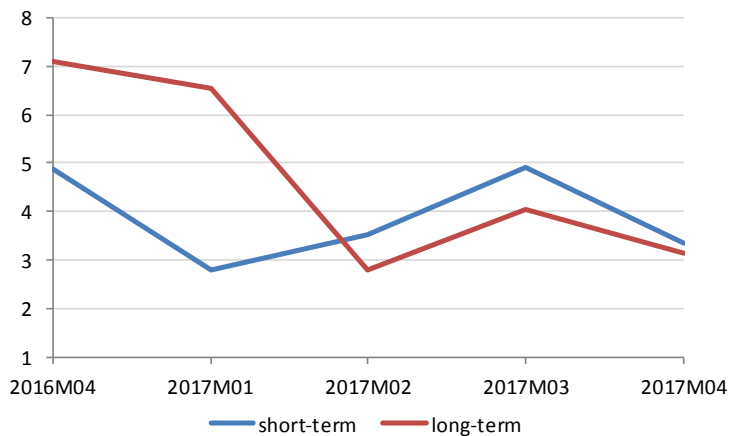
Interest Rates (%) in EUR



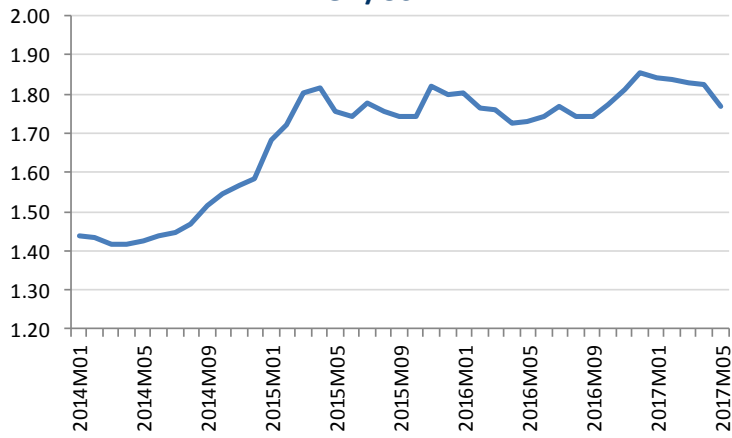
Interest Rates (%) in USD



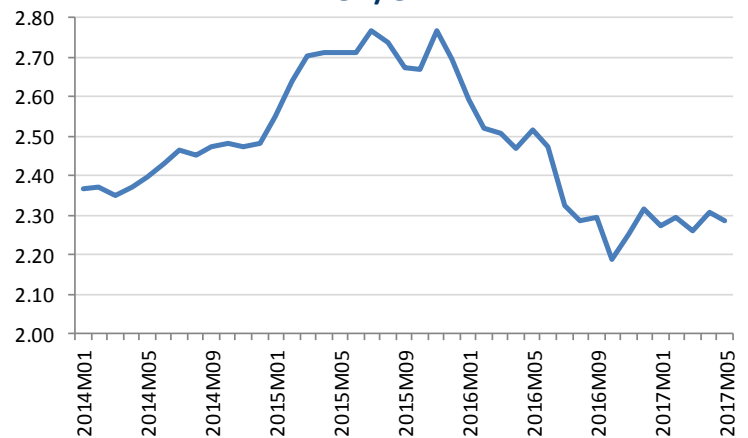
Interest Rates (%) in USD



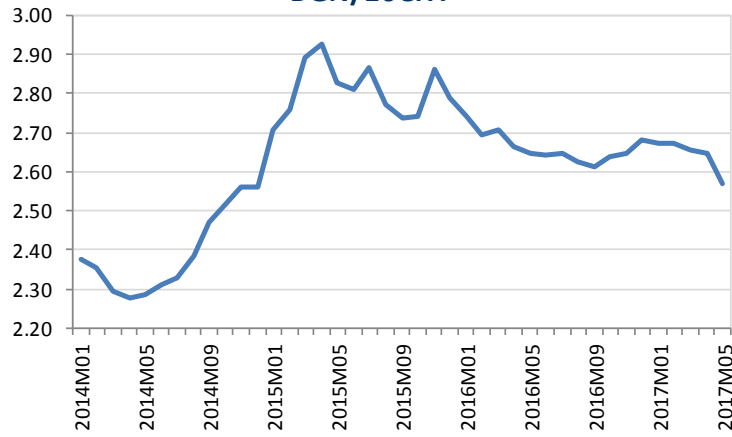
BGN/USD



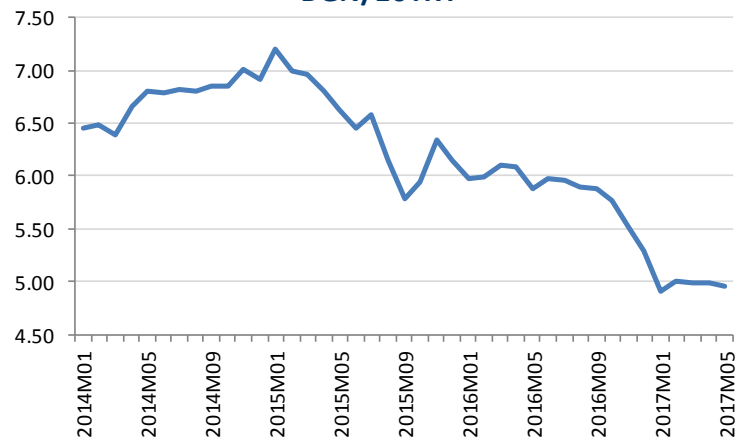
BGN/GBP



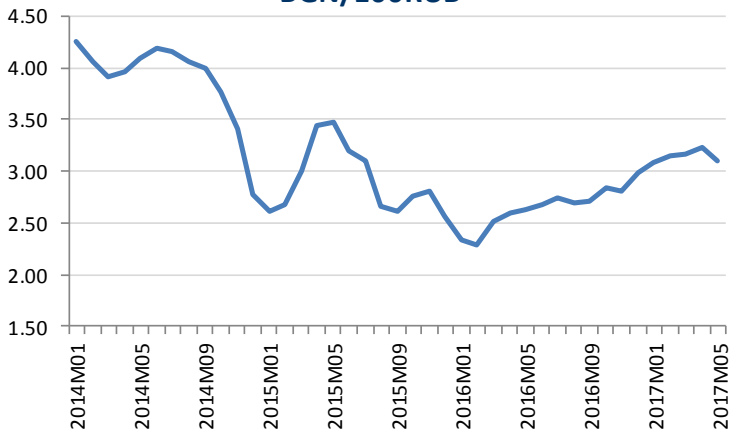
BGN/10CHY



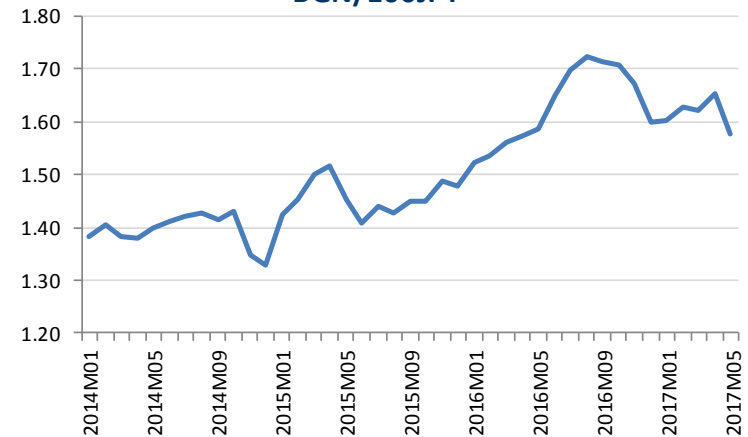
BGN/10TRY



BGN/100RUB



BGN/100JPY



DEFINITIONS AND METHODOLOGICAL NOTES

The Governing Council of the ECB sets the key interest rates for the euro area, as follows:

The interest rate on the main refinancing operations (MRO), which provide the bulk of liquidity to the banking system. The MRO rate defines the cost at which banks can borrow from the central bank for a period of one week.

The rate on the deposit facility, which banks may use to make overnight deposits with the Eurosystem. The deposit facility rate is one of the three interest rates the ECB sets every six weeks as part of its monetary policy. The rate defines the interest banks receive for depositing money with the central bank overnight. Since June 2014, this rate has been negative.

The rate on the marginal lending facility, which offers overnight credit to banks from the Eurosystem. If banks need money overnight, they can borrow from the marginal lending facility at a higher rate.

EXTERNAL SECTOR

CURRENT ACCOUNT

Starting from April 17th 2015, in accordance with the Statistical Data Release Calendar, BNB starts the regular dissemination of monthly balance of payments data, compiled in accordance with the Sixth Edition of the Balance of Payments and International Investment Position Manual. The implementation of the new methodological requirements of BPM6 by the EU countries was coordinated by the European System of Central Banks (ESCB) and the European Statistical System (ESS). With the implementation of the Sixth Edition of the Balance of Payments and International Investment Position Manual (IMF,2008) significant methodological changes in the reporting of trade in goods and trade in services were introduced. Based on their economic nature, certain items were reclassified from Goods (exports and imports) to Services (exports and imports), and vice versa. These methodological changes resulted in differences between the data on goods (exports and imports) compiled by the BNB for the balance of payments statistics, and the external trade statistics compiled by the NSI. Thus, the exports, imports and trade balance data compiled by the NSI do not equate to the exports, imports and trade balance data compiled by the BNB for the purposes of balance of payments statistics. According to external trade statistics, exports of goods amounted to EUR 3,483.1 mn in January – February 2015, growing by EUR 249.1 mn (7.7%) year-on-year (compared with EUR 3,234 mn in January – February 2014). Imports of goods amounted to EUR 3,856.9 mn in January – February 2015, growing by EUR 58.9 mn (1.6%) year-on-year (from EUR 3,797.9 mn in January – February 2014). The trade balance recorded a deficit of EUR 373.8 mn (0.9% of GDP) in the reporting period, dropping by EUR 190.2 mn year-on-year (from a deficit of EUR 564 mn, 1.3% of GDP in January – February 2014). Taking into consideration the analytical importance of the data on goods (exports and imports) in the external trade statistics, the BNB shall continue its practice of preparing a short text on the external trade dynamics, and maintaining the relevant data series. These materials are included in the Balance of Payments publication, and are published on the BNB website. More detailed information on these methodological changes is available in the material Compilation of the balance of payments in accordance with the methodology of the sixth edition of the Balance of Payments and International Investment Position Manual. As far as the direct investment data is concerned, the sixth edition of the Balance of Payments and International Investment Position Manual introduced principally different approach for their presentation – the Asset/Liability presentation. Taking into consideration the analytical importance of the directional principle presentation (based on the direction of the initial investment), the BNB shall continue disseminating the direct investment data according to it in the Annex Direct Investment of the Balance of Payments monthly publication as well as in the direct investment tables. In accordance with the directional principle presentation, foreign direct investment in Bulgaria amounted to EUR 53.9 mn compared with EUR 94.7 mn in February 2014. In January – February 2015 the foreign direct investment in Bulgaria inflow equated to EUR 128.2 mn compared with an inflow of EUR 137.7 mn in January – February 2014. Direct investment abroad recorded a net increase of EUR 9.4 mn in February 2015, compared with an increase of EUR 5.7 mn in February 2014. In January – February 2015 the direct investment abroad decreased by EUR 16.6 mn, against an increase of EUR 108.7 mn in the same period of 2014. More detailed information on the direct investment is available in the annex Direct Investment (January-February 2015) and in table 10. Direct Investment of the monthly Balance of Payments publication. The Current Account comprises the acquisition and provision of goods and services, income, and current transfers between the country and the rest of the world. The flows recorded on the credit side represent that part of the gross domestic product, which is provided to the rest of the world (exports of goods and services), as well as the provision of factors of production expressed by income receivable – compensation of employees and investment income (interest, dividends, etc.). Recorded are also offsets for non-refundable real and financial resources received (transfers). The flows on the debit side represent the gross product created in the rest of the world and acquired by the domestic economy (imports of goods and services), as well as the acquisition of factors of production expressed by income payable. Recorded are also offsets to non-refundable real and financial resources provided. The Goods component of the BOP Current Account covers movable goods for which changes of ownership between residents and non-residents occur. The data on imports and exports FOB (Free on board) is based on customs declarations, as the codes used in them are after the Harmonized System for 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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