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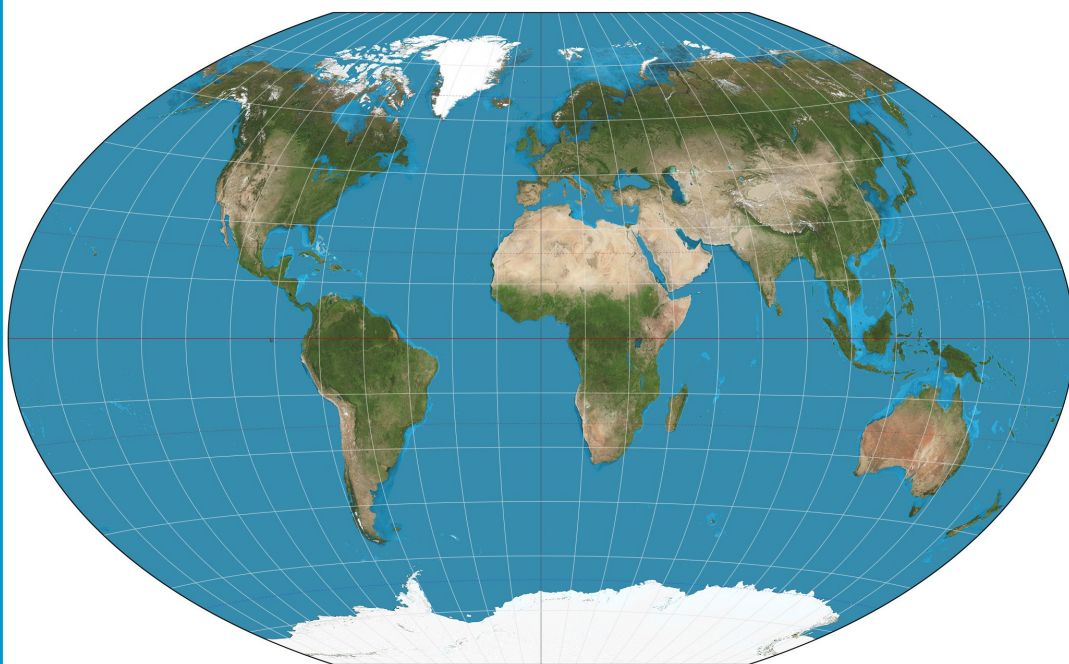
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## HIGHLIGHTS AND FORECASTS

# MONTHLY ECONOMIC REPORT



November 2017

Sofia

- *In Q3 of 2017, the euro area GDP grew up by 0.6% q/q and by 2.5% y/y, respectively. In October 2017, inflation in the euro area increased by 0.1% m/m and by 1.4% y/y, respectively. The projection for 2017 is that inflation will reach near 2%. In September 2017, unemployment in the euro area declined to 8.9%. Estimates for 2017 are unemployment in the euro area to decline to 8.8%*
- *In October 2017, inflation in the United Kingdom increased by 0.1% on a monthly basis and by 3% on an annual basis. The inflation forecast for 2017 is 2%. In Q3 2017, unemployment in the United Kingdom reached 4.3%. The projection for 2017 is to bring its level down to 4%.*
- *In Q3 of 2017 US GDP rises by 3,0% y/y. The forecast for the growth of the US economy in 2017 is for 2.5%. In October 2017, inflation in the US grew by 2% on an annual basis. The forecast for price growth in 2017 is to maintain a level of 2%.*
- *In Q3 of 2017, the Japanese economy grew up by 0.3% q/q and by 2.4% y/y. The projected GDP growth for 2017 is 1.4%. Consumer prices in Japan are rising 0.7% annually in September 2017. CPI projection for 2017 is 0.8%. In Q3 of 2017, unemployment in Japan declined to 2.8% compared to 3% in the third quarter of 2016*
- *In Q3 of 2017, the Chinese economy grew by 1.7% q/q and by 6.8% y/y, respectively. Government GDP growth forecast for 2017 is 6.5%. In October 2017, China's consumer prices rose by 1.9% y/y compared to 1.6% y/y in September 2017, respectively*
- *On 26 October 2017 the ECB confirmed its 0% refinancing rate as expected and decided to reduce its quantitative easing program to EUR 30 billion since 1 January 2018, with the possibility of extending it by 2018*
- *The Bank of England raised its benchmark Bank Rate by 25bps to 0.5% on November 2nd 2017, signalling the beginning of a gradual tightening process*
- *Taking into account the realized and expected labor market conditions and inflation, the Committee decided to keep the target range of the federal funds ratio at 1 to 1-1.25%*
- *In October 2017, the Japanese Central Bank maintained its main short-term interest rate of -0.1%.*
- *The interest rates liberalization and RMB exchange rate regime reform will be furthered to keep the RMB exchange rate at an adaptive and equilibrium level*
- *Oil is under pressure due to rising US supplies and doubts about Russian support for continuing the OPEC quota deal and other manufacturers. By 20 November 2017, US light crude WTI fell to USD 56.52 a barrel, and the European benchmark Brent lowered its price to USD 62.40 a barrel*
- *Metallurgical industry has a problem with steel overproduction and experts urge world production to decrease*
- *The forecasts for the purchase prices from a place for the current 2017/18 in Bulgaria are for wheat - 280 BGN / ton, for barley - 255 BGN / t, about 630 BGN / t for sunflower and 670 BGN / ton for rape, and corn prices are projected to be about 280 leva per tons. These prices are higher than the previous year, with only sunflowers expected to fall*

- *In January – September 2017 Bulgaria's current and capital account was positive amounting to EUR 2,915.4 million and presented 5.8% of GDP. In January-September 2017 Bulgaria's FDI amounted at EUR 744.2 million and presented 1,5% of GDP*
- *In Q3 of 2017 Bulgaria's GDP expanded by 0.9% m/m and by 3.9% y/y, respectively. The European Commission has increased the expected growth of the Bulgarian economy to 3.9% in 2017 and 3.8% in 2018*
- *In October 2017, the business conjuncture in the country is assessed as unfavourable. The total business climate indicator decreased by 1.8 pps to 25.8% compared to its September level as a result of the reduced managers' expectations in all observed sectors - industry, construction, retail trade and services.*
- *In September 2017 Bulgaria's Industrial Production Index increased by 0.3% m/m based on seasonally-adjusted data and by 3.2% y/y, respectively*
- *In September 2017 Bulgaria's Retail Sales increased by 0.1% m/m and by 2.3% y/y, respectively*
- *In September 2017 Bulgaria's Construction Production Index declined by 1% m/m, but recorded increase of 6% y/y, respectively*
- *In October 2017 Bulgaria's CPI increased by 0.6% m/m and by 2.5% y/y, respectively. The annual average inflation stood at 1.5%*
- *In September 2017 total producer price index in industry increased by 0.5% m/m and by 5.7% y/y, respectively*
- *In September 2017 producer price index on domestic market increased by 0.3% m/m and by 6% y/y, respectively*
- *In September 2017 producer price index on non-domestic market increased by 0.8% m/m and by 5.3% y/y, respectively*
- *In Q3 2017 the issued building permits for residential buildings decreased by 7.3% q/q. In the issued building permits of administrative buildings and other buildings shown a decline by 30.0% and by 38.0%, respectively*
- *In Q3 2017 the number of newly build residential buildings increased by 6.3% y/y*
- *In September 2017, the number of arrivals in all accommodation establishments increased by 1.8% m/m, as an increased by 4.9% for foreigners and decrease by 1.8% for Bulgarians*
- *The share of employed persons in the total population aged 15 years and over was 53.2%, up by 3.3 percentage points compared to Q3 of 2016. In Q3 2017 the unemployment rate in Bulgaria declined by 1.2 percentage points to 5.8%. In October 2017, unemployment in Bulgaria increased to 6.7%*
- *As of end of September 2017 in comparison with a year earlier the average monthly wages and salaries in public sector grew by 7.9% while in private sector - by 11.0%, respectively*
- *In September 2017 the Consolidated fiscal program (CFP) on a cash basis is positive at BGN 2,420.9 million and presented 2.4% of GDP*
- *In September 2017 Bulgaria's central government debt amounted at EUR 12,637.9 and presented 24.8% of full year projected GDP*

- *In September 2017 broad money (monetary aggregate M3) increased annually by 8.2% to BGN 83.9 billion. Domestic credit amounted at BGN 52.4 billion and increased by 7.4% on annual basis*
- *In October 2017, SOFIX recorded monthly growth of 3.3 points to 671.4, but could not yet recover its level from the end of July 2017*
- *In September 2017 Bulgaria's banking system reported 1.9% y/y credit growth and decreasing of NPL relative share to 9,9%*

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## GLOBAL TRENDS

### ADVANCED COUNTRIES' ECONOMIES

#### Euro zone

##### **In Q3 of 2017, the euro area GDP grew up by 0.6% q/q and by 2.5% y/y, respectively**

In Q3 of 2017, the euro area economy rose by 0.6% q/q compared to the reported growth of 0.7% q/q in Q2 2017. Among countries for which data are already available, GDP grew at a slower pace in France (0.5% from 0.6% in Q2), Spain (0.8% compared to 0.9% in Q2); Netherlands (0.4% compared to 1.5% in Q2), Belgium (0.3% compared to 0.5%), Lithuania (0.1% compared to 0.6%), Cyprus (0.9% compared to 1% in Q2) and Slovakia (0.8% compared to 0.9% in Q2). Meanwhile, GDP growth remained unchanged in Austria (0.8%). On the other hand, there is a faster GDP growth in Germany (from 0.8% versus 0.6% in Q2), Italy (0.5% from 0.3% in Q2), Latvia (1.5% from 1.4% in Q2), Portugal (0.5% from 0.5% Q2). On an annual basis, the euro area economy increased by 2.5%, following 2.3% growth in the previous period. This is the strongest growth rate since the first quarter of 2011.

##### **In October 2017, inflation in the euro area increased by 0.1% m/m and by 1.4% y/y, respectively. The projection for 2017 is that inflation will reach near 2%**

In October 2017, consumer prices in the euro area increased by 1.4% y/y, below 1.5% y/y in September 2017. There is an energy degradation (3% compared to 3.9% in September, non-energy industrial goods (0.4% versus 0.5%) and services (1.2% versus 1.5%). On the other hand, prices grew more for food, alcohol and tobacco (2.3% versus 1.9%). Annual core inflation excluding energy, food, alcohol and tobacco costs is 0.9%, down 1.1% in September 2017. Excluding energy only, inflation has fallen to 1.2% from 1.3%. On a monthly basis, consumer prices increased by 0.1%.

##### **In September 2017, unemployment in the euro area declined to 8.9%. Estimates for 2017 are unemployment in the euro area to decline to 8.8%**

In September 2017, unemployment in the euro area fell to 8.9% from the revised August 2017 report from 9.0%. This is the lowest rate registered in the eurozone since January 2009. A year earlier, unemployment was higher by 9.9%. In September 2017, the unemployment rate in the EU-28 was 7.5% and kept its level since August. For the same period of the previous year, unemployment growth was reported at 8.4%. In September 2017, the lowest unemployment rate in the EU28 was recorded for November 2008. Compared to August 2017, the number of unemployed decreased by 116,000 in the EU-28 and by 96,000 in the euro area. It is estimated that 18,446 million men and women in the EU28, of which 14,513 million in the Eurozone, were unemployed in September 2017. Compared to August 2017, the number of unemployed decreased by 116,000 in the EU-28 and by 96,000 in the euro area. It is estimated that 18,446 million men and women in the EU28, of which 14,513 million in the Eurozone, were unemployed in September 2017. Among the Member States, the lowest unemployment rates in September 2017 were recorded in the Czech Republic (2.7%), Germany (3.6%) and Malta (4.1%). The highest levels of unemployment were observed in Greece (21.0% in July 2017) and Spain (16.7%). Compared to the previous year, unemployment declined in all Member States for which the data were comparable over time except for Finland where it remained stable and Lithuania where it increased (from 7.6% to 7.7%). The largest declines were recorded in Cyprus (from 13.0% to 10.3%), Spain (from 19.1% to 16.7%) and Greece (from 23.4% to 21.0% between July 2016 and July 2017). In September 2017, 3.735 million young people (under 25) were unemployed in the EU-28, of which 2.656 million were in the euro area. Compared to September 2016, youth unemployment declined by 396,000 in the EU-28 and by 229,000 in the euro area. In September 2017, the youth unemployment rate was 16.6% in the EU-28 and 18.7% in the euro area, compared with 18.3% and 20.4% respectively in September 2016. In September 2017, a small percentage was observed in Germany (6.4%, while the highest were registered in Greece (42.8% in July 2017), Spain (37.2%) and Italy (35.7%).



## United Kingdom

**In October 2017, inflation in the United Kingdom increased by 0.1% on a monthly basis and by 3% on an annual basis. The inflation forecast for 2017 is 2%**

In October 2017, consumer prices in the United Kingdom increased 3% on an annual basis. This is the highest inflation since March 2012, with food, housing, utility and leisure goods contributing the most. On an annual basis, house and communal services grew faster (2.3% versus 2.1% in September), recreation and culture (2.8% compared to 2.5% in September) and health (3.4% with 2.4% in September). On the other hand, prices remained stable for: restaurants and hotels (3.1%), alcoholic beverages and tobacco (4.3%). Price reductions were observed in: transport by 4% compared to 4.2% in September), various goods and services (0.9% compared to 1.4% in September), clothing and footwear (3.2% compared with 3.3% in September); furniture, household appliances and maintenance (3.1% versus 4% in September) and education (2.8% compared to 2.9% in September). On a monthly basis, consumer prices rose by 0.1%, compared to the reported growth of 0.3% in September. Over a period of one month, food prices and, to a lesser extent, recreational goods, which have been offset by falling prices for motor fuels and furniture, and rental costs, remain unchanged. The annual rate of underlying inflation excluding energy, food, alcohol and tobacco prices was 2.7% in October 2017, unchanged from the previous period.

**In Q3 2017, unemployment in the United Kingdom reached 4.3%. The projection for 2017 is to bring its level down to 4%**

In the third quarter of 2017, unemployment in the United Kingdom reached 4.3%. The number of unemployed declined by 59,000 to 1.42 million in the third quarter of 2017 compared to the second quarter of 2017. By age, unemployment declined in all age groups except for those aged 65 and over. The number of workers declined for the first time from August to October 2016. The overall employment rate declined by 14,000 in the previous quarter to 32.06 million. For men, employment has decreased by 37,000, while for women it has increased by 23,000 people. The number of employees has decreased by 10,000 compared to Q2, while the number of self-employed has increased by 4,000. By age, employment increases for three age groups: 25 to 34 years, 50 to 64 years, and 65 and more years, while employment declined for three age groups: 16-17 years, 18-24 years and 35-49 years. In Q3 of 2017, the slight fall in employment was accompanied by an increase in the inactivity rate of 117,000. The percentage of inactivity increased by 0.3 percentage points to 21.6%. Total weekly working hours decreased by 5.3 million to 1.03 billion. The average actual weekly hours for all workers decreased by 0.2% to 32.1 hours. The average hours of part-time workers remain at 16.3 hours. Nominal earnings in third quarter 2017 increased 2.2% (excluding bonuses) compared to the previous year but decreased by 0.5% (excluding bonuses) and 0.4% (including bonuses) in real terms. This is due to the fact that its rate of growth is lower than that of higher basic inflation.

## USA

**In Q3 of 2017 US GDP rises by 3,0% y/y. The forecast for the growth of the US economy in 2017 is for 2.5%**

In Q3 of 2017, the US economy grew 3% y/y, slightly lower than the reported growth of 3.1% y/y in Q2 of 2017. Growth exceeded expectations for a pace of 2.5% despite the devastation caused by hurricanes Harvey and Irma. Stocks grew sharply and trade has made the biggest contribution to growth for nearly four years with a decline in imports. This has helped offset the slowdown in consumer spending, continued investment and the decline in construction. Private consumption expenditure (PCE) contributed 1.62 percentage points to growth (down from 2.24% in the second quarter) to 2.4% (3.3% in Q2). Service costs decreased by 2.1% compared to 4.2% in the second quarter, but durable goods consumption increased (8.3% vs. 7.6% in Q2). Fixed investments added 0.25 percentage points to growth (0.53 percentage points in the second quarter) and increased by 1.5% compared to 3.2% in Q2. Investments grew to a lesser extent for equipment (8.6% vs. 8.8% in Q2) and declined in housing (-6% compared to -7.3% in Q2). Private stocks added 0.73 percentage points to growth, compared with 0.12% in Q2. At the same time, exports slowed by 2.3% (3.5% in Q2), and imports shrank by 0.8%, the sharpest decline in three years. As a result, the trade effect was 0.41%, which was much higher than 0.21% for the second quarter. Government spending and investment declined by 0.02 percentage points from growth, compared with a deficit of 0.03 percentage points in the previous quarter. It fell by 0.1%, compared with a 0.2% decline in Q2.

**In October 2017, inflation in the US grew by 2% on an annual basis. The forecast for price growth in 2017 is to maintain a**

### level of 2%

In October 2017, consumer prices in the US increased by 2% on an annual basis, compared to the reported growth of 2.2% in September 2017. Expenditure on gasoline and fuel oil extraction after hurricane production disturbances at the Gulf Oil Refinery, gave a boost to energy prices in September and August. However, underlying inflation rose to 1.8%, the highest in six months against rising food prices, transport services and medical care. On an annual basis in October 2017, energy prices grew by 6.4%, up from a 10.1% growth in September. Gasoline price rose by 10.8% from 19.3% in September, fuel oil (by 11.7% versus 15.6% in September) and gas supply by 3.2%. Meanwhile, inflation slowed down for medical care products (0.9% vs. 1% in September) and remained at the same level of 3.2% for accommodation costs. Additionally, prices fell in clothing (-0.6% from -0.2% in September) and new cars (-1.4% from -1% in September). On the other hand, more significant price increases were recorded in food (1.3% from 1.2% in September), transport services (4.2% from 3.9% in September) and medical services (1.9% from 1.7% in September). A softer fall in prices for second-hand cars and trucks (-2.9% from -3.7% in September). With the exception of food and energy, consumer prices grew by 0.2% in the month, above 0.1% in September 2017. On an annual basis, consumer prices increased by 1.8% compared to the 1.7% the previous five months.

### Japan

#### **In Q3 of 2017, the Japanese economy grew up by 0.3% q/q and by 2.4% y/y. The projected GDP growth for 2017 is 1.4%**

The positive contribution to GDP is to a large extent the result of net exports (0.5 percentage points). On the other hand, household consumption declined by 0.3 percentage points, while capital expenditures and government expenditure did not contribute to growth. At the same time, changes in private stocks add 0.2 percentage points to quarter-on-quarter growth. Private consumption declined by 0.5% after reporting a slight rhythm of 0.7% in the second quarter of 2017. Government spending declined by 0.1%, following the reported 0.6% growth in the previous three months. At the same time, the growth rate of public investment fell by 2.5% after an increase of 5.8% in Q2. Business spending grew by 0.2%, much slower than the 0.5% growth in the second quarter of 2017. Meanwhile, private residential investment declined by 0.9%, deviating from the growth of 1.1% for Q2. Exports of goods and services increased by 1.5% compared to the reported growth of 0.2% in Q2, while imports declined by 1.6% after an increase of 1.4% in the previous quarter. On an annual basis, GDP grew by 1.4% to 2.6%. The Japanese economy is expanding in seven consecutive quarters - the longest period of continuous growth for more than a decade.

#### **Consumer prices in Japan are rising 0.7% annually in September 2017. CPI projection for 2017 is 0.8%**

In September 2017, food prices rose by 1% y/y from 0.9% y/y in August 2017. Specifically, increases were recorded for fresh food (1.2% vs. 0.8%), fish and seafood (5.6% vs. 3.6%). Additionally, prices for dairy products and eggs declined at a slower pace (-0.4% versus -0.6%). Meanwhile, prices rose compared to the previous month for: fuel, lighting and water (6% from 5.2% in August), mainly due to higher electricity costs (7.9% from 7.0% in August). On the other hand, prices are shrinking for cultural and recreational costs (0.2% vs. 0.4% in August). Inflation is stable in education (0.4%), medical care (1.8%) and prices transport and communications (-0.4%). There was also a drop in prices for: housing (-0.2% from -0.2% in August), furniture and household appliances (-0.2% versus -0.2% in August), clothing and footwear (-0.3% , 6% for August). Basic inflation, which excludes prices of fresh food, rose by 0.7%, keeping pace since August 2017. This is the highest level since March 2015. On a monthly basis, consumer prices kept their level on the 0.2% increase in August 2017. In Tokyo, consumer prices declined by 0.2% on an annual basis and markets were 0.1%. The main consumer prices excluding fresh food increased by 0.6% and above the market consensus by 0.5%.

#### **In Q3 of 2017, unemployment in Japan declined to 2.8% compared to 3% in the third quarter of 2016**

As of the end of September, the unemployment rate in Japan reached 2.8% and remained at the level of the second quarter of 2017. The ratio of jobs to candidates was 1.52 and did not change over the previous period. Compared to the previous month, there were 1.88 million unemployed or 2 thousand more as compared to August 2017. Employment decreased by 15 thousand to 65.50 million, after an increase of 20 thousand in the month. The workforce dropped by 13 thousand to 67 thousand , 38 million, while those who were unemployed increased by 14,000 to 43,65 million. Among people aged 15-24, unemployment rose to 5.1% from 4.8% in August. Year earlier, unemployment was 3.0%.



## China

**In Q3 of 2017, the Chinese economy grew by 1.7% q/q and by 6.8% y/y, respectively. Government GDP growth forecast for 2017 is 6.5%**

In the third quarter of 2017, China's GDP grew by 1.7% quarter on quarter. On an annual basis, the Chinese economy grew by 6.8% per year, following an increase of 6.9% in the previous two periods. This is the weakest growth rate since the fourth quarter of 2016. For the year 2017, the Chinese government expects the economy to grow by about 6.5%, compared to a 6.7% increase in 2016, the slowest growth in 26 years.

**In October 2017, China's consumer prices rose by 1.9% y/y compared to 1.6% y/y in September 2017, respectively**

In October 2017, China's consumer prices rose by 1.9% year on year from 1.6% year-on-year in September 2017. This is the highest January inflation since non-food expenditure is increasing and food costs are much lower compared to the previous month. In October 2017, food prices declined by 0.4% (from -1.4% in the previous month), while non-food expenditure rose by 2.4% (from a 2.4% for September). Consumer spending grew by 1.1% (from 0.7% in September), and services - by 3.2% (from 3.3% in September). Among the food products, the prices of pork decreased (-10.1% from -12.4% in September), tobacco (-0.1% from -0.1% in September) and fresh fruit (-0.7% from -3.0% in September). Conversely, the growth rates are for: fresh vegetables (0.3% from -1.0% in September), eggs (3.1% from 3.7% in September) and milk (0.3% September). For non-food categories, prices grew faster at: transport and communications (0.8% from 0.5% in September), household goods and services (1.5% from 1.4% in September) and other goods and services (1.8% from 1.4% in September). Meanwhile, healthcare prices are rising at a slower pace (7.2% from 7.6% in September). The price level is maintained at the cost of rent, fuel and utilities (2.8%) and education, culture and recreation (2.3%). On a monthly basis, consumer prices rose by 0.1% after the reported 0.5% rise in the previous month. This is the lowest monthly figure since July.

## Policy of the Central banks

### ECB

**On 26 October 2017 the ECB confirmed its 0% refinancing rate as expected and decided to reduce its quantitative easing program to EUR 30 billion since 1 January 2018, with the possibility of extending it by 2018**

At its meeting on 26 October 2017, the ECB Monetary Committee decided first that the key ECB interest rates remained unchanged, and the ECB continues to believe that they will remain at their current levels for an extended period of time and much further in time from the horizon of purchases of net assets. Secondly, with regard to non-standard monetary policy measures, the ECB will continue to make purchases under the asset purchase program (APP) at a current monthly rate of EUR 60 billion by the end of December 2017. With effect from 1 January 2018, purchases of net assets are projected to continue at a monthly rate of EUR 30 billion by the end of September 2018 or further, if necessary, and in any event until the Governing Council sees a lasting correction in the development of inflation. If prospects become less favorable or if financial conditions are incompatible with further progress towards lasting adjustment in the path of inflation, the ECB will be prepared to increase APP in terms of size and / or duration. Thirdly, the Eurosystem will reinvest the principal from the maturing securities purchased under the APP for an extended period of time after the end of the net asset purchase and in any case for as long as necessary. This will contribute to both more favorable liquidity conditions and an appropriate monetary policy stance. Fourthly, the ECB also decided to continue its main refinancing operations and quarterly long-term refinancing operations such as fully-fledged fixed rate tender for as long as necessary and at least until the end of the last reserve maintenance period from 2019. ECB Governing Council decisions maintain the favorable financing conditions that are still needed to achieve sustainable return on inflation to levels below or close to 2%. The recalibration of asset purchases reflects the growing confidence in the gradual convergence of the inflation rate to the inflation target due to the increasingly stable and far-reaching economic expansion, the rise in core inflation measures and the continued effective transition of the ECB's policy measures to the conditions for financing the real economy. The recalibration of asset purchases reflects a growing confidence in the gradual convergence of inflation rates over inflation targeting due to the increasingly robust and widespread economic expansion, the rise in base inflation measures and the continued effective transition of ECB policy measures to the conditions for financing the real economy.

Therefore, there remains a major need for a monetary stimulus for core inflation to continue to build and support the overall development of inflation over the medium term. This continued monetary support is provided by the extra purchases of net assets, the significant stock of assets acquired and the forthcoming reinvestment, and the ECB interest rate guidelines.

## Bank of England

### **The Bank of England raised its benchmark Bank Rate by 25bps to 0.5% on November 2nd 2017, signalling the beginning of a gradual tightening process**

This is the first increase in interest rates over a decade after inflation remained well above the 2% target for the eighth consecutive month in September, with weaker interest rates and higher energy prices. Politicians said inflation is expected to fall in 2018, relying on a slightly rising bank rate. Monetary Policy Committee (MPC) voted that it would keep stocks of purchases of corporate bonds non-investment financed by the issuance of central bank reserves at GBP 10 billion and exposure of purchases of government bonds by the United Kingdom, funded by issuing reserves of the central bank worth GBP 435 billion. MPC's projections for inflation and activity in the November Inflation Report are broadly similar to the August forecasts. In MPC's central forecast, driven by the slightly rising rate of bank rate imposed by current market incomes, GDP has grown modestly over the next few years at a pace slightly above its lower potential value. Consumption growth is slowing in the near future before rising, in line with household incomes. Net trading is supported by strong global expansion and the devaluation of sterling in the past. Business investment is affected by the uncertainty surrounding Brexit, but it continues to grow at a moderate pace, supported by strong global demand, high profitability, low cost of capital and limited free capacity. The decision to leave the European Union will have a tangible impact on the economic outlook. The excess of inflation throughout the projection largely reflects the effect on import prices of the UK pound squeeze associated with the referendum. The uncertainty associated with Brexit refers to internal activity that is slowing down, although global growth has increased significantly. And Brexit's constraints on investment and labor supply seem to reinforce the tangible slowdown that has become increasingly apparent in recent years at the rate at which the economy can grow without creating inflationary pressures. Monetary policy can not prevent either the necessary real adjustment as the United Kingdom moves to its new international trade agreements, nor does the weaker real income growth likely to accompany this adjustment over the next few years. However, it can help the economy during the adjustment process. The mandate of the MPC states that in such exceptional circumstances the Committee must balance any compromises between the rate at which it intends to restore inflation sustainably and the objective pursued by monetary policy for jobs and activity. The persistent erosion of the allocated funds reduces the extent to which it is appropriate for the government to adopt an extended inflation over the target. Unemployment has fallen to a 42-year low and the MPC believes the level of remaining leaves is limited. The global economy is growing strongly, domestic financial conditions are very cumulative, and consumer confidence remains sustainable. In line with the framework set out in the referendum, the MPC believes it is appropriate to tighten the monetary policy stance in order to bring inflation back to the target sustainably. Accordingly, the Committee increased the bank interest rate by 0.25 percentage points to 0.5%. Monetary policy continues to provide significant support for jobs and activities under the current exceptional circumstances. There is a consensus that any future increase in the bank rate is expected to be gradual and to a limited extent. There are significant risks to the prospects, which include the response of households, businesses and financial markets to developments related to the EU withdrawal process. MPC will respond to the changes as far as they affect the behavior of households and businesses as well as the inflation outlook. The Committee will closely monitor the incoming evidence of these and other events, including the impact of the announced increase in the bank rate, and is ready to respond to changes in the economic outlook as they evolve to ensure sustainable inflation returns to the 2%.

## USA Federal Reserve

### **Taking into account the realized and expected labor market conditions and inflation, the Committee decided to keep the target range of the federal funds rate at 1 to 1-1.25%**

The information received after the meeting of the Federal Open Market Committee shows that the labor market continues to grow and that economic activity is growing at a steady pace. Although hurricanes in the United States caused a drop in payroll wages in September, unemployment has fallen further. The Committee seeks to promote maximum employment and price sta-

bility. Hurricane destruction and recovery will continue to affect economic activity, employment and inflation in the near future, but past experience shows that storms will not significantly change the course of the national economy in the medium term. Taking into account the realized and expected labor market conditions and inflation, the Committee decided to keep the target range of the federal funds rate at 1 to 1-1.25%. The monetary policy stance remains broad, thus supporting the further strengthening of labor market conditions and sustained returns of up to 2% inflation. In determining the timing and amount of future adjustments to the target range for the federal funds rate, the Committee will assess the realized and expected economic conditions compared to its maximum employment targets and 2% inflation. This assessment will reflect a wide range of information, including labor market conditions, inflationary pressure indicators and inflation expectations, and indications of financial and international developments. The Committee will closely monitor the actual and expected development of inflation compared to the symmetrical inflation target. The Committee expects that economic conditions will develop in a way that will ensure a gradual increase in the federal funds rate. The rate of federal funds is expected to remain somewhat below the levels that are expected to prevail over the long run. However, the development of the federal funds rate will depend on the economic outlook. Starts the Balance Normalization Program initiated in October 2017.

### **Bank of Japan (BoJ)**

**In October 2017, the Japanese Central Bank maintained its main short-term interest rate of -0.1%.**

Politicians of BoJ also retained target yields for 10-year government bonds around zero percent, but projected the inflation forecast to 0.8% for fiscal 2017 from 1.1%. As for the amount of JGB to be purchased, the Bank will make purchases at an annual growth rate of about 80 trillion yen. BoJ also decides to buy ETFs and J-REITs to invest in real estate in Japan to raise their annual funds by about JPY 6.0 trillion and about JPY 90 billion, respectively. As for CP and corporate bonds, the BoJ will keep its outstanding amounts to JPY 2.2 trillion and JPY 3.2 trillion, respectively.

### **People's Bank of China (PBC)**

**The interest rates liberalization and RMB exchange rate regime reform will be furthered to keep the RMB exchange rate at an adaptive and equilibrium level**

The PBC's Monetary Policy Committee recently held its third quarterly meeting in 2017. The Committee analyzes the current economic and financial situation both in the country and abroad. The participants were of the opinion that this presentation of the Chinese real economy and the financial sector is stable with good momentum for growth but faces a complex situation. The world economy continues to undergo a deep correction as a result of the global financial crisis. The global economy is gradually recovering and the rebuilding of major developed countries continues. However, some emerging market economies are still facing challenges and the international financial market has potential risks. The Committee stressed the need to implement in good faith the decisions of the 18th CPC National Congress and the Third, Fourth, Fifth and Sixth Plenary Sessions of the Eighteenth Central Committee, the Central Conference on Economic Work, the National Conference on Financial Work and the Government's Work Report. The Committee will closely follow the latest developments in the international and domestic economy and the financial markets and the changes in international capital flows, adhere to the general principle of seeking progress, while maintaining stability, adapting to the new norm of economic development, and neutral monetary policy and the use of a variety of monetary policy instruments to maintain the overall stability of the volume of liquidity and to orientate the prudent increase in money supply January credit and social financing scale. Efforts will continue to optimize the structure of financing and the structure of lending, as well as to increase the share of direct funding in line with the requirements for deepening structural supply-side reform. The reform of the financial system will be further deepened to improve the efficiency of the financial sector and the opportunities for serving the real economy and improve risk management. The interest rate liberalization and RMB exchange rate reform will be strengthened to maintain the RMB exchange rate at an adaptive and equilibrium level.

## International Commodity Prices

### Petrol

**Oil is under pressure due to rising US supplies and doubts about Russian support for continuing the OPEC quota deal and other manufacturers. By 20 November 2017, US light crude WTI fell to USD 56.52 a barrel, and the European benchmark Brent lowered its price to USD 62.40 a barrel**

Oil is trading mixed after the latest price drops that are about to mark their first weekly decline in six weeks. Raw material is under pressure due to rising US supplies and doubts about Russian support for continuing the OPEC quota deal and other manufacturers. By 20 November 2017, US light crude WTI fell 0.34% to USD 56.52 a barrel, and the European benchmark Brent wiped 0.5% of its price to USD 62.40 a barrel. Production in the US has risen by nearly 15% since the last floor in the summer of 2016 and this casts a shadow of doubt over rhetoric over the past few months for tightening the energy market. Crude oil markets have received tremendous support over the past months by the Organization of Petroleum Exporting Countries (OPEC) and some non-cartel countries, including Russia, which have cut their yields since January to tighten the market and raise prices. This led to Brenta's nearly 40 percent growth since June 2017. The agreement will expire at the end of March 2018, but OPEC will meet on November 30 to discuss its policy.

### Metals

**Metallurgical industry has a problem with steel overproduction and experts urge world production to decrease**

Excessive steel production worldwide is a serious problem. This leads to large exports, which are in most cases illegally subsidized and dumped on the market in the countries concerned. In addition, large businesses pose a threat to the environment and air quality. In recent years, steel production has grown rapidly in China, and analysts believe it has already peaked. Representatives of major metallurgical companies in China complain that they are forced to lower the price of their products to be able to realize their entire production. In 2015 China has begun exporting much of its output, which has led to significant price changes in other countries. China's largest steel producer, Arcelor Mittal, South Korea's Posco and several American metallurgical groups, suffered the most serious damage to the strategy of Chinese steel companies. Subsequently, thousands of employees from the sector were cut off. For these reasons, the US and the European Union have imposed import duties on imports of products from China for subsidies in its production. In the US, they are likely to take even more serious measures against cheap imports. The White House administration has begun investigating imported metallurgical products for suspicions of a breach of national security. In 2016, steel production in the world was 1.67 billion tons, with installed capacity of up to 737 million tons, according to data from the Organization for Economic Cooperation and Development (OECD). At the closing XIX Congress of the Communist Party of China party secretaries of key industrial cities in the country promised to reduce steel production in enterprises. In doing so, they have to implement the Ministry of Environment's strategy to tackle the country's dirty air problem.

### Agricultural products

**The forecasts for the purchase prices from a place for the current 2017/18 in Bulgaria are for wheat - 280 BGN / ton, for barley - 255 BGN / t, about 630 BGN / t for sunflower and 670 BGN / ton for rape, and corn prices are projected to be about 280 leva per tons. These prices are higher than the previous year, with only sunflowers expected to fall**

This 2017 is an example of how favorable climatic conditions - the precipitated rainfall - contribute to a record high wheat yield per unit area in certain areas. In 2018, lower production is possible than in the current year. Estimates are that in 2017 average wheat yields will be similar to those in 2016 or around 4.7 tonnes / ha. In the case of sunflower, the yields up to 2022 are projected to be on average at 2.35 t / ha, and in 2022 - 2.46 t / ha. In a negative scenario with more severe droughts, an even larger reduction of production could be added by about 15-20%. The probability of this occurring is assessed as elevated and the reason for such assumption is the recurrence of droughts, alternating between 4-5 years. The largest increase in production by 2022 is expected in maize and sunflower, and the weakest in barley. The barley is expected to lose most of its areas in the coming years, and hence its production. The forecasts for the purchase prices from a place for the current 2017/18 in Bulgaria are for wheat - 280 BGN / ton, for barley - 255 BGN / t, about 630 BGN / t for sunflower and 670 BGN / ton for rape, and corn prices

es are projected to be about 280 leva per tonne. These prices are higher than the previous year, with only sunflowers expected to fall. A difficult year is emerging for the price of sunflower, due to the strong competition on the European market by Ukrainian sunflower and oil. The drop in customs duties on Ukrainian oil in the EU is suppressing prices and this is affecting the domestic market in Bulgaria, and in September 2017 at the beginning of the harvest prices fell below BGN 550 / t. Concerning the medium-term forecasts for cereals and oilseeds, the expectations are that prices for the period 2017-2022, compared to those for the period 2012-2016, will be lower for all 5 crops under consideration. This is due to the unusual growth that prices reached in the period of the big boom between 2011-2014, due to droughts and, in general, to the lower production levels in the world. Prices expected to be observed in the next 5 years will be at levels close to those over the 2007-2011 period, which is related to wheat, barley and maize. Quite higher are the expectations for prices in the following years (compared to 2007-2011) for oilseeds, but especially in the sunflower there may be some overestimation. Of course, in the event of unexpected climatic conditions, which may lead to a sharp decline in crops, there may be shocks and alterations. However, even with a decrease, oil prices will be at levels higher than the average for the period 2007-2011. However, prices for all crops will be below the average for the period 2012-2016, both in 2022 and during the five-year period. For wheat in the period up to 2022 they would be between 210-340 BGN / t, barley - 185-340 BGN / t and corn - 205-310 BGN / t (94% probability). For oilseeds, the lower and upper thresholds at which the average annual prices would be locked are: sunflower - 400-800 BGN / t (94% probability) and rape - 340-780 BGN / t (93% probability). On the world markets, grain and oilseeds will continue to be among the main traded commodities. In the last 5 years (2012-2016) our country Bulgaria has sustained an average of about 3.5 million tons of wheat. Exports of corn are also in large proportions following production. Over the last five years, most maize has been exported in 2014 - 2.06 million tons, and at least in 2012 - 1.07 million tons. Exports before 2016 amounted to 1.09 million tons. The projections for the period 2017-2022 are for exports of 1.3 million tons of corn per year. Reducing barley production in the country will not affect a sharp decline in exports, with about 420,000 tons a year. In 2012, Bulgaria ranks first in terms of sunflower exports in the world, with absolute values increasing in 2013 and 2014. In 2012, Bulgaria ranks first in terms of sunflower exports in the world, with absolute values increasing in 2013 and 2014. The projections for sunflower exports up to 2022 are for quantities lower than 2012. This, on the one hand, is related to the amount of production in the country and, on the other, to the development of the processing facilities in our country and the production of sunflower oil. This is good for the development of the sector as it will contribute to increasing the added value of agricultural production. The main challenges in the short and medium term for Bulgarian grain producers are cost control and yield increase, which is a strategy against the downturn and fluctuations in prices. Direct payments in Bulgarian agriculture are an important buffer to meet revenue declines or growth in grain production. In addition, other risk management tools (manufacturing, technology and insurance) are not widespread. This poses a threat to producers both in unfavorable natural conditions (an increased likelihood of these occurring in the next 1-2 years on the basis of the repeatability of such periods) and price shocks.



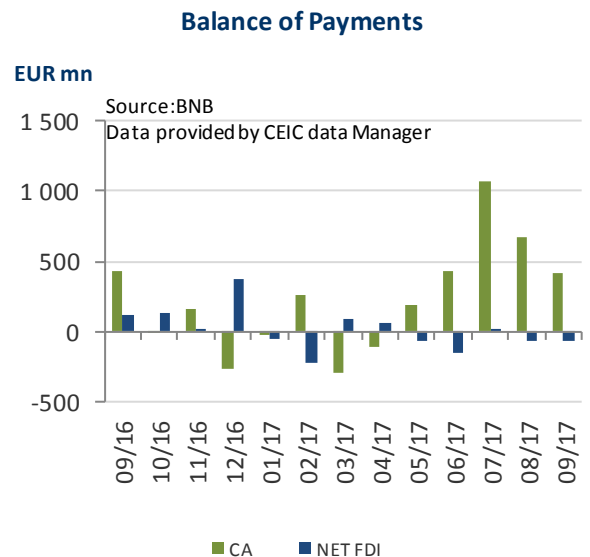
## BULGARIA

### EXTERNAL SECTOR

#### Balance of Payments

**In January – September 2017 Bulgaria's current and capital account was positive amounting to EUR 2,915.4 million and presented 5.8% of GDP**

The current and capital account recorded a surplus of EUR 432.6 million in September 2017, compared with a positive balance of EUR 490.9 million in September 2016. In January – September 2017 the current and capital account was positive amounting to EUR 2,915.4 million (5.8% of GDP), compared with a surplus of EUR 3,669 million (7.6% of GDP) in January – September 2016. The current account was positive amounting to EUR 415.2 million in September 2017, compared with a surplus of EUR 436.2 million in September 2016. In January – September 2017 the current account was positive and amounted to EUR 2,589.5 million (5.2% of GDP), compared with a surplus of EUR 2,673.9 million (5.6% of GDP) in January – September 2016. The balance on goods recorded a deficit of EUR 2.9 million in September 2017, compared with a surplus of EUR 81 million in September 2016. In January – September 2017 the balance on goods was negative amounting to EUR 1,469.6 million (2.9% of GDP), compared with a deficit of EUR 608.3 million (1.3% of GDP) in January – September 2016. Exports of goods amounted to EUR 2,311.4 million in September 2017, growing by EUR 260.3 million (12.7%) from September 2016 (EUR 2,051.1 million). In January – September 2017 exports of goods totalled EUR 19,093.4 million (38.1% of GDP), increasing by EUR 2,283.6 million (13.6%) y/y (from EUR 16,809.8 million, 34.9% of GDP). In January – September 2016 exports grew by 1.6% y/y. Imports of goods amounted to EUR 2,314.3 million in September 2017, growing by EUR 344.2 million (17.5%) from September 2016 (EUR 1,970.1 million). In January – September 2017 imports of goods totalled EUR 20,563 million (41% of GDP), growing by EUR 3,144.9 million (18.1%) from January – September 2016 (EUR 17,418.1 million, 36.2% of GDP). In January – September 2016 imports dropped by 4% y/y. Services recorded a positive balance of EUR 380.1 million in September 2017, compared with a surplus of EUR 387.9 million in September 2016. In January – September 2017 services recorded a surplus of EUR 3,073.3 million (6.1% of GDP) compared with a positive balance of EUR 2,760.8 million (5.7% 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 deficit of EUR 27.6 million in September 2017, compared with a deficit of EUR 88.8 million in September 2016. In January – September 2017 the balance on primary income was negative and equated to EUR 380.3 million (0.8% of GDP), against a deficit of EUR 819.4 million (1.7% of GDP) in January – September 2016. The net secondary income (which reflects the redistribution of income) recorded a surplus of EUR 65.6 million, compared with a positive balance of EUR 56.1 million in September 2016. In January – September 2017 the net secondary income was positive amounting to EUR 1,366.1 million (2.7% of GDP), compared with a positive balance of EUR 1,340.8 million (2.8% of GDP) in the same period of 2016. The capital account recorded a surplus of EUR 17.4 million, compared with a positive balance of EUR 54.6 million in September 2016. In January – September 2017 the capital account recorded a surplus of EUR 325.8 million (0.6% of GDP), compared with a positive balance of EUR 995.1 million (2.1% of GDP) in January – September 2016. The financial account recorded a net inflow of EUR 368 million, compared with an inflow of EUR 371.3 million in September 2016. In January – September 2017 the financial account recorded a net inflow of EUR 1,459.1 million (2.9% of GDP) compared with an inflow of EUR 3,308.6 million (6.9% of GDP) in January – September 2016. The net direct investment compiled in accordance with the Sixth Edition of the Balance of Payments and International Investment Position Manual was positive amounting to EUR 22.8 million, compared with a positive balance of EUR 120.7 million in September 2016. In January – September 2017 direct investment recorded a negative balance of EUR 569.2 million (1.1% of GDP), compared with a negative balance of EUR 841.4 million (1.7% of

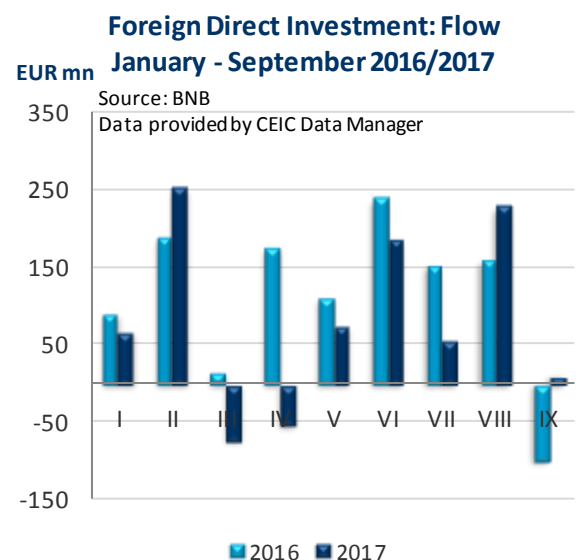


GDP) million in January – September 2016. Direct investment – assets increased by EUR 71.4 million compared with an increase of EUR 147.5 million in September 2016. In January – September 2017 direct investment – assets rose by EUR 263.7 million (0.5% of GDP), compared with an increase of EUR 436.5 million (0.9% of GDP) in the same period of 2016. Direct investment – liabilities grew by EUR 48.5 million in September 2017, compared with an increase of EUR 26.8 million in September 2016. In January – September 2017 direct investment – liabilities rose by EUR 833 million (1.7% of GDP), compared with an increase of EUR 1,277.8 million (2.7% of GDP) in the same period of 2016. The balance on portfolio investment was positive amounting to EUR 232.7 million, compared with a positive balance of EUR 144.1 million in September 2016. In January – September 2017 the balance was positive and equated to EUR 1,316.1 million (2.6% of GDP), compared with a negative balance of EUR 1,270.2 million (2.6% of GDP) million in January – September 2016. Portfolio investment – assets increased by EUR 199.5 million, compared with an increase of EUR 110.2 million in September 2016. In January – September 2017 they rose by EUR 723.9 million (1.4% of GDP) compared with an increase of EUR 147.7 million (0.3% of GDP) in January – September 2016. Portfolio investment – liabilities dropped by EUR 33.3 million compared with a decline of EUR 33.9 million in September 2016. In January – September 2017 portfolio investment – liabilities decreased by EUR 592.3 million (1.2% of GDP), compared with an increase of EUR 1,417.9 million (2.9% of GDP) in January – September 2016. The balance on other investment was negative amounting to EUR 59.9 million, compared with a negative balance of EUR 71.1 million in September 2016. In January – September 2017 the balance was negative and equated to EUR 35.9 million (0.1% of GDP), compared with a positive balance of EUR 2,587.9 million (5.4% of GDP) in January – September 2016. Other investment – assets dropped by EUR 2.1 million, compared with a decline of EUR 222.1 million in September 2016. In January – September 2017 they grew by EUR 119.1 million (0.2% of GDP) compared with an increase of EUR 1,685.7 million (3.5% of GDP) in January – September 2016. Other investment – liabilities grew by EUR 57.8 million compared with a decrease of EUR 151 million in September 2016. In January – September 2017 they rose by EUR 155 million (0.3% of GDP) compared with a decline of EUR 902.2 million (1.9% of GDP) in January – September 2016. The BNB reserve assets<sup>5</sup> increased by EUR 125.7 million, compared with an increase of EUR 164.6 million in September 2016. In January – September 2017 they grew by EUR 770.3 million (1.5% of GDP), compared with an increase of EUR 2,891.4 million (6% of GDP) in the same period of 2016. The net errors and omissions were negative amounting to EUR 64.6 million compared with a negative value of EUR 119.6 million in September 2016. According to preliminary data, the item was negative in January – September 2017 and totalled EUR 1,456.3 million (2.9% of GDP), against a negative value of EUR 360.3 million (0.7% of GDP) in the same period of 2016.

## Foreign direct investments

### In January-September 2017 Bulgaria's FDI amounted at EUR 744.2 million and presented 1,5% of GDP

According to BNB preliminary data, foreign direct investment in Bulgaria presented according to the directional principle totalled EUR 744.2 million (1.5% of GDP) in January – September 2017, dropping by EUR 281.3 million (27.4%) from January – September 2016 (EUR 1,025.5 million, 2.1% of GDP). Foreign direct investment in Bulgaria increased by EUR 10.4 million in September 2017, compared with a decline of EUR 99.2 million in September 2016. Equity (acquisition/disposal of shares and equities in cash and contributions in kind by non-residents in/from the capital and reserves of Bulgarian enterprises, and receipts/payments from/for real estate deals in the country) amounted to EUR 56.1 million in January – September 2017, dropping by EUR 570.2 million from EUR 626.3 million in January – September 2016. Real estate investments of non-residents totalled EUR 8.5 million, compared with EUR 60 million attracted in January –September 2016. The largest inflow of real estate investment was from Russia (EUR 4.1 million, 48.2% of the total amount for January – September 2017), Germany (EUR 1 million, 11.7% of the total amount), and Ukraine (EUR 0.9 million, 11% of the total amount). Reinvestments of earnings (the share of non-residents in the undistributed earnings/ loss of the enterprise based on preliminary profit and loss data) totalled EUR 28 million



for January – September 2017, compared with EUR 314.3 million in January – September 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 660.2 million in January – September 2017, compared with EUR 85 million in January – September 2016. The largest net direct investment inflows in Bulgaria for January – September 2017 were from the Netherlands (EUR 749.3 million), from Switzerland (EUR 100.4 million) and from Turkey (EUR 74.4 million). According to preliminary data, direct investment abroad grew by EUR 175 million, compared with an increase of EUR 184.2 million in January – September 2016. Direct investment abroad increased by EUR 33.3 million in September 2017, compared with an increase of EUR 21.5 million in September 2016.

## REAL SECTOR

### Gross domestic product

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

According to NSI flash GDP estimates for Q3 of 2017, the GDP at current prices amounted to BGN 27 336 million. Gross Value Added in the third quarter of 2017 amounted to BGN 23 408 million. In the structure of GDP by the expenditure approach the largest share has the final consumption (68.9%), which in nominal terms amounted to BGN18 839 million. In Q3 of 2017 gross capital formation is BGN 4 990 million and has a share of 18.3% in GDP. The external balance (exports minus imports) has a positive sign. According to the seasonally adjusted data, the GDP growth rate in Q3 of 2017 is 0.9% compared to the previous quarter. GVA increased in the Q3 of 2017 by 0.5%. According to the flash estimates by final expenditure the GDP growth in Q3 of 2017 is determined by increase of the final consumption with 1.1% and exports of goods and services with 3.2%. Furthermore, the Q3 of 2017 GDP at seasonally adjusted data increased by 3.9% y/y. Gross value added increased also by 3.9%. As regards the expenditure components of GDP, the final consumption registered a positive economic growth by 4.6%.

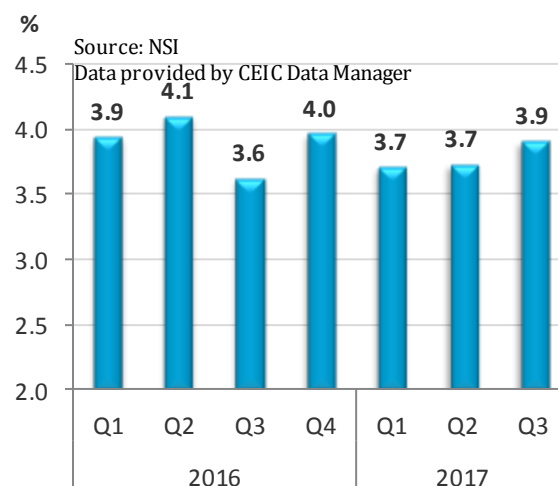
Gross fixed capital formation increased by 4.2% compared to the same quarter of the previous year. Exports and imports of goods and services increased by 4.4% and 6.2% respectively.

Additionally, in Q3 of 2017 EU-28 GDP increased by 0.6% q/q and GDP in Bulgaria increased by 0.9% , as we mentioned above. On a quarterly basis in 2017 Romania recorded the highest economic growth - 2.6%, Latvia - 1.5%, Poland and Finland - by 1.1%, Bulgaria and Cyprus - by 0.9%, while Denmark registered decline by 0.3%. Compared to the same quarter of the previous year, seasonally adjusted data showed an increase in GDP in the EU-28 by 2.5% and in Bulgaria by 3.9%. In Q3 of 2017, compared to the same quarter of the previous year, the highest economic growth was seen in Romania - 8.6%, Latvia - 6.2%, Poland and the Czech Republic - by 5.0%, Bulgaria and Cyprus - by 3.9%, while lowest economic growth is observed in Denmark - 1.1%.

#### The European Commission has increased the expected growth of the Bulgarian economy to 3.9% in 2017 and 3.8% in 2018

The European Commission has increased the expected growth of the Bulgarian economy to 3.9% in 2017 and 3.8% in 2018 from the expected growth of 2.9% and 2.8%, respectively, in its spring forecast. The revision is due to both the good performance of the economy in the first half of the year and the revision of the 2016 GDP data. Domestic demand will be the main driver for GDP growth in 2017, supported by strong private and public consumption and recovery in investment growth. Domestic demand will remain the engine of GDP growth throughout the forecast period, while private consumption is projected to slow down in 2018 and 2019. Higher imports, driven by strong domestic demand, will result in a decline of the current account surplus to 3% of GDP in 2017. This trend in imports is expected to continue in 2018 and reverse in 2019. The current account positive balance is thus expected to reduce to 2.4% and 2.3% of GDP in 2018 and 2019, respectively. In 2017, the Commission expects the annual average inflation in Bulgaria to reach 1.0%, with the main factors for this being strong domestic de-

GDP Growth rate per quarter, YoY  
seasonally adjusted data



mand, higher prices for utilities and recovering energy and commodity prices. Annual average inflation is forecast to accelerate to 1.5% in 2018 and 1.6% in 2019. The Commission expects the positive developments on the labour market to continue in the medium term. Employment is expected to rise by 0.7% in 2017, supported by domestic demand, especially investment. For the next two years the Commission expects the employment growth rate to slow down to 0.4% and 0.3% due to limited labour supply. The unemployment rate is expected to decrease to 6.4% in 2017 and to gradually decline to 5.7% in 2019. Under the conditions of lower unemployment, the growth of labour income will remain high and the increase in public sector wages will not pose risks to the budget stance of the economy. The estimates of the Commission for the general government budget balance coincide with the fiscal policy targets laid down in the three-year budget forecast 2018 – 2020, namely: balanced budget in 2017 and 2018 and a surplus in 2019. Strong revenue performance is expected to outweigh higher expenditures on personnel and investment. For the current year, the Commission expects the general government debt to significantly decline (from 29% of GDP in 2016 to 25.7% of GDP) as a result of the primary budget surplus and the repayment of debt of around 2 pps. of GDP. Having in mind the excess of revenues over expenditures in the primary balance and the low price of debt, the indicator is projected to further decrease to 24.3% and 22.8% of GDP in 2018 and 2019, respectively.

Bulgaria: Projection of Key Indicators	2016	2017	2018	2019
GDP growth (% , y/y)	3,9	3,9	3,8	3,6
Inflation (% , y/y)	-1,3	1,0	1,5	1,6
Unemployment (%)	7,6	6,4	6,0	5,7
Public budget balance (% of GDP)	0,0	0,0	0,0	0,2
Gross public debt (% of GDP)	29,0	25,7	24,3	22,8
Current account balance (% of GDP)	5,3	3,0	2,4	2,3

Source: EC

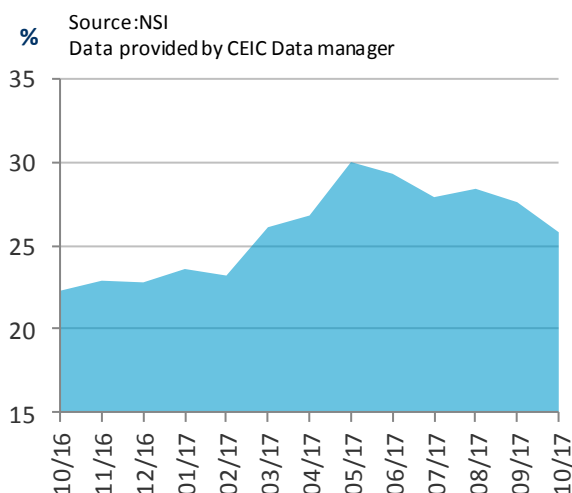
## Business climate

**In October 2017, the business conjuncture in the country is assessed as unfavourable. The total business climate indicator decreased by 1.8 pps to 25.8% compared to its September level as a result of the reduced managers' expectations in all observed sectors - industry, construction, retail trade and services.**

**Industry.** The composite indicator business climate in industry drops by 2.8 pps in comparison with the previous month to 25.8% which is mainly due to the reserved industrial entrepreneurs' expectations about the business situation of the enterprises over the next 6 months. There is an improvement in their opinions for the production assurance with orders over the last 3 months, but that is not accompanied by increased expectations about the production activity over the next 3 months. The average capacity utilization from July to October increases by 0.8 percentage points and it reaches 75.5%, as regards the expected demand over the next months is foreseen a surplus of capacity. The uncertain economic environment and shortage of labour remain the main obstacles for the business development pointed out respectively by 47.2% and 29.8% of the enterprises. As regards the selling prices in industry, the prevailing managers' expectations are them to remain unchanged over the next 3 months.

**Construction.** In October the composite indicator 'business climate in construction' decreases by 1.6 pps to 25.2% as result of the more unfavourable construction entrepreneurs' expectations about the business situation of the enterprises over the next 6 months. The production is assurance with contracts for 6.9 months, as a decrease of 0.5 months compared to the assessment from July is registered. At the same time, the expectations about new orders over the next 6 months are also more reserved. The main factors, limiting the activity in the sector continue to be connected with the uncertain economic environment, competition in the branch and shortage of labour. Concerning the selling prices in construction, the managers do not foresee a change over the next 3 months.

### Business Climate Indicator





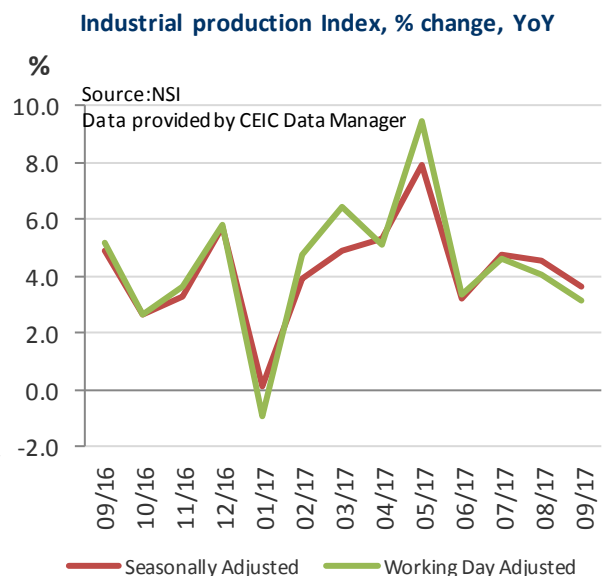
**Retail trade.** The composite indicator ‘business climate in retail trade’ decreased by 1.1 pps points to 38.1% compared to the September 2017, which is due to the worsening retailers’ expectations about the business situation of the enterprises over the next 6 months. However, their opinions about the volume of sales over the last 3 months, as well their expectations over the next 3 months are more favourable. The most serious difficulties for the business development remain the competition in the branch, uncertain economic environment and the insufficient demand, as in the last month strengthen the negative impact of the first two factors is observed. As regards the selling prices, the inquiry registers certain expectations for increase, although the majority of the retailers foresee preservation of their level over the next 3 months.

**Service sector.** In October as a result of the more unfavourable managers’ expectations about the business situation of the enterprises over the next 6 months, the composite indicator ‘business climate in service sector’ decreases by 0.6 pps to 12.6%. At the same time their opinions about the demand for services over the next 3 months mark a slight improvement, but that refrain them from forecasts for additional hiring of personnel. The competition in the branch and uncertain economic environment continue to be the main obstacles for the activity in the sector, though the inquiry reports a decrease of the negative influence of the second factor. Concerning the selling prices the managers’ expectations are them to remain unchanged over the next 3 months.

### Industrial production index

**In September 2017 Bulgaria’s Industrial Production Index increased by 0.3% m/m based on seasonally-adjusted data and by 3.2% y/y, respectively**

According to NSI preliminary data in September 2017 the Industrial Production Index increased by 0.3% as compared to August 2017 based on seasonally adjusted. In September 2017 working day adjusted data presented an increase by 3.2% in comparison with the same month of 2016. In September 2017 as compared to August 2017, the seasonally adjusted Industrial Production Index increased in the manufacturing by 0.6%, while the production fell in the mining and quarrying industry by 0.8% and in the electricity, gas, steam and air conditioning supply by 0.5%. The most significant production increases in the manufacturing were registered in the manufacture of other transport equipment by 11.0%, in the repair and installation of machinery and equipment by 10.3%, in the manufacture of beverages by 6.3%, in the manufacture of motor vehicles, trailers and semi-trailers by 5.8%. There were decreases in the manufacture of computer, electronic and optical products by 12.9%, in the manufacture of chemicals and chemical products by 9.3%, in the manufacture of fabricated metal products, except machinery and equipment by 5.7%, in the manufacture of tobacco products by 4.1%. On annual basis in September 2017 Industrial Production Index calculated from working day adjusted data rose in mining and quarrying industry by 7.7% and in the manufacturing by 4.3%, while the production went down in the electricity, gas, steam and air conditioning supply by 3.5%. In the manufacturing, the more considerable increases compared to the same month of the previous year were registered in the manufacture of basic metals by 28.1%, in the manufacture of machinery and equipment by 17.9%, in the manufacture of motor vehicles, trailers and semi-trailers by 14.2%, in the manufacture of rubber and plastic products by 13.9%. Decreases were seen in the manufacture of leather and related products by 12.5%, in the manufacture of fabricated metal products, except machinery and equipment by 7.9%, in the manufacture of wearing apparel by 6.6%, in the manufacture of furniture by 5.7%.



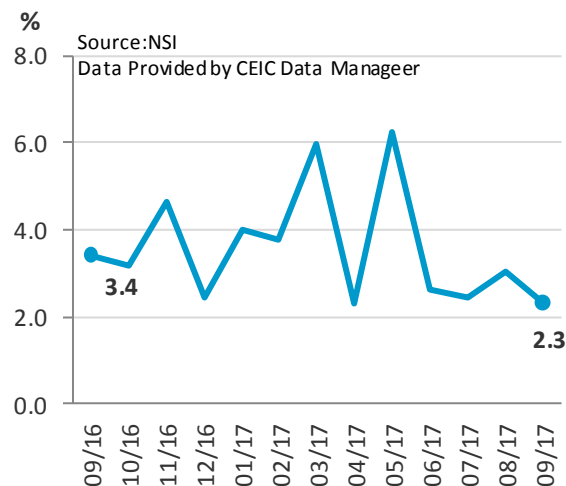


## Retail trade

### In September 2017 Bulgaria's Retail Sales increased by 0.1% m/m and by 2.3% y/y, respectively

According to NSI preliminary seasonally adjusted data in September 2017 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 0.1% compared to the previous month. In September 2017, the working day adjusted turnover in 'Retail trade, except of motor vehicles and motorcycles' marked rise from 2.3% in comparison with the same month of the previous year. In September 2017 compared to the previous month increase of turnover was observed in the 'Retail sale via mail order houses or via Internet' by 3.0%, in the 'Retail sale in non-specialised stores', in the 'Retail sale of audio and video equipment; hardware, paints and glass; electrical household appliances', in the 'Dispensing chemist; retail sale of medical and orthopedic goods, cosmetic and toilet articles' by 0.9%, in the 'Retail sale of textiles, clothing, footwear and leather goods' by 0.6% and in the 'Retail sale of food, beverages and tobacco' by 0.2%. Decrease was registered in the 'Retail sale of computers, peripheral units and software; telecommunications equipment' - 2.1% and in the 'Retail sale of automotive fuel' - 1.9%. In September 2017 compared to the same month of 2016, the turnover increased more significantly in the 'Retail sale in non-specialised stores' by 13.1%, in the 'Retail sale of audio and video equipment; hardware, paints and glass; electrical household appliances' by 9.9% and in the 'Retail sale of computers, peripheral units and software; telecommunications equipment' by 8.2%. Decline was registered in the 'Retail sale of automotive fuel' - 12.4%.

Retail trade index, % change (YoY)

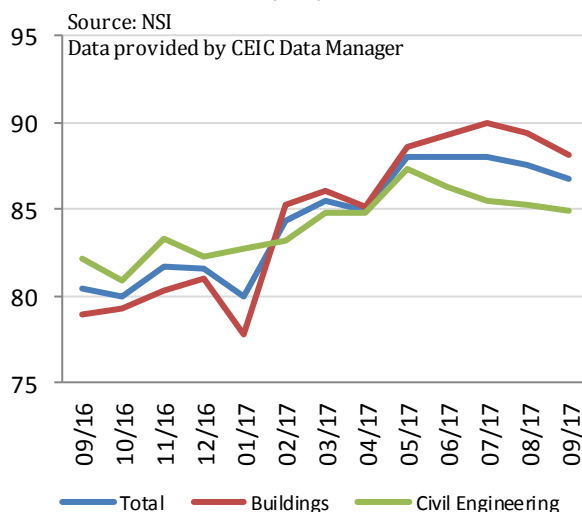


## Construction

### In September 2017 Bulgaria's Construction Production Index declined by 1% m/m, but recorded increase of 6% y/y, respectively

According to NSI preliminary data, in September 2017 the index of production in section 'Construction' calculated on the base of seasonally adjusted data declined by 1.0% m/m. In September 2017 working day adjusted data showed an increase by 6.0% in the construction production, compared to the same month of 2016. In September 2017 the construction production, calculated from the seasonally adjusted data, was under the level of the previous month. Index of production of building construction decreased by 1.4% and the production of civil engineering - by 0.4%. On an annual basis in September 2017, the increase of production in construction, calculated from working day adjusted data, was determined from the positive rate in the building construction, where the growth was by 12.3%, while in the civil engineering was registered a decline by 1.1%.

Construction Production index, seasonally adjusted data



## Real Estate Sector

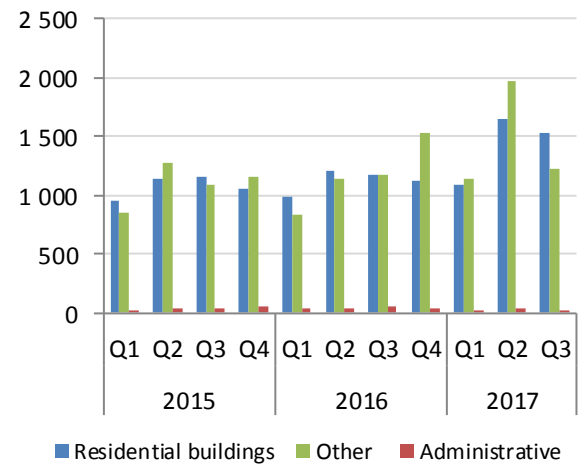
### In Q3 2017 the issued building permits for residential buildings decreased by 7.3 q/q. In the issued building permits of administrative buildings and other buildings shown a decline by 30.0% and by 38.0%, respectively

According NSI data in Q3 2017 the municipal authorities issued building permits for construction of 1 526 residential buildings with 7 135 dwellings and 934 851 sq. m gross building area, of 28 administrative buildings/offices with 39 133 sq. m gross building area and 1 221 other buildings with 713 207 sq. m gross building area. As compared to the previous quarter the issued

November 2017

building permits for residential buildings decreased by 7.3%, while their dwellings rose by 22.7% and the gross building area - by 19.6%. In the issued building permits of administrative buildings and other buildings shown a decline by 30.0% and by 38.0% respectively, and the decrease in their gross building area was by 47.1% and 24.8%. As compared to the third quarter of 2016 the issued building permits for new residential buildings increased by 29.0%, their dwellings - by 44.5% and their gross building area - by 47.2%. The number of issued building permits of administrative buildings fell by 45.1% and their gross building area - by 58.7%. In the other buildings, number of issued building permits rose by 4.4% and their gross building area - by 0.4%. The highest number of building permits for new residential buildings was issued in the following districts: Sofia (capital) - 262, Plovdiv - 239, Varna - 154 and Sofia - 111. Most dwellings are to be built in the districts: Sofia (capital) - 2 432, Plovdiv - 1 371, Varna - 751 and Burgas - 636. In Q3 2017 began the construction of 982 residential buildings with 3 409 dwellings and 451 460 sq. m gross building area, of 27 administrative buildings/offices with 30 658 sq. m gross building area and of 692 other buildings with 384 617 sq. m gross building area. As compared to the previous quarter the number of started residential buildings fell by 23.3%, the number of their dwellings - by 11.3% and their gross building area - by 14.2%. The number of started administrative buildings increased by 8.0% and their gross building area - by 293.2%. The number of started other buildings decreased by 45.8% and their gross building area - by 51.8%. As compared to Q3 2016 the started new residential buildings rose by 18.3%, their dwellings - by 8.4% and the gross building area - by 14.1%. The number of started administrative buildings dropped by 15.6%, while their gross building area grew by 46.3%. The started other buildings marked a rise by 18.3% and their gross building - by 6.7%. The construction of the highest number of new buildings were started in the following districts: Plovdiv - 165 residential buildings and 80 other buildings; Sofia (capital) - 135 residential buildings, 4 administrative buildings and 27 other buildings; Varna - 85 residential buildings and 38 other buildings; Stara Zagora - 73 residential buildings and 47 other buildings.

**Building permits, issued for construction of new buildings**



### In Q3 2017 the number of newly build residential buildings increased by 6.3% y/y

According to NSI preliminary data in Q3 2017 the number of newly built residential buildings was 506 and the newly built dwellings in them were 2 018. Compared to Q3 of 2016 the buildings were by 30 more (or by 6.3%), while the newly built dwellings in them decreased by 361 or by 15.2%. In Q3 of 2017 over 75.5% of the newly built residential buildings were with steel-concrete construction, 20.7% with solid structure, 2.6% with "other" and 1.2% with panel. Highest is the relative share of houses (72.5%) followed by blocks of flats (15.4%). As compared to the third quarter of 2016 the number of newly built houses, mixed buildings and country houses rose, while the number of newly built blocks of flats dropped. Highest is the number of residential buildings built in district Varna - 82 buildings with 606 dwellings in them, followed by Plovdiv - 74 residential buildings with 214 dwellings and Burgas - 68 residential buildings with 559 dwellings. Highest is the number of newly built dwellings with two rooms (44.7%), followed by the number of those with three rooms (29.6%) and lowest is the number of dwellings with six and more rooms - 2.8%. In Q3 of 2017 the total useful space of newly built dwellings was 170.3 thousand sq. m or 11.8% less compared to the same quarter of 2016, the living floor space decreased (by 14.2%) to 104.1 thousand sq. m. At the same time the average useful floor space of a newly built dwelling increased from 81.2 sq. m in the third quarter of 2016 to 84.4 sq. m in the same quarter of 2017. The biggest average useful floor space of a newly built dwelling was recorded in districts Sliven - 152.4 sq. m and Silistra - 124.7 sq. m, and the smallest one in Razgrad - 50.0 sq. m and Shumen - 55.2 sq. meters.

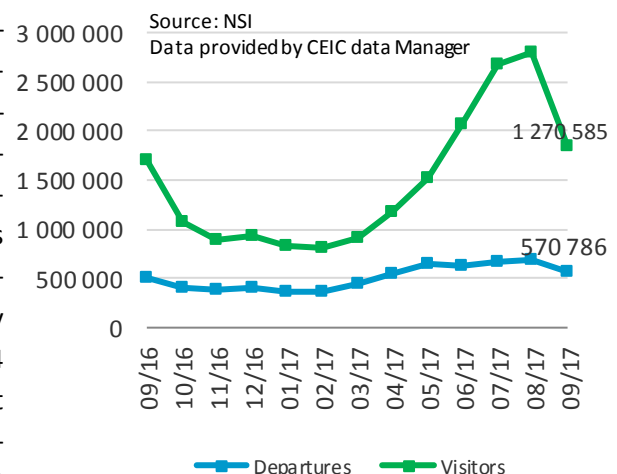
## Tourism

### In September 2017, the number of arrivals in all accommodation establishments increased by 1.8% m/m, as an increased by 4.9% for foreigners and decrease by 1.8% for Bulgarians

According NSI data in September 2017, 2 729 accommodation establishments - hotels, motels, camping sites, mountain chalets

and other establishments for short-term accommodation with more than 10 bed-places were functioned in the country. The total number of the rooms in them was 128.0 thousand and the bed-places were 285.5 thousand. In comparison with September 2016, the total number of accommodation establishments (functioned during the period) increased by 0.1%, and the bed-places in them - by 2.6%. The total number of the nights spent in all accommodation establishments registered in September 2017 was 3 089.3 thousand, or by 0.5% more in comparison with the same month of the previous year, as the greatest increase (by 3.9%) was observed in 4 and 5 stars accommodation establishments. In September 2017, 72.7% of all nights spent by foreign citizens and 33.1% of all nights spent by Bulgarians were realized in 4 and 5 stars hotels. In 3 stars accommodation establishments were spent 21.8% of all nights by foreigners and 28.9% of all nights by Bulgarian residents, while in the rest of accommodation establishments (with 1 and 2 stars) they were 5.5% and 38.0% respectively. In September 2017, the number of arrivals in all accommodation establishments increased by 1.8% compared to the same month of 2016 and reached 797.6 thousand, as an increase by 4.9% for foreigners and decrease by 1.8% for Bulgarians was registered. Bulgarians spent the nights in accommodation establishments in September 2017 were 361.4 thousand and spent 2.5 nights on the average. The arrivals of foreigners were 436.2 thousand, as 70.2% of them spent nights in hotels with 4 and 5 stars. On the average 5.2 nights were spent by foreigners. In September 2017, the total occupancy of the bed-places in accommodation establishments was 37.3%, as compared to September 2016 decreased by 1.9 percentage points. The highest was occupancy of the bed-places in 4 and 5 stars accommodation establishments - 50.8%, followed by 3 stars accommodation establishments - 32.4%, and with 1 and 2 stars - 20.3%.

**Total Visitors/Departures**

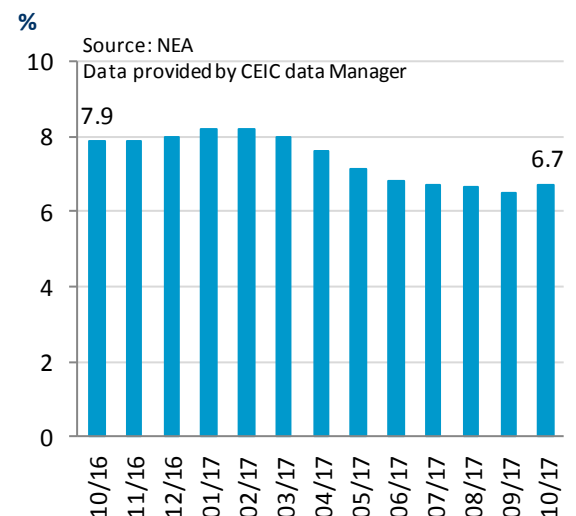


## Unemployment

### In Q3 2017 the unemployment rate in Bulgaria declined by 1.2 percentage points to 5.8%

In Q3 2017 there were 200.2 thousand unemployed persons and the unemployment rate was 5.8%. In comparison with Q3 of 2016 the number of unemployed persons went down by 12.6% and the unemployment rate declined by 1.2 percentage points. Over the same period the unemployment rate decreased by 1.3 percentage points for men and by 1.0 percentage point for women achieving 6.1% and 5.5% respectively. In Q3 of 2017 there were 112.4 thousand unemployed men (56.2% of all unemployed persons) and 87.8 thousand unemployed women (43.8%). Among all unemployed persons 17.6% had higher level of educational attainment, 49.8% had completed upper secondary education and 32.6% had at most lower secondary education. The unemployment rate by level of educational attainment was as follows: 3.4% for higher education, 5.1% for upper secondary and 15.0% for lower than upper secondary education. In Q3 of 2017 there were 109.6 thousand long-term unemployed persons (unemployed for one or more years), representing 54.7% of all unemployed persons. The long-term unemployment rate was 3.2%, down by 1.1 percentage points from the third quarter of 2016. The long-term unemployment rate was 3.3% for men and 3.1% for women. Of all unemployed people 37.4 thousand (18.7%) were looking for a first job. In Q3 of 2017 the unemployment rate for the age group 15 - 29 years was 9.9%, by 1.9 percentage points lower than in a year earlier. The unemployment rate for men (15 - 29 years) decreased by 2.3 percentage points and that for women - by 1.3 percentage points, achieving 10.3% for men and 9.4% for women.

**Registered Unemployment Rate**



### In October 2017, unemployment in Bulgaria increased to 6.7%

According to Employment Agency data in October 2017, the unemployment in Bulgaria rose to 6.7%. Compared to September 2017, the indicator grew up by 0.2 percentage points, and compared with the same month of the previous year, the unemployment fell by 1, 2 percentage points. A total of 220,172 were the registered unemployed in the Labor Offices in October as their number increasing by 3.2% m/m and compared to 2016 decreased by 14.7%. In October 2017, 20 456 people started work with a total number of 208 260 for tin the 10 months of 2017. The share of those who started work in the real economy was 81.8% of the total. For the period January - October, 26,782 unemployed persons were employed on jobs subsidized by the state budget and the European Social Fund. Employers have declared 14,168 job vacancies in the primary market, with more than half of them in the private sector - 75.3%. The business is looking for the most in the mining and processing industry, bartenders, waiters, sellers, and skilled workers in food and clothing manufacturing.

### The share of employed persons in the total population aged 15 years and over was 53.2%, up by 3.3 percentage points compared to Q3 of 2016

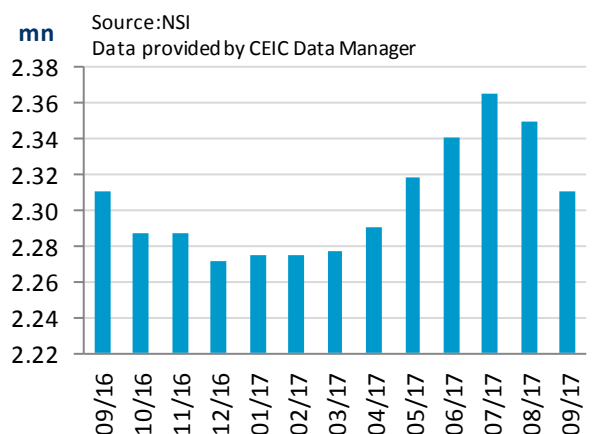
In Q3 2017 there were 3 225.0 thousand employed persons aged 15 years and over, of whom 1 719.9 thousand men and 1 505.1 thousand women. The share of employed persons in the total population aged 15 years and over was 53.2%, up by 3.3 percentage points compared to Q3 of 2016. In employment were 59.1% of men and 47.8% of women in the age group concerned. In Q3 of 2017, in the service sector worked 2 019.9 thousand persons, representing 62.6% of all employed persons, in the industry sector worked 962.9 thousand persons (29.9% of all employed), while in agriculture, forestry and fishing worked 242.3 thousand (7.5%). Of all employed persons 3.7% (118.5 thousand) were employers, 7.5% (240.6 thousand) were self-employed persons without employees, 88.0% (2 839.6 thousand) were employees and 0.8% (26.4 thousand) were unpaid family workers. Of all employees 2 154.1 thousand persons (75.9%), worked in private sector while 685.5 thousand (24.1%) worked in public sector. Of all employees, 153.6 thousand persons (5.4%) had temporary job. In Q3 of 2017 the employment in specific age groups was as follows: there were 3 142.0 thousand employed persons aged from 15 to 64 years. The employment rate for the same age group was 68.5% (72.2% for men and 64.7% for women). The employment rate for the age group 15 - 29 years was 44.0% (49.6% for men and 38.1% for women). The employment rate for the age group 20 - 64 years was 73.0%, 76.9% and 69.0% for men and women respectively. This rate was by 4.5 percentage points higher than in the third quarter of 2016. It increased by 4.9 percentage points for men and by 4.0 percentage points for women. There were 590.7 thousand employed persons aged from 55 to 64 years, representing 60.4% of population in the same age group (64.5% of men and 56.7% of women). In comparison with a year ago, the employment rate (55 - 64 years) went up by 4.8 percentage points, as the increase for men and women was by 5.1 and 4.6 percentage points respectively.

### Employees under labour contract

#### As of end of September 2017 in comparison with a year earlier the average monthly wages and salaries in public sector grew by 7.9% while in private sector - by 11.0%, respectively

According to NSI preliminary data at the end of September 2017 the number of employees under labour contract decreased by 30.1 thousand or 1.3% as compared to the end of June 2017 and reached 2.31 million. The highest decrease was observed in economic activities: "Accommodation and food service activities" - 17.7%, "Arts, entertainment and recreation" - 8.1% and "Real estate activities" - 3.5%. The highest increase of the number of employees was recorded in "Agriculture, forestry and fishing" - by 4.0%. In the structure of employees by economic activities the biggest relative share of employees was in "Manufacturing" - 22.1% and "Wholesale and retail trade; repair of motor vehicles and motorcycles" - 17.0%. At the end of September 2017 as compared to September 2016 the number of employees under labour contract remains on the same level. The highest decrease in absolute figures was observed in economic activities

### Bulgaria: Number of Employees



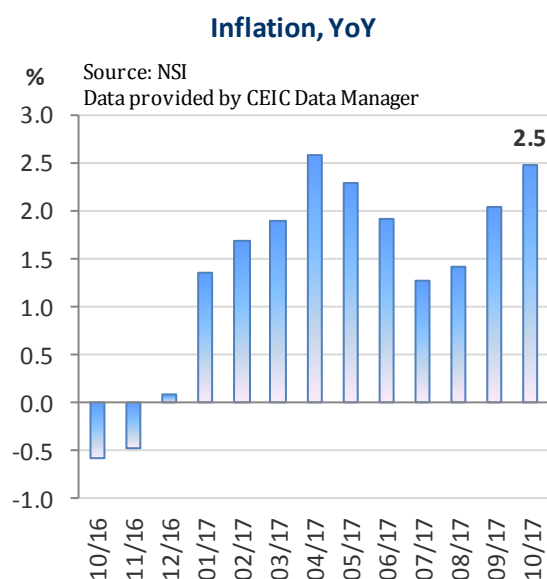
“Agriculture, forestry and fishing” - 4.0 thousand and “Wholesale and retail trade; repair of motor vehicles and motorcycles” - 3.7 thousand, and the highest increase - in “Administrative and support service activities”- 5.6 thousand. In percentages the highest decrease at the end of September 2017 as compared to September 2016 was also in economic activity “Agriculture, forestry and fishing” - by 5.0% and the highest increase in “Administrative and support service activities” - by 4.9%.

The average monthly wages and salaries of the employees under labour contract in July was BGN 1 039, in August – BGN 1 008 and in September 2017 – BGN 1 064. In Q3 of 2017 in comparison with the second quarter of 2017 the average monthly wages and salaries decreased by 0.3% getting 1 037. The highest decrease in wages and salaries was reported in “Financial and insurance activities” - by 5.3%, and “Real estate activities” - by 4.9%. The highest increase was in “Agriculture, forestry and fishing” - by 7.5%. Compared to the third quarter of 2016 the average monthly wages and salaries in the third quarter of 2017 rose by 10.2%. The highest growth rates were recorded in economic activities: “Real estate activities” - 13.5%, “Administrative and support service activities” - 12.9% and “Other services activities” - 12.6%. The economic activities with the highest wages and salaries in Q3 of 2017 were: “Information and communication” - BGN 2 346; “Electricity, gas, steam and air conditioning supply” – BGN 1 728, “Financial and insurance activities” – BGN 1 718. The lowest wages and salaries were recorded in: “Accommodation and food service activities” – BGN 631, “Other services activities” – BGN 743, “Construction” – BGN 814. In comparison with a year earlier the average monthly wages and salaries in public sector grew by 7.9% while in private sector - by 11.0%.

## Inflation

**In October 2017 Bulgaria’s CPI increased by 0.6% m/m and by 2.5% y/y, respectively. The annual average inflation stood at 1.5%**

According NSI preliminary data the consumer price index in October 2017 compared to September 2017 was 100.6%, i.e. the monthly inflation was 0.6%. The inflation rate since the beginning of the year (October 2017 compared to December 2016) has been 1.9% and the annual inflation in October 2017 compared to October 2016 was 2.5%. The annual average inflation, measured by CPI, in the last 12 months (November 2016 - October 2017) compared to the previous 12 months (November 2015 - October 2016) was 1.5%. On a monthly basis, the appreciation was mainly due to the group of non-food goods - entertainment, clothing and footwear, gas, electricity, heating. The year-on-year increase stems from higher food, fuel and utility services. The harmonized index of consumer prices in October 2017 compared to September 2017 was 100.1%, i.e. the monthly inflation was 0.1%. The inflation rate since the beginning of the year (October 2017 compared to December 2016) has been 0.8% and the annual inflation in October 2017 compared to October 2016 was 1.5%. The annual average inflation, measured by HICP, in the last 12 months (November 2016 - October 2017) compared to the previous 12 months (November 2015 - October 2016) was 0.8%. In its latest forecast for Bulgaria, the EC expects this indicator to remain at similar levels in the coming year. The reason - strong domestic demand, higher administrative prices for utilities and the rebound in commodity prices and fuels.



## Producer Price Index in Industry

**In September 2017 total producer price index in industry increased by 0.5% m/m and by 5.7% y/y, respectively**

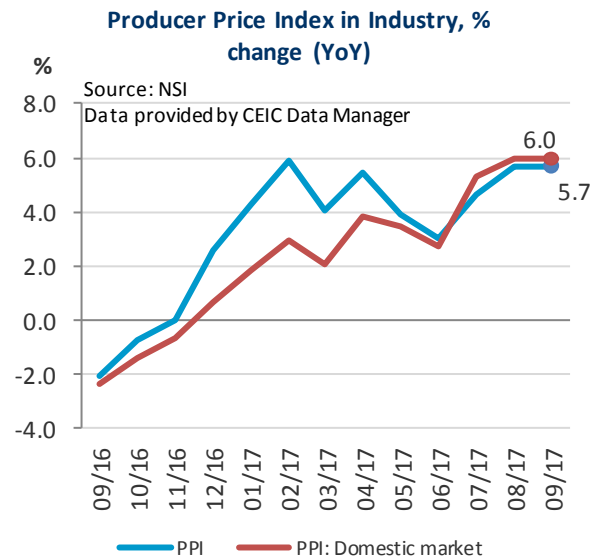
According NSI data in September 2017 total producer price index in increased by 0.5% compared to the previous month. Higher prices were registered in the mining and quarrying industry by 0.7% and in the manufacturing by 0.5%, while in the electricity, gas, steam and air conditioning supply the prices declined by 0.3%. In the manufacturing creases were seen in the manufacture of basic metals by 1.7% and in the manufacture of wood and of products of wood and cork, except furniture by 1.1%, while prices decreases were reported in the other manufacturing by 1.0%, in the manufacture of basic pharmaceutical products and



pharmaceutical preparations and in the manufacture of other transport equipment by 0.2%. Total producer price index in September 2017 increased by 5.7% compared to the same month of 2016. The prices rose in the electricity, gas, steam and air conditioning supply by 10.3%, in the mining and quarrying industry by 9.9% and in the manufacturing by 4.0%. In the manufacturing more significant prices increases were seen in the manufacture of basic metals by 13.6%, in the manufacture of wood and of products of wood and cork, except furniture by 6.7% and in the manufacture of motor vehicles, trailers and semi-trailers by 4.5%, while the producer prices fell in the manufacture of computer, electronic and optical products and in the manufacture of other transport equipment by 1.8%.

**In September 2017 producer price index on domestic market increased by 0.3% m/m and by 6% y/y, respectively**

According NSI data in September 2017 producer price index on domestic market in September 2017 increased by 0.3% compared to the previous month. The domestic prices rose in the mining and quarrying industry by 1.8% and in the manufacturing by 0.4%, while in the electricity, gas, steam and air conditioning supply the prices did not change. In the manufacturing, compared to the previous month the prices went up in the manufacture of wood and of products of wood and cork, except furniture by 1.6% and in the manufacture of basic metals by 0.8%, while the domestic prices fell in the manufacture of basic pharmaceutical products and pharmaceutical preparations by 0.4% and in the manufacture of rubber and plastic products by 0.2%. Producer price index on domestic market in September 2017 increased by 6.0% compared to the same month of 2016. The domestic prices rose in the mining and quarrying industry by 10.9%, in the electricity, gas, steam and air conditioning supply by 10.6% and in the manufacturing by 2.9%. In the manufacturing compared to September 2016 the prices went up in the manufacture of basic metals by 14.5%, in the manufacture of wood and of products of wood and cork, except furniture by 6.4% and in the manufacture of electrical equipment by 5.7%. The prices decreases were reported in the manufacture of computer, electronic and optical products by 0.5% and in the manufacture of leather and related products by 0.4%.



**In September 2017 producer price index on non-domestic market increased by 0.8% m/m and by 5.3% y/y, respectively**

According NSI data in September 2017 producer price index on non-domestic market in September 2017 increased by 0.8% compared to the previous month. In the manufacturing the non-domestic prices rose by 1.2%. More significant prices increases were reported in the manufacture of rubber and plastic products and in the manufacture of basic metals by 2.0%, while the prices went down in the other manufacturing by 1.5%, in the manufacture of fabricated metal products, except machinery and equipment by 0.4% and in the manufacture of other transport equipment by 0.3%. Producer price index on non-domestic market in September 2017 increased by 5.3% compared to the same month of 2016. In the manufacturing, the prices rose by 5.3%. The non-domestic prices rose in the manufacture of basic metals by 13.4% and in the manufacture of paper and paper products by 11.2%. The prices fell in the manufacture of chemicals and chemical products by 2.9%, in the manufacture of computer, electronic and optical products and in the manufacture of other transport equipment by 2.5%.

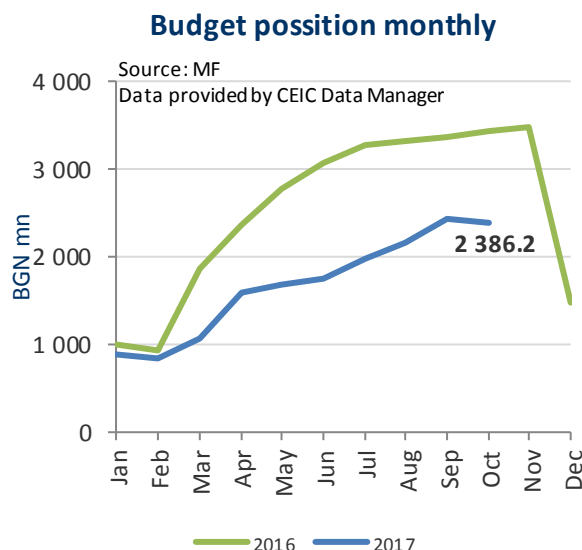
**FISCAL SECTOR**

**Budget balance**

**In September 2017 the Consolidated fiscal program (CFP) on a cash basis is positive at BGN 2,420.9 million and presented 2.4% of GDP**

According MF data in September 2017 the CFP balance on a cash basis is positive, amounting to BGN 2,420.9 million (2.4% of full year forecasted GDP) and is formed by a surplus under the national budget of BGN 2,482.1 million and a deficit under EU funds of BGN 61.2 million. The national budget balance reports an improvement in structural terms as compared to the same period of 2016 mainly due to the growth of tax revenues (including social security and health insurance contributions), while

the balance of EU fund accounts has deteriorated this year due to a baseline effect in 2016 related to the EU grants reimbursed to Bulgaria at the beginning of 2016 related to the EU grants reimbursed to Bulgaria at the beginning of 2016 for expenditures incurred at the end of 2015 which witnessed the peak of project payments under the previous 2007 – 2013 programming period. The CFP revenues and grants as of September 2017 stand at BGN 26,151.5 million, or 73.8% of the annual estimates. Compared to the same period of the previous year, tax and non-tax revenues have grown by BGN 1,774.9 million, (7.6%), while proceeds from grants were lower. Tax proceeds, including revenues from social security and health insurance contributions, total BGN 21,856.5 million, which is 78.0% of the annual plans. Compared to the data for September 2016, tax revenues have risen by 8.7% (BGN 1,750.1 million) in nominal terms. Revenues from direct taxes amount to BGN 3,885.0 million, or 76.3% of the annual estimates, growing, as compared to same period of the previous year, by BGN 310.4 million (8.7%). Indirect tax revenues amount to BGN 11,028.2 million, or 78.7% of the annual plans. Compared to the data for September 2016, revenues in this group have grown by BGN 643.4 million (6.2%). The VAT proceeds amount to BGN 7,137.5 million, or 81.3% of the plan. Compared to the previous year, VAT revenues have risen by BGN 523.2 million. (7.9%). The amount of the non-refunded VAT as of 30.09.2017 is BGN 60.1 million. The excise duty revenues amount to BGN 3,724.9 million, (73.9% of the annual estimates). Custom duties revenues are BGN 141.0 million or 84.9% of the annual plan. Proceeds from other taxes, including property taxes and other taxes under the Corporate Income Tax Law, amount to BGN 815.6 million, or 82.3% performance of the annual estimates. Revenues from social security and health insurance contributions are BGN 6,127.6 million, or 77.2% of those planned for the year. Compared to the same period of the previous year these revenues have risen by 14.2% (BGN 760.9 million) in nominal terms. Non-tax revenues amount to BGN 3,245.2 million or 68.2% of the annual plans. Proceeds from grants amount to BGN 1,049.8 million or 39.7% of the annual plan. The expenditures under the CFP, including the contribution of the Republic of Bulgaria to the EU budget, amount to BGN 23,730.5 million as of September 2017, which is 64.5% of the annual estimates. For comparison, the expenditures under the CFP for the same period of 2016 amounted to BGN 22,289.6 million. The growth of expenditures as compared to end-September 2016 is mostly due to the higher social security and health insurance payments, a baseline effect on expenditures on pensions from their increases as from July 2016 and July 2017, higher expenditures on subsidies and higher personnel expenditures, including due to the growth of insurance payments related to the higher insurance contribution for the Pensions for Persons under Article 69 Fund which increased by 20 percentage points as compared to 2016. Non-interest expenditures amount to BGN 22,327.3 million, which is 64.6% of the annual plans. Non-interest current expenditures as of September 2017 amount to BGN 20,951.7 million, or 73.9% of the annual plans, capital expenditures (including net increment of state reserve) amount to BGN 1,375.6 million, or 22.2% of the 2017 Annual Budget Law plans. Interest payments amount to BGN 726.6 million, or 87.9% of those planned for 2017. The part of Bulgaria's contribution to the EU budget, paid from the central budget as of 30.09.2017, amounts to BGN 676.6 million, which complies with the current legislation in the area of EU own resources – Council Decision 2014/335/EU, Euratom on the system of own resources of the European Union, Council Regulation (EU, Euratom) No 608/2014 of 26 May 2014 laying down implementing measures for the system of own resources of the European Union, and Council Regulation (EU, Euratom) No 609/2014 of 26 May 2014 on the methods and procedure for making available the traditional, VAT and GNI-based own resources and on the measures to meet cash requirements as amended by Council Regulation (EU, Euratom) No 2016/804 of 17 May 2016. Fiscal reserve as of 30.09.2017 is BGN 11.9 billion, including BGN 11.4 billion fiscal reserve deposits in BNB and banks and BGN 0.5 billion receivables under the EU Funds for certified expenditure, advance payments, etc.



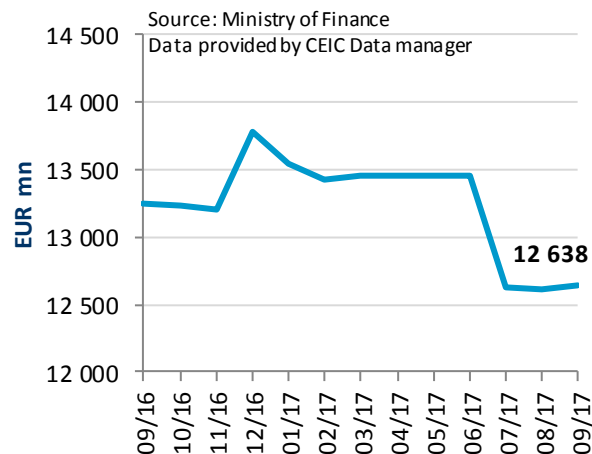
### Central Government debt

**In September 2017 Bulgaria's central government debt amounted at EUR 12,637.9 and presented 24.8% of full year projected GDP**

According MF data in September 2017 Bulgaria's central government debt stood at EUR 12,637.9 million. The debt has in-

creased by approximately EUR 23 million as compared to the end of the previous month due to the issuance of long-term bonds maturing in 7 years and 6 months on the domestic market during the month. Domestic debt amounted to EUR 3,372.6 million and external debt – to EUR 9,265.3 million. At the end of the reporting period the central government debt/GDP ratio was 24.8%, with the share of domestic debt being 6.6% and of external debt – 18.2%. In the central government debt structure, domestic debt at the end of the period amounted to 26.7%, and external debt – to 73.3%. The weighted average interest rate on debt for the period January – September 2017 is 2.69%, decreasing by 24 basis points as compared to the same period of 2016 (2.93%). In September 2017, the central government guaranteed debt was EUR 379.5 million. Domestic guarantees amounted to EUR 35.2 million, with the central government guaranteed debt/GDP ratio being 0.7%. According to the official register of government and government guaranteed debt, kept by the Ministry of Finance on the grounds of Article 38, paragraph 1 of the Government Debt Law, at end-September 2017 the government debt reached EUR 11,999.4 million, being 23.6% of GDP. Domestic debt amounted to EUR 3,332.4 million and external debt – to EUR 8,667.0 million. Government guaranteed debt in September 2017 amounted to EUR 1,027.9 million. Domestic guarantees amounted to EUR 35.2 million, the government guaranteed debt/ GDP ratio being 2.0%.

### Central Government Debt

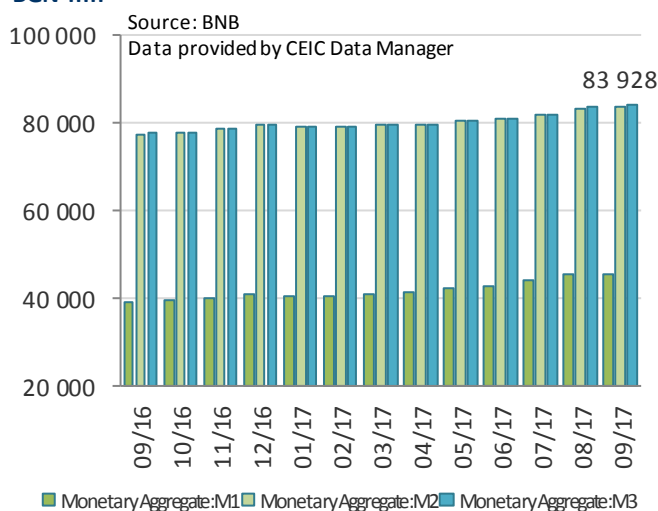


## MONETARY SECTOR

**In September 2017 broad money (monetary aggregate M3) increased annually by 8.2% to BGN 83.9 billion. Domestic credit amounted at BGN 52.4 billion and increased by 7.4% on annual basis**

In September 2017 broad money (monetary aggregate M3) increased annually by 8.2% compared to 7.7% annual growth in August 2017. At the end of September 2017 M3 was BGN 83.928 billion (85.5% of GDP) compared to BGN 83.471 billion (85.1% of GDP) in August 2017. Its most liquid component – monetary aggregate M1 – increased by 16.3% annually in September 2017 (16.2% annual growth in August 2017). At the end of September 2017, deposits of the non-government sector were BGN 70.900 billion (72.3% of GDP), increasing annually by 6.8% (6% annual growth in August 2017). Deposits of Non-financial corporations were BGN 21.102 billion (21.5% of GDP) at the end of September 2017. Compared to the same month of 2016 they increased by 13.5% (11.1% annual growth in August 2017). Deposits of financial corporations decreased by 14.4% annually in September 2017 (13.2% annual decline in August 2017) and at the end of the month they reached BGN 3.391 billion (3.5% of GDP). Deposits of Households and NPISHs were BGN 46.407 billion (47.3% of GDP) at the end of September 2017. They increased by 5.9% compared to the same month of 2016 (5.4% annual growth in August 2017). Net domestic assets were BGN 51.187 billion at the end of September 2017. They increased by 8.9% compared to the same month of 2016 (9% annual growth in August 2017). At the end of the month their basic component – domestic credit – was BGN 52.375 billion and increased by 7.4% compared to September 2016 (7.2% annual growth in August 2017). In September 2017 claims on the non-government sector increased by 5% annually (4.7% annual increase in August 2017) reaching BGN 53.995 billion. At the end of September 2017, claims on loans to the non-government sector amounted to BGN 52.814 billion (53.8% of GDP) compared to BGN 52.522 billion (53.5% of GDP) at the end of August 2017. They increased annually by 4.9% in September 2017 (4.6% annual growth in August 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

### Monetary Aggregates



the last twelve months was BGN 134.7 million. On an annual basis, loans sold by Other MFIs were BGN 189.9 million (of which BGN 27.1 million in September 2017), while the amount of repurchased loans was BGN 55.2 million (of which BGN 4.5 million in September 2017). In September 2017, loans to Non-financial corporations increased by 3.1% annually (2.8% annual growth in August 2017) and at the end of the month amounted to BGN 31.374 billion (32% of GDP). Loans to Households and NPISHs were BGN 19.509 billion (19.9% of GDP) at the end of September 2017. They increased by 5.9% compared to the same month of 2016 (5.7% annual growth in August 2017). At the end of September 2017 loans for house purchases were BGN 9.269 billion and increased by 5.8% annually (5.4% annual growth in August 2017). Consumer loans amounted to BGN 7.737 billion and compared to September 2016 they increased by 5.7% (5.4% annual growth in August 2017). On an annual basis other loans increased by 35.7% (39.8% annual growth in August 2017) and reached BGN 1.193 billion. Loans granted to financial corporations were BGN 1.931 billion at the end of September 2017 (2% of GDP). Compared to September 2016, they increased by 29.2% (27.6% annual growth in August 2017). In accordance with the ECB statistical reporting requirements, the BNB collects data for all balance sheet items of MFIs, including aggregated data on loans, which are restructured or non-performing past-due over 90 days. The banks provide aggregated data on these loans, because detailed data on the loans according to their past-due periods are not collected for the purpose of monetary and interest rate statistics. In accordance with the international practice, reporting of monetary statistics differs from supervisory reporting, including the reporting of loans, which are restructured or non-performing. Net foreign assets amounted to BGN 52.195 billion at the end of the reporting month compared to BGN 51.852 billion at the end of August 2017 and increased by 3% compared to September 2016 (2.4% annual growth in August 2017). At the end of September 2017 foreign assets increased by 3.6% annually (2.9% annual growth in August 2017), reaching BGN 61.358 billion. Foreign liabilities amounted to BGN 9.164 billion, marking a 7.3% annual growth (5.3% annual increase in August 2017).

## CAPITAL MARKET

### In October 2017, SOFIX recorded monthly growth of 3.3 points to 671.4, but could not yet recover its level from the end of July 2017

According to BSE Sofia data the main SOFIX index recorded a decrease for the third consecutive month in October 2017 and of the 15 most liquid companies included in it, the issues of only four of them ended the tenth month of the year with profit. The index of the most liquid companies BGBX 40 declined by 2.34% to 131.19 points in October. On an annual basis it reported a growth of 30.33 points. Equally weighted BG TR30 dropped 2.18% to 547.08 points in October. On an annual basis, it grew by 111.29 points. Property survey BGREIT registered growth of 0.87% to 115.88 points in October. For a period of one year its growth is 127 points. For the fourth consecutive month, losers included in SOFIX are more than profitable companies, with the ratio in October 11 to 4. This is the largest negative ratio for the 15 “blue chip” index since the beginning of 2017. There is no SOFIX company in October, whose issue reports double-digit growth in stock prices. However, two are double-digit minus (Doverie United Holding and Eurohold Bulgaria). The company with the highest turnover in October 2017 was Velgraf Asset Management AD-Sofia, with a total volume of BGN 4 136 375. Albena AD ranked second with a total volume of BGN 4 014 781. There are three special investment

Date	SOFIX	BGBX40	BGREIT	BGTR30
10.2016	531.8	100.9	104.6	420.1
11.2016	562.8	106.4	103.5	439.1
12.2016	586.4	111.3	108.1	459.2
01.2017	602.3	117.0	107.3	470.4
02.2017	611.1	120.6	107.8	486.1
03.2017	634.0	124.9	108.6	503.8
04.2017	657.3	130.3	108.4	519.9
05.2017	661.2	130.6	111.1	516.7
06.2017	703.5	134.2	113.8	535.5
07.2017	715.2	135.5	115.0	548.7
08.2017	705.4	134.9	115.3	556.1
09.2017	688.1	134.3	114.9	559.3
10.2017	671.4	131.2	115.9	547.1

Source: Bulgarian Stock Exchange-Sofia

vehicles in the ranking, which are Capital Management REIT, Balkan and Sea Properties REIT and Real Estate Bulgaria REIT and occupy 7th, 8th and 9th position respectively. The smallest number of deals in the ranking are Regala Invest AD, Galata Investment Company and Capital Management REIT, and the largest Sopharma AD. Top 5 lost companies in October 2017 is headed by Opportunity Bulgaria Investment AD with a decrease of 94.00%. Second place is Doverie United Holding AD with a decrease of 11.63%. The third position is held by Eurohold Bulgaria AD. The last position in the ranking is Industrial Holding Bulgaria AD,



which marks a decline of 8.83%.

## BANKING SECTOR

**In September 2017 Bulgaria's banking system reported 1.9% y/y credit growth and decreasing of NPL relative share to 9,9%**

According to BNB data at the end of September 2017, the aggregate net profit of the banking system reported BGN 872 million (compared to BGN 1073 million in the same period in 2016) and decreased by 18.8% on an annual basis. The main reason is the continuing negative trend in net interest income partly offset by the upward trend in net fee and commission income. The net result of the banking system is also affected by the one-off effect of the income from the sale of shares of commercial banks to the international card operator VISA Europe in 2016. The depreciation costs for the nine months of 2017 reached BGN 549 million (569 million to September 2016).

Indicator (BGN'000)	30.09.2016	30.09.2017	Y/Y (%)
Interest Income	2 490 267	2 295 982	-7.8
Interest Expende	379 451	284 767	-25.0
<b>Net interest Income</b>	<b>2 110 816</b>	<b>2 011 215</b>	<b>-4.7</b>
Impairment	568 503	548 986	-3.4
Fee and commission income	785 343	851 082	8.4
Fee and commission expenses	103 864	110 439	6.3
<b>Net fee and commission income</b>	<b>681 479</b>	<b>740 643</b>	<b>8.7</b>
<b>Administration costs</b>	<b>1 189 347</b>	<b>1 180 940</b>	<b>-0.7</b>
Personal costs	558 388	590 572	5.8
Total operating income, net	<b>3 105 983</b>	2 851 143	-8.2
<b>Net Profit</b>	<b>1 073 232</b>	<b>871 772</b>	<b>-18.8</b>

Source:BNB, UBB's Calculations

At the end of September 2017, the total assets of the banking system increased by 0.5% mom and by 5.9% y/y, respectively to BGN 95.1 billion, accounting for 97.1% of the full year projected GDP. Gross loan portfolio by customers of the banking system increased by 1.9% y/y to BGN 55.1 billion and accounted for 56.8% of GDP. An increase was observed for loans to non-financial corporations by 0.4% m/m and by 1.1% y/y to BGN 33.4 billion and for households by 0.7% m/m and by 6.8% y/y, respectively. Both residential mortgage (0.7% mom and 5.3% yoy, respectively) and consumer lending (0.5% mom and 4.5% yoy, respectively) increased. Decrease is reported in loans to other financial corporations by 5% mom, with growth of 13.4% yoy. The total volume of loans and advances to general government remained almost unchanged.

Bulgaria Intermediation Indicators	30.09.2016 BGN 000	31.12.2016 BGN 000	30.08.2017 BGN 000	30.09.2017 BGN 000	Change m/m (%)	Change y/y (%)	Change yend (%)	Relative part of
<b>BANKING SYSTEM TOTAL ASSETS</b>	<b>89 822 557</b>	<b>92 094 979</b>	<b>94 684 945</b>	<b>95 112 404</b>	<b>0.5</b>	<b>5.9</b>	<b>3.3</b>	<b>97.9</b>
Loans to central governments	583 181	686 170	619 510	621 361	0.3	6.5	-9.4	0.6
Loans to non-financial corporations	33 087 442	33 180 349	33 338 755	33 464 761	0.4	1.1	0.9	34.4
Loans to financial corporations	1 996 889	2 025 583	2 382 753	2 263 932	-5.0	13.4	11.8	2.3
Retail loans, incl.:	18 473 747	18 575 301	19 598 320	19 731 927	0.7	6.8	6.2	20.3
Mortgage loans	8 742 562	8 771 553	9 142 240	9 203 547	0.7	5.3	4.9	9.5
Consumer loans	8 752 676	8 677 385	9 099 904	9 147 200	0.5	4.5	5.4	9.4
Micro credits and other loans	978 509	1 126 363	1 356 176	1 381 180	1.8	41.2	22.6	1.4
<b>TOTAL LOANS</b>	<b>54 141 259</b>	<b>54 467 403</b>	<b>55 939 338</b>	<b>56 081 981</b>	<b>0.3</b>	<b>3.6</b>	<b>3.0</b>	<b>57.7</b>
<b>ATTRACTED SOURCES FROM CLIENTS, incl.:</b>	<b>72 041 162</b>	<b>74 129 417</b>	<b>76 218 959</b>	<b>76 633 134</b>	<b>0.5</b>	<b>6.4</b>	<b>3.4</b>	<b>78.9</b>
Local government deposits	1 665 062	1 652 435	1 859 158	1 865 308	0.3	12.0	12.9	1.9
Non-financial corporations deposits	20 415 350	21 375 024	22 979 877	23 071 838	0.4	13.0	7.9	23.7
Financial corporations deposits	4 273 541	3 905 721	3 606 173	3 676 872	2.0	-14.0	-5.9	3.8
Households and NPISHs deposits	45 687 209	47 196 237	47 773 751	48 019 116	0.5	5.1	1.7	49.4
Equity	12 214 137	12 133 492	12 274 789	12 262 779	-0.1	0.4	1.1	12.6
Net profit (annualised)	1 073 232	<b>1 262 334</b>	913 228	871 772	-4.5	-18.8		
<b>BANKING INDICATORS (%)</b>								
ROE	11.7	10.4	11.2	9.5	0.8	-0.6	0.8	
ROA	1.6	1.4	1.4	1.2	0.1	-0.1	0.1	
Capital adequacy	n.a.	22.2	n.a.	n.a.	n.a.	n.a.	n.a.	
Liquidity	37.4	38.2	37.6	37.6	0.0	0.3	-0.6	
NPL	12.0	11.1	n.a.	9.9	n.a.	-2.1	-1.2	
GDP, BGN '000	88 282 000	88 282 000	97 156 000	97 156 000				
EUR/BGN	1.95583	1.95583	1.95583	1.95583				

Source: BNB, MF, UBB Calculations



The attracted funds from customers within the banking system reported an increase of 0.5% mom and by 6.4% y/y with the total amount exceeding BGN 76.6 billion. Deposits of non-financial corporations increased by 0.4% mom and by 13.0% y/y, respectively. Deposits of households accelerated by 0.5% mom and by 5.1% y/y, respectively. Deposits of other financial corporations increased by 2% on a monthly basis, but reported an annual decline of 14.0%. Deposits of general government increased by 0.3% on a monthly basis and by 12% on an annual basis. Attracted deposits from residents (residents) at the end of the quarter constituted 90.8% of the total deposits with the main contribution of the household resource. At the end of September 2017, the share of non-performing loans on a gross basis in the banking system decreased to 9.9% compared to 12% for the same period of the previous year.

Information on performing and non-performing exposures	TOTAL	Gross Performing Loans	%	Gross Loans Past-due <=90 Days	%	Gross Loans Past-due >90 to <=180 Days	%	Gross Loans past-due over>180 Days , <= 1 year над 180 дни	%	Non-performing loans	%	Accumulated impairment, accumulated changes in fair value due to credit risk and provisions
<b>Loans and Advances</b>	<b>63 896 016</b>	<b>53 424 497</b>	<b>83.6</b>	<b>2 830 517</b>	<b>4.4</b>	<b>548 049</b>	<b>0.9</b>	<b>7 092 953</b>	<b>11.1</b>	<b>7 641 002</b>	<b>12.0</b>	<b>-6 898 342</b>
General governments	583 181	576 012	98.8	6 973	1.2	0	0.0	196	0.0	196	0.0	-1 697
Credit Institutions	9 754 757	9 750 235	100.0	0	0.0	3 911	0.0	611	0.0	4 522	0.0	-4 560
Other financial corporations	1 996 889	1 876 956	94.0	27	0.0	31	0.0	119 875	6.0	119 906	6.0	-81 437
Non-financial corporations	33 087 442	25 642 125	77.5	2 057 975	6.2	348 708	1.1	5 038 634	15.2	5 387 342	16.3	-4 032 003
Retail Exposures	18 473 747	15 579 169	84.3	765 542	4.1	195 399	1.1	1 933 637	10.5	2 129 036	11.5	-1 518 145
Retail Residential Mortgage Loans	8 742 240	7 252 673	83.0	407 017	4.7	92 257	1.1	990 293	11.3	1 082 550	12.4	-490 043
Consumer Loans	8 752 678	7 677 959	87.7	319 204	3.6	87 804	1.0	667 711	7.6	755 515	8.6	-770 457

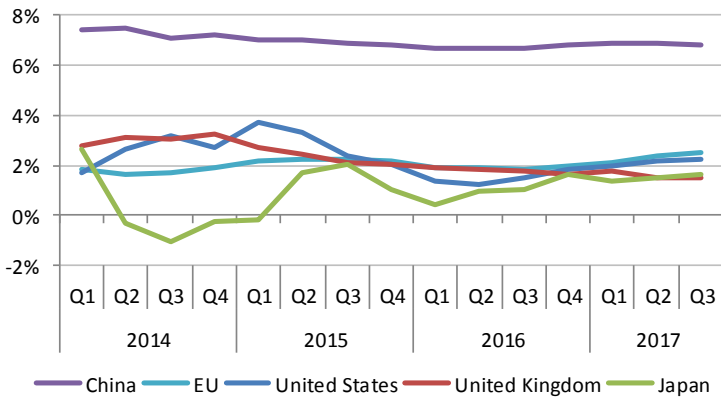
Source: BNB, Calculations: UBB

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

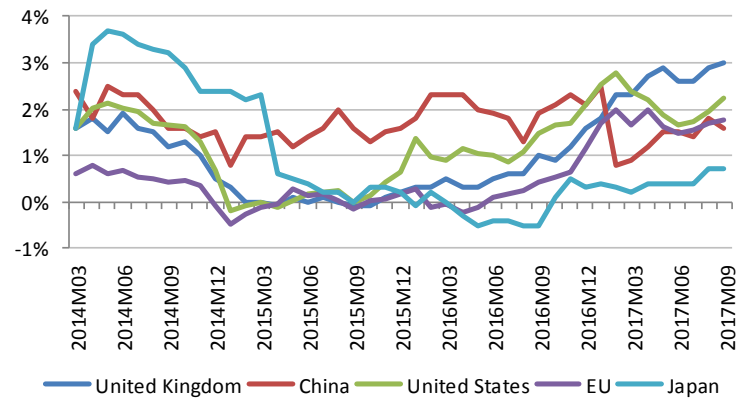
At the end of September 2017, the liquid assets amounted to BGN 30.9 billion. The biggest share in their structure continued to borrow money and monetary balances with the BNB - 53.6%. The liquid assets ratio, calculated according to Ordinance No. 11 of the BNB, reaches 37.61%. Equity in the balance sheet of the banking system at the end of September 2017 amounted to BGN 12.3 billion, increasing by 0.4% on an annual basis as a result of the increase in profit and the accumulated other comprehensive income.

## Appendix

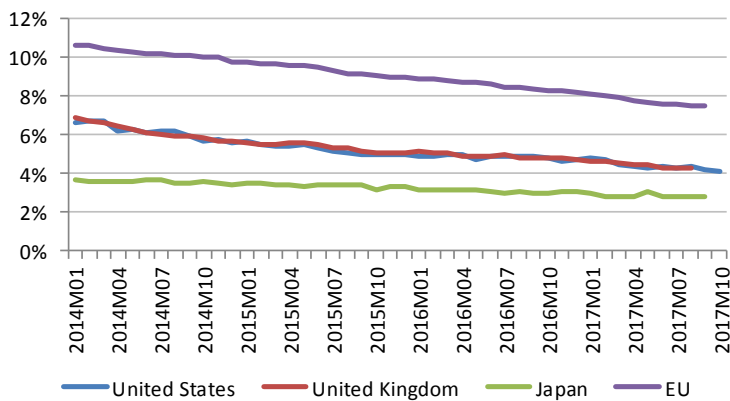
**Advanced Economies: GDP growth rate compared to the same quarter of the previous year**



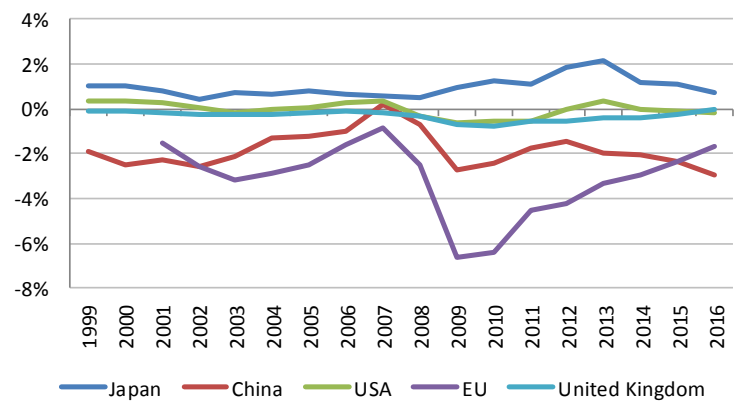
**Advanced economies: Inflation by country, monthly (y/y)**



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

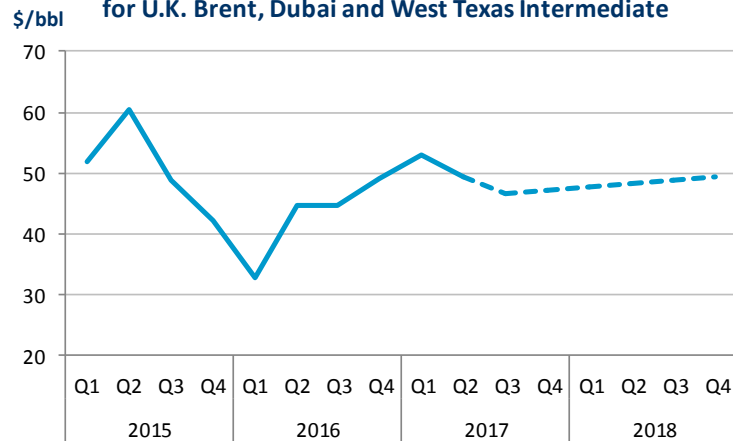


**Advanced economies: Budget surplus/deficit to GDP (%)**

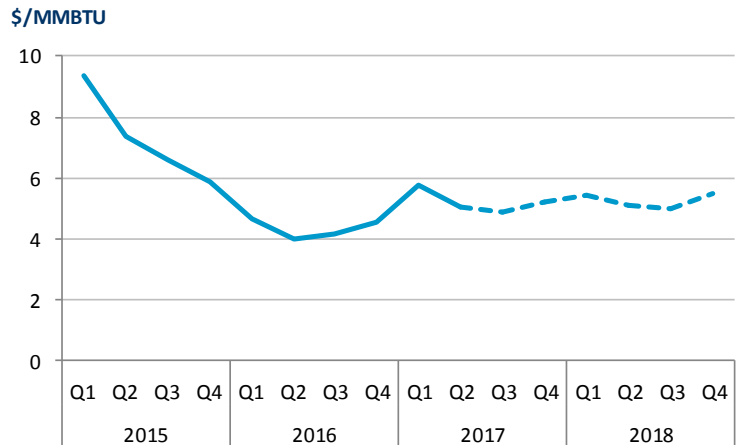


## Overseas Prices of Oil Products

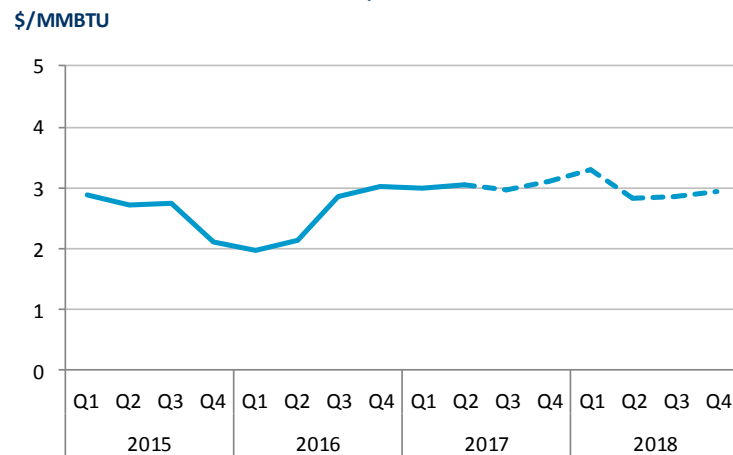
**Spot Crude: Petroleum price - average of spot prices for U.K. Brent, Dubai and West Texas Intermediate**



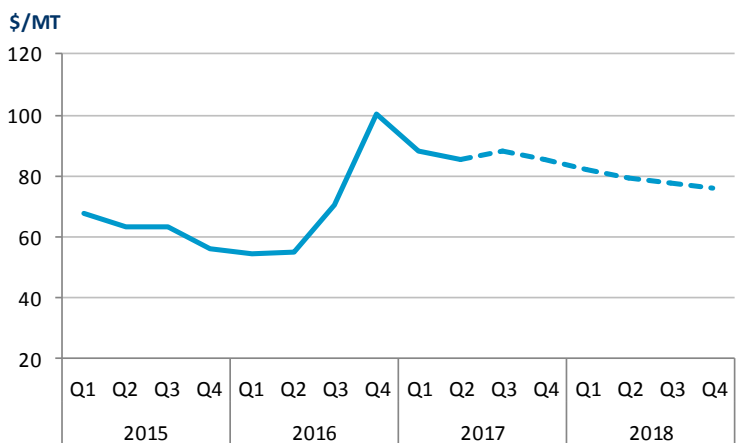
**Natural Gas: Russian in Germany**



**Natural Gas: US, domestic market**

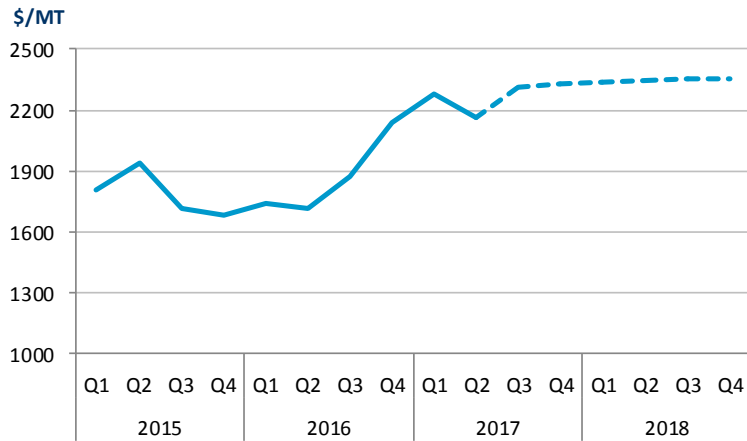


**Coal: Australian, export markets**

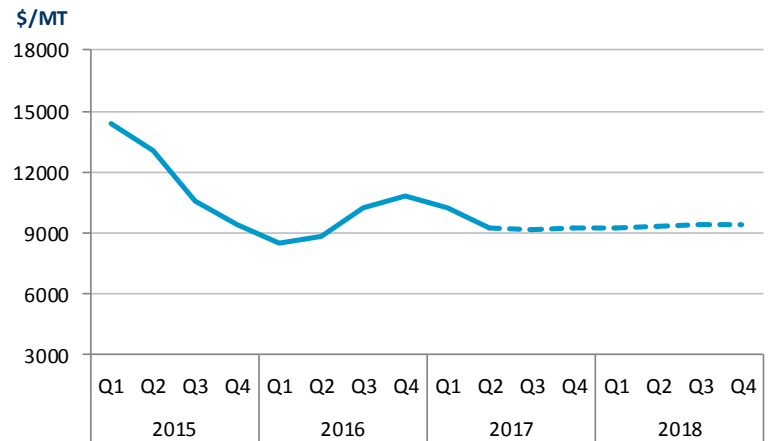


Overseas Prices of Metals

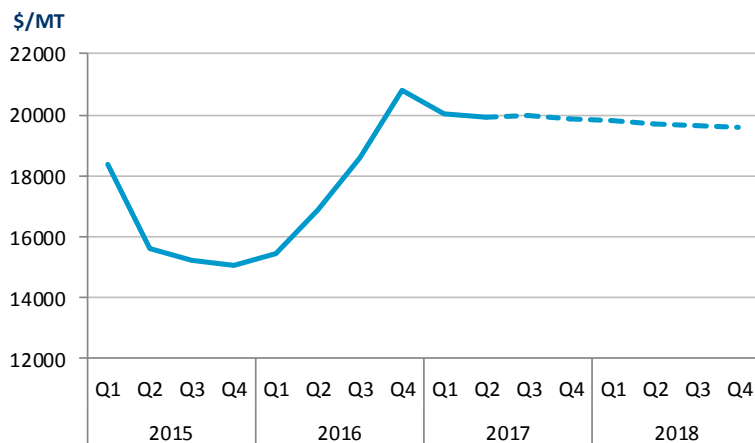
Lead



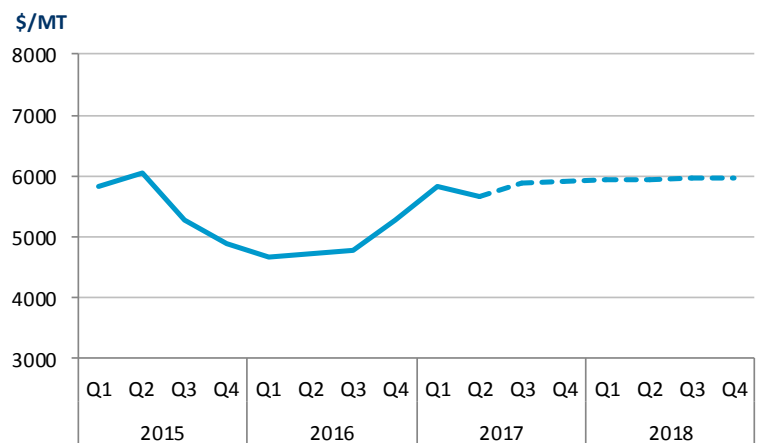
Nickel



Tin



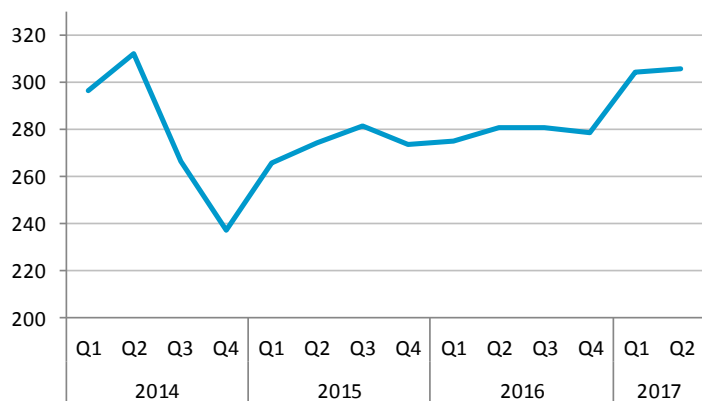
Copper



**Bulgaria: Prices of Agriculture products**

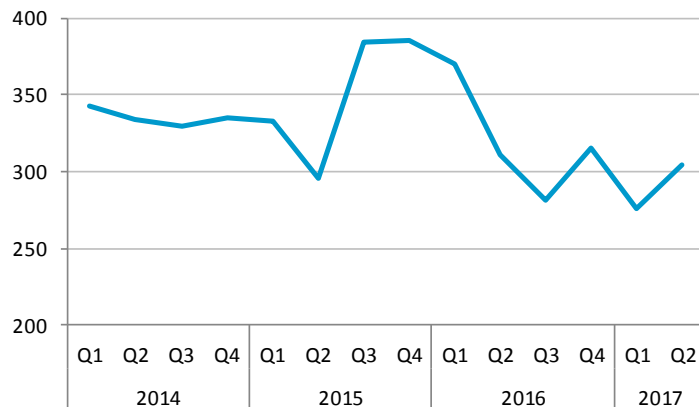
**Maize**

BGN per ton



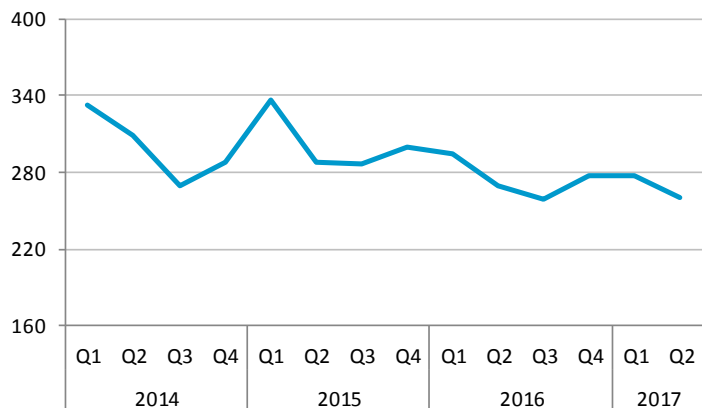
**Durum wheat**

BGN per ton



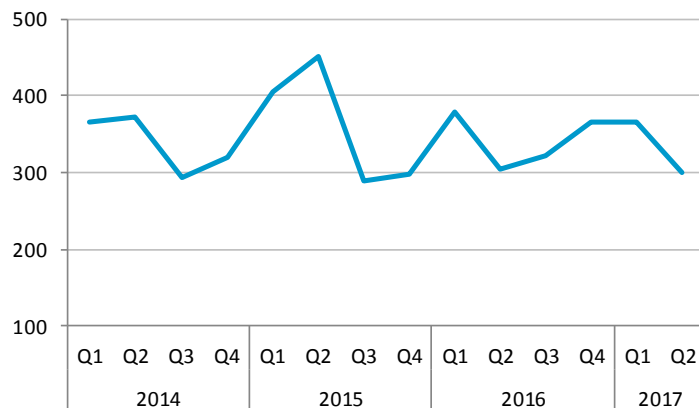
**Barley**

BGN per ton



**Oats**

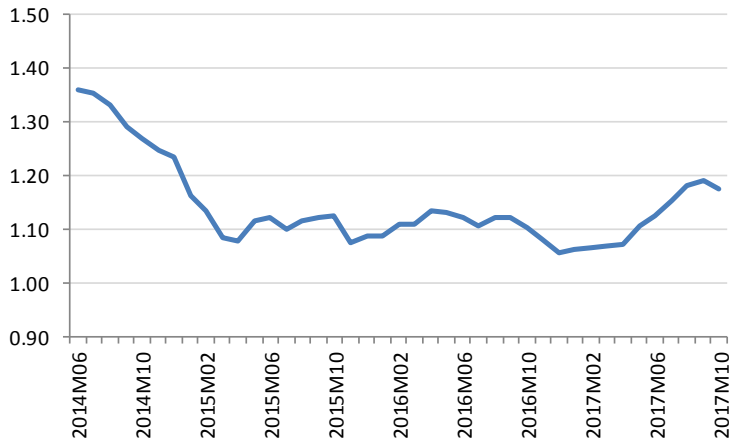
BGN per ton



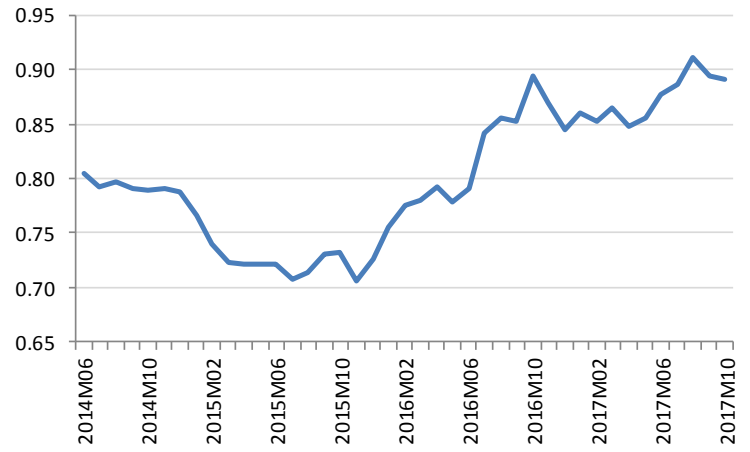


Overseas FX Rates

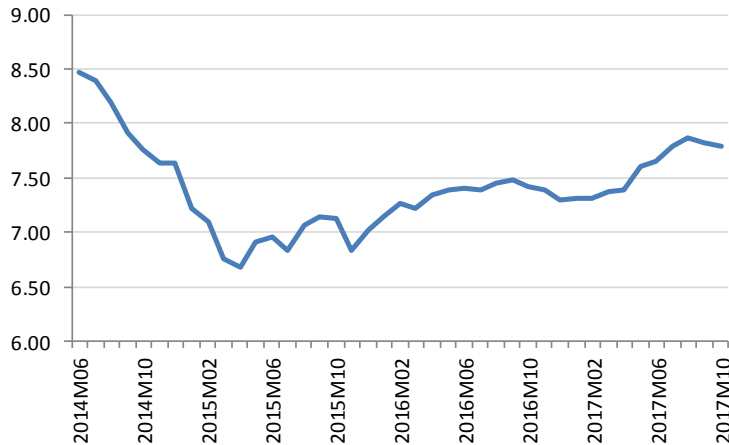
EUR/USD



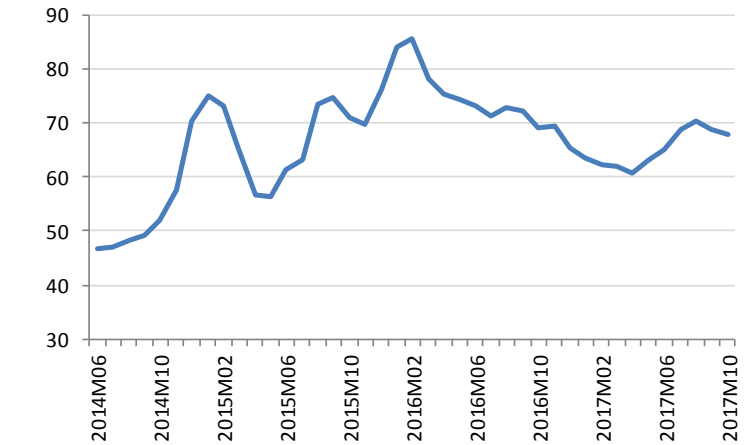
EUR/GBP



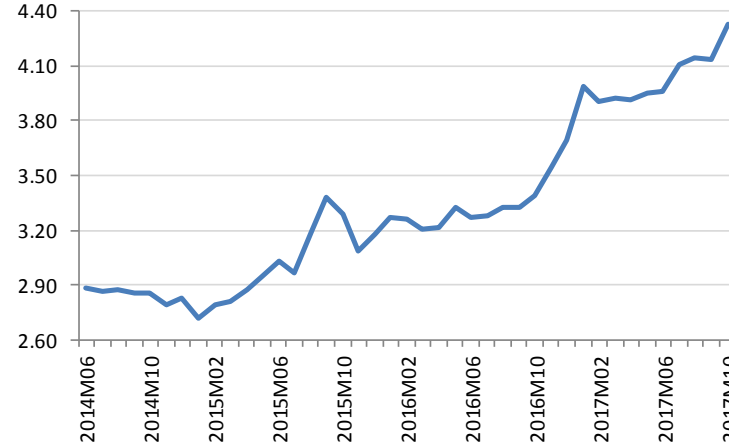
EUR/CHF



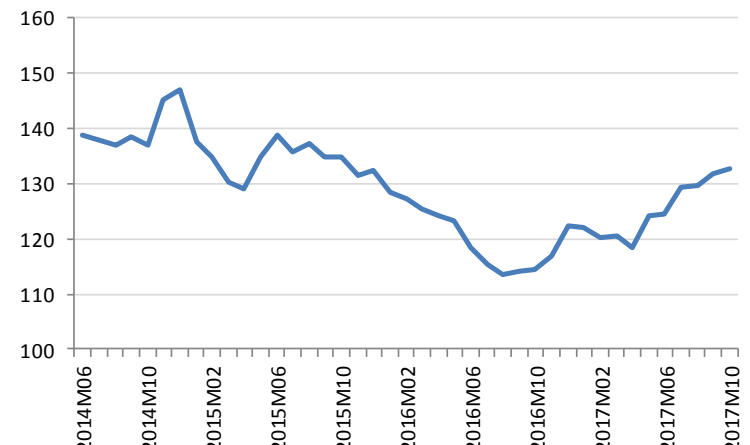
EUR/RUB



EUR/TRY

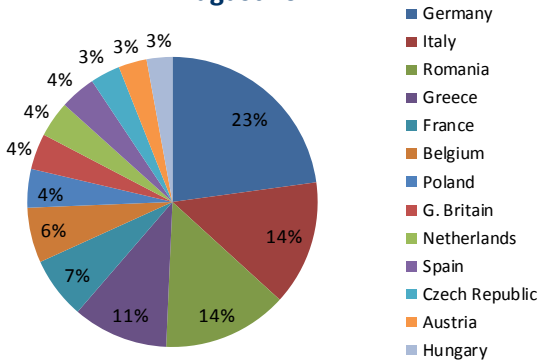


EUR/JPY

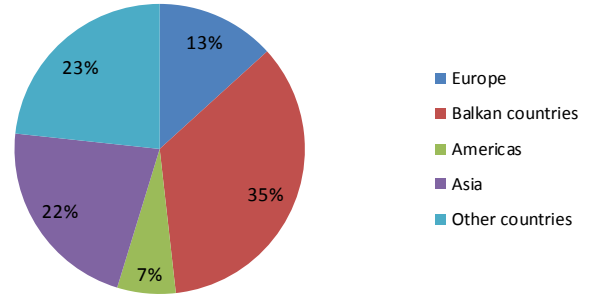


Bulgaria: External Sector Indicators

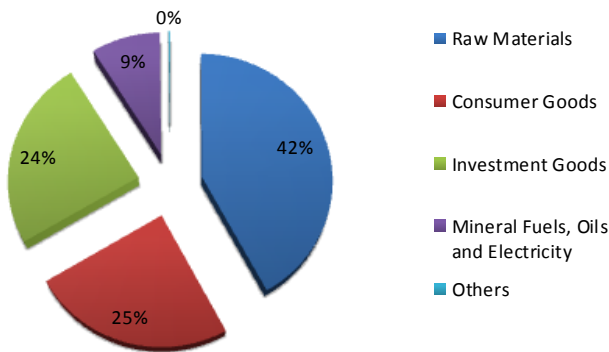
Exports: FOB by EU countries: January - August 2017



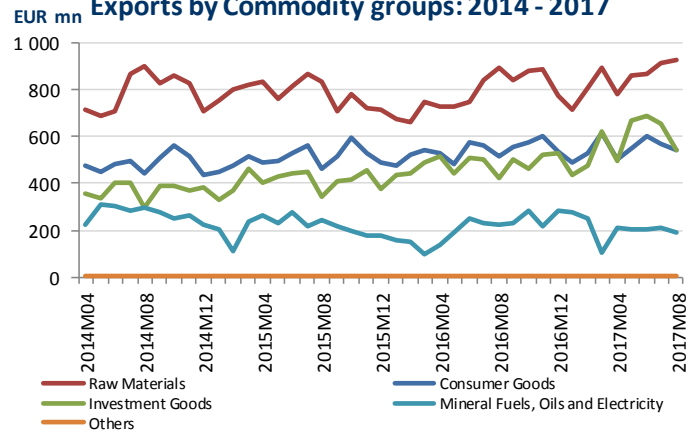
Exports: FOB by Non EU countries: January - August 2017



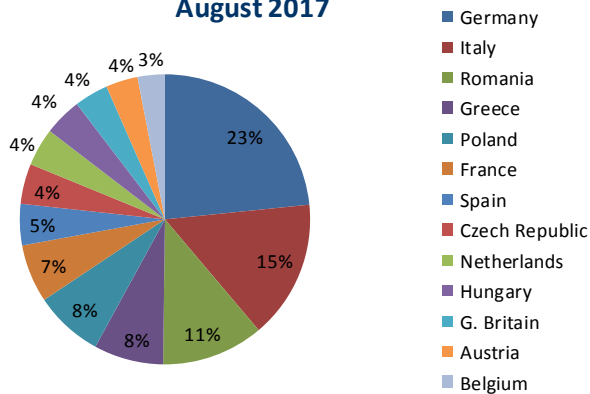
Exports: FOB: Commodity groups - percentage shares for August 2017



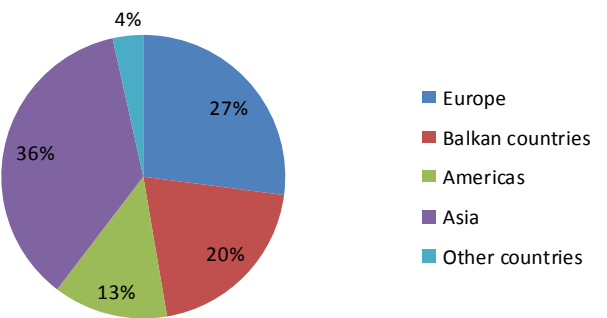
Exports by Commodity groups: 2014 - 2017



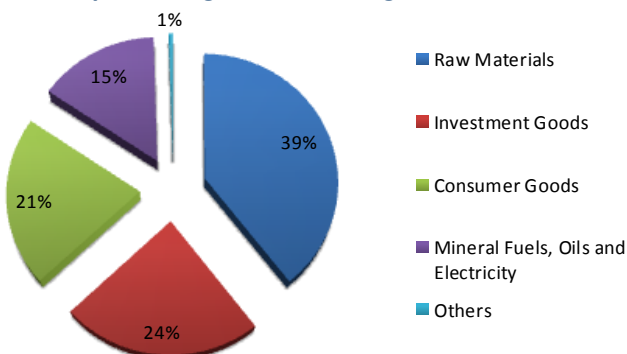
Imports: CIF by EU Countries: January - August 2017



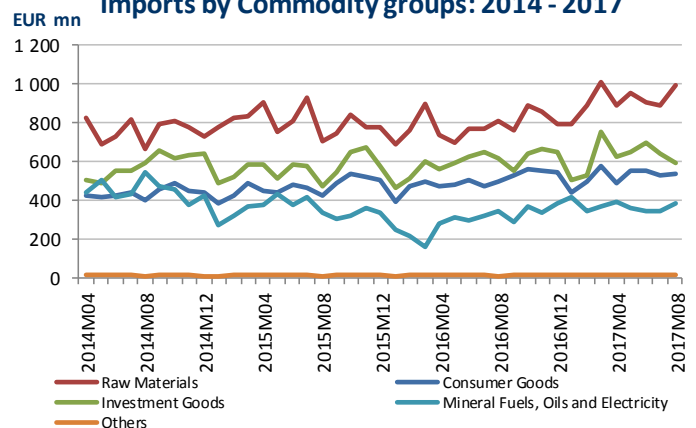
Imports: CIF by Non EU Countries: January - August 2017



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

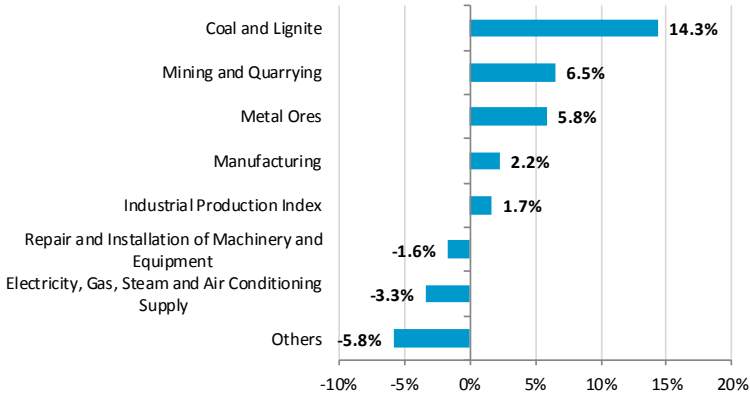


Imports by Commodity groups: 2014 - 2017

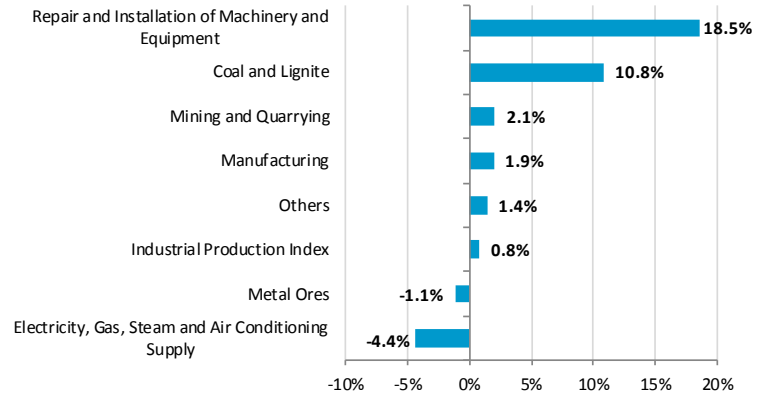


Bulgaria: Real Sector Indicators

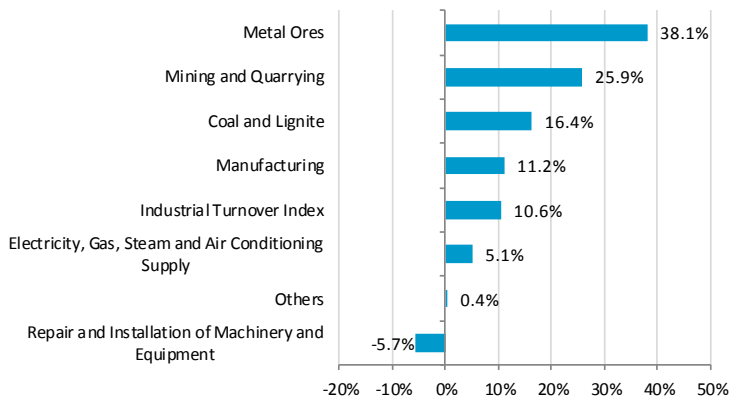
Industrial Production Indices: % change in September 2017 compared to September 2016



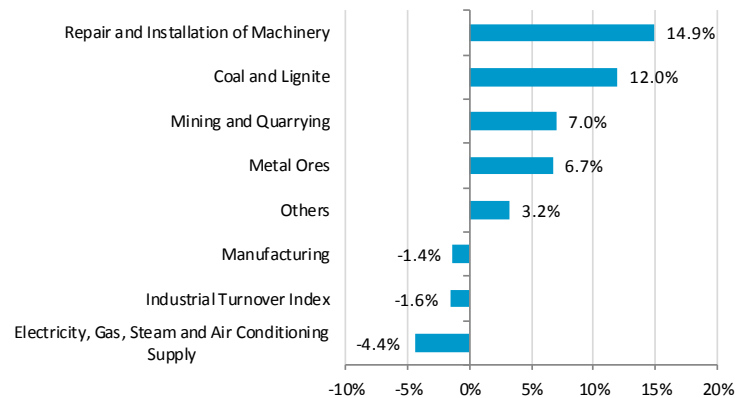
Industrial Production Indices: % change in September 2017 compared to August 2017



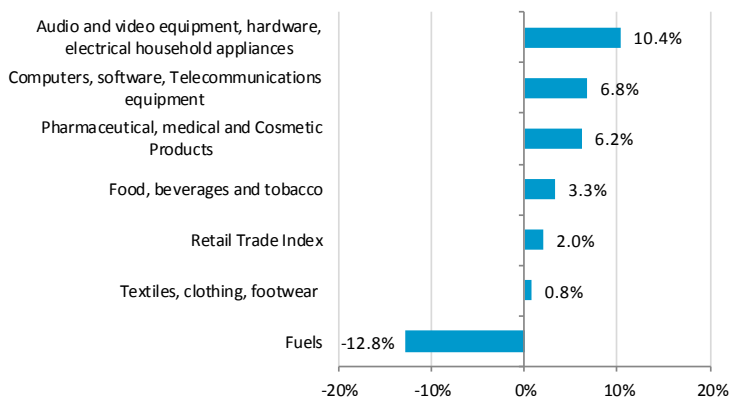
Industrial Turnover Index: % change in September 2017 compared to September 2016



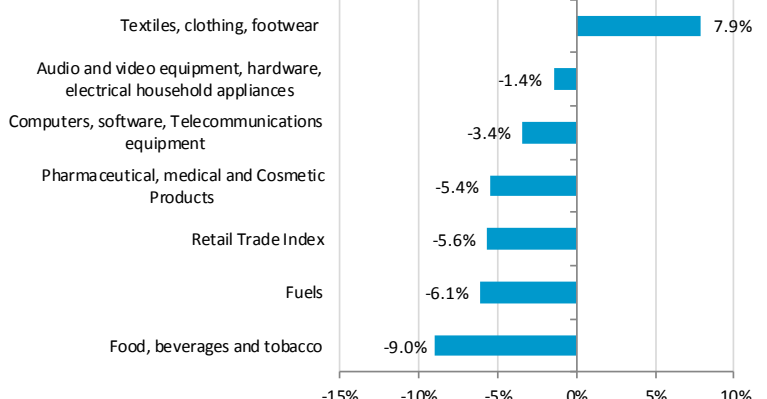
Industrial Turnover Index: % change in September 2017 compared to August 2017



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

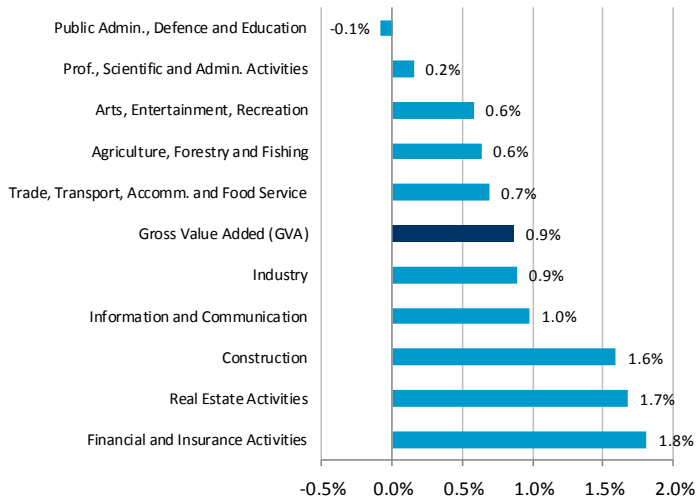


Retail Trade Index: % change in September 2017 compared to August 2017

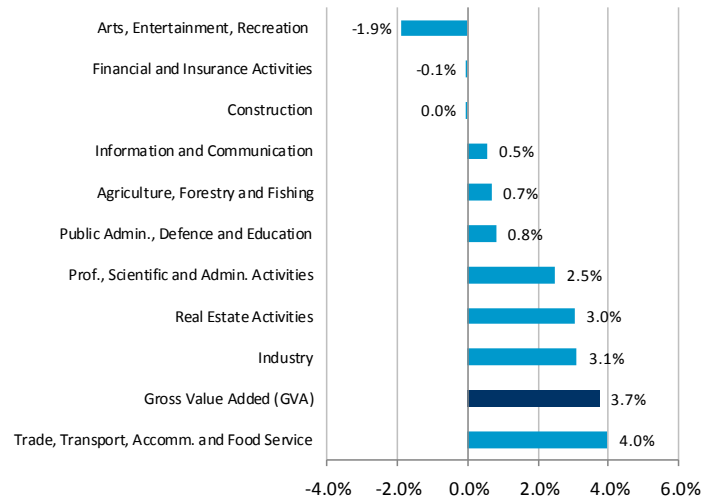


Bulgaria: Real Sector Indicators

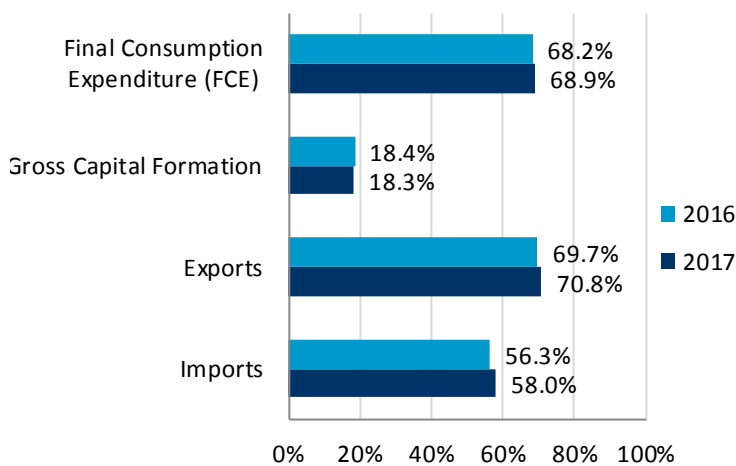
Gross Value Added by Economic Sectors: Percentage Change of Q2 of 2017 compared to Q1 2017



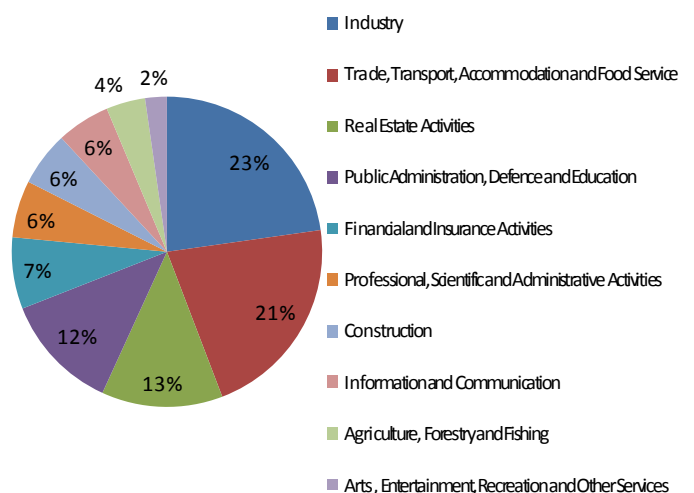
Gross Value Added by Economic Sectors: Percentage change of Q2 of 2017 compared to Q2 of 2016



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

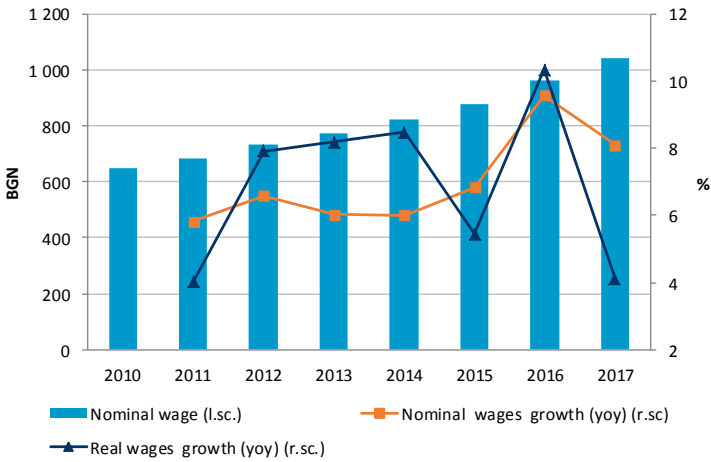


Bulgaria: Industries' relative share to GVA for Q2 2017

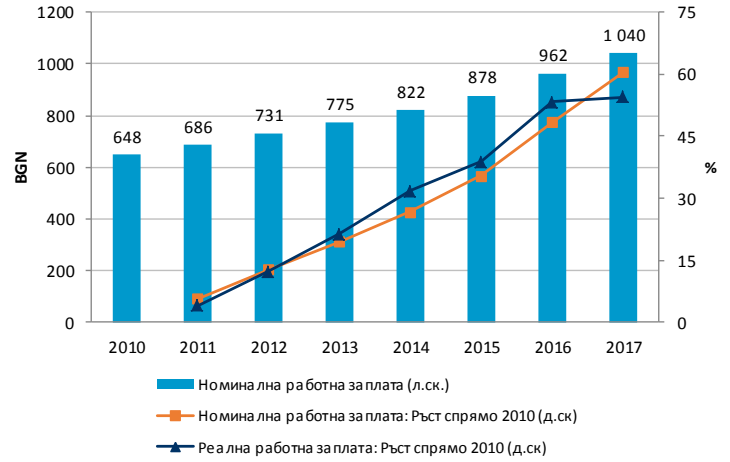


Bulgaria: Real Sector Indicators

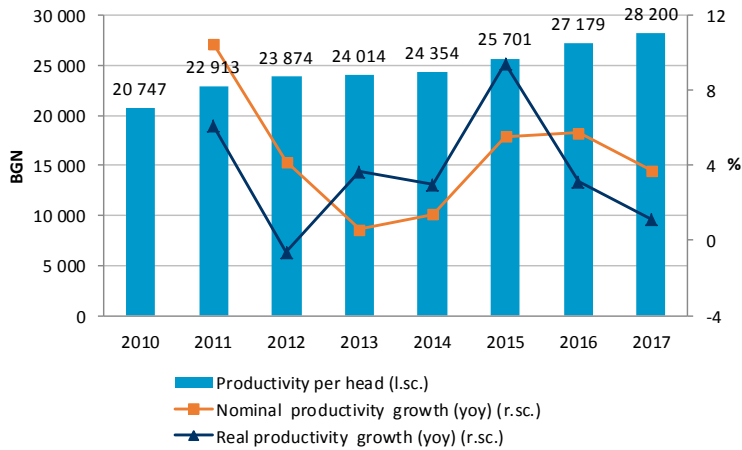
Nominal and Real Wage Dynamics: YoY (%)



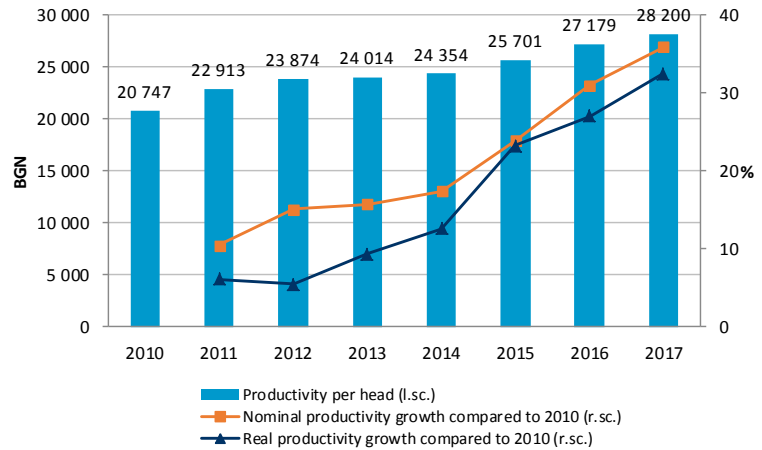
Nominal and Real Wage Dynamics compared to 2010 (%)



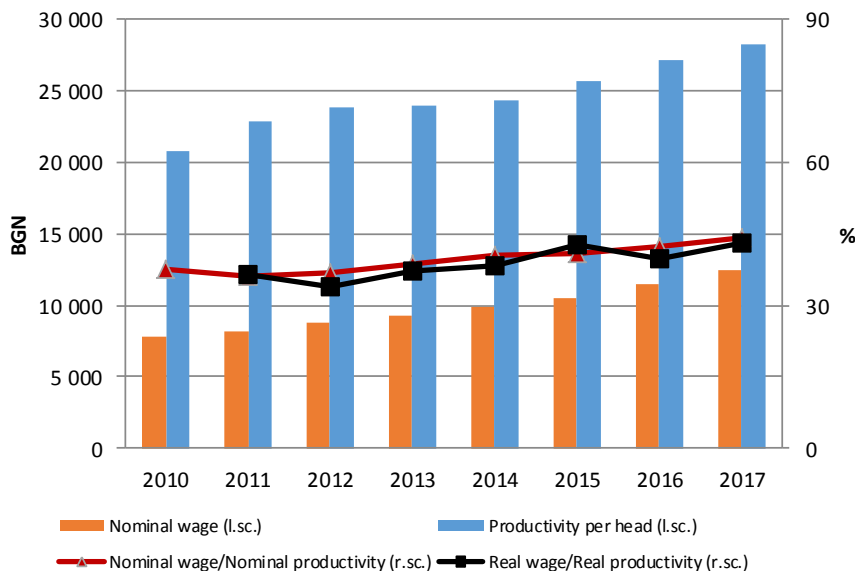
Nominal and Real Productivity per Head Dynamics, YoY (%)



Nominal and Real Productivity Dynamics compared to 2010 (%)



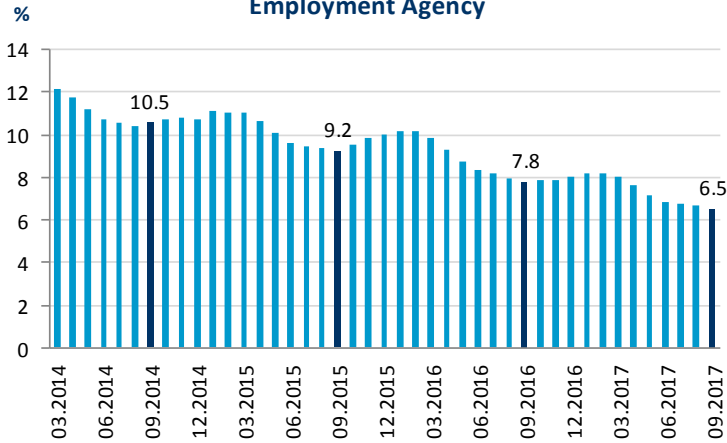
Average Wage to Productivity Ratio Dynamics, YoY (%)



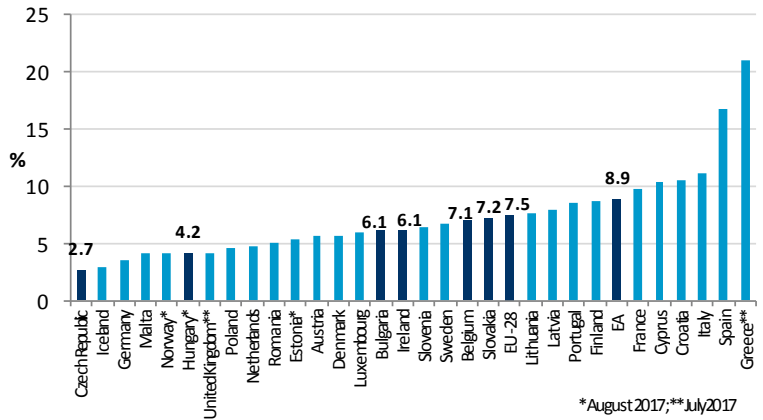


Bulgaria: Real Sector Indicators

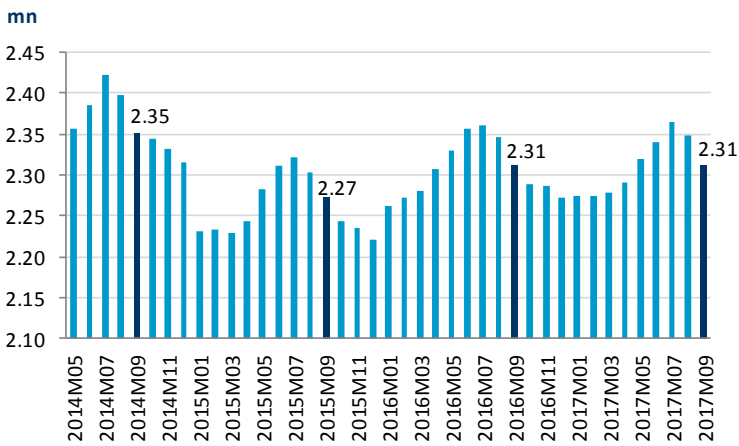
Registered Unemployment Rate: National Employment Agency



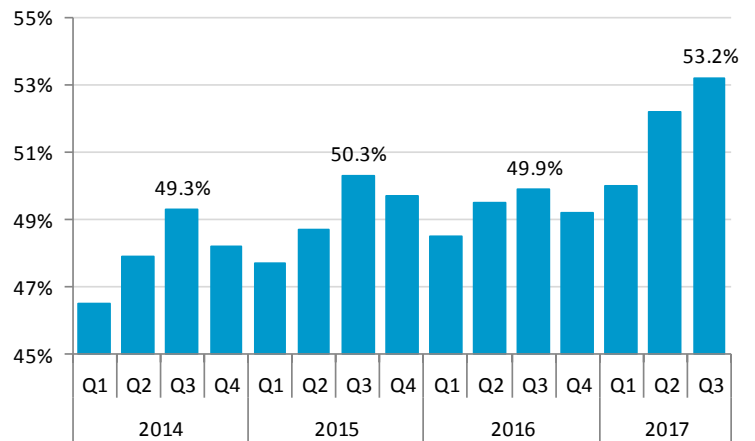
EU: Unemployment rate seasonally adjusted by country, September 2017



Bulgaria: Number of Employees

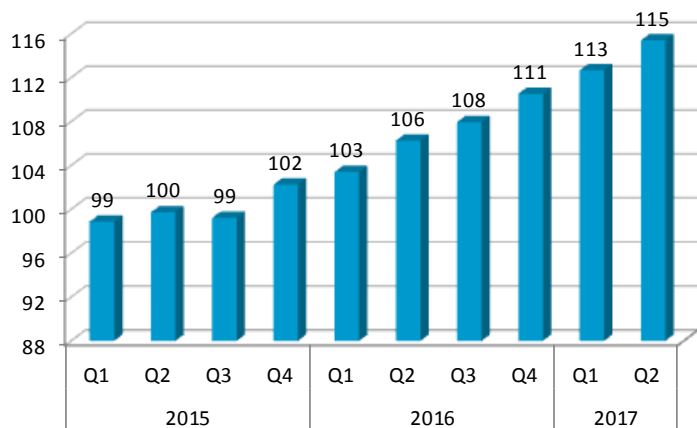


Bulgaria: Employment Rate

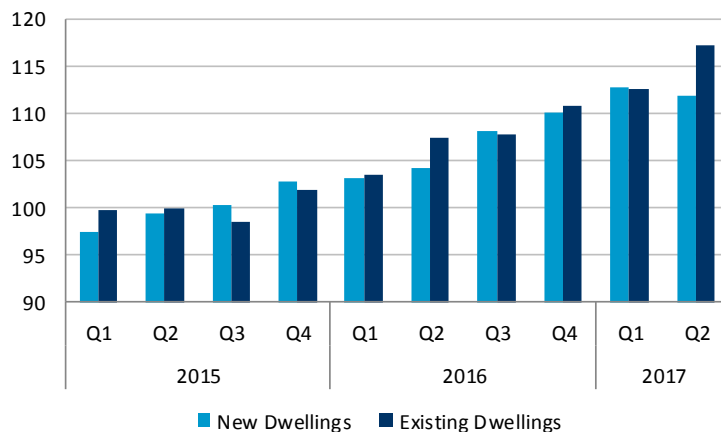


Bulgaria: Real Sector Indicators

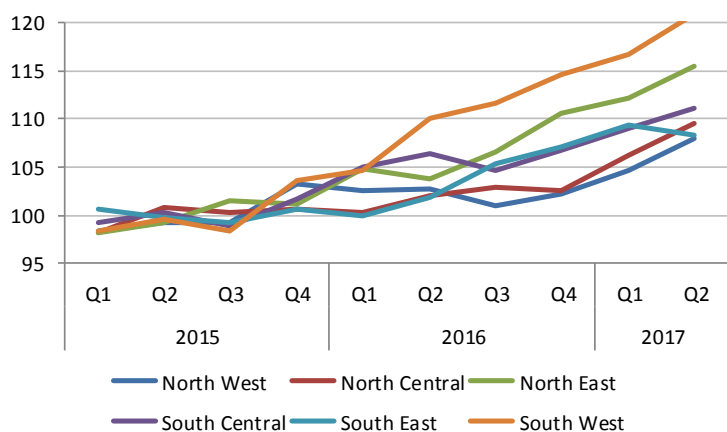
House Price Index (HPI)



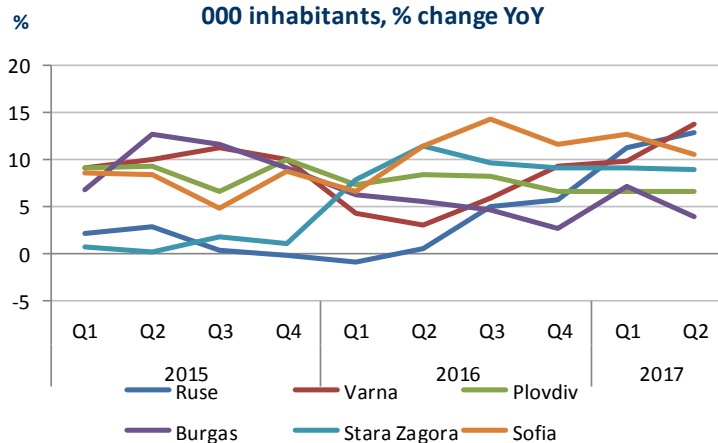
HPI: New and existing dwellings



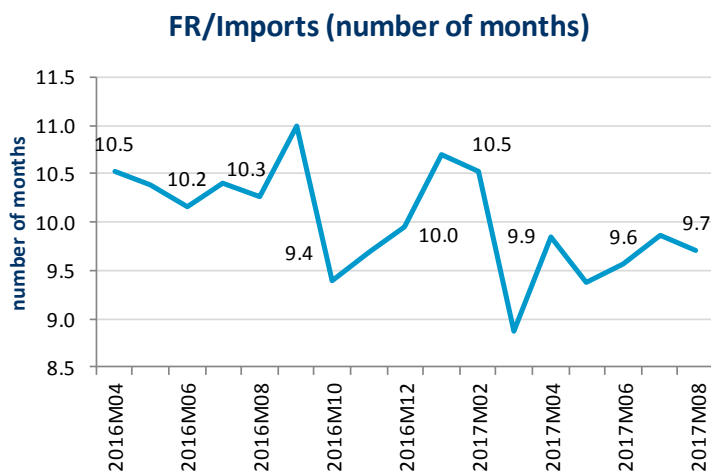
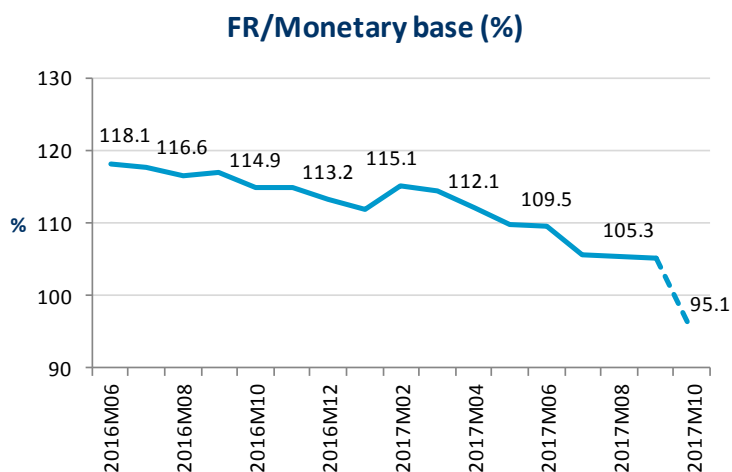
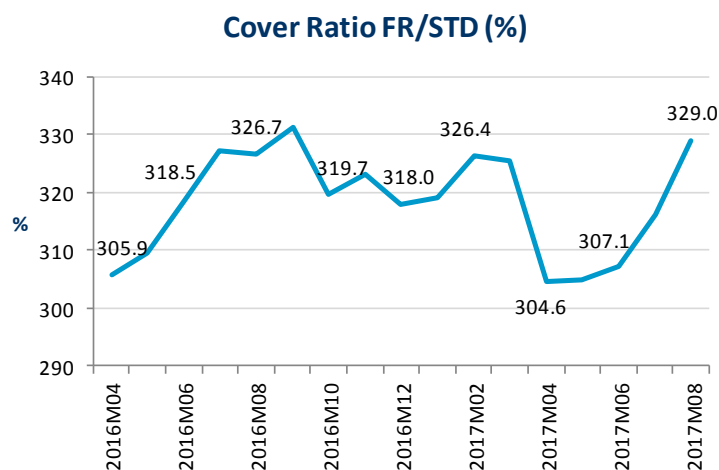
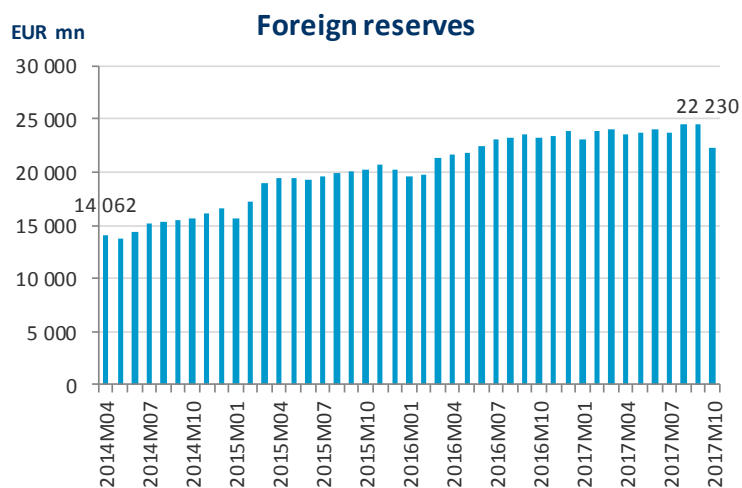
House Price index by regions



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

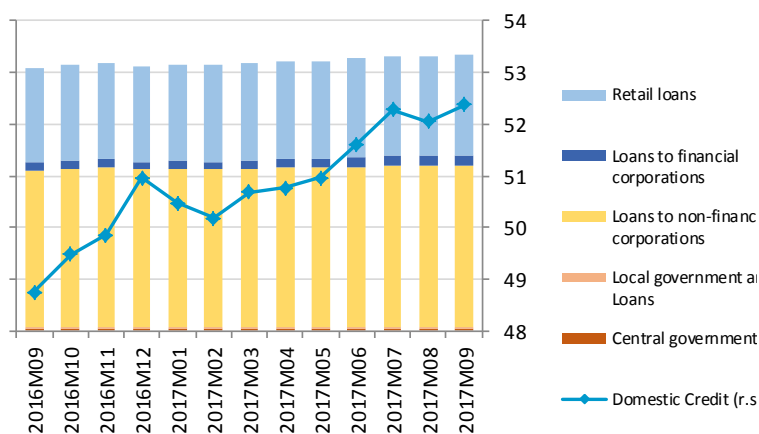


Bulgaria: Monetary Sector Indicators

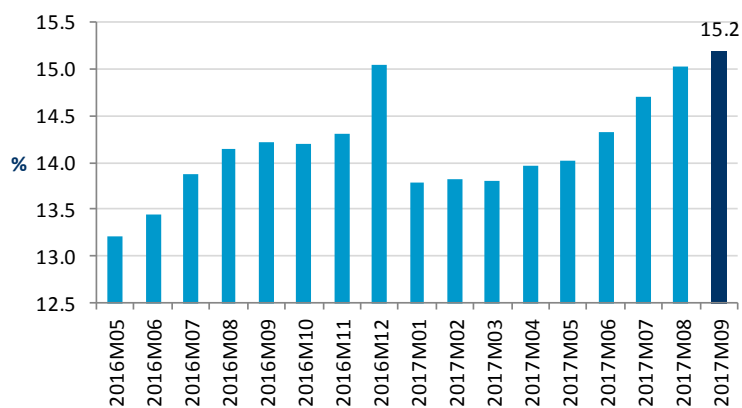


Bulgaria: Monetary Sector Indicators

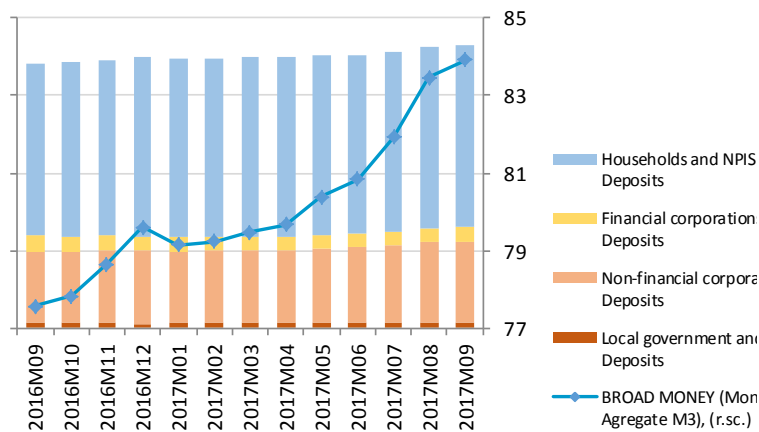
Loans and Domestic Credit (BGN bn)



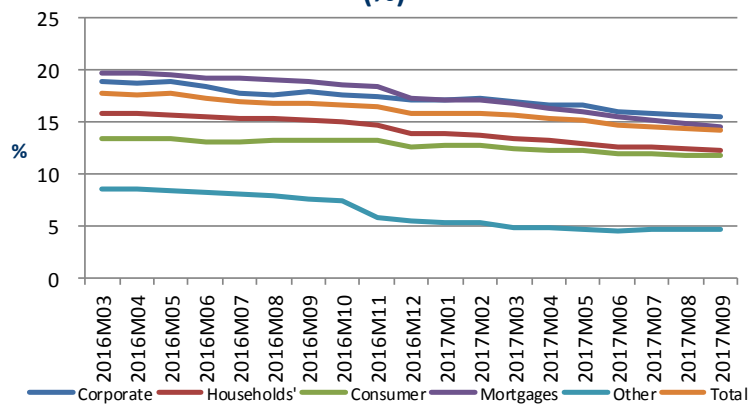
Money in circulation/GDP (%)



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

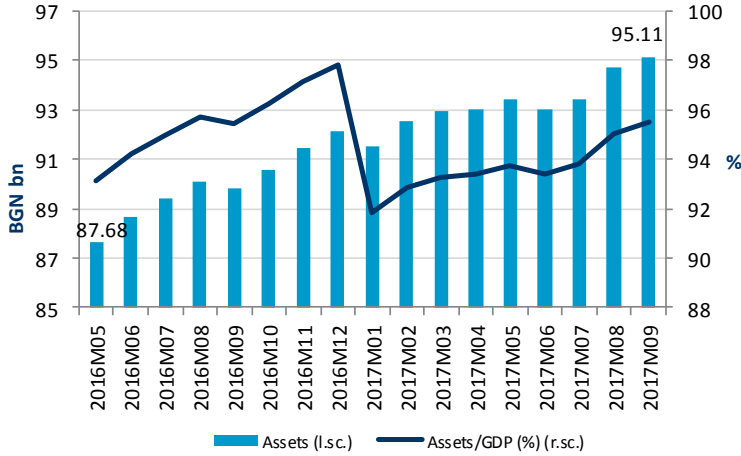


Banking sector: Bad and restructured loans (%)

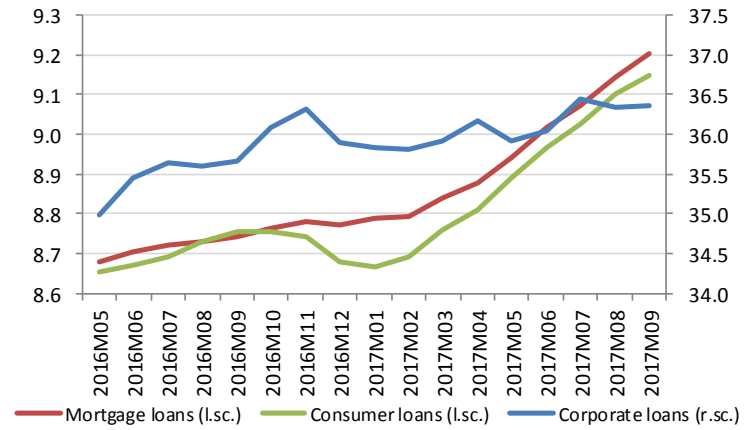


Bulgaria: Banking Sector Indicators

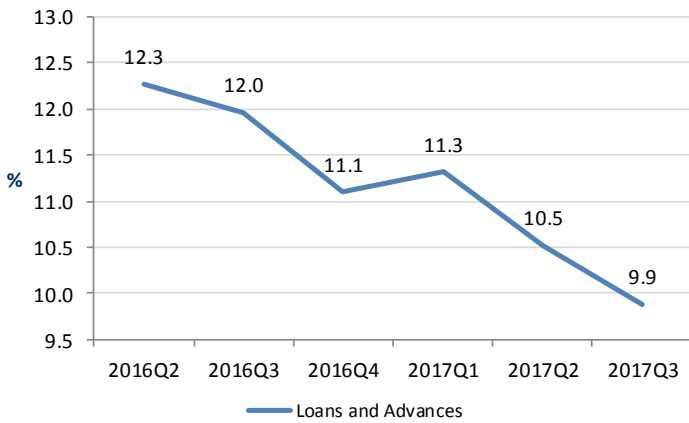
Assets



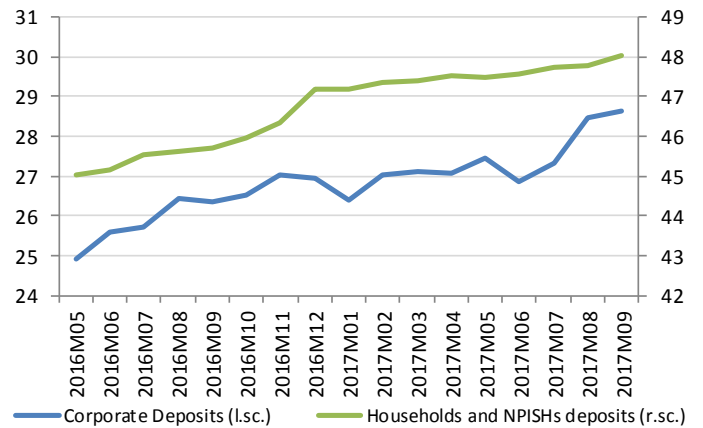
Loans (BGN bn)



Banking System Non Performing Loans (%)



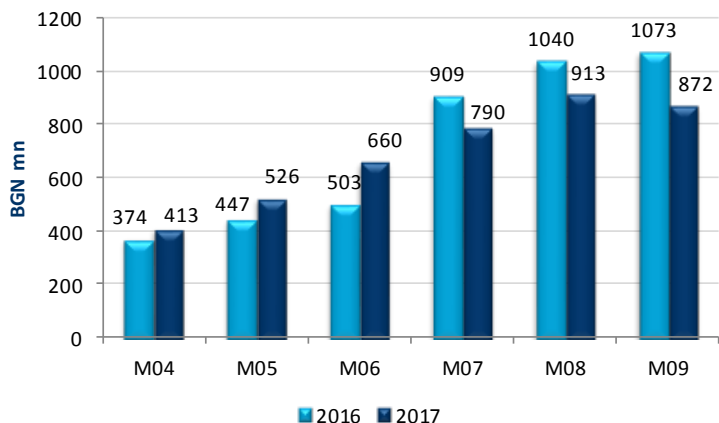
Deposits (BGN bn)



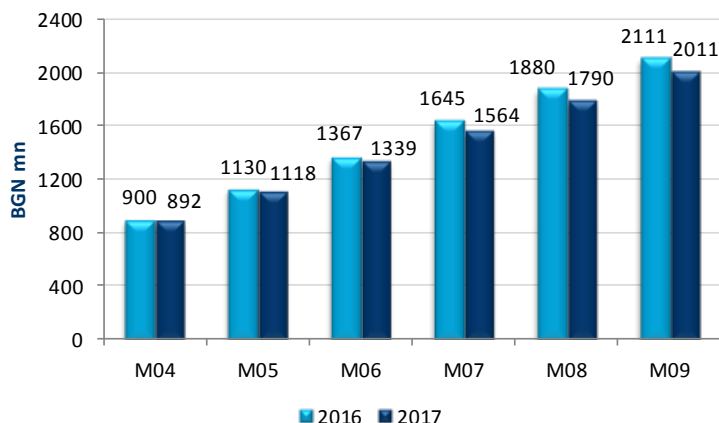


Bulgaria: Banking Sector Indicators

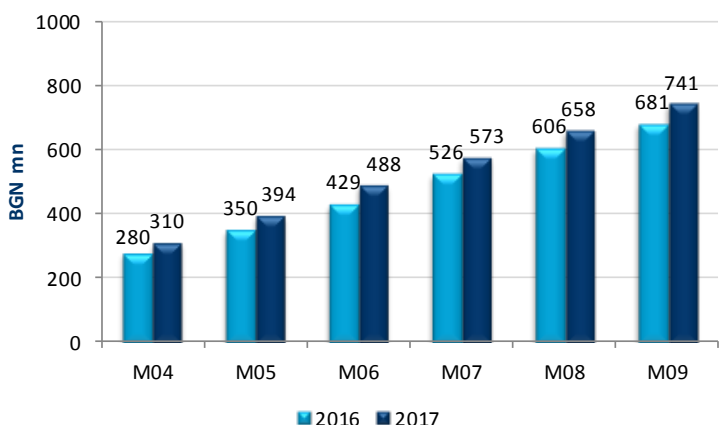
Net Profit



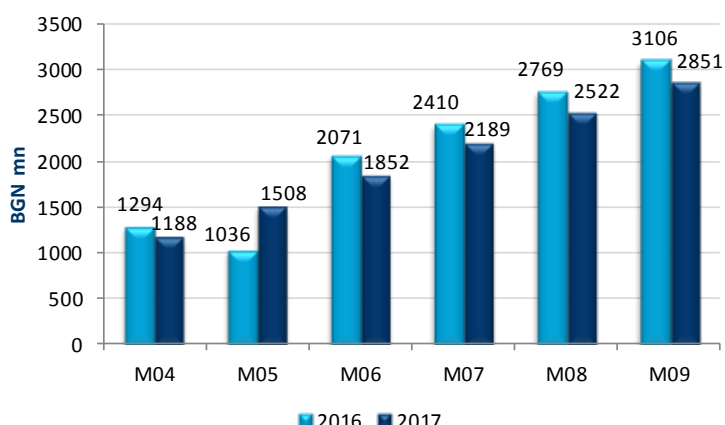
Net interest Income



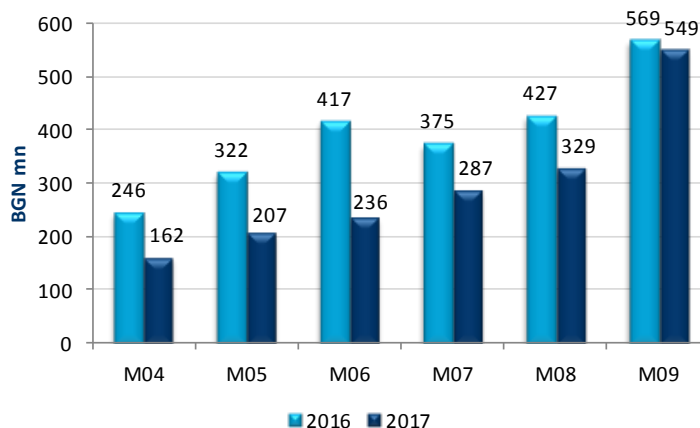
Net fee and commission income



Net operating income

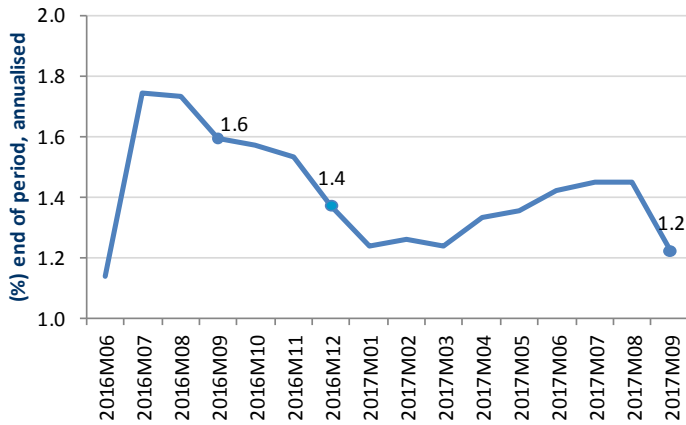


Impairment

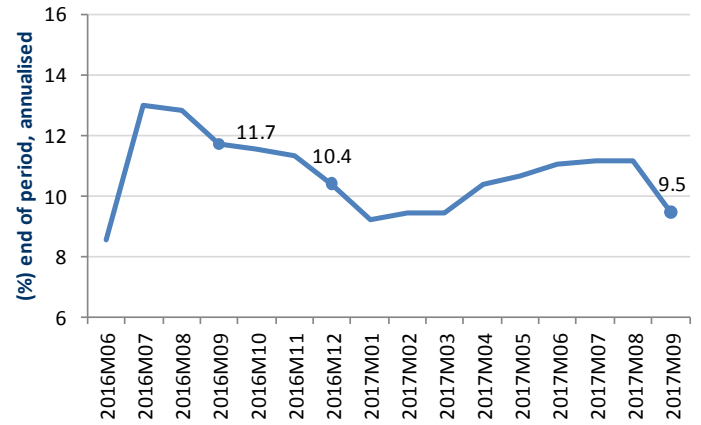


Bulgaria: Banking Sector Indicators

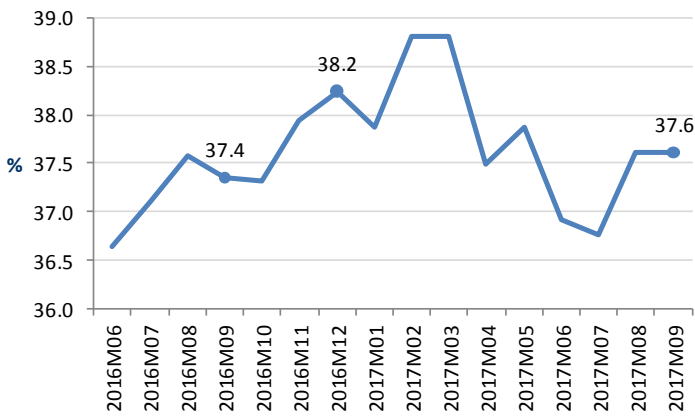
ROA



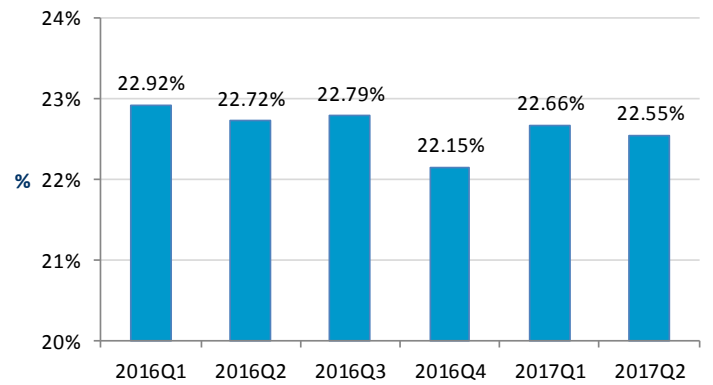
ROE



Liquid Assets Ratio (LAR)



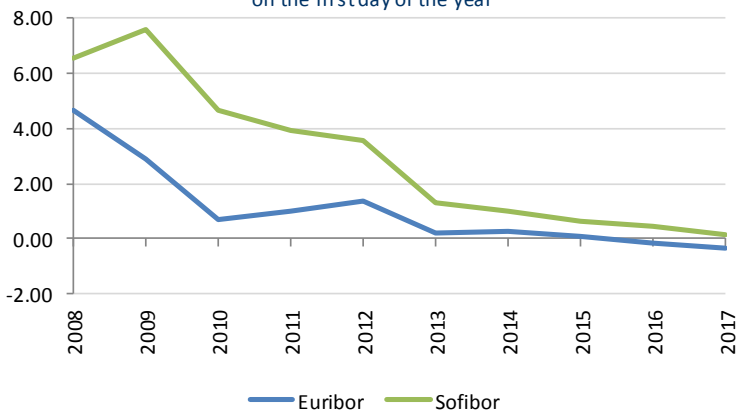
Total Capital Ratio



Bulgaria: Indexes and Interest Rates

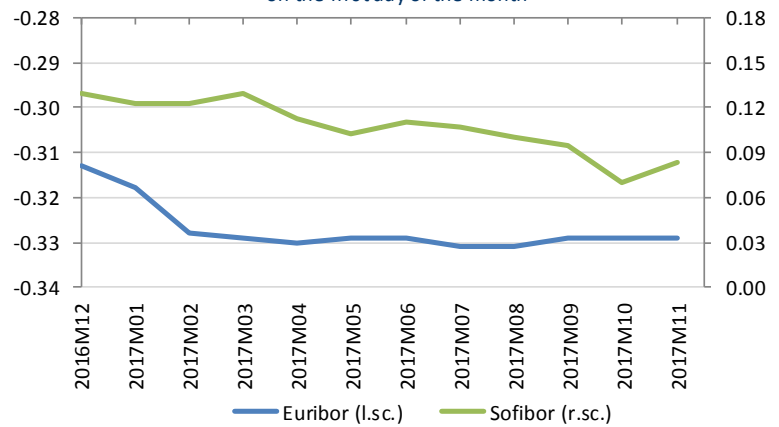
Indexes 3-months

on the first day of the year

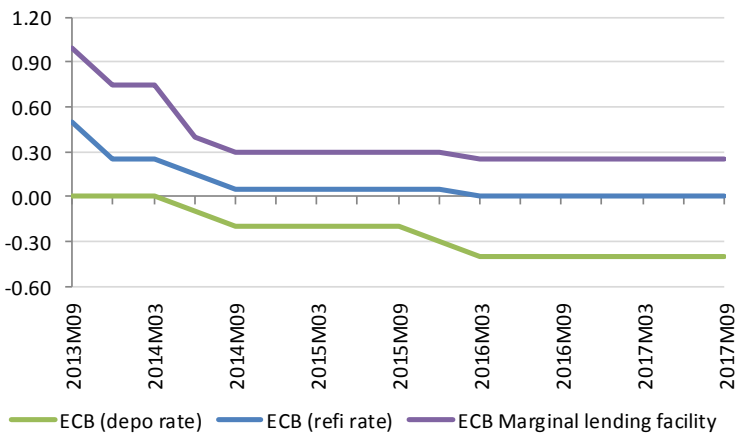


Indexes 3-months

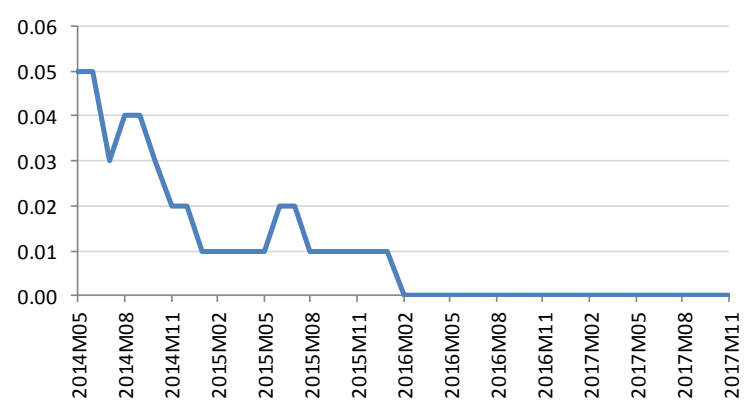
on the first day of the month



Policy Rates (in %)

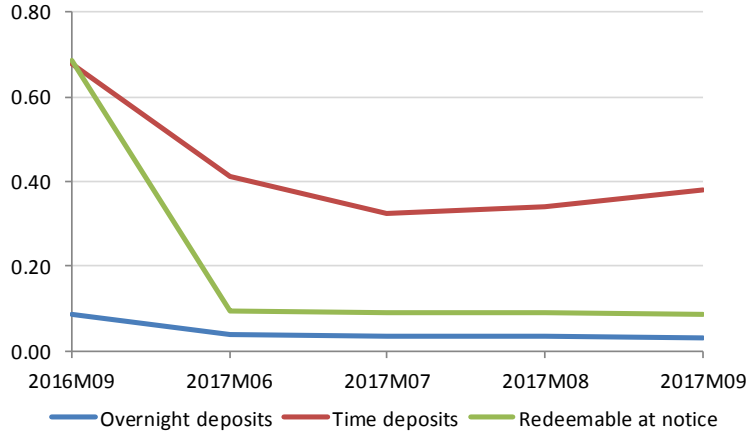


Base Interest Rate of the BNB (in %)

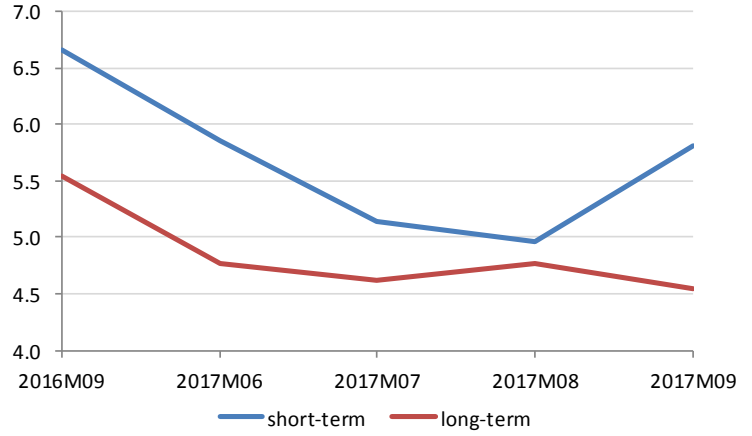


Bulgaria: Interest Rates of New Business on Deposits and New Loans Interest Rates

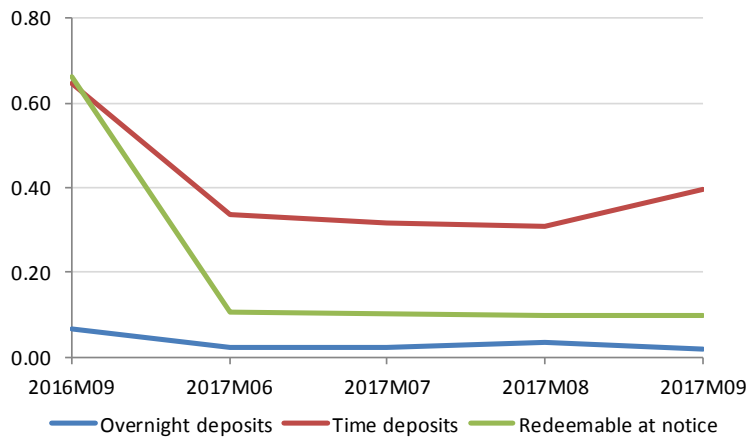
Interest Rates (%) in BGN



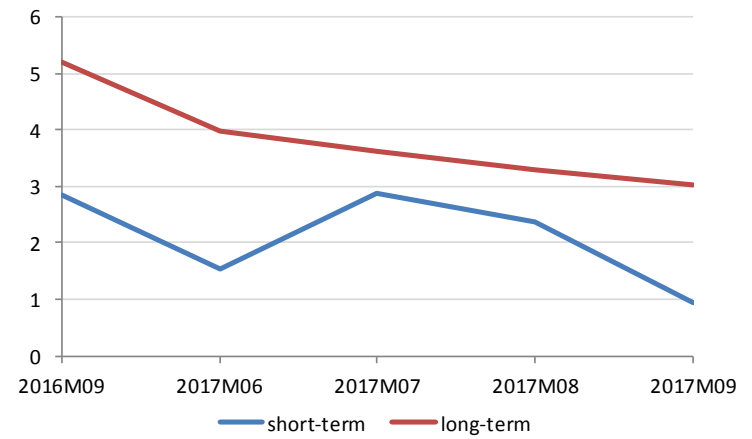
Interest Rates (%) in BGN



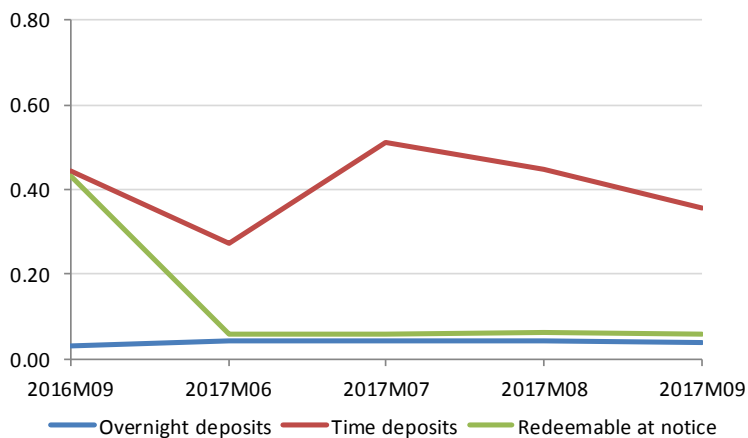
Interest Rates (%) in EUR



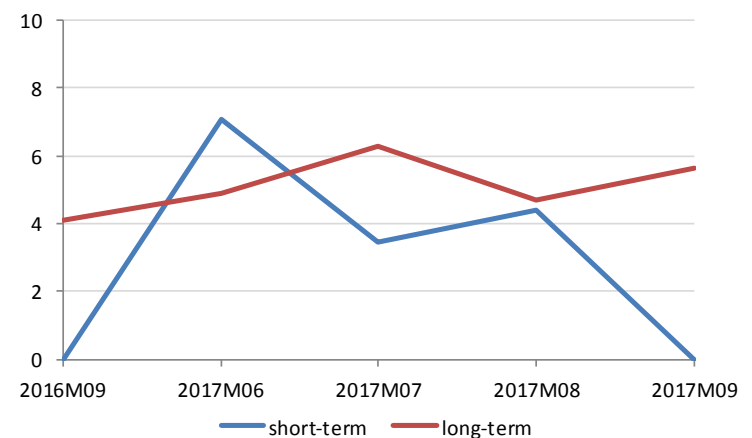
Interest Rates (%) in EUR



Interest Rates (%) in USD

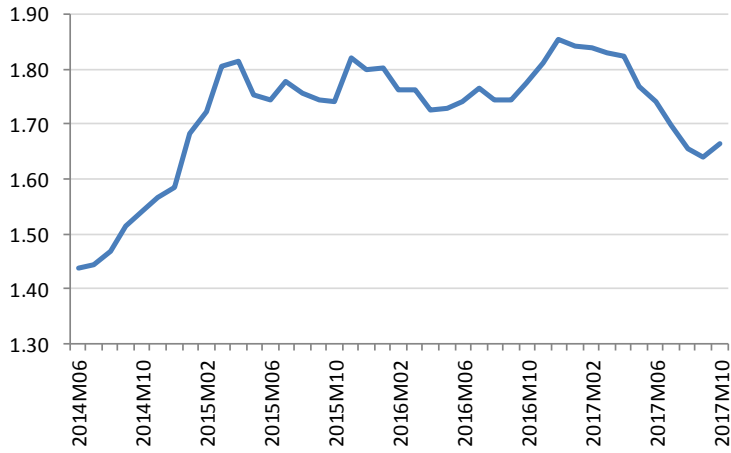


Interest Rates (%) in USD

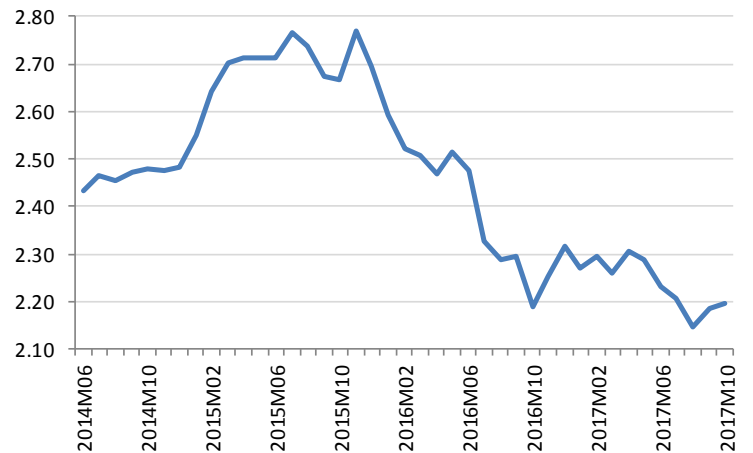


**Bulgaria: FX Rates**

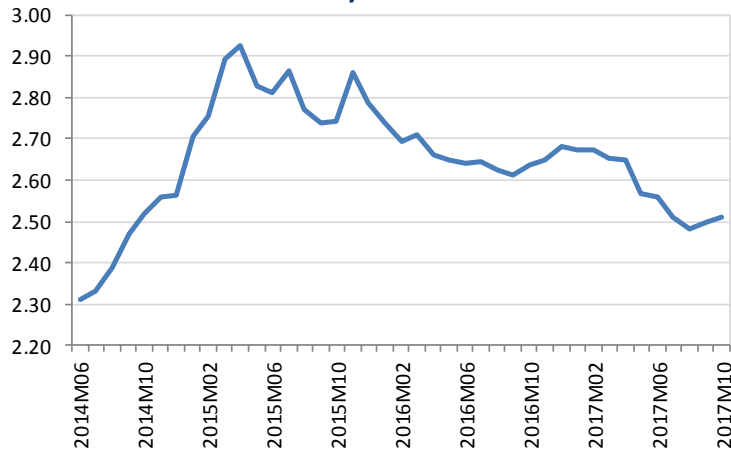
**BGN/USD**



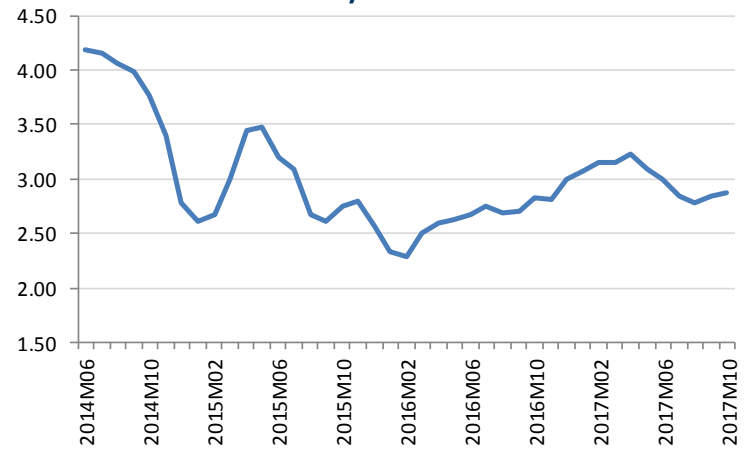
**BGN/GBP**



**BGN/10CHY**



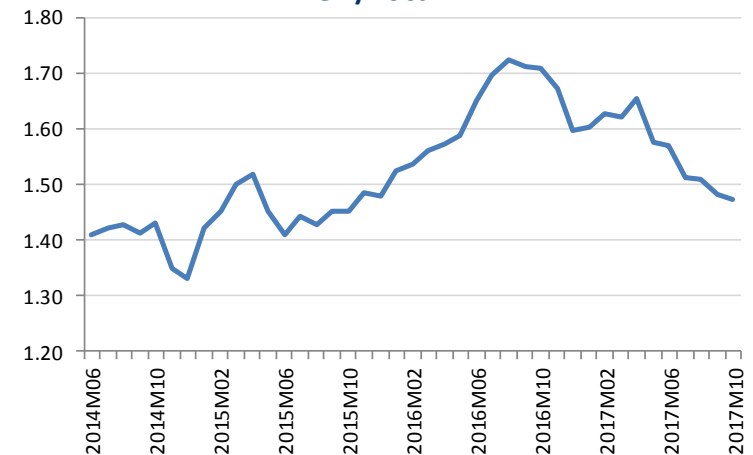
**BGN/100RUB**



**BGN/10TRY**



**BGN/100JPY**



## DEFINITIONS AND METHODOLOGICAL NOTES

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

## EXTERNAL SECTOR

### CURRENT ACCOUNT

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



represent that part of the gross domestic product, which is provided to the rest of the world (exports of goods and services), as well as the provision of factors of production expressed by income receivable – compensation of employees and investment income (interest, dividends, etc.). Recorded are also offsets for non-refundable real and financial resources received (transfers). The flows on the debit side represent the gross product created in the rest of the world and acquired by the domestic economy (imports of goods and services), as well as the acquisition of factors of production expressed by income payable. Recorded are also offsets to non-refundable real and financial resources provided. The Goods component of the BOP Current Account covers movable goods for which changes of ownership between residents and non-residents occur. The data on imports and exports FOB (Free on board) is based on customs declarations, as the codes used in them are after the Harmonized System for Description and Coding of Commodities of the World Customs Organization, introduced in 1988 and supplemented in 1992. With the January 2006 data the Bulgarian National Bank and the National Statistics Institute jointly apply developed by them methodology for compilation of imports at FOB prices and receipts and payments regarding the freight transportation.<sup>2</sup> 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](mailto:press_office@bnbank.org)). The estimates of the expenditures (receipts) by purpose of the travel are based on the data collected during the Border Survey among Traveling Bulgarians and Foreigners conducted by the BNB during the period July 2997 – August 2008. The new methodology was applied for the first time with the data for January 2010, with back data revisions for the months of 2007, 2008 and 2009.

Other services item covers receipts and payments related to services other than transportation and travel (communication,

construction, financial, leasing, insurance, cultural, sport and recreational services, etc.).

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

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

Transfers are all real resources and financial items provided without a quid-pro-quo from one economy to another. Current transfers directly affect the level of disposable income of the economy, and the consumption of goods and services. That is, current transfers reduce the income and consumption potential of the donor and increase the income and consumption potential of the recipient. Included in the Current transfers are the EU pre-acquisition grants, other grants, gifts, inheritances, prizes won from lotteries, pensions, current taxes, social security contributions, etc. Sources: The Bulgarian National Bank receives information on current transfers from the Ministry of Finance, the Bulgarian Red Cross, the Agency for Foreign Aid, and from the reporting system of banks on transactions between residents and non-residents .

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

## CAPITAL ACCOUNT

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

## FINANCIAL ACCOUNT

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

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

of the direct investment enterprise. Direct investment is reported on a directional basis: direct investment abroad – as an asset, and direct investment in the reporting country – as a liability.

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

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

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

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

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

According to the balance of payments conventions trade credit arise from the direct extension of credit from a supplier to a buyer, i.e this is a credit extended by a trade partner without issue of a tradable security. Loans item includes received and paid principals on short- and long-term loans between residents and non-residents if no issue of a tradable security is involved with these loans. Transactions concerning disbursements and repayments of principals on IMF loans and disbursements on loans on BOP support are not included in the item Loans. They are recorded in the relative items of group E. Reserves and Related Items. The Currency and Deposits component presents on the assets side the changes in the residents’ currency deposits held abroad, and on the liabilities side – the changes in the liabilities of the resident banks to non-residents in domestic and foreign currency. Following the basic accounting principle and conventions set in the “Balance of Payments Manual” (IMF, 1993), when compiling that item the Bulgarian National Bank excludes any changes therein due to exchange rate changes.

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

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

## RESERVES AND RELATED ITEMS

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

## REAL SECTOR

### Gross Domestic Product - production approach

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

### GDP - INCOME APPROACH

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

### GROSS DOMESTIC PRODUCT BY FINAL EXPENDITURE

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

### BUSINESS SURVEY IN INDUSTRY, CONSTRUCTION, TRADE AND SERVICE SECTOR

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

### CONSUMER SURVEY

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

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

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

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

### INVESTMENT ACTIVITY IN INDUSTRY

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

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

### **INDUSTRIAL PRODUCTION INDEX; INDUSTRIAL TURNOVER INDICES**

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

### **TOURISM**

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

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

The purposes of visiting a country are the following:

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

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

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

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

### **CONSUMER PRICE INDICES (CPI)**

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

### **HARMONIZED INDICES OF CONSUMER PRICES (HICP)**

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

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

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

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

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

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

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

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

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

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

#### **Statistical unit**

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

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



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

#### **Data sources**

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

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

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

#### **Calculation of average prices**

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

#### **Type of index and calculation**

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

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

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

#### **Classifications**

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

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

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

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

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

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

## MONETARY AGGREGATES

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

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

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

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

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

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

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

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

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

## MONEY SUPPLY MECHANISM

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

ting (balances on lev loans disbursed prior to June 1997 pursuant to the former Law on the BNB and balances on forex loans under Article 45 of the Law on the BNB) its liabilities. Claims on non-government sector include only claims on shares and other equity on the non-government sector. Claims on commercial banks – the balance sheet reports balances on loans extended prior to June 1997 and unpaid interest on these loans. Remaining items (net) include assets and liabilities, which are not classified to any other item.

## CAPITAL MARKET

### SOFIX Index:

Initial date: 20 October 2000; Initial value: 100

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

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

### BG REIT Index:

Initial date: 03 September 2007; Initial value: 100

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

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

### BG 40 Index:

Initial date: 01 February 2005; Initial value: 100

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

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

**BGTR30 Index (BG Total Return 30):**

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

BG TR30 is an index based on the price performance of the common shares included in the index portfolio, as each constituent issue shall have equal weight. The issues included in the calculation of the index should meet the following criteria: 1) The market capitalization of each issue should not be less than BGN 10,000,000 (10 mn.); 2) The free-float (number of shares 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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