

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

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

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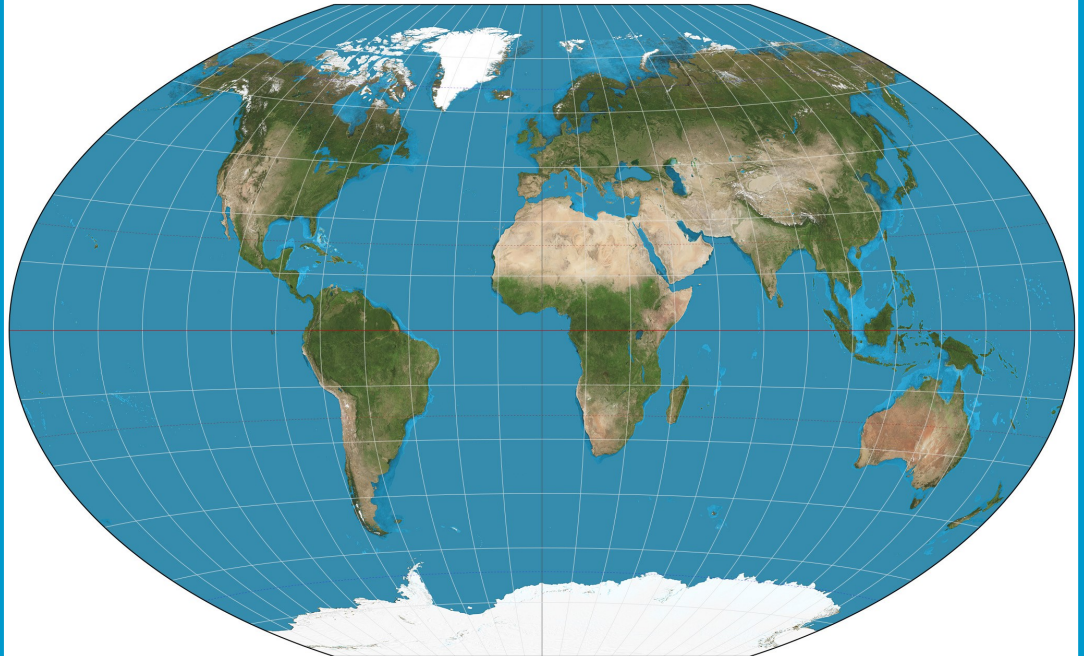
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HIGHLIGHTS AND FORECASTS

MONTHLY ECONOMIC REPORT



- *The European Central Bank (ECB) extends the incentive program but halves the monthly volume of purchased assets*
- *The Bank of England continues to balance the pace of inflation and employment support*
- *The US Federal Reserve is expected to raise interest rates in December and three more times in 2018*
- *Bank of Japan (BoJ) expected to maintain its monetary policy without changes*
- *China's central bank warned of a potential bubble in China due to a rise in household debt*
- *In September 2017, consumer prices in the euro area increased by 1.5 % on an annual basis. In August 2017, unemployment in the euro area is 9.1 %*
- *In September 2017, UK consumer prices rose 3 % on an annual basis. In August 2017, unemployment in the United Kingdom declined to 4.3 %*
- *In September 2017, US consumer prices rose 2.2 % year over year. In September 2017, housing construction in the United States dropped sharply by 4.7 % compared the previous month*
- *In August 2017, consumer prices in Japan increased by 0.7 % on an annual basis. In August 2017, the unemployment rate in Japan reached 2.8 %*
- *In September 2017, China's consumer prices rose by 1.6 % on an annual basis. The producer price index increased by 6.9 % on an annual basis*
- *Oil prices are rising and European benchmark Brent approaches USD 60 per barrel*
- *Prices of non-ferrous metals are expected to rise in the fourth quarter of 2017 and in 2018*
- *Production of common wheat in the EU is expected to decrease in 2017/18 to 141.121 million tones, but this is 4.1 % more than the harvest in 2016*

- *In August 2017 the current and capital account recorded a surplus of EUR 792.2 million compared with a positive balance of EUR 575.7 million in August 2016*
- *In January – August 2017 foreign direct investment in Bulgaria totalled EUR 516.4 million (1 % of GDP), dropping by EUR 608.3 million (54.1 %) from January – August 2016 (EUR 1124.7 million, 2.3 % of GDP)*
- *In January - July 2017, exports (FOB) amounted to EUR 15 222.8 million, compared with EUR 13 381.8 million in the same period of 2016, increasing by EUR 1 841.0 million (13.8 %)*
- *At end-July 2017 gross external debt amounted to EUR 33,107.7 million (66 % of GDP), decreasing by EUR 938.6 million (2.8 %) from end-2016 (EUR 34,046.3 million, 71.9 % of GDP)*
- *At the end of September 2017 the foreign reserves of the BNB are in the amount of BGN 48.017 bn (EUR 24.551 bn), increasing by 0.4 % mom and by 4.5 % yoy*
- *In September 2017 the total business climate indicator decreases to 27.6 % or by 0.8 percentage points mom, with an increase by 4.0 percentage points yoy*
- *In August 2017 the Industrial Production Index, seasonally adjusted, increased by 0.4 % mom and by 4.9 % yoy as per the working day adjusted data*
- *In August 2017 the turnover in ‘Retail trade, except of motor vehicles and motorcycles’ at constant prices increased by 0.4 % mom and by 3.0 % yoy as per the working day adjusted data*
- *In August 2017 the index of production in section ‘Construction’ calculated on the base of seasonally adjusted data reported an increase of 0.9 % mom and 9.0 % yoy as per the working day adjusted data*
- *In August 2017, the number of the trips of Bulgarian residents abroad was 680.4 thousand or by 15.2 % above the registered in August 2016*
- *In August 2017, the number of the registered unemployed at labor offices is 218 436, decreasing by 1.1 % mom and 16.5 % yoy*
- *In September 2017 compared to August 2017 the consumer price index was 100.2 %, i.e. the monthly inflation was 0.2 % and the annual was 2.1 %*
- *In August 2017 Total Producer Price Index in Industry increased by 0.7 % mom and by 5.8 % yoy*
- *As of end-August 2017 the Consolidated Fiscal Programme (CFP) balance on a cash basis is positive, amounting to BGN 2,151.5 million, or 2.2 % of the projected GDP. As of September 2017 it is expected to be positive, amounting to BGN 2,386.2 million or 2.4 % of forecast GDP*
- *As at end-August 2017 the central government debt stands at EUR 12,614.9 million, decreasing by BGN 7.6 million compared to the previous month*
- *In August 2017 broad money (monetary aggregate M3) increased annually by 7.7 % compared to 6.9 % annual growth in July 2017*
- *As at the end of September 2017 SOFIX BSE-Sofia's benchmark index decreases by 2.5 % to 688.10 compared to the previous month, reporting a decline for second consequent month*
- *At the end of August 2017, the aggregate net profit of the banking system amounted to BGN 913 mn compared to BGN 1.040 mn for the same period of the previous year and decreased by 12.1 % yoy*

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GLOBAL TRENDS

ADVANCED COUNTRIES' ECONOMIES

Euro zone

In September 2017, consumer prices in the euro area increased by 1.5 % on an annual basis

According to Eurostat data in September 2017, consumer prices in the euro area increased by 1.5 % on an annual basis. Food prices have risen, and services and energy have grown at a slower pace. On an annual basis, unprocessed food prices rose 1.5 % after rising 0.6 % in August. Meanwhile, inflation was downgraded for processed food, alcohol and tobacco (by 2 %) and non-energy industrial goods (by 0.5 %), but energy-intensive (3.9 % versus 4 %) and services (1.5 % versus 1.6 %). Among the largest economies in the Eurozone, the highest annual rates were recorded in Germany (1.8 %) and Spain (1.8 %), followed by Italy (1.3 %) and France (1.1 %). Annual core inflation, which excludes volatile energy, food, alcohol and tobacco prices and which the ECB is looking at in its political decisions, also confirmed 1.1 % compared 1.2 % in August. On a monthly basis, consumer prices grew by 0.4 % after the gain of 0.3 % in August.

In August 2017, unemployment in the euro area is 9.1 %

In August 2017, unemployment in the euro area was 9.1 %, the same as in the previous two months. This is the lowest unemployment rate since February 2009. A year earlier, unemployment was higher at 9.9 %. Compared to July 2017, the number of unemployed declined by 42,000 to 14,751 million. Compared to the previous year, it fell by 1.319 million. Considering the European Union, unemployment fell to 7.6 % from 7.7 % in July and 8.5 % a year earlier. There are 18,747 million unemployed, 104,000 compared to the previous month and 1,923 million over the previous year. Among the Member States, the lowest unemployment rates in August 2017 were recorded in the Czech Republic (2.9 %), Germany (3.6 %) and Malta (4.2 %). Highest unemployment rates were observed in Greece (21.2 % in June 2017) and Spain (17.1 %). Compared to the previous year, the unemployment rate falls in all Member States for which data are comparable over time, with the exception of Finland, where it remains stable. The largest declines were recorded in Cyprus (from 13.1 % to 10.7 %), Greece (from 23.5 % to 21.2 % between June 2016 and June 2017) and Spain (from 19.3 % to 17.1 %). In August 2017, the EU-28 was unemployed 3.754 million young people (under 25) of which 2.668 million were in the Eurozone. Compared to August 2016, youth unemployment declined by 426,000 in the EU-28 and by 240,000 in the euro area. In August 2017, youth unemployment was 16.7 % in the EU-28 and 18.9 % in the euro area, compared with 18.5 % and 20.6 % respectively in August 2016. In August 2017, the lowest in Germany (6.4 %) while Greece (43.3 % in June 2017), Spain (38.7 %) and Italy (35.1 %).

United Kingdom

In September 2017, UK consumer prices rose 3 % on an annual basis

In September 2017, UK consumer prices rose 3 % year-over-year against a 2.9 % increase in the previous month. This is the highest inflation since April 2012, driven by rising food, transport and leisure prices. On an annual basis, prices are rising as follows: food and non-alcoholic beverages (3 % from 2.1 % in August); transport (4.2 % from 3.2 %), in particular fuels and lubricants (6.1 % from 5.1 %); and recreation and culture (2.5 % of 1.8 %). At the same time, inflation slowed down for housing, water, electricity, gas and other fuels (2.1 % from 2.2 % in August), restaurants and hotels (3.1 % from 3.5 %); apparel and footwear (3.3 % from 4.6 %); furniture, household appliances and maintenance (4 % of 4.2 %); goods and services (1.4 % from 1.9 %); alcoholic beverages and tobacco (4.3 % of 4.5 %); healthcare (2.4 % from 2.6 %); (2 % from 2.2 %) and education (2.9 % from 4.3 %). The Consumer Price Index, which includes homeowner housing costs (CPIH), rose by 2.8 % in September, compared with 2.7 % in August. The annual rate of inflation excluding energy, food, alcohol and tobacco prices in September was 2.7 %, unchanged from the previous five-year peak. On a monthly basis, consumer prices rose 0.3 % after an increase of 0.6 % in August. Prices rose sharply for clothing and footwear (3.9 %) and for fuels and lubricants (2.1 %).

In August 2017, unemployment in the United Kingdom declined to 4.3 %

In August 2017, unemployment in the United Kingdom fell to 4.3 % in the three months to August of 2017, compared with 4.5 % in the period March-May 2017. This is the lowest unemployment since 1975, as the number of unemployed continues to fall.

For the period March-May 2017, 1.44 million unemployed were reported, 52,000 less than the March-May 2017, and 215,000 less than a year earlier. Unemployment is 4.3 %, down from 5.0 % in the previous year, and the lowest since 1975. Reported 32,10 million people employed, 94,000 more than the March-May 2017, and 317,000 more than a year earlier. The employment rate is 75.1 %, which exceeds the reported figure of 74.5 % for the previous year. 8.81 million people aged 16 to 64 were reported as economically inactive, or 17,000 less compared to March-May 2017 and 13,000 less than a year earlier. The inactivity rate was 21.4 %, slightly lower than the previous year. Recent estimates show that the average weekly earnings for UK employees in nominal terms increased by 2.2 %, including bonuses, and 2.1 % excluding bonuses compared to a year earlier. In real terms (ie adjusted for price inflation), the average weekly profit declined by 0.3 %, including bonuses, and 0.4 % excluding bonuses compared to a year earlier.

USA

In September 2017, US consumer prices rose 2.2 % year over year

In September 2017 US consumer prices rose 2.2 % year over year after the 1.9 % increase in the previous month. This is the highest inflation since April, as the hurricane-related production disturbances in the Gulf oil refineries have boosted energy prices. Electricity prices grew 10.1 % year over year after they rose 6.4 % in August due to collapses in oil refineries in the Gulf region. The main increases were recorded in gasoline (19.3 % from 10.4 % in August) and fuels (15.6 % from 9.4 %), while prices were lower for electricity (1.2 % from 1.1 % in August), transport services (3.9 % from 3.5 %) and medical services (1.7 % from 1.6 %). In the meantime, inflation slowed rates for medical supplies (1 % from 2.4 % in August) and shelter (3.2 % from 3.3 %). Conversely, prices continued to fall for new cars (-1 % from -0.7 % in August), used cars and trucks (-3.7 % -3.8 %) and clothing (-0.2 % from -0.6 %). Basic inflation excluding food and energy prices for the fifth consecutive month reached a two-year bottom of 1.7 %. On a monthly basis consumer prices rose by 0.5 %, the biggest increase since January. The gasoline index increased by 13.1 % in September and represents about three quarters of the increase. The other major indices of energy components were mixed and the food index slightly increased (0.1 %). With the exception of food and energy, consumer prices rose by 0.1 %.

In September 2017, housing construction in the United States dropped sharply by 4.7 % compared the previous month

In September 2017, housing construction in the US fell sharply by 4.7 % from the previous month to a seasonally adjusted annual rate of 1.127 thousand upward revision to 1,183 thousand. This is the lowest level since September 2016. Single-family homes are the largest segment on the market, falling by 4.6 % to 829,000, due to a 15.3 % decline in the southern part of the United States due to hurricanes Harvey and Irma. Also, the unstable multifamily segment declined by 5.1 % to 298,000. Overall, the homes started to fall to the south (-9.3 %), the Middle (-20.2 %) and the North-East (-9.2 %), but rose in the West (15.7 %). Building permits also fell sharply by 4.5 % to a seasonally adjusted annual base of 1,215,000. Multifamily housing permits declined by 16.1 %, while single-family housing permits increased by 2.4 %. Permits are increasing in the Northeast (9.2 %) and the Midwest (0.5 %), but fall in the West (-9.2 %) and the South (-5.6 %). On an annual basis, they began to grow by 6.1 %, while permits decreased by 4.3 %.

Japan

In August 2017, consumer prices in Japan increased by 0.7 % on an annual basis In August 2017, the unemployment rate in Japan reached 2.8 %

In August 2017, consumer prices in Japan rose by 0.7 % year over year, following the reported growth of 0.4 % in the previous four months. This is the highest inflation since March 2015, mainly due to the faster rise in food costs. In August food prices grew by 0.9 % over the previous year (from 0.6 % in July, namely fresh food (0.8 % from -1.1 %), fish and seafood (4.2 % of 4.9 % and 3.4 % of 0.9 %, respectively) Prices of fresh vegetables fall at a slower pace (-3.4 % from -6.6 %). Meanwhile, prices rose with the previous month before: fuel, light and water (5.2 % from 4.3 % in July), mainly due to higher electricity costs (7.0 % from 6.1 %). Also, the cost of clothing and footwear grew faster by 0.6 % after a steady trend in July. Medical care costs increased by 1.8 %, much higher than the 0.1 % increase in August. Expenses are reimbursed for culture and recreation (up to 0.4 % from -0.1 %). Inflation is stable in education (0.4 %). On the other hand, expenditures decreased for: housing (-0.2 % from -

0.2 %), furniture and household items (-0.2 % from -0.4 %) and transport and communications (-0.4 % of 0.1 %). Baseline consumer prices excluding fresh food increased by 0.7 % year over year from 0.4 % in July. This is the highest level since March 2015. On a monthly basis, consumer prices rose by 0.2 % compared to the same trend in the previous three months.

In August 2017, the unemployment rate in Japan reached 2.8 %

In August 2017, the unemployment rate in Japan reached 2.8 %, as in the previous two months. At the same time, the ratio of jobs to candidates was 1.52, which did not change compared to the previous period. In August 2017, 1.86 million unemployed were reported, or 4,000 less than in July. Employment has risen by 20,000 to 65.65 million, after it grew by 140,000 in July. The workforce has increased by 15,000 to 67.51 million, and those who have separated from the workforce have decreased by 16,000 to 43.51 million. Among people aged 15-24, unemployment fell to 4.8 % from 4.9 % in July. In August 2016, unemployment was at 3.1 %.

China

In September 2017, China's consumer prices rose by 1.6 % on an annual basis

China's consumer prices rose by 1.6 % in September 2017 after an increase of 1.8 % in August. The slowdown was mainly due to a reduction in food costs, while non-food costs continued to rise. In September 2017, politically sensitive food prices dropped by 1.4 % (from -0.2 % in the previous month), while non-food goods grew by 2.4 % (2.3 %). Consumption costs increased by 0.7 % (from 1.0 %) and services - by 3.3 % (from 3.1 %). Among food products, prices dropped for: pork (-12.4 % from -13.5 %); tobacco (-0.1 % of -0.1 %); fresh vegetables (-1.0 % from 9.7 %) and fresh fruit (-3.0 % on the same level in the previous month). In contrast, prices rose for: eggs (3.7 % from 4.3 %) and milk (0.4 % from 0.4 %). For non-food categories, prices rose less than in the previous month for transport and communications (0.5 % from 0.7 %) and education, culture and recreation (2.3 % from 2.5 %). Meanwhile, the price has risen faster at: rent, fuel and utilities (2.8 % from 2.7 %); household goods and services (1.4 % from 1.3 %) and health care (7.6 % from 5.9 %). Inflation is stable in clothing (1.3 %) and other goods and services (1.4 %). On a monthly basis, consumer prices rose 0.5 % after rising 0.4 % in the previous month. This is the highest monthly figure since January.

The producer price index increased by 6.9 % on an annual basis

The producer price index grew by 6.9 % year on year, compared with an increase of 6.3 % in the previous month. This is the 13th consecutive month of rising production inflation and the highest since March, as producer prices increased more than a month earlier (9.1 % from 8.3 %, ie mining: 17.2 %, raw materials 11.9 % from 7.3 %). Similarly, consumer goods costs rose slightly faster (0.7 % from 0.6 %, namely food production 0.7 %, clothing 1.2 % and commodity 1.3 %) as well as in the previous two months, on a month-on-month basis, producer prices rose by 1.0 %, compared with 0.9 % in August.

Policy of the Central banks

ECB

The European Central Bank (ECB) extends the incentive program but halves the monthly volume of purchased assets

By the end of 2017, the quantitative earmarking plan will continue at a monthly rate of EUR 60 billion and from January this amount will be EUR 30 billion. The ECB extends the incentive plan until September 2018, but may extend it further if necessary. If prospects become less favorable or if the financial conditions are not consistent with progress towards a sustainable inflation path, the Governing Council of the ECB will be ready to expand the incentives as a monthly volume or as a duration. The ECB retains its main interest rates unchanged. The interest rate on the main refinancing operations remains 0 % and the marginal lending facility rate is 0.25 %. Deposit interest is in negative territory at the rate of -0.40 %. The Governing Council of the ECB continues to believe that key interest rates will remain at these levels for an extended period of time as well as far beyond the assetpooling horizon. Following the announcement of measures by which the ECB responded precisely to the market expectations of a reduction in its purchasing program, the euro fell, and the German bonds grew. The European central bankers

launched the Bond purchase program known as "Quantitative Easing" in the spring of 2015. Meanwhile, they increased its volume to EUR 80 billion per month, and in December 2016 they decided on the first drop that came in force since April 2017.

Bank of England

The Bank of England continues to balance the pace of inflation and employment support

Bank of England Governor Mark Carney said on October 10, 2017, that the central bank still needs to balance the need to support job creation and growth with the rate of inflation that accelerates faster than the target. According to official data, Britain's inflation rate has reached 3 %, well above the 2 % target of the ECB. Much of the growth is due to the fall in pounds after the vote for Brexit last year, which is likely to be a temporary driver of rising prices. In addition, Mark Carney has confirmed that the ABC is close to its first interest rate hike for over a decade: "Used to use more spare capacity, to see some evidence of local pressure, most of the committee's assessment is that any increase in interest rates over the coming months may be appropriate". The projections to a large extent indicate an increase in the base rate at the November meeting of the ECB, although Carney, as in previous speeches, refused to be more specific. The pound declined for the second consecutive day against the dollar, declining 0.62 % to 1.3171 dollars a pound.

USA Federal Reserve

The US Federal Reserve is expected to raise interest rates in December and three more times in 2018

It is expected that by the end of October 2017, President Donald Trump will decide whether to leave President Janet Yelan at the head of the Federal Reserve for another term. Its current mandate ends in February 2018, and the President has already held talks with all five candidates for the post. There is an expectation also that Jerry Powell will become chairman of the Fed, although the public believes that the best decision is for Yelan to remain in office. Some analysts fear that the central bank may slow the tightening of monetary policy because of expectations that inflation will remain low. In principle, the performance of the US economy will determine future interest rises. But a change within the Fed may also affect monetary policy. The American economy, which is growing steadily, does not need big fiscal stimulus in the form of large tax cuts. While recent economic data is improving, the closely monitored PCE index is below the 2 % target of more than five years despite strong employment growth. PCE (Personal Consumption Expenditure) measures inflation for goods for personal consumption. Economists do not expect growth to accelerate against the current trend, or to achieve 2 % inflation before 2019. It is these circumstances that lead to division into the Fed and raise doubts about the pace of monetary policy tightening. For now, the central bank expects a total of three interest rises in 2018.

Bank of Japan (BoJ)

BoJ expected to maintain its monetary policy without changes

The Japanese central bank had to postpone the deadline for reaching the inflation target six times since it launched its massive stimulus program in 2013. The regulator now hopes that consumer price growth will reach 2 % by March 2020, but base inflation was barely 0.7 % on an annual basis in August. Consumer prices will continue to grow to 2 % as companies will at some point have to pass higher labor costs to consumers. The growing proportion of Japanese workers on the labor market, as well as companies' efforts to raise labor productivity, put downward pressure on wages and prices in the short term. However, these developments are beneficial in the long run, as they will lead to faster economic growth. The Japanese central bank kept its negative deposit interest rate (-0.1 %) at its last meeting and confirmed its commitment to keep yields on 10-year government bonds around zero. In addition, the regulator invests in ETFs and thus extends its balance at a rate of YEN 6 trillion (USD 53.44 billion) a year. It is expected that the ECB will not change the 2 % target for inflation, as such targets are also used by other central banks and contribute to exchange rate stability.

People's Bank of China (PBC)

China's central bank warned of a potential bubble in China due to a rise in household debt

According to the Chinese Central Bank Governor, Zhou Xiaochuan, China Household Debt Levels, China has not ranked so high in the world, but growth has risen over the past few years. He does not expect immediate action to be taken but said debt levels should be monitored for quality and stable growth rates. Greater concerns about China are the high levels of corporate and local government debt. The Chinese government talks about the need to curb this growth, and most analysts expect the au-

thorities to keep it gradually. This year household debt has emerged as another area of concern for financial leverage in China. Unpaid household debt in China has doubled from 29.6 % of GDP to YUAN16 trillion (USD 2.41 trillion) in 2012 to 44.3 % of GDP at YUAN 33 trillion in 2016. Mortgage loans to buy property are the biggest driver of household debt growth. Real estate prices, especially in major Chinese cities, fired higher values, as "return on investment property was much higher than interest rates on savings and loans". In order to prevent speculation from higher property prices, local Chinese authorities apply a policy to curb purchases by limiting the number of apartments owned by one person and the time after which they can be sold. Central bank governor Zhou said that excessive optimism could lead to the so-called "Minsky Moment" or a fall in asset prices. "Minsky Moment", called by economist Himan Minsky, describes the time when a market suddenly collapses after a long period of speculation or unsustainable profits. Following Zhou's comments, the Hang Seng index in Hong Kong fell by nearly 2 %, Dow's futures dropped more than 100 points in open markets, and government bond yields declined. Meanwhile, the IMF indicated in its report on Global Financial Stability in early October 2017 that China's banking sector assets already amounted to 310 % of GDP, compared with 240 % at the end of 2012 and almost three times - high average market value. The stabilization of the world's second-largest economy, China, has played an important role in the more optimistic outlook. The International Monetary Fund has increased its forecast for China's gross domestic product by 0.1 % to 6.8 % this year.

International Commodity Prices

Petrol

Oil prices are rising and European benchmark Brent approaches USD 60 per barrel

As of October 27, 2017, the Brent was traded at USD 59.28 a barrel, and the US light crude WTI at USD 52.59 a barrel. Brent's price is already about 33 % higher than the lowest levels this year, reached in July, and at levels last recorded in mid-2015. WTI is about 25 % more expensive than the bottom of June this year. US light crude oil is cheaper than Brent, as rising US mining limits prices. The growth of Brent was encouraged by the comments of the Crown Prince Mohammad bin Salman in Saudi Arabia. He said the Riyadh regime would support a prolongation of the agreement on cuts in yield in order to stabilize supply and demand. Although OPEC is likely to prolong the contract for shrinking yields, and this increases expectations for a balanced market, shale yields in the US remain a problem for OPEC. According to the US Energy Information Administration, shale oil production in the United States increased by 1.1 million barrels per day to 9.5 million barrels per day as of 20 October 2017

Metals

Prices of non-ferrous metals are expected to rise in the fourth quarter of 2017 and in 2018

Morgan Stanley's analysts raised their forecast for non-ferrous metals prices in the fourth quarter of this year and also for the next 2018. They estimate the copper price in October-December will cost an average of USD 6,173 per ton, which is 7 % more of the previous forecast, and next year the forecast is priced at USD 5339 per ton, or an improvement over the previous 1 % expectation. Aluminum price forecast is increased by 9 %, to USD 2094 per ton, or by 5 % to USD 1984 per ton. The average price for nickel in the fourth quarter is projected at a price of USD 10,913 per ton, up 3 % on the previous estimate, and USD 10,858 per ton (+ 1 %) in 2018. The most significant improvement in zinc is 13 % to USD 2976 per ton, and 10 % next year to USD 2701 per ton, respectively. Among the raw materials that will be most sought after in the next 12 months, analysts include palladium, uranium, platinum, golden silver, nickel, aluminum, mineral sand. The first position is palladium, due to the expectation that its demand will increase due to the high demand from car manufacturers as well as due to geopolitical uncertainty.

Agricultural products

Production of common wheat in the EU is expected to decrease in 2017/18 to 141.121 million tones, but this is 4.1 % more than the harvest in 2016

According to EC data, in 2017 the EU cereals production will be lower than the average level, the main reason being drought in different European countries. Lower harvests are also expected in the United States as far as wheat and sunflower are concerned, but Russia and most of the Black Sea countries are likely to increase their production. Prices on world markets are now higher than last year, mainly due to the significantly lower wheat and maize production expected in the United States. Black Sea region and this year will be an extremely active player in the sector, which will not allow a more significant appreciation of the Bulgarian market. Record-breaking production and export of wheat from Russia are expected. Turkey, which is a traditional importer of wheat, also goes on a strong year and even to small quantities for export. France, Italy, Spain, which is a traditional market for our wheat, and some parts of Ukraine experience difficulties in dry and hot weather. Our expectations are for a moderate price of wheat in Bulgaria - about 10 % on an annual basis. Prices on world markets are now higher than last year, mainly due to the significantly lower wheat and maize production expected in the United States. Black Sea region and this year will be an extremely active player in the sector, which will not allow a more significant appreciation of the Bulgarian market. Record-breaking production and export of wheat from Russia are expected. Turkey, which is a traditional importer of wheat, also goes on a strong year and even to small quantities for export. France, Italy, Spain, which is a traditional market for our wheat, and some parts of Ukraine experience difficulties in dry and hot weather. Our expectations are for a moderate price of wheat in Bulgaria - about 10 % on an annual basis. The potential for appreciation of maize and sunflower to date seems limited, but in the medium term both crops will play an increasingly important role in the domestic market due to the increasing processing capacity in the country. Over the past 2-3 months, there has been a slight increase in prices, but in the long run, the upcoming harvest of maize crops in South America, which would logically lead to a fall in prices, and corn cheaper, has a negative impact on prices of other cereal products. In 2017 Bulgaria collected a record crop of wheat - about 6 million tons. According to the forecast of traders, the export during the season 2017/2018 could, as in the previous season, amount to 4 million tons. The Bulgarian wheat was then exported mainly to Spain, Italy and Sudan.

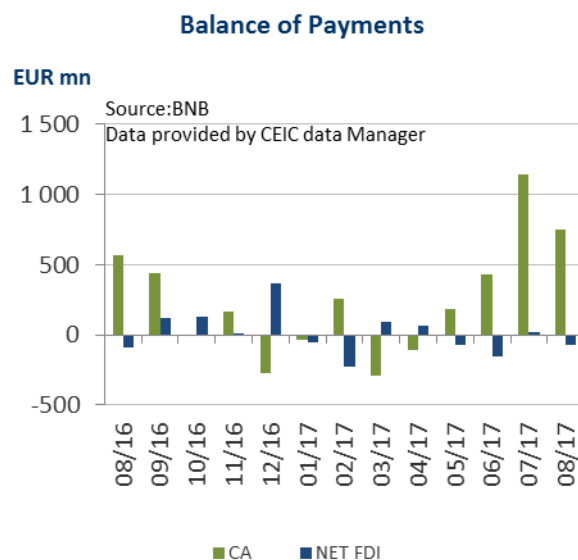
BULGARIA

EXTERNAL SECTOR

Balance of Payments

In August 2017 the current and capital account recorded a surplus of EUR 792.2 million compared with a positive balance of EUR 575.7 million in August 2016

According to the BNB data the current and capital account recorded a surplus of EUR 792.2 million in August 2017, compared with a positive balance of EUR 575.7 million in August 2016. In January – August 2017 the current and capital account was positive amounting to EUR 2,624 million (5.2 % of GDP), compared with a surplus of EUR 3,178.1 million (6.6 % of GDP) in January – August 2016. The current account was positive amounting to EUR 751.1 million in August 2017, compared with a surplus of EUR 570.5 million in August 2016. In January – August 2017 the current account was positive and amounted to EUR 2,315.5 million (4.6 % of GDP), compared with a surplus of EUR 2,237.6 million (4.6 % of GDP) in January – August 2016. The balance on goods recorded a deficit of EUR 205.1 million in August 2017, compared with a deficit of EUR 129.1 million in August 2016. In January – August 2017 the balance on goods was negative amounting to EUR 1,427.2 million (2.8 % of GDP), compared with a deficit of EUR 689.3 million (1.4 % of GDP) in January – August 2016. Exports of goods amounted to EUR 2,216.5 million in August 2017, growing by EUR 235.1 million (11.9 %) from August 2016 (EUR 1,981.3 million). In January – August 2017 exports of goods totalled EUR 16,864.2 million (33.6 % of GDP), increasing by EUR 2,105.5 million (14.3 %) year-on-year (from EUR 14,758.7 million, 30.7 % of GDP). In January – August 2016 exports dropped by 0.02 % year-on-year. Imports of goods amounted to EUR 2,421.6 million in August 2017, growing by EUR 311.2 million (14.7 %) from August 2016 (EUR 2,110.4 million). In January – August 2017 imports of goods totalled EUR 18,291.3 million (36.5 % of GDP), growing by EUR 2,843.3 million (18.4 %) from January – August 2016 (EUR 15,448 million, 32.1 % of GDP). In January – August 2016 imports dropped by 4.5 % year-on-year. Services recorded a positive balance of EUR 754.6 million in August 2017, compared with a surplus of EUR 715.2 million in August 2016. In January – August 2017 services recorded a surplus of EUR 2,672.5 million (5.3 % of GDP) compared with a positive balance of EUR 2,372.8 million (4.9 % of GDP) in the same period of 2016. The net primary Income (which reflects the receipt and payment of income related to the use of resources (labour, capital, land), taxes of production and imports and subsidies) recorded a surplus of EUR 28.6 million in August 2017, compared with a deficit of EUR 92.8 million in August 2016. In January – August 2017 the balance on primary income was negative and equated to EUR 232.3 million (0.5 % of GDP), against a deficit of EUR 730.6 million (1.5 % of GDP) in January – August 2016. The net secondary income (which reflects the redistribution of income) recorded a surplus of EUR 173 million, compared with a positive balance of EUR 77.1 million in August 2016. In January – August 2017 the net secondary income was positive amounting to EUR 1,302.5 million (2.6 % of GDP), compared with a positive balance of EUR 1,284.7 million (2.7 % of GDP) in the same period of 2016. The capital account recorded a surplus of EUR 41.1 million, compared with a positive balance of EUR 5.2 million in August 2016. In January – August 2017 the capital account recorded a surplus of EUR 308.5 million (0.6 % of GDP), compared with a positive balance of EUR 940.4 million (2 % of GDP) in January – August 2016. The financial account recorded a net inflow of EUR 664.3 million, compared with an inflow of EUR 735.6 million in August 2016. In January – August 2017 the financial account recorded a net inflow of EUR 1,114 million (2.2 % of GDP) compared with an inflow of EUR 2,937.4 million (6.1 % of GDP) in January – August 2016. The net direct investment compiled in accordance with the Sixth Edition of the Balance of Payments and International Investment Position Manual was negative amounting to EUR 69.3 million, compared with a negative balance of EUR 90 million in August 2016. In January – August 2017 direct investment recorded a negative balance of EUR 400.7 million (0.8 % of GDP), compared with a negative balance of EUR 962 million (2 % of GDP) mil-



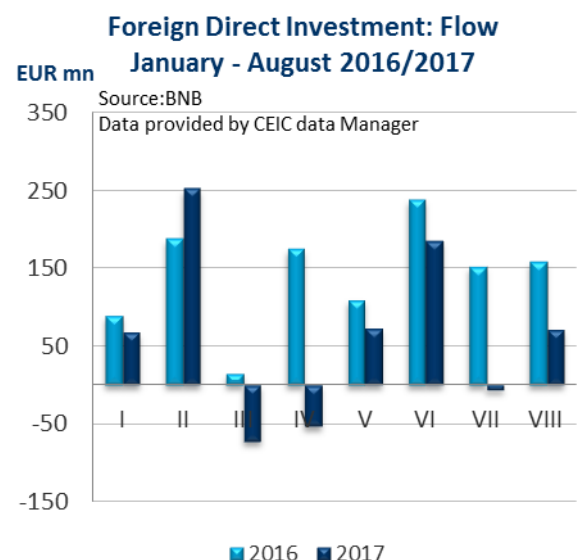
lion in January – August 2016. Direct investment – assets decreased by EUR 6.6 million compared with an increase of EUR 75.6 million in August 2016. In January – August 2017 direct investment – assets rose by EUR 174.7 million (0.3 % of GDP), compared with an increase of EUR 289 million (0.6 % of GDP) in the same period of 2016. Direct investment – liabilities grew by EUR 62.7 million in August 2017, compared with an increase of EUR 165.6 million in August 2016. In January – August 2017 direct investment – liabilities rose by EUR 575.4 million (1.1 % of GDP), compared with an increase of EUR 1,251 million (2.6 % of GDP) in the same period of 2016. The balance on portfolio investment was positive amounting to EUR 11.7 million, compared with a negative balance of EUR 282 million in August 2016. In January – August 2017 the balance was positive and equated to EUR 1,043.3 million (2.1 % of GDP), compared with a negative balance of EUR 1,414.4 million (2.9 % of GDP) million in January – August 2016. Portfolio investment – assets increased by EUR 28 million, compared with an increase of EUR 120.4 million in August 2016. In January – August 2017 they rose by EUR 523.7 million (1 % of GDP) compared with an increase of EUR 37.5 million (0.1 % of GDP) in January – August 2016. Portfolio investment – liabilities increased by EUR 16.3 million compared with an increase of EUR 402.4 million in August 2016. In January – August 2017 portfolio investment – liabilities decreased by EUR 519.6 million (1 % of GDP), compared with an increase of EUR 1,451.8 million (3 % of GDP) in January – August 2016. The balance on other investment was positive amounting to EUR 66.6 million, compared with a positive balance of EUR 875 million in August 2016. In January – August 2017 the balance was negative and equated to EUR 104.5 million (0.2 % of GDP), compared with a positive balance of EUR 2,659 million (5.5 % of GDP) in January – August 2016. Other investment – assets grew by EUR 87.7 million, compared with an increase of EUR 237.5 million in August 2016. In January – August 2017 they grew by EUR 139.3 million (0.3 % of GDP) compared with an increase of EUR 1,907.8 million (4 % of GDP) in January – August 2016. Other investment – liabilities grew by EUR 21.1 million compared with a decrease of EUR 637.5 million in August 2016. In January – August 2017 they rose by EUR 243.8 million (0.5 % of GDP) compared with a decline of EUR 751.2 million (1.6 % of GDP) in January – August 2016. The BNB reserve assets⁵ increased by EUR 680.8 million, compared with an increase of EUR 234.9 million in August 2016. In January – August 2017 they grew by EUR 644.6 million (1.3 % of GDP), compared with an increase of EUR 2,726.8 million (5.7 % of GDP) in the same period of 2016. The net errors and omissions were negative amounting to EUR 127.9 million compared with a positive value of EUR 159.9 million in August 2016. According to preliminary data, the item was negative in January – August 2017 and totalled EUR 1,510 million (3 % of GDP), against a negative value of EUR 240.7 million (0.5 % of GDP) in the same period of 2016.

Foreign direct investments

In January – August 2017 foreign direct investment in Bulgaria totalled EUR 516.4 million (1 % of GDP), dropping by EUR 608.3 million (54.1 %) from January – August 2016 (EUR 1124.7 million, 2.3 % of GDP)

According to preliminary data, foreign direct investment in Bulgaria presented according to the directional principle totalled EUR 516.4 million (1 % of GDP) in January – August 2017, dropping by EUR 608.3 million (54.1 %) from January – August 2016 (EUR 1124.7 million, 2.3 % of GDP). Foreign direct investment in Bulgaria increased by EUR 71.6 million in August 2017, compared with an increase of EUR 158.1 million in August 2016. Equity (acquisition/disposal of shares and equities in cash and contributions in kind by non-residents in/from the capital and reserves of Bulgarian enterprises, and receipts/payments from/for real estate deals in the country) recorded a positive value of EUR 21.8 million in January – August 2017, dropping by EUR 540.1 million from EUR 561.9 million in January – August 2016. Real estate investments of non-residents totalled EUR 7 million, compared with EUR 57.6 million attracted in January – August 2016. The largest inflow of real estate investment was from Russia (EUR 3.3 million, 47.9 % of the total amount for January – August 2017), Ukraine (EUR 0.8 million, 11.4 % of the total amount), and Kazakhstan (EUR 0.5 million, 7 % of the total amount).

Reinvestments of earnings (the share of non-residents in the undistributed earnings/ loss of the enterprise based on prelimi-



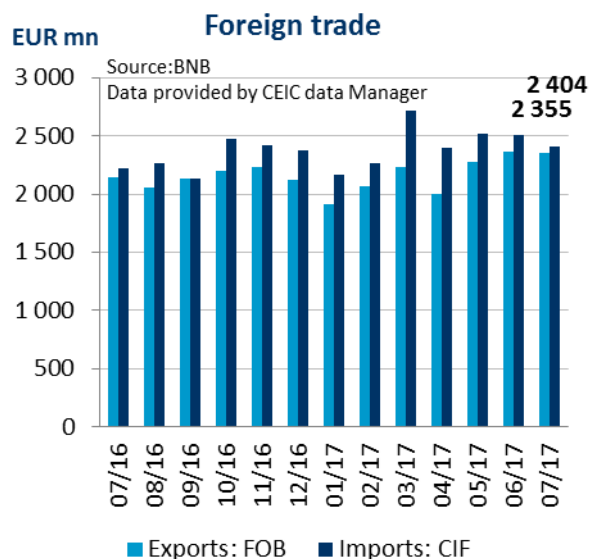
nary profit and loss data) was negative amounting to EUR 10.5 million for January – August 2017, compared with a positive value of EUR 258.6 million in January – August 2016. The net debt instruments (the change in the net liabilities between affiliated enterprises on financial loans, suppliers' credits and debt securities) amounted to EUR 505.1 million in January – August 2017, compared with EUR 304.2 million in January – August 2016. The largest net direct investment inflows in Bulgaria for January – August 2017 were from the Netherlands (EUR 435.8 million), from Switzerland (EUR 74.2 million) and from Turkey (EUR 69.1 million). According to preliminary data, direct investment abroad grew by EUR 115.8 million, compared with an increase of EUR 162.7 million in January – August 2016. Direct investment abroad increased by EUR 2.3 million in August 2017, compared with an increase of EUR 68 million in August 2016.

Foreign trade

In January - July 2017, exports (FOB) amounted to EUR 15 222.8 million, compared with EUR 13 381.8 million in the same period of 2016, increasing by EUR 1 841.0 million (13.8 %)

According to the data of BNB, in January - July 2017, exports (FOB) amounted to EUR 15 222.8 million, compared with EUR 13 381.8 million in the same period of 2016, increasing by EUR 1 841.0 million (13.8 %). The increase in exports on a year-on-year basis could be attributed mostly to non-ferrous metals groups - by EUR 715.0 million (80.8 %), other investment goods by EUR 392.0 million (37.5 %) and petroleum products by EUR 147.3 million (17.6 %), whereas the decrease was reported in the exports of Raw materials for the food industry by EUR 198.1 mn (-19.8 %), Clothing and footwear – by EUR 33.8 million and others. On year-on-year basis, the increase in exports by commodity groups, in January - July 2017 was due mostly to Copper and articles thereof by EUR 660.6 million (86.4 %) and Articles of iron and steel by EUR 205.4 million (74.3 %). The decrease was reported mainly in the exports of Cereals - by EUR 115.3 million (-25.4 %). Exports to the European Union increased by EUR 1 002.6 million (11.2 %), on a year-on-year basis, their share in total exports decreased from 66.9 % in January to July 2016 to 65.4 % in the same period of 2017. The largest increase on a year-on-year basis was that in the exports to Germany by EUR 336.0 million (19.2 %) and Belgium by EUR 211.1 million (59.8 %). Exports decreased to Italy - by EUR 0.8 million (-0.1 %). Exports to non-EU countries increased by EUR 838.4 million (18.9 %) year-on-years, its share in total exports increased from 33.1 % in January - July 2016 to 34.6 % in the same period of 2017. The increase in exports was contributed mostly to Russia by EUR 193.9 million (94.5 %), Turkey by EUR 155.4 million (14.3 %) and China by EUR 114.8 million (48.1 %). Exports decreased to the USA by EUR 9.6 million (-4.8 %), Switzerland by EUR 5.6 million (-7.2 %) and United Arab Emirates by EUR 2.6 million (-2.3 %). The exports to Germany had the highest share in total exports (13.7 % of total exports, EUR 2089.6 million), followed by Italy (8.7 %, EUR 1323.9 million), Romania (8.1 %, EUR 1 239.8 million) and Turkey (8.1 %, EUR 1 238.2 million).

In January – July 2017 imports (CIF) amounted to EUR 16 974.8 million, compared with EUR 14 505.5 million in the same period of 2016, increasing by EUR 2 469.3 million (17.0 %). The increase in the imports (CIF) on a year-on-year basis can be attributed mostly to Crude oil and Natural gas by EUR 507.0 million (43.1 %) and Ores by EUR 401.5 million (88.6 %). The decrease was reported in the imports of the Raw skins by EUR 10.4 million (-17.6 %). On a year-on-year basis the increase in imports by commodity groups can be attributed mostly to Mineral Fuels, oils & products of their distillation; etc. by EUR 696.0 million (40.9 %), Ores, Slag and ash by EUR 401.5 million (88.6 %) and Copper and articles thereof by EUR 146.5 million (64.7 %). The decrease was mostly reported in the imports of Articles of iron and steel – by EUR 15.3 million (-4.0 %) and Articles of apparel & clothing accessories not knitted/crocheted by EUR 8.2 million (-5.7 %). The imports from the EU increased by EUR 732.0 million (9.0 %) on a year-on-year basis, its share in total imports decreasing from 55.9 % in January - July 2016 to 52.1 % in the same period of 2017. The highest rose in imports on a year-on-year basis was that from Romania – by EUR 156.1 million (20.5 %) and Greece and Poland by EUR 82.4 million (15.2 %) each. Imports from non-EU countries increased on a year-on-year basis by EUR 1 737.3

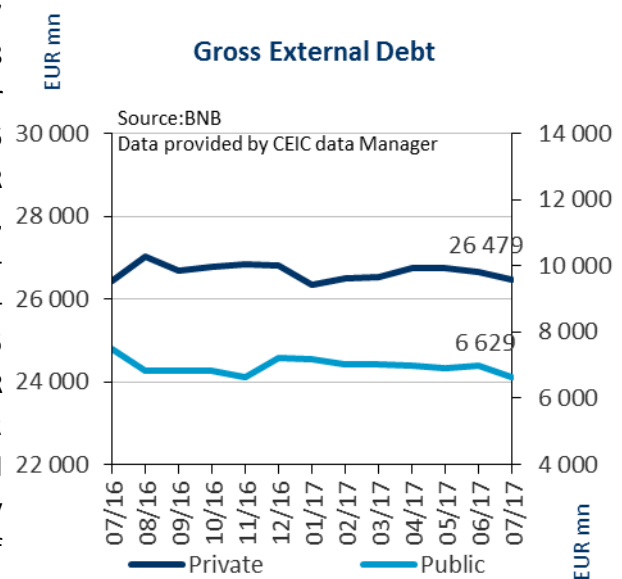


million (27.2 %), their share in total imports increased from 44.1 % in January – July 2016 to 47.9 % in the same period of 2017. The increase in imports was contributed mostly from Russia by EUR 392.9 million (30.2 %) and Turkey by EUR 196.8 million (22.5 %), whereas the imports from the USA decreased by EUR 4.0 million (-1.2 %). The largest share in total exports (CIF) was held by Germany (11.0 % of total imports, EUR 1 866.7 million), Russia (10.0 % of total imports, EUR 1 693.3 million), Italy (7.6 % of total imports, EUR 1 289.4 million) and China (7.3 % of total imports, EUR 1 235.1 million).

Gross external debt

At end-July 2017 gross external debt amounted to EUR 33,107.7 million (66 % of GDP), decreasing by EUR 938.6 million (2.8 %) from end-2016 (EUR 34,046.3 million, 71.9 % of GDP)

According to the BNB data, gross external debt amounted to EUR 33,107.7 million (66 % of GDP) at end-July 2017, decreasing by EUR 938.6 million (2.8 %) from end-2016 (EUR 34,046.3 million, 71.9 % of GDP). On a year-on-year basis gross external debt dropped by EUR 849 million (2.5 %) from July 2016 (EUR 33,956.7 million, 71.7 % of GDP). Long-term liabilities totalled EUR 25,614.5 million (77.4 % of the total debt, 51.1 % of GDP) at end-July 2017, dropping by EUR 1,000.6 million (3.8 %) from end-2016 (EUR 26,615.1 million, 78.2 % of the total debt, 56.2 % of GDP). On a year on-year basis, long-term liabilities decreased by EUR 1,280.6 million (4.8 %) from July 2016 (EUR 26,895.1 million, 56.8 % of GDP). Short-term liabilities equalled EUR 7,493.2 million (22.6 % of the total debt, 14.9 % of GDP), increasing by EUR 62 million (0.8 %) from end-2016 (EUR 7,431.2 million; 21.8 % of the total debt, 15.7 % of GDP). On a year-on year basis, short-term liabilities rose by EUR 431.6 million (6.1 %) from July 2016 (EUR 7,061.7 million, 14.9 % of GDP). General government's gross external debt totalled EUR 6,015.2 million (12 % of GDP) in end-July 2017. It dropped by EUR 767.3 million (11.3 %) from end-2016 (EUR 6,782.5 million, 14.3 % of GDP). On a year-on-year basis general government's debt decreased by EUR 602.5 million (9.1 %) from July 2016 (EUR 6,617.7 million, 14 % of GDP). Banks' external debt totalled EUR 4,343.1 million (8.7 % of GDP). It grew by EUR 180.2 million (4.3 %) from end-2016 (EUR 4,162.9 million, 8.8 % of GDP). On a year-on-year basis banks' debt grew by EUR 655 million (17.8 %), from EUR 3,688.2 million, 7.8 % of GDP in July 2016. Other Sectors' external debt equalled EUR 10,647.5 million (21.2 % of GDP). It dropped by EUR 82.3 million (0.8 %) from end-2016 (EUR 10,729.8 million, 22.7 % of GDP). On a year-on-year basis it dropped by EUR 381.9 million (3.5 %) from July 2016 (EUR 11,029.4 million, 23.3 % of GDP). The stock of intercompany lending amounted to EUR 12,101.9 million (24.1 % of GDP) at end-July 2017, dropping by EUR 269.2 million (2.2 %) from end-2016 (EUR 12,371.1 million, 26.1 % of GDP). On a year-on-year basis it decreased by EUR 519.5 million (4.1 %) from July 2016 (EUR 12,621.4 million, 26.6 % of GDP). The external financing received from non-residents equalled EUR 2,682.1 million (5.3 % of GDP) in January – July 2017, compared with EUR 4,109.4 million (8.7 % of GDP) in January – July 2016. They were distributed as follows: general government received EUR 92.9 million (3.5 % of the total amount of disbursements), banks received EUR 901.5 million (33.6 %), other sectors received EUR 622.1 million (23.2 %), and intercompany lending totalled EUR 1,065.5 million (39.7 %). Gross external debt service totalled EUR 3,344.4 million (6.7 % of GDP) in January – July 2017, compared with EUR 3,332.3 million (7 % of GDP) in January – July 2016. Net external debt recorded a negative value of EUR 382.6 million (0.8 % of GDP) at end-July 2017, dropping by EUR 1,908.9 million from end-2016 (EUR 1,526.4 million, 3.2 % of GDP). Its decline was due to the increase in gross external assets (by EUR 970.3 million, 3 %) on the one hand, and on the other – to the decrease in gross external debt (by EUR 938.6 million, 2.8 %). On a year-on-year basis, net external debt decreased by EUR 2,749.4 million (from EUR 2,366.9 million, 5 % of GDP in July 2016).



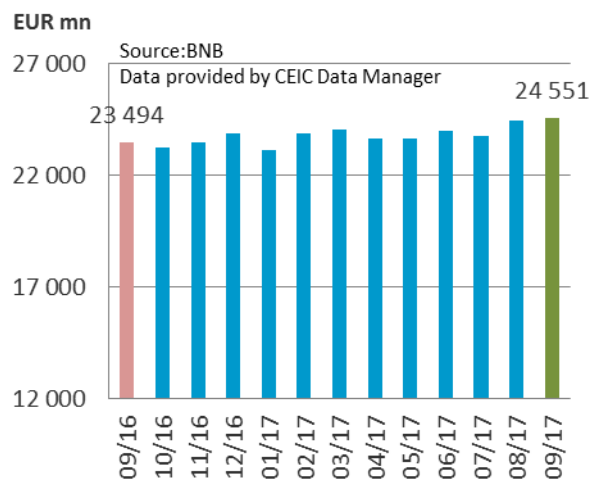
Foreign reserves

At the end of September 2017 the foreign reserves of the BNB are in the amount of BGN 48.017 bn (EUR 24.551 bn), increasing by 0.4 % mom and by 4.5 % yoy

According to the BNB data at the end of September 2017 the foreign reserves of the BNB are in the amount of BGN 48.017 bn (EUR 24.551 bn), increasing by 0.4 % mom and by 4.5 % yoy. For a period of a month cash and foreign currency denominated deposits reported an increase of 3.3 % and 51.6 % on an annual base. As at the end of September 2017 they are in the amount of BGN 20.1 bn. Monetary gold and other monetary gold instruments and investments in securities declined respectively by 0.7 and 1.6 % mom and by 8.0 % and 15.3 % yoy. As of 29.09.2017 Notes and coins in circulation are in the amount of BGN 15.1 bn, reporting an increase of 1.1 % mom and 12.7 % yoy. An increase on an annual base is observed in the Liabilities to banks by 15.8 %, with a monthly decrease of 1.3 %. On the contrary, the liabilities to Government and to government budget institutions decreased by 11.4 % in comparison to the same period of the previous year, with an increase of 2.5 % on a monthly base. As at the end of the reporting period Liabilities to other depositors are in the amount of BGN 1.5 bn, increasing by 0.8 % compared to the previous month and by 31.7 % compared

to the same period of the previous year. Banking Department deposit decreased by 0.7 % mom and by 9.5 % yoy and is in the amount of BGN 5.7 bn. Bulgaria's international liquidity position, calculated as a ratio of international reserves to short-term external debt kept its high level of 317 %.

Foreign Reserves



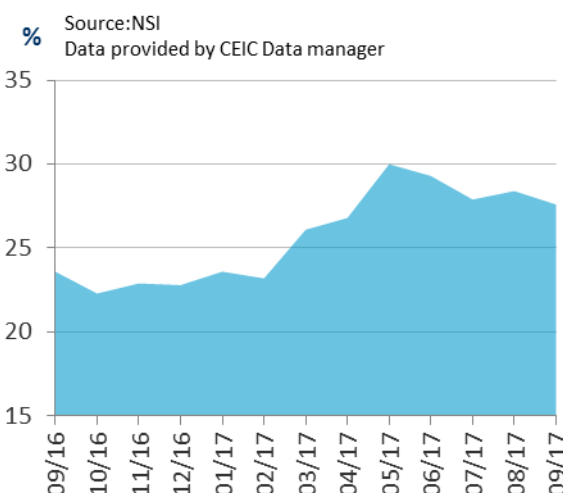
REAL SECTOR

Business climate

In September 2017 the total business climate indicator decreases to 27.6 % or by 0.8 percentage points mom, with an increase by 4.0 percentage points yoy

According to the NSI data in September 2017, the total business climate indicator decreases by 0.8 percentage points to 27.6 % in comparison with August which is due to the more unfavourable business climate in construction, retail trade and service sector. The composite indicator 'business climate in industry' increases by 1.9 percentage points to 28.3 % compared to the previous month as a result of the more optimistic industrial entrepreneurs' assessments and expectations about the business situation of the enterprises. The present production activity is assessed as slight improved, as the expectations about the activity over the next 3 months remain favourable. The main factors, limiting the enterprises continue to be connected with the uncertain economic environment and shortage of labour, although in the last month a decrease of the negative impact of the first factor is observed. Concerning the selling prices in industry, the managers do not foresee a change over the next 3 months. In September the composite indicator 'business climate in construction' decreases by 1.8 percentage points to 26.8 % which is entirely due to the more reserved construction entrepreneurs' expectations about the business situation of the enterprises over the next 6 months. In their opinion there is some in-

Business Climate Indicator



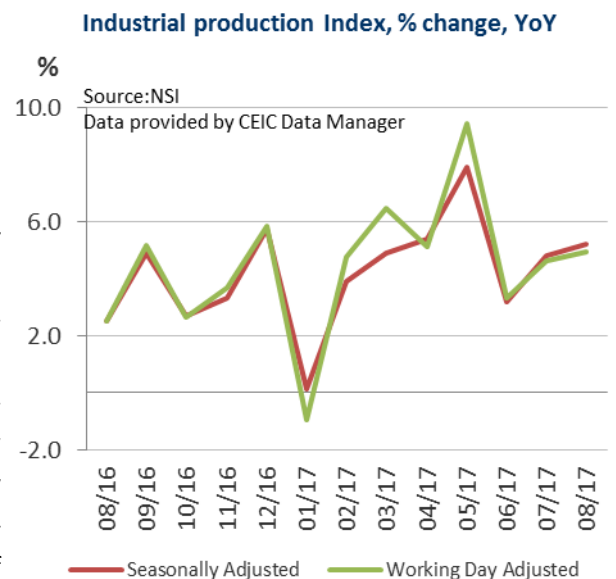
crease in the new orders inflow at the last month, but their expectations about the construction activity over the next 3 months are worsened. The uncertain economic environment, competition in the branch and shortage of labor remain the main problems for the business development. As regards the selling prices in the sector, the managers' expectations are for preserving of their level over the next 3 months. The composite indicator 'business climate in retail trade' decreases by 3.5 percentage points to 39.8 % as result of the shifting of the retailers' assessments and expectations about the business situation of the enterprises from 'good' towards 'satisfactory' (normal for the season). Their forecasts about the volume of sales and order places whit suppliers over the next 3 months are also more reserved. The most serious problem limiting the activity of the enterprises remains the competition in the branch, followed by the uncertain economic environment and the insufficient demand. Concerning the selling prices, the retailers foresee them to remain unchanged over the next 3 months. In September the composite indicator 'business climate in service sector' decreases by 2.5 percentage points to 14.8 % which is due to the more unfavorable managers' assessments and expectations about the business situation of the enterprises. At the same time in their forecasts about the demand for services over the next 3 months, certain pessimism is observed. The main obstacles for the business development continue to be connected with the competition in the branch and uncertain economic environment, as in the last month their negative influence is strengthened. As regards the selling prices in the sector, the prevailing managers' expectations are to preservation of their level over the next 3 months.

Industrial production index

In August 2017 the Industrial Production Index, seasonally adjusted, increased by 0.4 % mom and by 4.9 % yoy as per the working day adjusted data

According to the preliminary data of the NSI the Industrial Production Index, seasonally adjusted, increased by 0.4 % in August 2017 as compared to July 2017. In August 2017 working day adjusted Industrial Production Index rose by 4.9 % in comparison with the same month of 2016. In August 2017 as compared to July 2017, the seasonally adjusted Industrial Production Index increased in the mining and quarrying industry by 4.0 % and in the manufacturing by 0.4 %, while in the electricity, gas, steam and air conditioning supply decreased by 0.7 %. The most significant production increases in the manufacturing were registered in the manufacture of tobacco products by 28.3 %, in the manufacture of computer, electronic and optical products by 7.6 %, in the manufacture of machinery and equipment by 6.7 %, in the manufacture of chemicals and chemical products by 6.2 %. There were decreases in the repair and installation of machinery and equipment by 21.7 %, in the manufacture of fabricated metal products, except machinery and equipment by 9.9 %, in the manufacture of beverages by 6.2 %, in printing and reproduction of recorded media by 4.6 %.

On annual basis in August 2017 Industrial Production Index calculated from working day adjusted data rose in mining and quarrying industry by 12.9 % and in the manufacturing by 6.4 %, while the production went down in the electricity, gas, steam and air conditioning supply by 3.8 %. In the manufacturing, the more considerable increases compared to the same month of the previous year were registered in the manufacture of computer, electronic and optical products by 29.0 %, in the manufacture of machinery and equipment by 26.8 %, in the manufacture of basic pharmaceutical products and pharmaceutical preparations by 21.5 %, in the manufacture of fabricated metal products, except machinery and equipment by 18.0 %. Decreases were seen in the manufacture of other transport equipment by 15.6 %, in the manufacture of beverages by 13.0 %, in the manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials by 10.1 %, in the manufacture of food products by 4.3 %.

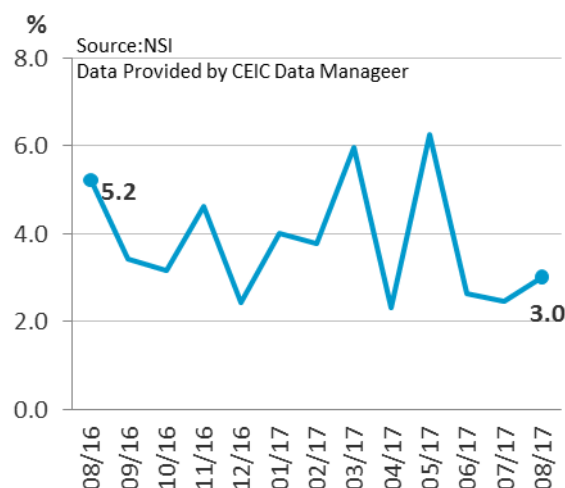


Retail trade

In August 2017 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 0.4 % mom and by 3.0 % yoy as per the working day adjusted data

According to the preliminary seasonally adjusted data of the NSI in August 2017 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 0.4 % compared to the previous month. In August 2017, the working day adjusted turnover in 'Retail trade, except of motor vehicles and motorcycles' marked rise from 3.0 % in comparison with the same month of the previous year. In August 2017 compared to the previous month, more significantly increase of turnover was observed in the 'Retail sale via mail order houses or via Internet' by 2.3 %, in the 'Retail sale of automotive fuel' by 2.0 % and in the 'Retail sale of audio and video equipment; hardware, paints and glass; electrical household appliances' by 1.4 %. Decrease was registered in the 'Retail sale of computers, peripheral units and software; telecommunications equipment' - 1.2 % and in the 'Dispensing chemist; retail sale of medical and orthopaedic goods, cosmetic and toilet articles' - 0.1 %. In August 2017 compared to the same month of 2016, the turnover increased more significantly in the 'Retail sale in non-specialized stores' by 15.1 %, in the 'Retail sale of computers, peripheral units and software; telecommunications equipment' by 11.9 % and in the 'Retail sale of audio and video equipment; hardware, paints and glass; electrical household appliances' by 8.9 %. Decline was registered in the 'Retail sale of automotive fuel' - 11.3 % and in the 'Retail sale via mail order houses or via Internet' - 2.8 %.

Retail trade index, % change (YoY)

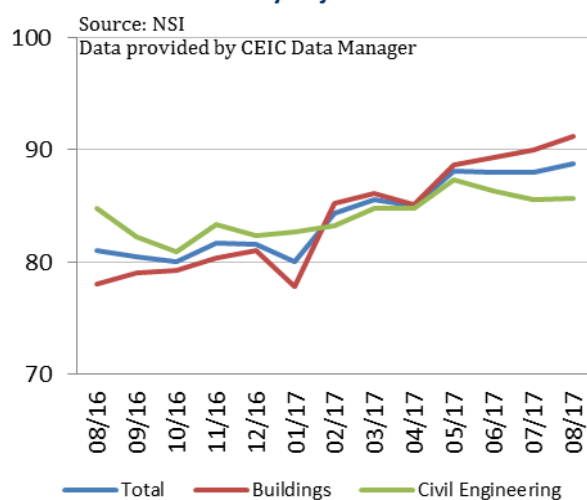


Construction

In August 2017 the index of production in section 'Construction' calculated on the base of seasonally adjusted data reported an increase of 0.9 % mom and 9.0 % yoy as per the working day adjusted data

According to the preliminary data of the NSI, in August 2017 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 0.9 % above the level of the previous month. In August 2017 working day adjusted data showed an increase by 9.0 % in the construction production, compared to the same month of 2016. In August 2017 the construction production, calculated from the seasonally adjusted data, was above the level of the previous month. Index of production of building construction rose by 1.4 % and the production of civil engineering - by 0.2 %. On an annual basis in August 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 16.9 % and the civil engineering - by 0.1 %.

Construction Production index, seasonally adjusted data

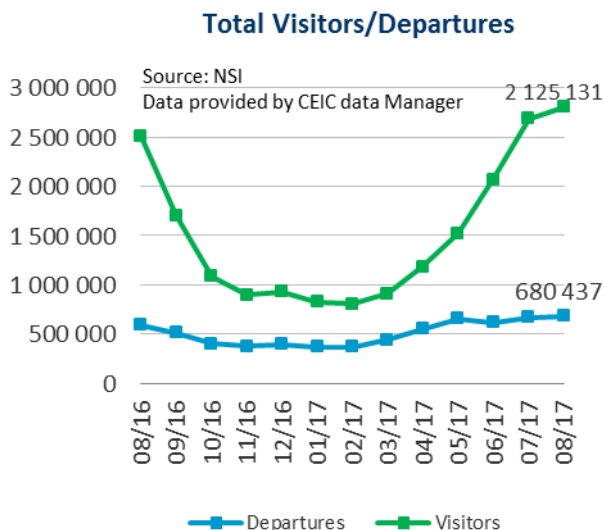


Tourism

In August 2017, the number of the trips of Bulgarian residents abroad was 680.4 thousand or by 15.2 % above the registered in August 2016

According to the NSI data, in August 2017, the number of the trips of Bulgarian residents abroad was 680.4 thousand or by 15.2 % above the registered in August 2016. In comparison with the same month of the previous year an increase was ob-

served in the total number of the trips of Bulgarians to: Germany - by 27.9 %, Italy - by 27.3 %, Austria - by 25.5 %, Spain - by 22.9 %, the United Kingdom - by 19.3 %, Turkey - by 18.9 %, France - by 12.9 %, Serbia - by 11.4 %, Romania - by 10.5 %, Greece - by 8.8 %, and etc. At the same time decreased the number of the trips of Bulgarians to: Ukraine - by 6.6 %, Russian Federation - by 5.0 %, and etc. The trips with other purposes (as a guest, education and visit the cultural and sport events) in August 2017 composed the greatest share of the total number of trips of Bulgarian residents abroad - 44.6 %, followed by the trips with holiday and recreation purpose - 42.9 %, and with professional purpose - 12.5 %. In comparison with August 2016, an increase was registered in the trips with all observed purposes: with holiday and recreation purpose - by 18.5 %, with other purposes - by 15.0 %, and with professional purpose - by 5.7 %. In August 2017, the trips with other purposes formed 70.2 % of all trips to Turkey and 66.0 % - to Czech Republic. The trips with holiday and recreation purpose to Italy and Greece were 64.1 % and 63.8 % respectively of all trips of Bulgarian residents to these countries. In August 2017, the number of arrivals of visitors from abroad to Bulgaria was 2 125.1 thousand or by 10.8 % more in comparison with August 2016. An increase was registered in the trips by all observed purposes: with other purposes - by 19.7 %, with holiday and recreation purpose - by 6.4 %, and with professional purpose - by 3.0 %. The share of visits of EU citizens was 62.4 % of the total number of foreigners' visits to Bulgaria in August 2017 or by 13.7 % more in comparison with the same month of the previous year. An increase was registered in the visits of citizens from the Netherlands - by 41.4 %, the United Kingdom - by 38.1 %, France - 34.7 %, Romania - by 33.1 %, Belgium - by 30.3 %, Greece - by 19.1 %, Austria - by 9.5 %, Poland - by 2.2 %, and etc. At the same time decreased the visits from Denmark - by 44.4 %, Hungary - by 30.5 %, Czech Republic - by 16.1 %, and etc. The visits of foreigners in the group 'Other European countries' increased by 7.1 %, as the highest growth was observed in the visits of citizens of the Former Yugoslav Republic of Macedonia - by 16.7 %. In August 2017, the predominant share of the visits with holiday and recreation purpose was 55.4 %, followed by trips with other purposes (including as guest and passing transit) - 37.9 %, and with professional purpose - 6.7 %. The visits with holiday and recreation purpose formed 98.2 % of the arrivals from Israel and 94.7 % - from Russian Federation, as with other purposes were 81.5 % of all arrivals from Greece and 73.9 % - from Turkey.

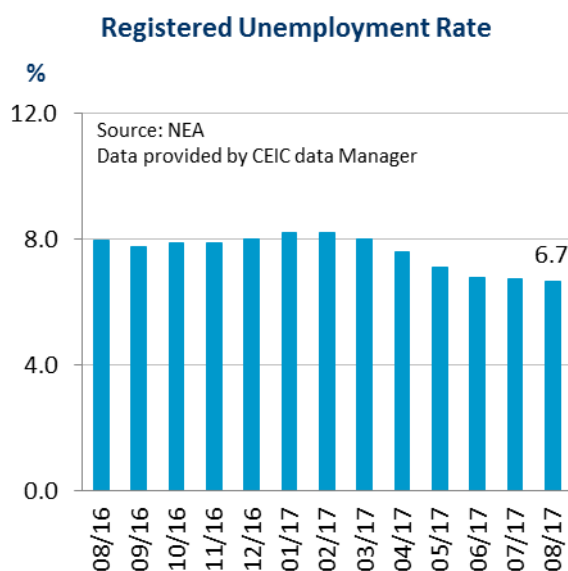


In August 2017, the number of arrivals of visitors from abroad to Bulgaria was 2 125.1 thousand or by 10.8 % more in comparison with August 2016. An increase was registered in the trips by all observed purposes: with other purposes - by 19.7 %, with holiday and recreation purpose - by 6.4 %, and with professional purpose - by 3.0 %. The share of visits of EU citizens was 62.4 % of the total number of foreigners' visits to Bulgaria in August 2017 or by 13.7 % more in comparison with the same month of the previous year. An increase was registered in the visits of citizens from the Netherlands - by 41.4 %, the United Kingdom - by 38.1 %, France - 34.7 %, Romania - by 33.1 %, Belgium - by 30.3 %, Greece - by 19.1 %, Austria - by 9.5 %, Poland - by 2.2 %, and etc. At the same time decreased the visits from Denmark - by 44.4 %, Hungary - by 30.5 %, Czech Republic - by 16.1 %, and etc. The visits of foreigners in the group 'Other European countries' increased by 7.1 %, as the highest growth was observed in the visits of citizens of the Former Yugoslav Republic of Macedonia - by 16.7 %. In August 2017, the predominant share of the visits with holiday and recreation purpose was 55.4 %, followed by trips with other purposes (including as guest and passing transit) - 37.9 %, and with professional purpose - 6.7 %. The visits with holiday and recreation purpose formed 98.2 % of the arrivals from Israel and 94.7 % - from Russian Federation, as with other purposes were 81.5 % of all arrivals from Greece and 73.9 % - from Turkey.

Unemployment

In August 2017, the number of the registered unemployed at labor offices is 218 436, decreasing by 1.1 % mom and 16.5 % yoy

According to the National employment agency, in August 2017 the number of the registered unemployed at labor offices is 218 436, decreasing by 1.1 % mom and 16.5 % yoy. The level of the registered unemployment in August 2017, defined as a share the registered unemployed to economically active population at the age of 15-64, set with the Census 2011 is 6.7 %. There is a decrease at the level of unemployment both in comparison with the previous month and on annual base, by 0.08 pp and 1.3 pp, respectively. In August total 18 054 started work, decreasing by 1.3 % mom and by 8.8 % yoy. In August 2017 total 23 046 job vacancies were announced in the labor offices, reporting an increase by 28.3 % compared to July 2017 and by 3.8 % on annual base. The declared job vacancies for the primary market constitute 81.8 % of the total declared job vacancies, on schemes of Operational Programme Human Resources Development – 11,6 %, for measures of the Employment Promotion law – 3.6 % and employment programs – 3.0 %. On the primary market, there have been announced 18 856 job vacan-

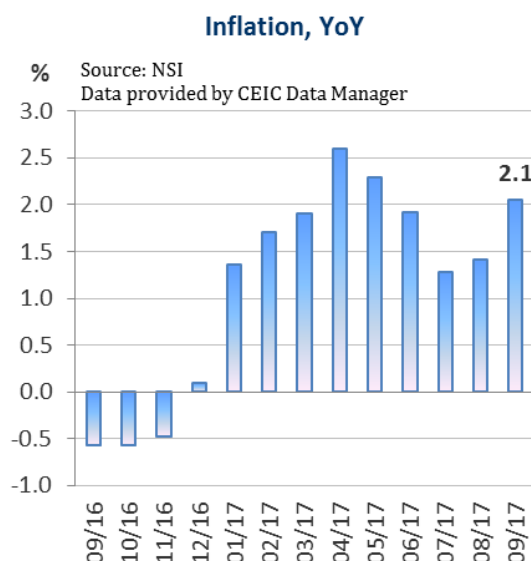


cies, increasing by 20.1 % compared to the previous month and decreasing by 0.4 % on annual base. In August 2017 most of the job vacancies of the primary market in the labor offices have been announced by: manufacturing industry (4 926); education (3 038), trade (2 320); Administrative and support activities (2 308); Government management (1 290), hotel and restaurant management (1 008); construction (986); Transport, storage and mail services (573), Agriculture, forestry and fisheries (489); Real estate transaction (485) etc.

Inflation

In September 2017 compared to August 2017 the consumer price index was 100.2 %, i.e. the monthly inflation was 0.2 % and the annual was 2.1 %

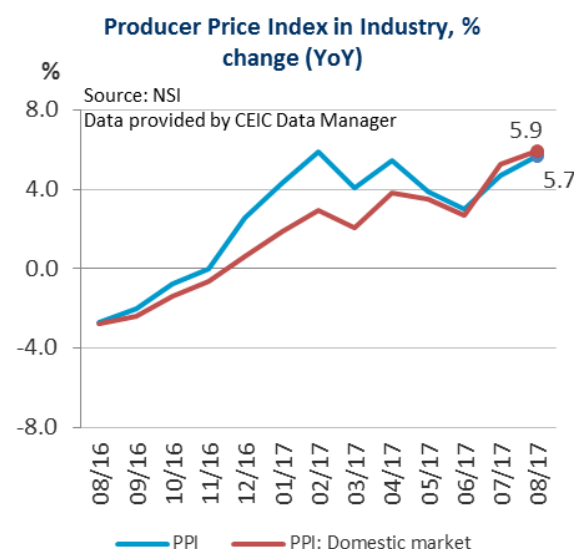
According to the NSI data the consumer price index in September 2017 compared to August 2017 was 100.2 %, i.e. the monthly inflation was 0.2 %. The inflation rate since the beginning of the year (September 2017 compared to December 2016) has been 1.3 % and the annual inflation in September 2017 compared to September 2016 was 2.1 %. The annual average inflation, measured by CPI, in the last 12 months (October 2016 - September 2017) compared to the previous 12 months (October 2015 - September 2016) was 1.3 %. In September 2017 compared to the previous month the prices of goods and services in the main consumer groups changed as follows: Food and non-alcoholic beverages - an increase of 1.2 %; Housing, water, electricity, gas and other fuels - an increase of 0.7 %; Transport - an increase of 1.0 %; Recreation and culture - a decrease of 7.0 %; Education - an increase of 1.5 %; Restaurants and hotels - a decrease of 0.8 %. The harmonized index of consumer prices in September 2017 compared to August 2017 was 99.8 %, i.e. the monthly inflation was -0.2 %. The groups 'Recreation and culture' and 'Restaurants and hotels' had the biggest downward impact on the total HICP that measures the change in prices of goods and services, consumed by all households (including foreign households) on the economic territory of the country. The inflation rate since the beginning of the year (September 2017 compared to December 2016) has been 0.7 % and the annual inflation in September 2017 compared to September 2016 was 1.3 %. The annual average inflation, measured by HICP, in the last 12 months (October 2016 - September 2017) compared to the previous 12 months (October 2015 - September 2016) was 0.6 %.



Producer Price Index in Industry

In August 2017 Total Producer Price Index in Industry increased by 0.7 % mom and by 5.8 % yoy

According to the NSI data Total Producer Price Index in Industry in August 2017 increased by 0.7 % compared to the previous month. Higher prices were registered in the mining and quarrying industry by 2.1 %, in the manufacturing by 0.7 %, and in the electricity, gas, steam and air conditioning supply by 0.5 %. In the manufacturing, more significant prices increases were seen in the manufacture of basic metals by 1.1 % and in the manufacture of wood and of products of wood and cork, except furniture by 0.8 %, while prices decreases were reported in the manufacture of computer, electronic and optical products by 1.5 % and in in the manufacture of other transport equipment by 0.9 %. Total Producer Price Index in August 2017 increased by 5.8 % compared to the same month of 2016. The prices rose in the mining and quarrying industry by 11.7 %, in the electricity, gas, steam and air conditioning supply by 10.5 %,



and in the manufacturing by 3.9 %. In the manufacturing more significant prices increases were seen in the manufacture of basic metals by 11.4 %, in the manufacture of wood and of products of wood and cork, except furniture by 6.1 % and in the manufacture of motor vehicles, trailers and semi-trailers by 4.9 %, while the producer prices fell in the manufacture of computer, electronic and optical products by 1.7 %, in the manufacture of other transport equipment by 1.5 % and in the manufacture of leather and related products by 1.4 %. Producer Price Index on Domestic Market in August 2017 increased by 0.4 % compared to the previous month. The domestic prices rose in the mining and quarrying industry by 3.2 % and in the manufacturing by 0.5 %, 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 basic metals by 2.5 % and in the manufacture of wearing apparel by 0.8 %, while the domestic prices fell in the manufacture of tobacco products by 0.7 % and in the manufacture of chemicals and chemical products by 0.6 %. Producer Price Index on Domestic Market in August 2017 increased by 5.9 % compared to the same month of 2016. The domestic prices rose in the electricity, gas, steam and air conditioning supply by 10.4 %, in the mining and quarrying industry by 9.0 % and in the manufacturing by 3.1 %. In the manufacturing compared to August 2016 the prices went up in the manufacture of basic metals by 11.9 %, in the manufacture of wood and of products of wood and cork, except furniture by 5.0 % and in the manufacture of electrical equipment by 4.8 %. The prices decreases were reported in the manufacture of leather and related products by 0.2 %, in the manufacture in of other non-metallic mineral products and in the manufacture of computer, electronic and optical products by 0.1 %. Producer Price Index on Non-domestic Market in August 2017 increased by 1.2 % compared to the previous month. In the manufacturing² the non-domestic prices rose by 0.9 %. More significant prices increases were reported in the manufacture of wood and of products of wood and cork, except furniture by 1.1 % and in the manufacture of basic metals by 0.8 %, while the prices went down in the manufacture of computer, electronic and optical products by 2.3 % and in the manufacture of other transport equipment by 1.2 %. Producer Price Index on Non-domestic Market in August 2017 increased by 5.5 % compared to the same month of 2016. In the manufacturing, the prices rose by 4.9 %. The non-domestic prices rose in the manufacture of basic metals by 11.3 % and in the manufacture of paper and paper products by 10.9 %. The prices fell in the manufacture of chemicals and chemical products by 2.6 % and in the manufacture of computer, electronic and optical products by 2.5 %.

FISCAL SECTOR

Budget balance

As of end-August 2017 the Consolidated Fiscal Programme (CFP) balance on a cash basis is positive, amounting to BGN 2,151.5 million, or 2.2 % of the projected GDP, and is formed by a national budget surplus of BGN 2,144.7 million and by a surplus of EU funds of BGN 6.7 million

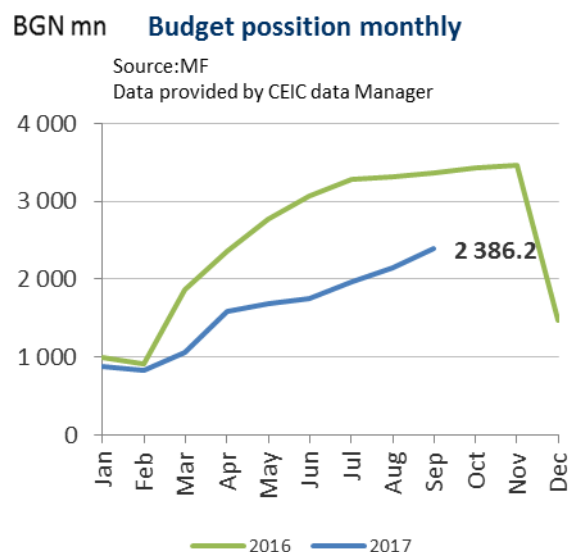
According to the MF data, the Consolidated Fiscal Programme (CFP) balance on a cash basis as of end-August 2017 is positive, amounting to BGN 2,151.5 million, or 2.2 % of the projected GDP, and is formed by a national budget surplus of BGN 2,144.7 million and by a surplus of EU funds of BGN 6.7 million. The national budget balance reports an improvement in structural terms as compared to the same period of 2016 mainly due to the growth of revenues from tax and social security and health insurance contributions, while the balance of EU fund accounts has deteriorated this year due to a baseline effect in 2016 related to the EU grants reimbursed to Bulgaria at the beginning of 2016 for expenditures incurred at the end of 2015 when was the peak of project payments under the previous 2007 – 2013 programming period. The CFP revenues and grants in August 2017 stand at BGN 23,284.8 million, or 65.7 % of the annual estimates. Compared to the same period of the previous year, tax and non-tax revenues have risen by BGN 1,492.1 million, or by 7.2 %, with grant proceeds being lower. Tax proceeds, including revenues from social security contributions, total BGN 19,402.6 million, which accounts for 69.2 % of the revenues planned for the year. Compared to the data as of August 2016, tax proceeds have risen in nominal terms by 8.4 %, or by BGN 1,496.5 million. Direct tax revenues amount to BGN 3,555.4 million, or 69.8 % of the estimates planned for the year, growing by BGN 275.4 million, or by 8.4 %. Indirect tax revenues amount to BGN 9,642.0 million, which accounts for 68.8 % of the annual estimates. Compared to the data as of August 2016, proceeds in this group have grown by BGN 503.9 million, or by 5.5 %. VAT proceeds amount to BGN 6,275.5 million, or 71.4 % of those planned. Compared to the previous year, VAT revenues have risen by BGN 440.6 million, or by 7.6 %. The amount of non-refunded VAT as of end-August 2017 is BGN 71.5 million. The excise duty reve-

nues amount to BGN 3,217.2 million, or 63.9 % of the annual estimates. Customs duty proceeds amount to BGN 124.5 million, or 75.0 % of the estimates for the year. Proceeds from other taxes, including property taxes and other taxes under the Corporate Income Tax Law, amount to BGN 765.8 million, or 77.3 % of the annual estimates. Revenues from social security and health insurance contributions are BGN 5,439.4 million, which accounts for 68.5 % of the estimates for the year. Compared to the same period of the previous year, the revenues from social security contributions have risen by BGN 682.2 million, or by 14.3 %, in nominal terms. Non-tax revenues amount to BGN 2,887.4 million, which accounts for 60.7 % of the annual estimates. Grant revenues amount to BGN 994.8 million, or 37.6 % of those planned for the year. CFP expenditures, including the contribution of the Republic of Bulgaria to the EU budget for August 2017, amount to BGN 21,133.4 million, which accounts for 57.5 % of the annual estimates. For comparison, CFP expenditures for the same period of 2016 amount to BGN 19,698.1 million. The higher expenditures, as compared to end-August 2016, are mainly due to the higher amount of social security and health insurance payments, the baseline effect of pension expenditures since their increase in July 2016, the new pension increase as from July 2017, as well as the higher subsidy expenditures and the higher staff costs, including due to the increase in social security contribution expenditures linked to the higher contribution to the Pensions to Persons Pursuant to Article 69 Fund of the Social Insurance Code by 20 pps as against 2016. Non-interest expenditures amount to BGN 19,911.0 million, which accounts for 57.6 % of the annual estimates. Non-interest current expenditure as of August 2017 amount to BGN 18,674.6 million, or 65.9 % of the estimates for the year, capital expenditures (including net increment of state reserve) amount to BGN 1,236.3 million, or 19.9 % of the 2017 State Budget of the Republic Bulgaria Law estimates. Interest payments amount to BGN 615.0 million, or 74.4 % of those planned for 2017. The part of Bulgaria's contribution to the EU budget, as paid from the central budget as of August 2017, amounts to BGN 607.4 million, which complies with the existing legislation in the area of EU own resources, i.e. Council Decision 2014/335/EU on the system of own resources of the European Union, Council Regulation (EU, Euratom) No 608/2014 of 26 May 2014 laying down implementing measures for the system of own resources of the European Union and Council Regulation (EU, Euratom) No 609/2014 of 26 May 2014 on the methods and procedure for making available the traditional, VAT and GNI-based own resources and on the measures to meet cash requirements, as amended by Council Regulation (EU, Euratom) 2016/804 of 17 May 2016. The fiscal reserve as of end-August 2017 is BGN 11.6 billion, including BGN 11.1 billion of fiscal reserve deposits in the BNB and in banks and BGN 0.5 billion of receivables under the EU Funds for certified expenditure, advance payments, etc.

As of September 2017 the balance of the Consolidated Fiscal Programme (CFP) on a cash basis is expected to be positive, amounting to BGN 2,386.2 million or 2.4 % of forecast GDP

According to the MF data the balance of the Consolidated Fiscal Programme (CFP) on a cash basis as of September 2017 is expected to be positive, amounting to BGN 2,386.2 million or 2.4 % of forecast GDP. The national budget balance reports an improvement in structural terms as compared to the same period of 2016 mainly due to the growth of tax 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. The latter is 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. Key CFP parameters on the basis of preliminary data and estimates: As of September 2017, CFP revenues and grants are expected to be BGN 26,132.1 million (73.7 % of the annual estimates). The performance of tax and non-tax revenues is expected to be 76.5 % of the estimates for the year, which is a growth by BGN 1,750.1 million as compared to the same period of the previous year (7.5 %). Grant revenues as of end-September are lower than the same period of 2016, with execution as compared to the 2017 annual estimates expected to be 39.9 %.

The Consolidated Fiscal Programme expenditures, including the contribution of the Republic of Bulgaria to the EU budget, as of September 2017 are expected to amount to BGN 23,746.0 million, which is 64.6 % of the annual estimates. The expenditures



for the same period of the previous year were to the amount of 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, 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. 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.

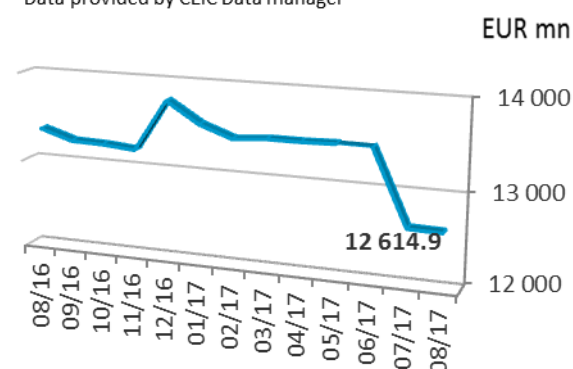
Central Government debt

As at end-August 2017 the central government debt stands at EUR 12,614.9 million, decreasing by BGN 7.6 million compared to the previous month

According to the MF data, the central government debt stands at EUR 12,614.9 million as at end-August 2017. It has decreased by BGN 7.6 million compared to the previous month. Domestic debt amounts to EUR 3,329.0 million and external debt – to EUR 9,285.9 million. At the end of the reporting period the central government debt-to-gross domestic product (GDP) ratio is 25.4 %, with the share of domestic debt being 6.7 % and of external debt – 18.7 % of GDP. In the central government debt structure, domestic debt at the end of the period amounts to 26.4 %, and external debt – to 73.6 %. The weighted average interest rate on debt for the period January – August 2017 is 2.70 %, decreasing by 22 basis points compared to the same period of 2016 (2.92 %). Central government guaranteed debt amounts to EUR 390.4 million as of 31 August 2017. Domestic guarantees stand at EUR 34.9 million, while the central government guaranteed debt-to-GDP ratio amounts to 0.8 %. According to the official register of government and government guaranteed debt, kept by the Ministry of Finance on the grounds of Article 38(1) of the Government Debt Law, at end-August 2017 government debt reaches EUR 11,976.3 million, or 24.1 % of GDP. Domestic debt amounts to EUR 3,288.9 million and external debt – to EUR 8,687.4 million. Government guaranteed debt amounts to EUR 1,039.8 million in August 2017. Domestic guarantees amount to EUR 34.9 million, with the government guaranteed debt-to-GDP ratio being 2.1 %.

Central Government Debt

Source: Ministry of Finance
Data provided by CEIC Data manager

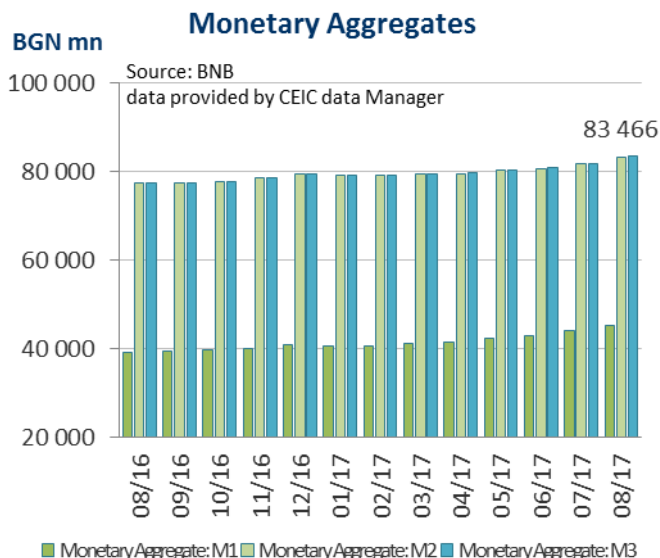


MONETARY SECTOR

In August 2017 broad money (monetary aggregate M3) increased annually by 7.7 % compared to 6.9 % annual growth in July 2017

According to the BNB data in August 2017 broad money (monetary aggregate M3) increased annually by 7.7 % compared to 6.9 % annual growth in July 2017. At the end of August 2017 M3 was BGN 83.466 billion (85.1 % of GDP) compared to BGN 81.932 billion (83.5 % of GDP) in July 2017. Its most liquid component – monetary aggregate M1 – increased by 15.9 % annually in August 2017 (14.6 % annual growth in July 2017). At the end of August 2017, deposits of the non-government sector were BGN 70.379 billion (71.7 % of GDP), increasing annually by 6 % (5.4 % annual growth in July 2017). Deposits of Non-financial corporations were BGN 20.919 billion (21.3 % of GDP) at the end of August 2017. Compared to the same month of 2016 they increased by 11.1 % (10.3 % annual growth in July 2017). Deposits of financial corporations decreased by 13.2 % annually in August 2017

(17.7 % annual decline in July 2017) and at the end of the month they reached BGN 3.353 billion (3.4 % of GDP). Deposits of Households and NPISHs were BGN 46.106 billion (47 % of GDP) at the end of August 2017. They increased by 5.4 % compared to the same month of 2016 (5.3 % annual growth in July 2017). Net domestic assets were BGN 51.066 billion at the end of August 2017. They increased by 9 % compared to the same month of 2016 (10.1 % annual growth in July 2017). At the end of the month their basic component – domestic credit – was BGN 52.051 billion and increased by 7.2 % compared to August 2016 (8.1 % annual growth in July 2017). In August 2017 claims on the non-government sector increased by 4.7 % annually (4.8 % annual increase in July 2017) reaching BGN 53.683 billion. At the end of August 2017, claims on loans to the non-government sector amounted to BGN 52.522 billion (53.5 % of GDP) compared to BGN 52.461 billion (53.5 % of GDP) at the end of July 2017. They increased annually by 4.6 % in August 2017 (4.5 % annual growth in July 2017). The change of loans



to the non-government sector was influenced by net sales of loans by Other monetary financial institutions (Other MFIs) - their volume for the last twelve months was BGN 112.6 million. On an annual basis, loans sold by Other MFIs were BGN 165.3 million (of which BGN 3.4 million in August 2017), while the amount of repurchased loans was BGN 52.7 million (of which BGN 4.7 million in August 2017). In August 2017, loans to Non-financial corporations increased by 2.8 % annually (2.8 % annual growth in July 2017) and at the end of the month amounted to BGN 31.238 billion (31.8 % of GDP). Loans to Households and NPISHs were BGN 19.372 billion (19.7 % of GDP) at the end of August 2017. They increased by 5.7 % compared to the same month of 2016 (5.5 % annual growth in July 2017). At the end of August 2017 loans for house purchases were BGN 9.225 billion and increased by 5.4 % annually (4.9 % annual growth in July 2017). Consumer loans amounted to BGN 7.703 billion and compared to August 2016 they increased by 5.4 % (4.9 % annual growth in July 2017). On an annual basis other loans increased by 39.8 % (45.8 % annual growth in July 2017) and reached BGN 1.155 billion. Loans granted to financial corporations were BGN 1.912 billion at the end of August 2017 (1.9 % of GDP). Compared to August 2016, they increased by 27.6 % (28.5 % annual growth in July 2017). Net foreign assets amounted to BGN 51.852 billion at the end of the reporting month compared to BGN 50.096 billion at the end of July 2017 and increased by 2.4 % compared to August 2016 (0.2 % annual growth in July 2017). At the end of August 2017 foreign assets increased by 2.9 % annually (1.5 % annual growth in July 2017), reaching BGN 61.058 billion. Foreign liabilities amounted to BGN 9.206 billion, marking a 5.3 % annual growth (8.8 % annual increase in July 2017).

CAPITAL MARKET

As at the end of September 2017 SOFIX BSE-Sofia's benchmark index decreases by 2.5 % to 688.10 compared to the previous month, reporting a decline for second consequent month

According to BSE - Sofia as at the end of September 2017 SOFIX BSE-Sofia's benchmark index decrease by 2.5 % to 688.10 compared to the previous month, reporting a decline for second consequent month. A decline on a monthly base reports the BGBX40 and BGREIT indices by 0.4 % each to 134.34 and 114.88, respectively. On the contrary BGTR30 increases by 0.6 % mom to 559.26. For the period 01.09 – 30.09.2017 the most liquid companies on the Bulgarian capital market are Sopharma AD – Sofia with 1 862 deals and shares at the price of BGN 4.355, followed by Chimimport AD – Sofia with 551 number of deals and shares at the price of BGN 1.805, Central Cooperative Bank AD – Sofia with 345 deals and shares at the price of BGN 1.792, Monbat JSC – Sofia with 246 deals and shares at the price of BGN 11.20 and First Investment bank JSC – Sofia with 205 deals and shares at the

Date	SOFIX	BGBX40	BGREIT	BGTR30
09.2016	504.6	96.1	103.3	404.6
10.2016	531.8	100.9	104.6	420.1
11.2016	562.8	106.4	103.5	439.1
12.2016	586.4	111.3	108.1	459.2
01.2017	602.3	117.0	107.3	470.4
02.2017	611.1	120.6	107.8	486.1
03.2017	634.0	124.9	108.6	503.8
04.2017	657.3	130.3	108.4	519.9
05.2017	661.2	130.6	111.1	516.7
06.2017	703.0	134.0	113.8	534.1
07.2017	715.2	135.5	115.0	548.7
08.2017	705.4	134.9	115.3	556.1
09.2017	688.1	134.3	114.9	559.3

Source: Bulgarian Stock Exchange-Sofia

price of BGN 5.40. Total market capitalization as of 30.09.2017 is BGN 9 516 597 695, where 69 % (BGN 6 594 836 699) of it is formed by the standard market, 24 % (BGN 2 253 178 852), formed by the premium market and 7 % (BGN 668 582 145) – by the segment of companies with the special purpose vehicles. In Q3 2017 the market capitalization decreases by 0.36 % to BGN 9.517 bn compared to the previous one. The first three places in Top 30 companies by market capitalization take CB First Investment Bank AD-Sofia – with BGN 594 mn, followed by Sopharma AD-Sofia – with BGN 587 mn and CEZ Distribution Bulgaria AD-Sofia – with BGN 540 mn. The top three companies – gainers in terms of market capitalization are Futures Capital AD-Sofia – by 1574.81 % change of capitalization, Sparky Eltos AD-Lovech – by 144.01 % and Slanchev Bryag AD-Slanchev Bryag – by 81.78 %. In Q3 2017 total 22 470 transactions on the regulated market are made with turnover of BGN 225 mn and 411 transactions on the OTC Market with turnover of BGN 194 mn. The companies with the highest number of transactions are Sopharma AD-Sofia – with 3 106, Chimimport AD-Sofia – 2 551 and Sirma Group Holding JSC-Sofia – 1 317. As per the end of the quarter compared to the previous one SOFIX was the one to report a decrease of 2.18 % to 688.11. The highest increase was observed at BG TR30 – by 4.44 % to 559.26.

BANKING SECTOR

At the end of August 2017, the aggregate net profit of the banking system amounted to BGN 913 mn compared to BGN 1.040 mn for the same period of the previous year and decreased by 12.1 % yoy

According to BNB data at the end of August 2017, the aggregate net profit of the banking system amounted to BGN 913 million compared to BGN 1.040 million for the same period of the previous year and decreased by 12.1 % yoy. The main reason for this is the contraction of the net interest income by 4.8 % yoy, as well as the impact of the one-off effect on traded revenues from the sale of VIZA's shares last year. At the end of August 2017, impairment amounted to BGN 329 million and decreased by 22.9 % on an annual basis.

Indicator (BGN" 000)	30.08. 2016	30.08. 2017	Y/Y (%)
Interest Income	2 221 594	2 046 278	-7.9
Interest Expencc	341 989	256 262	-25.1
Net interest Income	1 879 605	1 790 016	-4.8
Impairment	427 182	329 405	-22.9
Fee and commission income	698 067	755 112	8.2
Fee and commission expenses	92 035	97 311	5.7
Net fee and commission income	606 032	657 801	8.5
Administration costs	1 059 822	1 051 562	-0.8
Personal costs	495 387	525 275	6.0
Total operating income, net	2 768 723	2 522 397	-8.9
Net Profit	1 039 530	913 228	-12.1

Source:BNB, UBB's Calculations

In August 2017, the total assets of the banking system grew up by 1.3 % mom and by 5.1 % yoy, respectively to BGN 94.7 billion. Their relative share in GDP was 96.2 %. As compared July 2017, cash balances with central banks and other sight deposits were increasing. As a result, the money, cash balances with central banks and other sight deposits increased by BGN 1.0 billion (5.5 %) and its share in assets reached 21.2 % (20.4 % at the end of July). Securities portfolios amounting to BGN 12.1 billion have a monthly growth of 0.3 % and their share in assets at the end of the month is 12.8 %. In August 2017 the clients' gross loan portfolio of the banking system grew up by 2.1 % yoy to BGN 55.1 billion. Increase was seen in loans to households (by 0.8 % mom and by 6.6 % yoy, respectively) and a decrease of 0.2 % mom for non-financial corporations (up 0.9 % yoy) to other financial corporations (down by 1.4 % mom and a growth rate of 19.5 % yoy, respectively) and general government (a decline of 0.2 % mom, with an increase of 6.6 % yoy, respectively). In August 2017 the deposits from customers in the banking system recorded growth of 1.5 % mom and by 5.8 % yoy to BGN 76.2 billion. Deposits of non-financial corporations grew by 4.6 % mom and by 11.8 % yoy, respectively. Deposits to other financial corporations grew up by 4.6 % mom but down by 13.6 % yoy, respectively. Households' deposits rose by 0.1 % mom and by 4.8 % yoy, respectively.

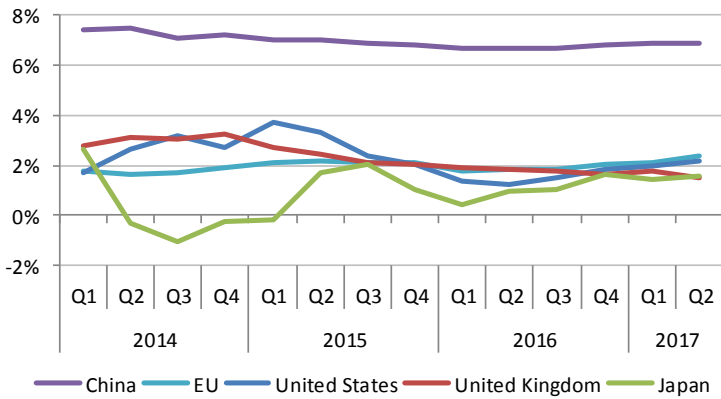
Bulgaria	30.08.2016	31.12.2016	31.07.2017	30.08.2017	Change	Change	Change	Relative
Intermediation Indicators	BGN 000	BGN 000	BGN 000	BGN 000	m/m (%)	y/y (%)	yend (%)	part of
BANKING SYSTEM TOTAL ASSETS	90 078 294	92 094 979	93 425 375	94 684 945	1.3	5.1	2.8	96.2
Loans to central governments	581 376	686 170	620 533	619 510	-0.2	6.6	-9.7	0.6
Loans to non-financial corporations	33 026 260	33 180 349	33 412 971	33 338 755	-0.2	0.9	0.5	34.4
Loans to financial corporations	1 994 000	2 025 583	2 417 460	2 382 753	-1.4	19.5	17.6	2.5
Retail loans, incl.:	18 390 845	18 575 301	19 450 422	19 598 320	0.8	6.6	5.5	20.0
Mortgage loans	8 729 264	8 771 553	9 070 486	9 142 240	0.8	4.7	4.2	9.3
Consumer loans	8 728 857	8 677 385	9 024 593	9 099 904	0.8	4.3	4.9	9.3
Micro credits and other loans	932 724	1 126 363	1 355 343	1 356 176	0.1	45.4	20.4	1.4
TOTAL LOANS	53 992 481	54 467 403	55 143 443	55 143 443	0.0	2.1	1.2	56.8
ATTRACTED SOURCES FROM CLIENTS, incl.:	72 024 884	74 129 417	75 080 006	76 218 959	1.5	5.8	2.8	77.3
Local government deposits	1 700 601	1 652 435	1 931 502	1 859 158	-3.7	9.3	12.5	2.0
Non-financial corporations deposits	20 547 199	21 375 024	21 963 226	22 979 877	4.6	11.8	7.5	22.6
Financial corporations deposits	4 175 321	3 905 721	3 447 332	3 606 173	4.6	-13.6	-7.7	3.5
Households and NPISHs deposits	45 601 763	47 196 237	47 737 946	47 773 751	0.1	4.8	1.2	49.1
Equity	12 155 234	12 133 492	12 119 736	12 274 789	1.3	1.0	1.2	
Net profit (annualised)	1 039 530	1 262 334	790 353	913 228	15.5	-12.1		
BANKING INDICATORS (%)								
ROE	12.83	10.4	11.18	11.16	0.8	-1.6	0.8	
ROA	1.73	1.4	1.45	1.45	0.1	-0.3	0.1	
Capital adequacy	n.a.	22.2	n.a.	n.a.	n.a.	n.a.	n.a.	
Liquidity	37.58	38.2	36.80	37.61	0.8	-0.8	-1.4	
NPL	n.a.	11.1	n.a.	n.a.	n.a.	n.a.	n.a.	
GDP, BGN '000	88 282 000	88 282 000	97 156 000	97 156 000				
EUR/BGN	1.95583	1.95583	1.95583	1.95583				

Source: BNB, MF, UBB Calculations

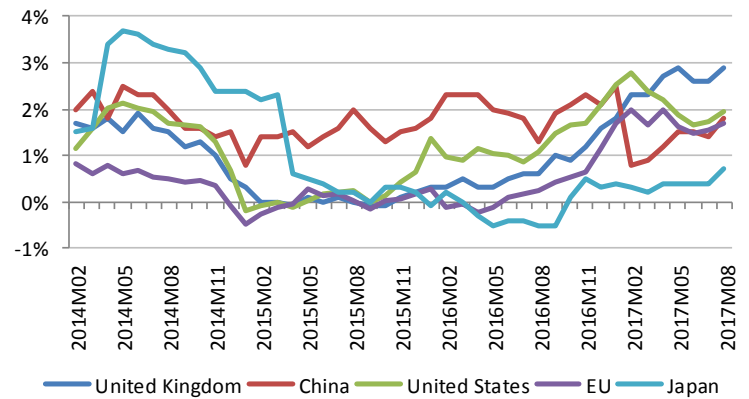
At the end of August 2017 the liquid assets amounted to BGN 30.8 billion, with the largest share in the structure of the BNB's cash and cash balances (54.2 %). The liquid assets ratio, calculated according to Ordinance No. 11 of the BNB, reached 37.61 %. Equity in the banking system's balance sheet at the end of August amounted to BGN 12.3 billion, up by BGN 155 million (1.3 %) due to the increase in profit and accumulated other comprehensive income.

Appendix

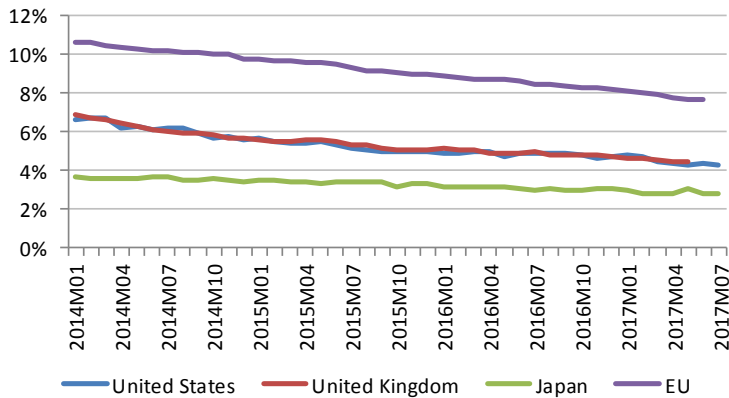
Advanced Economies: GDP growth rate compared to the same quarter of the previous year



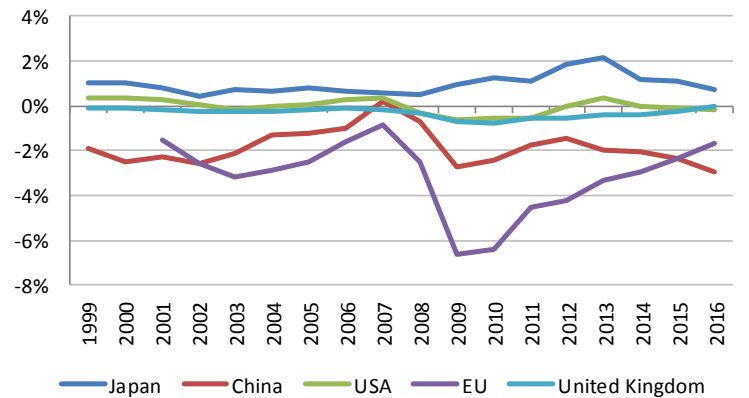
Advanced economies: Inflation by country, monthly (y/y)



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

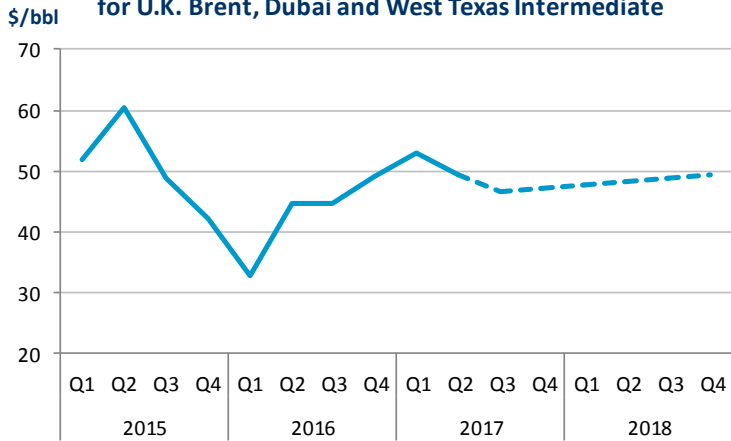


Advanced economies: Budget surplus/deficit to GDP (%)

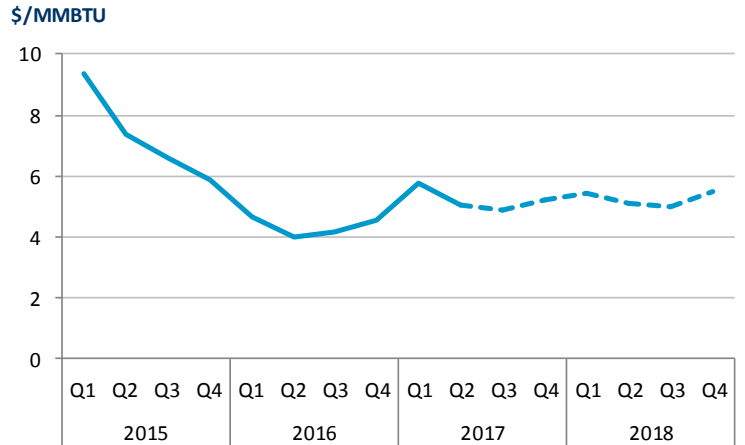


Overseas Prices of Oil Products

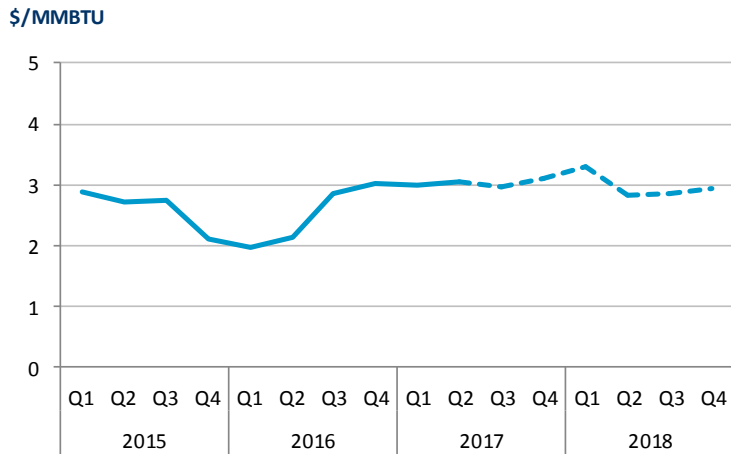
Spot Crude: Petroleum price - average of spot prices for U.K. Brent, Dubai and West Texas Intermediate



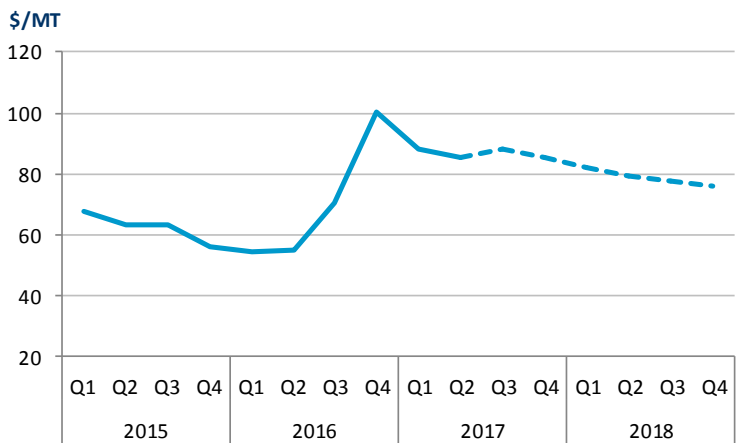
Natural Gas: Russian in Germany



Natural Gas: US, domestic market

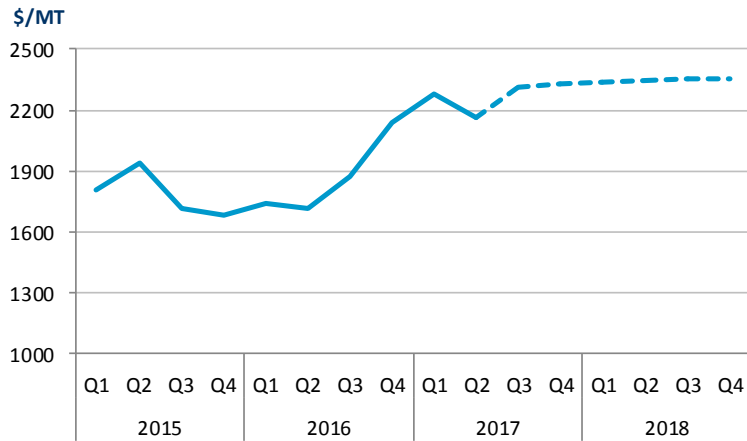


Coal: Australian, export markets

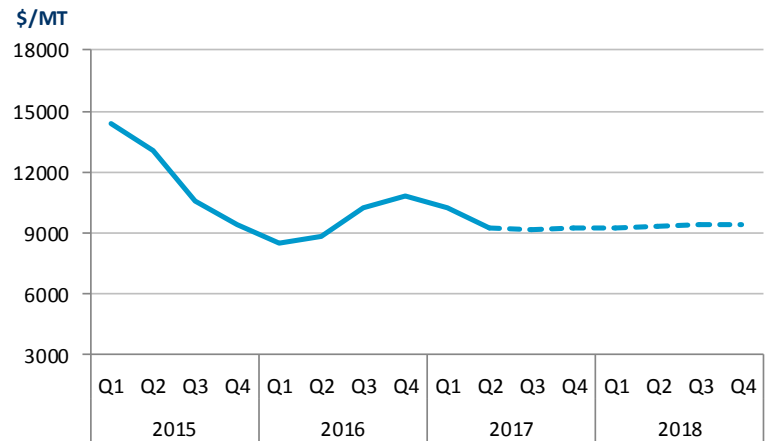


Overseas Prices of Metals

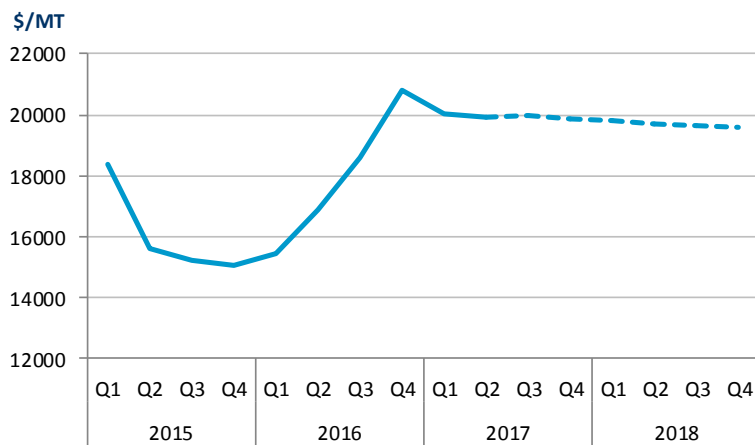
Lead



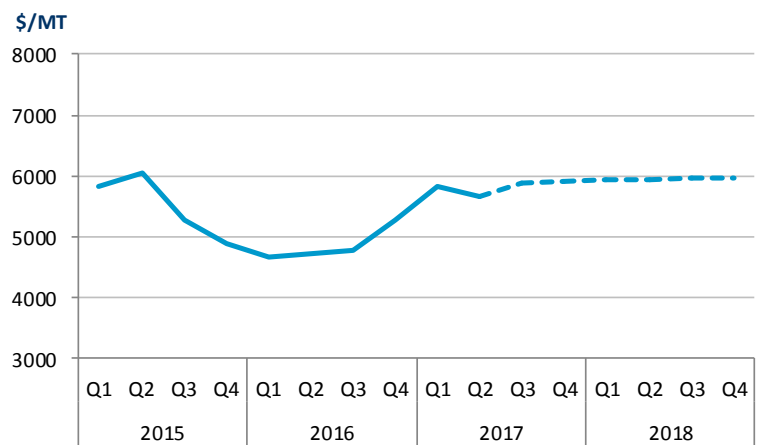
Nickel



Tin

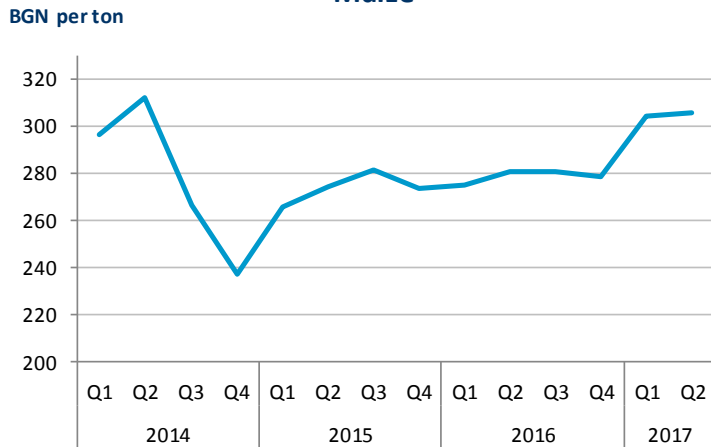


Copper

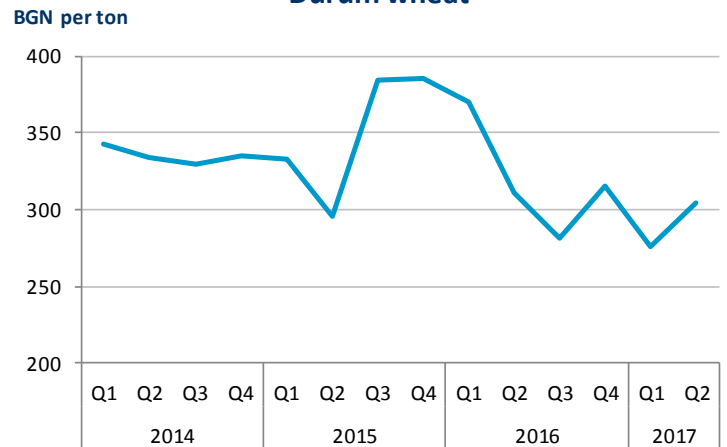


Bulgaria: Prices of Agriculture products

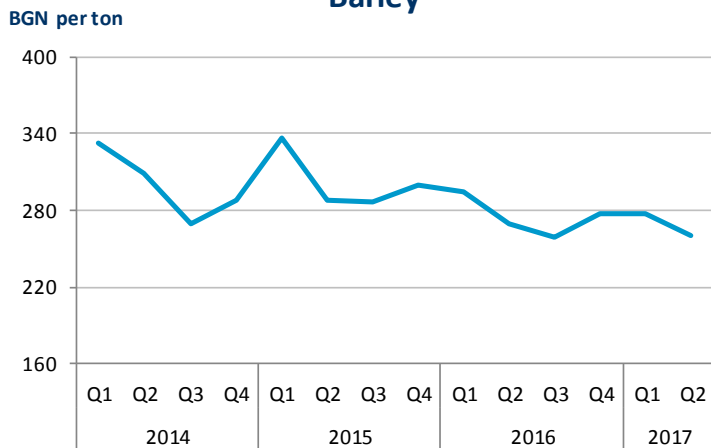
Maize



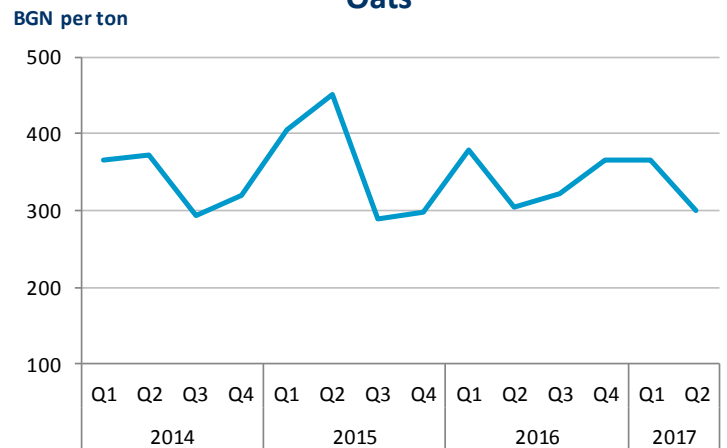
Durum wheat



Barley

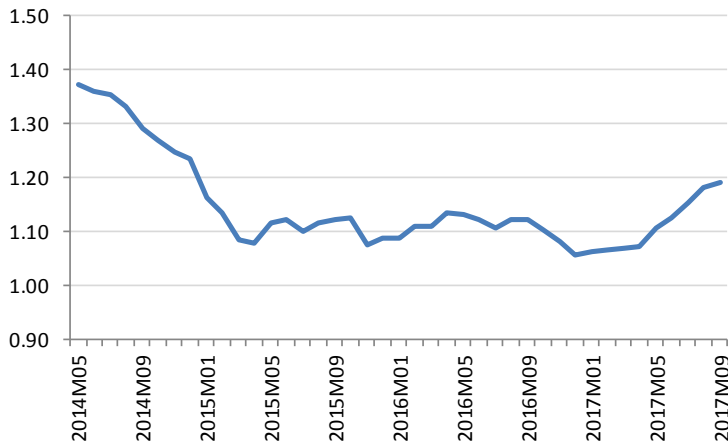


Oats

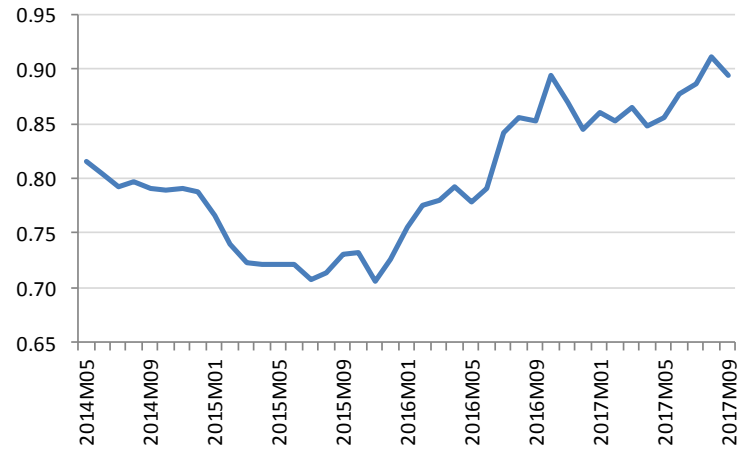


Overseas FX Rates

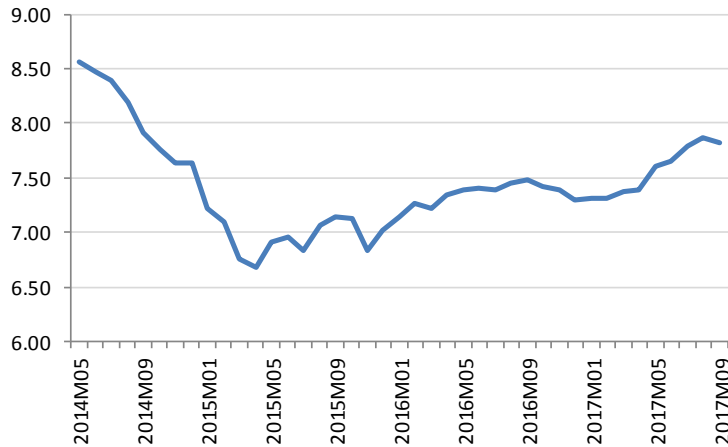
EUR/USD



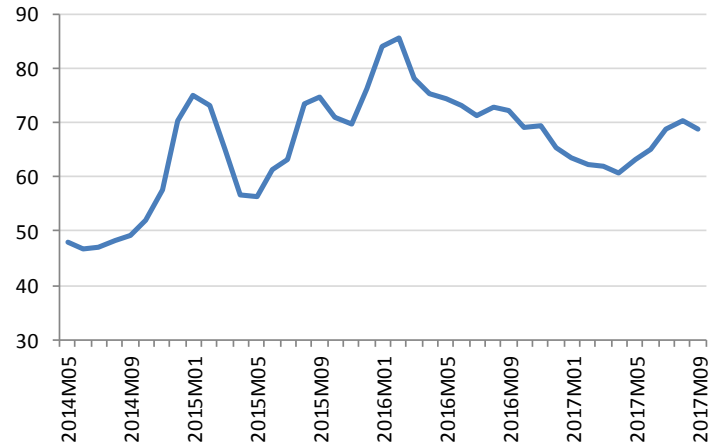
EUR/GBP



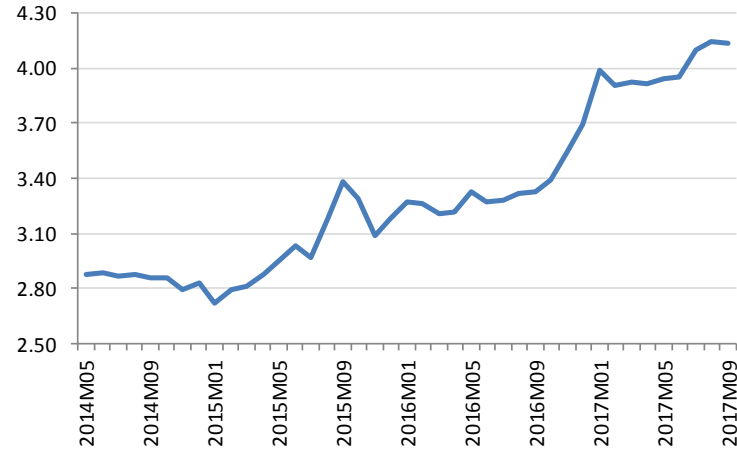
EUR/CHF



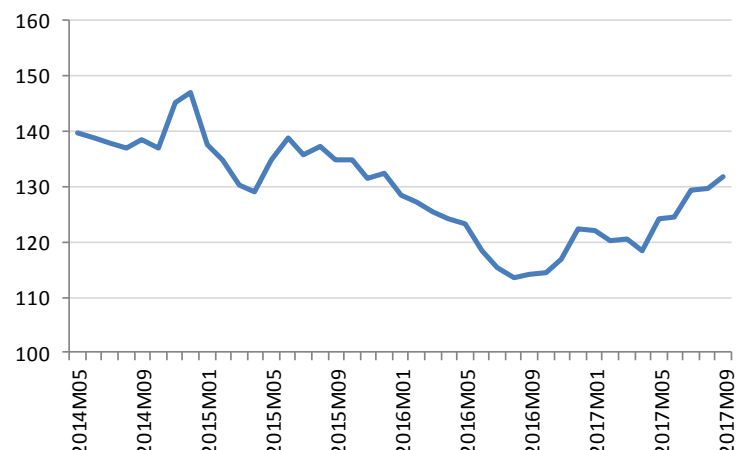
EUR/RUB



EUR/TRY

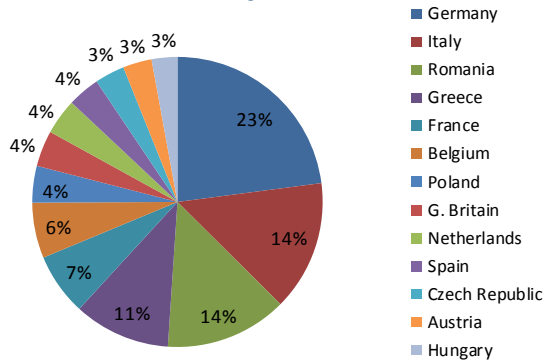


EUR/JPY

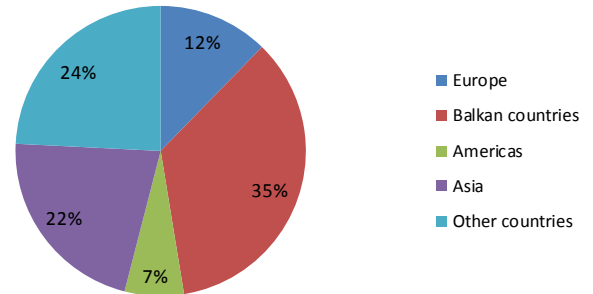


Bulgaria: External Sector Indicators

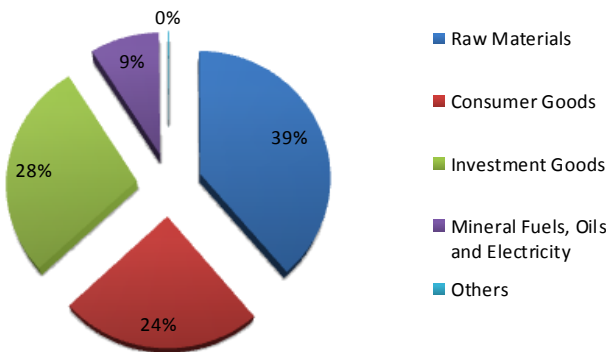
Exports: FOB by EU countries: January - July 2017



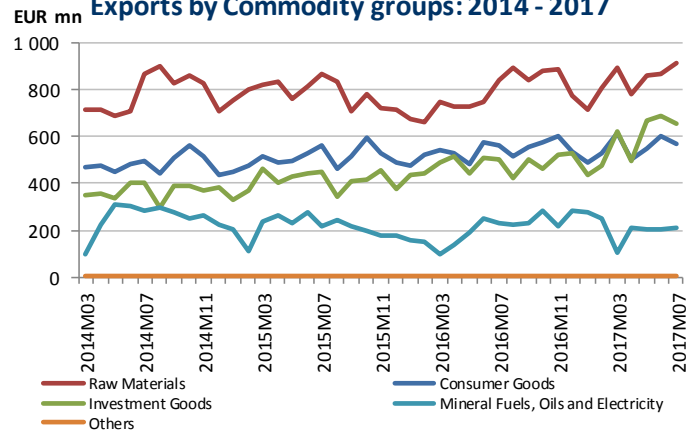
Exports: FOB by Non EU countries: January - July 2017



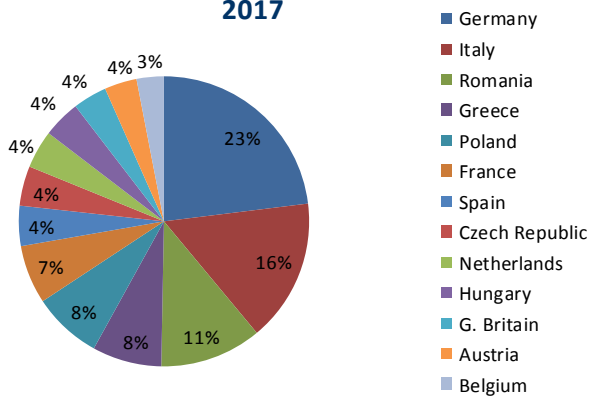
Exports: FOB: Commodity groups - percentage shares for July 2017



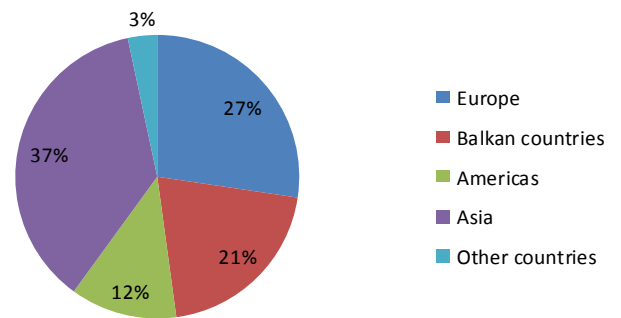
Exports by Commodity groups: 2014 - 2017



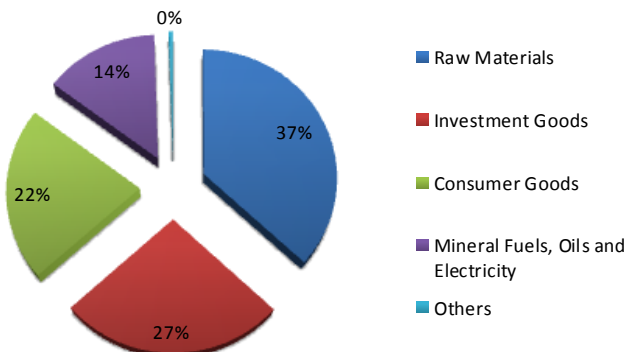
Imports: CIF by EU Countries: January - July 2017



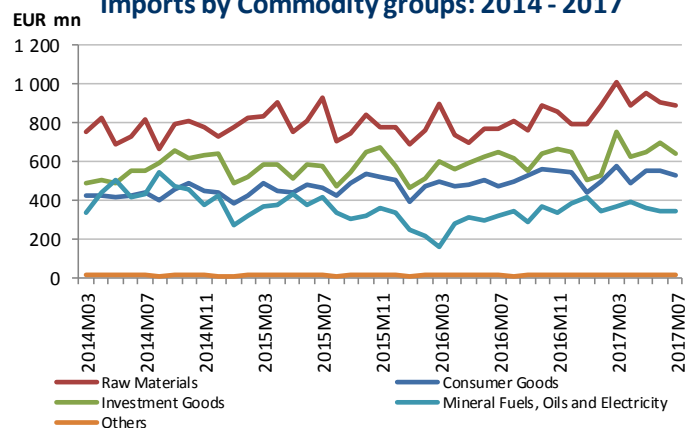
Imports: CIF by Non EU Countries: January - July 2017



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

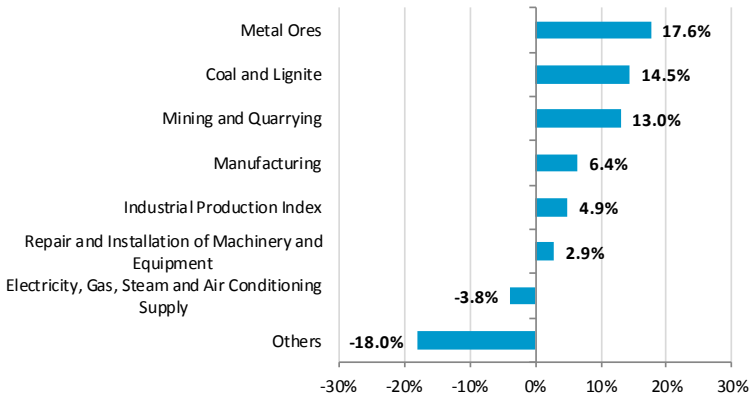


Imports by Commodity groups: 2014 - 2017

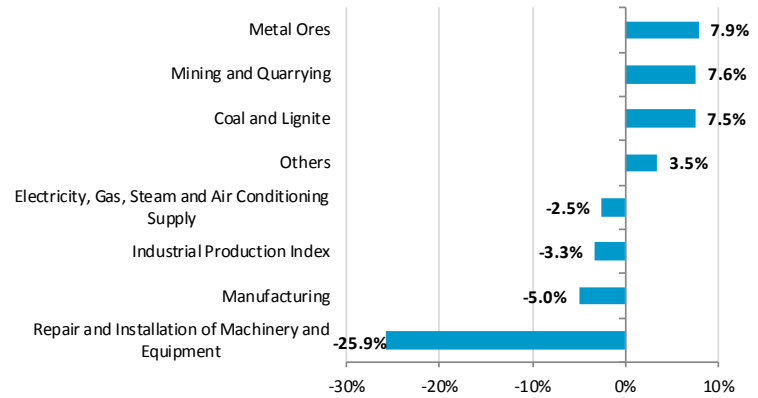


Bulgaria: Real Sector Indicators

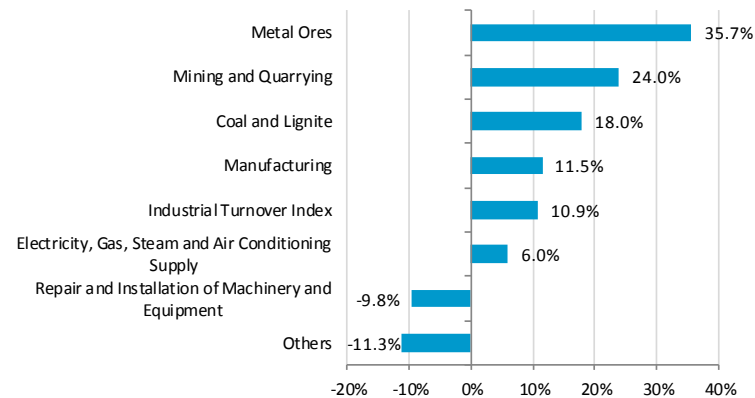
Industrial Production Indices: % change in August 2017 compared to August 2016



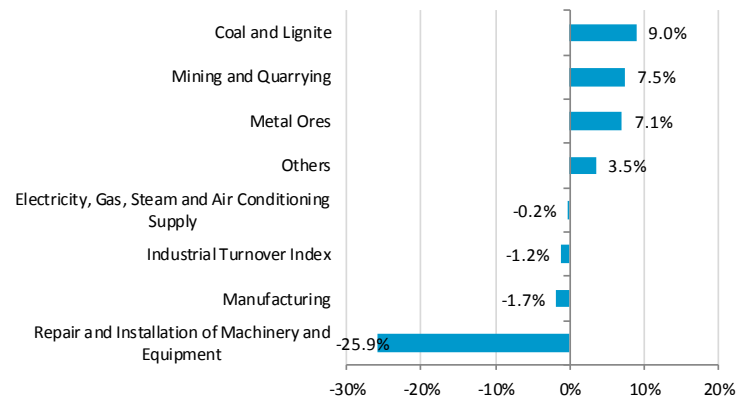
Industrial Production Indices: % change in August 2017 compared to July 2017



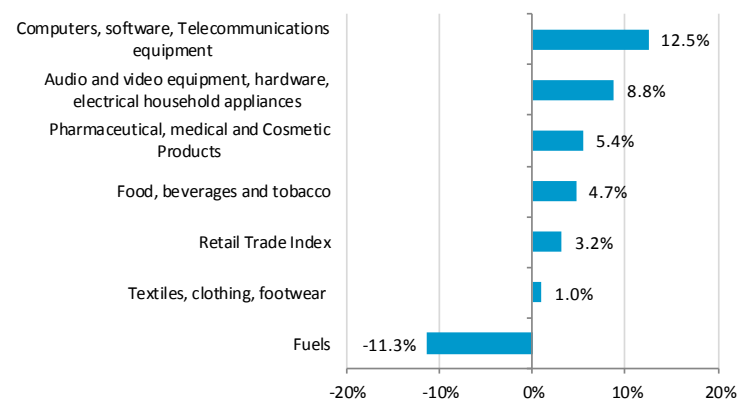
Industrial Turnover Index: % change in August 2017 compared to August 2016



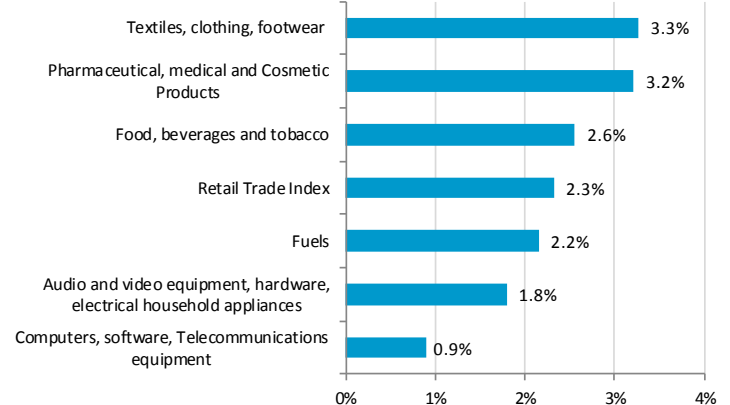
Industrial Turnover Index: % change in August 2017 compared to July 2017



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

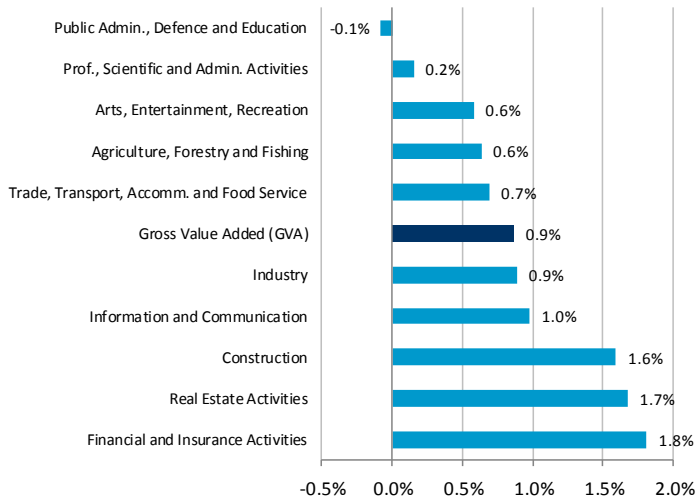


Retail Trade Index: % change in August 2017 compared to July 2017

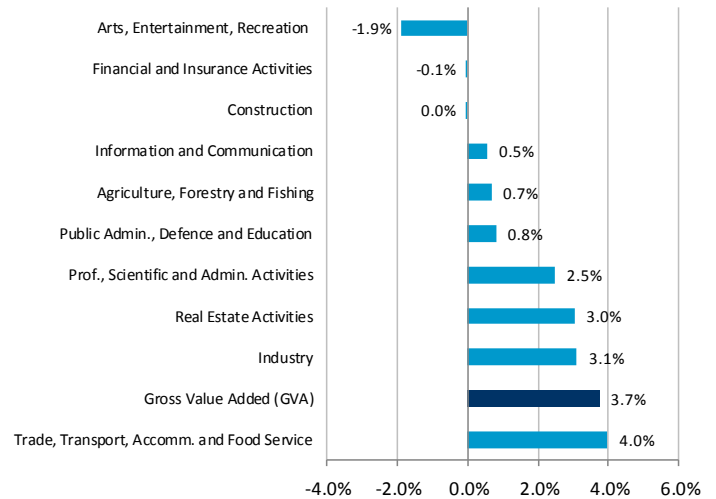


Bulgaria: Real Sector Indicators

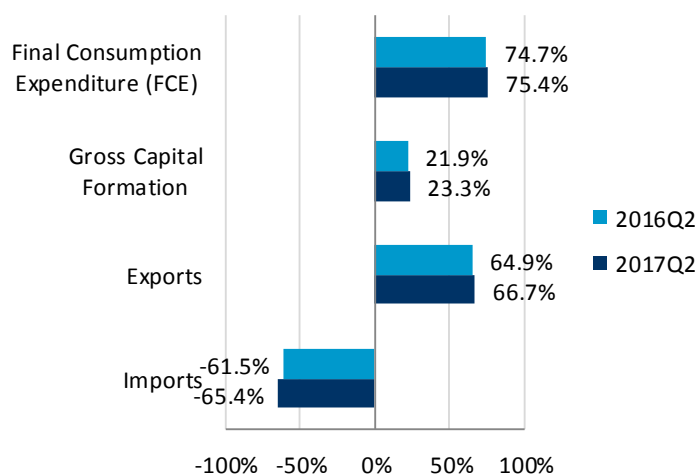
Gross Value Added by Economic Sectors: Percentage Change of Q2 of 2017 compared to Q1 2017



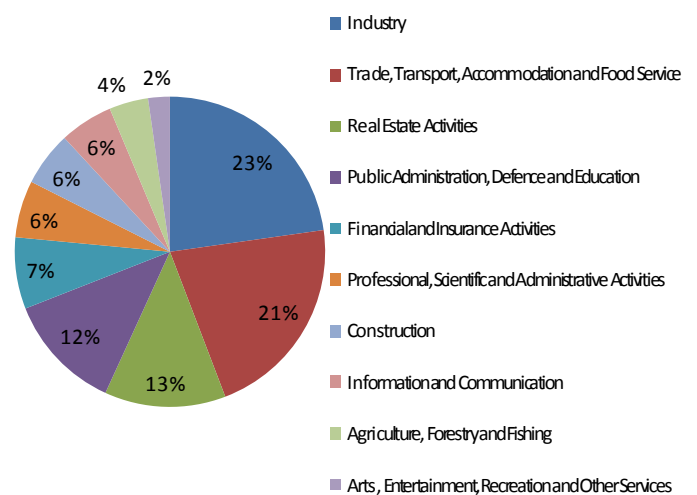
Gross Value Added by Economic Sectors: Percentage change of Q2 of 2017 compared to Q2 of 2016



Structure of GDP by the expenditure approach for Q2 in 2016 and 2017

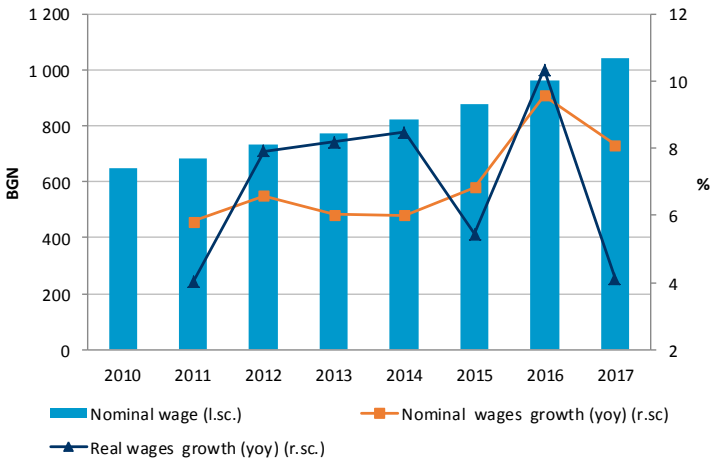


Bulgaria: Industries' relative share to GVA for Q2 2017

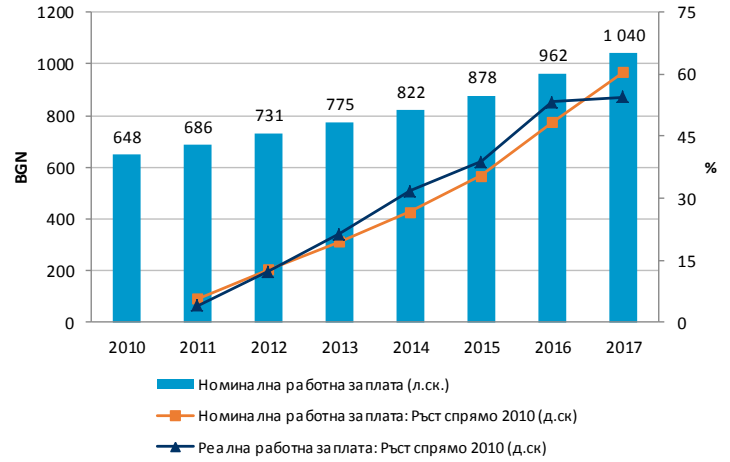


Bulgaria: Real Sector Indicators

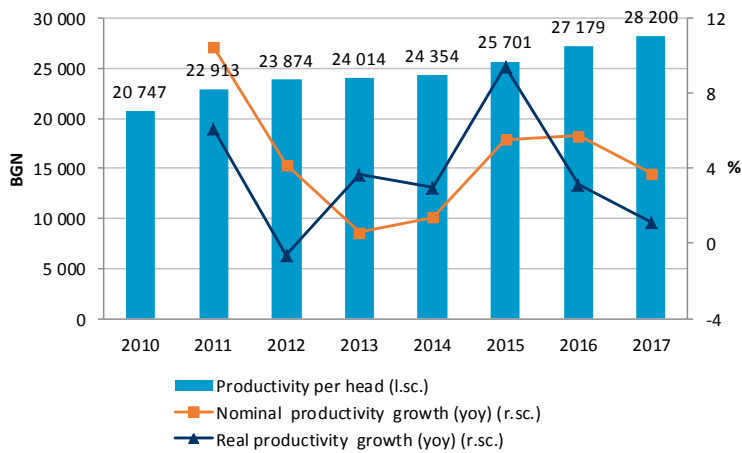
Nominal and Real Wage Dynamics: YoY (%)



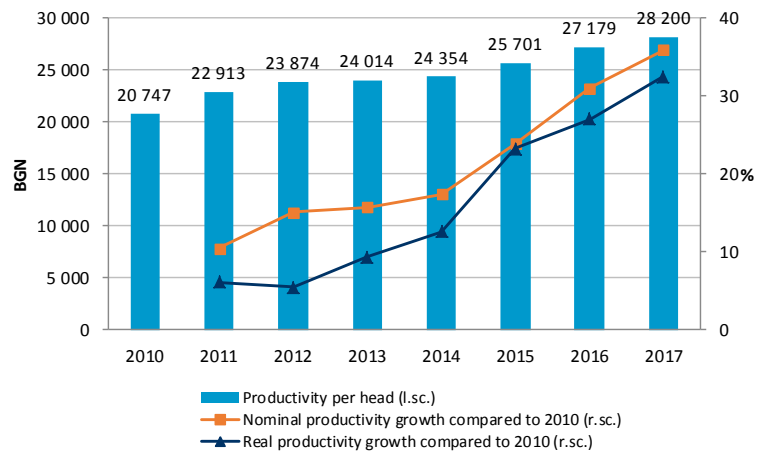
Nominal and Real Wage Dynamics compared to 2010 (%)



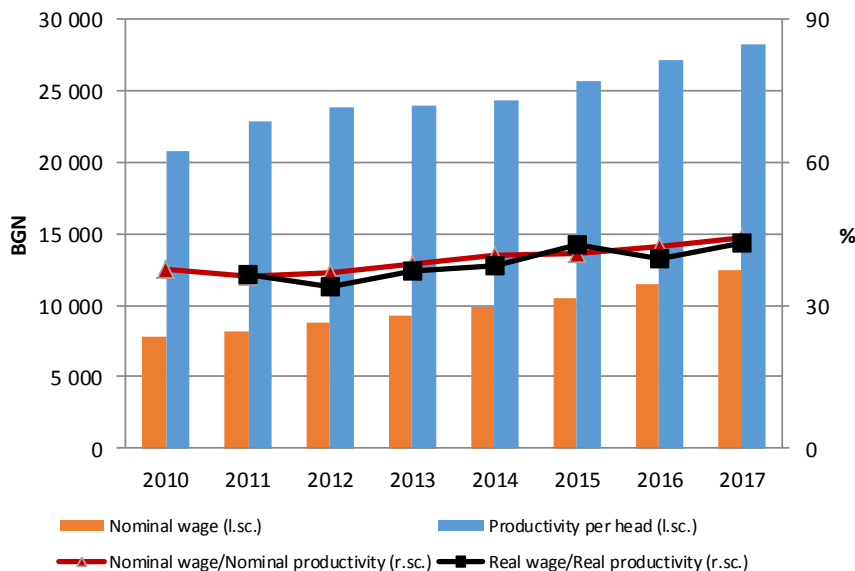
Nominal and Real Productivity per Head Dynamics, YoY (%)



Nominal and Real Productivity Dynamics compared to 2010 (%)

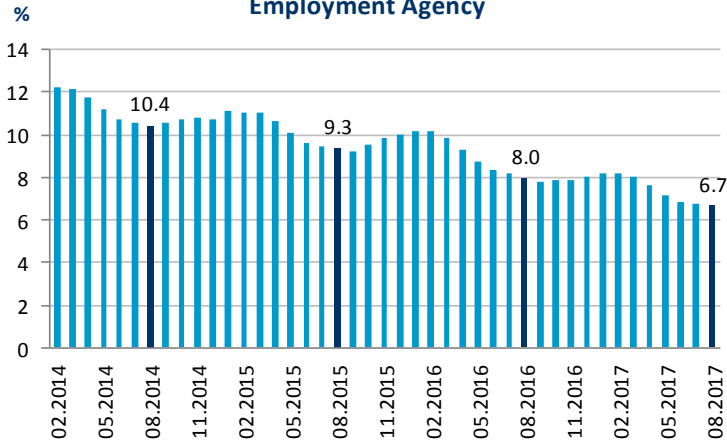


Average Wage to Productivity Ratio Dynamics, YoY (%)

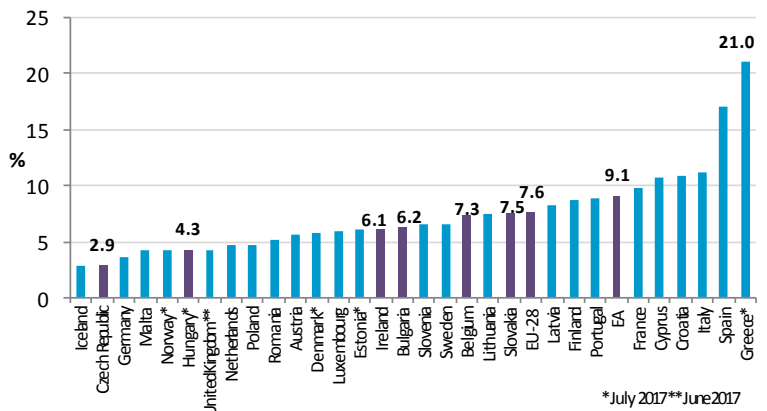


Bulgaria: Real Sector Indicators

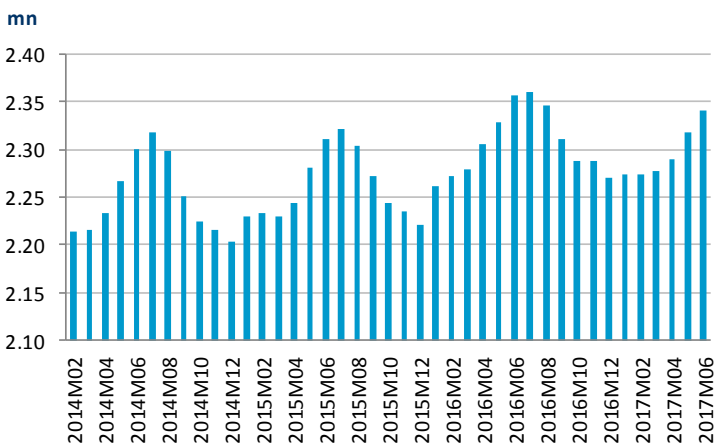
Registered Unemployment Rate: National Employment Agency



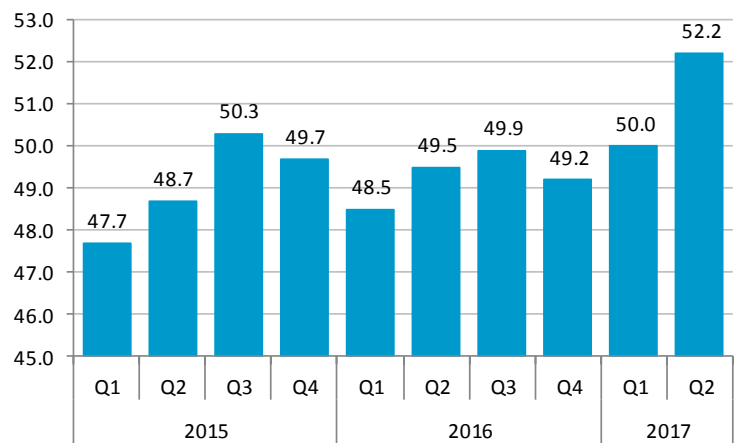
EU: Unemployment rate seasonally adjusted by country August 2017



Bulgaria: Number of Employees

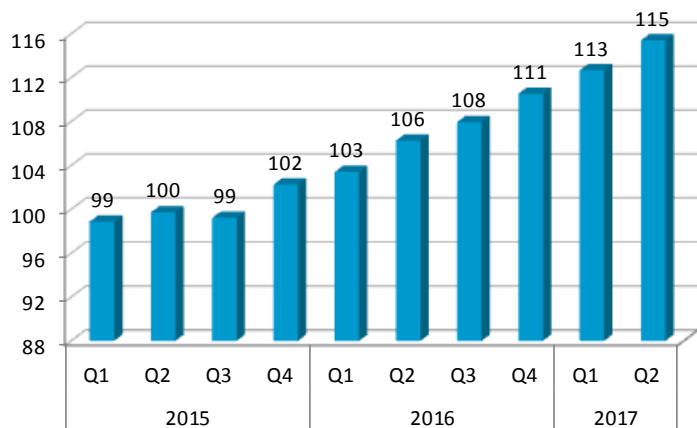


Bulgaria: Employment Rate

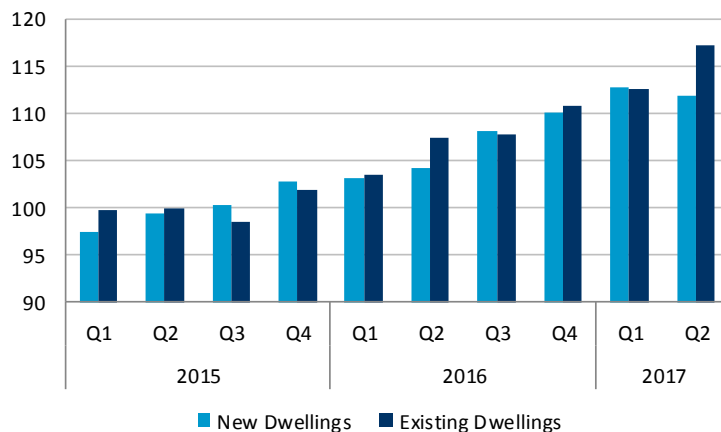


Bulgaria: Real Sector Indicators

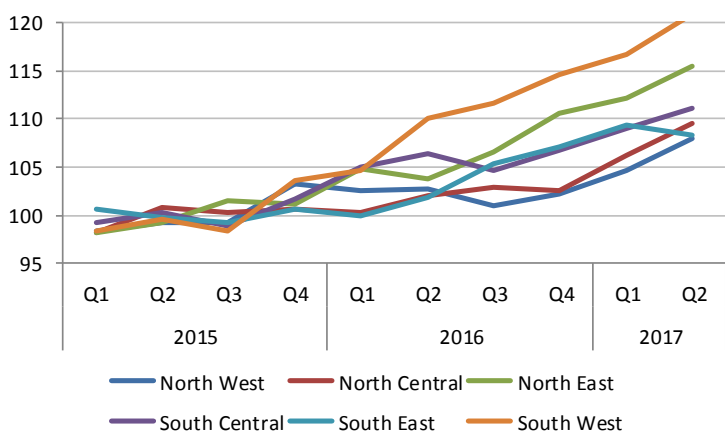
House Price Index (HPI)



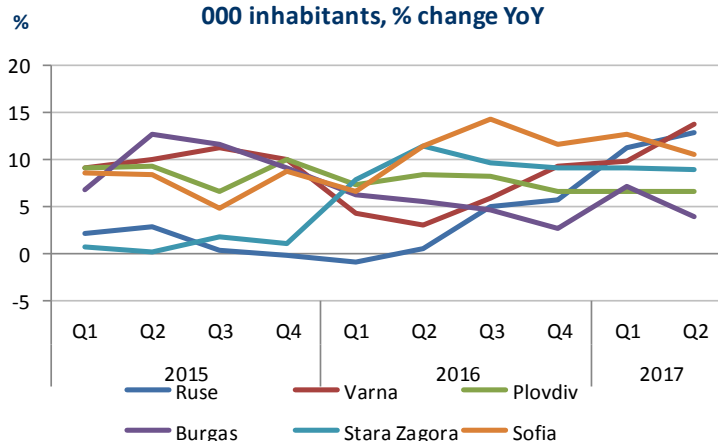
HPI: New and existing dwellings



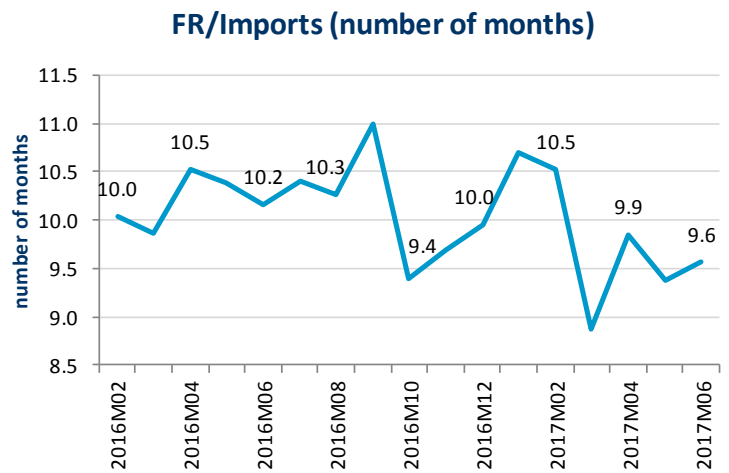
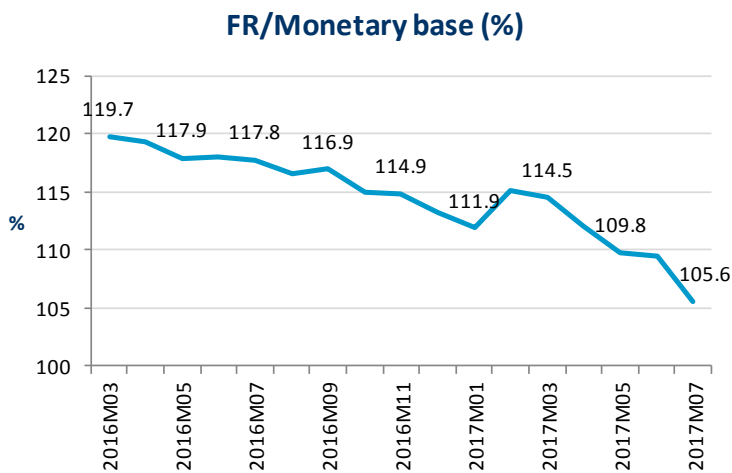
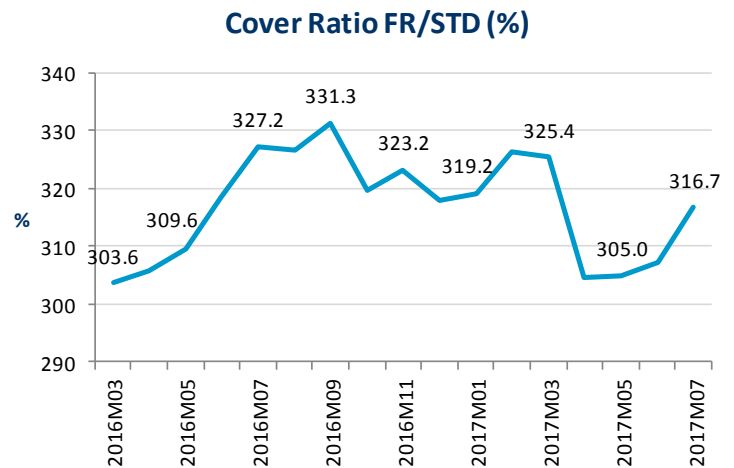
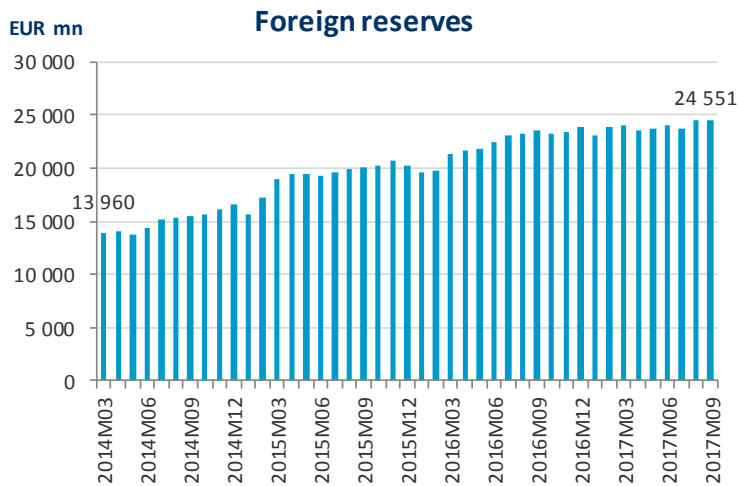
House Price index by regions



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

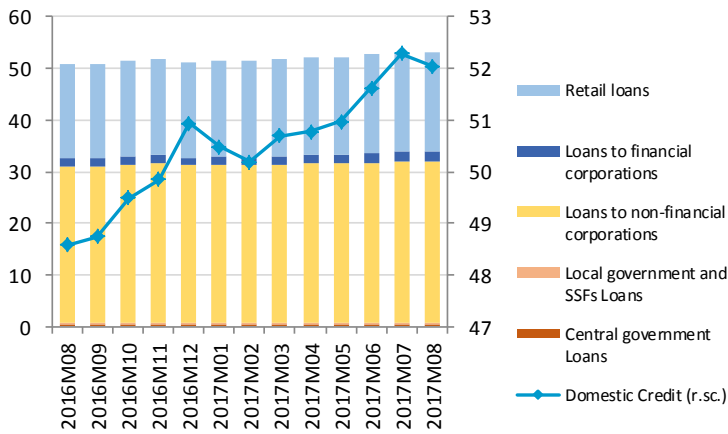


Bulgaria: Monetary Sector Indicators

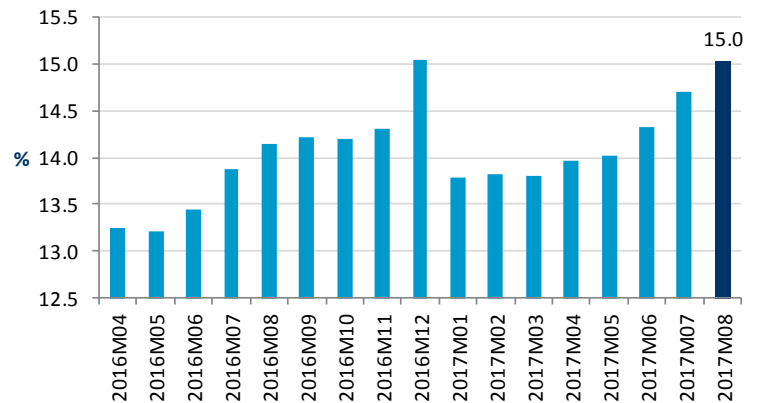


Bulgaria: Monetary Sector Indicators

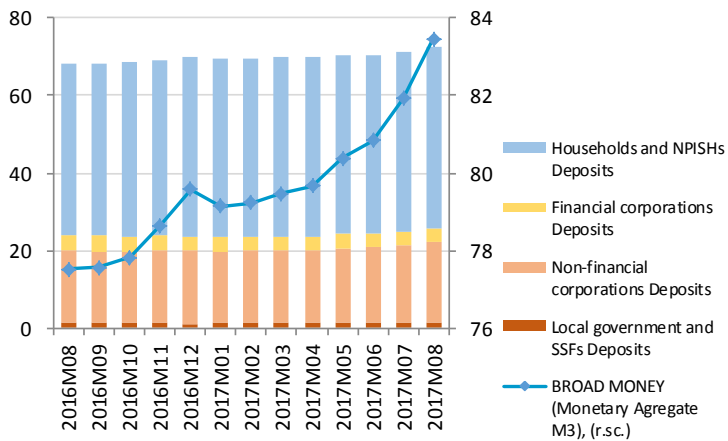
Loans and Domestic Credit (BGN bn)



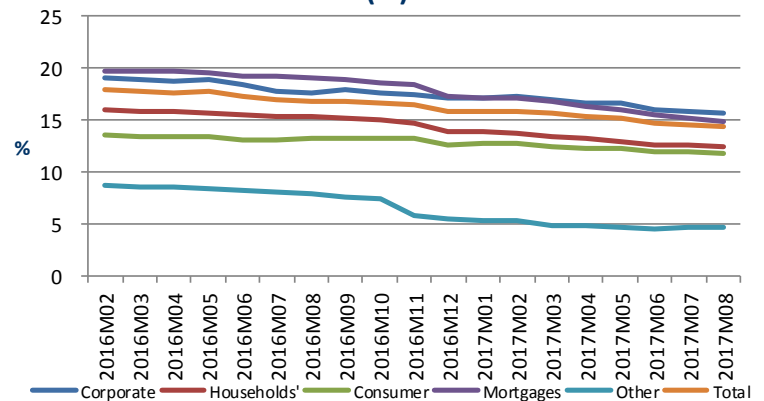
Money in circulation/GDP (%)



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

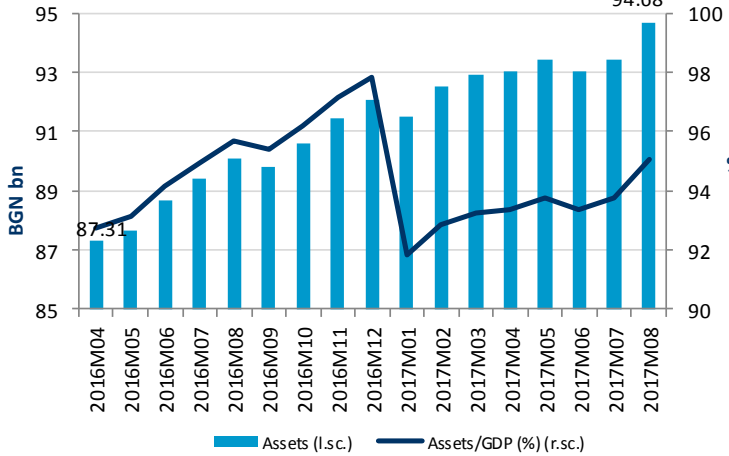


Banking sector: Bad and restructured loans (%)

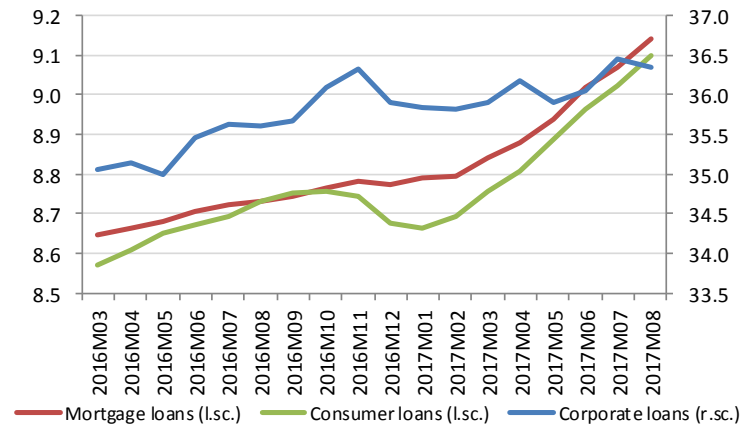


Bulgaria: Banking Sector Indicators

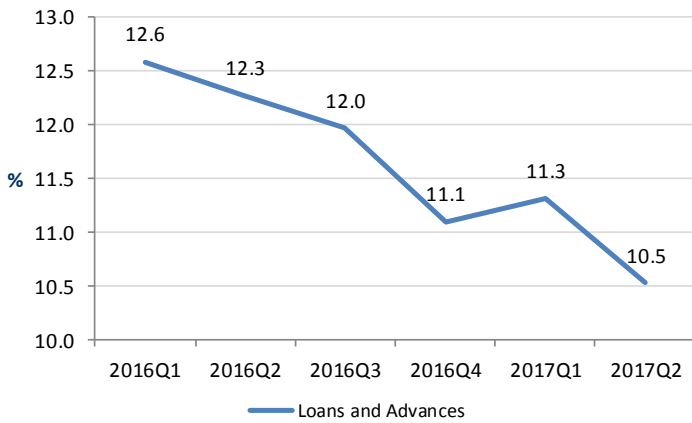
Assets



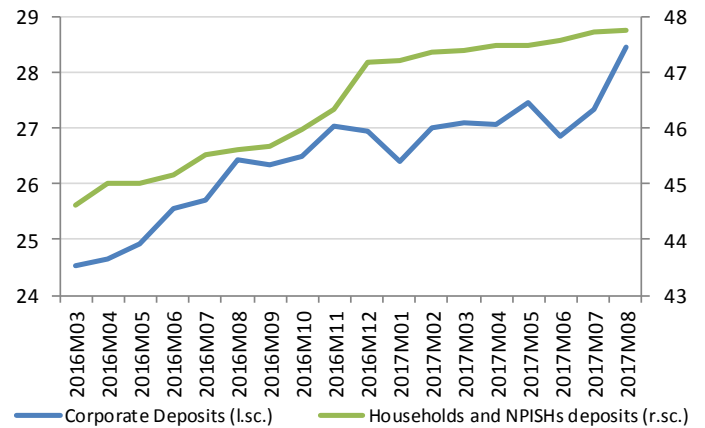
Loans (BGN bn)



Banking System Non Performing Loans (%)

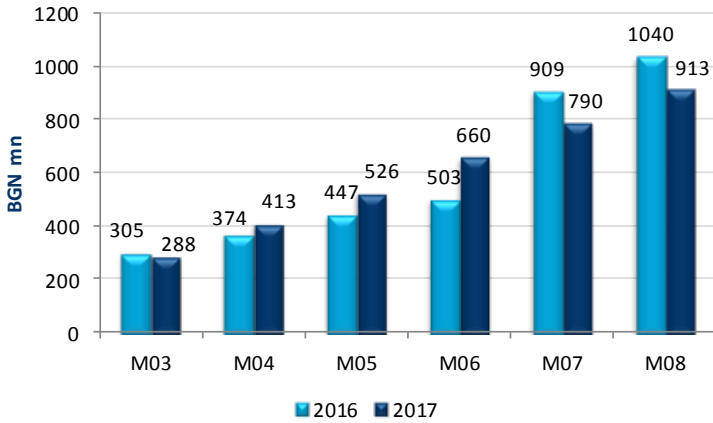


Deposits (BGN bn)

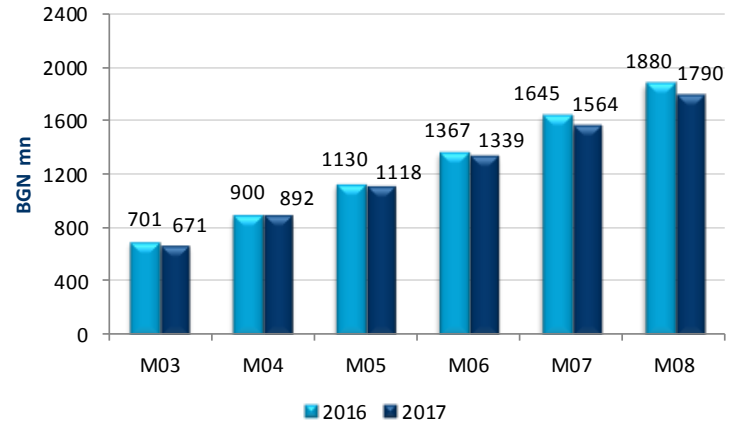


Bulgaria: Banking Sector Indicators

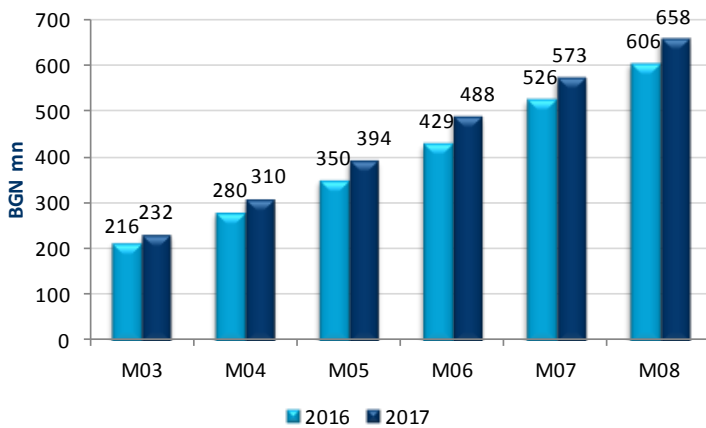
Net Profit



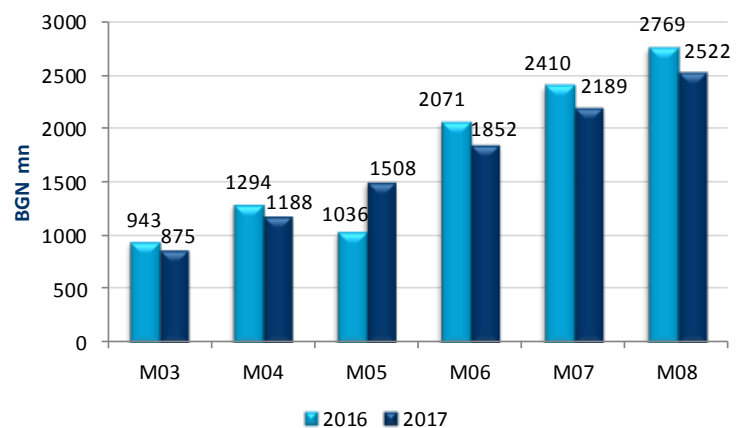
Net interest Income



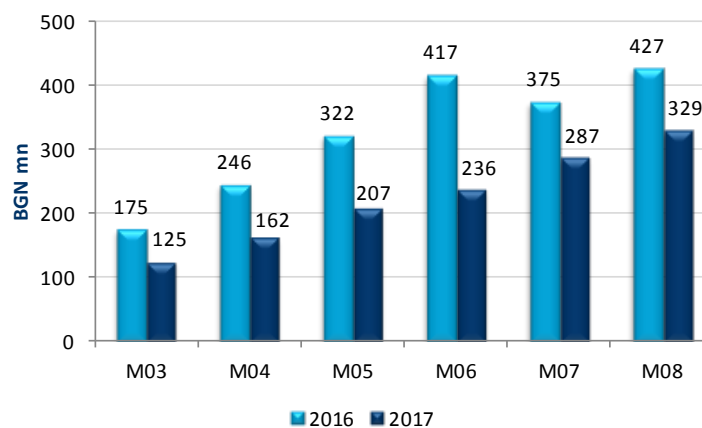
Net fee and commission income



Net operating income

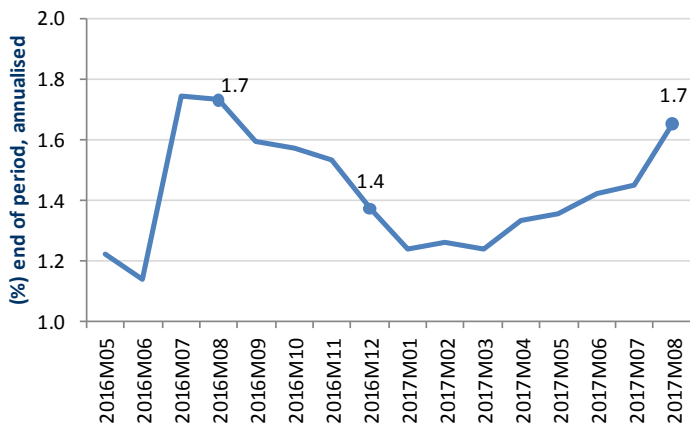


Impairment

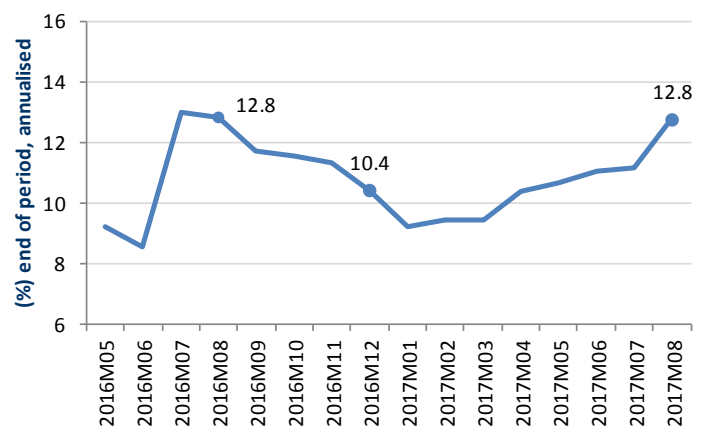


Bulgaria: Banking Sector Indicators

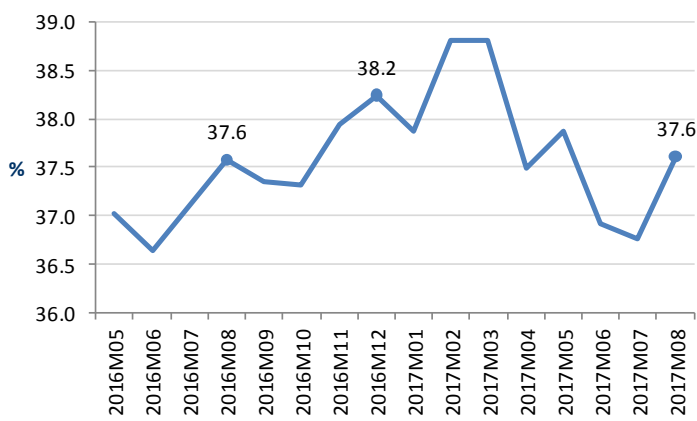
ROA



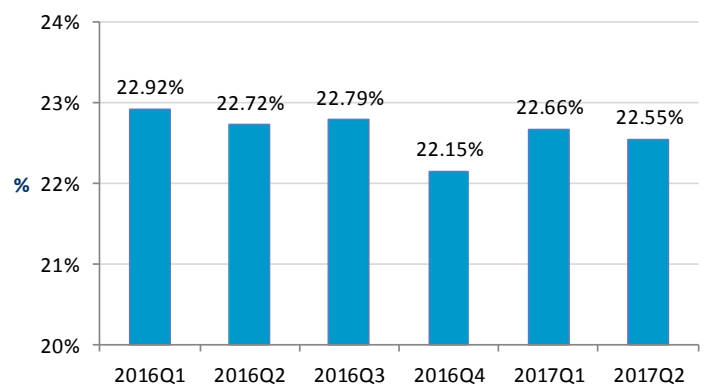
ROE



Liquid Assets Ratio (LAR)



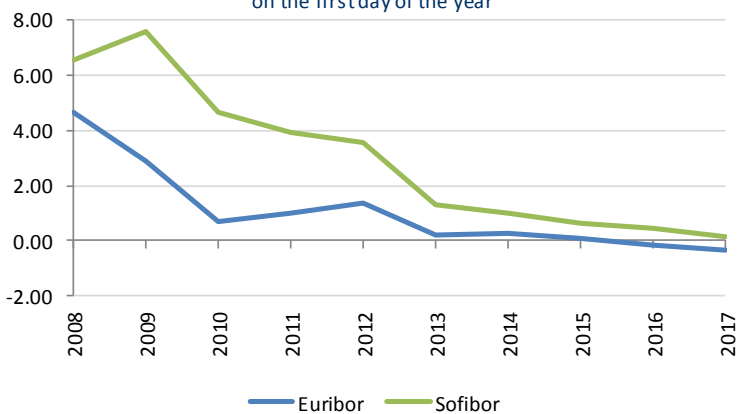
Total Capital Ratio



Bulgaria: Indexes and Interest Rates

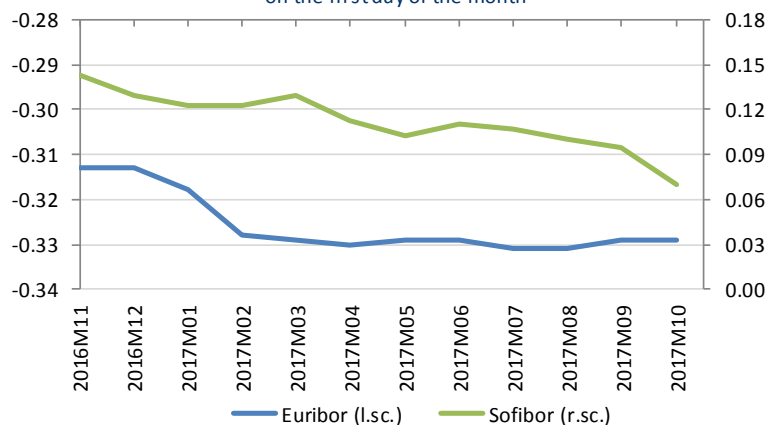
Indexes 3-months

on the first day of the year

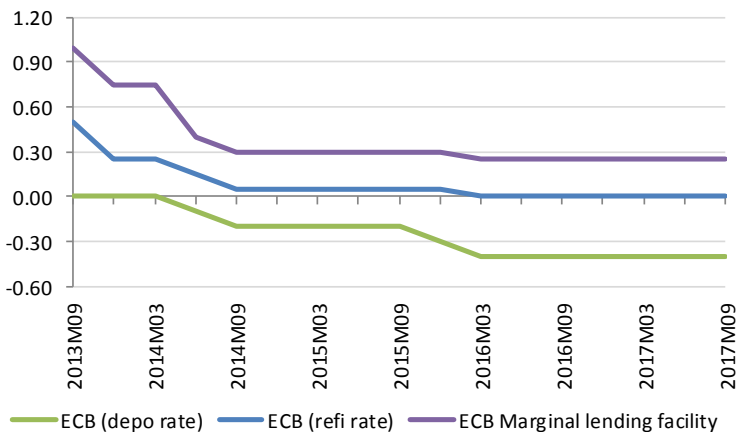


Indexes 3-months

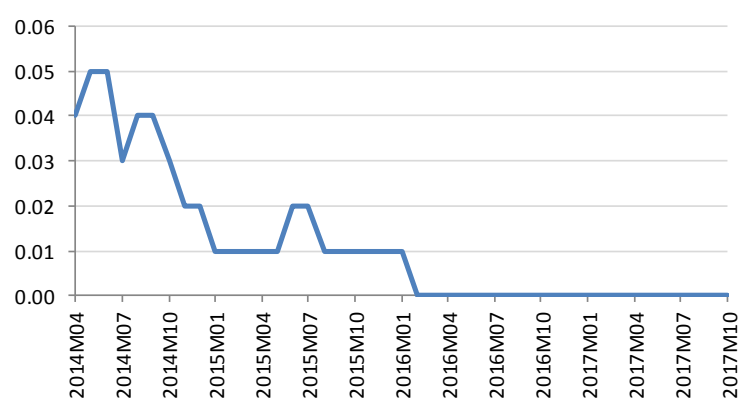
on the first day of the month



Policy Rates (in %)

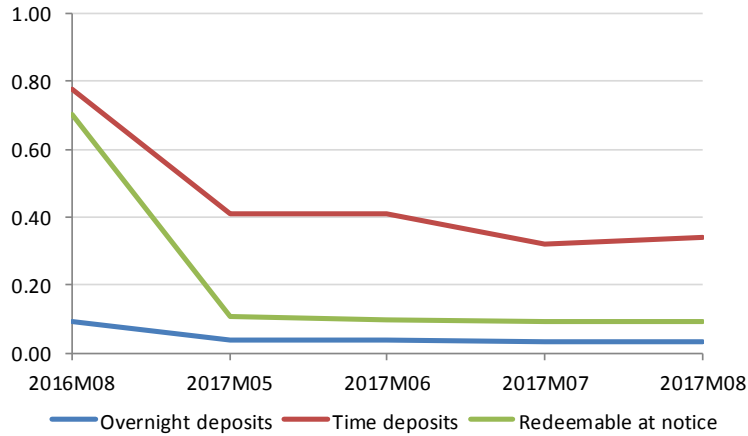


Base Interest Rate of the BNB (in %)

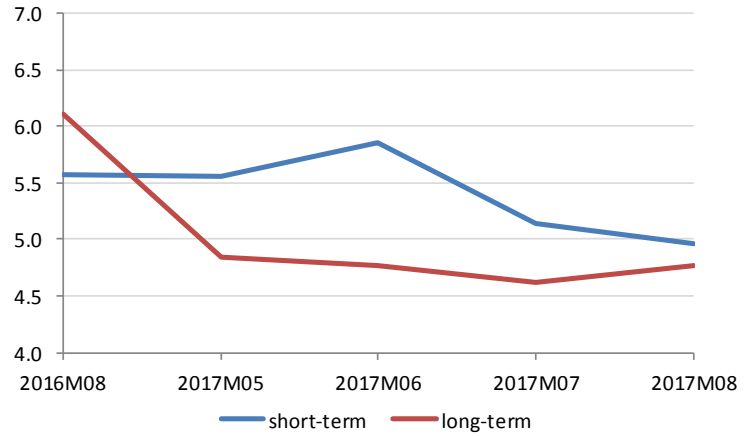


Bulgaria: Interest Rates of New Business on Deposits and New Loans Interest Rates

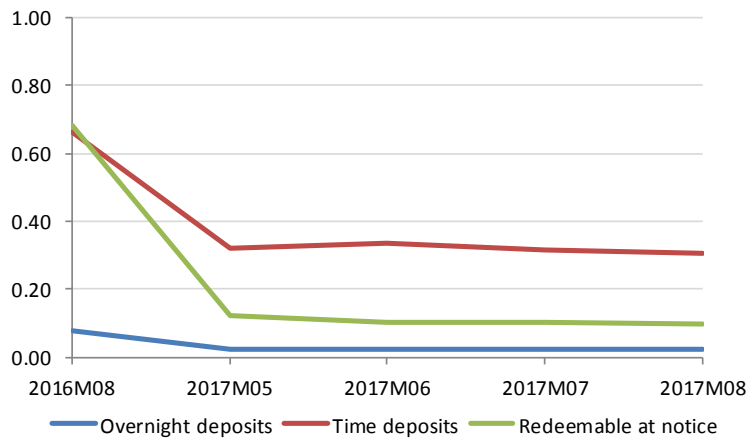
Interest Rates (%) in BGN



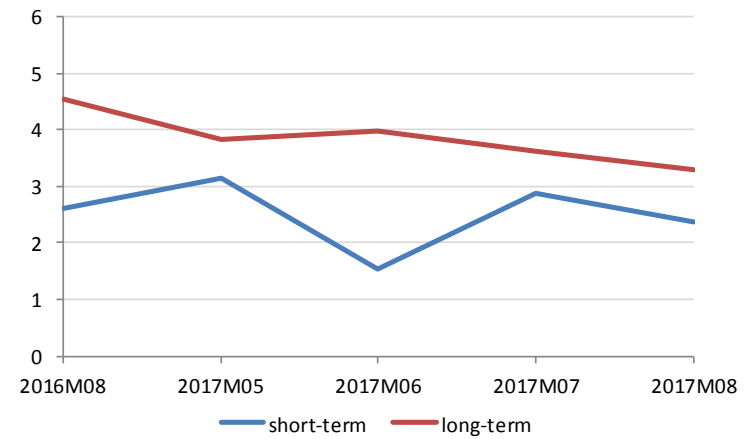
Interest Rates (%) in BGN



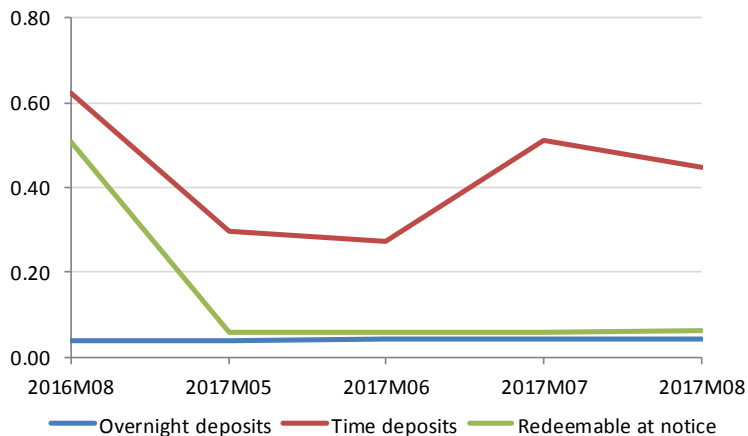
Interest Rates (%) in EUR



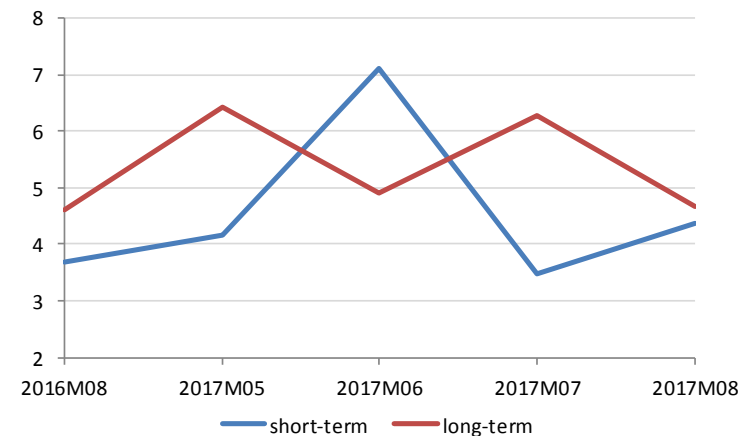
Interest Rates (%) in EUR



Interest Rates (%) in USD

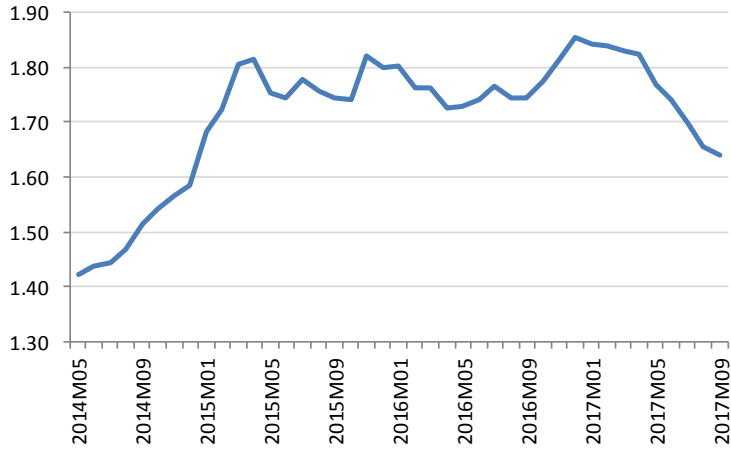


Interest Rates (%) in USD



Bulgaria: FX Rates

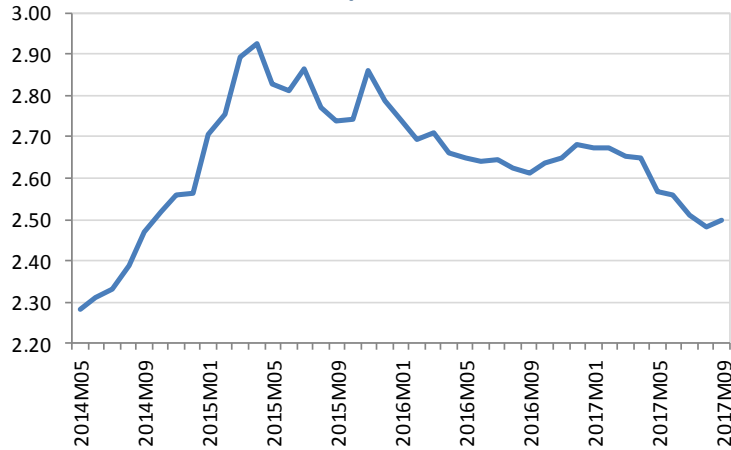
BGN/USD



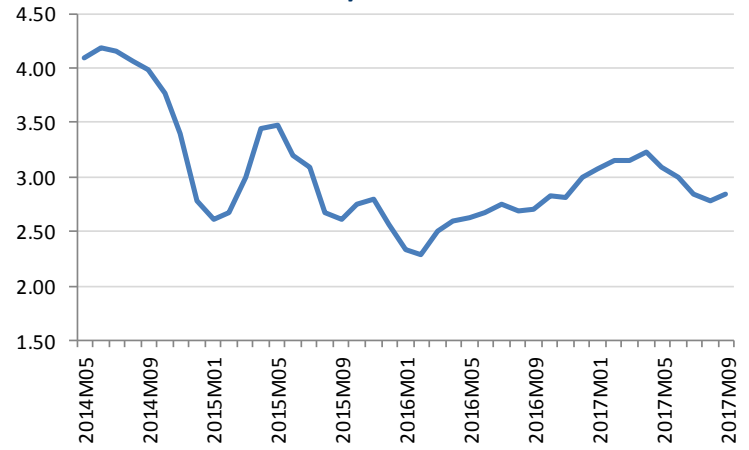
BGN/GBP



BGN/10CHY



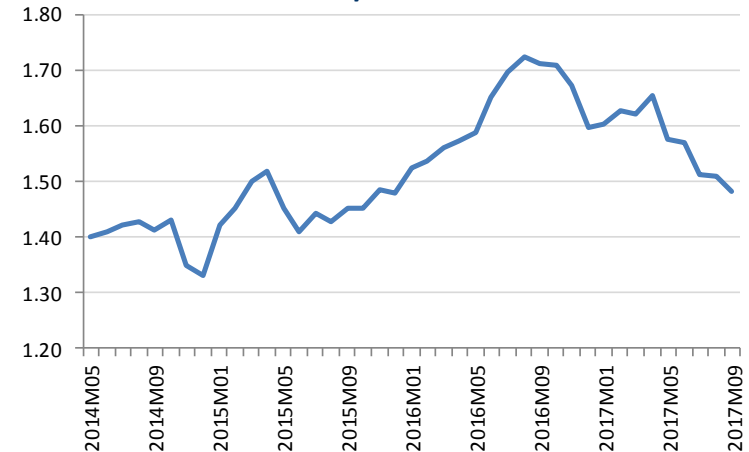
BGN/100RUB



BGN/10TRY



BGN/100JPY



DEFINITIONS AND METHODOLOGICAL NOTES

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

EXTERNAL SECTOR

CURRENT ACCOUNT

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

represent that part of the gross domestic product, which is provided to the rest of the world (exports of goods and services), as well as the provision of factors of production expressed by income receivable – compensation of employees and investment income (interest, dividends, etc.). Recorded are also offsets for non-refundable real and financial resources received (transfers). The flows on the debit side represent the gross product created in the rest of the world and acquired by the domestic economy (imports of goods and services), as well as the acquisition of factors of production expressed by income payable. Recorded are also offsets to non-refundable real and financial resources provided. The Goods component of the BOP Current Account covers movable goods for which changes of ownership between residents and non-residents occur. The data on imports and exports FOB (Free on board) is based on customs declarations, as the codes used in them are after the Harmonized System for Description and Coding of Commodities of the World Customs Organization, introduced in 1988 and supplemented in 1992. With the January 2006 data the Bulgarian National Bank and the National Statistics Institute jointly apply developed by them methodology for compilation of imports at FOB prices and receipts and payments regarding the freight transportation.² The methodology is based on the analysis of the CIF-FOB correlations for the imports of goods depending on the different imports delivery categories, as well as on the different mode of transportation and nationality of the carrier.

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

For the intra EU trade in goods:

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

For the trade with third countries (outside EU)

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

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

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

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

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

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

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

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

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

CAPITAL ACCOUNT

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

FINANCIAL ACCOUNT

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

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

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

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

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

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

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

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

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

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

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

RESERVES AND RELATED ITEMS

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

REAL SECTOR

Gross Domestic Product - production approach

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

GDP - INCOME APPROACH

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

GROSS DOMESTIC PRODUCT BY FINAL EXPENDITURE

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

BUSINESS SURVEY IN INDUSTRY, CONSTRUCTION, TRADE AND SERVICE SECTOR

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

CONSUMER SURVEY

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

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

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

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

INVESTMENT ACTIVITY IN INDUSTRY

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

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

INDUSTRIAL PRODUCTION INDEX; INDUSTRIAL TURNOVER INDICES

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

TOURISM

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

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

The purposes of visiting a country are the following:

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

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

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

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

CONSUMER PRICE INDICES (CPI)

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

HARMONIZED INDICES OF CONSUMER PRICES (HICP)

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

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

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

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

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

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

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

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

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

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

Statistical unit

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

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

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

Data sources

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

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

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

Calculation of average prices

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

Type of index and calculation

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

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

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

Classifications

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

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

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

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

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

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

MONETARY AGGREGATES

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

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

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

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

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

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

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

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

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

MONEY SUPPLY MECHANISM

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

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

CAPITAL MARKET

SOFIX Index:

Initial date: 20 October 2000; Initial value: 100

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

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

BG REIT Index:

Initial date: 03 September 2007; Initial value: 100

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

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

BG 40 Index:

Initial date: 01 February 2005; Initial value: 100

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

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

BGTR30 Index (BG Total Return 30):

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

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