

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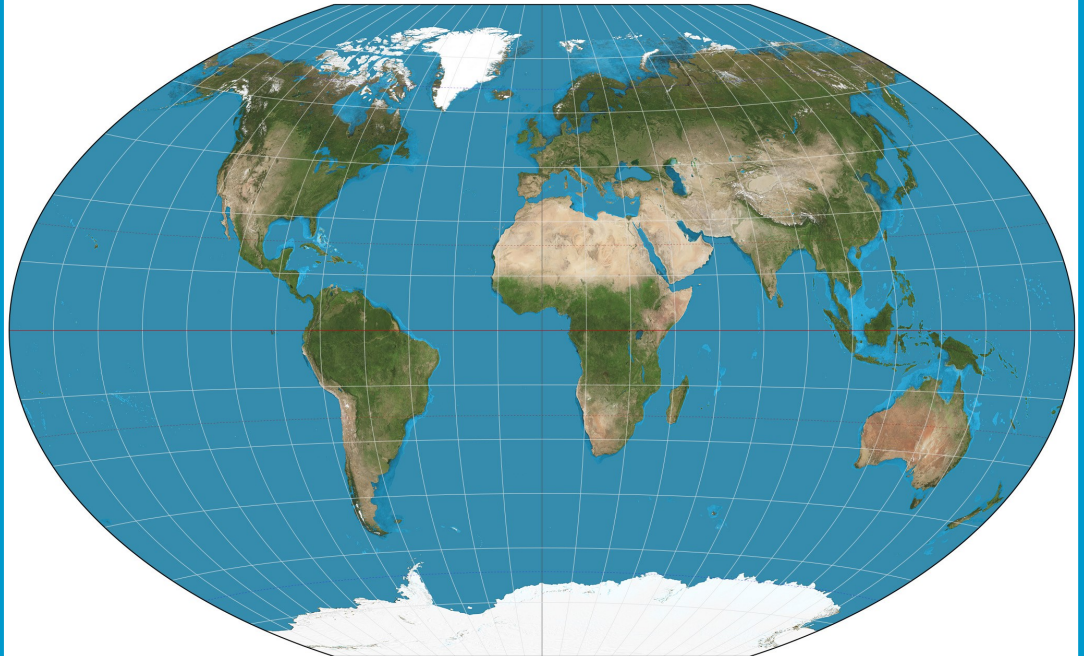
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# HIGHLIGHTS AND FORECASTS

## MONTHLY ECONOMIC REPORT



- *In the second quarter of 2017, the euro area economy grew by 0.6 % qoq and by 2.3 % yoy, respectively. In July 2017 unemployment rate in the euro area remained unchanged at 9.1 %. In August 2017, euro area consumer prices increased by 1.5 % yoy*
- *In the second quarter of 2017, Britain's economy grew by 1.7 % yoy. In August 2017, consumer prices in United Kingdom rose by 2.9 % yoy, compared to 2.6 % in the previous month. In the second quarter of 2017, the unemployment rate in the United Kingdom fell to 4.3 % compared to 4.6 % in the first quarter of 2017*
- *In August 2017 industrial production in the United States shrank by 0.9 % after Hurricane Harvey hit the coast of Texas. This also led to a decrease in retail sales to 0.2 %*
- *In the second quarter of 2017, Japan's GDP grew by 1 % on an annual basis*
- *In August 2017, China's consumer prices rose by 1.8 % yoy after an increase of 1.4 % in July*
- *On September 7, 2017, the ECB announced that maintained its refinancing rate of 0 % and confirmed that purchases of net assets were planned to move at the current monthly rate of EUR 60 billion by the end of December 2017, stating that inflation will continue to be very important for money supply developments*
- *On September 14, 2017, the Bank of England announced that it kept the bank interest rate at a level of 0.25 %, as expected*
- *The reference rate in the US is maintained at 1.25 %. Federal Reserve announced a plan to sell part of the assets from its balance sheet, currently at USD 4.5 trillion since October 2017*
- *In September 2017, the central bank of Japan maintained its main short-term interest rate of -0.1 %*
- *Peoples's Bank of China maintains a reference interest rate at a level of 4.35 %*
- *In September 2017, crude oil prices grew to 52.31 USD/BBL, Brent crude increased to 58.89 USD/BBL and gas to 2.93 USD/MMBtu*
- *In September 2017, in the international markets the price of steel increased to 3,933 yuan/ MT. The price of copper rose to 2.92 USD / LB*
- *In September 2017 the international wheat price decreased by 2.29 USDd /BU or by 0.50 % to 451.54 USDd /BU. Trends in the price of other cereals are controversial*

- *In January – July 2017 the current and capital account was positive amounting to EUR 1,835.8 million (3.7 % of GDP), compared with a surplus of EUR 2,602.4 million (5.5 % of GDP) in January – July 2016*
- *In January – July 2017 foreign direct investment in Bulgaria totalled EUR 431.8 million (0.9 % of GDP), dropping by EUR 534.8 million (55.3 %) from January – July 2016 (EUR 966.6 million, 2 % of GDP)*
- *In January - June 2017, exports (FOB) amounted to EUR 12868.1 million, compared with EUR 11238.2 million in the same period of 2016, increasing by EUR 1629.9 million (14.5 %)*
- *At end-June 2017 gross external debt amounted to EUR 34,615.4 million (70 % of GDP), decreasing by EUR 27 million (0.1 %) from end-2016 (EUR 34,642.5 million, 73.1 % of GDP) and higher with EUR 164 million (0.5 %) compared to the previous month*
- *In August 2017 the BNB's foreign reserves amounted to BGN 47.8 billion (EUR 24.4 billion), increasing by 3.0 % mom and 4.9 % yoy*
- *According to the preliminary data of the NSI, in Q2 of 2017 the GDP at current prices amounted to BGN 24 149 million, increasing by 1.0 % on a quarterly base and by 3.6 % on an annual base as per the seasonally adjusted data*
- *In August 2017, the total business climate indicator increases to 28.4 %, or by 0.5 percentage points compared to the previous month as a result of the improved business climate in retail trade and service sector*
- *In July 2017 consumer confidence indicator increases to -25.4 %, by 1.6 percentage points in comparison with its April level*
- *In July 2017 the Industrial Production Index, seasonally adjusted, increased by 0.2 % mom and by 4.2 % yoy based on the working day adjusted data*
- *In July 2017 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 0.3 % compared to the previous month as per the seasonally adjusted data and 2.4 % annual increase based on the working day adjusted data*
- *In July 2017 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 0.6 % above the level of the previous month and with an increase of 7.9 % yoy based on the working day adjusted data*
- *In July 2017, the number of the trips of Bulgarian residents abroad was 665.7 thousand or by 7.6 % above the registered in the previous month and by 15.3 % more than the registered in July 2016*
- *In July 2017 the number of the registered unemployed at labor offices is 220 884, decreasing with 1.5 % mom, and 17.6 % yoy*
- *In August 2017 the consumer price index compared to July 2017 was 100.1 %, i.e. the monthly inflation was 0.1 % and the annual inflation in August 2017 compared to August 2016 was 1.4 %*
- *In Q2 of 2017 the producer price index in agriculture increased by 2.0 % in comparison with the same quarter of 2016 and by 4.5 % compared with the previous year*
- *In July 2017 total producer price index in industry grew by 1.3 % mom and by 4.7 % yoy with highest price increase in electricity, gas, steam and air conditioning supply*
- *As of end-July 2017 the Consolidated Fiscal Programme (CFP) balance on a cash basis is positive, amounting to BGN 1,971.7 million, or 2.0 % of the projected GDP. As of August 2017 is expected to be positive, amounting to BGN 2,156.8 million (2.2 % of the projected GDP)*
- *As at end-July 2017 central government debt stands at EUR 12,622.5 million, decreasing by BGN 833.7 million compared to the previous month*
- *In July 2017 broad money (monetary aggregate M3) increased annually by 6.9 % compared to 7 % annual growth in June 2017*
- *As at the end of August 2017 SOFIX BSE-Sofia's benchmark index decreased by 1.37 % to 705.4 compared to the previous month, reporting an increase by 20.3 % in comparison with the end of the previous year*
- *In July 2017, the net profit of the banking system amounted to BGN 790 million and decreased by 13.1% yoy due to the decreased operating income and from one-off effect from the sale of commercial banks' shares in European card operator - VISA*

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## GLOBAL TRENDS

### Advanced countries' economies

#### Euro zone

**In the second quarter of 2017, the euro area economy grew by 0.6 % qoq and by 2.3 % yoy, respectively. In July 2017 unemployment rate in the euro area remained unchanged at 9.1 %. In August 2017, euro area consumer prices increased by 1.5 % yoy**

In Q2 2017 the euro area economy increased by 0.6 % qoq mainly driven by household consumption, fixed investment and exports. Among the largest economies in the Euro zone, GDP growth is rising in Spain; remains unchanged in France and Italy; and slowed down in Germany. On an annual basis, the economy grew by 2.3 %, above the previous estimate of 2.2 %. Unemployment in the euro area remained unchanged at 9.1 % in July 2017, the same as in the previous month and in line with market expectations. This is the lowest unemployment rate since February 2009. A year earlier, unemployment was higher at 10 %. Consumer prices in the euro area are expected to increase by 1.5 % yoy in August 2017, with market expectations down 1.4 % and an increase of 1.3 % in the previous month. This is the highest since April inflation resulted from the rising energy prices. Annual headline inflation excluding energy and unprocessed food and tobacco prices, on which the ECB bases its political decisions, is unchanged at 1.2 %. In August 2017, consumer prices in the euro area increased by 1.5 % yoy, compared with an increase of 1.3 % in the previous month. This is the highest inflation since April, boosted by the surge in energy prices. Annual core inflation, which excludes energy and unprocessed food and tobacco prices, and on which the ECB examines its political decisions, kept its July level at 1.2 %. In July 2017 industrial production in the euro area increased by 3.2 % yoy in July 2017, after an upward revision of 2.8 % in June. Production grew at a faster rate for intermediate, capital and long-term consumer goods. Among the largest economies in the Eurozone, production grew in Germany (3.9 %), France (3.6 %), Italy (4.4 %) and Spain (1.9 %). On a monthly basis, industrial output rose 0.1 percent, recovering from a 0.6 percent decline in June. In July 2017, the trade surplus in the euro zone shrank to EUR 23.2 billion from EUR 24.8 billion in the corresponding month of the previous year. Exports grew by 6.1 % yoy to EUR 177.7 billion, while imports grew by 8.2 % to EUR 154.6 billion. For the period January-July 2017, the surplus in trade shrank to EUR 130.2 billion from EUR 154.1 billion against the same period in 2016.

#### United Kingdom

**In the second quarter of 2017, Britain's economy grew by 1.7 % yoy. In August 2017, consumer prices in United Kingdom rose by 2.9 % yoy, compared to 2.6 % in the previous month. In the second quarter of 2017, the unemployment rate in the United Kingdom fell to 4.3 % compared to 4.6 % in the first quarter of 2017**

In Q2 2017 the British economy grew up by 1.7 % yoy. This is the lowest annual growth rate since Q2 2016, as household spending grew at a slower pace and investment in business hold back. In August 2017, consumer prices in the United Kingdom rose 2.9 % yoy, compared to 2.6 % in the previous month. The increase in the prices of clothes and motor fuels was the main factor for the increase. The annual rate of core inflation, excluding energy, food, alcohol and tobacco prices, rose to 2.7 %. In July 2017, the United Kingdom's trade deficit for goods and services was almost unchanged at GBP 2.87 billion compared to the reported decline of GBP 2.91 billion in June. In July 2017, imports fell 0.2 % to GBP 52.50 billion, and exports fell 0.2 % to GBP 49.63 billion. In Q2 2017, the trade deficit increased by GBP 0.4 billion from the reported figure of GBP 8.6 billion at the end of Q1 2017 due to the expansion of the trade deficit by GBP 1.1 billion, partly offset by a GBP 0.7 billion increase in trade surplus. In Q2 2017, the unemployment rate in the United Kingdom fell to 4.3 %, down from 4.6 % in Q1 of 2017 and below market expectations of 4.4 %. Meanwhile, the employment rate has reached a new peak of 75.3 %. Consumer prices in the United Kingdom rose 2.9 % yoy in August 2017, which exceeded market expectations of 2.8 % and post 2.6 % in the previous month. The increase in the prices of clothes and motor fuels was the main factor for the increase. The annual rate of key inflation, excluding energy, food, alcohol and tobacco prices, rose to 2.7 % and was also above the market consensus of 2.5 %. In July 2017, the United Kingdom's trade in goods and services was virtually unchanged at GBP 2,87 billion in July 2017, compared with a decline of GBP 2,91 billion reported in June. In July, imports dropped 0.2 % to £ 52.50 billion, while exports fell 0.2 % to



GBP49.63 billion. In the second quarter of 2017 the trade deficit increased by GBP 0.4 billion from GBP 8.6 billion in the first quarter of 2017 due to the increase in the trade deficit by GBP 1.1 billion, is partly offset by the expansion of trade in surplus services by GBP 0.7 billion

## USA

**In August 2017 industrial production in the United States shrank by 0.9 % after Hurricane Harvey hit the coast of Texas. This also led to a decrease in retail sales to 0.2 %**

In August 2017 industrial production in the USA declined 0.9 % mom after the upward revision and the reported increase of 0.4 % in July. This is the first decline in industrial production since January and the largest since May 2009. In August, Hurricane Harvey hit the Texas coast and was expected to lead to a fall in output by ¾ percentage points. In August 2017, retail sales in the US unexpectedly decreased by 0.2 % after the revised growth of 0.3 % in July. This was the first drop in retail sales since February, as car sales fell by 1.6 % as a result of hit from hurricane Harvey. With the exception of cars sales, the retail sales increased by 0.2 % mom. The number of Americans applying for unemployment benefits increased by 62,000 to 298,000 in the week ending September 2, 2017, well above the market expectations of 241,000. This is the highest weekly value compared to the week ending April 18, 2015, as a result of the impact of Hurricane Harvey. In August 2017, the PMI for non-productive ISM for the US rose to 55.3 from 53.9 in July, compared with market expectations of 55.4. Improvements in production, new orders and employment are seen as inventories slow down at increased price risk. Supplier expectations are to improve business conditions. In July 2017, the US trade deficit slightly increased to USD 43.7 billion, after reporting a USD 43.5 billion decline in June, with market expectations for a larger deficit of USD 44.6 billion. Exports declined by 0.3 % and imports fell by 0.2 %. Trade gap with China reached an 11-month high, and the one with the EU was the highest in 8 months. In August 2017, US consumer confidence amounted to 96.8 compared to a preliminary estimate of 97.6 and compared with July final data of 93.4. Expectations for sub-indices under current conditions are lower than expected earlier. In August 2017, the US government reported a budget deficit of USD108 billion, compared with a USD 107 billion deficit for the same month of the previous year and below the market expectations for a deficit of USD 119.5 billion.

## Japan

**In the second quarter of 2017, Japan's GDP grew by 1 % on an annual basis**

In the second quarter of 2017, the Japanese economy rose by 0.6 % quarter on quarter under the projections of an increase of 1.0 %. Business spending grew much slower than expected, and private consumption grew slightly less than expected. Still, Japan maintains growth for the sixth consecutive quarter - the longest period of economic growth since 2006. On an annual basis, the economy grew by 2.5 %, much lower than preliminary estimates of 4.0 %, but higher than the growth rate of 1.5 % reported in Q1 2017.

In August 2017, Japan's trade balance fell to 113.64 billion yen against a reported deficit of 34.62 billion yen for the same month of the previous year. Exports grew by 18.1 % yoy to 6.278 billion yen, while imports increased by 15.2 % to 6164.4 billion yen.

## China

**In August 2017, China's consumer prices rose by 1.8 % yoy after an increase of 1.4 % in July**

China's consumer prices rose 1.8 % yoy in August 2017, after an increase of 1.4 % in July, while market expectations were for 1.6 %. This is the highest January inflation, as non-food costs grew at a faster rate, and food costs declined much less than in the previous month. On a monthly basis consumer prices increased by 0.4 % after they rose by 0.1 % compared to the previous month and slightly above expectations - by 0.3 %. In August 2017, China's trade surplus dropped to USD 41.99 billion from USD 50.23 billion in the same month of the previous year to USD 48.6 billion in market consensus. In August 2017, sales rose 5.5 % year on year to USD 199.22 billion, slowing 7.2 % in the previous month, while markets had an expected 6.0 %. This was the weakest increase in exports, as in February the 2 % drop was due to global demand squeeze. Imports increased by 13.3 %, after 11 % increase from the previous month to USD157.19 billion and more than 10 % growth. He marks the tenth consecutive

month of growth. The US trade surplus, the largest export market in China, increased to USD 26.23 billion from USD 25.20 billion in July. This is the highest surplus since September 2015.

## Policy of the Central banks

### ECB

**On September 7, 2017, the ECB announced that maintained its refinancing rate of 0 % and confirmed that purchases of net assets were planned to move at the current monthly rate of EUR 60 billion by the end of December 2017, stating that inflation will continue to be very important for money supply developments.**

In autumn, the Governing Council of the ECB consider the future moves of its monetary policy, and in particular its asset purchase strategy, which goes beyond the current horizon. On September 7, 2017, the ECB announced that maintained its refinancing rate of 0 % and confirmed that purchases of net assets were planned to move at the current monthly rate of EUR 60 billion by the end of December 2017, stating that inflation will continue to be very important for money supply developments. Furthermore, the ECB raised its GDP forecast for 2017 to 2.2 %, the fastest pace since 2007 compared with 1.9 % in June, while the inflation forecast for this year remained unchanged by 1.5 %. The HICP projected for 2018 fell to 1.2 % (from 1.3 %) and for 2019 it was reduced to 1.5 % (from 1.6 %) based on the strong euro.

### Bank of England

**On September 14, 2017, the Bank of England announced that it kept the bank interest rate at a level of 0.25 %, as expected**

On September 14, 2017, the Bank of England announced its interest rate at 0.25 %, and GDP growth is expected to remain sluggish as pressure on real household income continues to affect consumption. Also, the Monetary Policy Committee has unanimously voted to hold the bond purchase in the United Kingdom at GBP 435 billion the exposures of buyers of corporate bonds with non-market investment worth GBP 10 billion. Meanwhile, the central bank cut its UK growth forecast for this year to 1.7 % compared to the earlier estimate of 1.9 %, while in the next year it forecast a 1.6 % growth over the previous forecast of 1.7 %.

### USA

**The reference rate in the US is maintained at 1.25 %. Federal Reserve announced a plan to sell part of the assets from its balance sheet, currently at USD 4.5 trillion since October 2017**

In September 2017, the Federal Reserve kept its federal funds rate target range unchanged from 1 % to 1.25 %, as expected. The Monetary Policy Committee predicts higher GDP growth as well as a further rise in interest rates this year, while the core inflation expectations are lower. In addition, the Federal Reserve announced it would begin to reduce its balance sheet, currently at USD 4.5 trillion since October 2017. Inflation uncertainty supports a gradual increase in the federal funds rate, according to Federal Reserve Chairman Mrs. Yellen in a speech at the NABE (National Association for Business Economics) meeting. Applying a gradual approach is particularly appropriate in the light of moderate inflation and the low neutral real interest rate, which means that the FOMC will only have a limited scope to reduce the percentage of federal funds if the economy is affected by some unfavorable shock. On the other side, wage growth continues to exceed the longer-term pace that would be sufficient on average to provide jobs for new entrants to the labor market. Thus, without a further, though modest, increase in the rate of federal funds over time, there is a risk that the labor market may overheat, which may create an inflationary problem that can hardly be overcome without a recession. The ongoing monetary policy facilitation could also lead to an increase in leverage and other developments with adverse effects on financial stability.

## Bank of Japan (BoJ)

**In September 2017, the central bank of Japan maintained its main short-term interest rate of -0.1 %.**

In September 2017, the BoJ maintained its main short-term interest rate of -0.1 %. This happened hours after the Federal Reserve announced a plan to sell part of the assets from its balance sheet in October 2017. Policymakers have also kept their ten-year government bond yield target at around zero percent and maintained their optimistic view of private consumption and economies abroad. As for the amount of Japanese government bonds (JGBs) to be purchased, the Bank will make purchases at an annual growth rate of about 80 trillion yen. Bank of Japan also decided to purchase funds, exchange-traded (ETFs) and investment trusts to invest in real estate in Japan (J-REITs), so that their amounts increased by annual rates, respectively of around JPY 6,0 trillion and about JPY 90 billion, respectively. As for CP and corporate bonds, the Bank will retain outstanding amounts of JPY 2.2 trillion and JPY 3.2 trillion, respectively. Goushi Kataoka, the new member of the board, opposed the decision by the Central Bank of Japan to maintain its interest rate targets, saying current monetary policy was insufficient to bring inflation to 2 % in fiscal 2019.

## People's Bank of China (PBC)

**The PBC maintains a reference interest rate at a level of 4.35 %**

PBC continues its policy of caution with regard to changes in interest rates. PBC maintains the reference interest rate at a level of 4.35 %. The reference interest rate in China amounted to 6.19 % for the period from 1996 to 2017, reaching a peak of 10.98 % in June 1996 and a record low of 4.35 % in October 2015. The three-month interbank interest rate fell to 4.71 % on September 25, 2017 from 4.90 % on the previous day. The interbank rate in China maintained an average of 3.68 % for the period 2002 to 2017, reaching a high of 9.89 % in June 2013 and a record low of 0 % in April 2003. In September 2017, the PBC maintained the reverse repo rate at 2.45 % against August 2017. China's reverse repo rate was maintained at 3.12 % for the period from 2012 to 2017, reaching a high of 4.40 % in July 2013 and a record low of 2.25 % in October 2015

## International Commodity Prices

### Petrol

**In September 2017, crude oil prices grew to 52.31 USD/BBL, Brent crude increased to 58.89 USD/BBL and gas to 2.93 USD/MMBtu**

On international markets, the price of crude oil rose by 0.41 USD/BBL or by 0.79 % to 52.31 USD/BBL on September 27, 2017 compared to 51.88 USD/BBL on the previous trading session. Retrospectively, crude oil reached the highest value of 145.31 USD/BBL in July 2008 and a record low of 1.17 USD/BBL in 1946. Crude oil is the most actively traded commodity in the world.

Brent crude oil price increased 0.16 USD/BBL or by 0.27 % to 58.89 USD/BBL on 27 September 2017 against 58.64 USD/BBL at the previous trading session. Crude Brent reached a peak of 145.61 USD/BBL in July 2008 and a record low of 2.23 USD/BBL in May 1970. Crude Oil Brent is the main reference price for oil purchases in world wide. While Brent is harvested from the North Sea, oil production from Europe, Africa and the Middle East has been accepted to be valued against this oil.

Natural gas prices increased by 0.01 USD/MMBtu or by 0.37 % to 2.93 USD/MMBtu on September 27, 2017 against the 2.92 USD/MMBtu at the previous trading session. In retrospect, in December 2005, natural gas reached 15.39 USD/MMBtu and a record low of 1.02 USD/MMBtu in January 1992. Natural gas represents almost a quarter of US energy consumption. The NY-MEX Division's futures contract is widely used as a reference price. The futures contract is traded in units of 10,000 million British Thermal Units (mmBtu). The price is based on Henry Hub's delivery to Louisiana, the connection between 16 domestic and interstate gas-fired natural gas systems that draw supplies from the gas fields in the area. In Bulgaria, "Bulgargaz" predicts a 6 % decline in natural gas from October 1, 2017. The estimated price of the blue fuel for Q4 of 2017 is BGN 347.99 per 1000 cubic meters (excluding transport, excise and VAT). This represents a decrease of BGN 22.22 per 1000 cubic meters compared to the current price. The decrease is due to the lower exchange rate of the lev against the US dollar.



## Metals

**In September 2017, in the international markets the price of steel increased to 3,933 yuan/ MT. The price of copper rose to 2.92 USD / LB**

The price of steel increased by 21 yuan/MT or 0.54 % to 3.933 yuan/MT on September 26, 2017 compared to 3,912 yuan/MT in the previous trading session. In September 2017, steel reached 4440 yuan/MT and a record low of 1750 yuan/MT in February 2016. Steel is an alloy of iron and other elements, mostly carbon. Steel is one of the most important materials in the world used in construction, cars and all kinds of machinery and appliances. The largest producer of raw steel is China, followed by the European Union, Japan, the United States, India, Russia and South Korea. The largest iron ore producers are China, Australia, Brazil, India, Russia, Ukraine and South Africa. The standard contact weight is 65 tonnes.

The price of copper rose by 0.01 USD/LB or by 0.47 % to 2.92 USD/LB on 27 September compared to 2.90 USD/LB on the previous trading session. In February 2011, the copper price reached 4.58 USD/LB and a record low of 1.94 USD/LB in January 2016. Chile represents more than a third of world copper production, followed by China, Peru, Australia, Indonesia, Zambia, Canada and Poland. The main exporters of copper ores and concentrates are Chile, Peru, Indonesia, Australia, Canada, Brazil, Kazakhstan, the USA, Argentina and Mongolia. The largest copper importers are China, Japan, India, South Korea and Germany. Copper market participants use the COMEX Division of high-quality copper futures and options to mitigate price risk. Copper is the third most widely used metal in the world after iron and aluminum and is mainly used in highly cyclical industries and the production of industrial machinery. The profitable extraction of metal depends on cost-effective high-yielding mining techniques and supplies are sensitive to the political situation, especially in those countries where copper is controlled by government enterprises.

## Agricultural products

**In September 2017 the international wheat price decreased by 2.29 USDd /BU or by 0.50 % to 451.54 USDd /BU. Trends in the price of other cereals are controversial**

International wheat prices decreased by 2.29 USDd/BU or 0.50 % to 451.54 USDd/BU on September 27, 2017, compared to 454.79 USDd/BU in the previous trading session. In February 2008 wheat reached 1194.50 USDd/BU and a record low of 192 USDd/BU in July 1999. The European Union, China, India, the United States and Russia are the world's largest wheat producers. USA is the largest exporter of wheat (27 % of total exports), followed by the European Union (17 %), Australia (14 %) and Canada (13 %). Wheat futures are available for trading on the Chicago Commerce Board (CBOT), created in 1848, and is the leading futures market. Chicago's wheat price rose by USD1.18 to 151.90 USD/ tonne, corn was minus USD 0.24 to 134.48 USD/tonne, and soybean meal and soybean went up to USD 302.40 and 353.92 USD / tonne. In Budapest, the tendency in quotations is more controversial - wheat miller fell by BGN 3.49 to 282.65 BGN/tonne, in the case of forage wheat the downward movement was approximately the same minus BGN 3.36 to 272.85 BGN/tonne and in maize there was a certain increase of BGN 6.34 to 290.82 BGN/ton. The oil sunflower was again a record in the decline and dropped by more than BGN 20.00 to 599.61 BGN/tonne. On the Paris stock exchange, the rape price is down by EUR 4.50 and traded at 365.00 EUR/tonne. In Rotterdam, unrefined sunflower oil rises again by USD 10.00 to 815 USD/ tonne, and refined sugar in London is cheaper by USD 6.80 to 371.40 USD/tonne.

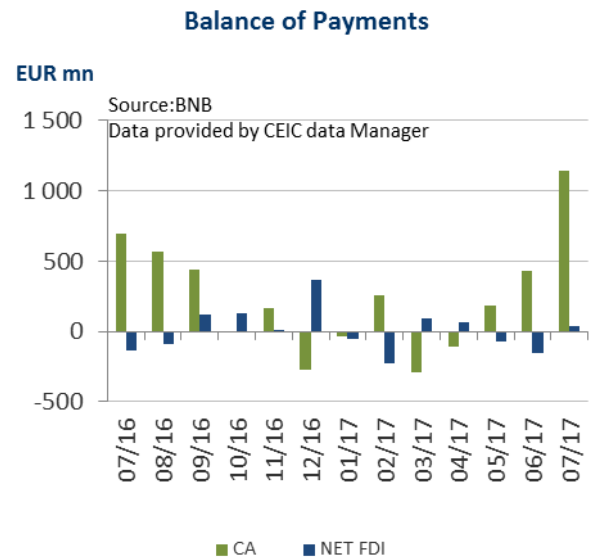
## BULGARIA

### External sector

#### Balance of Payments

**In January – July 2017 the current and capital account was positive amounting to EUR 1,835.8 million (3.7 % of GDP), compared with a surplus of EUR 2,602.4 million (5.5 % of GDP) in January – July 2016**

According to the BNB data the current and capital account recorded a surplus of EUR 1,216.5 million in July 2017, compared with a positive balance of EUR 813.5 million in July 2016. In January – July 2017 the current and capital account was positive amounting to EUR 1,835.8 million (3.7 % of GDP), compared with a surplus of EUR 2,602.4 million (5.5 % of GDP) in January – July 2016. The current account was positive amounting to EUR 1140.7 million in July 2017, compared with a surplus of EUR 690.3 million in July 2016. In January – July 2017 the current account was positive and amounted to EUR 1,568.4 million (3.2 % of GDP), compared with a surplus of EUR 1,667.2 million (3.5 % of GDP) in January – July 2016. The balance on goods recorded a surplus of EUR 58.5 million in July 2017, compared with a deficit of EUR 0.7 million in July 2016. In January – July 2017 the balance on goods was negative amounting to EUR 1,177 million (2.4 % of GDP), compared with a deficit of EUR 560.3 million (1.2 % of GDP) in January – July 2016. Exports of goods amounted to EUR 2,371 million in July 2017, growing by EUR 322 million (15.7 %) from July 2016 (EUR 2,049 million). In January – July 2017 exports of goods totalled EUR 14,746.5 million (29.8 % of GDP), increasing by EUR 1,969.1 million (15.4 %) year-on-year (from EUR 12,777.4 million, 27 % of GDP). In January – July 2016 exports dropped by 1.3 % year-on-year. Imports of goods amounted to EUR 2,312.6 million in July 2017, growing by EUR 262.9 million (12.8 %) from July 2016 (EUR 2,049.7 million). In January – July 2017 imports of goods totalled EUR 15,923.4 million (32.2 % of GDP), growing by EUR 2,585.8 million (19.4 %) from January – July 2016 (EUR 13,337.6 million, 28.2 % of GDP). In January – July 2016 imports dropped by 7 % year-on-year. Services recorded a positive balance of EUR 736.6 million in July 2017, compared with a surplus of EUR 701.9 million in July 2016. In January – July 2017 services recorded a surplus of EUR 1,877.2 million (3.8 % of GDP) compared with a positive balance of EUR 1,657.6 million (3.5 % 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 44.5 million in July 2017, compared with a deficit of EUR 83.4 million in July 2016. In January – July 2017 the balance on primary income was negative and equated to EUR 261 million (0.5 % of GDP), against a deficit of EUR 637.8 million (1.3 % of GDP) in January – July 2016. The net secondary income (which reflects the redistribution of income) recorded a surplus of EUR 301.2 million, compared with a surplus of EUR 72.4 million in July 2016. In January – July 2017 the net secondary income was positive amounting to EUR 1,129.2 million (2.3 % of GDP), compared with a positive balance of EUR 1,207.6 million (2.5 % of GDP) in the same period of 2016. The capital account recorded a surplus of EUR 75.8 million, compared with a positive balance of EUR 123.2 million in July 2016. In January – July 2017 the capital account recorded a surplus of EUR 267.4 million (0.5 % of GDP), compared with a positive balance of EUR 935.2 million (2 % of GDP) in January – July 2016. The financial account recorded a net inflow of EUR 724.3 million, compared with an inflow of EUR 456.7 million in July 2016. In January – July 2017 the financial account recorded a net inflow of EUR 331.8 million (0.7 % of GDP) compared with an inflow of EUR 2,201.8 million (4.6 % of GDP) in January – July 2016. The net direct investment compiled in accordance with the Sixth Edition of the Balance of Payments and International Investment Position Manual was positive amounting to EUR 36 million, compared with a negative balance of EUR 137 million in July 2016. In January – July 2017 direct investment recorded a negative balance of EUR 318.3 million (0.6 % of GDP), compared with a negative balance of EUR 872 million (1.8 % of GDP) million in January – July 2016. Direct investment – assets grew by EUR 39 million compared with a decline of EUR 26.4 million in July 2016. In

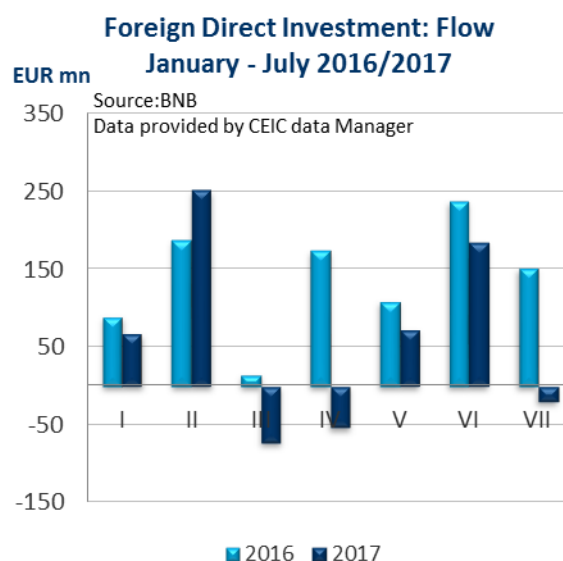


January – July 2017 direct investment – assets rose by EUR 179.3 million (0.4 % of GDP), compared with an increase of EUR 213.4 million (0.5 % of GDP) in the same period of 2016. Direct investment – liabilities grew by EUR 3 million in July 2017, compared with an increase of EUR 110.6 million in July 2016. In January – July 2017 direct investment – liabilities rose by EUR 497.6 million (1 % of GDP), compared with an increase of EUR 1,085.4 million (2.3 % of GDP) in the same period of 2016. The balance on portfolio investment was positive amounting to EUR 333.2 million, compared with a negative balance of EUR 69 million in July 2016. In January – July 2017 the balance was positive and equated to EUR 1,031.6 million (2.1 % of GDP), compared with a negative balance of EUR 1,132.3 million (2.4 % of GDP) million in January – July 2016. Portfolio investment – assets dropped by EUR 17.9 million, compared with a decline of EUR 64.3 million in July 2016. In January – July 2017 they rose by EUR 490.7 million (1 % of GDP) compared with a decrease of EUR 82.9 million (0.2 % of GDP) in January – July 2016. Portfolio investment – liabilities declined by EUR 351.1 million compared with an increase of EUR 4.7 million in July 2016. In January – July 2017 portfolio investment – liabilities decreased by EUR 540.9 million (1.1 % of GDP), compared with an increase of EUR 1,049.4 million (2.2 % of GDP) in January – July 2016. The balance on other investment was positive amounting to EUR 577.6 million, compared with a positive balance of EUR 16.7 million in July 2016. In January – July 2017 the balance was negative and equated to EUR 302.1 million (0.6 % of GDP), compared with a positive balance of EUR 1,784 million (3.8 % of GDP) in January – July 2016. Other investment – assets grew by EUR 473.7 million, compared with an increase of EUR 17.8 million in July 2016. In January – July 2017 they grew by EUR 51.7 million (0.1 % of GDP) compared with an increase of EUR 1,670.3 million (3.5 % of GDP) in January – July 2016. Other investment – liabilities dropped by EUR 103.9 million compared with an increase of EUR 1.1 million in July 2016. In January – July 2017 they rose by EUR 353.8 million (0.7 % of GDP) compared with a decline of EUR 113.7 million (0.2 % of GDP) in January – July 2016. The BNB reserve assets decreased by EUR 209.3 million, compared with an increase of EUR 661.3 million in July 2016. In January – July 2017 they dropped by EUR 36.2 million (0.1 % of GDP), compared with an increase of EUR 2,491.9 million (5.3 % of GDP) in the same period of 2016. The net errors and omissions were negative amounting to EUR 492.2 million compared with a negative value of EUR 356.7 million in July 2016. According to preliminary data, the item was negative in January – July 2017 and totalled EUR 1,504 million (3 % of GDP), against a negative value of EUR 400.6 million (0.8 % of GDP) in the same period of 2016.

## Foreign Direct Investment

**In January – July 2017 foreign direct investment in Bulgaria totalled EUR 431.8 million (0.9 % of GDP), dropping by EUR 534.8 million (55.3 %) from January – July 2016 (EUR 966.6 million, 2 % of GDP)**

According to the BNB preliminary data, foreign direct investment in Bulgaria presented according to the directional principle totalled EUR 431.8 million (0.9 % of GDP) in January – July 2017, dropping by EUR 534.8 million (55.3 %) from January – July 2016 (EUR 966.6 million, 2 % of GDP). Foreign direct investment in Bulgaria dropped by EUR 19.2 million in July 2017, compared with an increase of EUR 152.4 million in July 2016. Equity (acquisition/disposal of shares and equities in cash and contributions in kind by non-residents in/from the capital and reserves of Bulgarian enterprises, and receipts/payments from/for real estate deals in the country) recorded a negative value of EUR 17.8 million in January – July 2017, dropping by EUR 397.7 million from a positive value of EUR 380 million in January – July 2016. Real estate investments of non-residents totalled EUR 5.6 million, compared with EUR 54.4 million attracted in January – July 2016. The largest inflow of real estate investment was from Russia (EUR 2.7 million, 47.6 % of the total amount for January – July 2017), Ukraine (EUR 0.7 million, 13.2 % of the total amount), and Kazakhstan (EUR 0.5 million, 8.2 % of the total amount). Reinvestments of earnings (the share of non-residents in the undistributed earnings/ loss of the enterprise based on preliminary profit and loss data) was negative amounting to EUR 10.5 million for January – July 2017, compared with a positive value of EUR 310.3 million in January – July 2016. The net debt instruments (the change in the net liabilities between affiliated enter-



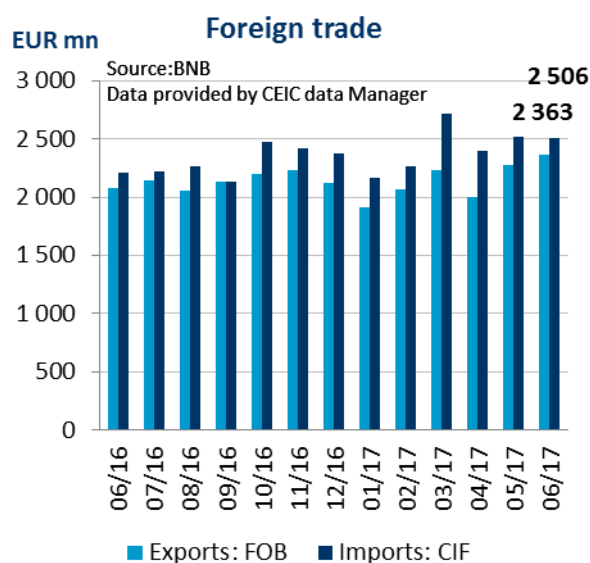
prises on financial loans, suppliers' credits and debt securities) amounted to EUR 460 million in January – July 2017, compared with EUR 276.4 million in January – July 2016. The largest net direct investment inflows in Bulgaria for January – July 2017 were from the Netherlands (EUR 392.1 million) and Switzerland (EUR 71.3 million). According to preliminary data, direct investment abroad grew by EUR 113.5 million, compared with an increase of EUR 94.6 million in January – July 2016. Direct investment abroad increased by EUR 16.8 million in July 2017, compared with an increase of EUR 15.3 million in July 2016.

## Foreign trade

**In January - June 2017, exports (FOB) amounted to EUR 12868.1 million, compared with EUR 11238.2 million in the same period of 2016, increasing by EUR 1629.9 million (14.5 %)**

According to the data of BNB, in January - June 2017, exports (FOB) amounted to EUR 12868.1 million, compared with EUR 11238.2 million in the same period of 2016, increasing by EUR 1629.9 million (14.5 %). The increase in exports on a year-on-year basis could be attributed mostly to non-ferrous metals groups - by EUR 682.3 million (94.4 %), other investment goods by EUR 281 million (32.0 %) and petroleum products by EUR 178.3 million (26.3 %), whereas the decrease was reported in the exports of Raw materials for the food industry by EUR 168.5 mn (-21.8 %). On year-on-year basis, the increase in exports by commodity groups, in January - June 2017 was due mostly to Copper and articles thereof by EUR 635.3 million (102.7 %) and Mineral Fuels, oils & products of their distillation; etc. by EUR 220.6 million (25.1 %). The decrease was reported in the exports of Cereals - by EUR 113.8 million (-33.1 %), and Ores, Slag and ash by EUR 55.0 million (-20.6 %). Exports to the European Union increase by EUR 848.3 million (11.3 %), on a year-on-year basis, their share in total exports decreased from 66.8 % in January to June 2016 to 64.9 % in the same period of 2017. The largest increase on a year-on-year basis was that in the exports to Germany by EUR 294.4 million (19.8 %) and Belgium by EUR 242.1 million (99.4 %). Exports decreased to Italy - by EUR 18.4 million (-1.6 %) and Spain by EUR 26.7 million and (-10.5 %). Exports to non-EU countries increase by EUR 781.6 million (21.0 %) year-on-years, its share in total exports increased from 33.2 % in January - June 2016 to 35.1 % in the same period of 2017. The increase in exports was contributed mostly to Turkey by EUR 155.0 million (16.5 %), Russia by EUR 131.3 million (78.2 %) and China by EUR 95.5 million (44.3 %). Exports decreased to the USA by EUR 12.6 million (-7.4 %), Switzerland by EUR 6.7 million (-10.1 %) and Macedonia by EUR 1.1 million (-0.6 %). The exports to Germany had the highest share in total exports (13.9 % of total exports, EUR 1783.4 million), followed by Italy (8.7 %, EUR 1117.0 million), Turkey (8.5 %, EUR 1095.7 million) and Romania (8.0 %, EUR 1030.2 million).

In January – June 2017 imports (CIF) amounted to EUR 14570.5 million, compared with EUR 12284.4 million in the same period of 2016, increasing by EUR 2286.1 million (18.6 %). The increase in the imports (CIF) on a year-on-year basis can be attributed mostly to Crude oil and Natural gas by EUR 478.4 million (48.8 %) and Ores by EUR 383.6 million (102.1 %). The decrease was reported in the imports of the Raw skins by EUR 9.4 million (-17.8 %). 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 681.1 million (48.6 %), Ores, Slag and ash by EUR 383.6 million (102.1 %) and Copper and articles thereof by EUR 131.0 million (69.3 %). The decrease was reported in the imports of Articles of apparel & clothing accessories not knitted/crocheted – by EUR 5.5 million (-4.4 %) and Essential oils by EUR 4.4 million (-3.3 %). The imports from the EU increased by EUR 696.6 million (10.2 %) on a year-on-year basis, its share in total imports decreasing from 55.8 % in January - June 2016 to 51.9 % in the same period of 2017. The highest rose in imports on a year-on-year basis was that from Romania – by EUR 152.6 million (24.1 %), Germany by EUR 89.3 million (5.9 %) and Greece by EUR 74.2 million (16.3 %). Imports from non-EU countries increased on a year-on-year basis by EUR 1589.5 million (29.3 %), their share in total imports increased from 44.2 % in January – June 2016 to 48.1 % in the same period of 2017. The increase in imports was contributed mostly from Russia by EUR 423.2 million (39.1 %), Turkey by EUR 138.6 million (18.2 %) and Serbia by EUR 134.6 million (70.9 %), whereas the imports from the USA decreased by EUR 10.5 million (-





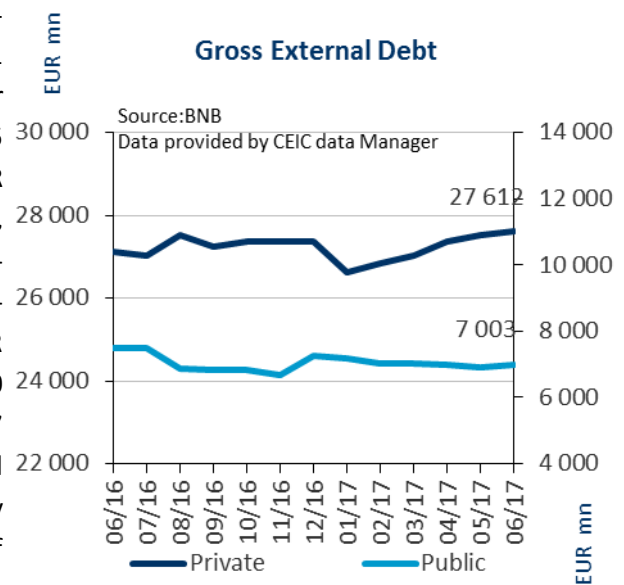
3.6 %). The largest share in total exports (CIF) was held by Germany (11.0 % of total imports, EUR 1606.0 million), Russia (10.3 % of total imports, EUR 1504.2 million), Italy (7.5 % of total imports, EUR 1096.7 million) and China (7.3 % of total imports, EUR 1062.1 million).

### Gross external debt

**At end-June 2017 gross external debt amounted to EUR 34,615.4 million (70 % of GDP), decreasing by EUR 27 million (0.1 % from end-2016 (EUR 34,642.5 million, 73.1 % of GDP) and higher with EUR 164 million (0.5 %) compared to the previous month**

According to the BNB data, gross external debt amounted to EUR 34,615.4 million (70 % of GDP) at end-June 2017, decreasing by EUR 27 million (0.1 %) from end-2016 (EUR 34,642.5 million, 73.1 % of GDP). On a year-on-year basis gross external debt grew by EUR 4.1 million (0.01 %) from June 2016 (EUR 34,611.4 million, 73.1 % of GDP). Long-term liabilities totalled EUR 26,245.5 million (75.8 % of the total debt, 53.1 % of GDP) at end-June 2017, dropping by EUR 409.7 million (1.5 %) from end-2016 (EUR 26,655.2 million, 76.9 % of the total debt, 56.3 % of GDP). On a year-on-year basis, long-term liabilities decreased by EUR 779.8 million (2.9 %) from June 2016 (EUR 27,025.3 million, 57.1 % of GDP). Short-term liabilities equalled EUR 8,370 million (24.2 % of the total debt, 16.9 % of GDP), increasing by EUR 382.7 million (4.8 %) from end-2016 (EUR 7,987.2 million; 23.1 % of the total debt, 16.9 % of GDP). On a year-on-year basis, short-term liabilities rose by EUR 783.9 million (10.3 %) from June 2016 (EUR 7,586 million, 16 % of GDP). General government's gross external debt totalled EUR 6,394.7 million (12.9 % of GDP) in end-June 2017. It dropped by EUR 387.8 million (5.7 %)

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 189.6 million (2.9 %) from June 2016 (EUR 6,584.3 million, 13.9 % of GDP). Banks' external debt totalled EUR 4,608 million (9.3 % of GDP). It grew by EUR 445 million (10.7 %) from end-2016 (EUR 4,162.9 million, 8.8 % of GDP). On a year-on-year basis banks' debt grew by EUR 829.9 million (22 %), from EUR 3,778 million, 8 % of GDP in June 2016. Other Sectors' external debt equalled EUR 11,356.4 million (23 % of GDP). It rose by EUR 153.1 million (1.4 %) from end-2016 (EUR 11,203.3 million, 23.7 % of GDP). On a year-on-year basis it dropped by EUR 125.1 million (1.1 %) from June 2016 (EUR 11,481.5 million, 24.2 % of GDP). The stock of intercompany lending amounted to EUR 12,256.4 million (24.8 % of GDP) at end-June 2017, dropping by EUR 237.3 million (1.9 %) from end-2016 (EUR 12,493.7 million, 26.4 % of GDP). On a year-on-year basis it decreased by EUR 511.1 million (4 %) from June 2016 (EUR 12,767.5 million, 27 % of GDP). The external financing received from non-residents equalled EUR 2,521.6 million (5.1 % of GDP) in January – June 2017, compared with EUR 3,763.1 million (7.9 % of GDP) in January – June 2016. They were distributed as follows: general government received EUR 83.3 million (3.3 % of the total amount of disbursements), banks received EUR 901.5 million (35.8 %), other sectors received EUR 648.5 million (25.7 %), and intercompany lending<sup>4</sup> totalled EUR 888.3 million (35.2 %). Gross external debt service totalled EUR 2,397.7 million (4.8 % of GDP) in January – June 2017, compared with EUR 2,954.2 million (6.2 % of GDP) in January – June 2016. Net external debt totalled EUR 2,405.2 million at end-June 2017. It dropped by EUR 116.7 million (4.6 %) from end-2016 (EUR 2,521.9 million). Its decline was due to the increase in gross external assets (by EUR 89.7 million, 0.3 %) on the one hand, and on the other – to the decrease in gross external debt (by EUR 27 million, 0.1 %). As a percentage of GDP, net external debt equated to 4.9 %, from 5.3 % at end-2016. On a year-on-year basis, net external debt decreased by EUR 1,257.9 million, 34.3 % (from EUR 3,663.1 million, 7.7 % of GDP in June 2016).



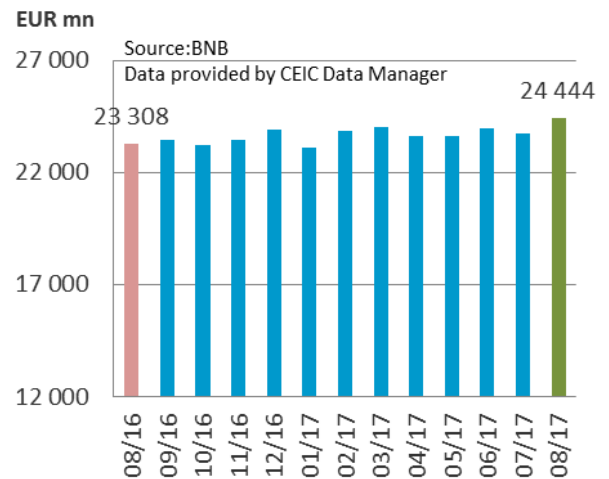


## Foreign reserves

**In August 2017 the BNB's foreign reserves amounted to BGN 47.8 billion (EUR 24.4 billion), increasing by 3.0 % mom and 4.9 % yoy**

According to the BNB data, in August 2017 the BNB's foreign reserves amounted to BGN 47.8 billion (EUR 24.4 billion), increasing by 3.0 % mom and 4.9 % yoy. For a period of one month cash and foreign currency denominated deposits increased by 4.68 % and 51.5 % yoy respectively, to the amount of BGN 19.5 billion. Monetary gold and other monetary gold instruments grew by 1.8 % mom, decreasing of 6.7 % yoy. In comparison to the previous month Investments in securities rose by 1.91 %, decreasing by 14.1 % yoy, and at the end of August 2017 they are in the amount of BGN 25.6 billion. Notes and coins in circulation are in the amount of BGN 14.92 billion, reporting an increase on a monthly and an annual base respectively by 2.29 % и 12.0 %. Liabilities to banks and liabilities to government and to government budget institutions are in the amount of BGN 14.91 billion and BGN 10.72 billion, rising by 6.59 % mom and 2.53 % mom respectively. Compared to the previous month, liabilities to other depositors decreased by 10.1 %, with an increase of 47.7 % yoy. Bulgaria's international liquidity position, calculated as a ratio of short-term external debt to international reserves kept its value high of 286.4 %.

Foreign Reserves



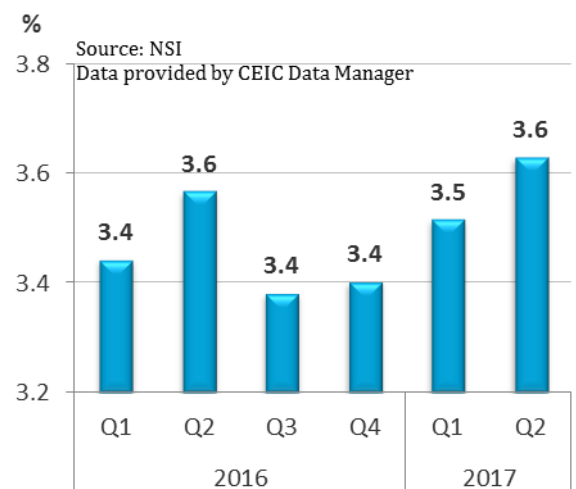
## Real sector

### Gross domestic product

**According to the preliminary data of the NSI, in Q2 of 2017 the GDP at current prices amounted to BGN 24 149 million, increasing by 1.0 % on a quarterly base and by 3.6 % on an annual base as per the seasonally adjusted data**

According to the preliminary data of the NSI, the Gross Domestic Product at current prices in the second quarter of 2017 amounted to BGN 24 149 million. The GDP per person amounted to BGN 3 405. In USD terms at average quarterly exchange rate of BGN 1.77564 per dollar, the GDP amounted to 13 600 million dollars or 1 918 dollars per person. In Euro terms, the GDP amounted to EUR 12 347 million or EUR 1 741 per person. Gross value added (GVA) at current prices in the second quarter of 2017 amounted to BGN 20 837 million. As compared to the second quarter of 2017 the share of the agricultural sector in the gross value added of the economy increases with 0.2 percentage points (pp) to 4.1 %. The share of industrial sector decreases by 0.6 pp to 29.5 %. The relative share of value added from service activities increases from 66.0 % to 66.4 % pp compared to the corresponding period of the previous year. In the second quarter of 2017 the final consumption expenditure<sup>1</sup> formed 75.4 % of GDP. Investments (gross fixed capital formation<sup>2</sup>) formed 21.3 % of GDP. The external balance (exports-imports) is positive. According to the seasonally adjusted data, GDP in the

GDP Growth rate per quarter, YoY seasonally adjusted data



second quarter of 2017 increased by 1.0 % compared with the previous quarter. In the second quarter of 2017 gross value added of the total economy rises by 0.9 %. According to the preliminary estimates of GDP by final expenditure, in the second quarter of 2017 compared with the previous quarter the final consumption increased by 0.4 % compared to the previous quarter. For the same period, gross fixed capital formation increased by 2.3 %. In the second quarter of 2017, exports and imports of goods and services increased their level compared to the previous quarter by 2.0 % and 1.1 %. During the second quarter of

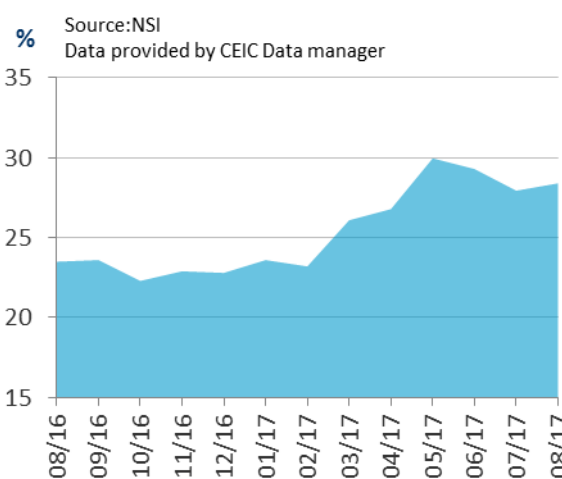
2017 GDP increased by 3.6 % compared to the same quarter of the previous year according to the seasonally adjusted data. Gross value added increased by 3.7 % compared to the same quarter of previous year. The indicator' movement is determined by the increase recorded in: Wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities - 4.0 %, Mining and quarrying; manufacturing; electricity, gas, steam and air conditioning supply; water supply, waste management and remediation activities - 3.1 %, Real estate activities - 3.0 %, Professional, scientific and technical activities; administrative and support service activities - 2.5 %. As regards the expenditure component of GDP, contributors to the registered positive economic growth are the final consumption with 4.2 %. Exports of goods and services increased by 6.5 %, Imports of goods and services increased with 7.7 %.

### Business climate

**In August 2017, the total business climate indicator increases to 28.4 %, or by 0.5 percentage points compared to the previous month as a result of the improved business climate in retail trade and service sector**

In August 2017, the total business climate indicator increases to 28.4 %, or by 0.5 percentage points compared to the previous month as a result of the improved business climate in retail trade and service sector. The composite indicator 'business climate in industry' decreases to 26.4 %, or by 2.2 percentage points in comparison with July which is due to the more reserved industrial entrepreneurs' assessments and expectations about the business situation of the enterprises. In their opinion, the present production activity is preserved, but their expectations about the activity over the next 3 months are more favourable. The uncertain economic environment continues to be the main problem for the business development. In the second place is the factor 'shortage of labour' which negative impact strengthens in the last month. As regards the selling prices in industry, the managers' expectations are them to remain unchanged over the next 3 months. In August, the composite indicator 'business climate in construction' preserves approximately its level from the previous month at 28.6 %. The inquiry registers an improvement in the construction entrepreneurs' assessments

**Business Climate Indicator**



about the present business situation of the enterprises, while their expectations over the next 6 months are slight worsened. The main factors limiting the enterprises remain the uncertain economic environment and competition in the branch. At the same time in the last month strengthen the unfavourable influence of the factor 'shortage of labour' is reported. The managers do not foresee a change in the selling prices in construction over the next 3 months. The composite indicator 'business climate in retail trade' increases to 43.3 %, or by 4.5 percentage points compared to July which is due to the improved retailers' assessments and expectations about the business situation of the enterprises. Their forecasts about the orders places whit suppliers from both domestic and foreign market over the next 3 months are also optimistic. The competition in the branch, uncertain economic environment and insufficient demand continue to be the main obstacles for the development of the activity. As regards the selling prices, the majority of the retailers expect them to remain unchanged over the next 3 months. In August the composite indicator 'business climate in service sector' increases by 1.9 percentage points to 17.3 % as result of the improved managers' assessments and expectations about the business situation of the enterprises. However, their forecasts concerning the demand for services over the next 3 months are more unfavourable. The most serious difficulties for the business remain to be connected with the competition in the branch and uncertain economic environment. Concerning the selling prices in the sector, managers' expectations are for preservation of their level over the next 3 months.

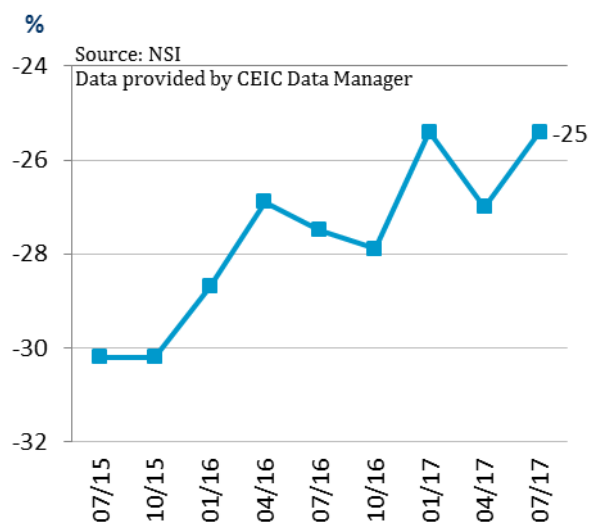
### Consumer survey

**In July 2017 consumer confidence indicator increases to -25.4 %, by 1.6 percentage points in comparison with its April level**

According to the NSI data in July 2017, the total consumer confidence indicator increases to -25.4 %, or by 1.6 percentage points in comparison with its April level. An increase of consumer confidence among both urban and rural inhabitants by 1.2

and 2.8 percentage points respectively is observed. The consumers' total assessment of the current development of the economic situation in the country over the last 12 months improves - an increase of the balance indicator by 3.9 percentage points. At the same time, their forecasts over the next 12 months are less negative compared to the previous survey. In comparison with April, their assessments and expectations about the changes in the financial situation of their households are more favourable. The consumers continue to consider that over the last 12 months there has been an increase of consumer prices, but at a lower rate, compared to the assessments registered in April. At the same time, their inflation expectations about the next 12 months are less intense. As regards the unemployment in the country over the next 12 months, the negativism also decreases. The forecasts are shifting towards preserving or slightly reduction, as a result of that the balance indicator decreases by 1.0 percentage point. In July, the majority of the consumers continue to assess the economic situation in the country as unfavourable for savings although their relative share decreases in comparison with 3 months ago. The last inquiry reports certain improvement of the total assessment of the present situation for making major purchases of durable goods. The consumers living in the villages are favourable to make such expenditures over the next 12 months, while the urban inhabitants' expectations are more reserved.

### Consumer Confidence Indicator

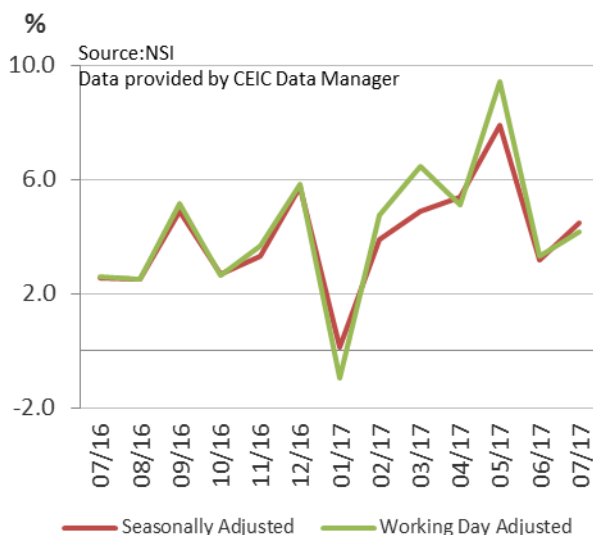


### Industrial Production Index

**In July 2017 the Industrial Production Index, seasonally adjusted, increased by 0.2 % mom and by 4.2 % yoy based on the working day adjusted data**

According to the preliminary data of the NSI the Industrial Production Index, seasonally adjusted, increased by 0.2 % in July 2017 as compared to June 2017. In July 2017 working day adjusted Industrial Production Index rose by 4.2 % in comparison with the same month of 2016. In July 2017 as compared to June 2017, the seasonally adjusted Industrial Production Index increased in the manufacturing by 0.5 %, while a decrease was seen in the mining and quarrying industry by 3.4 % and in the electricity, gas, steam and air conditioning supply by 0.7 %. The most significant production increases in the manufacturing were registered in the repair and installation of machinery and equipment by 23.6 %, in the manufacture of fabricated metal products, except machinery and equipment by 19.8 %, in the manufacture of chemicals and chemical products by 11.8 %, in the manufacture of beverages by 4.7 %. There were decreases in the manufacture of tobacco products by 21.4 %, in the manufacture of leather and related products by 13.1 %, in the manufacture of other transport equipment by 8.1 %, in the manufacturing of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials by 5.0 %. On annual basis in July 2017 Industrial Production Index calculated from working day adjusted data rose in the manufacturing by 6.3 %, while the production went down in the electricity, gas, steam and air conditioning supply by 1.4 % and in mining and quarrying industry by 0.8 %. In the manufacturing, the more significant increases compared to the same month of the previous year were registered in the manufacture of fabricated metal products, except machinery and equipment by 37.7 %, in the repair and installation of machinery and equipment by 24.6 %, in the manufacture of basic pharmaceutical products and pharmaceutical preparations by 19.9 %, in the manufacture of computer, electronic and optical products by 19.0 %. Decreases were seen in the manufacture of tobacco products by 26.4 %, in the manufacture of leather and related products by 15.7 %, in the manufacture of wearing apparel by 11.6 %, in the manufacture of beverages by 7.1 %.

### Industrial production Index, % change, YoY

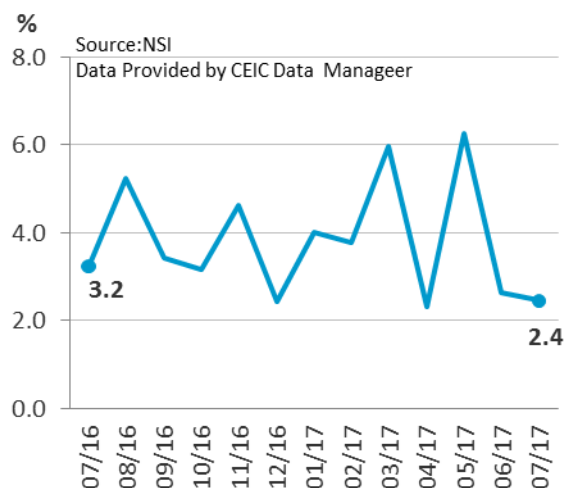


## Retail trade

**In July 2017 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 0.3 % compared to the previous month as per the seasonally adjusted data and 2.4 % annual increase based on the working day adjusted data**

According to the preliminary seasonally adjusted data of the NSI in July 2017 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 0.3 % compared to the previous month. In July 2017, the working day adjusted turnover in 'Retail trade, except of motor vehicles and motorcycles' marked rise from 2.4 % in comparison with the same month of the previous year. In July 2017 compared to the previous month, more significantly increase of turnover was observed in the 'Retail sale in non-specialized stores' by 2.2 %, in the 'Dispensing chemist; retail sale of medical and orthopaedic goods, cosmetic and toilet articles' by 1.0 % and in the 'Retail sale of food, beverages and tobacco' by 0.6 %. Decrease was registered in the 'Retail sale via mail order houses or via Internet' - 2.8 %, in the 'Retail sale of automotive fuel' - 1.8 % and in the 'Retail sale of textiles, clothing, footwear and leather goods' - 0.8 %. In July 2017 compared to the same month of 2016, the turnover increased more significantly in the 'Retail sale of computers, peripheral units and software; telecommunications equipment' by 20.3 %, in the 'Retail sale in non-specialized stores' by 18.1 % and in the 'Dispensing chemist; retail sale of medical and orthopaedic goods, cosmetic and toilet articles' by 7.9 %. Decline was registered in the 'Retail sale of automotive fuel' - 17.1 % and in the 'Retail sale via mail order houses or via Internet' - 4.1 %.

Retail trade index, % change (YoY)

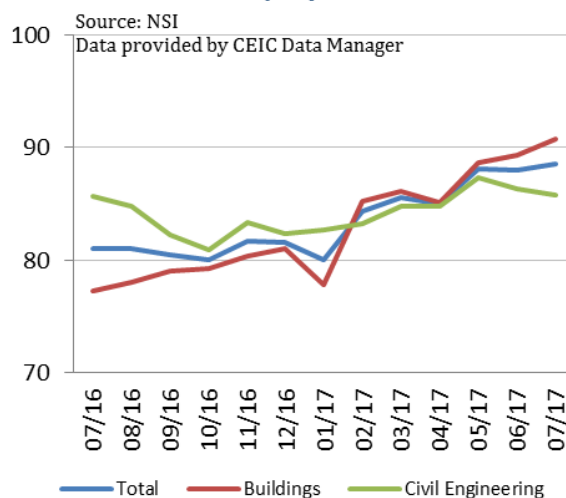


## Construction

**In July 2017 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 0.6 % above the level of the previous month and with an increase of 7.9 % yoy based on the working day adjusted data**

According to the preliminary data of the NSI in July 2017 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 0.6 % above the level of the previous month. In July 2017 working day adjusted data showed an increase by 7.9 % in the construction production, compared to the same month of 2016. In July 2017 the construction production, calculated from the seasonally adjusted data, was above the level of the previous month. Index of production of building construction rose by 1.5 %, while the production of civil engineering fell by 0.7 %. On an annual basis in July 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 15.9 %, but in the civil engineering was registered a decrease by 0.9 %.

Construction Production index, seasonally adjusted data

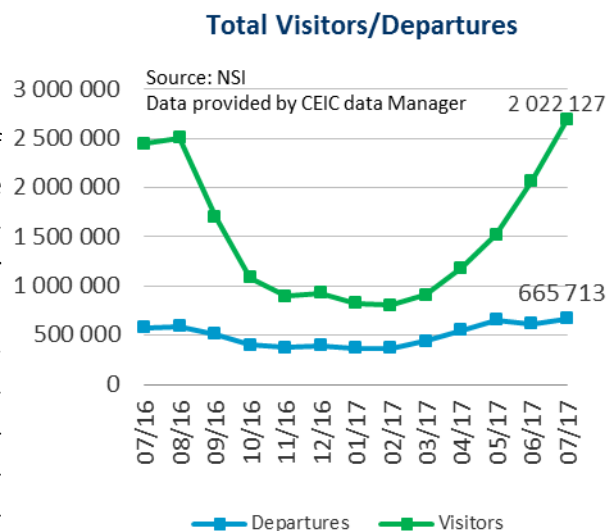


## Tourism

**In July 2017, the number of the trips of Bulgarian residents abroad was 665.7 thousand or by 7.6 % above the registered in the previous month and by 15.3 % more than the registered in July 2016**

According to the NSI data, in July 2017, the number of the trips of Bulgarian residents abroad was 665.7 thousand or by 15.3 %

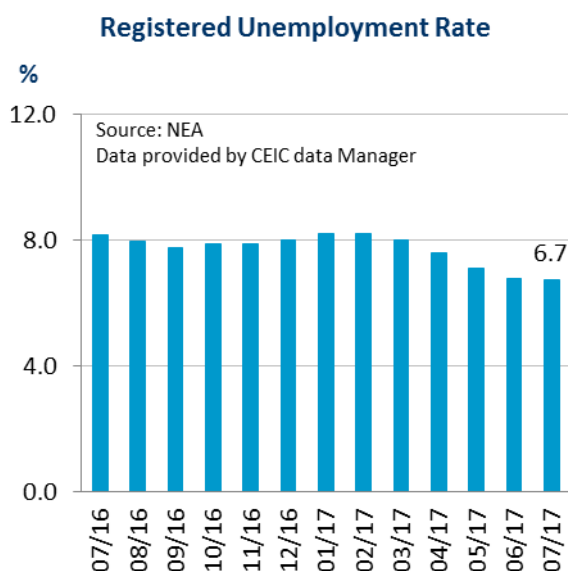
above the registered in July 2016. In comparison with the same month of the previous year an increase was observed in the total number of the trips of Bulgarians to: Italy - by 53.0 %, Austria - by 34.9 %, Spain - by 32.4 %, France - by 29.2 %, the United Kingdom - by 19.5 %, Romania - by 17.0 %, Greece - by 11.9 %, Germany - by 11.5 %, the Former Yugoslav Republic of Macedonia - by 10.8 %, Serbia - by 4.9 %, Turkey - by 3.1 %, and etc. At the same time decreased the number of the trips of Bulgarians to: Russian Federation - by 13.4 %, Czech Republic - by 9.6 %, and etc. The trips with other purposes (as a guest, education and visit the cultural and sport events) in July 2017 composed the greatest share of the total number of trips of Bulgarian residents abroad - 42.0 %, followed by the trips with holiday and recreation purpose - 40.7 %, and with professional purpose - 17.3 %. In comparison with July 2016, an increase was registered in the trips with all observed purposes: with holiday and recreation purpose - by 26.9 %, with professional purpose - by 21.4 %, and with other purposes - by 4.0 %. In July 2017, the trips with other purposes formed 67.7 % of all trips to Romania, 57.3 % - to Turkey and 54.9 % - to Serbia. The trips with holiday and recreation purpose to Greece, Spain and Italy were 72.6 %, 59.6 % and 54.8 % respectively of all trips of Bulgarian residents to these countries. In July 2017, the number of arrivals of visitors from abroad to Bulgaria was 2 022.1 thousand or by 8.0 % more in comparison with July 2016. An increase was registered in the trips by all observed purposes: with professional purpose - by 12.5 %, with holiday and recreation purpose - by 9.6 % and with other purposes - by 4.6 %. The share of visits of EU citizens was 62.3 % of the total number of foreigners' visits to Bulgaria in July 2017 or by 9.8 % more in comparison with the same month of the previous year. An increase was registered in the visits of citizens from Spain - by 31.9 %, the United Kingdom - by 31.3 %, Italy - by 19.1 %, Greece - by 19.1 %, Belgium - by 15.8 %, Poland - by 12.4 %, the Netherlands - by 9.7 %, Romania - by 9.4 %, Germany - by 8.0 %, and etc. At the same time decreased the visits from Slovakia - by 7.5 %, Austria - by 6.9 %, and etc. The visits of foreigners in the group 'Other European countries'1 increased by 3.0 %, as the highest growth was observed in the visits of citizens of Ukraine - by 19.7 %. In July 2017, the predominant share of the visits with holiday and recreation purpose was 59.1 %, followed by trips with other purposes (including as guest and passing transit) - 34.2 %, and with professional purpose - 6.7 %. The visits with holiday and recreation purpose formed 97.9 % of the arrivals from Israel and 93.3 % - from Russian Federation, as with other purposes were 73.8 % of all arrivals from Romania and 69.7 % - from Turkey.



## Unemployment

**In July 2017 the number of the registered unemployed at labor offices is 220 884, decreasing with 1.5 % mom, and 17.6 % yoy**

According to the National employment agency, in July 2017 the number of the registered unemployed at labor offices is 220 884, decreasing with 1.5 % mom, and 17.6 % yoy. The level of the registered unemployment in July 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, respectively with 0.1 pp and 1.5 pp. In July total 18 300 unemployed started work, decreasing with 21.1 % mom and 0.9 % yoy, respectively. In July 2017 in the labor offices there has been announced total 17 958 work places, reporting a decrease of 24.2 % compared to June 2017 and by 17.2 % yoy. The declared job vacancies on the primary market consists of 87.4 % from all announced jobs, on schemes of Operational Programme Human Resources Development – 10.6 %, on programmes – 1.9 % and on measures of the Employment Promotion law – 0.1 %. On the primary market, there has been announced 15 698 job vacancies,



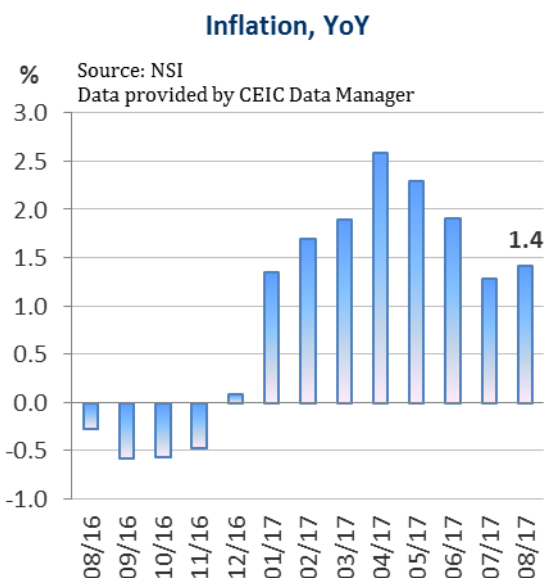


decreasing by 17.4 % on a monthly basis, while on an annual basis - increase with 2.9 %. More than 2/3rds of the places were announced by the private sector (75.6 %), decreasing by 4.9 % pp. compared to June 2017, and increasing by 9.1 pp compared to July 2016. In July 2017 most of the job vacancies of the primary market in the labor offices have been announced by: manufacturing industry (4 933); trade (2 600); Administrative and support activities (1 638); Education (1 310); construction (963); hotel and restaurant management (817); Transport, storage and mail services (582); Agriculture, forestry and fisheries (491); Real estate transactions (432); Government management (491), etc.

### Inflation

**In August 2017 the consumer price index compared to July 2017 was 100.1 %, i.e. the monthly inflation was 0.1 % and the annual inflation in August 2017 compared to August 2016 was 1.4 %**

According to the NSI data, the consumer price index in August 2017 compared to July 2017 was 100.1 %, i.e. the monthly inflation was 0.1 %. The inflation rate since the beginning of the year (August 2017 compared to December 2016) has been 1.1 % and the annual inflation in August 2017 compared to August 2016 was 1.4 %. The annual average inflation, measured by CPI, in the last 12 months (September 2016 - August 2017) compared to the previous 12 months (September 2015 - August 2016) was 1.1 %. In August 2017 compared to the previous month the prices of goods and services in the main consumer groups with more significant change are as follows: Alcoholic beverages and tobacco - an increase of 0.5 %; Clothing and footwear - a decrease of 3.7 %; Housing, water, electricity, gas and other fuels - an increase of 0.5 %; Transport - an increase of 1.1 %; Recreation and culture - a decrease of 0.1 %; Restaurants and hotels - an increase of 0.2 %; Miscellaneous goods and service - an increase of 0.8 %. The harmonized index of consumer prices in August 2017 compared to July 2017 was 100.2 %, i.e. the monthly inflation was 0.2 %. The inflation rate since the beginning of the year (August 2017 compared to December 2016) has been 0.9 % and the annual inflation in August 2017 compared to August 2016 was 0.7 %. The annual average inflation, measured by HICP, in the last 12 months (September 2016 - August 2017) compared to the previous 12 months (September 2015 - August 2016) was 0.4 %.

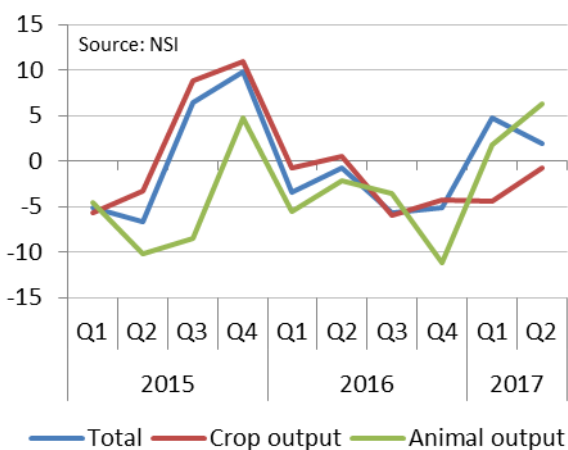


### Producer price indices in agriculture

**In Q2 of 2017 the producer price index in agriculture increased by 2.0 % in comparison with the same quarter of 2016 and by 4.5 % compared with the previous year**

According to the NSI data, the producer price index in agriculture in Q2 of 2017 increased by 2.0 % in comparison with the same quarter of 2016. The crop output index decreased by 0.8 %, while the animal output index increased by 6.3 %. In comparison with previous year the prices of agricultural output went up by 4.5 % due to the increase in crop output price index - by 3.9 % and in animal output price index - by 5.3 %. In second quarter of 2017 compared to the same quarter of 2016 increase was observed in the prices of cereals - by 4.7 %, fodder crops - by 12.4 %, fresh vegetables - by 20.5 %, and fruit - by 1.1 %. Decrease was reported in the price of industrial crops - by 9.9 %. In comparison to second of 2016 higher were the prices of soft wheat - by 6.6 %, grain maize - by 9.0 %, potatoes - by 1.6 %, tomatoes under glass - by 28.9 %, lettuce - by 27.6 %, apples - by 28.6 % and strawberry - by 4.1 %. Decrease was observed in the prices of sunflower - by 10.0 %, rape - by 7.9 % and ethereal oil rose - by 17.1 %. Compared to the corresponding

**PPI in Agriculture: % Change Compared to the Same Quarter Previous Year**

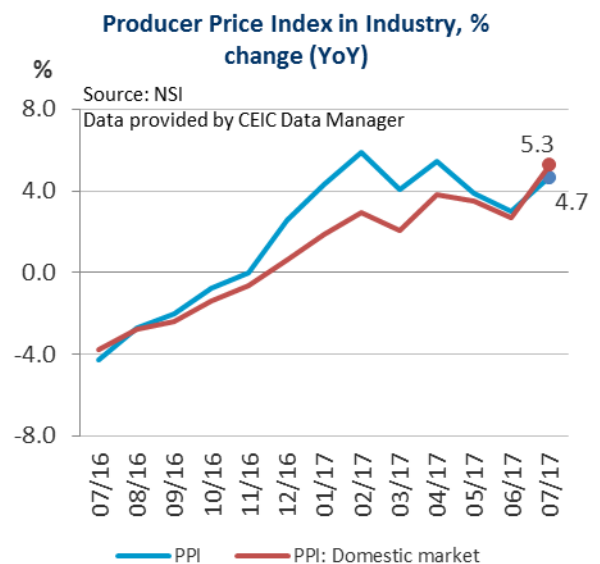


quarter of 2016 decrease was observed in the price of live animals - by 2.1 %, as well as in the prices of animal products - by 9.2 %. In live animals increase was observed in the price of pigs - by 5.4 % and sheep - by 3.6 %. Decrease was registered the price of goats - by 1.8 %. In animal products higher were the prices of cow milk - by 11.6 %, buffalo milk - by 14.0 %, sheep milk - by 9.6 %, eggs for human consumption - by 18.8 % and honey - by 2.7 %. Decrease was reported only in the price of goat milk - by 5.7 %. Compared to 2016 in Q2 of 2017 increase was registered in the prices of cereals - 3.7 %, fresh vegetables - by 8.5 % and fruit - by 19.9 %. Lower were only the prices of industrial crops - by 5.0 %. In first quarter of 2017 compared to 2016 increase was reported in the prices of soft wheat - by 5.0 %, grain maize - by 9.8 %, ethereal oil rose - by 7.2 %, tomatoes under glass - by 58.7 %, potatoes - by 17.5 %, apples - by 15.9 % and cerise - by 28.0 %. Lower were the prices of barley - by 3.7 %, oats - by 12.4 %, rice - by 13.5 %, sunflower - by 6.6 %, rape - by 10.3 %, dry beans - by 15.2 % and lucerne - by 5.3 %. In second quarter of 2017 compared to 2016 the prices of live animals went up - by 3.8 % as well as the prices of animal products - by 6.3 %. In the live animals increase was reported in the prices of cattle - by 7.3 %, goats - by 20.9 % and poultry - by 11.5 %. Decrease was reported in the prices of sheep - by 10.6 % and pigs - by 0.6 %. In animal products increase was observed in the prices of milk - by 8.5 %, buffalo milk - by 14.0 %, sheep milk - by 1.6 % and in eggs for human consumption - by 7.4 % while the prises of goat milk and honey went down respectively by 2.1 % and 9.0 %. The index of prices of goods and services currently consumed in agriculture in Q2 of 2017 was 2.0 % above the level in the same quarter of previous year and by 1.6 % compared to 2016. In second quarter of 2017 compared to corresponding quarter of 2016 higher were only the prices of energy and fuels - by 8.8 %. Lower were the prices of seeds and planting stock - by 2.0 %, fertilizers - by 2.2 %, plant protection products - by 0.8 % and veterinary medical products - by 5.4 %. Compared to 2016 in second quarter of 2017 the price index of energy and fuels went up by 5.7 % and of animal feeding stuffs - by 0.4 %. Lower were the prices of seeds and planting stock - by 1.0 % and veterinary medical products - by 3.7 %.

### Producer price index in industry

#### In July 2017 total producer price index in industry grew by 1.3 % mom and by 4.7 % yoy with highest price increase in electricity, gas, steam and air conditioning supply

Total Producer Price Index in Industry in July 2017 increased by 1.3 % compared to the previous month. Higher prices were registered in the electricity, gas, steam and air conditioning supply by 6.5 %, while the prices fell in the mining and quarrying industry by 2.9 % and in the manufacturing by 0.2 %. In the manufacturing, more significant prices decreases were seen in the manufacture of chemicals and chemical products by 2.4 % and in the manufacture of other transport equipment by 0.6 %, while prices increases were reported in the manufacture of tobacco products by 0.8 % and in the manufacture of textiles by 0.7 %. Total Producer Price Index in July 2017 increased by 4.7 % compared to the same month of 2016. The prices rose in the electricity, gas, steam and air conditioning supply by 10.0 %, in the mining and quarrying industry by 6.8 % and in the manufacturing by 2.8 %. In the manufacturing more significant prices increases were seen in the manufacture of basic metals by 10.2 %, in the manufacture of motor vehicles, trailers and semi-trailers by 5.0 % and in the manufacture of wood and of products of wood and cork, except furniture by 4.7 %, while the producer prices fell in the manufacture of other transport equipment by 0.9 %, in the manufacture of leather and related products and in the manufacture of computer, electronic and optical products by 0.5 %. Producer Price Index on Domestic Market in July 2017 increased by 2.4 % compared to the previous month. The domestic prices rose in the electricity, gas, steam and air conditioning supply by 6.9 %, while the domestic prices fell in the mining and quarrying industry by 0.6 % and in the manufacturing by 0.1 %. In the manufacturing2, compared to the previous month the prices went down in the manufacture of chemicals and chemical products by 3.0 % and in the manufacture of rubber and plastic products by 0.6 %, while the domestic prices rose in the manufacture of tobacco products by 1.5 % and in the manufacture of basic metals by 1.2 %. Producer Price Index on Domestic Market in July 2017 increased by 5.3 % compared to the same month of 2016. The domestic prices rose in the electricity, gas, steam and air conditioning supply by 10.3 %, in the mining and



quarrying industry by 4.2 % and in the manufacturing by 2.4 %. In the manufacturing compared to July 2016 the prices went up in the manufacture of basic metals by 8.6 %, in the manufacture of tobacco products and in the manufacture of electrical equipment by 4.5 %. The prices decreases were reported in the manufacture of computer, electronic and optical products by 0.3 % and in the manufacture of leather and related products by 0.1 %. Producer Price Index on Non-domestic Market in July 2017 decreased by 0.7 % compared to the previous month. In the manufacturing<sup>2</sup> the non-domestic prices fell by 0.3 %. More significant prices decreases were reported in the manufacture of chemicals and chemical products by 2.0 % and in the manufacture of other transport equipment by 0.9 %, while the prices rose in the manufacture of rubber and plastic products by 1.1 % and in the manufacture of wood and of products of wood and cork, except furniture by 1.0 %. Producer Price Index on Non-domestic Market in July 2017 increased by 3.5 % compared to the same month of 2016. In the manufacturing, the prices rose by 3.2 %. The non-domestic prices went up in the manufacture of paper and paper products by 11.0 % and in the manufacture of basic metals by 10.5 %, while the prices fell in the manufacture of chemicals and chemical products by 2.5 % and in the manufacture of other transport equipment by 1.4 %.

## Fiscal sector

### Budget balance

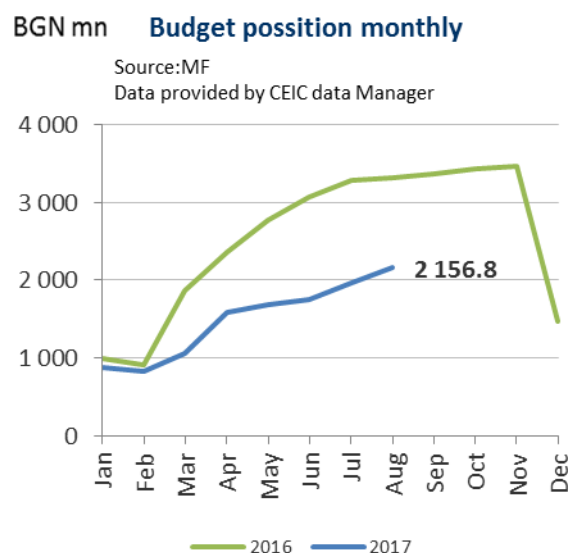
**As of end-July 2017 the Consolidated Fiscal Programme (CFP) balance on a cash basis is positive, amounting to BGN 1,971.7 million, or 2.0 % of the projected GDP**

According to the MF data the Consolidated Fiscal Programme (CFP) balance on a cash basis as of end-July 2017 is positive, amounting to BGN 1,971.7 million, or 2.0 % of the projected GDP, and is formed by a national budget surplus of BGN 1,892.9 million and by a surplus of EU funds of BGN 78.8 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 July 2017 stand at BGN 20,477.5 million, or 57.8 % of the annual estimates. Compared to the same period of the previous year, tax and non-tax revenues have risen by BGN 1,236.2 million, or by 6.7 %, with grant proceeds being lower. Tax proceeds, including revenues from social security contributions, total BGN 17,002.8 million, which accounts for 60.6 % of the revenues planned for the year. Compared to the data as of July 2016, tax proceeds have risen in nominal terms by 8.0 %, or by BGN 1,259.3 million. Direct tax revenues amount to BGN 3,225.8 million, or 63.3 % of the estimates planned for the year, growing by BGN 257.2 million, or by 8.7 %, as compared to same period of the previous year. Indirect tax revenues amount to BGN 8,338.6 million, which accounts for 59.5 % of the annual estimates. Compared to the data as of July 2016, proceeds in this group have grown by BGN 371.6 million, or by 4.7 %. VAT proceeds amount to BGN 5,471.6 million, or 62.3 % of those planned. Compared to the previous year, VAT revenues have risen by BGN 382.8 million, or by 7.5 %. The amount of non-refunded VAT as of end-July 2017 is BGN 66.5 million. The excise duty revenues amount to BGN 2,736.1 million, or 54.3 % of the annual estimates. Customs duty proceeds amount to BGN 108.7 million, or 65.5 % 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 702.4 million, or 70.9 % of the annual estimates. Revenues from social security and health insurance contributions are BGN 4,736.0 million, which accounts for 59.7 % 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 592.6 million, or by 14.3 %, in nominal terms. Non-tax revenues amount to BGN 2,596.2 million, which accounts for 54.6 % of the annual estimates. Grant revenues amount to BGN 878.5 million, or 33.2 % of those planned for the year. CFP expenditures, including the contribution of the Republic of Bulgaria to the EU budget for July 2017, amount to BGN 18,505.9 million, which accounts for 50.3 % of the annual estimates. For comparison, CFP expenditures for the same period of 2016 amount to BGN 17,269.8 million. The higher expenditures, as compared to end-July 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 17,342.2 million,

which accounts for 50.2 % of the annual estimates. Non-interest current expenditures as of July 2017 amount to BGN 16,322.8 million, or 57.6 % of the estimates for the year, capital expenditures (including net increment of state reserve) amount to BGN 1,019.4 million, or 16.4 % of the 2017 State Budget of the Republic Bulgaria Law estimates. Interest payments amount to BGN 604.0 million, or 73.1 % of those planned for 2017. The part of Bulgaria's contribution to the EU budget, as paid from the central budget as of July 2017, amounts to BGN 559.7 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 July 2017 is BGN 11.7 billion, including BGN 10.8 billion of fiscal reserve deposits in the BNB and in banks and BGN 0.9 billion of receivables under the EU Funds for certified expenditure, advance payments, etc.

**As of August 2017 the Consolidated Fiscal Programme (CFP) balance on a cash basis is expected to be positive, amounting to BGN 2,156.8 million (2.2 % of the projected GDP)**

Based on the preliminary data and estimates of the MF, the Consolidated Fiscal Programme (CFP) balance on a cash basis as of August 2017 is expected to be positive, amounting to BGN 2,156.8 million (2.2 % of the projected 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 from social security and health insurance contributions), while the balance of EU fund accounts has deteriorated this year due to a baseline effect in 2016 related to the EU grants reimbursed to Bulgaria at the beginning of 2016 for expenditures incurred at the end of 2015 when was the peak of project payments under the previous 2007 - 2013 programming period. Key CFP parameters based on preliminary data and estimates: As of August 2017, CFP revenues and grants are expected to be BGN 23,312.7 million, or 65.8 % of the annual estimates. The performance of tax and non-tax revenues is expected to be 68.1 % of the estimates for the year, as these revenues, compared to the same period of the previous year, grow by BGN 1,525.1 million, or by 7.3 %. As of end-August, grant revenues are lower than the same period of 2016, with execution as compared to the 2017 annual estimates expected to be 37.4 %. The Consolidated Fiscal Programme expenditures, including the contribution of the Republic of Bulgaria to the EU budget, are expected to amount to BGN 21,155.9 million as of August 2017, which accounts for 57.5 % of the annual estimates. The expenditures for the same period of last year 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 and July 2017, the 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. 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.



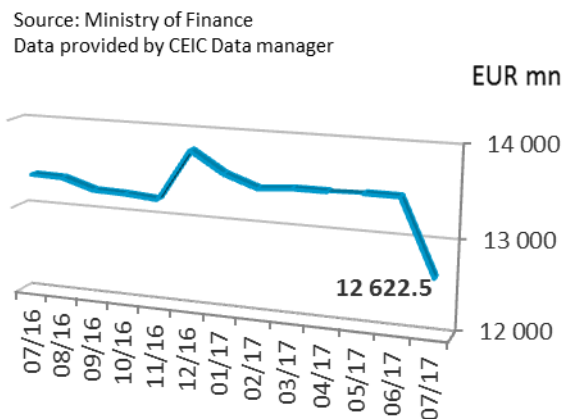


## Central government debt

**As at end-July 2017 central government debt stands at EUR 12,622.5 million, decreasing by BGN 833.7 million compared to the previous month**

Central government debt stands at EUR 12,622.5 million as at end-July 2017. It has decreased by BGN 833.7 million compared to the previous month. This is due to the repayment of a 5-year Euro bond principal of EUR 950 million maturing on 9 July 2017. Domestic debt amounts to EUR 3,334.5 million and external debt - to EUR 9,287.9 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 24.5 %, and external debt - to 75.5 %. The weighted average interest rate on debt for the period January - July 2017 is 2.69 %, decreasing by 23 basis points compared to the same period of 2016 (2.92 %). Central government guaranteed debt amounts to EUR 402.9 million as of 31 July 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 of the Government Debt Law, at end-July 2017 government debt reaches EUR 11,978.3 million, or 24.1 % of GDP. Domestic debt amounts to EUR 3,289.0 million and external debt - to EUR 8,689.2 million. Government guaranteed debt amounts to EUR 1,055.4 million in July 2017. Domestic guarantees amount to EUR 34.9 million, with the government guaranteed debt-to-GDP ratio being 2.1 %.

Central Government Debt

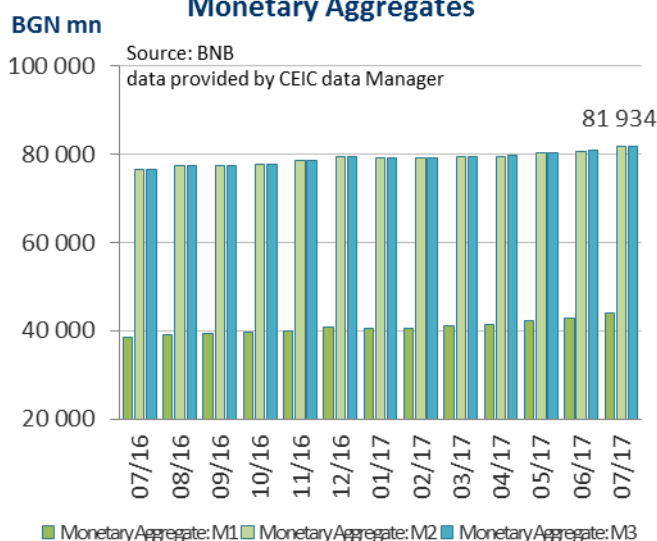


## Monetary sector

**In July 2017 broad money (monetary aggregate M3) increased annually by 6.9 % compared to 7 % annual growth in June 2017**

In July 2017 broad money (monetary aggregate M3) increased annually by 6.9 % compared to 7 % annual growth in June 2017. At the end of July 2017 M3 was BGN 81.934 billion (84.7 % of GDP) compared to BGN 80.843 billion (83.6 % of GDP) in June 2017. Its most liquid component – monetary aggregate M1 – increased by 14.6 % annually in July 2017 (15.2 % annual growth in June 2017). At the end of July 2017, deposits of the non-government sector were BGN 69.170 billion (71.5 % of GDP), increasing annually by 5.4 % (5.6 % annual growth in June 2017). Deposits of Non-financial corporations were BGN 19.986 billion (20.7 % of GDP) at the end of July 2017. Compared to the same month of 2016 they increased by 10.3 % (9.7 % annual growth in June 2017). Deposits of financial corporations decreased by 17.7 % annually in July 2017 (15 % annual decline in June 2017) and at the end of the month they reached BGN 3.159 billion (3.3 % of GDP). Deposits of Households and NPISHs were BGN 46.025 billion (47.6 % of GDP) at the end of July 2017. They increased by 5.3 % compared to the same month of 2016 (5.7 % annual growth in June 2017). Net domestic assets were BGN 51.124 billion at the end of July 2017. They increased by 10.1 % compared to the same month of 2016 (8.4 % annual growth in June 2017). At the end of the month their basic component – domestic credit – was BGN 52.289 billion and increased by 8.1 % compared to July 2016 (6.7 % annual growth in June 2017). In July 2017 claims on the non-government sector in-

Monetary Aggregates





creased by 4.8 % annually (4.6 % annual increase in June 2017) reaching BGN 53.675 billion. At the end of July 2017, claims on loans to the non-government sector amounted to BGN 52.461 billion (54.2 % of GDP) compared to BGN 52.081 billion (53.8 % of GDP) at the end of June 2017. They increased annually by 4.5 % in July 2017 (4.2 % annual growth in June 2017). The change of loans to the non-government sector was influenced by net sales of loans by Other monetary financial institutions (Other MFIs) - their volume for the last twelve months was BGN 135.2 million. On an annual basis, loans sold by Other MFIs were BGN 185.4 million (of which BGN 2.4 million in July 2017), while the amount of repurchased loans was BGN 50.2 million (of which BGN 7.1 million in July 2017). In July 2017, loans to Non-financial corporations increased by 2.8 % annually (2.1 % annual growth in June 2017) and at the end of the month amounted to BGN 31.344 billion (32.4 % of GDP). Loans to Households and NPISHs were BGN 19.230 billion (19.9 % of GDP) at the end of July 2017. They increased by 5.5 % compared to the same month of 2016 (6 % annual growth in June 2017). At the end of July 2017 loans for house purchases were BGN 9.161 billion and increased by 4.9 % annually (4.4 % annual growth in June 2017). Consumer loans amounted to BGN 7.638 billion and compared to July 2016 they increased by 4.9 % (4.6 % annual growth in June 2017). On an annual basis other loans increased by 45.8 % (69.8 % annual growth in June 2017) and reached BGN 1.147 billion. Loans granted to financial corporations were BGN 1.886 billion at the end of July 2017 (1.9 % of GDP). Compared to July 2016, they increased by 28.5 % (26.5 % annual growth in June 2017). Net foreign assets amounted to BGN 50.096 billion at the end of the reporting month compared to BGN 49.738 billion at the end of June 2017 and increased by 0.2 % compared to July 2016 (2.4 % annual growth in June 2017). At the end of July 2017 foreign assets increased by 1.5 % annually (3.4 % annual growth in June 2017), reaching BGN 59.449 billion. Foreign liabilities amounted to BGN 9.354 billion, marking an 8.8 % annual growth (8.8 % annual increase in June 2017).

## CAPITAL MARKET

**As at the end of August 2017 SOFIX BSE-Sofia's benchmark index decreased by 1.37 % to 705.4 compared to the previous month, reporting an increase by 20.3 % in comparison with the end of the previous year**

According to BSE - Sofia as at the end of August 2017 SOFIX BSE-Sofia's benchmark index decreased by 1.37 % to 705.4 compared to the previous month. A decline on a monthly base reports the BGBX40 as well, decreasing by 0.49 % to 134.9. For a period of a month, at the end of August 2017 BGREIT and BGTR30 increase respectively by 0.28 % and 1.34 % to 115.3 and 556.1. The most liquid companies on the Bulgarian capital market for the period 01.08 – 31.08.2017 are Chimimport AD – Sofia with 1 448 number of deals and shares at the price of BGN 1.881, followed by Sopharma AD – Sofia with 809 deals and shares at the price of BGN 4.621 and CB Central Cooperative Bank AD – Sofia with 451 deals and shares at the price of BGN 1.875. Total market capitalization as of 31.08.2017 is BGN 9 469 091 046, where 69 % (BGN 6 514 710 880) of it is formed by the standard market, 24 % (BGN 2 307 060 015), formed by the premium market and 7 % (BGN 647 320 151) – by the segment of companies with the special purpose vehicles.

Date	SOFIX	BGBX40	BGREIT	BGTR30
07.2016	458.2	89.6	100.9	381.8
08.2016	464.7	90.0	102.5	384.9
09.2016	504.6	96.1	103.3	404.6
10.2016	531.8	100.9	104.6	420.1
11.2016	562.8	106.4	103.5	439.1
12.2016	586.4	111.3	108.1	459.2
01.2017	602.3	117.0	107.3	470.4
02.2017	611.1	120.6	107.8	486.1
03.2017	634.0	124.9	108.6	503.8
04.2017	657.3	130.3	108.4	519.9
05.2017	661.2	130.6	111.1	516.7
06.2017	703.0	134.0	113.8	534.1
07.2017	715.2	135.5	115.0	548.7
08.2017	705.4	134.9	115.3	556.1

Source: Bulgarian Stock Exchange-Sofia

## BANKING SECTOR

**In July 2017, the net profit of the banking system amounted to BGN 790 million and decreased by 13.1% yoy due to the decreased operating income and from one-off effect from the sale of commercial banks' shares in European card operator - VISA**

According to BNB data in July 2017, the net profit of the banking system amounted to BGN 790 million and decreased by 13.1 % yoy as a result of the negative trend in net interest income (- 4.9 % yoy), partly offset by the increase in net income from fees and commissions ( by 9.1 % yoy growth) and a decrease in impairment costs by 23.5 % yoy, respectively. The difference, however, is largely due to the one-off effect that a year ago the banks reported from the sale of their shares in European card operator Visa Europe.

Indicator (BGN''000)	30.07.2016	30.07.2017	Y/Y (%)
Interest Income	1 948 515	1 791 607	-8.05
Interest Expense	303 478	227 329	-25.09
<b>Net interest Income</b>	<b>1 645 037</b>	<b>1 564 278</b>	<b>-4.91</b>
Impairment	374 614	286 674	-23.47
Fee and commission income	604 000	655 502	8.53
Fee and commission expenses	78 204	82 099	4.98
<b>Net fee and commission income</b>	<b>525 796</b>	<b>573 403</b>	<b>9.05</b>
<b>Administration costs</b>	<b>927 022</b>	<b>920 727</b>	<b>-0.68</b>
Personal costs	432 787	459 956	6.28
Total operating income, net	2 409 915	2 188 995	-9.17
<b>Net Profit</b>	<b>909 080</b>	<b>790 353</b>	<b>-13.06</b>

Source: BNB, UBB's Calculations

In July 2017, the total assets of the banking system amounted to BGN 93.4 billion, rising by 0.4 % on a monthly basis and by 4.5 % on an annual basis. Their relative share in the projected GDP is 95.7 %.

Gross loan portfolio (excluding loans and advances to the central banks and credit institutions sector) amounted to BGN 55.9 billion at the end of July, increasing by 0.7 % mom and by 2.2 % yoy, respectively. There is a growth in lending to non-financial corporations (by BGN 394 million) and to other financial corporations (by BGN 11 million). Household loans and the general government sector reported a monthly decrease of 0.2 % mom, with growth of 6.3 % yoy. Attracted funds from clients in the banking system amounted to BGN 75.1 billion and increased by 0.9 % mom and by 5.4 % yoy. Household deposits increased by 0.4 % mom and by 4.9 % yoy, deposits to non-financial corporations - by 1.9 % mom and by 11.2 % yoy and deposits to general government grew up by 0.6 % mom and by 9.6 % yoy, respectively.

Bulgaria Intermediation Indicators	31.07.2016 BGN000	31.12.2016 BGN000	30.06.2017 BGN000	31.07.2017 BGN 000	Change m/m (%)	Change y/y (%)	Change yend (%)	Relative part of GDP (%)
<b>BANKING SYSTEM TOTAL ASSETS</b>	<b>89 401 381</b>	<b>92 094 979</b>	<b>93 016 075</b>	<b>93 425 375</b>	<b>0.4</b>	<b>4.5</b>	<b>1.4</b>	<b>95.7</b>
Loans to central governments	585 873	686 170	621 233	620 533	-0.1	5.9	-9.6	0.6
Loans to non-financial corporations	35 071 223	33 180 349	33 019 133	35 412 971	1.2	1.0	0.7	34.0
Loans to financial corporations	1 975 370	2 025 583	2 406 225	2 417 460	0.5	22.4	19.3	2.5
Retail loans, incl.:	18 299 571	18 575 301	19 482 554	19 450 422	-0.2	6.3	4.7	20.1
Mortgage loans	8 720 888	8 771 533	9 018 959	9 070 486	0.6	4.0	3.4	9.3
Consumer loans	8 690 627	8 677 385	8 964 702	9 024 593	0.7	3.8	4.0	9.2
Micro credits and other loans	888 056	1 126 368	1 498 893	1 355 343	-9.6	52.6	20.3	1.5
<b>TOTAL LOANS</b>	<b>53 932 037</b>	<b>54 467 403</b>	<b>55 143 443</b>	<b>55 143 443</b>	<b>0.0</b>	<b>2.2</b>	<b>1.2</b>	<b>56.8</b>
<b>ATTRACTED SOURCES FROM CLIENTS, incl.:</b>	<b>71 243 250</b>	<b>74 129 417</b>	<b>74 441 632</b>	<b>75 080 006</b>	<b>0.9</b>	<b>5.4</b>	<b>1.3</b>	<b>76.6</b>
Local government deposits	1 762 379	1 652 435	1 919 687	1 931 502	0.6	9.6	16.9	2.0
Non-financial corporations deposits	19 788 142	21 375 024	21 555 461	21 963 226	1.9	11.0	2.8	22.2
Financial corporations deposits	4 166 008	3 905 721	3 395 294	3 447 332	1.5	-17.3	-11.7	3.5
Households and NPISHs deposits	45 526 721	47 196 237	47 571 190	47 737 946	0.4	4.9	1.1	49.0
Equity	11 974 377	12 133 492	11 976 927	12 119 736	1.2	1.2	-0.1	
Net profit (annualised)	909 080	1 262 334	660 400	790 353	19.7	-13.1		
<b>BANKING INDICATORS (%)</b>								
ROE	13.01	10.4	11.0	11.18	0.6	-2.0	0.6	
ROA	1.74	1.4	1.4	1.45	0.0	-0.3	0.0	
Capital adequacy	n.a.	22.2	22.6	n.a.	n.a.	n.a.	n.a.	
Liquidity	37.11	38.2	36.9	36.80	-0.1	-0.2	-1.3	
NPL	n.a.	11.1	10.5	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				

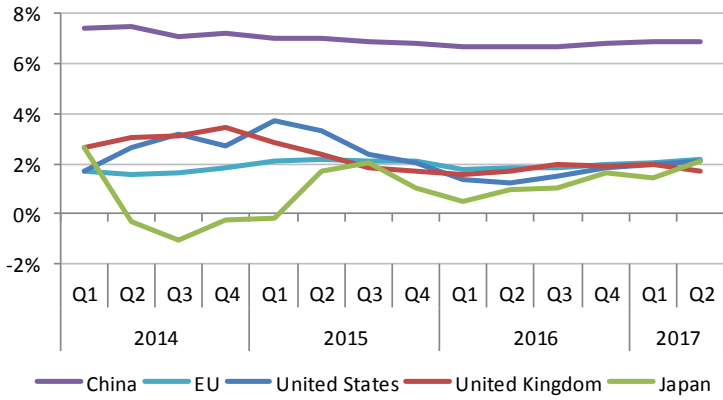
Source: BNB, MF, UBB Calculations

At the end of July 2017, the liquid assets reached BGN 29.6 billion, with the largest share of the BNB money and cash balances (53.2 %) remaining in the structure. The liquid assets ratio, calculated according to Ordinance No. 11 of the BNB, is 36.76 %. As of June 30, 2017, the capital adequacy ratios of the banking system remain high.

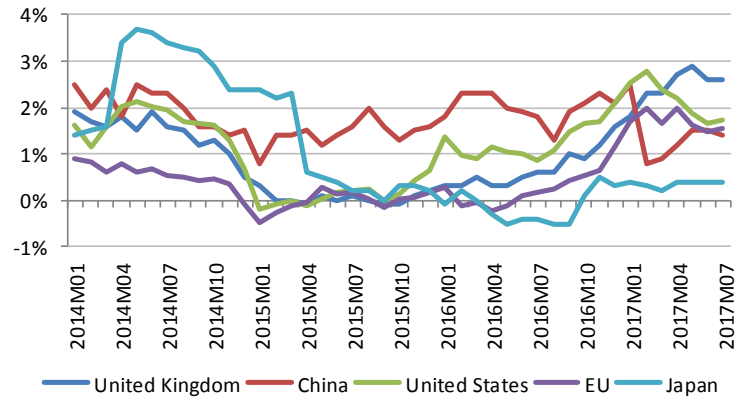
Core Tier 1, Tier 1 capital and total capital adequacy ratios at the end of June are 20.84 %, 21.31 % and 22.55 % respectively compared to 20.86 %, 21.34 % and 22.66 % at the end of March 2017. Equity in the balance sheet of the banking system at the end of July 2017 amounted to BGN 12.1 billion, growing by BGN 143 million or by 1.2 % mom due to the increase in profit and accumulated other comprehensive income.

## Appendix

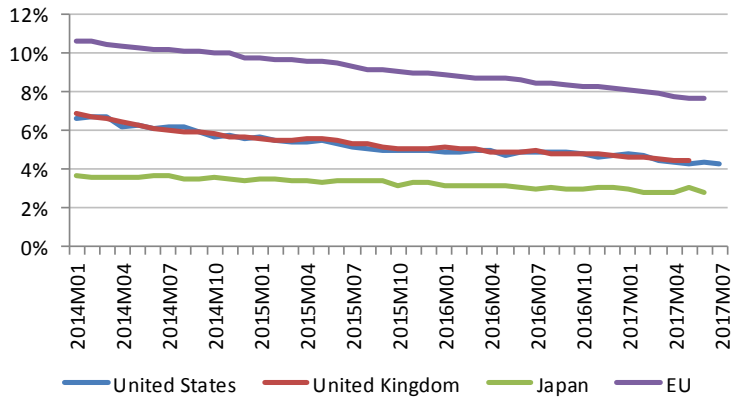
**Advanced Economies: GDP growth rate compared to the same quarter of the previous year**



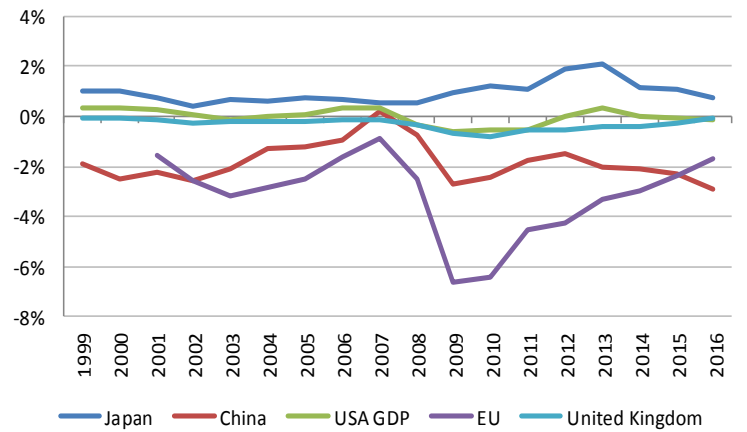
**Advanced economies: Inflation by country, monthly (y/y)**



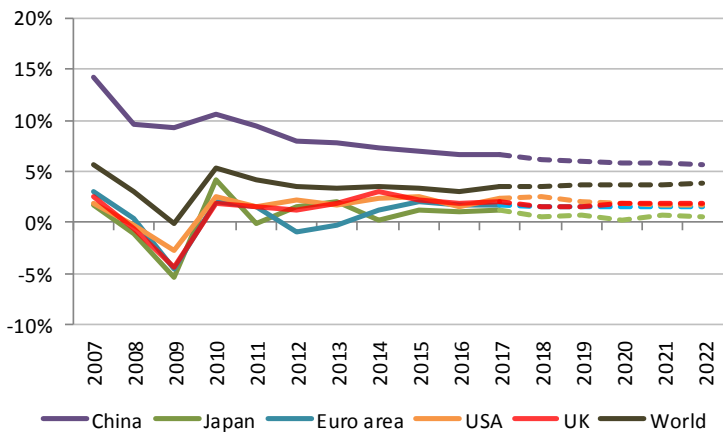
**Advanced economies: Unemployment rates (%) by country on monthly basis**



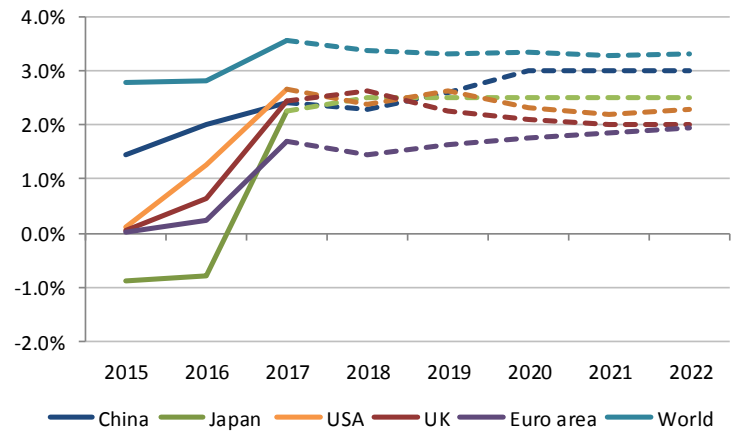
**Advanced economies: Budget surplus/deficit to GDP (%)**



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

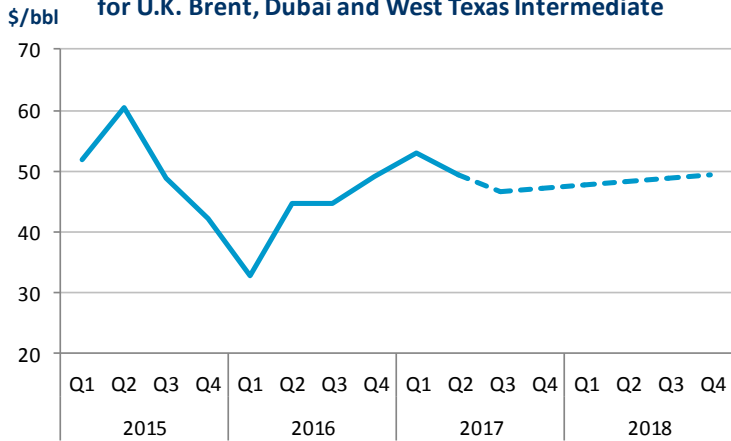


**Advanced economies: Inflation average, % y/y**

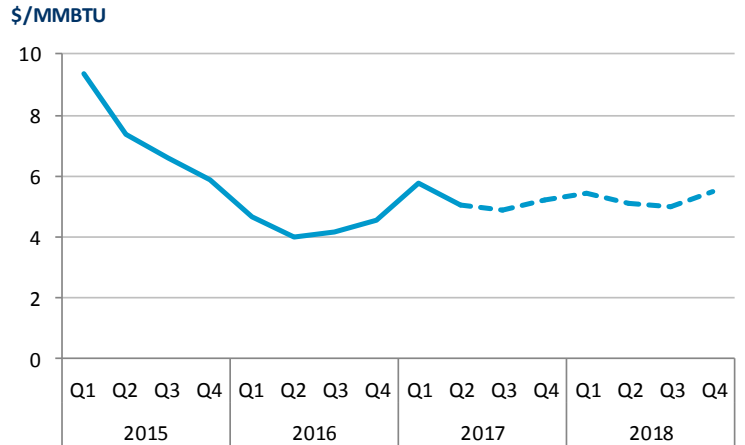


Overseas Prices of Oil Products

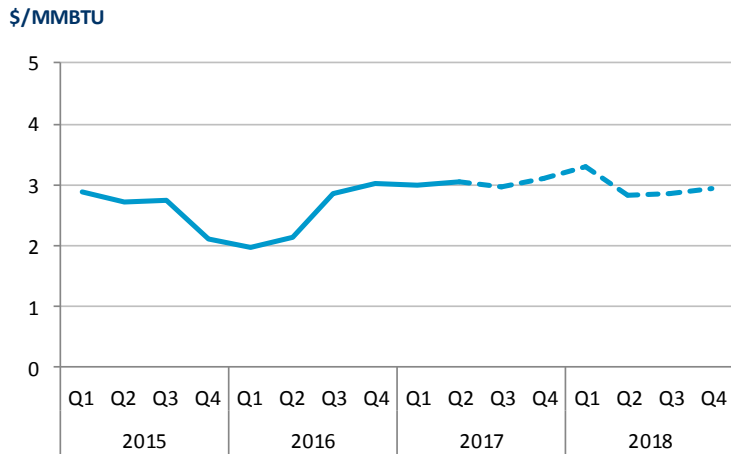
Spot Crude: Petroleum price - average of spot prices for U.K. Brent, Dubai and West Texas Intermediate



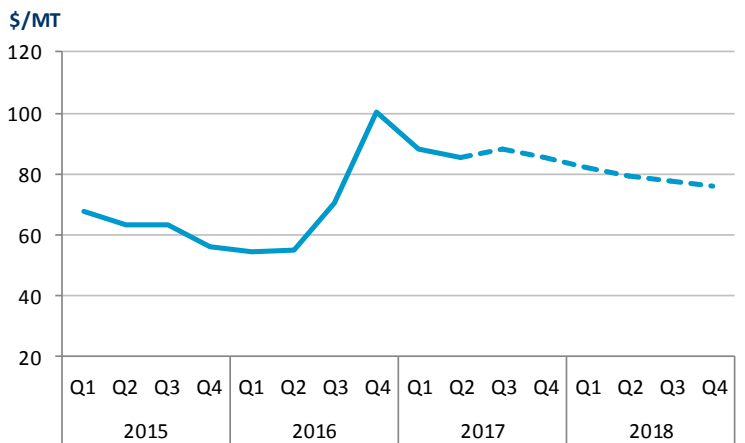
Natural Gas: Russian in Germany



Natural Gas: US, domestic market



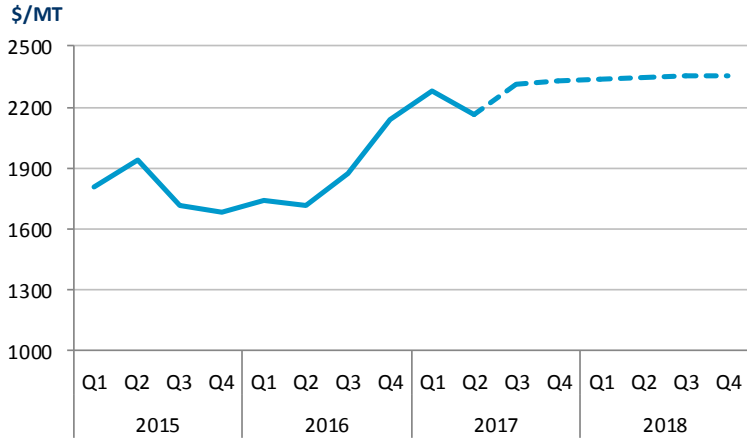
Coal: Australian, export markets



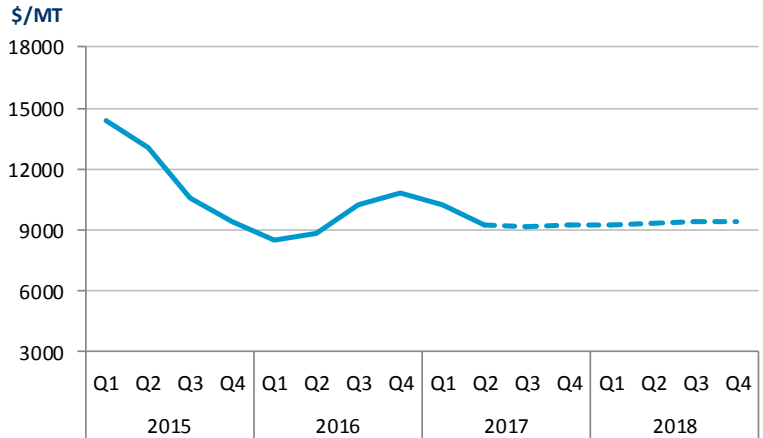


Overseas Prices of Metals

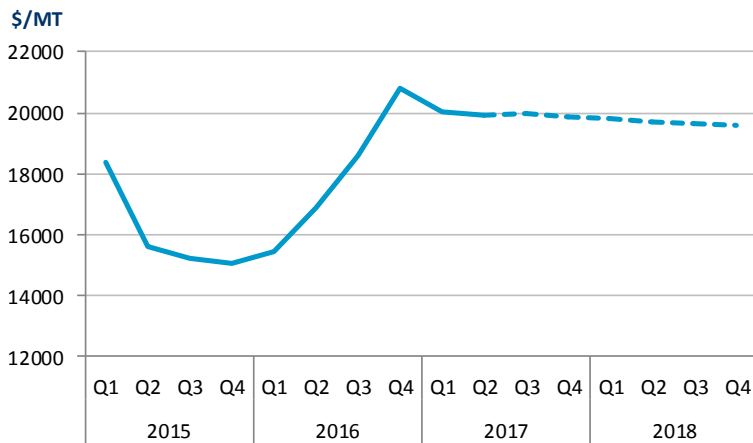
Lead



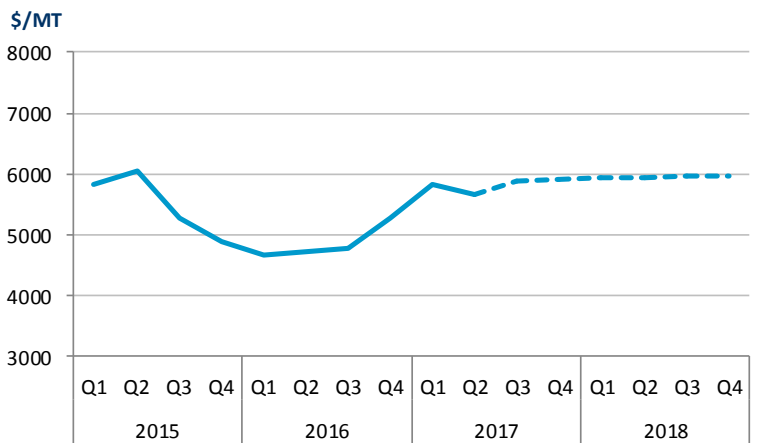
Nickel



Tin



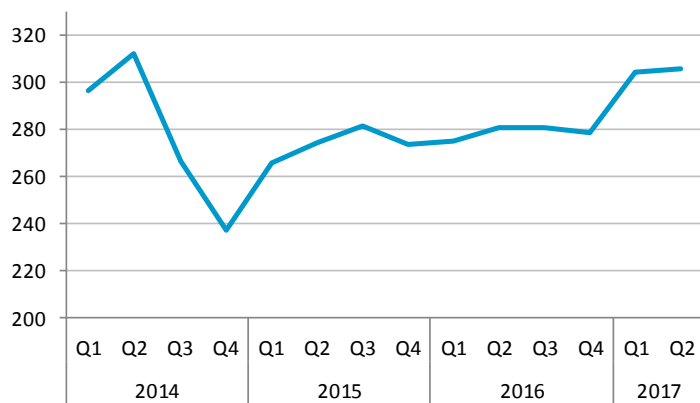
Copper



**Bulgaria: Prices of Agriculture products**

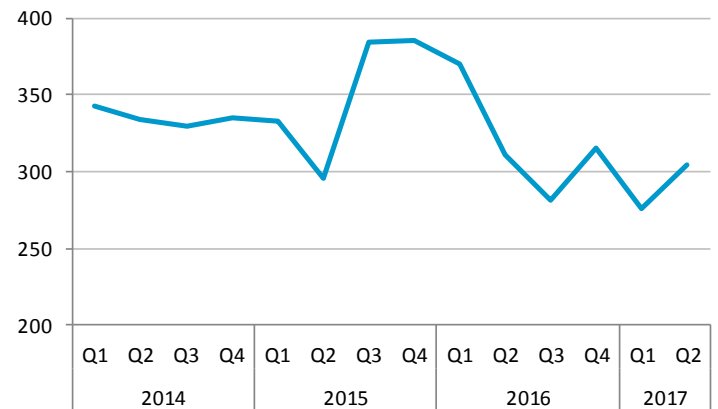
**Maize**

BGN per ton



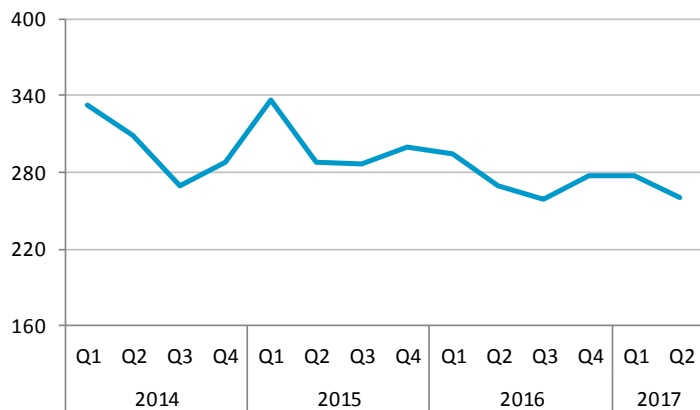
**Durum wheat**

BGN per ton



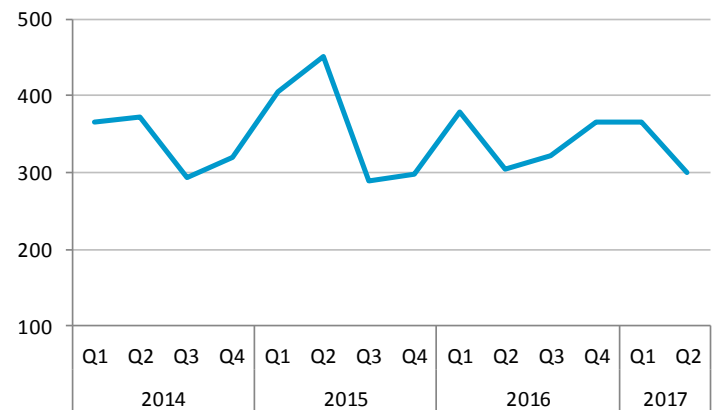
**Barley**

BGN per ton



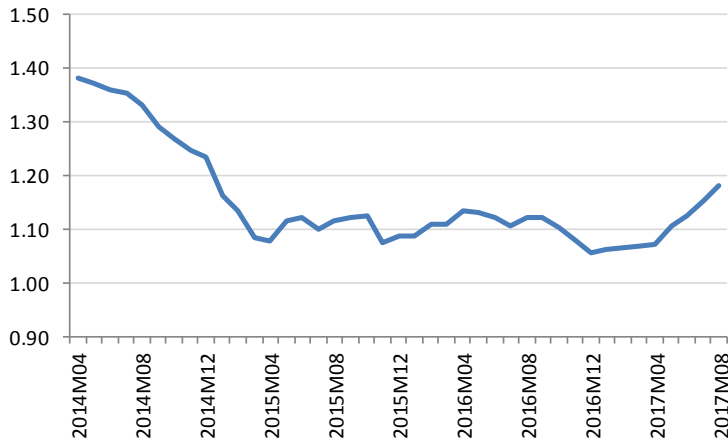
**Oats**

BGN per ton

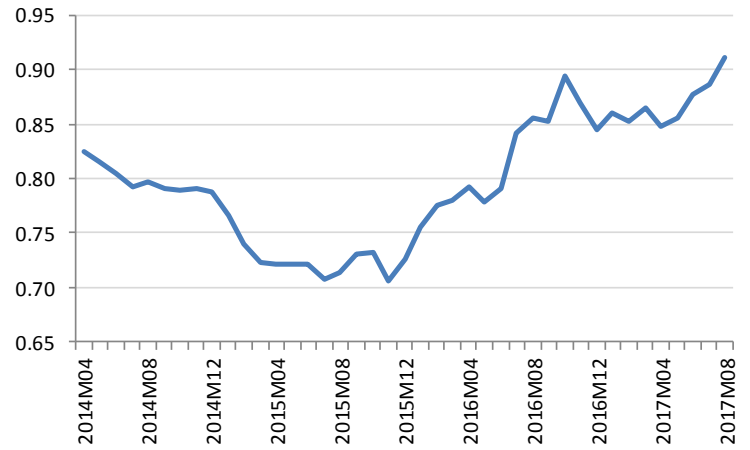


Overseas FX Rates

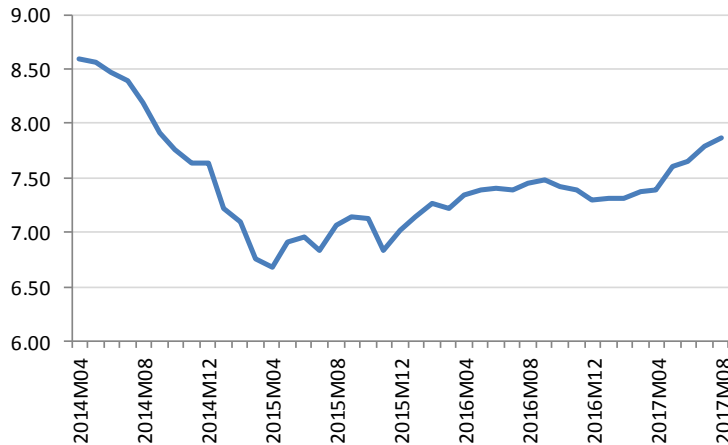
EUR/USD



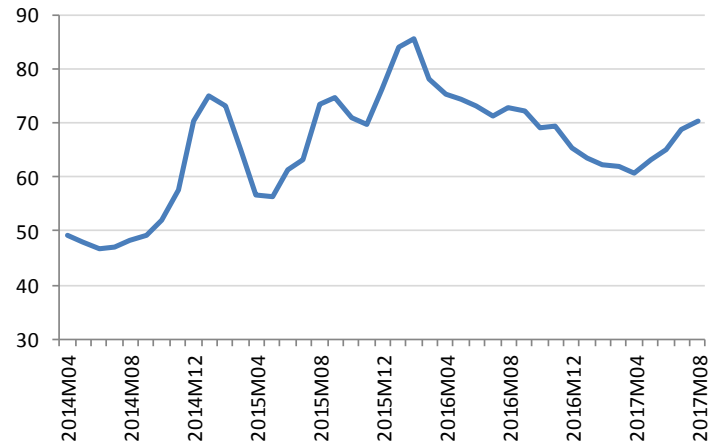
EUR/GBP



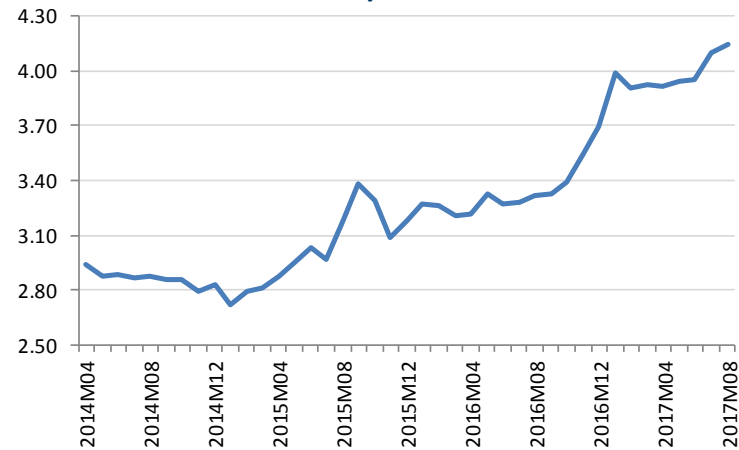
EUR/CHF



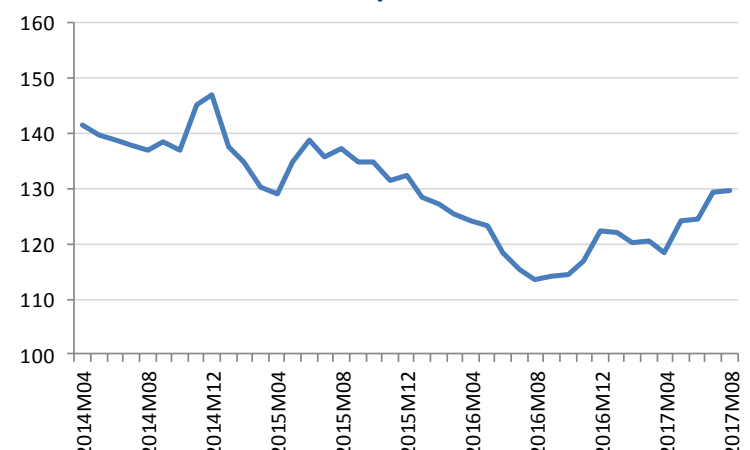
EUR/RUB



EUR/TRY

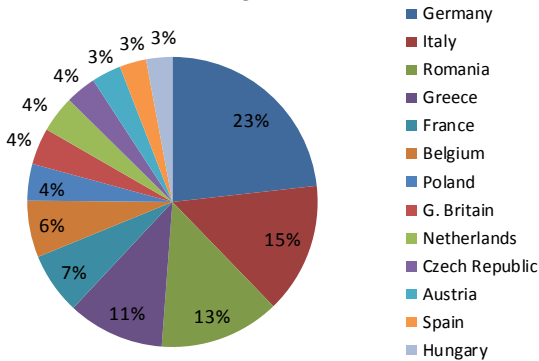


EUR/JPY

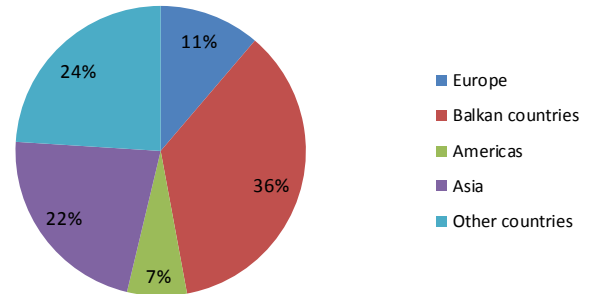


Bulgaria: External Sector Indicators

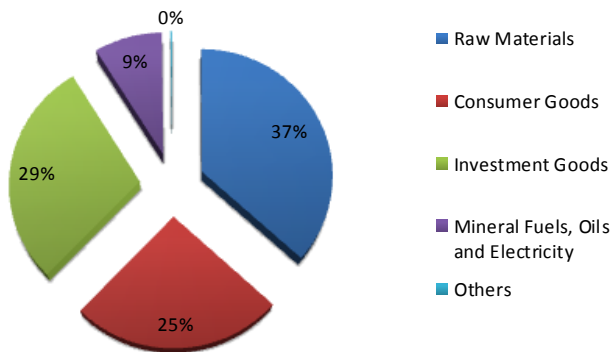
Exports: FOB by EU countries: January - June 2017



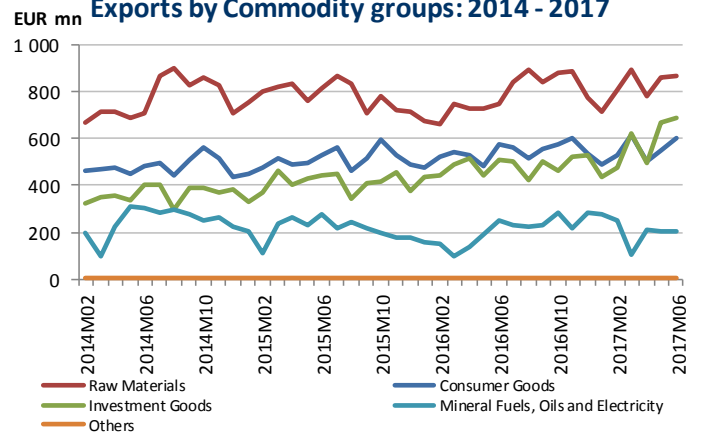
Exports: FOB by Non EU countries: January - June 2017



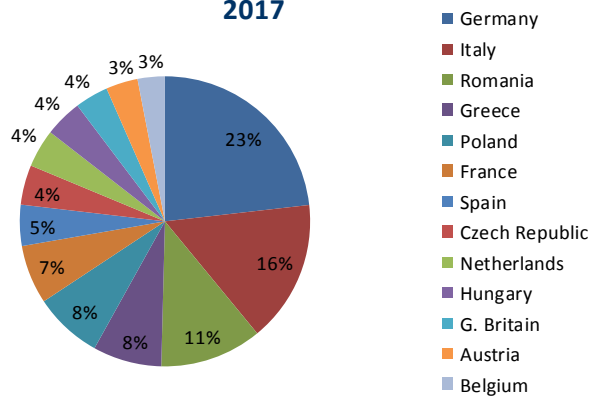
Exports: FOB: Commodity groups - percentage shares for June 2017



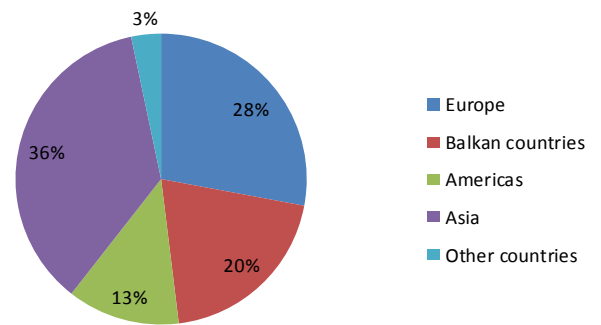
Exports by Commodity groups: 2014 - 2017



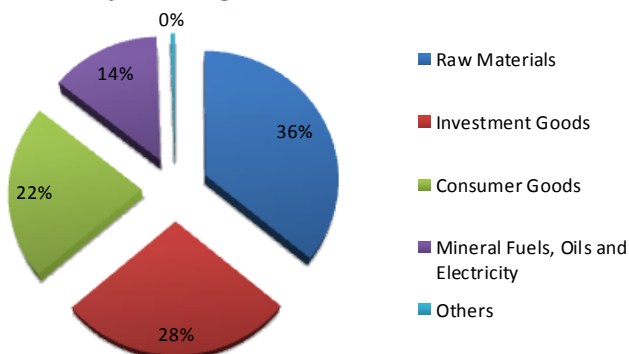
Imports: CIF by EU Countries: January - June 2017



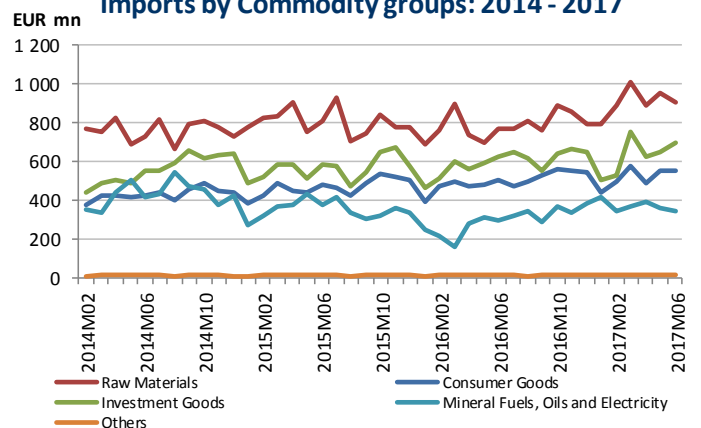
Imports: CIF by Non EU Countries: January - June 2017



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

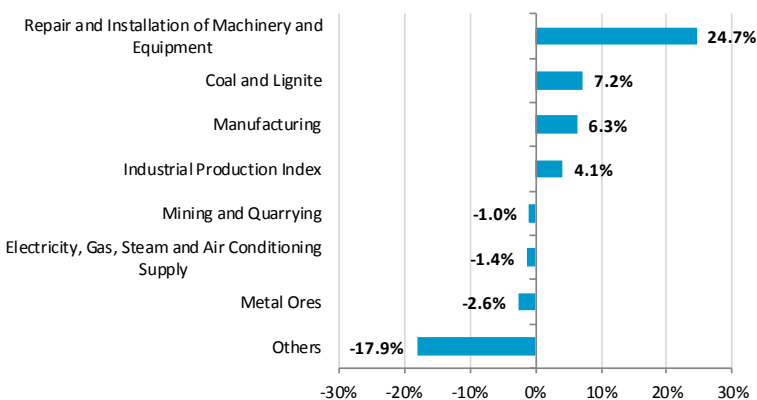


Imports by Commodity groups: 2014 - 2017

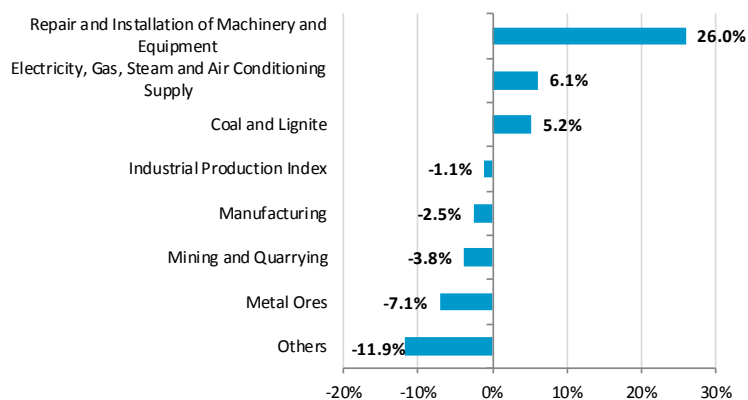


**Bulgaria: Real Sector Indicators**

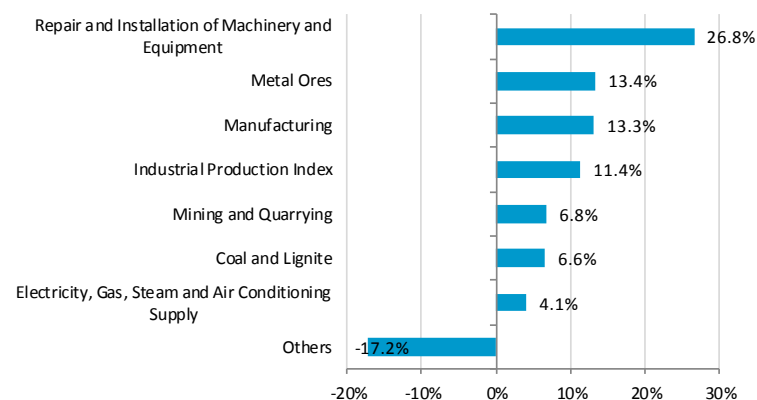
**Industrial Production Indices: % change in July 2017 compared to July 2016**



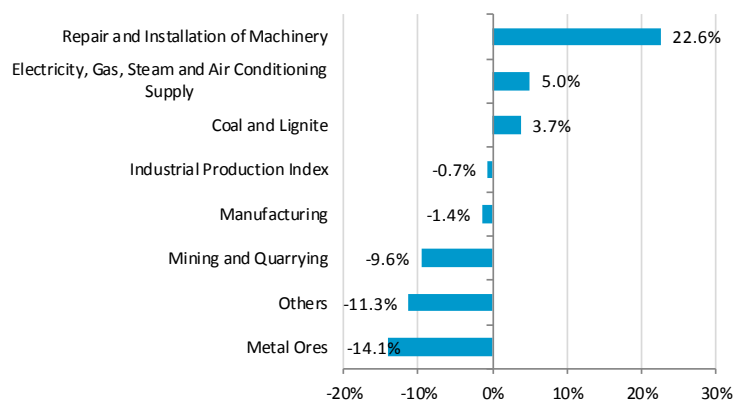
**Industrial Production Indices: % change in July 2017 compared to June 2017**



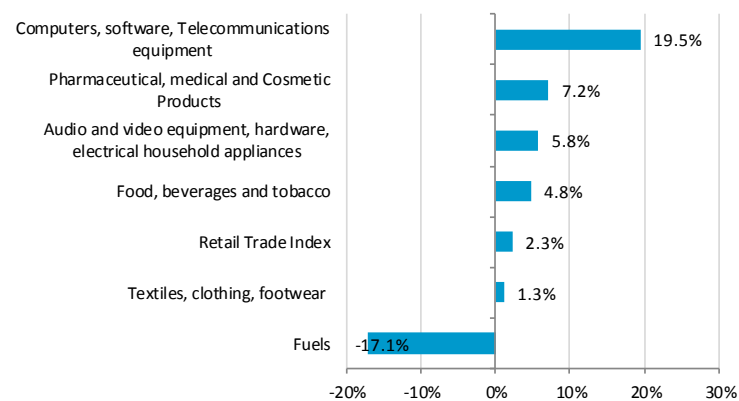
**Industrial Turnover Index: % change in July 2017 compared to July 2016**



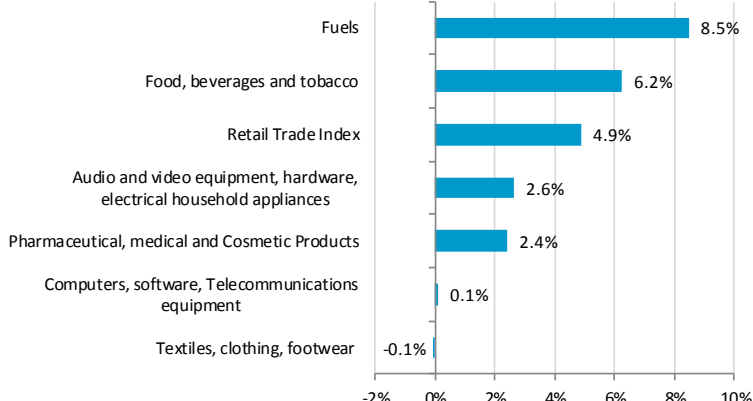
**Industrial Turnover Index: % change in July 2017 compared to June 2017**



**Retail Trade Index: % change in July 2017 compared to July 2016**



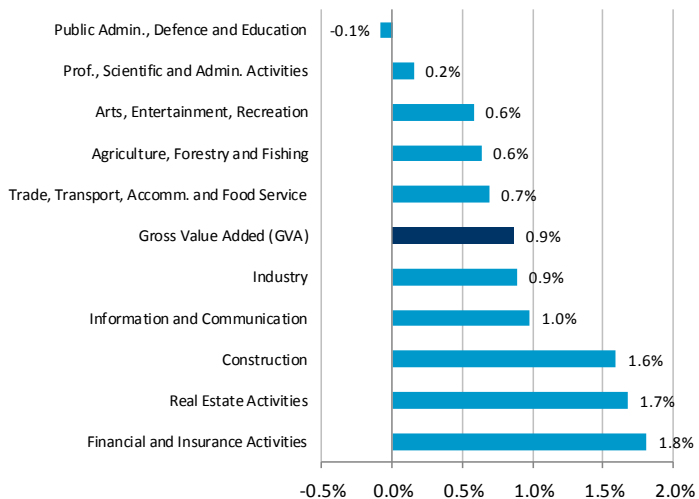
**Retail Trade Index: % change in July 2017 compared to June 2017**



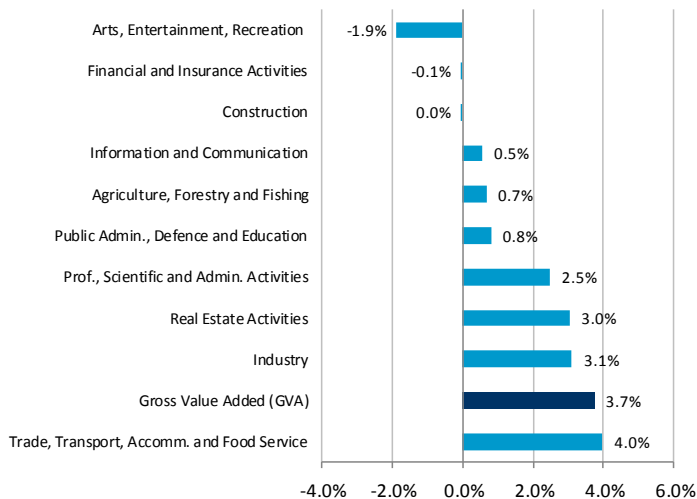


Bulgaria: Real Sector Indicators

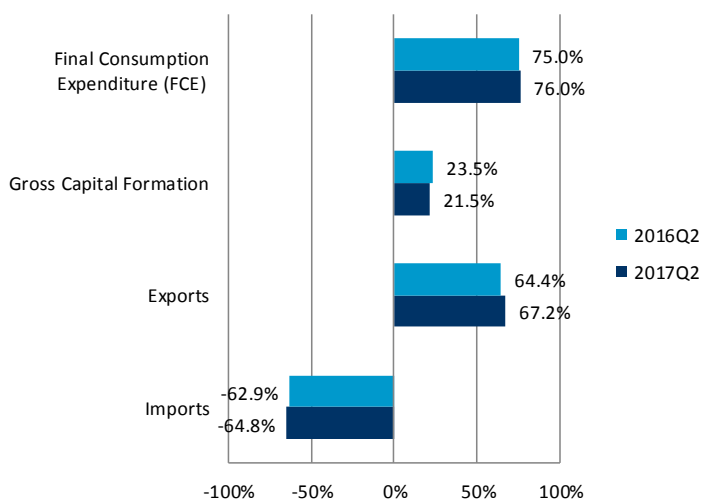
Gross Value Added by Economic Sectors: Percentage Change of Q2 of 2017 compared to Q1 2017



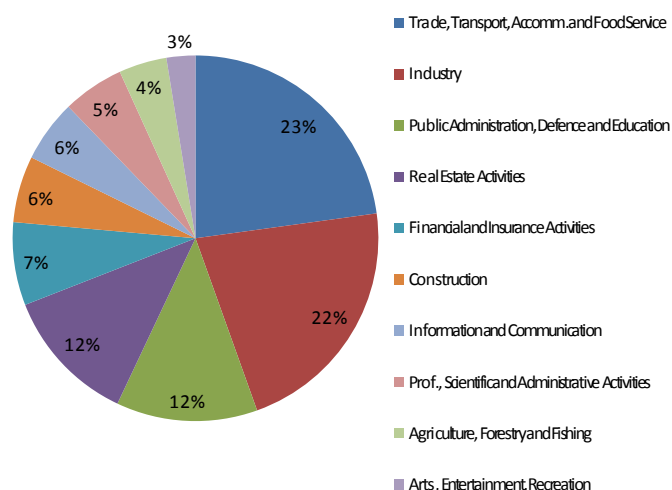
Gross Value Added by Economic Sectors: Percentage change of Q2 of 2017 compared to Q2 of 2016



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

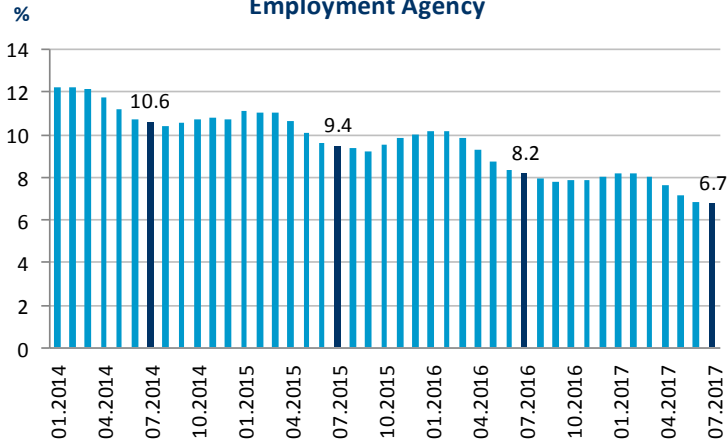


Bulgaria: Industries' relative share to GVA for Q2 2017

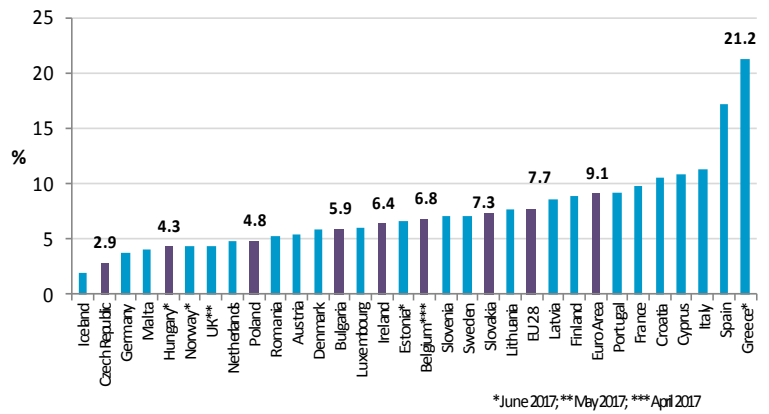


Bulgaria: Real Sector Indicators

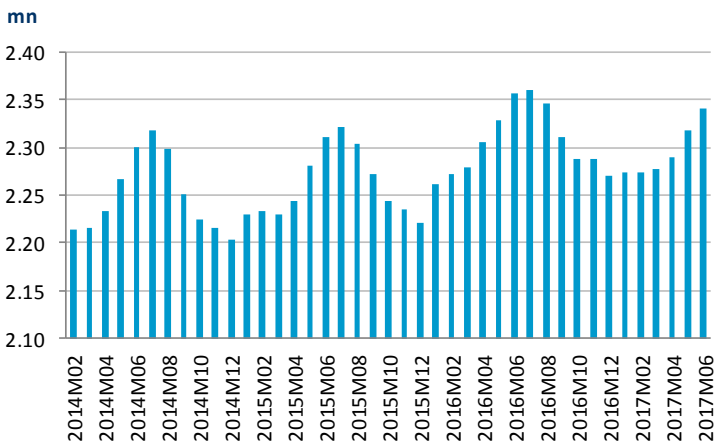
Registered Unemployment Rate: National Employment Agency



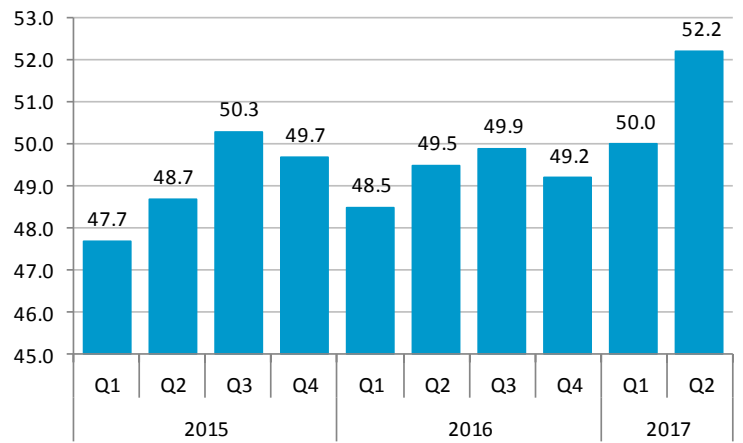
EU: Unemployment rate seasonally adjusted by country July 2017



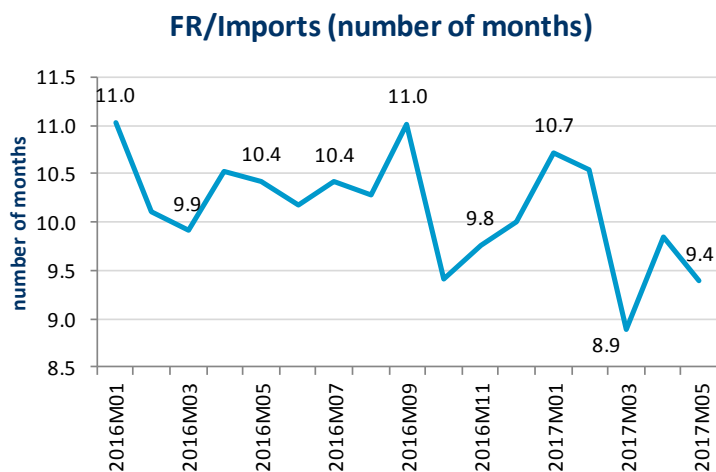
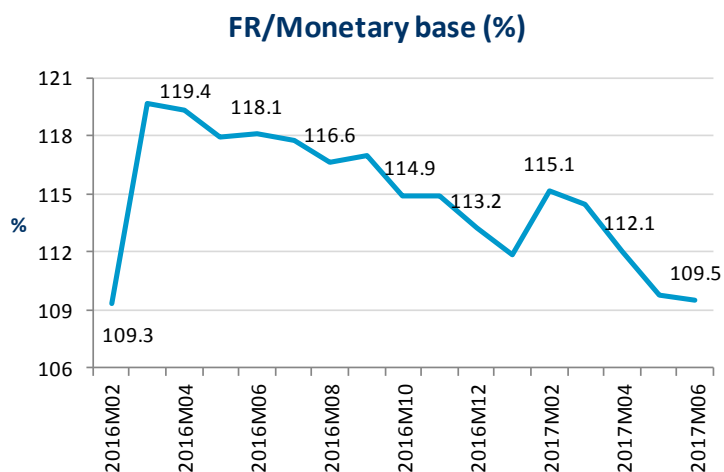
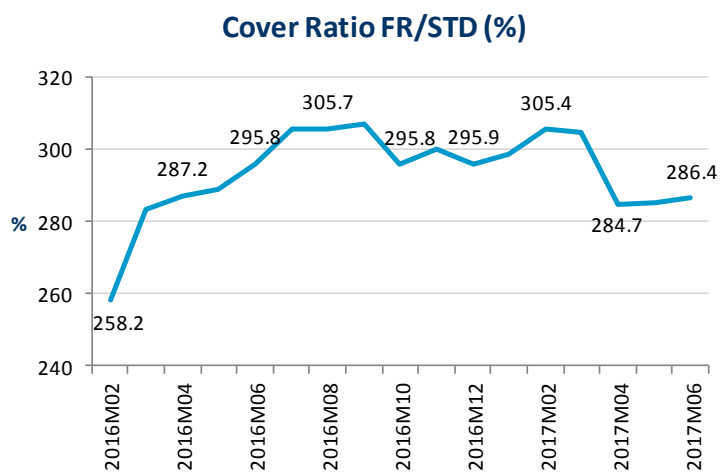
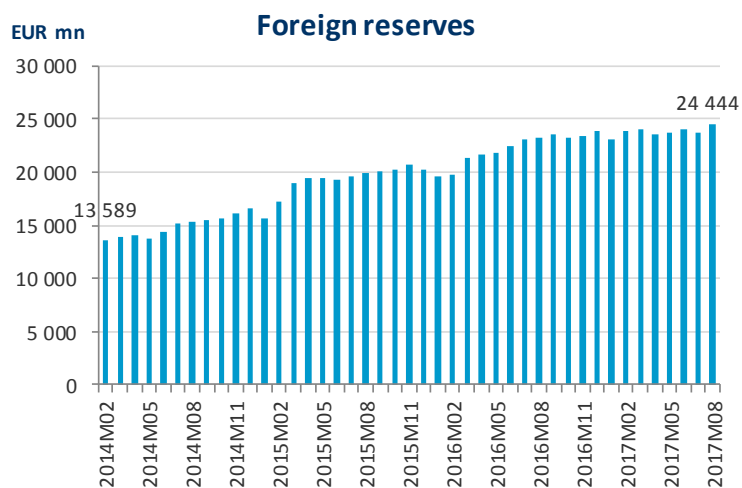
Bulgaria: Number of Employees



Bulgaria: Employment Rate

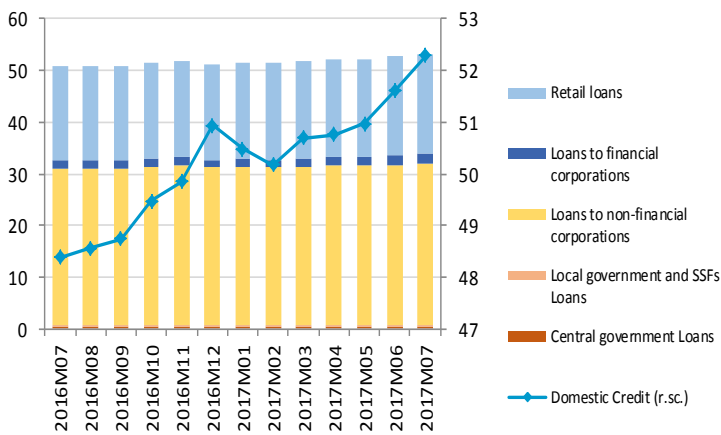


Bulgaria: Monetary Sector Indicators

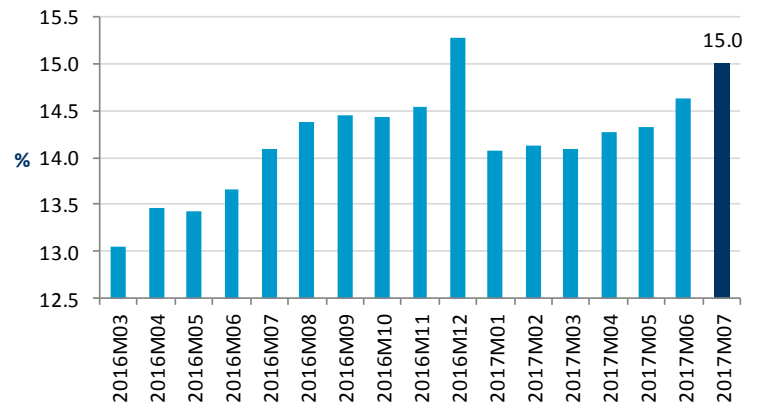


Bulgaria: Monetary Sector Indicators

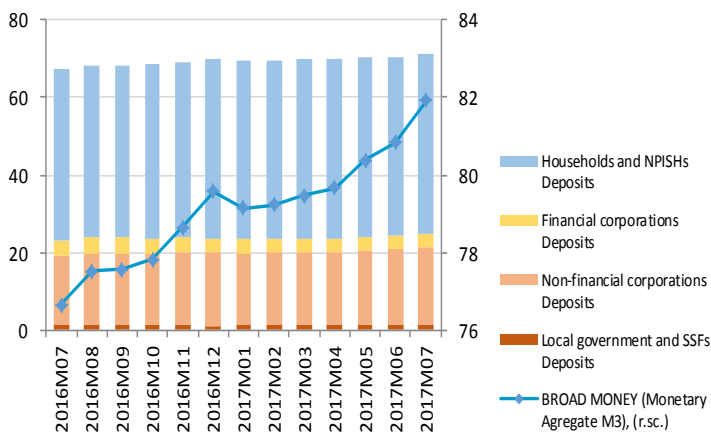
Loans and Domestic Credit (BGN bn)



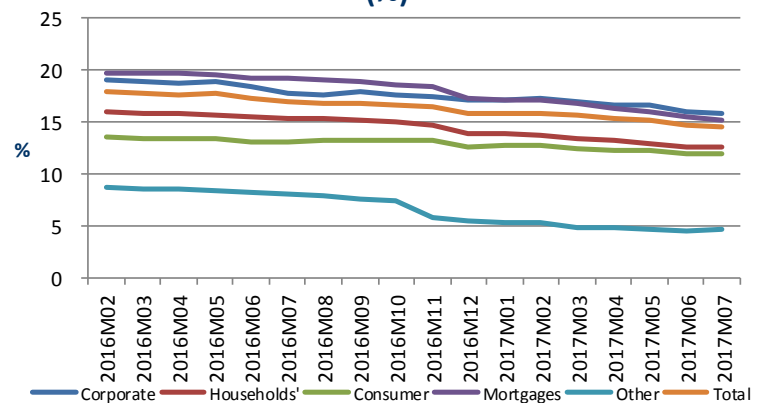
Money in circulation/GDP (%)



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

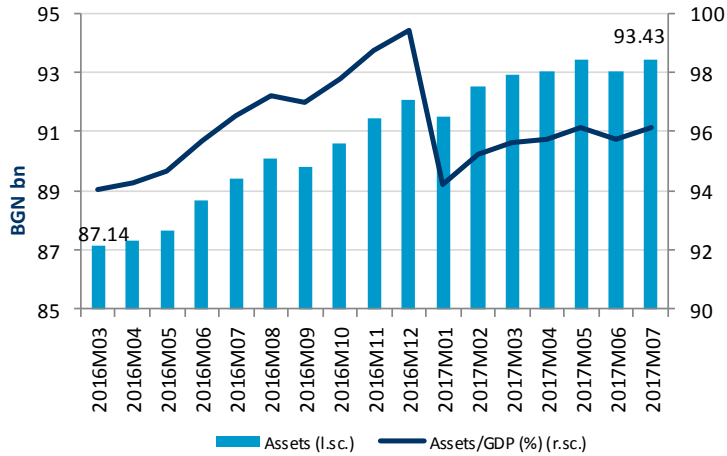


Banking sector: Bad and restructured loans (%)

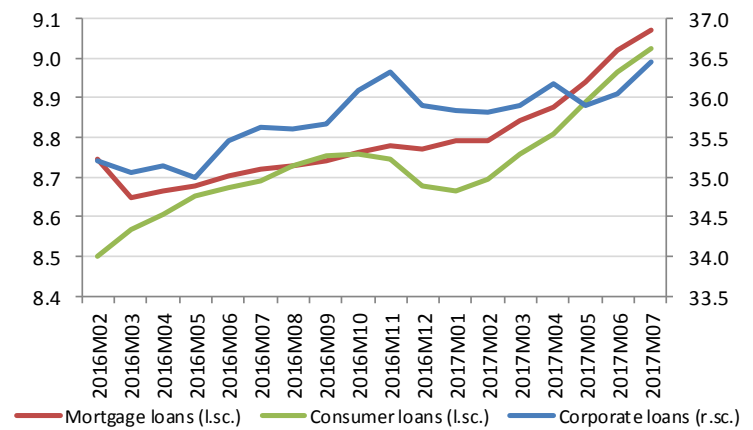


Bulgaria: Banking Sector Indicators

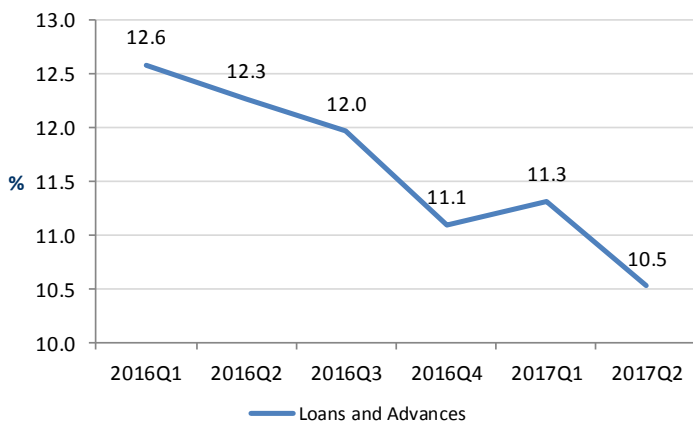
Assets



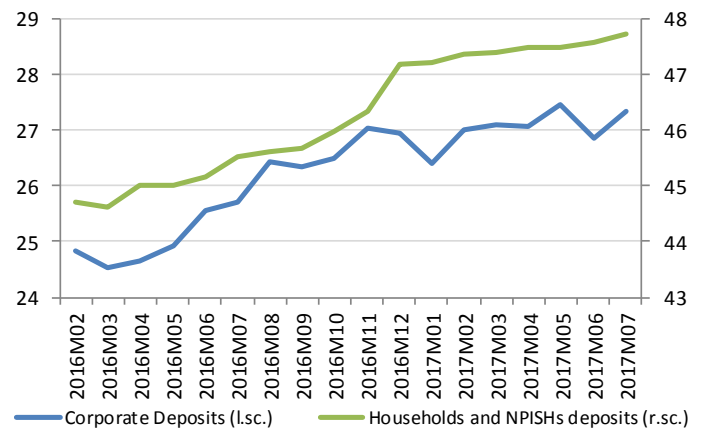
Loans (BGN bn)



Banking System Non Performing Loans (%)



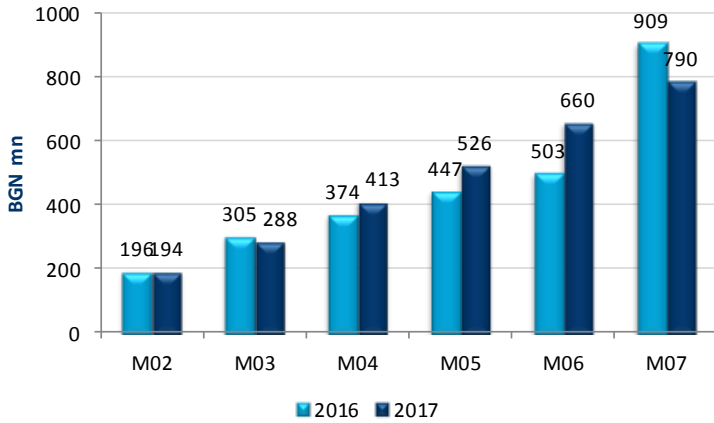
Deposits (BGN bn)



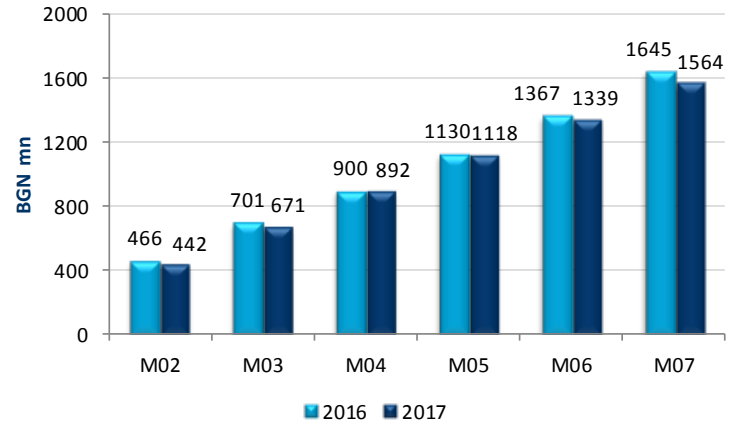


Bulgaria: Banking Sector Indicators

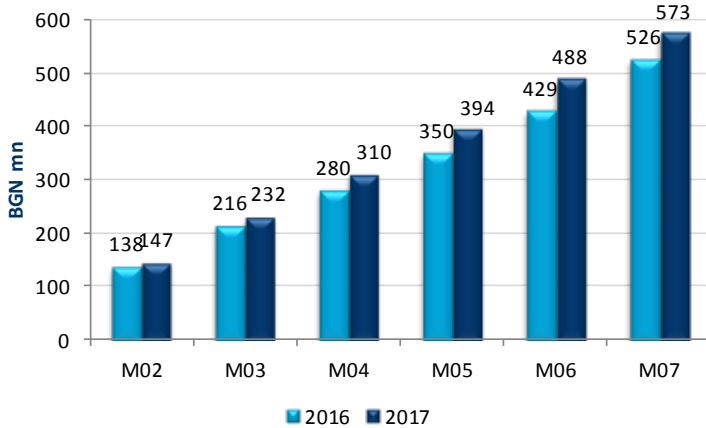
Net Profit



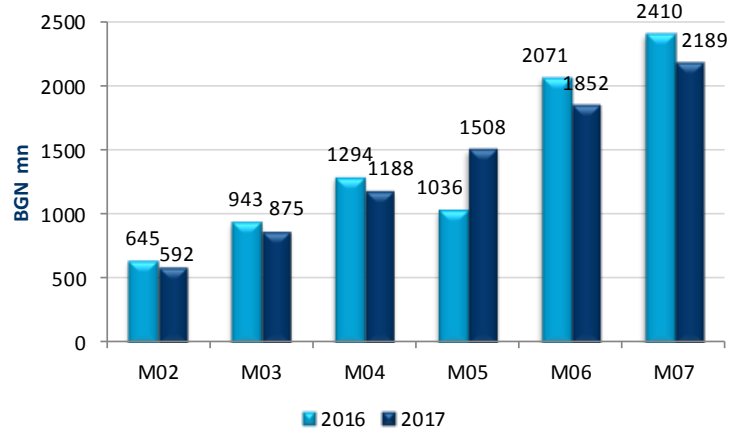
Net interest Income



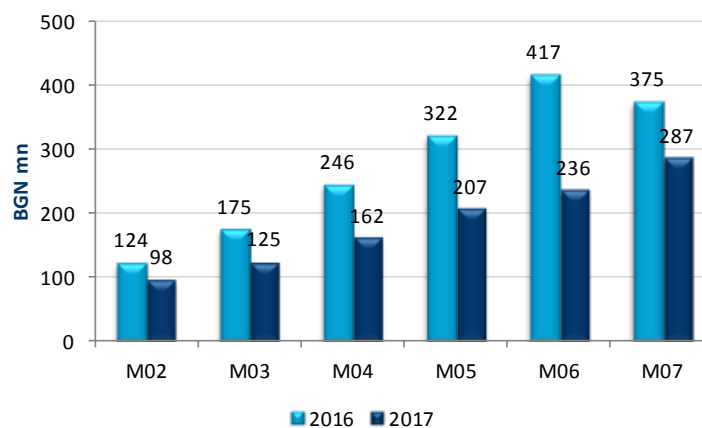
Net fee and commission income



Net operating income

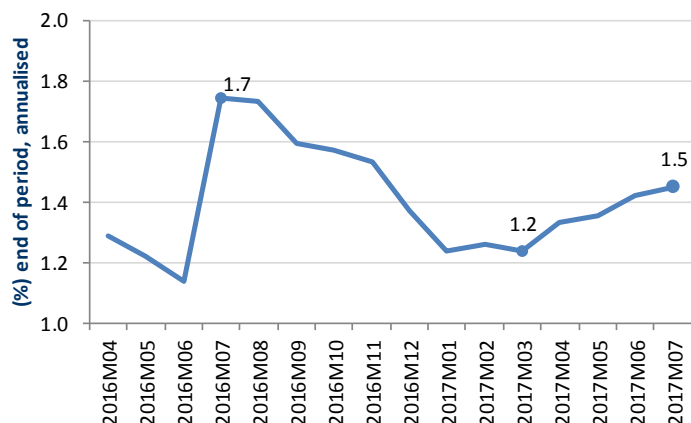


Impairment

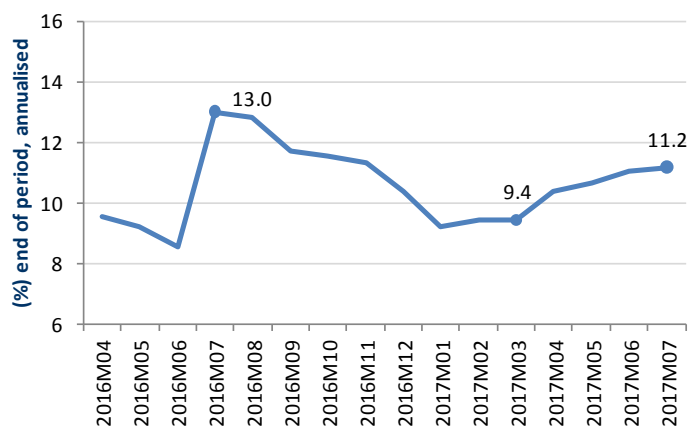


Bulgaria: Banking Sector Indicators

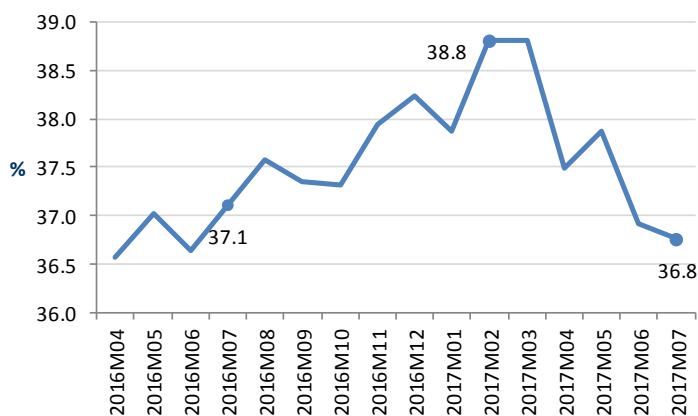
ROA



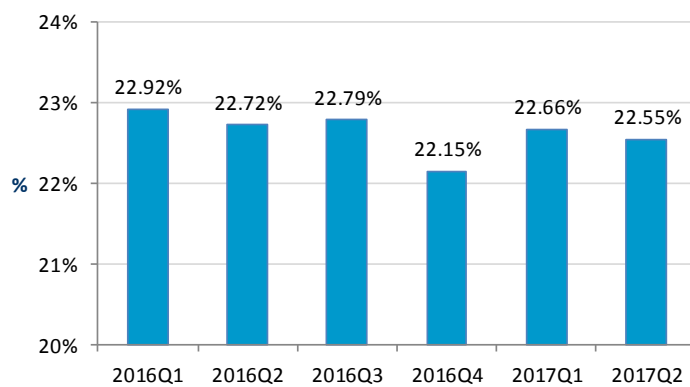
ROE



Liquid Assets Ratio (LAR)



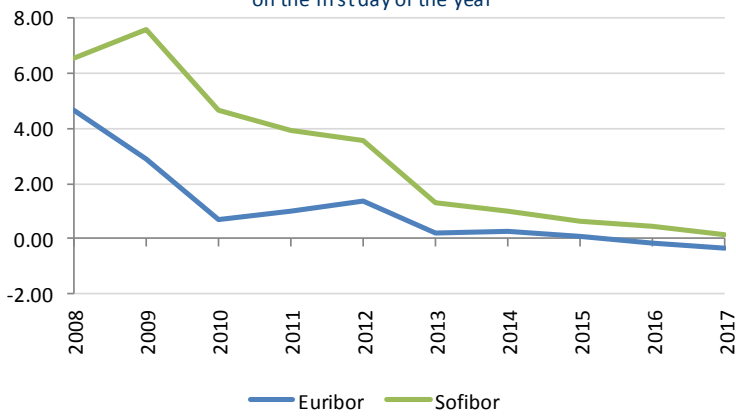
Total Capital Ratio



Bulgaria: Indexes and Interest Rates

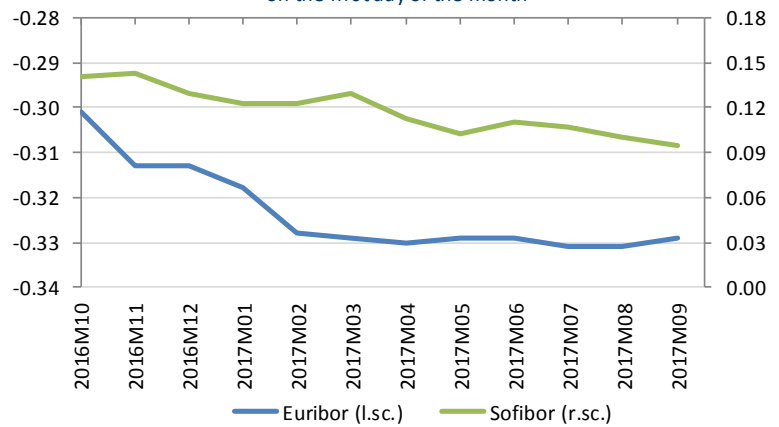
Indexes 3-months

on the first day of the year

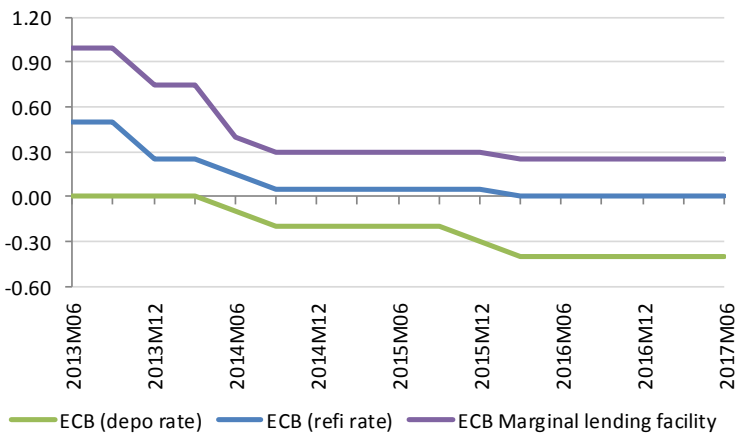


Indexes 3-months

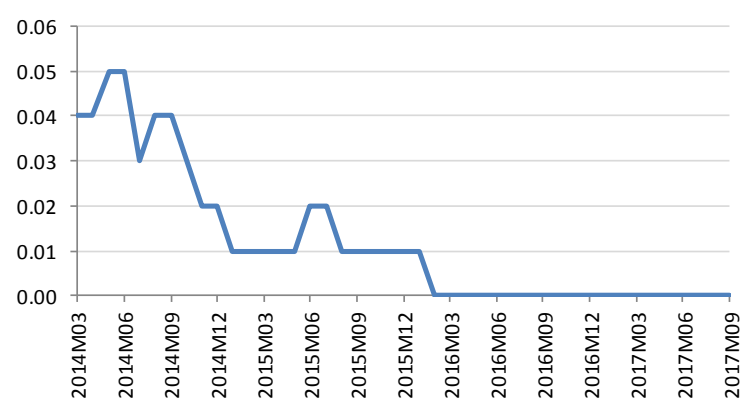
on the first day of the month



Policy Rates in (%)

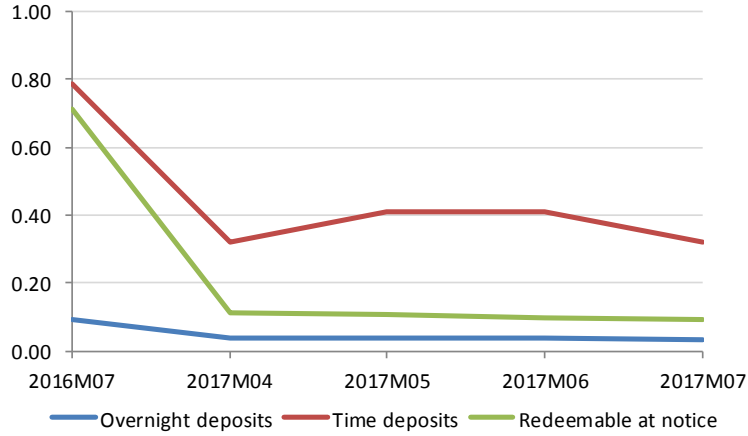


Base Interest Rate of the BNB in (%)

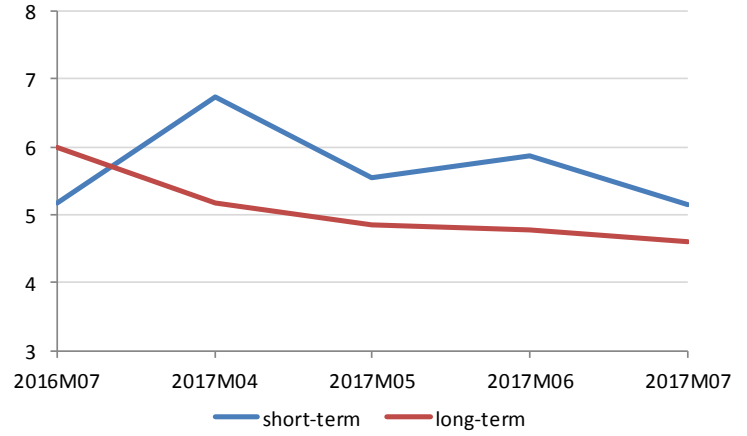


Bulgaria: Interest Rates of New Business on Deposits and New Loans Interest Rates

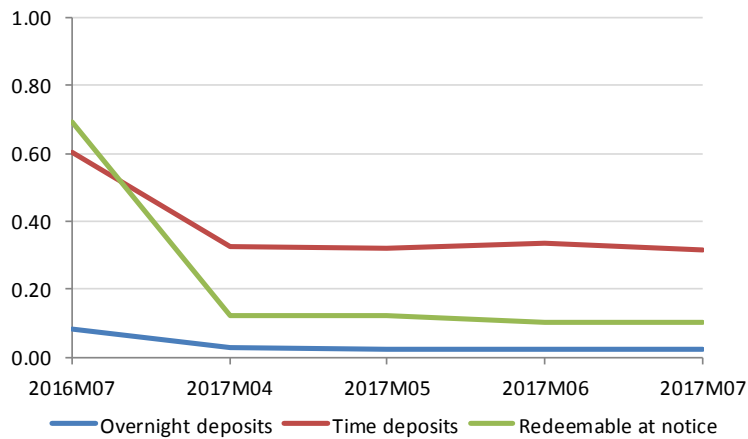
Interest Rates (%) in BGN



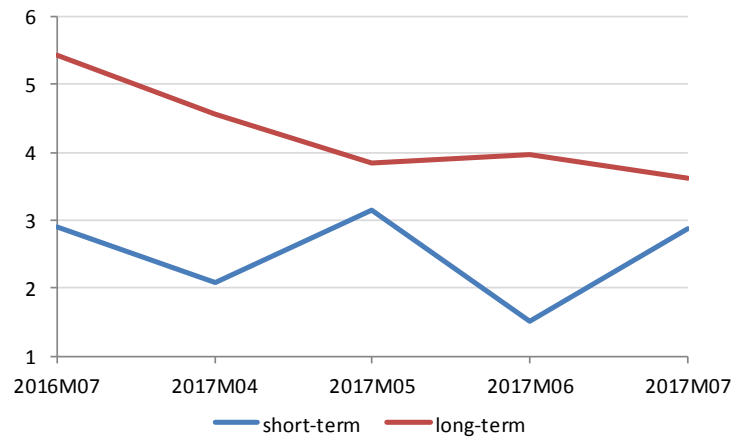
Interest Rates (%) in BGN



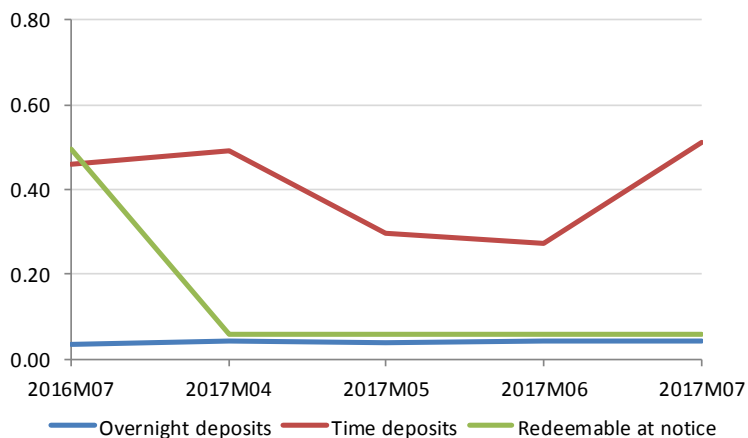
Interest Rates (%) in EUR



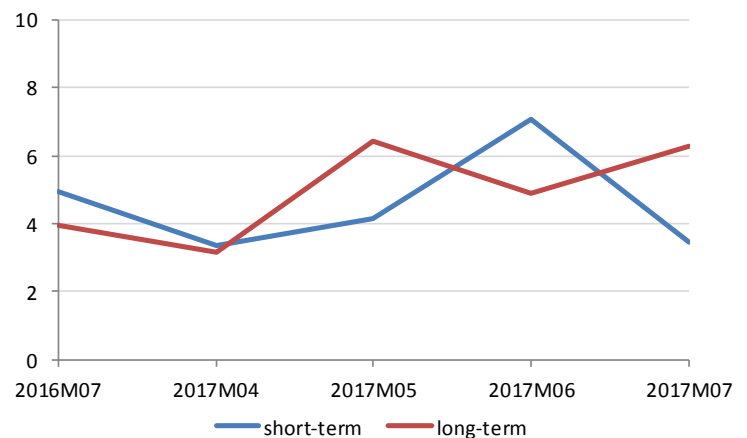
Interest Rates (%) in EUR



Interest Rates (%) in USD

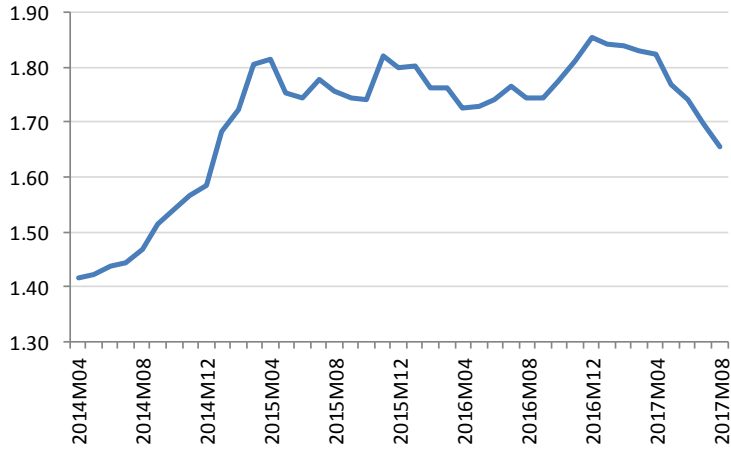


Interest Rates (%) in USD

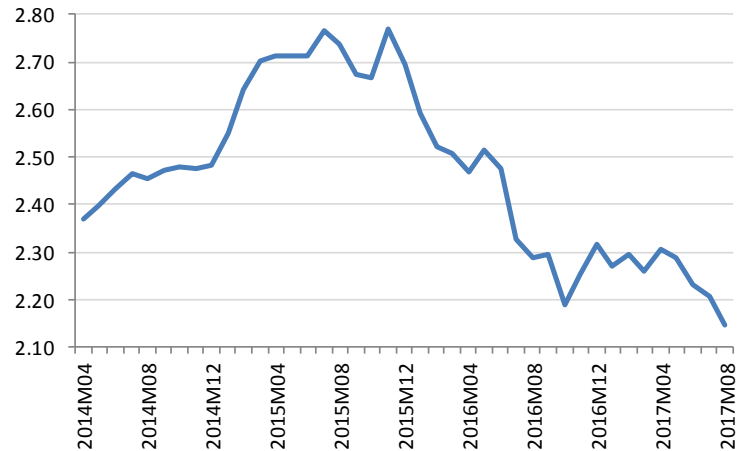


Bulgaria: FX Rates

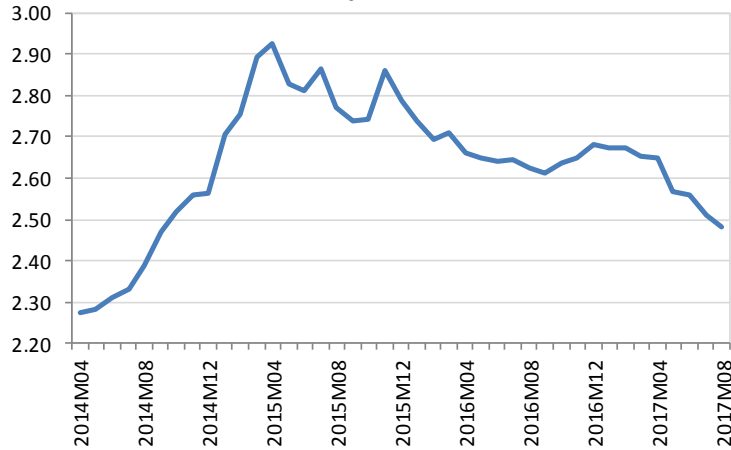
BGN/USD



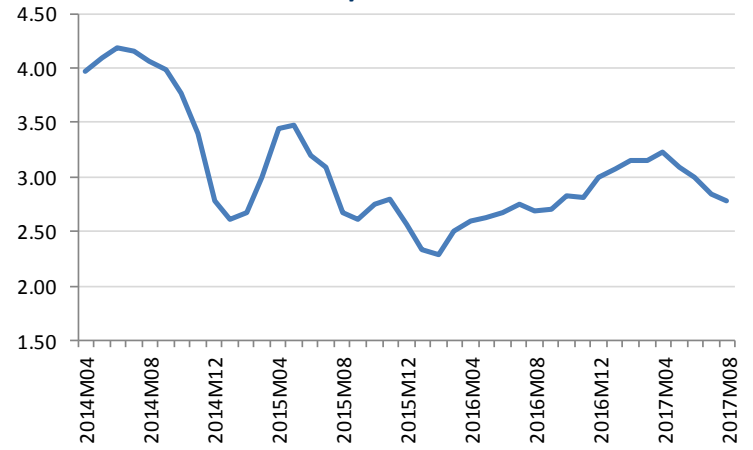
BGN/GBP



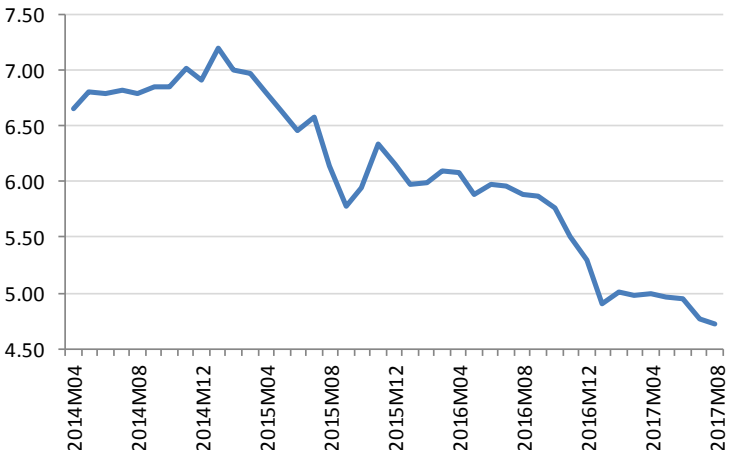
BGN/10CHY



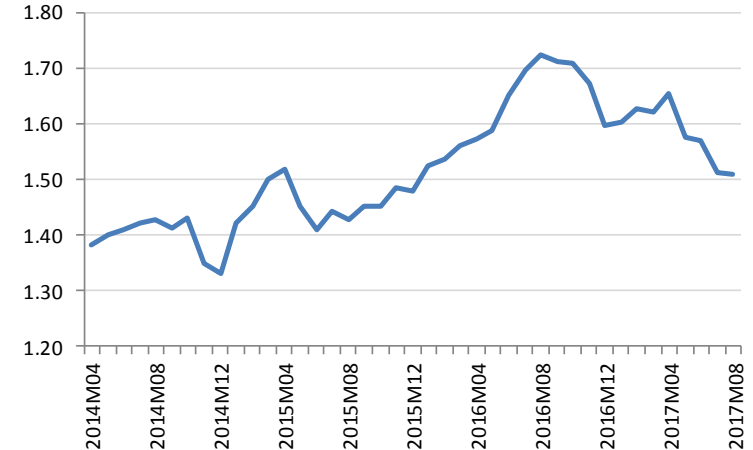
BGN/100RUB



BGN/10TRY



BGN/100JPY





## DEFINITIONS AND METHODOLOGICAL NOTES

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

## EXTERNAL SECTOR

### CURRENT ACCOUNT

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

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

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

For the intra EU trade in goods:

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

For the trade with third countries (outside EU)

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

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

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

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

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

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

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

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

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

## CAPITAL ACCOUNT

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

## FINANCIAL ACCOUNT

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

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

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

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

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

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

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

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

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

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

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

## RESERVES AND RELATED ITEMS

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

## REAL SECTOR

### Gross Domestic Product - production approach

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

### GDP - INCOME APPROACH

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

### GROSS DOMESTIC PRODUCT BY FINAL EXPENDITURE

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

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

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

## **CAPITAL MARKET**

### **SOFIX Index:**

Initial date: 20 October 2000; Initial value: 100

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

less than 500 persons; 4) The turnover of the issue during the last 12 months shall not be less than BGN 2,000,000; 5) The number of transactions executed in the issue during the last 12 months shall not be less than 750.

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

#### **BG REIT Index:**

Initial date: 03 September 2007; Initial value: 100

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

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

#### **BG 40 Index:**

Initial date: 01 February 2005; Initial value: 100

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

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

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

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

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