

BULGARIA: ECONOMIC AND MARKET ANALYSIS

Monthly report as of December 2016

All data in the edition are the last available data as of December 31, 2016



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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Source: www.geographicguide.net

- ◆ In January – October 2016 the current and capital account was positive amounting to EUR 3,201.7 million and presented 7% of GDP
- ◆ In January-October 2016 Bulgaria's total exports increased by 0.2% y/y and amounted at BGN 37 895.9 million
- ◆ In October 2016 Bulgaria's gross external debt amounted to EUR 34,298.6 million and presented 75.4% of GDP
- ◆ At the end of November 2016 Bulgaria's foreign reserves amounted to EUR 23.5 billion and increased by 1.04% m/m and by 13.5% y/y, respectively
- ◆ In Q3 2016 Bulgaria's GDP increased by 0.7% q/q and by 3.4% y/y, respectively
- ◆ In October 2016 Bulgaria's Industrial production index increased by 0.3% m/m and by 2.8% y/y, respectively
- ◆ In October 2016 Bulgaria's retail sales increased by 0.5% m/m and by 2.9% y/y, respectively
- ◆ In October 2016 Bulgaria's Construction index declined by 2% m/m and by 14% y/y, respectively
- ◆ In October 2016, the number of the trips of Bulgarian residents abroad was 404.0 thousand or by 20.4% above the registered in October 2015
- ◆ In November 2016 the total business climate indicator increased by 0.6 percentage points in comparison with October, which is due to the improved business climate in industry and retail trade
- ◆ **Industry**
- ◆ Total Producer Price Index in Industry in October 2016 increased by 0.6% m/m and declined by 0.7% y/y, respectively
- ◆ In November 2016 NSI reported 0% m/m inflation and minus 0.5% y/y deflation
- ◆ In October 2016 unemployment in Bulgaria decreased to 7.4% compared to 9.8% in the euro area
- ◆ In October 2016 the Consolidated Fiscal Programme balance is positive, amounting to BGN 3,434.9 million or 3.9% of forecast GDP
- ◆ In October 2016 Bulgaria's "Central government" debt amounted to EUR 13 235.8 million and occupies 29.1% of GDP
- ◆ In November 2016 Bulgaria's broad money (monetary aggregate M3) amounted at BGN 78.641 billion and increased by 8.1% y/y. Bulgaria's Domestic credit amounted at BGN 49.848 billion and declined by 3.7% y/y
- ◆ In November 2016 the BSE –Sofia benchmark SOFIX rose to 563.24 points
- ◆ As of 31 October 2016 the banking system's profit amounted to BGN 1187 million, i.e. by BGN 280 million higher than the one realized for the same period last year. BNB has set the countercyclical capital buffer rate at 0% for Q1 2017. BNB has adopted new grounds for payment of guaranteed deposits

Bulgaria: Key Macroeconomic Indicators	2014 (a)	2015 (a)	2016 (p)	2017 (p)	2018 (p)	2019 (p)
Gross Domestic Product						
GDP (BGN million)	83 634	88 571	91 665	95 348	99 580	104 087
GDP (EUR million)	42 761	45 286	46 868	48 751	50 914	53 219
GDP (real growth, %)	1.3	3.6	3.2	2.9	3	3
Consumption	2.2	3.8	1.6	3	2.6	2.7
Gross capital formation	3.4	2.7	0.1	1.1	3.2	4.2
Exports of goods and services	3.1	5.7	4.1	3.2	3.7	3.7
Imports of goods and services	5.2	5.4	2.5	2.7	3.3	3.7
Labour market and prices						
Employment (%)	0.4	0.4	1.1	0.7	0.6	0.5
Unemployment rate (%)	11.4	9.1	8.1	7.2	6.7	6.4
Compensation of one employee (%)	5.6	5.6	3.8	4.6	5.3	5.6
GDP Deflator (%)	0.5	2.2	0.3	1.1	1.4	1.5
Average inflation (%)	-1.6	-1.1	-1.2	1.1	1.5	1.7
Balance of payments						
Current account (% of GDP)	0.1	0.4	2	1.4	1.2	1.2
Trade balance (% of GDP)	-6.5	-5.8	-4.8	-4.9	-4.6	-4.6
FDI (% of GDP)	3.6	3.7	3.7	3.8	3.8	3.8
Monetary sector						
M3 (% y/y growth)	1.1	8.8	8.3	8.8	9	9.3
Loans to companies (% y/y growth)	-10.8	-1.8	0.7	2.8	4.9	6.2
Loans to households (% y/y growth)	-1.6	-1.3	1.2	3.7	4.1	4.5

Source: MF Medium term forecast, December 2016

I. EXTERNAL SECTOR

1. Balance of payments

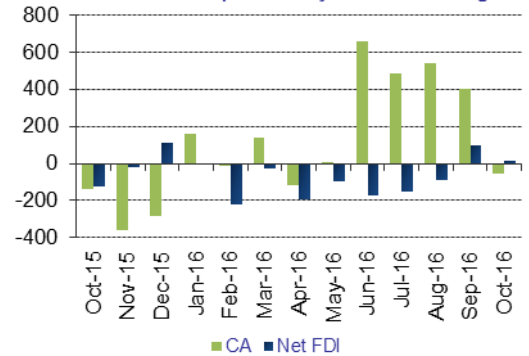
In January – October 2016 the current and capital account was positive amounting to EUR 3,201.7 million and presented 7% of GDP

According to BNB preliminary data the current and capital account recorded a deficit of EUR 42.6 million in October 2016, compared with a negative balance of EUR 119.3 million in October 2015. In January – October 2016 the current and capital account was positive amounting to EUR 3,201.7 million (7% of GDP), compared with a surplus of EUR 1,866.2 million (4.1% of GDP) in January – October 2015. The current account was negative amounting to EUR 57.4 million in October 2016, compared with a deficit of EUR 141.4 million in October 2015. In January – October 2016 the current account was positive and amounted to EUR 2,193 million (4.8% of GDP), compared with a surplus of EUR 813.3 million (1.8% of GDP) in January – October 2015. The balance on goods recorded a deficit of EUR 233.1 million in October 2016, compared with a deficit of EUR 294.6 million in October 2015. In January – October 2016 the balance on goods was negative amounting to EUR 1,386.9 million (3% of GDP), compared with a deficit of EUR 1,906.5 million (4.2% of GDP) in January – October 2015. Exports of goods amounted to EUR 2,131.1 million in October 2016, growing by EUR 233.3 million (12.3%) from October 2015 (EUR 1,897.8 million). In January – October 2016 exports of goods totaled EUR 18,622.4 million, increasing by EUR 187.1 million (or by 1% y/y) from EUR 18,435.3 million. In January – October 2015 exports grew by 5.5% y/y. Imports of goods amounted to EUR 2,364.2 million in October 2016, growing by EUR 171.7 million (7.8%) from October 2015 (EUR 2,192.4 million). In January – October 2016 imports of goods totaled EUR 20,009.4 million, dropping by EUR 332.4 million (1.6%) from January – October 2015 (EUR 20,341.7 million). In January – October 2015 imports grew by 3.1% y/y. Services recorded a positive balance of EUR 179 million in October 2016, compared with a surplus of EUR 204.1 million in October 2015. In January – October 2016 services recorded a surplus of EUR 3,214.6 million (7.1% of GDP) compared with a positive balance of EUR 2,896.4 million (6.4% of GDP) in the same period of 2015. The net primary income (which reflects the receipt and payment of income related to the use of resources (labor, capital, land), taxes of production and imports and subsidies) recorded a surplus of EUR 5.8 million in October 2016, compared with a deficit of EUR 97.7 million in October 2015. In January – October 2016 the balance on primary income was negative and equated to EUR 956.4 million (2.1% of GDP), against a deficit of EUR 1,741.1 million (3.8% of GDP) in January – October 2015. The net secondary income (which reflects the redistribution of income) recorded a deficit of EUR 9.1 million, compared with a surplus of EUR 46.9 million in October 2015. In January – October 2016 the net secondary income was positive amounting to EUR 1,321.7 million (2.9% of GDP), compared with a positive balance of EUR 1,564.5 million (3.5% of GDP) in the same period of 2015. The capital account recorded a surplus of EUR 14.8 million, compared with a positive balance of EUR 22.1 million in October 2015. In January – October 2016 the capital account recorded a surplus of EUR 1,008.7 million (2.2% of GDP), compared with a positive balance of EUR 1,052.9 million (2.3% of GDP) in January – October 2015. The financial account recorded a net inflow of EUR 16.5 million, compared with a positive balance of EUR 17.9 million in October 2015. In January – October 2016 the financial account recorded a net inflow of EUR 2,795.4 million (6.1% of GDP) compared with an inflow of EUR 2,662.7 million (5.9% of GDP) in January – October 2015. 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 17.1 million, compared with a negative balance of EUR 124.7 million in October 2015. In January – October 2016 the balance was negative and equated to EUR 849.6 million (1.9% of GDP), compared with a negative balance of EUR 1,690.4 million (3.7% of GDP) in January – October 2015. Direct investment – assets declined by EUR 13.3 million compared with an increase of EUR 11.1 million in October 2015. In January – October 2016 direct investment – assets rose by EUR 328.2 million, compared with a decline of EUR 99.1 million in the same period of 2015. Direct investment – liabilities recorded a net decrease of EUR 30.4 million in October 2016, compared with an increase of EUR 135.8 million in October 2015. In January – October 2016 direct investment – liabilities grew by EUR 1,177.8 million, compared with an increase of EUR 1,591.3 million in the same period of 2015. The balance on portfolio investment was positive amounting to EUR 157.6 million, compared with a positive balance of EUR 118.4 million in October 2015. In January – October 2016 the balance was negative and equated to EUR 1,170.4 million (2.6% of GDP), compared with a negative balance of EUR 916.7 million (2% of GDP) in January – October 2015. Portfolio investment – assets grew by EUR 186 million, compared with an increase of EUR 39.9 million in October 2015. In January – October 2016 they rose by EUR 333.1 million compared with a decline of EUR 547 million in January – October 2015. Portfolio investment – liabilities rose by EUR 28.5 million compared with a decline of EUR 78.5 million in October 2015. In January – October 2016 portfolio investment – liabilities grew by EUR 1,503.5 million, compared with an increase of EUR 369.7 million in January – October 2015. The balance on other investment was negative amounting to EUR 0.5 million, compared with a negative balance of EUR 68.4 million in October 2015. In January – October 2016 the balance was positive and equated to EUR 2,141.4 million (4.7% of GDP), compared with a positive balance of EUR 1,595.8 million (3.5% of GDP) in January – October 2015. Other investment – assets grew by EUR 207.2 million, compared with a decrease of EUR 227.2 million in October 2015. In January – October 2016 they increased by EUR 1,708.1 million compared with a decline of EUR 1,221.5 million in January – October 2015. Other investment – liabilities increased by EUR 207.6 million compared with a decline of EUR 158.8 million in October 2015. In January – October 2016 they fell by EUR 433.4 million compared with a decline of EUR 2,817.3 million in January – October 2015. The BNB reserve assets⁶ dropped by EUR 177.6 million, compared with an increase of EUR 79.7 million in October 2015. In January – October 2016 they rose by EUR 2,713.8 million (6% of GDP), compared with an increase of EUR 3,661.7 million (8.1% of GDP) in the same period of 2015. The net errors and omissions were positive amounting to EUR 59.1 million compared with a positive value of EUR 137.2 million in October 2015. According to preliminary data, the item was negative in January – October 2016 and totaled EUR 406.2 million (0.9% of GDP), against a positive value of EUR 796.5 million (1.8% of GDP) in the same period of 2015.

Balance of Payments (EUR mn.)

Source: BNB

Data provided by CEIC Data Manager

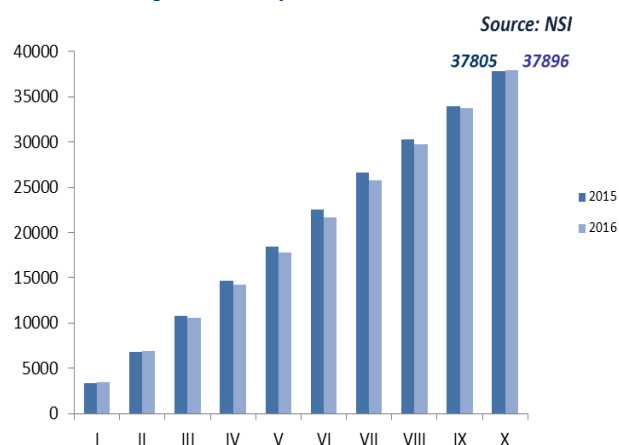


2. Foreign Trade

In January-October 2016 Bulgaria's total exports increased by 0.2% y/y and amounted at BGN 37 895.9 million

According to NSI preliminary data in January - October 2016 the value of all exported goods from Bulgaria amounted to BGN 37 895.9 million and the total exports increased by 0.2%. In October 2016 the total exports added up to BGN 4 153.1 million or by 6.5% more than the same month of the previous year. The total value of all the goods imported in the country in the period January - October 2016 amounted to BGN 41 685.7 million (at CIF prices), or by 2.3% less than the corresponding period of 2015. In October 2016 the total imports increased by 4.5% compared to the same month of the previous year and added up to BGN 4 822.5 million. The total foreign trade balance (exports FOB - import CIF) was negative in the period January - October 2016 and amounted to BGN 3 789.8 million. At FOB/FOB prices (after elimination of transport and insurance costs on imports) in the period January - October 2016 the total foreign trade balance was also negative and added up BGN 1 793.4 million. In October 2016 the total foreign trade balance (exports FOB - import CIF) was negative and amounted to BGN 669.4 million. The trade balance at FOB/FOB prices was also negative and added up BGN 431.9 million.

Foreign Trade- Export - 2015/2016



3. External debt

In October 2016 Bulgaria's gross external debt amounted to EUR 34,298.6 million and presented 75.4% of GDP

Gross external debt amounted to EUR 34,298.6 million (75.4% of GDP) at end-October 2016, increasing by EUR 210.2 million (0.6%) from end-2015 (EUR 34,088.5 million, 75.3% of GDP). On a year-on-year basis gross external debt decreased by EUR 26.3 million (0.1%) from October 2015 (EUR 34,324.9 million, 75.8% of GDP). Long-term liabilities totalled EUR 26,417 million (77% of the total debt, 58.1% of GDP) at end-October 2016, growing by EUR 207.8 million (0.8%) from end-2015 (EUR 26,209.2 million, 76.9% of the total debt, 57.9% of GDP). On a year-on-year basis, long-term liabilities dropped by EUR 124 million (0.5%) from October 2015 (EUR 26,541 million, 58.6% of GDP). Short-term liabilities equalled EUR 7,881.6 million (23% of the total debt, 17.3% of GDP), increasing by EUR 2.3 million (0.03%) from end-2015 (EUR 7,879.3 million; 23.1% of the total debt, 17.4% of GDP). On a year-on-year basis, short-term liabilities grew by EUR 97.7 million (1.3%) from October 2015 (EUR 7,783.9 million, 17.2% of GDP). General government's gross external debt totalled EUR 6,473.9 million (14.2% of GDP) in end-October 2016. It rose by EUR 893.9 million (16%) from end-2015 (EUR 5,580.1 million, 12.3% of GDP), mostly due to the nonresident-held securities from Bulgaria's bond issues on international capital markets in March 2016. On a year-on-year basis general government's debt increased by EUR 830.3 million (14.7%) from October 2015 (EUR 5,643.6 million, 12.5% of GDP). Banks' external debt totalled EUR 3,859.6 million (8.5% of GDP). It fell by EUR 266.8 million (6.5%) from end-2015 (EUR 4,126.4 million, 9.1% of GDP). On a year-on-year basis banks' debt decreased by EUR 175 million (4.3%), from EUR 4,034.6 million, 8.9% of GDP in October 2015. Other Sectors' external debt⁴ equalled EUR 11,452.7 million (25.2% of GDP). It dropped by EUR 279 million (2.4%) from end-2015 (EUR 11,731.7 million, 25.9% of GDP). On a year-on-year basis it fell by EUR 476.2 million (4%) from October 2015 (EUR 11,928.9 million, 26.3% of GDP). The stock of intercompany lending⁴ amounted to EUR 12,512.4 million (27.5% of GDP) at end-October 2016, dropping by EUR 137.9 million (1.1%) from end-2015 (EUR 12,650.3 million, 27.9% of GDP). On a year-on-year basis it decreased by EUR 205.4 million (1.6%) from October 2015 (EUR 12,717.8 million, 28.1% of GDP). The external financing received from non-residents equalled EUR 5,520.3 million (12.1% of GDP) in January - October 2016, compared with EUR 5,160.3 million (11.4% of GDP) in January - October 2015. They were distributed as follows: general government received EUR 1,568.2 million (28.4% of the total amount of disbursements), banks received EUR 697.3 million (12.6%), other sectors⁴ received EUR 1,791.1 million (32.4%), and intercompany lending totalled EUR 1,463.7 million (26.5%). Gross external debt service totalled EUR 5,150.7 million (11.3% of GDP) in January - October 2016, compared with EUR 7,588 million (16.8% of GDP) in January - October 2015. Net external debt⁵ totalled EUR 2,502.5 million at end-October 2016. It dropped by EUR 4,200.6 million (62.7%) from end-2015 (EUR 6,703.1 million). Its decline was due to the larger increase in gross external assets (by EUR 4,410.8 million, 16.1%) in comparison with the increase in gross external debt (by EUR 210.2 million, 0.6%). As a percentage of GDP, net external debt equated to 5.5%, from 15% at end-2015.

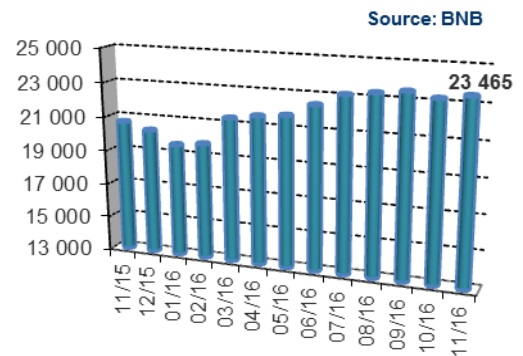
4. Foreign reserves

At the end of November 2016 Bulgaria's foreign reserves amounted to EUR 23.5 billion and increased by 1.04% m/m and by 13.5% y/y, respectively

According to BNB data at the end of November 2016 Bulgaria's foreign reserves amounted to BGN 45.9 billion (EUR 23.5 billion) and rose by 1.04% m/m and by 13.5% y/y respectively. By the assets side cash and currency deposits grew by 5.4% m/m and by 18.3% y/y, respectively. Monetary gold decreased by 4.1% compared to the previous

month and increased by 12.1% y/y. Investments in securities decreased by 0.4% m/m but rose by 11.4% y/y. The liabilities positions reported varied dynamics. Money in circulation rose by 0.8% m/m and by 12.2% y/y, respectively reaching BGN 13.5 billion. Liabilities to banks amounted to BGN 12.9 billion and increased by 3.6% m/m with a decline of 2.1% y/y, respectively. Liabilities to budget kept relatively constant level on a monthly basis and recorded growth of 41% y/y. Liabilities to other depositors rose by 3.1% m/m and grew up by 20.7% y/y. International liquidity position of Bulgaria, calculated as the ratio of short-term external debt to foreign reserves according the latest actual data at the end of September 2016 improved to 306.9% compared to 254.0% for September 2015 and 257.5% at the end of December 2015.

Foreign Reserves(EUR mn)



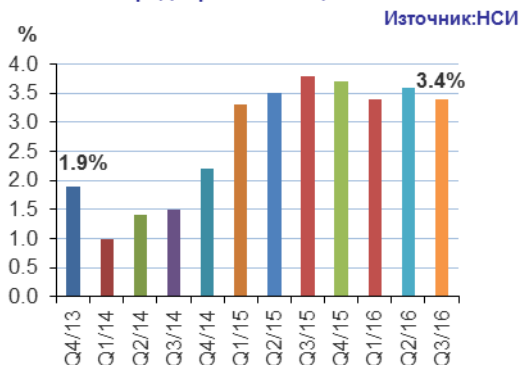
II. REAL SECTOR

1.GDP

In Q3 2016 Bulgaria's GDP increased by 0.7% q/q and by 3.4% y/y, respectively

According NSI preliminary data in Q3 2016 Bulgaria's GDP at current prices is BGN 25 336 million. In Euro terms GDP is EUR 2 954 million or EUR 1 815 per person. According to the seasonally adjusted data, the GDP growth rate in Q3 2016 is 3.4% compared with the same quarter of the previous year and 0.7% compared to Q2 2016. Gross value added (GVA) at current prices in Q3 2016 amounted to BGN 21 910 million. As compared with the third quarter of 2015 the share of the agricultural sector in the

Растеж на БВП спрямо същото тримесечие на предходната година
предварителни оценки



gross value added of the economy decreases with 0.7 pps to 7.3%. The industrial sector increases its share in the value added of the economy with 1.4 pps to 28.9%. The share of services decreases by 0.7 pps to 63.8% compared to the same period of the previous year. In Q3 2016 the final consumption expenditure formed 68.8% of GDP. Investments (gross fixed capital formation) formed 18.5% of GDP. The external balance (exports-imports) is positive. According to the seasonally adjusted data, GDP in Q3 2016 increased by 0.7% q/q. In Q3 2016 gross value added of the total economy rises by 0.6%. According to the preliminary estimates of GDP by final expenditure, in Q3 of 2016 compared with the previous quarter the final consumption increases by 0.5%. For the same period, gross fixed capital formation decreases by 0.9%. In the third quarter of 2016, the exports of goods and services increase is 3.0%. During the same period, imports of goods and services increase by 2.7% q/q. During Q3 2016 Bulgaria's GDP increased its level by 3.4% y/y according to the seasonally adjusted data. Gross value added increases by 2.4% compared to the same quarter of previous year. The indicator's movement is determined by the increase recorded in: Arts, entertainment and recreation, repair of households goods and other services - 7.9%, Information and

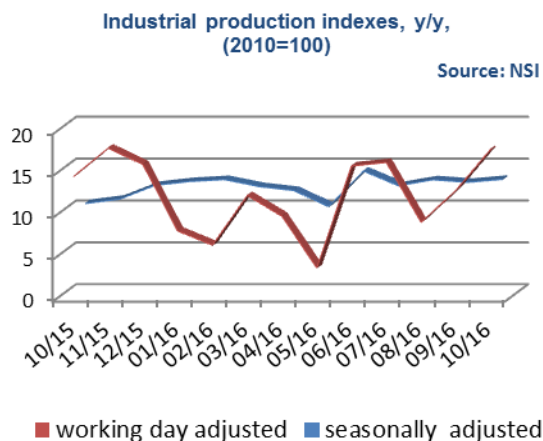
communication - 7.3% Wholesale and retail trade; repair of motor vehicles and motorcycles, Transportation and storage, Accommodation and food service activities - 4.9%, Agriculture, forestry and fishing - 2.8%, Real estate activities - 2.3%, Mining and quarrying; manufacturing; electricity, gas, steam and air conditioning supply; water supply; sewerage, waste management and remediation - 0.5%, Professional, scientific and technical activities; administrative and support service activities - 0.1%. With regard to the expenditure components of GDP, the contributor to the registered positive economic growth is the final consumption with 0.2%. Exports and Imports of goods and services increased by 9.5% and 7.5% respectively compared with the corresponding quarter of the previous year. In Q3 2016 the EU-28 GDP increased by 0.4% q/q in seasonally adjusted data. For the same period GDP in Bulgaria increased by 0.7%. In Q3 2016 compared to the previous quarter, the highest growth into account Croatia - 1.7%, followed by Slovenia - 1.0%, Greece and Portugal - 0.8%. Compared with the same quarter of the previous year, seasonally adjusted data show an increase in the level of GDP in the EU-28 by 1.9% and in Bulgaria - up by 3.4%, respectively. In Q3 2016 compared to the same quarter of the previous year, the highest growth was observed in Romania - 4.6%, Bulgaria - 3.4%, Spain and Slovakia - by 3.2%, Slovenia - by 3.0%.

2. Industrial production

In October 2016 Bulgaria's Industrial production index increased by 0.3% m/m and by 2.8% y/y, respectively

According to NSI preliminary data in October 2016 Industrial Production Index, seasonally adjusted, increased by 0.3% m/m. In October 2016 working day adjusted Industrial Production Index rose by 2.8% y/y. In October 2016 as compared to September 2016, the seasonally adjusted Industrial Production Index increased in the electricity, gas, steam and air conditioning supply by 1.9% and in the mining and quarrying industry by 0.5%, while in the manufacturing a decrease by 0.5% was seen. The most significant decreases of production in the manufacturing were registered in the manufacture of fabricated metal products, except machinery and equipment by 16.2%, in the repair and installation of machinery and equipment by 10.7%, in the manufacture of other transport equipment by 8.3%, in the manufacture of leather and related products by 5.6%. There were increases in the

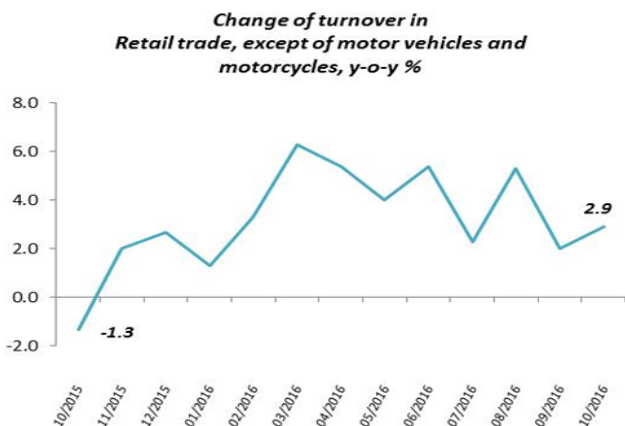
manufacture of tobacco products by 15.0%, in the manufacture of computer, electronic and optical products by 12.3%, in the manufacture of chemicals and chemical products by 7.3%, in the manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials by 7.2%. On annual basis in October 2016 Industrial Production Index calculated from working day adjusted data increased in the mining and quarrying industry by 8.8%, in the electricity, gas, steam and air conditioning supply by 3.5% and in the manufacturing by 1.7%. In the manufacturing, the more significant increases compared to the same month of the previous year were seen in the manufacture of computer, electronic and optical products by 15.2%, in the manufacture of basic metals by 13.7%, in the manufacture of chemicals and chemical products by 10.0%, in the manufacture of rubber and plastic products by 9.0%. Decreases were registered in the manufacture of other transport equipment by 27.1%, in the manufacture of tobacco products by 19.2%, in the manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials by 9.9%, in the manufacture of basic pharmaceutical products and pharmaceutical preparations by 8.8%.



3. Retail sales

In October 2016 Bulgaria's retail sales increased by 0.5% m/m and by 2.9% y/y, respectively

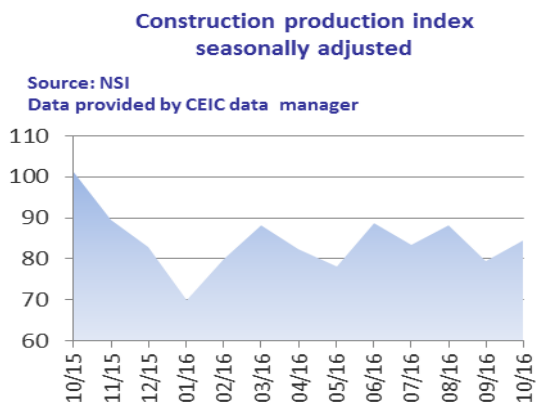
According to NSI preliminary seasonally adjusted data³ in October 2016 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 0.5% m/m. In October 2016 the working day adjusted⁴ turnover in 'Retail trade, except of motor vehicles and motorcycles' increased by 2.9% y/y. In October 2016 compared to the previous month the turnover increased in the 'Retail sale of computers, peripheral units and software; telecommunications equipment' by 3.4%, in the 'Retail sale of textiles, clothing, footwear and leather goods' by 0.6% and in the 'Retail sale of audio and video equipment; hardware, paints and glass; electrical household appliances' by 0.4%. More significantly decrease was registered in the 'Dispensing chemist; retail sale of medical and orthopaedic goods, cosmetic and toilet articles' - 1.8% and in the 'Retail sale of automotive fuel' - 1.2%. In October 2016 compared to the same month of 2015 the turnover increased more significantly in the 'Retail sale of textiles, clothing, footwear and leather goods' by 11.4%, in the 'Retail sale of food, beverages and tobacco' by 9.6% and in the 'Retail sale via mail order houses or via Internet' by 6.6%. A decrease was registered in the 'Retail sale of audio and video equipment; hardware, paints and glass; electrical household appliances' - 3.8%, in the 'Retail sale of automotive fuel' - 3.3% and in the 'Retail sale in non-specialised stores' - 2.8%.



4. Construction

In October 2016 Bulgaria's Construction index declined by 2% m/m and by 14% y/y, respectively

According to NSI preliminary data, in October 2016 the index of production in section 'Construction' calculated on the base of seasonally adjusted data declined by 2.0% m/m. In October 2016 working day adjusted data showed a decrease by 14.0% y/y in the construction production. In October 2016 the construction production, calculated from the seasonally adjusted data, was below the level of the previous month. Index of production of building construction fell by 3.3% and the production of civil engineering - by 0.6%. On an annual basis in October 2016, the decrease of production in construction, calculated from working day adjusted data, was determined from the negative rate as well as in the building construction, where the drop was by 14.6% and in the civil engineering - decline by 13.3%



5. Tourism

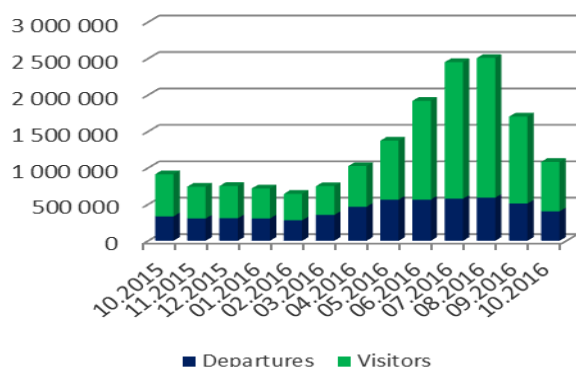
In October 2016, the number of the trips of Bulgarian residents abroad was 404.0 thousand or by 20.4% above the registered in October 2015

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 51.3%, the United Kingdom - by 50.1%, the Former Yugoslav Republic of Macedonia - by 37.4%, Serbia - by 32.6%, Germany - by 32.3%, Austria - by 24.0%, France - by 15.7%, Romania - by 10.5%, Turkey - by 9.6%, Greece - by 5.3%, and etc. At the same time decreased the number of the trips of Bulgarians to: USA - by 12.1%, Hungary - by 7.5%, Israel - by 6.4%, and etc. The trips with other purposes (as a guest, education and visit the cultural and sport events) in October 2016 composed the greatest share of the total number of trips of Bulgarian residents abroad - 48.7%, followed by the trips with professional purpose - 26.7%, and with holiday and recreation purpose - 24.6%.

In comparison with October 2015 an increase was registered in the trips with other purposes - by 35.3%, and with professional purpose - by 20.8%, while the trips with holiday and recreation purpose decreased by 1.3%. In October 2016, the trips with other purposes formed 68.4% of all trips to Turkey. The trips with professional purpose to the Netherlands were 50.0%, as these to Italy and Spain with holiday and recreation purpose were 50.7% and 41.1% respectively of all trips of Bulgarian residents to these countries. In October 2016, the number of arrivals of visitors from abroad to Bulgaria was 678.6 thousand or by 17.6% more in comparison with October 2015. An increase was registered in the trips by all observed purposes: with professional purpose - by 22.9%, with holiday and recreation purpose - by 18.7%, and with other purposes - by 14.9%. The share of visits of EU citizens was 57.1% of the total number of foreigners' visits to Bulgaria in October 2016 or by 25.0% more in comparison with the same month of the previous year. An increase was registered in the visits of citizens from almost all observed countries: Poland - by 55.4%, Romania - by 29.2%,

Germany - by 26.1%, the United Kingdom - by 24.2%, Belgium - by 20.6%, France - by 20.2%, Greece - by 18.5%, Czech Republic - by 17.6%, Austria - by 14.1%, Italy - by 10.2%, and etc. The visits of foreigners in the group 'Other European countries'¹ increased by 6.9%, as the highest growth was observed in the visits of citizens of Ukraine - by 15.0%. In October 2016, the predominant share of the visits with other purposes (including as guest and passing transit) was 46.8%, followed by trips with holiday and recreation purpose - 35.7%, and with professional purpose - 17.5%. The visits with holiday and recreation purpose formed 89.7% of the arrivals from Israel and 86.3% - from the Former Yugoslav Republic of Macedonia. The visits with professional purpose were 58.6% of the arrivals from Poland and 55.5% - from Italy, as with other purposes were 76.4% of all arrivals from Romania and 59.3% - from Greece.

Total Visitors/Departures



6. Business climate

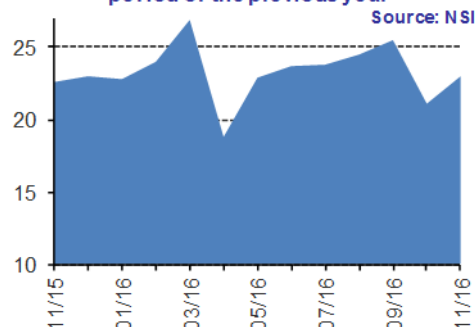
In November 2016 the total business climate indicator increased by 0.6 percentage points in comparison with October, which is due to the improved business climate in industry and retail trade

Industry. The composite indicator 'business climate in industry' increases by 1.9 percentage points compared to the previous month as a result of the improved industrial entrepreneurs' assessments and expectations about the business situation of the enterprises. The present production activity is assessed as a decreased, while the expectations about the activity over the next 3 months are more favourable. The factor, limiting with the most extent the business development remains the uncertain economic environment, as in the last month strengthen of its negative impact is observed. Concerning the selling prices in industry the prevailing managers' expectations are them to remain unchanged over the next 3 months.

Construction. In November the composite indicator 'business climate in construction' decreases by 4.0 percentage points, which is due to the more unfavourable construction entrepreneurs' assessments and expectations about the business situation of the enterprises. In their opinion the inflow of new orders over the last month decreased, as well their expectation about construction activity over the next 3 months are pessimistic. The most serious problem limiting the activity of the enterprises continues to be the uncertain economic environment, followed by the competition in the branch. As regards the selling prices in the construction the managers foresee preservation their level over the next 3 months.

Retail trade. The composite indicator 'business climate in retail trade' increases by 3.2 percentage points in comparison with October as a result of the more optimistic retailers' assessments and expectations about the business situation of enterprises. However, their opinion about the volume of sales over the last 3 months, as well their expectations over the next 3 months are more unfavorable. The uncertain economic environment, competition in the branch and insufficient demand continue to be the most serious obstacles for the business development.

Business climate in industry for the last 12 months, compare to the same period of the previous year



Concerning the selling prices, the retailers' expectations are them to remain unchanged over the next 3 months.

Service sector. In November the composite indicator 'business climate in service sector' remains approximately to its level from the previous month. The managers' assessments and expectations about the business situation of enterprises are shifting to the more moderate opinions. At the same time their forecasts about the demand for services over the next 3 months are improved. The uncertain economic environment and the competition in the branch remain the main factors limiting the activity in the sector. In the last month the inquiry registers strengthen of the negative impact of the factor 'insufficient demand.' As regards the selling prices in the service sector the majority of the managers foresee preservation their level over the next 3 months.

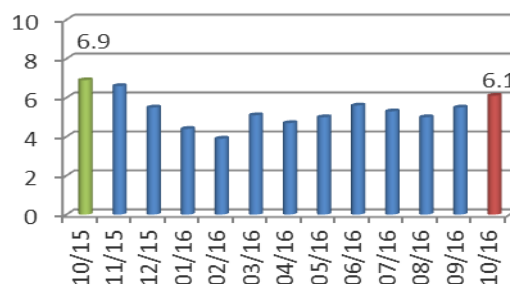
7. Producer price index

Total Producer Price Index in Industry in October 2016 increased by 0.6% m/m and declined by 0.7% y/y, respectively

Total Producer Price Index in Industry in October 2016 increased by 0.6% m/m. Higher prices were registered in the manufacturing by 0.8% and in the mining and quarrying industry by 0.1%, while in the electricity, gas, steam and air conditioning supply the prices did not change. In the manufacturing, more significant prices increases were seen in the manufacture of beverages by 0.6%, in the manufacture of wearing apparel and in the manufacture of other transport equipment by 0.5%, while prices decreases were reported in the manufacture of other non-metallic mineral products and in the repair and installation of machinery and equipment by 0.1%. Total Producer Price Index in October 2016 decreased by 0.7% y/y. The prices fell in the electricity, gas, steam and air conditioning supply by 4.0%, while the pieces rose in the mining and quarrying industry by 1.2% and in the manufacturing by 0.3%. In the manufacturing more significant prices increases were seen in the manufacture of leather and related products by 2.9%, in the repair and installation of machinery and equipment by 2.5% and in the manufacture of basic pharmaceutical products and pharmaceutical preparations by 1.8%, while the producer prices fell in the manufacture of paper and paper products and in the manufacture of chemicals and chemical products by 2.5%.

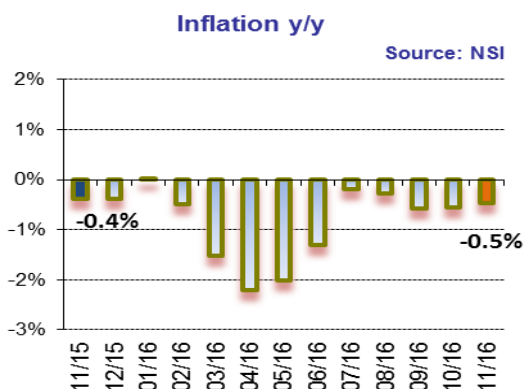
Total Producer Price Index on Domestic Market

Source: NSI



8. CPI Inflation

In November 2016 NSI reported 0% m/m inflation and minus 0.5% y/y deflation



According to NSI data the **consumer price index** in November 2016 compared to October 2016 was 100.0%, i.e. the monthly inflation was 0.0%. The inflation rate since the beginning of the year has been -0.5% and the annual inflation in November 2016 was -0.5%. The annual average inflation was -0.8%. The harmonized index of consumer prices in November 2016 compared to October 2016 was 99.9%, i.e. the monthly inflation was -0.1%. The inflation rate since the beginning of the year has been -1.2% and the annual inflation in November 2016 compared to November 2015 was -0.8%. The annual average inflation was -1.4%. In its latest revised forecast MF envisages 2016 to end with deflation of 1.2% based on trend of the international oil prices, the prices of energy commodities and a decline in prices for telecommunications.

9. Unemployment

In October 2016 unemployment in Bulgaria decreased to 7.4% compared to 9.8% in the euro area

According to Eurostat data in October 2016 continued the downward trend in unemployment in Bulgaria and across the EU. Statistics reported that jobless in Bulgaria were 243 thousand people, which is 7.4% of the working population. In October 2015 the unemployment rate in Bulgaria was 8.1% of the working population. Compared to the previous month the number of unemployed decreased by 0.1 percentage points. In Bulgaria 14.5% of young people are unemployed. The most significant is youth unemployment in Greece (45.5% in August 2016), Spain (43.6%) and Italy (36.4%). In October 2016 within the EU 18.4% of young people aged under 25 are unemployed. The unemployment rate in the euro area decreased to 9.8% in October 2016 compared to the revised 9.9% in September. This is the lowest level since July 2009 and below market expectations of 10%. Unemployment fell from its record high of 12.1% in April 2013, but remained above the record low of 7.2% from March 2008.

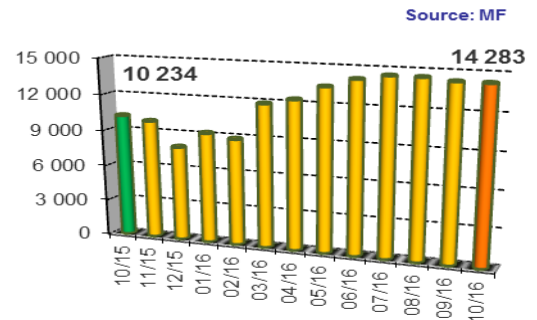
III. FISCAL SECTOR

1. Government budget

In October 2016 the Consolidated Fiscal Programme balance is positive, amounting to BGN 3,434.9 million or 3.9% of forecast GDP

According to MF data the Consolidated Fiscal Programme (CFP) balance on a cash basis as of end-October 2016 is positive, amounting to BGN 3,434.9 million (3.9% of forecast GDP) and is formed by a surplus under the national budget of BGN 1,965.2 million and a surplus under EU funds of BGN 1,469.7 million. For comparison, a CFP surplus of BGN 63.9 million (0.1% of GDP) was reported for the same period of 2015. The factors for the improvement in the budget stance continue to be the higher revenues and the lower rate of utilization of capital expenditures. In addition to the good national budget revenue parameters, the EU fund accounts also influence the current CFP balance, with the excess of revenues over expenditures there accounting for 1.7 % of the forecast GDP. The CFP revenues and grants in October 2016 stand at BGN 28,289.5 million, or 85.7% of the annual estimates. Compared to the ten months of 2015, revenues and grants have grown by BGN 1,755.0 million (6.6%). The growth as compared to the previous year is due to the higher tax and non-tax revenues, which have risen by BGN 2,067.2 million, while grants (funds reimbursed by the European Commission) are lower. However, it should be noted that the performance of grants' annual estimates as of October is high (97.3%) and on a yearly basis proceeds from grants are expected to exceed the plan. Tax proceeds, including revenues from social security and health insurance contributions, total BGN 22,308.6 million, which is 85.8% of the annual plans. Compared to October 2015 tax revenues have risen by 8.3% (BGN 1,708.0 million) in nominal terms. Revenues from direct taxes amount to BGN 3,975.1 million, or 84.8% of the annual estimates, growing, as compared to October 2015, by BGN 357.1 million (9.9%). Indirect tax revenues amount to BGN 11,471.3 million, or 86.5% of the 2016 Annual Budget Law plans. Compared to end-October 2015, the proceeds in this group have grown by BGN 915.8 million (8.7%). The VAT proceeds in the ten months of the year amount to BGN 7,276.0 million, or 86.5% of the planned for the year. Compared to the previous year, VAT revenues have risen by BGN 613.4 million. The amount of the non-refunded VAT as of end-October is BGN 109.5 million. There is also a growth in the excise duty revenues which amount to BGN 4,023.2 million (86.1% of the annual plans), while as against October 2015 they have grown by 7.5%, or BGN 281.3 million. Customs duty proceeds amount to BGN 144.6 million, or 96.4% of the planned for the year. Proceeds from other taxes, including property taxes and other taxes under the Corporate Income Tax Law, amount to BGN 859.2 million, or 94.3% of the annual estimates. Revenues from social security and health insurance contributions are BGN 6,003.0 million, or 84.1% of those planned for the year. Compared to the previous year these revenues have risen by 5.6% (BGN 320.4 million) in nominal terms. Non-tax revenues amount to BGN 3,504.8 million, or 78.2% of the annual plans, which is by BGN 359.2 million (11.4%) more compared to end-October 2015. As of 31.10.2016 grants amount to BGN 2,476.2 million or 97.3 % of the annual plan. The expenditures under the Consolidated Fiscal Programme, including the contribution of the Republic of Bulgaria to the EU budget, amount to BGN 24,854.6 million as of end-October 2016, which is 71.4% of the annual plans. For comparison, the expenditures under the CFP as of end-October 2015 amounted to BGN 26,470.6 million. The lower absorption of expenditures in the past months of the year is mostly linked to a delay in some capital expenditures (mostly EU fund accounts), which is due, on the one hand, to the low absorption at the initial stage of project implementation during the new programming period 2014-2020, and, on the other hand, to the shifting of the majority of capital expenditures to the end of the year due to some technological factors. Non-interest expenditures amount to BGN 23,493.6 million, which is 72.0% of the annual plans. Non-interest current expenditures as of end-October 2016 amount to BGN 21,729.0 million, or 82.0% of the annual estimates, capital expenditures (including net increment of state reserve) amount to BGN 1,764.6 million, or 28.9% of the 2016 Annual Budget Law plans. Interest payments amount to BGN 673.2 million, or 83.9% of those planned for 2016. The part of Bulgaria's contribution to the EU budget, as paid from the central budget as of October 2016, amounts to BGN 687.7 million, which complies with the existing legislation in the area of EU own resources, Council Decision 2007/436/EC, Euratom on the system of the Communities' own resources and Council Regulation No 1150/2000, as amended by Regulation No 2018/2004, Regulation No 105/2009 and Regulation No 1377/2014, implementing Decision 2007/436/EC. Fiscal reserve as of 31.10.2016 is BGN 14.3 billion, including BGN 12.7 billion deposits in BNB and banks and BGN 1.6 billion receivables under the EU Funds for certified expenditure, advance payments, etc.

Fiscal reserve (BGN mn)

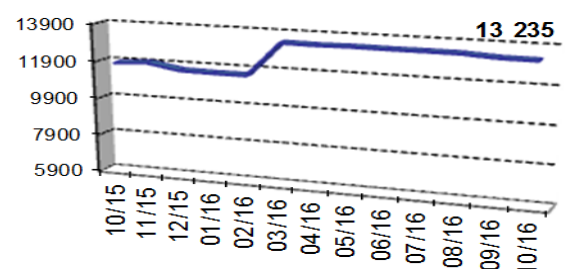


2. Government debt

In October 2016 Bulgaria's "Central government" debt amounted to EUR 13 235.8 million and occupies 29.1% of GDP

According to MF data in October 2016 Bulgaria's "Central government" debt amounted to EUR 13 235.8 millions. Domestic liabilities amounted to EUR 3 416.9 million and external - of EUR 9 819.0 million. The share of "Central government" debt to GDP amounted to 29.1%, the share of domestic debt is 7.5%, while external debt - 21.6%. Within the debt structure the "Central government" debt at the end of the period domestic liabilities account for 25.8% and foreign - from 74.2%. The "Central government" guaranteed debt reached EUR 189.7 million, of which EUR 33.5 million are internal guarantees and the ratio of government debt / GDP amounted to 0.4%.

Central Government Debt, EUR mn



Source: MF

Data provider: CEC Data Manager

IV. MONETARY SECTOR

In November 2016 Bulgaria's broad money (monetary aggregate M3) amounted at BGN 78.641 billion and increased by 8.1% y/y. Domestic credit amounted at BGN 49.848 billion and declined by 3.7% y/y

According BNB data in November 2016 broad money (monetary aggregate M3) increased by 8.1% y/y and amounted at BGN 78.641 billion (89.1% of GDP). Its most liquid component – monetary aggregate M1 – increased by 13.5% y/y in November 2016. At the end of November 2016, the attracted sources from clients were BGN 69.197 billion (78.4% of GDP), increasing annually by 7.7%. Deposits of Non-financial corporations were BGN 18.889 billion (21.4% of GDP) at the end of November 2016. Compared to the same month of the previous year they increased by 7.9%. Deposits of financial corporations increased by 22.1% y/y in November 2016. At the end of the month they reached BGN 3.953 billion (4.5% of GDP). Deposits of Households and NPISHs were BGN 45.144 billion (51.1% of GDP) at the end of November 2016, increasing by 6.8% compared to the same month of 2015. In November 2016 domestic credit was BGN 49.848 billion, presented 56.5% of full and decreased by 3.7% y/y. In November 2016 claims on the non-government sector increased by 1.3% y/y reaching BGN 52.234 billion. At the end of November 2016, claims on loans to the non-government sector amounted to BGN 51.480 billion (58.3% of GDP). They increased annually by 0.5% in November 2016. 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 242.1 million. On an annual basis, loans sold by Other MFIs were BGN 276.9 million (of which BGN 39 million in November 2016), while the amount of repurchased loans was BGN 34.8 million (of which BGN 2.6 million in November 2016). In November 2016, loans to Non-financial corporations decreased by 0.2% y/y and at the end of the month amounted to BGN 30.994 billion (35.1% of GDP). Loans to Households and NPISHs were BGN 18.605 billion (21.1% of GDP) at the end of November 2016. They increased by 1.6% compared to the same month of 2015. At the end of November 2016 loans for house purchases were BGN 8.809 billion and increased by 1.6% y/y. Consumer loans amounted to BGN 7.342 billion and compared to November 2015 they declined by 0.2%. On an annual basis other loans increased by 7.2% and reached BGN 2.454 billion. Loans granted to financial corporations were BGN 1.500 billion at the end of November 2016 (1.7% of GDP). Compared to November 2015, they increased by 27.9%. According to BNB data in November 2016 the share of bad and restructured loans decreased by 0.2 pps to 16.4%. The share of bad and restructured loans to non-financial corporations remained at a level of 17.5% compared to the previous month, but decreased by 1.3 pps compared to the same period of the previous year. The share of bad and restructured loans to households decreased by 0.4 pps compared to October 2016 and by 2.4 pps compared to the same period of the previous year.

V. CAPITAL MARKET

In November 2016 the BSE –Sofia benchmark SOFIX rose to 563.24 points

According to BSE-Sofia data in November 2016 the stock measurers of capital market in Bulgaria continue to rise, as the only exception is the property BGREIT, which recorded a loss of 0.17%, descending to the level of 103.97 points. The benchmark SOFIX added over half a percent to 563.24 points. BGBX40 and BGTR30 added respectively - 0.71% and 0.58%. Continued the active transfer of shares of Chimimport AD. Traded nearly 104 thousand. Shares at an average price of 1.59 lev per share. 59,746 shares passed on the position of Central Cooperative Bank AD. Strong investor interest has to Grain Foods Bulgaria AD, Sirma Group Holding and Sopharma. On segment for trade with securities of companies with special investment purpose went securities of six companies - Aktiv Properties, Real Estate Fund Bulgaria, Advance Terrafund, FairPlay Properties, Sopharma Properties Ai Expat Beta. There is small interest in compensatory records - only 6882 shares. Actively running trade with the shares of the only exchange-traded fund in the country BTF Expat Bulgaria SOFIX UCITS ETF - 30,197 shares at an average price of 1059 lev per share.

Bulgarian Stock Exchange Indexes on Monthly Basis				
Date	SOFIX	BGBX40	BGREIT	BGTR30
10.2015	446.9	89.9	95.6	370.0
11.2015	435.6	88.0	94.9	363.6
12.2015	460.9	92.8	97.0	383.8
01.2016	448.4	90.7	98.3	371.4
02.2016	447.4	89.9	100.5	373.4
03.2016	446.4	89.4	100.0	373.0
04.2016	442.6	89.1	100.3	372.0
05.2016	441.3	87.8	101.4	368.7
06.2016	455.6	89.2	102.2	377.8
07.2016	458.2	89.6	100.9	381.8
08.2016	464.7	90.0	102.5	384.9
09.2016	504.6	96.1	103.3	404.6
10.2016	531.8	100.9	104.6	420.1
11.2016	562.8	120.7	103.5	439.1

Source: Bulgarian Stock Exchange-Sofia

VI. BANKING SECTOR

As of 31 October 2016 the banking system's profit amounted to BGN 1187 million, i.e. by BGN 280 million higher than the one realized for the same period last year

In October 2016 the banking system in Bulgariq reported growth of deposits, balance sheet capital and profit. The liquidity position remained strong and the liquid assets as of end-of-month increased by BGN 223 million to BGN 28.9 billion. As a result, the liquid assets ratio, calculated under BNB Ordinance No. 11, remained high – 37.32%. As of 30 September 2016, the capital adequacy ratios of the banking system increased slightly compared to those reported at the end of the second quarter of the year. As of end-September, the total capital adequacy, Tier 1 capital and Common Equity Tier 1 capital ratios were 22.79%, 21.48% and 21.00%, respectively. As of 31 October 2016 the banking system's profit amounted to BGN 1187 million, i.e. by BGN 280 million higher than the one realized for the same period last year. The impairment costs on loans and receivables accumulated from the beginning of 2016 amounted to BGN 613 million (against BGN 653 million as of end-October 2015). During the month, assets increased by 0.8% to BGN 90.6 billion. As a result of the growth of other demand deposits, the item cash, cash balances at central banks and other demand deposits increased by 2.9% (BGN 484 million), and its share in the total assets reached 19.3%. The balance sheet amount of loans and advances increased, while the securities portfolios slightly decreased (by 0.1%, BGN 16 million). In the reporting month, the shares of loans and advances and of securities portfolios in the total assets of the banking system did not change significantly, staying at 61.7% and 14.1%, respectively, as of end-October. In October gross loans and advances increased by 1.1% (BGN 827 million). Receivables from credit institutions increased by BGN 577 million (5.9%). The gross loan portfolio of the banking sector (excluding loans and advances to sectors 'central banks' and 'credit institutions') reported a monthly growth rate of 0.9% (BGN 486 million). The loans to non-financial corporations increased mostly (by BGN 371 million, 1.1%). Growth is also evidenced in the lending to households (by BGN 66 million, 0.4%) and to other financial corporations (by BGN 52 million, 2.6%). Loans to the 'general governments' sector decreased (by BGN 2.7 million, 0.5%). The end-October total deposits in the banking system amounted to BGN 76.8 billion. The most significant monthly growth in absolute value was observed in the resources attracted from non-financial corporations – by BGN 450 million. An increase is also reported in the deposits of households (by BGN 285 million, 0.6%) and funds from credit institutions (by BGN 250 million, 6.1%). The deposits of other financial corporations decreased (by BGN 303 million, 7.1%) and also those of the general governments sector (by BGN 1.8 million, 0.1%).

BNB has set the countercyclical capital buffer rate at 0% for Q1 2017

BNB Governing Council has set under Article 5, paragraphs 3 and 4 of BNB Ordinance No.8 on Banks' Capital Buffers, the countercyclical capital buffer rate applicable to credit risk exposures in the Republic of Bulgaria at 0% for the first quarter of 2017 as well as the relevant credit-to-GDP ratio and its deviation from its long-term trend; the reference indicator supporting the judgment in setting the countercyclical buffer rate; and the justification for the countercyclical capital buffer rate.

Level of the countercyclical capital buffer rate in 2017 Q1	Credit-to-GDP ratio as of 2016 Q3	Deviation of the credit-to-GDP ratio from its long-term trend as of 2016 Q3	Reference indicator, computed in accordance with Art. 5, paragraph 1 of BNB Ordinance No. 8
0%	107.7%	-47.4 pp	0%

At the current stage, there is no build-up of cyclical systemic risk in the economy given the negative credit-to-GDP gap.

BNB has adopted new grounds for payment of guaranteed deposits

At the proposal of the Fund for Guaranteeing Bank Deposits (DIF) BNB Governing Council adopted a new Regulation on terms and conditions for payment of insured deposit amounts. It is adding new grounds for the payment of insured deposits except the withdrawal of the license of the financial institution. The new normative act aligns the procedure under which entered into force on 14 August 2015 Law on Deposit Insurance (LBDG). It Bulgaria adopted a European directive which obliges authorities to begin payment in a short time after the closing of the financial institution. After the occurrence of the case to the CCB country was even threatened by a penalty procedure because of the payment of deposits began six months after the closure of the bank while waiting for the withdrawal of its license. In accordance with the directive and the revised in 2015 law repayments on guaranteed deposits by the Deposit Insurance Fund shall begin no later than 7 working days from the date of occurrence of the reason for the payment of insured deposits. In addition to the previously existing ground - withdrawal of the license, add two new - decision of the Bulgarian National Bank to establish that deposits in a bank are unavailable or a judicial authority, which, for reasons directly related to the financial position of the bank is prevented submission of claims of depositors against bank. Ordinance regulates the terms and conditions for providing BDIF of the necessary information for the payment by the authorities of the bank; form and content of the information, determining the servicing bank or banks through which will make the payment; required by depositors documents in connection with the receipt of funds under their guaranteed deposits, terms and conditions for access to their funds.

METHODOLOGICAL NOTES

EXTERNAL SECTOR

CURRENT ACCOUNT

Starting from April 17th 2015, in accordance with the Statistical Data Release Calendar, BNB starts the regular dissemination of monthly balance of payments data, compiled in accordance with the Sixth Edition of the Balance of Payments and International Investment Position Manual. The implementation of the new methodological requirements of BPM6 by the EU countries was coordinated by the European System of Central Banks (ESCB) and the European Statistical System (ESS). With the implementation of the Sixth Edition of the Balance of Payments and International Investment Position Manual (IMF,2008) significant methodological changes in the reporting of trade in goods and trade in services were introduced. Based on their economic nature, certain items were reclassified from Goods (exports and imports) to Services (exports and imports), and vice versa. These methodological changes resulted in differences between the data on goods (exports and imports) compiled by the BNB for the balance of payments statistics, and the external trade statistics compiled by the NSI. Thus, the exports, imports and trade balance data compiled by the NSI do not equate to the exports, imports and trade balance data compiled by the BNB for the purposes of balance of payments statistics. According to external trade statistics, exports of goods amounted to EUR 3,483.1 mn in January – February 2015, growing by EUR 249.1 mn (7.7%) year-on-year (compared with EUR 3,234 mn in January – February 2014). Imports of goods amounted to EUR 3,856.9 mn in January – February 2015, growing by EUR 58.9 mn (1.6%) year-on-year (from EUR 3,797.9 mn in January – February 2014). The trade balance recorded a deficit of EUR 373.8 mn (0.9% of GDP) in the reporting period, dropping by EUR 190.2 mn year-on-year (from a deficit of EUR 564 mn, 1.3% of GDP in January – February 2014). Taking into consideration the analytical importance of the data on goods (exports and imports) in the external trade statistics, the BNB shall continue its practice of preparing a short text on the external trade dynamics, and maintaining the relevant data series. These materials are included in the Balance of Payments publication, and are published on the BNB website. More detailed information on these methodological changes is available in the material Compilation of the balance of payments in accordance with the methodology of the sixth edition of the Balance of Payments and International Investment Position Manual. As far as the direct investment data is concerned, the sixth edition of the Balance of Payments and International Investment Position Manual introduced principally different approach for their presentation – the Asset/Liability presentation. Taking into consideration the analytical importance of the directional principle presentation (based on the direction of the initial investment), the BNB shall continue disseminating the direct investment data according to it in the Annex Direct Investment of the Balance of Payments monthly publication as well as in the direct investment tables. In accordance with the directional principle presentation, foreign direct investment in Bulgaria amounted to EUR 53.9 mn compared with EUR 94.7 mn in February 2014. In January – February 2015 the foreign direct investment in Bulgaria inflow equated to EUR 128.2 mn compared with an inflow of EUR 137.7 mn in January – February 2014. Direct investment abroad recorded a net increase of EUR 9.4 mn in February 2015, compared with an increase of EUR 5.7 mn in February 2014. In January – February 2015 the direct investment abroad decreased by EUR 16.6 mn, against an increase of EUR 108.7 mn in the same period of 2014. More detailed information on the direct investment is available in the annex Direct Investment (January-February 2015) and in table 10. Direct Investment of the monthly Balance of Payments publication. The Current Account comprises the acquisition and provision of goods and services, income, and current transfers between the country and the rest of the world. The flows recorded on the credit side represent that part of the gross domestic product, which is provided to the rest of the world (exports of goods and services), as well as the provision of factors of production expressed by income receivable – compensation of employees and investment income (interest, dividends, etc.). Recorded are also offsets for non-refundable real and financial resources received (transfers). The flows on the debit side represent the gross product created in the rest of the world and acquired by the domestic economy (imports of goods and services), as well as the acquisition of factors of production expressed by income payable. Recorded are also offsets to non-refundable real and financial resources provided. The Goods component of the BOP Current Account covers movable goods for which changes of ownership between residents and non-residents occur. The data on imports and exports FOB (Free on board) is based on customs declarations, as the codes used in them are after the Harmonized System for Description and Coding of Commodities of the World Customs Organization, introduced in 1988 and supplemented in 1992. With the January 2006 data the Bulgarian National Bank and the National Statistics Institute jointly apply developed by them methodology for compilation of imports at FOB prices and receipts and payments regarding the freight transportation.² The methodology is based on the analysis of the CIF-FOB correlations for the imports of goods depending on the different imports delivery categories, as well as on the different mode of transportation and nationality of the carrier.

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

For the intra EU trade in goods:

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

For the trade with third countries (outside EU)

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

The Services component comprises transportation, travel, and other services. The Bulgarian National Bank derives the data on freight transportation from foreign trade data and the data on passenger transportation from travel data on the basis of estimates. With the January 2006 data the BNB introduced a new methodology for compilation of receipts and payments regarding the freight transportation. The freight transportation receipts are set up on the basis of estimated receipts of resident

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

Travel covers goods and services, including those related to health and education, acquired by travelers for business and personal purposes. By the end of 2006 the data on travel is based on data from the Ministry of Internal Affairs on the number of travelers crossing the borders and on estimates of per capita expenditures, the latter based on the methodology for estimation of the receipts and expenditures from travel services – “Methodology For Estimation of the Receipts and Expenditures from Travel in the Bulgarian Balance of Payments” (Bulgarian National Bank, Ministry of Trade and Tourism, 18 November 1999). As of the beginning of 2007 data for the number and the structure of foreigners who visited the country are based on information from the border police and NSI estimates. With the January 2010 data the BNB applies new methodology for estimation of the receipts and expenditures for travel and passenger transportation. The estimation model for the Travel item is based on the product of the number of travelers and the expenditure respective for a certain type of purpose of the travel (for more detailed information and questions, related to the methodologies applied, please contact us through the following e-mail: press_office@bnb.org). The estimates of the expenditures (receipts) by purpose of the travel are based on the data collected during the Border Survey among Traveling Bulgarians and Foreigners conducted by the BNB during the period July 2997 – August 2008. The new methodology was applied for the first time with the data for January 2010, with back data revisions for the months of 2007, 2008 and 2009.

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

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

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

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

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

CAPITAL ACCOUNT

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

FINANCIAL ACCOUNT

The Financial Account comprises all transactions (actual and imputed) in the external financial assets and liabilities of an

economy. The external assets and liabilities are primarily classified according to type of investment. Included in Financial Account are (i) direct investment, (ii) portfolio investment and (iii) other investment.

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

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

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

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

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

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

According to the balance of payments conventions trade credit arise from the direct extension of credit from a supplier to a buyer, i.e this is a credit extended by a trade partner without issue of a tradable security. Loans item includes received and paid principals on short- and long-term loans between residents and non-residents if no issue of a tradable security is involved with these loans. Transactions concerning disbursements and repayments of principals on IMF loans and disbursements on loans on BOP support are not included in the item Loans. They are recorded in the relative items of group E. Reserves and Related Items.

The Currency and Deposits component presents on the assets side the changes in the residents' currency deposits held abroad, and on the liabilities side – the changes in the liabilities of the resident banks to non-residents in domestic and foreign currency. Following the basic accounting principle and conventions set in the "Balance of Payments Manual" (IMF, 1993), when compiling that item the Bulgarian National Bank excludes any changes therein due to exchange rate changes.

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

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

RESERVES AND RELATED ITEMS

Reserve assets include those external assets that are readily available to and controlled by the central bank (government) for direct financing of balance of payments imbalances. The reserve assets comprise monetary gold, SDRs, reserve position in the Fund, foreign exchange assets (consisting of currency and deposits and securities), and other claims. The entries under this category pertain to transactions in the BNB's external holdings which are administered by the Issue Department. The data on reserve assets changes included in the BOP table exclude valuation changes, due to exchange rate and market price changes.

This group in the analytic presentation of the balance of payments includes also Use of Fund credit and the item Exceptional Financing. The exceptional financing comprises the BOP support as well as deferred/rescheduled payments and payments on arrears, resulting from balance of payments difficulties. In accordance with the methodology for accounting the exceptional financing transactions ("Balance of Payments Manual", Fifth Edition (IMF, 1993), p. 454), the principal repayments on the BOP support credits are included in the Financial Account – Other investment – Liabilities – Loans – General Government.

REAL SECTOR

GROSS DOMESTIC PRODUCT - PRODUCTION APPROACH

Gross domestic product by production approach, characterized the outcome of economic activity and is measured by value

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.

REAL ESTATE

MARKET PRICES OF HOMES

This statistical survey is designed for price index calculation of homes (flats) built up by standard plans and comparable by pre-defined parameters which remain unchangeable for the whole process of observation. The purpose is to obtain representative data on average prices and indices of flats in district centers and for the total country. The object of the survey is the price of flats' real sales in the district centers. Data give the possibility to compare the total price change of dwellings for the current quarter with the total price change for the previous one as well as for a longer period.

The statistical data about the newly built residential buildings and dwellings are prepared on the basis of quarterly reports of the municipal administrations. In the scope of survey are newly built residential buildings with approved or valid usage license according to Regulation № 2/31.07.2003 of the Ministry of Regional Development and Public Works.

Living floor space is the floor space of living-rooms, bedrooms, recesses for sleeping, dining-rooms, living-rooms, cabinets and libraries of scientists and drawing-rooms but does not include the space of kitchens.

Service floor space is the floor space of rooms and kitchens with less than 4 square meters floor space, vestibules with a portal or other screen, corridors, bathrooms, toilets, larders, hanging closets, other service rooms such as drying-rooms, laundries or balconies regardless their space. The space of kitchens with over 4 sq. m. floor space is shown separately.

The useful floor space of dwelling is a sum of the living-floor-space, the service floor space and the space of the kitchens.

The average useful floor space is a ratio between the useful floor space and the number of dwellings.

Analyst Certification: This analysis is prepared on the base of Press realizes as well as an official data provided by NSI, by Bulgarian Ministry of finance, Bulgarian National bank, Internet Securities Bulgaria, EMIS, Emerging Markets Direct. The following analyst hereby certify that the views expressed in this research report accurately reflect my personal views about the macroeconomic indicators in Bulgaria and no part of them was, is, or will be directly used as specific recommendations for buying securities or other issues. Hristo Dimitrov, Chief analyst, e-mail: dimitrov_hr@ubb.bg