

## BULGARIA: ECONOMIC AND MARKET ANALYSES

### Monthly report, February 2016

All data in the edition are the last available data as of 29 of February 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.

United Bulgarian bank  
Chief Economist Department  
5 Sveta Sofia str. , Sofia 1040  
CHIEF ANALYST  
HRISTO DIMITROV  
E-MAIL  
DIMITROV\_HR@UBB.BG

- At the end of December 2015 the balance of Bulgaria's current and capital account amounted at EUR 1960.1 million and presented 4.4% of GDP;
- In December 2015, Bulgaria's exports grew up by 5.2% y/y;
- In December 2015 Bulgaria's gross external debt amounted to EUR 34,143.6 million and declined by 13.2% y/y;
- In January 2016 BNB foreign reserves amounted at EUR 19.6 billion and increased by 25.1% on an annual basis;
- In Q4 2015 Bulgaria's GDP grew up by 0.8% m/m and by 3.1% y/y, respectively ;
- In January 2016 Bulgaria's CPI inflation was at 0% ;
- In January 2016 the total business climate indicator increased by 0.6 percentage points to 20%;
- Total Producer Price Index in Industry in December 2015 decreased by 1.0% m/m and by 3.6% y/y;
- In December 2015 Bulgaria' industrial production grew up by 0.5% m/m and by 1.6% y/y, respectively;
- In December 2015 Bulgaria's retail sales rose by 0.2% m/m and by 2.7% y/y, respectively;
- In December 2015 Bulgaria' industrial production grew up by 0.5% m/m and by 1.6% y/y, respectively;
- In December 2015 Bulgaria's retail sales rose by 0.2% m/m and by 2.7% y/y, respectively;
- In December 2015 Bulgaria's construction production grew up by 0.1% m/m and by 0.7% y/y, respectively;
- In January 2016 Bulgaria's unemployment rate was 10.2%;
- At the end of 2015 Bulgaria's budget deficit amounted to BGN 2 472.9 million or 2.9% of the projected GDP;
- At the end of December 2015 Bulgaria's state debt amounted to EUR 11.6 billion and occupies 26.4% of GDP;
- In January 2016 broad money (monetary aggregate M3) increased by 6.6% y/y and presented 83.3% of GDP. At the end of the month domestic credit was BGN 52.239 billion and decreased by 2.7% y/y, presenting 59.2% of GDP;
- In Q4 2015 Bulgaria's banking system recorded net profit of BGN 898 million and return on assets at 1.03%;
- In January 2016 SOFIX erasing to 448.4



Source: [www.geographicguide.net](http://www.geographicguide.net)

Bulgaria:	2013 (a)	2014 (a)	2015 (p)	2016 (p)	2017 (p)	2018 (p)
<b>Key Macroeconomic Indicators</b>						
<b>Gross Domestic Product</b>						
GDP (BGN million)	81 971	83 612	85 967	88 282	91 342	95 055
GDP (EUR million)	41 911	42 750	43 954	45 138	46 702	48 601
GDP (real growth, %)	1.3	1.5	2	2.1	2.5	2.7
Consumption	-0.7	2.2	0.5	1.3	2.2	2.9
Gross capital formation	0.3	3.4	1.3	0.7	1.9	2.8
Exports of goods and services	9.2	-0.1	8.1	4.6	4.8	5
Imports of goods and services	4.9	1.5	6.2	3.3	4.4	5.3
<b>Labour market and prices</b>						
Employment (%)	-0.4	0.4	0.3	0.4	0.6	0.6
Unemployment rate (%)	12.9	11.4	9.9	9.1	8.5	8
Compensation of one employee (%)	8.8	5.6	3	3.6	4.3	4.9
GDP Deflator (%)	-0.7	0.4	0.8	0.6	0.9	1.3
Average inflation (%)	0.4	-1.6	-0.9	0.5	1	1.9
<b>Balance of payments</b>						
Current account (% of GDP)	1.8	1.2	2.1	1.8	1.6	1.3
Trade balance (% of GDP)	-6.9	-6.4	-4.6	-3.9	-3.7	-3.8
FDI (% of GDP)	3.6	3.5	3.1	3.2	3.3	3.3
<b>Monetary sector</b>						
M3 (%)	8.9	1.1	5.2	4.9	5.9	6.8
Loans to companies (%)	0.5	-10.8	-0.3	1.1	2.7	4
Loans to households (%)	-0.2	-1.6	-0.1	0.6	1.8	2.7

Source: Ministry of finance

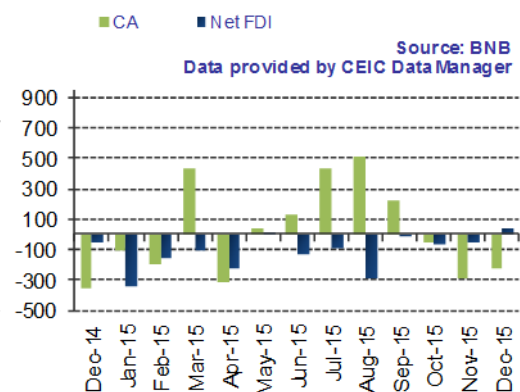
## I. EXTERNAL SECTOR

### 1. Balance of payments

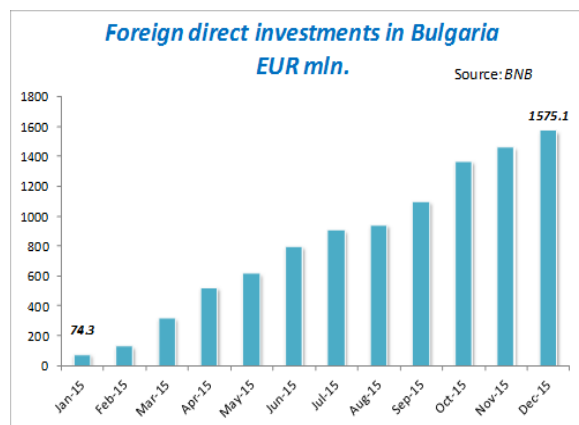
**At the end of December 2015 the balance of Bulgaria's current and capital account amounted at EUR 1960.1 million and presented 4.4% of GDP**

The current and capital account recorded a deficit of EUR 16.7 million in December 2015, compared with a deficit of EUR 203.8 million in December 2014. In January – December 2015 the current and capital account was positive amounting to EUR 1,960.1 million (4.4% of GDP), compared with a surplus of EUR 1,454.8 million (3.4% of GDP) in January – December 2014. The current account was negative amounting to EUR 227.1 million in December 2015, compared with a deficit of EUR 353.8 million in December 2014. In January – December 2015 the current account was positive and amounted to EUR 541.6 million (1.2% of GDP), compared with a surplus of EUR 495.2 million (1.2% of GDP) in January – December 2014. The balance on goods recorded a deficit of EUR 244.4 million in December 2015, compared with a deficit of EUR 369.6 million in December 2014. In January – December 2015 the balance on goods was negative amounting to EUR 1,885 million (4.2% of GDP), compared with a deficit of EUR 2,734.6 million (6.4% of GDP) in January – December 2014. Exports of goods amounted to EUR 1,830.8 million in December 2015, growing by EUR 162.6 million (9.7%) from December 2014 (EUR 1,668.2 million). In January – December 2015 exports of goods totaled EUR 22,264.8 million, increasing by EUR 1,248.3 million (5.9%) year-on-year (from EUR 21,016.5 million). In January – December 2014 exports fell by 0.9% year-on-year. Imports of goods amounted to EUR 2,075.2 million in December 2015, growing by EUR 37.3 million (1.8%) from December 2014 (EUR 2,037.8 million). In January – December 2015 imports of goods totaled EUR 24,149.8 million, rising by EUR 398.6 million (1.7%) from January – December 2014 (EUR 23,751.2 million). In January – December 2014 imports shrank by 1.4% year-on-year. Services recorded a positive balance of EUR 12.6 million in December 2015, compared with a deficit of EUR 8.9 million in December 2014. In January – December 2015 services recorded a surplus of EUR 2,550.2 million (5.7% of GDP) compared with a positive balance of EUR 2,530 million (5.9% of GDP) in the same period of 2014. 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 deficit of EUR 103.2 million in December 2015, compared with a negative balance of EUR 57.5 million in December 2014. In January – December 2015 the balance on primary income was negative and equated to EUR 1,712.7 million (3.8% of GDP), against a deficit of EUR 915.7 million (2.1% of GDP) in January – December 2014. The net secondary income (which reflects the redistribution of income) recorded a surplus of EUR 108 million, compared with a surplus of EUR 82.2 million in December 2014. In January – December 2015 the net secondary income was positive amounting to EUR 1,589 million (3.6% of GDP), compared with a positive balance of EUR 1,615.6 million (3.8% of GDP) in the same period of 2014. The capital account recorded a surplus of EUR 210.4 million, compared with a positive balance of EUR 150 million in December 2014. In January – December 2015 the capital account recorded a surplus of EUR 1,418.5 million (3.2% of GDP), compared with a positive balance of EUR 959.6 million (2.2% of GDP) in January – December 2014. The financial account recorded a net increase of EUR 78.1 million, compared with a negative balance of EUR 192 million in December 2014. In January – December 2015 the financial account recorded a net inflow of EUR 2,758.2 million (6.2% of GDP) compared with an inflow of EUR 183 million (0.4% of GDP) in January – December 2014. 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 32.7 million, compared with a negative balance of EUR 49 million in December 2014. In January – December 2015 the balance was negative and equated to EUR 1,510.2 million (3.4% of GDP), compared with a negative balance of EUR 836 million (2% of GDP) million in January – December 2014. Direct investment - assets grew by EUR 59.5 million compared with an increase of EUR 163.5 million in December 2014. In January – December 2015 direct investment - assets rose by EUR 62.3 million, compared with an increase of EUR 650.4 million in the same period of 2014. Direct investment - liabilities recorded a net increase of EUR 26.8 million in December 2015, compared with an increase of EUR 212.5 million in December 2014. In January – December 2015 the direct investment - liabilities grew by EUR 1,572.5 million, compared with an increase of EUR 1,486.3 million in the same period of 2014. The balance on portfolio investment was positive amounting to EUR 265.7 million, compared with a positive balance of EUR 62.3 million in December 2014. In January – December 2015 the balance was negative and equated to EUR 961.4 million (2.2% of GDP), compared with a negative balance of EUR 1,212.2 million (2.8% of GDP) million in January – December 2014. Portfolio investment - assets grew by EUR 227.4 million, compared with an increase of EUR 58.9 million in December 2014. In January – December 2015 they dropped by EUR 396.1 million compared with an increase of EUR 329.5 million in January – December 2014. Portfolio investment - liabilities dropped by EUR 38.2 million compared with a decline of EUR 3.3 million in December 2014. In January – December 2015 portfolio investment - liabilities rose by EUR 565.3 million, compared with an increase of EUR

Balance of Payments (EUR mn.)



1,541.7 million in January – December 2014. The balance on other investment was positive amounting to EUR 121 million, compared with a negative balance of EUR 609.1 million in December 2014. In January – December 2015 the balance was



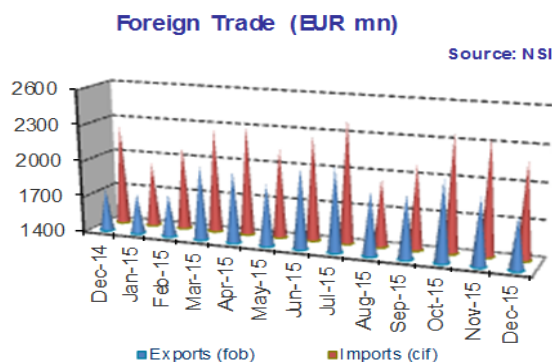
positive and equated to EUR 1,476.2 million (3.3% of GDP), compared with a positive balance of EUR 377.6 million (0.9% of GDP) million in January – December 2014. Other investment - assets dropped by EUR 102.1 million, compared with an increase of EUR 423.4 million in December 2014. In January – December 2015 they dropped by EUR 1,366.8 million compared with an increase of EUR 1,210.2 million in January – December 2014. Other investment - liabilities declined by EUR 223.2 million compared with an increase of EUR 1,032.6 million in December 2014. In January – December 2015 they dropped by EUR 2,843 million compared with an increase of EUR 832.6 million in January – December 2014. The BNB reserve assets shrank by EUR 318.5 million, compared with an increase of EUR 387.4 million in December 2014. In January – December 2015 they grew by EUR 3,729.7 million (8.4% of GDP), compared with an increase of EUR 1,810.4 million (4.2% of GDP) in the same period of 2014. The net errors and omissions were

positive amounting to EUR 94.8 million compared with a positive value of EUR 11.8 million in December 2014. According to preliminary data, the item was positive in January – December 2015 and totaled EUR 798.1 million (1.8% of GDP), against a negative value of EUR 1,271.8 million (3% of GDP) in the same period of 2014.

## 2. Foreign trade

### In December 2015, Bulgaria's exports grew up by 5.2% y/y

According to NSI preliminary data at the end of 2015 Bulgaria exported goods worth a total BGN 45.5 billion and exports grew up by 5.2% y/y. In December alone, the total exports amounted to BGN 3.574 billion and increased by 4.4% y/y. In 2015 Bulgaria imported goods worth a total BGN 51.7 billion (prices CIF), or 1.1% more than in 2014. In December 2015, total imports decreased by 2.1% compared to the same month of the previous year and amounted to BGN 4.292 billion. The total trade balance (exports FOB - import CIF) was negative in 2015 and is worth BGN 6 175.3 million, which is BGN 1 688.6 million less than the balance of 2014. Meanwhile, at FOB / FOB prices balance in the period January - November 2015 was also negative and amounted to BGN 2 683.4 million. In December 2015 the total foreign trade balance (exports FOB - import CIF) was negative, amounting to BGN 718.5 million. At FOB / FOB prices balance was negative and amounted to BGN 458.5 million.



## 3. External Debt

### In December 2015 Bulgaria's gross external debt amounted to EUR 34,143.6 million and declined by 13.2% y/y

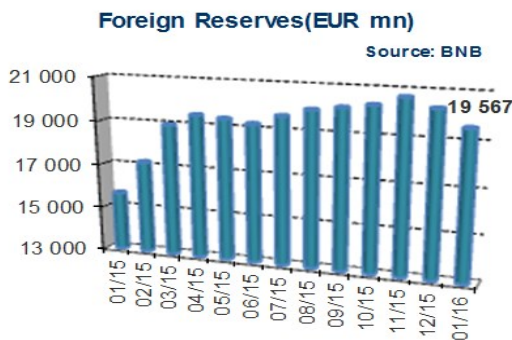
According BNB data in December 2015 Bulgaria's gross external debt amounted to EUR 34,143.6 million (76.5% of GDP), decreasing by EUR 5,212.8 million (13.2%) compared to the end-2014 (EUR 39,356.5 million, 92.1% of GDP). Long-term liabilities totaled EUR 26,239.2 million (76.8% of the total debt, 58.8% of GDP) at end-December 2015, down by EUR 3,148.2 million (10.7%) compared to the end-2014 (EUR 29,387.4 million, 74.7% of the total debt, 68.7% of GDP). Short-term liabilities equalled EUR 7,904.4 million (23.2% of the total debt, 17.7% of GDP), declining by EUR 2,064.6 million (20.7%) from end-2014 (EUR 9,969 million; 25.3% of the total debt, 23.3% of GDP). General Government's gross external debt totaled EUR 5,576.3 million (12.5% of GDP) in end-December 2015. It decreased by EUR 450.2 million (7.5%) compared to the end-2014 (EUR 6,026.5 million, 14.1% of GDP). Banks' external debt totaled EUR 4,126.4 million (9.2% of GDP). It declined by EUR 1,340.9 million (24.5%) compared to the end-2014 (EUR 5,467.2 million, 12.8% of GDP). Other Sectors' external debt equalled EUR 11,764 million (26.4% of GDP). It decreased by EUR 220.9 million (1.8%) compared to the end-2014 (EUR 11,984.9 million, 28% of GDP). The stock of intercompany lending amounted to EUR 12,676.9 million (28.4% of GDP) at end-December 2015, down by EUR 3,200.9 million (20.2%) from end-2014 (EUR 15,877.8 million, 37.1% of GDP). The credits and deposits received from non-residents equalled EUR 5,810.8 million (13% of GDP) in January – December 2015, compared with EUR 8,442 million (19.7% of GDP) in January – December 2014. General government received EUR 2,177.8 million (37.5%), Banks received EUR 1,006.7 million (17.3%), other sectors received EUR 1,073.4 million (18.5%), and intercompany lending totaled EUR 1,552.9 million (26.7%). Gross external debt service totaled EUR 8,192.2 million (18.4% of GDP) in January – December 2015, compared to EUR 5,987.8 million (14% of GDP) in the same period of 2014. Net external debt totalled EUR 6,911.8 million at end-December 2015. It dropped by EUR 6,838.9 million (49.7%) from end-2014 (EUR 13,750.7 million). The decrease was due to both the decline in gross external debt (by EUR 5,212.8 million, 13.2%) and the increase in gross external assets (by EUR 1,626.1 million, 6.4%). As a percentage of GDP, net external debt equated to 15.5%, down by 16.7 p.p. compared to end-2014 (32.2%).



## 4. Foreign reserves

**In January 2016 BNB foreign reserves amounted at EUR 19.6 billion and increased by 25.1% on an annual basis**

According to BNB data at the end of January 2016 Bulgaria's foreign reserves amounted to BGN 38.3 billion ( EUR 19.6 billion), increasing by 25.1% on an annual basis. Compared to December 2015 the foreign reserves of this country decreased by 3.5%. On a monthly basis, decreased the money in circulation by BGN 517 million (4.1%) amounting to BGN 12. 2 billion. Obligations to banks recorded the most significant decline within the liabilities side by BGN 1.5 billion, or 10.5% on a monthly basis as the total amount of this item at the end of January amounted to BGN 13.2 billion. As a result, on the asset side naturally a significant drop of 8.7% on a monthly basis is recorded under "Investments in securities" item. Bulgaria's international liquidity position expressed by the ratio of foreign reserves to short-term external debt maintained a high level of 257% at the end of November 2015, having declined slightly compared to the reported 260% at the end of October 2015, but is on significantly higher level achieved compared to 163.2% at the end of 2014 and 148.7% at the end of 2013.



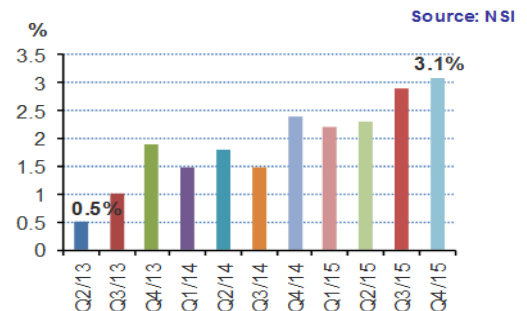
## II. REAL SECTOR

### 1. GDP Growth

**In Q4 2015 Bulgaria's GDP grew up by 0.8% m/m and by 3.1% y/y, respectively**

Gross Domestic Product (GDP) expanded with 3.1% in the fourth quarter of 2015 compared to the same quarter of the previous year and with 0.8% compared to the third quarter of 2015 according to the seasonally adjusted data. According to the flash GDP estimates for the fourth quarter of 2015, the GDP at current prices amounted to 23 977 million BGN. According to the seasonally adjusted data<sup>1</sup>, the GDP growth rate in the fourth quarter of 2015 is 0.8% compared to the previous quarter. Gross value added increased in the fourth quarter of 2015 by 0.5%. According to the flash estimates by final expenditure the GDP growth in the fourth quarter of 2015 is determined by increase in the gross fixed capital formation with 0.8% and in final consumption with 0.7%. The fourth quarter of 2015 GDP at seasonally adjusted data increased by 3.1% compared to the same quarter of the previous year. Gross value added increased by 1.3%. As regards the expenditure components of GDP, the final consumption registered a positive economic growth by 2.5%. Gross fixed capital formation increased by 1.4% compared to the same quarter of the previous year. Exports and imports of goods and services increased by 0.7% and 1.7% respectively.

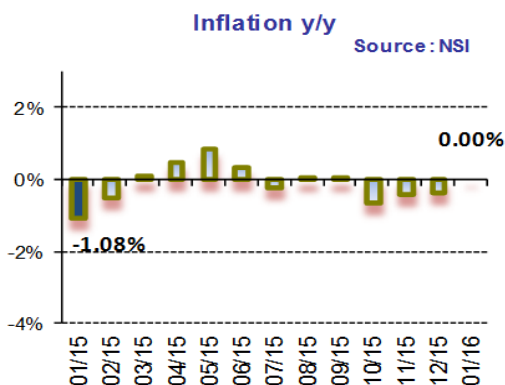
**GDP Growth to the same quarter previous year preliminary data**



### 2. Inflation

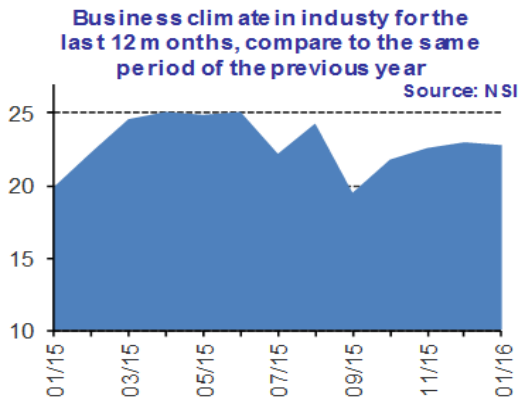
**In January 2016 Bulgaria's CPI inflation was at 0%**

According to the preliminary data of the NSI, the consumer price index in January 2016 compared to December 2015 was 100.0%, i.e. the monthly inflation was 0.0%. The annual inflation in January 2016 compared to January 2015 was 0.0%. The annual average inflation, measured by CPI, in the last 12 months (February 2015 - January 2016) compared to the previous 12 months (February 2014 - January 2015) was 0.0%. According to the preliminary data of the NSI, the harmonized index of consumer prices in January 2016 compared to December 2015 was 99.9%, i.e. the monthly inflation was -0.1%. The annual inflation in January 2016 compared to January 2015 was -0.3%. The annual average inflation, measured by HICP, in the last 12 months (February 2015 - January 2016) compared to the previous 12 months (February 2014 - January 2015) was -0.9%. According to the preliminary data of the NSI, the price index of a small basket in January 2016 compared to December 2015 was 100.5%.



### 3. Business climate

In January 2016 the total business climate indicator increased by 0.6 percentage points to 20%



In January 2016 the total business climate indicator increased by 0.6 percentage points to 20% compared to the previous month as a result of the improved business climate in construction and service sector.

**Industry.** The composite indicator 'business climate in industry' remains approximately to its December 2015 level. The present production activity is assessed as slight decrease and the industry entrepreneurs' expectations about the activity over the next 3 months are also more moderate. The average capacity utilization in January increases by 2.7 percentage points in comparison with October 2015 and it reaches 75.2% as the enterprises report also a surplus of capacity. The uncertain economic environment and insufficient domestic demand remain the main obstacles for the business development in the branch. Concerning the selling prices in industry the prevailing managers' expectations are them to remain unchanged over the next 3 months.

**Construction.** In January the composite indicator 'business climate in construction' increases by 3.0 percentage points which is due to the

improved construction entrepreneurs' expectations about the business situation of the enterprises over the next 6 months. Their forecasts as regards the construction activity over the next 3 months are also more favourable. The production is assured with contracts for a longer time period in comparison with 3 months earlier - 5.3 months against 4.4 in October 2015. At the same time the managers' expectations about new orders over the next 6 months are also more optimistic. The main factor limiting the activity in the branch continues to be connected with the uncertain economic environment as in the last month strengthen of its negative influence is observed. In the second and third place remain the factors 'competition in the branch' and 'financial problems'. As regards the selling prices in construction the majority of the managers foresee preservation of their level over the next 3 months.

**Retail trade.** The composite indicator 'business climate in retail trade' decreased by 3.4 percentage points compared to the previous month as a result of the more unfavourable retailers' assessments and expectations about the business situation of the enterprises. Their forecasts about the volume of sales and the orders placed with suppliers over the next 3 months are also more reserved. In January the inquiry registers strengthen the negative impact of the factors 'competition in the branch' and 'insufficient demand' which shift to the third place the difficulties of the enterprises connected to the uncertain economic environment. The prevailing retailers' expectations are the selling prices in the branch remain unchanged over the next 3 months.

**Service sector1.** In January the composite indicator 'business climate in service sector' increased by 3.9 percentage points which is due to the improved managers' assessments and expectations about the business situation of the enterprises. As regards the present and expected demand for services their opinions are also more favourable. The most serious difficulties for the activity in the service sector continue to be 'uncertain economic environment' and 'competition in the branch'. The managers' expectations about the selling prices are for preservation of their level over the next 3 months.

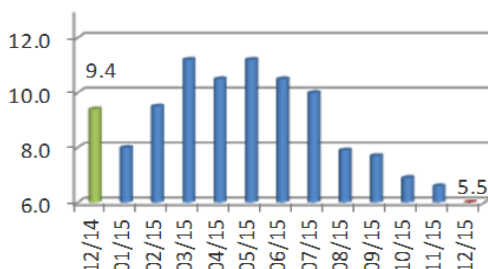
### 4. Producer price index in Industry

Total Producer Price Index in Industry in December 2015 decreased by 1.0% m/m and by 3.6% y/y

**Producer Price Index on Domestic Market** in December 2015 decreased by 0.5% compared to the previous month. The

**Total Producer Price Index on Domestic Market**

Source: NSI



domestic prices fell in the mining and quarrying industry by 3.2%, in the manufacturing by 0.7%, while in the electricity, gas, steam and air conditioning supply the pieces remained at the level of the previous month.

In the manufacturing<sup>3</sup>, compared to the previous month the prices went down in the manufacture of basic metals by 2.3%, in the manufacture of electrical equipment by 0.5% and in the manufacture of chemicals and chemical products by 0.4%, while a price increase was reported in the manufacture of tobacco products by 1.3% and in the manufacture of motor vehicles, trailers and semi-trailers by 0.9%.

**Producer Price Index on Domestic Market** in December 2015 decreased by 3.2% compared to the same month of 2014. The domestic prices fell in the mining and quarrying industry by 10.4%, in the manufacturing by 2.4% and in the electricity, gas, steam and air conditioning supply by 3.7%. In the manufacturing compared to December 2014 the prices fell in the manufacture of basic metals by 10.8%, in the repair and installation of machinery and equipment by 2.2%, in the manufacture of chemicals and chemical products by 1.8%. The prices increases were reported in the manufacture of tobacco products by 8.2%, in the manufacture of machinery and equipment by 3.3% and in the manufacture of computer, electronic and optical products

by 2.2%. **Total Producer Price Index in Industry** in December 2015 decreased by 1.0% compared to the previous month. Lower prices were registered in the manufacturing by 1.4% and in the electricity, gas, steam and air conditioning supply by 0.1%, while in the mining and quarrying industry the prices rose by 1.0%. In the manufacturing<sup>2</sup>, more significant prices decreases were seen in the manufacture of basic metals by 2.4% and in the manufacture of other transport equipment by 0.5%, while prices increases were reported in the manufacture of tobacco products by 0.8% and in the manufacture of other non-metallic mineral products by 0.3%. **Total Producer Price Index** in December 2015 decreased by 3.6% compared to the same month of 2014. In the manufacturing, the prices fell by 3.3% compared to December 2014. More significant prices decreases were seen in the manufacture of basic metals by 11.6%, in the repair and installation of machinery and equipment by 1.8% and in the manufacture

of electrical equipment by 1.0%, while the producer prices rose in the manufacture of tobacco products by 7.3%, in the manufacture of textiles by 6.6%, and in the manufacture of other transport equipment by 5.1%.

## 5. Industrial Production Index

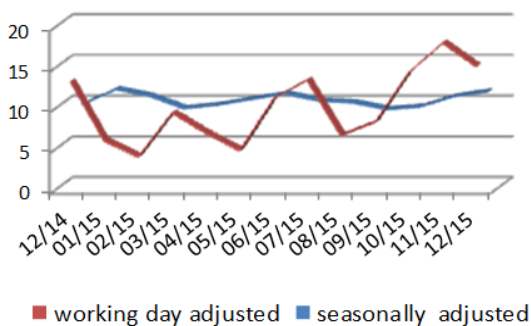
**In December 2015 Bulgaria' industrial production grew up by 0.5% m/m and by 1.6% y/y, respectively**

According to NSI preliminary data in December 2015 industrial production in Bulgaria grew by 0.5% m/m seasonally adjusted basis and by 1.6% based on annual working day adjusted basis. For comparison, in November 2015 the industrial production index rose by 0.8% on a monthly seasonally adjusted basis and by 1.7% on an annual working day adjusted basis, as the main impetus for the growth was the increase in the mining industry. In December 2015 a major stimulus for the growth of industrial production on a monthly basis has production and distribution of electricity, heat and gas - by 1.9%. Mining industry also again reported growth - by 0.7%. The increase in manufacturing was 0.1%, with significant growth there is in the manufacture of other non-metallic mineral products - 3.7%, leather processing; manufacture of wood and cork, except furniture - by 2.6%. Decline on a monthly basis was registered at: repair and installation of machinery and equipment - by 15.6%, printing and reproduction of recorded media - by 13.3%, manufacture of computer, electronic and optical products - 10, 9%, paper, paperboard and articles of paper and paperboard - by 10.4%. On an annual basis growth of industrial production, calculated from working day adjusted data, was recorded in manufacturing - by 4.5%. Decreases registered in the production

and distribution of electricity, heat and gas - by 4.2% and in mining and quarrying - by 1.4%. A significant increase in manufacturing compared to the previous year was observed in manufacture of fabricated metal products, except machinery and equipment - by 18.1%, manufacture of other non-metallic mineral products - by 16.2%, production of vehicles without cars - by 14.4%, electrical equipment - by 11.2%. A decrease was registered in the processing of hides and skins; manufacture of leather - 13.2%, production of chemical products - by 10.7%, manufacture of basic metals - by 10.6%, manufacture of tobacco products - by 10.5%.

Industrial production indexes, y/y,  
(2010=100)

Source: NSI

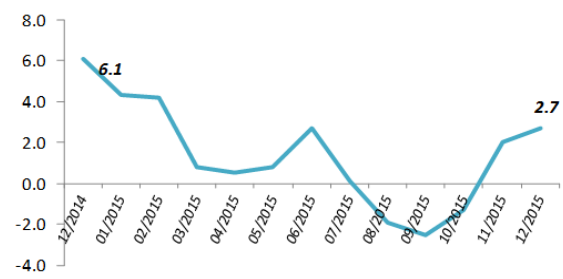


## 6. Retail trade

**In December 2015 Bulgaria's retail sales rose by 0.2% m/m and by 2.7% y/y, respectively**

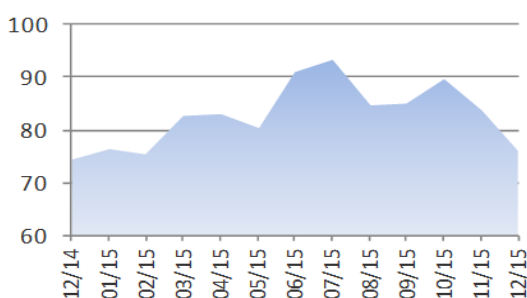
According to NSI preliminary data in December 2015 Bulgaria's retail sales rose by 0.2% m/m and by 2.7% y/y, respectively. The greatest increase in turnover in December compared to the previous month, the statistics reported in retailing automotive fuels and lubricants - by 5.2%, retail trade with pharmaceutical and medical goods - by 3.8%. Also in the retail trade of textiles, clothing, footwear and leather goods - by 3.2% and mail order houses or via Internet - by 2.7%. Decrease was registered in the retailing of home appliances, furniture and other household goods - by one percentage point with computer and communication equipment - by 0.5% and retail trade of food, beverages and tobacco - 0.2%. In December 2015 compared to the same month of 2014, turnover grew significantly in retailing automotive fuels and lubricants - by 16.2%, retail trade with pharmaceutical and medical goods - by 10.8% and miscellaneous goods - by 3.6%. Annual reduction was registered in retail trade with food, beverages and tobacco - by 2%, retail trade in household appliances, furniture and other household goods - by 1.2% and retail trade by orders by mail, phone or Internet - by 0.5%.

Change of turnover in  
Retail trade, except of motor vehicles and  
motorcycles, y-o-y %



Construction production index  
seasonally adjusted

Source: NSI  
Data provided by CEIC data manager



## 7. Construction

**In December 2015 Bulgaria's construction production grew up by 0.1% m/m and by 0.7% y/y, respectively**

According to the preliminary data, in December 2015 the index of production in section 'Construction' calculated on the base of seasonally adjusted data3 was 0.1% above the level of the previous month. In December 2015 working day adjusted data4 showed an increase by 0.7% in the construction production, compared to the same month of 2014. In December 2015 the construction production, calculated from the seasonally adjusted data, was above the level of the previous month. Index of production of building construction increased by 0.6%, while the production of civil engineering fell by 0.5%. On an annual basis in December 2015, the increase of

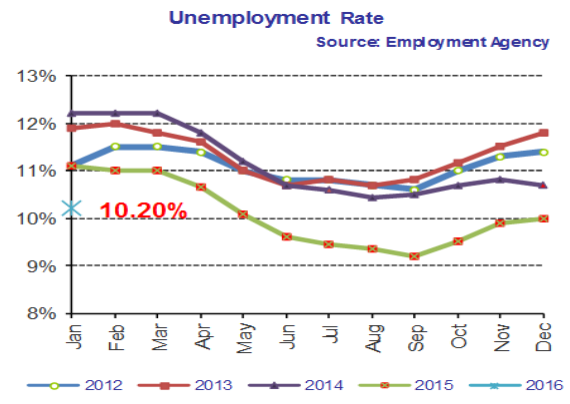


production in construction, calculated from working day adjusted data, was determined mainly from the positive rate in the civil engineering by 3.0%, but in the building construction was registered a decrease by 1.4%.

## 8. Unemployment

### In January 2016 Bulgaria's unemployment rate was 10.2%

The unemployment rate in January 2016 was 10.2%, an increase by 0.2 percentage points from the previous month. However, compared to January 2015, the unemployment rate declined by 0.9 percentage points. 334,570 unemployed people were registered in the labor offices. They increased by 5649 people compared to December 2015. The unemployed are significantly less - by 29 395 persons compared with January 2015. 18 845 unemployed people have started work in January 2016, which is 6306 more than the previous month. 3160 persons less submitted to work compared with January 2015. In January 2016, the labor demand in the primary market begins to gain momentum compared to the decreased demand in December 2015. In the labor offices during the month were announced 11,241 jobs in the real economy which are with 4567 places (68.4%) more than in December 2015.



## III. FISCAL SECTOR

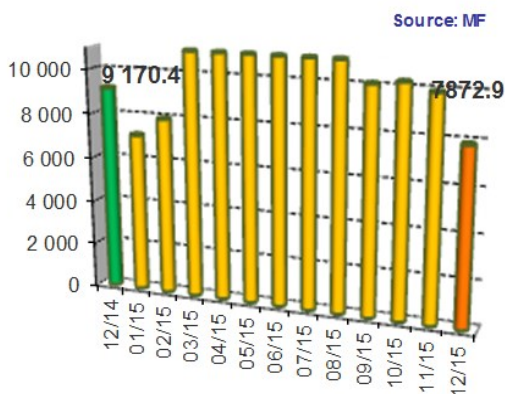
### 1. Government budget

#### At the end of 2015 Bulgaria's budget deficit amounted to BGN 2 472.9 million or 2.9% of the projected GDP

Based on the monthly data of first-level spending units, the revenues and grants under the 2015 Consolidated Fiscal Programme (CFP) amount to BGN 32,205.1 million, or 101.8% of the revised annual estimates. Compared to 2014, revenues and grants have risen by BGN 2,796.0 million, or by 9.5%. In structural terms, tax revenues have grown by BGN 1,828.6 million, or by 7.9%, non-tax revenues - by BGN 245.1 million (7.1%), while grant proceeds (mainly funds reimbursed by the European Commission) - by BGN 722.3 million (24.7%). As a share of GDP, Consolidated Fiscal Programme revenues and grants have grown from 35.2% in 2014 to 37.5% in 2015, which is an increase by 2.3 percentage points. The CFP tax proceeds (including revenues from social security contributions) total BGN 24,856.4 million, which is 100.5% of the revised estimates, while compared to the initial estimates of the 2015 State Budget of the Republic of Bulgaria Law, the execution is 103.5 per cent. All major taxes and social security contributions in the group of tax revenues register a growth in comparison to the previous year, with this growth being most substantial for the proceeds from indirect taxes, social security and health insurance contributions, and other taxes. Revenues from direct taxes amount to BGN 4,591.7 million, which is BGN 315.8 million, or 7.4%, more than the previous year as a result of the proceeds from corporate income taxes and personal income taxes. Revenues from indirect taxes amount to BGN 12,450.5 million, which is a growth by BGN 969.7 million, or by 8.4%, in comparison to the previous year. Revenues from VAT amount to BGN 7,740.0 million, rising by BGN 475.6 million, or by 6.5%, in comparison to 2014. The non-refunded tax credits as of 30.12.2015 amount to BGN 128.5 million. Revenues from excise duties amount to BGN 4,525.0 million, which is a growth by 12.0% in comparison to 2014. Revenues from customs duties stand at BGN 159.0 million, registering a growth by 3.8% as against 2014. Proceeds from other taxes, including property taxes and other taxes under the Corporate Income Tax Law, amount to BGN 867.7 million, rising by 5.5% in comparison to 2014. Revenues from social security and health insurance contributions amount to BGN 6,946.5 million, which is a growth by 7.7% in comparison to the previous year. Non-tax revenues amount to BGN 3,705.0 million, or 102.4% of the annual estimates. Proceeds from grants received domestically or from abroad, including EU grants, amount to BGN 3,643.7 million, which accounts for 110.2% of the estimates for the year. The Consolidate Fiscal Programme expenditures, including the contribution of the Republic of Bulgaria to the EU budget for 2015, amount to BGN 34,678.0 million, which accounts for 100.4% of the annual estimates. Compared to the previous year, the overall CFP expenditures have risen by BGN 2,196.0 million, or by 6.8%. In structural terms, the growth is most significant for capital expenditures which have risen by BGN 1.9 billion in nominal terms. This is mostly due to the higher investment costs under the operational programmes, the Rural Development Programme and the Fisheries Programme over the last year in order to finalize the payments under EU-funded projects in the 2007-2013 programming period. Non-interest expenditures amount to BGN 33,033.0 million, which accounts for 101.1% of the annual estimates. Non-interest current expenditures for 2015 amount to BGN 26,190.4 million, or 99.8% of the estimates for the year, capital expenditures (including net increment of state reserve) amount to BGN 6,842.7 million, or 106.6%, as compared to the 2015 State Budget of the Republic Bulgaria Law estimates. Interest payments amount to BGN 698.6 million, or 80.1% of those planned for 2015. The part of Bulgaria's contribution to the EU budget, as paid from the central budget in 2015, amounts to BGN 946.4 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. The general government deficit according to the ESA 2010 methodology

promises to be below 2.5% of the projected GDP in accordance with the preliminary forecasts at end-2015. In comparison to the 2015 target set in the Convergence Programme of the Republic of Bulgaria 2015-2018 for a deficit not exceeding 2.8% of GDP, a better-than-planned consolidation effort is expected for 2015, which substantiates the pursued consistent policy for a gradual deficit reduction in the medium term. This outcome is extremely important as the budget execution had to face some serious challenges mainly with reference to the successful closure of projects funded by the operational programmes, the

Fiscal reserve (BGN mn)



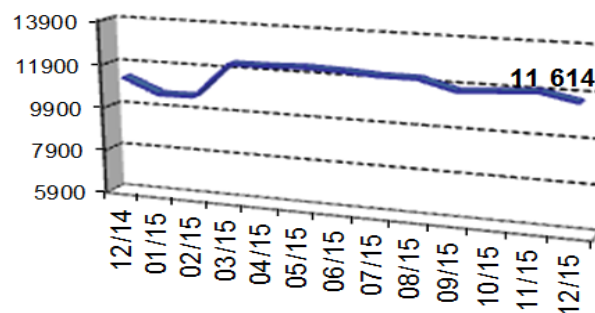
Rural Development Programme and the Fisheries Programme for the 2007-2013 programming programme. Thanks to the active measures taken by the revenue administrations to improve revenue collection, a nominal growth of CFP revenues of BGN 2.8 billion is reported in the past year as against 2014, with the bulk of it (BGN 2.1 billion) coming from tax and non-tax proceeds under the national budget. The improvement in the revenue parameters has allowed addressing of the expenditure pressures mostly with reference to the EU programmes and funds, including national co-financing and financial shortage for some of the budgetary systems, thus avoiding a deterioration of the budget balance as against the fiscal target. The Consolidated Fiscal Programme deficit on a cash basis amounts to BGN 2,472.9 million (2.9% of the projected GDP) for 2015. It is formed by a national budget deficit of BGN 2,195.1 million and a deficit of EU funds of BGN 277.8 million. For comparison, the CFP budget balance for 2014 was negative, amounting to BGN 3,072.9 million (3.7% of GDP), i.e. the budget stance, as a relative share of GDP, has improved by 0.8 percentage points. The fiscal reserve as of 31.12.2015 is BGN 7.9 billion, including BGN 6.8 billion of deposits in BNB and banks and BGN 1.1 billion of receivables under the EU Funds for certified expenditure, advance payments, etc.

## 2. Government debt

**At the end of December 2015 Bulgaria's state debt amounted to EUR 11.6 billion and occupies 26.4% of GDP**

According to the official register kept by the Ministry of Finance, the government debt as at end-December 2015 stands at EUR 11,613.5 million. Domestic debt amounts to EUR 3,723.9 million and external debt to EUR 7,889.7 million. At the end of the reporting period the government debt/gross domestic product (GDP)\* ratio is 26.4%, with the share of domestic government debt being 8.5% and of external government debt - 17.9% of GDP. In the government debt structure, domestic debt at the end of the period amounts to 32.1%, and external debt - to 67.9%. The debt currency structure as of end-December is as follows: 75.9% in EUR, 23.0% in BGN, 0.6% in USD and 0.4% in other currencies. Government debt payments in December amount to BGN 872.5 million. As regards the currency composition of payments, since the beginning of the year the greatest is the EUR share - 65.5%, followed by those in USD - 24.2%, in BGN - 10.1% and in ¥ - 0.3%. In December, the government guaranteed debt reaches EUR 299.7 million, of which EUR 29.7 million domestic government guarantees, with the government guaranteed debt/GDP ratio being 0.7%.

Government Debt: Domestic and Foreign, EUR mn



Source: MF  
Data provider CEC Data Manager

## IV MONETARY SECTOR

### 1. Money supply

**In January 2016 broad money (monetary aggregate M3) increased by 6.6% y/y and presented 83.3% of GDP. At the end of the month domestic credit was BGN 52.239 billion and decreased by 2.7% y/y, presenting 59.2% of GDP**

In January 2016 broad money (monetary aggregate M3) increased by 6.6% y/y compared to 8.8% y/y growth in December 2015. At the end of January 2016 M3 was BGN 73.556 billion (83.3 of GDP) compared to BGN 73.961 billion in December 2015. Its most liquid component – monetary aggregate M1 – increased by 11.4% y/y in January 2016 (15.6% annual growth in December 2015). At the end of January 2016, deposits of the non-government sector were BGN 63.535 billion increasing by 7.8% y/y (10.6% annual growth in December 2015). Deposits of Non-financial corporations were BGN 17.577 billion at the



end of January 2016. Compared to the same month of the previous year they increased by 12.6% (18.7% annual growth in December 2015). Deposits of financial corporations decreased by 6.1% y/y in January 2016 (3.8% annual decline in December 2015). At the end of the month they reached BGN 3.152 billion (3.5% of GDP). Deposits of Households and NPISHs were BGN 42.806 billion at the end of January 2016, increasing by 7.1% compared to the same month of 2015 (8.5% annual growth in December 2015). Net domestic assets were BGN 50.748 billion at the end of January 2016. They decreased by 2.4% compared to the same month of 2015 (2.3% y/y growth in December 2015). At the end of the month their basic component – domestic credit – was BGN 52.239 billion and decreased by 2.7% compared to January 2015 (2.2% annual increase in December 2015). In January 2016 claims on the non-government sector declined by 1.9% y/y (1.6% y/y decrease in December 2015) reaching BGN 50.221 billion. At the end of January 2016, claims on loans to the non-government sector amounted to BGN 49.212 billion (54.3% of GDP) compared to BGN 49.805 billion at the end of December 2015. They decreased annually by 1.4% in January 2016 (1.2% y/y decline in December 2015). 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 422.5 million. On an annual basis, loans sold by Other MFIs were BGN 447.3 million (of which BGN 2.4 million in January 2016), while the amount of repurchased loans was BGN 24.8 million (of which BGN 1.9 million in January 2016). In January 2016, loans to Non-financial corporations decreased by 2% y/y (1.7% annual decline in December 2015) and at the end of the month amounted to BGN 30.141 billion. Loans to Households and NPISHs were BGN 17.883 billion at the end of January 2016. They decreased by 1.8% compared to the same month of 2015 (1.3% y/y decline in December 2015). At the end of January 2016 loans for house purchases were BGN 8.634 billion and decreased by 0.9% y/y (1.2% annual decline in December 2015). Consumer loans amounted to BGN 7.097 billion and compared to January 2015 they declined by 3% (0.1% y/y decrease in December 2015). On an annual basis other loans increased by 1.5% (10% y/y decline in December 2015) and reached BGN 700.1 million. Loans granted to financial corporations were BGN 1.189 billion at the end of January 2016. Compared to January 2015, they increased by 24.9% (19.4% annual growth in December 2015). Net foreign assets amounted to BGN 41.421 billion at the end of the reporting month compared to BGN 40.677 billion at the end of December 2015. They increased by 17.9% y/y basis compared to 16.2% y/y growth in December 2015. At the end of January 2016 foreign assets increased by 6.9% y/y (5.7% y/y growth in December 2015), reaching BGN 50.847 billion. Foreign liabilities amounted to BGN 9.426 billion, marking a 24.1% y/y decline (23.5% y/y decrease in December 2015).

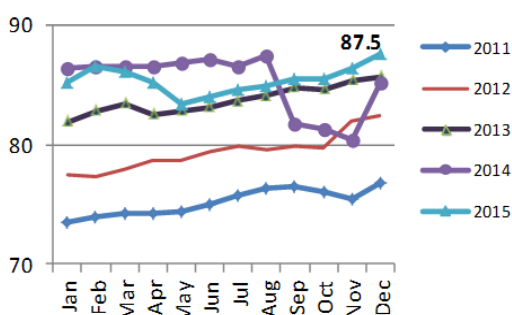
Bulgaria	31.01.2015	31.12.2015	31.01.2016	Change	Change	Change	Share in
Intermediation Indicators	BGN '000	BGN' '000	BGN' '000	m/m (%)	y/y (%)	yend (%)	GDP
<b>Domestic credit</b>	53 697 375	53 204 206	52 239 163	- 1.81	- 2.72	- 2.72	59.17
Central government Loans	1 351 691	479 929	472 404	- 1.57	- 65.05	- 65.05	0.54
Local government and SSFs Loans	208 854	230 541	220 930	- 4.17	5.78	5.78	0.25
Loans to non-financial corporations	30 741 097	30 473 749	30 140 537	- 1.09	- 1.95	- 1.95	34.14
Loans to financial corporations	951 529	1 190 777	1 188 732	- 0.17	24.93	24.93	1.35
Retail loans, incl.:	18 216 269	18 140 445	17 882 646	- 1.42	- 1.83	- 1.83	20.26
Mortgage loans	8 716 221	8 647 391	8 633 709	- 0.16	- 0.95	- 0.95	9.78
Consumer loans	7 313 576	7 268 902	7 096 988	- 2.37	- 2.96	- 2.96	8.04
Other loans Households and NPISHs	2 186 472	2 224 152	2 151 949	- 3.25	- 1.58	- 1.58	2.44
<b>TOTAL LOANS</b>	<b>51 469 440</b>	<b>50 515 441</b>	<b>49 905 249</b>	<b>- 1.21</b>	<b>- 3.04</b>	<b>- 3.04</b>	<b>56.53</b>
<b>Broad Money (Monetary aggregate M3)</b>	69 005 568	73 960 575	73 555 692	- 0.55	6.59	6.59	83.32
Local government and SSFs Deposits	1 578 375	863 957	900 059	4.18	- 42.98	- 42.98	1.02
Non-financial corporations Deposits	15 284 638	18 030 430	17 446 665	- 3.24	14.15	14.15	19.76
Financial corporations Deposits	3 147 681	3 144 608	3 392 632	7.89	7.78	7.78	3.84
Households and NPISHs Deposits	40 514 312	43 150 173	43 118 323	- 0.07	6.43	6.43	48.84
<b>ATTRACTED SOURCES FROM CLIENTS, TOTAL</b>	<b>60 525 006</b>	<b>65 189 168</b>	<b>64 857 679</b>	<b>- 0.51</b>	<b>7.16</b>	<b>7.16</b>	<b>73.47</b>
Bad and restructured loans	19.00	18.08	18.03	- 0.05	- 0.97	- 0.97	
GDP, BGN '000	82 164 000	82 406 000	88 282 000				
EUR/BGN	1.95583	1.95583	1.95583				

Source: BNB, MF, UBB Calculations

## 2. Banking system

In Q4 2015 Bulgaria's banking system recorded net profit of BGN 898 million and return on assets at 1.03%

Assets in the Banking system in bn BGN



Source: BNB

Data Provider CEIC Data Manager

During Q4 2015 the banking system reported an increase in the deposit base and assets and also a strengthened liquidity position and higher profit. Liquid assets reached BGN 27.7 billion, recording a quarterly growth of BGN 2.6 billion (10.4%). The growth was mainly due to the most significant component of liquid assets – cash and cash balances with the BNB, which increased by BGN 2.8 billion (20.5%) to BGN 16.6 billion. As a result of this dynamics, the liquid assets ratio calculated under BNB Ordinance No. 11 increased to 36.71%. As of the end of the last quarter of 2015 the profit of the banking system was BGN 898 million or by BGN 152 million more compared to the profit reported for end-December 2014. The financial result as of 31 December 2015 ensured a 1.03% return on assets. At the end of December the banking system had a net total operating income of BGN 4198 million (against BGN 3905 million a year earlier). The accumulated impairment of loans and

receivables was BGN 1090 million (BGN 1128 million at the end of 2014). At end-December 2015 the total assets of the banking system amounted to BGN 87.5 billion or by BGN 2.0 billion (2.4%) more compared to those as of 30 September. The biggest increase was in cash balances at central banks. The portfolios of debt and equity instruments grew by BGN 371 million (3.4%). In terms of lending, an increase on a quarterly basis was reported by the sectors other financial corporations (by BGN 246 million) and general governments (by BGN 48 million). There was a decrease in the loans to non-financial corporations and to households (by BGN 891 million and by BGN 219 million, respectively). The loan portfolio of the banking system (excluding the sectors central banks and credit institutions) was dominated by receivables from residents (96.1%). In its currency structure the lev-denominated loans held 49.3%, and those in euro – 48.2%. The banks continue to take measures to reduce credit risk in banks' balance sheets. At end- December 2015 the gross amount of non-performing loans and advances in the banking system was BGN 11 026 million and compared to that for 30 September there was a slight increase. At the same time during the fourth quarter impairment of loans and receivables increased, and this growth was greater than that of non-performing loans. Deposits grew by nearly BGN 2.0 billion over the reporting quarter. The resource attracted from households reached BGN 44.4 billion, which was by BGN 1422 million (3.3%) more compared to end-September. The increase in deposits from non-financial corporations was by BGN 1161 million (6.3%) and that from other financial corporations – by BGN 79 million (2.5%). The deposits attracted from the general governments sector decreased (by BGN 531 million, 22.4%) as well as from credit institutions (by BGN 178 million, 3.4%). In the structure of the total deposits in the banking system, 89.8% were from resident sources. Lev-denominated deposits comprised 54.0% and those in euro – 36.9%. The banking system's balance sheet item total equity<sup>2</sup> was BGN 11.5 billion at end-December 2015 or by BGN 0.4 billion (3.7%) more compared to end-September.

## V. CAPITAL MARKET

### In January 2016 SOFIX erasing to 448.4

Liquidity remained low during January 2016 and regulated market's turnover declined by 35% m-o-m. Most investors remained passive, cautiously awaiting the Q4 financial statements' publication before making any investment decisions. All Bulgarian Stock Exchange indices except BGREIT finished the month in red, extending the losses from the previous year. BGTR 30 performed the poorest in January by erasing 3.25% of its value, closely followed by SOFIX with a loss of 2.7% for the month. Only BGREIT registered gains for the month (+1.31%) mainly due to the 8.29% increase in the Bulgarian Real Estate Fund's share prices. With this surge, BREF's shares ranked second in our Top 3 ranking of the most liquid and best performing shares for the month.

Bulgarian Stock Exchange Indexes on Monthly Basis				
Date	SOFIX	BGBX40	BGREIT	BGTR30
01.2015	500.5	100.4	96.2	395.7
02.2015	487.8	99.2	94.8	398.0
03.2015	514.1	103.5	95.4	414.2
04.2015	502.7	101.3	95.8	404.4
05.2015	482.9	97.3	93.5	392.2
06.2015	485.3	95.6	94.3	391.3
07.2015	473.6	93.6	95.7	387.5
08.2015	459.4	91.0	96.3	381.6
09.2015	442.3	88.4	95.1	364.3
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

Source: Bulgarian Stock Exchange-Sofia

## VI. REAL ESTATE

According to preliminary data of the NSI in Q4 2015 the number of newly built residential buildings was 661 and the newly built dwellings in them were 2 180 . Compared to the fourth quarter of 2014 the buildings were 59 (or 8.2%) less and the newly built dwellings in them decreased by 115 or by 5.0%. In Q4 2015, 68.2% of the newly built residential buildings were with steel-concrete construction, 28.1% with solid structure, 2.3% with 'other' and 1.4% with panel. The newly built residential buildings distribution by type shows that highest is the relative share of houses (73.3%) followed by blocks of flats (12.7%). As compared to the fourth quarter of 2014 an increase of the number of newly built mixed buildings only is observed. Highest is the number of residential buildings built in district Varna - 92 buildings with 374 dwellings in them, followed by Burgas - 71 residential buildings with 440 dwellings and Plovdiv - 67 residential buildings with 294 dwellings. Highest is the number of newly built dwellings with two rooms (38.5%), followed by the number of those with three rooms (33.1%) and lowest is the number of dwellings with six and more rooms - 4.2%. In Q4 2015 the total useful space of newly built dwellings was 207.8 thousand sq. m or by 2.6% more compared to the same quarter of 2014, but the living floor space decreased (by 8.0%) to 121.4 thousand sq. m. The average useful floor space of newly built dwelling increased from 88.2 sq. m in the fourth quarter of 2014 to 95.3 sq. m in the same quarter of 2015. The biggest average useful floor space of a newly built dwelling was recorded in district Montana - 157.1 sq. m and Pleven - 153.1 sq. m, and the smallest one in Burgas - 71.4 sq. m and Kyustendil - 71.8 sq. m.

## 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.<sup>2</sup> The methodology is based on the analysis of the CIF-FOB correlations for the imports of goods depending on the different imports delivery categories, as well as on the different mode of transportation and nationality of the carrier.

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

For the intra EU trade in goods:

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

For the trade with third countries (outside EU)

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

The Services component comprises transportation, travel, and other services. The Bulgarian National Bank derives the data on freight transportation from foreign trade data and the data on passenger transportation from travel data on the basis of estimates. With the January 2006 data the BNB introduced a new methodology for compilation of receipts and payments regarding the freight transportation. The freight transportation receipts are set up on the basis of estimated receipts of resident carriers related to the country exports of goods. The payments are calculated as an estimation of the payments made by residents on behalf of non-resident carriers related to the country imports of goods. The receipts and payments are estimated



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

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

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

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

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

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

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

## CAPITAL ACCOUNT

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

## FINANCIAL ACCOUNT

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

Account are (i) direct investment, (ii) portfolio investment and (iii) other investment.

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

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

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

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

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

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

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

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

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

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

## RESERVES AND RELATED ITEMS

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

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

## REAL SECTOR

### GROSS DOMESTIC PRODUCT - PRODUCTION APPROACH

Gross domestic product by production approach, characterized the outcome of economic activity and is measured by value added generated in the production of goods and services by the resident units of the economic territory of the country. The GDP by production approach at market prices is calculated as the sum of gross value added at basic prices for total economy

and adjustments, which include net taxes on products, non-deductible VAT and duties on imports.

#### **GDP - INCOME APPROACH**

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

#### **GROSS DOMESTIC PRODUCT BY FINAL EXPENDITURE**

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

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

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

#### **INVESTMENT ACTIVITY IN INDUSTRY**

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

#### **CONSUMER SURVEY**

The survey gathers information about the consumers' opinions about their financial situation, the general economic situation in the country, the inflation, unemployment, savings, etc. The replies to the questions are presented in a five-option ordinal scale. The results are in the form of balances which are the difference between the relative shares of the positive and the relative shares of the negative answering options, as there is one specification: the very positive and the very negative answering options are given a coefficient of 1, and the more moderate positive and negative options - a coefficient of 0.5. The composite confidence indicator is calculated as an arithmetic average of the balances of the expectations about the development over the next 12 months of: the financial situation and savings of the households, the general economic situation in the country and the unemployment, as the last balance is taken with a negative sign.

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

The Consumer Price Index (CPI) is the official measure of inflation in the Republic of Bulgaria. It measures the total relative price change of goods and services used by households for private (non-production) consumption and it is calculated by applying the structure of the final monetary consumption expenditures of Bulgarian households. The main source of information concerning the expenditures is the household budget survey in the country. CPI in year t is calculated on the basis of 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 criterions of price stability and for readiness of Bulgaria to join the Euro-zone. HICP, just as CPI, measures the total relative change of the prices of goods and services. Both indices are calculated using the same basket of goods and services, but differ with respect to the used weights. 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-3.

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

The Industrial Production Index is the most important short-term economic business indicator, which aims to measure at a monthly frequency the ups and downs of industrial production during the long period of time. Monthly survey allows identifying the turning points in economic development at an early stage; also, the timely industrial production index is one of the most important measures of economic activity. The Industrial Turnover Index is other important short-term indicator, which



measure the development of the market of goods and services. Turnover index gives measure of the development of the receipts of sales including the sales of goods, merchant goods and services provided to other enterprises. Monthly Industrial Production and Industrial Turnover Indexes measure changes in production and respectively in turnover between two different periods of time. This information is suitable for monitoring of current economic developments and short-term forecasts. The survey do not attempt to measure the actual production level, it aims to measure the average change in value of production between two points of time.

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

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

### LABOUR FORCE

The Labor Force Survey (LFS) is a continuous sample survey providing quarterly and annual data on the economic activity of the population aged 15 and over. The survey covers non-institutional households. Reference period - the characteristics of each interviewee refer to his/her status during a defined calendar week.

*Economically active population* (labor force) comprises of all employed and unemployed persons.

Employed are persons aged 15 and over who during the reference period: 1) performed some work for at least one hour for pay in cash or in kind or other income; 2) did not work but had a job or an enterprise, a business from which they were temporarily absent due to illness, annual leave, full-paid maternity leave, parental leave, strike or another labour dispute, etc.

Unemployed are persons aged 15 to 74 who: 1) did not work at all during the reference period; 2) were actively seeking work within the preceding four weeks, including the reference one or have found a new job or business that is expected to start within 3 months following the reference period; 3) were available to start working within two weeks following the reference period. *Inactive population* (persons not in the labour force) includes persons aged 15 and over who were neither employed, nor unemployed during the reference period. *Activity rate* - ratio between the economically active population and the total population of the same age group. *Employment rate* - ratio between the employed population and the total population of the same age group. *Unemployment rate* - ratio between the unemployed persons and the economically active population.

*Inactivity rate* - ratio between the economically inactive population and the total population of the same age group.

### 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.

## 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, ladders, 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 realises 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