

BULGARIA: ECONOMIC AND MARKET ANALYSES

Monthly report, January 2016

All data in the edition are the last available data as of 29 of January 2016



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

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- The current and capital account recorded a deficit of EUR 133.3 million in November 2015, compared with a surplus of EUR 215.7 million in November 2014
- Gross external debt amounted to EUR 34 542.3 million (77.4% of GDP) at end-November 2015, decreasing by EUR 4 814.1 million (12.2%) from end-2014
- According to BNB data in December 2015 Bulgaria's foreign reserves amounted to BGN 39.7 billion (EUR 20.2 billion) and decreased by 1.9% on a monthly basis
- In November 2015, the number of the trips of Bulgarian residents abroad was 305.2 thousand or by 12.7% above the registered in November 2014
- The annual inflation in December 2015 compared to December 2014 was -0.4%
- Producer Price Index on Domestic Market in November 2015 decreased by 0.6% compared to the previous month
- According to the preliminary data the Industrial Production Index, seasonally adjusted, increased by 0.8% in November 2015 as compared to October 2015
- In November 2015 the working day adjusted turnover in 'Retail trade, except of motor vehicles and motorcycles' increased by 2.0% in comparison with the same month of the previous year
- The unemployment rate was 10.0% in December 2015 , it increased by 0.1 percentage points compared to November
- In the period January - November 2015 Bulgarian exports to third countries increased by 0.4% compared to the corresponding period of 2014 and amounted to BGN 15.0 billion
- In January 2016 the total business climate indicator increases by 0.6 percentage points compared to the previous month a result of the improved business climate in construction and service sector
- Based on the monthly reports of first-level spending units, a deficit of BGN 406.4 million (0.5% of the projected GDP) is reported under the Consolidated Fiscal Programme (CFP) as of end-November 2015.
- According to the official register kept by the Ministry of Finance, the government debt as at end-November 2015 stands at EUR 11 944.4 million
- In December 2015 broad money (monetary aggregate M3) increased annually by 8.8% compared to 11.2% annual growth in November 2015
- In November a strong liquidity position of the banking system and growth of the deposit base and financial result continued. During the month liquid assets increased by BGN 689 million to BGN 25.9 billion
- The outperformer among all indices on the Bulgarian Stock Exchange for the month of December was the bluechip SOFIX which registered an increase of 5.82% m-o-m
- According to the preliminary data, in November 2015 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 0.4% above the level of the previous month



Source: www.geographicguide.net

Bulgaria: Key Macroeconomic Indicators	2013 (a)	2014 (a)	2015 (p)	2016 (p)	2017 (p)	2018 (p)
Gross Domestic Product						
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
Labour market and prices						
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
Balance of payments						
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
Monetary sector						
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						

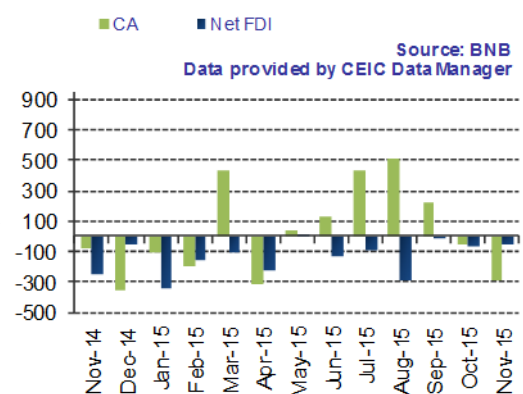
I. EXTERNAL SECTOR

1. Balance of payments

The current and capital account recorded a deficit of EUR 133.3 million in November 2015, compared with a surplus of EUR 215.7 million in November 2014

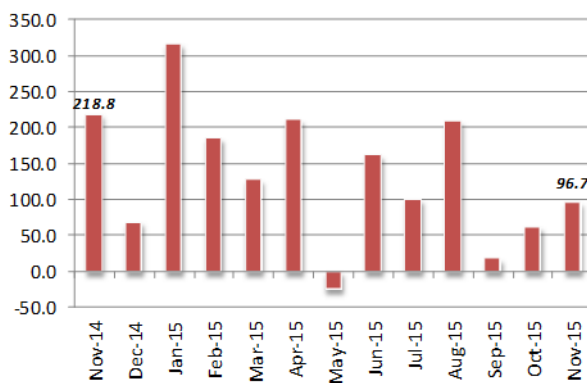
The current and capital account recorded a deficit of EUR 133.3 million in November 2015, compared with a surplus of EUR 215.7 million in November 2014. In January – November 2015 the current and capital account was positive amounting to EUR 1,997 million (4.5% of GDP), compared with a surplus of EUR 1,658.6 million (3.9% of GDP) in January – November 2014. The current account was negative amounting to EUR 289.7 million in November 2015, compared with a deficit of EUR 85.6 million in November 2014. In January – November 2015 the current account was positive and amounted to EUR 789.5 million (1.8% of GDP), compared with a surplus of EUR 849 million (2% of GDP) in January – November 2014. The balance on goods recorded a deficit of EUR 267.2 million in November 2015, compared with a deficit of EUR 152.1 million in November 2014. In January – November 2015 the balance on goods was negative amounting to EUR 1 645.7 million (3.7% of GDP), compared with a deficit of EUR 2,365 million (5.5% of GDP) in January – November 2014. Exports of goods amounted to EUR 1 953.6 million in November 2015, growing by EUR 75.6 million (4%) from November 2014 (EUR 1 878 million). In January – November 2015 exports of goods totalled EUR 20 528.3 million, increasing by EUR 1,180 million (6.1%) year-on-year (from EUR 19 348.3 million). In January – November 2014 exports fell by 1.7% year-on-year. Imports of goods amounted to EUR 2,200.7 million in November 2015, growing by EUR 190.7 million (9.4%) from November 2014 (EUR 2,030 million). In January – November 2015 imports of goods totalled EUR 22 174 million, rising by EUR 460.7 million (2.1%) from January – November 2014 (EUR 21 713.4 million). In January – November 2014 imports shrank by 2.2% year-on-year. Services recorded a positive balance of EUR 34.7 million in November 2015, compared with a surplus of EUR 59 million in November 2014. In January – November 2015 services recorded a surplus of EUR 2 529.4 million (5.7% of GDP) compared with a positive balance of EUR 2 538.9 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 12.6 million in November 2015, compared with a negative balance of EUR 67.4 million in November 2014. In January – November 2015 the balance on primary income was negative and equated to EUR 1 574.7 million (3.5% of GDP), against a deficit of EUR 858.3 million (2% of GDP) in January – November 2014. The net secondary income (which reflects the redistribution of income) recorded a deficit of EUR 44.6 million, compared with a surplus of EUR 74.9 million in November 2014. In January – November 2015 the net secondary income was positive amounting to EUR 1 480.4 million (3.3% of GDP), compared with a positive balance of EUR 1 533.4 million (3.6% of GDP) in the same period of 2014. The capital account recorded a surplus of EUR 156.4 million, compared with a positive balance of EUR 301.2 million in November 2014. In January – November 2015 the capital account recorded a surplus of EUR 1 207.6 million (2.7% of GDP), compared with a positive balance of EUR 809.6 million (1.9% of GDP) in January – November 2014. The financial account recorded a net increase of EUR 87 million, compared with a negative balance of EUR 61.7 million in November 2014. In January – November 2015 the financial

Balance of Payments (EUR mn.)



Source: BNB
Data provided by CEIC Data Manager

Foreign direct investments in Bulgaria - Flow
EUR mln.



account recorded a net inflow of EUR 2,673.6 million (6% of GDP) compared with an inflow of EUR 375 million (0.9% of GDP) in January – November 2014. The net direct investment compiled in accordance with the Sixth Edition of the Balance of Payments and International Investment Position Manual was negative amounting to EUR 50.3 million, compared with a negative balance of EUR 248.3 million in November 2014. In January – November 2015 the balance was negative and equated to EUR 1 447.7 million (3.2% of GDP), compared with a negative balance of EUR 786.9 million (1.8% of GDP) million in January – November 2014. Direct investment - assets grew by EUR 52 million compared with a decrease of EUR

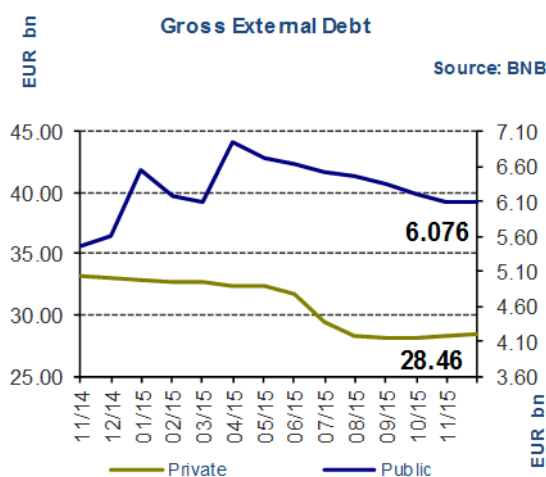
44.3 million in November 2014. In January – November 2015 direct investment - assets dropped by EUR 31.3 million, compared with an increase of EUR 486.8 million in the same period of 2014. Direct investment - liabilities recorded a net increase of EUR 102.3 million in November 2015, compared with an increase of EUR 204.1 million in November 2014. In January – November 2015 the direct investment – liabilities grew by EUR 1 416.4 million, compared with an increase of EUR 1,273.8 million in the same period of 2014. The balance on portfolio investment was negative amounting to EUR 17.6 million, compared with a negative balance of EUR 10.5 million in November 2014. In January – November 2015 the balance was negative and equated to EUR 1,261.2 million (2.8% of GDP), compared with a negative balance of EUR 1 274.5 million (3% of GDP) million in January – November 2014. Portfolio investment - assets decreased by EUR 17 million, compared with an increase of EUR 80 million in November 2014. In January – November 2015 they dropped by EUR 662.3 million compared with an increase of EUR 270.5 million in January – November 2014. Portfolio investment - liabilities grew by EUR 0.5 million compared with an increase of EUR 90.5 million in November 2014. In January – November 2015 portfolio investment - liabilities rose by EUR 598.9 million, compared with an increase of EUR 1 545 million in January – November 2014. The balance on other investment was negative amounting to EUR 255.4 million, compared with a negative balance of EUR 246.2 million in November 2014. In January – November 2015 the balance was positive and equated to EUR 1 287.5 million (2.9% of GDP), compared with a positive balance of EUR 986.7 million (2.3% of GDP) million in January – November 2014. Other investment - assets dropped by EUR 209 million, compared with a decrease of EUR 380.6 million in November 2014. In January – November 2015 they dropped by EUR 1,265 million compared with an increase of EUR 786.8 million in January – November 2014. Other investment - liabilities increased by EUR 46.4 million compared with a decrease of EUR 134.4 million in November 2014. In January – November 2015 they dropped by EUR 2,552.5 million compared with a reduction of EUR 199.9 million in January – November 2014. The BNB reserve assets rose by EUR 386.4 million, compared with an increase of EUR 446.1 million in November 2014. In January – November 2015 they grew by EUR 4 048.2 million (9.1% of GDP), compared with an increase of EUR 1,423 million (3.3% of GDP) in the same period of 2014. The net errors and omissions were positive amounting to EUR 220.3 million compared with a negative value of EUR 277.3 million in November 2014. According to preliminary data, the item was positive in January – November 2015 and totalled EUR 676.6 million (1.5% of GDP), against a negative value of EUR 1 283.6 million (3% of GDP) in the same period of 2014. .

2.External Debt

Gross external debt amounted to EUR 34 542.3 million (77.4% of GDP) at end-November 2015, decreasing by EUR 4 814.1 million (12.2%) from end-2014

Gross external debt amounted to EUR 34 542.3 million (77.4% of GDP) at end-November 2015, decreasing by EUR 4 814.1 million (12.2%) from end-2014 (EUR 39 356.5 million, 92.1% of GDP). On a year-on-year basis gross external debt declined by EUR 4 020.7 million (10.4%) from November 2014 (EUR 38 563.1 million, 90.2% of GDP). Long-term liabilities totalled EUR 26,508.5 million (76.7% of the total debt, 59.4% of GDP) at end-November 2015, down by EUR 2 878.9 million (9.8%) from end-2014 (EUR 29 387.4 million, 74.7% of the total debt, 68.7% of GDP). On a year-on-year basis, long-term liabilities decreased by EUR 3 153.7 million (10.6%) from November 2014 (EUR 29 662.3 million, 69.4% of GDP). Short-term liabilities equalled EUR 8,033.8 million (23.3% of the total debt, 18% of GDP), declining by EUR 1 935.2 million (19.4%) from end-2014 (EUR 9 969 million; 25.3% of the total debt, 23.3% of GDP). On a year-on-year basis, short-term liabilities dropped by EUR 867 million

(9.7%) from November 2014 (EUR 8 900.8 million, 20.8% of GDP). General Government's gross external debt totalled EUR 5 642.6 million (12.6% of GDP) in end-November 2015. It decreased by EUR 383.9 million (6.4%) from end-2014 (EUR 6 026.5 million, 14.1% of GDP). On a year-on-year basis it Banks' external debt totalled EUR 4 230.9 million (9.5% of GDP). It declined by EUR 1 236.3 million (22.6%) from end-2014 (EUR 5 467.2 million, 12.8% of GDP). On a year-on-year basis banks' debt decreased by EUR 934.6 million (18.1%) from November 2014 (EUR 5 165.5 million, 12.1% of GDP) grew by EUR 590.8 million (11.7%) from November 2014 (EUR 5 051.8 million, 11.8% of GDP). Other Sectors' external debt equalled EUR 11 957.9 million (26.8% of GDP). It decreased by EUR 27 million (0.2%) from end-2014 (EUR 11 984.9 million, 28% of GDP). On a year-on-year basis it was down by EUR 467.9 million (3.8%) from November 2014 (EUR 12 425.8 million, 29.1% of GDP). The stock of intercompany lending amounted to EUR 12 711 million (28.5% of GDP) at end-November 2015, down by EUR 3 166.9 million (19.9%) from end-2014 (EUR 15 877.8 million, 37.1% of GDP). On a year-on-year basis it dropped by EUR 3 209 million (20.2%) from November 2014 (EUR 15 920 million, 37.2% of GDP). The credits and deposits received from non-residents

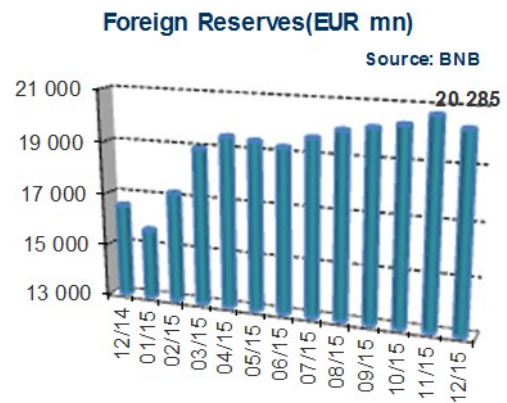


equalled EUR 5 354.1 million (12% of GDP) in January – November 2015, compared with EUR 6,419.5 million (15% of GDP) in January – November 2014. General government received EUR 2 158 million (40.3%) mostly due to the nonresident-held securities from Bulgaria's issue of EUR 3,100 million triple tranche bonds on international capital markets in March 2015. Banks received EUR 981 million (18.3%), other sectors received EUR 904.2 million (16.9%), and intercompany lending totalled EUR 1 311 million (24.5%). Gross external debt service totalled EUR 7 492 million (16.8% of GDP) in January – November 2015, compared with EUR 5 062.7 million (11.8% of GDP) in the same period of 2014. Net external debt totalled EUR 6 971.4 million at end-November 2015. It dropped by EUR 6,779.4 million (49.3%) from end-2014 (EUR 13,750.7 million). The decrease was due to both the decline in gross external debt (by EUR 4 814.1 million, 12.2%) and the increase in gross external assets (by EUR 1,965.2 million, 7.7%). As a percentage of GDP, net external debt equated to 15.6%, down by 16.5 p.p. from end-2014 (32.2%). On a year-on-year basis, net external debt declined by EUR 6 941.3 million (49.9%) from November 2014 (EUR 13 912.7 million, 32.5% of GDP).

2. Foreign reserves

According to BNB data in December 2015 Bulgaria's foreign reserves amounted to BGN 39.7 billion (EUR 20.2 billion) and de-creased by 1.9% on a monthly basis

According to BNB data in December 2015 Bulgaria's foreign reserves amounted to BGN 39.7 billion (EUR 20.2 billion) and decreased by 1.9% on a monthly basis, but reported growth of 22.7% y/y. The monthly decrease of foreign reserves as a result of the huge decline in government deposits with over BGN 2.6 billion or 30.8% on a monthly basis. This is directly related directly to the actions of MF in December 2015 to cover the outstanding European funds on approved projects for Bulgarian economy incurred due into consideration of the old programming period. Additionally were reduced the liabilities to other depositors by BGN 274 million or by 26%/m/m. In December 2015 the money in circulation increased by 5.9% m/m reaching BGN 12.725 billion. Liabilities to banks increased by 12.1% m/m and reached BGN 14.777 billion. Bulgaria's international liquidity position at the end of October 2015 improved to 260.7% compared to 254% in November 2015, 168.1% in October 2014 and 163.2% at the end of 2014.



II. REAL SECTOR

1. Tourism

In November 2015, the number of the trips of Bulgarian residents abroad was 305.2 thousand or by 12.7% above the registered in November 2014

In November 2015, the number of the trips of Bulgarian residents abroad was 305.2 thousand or by 12.7% above the registered in November 2014. The trips with other purposes (as a guest, education and visit the cultural and sport events) in November 2015 composed the greatest share of the total number of trips of Bulgarian residents abroad - 46.9%, followed by the trips with holiday and recreation purposes - 27.7%, and with professional purpose - 25.4%. In comparison with November 2014 an increase was registered in the trips with other purposes - by 22.9%, and with professional purpose - by 16.0%, while the trips with holiday and recreation purposes decreased by 3.3%. In November 2015, the number of arrivals of visitors from abroad to Bulgaria was 436.8 thousand or by 0.8% above the level of November 2014. An increase was registered in the trips with holiday and recreation purpose - by 6.2%, and with other purposes - by 2.6%, while the trips with professional purpose decreased by 10.2%.



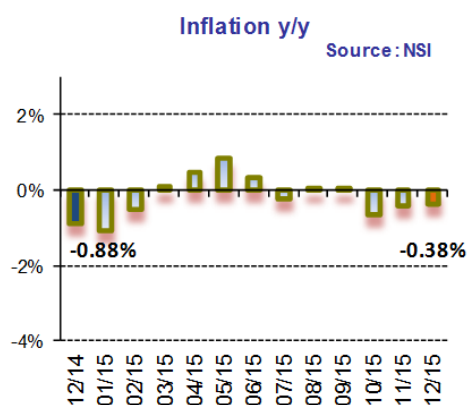
In November 2015, 1 901 accommodation establishments - hotels, motels, camping sites, mountain chalets and other establishments for short-term accommodation with more than 10 bed places were functioned in the country. The total number

of the rooms in them was 53.3 thousands and the bed-places were 107.0 thousands. In comparison with November 2014 the total number of accommodation establishments (functioned during the period) decreased by 1.2% and the bed-places in them - by 2.0%. The total number of the nights spent in all accommodation establishments registered in November 2015 was 582.6 thousands, or by 2.2% less in comparison with the same month of the previous year. In November 2015, the arrivals in all accommodation establishments increased by 3.1% compared to the same month of 2014 and reached 314.9 thousands. Bulgarian guests were 74.2% of all arrivals. In November 2015, the total occupancy of the bed-places in accommodation establishments was 18.5%, as compared to November 2014 decreased by 0.7 percentage points. The total revenues from nights spent in November 2015 reached 29.2 million BGN or by 0.8% more compared to November 2014. An increase was registered in the revenues from Bulgarian citizens by 3.8%, while those from foreigners decreased by 3.2%.

2. Inflation

The annual inflation in December 2015 compared to December 2014 was -0.4%

The consumer price index in December 2015 compared to November 2015 was 100.0%, i.e. the monthly inflation was 0.0%. The annual inflation in December 2015 compared to December 2014 was -0.4. The annual average inflation, measured by CPI, in the last 12 months (January - December 2015) compared to the previous 12 months (January - December 2014) was -0.1%. The harmonized index of consumer prices in December 2015 compared to November 2015 was 100.4%, i.e. the monthly inflation was 0.4%. The annual inflation in December 2015 compared to December 2014 was -0.9%. The annual average inflation, measured by HICP, in the last 12 months (January - December 2015) compared to the previous 12 months (January - December 2014) was -1.1%. The price index of a small basket in December 2015 compared to November 2015 was 99.9% and the overall increase since the beginning of the year (December 2015 compared to December 2014) has been 100.6%.



3. Producer price index in Industry

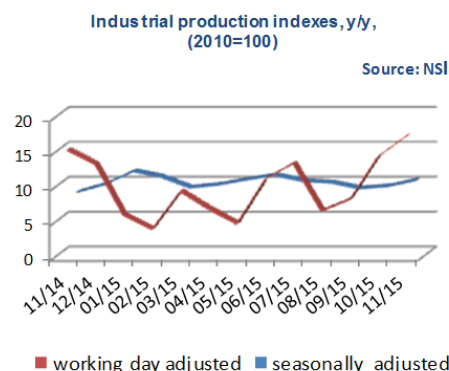
Producer Price Index on Domestic Market in November 2015 decreased by 0.6% compared to the previous month

Producer Price Index on Domestic Market in November 2015 decreased by 0.6% compared to the previous month. The domestic prices fell in the mining and quarrying industry by 1.7%, in the manufacturing by 0.3% and in the electricity, gas, steam and air conditioning supply by 0.9%. Producer Price Index on Domestic Market in November 2015 decreased by 3.8% compared to the same month of 2014. The domestic prices fell in the mining and quarrying industry by 9.1%, in the manufacturing and in the electricity, gas, steam and air conditioning supply by 3.7%. Total Producer Price Index in Industry in November 2015 decreased by 0.3% compared to the previous month. Lower prices were registered in the mining and quarrying industry by 1.1%, in the manufacturing by 0.1%, and in the electricity, gas, steam and air conditioning supply by 0.8%. Total Producer Price Index in November 2015 decreased by 4.2% compared to the same month of 2014.

4. Industrial Production Index

According to the preliminary data the Industrial Production Index, seasonally adjusted, increased by 0.8% in November 2015 as compared to October 2015

According to the preliminary data the Industrial Production Index, seasonally adjusted, increased by 0.8% in November 2015 as compared to October 2015. In November 2015 working day adjusted Industrial Production Index rose by 1.7% in comparison with the same month of 2014. In November 2015 as compared to October 2015, the seasonally adjusted Industrial Production Index increased in the mining and quarrying industry by 11.0% and in the manufacturing by 0.2%, while in the electricity, gas, steam and air conditioning supply a decrease by 1.3% was seen. On annual basis in November 2015 Industrial Production Index calculated from working day adjusted data increased in the manufacturing by 4.6% and in the mining and quarrying industry by 1.3%, while in the electricity, gas, steam and air conditioning supply a decrease by 6.7% was registered.

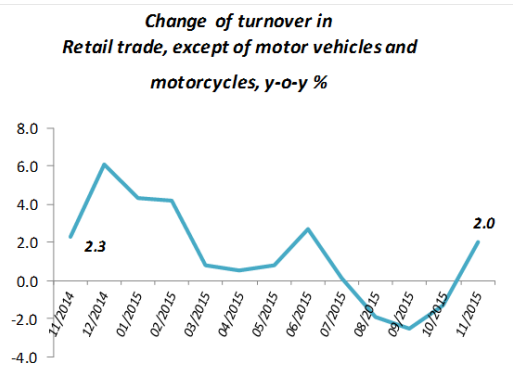


5. Retail trade

In November 2015 the working day adjusted turnover in 'Retail trade, except of motor vehicles and motorcycles' increased by 2.0% in comparison with the same month of the previous year

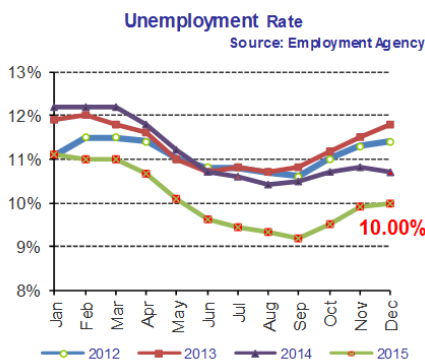
According to the preliminary seasonally adjusted data in November 2015 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices decreased by 0.1% compared to the previous month. In November 2015 the working day adjusted turnover in 'Retail trade, except of motor vehicles and motorcycles' increased by 2.0% in comparison with the same month of the previous year. In November 2015 compared to the previous month the turnover increased in the 'Retail sale via mail order houses or via Internet' by 5.5%, in the 'Retail sale of computers, peripheral units and software; telecommunications equipment' by 4.1%, in the 'Retail sale of automotive fuel' by 4.0% and in the 'Dispensing chemist; retail sale of medical and orthopedic goods, cosmetic and toilet articles' by 2.7%. Decrease was registered in the 'Retail sale of food, beverages and tobacco' - 0.7% and in the 'Retail sale of textiles, clothing, footwear and leather goods' - 0.1%.

In November 2015 compared to the same month of 2014 the turnover increased in the 'Retail sale via mail order houses or via Internet' by 16.3%, in the 'Dispensing chemist; retail sale of medical and orthopedic goods, cosmetic and toilet articles' by 9.4%, in the 'Retail sale in non-specialized stores' by 6.6%, in the 'Retail sale of computers, peripheral units and software; telecommunications equipment' by 4.7%, in the 'Retail sale of audio and video equipment; hardware, paints and glass; electrical household appliances' by 3.6% and in the 'Retail sale of automotive fuel' by 3.5%. Decrease was registered in the 'Retail sale of textiles, clothing, footwear and leather goods' - 7.7% and in the 'Retail sale of food, beverages and tobacco' - 1.8%.



6. Unemployment

The unemployment rate was 10.0% in December 2015 , it increased by 0.1 percentage points compared to November



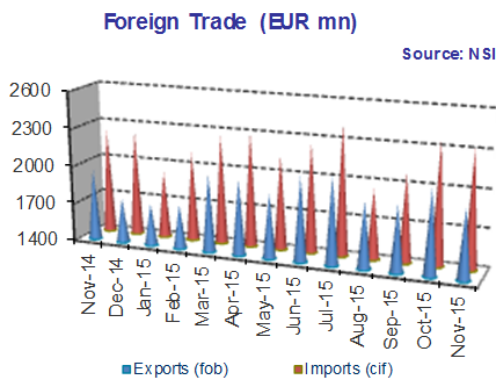
The unemployment rate was 10.0% in December 2015 , it increased by 0.1 percentage points compared to November. However, compared with December 2014, the unemployment rate declined by 0.7 percentage points. In the labor offices were registered 328,921 unemployed persons. They increased by 4861 people compared to November 2015. Compared with December 2014 unemployed are significantly less - by 22 130 persons. Registered youth under 29 (including those under 24) are 49,886 and represent 15.2% of all unemployed. Compared to November, the number had decreased by 121 persons and their share is 0.2 percentage points lower. Compared to the same month of 2014 young people under 29 decreased significantly - by 8885 persons and their share is 1.5 percentage points lower. There was a significant reduction in the number of

the group registered in the labor offices up to 29 years old, over the last two years from 2013 onwards. 12,539 unemployed people have started work in December - in 3849 less than the previous month. Compared to December 2014 their number decreased by 2662 persons.

7. Foreign trade

In the period January - November 2015 Bulgarian exports to third countries increased by 0.4% compared to the corresponding period of 2014 and amounted to BGN 15.0 billion

In the period January - November 2015 Bulgarian exports to third countries increased by 0.4% compared to the corresponding period of 2014 and amounted to BGN 15.0 billion. Main trade partners of Bulgaria were Turkey, China, Serbia, Russian Federation, Former Yugoslav Republic of Macedonia, USA and Singapore, which accounted for 54.1% of the exports to non-EU countries. In November 2015 Bulgarian exports to third countries decreased by 4.3% compared to the corresponding month of the previous year and amounted to BGN 1.347 billion. Bulgarian imports from third countries in the eleven months of 2015 decreased by 5.8% compared to the corresponding period of 2014 and added up to BGN 17.0 billion



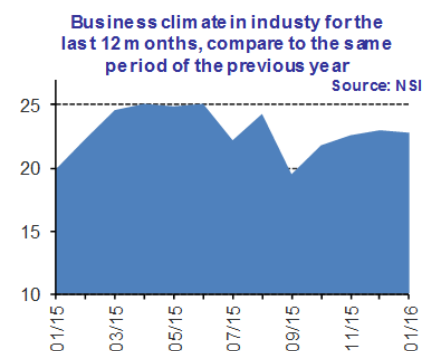
(at CIF prices). The largest amounts were reported for the goods imported from the Russian Federation, Turkey, China and Ukraine. In November 2015 Bulgarian imports from third countries decreased by 1.6% compared to the corresponding month of the previous year and amounted to BGN 1.529 billion. The foreign trade balance of Bulgaria (export FOB - import CIF) with third countries in the period January - November 2015 was negative and added up to BGN 1 989.8 million. The trade balance at FOB/FOB prices (after elimination of transport and insurance costs on imports) was also negative and amounted to BGN 792.8 million. In November 2015 the foreign trade balance of Bulgaria (export FOB - import CIF) with third countries was negative and amounted to BGN 181.6 million. In the period January - November 2015 the value of all exported goods from Bulgaria amounted to BGN 41.9 billion and compared to the corresponding period of 2014 the exports increased by 5.3%. In November 2015 the total exports added up to

BGN 3.816 billion and decreased by 0.9% compared to the corresponding month of the previous year. The total value of all the goods imported in the country in the period January - November 2015 amounted to BGN 47.4 billion (at CIF prices), or by 1.4% more than the corresponding period of 2014. In November 2015 the total imports increased by 4.3% compared to the same month of the previous year and added up to 4.569 Billion BGN. The total foreign trade balance (exports FOB - import CIF) was negative in the period January - November 2015 and amounted to BGN 5 454.0 million which was BGN 1 450.0 million less than the balance in the eleven months of 2014. At FOB/FOB prices (after elimination of transport and insurance costs on imports) in the period January - November 2015 the total foreign trade balance was also negative and amounted to BGN 2 268.6 million. In November 2015 the total foreign trade balance (exports FOB - import CIF) was negative and added up to BGN 753.1 million BGN. The trade balance at FOB/FOB prices was negative and amounted to BGN 479.7 million.

8. Business climate

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

In January 2016 the total business climate indicator increases by 0.6 percentage points compared to the previous month a result of the improved business climate in construction and service sector. 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. 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 favorable. The composite indicator 'business climate in retail trade' decreases by 3.4 percentage points compared to the previous month 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 composite indicator 'business climate in service sector' increases 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 favorable.



III. FISCAL SECTOR

1. Government budget

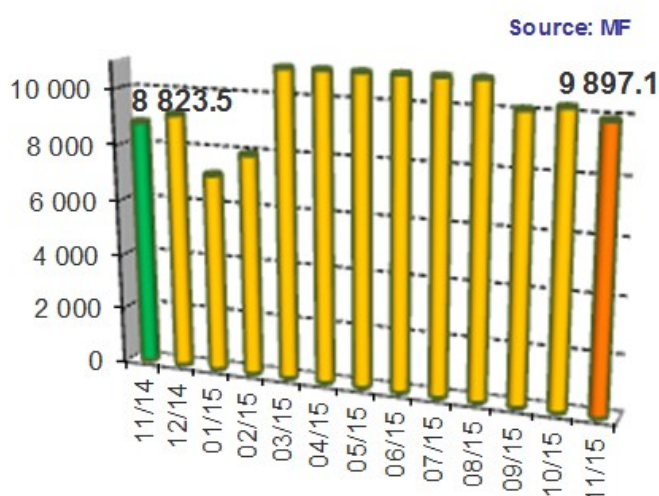
Based on the monthly reports of first-level spending units, a deficit of BGN 406.4 million (0.5% of the projected GDP) is reported under the Consolidated Fiscal Programme (CFP) as of end-November 2015

Based on the monthly reports of first-level spending units, a deficit of BGN 406.4 million (0.5% of the projected GDP) is reported under the Consolidated Fiscal Programme (CFP) as of end-November 2015. It is formed by a national budget deficit of BGN 82.5 million and a deficit of EU funds of BGN 323.9 million. For comparison, the CFP budget balance at end-November 2014 was a deficit of BGN 1 600.7 million (1.9% of GDP), i.e. the budget stance, as a relative share of GDP, has improved by 1.4

percentage points. The CFP revenues and grants as of 30.11.2015 stand at BGN 29 076.2 million, or 91.9% of the revised annual plans. Compared to the same period of the previous year, revenues and grants have increased by BGN 2 337.8million, or by 8.7%. In structural terms, tax revenues have grown by BGN 1 487.1 million, or 7.1%, non-tax revenues - by BGN 218.1 million, or 6.8%, and grant proceeds (mainly EU funds) - by BGN 632.6 million, or by 25.2%. At end-November 2015, tax proceeds, including revenues from social security contributions, total BGN 22 510.2 million, which is 91.0% of the 2015 State Budget of the Republic of Bulgaria Law. All major taxes and social security contributions in the group of tax revenues register a growth in comparison to the same period of the previous year, with this growth being most substantial for the proceeds from social security and health insurance contributions, indirect taxes and others. Revenues from direct taxes amount to BGN 3 952.8 million, which accounts for 88.7% of the annual plans for 2015. Compared to the same period of the previous year, the revenues in this group have grown by 5.9%, which is mostly due to the proceeds from the personal income tax and from corporate taxes. Revenues from indirect taxes amount to BGN 11 494.1 million, or 90.1% of the 2015 State Budget of the Republic Bulgaria Law estimates. The VAT proceeds amount to BGN 7,198.7 million, or 89.0% of those planned for the year. Compared to November 2014, VAT revenues have grown by 5.1%. The non-refunded tax credits as of 30.11.2015 amount to BGN 156.2 million. The excise duty revenues amount to BGN 4 125.1 million, or 91.9% of the annual estimates), growing by 10.9% as against November 2014. The customs duty proceeds amount to BGN 143.8 million, or 95.9% of the annual estimates, registering a growth of 3.1% compared to the same period of 2014. Proceeds

from other taxes (including property taxes and other taxes under the Corporate Income Tax Law) amount to BGN 795.0 million, or 92.0% of the annual plans, which is a growth by 4.0% compared to November 2014. Revenues from social security and health insurance contributions are BGN 6 268.3 million, or 94.3% of the estimates for the year. Compared to the same period of the previous year, the revenues from social security contributions have risen by 8.2%. Non-tax revenues amount to BGN 3 422.5 million, or 94.6% of the annual estimates. Proceeds from grants received domestically or from abroad, including EU grants, amount to BGN 3 143.4 million, which accounts for 95.1% of the estimates for the year. The expenditures under the Consolidated Fiscal Programme, including the contribution of the Republic of Bulgaria to the EU budget, amount to BGN 29 482.5 million as of end-November 2015, which is 85.4% of the annual estimates. Compared to the same period of the previous year, the overall CFP expenditures have risen by BGN 1 143.4 million, or by 4.0%. In structural terms, there is a growth for capital expenditures mostly, while non-interest current expenditures, in nominal terms, are close to those reported for the same period of the previous year. Non-interest expenditures amount to BGN 27 890.4 million, which accounts for 87.4% of the annual estimates. Non-interest current expenditures as of 30.11.2015 amount to BGN 23 087.8 million, or 90.1% of the annual estimates, capital expenditures (including net increment of state reserve) amount to BGN 4 802.6 million, or 76.3% of the 2015 State Budget of the Republic Bulgaria Law estimates. Interest payments amount to BGN 656.4 million, or 75.3% of those planned for 2015. The part of Bulgaria's contribution to the EU budget, as paid as of 30.11.2015 from the central budget, amounts to BGN 935.8 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 1818/2004, Regulation No 105/2009 and Regulation No 1377/2014, implementing Decision 2007/436/EC. The fiscal reserve as of 30.11.2015 is BGN 9.9 billion, including BGN 9.5 billion of fiscal reserve deposits with BNB and banks and BGN 0.4 billion of receivables under the EU Funds for certified expenditures, advance payments, etc.

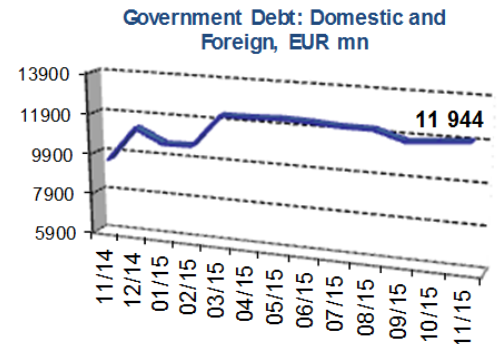
Fiscal reserve (BGN mn)



2. Government debt

According to the official register kept by the Ministry of Finance, the government debt as at end-November 2015 stands at EUR 11 944.4 million

According to the official register kept by the Ministry of Finance, the government debt as at end-November 2015 stands at EUR 11 944.4 million. Domestic debt amounts to EUR 4 040.7 million and external debt to EUR 7 903.7 million. At the end of the reporting period the government debt/gross domestic product (GDP) ratio is 27.2%, with the share of domestic government debt being 9.2% and of external government debt - 18.0% of GDP. In the government debt structure, domestic debt at the end of the period amounts to 33.8%, and external debt - to 66.2%. The debt currency structure as of end-November is as follows: 77.2% in EUR, 21.7% in BGN, 0.4% in USD and 0.7% in other currencies. Government debt payments in November amount to BGN 49.7 million. As regards the currency composition of payments, since the beginning of the year the greatest is the EUR share - 61.3%, followed by those in USD - 27.2%, in BGN - 11.4% and in ¥ - 0.1%. In November the government guaranteed debt reaches EUR 303.8 million, of which EUR 29.6 million domestic government guarantees, with the government guaranteed debt/GDP ratio being 0.7%.



Source: MF
Data provider CEC Data Manager

IV MONETARY SECTOR

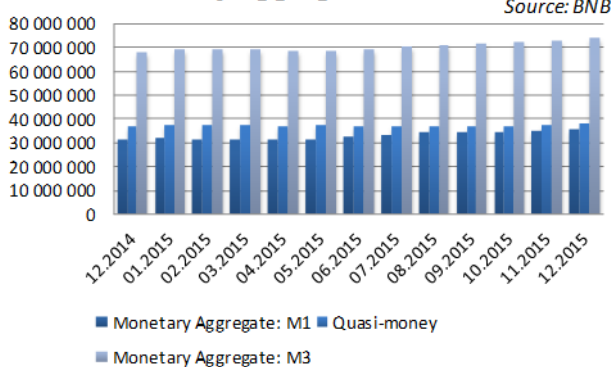
1. Money supply

In December 2015 broad money (monetary aggregate M3) increased annually by 8.8% compared to 11.2% annual growth in November 2015

In December 2015 broad money (monetary aggregate M3) increased annually by 8.8% compared to 11.2% annual growth in November 2015. At the end of December 2015 M3 was BGN 73.961 billion (84.7% of GDP) compared to BGN 72.771 billion (83.4% of GDP) in November 2015. Its most liquid component – monetary aggregate M1 – increased by 15.6% annually in December 2015 (12% annual growth in November 2015). At the end of December 2015, deposits of the non-government sector were BGN 63.726 billion (73% of GDP), increasing annually by 10.6% (16.5% annual growth in November 2015). Deposits of Non-financial corporations were BGN 18.226 billion (20.9% of GDP) at the end of December 2015. Compared to the same month of the previous year they increased by 18.7% (17.6% annual growth in November 2015). Deposits of financial corporations decreased by 3.8% annually in December 2015 (1.4% annual decline in November 2015). At the end of the month they reached BGN 2.915 billion (3.3% of GDP). Deposits of Households and NPISHs were BGN 42.586 billion (48.8% of GDP) at the end of December 2015, increasing by 8.5% compared to the same month of 2014 (17.6% annual growth in November 2015). Net domestic assets were BGN 51.651 billion at the end of December 2015. They increased by 2.4% compared to the same month of 2014 (2% annual growth in November 2015). At the end of the month their basic component – domestic credit – was BGN 53.204 billion and increased by 2.2% compared to December 2014 (2.5% annual decline in November 2015). In December 2015

Monetary Aggregates in BGN/th

Source: BNB



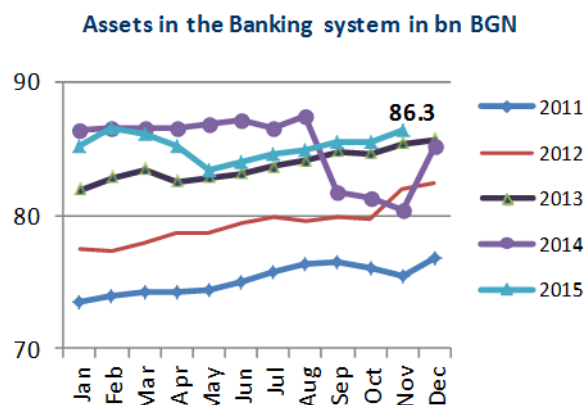
claims on the nongovernment sector declined by 1.6% annually (0.1% annual decrease in November 2015) reaching BGN 50.773 billion. At the end of December 2015, claims on loans to the non-government sector amounted to BGN 49.805 billion (57.1% of GDP) compared to BGN 50.561 billion (57.9% of GDP) at the end of November 2015. They decreased annually by 1.2% in December 2015 (0.2% annual increase in November 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 413 million. On an annual basis, loans sold by Other MFIs were BGN 444.9 million (of which BGN 23.6 million in December 2015), while the amount of repurchased loans was BGN 31.9 million (of which BGN 1.6 million in December 2015). In December 2015, loans to Non-financial corporations decreased by 1.7% annually (0.3% annual increase in November 2015) and at the end of the month amounted to BGN 30.474 billion (34.9% of GDP). Loans to Households and NPISHs were BGN 18.140 billion (20.8% of GDP) at the end of December 2015. They decreased by 1.3% compared to the same month of 2014 (1% annual decline in November 2015). At the end of December 2015 loans for house purchases were BGN 8.647

billion and decreased by 1.2% annually (1.4% annual decline in November 2015). Consumer loans amounted to BGN 7.269 billion and compared to December 2014 they declined by 0.1% (0.4% annual growth in November 2015). On an annual basis other loans decreased by 10% (6.3% annual decline in November 2015) and reached BGN 726 million. Loans granted to financial corporations were BGN 1.191 billion at the end of December 2015 (1.4% of GDP). Compared to December 2014, they increased by 19.4% (19.7% annual growth in November 2015). November 2015. They decreased annually by 1.2% in December 2015 (0.2% annual increase in November 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 413 million. On an annual basis, loans sold by Other MFIs were BGN 444.9 million (of which BGN 23.6 million in December 2015), while the amount of repurchased loans was BGN 31.9 million (of which BGN 1.6 million in December 2015). In December 2015, loans to Non-financial corporations decreased by 1.7% annually (0.3% annual increase in November 2015) and at the end of the month amounted to BGN 30.474 billion (34.9% of GDP). Loans to Households and NPISHs were BGN 18.140 billion (20.8% of GDP) at the end of December 2015. They decreased by 1.3% compared to the same month of 2014 (1% annual decline in November 2015). At the end of December 2015 loans for house purchases were BGN 8.647 billion and decreased by 1.2% annually (1.4% annual decline in November 2015). Consumer loans amounted to BGN 7.269 billion and compared to December 2014 they declined by 0.1% (0.4% annual growth in November 2015). On an annual basis other loans decreased by 10% (6.3% annual decline in November 2015) and reached BGN 726 million. Loans granted to financial corporations were BGN 1.191 billion at the end of December 2015 (1.4% of GDP). Compared to December 2014, they increased by 19.4% (19.7% annual growth in November 2015).

2. Banking system

In November a strong liquidity position of the banking system and growth of the deposit base and financial result continued. During the month liquid assets increased by BGN 689 million to BGN 25.9 billion

In November a strong liquidity position of the banking system and growth of the deposit base and financial result continued. During the month liquid assets increased by BGN 689 million to BGN 25.9 billion. The growth was mainly due to cash and cash balances with the BNB, which have a 56.7% share in the structure of liquid assets. The liquidity ratio calculated under BNB Ordinance No. 11 increased to 34.80%. As of 30 November, the profit of the banking system was BGN 931 million. Compared to end-October there was an additional BGN 86 million impairment on loans and receivables, thus their impairment accumulated since the beginning of 2015 amounted to BGN 739 million. During the month, the banking system's assets increased by BGN 768 million to nearly BGN 86.3 billion at the end of November. The five largest banks had a share of 57.4% in the total assets. The biggest increase in absolute terms was in cash and cash balances at central banks and other demand deposits, which reached BGN 17.0 billion or almost 1/5 of the balance sheet total of the banking system. Financial assets portfolios also increased. Debt and equity instruments held by banks grew by 1.2%, while their share in total assets remained unchanged at 13.3%. The growth is due to debt securities issued by the general government sector. In the loan portfolio of the banking system a more significant monthly growth was reported by the loans to non-financial corporations (by BGN 321 million). The receivables from other financial corporations and from the general government sector also marked an increase. The total amount of deposits in the banking system as of end-November was BGN 73.1 billion. A significant growth of BGN 626 million was reported in the resources from non-financial corporations. The funds from households continued to increase and during the reporting month they grew by BGN 365 million and have a share of 59.8% in the total deposits of the banking sector. As of 30 November the banking system's balance sheet capital was BGN 11.3 billion, having increased by BGN 17 million during the month. The dynamics was determined by the increase in profit and other reserves and the decrease in the accumulated other comprehensive income.



Source: BNB
Data Provider CEIC Data Manager

V. STOCK MARKET

The outperformer among all indices on the Bulgarian Stock Exchange for the month of December was the bluechip SOFIX which registered an increase of 5.82% m-o-m

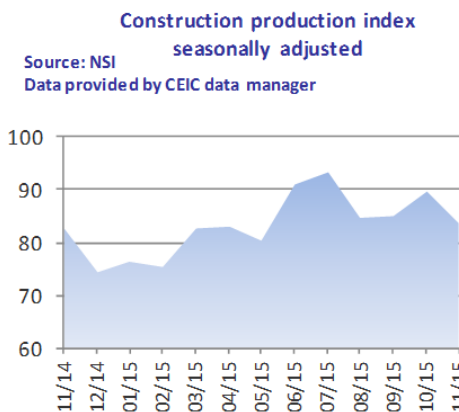
The outperformer among all indices on the Bulgarian Stock Exchange for the month of December was the bluechip SOFIX which registered an increase of 5.82% m-o-m. Furthermore it was the leader not only on BSE but also among all indices in the CEE region. However the investors were not optimistic enough and SOFIX couldn't make up the losses since the beginning of 2015 and ended the year with loss of 11.72% YTD which is the first annual decline for the index since 2011. Only the shares of two companies from its composition registered gains for 2015. These were the shares of Holding Varna AD, which added more than 50% to their value for the year and the shares of Neochim AD which price increased with more than 19% y-o-y in 2015. The appreciation of the stocks of the fertilizer plant was supported by the stellar performance of the company during the year, which was came as an effect of the significant reduction in the price of natural gas, which is the main operating cost. The worst performers in the composition of SOFIX for 2015 proved to be the shares of Sopharma AD which lost 29.38% of their value during the year. The sell-offs were triggered by the weak performance and results of the pharmaceutical company which suffered from decreased exports mainly to Russia and Ukraine.

Date	SOFIX	BGBX40	BGREIT	BGTR30
12.2014	522.1	104.6	98.8	407.5
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

Source: Bulgarian Stock Exchange-Sofia

VI. CONSTRUCTION

According to the preliminary data, in November 2015 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 0.4% above the level of the previous month



According to the preliminary data, in November 2015 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 0.4% above the level of the previous month. In November 2015 working day adjusted data showed a decrease by 0.5% in the construction production, compared to the same month of 2014. In November 2015 the construction production, calculated from the seasonally adjusted data, was above the level of the previous month. Index of production of civil engineering increased by 0.6% and the production of building construction - by 0.1%. On an annual basis in November 2015, the decrease of production in construction, calculated from working day adjusted data, was determined mainly from the negative rate in the building construction by 7.0%, while in the civil engineering was registered an increase by 6.9%.

METHODOLOGICAL NOTES

EXTERNAL SECTOR

CURRENT ACCOUNT

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

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

For the intra EU trade in goods:

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

For the trade with third countries (outside EU)

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

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

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

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

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

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

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

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

CAPITAL ACCOUNT

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

FINANCIAL ACCOUNT

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

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

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

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

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

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

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

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

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

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

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

RESERVES AND RELATED ITEMS

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

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

REAL SECTOR

GROSS DOMESTIC PRODUCT - PRODUCTION APPROACH

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

GDP - INCOME APPROACH

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

GROSS DOMESTIC PRODUCT BY FINAL EXPENDITURE

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

BUSINESS SURVEY IN INDUSTRY, CONSTRUCTION, TRADE AND SERVICE SECTOR

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

represent numerical assessment, e.g. production assurance with orders (number of months), capacity utilization (%), etc.

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 criteria 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 Labour 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 (labour 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) %; 2) As from 1st September 2011 – 25 (twenty-five) %

BG REIT Index: Initial date: 03 September 2007; Initial value: 100

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

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

BG 40 Index: Initial date: 01 February 2005; Initial value: 100

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

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.

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