

## BULGARIA: ECONOMIC AND MARKET ANALYSES

### Monthly report, March 2016

All data in the edition are the last available data as of 31 of March 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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- In January 2016 Bulgaria's current and capital account recorded a surplus of EUR 271.7 million or 0.6% of GDP;
- In January 2016 Bulgaria's FDI amounted to EUR 44.9 million or 0.1% of GDP;
- In 2015 Bulgaria's exports to the EU increased by 7.9% yoy and amounted to BGN 29.1 billion. In January 2016 Bulgarian exports to third countries increased by 6.3% yoy and amounted to BGN 1.164 billion
- In January 2016 Bulgaria's gross external debt amounted to EUR 33,851.8 million and presented 73% of GDP;
- In February 2016 BNB international reserves amounted to BGN 19.7 billion and grew up by 0.9% m/m and by 14.9% y/y;
- In 2015 Bulgaria's GDP Grew up by 3% y/y;
- In January 2016 Bulgaria's Industrial Production Index increased by 0.8% m/m and by 3% y/y;
- In January 2016 Bulgaria's retail sales increased by 1.3% y/y and kept the level on monthly basis;
- In January 2016 Bulgaria's construction declined by 3.4% m/m and by 10.7% y/y;
- In February 2016, the number of the trips of Bulgarian residents abroad was 281.4 thousand or grew by 9.8% yoy and the number of arrivals of visitors from abroad to Bulgaria was 361.9 thousand or by 9.7% yoy more;
- In March 2016 the total business climate indicator increased by 1.6pps to 21%;
- In February 2016 Bulgaria's Total Producer Price Index in Industry decreased by 0.5% mom and by 5.2% yoy. Producer Price Index on Domestic Market decreased by 0.4% mom and by 4.0% yoy and Producer Price Index on Non-domestic Market fell by 0.8% mom and by 7.4% yoy;
- In February 2016 NSI reported deflation of 0.3% m/m and deflation from 0.5% y/y;
- In February 2016 Bulgaria's unemployment rate is 10.0% above the average for the EU of 9%;
- In January 2016 Bulgaria's budget on a cash basis is positive, amounting to BGN 991.6 million, or 1.1% of the projected GDP;
- In January 2016 Bulgaria's government debt amounted at EUR 11,599.6 million and presented 25.7% of GDP;
- In February 2016 Bulgaria's broad money (monetary aggregate M3) increased annually by 7.1% to BGN 73.870 billion. For the same period the Domestic credit declined by 2.2% yoy to BGN 52.629 billion
- In February 2016, the turnover on the BSE declined by 11% yoy to BGN25 million;
- In March 2016 real estate transactions increased by 12% yoy;



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

Bulgaria: Key Macroeconomic Indicators	2013 (a)	2014 (a)	2015 (a)	2016 (p)	2017 (p)	2018 (p)	2019 (p)
<b>Gross Domestic Product</b>							
GDP (BGN million)	81 971	83 612	86 373	89 219	92 426	95 979	99 730
GDP (EUR million)	41 911	42 750	44 162	45 617	47 257	49 073	50 991
GDP (real growth, %)	1.3	1.5	3	2.1	2.5	2.7	2.7
Consumption	-0.7	2.2	0.7	1.5	2.2	2.5	2.4
Gross capital formation	0.3	3.4	2.5	-1.8	-0.1	2.7	2.5
Exports of goods and services	9.2	-0.1	7.6	4.5	4.7	4.9	5.1
Imports of goods and services	4.9	1.5	4.4	2.6	3.6	4.7	5.2
<b>Labour market and prices</b>							
Employment (%)	-0.4	0.4	0.4	0.5	0.6	0.6	0.6
Unemployment rate (%)	12.9	11.4	9.1	8.6	7.9	7.4	7.1
Compensation of one employed (%)	8.8	5.6	1.8	2.7	3.4	3.8	4
GDP Deflator (%)	-0.7	0.4	0.3	1.2	1.1	1.1	1.2
Average inflation (%)	0.4	-1.6	-1.1	-0.8	1.1	1.2	1.4
<b>Balance of payments</b>							
Current account (% of GDP)	1.8	0.9	1.4	1.8	2	1.7	1.8
Trade balance (% of GDP)	-6.9	-6.5	-4.3	-2.8	-2.4	-2.6	-3
FDI (% of GDP)	3.6	3.6	3.6	3.7	3.7	3.7	3.8
<b>Monetary sector</b>							
M3 (% y/y growth )	8.5	1.1	8.8	8	8.3	8.7	9
Loans to companies (% y/y growth)	0.5	-10.8	-1.8	-0.6	2.7	4.6	6.2
Loans to households (% y/y growth)	0.2	-1.6	-1.3	0	1.9	3.4	4.3

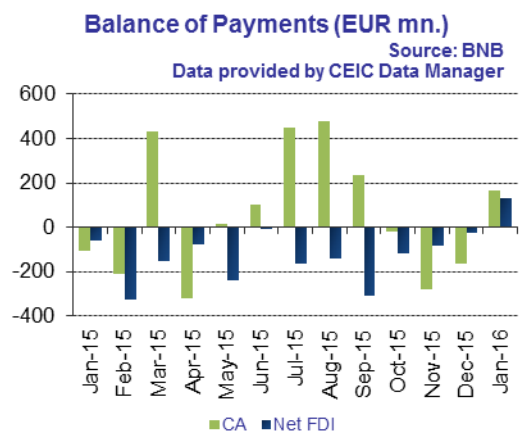
Source: MF 2016 Spring Projection

## I. EXTERNAL SECTOR

### 1. Balance of payments

#### In January 2016 Bulgaria's current and capital account recorded a surplus of EUR 271.7 million or 0.6% of GDP

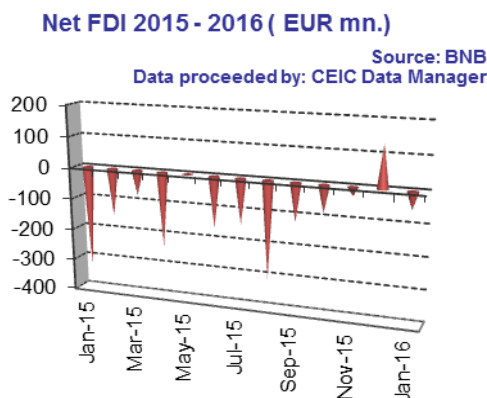
According to BNB data Bulgaria's current and capital account recorded a surplus of EUR 271.7 million (0.6% of GDP) in January 2016, compared with a deficit of EUR 98.9 million (0.2% of GDP) in January 2015. The current account was positive amounting to EUR 165.5 million (0.4% of GDP) in January 2016, compared with a deficit of EUR 108.4 million (0.2% of GDP) in January 2015. The surplus resulted from the positive net balances on goods and services (EUR 103.3 million) and secondary income (EUR 90.6 million). The balance on goods recorded a surplus of EUR 66.7 million (0.1% of GDP) in January 2016, compared with a deficit of EUR 124.7 million (0.3% of GDP) in January 2015. Exports of goods amounted to EUR 1,753.9 million in January 2016, growing by EUR 125.9 million (7.7%) from January 2015 (EUR 1,628 million). In January 2015 exports grew by 10.5% yoy. Imports of goods amounted to EUR 1,687.2 million in January 2016, dropping by EUR 65.5 million (3.7%) from January 2015 (EUR 1,752.7 million). In January 2015 imports shrank by 4.8% yoy. Services recorded a positive balance of EUR 36.5 million in January 2016, compared with a surplus of EUR 128.8 million in January 2015. The net primary income (which reflects the receipt and payment of income related to the use of resources (labor, capital, land), taxes of production and imports and subsidies) recorded a deficit of EUR 28.3 million in January 2016, compared with a negative balance of EUR 151.2 million in January 2015. The net secondary income (which reflects the redistribution of income) recorded a surplus of EUR 90.6 million, compared with a surplus of EUR 38.8 million in January 2015. The capital account recorded a surplus of EUR 106.2 million, compared with a positive balance of EUR 9.6 million in January 2015. The financial account recorded a net inflow of EUR 265.4 million, compared with a negative balance of EUR 158.3 million in January 2015. 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 54.3 million, compared with a negative balance of EUR 328 million in January 2015. Direct investment - assets dropped by EUR 16 million compared with a decline of EUR 93.5 million in January 2015. Direct investment - liabilities recorded a net increase of EUR 38.4 million in January 2016, compared with an increase of EUR 234.5 million in January 2015. The balance on portfolio investment was positive amounting to EUR 241.8 million, compared with a positive balance of EUR 626.8 million in January 2015. Portfolio investment - assets grew by EUR 160.1 million, compared with an increase of EUR 61.8 million in January 2015. Portfolio investment - liabilities dropped by EUR 81.7 million compared with a decline of EUR 565 million in January 2015. The balance on other investment was positive amounting to EUR 888.9 million, compared with a positive balance of EUR 701.7 million in January 2015. Other investment - assets rose by EUR 780.7 million, compared with an increase of EUR 714.6 million in January 2015. Other investment - liabilities declined by EUR 108.2 million compared with an increase of EUR 13 million in January 2015. The BNB reserve assets shrank by EUR 789.8 million, compared with a decline of EUR 1,164.8 million in January 2015.



### 2. Foreign Direct Investments (FDI)

#### In January 2016 Bulgaria's FDI amounted to EUR 44.9 million or 0.1% of GDP

According to preliminary data, foreign direct investment in Bulgaria presented according to the directional principle amounted to EUR 44.9 million (0.1% of GDP) in January 2016, dropping by EUR 278.5 million (86.1%) from January 2015 (EUR 323.4 million, 0.7% of GDP). Equity (acquisition/disposal of shares and equities in cash and contributions in kind by non-residents in/from the capital and reserves of Bulgarian enterprises, and receipts/payments from/for real estate deals in the country) amounted to EUR 4.7 million in January 2016. It dropped by EUR 8.1 million (63.2%) in comparison with that attracted in January 2015 (EUR 12.8 million). Real estate investments of non-residents totalled EUR 2.4 million, compared with EUR 2.9 million attracted in January 2015. The largest inflow of real estate investment was from Russia (EUR 0.7 million, 31% of the total amount for January 2016) and Germany (EUR 0.5 million, 20.6%). The net debt instruments (the change in the net liabilities between affiliated enterprises on financial loans, suppliers' credits and debt securities) totalled EUR 40.2 million in January 2016, compared with EUR 239.1 million in January 2015. The largest net direct investment inflow in Bulgaria for January 2016 was from Germany (EUR 14.5 million) and the United Kingdom (EUR 10.8 million). 71.5 According to preliminary data, direct investment abroad were negative amounting to EUR 9.4 million in January 2016, compared with a negative value of EUR 4.5 million in January 2015.



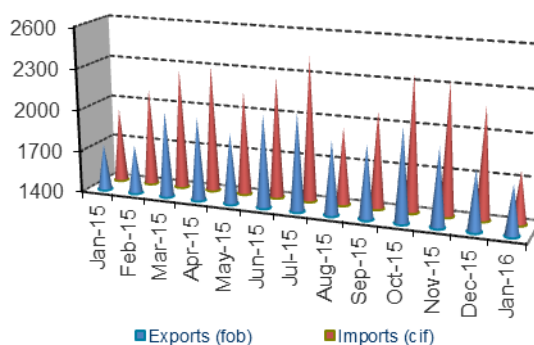
### 3. Foreign Trade

**In 2015 Bulgaria's exports to the EU increased by 7.9% yoy and amounted to BGN 29.1 billion. In January 2016 Bulgarian exports to third countries increased by 6.3% yoy and amounted to BGN 1.164 billion**

In 2015 Bulgaria's exports to the EU increased by 7.9% compared to 2014 and amounted to BGN 29.1 billion. Main trade partners of Bulgaria were Germany, Italy, Romania, Greece, France and Belgium which accounted for 69.1% of the exports to the EU Member States. In December 2015 the exports to the EU increased by 5.8% compared to the corresponding month of the previous year and amounted to BGN 2.174 billion. Bulgarian imports from the EU in 2015 increased by 5.5% compared to 2014 and added up to BGN 33.2 billion at CIF prices. The largest amounts were reported for the goods imported from Germany, Italy, Romania, Greece and Spain. In December 2015 the Bulgarian imports from the EU Member States increased by 1.3% compared to the corresponding month of the previous year and amounted to BGN 2.861 billion at CIF prices. The foreign trade balance of Bulgaria (export FOB - import CIF) with the EU in 2015 was negative and added up to BGN 4 174.5 million. At FOB/FOB prices (after elimination of transport and insurance costs on imports) the trade balance was also negative and amounted to BGN 1 952.7 million. In 2015 compared to 2014 the largest growths in the exports of Bulgaria to the EU distributed according to the Standard International Trade Classification were recorded in the sections 'Chemical and related products n.e.c.' (22.5%) and 'Machinery and transport equipment' (12.5%). The most notable fall was recorded in section 'Animals and vegetable oils, fats and waxes' (3.2%). In imports from the EU the largest growth was reported in the section 'Beverages and tobacco' (25.3%) while the most notable fall was observed in section 'Mineral fuel, lubricants and related materials' (22.6%). In January 2016 Bulgarian exports to third countries increased by 6.3% compared to the same period of 2015 and amounted to BGN 1.164 billion. Main trade partners of Bulgaria were Turkey, China, Egypt, Former Yugoslav Republic of Macedonia, Serbia, USA and Russian Federation, which accounted for 56.1% of the exports to non-EU countries. Bulgarian imports from third countries in January 2016 decreased by 17.8% compared to the corresponding month of 2015 and added up to BGN 1.203 billion (at CIF prices). The largest amounts were reported for the goods imported from the Russian Federation, Turkey, China and Ukraine. The foreign trade balance of Bulgaria (export FOB - import CIF) with third countries in January 2016 was negative and added up to BGN 39.1 million. The trade balance at FOB/FOB prices (after elimination of transport and insurance costs on imports) was positive and amounted to BGN 39.7 million. In January 2016 compared to the corresponding month of 2015 in the exports of Bulgaria to third countries distributed according to the Standard International Trade Classification the largest growths were recorded in the sections 'Miscellaneous manufactured articles' (166.6%) and 'Animals and vegetable oils, fats and waxes' (54.7%). The most notable fall was reported in section 'Food and live animals' (27.5%). In imports from third countries the largest growths were reported in sections 'Animals and vegetable oils, fats and waxes' (23.1%) and 'Miscellaneous manufactured articles' (20.3%) while the most notable fall was observed in section 'Crude materials, inedible (except fuel)'<sup>3</sup> (64.7%). In January 2016 the value of all exported goods from Bulgaria amounted to BGN 3.424 billion and compared to the corresponding month of the previous year the exports increased by 1.0%. The total value of all the goods imported in the country in January 2016 amounted to BGN 3.464 billion (at CIF prices), or by 8.3% less than the corresponding month of 2015. The total foreign trade balance (exports FOB - import CIF) was negative in January 2016 and amounted to BGN 39.8 million which was BGN 345.7 million less than the balance in the first month of 2015. At FOB/FOB prices (after elimination of transport and insurance costs on imports) in January 2016 the total foreign trade balance was positive and amounted to BGN 152.0 million.

Foreign Trade (EUR mn)

Source: NSI



### 4. External debt

**In January 2016 Bulgaria's gross external debt amounted to EUR 33,851.8 million and presented 73% of GDP**

According BNB data gross external debt amounted to EUR 33,851.8 million (73% of GDP) at end-January 2016, decreasing by EUR 239.2 million (0.7%) from end-2015 (EUR 34,090.9 million, 77.2% of GDP). Long-term liabilities totalled EUR 26,105 million (77.1% of the total debt, 56.3% of GDP) at end-January 2016, down by EUR 103.3 million (0.4%) from end-2015 (EUR 26,208.4 million, 76.9% of the total debt, 59.3% of GDP). Short-term liabilities equalled EUR 7,746.7 million (22.9% of the total debt, 16.7% of GDP), decreasing by EUR 135.8 million (1.7%) from end-2015 (EUR 7,882.6 million; 23.1% of the total debt, 17.8% of GDP). General Government's gross external debt totalled EUR 5,468.8 million (11.8% of GDP) in end-January 2016. It fell by EUR 107.5 million (1.9%) from end-2015 (EUR 5,576.3 million, 12.6% of GDP). Banks' external debt totalled EUR 4,018.4 million (8.7% of GDP). It fell by EUR 108 million (2.6%) from end-2015 (EUR 4,126.4 million, 9.3% of GDP). Other Sectors' external debt equalled EUR 11,728.4 million (25.3% of GDP). It dropped by EUR 7.5 million (0.1%) from end-2015 (EUR 11,735.9 million, 26.6% of GDP). The stock of intercompany lending<sup>4</sup> amounted to EUR 12,636.3 million (27.3% of GDP) at end-January 2016, decreasing by EUR 16.1 million (0.1%) from end-2015 (EUR 12,652.4 million, 28.7% of GDP). The loans and deposits received from non-residents equalled EUR 82.1 million (0.2% of GDP) in January 2016, compared with EUR 303.4 million (0.7% of GDP) in January 2015. They were distributed as follows: general government received EUR 3.8 million (4.6% of the total amount of disbursements), banks received EUR 35.3 million (42.9%), other sectors<sup>4</sup> received EUR 8.7 million (10.5%) and intercompany lending<sup>4</sup> totalled EUR 34.4 million (41.9%). Gross external debt service totalled EUR 199.8 million (0.4% of GDP) in January 2016, compared with EUR 986.1 million (2.2% of GDP) in January 2015. Net external debt<sup>5</sup> totalled EUR 6,363.7 million at end-January 2016. It dropped by EUR 495.5 million (7.2%) from end-2015 (EUR 6,859.1 million). Its decline was due both to the decrease in gross external debt (by EUR 239.2 million, 0.7%), as well as to the increase in gross external assets (by EUR 256.3 million, 0.9%). As a percentage of GDP, net external debt equated to 14.3%, down by 1.1 p.p. from end-2015 (15.4%).



## 5. Foreign reserves

In February 2016 BNB international reserves amounted to BGN 19.7 billion and grew up by 0.9% mom and by 14.9% yoy

According to BNB data in February 2016 BNB international reserves amounted to BGN 38.6 billion (EUR 19.7 billion) and grew up by 0.9% m/m and by 14.9% y/y, respectively. In the part of liabilities the most significant increase in February was seen in obligation to other depositors, which grew by 8.6% m/m and the deposit of the "Banking" department, which increased by 8.9% m/m. Furthermore, liabilities to banks increased by 1.5% during the month, the money in circulation stayed at the level of the previous month (BGN 12.2 billion). Monthly decline of 6.4% was seen in liabilities to government and budget organizations. Bulgaria's International liquidity position expressed by the ratio of foreign reserves to short-term external debt is high - 256.6% at the end of 2015 compared to 163.2% at the end of 2014 and to 148.7% at the end of 2013.

Cover Ratio: Foreign reserves/Short term foreign debt (%)	Dec 2011	Dec 2012	Dec 2013	Dec 2014	Dec 2015
Short-term foreign debt (EUR mn)	9 975	10 603	9 702	10 134	7904.4
Foreign reserves (EUR mn)	13 320	15 552	14 426	16 534	20 285
<b>Cover Ratio FR /STD(%)</b>	<b>133.54</b>	<b>146.68</b>	<b>148.69</b>	<b>163.16</b>	<b>256.63</b>

Source: BNB, UBB's calculations

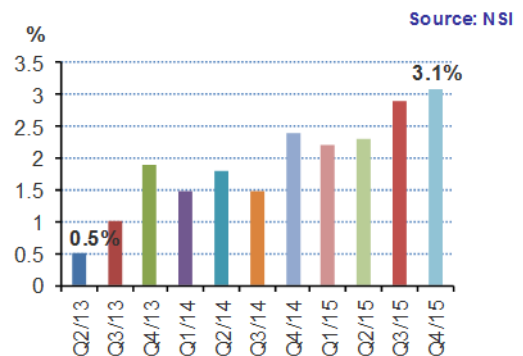
## II. REAL SECTOR

### 1. GDP Growth

In 2015 Bulgaria's GDP Grew up by 3% y/y

According to NSI preliminary data in Q4 2015 GDP at current prices amounted to BGN 23 699 million. In Euro terms GDP reaches EUR 12 117 million in total and EUR 1 687 per capita. According to the seasonally adjusted figures, the GDP growth rate in Q4 of 2015 is 3.0% compared to Q3 of 2015 and 0.7% compared to the same quarter of the previous year. In 2015 GDP at current prices amounts to BGN 86 373 million. In EUR terms GDP is EUR 44 162 million or EUR 6,136 per capita. GDP for 2015 increased in real terms by 3.0% compared to 2014. According to the preliminary data the produced Gross Domestic Product at current prices for Q4 2015 is BGN 23 699 million. GDP per capita is BGN 3 300. GDP is USD 13 267 million USD, respectively USD 1,847 per capita using the average for the quarter exchange rate of 1.78638 BGN for 1 USD. In euro terms GDP is EUR 12 117 million or EUR 1,687 per capita. The GVA generated by the national economy during the fourth quarter of 2015 amounted to BGN 20 461 million at current prices. The share of agricultural sector in GVA of the national economy decreases by 0.1 percentage points to 3.7% in Q4r of 2015. The Industrial sector (incl. construction) increases its relative share in the GVA of the national economy by 1.4 percentage points compared to the same quarter of the previous year and reaches 25.0%. As compared with Q4 of 2014 the service sector decreases its share into gross value added of the economy by 1.3 percentage points to 71.3%. For the final consumption 79.5% of the GDP is used during the fourth quarter of 2015. Investments (gross fixed capital formation) form 23.2% of the GDP. The external balance (exports-imports of goods and services) is negative. In Q4 of 2015 GDP increases by 0.7% compared to the previous quarter. For the same period GVA increase is 0.3%. According to the preliminary data for the fourth quarter of 2015 the final consumption increases by 0.9% compared to Q3 of 2015. Gross fixed capital formation increases by 1.1% for the same period. In the fourth quarter of 2015 the exports of goods and services increases by 5.6%, and the imports increases by 3.9% compared to the previous quarter. GDP for the fourth quarter of 2015 increases by 3.0% compared to the same quarter of the previous year. During Q4 2015 GVA increases by 1.1% compared to Q4 of 2014. The growth is based on the increase in the following economic activities: Professional, scientific and technical activities; administrative and support service activities - with 3.6%, Mining and quarrying; manufacturing; electricity, gas, steam and air conditioning supply; water supply, waste management and remediation activities - 3.4%, Information and communication - 2.8%, Financial and insurance activities - 1.7%, Real estate activities - 1.4%, Wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities and Construction - 1.2% for each and Public administration and defense; compulsory social security; education; human health and social work activities - 0.7%. In regards to the expenditure components of GDP, contributors to the registered positive economic growth are the growth in the collective final consumption - with 2.1% and in the individual consumption - with 1.0%. The Gross fixed capital formation growth is 1.7%. Import and export of goods and services increase by 3.4% and 4.2% accordingly. GDP for 2015 obtained as a sum of quarterly data increases in real terms with 3.0% in comparison with the previous year. The nominal value of the GDP for 2015 is BGN 83 373 million. GDP reaches USD 48 953 million using the average annual exchange rate of 1.76441 BGN for 1 USD. GDP per capita is BGN 12,000 or USD 6,801. In EUR GDP is EUR 44 162 million or EUR 6,136 per capita. Gross value added at current prices amounts to BGN 73 805 million. In real terms GVA increases by 1.5% in comparison with the 2014. The Industry' relative share in the GVA of the national economy is 27.6% which is 0.4 percentage points more than those in 2014. The service sector creates 67.3% of the total GVA and agriculture - 5.1%.

GDP Growth  
to the same quarter previous year  
preliminary data

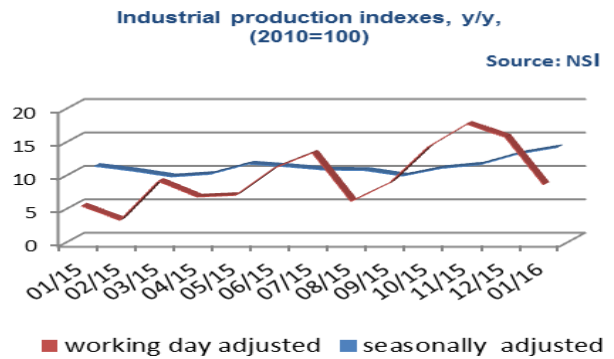


Source: NSI

### 3. Industrial production

#### In January 2016 Bulgaria's Industrial Production Index increased by 0.8% m/m and by 3% y/y

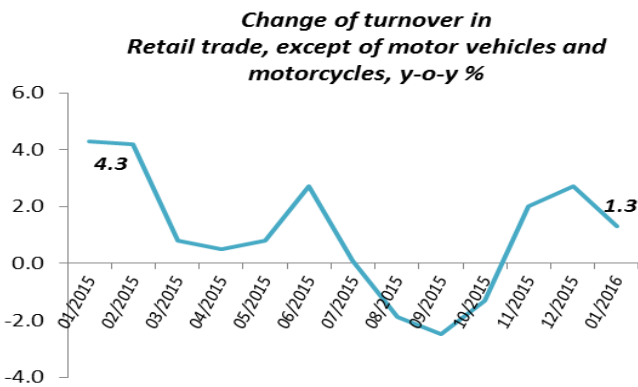
According to NSI preliminary data the Industrial Production Index, seasonally adjusted, increased by 0.8% in January 2016 as compared to December 2015. In January 2016 working day adjusted Industrial Production Index rose by 3.0% in comparison with the same month of 2015. In January 2016 as compared to December 2015, the seasonally adjusted Industrial Production Index increased in the electricity, gas, steam and air conditioning supply by 4.1% and in the mining and quarrying industry by 2.7%, while in the manufacturing a decrease by 0.3% was seen. The most significant decreases of production in the manufacturing were registered in the manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials by 7.1%, in the manufacture of other transport equipment by 5.6%, in the manufacture of paper and paper products by 4.6%, in the manufacture of other non-metallic mineral products by 3.9%. There were increases in the manufacture of fabricated metal products, except machinery and equipment by 22.2%, in the manufacture of computer, electronic and optical products by 19.2%, in the printing and reproduction of recorded media by 11.6%, in the manufacture of beverages by 9.9%. On annual basis in January 2016 Industrial Production Index calculated from working day adjusted data increased in the mining and quarrying industry by 8.4% and in the manufacturing by 5.2%, while in the electricity, gas, steam and air conditioning supply a decrease by 4.8% was registered. In the manufacturing, the more significant increases compared to the same month of the previous year were seen in the manufacture of fabricated metal products, except machinery and equipment by 49.3%, in the manufacture of computer, electronic and optical products by 25.4%, in the printing and reproduction of recorded media by 18.6%, in the manufacture of beverages by 10.0%. Decreases were registered in the manufacture of other transport equipment by 22.8%, in the manufacture of basic metals by 17.4%, in the manufacture of leather and related products by 8.7%, in the manufacture of chemicals and chemical products by 6.7%.



### 4. Retail sales

#### In January 2016 Bulgaria's retail sales increased by 1.3% y/y and kept the level on monthly basis

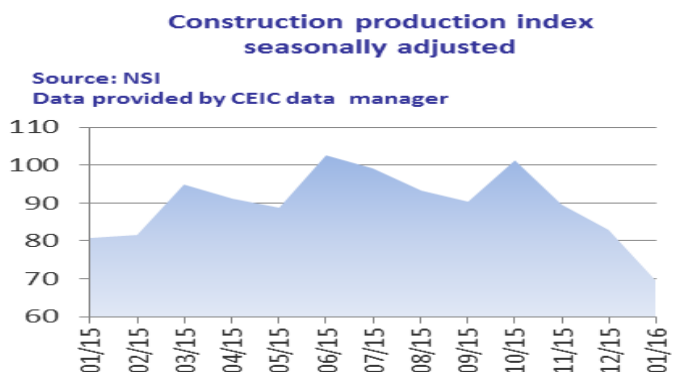
According to NSI preliminary seasonally adjusted data3 in January 2016 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices kept the level of the previous month. In January 2016 the working day adjusted turnover in 'Retail trade, except of motor vehicles and motorcycles' increased by 1.3% in comparison with the same month of the previous year. In January 2016 compared to the previous month the turnover increased in the 'Retail sale of food, beverages and tobacco by 17.7% and in the 'Retail sale of textiles, clothing, footwear and leather goods' by 2.0%. More significantly decrease was registered in the 'Retail sale of automotive fuel' - 18.3%, in the 'Retail sale of computers, peripheral units and software; telecommunications equipment' - 16.0% and in the 'Dispensing chemist; retail sale of medical and orthopedic goods, cosmetic and toilet articles' - 3.7%. In January 2016 compared to the same month of 2015 the turnover increased in the 'Retail sale of food, beverages and tobacco' by 15.1% and in the 'Retail sale of textiles, clothing, footwear and leather goods' by 6.1%. More significantly decrease was registered in the 'Retail sale of computers, peripheral units and software; telecommunications equipment' - 17.9%, in the 'Retail sale of automotive fuel' - 7.9% and in the 'Retail sale in non-specialized stores' - 5.7%.



### 5. Construction

#### In January 2016 Bulgaria's construction declined by 3.4% m/m and by 10.7% y/y

According to NSI preliminary data, in January 2016 the index of production in section 'Construction' calculated on the base of seasonally adjusted data3 was 3.4% below the level of the previous month. In January 2016 working day adjusted data4 showed a decrease by 10.7% in the construction production, compared to the same month of 2015. In January 2016 the construction production, calculated from the seasonally adjusted data, was below the level of the previous month. Index of production of civil engineering fell by 4.9% and the production of building construction - by 2.0%. On an annual basis in January 2016, the drop of production in construction, calculated from working day adjusted data, was determined mainly from the negative rate in the building construction, as well as in the civil engineering, where was registered a decrease by 13.0% and by 8.1%, respectively.



## 6. Tourism

**In February 2016, the number of the trips of Bulgarian residents abroad was 281.4 thousand or grew by 9.8% yoy and the number of arrivals of visitors from abroad to Bulgaria was 361.9 thousand or by 9.7% yoy more**

According to NSI data in February 2016, the number of the trips of Bulgarian residents abroad was 281.4 thousand or by 9.8% above the registered in February 2015. In comparison with the same month of the previous year an increase was observed in the total number of the trips of Bulgarians to: Romania - by 76.1%, Serbia - by 72.6%, the Former Yugoslav Republic of Macedonia - by 68.9%, Austria - by 64.0%, Italy - by 26.1%, Spain - by 18.3%, Germany - by 5.8%, and etc. At the same time a decrease was observed in the total number of the trips of Bulgarians to: Greece - by 25.7%, the Netherland - by 6.4%, Czech Republic - by 6.2%, Turkey - by 1.5%, and etc. The trips with other purposes (as a guest, education and visit the cultural and sport events) in February 2016 composed the greatest share of the total number of trips of Bulgarian residents abroad - 52.2%, followed by the trips with professional purpose - 25.4%, and with holiday and recreation purposes - 22.4%. In comparison with February 2015 an increase was registered in the trips by all observed purposes: with professional purpose - by 19.3%, with holiday and recreation purposes - by 13.7% and with other purposes - by 4.3%. In February 2016, the trips with other purposes formed 67.3% of all trips to Turkey and 66.4% to Romania. The trips with professional purpose to Czech Republic were 69.2%, as these to the Former Yugoslav Republic of Macedonia with holiday and recreation purpose were 45.9% of all trips of Bulgarian residents to these countries (Figure 2). In February 2016, the number of arrivals of visitors from abroad to Bulgaria was 361.9 thousand or by 9.7% above the level of February 2015. An increase was registered in the trips by all observed purposes: with holiday and recreation purpose - by 20.8%, with professional purpose - by 4.2%, and with other purposes - by 1.3%. The share of visits of EU citizens was 39.7% of the total number of foreigners' visits to Bulgaria in February 2016 or by 4.4% less in comparison with the same month of the previous year. A decrease was registered in the visits of the citizens of Greece - by 33.8%, France - by 9.8%, Germany - by 1.4%, Austria - by 1.2%, and etc. At the same time increased the visits from the United Kingdom - by 34.9%, Czech Republic - by 18.9%, Italy - by 8.5%, Belgium - by 4.2%, Romania - by 2.2%, and etc. The visits of foreigners in the group 'Other European countries'<sup>1</sup> increased by 22.2%, as the highest growth was observed in the visits of citizens of the Former Yugoslav Republic of Macedonia - by 40.5%. In February 2016, the predominant share of the visits with holiday and recreation purpose was 44.5%, followed by trips with other purposes (including as guest and passing transit) - 37.4% and with professional purpose - 18.1%. The visits with holiday and recreation purpose formed 96.7% of the arrivals from Israel and 85.9% - from the Former Yugoslav Republic of Macedonia. The visits with professional purpose were 56.5% of the arrivals from Austria and 48.8% - from Germany, as with other purposes were 68.5% of all arrivals from Greece and 67.0% - from Romania.

## 7. Business climate

**In March 2016 the total business climate indicator increased 1.6pps to 21%**

In March 2016 the total business climate indicator increased by 1.6 percentage points compared to the previous month which is due to the more favorable managers' opinions in industry, construction and retail trade.

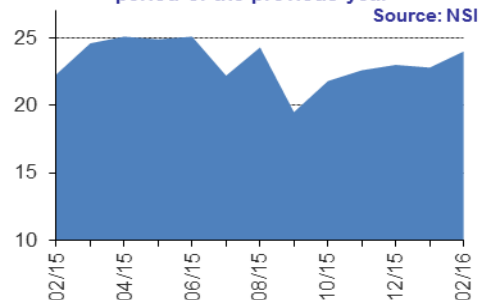
**Industry.** The composite indicator 'business climate in industry' increases by 2.9 percentage points in comparison with February as a result of the more optimistic industrial entrepreneurs' assessments and expectations about the business situation of the enterprises. However, the present production activity is assessed as slight decrease, as the expectations about the activity over the next 3 months are also more reserved. The main obstacles for the business development in the branch continue to be connected with the uncertain economic environment and insufficient domestic demand pointed out respectively by 54.8% and 29.8% of the enterprises. Concerning the selling prices in industry the managers forecast them to remain unchanged over the next 3 months.

**Construction.** In March 2016 the composite indicator 'business climate in construction' increases by 2.4 percentage points which is due to the favourable construction entrepreneurs' assessments about the present business situation of the enterprises. In their opinion the present construction activity is improved in comparison with the previous month, as their forecasts for the next 3 months also remain optimistic. The factor, limiting with the most extent the activity in the branch, remains the uncertain economic environment. In the second and third place are the competition in the branch and insufficient demand. As regards the selling prices in construction the majority of the managers expect preservation of their level over the next 3 months.

**Retail trade.** The composite indicator 'business climate in retail trade' increases by 1.0 percentage point compared to February as a result of the more favourable retailers' expectations about the business situation of the enterprises over the next 6 months. At the same time their forecasts about the volume of sales and orders placed with suppliers over the next 3 months are also improved. The most serious problem for the development of the activity in the branch continues to be connected with the competition in the branch. In the last month the inquiry registers strengthen the negative impact of the factor 'insufficient demand' which shifts to the third place the factor 'uncertain economic environment'. The retailers' expectations are the selling prices in the branch to remain unchanged over the next 3 months.

**Service sector.** In March the composite indicator 'business climate in service sector' decreases by 1.3 percentage points which is due to the more moderate managers' assessments and expectations about the business situation of the enterprises. As regards to the present demand for services their opinions are more reserved, while their expectations over the next 3 months remain favourable. The main obstacles for the business development in the branch remain the uncertain economic environment and competition in the branch. Concerning the selling prices in the sector the managers expect preservation of their level over the next 3 months.

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





**8. Produces price index**

**In February 2016 Bulgaria's Total Producer Price Index in Industry decreased by 0.5% mom and by 5.2% yoy. Producer Price Index on Domestic Market decreased by 0.4% mom and by 4.0% yoy and Producer Price Index on Non-domestic Market fell by 0.8% mom and by 7.4% yoy**

**Total Producer Price Index in Industry** in February 2016 decreased by 0.5% compared to the previous month. Lower prices were registered in the mining and quarrying industry by 1.9% and in the manufacturing by 0.7%, while in the electricity, gas, steam and air conditioning supply the prices remained at the level of the previous month. In the manufacturing, more significant prices decreases were seen in the manufacture of chemicals and chemical products by 1.3% and in the manufacture of leather and related products by 1.1%, while prices increases were reported in the manufacture of basic metals by 0.6% and in the manufacture of wearing apparel by 0.3%. Total Producer Price Index in February 2016 decreased by 5.2% compared to the same month of 2015. The prices fell in the in the mining and quarrying industry by 12.7%, in the manufacturing by 5.1% and in the electricity, gas, steam and air conditioning supply by 4.6%. More significant prices decreases were seen in the manufacture of basic metals by 9.9%, in the manufacture of chemicals and chemical products by 2.4% and in the manufacture of electrical equipment by 1.5%, while the producer prices rose in the manufacture of tobacco products by 4.8%, in the manufacture of wood and of products of wood and cork, except furniture by 2.5% and in the manufacture of leather and related products by 2.3%.

**Producer Price Index on Domestic Market** in February 2016 decreased by 0.4% compared to the previous month. The domestic prices fell in the manufacturing by 0.7% and in the electricity, gas, steam and air conditioning supply by 0.1%, while in the mining and quarrying industry the prices rose by 1.4%. In the manufacturing2, compared to the previous month the prices went down in the manufacture of motor vehicles, trailers and semi-trailers by 1.5%, in the manufacture of chemicals and chemical products by 1.3% and in the manufacture of tobacco products by 0.8%, while a price increase was reported in the manufacture of other transport equipment by 1.7% and in the manufacture of wearing apparel by 0.9%. Producer Price Index on Domestic Market in February 2016 decreased by 4.0% compared to the same month of 2015. The domestic prices fell in the mining and quarrying industry by 9.8%, in the manufacturing by 3.4% and in the electricity, gas, steam and air conditioning supply by 4.5%. In the manufacturing compared to February 2015 the prices fell in the manufacture of basic metals by 11.3%, in the manufacture of chemicals and chemical products by 5.9% and in the manufacture of fabricated metal products, except machinery and equipment by 1.2%. The prices increases were reported in the manufacture of tobacco products by 5.5%, in the manufacture of machinery and equipment n.e.c. by 4.0% and in the manufacture of computer, electronic and optical products by 2.4%.

**Producer Price Index on Non-domestic Market** in February 2016 fell by 0.8% compared to the previous month. In the manufacturing2 compared to the previous month the non-domestic prices fell by 0.7%. The prices declined in the manufacture of leather and related products by 1.5% and in the manufacture of basic pharmaceutical products and pharmaceutical preparations by 1.4%, while the prices went up in the manufacture of basic metals by 0.8% and in the manufacture of motor vehicles, trailers and semi-trailers by 0.4%. Producer Price Index on Non-domestic Market in February 2016 decreased by 7.4% compared to the same month of 2015. In the manufacturing, the prices fell by 7.0% compared to February 2015. The non-domestic prices went down in the manufacture of basic metals by 9.6% and in the manufacture of electrical equipment by 1.8%. The prices rose in the manufacture of paper and paper products by 3.9%, in the manufacture of wood and of products of wood and cork, except furniture by 3.7% and in the manufacture of leather and related products by 3.3%.

**9. CPI Inflation**

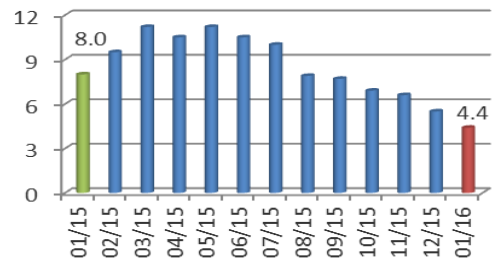
**In February 2016 NSI reported deflation of 0.3% m/m and deflation from 0.5% y/y**

According to NSI data in February 2016 consumer price index was 97.0% or reported deflation of 0.3% compared to January. The inflation rate since the beginning of this year is minus 0.3%, and the annual inflation in February 2016 compared to February

2015 was minus 0.5%. The average annual inflation for the period March 2015 - February 2016 compared to the period March 2014 - February 2015 is 0%. After two consecutive months of zero inflation, the index again turned negative because of cheaper fuel prices. Expected in February continued appreciation of cigarettes as since the beginning of the year there are new higher excise duties on tobacco products. Although the market can still be found cigarettes with old excise labels and the prices of cheaper brands remained almost unchanged compared to the old, in February reported rise of 0.5% compared to January. Food and non-alcoholic beverages rose 0.5%, the increase in the index was due mainly to the appreciation of cheese, some bread products and citrus fruits. After January Oil fell a record in international markets, in February prices of petrol and diesel decreased. Along with continuing depreciation and fuel transport services. In other foodstuffs into account the appreciation of medicines and cosmetic products. In clothing and footwear reported a decrease, probably due to promotions winter collections in stores. The latest EC forecast for annual HICP in Bulgaria is deflation of 0.1% in 2016, to reverse to inflation of 0.9% in 2017.

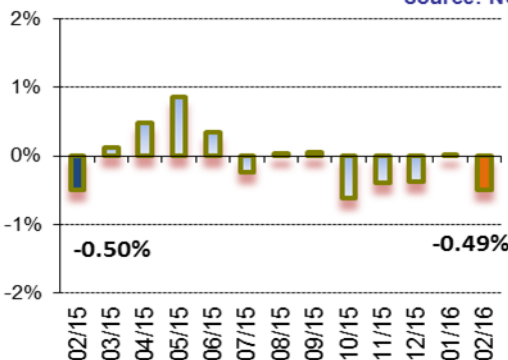
**Total Producer Price Index on Domestic Market**

Source: NSI



**Inflation y/y**

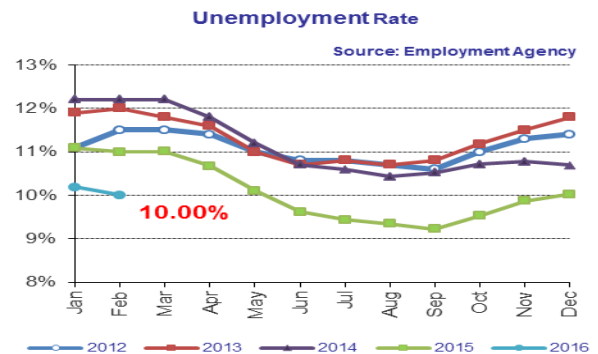
Source: NSI



## 10. Unemployment

**In February 2016 Bulgaria's unemployment rate is 10.0% above the average for the EU of 9%**

According Agency of employment data in February 2016 Bulgaria's unemployment rate is 10.0%, as it declined by 0.2 percentage points compared to January. However, compared with February 2015 unemployment rate decreased by 1.0 percentage point. In the labor offices registered 329,610 unemployed people. They decreased by 4960 people compared to January. Compared to February 2015 the unemployed are significantly less - by 31 566 persons. In February 2016 work received a total of 23,561 unemployed persons in 4716 over the previous month. The number of started work as the primary market and schemes of HRD OP.



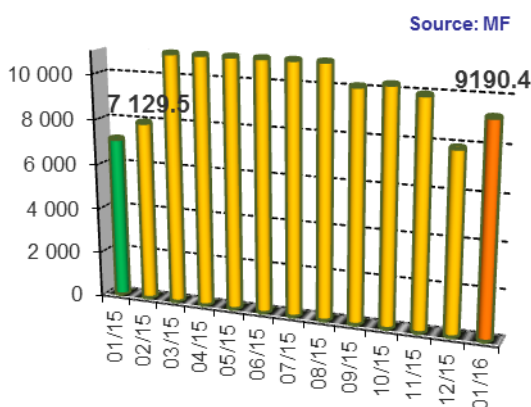
## III. FISCAL SECTOR

### 1. Government budget

**In January 2016 Bulgaria's budget on a cash basis is positive, amounting to BGN 991.6 million, or 1.1% of the projected GDP**

According MF data the Consolidated Fiscal Programme (CFP) balance on a cash basis as of end-January 2016 is positive, amounting to BGN 991.6 million, or 1.1% of the projected GDP, and is formed by a national budget surplus of BGN 811.1 million and a deficit of EU funds of BGN 180.5 million. For comparison, a CFP deficit of BGN 69.1 million (0.1% of GDP) was reported in January 2015, which means that, as a relative share of GDP, the budget stance has improved by 1.0 percentage point. The improvement in the budget stance is due both to the higher revenues and grants and to the lower CFP expenditures as compared to the same period of the previous year. The revenue growth of 26.7% for the first month of 2016 considerably outstrips the growth rates reported in January 2015 as against 2014 (19.3%) and in January 2014 as against January 2013 (15.8%, respectively). The CFP revenues and grants in January 2016 stand at BGN 3,130.3 million, or 9.5% of the annual estimates. Compared to the previous year, revenues and grants have risen by BGN 658.7 million, or by 26.7%. The tax proceeds, including revenues from social security contributions, total BGN 2,568.3 million, which accounts for 9.9% of the revenues planned for the year. Compared to January 2015, tax proceeds have risen in nominal terms by BGN 395.9 million, or by 18.2%. In structural terms, the proceeds from indirect taxes report the most considerable growth. The *direct tax revenues* amount to *BGN 245.9 million*, or 5.2% of those planned in the 2016 State Budget of the Republic of Bulgaria Law, being by BGN 11.1 million, or 4.3%, less than in the first month of 2015. In January 2016, some growth is reported for PIT and CIT revenues, while the revenues from dividend taxes, liquidation quotas and income of resident and non-resident legal persons are lower than in the first month of 2015. Revenues from *indirect taxes* amount to *BGN 1,737.4 million*, which accounts for 13.1% of the 2016 State Budget of the Republic of Bulgaria Law estimates, growing by BGN 393.2 million (29.3%) in comparison to the previous year. The VAT proceeds amount to BGN 1,155.5 million, or 13.7%, of those planned for the year. As compared to the previous year, the VAT revenues have risen by 180.3 million. The amount of the non-

**Fiscal reserve (BGN mn)**



refunded VAT as of end-January is BGN 134.4 million. There is a growth of the excise duty revenues which amount to BGN 565.4 million, or 12.1% of the annual estimates, growing by BGN 213.0 million, or by 60.4%, as against April 2015. The increase in the excise duty proceeds reported in January 2016 as against January 2015 is mainly due to the growth in the excise duty of the tobacco products released for consumption in December 2015 for which the rates valid in 2015 apply. The customs duty proceeds amount to BGN 13.1 million, or 8.7% of the estimates for the year. Proceeds from *other taxes*, including property taxes and other taxes under the Corporate Income Tax Law, amount to *BGN 45.8 million*, or 5.0% of the annual estimates. Revenues from *social security and health insurance contributions* are *BGN 539.2 million*, or 7.6% of the estimates for the year. Compared to the previous year, the revenues from social security contributions have risen by BGN 13.1 million, or by 2.5%, in nominal terms. Non-tax revenues amount to BGN 342.4 million, or 7.6% of the annual estimates. Proceeds from grants received domestically or from abroad, including EU grants, amount to BGN 219.6 million, which accounts for 8.6% of the annual estimates. The Consolidated Fiscal Programme expenditures, including the contribution of the Republic of Bulgaria to the EU budget for January 2016, amount to BGN 2,138.8 million, which accounts for 6.1% of the annual estimates. For comparison, the CFP expenditures for January 2015 amount to BGN 2,402.5 million. Non-interest expenditures

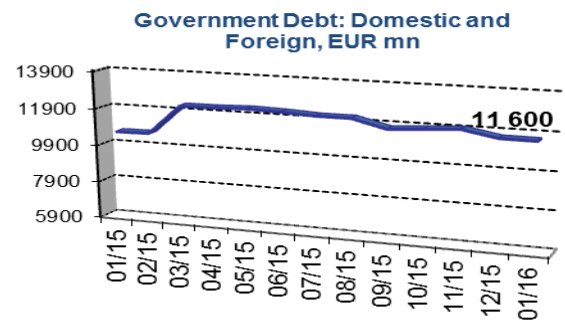


amount to BGN 2,021.8 million, which accounts for 6.2% of the annual estimates. The *non-interest current expenditures* for January 2016 amount to BGN 1,964.5 million, 7.4% of the annual estimates, *capital expenditures* (including net increment of state reserve) amount to BGN 57.3 million, or 0.9% of the 2016 State Budget of the Republic Bulgaria Law estimates. Interest payments amount to BGN 95.1 million, or 11.9% of those planned for 2016. The part of Bulgaria's contribution to the EU budget, as paid from the central budget in January 2016, amounts to BGN 21.9 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 fiscal reserve as of 31.01.2016 is BGN 9.2 billion, including BGN 7.2 billion of deposits in BNB and in banks and BGN 1.95 billion of receivables under the EU Funds for certified expenditure, advance payments, etc.

## 2. Government debt

**In January 2016 Bulgaria's government debt amounted at EUR 11,599.6 million and presented 25.7% of GDP**

According to MF data Bulgaria's government debt as at end-January 2016 stands at EUR 11,599.6 million. Domestic debt amounts to EUR 3,710.4 million and external debt - to EUR 7,889.2 million. At the end of the reporting period the government debt/GDP ratio is 25.7%, with the share of domestic government debt being 8.2% and of external government debt - 17.5% of GDP. In the government debt structure, domestic debt at the end of the period amounts to 32.0%, and external debt - to 68.0%. In January, the government guaranteed debt reaches EUR 296.5 million, of which EUR 29.7 million domestic government guarantees, with the government guaranteed debt/GDP ratio being 0.7%.



Source: MF  
Data provider: CEIC Data Manager

## IV. MONETARY SECTOR

**In February 2016 Bulgaria's broad money (monetary aggregate M3) increased annually by 7.1% to BGN 73.870 billion. For the same period the Domestic credit declined by 2.2% yoy to BGN 52.629 billion**

According to BNB data in February 2016 broad money (monetary aggregate M3) increased annually by 7.1% compared to 6.6% annual growth in January 2016. At the end of February 2016 M3 was BGN 73.870 billion (81.5% of GDP) compared to BGN 73.551 billion (81.1% of GDP) in January 2016. Its most liquid component – monetary aggregate M14 – increased by 11.8% annually in February 2016 (11.4% annual growth in January 2016). At the end of February 2016, deposits of the non-government sector were BGN 63.847 billion (70.4% of GDP), increasing annually by 8.3% (7.8% annual growth in January 2016). Deposits of Non-financial corporations were BGN 17.665 billion (19.5% of GDP) at the end of February 2016. Compared to the same month of the previous year they increased by 14.3% (12.6% annual growth in January 2016). Deposits of financial corporations decreased by 0.9% annually in February 2016 (6.1% annual decline in January 2016). At the end of the month they reached BGN 3.280 billion (3.6% of GDP). Deposits of Households and NPISHs were BGN 42.902 billion (47.3% of GDP) at the end of February 2016, increasing by 6.7% compared to the same month of 2015 (7.1% annual growth in January 2016). Net domestic assets were BGN 50.804 billion at the end of February 2016. They decreased by 2.1% compared to the same month of 2015 (2.4% annual decline in January 2016). At the end of the month their basic component – domestic credit – was BGN 52.629 billion and decreased by 2.2% compared to February 2015 (2.7% annual decline in January 2016). In February 2016 claims on the non-government sector declined by 1.8% annually (1.9% annual decrease in January 2016) reaching BGN 50.079 billion. At the end of February 2016, claims on loans to the non-government sector amounted to BGN 49.070 billion (54.1% of GDP) compared to BGN 49.212 billion (54.3% of GDP) at the end of January 2016. They decreased annually by 1.4% in February 2016 (1.4% annual decline in January 2016). The change of loans to the non-government sector was influenced by net sales of loans by Other monetary financial institutions (Other MFIs) - their volume for the last twelve months was BGN 553.8 million. On an annual basis, loans sold by Other MFIs were BGN 577.7 million (of which BGN 130.4 million in February 2016), while the amount of repurchased loans was BGN 23.9 million (of which BGN 1.8 million in February 2016). In February 2016, loans to Non-financial corporations decreased by 2% annually (2% annual decline in January 2016) and at the end of the month amounted to BGN 30.008 billion (33.1% of GDP). Loans to Households and NPISHs were BGN 17.868 billion (19.7% of GDP) at the end of February 2016. They decreased by 1.7% compared to the same month of 2015 (1.8% annual decline in January 2016). At the end of February 2016 loans for house purchases were BGN 8.627 billion and decreased by 0.7% annually (0.9% annual decline in January 2016). Consumer loans amounted to BGN 7.102 billion and compared to February 2015 they declined by 2.8% (3% annual decrease in January 2016). On an annual basis other loans increased by 0.3% (1.5% annual growth in January 2016) and reached BGN 695.2 million. Loans granted to financial corporations were BGN 1.194 billion at the end of February 2016 (1.3% of GDP). Compared to February 2015, they increased by 21.6% (24.9% annual growth in January 2016). Net foreign assets amounted to BGN 42.269 billion at the end of the reporting month compared to BGN 41.421 billion at the end of January 2016. They increased by 20% on an annual basis compared to 17.9% annual growth in January 2016. At the end of February 2016 foreign assets increased by 8% annually (6.9% annual growth in January 2016), reaching BGN 51.551 billion. Foreign liabilities amounted to BGN 9.282 billion, marking a 25.7% annual decline (24.1% annual decrease in January 2016).

According to BNB data in February 2016 the share of bad and restructured loans in Bulgaria declined by 0.2 pps on a monthly basis and by 1.2 pps y/y, respectively to 17.85%. Compared to the previous month January the bad and restructured loans of corporates declined by 2.7 pps and within mortgage loans by 0.1 pps. Compared to January 2016 bad and restructured loans of consumer loans increased by 0.6 pps and other loans to households by 0.01 pps.

Bulgaria	31.12.2015		31.01.2016		29.02.2016	
Banking sector bad and restructured loans	BGN'000	%	BGN'000	%	BGN'000	%
<b>CORPORATE LOANS</b>	<b>30 473 749</b>	<b>100.00</b>	<b>30 140 537</b>	<b>100.00</b>	<b>30 008 227</b>	<b>100.00</b>
Standart Loans	24 680 314	80.99	24 327 669	80.71	24 303 145	80.99
Bad and restructured loans	5 793 435	19.01	5 812 868	19.29	5 705 082	19.01
<b>HOUSEHOLDS LOANS</b>	<b>18 140 445</b>	<b>100.00</b>	<b>17 882 646</b>	<b>100.00</b>	<b>17 867 686</b>	<b>100.00</b>
Standart Loans	15 145 522	83.49	15 035 103	84.08	15 025 842	84.10
Bad and restructured loans	2 994 923	16.51	2 847 543	15.92	2 841 844	15.90
<b>Consumer loans</b>	<b>7 268 902</b>	<b>100.00</b>	<b>7 096 988</b>	<b>100.00</b>	<b>7 101 584</b>	<b>100.00</b>
Standart Loans	6 186 475	85.11	6 145 426	86.59	6 145 084	86.53
Bad and restructured loans	1 082 427	14.89	951 562	13.41	956 500	13.47
<b>Mortgage loans</b>	<b>8 647 391</b>	<b>100.00</b>	<b>8 633 709</b>	<b>100.00</b>	<b>8 627 208</b>	<b>100.00</b>
Standart Loans	6 928 404	80.12	6 923 381	80.19	6 926 689	80.29
Bad and restructured loans	1 718 987	19.88	1 710 328	19.81	1 700 519	19.71
<b>Other Loans</b>	<b>2 224 152</b>	<b>100.00</b>	<b>2 151 949</b>	<b>100.00</b>	<b>2 138 894</b>	<b>100.00</b>
Standart Loans	2 030 643	91.30	1 966 296	91.37	1 954 069	91.36
Bad and restructured loans	193 509	8.70	185 653	8.63	184 825	8.64
<b>TOTAL LOANS</b>	<b>48 614 194</b>	<b>100.00</b>	<b>48 023 183</b>	<b>100.00</b>	<b>47 875 913</b>	<b>100.00</b>
<b>Standart Loans</b>	<b>39 825 836</b>	<b>81.92</b>	<b>39 362 772</b>	<b>81.97</b>	<b>39 328 987</b>	<b>82.15</b>
<b>Bad and restructured loans</b>	<b>8 788 358</b>	<b>18.08</b>	<b>8 660 411</b>	<b>18.03</b>	<b>8 546 926</b>	<b>17.85</b>

Source: BNB, calculations UBB

## V. CAPITAL MARKET

### In February 2016, the turnover on the BSE declined by 11% yoy to BGN25 million

According to BSE data in February 2016 the turnover of the Bulgarian Stock Exchange - Sofia has declined by 10.56% yoy to BGN 25.2 million. Trading for the past 12 months amounted to BGN 338.5 million, down by 47% compared to the previous 12 months. The number of transactions declined by 35% to 3633, which is the weakest result since April 2012. The decrease for the last 12 months by 45% to 54,739 transactions. The biggest turnover in February AI Euro-Finance Ltd. to BGN 30.35 million under double counting (once the buyer and seller once). So the intermediary formed just over 50% of the total turnover for the month. In second place was Central Cooperative Bank with BGN 16.9 million and the third place was BenchMark Finance with BGN15.3 million. Followed Capman with BGN 11.2 million, "De novo" with BGN 9.8 million. Real Finance with BGN 7 million, FFBH with BGN 6.8 million, Carroll with BGN5.2 million, D.I.S.L. Securities with BGN4.75 million, Elana Trading with BGN 4.7 million and others. In terms of number of transactions (only basic market) in February 2016 the leader is Carole with 3837 transactions. Elana Trading has 1733 transactions, followed by BenchMark Finance AD with 1415 transactions, First Financial Brokerage House with 938 transactions and South Market with 685 transactions. The biggest turnover among shares in the last month (until March 9) are Trace Group Hold AD with BGN2.2 million, Sparky with BGN 2.15 million, Texim Bank with BGN 1.98 million, Synthetics Plc with BGN 1.9 million, CCB Real Estate Fund REIT with BGN 1.86 million, Velgraf Asset Management with BGN 1.46 million, Advance Terrafund with BGN 970 thousand, Synergon Holding AD with BGN 807 thousand, Artanes Mining Group AD with BGN 503 thousand and Expat properties REIT with BGN 487 thousand. Only 2 of these companies are part of the index SOFIX, which is the main benchmark of BSE. The turnover of companies in SOFIX fell from BGN 5 billion in 2007 to BGN 68 million at the end of the last year.

Date	SOFIX	BGBX40	BGREIT	BGTR30
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
02.2016	447.4	89.9	100.5	373.4

Source: Bulgarian Stock Exchange-Sofia

## VI. REAL ESTATE

### In March 2016 real estate transactions increased by 12% yoy

According to the National Association "Real Estate" for the first three months of 2016 has increased by 12% the number of confessed real estate transactions increased by 12% yoy. Some revival of the property market and the increase in sales and purchases can be explained by the long lethargy in the market and awareness of people that can not postpone certain transactions and wait for drastic changes in prices. Another reason is related to drastic reduction of interest rates on deposits. The growth in confessed transactions led to a rise in prices at the beginning of the year has been marked increase them within 5-10%. The mountain and beach resorts - of a third, fourth and fifth line - Sunny Beach, Ravda - for various reasons in recent months are quoted properties for EUR 10,000-15,000. This is explained by the desire of investors to dispose of such property accompanying weights and overbuilding in the resorts. For gains in sales of vacation properties we can speak only for luxury properties, unique places the first line of the sea or near the tracks. Precarious lives in small villages inside the country even has resulted in houses acre yard in some places already can be purchased for BGN 5,000-6,000. There is also an outflow of interest of foreigners to purchase such properties, now their prices have stabilized at levels of 4-5 years ago.

## VI. BANKING SECTOR

### In February 2016 Bulgaria's banking system net profit recorded BGN 196 million and maintained its level from the previous year. Bulgaria's banking system total assets amounted to BGN 87.6 billion and presented 99.25% of GDP

According to BNB data at the end of February 2016 the aggregated net profit of profit of the banking system in Bulgaria is BGN 196 million and maintain its level from the previous year. Net interest income increased by 5.67% y/y. The proceeds from fees and commissions of the banking system continues to grow. In February 2016 the banks reported BGN 158.4 million income from fees and commissions. Meanwhile, in recent months, banking institutions increased their official tariff conditions. Thus, the net income from fees and commissions increased by 4.15% y/y. Allowances for impairment of loans and receivables from the beginning of 2016 amounted to BGN 124 million compared to BGN 110 million for the same period last year. According to BNB data at the end of February 2016 Bulgaria's banking system total assets amounted to BGN 87.6 billion and grew by .6% m/m and by 1.33% y/y, respectively. During the month the position cash and cash balances with central banks and other deposits increased by 0.7% and its share in balance sheet total remained at a level of 19.9%. Investments in debt and equity instruments increased by 2.2% with a leading contribution of debt securities held for sale. The share of the securities portfolio increased to 13.5% in total assets. The loan portfolio of the banking system (excluding sectors central banks and credit institutions) reported a slight decrease of 0.4% m/m with growth of nearly 7% y/y to BGN 53.3 billion. The dynamics is influenced by carried out in months sales of loans. Loans to non-financial corporations decreased by 0.5% m/m, while those for households remained virtually unchanged. During the month the greatest rate of decline has loans to general government by 6.1% and other financial institutions by 2.0%, respectively. At the end of February 2016 the attracted funds from clients in the banking system recorded a monthly growth of 0.73% and a growth of 14.8% y/y and amounted to BGN 69.5 billion. Deposits of households increased by 0.5% m/m and by 9.8% y/y, respectively while their share in the structure of total deposits in the banking system reached 60.4%. Deposits of enterprises continued to rise by 0.33 m/m and by 27.45% y/y to BGN 19.3 billion. In February 2016 liquid assets increased by 2.5% to BGN 28.3 billion, as the largest growth was observed in current accounts with other banks and interbank deposits to 7 days. Bulgaria's banking system liquidity ratio, calculated under Decree № 11 of BNB increased to 37.59%. In February 2016 the balance sheet capital of the banking system recorded BGN 11.8 billion. Compared to the end of January, it increased by 1.6% mainly due to the contribution of profits. The monthly increase there is observed in paid-in capital as well as in the retained earnings. The total capital adequacy of the banking system in Bulgaria at the end of 2015 was 22.18%. The data indicate preservation of capital buffers at the end of 2015 and the total equity of banks amounted to BGN10.96 billion compared to BGN 10.82 billion at the end of 2014. The total risk exposure is estimated at BGN 49.4 billion compared to BGN 49.3 billion in 2014. The ratio of Tier I capital increased to 20.46% compared to 19.97% in 2014 and the ratio of common equity first line at the end of the year was 19.98%. The data for ratios of capital adequacy of the banking system and by groups of banks are published on a quarterly basis, according to the reporting forms Regulation № 680/2014 of the European Parliament and of the Council of 16 April 2014.

Bulgaria	29.02.2015	31.12.2015	31.01.2016	29.02.2016	Change	Change	Change	Share in
Intermediation Indicators	BGN'000	BGN 000	BGN'000	BGN'000	m/m (%)	y/y (%)	yend (%)	GDP (%)
<b>BANKING SYSTEM TOTAL ASSETS</b>	<b>86 469 949</b>	<b>87 524 257</b>	<b>87 074 436</b>	<b>87 621 213</b>	<b>0.63</b>	<b>1.33</b>	<b>0.11</b>	<b>99.25</b>
Loans to central governments		659 732	630 414	591 873	- 6.11	n.a	- 10.29	0.67
Loans to non-financial corporations	30 617 817	33 284 916	32 954 488	32 803 902	- 0.46	7.14	- 1.45	37.16
Loans to financial corporations	982 516	1 864 444	1 836 510	1 800 113	- 1.98	83.21	- 3.45	2.04
Retail loans, incl.:	18 174 442	18 311 622	18 061 533	18 056 815	- 0.03	- 0.65	- 1.39	20.45
Mortgage loans	8 687 406	8 763 674	8 751 478	8 744 929	- 0.07	0.66	- 0.21	9.91
Consumer loans	9 487 036	8 717 527	8 493 368	8 497 700	- 0.05	- 10.43	- 2.52	9.63
Micro credits and other loans		830 421	816 687	814 186	- 0.31	n.a	- 1.96	0.92
<b>TOTAL LOANS</b>	<b>49 774 775</b>	<b>54 120 714</b>	<b>53 482 945</b>	<b>53 252 703</b>	<b>- 0.43</b>	<b>6.99</b>	<b>- 1.60</b>	<b>60.32</b>
<b>ATTRACTED SOURCES FROM CLIENTS, incl.:</b>	<b>60 546 593</b>	<b>69 275 994</b>	<b>69 024 320</b>	<b>69 531 344</b>	<b>0.73</b>	<b>14.84</b>	<b>0.37</b>	<b>78.76</b>
Local government deposits	1 564 569	1 842 954	1 859 616	1 938 693	4.25	23.91	5.19	2.20
Non-financial corporations deposits	15 151 550	19 723 779	19 247 808	19 311 259	0.33	27.45	- 2.09	21.87
Financial corporations deposits	3 099 529	3 302 130	3 408 341	3 571 725	4.79	15.23	8.16	4.05
Households and NPSHs deposits	40 730 945	44 407 131	44 508 555	44 709 667	0.45	9.77	0.68	50.64
Equity	11 057 958	11 523 203	11 601 335	11 783 504	1.57	6.56	2.26	
Net profit (annualised)	196 278	898 429	85 377	196 013		-0.13		
<b>BANKING INDICATORS (%)</b>								
ROE	10.65	7.80	8.83	9.98		-0.67	2.18	
ROA	1.36	1.03	1.18	1.34		-0.02	0.32	
Capital adequacy	n.a	n.a	n.a	n.a				
Liquidity	32.85	36.70	36.83	37.59		4.74	0.89	
NPL	n.a	13.60	n.a	n.a				
GDP, BGN '000	82 406 000	80 668 208	88 282 000	88 282 000				
EUR/BGN	1.95583	1.95583	1.95583	1.95583				
EUR/BGN								

Source: BNB, MF, UBB Calculations



## 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 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).<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 reflects 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

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