

All data in the edition are the last available data as of October 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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BULGARIA: ECONOMIC AND MARKET ANALYSIS

Monthly report as of October 2016

- The current and capital account recorded a surplus of EUR 627 million in August 2016, compared with a positive balance of EUR 485 million in August 2015
- In the period January - July 2016 Bulgarian exports to the EU grew by 4.3% in comparison with the same period of 2015 and amounted to BGN 17 496.6 million
- Gross external debt amounted to EUR 34,694.8 million (76.3% of GDP) at end-August 2016
- According to BNB data in September 2016 Bulgaria's foreign reserves amounted to BGN 45.9 billion (EUR 23.5 billion) and rose by 0.8% m/m and by 16.7% y/y, respectively
- Gross Domestic Product (GDP) expanded with 3.0% in the second quarter of 2016 compared to the same quarter of the previous year and with 0.7% compared to the first quarter of 2016
- According to the preliminary data the Industrial Production Index, seasonally adjusted, increased by 0.7% in August 2016 as compared to July 2016
- In August 2016 the working day adjusted turnover in 'Retail trade, except of motor vehicles and motorcycles' increased by 5.4% in comparison with the same month of the previous year
- In August 2016 working day adjusted data showed a decrease by 10.2% in the construction production, compared to the same month of 2015
- In September 2016, the number of the trips of Bulgarian residents abroad was 510.3 thousand or by 13.2% above the registered in September 2015
- In October 2016 the total business climate indicator decreases by 1.3 percentage points in comparison with the previous month
- Total Producer Price Index in Industry in September 2016 increased by 0.5% compared to the previous month
- The consumer price index in September 2016 compared to August 2016 was 99.5%, i.e. the monthly inflation was -0.5%
- In September, the registered unemployment rate continues to decline by 0.2 percentage points to 7.8%
- Based on the monthly data of first-level spending units, the Consolidated Fiscal Programme (CFP) balance on a cash basis as of end-September 2016 is positive, amounting to BGN 3,362.2 million
- According to the official debt register kept by the Ministry of Finance, the central government debt as at end-September 2016 stands at EUR 13,360.7 million
- In September 2016 broad money (monetary aggregate M3) increased annually by 8.7% compared to 8.9% annual growth in August 2016
- In September 2016 the best performance on BSE for the month recorded SOFIX, which added 8.6% to its value
- During the third quarter of 2016, the total assets in the banking system increased by BGN 1.2 billion (1.3%) amounting to BGN 89.8 billion

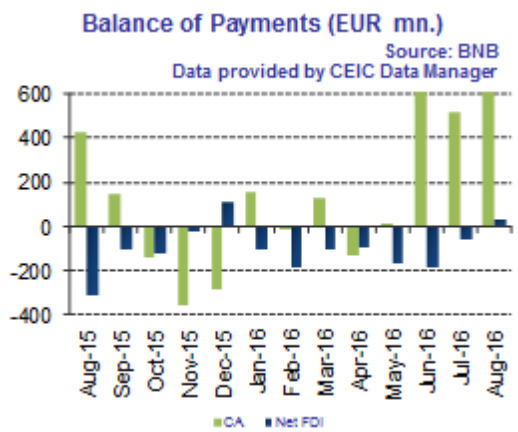
Bulgaria: Key Macroeconomic Indicators	2013 (a)	2014 (a)	2015 (a)	2016 (p)	2017 (p)	2018 (p)	2019 (p)
Gross Domestic Product							
GDP (BGN million)	81 971	83 612	86 373	88 874	92 395	96 338	100 557
GDP (EUR million)	41 911	42 750	44 162	45 441	47 241	49 257	51 414
GDP (real growth, %)	1.3	1.5	3	2.6	2.5	2.7	2.7
Consumption	-0.7	2.2	0.7	1.5	2.7	2.5	2.4
Gross capital formation	0.3	3.4	2.5	0.1	1.1	3.2	4.2
Exports of goods and services	9.2	-0.1	7.6	4.4	3.9	4.1	4.3
Imports of goods and services	4.9	1.5	4.4	3.5	3.8	4.1	4.5
Labour market and prices							
Employment (%)	-0.4	0.4	0.4	1.1	0.6	0.6	0.6
Unemployment rate (%)	12.9	11.4	9.1	8.1	7.3	6.8	6.5
Compensation of one employed (%)	8.8	5.6	1.8	5.8	5.4	5.7	5.9
GDP Deflator (%)	-0.7	0.4	0.3	0.3	1.4	1.5	1.6
Average inflation (%)	0.4	-1.6	-1.1	-1.1	1.5	1.6	1.8
Balance of payments							
Current account (% of GDP)	1.8	0.9	1.4	2.3	2	1.8	1.4
Trade balance (% of GDP)	-6.9	-6.5	-4.3	-3.2	-3.4	-3.5	-3.7
FDI (% of GDP)	3.6	3.6	3.6	3.7	3.7	3.8	3.8
Monetary sector							
M3 (% y/y growth)	8.5	1.1	8.8	8.6	9	9.3	9.5
Loans to companies (% y/y growth)	0.5	- 10.8	- 1.8	0	2.9	4.9	6.5
Loans to households (% y/y growth)	0.2	-1.6	-1.3	0.4	3.3	3.8	4.5
Source: MF 2016 Autumn Projection							

I. EXTERNAL SECTOR

1. Balance of payments

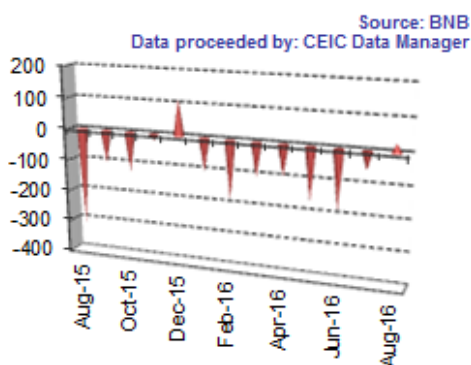
The current and capital account recorded a surplus of EUR 627 million in August 2016, compared with a positive balance of EUR 485 million in August 2015

The current and capital account recorded a surplus of EUR 627 million in August 2016, compared with a positive balance of EUR 485 million in August 2015. In January – August 2016 the current and capital account was positive amounting to EUR 2,850.9 million (6.3% of GDP), compared with a surplus of EUR 1,690.2 million (3.7% of GDP) in January – August 2015. The current account was positive amounting to EUR 621.2 million in August 2016, compared with a surplus of EUR 424.9 million in August 2015. In January – August 2016 the current account was positive and amounted to EUR 1,914.8 million (4.2% of GDP), compared with a surplus of EUR 805.5 million (1.8% of GDP) in January – August 2015. The balance on goods recorded a deficit of EUR 174.2 million in August 2016, compared with a deficit of EUR 26.7 million in August 2015. In January – August 2016 the balance on goods was negative amounting to EUR 1,073.3 million (2.4% of GDP), compared with a deficit of EUR 1,419 million (3.1% of GDP) in January – August 2015. Exports of goods amounted to EUR 2,005.1 million in August 2016, growing by EUR 193.1 million (10.7%) from August 2015 (EUR 1,812 million). In January – August 2016 exports of goods totalled EUR 14,579.8 million, decreasing by EUR 181.2 million (1.2%) year-on-year (from EUR 14,761 million). In January – August 2015 exports grew by 8.6% year-on-year. Imports of goods amounted to EUR 2,179.2 million in August 2016, growing by EUR 340.5 million (18.5%) from August 2015 (EUR 1,838.7 million). In January – August 2016 imports of goods totalled EUR 15,653.1 million, dropping by EUR 526.9 million (3.3%) from January – August 2015 (EUR 16,180 million). In January – August 2015 imports grew by 5.2% year-on-year. Services recorded a positive balance of EUR 713 million in August 2016, compared with a surplus of EUR 654.7 million in August 2015. In January – August 2016 services recorded a surplus of EUR 2,484.7 million (5.5% of GDP) compared with a positive balance of EUR 2,330.6 million (5.1% of GDP) in the same period of 2015. The net primary Income (which



reflects the receipt and payment of income related to the use of resources (labor, capital, land), taxes of production and imports and subsidies) recorded a surplus of EUR 7.4 million in August 2016, compared with a deficit of EUR 266.8 million in August 2015. In January – August 2016 the balance on primary income was negative and equated to EUR 771.5 million (1.7% of GDP), against a deficit of EUR 1,524.3 million (3.4% of GDP) in January – August 2015. The net secondary income (which reflects the redistribution of income) recorded a surplus of EUR 75 million, compared with a surplus of EUR 63.8 million in August 2015. In January – August 2016 the net secondary income was positive amounting to EUR 1,274.9 million (2.8% of GDP), compared with a positive balance of EUR 1,418.2 million (3.1% of GDP) in the same period of 2015. The capital account recorded a surplus of EUR 5.8 million, compared with a positive balance of EUR 60.1 million in August 2015. In January – August 2016 the capital account recorded a surplus of EUR 936.1 million (2.1% of GDP), compared with a positive balance of EUR 884.7 million (2% of GDP) in January – August 2015. The financial account recorded a net inflow of EUR 1,060 million, compared with a positive balance of EUR 195 million in August 2015. In January – August 2016 the financial account recorded a net inflow of EUR 3,145.4 million (6.9% of GDP) compared with an inflow of EUR 2,252.1 million (5% of GDP) in January – August 2015. The net direct investment compiled in accordance with the Sixth Edition of the Balance of Payments and International

Net FDI 2015 - 2016 (EUR mn.)



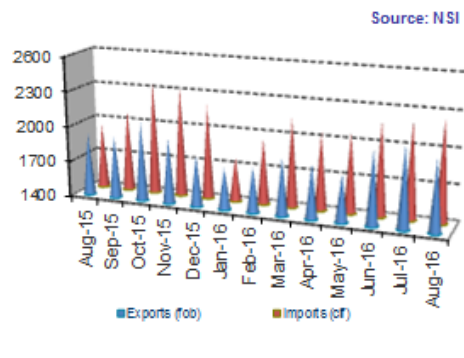
investment position manual was positive amounting to EUR 29.4 million, compared with a negative balance of EUR 314.7 million in August 2015. In January – August 2016 the balance was negative and equated to EUR 870.1 million (1.9% of GDP), compared with a negative balance of EUR 1,460.7 million (3.2% of GDP) million in January – August 2015. Direct investment – assets increased by EUR 34.3 million compared with a decline of EUR 159.3 million in August 2015. In January – August 2016 direct investment - assets rose by EUR 280 million, compared with a decline of EUR 75.4 million in the same period of 2015. Direct investment – liabilities recorded a net increase of EUR 5 million in August 2016, compared with an increase of EUR 155.3 million in August 2015. In January – August 2016 direct investment – liabilities grew by EUR 1,150.1 million, compared with an increase of EUR 1,385.3 million in the same period of 2015. The balance on portfolio investment was positive amounting to EUR 144.4 million, compared with a positive balance of EUR 105.1 million in August 2015. In January – August 2016 the balance was negative and equated to EUR 986.6 million (2.2% of GDP), compared with a negative balance of EUR 1,482.9 million (3.3% of GDP) million in January – August 2015. Portfolio investment – assets grew by EUR 548.9 million, compared with a decline of EUR 10.1 million in August 2015. In January – August 2016 they rose by EUR 470.4 million compared with a decrease of EUR 672.9 million in January – August 2015. Portfolio investment – liabilities increased by EUR 404.5 million compared with a decline of EUR 115.2 million in August 2015. In January – August 2016 portfolio investment – liabilities grew by EUR 1,457 million, compared with an increase of EUR 810 million in January – August 2015. The balance on other investment was positive amounting to EUR 653.9 million, compared with a positive balance of EUR 77.6 million in August 2015. In January – August 2016 the balance was positive and equated to EUR 2,343.1 million (5.2% of GDP), compared with a positive balance of EUR 1,776.1 million (3.9% of GDP) in January – August 2015. Other investment – assets rose by EUR 190.8 million, compared with a decrease of EUR 2.6 million in August 2015. In January – August 2016 they grew by EUR 1,513.2 million compared with a decline of EUR 846.5 million in January – August 2015. Other investment – liabilities dropped by EUR 463 million compared with a decrease of EUR 80.2 million in August 2015. In January – August 2016 they fell by EUR 829.9 million compared with a decline of EUR 2,622.6 million in January – August 2015. The BNB reserve assets grew by EUR 234.9 million, compared with an increase of EUR 329.9 million in August 2015. In January – August 2016 they rose by EUR 2,726.8 million (6% of GDP), compared with an increase of EUR 3,400.8 million (7.5% of GDP) in the same period of 2015. The net errors and omissions were positive amounting to EUR 433 million compared with a negative value of EUR 290 million in August 2015. According to preliminary data, the item was positive in January – August 2016 and totalled EUR 294.5 million (0.6% of GDP), against a positive value of EUR 561.9 million (1.2% of GDP) in the same period of 2015.

2. Foreign Trade

In the period January - July 2016 Bulgarian exports to the EU grew by 4.3% in comparison with the same period of 2015 and amounted to 17 496.6 Million BGN

In the period January - July 2016 Bulgarian exports to the EU grew by 4.3% in comparison with the same period of 2015 and amounted to 17 496.6 Million BGN. Main trade partners of Bulgaria were Germany, Italy, Romania, Greece and France which accounted for 64.7% of the exports to the EU Member States. In July 2016 the exports to the EU increased by 7.2% compared to the corresponding month of the previous year and added up to 2 817.4 Million BGN. Bulgarian imports from the EU in the period January - July 2016 decreased by 1.0% compared to the same period of the previous year and reached 18 966.4 Million BGN at CIF prices. The largest amounts were reported for the goods imported from Germany, Italy, Romania, Greece and Hungary. In July 2016 the Bulgarian imports from the EU Member States dropped by 4.3% in comparison with July 2015 and amounted to 2 914.9 Million BGN.

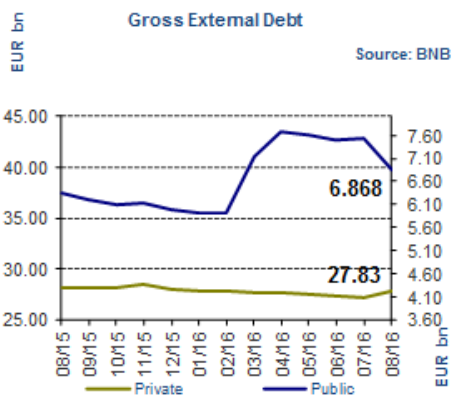
Foreign Trade (EUR mn)



3. External debt

Gross external debt amounted to EUR 34,694.8 million (76.3% of GDP) at end-August 2016

Gross external debt amounted to EUR 34,694.8 million (76.3% of GDP) at end-August 2016, increasing by EUR 606.4 million (1.8%) from end-2015 (EUR 34,088.5 million, 75.3% of GDP). On a year-on-year basis gross external debt grew by EUR 199.5 million (0.6%) from August 2015 (EUR 34,495.3 million, 76.2% of GDP). Long-term liabilities totalled EUR 27,037.7 million (77.9% of the total debt, 59.5% of GDP) at end-August 2016, growing by EUR 828.5 million (3.2%) from end-2015 (EUR 26,209.2 million, 76.9% of the total debt, 57.9% of GDP). On a year-on-year basis, long-term liabilities grew by EUR 397.3 million (1.5%) from August 2015 (EUR 26,640.4 million, 58.8% of GDP). Short-term liabilities equalled EUR 7,657.2 million (22.1% of the total debt, 16.8% of GDP), decreasing by EUR 222.1 million (2.8%) from end-2015 (EUR 7,879.3 million; 23.1% of the total debt, 17.4% of GDP). On a year-on-year basis, short-term liabilities dropped by EUR 197.8 million (2.5%) from August 2015 (EUR 7,854.9 million, 17.3% of GDP). General government's gross external debt totalled EUR 6,516.9 million (14.3% of GDP) in end-August 2016. It rose by EUR 936.8 million (16.8%) from end-2015 (EUR 5,580.1 million, 12.3% of GDP), mostly due to the nonresident-held securities from Bulgaria's bond issues on international capital markets in March 2016. On a year-on-year basis general government's debt increased by EUR 630.5 million (10.7%) from August 2015



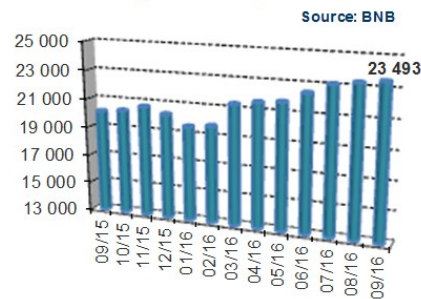
(EUR 5,886.4 million, 13% of GDP). Banks' external debt totalled EUR 3,836.6 million (8.4% of GDP). It fell by EUR 289.8 million (7%) from end-2015 (EUR 4,126.4 million, 9.1% of GDP). On a year-on-year basis banks' debt decreased by EUR 291.2 million (7.1%), from EUR 4,127.8 million, 9.1% of GDP in August 2015. Other Sectors' external debt equalled EUR 11,539 million (25.4% of GDP). It dropped by EUR 192.8 million (1.6%) from end-2015 (EUR 11,731.7 million, 25.9% of GDP). On a year-on-year basis it fell by EUR 248.1 million (2.1%) from August 2015 (EUR 11,787.1 million, 26% of GDP). The stock of intercompany lending amounted to EUR 12,802.4 million (28.2% of GDP) at end-August 2016, growing by EUR 152.1 million (1.2%) from end-2015 (EUR 12,650.3 million, 27.9% of GDP). On a year-on-year basis it rose by EUR 108.4 million (0.9%) from August 2015 (EUR 12,693.9 million, 28% of GDP). The external financing received from non-residents equalled EUR 4,630.6 million (10.2% of GDP) in January - August 2016, compared with EUR 4,328.7 million (9.6% of GDP) in January - August 2015. They were distributed as follows: general government received EUR 1,488.8 million (32.2% of the total amount of disbursements), banks received EUR 705.5 million (15.2%), other sectors received EUR 1,490.2 million (32.2%), and intercompany lending⁴ totalled EUR 946.2 million (20.4%). Gross external debt service totalled EUR 3,578.6 million (7.9% of GDP) in January - August 2016, compared with EUR 6,572.9 million (14.5% of GDP) in January - August 2015. Net external debt⁵ totalled EUR 2,817.9 million at end-August 2016. It dropped by EUR 3,885.2 million (58%) from end-2015 (EUR 6,703.1 million). Its decline was due to the larger increase in gross external assets (by EUR 4,491.6 million, 16.4%) in comparison with the increase in gross external debt (by EUR 606.4 million, 1.8%). As a percentage of GDP, net external debt equated to 6.2%, from 15% at end-2015.

4. Foreign reserves

According to BNB data in September 2016 Bulgaria's foreign reserves amounted to BGN 45.9 billion (EUR 23.5 billion) and rose by 0.8% m/m and by 16.7% y/y, respectively

According to BNB data in September 2016 Bulgaria's foreign reserves amounted to BGN 45.9 billion (EUR 23.5 billion) and rose by 0.8% m/m and by 16.7% y/y, respectively. From the assets' side of balance of BNB "Issue" Department the cash and deposits in foreign currency grew up by 3.2% m/m and by 11.2% y/y, respectively reaching BGN 13.3 billion. Investments in monetary gold amounted to BGN 3.0 billion and rose by 0.7% m/m and by 19.1% y/y, respectively. Investments in securities amounted to BGN 29.7 billion and decreased by 0.3% m/m and their annual trend is positive and maintain a level of 19.1%. Bulgaria's international liquidity position expressed by the ratio of foreign reserves to short-term external debt improved to 304.7% at the end of July 2016 compared to 295% at the end of June 2016, 256.6% at the end of 2015 and 245.1% at the end of July 2015.

Foreign Reserves (EUR mn)

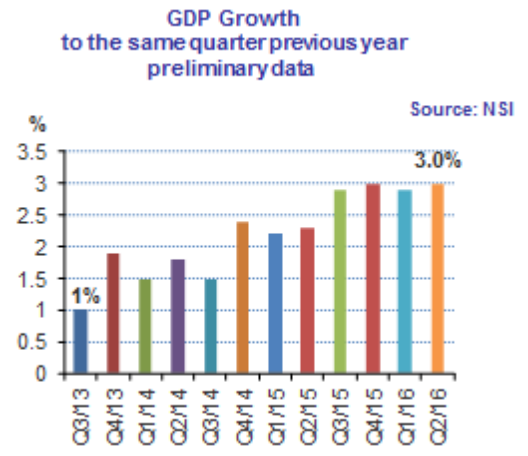


II. REAL SECTOR

1. GDP

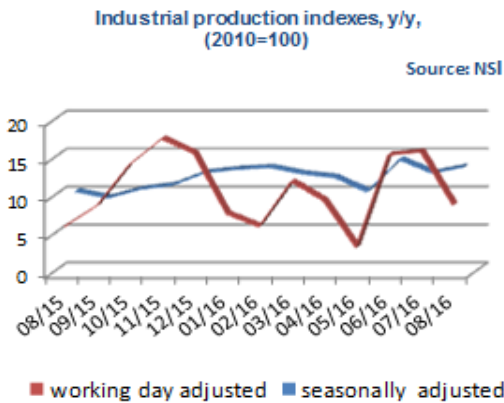
Gross Domestic Product (GDP) expanded with 3.0% in the second quarter of 2016 compared to the same quarter of the previous year and with 0.7% compared to the first quarter of 2016

Gross Domestic Product (GDP) expanded with 3.0% in the second quarter of 2016 compared to the same quarter of the previous year and with 0.7% compared to the first quarter of 2016 according to the seasonally adjusted data. According to the flash GDP estimates for the second quarter of 2016, the GDP at current prices amounted to 21 753 million BGN. GVA in the second quarter of 2016 amounted to 18 538 million BGN. In the structure of GDP by the expenditure approach the largest share has the final consumption (77.7%), which in nominal terms amounted to 16 894 million BGN. In the second quarter of 2016 gross capital formation is 4 689 million BGN and has a share of 21.5% in GDP. The external balance (exports minus imports) has a positive sign. According to the seasonally adjusted data, the GDP growth rate in the second quarter of 2016 is 0.7% compared to the previous quarter. Gross value added increased in the second quarter of 2016 by 0.4%. The second quarter of 2016 GDP at seasonally adjusted data increased by 3.0% compared to the same quarter of the previous year. Gross value added increased by 2.5%. As regards the expenditure components of GDP, the final consumption registered a positive economic growth by 2.0%. Gross fixed capital formation decreased by 4.5% compared to the same quarter of the previous year. Exports and imports of goods and services increased by 2.0 and 2.2% respectively.



2. Industrial production

According to the preliminary data the Industrial Production Index, seasonally adjusted, increased by 0.7% in August 2016 as compared to July 2016

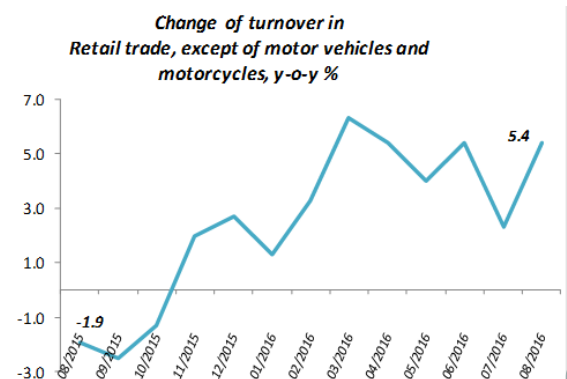


According to the preliminary data the Industrial Production Index, seasonally adjusted, increased by 0.7% in August 2016 as compared to July 2016. In August 2016 working day adjusted Industrial Production Index rose by 2.6% in comparison with the same month of 2015. In August 2016 as compared to July 2016, the seasonally adjusted Industrial Production Index increased in the electricity, gas, steam and air conditioning supply by 0.9%, in the manufacturing by 0.8% and in the mining and quarrying industry by 0.1%. On annual basis in August 2016 Industrial Production Index calculated from working day adjusted data increased in the manufacturing by 4.5% and in the mining and quarrying industry by 1.8%, while in the electricity, gas, steam and air conditioning supply a decrease by 1.2% was registered.

3. Retail sales

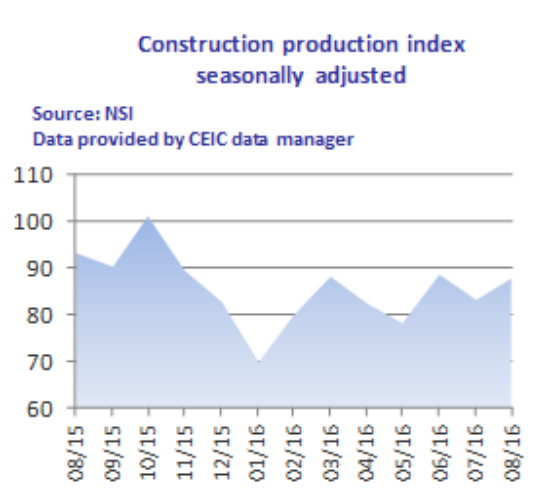
In August 2016 the working day adjusted turnover in 'Retail trade, except of motor vehicles and motorcycles' increased by 5.4% in comparison with the same month of the previous year

According to the preliminary seasonally adjusted data in August 2016 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 0.9% compared to the previous month. In August 2016 the working day adjusted turnover in 'Retail trade, except of motor vehicles and motorcycles' increased by 5.4% in comparison with the same month of the previous year. In August 2016 compared to the previous month the turnover increased in the 'Retail sale via mail order houses or via Internet' by 9.4%, in the 'Retail sale of computers, peripheral units and software; telecommunications equipment' by 3.9%, in the 'Dispensing chemist; retail sale of medical and orthopaedic goods, cosmetic and toilet articles' by 2.8%. In August 2016 compared to the same month of 2015 the turnover increased more significantly in the 'Retail sale via mail order houses or via Internet' by 11.0%, in the 'Dispensing chemist; retail sale of medical and orthopaedic goods, cosmetic and toilet articles' by 10.0%, in the 'Retail sale of textiles, clothing, footwear and leather goods' by 9.2%.



4. Construction

In August 2016 working day adjusted data showed a decrease by 10.2% in the construction production, compared to the same month of 2015



According to the preliminary data, in August 2016 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 0.4% above the level of the previous month. In August 2016 working day adjusted data showed a decrease by 10.2% in the construction production, compared to the same month of 2015. In August 2016 the construction production, calculated from the seasonally adjusted data, was above the level of the previous month. Index of production of civil engineering increased by 0.9%, while the production of building construction marked a minimal drop by 0.1%. On an annual basis in August 2016, the decrease of production in construction, calculated from working day adjusted data, was determined from the negative rate as well as in the civil engineering, where the drop was by 10.8% and in the building construction - decline by 9.7%.

5. Tourism

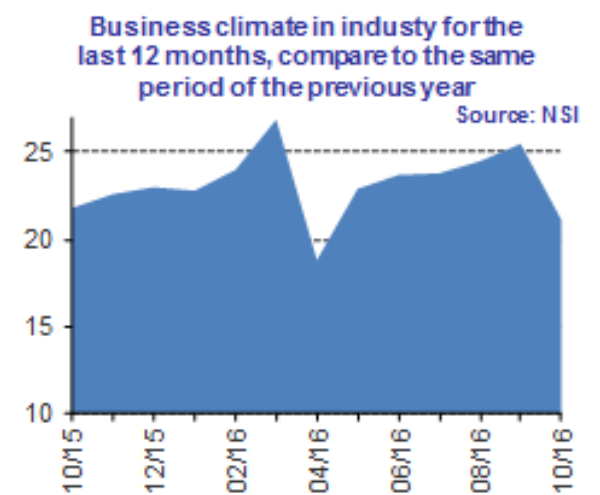
In September 2016, the number of the trips of Bulgarian residents abroad was 510.3 thousand or by 13.2% above the registered in September 2015

In September 2016, the number of the trips of Bulgarian residents abroad was 510.3 thousand or by 13.2% above the registered in September 2015. The trips with other purposes (as a guest, education and visit the cultural and sport events) in September 2016 composed the greatest share of the total number of trips of Bulgarian residents abroad - 46.8%, followed by the trips with holiday and recreation purpose - 33.0%, and with professional purpose - 20.2%. In comparison with September 2015 an increase was registered in the trips with other purposes - by 32.1%, and with professional purpose - by 3.4%, while the trips with holiday and recreation purpose decreased by 1.2%. In September 2016, the number of arrivals of visitors from abroad to Bulgaria was 1 192.3 thousand or by 13.2% above the registered in September 2015. In September 2016, the number of arrivals of visitors from abroad to Bulgaria was 1 192.3 thousand or by 12.9% more in comparison with September 2015.



6. Business climate

In October 2016 the total business climate indicator decreases by 1.3 percentage points in comparison with the previous month



In October 2016 the total business climate indicator decreases by 1.3 percentage points in comparison with the previous month. More unfavourable business climate is registered in industry and retail trade, while in construction preserves approximately to its September level. Only in service sector the business conjuncture is improved. The composite indicator 'business climate in industry' drops by 4.4 percentage points in comparison with the previous month which is due to the more reserved industrial entrepreneurs' assessments and expectations about the business situation of the enterprises. In October the composite indicator 'business climate in construction' preserves approximately to its September level. The composite indicator 'business climate in retail trade' decreases by 2.1 percentage points compared to the previous month. In October the composite indicator 'business climate in service sector' increases by 4.4 percentage points which is due to the improved managers' assessments and expectations about the business situation of the enterprises.

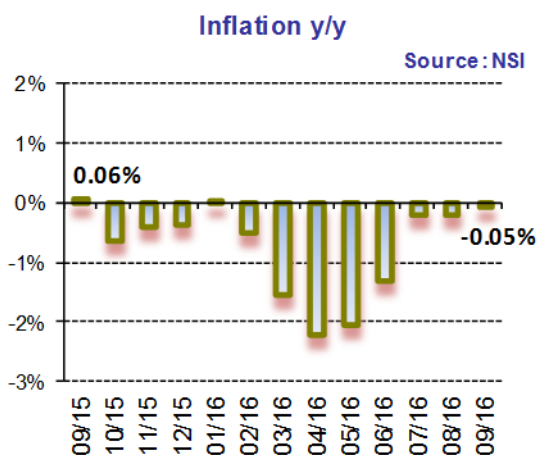
7. Producer price index

Total Producer Price Index in Industry in September 2016 increased by 0.5% compared to the previous month

Total Producer Price Index in Industry in September 2016 increased by 0.5% compared to the previous month. Higher prices were registered in the mining and quarrying industry by 2.1% and in the manufacturing by 0.6%, while in the electricity, gas, steam and air conditioning supply the prices fell by 0.2%. Total Producer Price Index in September 2016 decreased by 2.0% compared to the same month of 2015. The prices fell in the mining and quarrying industry by 1.9%, in the manufacturing by 0.9% and in the electricity, gas, steam and air conditioning supply by 5.5%. Producer Price Index on Domestic Market in September 2016 increased by 0.2% compared to the previous month. The domestic prices rose in the mining and quarrying industry by 0.1% and in the manufacturing by 0.5%, while in the electricity, gas, steam and air conditioning supply the prices went down by 0.2%. Producer Price Index on Domestic Market in September 2016 decreased by 2.4% compared to the same month of 2015.

8. CPI Inflation

The consumer price index in September 2016 compared to August 2016 was 99.5%, i.e. the monthly inflation was -0.5%



The consumer price index in September 2016 compared to August 2016 was 99.5%, i.e. the monthly inflation was -0.5%. The inflation rate since the beginning of the year (September 2016 compared to December 2015) has been -0.7% and the annual inflation in September 2016 compared to September 2015 was -0.6%. The annual average inflation, measured by CPI, in the last 12 months (October 2015 - September 2016) compared to the previous 12 months (October 2014 - September 2015) was -0.8%. The harmonized index of consumer prices in September 2016 compared to August 2016 was 99.3%, i.e. the monthly inflation was -0.7%. The inflation rate since the beginning of the year (September 2016 compared to December 2015) has been -1.1% and the annual inflation in September 2016 compared to September 2015 was -1.1%. The price index of a small basket in September 2016 compared to August 2016 was 100.1% and the overall increase since the beginning of the year.

9. Unemployment

In September, the registered unemployment rate continues to decline by 0.2 percentage points to 7.8%

In September, the registered unemployment rate continues to decline by 0.2 percentage points to 7.8%. Compared to September 2015 the unemployment rate is significantly lower - by 1.4 percentage points. To 30.09.2016, at the labor offices were registered 255,466 unemployed people. Compared to August they decreased by 6059 persons. On an annual basis, compared with September 2015, unemployment is significantly less - by 47 309 persons. A total of 23,211 unemployed persons started to work in September 2016, of whom 19,968 in the primary labor market..

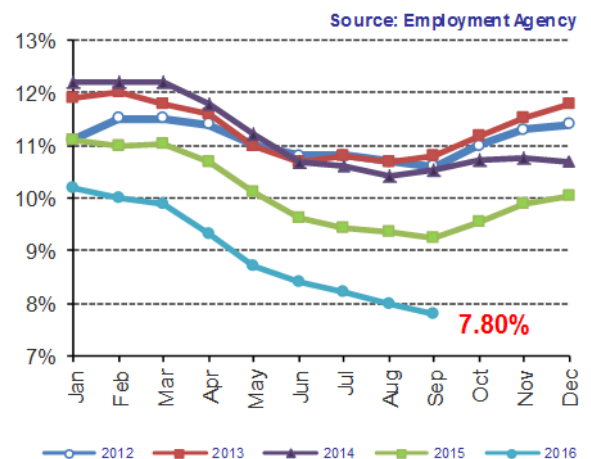
III. FISCAL SECTOR

1. Government budget

Based on the monthly data of first-level spending units, the Consolidated Fiscal Programme (CFP) balance on a cash basis as of end-September 2016 is positive, amounting to BGN 3,362.2 million

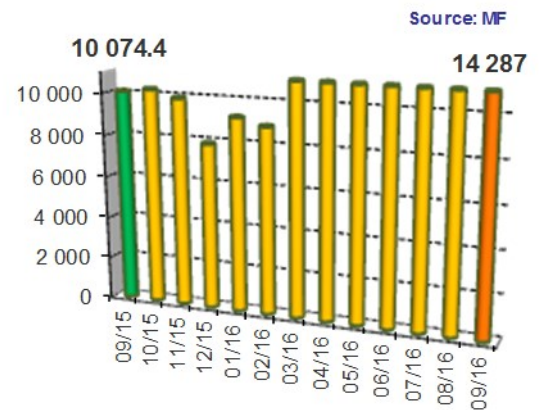
Based on the monthly data of first-level spending units, the Consolidated Fiscal Programme (CFP) balance on a cash basis as of end-September 2016 is positive, amounting to BGN 3,362.2 million (3.8% of forecast GDP) and is formed by a surplus under the national budget of BGN 1,947.4 million and a surplus under EU funds of BGN 1,414.9 million. For comparison, a CFP surplus of BGN 632.6 million (0.7% of GDP) was reported for the nine months of 2015, which means that, as a relative share of GDP, the budget stance has improved by 3.1 percentage points. The factors for the improvement in the budget stance continue to be the higher revenues and the lower rate of utilization of capital expenditures. In addition to the good national budget revenue parameters, the EU fund accounts also influence the current CFP balance, with the excess of revenues over expenditures there accounting for 1.6 % of the forecast GDP. The CFP revenues and grants in September 2016 stand at BGN 25,650.3 million, or 77.7% of the annual estimates. Compared to the nine months of 2015, revenues and grants have grown by BGN 1,488.1 million (6.2%). The growth as compared to the previous year is due to the higher tax and non-tax revenues, which have risen by BGN 1,905.2 million, while grants

Unemployment Rate



(funds reimbursed by the European Commission) are lower. Grant proceeds, mostly end-2015 certified expenditures reimbursed under the EU operational programmes and funds for the old programming period 2007-2013, and advance payments received by the Commission for the new programming period 2014-2020, amount to BGN 2,325.6 million, which is 91.4% of the annual estimates. Tax proceeds, including revenues from social security and health insurance contributions, total BGN 20,105.6 million, which is 77.4% of the annual plans. Compared to September 2015 tax revenues have risen by 8.3% (BGN 1,537.1 million) in nominal terms. Revenues from direct taxes amount to BGN 3,574.6 million, or 76.3% of the annual estimates, growing by BGN 309.2 million (9.5%) as compared to September 2015. Indirect tax revenues amount to BGN 10,384.9 million, or 78.3% of the 2016 Annual Budget Law plans. Compared to end-September 2015, the proceeds in this group have grown by BGN 837.3 million (8.8%). VAT proceeds for the nine-month period amount to BGN 6,614.3 million, or 78.7% of those planned for the year. Compared to the previous year, VAT revenues have risen by BGN 531.7 million. The amount of the non-refunded VAT as of end-September is BGN 126.7 million. There is also a growth in the excise duty revenues which amount to BGN 3,617.9 million (77.5% of the annual plans), while as against September 2015 they have grown by 8.6%, or BGN 285.3 million. Custom duties revenues are BGN 129.9 million or 86.6% of the annual plan. Proceeds from other taxes, including property taxes and other taxes under the Corporate Income Tax Law, amount to BGN 780.1 million, or 85.6% of the annual estimates. Revenues from social security and health insurance contributions are BGN 5,366.0 million, or 75.2% of those planned for the year. Compared to the previous year these revenues have risen by 5.6% (BGN 285.0 million) in nominal terms. Non-tax revenues amount to BGN 3,219.2 million, or 71.8% of the annual plans, which is by BGN 368.1 million (12.9%) more compared to end-September 2015. The expenditures under the Consolidated Fiscal Programme, including the contribution of the Republic of Bulgaria to the EU budget, amount to BGN 22,288.1 million as of end-September 2016, which is 64.0% of the annual plans. For comparison, the expenditures under the CFP as of end-September 2015 amounted to BGN 23,529.7 million. The lower absorption of expenditures in the nine months of the year is mostly linked to a delay in some capital expenditures (mostly EU fund accounts), which is due, on the one hand, to the low absorption at the initial stage of project implementation during the new programming period 2014-2020, and, on the other hand, to the shifting of the majority of capital expenditures to the last quarter of the year due to some technological and procedural factors. Non-interest expenditures amount to BGN 21,015.0 million, which is 64.4% of the annual plans. Non-interest current expenditures as of end-September 2016 amount to BGN 19,482.6 million, or 73.5% of the annual estimates, capital expenditures (including net increment of state reserve) amount to BGN 1,532.4 million, or 25.1% of the plans for 2016. Interest payments amount to BGN 661.6 million, or 82.5% of those planned for 2016. The part of Bulgaria's contribution to the EU budget, as paid from the central budget as of September 2016, amounts to BGN 611.5 million, which complies with the existing legislation in the area of EU own resources, Council Decision 2007/436/EC, Euratom on the system of the Communities' own resources and Council Regulation No 1150/2000, as amended by Regulation No 2018/2004, Regulation No 105/2009 and Regulation No 1377/2014, implementing Decision 2007/436/EC. Fiscal reserve as of 30.09.2016 is BGN 14.3 billion, including BGN 12.8 billion deposits in BNB and banks and BGN 1.5 billion receivables under the EU Funds for certified expenditure, advance payments, etc.

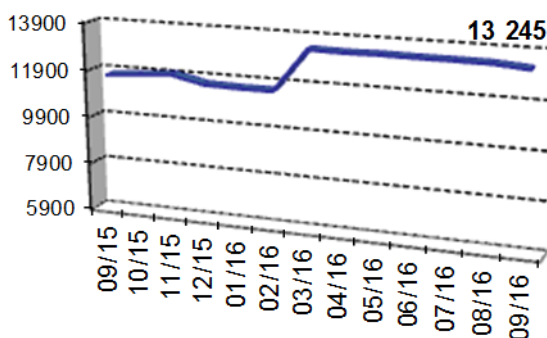
Fiscal reserve (BGN mn)



2. Government debt

According to the official debt register kept by the Ministry of Finance, the central government debt as at end-September 2016 stands at EUR 13,360.7 million

Central Government Debt, EUR mn



Source: MF

Data provider: CEIC Data Manager

According to the official debt register kept by the Ministry of Finance, the central government debt as at end-September 2016 stands at EUR 13,360.7 million. Domestic debt amounts to EUR 3,504.2 million and external debt - to EUR 9,856.5 million. At the end of the reporting period the central government debt/gross domestic product (GDP) ratio is 29.1%, with the share of domestic debt being 7.5% and of external debt - 21.6% of GDP. In the central government debt structure, domestic debt at the end of the period amounts to 25.8%, and external debt - to 74.2%. The debt currency structure as at end-September is as follows: 79.4% in EUR, 19.8% in BGN, 0.6% in USD and 0.2% in other currencies. Central government debt payments as of the end of the month amount to BGN 1,930.7 million, of which BGN 1,306.9 million principal repayments and BGN 623.7 million interest payments. In September, the central government guaranteed debt reaches EUR 190.4 million, of which EUR 32.9 million domestic guarantees, with the government guaranteed debt/GDP ratio being 0.4%.

IV. MONETARY SECTOR

In September 2016 broad money (monetary aggregate M3) increased annually by 8.7% compared to 8.9% annual growth in August 2016

In September 2016 broad money (monetary aggregate M3) increased annually by 8.7% compared to 8.9% annual growth in August 2016. At the end of September 2016 M3 was BGN 77.559 billion (87.2% of GDP) compared to BGN 77.514 billion (87.2% of GDP) in August 2016. Its most liquid component - monetary aggregate M1 - increased by 14.6% annually in September 2016 (14.5% annual growth in August 2016). At the end of September 2016, deposits of the non-government sector were BGN 66.380 billion (74.6% of GDP), increasing annually by 8.9% (9.6% annual growth in August 2016). Deposits of Non-financial corporations were BGN 18.586 billion (20.9% of GDP) at

the end of September 2016. Compared to the same month of the previous year they increased by 10.5% (12.8% annual growth in August 2016). Deposits of financial corporations increased by 30.4% annually in September 2016 (29.9% annual growth in August 2016). At the end of the month they reached BGN 3.962 billion (4.5% of GDP). Deposits of Households and NPISHs were BGN 43.833 billion (49.3% of GDP) at the end of September 2016, increasing by 6.7% compared to the same month of 2015 (6.9% annual growth in August 2016). Net domestic assets were BGN 47.011 billion at the end of September 2016. They decreased by 2.7% compared to the same month of 2015 (2.5% annual decline in August 2016). At the end of the month their basic component – domestic credit – was BGN 48.744 billion and decreased by 3.4% compared to September 2015 (3% annual decline in August 2016). In September 2016 claims on the non-government sector declined by 0.2% annually (0.02% annual decrease in August 2016) reaching BGN 51.446 billion. At the end of September 2016, claims on loans to the non-government sector amounted to BGN 50.354 billion (56.6% of GDP) compared to BGN 50.225 billion (56.5% of GDP) at the end of August 2016. They decreased annually by 0.1% in September 2016 (0.1% annual growth in August 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 194.3 million. On an annual basis, loans sold by Other MFIs were BGN 229.5 million (of which BGN 2.5 million in September 2016), while the amount of repurchased loans was BGN 35.2 million (of which BGN 2 million in September 2016). In September 2016, loans to Non-financial corporations decreased by 1.4% annually (0.9% annual decline in August 2016) and at the end of the month amounted to BGN 30.437 billion (34.2% of GDP). Loans to Households and NPISHs were BGN 18.421 billion (20.7% of GDP) at the end of September 2016. They increased by 0.5% compared to the same month of 2015 (0.1% annual growth in August 2016). At the end of September 2016 loans for house purchases were BGN 8.762 billion and increased by 0.9% annually (0.8% annual growth in August 2016). Consumer loans amounted to BGN 7.323 billion and compared to September 2015 they declined by 0.6% (0.7% annual decrease in August 2016). On an annual basis other loans increased by 18.1% (12% annual growth in August 2016) and reached BGN 879.5 million. Loans granted to financial corporations were BGN 1.495 billion at the end of September 2016 (1.7% of GDP). Compared to September 2015, they increased by 23.5% (24.7% annual growth in August 2016). Net foreign assets amounted to BGN 50.695 billion at the end of the reporting month compared to BGN 50.612 billion at the end of August 2016. They increased by 24% compared to September 2015 (24% annual growth in August 2016). At the end of September 2016 foreign assets increased by 16.7% annually (17.3% annual growth in August 2016), reaching BGN 59.239 billion. Foreign liabilities amounted to BGN 8.544 billion, marking a 13.5% annual decline (10.5% annual decrease in August 2016).

V. CAPITAL MARKET

In September the best performance on BSE for the month recorded SOFIX, which added 8.6% to its value

September will remain in the history of the Bulgarian stock market with the launch of the first exchange-traded fund on BSE - EXPAT BULGARIA SOFIX UCITS ETF. The fund is the first exchange-traded instrument that tracks the performance of the blue-chip SOFIX by adhering to the method of complete physical replication of the index. In order to manage liquidity and compliance with legal restrictions, the fund may also invest in deposits and government securities, besides the companies included in the composition of SOFIX. The month proved to be quite successful for investors on BSE as all of the indices on the exchange finished September in the green territory and managed to erase the last losses since the beginning of the year. The best performance for the month recorded SOFIX, which added 8.6% to its value and managed to pass the psychological level of 500 points for the first time in 2016.

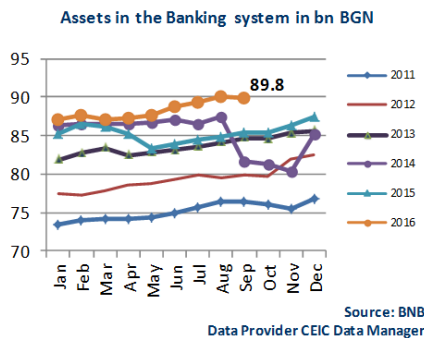
Date	SOFIX	BGBX40	BGREIT	BGTR30
10.2015	446.9	89.8	95.6	370.0
11.2015	435.6	88.0	94.9	363.6
12.2015	460.9	92.8	97.0	383.8
01.2016	448.4	90.7	98.3	371.4
02.2016	447.4	89.8	100.5	373.4
03.2016	446.4	89.4	100.0	373.0
04.2016	442.6	89.1	100.3	372.0
05.2016	441.3	87.8	101.4	368.7
06.2016	455.6	89.2	102.2	377.8
07.2016	458.2	89.6	100.9	381.8
08.2016	464.7	90.0	102.5	384.9
09.2016	504.6	96.1	103.3	404.6
10.2016	531.8	100.9	104.6	420.1

Source: Bulgarian Stock Exchange-Sofia

VI. BANKING SECTOR

During the third quarter of 2016, the total assets in the banking system increased by BGN 1.2 billion (1.3%) amounting to BGN 89.8 billion

During the third quarter of 2016 the main financial indicators of the banking system remained stable. Deposits, loan portfolio and balance sheet capital grew, and also liquid assets. Liquid assets amounted to BGN 28.7 billion as of end-September. The liquid assets ratio calculated under BNB Ordinance No 11 was 37.35%. Cash and cash balances at the BNB continued to have the biggest share in the composition of liquid assets (49.8%). As of 30 September 2016, the profit of the banking system amounted to BGN 1.1 billion, i.e. by BGN 279 million more than the one realised for the nine months of the previous year. Compared to the same period of 2015, the net total operating income increased by BGN 183 million. The impairment costs on loans and receivables, accumulated from the beginning of 2016, amounted to BGN 567 million (against BGN 604 million for the same period a year earlier). During the quarter, total assets increased by BGN 1.2 billion (1.3%) amounting to BGN 89.8 billion as of end-September. The item cash and cash balances at central banks and other demand deposits increased by BGN 578 million (3.5%) to 18.9% of the total assets. The balance sheet amount of loans and advances marked a growth of BGN 460 million (0.8%), and its share in the assets decreased slightly to 61.9%. Securities portfolios increased by BGN 152 million (1.2%) and their share in the total amount of assets remained unchanged at 14.3%. The quarterly growth of the gross loan portfolio of the banking sector (excluding loans and advances to sectors central banks and credit institutions) amounted to BGN 436 million (0.8%). There was an increase in lending to households (by BGN 218 million), to non-financial corporations (by BGN 202 million) and to other financial corporations (by BGN 23 million). At the end of the quarter, the gross amount of non-performing



loans and advances in the banking system was BGN 10,472 million (compared to BGN 10,592 million as of 30 June 2016). As of end-September, the total amount of deposits in the banking system was BGN 76.2 billion, that is BGN 1.0 billion (1.3%) more than at the end of the second quarter of the year. In the third quarter, the resources attracted as deposits from non-financial corporations increased by BGN 766 million (3.9%), those attracted from households – by BGN 523 million (1.2%) and those from other financial corporations – by BGN 150 million (3.6%). There was a decrease in the resources from credit institutions (by BGN 311 million, or 7.0%) and in those from the general government sector (by BGN 133 million, or 7.4%). Prevailing in the overall structure of deposits were those from residents, 91.1%, with resources attracted from households having the leading position. At the end of the quarter, the balance sheet item total equity of the banking system³ was BGN 12.2 billion, marking a BGN 414 million (3.5%) increase for the period July – September, due to the increased profit and the accumulated other comprehensive income.

METHODOLOGICAL NOTES

EXTERNAL SECTOR

CURRENT ACCOUNT

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

For the intra EU trade in goods:

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

For the trade with third countries (outside EU)

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

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

Travel covers goods and services, including those related to health and education, acquired by travelers for business and personal purposes. By the end of 2006 the data on travel is based on data from the Ministry of Internal Affairs on the number of travelers crossing the

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

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

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

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

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

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

CAPITAL ACCOUNT

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

FINANCIAL ACCOUNT

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

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

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

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

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

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

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

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

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

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

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

RESERVES AND RELATED ITEMS

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

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

REAL SECTOR

GROSS DOMESTIC PRODUCT - PRODUCTION APPROACH

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

GDP - INCOME APPROACH

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

GROSS DOMESTIC PRODUCT BY FINAL EXPENDITURE

GDP by expenditure approach is calculated as the sum of individual consumption (including final consumption expenditure of households, final consumption expenditure of non-profit institutions serving households, final government expenditure on individual consumption), collective consumption (final cost of the government, which satisfy the needs of society as a whole),

gross fixed capital formation (investments made in fixed assets), changes in inventories and foreign trade balance of goods and services (the difference between exports and imports of goods and services).

BUSINESS SURVEY IN INDUSTRY, CONSTRUCTION, TRADE AND SERVICE SECTOR

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

INVESTMENT ACTIVITY IN INDUSTRY

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

CONSUMER SURVEY

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

CONSUMER PRICE INDICES (CPI)

The Consumer Price Index (CPI) is the official measure of inflation in the Republic of Bulgaria. It measures the total relative price change of goods and services used by households for private (non-production) consumption and it is calculated by applying the structure of the final monetary consumption expenditures of Bulgarian households. The main source of information concerning the expenditures is the household budget survey in the country. CPI in year t is calculated on the basis of the expenditures structure of year $t - 1$.

HARMONIZED INDICES OF CONSUMER PRICES (HICP)

The Harmonized Index of Consumer Prices (HICP) is the comparable measure of inflation across EU Member states. It is one of the criteria of price stability and for readiness of Bulgaria to join the Euro-zone. HICP, just as CPI, measures the total relative change of the prices of goods and services. Both indices are calculated using the same basket of goods and services, but differ with respect to the used weights. HICP is calculated through the use of weights, which reflect the individual and the collective consumption of all households (incl. institutional and foreign households) on the economic territory of the country. The main source of information for HICP weights is the national accounts data. HICP in year t is calculated with the weights of year $t-3$.

INDUSTRIAL PRODUCTION INDEX; INDUSTRIAL TURNOVER INDICES

The Industrial Production Index is the most important short-term economic business indicator, which aims to measure at a monthly frequency the ups and downs of industrial production during the long period of time. Monthly survey allows identifying the turning points in economic development at an early stage; also, the timely industrial production index is one of the most important measures of economic activity. The Industrial Turnover Index is other important short-term indicator, which measure the development of the market of goods and services. Turnover index gives measure of the development of the receipts of sales including the sales of goods, merchant goods and services provided to other enterprises. Monthly Industrial Production and Industrial Turnover Indexes measure changes in production and respectively in turnover between two different periods of time. This information is suitable for monitoring of current economic developments and short-term forecasts. The survey do not attempt to measure the actual production level, it aims to measure the average change in value of production between two points of time.

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

Producer Price Index (PPI) is one of the main short-term business indicators; it is regarded as one of the important measures

of the economic situation in the Country. The indices measure the average change in the prices of industrial products, which are produced and sold by Bulgarian enterprises. This is done on the bases of constant sample of groups of products, produced by the activity and sold on the domestic market or directly exported on non-domestic market and that sample is representative for total industrial production.

LABOUR FORCE

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

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

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

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

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

MONETARY AGGREGATES

Net Foreign Assets – a balance between gross foreign assets and liabilities of the banking sector. Gross foreign assets are reported by instrument and include Bulgaria's international forex reserves and other foreign assets of the BNB and commercial banks. Gross foreign liabilities reflect liabilities of the BNB and commercial banks to the foreign sector.

Domestic credit – incorporates credit to the consolidated general government sector and non-government sector. Credit to the consolidated general government sector includes net claims on the central government and gross claims on local government, and social security funds. Credit to the non-government sector includes gross claims on non-financial corporations, financial corporations, households and NPISHs.

Fixed assets – movable or immovable non-financial assets which monetary financial institutions intend to use over a period longer than one year in their main activity.

Other items (net) – consolidates all components of the balance sheets of the BNB and commercial banks which are not included in the instruments displayed above. They include relations between commercial banks (net), other assets and liabilities (net) and relations between the BNB and commercial banks (net). Accrued and overdue interest, derivatives, depreciation, provisions, as well as assets and liabilities which are not included elsewhere are part of the Other assets and liabilities (net) item. The balance on the Relations between the BNB and Commercial Banks (net) item reflects the float as a result of netting of claims and liabilities between commercial banks and the BNB.

Broad money (money supply) comprises liabilities with money character of banks to the resident sector with the exception of the liabilities to the central government and the banking sector (money-holding sectors). Monetary aggregate instruments are grouped by liquidity and are presented by currency and sector.

The following monetary aggregates are used: M1, M2, and M3. The M1 monetary aggregate, commonly referred to as narrow money, includes the most liquid instruments used in settlements (currency outside banks and overnight deposits in national and foreign currency). The M2 monetary aggregate comprises quasi-money and the M1 monetary aggregate. Quasi-money comprises deposits with agreed maturity of up to two years and deposits redeemable at notice of up to three months (including savings deposits). The least liquid financial instruments include repos and debt securities issued up to two years. They are denominated in national and foreign currency and together with M2 form the broadest monetary aggregate, M3, commonly referred to as money supply (broad money).

Long-term liabilities and monetary financial institutions – include liabilities of monetary financial institutions with maturity of over two years or with a notice of over three months, as well as capital and reserves. Capital and reserves comprise the statutory fund of the banking system reserves and financial result.

Money supply is based on commercial bank monetary base (currency outside banks and bank reserves) multiplication. Money supply is determined by using M1, M2 and M3 monetary aggregates.

Monetary base (reserve money) consists of currency outside banks and commercial bank funds (bank reserves). The latter include commercial bank deposits with the BNB and cash in commercial bank vaults. Commercial bank deposits include minimum required reserves and excess reserves (overnight deposits and deposits with agreed maturity). Dynamics of reserves depends on the amount of required reserves (comprising a set portion of deposits) and excess reserves. The amount of required reserves is set by the Managing Board of the BNB and is the only instrument of the central bank monetary policy under a currency board. The amounts of excess reserves reflect the liquidity of commercial banks and the trend toward greater security.

Money Supply Mechanism

Money supply (M3) may be expressed as a product of monetary base and the money multiplier variable.

Money multiplier characterizes the degree of multiplication effect as a result of commercial bank activity. This effect is measured by the ratios of broad money (M3) or individual monetary aggregates (M1 and M2) to reserve money. The money multiplier reflects the currency outside banks to deposits ratio and the bank reserves to deposits ratio, known as factors in determining money supply. The currency outside banks to deposits ratio depends primarily on the public behavior, while the bank reserves to deposits ratio reflects commercial bank behavior.

Sources of Reserve Money: Under a stable money multiplier, total money supply may be influenced through reserve money sources.

Foreign assets (net) reflect an increase/decrease in Bulgaria's forex reserves. Under a currency board changes in forex reserves at the expense of government deposit do not directly affect the monetary base and it is automatically sterilized.

Claims on central government (net) – the net position of the government is a result of assets netting (balances on lev loans disbursed prior to June 1997 pursuant to the former Law on the BNB and balances on forex loans under Article 45 of the Law on the BNB) its liabilities.

Claims on non-government sector include only claims on shares and other equity on the non-government sector.

Claims on commercial banks – the balance sheet reports balances on loans extended prior to June 1997 and unpaid interest on these loans.

Remaining items (net) include assets and liabilities, which are not classified to any other item.

CAPITAL MARKET

SOFIX Index: Initial date: 20 October 2000; Initial value: 100

SOFIX is an index based on the market capitalization of the included issues of common shares, adjusted with the free-float of each of them. The index covers the 15 issues of shares complying with the general requirements for selection of constituent issues that have the greatest market value of the free-float. An issue included in the index base of SOFIX shall also meet the following criteria: 1) The issues should have been traded on a market, organized by the Exchange, for at least 3 (three) months before their introduction into the SOFIX portfolio. Provided an issue has been transferred for trading from one market segment to another, the first quotation date of the issue shall be assumed as its first trading date; 2) The market capitalization of the issue shall not be less than BGN 40,000,000 and the free-float shall not be less than 25 %* of the amount of the issue, or the market value of the free-float shall not be less than BGN 10,000,000; 3) The number of shareholders of the issue shall not be less than 500 persons; 4) The turnover of the issue during the last 12 months shall not be less than BGN 2,000,000; 5) The number of transactions executed in the issue during the last 12 months shall not be less than 750.

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

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

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

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

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

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

BGTR30 Index (BG Total Return 30): Initial date: 03 September 2007; Initial value: 1,000

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

REAL ESTATE

MARKET PRICES OF HOMES

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

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

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

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

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

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

Analyst Certification: This analysis is prepared on the base of Press 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