All data in the edition are the last available data, published as of January 31, 2020

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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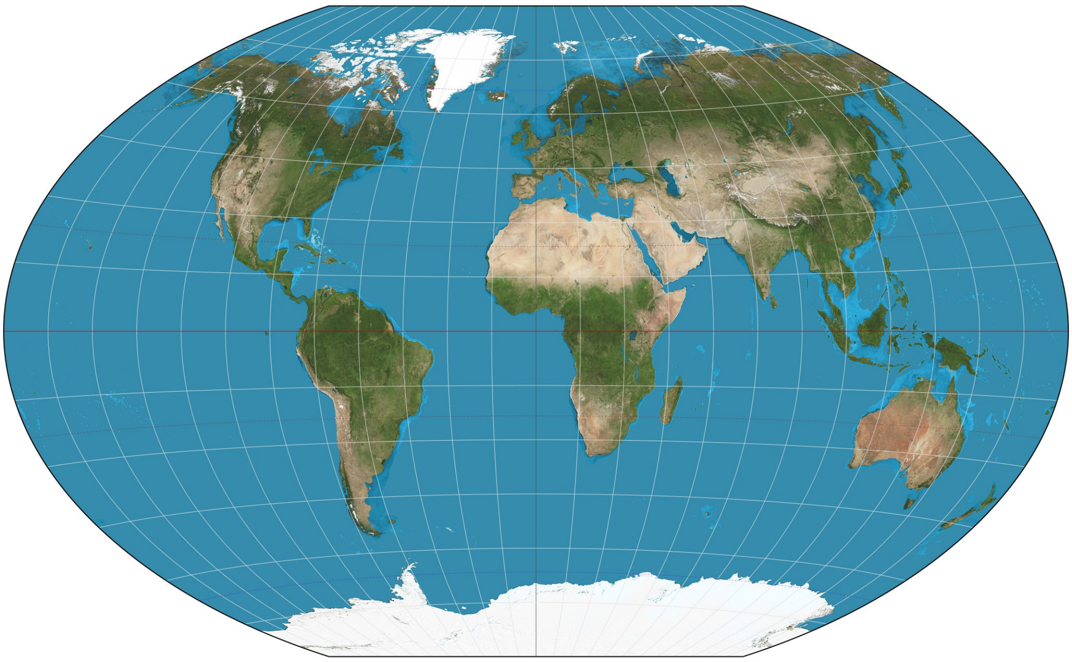
HIGHLIGHTS AND FORECASTS

MONTHLY ECONOMIC REPORT



January, 2020

- ***The IHS Markit Eurozone Manufacturing PMI was revised higher to 46.3 in December 2019 from a preliminary of 45.9 and 46.9 in November. Finally, confidence about the future strengthened to a six-month high at the end of 2019. The IHS Markit Eurozone Services PMI was revised higher to a four-month high of 52.8 in December 2019 from a preliminary estimate of 52.4 and above the previous month's final reading of 51.9. Looking ahead to the coming 12 months, business confidence about the future strengthened to its highest level since July, led by a strong improvement in sentiment amongst German service providers. Eurozone inflation rate is seen accelerating to 1.3% yoy in December 2019 from 1.0% in the previous month. The unemployment rate in the Euro Area stood at 7.5% in November 2019, its lowest level since July 2008. . Considering the European Union as a whole, the jobless rate was unchanged at 6.3%, the lowest since comparable series began in January 2000. KBC estimation for GDP growth in euro area in 2019 is 1.2%. KBC forecast for GDP growth in euro area is 1.0% for 2020, 1.3% for 2021, 1.3% for 2022 and 1.2% for 2023. KBC estimation for headline inflation (HICP) in euro area in 2019 is 1.3%. KBC forecast for headline inflation in euro area is 1.2% for 2020, 1.4% for 2021, 1.5% for 2022 and 1.6% for 2023.***
- ***The leading indicator for Italy's economy maintains a negative profile, national statistics bureau ISTAT said on 10.01.2020, suggesting the continuation of weakness in production levels. KBC estimation for GDP growth in Italy in 2019 is 0.2%. KBC forecast for GDP growth in Italy is 0.5% both for 2020 and 2021. Italian deputies on 23.12.2019 adopted the first budget presented by the country's new coalition. The budget will do little, to help the euro zone's third-largest economy to reduce its debt. Italy has emerged as the biggest stumbling block to the two big financial reforms of the euro: upgrading the European Stability Mechanism rescue fund for troubled governments, and completing the banking union. Italy's government is in talks with the European Union over a rescue plan for cooperative bank Popolare di Bari, which was put under special administration by the Bank of Italy in December. The annual inflation rate in Italy is expected to rise to 0.5% in December 2019 from 0.2% in November. Annual core inflation rate, which excludes energy and unprocessed food is expected to remain steady at 0.7%. Italy's seasonally adjusted unemployment rate held steady at 9.7% in November 2019, remaining close to August's seven-and-a-half-year low. The youth unemployment rate, measuring job-seekers between 15 and 24 years old, edged up to 28.6% from 28.2%.***
- ***On 20 December 2019, following the Conservative victory in the 2019 United Kingdom general election, the House of Commons passed the Withdrawal Agreement Bill by a margin of 358-234. The Third Reading of the Withdrawal Agreement Bill passed on 9 January 2020 by 330-231. The UK will leave the EU on 31 January 2020. The UK-EU trade talks following the UK's departure from the EU in January 2020, will continue to cause uncertainty as the chances of reaching an extensive trade deal before the end-2020 deadline are small. There is little expectation that a UK-EU27 trade deal can be concluded quickly and, on current indications, any future agreement might be quite limited and thereby act as a long-lasting and material constraint on UK growth. KBC estimation for GDP growth in UK in 2019 is 1.3%. KBC forecast for GDP growth in UK is 1.0% both for 2020 and 2021. KBC estimation for inflation in UK in 2019 is 1.8%. KBC forecast for inflation in UK is 1.7% for 2020 and 2.0% for 2021. The consumer price inflation in the United Kingdom held steady at 1.5% yoy in November 2019, the lowest level since November 2016. The UK unemployment rate held steady at 3.8% in the three months to October of 2019, its lowest level in nearly 45 years.***
- ***The IHS Markit US Manufacturing PMI was revised slightly lower to 52.4 from 52.5 in December of 2019. It compares with 52.6 in the previous month. Output and new business expanded modestly while employment growth was the second-fastest since May. On the price front, input price inflation accelerated to a nine-month high. The ISM Non-Manufacturing PMI for the US increased to 55 in December of 2019 from 53.9 in November. The reading pointed to the biggest expansion in the services sector in four months as production and inventories rose faster. The US consumer price inflation rate climbed to 2.3% yoy in December 2019 from 2.1% in the previous month. The US unemployment rate held steady at 3.5% in December 2019, remaining at the lowest level since 1969.***

- *The Jibun Bank Japan Manufacturing PMI came in at 48.4 in December 2019, compared to the flash figure of 48.8 and the previous month's final 48.9. Output fell at the second-fastest rate in over three-and-a-half years. New orders continued to drop amid a further reduction in new export sales due to global trade conflicts and lower demand from China. The Jibun Bank Japan Services PMI was revised lower to 49.4 in December 2019 from a preliminary estimate of 50.6, signaling the steepest contraction in service sector output in over three years. New order growth slowed due to the first decline in foreign demand since June, while backlogs of work dropped at the strongest rate for over one-and-a-half years. Japan's consumer price inflation rose to 0.5% yoy in November 2019 from 0.2% in the previous month. This was the highest rate in four months. The unemployment rate in Japan declined to 2.2% in November 2019 from 2.4% in the previous month.*
- *The United States and China signed a partial trade agreement on 14.01.2020 aimed at putting the brakes on an 18-month trade war between the world's two largest economies. With provisions covering tariff relief, technology transfer, food and agriculture, purchase commitments, financial market access, macroeconomic and exchange-rate policies, intellectual property protection and dispute settlement enforcement, the phase one deal was made final by US President Donald Trump and China's chief trade negotiator, Vice-Premier Liu He. The U.S. agreed to cut the tariff rate to 7.5% from 15% for charges it had imposed on roughly USD 120 billion in Chinese products. The U.S. also held off on tariffs of 15% on roughly USD 156 billion in consumer products. Tariffs on some USD 360 billion of goods entering the US will stay in place. China will not lift any of the retaliatory tariffs it has imposed on USD 110 billion worth of American goods as part of the deal. The Chinese economy advanced 6.0% yoy in the December quarter of 2019, the same as in the previous quarter. This remained the weakest growth rate since the first quarter of 1992, amid trade pressure from the US and sluggish demand from home and abroad. Considering full 2019, the economy grew by 6.1%, the slowest pace in 29 years but still within the government's target of 6% to 6.5%.The Chinese economy expanded by a seasonally adjusted 1.5% qoq in the three months to December 2019, the same as in the previous quarter. China's annual inflation rate unexpectedly steadied at 4.5% in December 2019, the same as in the previous month*
- *The heavy spending spree along with weak growth on the revenue side combined to create an annual budget deficit of TLY 123.7 billion (USD 22 billion), higher at 3.2% of GDP than the government's revised projection of 2.9%. In 2018, Turkey's central government budget balance had shown a deficit of TLY 72.6 billion (USD 14.8 billion), meeting a year-end target of a 1.9% budget-deficit-to-gross-domestic-product (GDP) ratio. Turkey's November current account deficit stood at USD 518 million on a monthly basis. Current account balance was at a surplus of USD 1.4 billion in previous year's November. Deterioration stemmed mainly from the widening trade deficit. Given the government's heavy policy support - both fiscal and monetary - to revive domestic demand; in the coming months we will witness the current account deficit deteriorating further along with a slight increase in energy costs. Thus, by the end of 2020, Turkey's current account balance will once again be in the red to a tune of 2.2-2.5% of GDP compared to an estimated surplus of 0.3% of GDP at the end of 2019. Turkey's annual inflation rate increased to a four-month high of 11.84% in December 2019 from 10.56% in the previous month. Annual core inflation rate, which excludes energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold, rose to a four-month high of 9.81% in December from 9.25% in November. The unemployment rate in Turkey increased to 13.4% in October 2019 from 11.6% in the same month of the previous year .*

- *The Governing Council of ECB decided at its monetary policy meeting on 12 December to keep the key ECB interest rates unchanged and to reiterate its forward guidance on policy rates, net asset purchases and reinvestments. . Incoming information since the last Governing Council meeting in late October points to continued muted inflation pressures and weak euro area growth dynamics, although there are some initial signs of stabilization in the growth slowdown and of a mild increase in underlying inflation in line with previous expectations. Ongoing employment growth and increasing wages continue to underpin the resilience of the euro area economy. Sustained rates of broad money growth reflect ongoing bank credit creation for the private sector and low opportunity costs of holding M3. At the same time, favorable bank funding and lending conditions continued to support loan flows and thereby economic growth. The aggregate fiscal stance for the euro area is expected to remain mildly expansionary in 2020, thus providing support to economic activity. The stance is expected to remain expansionary in 2021 and to stabilize in 2022.*
- *A Framework for All Seasons? Speech given by Mark Carney Governor of the Bank of England Research Workshop on The Future of Inflation Targeting. First, the flexibility inherent in inflation targeting is highly valuable, particularly when combined with mechanisms to improve transparency and accountability. Second, monetary policy is also more effective when it is combined with vigilant macro- and micro-prudential policies. Third, "unconventional policies", including asset purchases and forward guidance, are powerful policy tools in a low r* environment with more frequent encounters with the effective lower bound. In all likelihood, equilibrium interest rates will remain low for a prolonged period as many of the structural forces that have pushed them down are set to persist for years. Calls for the Bank of England to solve broader challenges ignore the Bank of England's carefully defined objectives. And they often confuse independence with omnipotence. The flexibility in the UK monetary policy framework means that the Monetary Policy Committee has been able to support the UK economy through the changing of the seasons.*
- *U.S. Economic Outlook and Monetary Policy Speech Vice Chair Richard H. Clarida Council on Foreign Relations. The U.S. economy begins the year 2020 in a good place. The unemployment rate is at a 50-year low, inflation is close to our 2% objective, gross domestic product growth is solid, and the Federal Open Market Committee's (FOMC) baseline outlook is for a continuation of this performance in 2020. Over the course of 2019 the FOMC shifted the stance of U.S. monetary policy to offset some significant global growth headwinds and global disinflationary pressures. Looking ahead, monetary policy is not on a preset course. The Committee will proceed on a meeting-by-meeting basis and will be monitoring the effects of Federal Reserve's recent policy actions along with other information bearing on the outlook as Federal Reserve assess the appropriate path of the target range for the federal funds rate. FOMC affirmed that Committee aims to operate with an ample level of bank reserves in the U.S. financial system.*
- *Haruhiko Kuroda Governor of the Bank of Japan Speech at the Meeting of Japan Business Federation in Tokyo. In the past, there were many cases in Japan where changes in the global economy or external demand affected overall developments in the economy relatively quickly. However, what is unique to the current phase is that domestic demand has remained firm so far despite weak external demand. Business fixed investment is planned to continue increasing steadily. This increase in business fixed investment is underpinned by sustained investment that is less susceptible to short-term economic developments, including labor-saving and efficiency-improving investment, construction investment, and research and development (R&D) investment for growth areas. The Bank of Japan has pursued powerful monetary easing with the aim of achieving the price stability target of 2% since the introduction of quantitative and qualitative monetary easing (QQE) in 2013. While continuing to carefully examine various risks, the Bank of Japan will not hesitate to take additional easing measures if there is a greater possibility that the momentum toward achieving the price stability target will be lost. The economic measures that the government recently has implemented can exert significant effects to maintain the expanding trend in the economy with the Bank of Japan's pursuit of powerful monetary easing. The government and the Bank of Japan confirmed in the statement that they would work within their respective autonomies to fulfill their own roles, and this framework seems to be functioning very effectively.*
- *China's central bank has announced a move to unleash CNY 800 billion (USD 115 billion) from the banking system to support the economy, sending a pro-growth message on the first day of 2020. Aiming to further support the development of the real economy and lower real financing costs, the People's Bank of China (PBoC) has decided to lower the required reserve ratio for financial institutions by 0.5% on January 6, 2020. The reserve requirement ratio (RRR) for big banks will be lowered to 12.5%, while the ratio for medium and small banks will be reduced to 10.5% and 7% respectively. China's central bank will use the loan prime rate, or LPR, as a new benchmark for pricing existing floating-rate loans, in a step that analysts say could help lower borrowing costs and underpin economic growth.*

- *The policy rate in Turkey has been cut from 24%in July 2019 to 11.25% in January 2020, total 12.75% cut. President Erdogan just days ago had once again calling for single-digit policy rate from the central bank. The President passionately wants to see a reversal in Turkey's contracting investments and very high unemployment; and thus assumes lower interest rates would be a cure for the slow growth disease. Decision of the Monetary Policy Committee of Central Bank of Turkey 16 January 2019. The Monetary Policy Committee (the Committee) has decided to reduce the policy rate (one-week repo auction rate) from 12% to 11.25%. Inflation outlook continued to improve and inflation expectations sustained their wide-spread decline. The improvement in macroeconomic indicators, inflation in particular, supports the fall in country risk premium and helps contain cost pressures. Developments in the exchange rate, domestic demand conditions and producer prices have contributed to a mild trend in core inflation indicators. The course of inflation is considered to be broadly in line with the year-end inflation projection. Accordingly, considering all factors affecting the inflation outlook, the Committee decided to make a measured cut in the policy rate. But such a rapid monetary expansion puts both the stability of the exchange rate and the sustained disinflation process at considerable risk.*
- *Oil prices edged higher on 17.01.2020, on optimism that the recent US-China trade pact will revive growth and boost demand in the world's two biggest crude consumers. Also, the latest EIA report showed the US crude inventories decreased by 2.549 million barrels in the latest week. The Brent price increases 0.42 USD/BBL or 0.65% to 65.1721 USD/BBL on Friday, January 17th. For the week, the increase was 0.29%. The price of crude oil increases by 0.37 USD/BBL or 0.63% to 59.0058 USD/BBL. On the other hand, there was a decrease of -0.10% for the week. %. Keeping a lid on prices, these data showed China's economic growth slowed to its weakest in nearly 30 years in 2019.*
- *The beginning of January from the new 2020 year continued the trend in the prices of the main grain contracts on the global stock markets. In USA, wheat dropped USD -1.00 to 255.00 USD / ton, maize retained its price of 175.00 USD / ton last week. Wheat in France also went up by EUR 6.25 to 198.00 EUR / ton, while in Ukraine and Russia prices increased by USD 1.00 each and decreased by USD -3.00 to 218.00 USD / ton and 217.00 USD / ton respectively. For maize in Ukraine, the price is up by USD 3.00 to 179.00 USD / ton, in France by USD 2.00 to 175.00 USD / ton. In the Grain subcircle of the Sofia Commodity Exchange AD, wheat from the field offered supply prices from 400.00 to 360.00 BGN / ton, demand was at 320.00-350.00 BGN / ton. For feed wheat, buyers are at 280.00-290.00 BGN / ton and sellers are at 320.00 BGN / ton.*

- ***In January – November 2019 the current and capital account was positive amounting to EUR 6,710.7 million (11% of GDP), compared with a surplus of EUR 3,570.4 million (6.4% of GDP) in January – November 2018. In January – November 2019 the current account was positive and amounted to EUR 5,882.1 million (9.6% of GDP), compared with a surplus of EUR 2,990.9 million (5.3% of GDP) in January – November 2018.***
- ***In January-November 2019 the net flows of foreign direct investment in Bulgaria presented according to the directional principle recorded a positive value of 989.2 million (1.6% of GDP), growing up by EUR 467.5 million (89.6%) from January – November 2018 (positive value of EUR 521.6 million, 0.9% of GDP).***
- ***In December 2019, BNB's international reserves amounted to BGN 48.5 billion (EUR 24.8 billion), registered an increase of 1.3% yoy and maintained the stability of the Currency Board in Bulgaria.***
- ***In December 2019, the total business climate indicator increases by 0.9 percentage points compared to the previous month to 27.1% as a result of the indicators' improvement in industry, construction and service sector.***
- ***According to the preliminary data in November 2019 the Industrial Production Index, seasonally adjusted, fell by 1.0% as compared to October 2019. In November 2019 the working day adjusted Industrial Production Index decreased by 0.4% in comparison with the same month of 2018. Industrial Production in Bulgaria is expected to be 0.5% by the end of 2019. Looking forward, we estimate Industrial Production in Bulgaria to stand at 3.1% in 2020 and 3.3% in 2021.***
- ***According to the preliminary seasonally adjusted data in November 2019 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 0.4% compared to the previous month. In November 2019, the working day adjusted turnover in 'Retail trade, except of motor vehicles and motorcycles' marked an increase by 2.5% in comparison with the same month of the previous year.Retail Sales yoy in Bulgaria is expected to be 2.4% by the end of 2019. Looking forward, we estimate Retail Sales yoy in Bulgaria to stand at 4% in 2020 and 4.5% in 2021.***
- ***According to the preliminary data, in November 2019 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 0.8% below the level of the previous month. In November 2019 the working day adjusted index of production in construction increased by 1.3% in comparison with the same month of 2018.Construction Output in Bulgaria is expected to be 3.2% by the end of 2019. Construction Output in Bulgaria to stand at 4% in 2020 and 3% in 2021.***
- ***The consumer price index for October 2019 compared to September 2019 is 100.7%, ie monthly inflation is 0.7%. Annual inflation for December 2019 compared to December 2018 is 3.8%. The average annual inflation for the period January-December 2019 compared to the period January-December 2018 is 3.1%. The harmonized index of consumer prices for December 2019 compared to November 2019 is 100.8%, ie monthly inflation is 0.8%. The annual inflation for December 2019 compared to December 2018 is 3.1%. The annual inflation for the period January - December 2019 compared to the period January - December 2018 is 2.5%, below the Maastricht requirement for value inflation not more than 3%. Annual inflation, which is significantly influenced by international oil and food prices in the euro, will accelerate slightly at the end of this year, then gradually slow down to 2.3% at the end of 2020. There is a risk of higher inflation than projected at higher than expected increases in unit labor costs and their eventual transfer to final prices. In the first half of 2020, inflation is expected to increase, with underlying inflation and food contributing to a major positive contribution. The projected acceleration of the rate of inflation in food is in line with the assumptions set for the rise in international prices of this commodity group. Our forecast is for inflation in Bulgaria to reach 2.3% in 2020 and 2.1% in 2021.***
- ***Total Producer Price Index in November 2019 increased by 0.2% compared to the previous month; compared to the same month of 2018 the prices rose by 2.8%. Producer Price Index on Domestic Market in November 2019 rose by 0.3% compared to the previous month; compared to the same month of 2018 the domestic prices grew by 4.0%.***

- *In December 2019, the registered unemployment rate in Bulgaria is 5.9% and a 0.2 percentage point decrease on an annual basis. For 2019, employment is expected to increase by 0.4%. Unemployment will continue to decline slightly, following the trend of a net decrease of 50,000 people a year.*
- *Consolidated Fiscal Programme (CFP) balance on a cash basis as of end-November 2019 is positive, amounting to BGN 1,300.8 million, or 1.1% of the projected GDP, and is formed by an excess of revenues over expenditures of BGN 1,640.6 million under the national budget and of BGN 339.8 million under EU funds. Fiscal reserve as of 30.11.2019 is BGN 10.545 billion, including BGN 10.258 billion fiscal reserve deposits in BNB and banks and BGN 0.287 billion receivables under the EU Funds for certified expenditure, advance payments, etc.*
- *In January – November 2019, Bulgaria's central government sub-sector debt amounted to EUR 12,063.5 million and accounted for 19.9% of projected GDP. With regard to the debt rule, Bulgaria continues to pursue a sound debt management policy to maintain levels well below the ceiling established by the Maastricht Government Debt Criterion. According to the MoF's 2020-2022 Government Debt Management Strategy, the sovereign debt-to-GDP ratio will decline to 18.2% in 2020 and 18.1% in 2021 and 17% in 2022.*
- *The Ministry of Finance has launched 5-year Governmnet Securities at a negative yield of -0.11%.*
- *At the end of November 2019 Bulgaria's broad money (monetary aggregate M3) amounted at BGN 100.587 billion billion (86.9% of GDP) and increased by 9.3% yoy. Domestic credit – was BGN 63.276 billion and increased by 11% yoy.*
- *In December 2019 all BSE-Sofia stock indexes increased: SOFIX rose to 568.14 points, BGBX 40 rose to 108.79 points, BG TR30 rose to 516.28 points and BGREIT rose to 130.03 pointc, respectively.*
- *As of the end of November 2019, the gross credit portfolio of the banking system increased by BGN 1.5 billion (by 2.1% mom and by 8.6% yoy) to BGN 66.6 billion and account for 56.6% of full year GDP projection. Loans to non-financial corporations amount to BGN 37 billion and increase by 0.6% mom and 4.7% yoy), for households increased by 0.9% mom and by 9.7% yoy to BGN 24.1 billion. Deposits from customers in the banking system increased by BGN 94.6 million (by 0.1% mom and by 7.5% yoy) to BGN 89.9 billion and account for 77.8% of GDP.*

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GLOBAL TRENDS

ADVANCED COUNTRIE'S ECONOMIES

Eurozone

The IHS Markit Eurozone Manufacturing PMI was revised higher to 46.3 in December 2019 from a preliminary of 45.9 and 46.9 in November. Finally, confidence about the future strengthened to a six-month high at the end of 2019. The IHS Markit Eurozone Services PMI was revised higher to a four-month high of 52.8 in December 2019 from a preliminary estimate of 52.4 and above the previous month's final reading of 51.9. Looking ahead to the coming 12 months, business confidence about the future strengthened to its highest level since July, led by a strong improvement in sentiment amongst German service providers. Eurozone inflation rate is seen accelerating to 1.3% yoy in December 2019 from 1.0% in the previous month. The unemployment rate in the Euro Area stood at 7.5% in November 2019, its lowest level since July 2008. . Considering the European Union as a whole, the jobless rate was unchanged at 6.3%, the lowest since comparable series began in January 2000. KBC estimation for GDP growth in euro area in 2019 is 1.2%. KBC forecast for GDP growth in euro area is 1.0% for 2020, 1.3% for 2021, 1.3% for 2022 and 1.2% for 2023. KBC estimation for headline inflation (HICP) in euro area in 2019 is 1.3%. KBC forecast for headline inflation in euro area is 1.2% for 2020, 1.4% for 2021, 1.5% for 2022 and 1.6% for 2023.

The IHS Markit Eurozone Manufacturing PMI was revised higher to 46.3 in December 2019 from a preliminary of 45.9 and 46.9 in November, final estimates showed. The reading pointed to the eleventh straight month of contraction in factory activity and at a rate that matched September's 81- month record. New orders declined further and job shedding was the sharpest recorded by the survey since the start of 2013. Also, backlogs of work declined for a sixteenth successive month. On the price front, input prices declined for the seventh consecutive month but at the weakest pace since September; and output prices dropped again in December, as they have done in each month since July. Finally, confidence about the future strengthened to a six-month high at the end of 2019. The IHS Markit Eurozone Services PMI was revised higher to a four-month high of 52.8 in December 2019 from a preliminary estimate of 52.4 and above the previous month's final reading of 51.9. New work growth picked up, despite a persistent decline in new export business, and outstanding business increased for the first time in five months. Meanwhile, employment continued to rise, but at its softest pace since the start of 2019. On the price front, input cost inflation was little-changed at a marked level on the back of rising staffing costs, while output charges were up only slightly, squeezing margins. Looking ahead to the coming 12 months, business confidence about the future strengthened to its highest level since July, led by a strong improvement in sentiment amongst German service providers. Eurozone inflation rate is seen accelerating to 1.3% yoy in December 2019 from 1.0% in the previous month and in line with market consensus, a preliminary estimate showed. That should be the highest rate since June, mainly boosted by a rebound in energy prices (0.2% vs -3.2%) and a faster increase in unprocessed food cost (2.1% vs 1.8%). Meanwhile, inflation is likely to ease for services (1.8% vs 1.9%), while it is seen unchanged for non-energy industrial goods (at 0.4%) and processed food, alcohol & tobacco (at 2.0%). The core inflation rate, which excludes energy, food, alcohol & tobacco and at which the ECB looks at to decide on monetary policy, is set to hold steady at 1.3%. The unemployment rate in the Euro Area stood at 7.5% in November 2019, its lowest level since July 2008 and in line with market expectations, as the number of unemployed decreased by 10,000 from the previous month to 12.315 million. Among the bloc's largest economies, the lowest unemployment rate was recorded in Germany (3.1%), while higher rates were observed in France (8.4%), Italy (9.7%) and Spain (14.1%). The youth unemployment rate, which measures job seekers aged 15 to 24, dropped to 15.6% from 16.3% in the same period a year earlier. Considering the European Union as a whole, the jobless rate was unchanged at 6.3%, the lowest since comparable series began in January 2000. KBC estimation for GDP growth in euro area in 2019 is 1.2%. KBC forecast for GDP growth in euro area is 1.0% for 2020, 1.3% for 2021, 1.3% for 2022 and 1.2% for 2023. KBC estimation for headline inflation (HICP) in euro area in 2019 is 1.3%. KBC forecast for headline inflation in euro area is 1.2% for 2020, 1.4% for 2021, 1.5% for 2022 and 1.6% for 2023.

Italy

The leading indicator for Italy's economy maintains a negative profile, national statistics bureau ISTAT said on 10.01.2020, suggesting the continuation of weakness in production levels. KBC estimation for GDP growth in Italy in 2019 is 0.2%. KBC forecast for GDP growth in Italy is 0.5% both for 2020 and 2021. Italian deputies on 23.12.2019 adopted the first budget presented by the country's new coalition. The budget will do little, to help the euro zone's third-largest economy to reduce its debt. Italy has emerged as the biggest stumbling block to the two big financial reforms of the euro: upgrading the European Stability Mechanism rescue fund for troubled governments, and completing the banking union. Italy's government is in talks with the European Union over a rescue plan for cooperative bank Popolare di Bari, which was put under special administration by the Bank of Italy in December. The annual inflation rate in Italy is expected to rise to 0.5% in December 2019 from 0.2% in November. %). Annual core inflation rate, which excludes energy and unprocessed food is expected to remain steady at 0.7%. Italy's seasonally adjusted unemployment rate held steady at 9.7% in November 2019, remaining close to August's seven-and-a-half-year low. The youth unemployment rate, measuring job-seekers between 15 and 24 years old, edged up to 28.6% from 28.2%.

Italy's economy is likely to remain weak in the near term, national statistics bureau ISTAT said on 10.01.2020, citing its leading indicator for December. The leading indicator maintains a negative profile, suggesting the continuation of weakness in production levels. The euro zone's third largest economy has been largely stagnant for the last seven quarters. Gross domestic product rose 0.1% in the third quarter on a qoq basis after an identical reading in the second quarter. KBC estimation for GDP growth in Italy in 2019 is 0.2%. KBC forecast for GDP growth in Italy is 0.5% both for 2020 and 2021. Italian deputies on 23.12.2019 adopted the first budget presented by the country's new coalition government between the centre -left Democratic Party and the anti-establishment Five Star Movement. First presented in October, the budget passed with 334 votes versus 232 votes against with four abstentions. Underscoring its importance, the law was tied to a vote of confidence in the government. The budget will do little, however, to help the euro zone's third-largest economy to reduce its debt, as the country continues to struggle with a stagnant economy and high unemployment. Italy has emerged as the biggest stumbling block to the two big financial reforms of the euro: upgrading the European Stability Mechanism rescue fund for troubled governments, and completing the banking union. Italy has let it be known it wants the ESM passed as part of a "package deal" which must include banking union and its ultimate prize of a common deposit insurance scheme. But it is simultaneously resisting demands from counterparts that banks must first be prevented from holding too much of their own country's debt, or common deposit insurance is out of the question. Italy's government is in talks with the European Union over a rescue plan for cooperative bank Popolare di Bari, which was put under special administration by the Bank of Italy in December. Popolare di Bari, the biggest bank in the south of the country, is the latest in a series of Italian banking meltdowns, which in total have cost the state and other Italian lenders around EUR 23 billion since 2015. A depositor protection fund financed by Italian banks (FITD) is committed to covering up to half of a potential capital increase of EUR 1.4 billion for the bank and has also approved an immediate cash injection of EUR 310 million. The bank's 70,000 shareholders will likely see their investment wiped out after the capital increase. Half of Banca Popolare di Bari's capital increase will be financed by state-owned Banca del Mezzogiorno-Mediocredito Centrale (MCC), tapping up to EUR 900 million in funds provided by the government in an emergency decree in December. The annual inflation rate in Italy is expected to rise to 0.5% in December 2019 from 0.2% in November and slightly below market expectations of 0.6%, a preliminary estimate showed. It should be the highest inflation rate since June, mainly attributable to prices of transport (1.2% vs -0.3% in November) and food & non-alcoholic beverages (0.9% vs 0.8%). Annual core inflation rate, which excludes energy and unprocessed food is expected to remain steady at 0.7%. Excluding only energy, the inflation should remain unchanged at 0.8%. On a monthly basis, consumer prices are set to increase 0.2%, after dropping 0.2% in November, in line with market expectations. The harmonized index is seen rising to 0.5% on the year (vs 0.2% in November) and increasing 0.2% on the month (vs -0.3% in November). Italy's seasonally adjusted unemployment rate held steady at 9.7% in November 2019, remaining close to August's seven-and-a-half-year low and slightly below market expectations of 9.8%, as the number of unemployed increased by 12 thousand to 2.535 million while employment rose by 41 thousand to 23.486 million. The employment rate, one of the lowest in the Eurozone rose to 59.4% and the activity rate increased to 66%, their highest levels on record. The youth unemployment rate, measuring job-seekers between 15 and 24 years old, edged up to 28.6% from 28.2%.

Great Britain

On 20 December 2019, following the Conservative victory in the 2019 United Kingdom general election, the House of Commons passed the Withdrawal Agreement Bill by a margin of 358-234. The Third Reading of the Withdrawal Agreement Bill passed on 9 January 2020 by 330-231. The UK will leave the EU on 31 January 2020. The UK-EU trade talks following the UK's departure from the EU in January 2020, will continue to cause uncertainty as the chances of reaching an extensive trade deal before the end-2020 deadline are small. There is little expectation that a UK-EU27 trade deal can be

concluded quickly and, on current indications, any future agreement might be quite limited and thereby act as a long-lasting and material constraint on UK growth. KBC estimation for GDP growth in UK in 2019 is 1.3%. KBC forecast for GDP growth in UK is 1.0% both for 2020 and 2021. KBC estimation for inflation in UK in 2019 is 1.8%. KBC forecast for inflation in UK is 1.7% for 2020 and 2.0% for 2021. The consumer price inflation in the United Kingdom held steady at 1.5% yoy in November 2019, the lowest level since November 2016. The UK unemployment rate held steady at 3.8% in the three months to October of 2019, its lowest level in nearly 45 years.

On 20 December 2019, following the Conservative victory in the 2019 United Kingdom general election, the House of Commons passed the Withdrawal Agreement Bill by a margin of 358-234. The Third Reading of the Withdrawal Agreement Bill passed on 9 January 2020 by 330-231. The bill must still pass the House of Lords and receive Royal Assent for it to complete ratification on the UK side. The Withdrawal Agreement is equally subject to formal ratification by the European Parliament. The UK will leave the EU on 31 January 2020. The UK will continue to 'enjoy' the ties of membership during a transition period until the end of 2020. During this time a free trade agreement between the EU and UK will be concluded allowing a full and final departure at the end of 2020. The UK-EU trade talks following the UK's departure from the EU in January 2020, will continue to cause uncertainty as the chances of reaching an extensive trade deal before the end-2020 deadline are small. It should be emphasized that the main difference between the May deal and the Johnson deal is that the UK will now withdraw from the European customs union (albeit with a special status for Northern Ireland). Hence the transitory situation will be one of a free trade agreement between the UK and the EU27, while the default option – if no permanent deal can be agreed – is the WTO most favorite nation tariff rates. While the withdrawal agreement avoids WTO settings for now, if these were activated in the future, they would cause substantial and wide-reaching economic damage. Although the newly revised Political Declaration confirms the ambition to conclude a free trade agreement with zero tariffs and quotas between the EU and UK including guaranteeing a level playing field for fair competition, this commitment is not legally binding. One should rather expect a trade-off within the (future) British government between reaching a comprehensive trade agreement with the EU and concluding various comprehensive trade agreements with other trading partners that would limit future integration with the EU. There is little expectation that a UK-EU27 trade deal can be concluded quickly and, on current indications, any future agreement might be quite limited and thereby act as a long-lasting and material constraint on UK growth. Such an outcome would also dampen EU growth prospects. KBC estimation for GDP growth in UK in 2019 is 1.3%. KBC forecast for GDP growth in UK is 1.0% both for 2020 and 2021. KBC estimation for inflation in UK in 2019 is 1.8%. KBC forecast for inflation in UK is 1.7% for 2020 and 2.0% for 2021. The consumer price inflation in the United Kingdom held steady at 1.5% yoy in November 2019, the lowest level since November 2016, but slightly above market expectations of 1.4%. The UK unemployment rate held steady at 3.8% in the three months to October of 2019, its lowest level in nearly 45 years and slightly below market expectations of 3.9%. A year earlier, the jobless rate was higher at 4.1%. The number of unemployed persons fell by 13 thousand to 1.28 million and the number of employed people increased by 24 thousand to 32.8 million, after dropping the most in over four years in the previous period. Also, the employment rate reached a record high of 76.2%. Pay growth including bonuses, rose by an annual 3.2%, slowing sharply from 3.7% in the three months to September. It is the weakest increase in more than a year, mainly due to higher than usual bonus paid in October of 2018.

USA

The IHS Markit US Manufacturing PMI was revised slightly lower to 52.4 from 52.5 in December of 2019. It compares with 52.6 in the previous month. Output and new business expanded modestly while employment growth was the second-fastest since May. On the price front, input price inflation accelerated to a nine-month high. The ISM Non-Manufacturing PMI for the US increased to 55 in December of 2019 from 53.9 in November. The reading pointed to the biggest expansion in the services sector in four months as production and inventories rose faster. The US consumer price inflation rate climbed to 2.3% yoy in December 2019 from 2.1% in the previous month. The US unemployment rate held steady at 3.5% in December 2019, remaining at the lowest level since 1969.

The IHS Markit US Manufacturing PMI was revised slightly lower to 52.4 from 52.5 in December of 2019. It compares with 52.6 in the previous month. Output and new business expanded modestly while employment growth was the second-fastest since May, with firms stating the increase largely stemmed from greater production requirements. On the price front, input price inflation accelerated to a nine-month high as firms stated that higher supplier costs and tariffs had driven prices up. Output charge inflation also quickened to the joint-fastest since February and was solid overall. Companies commonly attributed the rise to the partial pass-through of higher costs on to clients. Finally, business confidence picked up, with optimism reportedly stemming from new product development, new client wins and investment in new facilities.

The ISM Non-Manufacturing PMI for the US increased to 55 in December of 2019 from 53.9 in November, slightly beating market forecasts of 54.5. The reading pointed to the biggest expansion in the services sector in four months as production and inventories rose faster while new orders, new export orders and employment slowed. Companies are positive about the potential resolution on tariffs and capacity constraints have eased a bit although difficulties with labour resources remain, according to Anthony Nieves, Chair of the ISM. The US consumer price inflation rate climbed to 2.3% yoy in December 2019 from 2.1% in the previous month and in line with market consensus. That was the highest rate since October 2018, boosted by a sharp rebound in energy costs (3.4% vs -0.6% in November). Food inflation, however, eased to 1.8% from 2.0%. Additional price increases were recorded for medical care commodities, medical care services and shelter. The core inflation rate, which excludes volatile items such as food and energy, was unchanged at 2.3%, also in line with market forecasts. The US unemployment rate held steady at 3.5% in December 2019, remaining at the lowest level since 1969 and in line with market expectations. The number of unemployed people decreased by 58 thousand to 5.75 million while employment rose by 267 thousand to 158.80 million.

Japan

The Jibun Bank Japan Manufacturing PMI came in at 48.4 in December 2019, compared to the flash figure of 48.8 and the previous month's final 48.9. Output fell at the second-fastest rate in over three-and-a-half years. New orders continued to drop amid a further reduction in new export sales due to global trade conflicts and lower demand from China. The Jibun Bank Japan Services PMI was revised lower to 49.4 in December 2019 from a preliminary estimate of 50.6, signaling the steepest contraction in service sector output in over three years. New order growth slowed due to the first decline in foreign demand since June, while backlogs of work dropped at the strongest rate for over one-and-a-half years. Japan's consumer price inflation rose to 0.5% yoy in November 2019 from 0.2% in the previous month. This was the highest rate in four months. The unemployment rate in Japan declined to 2.2% in November 2019 from 2.4% in the previous month.

The Jibun Bank Japan Manufacturing PMI came in at 48.4 in December 2019, compared to the flash figure of 48.8 and the previous month's final 48.9. Output fell at the second-fastest rate in over three-and-a-half years, only narrowly beaten by March's decline. In addition, new orders continued to drop amid a further reduction in new export sales due to global trade conflicts and lower demand from China. Stocks of purchases were also trimmed, with firms reporting cost-cutting efforts and reduced purchasing activity. On a positive note, employment continued to rise and business optimism towards output strengthened to an eight-month high. In terms of prices, input costs rose the most since August while output charges were reduced slightly and for the seventh month in a row. The Jibun Bank Japan Services PMI was revised lower to 49.4 in December 2019 from a preliminary estimate of 50.6, signaling the steepest contraction in service sector output in over three years. New order growth slowed due to the first decline in foreign demand since June, while backlogs of work dropped at the strongest rate for over one-and-a-half years. Meanwhile, the rate of job creation was the fastest in six months on the back of expansion plans and the provision of new services. On the price front, input costs increased amid higher fuel and labour expenses, while output charges were reduced for the first time since July 2017. Looking ahead, business optimism eased from November's five-month high. Japan's consumer price inflation rose to 0.5% yoy in November 2019 from 0.2% in the previous month and above market consensus of 0.2%. This was the highest rate in four months, as food and housing prices rose increased faster while transport deflation eased. On a monthly basis, consumer prices rose 0.2%. The unemployment rate in Japan declined to 2.2% in November 2019 from 2.4% in the previous month, well below market expectations of 2.4% and matching a three-month low. Japan's consumer price inflation stood at 0.2% yoy in October of 2019, unchanged from September and below market expectations of 0.3%. It remained the lowest inflation rate since February despite a sales tax hike during the month, with fuel prices falling for the first time in 31 months and cost of transport declining for the eleventh straight month. On a seasonally adjusted basis, consumer prices were flat for the third straight month. The Consumer Price Index in Japan decreased 0% in October of 2019 over the previous month. The unemployment rate in Japan remained steady at 2.4% in October 2019, matching market expectations despite steep declines in industrial production and exports in October. The jobs-to-applications ratio remained unchanged at 1.57, slightly above market expectations of 1.56. A year earlier, the unemployment rate was also at 2.4%.

China

The United States and China signed a partial trade agreement on 14.01.2020 aimed at putting the brakes on an 18-month trade war between the world's two largest economies. With provisions covering tariff relief, technology transfer, food and agriculture, purchase commitments, financial market access, macroeconomic and exchange-rate policies, intellectual property protection and dispute settlement enforcement, the phase one deal was made final by US President Donald Trump and China's chief trade negotiator, Vice-Premier Liu He. The U.S. agreed to cut the tariff rate to 7.5% from 15% for charges it had imposed on roughly USD 120 billion in Chinese products. The U.S. also held off on tariffs of 15% on roughly USD 156 billion in consumer products. Tariffs on some USD 360 billion of goods entering the US will stay in place. China will not lift any of the retaliatory tariffs it has imposed on USD 110 billion worth of American goods as part of the deal. The Chinese economy advanced 6.0% yoy in the December quarter of 2019, the same as in the previous quarter. This remained the weakest growth rate since the first quarter of 1992, amid trade pressure from the US and sluggish demand from home and abroad. Considering full 2019, the economy grew by 6.1%, the slowest pace in 29 years but still within the government's target of 6% to 6.5%.The Chinese economy expanded by a seasonally adjusted 1.5% qoq in the three months to December 2019, the same as in the previous quarter. China's annual inflation rate unexpectedly steadied at 4.5% in December 2019, the same as in the previous month

The United States and China signed a partial trade agreement on 14.01.2020 aimed at putting the brakes on an 18-month trade war between the world's two largest economies. With provisions covering purchase commitments, financial market access, intellectual property protection and enforcement, the phase one deal was made final by US President Donald Trump and China's chief trade negotiator, Vice-Premier Liu He. Below is a breakdown of the different chapters of the trade agreement and what they say: Tariff Relief: The U.S. agreed to cut the tariff rate to 7.5% from 15% for charges it had imposed on roughly USD 120 billion in Chinese products, including flat-panel televisions, Bluetooth headphones and footwear. The U.S. also held off on tariffs of 15% on roughly USD 156 billion in consumer products, including smartphones, toys and laptop computers that were set to take effect in December. The deal doesn't amend that prior agreement. President Trump on 14.01.2020 said he would remove the tariffs if the next round of negotiations are successful. Tariffs on some USD 360 billion of goods entering the US will stay in place. China will not lift any of the retaliatory tariffs it has imposed on USD 110 billion worth of American goods as part of the deal, US trade representative Robert Lighthizer said on 14.01.2020. Intellectual property: China agreed to beef up its intellectual property protections in several ways to make it easier for US companies to seek recourse in both civil and criminal proceedings for the theft of trade secrets, without disclosing confidential business information. The deal also includes stricter measures related to patents, trademarks and geographical indications to prevent piracy and counterfeiting. Although these measures apply to digital infringements, critics say this chapter addresses many "20th century" IP issues with China but fails to tackle the current era's most pressing problem, as China did not make any sweeping commitments to combat cybertheft. Technology transfer: China pledged not to force US companies to hand over their technology to its authorities in exchange for access to its market — a commitment it made when it joined the WTO, and then repeatedly violated, according to US officials. In the deal, China said it would not force US companies to hand over technology in M&A and investment transactions when seeking licensing or other administrative approvals. Food and agriculture:China agreed to loosen some longstanding barriers to trade in food and agriculture — mostly related to health standards — that had applied to products including infant formula, poultry, beef, pork, rice and pet food. It also makes it easier for US grain producers to obtain biotech-related approvals for genetically modified crops. The relaxing of these barriers should make it easier for US farmers to export more goods to China — which is the subject of another chapter in the agreement. The much-touted agriculture purchases have smaller goals for increased trade under the deal than energy, manufacturing and services, with an increase of USD 32 billion over the two-year period. In addition to the purchase targets, however, China has agreed to steps that allow more market access for U.S. dairy products, poultry, beef, fish, rice and even pet food. . The agreement specified that purchases "will be made at market prices based on commercial considerations" and that "market conditions" would affect the timing. Financial services: China has pledged a series of measures to open its financial services sector to US competition, in areas ranging from banking services to credit ratings, electronic payment services, asset management and insurance.

The US has also made some reciprocal promises to allow some Chinese financial services to receive non-discriminatory regulatory treatment in the US. This could ease fears that the US-China trade war will lead to a decoupling in capital markets, and ensures Wall Street's support for the deal. Macroeconomic and exchange-rate policies: Both the US and China largely reaffirmed pledges made to the G20 and IMF not to devalue their currencies to benefit their exporters, in order to maintain a market-based exchange rate, and to publicly disclose their foreign exchange positions. They specifically noted that any alleged violations of the terms of the deal would be subject to enforcement, which could mean invoking consultations with the IMF or even imposing unilateral tariffs. Pointing to a further concession by the US, the Treasury Department announced that it no longer considered China a currency manipulator. Purchases: China agreed to buy USD 200 billion more in US goods than it did in 2017, the baseline before the start of the trade war, over the course of two years. The two-year total includes USD 77.7 billion in additional manufacturing purchases, from aircraft to cars, iron and steel to machinery and pharmaceuticals. It also includes USD 52.4 billion in purchases of energy products, like crude oil and liquefied natural gas, and USD 32 billion in purchases of farm goods including oilseeds, meats, grains and seafood. The deal also allocates USD 37.9 billion for the purchase of services, such as cloud computing, financial services, travel and tourism. Dispute settlement: The agreement creates a framework for top officials from both countries to meet regularly to try to address alleged violations. But if the dispute is not resolved after meetings involving China's vice-premier and the US trade representative, either side can impose punitive measures, such as tariffs, without a "counter-response", as long as the action was taken in "good faith". Rolling out this system could be challenging. Although confidentiality is supposed to be guaranteed, US companies might be hesitant to lodge a complaint against Chinese officials that risks reopening the trade war. Formalities: The last chapter of the trade deal includes formalities such as the deal coming into effect 30 days after it is signed and giving the US and China the right to scuttle the agreement within six days. It also states that Washington and Beijing will agree on the timing of new negotiations — although no timeline is given. The Chinese economy advanced 6.0% yoy in the December quarter of 2019, the same as in the previous quarter and matching market expectations. This remained the weakest growth rate since the first quarter of 1992, amid trade pressure from the US and sluggish demand from home and abroad. Considering full 2019, the economy grew by 6.1%, the slowest pace in 29 years but still within the government's target of 6% to 6.5%.The Chinese economy expanded by a seasonally adjusted 1.5% qoq in the three months to December 2019, the same as in the previous quarter and in line with market consensus. China's annual inflation rate unexpectedly steadied at 4.5% in December 2019, the same as in the previous month and less than market expectations of 4.7%. Still, it remained the highest inflation rate since January 2012, as pork prices surged 97% on the back of a prolonged African swine fever epidemic. The government previously said it will use its reserves to provide sufficient pork supply to meet higher demand ahead of the Lunar New Year holidays later in January. Food inflation eased to 17.1% from 19.1% while non food cost rose at a faster 1.3%. For full 2019, consumer inflation was at 2.9%, in line with the government target of 3%. On a monthly basis, consumer prices were flat in December, compared to market estimates of a 0.3% advance and following a 0.4% gain in November.

Turkey

The heavy spending spree along with weak growth on the revenue side combined to create an annual budget deficit of TLY 123.7 billion (USD 22 billion), higher at 3.2% of GDP than the government's revised projection of 2.9%. In 2018, Turkey's central government budget balance had shown a deficit of TLY 72.6 billion (USD 14.8 billion), meeting a year-end target of a 1.9% budget-deficit-to-gross-domestic-product (GDP) ratio. Turkey's November current account deficit stood at USD 518 million on a monthly basis. Current account balance was at a surplus of USD 1.4 billion in previous year's November. Deterioration stemmed mainly from the widening trade deficit. Given the government's heavy policy support - both fiscal and monetary- to revive domestic demand; in the coming months we will witness the current account deficit deteriorating further along with a slight increase in energy costs. Thus, by the end of 2020, Turkey's current account balance will once again be in the red to a tune of 2.2-2.5% of GDP compared to an estimated surplus of 0.3% of GDP at the end of 2019. Turkey's annual inflation rate increased to a four-month high of 11.84% in December 2019 from 10.56% in the previous month. Annual core inflation rate, which excludes energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold, rose to a four-month high of 9.81% in December from 9.25% in November. The unemployment rate in Turkey increased to 13.4% in October 2019 from 11.6% in the same month of the previous year.

The central government's deficit in December was TLY 30.8 billion (USD 5.2 billion), the widest on record going back to 2006 and up from a gap of TLY 18.3 billion in the same period in 2018, as noted by Bloomberg. Government entities tend to spend more in December in order to use up their allowance, adding extra pressure on public finances. The heavy spending spree along with weak growth on the revenue side combined to create an annual budget deficit of TLY 123.7 billion (USD 22 billion), higher at 3.2% of GDP than the government's revised projection of 2.9%. In 2018, Turkey's central government budget balance had shown a deficit of TLY 72.6 billion (USD 14.8 billion), meeting a year-end target of a 1.9% budget-deficit-to-gross-domestic-product (GDP) ratio.

Turkey's November current account deficit stood at USD 518 million on a monthly basis and it was higher than the market expectation of USD 340 million. Current account balance was at a surplus of USD 1.4 billion in previous year's November. Deterioration stemmed mainly from the widening trade deficit. The 12-month rolling current account deficit declined from USD 4.3 billion in the previous month to USD 2.7 billion. Current account surplus excluding energy and gold in the meantime declined from USD 46.4 billion to USD 45.5 billion. Given the government's heavy policy support - both fiscal and monetary- to revive domestic demand; in the coming months we will witness the current account deficit deteriorating further along with a slight increase in energy costs. Thus, by the end of 2020, Turkey's current account balance will once again be in the red to a tune of 2.2-2.5% of GDP compared to an estimated surplus of 0.3% of GDP at the end of 2019. Slight deterioration in financing which was already poor. On the financing side, capital account generated USD 3.1 billion surplus in November against USD 3.4 billion in the same month of previous year. 12 month rolling surplus declined to USD 1.6 billion from USD 1.9 billion a month ago. FDI inflow in the last 12 months has been USD 5.9 billion while portfolio investments generated a deficit of USD 2.2 billion mostly due to firms' efforts to build up assets abroad as well as banking sector Eurobond redemptions. Other investments generated USD 0.8 billion inflow mainly due to USD 1 billion long term borrowing and USD 0.8 billion foreign deposit inflow. KBC estimation for GDP annual growth in Turkey in 2019 is -0.5%. KBC forecast for GDP growth in Turkey is 2.5% for 2020 and 3.0% for2021. The average harmonized inflation (HCPI) of Turkey in 2019 is 15.80%. KBC forecast for inflation in Turkey is 11.0% for 2020 and 10.0% for 2021. Turkey's annual inflation rate increased to a four-month high of 11.84% in December 2019 from 10.56% in the previous month, and slightly above market expectations of 11.56%. Inflation accelerated for: food & non-alcoholic beverages (10.89% vs 8.89% in November); housing, water, electricity, gas & other fuels (9.90% vs 9.58%); transport (12.21% vs 8.72%); hotels, cafes & restaurants (13.17% vs 13.07%) and clothing & footwear (4.53% vs 2.21%). Meanwhile, inflation eased for both furnishing, household equipment, routine maintenance of the house (9.79% vs 9.81%) and miscellaneous goods and services (13.63% vs 14.03%). Annual core inflation rate, which excludes energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold, rose to a four-month high of 9.81% in December from 9.25% in November. On a monthly basis, consumer prices went up 0.74%, following a 0.38% gain in November. The unemployment rate in Turkey increased to 13.4% in October 2019 from 11.6% in the same month of the previous year, as the number of unemployed went up by 608 thousand to 4.396 million and employment dropped by 527 thousand to 28.343 million, with job losses recorded in agriculture, industry and construction sectors. The labor force participation rate went down to 53% from 53.7% a year earlier and the employment rate declined to 45.9% from 47.5%.

POLICY OF THE CENTTRAL BANKS

European Central Bank (ECB)

The Governing Council of ECB decided at its monetary policy meeting on 12 December to keep the key ECB interest rates unchanged and to reiterate its forward guidance on policy rates, net asset purchases and reinvestments. Incoming information since the last Governing Council meeting in late October points to continued muted inflation pressures and weak euro area growth dynamics, although there are some initial signs of stabilization in the growth slowdown and of a mild increase in underlying inflation in line with previous expectations. Ongoing employment growth and increasing wages continue to underpin the resilience of the euro area economy. Sustained rates of broad money growth reflect ongoing bank credit creation for the private sector and low opportunity costs of holding M3. At the same time, favorable bank funding and lending conditions continued to support loan flows and thereby economic growth. The aggregate fiscal stance for the euro area is expected to remain mildly expansionary in 2020, thus providing support to economic activity. The stance is expected to remain expansionary in 2021 and to stabilize in 2022.

ECB Economic Bulletin December 2019 Overview.Based on the assessment of the economic and inflation outlook for the euro area, also taking into account the latest Eurosystem staff macroeconomic projections, the Governing Council decided at its monetary policy meeting on 12 December to keep the key ECB interest rates unchanged and to reiterate its forward guidance on policy rates, net asset purchases and reinvestments. Incoming information since the last Governing Council meeting in late October points to continued muted inflation pressures and weak euro area growth dynamics, although there are some initial signs of stabilization in the growth slowdown and of a mild increase in underlying inflation in line with previous expectations. Ongoing employment growth and increasing wages continue to underpin the resilience of the euro area economy. Against this overall background and in the light of the subdued inflation outlook, the Governing Council reiterated the need for monetary policy to remain highly accommodative for a prolonged period of time to support underlying inflation pressures and headline inflation developments over the medium term. In addition, the Governing Council's forward guidance ensures that financial conditions adjust in accordance with changes to the inflation outlook. In any event, the Governing Council continues to stand ready to adjust all of its instruments, as appropriate, to ensure that inflation moves towards its aims in a sustained manner, in line with its commitment to symmetry. Economic and monetary assessment at the time of the Governing Council meeting of 12 December 2019. Global real GDP growth (excluding the euro area) weakened during the first half of 2019, but signs of stabilization started to emerge towards the end of the year. The weak growth momentum was characterized by slowing growth in both manufacturing and investment, which have been reinforced by rising policy and political uncertainty particularly amid escalating trade tensions and Brexit-related developments. More recent information, however, points to a stabilization in global growth, as confirmed also by survey-based data. In particular, the Purchasing Managers' Indices (PMI) point to a moderate recovery in manufacturing output growth and some moderation in services output growth. Looking ahead, the recovery in global economic activity is projected to be shallow, reflecting a moderation of growth in advanced economies and a sluggish recovery in some emerging economies. Global trade softened this year and is projected to expand at a slower pace than global activity in the medium term. Global inflationary pressures remain contained, and the balance of risks to global economic activity continues to be tilted to the downside, although risks are becoming less pronounced.Since the Governing Council meeting in September 2019 euro area long-term risk-free rates have increased and the forward curve of the euro overnight index average (EONIA) has shifted upwards, with markets currently expecting no further cut in the deposit facility rate. In line with an improvement in global risk sentiment, euro area equity prices have increased and corporate spreads have tightened. Euro area long-term sovereign yields also largely reflect the rise in risk-free rates. In foreign exchange markets, the euro remained broadly stable in trade-weighted terms. Euro area real GDP growth was confirmed at 0.2%, quarter on quarter, in the third quarter of 2019, unchanged from the previous quarter. The ongoing weakness of international trade in an environment of persistent global uncertainties continues to weigh on the euro area manufacturing sector and is dampening investment growth. At the same time, incoming economic data and survey information, while remaining weak overall, point to some stabilization in the slowdown of economic growth in the euro area. The services and construction sectors remain resilient, despite some moderation in the latter half of 2019. Looking ahead, the euro area expansion will continue to be supported by favorable financing conditions, further employment gains in conjunction with rising wages, the mildly expansionary euro area fiscal stance and the ongoing – albeit somewhat slower – growth in global activity. This assessment is broadly reflected in the December 2019 Eurosystem staff macroeconomic projections for the euro area. These projections foresee annual real GDP increasing by 1.2% in 2019, 1.1% in 2020 and 1.4% in both 2021 and 2022. Compared with the September 2019 ECB staff macroeconomic projections, the outlook for real GDP growth has been revised down slightly for 2020. The risks surrounding the euro area growth outlook, related to geopolitical factors, rising protectionism and vulnerabilities in emerging markets, remain tilted to the downside, but have become somewhat less pronounced. According to Eurostat's flash estimate, euro area annual HICP inflation increased from 0.7% in October 2019 to 1.0% in November, reflecting mainly higher services and food price inflation.

On the basis of current futures prices for oil, headline inflation is likely to rise somewhat in the coming months. Indicators of inflation expectations stand at low levels. Measures of underlying inflation have remained generally muted, although there are some indications of a mild increase in line with previous expectations. While labor cost pressures have strengthened amid tighter labor markets, the weaker growth momentum is delaying their pass-through to inflation. Over the medium term, inflation is expected to increase, supported by the Governing Council's monetary policy measures, the ongoing economic expansion and solid wage growth. This assessment is also broadly reflected in the December 2019 Eurosystem staff macroeconomic projections for the euro area, which foresee annual HICP inflation at 1.2% in 2019, 1.1% in 2020, 1.4% in 2021 and 1.6% in 2022. Compared with the September 2019 ECB staff macroeconomic projections, the outlook for HICP inflation has been revised up slightly for 2020 and down slightly for 2021, mainly driven by the expected future path of energy prices. Annual HICP inflation excluding energy and food is expected to be 1.0% in 2019, 1.3% in 2020, 1.4% in 2021 and 1.6% in 2022. In October 2019 the annual growth of broad money remained robust, while lending to the private sector continued its gradual recovery. Broad money (M3) growth stood at 5.6% in October 2019, unchanged from the previous month. Sustained rates of broad money growth reflect ongoing bank credit creation for the private sector and low opportunity costs of holding M3. At the same time, favorable bank funding and lending conditions continued to support loan flows and thereby economic growth. The annual growth rate of loans to non-financial corporations increased to 3.8% in October, up from 3.6% in September. The Governing Council's accommodative monetary policy stance will help to safeguard very favorable bank lending conditions and will continue to support access to financing, across all economic sectors and in particular for small and medium-sized enterprises. The aggregate fiscal stance for the euro area is expected to remain mildly expansionary in 2020, thus providing support to economic activity. The stance is expected to remain expansionary in 2021 and to stabilize in 2022, mainly on account of a declining but still positive primary balance. In view of the weakening economic outlook, governments with fiscal space should be ready to act in an effective and timely manner. In countries where public debt is high, governments need to pursue prudent policies and meet structural balance targets, which will create the conditions for automatic stabilizers to operate freely. All countries should intensify their efforts to achieve a more growth-friendly composition of public finances.

Bank of England (BoE)

A Framework for All Seasons? Speech given by Mark Carney Governor of the Bank of England Research Workshop on The Future of Inflation Targeting. First, the flexibility inherent in inflation targeting is highly valuable, particularly when combined with mechanisms to improve transparency and accountability. Second, monetary policy is also more effective when it is combined with vigilant macro- and micro-prudential policies. Third, "unconventional policies", including asset purchases and forward guidance, are powerful policy tools in a low r* environment with more frequent encounters with the effective lower bound. In all likelihood, equilibrium interest rates will remain low for a prolonged period as many of the structural forces that have pushed them down are set to persist for years. Calls for the Bank of England to solve broader challenges ignore the Bank of England's carefully defined objectives. And they often confuse independence with omnipotence. The flexibility in the UK monetary policy framework means that the Monetary Policy Committee has been able to support the UK economy through the changing of the seasons.

A Framework for All Seasons? Speech given by Mark Carney Governor of the Bank of England Research Workshop on The Future of Inflation Targeting Some Lessons for Inflation Targeting:

First, the flexibility inherent in inflation targeting is highly valuable, particularly when combined with mechanisms to improve transparency and accountability. In the wake of the referendum, the Monetary Policy Committee's aggressive monetary easing, despite a sharply depreciating currency and rising inflation, was made much more effective by the new requirements under its remit to explain clearly the trade-off it was pursuing between supporting jobs and growth on the one hand and returning inflation sustainably to target on the other. Second, monetary policy is also more effective when it is combined with vigilant macro- and micro-prudential policies. A frequently expressed concern is that low policy rates are generating risks to financial stability – often linked to undesirable "search for yield" behaviour. While vigilance is required, it is essential to leverage the synergies of monetary and macro-prudential policies. In many situations monetary policy actions are complementary to financial stability. After all, stimulating more risk taking is one of the goals of low policy rates, whereas recessions emerge when demand shifts away from risky assets and towards safe assets. Easing monetary policy changes people's incentives in order to mitigate that shift. Low interest rates can also benefit financial stability by making debts more serviceable. Third, "unconventional policies", including asset purchases and forward guidance, are powerful policy tools in a low r* environment with more frequent encounters with the effective lower bound. A growing body of research shows that asset purchases led to substantial, long-lasting, reductions in long-term yields, providing support to activity when policy rates are constrained. Bank of England staff estimate that the Monetary Policy Committee's GBP 60 billion of asset purchases in August 2016 were equivalent to a Bank of England Rate cut of around 50 basis points.

As the Monetary Policy Committee noted at the time, there was considerable scope to increase purchases and to use the Term Funding Scheme to reinforce the pass through of further cuts to Bank of England rate had additional stimulus been required. In all likelihood, equilibrium interest rates will remain low for a prolonged period as many of the structural forces that have pushed them down are set to persist for years. Moreover, these could likely to be reinforced by flaws inherent in the international monetary and financial system and the disinflationary effects of advances in technology and the changing nature of commerce. The principle structural force leaning in the other direction on inflation is that the shift towards delocalization with the potential fracturing of the global trading system. On balance, the global economy risks being trapped in a vicious cycle of lower global equilibrium interest rates reducing monetary policy space, exacerbating downside risks, pushing down equilibrium rates further, and leading to a global liquidity trap. This environment raises questions over whether the current inflation targeting framework will provide monetary policymakers sufficient scope to respond to adverse shocks to demand, whether it needs to be adjusted or even replaced. In my view, these should be resisted. While carefully circumscribed independence is highly effective in delivering price and financial stability, it cannot deliver lasting prosperity and it cannot address broader societal challenges. Calls for the Bank of England to solve broader challenges ignore the Bank of England's carefully defined objectives. And they often confuse independence with omnipotence. To conclude, the flexibility in the UK monetary policy framework means that the Monetary Policy Committee has been able to support the UK economy through the changing of the seasons. Despite the economy being buffeted by diverse and sizable shocks since the recovery began, inflation has averaged 1.7%; GDP growth has generally been robust, averaging around 2%, and above the subdued rate of potential supply growth. The wide margin of spare capacity present after the crisis was absorbed, unemployment is at multi-decade lows and employment at an all-time high. Real wages have finally returned to relatively strong rates of growth. Inflation expectations have remained anchored to the target, even when CPI inflation has temporarily moved away from it.

USA Federal Reserve

U.S. Economic Outlook and Monetary Policy Speech Vice Chair Richard H. Clarida Council on Foreign Relations. The U.S. economy begins the year 2020 in a good place. The unemployment rate is at a 50-year low, inflation is close to our 2% objective, gross domestic product growth is solid, and the Federal Open Market Committee's (FOMC) baseline outlook is for a continuation of this performance in 2020. Over the course of 2019 the FOMC shifted the stance of U.S. monetary policy to offset some significant global growth headwinds and global disinflationary pressures. Looking ahead, monetary policy is not on a preset course. The Committee will proceed on a meeting-by-meeting basis and will be monitoring the effects of Federal Reserve's recent policy actions along with other information bearing on the outlook as Federal Reserve assess the appropriate path of the target range for the federal funds rate. FOMC affirmed that Committee aims to operate with an ample level of bank reserves in the U.S. financial system.

U.S. Economic Outlook and Monetary Policy Speech Vice Chair Richard H. Clarida Council on Foreign Relations. The U.S. economy begins the year 2020 in a good place. The unemployment rate is at a 50-year low, inflation is close to our 2% objective, gross domestic product growth is solid, and the Federal Open Market Committee's (FOMC) baseline outlook is for a continuation of this performance in 2020. At present, personal consumption expenditures (PCE) price inflation is running somewhat below our 2% objective, but Federal reserve projects that, under appropriate monetary policy, inflation will rise gradually to our symmetric 2% objective. Although the unemployment rate is at a 50-year low, wages are rising broadly in line with productivity growth and underlying inflation. Federal Reserve is not seeing any evidence to date that a strong labor market is putting excessive cost-push pressure on price inflation. Committee projections for the U.S. economy are similar to the Federal Open Market Committee's projections at this time one year ago, but over the course of 2019, the FOMC shifted the stance of U.S. monetary policy to offset some significant global growth headwinds and global disinflationary pressures. In 2019, sluggish growth abroad and global developments weighed on investment, exports, and manufacturing in the United States, although there are some indications that headwinds to global growth may be beginning to abate. U.S. inflation remains muted. Over the 12 months through November, PCE inflation was running at 1.5%, and core PCE inflation, which excludes volatile food and energy prices and is a better measure of underlying inflation, was running at 1.6%. Moreover, inflation expectations, those measured by both surveys and market prices, have moved lower and reside at the low end of a range Committee considers consistent with Federal Reserve's price-stability mandate. The shift in the stance of monetary policy that Federal Reserve undertook in 2019 was well timed and has been providing support to the economy and helping to keep the U.S. outlook on track. Federal Reserve believes that monetary policy is in a good place and should continue to support sustained growth, a strong labor market, and inflation running close to our symmetric 2 percent objective. As long as incoming information about the economy remains broadly consistent with this outlook, the current stance of monetary policy likely will remain appropriate. Looking ahead, monetary policy is not on a preset course. The Committee will proceed on a meeting-by-meeting basis and will be monitoring the effects of Federal Reserve's recent policy actions along with other information bearing on the outlook as Federal Reserve assess the appropriate path of the target range for the federal funds rate. Of course, if developments emerge that, in the future, trigger a material reassessment of Federal Reserve's outlook, And in October, FOMC announced and began to implement a program to address pressures in repurchase agreement (repo) markets that became evident in September. To that end, Committee has been purchasing Treasury bills and conducting both overnight and term repurchase operations, and these efforts were successful in relieving pressures in the repo markets over the year-end. As we enter 2020, Committee stands ready to adjust the details of this program as appropriate and in line with our goal, which is to keep the federal funds rate in the target range desired by the FOMC. As the minutes of the December FOMC meeting suggest, it may be appropriate to gradually transition away from active repo operations this year as Treasury bill purchases supply a larger base of reserves, though some repo might be needed at least through April, when tax payments will sharply reduce reserve levels.

Bank of Japan (BoJ)

Haruhiko Kuroda Governor of the Bank of Japan Speech at the Meeting of Japan Business Federation in Tokyo. In the past, there were many cases in Japan where changes in the global economy or external demand affected overall developments in the economy relatively quickly. However, what is unique to the current phase is that domestic demand has remained firm so far despite weak external demand. Business fixed investment is planned to continue increasing steadily. This increase in business fixed investment is underpinned by sustained investment that is less susceptible to short-term economic developments, including labor-saving and efficiency-improving investment, construction investment, and research and development (R&D) investment for growth areas. The Bank of Japan has pursued powerful monetary easing with the aim of achieving the price stability target of 2% since the introduction of quantitative and qualitative monetary easing (QQE) in 2013. While continuing to carefully examine various risks, the Bank of Japan will not hesitate to take additional easing measures if there is a greater possibility that the momentum toward achieving the price stability target will be lost. The economic measures that the government recently has implemented can exert significant effects to maintain the expanding trend in the economy with the Bank of Japan's pursuit of powerful monetary easing. The government and the Bank of Japan confirmed in the statement that they would work within their respective autonomies to fulfill their own roles, and this framework seems to be functioning very effectively.

Haruhiko Kuroda Governor of the Bank of Japan Speech at the Meeting of Japan Business Federation in Tokyo. In the past, there were many cases in Japan where changes in the global economy or external demand affected overall developments in the economy relatively quickly. However, what is unique to the current phase is that domestic demand has remained firm so far despite weak external demand. One factor underpinning firm domestic demand is business fixed investment. According to the December Tankan (Short-Term Economic Survey of Enterprises in Japan), business fixed investment is planned to continue increasing steadily. This increase in business fixed investment is underpinned by sustained investment that is less susceptible to short-term economic developments, including labor-saving and efficiency-improving investment, construction investment, and research and development (R&D) investment for growth areas. This likely has brought about firm domestic demand that is unlikely affected by external demand. In addition, private consumption has continued to increase moderately on the back of steady improvement in the employment and income situation. For the time being, the effects of the October 2019 consumption tax hike warrant attention. Private consumption registered a somewhat large decline for October, partly affected by natural disasters such as typhoons. However, excluding those effects, a reactionary decline in demand after the tax hike seems to be smaller than that of the previous tax hike in 2014. As for the outlook, domestic demand is likely to follow an uptrend with a virtuous cycle from income to spending operating. Although its pace of increase is expected to decelerate temporarily, affected by the global economic slowdown to date, the consumption tax hike, and natural disasters, a large decline likely will be avoided. In addition, the global growth rate is projected to rise. Under these circumstances, Japan's economy is expected to continue on a moderate expanding trend. Let move on to price developments. Looking back on this year, the yoy rate of increase in the consumer price index (CPI) excluding fresh food has decelerated somewhat, partly due to the effects of the decline in energy prices. However, that excluding fresh food and energy, which more clearly shows the underlying trend in the CPI, has been somewhat higher compared to last year. As for the outlook, the yoy rate of change in the CPI is likely to increase gradually toward the price stability target as firms' and households' perception of prices improves amid the continuation of the expanding economic trend. The Bank of Japan has pursued powerful monetary easing with the aim of achieving the price stability target of 2% since the introduction of quantitative and qualitative monetary easing (QQE) in 2013. In this situation, as the global economic slowdown continued and downside risks to Japan's economic activity and prices became significant this year, the Bank of Japan clarified its policy stance of being tilted toward monetary accommodation since around summer. In October, with a view to making this clearer, the Bank of Japan decided on a new forward guidance, whereby it would maintain the policy rates at their present levels or, depending on the situation, lower their levels, as long as downside risks to economic activity and prices remain significantly high. While continuing to carefully examine various risks, the Bank of Japan will not hesitate to take additional easing measures if there is a greater possibility that the momentum toward achieving the price stability target will be lost.

Meanwhile, early this month, the government released the Comprehensive Economic Measures to Create a Future with Security and Growth. Recently, the cooperation between monetary and fiscal authorities increasingly has been drawing attention globally, so let me explain the basic thinking on it. If the government implements fiscal policy when a central bank pursues monetary easing to achieve its inflation target, economic stimulus effects will become more powerful through their synergy effects. Such a combination of policies is called a policy mix, and this is a standard approach of macroeconomic policy. Therefore, the economic measures that the government recently has implemented can exert significant effects to maintain the expanding trend in the economy with the Bank of Japan's pursuit of powerful monetary easing. That said, the cooperation between monetary and fiscal authorities entails difficulties in terms of ensuring public confidence toward macroeconomic policy. In economic theory, a policy mix is assumed to be conducted in an appropriate manner through monetary and fiscal policies based on their own particular policy objectives. In recent discussions, however, some seem to confuse a policy mix with debt monetization by central banks. Thus, it is important to clarify each role when considering the monetary-fiscal policy mix. In the joint statement released by the government and the Bank of Japan in January 2013, they took this point into account and made it clear. The government and the Bank of Japan confirmed in the statement that they would work within their respective autonomies to fulfill their own roles, and this framework seems to be functioning very effectively.

PBoC

China's central bank has announced a move to unleash CNY 800 billion (USD 115 billion) from the banking system to support the economy, sending a pro-growth message on the first day of 2020. Aiming to further support the development of the real economy and lower real financing costs, the People's Bank of China (PBoC) has decided to lower the required reserve ratio for financial institutions by 0.5% on January 6, 2020. The reserve requirement ratio (RRR) for big banks will be lowered to 12.5%, while the ratio for medium and small banks will be reduced to 10.5% and 7% respectively. China's central bank will use the loan prime rate, or LPR, as a new benchmark for pricing existing floating-rate loans, in a step that analysts say could help lower borrowing costs and underpin economic growth. Starting on January 1, financial institutions will be prohibited from signing floating-rate loan contracts based on the previous benchmark bank lending rate, the People's Bank of China (PBOC) said in a statement on its website. . The central bank also said its monetary policy would be "flexible" in 2020 and it would keep "growth in money supply, credit and aggregate social financing in line with economic development" – a more dovish stance on borrowing than previous years.

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Central Bank of Turkey

The policy rate in Turkey has been cut from 24%in July 2019 to 11.25% in January 2020, total 12.75% cut. President Erdogan just days ago had once again calling for single-digit policy rate from the central bank. The President passionately wants to see a reversal in Turkey's contracting investments and very high unemployment; and thus assumes lower interest rates would be a cure for the slow growth disease. Decision of the Monetary Policy Committee of Central Bank of Turkey 16 January 2019. The Monetary Policy Committee (the Committee) has decided to reduce the policy rate (one-week repo auction rate) from 12% to 11.25%. Inflation outlook continued to improve and inflation expectations sustained their wide-spread decline. The improvement in macroeconomic indicators, inflation in particular, supports the fall in country risk premium and helps contain cost pressures. Developments in the exchange rate, domestic demand conditions and producer prices have contributed to a mild trend in core inflation indicators. The course of inflation is considered to be broadly in line with the year-end inflation projection. Accordingly, considering all factors affecting the inflation outlook, the Committee decided to make a measured cut in the policy rate. But such a rapid monetary expansion puts both the stability of the exchange rate and the sustained disinflation process at considerable risk.

The policy rate in Turkey has been cut from 24%in July 2019 to 11.25% in January 2020, total 12.75% cut. President Erdogan just days ago had once again calling for single-digit policy rate from the central bank. The President passionately wants to see a reversal in Turkey's contracting investments and very high unemployment; and thus assumes lower interest rates would be a cure for the slow growth disease. As the President of Turkey, Mr. Erdogan is calling for single-digit rates; it would be no surprise to see him getting a 9% policy rate from the central bank of Turkey towards mid-summer days. But such a rapid monetary expansion puts both the stability of the exchange rate and the sustained disinflation process at considerable risk. Decision of the Monetary Policy Committee of Central Bank of Turkey 16 January 2019. The Monetary Policy Committee (the Committee) has decided to reduce the policy rate (one-week repo auction rate) from 12% to 11.25%. Recent data indicate that recovery in economic activity continues. Sectoral diffusion of economic activity continues to improve. However, investment demand remains weak. While favorable effects of improved competitiveness prevail, weakening global economic outlook tempers external demand. As the contribution of net exports to economic growth declines, economic recovery is expected to be sustained with the help of the ongoing disinflation process and improvement in financial conditions. Current account balance, which has recently recorded significant improvement, is expected to maintain a moderate course with the contribution of supportive policy measures. Weakness in global economic activity and low levels of global inflation strengthen expectations regarding the continuation of expansionary monetary policies in advanced economies. Current global financial conditions and the recent partial improvement in expectations regarding global trade support the demand for emerging market assets and the risk appetite. Nevertheless, rising protectionism, uncertainty regarding global economic policies and geopolitical developments are closely monitored for their impact on capital flows, international trade and commodity prices. Inflation outlook continued to improve and inflation expectations sustained their wide-spread decline. The improvement in macroeconomic indicators, inflation in particular, supports the fall in country risk premium and helps contain cost pressures. Developments in the exchange rate, domestic demand conditions and producer prices have contributed to a mild trend in core inflation indicators. The course of inflation is considered to be broadly in line with the year-end inflation projection. Accordingly, considering all factors affecting the inflation outlook, the Committee decided to make a measured cut in the policy rate. At this point, the current monetary policy stance remains consistent with the projected disinflation path. The Committee assesses that maintaining a sustained disinflation process is a key factor for achieving lower sovereign risk, lower long-term interest rates, and stronger economic recovery. Keeping the disinflation process in track with the targeted path requires the continuation of a cautious monetary stance. In this respect, monetary stance will be determined by considering the indicators of the underlying inflation trend to ensure the continuation of the disinflation process. The Central Bank will continue to use all available instruments in pursuit of the price stability and financial stability objectives. It should be emphasized that any new data or information may lead the Committee to revise its stance.

INTERNATIONAL COMMODTITY PRICES

Petrol

Oil prices edged higher on 17.01.2020, on optimism that the recent US-China trade pact will revive growth and boost demand in the world's two biggest crude consumers. Also, the latest EIA report showed the US crude inventories decreased by 2.549 million barrels in the latest week. The Brent price increases 0.42 USD/BBL or 0.65% to 65.1721 USD/BBL on Friday, January 17th. The price of crude oil increases by 0.37 USD/BBL or 0.63% to 59.0058 USD/BBL. Keeping a lid on prices, these data showed China's economic growth slowed to its weakest in nearly 30 years in 2019.

Oil prices edged higher on 17.10.2020, on optimism that the recent US-China trade pact will revive growth and boost demand in the world's two biggest crude consumers. Also, the latest EIA report showed the US crude inventories decreased by 2.549 million barrels in the latest week. The Chinese economy advanced 6.0% yoy in the December quarter of 2019, the same as in the previous quarter. Considering full 2019, the economy grew by 6.1%. Keeping a lid on prices, these data showed China's economic growth slowed to its weakest in nearly 30 years in 2019. The Brent price increases 0.42 USD/BBL or 0.65% to 65.1721 USD/BBL on Friday, January 17th. The price of crude oil increases by 0.37 USD/BBL or 0.63% to 59.0058 USD/BBL. In the agreement first phase, China has promised to increase US energy purchases by USD 52 billion in two years, but some market players have doubts about Beijing's willingness to deliver on that promise.

Agricultural Goods

The beginning of January from the new 2020 year continued the trend in the prices of the main grain contracts on the global stock markets. In USA, wheat dropped USD -1.00 to 255.00 USD / ton, maize retained its price of 175.00 USD / ton last week. Wheat in France also went up by EUR 6.25 to 198.00 EUR / ton, while in Ukraine and Russia prices increased by USD 1.00 each and decreased by USD -3.00 to 218.00 USD / ton and 217.00 USD / ton respectively. For maize in Ukraine, the price is up by USD 3.00 to 179.00 USD / ton, in France by USD 2.00 to 175.00 USD / ton. In the Grain subcircle of the Sofia Commodity Exchange AD, wheat from the field offered supply prices from 400.00 to 360.00 BGN / ton, demand was at 320.00-350.00 BGN / ton. For feed wheat, buyers are at 280.00-290.00 BGN / ton and sellers are at 320.00 BGN / ton..
Sofia Commodity Exchange Review 14-17.01.2020

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BULGARIA

EXTERNAL SECTOR

Balance of Payments

In January – November 2019 the current and capital account was positive amounting to EUR 6,710.7 million (11% of GDP), compared with a surplus of EUR 3,570.4 million (6.4% of GDP) in January – November 2018. In January – November 2019 the current account was positive and amounted to EUR 5,882.1 million (9.6% of GDP), compared with a surplus of EUR 2,990.9 million (5.3% of GDP) in January – November 2018.

The current and capital account recorded a surplus of EUR 507.1 million in November 2019, compared with a surplus of EUR 200.9 million in November 2018. In January – November 2019 the current and capital account was positive amounting to EUR 6,710.7 million (11% of GDP), compared with a surplus of EUR 3,570.4 million (6.4% of GDP) in January – November 2018. The current account was positive amounting to EUR 410.3 million in November 2019, compared with a surplus of EUR 140.2 million in November 2018. In January – November 2019 the current account was positive and amounted to EUR 5,882.1 million (9.6% of GDP), compared with a surplus of EUR 2,990.9 million (5.3% of GDP) in January – November 2018. The balance on goods recorded a surplus of EUR 61.9 million in November 2019, compared with a deficit of EUR 166.5 million in November 2018. In January – November 2019 the balance on goods was positive amounting to EUR 164.8 million (0.3% of GDP), compared with a deficit of EUR 1,641.2 million (2.9% of GDP) in January – November 2018. Exports of goods amounted to EUR 2,589.9 million in November 2019, increasing by EUR 83.5 million (3.3%) from November 2018 (EUR 2,506.4 million). In January – November 2019 exports of goods totalled EUR 26,842.6 million (43.9% of GDP), growing by EUR 1,189.7 million (4.6%) year-on-year (from EUR 25,652.9 million, 45.7% of GDP). In January – November 2018 exports grew by 3.2% yoy. Imports of goods amounted to EUR 2,528 million in November 2019, dropping by EUR 144.8 million (5.4%) from November 2018 (EUR 2,672.9 million). In January – November 2019 imports of goods totalled EUR 26,677.8 million (43.7% of GDP), dropping by EUR 616.4 million (2.3%) from January – November 2018 (EUR 27,294.1 million, 48.7% of GDP). In January – November 2018 imports grew by 8.2% yoy. Services recorded a positive balance of EUR 225.6 million in November 2019, compared with a surplus of EUR 222.5 million in November 2018. In January – November 2019 services recorded a surplus of EUR 3,874.9 million (6.3% of GDP) compared with a positive balance of EUR 3,415.9 million (6.1% of GDP) in the same period of 2018. The net primary income (which reflects the receipt and payment of income related to the use of resources (labour, capital, land), taxes of production and imports and subsidies) recorded a surplus of EUR 39.1 million, compared with a deficit of EUR 23.6 million in November 20183. In January – November 2019 the balance on primary income was negative and equated to EUR 11.2 million (0.02% of GDP), compared with a deficit of EUR 615.4 million (1.1% of GDP) in January – November 2018. The net secondary income (which reflects the redistribution of income) recorded a surplus of EUR 83.8 million, compared with a positive balance of EUR 107.9 million in November 2018. In January – November 2019 the net secondary income was positive amounting to EUR 1,853.6 million (3% of GDP), compared with a positive balance of EUR 1,831.6 million (3.3% of GDP) in the same period of 2018. The capital account recorded a surplus of EUR 96.8 million, compared with a positive balance of EUR 60.6 million in November 2018. In January – November 2019 the capital account recorded a surplus of EUR 828.6 million (1.4% of GDP), compared with a positive balance of EUR 579.6 million (1% of GDP) in January – November 2018. The financial account recorded a negative balance of EUR 403.3 million, compared with a negative value of EUR 311.8 million in November 2018. In January – November 2019 the financial account recorded a net inflow of EUR 2,580.2 million (4.2% of GDP) compared with an inflow of EUR 2,585.6 million (4.6% of GDP) in January – November 2018. 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 32.8 million, compared with a negative balance of EUR 137.5 million in November 2018. In January – November 2019 direct investment recorded a negative balance of EUR 694.5 million (1.1% of GDP), compared with a negative balance of EUR 314.5 million (0.6% of GDP) in January – November 2018. Direct investment – assets grew by EUR 7.1 million compared with an increase of EUR 138.7 million in November 2018. In January – November 2019 direct investment – assets grew by EUR 329.2 million (0.5% of GDP) compared with an increase of EUR 760.3 million (1.4% of GDP) in the same period of 2018.

Direct investment – liabilities grew by EUR 39.9 million in November 2019, compared with an increase of EUR 276.3 million in November 2018. In January – November 2019 direct investment – liabilities grew by EUR 1,023.7 million (1.7% of GDP), compared with an increase of EUR 1,074.8 million (1.9% of GDP) in the same period of 2018. The balance on portfolio investment was positive amounting to EUR 192.8 million, compared with a positive balance of EUR 415.6 million in November 2018. In January – November 2019 the balance was positive and equated to EUR 1,310.7 million (2.1% of GDP), compared with a positive balance of EUR 1,346.8 million (2.4% of GDP) million in January – November 2018. Portfolio investment – assets grew by EUR 176.1 million compared to a decline of EUR 97.8 million in November 2018. In January – November 2019 they increased by EUR 1,253.4 million (2.1% of GDP) compared with an increase of EUR 778.5 million (1.4% of GDP) in January – November 2018. Portfolio investment – liabilities dropped by EUR 16.7 million compared with a decline of EUR 513.4 million in November 2018. In January – November 2019 portfolio investment – liabilities decreased by EUR 57.3 million (0.1% of GDP) compared with a decline of EUR 568.3 million (1% of GDP) in January – November 2018. The balance on other investment was negative amounting to EUR 861.1 million, compared with a negative balance of EUR 602.1 million in November 2018. In January – November 2019 the balance was positive and equated to EUR 2,423.1 million (4% of GDP), compared with a positive balance of EUR 956.3 million (1.7% of GDP) in January – November 2018. Other investment – assets dropped by EUR 787.2 million, compared with a decline of EUR 455.1 million in November 2018. In January – November 2019 they grew by EUR 2,529.2 million (4.1% of GDP) compared with an increase of EUR 1,534.1 million (2.7% of GDP) in January – November 2018. Other investment – liabilities grew by EUR 73.9 million compared with an increase of EUR 147 million in November 2018. In January – November 2019 they rose by EUR 106.1 million (0.2% of GDP) compared with an increase of EUR 577.9 million (1% of GDP) in January – November 2018. The BNB reserve assets increased by EUR 272.6 million, compared with an increase of EUR 34 million in November 2018. In January – November 2019 they dropped by EUR 429.1 million (0.7% of GDP), compared with an increase of EUR 519 million (0.9% of GDP) in the same period of 2018. The net errors and omissions were negative amounting to EUR 910.4 million compared with a negative value of EUR 512.6 million in November 2018. According to preliminary data, the item was negative totaling EUR 4,130.6 million (6.8% of GDP) in January – November 2019, compared with a negative value of EUR 984.9 million (1.8% of GDP) in the same period of 2018.

Bulgaria: Balance of payments	November 2018	November 2019	Change in EUR million	January - November 2018	January - November 2019	Change in EUR million
Current and capital account	200.9	507.1	306.2	3570.4	6710.7	3140.3
Current account	140.2	410.3	270.0	2990.9	5882.1	2891.3
Trade balance	-166.5	61.9	228.3	-1641.2	164.8	1806.0
Services, net	222.5	225.6	3.1	3415.9	3874.9	459.1
Primary income, net	-23.6	39.1	62.7	-615.4	-11.2	604.2
Secondary income, net	107.9	83.8	-24.1	1831.6	1853.6	22.0
Capital account	60.6	96.8	36.2	579.6	828.6	249.0
Capital transfers, net	40.2	54.4	14.2	366.0	548.2	182.2
Financial account	-311.8	-403.3	-91.5	2585.6	2580.2	-5.4
Source: BNB						

Foreign Direct Investments

In January-November 2019 the net flows of foreign direct investment in Bulgaria presented according to the directional principle recorded a positive value of 989.2 million (1.6% of GDP), growing up by EUR 467.5 million (89.6%) from January – November 2018 (positive value of EUR 521.6 million, 0.9% of GDP).

According to preliminary data, the net flows of foreign direct investment in Bulgaria presented according to the directional principle recorded a positive value of EUR 989.2 million (1.6% of GDP) in January – November 2019, growing by EUR 467.5 million (89.6%) from January – November 2018 (positive value of EUR 521.6 million, 0.9% of GDP). Foreign direct investment in Bulgaria recorded an inflow of EUR 36.7 million in November 2019, compared with an inflow of EUR 122.1 million in November 2018.

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) recorded a negative value of EUR 411 million in January – November 2019, dropping by EUR 651.4 million from a positive value of EUR 240.4 million in January – November 2018. Real estate investments of non-residents recorded a positive value of EUR 4 million, compared with EUR 17.9 million in January – November 2018. The largest inflow of real estate investment was from Germany (EUR 1.2 million), the Netherlands (EUR 0.6 million), Ukraine (EUR 0.5 million), and Latvia (EUR 0.5 million). Reinvestment of earnings (the share of non-residents in the undistributed earnings/ loss of the enterprise based on preliminary profit and loss data) was estimated at a positive value of EUR 81.2 million, compared with EUR 312 million in January – November 2018. The net flow on debt instruments (the change in the net liabilities between affiliated enterprises on financial loans, suppliers' credits and debt securities) totaled EUR 1,319 million in January – November 2019, compared with a negative value of EUR 30.8 million in January – November 2018. The largest net direct investment inflows in Bulgaria for January – November 2019 were from the Netherlands (EUR 432.1 million), Germany (EUR 231.8 million), and the UK (EUR 192.7 million). According to preliminary data, direct investment abroad recorded a positive value of EUR 294.7 million (0.5% of GDP), compared with a positive value of EUR 207.1 million (0.4% of GDP) in January – November 2018. It grew by EUR 3.9 million in November 2019, compared with a negative value of EUR 15.4 million in November 2018. According to preliminary data, the stocks2 of foreign direct investment in Bulgaria stood at EUR 44,476.1 million at end-September 2019, compared with EUR 42,831.4 million at end-2018. Equity and reinvestment of earnings totaled EUR 34,275.2 million, growing by EUR 558.6 million from EUR 33,716.6 million in December 2018. Debt instruments amounted to EUR 10,200.9 million, increasing by EUR 1,086.1 million from December 2018 (EUR 9,114.8 million).

Bulgaria: Direct investments	November 2018	November 2019	January-November 2018	January-November 2019	Change in EUR million, mom	Channge in EUR million, yoy
Direct investments, net	**-137.5**	**-32.8**	**-314.5**	**-694.5**	**104.7**	**-380.0**
Direct investments in abroad	**-15.4**	**3.9**	**207.1**	**294.7**	**19.3**	**87.6**
Equity	29.0	1.5	61.2	134.2	-27.5	73.0
Reinvestments of earnings	9.1	0.0	-9.3	0.4	-9.1	9.7
Debt investments	-53.5	2.4	155.2	160.1	55.9	4.9
Direct investments in a country	**122.1**	**36.7**	**521.6**	**989.2**	**-85.4**	**467.6**
Equity	54.7	19.4	240.4	411.0	-35.3	170.6
Reinvestments of earnings	44.4	0.0	312.0	81.2	-44.4	-230.8
Debt investments	23.0	17.3	-30.8	1319.0	-5.7	1349.8
Source: BNB						

International Reserves

In December 2019, BNB's international reserves amounted to BGN 48.5 billion (EUR 24.8 billion), registered an increase of 1.3% yoy and maintained the stability of the Currency Board in Bulgaria.

According to BNB preliminary data as of the end of December 2019 Bulgaria's international reserves amount to BGN 48.5 billion (EUR 24.8 billion) and report a decline of 0.5% mom, but increased by 1.3% yoy, respectively. On the assets side, cash and foreign currency deposits decreased by 15% yoy and by 1% mom to BGN 14.5 billion. Investments in securities decreased by 0.5% mom, but increased by 11.6% yoy to BGN 30.6 billion. Investments in monetary gold increased by 2.3% mom and by 26.7% yoy to BGN 3.5 billion. On the liabilities side, the money in circulation amounted to BGN 19.1 billion and increased by 4.1% mom and by 16% yoy, respectively. Liabilities to banks amount to BGN 13.4 billion and increase by 9.5% mom and by 5.8% yoy, respectively. Liabilities to the budget amounted to BGN 8.1 billion and decreased by 17.6% mom and by 22.5% yoy, respectively. Liabilities to other depositors amount to BGN 1.8 billion and decrease by 22% mom and by 13.1% yoy, respectively. The deposit of BNB "Banking" Department amounted to BGN 6.2 billion and increased by 1.5% mom and by 11.3% yoy, respectively. The international liquidity position of Bulgaria, represented by the ratio of international reserves to short-term external debt according to the latest BNB data at the end of October 2019 is at the level of 294.4% compared to 299.5% at the end of September 2019 and 295.8% at the end of October 2018.

Cover Ratio: Foreign reserves/Short term foreign debt (%)	Sep 2018	Oct 2018	Nov 2018	Dec 2018	Jan 2019	Feb 2019	March 2019	Apr 2019	May 2019	Jun 2019	Jul 2019	Aug 2019	Sep 2019	Oct 2019
Short-term foreign debt (EUR mn)	8052	8 161	8 365	8168.7	8 206	8293.3	8427.2	8573.0	8353.3	8321.8	8424.2	8355.0	8434.9	8377.5
Foreign reserves (EUR mn)	24540	24 137	24 161	25072	24 398	24 767	25026	24 760	24784	25 130	25 454	24705	25 258	24 667
Cover Ratio FR /STD(%)	304.8	295.8	288.8	306.9	297.3	298.6	297.0	288.8	296.7	302.0	302.2	295.7	299.4	294.4
Source: BNB, UBB's calculations														

REAL SECTOR

Business Climate Indicator

In December 2019, the total business climate indicator increases by 0.9 percentage points compared to the previous month to 27.1% as a result of the indicators' improvement in industry, construction and service sector.

In December 2019, the total business climate indicator4 increases by 0.9 percentage points to 27.1% compared to the previous month as a result of the indicators' improvement in industry, construction and service sector.

Industry. The composite indicator 'business climate in industry' increases by 0.7 percentage point, which is due to the favorable managers' assessments about the present business situation of the enterprises. The inquiry also reports certain increase of the production assurance with orders, which is not accompanied by increased expectations about the production activity over the next 3 months.

The main factors limiting the activity of the enterprises remain connected with the shortage of labor and uncertain economic environment. As regards the selling prices in industry, the managers' expectations are for preservation of their level over the next 3 months.

Construction. In December the composite indicator 'business climate in construction' increases by 2.6 percentage points as a result of the improved construction entrepreneurs' assessments about the present business situation of the enterprises. In their opinion, the new orders inflow over the last month is preserved, but the forecasts about the activity over the next 3 months are worsened. The shortage of labor, uncertain economic environment and competition in the branch continue to be the main problems limiting the business in the sector. Concerning the selling prices in construction, the majority of the managers expect them to remain unchanged over the next 3 months.

Retail trade. The composite indicator 'business climate in retail trade' preserves approximately its level from the previous month. The retailers' forecasts about both the volume of sales and orders placed with suppliers from foreign market over the next 3 months are favorable. The most serious difficulties for the activity of the enterprises remain the competition in the branch, insufficient demand and uncertain economic environment. As regards the selling prices, the prevailing retailers' expectations are for preservation of their level over the next 3 months.

Service sector. In December the composite indicator 'business climate in service sector' increases by 0.9 percentage points as a result of the more favorable managers' assessments and expectations about the business situation of the enterprises. Their opinions about the demand for services over the next 3 months are also more optimistic. The competition in the branch, uncertain economic environment and shortage of labor continue to be the main obstacles for the business development. Concerning the selling prices in the sector, the managers foresee them to remain unchanged over the next 3 months.

Industrial Production

According to the preliminary data in November 2019 the Industrial Production Index, seasonally adjusted, fell by 1.0% as compared to October 2019. In November 2019 the working day adjusted Industrial Production Index decreased by 0.4% in comparison with the same month of 2018. Industrial Production in Bulgaria is expected to be 0.5% by the end of 2019. Looking forward, we estimate Industrial Production in Bulgaria to stand at 3.1% in 2020 and 3.3% in 2021.

According to the preliminary data in November 2019 the Industrial Production Index, seasonally adjusted3, fell by 1.0% as compared to October 2019. In November 2019 the working day adjusted Industrial Production Index decreased by 0.4% in comparison with the same month of 2018. In November 2019 as compared to October 2019, the seasonally adjusted Industrial Production Index went down in the mining and quarrying industry by 3.8%, in the electricity, gas, steam and air conditioning supply by 0.5% and in the manufacturing by 0.3%. The most significant production decreases in the manufacturing were registered in the repair and installation of machinery and equipment by 11.7%, in the manufacture of beverages by 5.1%, in the manufacture of chemicals and chemical products by 4.8%, in the manufacture of food products by 4.5%. Important increases were seen in the other manufacturing by 16.6%, in the manufacture of basic pharmaceutical products and pharmaceutical preparations by 10.7%, in the manufacture of leather and related products by 9.3%, in the printing and reproduction of recorded media by 8.7%. On annual basis in November 2019 Industrial Production Index calculated from working day adjusted data rose in the mining and quarrying industry by 1.4% and in the manufacturing by 1.4%, while the production fell in the electricity, gas, steam and air conditioning supply by 9.6%. In the manufacturing, the more considerable increases compared to the same month of the previous year were registered in the other manufacturing by 33.2%, in the printing and reproduction of recorded media by 21.5%, in the manufacture of other transport equipment by 15.9%, in the manufacture of leather and related products by 14.8%. Major decreases were seen in the manufacture of tobacco products by 14.8%, in the manufacture of fabricated metal products, except machinery and equipment by 8.4%, in the manufacture of wearing apparel by 8.2%, in the repair and installation of machinery and equipment by 7.9%.

Projection: *Industrial Production in Bulgaria is expected to be 0.5% by the end of 2019. Looking forward, we estimate Industrial Production in Bulgaria to stand at 3.1% in 2020 and 3.3% in 2021.*

Retail Sales

According to the preliminary seasonally adjusted data in November 2019 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 0.4% compared to the previous month. In November 2019, the working day adjusted turnover in 'Retail trade, except of motor vehicles and motorcycles' marked an increase by 2.5% in comparison with the same month of the previous year. Retail Sales yoy in Bulgaria is expected to be 2.4% by the end of 2019. Looking forward, we estimate Retail Sales yoy in Bulgaria to stand at 4% in 2020 and 4.5% in 2021.

According to the preliminary seasonally adjusted data3 in November 2019 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 0.4% compared to the previous month. In November 2019, the working day adjusted turnover in 'Retail trade, except of motor vehicles and motorcycles' marked an increase by 2.5% in comparison with the same month of the previous year. In November 2019 compared to the previous month, increase of turnover was observed in the 'Retail sale of non-food products except fuel' - by 1.8%, and in the 'Retail sale of food, beverages and tobacco' - by 1.6%. Decrease of turnover was seen in the 'Retail sale of automotive fuel in specialized stores' - by 2.9%. In the 'Retail sale of non-food products except fuel' a more significant growth was reported in the 'Dispensing chemist; retail sale of medical and orthopedic goods, cosmetic and toilet articles in specialized stores' – by 2.8%, in the Retail sale of audio and video equipment; hardware, paints and glass; electrical household appliances, etc. in specialized stores - by 2.4%. In November 2019 compared to the same month of 2018, the turnover run up in the 'Retail sale of non-food products except fuel' (by 5.8%), and in 'Retail sale of food, beverages and tobacco' (by 2.1%). A decline was reported in the 'Retail sale of automotive fuel in specialized stores' (by 6.4%). More significant growth in the 'Retail sale of non-food products except fuel' was observed in the 'Retail sale of information and communication equipment; other household equipment (except textiles); cultural and recreation goods, etc. in specialized stores - by 14.7%, 'Retail sale of computers, peripheral units and software; telecommunications equipment'- by 10.0%, and in the 'Retail sale of textiles, clothing, footwear and leather goods in specialized stores'- by 7.2%. A drop was registered in the 'Dispensing chemist; retail sale of medical and orthopedic goods, cosmetic and toilet articles'- by 7.3%.

Projection: *Retail Sales yoy in Bulgaria is expected to be 2.4% by the end of 2019. Looking forward, we estimate Retail Sales yoy in Bulgaria to stand at 4% in 2020 and 4.5% in 2021.*

Construction Output

According to the preliminary data, in November 2019 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 0.8% below the level of the previous month. In November 2019 the working day adjusted index of production in construction increased by 1.3% in comparison with the same month of 2018.Construction Output in Bulgaria is expected to be 3.2% by the end of 2019. Construction Output in Bulgaria to stand at 4% in 2020 and 3% in 2021.

In November 2019 the construction production index, calculated from the seasonally adjusted data, was below the level of the previous month. Index the production of civil engineering decreased by 1.4% and production of building construction - by 0.4%. On an annual basis in November 2019, the increase of production in construction, calculated from working day adjusted data, was determined from the positive rate in the building construction, where the growth was by 5.9%, while in the civil engineering was registered a decline by 4.5%

Projection: *Construction Output in Bulgaria is expected to be 3.2% by the end of 2019. Construction Output in Bulgaria to stand at 4% in 2020 and 3% in 2021.*

Inflation

The consumer price index for October 2019 compared to September 2019 is 100.7%, ie monthly inflation is 0.7%. Annual inflation for December 2019 compared to December 2018 is 3.8%. The average annual inflation for the period January-December 2019 compared to the period January-December 2018 is 3.1%. The harmonized index of consumer prices for December 2019 compared to November 2019 is 100.8%, ie monthly inflation is 0.8%. The annual inflation for December 2019 compared to December 2018 is 3.1%. The annual inflation for the period January - December 2019 compared to the period January - December 2018 is 2.5%, below the Maastricht requirement for value inflation not more than 3%. Annual inflation, which is significantly influenced by international oil and food prices in the euro, will accelerate slightly at the end of this year, then gradually slow down to 2.3% at the end of 2020. There is a risk of higher inflation than projected at higher than expected increases in unit labor costs and their eventual transfer to final prices. In the first half of 2020, inflation is expected to increase, with underlying inflation and food contributing to a major positive contribution. The projected acceleration of the rate of inflation in food is in line with the assumptions set for the rise in international prices of this commodity group. Our forecast is for inflation in Bulgaria to reach 2.3% in 2020 and 2.1% in 2021.

The consumer price index for December 2019 compared to November 2019 is 100.7%, ie monthly inflation is 0.7%. Annual inflation for December 2019 compared to December 2018 is 3.8%. The average annual inflation for the period January - December 2019 compared to the period January - December 2018 is 3.1%. The reason is the rise in international food prices, and the other is the rise in services due to higher labor costs and consumer demand. The harmonized index of consumer prices for December 2019 compared to November 2019 is 100.8%, ie monthly inflation is 0.8%. Annual inflation for December 2019 compared to December 2018 is 3.1%. Annual inflation for the period January - December 2019 compared to January - December 2018 is 2.5%.

Forecast: *Annual inflation, which is significantly influenced by international oil and food prices in the euro, will accelerate slightly at the end of this year, then gradually slow down to 2.3% at the end of 2020. There is a risk of higher inflation than projected at higher than expected increases in unit labor costs and their eventual transfer to final prices. In the first half of 2020, inflation is expected to increase, with underlying inflation and food contributing to a major positive contribution. The projected acceleration of the rate of inflation in food is in line with the assumptions set for the rise in international prices of this commodity group. Our forecast is for inflation in Bulgaria to reach 2.3% in 2020 and 2.1% in 2021.*

Bulgaria: CPI	2018 Weights (%)	December 2019 Change mom (%)	December 2019 Change yend 2018 (%)	December 2019 Change yoy (%)
Total CPI	100.00	100.70	103.8	103.8
Foods	31.55	100.8	106.8	106.8
Non-foods	35.206	99.9	101.5	101.5
Catering	5.363	100.5	105.8	105.8
Services	27.881	101.8	103	103
Source: NSI				

Producer Prices

Total Producer Price Index in November 2019 increased by 0.2% compared to the previous month; compared to the same month of 2018 the prices rose by 2.8%. Producer Price Index on Domestic Market in November 2019 rose by 0.3% compared to the previous month; compared to the same month of 2018 the domestic prices grew by 4.0%.

The Total Producer Price Index in Industry in November 2019 rose by 0.2% compared to the previous month. Higher prices were registered in the mining and quarrying industry by 1.7%, in the electricity, gas, steam and air conditioning supply by 0.2% and in manufacturing - by 0.1%. In the manufacturing, prices went up in the manufacture of leather and related products by 1.0% and in the manufacture of wearing apparel by 0.5%. Significant decrease in prices was reported in the manufacture of motor vehicles, trailers and semi-trailers by 1.1% and in the manufacture of wood and of products of wood and cork, except furniture and manufacture of articles of straw and plaiting materials by 0.8%. The Total Producer Price Index in November 2019 increased by 2.8% compared to the same month of 2018. The prices rose in the electricity, gas, steam and air conditioning supply by 9.5%, in the mining and quarrying industry by 6.3%, and in manufacturing by 0.6%. In manufacturing more compelling increase in prices was reported in the manufacture of leather and related products by 5.7%, in the repair and installation of machinery and equipment by 3.9% and in the manufacture of basic pharmaceutical products and pharmaceutical preparations by 3.3%. Significant decrease in prices were seen in the manufacture of paper and paper products by 3.4% and in the manufacture of wood and of products of wood and cork, except furniture and manufacture of articles of straw and plaiting materials by 2.3%.

Producer Price Index on Domestic Market in November 2019 increased by 0.3% compared to the previous month. The domestic prices went up in the mining and quarrying industry by 1.4%, in the electricity, gas, steam and air conditioning supply by 0.4%, and in manufacturing by 0.1%. In the manufacturing, compared to the previous month the prices went up in the manufacture of leather and leather products by 0.9%, in the manufacture of food products and in manufacture of basic metals - both by 0.6%. More compelling fell in the domestic prices was seen in the manufacture of wood and of products of wood and cork, except furniture and manufacture of articles of straw and plaiting materials by 0.5%. Producer Price Index on Domestic Market in November 2019 increased by 4.0% compared to the same month of 2018. The prices rose in the electricity, gas, steam and air conditioning supply by 10.8% and in manufacturing by 0.3%, while in the mining and quarrying industry prices fell by 0.1%. In the manufacturing compared to November 2018, more compelling price increase was reported in the repair and installation of machinery and equipment by 5.8%, in the manufacture of food products by 3.6%, and in the manufacture of motor vehicles, trailers and semi-trailers by 2.8%. The prices fell in the manufacture of chemicals and chemical products by 3.0% and in the manufacture of paper and paper products by 0.9%.

Producer Price Index on Non-domestic Market in November 2019 remained unchanged compared to the previous month and rose by 1.0% compared to the same month of 2018.

LABOR MARKET

Unemployment

In December 2019, the registered unemployment rate in Bulgaria is 5.9% and a 0.2 percentage point decrease on an annual basis. For 2019, employment is expected to increase by 0.4%. Unemployment will continue to decline slightly, following the trend of a net decrease of 50,000 people a year.

According to the Employment Agency, in December 2019 the registered unemployment rate in Bulgaria was 5.9%. Compared to the same period of 2018, a decrease of 0.2% was observed. At the end of the year, the number of registered unemployed in the Labor Offices was 194 715, compared to the same period in 2018 by 6 751 less (-3.4%). For the first time in the history of the Employment Agency, the number of registered unemployed persons in December was below 200,000. Activation of inactive persons remains a priority activity of the Labor Offices throughout the year. The number of newly registered unemployed in December was 24 689, of which 1 267 were inactive, ie. they were neither employed nor apprenticed and did not look for work. Information events, job exchanges, meetings of job brokers with young people who are about to graduate from secondary or higher education, mobile labor offices are all part of the new and modernized employment agency's initiatives and services. Activated persons continue to exceed 2,000 people per month on average. In the various forms of adult training (for vocational training and key competences), funded by the state budget and the European Social Fund, new 296 unemployed are covered. The number of graduates in December totaled 417. Since the beginning of the year, the Employment Agency has helped 21 683 people upgrade their skills or acquire new skills. In the subsidized jobs, another 643 persons from the risk groups were employed in the month - 130 under programs and measures for training and employment and 513 - under schemes of the Operational Program "Human Resources Development". The jobs announced in the primary labor market in December were 7,575, with 75.5% of them in the private sector. The largest share of job vacancies was reported in manufacturing (32.5%), trade, repair of cars and motorcycles (12.7%), government (10.7%), hotels and restaurants (10.0%).), administrative and support activities (8.1%). The most sought after professions this month are: operators of stationary machinery and equipment; skilled food, clothing, wooden and related workers; staff engaged in the field of personal services (bartenders, waiters, cooks, housekeepers, etc.); staff caring for people; sellers; workers in the extractive and processing industries, construction and transport; waste collection and related workers; metallurgists, mechanical and related craftsmen.

FISCAL SECTOR

Budget balance

Consolidated Fiscal Programme (CFP) balance on a cash basis as of end-November 2019 is positive,amounting to BGN 1,300.8 million, or 1.1% of the projected GDP, and is formed by an excess of revenues over expenditures of BGN 1,640.6 million under the national budget and of BGN 339.8 million under EU funds. Fiscal reserve as of 30.11.2019 is BGN 10.545 billion, including BGN 10.258 billion fiscal reserve deposits in BNB and banks and BGN 0.287 billion receivables under the EU Funds for certified expenditure, advance payments, etc.

According MF data the CFP budget balance on a cash basis as of November 2019 is positive, amounting to BGN 1,300.8 million (1.1% of forecast GDP) and is formed by an excess of revenues over expenditures under the national budget of BGN 1,640.6 million and a deficit under EU funds of BGN 339.8 million. Based on data from the monthly reports on the cash performance of the budgets of the first-level spending units, the revenues, grants and donations under CFP as of November 2019 are to the amount of BGN 39,853.8 million, or 90,9% of the annual estimates. Compared to the same period of the previous year, revenues, grants and donations under CFP have risen by BGN 4,044.2 million in nominal terms, including tax and non-tax revenues by BGN 3,780.7 million (11.1%) and proceeds from grants and donations (mainly grants under EU Programmes and Funds) by BGN 263.6 million (15.5%). Tax proceeds, including revenues from social security and health insurance contributions, total BGN 31,988.0 million, which is 92.6% of the annual plans. Revenues from direct taxes amount to BGN 5,635.5 million, or 85.9% of the annual estimates. Indirect tax revenues amount to BGN 15,701.6 million, or 95.5% of the annual plans. The VAT proceeds amount to BGN 10,355.7 million, or 95.6 % of the plan. The excise duty revenues amount to BGN 5,088.0 million (95.4% of the annual estimates). Custom duties revenues are BGN 213.3 million or 90.1 % of the annual plan. Proceeds from other taxes, including property taxes and other taxes under the Corporate Income Tax Law, amount to BGN 1,091.1 million, or 93.3% performance of the annual estimates. Revenues from social security and health insurance contributions are BGN 9,559.8 million, or 92.1% of those planned for the year. Non-tax revenues amount to BGN 5,899.4 million, or 89.0% of the annual estimates. Proceeds from grants and donations amount to BGN 1,966.5 million.

The expenditures under the CFP, including the contribution of the Republic of Bulgaria to the EU budget, amount to BGN 38,553.0 million as of November 2019, which is 83.3% of the annual estimates. The nominal increase of expenditures in comparison to the same period of the previous year is due to the higher capital expenditures (due to the higher national budget expenditures, including those related to the implementation of the investment project for the acquisition of a new type of military aircraft for the Bulgarian air forces, as well as under the EU fund accounts), the staff costs (a 10% increase in the wage bill for the public sector and the next step of increasing the remunerations in the education sector), the higher social and health insurance payments (a baseline effect from the pension increase in July 2018, the pension indexation in July 2019 and an increase in the health insurance payments set out in the 2019 NHIF Budget Law), the increase in expenditures on subsidies, etc. Non-interest expenditures amount to BGN 36,810.1 million, which is 83.4% of the annual plans. Non-interest current expenditures as of November 2019 amount to BGN 31,254.3 million, and capital expenditures (including net increment of state reserve) amount to BGN 5,521.7 million. The current and capital transfers to other countries amount to BGN 34.1 million. Interest payments amount to BGN 607.3 million, or 90.7% of those planned for 2019. The part of Bulgaria's contribution to the EU budget, paid from the central budget as of 30.11.2019, amounts to BGN 1,135.6 million, which complies with the current legislation in the area of EU own resources. Fiscal reserve as of 30.11.2019 is BGN 10.545 billion, including BGN 10.258 billion fiscal reserve deposits in BNB and banks and BGN 0.287 billion receivables under the EU Funds for certified expenditure, advance payments, etc.

Projection: *Based on preliminary data and estimates, the budget balance of the Consolidated Fiscal Programme for 2019 is expected to be negative, amounting to BGN 1,142.6 million (0.96 % of the forecast GDP). Compared to the estimates to the Law amending and supplementing the 2019 State Budget of the Republic of Bulgaria Law, the budget balance reports an improvement by around BGN 1.3 billion in nominal terms. The deficit reported for the year is due to the one-off expenditures related to the implementation of the investment project for the acquisition of a new type of multi-functional military aircraft for the Bulgarian air forces. According to the estimates to the updated medium-term budget forecast for the period 2020-2023,*

Bulgaria: Fiscal reserve (BGN million)	31.01.2019	28.02.2019	31.03.2019	30.04.2019	30.05.2019	30.06.2019	31.07.2019	31.08.2019	30.09.2019	31.10.2019	30.11.2019
Total fiscal reserve, including:	10518.8	10 417.5	10 333.4	10 617.6	11 307.6	11 667.8	12 355.9	10 341.3	10138.0	10 019.8	10 545.1
I. Fuolscal reserve on deposits	9333.3	9 993.3	9 974.0	10 065.6	10 293.2	11 268.9	11 800.9	10 006.3	10120.3	9 826.3	10 257.8
Fiscal reserv deposits at BNB	8920.8	9 591.8	9 578.5	9 669.6	9 839.0	10 819.0	11 367.6	9 571.9	9719.3	9 443.2	9 835.9
II.. Receivables from EU funds for certified expenditures, advances and others	1184.7	424.2	359.5	552.0	1 014.4	398.9	554.9	335.0	17.6	193.5	287.3
MF National Fund	153.1	140.9	177.9	151.9	137.0	114.0	48.7	140.6	17.6	154.6	116.6
Paying Agency under State Fund Agricultural	1031.6	283.3	181.6	400.2	877.4	284.9	506.2	194.4	0.0	38.9	170.7
Source: Ministry of finance											

Central Government Sub-sector Debt

In January – November 2019, Bulgaria's central government sub-sector debt amounted to EUR 12,063.5 million and accounted for 19.9% of projected GDP. With regard to the debt rule, Bulgaria continues to pursue a sound debt management policy to maintain levels well below the ceiling established by the Maastricht Government Debt Criterion. According to the MoF's 2020-2022 Government Debt Management Strategy, the sovereign debt-to-GDP ratio will decline to 18.2% in 2020 and 18.1% in 2021 and 17% in 2022.

According MF data Bulgaria's central government debt as at end-November 2019 stood at EUR 12,063.5 million. Domestic debt amounted to EUR 2,982.6 million and external debt – to EUR 9,080.9 million. At the end of the reporting period the central government debt/GDP ratio was 19.9 %, with the share of domestic debt being 4.9% and of external debt – 15.0%. In the central government debt structure, domestic debt at the end of the period amounted to 24.7%, and external debt – to 75.3%. As of 30 November 2019, the central government guaranteed debt was EUR 69.3 million. Domestic guarantees amounted to EUR 33.6 million and external guarantees – to EUR 35.7 million. The central government guaranteed debt/GDP ratio is 0.1 %. According to the official register of government and government guaranteed debt, kept by the Ministry of Finance on the grounds of Article 38, paragraph 1 of the Government Debt Law, at end-November 2019 the government debt reached EUR 11,282.3 million, being 18.6 % of GDP. Domestic debt amounted to EUR 2,801.6 million and external debt – to EUR 8,480.7 million. Government guaranteed debt in November 2019 amounted to EUR 896.8 million. Domestic guarantees amounted to EUR 33.6 million, the government guaranteed debt/ GDP ratio being 1.5 %.

Projection*: With regard to the debt rule, Bulgaria continues to pursue a sound debt management policy to maintain levels well below the ceiling established by the Maastricht Government Debt Criterion. According to the MoF's 2020-2022 Government Debt Management Strategy, the sovereign debt-to-GDP ratio will decline to 18.2% in 2020 and 18.1% in 2021 and 17% in 2022.*

Bulgaria: Central Government Debt Amount (million EUR)	31.12.2018	31.01.2019	28.02.2019	31.03.2019	30.04.2019	31.05.2019	30.06.2019	31.07.2019	31.08.2019	30.09.2019	31.10.2019	30.11.2019
Domestic debt	3 121.40	2745.4	2595.6	2574.8	2532	2509.2	2 661.50	2 847.2	2944.1	2934.7	2973.4	2982.6
External Debt	9093.9	9094.3	9093.6	9093.6	9080.1	9056	9 029.90	9030.6	9027.2	9022	9008	9080.9
Central Government debt, total	12 215.30	11 839.70	11689.2	11668.4	11612.1	11565.1	11 691.40	11877.7	11971.3	11956.7	11981.4	12063.5
Total Centrral government debt/GDP (%)	22.1	20.1	19.8	19.8	19.7	19.6	19.8	20.1	20.3	19.7	19.8	19.9
Domestic central government debt/GDP (%)	5.7	4.7	4.4	4.4	4.3	4.3	4.5	4.8	5	4.8	4.9	4.9
External central government debt/GDP (%)	16.5	15.4	15.4	15.4	15.4	15.3	15.3	15.3	15.3	14.9	14.9	15
Source: Ministry of Finance												

The Ministry of Finance has launched 5-year Government Securities at a negative yield of -0.11%
On 13 January 2020, the Ministry of Finance launched a new 5-year BGN-denominated government securities (GS) issue. The auction resulted in placement of Government Securities with an aggregate nominal value of BGN 200 million, at a weighted average yield of -0.11%. It is the first time that a negative yield is achieved for that maturity segment, with the spread to the German Bunds with similar residual maturity being 38 basis points. The subscribed amount totalled BGN 497.25 million, which corresponds to a bid-to-cover ratio of 2.49. The allocation of the approved volume of GS by types of investors shows that banks were most active, acquiring 64% of the issue volume, followed by insurance companies with 26.5% and pension funds with 9.5%.

MONETARY SECTOR

Monetary Aggregates

At the end of November 2019 Bulgasria's broad money (monetary aggregate M3) amounted at BGN 100.587 billion billion (86.9% of GDP) and increased by 9.3% yoy. Domestic credit – was BGN 63.276 billion and increased by 11% yoy.
In November 2019 broad money (monetary aggregate M3) increased annually by 9.3% compared to 8.5% annual growth as in October 2019. At the end of November 2019 M3 was BGN 100.587 billion (86.9% of GDP) compared to BGN 100.262 billion (86.6% of GDP) in October 2019. Its most liquid component – monetary aggregate M1 – increased by 13.6% yoy in November 2019 (12.9% yoy growth in October 2019). At the end of November 2019, deposits of the non-government sector were BGN 83.335 billion (72% of GDP), increasing annually by 8.8% (7.9% yoy growth in October 2019). Deposits of Non-financial corporations were BGN 25.711 billion (22.2% of GDP) at the end of November 2019. Compared to the same month of 2018 they increased by 11.4% (6.9% yoy growth in October 2019). Deposits of Financial corporations decreased by 2.2% yoy in November 2019 (13.7% yoy growth in October 2019) and at the end of the month they were BGN 2.958 billion (2.6% of GDP). Deposits of Households and NPISHs were BGN 54.667 billion (47.2% of GDP) at the end of November 2019. They increased by 8.3% compared to the same month of 2018 (8.2% yoy growth in October 2019). Net domestic assets were BGN 63.732 billion at the end of November 2019. They increased by 13.5% compared to the same month of 2018 (12% yoy growth in October 2019). At the end of the month their basic component – domestic credit – was BGN 63.276 billion and increased by 11% compared to November 2018 (9.6% yoy growth in October 2019). In November 2019 claims on the non-government sector increased by 8.9% yoy (7.2% yoy growth in October 2019) reaching BGN 64.424 billion. At the end of November 2019, claims on loans to the non-government sector amounted to BGN 62.786 billion (54.3% of GDP) compared to BGN 61.320 billion (53% of GDP) at the end of October 2019. They increased annually by 9% in November 2019 (7.3% yoy growth in October 2019). The change of loans to the non-government sector was influenced also by net sales of loans by Other monetary financial institutions (Other MFIs) - their volume for the last twelve months was BGN 365 million. On an annual basis, loans sold8 by Other MFIs were BGN 380.7 million (of which BGN 4.8 million in November 2019), while the amount of repurchased loans was BGN 15.7 million (there were no loan repurchases in November 2019). In November 2019, loans to Non-financial corporations increased by 5.4% annually (5.2% yoy growth in October 2019) and at the end of the month amounted to BGN 34.838 billion (30.1% of GDP). Loans to Households and NPISHs were BGN 23.833 billion (20.6% of GDP) at the end of November 2019. They increased by 9.5% compared to the same month of 2018 (9.4% yoy growth in October 2019). At the end of November 2019 loans for house purchases were BGN 10.642 billion and increased by 14.4% yoy (14.1% yoy growth in October 2019). Consumer loans amounted to BGN 11.316 billion and compared to November 2018 they increased by 10.9% (10.8% yoy growth in October 2019). On an yoy basis other loans decreased by 38.2% (38% yoy decline in October 2019) and reached BGN 549.2 million. Loans granted to financial corporations were BGN 4.115 billion at the end of November 2019 (3.6% of GDP).

CAPITAL MARKET

BSE-Sofia Indexes

In December 2019 all BSE-Sofia stock indexes increased: SOFIX rose to 568.14 points, BGBX 40 rose to 108.79 points, BG TR30 rose to 516.28 points and BGREIT rose to 130.03 pointc, respectively.
According to the data of BSE-Sofia, in December 2019 the SOFIX blue chips meter registered an increase of almost 4% from 3.95% to 568.14 points. The weighted BG TR30 rose 4.15% to 516.28 points in December. The BGREIT property meter increased by 1.03% to 130.03 points. The turnover in December increased more than twice - by BGN 7 839 964 to BGN 14 514 023, after transactions in shares of the 15 SOFIX companies were reported in November for BGN 6 674 059. two issues with turnover over BGN 1 million, in December five issues with turnover over BGN 1 million. With the highest turnover in December 2019, Doverie United Holding (BGN 3 553 791), followed by: Central Cooperative Bank (BGN 2537 949), Gradus (BGN 2 121 527), Sopharma (BGN 1 748 212).) and Eurohold Bulgaria (BGN 1,218,732). In December, Sopharma maintained its leading position on market capitalization (BGN 458 312 857), followed by: Gradus (BGN 409 262 633), First Investment Bank (BGN 391 600 000), Chimimport (BGN 381 037 565).) and Eurohold Bulgaria (BGN 347,645,056). After September 24, 2019, five holdings remained in SOFIX, of which only Sirma Group Holding (-3.85%) lost in December. The other four are profitable: Trust United Holding (+ 43.92%), Eurohold Bulgaria (+ 25.71%), Holding Varna (+ 1.01%) and Industrial Holding Bulgaria (+ 2.00%). The company with the highest turnover for December 2019 is Doverie United Holding AD, with realized volume of BGN 3 553 791. Second is Central Cooperative Bank AD with realized volume of BGN 2 537 949. There is one sole representative of special investment purpose companies in the ranking, and it is Delta Credit REIT. The smallest number of deals in the ranking were Delta Credit REIT, Capital Concept Limited AD, VF Alternative AD and Rodna Zemlia Holding AD, and with the largest Doverie United Holding AD, Sopharma AD, Gradus AD and Central Cooperative Bank AD. Най-печеливша компания през месец декември 2019 г. е ВЕИ проджект АД, което постига двуцифрен ръст от 75.00%. На второ място се нарежда Доверие Обединен Холдинг АД, следвано от Премиер Фонд АДСИЦ с ръст от 38.61%. Четвъртата позиция е за ЦБА Асет Мениджмънт АД с постигнат месечен ръст от 33.33%. Последната компания в класацията също отбелязва двуцифрен ръст, съответно Еврохолд България АД с ръст от 25.71%. The biggest losers in December 2019 are headed by Alfa Bulgaria AD with a decrease of 19.50%. In second place is Industrial Capital Holding AD with a decrease of 6.86%, followed by Advance Terrafund REIT, which recorded a decrease of 5.14% in December. The penultimate position in the ranking is Sirma Group Holding AD with a decrease of 3.85%. The last company in the ranking also recorded a single-digit decline.

BANKING SECTOR

As of the end of November 2019, the gross credit portfolio of the banking system increased by BGN 1.5 billion (by 2.1% mom and by 8.6% yoy) to BGN 66.6 billion and account for 56.6% of full year GDP projection. Loans to non-financial corporations amount to BGN 37 billion and increase by 0.6% mom and 4.7% yoy), for households increased by 0.9% mom and by 9.7% yoy to BGN 24.1 billion. Deposits from customers in the banking system increased by BGN 94.6 million (by 0.1% mom and by 7.5% yoy) to BGN 89.9 billion and account for 77.8% of GDP.

According to the BNB data, as of the end of November 2019, the aggregate net profit of the banking system was BGN 1.5 billion, increasing by 4.0% yoy. Impairment losses on financial assets that are not carried at fair value through profit or loss amount to BGN 419 million at the end of November (compared to BGN 450 million a year earlier).

Indicator (BGN 000)	30.11. 2018	30.11. 2019	Y/Y (%)
Interest Income	2 773 469	2 757 640	-0.6
Interest Expence	271 798	261 576	-3.8
Net interest Income	**2 501 671**	**2 496 064**	**-0.2**
Impairment	449 637	418 844	-6.8
Divident income	**150 201**	**160 235**	
Fee and commission income	1 140 639	1 195 216	4.8
Fee and commission expenses	166 853	196 805	18.0
Net fee and commission income	**973 786**	**998 411**	**2.5**
Administration costs	1 549 616	1 480 444	-4.5
Personal costs	779 380	792 362	1.7
Total operating income, net	3 787 902	3 790 722	0.1
Net Profit	**1 470 229**	**1 529 229**	***4.0***

Source:BNB, UBB's Calculations

As of the end of November 2019, the assets of the banking system in Bulgaria amount to BGN 112.5 billion and decrease by 0.7% mom with an increase of 8.5% yoy. The banking system's relative share in GDP is 98.2%. In November 2019, the balance sheet decreased by BGN 800 million (0.7% mom), influenced by the dynamics of key components such as loans and advances, deposits and capital. Increases were reported in cash, cash balances with central banks and other sight deposits, as well as in securities portfolios, and a decrease in loans and advances and in investments in subsidiaries, joint ventures and associates. As of the end of November 2019, the gross credit portfolio of the banking system increased by BGN 1.5 billion (by 2.1% mom and by 8.6% yoy) to BGN 66.6 billion. and account for 56.6% of full year GDP projection. Loans to other financial corporations increased by BGN 902 million (25.0% mom and by 40.2% yoy), for non-financial corporations - by BGN 227 million (0.6% mom and 4.7% yoy), for households - by BGN 205 million (0.9% mom and by 9.7% yoy), and those for the general government sector - by BGN 14 million (1.6 % mom and by 26.4% yoy, respectively). Deposits from customers in the banking system increased by BGN 94.6 million (by 0.1% mom and by 7.5% yoy) to BGN 89.9 billion and account for 77.8% of full year GDP projection. A decrease was reported in deposits from non-financial corporations (by BGN 270 million) to BGN 27.5 billion and from other financial corporations (by BGN 214 million) to BGN 3.3 billion. Household deposits (by BGN 481 million) increased to BGN 56.6 billion and the general government sector (by BGN 97 million) to BGN 2.4 billion.

Bulgaria Intermediation Indicators	31.12.2018 BGN'000	31.11.2019 BGN'000	31.12.2018 BGN'000	Change m/m (%)	Change y/y (%)	Change yend (%)	Share in GDP (%)
BANKING SYSTEM TOTAL ASSETS	**105 556 619**	**112 519 023**	**114 201 141**	**1.5**	**8.2**	**8.2**	**97.5**
Loans to central governments	741 199	927 570	932 642	0.5	25.8	25.8	0.8
Loans to non-financial corporations	34 871 435	36 976 265	36 572 986	-1.1	4.9	4.9	32.0
Loans to financial corporrations	3 220 084	4 507 623	4 594 445	1.9	42.7	42.7	3.9
Retail loans, incl.:	22 075 378	**24 140 868**	24 193 012	**0.2**	**9.6**	**9.6**	**20.9**
Mortgage loans	10 906 245	12 351 830	12 486 585	1.1	14.5	14.5	10.7
Consumer loans	10 332 669	12 445 978	12 427 283	-0.2	20.3	20.3	10.8
Micro credits and other loans	836 464	-656 940	-720 856	9.7	-186.2	-186.2	-0.6
TOTAL LOANS	**60 908 096**	**66 552 326**	**66 293 085**	**-0.4**	**8.8**	**8.8**	**57.7**
ATRACTED SOURCES FROM CLIENTS, incl.:	**84 571 339**	**89 861 575**	**91 853 230**	**2.2**	**8.6**	**8.6**	**77.8**
Local government deposits	2 696 635	2 439 188	2 665 018	9.3	-1.2	-1.2	2.1
Non-financial corporations deposits	25 277 991	27 541 777	3 422 053	-87.6	-86.5	-86.5	23.9
Financial corporations deposits	3 213 474	3 280 265	28 150 012	758.2	776.0	776.0	2.8
Households and NPISHs deposits	53 383 239	56 600 345	57 616 147	1.8	7.9	7.9	49.0
Equity	13 857 523	**14 159 678**	14 396 914	1.7	3.9	3.9	12.3
Net profit (annualised)	1 677 846	**1 529 229**	1 674 983	**9.5**	**-0.2**	**-0.2**	
BANKING INDICATORS (%)							
ROE	12.1	11.8		-11.8	2.6	-12.1	
ROA	1.6	1.5		-1.5	0.4	-1.6	
Capital adequacy	20.4	n.a		n.a	n.a	n.a	
LCR (%)	294.1	271.8		-271.8	n.a	n.a	
NPL	7.6	n.a		n.a	-7.6	-7.6	
GDP, BGN '000	107 295 000	115 437 000	115 437 000				
EUR/BGN	1.95583	1.95583	1.95583				

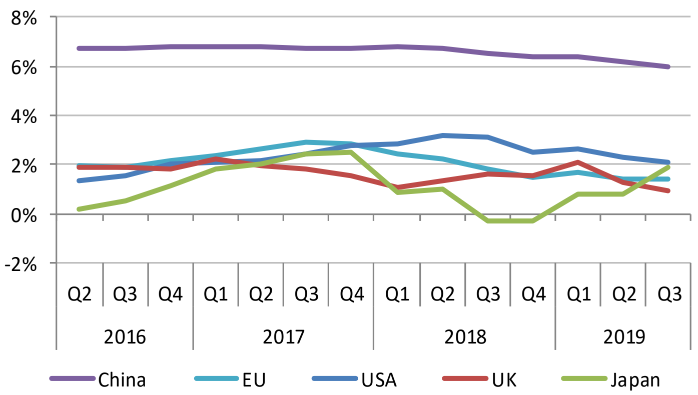
Source: BNB, MF, UBB Calculations

The liquidity coverage ratio as of November 30 was 271.8% (compared to 269.2% at the end of October). At the end of November, the liquidity buffer was BGN 28.6 billion and the net outflows were BGN 10.5 billion. As of the end of November 2019, the equity of the banking system decrease by BGN 307 million or 2.1% mom, but increased by 12.1% yoy, respectively to BGN 14.2 billion.

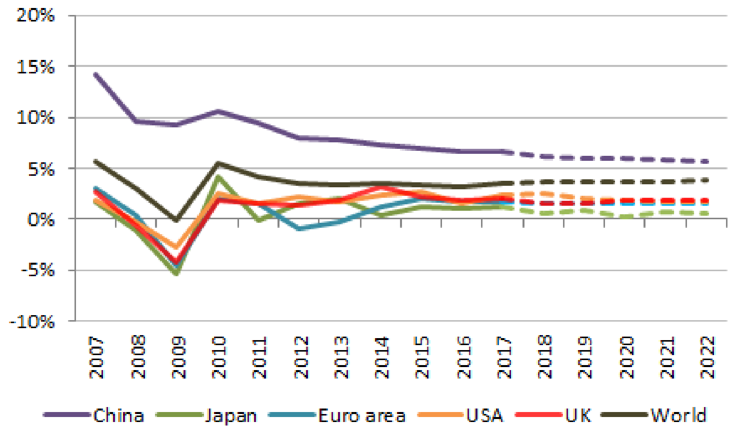
Appendix

ADVANCE ECONOMIES KEY INDICATORS

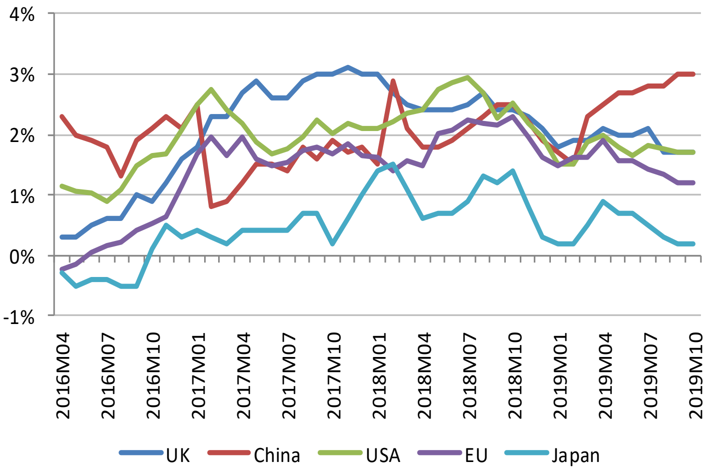
Advanced Economies: GDP growth rate compared to the same quarter of the previous year



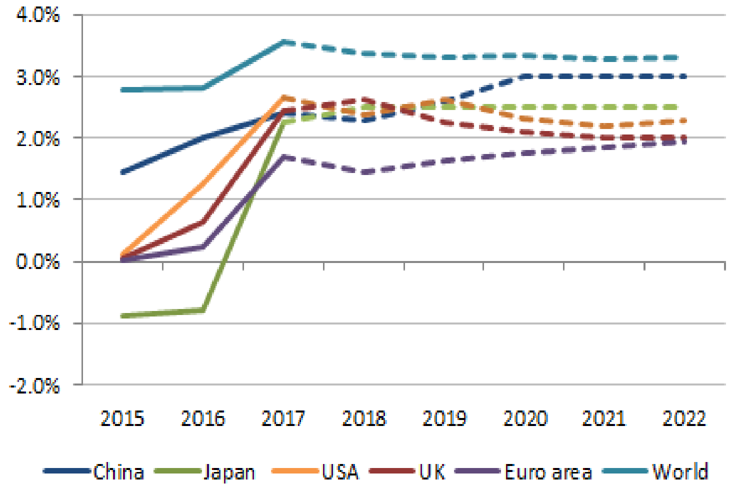
Advanced economies Real GDP Growth Rate (%, y/y)



Advanced economies: Inflation by cointries as of October 2019, Monthly on anual basis (%)

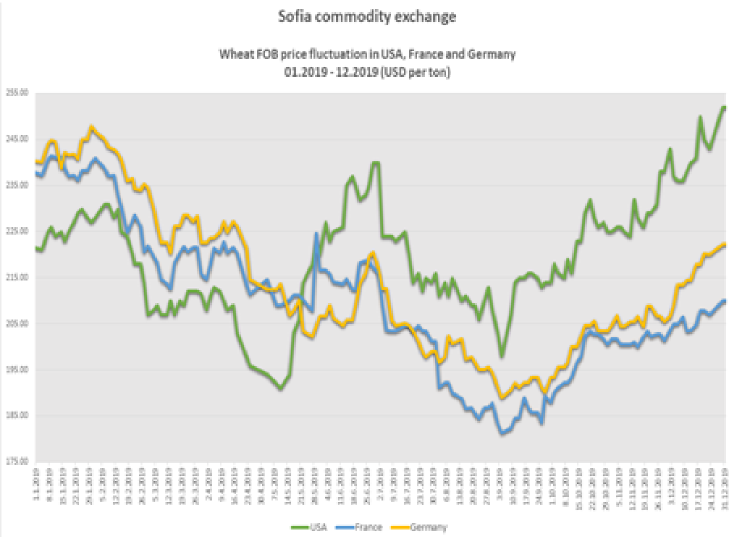


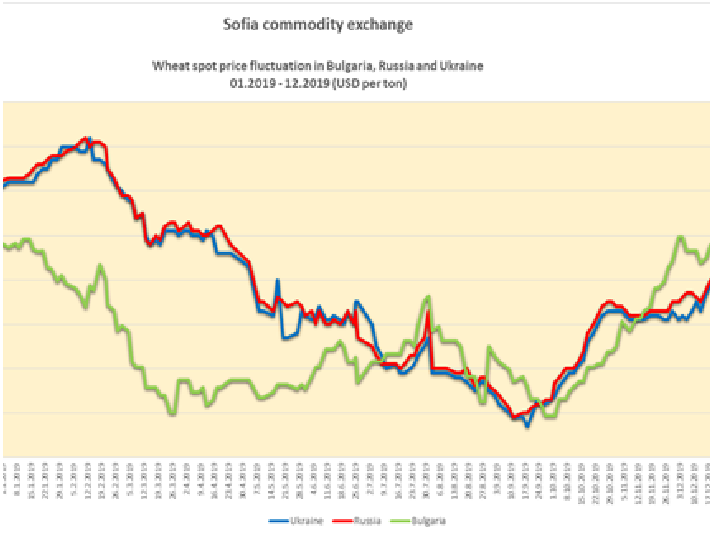
Advanced economies: Inflation, % y/y

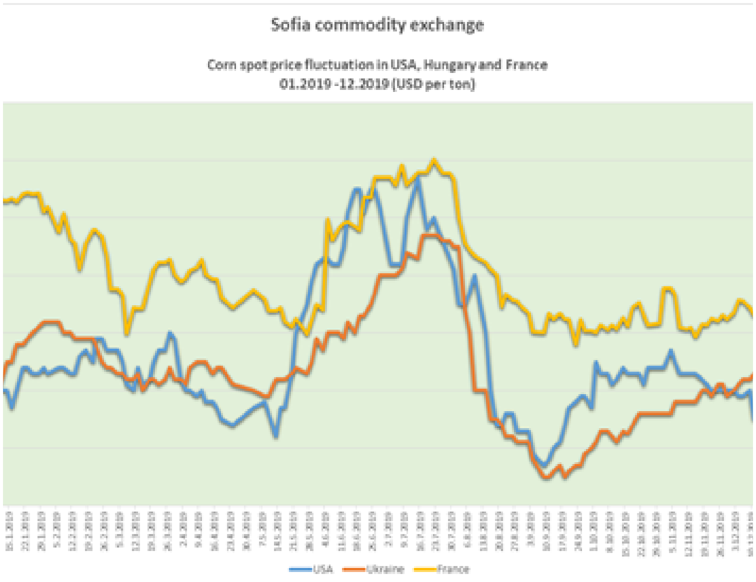


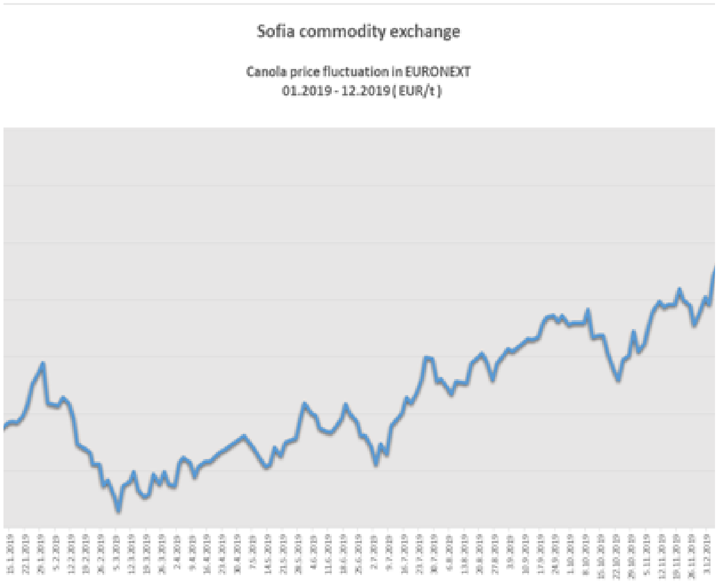
Source: IMF

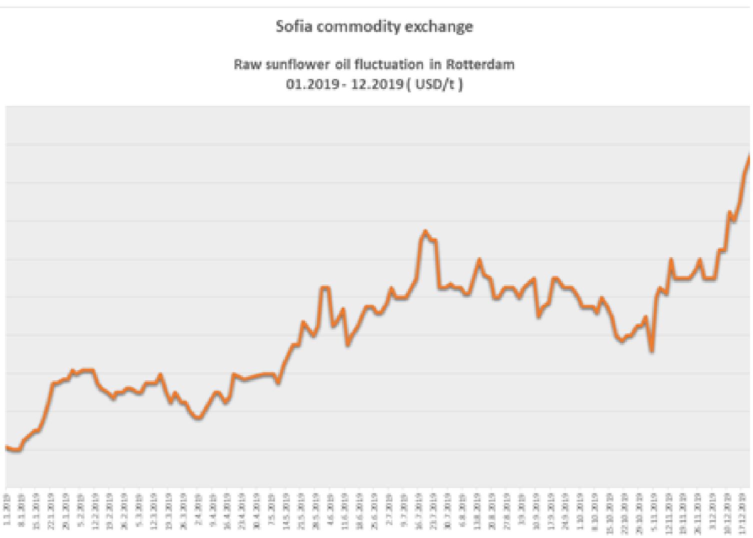
International Prices of Agriculture Products

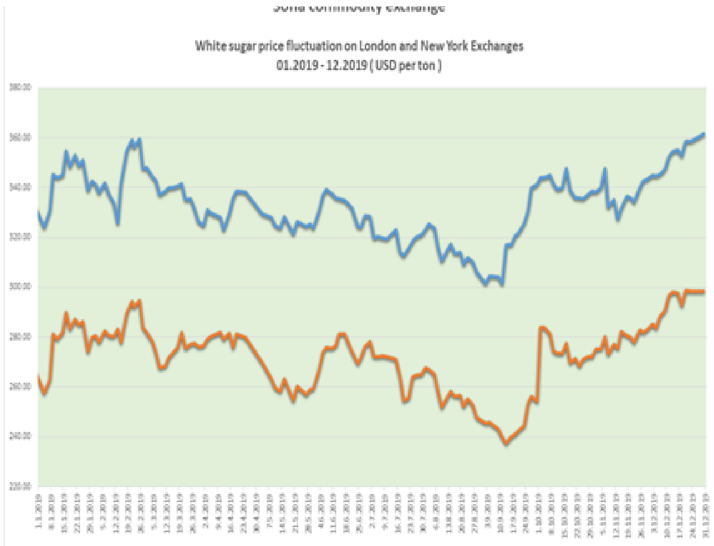






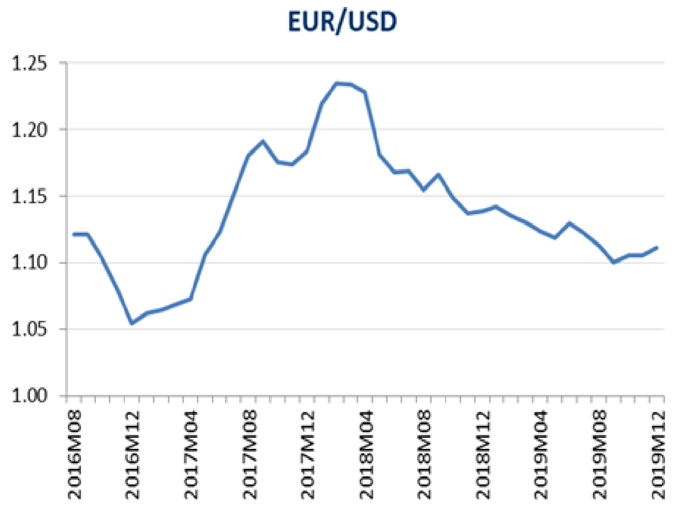


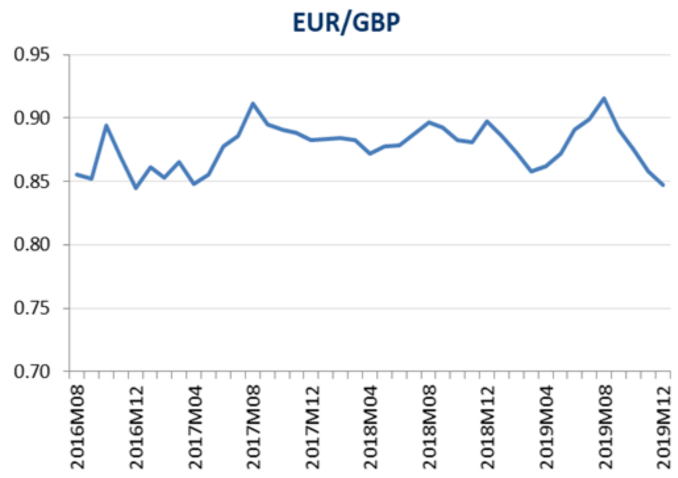


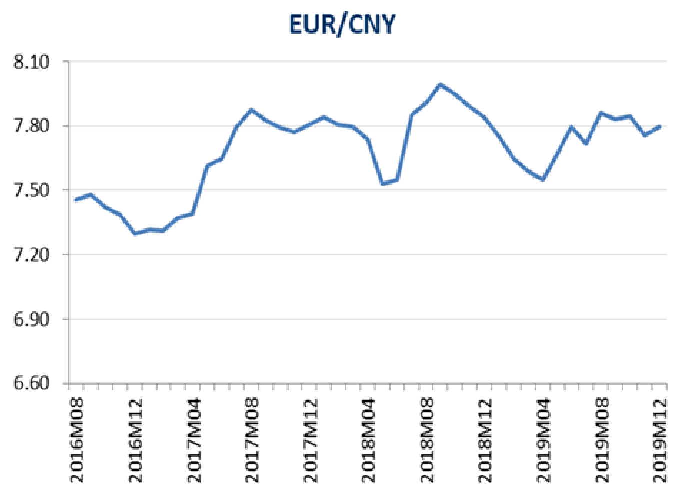


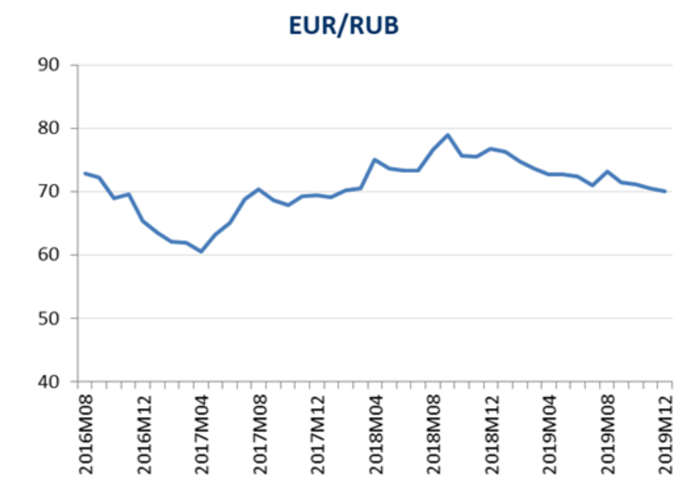
Source: SCE

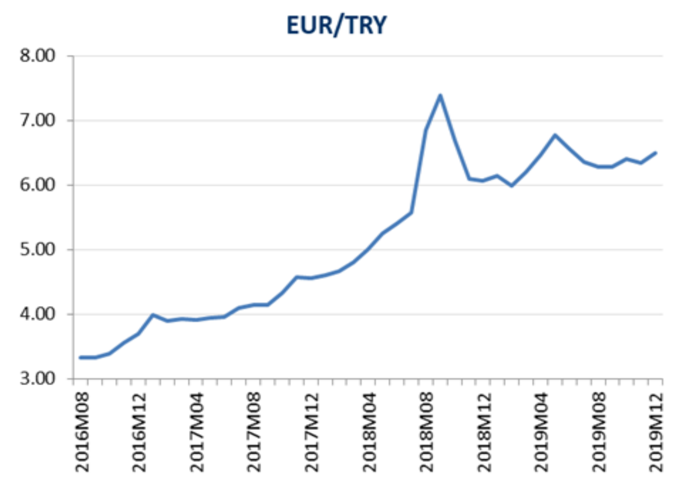
Overseas FX Rates

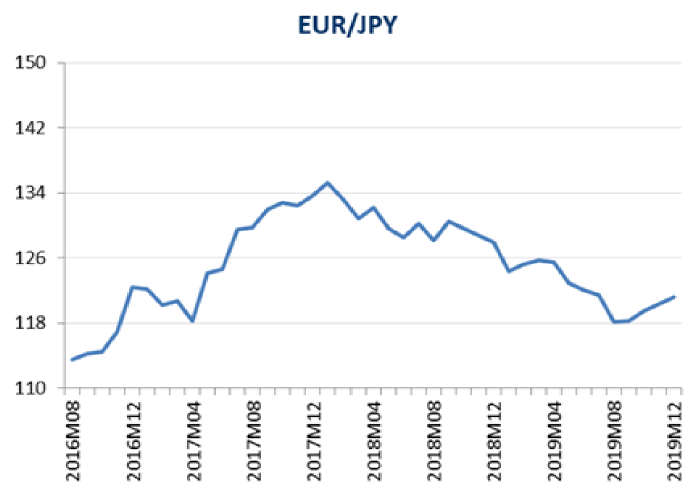






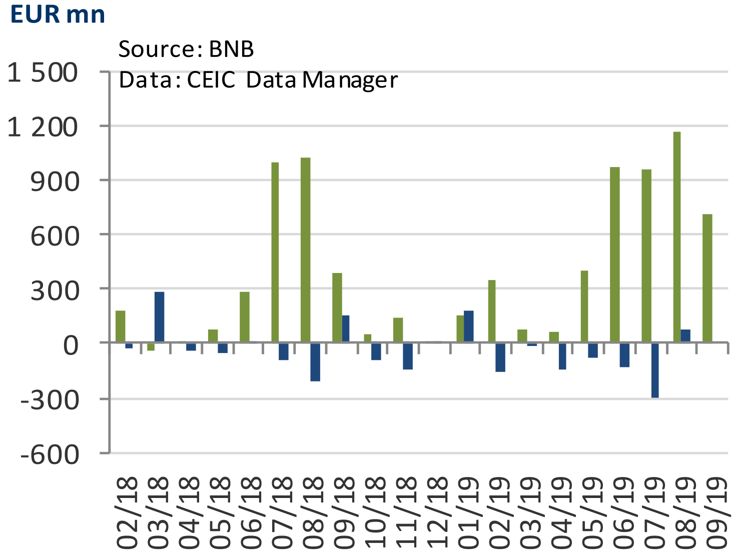


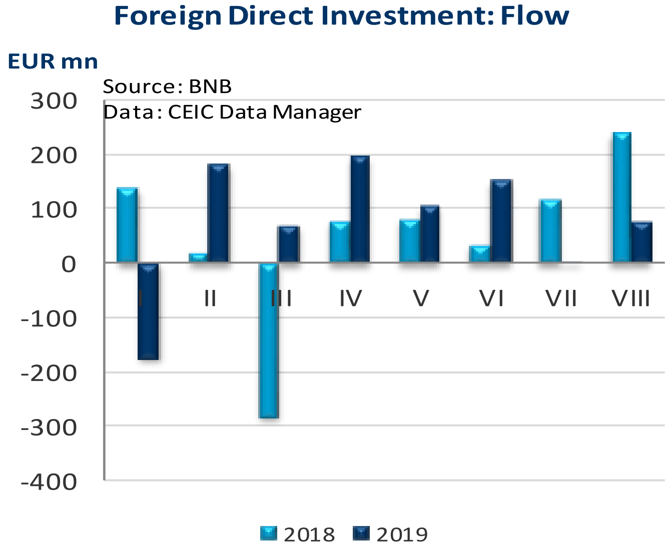


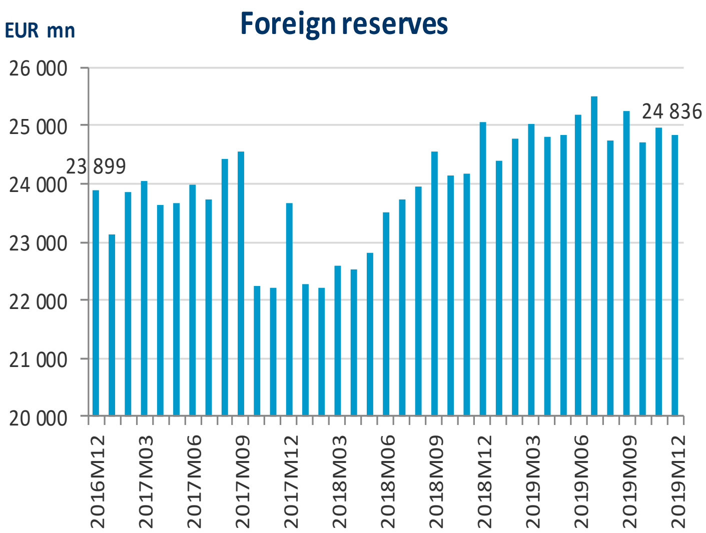


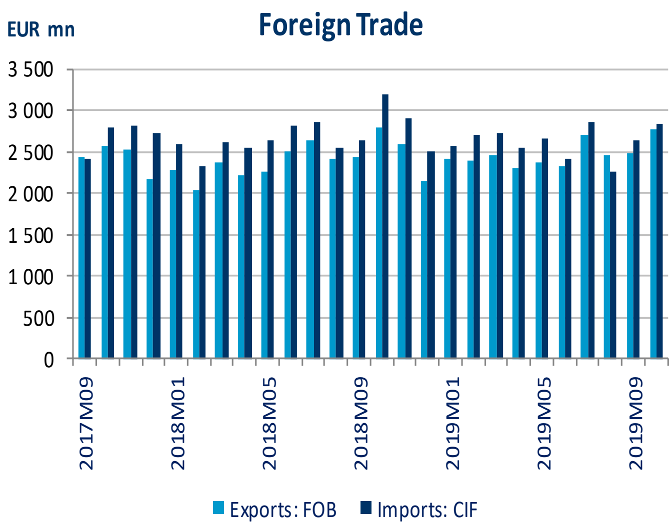
Source: ECB

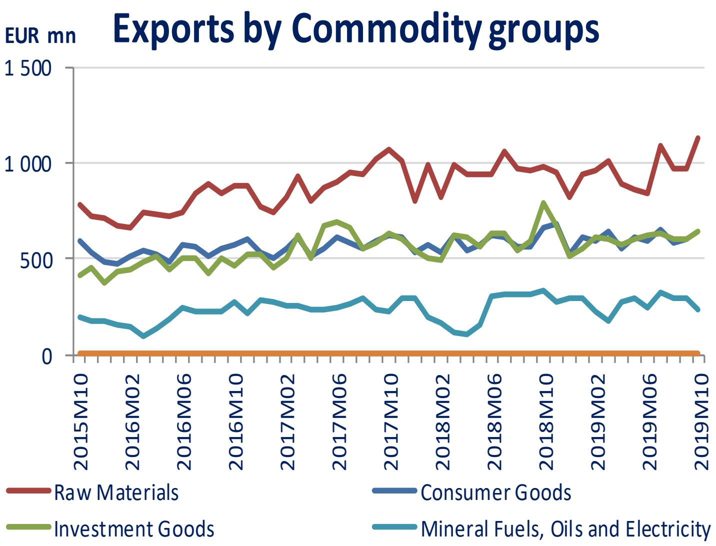
Bulgaria: External Sector Indicators

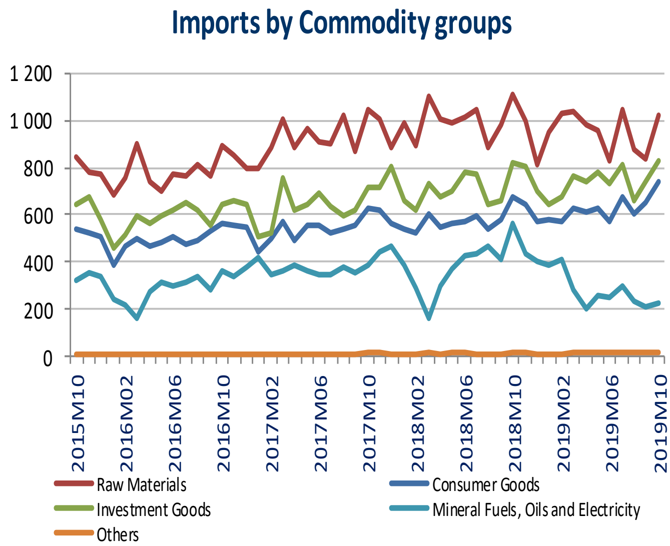






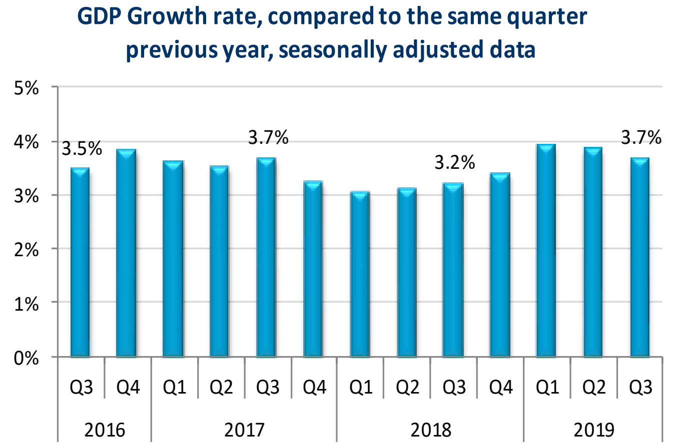


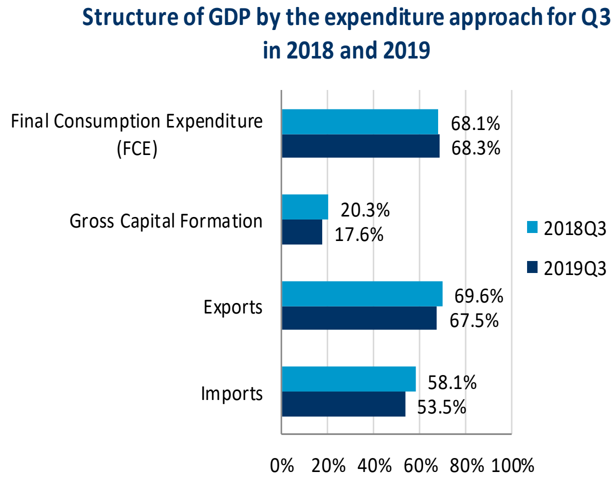


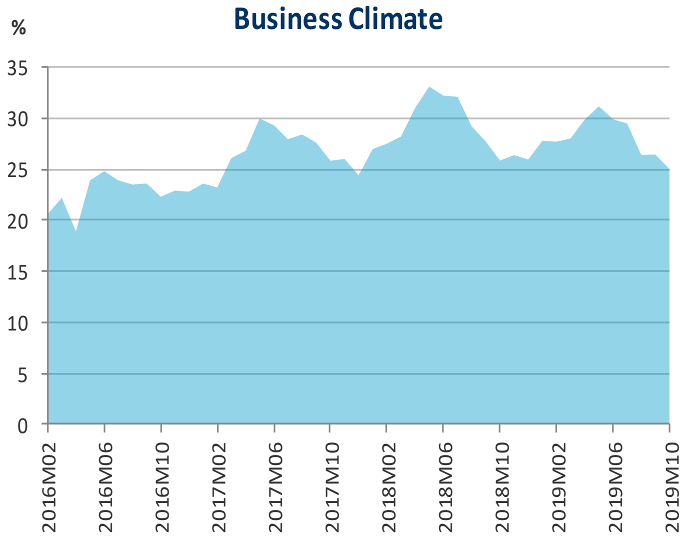


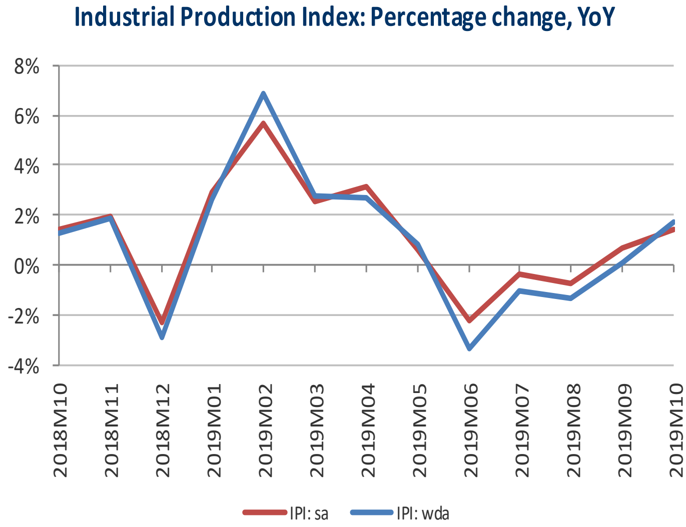
Source: BNB

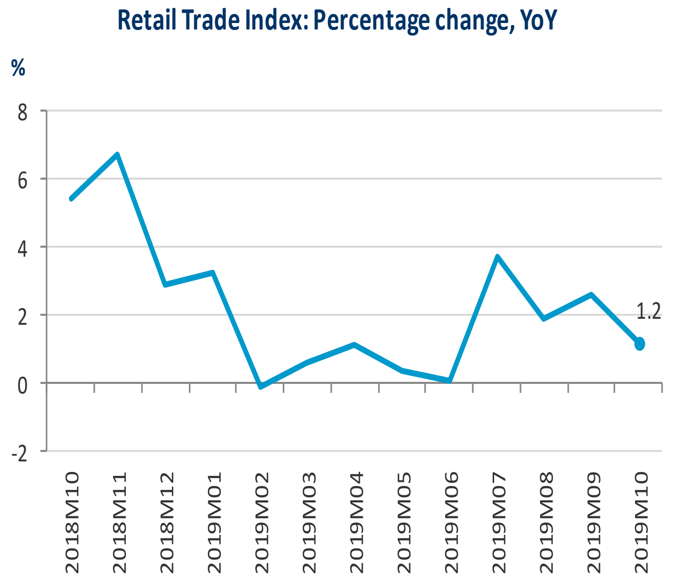
Bulgaria: Real Sector Indicators

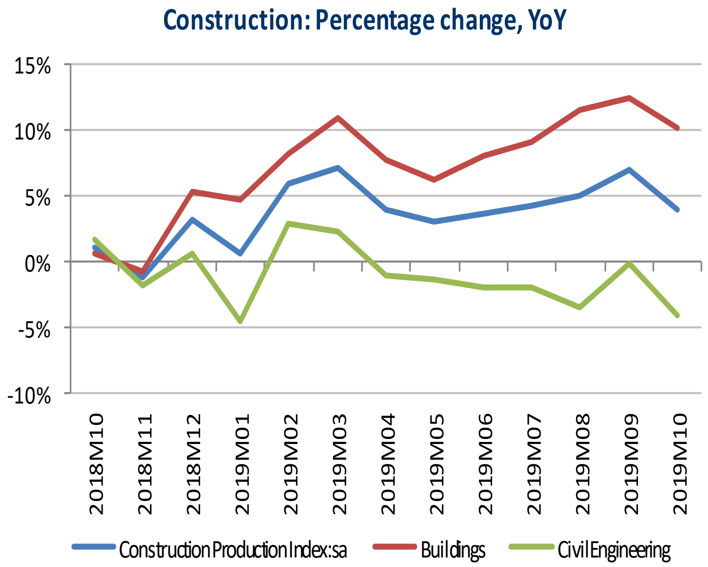






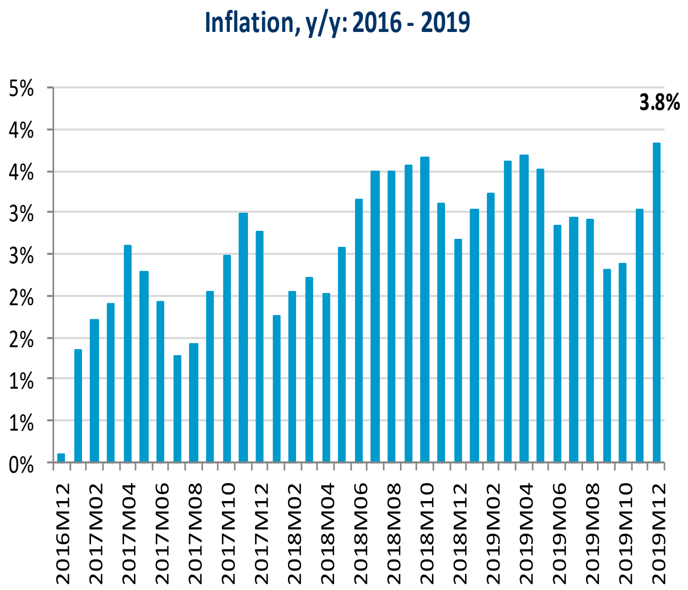


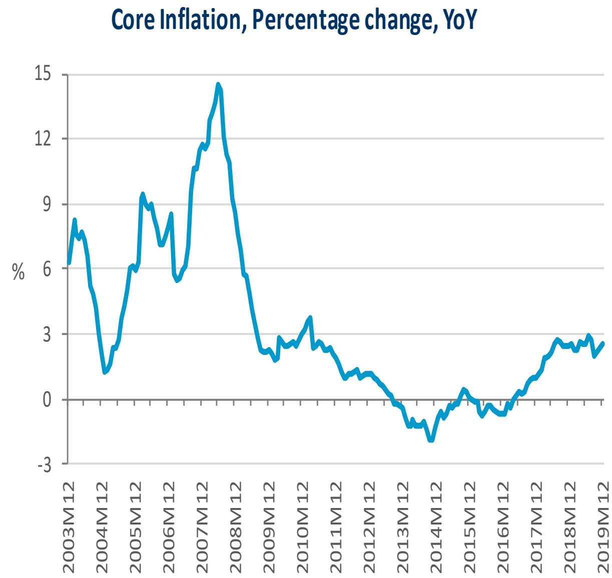


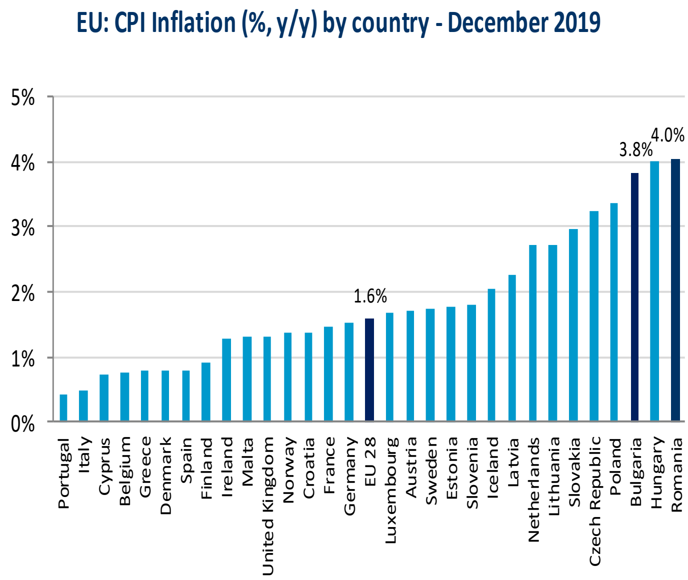


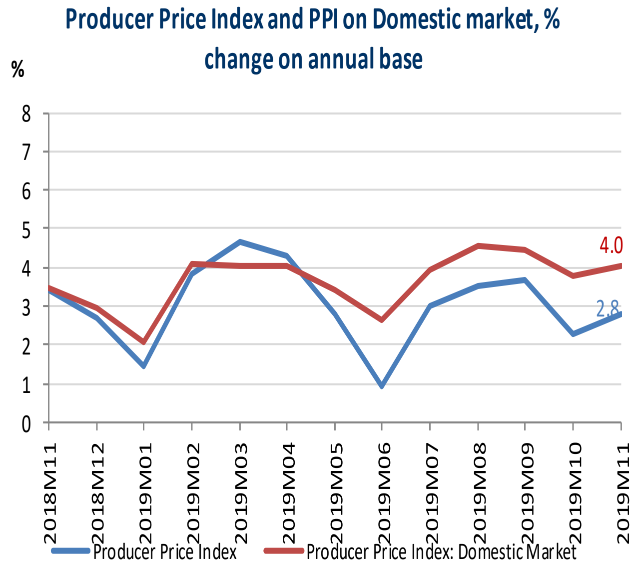
Source: NSI

Bulgaria: Prices Indicators



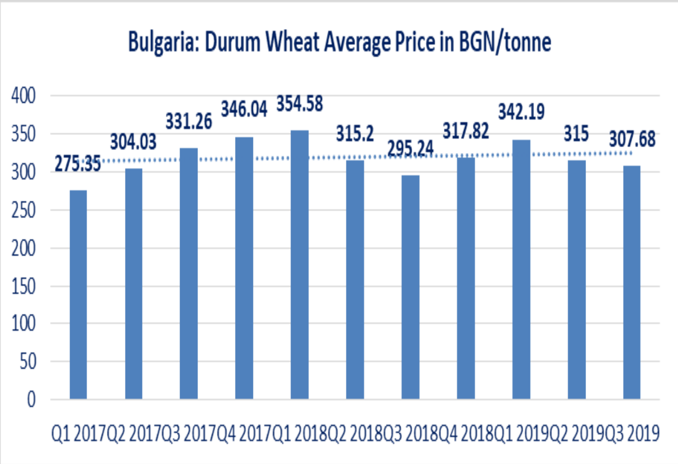


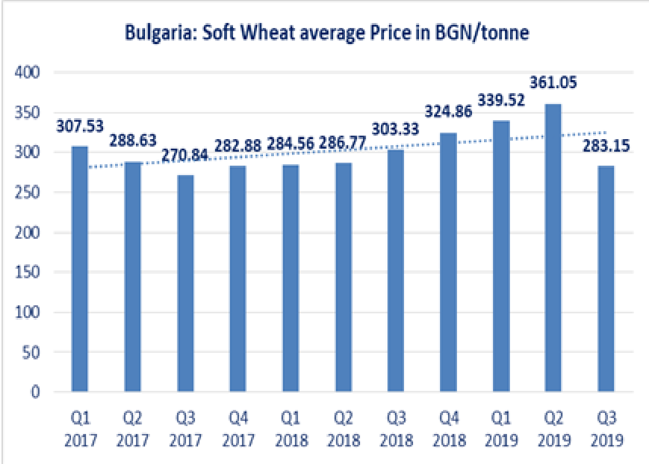


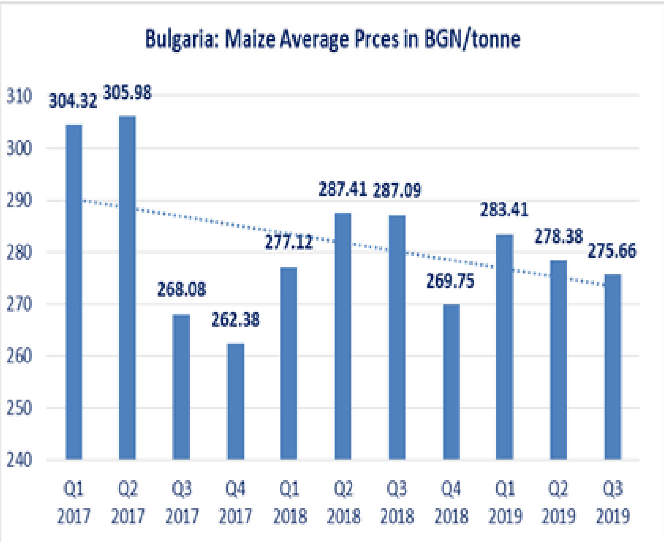


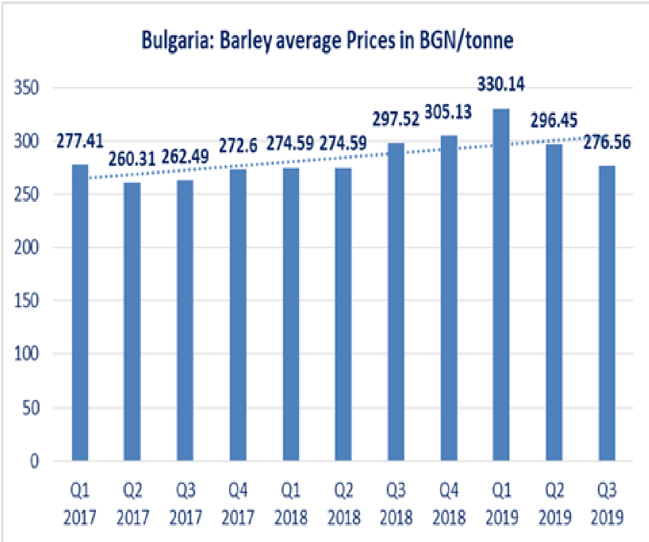
Source: NSI, EC

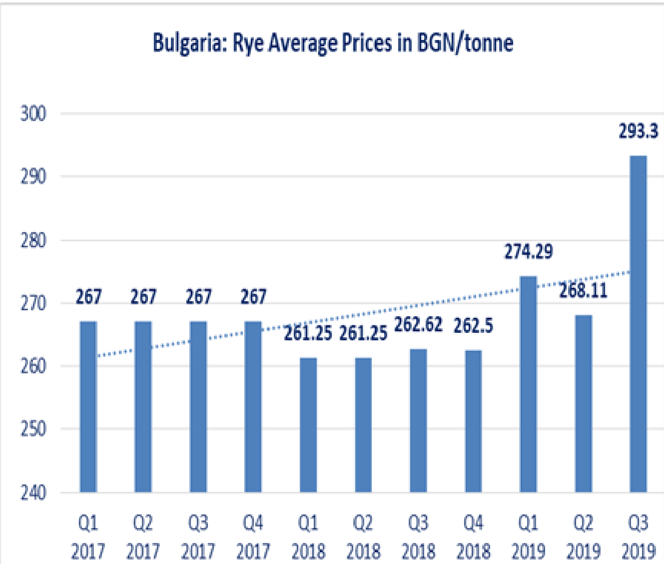
Bulgaria: Cereals Prices

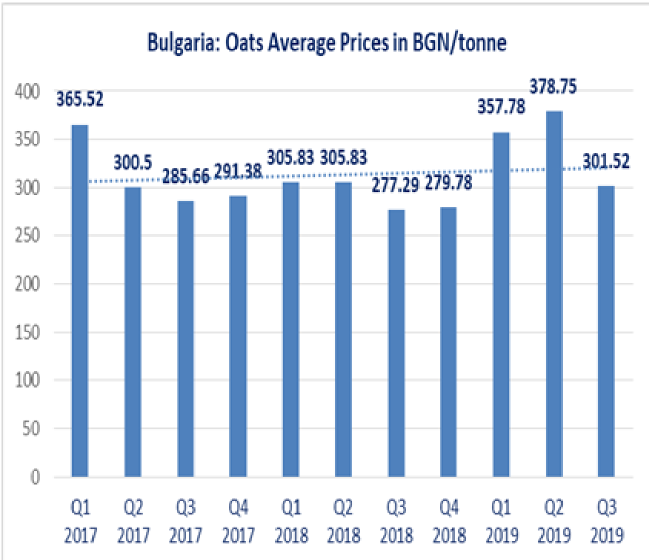






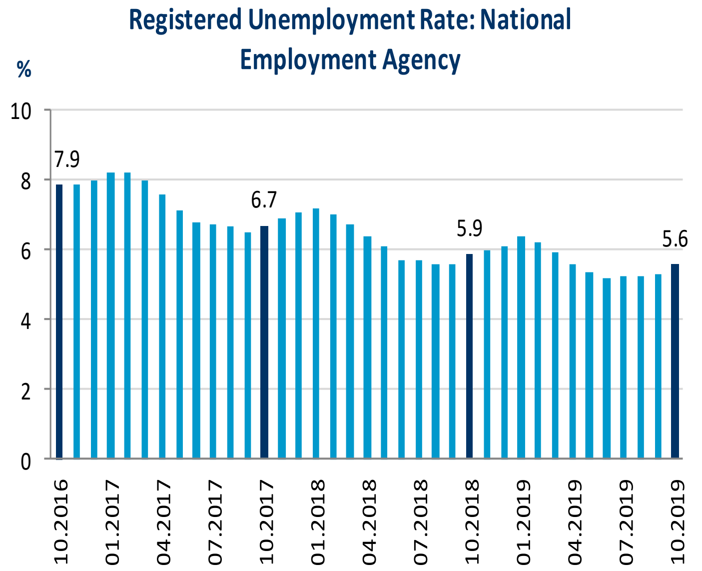


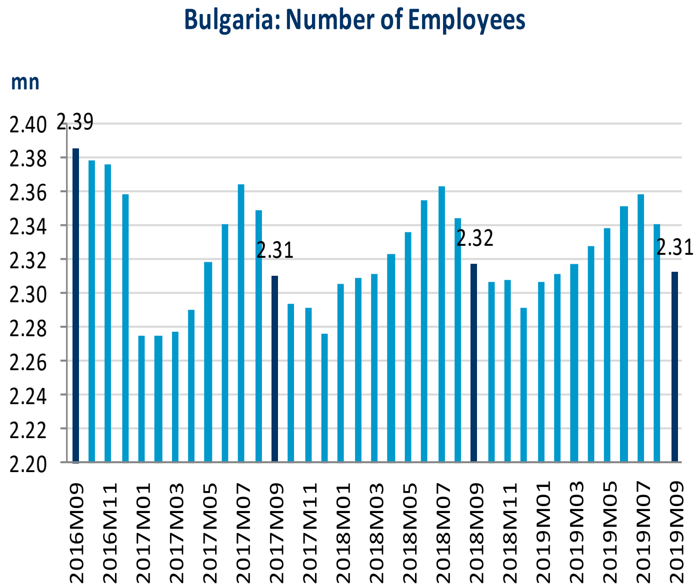


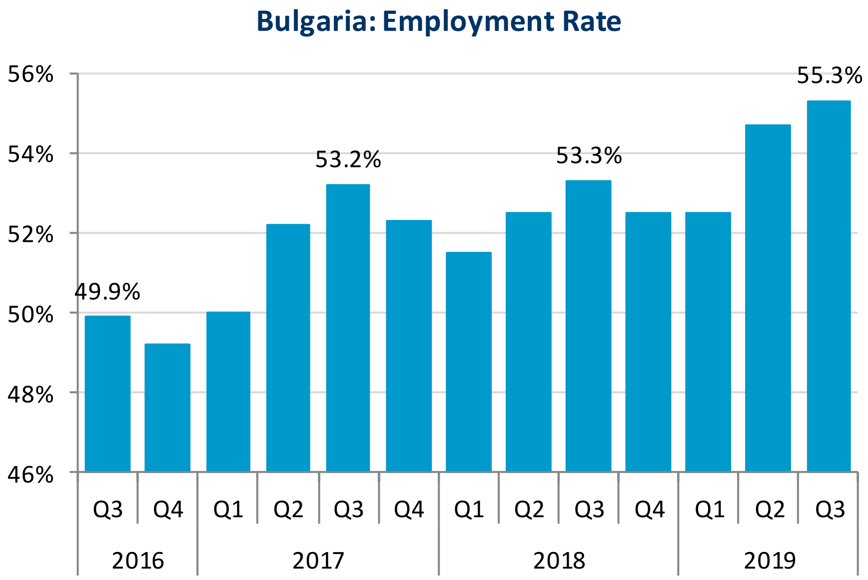


Source: NSI

Bulgaria: Labor Market Indicators

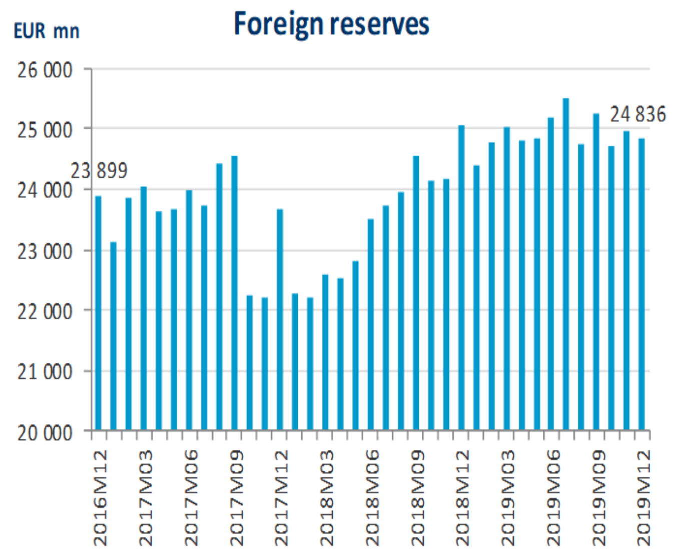


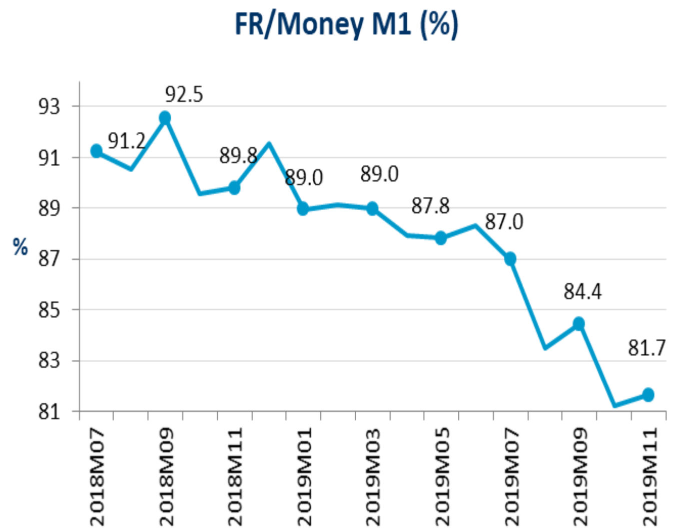


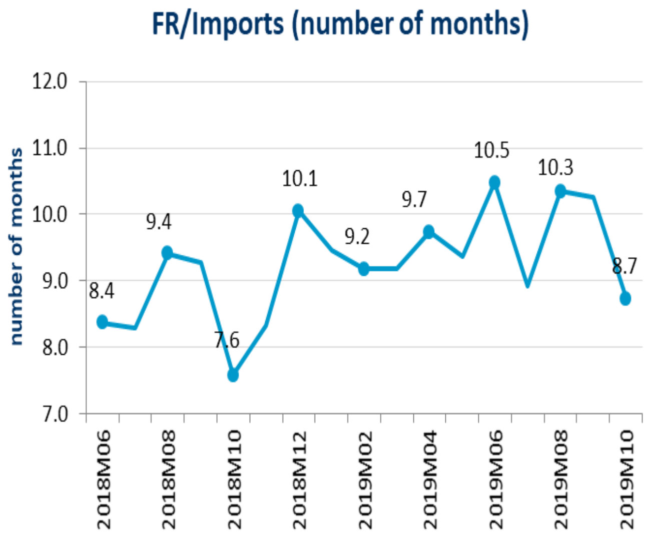


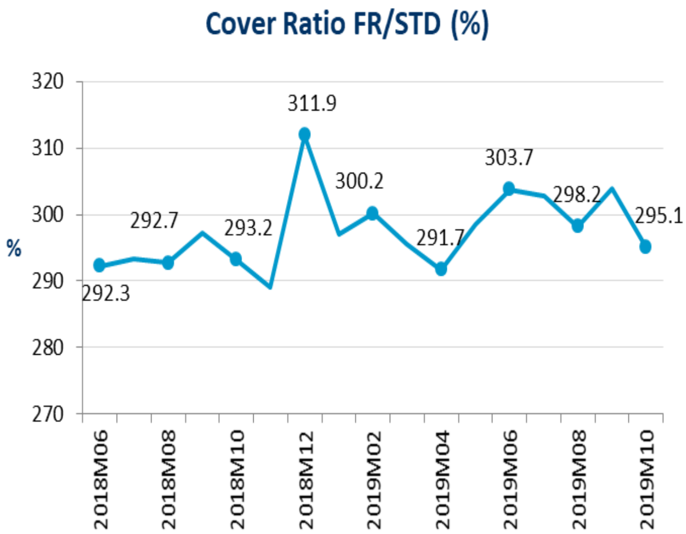
Source: NSI, EC

Bulgaria: Monetary Sector Indicators



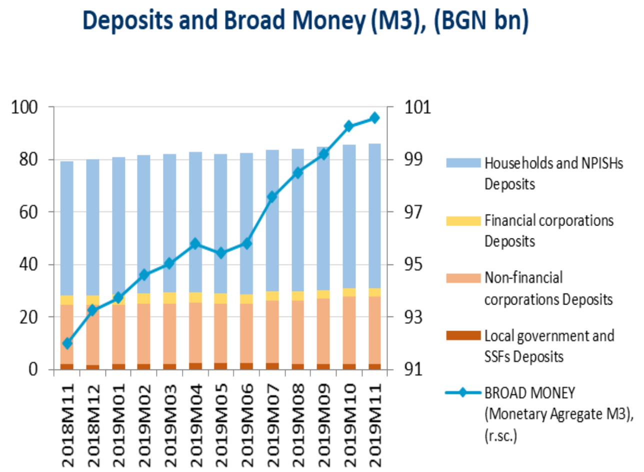


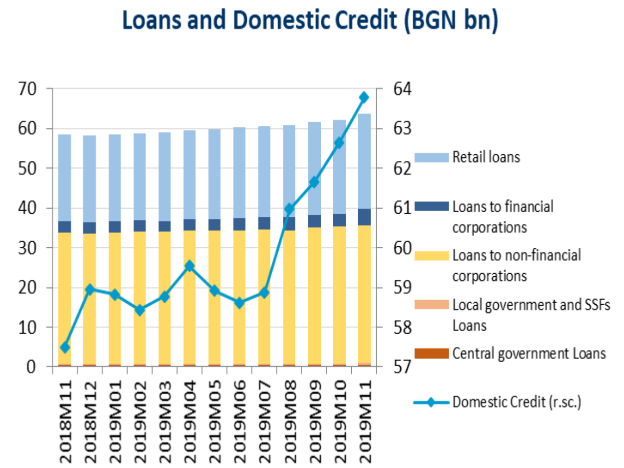


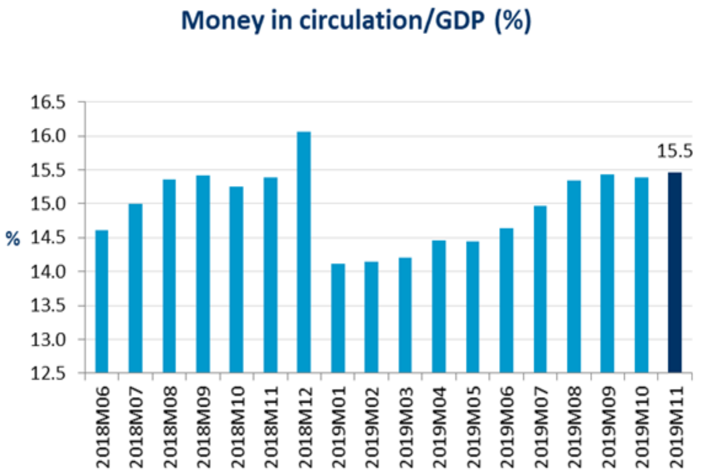


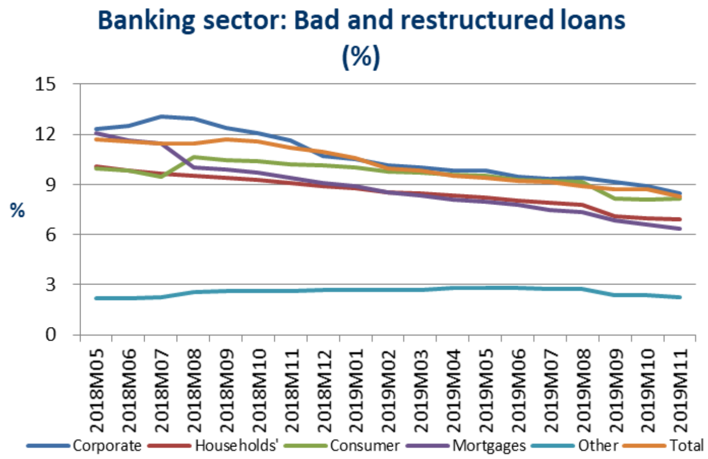
Source: BNB

Bulgaria: Monetary Sector Indicators









Source: BNB

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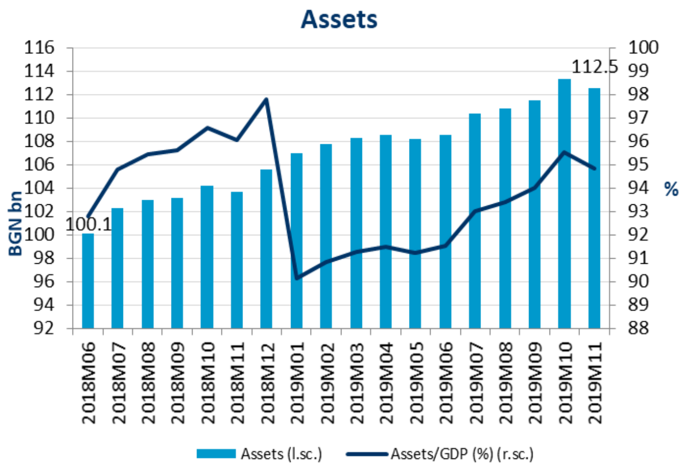
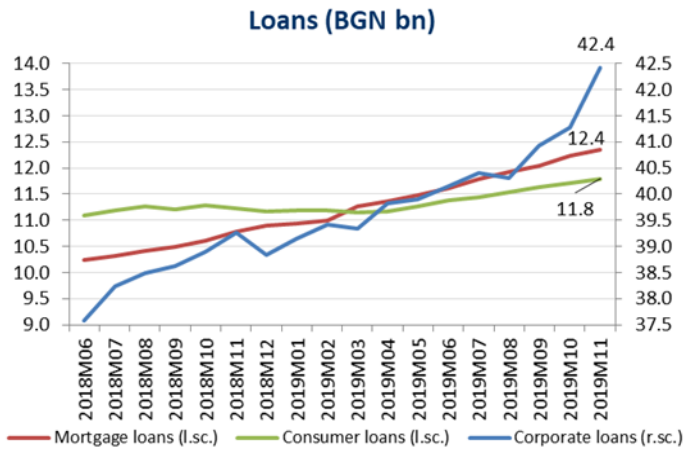
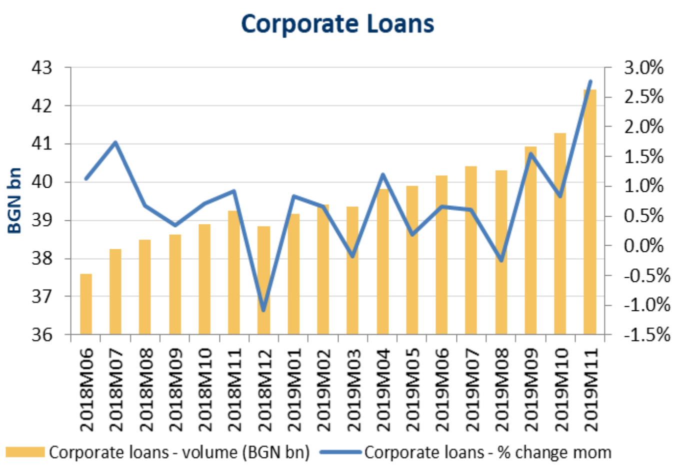
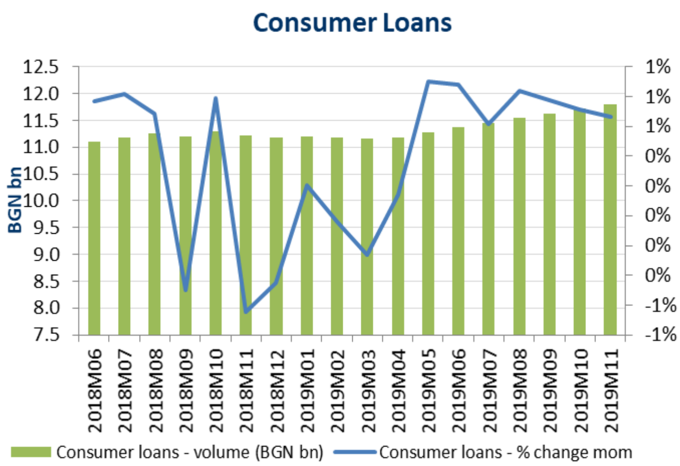
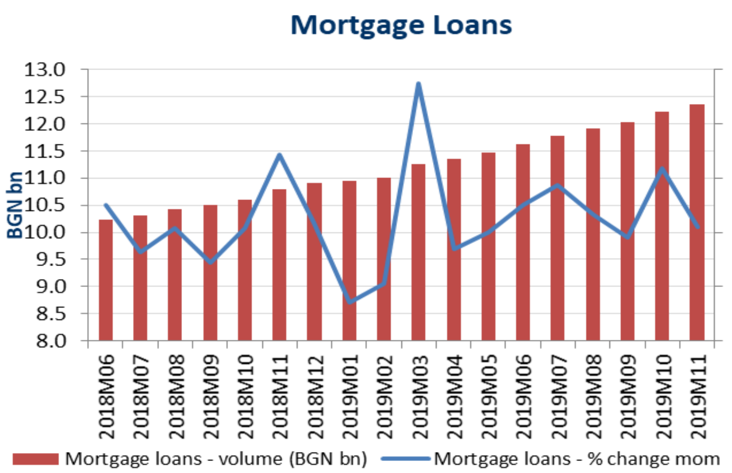




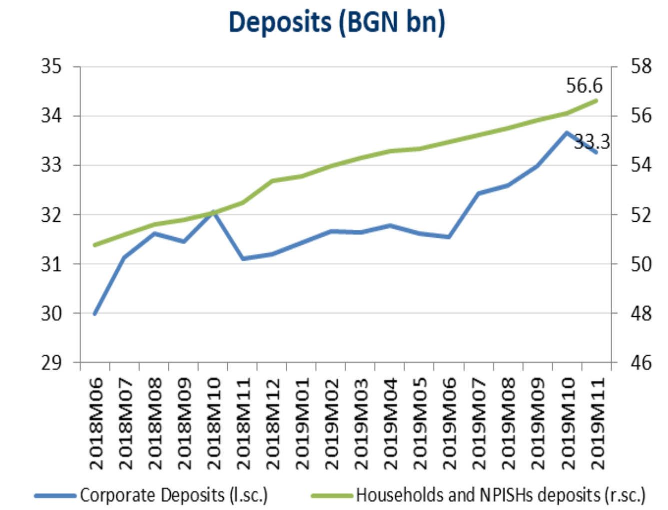


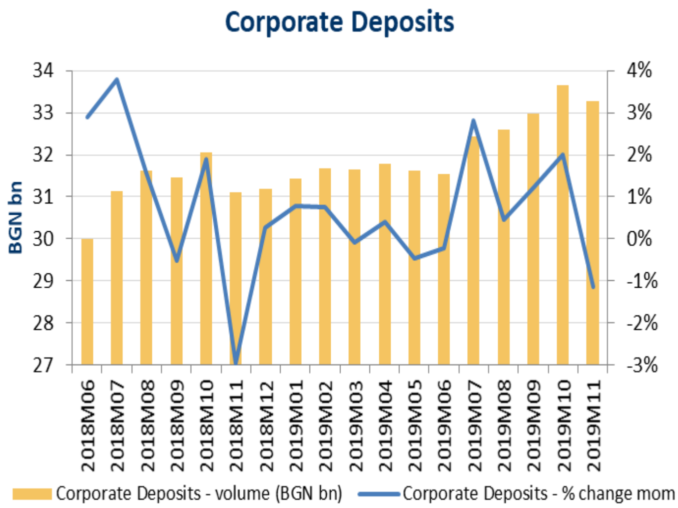


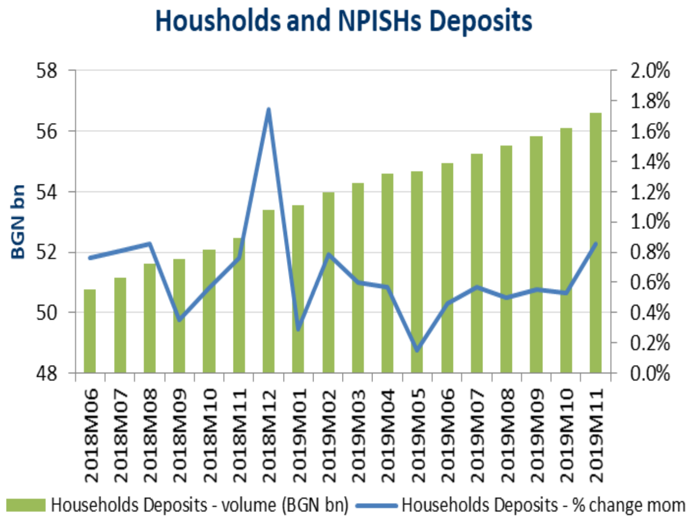


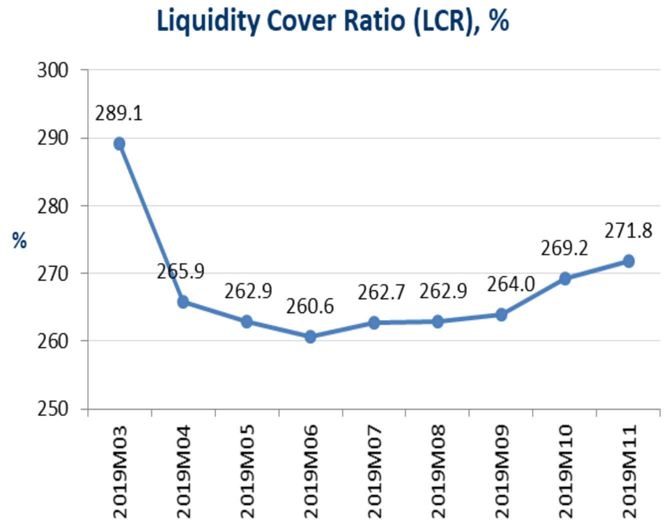
Source: BNB

Bulgaria: Banking Sector Indicators



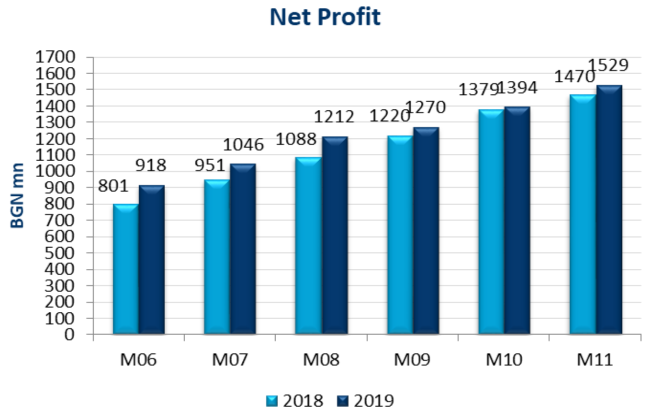


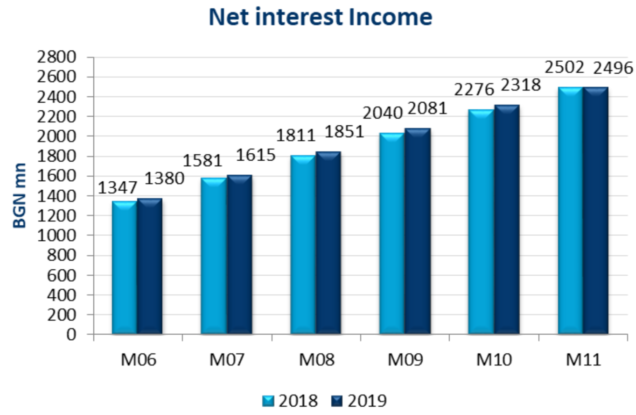


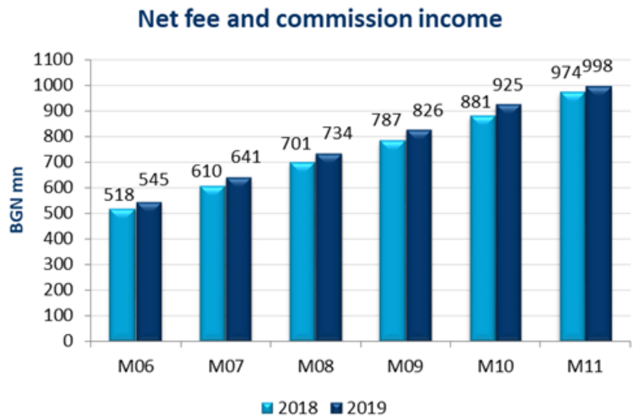


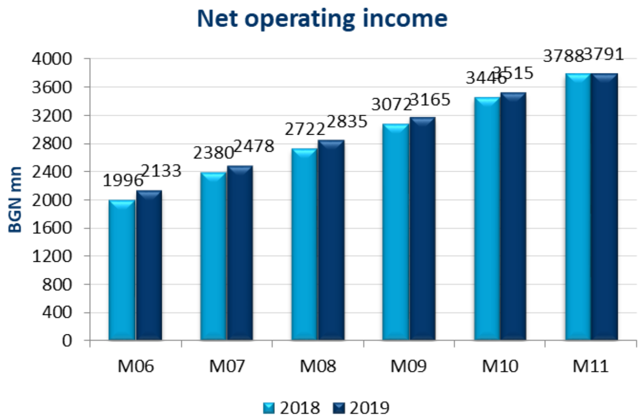
Source: BNB

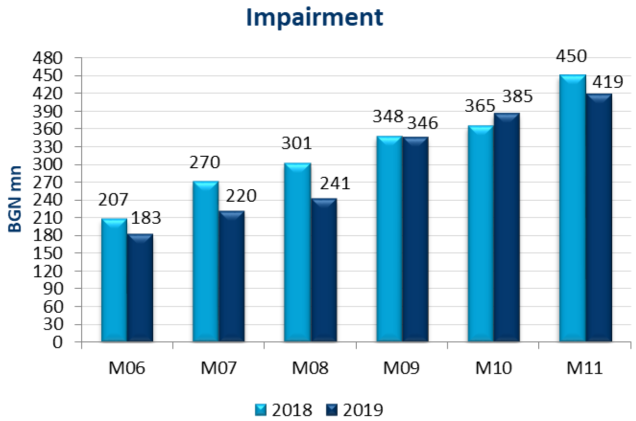
Bulgaria: Banking Sector Indicators





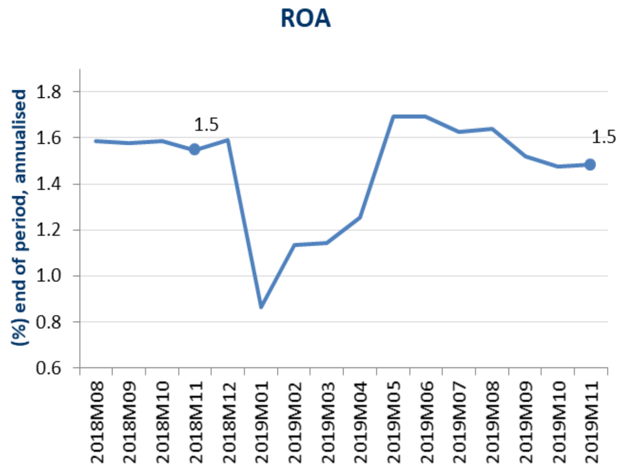


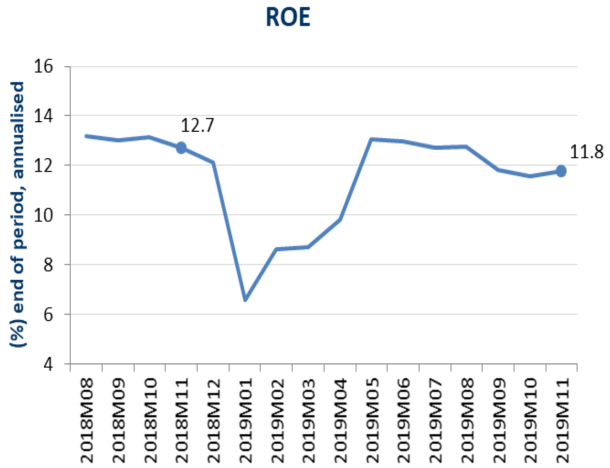


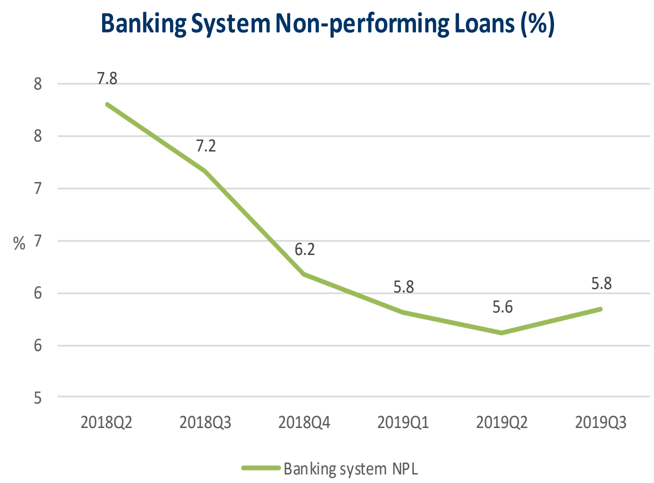


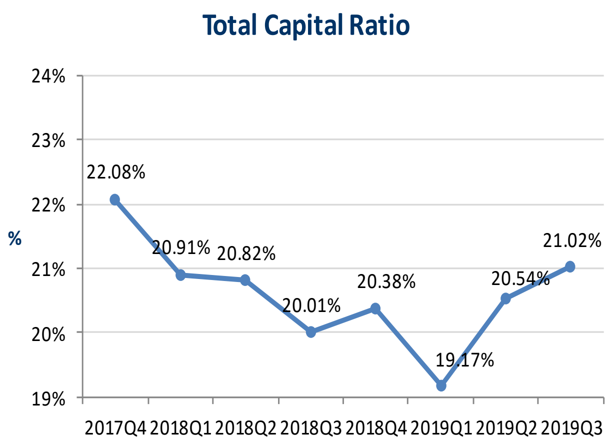
Source: BNB

Bulgaria: Banking Sector Indicators



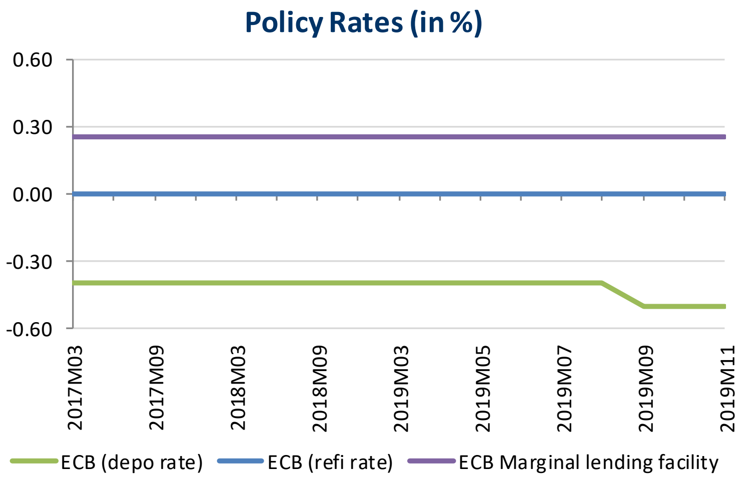


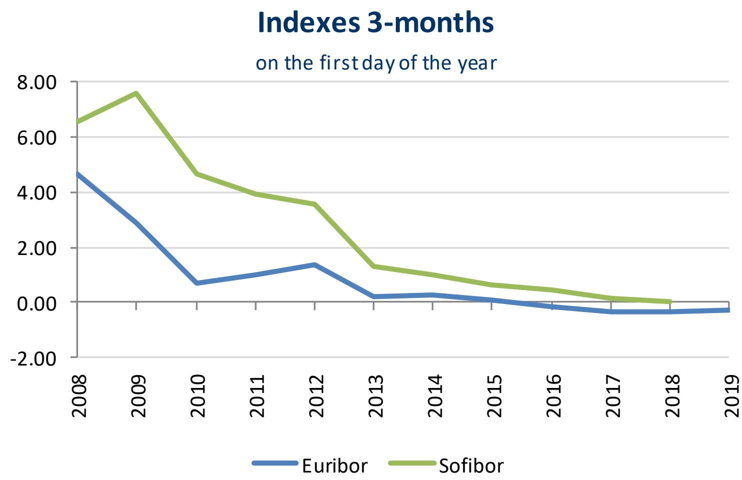


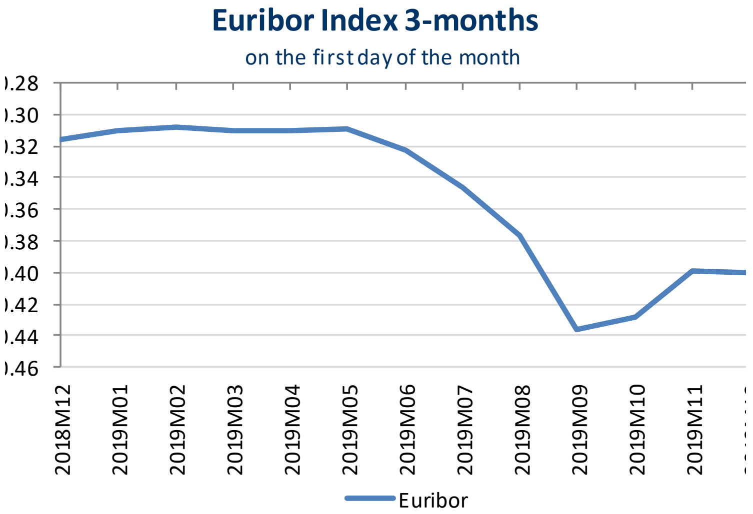


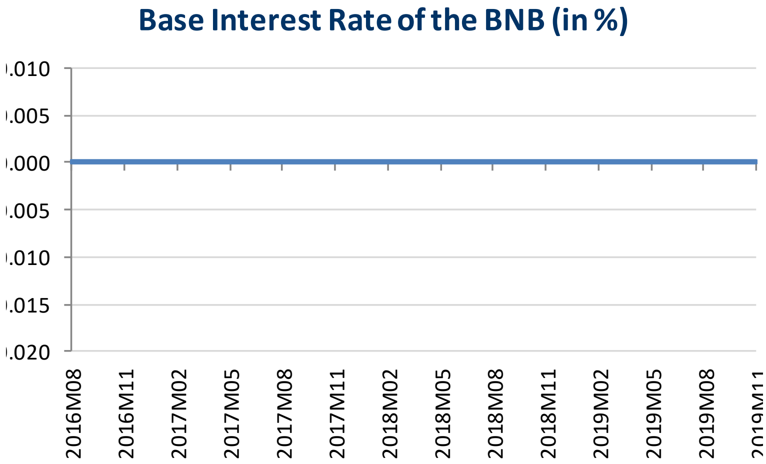
Source: BNB

Bulgaria: Indexes and Interest Rates



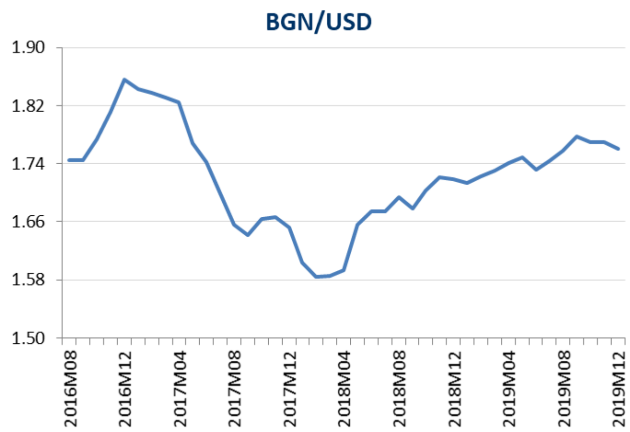


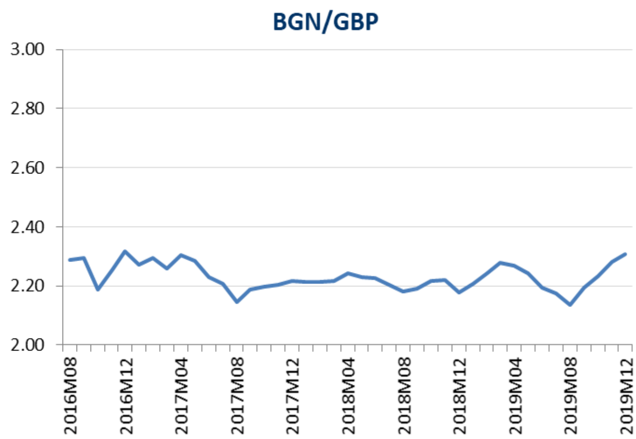


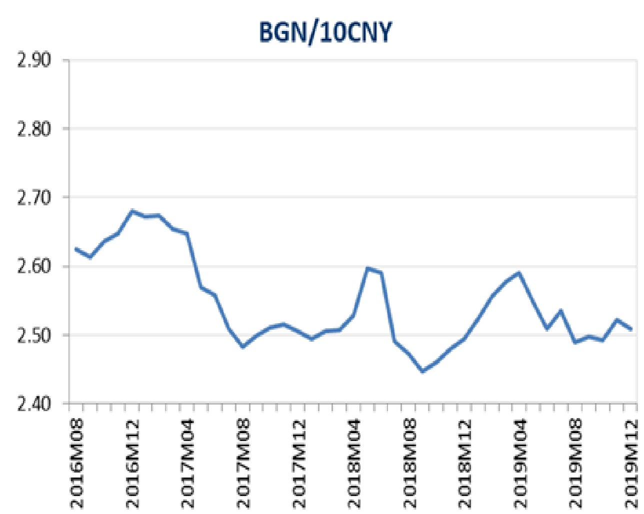


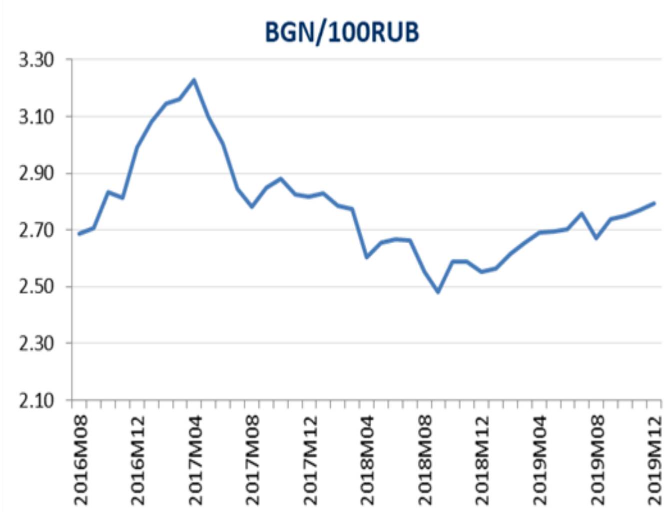
Source: ECB, BNB

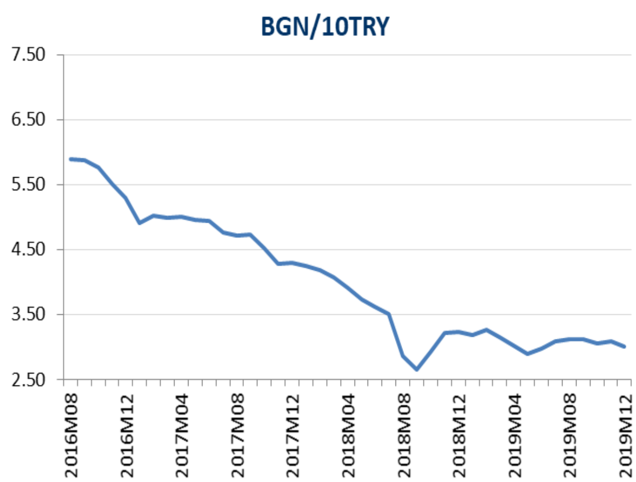
Bulgaria: FX Rates

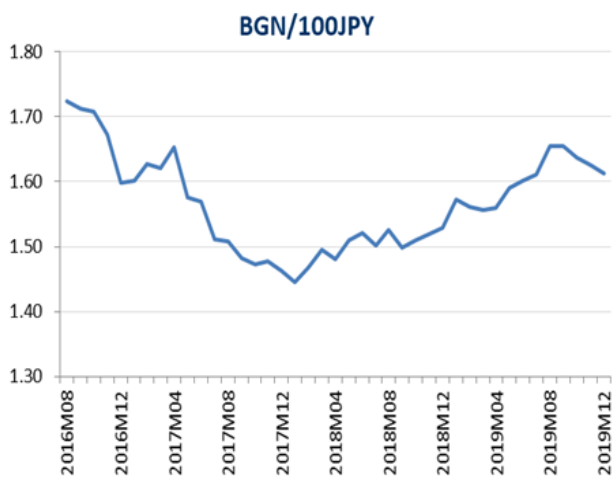












Source: ECB

DEFINITIONS AND METHODOLOGICAL NOTES

The Governing Council of the ECB sets the key interest rates for the euro area, as follows: The interest rate on the main refinancing operations (MRO), which provide the bulk of liquidity to the banking system. The MRO rate defines the cost at which banks can borrow from the central bank for a period of one week. The rate on the deposit facility, which banks may use to make overnight deposits with the Eurosystem. The deposit facility rate is one of the three interest rates the ECB sets every six weeks as part of its monetary policy. The rate defines the interest banks receive for depositing money with the central bank overnight. Since June 2014, this rate has been negative. The rate on the marginal lending facility, which offers overnight credit to banks from the Eurosystem. If banks need money overnight, they can borrow from the marginal lending facility at a higher rate.

EXTERNAL SECTOR

CURRENT ACCOUNT

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

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

For the intra EU trade in goods:

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

For the trade with third countries (outside EU)

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

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

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

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

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

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

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

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

CAPITAL ACCOUNT

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

FINANCIAL ACCOUNT

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

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

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

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

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

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

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

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

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

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

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

RESERVES AND RELATED ITEMS

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

CONSUMER SURVEY

The survey is a part of the harmonized program of European Union for business and consumer surveys and it is representative for the population of 16 years and older.

The persons of 16 years and older are the object of the survey; the sample method is random, clustered, proportional to the population by regions, incl. urban/rural inhabitants (154 clusters with 8 persons per cluster). The interviewing method is face to face. The questionnaire contains standardized questions about the financial situation of households, general economic situation, inflation, unemployment, saving, intentions of making major purchases on durable goods or purchasing/building a home or buying a car. The proposed variants of answers give an opportunity to arrange them from optimistic, through neutral to pessimistic. The balance of opinions is calculated as a difference between relative shares of positive opinions and relative shares of negative opinions, as there is one specification: the strong positive opinions and the strong negative opinions are given a coefficient of 1, and the more moderate positive and negative opinions - a coefficient of 0.5.

The survey results are used to capture the direction of change of surveyed variables incl. that of the consumer confidence level, which gives an opportunity to analyze the tendencies in the development of public opinions on significant economic phenomena.

The consumer confidence indicator is an arithmetic mean of the balances of the expectations about the development over the next 12 months of the financial situation of households, general economic situation, savings and unemployment, as the last is taken with a negative sign.

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.

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.

TOURISM

The definitions recommended by the World Tourist Organization and the Methodological manual for tourism by Eurostat are applied by the National Statistical Institute.

In accordance with these definitions an international tourist is any person who travels to a country other than his/her permanent residence for at least 24 hours but no more than one year and whose main purpose is not doing any activity for payment.

The purposes of visiting a country are the following:

- Excursion, holiday or entertainment (visits to cultural or historical landmarks, sport events and other);
- Visiting friends and relatives;
- Professional purposes (business trips, participation in conferences, congresses, concluding deals, and etc.);
- Other (education, medical treatment, and etc.) purposes.

Statistical data on the trips of Bulgarian citizens travelling abroad and visits by foreigners to Bulgaria are obtained on the basis of monthly information received from the Ministry of Interior and sample survey of the National Statistical Institute among Bulgarian and foreign citizens passing through border check points.

Data on the number of the trips of the citizens of the European Union are estimated on the basis of the information obtained from the Ministry of Interior and the airport authorities. Data on the number of citizens from 'third countries' are obtained directly from the Ministry of Interior.

Data on the purposes of the trips are obtained on the basis of the NSI's regular monthly sample survey of passing Bulgarian and foreign citizens through the border check points.

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 is calculated by applying the structure of the final monetary consumption expenditures of Bulgarian households. The main source of information for the expenditures is the household budget survey in the country. CPI in year *t* is calculated with the expenditures structure of year *t- 1*.

HARMONIZED INDICES OF CONSUMER PRICES (HICP)

The Harmonized Index of Consumer Prices (HICP) is the comparable measure of inflation across EU Member states. It is one of the criterions of price stability and readiness of Bulgaria to join the euro-zone. HICP, as well as CPI, measure the total relative price change of goods and services. Both indices are calculated using the same basket of goods and services, but differ with respect to the weights used. 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 - 2*. In compliance with Regulation (EC) No 2015/2010 since January 2016 the base year for HICP has been changed and the all indices have been calculated and published at 2015 as a base year.

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.

The surveys about the prices in agriculture are carried out in accordance with the main requirements of the EU Handbook for Agricultural Price Indices. In this way harmonization with the EU practices in the domain of agricultural price statistics is achieved from the point of view of:

• Definitions used
• Techniques of prices registration
• Type of calculated indices
• Survey periodicity
• Nomenclatures used
• Defining of the selected products by their quality, quantity, variety and other price characteristics.

The object of observation are the producer prices of produced by the farm crops, live animals and animal products and prices of products and services of goods and services currently consumed in agriculture.

Producer price in agriculture is the price received by farm selling its own agricultural products/live animals. It is recorded at the first market stage of goods - „farm gate price”. Producer price excludes subsidies on agricultural products/animals, transport costs and taxes. VAT is also excluded in the price.

The examination of prices of goods and services currently consumed in agriculture (Input I) includes five surveys which supply the information about the prices of:

• Mineral fertilizers
• Feeding stuffs
• Plant protection products
• Veterinary medicinal products
• Seeds and planting stocks.

The object of observation is the purchase price of goods and services currently consumed in agriculture. The observed unit price is the price that the buyer actually paid for the means of production. It includes taxes and fees and excludes subsidies and VAT refunded.

Statistical unit

Observation units within the surveys of agricultural prices are farms - juridical and physical persons and agricultural and veterinary pharmacies. For each survey a list of respondents is established and during the years stable number of price registrations of products/livestock categories and means of production is maintained.

The conducted surveys are exhaustive and include all units above certain threshold defined in value terms. For the survey on the producer prices in agriculture as selection criteria a value of sales of agricultural products/animals is used and for the surveys on the prices of goods and services currently consumed in agriculture - the expenditures rising from purchases of goods and services for intermediate consumption. The representativeness of prices is assured, both by the maintaining of regular number of price registrations and coverage of at least of 50 % of value of sales for each product/livestock category or purchase value of goods and services for intermediate consumption in the respective year.

Data sources

The sources of information are statistical questionnaires for collection of qualitative and quantitative characteristics of agricultural products/live animals and goods and services currently consumed in agriculture and quarterly questionnaires supplying information about the producer prices of agricultural products/live animals and purchasing prices of goods and services currently consumed in agriculture.

The questionnaires on the qualitative and quantitative characteristics of agricultural products/live animals and goods and services currently consumed in agriculture supply data for establishment of list of representative products defined with their quantitative and qualitative, variety and other characteristics which may have influence on the variation of prices. The established lists of products are periodically updated, as usual in the years ending to 0 or 5, when the Eurostat weighting scheme is rebased.

The quarterly questionnaires supply regular data about the prices of included in the scope of surveys agricultural products/live animals or goods and services currently consumed in agriculture.

Calculation of average prices

Within the quarterly surveys average monthly and quarterly prices are calculated. The average monthly prices are calculated as arithmetical mean derived from all registered prices. The quarterly prices are calculated as arithmetical mean from monthly prices.

Type of index and calculation

The calculation of price indices is carried out by the Laspeyres formula. This type of index has a constant weighting scheme, so that the base period of weights and prices is the same. For calculation of producer price indices as weights the value of sales of agricultural output is used and for the indices of prices of goods and services currently consumed in agriculture - the value of purchased intermediate consumption. The weights are calculated within satellite economic accounts for agriculture.

The indices are calculated at three bases: previous year, corresponding quarter of previous year and the year ending in 0 or 5 (Eurostat base).

The total index of goods and services currently consumed in agriculture (Input I) is calculated on the base of price indices of five groups of products as well as on the indices of goods and services calculated within the Survey on consumer prices index.

Classifications

For the survey of producer prices in agriculture the National classification of production in agriculture, forestry and fisheries (PRODAGRO) is used. Classification PRODAGRO is used as a basis for further product breakdown in accordance with their qualitative and quantitative characteristics. For the surveys on prices of goods and services currently consumed in agriculture own proper classifications are used. These classifications are compiled within the surveys for establishment of lists of representative products. For calculation and providing Eurostat with harmonized data of price indices in agriculture classification PRAG (Nomenclature of agricultural prices in the Eurostat New CRONOS database) is used.

Consideration of the impact of quality on the prices of agricultural products

To eliminate differences in prices associated with changes in the quality, type, quantity, packaging, selected products are defined by quality, quantity, species and other characteristics that affect the changes of prices. When particular product is dropped down from the list it has to be replaced by a new one defined by same or approximately similar characteristics. The new product should also be representative.

The calculation of the indices of goods and services contributing to the agricultural investments (Input II)

The calculation of price index of goods and services contributing to agricultural investments is also done by a Laspeyres formula. As weights the values of goods and services purchased by farms for further investments, calculated within the satellite economic accounts for agriculture are used. For calculation of total index of goods and services contributing to agricultural investments indices from other surveys conducted by NSI in the domain of the Consumer prices Statistics, Foreign trade statistics and Short-term business statistics are also used.

On the basis of indices of goods and services currently consumed in agriculture and contributing to agricultural investments, total index of prices of means of production used in agriculture (Total Input) is calculated.

MONETARY AGGREGATES

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

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

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

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

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

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

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

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

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

MONEY SUPPLY MECHANISM

Money supply (M3) may be expressed as a product of monetary base and the money multiplier variable. Money multiplier characterizes the degree of multiplication effect as a result of commercial bank activity. This effect is measured by the ratios of broad money (M3) or individual monetary aggregates (M1 and M2) to reserve money. The money multiplier reflects the currency outside banks to deposits ratio and the bank reserves to deposits ratio, known as factors in determining money supply. The currency outside banks to deposits ratio depends primarily on the public behavior, while the bank reserves to deposits ratio reflects commercial bank behavior. Sources of Reserve Money: Under a stable money multiplier, total money supply may be influenced through reserve money sources. Foreign assets (net) reflect an increase/decrease in Bulgaria's forex reserves. Under a currency board changes in forex reserves at the expense of government deposit do not directly affect the monetary base and it is automatically sterilized. Claims on central government (net) – the net position of the government is a result of assets netting (balances on lev loans disbursed prior to June 1997 pursuant to the former Law on the BNB and balances on forex loans under Article 45 of the Law on the BNB) its liabilities. Claims on non-government sector include only claims on shares and other equity on the non-government sector. Claims on commercial banks – the balance sheet reports balances on loans extended prior to June 1997 and unpaid interest on these loans. Remaining items (net) include assets and liabilities, which are not classified to any other item.

CAPITAL MARKET

SOFIX Index:

Initial date: 20 October 2000; Initial value: 100

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

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

BG REIT Index:

Initial date: 03 September 2007; Initial value: 100

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

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

BG 40 Index:

Initial date: 01 February 2005; Initial value: 100

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

BGTR30 Index (BG Total Return 30):

Initial date: 03 September 2007; Initial value: 1,000

BG TR30 is an index based on the price performance of the common shares included in the index portfolio, as each constituent issue shall have equal weight. The issues included in the calculation of the index should meet the following criteria: 1) The market capitalization of each issue should not be less than BGN 10,000,000 (10 mn.); 2) The free-float (number of shares hold 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.