All data in the edition are the last available data, published as of February 29, 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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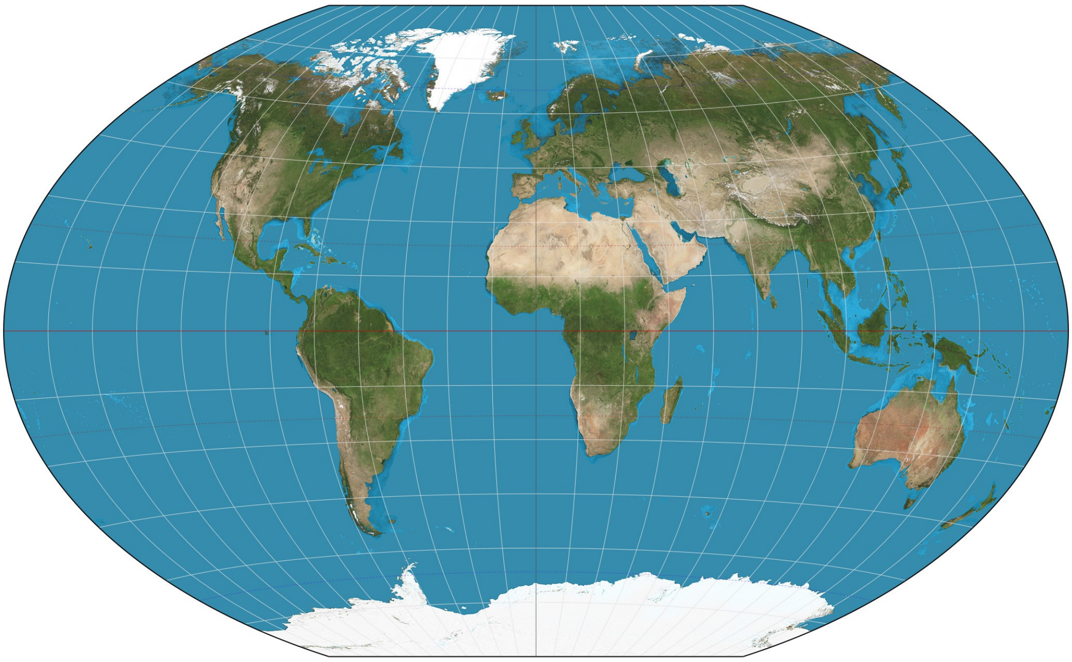
HIGHLIGHTS AND FORECASTS

MONTHLY ECONOMIC REPORT



February, 2020

- *The Eurozone annual economic expansion was revised lower to 0.9% yoy in the fourth quarter of 2019, the weakest rate since the three months to December 2013. The Eurozone annual economic expansion was revised lower to 0.9% yoy in the fourth quarter of 2019, the weakest rate since the three months to December 2013. Considering the European Union as a whole, the GDP growth slowed to 1.1% from 1.4% for the third quarter. For 2019 full year, the Euro Area economy advanced 1.2%, and the EU GDP expanded 1.4%. The Euro Area inflation rate is expected to edge up to 1.4% in January 2020 from 1.3% in the previous month. The annual core inflation, which excludes volatile prices of energy, food, alcohol & tobacco and at which the ECB looks in its policy decisions, is likely to fall to 1.1%, the lowest since October and below market consensus of 1.2%. The Euro Area seasonally-adjusted unemployment rate fell to 7.4% in December 2019 from 7.5% in the previous month. Considering the European Union as a whole, the jobless rate edged down to 6.2% from 6.3% in November, the lowest since comparable series began in January 2000.*
- *Italy's GDP stalled 0% in the fourth quarter of 2019, after an upwardly 0.5% expansion in the previous period. On a quarterly basis, the economy shrank 0.3%, the most since Q1 2013 and compared to a 0.1% growth in Q3. A decline in gross inventories more than offset a positive contribution from net trade. On the production side, both agriculture, forestry and fishing and industry contracted while services stagnated. Considering full 2019, GDP grew 0.2%, slowing from a 0.8% expansion in 2018 but slightly better than government's forecast of 0.1%. The annual inflation rate in Italy edged up to 0.6% in January 2020 from 0.5% in December. Annual core inflation rate, which excludes energy and unprocessed food is set to rise to 0.8% from 0.6% in the prior month. Italy's seasonally adjusted unemployment rate came in at 9.8% in December 2019, the same as in the previous month. The youth unemployment rate, measuring job-seekers between 15 and 24 years old, held steady at 28.9%.*
- *Britain's annual economic growth slowed to 1.1% yoy in the fourth quarter of 2019 from a revised 1.2% in the previous period. That was the weakest pace of expansion since the first three months of 2018 due mainly to a contraction in fixed investment and a sluggish household consumption growth. Government spending expanded at a faster rate and net external demand contributed positively to the GDP, as the country posted the first quarterly trade surplus in over two decades. Considering 2019 full year, Britain's economy expanded 1.4%, compared to 1.3% in 2018. Britain's gross domestic product was flat 0% qoq in the fourth quarter of 2019, following an upwardly revised 0.5% expansion in the previous three-month period. On the production side, services and construction output rose, while production output declined. The consumer price inflation in the UK slowed to 1.3% year-on-year in December 2019, the lowest reading since November 2016. The annual core inflation rate, which excludes energy, food, alcoholic beverages and tobacco, fell to 1.4%, also the lowest in nearly three years. The UK unemployment rate stood at 3.8% in the three months to October 2019, the lowest level since early 1975.*
- *The Gross Domestic Product (GDP) in the United States expanded 2.30% in the fourth quarter of 2019 over the same quarter of the previous year. The US economy grew 2.1% in Q4, the same as in Q3. Consumer spending slowed sharply while net trade made the biggest contribution to growth since Q2 2009 amid a fall in imports. In contrast, negative contributions came from private inventory investment and nonresidential fixed investment. Considering full 2019, the economy advanced 2.3%, the least since 2016 and missing Trump administration's 3% target for the second year. Annual inflation rate in the US climbed to 2.5% in January of 2020 from 2.3% in December. %). Excluding food and energy, consumer prices rose 2.3% year-over-year, the same as in December and 0.2% month-over-month, above 0.1% reported in the last month of 2019. The US unemployment rate rose to 3.6% in January 2020 from the previous month's 50-year low 3.5%.*
- *The Japanese economy shrank -1.6% qoq in Q4 2019, after a downwardly revised -0.1% growth in Q3, a preliminary estimate showed. This was the first contraction since Q3 2018 and the steepest since Q2 2014, as private consumption fell for the first time in five quarters following October's sales tax hike and business spending dropped for the first time in 3 quarters. The Gross Domestic Product (GDP) in Japan contracted -0.40% yoy in the fourth quarter of 2019 over the same quarter of the previous year. Japan's consumer price inflation rose to 0.8% year-on-year in December 2019 from 0.5% in the previous month.*

- *The Japanese economy shrank -1.6% qoq in Q4 2019, after a downwardly revised -0.1% growth in Q3, a preliminary estimate showed. This was the first contraction since Q3 2018 and the steepest since Q2 2014, as private consumption fell for the first time in five quarters following October's sales tax hike and business spending dropped for the first time in 3 quarters. The Gross Domestic Product (GDP) in Japan contracted -0.40% yoy in the fourth quarter of 2019 over the same quarter of the previous year. Japan's consumer price inflation rose to 0.8% year-on-year in December 2019 from 0.5% in the previous month. The so-called core-core inflation index, which excludes fresh food and energy prices, grew 0.9%, the fastest pace since March 2016. Considering 2019 full year, inflation rate averaged 0.5%, down from 1% in 2018. The unemployment rate in Japan remained unchanged at 2.2% in December 2019. . The annual average jobless rate for 2019 stood at 2.4%, unchanged from 2018 and the lowest level since 1992.*
- *The Chinese economy expanded by a seasonally adjusted 1.5% on quarter in the three months to December 2019, following a downwardly revised 1.4% growth in the previous quarter. 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%. Although the Phase One trade deal with the US eased trade tensions and increased business optimism, existing tariffs will remain in place and coronavirus epidemics will slowdown private demand. Hits to tourism, transport, retail, and general consumer demand in areas directly affected by the virus are already being seen. Based on these arguments, KBC expects Chinese growth to slow down considerably in Q1, followed by a partial recovery in Q2 and an even stronger recovery in Q3. On an annual basis, KBC downwardly revises our outlook for Chinese real annual GDP growth in 2020 from 5.7% to 5.2%. The "phase one" trade deal between the US and China that was signed mid-January will go into effect from this month on. One important element of the trade agreement is the set of import commitments China agreed to. The commitments are sizable and the feasibility of them can be questioned for several reasons. Since most tariffs that were implemented in China and the US in recent years are – despite some minor rollback – not reversed by the US-China trade deal, such a sharp recovery of bilateral trade is not very likely. It is also questionable whether US companies will be able to increase their production to export more to China.*
- *The KBC estimate of Turkey's real GDP growth for 2019 full year is 0.1%. KBC's forecast for the coming years is 2.5% growth for 2020 and 3.0% for 2021. Turkey's annual inflation rate increased to a five-month high of 12.15% in January 2020 from 11.84% in the previous month. Annual core inflation rate, which excludes energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold, rose to a five-month high of 9.88% in January from 9.81% in December. On a monthly basis, consumer prices went up 1.35%, following a 0.74% gain in December 2019, the highest since October last year. KBC's forecast is 11% inflation for 2020 and 10% for 2021. The unemployment rate in Turkey increased to 13.3% in November 2019 from 12.3% in the same month of the previous year, as the number of unemployed rose by 327 thousand to 4.308 million.*
- *At 23 January 2020's meeting the Governing Council of the European Central Bank (ECB) decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.50% respectively. The Governing Council will continue to make net purchases under its asset purchase programme (APP) at a monthly pace of EUR 20 billion. The Governing Council intends to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time past the date when it starts raising the key ECB interest rates.*

The incoming data since our last meeting are in line with baseline scenario of ongoing, but moderate, growth of the euro area economy. In particular, the weakness in the manufacturing sector remains a drag on euro area growth momentum. However, ongoing, albeit decelerating, employment growth and increasing wages continue to support the resilience of the euro area economy. While inflation developments remain subdued overall, there are some signs of a moderate increase in underlying inflation in line with expectations. The unfolding monetary policy measures are underpinning favourable financing conditions for all sectors of the economy. In particular, easier borrowing conditions for firms and households are supporting consumer spending and business investment. At the same time, in the light of the continued subdued inflation outlook, monetary policy has to remain highly accommodative for a prolonged period of time to support underlying inflation pressures and headline inflation developments over the medium term. In order to reap the full benefits from our monetary policy measures, other policy areas must contribute more decisively to raising the longer-term growth potential, supporting aggregate demand at the current juncture and reducing vulnerabilities. The implementation of structural policies in euro area countries needs to be substantially stepped up to boost euro area productivity and growth potential, reduce structural unemployment and increase resilience. All countries should intensify their efforts to achieve a more growth-friendly composition of public finances. The Governing Council welcomes the ongoing work and urges further specific and decisive steps to complete the banking union and the capital markets union.

- *The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting ending on 29 January 2020, the MPC voted by a majority of 7-2 to maintain Bank Rate at 0.75%. The Committee voted unanimously to maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at GBP 10 billion. The Committee also voted unanimously to maintain the stock of UK government bond purchases, financed by the issuance of central bank reserves, at GBP 435 billion. UK GDP growth is projected to pick up a little in early 2020. Further ahead, and conditioned on a market path for Bank Rate that falls slightly over the forecast period, the recovery in UK growth is supported by a pickup in global activity, a further decline in Brexit uncertainties and the Government's announced spending measures. Support from these factors is sufficient to boost demand growth above weakened potential supply growth. As a result, slack is eroded gradually over the first part of the forecast period and a margin of excess demand builds thereafter. CPI inflation is projected to remain below the MPC's 2% target throughout this year and much of 2021. Further out, and conditioned on market yields, strengthening domestic price pressures, alongside a waning drag from energy prices, mean that inflation reaches the 2% target by the end of next year and rises slightly above it by the end of the forecast period. . Further ahead, if the economy recovers broadly in line with the MPC's latest projections, some modest tightening of policy may be needed to maintain inflation sustainably at the target. The MPC judges at this meeting that the existing stance of monetary policy is appropriate.*
- *Federal Reserve issues FOMC statement January 29, 2020. Information received since the Federal Open Market Committee met in December indicates that the labor market remains strong and that economic activity has been rising at a moderate rate. Market-based measures of inflation compensation remain low; survey-based measures of longer-term inflation expectations are little changed. The Committee decided to maintain the target range for the federal funds rate at 1.5% to 1.75%. The Committee judges that the current stance of monetary policy is appropriate to support sustained expansion of economic activity, strong labor market conditions, and inflation returning to the Committee's symmetric 2% objective. In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its maximum employment objective and its symmetric 2% inflation objective. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments.*
- *January 21, 2020 Bank of Japan Statement on Monetary Policy. At the Monetary Policy Meeting held 21.01.2020, the Policy Board of the Bank of Japan decided upon the following. Yield curve control The Bank of Japan decided, by a 7-2 majority vote, to set the following guideline for market operations for the intermeeting period. The short-term policy interest rate: The Bank of Japan will apply a negative interest rate of minus 0.1% to the Policy-Rate Balances in current accounts held by financial institutions at the Bank of Japan. The long-term interest rate: The Bank of Japan will purchase Japanese government bonds (JGBs) so that 10-year JGB yields will remain at around zero 0%. With regard to the amount of JGBs to be purchased, the Bank of Japan will conduct purchases in a flexible manner so that their amount outstanding will increase at an annual pace of about JPY 80 trillion. Guidelines for asset purchases .*

With regard to asset purchases other than JGB purchases, the Bank of Japan decided, by a unanimous vote, to set the following guidelines. The Bank of Japan will purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) so that their amounts outstanding will increase at annual paces of about JPY 6 trillion and about JPY 90 billion, respectively. As for CP and corporate bonds, the Bank of Japan will maintain their amounts outstanding at about JPY 2.2 trillion and about JPY 3.2 trillion, respectively. The Bank of Japan will continue with "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control," aiming to achieve the price stability target of 2%, as long as it is necessary for maintaining that target in a stable manner. In a situation where downside risks to economic activity and prices, mainly regarding developments in overseas economies, are significant, 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.

- *China's central bank injected CNY 1.7 trillion (USD 246 billion) into financial markets on 03-04.01.2020, as part of an effort by regulators to mitigate volatility when trading opens against the backdrop of a new coronavirus outbreak. The People's Bank of China (PBOC) said on its website that it was lowering the seven-day reverse repo rate to 2.40% from 2.50%, and cutting the 14-day tenor to 2.55% from 2.65% previously. The People's Bank of China (PBOC) said it was lowering the rate of one-year medium-term lending facility (MLF) loans to financial institutions by 10 basis points (bps) to 3.15% from 3.25% previously. The People's Bank of China cut the one-year loan prime rate from 4.15% to 4.05%, and the five-year rate from 4.80% to 4.75%. The People's Bank of China (PBOC) will ensure that small and medium enterprises (SMEs) get access to the CNY 537 billion (USD 77 billion) of credit lined up to help them pull through the business slump caused by the coronavirus outbreak. The People's Bank of China (PBOC) has decided to release CNY 300 billion from special central bank lending, so as to support financial institutions to issue loans at favorable rates and strengthen financial support for key enterprises offering important medical supplies and daily necessities.*
- *The policy rate in Turkey has been cut from 24%in July 2019 to 10.75% in February 2020, total 13.25% cut. President Erdogan has called on the real sector to escalate investment, as interest rates are rapidly reduced to single digits, so that the problem of high unemployment will be easing, demand will return and competitiveness will increase. Erdogan insists that a cut in the policy rate will reduce inflation as it seeks to return the policy rate back to single-digit territory before mid-2020. But such a rapid monetary expansion puts both the stability of the exchange rate and the sustained disinflation process at considerable risk. Inflation already has a steady upward trend from 8.55% in October 2019 to 10.56% in November, 11.84% in December and 12.15% in January 2020. The Turkish lira is gradually depreciating from 5.8 TRY/USD at the end of November 2019 to 5.95 TRY/USD at the end of December, 6.00 TRY/USD at the end of January 2020 and 6.08 TRY/USD in 19.02.2020. Decision of the Monetary Policy Committee of Central Bank of Turkey 19 February 2020. The Monetary Policy Committee (the Committee) has decided to reduce the policy rate (one-week repo auction rate) from 11.25% to 10.75%. . The improvement in macroeconomic indicators, inflation in particular, supports the fall in country risk premium and helps contain cost pressures. 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 more measured cut in the policy rate.*
- *The International Energy Agency (IEA) has lowered its forecast for global oil demand growth this year to its lowest level since 2011. The reason is the coronavirus epidemic that has paralyzed China in recent weeks. The International Energy Agency said that global oil demand in the first quarter of 2020 is likely to contract yoy for the first time since the financial crisis in 2009. Oil prices slumped by more than 2% on 18.01.2020, as concerns the coronavirus outbreak could hinder the Chinese economy and led to slowing demand in the world's biggest crude importer persist. The Brent price decreases 0.82 USD/BBL or 1.43% to 56.425USD/BBL on Tuesday, February 18. For the month, the decrease was -13.42%. The price of crude oil decreases 1.04 USD/BBL or 2.00% to 51.024 USD/BBL on Tuesday February 18. For the month, the decrease was -13.05%. "From a producer perspective, before the Covid-19 crisis, the market was expected to move to a balance (between supply and demand) in the second half of 2020 due to a combination of production cuts implemented from the beginning of the year, increased demand and a gradual halt to growth in supplies outside OPEC, but now the risk posed by the Covid-19 virus crisis has prompted OPEC + countries to consider further reducing oil production, "says a Monthly Report of International Energy Agency.*

- ***The general trend for February 2020 was marked by a decrease in the prices of the main grain contracts on the world commodity markets. In the US, wheat fell by USD -5.00 to USD 249.00 USD/ ton, the FOB price in France remained unchanged at 198.00 EUR/ton, as in Ukraine, while in Russia the price fell by USD -2.00 to 221.00 and 220.00 USD /ton, respectively. Corn also has a downward trend, zero and 177.00 USD /ton in Chicago, Ukraine minus USD -4.00 to 180.00 USD ton, France minus USD -5.00 to 170.00 USD /ton. In the grain sub circle of the Sofia Commodity Exchange AD, wheat from the field offered supply prices from 400.00 to 380.00 BGN/ton, demand was slightly up to 340.00-370.00 BGN/ton. For feed wheat, buyers are at 280.00-290.00 BGN/ton and sellers are at 320.00 BGN/ton.***

- *In January – December 2019 the current and capital account was positive amounting to EUR 6,855.3 million (11.2% of GDP), compared with a surplus of EUR 3,603.7 million (6.4% of GDP) in January – December 2018. In January – December 2019 the current account only was positive and amounted to EUR 5,901.1 million (9.7% of GDP), compared with a surplus of EUR 3,002.2 million (5.4% of GDP) in January – December 2018.*
- *In January-December 2019 the net flows of foreign direct investment in Bulgaria presented according to the directional principle recorded a positive value of EUR 629.9 million (1% of GDP), growing by EUR 92.8 million (17.3%) from January – December 2018 (when reported positive value of EUR 537.1 million, 1% of GDP).*
- *In January 2020. BNB international reserves amounted to BGN 47.9 billion (EUR 24.5 billion) and increase by 0.5% yoy maintaining Currency board stability in Bulgaria.*
- *An International Monetary Fund (IMF) mission, led by Mr. Jaewoo Lee, visited Sofia during February 4-14 to conduct the 2020 Article IV consultation, concluded: "With macroeconomic stability well established, Bulgaria's economic policy challenge now is to reinvigorate inclusive growth and sustained income convergence. This calls for supporting growth-friendly reforms and investment in people. Stronger institutions and better provision of public services are the key, which, in turn, would boost broader investment and productivity growth".*
- *EC published its Winter Forecast. Bulgaria's GDP is expected to grow by 2.9% in 2020 and 3.1% in 2021. Unprocessed food and energy prices are expected to sustain inflation around 2.3% in 2020, while the assumed path of oil prices is set to hold inflation at 1.9% in 2021.*
- *In Q4 2019 GDP increased by 0.1% qoq and by 1.2% yoy, respectively in the EU-27 by seasonally adjusted data. In Q4 2019 Bulgaria's GDP expanded by 3.5% yoy and by 0.7% qoq, respectively, according to NSI seasonally adjusted data. GDP Annual Growth Rate in Bulgaria is expected to be 3.7% by the end of 2020. Annual nnual Growth Rate in Bulgaria to stand at 3.1% in 2020 and 3% in 2021.*
- *In January 2020, the total business climate indicator increases by 1.4 percentage points in comparison with December 2019 mo 28.5%, which is due to the improved business conjuncture in industry.*
- *According to the preliminary data in December 2019 the Industrial Production Index, seasonally adjusted, fell by 1.8% as compared to November 2019. In December 2019 the working day adjusted Industrial Production Index decreased by 1.5% in comparison with the same month of 2018.Industrial Production in Bulgaria is expected to be 1.5% by the end of 2020. Looking forward, we estimate Industrial Production in Bulgaria to stand at 3.1% in 2021 and 3.3% in 2022.*
- *According to the preliminary seasonally adjusted data in December 2019 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 0.7% compared to the previous month. Retail Sales yoy in Bulgaria is expected to be 5.5% by the end of 2020. Looking forward, we estimate Retail Sales yoy in Bulgaria to stand at 5.8% in 2021 and 6% in 2022.*
- *According to the preliminary data, in December 2019 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 0.7% below the level of the previous month. In December 2019 the working day adjusted index of production in construction also decreased by 0.7% in comparison with the same month of 2018.Construction Output in Bulgaria is expected to be 2.2% by the end of 2020. Construction Output in Bulgaria to stand at 3.2% in 2020 and 3.4% in 2021.*
- *In January 2020, the consumer price index compared to December 2019 was 100.9%, ie. monthly inflation is 0.9%. The annual inflation in January 2020 compared to January 2019 is 4.2%. The annual inflation in the period February 2019 - January 2020 compared to the period February 2018 - January 2019 is 3.2%. The harmonized index of consumer prices for January 2020 compared to December 2019 is 100.5%, ie monthly inflation is 0.5%. Annual inflation in January 2020 compared to January 2019 is 3.4%. The average annual inflation for the period February 2019 - January 2020 compared to the period February 2018 - January 2019 is 2.5%. Due to the gradual weakening of the temporary pricing factors and the continuing tendency for oil prices to fall, inflation is expected to slow to 2.3% in 2020 and mo 2.1% in 2021.*

- *Total Producer Price Index in December 2019 remains unchanged compared to the previous month; compared to the same month of 2018 the prices rose by 3.5%. Producer Price Index on Domestic Market in December 2019 remains unchanged compared to the previous month; compared to the same month of 2018 the domestic prices grew by 4.5%.*
- *In Q4 of 2019 the unemployment rate was 4.1%, and the employment rate of population aged 20 - 64 was 74.9%. For 2020, employment is expected to increase by 0.2%. Unemployment will continue to decline slightly, following the trend of a net decrease of 50,000 people a year.*
- *The total income average per household member during Q4 of 2019 is BGN 1 770 and increases by 13.7% yoy. The total expenditure average per household member during Q4 of 2019 is BGN 1 670 and increases by 10.7% yoy.*
- *According to NSI preliminary data at the end of December 2019 the number of employees under labor contract decreased by 1.0% as compared to the end of September 2019 and reached 2.29 million. In Q4 of 2019 in comparison with Q3 of 2019 the average monthly wages and salaries increased by 5.1% amounting BGN.1 313.*
- *The CFP budget balance on a cash basis for 2019 is negative, amounting to BGN 1,148.3 million, or 0.97% of the projected GDP, and is formed by a national budget deficit of BGN 1,040.8 million and by a EU funds deficit of BGN 107.5 million. The fiscal reserve as of 31.12.2019 is BGN 8.8 billion, including BGN 8.6 billion of deposits in BNB and banks and BGN 0.2 billion of receivables under the EU Funds for certified expenditures, advance payments, etc. Based on the preliminary data and estimates, for January 2020, the excess of revenues over expenditures under the Consolidated Fiscal Programme (CFP) is expected to amount to BGN 841.3 million (0.7 % of the forecast GDP).*
- *In January – December 2019, Bulgaria's central government sub-sector debt amounted to EUR 12,042.2 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 17.7% in 2020 and 16.5% in 2021 and 16.2% in 2022.*
- *Ministry of Finance reopens issue of 5-year government securities at record low yield at -0.14%.*
- *At the end of December 2019 Bulgaria's broad money (monetary aggregate M3) amounted at BGN 102.469 billion (85.8% of GDP) and increased by 9.9% yoy. Domestic credit – was BGN 65.165 billion and increased by 11.5% yoy.*
- *In January 2020, all four leading indices on the stock exchange reported an increase: SOFIX to 575.87 points, BG TR30 to 522.33 points, BGBX 40 to 113.20 points and BGREIT to 133.73 points.*
- *At the end of December 2019, the assets of the banking system reached BGN 114.2 billion and increased by 1.5% mom and by 8.2% yoy, respectively. Their relative share in GDP is 97.5%. Gross loans and advances to customers amounted to BGN 66.3 billion, reporting a negative trend of -0.4% mom and an increase of 8.8% yoy, respectively. The attracted funds from clients in the banking system amounted to BGN 91.8 billion, increasing by 2.2% mom and by 8.6% yoy, respectively. The aggregate net profit of the banking system is BGN 1675 million, reporting a 0.2% decline on an annual basis. At the end of December 2019, the gross amount of non-performing loans and advances was BGN 6.1 billion and their share in the total amount of gross loans and advances decreased to 6.5%.*

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GLOBAL TRENDS

ADVANCED COUNTRIE'S ECONOMIES

Eurozone

The Eurozone annual economic expansion was revised lower to 0.9% yoy in the fourth quarter of 2019, the weakest rate since the three months to December 2013. The Eurozone annual economic expansion was revised lower to 0.9% yoy in the fourth quarter of 2019, the weakest rate since the three months to December 2013. Considering the European Union as a whole, the GDP growth slowed to 1.1% from 1.4% for the third quarter. For 2019 full year, the Euro Area economy advanced 1.2%, and the EU GDP expanded 1.4%. The Euro Area inflation rate is expected to edge up to 1.4% in January 2020 from 1.3% in the previous month. The annual core inflation, which excludes volatile prices of energy, food, alcohol & tobacco and at which the ECB looks in its policy decisions, is likely to fall to 1.1%, the lowest since October and below market consensus of 1.2%. The Euro Area seasonally-adjusted unemployment rate fell to 7.4% in December 2019 from 7.5% in the previous month. Considering the European Union as a whole, the jobless rate edged down to 6.2% from 6.3% in November, the lowest since comparable series began in January 2000.

The Eurozone annual economic expansion was revised lower to 0.9% yoy in the fourth quarter of 2019, the weakest rate since the three months to December 2013 and missing market expectations of 1.1%, a second estimate showed. GDP growth slowed in Germany (0.5% vs 0.6% in Q3), France (0.8% vs 1.4%) and Spain (1.8% vs 1.9%), while Italy's economy stagnated (vs 0.5% in Q3). The Eurozone economy grew only 0.1% qoq in the fourth quarter of 2019, below 0.3% expansion reported in the previous three-month period, a second estimate showed. That was the weakest pace of growth since a -0.4% contraction in the first quarter of 2013. Among the bloc's largest economies, German GDP stalled 0%, while France and Italy contracted 0.1% and 0.4% respectively. On the other hand, Spain's economy expanded 0.5%. Considering the European Union as a whole, the GDP growth slowed to 1.1% from 1.4% for the third quarter. For 2019 full year, the Euro Area economy advanced 1.2%, and the EU GDP expanded 1.4%. The Euro Area inflation rate is expected to edge up to 1.4% in January 2020 from 1.3% in the previous month, in line with market expectations, a preliminary estimate showed. It is the highest inflation rate since April, as prices should increase at a faster pace for food, alcohol & tobacco (2.2% vs 2.0% in December) and energy (1.8% vs 0.2%). Meantime, inflation should be steady for non-energy industrial goods (at 0.5%) while services cost is expected to slow (1.5% vs 1.8%). The annual core inflation, which excludes volatile prices of energy, food, alcohol & tobacco and at which the ECB looks in its policy decisions, is likely to fall to 1.1%, the lowest since October and below market consensus of 1.2%. The Euro Area seasonally-adjusted unemployment rate fell to 7.4% in December 2019 from 7.5% in the previous month, below market expectations of 7.5%. It is the lowest jobless rate since May 2008, as the number of unemployed decreased by 34,000 from the previous month to 12,251. Among the bloc's largest economies, the lowest unemployment rate was recorded in Germany (3.2%), while higher rates were observed in France (8.4%), Italy (9.8%) and Spain (13.7%). The youth unemployment rate, which measures job seekers aged 15 to 24, dropped to 15.3% from 16.2% in the same period a year earlier. Considering the European Union as a whole, the jobless rate edged down to 6.2% from 6.3% in November, the lowest since comparable series began in January 2000.

Italy

Italy's GDP stalled 0% in the fourth quarter of 2019, after an upwardly 0.5% expansion in the previous period. On a quarterly basis, the economy shrank 0.3%, the most since Q1 2013 and compared to a 0.1% growth in Q3. A decline in gross inventories more than offset a positive contribution from net trade. On the production side, both agriculture, forestry and fishing and industry contracted while services stagnated. Considering full 2019, GDP grew 0.2%, slowing from a 0.8% expansion in 2018 but slightly better than government's forecast of 0.1%. The annual inflation rate in Italy edged up to 0.6% in January 2020 from 0.5% in December. Annual core inflation rate, which excludes energy and unprocessed food is set to rise to 0.8% from 0.6% in the prior month. Italy's seasonally adjusted unemployment rate came in at 9.8% in December 2019, the same as in the previous month. The youth unemployment rate, measuring job-seekers between 15 and 24 years old, held steady at 28.9%.

Italy's GDP stalled 0% in the fourth quarter of 2019, after an upwardly 0.5% expansion in the previous period and missing market expectations of a 0.3% advance. On a quarterly basis, the economy shrank 0.3%, the most since Q1 2013 and compared to a 0.1% growth in Q3. A decline in gross inventories more than offset a positive contribution from net trade. On the production side, both agriculture, forestry and fishing and industry contracted while services stagnated. Economy Minister Roberto Gualtieri said that Q4 GDP was affected by outside factors including weather in November. Considering full 2019, GDP grew 0.2%, slowing from a 0.8% expansion in 2018 but slightly better than government's forecast of 0.1%. The annual inflation rate in Italy edged up to 0.6% in January 2020 from 0.5% in December while markets had expected it to remain steady, a preliminary estimate showed. It is the highest inflation rate since June, as rising prices of food (0.9% vs 0.8% in December); transport (2.9% vs 1.2%) and alcoholic beverages & tobacco (2.5% vs 2%) are likely to offset decreases in housing & utilities (-2.7% vs -1.7%); recreation & culture (-1.3% vs 0.2%) and communication (-6.5% vs -6.6%). Annual core inflation rate, which excludes energy and unprocessed food is set to rise to 0.8% from 0.6% in the prior month. Excluding only energy, the inflation is seen rising to 0.8% from 0.7% in December. On a monthly basis, consumer prices are expected to increase 0.2%, the same pace as in December and slightly above market estimates of a 0.1% increase. Italy's seasonally adjusted unemployment rate came in at 9.8% in December 2019, the same as in the previous month and slightly above market expectations of 9.7%. The number of unemployed edged up by 1.5 thousand to 2.547 million while employment fell by 74.6 thousand to 23.376 million. The employment rate, one of the lowest in the Eurozone dropped to 59.2% and the activity rate went down to 65.8%. The youth unemployment rate, measuring job-seekers between 15 and 24 years old, held steady at 28.9%.

Great Britain

Britain's annual economic growth slowed to 1.1% yoy in the fourth quarter of 2019 from a revised 1.2% in the previous period. That was the weakest pace of expansion since the first three months of 2018 due mainly to a contraction in fixed investment and a sluggish household consumption growth. Government spending expanded at a faster rate and net external demand contributed positively to the GDP, as the country posted the first quarterly trade surplus in over two decades. Considering 2019 full year, Britain's economy expanded 1.4%, compared to 1.3% in 2018. Britain's gross domestic product was flat 0% qoq in the fourth quarter of 2019, following an upwardly revised 0.5% expansion in the previous three-month period. On the production side, services and construction output rose, while production output declined. The consumer price inflation in the UK slowed to 1.3% year-on-year in December 2019, the lowest reading since November 2016. The annual core inflation rate, which excludes energy, food, alcoholic beverages and tobacco, fell to 1.4%, also the lowest in nearly three years. The UK unemployment rate stood at 3.8% in the three months to October 2019, the lowest level since early 1975.

Britain's annual economic growth slowed to 1.1% yoy in the fourth quarter of 2019 from a revised 1.2% in the previous period, still beating market expectations of 0.8%, a preliminary estimate showed. That was the weakest pace of expansion since the first three months of 2018 due mainly to a contraction in fixed investment and a sluggish household consumption growth. Government spending expanded at a faster rate and net external demand contributed positively to the GDP, as the country posted the first quarterly trade surplus in over two decades. Considering 2019 full year, Britain's economy expanded 1.4%, compared to 1.3% in 2018. Britain's gross domestic product was flat 0% qoq in the fourth quarter of 2019, following an upwardly revised 0.5% expansion in the previous three-month period and matching market expectations, a preliminary estimate showed. Household spending rose at the weakest rate in four years, while government spending increased the most since the first quarter of 2012. Net trade also contributed positively to growth, while fixed capital formation contracted 1.6% driven by declines in investment in information and communication technology (ICT) equipment, dwellings, transport, and intellectual property products. On the production side, services and construction output rose, while production output declined. The consumer price inflation in the UK slowed to 1.3% year-on-year in December 2019, the lowest reading since November 2016 and below market consensus of 1.5%, as prices rose at a softer pace for restaurants & hotels (1.6% vs 2.4%), transport (0.7% vs 0.9%), and food & non-alcoholic beverages (1.7% vs 2.1%). In addition, clothing & footwear prices dropped 0.8%, after being unchanged in November. The annual core inflation rate, which excludes energy, food, alcoholic beverages and tobacco, fell to 1.4%, also the lowest in nearly three years and below forecasts of 1.7%. The UK unemployment rate stood at 3.8% in the three months to October 2019, the lowest level since early 1975 and in line with market expectations. The number of people out of work declined by 7,000 to 1.306 million while the number of employed people rose by 208,000 to 32.901 million, the biggest increase since the three months to January 2019 and well above forecasts of 104,000. Total pay growth stood at 3.2%, the slowest pace since the three months to September 2018, but slightly above market expectations of 3.1%. Excluding bonuses, which smoothest out some volatility, pay growth slowed to 3.4%.

USA

The Gross Domestic Product (GDP) in the United States expanded 2.30% in the fourth quarter of 2019 over the same quarter of the previous year. The US economy grew 2.1% in Q4, the same as in Q3. Consumer spending slowed sharply while net trade made the biggest contribution to growth since Q2 2009 amid a fall in imports. In contrast, negative contributions came from private inventory investment and nonresidential fixed investment. Considering full 2019, the economy advanced 2.3%, the least since 2016 and missing Trump administration's 3% target for the second year. Annual inflation rate in the US climbed to 2.5% in January of 2020 from 2.3% in December. Excluding food and energy, consumer prices rose 2.3% year-over-year, the same as in December and 0.2% month-over-month, above 0.1% reported in the last month of 2019. The US unemployment rate rose to 3.6% in January 2020 from the previous month's 50-year low 3.5%.

The Gross Domestic Product (GDP) in the United States expanded 2.30% in the fourth quarter of 2019 over the same quarter of the previous year. The US economy grew 2.1% in Q4, the same as in Q3 and matching forecasts, advance estimates showed. Consumer spending slowed sharply while net trade made the biggest contribution to growth since Q2 2009 amid a fall in imports. In contrast, negative contributions came from private inventory investment and nonresidential fixed investment. Considering full 2019, the economy advanced 2.3%, the least since 2016 and missing Trump administration's 3% target for the second year. Annual inflation rate in the US climbed to 2.5% in January of 2020 from 2.3% in December and beating market forecasts of 2.4%. It is the highest rate since October of 2018, mainly boosted by a 12.8% jump in gasoline cost. Cost of shelter increased slightly more (3.3% vs 3.2%) while food inflation was steady at 1.8%. On a monthly basis, consumer prices edged up 0.1%, below 0.2% in December and expectations of 0.2% as a 1.6% decline in gasoline prices was offset by higher cost of shelter (0.4%), food (0.2%) and medical care services (0.3%). Excluding food and energy, consumer prices rose 2.3% year-over-year, the same as in December and 0.2% month-over-month, above 0.1% reported in the last month of 2019. The US unemployment rate rose to 3.6% in January 2020 from the previous month's 50-year low 3.5% and above market expectations of 3.5%. The number of unemployed people increased by 139 thousand to 5.89 million while employment fell by 89 thousand to 158.71 million. The labor force participation rate rose 0.2 p.p. to 63.4%.

Japan

The Japanese economy shrank -1.6% qoq in Q4 2019, after a downwardly revised -0.1% growth in Q3, a preliminary estimate showed. This was the first contraction since Q3 2018 and the steepest since Q2 2014, as private consumption fell for the first time in five quarters following October's sales tax hike and business spending dropped for the first time in 3 quarters. The Gross Domestic Product (GDP) in Japan contracted -0.40% yoy in the fourth quarter of 2019 over the same quarter of the previous year. Japan's consumer price inflation rose to 0.8% year-on-year in December 2019 from 0.5% in the previous month. The so-called core-core inflation index, which excludes fresh food and energy prices, grew 0.9%, the fastest pace since March 2016. Considering 2019 full year, inflation rate averaged 0.5%, down from 1% in 2018. The unemployment rate in Japan remained unchanged at 2.2% in December 2019. . The annual average jobless rate for 2019 stood at 2.4%, unchanged from 2018 and the lowest level since 1992.

The Japanese economy shrank -1.6% qoq in Q4 2019, compared to market consensus of a -0.9% contraction and after a downwardly revised -0.1% growth in Q3, a preliminary estimate showed. This was the first contraction since Q3 2018 and the steepest since Q2 2014, as private consumption fell for the first time in five quarters following October's sales tax hike and business spending dropped for the first time in 3 quarters. Private demand fell -2.9% (vs 0.2% in Q3), with private consumption slumping (-2.9% vs 0.5%). Public demand slowed (0.4% vs 0.8%), as government spending grew less (0.2% vs 0.7%). Capital expenditure dropped -0.6%, after a 0.1% gain in Q3. Net external demand added 0.5% to growth. Exports of goods and services dropped -0.1% (vs -0.7%), while imports fell much faster (-2.6% vs -0.7%). The Gross Domestic Product (GDP) in Japan contracted -0.40% yoy in the fourth quarter of 2019 over the same quarter of the previous year. Japan's consumer price inflation rose to 0.8% year-on-year in December 2019 from 0.5% in the previous month, above market consensus of 0.4%. This was the highest rate since April, as food prices rose the most in 14 months (1.9% vs 1.5% in November) and housing inflation stood at the highest level for over two decades (at 0.8%). In addition, transport cost increased for the first time in 13 months (0.8% vs -0.5%) and culture & recreation inflation hit a near five-year high (2.8% vs 2.3%). Meantime, annual core consumer inflation, which excludes fresh food, rose to 0.7% in December, the highest since May, but below the Bank of Japan's 2% target. The so-called core-core inflation index, which excludes fresh food and energy prices, grew 0.9%, the fastest pace since March 2016. Considering 2019 full year, inflation rate averaged 0.5%, down from 1% in 2018. The unemployment rate in Japan remained unchanged at 2.2% in December 2019,.

China

The Chinese economy expanded by a seasonally adjusted 1.5% on quarter in the three months to December 2019, following a downwardly revised 1.4% growth in the previous quarter. 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%. . Although the Phase One trade deal with the US eased trade tensions and increased business optimism, existing tariffs will remain in place and coronavirus epidemics will slowdown private demand. Hits to tourism, transport, retail, and general consumer demand in areas directly affected by the virus are already being seen. Based on these arguments, KBC expects Chinese growth to slow down considerably in Q1, followed by a partial recovery in Q2 and an even stronger recovery in Q3. On an annual basis, KBC downwardly revises our outlook for Chinese real annual GDP growth in 2020 from 5.7% to 5.2%. The "phase one" trade deal between the US and China that was signed mid-January will go into effect from this month on. One important element of the trade agreement is the set of import commitments China agreed to. The commitments are sizable and the feasibility of them can be questioned for several reasons. Since most tariffs that were implemented in China and the US in recent years are – despite some minor rollback – not reversed by the US-China trade deal, such a sharp recovery of bilateral trade is not very likely. It is also questionable whether US companies will be able to increase their production to export more to China.

The Chinese economy expanded by a seasonally adjusted 1.5% on quarter in the three months to December 2019, following a downwardly revised 1.4% growth in the previous quarter and matching market consensus. 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%. Private demand contributed around 4% of the growth, gross fixed capital formation contributed around 1.6% of the growth and net export contributed around 0.5% of the growth. In 2020, the economy is expected to remain under pressure. Although the Phase One trade deal with the US eased trade tensions and increased business optimism, existing tariffs will remain in place and coronavirus epidemics will slowdown private demand. Before the coronavirus outbreak became headline news, a string of positive Chinese data was suggesting that the government's previous stimulus efforts were having some effect. Unfortunately, that good news has now been overshadowed by the outbreak of the coronavirus. As seen with the SARS outbreak in 2003, the macroeconomic effects of an epidemic can be sizeable. The magnitude of the corona impact is hard to estimate given that KBC don't yet know how quickly the virus will be contained. But hits to tourism, transport, retail, and general consumer demand in areas directly affected by the virus are already being seen. Mild, second round effects on China's trade partners due to weaker Chinese demand are also possible. Hence, it is reasonable to assume that there will be some, at least temporary, drag on Chinese growth. Consumption and travel will likely normalise once the outbreak of the virus is under control. However, given the current timing around the Chinese New Year celebrations, there will likely not be a compensating 'excess of spending' such as additional eating or travelling later in the year. Hence, once the shock has ended, the earlier losses won't be fully compensated. Though industrial production will also recover again after the temporary effects fade out, also firms are not very likely to go much further and compensate fully for earlier lost production. After all, the Chinese economy is going through a longer-term process of slower but better-quality growth. Moreover, global economic growth is expected to remain rather muted this year. Besides, a key issue is the extent to which Chinese fiscal policy is loosened and/or monetary measures boost demand. China is already facing elevated inflation driven by food prices and high indebtedness of both the corporate sector and households. Furthermore, the share of consumption in Chinese GDP growth has become much larger relative to the importance of investments. Therefore, KBC don't expect the Chinese authorities to massively intervene to artificially ramp up growth via investments as was the case following the SARS outbreak in 2003. Based on these arguments, KBC expects Chinese growth to slow down considerably in Q1, followed by a partial recovery in Q2 and an even stronger recovery in Q3. On an annual basis, KBC downwardly revises our outlook for Chinese real annual GDP growth in 2020 from 5.7% to 5.2%. The "phase one" trade deal between the US and China that was signed mid-January will go into effect from this month on. One important element of the trade agreement is the set of import commitments China agreed to. US exports to China have been much smaller than US imports from the country. The difference between the two, the US-China bilateral trade balance, has hence been negative and this deficit has even been growing over time. In order to reverse that trend, China committed to increase its imports from the US by at least USD 200 billion, compared to total Chinese imports from the US in 2017, over the course of this and next year. The phase one deal contains a more detailed plan to achieve this. In terms of subcategories it implies an increase of imports worth USD 77.7 billion for manufactured goods, USD 32.0 billion for agricultural goods, USD 52.4 billion for energy products and USD 37.9 billion for services, spread over two years' time.

Turkey

The KBC estimate of Turkey's real GDP growth for 2019 full year is 0.1%. KBC's forecast for the coming years is 2.5% growth for 2020 and 3.0% for 2021. Turkey's annual inflation rate increased to a five-month high of 12.15% in January 2020 from 11.84% in the previous month. Annual core inflation rate, which excludes energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold, rose to a five-month high of 9.88% in January from 9.81% in December. On a monthly basis, consumer prices went up 1.35%, following a 0.74% gain in December 2019, the highest since October last year. KBC's forecast is 11% inflation for 2020 and 10% for 2021. The unemployment rate in Turkey increased to 13.3% in November 2019 from 12.3% in the same month of the previous year, as the number of unemployed rose by 327 thousand to 4.308 million.

The KBC estimate of Turkey's real GDP growth for 2019 full year is 0.1%. The Q4 growth estimate is 3.4% yoy. KBC's forecast for the coming years is 2.5% growth for 2020 and 3.0% for 2021. Turkey's annual inflation rate increased to a five-month high of 12.15% in January 2020 from 11.84% in the previous month, and above market expectations of 11.86%. Inflation accelerated for: housing, water, electricity, gas & other fuels (14.76% vs 9.90% in December 2019); transport (12.95% vs 12.21%); hotels, cafes & restaurants (13.52% vs 13.17%); clothing & footwear (6.00% vs 4.53%); and miscellaneous goods and services (15.01% vs 13.63%). Meanwhile, inflation eased for both food & non-alcoholic beverages (9.04% vs 10.89%); and furnishing, household equipment, routine maintenance of the house (7.51% vs 9.79%). Annual core inflation rate, which excludes energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold, rose to a five-month high of 9.88% in January from 9.81% in December. On a monthly basis, consumer prices went up 1.35%, following a 0.74% gain in December 2019, the highest since October last year. KBC's forecast is 11% inflation for 2020 and 10% for 2021. The unemployment rate in Turkey increased to 13.3% in November 2019 from 12.3% in the same month of the previous year, as the number of unemployed rose by 327 thousand to 4.308 million. In addition, employment dropped by 145 thousand to 28.169 million, with job losses recorded in construction and agriculture sectors. The labor force participation rate went down to 52.5% from 53% a year earlier and the employment rate declined to 45.6% from 46.5%.

European Central Bank (ECB)

At 23 January 2020's meeting the Governing Council of the European Central Bank (ECB) decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.50% respectively. The Governing Council will continue to make net purchases under its asset purchase programme (APP) at a monthly pace of EUR 20 billion. The Governing Council intends to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time past the date when it starts raising the key ECB interest rates. The incoming data since our last meeting are in line with baseline scenario of ongoing, but moderate, growth of the euro area economy. In particular, the weakness in the manufacturing sector remains a drag on euro area growth momentum. However, ongoing, albeit decelerating, employment growth and increasing wages continue to support the resilience of the euro area economy. While inflation developments remain subdued overall, there are some signs of a moderate increase in underlying inflation in line with expectations. The unfolding monetary policy measures are underpinning favorable financing conditions for all sectors of the economy. In particular, easier borrowing conditions for firms and households are supporting consumer spending and business investment. At the same time, in the light of the continued subdued inflation outlook, monetary policy has to remain highly accommodative for a prolonged period of time to support underlying inflation pressures and headline inflation developments over the medium term. In order to reap the full benefits from our monetary policy measures, other policy areas must contribute more decisively to raising the longer-term growth potential, supporting aggregate demand at the current juncture and reducing vulnerabilities. The implementation of structural policies in euro area countries needs to be substantially stepped up to boost euro area productivity and growth potential, reduce structural unemployment and increase resilience. All countries should intensify their efforts to achieve a more growth-friendly composition of public finances. The Governing Council welcomes the ongoing work and urges further specific and decisive steps to complete the banking union and the capital markets union.

At 23 January 2020's meeting the Governing Council of the European Central Bank (ECB) decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.50% respectively. The Governing Council expects the key ECB interest rates to remain at their present or lower levels until it has seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within its projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics. The Governing Council will continue to make net purchases under its asset purchase programme (APP) at a monthly pace of EUR 20 billion. The Governing Council expects them to run for as long as necessary to reinforce the accommodative impact of its policy rates, and to end shortly before it starts raising the key ECB interest rates. The Governing Council intends to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time past the date when it starts raising the key ECB interest rates, and in any case for as long as necessary to maintain favorable liquidity conditions and an ample degree of monetary accommodation. Press Conference, Christine Lagarde, President of the ECB, Luis de Guindos, Vice-President of the ECB, Frankfurt am Main, 23 January 2020 The incoming data since our last meeting are in line with baseline scenario of ongoing, but moderate, growth of the euro area economy. In particular, the weakness in the manufacturing sector remains a drag on euro area growth momentum. However, ongoing, albeit decelerating, employment growth and increasing wages continue to support the resilience of the euro area economy. While inflation developments remain subdued overall, there are some signs of a moderate increase in underlying inflation in line with expectations.

The unfolding monetary policy measures are underpinning favorable financing conditions for all sectors of the economy. In particular, easier borrowing conditions for firms and households are supporting consumer spending and business investment. This will sustain the euro area expansion, the build-up of domestic price pressures and, thus, the robust convergence of inflation to our medium-term aim. At the same time, in the light of the continued subdued inflation outlook, monetary policy has to remain highly accommodative for a prolonged period of time to support underlying inflation pressures and headline inflation developments over the medium term. We will, therefore, closely monitor inflation developments and the impact of the unfolding monetary policy measures on the economy. Our forward guidance will ensure that financial conditions adjust in accordance with changes to the inflation outlook. In any case, the Governing Council continues to stand ready to adjust all of its instruments, as appropriate, to ensure that inflation moves towards its aim in a sustained manner, in line with its commitment to symmetry. Euro area real GDP increased by 0.3%, quarter on quarter, in the third quarter of 2019, following growth of 0.2% in the second quarter. This pattern of moderate growth reflects the ongoing weakness of international trade in an environment of continued global uncertainties, which has particularly affected the euro area manufacturing sector and has also dampened investment growth. At the same time, the services and construction sectors remain more resilient, despite some moderation in the latter half of 2019. Incoming economic data and survey information point to some stabilization in euro area growth dynamics, with near-term growth expected to be similar to rates observed in previous quarters. 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. 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 less pronounced as some of the uncertainty surrounding international trade is receding. Euro area annual HICP inflation increased to 1.3% in December 2019, from 1.0% in November, reflecting mainly higher energy price inflation. On the basis of current futures prices for oil, headline inflation is likely to hover around current levels in the coming months. While indicators of inflation expectations remain at low levels, recently they have either stabilized or ticked up slightly. Measures of underlying inflation have remained generally muted, although there are further indications of a moderate 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 our monetary policy measures, the ongoing economic expansion and solid wage growth. Turning to the monetary analysis, broad money (M3) growth stood at 5.6% in November 2019, broadly unchanged since August. Sustained rates of broad money growth reflect ongoing bank credit creation for the private sector and low opportunity costs of holding M3 relative to other financial instruments. The narrow monetary aggregate M1 continues to be the main contributor to broad money growth on the components side. The growth of loans to firms and households remained solid, benefiting from the ongoing support provided by our accommodative monetary policy stance, which is reflected in very low bank lending rates. While the annual growth rate of loans to households remained unchanged from October, at 3.5% in November, the annual growth rate of loans to non-financial corporations moderated to 3.4% in November, from 3.8% in October, likely reflecting some lagged reaction to the past weakening in the economy. These developments are also visible in the results of the euro area bank lending survey for the fourth quarter of 2019, which indicate weakening demand for loans to firms, while demand for loans to households for house purchase continued to increase. However, credit standards for both loans to firms and loans to households for house purchase remained broadly unchanged.

In order to reap the full benefits from our monetary policy measures, other policy areas must contribute more decisively to raising the longer-term growth potential, supporting aggregate demand at the current juncture and reducing vulnerabilities. The implementation of structural policies in euro area countries needs to be substantially stepped up to boost euro area productivity and growth potential, reduce structural unemployment and increase resilience. The 2019 country-specific recommendations should serve as the relevant signpost. Regarding fiscal policies, the euro area fiscal stance is expected to continue to provide some support to economic activity. In view of the weak economic outlook, the Governing Council welcomes the Eurogroup's call in December for differentiated fiscal responses and its readiness to coordinate. 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. Likewise, the transparent and consistent implementation of the European Union's fiscal and economic governance framework over time and across countries remains essential to bolster the resilience of the euro area economy. Improving the functioning of Economic and Monetary Union remains a priority. The Governing Council welcomes the ongoing work and urges further specific and decisive steps to complete the banking union and the capital markets union.

Bank of England (BoE)

The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting ending on 29 January 2020, the MPC voted by a majority of 7-2 to maintain Bank Rate at 0.75%. The Committee voted unanimously to maintain the stock of sterling non-financial investment -grade corporate bond purchases, financed by the issuance of central bank reserves, at GBP 10 billion. The Committee also voted unanimously to maintain the stock of UK government bond purchases, financed by the issuance of central bank reserves, at GBP 435 billion. UK GDP growth is projected to pick up a little in early 2020. Further ahead, and conditioned on a market path for Bank Rate that falls slightly over the forecast period, the recovery in UK growth is supported by a pickup in global activity, a further decline in Brexit uncertainties and the Government's announced spending measures. Support from these factors is sufficient to boost demand growth above weakened potential supply growth. As a result, slack is eroded gradually over the first part of the forecast period and a margin of excess demand builds thereafter. CPI inflation is projected to remain below the MPC's 2% target throughout this year and much of 2021. Further out, and conditioned on market yields, strengthening domestic price pressures, alongside a waning drag from energy prices, mean that inflation reaches the 2% target by the end of next year and rises slightly above it by the end of the forecast period. . Further ahead, if the economy recovers broadly in line with the MPC's latest projections, some modest tightening of policy may be needed to maintain inflation sustainably at the target. The MPC judges at this meeting that the existing stance of monetary policy is appropriate.

The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting ending on 29 January 2020, the MPC voted by a majority of 7-2 to maintain Bank Rate at 0.75%.The Committee voted unanimously to maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at GBP 10 billion. The Committee also voted unanimously to maintain the stock of UK government bond purchases, financed by the issuance of central bank reserves, at GBP 435 billion. UK GDP growth slowed last year, reflecting weaker global growth and elevated Brexit uncertainties. Output is expected to have been flat in 2019 Q4. Growth in regular pay has fallen back to around 3½%, though unit labour costs have continued to grow at rates above those consistent with meeting the inflation target in the medium term. CPI inflation fell to 1.3% in December, core CPI inflation declined to 1.4%, and core services inflation is below its target-consistent range. The unemployment rate has remained low and stable, and employment growth has picked up. Following its annual reassessment of supply-side conditions, the Committee judges that there has been a somewhat greater margin of spare capacity in the economy over recent years, which has been exerting downward pressure on domestically generated inflation. The most recent indicators suggest that global growth has stabilised, reflecting the partial easing of trade tensions and the significant loosening of monetary policy by many central banks over the past year. Global business confidence and other manufacturing indicators have generally picked up. Domestically, near-term uncertainties facing businesses and households have receded. Surveys of business activity have picked up, quite markedly in some cases, and investment intentions appear to have recovered. Housing market indicators have strengthened and consumer confidence has increased slightly. The Committee will monitor closely the extent to which these early indications of an improved outlook are sustained and follow through to the hard data on domestic activity in coming months. The Committee's updated projections for activity and inflation are set out in the accompanying January Monetary Policy Report. They are based on the assumption of an immediate but orderly move, at the beginning of next year, to a deep free trade agreement between the United Kingdom and the European Union.

UK GDP growth is projected to pick up a little in early 2020. Further ahead, and conditioned on a market path for Bank Rate that falls slightly over the forecast period, the recovery in UK growth is supported by a pickup in global activity, a further decline in Brexit uncertainties and the Government's announced spending measures. Support from these factors is sufficient to boost demand growth above weakened potential supply growth. As a result, slack is eroded gradually over the first part of the forecast period and a margin of excess demand builds thereafter. CPI inflation is projected to remain below the MPC's 2% target throughout this year and much of 2021. Further out, and conditioned on market yields, strengthening domestic price pressures, alongside a waning drag from energy prices, mean that inflation reaches the 2% target by the end of next year and rises slightly above it by the end of the forecast period. Monetary policy will be set to ensure a sustainable return of inflation to the 2% target. Policy may need to reinforce the expected recovery in UK GDP growth should the more positive signals from recent indicators of global and domestic activity not be sustained or should indicators of domestic prices remain relatively weak. Further ahead, if the economy recovers broadly in line with the MPC's latest projections, some modest tightening of policy may be needed to maintain inflation sustainably at the target. The MPC judges at this meeting that the existing stance of monetary policy is appropriate.

USA Federal Reserve

Federal Reserve issues FOMC statement January 29, 2020. Information received since the Federal Open Market Committee met in December indicates that the labor market remains strong and that economic activity has been rising at a moderate rate. Market-based measures of inflation compensation remain low; survey-based measures of longer-term inflation expectations are little changed. The Committee decided to maintain the target range for the federal funds rate at 1.5% to 1.75%. The Committee judges that the current stance of monetary policy is appropriate to support sustained expansion of economic activity, strong labor market conditions, and inflation returning to the Committee's symmetric 2% objective. In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its maximum employment objective and its symmetric 2% inflation objective. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments.

Federal Reserve issues FOMC statement January 29, 2020

Information received since the Federal Open Market Committee met in December indicates that the labor market remains strong and that economic activity has been rising at a moderate rate. Job gains have been solid, on average, in recent months, and the unemployment rate has remained low. Although household spending has been rising at a moderate pace, business fixed investment and exports remain weak. On a 12-month basis, overall inflation and inflation for items other than food and energy are running below 2%. Market-based measures of inflation compensation remain low; survey-based measures of longer-term inflation expectations are little changed. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee decided to maintain the target range for the federal funds rate at 1.5% to 1.75%. The Committee judges that the current stance of monetary policy is appropriate to support sustained expansion of economic activity, strong labor market conditions, and inflation returning to the Committee's symmetric 2% objective. The Committee will continue to monitor the implications of incoming information for the economic outlook, including global developments and muted inflation pressures, as it assesses the appropriate path of the target range for the federal funds rate. In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its maximum employment objective and its symmetric 2% inflation objective. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments.

Bank of Japan (BoJ)

January 21, 2020 Bank of Japan Statement on Monetary Policy. At the Monetary Policy Meeting held 21.01.2020, the Policy Board of the Bank of Japan decided upon the following. Yield curve control The Bank of Japan decided, by a 7-2 majority vote, to set the following guideline for market operations for the intermeeting period. The short-term policy interest rate: The Bank of Japan will apply a negative interest rate of minus 0.1% to the Policy-Rate Balances in current accounts held by financial institutions at the Bank of Japan. The long-term interest rate: The Bank of Japan will purchase Japanese government bonds (JGBs) so that 10-year JGB yields will remain at around zero 0%. With regard to the amount of JGBs to be purchased, the Bank of Japan will conduct purchases in a flexible manner so that their amount outstanding will increase at an annual pace of about JPY 80 trillion. Guidelines for asset purchases With regard to asset purchases other than JGB purchases, the Bank of Japan decided, by a unanimous vote, to set the following guidelines.

The Bank of Japan will purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) so that their amounts outstanding will increase at annual paces of about JPY 6 trillion and about JPY 90 billion, respectively. As for CP and corporate bonds, the Bank of Japan will maintain their amounts outstanding at about JPY 2.2 trillion and about JPY 3.2 trillion, respectively. The Bank of Japan will continue with "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control," aiming to achieve the price stability target of 2%, as long as it is necessary for maintaining that target in a stable manner. In a situation where downside risks to economic activity and prices, mainly regarding developments in overseas economies, are significant, 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.

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PBoC

China's central bank injected CNY 1.7 trillion (USD 246 billion) into financial markets on 03-04.01.2020, as part of an effort by regulators to mitigate volatility when trading opens against the backdrop of a new coronavirus outbreak. The People's Bank of China (PBOC) said on its website that it was lowering the seven-day reverse repo rate to 2.40% from 2.50%, and cutting the 14-day tenor to 2.55% from 2.65% previously. The People's Bank of China (PBOC) said it was lowering the rate of one-year medium-term lending facility (MLF) loans to financial institutions by 10 basis points (bps) to 3.15% from 3.25% previously. The People's Bank of China cut the one-year loan prime rate from 4.15% to 4.05%, and the five-year rate from 4.80% to 4.75%. The People's Bank of China (PBOC) will ensure that small and medium enterprises (SMEs) get access to the CNY 537 billion (USD 77 billion) of credit lined up to help them pull through the business slump caused by the coronavirus outbreak. The People's Bank of China (PBOC) has decided to release CNY 300 billion from special central bank lending, so as to support financial institutions to issue loans at favorable rates and strengthen financial support for key enterprises offering important medical supplies and daily necessities.

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The People's Bank of China (PBOC) will ensure that small and medium enterprises (SMEs) get access to the CNY 537 billion (USD 77 billion) of credit lined up to help them pull through the business slump caused by the coronavirus outbreak. Companies that can restart production as soon as possible will receive the support of the People's Bank of China, to the extent that a "small increase" of non-performing loans owed to banks will be "tolerated". The People's Bank of China (PBOC) has decided to release CNY 300 billion from special central bank lending, so as to support financial institutions to issue loans at favorable rates and strengthen financial support for key enterprises offering important medical supplies and daily necessities. On the list are mainly key manufacturers of medical supplies and daily necessities, such as surgical masks, goggles, disinfectants, and sanitizers, which are essential to epidemic prevention and control. Commercial banks are required to grant loans to the above-mentioned enterprises at favorable rates, i.e. no higher than 3.15%, which is one percentage point lower than the 4.15% LPR released last month. In practice, financial institutions have granted loans with rates ranging from 2.4% to 3.15%. Based on the loans, the Ministry of Finance subsidizes 50% of the lending rates for the borrowers, which means with of the loan granted, the key enterprises will bear a financing cost no higher than 1.6%.

Central Bank of Turkey

The policy rate in Turkey has been cut from 24%in July 2019 to 10.75% in February 2020, total 13.25% cut. President Erdogan has called on the real sector to escalate investment, as interest rates are rapidly reduced to single digits, so that the problem of high unemployment will be easing, demand will return and competitiveness will increase. Erdogan insists that a cut in the policy rate will reduce inflation as it seeks to return the policy rate back to single-digit territory before mid-2020. But such a rapid monetary expansion puts both the stability of the exchange rate and the sustained disinflation process at considerable risk. Inflation already has a steady upward trend from 8.55% in October 2019 to 10.56% in November, 11.84% in December and 12.15% in January 2020. The Turkish lira is gradually depreciating from 5.8 TRY/USD at the end of November 2019 to 5.95 TRY/USD at the end of December, 6.00 TRY/USD at the end of January 2020 and 6.08 TRY/USD in 19.02.2020. Decision of the Monetary Policy Committee of Central Bank of Turkey 19 February 2020. The Monetary Policy Committee (the Committee) has decided to reduce the policy rate (one-week repo auction rate) from 11.25% to 10.75%. . The improvement in macroeconomic indicators, inflation in particular, supports the fall in country risk premium and helps contain cost pressures. 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 more measured cut in the policy rate.

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The Committee assesses that maintaining a sustained disinflation process is a key factor for achieving lower sovereign risk,

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.

INTERNATIONAL COMMODITY PRICES

Oil

The International Energy Agency (IEA) has lowered its forecast for global oil demand growth this year to its lowest level since 2011. The reason is the coronavirus epidemic that has paralyzed China in recent weeks. The International Energy Agency said that global oil demand in the first quarter of 2020 is likely to contract yoy for the first time since the financial crisis in 2009. Oil prices slumped by more than 2% on 18.01.2020, as concerns the coronavirus outbreak could hinder the Chinese economy and led to slowing demand in the world's biggest crude importer persist. The Brent price decreases 0.82 USD/BBL or 1.43% to 56.425USD/BBL on Tuesday, February 18. For the month, the decrease was -13.42%. The price of crude oil decreases 1.04 USD/BBL or 2.00% to 51.024 USD/BBL on Tuesday February 18. For the month, the decrease was -13.05%. "From a producer perspective, before the Covid-19 crisis, the market was expected to move to a balance (between supply and demand) in the second half of 2020 due to a combination of production cuts implemented from the beginning of the year, increased demand and a gradual halt to growth in supplies outside OPEC, but now the risk posed by the Covid-19 virus crisis has prompted OPEC + countries to consider further reducing oil production.

The International Energy Agency (IEA) has lowered its forecast for global oil demand growth this year to its lowest level since 2011. The reason is the coronavirus epidemic that has paralyzed China in recent weeks. According to data from the IEA's last month's report, global oil demand will increase this year by just 825 thousand barrels, or 365 thousand barrels less than previously forecast. This would represent the weakest increase in consumption of the important energy raw material since 2011. At the same time, oil demand is expected to shrink by 435,000 barrels in the first quarter of 2020 compared to a year earlier, marking the first decline in world oil consumption in more than ten years. The International Energy Agency said that global oil demand in the first quarter of 2020 is likely to contract yoy for the first time since the financial crisis in 2009. Oil prices slumped by more than 2% on 18.01.2020, as concerns the coronavirus outbreak could hinder the Chinese economy and led to slowing demand in the world's biggest crude importer persist. The Brent price decreases 0.82 USD/BBL or 1.43% to 56.425USD/BBL on Tuesday, February 18. For the month, the decrease was -13.42%. The price of crude oil decreases 1.04 USD/BBL or 2.00% to 51.024 USD/BBL on Tuesday, February 18. For the month, the decrease was -13.05%. "From a producer perspective, before the Covid-19 crisis, the market was expected to move to a balance (between supply and demand) in the second half of 2020 due to a combination of production cuts implemented from the beginning of the year, increased demand and a gradual halt to growth in supplies outside OPEC, but now the risk posed by the Covid-19 virus crisis has prompted OPEC + countries to consider further reducing oil production.

Agriculture goods

The general trend for February 2020 was marked by a decrease in the prices of the main grain contracts on the world commodity markets. In the US, wheat fell by USD -5.00 to USD 249.00 USD/ ton, the FOB price in France remained unchanged at 198.00 EUR/ton, as in Ukraine, while in Russia the price fell by USD -2.00 to 221.00 and 220.00 USD /ton respectively. . Corn also has a downward trend, zero and 177.00 USD /ton in Chicago, Ukraine minus USD -4.00 to 180.00 USD ton, France minus USD -5.00 to 170.00 USD /ton. In the grain sub circle of the Sofia Commodity Exchange AD, wheat from the field offered supply prices from 400.00 to 380.00 BGN/ton, demand was slightly up to 340.00-370.00 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. The general trend for the week was marked by a decrease in the prices of the main grain contracts on the world commodity markets. In the US, wheat fell by USD -5.00 to USD 249.00 USD/ ton, the FOB price in France remained unchanged at 198.00 EUR/ton, as in Ukraine, while in Russia the price fell by USD -2.00 to 221.00 and 220.00 USD /ton respectively. Corn also has a downward trend, zero and 177.00 USD /ton in Chicago, Ukraine minus USD -4.00 to 180.00 USD ton, France minus USD -5.00 to 170.00 USD /ton. Barley in Ukraine has fallen in price by USD -5.00 to 185.00 USD ton, in France a minimum decrease of EUR-1 to 164.00 EUR ton. For rapeseed in the European Union /Euronext / quotations remained the same at 394.25 EUR/ton. Unrefined sunflower oil on the Rotterdam Commodity Exchange continued to collapse for another week with another decline from USD -35.00 to 755.00 USD/ton, while refined sugar rose again by another USD11.90 to 425.90 USD/ton on the London Stock Exchange, delivery March. In the grain sub circle of the Sofia Commodity Exchange AD, wheat from the field offered supply prices from 400.00 to 380.00 BGN/ton, demand was slightly up to 340.00-370.00 BGN/ton. For feed wheat, buyers are at 280.00-290.00 BGN/ton and sellers are at 320.00 BGN/ton. For oilseed sunflower the differences between the traders are quite close and overcome - the demand is 650.00 BGN/ton, the supply is 660.00-700.00 BGN/ton. All prices are without VAT.

BULGARIA

EXTERNAL SECTOR

Balance of Payments

In January – December 2019 the current and capital account was positive amounting to EUR 6,855.3 million (11.2% of GDP), compared with a surplus of EUR 3,603.7 million (6.4% of GDP) in January – December 2018. In January – December 2019 the current account only was positive and amounted to EUR 5,901.1 million (9.7% of GDP), compared with a surplus of EUR 3,002.2 million (5.4% of GDP) in January – December 2018.

The current and capital account recorded a surplus of EUR 149.3 million in December 2019, compared with a surplus of EUR 33.3 million in December 2018. In January – December 2019 the current and capital account was positive amounting to EUR 6,855.3 million (11.2% of GDP), compared with a surplus of EUR 3,603.7 million (6.4% of GDP) in January – December 2018. The current account was positive amounting to EUR 23.9 million in December 2019, compared with a surplus of EUR 11.3 million in December 2018. In January – December 2019 the current account was positive and amounted to EUR 5,901.1 million (9.7% of GDP), compared with a surplus of EUR 3,002.2 million (5.4% of GDP) in January – December 2018. The balance on goods recorded a deficit of EUR 288.9 million in December 2019, compared with a deficit of EUR 216.8 million in December 2018. In January – December 2019 the balance on goods was negative amounting to EUR 128 million (0.2% of GDP), compared with a deficit of EUR 1,858 million (3.3% of GDP) in January – December 2018. Exports of goods amounted to EUR 2,119.1 million in December 2019, increasing by EUR 27.8 million (1.3%) from December 2018 (EUR 2,091.3 million). In January – December 2019 exports of goods totaled EUR 28,875.8 million (47.3% of GDP), growing by EUR 1,131.6 million (4.1%) yoy (from EUR 27,744.2 million, 49.5% of GDP). In January – December 2018 exports grew by 2.9% yoy. Imports of goods amounted to EUR 2,408 million in December 2019, growing by EUR 100 million (4.3%) from December 2018 (EUR 2,308.1 million). In January – December 2019 imports of goods totaled EUR 29,003.8 million (47.5% of GDP), dropping by EUR 598.4 million (2%) from January – December 2018 (EUR 29,602.2 million, 52.8% of GDP). In January – December 2018 imports grew by 6.8% yoy. Services recorded a positive balance of EUR 139.7 million in December 2019, compared with a surplus of EUR 144.7 million in December 2018. In January – December 2019 services recorded a surplus of EUR 4,012.3 million (6.6% of GDP) compared with a positive balance of EUR 3,560.6 million (6.3% 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 (labor, capital, land), taxes of production and imports and subsidies) recorded a surplus of EUR 24.8 million, compared with a deficit of EUR 37.1 million in December 20184. In January – December 2019 the balance on primary income was positive and equated to EUR 14.6 million (0.02% of GDP), compared with a deficit of EUR 652.5 million (1.2% of GDP) in January – December 2018. The net secondary income (which reflects the redistribution of income) recorded a surplus of EUR 148.4 million, compared with a positive balance of EUR 120.5 million in December 2018. In January – December 2019 the net secondary income was positive amounting to EUR 2,002.3 million (3.3% of GDP), compared with a positive balance of EUR 1,952.1 million (3.5% of GDP) in the same period of 2018. The capital account recorded a surplus of EUR 125.4 million, compared with a positive balance of EUR 21.9 million in December 2018. In January – December 2019 the capital account recorded a surplus of EUR 954.1 million (1.6% of GDP), compared with a positive balance of EUR 601.5 million (1.1% of GDP) in January – December 2018. The financial account recorded a positive balance of EUR 366.3 million, compared with a positive value of EUR 659.3 million in December 2018. In January – December 2019 the financial account recorded a net inflow of EUR 3,510.5 million (5.7% of GDP) compared with an inflow of EUR 3,244.8 million (5.8% of GDP) in January – December 2018. The net direct investment compiled in accordance with the Sixth Edition of the Balance of Payments and International Investment Position Manual was positive amounting to EUR 125.1 million, compared with a positive balance of EUR 2 million in December 2018. In January – December 2019 direct investment recorded a negative balance of EUR 348 million (0.6% of GDP), compared with a negative balance of EUR 312.5 million (0.6% of GDP) in January – December 2018. Direct investment – assets grew by EUR 5.5 million compared with a decline of EUR 16.3 million in December 2018. In January – December 2019 direct investment – assets grew by EUR 479.4 million (0.8% of GDP) compared with an increase of EUR 744 million (1.3% of GDP) in the same period of 2018. Direct investment – liabilities dropped by EUR 119.6 million in December 2019, compared with a decrease of EUR 18.3 million in December 2018.

In January – December 2019 direct investment – liabilities grew by EUR 827.4 million (1.4% of GDP), compared with an increase of EUR 1,056.5 million (1.9% of GDP) in the same period of 2018. The balance on portfolio investment was positive amounting to EUR 253.7 million, compared with a positive balance of EUR 119 million in December 2018. In January – December 2019 the balance was positive and equated to EUR 1,559 million (2.6% of GDP), compared with a positive balance of EUR 1,465.7 million (2.6% of GDP) in January – December 2018. Portfolio investment – assets grew by EUR 254.9 million compared to an increase of EUR 108.4 million in December 2018. In January – December 2019 they increased by EUR 1,510.2 million (2.5% of GDP) compared with an increase of EUR 886.9 million (1.6% of GDP) in January – December 2018. Portfolio investment – liabilities grew by EUR 1.2 million compared with a decline of EUR 10.6 million in December 2018. In January – December 2019 portfolio investment – liabilities decreased by EUR 48.8 million (0.1% of GDP) compared with a decline of EUR 578.9 million (1% of GDP) in January – December 2018. The balance on other investment was positive amounting to EUR 127.5 million, compared with a negative balance of EUR 270.6 million in December 2018. In January – December 2019 the balance was positive and equated to EUR 2,898.8 million (4.7% of GDP), compared with a positive balance of EUR 685.6 million (1.2% of GDP) in January – December 2018. Other investment – assets dropped by EUR 82 million, compared with a decline of EUR 530.1 million in December 2018. In January – December 2019 they grew by EUR 2,437 million (4% of GDP) compared with an increase of EUR 1,004.1 million (1.8% of GDP) in January – December 2018. Other investment – liabilities dropped by EUR 209.5 million compared with a decline of EUR 259.5 million in December 2018. In January – December 2019 they declined by EUR 461.8 million (0.8% of GDP) compared with an increase of EUR 318.4 million (0.6% of GDP) in January – December 2018. The BNB reserve assets6 decreased by EUR 130.3 million, compared with an increase of EUR 842.6 million in December 2018. In January – December 2019 they dropped by EUR 559.4 million (0.9% of GDP), compared with an increase of EUR 1,361.6 million (2.4% of GDP) in the same period of 2018. The net errors and omissions were positive amounting to EUR 216.9 million compared with a positive value of EUR 626 million in December 2018. According to preliminary data, the item was negative totaling EUR 3,344.7 million (5.5% of GDP) in January – December 2019, compared with a negative value of EUR 358.9 million (0.6% of GDP) in the same period of 2018.

Bulgaria: Balance of payments	December 2018	December 2019	Change in EUR million	January - December 2018	January - December 2019	Change in EUR million
Current and capital account	33.3	149.3	116.1	3603.7	6855.3	3251.6
Current account	11.3	23.9	12.6	3002.2	5901.1	2899.0
Trade balance	-72.1	-149.2	-77.2	1702.5	3884.2	2181.7
Services, net	144.7	139.7	-5.0	3560.6	4012.3	451.7
Primary income, net	-37.1	24.8	61.9	-652.5	14.6	667.1
Secondary income, net	120.5	148.4	27.8	1952.1	2002.3	50.2
Capital account	21.9	125.4	103.5	601.5	954.1	352.6
Capital transfers, net	141.3	102.3	-39.1	507.3	650.6	143.3
Financial account	659.3	366.3	-293.0	3244.8	3510.5	265.7

Source: BNB

Foreign Direct Investments

In January-December 2019 the net flows of foreign direct investment in Bulgaria presented according to the directional principle recorded a positive value of EUR 629.9 million (1% of GDP), growing by EUR 92.8 million (17.3%) from January – December 2018 (when reported positive value of EUR 537.1 million, 1% 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 629.9 million (1% of GDP) in January – December 2019, growing by EUR 92.8 million (17.3%) from January – December 2018 (positive value of EUR 537.1 million, 1% of GDP). Foreign direct investment in Bulgaria recorded an outflow of EUR 166.9 million in December 2019, compared with an inflow of EUR 15.5 million in December 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 399.1 million in January – December 2019, dropping by EUR 1,303.4 million from a positive value of

Real estate investments of non-residents recorded a positive value of EUR 5.3 million, compared with EUR 19.2 million in January – December 2018. The largest inflow of real estate investment was from Germany (EUR 2 million), Ukraine (EUR 0.7 million), Russia (EUR 0.6 million), and the Netherlands (EUR 0.6 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 328.5 million in January – December 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 947.8 million in January – December 2019, compared with a negative value of EUR 695.7 million in January – December 20185. The largest net direct investment inflows in Bulgaria for January – December 2019 were from the Netherlands (EUR 404.2 million), the UK (EUR 173.8 million), and Luxembourg (EUR 142.2 million). According to preliminary data, direct investment abroad recorded a positive value of EUR 282 million (0.5% of GDP), compared with a positive value of EUR 224.6 million (0.4% of GDP) in January – December 2018. It dropped by EUR 41.8 million in December 2019, compared with a positive value of EUR 17.5 million in December 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). The data on debt instruments are based on preliminary information from foreign direct investment enterprises on credits extended/received to/from nonresidents. The data for 2018 and 2019 are subject to revisions with their quarterly and annual reports. According to preliminary data, direct investment abroad recorded a positive value of EUR 282 million (0.5% of GDP), compared with a positive value of EUR 224.6 million (0.4% of GDP) in January – December 2018. It dropped by EUR 41.8 million in December 2019, compared with a positive value of EUR 17.5 million in December 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	December 2018	December 2019	January-December 2018	January-December 2019	Change in EUR million, mom	Channge in EUR million, yoy
Direct investments, net	**2.0**	**125.1**	**-312.5**	**-348.0**	**123.1**	**-35.5**
Direct investments in abroad	**17.5**	**-41.8**	**224.6**	**282.0**	**-59.3**	**57.4**
Equity	6.2	6.6	67.4	147.7	0.4	80.3
Reinvestments of earnings	6.2	5.2	-3.2	13.8	-1.0	17.0
Debt investments	5.2	-53.7	160.4	120.5	-58.9	-39.9
Direct investments in a country	**15.5**	**-166.9**	**537.1**	**629.9**	**-182.4**	**92.8**
Equity	663.9	19.7	904.3	-399.1	-644.2	-1303.4
Reinvestments of earnings	16.5	0.0	328.5	81.2	-16.5	-247.3
Debt investments	-664.9	-186.6	-695.7	947.8	478.3	1643.5

Source: BNB

International Reserves

In January 2020. BNB international reserves amounted to BGN 47.9 billion (EUR 24.5 billion) and increase by 0.5% yoy maintaining Currency board stability in Bulgaria.

According to the BNB data, in January 2020 the BNB's international reserves amounted to BGN 47.9 billion (EUR 24.5 billion) and decreased by 1.3% on a monthly basis at an increase of 0.5% annually base. On the assets side, cash and foreign currency deposits amounted to BGN 14.8 billion and increased by 1.5% mom with a 19.7% decrease compared to the same period of the previous year. Investments in monetary gold increased by 5.4% mom and by 24.4% yoy, respectively to BGN 3.6 billion. Investments in securities have a 3.4% negative trend on a monthly basis, growing by 11.3% yoy and amounted to BGN 29.5 billion. On the liabilities side, money in circulation amounted to BGN 18.9 billion, down by 3.1% mom, up by 10.6% yoy, respectively. Liabilities to banks amounted to BGN 12.5 billion and decreased by 6.8% mom and by 12.5% yoy, respectively. Liabilities to the government amounted to BGN 8.8 billion and increased by 8.7% mom, down by 1.2% yoy, respectively. Liabilities to other depositors are kept at BGN 1.8 billion compared to the previous month, but it decreased by 13% yoy. The "Banking" Department's deposit amounted to BGN 6.3 billion and increased by 2.7% mom and by 10.8% yoy, respectively. Bulgaria's international liquidity position, calculated as a ratio of international reserves to short-term external debt, is at a high level of 296.1% at the end of November 2019, compared to 288.8% at the end of November 2018 and 294.4% in October 2019.

REAL SECTOR

International Institutions for Bulgarian Economy

An International Monetary Fund (IMF) mission, led by Mr. Jaewoo Lee, visited Sofia during February 4-14 to conduct the 2020 Article IV consultation, concluded: "With macroeconomic stability well established, Bulgaria's economic policy challenge now is to reinvigorate inclusive growth and sustained income convergence. This calls for supporting growth-friendly reforms and investment in people. Stronger institutions and better provision of public services are the key, which, in turn, would boost broader investment and productivity growth".

According IMF Bulgaria's economy had robust growth in 2019 and unemployment fell to a record low. The fiscal position is strong. The fiscal account is projected to move back from a one-off deficit in 2019 to balance this year and over the medium term. The external position remains strong as well, with the current account recording a large surplus. Another robust economic performance is widely expected for 2020, albeit with softer growth and subject to downside external risks. If such risks materialize, automatic fiscal stabilizers should be allowed to play freely and public spending that supports investment could be raised. The main economic policy challenges concern the medium term. The strong economic performance of recent years has supported a healthy pace of income convergence. But the distance to the high incomes elsewhere in the EU remains a long one. Also, Bulgaria's income inequality is high and society and the economy are facing important demographic headwinds. Against this backdrop, achieving more inclusive growth and faster income convergence requires reforms on all structural fronts, including to improve governance, loosen labor shortages, strengthen education, and alleviate inequality. Ongoing preparations for joining ERM II and the banking union have helped strengthen institutions and policy frameworks. Successful reforms could bring about appreciable efficiency gains and catalyze higher investment. Higher, more efficient investment is a necessity for sustaining faster growth and convergence. It will also help moderate Bulgaria's current account surplus, which now appears high for an economy that should invest more for a faster income catch-up. By the same token, more and better spending on government services could also moderate savings and the current account surplus.

Improving public services and governance

According IMF Bulgaria's strong fiscal and external positions provide room to increase the level of fiscal spending. Efficiently executed spending measures could support structural reforms on all fronts. There is scope for greater revenue mobilization to maintain a balanced budget over the medium term, which is an appropriate objective. That said, small deficits that serve to support growth-enhancing spending measures would also be appropriate, provided public debt remains around its present low level.

• Improving public investment management would increase the investment efficiency and set the stage for increasing the level of public investment. IMF welcomes the forthcoming nation-wide application of the e-procurement system and encourage developing standard guidelines for project appraisal and improving multi-year budgeting.

• The absorption rate of the EU funds has improved over that of the previous cycle. Better planning for future EU funds would further reduce the backloading of projects and support more efficient investment.

• More effective revenue collection would increase usable resources for the government, as well as improving the efficiency and transparency of the public sector. Options include reducing the sizable VAT compliance gap and increasing the property tax. A diagnostic based on the IMF's framework, Tax Administration and Diagnostic Assessment Tool, could help assess the administrative capacity of the revenue authorities and identify key areas for improvement.

IMF looks forward to further progress in strengthening the judiciary and implementing the framework for state-owned enterprise (SOE) governance. Following the favorable recognition in the European Commission's Cooperation and Verification Mechanism, the government plans to operationalize a post-monitoring council, which will help ensure reform continuity. The legislation on SOE governance has been aligned with the OECD guidelines (a commitment for ERM II), and strong implementation should follow, including for ownership policy, financial oversight and board qualification.

Investing in people

According IMF better designed social protection spending could reduce poverty and inequality. Bulgaria's already high inequality has been rising in recent years, as social protection spending (as a share of GDP) and the effectiveness of fiscal redistribution have been falling. IMF recommend a review of the level, targeting, and composition of social protection spending, after which such spending could be increased to better cover broader social risks. Without necessarily revisiting the social contract around the flat income tax, the redistributive role of taxation could be increased, for example, by increasing the maximum insurable income. While endorsing ongoing policies to reduce labor shortages, we would recommend strengthening active labor market policies (ALMPs). The government has fruitfully undertaken many initiatives to address labor and skill shortages: worker importation agreements, efforts to bring back overseas Bulgarians, and training programs for skills anticipated to be in high demand. Another way to address labor shortages is to reduce long-term unemployment (LTU), which has remained high as a share of total unemployment in Bulgaria. At the same time, spending on ALMPs is low relative to other EU countries.

The spending on ALMPs could be increased, in particular for training, start-up incentives, and private sector employment programs, which have been effective in reducing LTU in many countries. Improving the job matching efficiency would also help reduce LTU and raise the allocative efficiency of the tight labor market. Strengthening education would help build human capital and improve economic opportunities for individuals and society. IMF sees room to increase the public spending on education that remains low among EU countries, while ensuring its efficiency. Higher spending could further strengthen the teaching of digital skills and the modernization of the education system, as well as supporting other ongoing initiatives. They include assisting the NEET (not in education, employment or training) and early school leavers, promoting equal access to quality education, and raising teacher salaries. Greater involvement of business could help better align university curricula with evolving labor market needs, and teacher wage hikes should be complemented by measures to attract and retain high-performance teachers.

Strengthening the financial sector

According to IMF the Bulgarian National Bank (BNB) continues to uphold a conservative approach to financial supervision with emphasis on capital buffers. Effective supervision is a necessary condition to ensure the resilience of the financial system. A resilient and well-functioning financial sector in turn improves the allocation of resources and expands opportunities. The BNB has been raising the countercyclical capital buffer gradually to safeguard the banking system against the vulnerabilities that could cumulate under a protracted period of low interest rates. More narrowly targeted macro-prudential measures, e.g. borrower-based ones, could also be deployed, in case a risk of excessive growth were to emerge in certain credit segments. IMF encourages renewed efforts to reduce non-performing loans (NPLs), as the strong economy and financial sector conditions make the current juncture a propitious time to do so. After declining rapidly since 2015, NPL reduction slowed in 2019, with the NPL ratio still well above the EU average. IMF welcomes the BNB's adoption of the European Banking Authority's NPL guidelines, which could help ensure that banks with high NPLs take corresponding actions to address them. Reforms in improving the insolvency framework, another ERM II commitment, could also help reduce NPLs. Joining the European banking union would further strengthen the financial system resilience. This awaits the satisfactory recapitalization of two banks identified under the ECB's comprehensive review, a pending requirement. Upon joining the banking union (as a non-euro area country), significant institutions will fall under the direct supervision of the ECB, as Bulgaria joins both the Single Supervisory Mechanism and Single Resolution Mechanism. In preparing for the entry into ERM II and the banking union, other welcome financial sector reforms have progressed, including strengthening the anti-money laundering framework and the supervision of the non-bank financial sector.

EC published its Winter Forecast. Bulgaria's GDP is expected to grow by 2.9% in 2020 and 3.1% in 2021. Unprocessed food and energy prices are expected to sustain inflation around 2.3% in 2020, while the assumed path of oil prices is set to hold inflation at 1.9% in 2021.

Real GDP growth accelerated from 3.1% in 2018 to an estimated 3.7% in 2019, despite headwinds from relatively weaker external demand and higher uncertainty abroad. Consumption remained the main growth driver, particularly in the first half of the year. Favorable labor market conditions and rising real disposable incomes underpinned the positive private consumption dynamics. Although financing conditions remained favorable and capacity utilization in the manufacturing sector was high, investment contributed only marginally to GDP growth. Exports were negatively affected by a deterioration in foreign demand and became more volatile. Imports stagnated in real terms, curtailed by reduced inventories and less dynamic investment in productive equipment. Real GDP growth is expected to slow significantly to 2.9% in 2020 and 3.1% in 2021 due to weaker domestic demand growth. Although private consumption is forecast to remain the key growth driver, its contribution to economic expansion is set to decline on the back of lower employment growth. Investment is unlikely to compensate for the slower consumption growth in 2020 and is set to pick up only slightly in 2021, along with somewhat stronger export growth. An upward domestic risk to the forecast stems from a recent recovery in consumer sentiment that could result in better-than-expected private consumption. Headline inflation in 2019 settled at 2.5%. It was influenced by exogenous factors, such as the out-break of African swine fever, which pushed up prices of unprocessed food, and fluctuations in fuel prices. Unprocessed food and energy prices are expected to sustain inflation around 2.3% in 2020, while the assumed path of oil prices is set to hold inflation at 1.9% in 2021.

Gross Domestic Product

In Q4 2019 Gross Domestic Product (GDP) increased by 0.1% qoq and by 1.2% yoy, respectively in the EU-27 by seasonally adjusted data. In Q4 2019 Bulgaria's GDP expanded by 3.5% yoy and by 0.7% qoq, respectively, according to NSI seasonally adjusted data. GDP Annual Growth Rate in Bulgaria is expected to be 3.7% by the end of 2020. Annual nnual Growth Rate in Bulgaria to stand at 3.1% in 2020 and 3% in 2021.

According Eurostat in Q4 2019 on a quarterly basis Romania recorded the highest economic growth - 1.5%, Lithuania - 1.3%, Hungary - 1.0% and Cyprus - 0.8%. France, Italy and Finland reported a decrease of 0.1%, 0.3% and 0.4%, respectively. Compared to the same quarter of the previous year, seasonally adjusted data showed an increase of GDP in the EU-27 by 1.2% and in Bulgaria - by 3.5%.In Q4 of 2019, compared to the same quarter of the previous year, the highest economic growth is observed in Hungary - 4.6%, Romania - 4.2 and Lithuania - 3.7%. According to the flash GDP estimates for Q4 of 2019, the GDP at current prices is BGN 32372.4 million. Gross Value Added in Q4 of 2019 amounted to BGN 28056.6 million. In the structure of GDP by the expenditure approach the largest share has the final consumption (78.1%), which in nominal terms is BGN 25295.2 million. In Q4 of 2019 gross capital formation is BGN 6390.3 million and has a share of 19.8% in GDP. The external balance (exports minus imports) has a positive sign. According to the seasonally adjusted data, the GDP growth rate in Q4 of 2019 is 0.7% qoq. GVA increase in Q4 of 2019 is 0.6%. According to the flash estimates by final expenditure, the increase in final consumption by 0.6% and the export of goods and services by 0.1% contributed to the GDP growth at seasonally adjusted data in Q4 of 2019 compared to Q3 of 2019. The Q4 of 2019 GDP at seasonally adjusted data increased by 3.5% compared to the same quarter of the previous year. Gross value added increased by 3.1%. As regards the expenditure components of GDP, the final consumption registered a positive economic growth of 5.0%. Gross fixed capital formation decreased by 1.2% in Q4 of 2019 compared to the same quarter of the previous year at seasonally adjusted data. Exports of goods and services decreased by 1.5% and imports of goods and services decreased by 2.7%.

Bulgaria	Gross Value Added												
Rates of change of Gross Value Added and Gross Domestic Product, yoy (%)	Agriculture, forestry and fishing	Mining and quarrying; manufacturing; electricity, gas, steam and air conditioning supply; water supply; sewerage, waste management and remediation activities	Construction	Wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities	Information and communication	Financial and insurance activities	Real estate activities	Professional, scientific and technical activities; administrative and support service activities	Public administration and defence; compulsory social security; education; human health and social work activities	Arts, entertainment and recreation, repair of household goods and other services	GVA	Adjustments (taxes less subsidies on products)	GDP
2018 Q1	0.4	2.0	5.0	2.7	6.7	3.4	7.2	2.2	1.5	0.6	3.1	5.0	3.5
2018Q2	-0.9	1.8	2.5	2.4	6.2	5.6	7.1	5.8	3.6	1.4	3.0	5.0	3.4
2018Q3	-1.9	1.7	2.4	2.7	5.2	5.1	8.5	5.7	2.4	-1.9	3.0	5.7	3.1
2018Q4	-2.5	1.7	5.5	2.5	4.4	7.5	7.1	2.5	2.0	-1.9	2.9	4.6	3.2
2019Q1	-0.2	1.8	0.8	2.5	4.1	3.0	6.5	2.9	1.6	0.8	3.0	8.2	3.5
2019Q2	2.0	1.7	2.1	2.5	5.5	6.2	6.7	2.7	2.2	1.4	3.4	7.2	3.5

Source: NSI

***Projection:** Annual Growth Rate in Bulgaria is expected to be 3.7% by the end of 2020. Annual Growth Rate in Bulgaria is expected to stand at 3.1% in 2020 and 3% in 2021.*

Business Climate

In January 2020, the total business climate indicator increases by 1.4 percentage points in comparison with December 2019 то 28.5%, which is due to the improved business conjuncture in industry.

According NSI in January 2020, the total business climate indicator increased by 1.4 percentage points in comparison with December 2019 to 28.5%, which is due to the improved business conjuncture in industry.

Industry. The composite indicator 'business climate in industry' increases by 5.0 percentage points as a result of the more optimistic industrial entrepreneurs' assessments and expectations about the business situation of the enterprises. Their forecasts about the export and production activity over the next 3 months are also favorable. The average capacity utilization increases by 1.7 percentage points in comparison with 3 months earlier and it reaches 78.0%, as regards the expected demand over the next months a surplus of capacity is foreseen. The shortage of labor and uncertain economic environment continue to be the main obstacles for the business development pointed out respectively by 32.8% and 32.3% of the enterprises. Concerning the selling prices in industry, the prevailing managers' expectations are them to remain unchanged over the next 3 months.

Construction. In January the composite indicator 'business climate in construction' decreases by 1.0 percentage points, which is due to the more unfavorable construction entrepreneurs' assessments about the present business situation of the enterprises. The production assurance with orders is preserved compared to October 2019 and it is assessed to be 8.5 months. At the same time the managers expect increased inflow of new orders over the next 6 months, which according to them will lead to improvement of the activity in the short term. In the last month the inquiry also reports a decrease in the number of clients with delay in payments. The most serious difficulties for the activity in the sector remain the shortage of labor, uncertain economic environment and competition in the branch. As regards the selling prices in construction, certain expectations for an increase are registered, although the majority of the managers foresee preservation of their level over the next 3 months.

Retail trade. The composite indicator 'business climate in retail trade' decreases by 1.9 percentage points as a result of the more reserved retailers' assessments about the present business situation of the enterprises. Their forecasts about the business situation development over the next 6 months are preserved, as their expectations about orders placed with suppliers from domestic market over the next 3 months are also favorable. The competition in the branch continues to be the main factor limiting the business development, followed by the insufficient demand and uncertain economic environment. Concerning the selling prices, the retailers foresee certain increase over the next 3 months.

Service sector. In January the composite indicator 'business climate in service sector' preserves its level from December 2019. The managers' assessments and expectations about the business situation of enterprises are shifting to the more moderate opinions. At the same time, their forecasts about the demand for services over the next 3 months are more unfavourable. The main problems for the activity continue to be connected with the competition in the branch, uncertain economic environment and shortage of labor, although in the last month a decrease of their negative influence is reported. As regards the selling prices in service sector, the managers' expectations are them to remain unchanged over the next 3 months.

Bulgaria: Business climate indicators (%)	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	31.12.2019	31.01.2019
Total busiess climate indicator (%)	27.8	27.7	28	29.9	31.2	29.9	29.5	26.4	26.4	25	26.2	27.1	28.1
Business climate in industry (%)	28.4	26.1	25.7	27.7	27.5	26.4	24.7	23.9	21.8	20.8	21.1.	21.8	26.8
Business climate in construction (%)	27.7	29.0	29.0	30.3	37.2	35.4	34.6	29.5	30.3	26.4	28.7	31.3	30.3
Business climate in retail trade(%)	40.1	39.7	42.3	42.7	44.8	44.7	44.9	41.4	43.2	40.9	43.6	43.5	41.6
Business climate in services (%)	14.2	17.6	17.5	20.9	18.7	16.6	18.3	13.4	15.1	16.0	12.6	13.1	17.0

Source: NSI

Industrial Production

According to the preliminary data in December 2019 the Industrial Production Index, seasonally adjusted, fell by 1.8% as compared to November 2019. In December 2019 the working day adjusted Industrial Production Index decreased by 1.5% in comparison with the same month of 2018.Industrial Production in Bulgaria is expected to be 1.5% by the end of 2020. Looking forward, we estimate Industrial Production in Bulgaria to stand at 3.1% in 2021 and 3.3% in 2022.

According to the preliminary data in December 2019 the Industrial Production Index, seasonally adjusted, fell by 1.8% as compared to November 2019. In December 2019 the working day adjusted Industrial Production Index decreased by 1.5% in comparison with the same month of 2018.In December 2019 as compared to November 2019, the seasonally adjusted Industrial Production Index rose in the mining and quarrying industry by 4.1% and in the electricity, gas, steam and air conditioning supply by 0.4%, while the production went down in the manufacturing by 2.3%. The most significant production decreases in the manufacturing were registered in the manufacture of motor vehicles, trailers and semi-trailers by 17.1%, in the manufacture of tobacco products by 16.2%, in the manufacture of fabricated metal products, except machinery and equipment by 14.4%, in the printing and reproduction of recorded media by 13.1%. Important increases were seen in the manufacture of computer, electronic and optical products by 11.8%, in the manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials by 6.6%, in the manufacture of other non-metallic mineral products by 6.4%, in the manufacture of chemicals and chemical products by 5.5%. On annual basis in December 2019 Industrial Production Index calculated from working day adjusted data rose in the mining and quarrying industry by 4.6%, while the production fell in the electricity, gas, steam and air conditioning supply by 9.3% and in the manufacturing by 0.1%. In the manufacturing, the more considerable decreases compared to the same month of the previous year were registered in the manufacture of tobacco products by 32.4%, in the repair and installation of machinery and equipment by 17.1%, in the manufacture of basic pharmaceutical products and pharmaceutical preparations by 16.1%, in the manufacture of machinery and equipment n.e.c. by 14.1%. Major increases were seen in the manufacture of other transport equipment by 41.0%, in the manufacture of computer, electronic and optical products by 32.2%, in the other manufacturing by 29.0%, in the manufacture of motor vehicles, trailers and semi-trailers by 10.4%.

***Projection:** Industrial Production in Bulgaria is expected to be 1.5% by the end of 2020. Looking forward, we estimate Industrial Production in Bulgaria to stand at 3.1% in 2021 and 3.3% in 2022.*

Retail Sales

According to the preliminary seasonally adjusted data in December 2019 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 0.7% compared to the previous month. Retail Sales yoy in Bulgaria is expected to be 5.5% by the end of 2020. Looking forward, we estimate Retail Sales yoy in Bulgaria to stand at 5.8% in 2021 and 6% in 2022.

According to the preliminary seasonally adjusted data3 in December 2019 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 0.7% compared to the previous month. In December 2019, the working day adjusted turnover in 'Retail trade, except of motor vehicles and motorcycles' marked an increase by 5.4% in comparison with the same month of 2018.

In December 2019, the working day adjusted turnover in 'Retail trade, except of motor vehicles and motorcycles' marked an increase by 5.4% in comparison with the same month of 2018. In December 2019 compared to the previous month, increase of turnover was observed in the 'Retail sale of automotive fuel in specialized stores' - by 4.7%, and in the 'Retail sale of non-food products except fuel' - by 1.1%. Decrease of turnover was seen in the 'Retail sale of food, beverages and tobacco' - by 0.2%. In the 'Retail sale of non-food products except fuel' a rise was reported in the 'Dispensing chemist; retail sale of medical and orthopedic goods, cosmetic and toilet articles in specialized stores' - by 6.2%, and in the 'Retail sale via mail order houses or via Internet' - by 2.7%. More significant decrease of turnover was seen in the 'Retail sale of computers, peripheral units and software; telecommunications equipment, etc. in specialized stores' - by 2.5%, and in the 'Retail sale of textiles, clothing, footwear and leather goods in specialized stores' - by 1.6%. In December 2019 compared to the same month of 2018, the turnover run up in the 'Retail sale of non-food products except fuel' (by 10.0%), 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 1.0%). 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 21.4%, in the 'Retail sale of computers, peripheral units and software; telecommunications equipment, etc. in specialized stores' - by 13.1%, and in the 'Other retail sale in non-specialized stores' - by 11.7%. A drop was registered in the 'Dispensing chemist; retail sale of medical and orthopedic goods, cosmetic and toilet articles'- by 0.5%.
Projection: *Retail Sales yoy in Bulgaria is expected to be 5.5% by the end of 2020. Looking forward, we estimate Retail Sales yoy in Bulgaria to stand at 5.8% in 2021 and 6% in 2022.*

Construction Output

According to the preliminary data, in December 2019 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 0.7% below the level of the previous month. In December 2019 the working day adjusted index of production in construction also decreased by 0.7% in comparison with the same month of 2018.Construction Output in Bulgaria is expected to be 2.2% by the end of 2020. Construction Output in Bulgaria to stand at 3.2% in 2020 and 3.4% in 2021.
According to the preliminary data, in December 2019 the index of production in section 'Construction' calculated on the base of seasonally adjusted data3 was 0.7% below the level of the previous month. In December 2019 working day adjusted data4 also showed a decrease by 0.7% in the construction production, compared to the same month of 2018. In December 2019 the construction production index, calculated from the seasonally adjusted data, was below the level of the previous month. Index the production of building construction fell by 1.4%, while production of civil engineering rose by 0.3% (Table 1). On an annual basis in December 2019, the decrease of production in construction, calculated from working day adjusted data, was determined from the negative rate in the civil engineering, where the decline was by 1.3% and in the building construction - by 0.3% Projection: Construction Output in Bulgaria is expected to be 2.2% by the end of 2020. Construction Output in Bulgaria to stand at 3.2% in 2021 and 3.4% in 2022.

Consumer Prices Inflation

In January 2020, the consumer price index compared to December 2019 was 100.9%, ie. monthly inflation is 0.9%. The annual inflation in January 2020 compared to January 2019 is 4.2%. The annual inflation in the period February 2019 - January 2020 compared to the period February 2018 - January 2019 is 3.2%. The harmonized index of consumer prices for January 2020 compared to December 2019 is 100.5%, ie monthly inflation is 0.5%. Annual inflation in January 2020 compared to January 2019 is 3.4%. The average annual inflation for the period February 2019 - January 2020 compared to the period February 2018 - January 2019 is 2.5%. Due to the gradual weakening of the temporary pricing factors and the continuing tendency for oil prices to fall, inflation is expected to slow to 2.3% in 2020 and то 2.1% in 2021.
According to preliminary data from the NSI, the consumer price index for January 2020 compared to December 2019 is 100.9%, i.e. monthly inflation is 0.9%. The annual inflation for January 2020 compared to January 2019 is 4.2%. The annual inflation for the period February 2019 - January 2020 compared to the period February 2018 - January 2019 is 3.2%.The appreciation of goods and services in January 2020 continued the trend of increasing the value of the index, which reached a seven-year high after the change began in August 2013. Only in October 2018 annual inflation approached the limit of 4% , but did not exceed it and reported a 3.7% level. In January 2020, the largest increase was observed - by 2.6% in food and non-alcoholic beverages. Prices in health care increased by 0.4% last month, transport by 0.2% and communications by 0.4%. Entertainment and culture were more expensive in January, with an increase of 0.9%, for restaurants and hotels - 0.5%, and prices for education increased by 0.1%. 4.4%. According to NSI preliminary data, the harmonized index of consumer prices for January 2020 compared to December 2019 is 100.5%, ie monthly inflation is 0.5%. Annual inflation in January 2020 compared to January 2019 is 3.4%. The average annual inflation for the period February 2019 - January 2020 compared to the period February 2018 - January 2019 is 2.5%.

Forecast: *As a result of the gradual weakening of the temporary pricing factors and the continued tendency for oil depreciation, inflation is expected to slow to 2.3% in 2020 анд то 2.1% ин 2021. The slowdown in the forecast period is due to expectations for the normalization of energy resources prices. This reflects lower crude oil prices, as well as an agreement reached between the European Commission and Gazprom to cut natural gas prices for five countries in Central and Eastern Europe, including Bulgaria, in exchange for which the Russian monopolist will avoid sanctions. to abuse the dominant position in the gas markets in these countries. Food prices will have a balancing effect, rising slightly in 2020, as droughts in the fall will likely affect the yields of some crops. Core inflation will continue to grow as the economy slowly approaches the final phase of the current expansion cycle, when rising labor costs must begin to move more and more to so-called base prices.*

Bulgaria: CPI	2018 Weights (%)	January 2020 Change mom (%)	January 2020 Change yend 2019 (%)	Janurry 2020 Change yoy (%)
Total CPI	100.00	100.90	100.9	104.2
Foods	31.358	102.6	102.6	107.8
Non-foods	34.696	99.7	99.7	101.9
Catering	5.429	100.5	100.5	106
Services	28.517	100.7	100.7	102.4
Source: NSI				

Producer Prices

Total Producer Price Index in December 2019 remains unchanged compared to the previous month; compared to the same month of 2018 the prices rose by 3.5%. Producer Price Index on Domestic Market in December 2019 remains unchanged compared to the previous month; compared to the same month of 2018 the domestic prices grew by 4.5%.

The Total Producer Price Index in Industry in December 2019 remains unchanged compared to the previous month. Higher prices were registered in the mining and quarrying industry by 1.0%, in the electricity, gas, steam and air conditioning supply the prices fell by 0.4% and in manufacturing the prices remained unchanged. In manufacturing, prices went up in the manufacture of basic metals by 1.9%, in the manufacture of food products by 0.8% and in the manufacture of motor vehicles, trailers and semi-trailers by 0.6%. More significant decrease in prices was reported in the manufacture of basic pharmaceutical products and pharmaceutical preparations by 1.2% and in the manufacture of rubber and plastic products by 1.0%. The Total Producer Price Index in December 2019 increased by 3.5% compared to the same month of 2018. The prices rose in the electricity, gas, steam and air conditioning supply by 8.7%, in the mining and quarrying industry by 7.3%, and in manufacturing by 1.8%. In manufacturing more compelling increase in prices was reported in the manufacture of leather and related products by 4.8%, in the repair and installation of machinery and equipment by 3.9% and in the manufacture of food products by 3.2%. Significant decrease in prices were seen in the manufacture of paper and paper products by 3.3% 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 2.8%.

Producer Price Index on Domestic Market in December 2019 remains unchanged compared to the previous month. The domestic prices went up in the mining and quarrying industry by 1.5% and in manufacturing by 0.2%, while in the electricity, gas, steam and air conditioning supply prices fell by 0.4%. In the manufacturing, compared to the previous month the prices went up in the manufacture of food products, in the manufacture of furniture and in manufacture of machinery and equipment n.e.c - all by 0.9%. More compelling fell in the domestic prices was seen in the manufacture of chemicals and chemical products by 0.5% and in the manufacture of rubber and plastic products by 0.3%. Producer Price Index on Domestic Market in December 2019 increased by 4.5% compared to the same month of 2018. The prices rose in the electricity, gas, steam and air conditioning supply by 10.2%, in the mining and quarrying industry by 2.9%, and in manufacturing by 1.2%. In the manufacturing compared to December 2018, more compelling price increase was reported in the repair and installation of machinery and equipment by 5.7%, and in the manufacture of food products by 4.6%. The prices fell in the manufacture of chemicals and chemical products by 2.5% and in the manufacture of leather and related products by 1.0%. Producer Price Index on Non-domestic Market in December 2019 fell by 0.1% compared to the previous month and rose by 2.1% compared to the same month of 2018.

Bulgaria: Producer Price Indexes 2015=100	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	31.12.2019
Total Producer Price Index	106.0	107.8	108.6	109.1	109.0	107.8	109.2	109.6	110.1	110.1	110.2	110.2
Total Producer Price Index on Domestic Market	106.6	108.2	108.2	108.6	108.5	108.1	109.7	110.5	110.8	110.9	111.2	111.2
Total Producer Price Index on Non-domestic Market	105.0	107.3	109.3	109.8	109.8	107.4	108.5	108.2	109.2	108.8	108.8	108.7
Source: NSI												

Incomes and Expenditures of Households

The total income average per household member during Q4 of 2019 is BGN 1 770 and increases by 13.7% yoy. The total expenditure average per household member during Q4 of 2019 is BGN 1 670 and increases by 10.7% yoy.

The total income average per household member during Q4 of 2019 is 1 770 BGN and increases by 13.7% yoy. The highest relative share of income within the total income is this from wages and salaries (56.2%). The relative share of income from pensions is 27.3%, from self-employment - 6.4%. Compare to Q4 of 2018 the share of income from wages and salaries increases by 1.1 percentage points (pp), the share from self-employment and from pensions decreases by 0.4 pp. The nominal income by source average per capita during the fourth quarter of 2019 compared to the fourth quarter of 2018 changes as follows: Income from wages and salaries increases from BGN 858 to BGN 996 (by 16.1%); Self-employment income increases from BGN 105 to BGN 113 (by 7.4%); Income from pensions increases from BGN 432 to BGN 483 (by 11.9%); Income from social benefits increases from BGN 39 to BGN 53 (by 36.1%).The relative share of monetary income into the total income during Q4 of 2019 is 99.1% and the share of income in kind is 0.9%.

Bulgaria: Total Households Income	Q1 2019			Q2 2019			Q3 2019			Q4 2019		
	Relative share (%)	Average per household in BGN	Average per person in BGN	Relative share (%)	Average per household in BGN	Average per person in BGN	Relative share (%)	Average per household in BGN	Average per person in BGN	Relative share (%)	Average per household in BGN	Average per person in BGN
Total income	100	3345.69	1518.57	100	3378.05	1546.87	100	3726.39	1715.6	100	3815.82	1770.36
Total gross income	96.6	3233.32	1467.57	96.6	3262.49	1493.95	96	3577.56	1647.08	96.3	3674.76	1704.92
Wages and salaries	57.6	1926.49	874.41	57.8	1951.91	893.81	56.5	2104.58	968.93	56.2	2146.14	995.71
Other earnings	0.6	21.41	9.72	0.7	25.01	11.45	0.8	31.15	14.34	1.1	41.88	19.43
Self-employment income	6.4	212.47	96.44	6.2	208.14	95.31	6.7	250.08	115.13	6.4	243.88	113.15
Property income	0.2	6.45	2.93	0.3	10.08	4.61	0.7	25.11	11.56	1.1	41.66	19.33
Pensions	27.9	934.31	424.07	27.6	933.37	427.41	27.2	1014.54	467.09	27.3	1041.69	483.29
Unemployment benefits	0.4	11.92	5.41	0.2	5.76	2.64	0.2	9.15	4.21	0.3	9.83	4.56
Family allowances	1.3	42.88	19.46	1.2	41.99	19.23	1.3	46.65	21.48	1.2	47.05	21.83
Other social benefits	0.7	22.32	10.13	1.6	53.47	24.49	1.5	55.62	25.61	1.5	58.04	26.93
Regular transfers from other households	1.6	55.08	25	1	32.75	15	1.1	40.68	18.73	1.2	44.6	20.69
Receipt sale	0.2	6.57	2.98	0.3	9.81	4.49	0.2	7.49	3.45	0.3	13.25	6.15
Miscellaneous	3.2	105.8	48.02	3.1	105.75	48.43	3.8	141.34	65.07	3.3	127.82	59.3
Withdrawn savings	x	85.5	38.81	x	77.76	35.61		126.34	58.16		128.95	59.83
Loans anc credits	x	12.34	5.6	x	15	6.87		14.32	6.59		39.77	18.45
Source: NSI												

The total expenditure average per household member during Q4 of 2019 is 1 670 BGN and increases by 10.7% yoy. The greatest share in forming the total expenditure has expenditure on food - 29.7% as well as expenditure on housing - 17.2%, taxes and social insurance contributions - 12.9% and transport and communication - 11.5%. Compare to the fourth quarter of 2018 the relative share of expenditure on food and non-alcoholic beverages decreases by 0.5 pp, on housing decreases by 0.6 pp and on health increases by 1.7 pp.The expenditure by group average per capita are change as absolute values during the fourth quarter of 2019 compared to the same quarter of 2018 as follows: Expenditure on food and non-alcoholic beverages increases from BGN 455 to BGN 495 (by 8.8%); Expenditure on alcoholic beverages and tobacco increases from BGN 63 to BGN 73 (by 15.1%); Expenditure on clothing and footwear increases from BGN 60 to BGN 63 (by 4.7%); Expenditure on housing (water, electricity, heating, furnishing and maintenance of the house) increases from BGN 268 to BGN 286 (by 6.7%); Expenditure on health increases from BGN 82 to BGN 118 (by 43.6%); Expenditure on transport and communication increases from BGN 168 to BGN 191 (by 13.8%); Expenditure on recreation, culture and education increases from BGN 61 to BGN 69 (by 13.7%); Expenditure on taxes and social insurance contributions increases from BGN 191 to BGN 216 (by 13.0%).

Bulgaria: Total Households Expenditures	Q1 2019			Q2 2019			Q3 2019			Q4 2019		
	Relative share (%)	Average per household in BGN	Average per person in BGN	Relative share (%)	Average per household in BGN	Average per person in BGN	Relative share (%)	Average per household in BGN	Average per person in BGN	Relative share (%)	Average per household in BGN	Average per person in BGN
Total expenditure	100	3 090.39	1 402.69	100	3061.67	1401.99	100	3437.32	1582.52	100	3599.09	1669.81
Consumer monetary expenditure	81.6	2 522.92	1 145.13	81.1	2483.64	1137.3	82.6	2840.93	1307.94	81.5	2933.68	1361.09
Foods and non-alcoholic beverages	30.2	931.8	422.93	31.4	960.45	439.81	30.1	1034.38	476.22	29.7	1067.83	495.43
Alcoholic beverages and tobacco	4.2	129.08	58.59	4.4	134.28	61.49	4.3	147.96	68.12	4.4	157.1	72.89
Clothing and footwear	3	93.07	42.24	3.1	93.83	42.97	3.1	105.38	48.52	3.8	135.89	63.05
Housing, water, electricity, gas and other fuels	14.2	438.46	199.01	12.3	375.76	172.07	12.6	433	199.35	13.4	481.31	223.3
Furnishing and maintenance of the house	4	123.11	55.88	3.2	99.04	45.35	3.5	118.99	54.78	3.8	135.87	63.04
Health	6	186.09	84.46	6.8	209.22	95.81	5.3	182.69	84.11	7.1	254.25	117.96
Transport	7.6	236.27	107.24	7.1	218.85	100.21	7	240.97	110.94	7.4	265.17	123.03
Communication	4.5	138.51	62.87	4.6	140.75	64.45	4.2	145.4	66.94	4.1	146.41	67.93
Recreation, culture and education	3.5	108.55	49.27	4	123.44	56.53	8.3	284.22	130.85	4.1	148.86	69.07
Miscellaneous goods and services	4.5	137.99	62.63	4.2	128.02	58.62	4.3	147.94	68.11	3.9	140.98	65.41
Taxes	6.1	187.85	85.27	6.1	186.53	85.41	5.4	187.22	86.19	5.4	193.29	89.68
Social insurance contributions	7.9	242.98	110.29	8.1	249.18	114.1	7.7	265.33	122.16	7.5	271.25	125.85
Regular transfers to others households	1.2	38.3	17.39	1.1	34.19	15.66	0.8	25.89	11.92	1.2	42.18	19.57
Other expenditure	3.2	98.32	44.63	3.5	108.13	49.51	3.4	117.95	54.3	4.4	158.69	73.62
Saving deposits	x	167.91	76.21	x	183.19	83.89		254.86	117.33		226.39	105.04
Debt paid out and loan granted	x	77.59	35.22	x	74.73	34.22		67.34	31		73.71	34.2
Source: NSI												

LABOR MARKET

In Q4 of 2019 the unemployment rate was 4.1%, and the employment rate of population aged 20 - 64 was 74.9%. For 2020, employment is expected to increase by 0.2%. Unemployment will continue to decline slightly, following the trend of a net decrease of 50,000 people a year.

In Q4 of 2019 there were 138.5 thousand unemployed persons, of whom 80.6 thousand (58.2%) men and 57.9 thousand (41.8%) women. **The unemployment rate** was 4.1%, 4.4% and 3.8% for men and women respectively. In comparison with the fourth quarter of 2018, the unemployment rate went down by 0.6 percentage points, registering the same decrease for men and women. Among all unemployed persons, 9.5% had attained tertiary education, 45.9% had completed upper secondary education and 44.6% had at most lower secondary education. The unemployment rate by level of educational attainment was as follows: 1.3% for higher education, 3.3% for upper secondary and 13.8% for education lower than upper secondary. In Q4 of 2019 there were 73.6 thousand long-term unemployed persons (unemployed for one or more years), representing 53.1% of all unemployed persons. The long-term unemployment rate was 2.2%, 2.3% for men and 2.1% for women. Of all unemployed people 25.5 thousand (18.4%) were looking for first job. In Q4 of 2019, the unemployment rate for the age group 15 - 29 years was 6.7%, by 0.7 percentage points lower than in a year earlier. The unemployment rate (15 - 29 years) was 7.2% for men and 5.9% for women.

In Q4 of 2019 there were 3 222.7 thousand **employed persons** aged 15 years and over, of whom 1 742.3 thousand men and 1 480.4 thousand women. The share of employed persons in the total population aged 15 years and over was 54.0% (61.0% for men and 47.7% for women). In Q4 of 2019, most employed persons - 2 033.2 thousand (63.1%) worked in the service sector, 978.0 thousand persons (30.3%) worked in the industry sector and 211.5 thousand persons (6.6%) worked in agriculture, forestry and fishing. Of all employed persons 3.5% (111.6 thousand) were employers, 6.7% (214.6 thousand) were self-employed persons without employees, 89.3% (2 876.8 thousand) were employees and 0.6% (19.7 thousand) were unpaid family workers. Of all employees 2 204.6 thousand persons (76.6%) worked in private sector while 672.2 thousand (23.4%) worked in public sector. The number of employees with temporary job increased by 16.3% in comparison with the fourth quarter of 2018 and achieved 117.8 thousand, representing 4.1% of all employees. In Q4 of 2019, the employment in specific age groups was as follows: There were 3 123.5 thousand employed persons aged 15 - 64 years. The employment rate for the same age group was 70.0% (74.7% for men and 65.2% for women). The employment rate for the age group 15 - 29 years was 41.3% (47.2% for men and 35.1% for women). The employment rate for the age group 20 - 64 years was 74.9%, 79.9% and 69.8% for men and women, respectively. This rate was by 2.4 percentage points higher than in the fourth quarter of 2018. It increased by 2.7 percentage points for men and by 2.0 percentage points for women. There were 611.7 thousand employed persons aged 55 - 64 years, representing 64.4% of population in the same age group (70.3% of men and 58.9% of women). In comparison with the fourth quarter of 2018, the employment rate (55 - 64 years) went up by 3.1 percentage points.

According to NSI preliminary data at the end of December 2019 the number of employees under labor contract decreased by 1.0% as compared to the end of September 2019 and reached 2.29 million. In Q4 of 2019 in comparison with Q3 of 2019 the average monthly wages and salaries increased by 5.1% amounting BGN.1 313.

According to NSI preliminary data at the end of December 2019 the **number of employees** under labor contract decreased by 23.7 thousand or by 1.0% as compared to the end of September 2019 and reached 2.29 million. The highest decrease was observed in economic activities: Accommodation and food service activities' - 11.1%, 'Agriculture, forestry and fishing' - 7.4% and in 'Administrative and support service activities' - by 2.2%. The highest increase of the number of employees was recorded in 'Human health and social work activities' - by 1.6%. In the structure of employees by economic activities the biggest relative share of employees was in 'Manufacturing' - 21.5% and 'Wholesale and retail trade; repair of motor vehicles and motorcycles' - 17.3%. At the end of December 2019 as compared to the end of December 2018 the number of employees under labor contract decreased by 2.6 thousand or by 0.1%. The highest decrease in absolute figures was observed in economic activities 'Manufacturing' - 12.9 thousand, 'Accommodation and food service activities' - 3.3 thousand, and 'Transportation and storage' - by 1.3 thousand and the highest increase - in 'Information and communication'- by 7.0 thousand. In percentages the highest decrease at the end of December 2019 as compared to December 2018 was in economic activity 'Accommodation and food service activities' - by 3.1% and 'Manufacturing' - by 2.6%, as the highest increase was reported in 'Information and communication' - by 7.8%.

The **average monthly wages and salaries** of the employees under labor contract in October was BGN 1 296, in November - BGN 1 294 and in December 2019 - BGN 1 349. In Q4 of 2019 in comparison with Q3 of 2019 the average monthly wages and salaries increased by 5.1% amounting BGN1 313. The highest increase in wages and salaries was reported in 'Education' - by 14.8%, and in 'Financial and insurance activities'- by 9.2% and 'Electricity, gas, steam and air conditioning supply' - by 9.1%. Compared to Q4 of 2018 the average monthly wages and salaries in Q4 of 2019 rose by 12.1%. The highest growth rates were recorded in economic activities: 'Real estate activities' - 19.8%, 'Education' - 16.9% and 'Other service activities' - 15.7%. The economic activities with the highest wages and salaries in Q4 of 2019 were: 'Information and communication' - BGN 3 090; 'Electricity, gas, steam and air conditioning supply' - BGN 2 161, 'Financial and insurance activities' - BGN 2 155.The lowest wages and salaries were recorded in: 'Accommodation and food service activities' - BGN 766; 'Other service activities' - BGN 964; 'Agriculture, forestry and fishing' - BGN 1 009. In comparison with a year earlier the average monthly wages and salaries in public sector grew by 12.2% while in private sector - by 12.1%.

Average Wage by Economic Activities	2019 by quartres				
	Q1	Q2	Q3	Q4	2019
Total	**1208**	**1260**	**1249**	**1349**	**1366**
Agriculture, forestry and fisheries	936	985	1026	1032	1037
Mining industry	1757	1815	1713	1856	1855
Manufactoring	1075	1116	1122	1165	1194
Production and distribution of electricity, heat and gaseous fuels	1877	2048	1980	2238	2269
Water Supply; Sewerage, Waste Management and Recovery	951	991	991	1066	1115
Construction	920	974	994	1014	1075
Trading; repair of motor vehicles and motorcycles	1071	1117	1111	1193	1188
Transportation, storage and communications	1109	1164	1177	1234	1213
Hotels and restaurants	729	782	782	785	774
Creation and dissemination of information and creative products; telecommunications	2930	3053	2988	3248	3281
Financial and insurance activities	1994	2174	1973	2307	2273
Real estate operations	1106	1138	1149	1197	1214
Professional activities and research	1732	1760	1737	1855	1942
Administrative and support activities	984	1008	999	1082	1051
Government	1355	1400	1393	1373	1559
Education	1186	1272	1242	1499	1482
Human health and social work	1226	1286	1284	1393	1384
Culture, sport and entertainment	1050	1091	1137	1213	1230
Other activities	898	924	912	1006	1001
Source: NSI					

FISCAL SECTOR

The CFP budget balance on a cash basis for 2019 is negative, amounting to BGN 1,148.3 million, or 0.97% of the projected GDP, and is formed by a national budget deficit of BGN 1,040.8 million and by a EU funds deficit of BGN 107.5 million. The fiscal reserve as of 31.12.2019 is BGN 8.8 billion, including BGN 8.6 billion of deposits in BNB and banks and BGN 0.2 billion of receivables under the EU Funds for certified expenditures, advance payments, etc. Based on the preliminary data and estimates, for January 2020, the excess of revenues over expenditures under the Consolidated Fiscal Programme (CFP) is expected to amount to BGN 841.3 million (0.7 % of the forecast GDP).

According MF datat the CFP revenues, grants and donations in 2019 amount to BGN 44,048.5 million or 100.4% of the annual estimates. Compared to the previous year, they have grown by BGN 4,397.7 million in nominal terms, including tax and non-tax revenues – by BGN 4,047.1 million (10.8%), and grant and donation proceeds (mostly EU programme and fund grants) – by BGN 350.6 million (16.6%). Tax proceeds, including revenues from social security contributions, total BGN 35,279.8 million, which accounts for 102.1% of the tax revenues planned for the year. Direct tax revenues amount to BGN 6,714.8 million, or 102.4% of those planned for the year. Indirect tax revenues amount to BGN 16,847.7 million, which accounts for 102.5% of the annual estimates. VAT proceeds amount to BGN 11,086.1 million, or 102.4% of those planned. Excise duty revenues amount to BGN 5,486.0 million, or 102.9% of the annual estimates. Customs duty proceeds amount to BGN 230.9 million, or 97.5% of the annual estimates. Proceeds from other taxes, including property and other taxes under the Corporate Income Tax Law, amount to BGN 1,170.9 million, or 100.1% of the annual estimates. Revenues from social security and health insurance contributions are BGN 10,546.3 million, which accounts for 101.6% of the estimates for the year. Non-tax revenues amount to BGN 6,305.1 million, or 95.1% of the annual estimates. Grant and donation proceeds amount to BGN 2,463.6 million. CFP expenditures, including the contribution of the Republic of Bulgaria to the EU budget for 2019, amount to BGN 45,196.9 million, which accounts for 97.6% of the annual estimates. The nominal increase in 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 and July 2019 and an increase in the health insurance payments set out in the 2019 NHIF Budget Law), the increase in subsidy costs, etc. BGN 8.6 billion of deposits in BNB and banks and BGN 0.2 billion of receivables under the EU Funds for certified expenditures, advance payments, etc.

Non-interest expenditures amount to BGN 43,354.7 million, which accounts for 98.2% of the annual estimates. Non-interest current expenditures for 2019 amount to BGN 35,743.7 million, capital expenditures (including net increment of state reserve) amount to BGN 7,567.2 million. The current and capital transfers to other countries amount to BGN 43.7 million. Interest payments amount to BGN 649.1 million, or 97.0% of those planned for 2019. The part of Bulgaria's contribution to the EU budget, as paid from the central budget in 2019, amounts to BGN 1,193.1 million, which complies with the existing legislation in the area of EU own resources, i.e. Council Decision 2014/335/EU on the system of own resources of the European Union, Council Regulation (EU, Euratom) No 608/2014 of 26 May 2014 laying down implementing measures for the system of own resources of the European Union and Council Regulation (EU, Euratom) No 609/2014 of 26 May 2014 on the methods and procedure for making available the traditional, VAT and GNI-based own resources and on the measures to meet cash requirements, as amended by Council Regulation (EU, Euratom) 2016/804 of 17 May 2016. The CFP budget balance on a cash basis for 2019 is negative, amounting to BGN 1,148.3 million, or 0.97% of the projected GDP, and is formed by a national budget deficit of BGN 1,040.8 million and by a EU funds deficit of BGN 107.5 million. Compared to the estimates as per the Law Amending the 2019 State Budget of the Republic of Bulgaria Law, a nominal improvement in the budget balance by about BGN 1.3 billion is reported. The deficit reported for 2019 is due to the one-off costs related to the implementation of the investment project for the acquisition of a new type of multifunctional military aircraft for the Bulgarian air forces. The fiscal reserve as of 31.12.2019 is BGN 8.8 billion, including BGN 8.6 billion of deposits in BNB and banks and BGN 0.2 billion of receivables under the EU Funds for certified expenditures, advance payments, etc.
Projection: *Based on the preliminary data and estimates, for January 2020, the excess of revenues over expenditures under the Consolidated Fiscal Programme (CFP) is expected to amount to BGN 841.3 million (0.7 % of the forecast GDP). Key CFP parameters on the basis of preliminary data and estimates: For January 2020, CFP revenues, grants and donations are expected to be BGN 3,751.2 million (8.0 % of the annual estimates), which is close to the amount reported for the same period of the previous year. Compared to last year, tax and non-tax proceeds under CFP have risen by BGN 118.1 million in nominal terms. The Consolidated Fiscal Programme expenditures, including the contribution of the Republic of Bulgaria to the EU budget, for January 2020 amount to BGN 2,909.9 million, which accounts for 6.2 % of the annual estimates. For comparison, CFP expenditures for January 2019 amounted to BGN 2,712.1 million.*

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	31.12.2019
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	10 138.0	10 019.8	10 545.1	8768.05
I. Fuoiscal 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	10 120.3	9 826.3	10 257.8	8564.68
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	9 719.3	9 443.2	9 835.9	8104.434
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	203.37
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	203.37
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	0
Source: Ministry of finance												

In January – December 2019, Bulgaria's central government sub-sector debt amounted to EUR 12,042.2 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 17.7% in 2020 and 16.5% in 2021 and 16.2% in 2022.

According MF data central government debt stands at EUR 12,042.2 million as at end-December 2019. Domestic debt amounts to EUR 2,983.5 million and external debt – to EUR 9,058.7 million. At the end of the reporting period the central government debt-to-GDP ratio is 19.9 %, with the share of domestic debt being 4.9 % and of external debt – 14.9 % of GDP. In the central government debt structure, at the end of the period domestic debt amounts to 24.8%, and external debt – to 75.2%. As of 31 December 2019, central government guaranteed debt amounts to EUR 67.7 million. Domestic guarantees amount to EUR 33.2 million and external guarantees – to EUR 34.5 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(1) of the Government Debt Law, at end-December 2019 government debt reaches EUR 11,260.2 million, or 18.6% of GDP. Domestic debt amounts to EUR 2,801.6 million and external debt – to EUR 8,458.6 million. Government guaranteed debt amounts to EUR 885.4 million in December 2019. Domestic guarantees amount to EUR 33.2 million, with the government guaranteed debt-to-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 2020-2023 Government Debt Management Strategy, the sovereign debt-to-GDP ratio will decline to 17.7% in 2020 and 16.5% in 2021 and 16.2% in 2022.*

Ministry of Finance reopens issue of 5-year government securities at record low yield at - 0.14%.
On 10 February 2020 the Ministry of Finance reopened an issue of 5-year BGN-denominated government securities (GS) placed on 15.01.2020 and maturing on 15.01.2025.GS of an aggregate nominal value of BGN 200 million were offered successfully at the auction at a weighted average yield of -0.14%, which is record low for this maturity segment. The spread to the German Bunds with a similar residual maturity is 49 basis points. The total subscribed amount reached BGN 341 million, which corresponds to a bid-to-cover ratio of 1.71. The participants were highly interested, with the biggest amount of GS acquired by banks – 69.5%, followed by pension and guarantee funds with 23.0%, insurance companies with 2.5%, and other investors with 5.0%.

MONETARY SECTOR

At the end of December 2019 Bulgaria's broad money (monetary aggregate M3) amounted at BGN 102.469 billion (85.8% of GDP) and increased by 9.9% yoy. Domestic credit – was BGN 65.165 billion and increased by 11.5% yoy.
In December 2019 broad money (monetary aggregate M3) increased by 9.9% yoy compared to 9.3% yoy growth as in November 2019. At the end of December 2019 M3 was BGN 102.469 billion (85.8% of GDP) compared to BGN 100.587 billion (84.2% of GDP) in November 2019. Its most liquid component – monetary aggregate M1 – increased by 15.5% yoy in December 2019 (13.6% yoy growth in November 2019). At the end of December 2019, deposits of the non-government sector were BGN 85.155 billion (71.3% of GDP), increasing annually by 9.7% (8.8% yoy growth in November 2019). Deposits of Non-financial corporations were BGN 26.494 billion (22.2% of GDP) at the end of December 2019. Compared to the same month of 2018 they increased by 14.3% (11.4% annual growth in November 2019). Deposits of Financial corporations increased by 2.4% yoy in December 2019 (2.2% yoy decline in November 2019) and at the end of the month they were BGN 3.017 billion (2.5% of GDP). Deposits of Households and NPISHs were BGN 55.645 billion (46.6% of GDP) at the end of December 2019. They increased by 8% compared to the same month of 2018 (8.3% yoy growth in November 2019). Net domestic assets were BGN 66.112 billion at the end of December 2019. They increased by 14.1% compared to the same month of 2018 (13.5% yoy growth in November 2019). At the end of the month their basic component – domestic credit – was BGN 65.165 billion and increased by 11.5% compared to December 2018 (11% yoy growth in November 2019). In December 2019 claims on the non-government sector7 increased by 9.7% yoy (8.9% yoy growth in November 2019) reaching BGN 64.589 billion. At the end of December 2019, claims on loans to the non-government sector amounted to BGN 62.696 billion (52.5% of GDP) compared to BGN 62.786 billion (52.5% of GDP) at the end of November 2019. They increased annually by 9.3% in December 2019 (9% yoy growth in November 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 558.7 million. On an annual basis, loans sold8 by Other MFIs were BGN 574.4 million (of which BGN 309 million in December 2019), while the amount of repurchased loans was BGN 15.7 million (there were no loan repurchases in December 2019). In December 2019, loans to Non-financial corporations increased by 5.9% yoy (5.4% yoy growth in November 2019) and at the end of the month amounted to BGN 34.616 billion (29% of GDP). Loans to Households and NPISHs were BGN 23.907 billion (20% of GDP) at the end of December 2019. They increased by 9.5% compared to the same month of 2018 (9.5% yoy growth in November 2019). At the end of December 2019 loans for house purchases were BGN 10.771 billion and increased by 14.5% yoy (14.4% yoy growth in November 2019). Consumer loans amounted to BGN 11.330 billion and compared to December 2018 they increased by 10.8% (10.9% yoy growth in November 2019). On an annual basis other loans decreased by 40.9% (38.2% yoy decline in November 2019) and reached BGN 514.6 million. Loans granted to financial corporations were BGN 4.173 billion at the end of December 2019 (3.5% of GDP). Compared to December 2018, they increased by 46.9% (46.7% annual growth in November 2019).

CAPITAL MARKET

In January 2020, all four leading indices on the stock exchange reported an increase: SOFIX to 575.87 points, BG TR30 to 522.33 points, BGBX 40 to 113.20 points and BGREIT to 133.73 points.
According to BSE-Sofia data, in January 2020 the BSE-Sofia basic index rose by 1.36% to 575.87 points. BGBX 40's most liquid index rose 1.23% to 113.20 points in January after rising 2.79% to 111.83 points in December. The weighted BG TR30 rose 1.27% to 522.83 points in January after registering an increase of 4.15% to 516.28 points in December. The BGREIT property meter rose 2.85% to 133.73 points in January after rising 1.03% to 130.03 points in December. Of the companies included in SOFIX, in January 2020 the ratio between the winning and losing emissions is 6:8 and one issue without change. In the past 2019, the largest loser companies included in the Bulgarian blue chip index were reported in October, when the ratio of winners to losers was 2:13. A year earlier, in January 2019, the ratio was worse - only 4 winners to 11 losers. In January, there were two issues with double digits, as opposed to December, when there were three issues over 10%. The stock market turnover in January 2020 dropped by more than BGN 6.5 million to BGN 8 849 435 after transactions in shares of the 15 SOFIX companies for BGN 14 514 023 were reported in December 2019. In January 2020, only two issues generated turnover of more than BGN 1 million, compared to December last year, when they were 4. The highest turnover in January 2020 was reported by the shares of Doverie United Holding (BGN 1,322,391). followed by Eurohold Bulgaria (BGN 1 125 510).

In January 2020, Sopharma retained its leading position in market capitalization (BGN 471 792 647), followed by: Gradus (BGN 406 826 546), Chimimport (BGN 383 434 027), First Investment Bank (356 400 000) and Eurohold Bulgaria (BGN 300 238 912). After September 24, 2019, five holdings remain in SOFIX, including Eurohold Bulgaria (-13.64%) and Varna Holding (-0.50%) in January, one unchanged - Sirma Group Holding (0.00). The profits are Doverie United Holding (+ 40.85%) and Industrial Holding Bulgaria (+ 0.98%). The company with the highest turnover for January 2020 is Capital Concept Limited AD, with a realized volume of BGN 5,000 040. The second place is occupied by Balkan and Sea Properties REIT with realized volume of BGN 4 056 112. There are three representatives of special investment purpose companies in the ranking, and they are respectively Balkan & Sea Properties REIT, Advance Terrafund REIT and Real Estate Fund Bulgaria REIT. The smallest number of deals in the ranking are Capital Coscept Limited AD, Balkan and Sea Properties REITs, Eurohold Bulgaria AD and Rodna Zemlia Holding AD, and the largest First Investment Bank AD, Advance Terrafund REITs, Chimimiverod Holdingport DR. The most profitable company in January 2020 was Premier Fund REIT, which achieved double-digit growth of 82.1%. Doverie United Holding AD ranks second, followed by Speedy AD with a growth of 10.9%. The fourth position is for VF Alternative AD with a monthly growth of 9.1%. The last company in the rankings recorded a single-digit growth, respectively, Stara Planina Hold AD with a growth of 8.2%. The worst-performing company in January 2020 was Eurohold Bulgaria AD with a decrease of 13.6%. First Investment Bank AD ranks second with a decline of 9%, followed by CEZ Distribution Bulgaria AD, which recorded a 4.6% decline in January. The penultimate position in the ranking is Hydraulic Elements and Systems AD with a decrease of 3.3%.

BANKING SECTOR

At the end of December 2019, the assets of the banking system reached BGN 114.2 billion and increased by 1.5% mom and by 8.2% yoy, respectively. Their relative share in GDP is 97.5%. Gross loans and advances to customers amounted to BGN 66.3 billion, reporting a negative trend of -0.4% mom and an increase of 8.8% yoy, respectively. The attracted funds from clients in the banking system amounted to BGN 91.8 billion, increasing by 2.2% mom and by 8.6% yoy , respectively. The aggregate net profit of the banking system is BGN 1675 million, reporting a 0.2% decline on an annual basis. At the end of December 2019, the gross amount of non-performing loans and advances was BGN 6.1 billion and their share in the total amount of gross loans and advances decreased to 6.5%.

According to BNB data, the aggregate net profit of the banking system in Bulgaria as of December 31, 2019 is BGN 1675 million, which is by BGN 3 million (- 0.2%) less than at the end of the reporting period. December 2018 Impairment losses on financial assets that are not carried at fair value through profit or loss amount to BGN 431 million at the end of December 2019 (compared to BGN 479 million a year earlier). At the end of December 2019, the levels of Return on Assets (ROA) and Return on Equity (ROE) ratios were 1.5% and 11.6%, respectively.

Indicator (BGN 000)	31.12. 2018	31.12. 2019	Y/Y (%)
Interest Income	3 039 649	3 031 784	-0.3
Interest Expence	297 250	286 082	-3.8
Net interest Income	**2 742 399**	**2 745 702**	**0.1**
Impairment	478 719	430 665	-10.0
Divident income	***150 259***	***165 867***	10.4
Fee and commission income	1 250 356	1 322 569	5.8
Fee and commission expenses	184 508	216 138	17.1
Net fee and commission income	**1 065 848**	**1 106 431**	**3.8**
Administration costs	1 717 348	1 664 160	-3.1
Personal costs	862 405	886 633	2.8
Total operating income, net	4 222 508	4 231 997	0.2
Net Profit	**1 677 846**	**1 674 983**	**-0.2**

Source:BNB, UBB's Calculations

At the end of December 2019, the assets of the banking system reached BGN 114.2 billion, or 1.5% mom and by 8.2% yoy, respectively. Their relative share in GDP is 97.5%. The dynamics of the balance sheet positions in Q4 2019 are affected by the consolidation process in the banking sector. At the end of 2019, the share of the carrying amount of loans and advances was 65.8%, that of money, balances with central banks and other sight deposits –15.9%, and of securities portfolios - 13.0 %. The five largest banks in the banking system's assets reach 62.1%.Gross loans and advances to customers at the end of December amounted to BGN 66.3 billion, reporting a negative trend of -0.4% mom and an increase of 8.8% yoy, respectively. Claims on other financial institutions increased by 1.9% mom and by 42.9% yoy, respectively to BGN 4.6 billion. The total increase in corporate loans for the last quarter is BGN 1 171 080 thousand, which is almost entirely due to the increase in Other financial corporations BGN 923 452 thousand. The increase in the most important sector Non-financial corporations is a negligible BGN 119 746 thousand. Even in the general government sector, the increase is greater than BGN 127 882 thousand. The increase in the sector in Other financial corporations is due almost entirely to the conversion of loans from the sector Credit institutions to the sector Other financial corporations in connection with the consolidation process in Exspresbank and SSB as well as Eurobank Bulgaria AD. Loans to general government increased by 0.5% mom and by 25.8% yoy, respectively to BGN 0.9 billion. Loans to non-financial corporations amount to BGN 36.6 billion, reporting a decline of 1.1% mom, compared to an increase of 4.9% yoy, respectively. Household loans amount to BGN 24.2 billion and increase by 0.2% mom and by 9.6% yoy, respectively. The attracted funds from customers in the banking system at the end of the year amounted to BGN 91.8 billion, increasing by 2.2% mom and by 8.6% yoy, respectively. Household deposits increased (by 1.8% mom and by 7.9% yoy, respectively to BGN 57.6 billion. Deposits of non-financial corporations reached the amount of BGN 28.2 billion and increased by 2.2% mom and by 11.4% yoy, respectively. Deposits by other financial corporations increased by 4.3% mom and by 6.5% yoy, respectively to BGN 3.4 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**	**28 150 012**	**2.2**	**11.4**	**11.4**	**23.9**
Financial corporations deposits	3 213 474	3 280 265	3 422 053	4.3	6.5	6.5	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	11.6	-0.1	2.6	-0.5	
ROA	1.6	1.5	1.5	0.0	0.4	-0.1	
Capital adequacy	20.4	n.a	n.a	n.a	n.a	n.a	
LCR (%)	294.1	271.8	269.9	-1.9	n.a	n.a	
NPL	7.6	n.a	6.5	n.a	-1.1	-1.1	
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

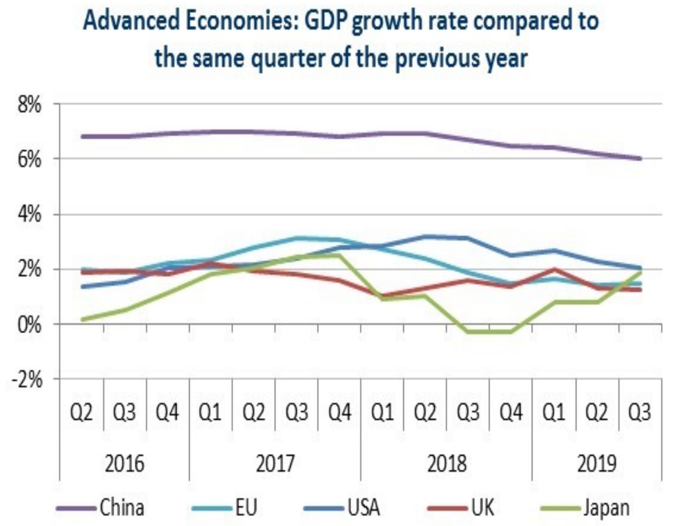
The liquidity coverage ratio as of December 31 was 269.9% (compared to 294.1% at the end of 2018). At the end of the year, the liquidity buffer was BGN 30.9 billion and net outflows were BGN 11.5 billion. At the end of 2019, the banking system's balance sheet capital amounted to BGN 14.4 billion and increased 1.7% on a monthly basis and 3.9% on an annual basis, which is mainly due to the redistributed profit.

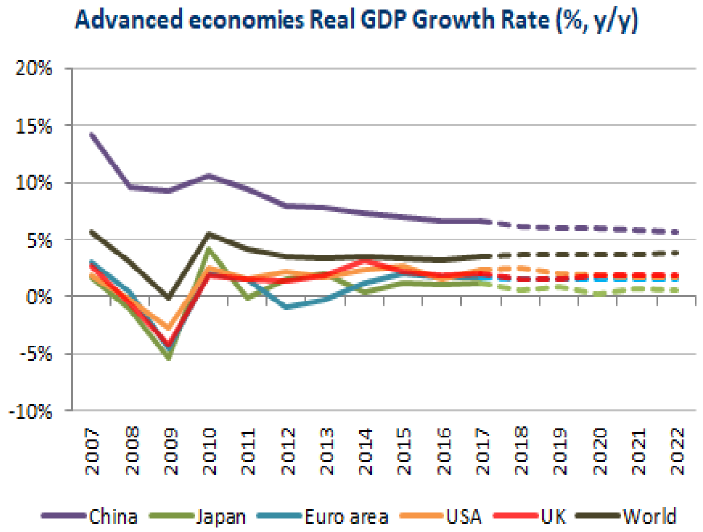
	Gross book value / nominal value					Cumulative impairment, accumulated negative changes in fair value due to credit risk and provisions	Non-performing loans	Relative share of non-performing loans (%)
		Performed	Non-performed				> 90 days	
Non-performing loans Total			Unlikely to be repaid, without arrears or overdue ≤ 90 days	Overdue > 90 days <= 180 days	Overdue > 180 days			
Loans and Advances	**94 454 735**	**88 334 418**	**2 185 552**	**454 544**	**3 480 221**	**-3 617 288**	**6 120 317**	**6.5**
Central banks	13 469 256	13 469 256	0	0	0	-167	0	0.0
General governments	932 642	926 385	923	97	5 237	-8 819	5 334	0.6
Credit Institutions	14 688 236	14 688 236	0	0	0	-4 147	0	0.0
Other financial corporations	4 594 445	4 433 771	1 981	1	158 692	-101 545	158 693	3.5
Non-financial corporations	36 577 144	32 398 562	1 691 108	302 967	2 184 507	-2 214 052	2 487 474	6.8
Retail Exposures, including	24 193 012	22 418 208	491 540	151 479	1 131 785	-1 288 558	1 283 264	5.3
Of which: Loans secured by residential property	12 486 586	11 716 361	273 359	55 108	441 758	-380 985	496 866	4.0
Of which Consumer Loans	12 427 281	11 359 225	283 629	101 456	682 971	-907 830	784 427	6.3
Source: BNB, Calculations UBB								

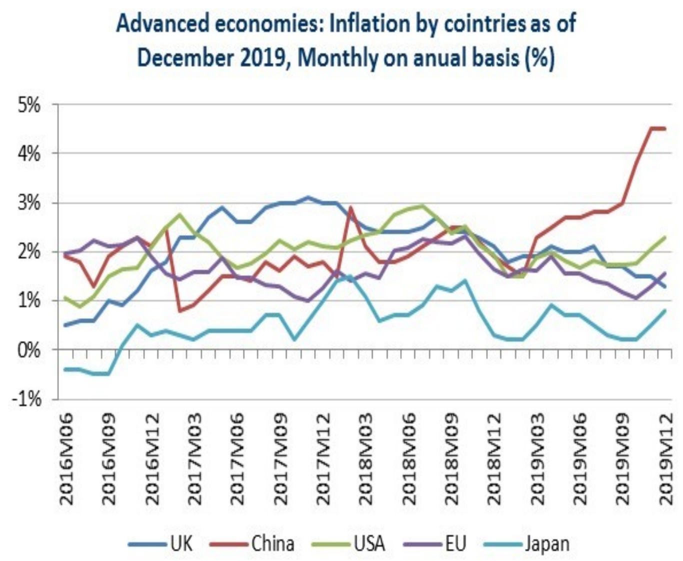
At the end of December 2019, the gross amount of non-performing loans and advances was BGN 6.1 billion and their share in the total amount of gross loans and advances decreased to 6.5% (against 7.6% at the end of 2018). The net worth of non-performing loans and advances (after deducting the impairment loss inherent in this classification category) also decreased to BGN 3.2 billion as of December 31, 2019 and its share in the total net value of loans and advances is 3.5%.

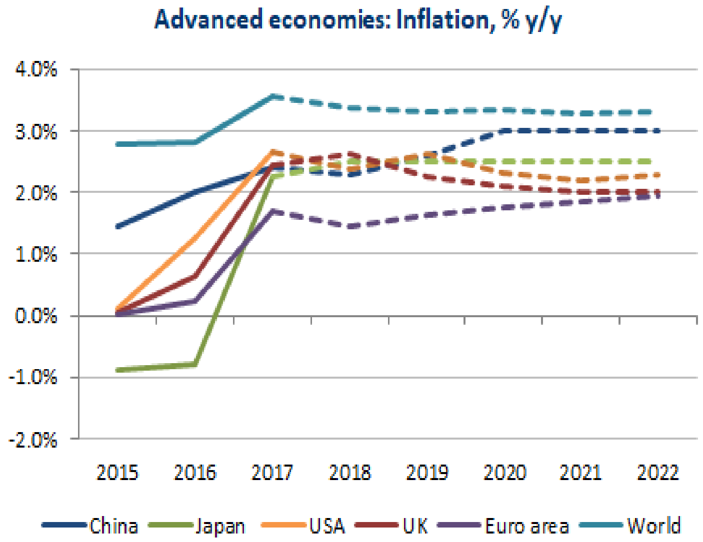
Appendix

ADVANCE ECONOMIES KEY INDICATORS



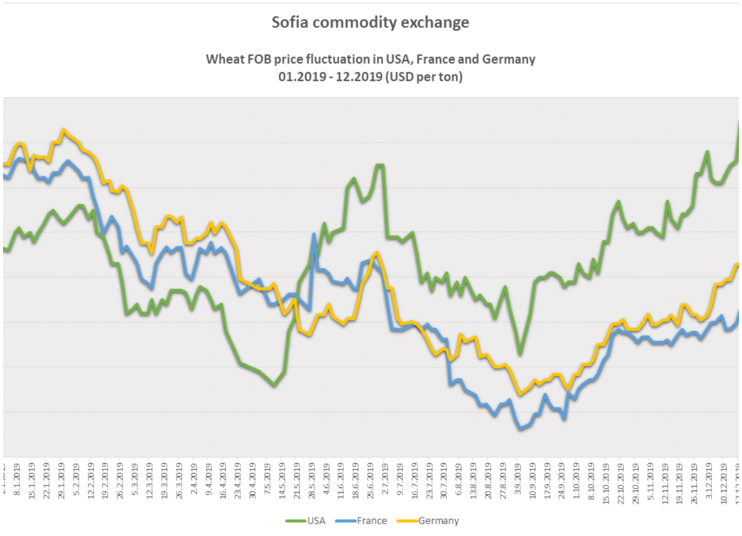


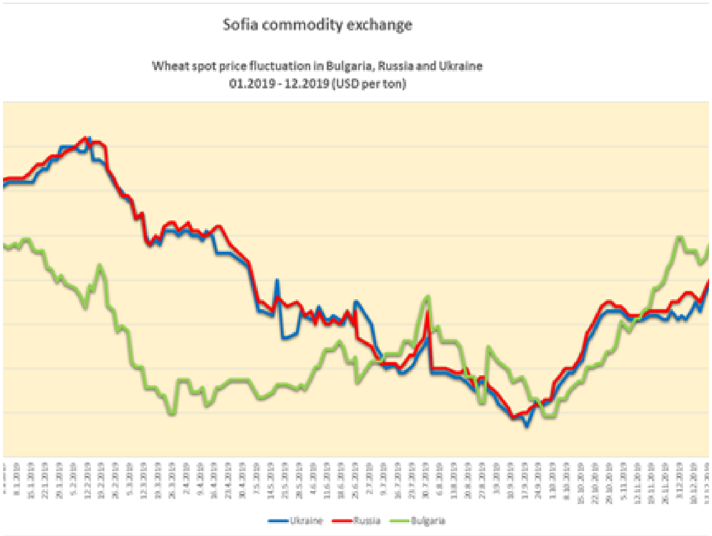


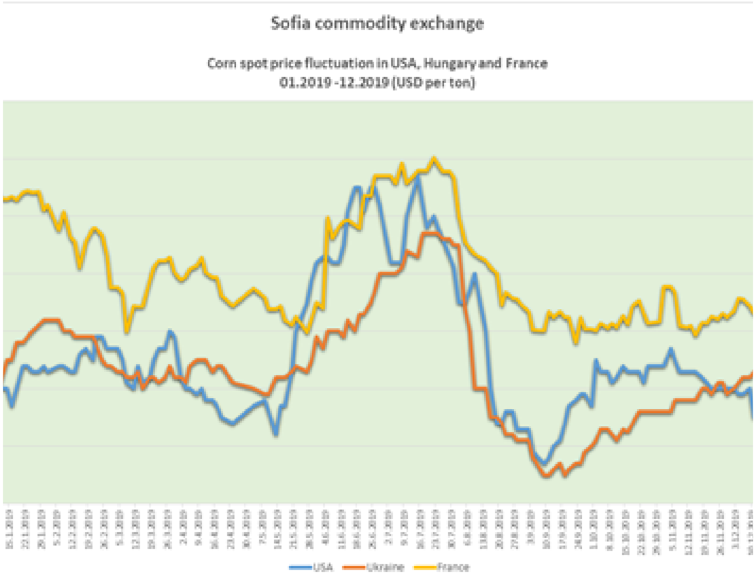


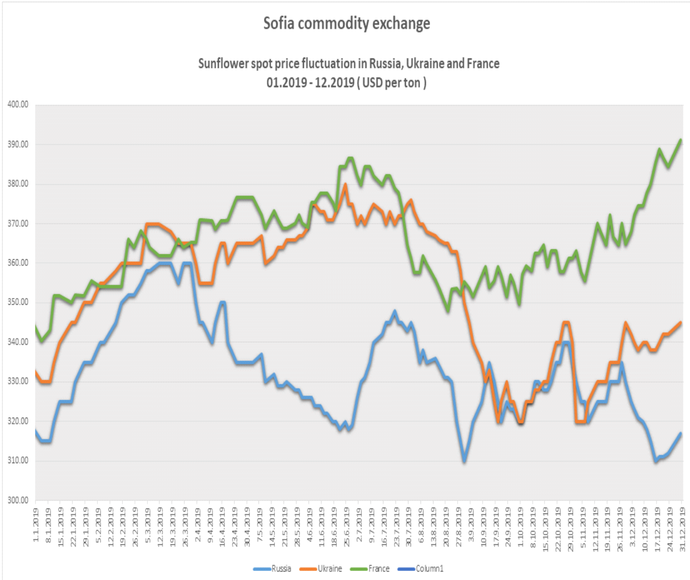
Source: IMF

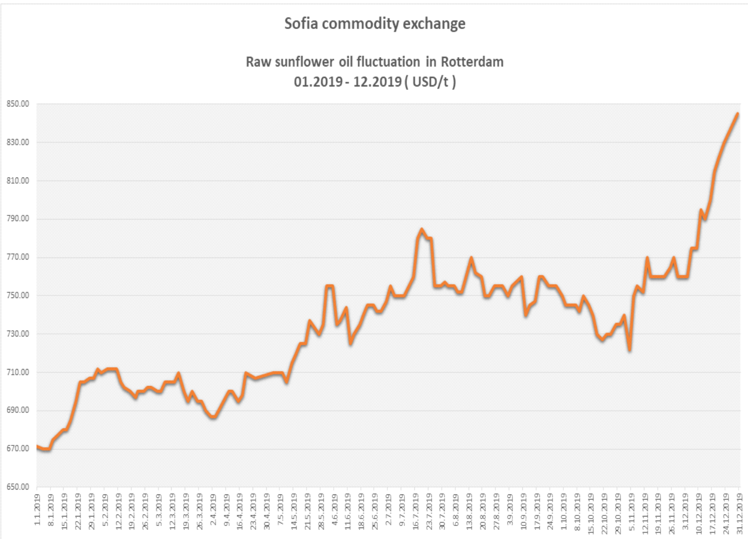
International Prices of Agriculture Products

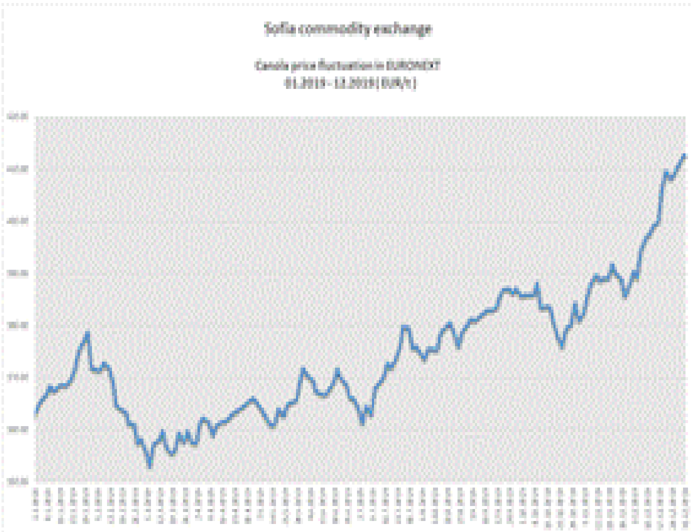






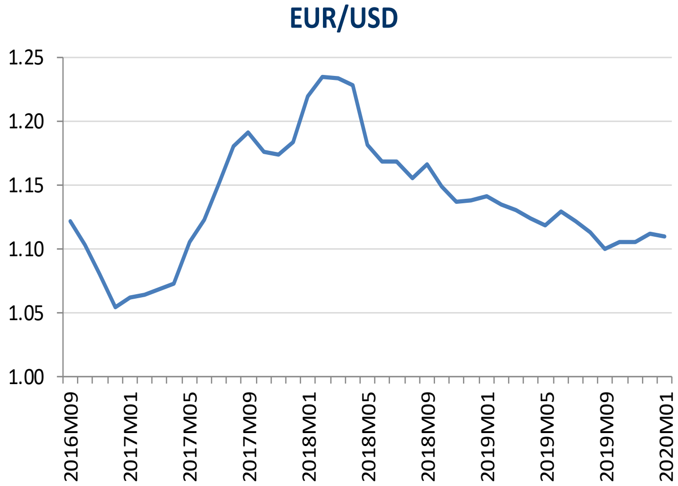


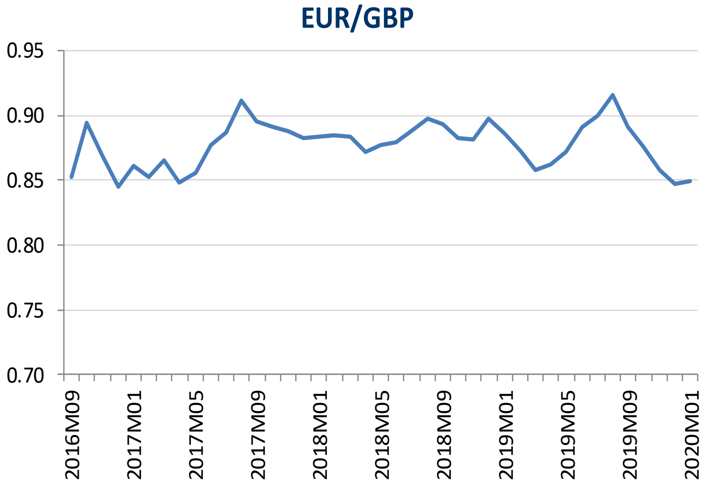


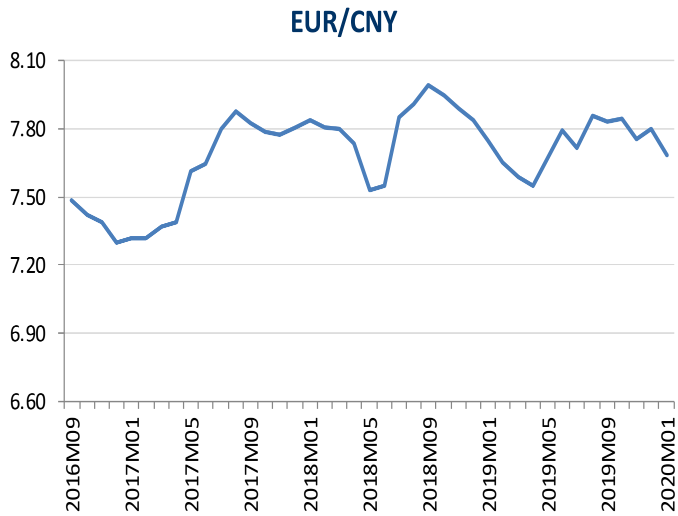


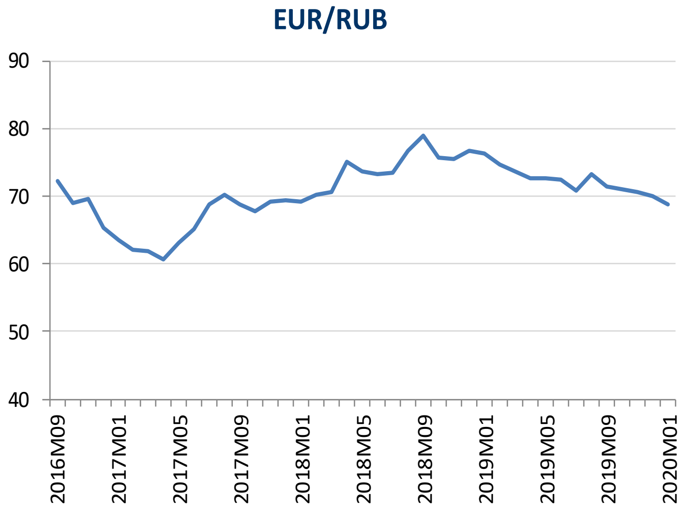
Source: SCE

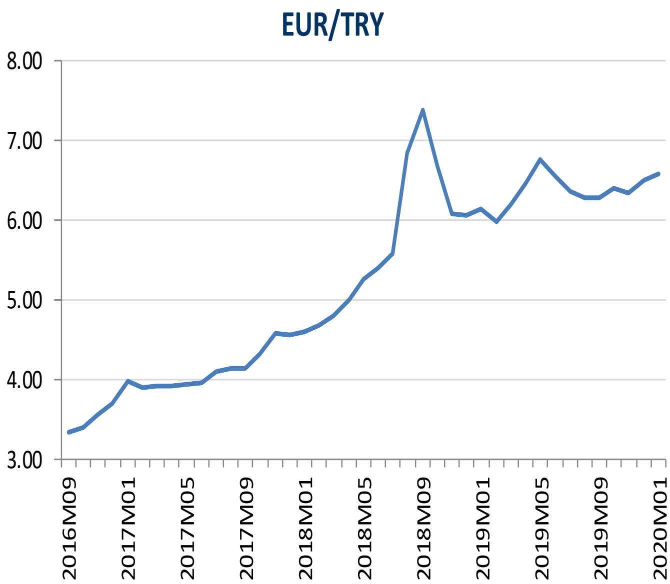
Overseas FX Rates

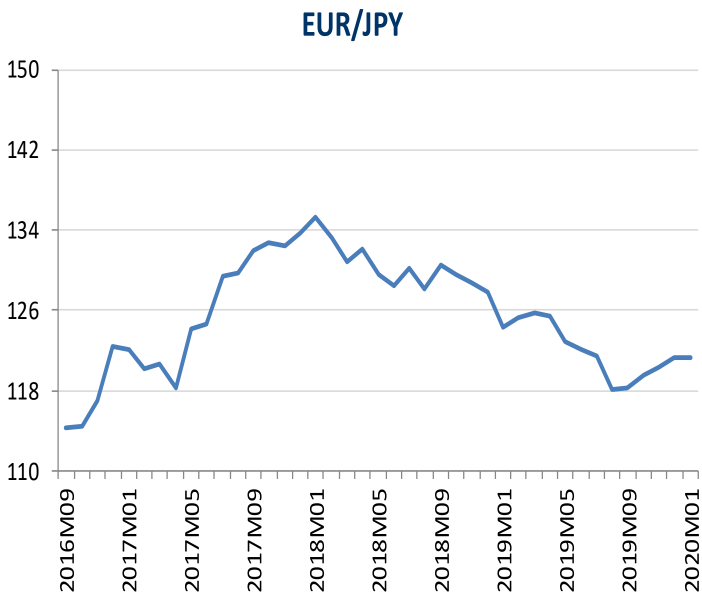






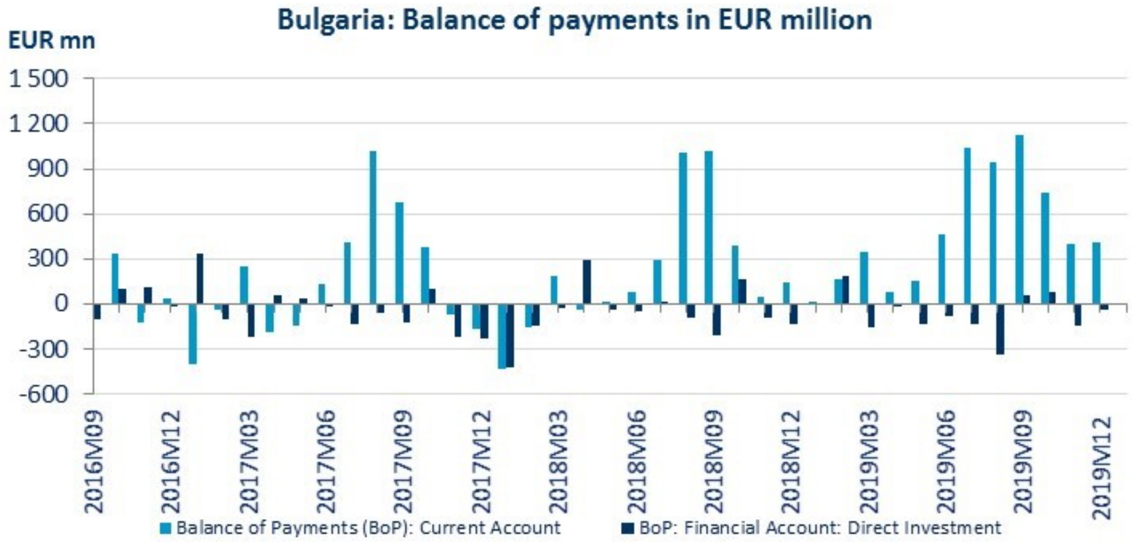


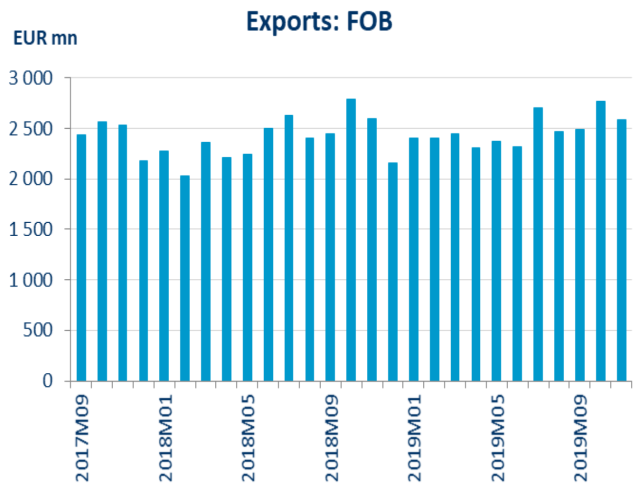


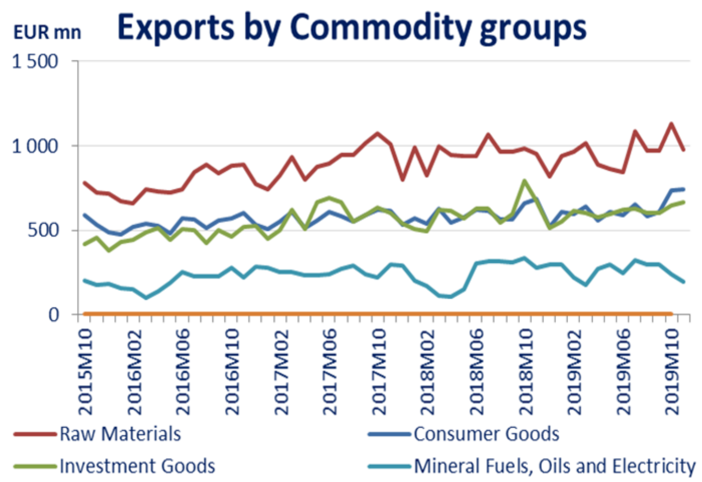


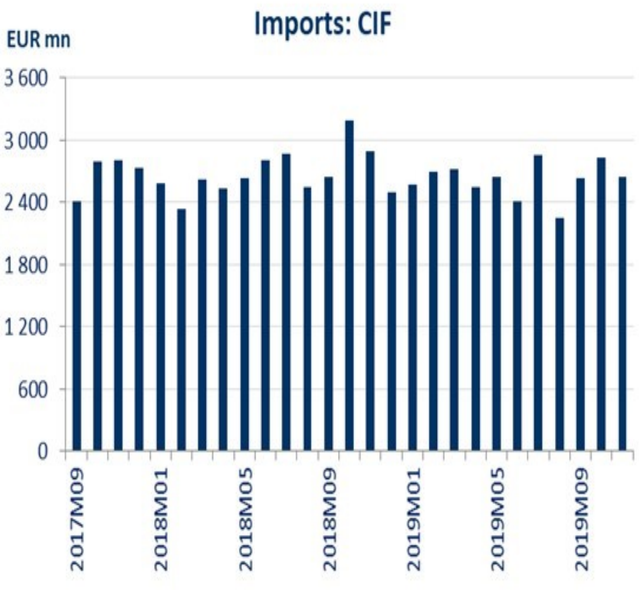
Source: ECB

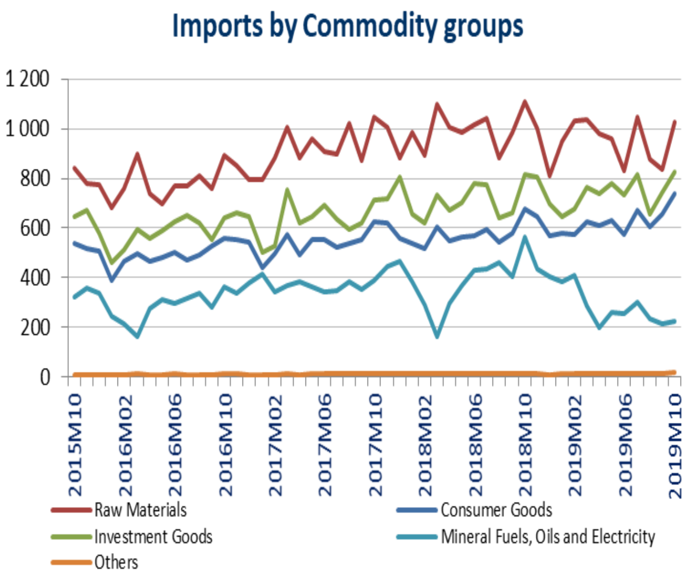
Bulgaria: External Sector Indicators





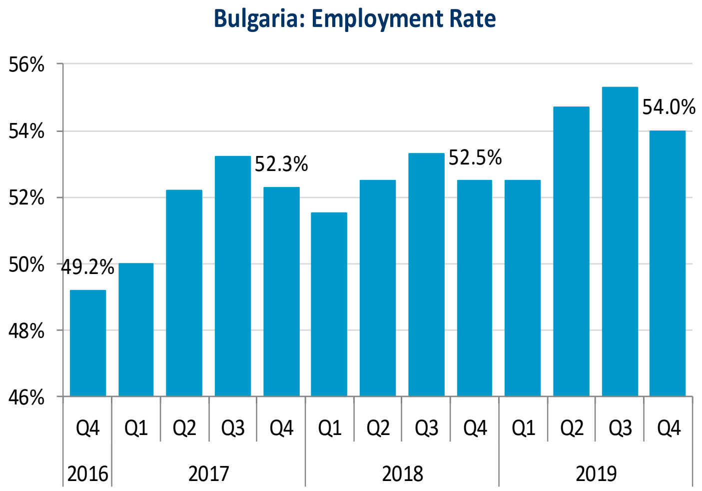


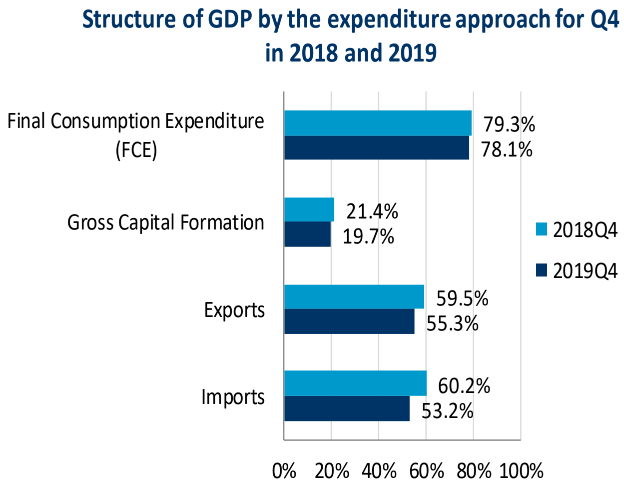


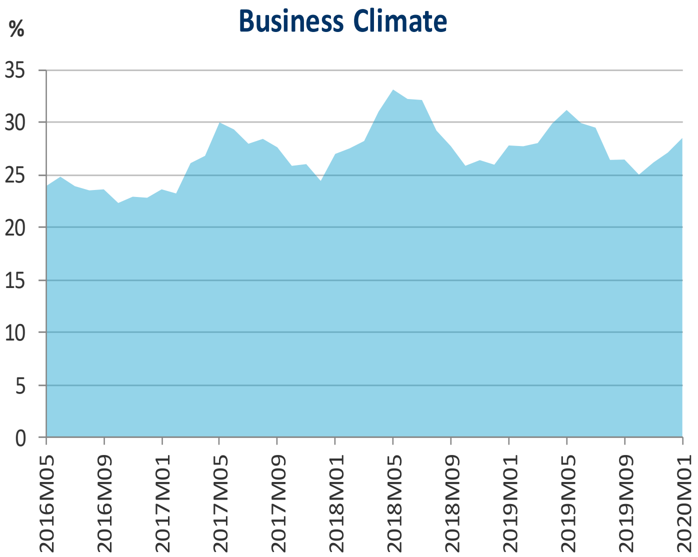


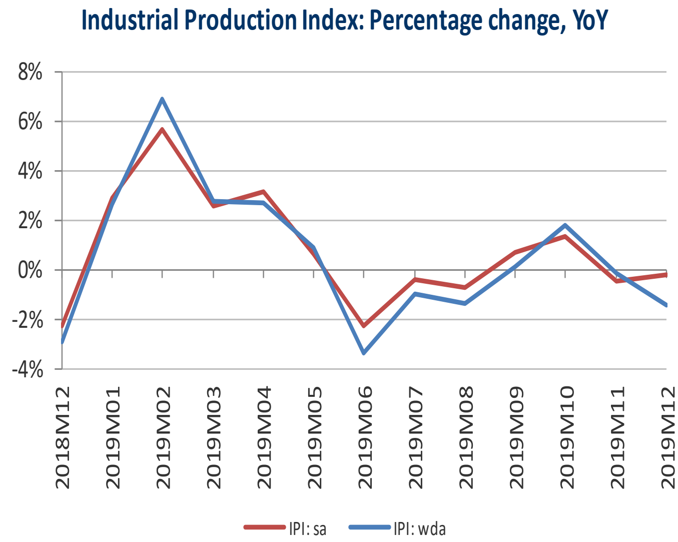
Source: BNB

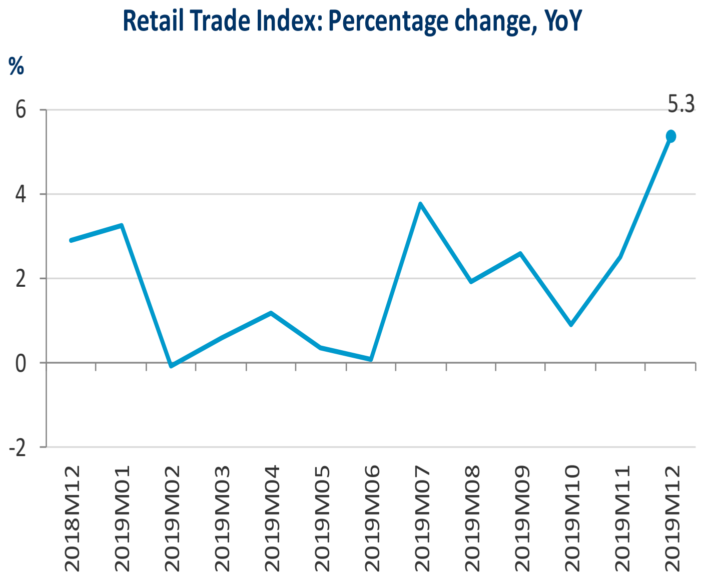
Bulgaria: Real Sector Indicators

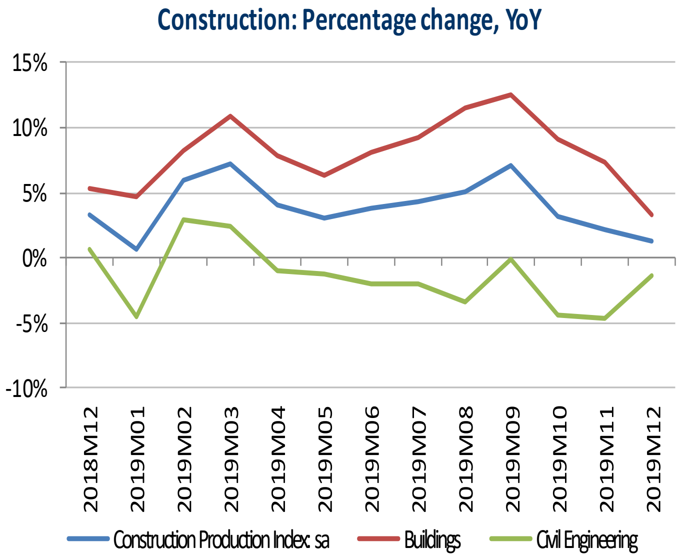








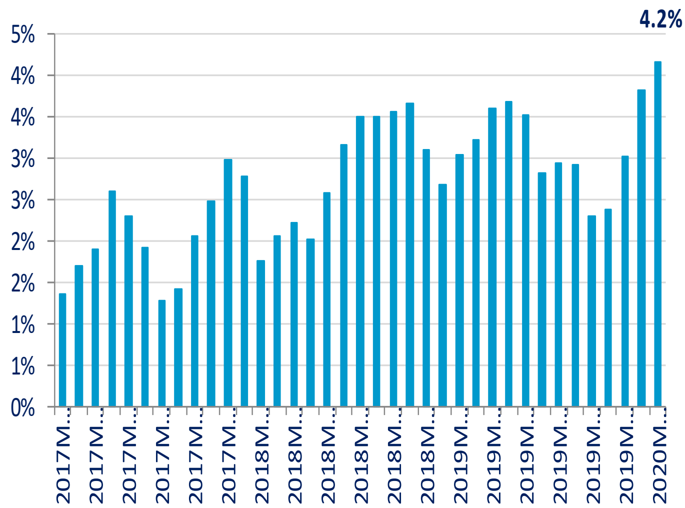




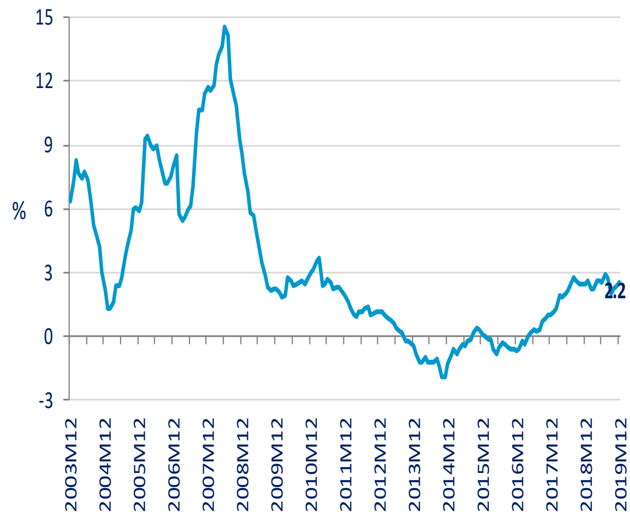
Source: NSI

Bulgaria: Prices Indicators

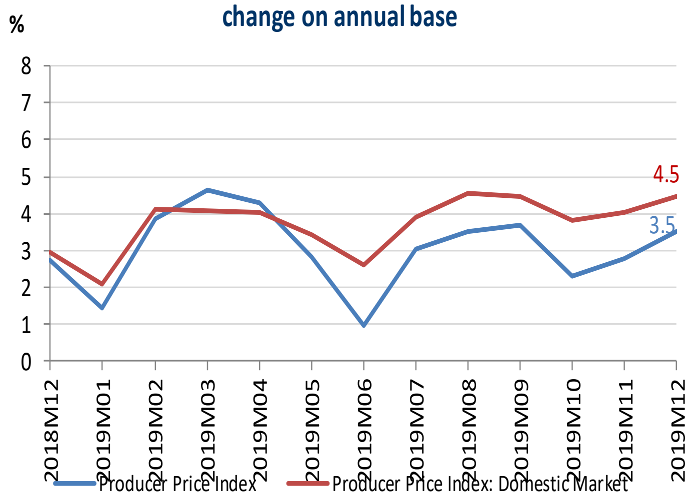
Bulgaria: CPI Inflation, Percentage change, YoY (%)



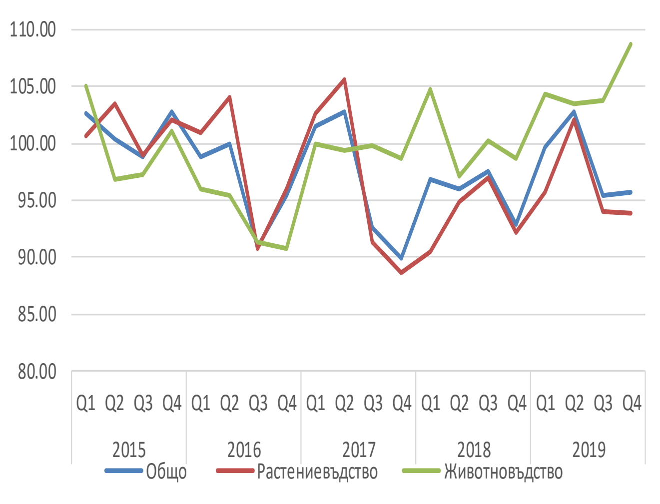
Bulgaria: Core Inflation, Percentage change, YoY



Producer Price Index and PPI on Domestic market, % change on annual base

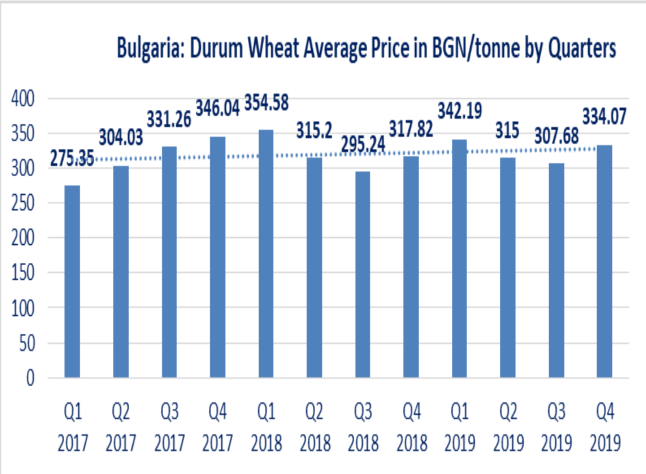


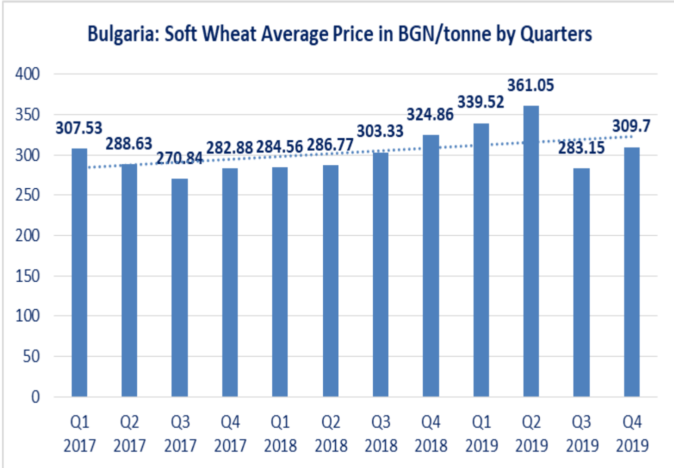
Bulgaria: Producer Prices Indexis in agriculture (2015=100)

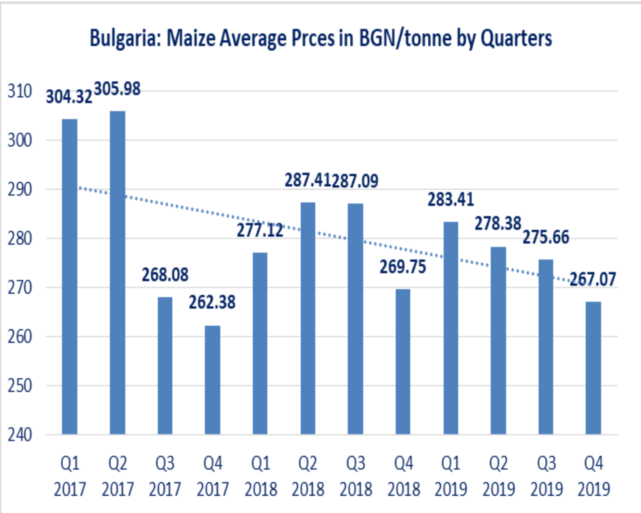


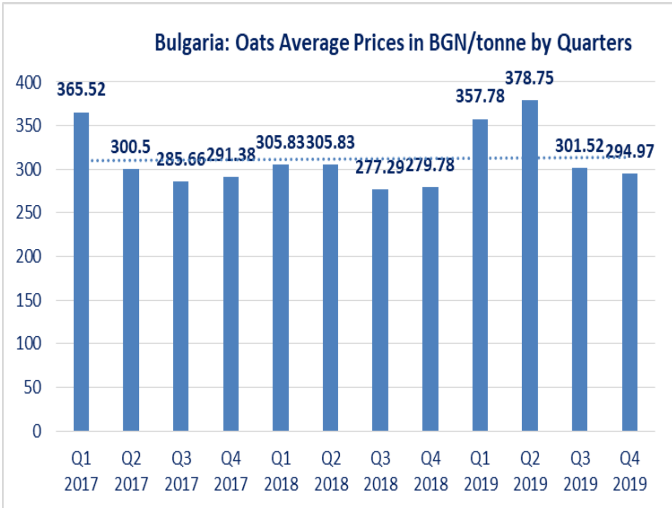
Source: NSI, EC

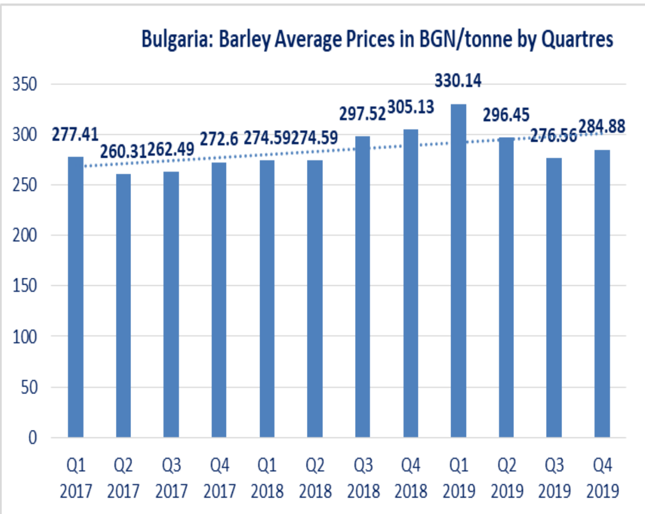
Bulgaria: Cereals Prices

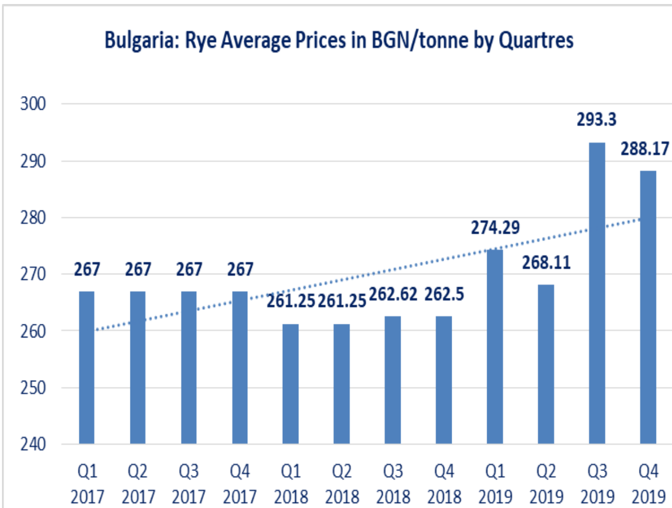






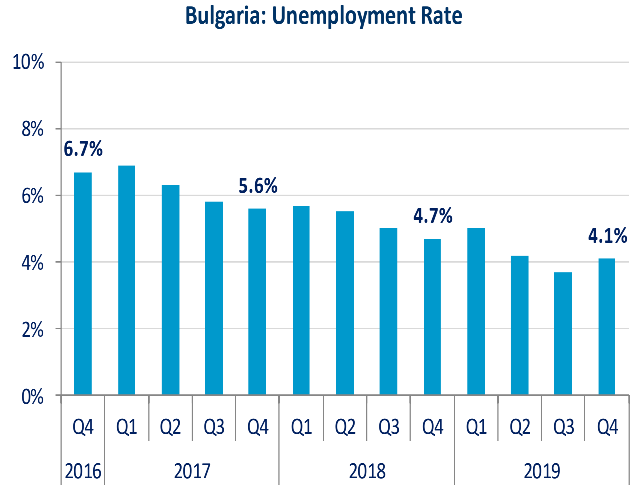


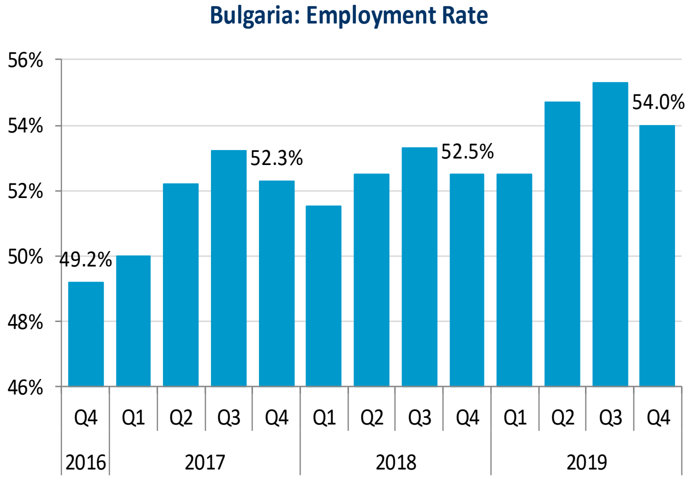


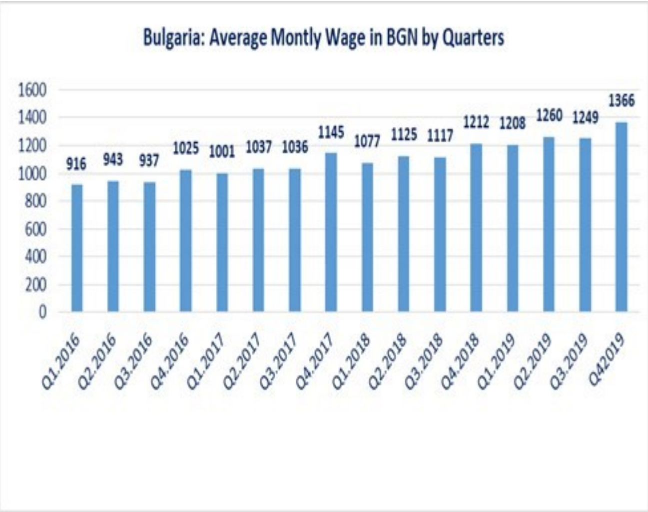


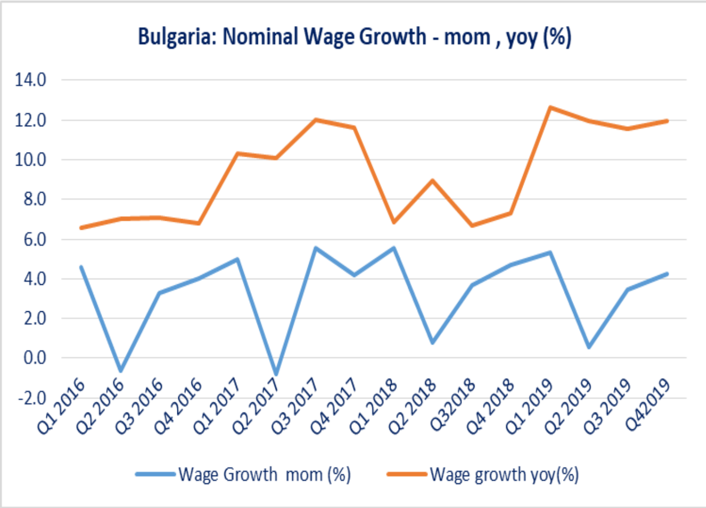
Source: NSI

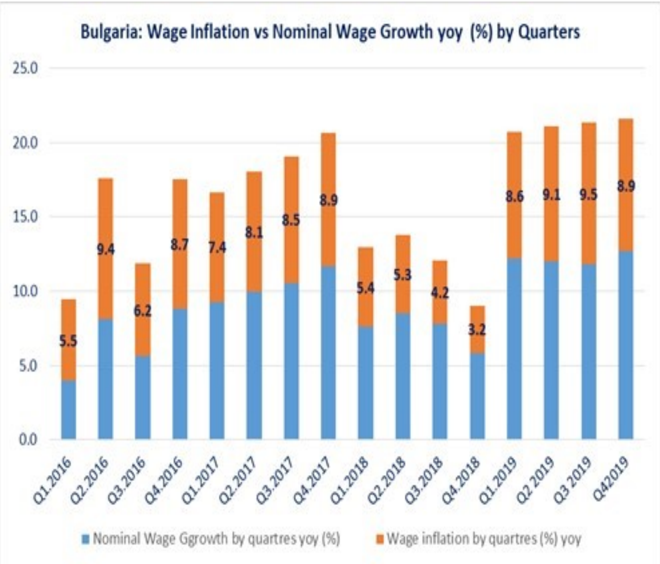
Bulgaria: Labor Market Indicators

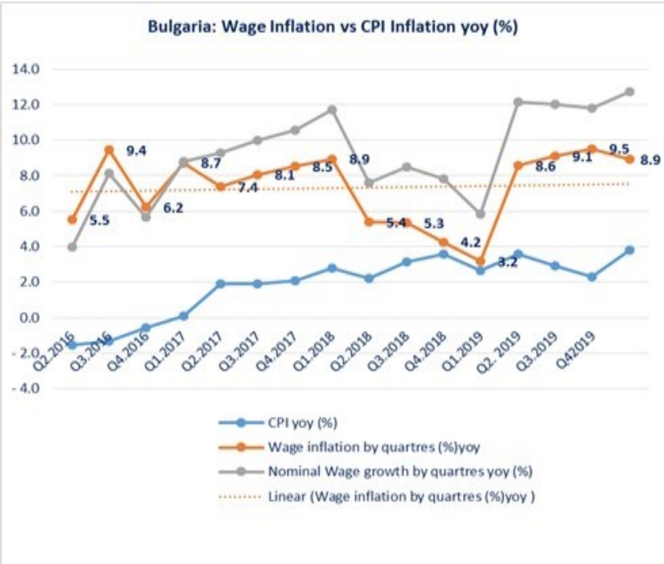






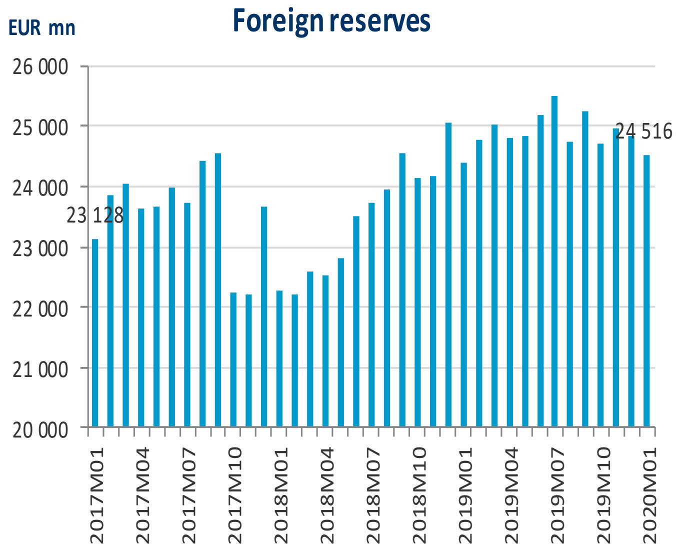


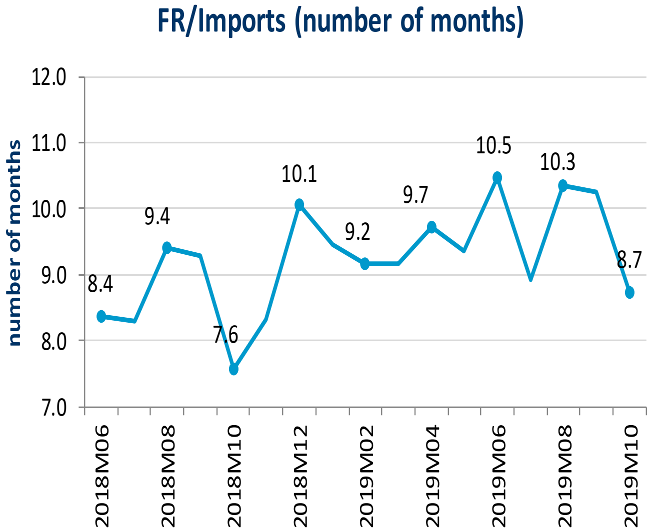


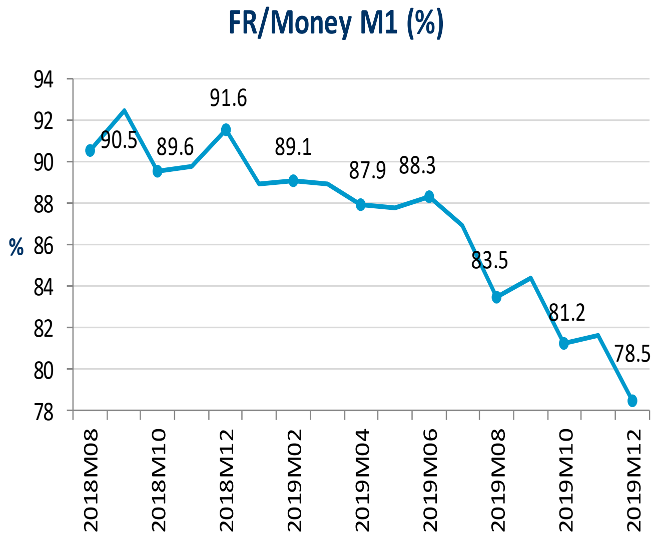


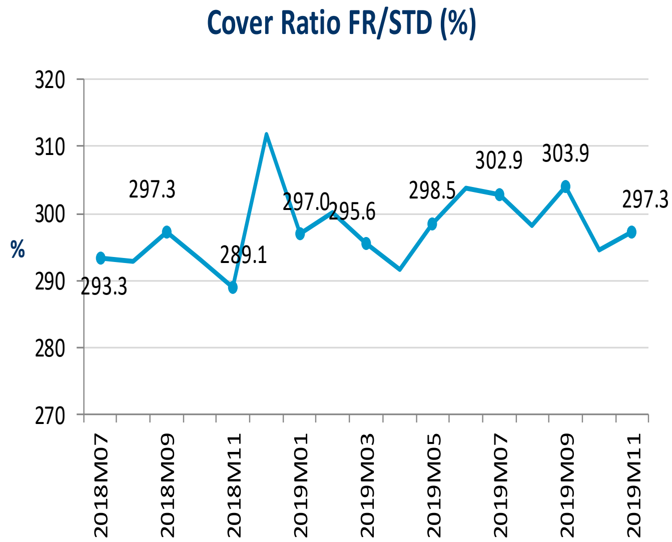
Source: NSI, EC

Bulgaria: Monetary Sector Indicators





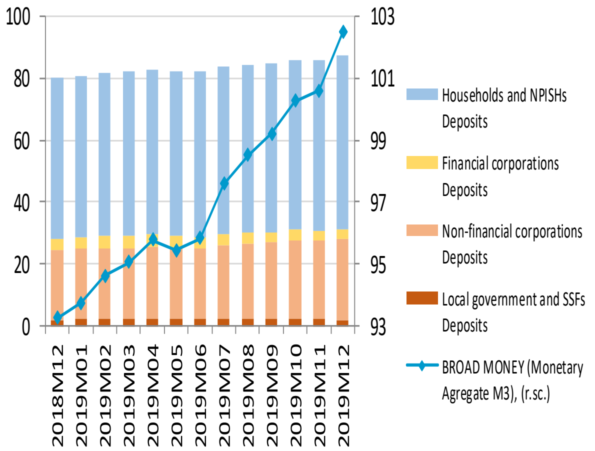




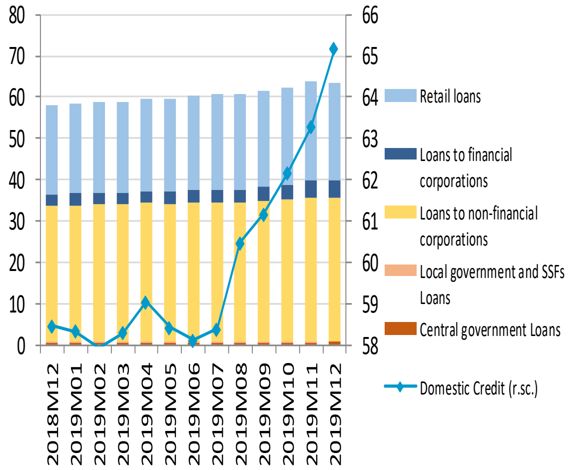
Source: BNB

Bulgaria: Monetary Sector Indicators

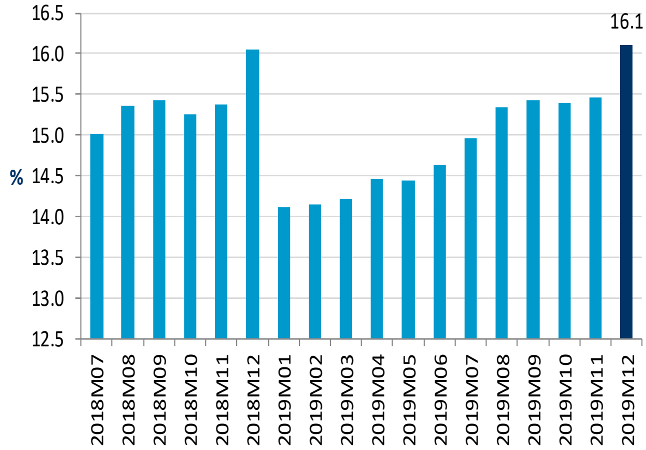
Deposits and Broad Money (M3), (BGN bn)



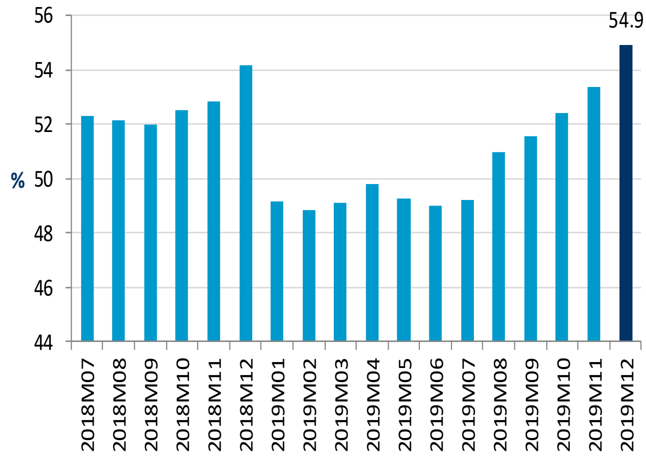
Loans and Domestic Credit (BGN bn)



Money in circulation/GDP (%)

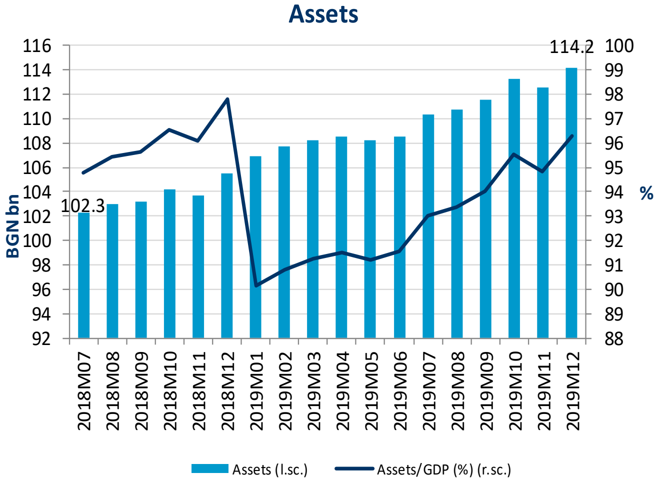


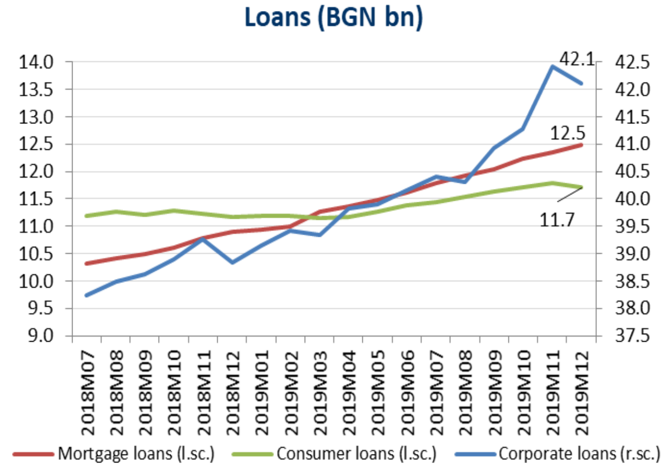
Domestic credit/GDP (%)

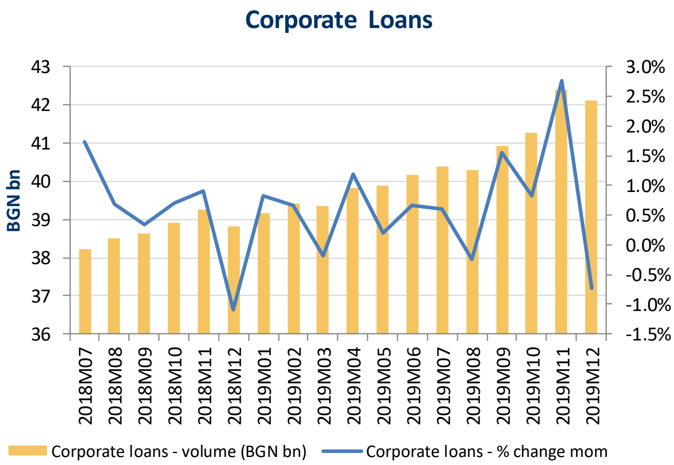


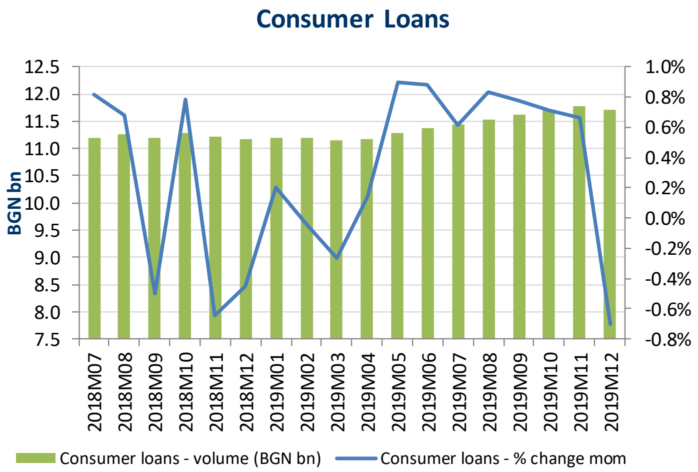
Source: BNB

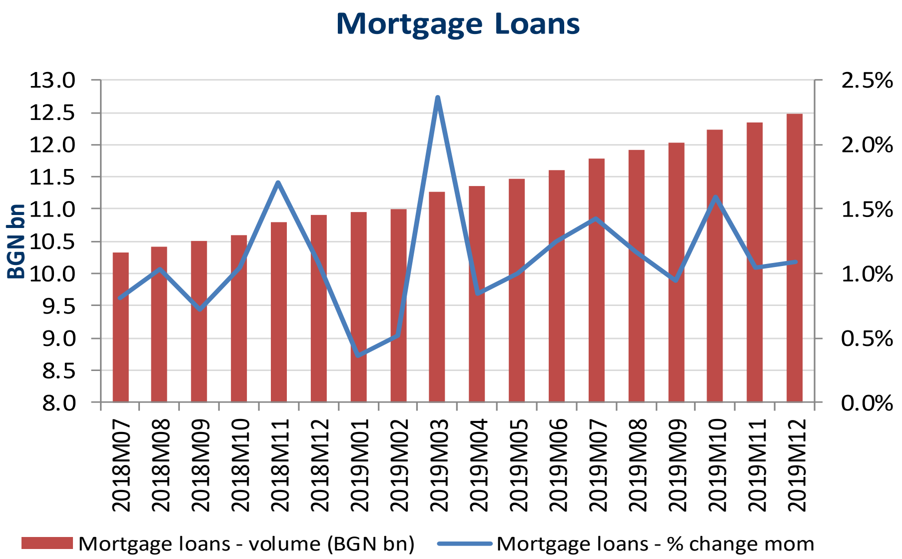
Bulgaria: Banking Sector Indicators





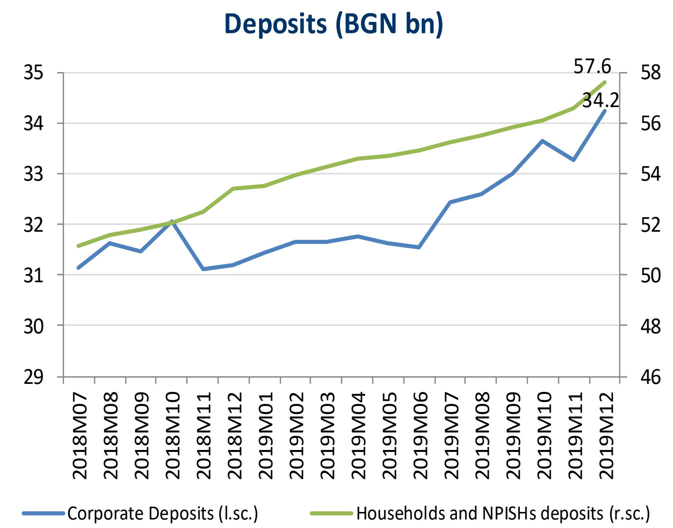


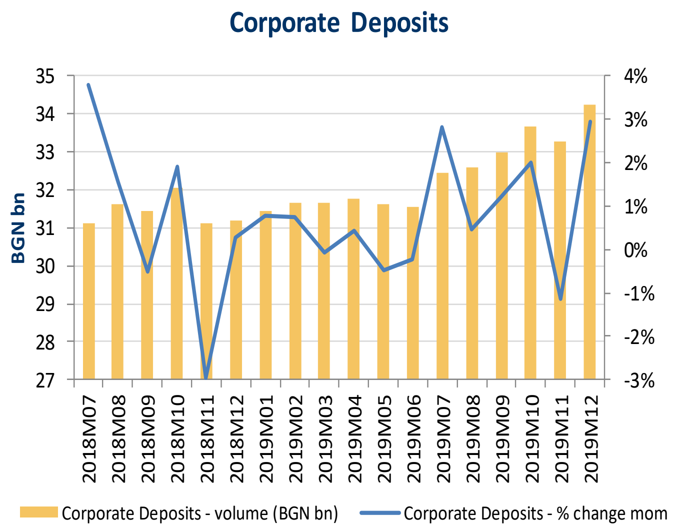


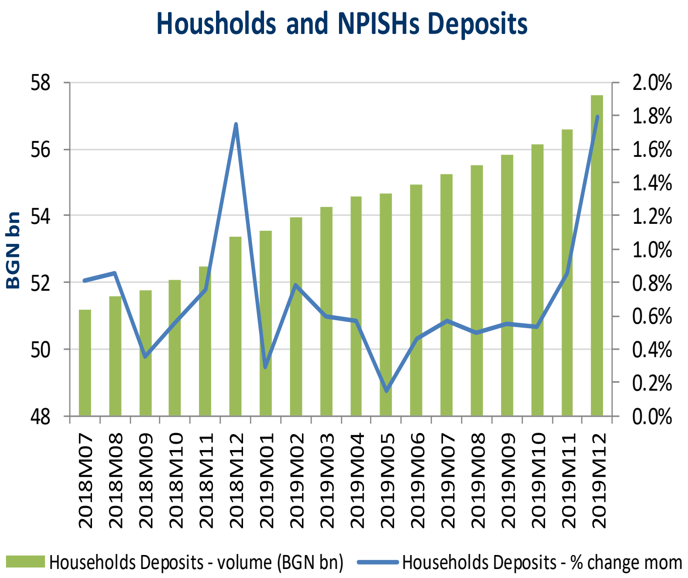


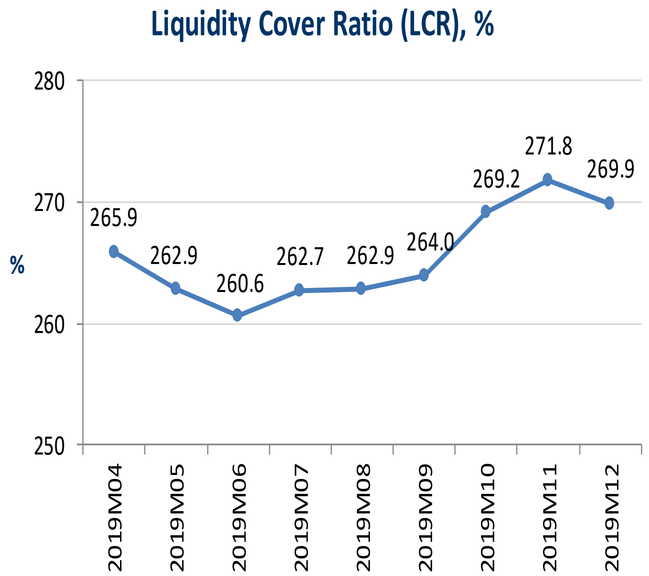
Source: BNB

Bulgaria: Banking Sector Indicators





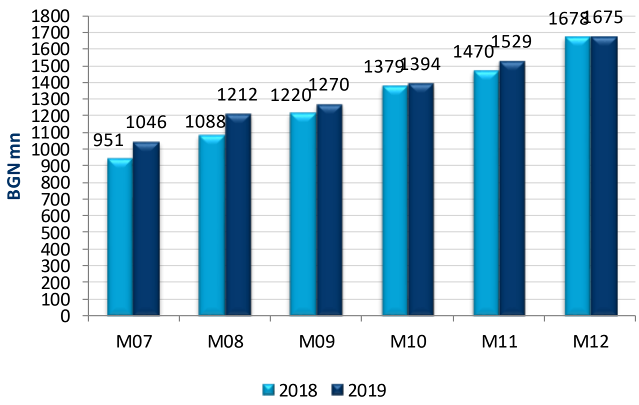




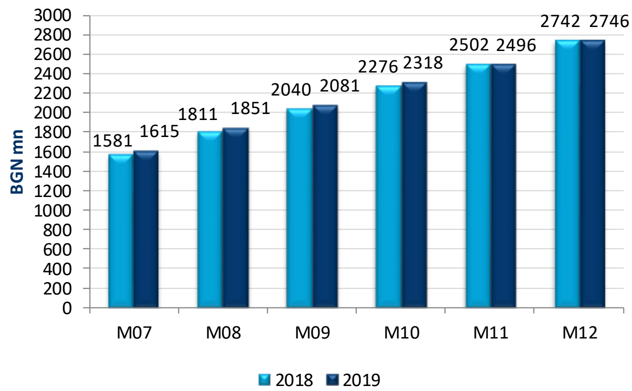
Source: BNB

Bulgaria: Banking Sector Indicators

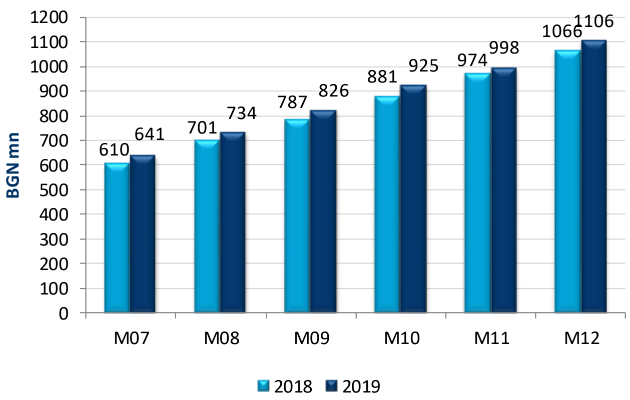
Net Profit



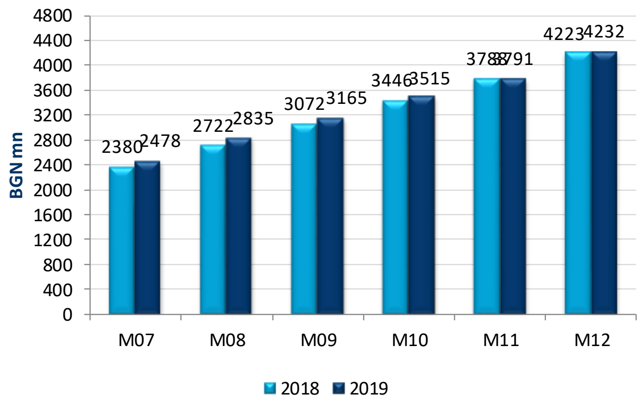
Net interest Income



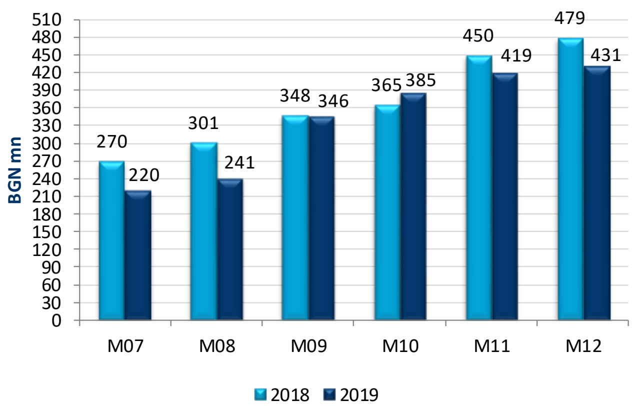
Net fee and commission income



Net operating income

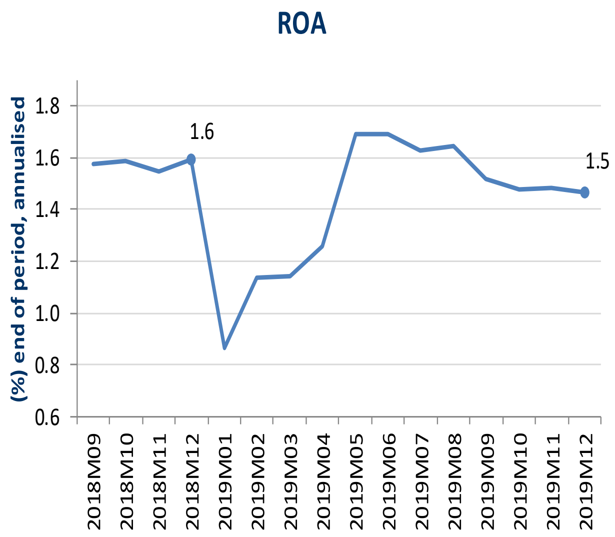


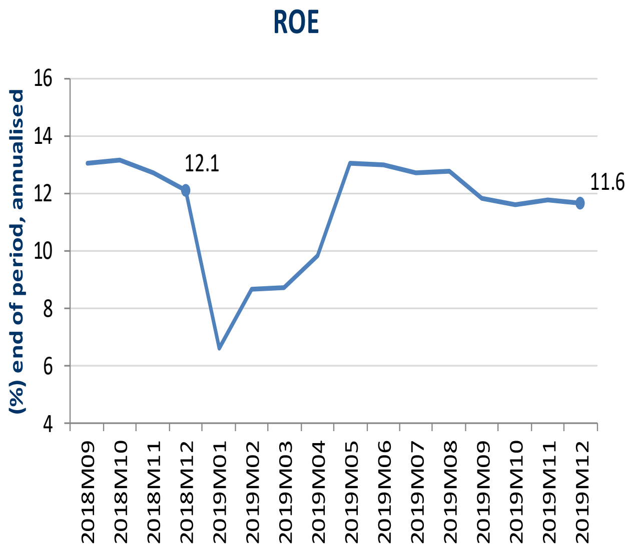
Impairment

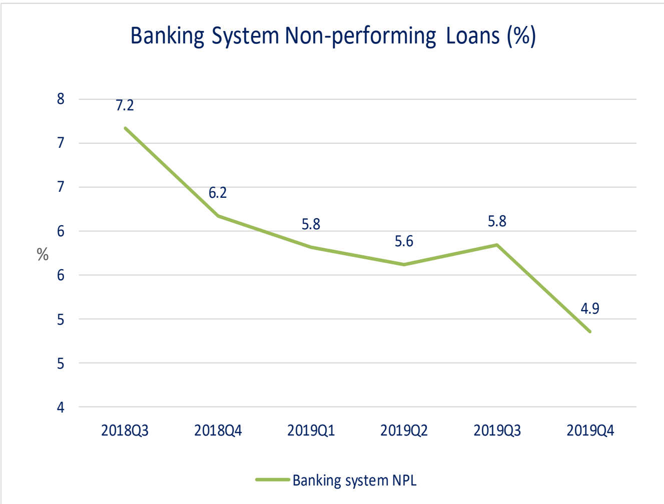


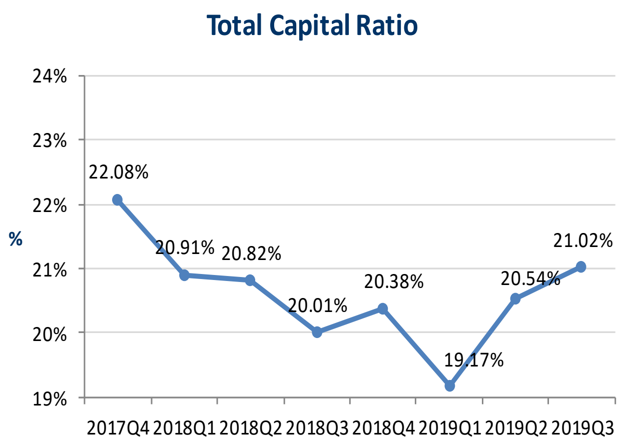
Source: BNB

Bulgaria: Banking Sector Indicators



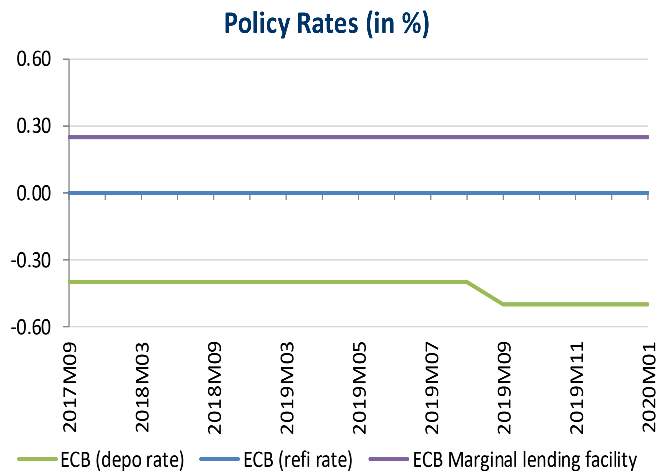


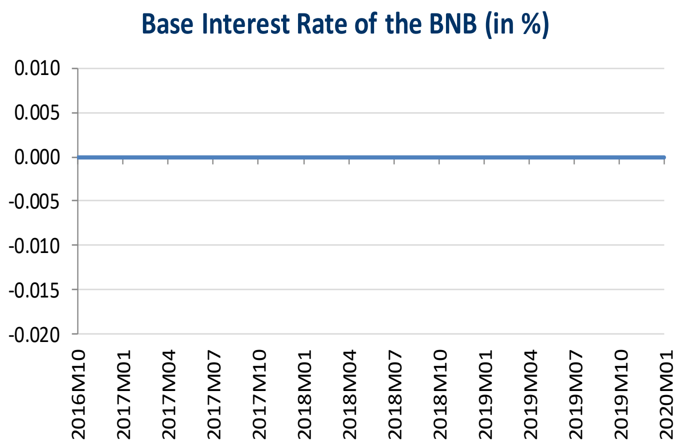


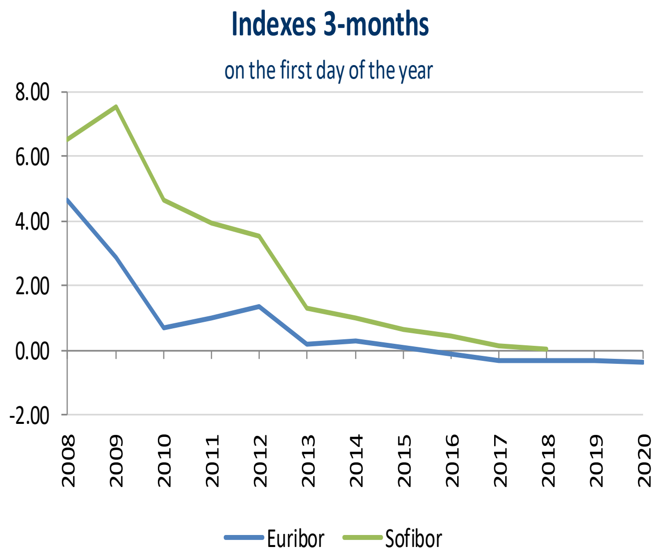


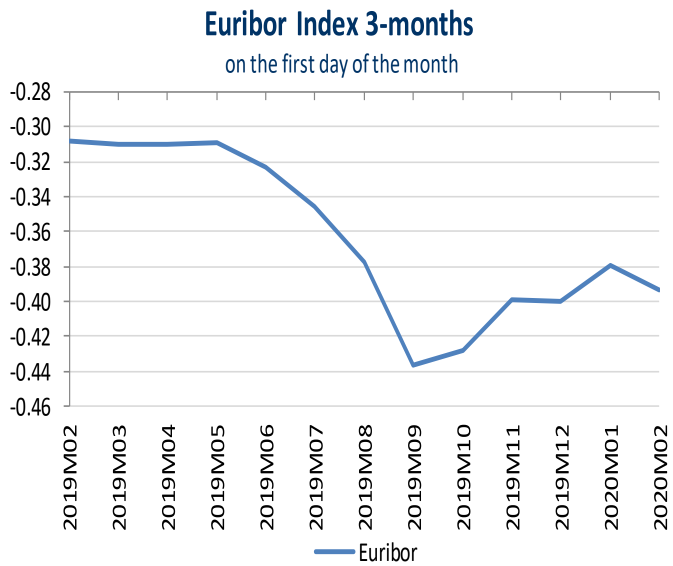
Source: BNB

Bulgaria: Indexes and Interest Rates



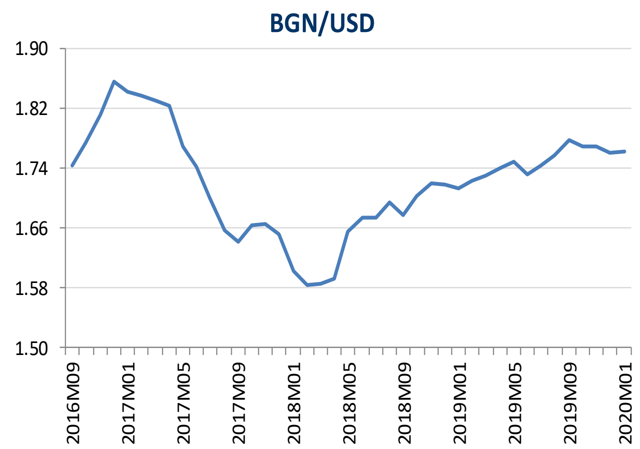


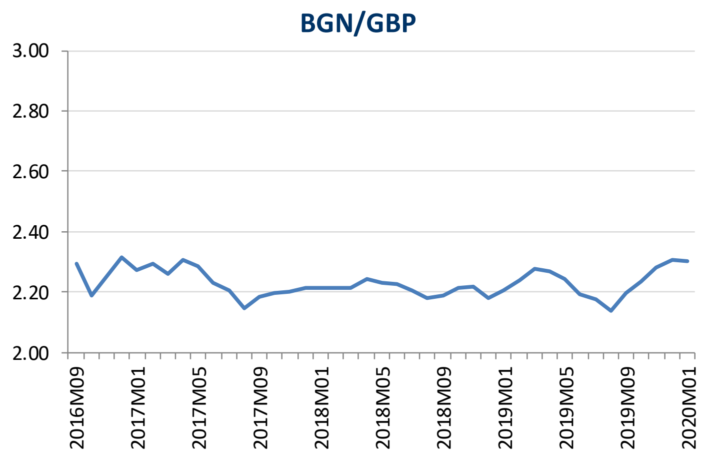


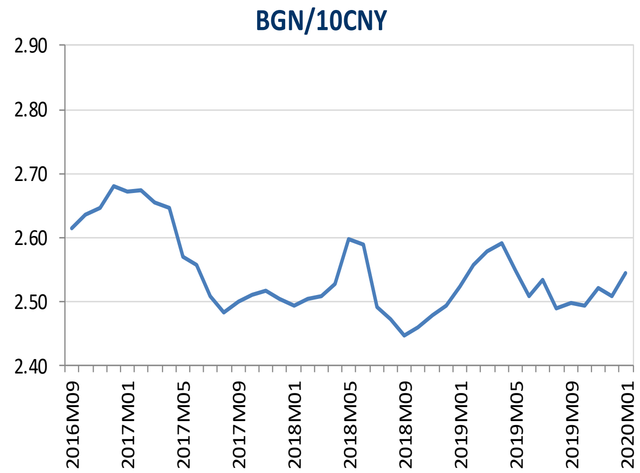


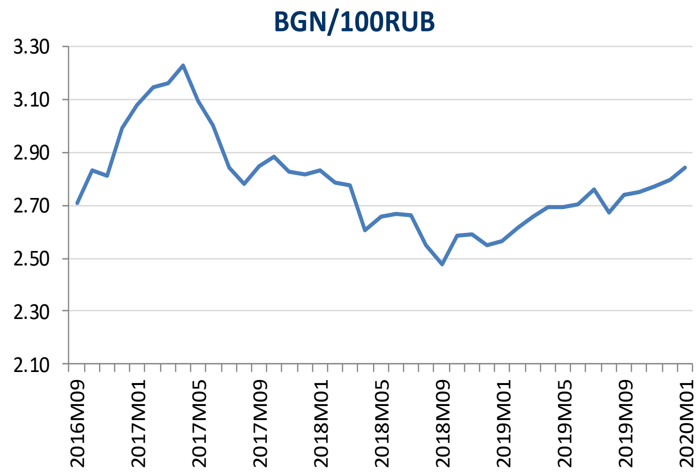
Source: ECB, BNB

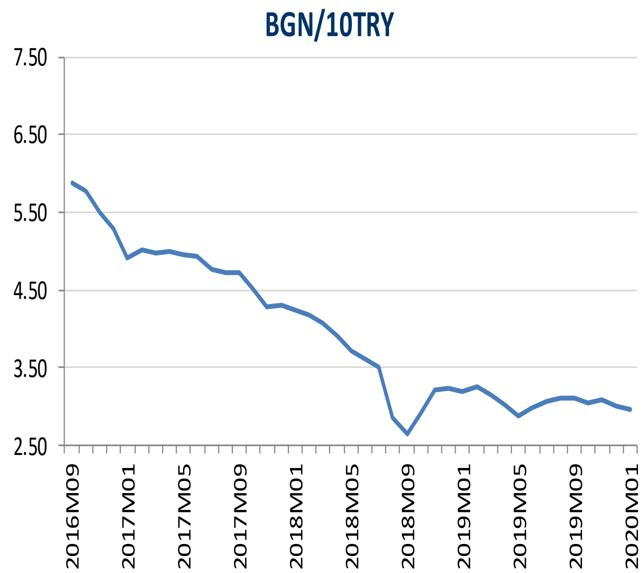
Bulgaria: FX Rates

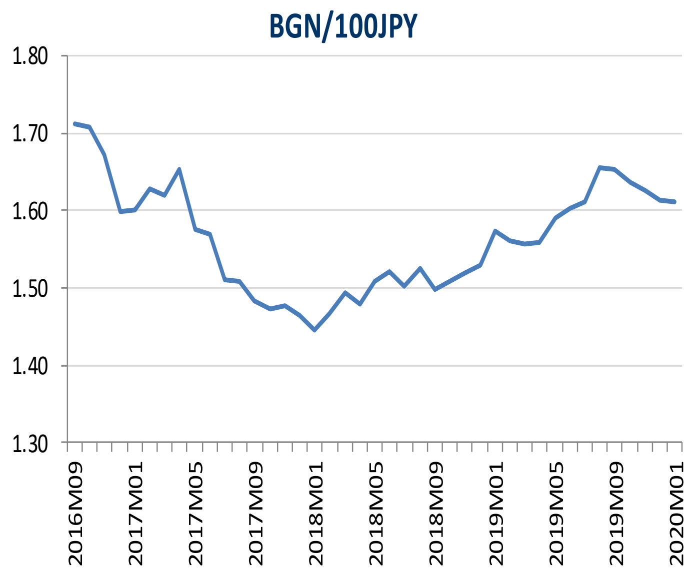












Source: ECB

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.