

All data in the edition are the last available data as of 30 of November 2016



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

United Bulgarian bank
Chief Economist Department
5 Sveta Sofia str. , Sofia 1040
CHIEF ANALYST
HRISTO DIMITROV
E-MAIL
DIMITROV_HR@UBB.BG



Source: www.geographicguide.net

BULGARIA: ECONOMIC AND MARKET ANALYSIS

Monthly report as of November 2016

- ◆ The current and capital account recorded a surplus of EUR 417.1 million in September 2016, compared with a positive balance of EUR 295.2 million in September 2015
- ◆ In the period January - July 2016 Bulgarian exports to the EU grew by 4.3% in comparison with the same period of 2015 and amounted to BGN17 496.6 million
- ◆ Gross external debt amounted to EUR 34,384.2 million (75.6% of GDP) at end-September 2016
- ◆ According to BNB data at the end of October 2016 Bulgaria's foreign reserves amounted to BGN 45.4 billion (EUR 23.2 billion), increasing by 14.4% y/y, respectively
- ◆ Gross Domestic Product (GDP) expanded with 3.5% in the third quarter of 2016 compared to the same quarter of the previous year and with 0.8% compared to the second quarter of 2016
- ◆ According to the preliminary data the Industrial Production Index, seasonally adjusted, decreased by 0.2% in September 2016 as compared to August 2016
- ◆ In September 2016 the working day adjusted turnover in 'Retail trade, except of motor vehicles and motorcycles' increased by 2.0% in comparison with the same month of the previous year
- ◆ In September 2016 working day adjusted data showed a decrease by 10.0% in the construction production, compared to the same month of 2015
- ◆ In September 2016, the number of the trips of Bulgarian residents abroad was 510.3 thousand or by 13.2% above the registered in September 2015
- ◆ In November 2016 the total business climate indicator increases by 0.6 percentage points in comparison with October
- ◆ Total Producer Price Index in Industry in October 2016 increased by 0.6% compared to the previous month
- ◆ The consumer price index in October 2016 compared to September 2016 was 100.2%, i.e. the monthly inflation was 0.2%
- ◆ According to NSI data in Q3 2016 unemployment in Bulgaria fell to 7% or by 1.3 percentage points compared to the same period of the previous year
- ◆ In October 2016 the Consolidated Fiscal Programme balance is positive, amounting to BGN 3,434.9 million or 3.9% of forecast GDP
- ◆ In October 2016 Bulgaria's "Central government" debt amounted to EUR 13 235.8 million and occupies 29.1% of GDP
- ◆ In October 2016 broad money (monetary aggregate M3) increased annually by 8.1% compared to 8.7% annual growth in September 2016

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

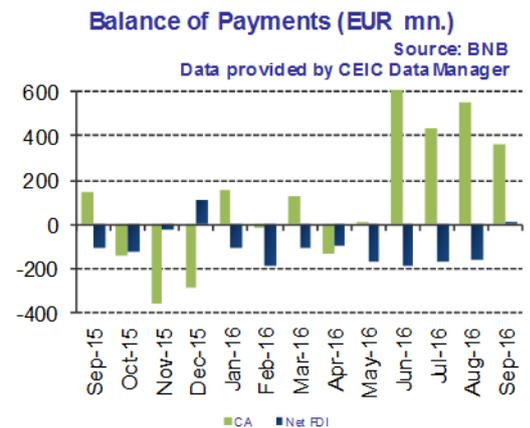
Source: MF 2016 Autumn Projection

I. EXTERNAL SECTOR

1. Balance of payments

The current and capital account recorded a surplus of EUR 417.1 million in September 2016, compared with a positive balance of EUR 295.2 million in September 2015

The current and capital account recorded a surplus of EUR 417.1 million in September 2016, compared with a positive balance of EUR 295.2 million in September 2015. In January – September 2016 the current and capital account was positive amounting to EUR 3,119.4 million (6.9% of GDP), compared with a surplus of EUR 1,985.4 million (4.4% of GDP) in January – September 2015. The current account was positive amounting to EUR 366.7 million in September 2016, compared with a surplus of EUR 149.2 million in September 2015. In January – September 2016 the current account was positive and amounted to EUR 2,133 million (4.7% of GDP), compared with a surplus of EUR 954.6 million (2.1% of GDP) in January – September 2015. The balance on goods recorded a surplus of EUR 30.6 million in September 2016, compared with a deficit of EUR 192.8 million in September 2015. In January – September 2016 the balance on goods was negative amounting to EUR 1,088.1 million (2.4% of GDP), compared with a deficit of EUR 1,611.8 million (3.6% of GDP) in January – September 2015. Exports of goods amounted to EUR 2,077.4 million in September 2016, growing by EUR 300.9 million (16.9%) from September 2015 (EUR 1,776.5 million). In January – September 2016 exports of goods totaled EUR 16,574.3 million, increasing by EUR 36.8 million (0.2%) year-on-year (from EUR 16,537.5 million). In January – September 2015 exports grew by 6.6% year-on-year. Imports of goods amounted to EUR 2,046.8 million in September 2016, growing by EUR 77.5 million (3.9%) from September 2015 (EUR 1,969.3 million). In January – September 2016 imports of goods totaled EUR 17,662.4 million, dropping by EUR 486.9 million (2.7%) from January – September 2015 (EUR 18,149.3 million). In January – September 2015 imports grew by 3.3% year-on-year. Services recorded a positive balance of EUR 347.4 million in September 2016, compared with a surplus of EUR 361.7 million in September 2015. In January – September 2016 services recorded a surplus of EUR 2,876.4 million (6.3% of GDP) compared with a positive balance of EUR 2,692.3 million (5.9% of GDP) in the same period of 2015. The net primary Income (which reflects the receipt and payment of income related to the use of resources (labor, capital, and), taxes of production and imports and subsidies) recorded a deficit of EUR 63.5 million in September 2016, compared with a deficit of EUR 119.1 million in September 2015. In January – September 2016 the balance on primary income was negative and equated to EUR 982.5 million (2.2% of GDP), against a deficit of EUR 1,643.4 million (3.6% of GDP) in January – September 2015. The net secondary income (which reflects the redistribution of income) recorded a surplus of EUR 52.2 million, compared with a surplus of EUR 99.4 million in September 2015. In January – September 2016 the net secondary income was positive amounting to EUR 1,327.3 million (2.9% of GDP), compared with a positive balance of EUR 1,517.6 million (3.4% of GDP) in the same period of 2015. The capital account recorded a surplus of EUR 50.4 million, compared with a positive balance of EUR 146 million in September 2015. In January – September 2016 the capital account recorded a surplus of EUR 986.4 million (2.2% of GDP), compared with a positive balance of EUR 1,030.8 million (2.3% of GDP) in January – September 2015. The financial account recorded a net outflow of EUR 362.8 million, compared with a positive balance of EUR 392.6 million in September 2015. In January – September 2016 the financial account recorded a net inflow of EUR 2,471.7 million (5.4% of GDP) compared with an inflow of EUR 2,644.7 million (5.8% of GDP) in January – September 2015. 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 6.1 million, compared with a negative balance of EUR 105 million in September 2015. In January – September 2016 the balance was negative and equated to EUR 1,164.1 million (2.6% of GDP), compared with a negative balance of EUR 1,565.8 million (3.5% of GDP) million in January – September 2015. Direct investment – assets increased by EUR 69.6 million compared with a decline of EUR 34.8 million in September 2015. In January – September 2016 direct investment – assets rose by EUR 274.2 million, compared with a decline of EUR 110.2 million in the same period of 2015. Direct investment – liabilities recorded a net increase of EUR 63.5 million in September 2016, compared with an increase of EUR 70.2 million in September 2015. In January – September 2016 direct investment – liabilities grew by EUR 1,438.2 million, compared with an increase of EUR 1,455.6 million in the same period of 2015. The balance on portfolio investment was negative amounting to EUR 322.2 million, compared with a positive balance of EUR 447.8 million in September 2015. In January – September 2016 the balance was negative and equated to EUR 1,344.7 million (3% of GDP), compared with a negative balance of EUR 1,035.1 million (2.3% of GDP) million in January – September 2015. Portfolio investment – assets dropped by EUR 347.3 million, compared with an increase of EUR 86 million in September 2015. In January – September 2016 they rose by EUR 124.2 million compared with a decline of EUR 586.9 million in January – September 2015. Portfolio investment – liabilities decreased by EUR 25.1 million compared with a decline of EUR 361.8 million in September 2015. In January – September 2016 portfolio investment – liabilities grew by EUR 1,468.9 million, compared with an increase of EUR 448.2 million in January – September 2015. The balance on other investment was negative amounting to EUR 224 million, compared with a negative balance of EUR 111.9 million in September 2015. In January – September 2016 the balance was positive and equated to EUR 2,144.2 million (4.7% of GDP), compared with a positive balance of EUR 1,664.2 million (3.7% of GDP) in January – September 2015. Other investment – assets dropped by EUR 287 million, compared with a decrease of EUR 147.7 million in September 2015. In January – September 2016 they grew by EUR 1,230.2 million compared with a decline of EUR 994.2 million in January – September 2015. Other investment – liabilities dropped by EUR 63.1 million compared with a decrease of EUR 35.8 million in September 2015. In January – September 2016 they fell by EUR 914 million compared with a decline of EUR 2,658.4 million in January – September 2015. The BNB reserve assets⁶ grew by EUR 164.6 million, compared with an increase of EUR 181.2 million in September 2015. In January – September 2016 they rose by EUR 2,891.4 million (6.4% of GDP), compared with an increase of EUR 3,582 million (7.9% of GDP) in the same period of 2015. The net errors and omissions were negative amounting to EUR 779.9 million compared with a positive value of EUR 97.4 million in September 2015. According to preliminary data, the item was negative in January – September



2016 and totaled EUR 647.7 million (1.4% of GDP), against a positive value of EUR 659.3 million (1.5% of GDP) in the same period of 2015.

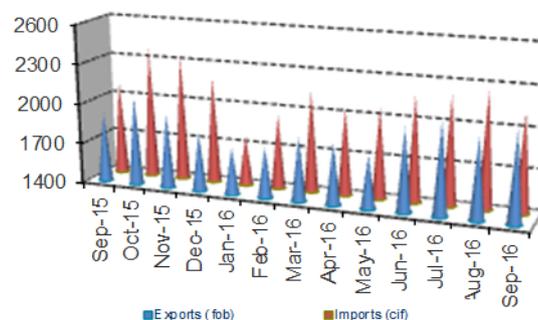
2. Foreign Trade

In the period January - July 2016 Bulgarian exports to the EU grew by 4.3% in comparison with the same period of 2015 and amounted to BGN17 496.6 million

In the period January - September 2016 the value of all exported goods from Bulgaria amounted to 33 740.1 Million BGN and in comparison with the corresponding period of 2015 the exports decreased by 0.5%. In September 2016 the total exports added up to 4 045.8 Million BGN or by 11.6% more than the same month of the previous year. The total value of all the goods imported in the country in the period January - September 2016 amounted to 36 807.7 Million BGN (at CIF prices), or by 3.3% less than the corresponding period of 2015. In September 2016 the total imports increased by 1.6% compared to the same month of the previous year and added up to 4 165.6 Million BGN. The total foreign trade balance (exports FOB - import CIF) was negative in the period January - September 2016 and amounted to 3 067.6 Million BGN. At FOB/FOB prices (after elimination of transport and insurance costs on imports) in the period January - September 2016 the total foreign trade balance was also negative and added up 1 301.6 Million BGN. In September 2016 the total foreign trade balance (exports FOB - import CIF) was negative and amounted to 119.8 Million BGN. The trade balance at FOB/FOB prices was positive and added up 89.4 Million BGN.

Foreign Trade (EUR mn)

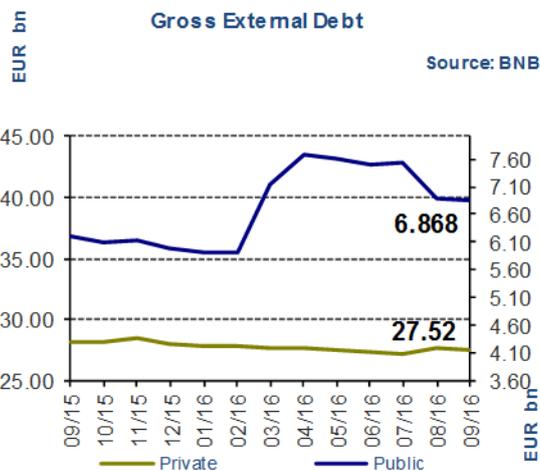
Source: NSI



3. External debt

Gross external debt amounted to EUR 34,384.2 million (75.6% of GDP) at end-September 2016

Gross external debt amounted to EUR 34,384.2 million (75.6% of GDP) at end-September 2016, increasing by EUR 295.7 million (0.9%) from end-2015 (EUR 34,088.5 million, 75.3% of GDP). On a year-on-year basis gross external debt grew by EUR 13.9 million (0.04%) from September 2015 (EUR 34,370.3 million, 75.9% of GDP). Long-term liabilities totaled EUR 26,730.3 million (77.7% of the total debt, 58.8% of GDP) at end-September 2016, growing by EUR 521.1 million (2%) from end-2015 (EUR 26,209.2 million, 76.9% of the total debt, 57.9% of GDP). On a year-on-year basis, long-term liabilities grew by EUR 266.7 million (1%) from September 2015 (EUR 26,463.6 million, 58.4% of GDP). Short-term liabilities equalled EUR 7,653.9 million (22.3% of the total debt, 16.8% of GDP), decreasing by EUR 225.4 million (2.9%) from end-2015 (EUR 7,879.3 million; 23.1% of the total debt, 17.4% of GDP). On a year-on-year basis, short-term liabilities dropped by EUR 252.7 million (3.2%) from September 2015 (EUR 7,906.7 million, 17.5% of GDP). General government's gross external debt totaled EUR 6,512.6 million (14.3% of GDP) in end-September 2016. It rose by EUR 932.5 million (16.7%) from end-2015 (EUR 5,580.1 million, 12.3% of GDP), mostly due to the nonresident held securities from Bulgaria's bond issues on international capital markets in March 2016. On a year-on-year basis general government's debt increased by EUR 765.4 million (13.3%) from September 2015 (EUR 5,747.2 million, 12.7% of GDP). Banks' external debt totaled EUR 3,777.7 million (8.3% of GDP). It fell by EUR 348.6 million (8.4%) from



end-2015 (EUR 4,126.4 million, 9.1% of GDP). On a year-on-year basis banks' debt decreased by EUR 388.7 million (9.3%), from EUR 4,166.5 million, 9.2% of GDP in September 2015. Other Sectors' external debt equalled EUR 11,446 million (25.2% of GDP). It dropped by EUR 285.7 million (2.4%) from end-2015 (EUR 11,731.7 million, 25.9% of GDP). On a year-on-year basis it fell by EUR 282.3 million (2.4%) from September 2015 (EUR 11,728.3 million, 25.9% of GDP). The stock of intercompany lending amounted to EUR 12,647.8 million (27.8% of GDP) at end-September 2016, dropping by EUR 2.5 million (0.02%) from end-2015 (EUR 12,650.3 million, 27.9% of GDP). On a year-on-year basis it decreased by EUR 80.5 million (0.6%) from September 2015 (EUR 12,728.3 million, 28.1% of GDP). The external financing received from non-residents equalled EUR 4,867.3 million (10.7% of GDP) in January - September 2016, compared with EUR 4,626.9 million (10.2% of GDP) in January - September 2015. They were distributed as follows: general government received EUR 1,531.9 million (31.5% of the total amount of disbursements), banks received EUR 497.5 million (10.2%), other sectors received EUR 1,681.3 million (34.5%), and intercompany lending4 totaled EUR 1,156.6 million (23.8%). Gross external debt service totaled EUR 4,439.2 million (9.8% of GDP) in January - September 2016, compared with EUR 7,069.1 million (15.6% of GDP) in January - September 2015. Net external debt5 totaled EUR 2,566.1 million at end-September 2016. It dropped by EUR 4,136.9 million (61.7%) from end-2015 (EUR 6,703.1 million). Its decline was due to the larger increase in gross external assets (by EUR 4,432.7 million, 16.2%) in comparison with the increase in gross external debt (by EUR 295.7 million, 0.9%). As a percentage of GDP, net external debt equated to 5.6%, from 15% at end-2015.

4. Foreign reserves

According to BNB data at the end of October 2016 Bulgaria's foreign reserves amounted to BGN 45.4 billion (EUR 23.2 billion), increasing by 14.4% y/y, respectively

According to BNB data at the end of October 2016 Bulgaria's foreign reserves amounted to BGN 45.4 billion (EUR 23.2 billion), increasing by 14.4% y/y. On a monthly basis the foreign reserves decreased by 1.1%. Compared to the previous month the money in cash decreased by 1.2% to BGN 13.2 billion. For the same period, the monetary gold decreased by 2%, and investments in securities shrank by 1.1%. On an annual basis by the assets side, the most strongly reported growth investments in securities by 15.3%, followed by holdings of monetary gold by 11.9%, and the money in cash reporting annual growth of 11.8%. By liabilities side, compared to the previous month obligations to other depositors grew up by 6% to reach BGN1.2 billion. Money in circulation decreased by 0.1% m/m, due to banks by 1.9%, obligations to the government by 1.4% and deposit management "Banking" by 2.7%. The annual trend of liabilities is the highest in obligations to other depositors which increased by 52.2% y/y, obligations to the government (by 38.4% y/y), cash in circulation by 12.2% y/y, and deposit management "Banking" with growth of 9.6% y/y . Liabilities to banks shrank by 0.7% y/y. Bulgaria's International liquidity position, calculated as a ratio of short-term external debt / foreign reserves stood at 304.4% at the end of August 2016 compared to 304.7% at the end of July 2016 and 256.6% at the end of December 2015.

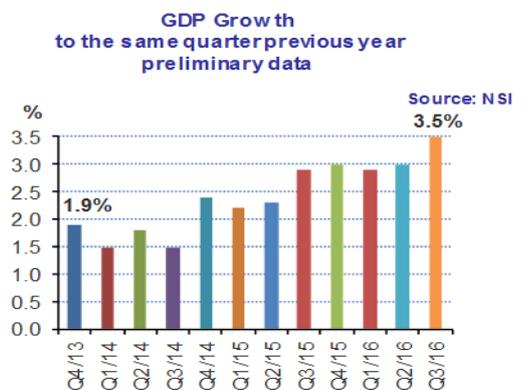


II. REAL SECTOR

1.GDP

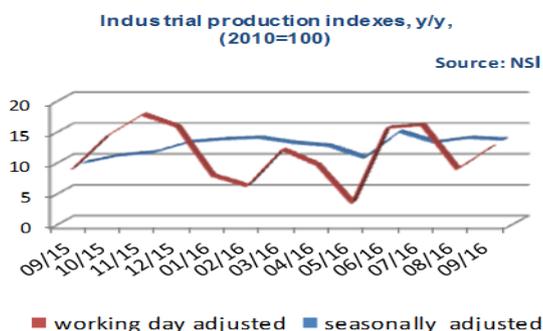
Gross Domestic Product (GDP) expanded with 3.5% in the third quarter of 2016 compared to the same quarter of the previous year and with 0.8% compared to the second quarter of 2016

Gross Domestic Product (GDP) expanded with 3.5% in the third quarter of 2016 compared to the same quarter of the previous year and with 0.8% compared to the second quarter of 2016 according to the seasonally adjusted data. According to the flash GDP estimates for the third quarter of 2016, the GDP at current prices amounted to 24 631 million BGN. GVA in the third quarter of 2016 amounted to 21 168 million BGN. In the structure of GDP by the expenditure approach the largest share has the final consumption (69.7%), which in nominal terms amounted to 17 160 million BGN. In the third quarter of 2016 gross capital formation is 4 508 million BGN and has a share of 18.3% in GDP. The external balance (exports minus imports) has a positive sign. According to the seasonally adjusted data, the GDP growth rate in the third quarter of 2016 is 0.8% compared to the previous quarter. Gross value added increased in the third quarter of 2016 by 0.7%. The third quarter of 2016 GDP at seasonally adjusted data increased by 3.5% compared to the same quarter of the previous year. Gross value added increased by 2.5%.



2. Industrial production

According to the preliminary data the Industrial Production Index, seasonally adjusted, decreased by 0.2% in September 2016 as compared to August 2016



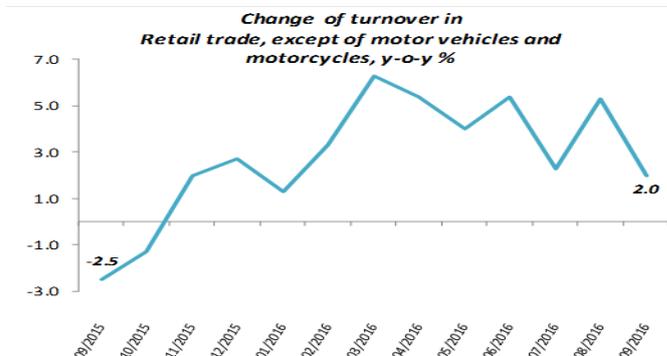
According to the preliminary data the Industrial Production Index, seasonally adjusted, decreased by 0.2% in September 2016 as compared to August 2016. In September 2016 working day adjusted Industrial Production Index rose by 3.3% in comparison with the same month of 2015. In September 2016 as compared to August 2016, the seasonally adjusted Industrial Production Index decreased in the electricity, gas, steam and air conditioning supply by 1.9%, the mining and quarrying industry did not change, while in the manufacturing an increase by 0.3% was seen. On annual basis in September 2016 Industrial Production Index calculated from working day adjusted data increased in the manufacturing by 4.7% and in the electricity, gas, steam and air conditioning supply by 0.5%, while in the mining and quarrying

industry a decrease by 1.9% was registered.

3. Retail sales

In September 2016 the working day adjusted turnover in 'Retail trade, except of motor vehicles and motorcycles' increased by 2.0% in comparison with the same month of the previous year

According to the preliminary seasonally adjusted data in September 2016 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices decreased by 0.2% compared to the previous month. In September 2016 the working day adjusted turnover in 'Retail trade, except of motor vehicles and motorcycles' increased by 2.0% in comparison with the same month of the previous year. In September 2016 compared to the previous month the turnover increased only in the 'Retail sale of textiles, clothing, footwear and leather goods' by 1.3%. More significantly decrease was registered in the 'Retail sale of audio and video equipment; hardware, paints and glass; electrical household appliances' - 2.3%. In September 2016 compared to the same month of 2015 the turnover increased in the 'Retail sale of textiles, clothing, footwear and leather goods' by 14.5%, in the 'Retail sale of food, beverages and tobacco' by 7.0%.



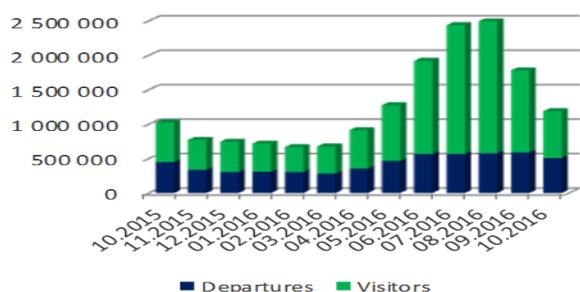
4. Construction

In September 2016 working day adjusted data showed a decrease by 10.0% in the construction production, compared to the same month of 2015

According to the preliminary data, in September 2016 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 0.5% below the level of the previous month. In September 2016 working day adjusted data showed a decrease by 10.0% in the construction production, compared to the same month of 2015. In September 2016 the construction production, calculated from the seasonally adjusted data, was below the level of the previous month. Index of production of civil engineering fell by 2.7%, while the production of building construction increased by 1.4%. On an annual basis in September 2016, the decrease of production in construction, calculated from working day adjusted data, was determined from the negative rate as well as in the civil engineering, where the drop was by 15.6% and in the building construction - decline by 4.7%.

5. Tourism

Total Visitors/Departures



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

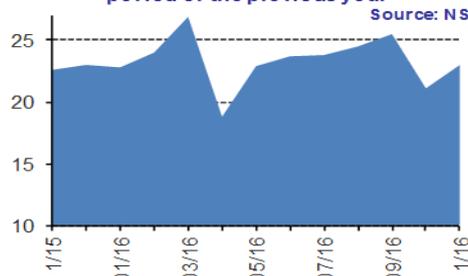
In October 2016, the number of the trips of Bulgarian residents abroad was 404.0 thousand or by 20.4% above the registered in October 2015. The trips with other purposes (as a guest, education and visit the cultural and sport events) in October 2016 composed the greatest share of the total number of trips of Bulgarian residents abroad - 48.7%, followed by the trips with professional purpose - 26.7%, and with holiday and recreation purpose - 24.6%. In October 2016, the number of arrivals of visitors from abroad to Bulgaria was 678.6 thousand or by 17.6% more in comparison with October 2015.

6. Business climate

In November 2016 the total business climate indicator increases by 0.6 percentage points in comparison with October

In November 2016 the total business climate indicator increases by 0.6 percentage points in comparison with October which is due to the improved business climate in industry and retail trade. The composite indicator 'business climate in industry' increases by 1.9 percentage points compared to the previous month as a result of the improved industrial entrepreneurs' assessments and expectations about the business situation of the enterprises. In November the composite indicator 'business climate in construction' decreases by 4.0 percentage points which is due to the more unfavorable construction

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



entrepreneurs' assessments. The composite indicator 'business climate in retail trade' increases by 3.2 percentage points in comparison with October. In November the composite indicator 'business climate in service sector' remains approximately to its level from the previous month. The managers' assessments and expectations about the business situation of enterprises are shifting to the more moderate opinions.

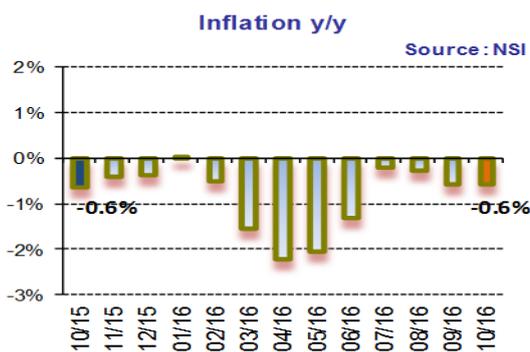
7. Producer price index

Total Producer Price Index in Industry in October 2016 increased by 0.6% compared to the previous month

Total Producer Price Index in Industry in October 2016 increased by 0.6% compared to the previous month. Higher prices were registered in the manufacturing by 0.8% and in the mining and quarrying industry by 0.1%, while in the electricity, gas, steam and air conditioning supply the prices did not change. Total Producer Price Index in October 2016 decreased by 0.7% compared to the same month of 2015. The prices fell in the electricity, gas, steam and air conditioning supply by 4.0%, while the pieces rose in the mining and quarrying industry by 1.2% and in the manufacturing by 0.3%. Producer Price Index on Domestic Market in October 2016 increased by 0.4% compared to the previous month. The domestic prices rose in the manufacturing by 0.7% and in the mining and quarrying industry by 0.1%, while in the electricity, gas, steam and air conditioning supply the prices remained at the level of the previous month. Producer Price Index on Domestic Market in October 2016 decreased by 1.4% compared to the same month of 2015.

8. CPI Inflation

The consumer price index in October 2016 compared to September 2016 was 100.2%, i.e. the monthly inflation was 0.2%

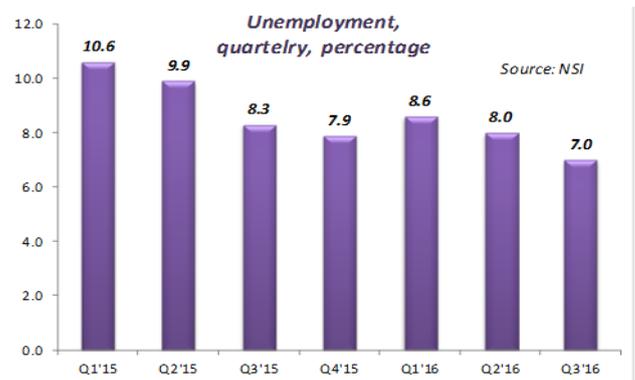


The consumer price index in October 2016 compared to September 2016 was 100.2%, i.e. the monthly inflation was 0.2%. The inflation rate since the beginning of the year (October 2016 compared to December 2015) has been -0.4% and the annual inflation in October 2016 compared to October 2015 was -0.6%. The annual average inflation, measured by CPI, in the last 12 months (November 2015 - October 2016) compared to the previous 12 months (November 2014 - October 2015) was -0.8%. The harmonized index of consumer prices in October 2016 compared to September 2016 was 99.9%, i.e. the monthly inflation was -0.1%. The price index of a small basket in October 2016 compared to September 2016 was 100.1% and the overall increase since the beginning of the year (October 2016 compared to December 2015) has been 100.3%.

9. Unemployment

According to NSI data in Q3 2016 unemployment in Bulgaria fell to 7% or by 1.3 percentage points compared to the same period of the previous year

According to NSI data in Q3 2016 unemployment in Bulgaria fell to 7% or by 1.3 percentage points compared to the same period of the previous year. In Q3 2016 the number of unemployed people in Bulgaria is 229 000. On an annual basis the number of unemployed decreased by 50.3 thousand. With this level Bulgaria is among the countries with the lowest unemployment in the EU and is below average of 10% at the end of September 2016. On the other hand, the share of long-term unemployed from one year or more remained high, as they were 142.4 thousand people or 62.2% of all unemployed. The long-term unemployment rate is 4.3%, as compared to the same quarter a year earlier decreased by 0.9 percentage points. The long-term unemployment rate was 4.7% for men and 3.9% for women. Of the total number of unemployed 41 thousand people, or 17.9%, looking for their first job. In the age group 15-29 are unemployed 11.8% by decreased annually by 0.6 percentage points. Drop in unemployment in the youngest age group, however, was observed only for women - by 2.2 percentage points. The total number of employed people in this country is 3.05 million people, of whom 1.6 million are men and 1.4 million are women. In Q3 2016 near 63.5% of the employed work in the service sector, their number reached 1.93 million, while the industry employs 893.5 thousand people, or 29.3% of all



employed. In agriculture, forestry and fisheries are employed 220.1 thousand people, or 7.2%.

III. FISCAL SECTOR

1. Government budget

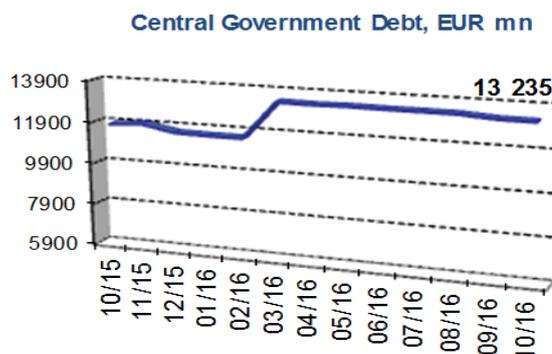
In October 2016 the Consolidated Fiscal Programme balance is positive, amounting to BGN 3,434.9 million or 3.9% of forecast GDP

According to MF data the Consolidated Fiscal Programme (CFP) balance on a cash basis as of end-October 2016 is positive, amounting to BGN 3,434.9 million (3.9% of forecast GDP) and is formed by a surplus under the national budget of BGN 1,965.2 million and a surplus under EU funds of BGN 1,469.7 million. For comparison, a CFP surplus of BGN 63.9 million (0.1% of GDP) was reported for the same period of 2015. The factors for the improvement in the budget stance continue to be the higher revenues and the lower rate of utilization of capital expenditures. In addition to the good national budget revenue parameters, the EU fund accounts also influence the current CFP balance, with the excess of revenues over expenditures there accounting for 1.7 % of the forecast GDP. The CFP revenues and grants in October 2016 stand at BGN 28,289.5 million, or 85.7% of the annual estimates. Compared to the ten months of 2015, revenues and grants have grown by BGN 1,755.0 million (6.6%). The growth as compared to the previous year is due to the higher tax and non-tax revenues, which have risen by BGN 2,067.2 million, while grants (funds reimbursed by the European Commission) are lower. However, it should be noted that the performance of grants' annual estimates as of October is high (97.3%) and on an yearly basis proceeds from grants are expected to exceed the plan. Tax proceeds, including revenues from social security and health insurance contributions, total BGN 22,308.6 million, which is 85.8% of the annual plans. Compared to October 2015 tax revenues have risen by 8.3% (BGN 1,708.0 million) in nominal terms. Revenues from direct taxes amount to BGN 3,975.1 million, or 84.8% of the annual estimates, growing, as compared to October 2015, by BGN 357.1 million (9.9%). Indirect tax revenues amount to BGN 11,471.3 million, or 86.5% of the 2016 Annual Budget Law plans. Compared to end-October 2015, the proceeds in this group have grown by BGN 915.8 million (8.7%). The VAT proceeds in the ten months of the year amount to BGN 7,276.0 million, or 86.5% of the planned for the year. Compared to the previous year, VAT revenues have risen by BGN 613.4 million. The amount of the non-refunded VAT as of end-October is BGN 109.5 million. There is also a growth in the excise duty revenues which amount to BGN 4,023.2 million (86.1% of the annual plans), while as against October 2015 they have grown by 7.5%, or BGN 281.3 million. Customs duty proceeds amount to BGN 144.6 million, or 96.4% of the planned for the year. Proceeds from other taxes, including property taxes and other taxes under the Corporate Income Tax Law, amount to BGN 859.2 million, or 94.3% of the annual estimates. Revenues from social security and health insurance contributions are BGN 6,003.0 million, or 84.1% of those planned for the year. Compared to the previous year these revenues have risen by 5.6% (BGN 320.4 million) in nominal terms. Non-tax revenues amount to BGN 3,504.8 million, or 78.2% of the annual plans, which is by BGN 359.2 million (11.4%) more compared to end-October 2015. As of 31.10.2016 grants amount to BGN 2,476.2 million or 97.3 % of the annual plan. The expenditures under the Consolidated Fiscal Programme, including the contribution of the Republic of Bulgaria to the EU budget, amount to BGN 24,854.6 million as of end-October 2016, which is 71.4% of the annual plans. For comparison, the expenditures under the CFP as of end-October 2015 amounted to BGN 26,470.6 million. The lower absorption of expenditures in the past months of the year is mostly linked to a delay in some capital expenditures (mostly EU fund accounts), which is due, on the one hand, to the low absorption at the initial stage of project implementation during the new programming period 2014-2020, and, on the other hand, to the shifting of the majority of capital expenditures to the end of the year due to some technological factors. Non-interest expenditures amount to BGN 23,493.6 million, which is 72.0% of the annual plans. Non-interest current expenditures as of end-October 2016 amount to BGN 21,729.0 million, or 82.0% of the annual estimates, capital expenditures (including net increment of state reserve) amount to BGN 1,764.6 million, or 28.9% of the 2016 Annual Budget Law plans. Interest payments amount to BGN 673.2 million, or 83.9% of those planned for 2016. The part of Bulgaria's contribution to the EU budget, as paid from the central budget as of October 2016, amounts to BGN 687.7 million, which complies with the existing legislation in the area of EU own resources, Council Decision 2007/436/EC, Euratom on the system of the Communities' own resources and Council Regulation No 1150/2000, as amended by Regulation No 2018/2004, Regulation No 105/2009 and Regulation No 1377/2014, implementing Decision 2007/436/EC. Fiscal reserve as of 31.10.2016 is BGN 14.3 billion, including BGN 12.7 billion deposits in BNB and banks and BGN 1.6 billion receivables under the EU Funds for certified expenditure, advance payments, etc.

2. Government debt

In October 2016 Bulgaria's "Central government" debt amounted to EUR 13 235.8 million and occupies 29.1% of GDP

According to MF data in October 2016 Bulgaria's "Central government" debt amounted to EUR 13 235.8 millions. Domestic liabilities amounted to EUR 3 416.9 million and external - of EUR 9 819.0 million. The share of "Central government" debt to GDP amounted to 29.1%, the share of domestic debt is 7.5%, while external debt - 21.6%. Within the debt structure the "Central government" debt at the end of the period domestic liabilities account for 25.8% and foreign - from 74.2%. The "Central government" guaranteed debt reached EUR 189.7 million, of which EUR 33.5 million are internal guarantees and the ratio of government debt / GDP amounted to 0.4%.



Source: MF
Data provider: CEIC Data Manager

IV. MONETARY SECTOR

In October 2016 broad money (monetary aggregate M3) increased annually by 8.1% compared to 8.7% annual growth in September 2016

In October 2016 broad money (monetary aggregate M3) increased annually by 8.1% compared to 8.7% annual growth in September 2016. At the end of October 2016 M3 was BGN 77.816 billion (87.5% of GDP) compared to BGN 77.559 billion (87.2% of GDP) in September 2016. Its most liquid component – monetary aggregate M1 – increased by 13.8% annually in October 2016 (14.6% annual growth in September 2016). At the end of October 2016, deposits of the non-government sector were BGN 66.646 billion (74.9% of GDP), increasing annually by 8.3% (8.9% annual growth in September 2016). Deposits of Non-financial corporations were BGN 18.881 billion (21.2% of GDP) at the end of October 2016. Compared to the same month of the previous year they increased by 11% (10.5% annual growth in September 2016). Deposits of financial corporations increased by 20.7% annually in October 2016 (30.4% annual growth in September 2016). At the end of the month they reached BGN 3.684 billion (4.1% of GDP). Deposits of Households and NPISHs were BGN 44.080 billion (49.6% of GDP) at the end of October 2016, increasing by 6.3% compared to the same month of 2015 (6.7% annual growth in September 2016). Net domestic assets were BGN 47.695 billion at the end of October 2016. They decreased by 3.1% compared to the same month of 2015 (2.7% annual decline in September 2016). At the end of the month their basic component – domestic credit – was BGN 49.481 billion and decreased by 3.2% compared to October 2015 (3.4% annual decline in September 2016). In October 2016 claims on the non-government sector increased by 1.3% annually (0.2% annual decline in September 2016) reaching BGN 51.944 billion. At the end of October 2016, claims on loans to the non-government sector amounted to BGN 50.843 billion (57.2% of GDP) compared to BGN 50.354 billion (56.6% of GDP) at the end of September 2016. They increased annually by 1.1% in October 2016 (0.1% annual decline in September 2016). The change of loans to the non-government sector was influenced by net sales of loans by Other monetary financial institutions (Other MFIs) - their volume for the last twelve months was BGN 206.2 million. On an annual basis, loans sold by Other MFIs were BGN 241.6 million (of which BGN 15.2 million in October 2016), while the amount of repurchased loans was BGN 35.4 million (of which BGN 1.8 million in October 2016). In October 2016, loans to Non-financial corporations increased by 0.03% annually (1.4% annual decline in September 2016) and at the end of the month amounted to BGN 30.832 billion (34.7% of GDP). Loans to Households and NPISHs were BGN 18.490 billion (20.8% of GDP) at the end of October 2016. They increased by 0.9% compared to the same month of 2015 (0.5% annual growth in September 2016). At the end of October 2016 loans for house purchases were BGN 8.770 billion and increased by 1% annually (0.9% annual growth in September 2016). Consumer loans amounted to BGN 7.325 billion and compared to October 2015 they declined by 0.8% (0.6% annual decrease in September 2016). On an annual basis other loans increased by 27.7% (18.1% annual growth in September 2016) and reached BGN 943.5 million. Loans granted to financial corporations were BGN 1.520 billion at the end of October 2016 (1.7% of GDP). Compared to October 2015, they increased by 30.6% (23.5% annual growth in September 2016). Net foreign assets amounted to BGN 50.182 billion at the end of the reporting month compared to BGN 50.695 billion at the end of September 2016. They increased by 22.7% compared to October 2015 (24% annual growth in September 2016). At the end of October 2016 foreign assets increased by 16.6% annually (16.7% annual growth in September 2016), reaching BGN 59.067 billion. Foreign liabilities amounted to BGN 8.885 billion, marking a 9% annual decline (13.5% annual decrease in September 2016).

V. CAPITAL MARKET

SOFIX down a two-year record in October 2016 as rising to 530.99 points

According to the BSE-Sofia in October 2016 the main index SOFIX registered a two-year record. The benchmark of blue chips rose by 5.19% to 531.8 points. Achieved level is the highest since October 2014 onwards. In October 2016 the index of the most liquid companies BGBX 40 in October also rose by 4.89% to 100.9 points after it reported an increase of 6.43% to 96.12 points in September. The gauge of property companies BGREIT ended October with a minimal increase of 0.80% to 104.6 points, while in September ended with a growth of 1.00% to 103.51 points. The top three in terms of turnover were shares: Issuer (BGN 1,496,171), Monbat (BGN 946,743 and CB First Investment Bank (BGN 824,911). The shares of only two companies ended October with declines. These are Neohim (-7.79%) and Trace Group Hold (-4.06%). The most profitable company in October 2016 is CEZ Electro Bulgaria AD, which achieved a growth of 32.50%. Secondly ranks Bulgartabac - Holding AD, followed by First Investment Bank AD with a growth of 16.77%. The last two companies in the ranking also noted double-digit growth rates, respectively Doverie United Holding AD with a growth of 15.58% and Chimimport with a growth of 13.76%. Top 5 losers in October 2016. headed by Prime Property BG REIT with double-digit decline of 54.95%. Second is Biovet with a decline of 7.98%. The other three companies declines, and the decline in Trace Group Hold AD and is

| Date | SOFIX | BGBX40 | BGREIT | BGTR30 |
|---------|-------|--------|--------|--------|
| 10.2015 | 446.9 | 89.9 | 95.6 | 370.0 |
| 11.2015 | 435.6 | 88.0 | 94.9 | 363.6 |
| 12.2015 | 460.9 | 92.8 | 97.0 | 383.8 |
| 01.2016 | 448.4 | 90.7 | 98.3 | 371.4 |
| 02.2016 | 447.4 | 89.9 | 100.5 | 373.4 |
| 03.2016 | 446.4 | 89.4 | 100.0 | 373.0 |
| 04.2016 | 442.6 | 89.1 | 100.3 | 372.0 |
| 05.2016 | 441.3 | 87.8 | 101.4 | 368.7 |
| 06.2016 | 455.6 | 89.2 | 102.2 | 377.8 |
| 07.2016 | 458.2 | 89.6 | 100.9 | 381.8 |
| 08.2016 | 464.7 | 90.0 | 102.5 | 384.9 |
| 09.2016 | 504.6 | 96.1 | 103.3 | 404.6 |
| 10.2016 | 531.8 | 100.9 | 104.6 | 420.1 |

Source: Bulgarian Stock Exchange-Sofia

in the ranking also noted digit the last company in the ranking is 4.06%.

VI. BANKING SECTOR

At the end of October 2016 Bulgaria's banking system total assets increased to BGN 90.6 billion and occupy 102.6% of GDP

In October 2016 the total assets of the banking system in Bulgaria grew up by 0.8% m/m and by 5.9% y/y, respectively to BGN 90.6 billion. Their relative share in full year GDP projection amounted to 102.6%. The gross loan portfolio of banks in October increased by 0.9% m/m to BGN 54.8 billion. Increase was observed in lending to businesses by 1.12% m/m and with delaying the negative trend to -2.03% y/y, respectively to reach BGN 33.5 billion. Growth there and in the loans to households (by BGN 66 million, or by 0.4% m/m and by 0.3% y/y, respectively) and other financial enterprises by BGN 52 million or by 2.6% m/m and by 30% y/y, respectively. At the end of October 2016 due to customers amounted to BGN 72.5 billion. The most significant monthly increase was in deposits of enterprises by 2.2% m/m and by 12.1% y/y, respectively to a total amount of BGN 20.9 billion. Increased also the deposits of households to BGN45.9 billion or by 0.6% m/m and by 6% y/y, respectively. Reduced the deposits of other financial corporations by 7% m/m with growth of 22.3% y/y, respectively to BGN 3.9 billion. The deposits of the sector "government" amounted at BGN1.7 billion and decreased by 0.1% m/m and by 28.8% y/y, respectively. In October 2016 the aggregate net profit of the banking system in Bulgaria is BGN 1.187 billion. This is BGN 280 million or 30.89% more compared to the same period last year. Accumulated since the beginning of 2016 impairment charges on loans and receivables amounted to BGN 615 million compared to BGN656 million at the of October 2015. In October, the liquidity position of Bulgaria's banking system remains strong, as reported at the end of the month liquid assets increased by BGN 223 million to BGN 28.9 billion. As a result, the level of the liquid asset ratio, calculated under Decree № 11 of BNB remains high - 37.32%. As of October 31, 2016 the balance sheet equity position of the banking system amounted to BGN 12.3 billion, marking a monthly growth of BGN 124 million or 1% m/m. There are an increase in paid-in capital, accumulated other comprehensive income, other reserves and profit. At the end of September 2016 the

total capital of Tier I common in late were 21.48% and respectively.

| Bulgaria Intermediation Indicators | 31.10.2015 BGN'000* | 31.12.2015 BGN 000 | 30.09.2016 BGN 000 | 31.10.2016 BGN 000 | Изменение m/m (%) | Изменение y/y (%) | Изменение yend (%) | Дял в БВП (%) |
|---|------------------------|-----------------------|-----------------------|-----------------------|----------------------|----------------------|-----------------------|------------------|
| BANKING SYSTEM TOTAL ASSETS | 85 482 180 | 87 524 257 | 89 822 557 | 90 572 201 | 0.83 | 5.95 | 3.48 | 102.59 |
| Loans to central governments | 657 865 | 659 732 | 583 181 | 580 482 | -0.46 | -11.76 | -12.01 | 0.66 |
| Loans to non-financial corporations | 34 153 130 | 33 284 916 | 33 087 442 | 33 458 812 | 1.12 | -2.03 | 0.52 | 37.90 |
| Loans to financial corporations | 1 551 994 | 1 864 444 | 1 996 889 | 2 048 490 | 2.58 | 31.99 | 9.87 | 2.32 |
| Retail loans, incl.: | 18 486 237 | 18 311 622 | 18 473 747 | 18 539 826 | 0.36 | 0.29 | 1.25 | 21.00 |
| Mortgage loans | 8 838 830 | 8 763 674 | 8 742 562 | 8 762 501 | 0.23 | -0.86 | -0.01 | 9.93 |
| Consumer loans | 8 858 367 | 8 717 527 | 8 752 676 | 8 755 998 | 0.04 | -1.16 | 0.44 | 9.92 |
| Micro credits and other loans | 789 040 | 830 421 | 978 509 | 1 021 327 | 4.38 | 29.44 | 22.99 | 1.16 |
| TOTAL LOANS | 54 849 226 | 54 120 714 | 54 141 259 | 54 627 610 | 0.90 | -0.40 | 0.94 | 61.88 |
| ATTRACTED SOURCES FROM CLIENTS, incl.: | 67 555 366 | 69 275 994 | 72 041 162 | 72 470 904 | 0.60 | 7.28 | 4.61 | 82.09 |
| Local government deposits | 2 335 098 | 1 842 954 | 1 665 062 | 1 663 293 | -0.11 | -28.77 | -9.75 | 1.88 |
| Non-financial corporations deposits | 18 608 962 | 19 723 779 | 20 415 350 | 20 865 044 | 2.20 | 12.12 | 5.79 | 23.63 |
| Financial corporations deposits | 3 254 757 | 3 302 130 | 4 273 541 | 3 970 724 | -7.09 | 22.00 | 20.25 | 4.50 |
| Households and NFISHs deposits | 43 356 549 | 44 407 131 | 45 687 209 | 45 971 843 | 0.62 | 6.03 | 3.52 | 52.07 |
| Equity | 11 277 794 | 11 523 203 | 12 214 137 | 12 338 370 | 1.02 | 9.40 | 7.07 | 13.98 |
| Net profit (annualised) | 906 500 | 898 429 | 1 073 232 | 1 186 535 | 10.56 | 30.89 | | |
| BANKING INDICATORS (%) | | | | | | | | |
| ROE | 9.65 | 7.80 | 11.72 | 11.54 | 3.92 | 2.07 | 3.92 | |
| ROA | 1.27 | 1.03 | 1.59 | 1.57 | 0.57 | 0.32 | 0.57 | |
| Capital adequacy | n.a. | 22.18 | 22.79 | n.a. | n.a. | n.a. | n.a. | |
| Liquidity | 34.17 | 36.70 | 37.35 | 37.32 | -0.03 | 3.18 | 0.65 | |
| NPL | n.a. | 13.60 | 12.00 | n.a. | n.a. | n.a. | n.a. | |
| GDP, BGN'000 | 85 967 000 | 80 668 208 | 88 282 000 | 88 282 000 | | | | |
| EUR/BGN | 1.95583 | 1.95583 | 1.95583 | 1.95583 | | | | |
| Source: BNB, MF, UBB Calculations | | | | | | | | |

ratios of adequacy capital and equity Tier September 22.79%, 21.00%,

METHODOLOGICAL NOTES

EXTERNAL SECTOR

CURRENT ACCOUNT

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

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

For the intra EU trade in goods:

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

For the trade with third countries (outside EU)

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

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

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

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

FINANCIAL ACCOUNT

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

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

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

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

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

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

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

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

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

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

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

RESERVES AND RELATED ITEMS

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

This group in the analytic presentation of the balance of payments includes also Use of Fund credit and the item Exceptional Financing. The exceptional financing comprises the BOP support as well as deferred/rescheduled payments and payments

on arrears, resulting from balance of payments difficulties. In accordance with the methodology for accounting the exceptional financing transactions ("Balance of Payments Manual", Fifth Edition (IMF, 1993), p. 454), the principal repayments on the BOP support credits are included in the Financial Account – Other investment – Liabilities – Loans – General Government.

REAL SECTOR

GROSS DOMESTIC PRODUCT - PRODUCTION APPROACH

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

GDP - INCOME APPROACH

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

GROSS DOMESTIC PRODUCT BY FINAL EXPENDITURE

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

BUSINESS SURVEY IN INDUSTRY, CONSTRUCTION, TRADE AND SERVICE SECTOR

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

INVESTMENT ACTIVITY IN INDUSTRY

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

CONSUMER SURVEY

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

CONSUMER PRICE INDICES (CPI)

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

HARMONIZED INDICES OF CONSUMER PRICES (HICP)

The Harmonized Index of Consumer Prices (HICP) is the comparable measure of inflation across EU Member states. It is one of the criteria of price stability and for readiness of Bulgaria to join the Euro-zone. HICP, just as CPI, measures the total relative change of the prices of goods and services. Both indices are calculated using the same basket of goods and services, but differ with respect to the used weights. HICP is calculated through the use of weights, which reflect the individual and the

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

Money Supply Mechanism

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

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

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

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

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

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

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

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

CAPITAL MARKET

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

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

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

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

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

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

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

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

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

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

REAL ESTATE

MARKET PRICES OF HOMES

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

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

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

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

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

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

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