UNITED BULGARIAN BANK
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BULGARIA
ECONOMIC AND MARKET ANALYSES, March, 2012

Bulgaria: Key Indicators	2010	2011	2012 e
GDP growth (%) y/y	0.20%	1.60%	1.40%
Inflation eoy (%)	4.50%	2.80%	2.10%
Unemployment rate (%)	9.20%	11.20%	11.50%
Current Account/GDP (%)	-1.00%	1.90%	1.00%
Trade balance EUR mn	-2 401	-1844	-1970
FDI EUR mn.	1 779	1065	1148
Government Debt and governement guarenteed debt /GDP (%)	16.7%	17.0%	16.7%
Budget Surplus/ GDP(%)	-4.00%	-2.1	-1.35
10 year bond yield (avarage)	4.72%	4.43%	4.20%

Source: BNB, estimations Ministry of Finance* and UBB**

- ⇒ Bulgaria's CA deficit posted 1% of GDP as of February 2012
- ⇒ Bulgaria's real effective exchange rate kept falling in February 2012
- ⇒ Bulgaria's foreign debt declined by 5% y/y to EUR 35.1bn at end-February 2012
- ⇒ Foreign reserves registered EUR 13.2 bn in March 2012
- ⇒ Bulgaria's economy is expected to grow between 1.4% - 4% in 2012-2015
- ⇒ In March 2012 the business conjuncture in the country has slightly improved
- ⇒ Bulgaria's consumer price inflation decelerated by 1.7% y/y in March 2012
- ⇒ Bulgaria's industrial production declined by 4% y/y February 2012
- ⇒ Bulgaria's retail sales grew up by 2.4% y/y in February 2012
- ⇒ Bulgaria's unemployment rate rose to 12.4% in February 2012 above the EU level
- ⇒ Bulgaria's general budget deficit declined by 24.7% y/y in February 2012
- ⇒ Bulgaria's fiscal reserve declined by 5.6% m/m in February 2012
- ⇒ Bulgaria's public debt up 14% y/y to EUR 5.97bn at end-February 2012
- ⇒ Money supply (M3 aggregate) increased by 10.7% y/y in March 2012
- ⇒ Domestic credit increased by 5.5% y/y in March 2012
- ⇒ Bulgarian share indices ended mixed March 2012
- ⇒ In Q1 2012 the average decrease of the market prices of the dwellings was 4.3% y/y
- ⇒ In March 2012 total assets of the banking system increased by 1.4% y/y and reached BGN 77.9 bn.

The quoted data set in this report are the last available data, published in the official source's web sites as of 31 of March 2012

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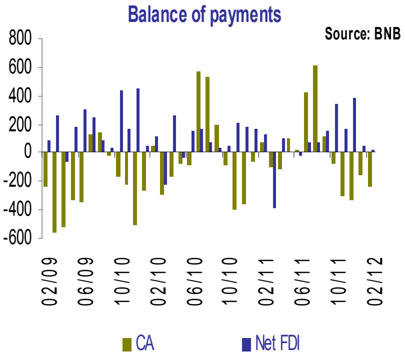


EXTERNAL SECTOR

1. Balance of payments

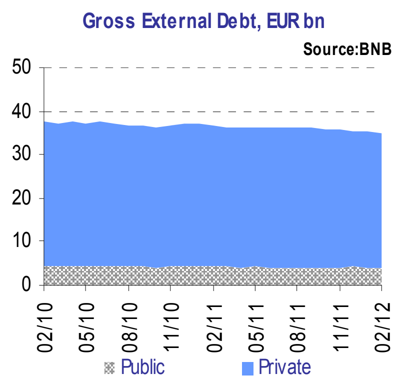
Bulgaria's CA deficit posted 1% of GDP as of February 2012

The current account registered a deficit of EUR 388.2mn in the first two months of the year, compared to a surplus of EUR 11.1mn a year earlier. The gap accounted for 1% of the full year projection. The deficit expanded due to EUR 233.3mn deficit reported in February alone (compared to a surplus of EUR 78.3mn a year earlier), up from revised EUR 154.9mn in January. Thus, the current account balance in the twelve months ending February turned to a deficit (EUR 37.8mn) for the first time since February 2011. The deterioration of the CA balance in February was due to the foreign trade balance as exports fell faster than imports. The trade balance in February was negative at EUR 262.4mn, widening from EUR 37.4mn deficit recorded in February 2011. As of end of February the trade gap expanded to EUR 466.6mn (compared to EUR 56.1mn as of end February 2011) on 6.1% annual drop in exports and 7.1% y/y increase in imports. The income balance posted a very tiny deficit of EUR 3mn in February as compared to EUR 121.3mn in February 2011. It decreased almost fivefold on the year in the period January-February. Net transfers, on the other hand, returned to negative territory in February (EUR 14.4mn) as opposed to EUR 176.1mn The services balance, although still positive, shrank by 23.5% y/y in February and 8.5% y/y as of end February. The positive balance on the account is likely to widen in the summer months due to expectations for higher tourism sector revenues this year. The financial account also moved to a deficit in February and the negative balance reached EUR 96.7mn, compared to EUR 30.7mn surplus a year earlier. Net FDI plummeted by 85% y/y, indicating deteriorating investor confidence. As of end February, the financial account netted a EUR 652mn deficit, up by 63% on the year, as a result of over 77% y/y drop in net FDI. Net portfolio investment was positive as of end February at EUR 23.3mn as the account narrowed its deficit to EUR 5.8mn in February from EUR 50mn a year earlier. The capital account stayed in positive territory although the surplus narrowed to EUR 7.4mn in February 2012 (from EUR 10.5mn in Feb 2011) and to EUR 7.4mn in January-February (from EUR 8.7mn in a year earlier). The overall balance of payments was negative at EUR 195.6mn in February (as compared to positive balance of EUR 53.8mn a year earlier). As of end February the balance of payments was negative at EUR 685.3mn, up by 19.3% y/y due to a positive value of the errors and omissions of EUR 247.5mn. Expectations for a recession in the EU, which is the country's main trading partner, will affect exports just as they do economic growth. Low domestic demand is not expected to trigger imports, although rising oil and gas prices are likely to reflect in higher imports value. Still, we do not project a substantial deterioration of the CA balance this year. In our estimates, the CA balance would rather fluctuate around zero or post a small surplus this year supported by further reduction of the income deficit, larger inflows from the EU funds and good tourism results. The latest IMF's projection is for 2.1% current account surplus in 2012 as trade and industry are seen picking up through 2012.

Net FDI flows were positive at EUR 67.4mn as of end February but dropped by 77.5% as compared to a year earlier. Equity capital invested in the country's non-banking sector by foreigners dropped by 23.9% y/y to EUR 86.5mn. However, the equity capital invested in real estate properties is still on the rise – it nearly doubled to EUR 32.7mn from EUR 16.9mn in January-February 2011 or 38.6% of the overall FDI inflows to the country, although still much lower compared to the pre-crisis level. Reinvested earnings rose by 7.4% y/y to EUR 17.8mn. The other capital account, which shows net change in intra-company loans, showed outflows of EUR 19.8mn in January-February, implying a reduction of net foreign liabilities of local companies to foreign parents. In February alone, net FDI flows were positive at EUR 19.5mn in February but plunged 84.5% as compared to a year earlier. Net FDI was also lower compared to a month ago when the figure stood at revised EUR 47.9mn.

Bulgaria's real effective exchange rate keeps falling in February 2012

Bulgaria's real effective exchange rate (REER) dropped by 1.5 points m/m in February 2012. The CPI-deflated indicator has been on a stable downward trend since the beginning of 2011 and the latest value shows a 4.3 point drop y/y. The ULC-deflated REER has also dropped over the course of 2011, from 147.5 in December 2010 to 140.3 in December 2011. Thus, both indices point to a gain in competitiveness for the country. Weak euro, to which the Bulgarian lev is pegged, can partly explain this process. REER measures a country's competitiveness compared to its main trading partners. To calculate REER, the exchange rate of the national currency is calculated against a basket of currencies and is deflated by the country's price levels (given by CPI, GDP deflator or Unit Labor Cost). REER is typically measured as an index with a base of 100 and a rising REER means loss of competitiveness

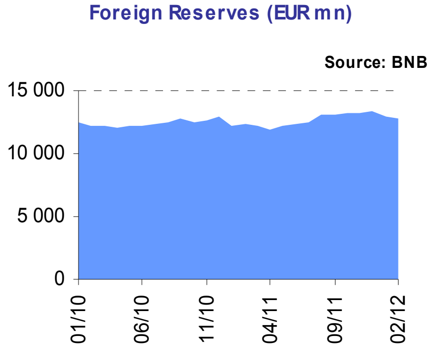


2. External debt

Bulgaria's foreign debt declined by 5% y/y to EUR 35.1bn at end-February 2012

Bulgaria's gross external debt declined by 5% y/y and 0.3% in a month to EUR 35.1bn as of end-February 2012. Foreign liabilities of the private sector continued to fall faster compared to those of the public entities, by 1.8% and by 5.4% y/y, respectively. The reduction of the private sector debt is still mainly a result of banking sector activity (down by 17.2% y/y; the contraction of the short-term deposits of foreigners were with largest contribution) but the liabilities of the non-banking companies also fell in February (down by 3.1% y/y), second consecutive decline since October 2010. Total foreign debt accounted for 88.1% of the full-year GDP forecast as compared to 96% of GDP a year earlier and 91.9%

at end-2011. The short-term debt, covering liabilities with original maturity of one and less than one year, reached 28.2% of the total. The credits on demand accounted for 24.9% of the total external debt, lower compared to 25.1% at end-February 2011. Some 62% of them were reported as inter-company loans. The ratio of foreign reserves to short-term debt fell to 129.4% at the end of February as compared to revised 130.3% a month earlier and 115.3% at the end of 2010.



3. Foreign reserves

Foreign reserves registered EUR 13.2 bn in March 2012

Since July 1997 Bulgaria has been operating an IMF-prescribed currency board system, a tight monetary arrangement that ties the level of cash in circulation to the amount of central bank reserves. The fixed exchange rate of the Bulgarian currency under this system is 1.95583 levs per euro. According BNB data foreign reserves increased by 3.5% m/m (EUR 402.3mn) to EUR 13.2 bn as of end-March after 1.5% m/m decline in February 2012. The deposit of the government dropped by 1.2% y/y slowing the worsening of government finances since the beginning of the year though at a lower rate than in January. It accounted for near 16% of the total foreign reserves as compared to 17% a year earlier and 13.0% at the end of February 2012. The money in circulation went down by 0.2% m/m. The deposits of the commercial banks and the holdings of other depositors went up by 0.9% m/m and 15.3% m/m, respectively. In annual terms, the reserves increased by 8.05% speeding up from 6.2% y/y in December 2011. Since the beginning of the year, foreign reserves have fallen by 1.2%. The ratio of foreign reserves to short-term debt improved further to 132.7% at the end of 2011 as compared to revised 129.2% a month earlier and 114.5% at the end of 2010.

II. REAL SECTOR

1. GDP Growth

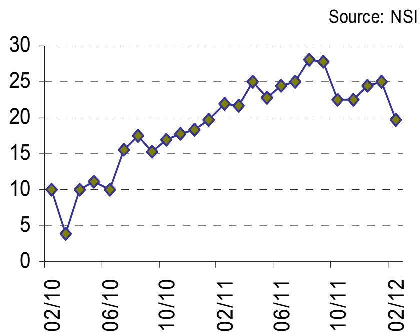
Bulgaria's economy is expected to grow between 1.4% - 4% in 2012-2015

The final draft of the updated convergence programme, sent to the EC, outlines the fiscal policy in the period from 2012 through 2015 and assumes gradual recovery of external environment and domestic consumption. The document envisages pursuing conservative fiscal policy with budget gap remaining below the 3% ceiling. In the period 2012-2014 the output gap will fall from 2.4% in 2012 to 0.8% in 2014 as the economy gets closer to its potential. In 2015, growth in demand will actually outpace supply by 0.2% and the economy will register a 4% growth. Investment and consumption growth will however remain below their pre-crisis level in the period through 2015. In 2012, the government expects 1.4% economic growth, driven by improved external environment in H2 and gradual recovery in domestic demand. Negative developments in net exports will hamper economic growth this year. Consumption is expected to rise by 0.7%, supported by labor market stabilization in the second half of the year. Investments will recover, partly due to base effects but also as a result of improved utilization of EU funds. Exports growth will moderate to 4.6% in 2015, while imports will be fuelled by recovering domestic demand. The economy is seen to grow by 2.5% in 2013. In 2011, Bulgaria registered 1.7% GDP growth. The updated convergence programme presents a lower forecast on GDP growth at 1.4% for 2012 than the autumn's 2.9% projection incorporated in 2012 budget law. Most international institutions have already also revised downwards their GDP forecasts for Bulgaria. The EC also expects GDP growth to reach 1.4% this year (compared to 2.3% in the autumn forecast), while the IMF, the WB and the EBRD appear to be more conservative with expectations for economic growth of 1.3%, 1.2%, and also 1.2%, respectively, down from 3%, 2% and 2.3%.

Bulgaria: Key Macroeconomic Indicators 2011-2015	2011	2012	2013	2014	2015
GDP-current prices, BGN mln.	75 265	78 553	82 819	88 110	94 142
Real GDP Growth (%)	1.7	1.4	2.5	3.5	4
GDP Growth Contributions, icl.:					
Investments (%)	-0.4	0.8	1.3	1.8	2.1
Consumption (%)	-0.3	0.5	1.6	2.7	3.2
Net Exports (%)	2.3	0.1	-0.5	-1	-1.2
GDP Deflator (%)	5	2.9	2.9	2.8	2.7
HCPI avr. (%)	3.4	2.1	2.4	2.25	2.5
Current account/GDP(%)	1.9	1.5	0.1	-0.8	-1.4
Trade balance (%)	-4.8	-4.9	-5.9	-6.8	-7.7
Services, net(%)	6.2	6.1	5.8	5.7	5.8
Income, net (%)	-3.9	-4.3	-4.2	-3.6	-3.3
Current transfers, net (%)	4.4	4.6	4.4	3.8	3.8
Financial and capital account (euro mln.)	-897	1665	987	2992	2824
Net FDI (euro mln.)	1065	1148	1721	2202	2512
Budget deficit/surplus (% of GDP)	-2.1	1.35	1.3	0.5	0
Source: MF					

Meanwhile, the IMF downgraded its projection for Bulgaria's economic growth to 0.8% in 2012, according to the latest WEO report. This is the second downward revision of the institution for Bulgaria since the last WEO report, published in September 2011. In December 2011, following its regular visit to the country, the IMF announced it has lowered its GDP growth forecast to 1.3% in 2012 as compared to 3% the autumn report. GDP growth is expected to accelerate to 1.5% in 2013. Bulgaria's economy will grow below the average for emerging Europe in both 2012 and 2013 (1.9% and 2.9%, respectively), according to IMF. IMF's forecast is more conservative compared to the one released by Bulgaria's finance ministry. In its updated convergence programme, the government expects 1.4% economic growth in 2012, driven by improved external environment in H2 and gradual recovery in domestic demand. The economy is seen to grow by 2.5% in 2013, according to the finance ministry's projection. The institution sees a rise in unemployment to 12.5% this year, up from 9.5% unemployment rate projected in the autumn forecast. The projection for consumer price inflation in 2012 has been lowered to 2.1% from 2.9% in the previous forecast and 3.4% in 2011. IMF has changed its current account projections too and now expects a 2.1% of GDP surplus this year compared to 0.6% of GDP surplus previously. For 2013, the expectation is for 0.6% of GDP surplus. Bulgaria and Hungary are actually the only two countries whose current account balance is seen positive in both 2012 and 2013. Real activity in Europe slowed more than expected in Q4 2011, which is the reason why downward revisions to 2012 growth relative to the autumn projection are generally larger for Europe than for other regions. In emerging Europe, near-term growth prospects will depend on developments in the euro area. Trade and industry are expected to pick up through 2012, as the spillover effects from the euro area slowdown in late 2011 will already have been absorbed. However, tighter funding as a result of deleveraging by euro area parent banks is likely to weigh on credit growth.

Business climate for the period 02/10-02/12



2. Business climate indicator

In March 2012 the business conjuncture in the country has slightly improved

The total business climate indicator increased by 2.3 percentage points in comparison with its February level due to the more favorable business climate in retail trade and in service sector.

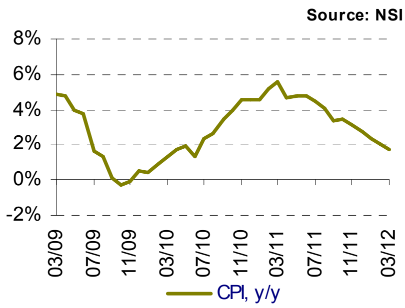
Industry. The composite indicator "business climate in industry" preserved its level from the previous months. The inquiry registers a certain managers' optimism as regards the business situation of the enterprises over the next 6 months although as regards the present business situation their opinions are reserved. At the same time in March the production activity and orders from abroad are shrinking. The main problems for the development of the business in the sector continue to be the uncertain economic environment and the insufficient domestic demand. The majority of the industrial entrepreneurs do not intend to increase selling prices in the branch over the next 3 months.

Construction. In March 2012 the composite indicator "business climate in construction" approximately remained its level from February. The present business situation of the enterprises is assesses as satisfactory or bed and construction activity - as shrunk. The uncertain economic environment, financial problems and insufficient demand remained the main factors limiting the activity in the branch as in March their negative influence is increasing. However, expectations of construction entrepreneurs about business situation of the enterprises over the next 6 months and for construction activity are optimistic. At the same time the inquiry reported a decrease of the number of clients with delay in payments. With regard to the selling prices in the construction there are no expectations about an increase over the next 3 months.

Retail trade. In March the composite indicator "business climate in retail trade" increased by 2.4 percentage points compared to the previous month due to the slight improved assessments and more optimistic expectations about the business situation of the enterprises. The raised optimism in retailer's forecasts as regards both the volume of sales and the orders placed with suppliers over the next 3 months are registered. The main obstacle to the business development in the sector continues to be the uncertain economic environment. However, in the last month the negative impact of the factor "competition in the branch" is strengthened by 11.5 percentage points and shifting on third place the factor "demand". With regard to the selling prices the retailers do not expect an increase over the next 3 months.

Service sector. In March the composite indicator "business climate in the service sector" increased by 9.2 percentage points in comparison with February due to the shifting of manager's assessments and expectations about the business situation of enterprises from "worse" to keeping "the same" situation. With regard to the demand for services over the next 3 months their expectation are optimistic which refrain them from forecasts to laying off the personnel. The uncertain economic environment continues to be the most serious factor limiting the activity of enterprises, followed by the factors "competition in the branch" and "financial problems". Prevailing manager's expectations with regard to the selling prices in the service sector are for preservation of their level over the next 3 months.

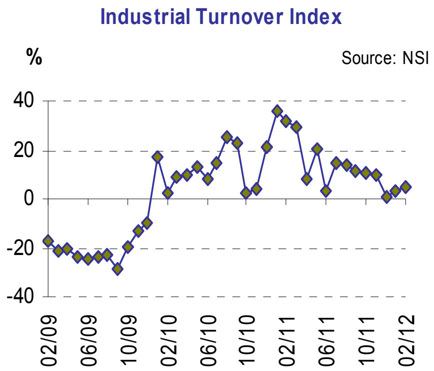
Inflation y/y



3. Inflation

Bulgaria's consumer price inflation deceelerated to 1.7% y/y in March 2012

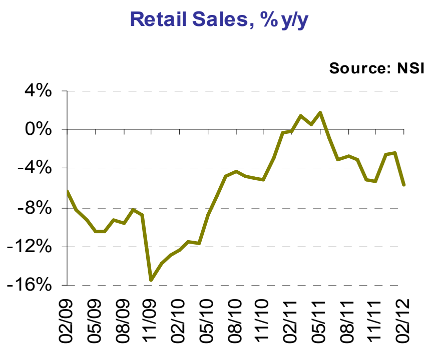
Bulgaria's consumer price inflation decelerated further to 1.7% y/y in March 2012 from 2% y/y in February. In monthly terms, consumer prices rose by 0.3% during the month. The prices of food, housing and utilities services, transport, and education had positive contribution to the overall index growth during the month. The annual average inflation for the 12-month period ending in March 2012 slowed to 3.5% y/y from an average of 4.2% in 2011. Consumer prices have increased by 1.4% since the beginning of the year. The EU harmonized inflation index (HICP), used as a benchmark for the euro adoption, was also at 1.7% y/y, slightly down from preliminary estimate for 2% y/y in February. In monthly terms, HICP rose by 0.1%. The government expects HICP inflation to slow down to 2.6% at the end of 2012 and to an average of 2.1% in 2012. The rising world oil prices will push up consumer prices in the country in the mid-term helped by administrative upward corrections of energy prices. On the downside, weak consumption and the still stiff labor market will compensate the above effect.



4. Industrial production index

Bulgaria's industrial production declined by 4% y/y February 2012

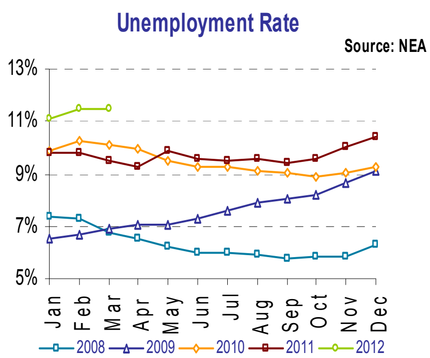
Bulgaria's industrial production index declined by real 4% y/y in February 2012. The contraction sustained for a third month in a row steepening from revised 1.1% y/y in January 2011. The decline in the manufacturing sector accelerated to 5.2% y/y compared to 1.3% y/y in January. The sub-sectors that contracted the most during the month were textiles, apparel, wood material, chemical and metal products. The mining industry turned to 9.3% annual growth in February, reversing a 0.9% decline in January. This was due to the metal ore mining sub-sector, which registered the strongest growth, expanding by 43.9% y/y. The utilities sector also posted deteriorated results in February, as the output contracted by 4.1% y/y. The number of industry branches, which posted annual growth in February, was 10 out of 27, as compared to 11 in the previous month. In seasonally-adjusted terms, the industrial production fell by 2.1% m/m and 3.7% y/y in February. The industrial turnover index increased by 4.8% y/y as domestic turnover went up by 5.2% y/y and exports added 4.3% y/y, up from January's 4.2% growth. The industrial output is likely to remain in negative territory in the mid-term. Falling foreign demand and still weak domestic sector will continue to hamper industry output growth. Exports turned to decline already in January, dropping by 10.2% y/y, following a robust 30% expansion in 2011.



5. Retail and wholesale trade

Bulgaria's retail sales grew up by 2.4% y/y in February 2012

Retail sales declined by real 2.4% y/y in February 2012 after increasing by 0.3% y/y in the previous month. Sales of clothes and shoes as well as household appliances and furniture dropped the most - by 24.7% and 18.9%, respectively. On the other hand, sales of pharmaceutical products and sales, online or via the phone, registered a growth of 12.4% and 17.2% y/y in February, respectively, making them the best performing sectors during the month. Sales of food and tobacco also registered positive growth, rising by 2.5% y/y, down from January's 3.1%.



6. Unemployment

Bulgaria's unemployment rate rose to 12.4% in February 2012 above the EU level

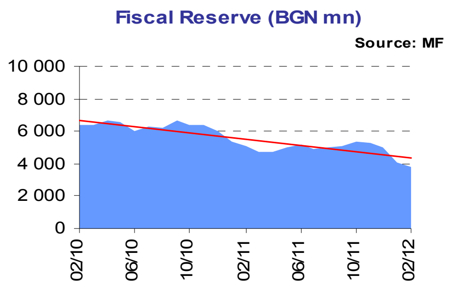
The rate of unemployment rose by 0.2pps to a period average of 12.4% in February 2012 acording Eurostat data. This is considerably above the unemployment rate in the EU27 - 10.2%. The unemployment rate followed a stable upward trend in H2 2011 and is above the rate, measured in terms of registrations with the Bulgaria's labor agency. The latter reached 11.5% at the end of February 2011.

II. FISCAL SECTOR

1. Budget balance

Bulgaria's general budget deficit declined by 24.7% y/y in February 2012

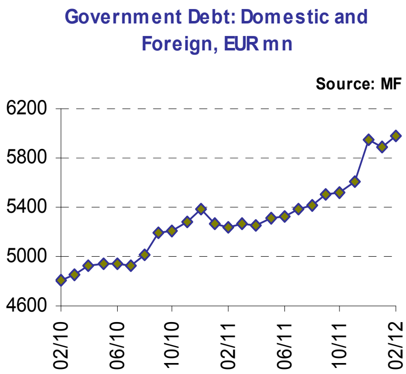
The general budget posted a deficit of BGN 565mn (EUR 288.9mn) in January-February 2012, down by 24.7% y/y. The gap expanded by almost 90% m/m and accounted for 0.7% of the full-year GDP projection as compared to 1% of GDP a year earlier. Total budget revenues increased by 11.5% y/y driven mainly by VAT revenues, which rose by 30.4% y/y. In January-February revenues reached 12.5% of the planned for the year. Total expenditures rose by 4.8% y/y and accounted for 14.2% of the year-end projection. The general budget deficit fell by 43.2% y/y in 2011 to 2.1% of the full-year GDP flash estimate, running below the target of 2.5% of GDP set in the budget law. The government will target a budget deficit of 1.35% of the projected full-year GDP in 2012.



2.. Fiscal reserve

Bulgaria's fiscal reserve declined by 5.6% m/m in February 2012

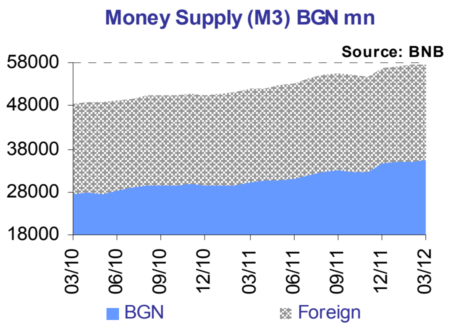
The fiscal reserve fell by 5.6% m/m or BGN 226.1mn to BGN 3.8bn (EUR 1.94bn) at the end of February 2012. The drop narrowed from 19.4% m/m in January due to funds, reimbursed by the EC. In annual terms, the reserve fell by 25%, decelerating from 25.6% y/y in January. The fiscal reserve decreased by 16.9% or BGN 1.01bn last year. The fiscal reserve threshold is set at BGN 4.5bn in 2012 budget law, unchanged from 2011 and 2010 levels.



3. Public debt

Bulgaria's public debt up 14% y/y to EUR 5.97bn at end-February 2012.

Bulgaria's general government debt, excluding state guarantees, increased by 0.01% (EUR 79.9mn) m/m and 14% y/y to EUR 5.97bn at the end of February 2012. The total public debt accounted for 14.9% of the full-year GDP projection. Domestic government debt rose to EUR 2.52bn from EUR 2.41bn at end-January and accounted for 42.1% of total debt, up from 40.9% a month earlier. External government debt edged down to EUR 3.46bn in February from EUR 3.48bn in January 2012. An additional 1.4% of GDP is booked as state guarantees. As per 2012 budget projections the government debt will reach 18.7% of GDP at the end of 2012. Earlier in April, the cabinet gave mandate to finance minister Simeon Dyankov to start a procedure for placing euro-denominated government securities on the international markets in order to refinance maturing in early 2012 EUR 818.5mn debt. The value of the issue will not exceed BGN 2bn (EUR 1.02bn). Therefore, it cannot be speculated that government debt will rise substantially as the new Eurobond issue will not change the net debt position considerably. An alternative to issuing debt is tapping the fiscal reserve. This option is however no longer available as the reserve has already dropped below the level required by law - as of February 2012 the fiscal reserve amounted to BGN 3.8bn (EUR 1.94bn), down 25% y/y and below the BGN 4.5mn minimum. The budget for 2012 allows placing a gross amount of BGN 1.2bn on the domestic market and net external financing of EUR 1.2bn, including an option for EUR 1bn bond placement on the international market.



IV. MONETARY SECTOR

1. Money supply

Money supply (M3 aggregate) increased by 10.7% y/y in March 2012

Bulgaria's money supply, measured by the M3 aggregate, increased by 10.7% y/y to BGN 57.5bn (EUR 29.4bn) at the end of March 2012, reaching 73.1% of the full-year GDP projection. The growth decelerated from 11.7% at the end of February, 12.3% at end-2011, but is still higher than 6.4% y/y at end-2010 and 4.2% at end-2009. The rise in M1 money supply, which includes the most liquid funds, also slowed from 18% y/y at the end of January to 17.2% y/y at the end of March, however, still above the 14.4% growth at the end of 2011.

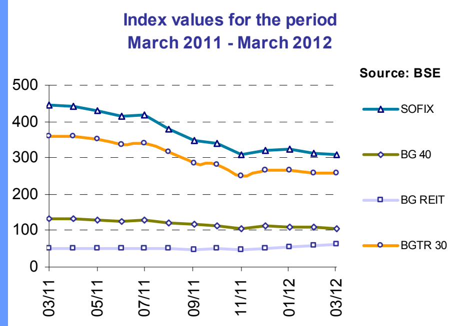
2. Domestic credit

Domestic credit increased by 5.5% y/y in March 2012

Domestic credit went up by 5.5% on an annual base at the end of March 2012 as compared to 6.9% y/y a month earlier. The growth of loans to the non-government sector (including financial and non-financial companies as well as households) rose by 3.1% y/y at the end of March, accelerating from 2.4% y/y in the previous month. Corporates' loans rose by 5.7% y/y (4.8% y/y at the end of February) while households' credits declined by 1% y/y. Though slowing steadily in the past few years, mortgages still contribute positively to total households' lending as they rose by 0.6% y/y while consumer loans declined by 1.3% y/y.

Domestic credit/GDP (%)			
	03/11	02/12	03/12
Domestic credit	68.3%	69.6%	69.1%
Claims on general government	-1.2%	1.1%	0.1%
Claims on non-government sector	69.5%	68.5%	69.0%
o/w Loans	42.7%	43.0%	43.5%

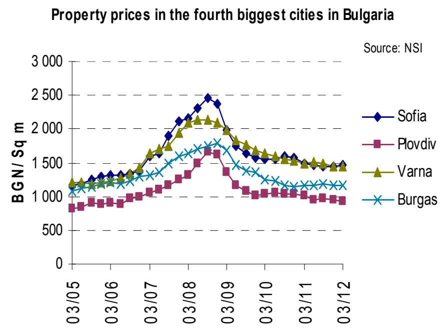
Source: BNB's Monetary survey and Balance sheet of the banking system



V.CAPITAL MARKET

Bulgarian share indices ended mixed March 2012

At the end of March 2012 the blue-chip SOFIX index, which tracks the 15 most liquid shares on the Bulgarian Stock Exchange (BSE), registered 308.91 points or 1.46% m/m and 30.65% y/y decline, respectively. The broader BG40, which includes the 40 most traded shares, was down by 4.13% m//m to 104.1 points and 22.16% y/y decrease. Total turnover on the bourse jumped to BGN74,104,622 mn at the end of March 2012. Real estate investment trust ELARG Agricultural Land Opportunity Fund was the top blue-chip decliner, closing 3.17% lower at 1.19 levs as 353 shares were traded. Central Cooperative Bank and mineral extracting and processing company Kaolin were the only SOFIX gainers. CCB stock ended 3.0% higher at 0.79 levs in a volume of 1,280 shares, while Kaolin closed at 2.15 levs. The BG-REIT index, which tracks the performance of real estate investment trusts, dropped 1.05% to 62.43 points following a 0.41% increase on Thursday. The BG TotalReturn30, in which companies with a free float of at least 10% have equal weight, rose by 0.19m/m to 257.21 points. The CGIX Corporate Governance index, which includes companies strictly applying corporate governance principles, closed at 84.93 points. At the end of March 2012 the total market capitalization of BSE–Sofia amounted at BGN 12,296,996,074.31 and decreased by 10.47% m/m.



VI. REAL ESTATE MARKET

In Q1 2012 the average decrease of the market prices of the dwellings was 4.3% y/y

The market price index of the dwellings for the first quarter of 2012 compared to the fourth quarter of 2011 was 99.6%, i.e. the average decrease of the market prices of the dwellings was 0.4%. The market price index of the dwellings for the first quarter of 2012 in comparison with the corresponding quarter of the previous year was 95.7%, i.e. the average decrease of the market prices of the dwellings was 4.3%. In the first quarter of 2012 compared to the previous one, a price decrease has been recorded in 17 district centres. It was more considerably in Vratsa - by 4.4%, Vidin - by 3.2% and Lovech - by 3.1%. In 10 district centres a price increase has been recorded. In the first quarter of 2012 the average market price of the dwellings for the whole country was 883.85 Levs/sq. m. The highest ones were the average prices in Sofia (capital) - 1 465.33 Levs/sq. m, followed by Varna - 1 439.00 Levs/sq. m and Burgas - 1 158.83 Levs/sq. m.

VII. BANKING SECTOR

In March 12 total assets of the banking system increased by 1.4% y/y and reached BGN 77.9 bn.

The banking system ended the first quarter of 2012 with improved liquidity position, preserved capital buffers and good levels of profitability. Due to the increase in the attracted funds, the ratio of liquid assets to total liabilities reached 25.75% (compared to 25.57% as of end-December 2011). Banks followed BNB's recommendation to keep their liquidity level high. The overall capital adequacy ratio remained significantly above the regulatory minimum – 17.52%. The amount of accumulated capital surplus also remained unchanged (BGN 2.9 bn). The share of classified exposures past due more than 90 days in gross loans (excluding those to credit institutions) reached 16.21%, with credit risk levels being adequately provisioned and managed. From the beginning of this year, impairment costs of BGN 245 mn were incurred, i.e. by 18% less than the same period last year. The profit of BGN 176 mn as of 31 March 2012 was by BGN 18 mn higher than the one reported at the end of the first quarter of 2011. The achieved ROA was 0.91%, against 0.85% a year ago. Total assets increased by 1.4% (BGN 1.1 bn) reaching BGN 77.9 bn. After the decline in the assets of the banking system reported in February, there was a growth of BGN 643 mn (0.8%) in March. In the period January – March, securities in portfolios held for trading, available for sale and designated at fair value registered an increase. As a result of these developments, the market position of EU banks subsidiaries decreased to 68.4%, while the share of domestic banks reached 25.0%. Within the quarter, gross loans and advances increased by 0.7% (BGN 457 mn) mainly due to the claims on credit institutions (BGN 395 mn). The growth of corporate loans (by 0.2%) was accompanied by a decrease in the retail exposures (by 0.5%, or BGN 99 mn). Banks reported a quarterly decline in both housing mortgage loans (by 0.5%) and consumer loans (by 0.6%). At the end of March, the attracted funds in the system amounted to BGN 66.6 bn. For the first three months of the year, they registered an increase by 1.6% (BGN 1 bn), that only within March was BGN 679 mn. In the reported quarter the deposits of individuals and households continued their sustainable growth (by 2.8%, or BGN 898 mn).

Bank's intermediation ratios (% of GDP)

	03/11	02/12	03/12
Non-Financial Corporations	**42.1%**	**42.2%**	**42.6%**
Financial Corporations	**1.3%**	**1.1%**	**1.2%**
Households and NPISH	**25.1%**	**23.8%**	**23.8%**
Consumer loans	10.0%	9.5%	9.5%
Loans for house purchase	11.6%	11.1%	11.2%
Deposits of NFIs and other clients	**64.4%**	**68.3%**	**69.3%**
Assets	**98.6%**	**98.3%**	**99.2%**

Source: BNB's Monetary survey and Balance sheet of the banking system,
Ministry of Finance (GDP 2011, 2012)

Bulgaria: Macroeconomic Indicators	Annual data							
	2005	2006	2007	2008	2009	2010	2011	2012(f)
REAL SECTOR								
Gross domestic product (million BGN)	45 484	51 783	60 185	69 295	68 537	70 474	75 265	78553
Gross domestic product (annual real growth rate, %)	6.4	6.5	6.5	6.2	-5.0	0.2	1.7	1.4
CPI annual change, %	5.0	7.3	8.4	12.3	2.8	2.4	4.2	2.1
Industrial production index (annual change, %)	6.9	6.0	9.6	0.7	-18.3	2.0	5.8	3.8
Unemployment (%)	10.1	9.0	6.9	5.6	6.8	10.2	11.2	11.5
Gross domestic product per capita (BGN)	5 529	6 411	7 379	8 753	8 735	9 362	10 130	10 467
PUBLIC FINANCE								
Deficit(-)/ surplus(+) (million BGN)	464.5	960.5	698.7	1 156.8	-2 959.5	-2 208.0	-1 581	-1060
Deficit(-)/surplus(+) (% of GDP)	1.0	1.9	1.2	1.7	-4.3	-3.1	-2.1	-1.3
Government and government guaranteed debt (million BGN)	13 386.5	12 119.9	11 167.2	10 709.9	10 640.9	11 778.2	12 826.3	13100
Government and government guaranteed debt (% of GDP)	29.4	23.4	18.6	15.5	15.6	16.7	17.0	16.7
MONEY SUPPLY AND DOMESTIC CREDIT (mn BGN)								
Domestic credit	18 299.8	21 091.4	33 486.2	44 533.1	47 574.0	50 021.7	53 780.9	57845
Money M3 (Broad money)	25 259.6	32 061.4	42 061.6	45 777.8	47 690.1	50 740.9	56 956.3	62556
BNB international reserves	14 415.1	17 458.6	23 346.1	24 864.8	25 267.1	25 380.1	26 107.9	26200
Money M3, Broad mone) (% of GDP)	55.5	61.9	69.9	66.1	69.8	72.0	75.7	79.6
Domestic credit (% of GDP)	40.2	40.7	55.6	64.3	69.6	71.0	71.5	73.6
INTEREST RATES								
Base interest rate	2.04	2.69	3.93	5.12	2.40	0.20	0.20	0.18
Interbank money market	2.05	2.87	4.08	5.29	2.43	0.30	0.24	0.2
SOFIBOR 3 months	3.62	3.69	4.90	7.14	5.72	4.12	3.76	3.2
Yield on long-term government securities	.	3.89	4.17	4.99	5.50	4.72	4.43	4.2
EXTERNAL SECTOR (million EUR)								
Gross external debt	15 506.9	20 690.9	29 016.8	37 246.5	37 816.4	37 042.3	35 384.7	36 500.0
Gross external debt (% GDP)	66.7	82.0	94.3	105.1	108.3	102.8	91.9	91.1
Current account	-2 705.7	-4 647.8	-7 755.2	-8 182.5	-3 116.2	-475.6	361.4	600
Exports	9466.3	12 011.9	13 511.9	15 204.0	11 699.2	15 561.2	20 226.7	21230
Imports	13876.1	17 574.1	20 757.2	23 801.7	15 873.1	18 324.8	22 201.3	23200
Trade balance	-4409.7	-5 562.3	-7 245.3	-8 597.7	-4 173.9	-2 763.7	-1 974.6	-1970
Foreign direct investment	3 152.1	6 221.6	9 051.8	6 727.8	2 436.9	1 778.5	1 341.2	1148.2
Foreign direct investment/Current account deficit (%)	116.5	133.9	116.7	82.2	78.2	374.0	-	
Current account (% GDP)	-11.6	-17.6	-25.2	-23.1	-8.9	-1.3	0.9	1.5
Trade balance (% GDP)	-19.0	-21.0	-23.5	-24.3	-11.9	-7.7	-5.1	-4.9
Foreign direct investment (% GDP)	13.6	23.5	29.4	19.0	7.0	3.4	3.5	2.3
Exchange rate of BGN/USD	1.66	1.49	1.33	1.39	1.36	1.47	1.51	1.5
Source: BNB, MF, UBB's forecast								

METHODOLOGICAL NOTES

EXTERNAL SECTOR

CURRENT ACCOUNT

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 utilisation (%), 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 criterions of price stability and for readiness of Bulgaria to join the Euro-zone. HICP, just as CPI, measures the total relative change of the prices of goods and services. Both indices are calculated using the same basket of goods and services, but differ with respect to the used weights. HICP is calculated through the use of weights, which reflect the individual and the collective consumption of all households (incl. institutional and foreign households) on the economic territory of the country. The main source of information for HICP weights is the national accounts data. HICP in year ***t*** is calculated with the weights of year ***t-3***.

INDUSTRIAL PRODUCTION INDEX; INDUSTRIAL TURNOVER INDICES

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

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

Producer Price Index (PPI) is one of the main short-term business indicators; it is regarded as one of the important measures of the economic situation in the Country. The indices measure the average change in the prices of industrial products, which are produced and sold by Bulgarian enterprises. This is done on the bases of constant sample of groups of products, produced by the activity and sold on the domestic market or directly exported on non-domestic market and that sample is representative for total industrial production.

LABOUR FORCE

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

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

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

Unemployed are persons aged 15 to 74 who: 1) did not work at all during the reference period; 2) were actively seeking work within the preceding four weeks, including the reference one or have found a new job or business that is expected to start within 3 months following the reference period; 3) were available to start working within two weeks following the reference period.

Inactive population (persons not in the labour force) includes persons aged 15 and over who were neither employed, nor unemployed during the reference period.

Activity rate - ratio between the economically active population and the total population of the same age group.

Employment rate - ratio between the employed population and the total population of the same age group.

Unemployment rate - ratio between the unemployed persons and the economically active population.

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

MONETARY AGGREGATES

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

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

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

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

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

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

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

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

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

Money Supply Mechanism

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

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

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

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

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

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

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

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

CAPITAL MARKET

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

SOFIX is an index based on the market capitalization of the included issues of common shares, adjusted with the free-float of each of them. The index covers the 15 issues of shares complying with the general requirements for selection of constituent issues that have the greatest market value of the free-float. An issue included in the index base of SOFIX shall also meet the following criteria: 1) The issues should have been traded on a market, organized by the Exchange, for at least 3 (three) months before their introduction into the SOFIX portfolio. Provided an issue has been transferred for trading from one market segment to another, the first quotation date of the issue shall be assumed as its first trading date; 2) The market capitalization of the issue shall not be less than BGN 40,000,000 and the free-float shall not be less than 25 per cent* 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) per cent; 2) As from 1st March 2011 – 20 (twenty) per cent; 2) As from 1st September 2011 – 25 (twenty-five) per cent

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 million Bulgarian Leva); 3) The free-float shall not be less than 25 (twenty-five)* per cent 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) per cent; 2) As from 1st March 2011 – 20 (twenty) per cent; 3) As from 1st September 2011 – 25 (twenty-five) per cent;

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 million); 2) The free-float (number of shares hold by minority shareholders, i.e. by holders of not more than 5 per cent of the votes in the General Meeting of the issuing company) should not be less than 10 per cent 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.

MARKET PRICES OF HOMES

This statistical survey is designed for price index calculation of homes (flats) built up by standard plans and comparable by predefined 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.

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