

## BULGARIA: ECONOMIC AND MARKET ANALYSIS

### Monthly report as of February 2017

All data in the edition are the last available data as of February 28, 2017



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

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Source: [www.geographicguide.net](http://www.geographicguide.net)

- The current account was negative amounting to EUR 494.1 million in December 2016, compared with a deficit of EUR 281.2 million in December 2015
- In 2016 the value of all exported goods from Bulgaria amounted to BGN 46 104.9 million and compared to 2015 the exports increased by 2.6%
- Gross external debt amounted to EUR 34,164.8 million (72.7% of GDP) at end-November 2016, increasing by EUR 76.4 million (0.2%) from end-2015 (EUR 34,088.5 million, 75.3% of GDP)
- In January 2017 Bulgaria's foreign reserves amounted to BGN 45. 2 billion (EUR 23.1 billion) and reported an increase of 18.2% y/y
- Gross Domestic Product (GDP) expanded with 3.4% in the fourth quarter of 2016 compared to the same quarter of the previous year
- The annual inflation in January 2017 compared to January 2016 was 1.4%
- According to the preliminary data the Industrial Production Index, seasonally adjusted, increased by 2.1% in December 2016 as compared to November 2016
- In December 2016, the working day adjusted turnover in 'Retail trade, except of motor vehicles and motorcycles' increased by 3.5% in comparison with the same month of the previous year
- In December 2016 working day adjusted data showed a decrease by 9.7% in the construction production, compared to the same month of 2015
- In the fourth quarter of 2016, 833.5 thousand Bulgarian residents have made tourist trips
- In January 2017 the total business climate indicator increases by 0.8 % in comparison with December 2016 which is due to the improved business climate in industry and service sector
- Total Producer Price Index in December 2016 increased by 2.6% compared to the same month of 2015
- In January the unemployment rate is 8.2%
- Based on preliminary data and estimates the balance of the Consolidated Fiscal Programme (CFP) on a cash basis for January 2017 is expected to be positive, amounting to BGN 867.3 million (0.9% of forecast GDP)
- The central government debt as at end-December 2016 is EUR 13,761.9 million
- In January 2017 broad money (monetary aggregate M3) increased annually by 7.6% compared to 7.6% annual growth in December 2016
- In January 2017 the average level of the SOFIX increased by 2.6% and totaled 602.28 points
- As of 31 January, total assets of the banking system were BGN 91.5 billion

Bulgaria: Key Macroeconomic Indicators	2014 (a)	2015 (a)	2016 (p)	2017 (p)	2018 (p)	2019 (p)
<b>Gross Domestic Product</b>						
GDP (BGN million)	83 612	86 373	92 100	96 800	100 500	104 320
GDP (EUR million)	42 750	44 162	47 090	49 493	51 385	53 338
GDP (real growth, %)	1.5	3.6	3.5	3.5	3.6	3.7
Consumption	2.2	0.7	1.5	2	2.5	2.6
Gross capital formation	3.4	2.5	0.1	1.1	3.2	4.2
Exports of goods and services	-0.1	7.6	4.4	3.9	4.1	4.3
Imports of goods and services	1.5	4.4	3.5	3.8	4.1	4.5
<b>Labour market and prices</b>						
Employment (%)	0.4	0.4	1.1	0.6	0.6	0.6
Unemployment rate (%)	11.4	9.1	8	7.8	7.5	7.2
Compensation of one employed (%)	5.6	1.8	5.8	5.4	5.7	5.9
GDP Deflator (%)	0.4	-0.3	3.1	1.6	0.2	0.1
Average inflation (%)	-1.6	-1.1	1	0.7	1.6	1.8
<b>Balance of payments</b>						
Current account (% of GDP)	0.9	1.4	2.3	2	1.8	1.4
Trade balance (% of GDP)	-6.5	-4.3	-3.2	-3.4	-3.5	-3.7
FDI (% of GDP)	3.6	3.6	3.7	3.7	3.8	3.8
<b>Monetary sector</b>						
M3 (% y/y growth)	1.1	8.8	8.6	9	9.3	9.5
Loans to companies (% y/y growth)	-10.8	-1.8	0	2.9	4.9	6.5
Loans to households (% y/y growth)	-1.6	-1.3	0.4	3.3	3.8	4.5

Source: MF, BNB, NSI, UBB's Projection

## I. EXTERNAL SECTOR

### 1. Balance of payments

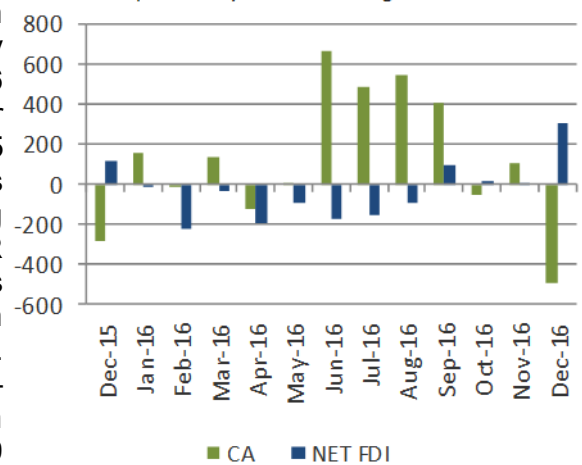
**The current account was negative amounting to EUR 494.1 million in December 2016, compared with a deficit of EUR 281.2 million in December 2015**

The current account was negative amounting to EUR 494.1 million in December 2016, compared with a deficit of EUR 281.2 million in December 2015, show the BNB data. In January – December 2016 the current account was positive and amounted to EUR 1,809.6 million (3.9% of GDP), compared with a surplus of EUR 172.4 million (0.4% of GDP) in January – December 2015. The balance on goods recorded a deficit of EUR 219.5 million in December 2016, compared with a deficit of EUR 350.7 million in December 2015. In January – December 2016 the balance on goods was negative amounting to EUR 1,789.9 million (3.8% of GDP), compared with a deficit of EUR 2,622.4 million (5.8% of GDP) in January – December 2015. Exports of goods amounted to EUR 2,037.7 million in December 2016, growing by EUR 350 million (20.7%) from December 2015 (EUR 1,687.7 million). In January – December 2016 exports of goods totaled EUR 22,642.6 million, increasing by EUR 723.2 million (3.3%) year-on-year (from EUR 21,919.4 million). In January – December 2015 exports grew by 4.2% year-on-year. Imports of goods amounted to EUR 2,257.1 million in December 2016, growing by EUR 218.7 million (10.7%) from December 2015 (EUR 2,038.5 million). In January – December 2016 imports of goods totaled EUR 24,432.5 million, dropping by EUR 109.2 million (0.4%) from January – December 2015 (EUR 24,541.8 million). In January – December 2015 imports grew by 3.1% year-on-year. Services recorded a positive balance of EUR 23.6 million in December 2016, compared with a surplus of EUR 95.9 million in December 2015. In January – December 2016 services recorded a surplus of EUR 3,370 million (7.2% of GDP) compared with a positive balance of EUR 3,082.6 million (6.8% of GDP) in the same period of 2015. The net primary Income (which reflects the receipt and payment of income related to the use of resources (labor, capital, land), taxes of production and imports and subsidies) recorded a deficit of EUR 342.1 million in December 2016, compared with a deficit of EUR 137.2 million in December 2015. In January – December 2016 the balance on primary income was negative and equated to EUR 1,321.6 million (2.8% of GDP), against a deficit of EUR 1,929.6 million (4.3% of GDP) in January – December 2015. The net secondary income (which reflects the redistribution of income) recorded a surplus of EUR 43.9 million, compared with a surplus of EUR 110.9 million in December 2015. In January – December 2016 the net secondary income was positive amounting to EUR 1,551.1 million (3.3% of GDP), compared with a positive balance of EUR 1,641.8 million (3.6% of GDP) in the same period of 2015. The capital account recorded a surplus of EUR 24.6 million, compared with a positive balance of EUR 212.2 million in December 2015. In January – December 2016 the capital account recorded a surplus of EUR 1,067.5 million (2.3% of GDP), compared with a positive balance of EUR 1,421.6 million (3.1% of GDP) in January – December 2015. The financial account recorded a net outflow of EUR 174.4 million, compared with an inflow of EUR 373.4 million in December 2015. In January – December 2016 the financial account recorded a net inflow of EUR 3,098.6 million (6.6% of GDP) compared with an inflow of EUR 3,146.4 million (6.9% of GDP) in January – December 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 304.6 million, compared with a positive balance of EUR 114.3 million in December 2015. In January – December 2016 direct investment recorded a net outflow of EUR 542.9 million (1.2% of GDP), compared with an outflow of EUR 1,595.7 million (3.5% of GDP) million in January – December 2015. Direct investment – assets grew by EUR 184 million compared with an increase of EUR 94.9 million in December 2015. In January – December 2016 direct investment – assets rose by EUR 545.4 million, compared with an increase of EUR 64.7 million in the same period of 2015. Direct investment – liabilities dropped by EUR 120.7 million in December 2016, compared with a decline of EUR 19.4 million in December 2015. In January – December 2016 direct investment – liabilities grew by EUR 1,088.3 million, compared with an increase of EUR 1,660.4

**Balance of Payments (EUR mn.)**

Source:BNB

Data provided by CEIC data Manager

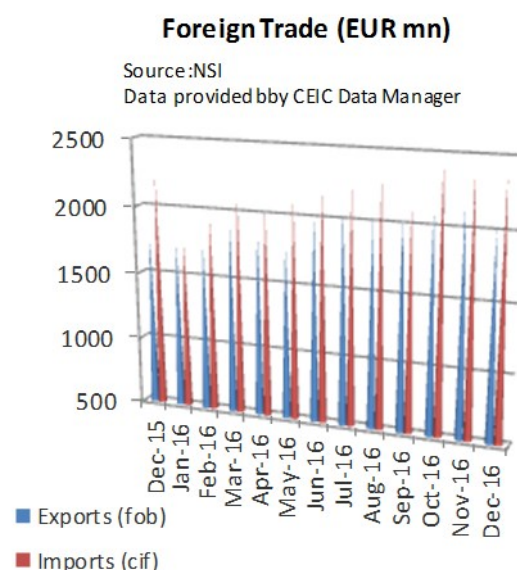


million in the same period of 2015. Foreign direct investment in Bulgaria (under the directional principle) dropped by EUR 258.3 million in December 2016 according to preliminary data, compared with a decline of EUR 88 million in December 2015. In January – December 2016 foreign direct investment in Bulgaria equated to EUR 682.8 million, compared with a total of EUR 1,692.4 million in January – December 2015. Direct investment abroad grew by EUR 46.3 million in December 2016, compared with an increase of EUR 26.3 million in December 2015. In January – December 2016 the direct investment abroad increased by EUR 139.9 million, compared with an increase of EUR 96.7 million in the same period of 2015. More detailed information on direct investment is available in the annex Direct Investment (January – December 2016), and the data series can be found in table 10. Direct Investment of the monthly Balance of Payments paper. The balance on portfolio investment was positive amounting to EUR 275.4 million, compared with a positive balance of EUR 333.3 million in December 2015. In January – December 2016 the balance was negative and equated to EUR 642.7 million (1.4% of GDP), compared with a negative balance of EUR 577.4 million (1.3% of GDP) million in January – December 2015. Portfolio investment – assets grew by EUR 282.7 million, compared with an increase of EUR 267.3 million in December 2015. In January – December 2016 they rose by EUR 814.6 million compared with a decline of EUR 268.7 million in January – December 2015. Portfolio investment – liabilities grew by EUR 7.3 million compared with a decline of EUR 66 million in December 2015. In January – December 2016 portfolio investment – liabilities rose by EUR 1,457.3 million, compared with an increase of EUR 308.7 million in January – December 2015. The balance on other investment was negative amounting to EUR 1,209.3 million, compared with a positive balance of EUR 267.1 million in December 2015. In January – December 2016 the balance was positive and equated to EUR 829.7 million (1.8% of GDP), compared with a positive balance of EUR 1,576.5 million (3.5% of GDP) in January – December 2015. Other investment – assets dropped by EUR 332.2 million, compared with a decrease of EUR 39.5 million in December 2015. In January – December 2016 they grew by EUR 1,184.2 million compared with a decline of EUR 1,420.9 million in January – December 2015. Other investment – liabilities increased by EUR 877.1 million compared with a decline of EUR 306.6 million in December 2015. In January – December 2016 they grew by EUR 354.5 million compared with a decline of EUR 2,997.4 million in January – December 2015. The BNB reserve assets rose by EUR 451.1 million, compared with a decline of EUR 318.5 million in December 2015. In January – December 2016 they grew by EUR 3,467.3 million (7.4% of GDP), compared with an increase of EUR 3,729.7 million (8.2% of GDP) in the same period of 2015. The net errors and omissions were positive amounting to EUR 295 million compared with a positive value of EUR 442.4 million in December 2015. According to preliminary data, the item was positive in January – December 2016 and totaled EUR 221.5 million (0.5% of GDP), against a positive value of EUR 1,552.4 million (3.4% of GDP) in the same period of 2015.

## 2. Foreign Trade

**In 2016 the value of all exported goods from Bulgaria amounted to BGN 46 104.9 million and compared to 2015 the exports increased by 2.6%**

According to the NSI data, in 2016 the value of all exported goods from Bulgaria amounted to BGN 46 104.9 million and compared to 2015 the exports increased by 2.6%. In December 2016 the total exports added up to 3 975.0 Million BGN or by 15.1% more than the same month of the previous year. The total value of all the goods imported in the country in 2016 amounted to BGN 51 005.8 million (at CIF prices), or by 1.1% less than 2015. In December 2016 the total imports increased by 6.9% compared to the same month of the previous year and added up to BGN 4 610.1 million. The total foreign trade balance (exports FOB - import CIF) was negative in 2016 and amounted to BGN 4 900.9 million. At FOB/FOB prices (after elimination of transport and insurance costs on imports) in 2016 the total foreign trade balance was also negative and added up to BGN 2 455.0 million. In December 2016 the total foreign trade balance (exports FOB - import CIF) was negative and amounted to 635.1 million BGN. The trade balance at FOB/FOB prices was also negative and added up to BGN 408.1 million.



### 3. External debt

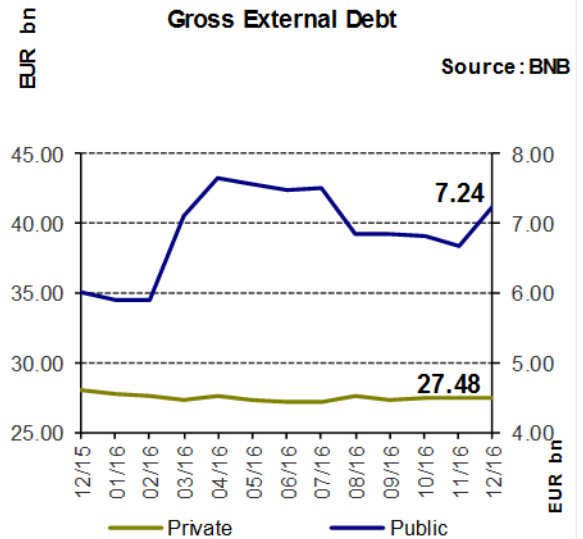
**Gross external debt amounted to EUR 34,164.8 million (72.7% of GDP) at end-November 2016, increasing by EUR 76.4 million (0.2%) from end-2015 (EUR 34,088.5 million, 75.3% of GDP)**

Gross external debt amounted to EUR 34,164.8 million (72.7% of GDP) at end-November 2016, increasing by EUR 76.4 million (0.2%) from end-2015 (EUR 34,088.5 million, 75.3% of GDP), show the BNB data. On a year-on-year basis gross external debt decreased by EUR 474.1 million (1.4%) from November 2015 (EUR 34,639 million, 76.5% of GDP). Long-term liabilities totaled EUR 26,311.2 million (77% of the total debt, 56% of GDP) at end-November 2016, growing by EUR 102 million (0.4%) 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 dropped by EUR 328.9 million (1.2%) from November 2015 (EUR 26,640 million, 58.8% of GDP). Short-term liabilities equaled EUR 7,853.7 million (23% of the total debt, 16.7% of GDP), decreasing by EUR 25.6 million (0.3%) 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 145.3 million (1.8%) from November 2015 (EUR 7,999 million, 17.7% of GDP). General government's gross external debt totaled EUR 6,345.4 million (13.5% of GDP) in end-November 2016. It rose by EUR 765.3 million (13.7%) from end-2015 (EUR 5,580.1 million, 12.3% of GDP), mostly due to the non-resident 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 663.2 million (11.7%) from November 2015 (EUR 5,682.2 million, 12.5% of GDP). Banks' external debt totaled EUR 3,830.8 million (8.2% of GDP). It fell by EUR 295.5 million (7.2%) from end-2015 (EUR 4,126.4 million, 9.1% of GDP). On a year-on-year basis banks' debt decreased by EUR 383 million (9.1%), from EUR 4,213.9 million, 9.3% of GDP in November 2015. Other Sectors' external debt<sup>4</sup> equaled EUR 11,503.5 million (24.5% of GDP). It dropped by EUR 228.2 million (1.9%) from end-2015 (EUR 11,731.7 million, 25.9% of GDP). On a year-on-year basis it fell by EUR 449.3 million (3.8%) from November 2015 (EUR 11,952.8 million, 26.4% of GDP). The stock of intercompany lending<sup>4</sup> amounted to EUR 12,485.1 million (26.6% of GDP) at end-November 2016, dropping by EUR 165.2 million (1.3%) from end-2015 (EUR 12,650.3 million, 27.9% of GDP). On a year-on-year basis it decreased by EUR 305 million (2.4%) from November 2015 (EUR 12,790.1 million, 28.2% of GDP). The external financing received from non-residents equaled EUR 5,636.5 million (12% of GDP) in January – November 2016, compared with EUR 5,661.3 million (12.5% of GDP) in January – November 2015. They were distributed as follows: general government received EUR 1,574.4 million (27.9% of the total amount of disbursements), banks received EUR 699.6 million (12.4%), other sectors<sup>4</sup> received EUR 1,876.9 million (33.3%), and intercompany lending<sup>4</sup> totaled EUR 1,485.6 million (26.4%). Gross external debt service totaled EUR 5,451.9 million (11.6% of GDP) in January – November 2016, compared with EUR 7,814.3 million (17.3% of GDP) in January – November 2015. Net external debt totaled EUR 2,166.9 million at end-November 2016. It dropped by EUR 4,536.2 million (67.7%) from end-2015 (EUR 6,703.1 million). Its decline was due to the larger increase in gross external assets (by EUR 4,612.5 million, 16.8%) in comparison with the increase in gross external debt (by EUR 76.4 million, 0.2%). As a percentage of GDP, net external debt equated to 4.6%, from 15% at end-2015.

### 4. Foreign reserves

**In January 2017 Bulgaria's foreign reserves amounted to BGN 45.2 billion (EUR 23.1 billion) and reported an increase of 18.2% y/y**

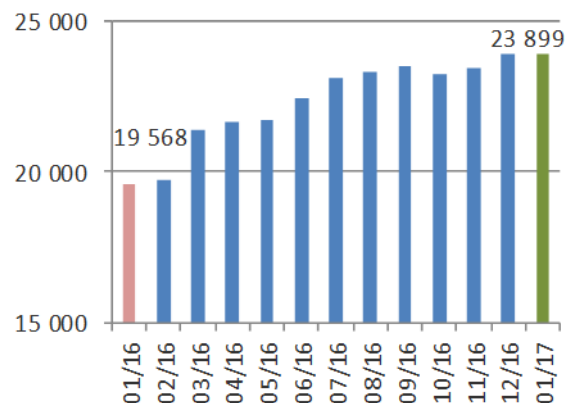
According to BNB data, in January 2017 Bulgaria's foreign reserves amounted to BGN 45.2 billion (EUR 23.1 billion)



### Foreign Reserves in EUR mn

Source: BNB

Data provided by CEIC Data Manager



and reported an increase of 18.2% y/y. Compared to the previous month's the foreign reserves decreased by 3.2%. Cash and deposits in for-foreign currency increased by 27.1% y/y. For a period of one year the investments in monetary gold recorded a growth of 10%, while investments in securities accelerated by 14.8% y/y. On a monthly basis there was a decline by 5.3% in investments in securities. On the side of liabilities the money in circulation increased by 12.1% y/y. Liabilities to government and budget organizations increased by 71% y/y to BGN 11.2 billion. Liabilities to other depositors grew up by 81.6% y/y and reached BGN 1.4 billion. For a period of one year the deposit of the "Banking" Department increased by 6.4%. On the side of liabilities on a monthly basis all balance sheet items recorded decreases, as follows: in the money in circulation by 3.3%, in the liabilities to banks by 9.3%, in the liabilities to government and budget organizations by 4.3%, in the liabilities to other depositors by 9.1%, in the deposit of the "Banking" Department by 0.3%. Bulgaria's international liquidity position, calculated as a ratio of short-term external debt to foreign reserves according the latest available data as of November 2016 level improved to a solid level of 298.8% compared to 252.6% at the end of January 2016.

## II. REAL SECTOR

### 1. GDP

**Gross Domestic Product (GDP) expanded with 3.4% in the fourth quarter of 2016 compared to the same quarter of the previous year**

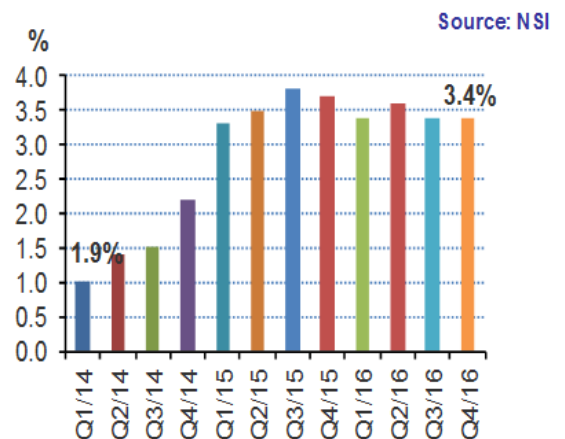
According to the NSI data, Gross Domestic Product (GDP) expanded with 3.4% in the fourth quarter of 2016 compared to the same quarter of the previous year and with 0.9% compared to the third quarter of 2016 according to the seasonally adjusted data. According to the flash GDP estimates for the fourth quarter of 2016, the GDP at current prices amounted to BGN 25 361 million. Gross Value Added in the fourth quarter of 2016 amounted to 21 BGN 740 million. In the structure of GDP by the expenditure approach the largest share has the final consumption (81.2%), which in nominal terms amounted to BGN 20 600 million. In the fourth quarter of 2016 gross capital formation is BGN 5 431 million and has a share of 21.4% in GDP. The external balance (exports minus imports) has a negative sign. According to the seasonally adjusted data<sup>1</sup>, the GDP growth rate in the fourth quarter of 2016 is 0.9% compared to the previous quarter. GVA increase in the fourth quarter of 2016 is also 0.9%. According to the flash estimates by final expenditure the GDP growth in the fourth quarter of 2016 is determined by increasing of the final consumption with 1.3% and increasing of the gross fixed capital formation with 1.2%. The fourth quarter of 2016 GDP at seasonally adjusted data increased by 3.4% compared to the same quarter of the previous year. Gross value added increased by 3.1%. As regards the expenditure components of GDP, the final consumption registered a positive economic growth by 0.9%. Gross fixed capital formation decreased by 1.5% compared to the same quarter of the previous year. Exports and imports of goods and services increased by 9.1% and 7.8% respectively.

### 2. Inflation

**The annual inflation in January 2017 compared to January 2016 was 1.4%**

According to the preliminary data of the NSI, the consumer price index in January 2017 compared to December 2016 was 101.3%, i.e. the monthly inflation was 1.3%. The annual inflation in January 2017 compared to January 2016 was 1.4%. The annual average inflation, measured

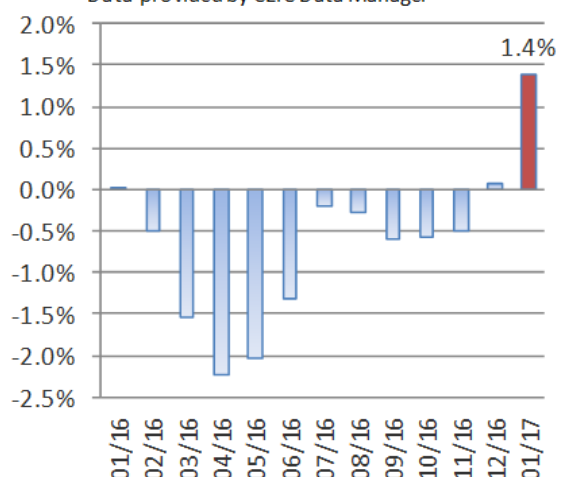
**GDP Growth  
to the same quarter previous year  
preliminary data**



of 2016 is 0.9% compared to the previous quarter. GVA increase in the fourth quarter of 2016 is also 0.9%. According to the flash estimates by final expenditure the GDP growth in the fourth quarter of 2016 is determined by increasing of the final consumption with 1.3% and increasing of the gross fixed capital formation with 1.2%. The fourth quarter of 2016 GDP at seasonally adjusted data increased by 3.4% compared to the same quarter of the previous year. Gross value added increased by 3.1%. As regards the

**Inflation y/y**

Source: NSI  
Data provided by CEIC Data Manager

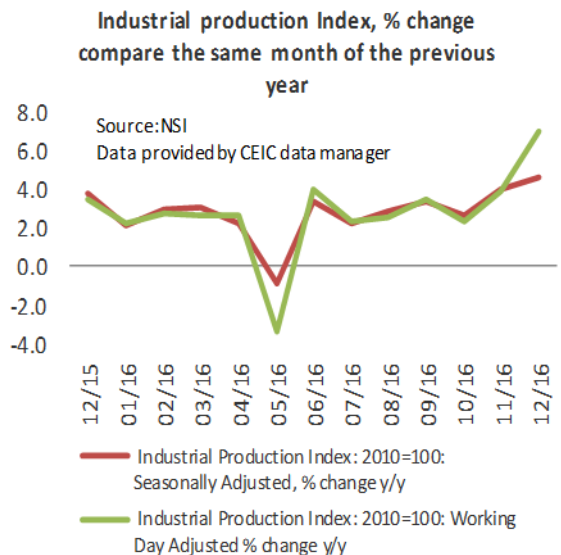


by CPI, in the last 12 months (February 2016 - January 2017) compared to the previous 12 months (February 2015 - January 2016) was -0.7%. According to the preliminary data of the NSI, the harmonized index of consumer prices in January 2017 compared to December 2016 was 100.7%, i.e. the monthly inflation was 0.7%. The annual inflation in January 2017 compared to January 2016 was 0.4%. The annual average inflation, measured by HICP, in the last 12 months (February 2016 - January 2017) compared to the previous 12 months (February 2015 - January 2016) was -1.3%. According to the preliminary data of the NSI, the price index of a small basket in January 2017 compared to December 2016 was 102.1%. In January 2017 compared to the previous month the prices of goods and services in the small basket for the 20% households with the lowest income changed as follows: Food products - an increase of 3.8%; Non-food products - an increase of 0.6%; Services - the prices remained at the level of the previous month.

### 3. Industrial production

**According to the preliminary data the Industrial Production Index, seasonally adjusted, increased by 2.1% in December 2016 as compared to November 2016**

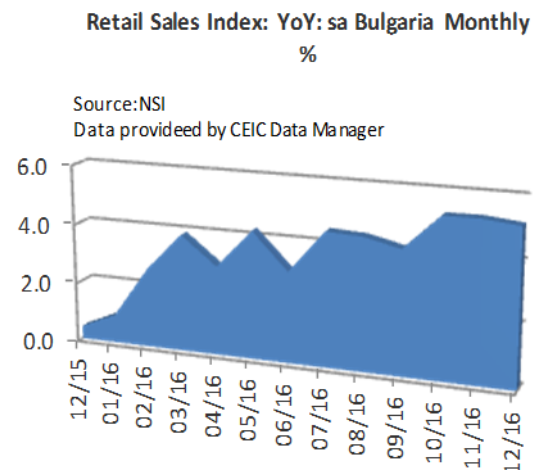
According to the preliminary data the Industrial Production Index, seasonally adjusted, increased by 2.1% in December 2016 as compared to November 2016. In December 2016 working day adjusted<sup>4</sup> Industrial Production Index rose by 6.9% in comparison with the same month of 2015. In December 2016 as compared to November 2016, the seasonally adjusted Industrial Production Index increased in the manufacturing by 3.9% and in the electricity, gas, steam and air conditioning supply by 1.3%, while in the mining and quarrying industry a decrease by 1.4% was seen. The most significant increases of production in the manufacturing were registered in the manufacture of fabricated metal products, except machinery and equipment by 15.0%, in the manufacture of wearing apparel by 6.4%, in the manufacture of motor vehicles, trailers and semi-trailers and in manufacture of other transport equipment by 5.0%. There were decreases in manufacture of leather and related products by 9.1%, in the manufacture of paper and paper products by 5.9%, in the manufacture of computer, electronic and optical products by 4.6%, in the printing and reproduction of recorded media and in the manufacture of chemicals and chemical products by 4.4%. On annual basis in December 2016 Industrial Production Index calculated from working day adjusted data increased in the manufacturing by 9.6% and in the mining and quarrying industry by 2.5%, while in the electricity, gas, steam and air conditioning supply a decrease by 0.3% was seen. In the manufacturing, the more significant increases compared to the same month of the previous year were seen in the manufacture of fabricated metal products, except machinery and equipment by 34.5%, in the manufacture of basic metals by 26.4%, in the manufacture of computer, electronic and optical products by 20.3%, in the manufacture of machinery and equipment by 20.2%. Decreases were registered in the manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials by 16.7%, in the manufacture of other transport equipment by 15.9%, in the manufacture of tobacco products by 12.7%, in the manufacture of other non-metallic mineral products by 8.5%.



**4. Retail sales**

**In December 2016, the working day adjusted turnover in ‘Retail trade, except of motor vehicles and motorcycles’ increased by 3.5% in comparison with the same month of the previous year**

According to the preliminary seasonally adjusted data of the NSI, in December 2016 the turnover in ‘Retail trade, except of motor vehicles and motorcycles’ at constant prices increased by 0.1% compared to the previous month. In December 2016, the working day adjusted turnover in ‘Retail trade, except of motor vehicles and motorcycles’ increased by 3.5% in comparison with the same month of the previous year. In December 2016 compared to the previous month the turnover increased in the ‘Retail sale via mail order houses or via Internet’ by 5.3%, in the ‘Retail sale of food, beverages and tobacco’ by 0.8% and in the ‘Dispensing chemist; retail sale of medical and orthopedic goods, cosmetic and toilet articles’ by 0.2%. A decrease was registered in the ‘Retail sale of textiles, clothing, footwear and leather goods’ - 4.8%, in the ‘Retail sale of audio and video equipment; hardware, paints and glass; electrical household appliances’ - 2.1% and in the ‘Retail sale of automotive fuel’ - 0.1%. In December 2016 compared to the same month of 2015 the turnover increased in the ‘Retail sale of food, beverages and tobacco’ by 12.6%, in the ‘Retail sale via mail order houses or via Internet’ by 8.2%, in the ‘Retail sale of computers, peripheral units and software; telecommunications equipment’ by 7.5% and in the ‘Dispensing chemist; retail sale of medical and orthopedic goods, cosmetic and toilet articles’ by 7.4%. More significantly decrease was registered in the ‘Retail sale in non-specialized stores’ - 11.9% and in the ‘Retail sale of automotive fuel’ - 8.5%.



**5. Construction**

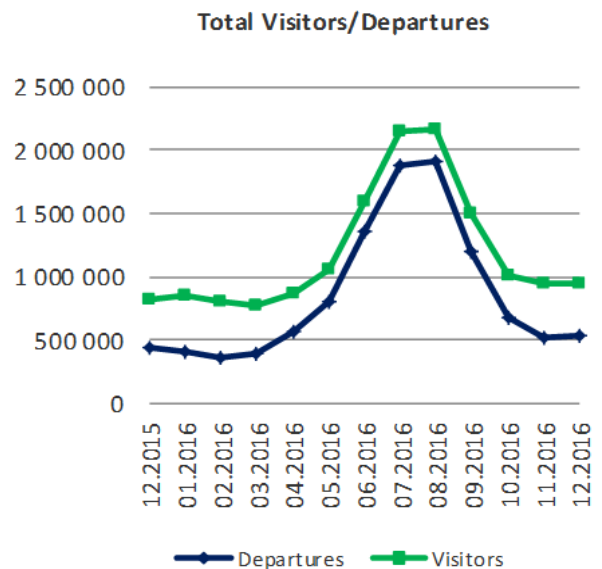
**In December 2016 working day adjusted data showed a decrease by 9.7% in the construction production, compared to the same month of 2015**

According to the preliminary data, in December 2016 the index of production in section ‘Construction’ calculated on the base of seasonally adjusted data was 2.1% below the level of the previous month. In December 2016 working day adjusted data showed a decrease by 9.7% in the construction production, compared to the same month of 2015. In December 2016 the construction production, calculated from the seasonally adjusted data, was below the level of the previous month. Index of production of civil engineering decreased by 4.6%, while in the production of building construction observed a minimal increase by 0.1%. On an annual basis in December 2016, the decline of production in construction, calculated from working day adjusted data, was determined mainly from the negative rate in the civil engineering where the drop was by 16.5% and in the building construction was registered a decrease by 3.1%.

**6. Tourism**

**In the fourth quarter of 2016, 833.5 thousand Bulgarian residents have made tourist trips**

In the fourth quarter of 2016, 833.5 thousand Bulgarian residents have made tourist trips, show the NSI data. An increase was observed in the number of the Bulgarian residents travelled in the country- by 17.4%, while the number of persons travelled both in the country and abroad and travelled only abroad decreased by 53.4% and 22.6% respectively made tourist trips. The majority (90.2%) of them travelled only within the country, 8.6% - only abroad and 1.2% - both in the country and abroad. Compared to the same quarter of 2015 the total number of



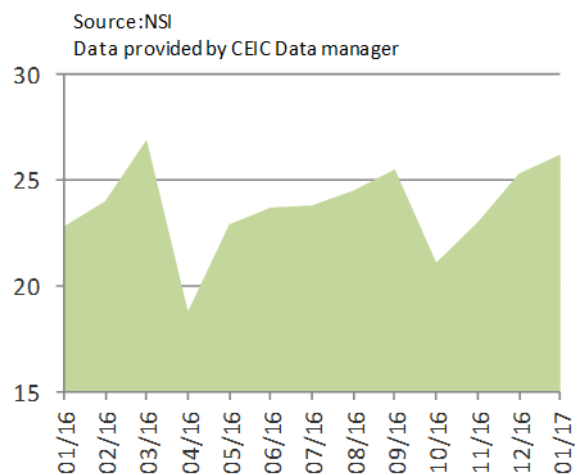
the travelled persons aged 15 and over increased by 10.4%. In the fourth quarter of 2016, the most tourist trips (45.8% of all residents travelled) were realized by Bulgarians aged 25 - 44 years. In all age groups predominated the share of the trips in the country, as the highest was this share among persons aged 15-24 years - 93.9% from the travelled in this age group. About the trips abroad the share of residents aged 65 and over was the highest - 14.1% of the travelled in the respective age group. The majority of tourist trips of persons aged 15 and over in the country were for 'visit relatives', while those made abroad were for 'holiday and recreation' pointed out by 45.5% and 48.4% respectively. In the fourth quarter of 2016, 1 123.3 thousand or 93.5% of the total number of the private tourist trips were registered as an independent. The relative share of the independent travels without booking of the trip in the country was 95.7%, while those abroad - 66.7%. In the structure of the expenditure by type with highest relative share was the expenditure on food in domestic trips - 39.8%, while in outbound trips were on transport - 36.2%. In the fourth quarter 2016 a person aged 15 and over spent on the average for private trip BGN150.43 in the country and BGN 603.77 for private trip - abroad. At the same time the average expenditure per person for professional trip was BGN 157.82 for domestic trip and BGN 869.48 for professional outbound trip.

## 7. Business climate

**In January 2017 the total business climate indicator increases by 0.8 % in comparison with December 2016 which is due to the improved business climate in industry and service sector**

In January 2017 the total business climate indicator increases by 0.8 % in comparison with December 2016 which is due to the improved business climate in industry and service sector, show the NSI data. The composite indicator 'business climate in industry' increases by 0.9 % compared to the previous month as a result of the optimistic industrial entrepreneurs' expectations about the business situation of the enterprises over the next 6 months. The inquiry also registers certain improvement in their assessments about the new orders inflow, which is accompanied with more favorable expectations about the production activity over the next 3 months. In January the average capacity utilization in industry remains to its October 2016 level (74.6%). However, with regard to the expected demand over the next months a shortage of capacity is foreseen. The main factor limiting the business development continues to be the uncertain economic environment, followed by the shortage of labour, as in the last month strengthen of their negative impact is observed. Concerning the selling prices in industry the managers' expectations are for preservation of their level over the next 3 months. In January the composite indicator 'business climate in construction' decreases by 1.2 % which is due to the shifting of the construction entrepreneurs' assessments about the present business situation of the enterprises from 'good' towards 'satisfactory' (normal for the season). In their opinion the production assurance with orders decreases compared to October 2016 and it is assessed to be 5.3 months. However, their expectations both about the business situations of the enterprises over the next 6 months and construction activity over the next 3 months are more favorable. The uncertain economic environment and the competition in the branch remain the most serious factors limiting the activity of the enterprises. The last inquiry reports strengthen of the negative influence of the factor 'weather conditions'. The managers do not foresee a change in the selling prices in construction over the next 3 months. The composite indicator 'business climate in retail trade' preserves its level from the previous month. The retailers' opinions about the volume of the sales and orders places whit suppliers from both domestic and foreign market over the next 3 months remain more reserved. The main obstacles for the business development continue to be the uncertain economic environment, competition in the branch and insufficient demand. The retailers' expectations are the selling prices to remain unchanged over the next 3 months. In January the composite indicator 'business climate in service sector' increases by 3.5 %, which is due to the improved managers' assessments and expectations about the business situation of enterprises. As regards the present and expected demand for services their opinions are also optimistic. In the last month is registered increase of the unfavorable

**Business Climate in Industry for the last 12 months, compare to the same month of the previous year**





impact of the factor 'competition in the branch', which shifts to the second place the difficulties, connected with the uncertain economic environment. The prevailing managers' expectations concerning the selling prices are for preservation of their level over the next 3 months.

## 8. Total Producer price index

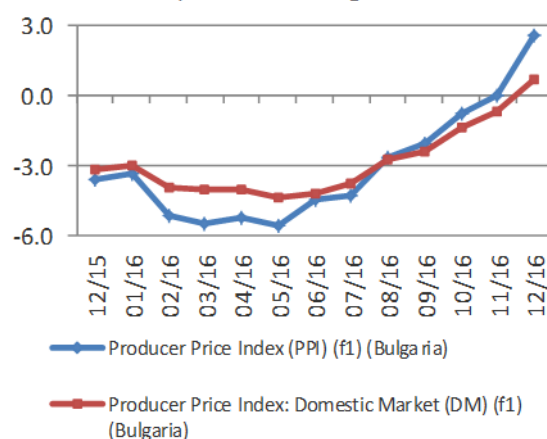
### Total Producer Price Index in December 2016 increased by 2.6% compared to the same month of 2015

Total Producer Price Index in Industry in December 2016 increased by 1.5% compared to the previous month. According to the NSI, higher prices were registered in the manufacturing by 2.1%, in the mining and quarrying industry by 0.6% and in the electricity, gas, steam and air conditioning supply by 0.1%. In the manufacturing, more significant price increases were seen in the manufacture of basic metals by 6.5%, in the manufacture of other transport equipment by 0.9% and in the manufacture of electrical equipment by 0.8%, while price decreases were reported in the manufacture of leather and related products by 0.6% and in the manufacture of wearing apparel by 0.3%. Total Producer Price Index in December 2016 increased by 2.6% compared to the same month of 2015. The prices rose in the mining and quarrying industry by 8.5% and in the manufacturing by 4.3%, while in the electricity, gas, steam and air conditioning supply the prices fell by 2.8%. In the manufacturing more significant price increases were seen in the manufacture of basic metals by 18.5%, in the repair and installation of machinery and equipment by 2.8% and in the manufacture of other transport equipment by 2.0%, while the producer prices fell in the manufacture of paper and paper products by 1.9% and in the manufacture of chemicals and chemical products by 1.8%. Producer Price Index on Domestic Market in December 2016 increased by 0.7% compared to the previous month. The domestic prices rose in the mining and quarrying industry by 4.3% and in the manufacturing by 1.0%, while in the electricity, gas, steam and air conditioning supply the prices went down by 0.1%. In the manufacturing, compared to the previous month the prices rose in the manufacture of basic metals by 2.5% and in the manufacture of electrical equipment by 1.3%, while the domestic prices fell in the manufacture of wearing apparel by 0.7%. Producer Price Index on Domestic Market in December 2016 increased by 0.6% compared to the same month of 2015. The domestic prices rose in the mining and quarrying industry by 12.7% and in the manufacturing by 1.9%, while the prices fell in the electricity, gas, steam and air conditioning supply by 2.7%. In the manufacturing compared to December 2015 the prices went up in the manufacture of basic metals by 15.1%, in the repair and installation of machinery and equipment by 3.2% and in the manufacture of computer, electronic and optical products by 2.8%. The price decreases were reported in the manufacture of chemicals and chemical products by 2.8%, in the manufacture of wood and of products of wood and cork, except furniture by 2.0% and in the manufacture of tobacco products by 1.3%. Producer Price Index on Non-domestic Market in December 2016 increased by 3.1% compared to the previous month. In the manufacturing compared to the previous month the non-domestic prices rose by 3.4%. More significant price increases were reported in the manufacture of basic metals by 7.5% and in the manufacture of other transport equipment by 1.2%, while the prices fell in the manufacture of leather and related products by 0.9% and in the other manufacturing 0.8%. Producer Price Index on Non-domestic Market in December 2016 increased by 6.5% compared to the same month of 2015. In the manufacturing, the prices rose by 7.1% compared to December 2015. The non-domestic prices went up in the manufacture of basic metals by 19.3% and in the manufacture of wood and of products of wood and cork, except furniture by 5.0%. The prices fell in the manufacture of paper and paper products by 8.4% and in the manufacture of computer, electronic and optical products by 1.8%.

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

Source: NSI

Data Provided by CEIC Data Manager

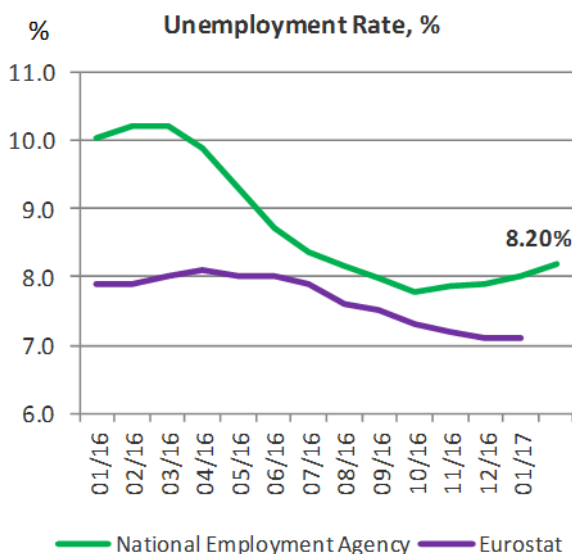


## 9. Unemployment

### In January the unemployment rate is 8.2%

According to data of the Employment Agency in January the unemployment rate is 8.2%. This is the lowest reported level of the indicator in this month since 2010. Compared with January 2016, unemployment decreased by 2%. Compared to December 2016 the index rose by 0.2%. The number of unemployed registered in labor offices in January was 269 749. It increased by 3.3% compared to the previous month, but

compared to January 2016 the number of unemployed decreased - by 64 821 people or 19.4% less. In January 2016 13 374 unemployed started new job including 12 790 - in the primary labor market. In subsidized employment are included 584 unemployed. Of these, 154 have begun work on programs and measures for employment of Law for Promotion of Employment. Under schemes of the Operational Programme Human Resources Development 430 unemployed found job. In the labor offices were announced 12 532 job vacancies on the primary market. Of these, the private sector has announced 9260 which are 73.9% of all vacancies announced during the month. Compared to January 2016 the number of vacancies on the primary market grew by 10.3% or 1291 units. The greatest demand for labor force from the private sector was registered in manufacturing (4124), Trade (1832), administrative and support service activities (1111), transport and storage (595), hotels and restaurants (585), education ( 550), construction (458) and others. The most wanted professions in the labor offices in January were for sales assistants, machine operators, tailors, teachers, drivers, nurses and others.

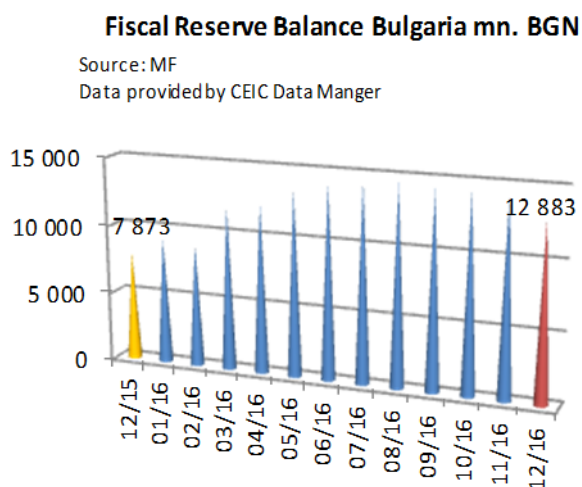


### III. FISCAL SECTOR

#### 1. Government budget

**Based on preliminary data and estimates the balance of the Consolidated Fiscal Programme (CFP) on a cash basis for January 2017 is expected to be positive, amounting to BGN 867.3 million (0.9% of forecast GDP)**

Based on preliminary data and estimates the balance of the Consolidated Fiscal Programme (CFP) on a cash basis for January 2017 is expected to be positive, amounting to BGN 867.3 million (0.9% of forecast GDP), show the MF data. For comparison, a CFP surplus of BGN 991.6 million (1.1% of GDP) was reported for January 2016. It should be noted that in the first half of 2016 we received significant amount of EU grants representing reimbursed expenses under EU programs actually made at the end of 2015, which in turn had relation to the deadlines for making final payments to contractors under projects from the previous 2007 - 2013 programming period. For this reason, if compared to the same period of 2016, proceeds from EU grants are lower for January 2017 which, all other terms being equal, is also reflected in lower excess of revenues over expenditures under CFP for the month. Key CFP parameters on the basis of preliminary data and estimates: For January 2017, CFP revenues and grants are expected to be BGN 3,326.7 million (9.4% of the annual estimate), registering a growth by BGN 196.4 million as against January 2016. The growth as compared to the previous year is mainly due to the higher tax and non-tax revenues which increased by BGN 265.8 million (9.1%), while proceeds from grants were lower. The Consolidated Fiscal Programme expenditures, including the contribution of the Republic of Bulgaria to the EU budget, for January 2017 amount to BGN 2,459.4 million, which accounts for 6.7% of the annual estimates. Compared to the same period of the previous year, CFP expenditures registered growth mostly due to the higher social security and health insurance payments, a baseline effect on expenditures on pensions from their increase as from July 2016, expenditures on subsidies and growth of insurance payments



related to the higher insurance contribution for the Pensions for Persons under Article 69 Fund which increased by 20 % as compared to 2016. The part of Bulgaria's contribution to the EU budget, as paid from the central budget as of 31.01.2017, amounts to BGN 71.3 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. The statistical data and the Information Bulletin on the execution of the state budget and the key indicators of the Consolidated Fiscal Programme based on data from the monthly reports on the cash performance of the budgets of the first-level spending units will be published on the website of the Ministry of Finance at the end of February 2017.

## 2. Government debt

### The central government debt as at end-December 2016 is EUR 13,761.9 million

According to the official register kept by the Ministry of Finance, the central government debt as at end-December 2016 stands at EUR 13,761.9 million. Domestic debt amounts to EUR 3,489.5 million and external debt - to EUR 10,272.4 million. At the end of the reporting period the central government debt/gross domestic product (GDP) ratio is 29.4%, with the share of domestic debt being 7.4% and of external debt - 22.0% of GDP. In the central government debt structure, domestic debt at the end of the period amounts to 25.4%, and external debt - to 74.6%. The debt currency structure as at end-December is as follows: 79.9% in EUR, 19.4% in BGN, 0.2% in USD and 0.5% in other currencies. Central government debt payments as at the end of the month amount to BGN 2,206.9 million, of which BGN 1,519.0 million principal repayments and BGN 687.9 million interest payments. In December, the central government guaranteed debt reaches EUR 226.8 million, of which EUR 33.6 million domestic guarantees, with the government guaranteed debt/GDP ratio being 0.5%.

## IV. MONETARY SECTOR

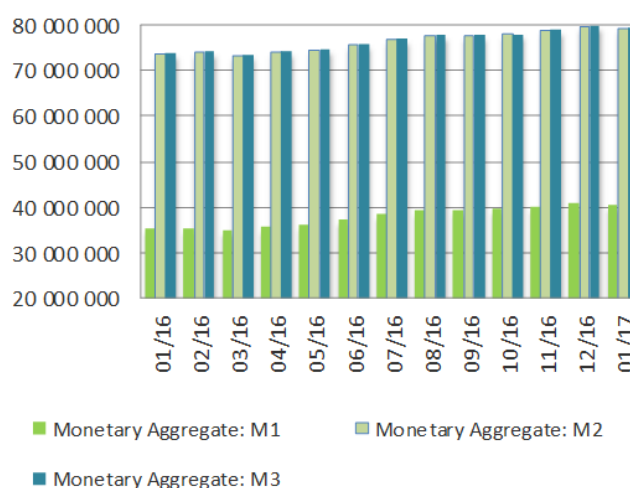
### In January 2017 broad money (monetary aggregate M3) increased annually by 7.6% compared to 7.6% annual growth in December 2016

In January 2017 broad money (monetary aggregate M3) increased annually by 7.6% compared to 7.6% annual growth in December 2016, show BNB data. At the end of January 2017 M3 was BGN 79.143 billion (83.1% of GDP) compared to BGN 79.581 billion (86.6% of GDP) in December 2016. Its most liquid component – monetary aggregate M1 – increased by 14.3% annually in January 2017 (13.5% annual growth in December 2016). At the end of January 2017, deposits<sup>5</sup> of the non-government sector<sup>6</sup> were BGN 67.795 billion (71.2% of GDP), increasing annually by 6.7% (7% annual growth in December 2016).

Deposits of Non-financial corporations were BGN 18.936 billion (19.9% of GDP) at the end of January 2017. Compared to the same month of the previous year they increased by 7.8% (6.3% annual growth in December 2016). Deposits of financial corporations increased by 9.7% annually in January 2017 (18.1% annual growth in December 2016). At the end of the month they reached BGN 3.456 billion (3.6% of GDP). Deposits of Households and NPISHs were BGN 45.403 billion (47.7% of GDP) at the end of January 2017, increasing by 6.1% compared to the same month of 2016 (6.6% annual growth in December 2016). Net domestic assets were BGN 49.046 billion at the end of January 2017. They decreased by 3.3% compared to the same month of 2016 (3.7% annual decline in December 2016). At the end of the month their basic component – domestic credit – was BGN 50.473 billion and decreased by 3.3% compared to January 2016 (4.3% annual decline in December 2016). In

Monetary Aggregates in BGN/th

Source: BNB



January 2017 claims on the non-government sector<sup>7</sup> increased by 3.3% annually (1.8% annual increase in December 2016) reaching BGN 51.885 billion. At the end of January 2017, claims on loans to the non-government sector amounted to BGN 50.722 billion (53.2% of GDP) compared to BGN 50.536 billion (55% of GDP) at the end of December 2016. They increased annually by 3.1% in January 2017 (1.5% annual increase in December 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 225.2 million. On an annual basis, loans sold by Other MFIs were BGN 260.7 million (of which BGN 2.2 million in January 2017), while the amount of repurchased loans was BGN 35.5 million (of which BGN 2.3 million in January 2017). In January 2017, loans to Non-financial corporations increased by 1.6% annually (0.3% annual growth in December 2016) and at the end of the month amounted to BGN 30.609 billion (32.1% of GDP). Loans to Households and NPISHs were BGN 18.610 billion (19.5% of GDP) at the end of January 2017. They increased by 4.1% compared to the same month of 2016 (2% annual growth in December 2016). At the end of January 2017 loans for house purchases were BGN 8.785 billion and increased by 1.8% annually (1.4% annual growth in December 2016). Consumer loans amounted to BGN 7.299 billion and compared to January 2016 they increased by 2.8% (0.6% annual growth in December 2016). On an annual basis other loans increased by 66.5% (46.6% annual growth in December 2016) and reached BGN 1.166 billion. Loans granted to financial corporations were BGN 1.504 billion at the end of January 2017 (1.6% of GDP). Compared to January 2016, they increased by 26.5% (21.7% annual growth in December 2016). Net foreign assets amounted to BGN 50.018 billion at the end of the reporting month compared to BGN 49.744 billion at the end of December 2016. They increased by 20.8% compared to January 2016 (22.3% annual growth in December 2016). At the end of January 2017 foreign assets increased by 15.8% annually (17.5% annual growth in December 2016), reaching BGN 58.870 billion. Foreign liabilities amounted to BGN 8.852 billion, marking a 6.1% annual decline (2.5% annual decrease in December 2016).

## V. CAPITAL MARKET

**In January 2017 the average level of the SOFIX increased by 2.6% and totaled 602.28 points**

In January 2017 the average level of the SOFIX increased by 2.6% and totaled 602.28 points. This ranks SOFIX on a ninth position by growth among the indices of all 19 stock exchanges in Central and Eastern Europe. The biggest loser in the region is the index of the Greek market with a result by nearly 5% drop, while the largest growth index of the Turkish market reported a growth with just over 11%. Four from 19 stock exchanges in Central and Eastern Europe ended January with downturns. On a monthly basis BGBX40 and BGTR30 marked a growth by 4.85% and 2.37% respectively, while, the sectorial index on the housing market BGREIT, fell by 0.71%.

Date	SOFIX	BGBX40	BGREIT	BGTR30
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
11.2016	562.8	106.4	103.5	439.1
12.2016	586.4	111.3	108.1	459.2
01.2017	602.3	117.0	107.3	470.4

Source: Bulgarian Stock Exchange-Sofia

## VI. BANKING SECTOR

**As of 31 January, total assets of the banking system were BGN 91.5 billion**

In January 2017 the banking system reported a stable liquidity position, a growth in the balance sheet capital, and a higher financial result compared to that a year earlier, show the BNB data. At the end of the month the liquid assets ratio (37.88%), calculated under BNB Ordinance No. 11, showed that a high level of liabilities' coverage is maintained. The banking system's financial result reported for the month amounted to BGN 94 million, i.e. by BGN 9 million higher than the same period last year. Within the current period, impairment costs on loans and receivables of BGN 47 million were incurred

(against BGN 66 million for January 2016). As of 31 January, total assets of the banking system were BGN 91.5 billion. Within one-year horizon, the assets registered a 5.1% growth, and compared to the end of 2016 – a 0.6% decrease. Over the month, cash, available for sale debt instruments, and loans and advances decreased. There was an increase in other demand deposits and held-for-trading securities. Gross loans and advances increased slightly. The most significant monthly growth was observed in receivables on credit institutions – by BGN 1.3 billion (15.7%). The loan portfolio (excluding loans and advances to sectors ‘central banks’ and ‘credit institutions’) also experienced an upward move (by BGN 32 million, or 0.1%). Loans to other financial corporations decreased (by 44 million), while growth was registered in loans to households (by BGN 89 million) and to non-financial corporations (by BGN 15 million). Amid the usual for the season weak business activity, the sources of financing the activity remained stable. During the month the deposits declined by 1.0% to BGN 77.8 billion as of end-January. The upward trend in the amount of funds from households continued, and for the same period they grew by BGN 6 million. Their share in total deposits in the banking system reached 60.7% (against 60.1% as of 31 December 2016). An increase is also reported in the resources from the sector ‘general governments’ (by BGN 132 million, or 8.0%). As of 31 December 2016 the capital adequacy ratios of the banking system remained high. At end- December the ratios of Common equity Tier 1 capital, Tier 1 capital, and total capital adequacy were 20.41%, 20.88% and 22.15% respectively (against 21.00%, 21.48% and 22.79% as of September 2016). As of 31 January 2017 the balance sheet item total equity of the banking system was BGN 12.2 billion as a result of the realized monthly growth by BGN 105 million (0.9%).

## 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.<sup>2</sup> 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](mailto: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 1997 – August 2008. The new methodology was applied for the first time with the data for January 2010, with back data revisions for the months of 2007, 2008 and 2009.

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

Income consists of two categories: (i) compensation of employees, and (ii) investment income. Compensation of employees covers wages, salaries and other benefits paid to non-resident workers in

the country or received by resident workers abroad. The compensation of employees comprises also income due to illegal employment. By the end of 2006 the BNB estimates this flow in accordance with the Methodology for Estimation of Flows due to Illegal Employment (14 March 2006).<sup>3</sup> With the January 2010 data the BNB applies new methodology for estimation of the Compensation of employees, credit. The new methodology was applied for the first time with the data for January 2010, with back data revisions for the months of 2007, 2008 and 2009.

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

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

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

## CAPITAL ACCOUNT

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

## FINANCIAL ACCOUNT

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

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



the direct investor in the undistributed earnings/loss of the direct investment enterprise. Direct investment is reported on a directional basis: direct investment abroad – as an asset, and direct investment in the reporting country – as a liability.

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

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

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

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

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

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

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

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

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

## RESERVES AND RELATED ITEMS

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

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

## REAL SECTOR

### GROSS DOMESTIC PRODUCT - PRODUCTION APPROACH

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

### GDP - INCOME APPROACH

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

### GROSS DOMESTIC PRODUCT BY FINAL EXPENDITURE

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

### BUSINESS SURVEY IN INDUSTRY, CONSTRUCTION, TRADE AND SERVICE SECTOR

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

### INVESTMENT ACTIVITY IN INDUSTRY

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

### CONSUMER SURVEY

The survey gathers information about the consumers' opinions about their financial situation, the general economic situation in the country, the inflation, unemployment, savings, etc. The replies to the questions

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

### **CONSUMER PRICE INDICES (CPI)**

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

### **HARMONIZED INDICES OF CONSUMER PRICES (HICP)**

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

### **INDUSTRIAL PRODUCTION INDEX; INDUSTRIAL TURNOVER INDICES**

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

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

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

### **LABOUR FORCE**

The Labor Force Survey (LFS) is a continuous sample survey providing quarterly and annual data on the economic activity of the population aged 15 and over. The survey covers non-institutional households.

Reference period - the characteristics of each interviewee refer to his/her status during a defined calendar week.

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

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

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

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

## MONETARY AGGREGATES

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

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

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

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

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

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

Long-term liabilities and monetary financial institutions – include liabilities of monetary financial institutions with maturity of over two years or with a notice of over three months, as well as capital and

reserves. Capital and reserves comprise the statutory fund of the banking system reserves and financial result.

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

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

### Money Supply Mechanism

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

### CAPITAL MARKET

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

SOFIX is an index based on the market capitalization of the included issues of common shares, adjusted with the free-float of each of them. The index covers the 15 issues of shares complying with the general requirements for selection of constituent issues that have the greatest market value of the free-float. An issue included in the index base of SOFIX shall also meet the following criteria: 1) The issues should have been traded on a market, organized by the Exchange, for at least 3 (three) months before their introduction into the SOFIX portfolio. Provided an issue has been transferred for trading from one market segment to another, the first quotation date of the issue shall be assumed as its first trading date; 2) The market capitalization of the

issue shall not be less than BGN 40,000,000 and the free-float shall not be less than 25 %\* of the amount of the issue, or the market value of the free-float shall not be less than BGN 10,000,000; 3) The number of shareholders of the issue shall not be less than 500 persons; 4) The turnover of the issue during the last 12 months shall not be less than BGN 2,000,000; 5) The number of transactions executed in the issue during the last 12 months shall not be less than 750.

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

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

BG REIT is an index based on the free-float-adjusted market capitalization and shall cover 7 (seven)

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

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

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

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

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

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

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, larders, 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. Gergana Kosturska, Chief analyst, e-mail: kosturska\_g@ubb.bg

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