

BULGARIA ECONOMY REPORT

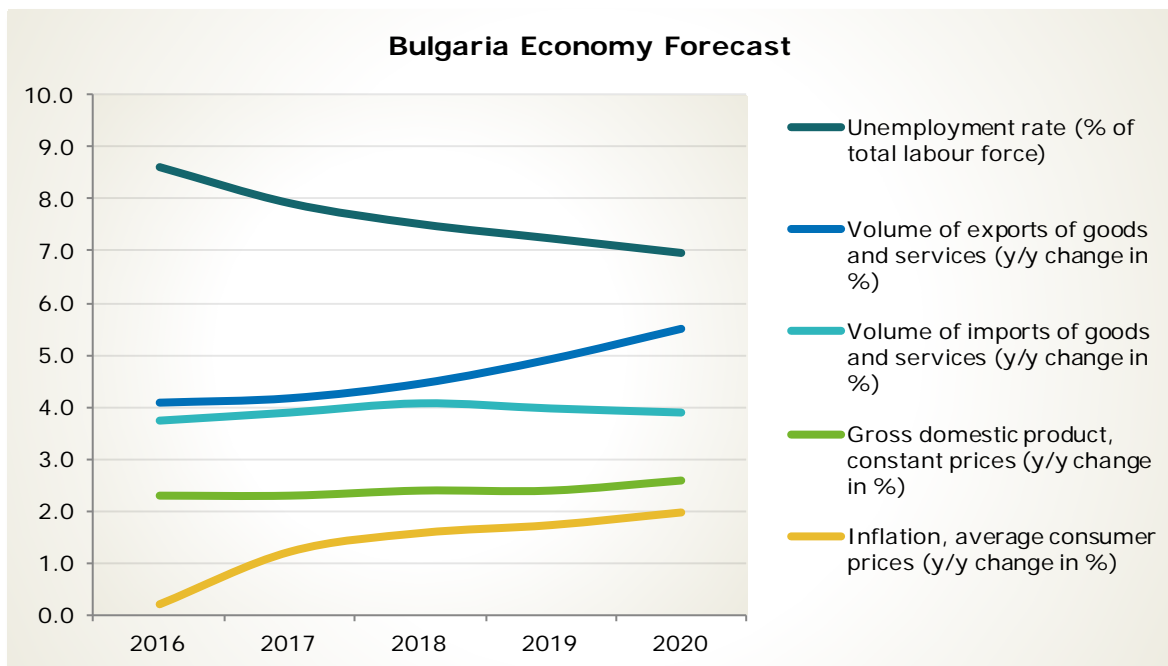
Q1 2016

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1. MACROECONOMIC SNAPSHOT AND FORECAST

BULGARIA – MACROECONOMIC SNAPSHOT AS OF Q1 2016	
GDP Growth	2.9% y/y
Business confidence indicator	1.6 pp m/m
Industrial output	2.6% y/y
Industrial sales index	117.9% (2010=100)
Wholesale	0.7% y/y
Retail sales	6.3% y/y
Average annual inflation	-0.15%
Unemployment rate	8.6%
Number of building permits	86.6% y/y
Money supply growth	1.9% y/y
Household loans	-1.5% y/y
SOFIX blue-chip index	-10.0% y/y
Gross external debt	-11.7% y/y
Current account surplus	EUR 312.1 mln
FDI inflow change	-37.3% y/y
Foreign trade deficit	EUR 460 mln
Number of foreign tourist overnights	12.6% y/y



Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2016

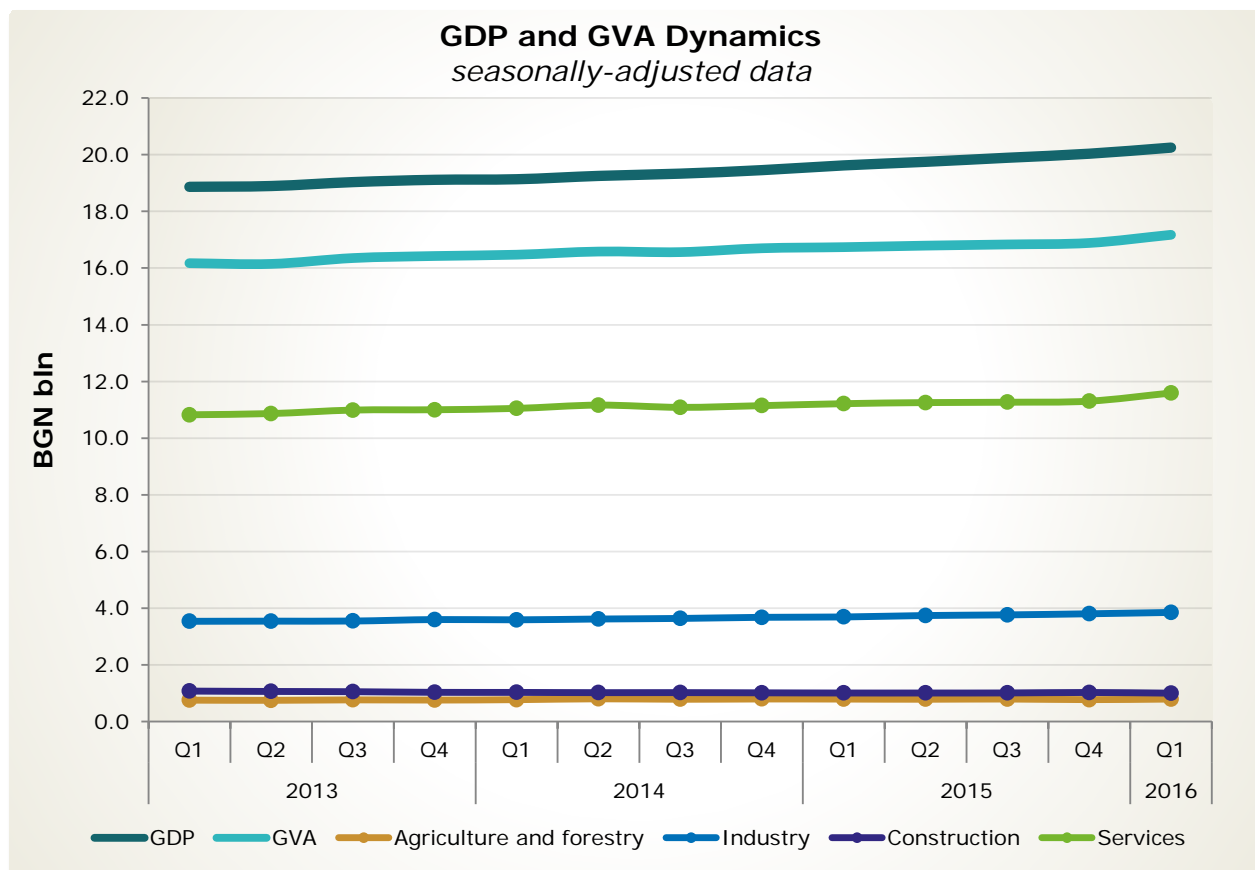
2. REAL SECTOR

2.1 GROSS DOMESTIC PRODUCT (GDP)

GDP went up by 2.9% y/y in Q1 2016, at the same rate as a year ago

The country's seasonally-adjusted GDP increased by 2.9% y/y and totalled BGN 20.249 bln in Q1 2016, according to preliminary data of the National Statistical Institute (NSI).

Final consumption, which contributed 77.4% to the GDP, increased by 2.1% y/y in Q1 2016. Gross capital formation went down by 3.9%, contributing 20.0% to the GDP. Exports grew by 0.3%, imports went down by 1.3%.



Source: NSI

The gross value added (GVA) generated by the national economy increased by 2.6% y/y in Q1 2016 and totalled BGN 17.174 bln. The industrial sector grew in value by 4.8% y/y and its share in the GVA structure inched up to 22.4% from 22.0%. The services sector recorded a 3.4% annual increase, slicing a 67.5% share in the GVA, compared to 67.0% one year ago. The agricultural sector stood flat in value, thus decreasing its share in the GVA to 4.6% from 4.8%. The construction industry was the only one to report an annual decline, of 1.7% and its share in the GVA narrowed to 5.9% from 6.1%.

2.2 BUSINESS CLIMATE

Business Confidence Indicator went up by 1.6 percentage points m/m in March 2016

In March 2016 the business confidence indicator went up by 1.6 percentage points m/m due to the improved business climate in the industry, retail and construction sectors, according to NSI.

Economic uncertainty, tough competition, financing issues and low demand are among the key factors, which impede the development of the sectors.

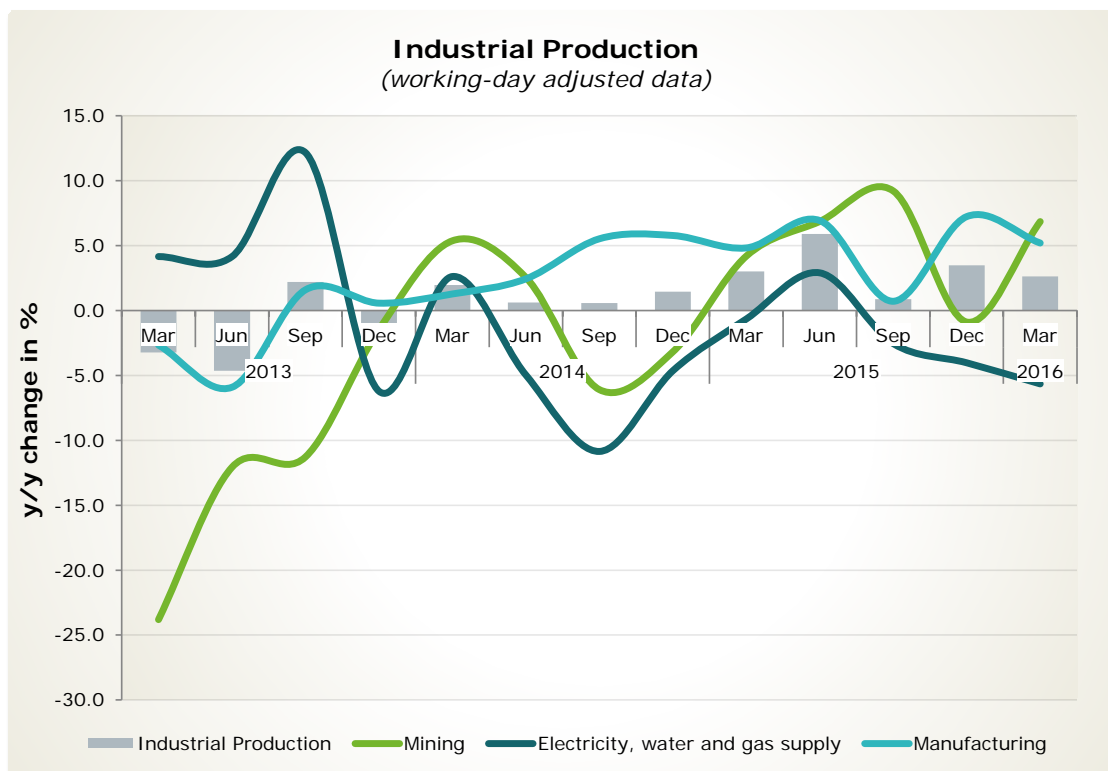
The business confidence indicator grew by 0.6 percentage points m/m in January 2016 and by 0.5 percentage points m/m in February 2016.

2.3 INDUSTRIAL OUTPUT

Industrial output rose by 2.6% y/y in March 2016

Industrial output went up by 2.6% on the year in March 2016, according to NSI. The mining industry grew by 6.9%, followed by the manufacturing sector, which increased by 5.2%. The electricity, water and gas supply sector fell by 5.7%.

Fabricated metal products, except machinery and equipment registered the sharpest annual growth, of 34.3%, while the sharpest drop, of 24.5%, was posted by coal mining.

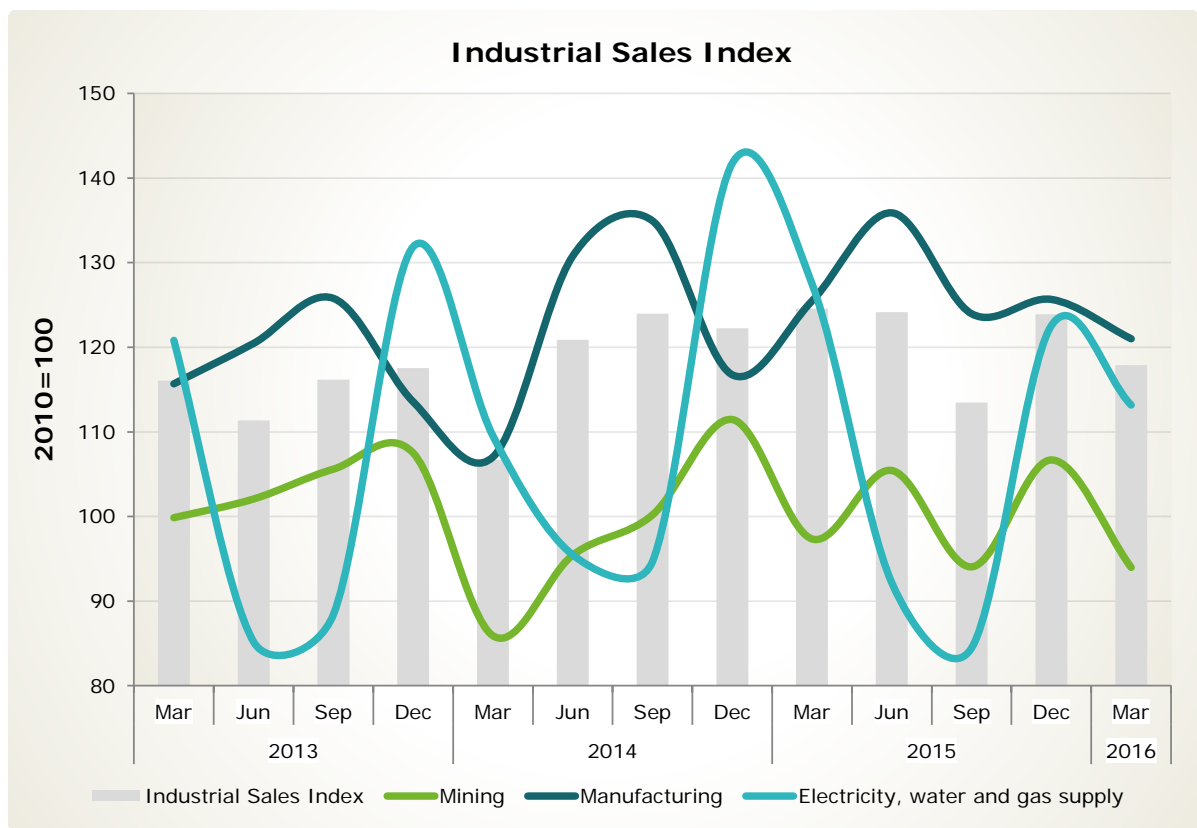


Source: NSI

2.4 INDUSTRIAL SALES

Industrial sales index at 117.9 in March 2016

The industrial sales index stood at 117.9 (2010=100) in March 2016, compared to 124.6 in March 2015, according to NSI. The highest index value, of 249.8, was reported by manufacture, not elsewhere classified, while coal mining was on the bottom with an index of 68.8.



Source: NSI

2.5 WHOLESALE/RETAIL

Wholesale and retail grew y/y in Q1 2016

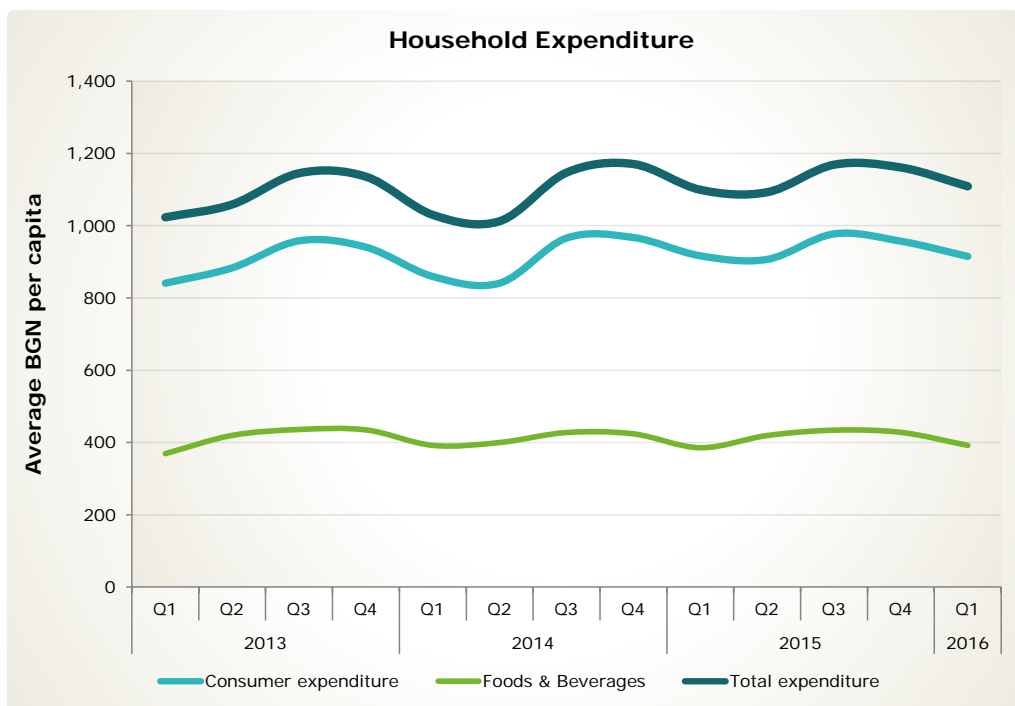
Retail sales inched up by 6.3% y/y in March 2016, according to NSI data. In January and February retail sales rose by an annual 1.3% and 3.3%, respectively.

Retail sale of textiles, clothing and footwear marked the highest increase, of 21.5% y/y, in March 2016. Retail sale of computers and communication equipment and other consumer goods experienced the sharpest annual drop, of 13.6%.



Source: NSI

The wholesale sector went up by 0.7% y/y in the first quarter of 2016. Wholesale of computers and communication equipment registered the highest drop, of 21.0%. Wholesale of machinery, equipment and tangible purpose and parts thereof was the segment to report the sharpest rise, of 45.6%.

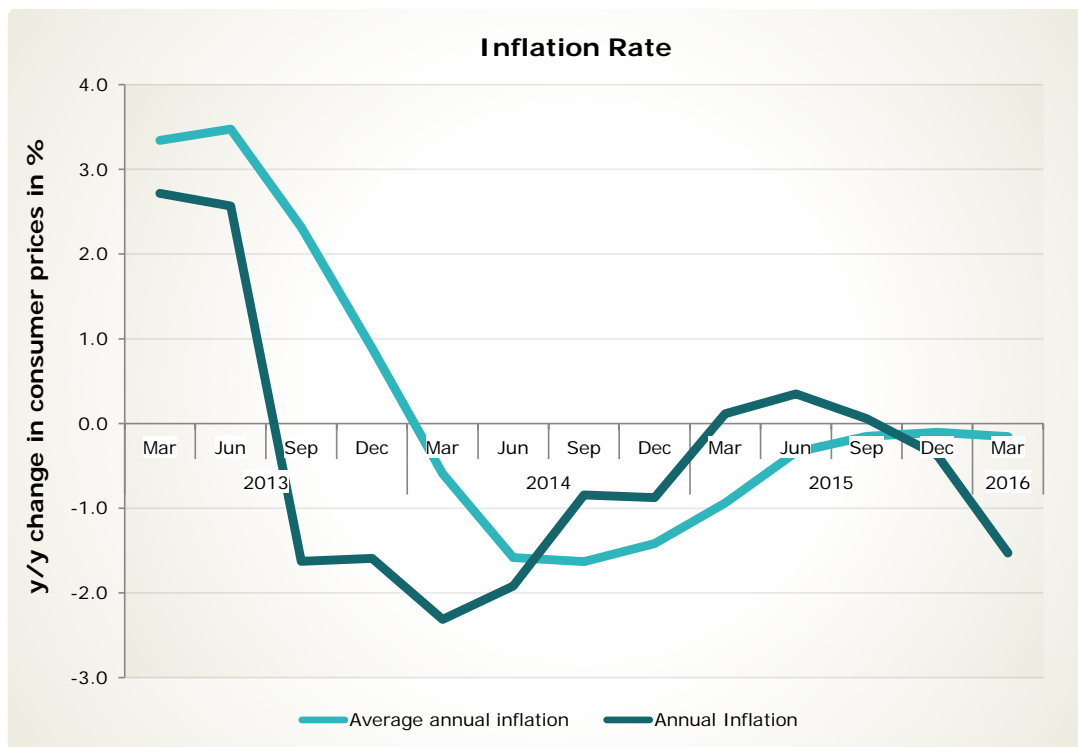


Source: NSI

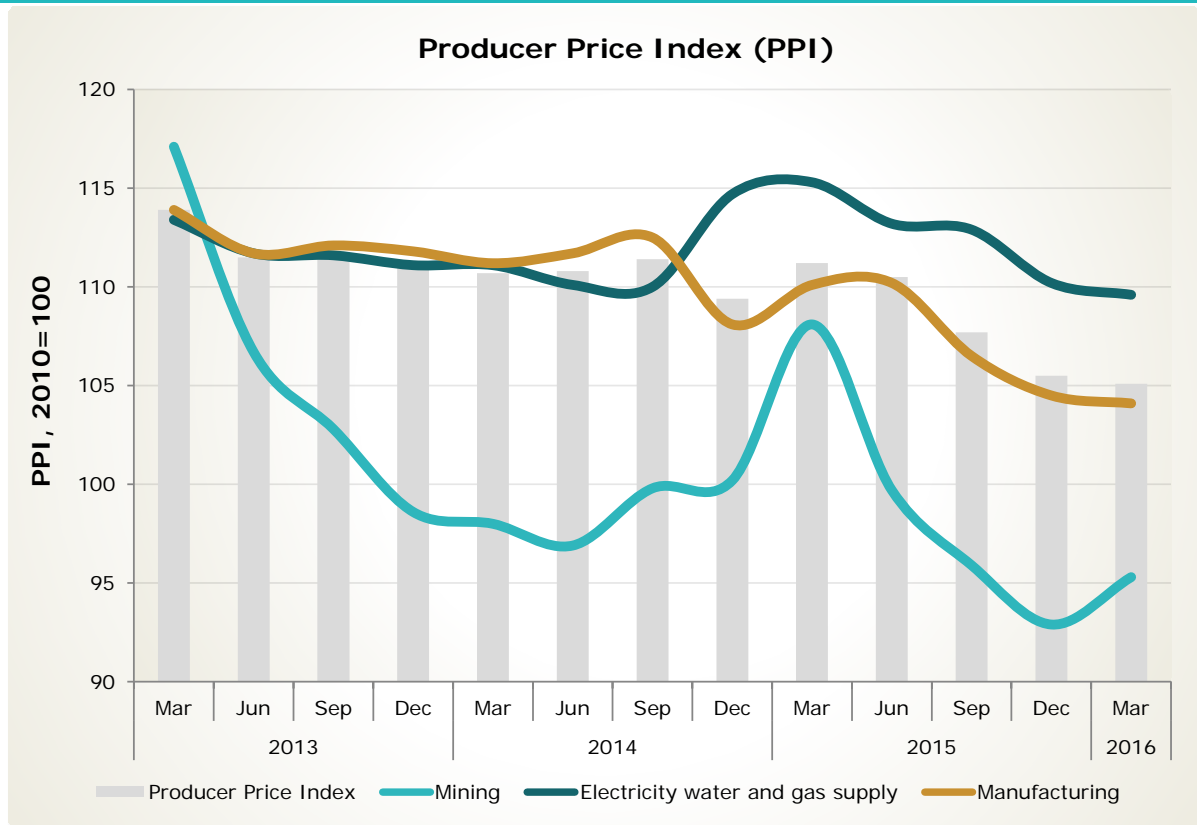
2.6 INFLATION

Annual average deflation of 0.15% y/y as of March 2016

Bulgaria reported an annual average deflation of 0.15% for March 2016, according to NSI data. The highest annual decrease in consumer prices in the period under review was registered in gaseous fuels, liquid fuels used in households and automobile fuels and lubricants of 15.0%, 13.4% and 12.4%, respectively. The consumer groups that recorded the sharpest growth in prices were other automobile services and fruits of 8.5% and 8.0%, respectively.



Source: NSI



Source: NSI

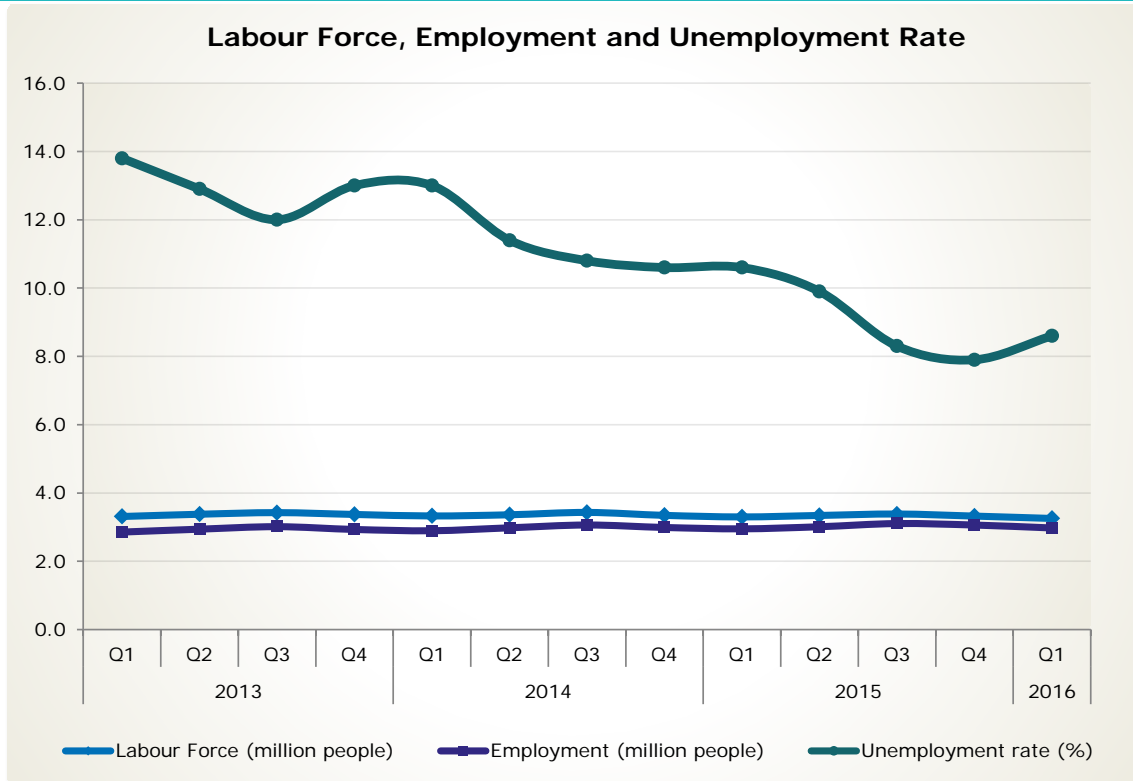
3. LABOUR MARKET

Unemployment rate went down to 8.6%, wages grew 8.4% y/y as of Q1 2016

Unemployment in Bulgaria narrowed to 8.6% of the total labour force in Q1 2016 from 10.6% a year earlier, according to data of NSI.

The employed population aged 15 years and older was 2.975 million in Q1 2016, up by 0.8% y/y.

The youth (population aged 15-24) unemployment rate went down to 18.4%, compared to 23.2% in Q1 2015.



Source: NSI

According to data of NSI, the average monthly salary in Q1 2016 grew by 8.4% y/y to BGN 931. Wages in the private and public sectors went up by 9.2% and 6.0%, respectively. Employees in the IT and communication sector and in financial and insurance activities had the highest salaries of BGN 2,125 and BGN 1,639, respectively.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits rocketed by 86.6% y/y in Q1 2016

The number of building permits issued in Bulgaria in Q1 2016 increased by 86.6% y/y and totalled 3,434, according to NSI data. The permits for housing projects went up 3.4% to 993 and permits for office buildings - by 79.2% to 43.

The total built-up area of office units, covered by the permits, more than doubled to 87,744 sq m. The total built-up area of the housing units went down by 9.0% to 508,473 sq m.

5. MONEY SUPPLY AND BANKING SYSTEM

5.1 BGN EXCHANGE RATE

The average exchange rate of the BGN against the US dollar rose to BGN 1.774 in Q1 2016 from BGN 1.786 in Q4 2015 and BGN 1.742 a year ago, according to Bulgarian National Bank (BNB) data.

BGN Average Exchange Rate			
Foreign Currency	Q1 2016	Q4 2015	Q1 2015
USD	1.77390	1.78644	1.74167
GBP	2.53790	2.71113	2.63418
CHF	1.78462	1.80298	1.83541
EUR*	1.95583	1.95583	1.95583

*The Bulgarian lev (BGN) is pegged at a fixed exchange rate of BGN 1.95583 per EUR under a currency board system.

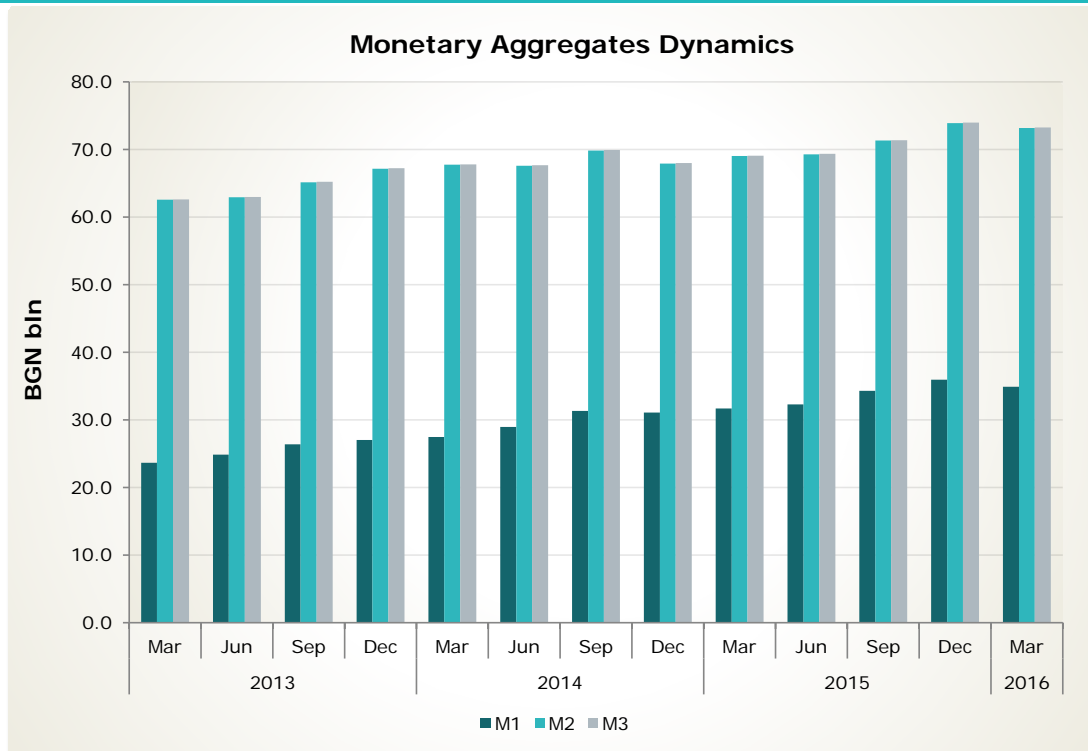
5.2 MONETARY AGGREGATES

Money supply growth was 6.1% y/y at end-March 2016

Broad money (money aggregate M3) increased by 6.1% y/y and reached BGN 73.264 bln in March 2016, according to data provided by BNB.

The M2 money supply grew by 6.0% y/y to BGN 73.189 bln.

Money aggregate M1, or narrow money, jumped by 10.1% to BGN 34.893 bln.



Source: BNB

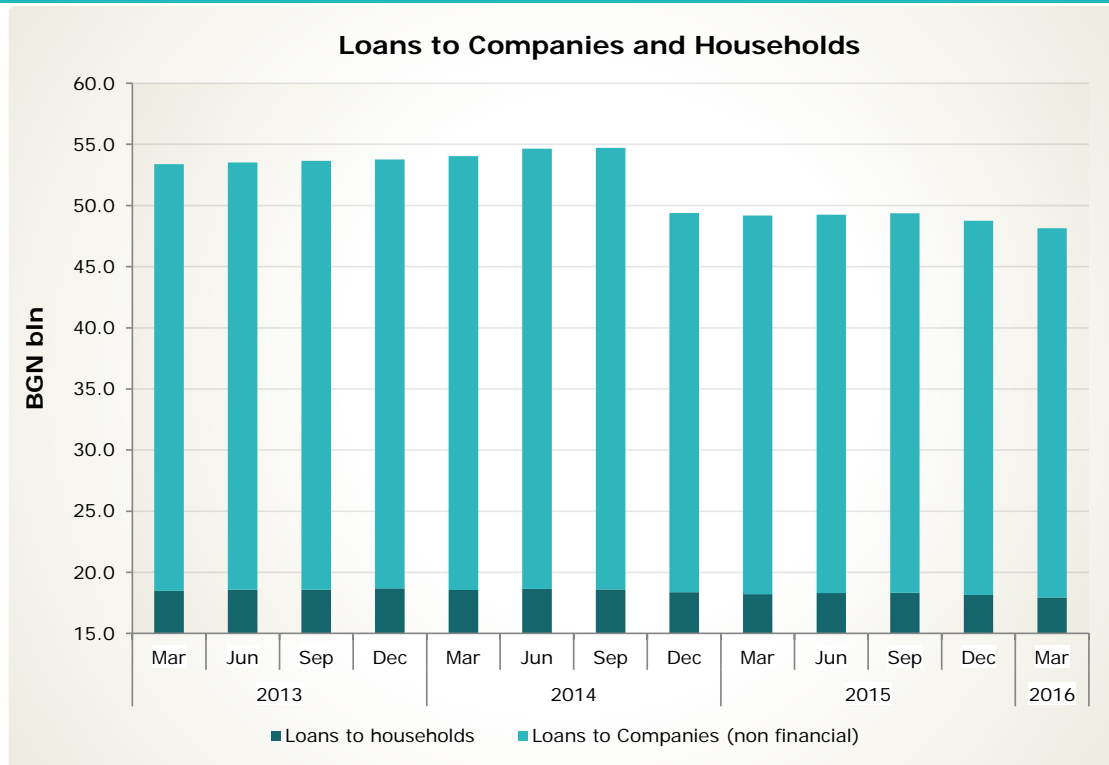
5.3 BANKING AND INSURANCE

Household loans decreased by 1.5% y/y in March 2016

Loans to the non-government sector totalled BGN 48.132 bln as of March 2016, down by 2.2% y/y, according to BNB.

Loans to non-financial corporations went down by 2.5% y/y to BGN 30.182 bln. Household and non-profit institutions serving households (NPISHs) loans inched down by 1.5% to BGN 17.951 bln.

House purchasing loans fell by 0.5% to BGN 8.642 bln, while consumer loans came in at BGN 7.150 bln compared to BGN 7.323 bln a year ago.



Source: BNB

At the end of March 2016 the assets of the banking system totalled BGN 50.088 bln, slumping by 41.9% in comparison to March 2015.

The banking sector's profit jumped by 7.1% y/y to BGN 305.3 mln as of March 2016.

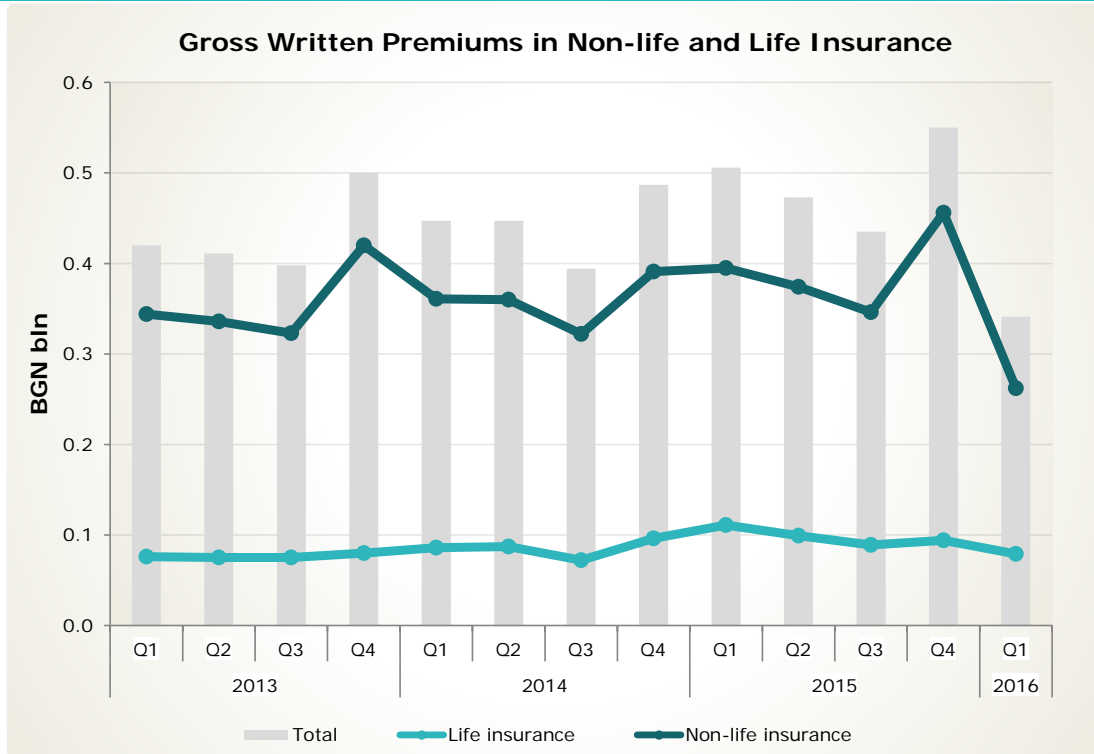
Premium income up 3.6% y/y in Jan-Feb 2016*

*Data for March 2016 was not available as of the date of the preparation of this report

The total gross written premiums (GWP) of the non-life and life insurance companies stood at BGN 342.0 mln, up by 3.6% y/y in January – February 2016, according to the Financial Supervision Commission (FSC). The GWP of the non-life insurance market stood at BGN 261.9 mln, or by 3.6% more than in the corresponding period of the previous year, while the life insurance market grew by 3.8% y/y to BGN 79.6 mln.

In the non-life insurance sector the highest annual rise of gross written premiums was registered in suretyship insurance – more than nine times, while the highest y/y drop, of 36.1%, was posted by ship insurance.

Among the life insurance segments, gross written premiums of term life assurance jumped the most – by 35.8% to BGN 12.5 mln from BGN 9.2 mln, while additional life insurance marked the sharpest fall, of 21.6%.



Source: FSC

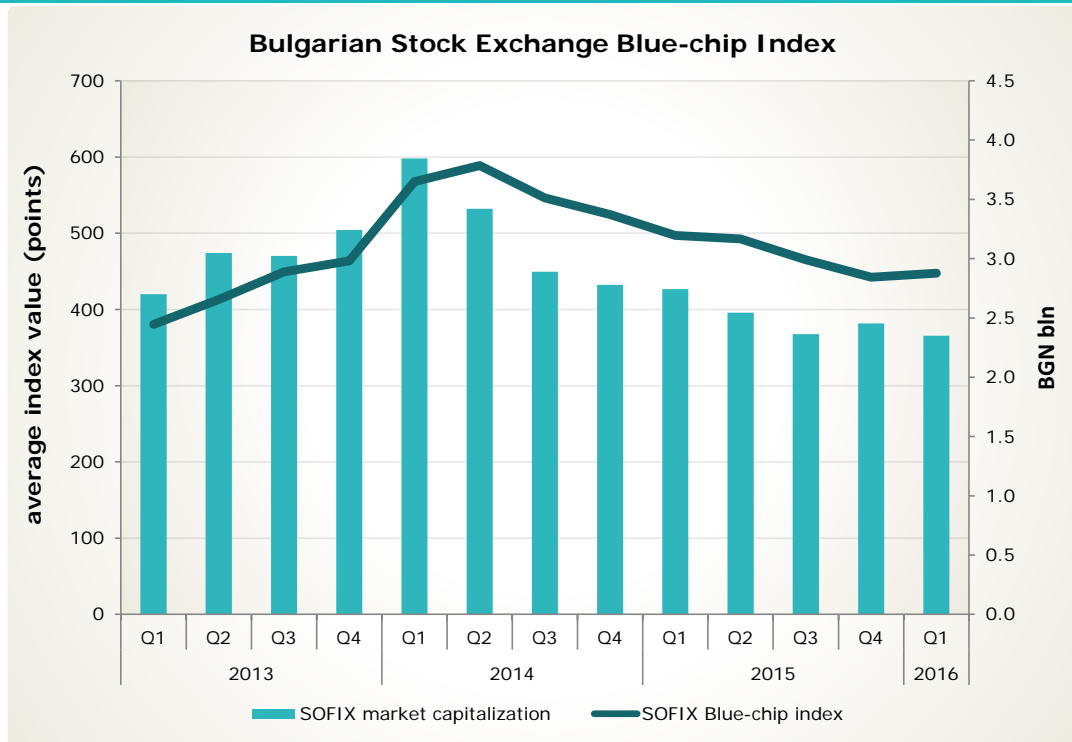
Editor's note: Data for Q1 2016 is for the period Jan-Feb 2016

6. CAPITAL MARKETS

Blue-chip SOFIX went down by 10.0% at end-March 2016, compared to end-March 2015

SOFIX, the blue-chip index of the Bulgarian Stock Exchange (BSE) fell by 10.0% to 447.5 points at end-March 2016 compared to end-March 2015, according to BSE data. In comparison to end-December 2015 SOFIX gained 1.2%.

The total turnover on BSE's regulated market reached BGN 56.3 mln in Q1 2016, compared to BGN 114.4 mln in Q1 2015, and BGN 78.8 mln in Q4 2015.



Source: BSE

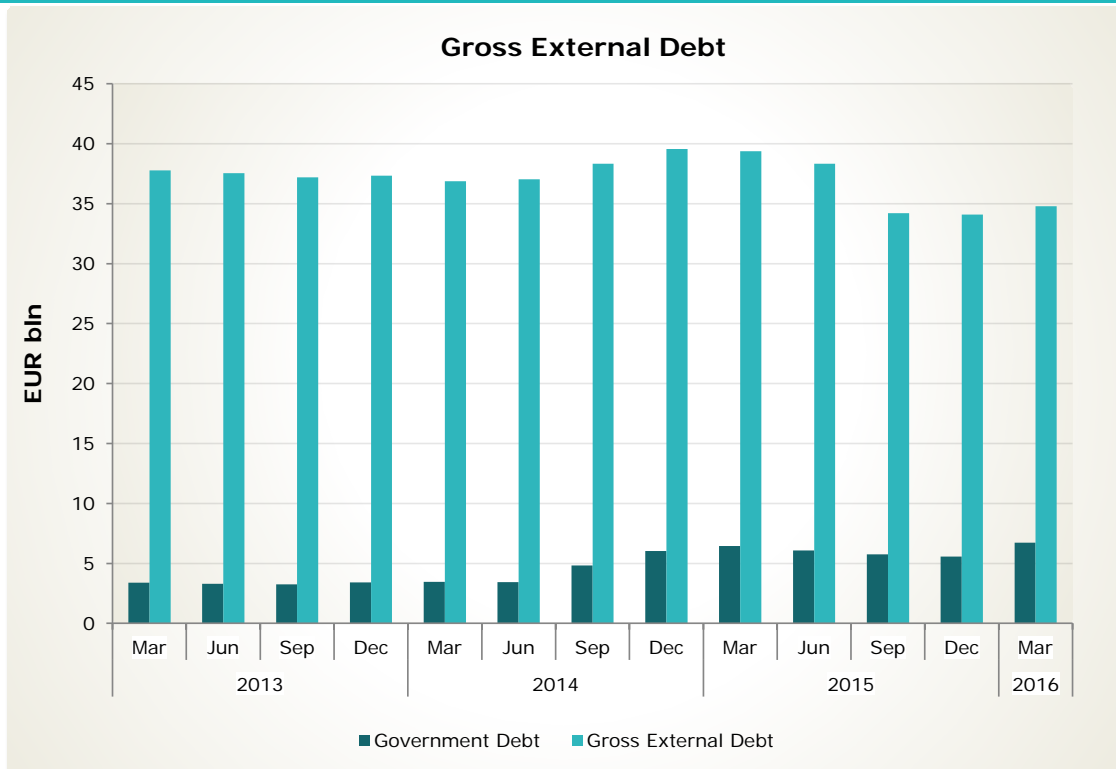
7. EXTERNAL SECTOR

7.1 FOREIGN DEBT

The gross external debt widened to EUR 34.789 bln at end-March 2016

The gross external debt increased, totalling EUR 34.789 bln at the end of March 2016, which was 85.5% of the projected full-year GDP. It decreased by 11.7%, or EUR 4.589 bln compared to March 2015. In comparison to December 2015 the gross external debt grew by EUR 699.0 mln.

As of end-March 2016 long-term liabilities amounted to EUR 27.254 bln, or 78.3% of the total debt, and short-term liabilities totalled EUR 7.534 bln, equal to 21.7% of the total debt.



Source: BNB

7.2 BALANCE OF PAYMENTS

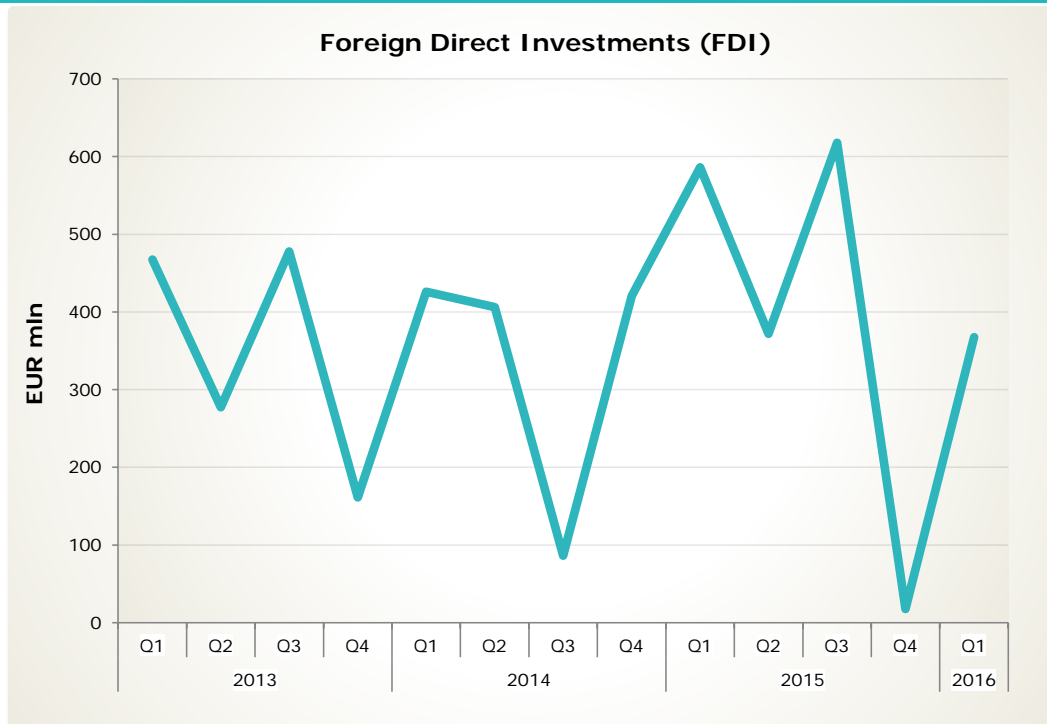
Current account surplus at EUR 312.2 mln in March 2016

The current account surplus narrowed to EUR 312.2 mln in March 2016 from EUR 113.7 mln in the same month of the previous year, according to central bank statistics data.

7.3 FDI

FDI went down by 37.3% y/y in Q1 2016

FDI in Bulgaria slumped by 37.3% y/y to EUR 367.6 mln in Q1 2016, according to BNB data. The Q1 2016 FDI accounted for 3.6% of the GDP for the period, compared to 5.8% in the year-ago period, BNB data showed.



Source: BNB

7.4 FOREIGN TRADE

Foreign trade deficit narrowed by 42.5% y/y in Q1 2016

The trade deficit stood at EUR 0.460 bln in Q1 2016, compared to EUR 0.800 bln in Q1 2015, according to BNB data.

Bulgaria's most exported goods in Q1 2016 were other raw materials, which accounted for 11.3% of the total, followed by investment goods and other capital goods with a 8.5% share, and clothing and footwear with a 8.0% share.

In terms of imports, the main goods were machinery and equipment, which made up 9.0% of the total, followed by other raw materials, slicing an 8.9% share, and crude petroleum and natural gas, which had a 7.1% share.



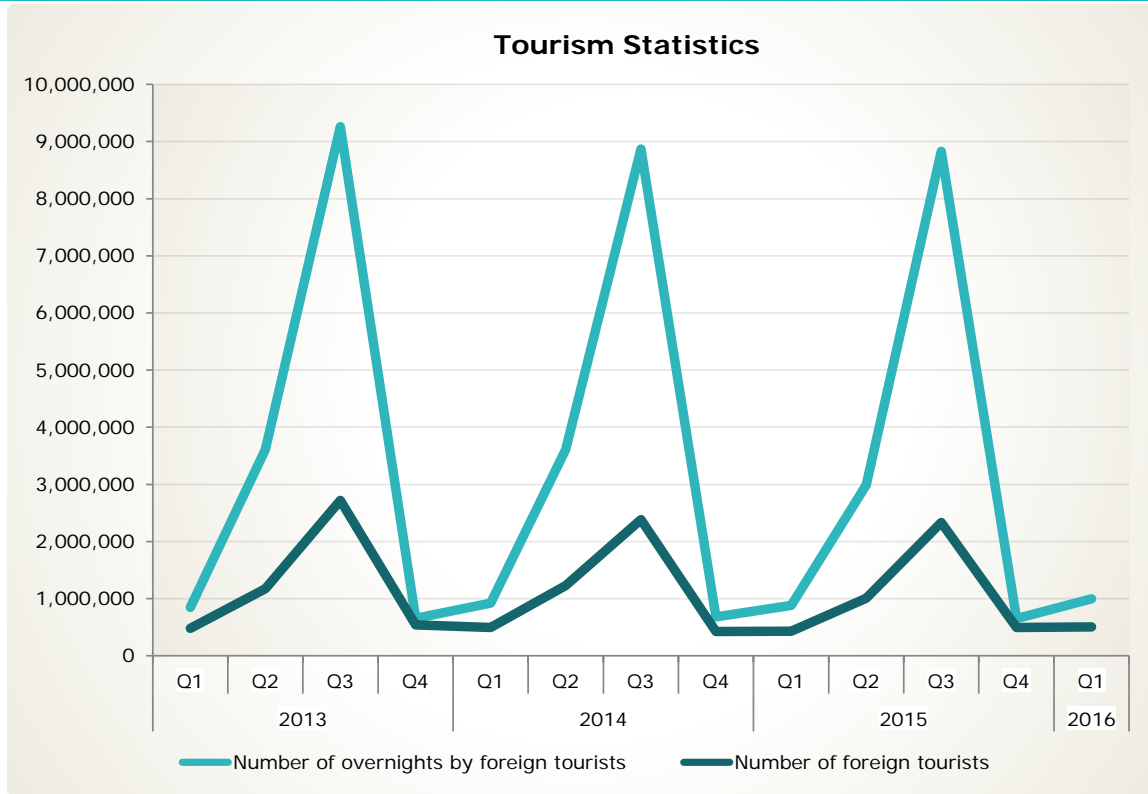
Source: BNB

7.5 TOURSIM

Number of foreign tourist overnights went up by 12.6% y/y in Q1 2016

Tourist overnights of foreigners increased by an annual 12.6% to 996,722 in Q1 2016, according to NSI data.

The number of foreign tourists also went up - by 16.7% y/y to 505,488. Most foreign tourists visiting Bulgaria in Q1 2016 came from Macedonia - 132,880, followed by tourists from Turkey - 91,526, and Serbia - 76,478.



Source: NSI

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