

BULGARIA ECONOMY REPORT

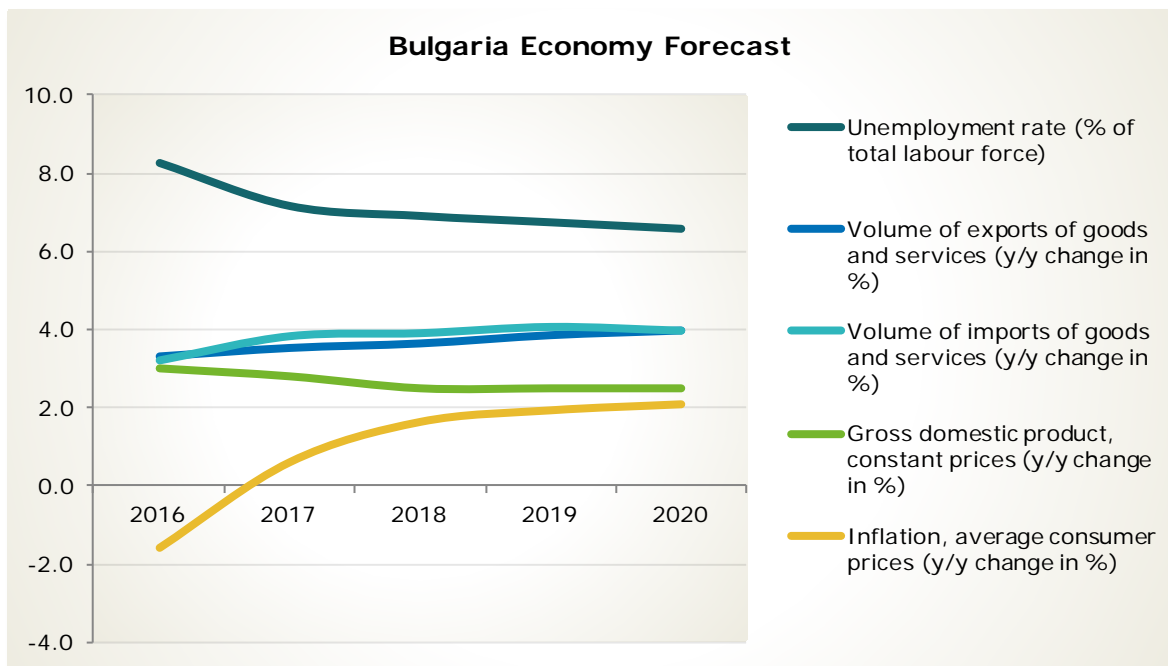
Q2 2016

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1. MACROECONOMIC SNAPSHOT AND FORECAST

BULGARIA – MACROECONOMIC SNAPSHOT AS OF Q2 2016	
GDP Growth	3.6% y/y
Business confidence indicator	0.9 pp m/m
Industrial output	4.0% y/y
Industrial sales index	126.0% (2010=100)
Wholesale	-7.6% y/y
Retail sales	5.4% y/y
Average annual inflation	-0.8%
Unemployment rate	8.0%
Number of building permits	-2.5% y/y
Money supply growth	8.9% y/y
Household loans	-0.7% y/y
SOFIX blue-chip index	-9.8% y/y
Gross external debt	-2.0% y/y
Current account surplus	EUR 513.4 mln
FDI inflow change	41.7% y/y
Foreign trade deficit	EUR 649.5 mln
Number of foreign tourist overnights	26.9% y/y



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

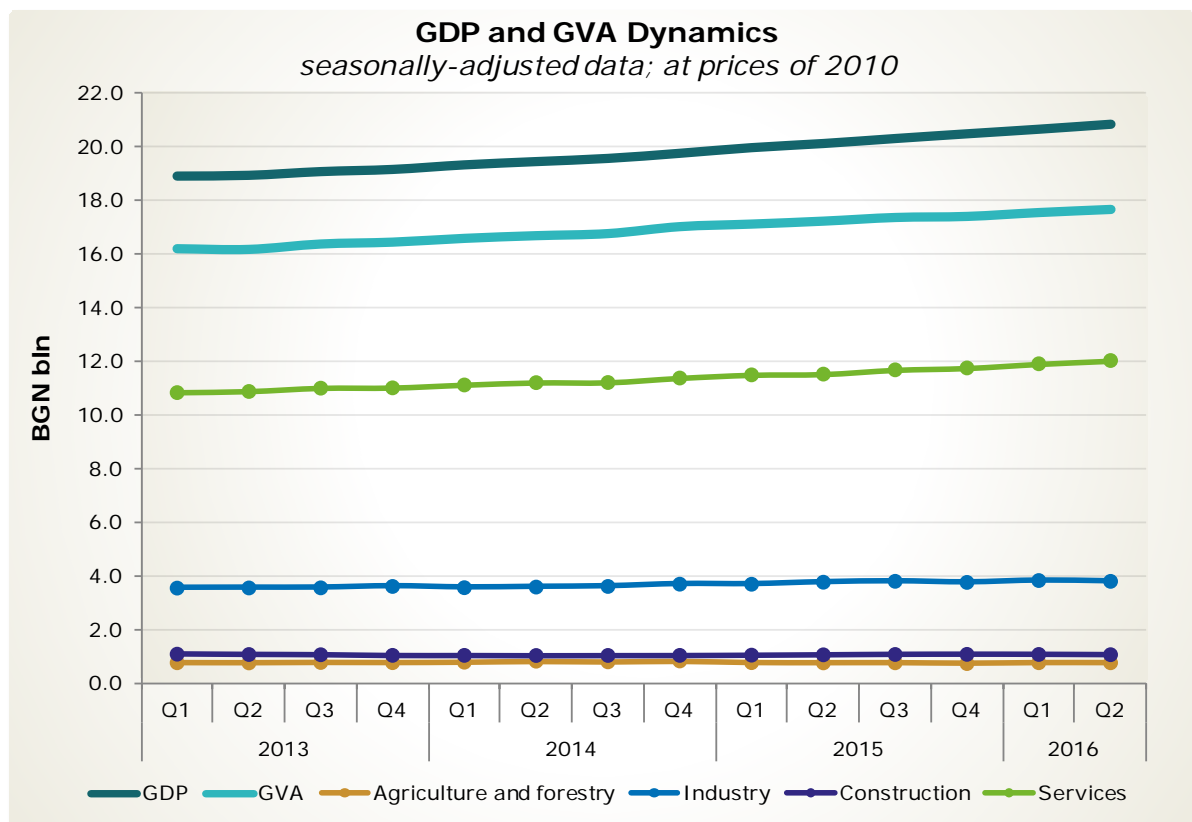
2. REAL SECTOR

2.1 GROSS DOMESTIC PRODUCT (GDP)

GDP went up by 3.6% y/y in Q2 2016, compared to a 3.5% annual growth a year earlier

The country's seasonally-adjusted GDP increased by 3.6% y/y and totalled BGN 20.794 bln in Q2 2016, according to preliminary data of the National Statistical Institute (NSI).

Final consumption, which contributed 78.3% to the GDP, grew by 1.2% y/y in Q2 2016. Gross capital formation inched down by 0.1%, contributing 20.6% to the GDP. Exports rose by 4.5%, imports went up by 2.8%.



Source: NSI

The gross value added (GVA) generated by the national economy increased by 2.6% y/y in Q2 2016 and totalled BGN 17.682 bln. The industrial sector grew in value by 0.8% but its share in the GVA structure inched down to 21.4% from 21.8%. The services sector recorded a 4.4% annual increase, slicing a 68.0% share in the GVA, compared to 66.8% one year ago. The agricultural sector inched up 0.5%, but its GVA share narrowed to 4.3% from 4.4%. The construction industry also experienced a 0.5% annual rise, while its share fell to 6.0% from 6.1%.

2.2 BUSINESS CLIMATE

Business Confidence Indicator went up by 0.9 percentage points m/m in June 2016

In June 2016, the business confidence indicator went up by 0.9 percentage points m/m due to the improved business climate in the industry, retail and services 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.

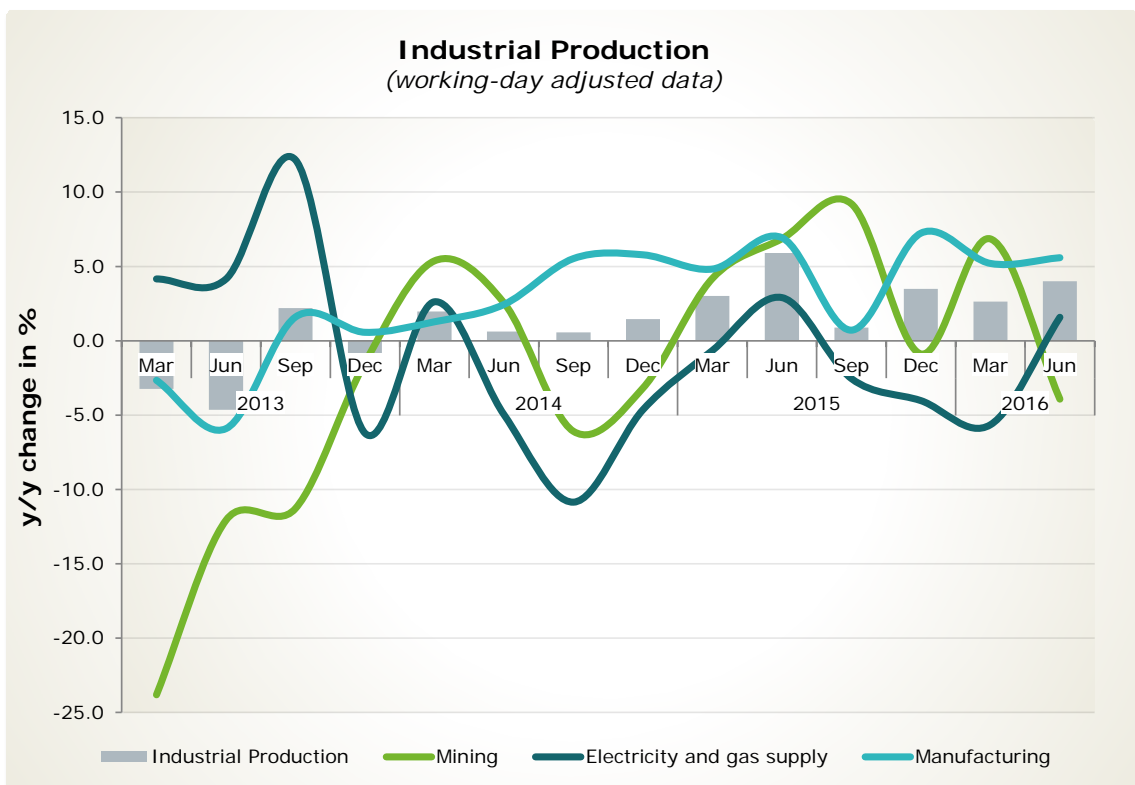
The business confidence indicator grew by 5.0 percentage points m/m in May 2016 and fell by 3.3 percentage points m/m in April 2016.

2.3 INDUSTRIAL OUTPUT

Industrial output rose by 4.0% y/y in June 2016

Industrial output went up by 4.0% on the year in June 2016, according to NSI. The growth was backed by the increase of the output of the manufacturing, and electricity and gas supply industries – 5.6% and 1.6%, respectively. The output of the mining industry fell by 3.9%.

The production of Other manufacturing sector, which includes making of jewellery, musical instruments, sports goods, games and toys, and other products, more than doubled thus being the sector with the sharpest annual rise. On the other end was Mining of coal and lignite, where production dropped the most, by 30.1%.

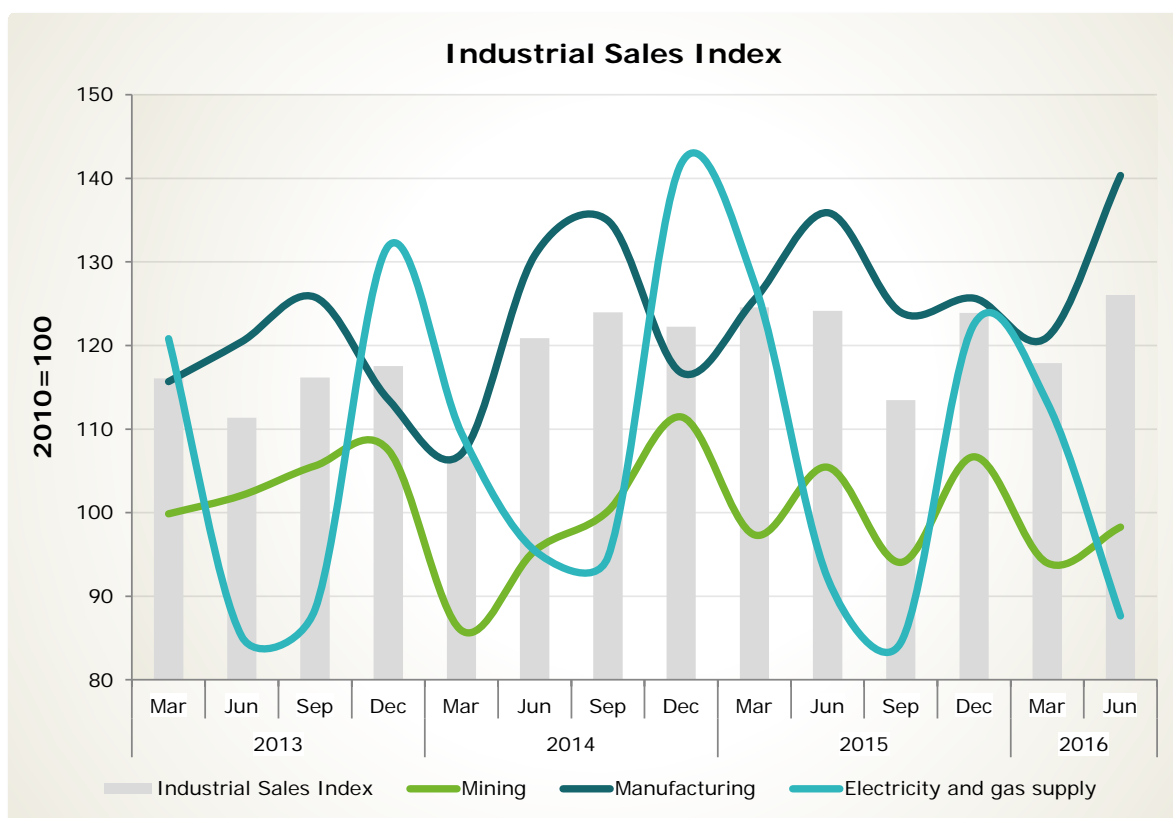


Source: NSI

2.4 INDUSTRIAL SALES

Industrial sales index at 126.0 in June 2016

The industrial sales index stood at 126.0 (2010=100) in June 2016, compared to 124.2 in June 2015, according to NSI. The highest index value, of 356.8, was reported by Manufacture of fabricated metal products, except machinery and equipment, while Mining of coal and lignite was on the bottom with an index of 67.9.



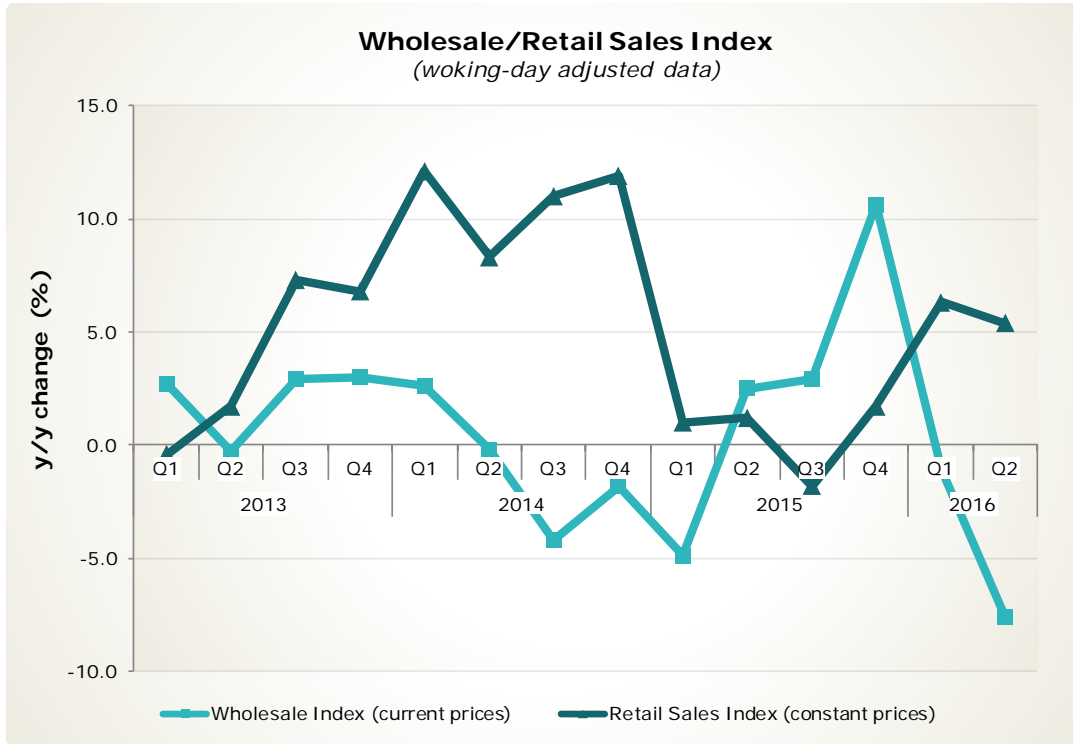
Source: NSI

2.5 WHOLESALE/RETAIL

Retail sales grow, wholesales drop y/y as of Q2 2016

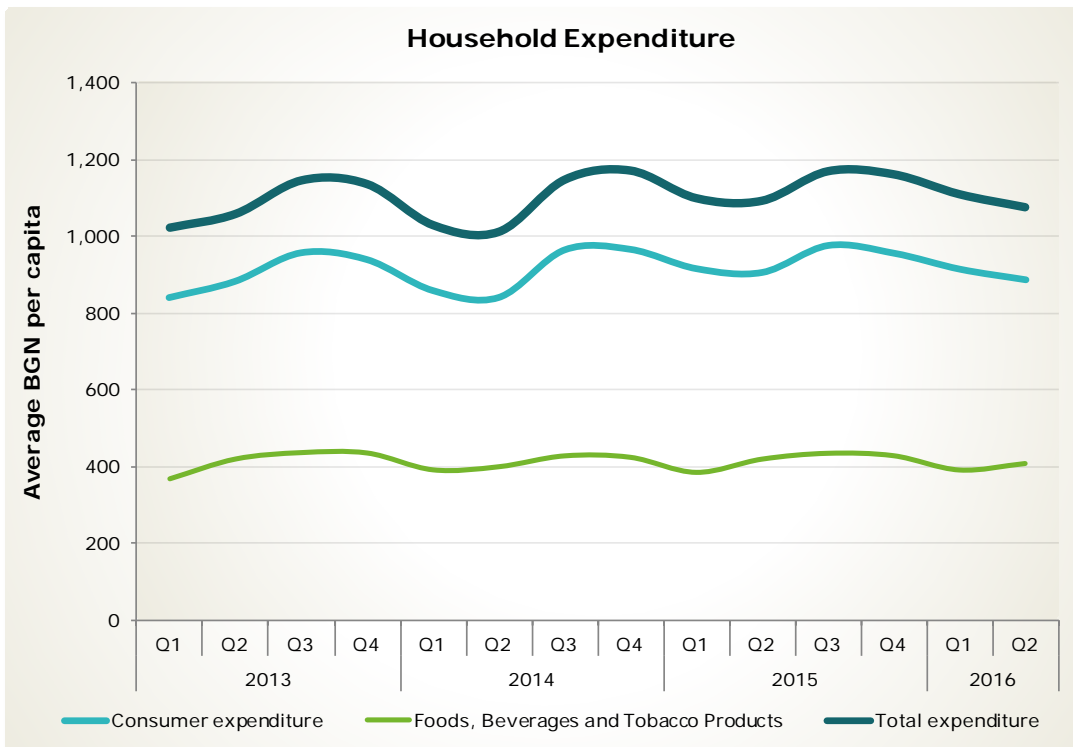
Retail sales, except of motor vehicles and motorcycles, rose by 5.4% y/y in June 2016, according to NSI data. In April and May retail sales rose, by an annual 5.4% and 4.0%, respectively.

Retail sale of textiles, clothing and footwear marked the highest increase, of 14.7% y/y, in June 2016. Retail sale via mail order houses or via Internet experienced the sharpest annual drop, of 2.1%.



Source: NSI

The wholesale sector, excluding wholesale of motor vehicles and motorcycles, went down by 7.6% y/y in the second quarter of 2016. Other specialised wholesale registered the highest drop, of 21.2%. Wholesale of food, beverages and tobacco reported the highest annual increase in sales, of 8.8%.

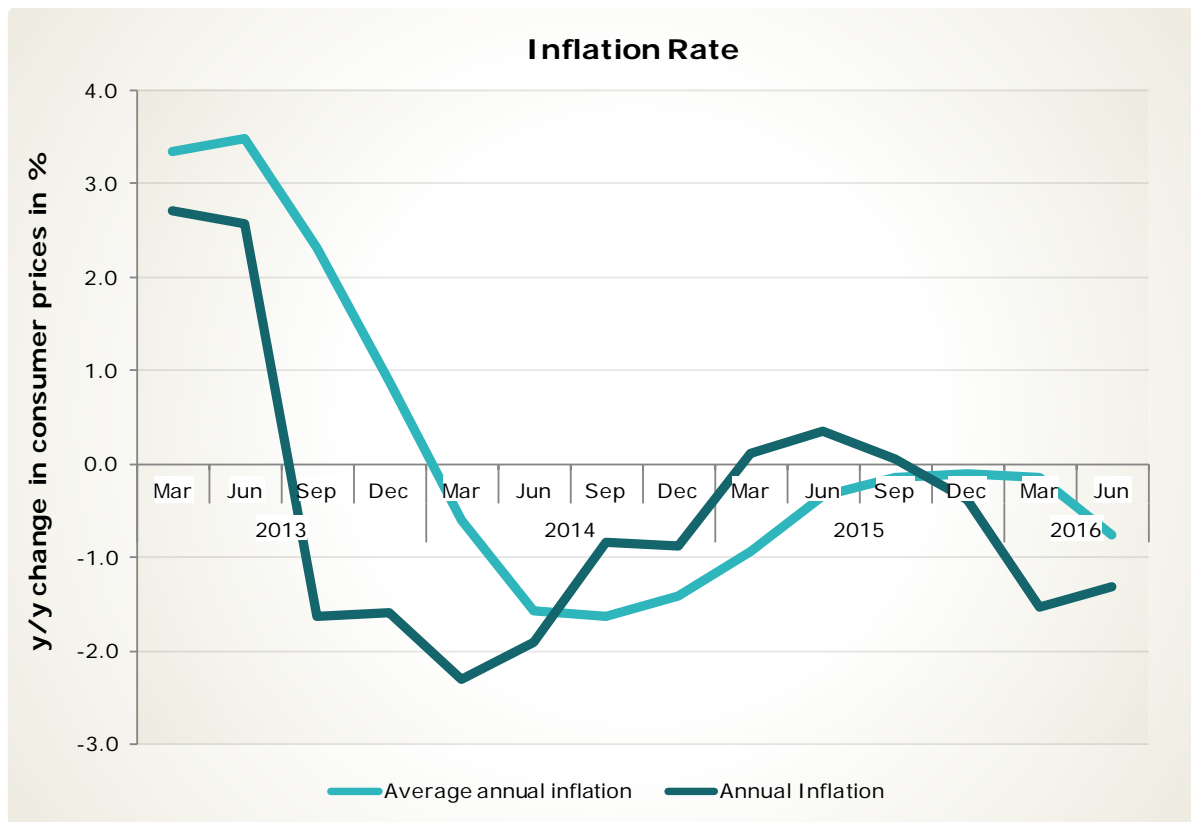


Source: NSI

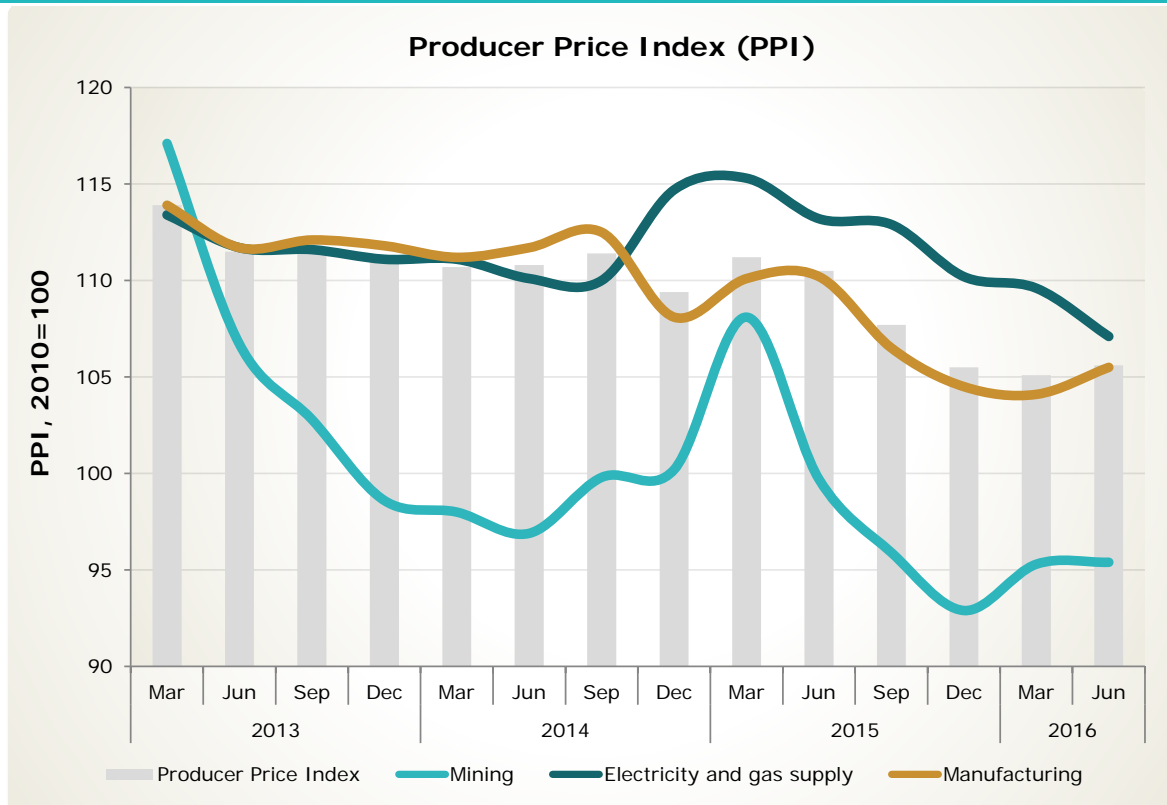
2.6 INFLATION

Annual average deflation of 0.8% y/y as of June 2016

Bulgaria reported an annual average deflation of 0.8% as of June 2016, according to NSI data. The highest annual decrease in consumer prices in the period under review was registered in gas, liquid fuels, and fuels and lubricants for personal transport equipment, of 18.5%, 16.6% and 14.4%, respectively. The consumer groups that recorded the sharpest growth in prices were other services in respect of personal transport equipment, books, and solid fuels of 17.3%, 5.8% and 5.3%, respectively.



Source: NSI



Source: NSI

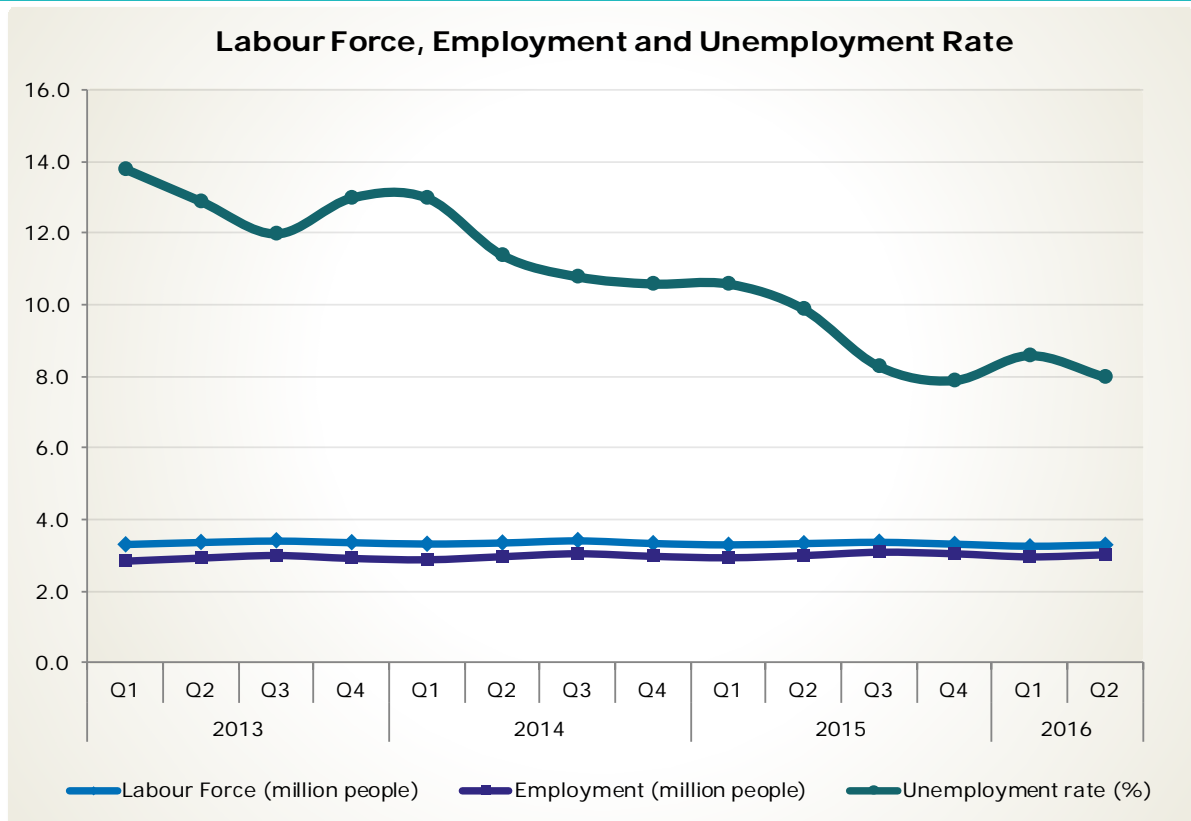
3. LABOUR MARKET

Unemployment rate went down to 8.0%, wages grew 7.6% y/y as of Q2 2016

Unemployment in Bulgaria narrowed to 8.0% of the total labour force in Q2 2016 from 9.9% a year earlier, according to data of NSI.

The employed population aged 15 years and older was 3.033 million in Q2 2016, up by 0.7% y/y.

The youth (population aged 15-24) unemployment rate went down to 14.4%, compared to 21.9% in Q2 2015.



Source: NSI

According to data of NSI, the average monthly salary in Q2 2016 grew by 7.6% y/y to BGN 946. Wages in the private and public sectors went up by 8.1% and 6.3%, respectively. Employees in the IT and communication sector, and in financial and insurance activities had the highest salaries of BGN 2,158 and BGN 1,764, respectively.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits went down by 2.5% y/y in Q2 2016

The number of building permits issued in Bulgaria in Q2 2016 decreased by 2.5% y/y and totalled 2,398, according to NSI data. Permits for housing projects went up by 6.7% to 1,216 and permits for office buildings fell by 15.9% to 37.

Despite the drop in permits number, the total built-up area of office units, covered by the permits, jumped by 38.9% y/y to 22,798 sq m. The total built-up area of the housing units jumped, by 17.9% to 604,825 sq m.

5. MONEY SUPPLY AND BANKING SYSTEM

5.1 BGN EXCHANGE RATE

The average exchange rate of the BGN against the US dollar fell to BGN 1.7326 in Q2 2016 from BGN 1.7739 in Q1 2016 and BGN 1.7693 a year ago, according to Bulgarian National Bank (BNB) data.

BGN Average Exchange Rate			
Foreign Currency	Q2 2016	Q1 2016	Q2 2015
USD	1.7326	1.7739	1.7693
GBP	2.4847	2.5379	2.7125
CHF	1.7855	1.7846	1.8787
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.

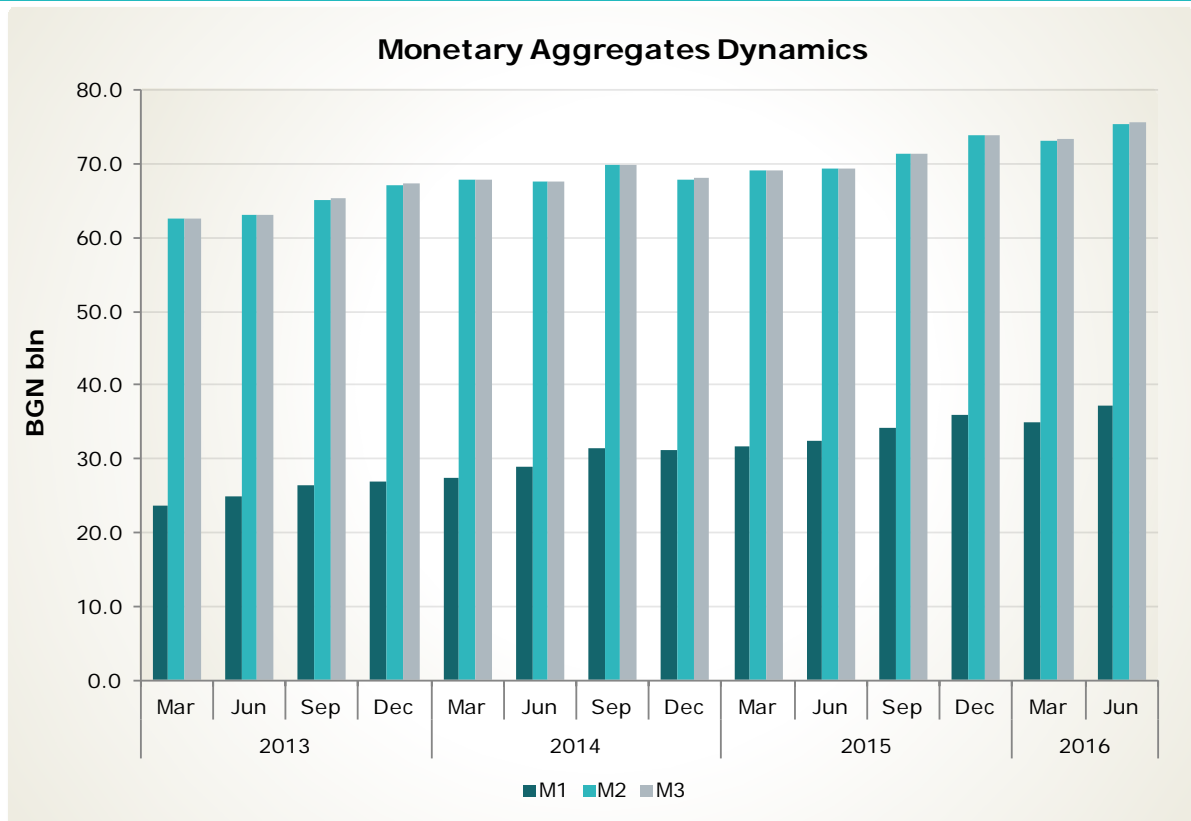
5.2 MONETARY AGGREGATES

Money supply growth was 8.9% y/y at end-June 2016

Broad money (money aggregate M3) increased by 8.9% y/y and reached BGN 75.525 bln in June 2016, according to data provided by BNB.

The M2 money supply also grew by 8.9% y/y to BGN 75.456 bln.

Money aggregate M1, or narrow money, jumped by 15.0% to BGN 37.173 bln.



Source: BNB

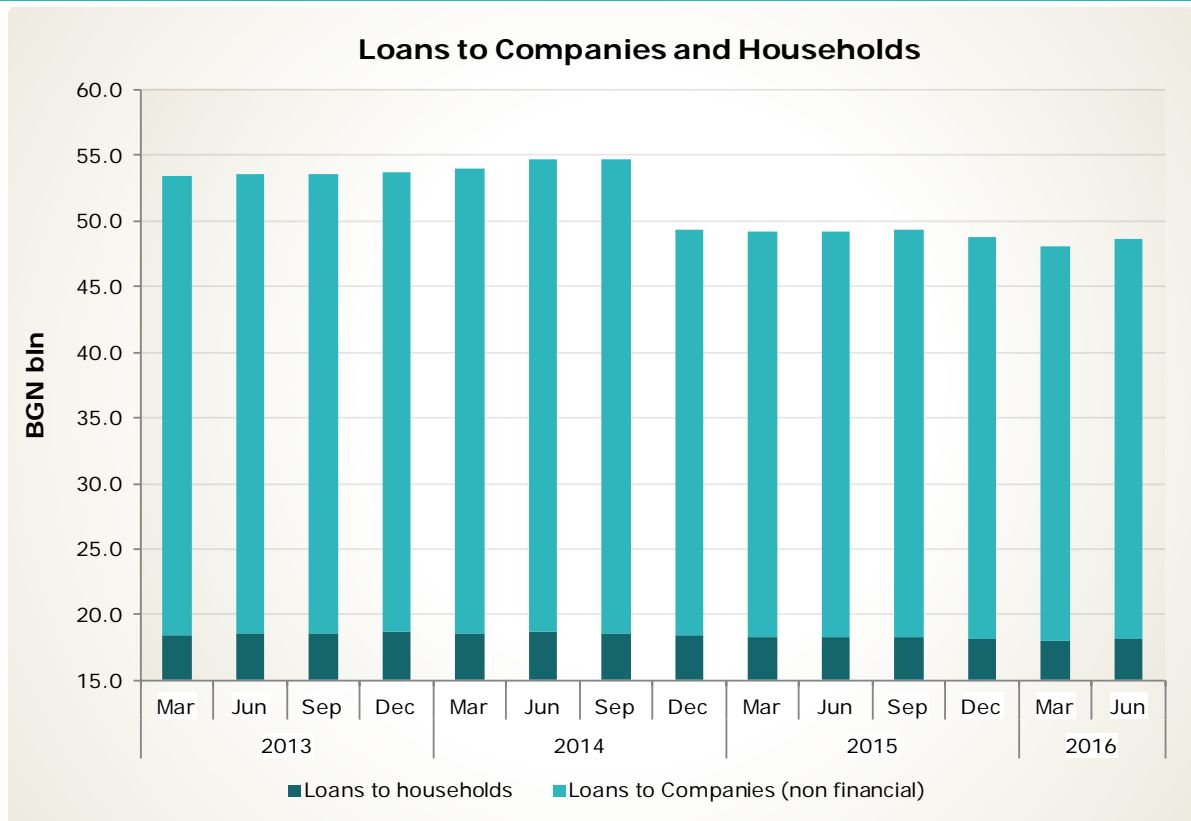
5.3 BANKING AND INSURANCE

Household loans decreased by 0.7% y/y as of June 2016

Loans to the non-government sector totalled BGN 48.677 bln as of June 2016, down by 1.2% y/y, according to BNB.

Loans to non-financial corporations went down by 1.4% y/y to BGN 30.502 bln. Household and non-profit institutions serving households (NPISHs) loans inched down by 0.7% to BGN 18.175 bln.

House purchasing loans inched up by 0.2% to BGN 8.713 bln, while consumer loans came in at BGN 7.250 bln compared to BGN 7.344 bln a year ago.



Source: BNB

At the end of June 2016 the assets of the banking system totalled BGN 88.650 bln, rising by 5.7% in comparison to June 2015.

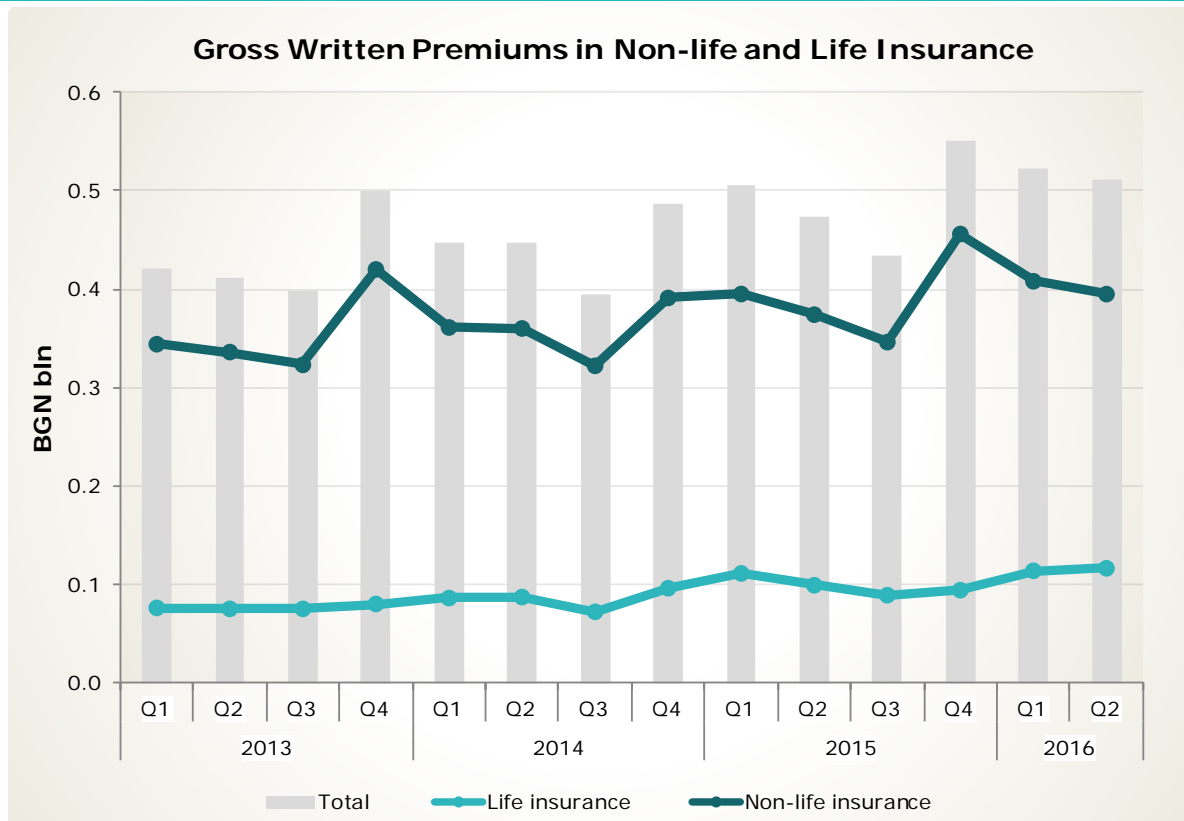
The banking sector's profit jumped by 53.7% y/y to BGN 773.5 mln as of June 2016.

Premium income up 8.1% y/y in Q2 2016

The total gross written premiums (GWP) of the Bulgarian non-life and life insurance companies stood at BGN 511.2 mln, up by 8.1% y/y in the second quarter of 2016, according to the Financial Supervision Commission (FSC). The GWP of the non-life insurance market stood at BGN 394.9 mln, or by 5.6% more than in the corresponding period of the previous year, while the life insurance market grew faster, by 17.4% y/y to BGN 116.3 mln.

In the non-life insurance sector the highest annual rise of gross written premiums was registered in suretyship insurance, where GWP experienced a fivefold jump to BGN 2.631 mln. The highest y/y drop, of 62.8%, was posted by aircraft liability insurance.

Among the life insurance segments, gross written premiums of unit linked life insurance jumped the most – by 75.9% to BGN 12.152 mln, while accident insurance marked the sharpest fall, of 40.4%, to BGN 4.980 mln.



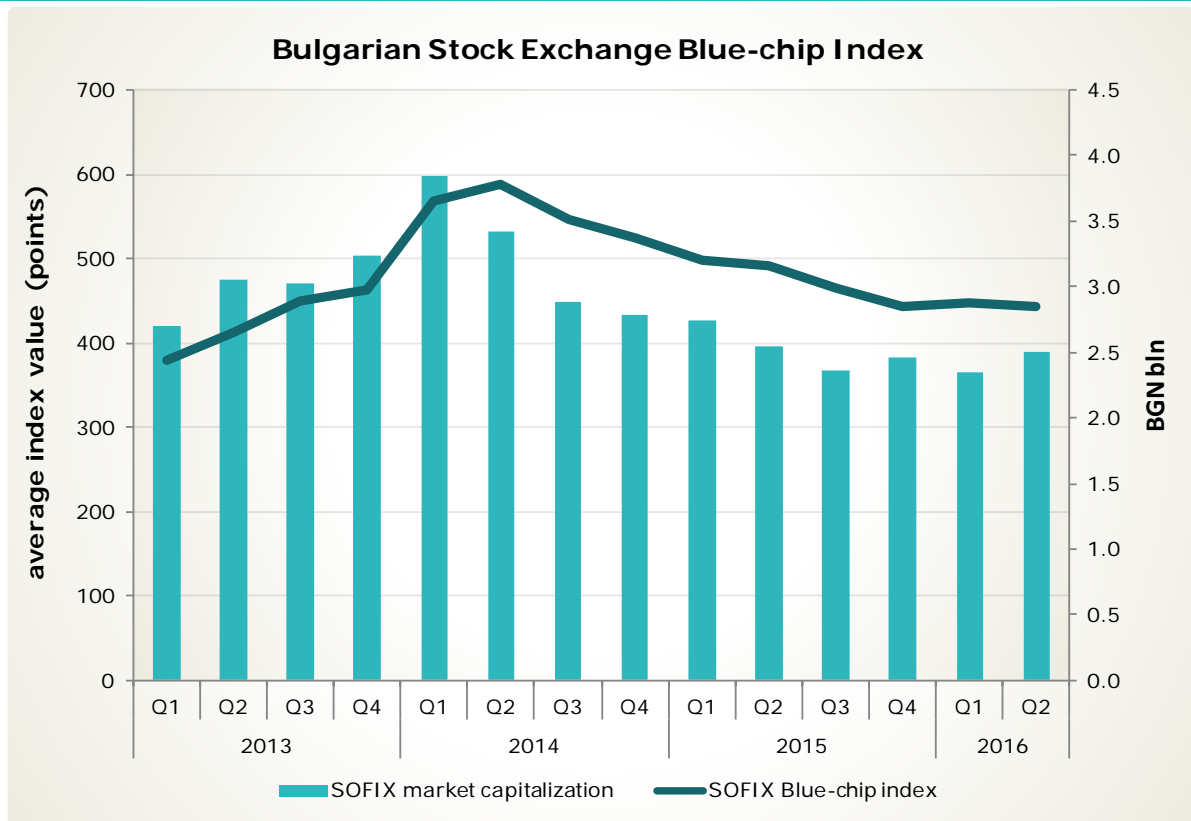
Source: FSC

6. CAPITAL MARKETS

Blue-chip SOFIX went down by 9.8% y/y in Q2 2016

The average value of SOFIX, the blue-chip index of the Bulgarian Stock Exchange (BSE) fell by 9.8% to 444.1 points in Q2 2016, according to BSE data. In comparison to the first quarter of 2016, SOFIX lost 3.4 points.

The total turnover on BSE's regulated market reached BGN 54.191 mln in Q2 2016, compared to BGN 56.326 mln in Q1 2016, and BGN 79.255 mln in Q2 2015.



Source: BSE

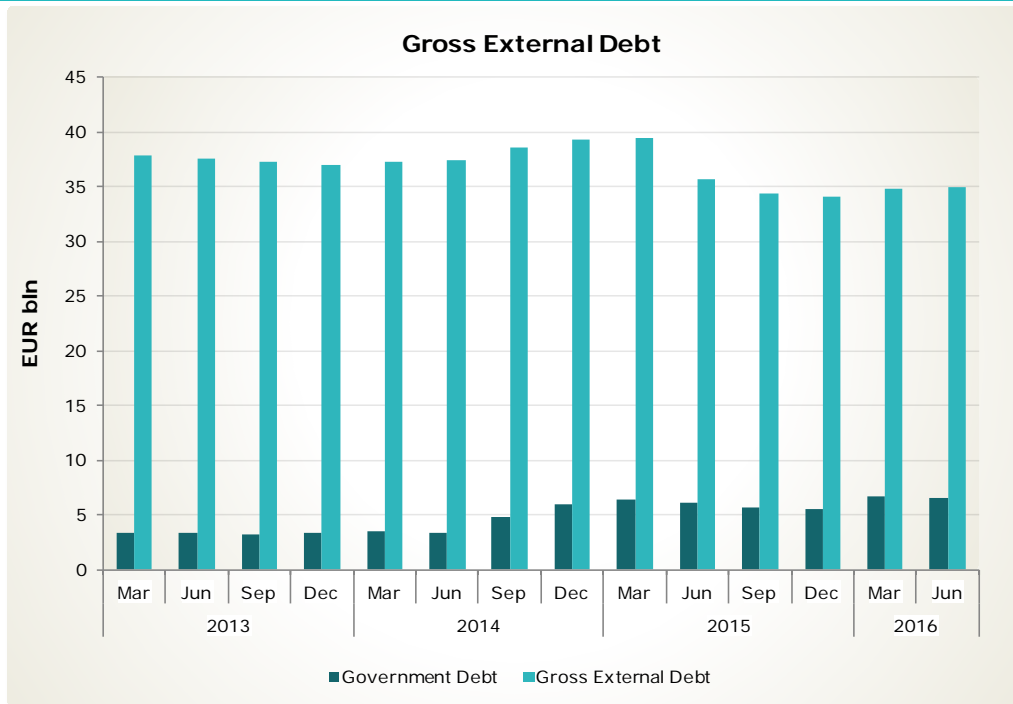
7. EXTERNAL SECTOR

7.1 FOREIGN DEBT

The gross external debt narrowed to EUR 34.891 bln at end-June 2016

The gross external debt totalled EUR 34.891 bln at the end of June 2016, which was 85.8% of the GDP for Q2 2016. It decreased by 2.0% or EUR 700.6 mln, compared to June 2015. In comparison to March 2016 the gross external debt grew by EUR 103.3 mln.

As of end-June 2016 long-term liabilities amounted to EUR 27.291 bln, or 78.2% of the total debt, and short-term liabilities totalled EUR 6.616 bln, equal to 21.8% of the total debt.

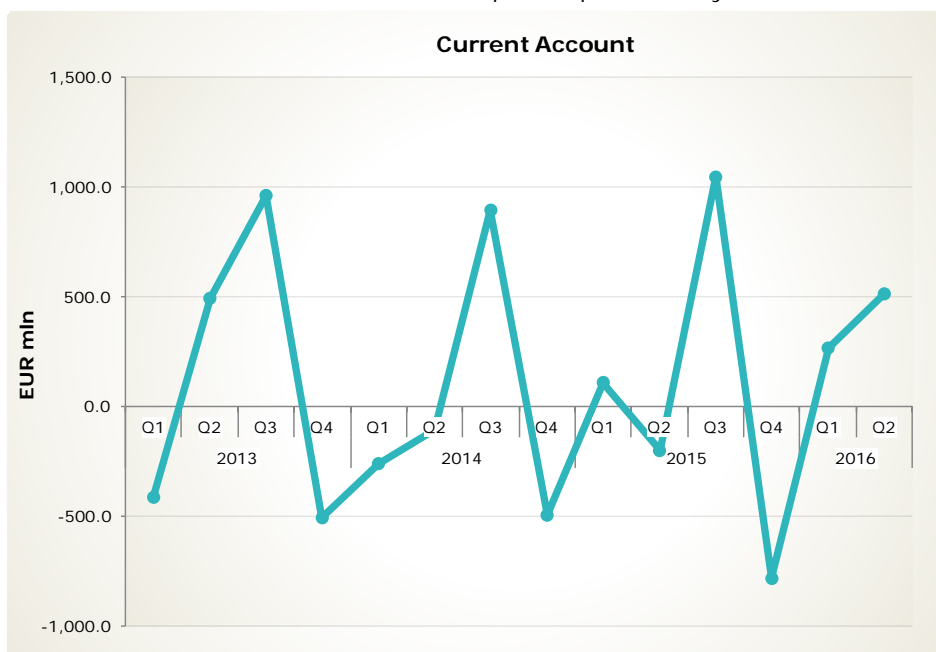


Source: BNB

7.2 BALANCE OF PAYMENTS

Current account turns to surplus in Q2 2016

The current account swung to a surplus of EUR 513.4 mln in the second quarter of 2016 from a deficit of EUR 200.2 mln in the corresponding period of the previous year, according to BNB. In comparison to Q1 2016, the current account surplus expanded by EUR 246.8 mln.



Source: BNB

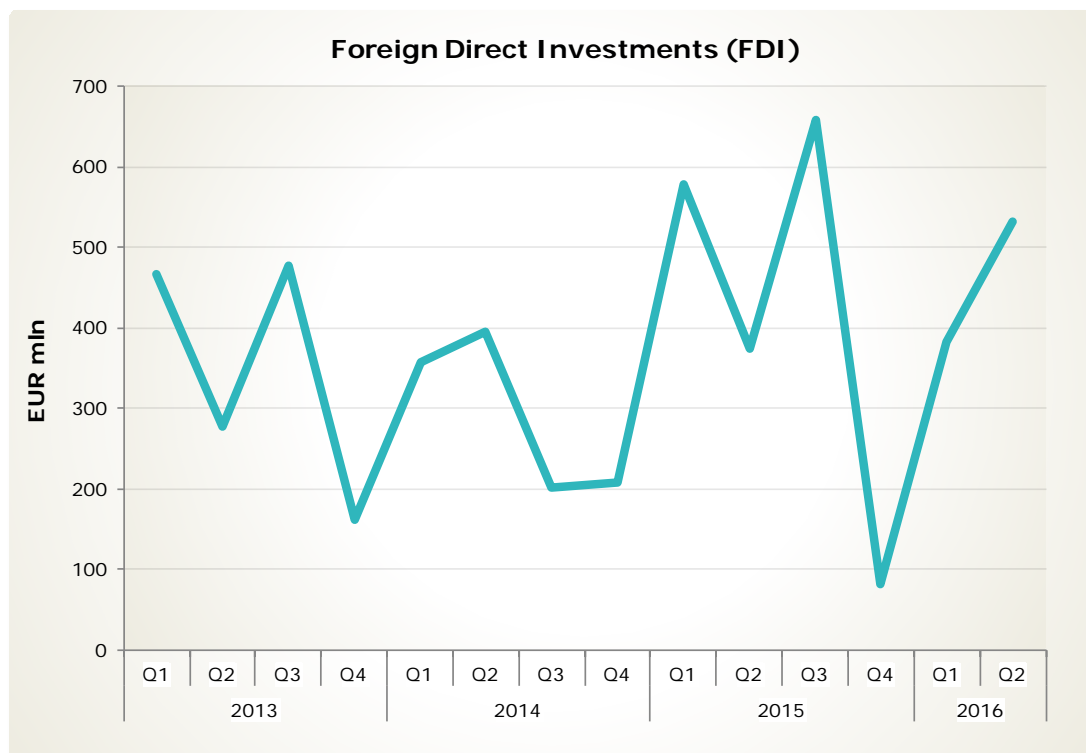
7.3 FDI

FDI went up by 41.7% y/y in Q2 2016

FDI inflow in Bulgaria jumped by 41.7% y/y to EUR 530.9 mln in Q2 2016, according to BNB data. The Q2 2016 FDI accounted for 5.0% of the GDP for the period, compared to 3.7% in the year-ago period, BNB data showed.

UK was the biggest foreign investor in Bulgaria in the second quarter of 2016 with FDI of EUR 167.1 mln, followed by Luxembourg with EUR 133.4 mln, and Greece with EUR 61.8 mln.

The manufacturing industry had the highest share of attracted FDI, of 23.9%, the second position was occupied by wholesale and retail trade with a share of 19.3%, and electricity, gas, steam and air conditioning supply had the third largest share, of 17.0%.



Source: BNB

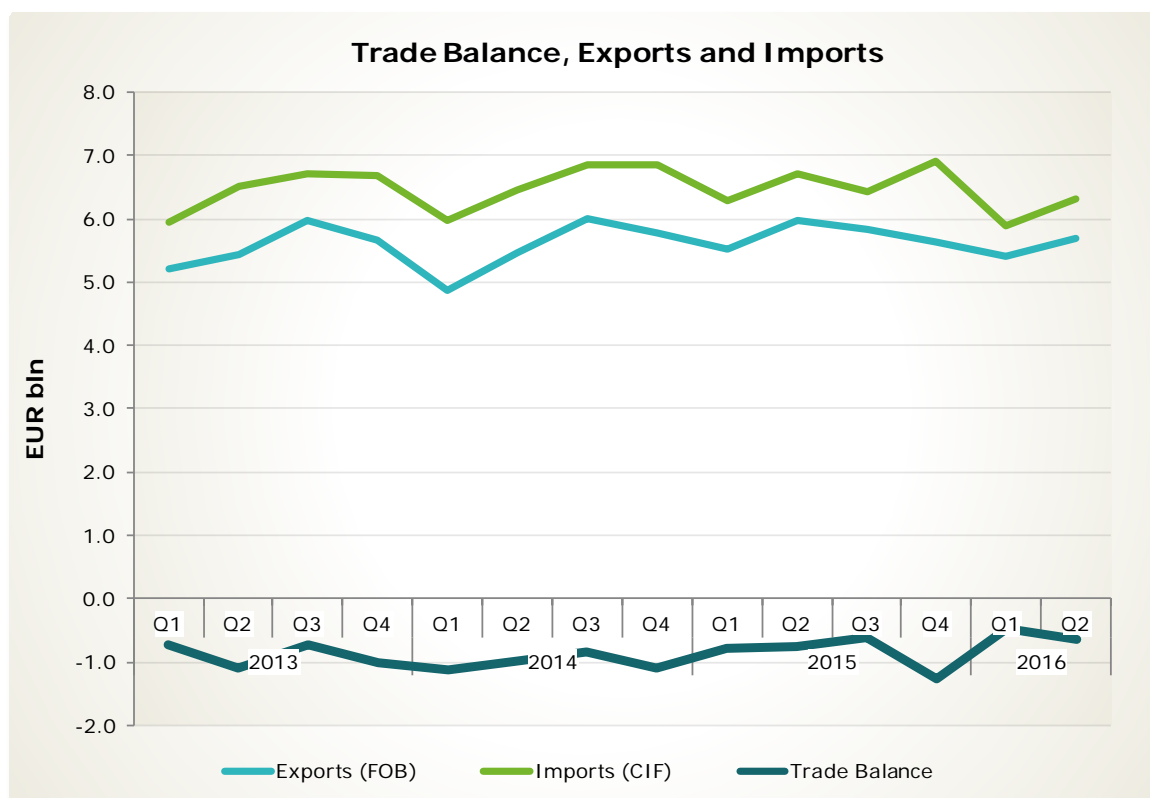
7.4 FOREIGN TRADE

Foreign trade deficit narrowed by 12.7% y/y in Q2 2016

The trade deficit stood at EUR 649.5 mln in Q2 2016, compared to EUR 744.4 mln in Q2 2015, according to BNB data. However, in comparison to the previous quarter, the trade gap widened, by 38.9%.

Bulgaria's most exported goods in Q2 2016 were other raw materials, which accounted for 10.9% of the total, followed by petroleum products with a 7.4% share, and raw materials for the food industry with a 7.3% share.

In terms of imports, the main goods were fuels, which made up 10.4% of the total, followed by machinery and equipment, slicing a 9.2% share, and crude petroleum and natural gas, which had an 8.9% share.



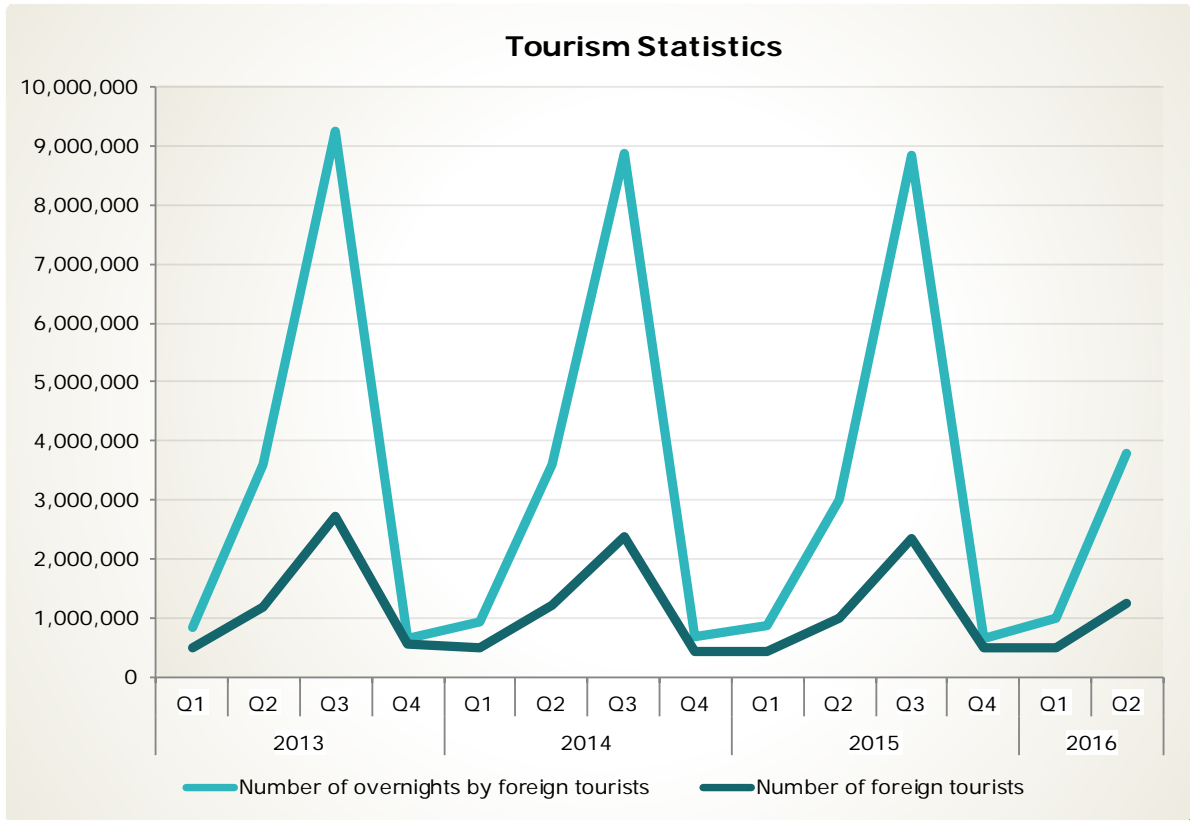
Source: BNB

7.5 TOURSIM

Number of foreign tourist overnights went up by 26.9% y/y in Q2 2016

Tourist overnights of foreigners increased by an annual 26.9% to 3.795 million in Q2 2016, according to NSI data.

The number of foreign tourists also jumped - by 24.0% y/y to 1.248 million. Romanian tourists led the ranking in terms of numbers - 163,186, followed by tourists from Russia - 162,249, and Germany - 137,729.



Source: NSI

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