

BULGARIA ECONOMY REPORT

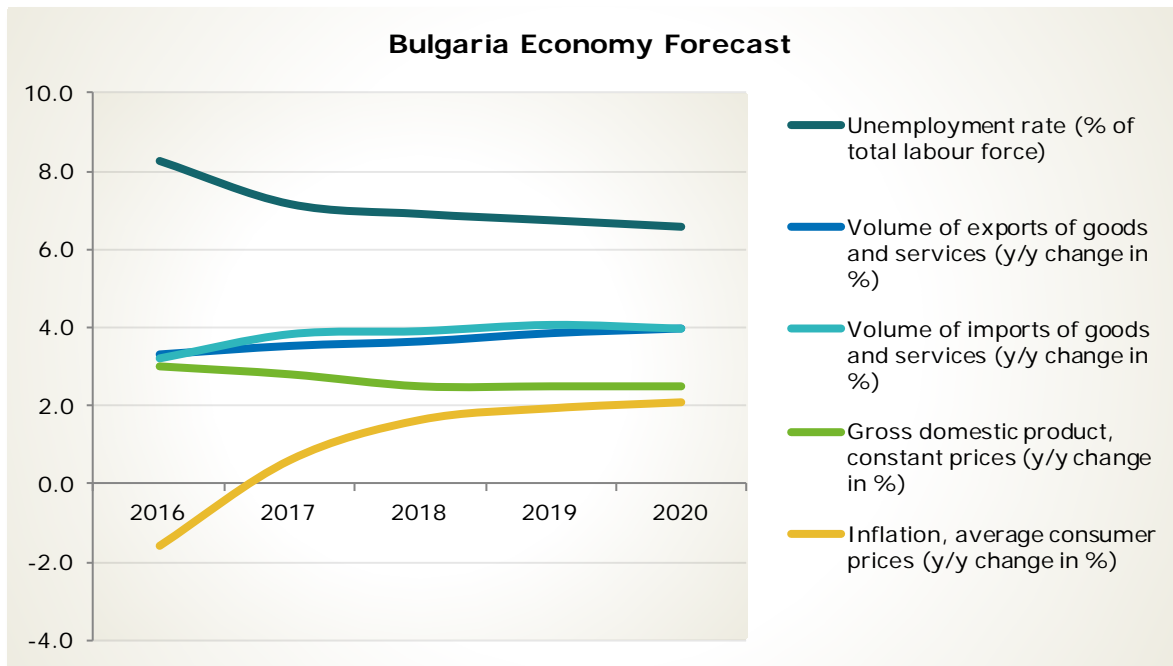
Q3 2016

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1. MACROECONOMIC SNAPSHOT AND FORECAST

BULGARIA – MACROECONOMIC SNAPSHOT AS OF Q3 2016	
GDP Growth	3.4% y/y
Business confidence indicator	0.0 pp m/m
Industrial output	3.44% y/y
Industrial sales index	119.7% (2010=100)
Wholesale	-11.5% y/y
Retail sales	2.0% y/y
Average annual inflation	-0.8%
Unemployment rate	7.0%
Number of building permits	4.9% y/y
Money supply growth	8.6% y/y
Household loans	0.5% y/y
SOFIX blue-chip index	0.1% y/y
Gross external debt	-0.6% y/y
Current account surplus	EUR 1.428 bln
FDI inflow change	-71.1% y/y
Foreign trade deficit	EUR 458.0 mln
Number of foreign tourist overnights	19.6% y/y



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

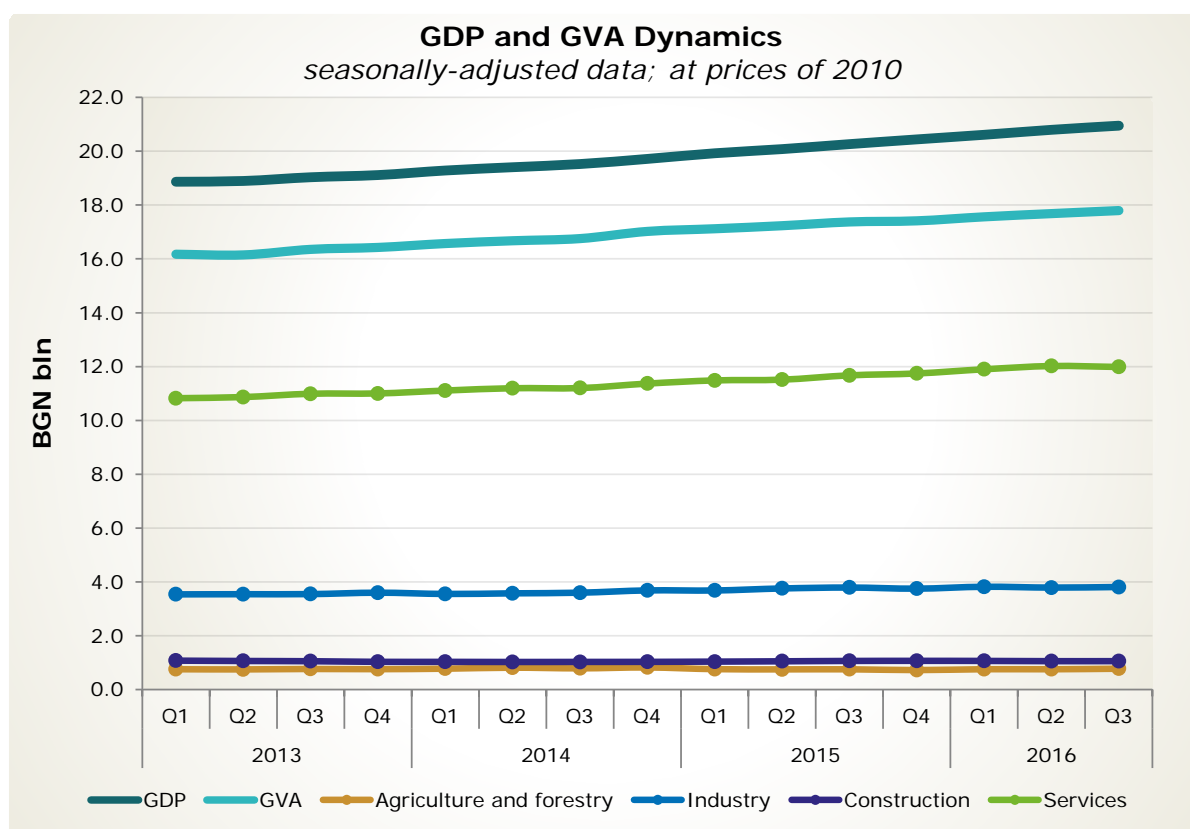
2. REAL SECTOR

2.1 GROSS DOMESTIC PRODUCT (GDP)

GDP went up by 3.4% y/y in Q3 2016, compared to a 3.8% annual growth a year earlier

The country's seasonally-adjusted GDP increased by 3.4% y/y and totalled BGN 20.948 bln in Q3 2016, according to preliminary data of the National Statistical Institute (NSI).

Final consumption, which contributed 78.1% to the GDP, grew by 0.2% y/y in Q3 2016. Gross capital formation inched down by 1.8%, contributing 20.3% to the GDP. Exports rose by 9.5%, imports went up by 7.5%.



Source: NSI

The gross value added (GVA) generated by the national economy increased by 2.4% y/y in Q3 2016 and totalled BGN 17.795 bln. The industrial sector grew in value by 0.5%, but its share in the GVA structure inched down to 21.4% from 21.8%. The services sector recorded a 2.7% annual increase, slicing a 67.4% share in the GVA, compared to 67.2% one year ago. The agricultural sector inched up 2.8% and its GVA share stood at 4.4%, same as the previous year. The construction industry experienced a 0.7% annual decrease, while its share fell to 6.0% from 6.1%.

2.2 BUSINESS CLIMATE

Business Confidence Indicator remained unchanged in September 2016

In September 2016, the business confidence indicator remained unchanged due to the stable business climate.

The business climate improved in the industry, construction and retail sectors, while the indicator worsened in the services sector.

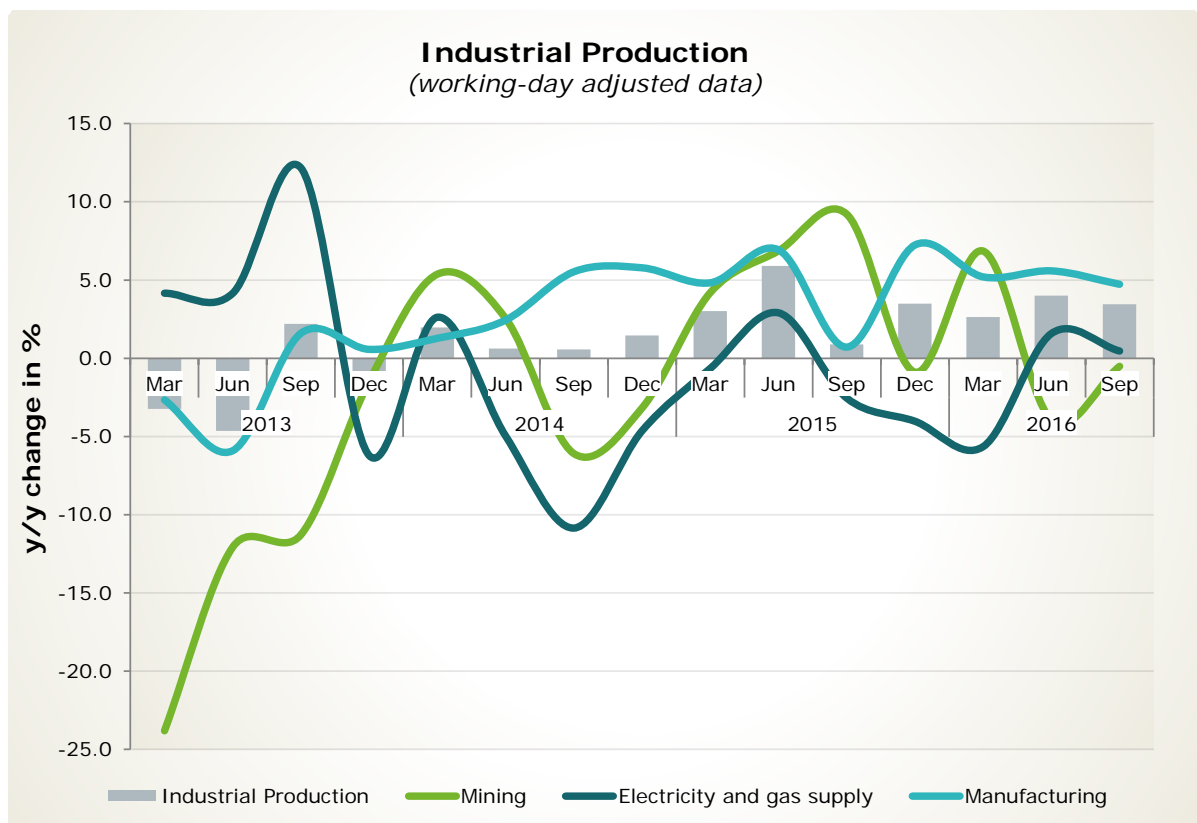
The business confidence indicator stayed at the same level in August 2016 and fell by 0.9 percentage points m/m in July 2016.

2.3 INDUSTRIAL OUTPUT

Industrial output rose by 3.4% y/y in September 2016

Industrial output went up by 3.4% on the year in September 2016, according to NSI. The growth was backed by the increase of the output of the manufacturing, and electricity and gas supply industries – 4.7% and 0.5%, respectively. The output of the mining industry fell by 0.5%.

The production of metal products, except machinery and equipment, jumped by 40.7% and was the sector with the sharpest annual rise. On the other end was mining of coal and lignite, where production dropped the most, by 24.8%.

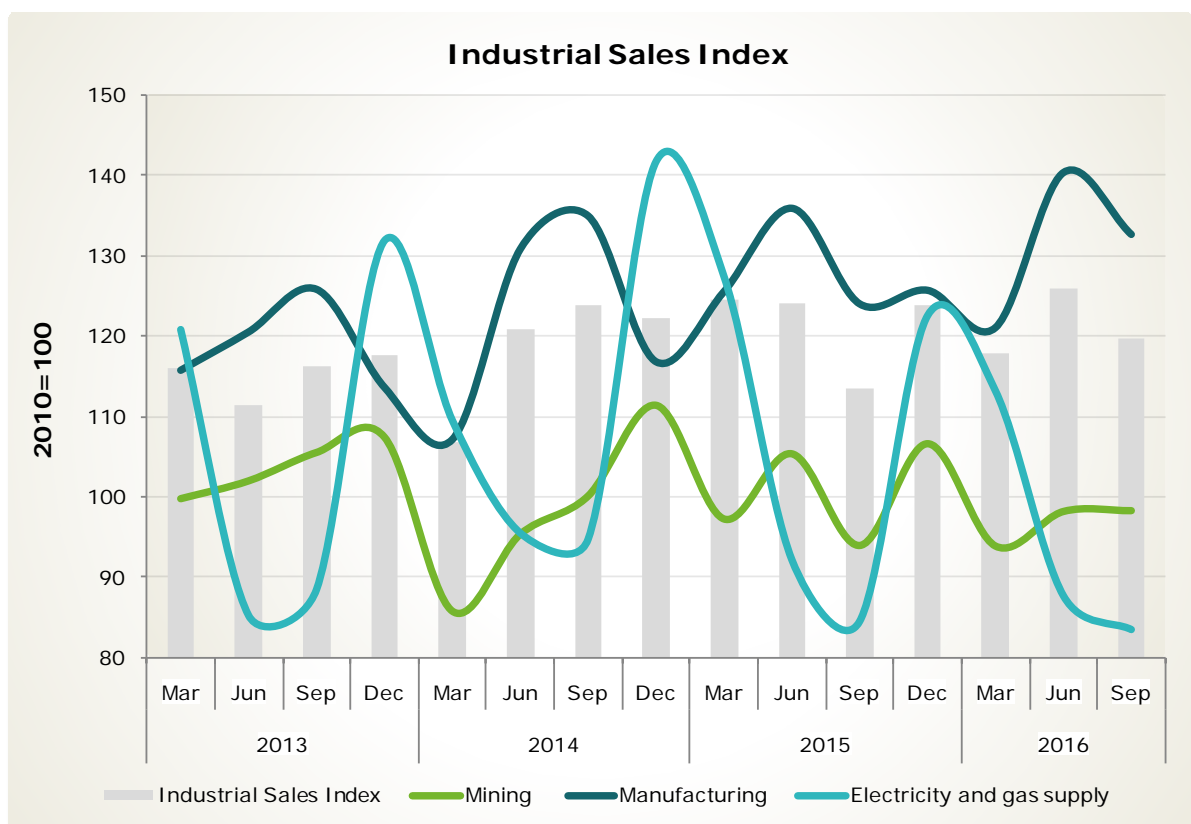


Source: NSI

2.4 INDUSTRIAL SALES

Industrial sales index at 119.7 in September 2016

The industrial sales index stood at 119.7 (2010=100) in September 2016, compared to 113.5 in September 2015, according to NSI. The highest index value, of 303.9, was reported by manufacture of fabricated metal products, except machinery and equipment, while Production and distribution of electricity, heat and gas was on the bottom with an index of 83.4.



Source: NSI

2.5 WHOLESALE/RETAIL

Retail sales grow, wholesales drop y/y as of Q3 2016

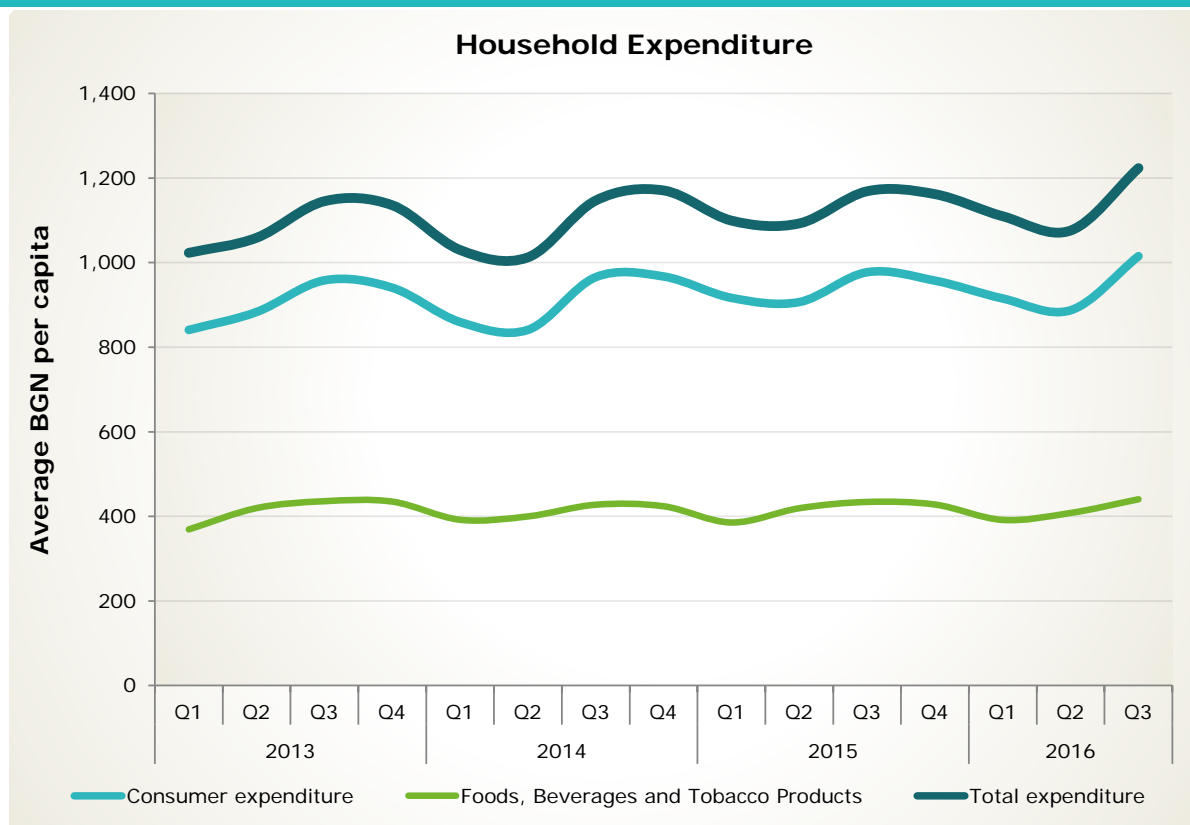
Retail sales, except of motor vehicles and motorcycles, rose by 2.0% y/y in September 2016, according to NSI data. In July and August retail sales rose, by an annual 2.3% and 5.3%, respectively.

Retail trade in textiles, clothing and footwear marked the highest increase, of 14.5% y/y, in September 2016. Retail sale of computers and communication equipment and other consumer goods experienced the sharpest annual drop, of 4.7%.



Source: NSI

The wholesale sector, excluding wholesale of motor vehicles and motorcycles, went down by 11.5% y/y in the third quarter of 2016. Non-specialised wholesale registered the highest drop, of 21.7%. Wholesale through intermediation reported the highest annual increase in sales, of 34.2%.

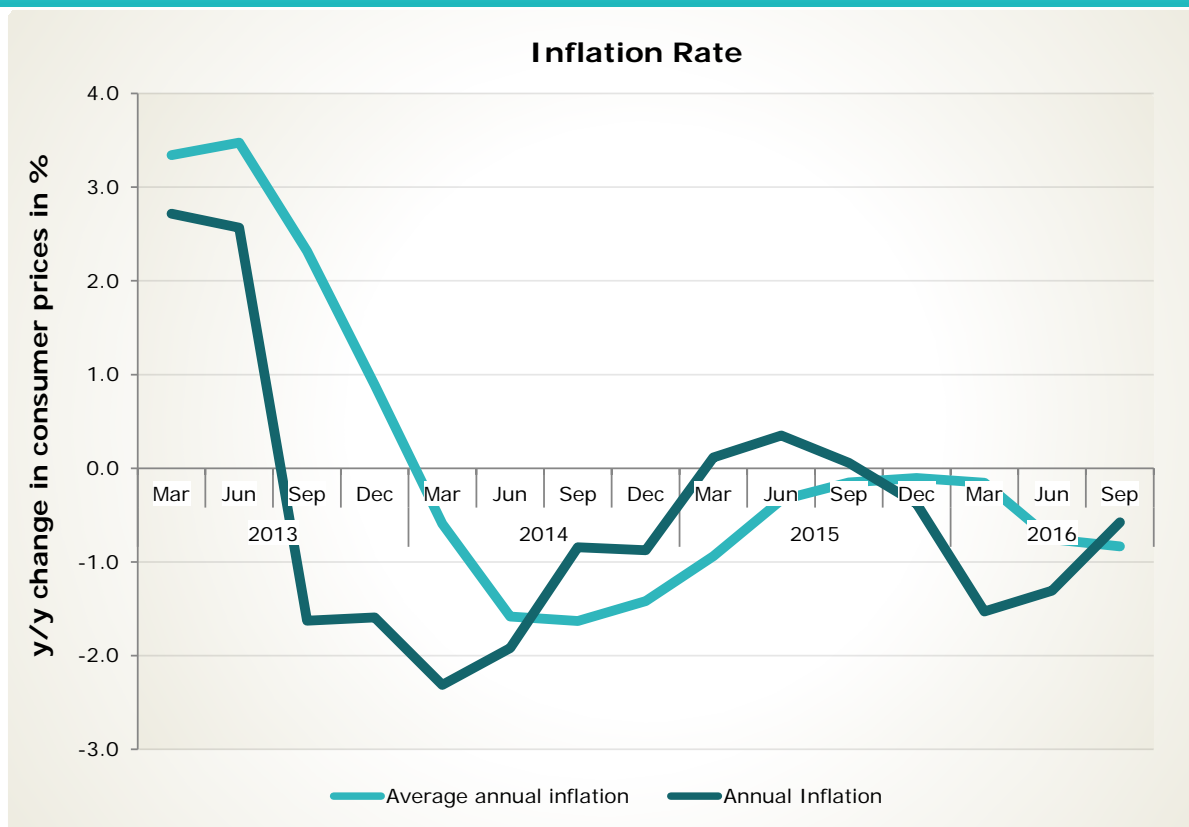


Source: NSI

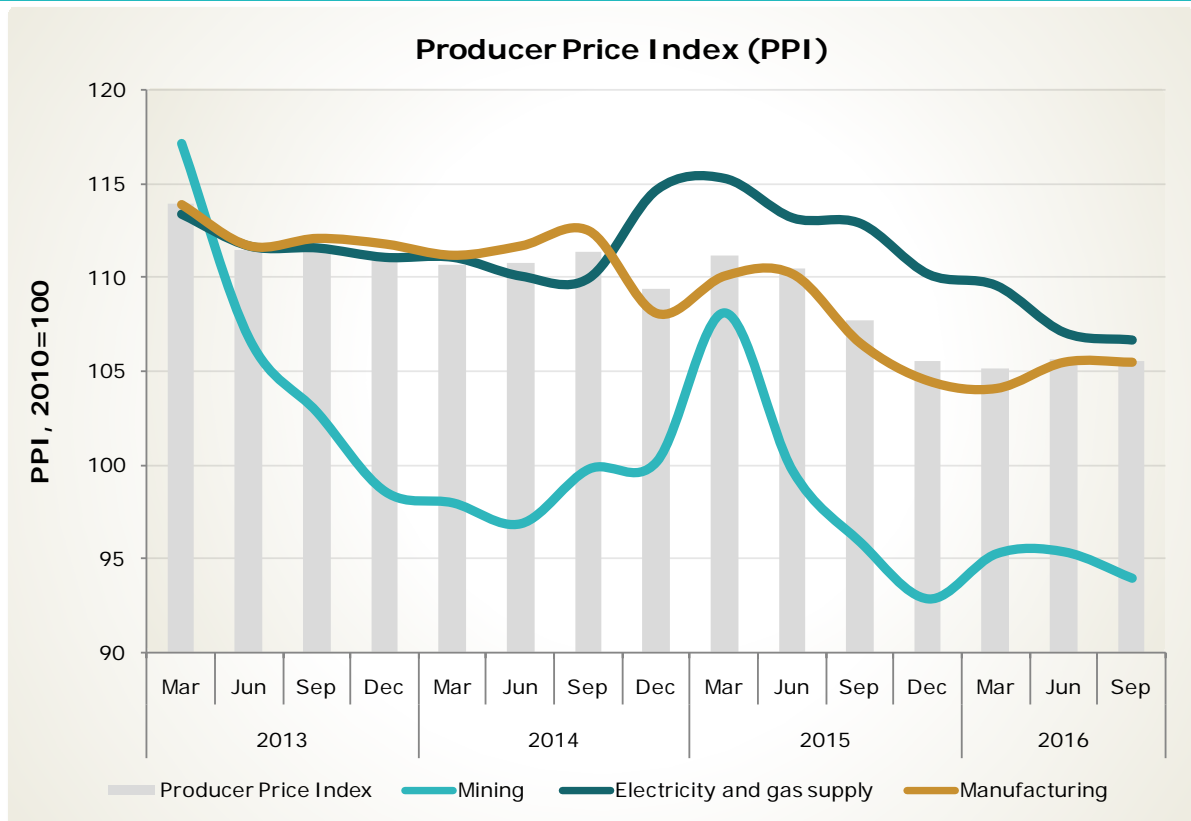
2.6 INFLATION

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

Bulgaria reported an annual average deflation of 0.8% as of September 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 21.0%, 16.3% and 14.2%, respectively. The consumer groups that recorded the sharpest growth in prices were other services in respect of personal transport equipment, sugar, jam, honey, chocolate and confectionery and primary education, of 26.2%, 5.7% and 5.0%, respectively.



Source: NSI



Source: NSI

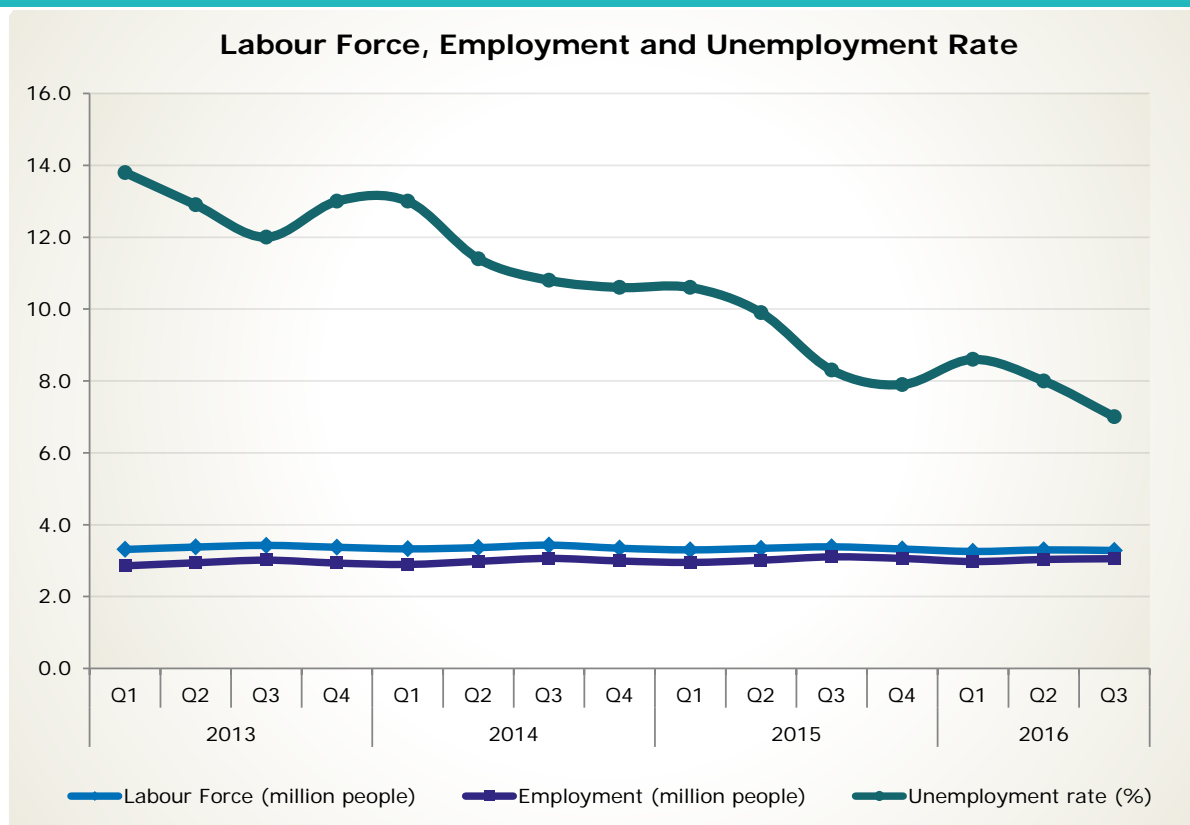
3. LABOUR MARKET

Unemployment rate went down to 7.0%, wages grew 7.7% y/y as of Q3 2016

Unemployment in Bulgaria narrowed to 7.0% of the total labour force in Q3 2016 from 8.3% a year earlier, according to data of NSI.

The employed population aged 15 years and older was 3.053 million in Q3 2016, down by 1.7% y/y.

The youth (population aged 15-24) unemployment rate went down to 18.8%, compared to 19.2% in Q3 2015.



According to data of NSI, the average monthly salary in Q3 2016 grew by 7.7% y/y to BGN 941. Wages in the private and public sectors went up by 8.1% and 6.8%, respectively. Employees in the IT and communication sector, and in generation and distribution of electricity, heat and gaseous fuels had the highest salaries of BGN 2,159 and BGN 1,647, respectively.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits went up by 4.9% y/y in Q3 2016

The number of building permits issued in Bulgaria in Q3 2016 increased by 4.9% y/y and totalled 2,404, according to NSI data. Permits for housing projects went up by 2.5% to 1,183 and permits for office buildings jumped by 27.5% to 51.

Despite the increase in permits number, the total built-up area of housing units, covered by the permits, shrank by 2.9% y/y to 634,892 sq m. The total built-up area of office units soared by 81.6% to 94,783 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 1.75152 in Q3 2016 from BGN 1.7326 in Q2 2016 and BGN 1.75978 a year ago, according to Bulgarian National Bank (BNB) data.

BGN Average Exchange Rate			
Foreign Currency	Q3 2016	Q2 2016	Q3 2015
USD	1.75152	1.7326	1.75978
GBP	2.30195	2.4847	2.72733
CHF	1.79595	1.7855	1.82460
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.*

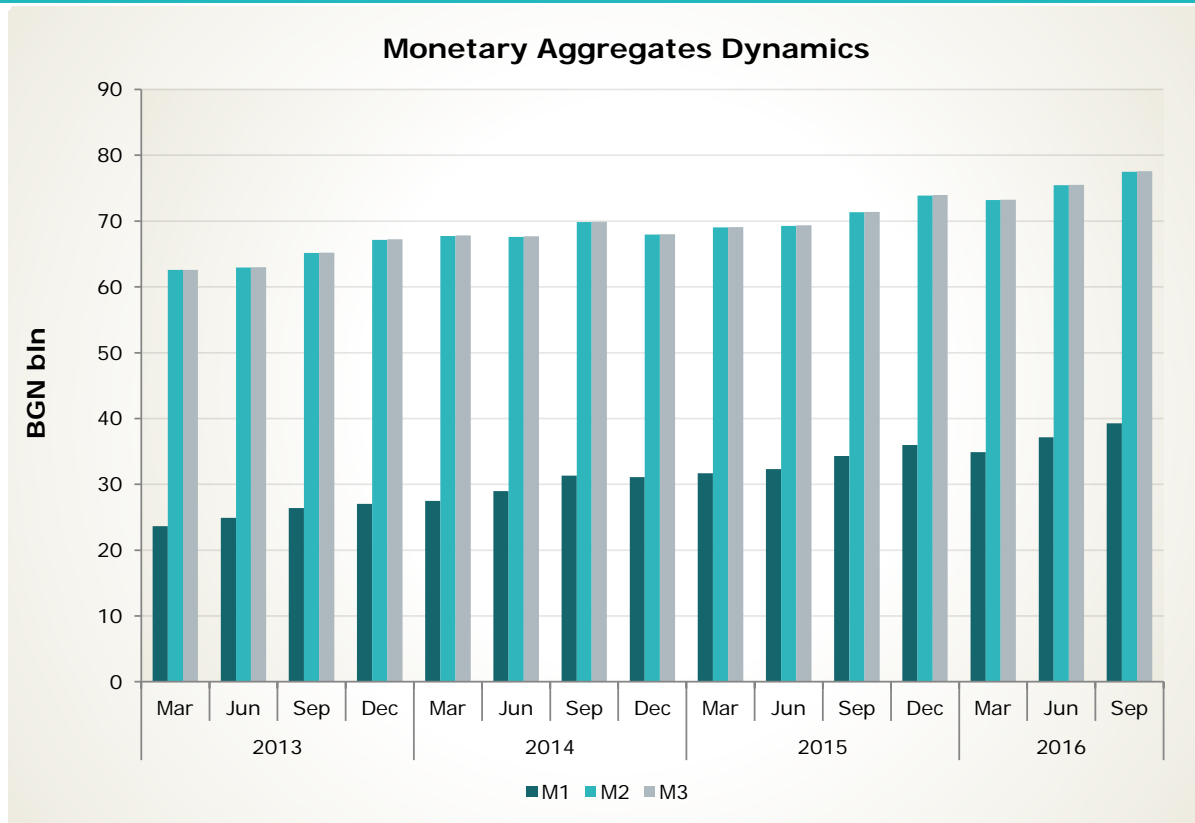
5.2 MONETARY AGGREGATES

Money supply growth was 8.6% y/y at end-September 2016

Broad money (money aggregate M3) increased by 8.6% y/y and reached BGN 77.559 bln in September 2016, according to data provided by BNB.

The M2 money supply also grew by 8.6% y/y to BGN 77.471 bln.

Money aggregate M1, or narrow money, jumped by 14.6% to BGN 39.292 bln.



Source: BNB

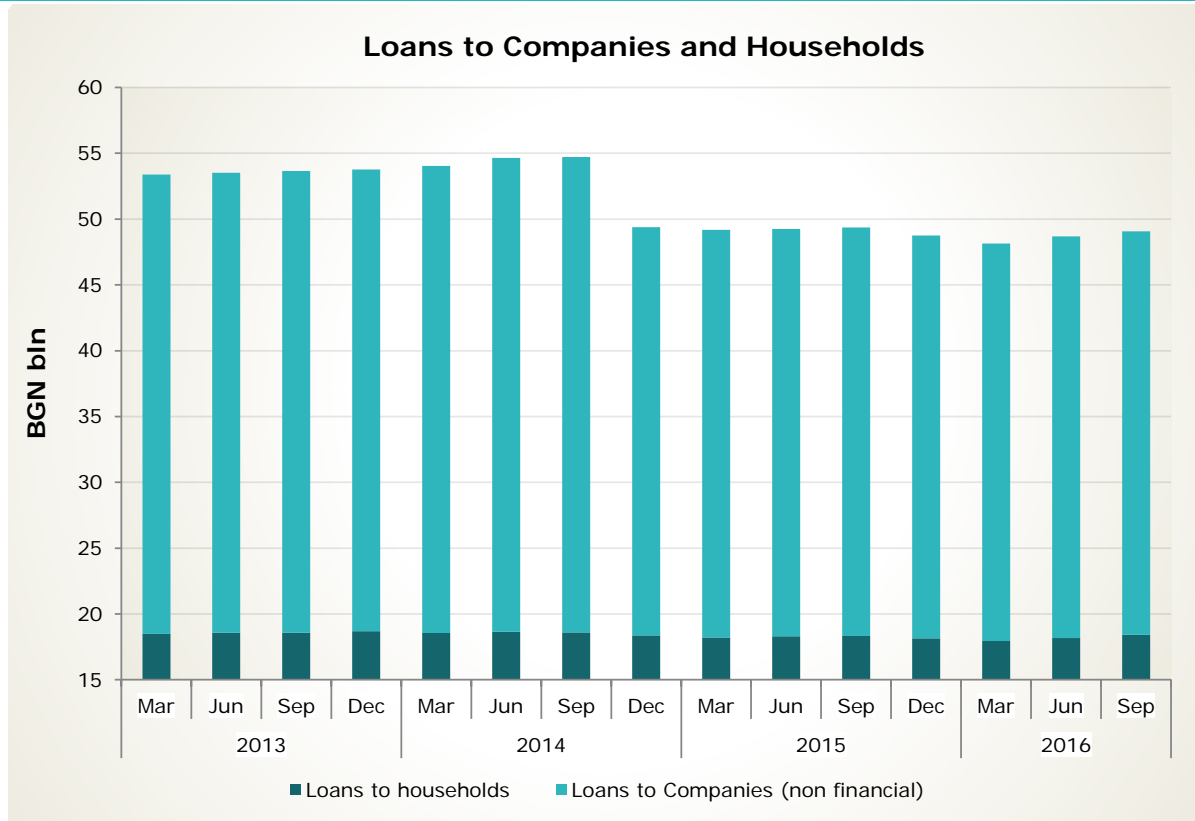
5.3 BANKING AND INSURANCE

Household loans increased by 0.5% y/y as of September 2016

Loans to the non-government sector totalled BGN 49.059 bln as of September 2016, up by 0.8% y/y, according to BNB.

Loans to non-financial corporations went down by 1.2% y/y to BGN 30.636 bln. Household and non-profit institutions serving households (NPISHs) loans inched up by 0.5% to BGN 18.423 bln.

House purchasing loans inched up by 0.9% to BGN 8.762 bln, while consumer loans came in at BGN 7.323 bln compared to BGN 7.369 bln a year ago.



Source: BNB

At the end of September 2016 the assets of the banking system totalled BGN 89.823 bln, rising by 5.1% in comparison to September 2015.

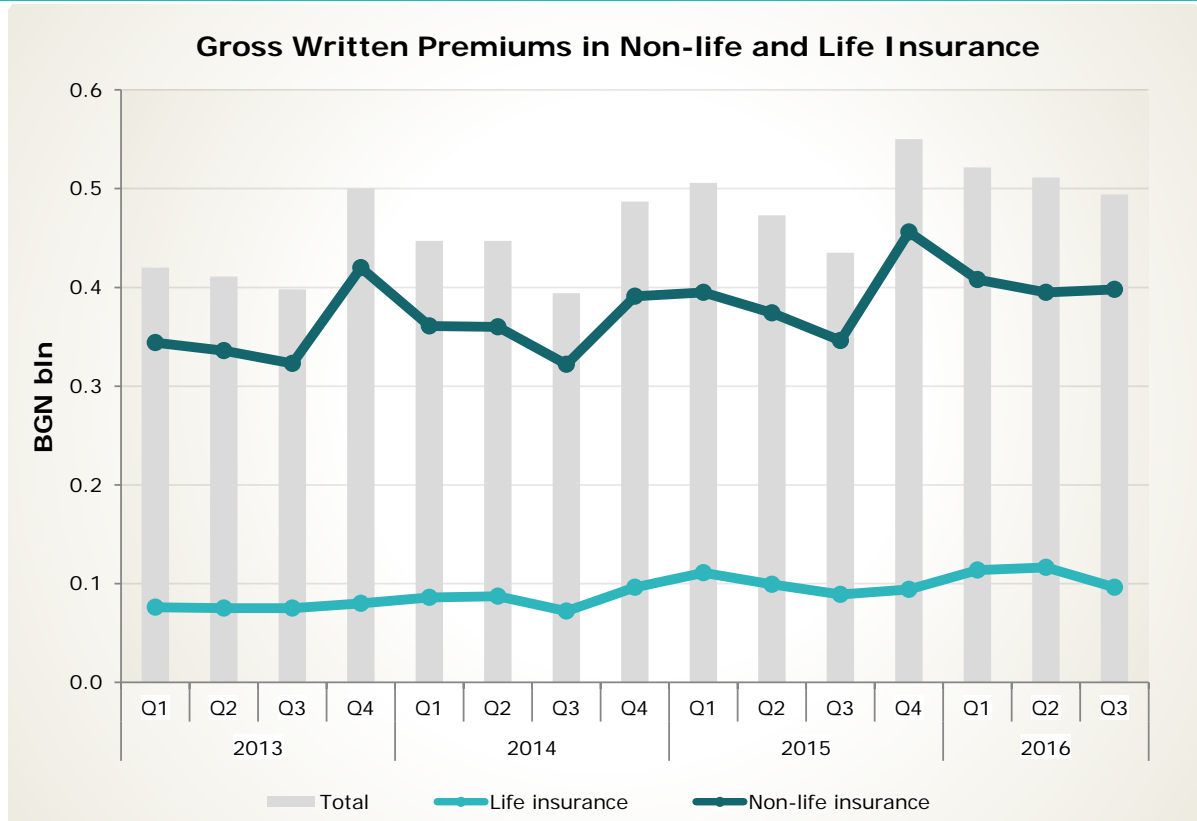
The banking sector's profit jumped by 35.1% y/y to BGN 1.073 bln as of September 2016.

Premium income up 13.6% y/y in Q3 2016

The total gross written premiums (GWP) of the Bulgarian non-life and life insurance companies stood at BGN 494.1 mln, up by 13.6% y/y in the third quarter of 2016, according to the Financial Supervision Commission (FSC). The GWP of the non-life insurance market stood at BGN 397.9 mln, or by 15.0% more than in the corresponding period of the previous year, while the life insurance market grew faster, by 8.2% y/y to BGN 96.2 mln.

In the non-life insurance sector the highest annual rise of gross written premiums was registered in suretyship insurance, where GWP experienced a twofold jump to BGN 2.288 mln. The highest y/y drop, of 83.9%, was posted by aircraft liability insurance.

Among the life insurance segments, gross written premiums of unit linked life insurance jumped the most – more than three times to BGN 13.844 mln, while accident insurance marked the sharpest fall, of 28.6%, to BGN 4.128 mln.



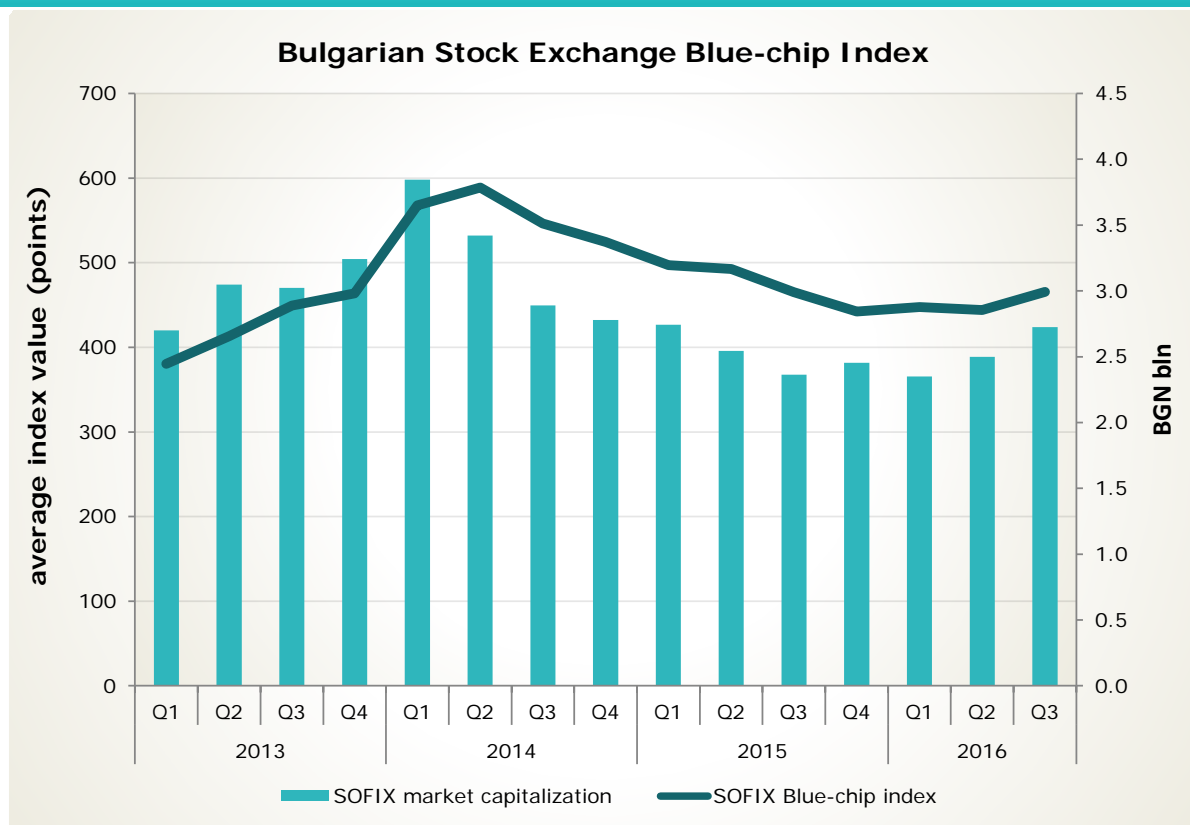
Source: FSC

6. CAPITAL MARKETS

Blue-chip SOFIX went up by 0.1% y/y in Q3 2016

The average value of SOFIX, the blue-chip index of the Bulgarian Stock Exchange (BSE) grew by 0.1% to 465.5 points in Q3 2016, according to BSE data. In comparison to the second quarter of 2016, SOFIX gained 21.4 points.

The total turnover on BSE's regulated market reached BGN 70.489 mln in Q3 2016, compared to BGN 54.191 mln in Q2 2016, and BGN 34.025 mln in Q3 2015.



Source: BSE

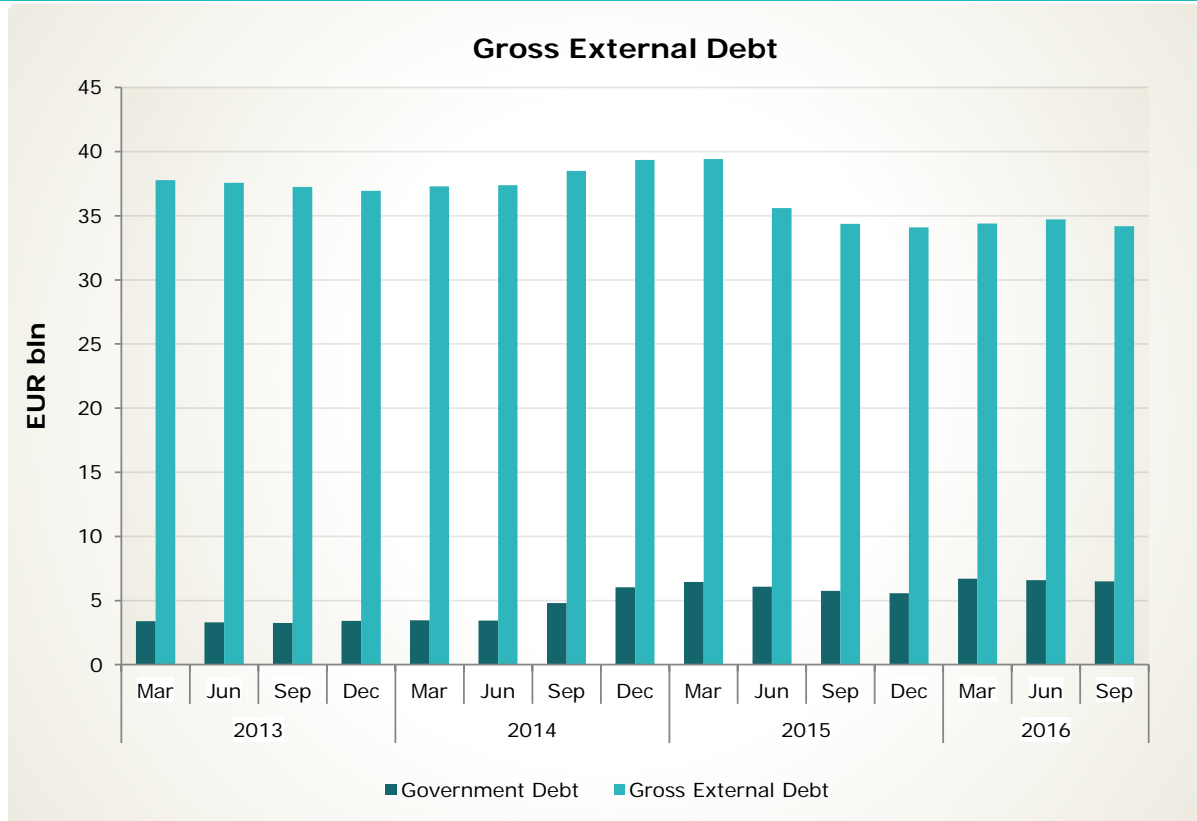
7. EXTERNAL SECTOR

7.1 FOREIGN DEBT

The gross external debt narrowed to EUR 34.171 bln at end-September 2016

The gross external debt totalled EUR 34.171 bln at the end of September 2016, which was 84.0% of the GDP for Q3 2016. It decreased by 0.6% or EUR 199.0 mln, compared to September 2015. In comparison to June 2016 the gross external debt fell by EUR 532.7 mln.

As of end-September 2016 long-term liabilities amounted to EUR 26.497 bln, or 77.5% of the total debt, and short-term liabilities totalled EUR 7.675 bln, equal to 22.5% of the total debt.

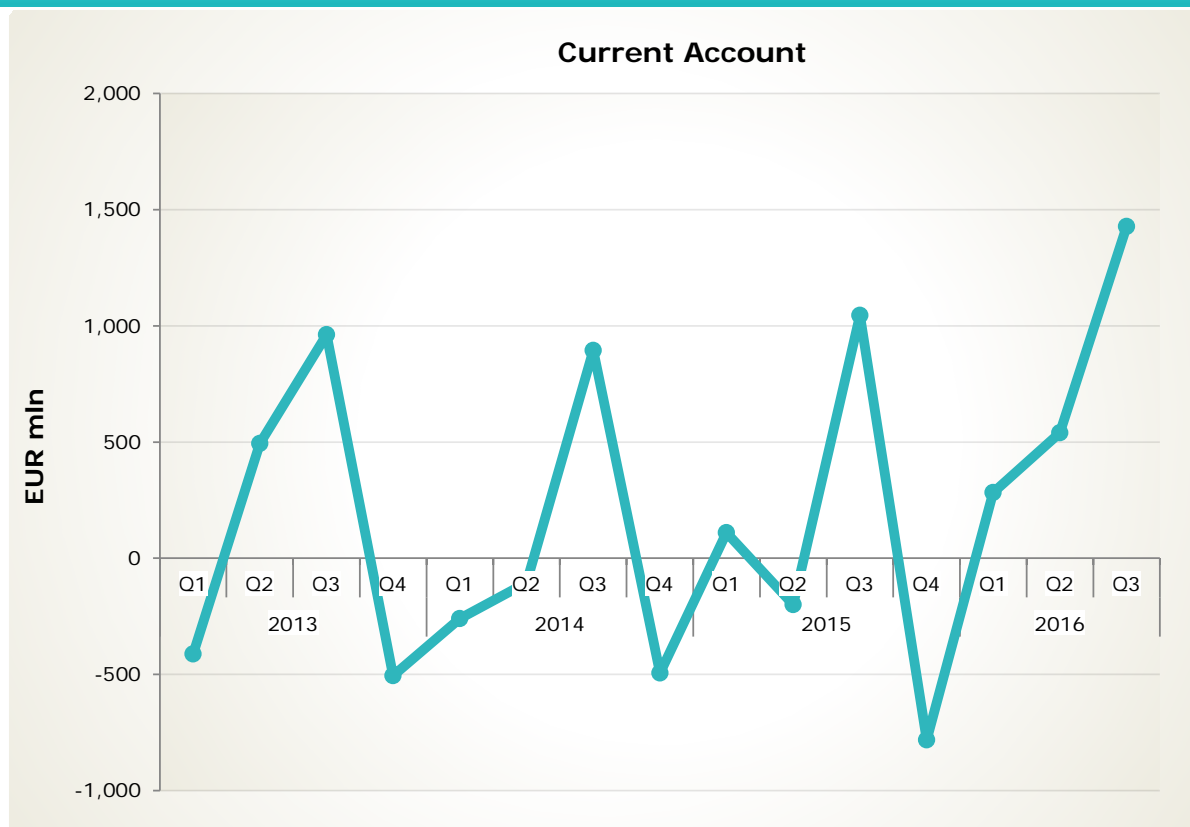


Source: BNB

7.2 BALANCE OF PAYMENTS

Current account surplus expanded in Q3 2016

The current account reported a surplus of EUR 1.428 bln in the third quarter of 2016, up from a surplus of EUR 1.045 bln in the corresponding period of the previous year, according to BNB. In comparison to Q2 2016, the current account surplus increased by EUR 887.5 mln.



Source: BNB

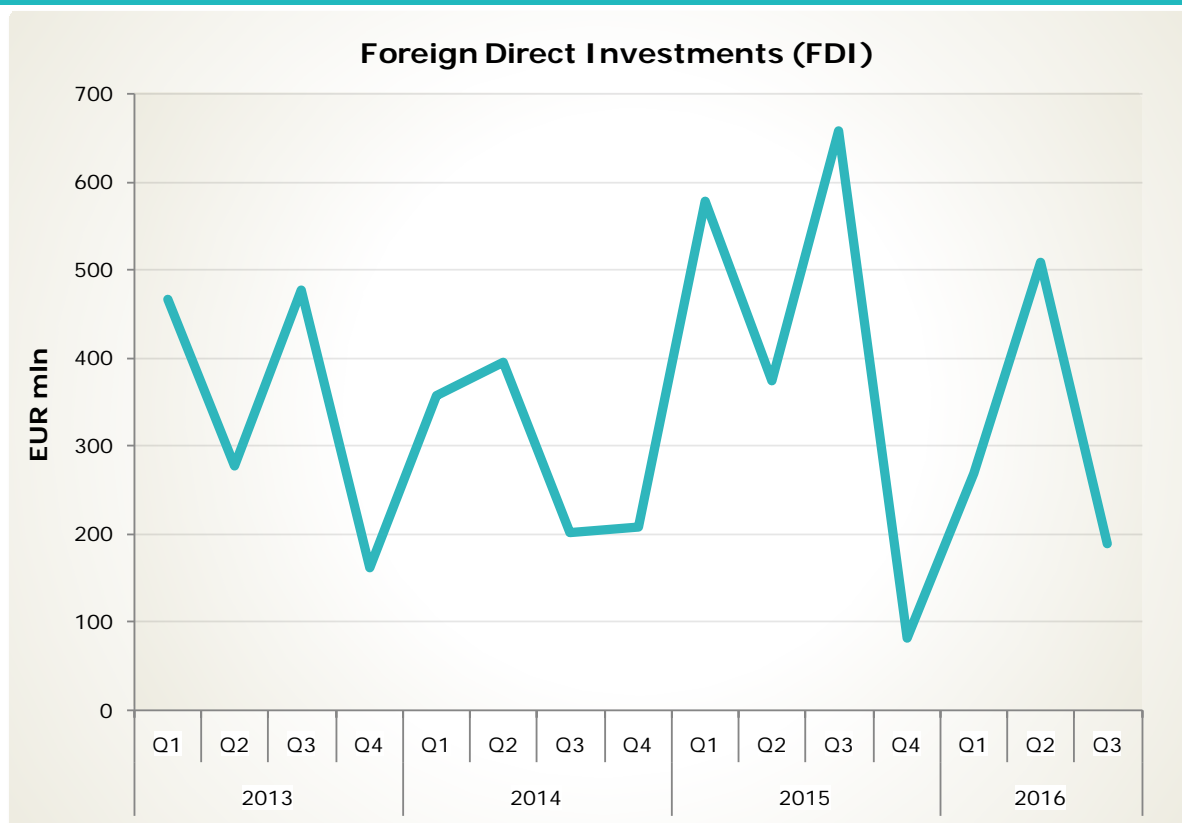
7.3 FDI

FDI went down by 71.1% y/y in Q3 2016

FDI inflow in Bulgaria fell by 71.1% y/y to EUR 189.7 mln in Q3 2016, according to BNB data. The Q3 2016 FDI accounted for 1.7% of the GDP for the period, compared to 6.3% in the year-ago period, BNB data showed.

Italy was the biggest foreign investor in Bulgaria in the third quarter of 2016 with FDI of EUR 1.287 bln, followed by the Netherlands with EUR 64.0 mln, and Germany with EUR 56.4 mln.

The financial and insurance sector attracted the most FDI in Q3 2016, of EUR 198.4 mln, the second position was occupied by construction with EUR 53.7 mln, while IT and telecommunications ranked third with EUR 27.7 mln.



Source: BNB

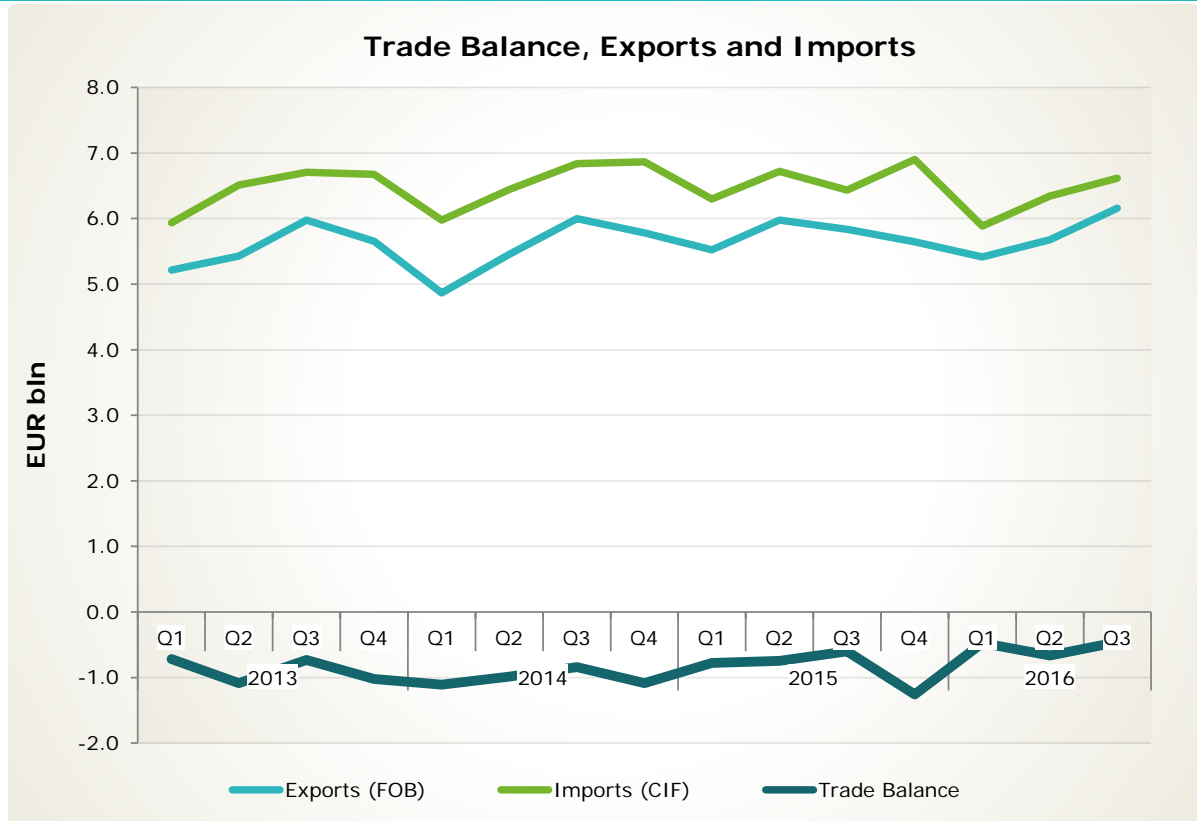
7.4 FOREIGN TRADE

Foreign trade deficit narrowed by 23.5% y/y in Q3 2016

The trade deficit stood at EUR 458.0 mln in Q3 2016, compared to EUR 599.0 mln in Q3 2015, according to BNB data. However, in comparison to the previous quarter, the trade gap widened, by 23.5%.

Bulgaria's most exported goods in Q3 2016 were raw materials for food production, which accounted for 11.8% of the total, followed by other raw materials with a 9.7% share, and metals and petroleum products, each with a 7.8% share.

In terms of imports, the main goods were fuels, which made up 10.4% of the total, followed by crude petroleum and natural gas, slicing an 8.8% share, and other raw materials, which had an 8.5% share.



Source: BNB

7.5 TOURSIM

Number of foreign tourist overnights went up by 19.6% y/y in Q3 2016

Tourist overnights of foreigners increased by an annual 19.6% to 10.553 million in Q3 2016, according to NSI data.

The number of foreign tourists also jumped - by 18.7% y/y to 2.769 million. Germany tourists led the ranking in terms of numbers – 414,984, followed by tourists from Russia – 341,075, and Poland – 229,371.



Source: NSI

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