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June/2014

BULGARIAN ECONOMY

Monthly Report

July/2014

August/2014

September/2014

October/2014

November/2014

December/2014

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Highlights

Short-term business statistics gathered momentum in May. Industrial and construction output growth accelerated, while industrial turnover returned to positive territory. Only the business climate indicator in the country decreased somewhat in June, after five consecutive months on the increase.

Registered unemployment stepped down by 0.6 pps in May and decreased further by 0.5 pps mom to 10.7% in June, thus its level being comparable to the corresponding month of 2013. Meanwhile, the negative **annual rate of inflation** remained flat at 1.8%, while consumer prices declined by 0.3% mom.

The **CAB** stood negative at 0.5% of GDP in Jan-Apr, being on a surplus of 0.1% of GDP a year earlier. Both export and import of goods recorded decline in yoy terms in April, thus the *trade deficit* in the first four months doubled to EUR 1.2 bn (2.9% of GDP). *Services surplus*, on the other hand, increased due to higher travel receipts, while the *income deficit* declined, reflecting lower foreign investment payments. The **financial account balance** was positive at EUR 268.4 mln in April alone, thus the deficit accumulated for the first four months stood at 0.3% of GDP, down from 1.9% of GDP for the same period a year earlier.

Consolidated budget deficit stood at 1.1% of GDP (BGN 888.6 mln) on a cash basis at the end of May, compared to a surplus of 0.1% of GDP a year earlier. ●

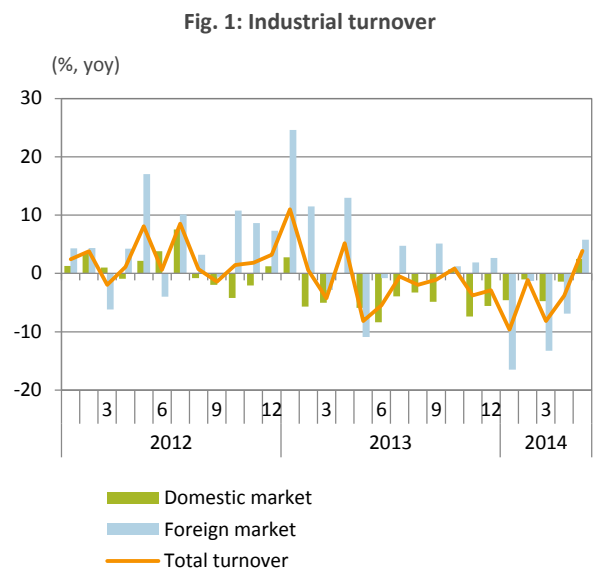
Recent economic developments

SHORT-TERM BUSINESS STATISTICS

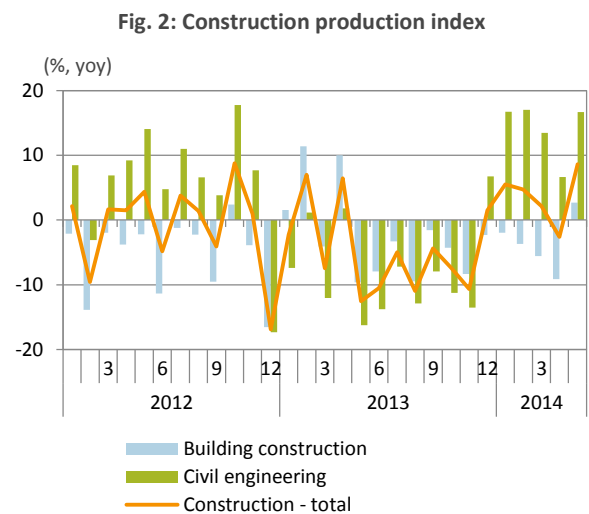
After declining for the last six months, **industrial turnover**¹ returned to positive territory in May, up by 3.9% yoy, driven by growth both in foreign and domestic market sales. External turnover increased for the first time during the year, up by 5.8%, as its recovery was driven by *manufacture of basic metals and fabricated metal products, except machinery and equipment, manufacture of motor vehicles, trailers and semi-trailers, manufacture of wearing apparel and manufacture of other non-metallic mineral products*. The increase in domestic sales reached 2.5% mostly due to the positive dynamics in *electricity, gas, steam and air conditioning supply* whose growth accelerated in May. Among economic activities with positive contribution were also *mining of coal* and *manufacture of fabricated metal products, except machinery and equipment*.

Industrial production growth accelerated to 6.7% with the largest contribution coming from *mining of coal*. *Manufacture of fabricated metal products, except machinery and equipment* and *manufacture of motor vehicles, trailers and semi-trailers* also supported the acceleration in output growth.

The growth in **retail sales** reached 1.8%. *Retail sales of computers, peripheral units and software* posted the largest increase, up by 10.9%. The sales of *food, beverages and tobacco* and *medical and orthopedic goods* also increased, while the decline in *other retail sales in non-specialized store* and *retail sales of textiles, clothing, and footwear and leather goods* decelerated to 4.1% and 2.9% respectively.



Source: NSI



Source: NSI

¹ According to NSI methodology, the *industrial turnover index* reflects changes in both volume of sales and prices, while for the *industrial production index* compilation, the value of enterprises' production is deflated by the producer price index in order to isolate the price fluctuations.

Construction production index gathered speed, up 8.6% yoy. The growth in *civil engineering* accelerated to 16.7%, while *building construction output* returned to positive territory for the first time in the last twelve months, up by 2.7% yoy.

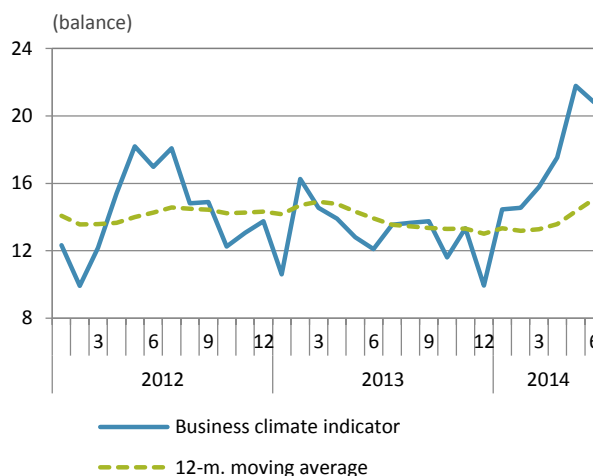
After five consecutive months on the increase, the **business climate indicator** in the country decreased in June as a result of the more reserved assessment of business situation of enterprises in industry and services. Demand in services' sector reported a slight decrease compared to the previous month, while expectations in industry and retail trade were more moderate. At the same time, entrepreneurs in construction were optimistic after the reported increase in orders.

LABOR MARKET

Registered unemployment further decreased over the previous month to 11.2% in May, however, it was 0.2 pps higher on a year earlier. The unemployment number stood at 367.5 K, down by 4.9% compared to April, largely on the account of the lower unemployed inflow. The latter decreased by 29.8% due mainly to the drop in newly registered in employment offices. The reduction was mostly pronounced in the public administration, where lay-offs increased in April. The outflow of unemployed also declined, down by 9.7%, but it remained higher than the inflow and led to the positive development in the overall number of unemployed people. The number of persons who found job in May went down by 8.9% largely on the account of the lower demand on the primary labor market. However, those who started working on the primary labor market (14.5 K) were 11.6% higher compared to May 2013. At the same time, persons who found job under the ALMM stood close to their previous month level (8.1 K), while the announced vacancies under the subsidized employment programs almost doubled over a month earlier.

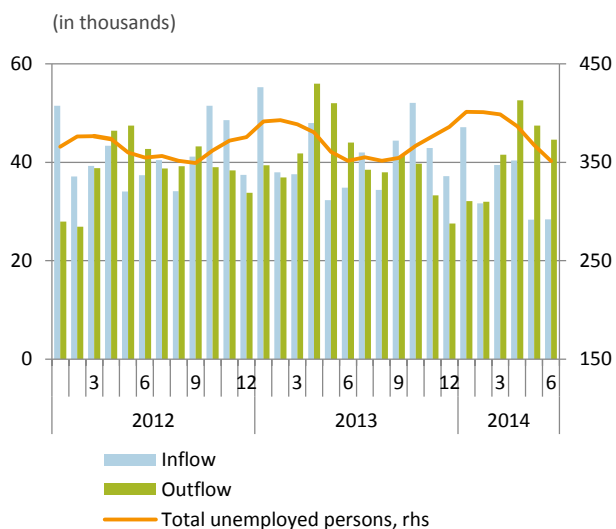
The positive trend in the unemployment rate continued in June. It decreased by a further 0.5 pps mom to 10.7%, thus its level being comparable to June 2013. The number of persons who started working on the primary labor market remained

Fig. 3: Business climate



Source: NSI

Fig. 4: Inflow, outflow and unemployed persons



Source: EA

higher in yoy terms. Those who found job under the ALMM were also higher compared to a year earlier for the first time since the beginning of the year.

INFLATION DYNAMICS

Consumer prices posted a 0.5% mom decrease in May and declined further by 0.3% in June driven largely by lower food and fuel prices. They both stepped down by 1.1%, thus their joint negative contribution for the monthly change in the headline rate stood at 0.35 pps. Prices of market services went up by 0.5% almost entirely due to seasonal hikes in prices of package holidays and accommodation in resorts, up by 10.3% and 7% respectively. Their positive contribution (+0.19 pps), however, was partially offset by the continuing decline in prices of non-energy consumer goods. Thus core inflation posted a marginal 0.2% mom increase (+0.07 pps).

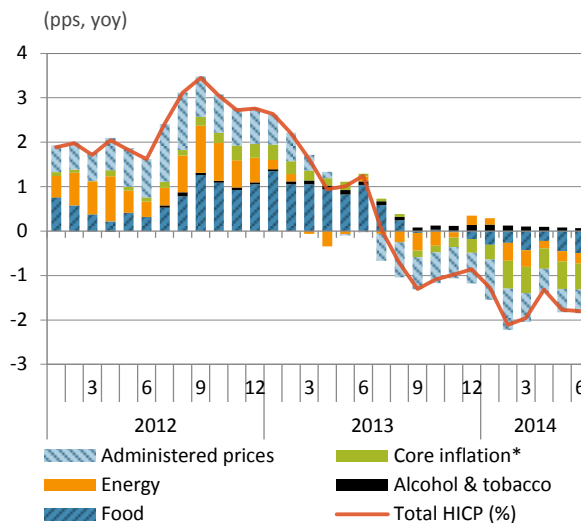
The *annual rate of inflation* widened to -1.8% yoy in May and remained flat in June, largely on the account of higher negative contribution coming from lower food prices, those of unprocessed food in particular.

EXTERNAL SECTOR

Both export and import of goods recorded a yoy decline in April, down by 11.6% and 1.7%, respectively. Thus the accumulated decline from the beginning of the year reached 8% for export and 0.1% for import. Regarding regional and product dissemination, their monthly dynamics did not differ from developments in the past few months. Export declined due to a drop in non-EU trade led by lower export of fuels and raw materials. The higher EU imports, predominantly consumer and investment goods, could not offset the drop in non-EU trade, resulting from the mineral fuels drop. *Trade deficit* in Jan-Apr doubled to EUR 1.2 bn (2.9% of GDP).

Services surplus since the beginning of the year stood at EUR 175.4 mln (0.4% of GDP), being EUR 126.6 mln (0.3% of GDP) a year earlier. Travel receipts growth accelerated to 6.8% yoy in April and reached 1.1% of GDP in the first four months of

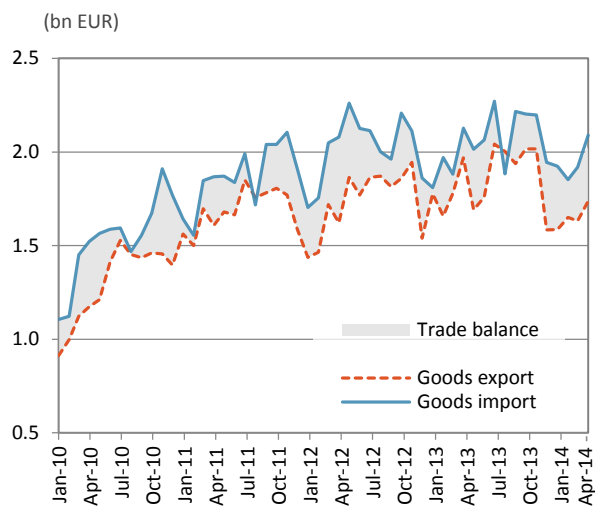
Fig. 5: HICP and contributions by main components



* Overall index excluding energy, food, alcohol and tobacco.

Source: NSI, MF

Fig. 6: Merchandise trade dynamics



Source: BNB

2014. *Income deficit* declined, reflecting lower foreign investment payments. Money received from the EU funds in April was substantially below the last year's flow, which resulted in lower *current transfers' surplus*.

The **current account balance** stood negative at 0.5% of GDP, being positive at 0.1% of GDP in Jan-Apr 2013.

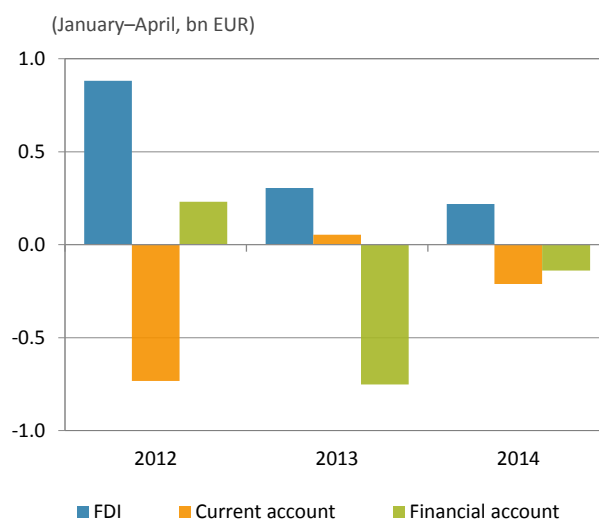
The **financial account balance** was positive at EUR 268.4 mln in April alone, its surplus being EUR 57.2 mln during the corresponding month of 2013. Inflows came from foreign direct and other investment. Private non-financial corporations increased their holdings in bonds abroad resulting in negative net portfolio investment. For the first four months, the financial account balance came in negative at 0.3% of GDP compared with a deficit of 1.9% of GDP for the same period a year earlier.

Gross external debt (GED) stood at EUR 37.8 bn (91.7% of GDP) as of end-April, marginally up in yoy terms. The banking sector reduced both its short and long-term liabilities, while all other institutional sectors reported a slight increase. Long-term debt represented 74.3% of GED.

FINANCIAL SECTOR

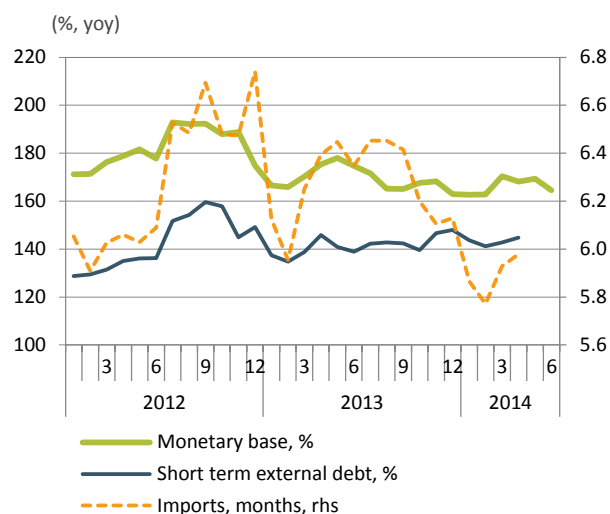
International reserves grew by 3.6% mom and reached EUR 14.3 bn at the end of June. The increase came after a 7.7% expansion of notes in circulation and a 5.1% growth in bank reserves. The strong monthly growth of official reserves contributed for the slowdown in their annual drop, which decelerated to 1.8% from 6.9% yoy at the end of May. The change in international reserves in yoy terms was mainly driven by the decrease of the Government deposit and bank reserves, down by 24% and 9.3% respectively, which was only partially compensated by the 14.9% growth of notes in circulation. The coverage of the monetary base dropped slightly to 164.5% in June due to the faster increase of base money compared to that of total reserves. As of end April, the level of reserves could cover 6 months of imports of goods and services or 144.8% of the short-term external debt.

Fig. 7: FDI, Current and Financial Account



Source: BNB

Fig. 9: Coverage with FX Reserves



Source: BNB, MF

Money supply growth slightly accelerated to 8.7% yoy in May coming from 8.3% a month earlier. The increase of liquid aggregate M1 slowed down from 15% to 13.3% yoy and while growth of deposits, redeemable at notice, decelerated to 38.7% from 43% yoy. However, deposits with agreed maturity brought their rate of decrease from 6.5% to 3.8% yoy. Thus, their negative contribution narrowed and allowed for somewhat higher M3 growth. Broad money increased by 0.6% in May alone led by the 0.6% mom growth of deposits with agreed maturity and the 0.7% increase of overnight deposits. Total deposits accelerated from 8.1% as of end-April to 8.5% yoy due to the faster growth of deposits from private corporations.

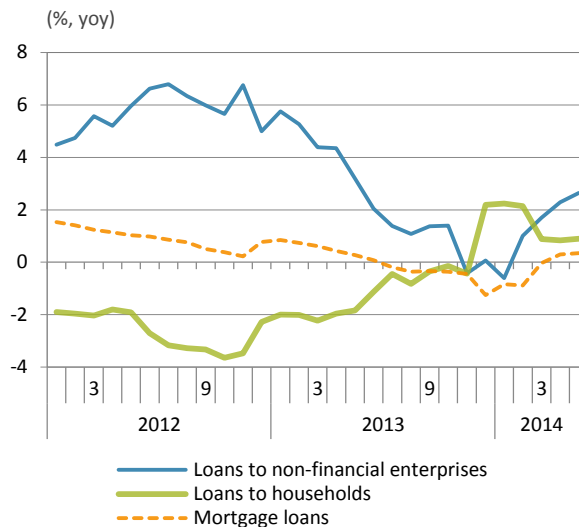
Credit to the private sector kept its upward trend from the beginning of the year and grew by 2% yoy at the end of May (1.6% in April). The improvement was due to the faster increase of corporate credit, 2.6% yoy vs. 2.3% in April. At the same time, consumer credits grew by 0.9% yoy, while mortgages preserved their positive growth rate from April of 0.3%. **Bad and restructured loans** shrank by 1.8% yoy at the end of May, but their share in total credits for non-financial enterprises and households remained at 17.8%.

Weighted average interest rates on corporate credits and mortgages increased in May, up by 42 and 13 bps, respectively. However, while the monthly volume of new credits for firms was by 58.2% more compared to the same month of 2013, new mortgages were by 2.1% less than a year earlier. The price of new consumer loans continued to drop, down by 28 bps, nevertheless, their volume went down by 2.4%. **Weighted average interest rate on deposits** in BGN and USD increased by 7 and 18 bps, while the return rate of euro denominated deposits remained unchanged. The total volume of new deposits amounted to BGN 2.3 bn, which was by 10.2% higher than in the corresponding month of the previous year.

FISCAL DEVELOPMENTS

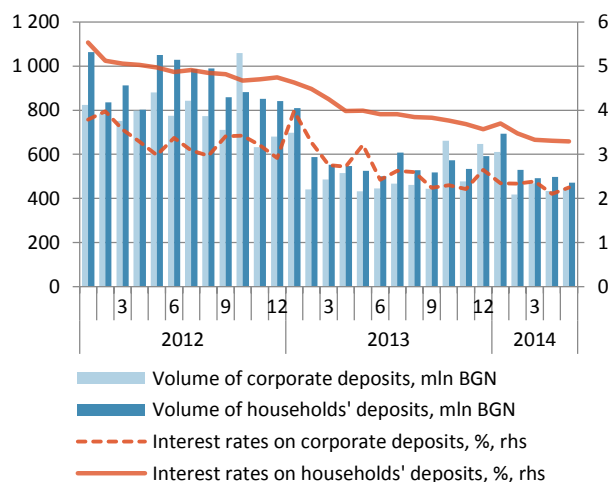
Consolidated budget deficit stood at 1.1% of GDP (BGN 888.6 mln) on a cash basis at the end of May, compared to a surplus

Fig. 10: Credit growth



Source: BNB, MF

Fig. 11: Interest rates and volumes of time deposits in BGN up to 1Y



Source: BNB, MF

of 0.1% of GDP a year earlier.

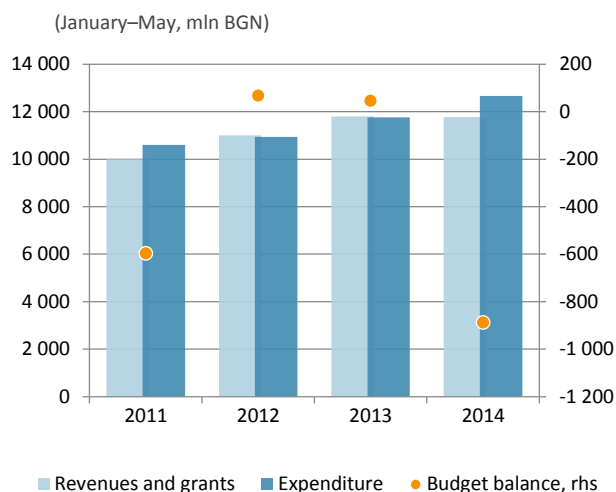
According to monthly reports, **total revenues and grants** for the first five months came by 0.2% lower in yoy terms mainly due to the decrease in non-tax revenues and grants, down by 9.8% and 11.7% respectively. Total proceeds accounted for 37.9% of the annual plan. The lower non-tax revenue resulted from a base effect from higher dividend receipts in Jan-May 2013. VAT proceeds continued shrinking, down 3.8% yoy for the first five months, due to a base effect from higher VAT refunded compared to the corresponding period of the previous year. Excise and custom duties increased by 3.4% and 4.9%, respectively. Revenue from corporate income tax remained at its nominal level in the first five months of 2013, while PIT contributed positively to dynamics of direct tax receipts, up by 7.3% yoy. Social and health insurance contributions recorded 8.1% yoy growth in Jan-May.

Total expenditure, including the contribution to the EU budget, accounted for 39% of the full-year plan, up 7.7% compared to Jan-May 2013. The increase came largely on the back of higher social payments, up by 8.2%, due to the base effect of the increase in pensions as of April 1, 2013 and health insurance expenses, the 40.2% yoy growth in capital expenditure and the 29.9% surge in subsidies. Expenses on wages and salaries and social and health insurance contributions were also up, while interest payments and maintenance decreased.

Fiscal reserve² amounted to BGN 5.8 bn at the end of May. It consisted of BGN 4.9 bn in reserve deposits and BGN 935.1 mln of EU funds receivables for certified expenditure, advance payments, etc.

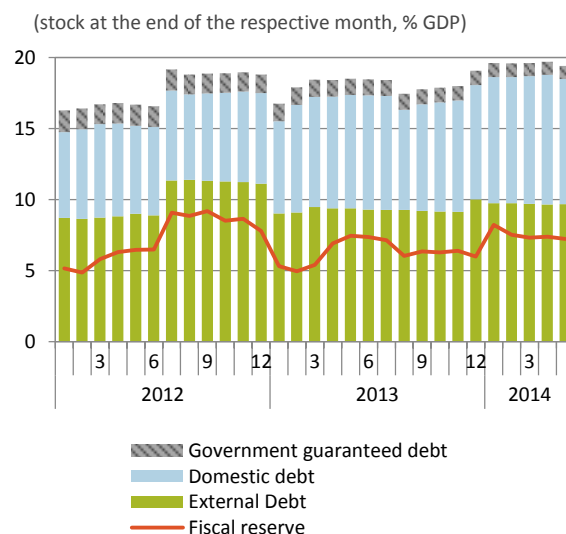
Government debt accounted for 19.4% of GDP, including domestic debt at 8.8% of GDP and external debt at 9.7% of GDP. Government guaranteed debt stood at 0.9% of GDP. ●

Fig. 12: Consolidated budget



Source: MF

Fig. 13: GG debt and fiscal reserve



Source: MF

² According to §1, p. 41 from the Additional provisions of the Public finance Law.

Key Economic Indicators

		Annual data			Quarterly data				Monthly data						
		2011	2012	2013	Q2'13	Q3'13	Q4'13	Q1'14	Dec'13	Jan'14	Feb'14	Mar'14	Apr'14	May'14	Jun'14
— GDP															
Gross Domestic Product ¹	% , yoy	1.8	0.6	0.9	0.4	0.9	1.2	1.2							
Consumption	% , yoy	1.5	2.9	-1.4	-1.2	-1.0	-0.6	3.0							
Gross fixed capital formation	% , yoy	-6.5	4.0	-0.3	1.0	1.8	3.1	3.4							
Export	% , yoy	12.3	-0.4	8.9	5.5	10.3	9.3	1.5							
Import	% , yoy	8.8	3.3	5.7	2.7	7.4	6.9	6.3							
Agriculture	% , yoy	-1.1	-7.2	3.4	3.0	2.3	1.9	-1.4							
Industry	% , yoy	5.8	1.6	-0.2	-0.2	0.4	1.8	2.7							
Services	% , yoy	0.7	0.0	1.5	2.1	1.7	0.8	0.4							
Adjustments	% , yoy	0.2	3.9	-0.4	-0.9	-0.7	-1.7	-4.4							
— Short-term business statistics															
Industrial production	% , yoy	5.8	-0.4	-0.1	-4.8	0.4	2.7	3.4	1.1	2.3	5.9	2.0	4.8	6.7	
Industrial turnover	% , yoy	17.2	2.3	-1.0	-2.9	-1.2	-2.0	-6.4	-2.9	-9.6	-1.1	-8.1	-3.8	3.9	
Retail trade turnover	% , yoy	0.6	5.3	2.9	1.9	6.1	6.6	7.1	5.4	7.4	9.2	5.1	1.4	1.8	
Construction output	% , yoy	-12.8	-0.8	-5.3	-5.9	-6.9	-6.2	4.1	1.5	5.5	4.7	2.1	-2.6	8.6	
Total business climate	balance	14.2	14.3	13.0	12.9	13.6	11.6	14.9	9.9	14.5	14.6	15.8	17.5	21.8	20.8
Industry	balance	22.4	21.3	15.6	14.3	15.2	12.5	17.8	11.8	17.2	18.7	17.4	18.8	23.0	21.2
Retail trade	balance	17.3	16.4	19.7	18.1	21.6	22.0	22.2	19.9	21.3	19.2	26.2	27.0	29.5	29.9
Construction	balance	2.8	0.3	2.0	5.0	2.7	-1.0	1.7	-7.2	-0.6	2.1	3.6	10.4	12.6	16.6
Services	balance	5.9	12.2	12.2	13.0	13.7	12.2	15.2	13.4	17.1	14.1	14.4	12.6	20.8	15.2
— Labor market															
Participation rate (15+)	level	52.5	53.1	53.9	53.9	54.8	54.0	53.5							
Employment rate (15+)	level	46.6	46.6	46.9	47.0	47.9	47.0	46.5							
Employment (LFS)	% , yoy	-2.2	-2.5	-0.4	0.7	-0.1	-0.7	0.3							
Unemployment rate (LFS)	level	11.3	12.3	12.9	12.9	12.0	13.0	13.0							
Unemployment rate (Employment agency)	level	10.1	11.1	11.3	11.1	10.8	11.5	12.2	11.8	12.2	12.2	12.2	11.8	11.2	10.7
Nominal wage	% , yoy	5.8	6.6	10.5	8.6	8.1	8.2	2.3	7.6	2.7	1.8	2.1			
Real wage ²	% , yoy	2.4	4.1	10.0	7.4	8.8	9.3	4.2	8.6	4.1	4.0	4.2			
Labor productivity (GDP per employed)	% , yoy	4.1	3.2	1.3	-0.8	1.1	2.3	1.1							
Real ULC (GDP)	% , yoy	-2.2	1.3	6.1	8.4	7.8	2.4	4.9							
— Prices															
National index of consumer prices (CPI)	% , yoy	4.2	3.0	0.9	2.2	-0.6	-1.5	-2.4	-1.6	-2.2	-2.6	-2.3	-1.6	-2.0	-1.9
Harmonized index of consumer prices (HICP)	% , yoy	3.4	2.4	0.4	1.1	-0.7	-1.0	-1.8	-0.9	-1.4	-2.1	-2.0	-1.3	-1.8	-1.8
Domestic producer prices	% , yoy	8.6	5.4	-1.3	-0.7	-2.8	-3.6	-2.0	-2.8	-2.0	-2.5	-1.6	-0.9	-0.7	
— Consolidated fiscal program (cumulative)															
Revenues and grants	mIn BGN	25 378	27 470	28 981	14 166	21 307	28 981		28 981	2 071	4 203	6 575	9 454	11 776	
Total expenses	mIn BGN	26 867	27 828	30 430	14 172	21 668	30 430		30 430	2 444	4 891	7 449	10 318	12 665	
Contribution to EU budget	mIn BGN	779	809	934	533	747	934		934	87	274	349	422	495	
Cash deficit (-) / surplus (+)	mIn BGN	-1 488	-358	-1 448	-7	-360	-1 448		-1 448	-373	-688	-874	-864	-889	
	% of GDP	-2.0	-0.5	-1.9	0.0	-0.5	-1.9		-1.9	-0.5	-0.9	-1.1	-1.1	-1.1	
Government debt (incl. guaranteed debt)	mIn BGN	12 826	14 683	14 893	14 428	13 886	14 893		14 894	15 823	15 806	15 836	15 898	15 658	
	% of GDP	17.0	18.8	19.1	18.5	17.8	19.1		19.1	19.6	19.6	19.6	19.7	19.4	

		Annual data			Quarterly data				Monthly data						
		2011	2012	2013	Q2'13	Q3'13	Q4'13	Q1'14	Dec'13	Jan'14	Feb'14	Mar'14	Apr'14	May'14	Jun'14
Fiscal reserve ³	mIn BGN	4 999	6 081	4 681	5 754	4 965	4 681		4 681	6 625	6 061	5 904	5 955	5 836	
	%, yoy	-16.9	21.6	-23.0	13.7	-30.8	-23.0		-23.0	59.9	56.6	40.0	10.2	0.2	
— Financial sector															
BNB International reserves	mIn EUR	13 349	15 552	14 426	14 590	14 937	14 426	13 960	14 426	13 870	13 589	13 960	14 062	13 819	14 323
Monetary base coverage	%	175.1	174.9	162.9	174.7	165.1	162.9	170.4	162.9	162.7	162.8	170.4	168.2	169.3	164.5
Coverage of import with FX reserves	months	6.2	6.7	6.2	6.3	6.4	6.1	5.9	6.1	5.9	5.8	5.9	6.0		
Coverage of short-term external debt	%	133.8	146.7	148.7	138.9	142.4	148.0	142.7	148.0	144.3	141.8	143.1	144.8		
Money M1 (Narrow money)	%, yoy	14.4	9.5	17.5	17.1	16.7	17.5	16.1	17.5	22.4	17.7	16.1	15.0	13.3	
Money M3 (Broad money)	%, yoy	12.2	8.4	8.9	7.7	8.1	8.9	8.3	8.9	10.1	9.2	8.3	8.3	8.7	
Deposits	%, yoy	13.2	8.4	9.4	7.8	8.3	9.4	8.2	9.4	10.4	9.1	8.2	8.1	8.5	
Credit to private sector	%, yoy	3.3	3.0	0.2	0.8	0.5	0.2	1.4	0.2	-0.4	0.7	1.4	1.6	2.0	
Credit to non-financial enterprises	%, yoy	5.7	5.0	0.1	2.0	1.4	0.1	1.7	0.1	-0.6	1.0	1.7	2.3	2.6	
Credit to households	%, yoy	-0.4	-1.0	-0.2	-0.9	-0.6	-0.2	0.3	-0.2	-0.2	0.0	0.3	0.2	0.3	
Interest rate on short-term loans	%	7.2	7.6	7.9	8.5	7.3	8.1	7.8	8.9	9.8	6.5	7.1	8.2	7.5	
Interest rate on time deposits	%	4.8	4.3	3.5	3.5	3.4	3.2	3.2	3.3	3.3	3.2	3.1	3.0	3.1	
Exchange rate BGN/USD	eop	1.51	1.48	1.42	1.50	1.45	1.42	1.42	1.42	1.45	1.42	1.42	1.41	1.44	1.43
	per. av.	1.41	1.52	1.47	1.50	1.48	1.44	1.43	1.43	1.44	1.43	1.41	1.42	1.43	1.44
— Gross External Debt (GED)															
Gross external debt	% of GDP	94.3	95.2	93.5	94.3	93.7	93.5	91.8	93.8	93.5	90.7	91.3	91.8		
Short-term external debt	% of GED	27.9	27.6	26.1	27.9	28.0	26.1	25.8	26.0	26.1	25.8	25.5	25.8		
Intercompany lending	% of GED	42.8	41.7	42.5	42.7	43.1	42.5	42.3	43.5	42.5	42.6	42.6	42.3		
— Balance of payments															
Current account	mIn EUR	33	-334	751	541	1 073	-451	-83	-354	-270	-91	360	-212		
<i>Current account (moving average)</i>	% of GDP	0.1	-0.8	1.9	1.4	1.8	1.9	2.7	1.9	1.4	2.2	2.8	1.2		
Trade balance	mIn EUR	-2 156	-3 460	-2 353	-787	-390	-728	-826	-360	-338	-201	-287	-351		
<i>Trade balance (moving average)</i>	% of GDP	-5.6	-8.7	-5.9	-6.5	-6.2	-5.9	-6.9	-5.9	-6.4	-6.2	-6.6	-7.1		
Export, f.o.b.	mIn EUR	20 264	20 770	22 228	5 418	5 980	5 617	4 853	1 585	1 586	1 650	1 632	1 739		
	%, yoy	30.2	2.5	7.0	3.1	7.8	5.1	-6.9	3.0	-10.7	-0.5	-8.2	-11.6		
Import, f.o.b.	mIn EUR	22 420	24 230	24 582	-6 205	-6 370	-6 345	-5 679	-1 945	-1 924	-1 851	-1 918	-2 090		
	%, yoy	22.3	8.1	1.4	-4.0	4.8	2.7	0.3	4.5	6.3	-6.0	1.9	-1.7		
Capital account	mIn EUR	504	541	466	124	166	159	155	22	-4	108	28	-5		
Financial account	mIn EUR	-886	1 466	-1 466	-196	-282	-179	-517	500	-314	-207	114	268		
Net Foreign Direct Investments	mIn EUR	1 213	802	957	219	413	-30	66	-315	97	2	-18	99		
Net Portfolio Investments	mIn EUR	-357	-898	-128	-206	-126	780	-168	-98	16	-198	18	-63		
Other Investments – net	mIn EUR	-1 676	1 596	-2 175	-118	-558	-920	-412	913	-428	-10	115	234		
Change in BNB reserve assets	mIn EUR	-159	-2 161	599	-527	-269	351	553	-197	627	325	-399	-110		

Notes:

1. Reference year 2005, seasonally and working day adjusted data;
2. HICP deflated;
3. Change in the structure of fiscal reserve as of 2014.