

BULGARIAN ECONOMY

Monthly Report

12/2018

Ministry of Finance of the Republic of Bulgaria • Economic and Financial Policy Directorate

Main topics:

- » Short-term Business Statistics
- » Labour market
- » Inflation
- » External Sector
- » Financial Sector
- » Fiscal Sector
- » Tabl. Key Economic Indicators

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Highlights

Short-term business statistics reported a bit weaker performance in November, as industrial turnover and production slowed down, while construction output declined. At the same time, retail trade growth accelerated. In December the **business climate indicator** remained almost unchanged on a month earlier, while the consumer confidence improved driven by more optimistic expectations about the financial situation of the households and the general economic situation in the country.

At 6.1% in December the **registered unemployment** posted a slight seasonal increase, but reached a historical low end-year level.

Consumer prices, as measured by the HICP, remained unchanged on a month earlier in December. The **annual inflation rate** further decelerated to 2.3% yoy, while annual average inflation was 2.6%.

The positive **current account** in October added up to the accumulated surplus and in January-October it reached 4.9% of projected GDP. **Gross external debt-to-GDP** ratio stood at 61.5% at the end of the month.

Credit to the private sector speeded up to 8.2% yoy in November. **Weighted interest rates** on new loans decreased on a month earlier for both households and corporates, down to 6.15 and 4.11%, respectively.

The **balance on the consolidated fiscal program** was positive, reaching BGN 2.9 bn (2.7% of forecasted GDP) at the end-November, driven by the strong fiscal outcome on the national budget. ■

SHORT-TERM BUSINESS STATISTICS

Both **industrial production** and **turnover** (fig. 1) posted a weaker yoy increase in November compared with the previous month. The deceleration was mainly due to lower growth of *manufacture of chemical products* and *manufacture of basic metals*. Meanwhile, favourable development in *manufacture of rubber and plastic products* and *manufacture of transport equipment* had major contribution to the reported growth of both indices.

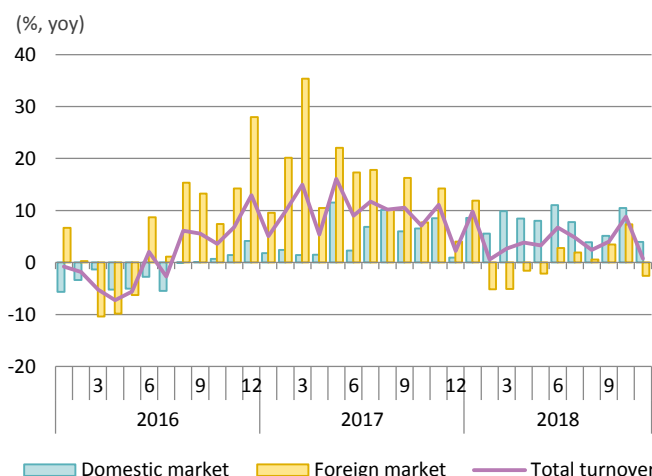
Both *building construction* and *civil engineering* contributed to the decrease in **construction activity**, down by 2% and 1.5%, respectively. At the same time, the growth in **retail trade** accelerated, supported by all sectors, except for *retail trade of computers and peripheral units* (fig. 2).

In December, the **overall business climate indicator** remained close to its November level (fig. 3). The expectations in retail trade and services were favourable while those in industry were more reserved. In construction, the number of respondents who report insufficient demand decreased. Nevertheless expectations for the construction activity over the next three months worsened.

The **consumer confidence indicator** increased in December after two months of decrease. The improvement was due to more favourable expectations for the financial situation of the households and the general economic situation in the country.

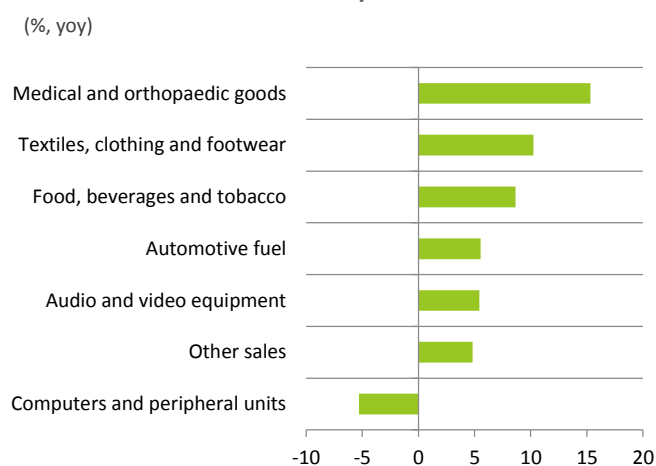
In the fourth quarter the **economic climate tracer**¹ moved deeper in the downswing area (fig. 5). Three of the sectoral climate tracers, namely industry, services and consumers, were in the downswing quadrant. The retail trade tracer returned to expansion, while the tracer in construction was on the border between the two quadrants.

Fig. 1: Industrial turnover by components



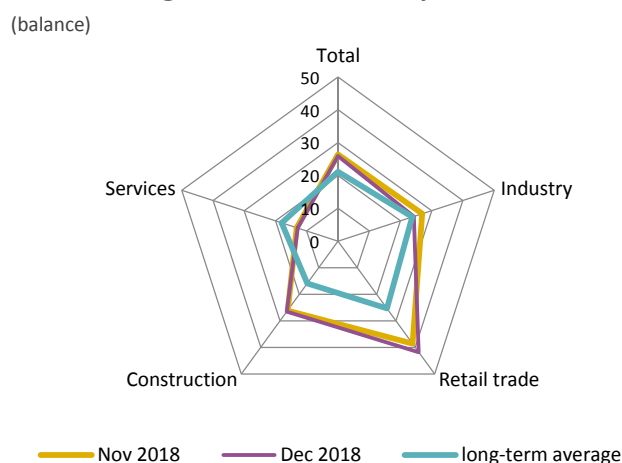
Source: NSI

Fig. 2: Retail trade turnover, excl. motor vehicles and motorcycles



Source: NSI

Fig. 3: Business climate by sectors



Source: NSI

¹ The climate tracer illustrates developments in the survey data over the respective quarter. For more information, please refer to Gayer, C (2010) "Report: The Economic Climate Tracer – A tool to visualise the cyclical stance of the economy using survey data" and Gayer, C.,J. Genet (2006) "Using Factor Models to Construct Composite Indicators from BCS Data"

LABOUR MARKET

Registered unemployment followed a seasonal increase and edged up to 6.1% in December. The unemployment outflow declined, driven by reduced labour demand on the primary market, and reached its lowest value in the year. Still the net positive unemployment flow lowered on a month earlier, as unemployment inflow decreased, reflecting the smaller number of lay-offs (fig. 6). The rate of jobless people remained 1 pps down on a year earlier and reached a historical low end-year level.

INFLATION

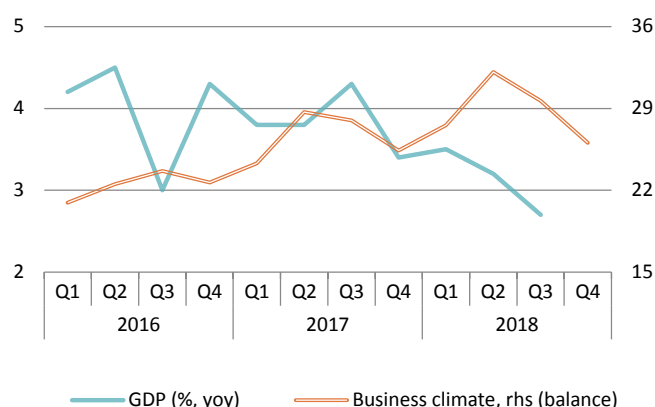
In December, **consumer prices** level, measured by HICP, remained unchanged on a month earlier. Among the components, the most significant changes were the drop in liquid fuels prices and the higher prices of international flights and package holidays and accommodation services.

In 2018 **end of period inflation** was 2.3% (fig. 7). Inflation fell sharply yoy in November-December, largely due to liquid fuels prices that were influenced by the decrease in crude oil prices. The **average annual inflation rate** in 2018 was 2.6% - close to the Autumn MF forecast of 2.7%.

Core inflation² started decelerating in September and the tendency continued in December, down to 2.3%. Among the three major components - processed foods, non-energy industrial goods and services, the latter posted the highest price increase of 4.1% yoy in December (fig. 8). The year ended with much lower price pressures on consumer goods than on services, due to lower international prices of raw materials. In USD terms, international prices of energy and non-energy commodities were down by 7 and 4.1%, respectively. Calculated in EUR, the decline was partially offset by the strong USD, which has appreciated by 2.8% yoy on average since August.

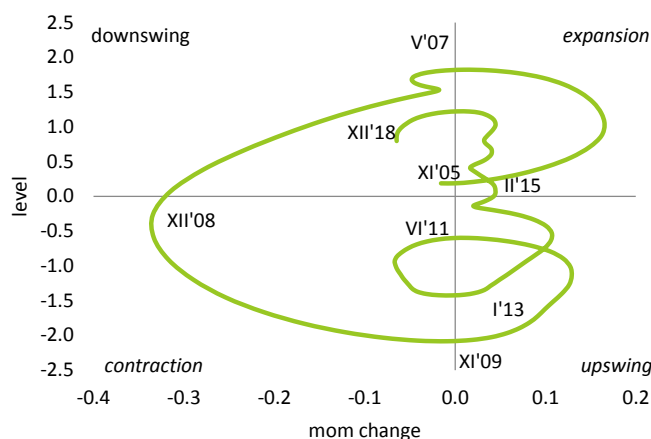
² Total HICP excl. energy and unprocessed food

Fig. 4: Business climate and GDP



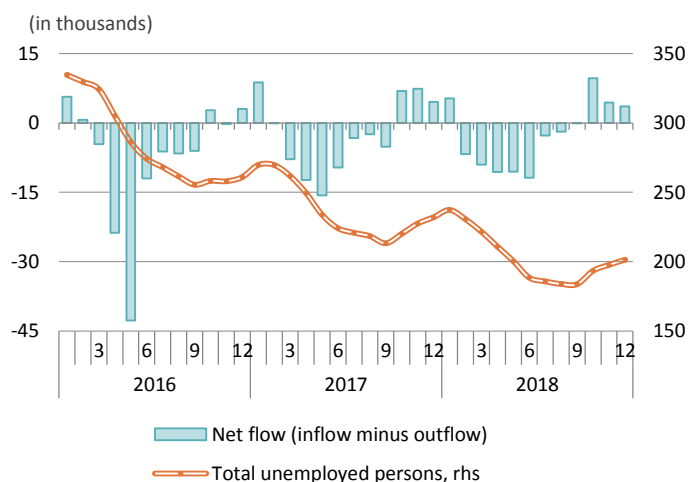
Source: NSI, MF

Fig. 5: Climate tracer



Source: Eurostat, MF

Fig. 6: Net flow and stock of unemployment



Source: EA

In November, **industrial producer prices** on the domestic market were up by 3.5% yoy. The increase slowed down compared with mid-2018, due to the dynamics of the international commodity prices. If energy goods are excluded from the index, overall PPI lowers significantly to just 1.7% yoy.

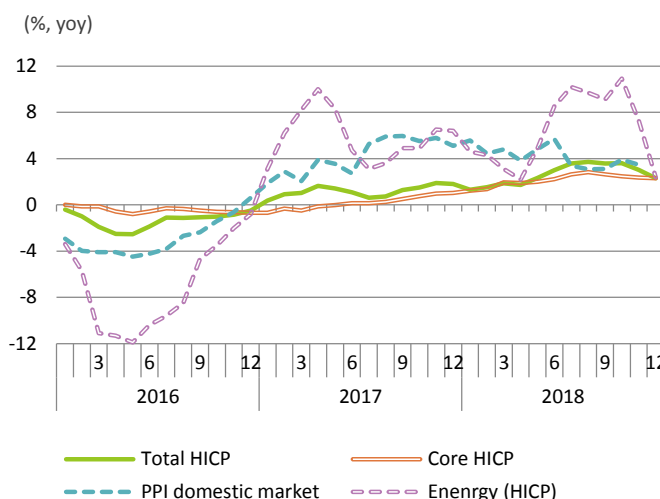
Considering the latest expectations of the international financial institutions about the commodity prices dynamics in 2019, annual average inflation in Bulgaria in 2019 might be expected to be lower than in 2018.

EXTERNAL SECTOR

Current account balance came in positive for a sixth month in a row in October. The surplus accumulated since the beginning of the year increased to EUR 2.6bn or 4.9% of projected GDP. The monthly balance (EUR 56.1mln) declined on a year earlier as *trade deficit* widened and offset the improvement in *services* and *incomes* articles. As regards goods (fig. 9), both export and import posted a double digit increase in October, up by 11.1 and 17.8% yoy, respectively, supported by higher intra and extra-EU trade. Export to non-EU countries increased on a year earlier for the first time in 2018. *Services* export was up by 3.5% yoy, driven by higher travel receipts, communication and other business services, and had major contribution to the services surplus yoy increase. With higher transfers of EU funds to the government sector and lower repayment on investment income, the *incomes* balance improved on a year earlier.

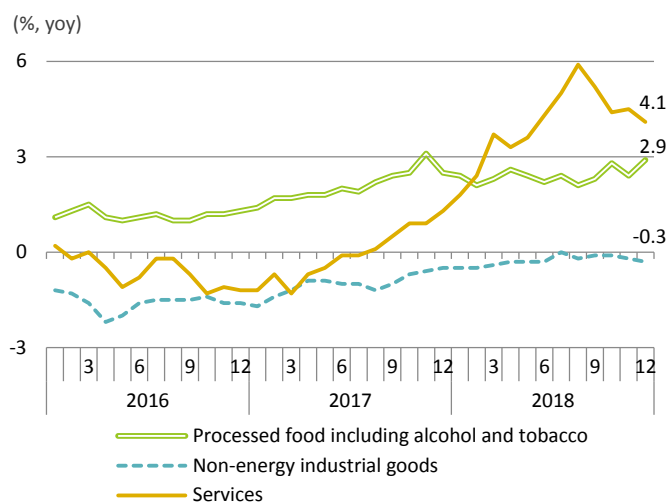
Gross external debt (GED) stood at EUR 55.3 bn at end October, up by 0.3% mom and 2.7% yoy. Higher foreign deposits in the banking system and intra-company lending drove the increase in the level on a year earlier. Other sectors debt was the only contributor to the mom increase. With GDP increasing faster than the debt level, GED-to-GDP ratio improved by 2.6 pps yoy to 61.5% at end-October (fig. 10). Supported by higher external assets, net external debt kept improving, reaching 7.1% of projected GDP.

Fig. 7: Inflation (HICP) and Producer prices (PPI)



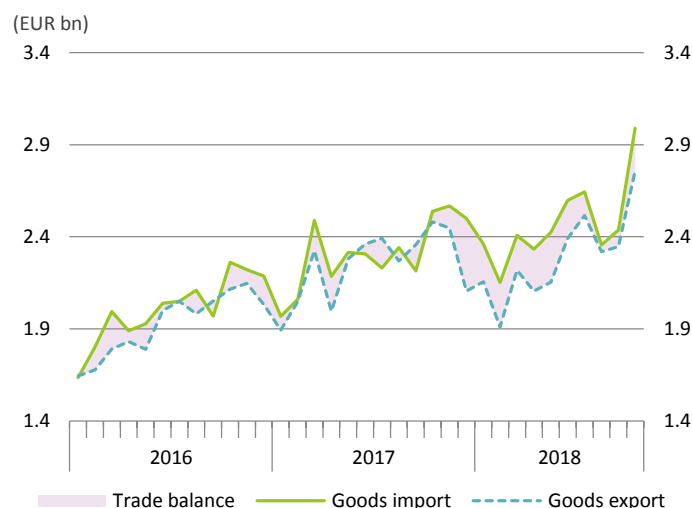
Source: NSI, Eurostat

Fig. 8: Main components of Core inflation



Source: NSI, Eurostat

Fig. 9: Foreign trade



Source:BNB

FINANCIAL SECTOR

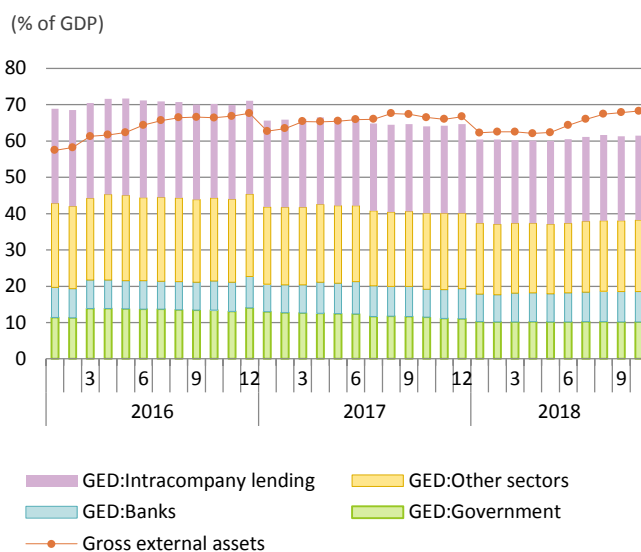
In November, **credit to the private sector** registered the highest increase since July 2009, up by 8.2% yoy vs 7.8% yoy in October. In an environment of still low interest rates both major segments continued to contribute to the acceleration. Credit to households remained the main driver, up by 10% yoy, while credit to non-financial corporations grew by 5.5% yoy. **Weighted interest rates** on new loans decreased on a month earlier for both segments, down to 4.11% for corporates and 6.15% for households. Consumer loans kept increasing, up by 16% yoy, in line with the accelerated growth in retail trade in almost all sectors in November. Meanwhile the weighted price on new credit went slightly up by 6 bps compared with the previous month. The contribution of “other credits” remained negative due to the net effect of the Energy Efficiency of Multi-Family Residential Buildings National Programme. Loans for house purchases increased, equalling the annual pace of growth in October (10.2% yoy), as the weighted price on new deals kept declining, down to 3.3% (fig. 11). Recent data on house prices showed some deceleration - the House Price Index (HPI) increased by 6.3% yoy in nominal terms in Q3 vs. 9% in Q3 2017 (fig. 12).

FISCAL SECTOR

At end-November the **fiscal balance** reached a year high surplus of BGN 2.9 bn (2.7% of forecasted GDP, being 2.4% a year earlier). The positive balance on the national budget was even higher at 3% of GDP, while the EU-funds account came negative.

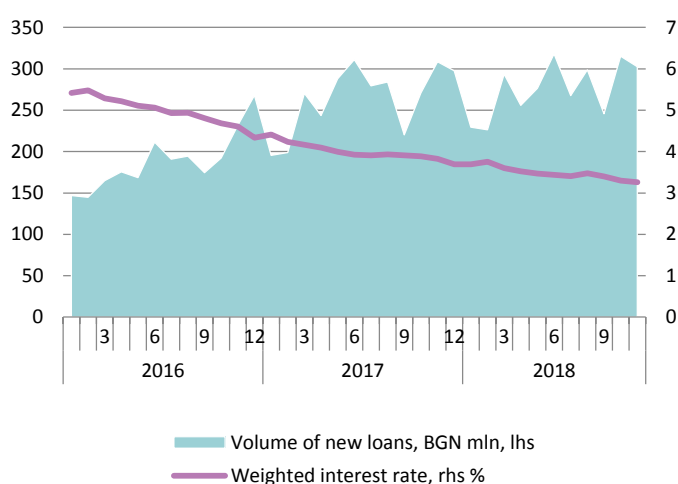
Total budget receipts also posted the highest yoy growth in the year so far, up by 12.2% for the January-November period (fig. 13). Major contribution came from tax revenue, as a result of the double-digit increase in social and health insurance contributions (up by 13.2% yoy) and higher receipts from consumption taxes (7.4%). Non-tax revenue also contributed to the increase, up by 24.6% yoy. Grands came signifi-

Fig. 10: Gross external debt and gross external assets



Source: BNB

Fig. 11: Loans for house purchases



Source: BNB, MF

Fig. 12: House price index*



* The House Price Index is a quarterly indicator that measures the changes in prices of dwellings (both newly built and already existing) acquired by households. Real HPI is the ratio between HPI and the deflator for private final consumption expenditure (households and non-profit institutions serving households).

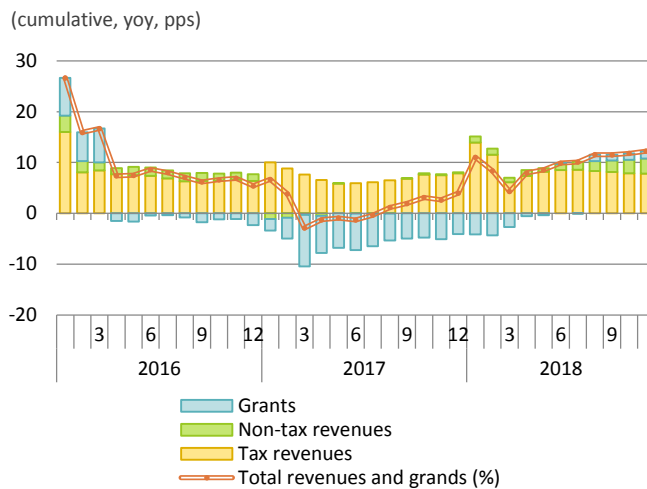
Source: Eurostat

cantly higher as well, up by 36.8% yoy.

Consolidated expenditure reached BGN 32.9 bn, up by 11.5% yoy (fig. 14). Positive contribution came from higher social (6.3% yoy), capital, (42.2%) and personnel spending (11.2%). Interest payments have been decreasing on a year earlier since February, mostly due to lower external debt payments. At end-November the decline reached 14% yoy.

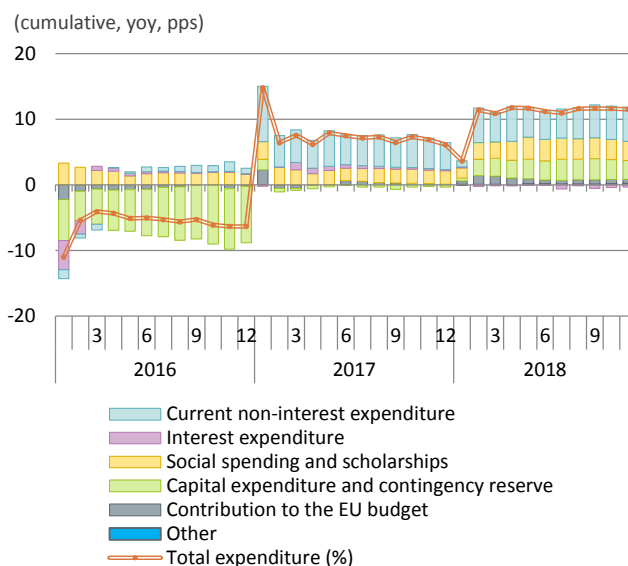
Government debt declined to BGN 24 bn (22.2% of GDP) from BGN 25.5 bn (25.3% of GDP) at end-November 2017.

Fig. 13: Contribution to the growth of total revenues and grants



Source: MF

Fig. 14: Contribution to the growth of total expenditure



Source: MF



KEY ECONOMIC INDICATORS

		Annual data			Quarterly data				Monthly data							
		2016	2017	2018	Q1'18	Q2'18	Q3'18	Q4'18	06'18	07'18	08'18	09'18	10'18	11'18	12'18	
— GDP¹																
Gross Domestic Product	% , yoy	3.9	3.8	-	3.5	3.2	2.7	-	-	-	-	-	-	-	-	
Consumption	% , yoy	3.3	4.3	-	6.1	7.7	7.5	-	-	-	-	-	-	-	-	
Gross fixed capital formation	% , yoy	-6.6	3.2	-	10.9	7.0	3.0	-	-	-	-	-	-	-	-	
Export	% , yoy	8.1	5.8	-	1.1	-2.3	-3.2	-	-	-	-	-	-	-	-	
Import	% , yoy	4.5	7.5	-	4.6	4.9	3.8	-	-	-	-	-	-	-	-	
Agriculture	% , yoy	5.3	8.9	-	-0.6	-2.0	-0.8	-	-	-	-	-	-	-	-	
Industry excl. Construction	% , yoy	5.9	4.0	-	1.6	0.4	0.9	-	-	-	-	-	-	-	-	
Construction	% , yoy	-6.8	4.4	-	9.1	0.7	2.1	-	-	-	-	-	-	-	-	
Services	% , yoy	3.1	3.9	-	3.6	4.3	4.3	-	-	-	-	-	-	-	-	
Adjustments	% , yoy	7.2	1.5	-	4.7	5.7	2.0	-	-	-	-	-	-	-	-	
— Short-term business statistics²																
Industrial production	% , yoy	2.7	3.4	-	1.6	1.2	0.7	-	2.1	2.4	1.7	-1.9	2.7	1.2	-	
Industrial turnover	% , yoy	1.1	9.3	-	4.3	4.7	3.8	-	6.8	4.8	2.4	4.0	8.8	0.8	-	
Retail trade turnover	% , yoy	6.1	3.7	-	3.5	5.7	4.5	-	6.0	4.8	5.2	3.6	5.6	6.7	-	
Construction output	% , yoy	-16.7	4.6	-	7.1	-0.5	-1.2	-	-5.0	3.2	-1.2	-5.9	4.1	-1.7	-	
Total business climate	balance	22.5	26.6	28.8	27.6	32.1	29.6	26.1	32.2	32.1	29.2	27.7	25.8	26.4	25.9	
Industry	balance	23.5	26.9	28.1	28.3	30.4	28.3	25.5	31.8	29.6	27.7	27.6	25.2	27.0	24.3	
Retail trade	balance	33.6	37.9	41.4	41.5	43.3	41.4	39.3	43.3	44.0	40.0	40.1	37.6	38.6	41.8	
Construction	balance	17.9	24.6	28.3	21.9	33.3	30.9	27.0	33.7	35.3	31.5	25.7	28.3	26.1	26.5	
Services	balance	13.8	16.7	18.3	17.8	23.2	19.3	13.0	20.5	21.8	19.0	17.3	12.8	13.2	13.0	
Consumer confidence	balance	-27.5	-24.9	-24.6	-22.0	-22.3	-23.8	-30.2	-21.9	-23.3	-24.3	-23.7	-27.7	-32.1	-30.8	
— Labour market																
Participation rate (15+)	level	53.3	55.4	-	54.6	55.5	56.1	-	-	-	-	-	-	-	-	
Employment rate (15+)	level	49.3	51.9	-	51.5	52.5	53.3	-	-	-	-	-	-	-	-	
Employment (SNA)	% , yoy	0.5	1.8	-	1.2	0.2	-0.9	-	-	-	-	-	-	-	-	
Unemployment rate (LFS)	level	7.6	6.2	-	5.7	5.5	5.0	-	-	-	-	-	-	-	-	
Unemployment rate (EA)	level	8.7	7.2	-	7.0	6.1	5.6	6.0	5.7	5.7	5.6	5.6	5.9	6.0	6.1	
Nominal wage	% , yoy	8.0	9.4	-	7.1	8.2	7.7	-	9.0	7.8	8.6	6.7	0.0	-	-	
Real wage ³	% , yoy	9.5	8.1	-	5.4	5.7	3.9	-	5.8	4.1	4.7	3.0	0.0	-	-	
Labour productivity (GDP per employed)	% , yoy	3.4	2.0	-	2.3	3.1	3.7	-	-	-	-	-	-	-	-	
Real ULC (GDP)	% , yoy	0.1	4.8	-	0.5	-1.2	-3.9	-	-	-	-	-	-	-	-	
Nominal ULC (GDP)	% , yoy	2.3	8.4	-	3.3	2.3	1.4	-	-	-	-	-	-	-	-	
— Prices																
National consumer price index (CPI)	% , yoy	-0.8	2.1	2.8	2.0	2.6	3.5	3.1	3.2	3.5	3.5	3.6	3.7	3.1	2.7	
Harmonized index of consumer prices (HICP)	% , yoy	-1.3	1.2	2.6	1.6	2.4	3.6	3.0	3.0	3.6	3.7	3.6	3.6	3.0	2.3	
PPI, domestic market	% , yoy	-2.9	4.2	-	4.9	4.8	3.2	-	5.7	3.4	3.1	3.1	3.9	3.5	-	
PPI, non-domestic market	% , yoy	-3.5	6.0	-	0.6	5.7	5.4	-	8.3	6.8	5.0	4.5	5.3	3.4	-	
— Consolidated fiscal program (cumulative)																
Revenues and grants	mIn BGN	33 959	35 317	-	9 220	19 210	29 164	-	19 210	22 547	25 976	29 162	32 613	35 810	-	
Total expenditure	mIn BGN	32 491	34 471	-	8 628	17 497	26 501	-	17 496	20 533	23 588	26 498	29 769	32 913	-	
Contribution to EU budget	mIn BGN	859	888	-	308	576	823	-	576	654	738	823	910	994	-	
Cash deficit (-) / surplus (+)	mIn BGN	1 468	846	-	592	1 713	2 663	-	1 714	2 015	2 388	2 665	2 844	2 897	-	
	% of GDP	1.6	0.8	-	0.5	1.6	2.5	-	1.6	1.9	2.2	2.5	2.6	2.7	-	
Government debt (incl. guaranteed debt)	mIn BGN	27 424	25 531	-	24 429	24 250	24 153	-	24 250	24 242	24 219	24 153	23 942	23 980	-	
	% of GDP	29.1	25.9	-	22.6	22.4	22.3	-	22.4	22.4	22.4	22.3	22.1	22.2	-	

		Annual data			Quarterly data				Monthly data						
		2016	2017	2018	Q1'18	Q2'18	Q3'18	Q4'18	06'18	07'18	08'18	09'18	10'18	11'18	12'18
Fiscal reserve	mIn BGN	12 883	10 289	-	10 149	10 831	11 213	-	10 831	10 803	10 860	11 213	11 128	11 306	-
	% of GDP	13.7	10.4	-	9.4	10.0	10.4	-	10.0	10.0	10.0	10.4	10.3	10.5	-
— Financial sector															
BNB International reserves	mIn EUR	23 899	23 662	-	22 606	23 510	24 540	-	23 510	23 731	23 960	24 540	24 137	24 161	25 072
Monetary base coverage	%	163.4	156.4	-	158.6	158.7	160.1	-	158.7	158.6	160.7	160.1	162.2	163.0	150.5
Coverage of import with FX reserves	months	10.0	8.7	-	8.2	8.4	0.0	-	8.4	8.3	8.4	8.5	8.3	-	-
Coverage of short-term external debt	%	315.7	304.6	-	287.0	301.1	0.0	-	301.1	301.0	300.1	304.8	297.9	-	-
Money M1 (Narrow money)	%, yoy	13.5	16.9	-	17.2	15.8	13.5	-	15.8	15.7	14.0	13.5	14.8	14.5	-
Money M3 (Broad money)	%, yoy	7.6	7.7	-	8.4	10.0	9.2	-	10.0	10.4	9.6	9.2	9.7	9.3	-
Deposits	%, yoy	6.7	7.2	-	7.8	9.6	8.8	-	9.6	10.2	9.3	8.8	9.6	9.2	-
Credit to private sector	%, yoy	1.5	4.8	-	5.6	6.7	7.4	-	6.7	7.1	7.6	7.4	7.8	8.2	-
Credit to non-financial enterprises	%, yoy	0.3	1.7	-	2.5	3.8	4.0	-	3.8	3.4	4.2	4.0	4.8	5.5	-
Credit to households	%, yoy	2.0	6.0	-	6.3	9.2	9.7	-	9.2	10.0	10.2	9.7	10.0	10.0	-
Interest rate on credit ⁴	%	5.8	4.3	-	4.6	4.7	4.6	-	4.7	4.9	4.4	4.6	4.7	4.3	-
Interest rate on deposits ⁵	%	0.8	0.2	-	0.3	0.2	0.3	-	0.2	0.3	0.3	0.2	0.3	0.3	-
APRC ⁶ , consumer loans	%	11.0	10.2	-	10.0	10.3	10.9	-	10.2	10.9	11.1	10.9	10.6	10.7	-
APRC ⁶ , mortgages	%	5.5	4.4	-	4.1	3.9	3.9	-	4.0	3.9	4.0	3.8	3.6	3.6	-
Exchange rate BGN/USD	eop	1.86	1.63	-	1.59	1.68	1.69	-	1.68	1.67	1.68	1.69	1.73	1.72	1.71
	per. av.	1.77	1.74	-	1.59	1.64	1.68	-	1.67	1.67	1.69	1.68	1.70	1.72	1.72
— Gross External Debt (GED)															
Gross external debt	% of GDP	71.1	64.6	-	60.2	60.5	61.2	-	60.5	61.2	61.6	61.3	61.5	-	-
Short-term external debt	% of GED	22.1	23.4	-	23.8	23.3	23.6	-	23.3	23.3	23.4	23.8	23.8	-	-
Intercompany lending	% of GED	36.2	38.1	-	38.0	38.4	37.8	-	38.4	38.1	38.3	38.0	37.8	-	-
— Balance of payments⁷															
Current account	mIn EUR	1 244	3 368	-	-130	116	2 130	-	351	924	980	303	56	-	-
<i>Current account (moving average)</i>	% of GDP	2.6	6.5	-	5.4	4.3	3.4	-	5.0	4.5	4.7	4.2	4.2	-	-
Trade balance	mIn EUR	-984	-766	-	-804	-853	-373	-	-208	-129	-36	-90	-233	-	-
<i>Trade balance (moving average)</i>	% of GDP	-2.0	-1.5	-	-2.4	-3.6	-4.7	-	-3.0	-3.6	-3.5	-3.9	-4.2	-	-
Export, f.o.b.	mIn EUR	23 104	26 950	-	6 119	6 505	7 123	-	2 390	2 515	2 319	2 348	2 756	-	-
	%, yoy	5.4	16.6	-	-2.3	-2.0	1.5	-	1.2	5.2	2.3	-0.4	11.1	-	-
Import, f.o.b.	mIn EUR	24 088	27 716	-	6 923	7 358	7 496	-	2 598	2 645	2 355	2 437	2 990	-	-
	%, yoy	29.0	15.1	-	6.2	8.1	10.5	-	12.6	18.5	0.6	10.1	17.8	-	-
Capital account	mIn EUR	1 071	530	-	2	193	249	-	92	58	134	55	76	-	-
Financial account	mIn EUR	-266	2 260	-	1 445	-442	270	-	-453	371	149	-194	639	-	-
Net Foreign Direct Investments	mIn EUR	-266	-1 079	-	53	-103	-473	-	-12	-233	-368	104	5	-	-
Net Portfolio Investments	mIn EUR	-75	1 291	-	406	-92	226	-	180	104	78	82	244	-	-
Other Investments – net	mIn EUR	1 735	631	-	1 342	-388	848	-	-5	840	634	-457	620	-	-
Change in BNB reserve assets	mIn EUR	3 467	-99	-	-1 035	892	1 122	-	733	288	231	604	-493	-	-

Notes:

Ratios to GDP are calculated using GDP data as follows: for 2016 – BGN 94 130.0 mln, for 2017 - BGN 101 042.5 mln and MF projections for 2018 - BGN 108 141.0 mln;

1. Growth rates derived from chain-linked (2010) level series, not seasonally adjusted data;
2. Not seasonally adjusted data;
3. HICP deflated;
4. Weighted average interest rate on new credit to households, NPISHs and non-financial companies by type, currency and maturity;
5. Weighted average interest rate on new time deposits of households, NPISHs and non-financial companies by type, currency and maturity;
6. Annual Percentage Rate of Charge on new loans to households by original maturity, weighted by currency and maturity;
7. Analytical presentation (BPM6).