

# BULGARIAN ECONOMY

## Monthly Report

6/2019

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
- » Budgetary sector
- » Tabl. Key Economic Indicators

Based on statistical data  
published  
up to July 17, 2019

ISSN 2367-5020

© Ministry of Finance, 2019  
Economic and Financial Policy  
Directorate

102, Rakovski Str.,  
1000 Sofia, Bulgaria

<http://www.minfin.bg/en/page/542>

E-mail: [secretary.evp@minfin.bg](mailto:secretary.evp@minfin.bg)

## Highlights

**Short-term business statistics** kept its upward dynamics in May 2019, although at a slower pace. Growth in industrial production and sales, construction output and retail trade decelerated. In June the **consumer confidence indicator reached the highest point in the year so far**, as household were more optimistic about the future financial and economic situation and planned purchases of durable goods. The **business climate indicator** declined, after improving since end-2018. The **economic climate tracer** remained in the downswing area, suggesting deceleration of economic activity in the country.

**Registered unemployment** decreased by 0.2 pps over the previous month and reached 5.2% at end-June, as the unemployment outflow continued to surpass the inflow.

**Consumer prices** remained unchanged in June compared to a month earlier. The **annual inflation rate** decelerated to 2.3% yoy, as the positive contribution of energy, food and services prices narrowed. Core inflation was 2.5% yoy.

The positive **current account** balance in April added up to the accumulated surplus. In the four-month period it reached 1.2% of projected GDP.

**Credit to the private sector** continued to accelerate in May, up by 7.1% yoy, with positive contribution from both corporate and households sectors. **Weighted average interest rates** followed a downward path. The price of corporate loans and mortgages reached historical lows and consumer loans also got cheaper on a month earlier.

Five months in a row **the consolidated fiscal balance** stood positive, reaching BGN 3 bn (2.6% of projected GDP) at end-May. Budget revenue represented 42.7% of the full-year plan, while expenditures equalled 35.3% of the plan. ■

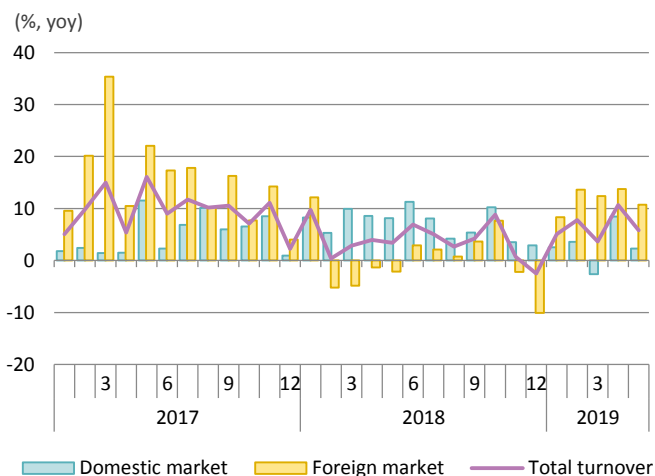
## SHORT-TERM BUSINESS STATISTICS

In May **industrial production** and **turnover** increased on a year earlier at a slowed rate compared to the previous month, driven by weaker performance in both domestic and foreign industrial sales (fig. 1). The increase in domestic turnover reached 2.3% yoy, being 8.5% in April, as a result of the unfavourable dynamics in *electricity, gas, steam and air conditioning supply* and *manufacture of basic metals and fabricated metal products, except machinery and equipment*. At the same time, *manufacture of chemical products* followed an upward trend and had major contribution to the increase. Foreign turnover was up by 10.7% yoy, compared to an increase of 13.8% yoy in April. Slower increase in *energy products* was the major factor for the slow-down. *Manufacture of chemical products* continued to be leading factor for the increase, but its growth also decelerated.

*Building construction* growth slowed down to 6.4% yoy, while *civil engineering* reported a decline of 2.2% yoy (fig.2). **Retail trade** growth decelerated to 0.4% yoy. Performance in all sectors weakened, except for *retail sales of automotive fuels*, which grew by 4.7% yoy, compared to 0.9% a month earlier, and *textiles, clothing and footwear*, up by 3.6% yoy following a decline of 4.1% in April.

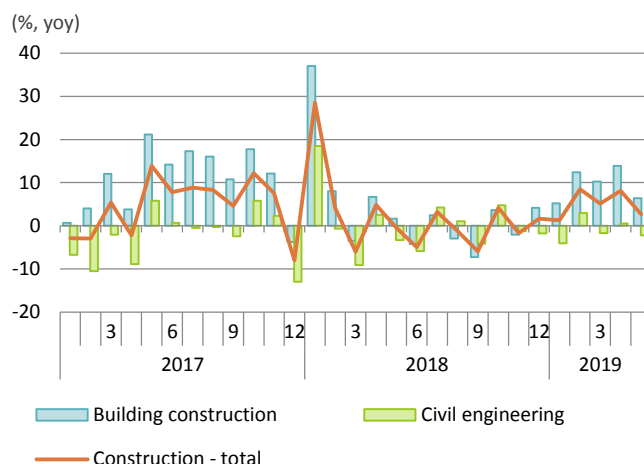
In June, the **overall business climate indicator** declined by 1.3 points driven by lower expectations in all sectors (fig. 3 and 4). For a second month in a row the business climate in *services* posted a decline and this brought the indicator slightly below its long-term average. The number of respondents in *services* who pointed out problems with insufficient demand increased. Managers in industry assessed positively the production assurance with orders, but their production expectations were less favourable. Business climate in *construction* declined for the first time in 2019. The expectations worsened, despite the improved appraisal of current construction activity and of the level of orders. Business climate in *retail trade* remained close to its May level. Managers assessed better the present business situation, but were more pessimistic about future development.

Fig. 1: Industrial turnover by components



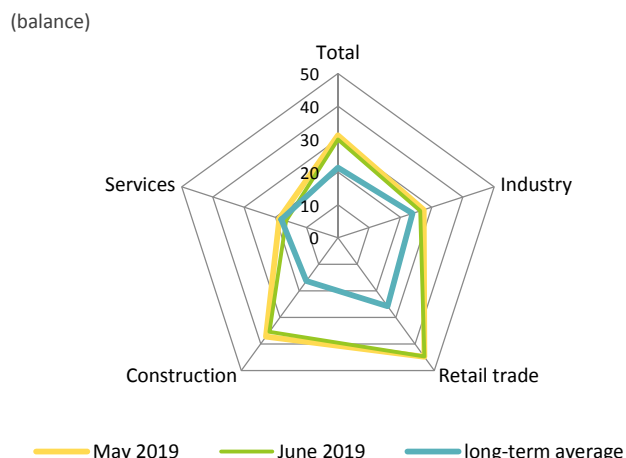
Source: NSI

Fig. 2: Construction production index



Source: NSI

Fig. 3: Business climate by sectors



Source: NSI

The **consumer confidence indicator** increased in June, reflecting households' higher expectations about the future financial and economic situation, as well as their intentions to make major purchases of durable goods.

In the second quarter of 2019 the **economic climate tracer**<sup>1</sup> entered deeper in the downswing quadrant, which signals further deceleration in economic growth (fig. 5). The tracer was driven by *industry* and *services*, which moved closer to the frontier between downswing and contraction. At the same time, the tracers in *retail* and *construction* were in the expansion area.

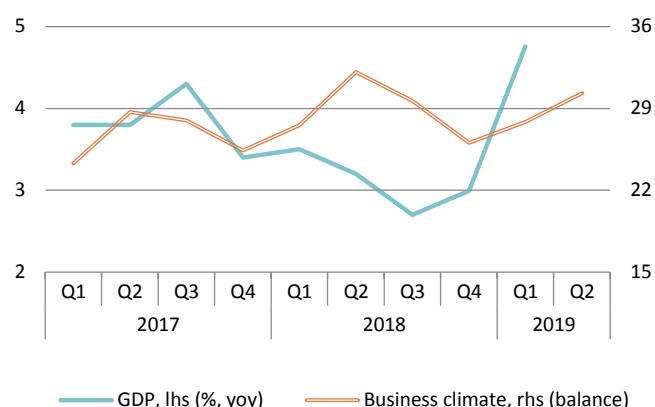
### LABOUR MARKET

In June the **registered unemployment rate** decreased by 0.2 pps mom to 5.2%. The negative net unemployment flow (fig. 6) shrank on a month earlier, due to the increase in inflow, up by 12.9%, and the reduction in outflow, down by 2.6%. The number of persons who got employed went slightly down in June to below 20 thousand, as the number of people who got employed on the primary labour market declined. Still, the latter continued to represent the largest share (about 63%) of all newly employed. At the same time, the scope of the implemented active labour market policies enlarged on a month earlier - the number of people, who started working in programmes, measures and projects, reached 3.5 thousand, which is 2.6 times higher than a month ago.

### INFLATION

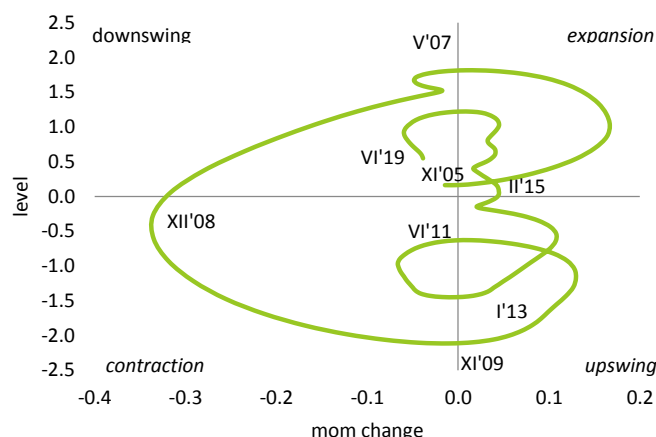
The overall **price level of consumer goods and services** remained unchanged in June, compared to May. Among the main groups, service prices rose by 1.2% and offset the negative contribution of goods during the month. Food prices went down by 1.3%, driven by seasonally lower vegetable prices, while energy goods declined by 0.9% and non-energy industrial goods - by 0.1%. As crude oil prices

Fig. 4: Business climate and Gross domestic product



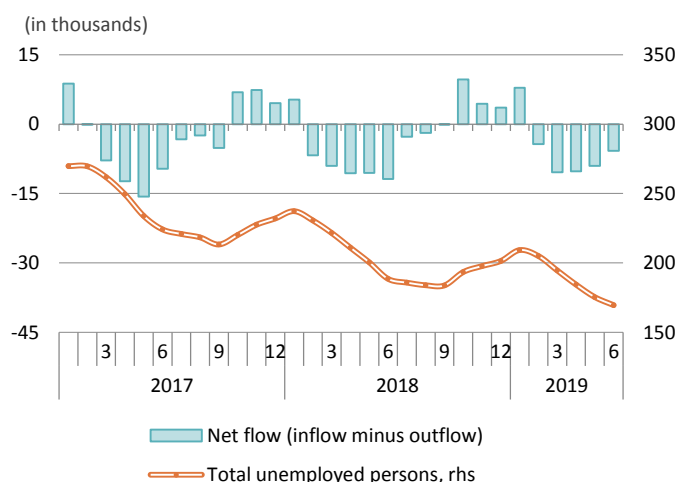
Source: NSI

Fig. 5: Climate tracer



Source: Eurostat, MF calculations

Fig. 6: Net flow and stock of unemployment



Source: EA

<sup>1</sup> 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"

dropped down by 9.1% (incl. the effect of the depreciation of the US dollar against the euro and BGN by 1%), the consumer prices of diesel and fuels fell by 1.7 and 1.4%, respectively. The increase in services was due to accommodation services, up by 10.1%, international flights, up by 9.3%, and public catering, up by 0.5%.

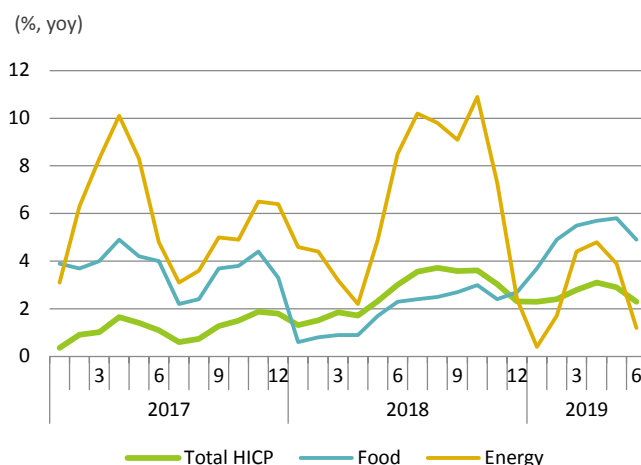
In June, the **annual rate of inflation** was 2.3%, down by 0.6pps from 2.9% yoy in May. The deceleration was driven by lower increase in the price of energy - by 2.7 pps, food and non-alcoholic beverages - by 0.8 pps, services - by 0.2 pps. At the same time, prices of alcoholic beverages and cigarettes, and non-energy industrial goods speeded up by 0.7 and 0.1 pps respectively.

**Core inflation**<sup>2</sup> slowed down to 2.5% yoy in June from 2.6% in May due to a deceleration in services prices.

## EXTERNAL SECTOR

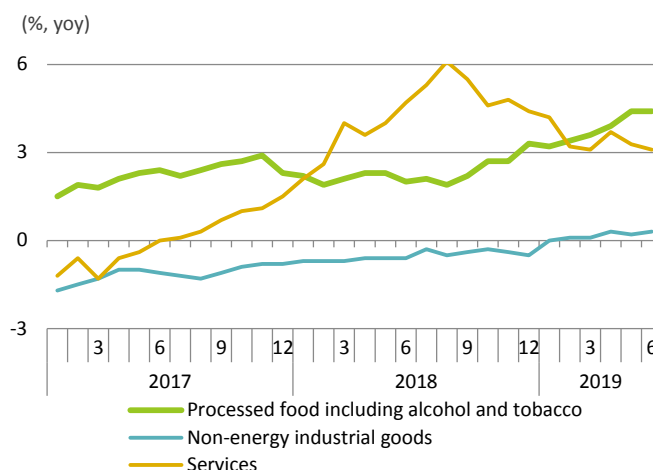
In April, **Current account** came in positive and added up to the accumulated surplus since the beginning of the year. The four-month balance reached EUR 703 mln or 1.2% of projected GDP. The monthly dynamics did not differ significantly from the trend so far. The balances on trade with *goods* and *services* improved, compared to April 2018, due to stronger export than import performance. Export of goods was up by 9.7% yoy, as trade with EU countries outpaced the increase in third countries for the first time in 2019. Import of goods rose at a slower pace (4.2% yoy) and the trade deficit halved compared with April 2018 (fig. 9). Export of services remained almost unchanged on a year earlier, but services import declined due to lower transport services. *Primary income* balance was also better than a year ago, as investment payments to non-residents remained subdued. *Secondary income* balance worsened during the month, due to lower EU related transfers to the Government. Still the accumulated surplus on the article remained comparable with the four-month balance in 2018.

Fig. 7: Inflation (HICP)



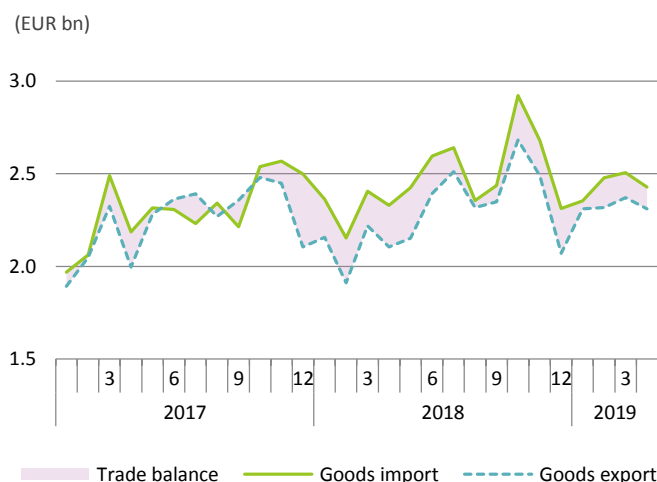
Source: NSI

Fig. 8: Core inflation main components



Source: NSI, Eurostat

Fig. 9: Export, import and balance on goods



Source: BNB

<sup>2</sup> Total Harmonised index of consumer prices (HICP) excl. energy and unprocessed food

**Gross external debt (GED)** stood at EUR 34 bn or 57.5% of projected GDP at end-April. The ratio lowered over April 2018, but the debt level slightly increased on a year and a month earlier, due to higher short-term bank indebtedness (fig. 10). As a result the share of overall short-term debt increased to 25.2% of GED. Net external debt stood at 6.9% of projected GDP (EUR 4 bn), as external assets continued to surpass GED stock as at end April.

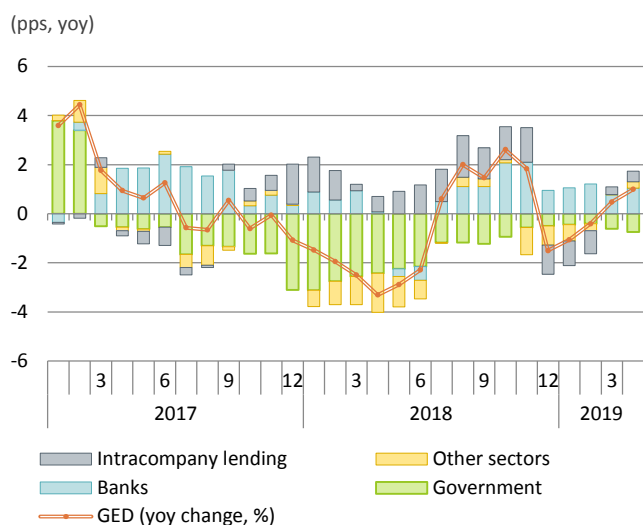
### FINANCIAL SECTOR

In May, the growth rate of **credit to the private sector** continued to increase, reaching 7.1% yoy up from 6.9% in April. Loans to households rose by 8% yoy vs. 7.9% yoy a month earlier. The upward dynamics were supported by both loans for house purchases and consumer loans. The first kept a stable dynamics and increased by 11.7% yoy, as the bad and restructured segment shrank by 11.5% yoy. Consumer loans grew by 10.8% yoy in line with the latest developments in consumer confidence and labour market dynamics (incl. employment, unemployment and incomes). Other credits decreased by 39.5% yoy. The increase in corporate loans remained unchanged from the previous month at 4.8% yoy. In May the weighted average price for corporate loans reached a new historical low, dropping by 22 bps compared to April, and by 39 bps compared to the same month of 2018. The decline was driven by all currency segments - the price of euro denominated corporate loans was down by 21 bps mom and the rate on the USD-denominated ones - by 140 bps (fig. 11). Consumer loans were also cheaper than a month ago, with their rate down by 8 bps. The rate on housing loans remained at an all-time low as well, edging down by 1 bp from April.

### BUDGETARY SECTOR

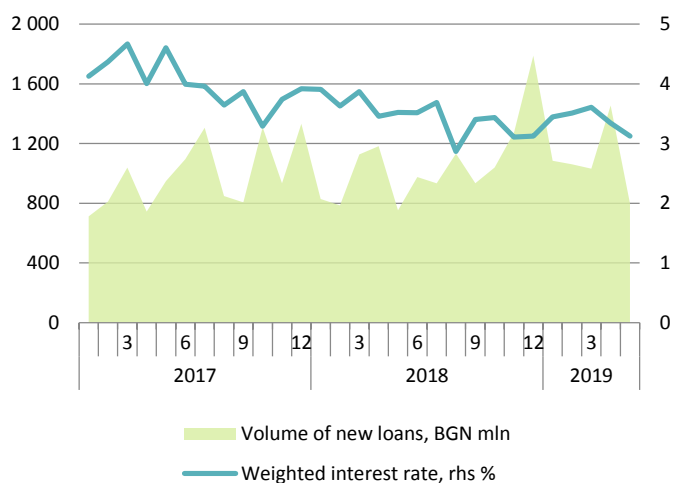
For the first five months of 2019 the **accumulated surplus** on the Consolidated Fiscal Program reached BGN 3 bn or 2.6% of projected GDP (compared to 2.3% of GDP a month earlier and 1.3% of GDP at end-May 2018). The increase was due to higher

**Fig. 10: GED dynamics and contributions by components**



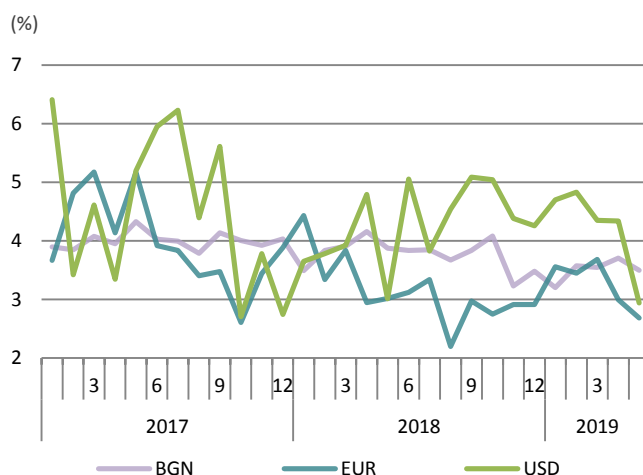
Source: BNB

**Fig. 11: New corporate credit: volume and weighted interest rate**



Source: BNB, MF calculation

**Fig. 12: New corporate credit: interest rate by currency**



Source: BNB

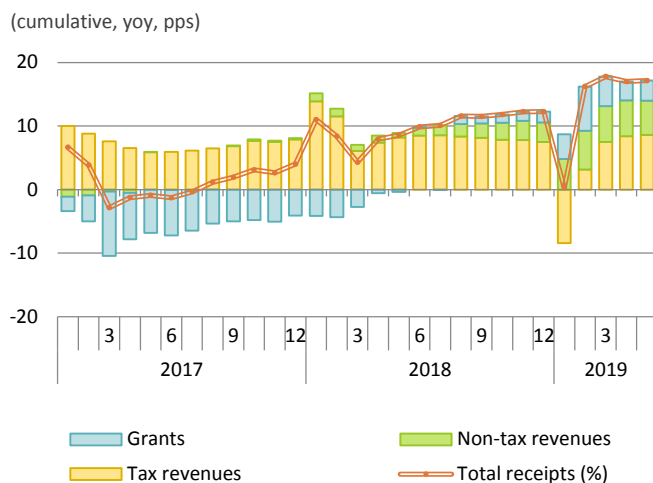
revenue and relatively slow increase in expenditure.

**Total receipts**, up by 17.2% yoy (fig. 13), reached 42.7% of the full-year plan. The biggest contribution to the growth came from indirect taxes and mainly VAT proceeds, up by 10.1%. Social and health insurance contributions increased by 11.6%. Non-tax receipts and grants on the EU programs contributed to the revenue growth by 5.4 pps and 3.1 pps, respectively.

**Budget outlays** represented 35.3% of the full-year plan. Their growth reached 7.8% in May (fig. 14). The biggest contribution came from current non-interest expenses and among them the wage bill, up by 13.9%. Social expenditures increased by 4.5%. The capital expenditures were up by 3.5%.

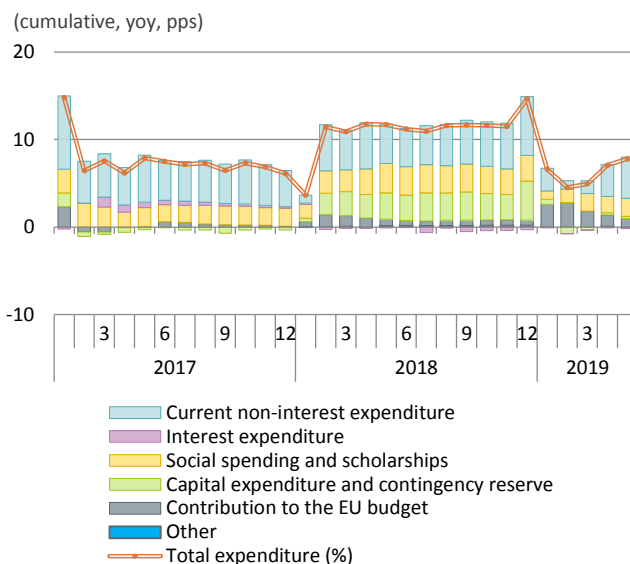
**Total government and guaranteed debt** stepped down by 0.1 pps, compared to April, on the back of lower external debt, and reached 19.8% of the projected GDP.

**Fig. 13: Cash budget receipts dynamics and contributions**



Source: MF

**Fig. 14: Cash budget expenditure dynamics and contributions**



Source: MF



## KEY ECONOMIC INDICATORS

		Annual data			Quarterly data				Monthly data						
		2016	2017	2018	Q3'18	Q4'18	Q1'19	Q2'19	12'18	01'19	02'19	03'19	04'19	05'19	06'19
<b>— GDP<sup>1</sup></b>															
Gross Domestic Product	% , yoy	3.9	3.8	3.1	2.7	3.0	4.8	-	-	-	-	-	-	-	-
Consumption	% , yoy	3.3	4.3	6.0	7.5	3.4	3.8	-	-	-	-	-	-	-	-
Gross fixed capital formation	% , yoy	-6.6	3.2	6.5	3.0	6.7	0.6	-	-	-	-	-	-	-	-
Export	% , yoy	8.1	5.8	-0.8	-3.2	2.2	6.9	-	-	-	-	-	-	-	-
Import	% , yoy	4.5	7.5	3.7	3.8	1.6	4.8	-	-	-	-	-	-	-	-
Agriculture	% , yoy	5.3	8.9	-1.1	-0.8	-1.1	-1.0	-	-	-	-	-	-	-	-
Industry excl. Construction	% , yoy	5.9	4.0	0.8	0.9	0.3	3.0	-	-	-	-	-	-	-	-
Construction	% , yoy	-6.8	4.4	4.0	2.1	6.6	-1.9	-	-	-	-	-	-	-	-
Services	% , yoy	3.1	3.9	4.0	4.3	3.8	3.2	-	-	-	-	-	-	-	-
Adjustments	% , yoy	7.2	1.5	3.8	2.0	3.1	17.3	-	-	-	-	-	-	-	-
<b>— Short-term business statistics<sup>2</sup></b>															
Industrial production	% , yoy	2.7	3.4	1.1	1.1	0.2	3.5	-	-4.0	2.6	6.9	1.2	4.3	0.6	-
Industrial turnover	% , yoy	1.1	9.3	3.8	4.0	2.2	5.4	-	-2.5	5.1	7.7	3.7	10.7	5.8	-
Retail trade turnover	% , yoy	6.1	5.4	4.5	4.2	4.9	1.2	-	2.9	3.2	-0.1	0.6	1.2	0.4	-
Construction output	% , yoy	-16.7	4.6	1.6	-1.2	1.3	4.9	-	1.6	1.3	8.4	5.1	8.1	2.7	-
Total business climate	balance	22.5	26.6	28.8	29.6	26.1	27.8	30.3	25.9	27.8	27.7	28.0	29.9	31.2	29.9
Industry	balance	23.5	26.9	28.1	28.3	25.5	26.7	27.2	24.3	28.4	26.1	25.7	27.7	27.5	26.4
Retail trade	balance	33.6	37.9	41.4	41.4	39.3	40.7	44.1	41.8	40.1	39.7	42.3	42.7	44.8	44.7
Construction	balance	17.9	24.6	28.3	30.9	27.0	28.5	34.3	26.5	27.7	29.0	29.0	30.3	37.2	35.4
Services	balance	13.8	16.7	18.3	19.3	13.0	16.5	18.7	13.0	14.2	17.6	17.5	20.9	18.7	16.6
Consumer confidence	balance	-22.5	-19.6	-20.3	-18.7	-25.8	-26.3	-24.7	-26.2	-26.8	-26.7	-25.3	-26.0	-24.4	-23.8
<b>— Labour market</b>															
Participation rate (15+)	level	53.3	55.4	55.3	56.1	55.0	55.5	-	-	-	-	-	-	-	-
Employment rate (15+)	level	49.3	51.9	52.4	53.3	52.5	52.7	-	-	-	-	-	-	-	-
Employment (SNA)	% , yoy	0.5	1.8	-0.1	-0.9	-0.8	0.1	-	-	-	-	-	-	-	-
Unemployment rate (LFS)	level	7.6	6.2	5.2	5.0	4.7	5.0	-	-	-	-	-	-	-	-
Unemployment rate (EA)	level	8.7	7.2	6.2	5.6	6.0	6.2	-	6.1	6.4	6.2	5.9	5.6	5.3	5.2
Nominal wage	% , yoy	8.0	9.4	9.4	7.7	6.9	12.2	-	7.3	10.9	12.9	12.6	-	-	-
Real wage <sup>3</sup>	% , yoy	9.5	8.1	6.6	3.9	3.8	9.4	-	4.9	8.4	10.2	9.6	-	-	-
Labour productivity (GDP per employed)	% , yoy	3.4	2.0	3.2	3.7	3.8	4.6	-	-	-	-	-	-	-	-
Real ULC (GDP)	% , yoy	0.1	4.8	-1.2	-3.9	-0.1	-0.7	-	-	-	-	-	-	-	-
Nominal ULC (GDP)	% , yoy	2.3	8.4	2.4	1.4	2.4	6.3	-	-	-	-	-	-	-	-
<b>— Prices</b>															
National consumer price index (CPI)	% , yoy	-0.8	2.1	2.8	3.5	3.1	3.3	3.3	2.7	3.0	3.2	3.6	3.7	3.5	2.8
Harmonized index of consumer prices (HICP)	% , yoy	-1.3	1.2	2.6	3.6	3.0	2.5	2.8	2.3	2.3	2.4	2.8	3.1	2.9	2.3
PPI, domestic market	% , yoy	-2.9	4.2	4.1	3.2	3.4	3.4	-	2.9	2.1	4.1	4.1	4.0	3.4	-
PPI, non-domestic market	% , yoy	-3.5	6.0	3.9	5.4	3.8	3.2	-	2.4	0.6	3.5	5.5	4.7	1.9	-
<b>— Consolidated fiscal program (cumulative)</b>															
Revenues and grants	mIn BGN	33 959	35 317	39 651	29 164	39 651	10 858	-	39 646	3 718	7 220	10 858	15 176	18 720	-
Total expenditure	mIn BGN	32 491	34 471	39 516	26 501	39 516	9 054	-	39 509	2 712	5 706	9 051	12 476	15 694	-
Contribution to EU budget	mIn BGN	859	888	1 083	823	1 083	466	-	1 083	149	372	466	537	599	-
Cash deficit (-) / surplus (+)	mIn BGN	1 468	846	135	2 663	135	1 804	-	137	1 006	1 513	1 807	2 700	3 026	-
	% of GDP	1.6	0.8	0.1	2.5	0.1	1.6	-	0.1	0.9	1.3	1.6	2.3	2.6	-
Government debt (incl. guaranteed debt)	mIn BGN	27 424	25 531	23 942	24 153	23 942	22 966	-	23 942	23 197	22 985	22 966	22 935	22 882	-
	% of GDP	29.1	25.3	22.2	22.4	22.2	19.9	-	22.2	20.1	19.9	19.9	19.9	19.8	-

		Annual data			Quarterly data				Monthly data						
		2016	2017	2018	Q3'18	Q4'18	Q1'19	Q2'19	12'18	01'19	02'19	03'19	04'19	05'19	06'19
Fiscal reserve	mIn BGN	12 883	10 289	9 365	11 213	9 365	10 333	-	9 365	10 518	10 417	10 333	10 618	11 308	-
	% of GDP	13.7	10.2	8.7	10.4	8.7	9.0	-	8.7	9.1	9.0	9.0	9.2	9.8	-
<b>— Financial sector</b>															
BNB International reserves	mIn EUR	23 899	23 662	25 072	24 540	25 072	25 026	-	25 072	24 398	24 767	25 026	24 813	24 837	25 183
Monetary base coverage	%	163.4	156.4	150.5	160.1	150.5	155.2	-	150.5	154.1	156.2	155.2	156.3	158.2	162.9
Coverage of import with FX reserves	months	10.0	8.7	8.7	8.6	8.7	8.5	-	8.7	8.4	8.5	8.5	8.5	-	-
Coverage of short-term external debt	%	315.7	304.6	307.0	295.7	307.0	297.5	-	307.0	295.9	298.7	297.5	289.4	-	-
Money M1 (Narrow money)	%, yoy	13.5	16.9	12.2	13.5	12.2	14.3	-	12.2	13.5	14.1	14.3	15.6	13.5	-
Money M3 (Broad money)	%, yoy	7.6	7.7	8.8	9.2	8.8	10.4	-	8.8	10.0	10.4	10.4	11.1	9.1	-
Deposits	%, yoy	6.7	7.2	8.7	8.8	8.7	10.5	-	8.7	10.0	10.4	10.5	11.3	9.0	-
Credit to private sector	%, yoy	1.5	4.8	8.4	7.4	8.4	7.8	-	8.4	8.5	8.7	7.8	6.9	7.1	-
Credit to non-financial enterprises	%, yoy	0.3	1.7	5.4	4.1	5.4	5.3	-	5.4	5.8	6.2	5.3	4.8	4.8	-
Credit to households	%, yoy	2.0	6.0	11.2	9.7	11.2	11.0	-	11.2	10.8	10.7	11.0	7.9	8.0	-
Interest rate on credit <sup>4</sup>	%	5.8	4.3	4.6	4.6	4.3	4.6	-	4.0	4.6	4.6	4.7	4.4	4.7	-
Interest rate on deposits <sup>5</sup>	%	0.8	0.2	0.3	0.3	0.3	0.3	-	0.3	0.3	0.3	0.3	0.6	0.2	-
APRC <sup>6</sup> , consumer loans	%	11.0	10.2	10.5	10.9	10.9	10.1	-	11.3	10.5	9.9	9.9	10.1	10.0	-
APRC <sup>6</sup> , mortgages	%	5.5	4.4	3.9	3.9	3.6	3.6	-	3.6	3.7	3.7	3.6	3.5	3.5	-
Exchange rate BGN/USD	eop	1.86	1.63	1.71	1.69	1.71	1.74	-	1.71	1.70	1.71	1.74	1.74	1.75	1.72
	per. av.	1.77	1.74	1.72	1.68	1.72	1.73	-	1.72	1.71	1.72	1.73	1.74	1.75	1.73
<b>— Gross External Debt (GED)</b>															
Gross external debt	% of GDP	71.1	65.5	60.4	62.3	60.4	57.3	-	60.4	56.7	57.0	57.3	57.5	-	-
Short-term external debt	% of GED	22.1	23.4	24.5	24.1	24.5	24.9	-	24.5	24.7	24.7	24.9	25.2	-	-
Intercompany lending	% of GED	36.2	38.3	37.7	38.1	37.7	38.3	-	37.7	37.9	38.0	38.3	38.2	-	-
<b>— Balance of payments<sup>7</sup></b>															
Current account	mIn EUR	1 244	1 578	2 548	2 257	24	555	-	-40	101	369	85	149	-	-
Current account (moving average)	% of GDP	2.6	3.1	4.6	3.4	4.6	5.5	-	4.6	5.1	5.4	5.6	6.0	-	-
Trade balance	mIn EUR	-984	-766	-2 264	-257	-673	-338	-	-242	-44	-160	-134	-118	-	-
Trade balance (moving average)	% of GDP	-2.0	-1.5	-4.1	-3.9	-4.1	-3.5	-	-4.1	-3.8	-3.7	-3.6	-3.4	-	-
Export, f.o.b.	mIn EUR	23 104	26 950	27 348	7 174	7 240	6 997	-	2 070	2 309	2 317	2 371	2 310	-	-
	%, yoy	5.4	16.6	1.5	2.2	3.0	11.3	-	-1.6	7.1	21.2	6.9	9.7	-	-
Import, f.o.b.	mIn EUR	24 088	27 716	29 612	7 431	7 913	7 335	-	2 312	2 353	2 477	2 505	2 428	-	-
	%, yoy	-1.8	15.1	6.8	9.5	4.1	6.0	-	-7.5	-0.4	15.1	4.1	4.2	-	-
Capital account	mIn EUR	1 071	530	598	248	155	193	-	17	61	91	42	104	-	-
Financial account	mIn EUR	668	1 252	627	53	-864	746	-	-569	757	284	-295	84	-	-
Net Foreign Direct Investments	mIn EUR	-615	-1 999	-1 416	-511	-931	82	-	-201	243	-67	-94	127	-	-
Net Portfolio Investments	mIn EUR	2 198	898	322	298	-333	32	-	45	20	81	-69	94	-	-
Other Investments – net	mIn EUR	1 735	271	1 723	804	-349	882	-	-705	466	260	156	330	-	-
Change in BNB reserve assets	mIn EUR	3 467	-99	1 362	1 122	383	-133	-	843	-715	350	232	-192	-	-

## 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, for 2018 – BGN 107 925.3 mln and MF projections for 2019 – BGN 116 411.7 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).