Ministry of Finance of the Republic of Bulgaria

BULGARIAN ECONOMY

8/2019

MONTHLY REPORT

Based on statistical data published up to October 18, 2019

Short-term business statistics

Short-term indicators signalled subdued economic performance in August. Industrial production declined as a result of the unfavourable dynamics in most of the manufacturing industries, while growth in industrial sales decelerated, due to weaker development in both domestic and foreign turnover. *Electricity, gas, steam and air conditioning supply* continued to have major contribution to the increase in domestic sales while *manufacture of fabricated metal products, except machinery and equipment* and *manufacture of other transport equipment,* led the rise in foreign turnover. *Construction activity* slowed down mainly driven by the decline in *civil engineering*. Retail trade's growth was restricted by slower increase in *food, beverages and tobacco* and decline in *medical and orthopedic goods.*

In September, the overall business climate indicator remained unchanged compared to a month earlier, while the consumer confidence improved markedly. The deterioration in managers' expectations in *industry*, was compensated by better assessments in the other sectors. The substantial improvement in consumer confidence reflected households' more positive views on both their past and future financial situation.

Labour market

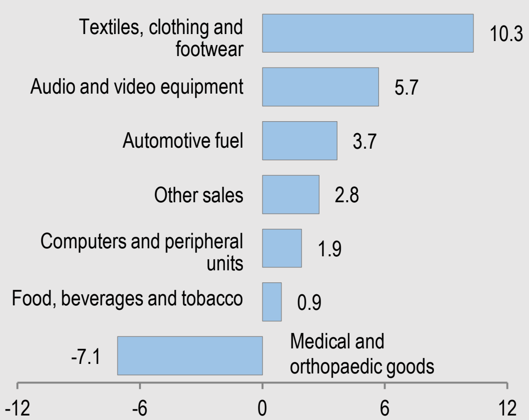
In September the registered unemployment rate stood at 5.3% for a third month in a raw due to the equal numbers of both inflow and outflow. The level has remained unchanged since July when it followed a slight mom increase, which is quite unusual as these months are typically marked by a seasonal downward trend. The number of people who started employment in September went up by 30% from August largely on account of the higher demand in education before the start of the new school year. At the same time, the newly registered in the employment offices also increased following the decrease in seasonal activities in tourism, trade, agriculture, etc., thus keeping the unemployment rate unaltered. However, the annual downward trend was preserved.

Inflation

In September inflation slowed down significantly to 1.6% yoy compared to 2.5% in August. The deceleration was due to the overall decline in the price level of 1.2% mom. The negative value is typical for September and is due to the seasonal decrease in some services prices as a result of the end of the summer season. International flights, package holidays and accommodation services were cheaper and had a total contribution to the monthly inflation of -1.1pps.

Graph 1 Growth in retail trade*, August 2019

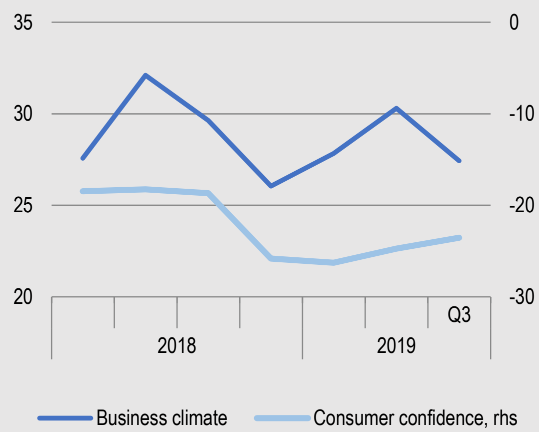
(%, yoy)



* Except of motor vehicles and motorcycles
Source: NSI

Graph 2 Business climate and consumer confidence

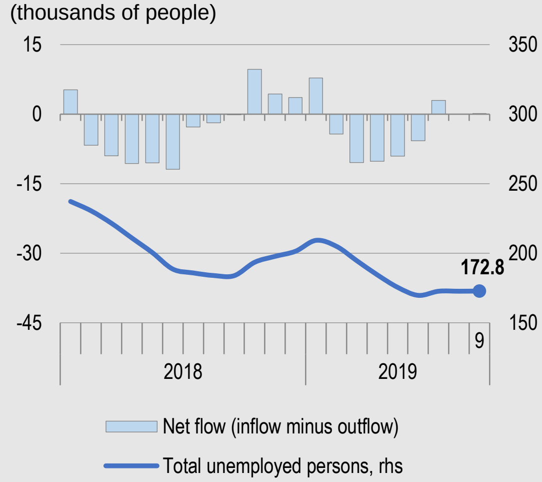
(balance)



Source: NSI

Graph 3 Net flow and stock of unemployment

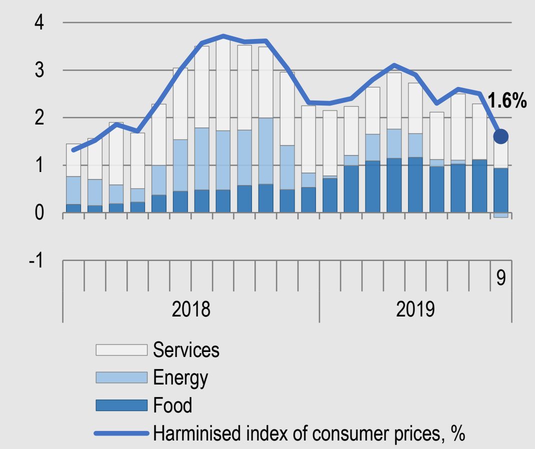
(thousands of people)



Source: NSI

Graph 4 Inflation dynamics and main contributions

(pps, yoy)



Source: NSI, MF

Annual inflation in September was mainly formed by price dynamics in food and services. The rate of increase in the prices in those groups slowed down, thereof their contribution to the overall inflation also lowered. Energy commodity prices slightly declined in September - for the first time since end-2016. The overall decline was due to liquid fuels, the prices of which have been falling an annual basis each month since June.

Core inflation fell down from 2.7% in August to 2% in September. The main contribution to the slowdown came from services prices, while the increase in non-energy industrial goods prices remained unchanged from August at 0.2% yoy.

External sector

After a drop on an annual basis in June, trade with goods returned to growth in July. Export increased by 6.4% yoy, while import was up by 3.3%. Thus the trade deficit improved on a year earlier and reached an almost balanced position in July. On the other hand, export of services decreased by 8.9% yoy, as a result of lower receipts from insurance and travel services. Import of services was also lower than a year ago, due to transportation. Services surplus was down by 4.6% yoy. In accumulated terms, the balance of goods and services reached 2.6% of projected GDP, up from 1% for the same period of 2018. Primary income stood at a balanced position, compared with a deficit of 0.9% a year ago, while the surplus on secondary income remained unchanged at 2.3% of projected GDP. Current account reached 4.6%, up from 2.5% of GDP in the same period of 2018.

Gross external debt-to-GDP ratio lowered by 4.6 pps from July 2018 to 57.8%.

Financial sector

Private sector credit growth continued to slow down in August, due to stronger decline in bad and restructured loans in all major market segments. Its annual rate declined to 6.0% from 6.5% yoy a month earlier. The loan portfolio improvement led to a lower increase in corporate credit: 3.3% yoy, down from 4.3% as of end-July. Households' credit increased by 8.8% yoy, at a rate close to that in July. Consumer loans were up by 11.2% yoy, and mortgages - by 12.4% yoy.

Weighted average price of new deals in mortgages and consumer segment, as well as on corporate credit slightly increased in August in line with the decline in the overall business climate indicator and the consumer confidence indicator.

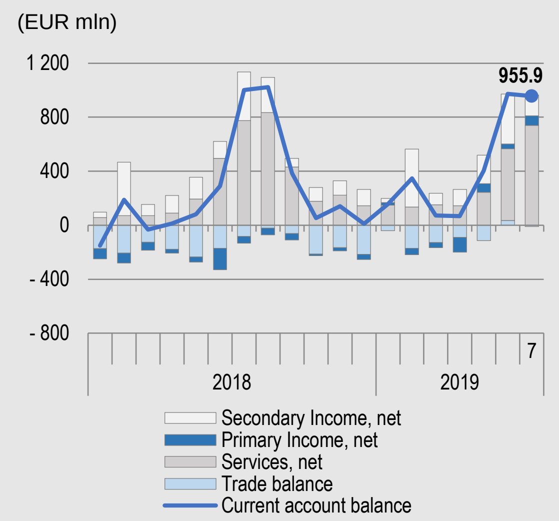
BNB's international reserves increased in September, up by 2.0% mom to EUR 25.3 bn. Banks reserves and Government deposit had the highest monthly growth, up by 5.6% and 1.5%, respectively.

Fiscal sector

The accumulated budget surplus on a cash basis lowered to 0.9% of projected GDP at end-August reflecting upsurge in expenses. Revenues' growth rate moderated to 12.8% yoy from 15.2% at end-July. The increase was supported by higher tax receipts – mainly indirect tax revenue and social security contributions, while the growth in grants was 23.1%, being 66.1% a month ago. The effects of regulatory changes to the budget of the Electricity System Security Fund continued, leading to a substantial increase on an annual basis in non-tax revenue, up by 33.5%. The rise in expenditure, up by 19.5% yoy, was mainly driven by higher capital spending. Thus, investment costs accounted for 15.1% of total spending, being 8.1% a month ago. Personnel and subsidies expenditure also increased, up by 13.4% and 45% yoy, respectively.

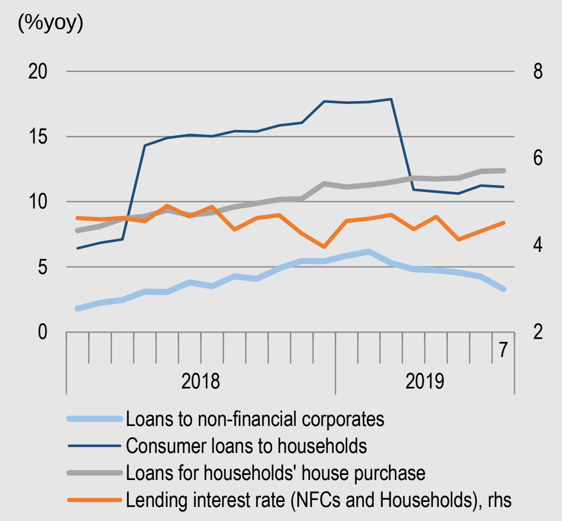
Government debt-to-GDP ratio reached 20%, being 22.1% at end-August 2018.

Graph 5 Current account components



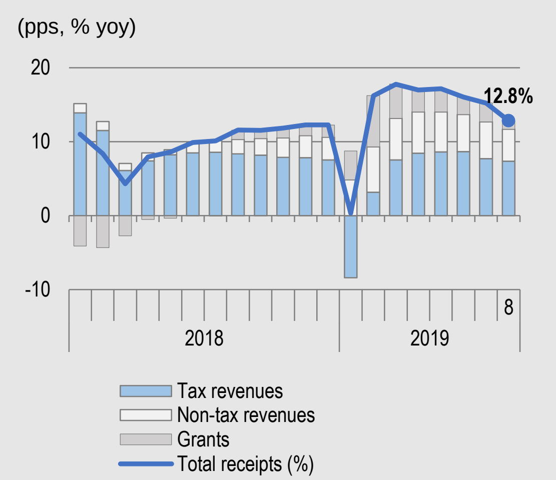
Source: BNB

Graph 6 Private sector credit growth



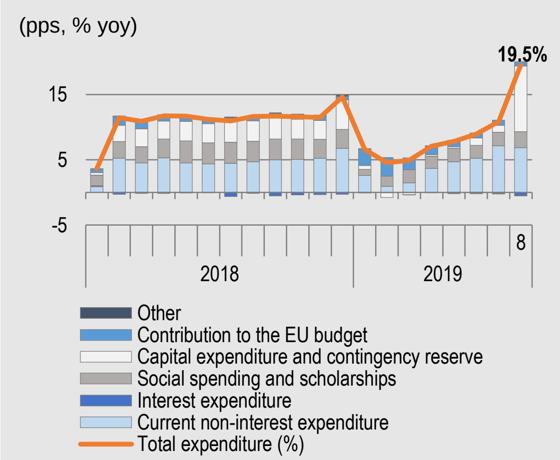
Source: BNB

Graph 7 Contribution to the dynamics of total cash budget receipts (cumulative)



Source: MF

Graph 8 Contribution to the dynamics of total cash budget expenditure (cumulative)



Source: MF