Ministry of Finance of the Republic of Bulgaria

BULGARIAN ECONOMY

MONTHLY REPORT

Based on statistical data up to November 18, 2019

Gross Domestic Product – flash estimates

GDP increased by 3.7% yoy (s.a.) in Q3. Growth in gross fixed capital formation accelerated to 2.2% yoy, while the pace of increase in final consumption, up by 4.9%, was slower than a quarter earlier. Following a decline in Q2, export rebound in Q3, up by 0.4% yoy. Import decreased for a second quarter, but at a slower pace of 1.7% yoy.

Short-term business statistics

Short-term indicators followed an upward path in September. Industrial production and turnover posted an increase on a year earlier, supported by higher domestic sales growth. Manufacture of *chemical* and of *food products* had major contribution to the stronger growth in domestic turnover. Meanwhile, the weak performance in *manufacture of basic metals* contributed the most to the decline in foreign markets turnover. Construction production speeded up, led by building construction. Retail sales also posted a higher annual growth than a month earlier, supported by better performance of all sectors, except for *sales of medical and orthopaedic goods* and *trade of textile, clothing, footwear and leather goods*.

In October the overall business climate indicator decreased, while the consumer confidence continued improving. The deterioration in the business climate came as managers were more pessimistic about the future business situation of the enterprises. The higher consumer confidence mostly reflected the improved households' expectations about the general economic situation.

Labour market

In Q3 strong labour demand resulted in unemployment decrease and encouraged further transitions from inactivity to the labour force. The employment rate of working-age population increased to 71.4%. For a second quarter in a row it was supported by all 10-year age groups between 15 and 64. This indicated the continuous broad-based positive developments, despite restrictions on the labour supply, due to demographic specifics. In line with the robust employment performance, the unemployment rate went down to a historical low of 3.7%. Although youth, long-term and low-skilled (least educated) unemployment rates decreased, the share of long-term unemployed of 62.4% remained close to Q3 2018 and evidenced structural challenges. Transitions from inactivity to labour market participation supported the increase in labour force, however the number of discouraged who provide the main inflow potential reached a critical low of about 61 thousand people.

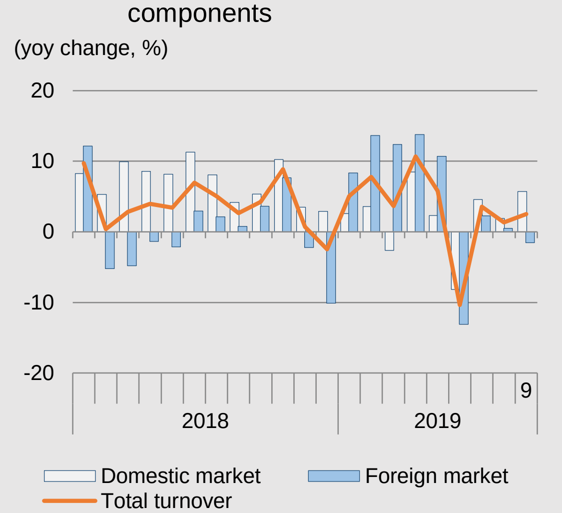
Wages

In Q3 the real purchasing power of incomes remained strong and was accompanied by upward employment dynamics in part of the economic activities. The country's average nominal wage growth remained almost unchanged from the previous quarter, at 11.8% yoy. Private sector wage growth of 12.6% yoy was the main contributor to the overall dynamics, outpacing the rate in the public sector, up by 10.5% yoy. The upward income trend was accompanied by a significant increase in the numbers of employees in *information and communications*, *real estate* and *construction* sectors. The lowest wage increase was in *mining* and *professional activities*. HICP deflated real wage growth reached 9.4% yoy, boosting the purchasing power on a year earlier. The latter was in line with the improved households' employment expectations.

Inflation

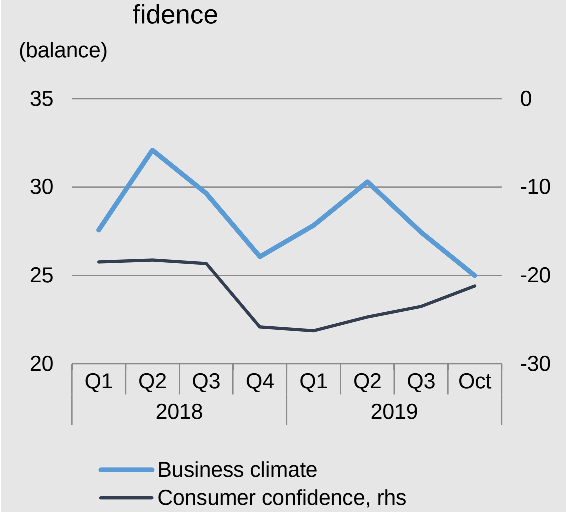
In October annual inflation remained unchanged from September at 1.6% yoy. The stronger decline in *energy goods* offset the acceleration in the prices of *services* and *non-energy industrial goods*. The prices in *services*, up by 2.4% yoy, and *non-energy industrial goods*, up by 0.3%, speeded up by 0.4 and

Graph 1 Industrial turnover by components



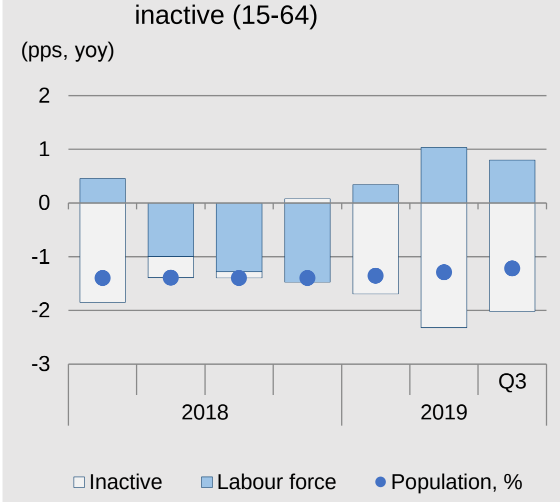
Source: NSI

Graph 2 Business climate and consumer confidence



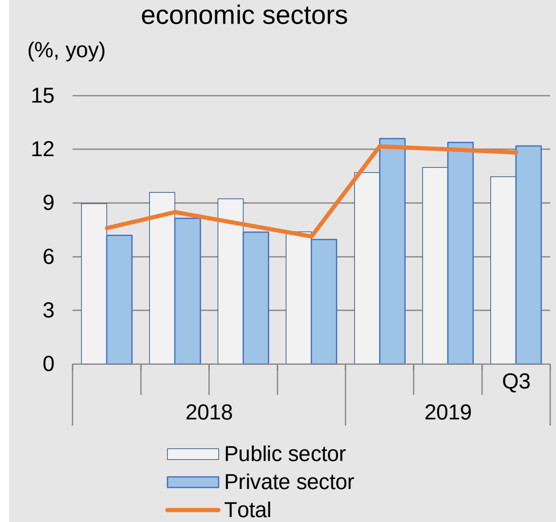
Source: NSI

Graph 3 Population, labour force and inactive (15-64)



Source: NSI

Graph 4 Nominal wage growth by economic sectors



Source: NSI, MF

0.1 pps. compared to September and resulted in core inflation of 2.2% yoy in October, up from 2% a month earlier. Still the increase in *processed foods* slowed down by 0.1pps to 4.1% yoy. *Energy goods* prices went down by 2.6% as the yoy decline in fuels, which started in June, continued and reached 7.9% in October.

Inflation on a month earlier was 0.2%. The slight price increase was driven by *food* and *energy goods* prices, up by 0.4% mom each, and *non-energy industrial goods*, up by 1.1%. The increase in the latter group was seasonal as prices of *clothing and footwear* usually go up in October. At the same time, seasonal factors led to lower services prices. The fall in international flights prices, which began in September, continued in October.

External sector

In August current account monthly surplus reached a historical high, supported by all sub-accounts and especially by trade with goods and services. Export of goods increased by 4.6% yoy, while import declined by 3%. Both export and import dynamics were determined by trade with third countries. Services balance also improved compared to August 2018, as transportation and travel made the highest contributions. After declining on an annual basis in June and July, travel receipts increased in August, but the accumulated export in the summer season was down by 1.7%. According to NSI data, the number of tourists visiting Bulgaria in June-August was virtually unchanged, down by 0.1% yoy. There was a significant increase in tourist visits from Ukraine, up by 26%, Greece, 42.9%, United Kingdom, 21.9%, and Netherlands, 47.8%. At the same time the number of tourists from Romania, Russian Federation, Germany and Poland decreased by 21.1%, 17%, 9.3% and 9.1%, respectively. Total visits of EU tourists increased by 0.6%, while those from non-EU countries declined by 0.9%. In January-August current account surplus improved by 1.5 pps to 6.8% of projected GDP.

Gross external debt stood at EUR 34 bn at end-August, which equals 56.1% of projected GDP.

Financial sector

In September credit to the private sector growth accelerated to 7.1% yoy, up from 6% in August, due to stronger increase in corporate and households' loans while bad and restructured loans kept decreasing. Loans of non-financial corporations speeded up from 3.3% to 4.8% yoy in line with positive signals from short-term industry indicators in September. Higher growth in consumer loans and mortgages reflected positive developments in incomes and unemployment, increased consumer confidence and lower interest rates.

Weighted average price on new corporate loans reached a new historical low. Prices of consumer and house purchases loans also decreased.

As at end-September, the strongest increase in the outstanding amount of corporate credit was in *real estate* (23% yoy), *information and communication* (48.1%), *mining and quarrying* (15.5%) and *accommodation and food service activities* (12.8%). At the same time, the increase in corporate deposits was led by *construction* (up by 24.4% yoy), *real estate* (21.6%), *information and communication* (37%), *accommodation and food service activities* (8%) and *electricity, gas, steam and air conditioning supply* (7.5%).

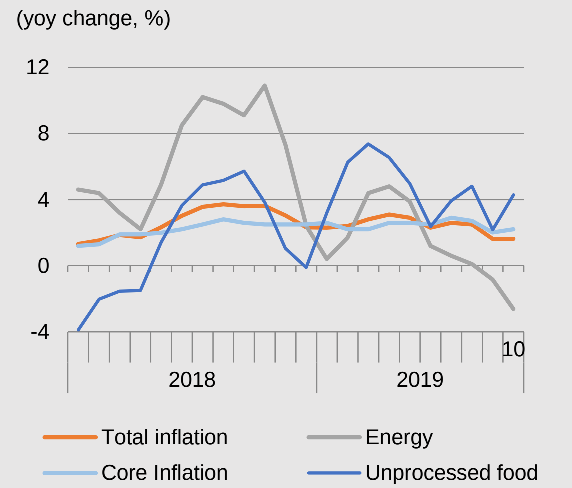
Fiscal sector

The accumulated budget surplus on a cash basis reached 1.1% of projected GDP at end-September. Total receipts' growth, 12.5% yoy, broadly equalled its previous month's rate. The increase was mainly supported by higher indirect taxes and social security contributions (which hold the biggest shares of 48.9 and 29.7% of tax revenues), as well as non-tax revenue, up by 29.1%. The growth in grants accelerated to 30.7% yoy, being 23.1% in August. Total outlays expanded by 19% yoy and were mainly driven by higher capital spending. Personnel and subsidies outlays also increased, while interest payments decreased. The monthly structure returned to its annual average, as social costs and capital expenditure formed 45% and 9% of the overall expenses in September, back from 28% and 45% a month ago.

Government debt-to-GDP ratio reached 19.9%, being 22% a year ago Government debt-to-GDP ratio reached 19.9%, being 22% a year ago.

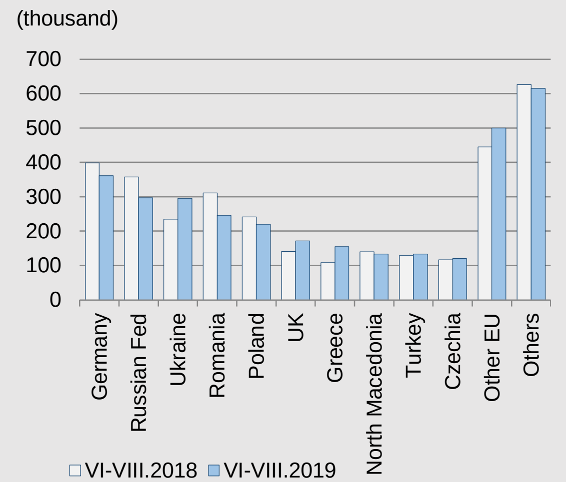
Table Key Macroeconomic Indicators (attached Excel file)

Graph 5 Inflation (harmonised index of consumer prices)



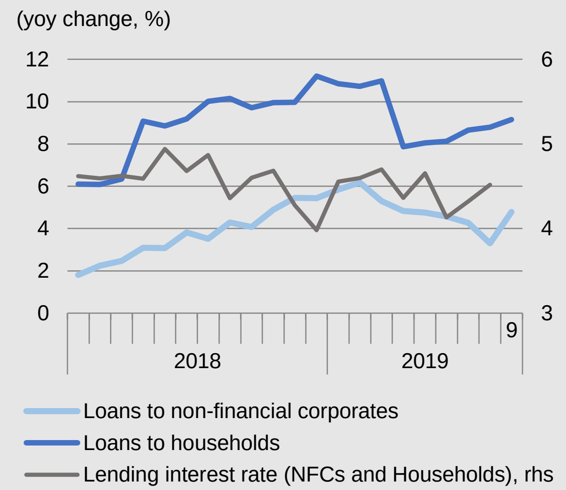
Source: Eurostat, MF

Graph 6 Foreign tourist visits in Bulgaria by country



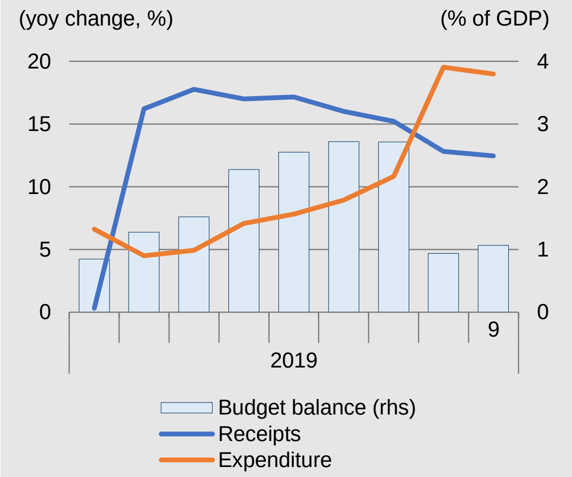
Source: NSI

Graph 7 Private sector credit growth



Source: BNB, MF

Graph 8 Receipts, expenditure and budget balance



Source: MF