Ministry of Finance of the Republic of Bulgaria

BULGARIAN ECONOMY

MONTHLY REPORT

Based on statistical data up to December 17, 2019

Gross Domestic Product

In Q3 lower contribution of domestic demand led to deceleration in GDP growth to 3.1% yoy from 3.8% in Q2. Private consumption growth slowed down, in line with lower rise in compensation per employee, while public consumption expanded. Fixed investments went up by 0.9%, as uncertainty among managers increased and business climate assessment lowered in Q3. At the same time, export returned to growth, up by 1.8%, and led to some recovery in import. Nevertheless, net export contribution remained positive for a second quarter in a row.

On the supply side, Gross value added (GVA) increased by 3.1% yoy, supported by *manufacturing* and *real estate activities*.

Short-term business statistics

In October industrial production and turnover speeded up, while construction output and retail trade decelerated. Growth in the industrial indicators was supported by higher foreign turnover, mainly in *manufacture of food products* and *of base metals,* as well as *extraction of metal ores.* Domestic industrial sales slowed down. The lower increase in construction production along the month reflected deceleration in building construction and decline in civil engineering. Retail trade also witnessed a weaker increase, due to fall in retail sales of *pharmaceuticals and cosmetics* and limited growth in *automotive fuels and oils*. Still, trade with *textiles, clothing and footwear* and with *computer and communication equipment* speeded up.

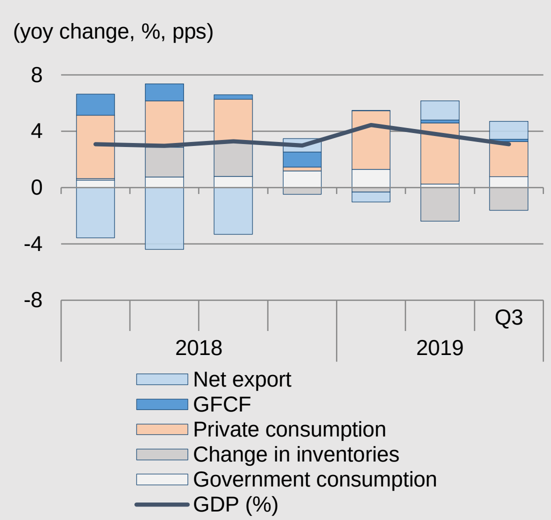
In November, the overall business climate indicator increased for the first time since May, while consumer confidence dropped a bit. The improvement resulted from increases in retail trade and construction, while the business climate in industry and services remained broadly unchanged. Managers in all the sectors were optimistic about the business situation of the enterprises in the near future.

Labour market and Productivity

Regarding labour and productivity as production factors, GVA growth in Q3 was determined by productivity. GVA per employed sustained its long-term average since the crisis of 3% yoy. Employment edged up by 0.1%. In contrast to Q2, *industrial sector* had stronger economic performance than *services* and *agriculture,* due to accelerated productivity at 3.9%, supported by *industry excl. construction*, up by 5.3%. In *construction* and in some services, such as *information and communication* and *financial and insurance activities* productivity registered a decrease, which was more than offset by robust increase in employment. Overall labour demand in the *service sector* gained momentum, while productivity remained almost unchanged and GVA yoy growth slowed down from a quarter earlier.

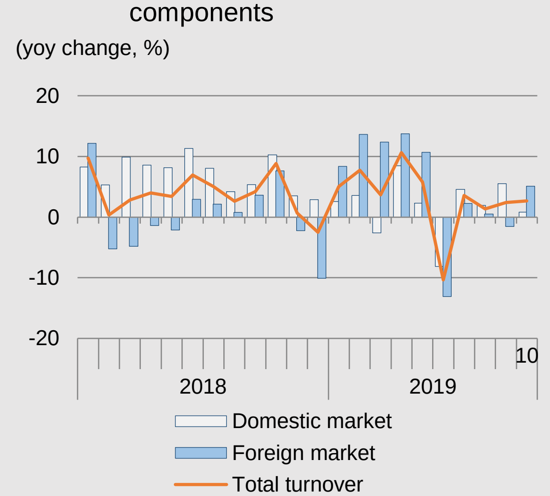
Stable productivity gains and slowdown in compensation per employee restricted the growth in nominal unit labour costs (NULC) in Q3. Compensation per employee growth decelerated to a nominal 4.2% yoy, down from 7.6% yoy in Q2 In *services*, the lower increase, up by 0.6% yoy compared with 5.3% a quarter ago, was largely determined by the decrease in *trade, transport and hotels and restaurants*. As compensation per employee and real labour productivity in *services* followed similar dynamics, the NULC growth was limited to a marginal 0.2%. In

Graph 1 GDP growth by demand factors



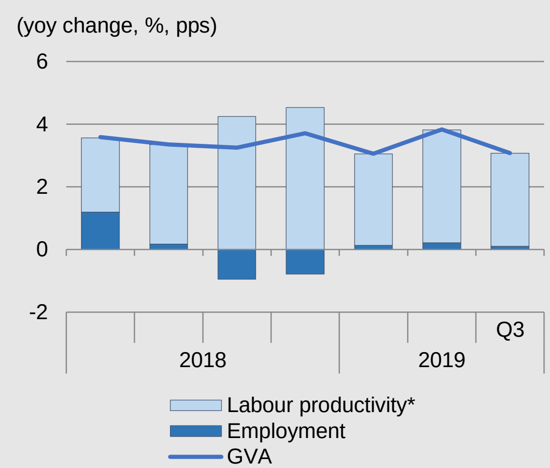
Source: NSI

Graph 2 Industrial turnover by components



Source: NSI

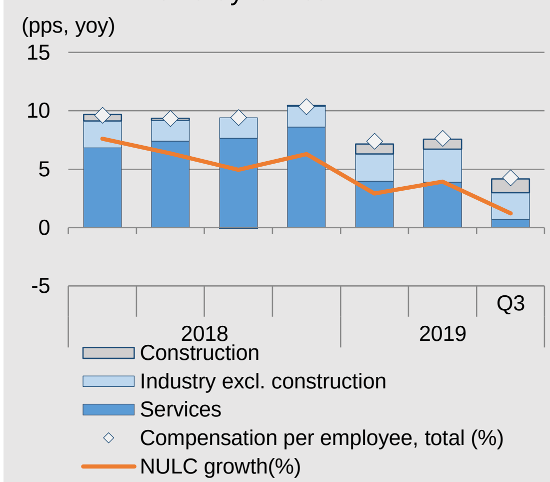
Graph 3 GVA growth by labour factors



*Imputed rent is not subtracted from the GVA

Source: NSI, MF

Graph 4 Compensation per employee growth by economic sectors and NULC dynamics



Source: NSI, MF

industry, compensation per employee continued increasing at a double-digit rate. However, the productivity improvement supported the NULC slowdown particularly in *industry excl. construction* to 5%. As a result, the growth in the overall NULC decelerated further to 1.2% in Q3, the lowest rate since the beginning of 2017.

Inflation

In November, inflation reached 2.2% yoy, up from 1.6% in October. The prices of *services* and *non-energy industrial goods* accelerated to 2.5 and 0.4% yoy, respectively, up by 0.1 pps from October. The price of *processed foods* was 0.4 pps higher and reached 4.5% yoy. These three HICP groups are the components of core inflation, which rose to 2.4% from 2.2% in October.

In November, according to World Bank data, the prices of most internationally traded commodities rose in dollar terms compared to a month earlier. Among the groups, *energy* and *food* posted the highest increase of 5.2% and 4.1%.

Monthly inflation in Bulgaria was 0.3% mom in November. *Food* and *energy* prices had the major contribution, up by 1 and 0.3%, respectively. Thus the effect of rising food prices on inflation on annual basis continued, while the tendency from the last six months of diminishing impact of energy goods on inflation reversed.

External sector

Current account balance was positive in September and the accumulated surplus since the beginning of the year increased further to 8% of projected GDP. The continuous improvement in the balance was due to better export than import performance in trade of goods. Stronger EU-related transfers and lower repayment of investment income also contributed to the higher monthly surplus, while services balance remained almost unchanged on a year earlier.

Bulgaria's external debt position improved on a year ago at end-September. Gross debt lowered to 56.4% of projected GDP, while net debt reached -4.1%, indicating higher foreign assets than liabilities. The structure of the gross liabilities remained favourable, dominated by FDI related lending (38.8%). As regards the newly-declared credit to non-residents, in January-September more than 95% was denominated in EUR, almost 72% was long-term debt, about 43% was with fixed interest rate and 34% - with flexible. Credit in both USD and in EUR was granted at lower weighted average rates in 2019, 2.1 and 1.5% respectively, compared with 3.3 and 2.4% in January-September 2018.

Financial sector

Credit to the private sector continued to accelerate in October, with a growth 7.3% yoy compared with 7.1% a month earlier. Both loans to non-financial corporations (NFCs) and to households gained some momentum, while bad and restructured loans continued to decline at a fast pace. Loans to NFCs increased by 5.2% yoy at end-October driven by sizably higher short term credit. Long term corporate credit slowed down a bit in line with the decline in business climate. Higher growth in mortgages (14.1% vs 13.6% in September) led to positive development of households' loans. Consumer loans' growth was close to a month earlier at 10.8% yoy.

Weighted average interest rate on corporate loans went further down in October after reaching a historical low in September. The price of consumer loans and mortgages went up marginally.

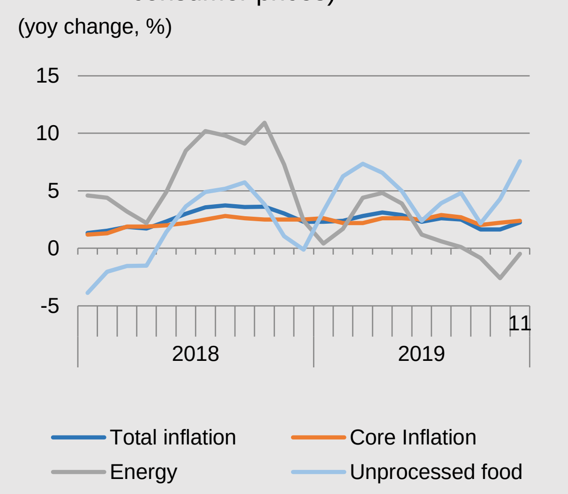
Fiscal sector

For a tenth consecutive month, the accumulated budget balance on a cash basis was positive, reaching 0.9% of projected GDP at end-October. Receipts increased by 11.4% yoy. Tax revenues, up by 8.7%, were supported by higher indirect taxes, up by 7.8%, and social security contributions, up by 11.3%. Indirect taxes represent almost half of total tax receipts, while social security contributions – nearly 30%. Non-tax revenue expanded by 25.1% as there share increased to 15 of budget receipts versus 13% a year ago. Grants increased by 18.9% yoy. Budget expenditure went up by 18.4% yoy, mainly driven by higher capital and personnel spending. The share of capital spending reached 14.6% of total outlays in the period January-October, compared with 8% a year ago. Social expenses and subsidies also increased yoy, while interest payments lowered.

Government debt-to-GDP ratio decreased to 20% at end-October, being 21.8% a year ago.

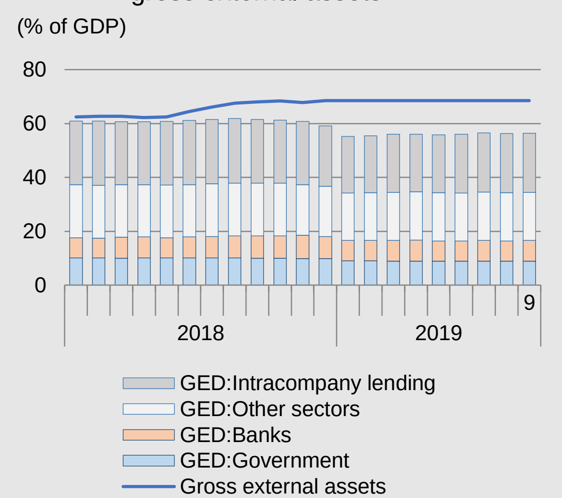
Table Key Macroeconomic Indicators
(attached Excel file)

Graph 5 Inflation (harmonised index of consumer prices)



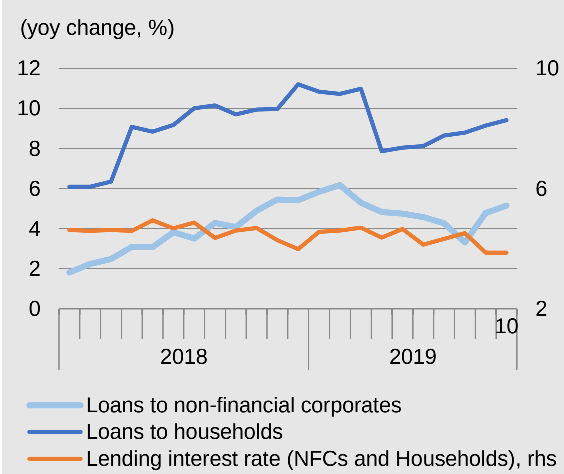
Source: Eurostat

Graph 6 Gross external debt (GED) and gross external assets



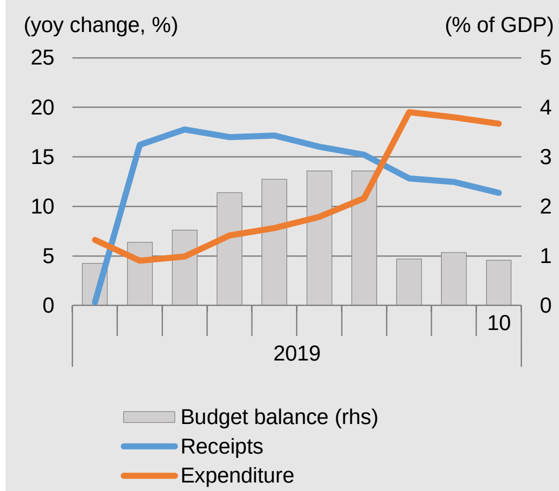
Source: BNB

Graph 7 Private sector credit growth



Source: BNB, MF

Graph 8 Receipts, expenditure and budget balance



Source: MF