Ministry of Finance of the Republic of Bulgaria

BULGARIAN ECONOMY

MONTHLY REPORT

Based on statistical data up to January 17, 2020

Short-term business statistics

In November 2019 industrial and construction production decreased yoy, while retail sales growth accelerated. Industrial output went down, due to lower production of *energy* and *investment goods*. The foreign sales turnover of these products also declined. On the other hand, the overall domestic turnover went up by 0.6%, supported by higher *non-durable consumer goods*. The decrease in construction was driven by *civil engineering*. Retail trade growth speeded up a bit compared to October on the back of higher *sales of food, drinks and tobacco*.

In December, both the overall business climate and the consumer confidence went up. There was marked increase in the business climate in *construction*. The assessment of the current business situation of the enterprises in the other sectors also improved. Households intended to make more major purchases as their expectations about the general economic situation and their future financial situation also improved.

Labour

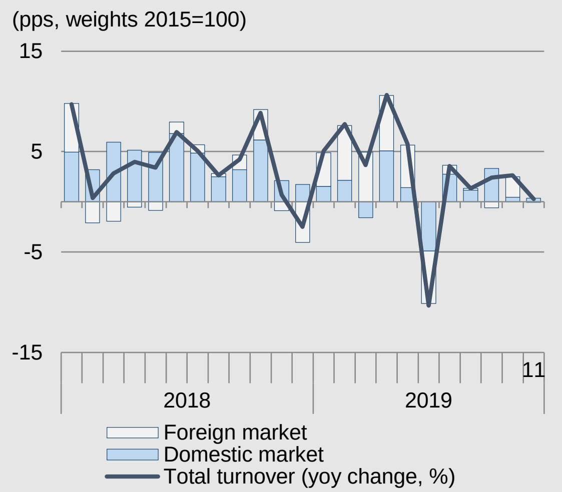
Over the last three months of 2019 the registered unemployment rate started increasing due to the reduced demand of labour through the employment offices. At the end of December it reached 5.9%. In line with the fall in seasonal activities the unemployment inflow went up in October, but subsequently decreased in November and December. The latter was indicative of the reduced jobs turnover. At the same time, the outflow from unemployment went down, largely on account of the smaller number of people who started working. The lower number of those who found jobs was generated by the weakened labour demand on the primary labour market but the scope of the implemented active labour market programmes and measures also shrank. Regardless of the monthly increase in October-December, the unemployment rate at the end of 2019 was 0.2 pps. lower than at the end of 2018.

Inflation

End of period inflation reached 3.1% yoy in 2019, while annual average was 2.5%. The largest contributions to the end of period inflation came from *food* and *services*, 1.4 and 0.9 p.p. respectively. Price dynamics of *energy goods* returned to positive territory in December, contributing by 0.5 pps. to the HICP growth. In December, annual inflation accelerated by 0.9 p.p. compared with November, largely due to *energy goods* and *unprocessed food*. Core inflation was 2.5% yoy in December and rose slightly from 2.4% in November.

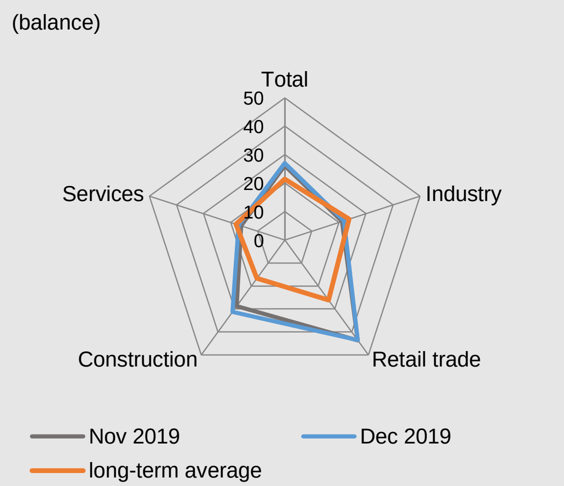
In December, monthly inflation was 0.8%. The relatively high value is typical for this month of the year, as the overall price increase was also influenced by seasonal factors in some services such as international flights and package holidays. Prices of *services* increased by overall 2.1%. *Food* prices went up by 0.6%, including *unprocessed food* prices up by 2.1%. *Energy goods* followed a 0.2% increase, which was mainly due to the prices of liquid fuels and fuels for personal vehicles.

Graph 1 Contributions to industrial turnover dynamics



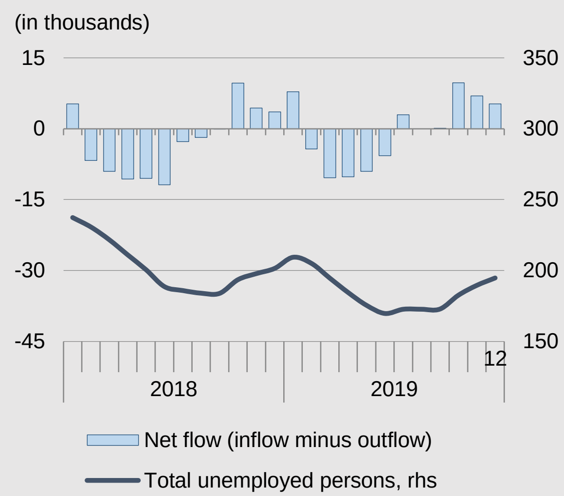
Source: NSI

Graph 2 Business climate by sectors



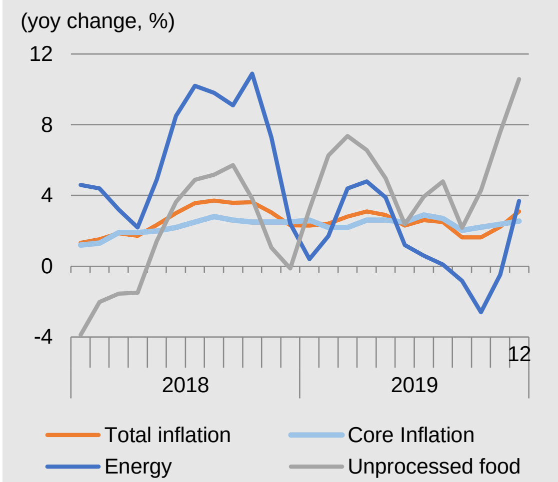
Source: NSI

Graph 3 Net flow and stock of unemployment



Source: EA

Graph 4 Inflation (harmonised index of consumer prices)



Source: Eurostat

External sector

In October current account surplus was significantly higher than in the same month of 2018, reaching EUR 399.1 mln. The main driver was the trade balance, which turned from a deficit (EUR 212.8mln) into a surplus (EUR 71.1 mln) as export grew by 2.3% yoy while import declined by 7.6%. The lower import was due to a decrease in oil products and metal ores from non-EU countries. Services surplus increased by 33.3% yoy, as the decline in export was outpaced by that in imports. In both cases the decrease was driven by lower transport and insurance services. The income accounts surplus remained almost unchanged. In January-October 2019 current account surplus improved to 9% of projected GDP, compared to 5.1% of GDP a year ago.

Accumulated inward FDIs increased by 0.2 pps to 1.6% of projected GDP.

Gross external debt reached 56.8% of projected GDP at end-October as the long term debt accounted for 75.7% of it. Net external debt remained negative (assets overpassed the liabilities) at 2.8% of projected GDP.

Financial sector

Private sector credit growth speeded up in November. The pace reached 9% yoy compared with 7.3% a month earlier. This reflected the continuing upward trend in both loans to non-financial corporations (NFCs) and to households, driven by fundamental factors, as well as the higher positive contribution of credit to financial corporations. Loans, granted to financial entities, increased by 46.7% yoy.

Low unemployment and interest rates and rising incomes kept motivating households' demand for credit. Consumer credit grew by 10.9% yoy, mortgages accelerated to 14.4% yoy, while bad and restructured loans in the segments continued declining, down by 11.2% and 22.6% yoy, respectively.

Credit to NFCs increased with slightly higher pace compared to October, up by 5.4% yoy, in line with the improvement in the business climate indicator in November and positive expectations of managers in all sectors. Bad and restructured loans of corporates decreased by 23.3%.

Weighted average interest rate on corporate loans remained close to the October level, the price of mortgages went down to 3.01%, while the price of consumer loans slightly increased to 8.45%.

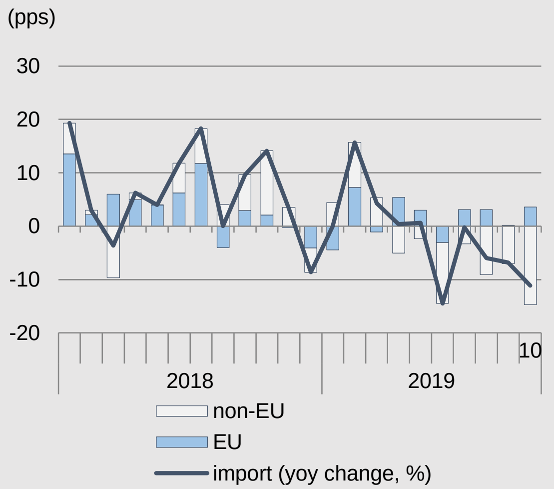
Fiscal sector

At-end November the accumulated budget balance on a cash basis was positive, reaching 1.1% of projected GDP. Receipts increased by 11.3% yoy. Tax revenues, up by 9.3%, were supported by higher indirect taxes, up by 9.1%, and social security contributions, up by 11.3%. Indirect taxes represent almost half of the total tax receipts, while social security contributions – nearly 30%. Non-tax revenue expanded by 22.1% as their share increased to 14.8% of budget receipts versus 13% a year ago. Grants increased by 15.5% yoy and remained stable as a revenue share at nearly 5%. Budget expenditure went up by 17.1% yoy, mainly driven by higher capital and personnel spending. The share of capital spending reached 14.3% of total outlays in the period January-November, compared with 9% a year ago. Social expenses and subsidies also increased yoy and their shares were 40.3% (being 44% a year ago) and 7.9% (7% in November 2018), respectively. Interest outlays have been decreasing since February 2018 and their share of total expenses lowered to 1.6%, being 2% as at November 2018.

Government debt-to-GDP ratio decreased to 20.1% at end-November, being 21.9% a year ago.

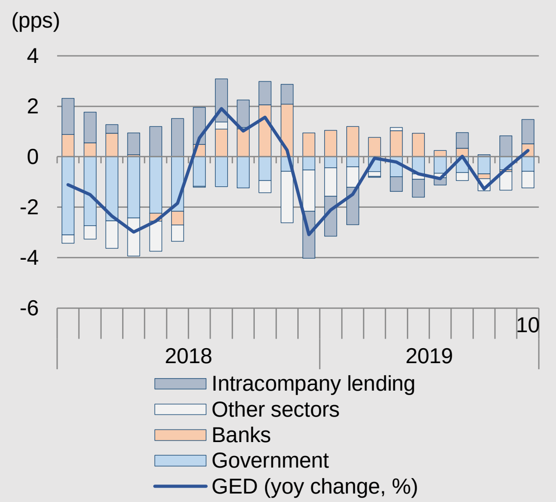
Table: Key Macroeconomic Indicators

Graph 5 Contributions to import dynamics by country groups



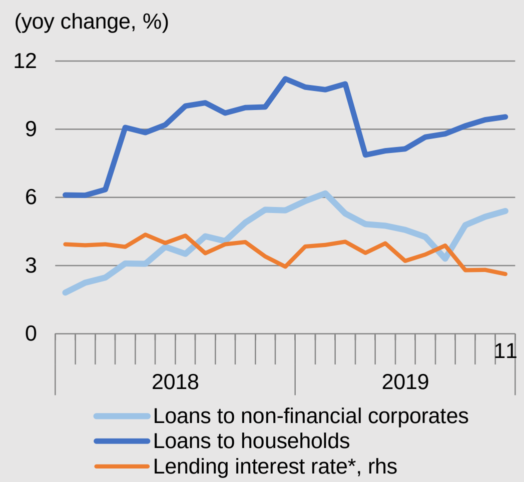
Source: NSI, MF

Graph 6 Contributions to Gross External Debt dynamics



Source: BNB

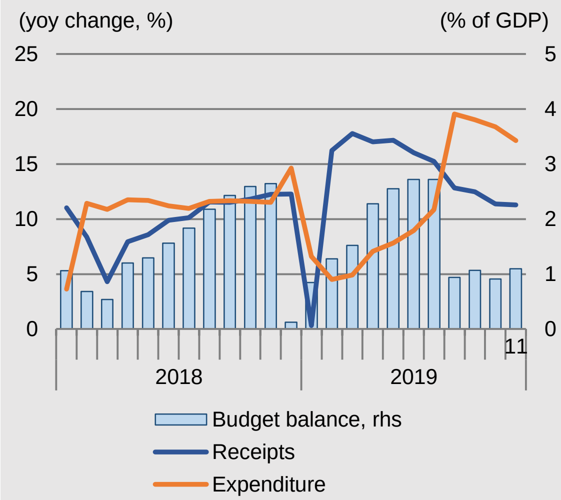
Graph 7 Private sector credit dynamics



* NFCs and Households

Source: BNB, MF

Graph 8 Receipts, expenditure and budget balance



Source: MF