BULGARIAN ECONOMY

MONTHLY REPORT

Based on statistical data up to Feb 17, 2020

Short-term business statistics

Short-term indicators showed some positive signals. The fall in industrial production reported in November 2019 ceased and the output in December remained flat on a year earlier. There was a significant decline in *manufacture of basic metals*, which was however fully offset by growth in other activities, including *manufacture of computer and communication equipment* and *food production*. At the same time industrial turnover speeded up due to stronger increase on both export and domestic market. The growth in retail trade also accelerated driven by *non-food sales*. Construction activity returned to growth in December after a monthly drop, as building construction led the upward dynamics.

In January 2020 the overall business climate indicator increased markedly for a third month in a row. The improvement was led by more optimistic expectations in industry, where in Q4 2019 the average capacity utilization reached new historical high - 78%. Consumer confidence also improved in the first month of 2020 due to positive assessments of the financial situation of the households.

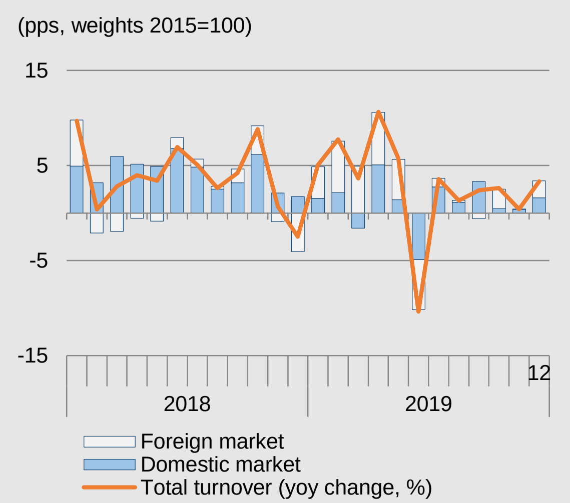
Labour

In Q4 2019 labour force participation kept increasing yoy supported by the higher employment opportunities and the upward trend in wages. The economically active population at working age (15-64) went up by 1.5% yoy. That was largely on account of the mature and older age groups (45-54 and 55-64 years) and was in line with the ongoing process of ageing of the population and labour force. At the same time, for a second quarter in a raw the 15-24 youths also contributed positively to the work force increase due to their employment participation. The overall employment rate reached 70% - a new end-year high. As a result of the higher demand of labour than a year earlier, the unemployment rate lowered to 4.1%, down by 0.6 pps from Q4 2018.

Wages

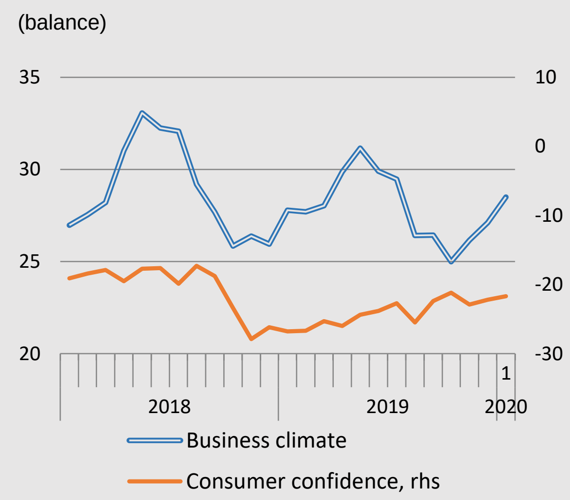
In Q4 2019 the country's nominal wage growth remained strong at 12.1% yoy and accelerated over the quarter due the raise in public wages. The later speeded up to 12.1% in line with the private sector wage dynamics, up by 12.2%. *Construction* wage growth (14.1%) also contributed to the overall increase in line with the substantial increase in the number of employees in the sector. In business services the positive labour demand was accompanied by a 12.2% wage growth, while wages in *mining and manufacturing* slowed down to 9.5% and 1.7%, respectively, following the downward trend of employees. The HICP deflated real wage went further up by 9.6% yoy and continued to support the purchasing power of the households. Overall in 2019 there was an increase in the number of jobs across the highly-skilled employees and a decrease among the lowest-skilled, which also contributed to the observed stronger wage growth on a year earlier.

Graph 1 Contributions to industrial turnover dynamics



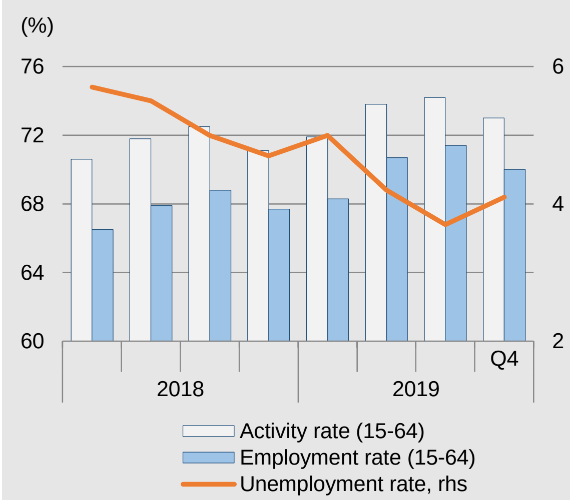
Source: NSI

Graph 2 Business climate by sectors



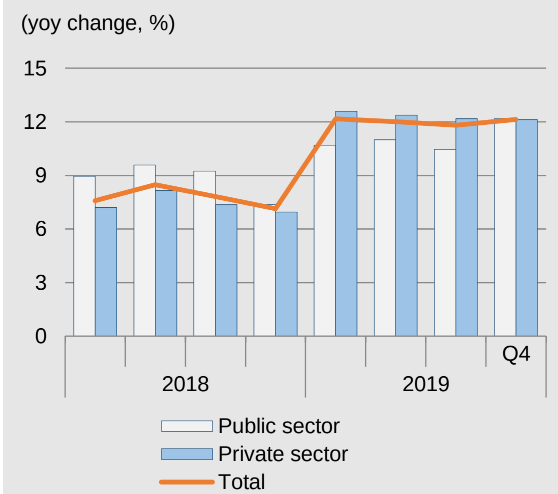
Source: NSI

Graph 3 Activity, employment and unemployment rates



Source: EA

Graph 4 Nominal wage growth by economic sectors



Source: NSI,MF

Inflation

According to preliminary NSI data, in January monthly inflation reached 0.5% mom, due to higher *food* and *administered* prices. The seasonal increase in vegetable prices contributed 0.3 pps to the total Harmonised index of consumer prices (HICP). Prices of *services* such as water supply, sewerage, urban road transport, also experienced a slight increase and the contribution of administered prices to monthly inflation was 0.1 pps.

Compared to the corresponding month of the previous year inflation in January increased to 3.4%, up from 3.1% yoy in December 2019. The acceleration was driven by *food prices* and *fuels* for personal vehicles, which were up by 7.5% and 10% yoy, respectively.

External sector

Current account surplus kept increasing, reaching 9.7% of projected GDP for the eleven months of 2019, as November balance alone almost tripled on a year earlier. The improvement in the month was again led by strong trade balance. Import underperformed in both goods and services, down by 7.2% yoy. Trade with non-EU countries (and mainly of oil products) continued to be a major driver for the lower import. At the same time export remained flat on a year earlier, as the lower trade with services (communication and insurance) was offset by higher export of goods.

Gross external debt equalled 57% of projected GDP at end-November. The ratio lowered by 3.8 pps. from a year ago, as all sectors contributed to the decline. Government deleveraging was active, while the improvement in the ratio among the other sectors was mainly led by strong GDP increase. Net external debt remained positive, as assets surpassed liabilities by 3% of projected GDP.

Financial sector

Private sector demand for credit remained high at the end of 2019 with a growth of 9.3% yoy. It was driven, on one hand, by fundamental economic factors and, on the other, by higher positive contribution from loans to financial corporations at the end of the year. Growth of credit to non-financial enterprises in December accelerated further to 5.9% vs. 5.4% yoy a month earlier. This was broadly in line with positive dynamics of the business climate, assessments for the current business situation of the enterprises and short-term business indicators. By economic activity, outstanding loans to non-financial corporations increased the most in *transport and storage*, *information and communication*, *accommodation and food services*, *real estate*. Loans to companies in construction activity increased by 7.9% yoy at the end of 2019. At the same time there was a marked improvement in the business climate in construction in December. Households' credit increased by 9.5%, as consumer and mortgage loans keeping a two-digit growth of 10.8% and 14.5% yoy, respectively. This was on the back of increase in incomes and consumer confidence in December as well as positive expectations of households for the general economic situation.

Fiscal sector

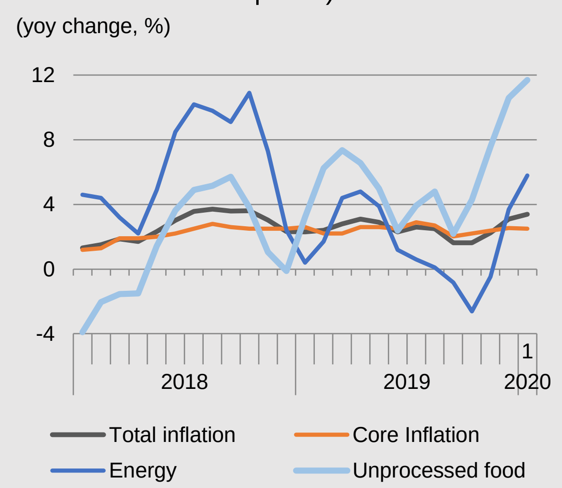
In 2019 cash budget deficit stood at 1% of projected GDP. Total revenue and grants equalled the full year plan, up by 11.1% yoy. Proceeds from both indirect (almost half of total tax revenue) and direct (19% share) taxation overachieved the plan, increasing by 8.5% and 9.5% yoy, respectively. Social and health insurance contributions (nearly 30% of tax receipts) were slightly above the plan and expanded by 11.5% yoy. Grants came lower than planned, but posted a double digit increase of 16.7%. Significant growth was reported also in non-tax revenue – 19% yoy.

Expenditure accounted for 97.6% of the full year plan and increased by 14.4%. The growth was mainly driven by higher capital spending, personnel costs, social expenditures and subsidies, while interest payments went down.

Government debt lowered to 20% of projected GDP, down from 21.8% a year ago.

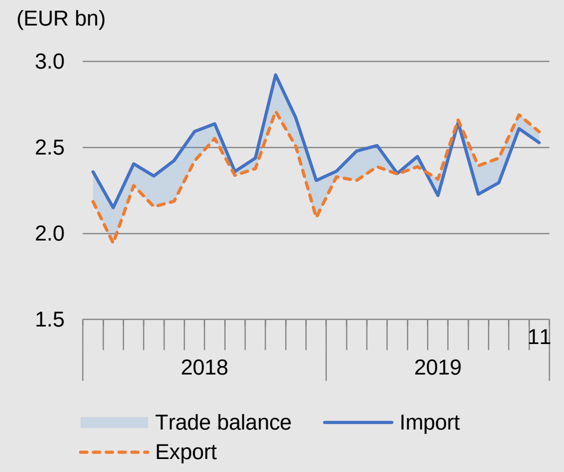
Table: Key Macroeconomic Indicators

Graph 5 Inflation (harmonised index of consumer prices)



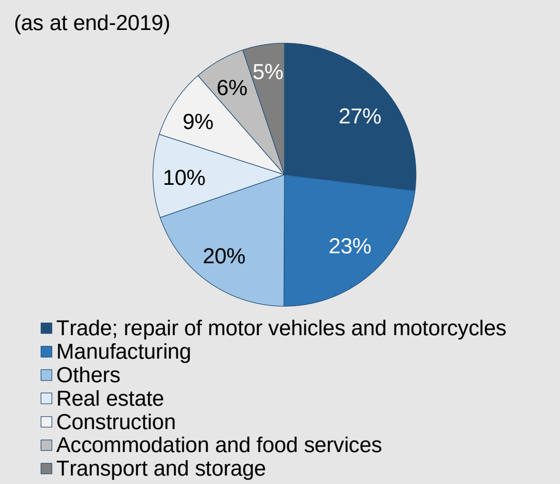
Source: Eurostat

Graph 6 Trade balance, export and import of goods



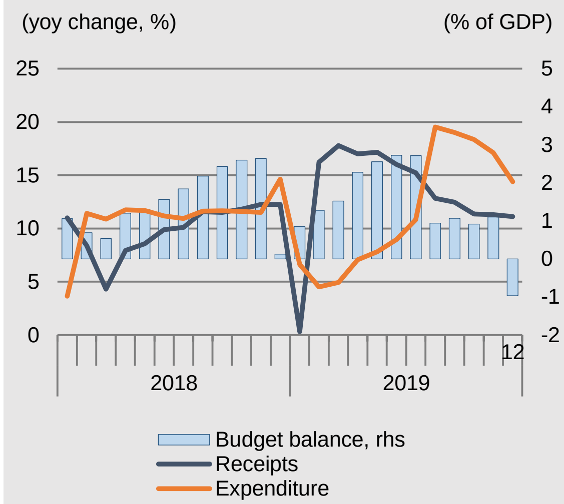
Source: BNB

Graph 7 Structure of credit to NFCs by economic activity



Source: BNB, MF

Graph 8 Receipts, expenditure and budget balance



Source: MF