Ministry of Finance of the Republic of Bulgaria

BULGARIAN ECONOMY

MONTHLY REPORT

Based on statistical data up to March 17, 2020

Gross Domestic Product

In Q4 GDP increased by 2.9% yoy. Along with revised data for the first three quarters the overall growth in 2019 reached 3.4%. The last quarter was marked by high increase in gross fixed capital formation, up by 5.6%, mostly on the back of public capital expenditures. Public consumption also contributed substantially by 1.3 pps. Strong growth in private consumption was sustained, although at a slower pace than in the previous two quarters. Both export and import were down yoy and the contribution of net export was almost neutral.

Growth in Gross value added edged down to 2.7% yoy in Q4, from an average of 3% in the nine-month period. The slow-down was due to lower contribution of *services*, as the value added in *trade, transport, hotels and restaurants* declined by 2.2%. By contrast, *industry excl. construction* speeded up to 5.8% yoy, being the main driver of the overall increase.

Short-term business indicators

Short-term indicators showed some unfavourable development in January. Industrial production went down, due to lower production of energy goods. Foreign sales of the latter also declined. At the same time, domestic turnover went up, supported by higher sales of intermediate and non-durable consumer goods. Growth in retail trade turnover decelerated, due to a decrease in food sales. Construction production index also increased at slower pace.

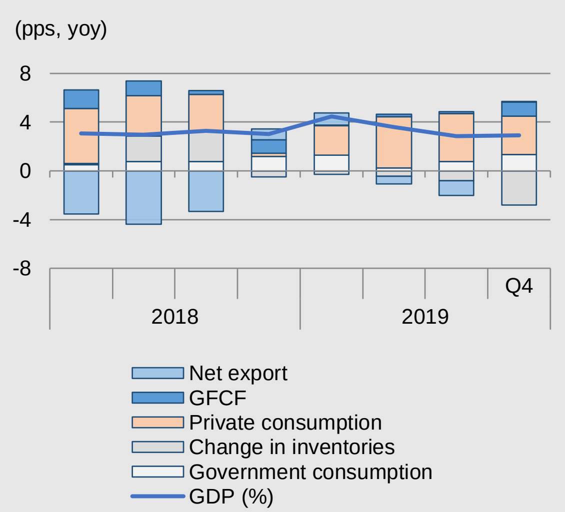
In February the overall business climate indicator decreased, while the consumer confidence continued improving. The lower business climate was due to worsened assessment of the current business situation of the enterprises among all sectors. At the same time the expectations were mainly favourable, except in services, where the respondents were more reserved.

Labour market and productivity

In Q4 the employment growth in agriculture contributed to the considerable increase in the overall employment of 1% yoy but also resulted in lower labour productivity growth of 1.8%. In the context of a continuous rise in the *agriculture* GVA of above 4% for a third quarter in a raw and employment increase of 3.4% after the prolonged decrease since the beginning of 2018, productivity in agriculture went hardly up by 0.8%. The latter was due to the high share of self-employment (of above 81%) which is less productive in general compared to firms that hire employees. In contrast, the productivity dynamics in *industry* and *services* remained the main driver for the GVA growth. *Construction*, *information and communication* and *financial and insurance activities* were the exceptions, as they were among industries with the strongest employment growth of between 3.6 and 7.3%.

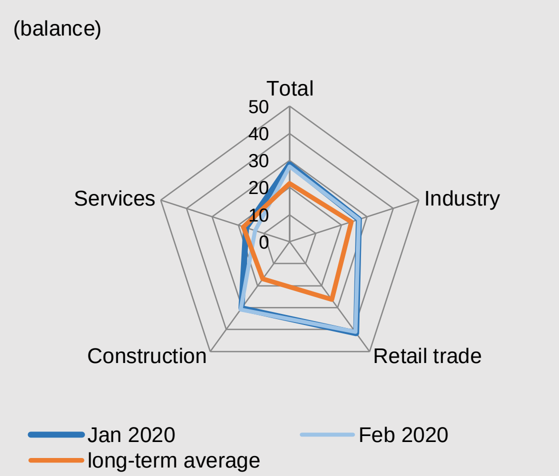
In Q4 Nominal unit labor costs dynamics (NULC) slightly accelerated to 3.3% yoy. Compensation per employee grew by a nominal 5.3% yoy in the period, up by 2.8% in *services* and 11.3% in *industry*. The compensation per employee in

Graph 1 Contributions to GDP growth



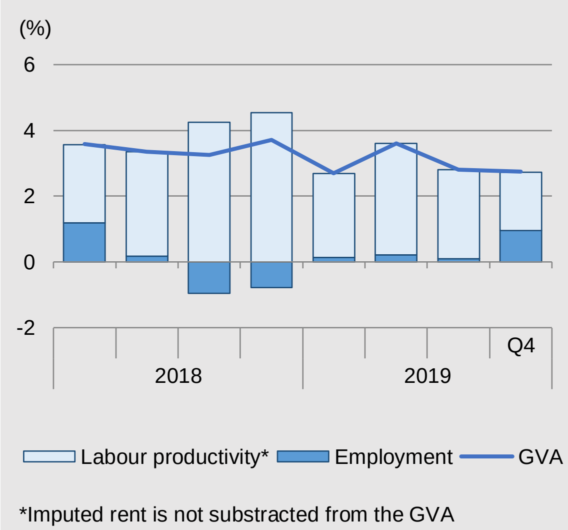
Source: NSI

Graph 2 Business climate by sectors



Source: NSI

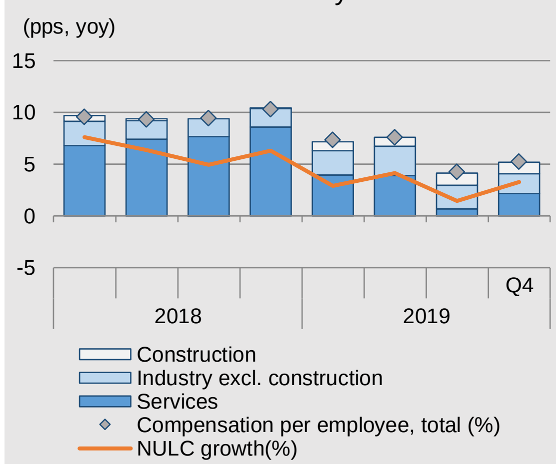
Graph 3 GVA growth by labour factors



*Imputed rent is not substracted from the GVA

Source: NSI, MF

Graph 4 Contributions to compensation per employee growth by economic sectors and NULC dynamics



Source: NSI, MF

services increased slightly stronger than real productivity and resulted in higher NULC of 2% yoy. Negative contribution of *trade, transport and hotels and restaurants* further deepened. NULC growth in the industrial sector kept decelerating on account of *industry excl. construction*. The upward productivity trend coupled with the slowdown in compensation per employee growth led to a favourable NULC dynamics in *industry excl. construction*. It increased by 1.7% yoy – the lowest rate since mid-2015. In *construction* both compensation per employee and NULC continued to increase by double digit rates.

Inflation

In February the consumer price level remained unchanged from the previous month. Within the main groups, *food* prices increased by 0.4% mom, while *services* fell by 0.1% mom. Prices of energy goods remained stable.

Inflation rate on an annual basis slowed down, due to the lower rates in *food* and *energy goods* prices. February inflation decelerated to 3.1% yoy, down from 3.4% yoy in January. Core inflation edged up by 1 pps. compared to January, to 2.6% yoy. Of the two components of the latter indicator, *services* prices posted a slight increase, including in catering. Following a slight yoy decline in January, *non-energy industrial goods* prices remained unchanged in February.

External sector

Current account surplus reached 9.7% of GDP in 2019, almost doubling from the 5.4% balance in 2018. Trade deficit increased in December as import of goods growth, up by 4.3% yoy, outpaced the rise in export, 1.3% yoy. Import of services was down by 5.9%, mainly due to the lower *transport*, *insurance* and *pension services*. Export of services also decreased, down by 5.3% yoy led by lower *insurance* receipts. Nevertheless, in 2019 as a whole receipts from foreign tourists were up by 0.6%, as total visits of EU tourists (incl. UK) increased by 1.7% and those from non-EU countries – by 0.3%. Among the countries, an increase was observed in tourists, coming from Ukraine (up by 24.9%), Greece (26.5%) and UK (24.4%). While there were less visits from Germany (down by 12.3%), Russia (13.7%) and Romania (7.2%).

At end-December gross external debt decreased by 2.9 pps on an annual basis to 56.2% of GDP. The strongest improvement was accounted by the General government external debt, down to 9% of GDP from 9.9% at end-2018. Net external debt improved further, as assets surpassed the liabilities by 3.5% of GDP.

Financial sector

In January private sector credit continued to increase but at a slightly slower annual rate of 9% vs. 9.3% yoy at end-2019. The main contribution came from lower non-financial companies' credit growth, up by 5.4% vs 5.9% yoy a month ago. In the households segment the increase reached 10%, up from 9.5% yoy a month earlier. Consumer loans and mortgages growth accelerated to 11.2% and 14.8% yoy, respectively, in line with the improved consumer confidence indicator in January. In terms of currency structure, credit in local currency continued to be more preferred than in euro, and the trend is more prominent in the households segment. Companies' loan portfolio was almost balanced between FX and BGN, with a 48.4% share of FX denominated deals (incl. 46.7% in EUR).

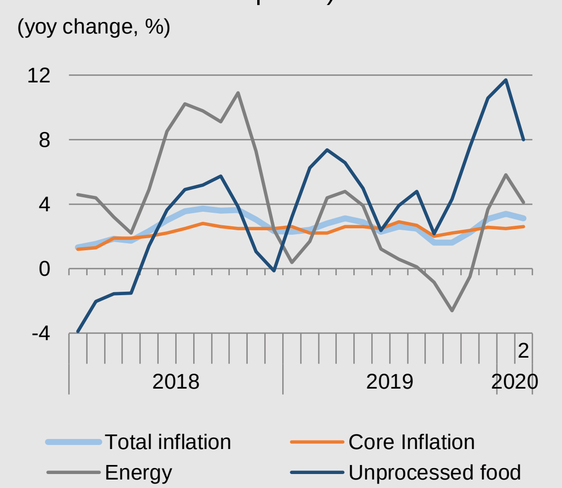
Fiscal sector

A cash budget surplus of 0.7% of projected GDP was reported at end-January. Total revenue and grants slightly increased, up by 1.5% yoy, on the back of higher revenue from social and health insurance contributions (27.1% of total tax revenue) and indirect taxes (57.9%). The increase in proceeds from indirect taxation was on the account of higher revenue from excise duties, while VAT revenue decreased compared to the same month of 2019. Direct taxation (12.7% of total) broadly equalled its previous years' level. Non-tax revenue and grants went down. Expenditure increased by 6.8% yoy, mostly as a result of higher personnel – (27% of total costs) and capital spending (almost 7% of the total vs 4% a year earlier). Interest payments and subsidies declined. Almost half of the total spending was social expenditures, incl. scholarships.

Government debt lowered to 18.8% of projected GDP, down from 19.5% a year ago.

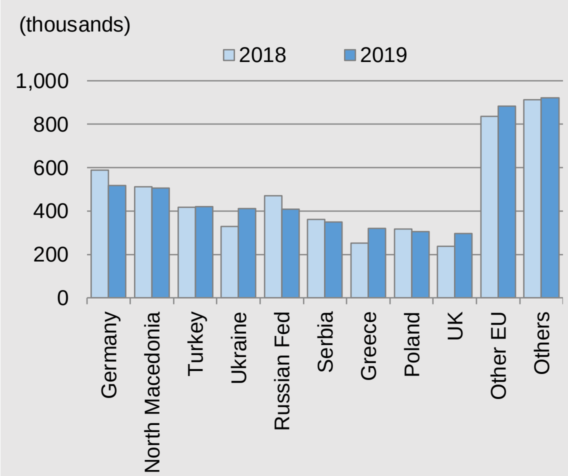
Table: Key Macroeconomic Indicators

Graph 5 Inflation (harmonised index of consumer prices)



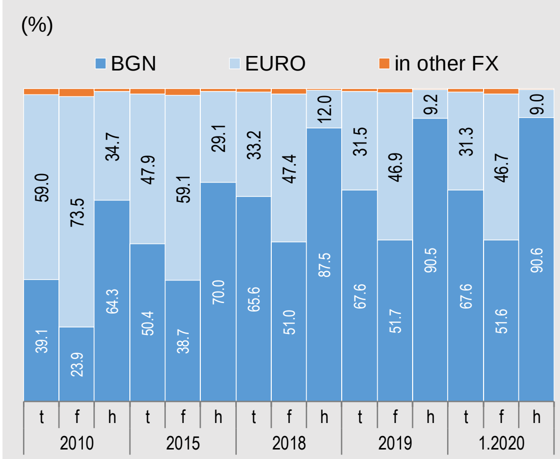
Source:Eurostat

Graph 6 Foreign tourist visits in Bulgaria by country



Source: NSI, MF

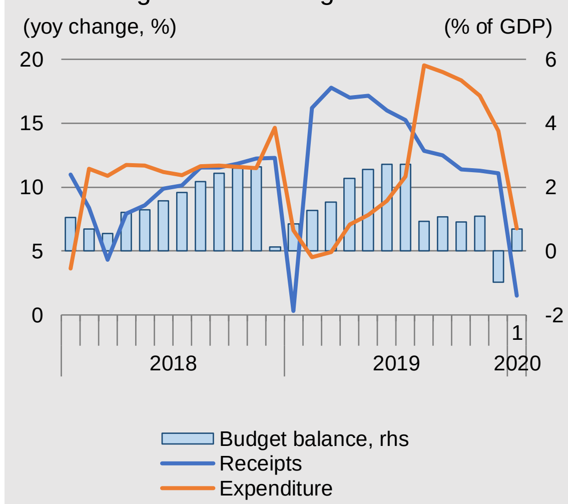
Graph 7 Credit to NFCs and households, year-end currency structure



* t – total credit; f – firms; h – households;

Source: BNB, MF

Graph 8 Budget receipts and expenditure yoy growth and budget balance



Source: MF