Ministry of Finance of the Republic of Bulgaria

BULGARIAN ECONOMY

MONTHLY REPORT

Based on statistical data up to April 16, 2020

Short-term business indicators

In February short-term indicators showed mixed performance, as industrial and construction production declined compared to a year earlier, growth of industrial turnover slowed down, while retail trade speeded up.

In March both the business climate and the consumer confidence indicator declined, down by 3.7 and 3.6 points respectively. The worsening of the expectations was particularly strong in retail trade. The decrease in the business climate in industry was fuelled by deteriorating assessments of both the current and the future business situation of the enterprises. A decrease was reported in the production assurance with orders, particularly export orders. The assessments for the demand for services in the past 3 months were also lowered. The construction sector was the only one with increase in the business climate and positive expectations. Reflecting the most recent developments, the economic climate tracer entered the downswing quadrant, after being in the expansion area in the previous two quarters.

Labour market

In March state of emergency was declared in relation to the COVID-19 and the follow-up measures led to a sharp increase in unemployment. At end-March the number of registered unemployed rose to 220 072, up by more than 25 thousand yoy.

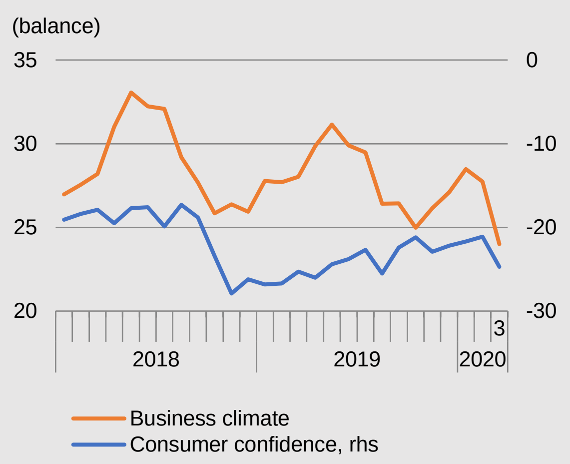
The main reason for that was the higher unemployment inflow, especially in the second half of the month, when the lockdown was announced. The largest yoy increase in the newly registered unemployed in March was reported in the *accommodation and food service activities* (nearly six times), *trade* (more than twice) and *transport* - the economic activities mostly affected by the measures for social distancing. This process continues in April.

Inflation

In March, inflation compared to a month earlier, as measured by the Harmonised index of consumer prices, was negative at 0.5% and was mostly driven by decrease in prices of services, energy and non-energy industrial goods. The fall in energy goods prices was due to liquid fuels, which decreased by 5% on average. In March crude oil prices dropped by 40% in USD terms and a stronger effect on domestic fuel prices is expected in the next month. A seasonal price decrease was registered in some services and non-energy industrial goods like clothing and footwear, packaged holidays and tourist trips. Food prices went up by 0.3%, as unprocessed foods price declined by 1.5% and prices of processed foods rose by 0.8%.

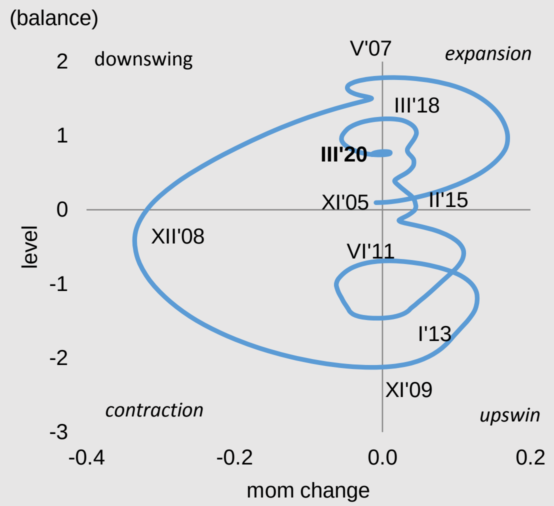
Inflation in March, compared to a year earlier, was 2.4%, down from 3.1% yoy

Graph 1 Business climate and consumer confidence



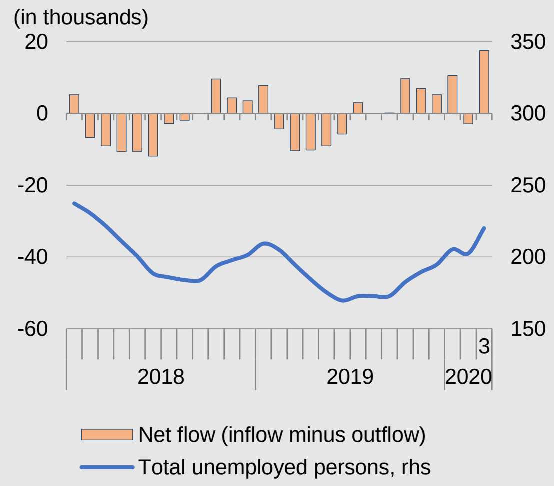
Source: NSI

Graph 2 Climate tracer



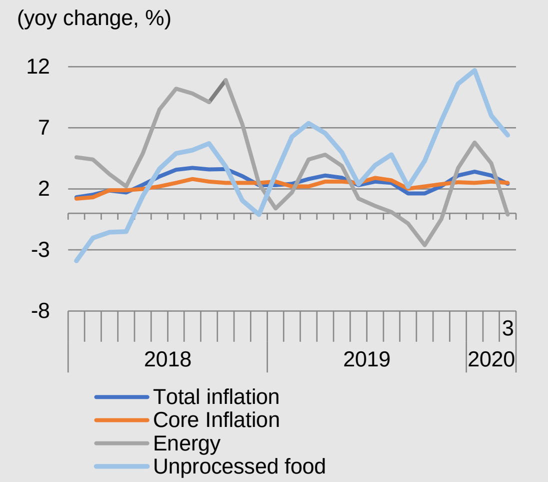
Source: Eurostat, MF

Graph 3 Net flow and stock of unemployment



Source: EA

Graph 4 Inflation (harmonised index of consumer prices)



Source: Eurostat

in February. Only prices of processed foods reported an increase on annual basis. A clear acceleration trend has been observed in this group since mid-2019 and the pace is close to that of producer prices of food. The prices of energy and non-energy goods returned to a negative change in March, decreasing by 0.1 and 0.2% respectively. Core inflation on annual basis declined by 0.1 pps to 2.5% in March. Prices of services declined by 2.7%, compared to 3.1% in February.

External sector

Current account came positive in January 2020, as all articles except trade in goods posted surpluses. The balance reached EUR 115.2 mln, being slightly above zero a year ago. As regards commodity trade, export's growth of 8% yoy was outpaced by the increase in import, up by 8.2%. Both export and import of services posted declines in the first month of the year, down by 6.4 and 9.4% yoy, respectively. Receipts and payments related to travel were the only ones to increase on a year earlier.

Along with the January BOP, BNB published regular revisions to the January 2018 – December 2019 data. Current account surplus in 2019 was lowered to 4% of GDP, down by 5.7pps. Primary income balance was revised to a larger deficit, down by -2.8pps, due to updated coverage of the BNB sample survey on direct investment enterprises, which was reflected in higher reported direct investment income paid. Trade deficit was also revised downwards by 2.6pps, as import was reported higher. The latter was mainly due to the implementation of new EU customs regulations which affected the timing of the data accumulation. Inward FDI to GDP ratio was revised upwards by 0.9pps.

Financial sector

Growth in credit to the private sector picked up slightly in February and the pace reached 9.2% yoy, as opposed to 9% yoy a month earlier. The acceleration was driven by loans to households, up by 10.5% yoy, as both consumer credit and mortgages speeded up to 11.5 and 15.1% yoy, respectively. Corporate loans growth rate remained unchanged from a month earlier at 5.4% yoy, despite the 0.6% mom increase. Weighted average interest rates on loans to NFCs and consumer loans dropped in February, while the average rate on mortgages remained unchanged. The average rate on time deposits for NFCs and households reached a new historical low in February.

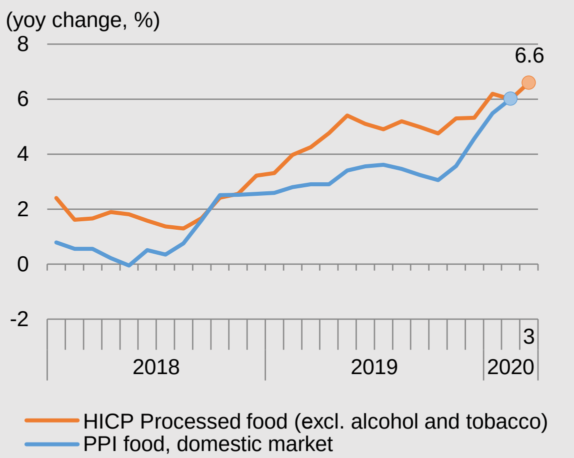
Fiscal sector

At end-February the balance on the consolidated fiscal program was at a surplus of 1.3% of projected GDP. The increase in total cash proceeds accelerated to 3.4% yoy from 1.5% a month ago and was mainly driven by higher tax revenue and grants. The growth in tax and social security revenue was due to higher revenue from social security contributions (up by 9.4% yoy), and to a lesser extent to proceeds from direct and indirect taxation (up by 6.5% and 0.7% respectively). Non-tax revenue (14.5% of total cash budget proceeds) decreased by 7.9% yoy. Government spending increase on a year earlier, but the pace decelerated to 4.9% yoy from 6.8% in January. There was a double-digit increase in staff payments (up to almost 28% of total costs, from a share of 26% a year earlier) and social expenditure (incl. scholarships), while interest payments were twice as lower. The contribution to the EU budget also declined on an annual basis.

At end-February Government debt reached 20.3% of projected GDP, being 19.4% a year ago.

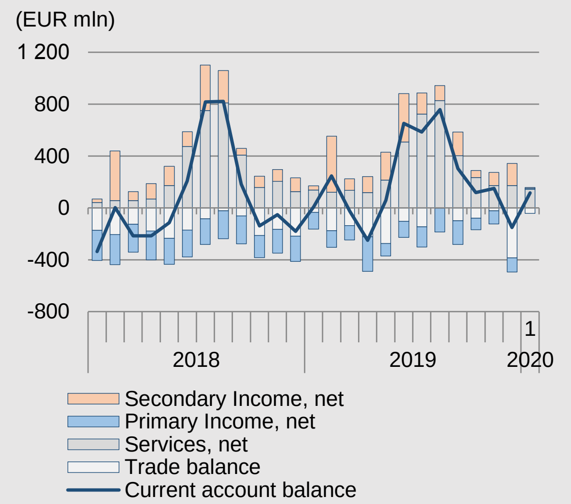
Table: Key Macroeconomic Indicators

Graph 5 Producer and consumer prices of processed food



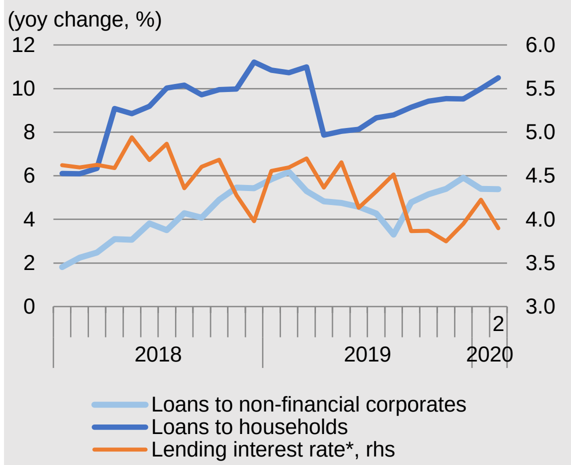
Source: NSI, Eurostat

Graph 6 Current account components



Source: BNB

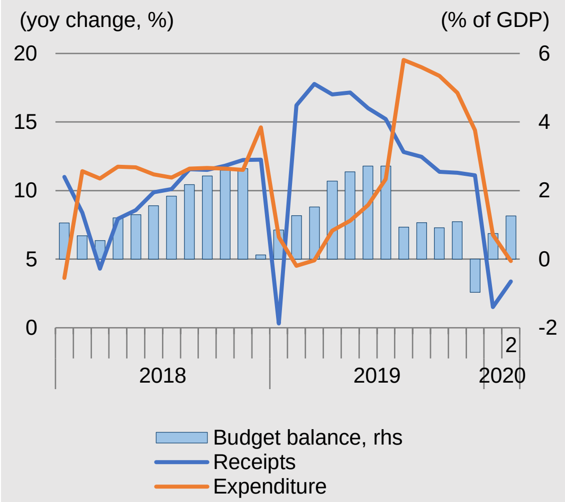
Graph 7 Private sector credit growth



* NFCs and Households

Source: BNB, MF

Graph 8 Budget balance, receipts and expenditure



Source: MF