Ministry of Finance of the Republic of Bulgaria

BULGARIAN ECONOMY

MONTHLY REPORT

Based on statistical data up to May 18, 2020

On 13 March a State of emergency was introduced in Bulgaria, imposing a number of containment measures against the spread of COVID-19. The effects of those measures are evidenced through different economic indicators in March and April.

In March COVID-19 containment measures were widely introduced by all EU Member States and had a significant impact on economic development in March and April.

Gross Domestic Product – flash estimates

In Q1, GDP grew by 2.4% yoy s.a. There was a significant decline of 5.3% in gross fixed capital formation. The rate of growth of final consumption was lower than in Q4 2019, down by 4.1%. Following a decline in Q4, export increased by 1.1% in Q1, while the decrease in import accelerated to 0.6%.

Short-term Business Statistics

Industrial and construction production, as well as retail trade, deteriorated in March. The overall industrial production decreased led by lower *manufacturing* output, despite the increase in *mining and quarrying*. Following the growth in January-February, industrial turnover shrank in March. It was largely due to reduced export sales, led by a decline in intermediate goods, energy and investment goods. The drop in construction reached double-digit rates, with reported declines in both *building* and *civil engineering*. The restrictive measures related to COVID-19 led also to a significant decline in retail trade, as increase was reported in only two groups – *beverages and cigarettes* and *pharmaceutical and medical goods*.

In April the sentiment indicators plummeted. The business climate dropped by 41.7 points mom and reached its lowest level since 1997. The fall was particularly marked in retail trade and services and less pronounced in industry. The expectations in all sectors were pessimistic. The decline in consumer confidence of 12.2 points was fuelled by deterioration in households' expectations about the general economic situation and their reluctance to make major purchases. The economic climate tracer entered the contraction quadrant for the first time since end-2008.

Labour market

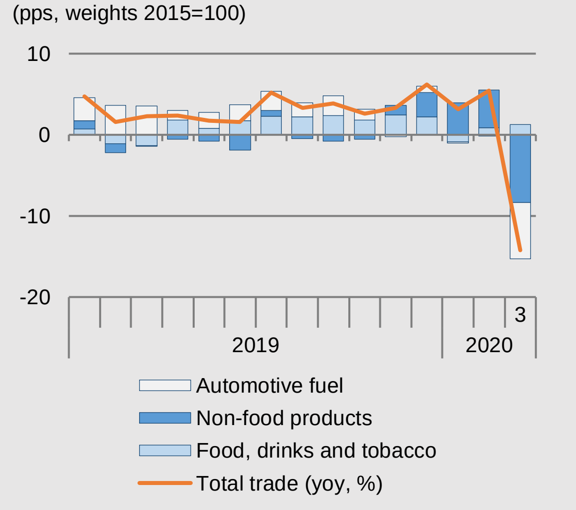
In Q1 2020, the participation and employment rates declined. The participation rate of population aged 15 to 64 lowered to 71.4%, down by 0.5 pps yoy, and the employment rate of the population of the same age group was 68.1%, down by 0.2 pps yoy. At the same time, the unemployment rate of 4.6% remained lower than in the same quarter of 2019 by 0.4 pps.

The dynamics of labour market indicators is determined mostly by the measures introduced to address the COVID-19 pandemic but also by seasonal factors. As a result of the lockdown many companies from the affected sectors sharply reduced their economic activities. However, it is still too early to assess the possible effects of the COVID-19 measures on the country's labour market. The dynamics of the number of registered unemployed shows that the main effect on employment and unemployment has materialized in April. According to the Employment Agency, the number of registered unemployed at end-April increased by about 59% yoy.

Wages

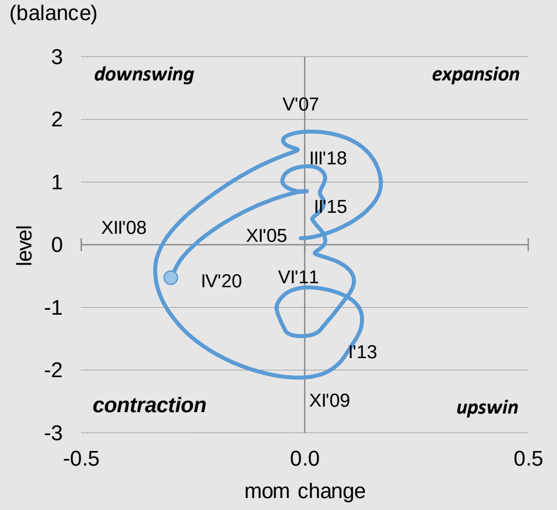
In Q1 2020 the nominal average wage growth decelerated to 9% yoy reflecting the first negative signs of the COVID-19 pandemic. In January and February, the average wage kept increasing by double-digit rates of 11% and 10.5%, respectively, but the growth rate decelerated to 5.9% yoy in March mainly due to the private sector dynamics. The HICP deflated real wage growth slowed down to 3.5% yoy in March and 6% in Q1.

Graph 1 Retail trade



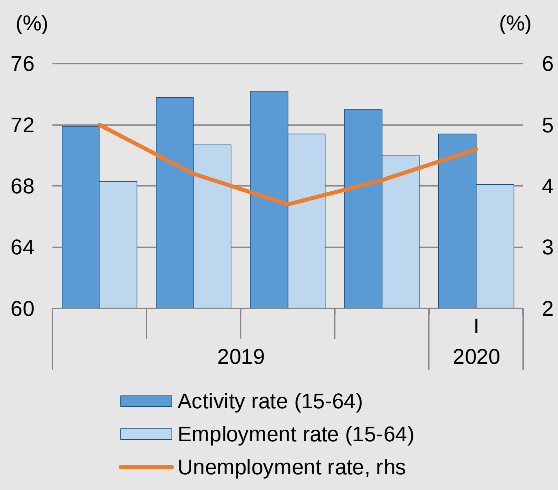
Source: NSI

Graph 2 Climate tracer



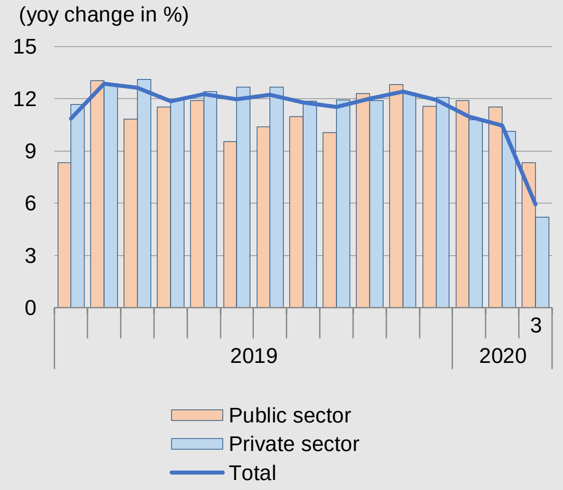
Source: Eurostat, MF

Graph 3 Activity, employment and unemployment rates



Source: NSI

Graph 4 Nominal wage growth by economic sectors



Source: NSI, MF

The impact was stronger in *hotels and restaurants*, where both wages and number of employees decreased on a year earlier, down by 14.5% and 22.8%, respectively. Similar negative dynamics were reported in *art entertainment* (7.1% and 3.9%, respectively) and *construction* (0.1% and 3.7%). Activities, such as *manufacturing*, *transport* and *trade,* were partially affected, as the growth in average wage slowed down, while the number of employees decreased. Wage and employees dynamics in March resulted in strong deterioration in households' expectations regarding their employment status in the next twelve months.

Inflation

In April consumer prices declined by 0.4% mom, due to the sharp drop in energy prices. Food and services prices increased slightly in the month. In April crude oil prices went further down by 29% mom, after a 40% decrease in March. The significantly lower import prices of natural gas caused respective decline in domestic gas and heating prices. According to a decision by the Energy and Water Regulatory Commission lower natural gas and heating prices were introduced, since the beginning of April. The lower prices of energy goods contributed by 0.9 pps to the negative inflation. Food and services prices increased by 0.6% mom. The increase in the first group was largely driven by higher prices of fresh fruits. The seasonal increase in international flight prices had the highest impact on the overall increase in services.

Annual inflation lowered further in April to 1.3% yoy, due to the drop in the prices of energy goods by 8.3%. Core inflation remained unchanged compared to March.

External sector

In February, the current account surplus more than doubled from the same month of 2019, reaching EUR 571.6 mln, as balances on trade and income improved significantly. Growth of export of goods, up by 5.9% yoy, outstripped that of import, up by 1.1% yoy. Trade with non-EU countries declined in February. Export of services contracted by 7.4% yoy due to lower manufacturing services with input materials owned by others, transport, financial services, ICT and other business services. The decrease in import of services by 13.2% yoy was mainly led by transport and financial services. Primary income balance improved, as a result of lower payments to non-resident investors, while the secondary income surplus increased due to significant inflows of EU funds. The accumulated current account surplus for the first two months of 2020 amounted to EUR 666.4 mln or 1.1% of projected GDP. For the same period capital inflows to the General government increased by 40.6% yoy.

At end-February, GED fell by 0.6% yoy, reaching 56.4% of projected GDP. Net external debt increased by EUR 1 bn compared to February 2019, as gross external assets went up by 2.3% yoy or EUR 821.1 mln.

Financial sector

In March credit dynamics was not significantly affected by the measures related to COVID-19. Growth of private sector credit slowed down marginally to 9.1% yoy at end-March from 9.2% a month earlier. The deceleration was due to credit to households, and more specifically to consumer loans, which lost some momentum and grew by 10.4% yoy as opposed to 11.5% in February. The slowdown was more evident in the short-term segment (maturity shorter than 1 year) and coincided with the closure of non-essential trade venues due to the lockdown. Mortgages were less affected and continued to grow at a relatively fast pace of 14.8% yoy (15.1% in the previous month). Growth of loans to non-financial corporations slowed down slightly from 5.4% to 5.2% yoy in March.

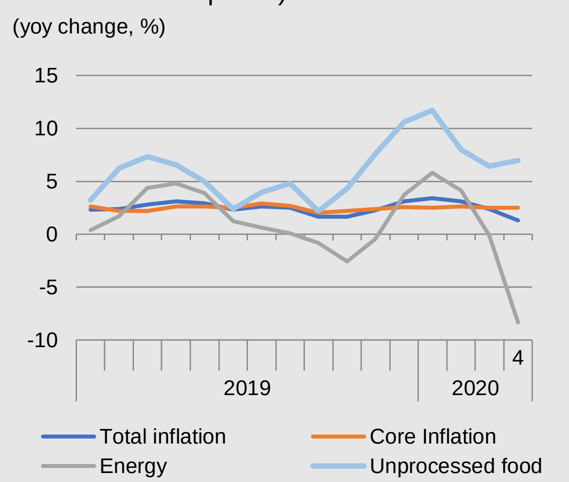
Fiscal sector

At end-March the surplus on the consolidated fiscal program reached 1.2% of projected GDP and remained close to the level a month ago. The minor increase in total cash receipts of 1.1% yoy was largely due to grants and donations, which almost doubled. A slight increase of 0.7% in tax and social security revenues was reported due to higher social security contributions and indirect taxes by 7.9% and 1%, respectively. Revenue on direct taxes declined by 9.5% yoy as the deadline for payment of Corporate Income Tax was extended to mid-2020. Non-tax revenues declined as well, down by 12%. Accumulated expenditures by end-March increased by 5.5% yoy, mainly owing to increased staff and social costs (incl. scholarships), while interest payments and the Bulgarian contribution to the EU budget declined.

Government debt remained unchanged for a third consecutive month at 20.3% of projected GDP.

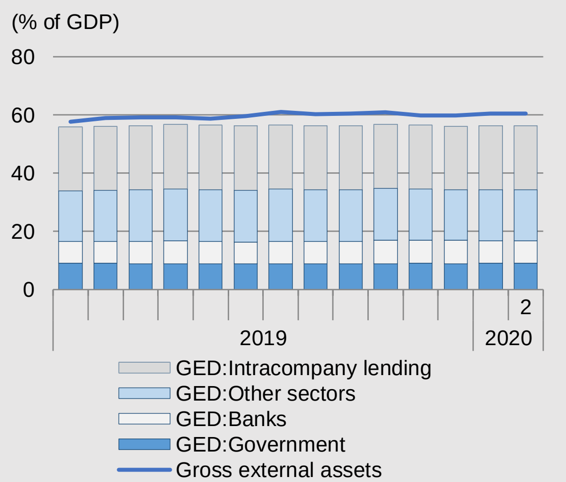
Table: Key Macroeconomic Indicators

Graph 5 Inflation (Harmonised index of consumer prices)



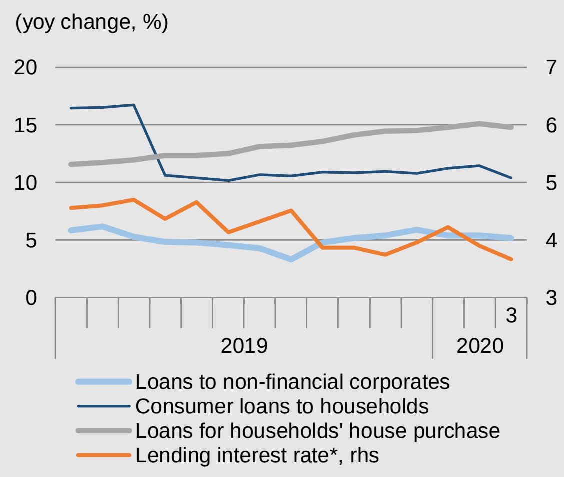
Source: Eurostat

Graph 6 Gross external debt and gross external assets



Source: BNB, NSI, MF

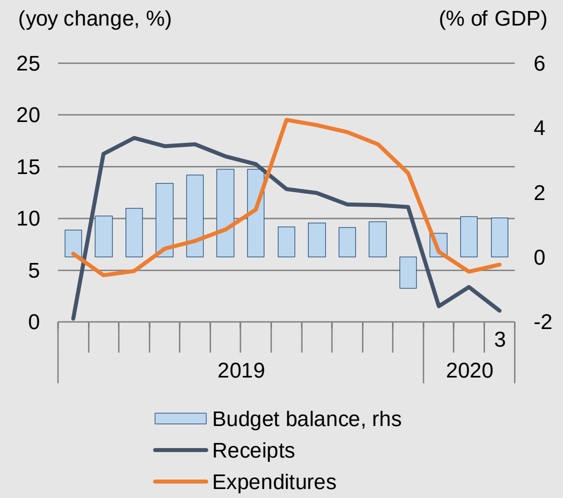
Graph 7 Private sector credit growth



* NFCs and Households

Source: BNB, MF

Graph 8 Budget balance, receipts and expenditure



Source: NSI, MF