Ministry of Finance of the Republic of Bulgaria

BULGARIAN ECONOMY

MONTHLY REPORT

Based on statistical data up to July 16, 2020

In March COVID-19 restrictive measures were widely introduced by all EU Member States, making a significant impact on economic development. In Bulgaria a State of emergency was introduced on 13 March and lifted in mid-May, while certain anti-epidemiological measures still remain relevant. The effects of the containment measures are evident through different economic indicators in March–June.

Short-term business statistics

In May, the yoy decline in short-term business indicators deepened. The decrease in industrial production intensified driven by manufacturing. Turnover went down by more than 25% yoy and the decline was close to the rates recorded during the 2009 financial crisis. Both sales on the domestic market and for export dropped significantly. On the internal market the decrease was mostly driven by intermediate and energy products, while on the international market leading contribution came from intermediate and investment products. Retail trade posted a historical fall in the month, down by 20.7% yoy. The decline was broad-based, with a slightly higher contribution of non-food products. The drop in construction deepened to 17.8% yoy, led mainly by lower building construction.

In June business climate continued to improve and it has so far recovered more than half of the loss reported in April. There was an increase in orders in construction and in sales volume in retail trade. Expectations for the production in industry and the demand in services over the next 3 months were more optimistic. Consumer confidence remained close to the level in May, but unemployment expectations were less pessimistic.

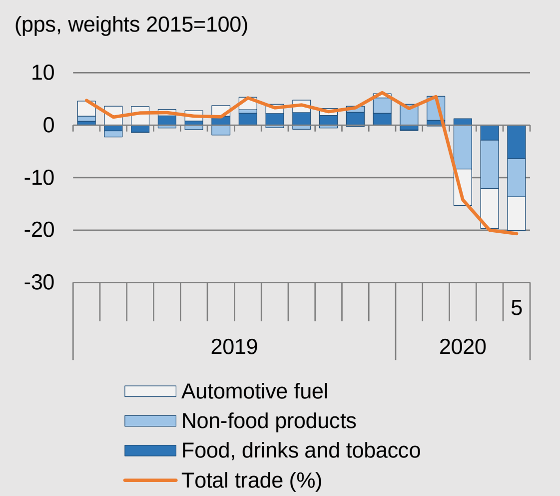
Labour market

After the sharp increase in the number of registered unemployment as a follow-up of the COVID-19 measures, in mid-May there was a shift in the dynamics and the improvement continued in June. The decrease in the number of registered unemployed was particularly evident in June, down by 7.5% mom to 273 367 at the end of the month. There was both a sharp decline in the number of newly registered unemployed and a significant increase in the outflow. Among the latter the number of registered unemployed, who started a new job, was 36 621 people, the highest monthly value of the indicator for the last ten years.

Inflation

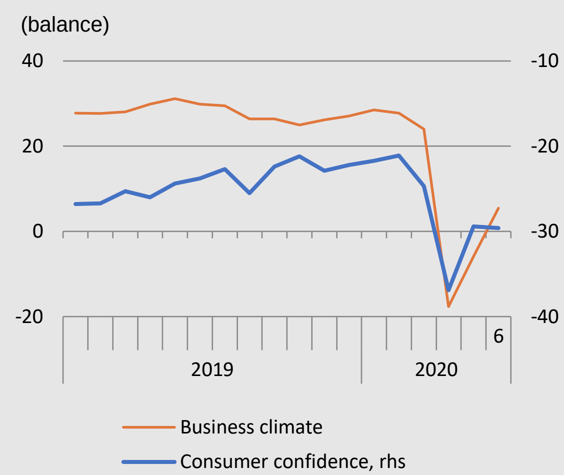
In June the drop in food and energy prices caused an overall decrease in consumer prices of 0.1% mom. The decline in food prices of 0.7% was mainly due to fresh vegetables prices, down by 5.2%. Energy goods prices went down by 0.6% as fuels for personal transport vehicles decreased by 1.4%, and gas prices - by 2.7%. Services prices increased by 0.5% due to more expensive international flights and accommodation services.

Graph 1 Contributions to retail trade yoy growth



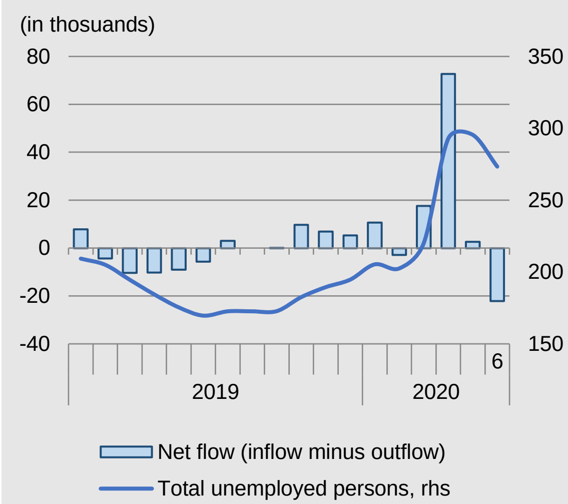
Source: NSI

Graph 2 Business climate and consumer confidence



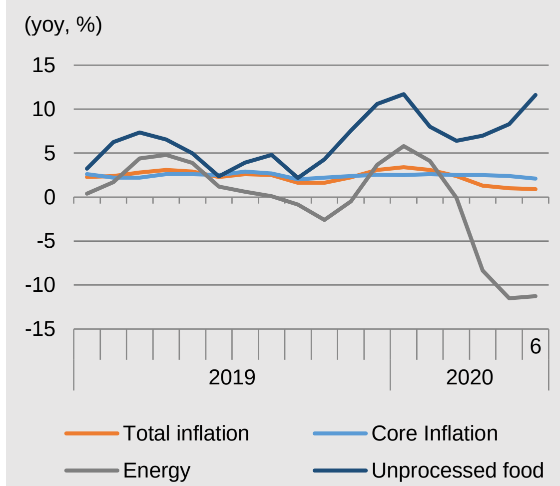
Source: NSI

Graph 3 Net flow and stock of unemployment



Source: EA

Graph 4 Inflation (Harmonised index of consumer prices)



Source: Eurostat

Annual inflation continued to decline in June and the slowdown in core inflation was stronger. Inflation edged down to 0.9% yoy from 1% in May. The decline in energy prices eased slightly. Food prices continued to follow different dynamics, as inflation in unprocessed foods accelerated, while the rate in processed foods prices kept slowing down in June. The latter also resulted in lower core inflation – down to 2.1% yoy in June from 2.4% in May.

External sector

The decline in trade flows speeded up in April. Export and import of goods decreased by 18 and 29.8% yoy, respectively, following single-digit drops in March. Shrinking in intra-EU trade was slightly stronger. As travel and transportation activities were hit by the COVID-19 containment measures, export of services went down by 57.3% and import – by 59.5%. In April the payments to non-resident investors also declined, down by 93.4% yoy. There was a substantial decrease in the remittances from abroad, too, down by 90.2% yoy. The stronger decrease in import of goods and services than in export and the registered positive balance on Income accounts resulted in an improvement of the monthly Current account balance on a year earlier. It shifted from a deficit to a surplus. For the period January-April Current account also posted a surplus of EUR 625.7 mln or 1% of projected GDP compared to a deficit of EUR 19.8 mln a year ago.

Gross external debt increased slightly mom to EUR 34.2 bn or 57% of projected GDP. Government indebtedness went up by EUR 390.3 mln, as funds were extended as part of existing loan agreements. Short-term liabilities of the banking sector increased by EUR 248.7 mln.

Financial sector

Credit to the private sector continued to decelerate in May. The slowdown was less pronounced than in April, which could be attributed to the relaxation of some of the restrictive measures as of mid-May. Private credit growth rate lowered to 7% yoy in May from 7.6% a month earlier. Corporate credit growth edged down to 2.9% yoy from 3.2%, entirely due to the fast decline in overdraft. On the other hand, loans to companies, excl. overdraft, increased by 6.2% yoy, as opposed to 5.4% in April. Credit to households decelerated to 8.2% from 9.2% yoy despite the positive net monthly flow. All segments lost momentum, the most affected being consumer loans, slowing down to 7.1% yoy. Notable development was the monthly increase in loans with maturity from 1 to 5 years. It reflected the successfully ongoing program, which supports individuals, affected by the COVID-19 measures, by extending interest-free loans. Housing loans kept a double digit yoy increase.

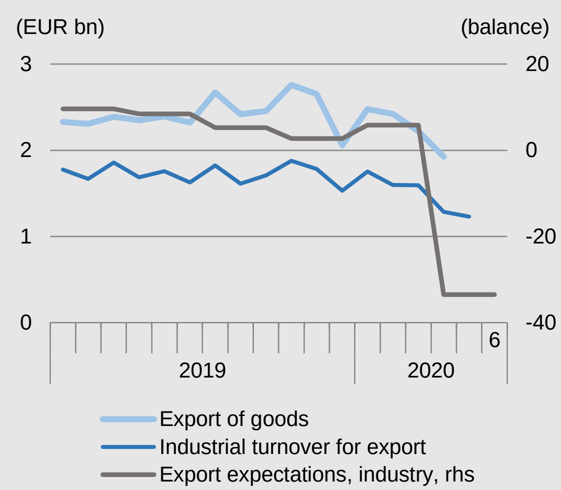
Fiscal sector

At end-May consolidated budget balance on a cash basis remained positive at 1.1% of projected GDP. Total budget receipts went down by 5.8% yoy. Tax revenues decreased by 5.3% following a drop in all subgroups, except for social and health insurance contributions. Proceeds from direct and indirect taxation were 16.2% and 4.9% lower, respectively. The drop in indirect tax revenues reflected higher negative contribution from VAT and, to a lesser extent, excise and custom duties. VAT revenues declined by 4.8% yoy as a result of lower VAT from import, down by 15.7%. Non-tax revenues also fell by 22.7%, while grants and donations went up by 37.1%. Expenditures' growth slowed further down to 4% yoy in May. The increase was attributable to personnel and social costs, while spending on current maintenance, interest payments and subsidies went down.

Government debt amounted to 21.2% of projected GDP.

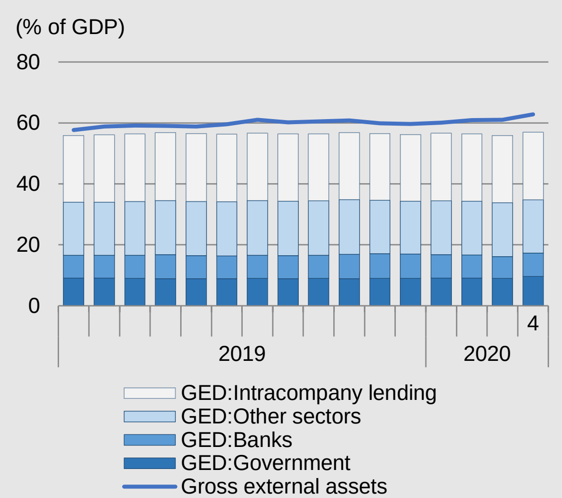
Table: Key Macroeconomic Indicators

Graph 5 Export of goods, export turnover and expectations



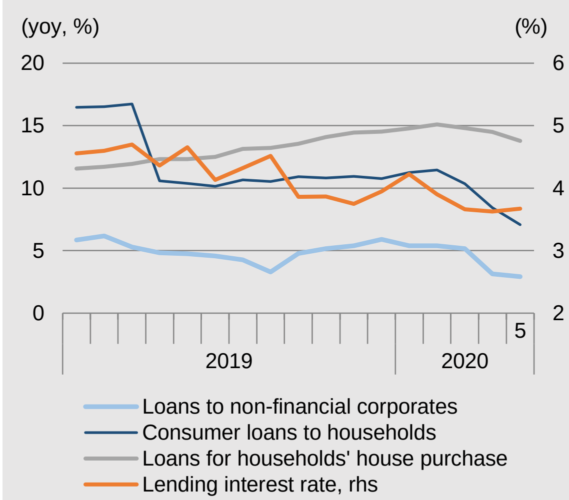
Source: BNB, NSI

Graph 6 Gross external debt and gross external assets



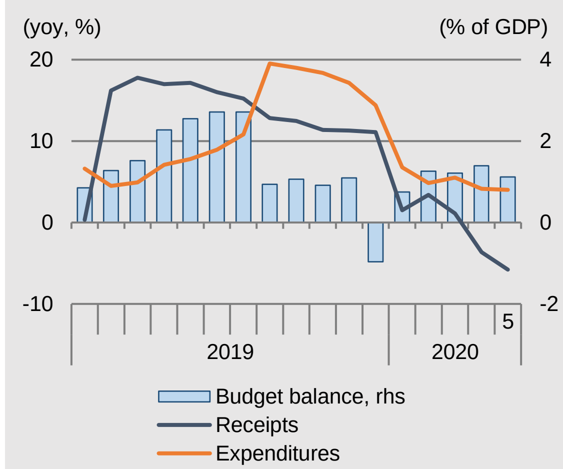
Source: BNB, NSI, MF

Graph 7 Private sector credit



Source: BNB, MF

Graph 8 Revenues, expenditure and budget balance on CFP



Source: MF, NSI