

BULGARIAN

ECONOMY

MONTHLY REPORT

Based on statistical data up to 16 July 2021

Short-term Business Statistics

In May the growth of short-term indicators slowed down slightly. Industrial production increased by 15.1% compared to May 2020, as growth continued to be driven by *manufacture of motor vehicles, trailers and semi-trailers; manufacture of machinery and equipment; manufacture of metal products*. The industrial turnover of export of *basic metals and energy goods* increased, while *electricity, gas, steam and air conditioning supply* had the major contribution to domestic turnover growth. The growth of construction production slowed down significantly and a decline was registered in building construction. At the same time, the growth of retail trade turnover

was 24% with increasing contribution of retail sale of *food, beverages and tobacco*.

In June the business climate indicator posted a decrease compared to May, while the consumer confidence improved on the back of better expectations for the economic situation in the country. The expectations of the respondents in industry about the future business situation of enterprises and the future production tendency worsened. At the same time, the demand for services and sales in retail trade increased.

Labour market

According to the Employment Agency data, the number of registered unemployed was 170 716 at the end of June. The data on the registered unemployed in

June were very similar as compared to the same month in the 2018-2019 period. The outflow (newly hired or dropped out from registration) and the inflow were close to their volumes observed during the pre-COVID19 summer months and the number of registered unemployed was very similar (only 0.6% higher) to the one observed at the end of June 2019, which is also a historic low for this parameter so far.

We expect the downward trend in the dynamics of the registered unemployed to continue in July. However, our expectation is their number to remain close to the recorded at the end of June, followed by a reversal of the trend in the fall months, mostly due to seasonal factors. The major factors that will be important for the labour market dynamics until the end of the year would be the epidemiological situation in

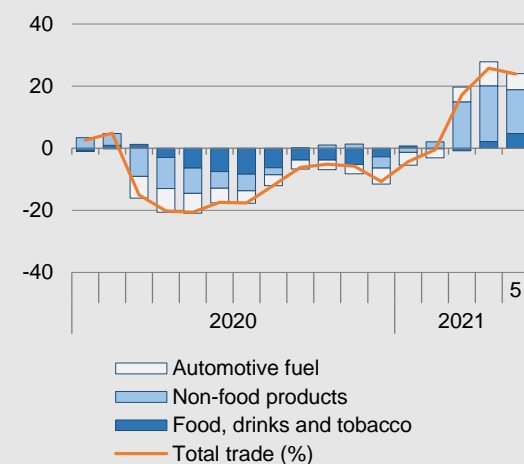
the country, the dynamics of the vaccination process, and the scope of the short-term programmes for the preservation of employment.

Inflation

The monthly HICP inflation rate was 0% in June. Food prices decreased by 0.8% on average mainly on the account of cheaper vegetables and fruits during the summer season, while prices of processed food posted a minor increase. The negative contribution of foodstuffs subcomponent was almost entirely compensated by higher prices for accommodation, up by 4.1%, catering services, up by 0.5% and transport fuels, also up by 0.5%. The administered price for gas supply has been increased by 11.1%.

Graph 1 Contributions to retail trade growth

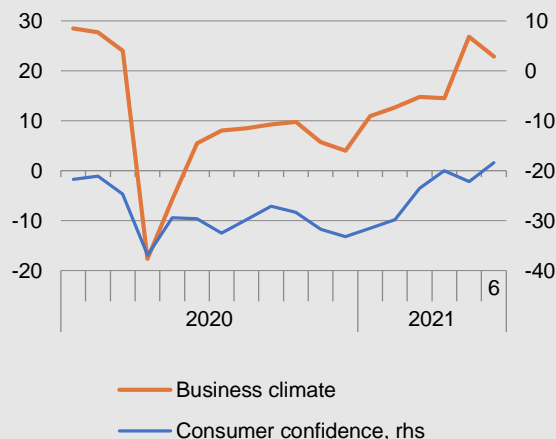
(pps, weights 2015=100)



Source: NSI

Graph 2 Business climate and consumer confidence

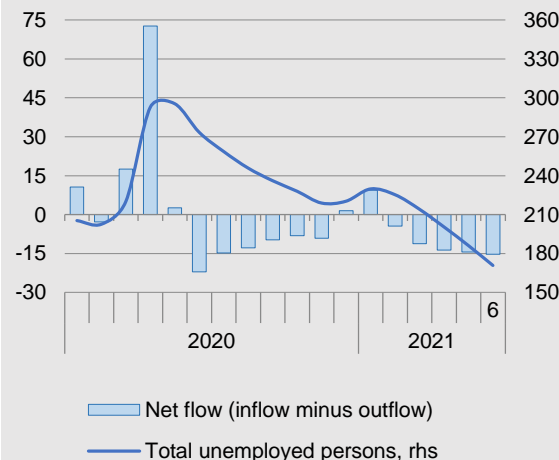
(balance)



Source: NSI

Graph 3 Net flow and stock of unemployment

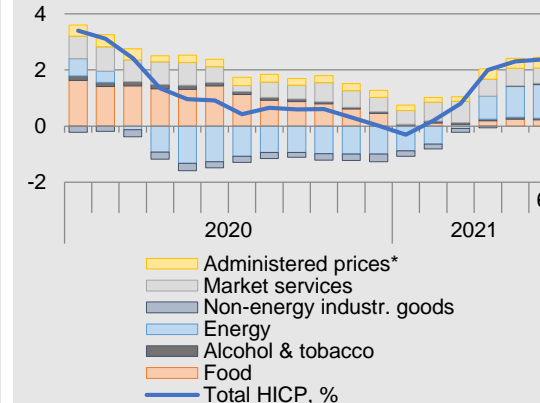
(in thousands)



Source: EA

Graph 4 Contributions by main HICP components

(pps, yoy)



* The index of administered prices is calculated as a weighted average of all elementary aggregate groups (goods and services) the prices of which are set or influenced to a significant extent by the government.

Source: NSI, MF

The annual HICP inflation rate accelerated marginally to 2.4% in June, largely on the account of the increase in prices of energy and transport fuels in particular, as the latter reached 24% yoy. Core inflation on the other hand decelerated by 0.1 pp to 1.4% mainly due to the services subcomponent.

External sector

The rising international prices continued to push up nominal growth in trade with goods in April. Export increased by 49.6% yoy, while import went up by 56%. Trade with EU had the highest contribution to the nominal growth. Balance on goods came in slightly negative in April, thereof the accumulated deficit since the beginning of the year widened to 1% of projected GDP. As regards services, following 13 months of yoy decline, first signs of some recovery were reported in April, as export edged up by 0.1% yoy. There was a three-fold increase in travel receipts, as the number of foreigner visits in Bulgaria rose even stronger. Still, both receipts and visits remained about 40% and 30% of their re-

spective values in April 2019. Services surplus was lower than a year ago and the accumulated positive balance in January-April reached 1.3% of projected GDP compared with 1.6% in the same period last year.

Current account came in slightly positive in April, thus the deficit since January decreased to -0.2% of projected GDP.

Gross external debt reached 59.1% of projected GDP at end-April. It increased by 0.5 pps from a month earlier, mainly driven by higher short-term bank credit.

Financial Sector

Private sector credit growth accelerated further in May, up by 6.4% yoy compared to 6.1% yoy at the end of the previous month. At the end of the month, approved loans and advances under the bank moratorium procedure was close to BGN 9.7 bn. Credit to households contributed to the higher private credit growth, while growth of credit to non-financial corporations slowed down slightly to 4.1% vs. 4.3% yoy at end April. This was on the back of continuing decline in yoy terms of

bad and restructured credits in the corporate segment. The negative monthly flow of corporate overdraft also contributed to the slowdown in the annual growth of NFC credit. Credit to households grew by 9.7% vs. 8.5% yoy at end-April. Growth rates of both consumer and housing loans gained momentum, up by 8.7% and 13.4% yoy, respectively, up from 7.5% and 12.7% yoy a month earlier.

Weighted average interest rate on new loans to NFC decreased in May. At the same time, the average weighted rate on credits to households slightly increased after a historic low registered in the previous month. Private sector attracted deposits continued to be high with still two-digit annual growth of deposits of households and companies, though the return on them remained low.

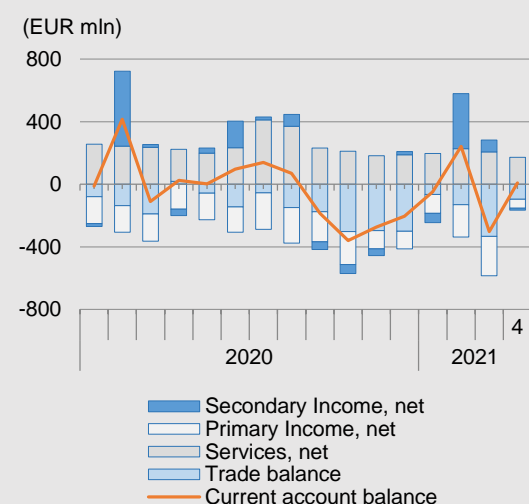
Fiscal sector

At end-May a deficit of 0.1% of projected GDP was reported on the Consolidated Fiscal Program (CFP). In January-May 2021 CFP receipts increased by

16.1% yoy. Non-tax revenues had the largest positive contribution, since in April the initial fee of BGN 660 mln. Incl. VAT for the concession of Sofia Airport has been paid. In the tax receipts group, revenues from indirect taxation reported the highest contribution. VAT revenues grew significantly, up to 19% yoy at end-May. An increase was also reported in revenues from excise duties for the first time since April 2020, when their dynamics was positive for the last time. Commodity groups of *fuels* and *alcohol and alcoholic beverages* contributed to the growth, while *tobacco* and *tobacco products* and *other goods* have not yet rebounded. Revenues from direct taxes and social security contributions also increased, while grants shrank by 20.1%. The double-digit growth of CFP expenditure continued, being 26.3% for the first five months of 2021. Social spending, subsidies, staff payments and maintenance had a major contribution to the reported growth.

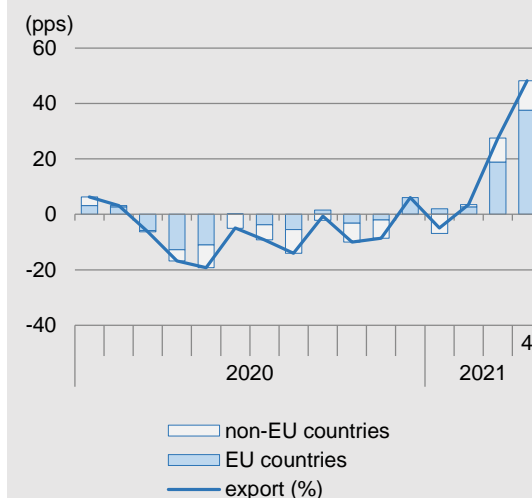
As of end-May government debt amounted to 24.5% of projected GDP, versus 21% of GDP a year earlier.

Graph 5 Current account components



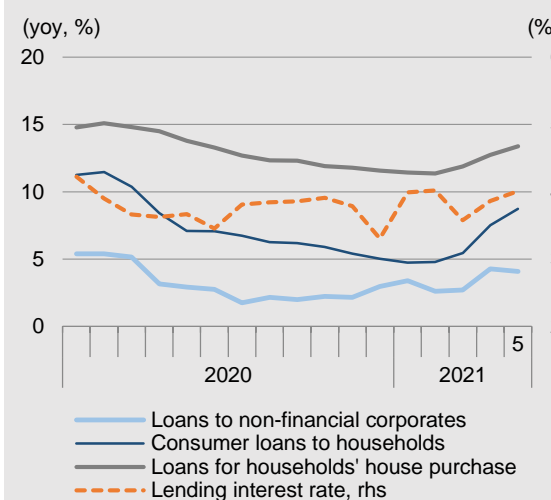
Source: BNB

Graph 6 Contributions to export growth by country groups



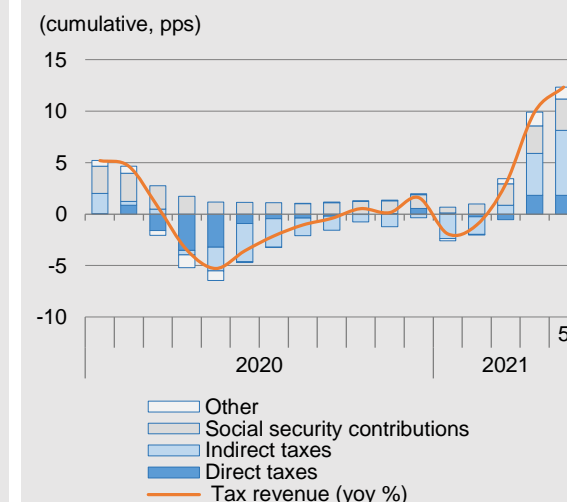
Source: NSI

Graph 7 Private sector credit



Source: BNB, MF

Graph 8 Contribution to total cash budget expenditure's growth



Source: MF

