

# BULGARIAN

# ECONOMY

## MONTHLY REPORT

Based on statistical data up to 17 March 2022

The emergency epidemic situation in the country, introduced due to the outbreak of the COVID-19 pandemic, will remain in force until 31 March 2022. Currently, the country is at the end of the fifth wave, caused by the spread of Omicron, which was the most intense so far since the beginning of the pandemic. The share of fully vaccinated in the third week of March was 29.5%, and 10.2% of the country's population received an additional dose.

### Gross Domestic Product

GDP growth accelerated to 5.6% yoy (nsa) in Q4 2021, due to positive contribution of net export. For the whole 2021 the growth was 4.2%. The export of goods and services increased by 13.8% in Q4 being up by 7.9% in Q3. At the same time, import went up by 10.9%. Household consumption increased by 8.7% on the back of growth in real disposable income and households' credit. The high uncertainty, expressed by the decline in the business climate indicator in the last quarter, led to GFCF decrease by 15.5%. By asset type, *construction*

and *machinery and equipment* had equal contributions to the decline.

The growth of GVA was 6.6% in Q4 and 3.6% for 2021. With the biggest contribution to growth for Q4 were services, as all main activities registered an increase. For the first time since 2019, the value added in *trade; transport; accommodation and food services* increased (3.9%). The value added in construction went down by 9%.

### Short-term Business Statistics

In January 2022, the growth of the short-term indicators accelerated. The increase of industrial production reached 16.5%. *Manufacturing* led by *manufacture of machinery and equipment*, had the largest contribution to growth, while at the same time the growth in *electricity, gas, steam and air conditioning supply* decelerated. Retail trade turnover went up by 11.1% and both trade with food and non-food products contributed to the growth acceleration. The construction production index increased by 2.6%.

In February, the improvement of the business climate indicator continued, while the consumer confidence went down by 1.4 points. The expectations for the business situation of the enterprises improved in all the sectors except construction. The expectations for demand of services and sales in retail trade improved significantly. Consumers' intentions to make major purchases deteriorated.

### Labour Market

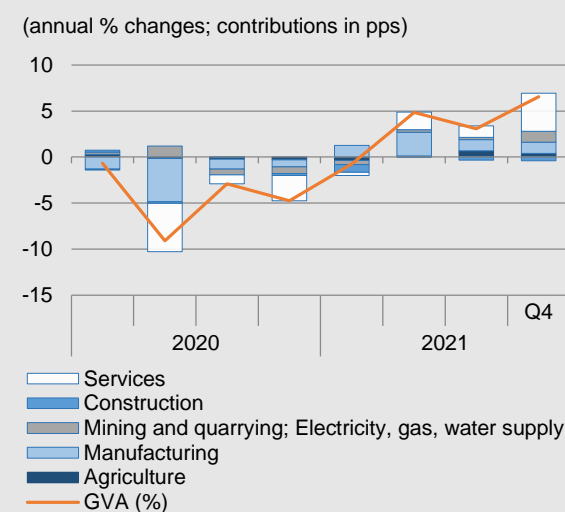
In Q4 2021, the employment continued to increase in yoy terms. According to the SNA data, the number of employed in Bulgarian economy was 3 348.7 thousand in Q4 2021, up by 1.2% over a year earlier. Growth on an annual basis was reported in all major sectors that have the largest relative share in the number of employees in the economy (*industry; wholesale and retail trade; transportation and storage; public administration and defence; compulsory social security; education; human health and social work activities*). Among the sectors with relatively high importance

for the total employment only *agriculture* reported a 2.2% decrease compared to the fourth quarter of 2020 due mainly to the decrease of self-employed.

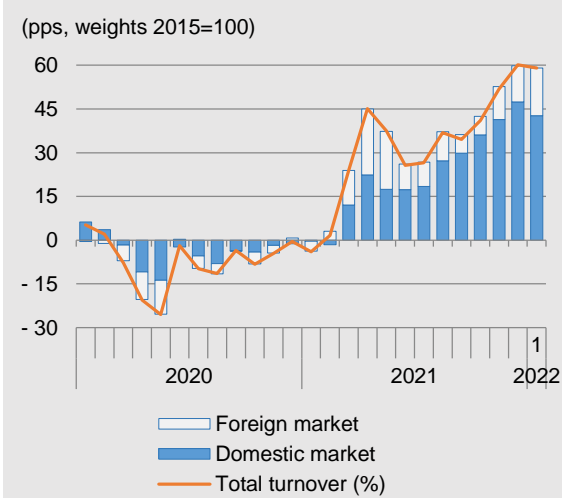
### Productivity

In Q4 2021, the employment growth was coupled with upward labour productivity dynamics and the pressure on unit labour costs was somehow reduced from the previous quarter. Real GDP per employed accelerated to 4.3% yoy as the majority of economic activities were up. The highest increase was reported in *industry excl. construction* (up 11.4% yoy), while productivity in *construction* decreased further (down by 8.8% yoy). In Q4, the compensation per employee grew by a nominal 9.6% yoy, up by 8.9% in *services* and 11.5% in *industry*. The recent increase in compensation per employee above real productivity growth, contributed to a nominal unit labour costs (ULC) increase of 5% yoy. RULC, however, decreased by 2.5% yoy benefitting from the higher price deflator. In *industry excl. construction*

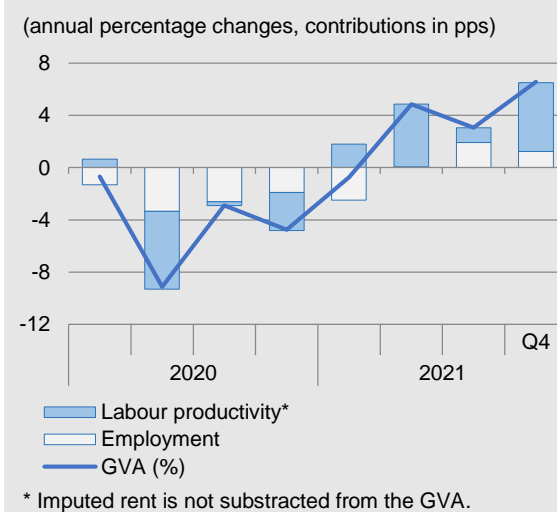
Graph 1 Contributions to GVA growth



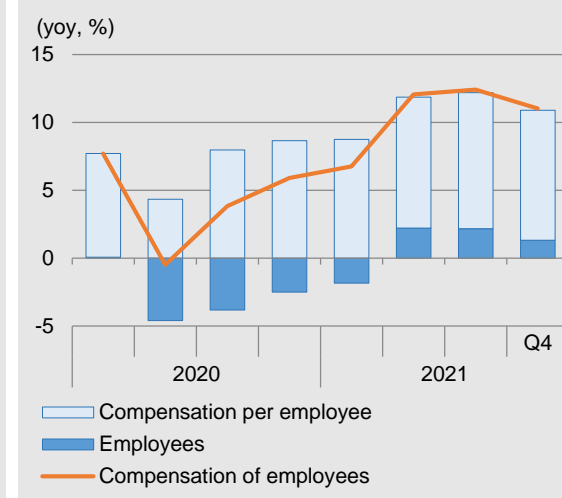
Graph 2 Contributions to industrial turnover yoy growth



Graph 3 GVA growth by labour factors



Graph 4 Decomposition of compensation of employees



tion, which is primarily exposed to external markets competition, NULC grew by a moderate 2.3% yoy and the RULC declined by 18.9% on a year earlier.

## Inflation

According to final data, the monthly HICP inflation rate in January 2022 was 1.2%. In February, the HICP index increased by another 1.2% over the previous month. Prices of food products and non-alcoholic beverages increased by 3.2% mom on average and had the largest positive contribution to the headline rate, followed by services and non-energy industrial goods, whose prices went up by 0.8% and 0.4% mom, respectively. Prices of transport fuels continued on the increase, this time up by 3.1% mom, but those of natural gas and coal decreased by 14.3% and 3%, compensating thus by half the positive contribution of the former.

The annual HICP inflation rate accelerated further to 8.4% in February, with higher food and energy prices accounting for almost 70% of its increase. Core inflation also accelerated to 5.7% yoy with the unfolding second-round food and energy price effects. Given the recent developments current expectations for international prices of major commodity groups, inflation in the country is expected to continue accelerating and reach its peak in the third quarter, after which it is assumed to start to

decline gradually, supported also by higher base effects from a year earlier.

## External sector

In 2021, the current account deficit reached almost EUR 1.4 bn or 2% of GDP, compared with a small deficit of 0.3% of GDP a year earlier. In December 2021, the trade deficit increased by EUR 249 mln as a result of stronger growth in import of goods (up by 43.3% yoy) compared to export (by 37.9% yoy). Export of goods was driven mainly by trade with EU Member States, while import from the EU and third countries was balanced. Import of services increased by 12.9% yoy during the month, mainly due to an increase in travel. Growth in export of services was lower reaching 9% yoy and was also driven by an increase in travel. According to NSI data, the number of foreigners visiting Bulgaria over the whole 2021 increased by 44.5% yoy, as visits for tourism purposes increased by 69% yoy, business trips - by 18.4% yoy, and visits for other purposes (including transit) - by 36.9% yoy. Concerning tourism, the most significant contribution was made by visitors from Romania, who almost doubled compared to 2020. As a result, the current account deficit in December increased by EUR 477.6 mln compared to a year earlier.

By end-December 2021, gross external debt decreased by 3.4 pps on an

annual basis up to 61.2% of GDP. The biggest improvement was reported in *intercompany lending*, where debt fell to 20.3% of GDP compared to 23.3% at the end of 2020.

## Financial sector

Credit to the private sector reported a marginal slowdown in the beginning of 2022, up 8.5% yoy in January as compared to 8.7% growth in December. The slowdown was entirely due to a monthly decline in credit to financial corporations, while both credit to households and corporate loans continued to accelerate. Credit to households went up by 13.6% yoy, coming from 13.4% yoy in December. This happened behind faster increase in consumer loans (11.2% yoy in January vs. 11.1% a month earlier) and loans for house purchase – 17.9% vs. 17.6%. Higher demand for loans from households coincided with the slight improvement in consumer survey sentiments in January and in the current business situation assessment in the services' sector, while interest rates remained close to their lowest levels. Credit to NFCs also grew faster at 4.8% yoy (4.6% as of end-December) driven by a higher increase in overdraft.

Weighted average interest rate on consumer loans declined by 18 bps to 8.32% in January. The average price of loans for house purchase was up by 1 bp to 2.64%, while the rate on corporate

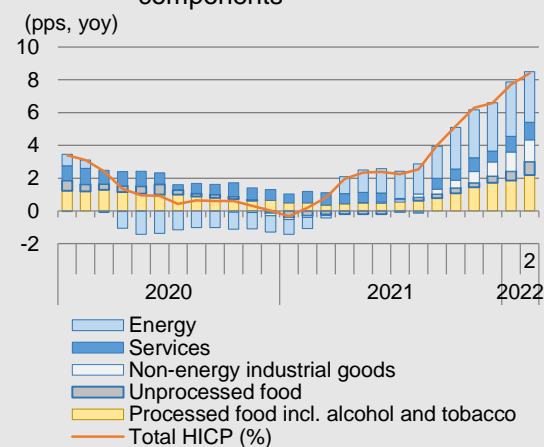
loans went up by 20 bps to 2.52%. The weighted average return on new time deposits of NFCs and households turned negative for the second time since June 2021 (-0.03%). This was entirely due to the further decrease of the rate on NFCs' deposits in national currency, which reached (-0.48%).

## Fiscal sector

The Consolidated Fiscal Program (CFP) reported a surplus of 0.7% of projected GDP at end-January 2022. Cash budget receipts increased by 16.4% yoy. This came on the back of higher tax and non-tax revenues, up by 13.5% and 38.5% yoy, respectively. The rise in tax revenues was driven by indirect taxes, up by 17.4%, as a result of higher revenues from VAT on import, excise and custom duties. Revenues from direct taxes remained virtually unchanged, while social security contributions increased by 11.3% yoy. Total expenditure on the CFP reported a growth of 2.5%, due to higher social spending and staff payments, while capital expenditure, interest, subsidies and the contribution to the EU budget, contracted.

Government debt (incl. guaranteed debt) amounted to 23.2% of projected GDP.

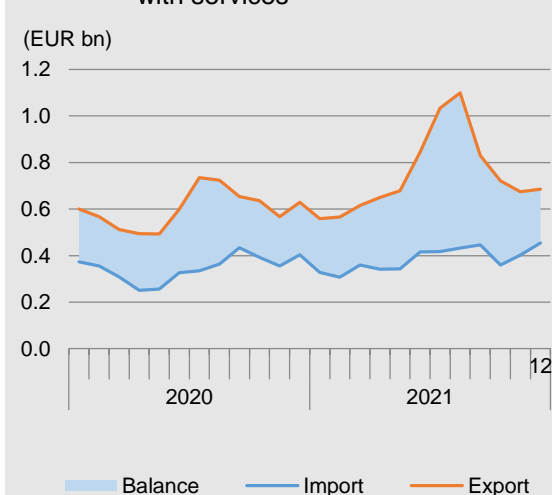
Graph 5 Contributions by main HICP components



\* 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.

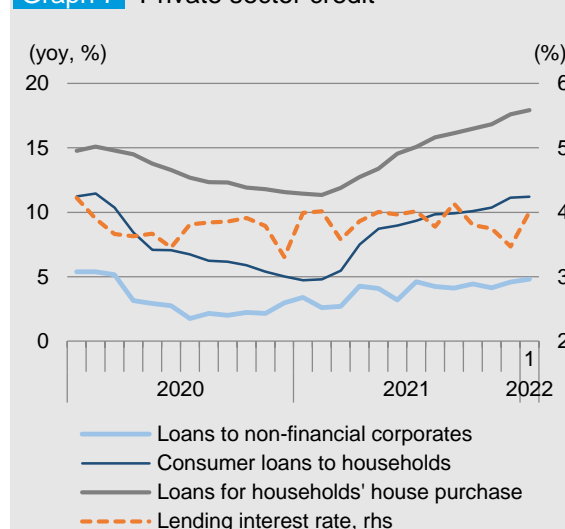
Source: NSI, MF

Graph 6 Export, import and balance on trade with services



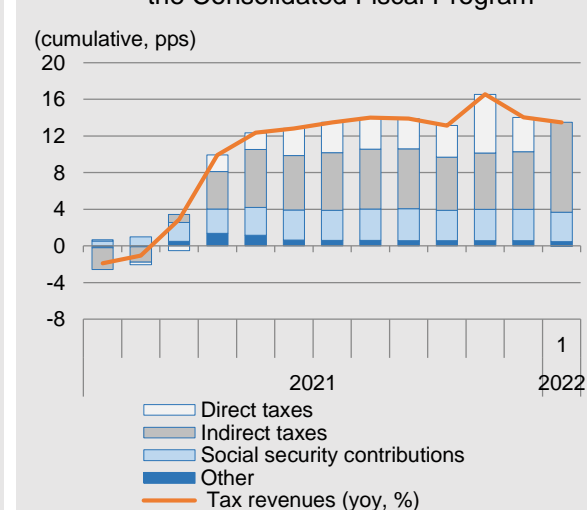
Source: NSI, BNB

Graph 7 Private sector credit



Source: BNB, MF

Graph 8 Contribution to tax revenues growth on the Consolidated Fiscal Program



Source: MF



