

BULGARIA ECONOMY REPORT

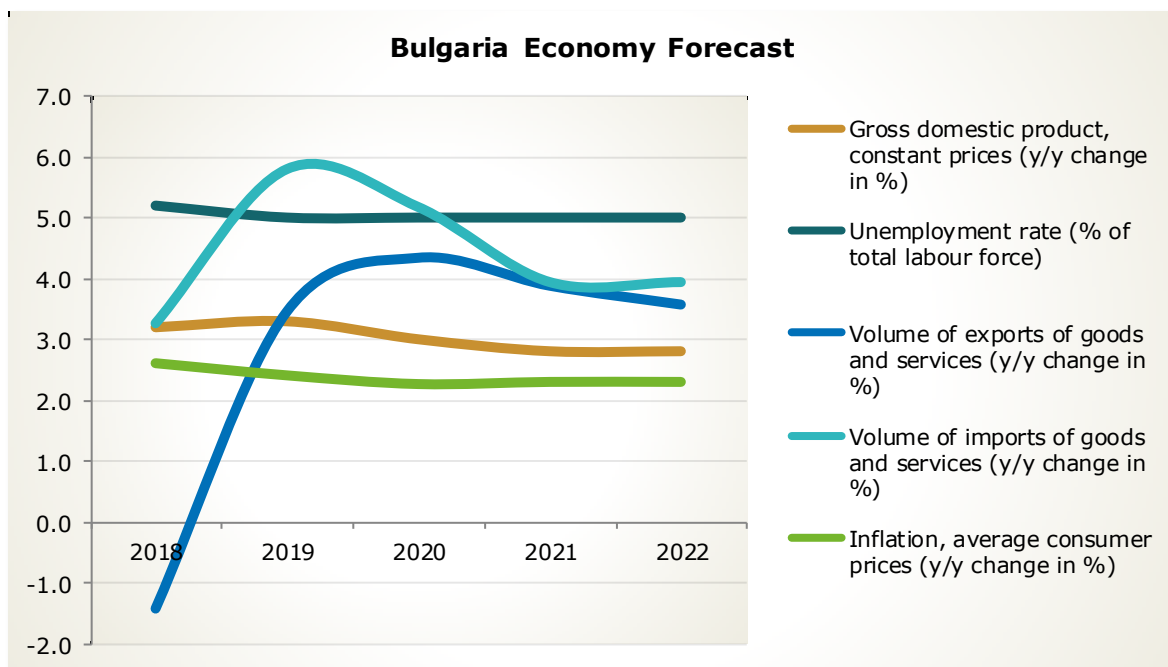
Q1 2019

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1. MACROECONOMIC SNAPSHOT AND FORECAST

BULGARIA – MACROECONOMIC SNAPSHOT AS OF Q1 2019	
GDP Growth	3.5% y/y
Business confidence indicator	0.0 pp m/m
Industrial output	2.8% y/y
Industrial sales index annual change	3.6% y/y
Wholesale	8.8% y/y
Retail sales	0.6% y/y
Average annual inflation	3.1%
Unemployment rate	5.0%
Number of building permits	9.5% y/y
Money supply growth	10.4% y/y
Household loans	11.0% y/y
SOFIX blue-chip index	-3.5% q/q
Gross external debt	EUR 33.740 bln
Current account surplus	EUR 554.5 bln
FDI inflow	EUR 38.3 mln
Foreign trade deficit	EUR 748.0 mln
Number of foreign tourist overnights	-2.9% y/y

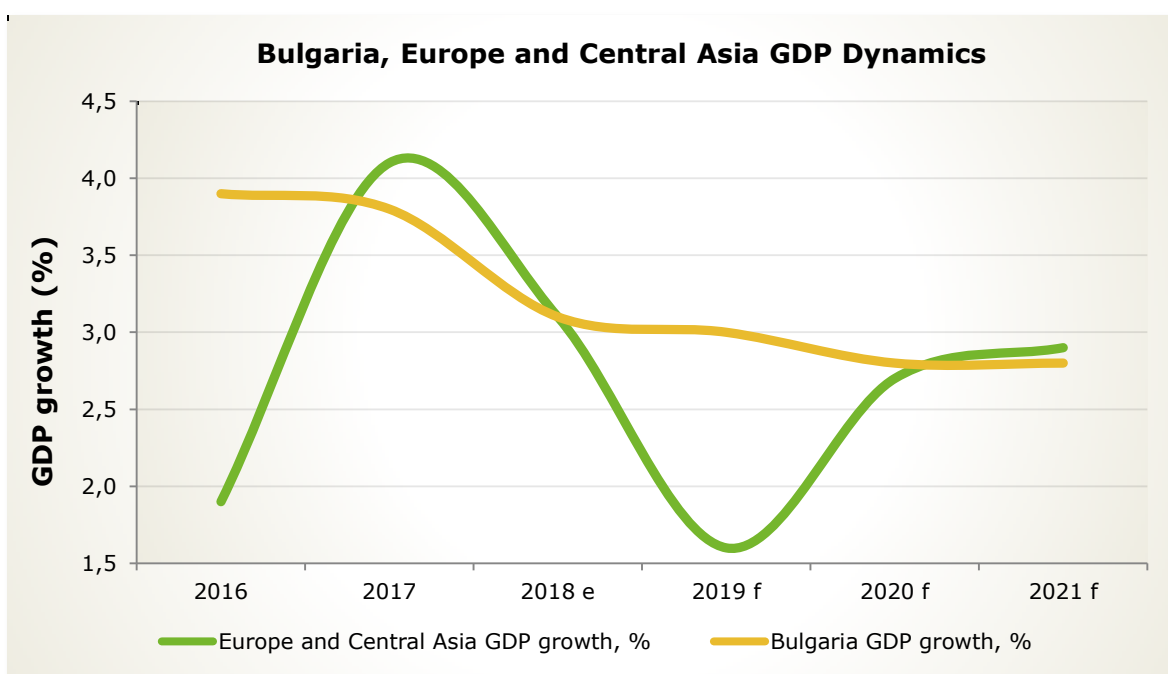


Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2019

The Bulgarian economy performed well, according to the latest IMF executive board assessment. Growth has been stable, at 3.5% in 2018 and is expected to slow down to 3.3% in 2019, driven mainly by exports and beneficial financial conditions.

Despite the sound growth, IMF pointed out slow convergence with other EU countries as the main challenge ahead of Bulgaria in the short run. The country's per capita income is only half of the EU average while income inequality is higher than EU average. Growth is projected to moderate to 2.8% over the 2020-2022 period, reflecting capacity constraints and unfavorable demographics.

According to the World Bank estimates from June 2019, GDP growth is likely to come in at 3.0% in 2019, down from 3.5% in 2018. This will be higher than the projected growth for Europe and Central Asia, of 1.6% in 2019.



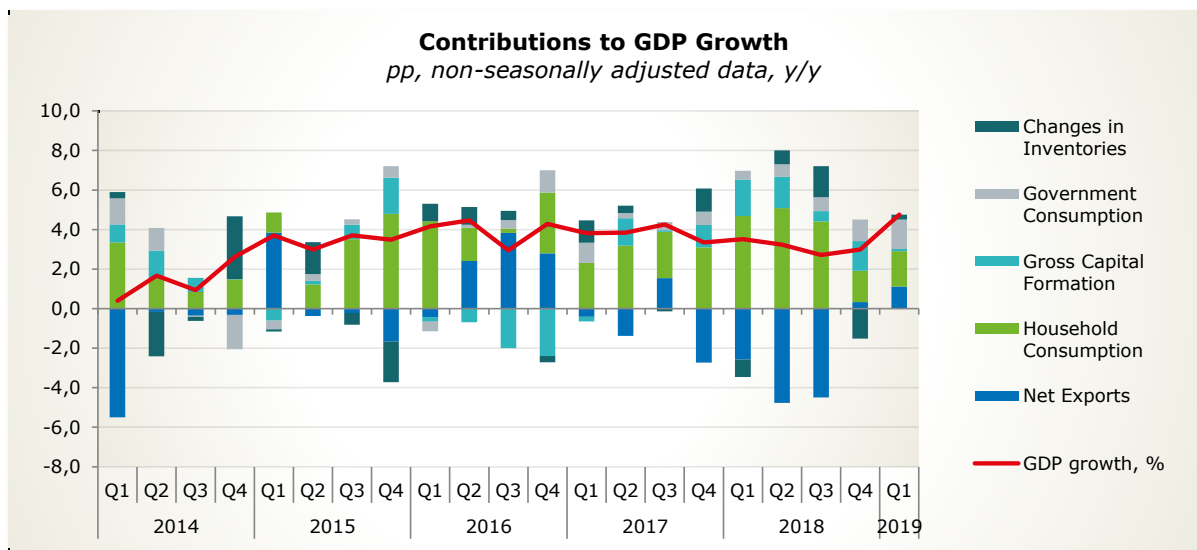
Source: World Bank, Global Economic Prospects, June 2019

2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP annual growth at 3.5% in Q1 2019

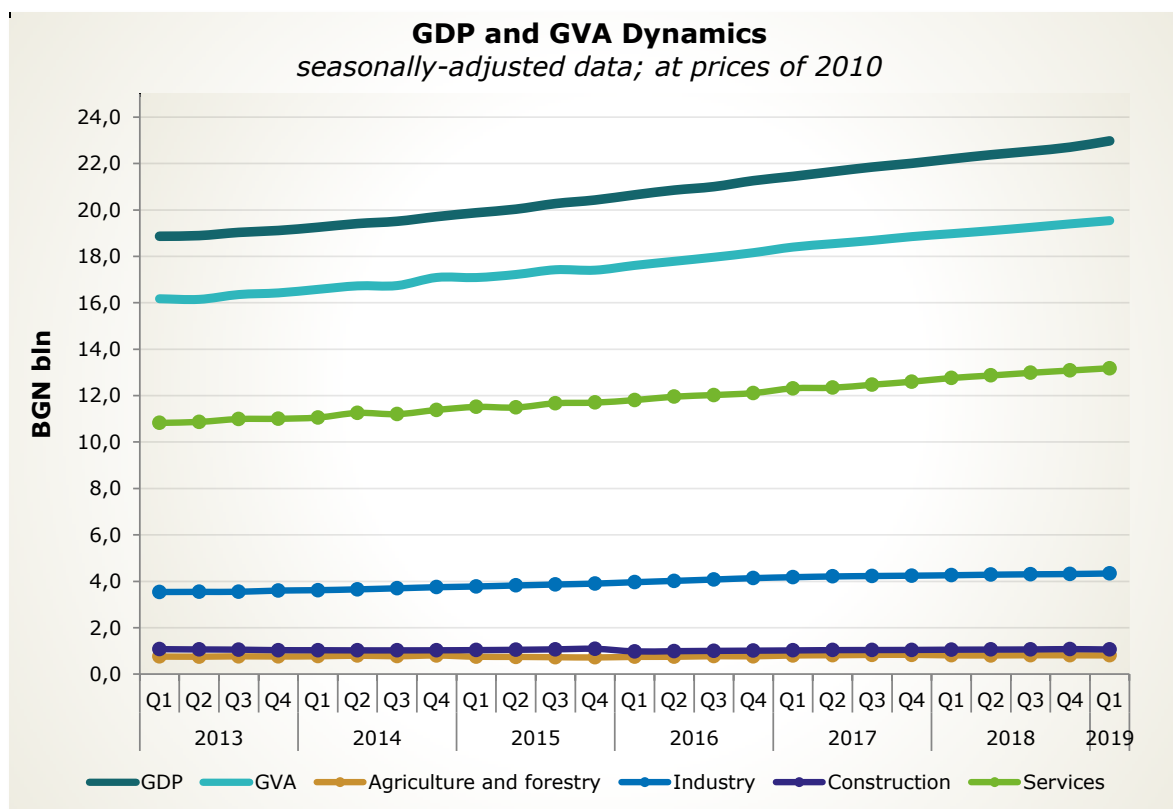
The Bulgarian economy grew annually by 3.5% in Q1 2019, according to the seasonally-adjusted preliminary data of the National Statistical Institute (NSI). Household consumption contributed the most to the overall GDP rise with 1.8 pp in Q1 2019. Government consumption was another major contributor with 1.5 pp, while net exports added another 1.1 pp.



Source: SeeNews calculations; NSI

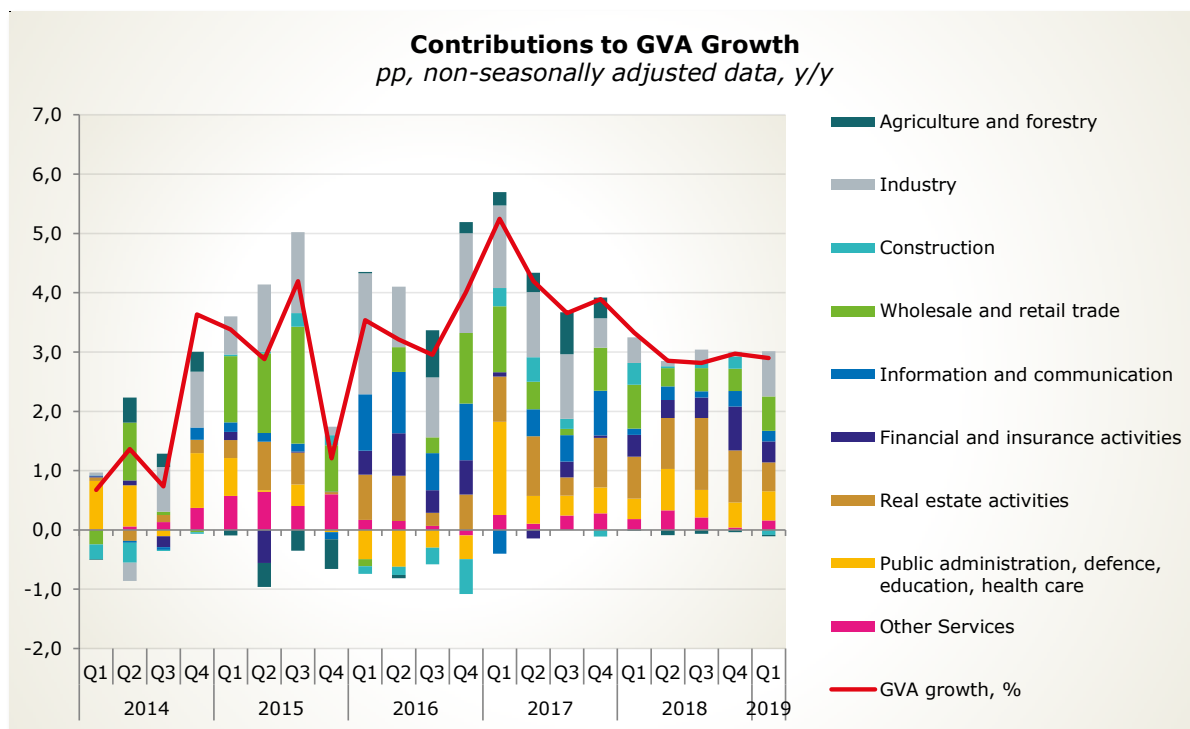
Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual.

The seasonally-adjusted gross value added (GVA) at 2010 prices generated by the national economy increased by 3.0% y/y in Q1 2019 and totalled BGN 19.538 bln. The services sector recorded a 3.3% annual increase, slicing a 67.5% share in the GVA. The industrial sector grew in value by 1.8% y/y and took 22.2% share in the total GVA in Q1 2019. The construction industry took a 5.4% share, going up by 0.8% y/y. Agricultural sector's GVA went down by 0.2% y/y and accounted for a 4.1% share in the total GVA.



Source: NSI

In Q1 2019, in terms of industry breakdown, all sectors except construction had a positive contribution to the economic growth. The industry sector was the biggest contributor to GVA growth, adding 0.8 pp, followed by the wholesale and retail trade sector with a 0.6 pp contribution to the overall GVA growth in Q1 2019.



Source: SeeNews Calculations; NSI

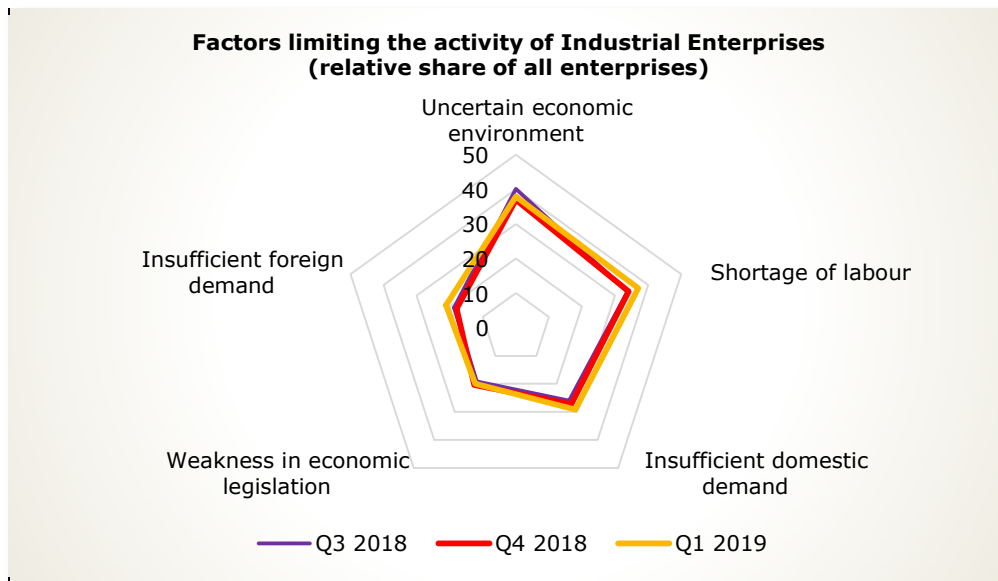
Note: Non-additive data due to direct chain linking of GDP and its components.

2.2. BUSINESS CLIMATE

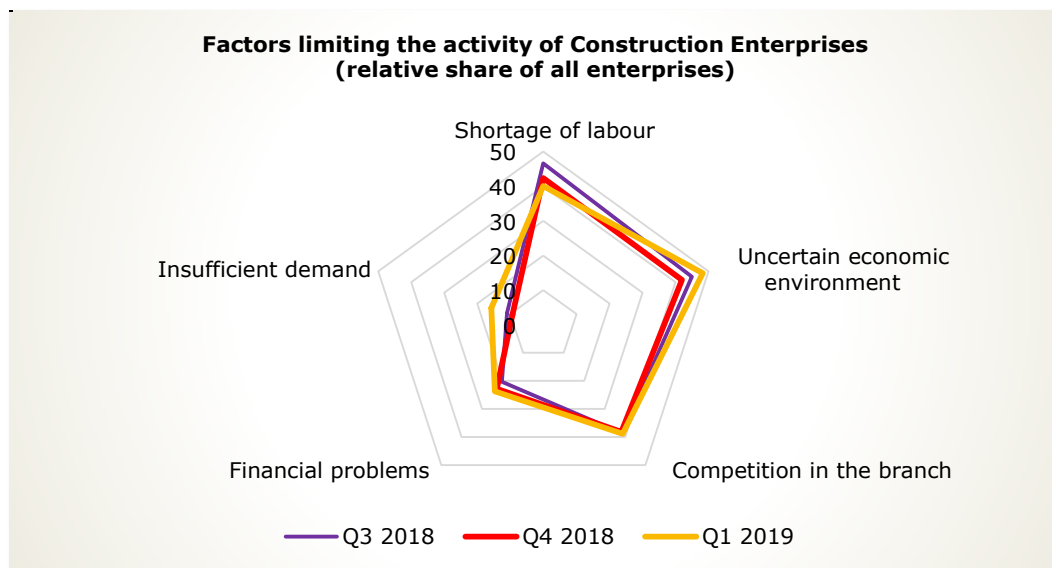
Business Confidence Indicator unchanged m/m in March 2019

The business confidence indicator remained unchanged in March 2019 in comparison to the previous month, according to NSI data.

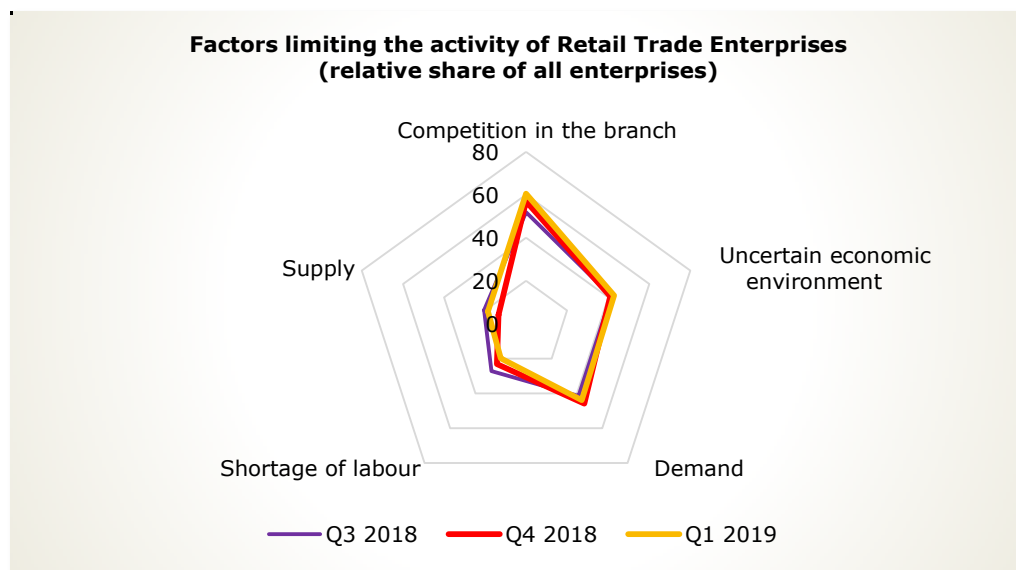
The business climate indicator in the industrial sector kept its level from the previous month in March 2019. Industrial entrepreneurs assessed the current manufacturing activity as slowing down with more pessimistic expectations for the next three months. The main factors limiting the activity of the enterprises in the industrial sector remained the uncertain economic environment, followed by labour shortage.



In March 2019, the business climate indicator in the construction sector kept its value from February 2019, showing improved estimation of the current state of businesses and more optimistic expectations of the construction entrepreneurs. Labour force shortage, increased competition and uncertain economic environment were the main factors limiting the development of the construction companies in March 2019.



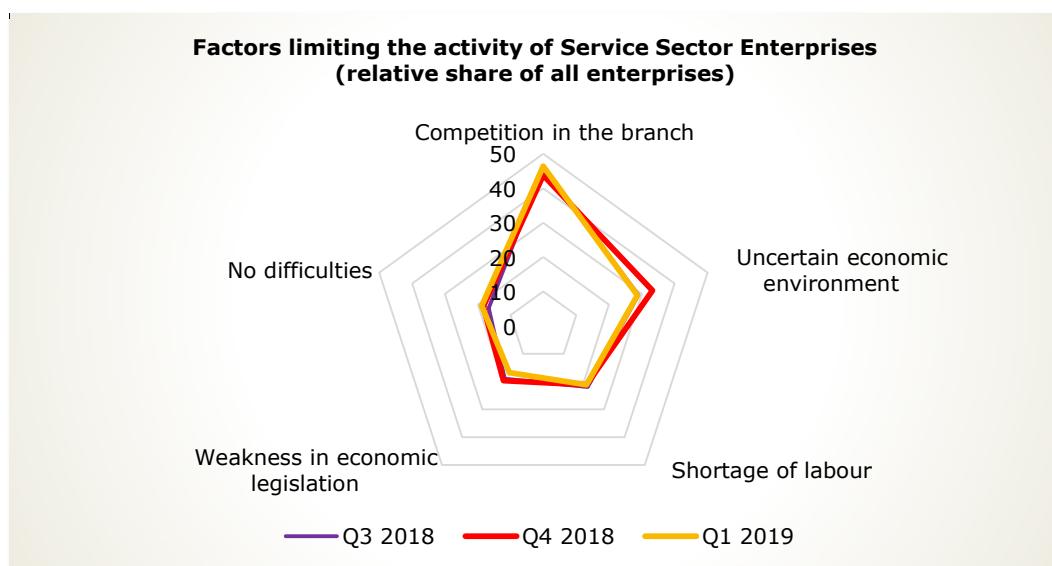
The business climate indicator in the retail sector climbed by 2.6 pp m/m in March as a result of the more optimistic estimation of retailers for their business conditions over the next three months. The retailers' forecasts regarding their sales however slightly deteriorated. The competition in the sector was seen as the most limiting factor for the development of the retail companies in March 2019, followed by insufficient demand and uncertain economic environment.



Source: NSI

The business climate indicator in the services sector kept its February level in March 2019 as assessment of the present business condition of the companies in the sector worsened. The managers of the services enterprises lowered their assessments about the present business situation.

The competition in the sector continued to be pointed out as the main limiting factor for the activities of the enterprises.



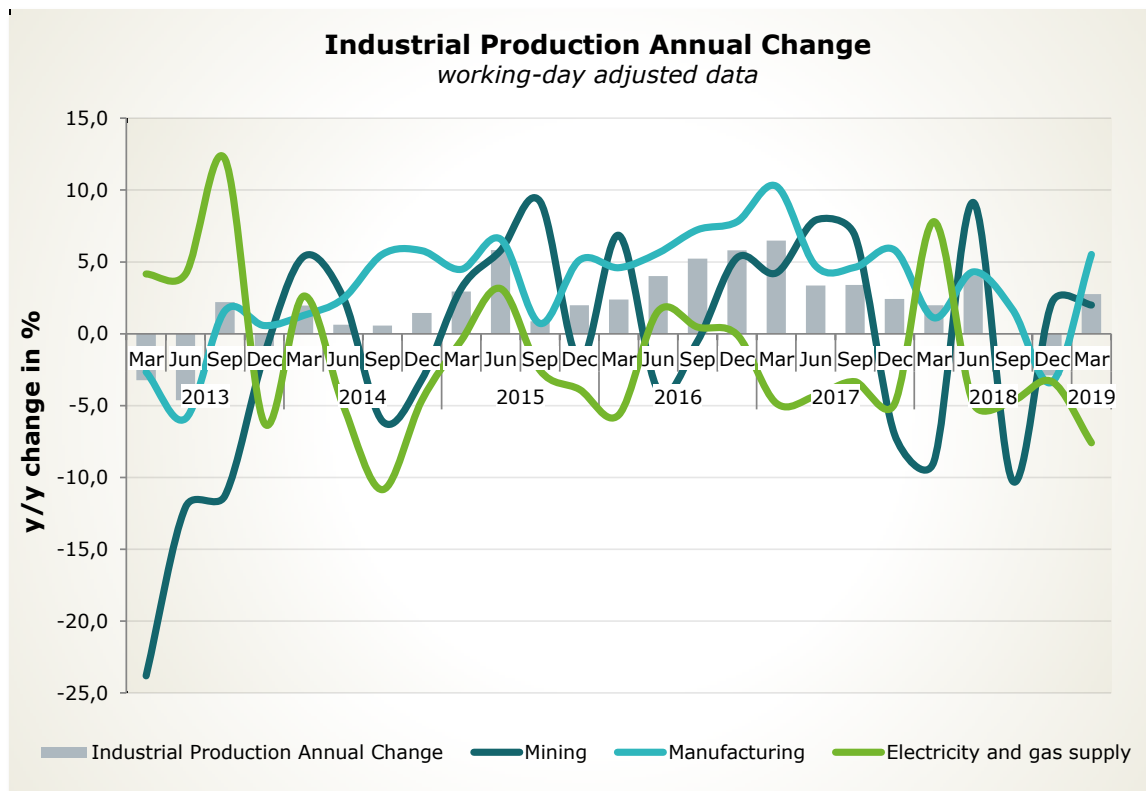
Source: NSI

2.3. INDUSTRIAL OUTPUT

Industrial output increased by 2.8% in March 2019

Industrial production grew in the first quarter of 2019. According to NSI, the industrial output went up by 2.8% y/y in March 2019. In February, the growth was stronger - 6.9%, up from 2.6% in January.

In March 2019, the output of the mining industry increased by 2.0% y/y, while electricity and gas supply went down by 7.6% y/y. The production of the manufacturing sector increased, by 5.5% y/y.

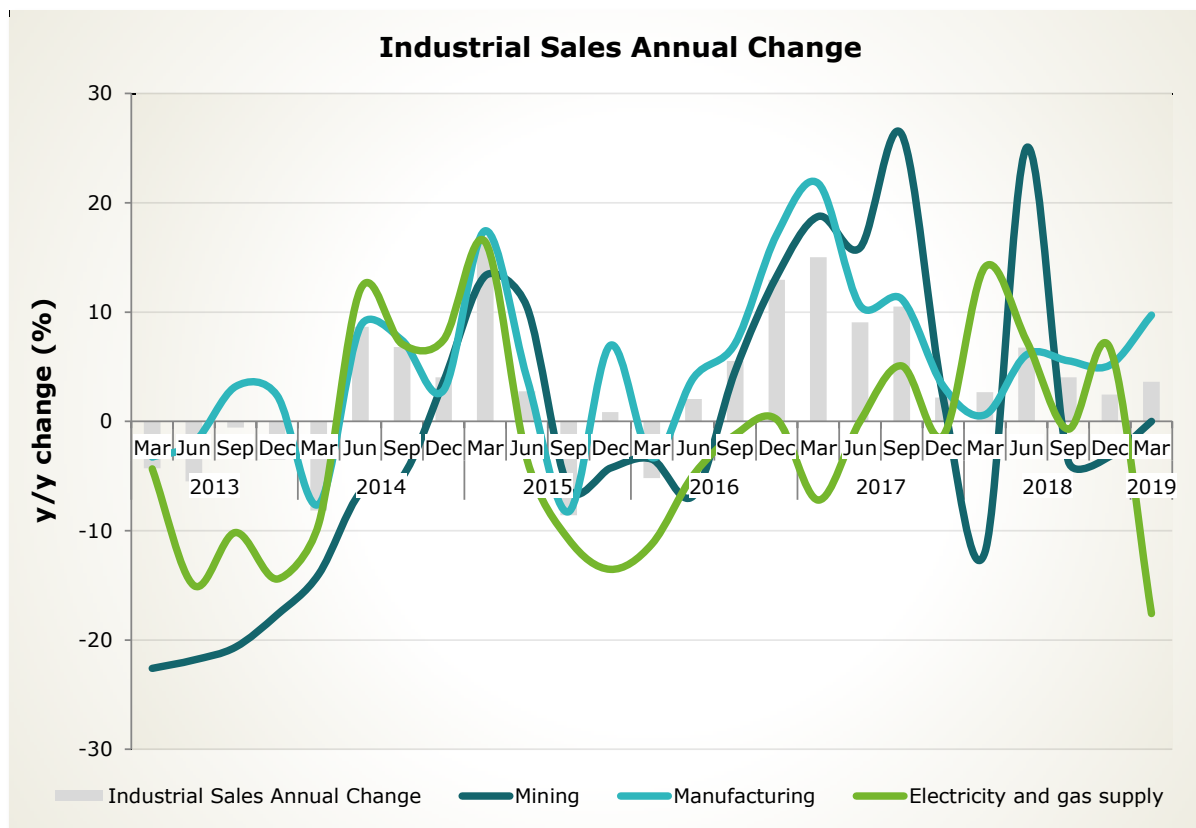


Source: NSI

2.4. INDUSTRIAL SALES

Industrial sales increased by 3.6% y/y in March 2019

Industrial sales grew by 3.6% y/y in March 2019, according to NSI. The rise was fuelled by the 9.7% increase in manufacturing industry. The sales of the mining sector remained unchanged in annual terms, while industrial sales in the electricity and gas supply sector fell by 17.6%.

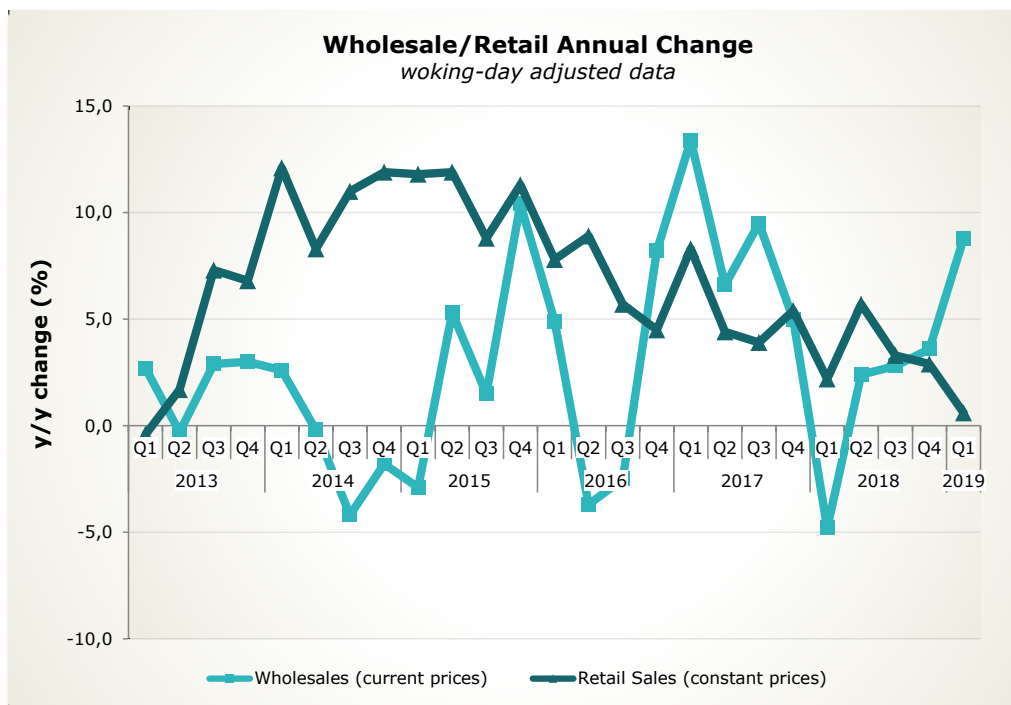


Source: NSI

2.5. WHOLESALE/RETAIL

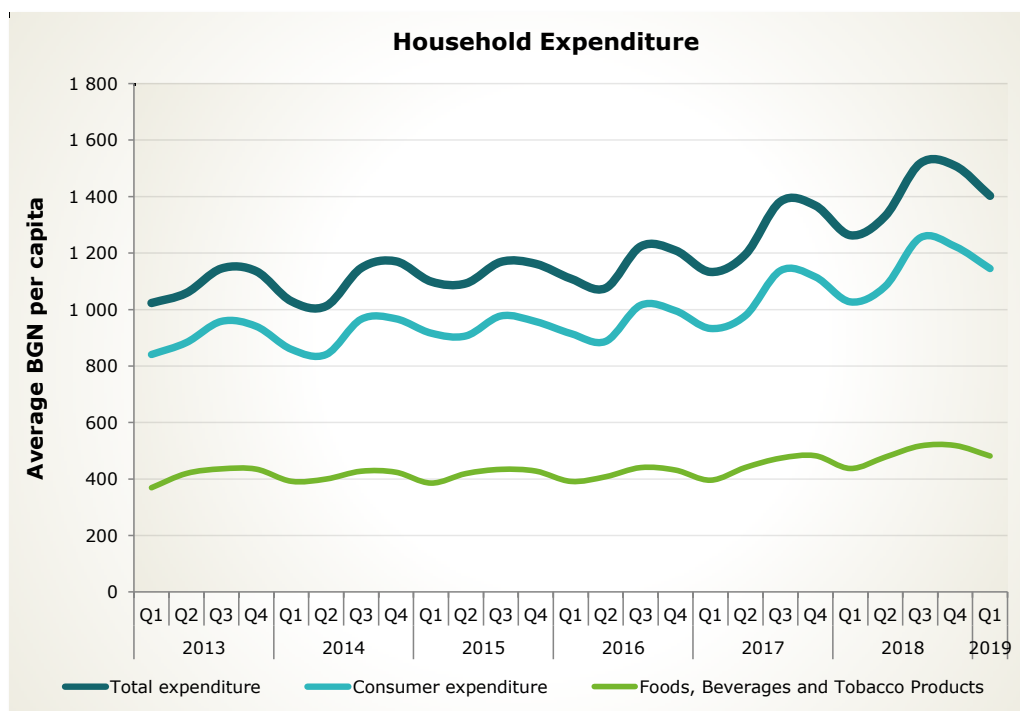
Retail sales up 0.6% y/y in March 2019

In March 2019, retail sales inched up by 0.6%, according to NSI data. Retail sale of automotive fuels and lubricants was the segment to report the highest annual increase, of 12.8%. Retail sales of pharmaceutical and medical goods, and cosmetics registered the sharpest annual drop among the retail segments - 11.7%.



Source: NSI

Household expenditure continued their strong performance in Q1 2019, rising by 11.0% y/y to BGN 1,403 per capita. The improving consumer confidence, along with the shrinking unemployment and rise in wages are the main factors behind the increased spending in the first quarter of 2019. Spending on food, beverages and tobacco products went up by 10.1% y/y in Q1 2019 to BGN 482 per capita and sliced 34.3% of the total consumer expenditures.



Source: NSI

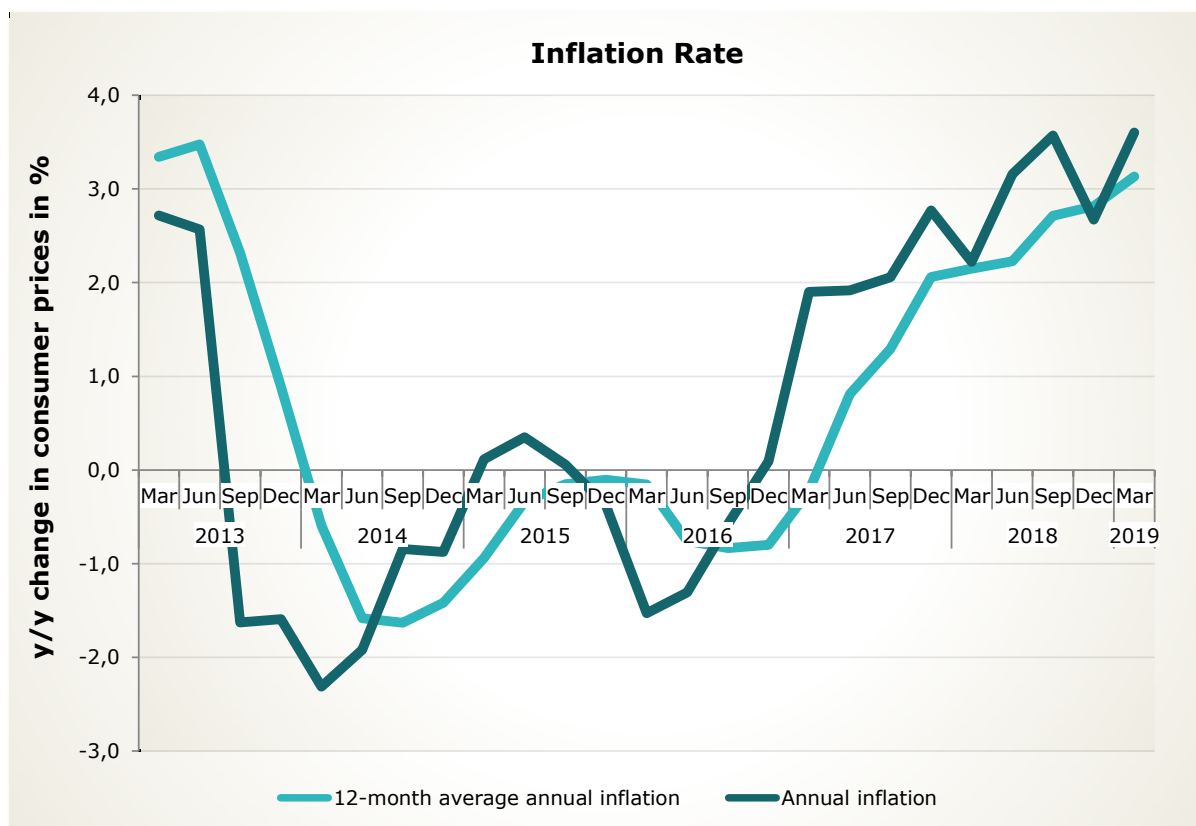
2.6. INFLATION

Annual average inflation at 3.1% as of March 2019

The average annual inflation in the last 12 months, measured by the Consumer Price Index (CPI) change in April 2018 – March 2019, compared to April 2017 - March 2018, stood at 3.1%, accelerating from 2.8% in December 2018, according to NSI.

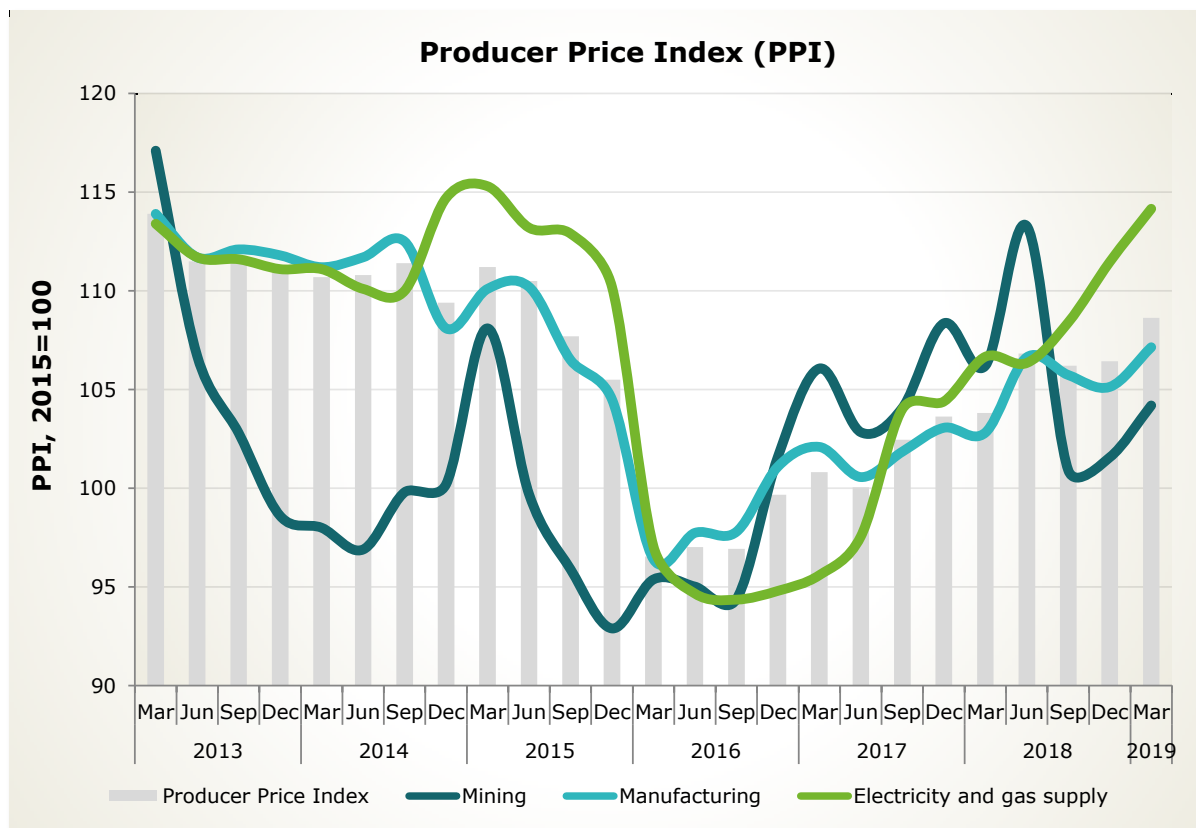
The highest annual inflation, of 4.9%, was registered in restaurant and hotel services, followed by housing, water, electricity, gas and other fuels with 4.6%. Transport services posted the third largest inflation, of 4.5%.

Clothing and footwear was the only consumer group to report a deflation, of 1.6%.



Source: NSI

Producer prices increased by 4.6% y/y on average in March 2019, according to the Producer Price Index, calculated by NSI. Producer prices in electricity and gas supply went up by 7.0% y/y, while prices in the manufacturing sector grew by 4.2% y/y. The mining sector's PPI went down by 1.9% y/y.

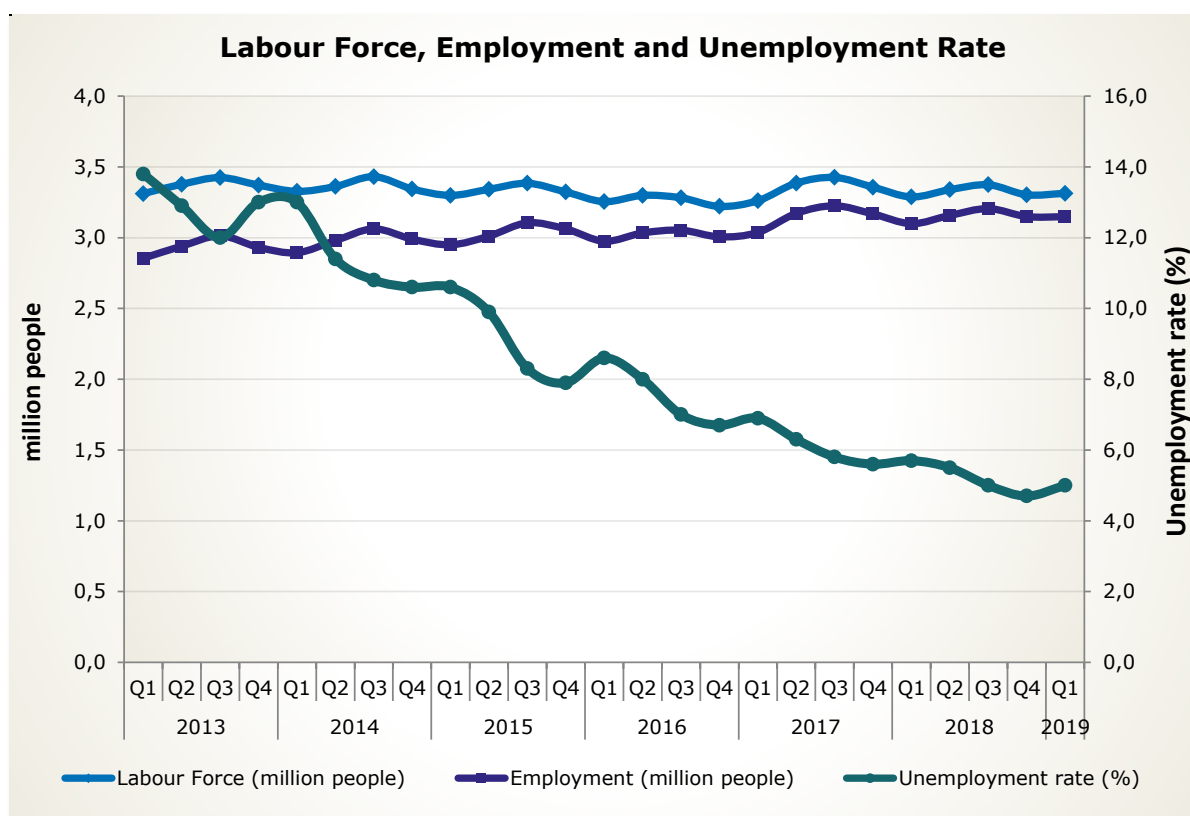


3. LABOUR MARKET

Unemployment rate decreased by 0.7 pp y/y, wages grew 12.2% y/y in Q1 2019 on strong economic growth and tightening labor market

The unemployment rate in Bulgaria narrowed to 5.0% in Q1 2019, down from 5.7% a year earlier, according to data of NSI. The employed population aged 15 years and older was 3.148 million in Q1 2019, up by 1.6% y/y. Youth (population aged 15-24) unemployment rate went down to 9.8%, compared to 9.9% in Q4 2018 and 11.8 % in Q1 2018.

The economic momentum driven by domestic and foreign demand improved business expectations and increased demand for labour which in turn boosted employee's wages.



According to data of NSI, the average monthly salary in Q1 2019 grew by 12.2% y/y to BGN 1,208. Wages in the private and public sectors went up by 12.6% y/y and 10.7% y/y, respectively. Employees in IT and communication, financial and insurance activities and the energy sector earned the highest salaries of BGN 2,929, BGN 1,994 and BGN 1,877, respectively.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits increased by 9.5% y/y in Q1 2019

The number of building permits issued in Bulgaria in Q1 2019 increased by 9.5% y/y and totalled 2,424, according to NSI data. The permits for housing projects went up by 7.3% to 1,247, while permits for office buildings went up to 28, compared to 26 a year earlier.

The total built-up area of office units, covered by the permits, increased to 67,404 sq m in Q1 2019 from 33,101 sq m in Q1 2018. The total built-up area of the housing units went up by 26.6% to 1,032,933 sq m.

5. MONEY SUPPLY AND BANKING SYSTEM

5.1. BGN EXCHANGE RATE

The average exchange rate of the BGN against the US dollar grew to BGN 1.7220 in Q1 2019 from BGN 1.5913 a year ago, according to Bulgarian National Bank (BNB) data.

BGN Average Exchange Rate			
Foreign Currency	Q1 2019	Q4 2018	Q1 2018
EUR*	1.9558	1.9558	1.9558
USD	1.7220	1.7136	1.5913
GBP	2.2416	2.2066	2.2148
CHF	1.7273	1.7208	1.6780

**The Bulgarian lev (BGN) is pegged at a fixed exchange rate of BGN 1.95583 per EUR under a currency board system.*

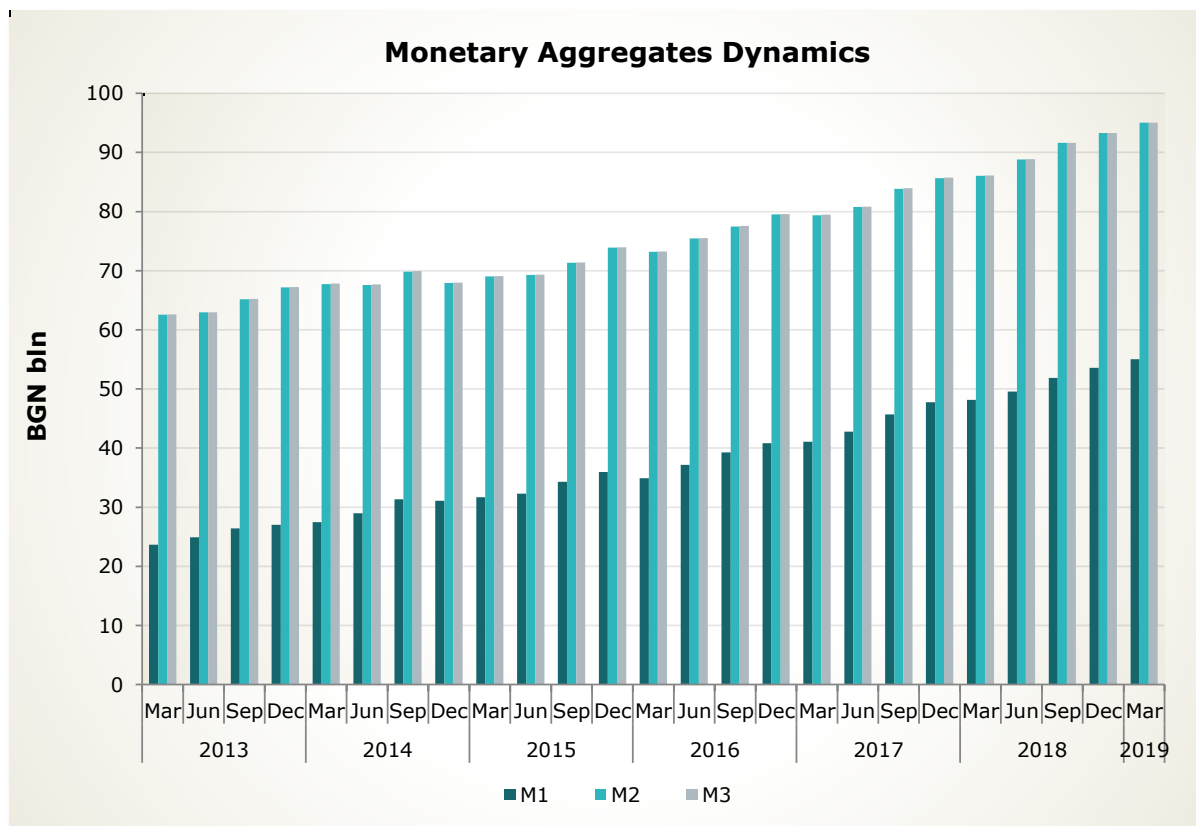
5.2. MONETARY AGGREGATES

Money supply growth was 10.4% y/y in Q1 2019

In Q1 2019, the broad monetary aggregate M3 rose by 10.4% on an annual basis with the overnight deposits continuing to be positive contributor to the broad money dynamics.

The M2 money supply also grew by 10.5% y/y to BGN 95.039 bln.

Money aggregate M1, or narrow money, jumped by 14.3% to BGN 55.015 bln.



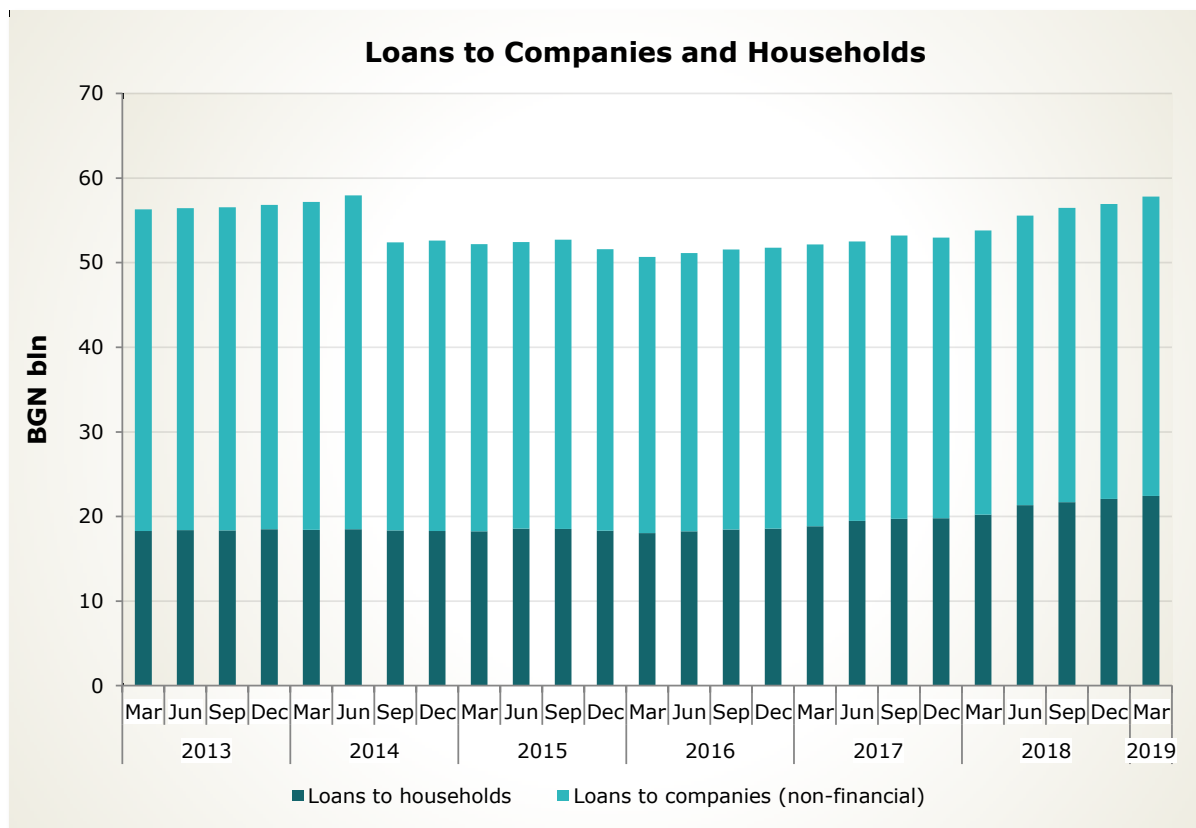
Source: BNB

5.3. BANKING AND INSURANCE

Household loans increased by 11.0% y/y in March 2019 on high demand and solid economic growth

In March 2019, the total loans to the non-financial corporations and households sector increased by 7.4% y/y to BGN 57.798 bln, according to BNB.

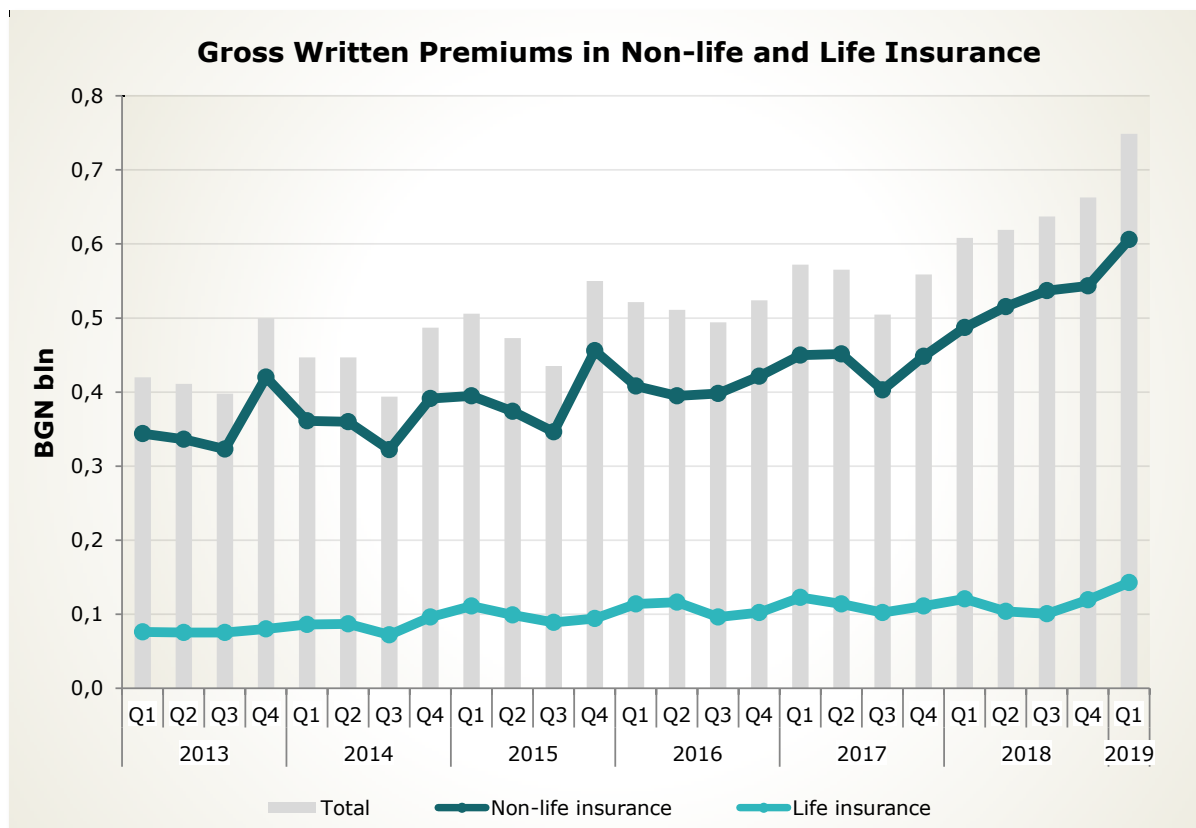
The loans to non-financial corporations increased by 5.3% y/y in Q1 2019, amounting to BGN 35.377 bln. As of March 2019, the annual growth of loans to households came in at 11.0%.



Source: BNB

Insurance premium income up 23.1% y/y in Q1 2019

The total gross written premiums (GWP) of the Bulgarian non-life and life insurance companies stood at BGN 748.6 mln, up by 23.1% y/y in Q1 2019, according to the Financial Supervision Commission (FSC). The GWP of the non-life insurance market stood at BGN 605.9 mln, or by 24.3% more than a year earlier, while the life insurance market grew by 18.2% y/y to BGN 142.7 mln.



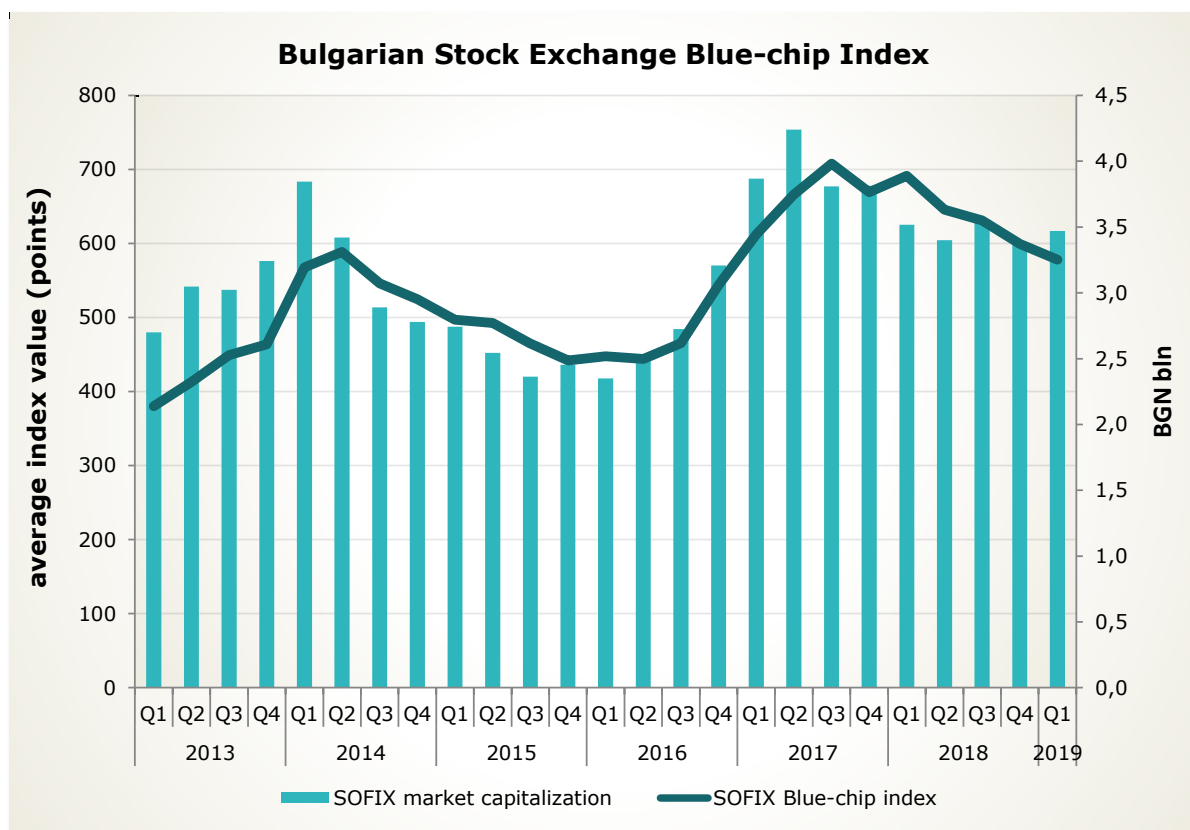
Source: FSC

6. CAPITAL MARKETS

Blue-chip SOFIX decreased by 3.5% q/q in Q1 2019

SOFIX, the blue-chip index of the Bulgarian Stock Exchange (BSE), decreased by 3.5% q/q to 578 points in Q1 2019, according to BSE data.

The total turnover on BSE's regulated market came in at BGN 83.4 mln in Q1 2019, compared to BGN 101.7 mln in Q1 2018.



Source: BSE

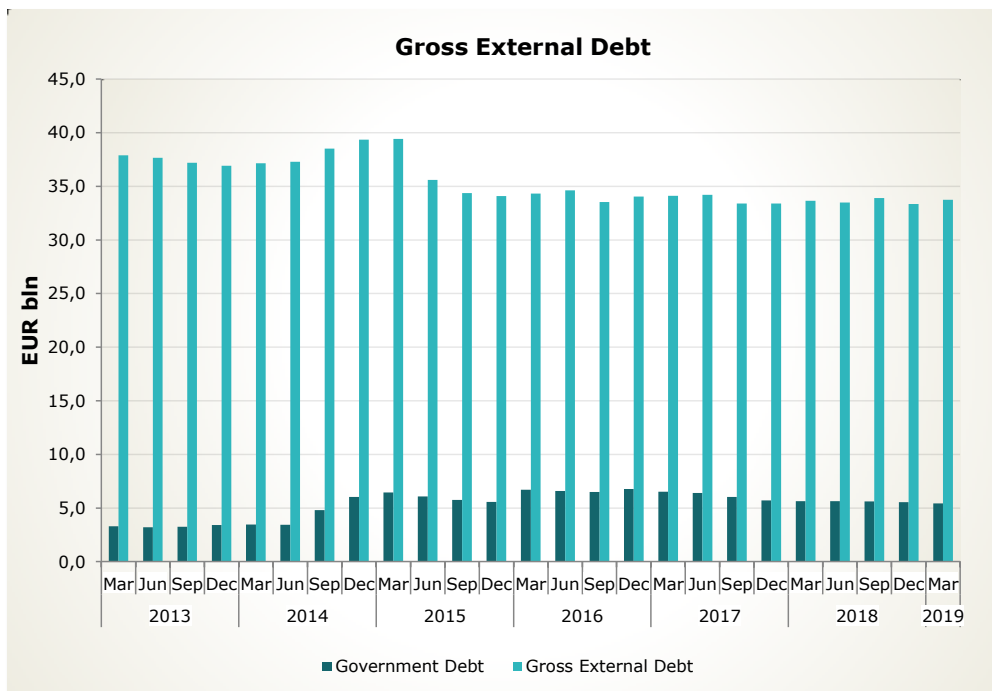
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt inched up by 0.3% y/y to EUR 33.740 bln in Q1 2019

The gross external debt increased by 0.3% y/y totalling EUR 33.740 bln at the end of March 2019, according to BNB. Relative to the economy, the gross external debt accounted for 57.1% of country's GDP.

As of end-March 2019, long-term liabilities amounted to EUR 25.328 bln, or 75.1% of the total debt, and short-term liabilities totalled EUR 8.412 bln, equal to 24.9% of the total debt.

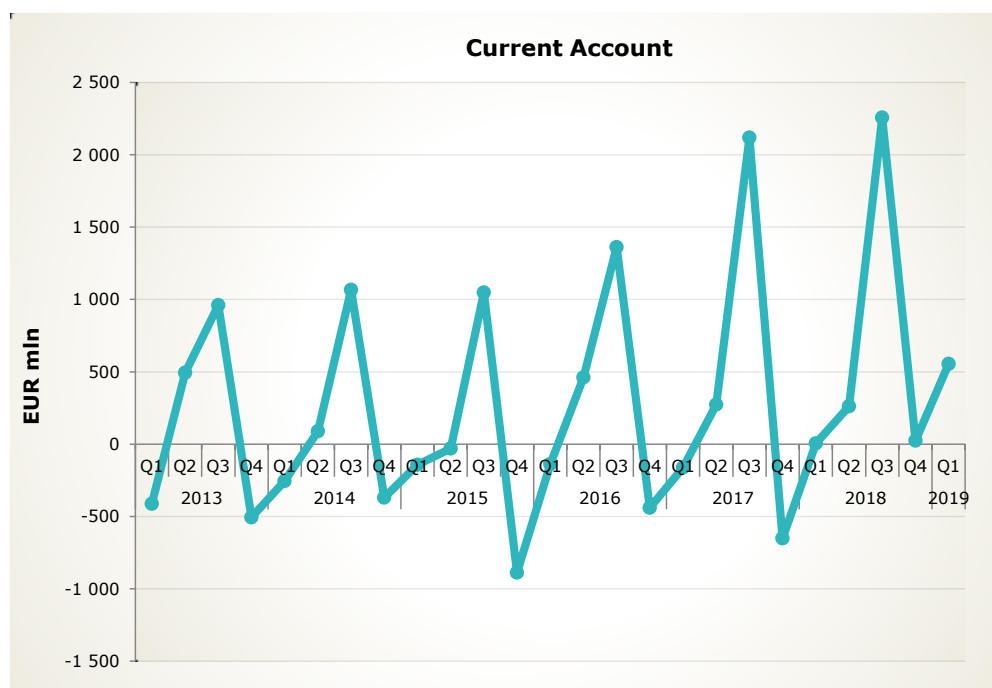


Source: BNB

7.2. BALANCE OF PAYMENTS

Current account balance positive in Q1 2019

In the first quarter of 2019, Bulgaria had current account surplus of EUR 554.5 mln, compared to a surplus of EUR 24.0 bln in Q4 2018 and a surplus of BGN 5.7 mln in Q1 2018, according to the central bank statistics data.

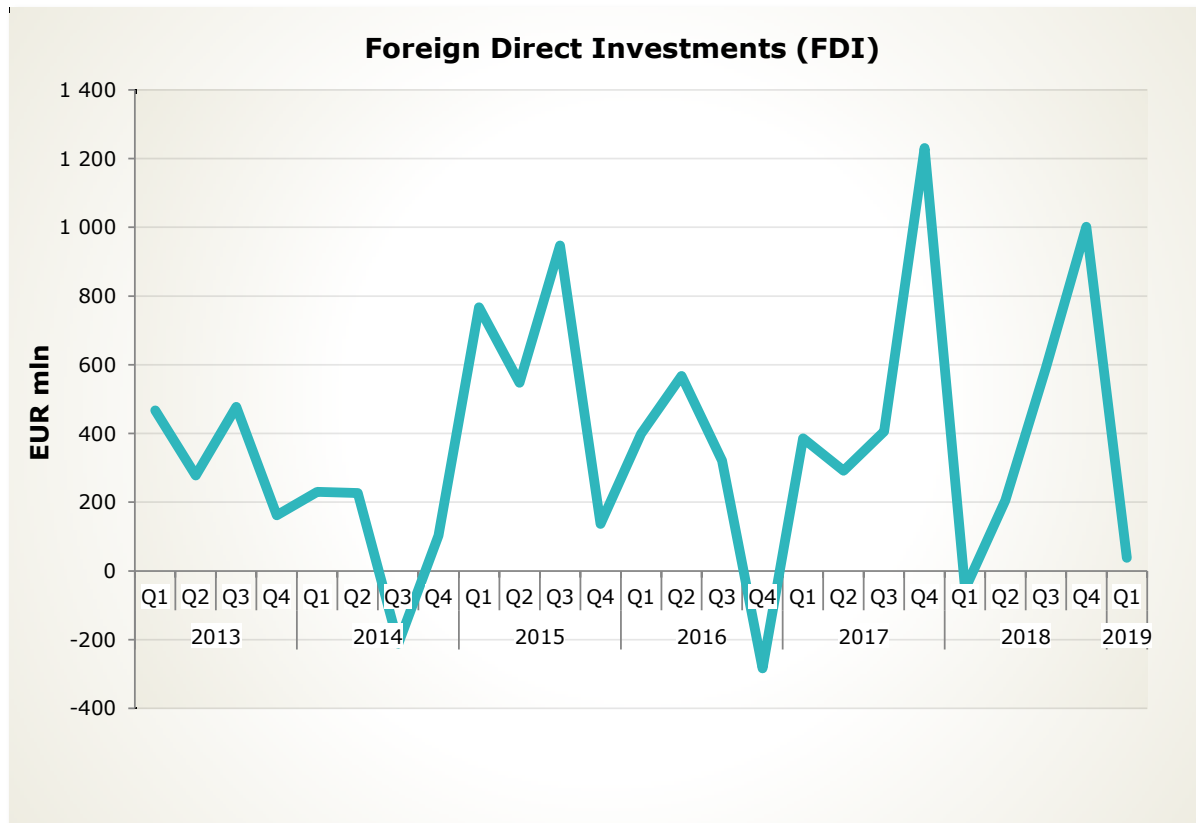


Source: BNB

7.3. FDI

FDIs at EUR 38.3 in Q1 2019

The Foreign Direct Investments (FDIs) in Bulgaria in Q1 2019 amounted to the positive EUR 38.3 bln, compared to the negative BGN 52.6 bln in the same quarter of the previous year, according to BNB data. In Q1 2019, FDIs accounted for a 0.3% of the GDP for the quarter under review.

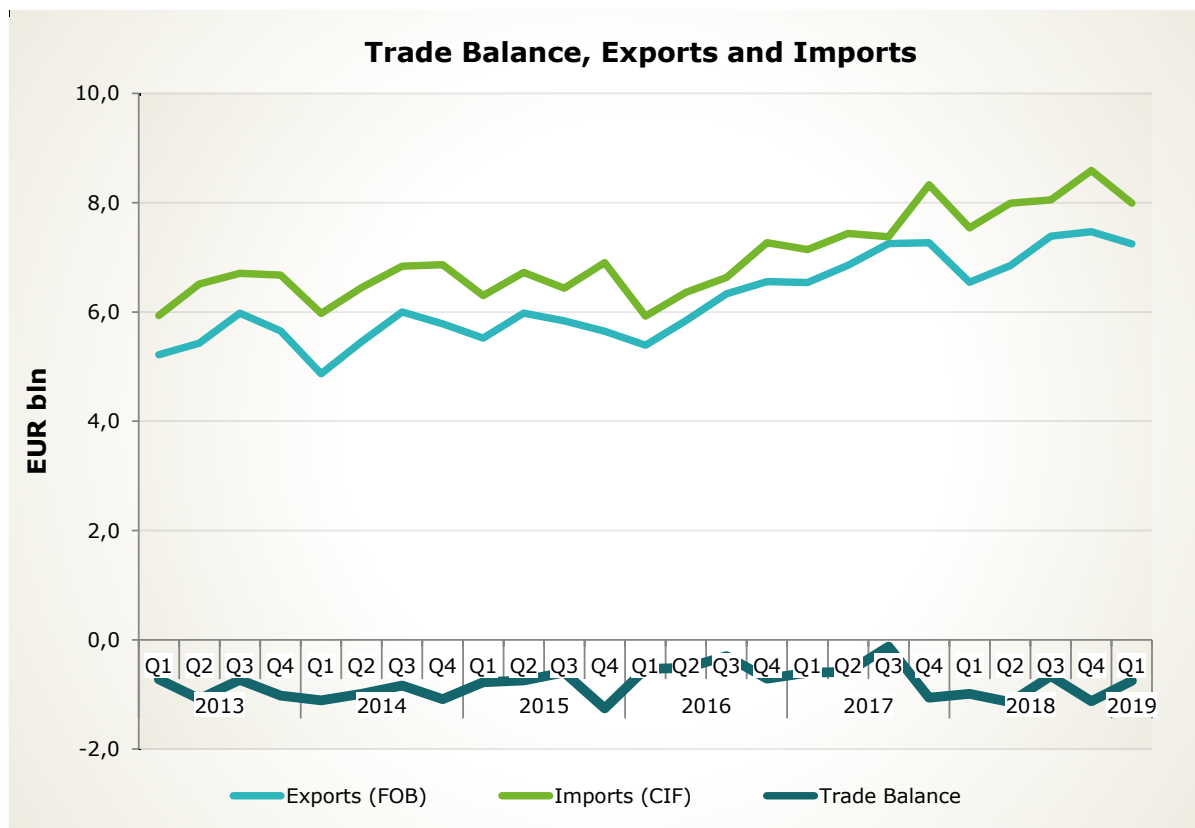


Source: BNB

7.4. FOREIGN TRADE

Foreign trade deficit down 24.5% y/y in Q1 2019

Bulgaria's foreign trade deficit shrank by 24.5% y/y in the first quarter of 2019, reaching EUR 748.4 mln, according to NSI data. Exports totalled EUR 7.244 bln, growing annually by 10.6%, outpacing the rise in imports, which expanded by 6.0% to EUR 7.992 bln.



Source: BNB

7.5. TOURSIM

Number of foreign tourist overnights went down by 2.9% y/y in Q1 2019

Tourist overnights of foreigners decreased by an annual 2.9% to 1.157 million in Q1 2019, according to NSI data.

However, the number of foreign tourists went up - by 3.5% y/y to 656,874. The most arrivals were from Turkey, Greece and Romania.



8. MAJOR DEVELOPMENTS

EIB plans to more than double investments in Bulgaria to EUR 250 mln in 2019

Mar 15, 2019

The European Investment Bank (EIB) plans to more than double its investments in Bulgaria in 2019 - to EUR 250 mln, keeping its focus on infrastructure and support for small and medium-sized enterprises (SMEs), according to the bank's vice president Vazil Hudak.

[Read the full story here](#)

Bulgaria opens road maintenance tenders worth EUR 583 mln

Mar 1, 2019

Bulgaria's Road Infrastructure Agency said in March that it has opened five tenders for five-year contracts for road repairs and maintenance, worth an estimated total of EUR 583 mln.

[Read the full story here](#)

EC oks EUR 16.7 mln financing for improving air quality in Bulgaria

Feb 15, 2019

The European Commission said in February that it has approved financing of EUR 16.7 mln under the LIFE programme for a project aimed at improving air quality in six major Bulgarian municipalities.

[Read the full story here](#)

Bulgaria awards EUR 95 mln deal for building its longest motorway tunnel

Feb 12, 2019

Bulgaria's road agency said in February it has signed a EUR 95 mln contract with a local consortium for the construction of the 2.0 km Zheleznitsa tunnel on Struma motorway, which will be the country's longest.

Read the full story [here](#)

EC asks Bulgaria to complete Natura 2000 network

Jan 24, 2019

The European Commission said in January that it has urged Bulgaria to respect its obligations under EU rules for the conservation of natural habitats and protected species, included in the Natura 2000 network.

Read the full story [here](#)

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