

BULGARIA ECONOMY REPORT

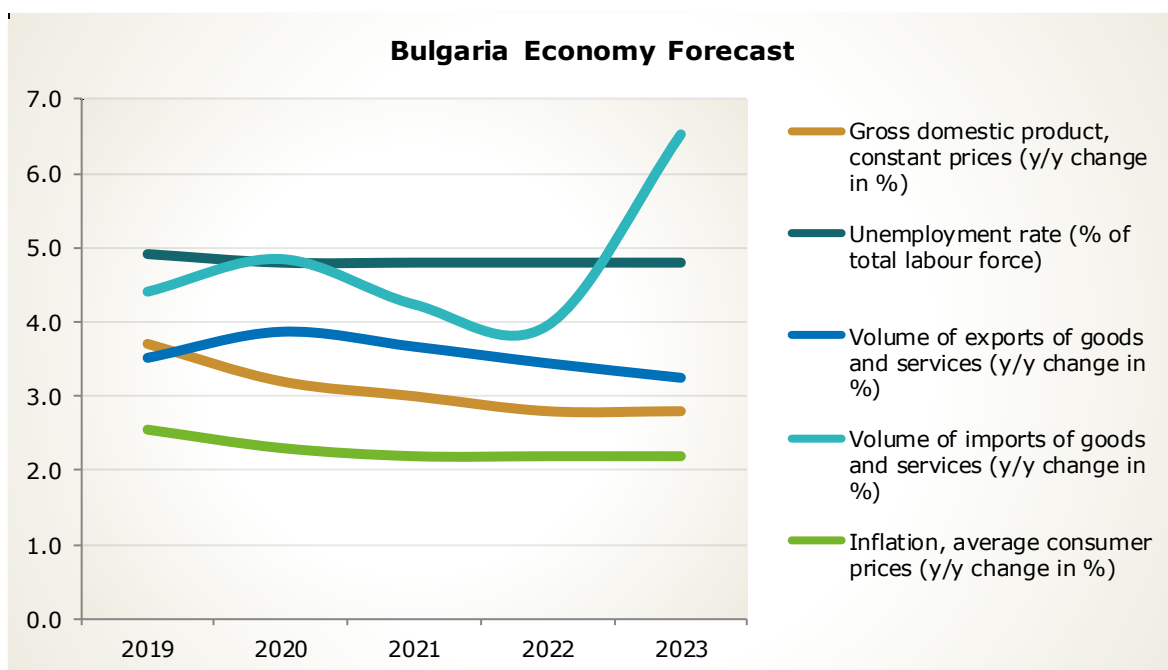
Q2 2019

CONTENTS

1. MACROECONOMIC SNAPSHOT AND FORECAST	3
2. REAL SECTOR	4
2.1. GROSS DOMESTIC PRODUCT (GDP)	4
2.2. BUSINESS CLIMATE.....	6
2.3. INDUSTRIAL OUTPUT	9
2.4. INDUSTRIAL SALES.....	9
2.5. WHOLESALE/RETAIL	10
2.6. INFLATION	11
3. LABOUR MARKET.....	13
4. CONSTRUCTION AND REAL ESTATE	14
5. MONEY SUPPLY AND BANKING SYSTEM.....	14
5.1. BGN EXCHANGE RATE	14
5.2. MONETARY AGGREGATES.....	14
5.3. BANKING AND INSURANCE	15
6. CAPITAL MARKETS	17
7. EXTERNAL SECTOR.....	17
7.1. FOREIGN DEBT.....	17
7.2. BALANCE OF PAYMENTS.....	18
7.3. FDI.....	19
7.4. FOREIGN TRADE	19
7.5. TOURSIM.....	20
8. MAJOR DEVELOPMENTS	21

1. MACROECONOMIC SNAPSHOT AND FORECAST

BULGARIA – MACROECONOMIC SNAPSHOT AS OF Q2 2019	
GDP Growth	3.8% y/y
Business confidence indicator	-1.3 pp m/m
Industrial output	-3.4% y/y
Industrial sales index annual change	-10.4% y/y
Wholesale	8.8% y/y (Q1 2019)
Retail sales	0.1% y/y
Average annual inflation	3.3%
Unemployment rate	4.2%
Number of building permits	0.3% y/y
Money supply growth	7.8% y/y
Household loans	7.8% y/y
SOFIX blue-chip index	-0.4% q/q
Gross external debt	EUR 33.989 bln
Current account surplus	EUR 1.443 bln
FDI inflow	EUR 452.0 mln
Foreign trade deficit	EUR 614.7 mln
Number of foreign tourist overnights	-3.3% y/y

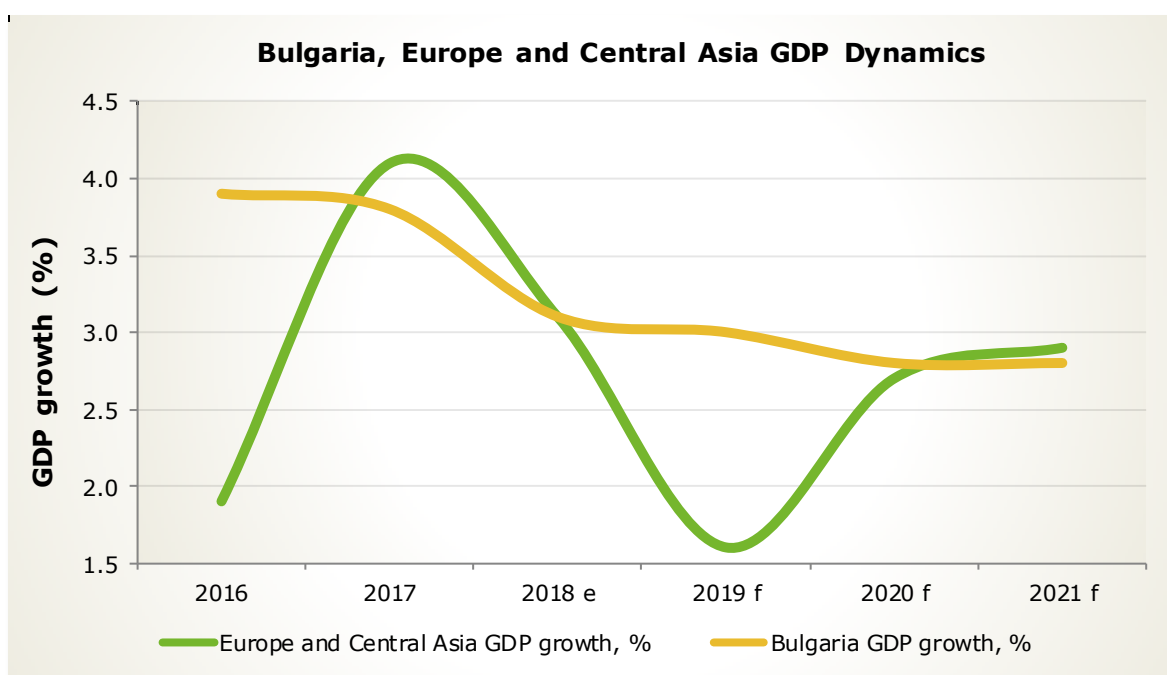


Source: International Monetary Fund (IMF) World Economic Outlook Database – October 2019

The Bulgarian economy continues to grow strongly, according to the latest IMF executive board assessment. Growth has been stable, at 3.0% in 2018 and is expected to maintain its momentum at 3.7% in 2019.

Capacity constraints are becoming more binding yet inflationary pressure has eased, reflecting developments in commodity and tourism-related prices. The unemployment rate has reached a historical low and wages are rising rapidly, increasing skill shortages. Risks are tilted to the downside especially from weaker-than-expected growth of trading partners.

According to the World Bank estimates from June 2019, GDP growth is likely to come in at 3.0% in 2019, down from 3.1% in 2018. This will be higher than the projected growth for Europe and Central Asia, of 1.6% in 2019.



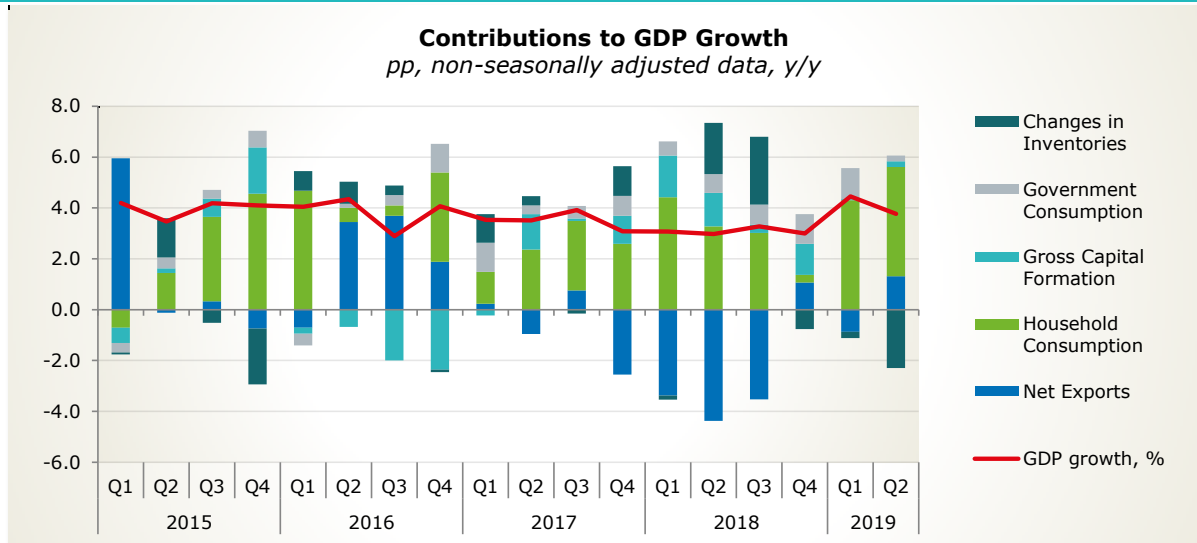
Source: World Bank, Global Economic Prospects, June 2019

2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP annual growth at 3.8% in Q2 2019

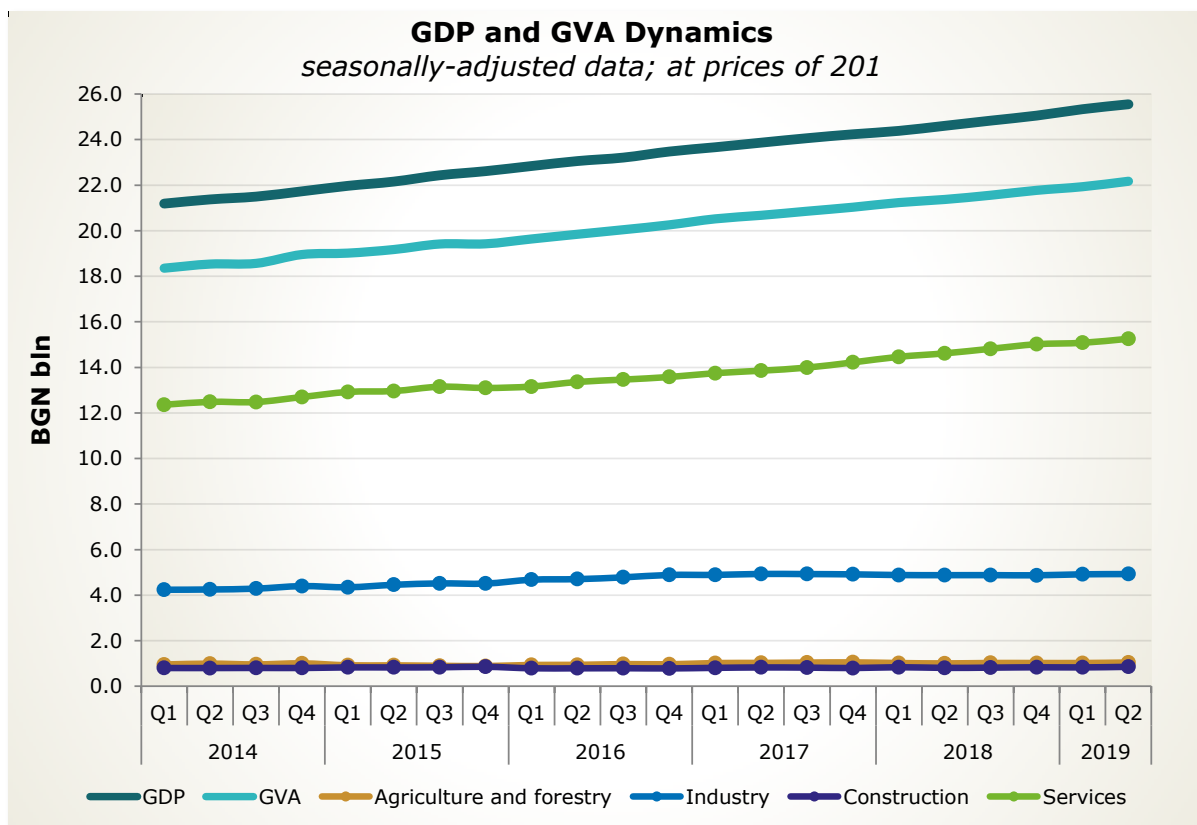
The Bulgarian economy grew annually by 3.8% in Q2 2019, according to the seasonally-adjusted preliminary data of the National Statistical Institute (NSI). Household consumption contributed the most to the overall GDP rise with 4.3 pp in Q2 2019. Net exports were another major contributor with 1.3 pp, while government consumption and gross capital formation added another 0.2 pp each.



Source: SeeNews calculations; NSI

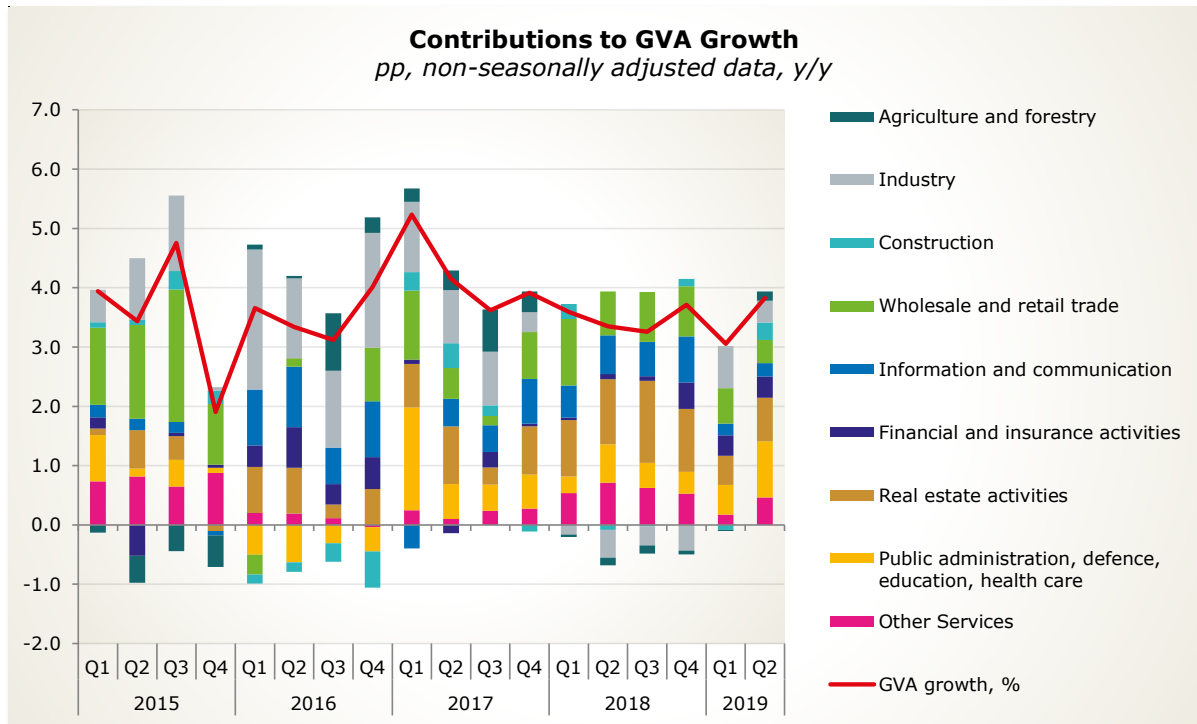
Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual.

The seasonally-adjusted gross value added (GVA) at 2015 prices generated by the national economy increased by 3.7% y/y in Q2 2019 and totalled BGN 22.171 bln. The services sector recorded a 4.4% annual increase, slicing a 68.8% share in the GVA. The industrial sector grew in value by 1.0% y/y and took 22.2% share in the total GVA in Q2 2019. The construction industry took a 3.9% share, going up by 5.8% y/y. Agricultural sector's GVA went up by 3.9% y/y and accounted for a 4.7% share in the total GVA.



Source: NSI

In Q2 2019, in terms of industry breakdown, all sectors had a positive contribution to the economic growth. The public administration, defense, education and health care sector was the biggest contributor to GVA growth, adding 1.0 pp, followed by the real estate activities sector with a 0.7 pp contribution to the overall GVA growth in Q2 2019.



Source: SeeNews Calculations; NSI

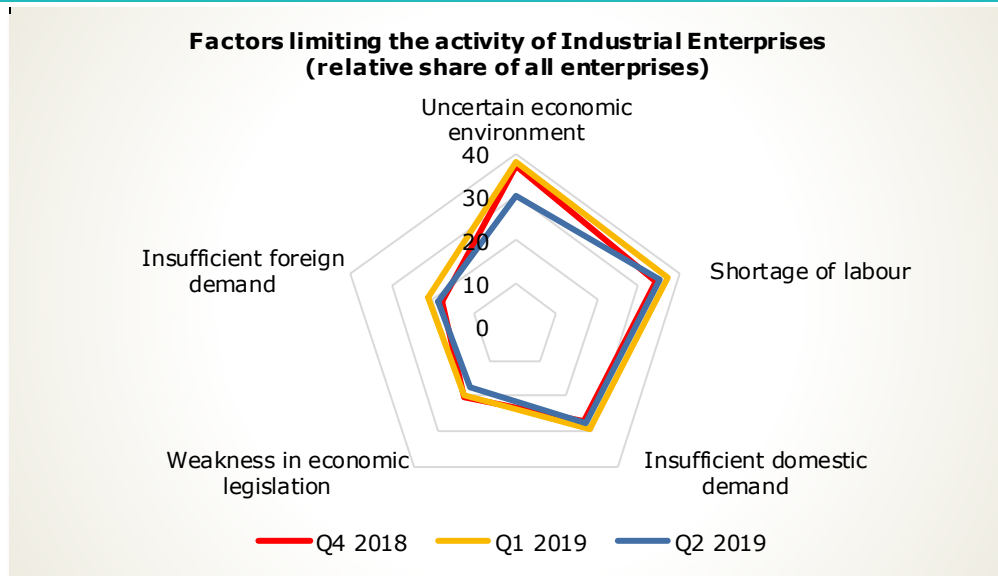
Note: Non-additive data due to direct chain linking of GDP and its components.

2.2. BUSINESS CLIMATE

Business Confidence Indicator decreased m/m in June 2019

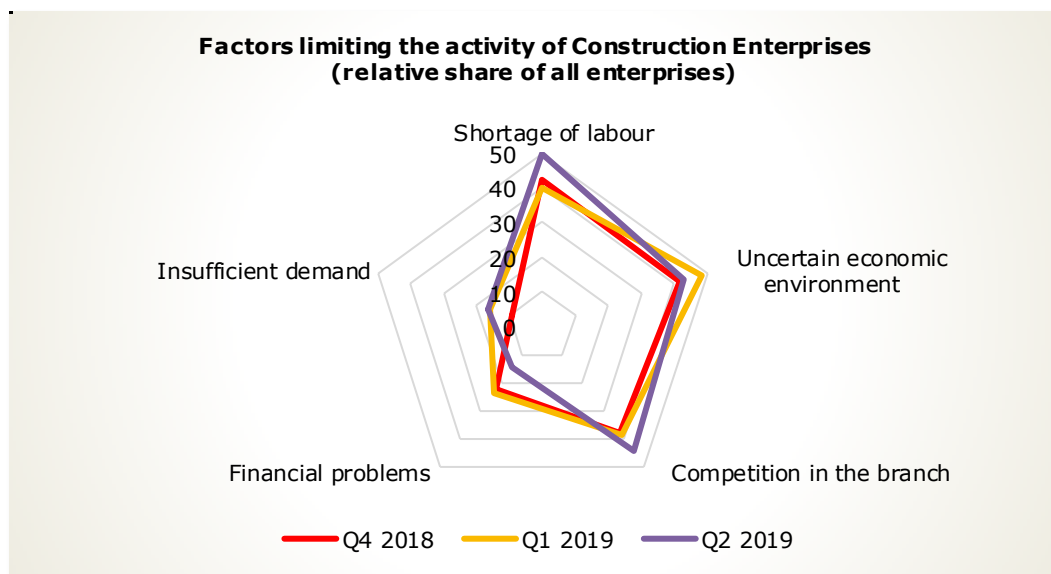
The business climate indicator decreased by 1.3 pp in comparison with May as a result of the more unfavourable business climate in industry, construction and service sector, according to NSI data.

In June 2019, the industrial sector dropped by 1.1 pp, which is due to the shift in industrial entrepreneurs' expectations about the business situation of the enterprises over the next six months from better to remaining the same.



Source: NSI

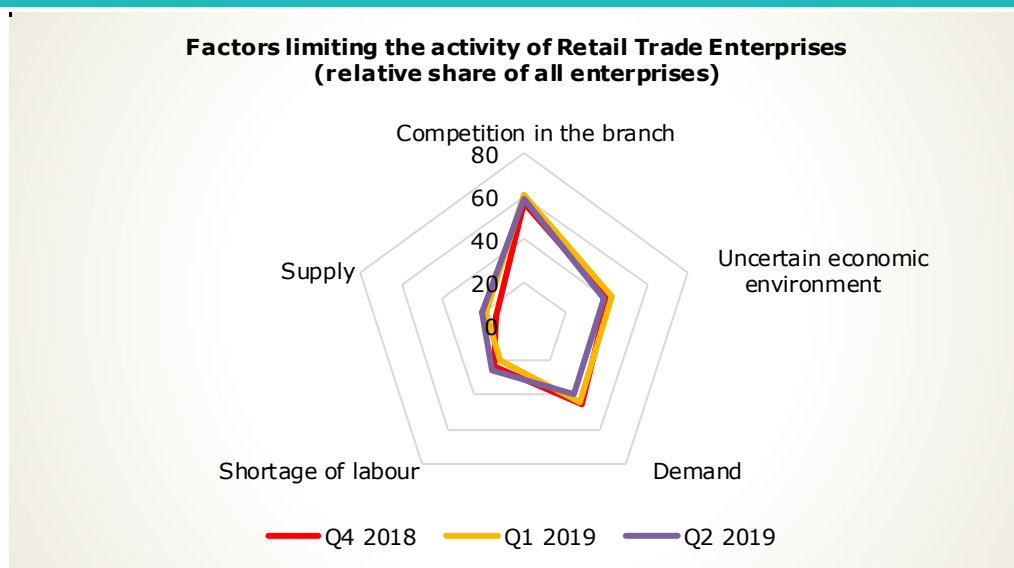
In June 2019, the business climate indicator in the construction sector decreased by 1.8 pp as a result of the slightly worsened construction entrepreneurs' assessments and expectations about the business situation of the enterprises.



Source: NSI

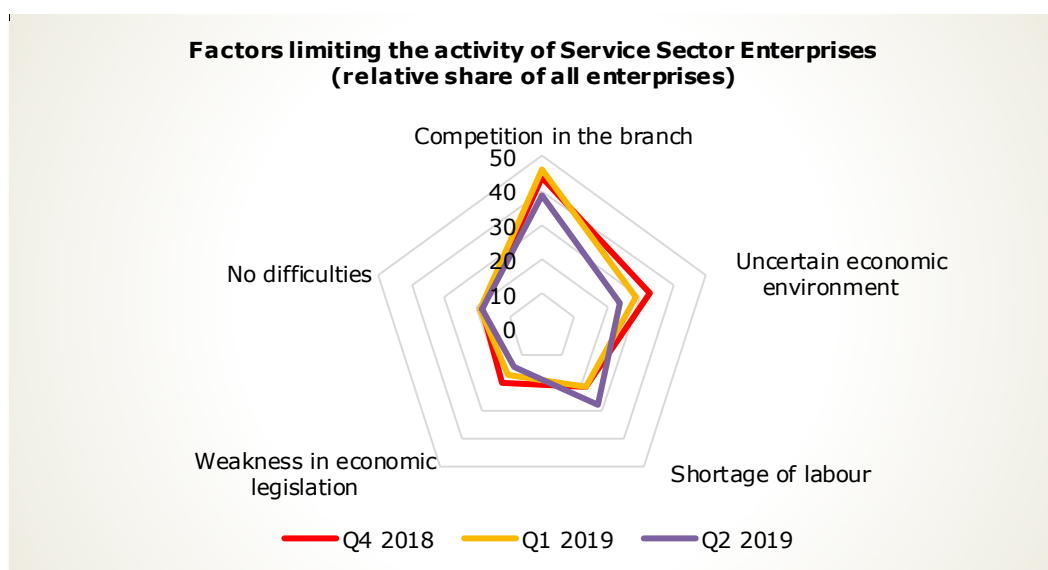
The business climate indicator in the retail sector stayed unchanged in June, compared to the previous month. Retailers are optimistic about the volume of sales and orders placed with suppliers over the next three months.

The competition in the sector was seen as the most limiting factor for the development of the retail companies in June 2019, followed by insufficient demand and uncertain economic environment.



Source: NSI

The business climate indicator in the services sector dropped by 2.1 pp in June 2019, due to the unfavourable managers' assessments and expectations about the business situation of enterprises. In regard to the demand of services, the present tendency is assessed as slightly improved. The competition in the sector was once again pointed out as the main limiting factor for the activities of the enterprises.



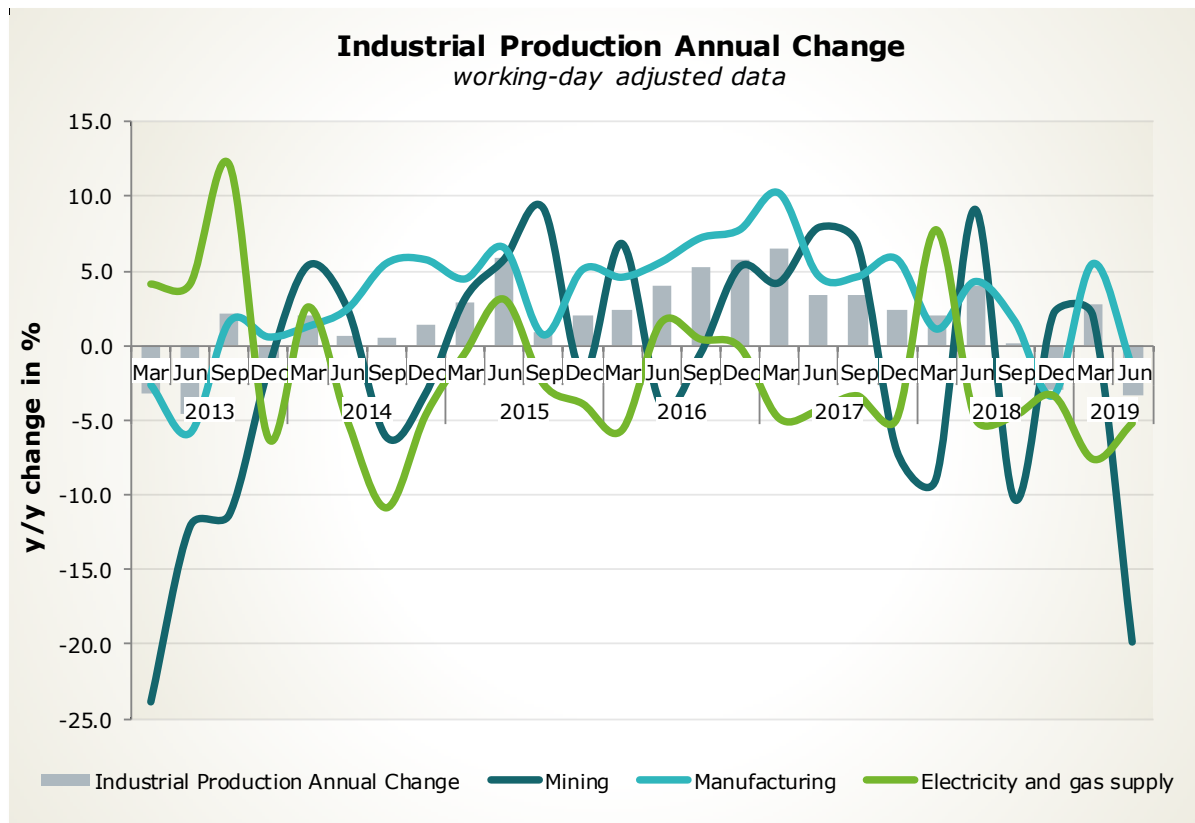
Source: NSI

2.3. INDUSTRIAL OUTPUT

Industrial output decreased by 3.4% in June 2019

Industrial production shrank by 3.4% y/y in June 2019, according to NSI. In May, the growth was stronger - 0.9%, down from a still sharper increase of 2.7% in April.

In June 2019, the output of the mining industry decreased by 19.8% y/y, while electricity and gas supply went down by 5.2% y/y. The production of the manufacturing sector also decreased, by 1.5% y/y.

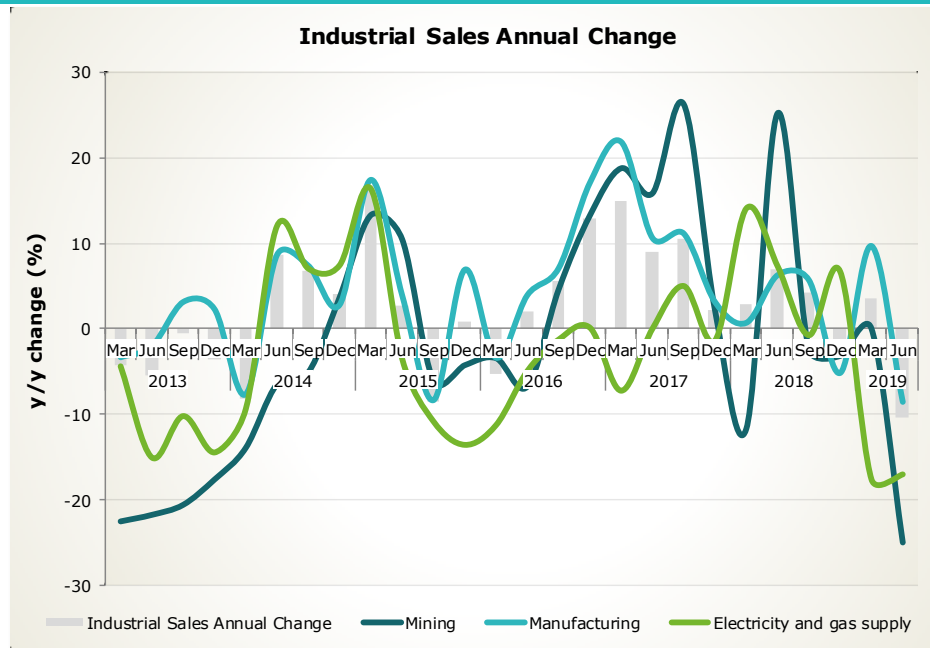


Source: NSI

2.4. INDUSTRIAL SALES

Industrial sales decreased by 10.4% y/y in June 2019

Industrial sales declined by 10.4% y/y in June 2019, according to NSI. The drop was largely caused by the 25.1% slump in mining industry. The sales of the electricity and gas supply sector went down by 17.0%, while manufacturing sector fell by 8.5%.

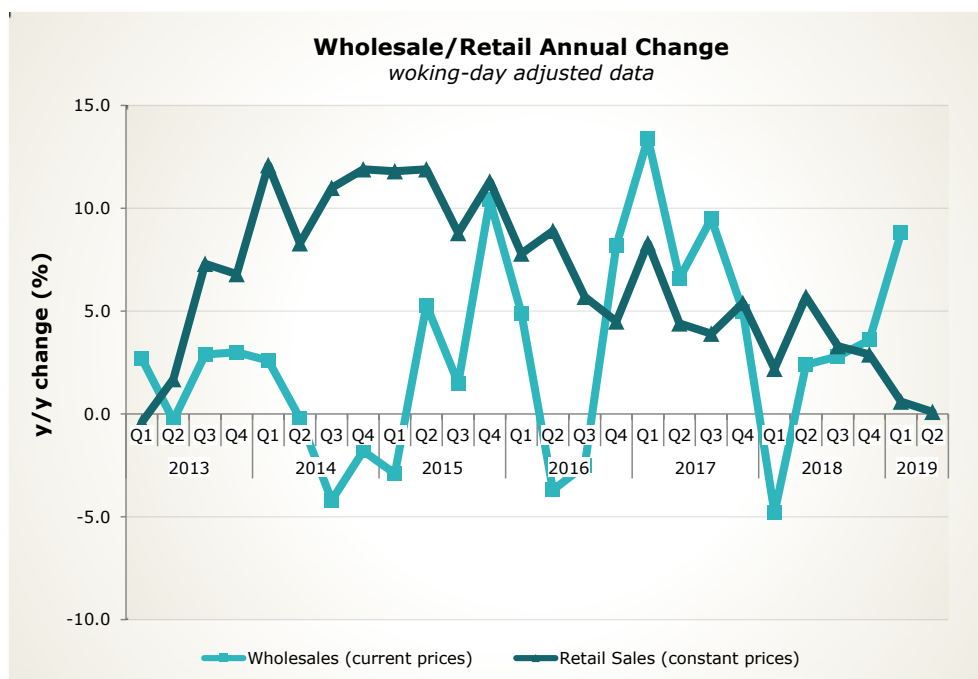


Source: NSI

2.5. WHOLESALE/RETAIL

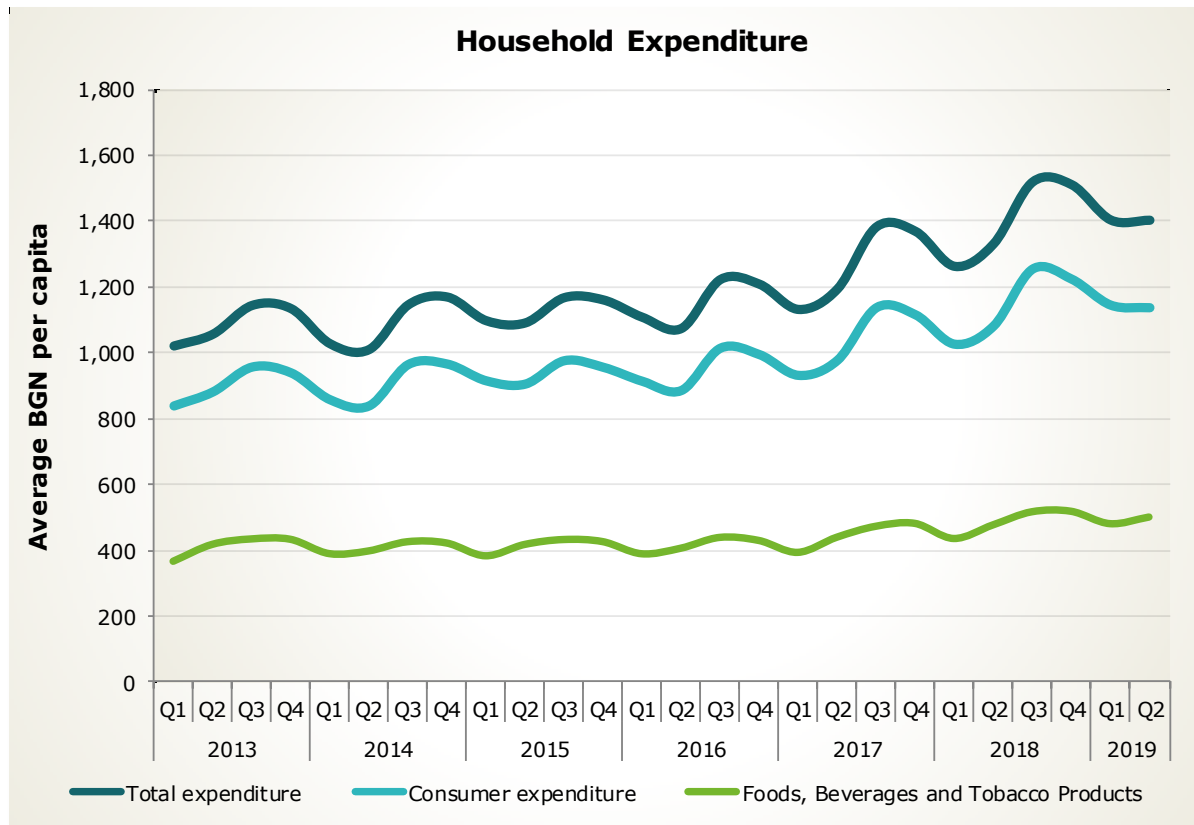
Retail sales up 0.1% y/y in June 2019

In June 2019, retail sales inched up by 0.1%, according to NSI data. Retail sale via mail, telephone or internet orders was the segment to report the highest annual increase, of 7.0%. Retail of pharmaceuticals and cosmetics registered the sharpest annual drop among the retail segments - 9.8%.



Source: NSI

Household expenditure continued its expansion in Q2 2019, rising by 5.3% y/y to BGN 1,402 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 second quarter of 2019. Spending on food, beverages and tobacco products went up by 5.0% y/y to BGN 501 per capita and sliced 35.8% of the total consumer expenditures.



Source: NSI

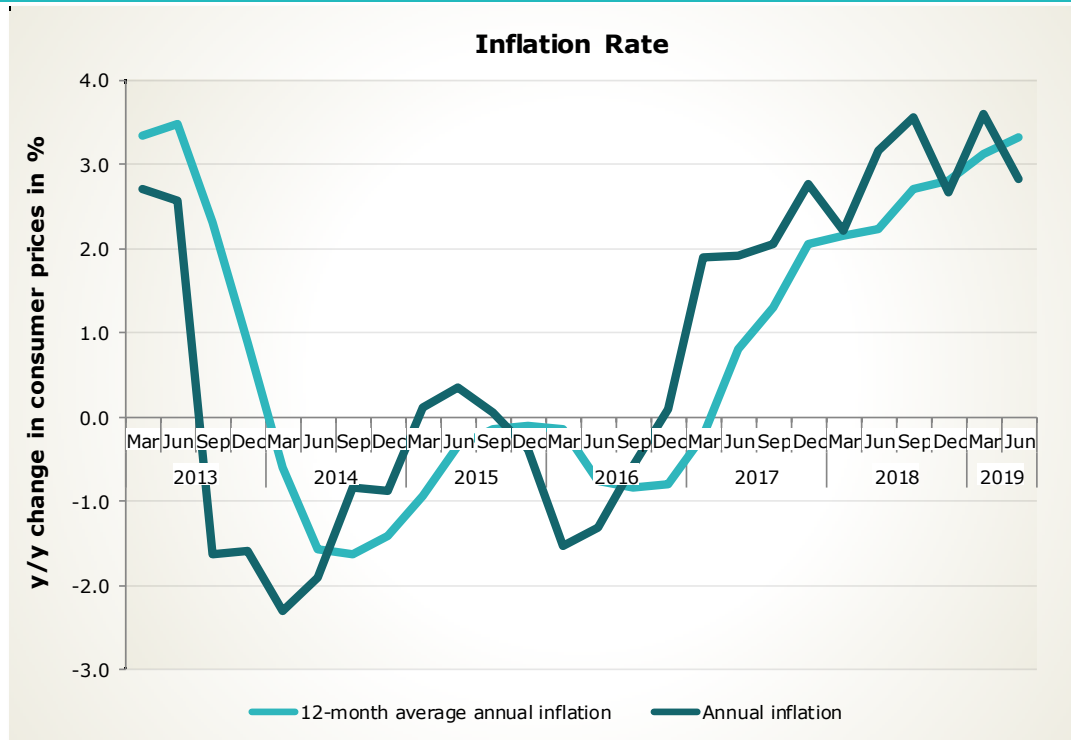
2.6. INFLATION

Annual average inflation at 3.3% as of June 2019

The average annual inflation in the last 12 months, measured by the Consumer Price Index (CPI) change in July 2018 – June 2019, compared to July 2017 - June 2018, stood at 3.3%, down from 3.6% in March 2019.

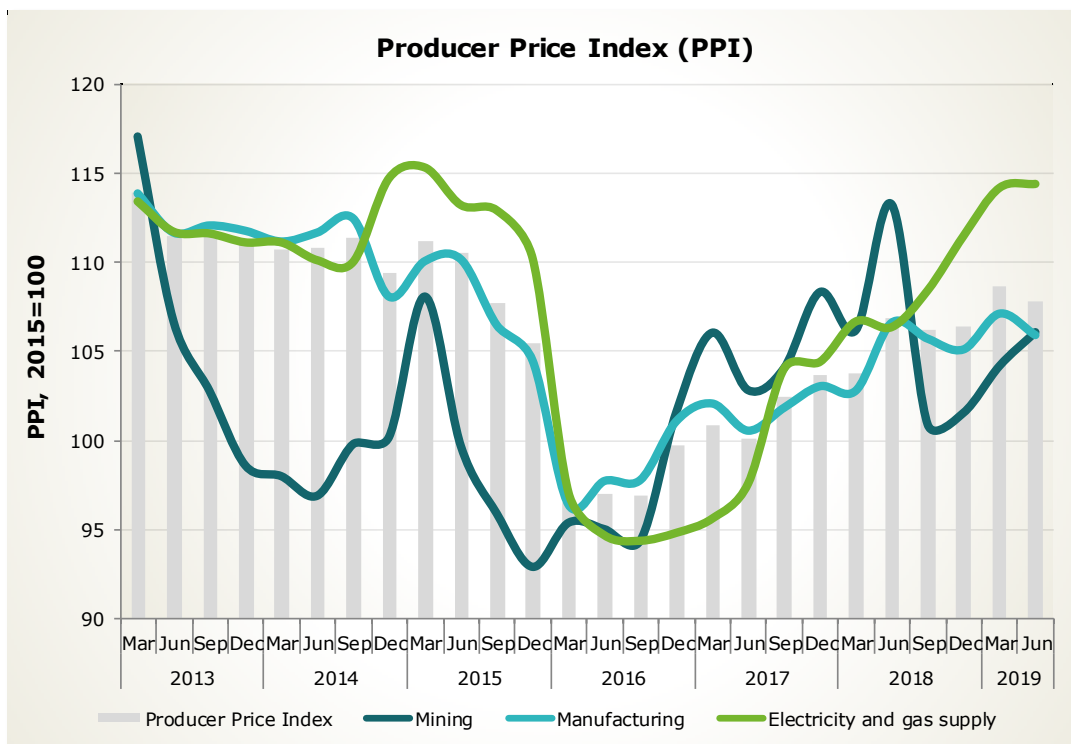
The highest annual inflation, of 5.2%, was registered in restaurant and hotel services, followed by housing, water, electricity, gas and other fuels with 4.6%. Catering services posted the third largest inflation, of 4.3%.

Clothing and footwear was the only consumer group to report a deflation, of 1.5%.



Source: NSI

Producer prices increased by 0.9% y/y on average in June 2019. Producer prices in electricity and gas supply went up by 7.6% y/y, while prices in the mining sector fell by 6.3% y/y. The manufacturing sector's Producer Price Index went down by 0.7% y/y.



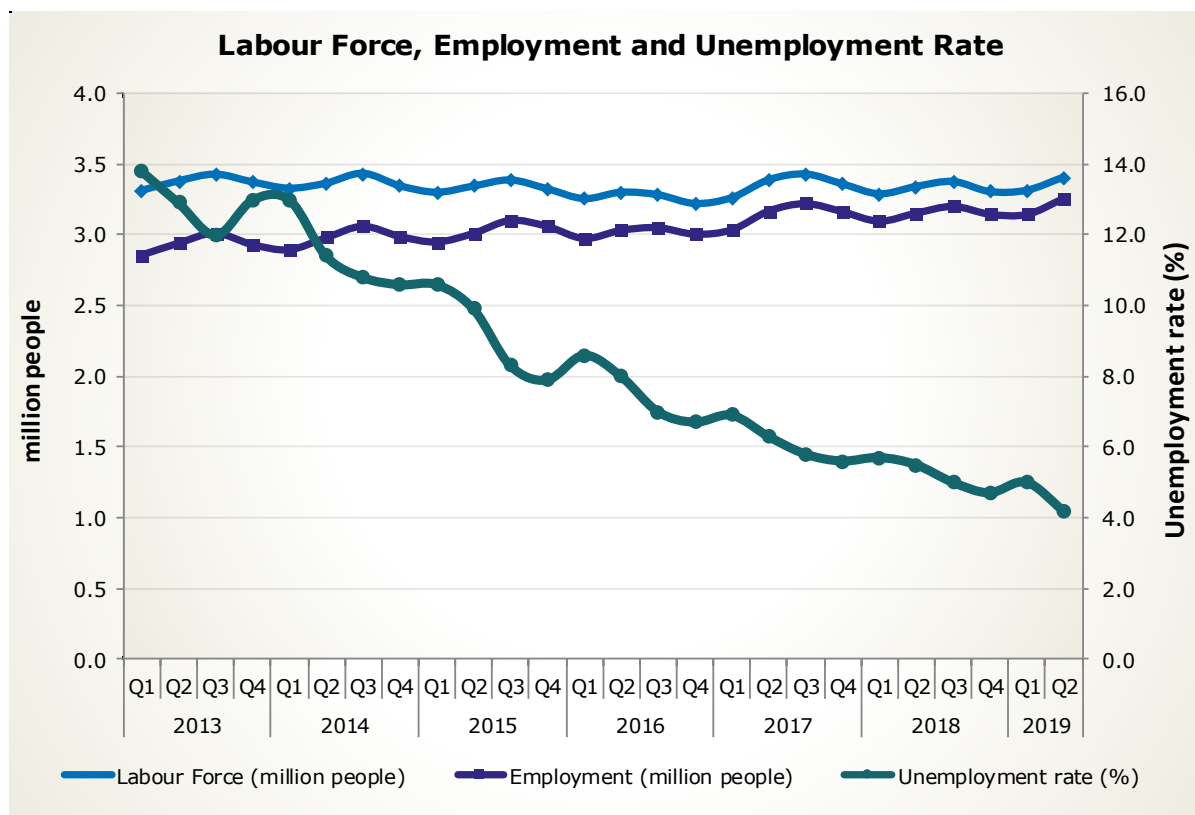
Source: NSI

3. LABOUR MARKET

Unemployment rate decreased by 1.3 pp y/y, wages grew 12.0% y/y in Q2 2019 on strong economic growth and tightening labor market

The unemployment rate in Bulgaria narrowed to 4.2% in Q2 2019, down from 5.5% a year earlier, according to data of NSI. The employed population aged 15 years and older was 3.263 million in Q2 2019, up by 3.3% y/y. Youth (population aged 15-24) unemployment rate went down to 9.5%, compared to 9.8% in Q1 2019 and 15.1 % in Q2 2018.

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



Source: NSI

According to data of NSI, the average monthly salary in Q2 2019 grew by 12.0% y/y to BGN 1,260. Wages in the public and private sectors went up by 11.0% y/y and 12.4% y/y, respectively. Employees in IT and communication, financial and insurance activities and the energy sector earned the highest salaries of BGN 3,053, BGN 2,174 and BGN 2,048, respectively.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits increased by 0.3% y/y in Q2 2019

The number of building permits issued in Bulgaria in Q2 2019 notched up by 0.3% y/y and totalled 2,790, according to NSI data. The permits for housing projects went up by 7.8% to 1,591, while permits for office buildings went down to 31 from 32 a year earlier.

The total built-up area of office units, covered by the permits, jumped to 62,141 sq m in Q2 2019 from 34,350 sq m in Q2 2018. The total built-up area of the housing units went up by 5.4% on the year to 1,078,441 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 1.7398 in Q2 2019 from BGN 1.6426 a year ago, according to Bulgarian National Bank (BNB) data.

BGN Average Exchange Rate			
Foreign Currency	Q2 2019	Q1 2019	Q2 2018
EUR*	1.9558	1.9558	1.9558
USD	1.7398	1.7220	1.6426
GBP	2.2358	2.2416	2.2321
CHF	1.7366	1.7273	1.6664

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

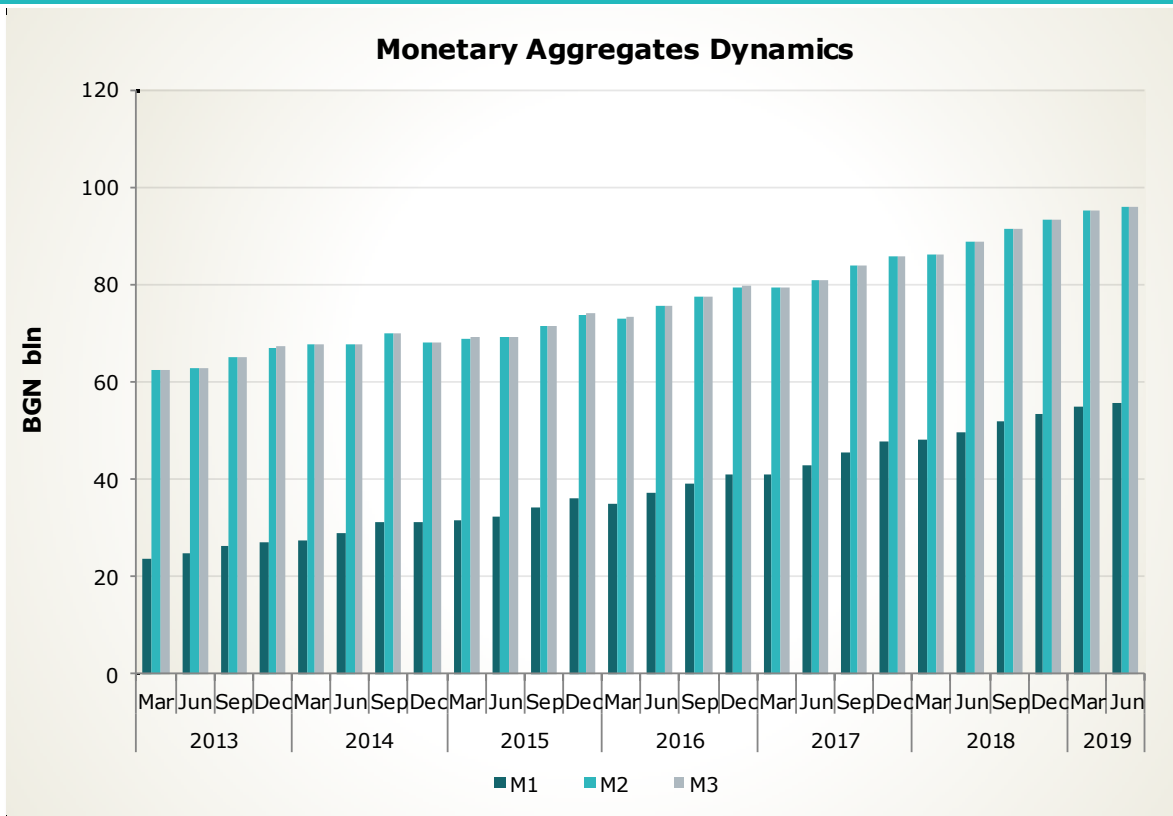
5.2. MONETARY AGGREGATES

Money supply growth was 7.8% y/y in Q2 2019

In Q2 2019, the broad monetary aggregate M3 rose by 7.8% 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 7.9% y/y to BGN 95.821 bln.

Money aggregate M1, or narrow money, jumped by 12.5% to BGN 55.768 bln.



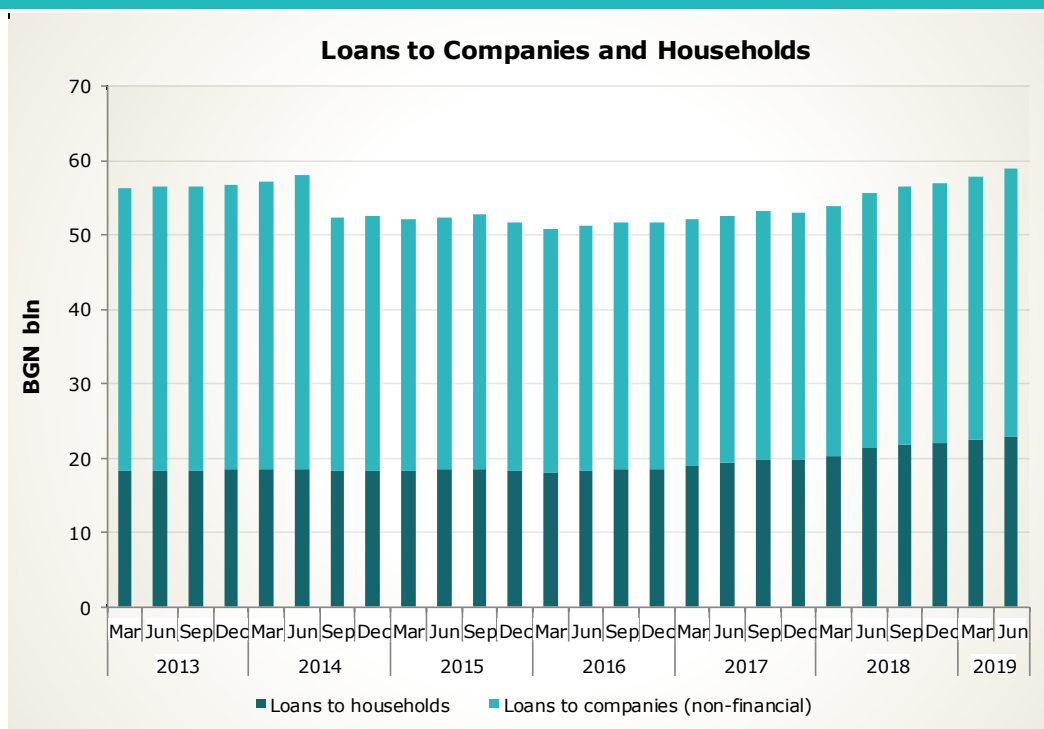
Source: BNB

5.3. BANKING AND INSURANCE

Household loans increased by 7.8% y/y in June 2019 on high demand and solid economic growth

In June 2019, the total loans to the non-financial corporations and households sector increased by 5.9% y/y to BGN 58.862 bln, according to BNB.

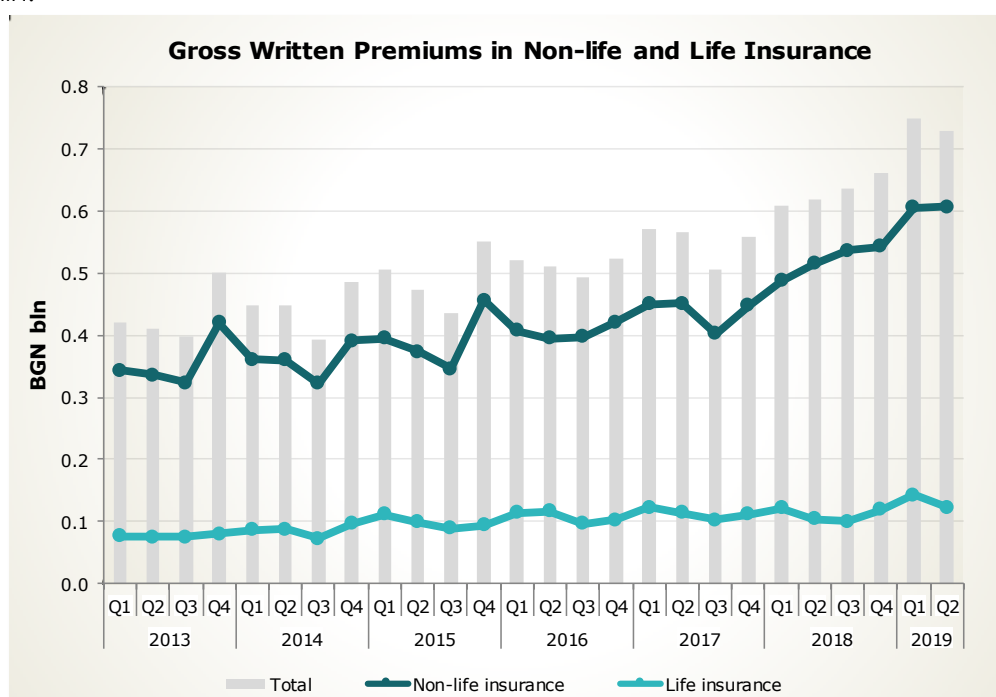
The loans to non-financial corporations expanded by 4.8% y/y in Q2 2019, amounting to BGN 35.873 bln. As of June 2019, the annual growth of loans to households came in at 7.8%.



Source: BNB

Insurance premium income up 17.8% y/y in Q2 2019

The total gross written premiums (GWP) of the Bulgarian non-life and life insurance companies stood at BGN 729.3 mln, up by 17.8% y/y in Q2 2019, according to the Financial Supervision Commission (FSC). The GWP of the non-life insurance market amounted to BGN 606.4 mln, or by 17.7% more than a year earlier, while the life insurance market grew by 18.4% y/y to BGN 122.9 mln.



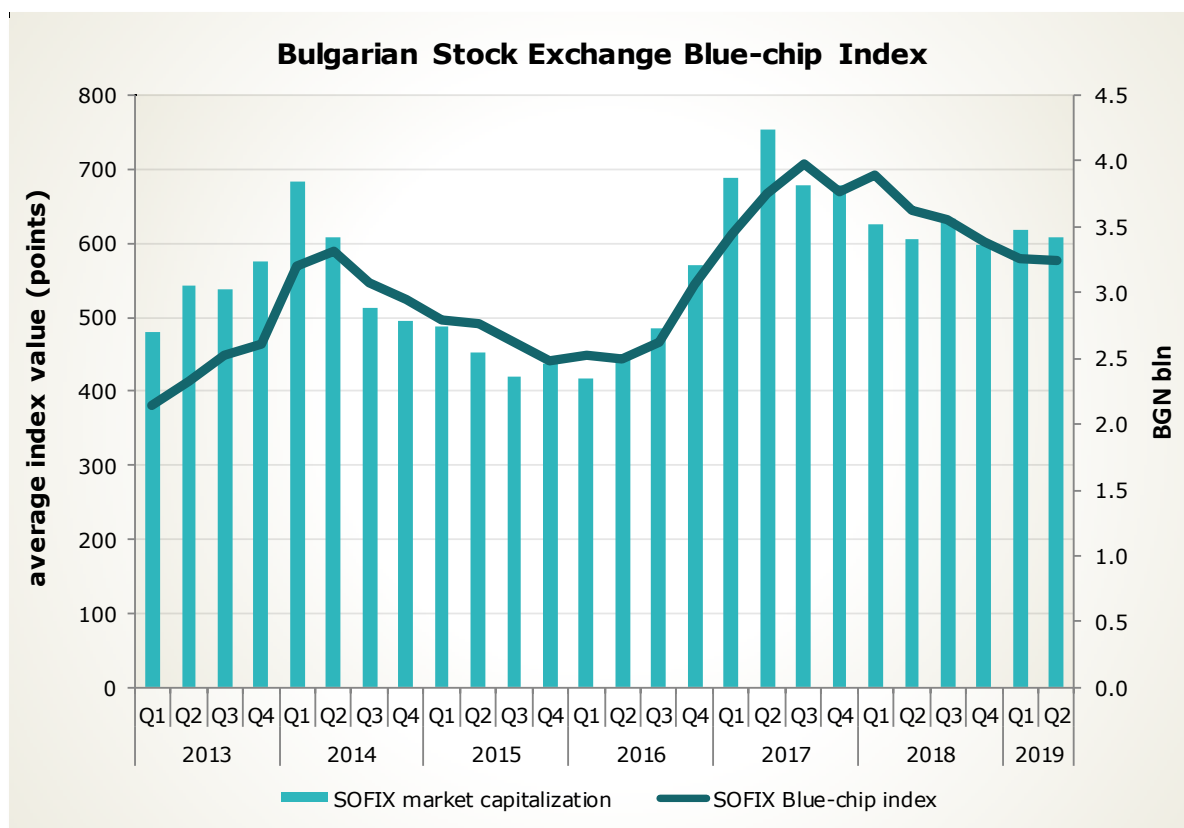
Source: FSC

6. CAPITAL MARKETS

Blue-chip SOFIX decreased by 0.4% q/q in Q2 2019

SOFIX, the blue-chip index of the Bulgarian Stock Exchange (BSE), decreased by 0.4% q/q to 576 points in Q2 2019, according to BSE data.

The total turnover on BSE's regulated market came in at BGN 41.9 mln in Q2 2019, compared to BGN 83.4 mln in Q1 2019.



Source: BSE

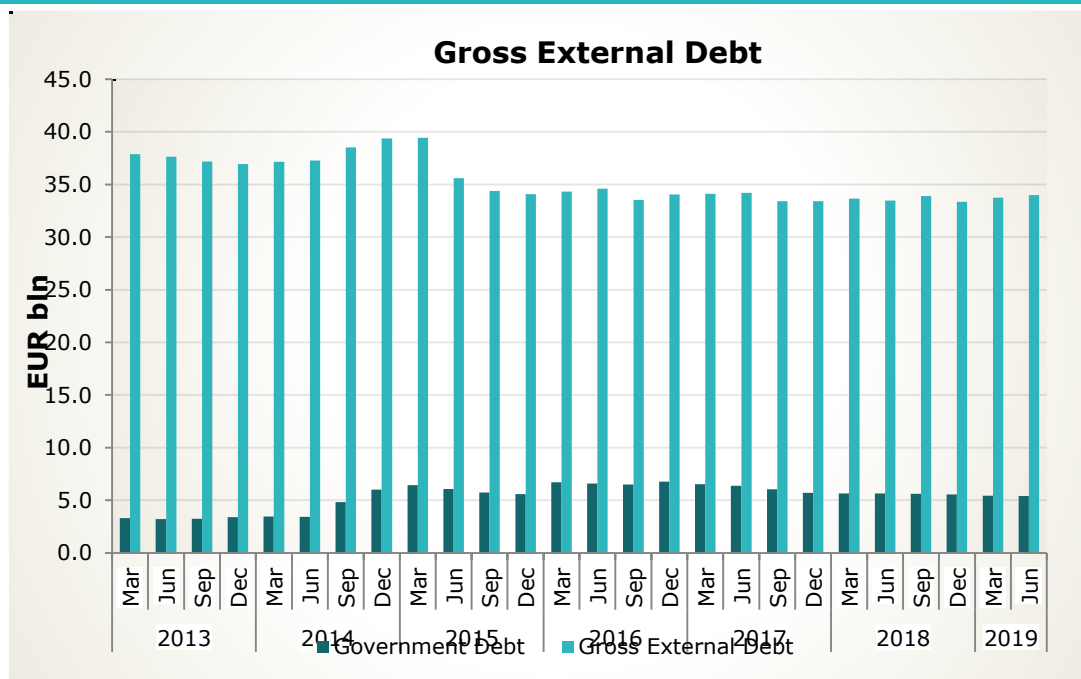
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt inched up by 1.5% y/y to EUR 33.989 bln in Q2 2019

The gross external debt increased by 1.5% y/y totalling EUR 33.989 bln at the end of June 2019, according to BNB. Relative to the economy, the gross external debt accounted for 57.4% of country's GDP.

As of end-June 2019, long-term liabilities amounted to EUR 25.697 bln, or 75.6% of the total debt, and short-term liabilities totalled EUR 8.291 bln, equal to 24.4% of the total debt.

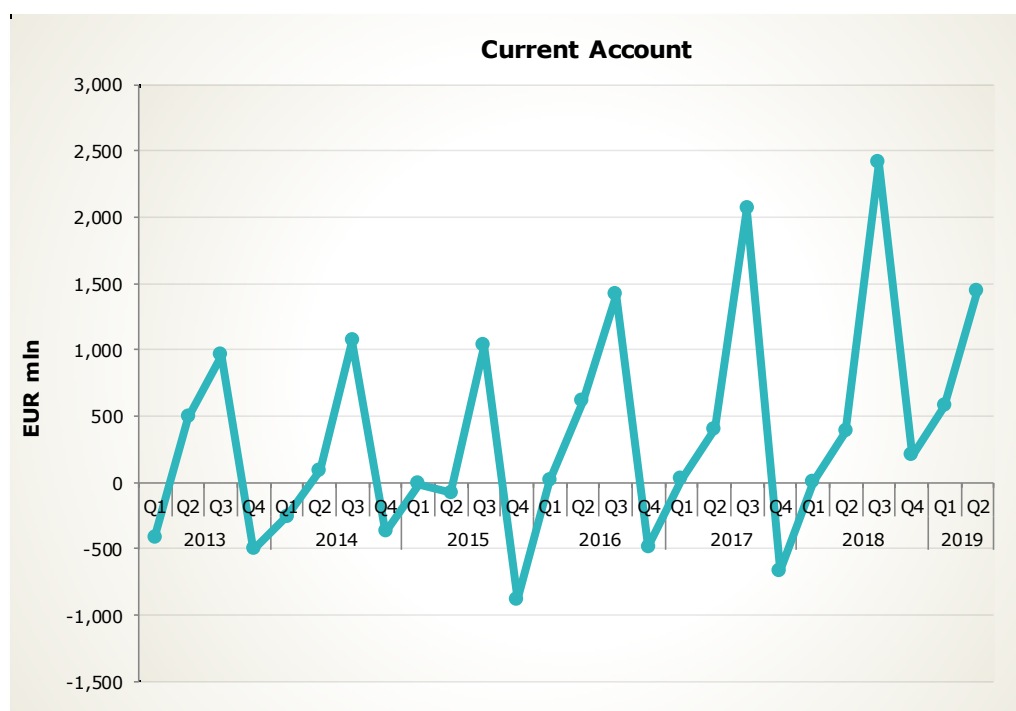


Source: BNB

7.2. BALANCE OF PAYMENTS

Current account balance positive in Q2 2019

In the second quarter of 2019, Bulgaria had current account surplus of EUR 1.443 bln, compared to a surplus of EUR 576.6 mln in Q1 2019 and a surplus of BGN 384.9 mln in Q2 2018, according to the central bank statistics data.

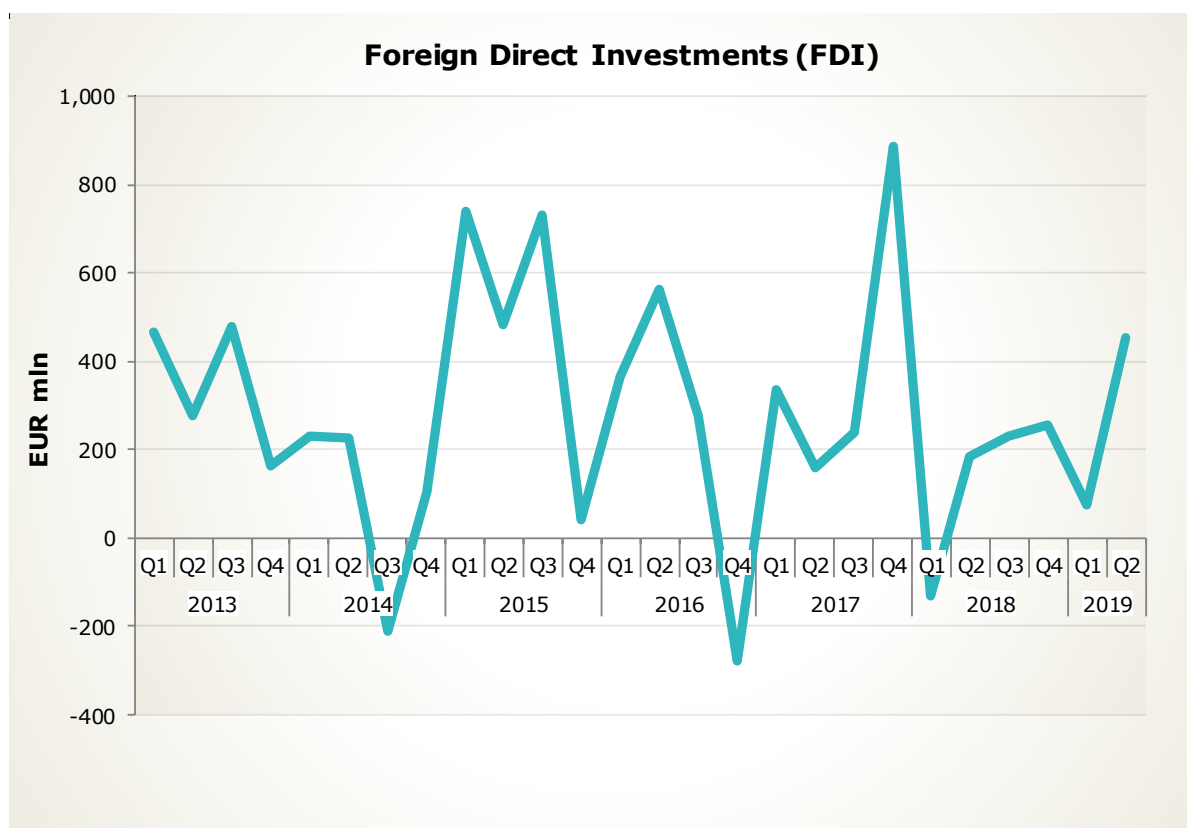


Source: BNB

7.3. FDI

FDIs at EUR 452.0 mln in Q2 2019

The Foreign Direct Investments (FDIs) in Bulgaria in Q2 2019 amounted to EUR 452.0 mln, compared to EUR 183.7 bln in the same quarter of the previous year, according to BNB data. In Q2 2019, FDIs accounted for 3.5% of the GDP for the quarter under review.

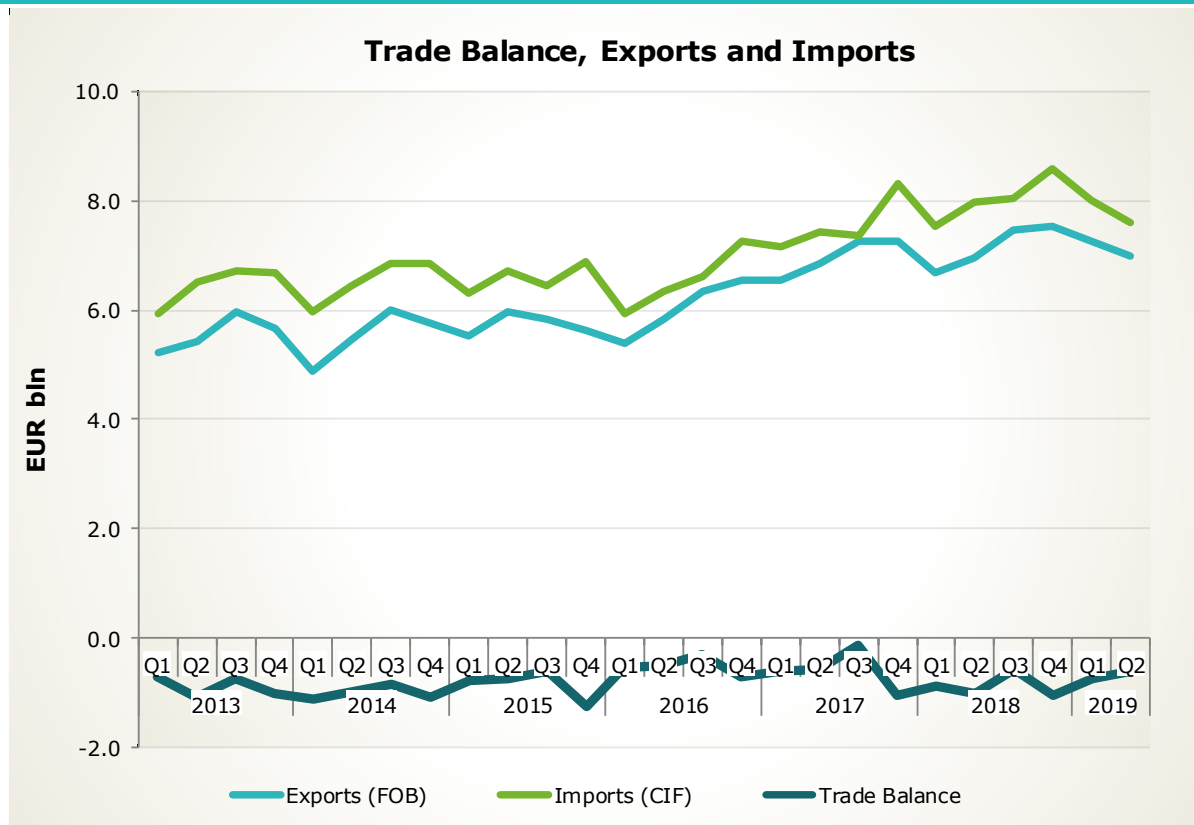


Source: BNB

7.4. FOREIGN TRADE

Foreign trade deficit down 39.9% y/y in Q2 2019

Bulgaria's foreign trade deficit narrowed by 39.9% y/y in the second quarter of 2019 to EUR 614.7 mln, according to NSI data. Exports totalled EUR 6.992 bln, growing annually by 0.4%, while the imports fell by 4.7% to EUR 7.607 bln.



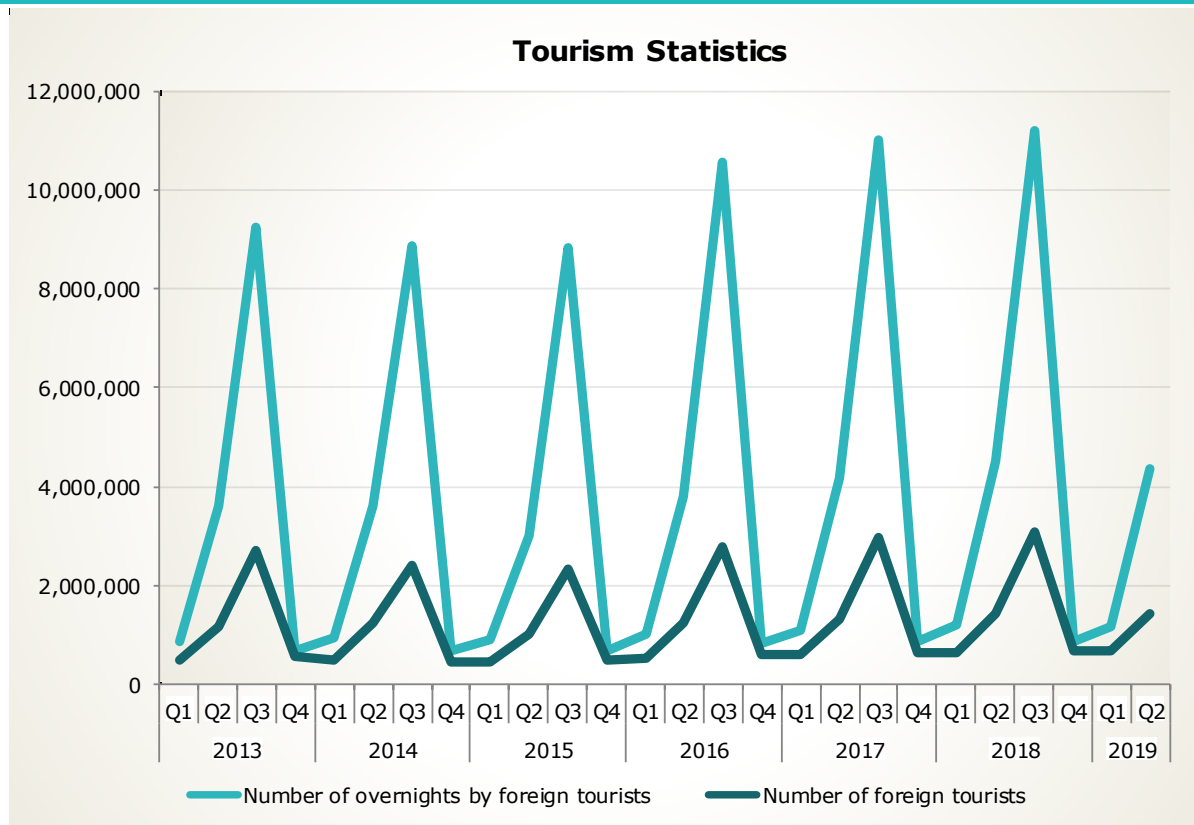
Source: BNB

7.5. TOURSIM

Number of foreign tourist overnights went down by 3.3% y/y in Q2 2019

Tourist overnights of foreigners decreased by an annual 3.3% to 4.355 million in Q2 2019, according to NSI data.

The number of foreign tourists also went down - by 1.0% y/y to 1.419 million. The most arrivals were from Romania, Russia and Ukraine.



Source: NSI

8. MAJOR DEVELOPMENTS

Bulgaria to spend EUR 12.7 mln to widen road from Stara Zagora to Trakia motorway

June 24, 2019

Bulgaria's regional development ministry said that it will double the width of the road between Stara Zagora and the city's link to the Trakia motorway. The indicative value of the project is expected to total around EUR 12.7 mln, regional development minister Petya Avramova said in a press release.

[Read the full story here](#)

Bulgaria expects to complete 9.3 km of Hemus motorway by end-2019

June 21, 2019

Bulgaria expects to complete the construction of a 9.3-kilometre long section of Hemus motorway from Yablanitsa, some 80 km east of Sofia, to Boaza road junction by the end of 2019, the regional development ministry said.

[Read the full story here](#)

Bulgaria to invest EUR 12 mln in supercomputing centre

June 19, 2019

Bulgaria will invest EUR 12 mln in a supercomputing centre in Sofia that will be launched by the end of 2020, according to the European commissioner for digital economy Mariya Gabriel.

[Read the full story here](#)

EU Commission urges Bulgaria to improve tax collection, banking supervision

June 5, 2019

The European Commission said it has recommended to Bulgaria to improve tax collection and ensure stability in the banking sector through effective supervision, in compliance with the Stability and Growth Pact in 2019 and 2020.

[Read the full story here](#)

EBRD, EU launch joint innovation programme for Bulgaria, Romania

June 4, 2019

The European Bank for Reconstruction and Development (EBRD) said that together with the EU it has launched a EUR 20 mln programme that supports investment in research and innovation by small and medium-sized enterprises (SMEs) and midcaps in Bulgaria, Romania and Latvia.

[Read the full story here](#)

EU grants EUR 55 mln to Bulgaria for two energy projects

Apr 10, 2019

The European Commission's Innovation and Networks Executive Agency (INEA) has signed two grant agreements with Bulgaria, worth a total of EUR 55 mln, aimed at funding two energy projects.

[Read the full story here](#)

Bulgaria to launch EUR 72 mln Kardzhali bypass road construction tender

Apr 4, 2019

Bulgaria's regional development ministry will launch a EUR 71.6 mln tender for the construction of a bypass road in Kardzhali - a project that will reduce air pollution in the city and the time for travel to neighbouring Greece.

[Read the full story here](#)

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