

BULGARIA ECONOMY REPORT

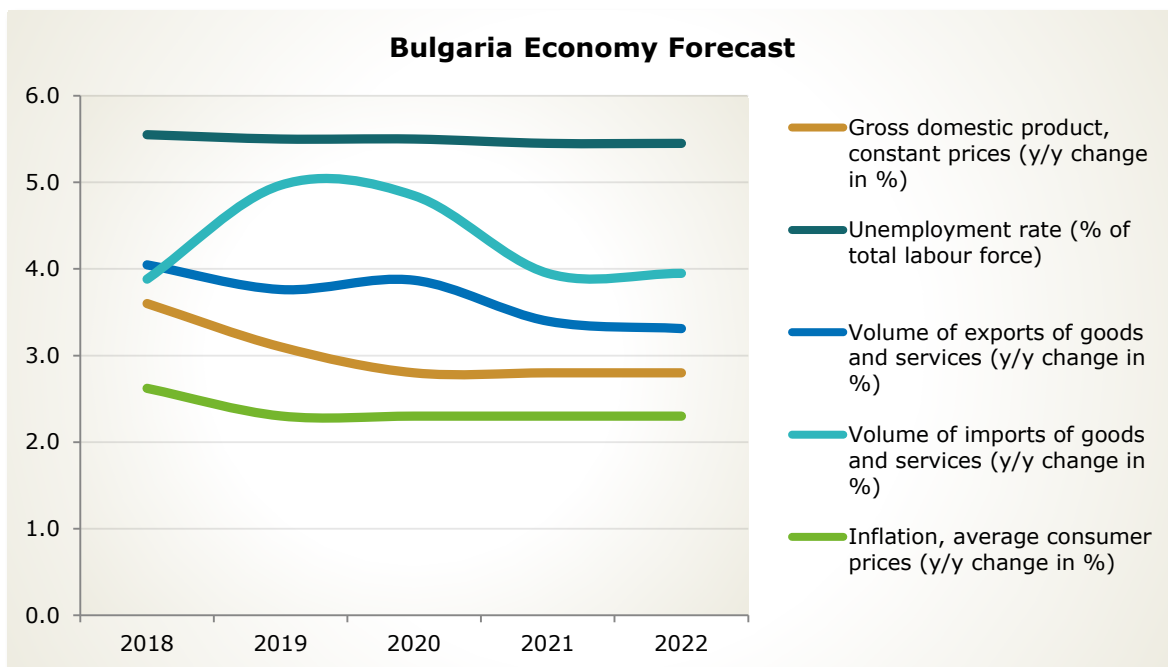
Q3 2018

CONTENTS

| | |
|--|----|
| 1. MACROECONOMIC SNAPSHOT AND FORECAST | 3 |
| 2. REAL SECTOR | 4 |
| 2.1. GROSS DOMESTIC PRODUCT (GDP) | 4 |
| 2.2. BUSINESS CLIMATE..... | 7 |
| 2.3. INDUSTRIAL OUTPUT | 9 |
| 2.4. INDUSTRIAL SALES..... | 10 |
| 2.5. WHOLESALE/RETAIL | 10 |
| 2.6. INFLATION..... | 12 |
| 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 | 20 |
| 7.5. TOURSIM | 21 |
| 8. MAJOR DEVELOPMENTS | 21 |

1. MACROECONOMIC SNAPSHOT AND FORECAST

| BULGARIA – MACROECONOMIC SNAPSHOT AS OF Q3 2018 | |
|---|----------------|
| GDP Growth | 3.1% y/y |
| Business confidence indicator | -1.5 pp m/m |
| Industrial output | -0.4% y/y |
| Industrial sales index annual change | 4.0% y/y |
| Wholesale | 0.5% y/y |
| Retail sales | 4.6% y/y |
| Average annual inflation | 2.7% |
| Unemployment rate | 5.0% |
| Number of building permits | 4.6% y/y |
| Money supply growth | 9.2% y/y |
| Household loans | 10.0% y/y |
| SOFIX blue-chip index | -2.2% q/q |
| Gross external debt | EUR 33.897 bln |
| Current account surplus | EUR 2.207 bln |
| FDI inflow | EUR 565.5 mln |
| Foreign trade deficit | EUR 659.3 mln |
| Number of foreign tourist overnights | 1.7% y/y |

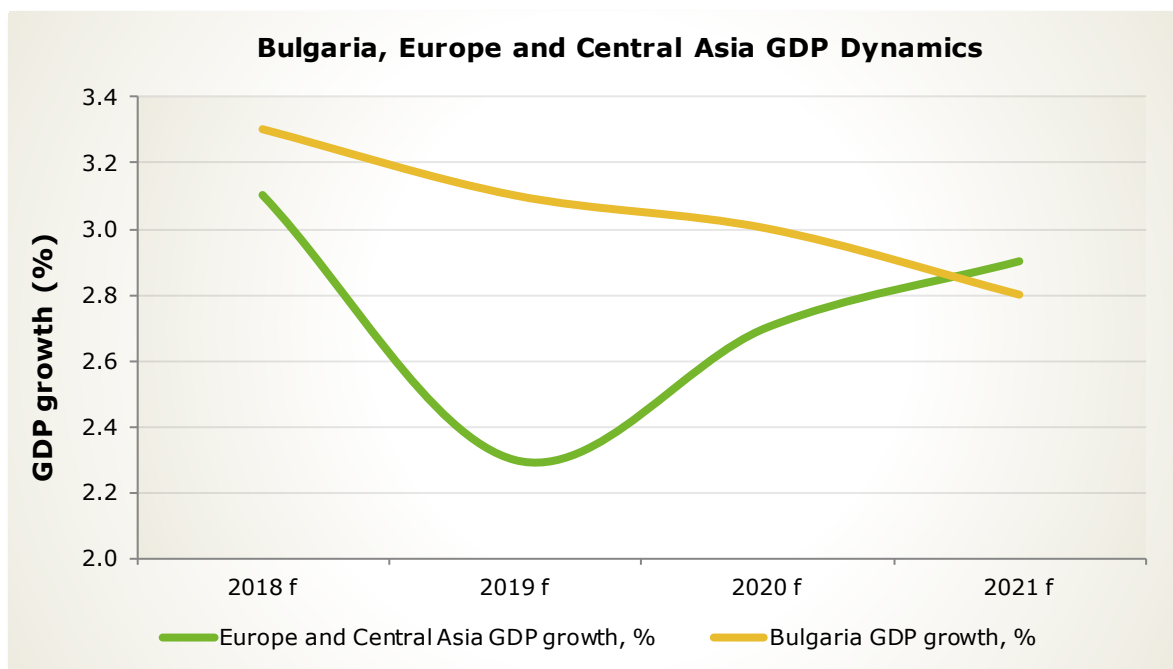


Source: International Monetary Fund (IMF) World Economic Outlook Database – October 2018

The Bulgarian economy performed well, according to the latest IMF executive board assessment. Growth has been stable and is estimated to stay at 3.6% in 2018 and slow down to 3.1% in 2019, driven mainly by improving 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 January 2019, GDP growth is likely to come in at 3.3% in 2018, down from 3.8% in 2017. This will be higher than the projected growth for Europe and Central Asia, of 3.1% in 2018.



Source: World Bank, *Global Economic Prospects*, January 2019

2. REAL SECTOR

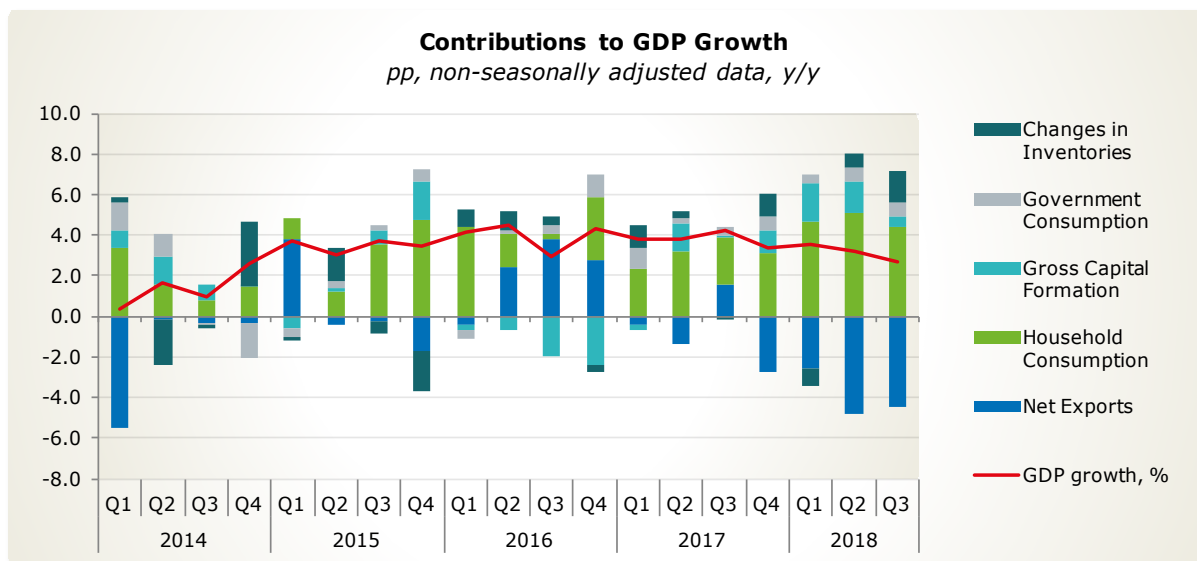
2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP growth slowed down slightly to 3.1% y/y in Q3 2018, down from 3.4% y/y in Q2 2018

The country's seasonally-adjusted GDP increased by 3.1% y/y in real terms in Q3 2018, according to Bulgaria's National Statistical Institute (NSI). This is down compared to a growth of 3.4% y/y in Q2 2018.

Major contributing factor for the GDP growth in Q3 2018 was household consumption, adding 4.4 pp to the economic expansion. In the quarter under review, household consumption increased by 8.1% y/y in real terms, reflecting wage increases and employment rises, eased financing conditions and the generally improved economic prospects. However, the household consumption annual growth rate was slower compared to Q2 2018, when it stood at 8.6%.

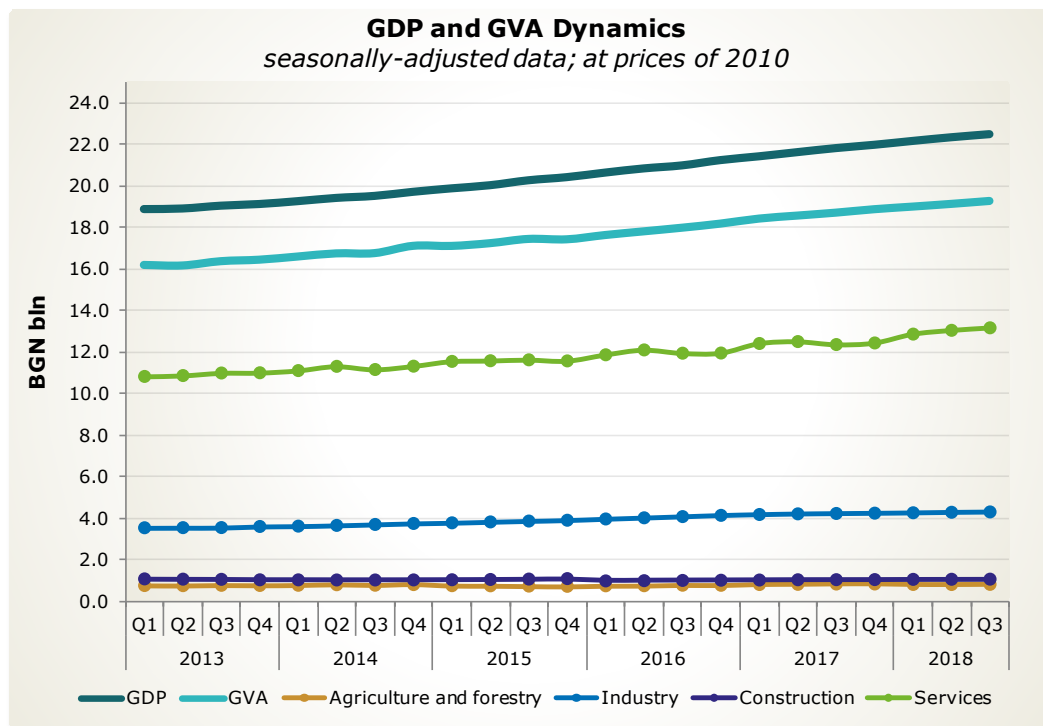
Exports growth remained further negative in Q3 2018, while growth of imports of goods and services decelerated slightly to 4.0% y/y from 5.0% in Q2. The resulting trade balance gap had a distinctive negative contribution to the country's GDP growth during the quarter.



Source: SeeNews calculations; NSI

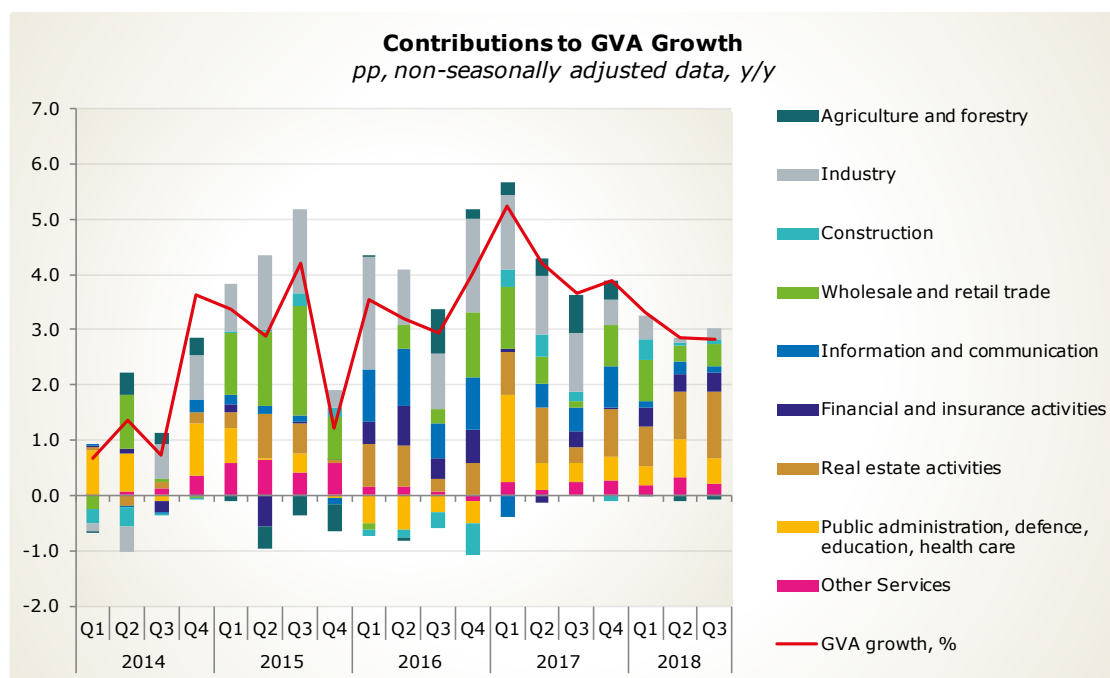
Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual.

The seasonally-adjusted gross value added (GVA) at constant prices generated by the national economy increased by 3.0% y/y in Q3 2018 and totalled BGN 19.248 bln. The industrial sector grew in value by 1.7% y/y and took a 22.4% share in the total GVA in Q3 2018. The services sector recorded a 6.5% annual increase, slicing a 68.4% share in the GVA. Agricultural sector's GVA went down by 1.9% y/y in real terms and had a 4.2% share in the total GVA in the quarter. The construction industry took a 5.5% share, after going up by 2.4% y/y.



Source: NSI

In Q3 2018, in terms of industry breakdown, all sectors except agriculture and forestry had a positive contribution to the economic growth. The sector of real estate activities was the biggest contributor to GVA growth, adding 1.2 pp, followed by the public administration, defense, education, health care with a 0.5 pp contribution to the overall GVA growth in Q3 2018.



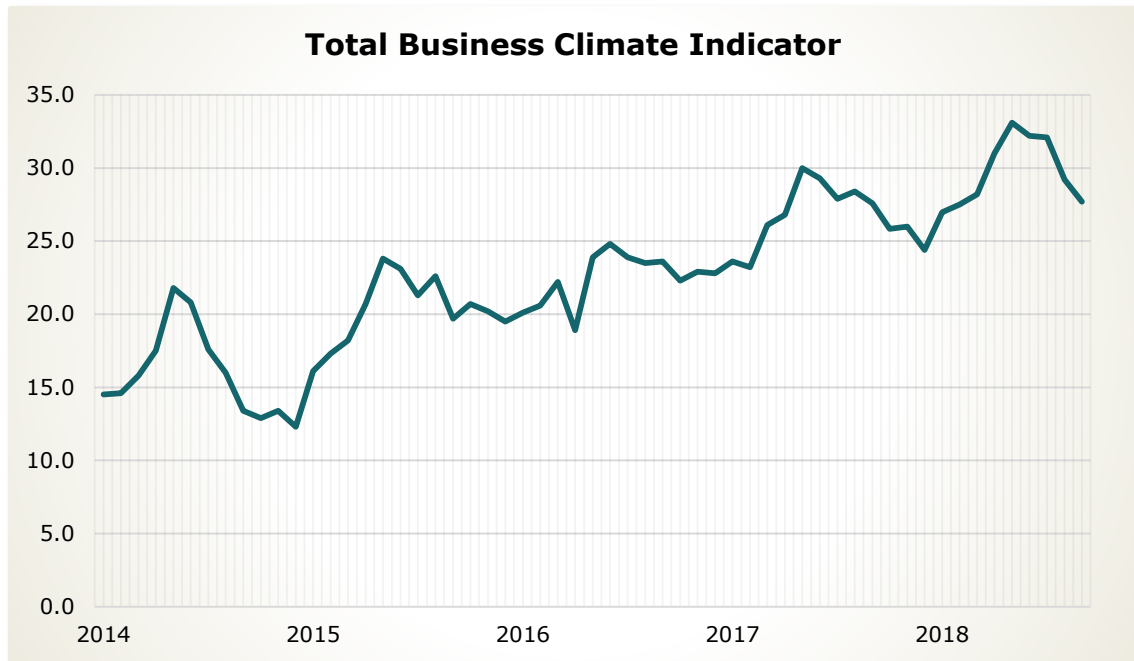
Source: SeeNews Calculations; NSI

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

2.2. BUSINESS CLIMATE

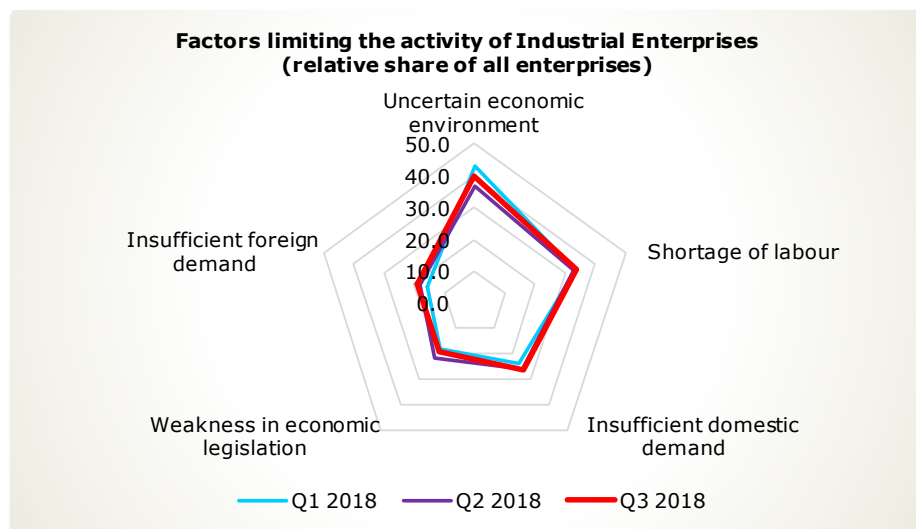
Business Confidence Indicator went down by 1.5 pp m/m in September 2018

The business confidence indicator started declining in June 2018 and reached 27.7 points in September, compared to 32.2 in June, according to NSI data. In comparison to August, the indicator lost 1.5 pp.



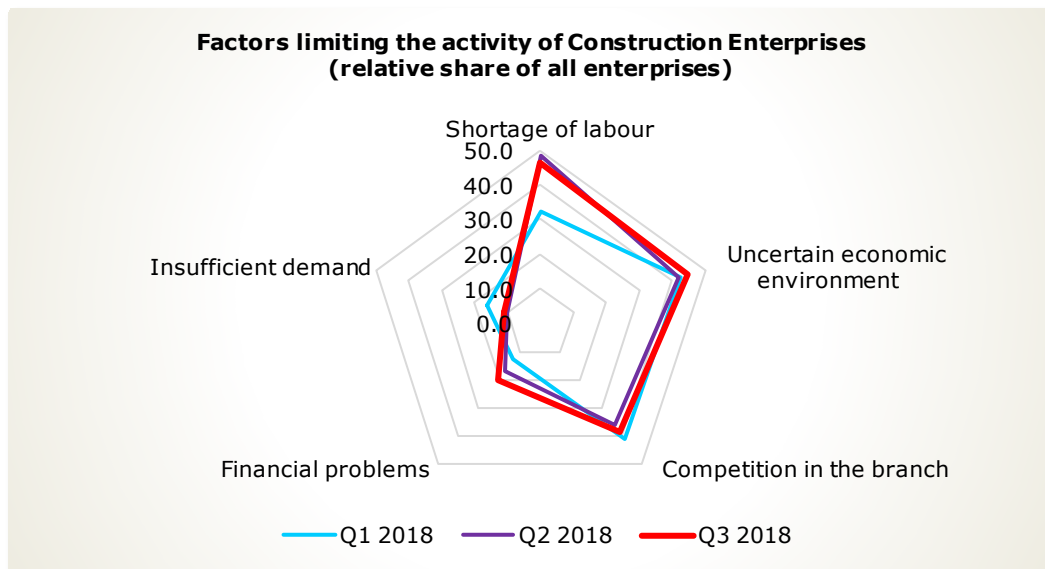
Source: NSI

The business climate indicator in the industrial sector was down by 0.1% pp in September 2018 compared to August 2018. Industrial entrepreneurs assessed the current manufacturing activity as favourable but expectations for the next three months are lower. The main factors limiting the activity of the enterprises in the industrial sector remained the uncertain economic environment, followed by labour shortage and insufficient domestic demand.



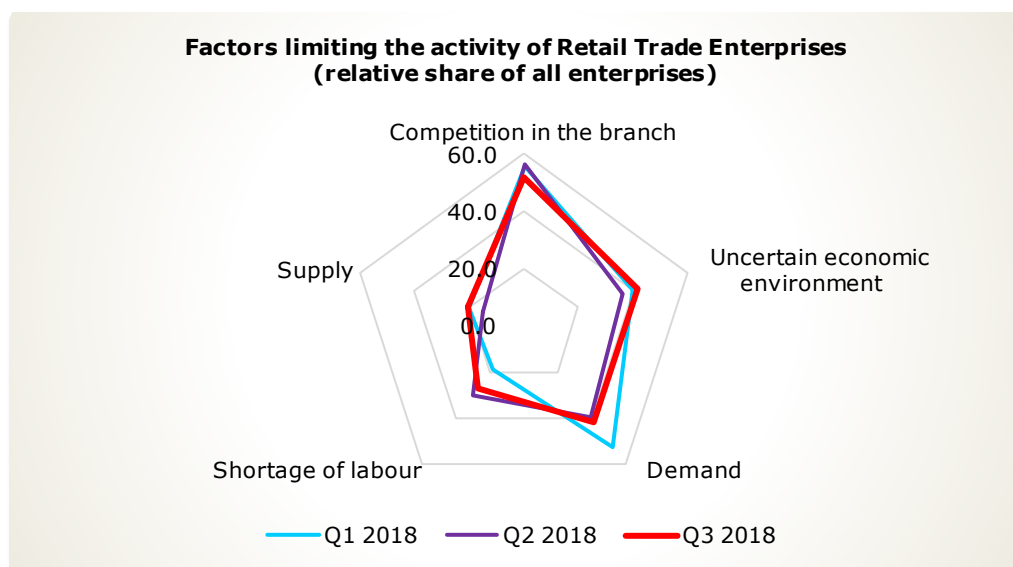
Source: NSI

In September 2018, the business climate indicator in the construction sector decreased by 5.8 pp m/m due to the less optimistic expectations of the construction entrepreneurs. Labour force shortage and uncertain economic environment were the main factors limiting the development of the construction companies in September 2018.



Source: NSI

The business climate indicator in the retail sector inched up by 0.1 pp m/m in September 2018 as a result of the more optimistic expectations of retailers for their business conditions over the next six months. The retailers' forecasts regarding their sales over the next three months also improved. The competition in the sector was seen as the most limiting factor for the development of the retail companies in September 2018.

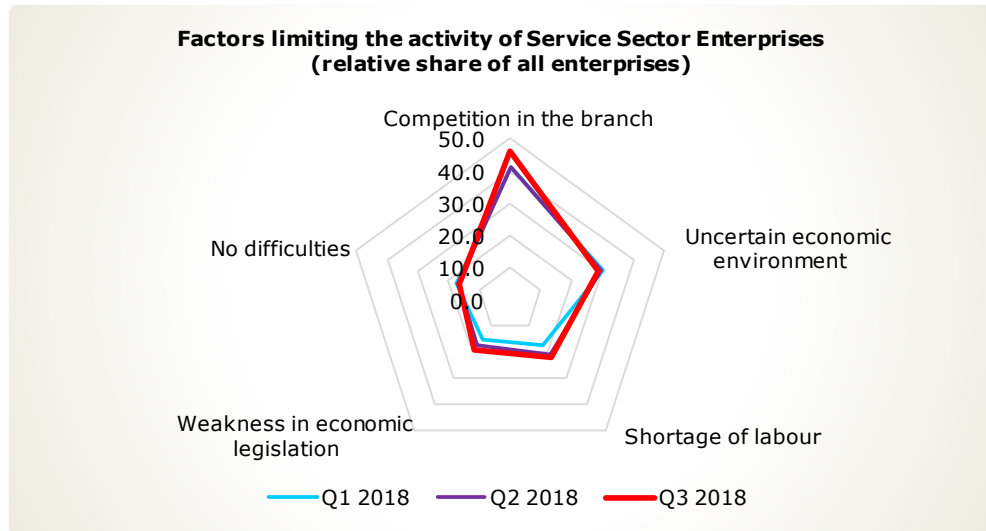


Source: NSI

The business climate indicator in the services sector went down by 1.7 pp m/m in September 2018 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.

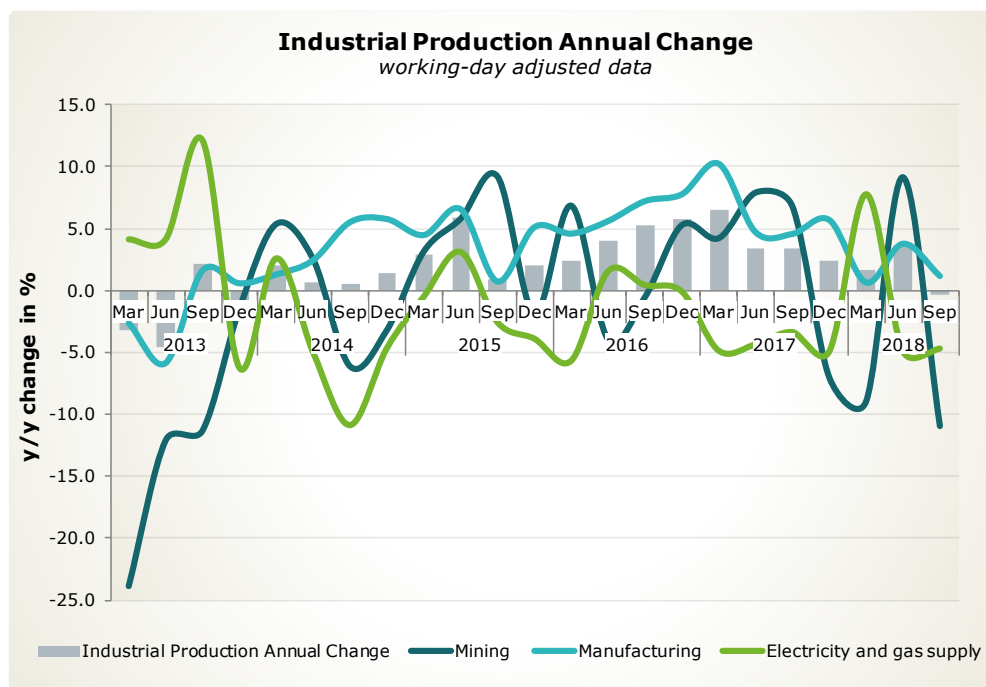


Source: NSI

2.3. INDUSTRIAL OUTPUT

Industrial output inched down by 0.4% in September 2018

The industrial production inched down by 0.4% y/y in the third quarter of 2018, according to data of NSI. The overall industrial output was pushed down by 10.9% annual drop in the mining industry. The production of the electricity and gas supply sector also fell, by 4.7%. The manufacturing industry saw a rise in its output, of 1.2%.

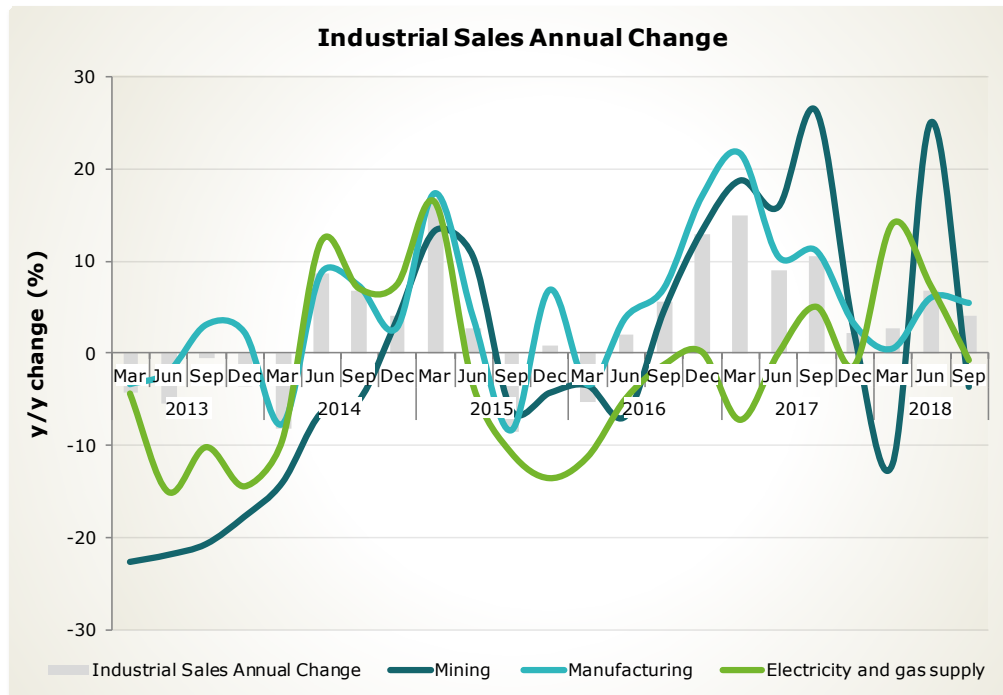


Source: NSI

2.4. INDUSTRIAL SALES

Industrial sales index increased by 4.0% y/y in September 2018

Industrial sales grew by 4.0% y/y in September 2018, according to NSI. The rise was fuelled by the 5.5% increase in the sales of the manufacturing industry. Industrial sales in the mining sector fell by 3.6% and a decrease, of 0.7%, was also seen in the electricity and gas supply industry.

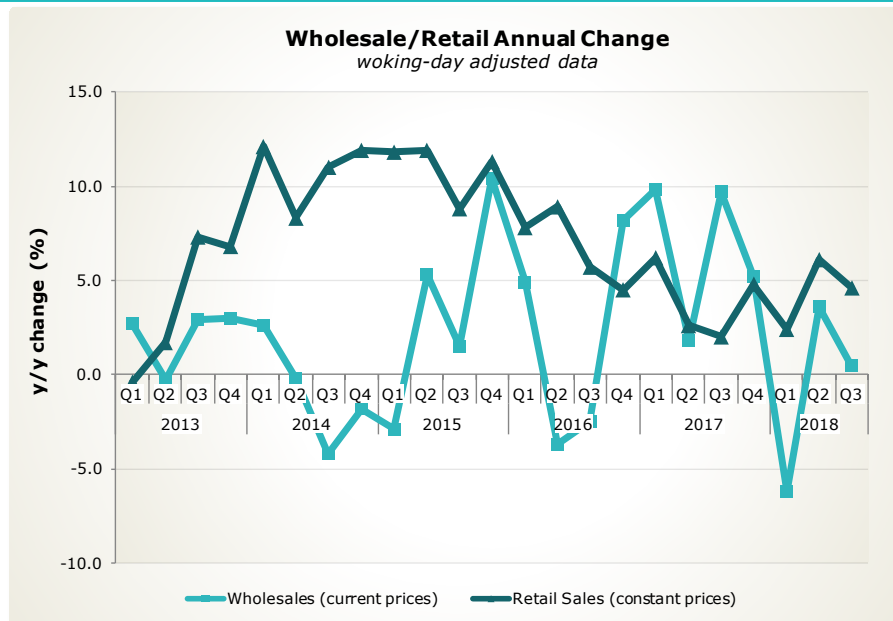


Source: NSI

2.5. WHOLESALE/RETAIL

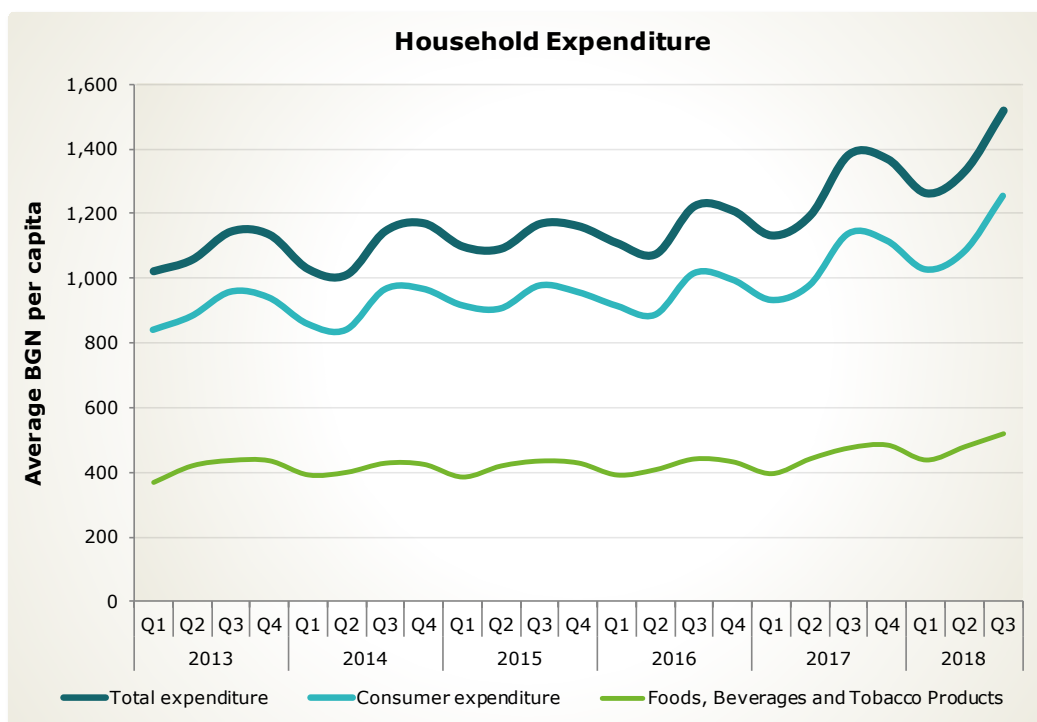
Retail sales increased by 4.6% y/y in September 2018 on strong consumption and improved consumer confidence

In September 2018, the retail sales index continued its expansion, rising by 4.6% y/y after a 6.1% increase in June 2018, according to NSI data. Food, drinks and tobacco retail sales went up by 6.8% y/y in September 2018, while non-food retail trade turnover grew slower, by 3.3% y/y.



Source: NSI

Household expenditure continued to be strong in Q3 2018, rising by 9.8% y/y to BGN 1,518 per capita. The growth trend slowed down compared to Q2 2018, when it was 11.4%. The improving consumer confidence, fuelled by the increasing employment, as well as the rise in wages are the main factors behind the increased spending in the third quarter of 2018. Spending on food, beverages and tobacco products went up by 9.1% y/y in Q3 2018 to BGN 517 per capita and sliced a 41.2% share in the total consumer expenditure. Spending on non-food products increased by 11.0% y/y to BGN 737 per capita.



Source: NSI

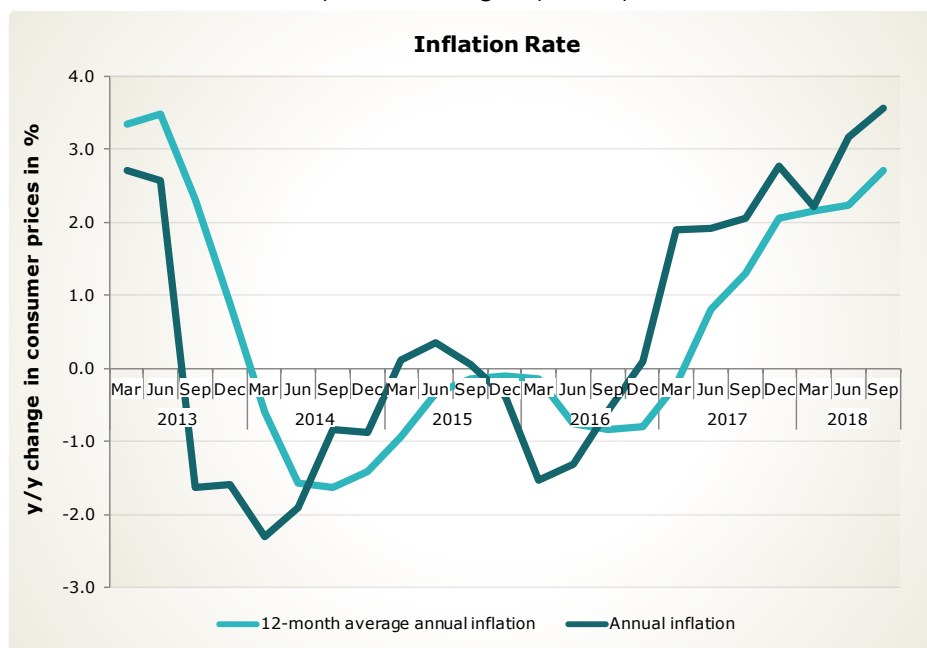
2.6. INFLATION

Inflation went up in September 2018 to 3.6%

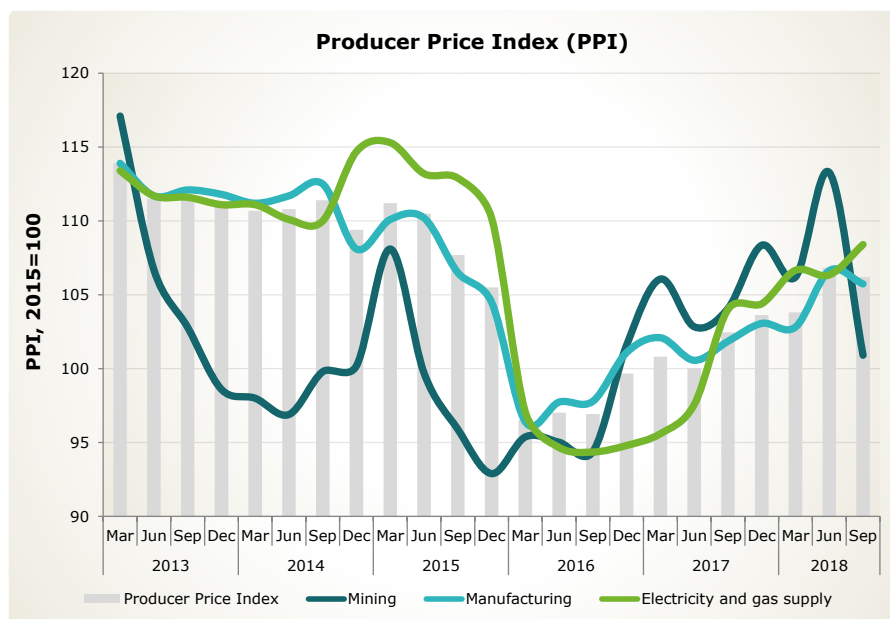
In September 2018, the overall annual inflation in Bulgaria as measured by the Consumer Price Index (CPI) came in at 3.6%. This was higher compared to June 2018, when the CPI index advanced by 3.2% y/y.

The highest annual inflation, of 8.4%, was registered in transportation services, followed by 5.1% for hotels and restaurants. Prices of housing, water, electricity, gas and other fuels posted the third largest y/y rise, of 4.6%.

Clothing and footwear was the only consumer group to report a deflation, of 1.8%.



Source: NSI

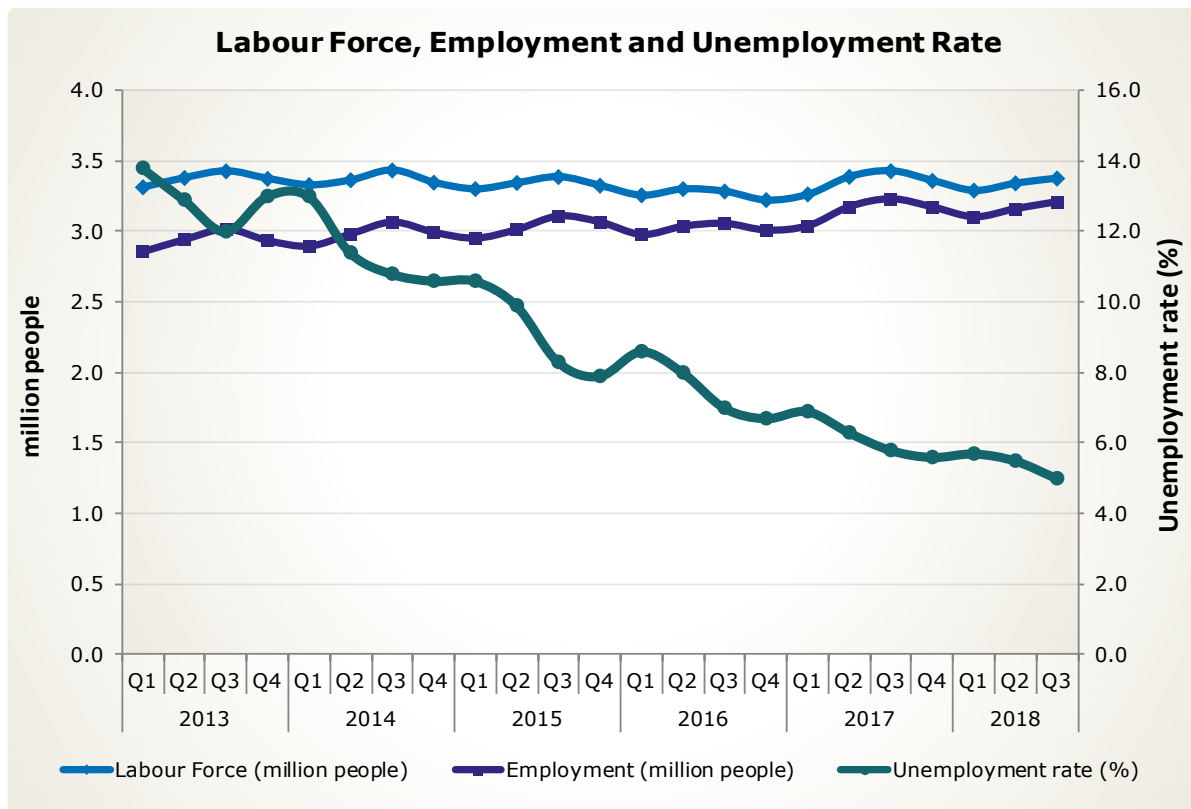


Source: NSI

3. LABOUR MARKET

Unemployment rate decreased by 0.5 pp q/q in Q3 2018, wages grew 7.7% y/y on strong economic growth and tightening labour market

The unemployment rate in Bulgaria in Q3 2018 was 5.0%, decreasing by 0.5 pp in Q2 2018, and down by 5.8% compared to Q3 2017, according to data of NSI. The employed population aged 15 years and older was 3.205 million as of September 2018, down by 0.6% y/y. Youth (population aged 15-24) unemployment rate went down to 13.4%, compared to 15.1% in Q2 2018 and remained below the 13.9% in the corresponding quarter of 2017.



Source: NSI

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 Q3 2018 grew by 7.7% y/y to BGN 1,117. Wages in the private and public sectors went up by 7.3% y/y and 9.2% y/y, respectively. Employees in the IT and communication sector as well as in the financial sector earned the highest salaries of BGN 2,661 and BGN 1,815, respectively.

4. CONSTRUCTION AND REAL ESTATE

The number of new building permits increased by 4.6% y/y in Q3 2018

The number of building permits issued in Bulgaria in Q3 2018 rose by 4.6% y/y and totalled 2,903, according to NSI data. The permits for housing projects went up by 8.7% to 1,659, while permits for administrative buildings jumped to 37, compared to 28 a year earlier.

The total built-up area of office units, covered by the permits, soared to 212,473 sq m in the third quarter of 2018, up from 39,133 sq m in Q3 2017. The total built-up area of the housing units marked a slightly weaker annual jump, of 25.6% to 1,173,841 sq m.

5. MONEY SUPPLY AND BANKING SYSTEM

5.1. BGN EXCHANGE RATE

The average exchange rate of the BGN against the US dollar went up to BGN 1.6823 in Q3 2018 from BGN 1.6426 in Q2 2018, according to Bulgarian National Bank (BNB) data.

| BGN Average Exchange Rate | | | |
|---------------------------|---------|---------|---------|
| Foreign Currency | Q3 2018 | Q2 2018 | Q3 2017 |
| EUR* | 1.9558 | 1.9558 | 1.9558 |
| USD | 1.6823 | 1.6426 | 1.6665 |
| GBP | 2.1922 | 2.2321 | 2.1791 |
| CHF | 1.7085 | 1.6664 | 1.7304 |

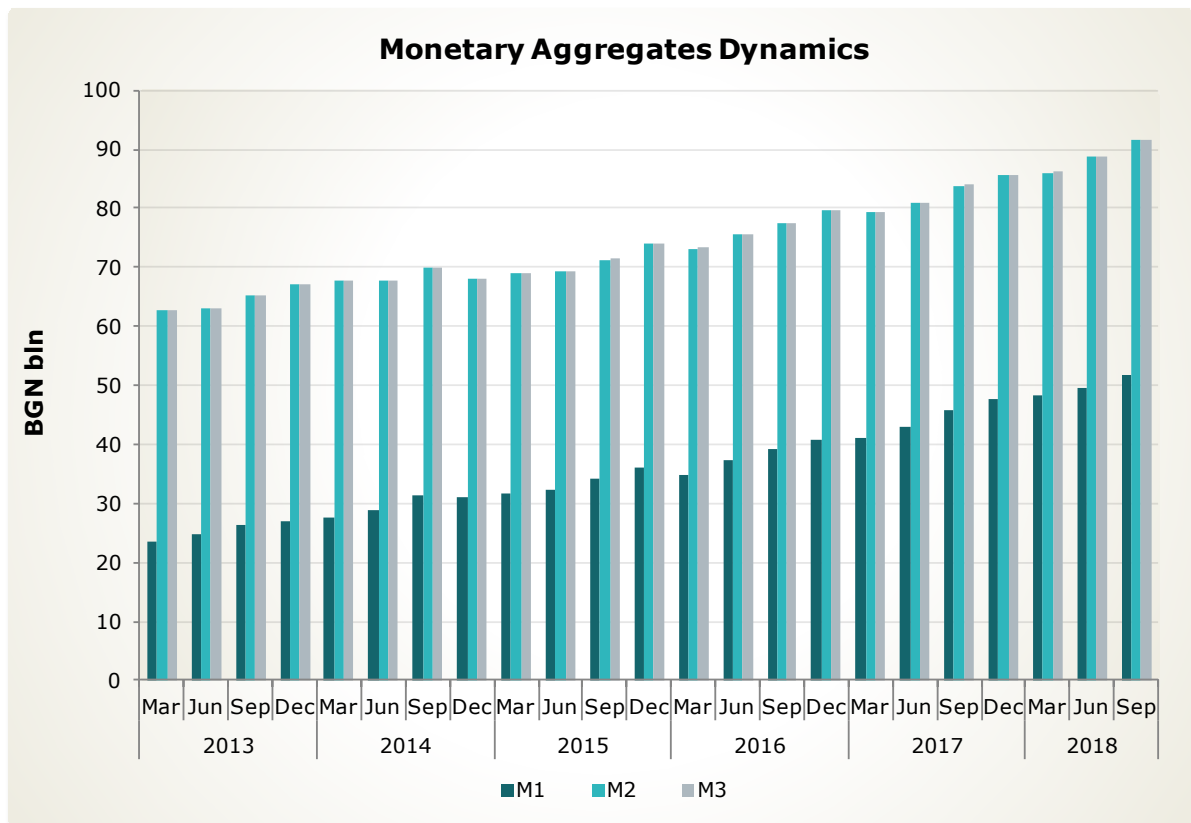
*The Bulgarian lev (BGN) is pegged at a fixed exchange rate of BGN 1.95583 per EUR under a currency board system.

5.2. MONETARY AGGREGATES

Money supply growth was 9.2% y/y in September 2018, down from 10.0% y/y in June 2018

In Q3 2018, the money supply growth, or the annual increase of the M3 monetary aggregate, was 9.2% and the indicator reached BGN 91.611 bln, according to BNB data.

In the quarter under review, overnight deposits jumped by 14.5% to BGN 36.643 bln, while the quasi-money grew by 4.1% to BGN 39.735 bln.



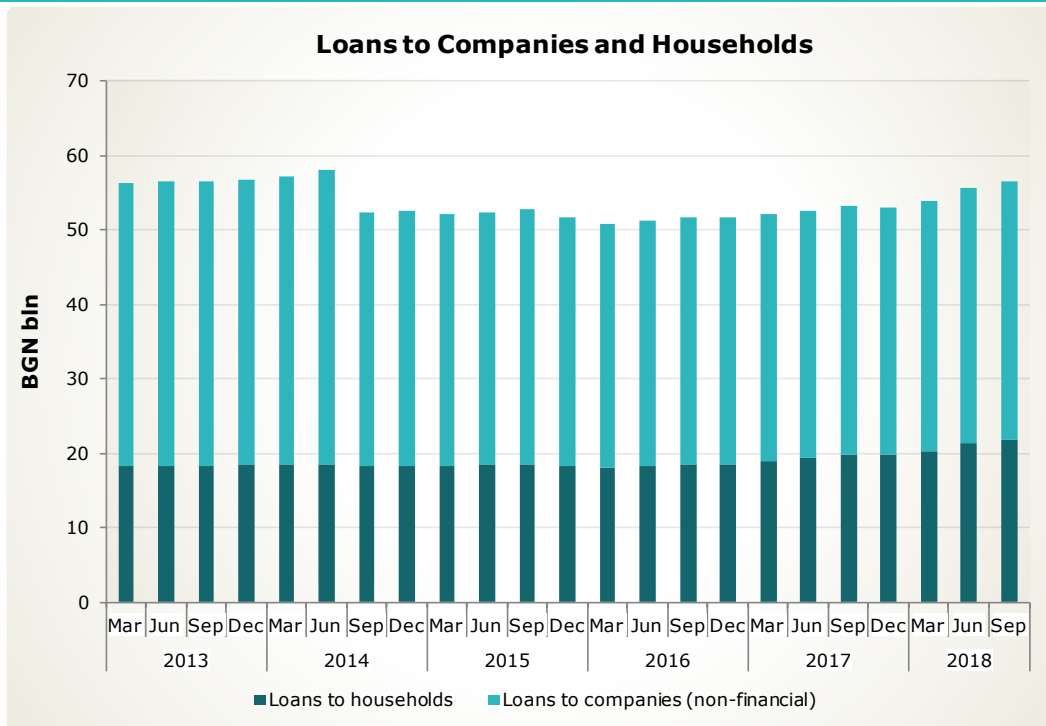
Source: BNB

5.3. BANKING AND INSURANCE

Household loans increased by 10.0% y/y in September 2018 on high demand and solid economic growth

The generally favourable macroeconomic environment and the retention of comparatively low interest rates on loans contributed to household loans growth in Q3 2018. Household loans increased by 10.0% y/y in September 2018 after an annual rise of 9.5% y/y in June 2018. Loans for purchase of houses and apartments jumped by 14.1% y/y to BGN 10.498 bln, while consumer loans went up 11.6% y/y to BGN 10.208 bln.

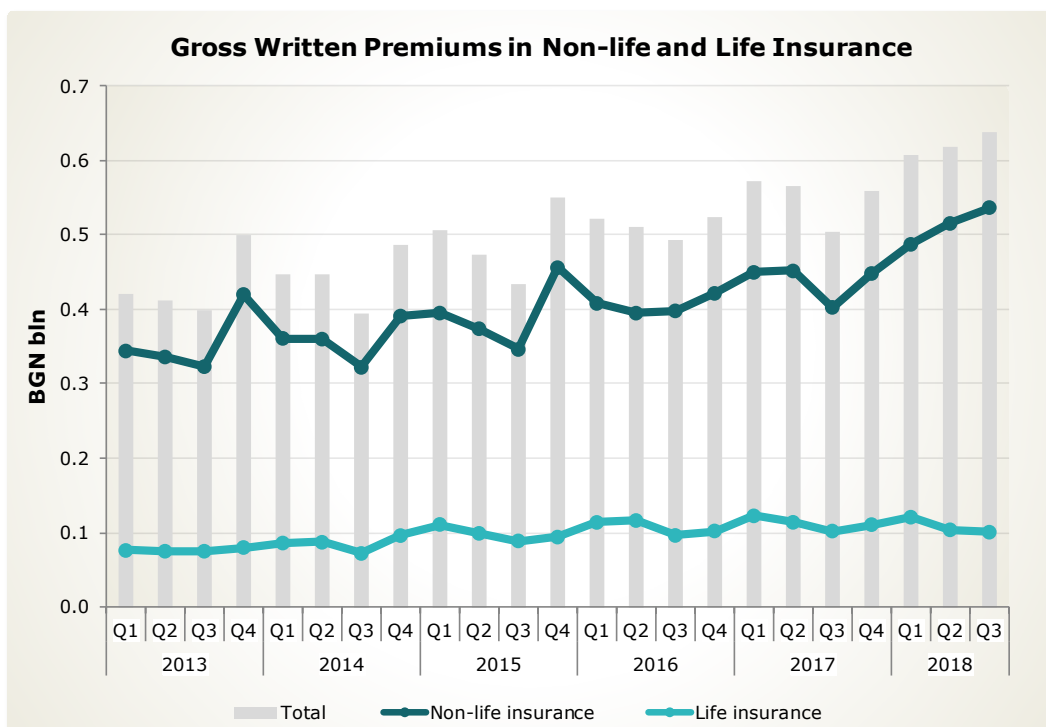
Total loans to the business sector expanded by 3.9% y/y to BGN 34.782 bln as of September 2018.



Source: BNB

Insurance premium income up 26.3% y/y in Q3 2018

The total gross written premiums (GWP) of the Bulgarian non-life and life insurance companies stood at BGN 637.3 mln, up by 26.3% y/y in Q3 2018, according to the Financial Supervision Commission (FSC). The GWP annual growth was fuelled by the 33.3% y/y jump of the non-life insurance market to BGN 536.8 mln, while the life insurance market saw its GWP income shrinking by 1.5% y/y to BGN 100.6 mln.



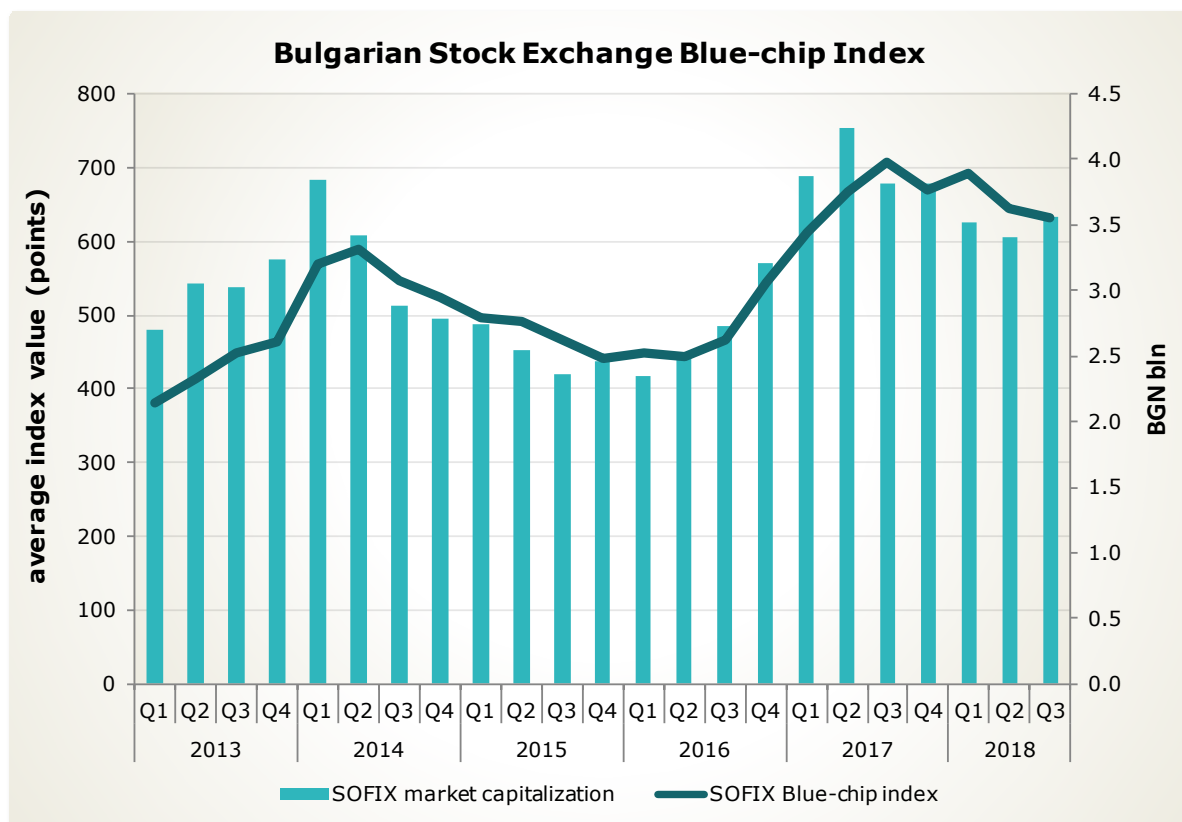
Source: FSC

6. CAPITAL MARKETS

Blue-chip SOFIX narrowed by 2.2% q/q in Q3 2018

SOFIX, the blue-chip index of the Bulgarian Stock Exchange averaged 631.3 points in the third quarter of 2018, down from 645.6 points in the previous quarter.

The total turnover on BSE's regulated market came in at BGN 84.6 mln in Q3 2018, compared to BGN 155.2 mln in Q2 2018 and BGN 225.1 mln in Q3 2017.



Source: BSE

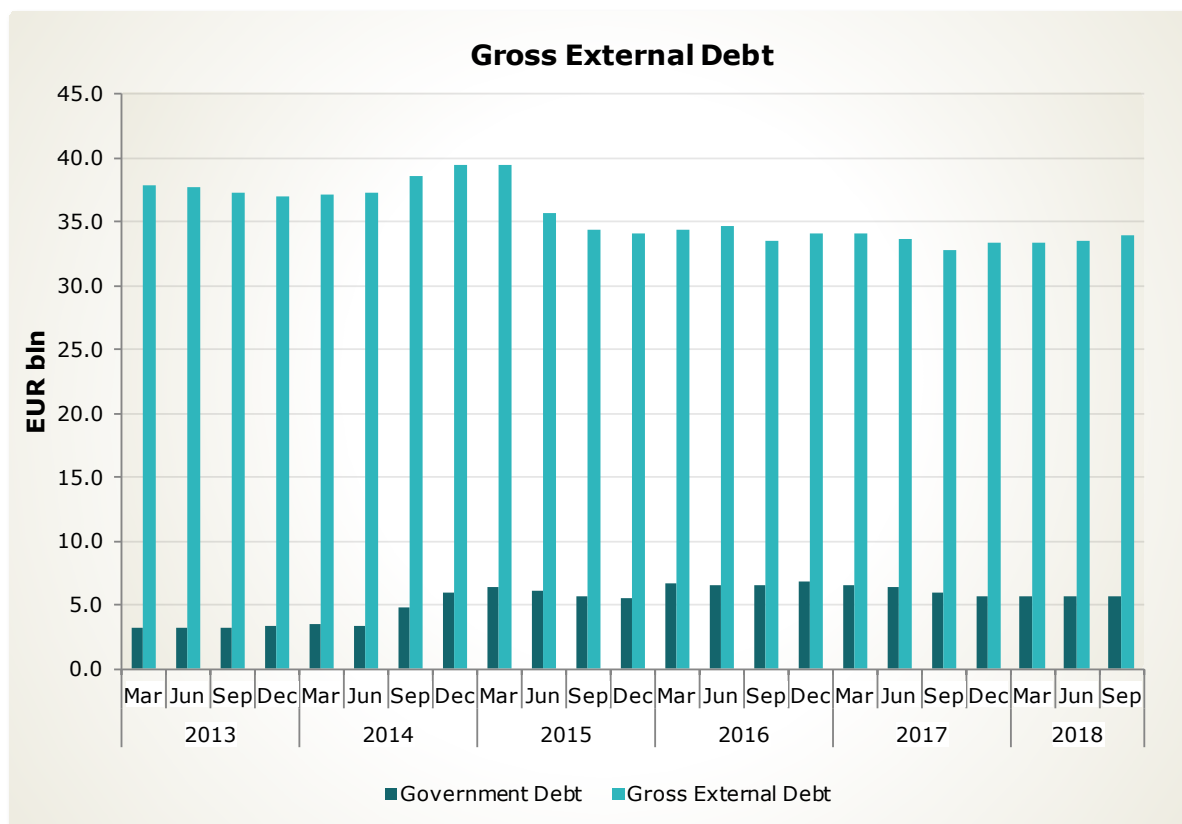
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt increased by 3.3% y/y to EUR 33.897 bln at end-September 2018

The gross external debt went up by 3.3% y/y totalling EUR 33.897 bln at the end of September 2018, according to BNB. Relative to the economy, the gross external debt accounted for 64.2% of country's GDP, down from 65.4% in the same month of the previous year.

As of end-September 2018, long-term liabilities amounted to EUR 25.845 bln, or 76.2% of the total debt, and short-term liabilities totalled EUR 8.052 bln, equal to 23.8% of the total debt.



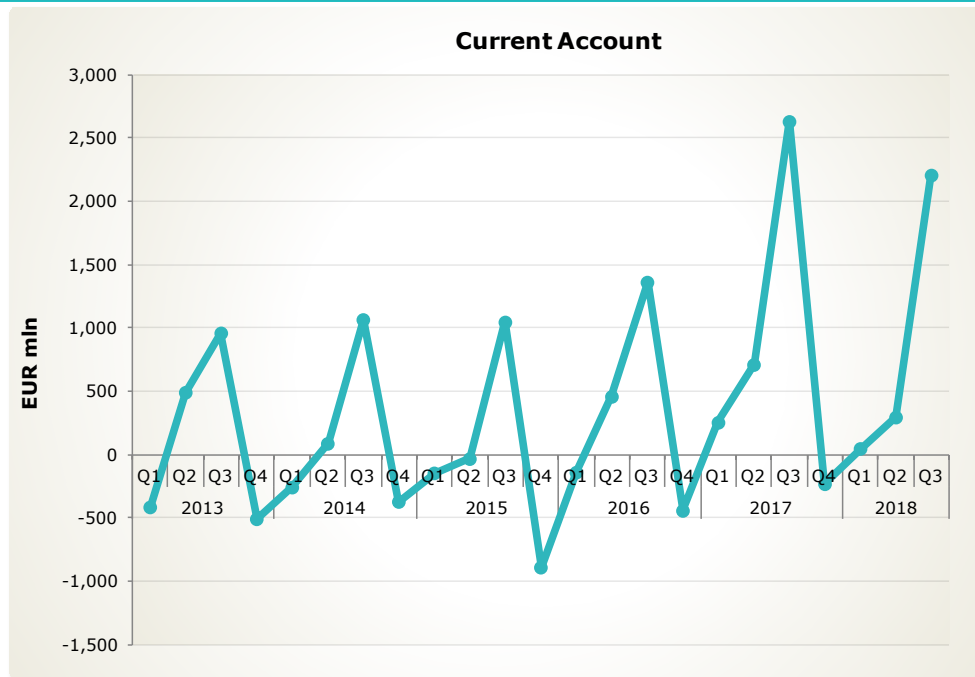
Source: BNB

7.2. BALANCE OF PAYMENTS

Current account balance positive at EUR 2.207 bln in Q3 2018

In the third quarter of 2018, Bulgaria had current account surplus of EUR 2.207 bln, compared to a surplus of EUR 296.6 mln in Q2 2018 and BGN 2.631 bln in Q3 2017, according to the central bank statistics data.

The overall trade balance for goods was negative at EUR 255.0 mln, compared to a EUR 231.3 mln surplus in Q3 2017. The balance of the services account was positive at EUR 1.906 bln in Q3 2018, up 2.7% y/y.

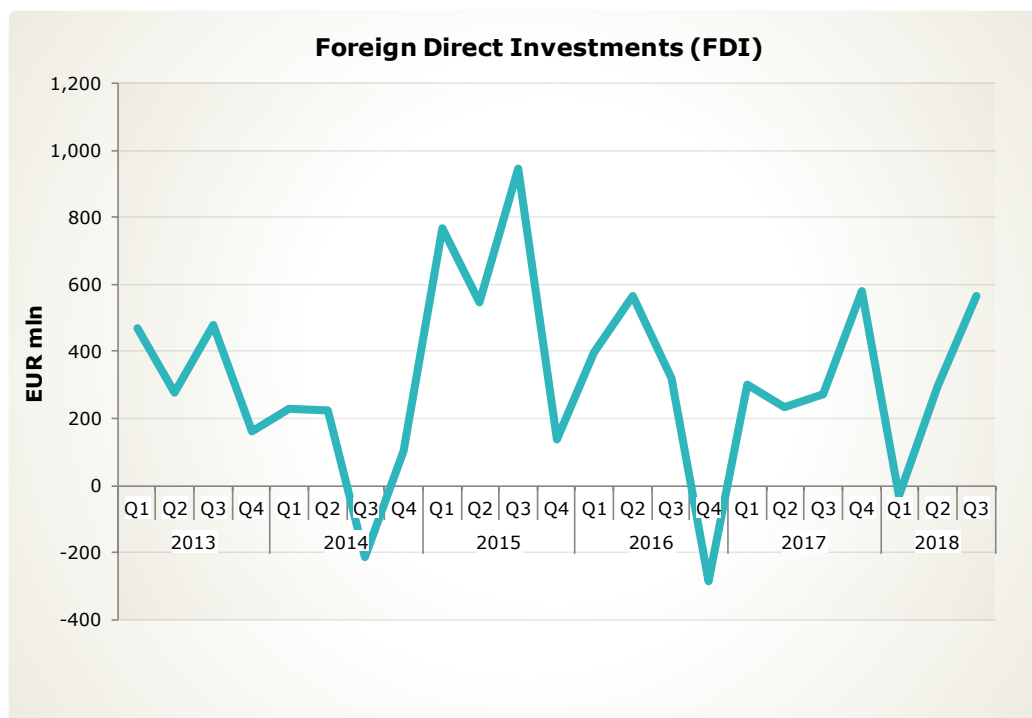


Source: BNB

7.3. FDI

FDIs grew in Q3 2018

The Foreign Direct Investments (FDIs) in Bulgaria amounted to EUR 565.5 mln in Q3 2018, according to BNB data. They almost doubled in comparison to the previous quarter and Q3 2017. For the remainder of 2018 BNB expects FDI to remain stable and foreign investment to be predominantly in the form of absorption of EU funds.



Source: BNB

7.4. FOREIGN TRADE

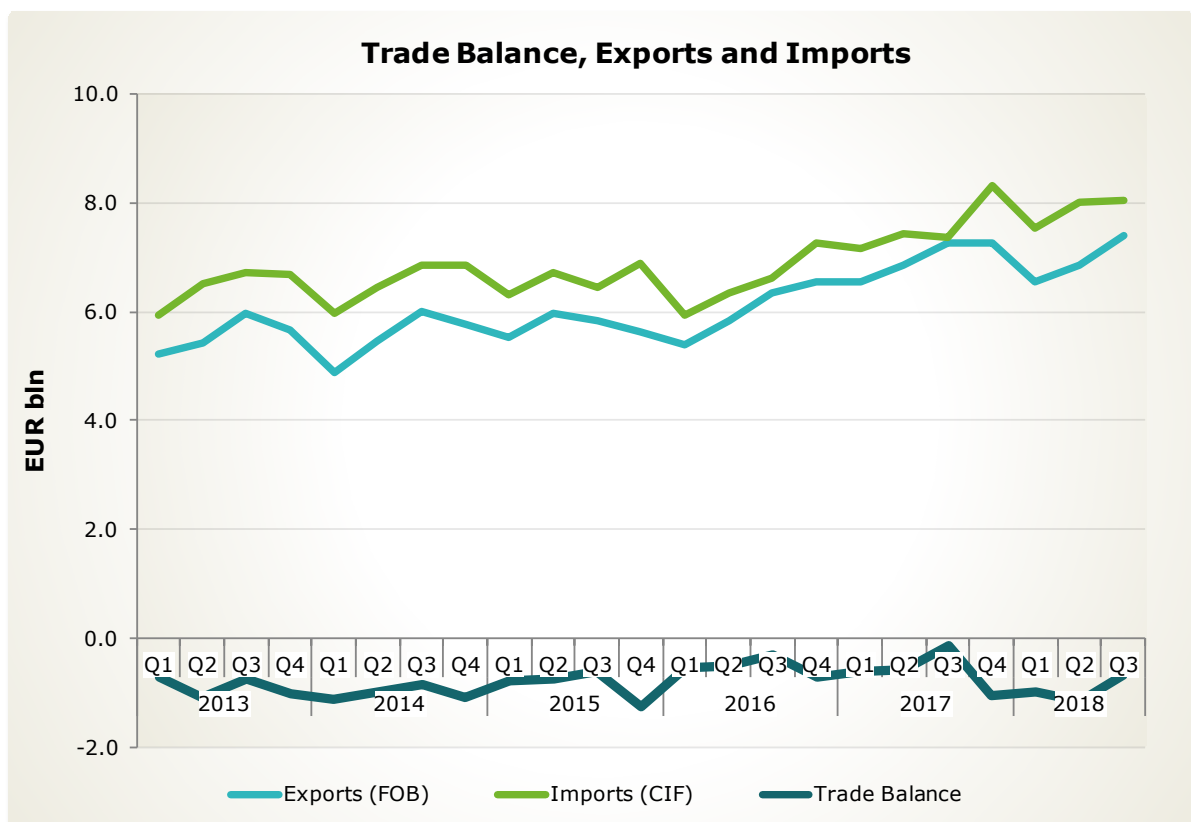
Fivefold annual increase of the foreign trade deficit in Q3 2018

Bulgaria's foreign trade deficit expanded to EUR 659.3 mln in Q3 2018 from EUR 123.7 mln in Q3 2017, data from BNB showed. The expansion of the trade gap was due to the faster increase of imports compared to exports. Imports went up by 9.2% y/y to EUR 8.056 bln, while exports rose by 2.0% y/y to EUR 7.396 bln.

Raw materials imports advanced by EUR 139.0 mln, or 5.0% y/y, imports of investment goods rose by EUR 225.5 mln, or 12.2% y/y. Consumer goods imports increased at a slower pace, 5.9% y/y, or EUR 94.5 mln, while imports of energy resources jumped by EUR 218.3 mln, equal to a 20.1% annual growth.

In Q3 2018, exports of raw materials increased by 1.6% y/y to EUR 2.961 bln, while exports of consumer goods inched down by 0.5% y/y to EUR 1.715 bln. Exports of investment goods also contracted, by 2.5% y/y to EUR 1.759 bln. Exports of energy commodities went up by 18.6% y/y to EUR 947.8 mln.

BNB forecasts a continuous growth of both exports and imports of goods by the end of 2018. Imports will grow at a faster rate, reflecting the improving internal consumption and accelerating investment in the country.

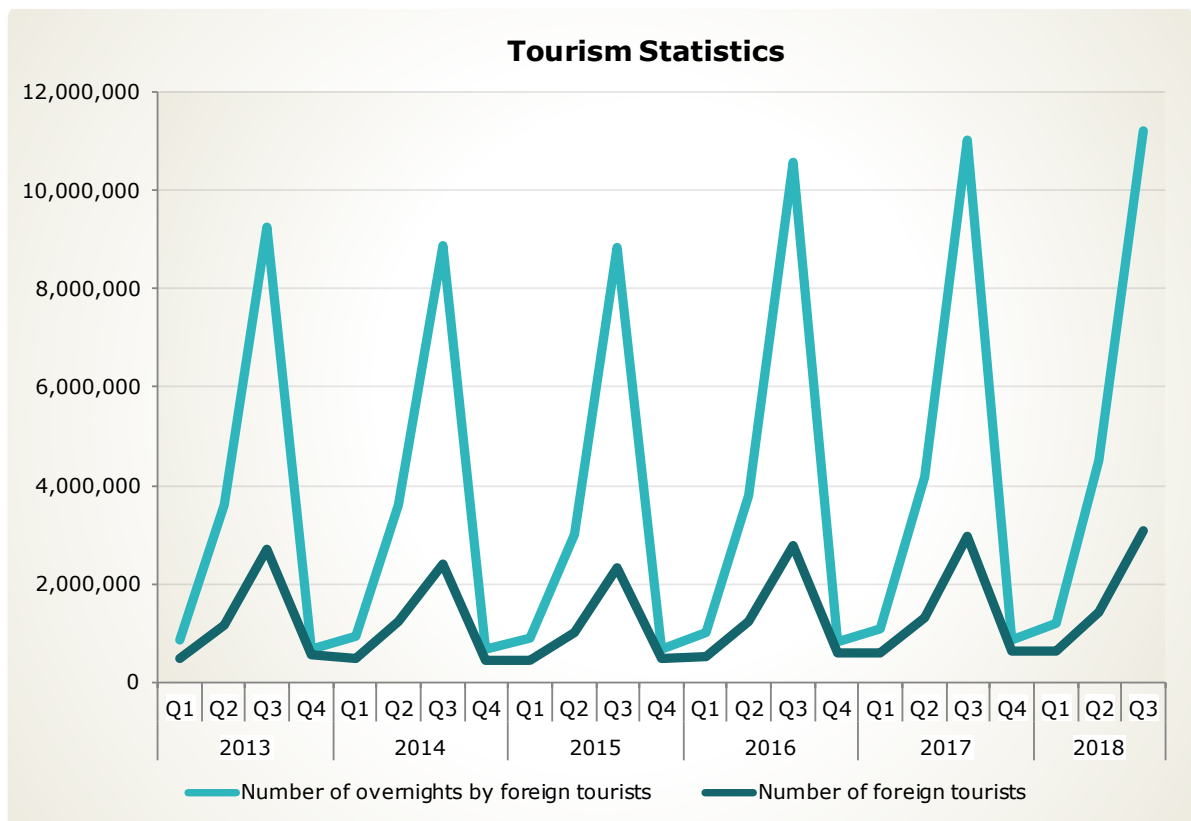


Source: BNB

7.5. TOURSIM

Number of foreign tourist overnights went up by 1.7% y/y in Q3 2018

Tourist overnights of foreigners grew by an annual 1.7% to 11.205 million in Q3 2018, according to NSI data. The number of foreign tourists also went up - by 4.1% y/y to 3.077 million. The highest number of foreign tourists came from Germany, Romania and Russia. They accounted for one third of all foreign tourists who visited the country in the period under review.



Source: NSI

8. MAJOR DEVELOPMENTS

Bulgaria opens EUR 447.5 mln tender for building 24-km section of Struma motorway

Aug 29, 2018

Bulgaria's Road Infrastructure Agency said in August that it has opened a BGN 875.3 mln tender for the construction of a 23.6 km section of Struma motorway.

[Read the full story here](#)

Bulgaria opens EUR 122 mln tender for developing biometric ID system

Aug 21, 2018

Bulgaria's interior ministry said in August that it has opened a BGN 238.2 mln tender for developing a system for issuing biometric identity documents.

[Read the full story here](#)

Greece-Bulgaria gas link project gets exemption from several requirements

Aug 17, 2018

The national regulators of Greece and Bulgaria have decided to exempt the Gas Interconnector Greece-Bulgaria project from requirements regarding third party access, tariff regulation and ownership unbundling, the project company, ICGB, said in August.

[Read the full story here](#)

EC grants Bulgaria's requests for technical assistance in ERM II-related projects

Aug 14, 2018

The European Commission said it has approved Bulgaria's additional requests for technical support through the Structural Reform Support Programme(SRSP) for projects aimed at preparing the country's smooth transition to the Exchange Rate Mechanism II (ERM II).

[Read the full story here](#)

Bulgaria's EUR 511 mln tender for railway section upgrade draws 19 bids

Aug 7, 2018

A BGN 1.0 bln tender for modernisation of a railway section connecting the towns of Elin Pelin and Kostenets in western Bulgaria has attracted 19 offers, the transport ministry said in August.

[Read the full story here](#)

Bulgaria approves MoU with China to promote links between SMEs

July 5, 2018

Bulgaria's government said in July it approved a memorandum of understanding for cooperation between the economy ministry and China's ministry of commerce in enhancing ties between small and medium enterprises (SMEs) of the two countries.

[Read the full story here](#)

DISCLAIMER:

Whilst the information contained in this Profile has been given in good faith and every effort has been made to ensure its accuracy, SeeNews cannot guarantee the accuracy of this information and hereby expressly disclaims any responsibility for error, misinterpretation and any and all loss, disappointment, negligence or damage caused by reliance on the information contained in the Profile or any failure or alleged failure in the delivery of the Service referred to herein, or in the event of bankruptcy, liquidation or cessation of trade in any company, individual or firm referred to herein. Confirmation of the information accuracy should be sought from the establishments concerned. Unless otherwise stated, the copyrights and any other rights in all material on this site are owned by SeeNews. Use of this Profile is provided by SeeNews subject to the following Terms and Conditions:

1. Use of this Profile constitutes your acceptance of these Terms and Conditions which take effect when you first use this Profile. SeeNews reserves the right to change these terms and conditions at any time by posting changes on line. You are responsible for reviewing regularly information posted on line to obtain timely notice of such changes. Your continued use of the Profile after changes are posted constitutes your acceptance of this agreement.
2. Neither SeeNews nor other related parties, whilst endeavouring to provide 24/7 availability, will be held liable if for any reason the Profile is unavailable at any time.
3. Access to this Profile may be suspended temporarily or permanently and without notice.
4. Whilst SeeNews endeavours to ensure that the information on this site is correct and up-to-date, no warranty, express or implied, is given as to its accuracy and SeeNews does not accept any liability for error or omission.
5. Part of this Profile contains materials submitted to SeeNews by third parties. Third parties are responsible for ensuring that materials submitted for inclusion on this Profile complies with national and relevant international law. SeeNews cannot guarantee the accuracy of this material and hereby expressly disclaims any responsibility for error, omission or inaccuracy in the material, misinterpretation and any all loss, disappointment, negligence or damage caused by reliance on the information contained in the Profile or any failure or alleged failure in the delivery of the services referred to herein, or in the event of bankruptcy, liquidation or cessation of trade of any company, individual or firm referred to herein. Confirmation of the information accuracy should be sought from the establishments concerned or from SeeNews upon explicit request.
6. SeeNews shall not be liable for any damages (including, without limitation, damages for loss of business or loss of profits) arising in contract, tort or otherwise from the use of or inability to use this Profile, or any data contained in it, or from any action or decision taken as a result of using this Profile or any such information.
7. SeeNews accepts no responsibility for the content of any site to which a hypertext link from this Profile exists. Such links are provided for your convenience on an "as is" and "as available" basis with no warranty, express or implied, for the information provided within them.
8. If any of these terms should be determined to be illegal, invalid or otherwise unenforceable by reason of the laws of any state or country in which these terms are intended to be effective, then to the extent and within the jurisdiction in which that term is illegal, invalid or enforceable, it shall be severed and deleted from the clause concerned and the remaining terms and conditions shall remain in full force and effect and continue to be binding and enforceable.
9. By accessing and reading any part of this Profile, you should have accepted these Terms in full.

Copyright

All rights reserved. Downloads and print extracts of SeeNews content are allowed for personal and non-commercial use only. Re-publication or re-distribution of content, including by framing, is strictly prohibited without the prior written consent of SeeNews.

SeeNews Ltd 2019