

BULGARIA ECONOMY REPORT

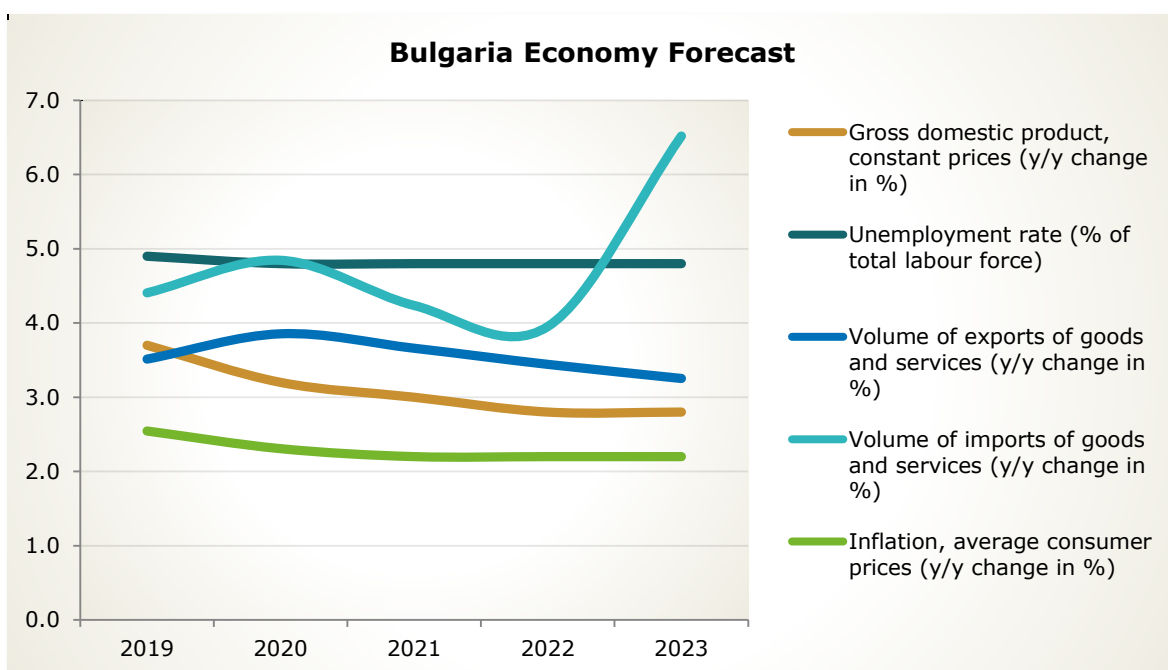
Q3 2019

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1. MACROECONOMIC SNAPSHOT AND FORECAST

BULGARIA – MACROECONOMIC SNAPSHOT AS OF Q3 2019	
GDP Growth	3.7% y/y
Business confidence indicator	0.0 pp m/m
Industrial output	0.1% y/y
Industrial sales index annual change	2.4% y/y
Wholesale	5.1% y/y
Retail sales	2.6% y/y
Average annual inflation	3.1%
Unemployment rate	3.7%
Number of building permits	-2.1% y/y
Money supply growth	8.3% y/y
Household loans	9.0% y/y
SOFIX blue-chip index	-1.7% q/q
Gross external debt	EUR 34.301 bln
Current account surplus	EUR 2.813 bln
FDI inflow	EUR 280.4 mln
Foreign trade deficit	EUR 38.0 mln
Number of foreign tourist overnights	-1.1% y/y

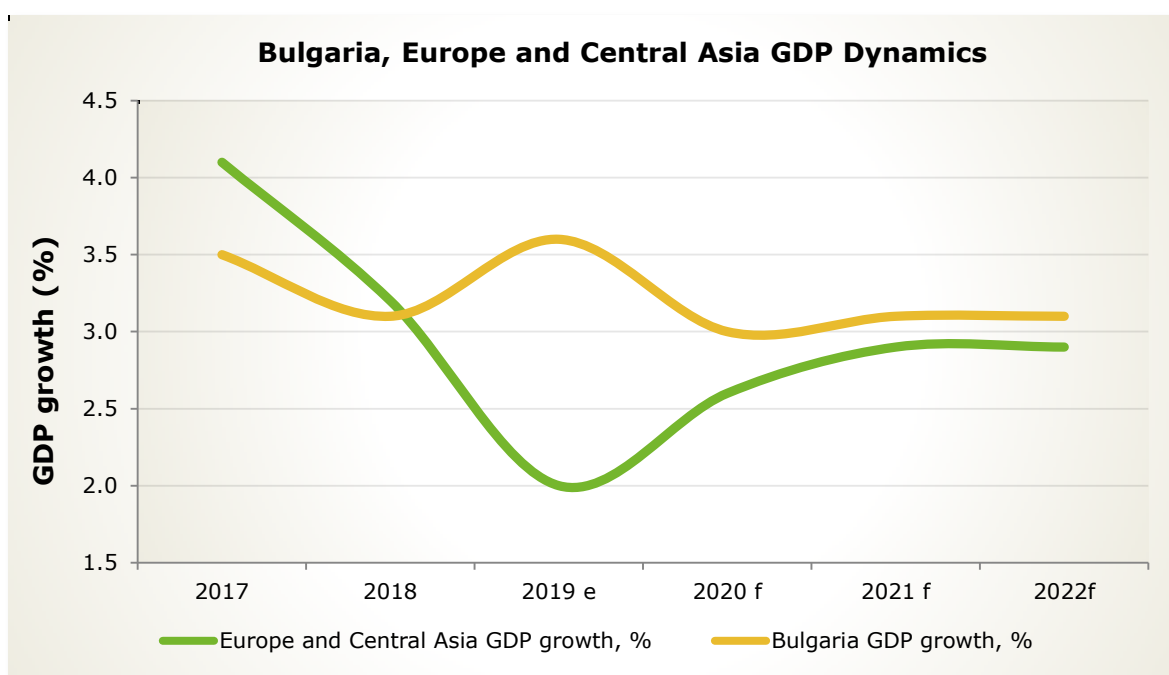


Source: International Monetary Fund (IMF) World Economic Outlook Database – October 2019

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 January 2020, GDP growth is likely to come in at 3.6% in 2019, up from 3.1% in 2018. This will be higher than the projected growth for Europe and Central Asia, of 2.0% in 2019.



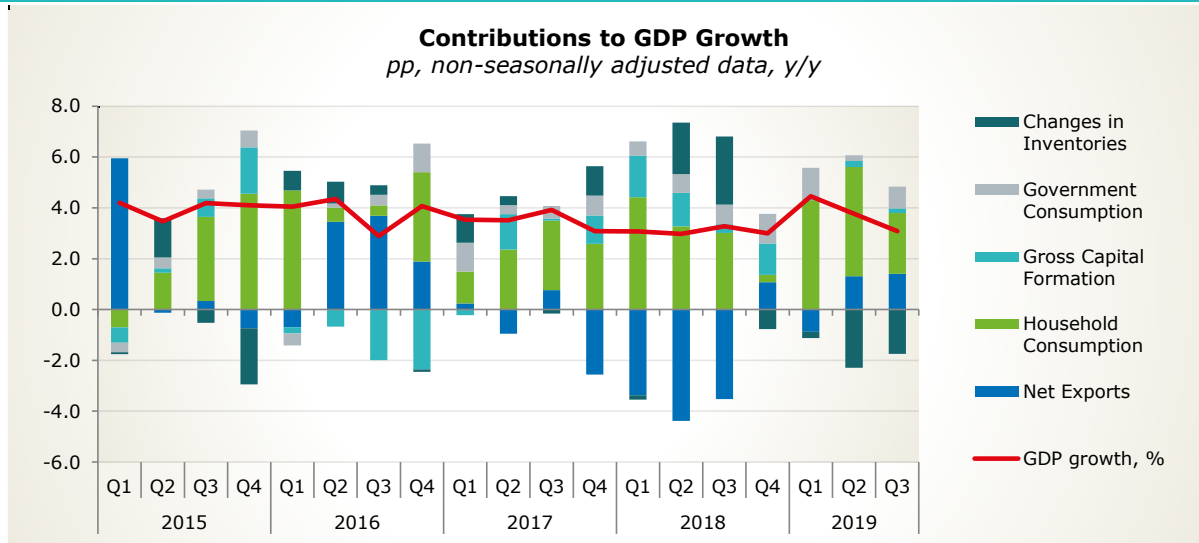
Source: World Bank, *Global Economic Prospects*, January 2020

2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP annual growth at 3.7% in Q3 2019

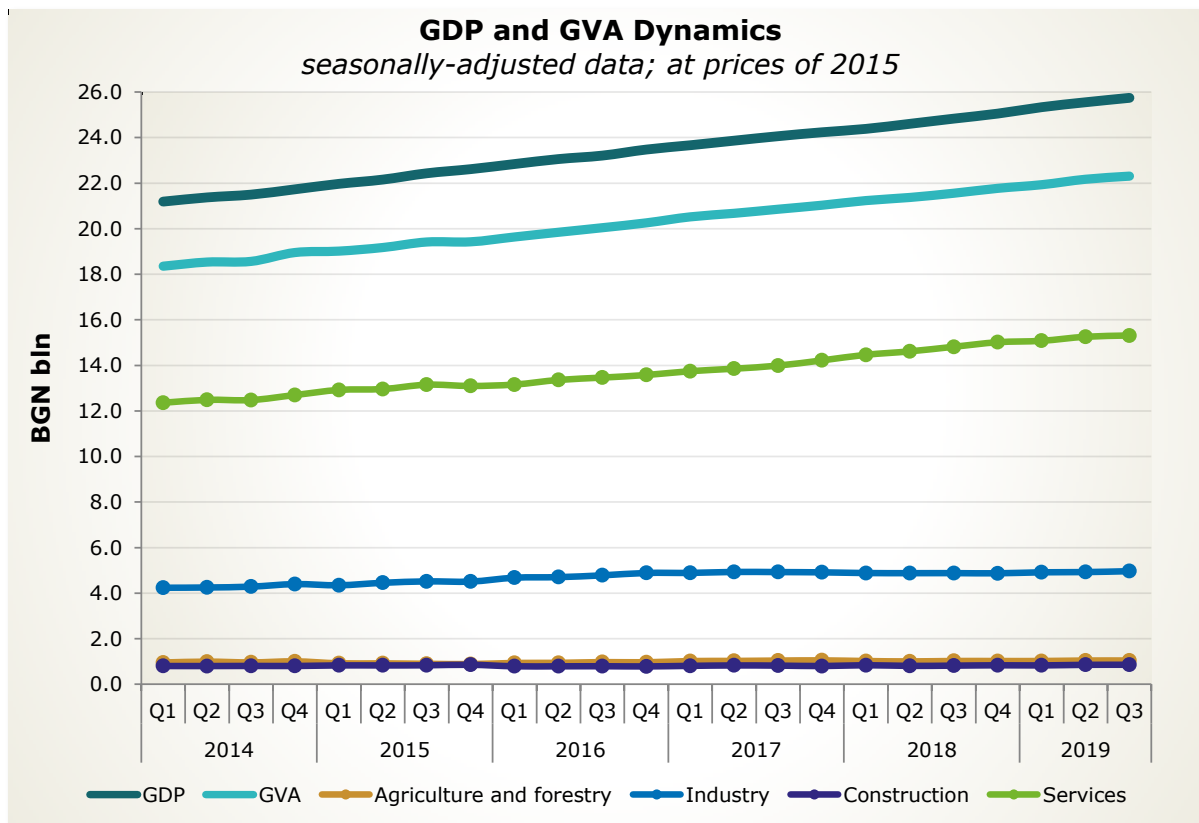
The Bulgarian economy grew annually by 3.7% in Q3 2019, according to the seasonally-adjusted preliminary data of the National Statistical Institute (NSI). Household consumption contributed the most to the overall GDP rise in the quarter with 2.4 pp. Net exports were another major contributor with 1.4 pp, while government consumption and gross capital formation added 0.8 pp and 0.2 pp, respectively.



Source: SeeNews calculations; NSI

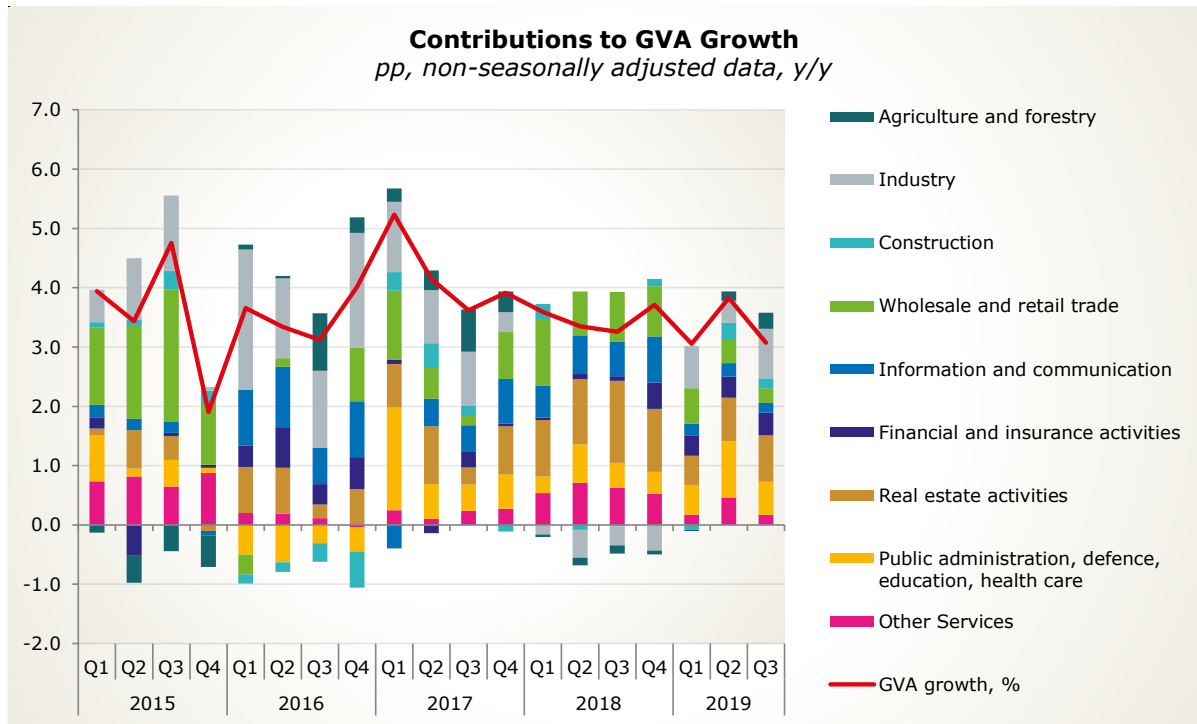
Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual.

The seasonally-adjusted gross value added (GVA) at 2015 prices generated by the national economy increased by 3.5% y/y in Q3 2019 and totalled BGN 22.308 bln. The services sector recorded a 3.3% annual rise, slicing a 68.6% share in the GVA. The industrial sector went up in value by 1.7% y/y and took a 22.3% share in the total GVA. Construction had a 3.8% share, going up by 4.7% y/y. Agricultural sector's GVA increased by 2.1% y/y and accounted for a 4.7% share in the total GVA.



Source: NSI

In Q3 2019, in terms of industry breakdown, all sectors had a positive contribution to the economic growth. The real estate activities and industry sector were the biggest contributors to GVA growth, adding 0.8 pp each, followed by the public administration, defence, education and health care sector with a 0.6 pp contribution to the overall GVA growth.



Source: SeeNews Calculations; NSI

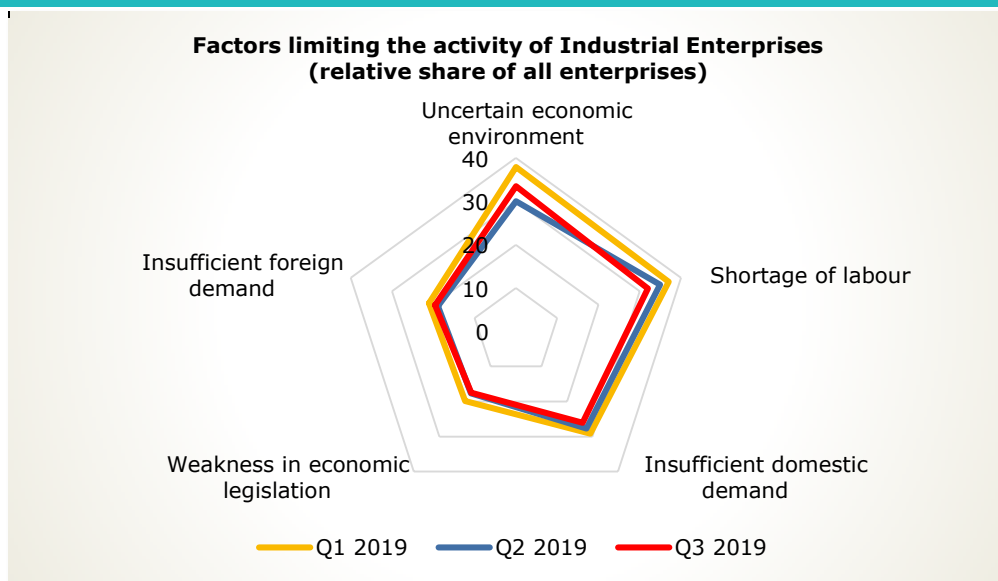
Note: Non-additive data due to direct chain linking of GDP and its components.

2.2. BUSINESS CLIMATE

Business Confidence Indicator unchanged m/m in September 2019

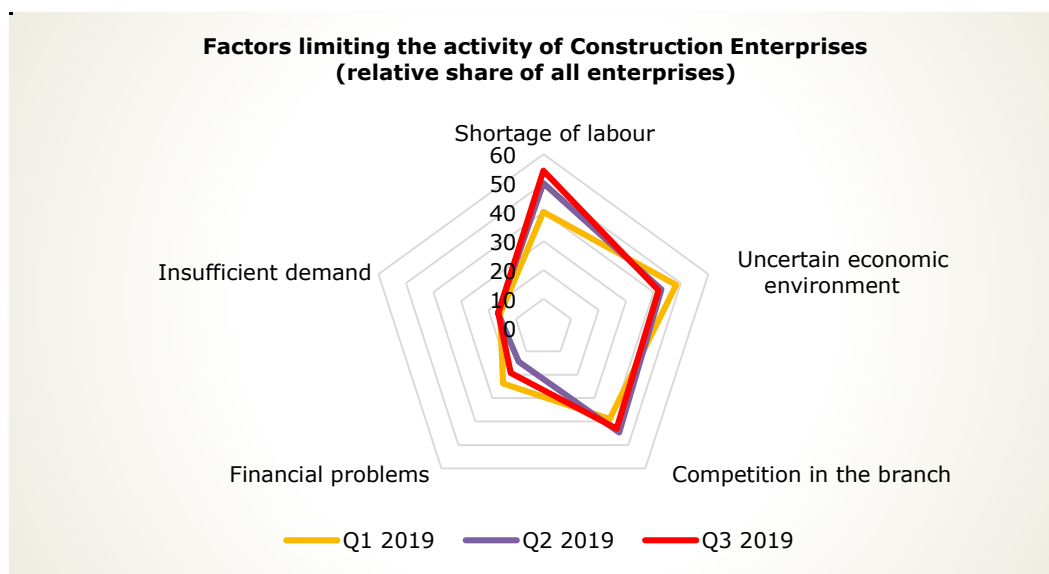
The business climate indicator stayed unchanged since August as a result of the retail, services and construction sectors offsetting the worsening confidence in industry, according to NSI data.

In September 2019, the industrial sector dropped by 2.1 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

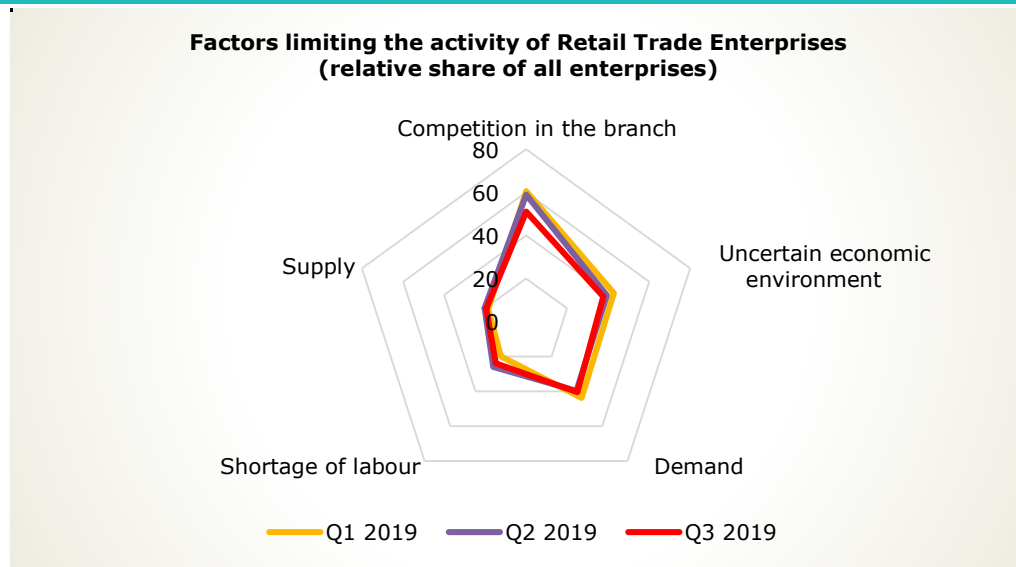
In September 2019, the business climate indicator in the construction sector increased by 0.8 pp as a result of the slightly improved assessments of construction entrepreneurs and expectations about the business situation of the enterprises.



Source: NSI

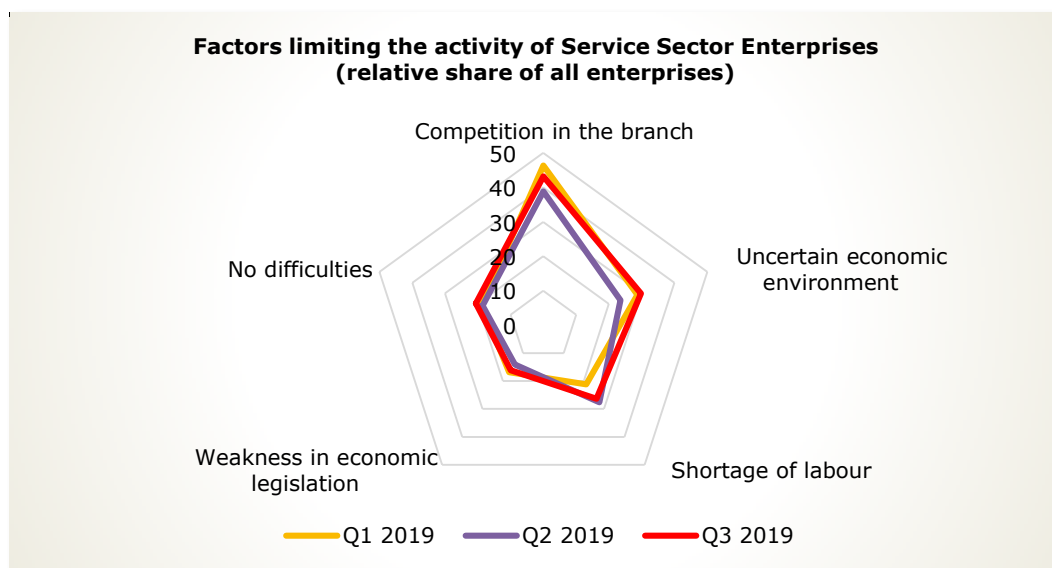
The business climate indicator in the retail sector went up by 1.8 pp in September, compared to the previous month. Retailers are optimistic about the volume of sales and orders placed with suppliers over the next three months.

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



Source: NSI

The business climate indicator in the services sector grew by 1.7 pp in September 2019, due to the favourable 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.



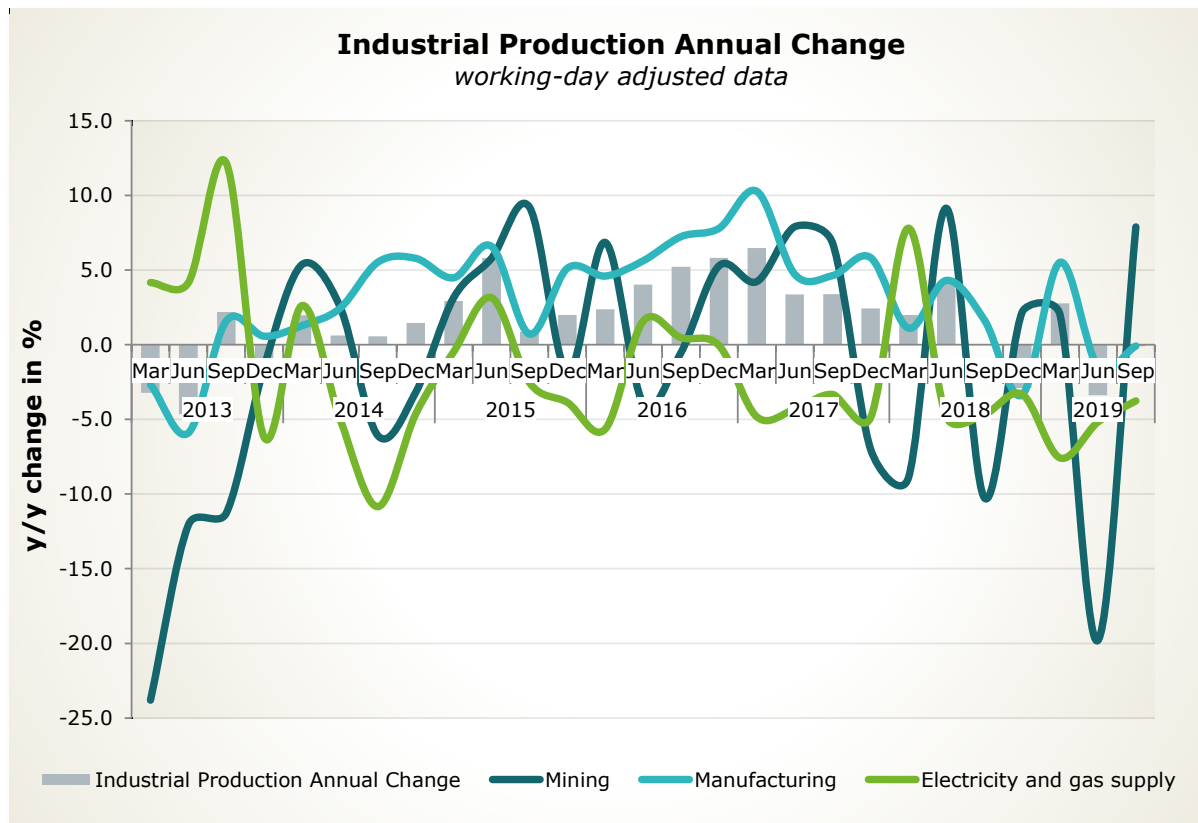
Source: NSI

2.3. INDUSTRIAL OUTPUT

Industrial output inched up by 0.1% in September 2019

Industrial production went up by 0.1% y/y in September 2019, according to NSI. In August, the output had decreased by 1.4%, following another decrease, of 1.0%, in July.

In September 2019, the output of the mining industry increased by 7.9% y/y, while electricity and gas supply went down by 3.8% y/y. The manufacturing output also decreased, by 0.1% y/y.

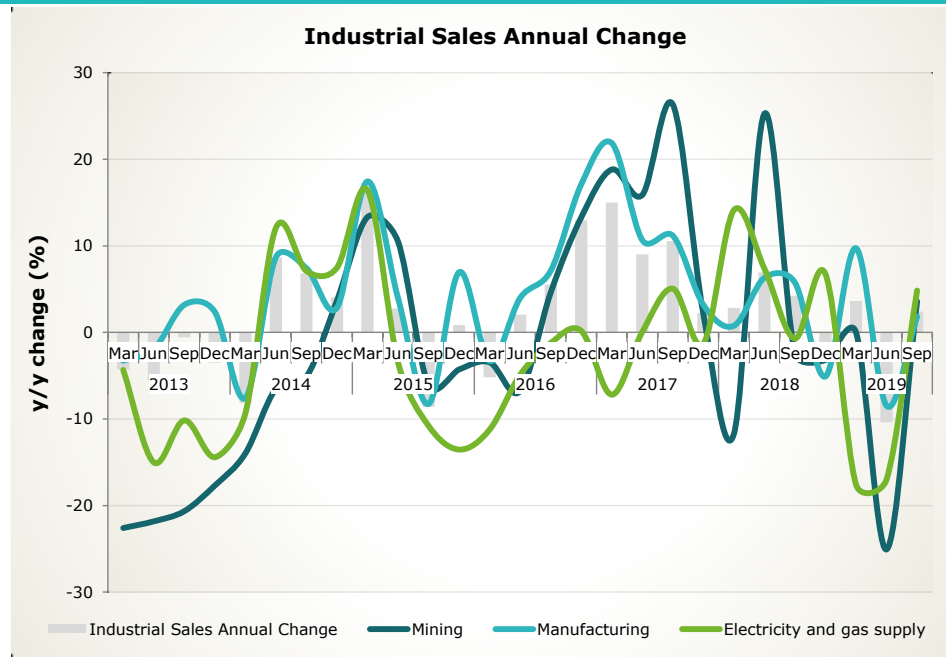


Source: NSI

2.4. INDUSTRIAL SALES

Industrial sales increased by 2.4% y/y in September 2019

Industrial sales advanced by 2.4% y/y in September 2019, according to NSI. The rise was largely caused by the 4.8% jump in electricity and gas supply sector. The mining industry went up by 3.6%, while manufacturing sales increased by 1.8%.

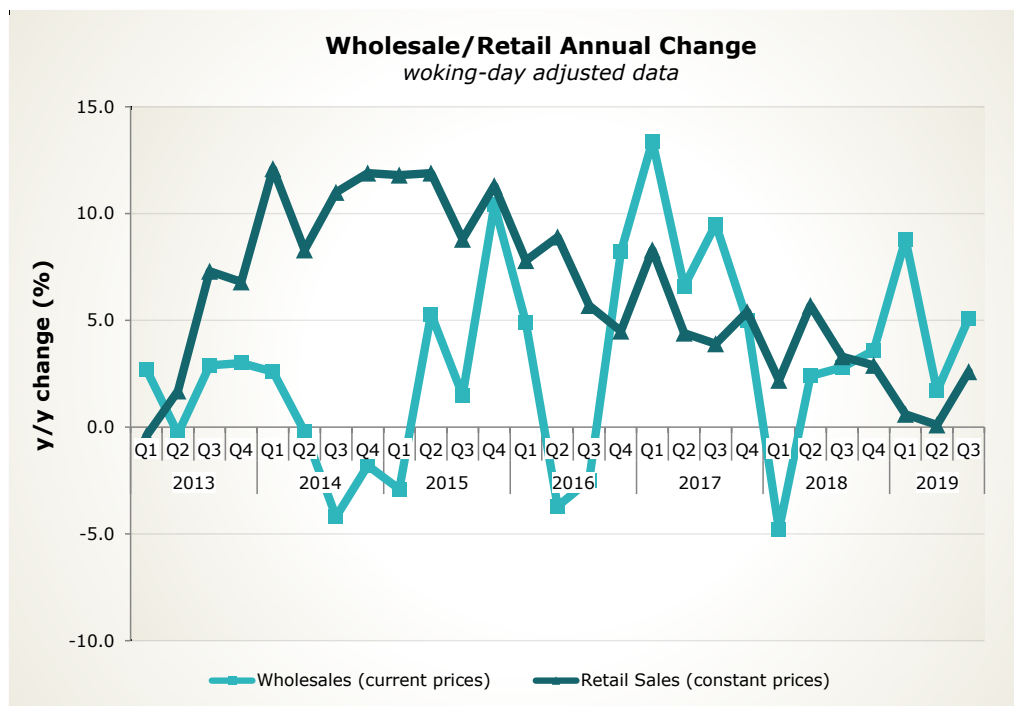


Source: NSI

2.5. WHOLESALE/RETAIL

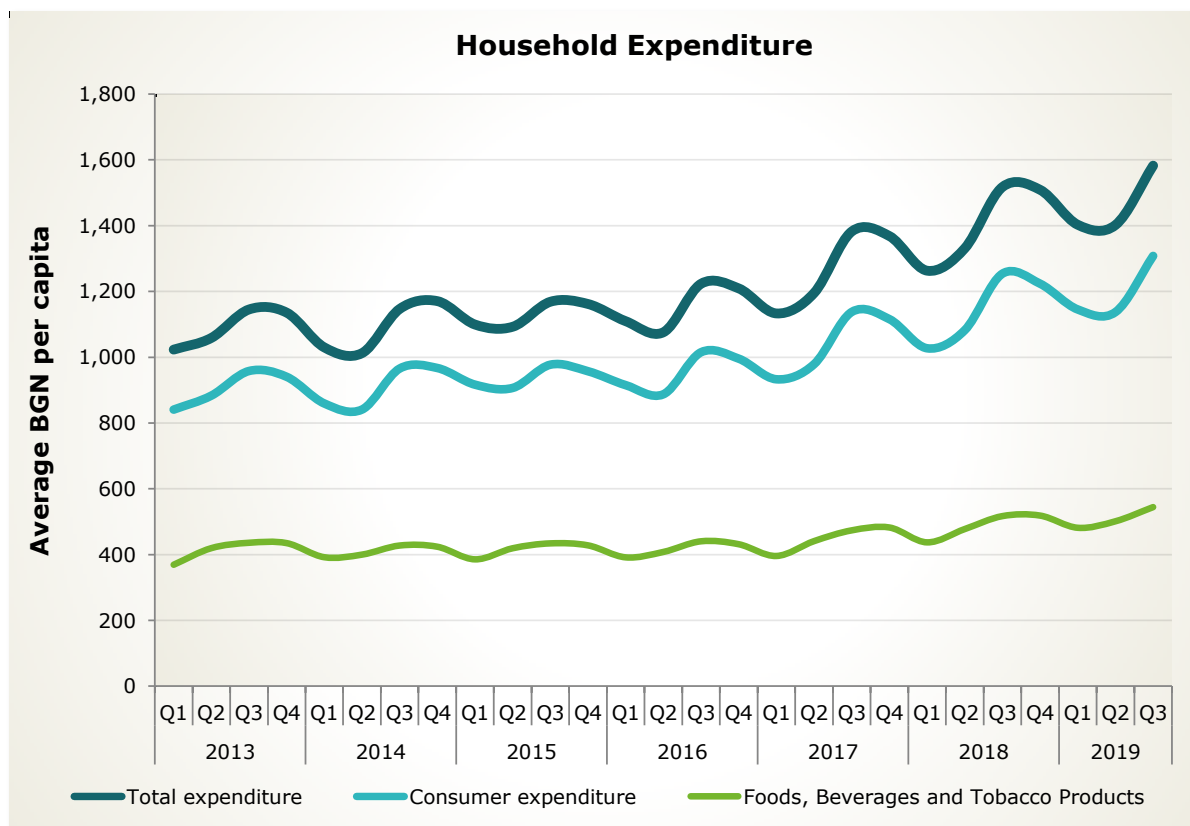
Retail sales up 2.6% y/y in September 2019

In September 2019, retail sales notched up by 2.6%, according to NSI data. Retail sales 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, of 7.4%.



Source: NSI

Household expenditure continued its expansion in Q3 2019, rising by 4.3% y/y to BGN 1,583 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 third quarter of 2019. Spending on food, beverages and tobacco products went up by 5.3% y/y to BGN 544 per capita and sliced 34.4% of the total consumer expenditures.



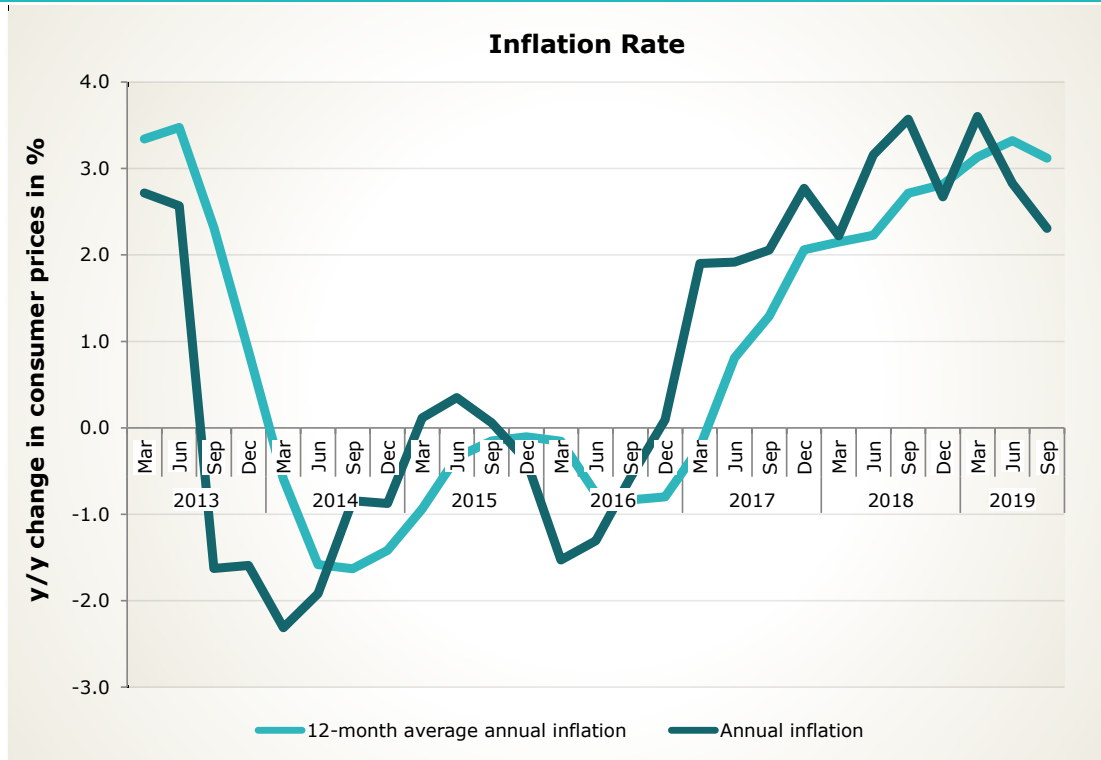
2.6. INFLATION

Annual average inflation at 3.1% as of September 2019

The average annual inflation in the last 12 months, measured by the Consumer Price Index (CPI) change in October 2018 – September 2019, compared to October 2017 – September 2018, stood at 3.1%, down from 3.3% in June 2019.

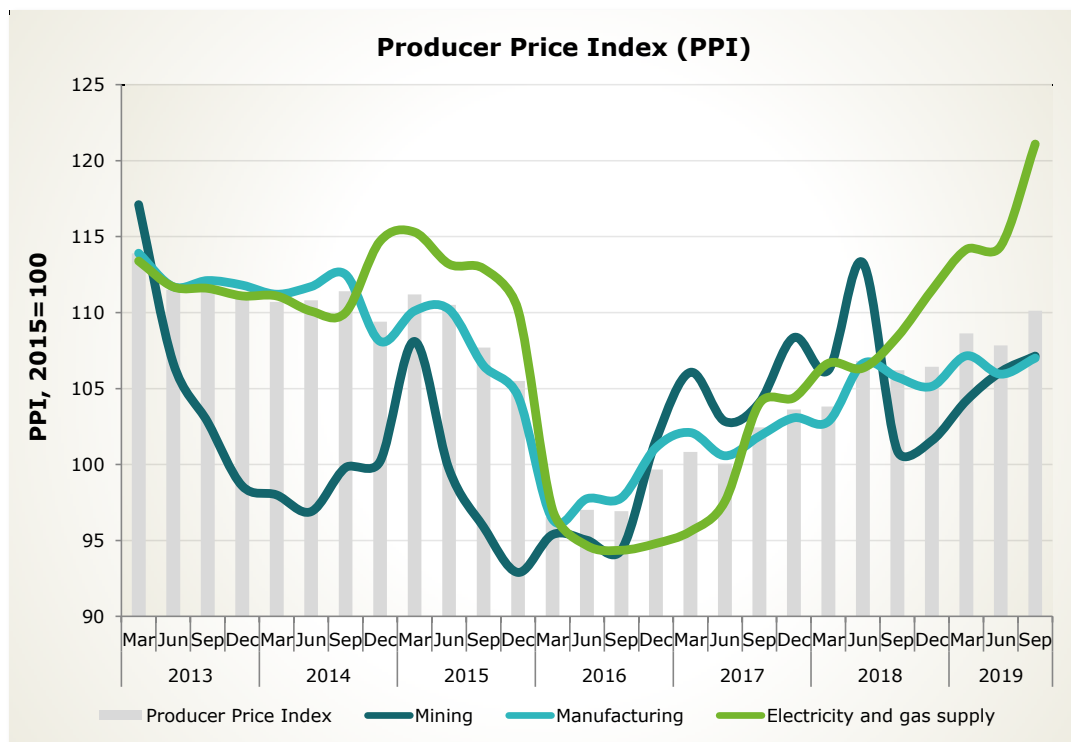
The highest annual inflation, of 5.2%, was registered in restaurant and hotel services, followed by catering with 4.8%. Food and non-alcoholic beverages, Housing, water, electricity, gas and other fuels and Recreation and culture posted the third largest inflation, with 4.4% each.

Clothing and footwear was the only consumer group to report a deflation, of 1.2%.



Source: NSI

Producer prices increased by 3.7% y/y on average in September 2019. Producer prices in electricity and gas supply went up by 11.7% y/y, while prices in the mining sector grew by 6.2% y/y. The manufacturing sector's Producer Price Index advanced by 1.2% y/y.



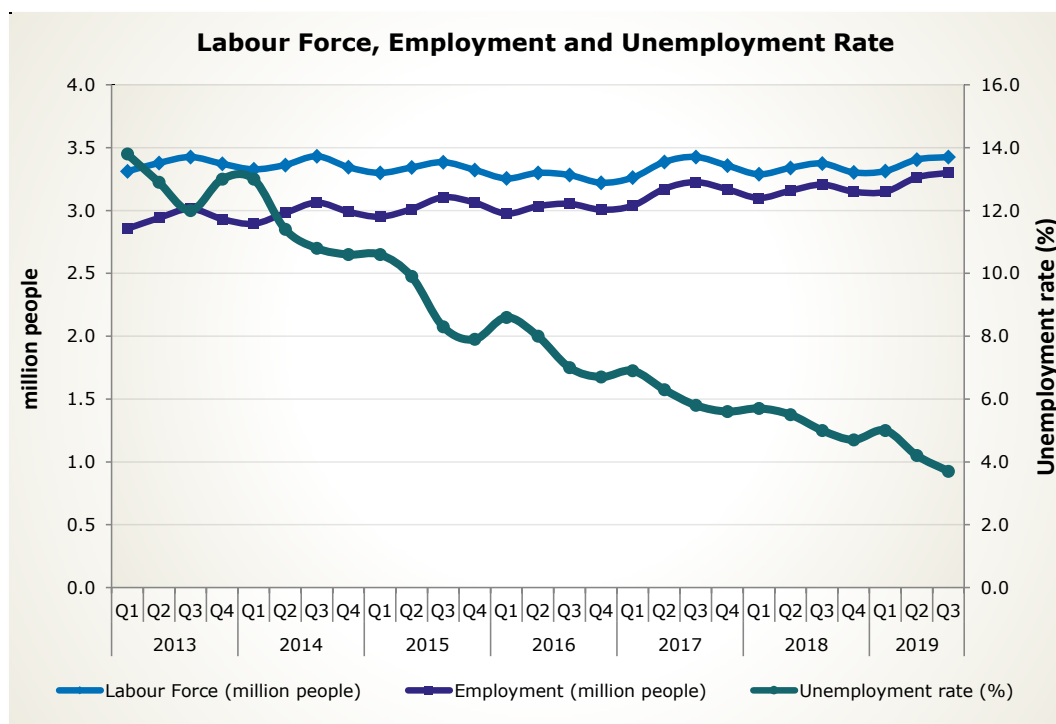
Source: NSI

3. LABOUR MARKET

Unemployment rate decreased by 1.3 pp y/y, wages grew 11.8% y/y in Q3 2019 on solid economic growth and tightening labour market

The unemployment rate in Bulgaria narrowed to 3.7% in Q3 2019, down from 5.0% a year earlier, according to data of NSI. The employed population aged 15 years and older was 3.299 million in Q3 2019, up by 2.9% y/y. Youth (population aged 15-24) unemployment rate went down to 7.5%, compared to 9.5% in Q2 2019 and 13.4 % in Q3 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 Q3 2019 grew by 11.8% y/y to BGN 1,249. Wages in the public and private sectors went up by 10.5% y/y and 12.2% y/y, respectively. Employees in IT and communication, the energy sector and the financial and insurance activities earned the highest salaries of BGN 2,988, BGN 1,980 and BGN 1,973, respectively.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits decreased by 2.1% y/y in Q3 2019

The number of building permits issued in Bulgaria in Q3 2019 went down by 2.1% y/y and totalled 2,841, according to NSI data. The number of permits for housing projects fell by 1.7% to 1,630, while permits for office buildings plummeted to 23 from 37 a year earlier.

The total built-up area of office units, covered by the permits, dropped to 58,419 sq m in Q3 2019 from 212,473 sq m in Q3 2018. The total built-up area of the housing units went down by 5.4% on the year to 1,110,322 sq m.

5. MONEY SUPPLY AND BANKING SYSTEM

5.1. BGN EXCHANGE RATE

The average exchange rate of the BGN against the US dollar advanced to BGN 1.7585 in Q3 2019 from BGN 1.6823 a year ago, according to Bulgarian National Bank (BNB) data.

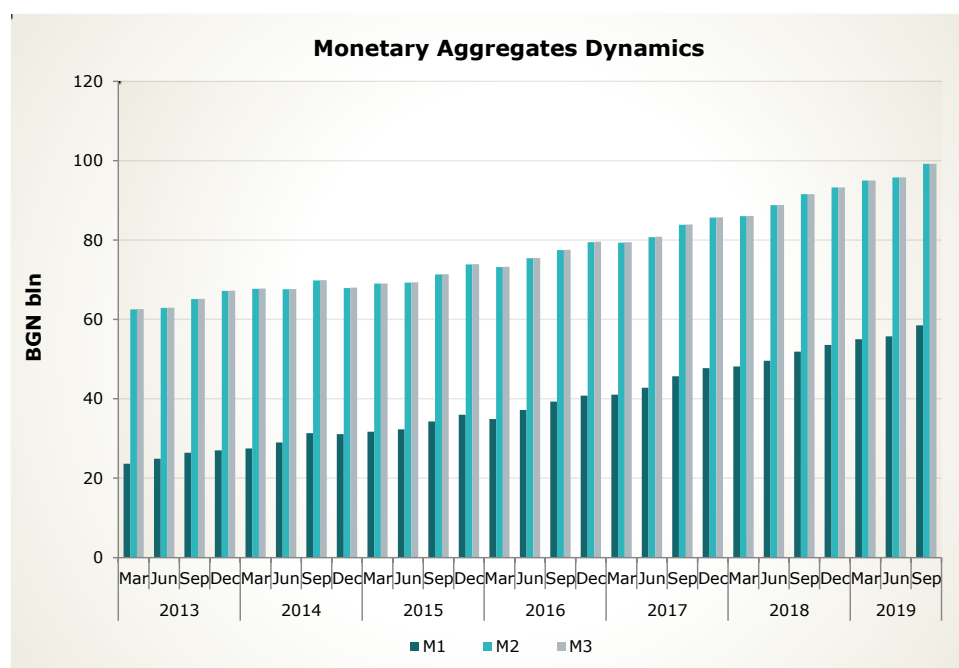
BGN Average Exchange Rate			
Foreign Currency	Q3 2019	Q2 2019	Q3 2018
EUR*	1.9558	1.9558	1.9558
USD	1.7585	1.7398	1.6823
GBP	2.1676	2.2358	2.1922
CHF	1.7845	1.7366	1.7085

*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 8.3% y/y in Q3 2019

In Q3 2019, the broad monetary aggregate M3 rose by 8.3% 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 8.3% y/y to BGN 99.207 bln. Money aggregate M1, or narrow money, jumped by 12.8% to BGN 58.505 bln.



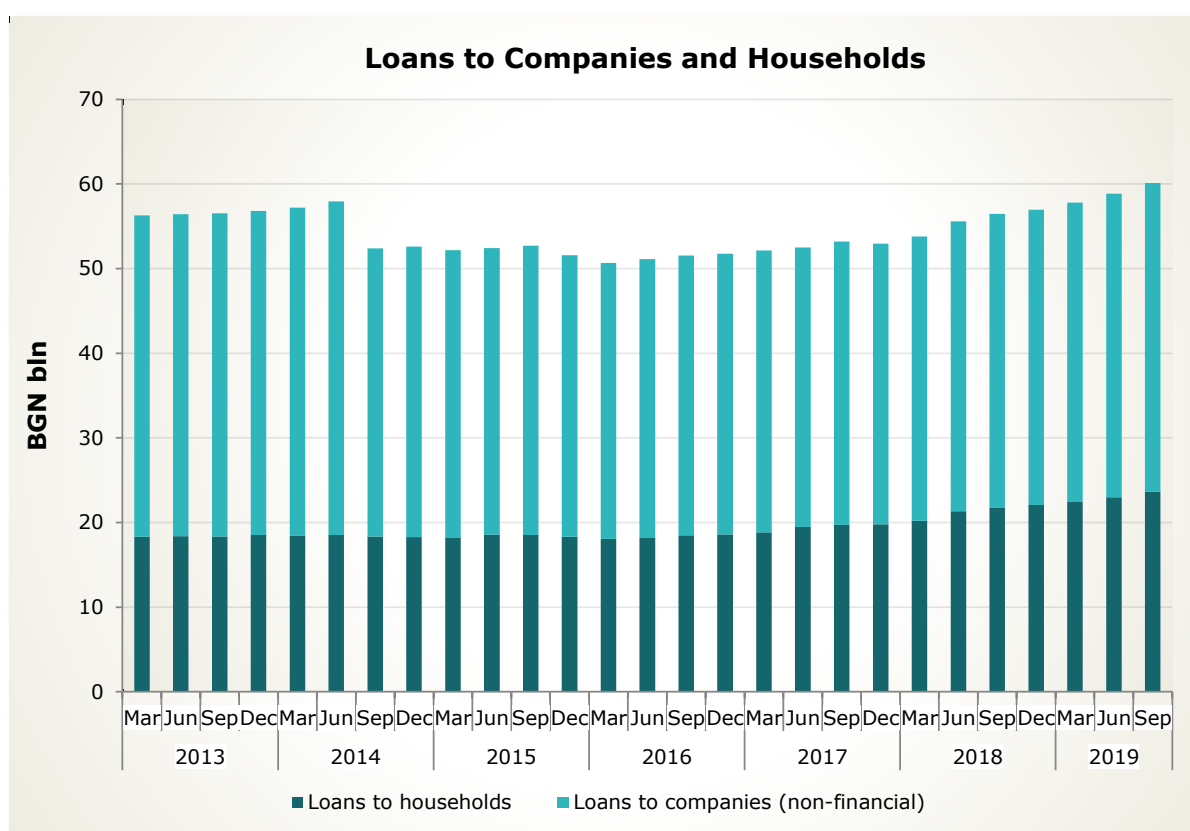
Source: BNB

5.3. BANKING AND INSURANCE

Household loans increased by 9.0% y/y in September 2019 on high demand and solid economic growth

In September 2019, the total loans to the non-financial corporations and households sector increased by 6.4% y/y to BGN 60.115 bln, according to BNB.

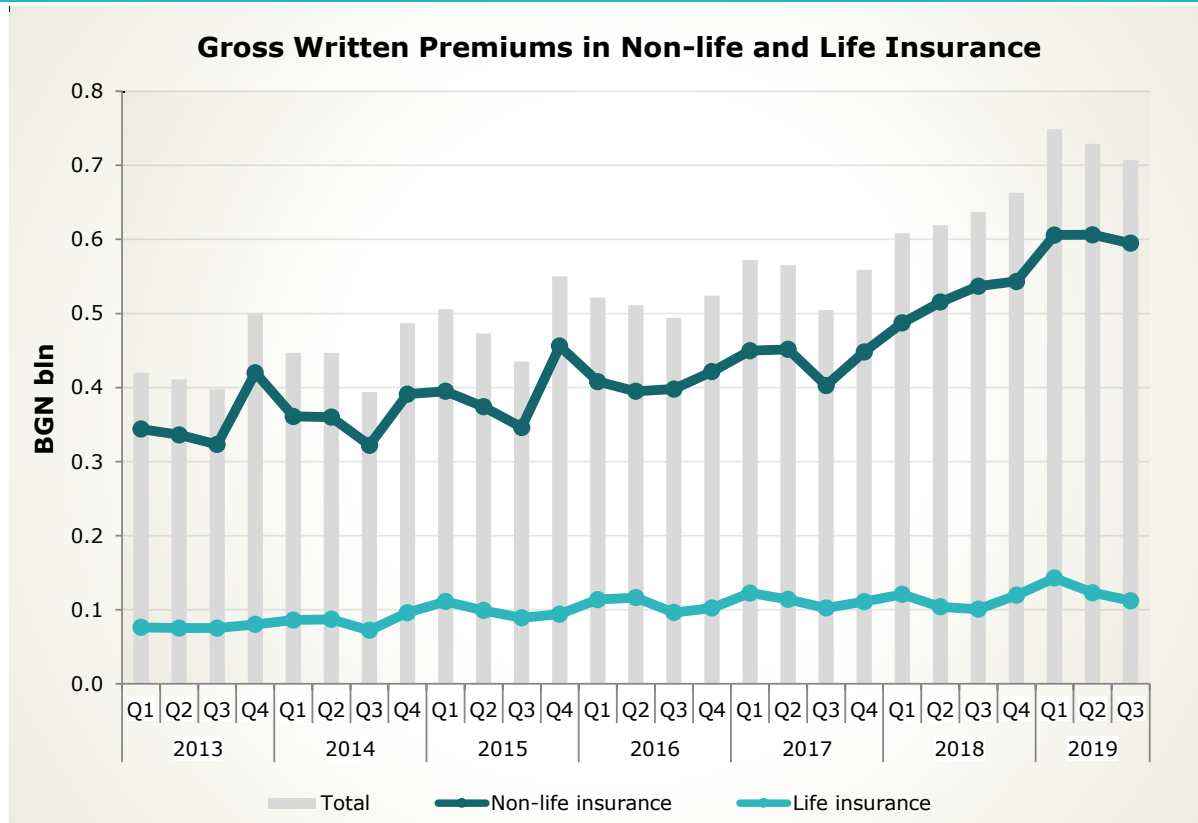
The loans to non-financial corporations expanded by 4.8% y/y in September 2019, amounting to BGN 36.453 bln. The annual growth of loans to households came in at 9.0%. Consumer loans jumped by a higher rate, of 20.2% y/y, than loans for house purchase with an annual increase of 14.6%.



Source: BNB

Insurance premium income up 10.9% y/y in Q3 2019

The total gross written premiums (GWP) of the Bulgarian non-life and life insurance companies stood at BGN 707.0 mln, up by 10.9% y/y in Q3 2019, according to the Financial Supervision Commission (FSC). The GWP of the non-life insurance market amounted to BGN 594.8 mln, or by 10.8% more than a year earlier, while the life insurance market grew by 11.5% y/y to BGN 112.1 mln.



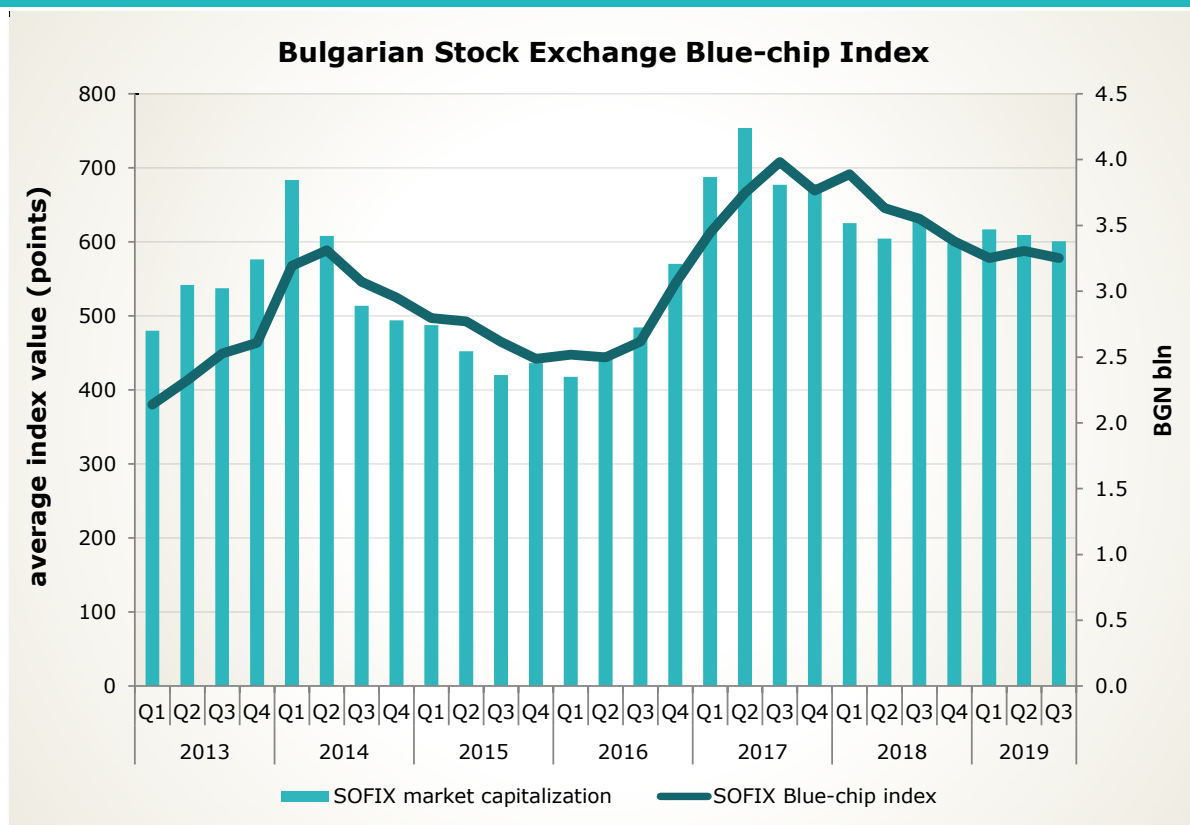
Source: FSC

6. CAPITAL MARKETS

Blue-chip SOFIX decreased by 1.7% q/q in Q3 2019

SOFIX, the blue-chip index of the Bulgarian Stock Exchange (BSE), decreased by 1.7% q/q to 578 points in Q3 2019, according to BSE data.

The total turnover on BSE's regulated market came in at BGN 69.1 mln in Q3 2019, compared to BGN 41.9 mln in Q2 2019.



Source: BSE

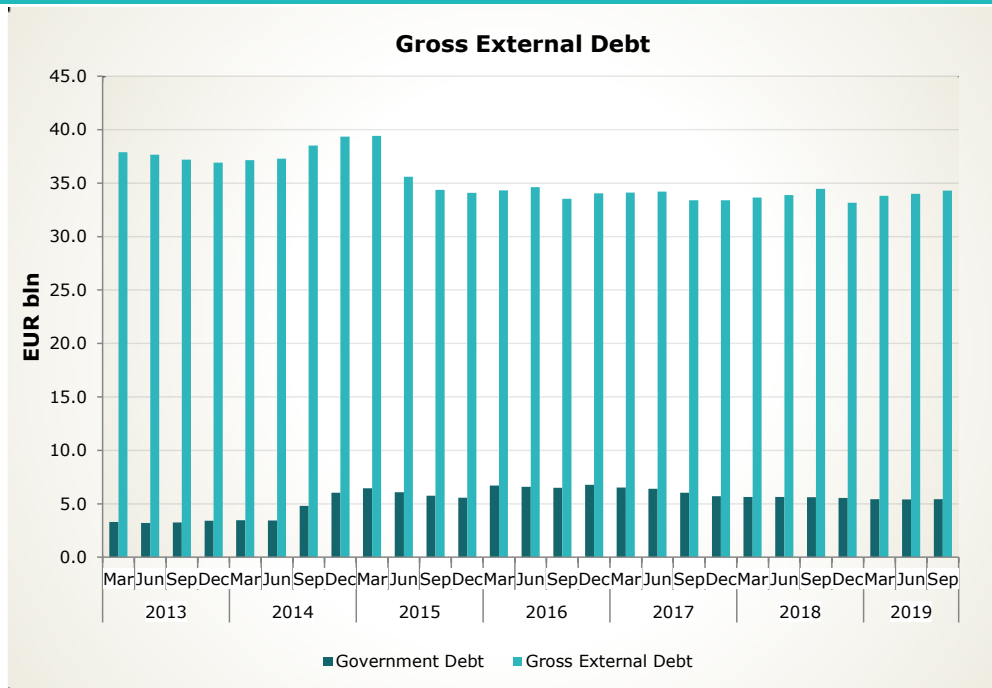
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt inched down by 0.5% y/y to EUR 34.301 bln in Q3 2019

The gross external debt decreased by 0.5% y/y totalling EUR 34.301 bln at the end of September 2019, according to BNB. The gross external debt accounted for 58.0% of the country's GDP.

As of end-September 2019, long-term liabilities amounted to EUR 25.991 bln, or 75.8% of the total debt, and short-term liabilities totalled EUR 8.310 bln, equal to 24.2% of the total debt.

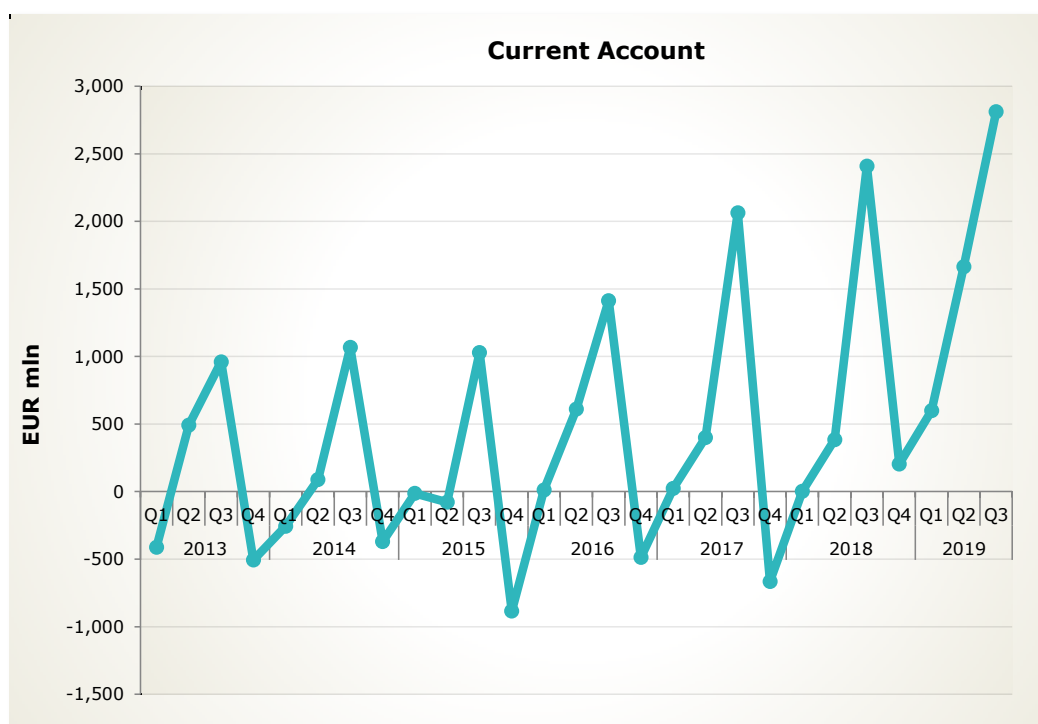


Source: BNB

7.2. BALANCE OF PAYMENTS

Current account balance positive in Q3 2019

In the third quarter of 2019, Bulgaria had current account surplus of EUR 2.813 bln, compared to a surplus of EUR 1.665 bln in Q2 2019 and a surplus of BGN 2.409 bln in Q3 2018, according to the central bank statistics data.

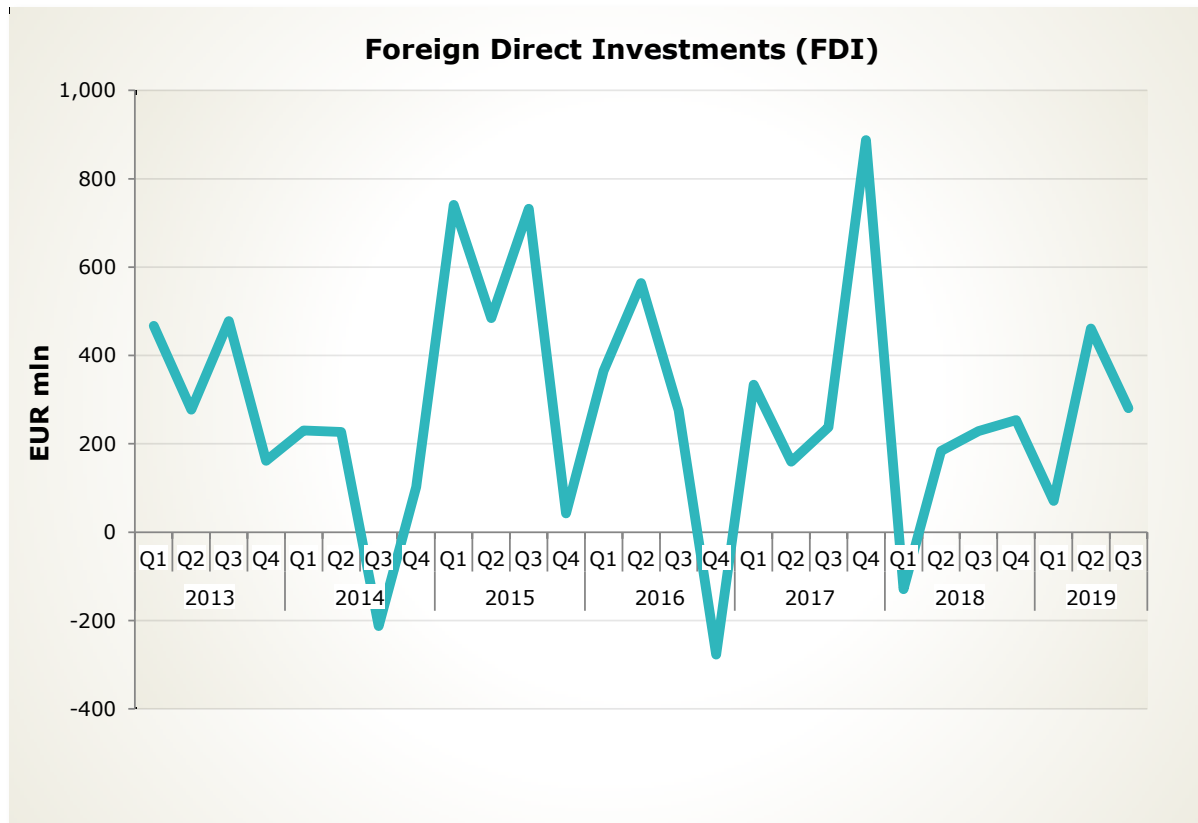


Source: BNB

7.3. FDI

FDIs at EUR 280.4 mln in Q3 2019

The Foreign Direct Investments (FDI) inflow in Bulgaria in Q3 2019 amounted to EUR 280.4 mln, compared to EUR 228.8 mln in the same quarter of the previous year, according to BNB data. FDIs accounted for 2.1% of the GDP for the quarter under review.

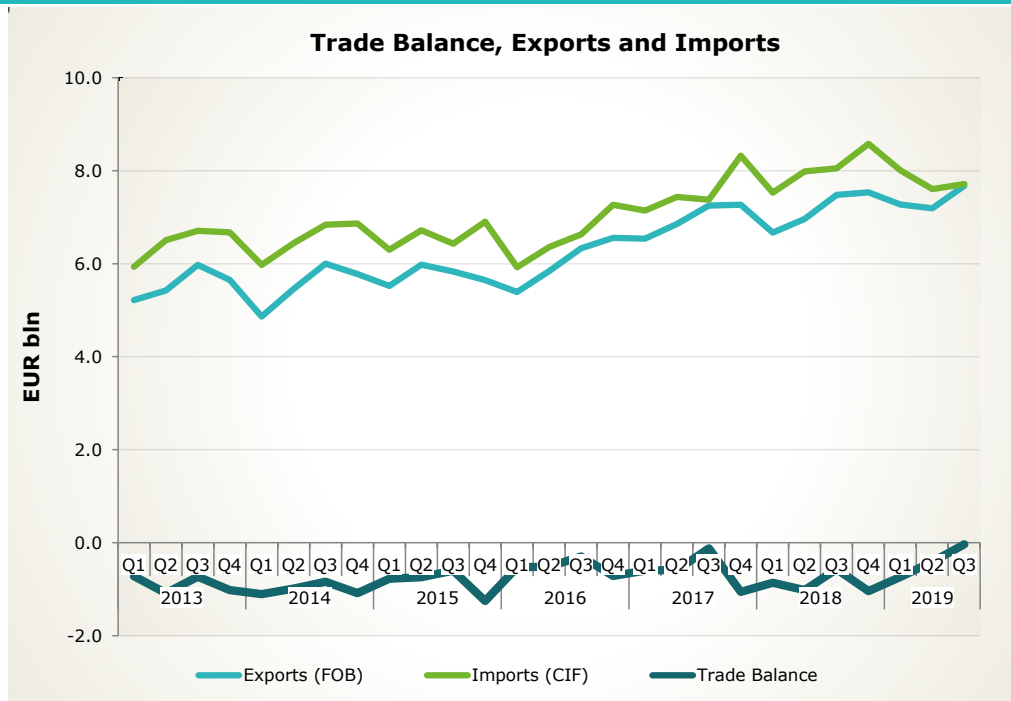


Source: BNB

7.4. FOREIGN TRADE

Foreign trade deficit down 93.3% y/y in Q3 2019

Bulgaria's foreign trade deficit contracted in the third quarter of 2019 to EUR 38.0 mln, according to NSI data. Exports totalled EUR 7.675 bln, growing annually by 2.6%, while imports fell by 4.2% to EUR 7.713 bln.

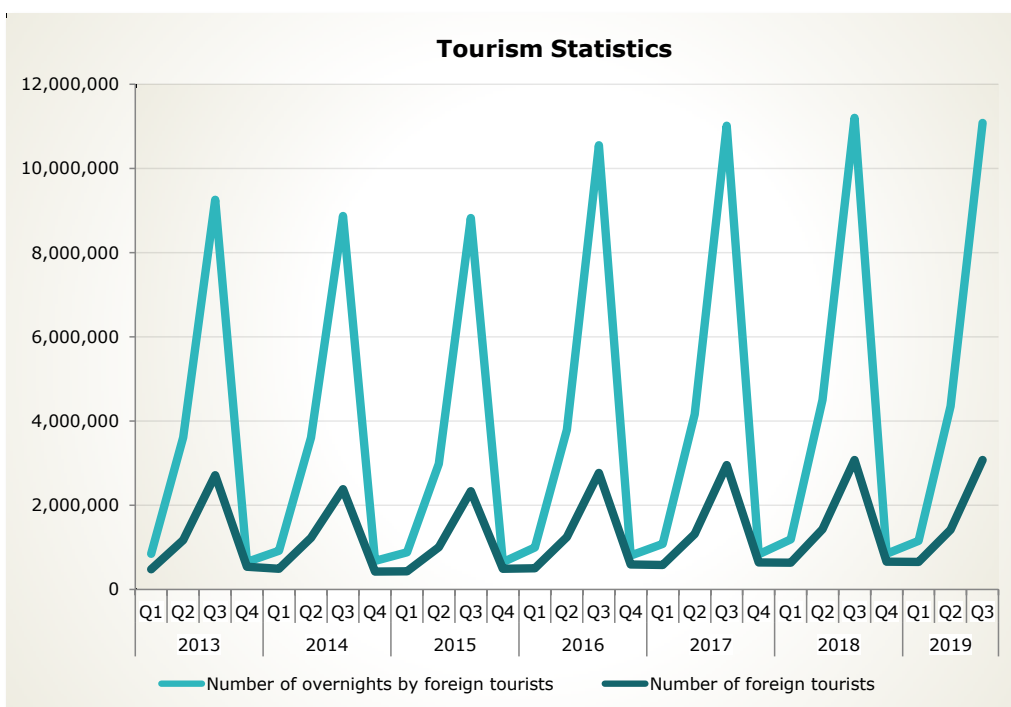


Source: BNB

7.5. TOURSIM

Number of foreign tourist overnights went down by 1.1% y/y in Q3 2019

Tourist overnights of foreigners decreased by an annual 1.1% to 11.084 million in Q3 2019, according to NSI data. The number of foreign tourists stood unchanged y/y to 3.075 million. The most arrivals were from Germany, Romania and Ukraine.



Source: NSI

8. MAJOR DEVELOPMENTS

Bulgarian Kristalina Georgieva approved as IMF managing director

Sept 26, 2019

The executive board of the International Monetary Fund (IMF) said that it has selected Kristalina Georgieva, a Bulgarian national formerly CEO of the World Bank, to serve as IMF managing director and chair of the executive board.

[Read the full story here](#)

Bulgaria aims to have first hydrogen filling stations in place by end-2020

Sept 12, 2019

Bulgaria's regional development ministry said draft legislation has been prepared that paves the way for the construction of the first hydrogen filling stations in the country by the end of 2020.

[Read the full story here](#)

Bulgaria to allocate EUR 74 mln for building 6.1 km of Sofia ring road

Sept 4, 2019

Bulgaria's government said that it will allocate EUR 73.9 mln over the next four years to finance the construction of a 6.08-km section of the southern part of Sofia ring road.

[Read the full story here](#)

Bulgaria issues guarantee for EUR 110 mln EIB loan for gas link construction

Aug 28, 2019

Bulgaria is issuing a state guarantee for a loan of up to EUR 110 mln from the European Investment Bank, to be used to finance the construction of a gas interconnection with Greece, the government said.

[Read the full story here](#)

Bulgaria expands co-financing of EU-backed railway project by EUR 59.5 mln

Aug 9, 2019

Bulgaria's government decided to allocate an additional co-financing of EUR 59.mln to an EU-funded project for an upgrade of the Kostenets - Septemvri railway line which has been delayed for more than two years.

[Read the full story here](#)

EC calls on Bulgaria to comply with EU rules on criminal sanctions for market abuse

July 25, 2019

The European Commission said that it has sent a letter of formal notice to Bulgaria, urging the country to bring its legislation in line with the EU rules on criminal sanctions for market abuse.

[Read the full story here](#)

EC urges Bulgaria to remove restrictions to cross-border provision of services

July 25, 2019

The European Commission said that it has sent two letters of formal notice to Bulgaria regarding its restrictions on cross-border provision of services.

[Read the full story here](#)

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