

## **BULGARIA ECONOMY REPORT**

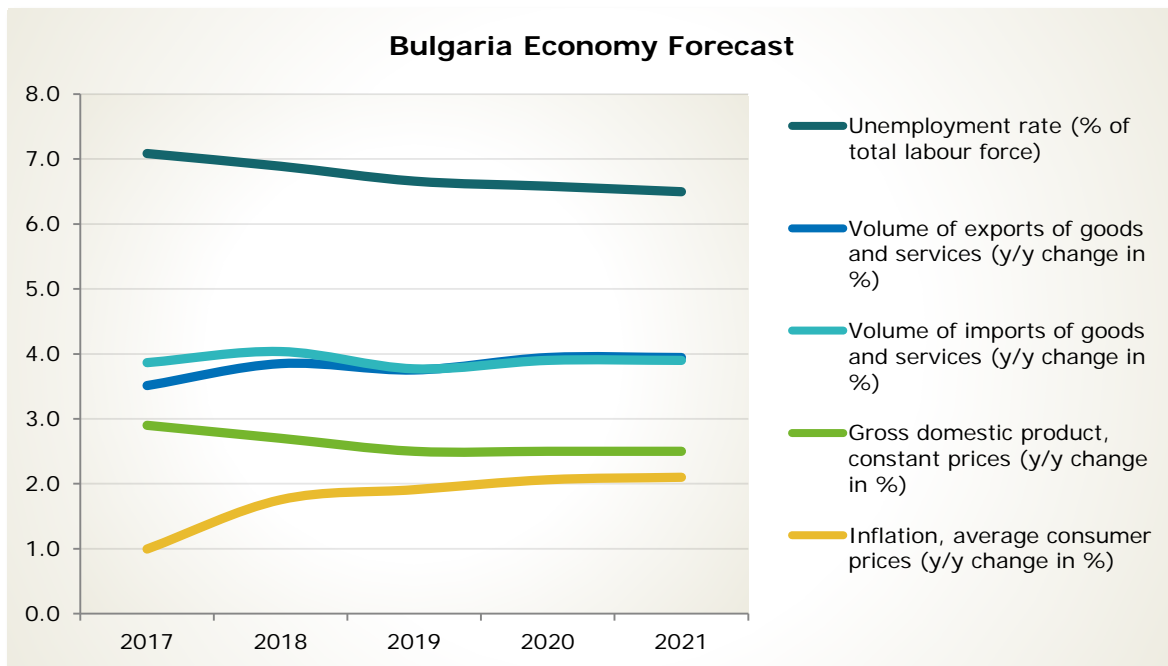
2016

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## 1. MACROECONOMIC SNAPSHOT AND FORECAST

BULGARIA – MACROECONOMIC SNAPSHOT AS OF 2016	
<b>GDP Growth</b>	3.4% y/y
<b>Business confidence indicator</b>	0.0 pp m/m
<b>Industrial output</b>	5.81% y/y
<b>Industrial sales index</b>	139.2% (2010=100)
<b>Wholesale</b>	0.9% y/y
<b>Retail sales</b>	2.4% y/y
<b>Average annual inflation</b>	-0.8%
<b>Unemployment rate</b>	7.6%
<b>Number of building permits</b>	5.8% y/y
<b>Money supply growth</b>	7.6% y/y
<b>Household loans</b>	2.0% y/y
<b>SOFIX blue-chip index</b>	0.5% y/y
<b>Gross external debt</b>	2.0% y/y
<b>Current account surplus</b>	EUR 1.989 bln
<b>FDI inflow change</b>	-72.3% y/y
<b>Foreign trade deficit</b>	EUR 2.514 bln
<b>Number of foreign tourist overnights</b>	21.0% y/y



Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2017

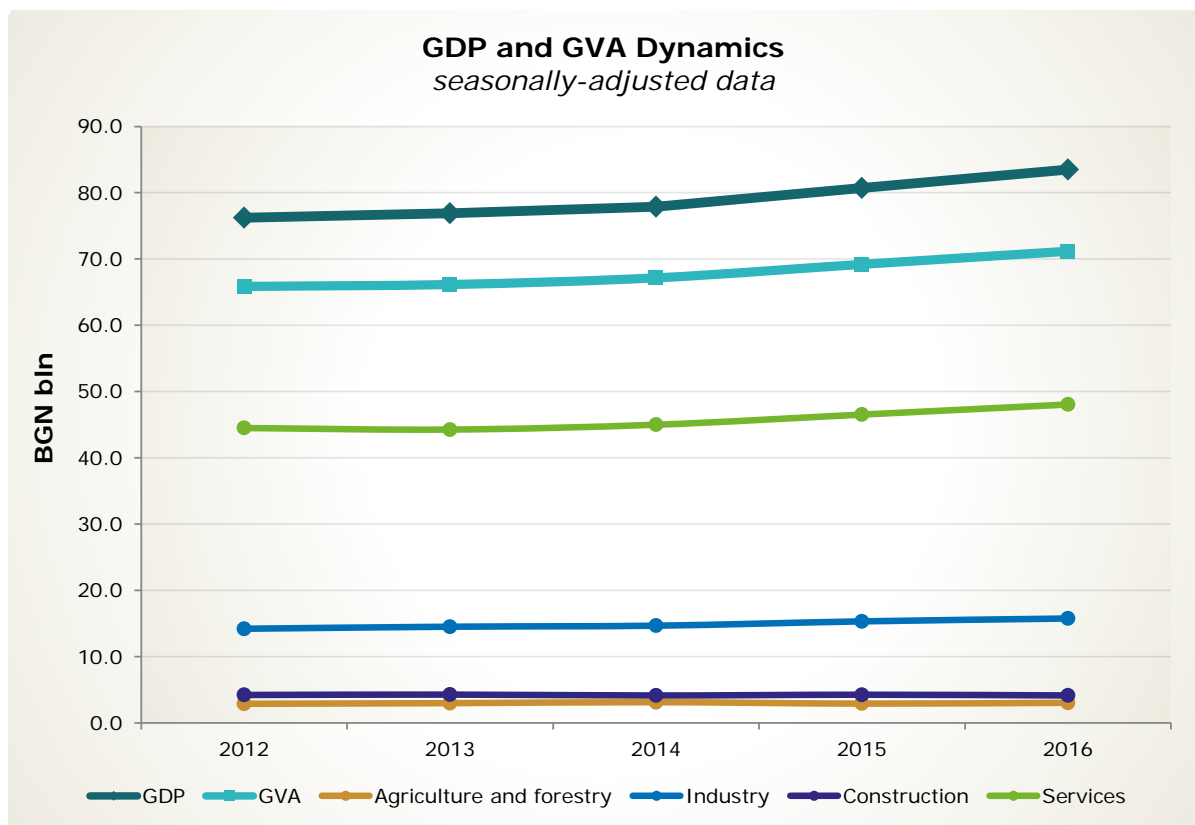
## 2. REAL SECTOR

### 2.1 GROSS DOMESTIC PRODUCT (GDP)

*GDP went up by 3.4% y/y in 2016, compared to a 3.6% annual growth a year earlier*

The country's seasonally-adjusted GDP increased by 3.4% y/y and totalled BGN 83.503 bln in 2016, according to preliminary data of the National Statistical Institute (NSI).

Final consumption, which contributed 79.3% to the GDP, grew by 1.8% y/y in 2016. Gross capital formation inched down by 4.0%, contributing 19.8% to the GDP. Exports rose by 5.7%, imports went up by 2.8%.



Source: NSI

The gross value added (GVA) generated by the national economy increased by 2.9% y/y in 2016 and totalled BGN 71.172 bln. The industrial sector grew in value by 2.8%, but its share in the GVA structure inched down to 22.1% from 22.2%. The services sector recorded a 0.4% annual increase, slicing a 67.5% share in the GVA, compared to 67.2% one year ago. The agricultural sector inched up 1.4% and its GVA share stood at 4.3%, compared to 4.2% in the previous year. The construction industry experienced a 2.5% annual decrease, while its share fell to 5.8% from 6.2%.

## 2.2 BUSINESS CLIMATE

### *Business Confidence Indicator remained unchanged in December 2016*

In December 2016, the business confidence indicator remained unchanged due to the stable business climate.

The business climate improved in the industry and construction, while the indicator worsened in the services and retail sectors.

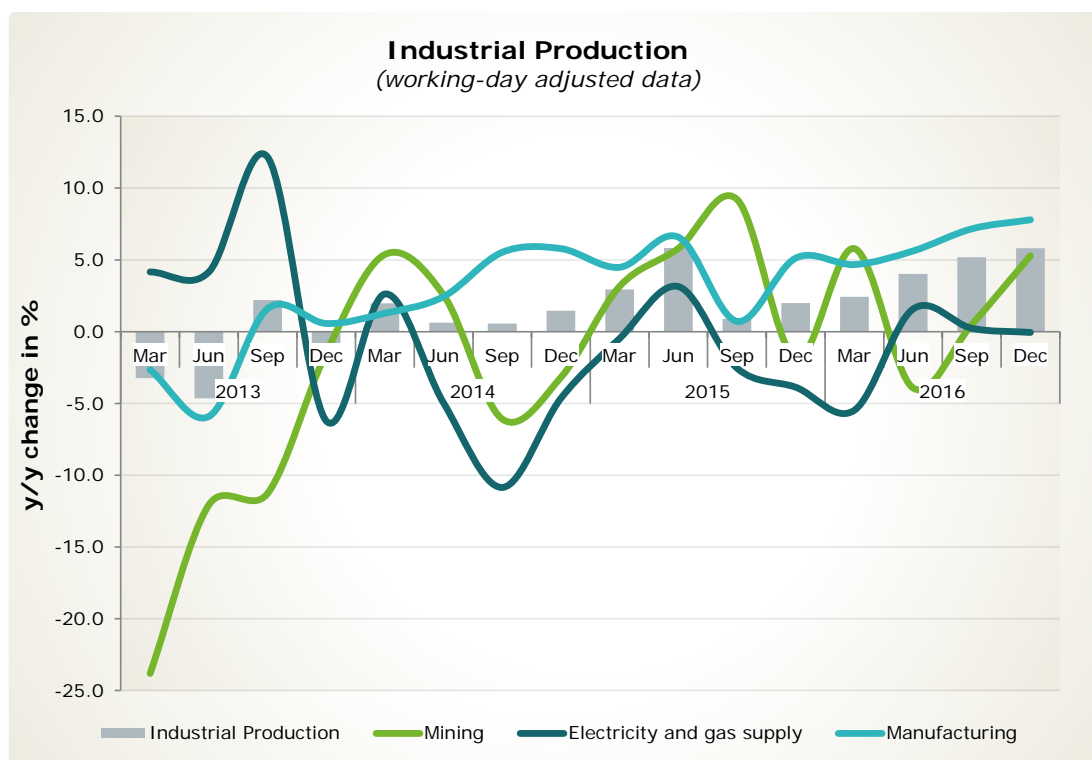
The business confidence indicator increased by 0.6% in November 2016 and fell by 1.3 percentage points m/m in October 2016.

## 2.3 INDUSTRIAL OUTPUT

### *Industrial output rose by 5.8% y/y in December 2016*

Industrial output went up by 5.8% on the year in December 2016, according to NSI. The growth was backed by the increase of the output of the manufacturing and mining industries – 7.8% and 5.3%, respectively. The output of the electricity and gas supply industry fell by 0.1%.

Manufacture of metal products, except machinery and equipment, jumped by 34.4% and was the sector with the sharpest annual rise. On the other end was quarrying of non-metal raw materials, where production dropped the most, by 27.1%.

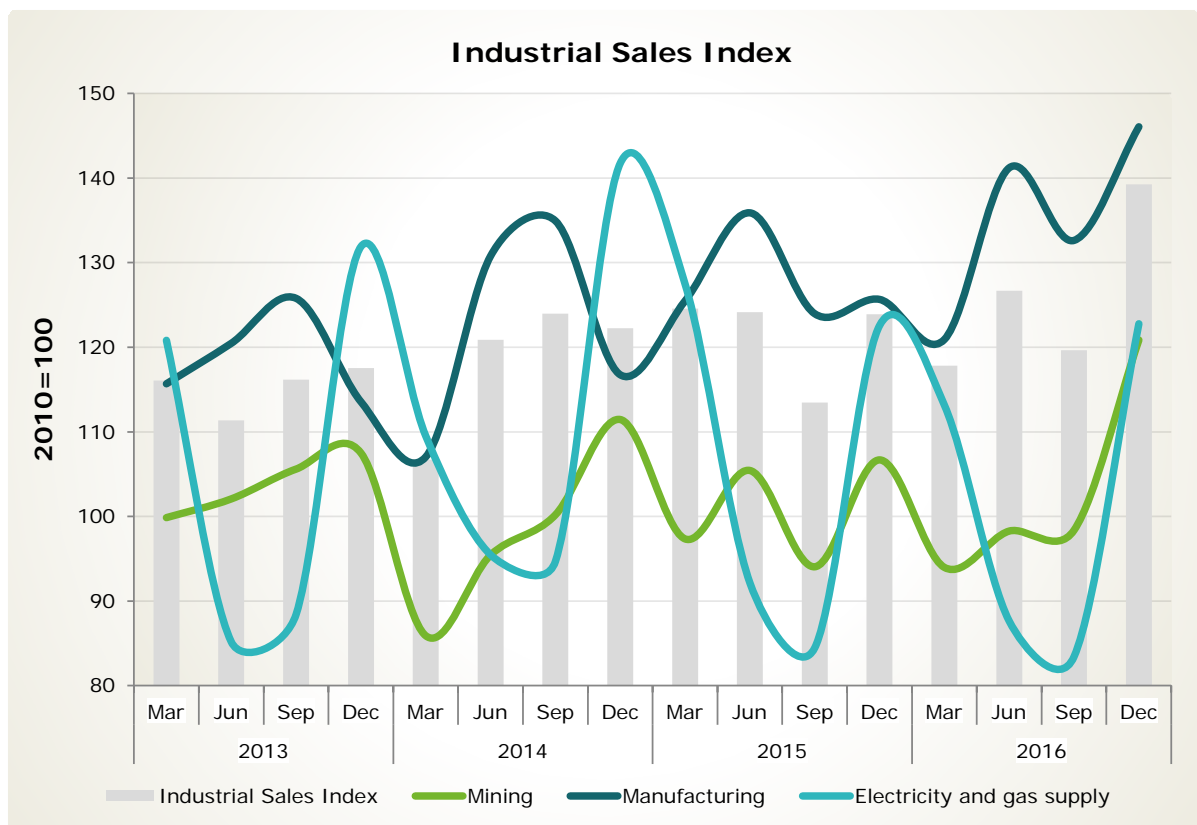


Source: NSI

## 2.4 INDUSTRIAL SALES

### Industrial sales index at 139.2 in December 2016

The industrial sales index stood at 139.2 (2010=100) in December 2016, compared to 123.9 in December 2015, according to NSI. The highest index value, of 428.5, was reported by manufacture of fabricated metal products, except machinery and equipment, while leather processing, production of shoes and other articles of leather was on the bottom with an index of 84.5.



Source: NSI

## 2.5 WHOLESALE/RETAIL

### Retail sales and wholesales grow y/y in December 2016

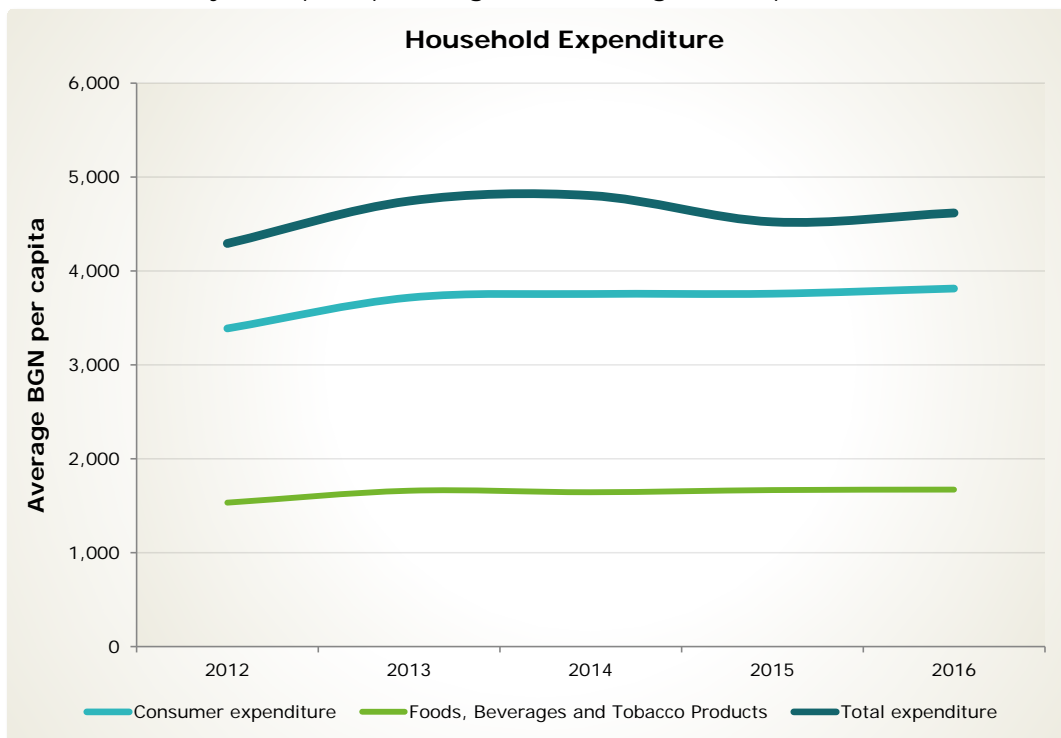
Retail sales, except of motor vehicles and motorcycles, rose by 2.4% y/y in December 2016, according to NSI data. In October and November retail sales rose, by an annual 3.2% and 4.6%, respectively.

Retail trade in computers and communication equipment and other consumer goods, and in non-specialised stores, mainly with food, beverages and tobacco marked the highest increase, of 9.0% y/y, in December 2016. Retail sales in non-specialised stores experienced the sharpest annual drop, of 11.4%.



Source: NSI

The wholesale sector, excluding wholesale of motor vehicles and motorcycles, went up by 0.9% y/y in the fourth quarter of 2016. Wholesale trade with computers and communication equipment reported the highest annual increase in sales, of 43.9%. Wholesale trade with investment machinery and spare parts registered the highest drop, of 30.5%.

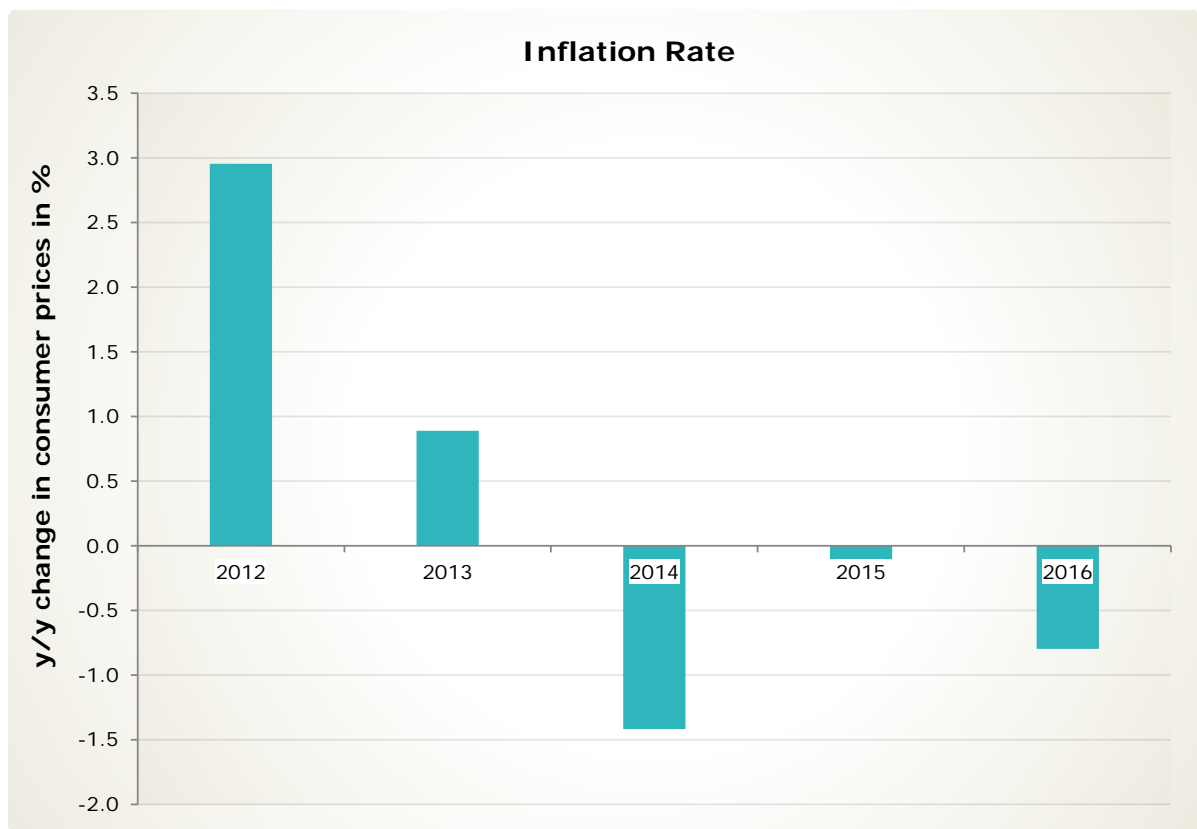


Source: NSI

## 2.6 INFLATION

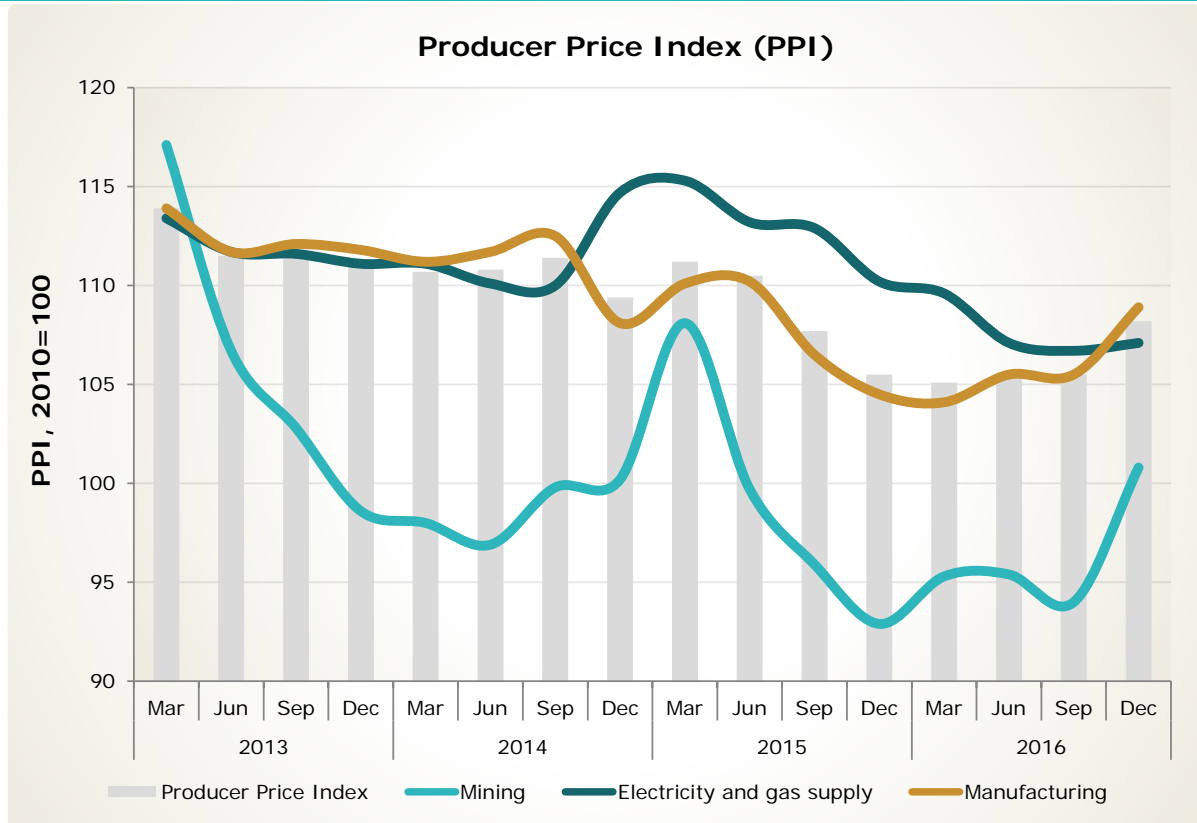
### *Annual average deflation of 0.8% y/y as of December 2016*

Bulgaria reported an annual average deflation of 0.8% as of December 2016, according to NSI data. The highest annual decrease in consumer prices in the period under review was registered in gaseous fuels, transport insurance and in liquid fuels for household use of 20.2%, 17.3% and 13.9%, respectively. The consumer groups that recorded the sharpest growth in prices were solid fuels, sugar, jam, honey, chocolate and household services, of 6.7%, 6.1% and 5.3%, respectively.



Source: NSI





Source: NSI

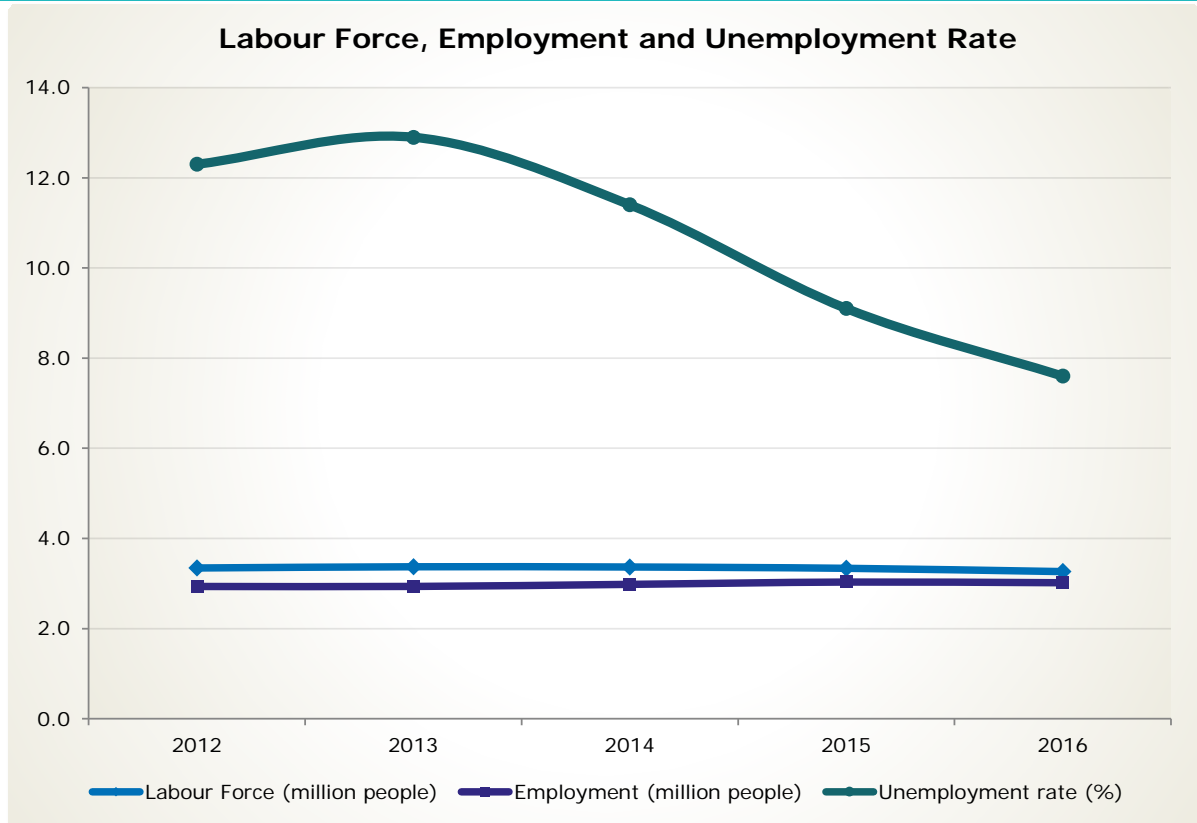
### 3. LABOUR MARKET

#### *Unemployment rate went down to 7.6%, wages grew 7.7% y/y in 2016*

Unemployment in Bulgaria narrowed to 7.6% of the total labour force in 2016 from 9.1% a year earlier, according to data of NSI.

The employed population aged 15 years and older was 3.017 million in 2016, down by 0.5% y/y.

The youth (population aged 15-24) unemployment rate went down to 17.2%, compared to 21.6% in 2015.



Source: NSI

According to data of NSI, the average monthly salary in 2016 grew by 7.7% y/y to BGN 950. Wages in the private and public sectors went up by 8.4% and 6.1%, respectively. Employees in the IT and communication sector, and in finance and insurance had the highest salaries of BGN 2,172 and BGN 1,679, respectively.

## 4. CONSTRUCTION AND REAL ESTATE

### *The number of building permits went up by 5.8% y/y in 2016*

The number of building permits issued in Bulgaria in 2016 increased by 5.8% y/y and totalled 9,362, according to NSI data. Permits for housing projects went up by 4.7% to 4,514 and permits for office buildings rose by 3.8% to 163.

The total built-up area of housing units, covered by the permits, increased by 4.8% y/y to 2,428,167 sq m. The total built-up area of office units soared by 65.3% to 285,438 sq m.

## 5. MONEY SUPPLY AND BANKING SYSTEM

## 5.1 BGN EXCHANGE RATE

The average exchange rate of the BGN against the US dollar rose to BGN 1.76833 in 2016 from BGN 1.76441 in 2015, according to Bulgarian National Bank (BNB) data.

BGN Average Exchange Rate			
Foreign Currency	2016	2015	2014
USD	1.76833	1.76441	1.47437
GBP	2.39250	2.69672	2.42721
CHF	1.79451	1.83486	1.61021
EUR*	1.95583	1.95583	1.95583

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

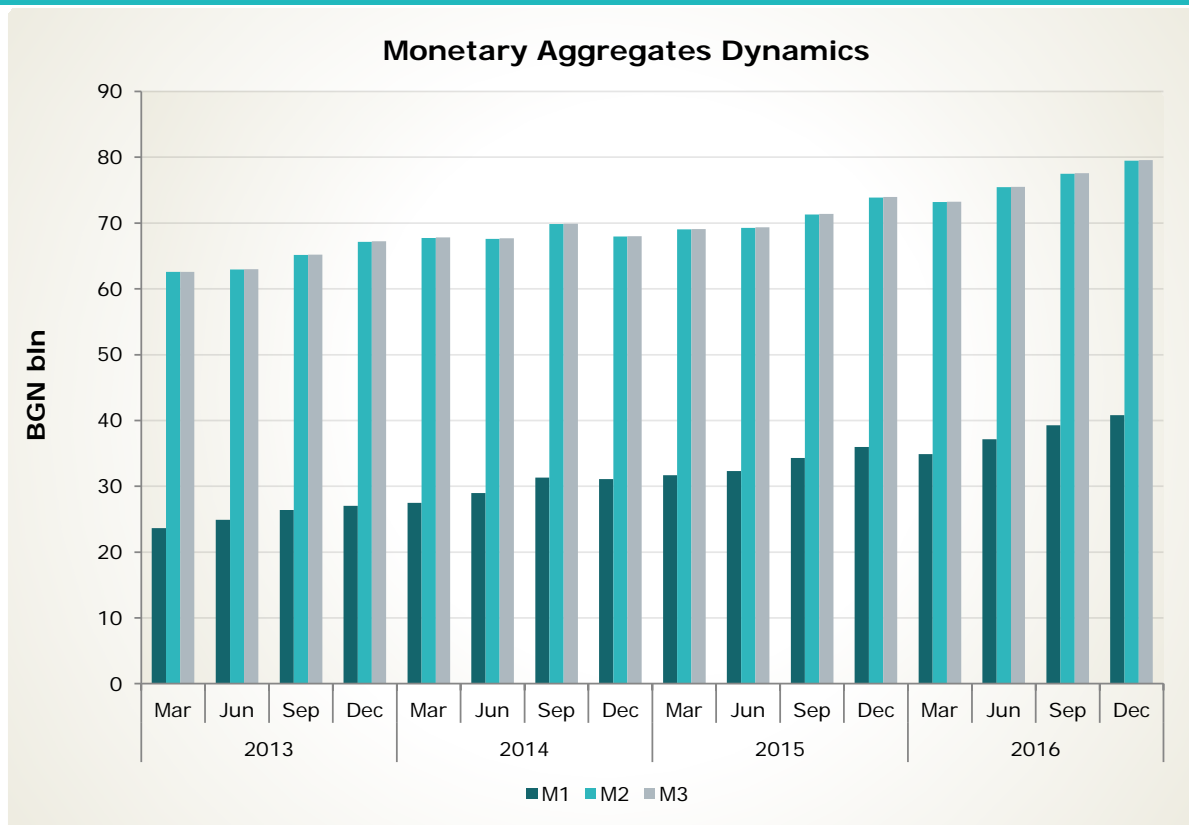
## 5.2 MONETARY AGGREGATES

*Money supply growth was 7.6% y/y at end-December 2016*

Broad money (money aggregate M3) increased by 7.6% y/y and reached BGN 79.581 bln in December 2016, according to data provided by BNB.

The M2 money supply also grew by 7.6% y/y to BGN 79.490 bln.

Money aggregate M1, or narrow money, jumped by 13.5% to BGN 40.821 bln.



Source: BNB

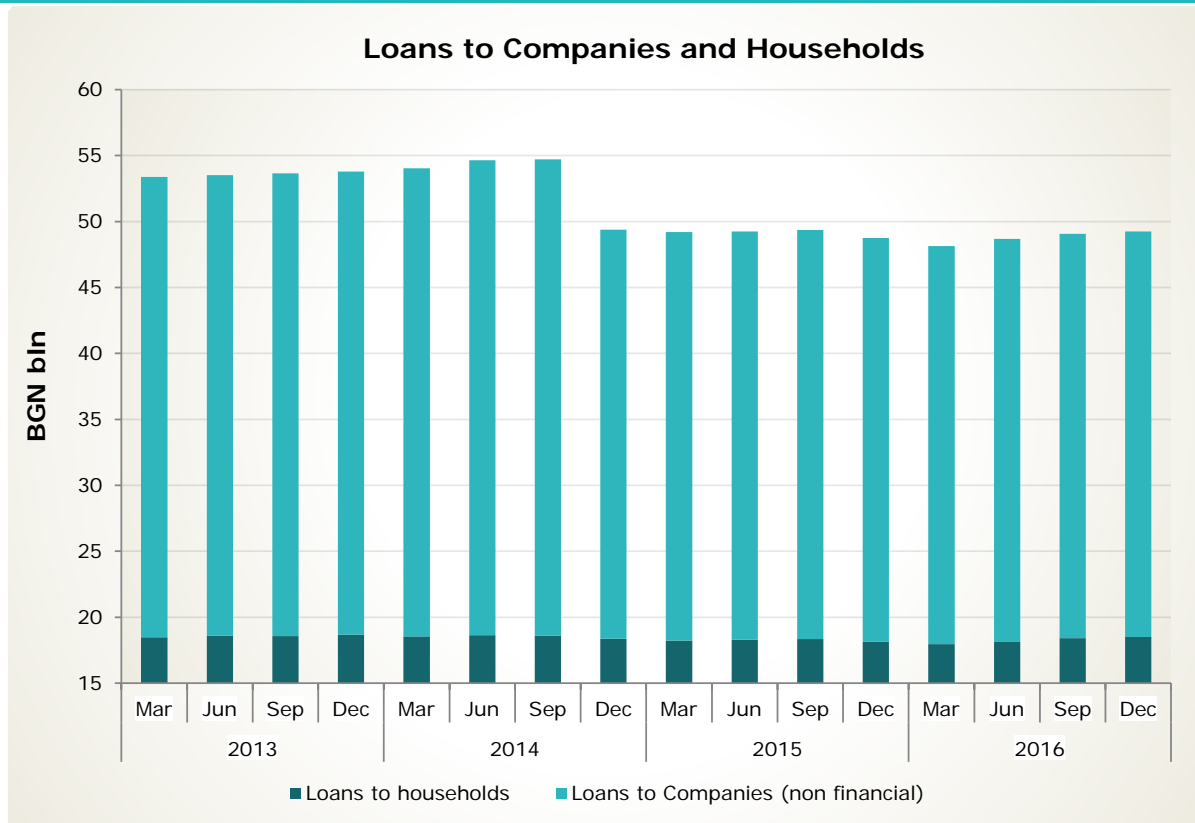
## 5.3 BANKING AND INSURANCE

### *Household loans increased by 2.0% y/y as of December 2016*

Loans to the non-government sector totalled BGN 49.245 bln as of December 2016, up by 1.0% y/y, according to BNB.

Loans to non-financial corporations inched up by 0.4% y/y to BGN 30.732 bln. Household and non-profit institutions serving households (NPISHs) loans went up by 2.0% to BGN 18.513 bln.

House purchasing loans rose by 1.4% to BGN 8.768 bln, while consumer loans came in at BGN 7.314 bln compared to BGN 7.269 bln a year ago.



Source: BNB

At the end of December 2016 the assets of the banking system totalled BGN 92.095 bln, rising by 5.2% in comparison to December 2015.

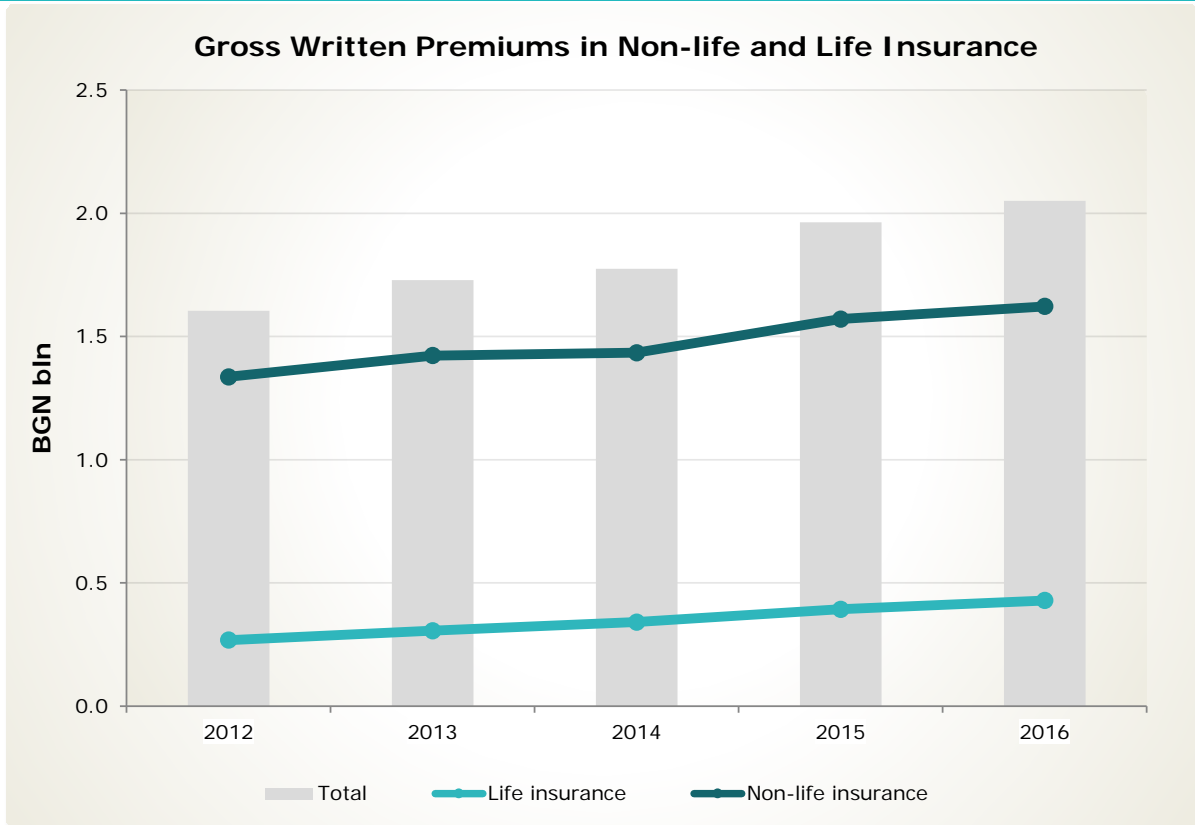
The banking sector's profit jumped by 40.5% y/y to BGN 1.262 bln as of December 2016.

### Premium income up 4.4% y/y in 2016

The total gross written premiums (GWP) of the Bulgarian non-life and life insurance companies stood at BGN 2.051 bln, up by 4.4% y/y in 2016, according to the Financial Supervision Commission (FSC). The GWP of the non-life insurance market stood at BGN 1.622 bln, or by 3.1% more than in the previous year, while the life insurance market grew faster, by 9.5% y/y to BGN 428.4 mln.

In the non-life insurance sector the highest annual rise of gross written premiums was registered in suretyship insurance, where GWP jumped more than four times to BGN 19.298 mln. The highest y/y drop, of 38.7%, was posted by aircraft liability insurance.

Among the life insurance segments, gross written premiums of unit linked life insurance jumped the most – to BGN 58.337 mln from BGN 27.003 mln, while accident insurance marked the sharpest fall, of 21.8%, to BGN 18.312 mln.



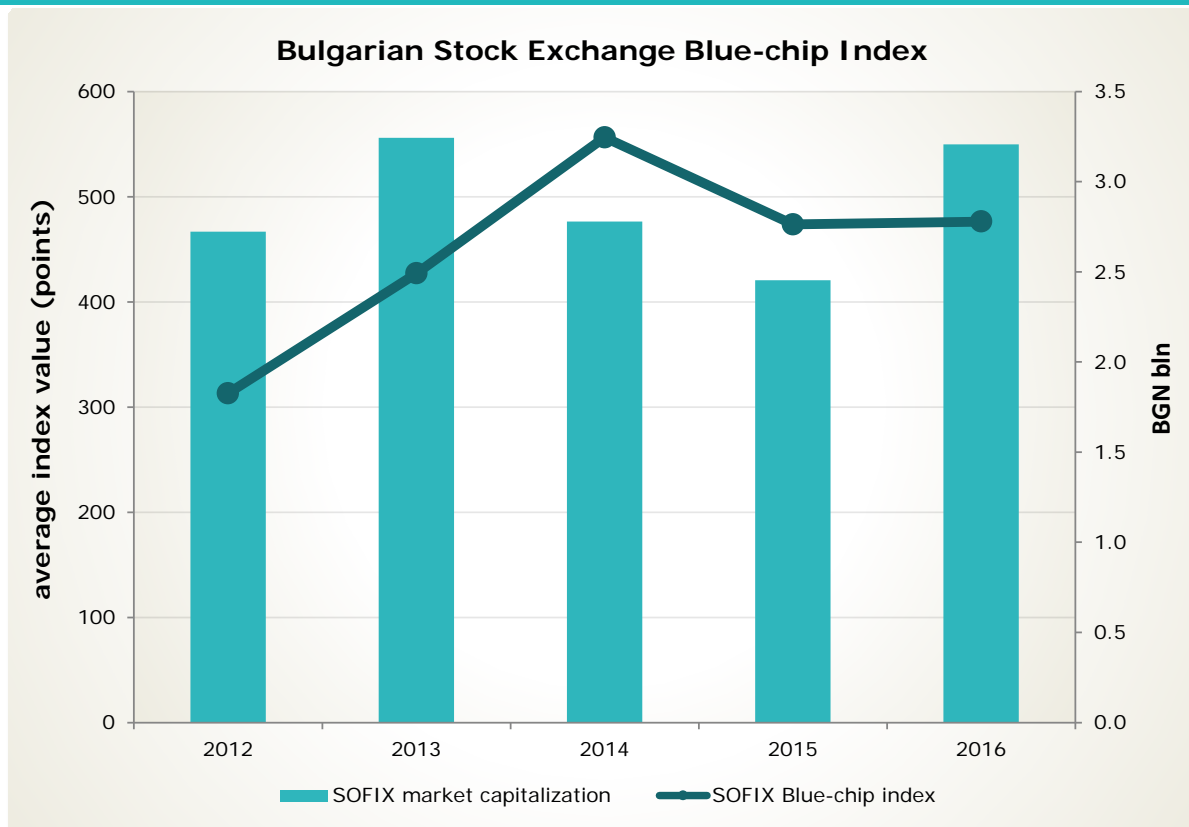
Source: FSC

## 6. CAPITAL MARKETS

### *Blue-chip SOFIX went up by 0.6% y/y in 2016*

The average value of SOFIX, the blue-chip index of the Bulgarian Stock Exchange (BSE) grew by 0.6% to 476.3 points in 2016, according to BSE data. In comparison to 2015, SOFIX gained 2.6 points.

The total turnover on BSE's regulated market reached BGN 358.2 mln in 2016, compared to BGN 336.4 mln in 2015.



Source: BSE

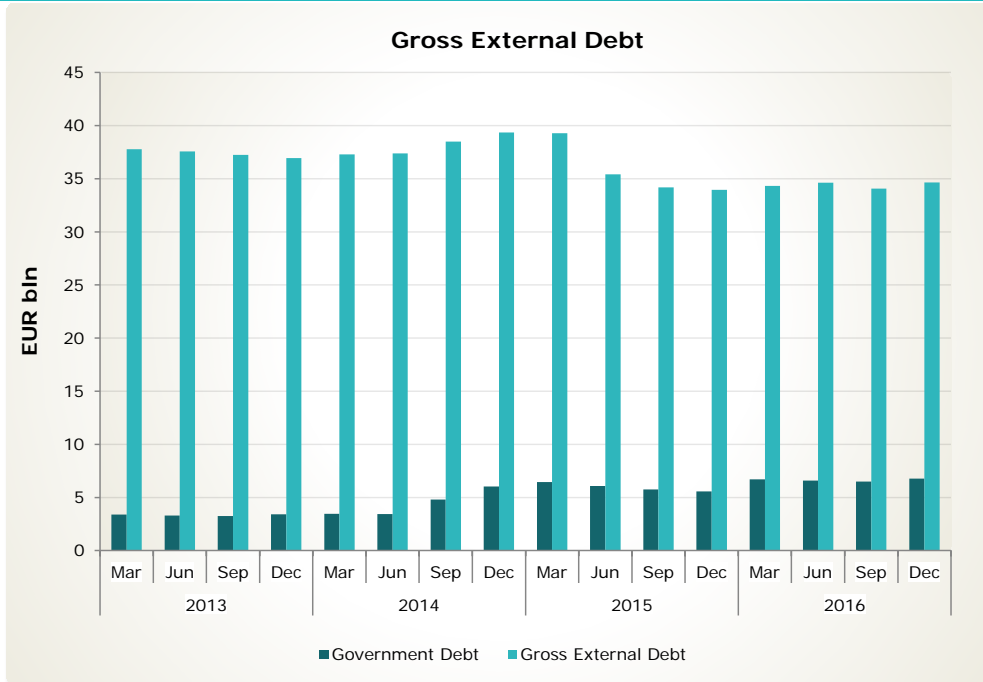
## 7. EXTERNAL SECTOR

### 7.1 FOREIGN DEBT

*The gross external debt narrowed to EUR 34.642 bln at end-December 2016*

The gross external debt totalled EUR 34.642 bln at the end of December 2016, which was 81.1% of the GDP for 2016. It increased by 2.0% or EUR 695.2 mln, compared to December 2015. In comparison to September 2016 the gross external debt grew by EUR 566.5 mln.

As of end-December 2016 long-term liabilities amounted to EUR 26.655 bln, or 76.9% of the total debt, and short-term liabilities totalled EUR 7.987 bln, equal to 23.1% of the total debt.

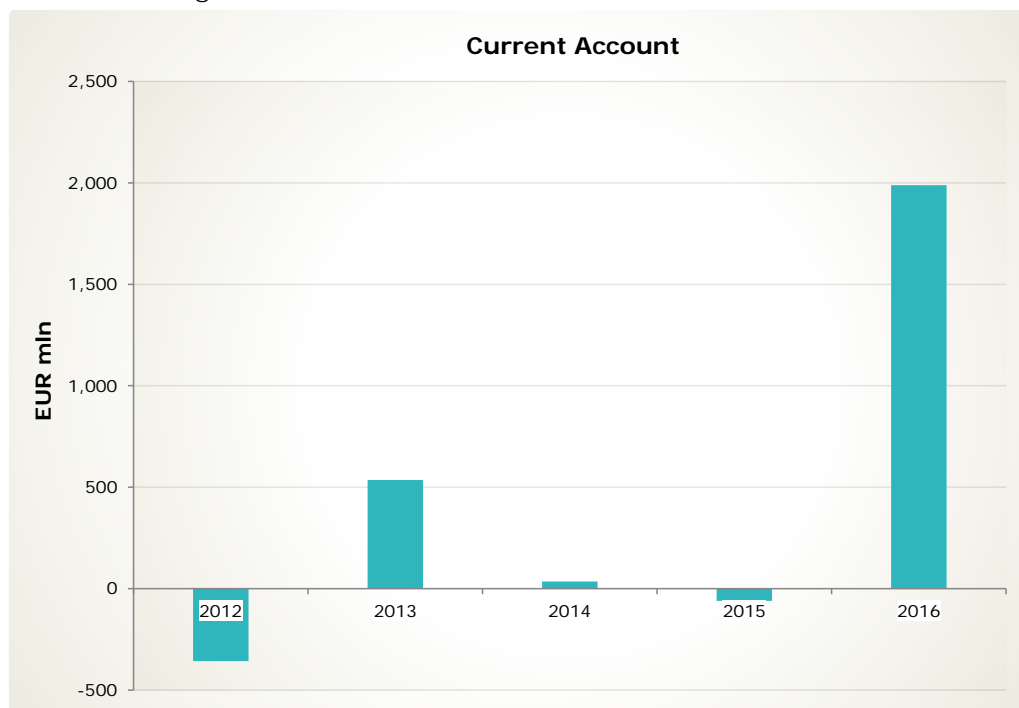


Source: BNB

## 7.2 BALANCE OF PAYMENTS

### Current account turned to surplus in 2016

The current account reported a surplus of EUR 1.988 bln in 2016, up from a gap of EUR 60.6 mln in 2015, according to BNB.



Source: BNB



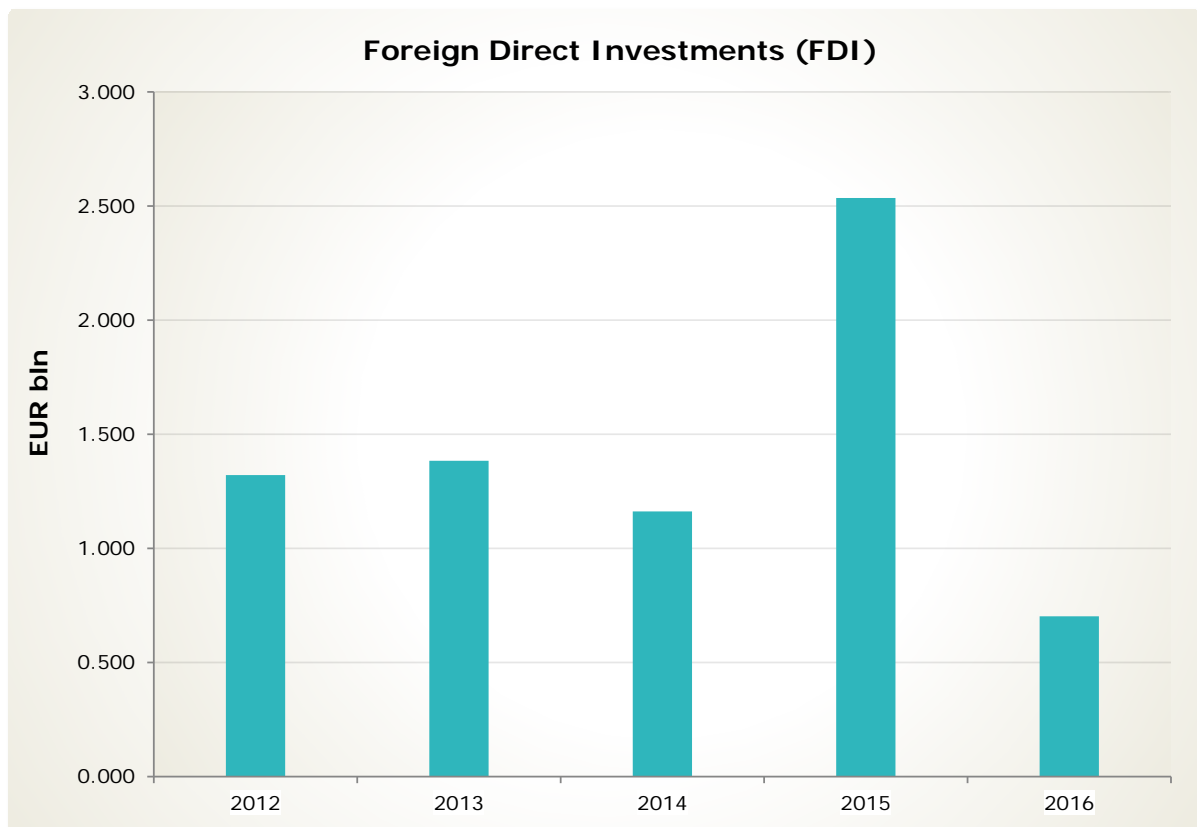
## 7.3 FDI

### *FDI went down by 72.3% y/y in 2016*

FDI inflow in Bulgaria fell by 72.3% y/y to EUR 701.7 mln in 2016, according to BNB data. The 2016 FDI accounted for 1.6% of the GDP for the period, compared to 6.1% in the year-ago period, BNB data showed.

Austria was the biggest foreign investor in Bulgaria in 2016 with FDI of EUR 208.2 mln, followed by France with EUR 143.5 mln, and the Netherlands with EUR 135.0 mln.

The most FDI in 2016, EUR 211.5 mln, were non-classified, the second position was occupied by trade and repair of motor vehicles with EUR 154.4 mln, while construction ranked third with EUR 115.9 mln.



Source: BNB

## 7.4 FOREIGN TRADE

### *Foreign trade deficit narrowed by 25.5% y/y in 2016*

The trade deficit stood at EUR 2.514 mln in 2016, compared to EUR 3.374 mln in 2015, according to BNB data.

Bulgaria's most exported goods in 2016 were other raw materials, which accounted for 10.3% of the total, followed by raw materials for food production with an 8.6% share, and metals and other investment goods with a 7.5% share.

In terms of imports, the main goods were fuels, which made up 10.2% of the total, followed by crude petroleum and natural gas, slicing an 8.7% share, and machinery and equipment, which had an 8.6% share.



Source: BNB

## 7.5 TOURSIM

### Number of foreign tourist overnights went up by 21.0% y/y in 2016

Tourist overnights of foreigners increased by an annual 21.0% to 16,150,666 million in 2016, according to NSI data.

The number of foreign tourists also jumped - by 19.9% y/y to 5,117,472 million.



Source: NSI

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