SeeNews

Business Intelligence
for Southeast Europe

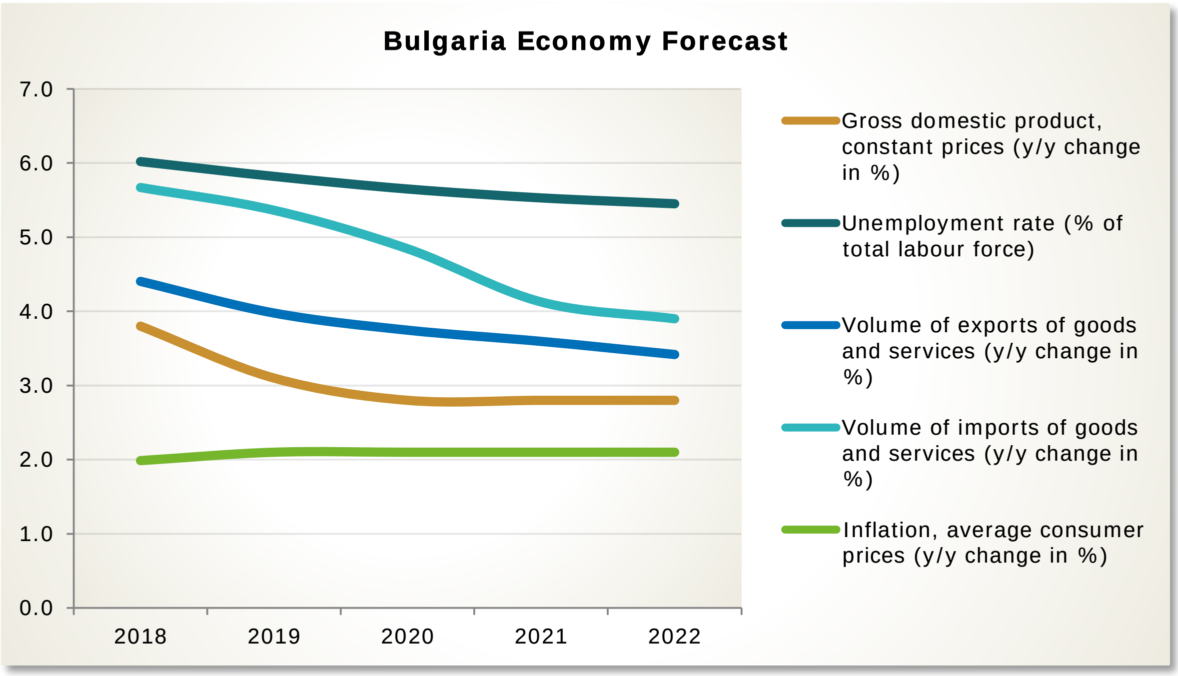
BULGARIA ECONOMY REPORT

2017

CONTENTS

1. MACROECONOMIC SNAPSHOT AND FORECAST

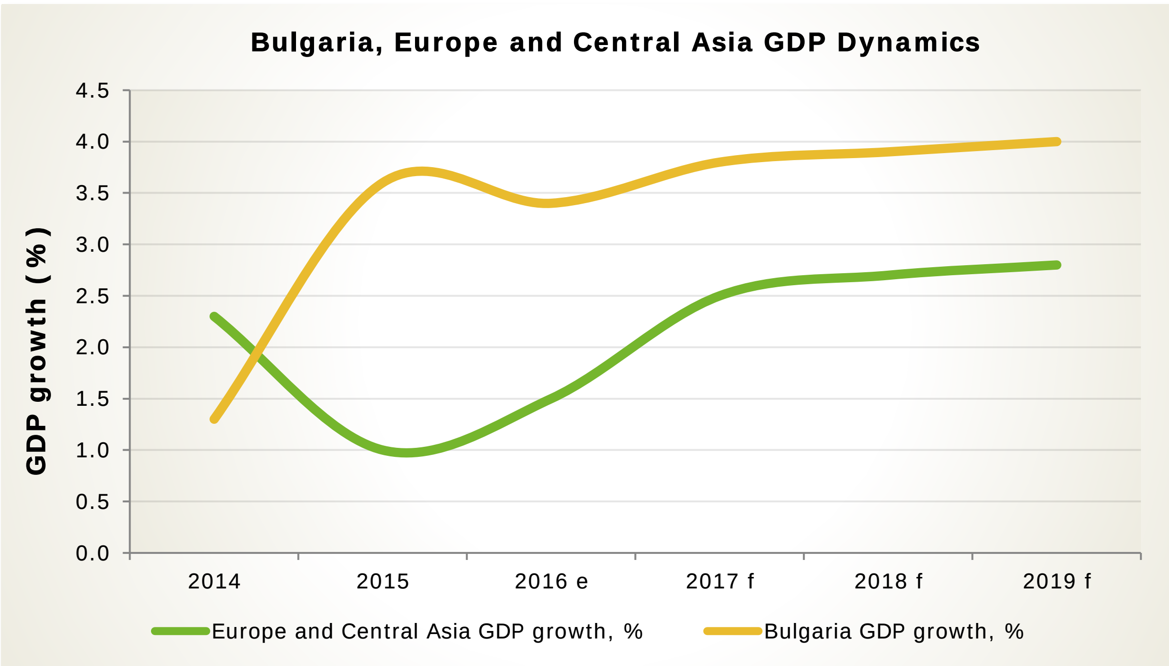
BULGARIA – MACROCECONOMIC SNAPSHOT AS OF 2017	
GDP Growth	*3.6 % y/y*
Business confidence indicator	*-1.6 pp m/m*
Industrial output	*2.3% y/y*
Industrial sales index annual change	*2.2% y/y*
Wholesale	*2.0% y/y*
Retail sales	*4.8% y/y*
Average annual inflation	*2.1%*
Unemployment rate	*6.2%*
Number of building permits	*19.1% y/y*
Money supply growth	*7.7% y/y*
Household loans	*6.5% y/y*
SOFIX blue-chip index	*39.4% y/y*
Gross external debt	*EUR 33.3 bln*
Current account deficit	*EUR 2.269 bln*
FDI inflow	*EUR 950 mln*
Foreign trade deficit	*EUR 3.531 bln*
Number of foreign tourist overnights	*5.9% y/y*



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

The International Monetary Fund, in its latest assessment report, estimates the performance of the Bulgarian economy as ‘good’. Growth is estimated to reach 3.8% in 2018, driven by strong exports, easier financial conditions, and growing confidence. IMF notes that the current account remained in surplus in 2017, despite the rapid wage growth and the economy is showing signs of a closing output gap. Headline inflation turned positive in 2017 and inflationary pressure is rising. The unemployment rate has declined to 5.8%, the lowest level since the global financial crisis. Fiscal outcomes have been stronger than budgeted in recent years – a surplus of 0.8 percent of GDP is estimated for 2017 – reflecting mainly revenue over performance and under-execution of capital spending.

The main challenge in front of Bulgaria according to IMF is the country to translate the economic recovery into sustained and inclusive growth and convergence with other EU countries. Bulgaria’s per capita income is only half of the EU average and income inequality is higher than EU average. Growth is projected to moderate to 2.8% over the medium, reflecting capacity constraints and unfavorable demographics. Public debt is low, but contingent liabilities and long-term fiscal pressures from demographic challenges could pose fiscal risks over the long run, the Fund concludes.



Source: World Bank

Bulgaria – GDP, Inflation, Current Account Balance and FDI Dynamics (y/y change in %)

	2014	2015	2016 e	2017 f	2018 f	2019 f
Real GDP growth, at constant market prices, y/y change in %	1.3	3.6	3.4	3.8	3.9	4.0
Private Consumption	2.7	4.5	2.1	4.8	4.5	4.4
Government Consumption	0.1	1.4	0.6	2.1	1.5	1.9
Gross Fixed Capital Investment	3.4	2.7	-4.0	4.1	4.4	6.6
Exports, Goods and Services	3.1	5.7	5.7	5.5	5.2	5.0
Imports, Goods and Services	5.2	5.4	2.8	6.2	5.4	5.6
Real GDP growth, at constant factor prices (by sectors)						
Agriculture	4.8	-6.8	4.3	2.8	2.2	1.9

Industry	0.3	4.2	2.0	3.4	3.9	3.8
Services	1.7	3.3	3.0	4.0	4.0	4.3
Inflation (Consumer Price Index)	-1.4	-0.1	-0.8	1.5	1.4	1.4
Current Account Balance (% of GDP)	0.1	-0.1	4.2	2.8	2.6	2.0
Net Foreign Direct Investment (% of GDP)	2.7	5.6	1.5	2.3	2.3	2.5

Source: World Bank, Europe and Central Asia Economic Update, October 2017

According to the World Bank estimates, GDP growth will accelerate to 3.9% in 2018 from an estimated 3.8% in 2017, as the positive contribution of external trade will continue. Key growth driver would be household consumption as labor market and credit conditions improve further, while foreign demand will likely be muted by geopolitical uncertainty related to Brexit.

In 2019 GDP growth will pick up to 4.0% while inflation (CPI) is likely to remain muted at 1.4%. Economic growth acceleration is expected to be driven by exports growth, outpacing imports growth as Bulgaria improves its competitiveness within the EU. Import growth is likely to be affected by higher oil prices and strengthening domestic demand for investment goods.

The bank expects FDIs to revive, rising from 1.5% of GDP in 2016 to 2.5% of GDP in 2019. However, the institution notes that Investor sentiment is likely to be affected by the ability of the new government to reinstate political stability and implement growth enhancing reforms.

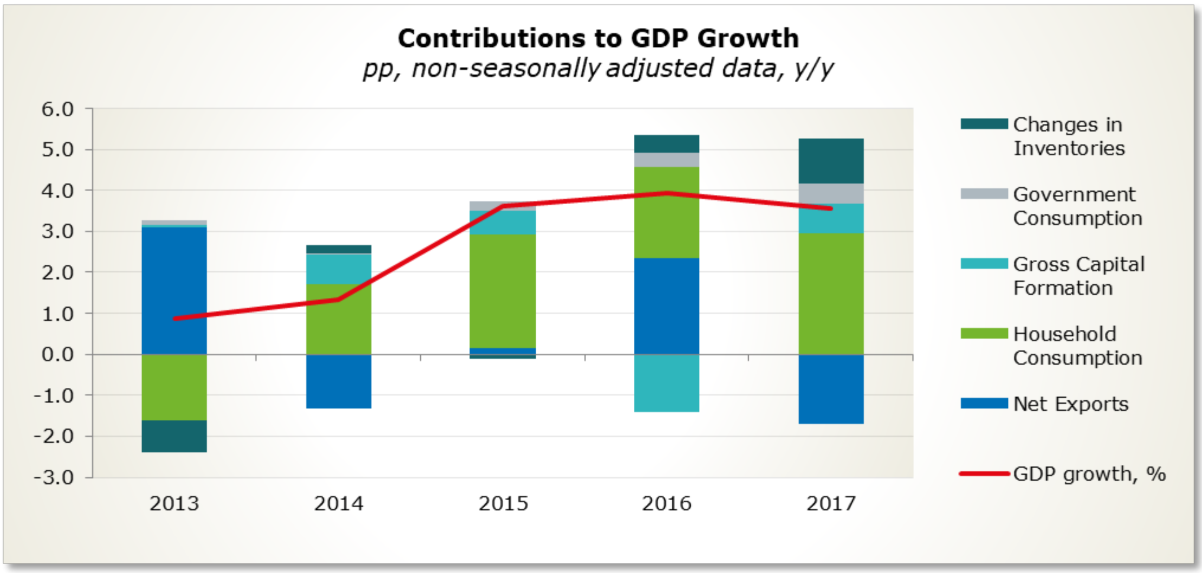
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP growth decelerated to 3.6% y/y in 2017, down from 3.9% y/y in 2016

The Bulgarian real economic growth slowed down in 2017 to 3.6% from a 3.9% y/y increase in 2016, according to the seasonally-adjusted preliminary data of the National Statistical Institute (NSI). The main factor behind the slowdown was the worsening foreign trade gap which contributed negatively by 1.7 pp to the GDP growth in 2017, compared to a positive contribution of 2.3 pp in 2016. Exports growth of goods and services in real terms faltered to 4.0% y/y in 2017, down from 8.1% y/y increase in 2016. In the same time imports of goods and services in real terms advanced by 7.2% y/y last year, up from 4.5% growth in 2016.

The economic growth during the year was supported mainly by the household consumption, which inched up by 4.8% y/y in real terms. The household consumption contributed by 2.9 pp the overall GDP expansion in 2017. After falling by 6.6% y/y in real wise in 2016, the gross fixed capital formation incased by 3.8% y/y in 2017, thus contributing by 0.7 pp to the GDP growth during the last year.



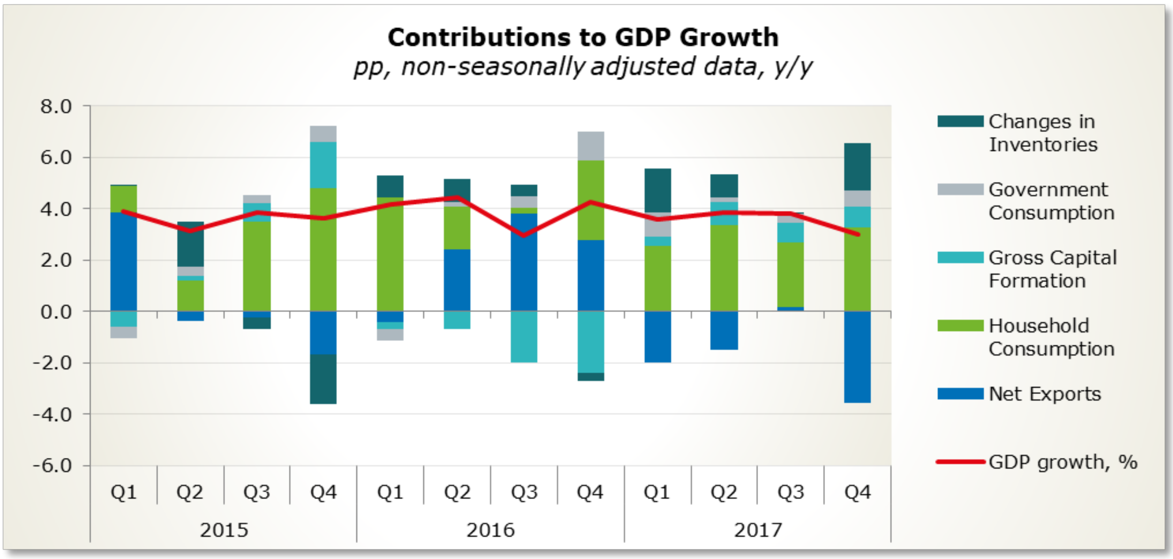
Source: SeeNews calculations; NSI

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 country's seasonally-adjusted GDP increased by 3.5% y/y over the last three months of 2017 and totalled BGN 21.992 bln. This is down compared to a growth of 3.9% y/y in Q3 2017.

Major growth contributor during the quarter was the household consumption which added 3.3 pp to the increase of GDP y/y. Consumption was fueled by the tightening labor market conditions, the increasing wages which is lifting consumer confidence. Total investment (gross capital formation and changes in inventories) contributed to 2.7 pp of GDP expansion, up from 0.8 pp in Q3 2017. In the same time, the household consumption and investments fueled imports growth and the overall net exports slashed 3.5 pp from the economic expansion in the last quarter of 2017. In Q4 2017, the Bulgarian imports of goods and services increased by 14.3% y/y to BGN 17.4 bln, outstripping the rise in the aggregate exports of goods and services, which added 6.1% y/y to BGN 16.1 bln. According to the data from the Bulgarian National Bank (BNB), imports of raw materials and investment goods were the main contributing group to the aggregate imports growth. Raw materials imports advanced by EUR 387 mln (15.3% y/y), while imports of investment goods surged by 14.6% y/y (EUR 284.7 mln). Consumer goods imports increased at a slower pace, of 8.9% y/y (EUR 147.7 mln), while imports of energy resources added EUR 217.7 mln (20% y/y), on increased energy commodity prices on the international markets.

As a conclusion, the slowdown of the economic growth in Q4 2017 was driven mainly by a surge in imports of investment goods and raw materials, financed with increased investments in fixed assets and working capital. However, this is likely to have a positive impact in the longer-term since it implies expanded industrial activity and expansion of the production potential of the Bulgarian economy.

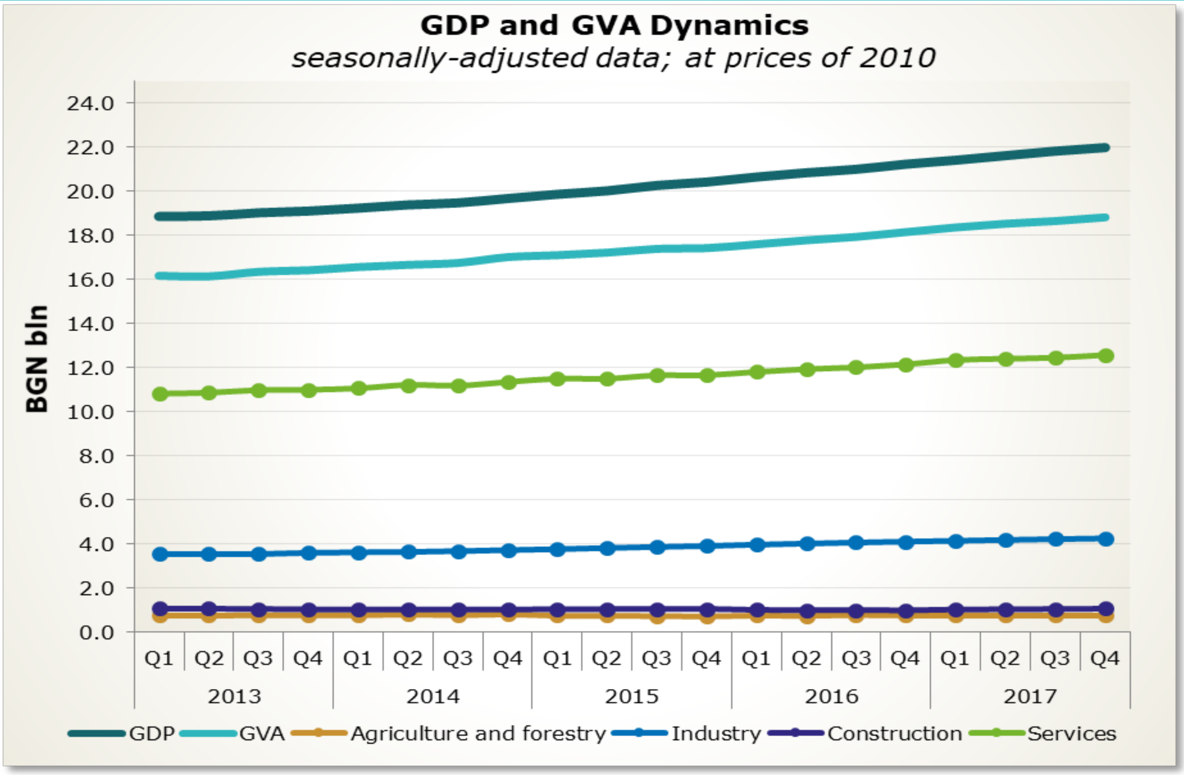


Source: SeeNews calculations; NSI

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 3.7% y/y in 2017 and totalled BGN 74.251 bln. The industrial sector grew in value by 3.0% y/y and took 23% share in the total GVA in 2017. The services sector recorded a 4.4% annual increase, slicing a 68% share in the GVA. Agricultural sector's GVA went down by 0.1% y/y and took a 4.0% share in the total GVA. The construction industry took a 6.0% share, and went up by 5.9% y/y in 2017.

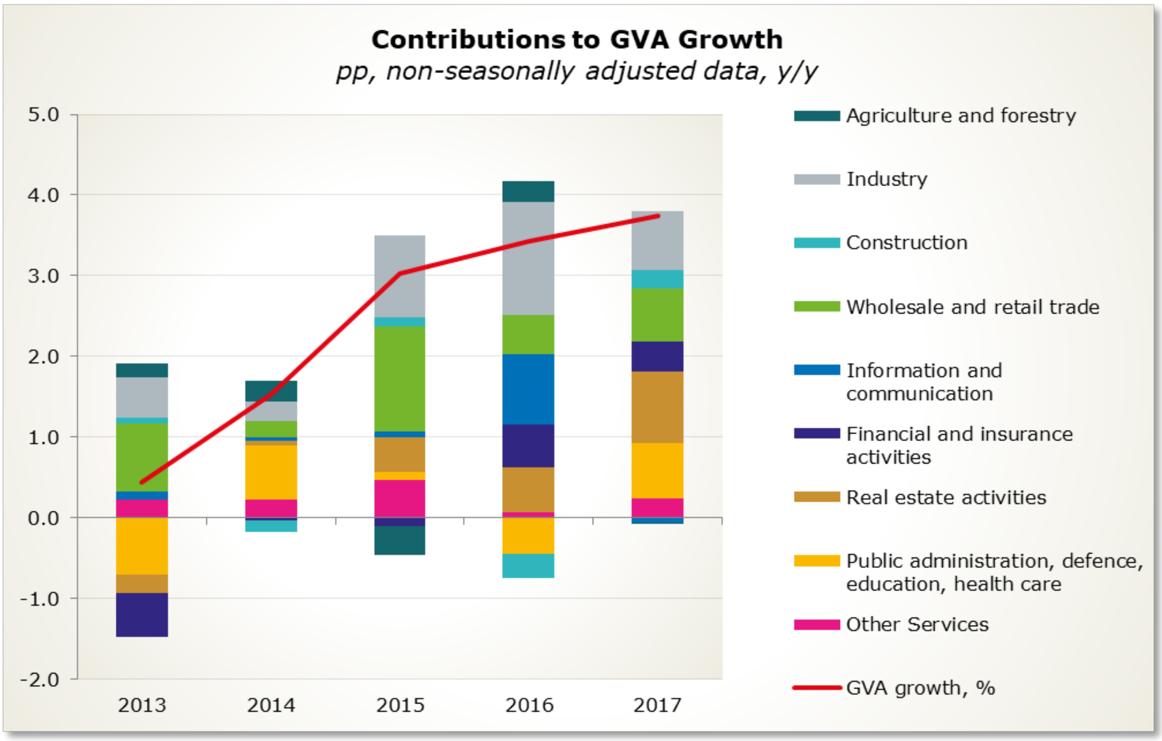
The seasonally-adjusted gross value added (GVA) at constant prices generated by the national economy increased by 3.7% y/y in Q4 2017 and totalled BGN 18.827 bln. The industrial sector grew in value by 3.5% y/y and took 23% share in the total GVA. The services sector recorded a 3.5% annual increase, slicing a 67% share in the GVA. Agricultural sector's GVA went down by 0.3% y/y and took a 4.0% share in the total GVA. The construction industry took a 5.7% share, and went up by 7% y/y in Q4 2017.



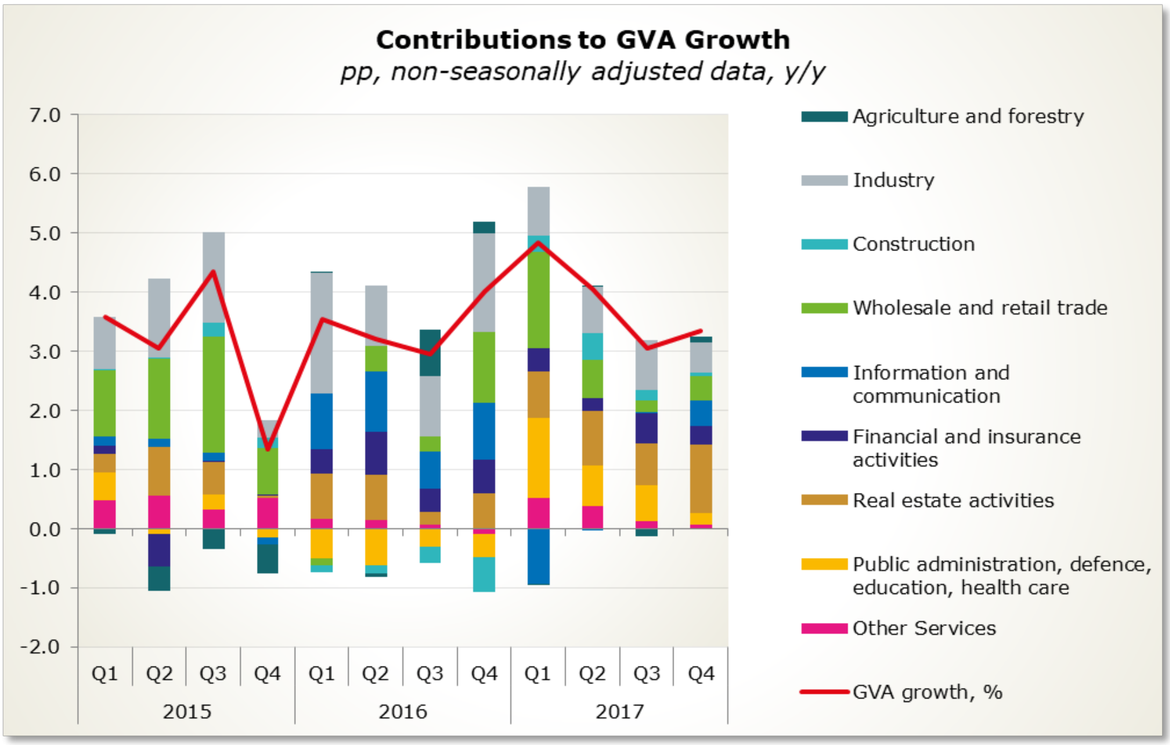
Source: NSI

In 2017, in terms of industry breakdown, the sector of real estate activities was the biggest contributor to GDP growth with 0.9 pp, followed by the industrial sector with added 0.7 pp to the overall GVA growth. The sector of public administration, defense, education, health care contributed by 0.7 pp to the overall GVA growth while the retail and wholesale sector added 0.7 pp in the whole 2017.

In Q4 2017, the sector of real estate activities was the biggest contributor to GDP growth in Q4 2017 with 1.2 pp, followed by the industrial sector with added 0.5 pp to the overall GVA growth. The retail and wholesale trade contributed by 0.4 pp to the growth, and the information and communication sector added also 0.4 pp.



Source: SeeNews Calculations; NSI
Note: Non-additive data due to direct chain linking of GDP and its components.

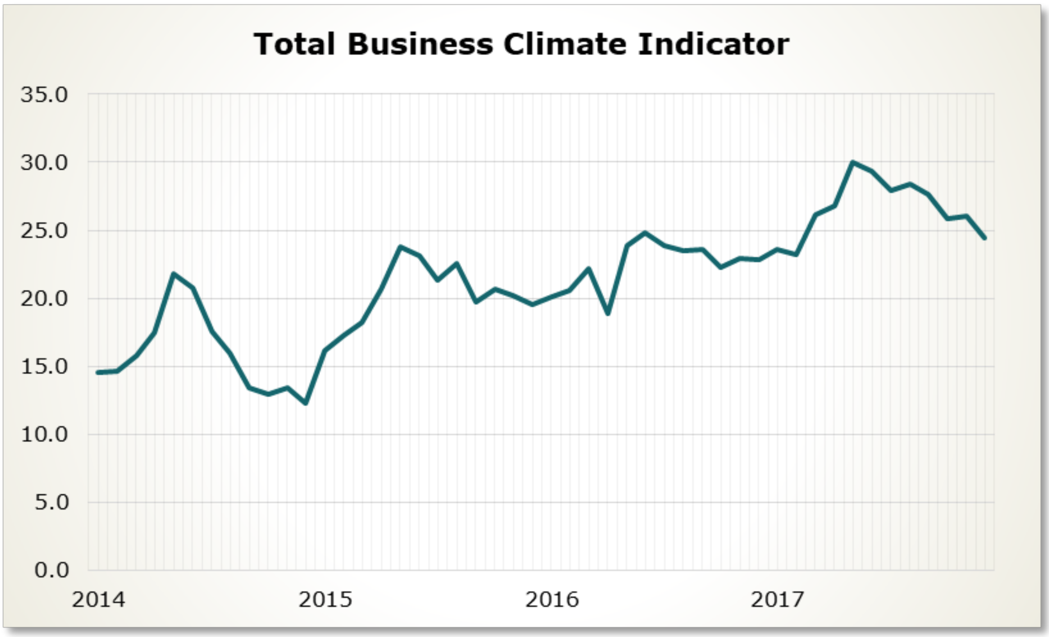


Source: SeeNews Calculations; NSI
Note: Non-additive data due to direct chain linking of GDP and its components.

2.2. BUSINESS CLIMATE

Business Confidence Indicator went down by 3.2 percentage points q/q in December 2017; In Q4 2017, businesses considered the economic environment as less uncertain but labor shortage problems persist

The business confidence indicator continued its downward trend that has been shaped since Q2 2017. In December 2017, the indicator came in at 24.4, down by 3.2 pp q/q and down by 5.6 pp compared to May 2017. The negative trend was due to the worsened business climate mainly in construction, industrial sector and services, and to a lesser extend in the retail trade.



Source: NSI

The economic uncertainty as a factor limiting the activity of the enterprises was pointed by fewer companies across all sectors in Q4 2017 compared to Q3 2017. In the same time, labour shortage problems increased for all the economic segments, as the labour market continue tightening not only for the highly skilled workforce, but also for the lower qualified labour.

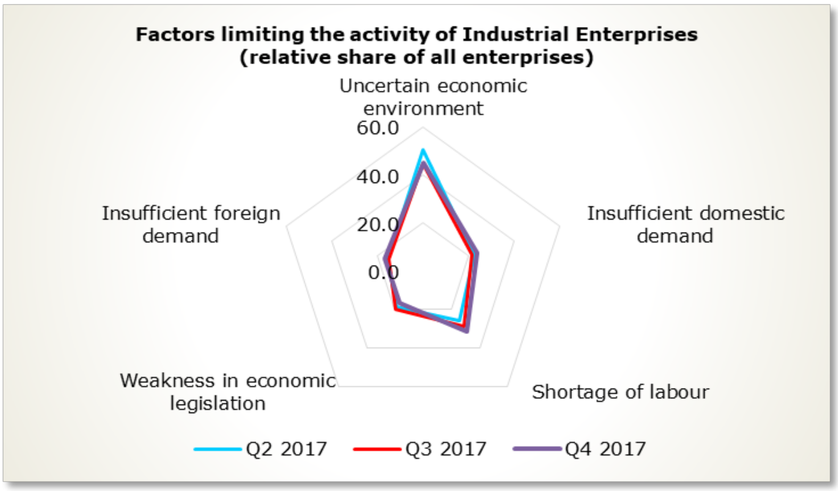
The business climate indicator in the industrial sector decreased by 1.9 pp in December 2017 compared to November 2017, which is due to the more reserved industrial entrepreneurs' expectations about the business situation of the enterprises over H1 2018, according to NSI survey. Decreased production assurance with orders from abroad was accompanied by reduced expectations about the activity of the enterprises over Q1 2018. The prevailing managers' expectations for the selling prices are to remain unchanged over the next three months. The uncertain economic environment remained the largest factor limiting industrial company's activity as 45.2% of the companies in the sector point is as the main constraint to their business in December 2017. However, this factor eased compared to December 2016 when 46.4% of the companies in the sector point it as the main constraint to their business. At the same time, labor market shortage is getting worse – 31.4% of the manufacturing companies consider the labor market tightening as the second largest business constraining factor in December 2017, up from 24.5% a year ago and 28.7% in September 2017.

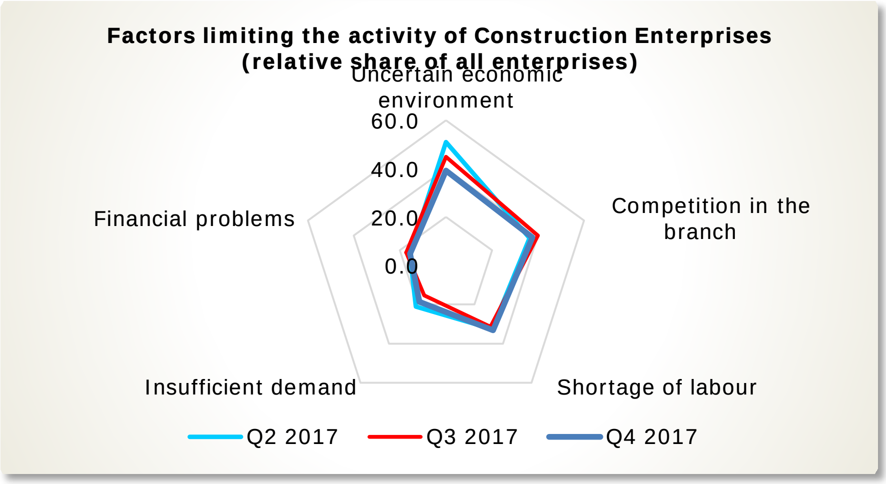
In December 2017, the composite indicator ‘business climate in construction’ dropped by 3.5 pp m/m as result of the more unfavourable construction entrepreneurs’ assessments and expectations about the business situation of the enterprises. The new orders inflow over December decrease and their forecasts about the activity over Q1 2018 are pessimistic. As for the selling prices in construction, the majority of the managers expect preservation of their level in Q1 2018. The construction companies on average assess the economic environment as less uncertain – in December 2017, 39.2% of the companies in the sector point the uncertain economic environment as a limiting factor, down from 44.8% in September 2017 and 64.6% in December 2016. The second largest constraining factor in December 2017 was the competition in the branch (37.5%), followed by labour shortage which increased from 27.6% in December 2016 to 33.1% in December 2017.

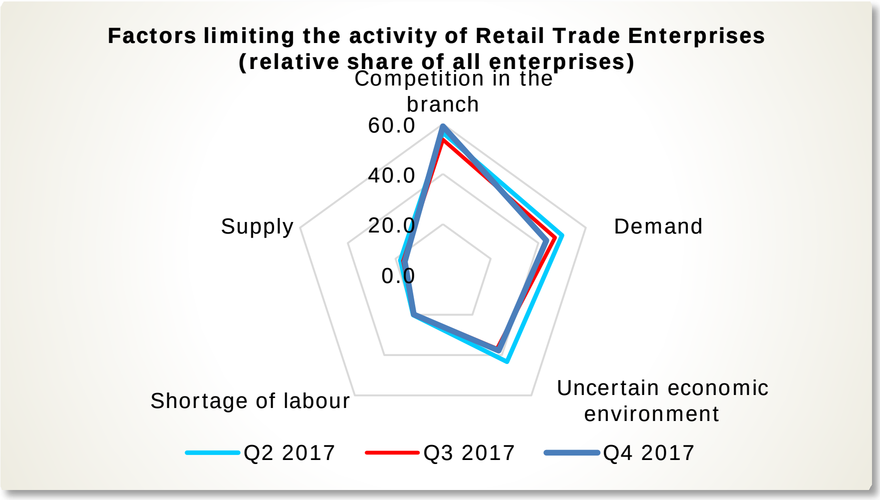
In December, the business climate in retail trade preserves approximately its November level. Retailers’ assessments about the present business situation of the enterprises and their forecasts about the development of their business over H1 2018 remain favourable. However, their expectations about the volume of sales and order placed with suppliers over the Q1 2018 worsened. The main problem for the activity in the sector is connected with competition in the branch with 59.1% of the enterprises in the sector pointing it as the main factor, limiting their business, up from 53.7% in September 2017 and 55.6% in December 2016. In the second and third place are insufficient demand and uncertain economic environment. Retailers’ expectations about the selling prices are for certain increase over Q1 2018.

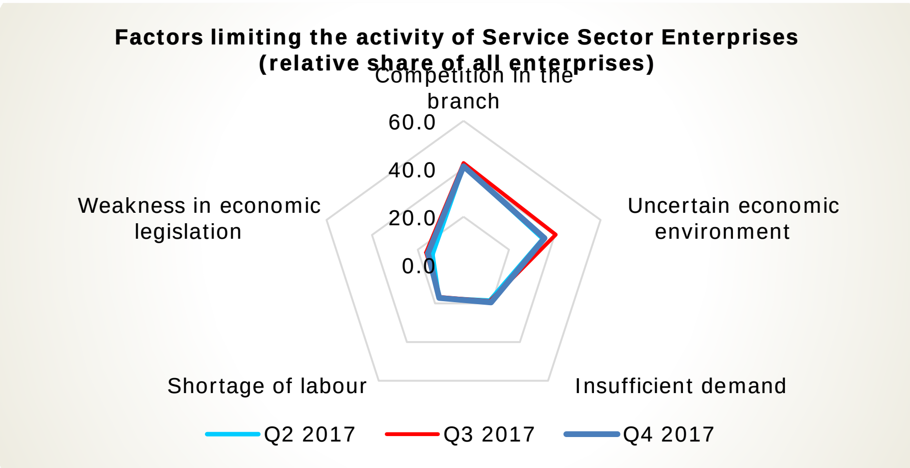
The composite indicator ‘business climate in service sector’ decreases by 0.9 pp m/m in December 2017, mainly due to the shifting of the managers’ expectation about the business situation of the enterprises over the next six months from ‘better’ towards preserving ‘the same’. However, expected demand for services is more reserved. The most serious difficulties for the business development continue to be connected whit competition in the branch and uncertain economic environment. The majority of the managers foresee the selling prices in the sector to remain unchanged over Q1 2018.

Top 5 factors limiting the activity of Bulgarian enterprises by sectors (relative share of all enterprises)




Factors limiting the activity of Construction Enterprises
(relative share of all enterprises)
Uncertain economic environment
60.0
40.0
20.0
0.0
Competition in the branch
Shortage of labour
Insufficient demand
Financial problems
Q2 2017
Q3 2017
Q4 2017


Factors limiting the activity of Retail Trade Enterprises
(relative share of all enterprises)
Competition in the branch
60.0
40.0
20.0
0.0
Demand
Uncertain economic environment
Shortage of labour
Supply
Q2 2017
Q3 2017
Q4 2017


Factors limiting the activity of Service Sector Enterprises
(relative share of all enterprises)
Competition in the branch
60.0
40.0
20.0
0.0
Uncertain economic environment
Insufficient demand
Shortage of labour
Weakness in economic legislation
Q2 2017
Q3 2017
Q4 2017

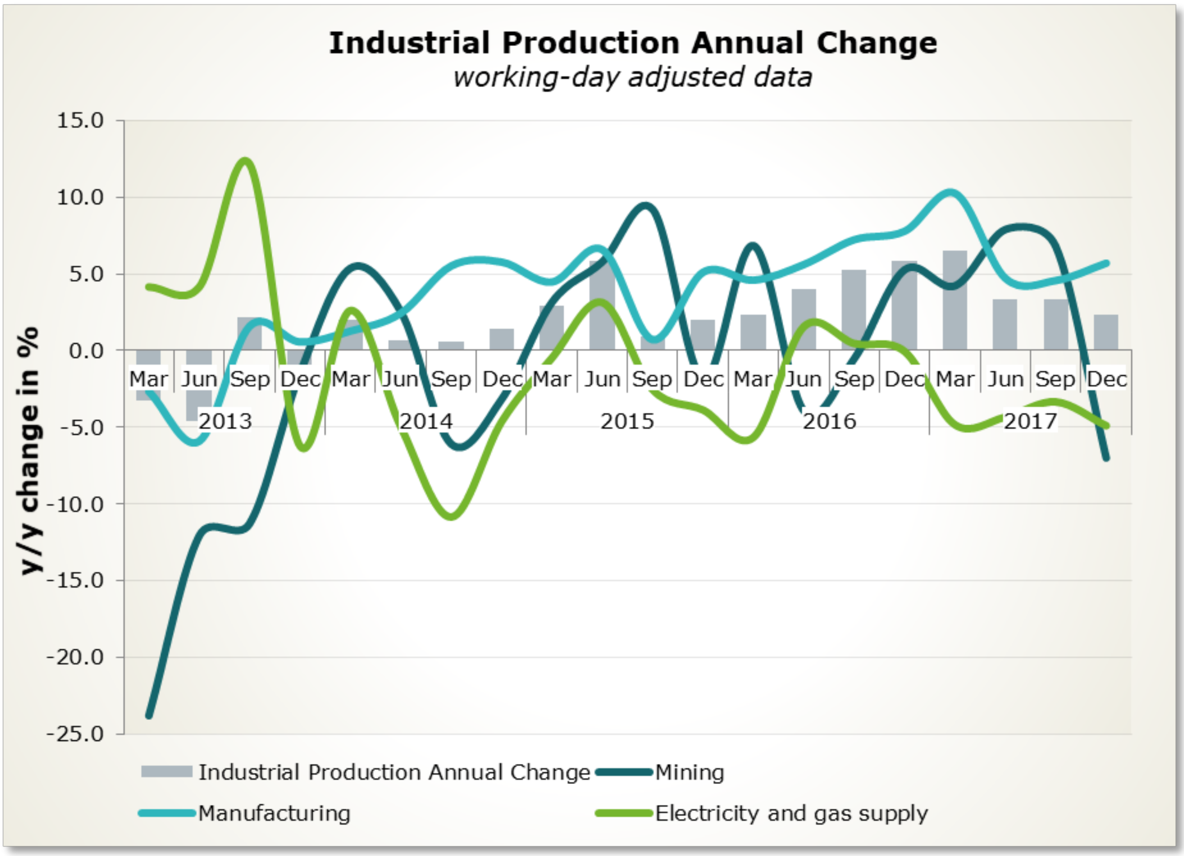
Source: NSI

2.3. INDUSTRIAL OUTPUT

Industrial output growth slowed down in December 2017 to 2.3%

The slowdown of industrial production continued in the last quarter of 2017. According to NSI, the industrial output went up by 2.3% y/y in December 2017, down from a growth of 3.3% y/y in September, growth of 3.4% y/y in June and 6.5% y/y increase in March 2017. The faltering production growth was due to higher base effects in 2016, when industrial producers ramped up output capacities to meet the surging foreign demand.

The output of the mining industry declined by 7.0% y/y, due to seasonal factors, while electricity and gas supply went down by 4.9% y/y. The production of the manufacturing sector increased by 5.7% y/y in December 2017.

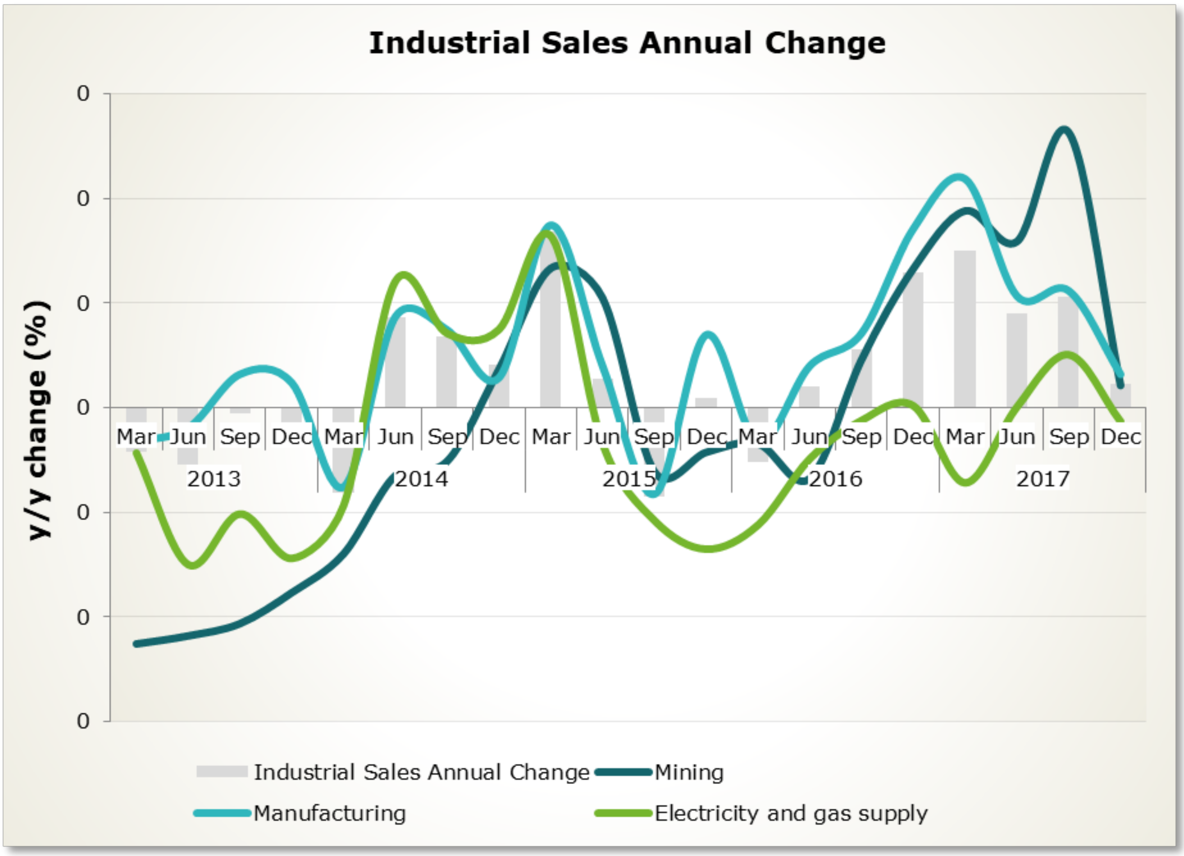


Source: NSI

2.4. INDUSTRIAL SALES

Industrial sales index increased by 2.2% y/y in December 2017

The total industrial sales index increased by 2.2% y/y in December 2017, according to NSI. This was a significant slowdown compared to a growth of 10.55% y/y in September, growth of 9.0% y/y in June and 15% y/y increase in March 2017. The Industrial sales index on the domestic market advanced by 0.9% y/y in December 2017 while the sales index on foreign markets increased by 4.0% y/y.



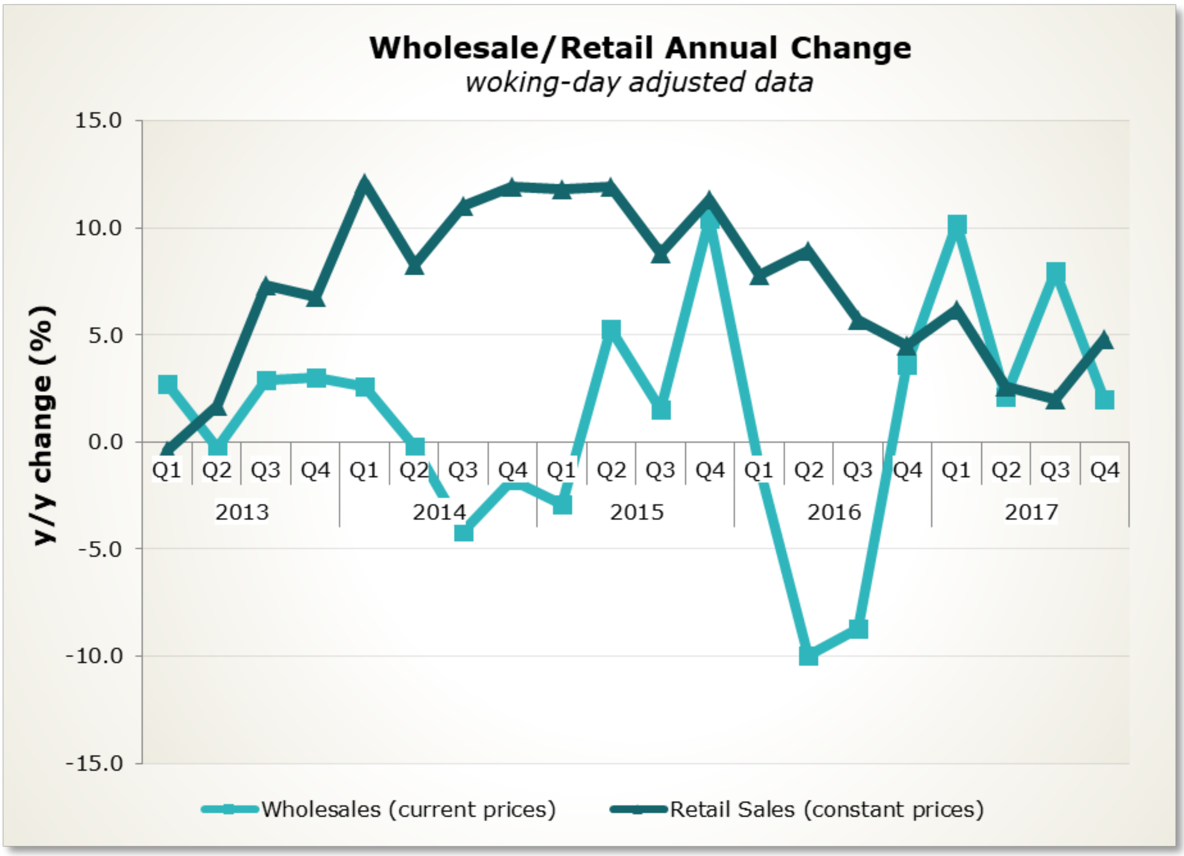
Source: NSI

2.5. WHOLESALE/RETAIL

Retail sales accelerated the pace of increase in December by 4.8% y/y strong consumption and improved consumer confidence

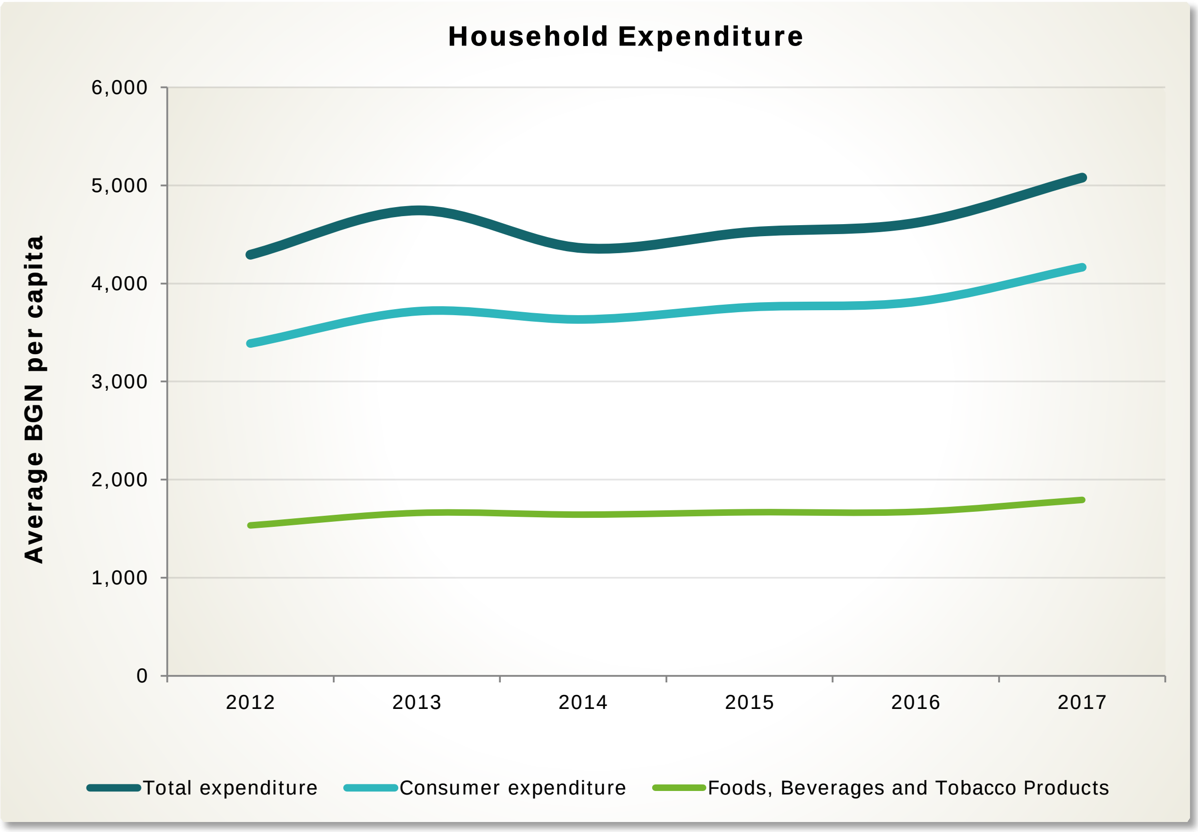
In December the retail sales index fastened its rate of expansion to 4.8% y/y from 2.0% in September 2017, according to NSI data. The main reason for the increasing retail sales was the Christmas and New Eve celebrations which traditionally are connected with lifted consumption of consumer goods.

All but one of the retail sectors registered an annual increase in sales with food and non-food retail stores segment posting the highest annual growth of 13% y/y. Retail sale of automotive fuel in specialised stores was the only segment to report an annual decline, of 12%.



Source: NSI

Household expenditure continued their strong performance in 2017, rising by 10% y/y to BGN 5,079 per capita. The improving consumer confidence which is connected to the unemployment fall and rise in labour wages is the main factor behind increased spending in the last quarter of 2017. In addition, banks eased consumer lending conditions and interest rates further went down. Spending on food, beverages and tobacco products went up by 7.2% y/y in 2017 to BGN 1,793 per capita and sliced 35% of the total consumer expenditures. Spending on non-food products increased by 11% y/y to BGN 3,286 per capita.



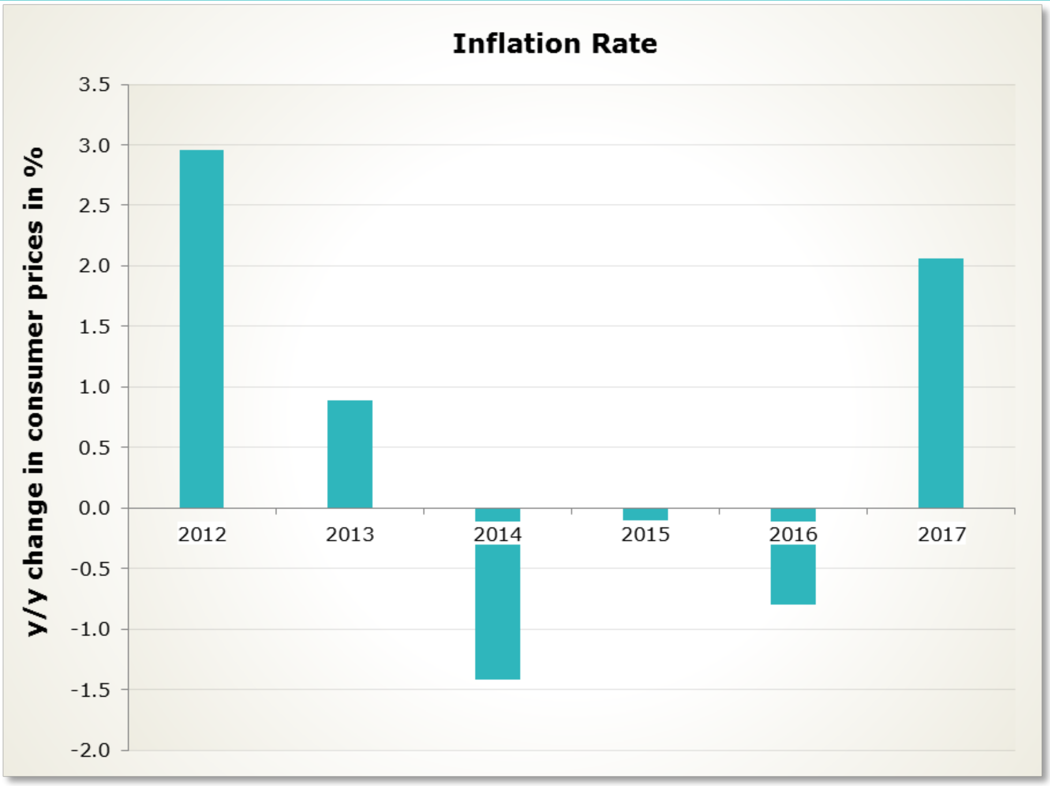
Source: NSI

2.6. INFLATION

Inflation returned in 2017

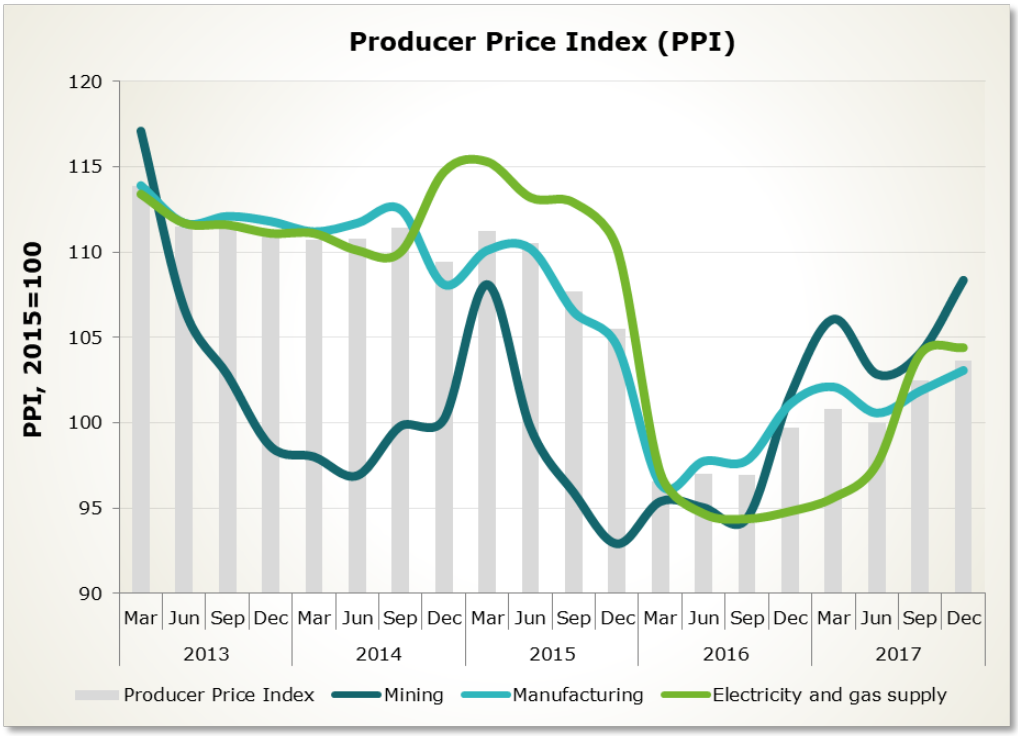
In 2017, the inflation in Bulgaria made a comeback with price rises of 2.1% y/y on average. This is compared to deflation of 0.8% in 2016. In January-December 2017, the inflation accelerated from the twelve months over September 2017 when prices advanced by 1.3% on average. Inflation pickup was mainly due to the continuing rises of international oil, food and commodity prices in euro, which were passed onto final consumer prices of energy products and food. Tobacco products and natural gas, heating and electricity goods and services had positive contributions to inflation due mainly to raised tobacco excise duties and higher regulated prices.

The highest annual increase in consumer prices in the period under review was registered in the group of education services with 4.5% y/y rise, followed by the group of food and non-alcoholic beverages with 4.0% y/y increase. The transport services posted an annual average inflation of 3.7%, while the group of clothing and footwear had a deflation of 1.4% on average. The group of communication services also exhibited deflationary pressure for the period with a fall in prices of 2.6% y/y on average.



Source: NSI

Producer prices increased by 4% y/y on average in December 2017, according to the Producer Price Index, calculated by NSI. The sector of electricity and gas supply increased prices by 10.1% y/y while the mining sector lifted prices by 6.7% y/y on average. The manufacturing sector PPI went up by 1.9% y/y in December 2017.



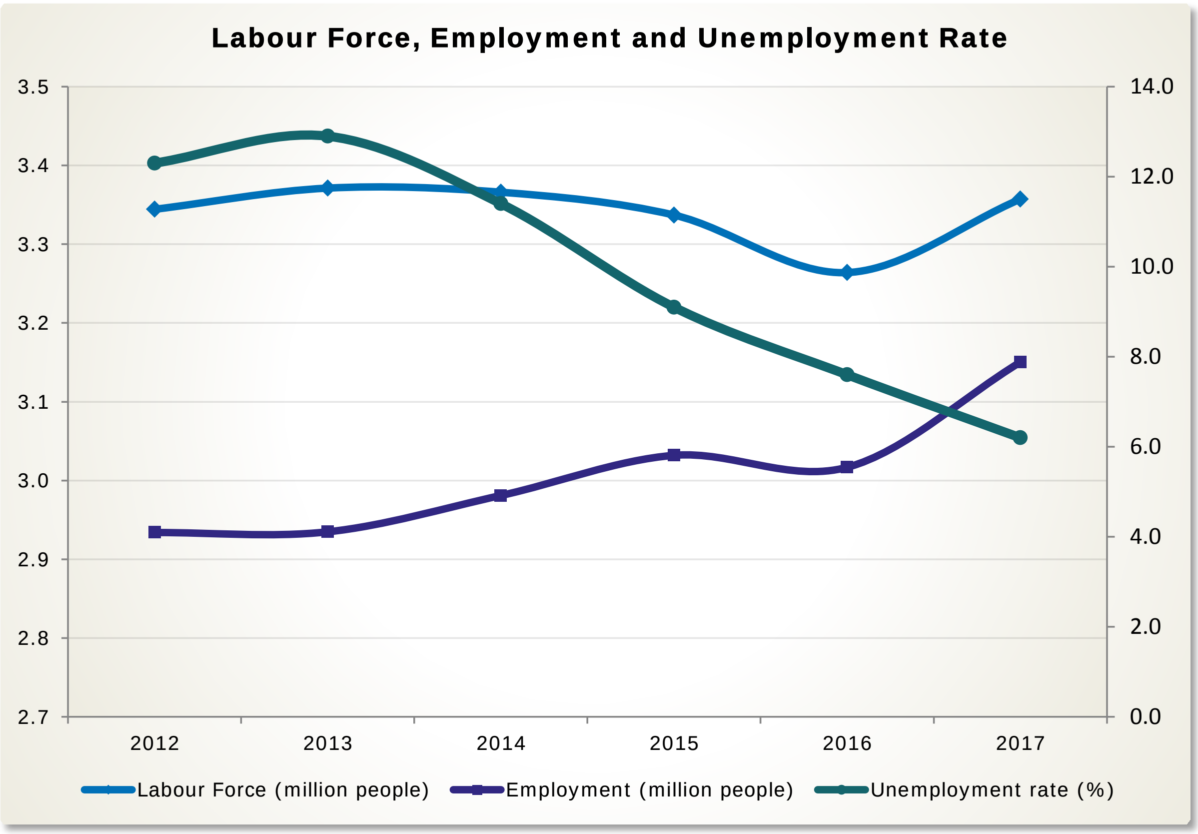
Source: NSI

3. LABOUR MARKET

Unemployment rate decreased by 1.4 pp y/y, wages grew 10% y/y in 2017 on strong economic growth and tightening labor market

The unemployment rate in Bulgaria narrowed to 6.2% in 2017, down 1.4 pp y/y, according to data of NSI. The employed population aged 15 years and older was 3.150 million in 2017, up by 4.4% y/y. Youth (population aged 15-24) unemployment rate went down to 12.9%, compared to 13.9% in Q3 2017 and 17.2 % in 2016.

The economic momentum driven by domestic and foreign demand improved business expectations and increased demand for labour which in turn boosted employee's wages. Throughout 2017, shortage of labour force spread from higher qualified labour to lower paid workforce as labour scares became widespread



Source: NSI

According to data of NSI, the average monthly salary in 2017 grew by 10% y/y to BGN 1,045. Wages in the private and public sectors went up by 10.4% y/y and 8.5% y/y, respectively. Employees in IT and communication, energy, and financial and insurance activities earned the highest salaries of BGN 2,448, BGN 1,808 and BGN 1,783, respectively.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits declined by 8.8% y/y in 2017

The number of building permits issued in Bulgaria in 2017 increased by 19% y/y and totalled 11,149, according to NSI data. The permits for housing projects went up by 23% to 5,562, while permits for office buildings went down to 127, compared to 163 a year earlier.

The total built-up area of office units, covered by the permits, fell to 219,688 sq m in 2017 from 285,438 sq m in 2016. The total built-up area of the housing units went up by 32.5% to 3,216,308 sq m.

5. MONEY SUPPLY AND BANKING SYSTEM

5.1. BGN EXCHANGE RATE

The average exchange rate of the BGN against the US dollar fell to BGN 1.7350 in 2017 from BGN 1.7683 a year ago, according to Bulgarian National Bank (BNB) data.

BGN Average Exchange Rate			
Foreign Currency	**2017**	**2016**	**2015**
USD	1.7350	1.7683	1.7644
GBP	2.2322	2.3942	2.6967
CHF	1.7617	1.7945	1.8354
EUR*	1.95583	1.9558	1.95583

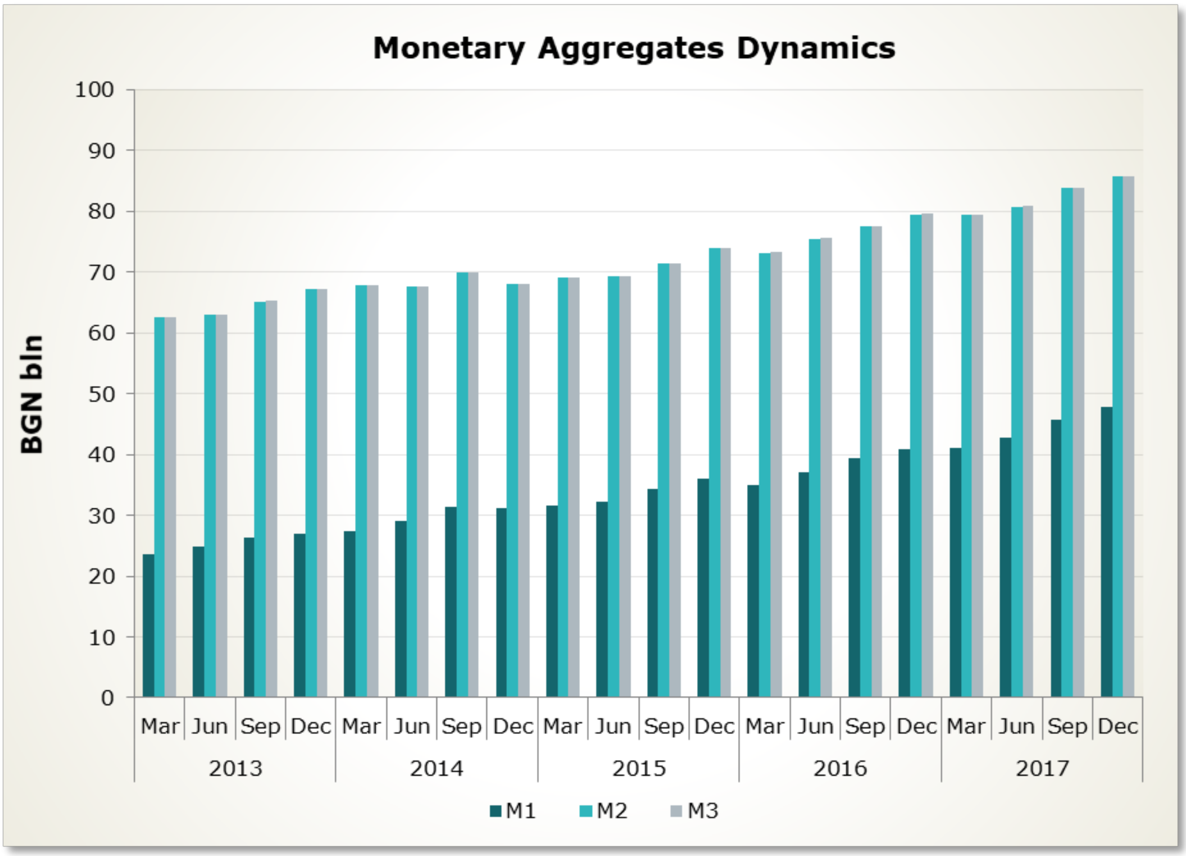
**The Bulgarian lev (BGN) is pegged at a fixed exchange rate of BGN 1.95583 per EUR under a currency board system.*

5.2. MONETARY AGGREGATES

Money supply growth was 7.7% y/y at end-2017 on increased overnight deposits

In 2017 non-government sector's deposits in the banking system continued growing at high rates, according to data from BNB. At the end of 2017 the broad monetary aggregate M3 rose by 7.7% on an annual basis with the overnight deposits continuing to be the main positive contributor to the broad money dynamics. Growth of deposits in the banking system reflected the preferences by economic agents for higher savings rate in the economy and preferences for faster and easier access to their funds in banks, provided by overnight deposits. Non-government sector deposit growth in the banking system was 6.1% y/y in December 2017, with non-financial corporation deposits contributing mostly to this growth and those of households to a lesser degree, according to BNB.

The M2 money supply grew also by 7.7% y/y to BGN 85.727 bln. Money aggregate M1, or narrow money, jumped by 16.9% to BGN 47.734 bln. Banknotes and coins in circulation increased by 11% y/y, underpinned by the low interest rates on deposits, savers' preferences to have cash and a significant increase in private consumption.



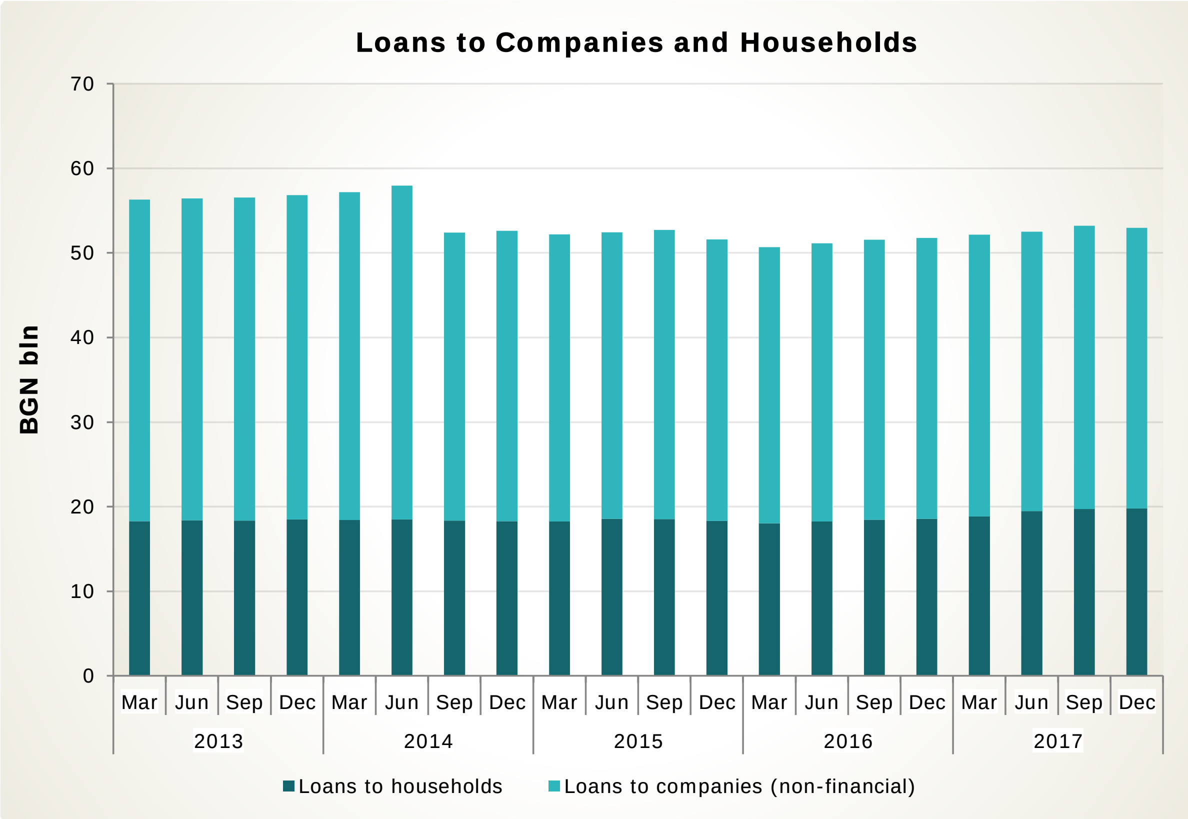
Source: BNB

5.3. BANKING AND INSURANCE

Household loans increased by 6.5% y/y in December 2017 on eased credit standards and increased demand

In December 2017, the total loans to the non-financial corporations and households sector increased by 2.3% y/y to BGN 52.949 bln. According to BNB, the upward trend in loans to the non-financial private sector in 2017 reflected the favourable economic environment, the gradual decline in lending rates and the use of loans extended under the National Programme for Energy Efficiency of Multi-family Residential Buildings.

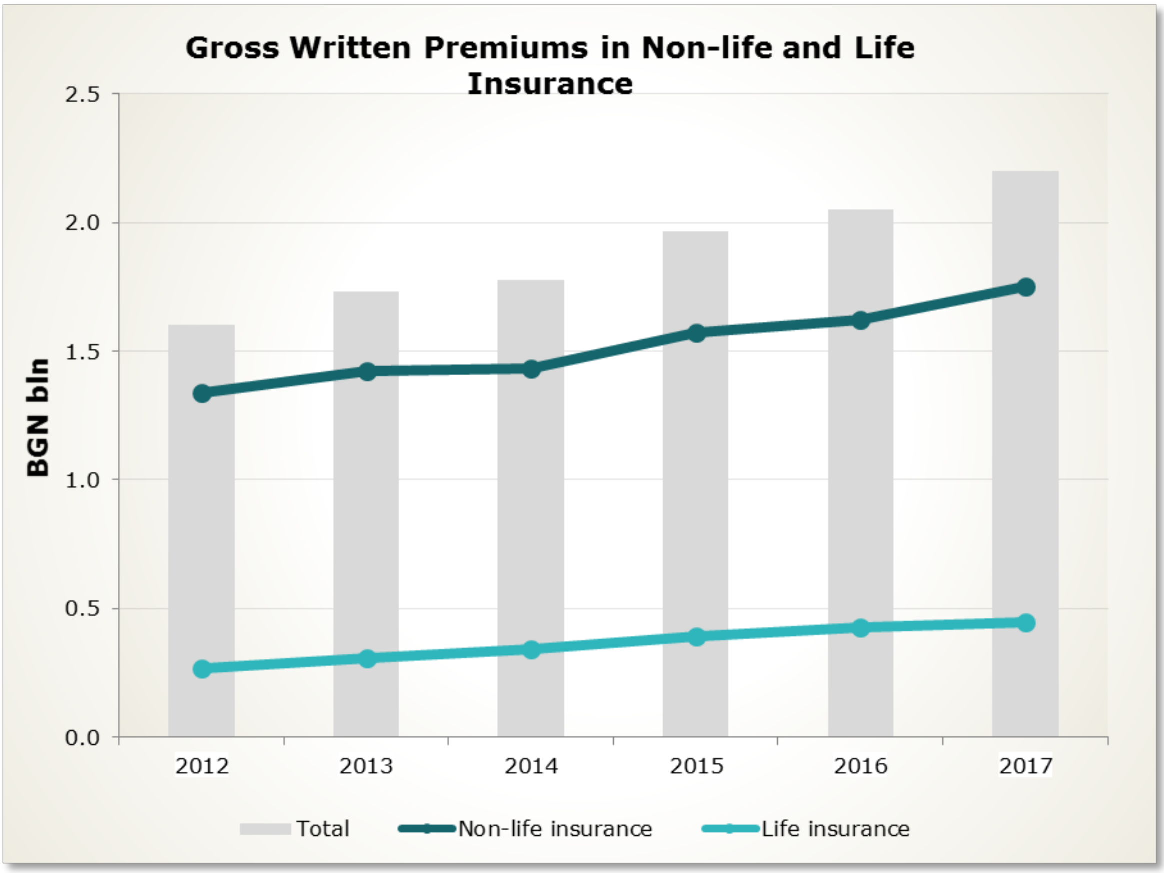
The loans to non-financial corporations notched down by 0.1% in end-2017 at BGN 33.160 bln largely due to writing-off of nonperforming loans and to a lesser extent to sales of loans. Unlike non-financial corporations, the upward trend in household credit was sustained throughout 2017. As of December 2017, the annual growth of loans to households came in at 6.5%. Housing and consumer loans contributed most strongly to these developments. Loans extended under the National Programme for Energy Efficiency continued to contribute to the increase in other loans to households, according to data from BNB. At the same time, repayment by the government of loans extended under this programme, started in July, had a strong impact on reducing the contribution of the other loans item to overall household loan growth.



Source: BNB

Premium income up 7.5% y/y in 2017

The total gross written premiums (GWP) of the Bulgarian non-life and life insurance companies stood at BGN 2.2 bln, up by 7.5% y/y in 2017, according to the Financial Supervision Commission (FSC). The GWP of the non-life insurance market stood at BGN 1.8 bln, or by 8.2% more than in the corresponding quarter of the previous year, while the life insurance market expanded by 4.6% y/y to BGN 450 mln.



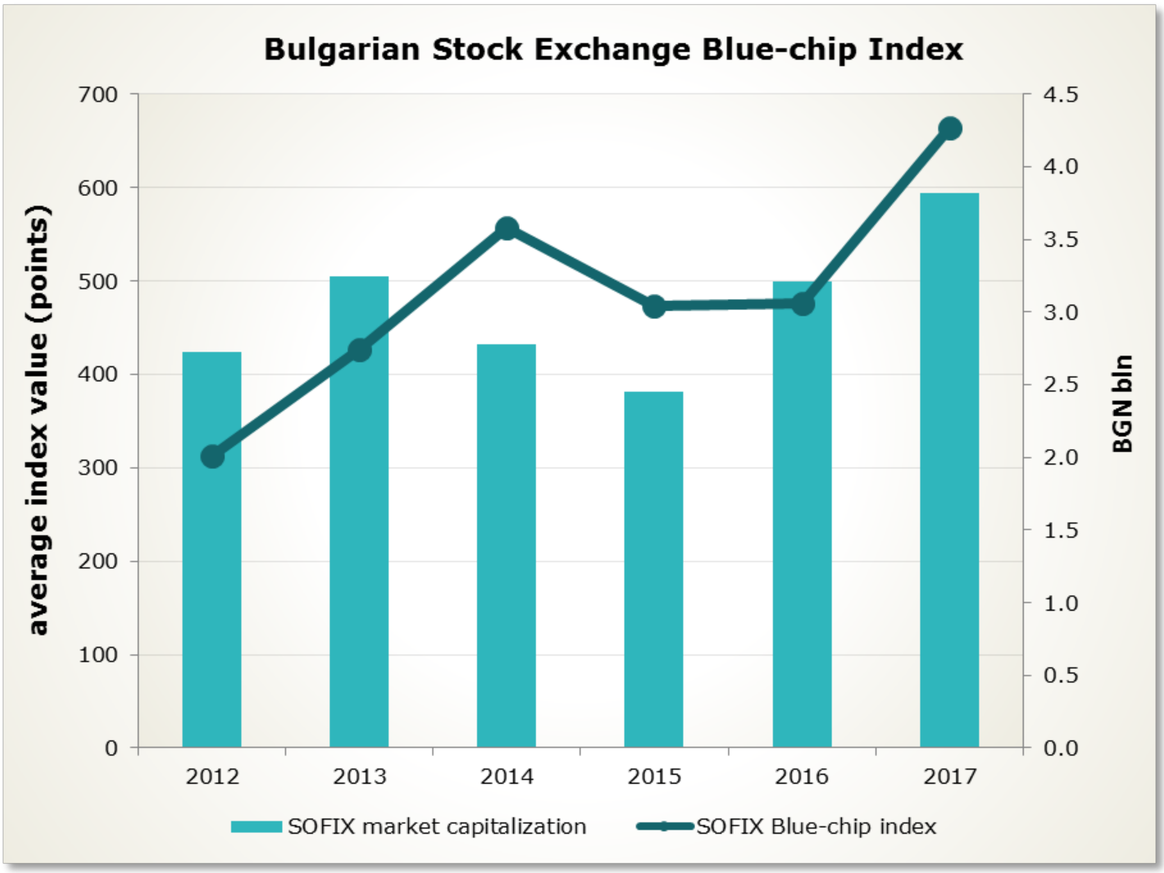
Source: FSC

6. CAPITAL MARKETS

Blue-chip SOFIX rallied by 40% in 2017

The Bulgarian equities rallied in 2017, after stagnating in 2016. SOFIX, the blue-chip index of the Bulgarian Stock Exchange (BSE), surged by 40% y/y to 664 points in end-2017, according to BSE data. In Q4 2017 alone, SOFIX went down by 5.5% q/q.

The total turnover on BSE's regulated market came in at BGN 523.6 mln in 2017, compared to BGN 358.2 mln in 2016



Source: BSE

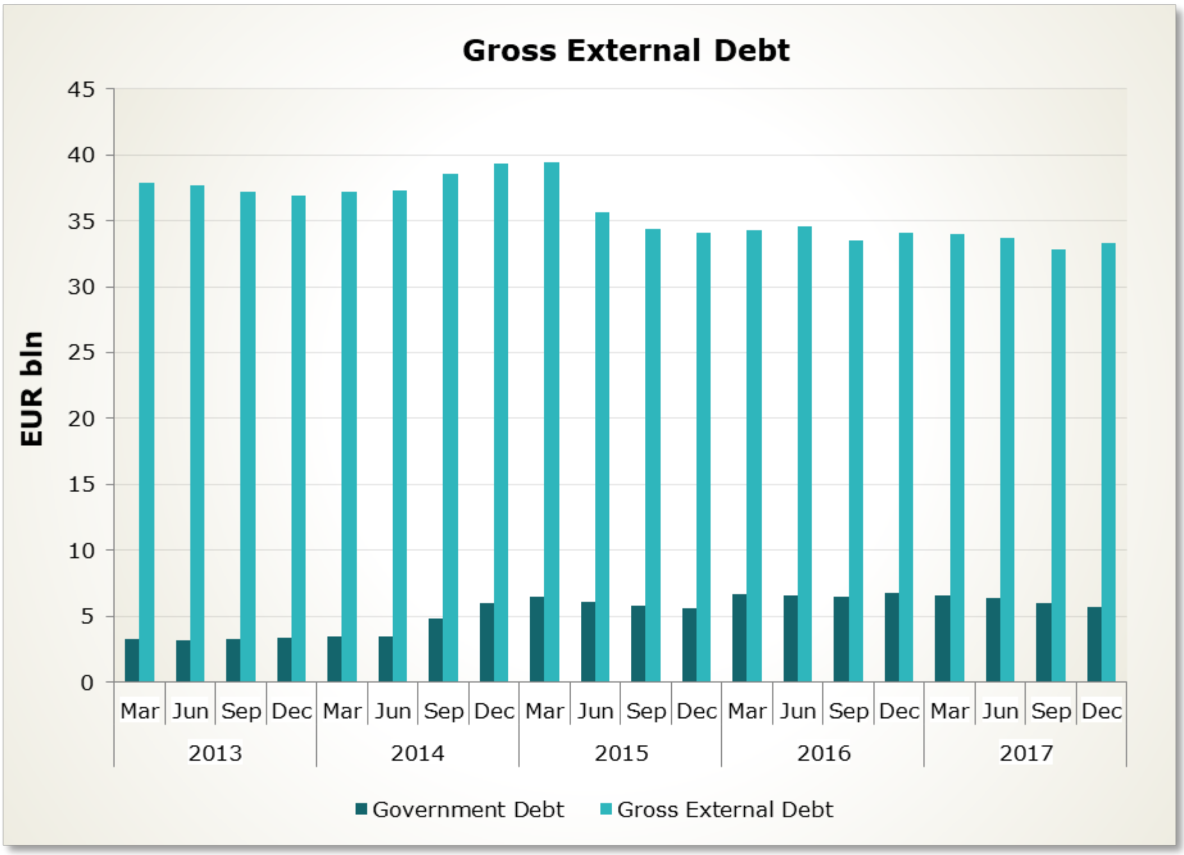
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt decreased by 2.2% y/y to EUR 33.309 bln at end-2017

The gross external debt decreased by 2.2% y/y totalling EUR 33.309 bln at the end of December 2017, according to BNB. Relative to the economy, the gross external debt accounted for 66.1% of country's GDP.

As of end-September 2017, long-term liabilities amounted to EUR 25.540 bln, or 76.7% of the total debt, and short-term liabilities totalled EUR 7.768 bln, equal to 23.3% of the total debt.

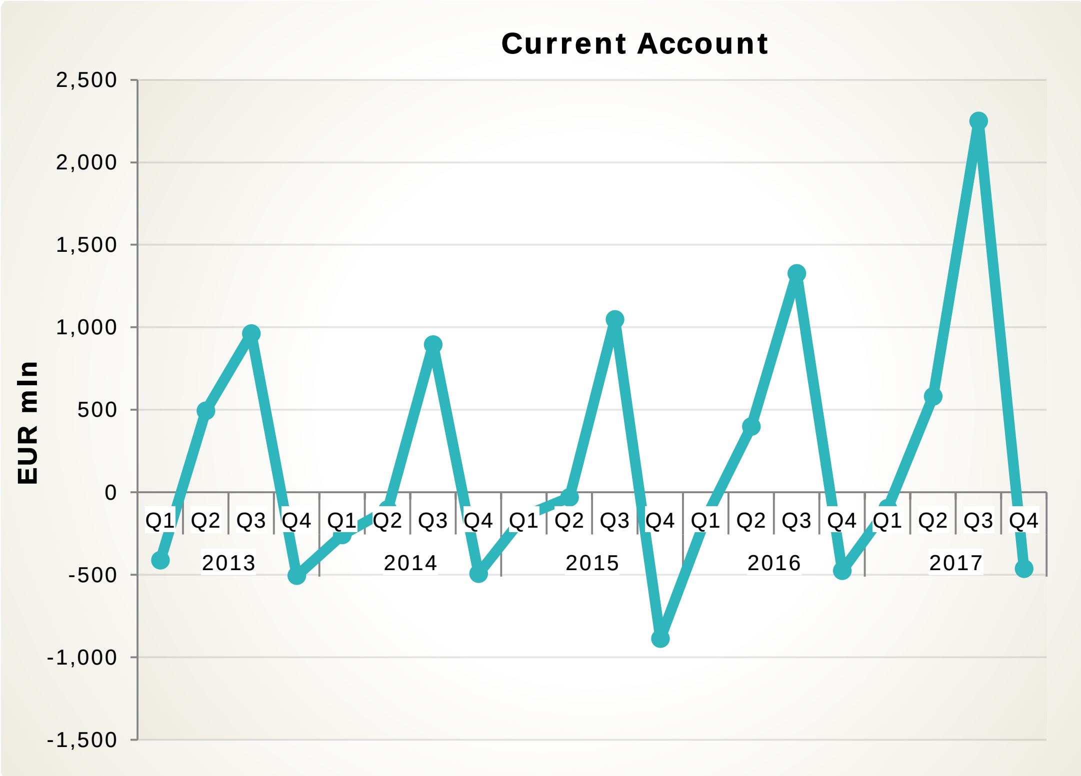


Source: BNB

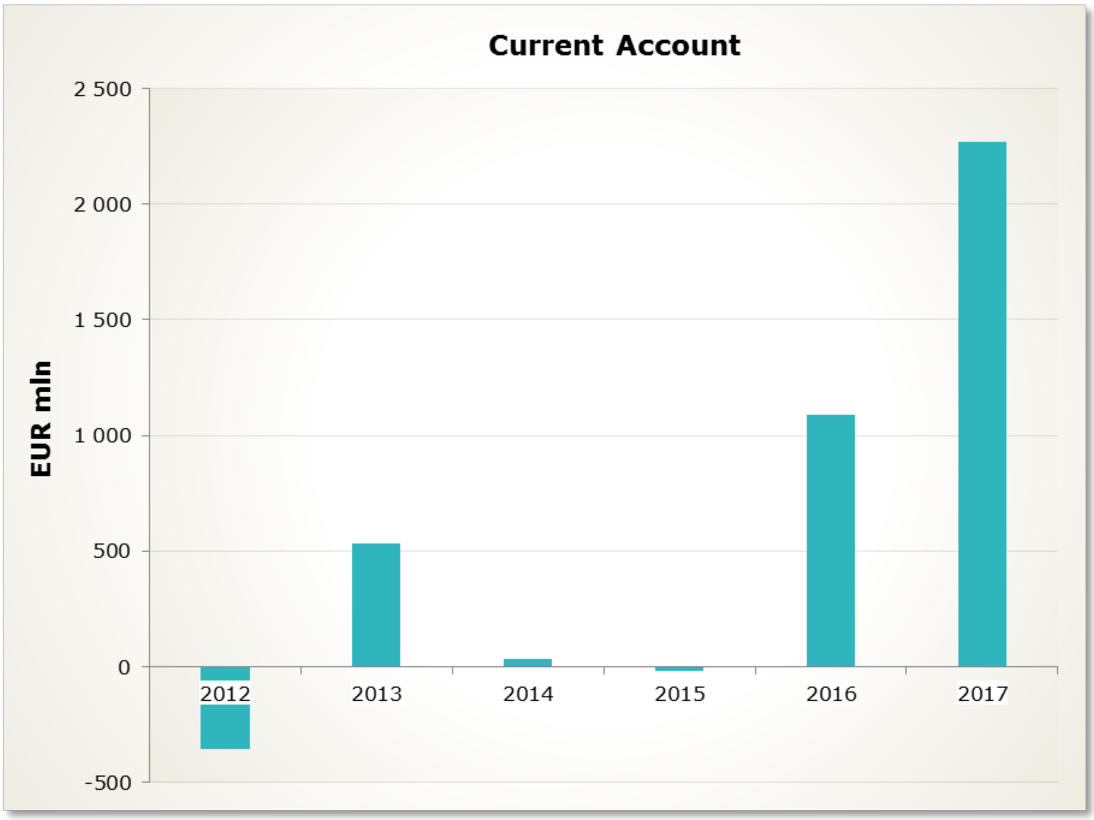
7.2. BALANCE OF PAYMENTS

Current account balance turned negative in Q4 2017. For full 2017, the current account surplus more than doubled y/y.

In the last quarter of 2017, Bulgaria had current account deficit of EUR 464 mln, compared to a surplus of EUR 2.250 bln in Q3 2017 and a deficit of BGN 476.2 mln in Q4 2016, according to the central bank statistics data. For full 2017, the current account surplus came in at BGN 2.270 bln, more than doubled y/y. The increase in the current account surplus in 2017 was mainly due to the income account which turned positive in 2017 at BGN 1.3 bln compared to a deficit of BGN 861 mln in 2016. The positive balance on the service account increased by 2.6% y/y to BGN 3.0 bln in full-2017. The increase in the surplus on the service and income accounts were partially offset by the negative balance on the foreign trade with goods, which more than doubled y/y to BGN 2.0 bln in 2017.



Source: BNB



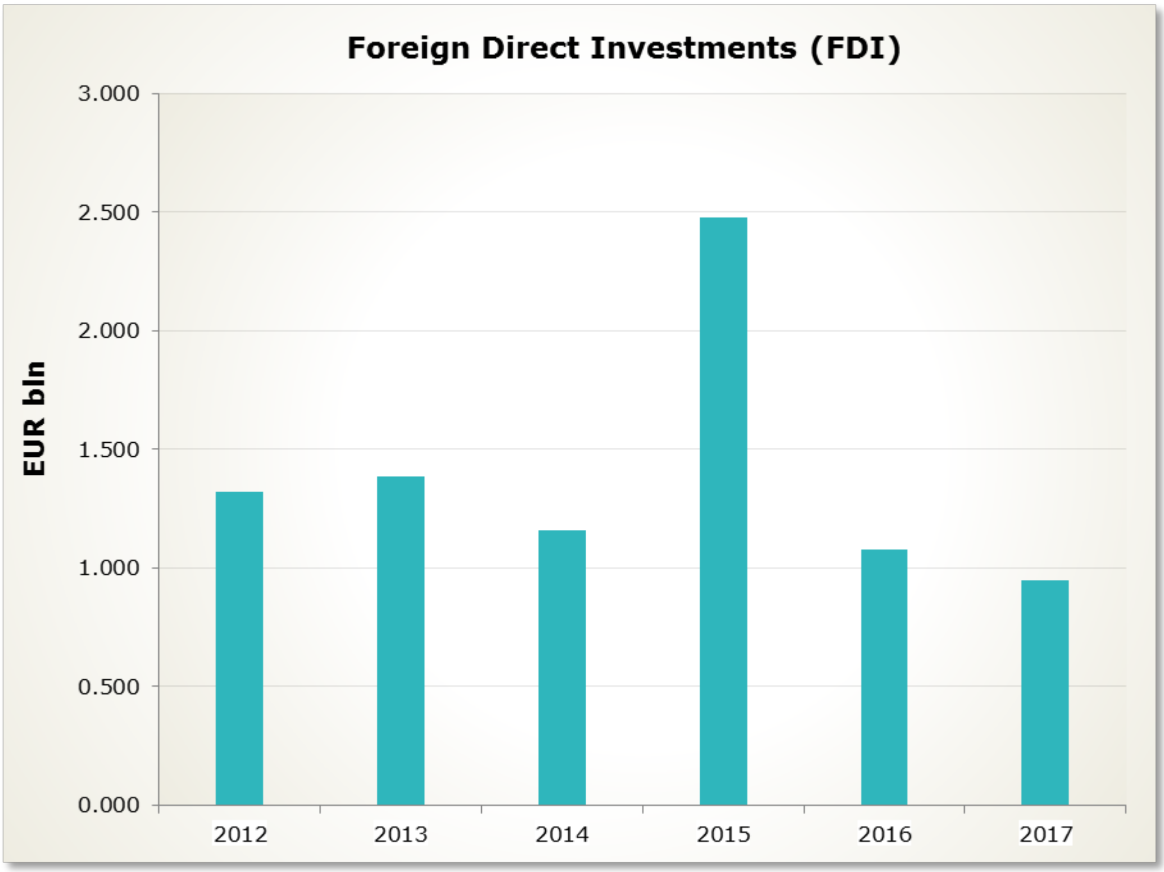
Source: BNB

7.3. FDI

FDIs declined for a second year in 2017

Country's Foreign Direct Investments (FDIs) in 2017 were positive at EUR 950 mln, down 12% y/y compared to BGN 1.080 bln FDIs in the previous year, according to BNB data. In 2017, FDIs accounted for a little more than 2.0% of the GDP for the year.

The reluctance of the government to pursue structural reforms, mainly in the judiciary system, resulted in an increased risk premium for foreign investments. In 2018 FDIs is expected to remain at their low levels and foreign funds will be in the form of absorption of EU funds.



Source: BNB

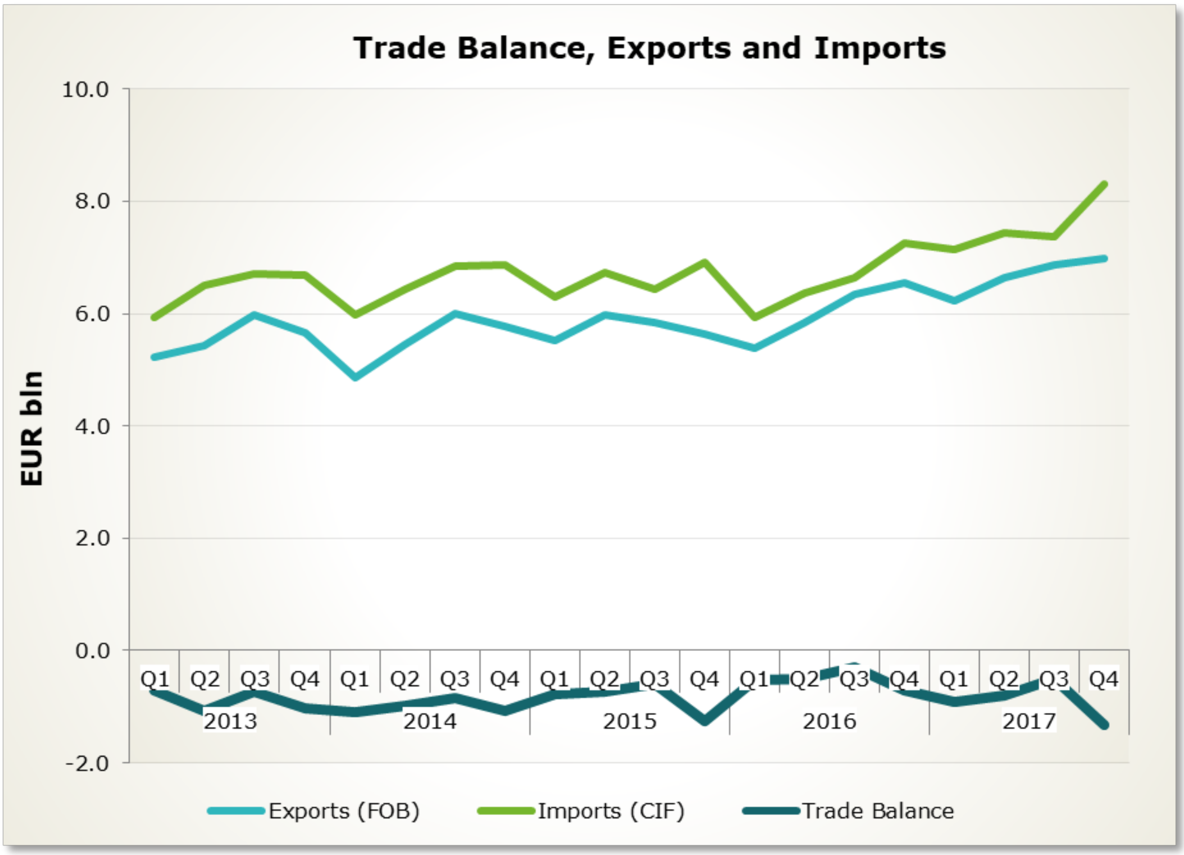
7.4. FOREIGN TRADE

Foreign trade deficit surged by 86% y/y in Q4 2017 to BGN 1.33 bln, a record high figure

The strong domestic demand, fuelled by the improved economic conditions and income rises, boosted imports in the country in Q4 2017. The increased global prices of major commodity groups also contributed to the nominal rise in country's imports and it surged by 14.3% y/y to EUR 8.31 bln. In the same time, the exports growth continued downward trend for the fifth consecutive quarter. In Q4 2017, exports increased by 6.5% y/y to BGN 6.983 bln, down from 8.3% y/y growth in Q3 2017 and 13.7% y/y growth in Q2 2017. The trade deficit swelled to the record quarterly reading of EUR 1.327 bln in Q4 2017, up 86% y/y, according to BNB data.

The surge in the imports was mainly due to increased investment and production activity in the country and to a lesser extent on increased household consumption. According to the data from the Bulgarian National Bank (BNB), imports of raw materials and investment goods were the main contributing group to the aggregate imports growth during the last quarter of 2017. Raw materials imports advanced by EUR 387 mln (15.3% y/y), while imports of investment goods surged by 14.6% y/y (EUR 284.7 mln). Consumer goods imports increased at a slower pace, of 8.9% y/y (EUR 147.7 mln), while imports of energy resources added EUR 217.7 mln (20% y/y), mainly on increased energy commodity prices on the international markets.

In Q4 2017, consumer goods exports advanced by 2.2% y/y to EUR 1.746 bln and sliced a 25% share in the total exports, while exports of raw materials increased by 9.8% y/y to EUR 2.790 bln (40% share). Exports of investment goods went up by 15.7% y/y to EUR 1.744 bln, taking 25% of the total exports value, while energy exports declined by 12.3% y/y to EUR 688.8 mln.



Source: BNB

7.5. TOURSIM

Number of foreign tourist overnights went up by 5.9% y/y in 2017

Tourist overnights of foreigners increased by an annual 5.9% to 17,105,567 in 2017, according to NSI data.

The number of foreign tourists also went up - by 7.5% y/y to more than 5.5 mln. The most arrivals were from Romania, Greece and Turkey.

Source: NSI

8. MAJOR DEVELOPMENTS

EBRD mulls lending EUR 50 mln to ProCredit Bank Bulgaria to back MSMEs

Dec 28, 2017

The European Bank for Reconstruction and Development is considering providing EUR 50 mln loan to ProCredit Bank Bulgaria for financing privately owned micro-, small- and medium sized enterprises (MSMEs) in the country.

Read the full story here

Bulgarian regulator fines CEZ, EVN units for abusing dominant position

Dec 21, 2017

Bulgaria's competition regulator fined the local power supply and distribution units of Austrian energy group EVN and Czech group CEZ for abuse of their dominant position on the market.
Read the full story here

Bulgarian-Swiss tie-up wins contract for Balkan gas hub feasibility study
Dec 20, 2017
Bulgarian gas transmission system operator Bulgartransgaz awarded a BGN 2.3 mln contract for drafting a detailed feasibility study on the proposed Balkan gas hub project to a tie-up between Bulgaria's EMG consult and Swiss-based AF consult.
Read the full story here

Bulgaria gets additional EUR 41 mln under Kozloduy decommissioning fund
Dec 18, 2017
The Assembly of Contributors of the Kozloduy International Decommissioning Support Fund (KIDFS) has approved an additional financing of EUR 41 mln for projects related to Bulgaria's sole nuclear power plant, according to the country's energy ministry.
Read the full story here

Total's Bulgarian unit plans to start third drilling for oil, gas in Black Sea
Dec 14, 2017
In December 2017, Total E&P Bulgaria, a unit of France's oil and gas group Total, announced its plans to start its third deepwater drilling in Bulgarian offshore block 1-21 Han Asparuh in the Black Sea.
Read the full story here

Bulgaria starts overhaul of 22 km road section in Petrohan pass
Dec 11, 2017
Bulgaria's Road Infrastructure Agency has started reconstruction works on a 22 km section of the road in the Petrohan mountain pass - a project estimated to cost BGN 14.7 mln.
Read the full story here

Bulgaria's H1 household power price lowest in EU
Nov 29, 2017
Household electricity price in Bulgaria in the first half of 2017 was the lowest in the EU, according to the bloc's statistical office.
Read the full story here

Bulgaria launches logistics centre to promote trade with China
Nov 24, 2017
Bulgaria has launched a logistics centre and an eCommerce shop in the city of Plovdiv aimed at promoting commercial exchange with China, according to the agriculture ministry.
Read the full story here

Bulgarian SMEs score second worst in EU in terms of skills and innovation
Nov 24, 2017
Small and medium-sized companies (SMEs) in Bulgaria continued to trail their peers from other EU countries in terms of innovation and improvement of skills, ranking second worst, according to the European Commission.
Read the full story here

Share of people employed in agriculture in Bulgaria, Romania highest in EU – Eurostat

Nov 8, 2017

In 2015, Romania and Bulgaria had the highest share of population employed in the agriculture sector among EU member states, the bloc's statistical institute Eurostat, announced in December 2017.

Read the full story [here]()

Bulgaria plans to spend EUR 2.25 bln on defence, security in 2018

Oct 23, 2017

Bulgaria plans to spend EUR 2.25 bln on defence and security next year, according to the figures from the 2018 draft budget proposed by the finance ministry.

Read the full story [here]()

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