

BULGARIA ECONOMY REPORT

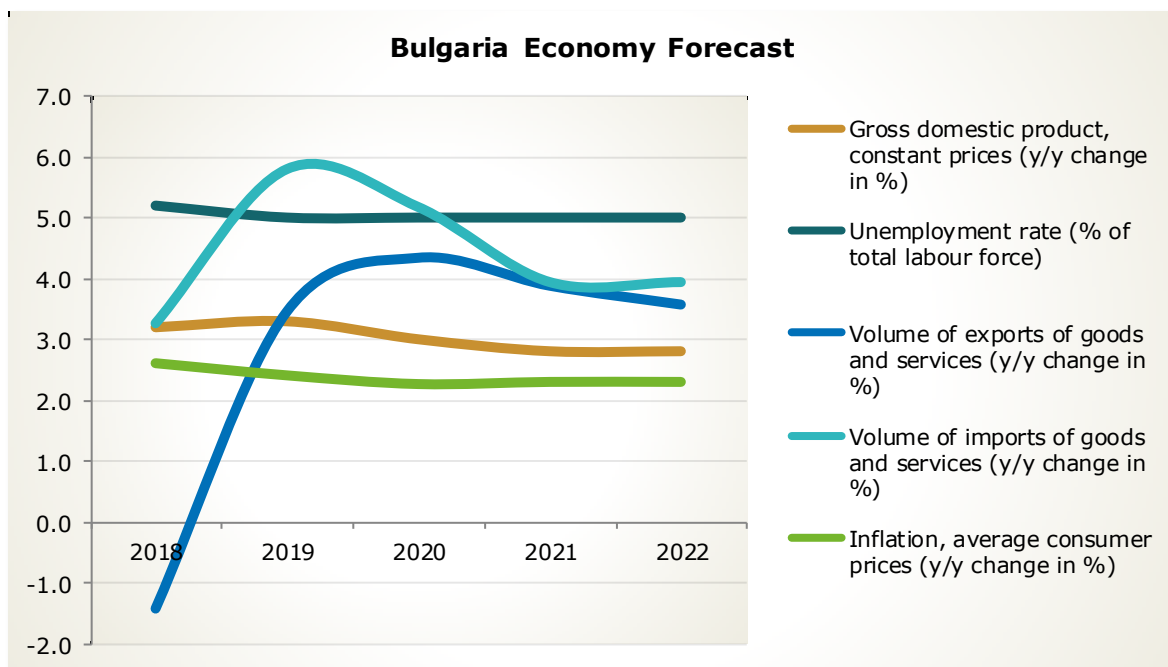
2018

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1. MACROECONOMIC SNAPSHOT AND FORECAST

BULGARIA – MACROECONOMIC SNAPSHOT AS OF 2018	
GDP Growth	3.1% y/y
Business confidence indicator	-0.5 pp m/m
Industrial output	-2.9% y/y
Industrial sales index annual change	2.5% y/y
Wholesale	1.0% y/y
Retail sales	2.9% y/y
Average annual inflation	2.8%
Unemployment rate	5.2%
Number of building permits	-3.8% y/y
Money supply growth	8.8% y/y
Household loans	11.6% y/y
SOFIX blue-chip index	-3.3% y/y
Gross external debt	EUR 33.343 bln
Current account surplus	EUR 2.548 bln
FDI inflow	EUR 1.744 bln
Foreign trade deficit	EUR 3.921 bln
Number of foreign tourist overnights	3.8% y/y

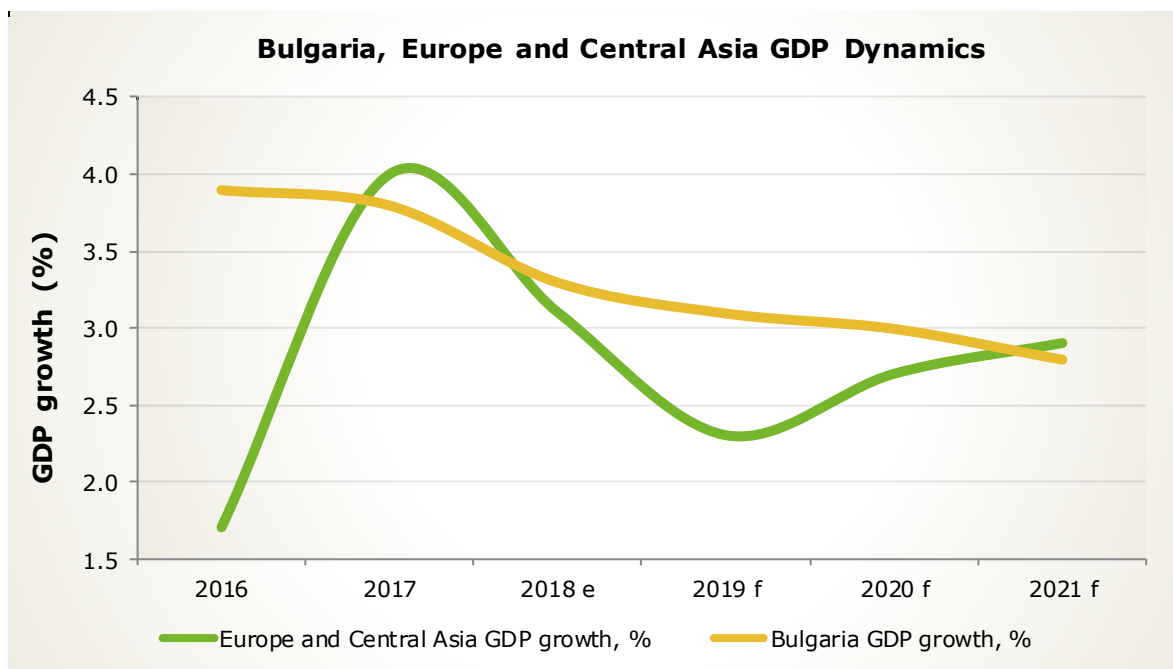


Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2019

The Bulgarian economy performed well, according to the latest IMF executive board assessment. Growth has been stable and is estimated to stay at 3.2% in 2018 and rise up to 3.3% 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 April 2019, GDP growth is likely to come in at 3.1% in 2019, down from 3.3% in 2018. This will be higher than the projected growth for Europe and Central Asia, of 2.3% in 2019.



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

2. REAL SECTOR

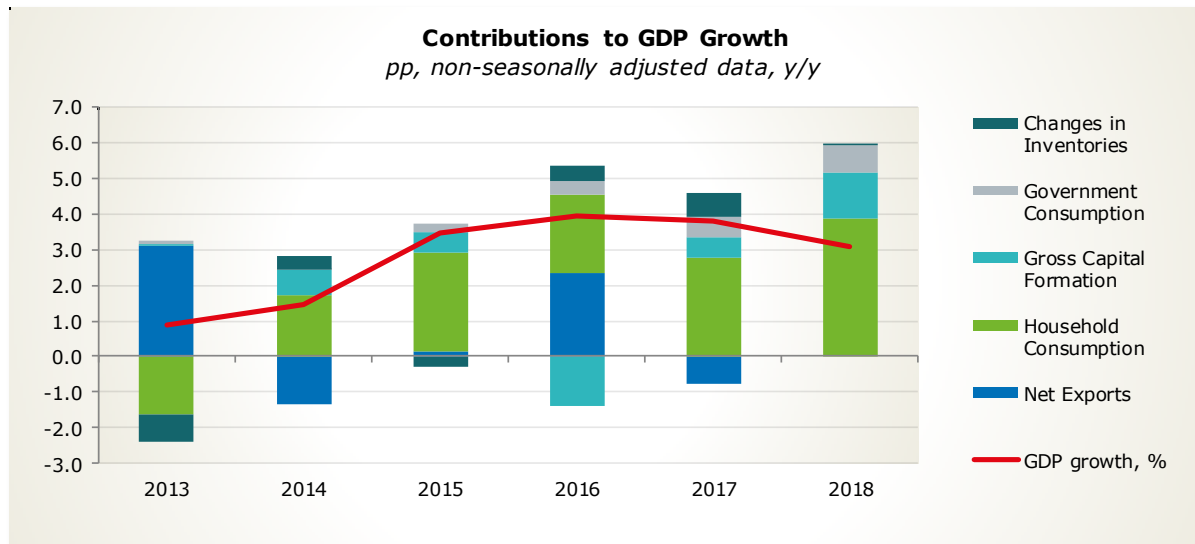
2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP growth decelerated to 3.1% y/y in 2018, down from 3.8% y/y in 2017

The Bulgarian real economic growth slowed down in 2018 to 3.1% from a 3.8% y/y increase in 2017, 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 2.8 pp to the GDP growth in 2018, compared to a negative contribution of 0.8 pp in 2017. Exports growth of goods and services in real terms faltered to

negative 0.5% y/y in 2018, down from 3.7% y/y increase in 2017. In the same time imports of goods and services in real terms retreated by 2.3% y/y last year, up from 4.5% in 2017.

The economic growth during the year was supported mainly by the household consumption, which inched up by 6.0% y/y in real terms. The household consumption contributed by 3.9 pp the overall GDP expansion in 2018. After falling by 3.8% y/y in real wise in 2017, the gross fixed capital formation incased by 6.5% y/y in 2018, thus contributing by 0.7 pp to the GDP growth during the last year.

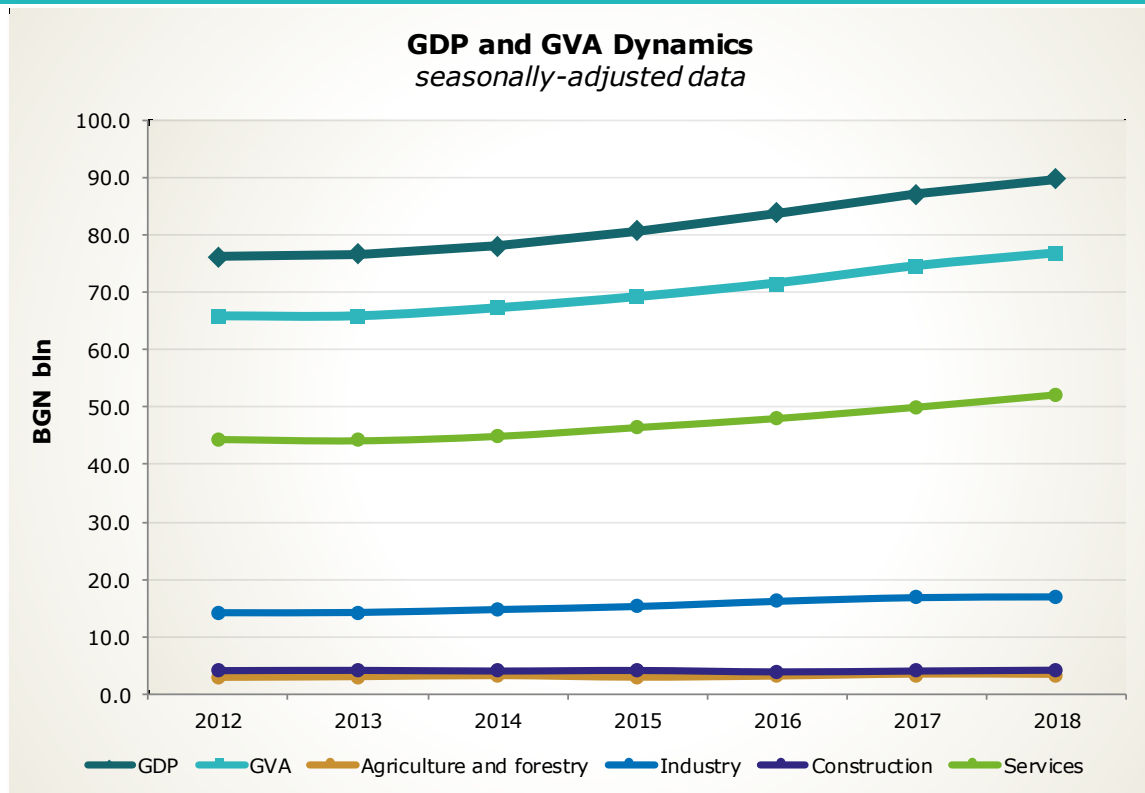


Source: SeeNews calculations; NSI

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.

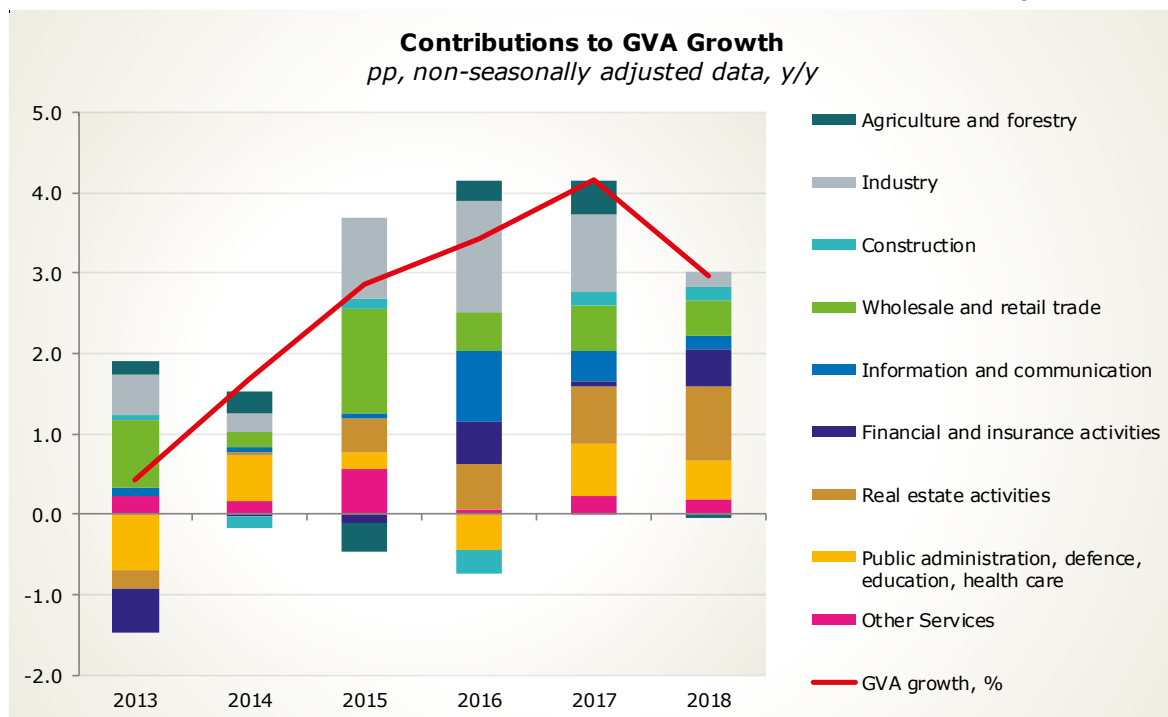
Exports growth remained further negative in 2018, while growth of imports of goods and services decelerated slightly to 2.3% y/y from 4.5% in 2017. The resulting trade balance gap had a distinctive negative contribution to the country's GDP growth during the year.

The seasonally-adjusted gross value added (GVA) at constant prices generated by the national economy increased by 3.0% y/y in 2018 and totalled BGN 76.770 bln. The industrial sector grew in value by 0.8% y/y and took 22.2% share in the total GVA in 2018. The services sector recorded a 4.3% annual increase, slicing a 67.9% share in the GVA. Agricultural sector's GVA went down by 1.1% y/y and took a 4.3% share in the total GVA. The construction industry took a 5.6% share, and went up by 4.0% y/y in 2018.



Source: NSI

In 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 0.9 pp, followed by the public administration, defense, education, health care with a 0.5 pp contribution to the overall GVA growth in 2018.



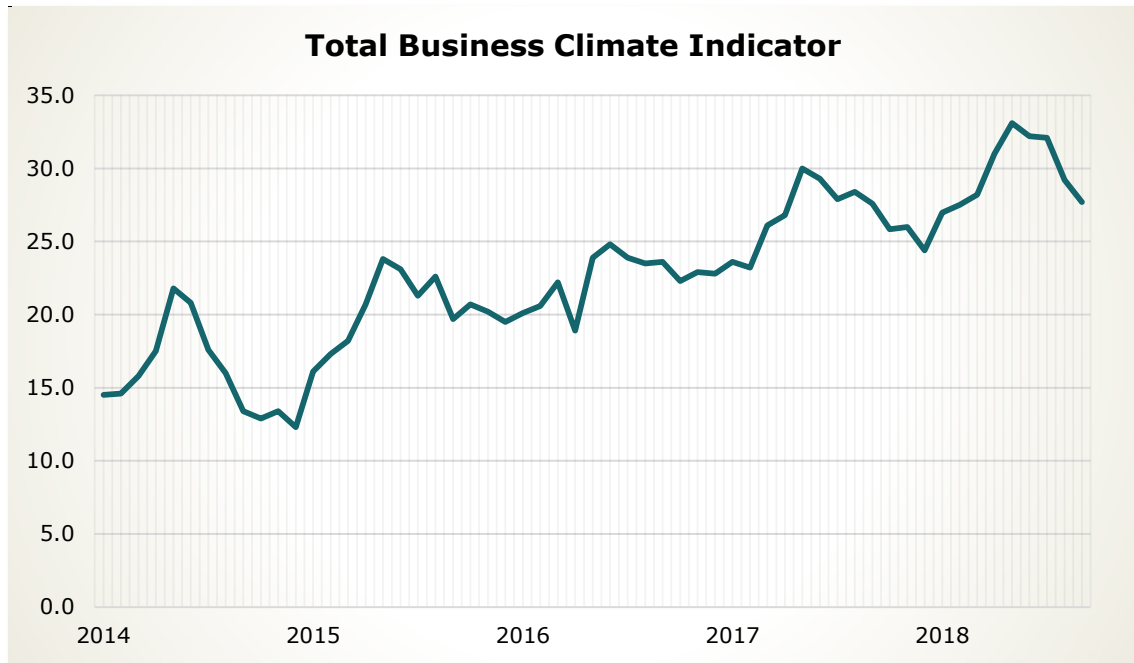
Source: SeeNews Calculations; NSI

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

2.2. BUSINESS CLIMATE

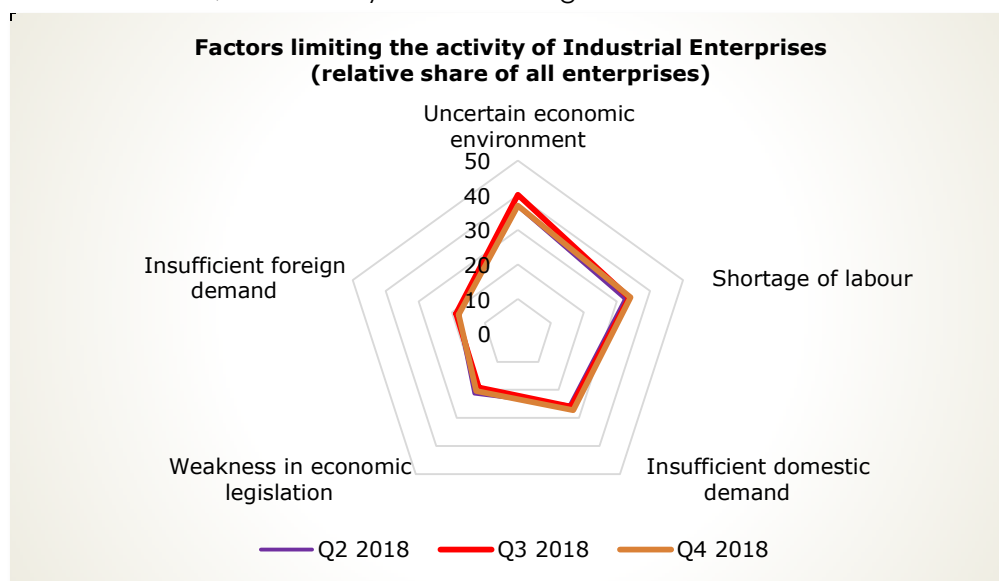
Business Confidence Indicator went down by 0.5 pp m/m in December 2018

The business confidence indicator started declining in June 2018 and reached negative 0.5 points in December, according to NSI data.



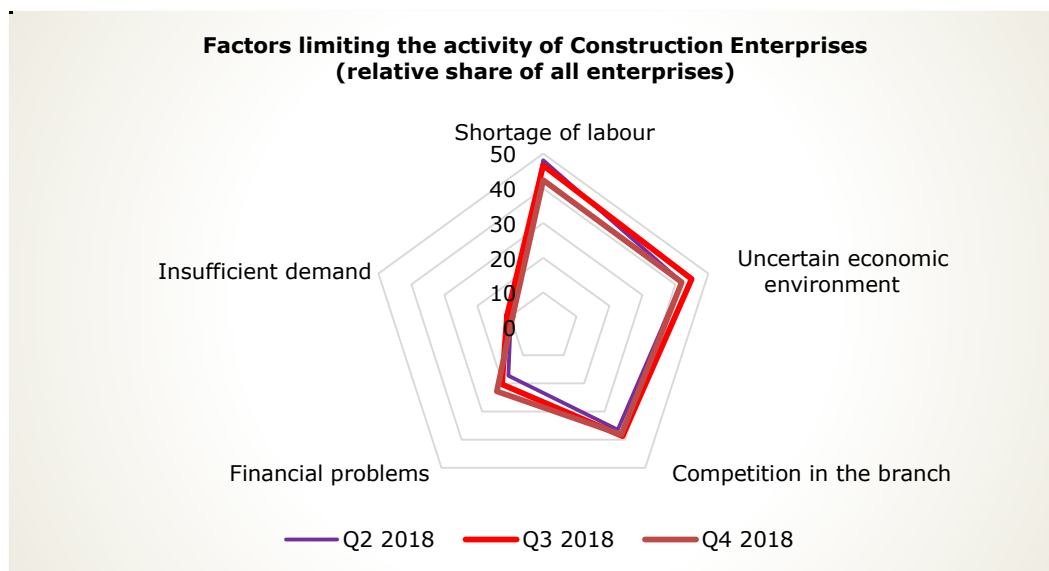
Source: NSI

The business climate indicator in the industrial sector was down by 2.7 pp in December 2018 compared to November 2018. Industrial entrepreneurs assessed the current manufacturing activity as stable with more optimistic expectations for the next three months. The main factors limiting the activity of the enterprises in the industrial sector remained the uncertain economic environment, followed by labour shortage.



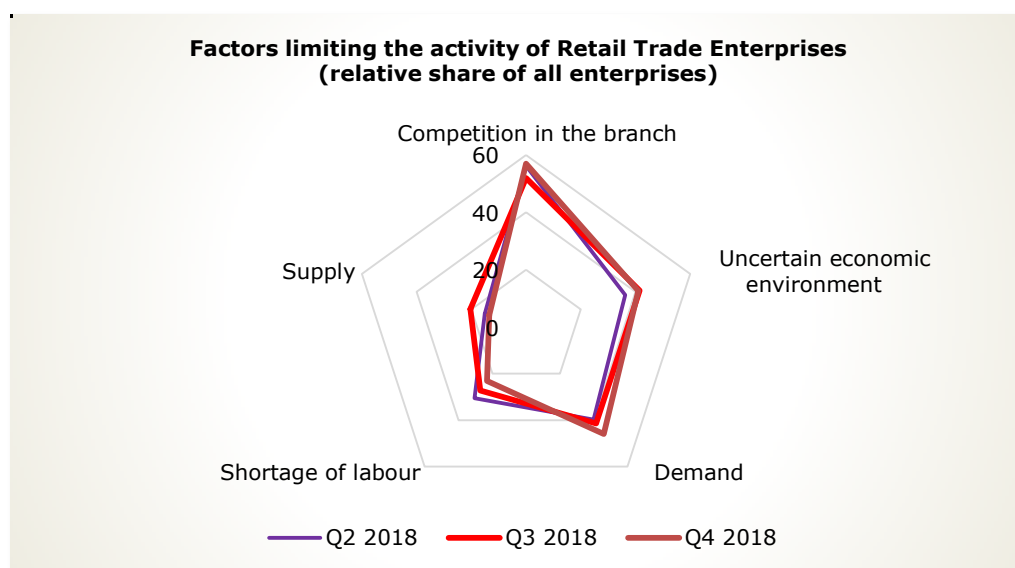
Source: NSI

In December 2018, the business climate indicator in the construction sector kept its value from the previous month, showing improved estimation of the current state of businesses, but 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 December 2018.



Source: NSI

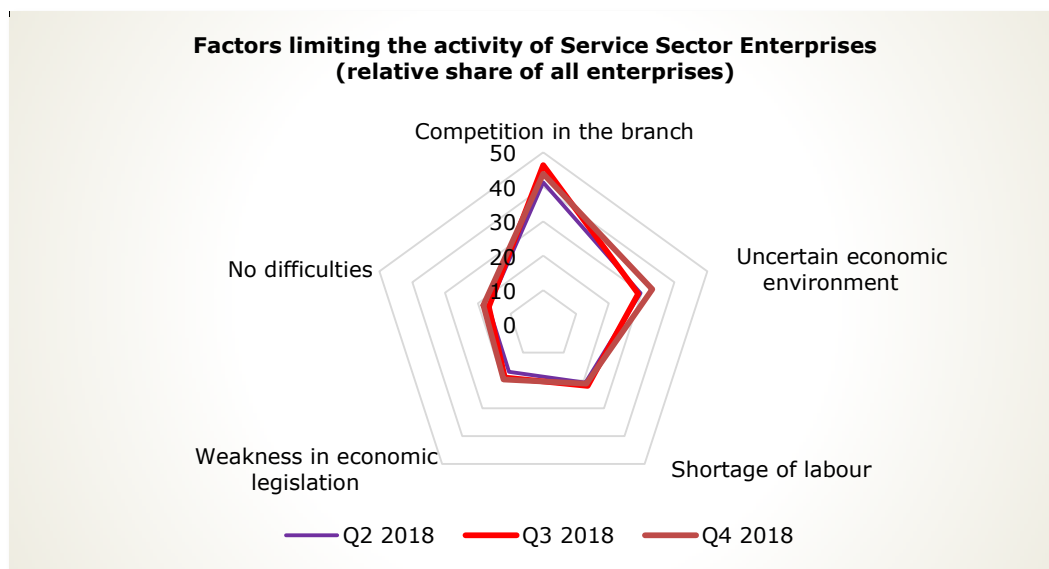
The business climate indicator in the retail sector climbed by 3.2 pp m/m in December 2018 as a result of the more optimistic estimation of retailers for their business conditions over the next three months. The retailers' forecasts regarding their sales however slightly deteriorated. The competition in the sector was seen as the most limiting factor for the development of the retail companies in December 2018, followed by insufficient demand and uncertain economic environment.



Source: NSI

The business climate indicator in the services sector kept its November level in December 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.



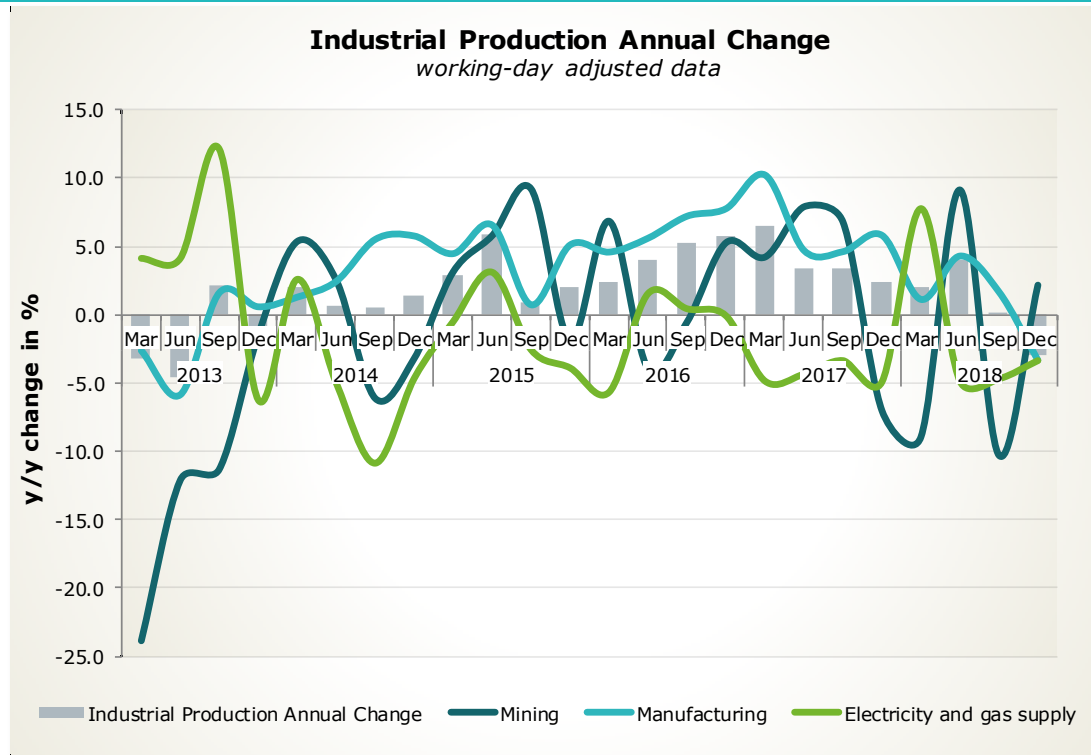
Source: NSI

2.3. INDUSTRIAL OUTPUT

Industrial output inched down by 2.9% in December 2018

The slowdown of industrial production continued in the last quarter of 2018. According to NSI, the industrial output went up by 2.9% y/y in December 2018, down from a growth of 0.04% y/y in September, growth of 4.1% y/y in June and 2.0% y/y increase in March 2018.

The output of the mining industry increased by 2.2% y/y, due to seasonal factors, while electricity and gas supply went down by 3.3% y/y. The production of the manufacturing sector decreased by 3.4% y/y in December 2018.

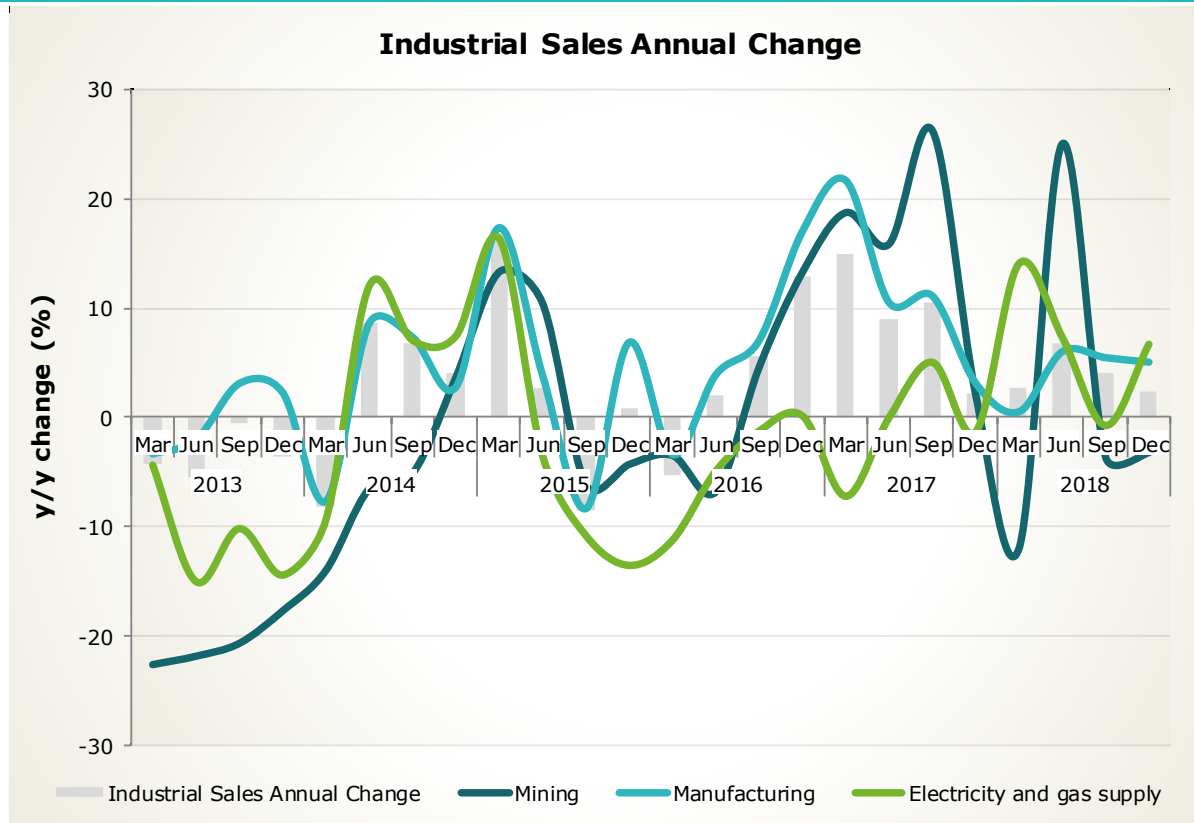


Source: NSI

2.4. INDUSTRIAL SALES

Industrial sales index increased by 2.5% y/y in December 2018

The total industrial sales index increased by 2.5% y/y in December 2018, according to NSI. This was a significant slowdown compared to a growth of 4.02% y/y in September, growth of 6.8% y/y in June and 2.7% y/y increase in March 2018. The rise was fuelled by the 6.7% increase in electricity and gas supply industry and 5.1% increase in the sales of the manufacturing industry. Industrial sales in the mining sector fell by 3.2%.



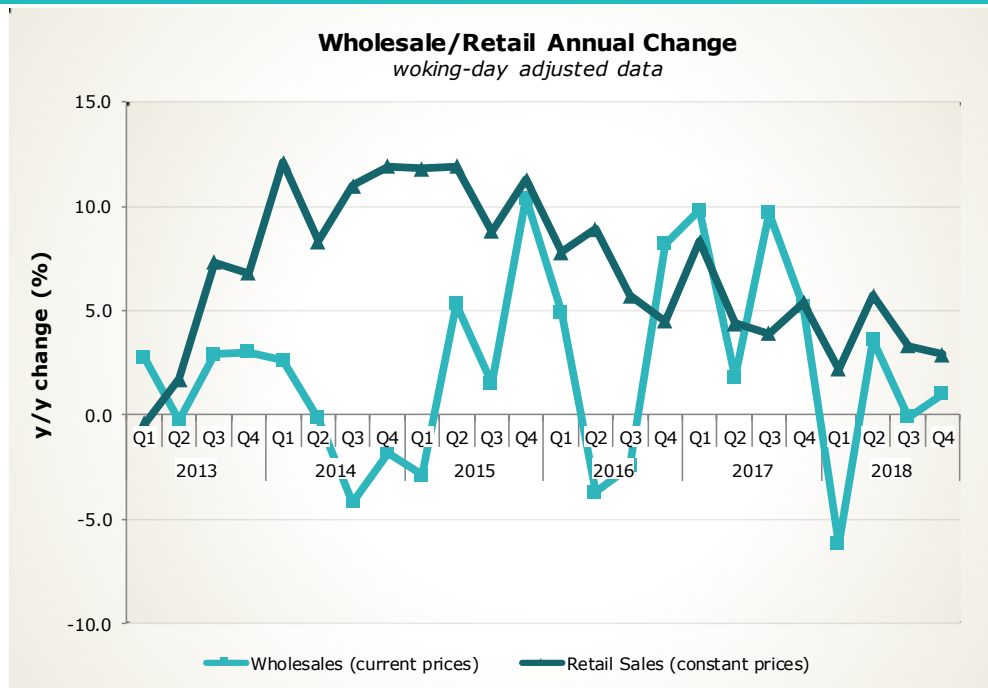
Source: NSI

2.5. WHOLESALE/RETAIL

Retail sales accelerated the pace of increase in December by 2.9% y/y

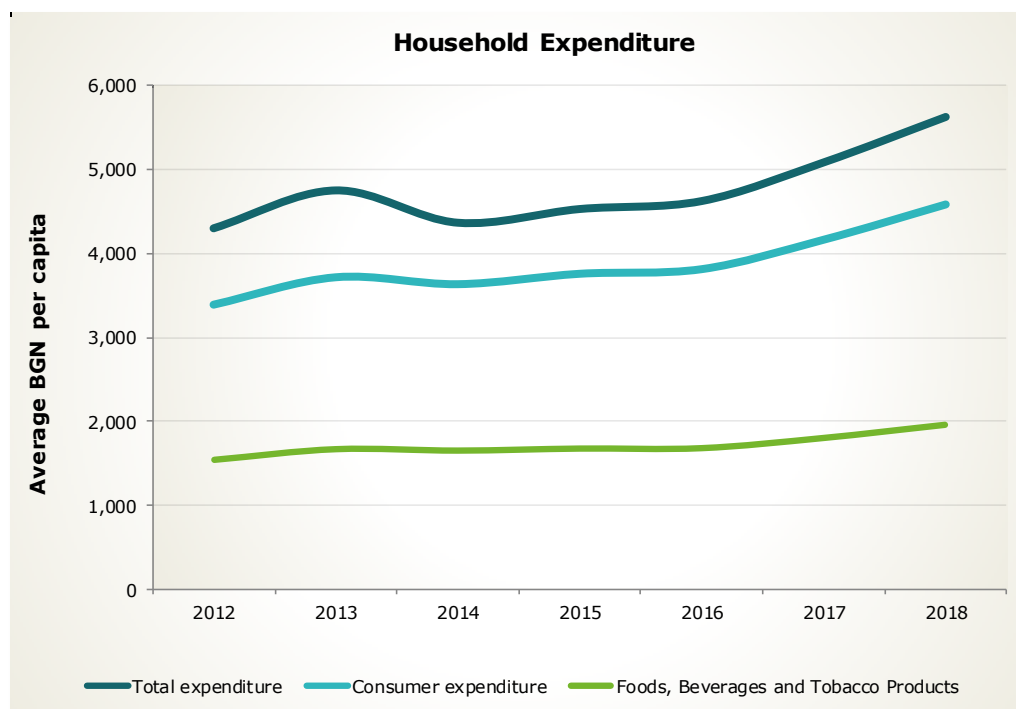
In December the retail sales index unfastened its rate of expansion to 2.9% y/y from 3.3% in September 2018, according to NSI data.

All but two of the retail sectors registered an annual decrease in sales with computers, peripheral units and software retail sales segment posting the highest annual decrease of 11% y/y. Retail sale via mail order houses or via Internet was the segment to report the highest annual increase, of 65.7%.



Source: NSI

Household expenditure continued their strong performance in 2018, rising by 10.7% y/y to BGN 5,621 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 2018. In addition, banks eased consumer lending conditions and interest rates further went down. Spending on food, beverages and tobacco products went up by 8.8% y/y in 2018 to BGN 1,951 per capita and sliced 34.7% of the total consumer expenditures.



Source: NSI

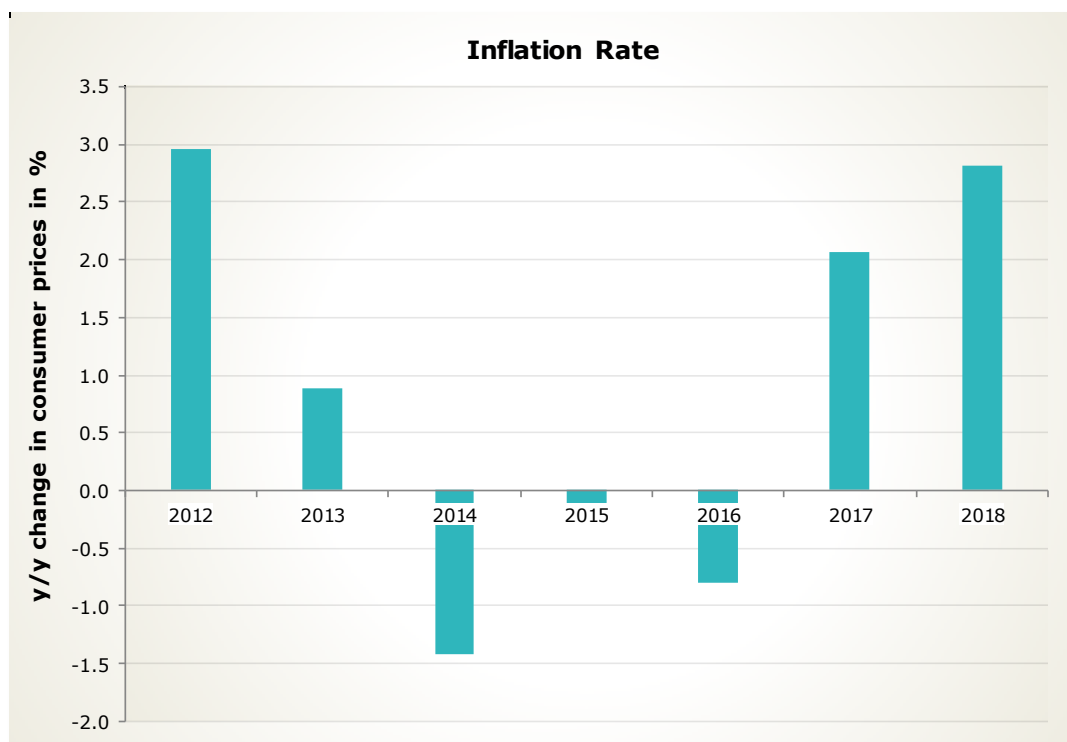
2.6. INFLATION

Inflation went up in 2018 to 2.8%

In 2018, the overall annual inflation in Bulgaria as measured by the Consumer Price Index (CPI) came in at 2.8%. This was higher compared to 2017, when the CPI index advanced by 2.1% y/y.

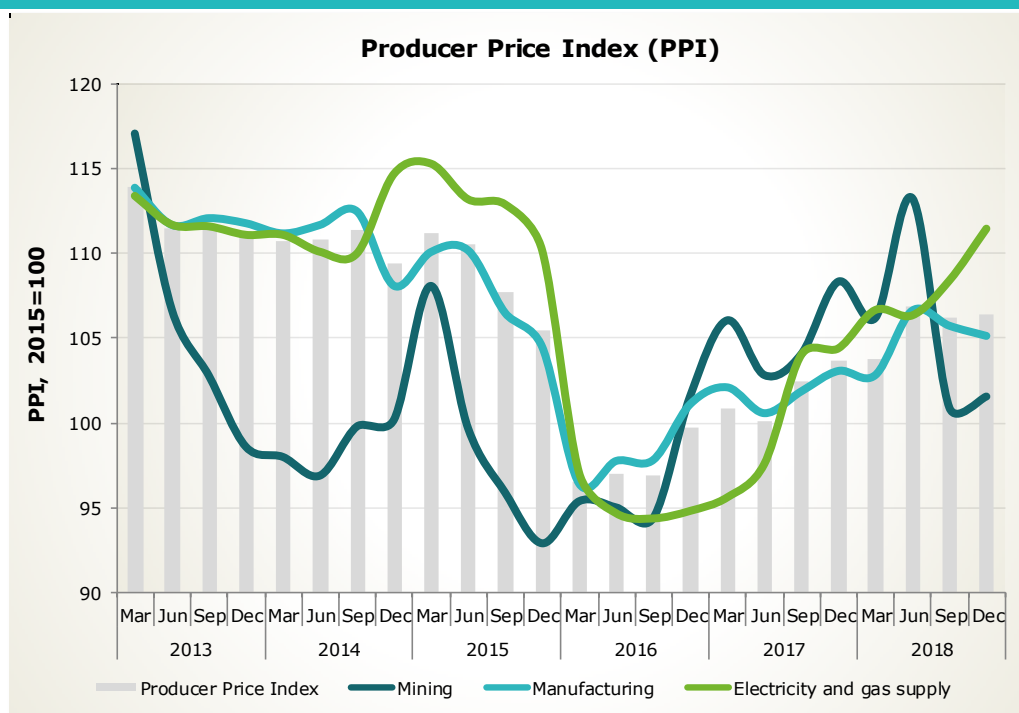
The highest annual inflation, of 4.9%, was registered in transportation services, followed by housing, water, electricity, gas and other fuels with 4.6%. Prices hotels and restaurants posted the third largest y/y rise, of 4.5%.

Clothing and footwear was the only consumer group to report a deflation, of 1.4%.



Source: NSI

Producer prices increased by 2.7% y/y on average in December 2018, according to the Producer Price Index, calculated by NSI. The sector of electricity and gas supply increased prices by 6.8% y/y while the manufacturing sector lifted prices by 2.0% y/y on average. The mining sector PPI went down by 6.3% y/y in December 2018.



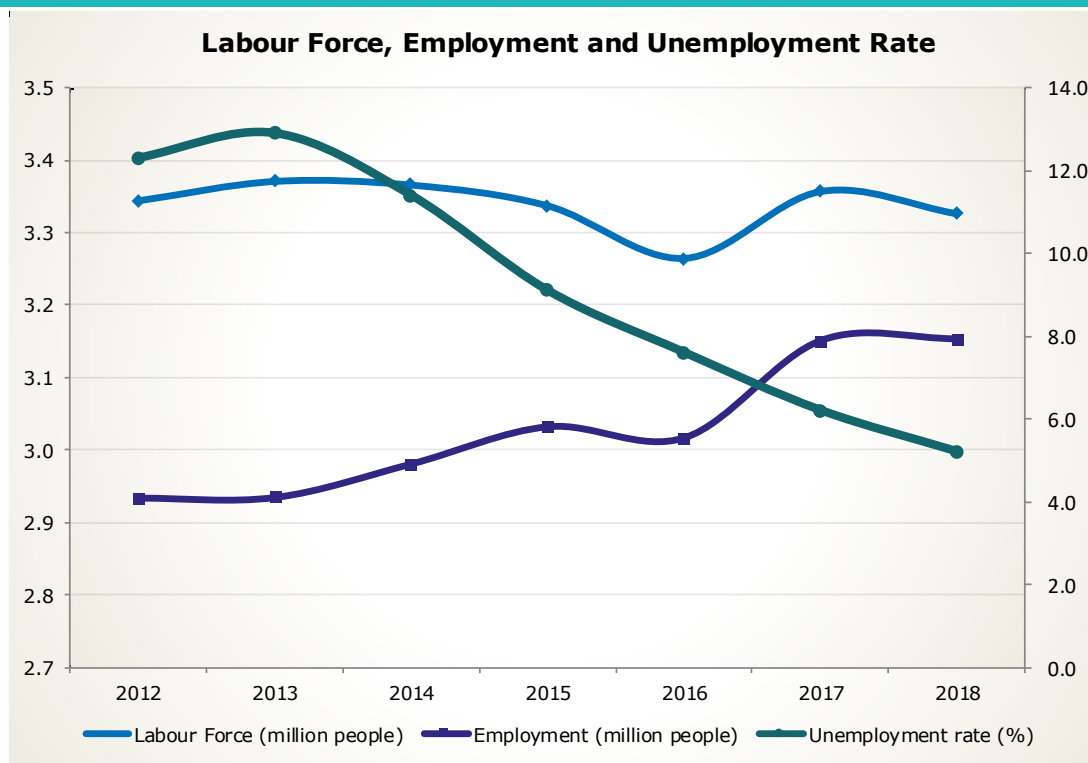
Source: NSI

3. LABOUR MARKET

Unemployment rate decreased by 1.0 pp y/y, wages grew 7.5% y/y in 2018 on strong economic growth and tightening labor market

The unemployment rate in Bulgaria narrowed to 5.2% in 2018, down 1.0 pp y/y, according to data of NSI. The employed population aged 15 years and older was 3.153 million in 2018, up by 0.1% y/y. Youth (population aged 15-24) unemployment rate went down to 12.7%, compared to 13.4% in Q3 2018 and 12.9 % in 2017.

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



Source: NSI

According to data of NSI, the average monthly salary in 2018 grew by 7.5% y/y to BGN 1,123. Wages in the private and public sectors went up by 7.0% y/y and 8.8% y/y, respectively. Employees in IT and communication, energy, and financial and insurance activities earned the highest salaries of BGN 2,674, BGN 1,809 and BGN 1,868, respectively.

4. CONSTRUCTION AND REAL ESTATE

The number of building permits declined by 3.8% y/y in 2018

The number of building permits issued in Bulgaria in 2018 decreased by 3.8% y/y and totalled 10,728, according to NSI data. The permits for housing projects went up by 3.8% to 5,774, while permits for office buildings went up to 128, compared to 127 a year earlier.

The total built-up area of office units, covered by the permits, increased to 504,341 sq m in 2018 from 219,688 sq m in 2017. The total built-up area of the housing units went up by 39% to 4,471,065 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 1.6575 in 2018 from BGN 1.7350 a year ago, according to Bulgarian National Bank (BNB) data.

BGN Average Exchange Rate			
Foreign Currency	2018	2017	2016
EUR*	1.9558	1.9558	1.9558
USD	1.6575	1.7350	1.7683
GBP	2.2114	2.2322	2.342
CHF	1.6934	1.7617	1.7945

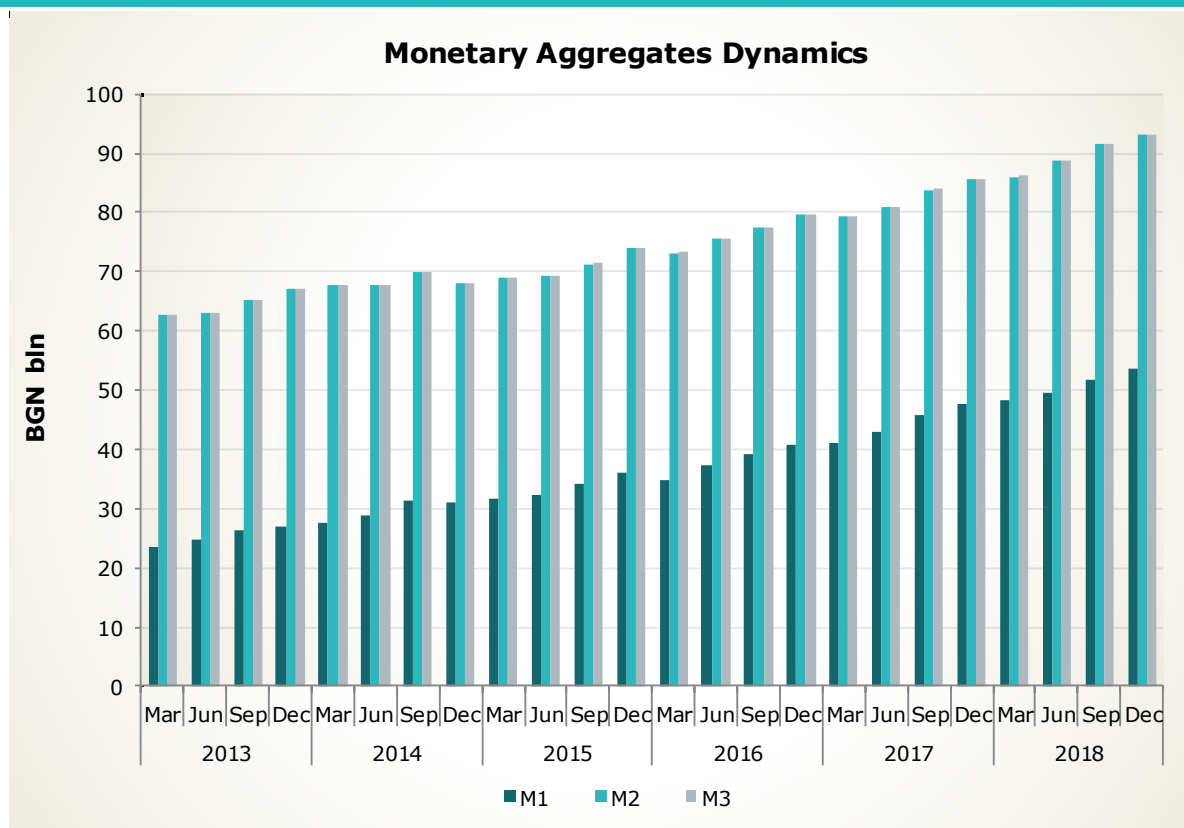
*The Bulgarian lev (BGN) is pegged at a fixed exchange rate of BGN 1.95583 per EUR under a currency board system.

5.2. MONETARY AGGREGATES

Money supply growth was 8.8% y/y at end-2017, up from 7.7% in 2017

In 2018 non-government sector's deposits in the banking system continued growing at high rates, according to data from BNB. At the end of 2018 the broad monetary aggregate M3 rose by 8.8% on an annual basis with the overnight deposits continuing to be the main positive contributor to the broad money dynamics. The total amount of deposits of the non-government sector in the banking system, as of December 2018, has growth 7.3% y/y, compared to 6.2% in 2017. Dynamics of the non-government sector bank credit was also upward and reflected the favourable macroeconomic environment, the rising domestic demand and the low interest rates on loans, according to BNB.

The M2 money supply also grew by 8.9% y/y to BGN 93.255 bln. Money aggregate M1, or narrow money, jumped by 12.2% to BGN 53.557 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.



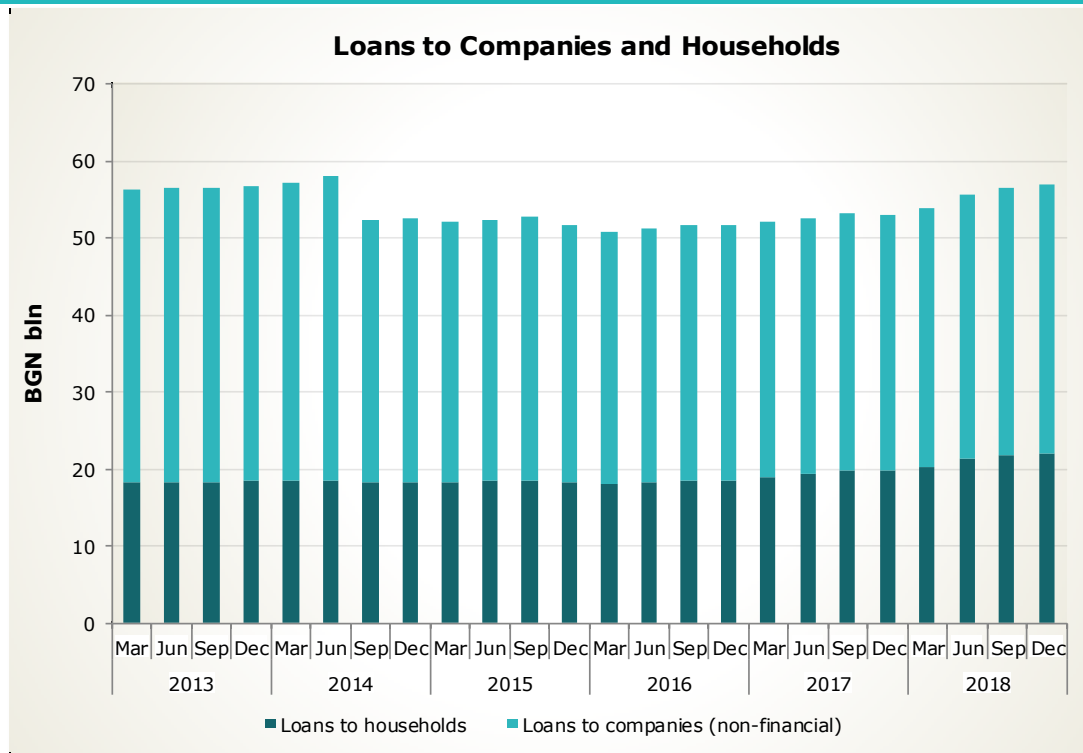
Source: BNB

5.3. BANKING AND INSURANCE

Household loans increased by 11.6% y/y in December 2018 on high demand and solid economic growth

In December 2018, the total loans to the non-financial corporations and households sector increased by 7.6% y/y to BGN 56.947 bln. According to BNB, the upward trend in loans to the non-financial private sector in 2018 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.

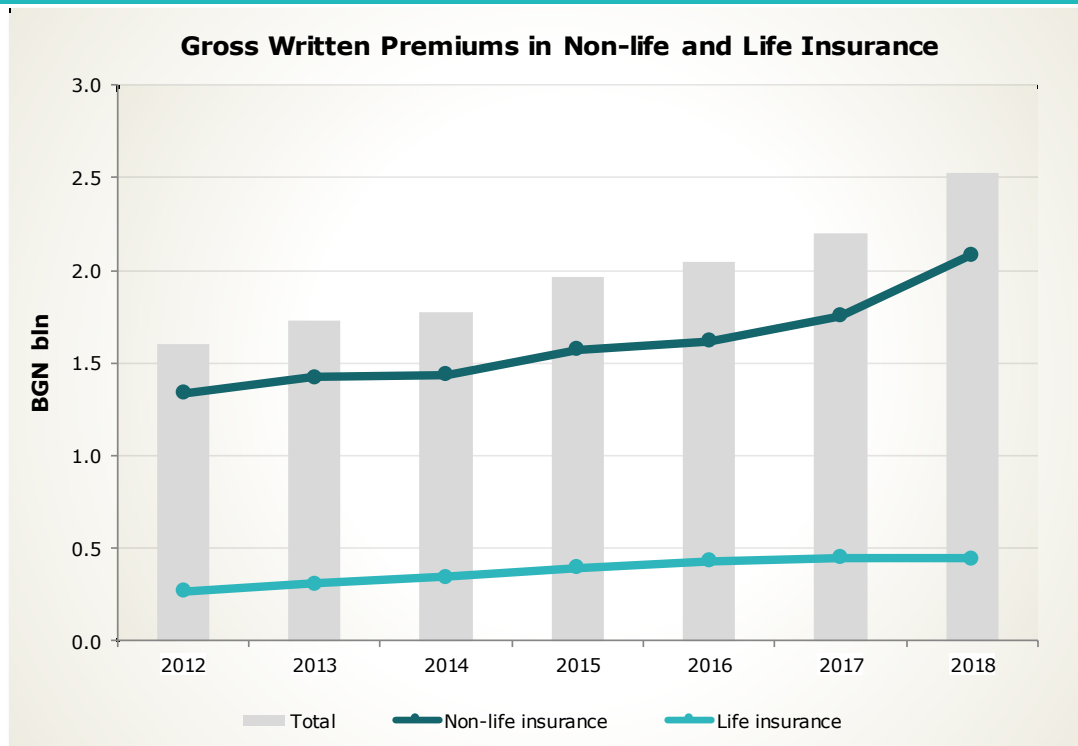
The loans to non-financial corporations increased by 5.2% in end-2018 at BGN 34.871 bln largely due to writing-off of nonperforming loans and to a lesser extent to sales of loans. Unlike non-financial corporations, the upward trend in household credit was sustained throughout 2018. As of December 2018, the annual growth of loans to households came in at 11.6%. 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.



Source: BNB

Premium income up 14.8% y/y in 2018

The total gross written premiums (GWP) of the Bulgarian non-life and life insurance companies stood at BGN 2.5 bln, up by 14.8% y/y in 2018, according to the Financial Supervision Commission (FSC). The GWP of the non-life insurance market stood at BGN 2.1 bln, or by 18.9% more than in the previous year, while the life insurance market shrank by 1.1% y/y to BGN 444 mln.



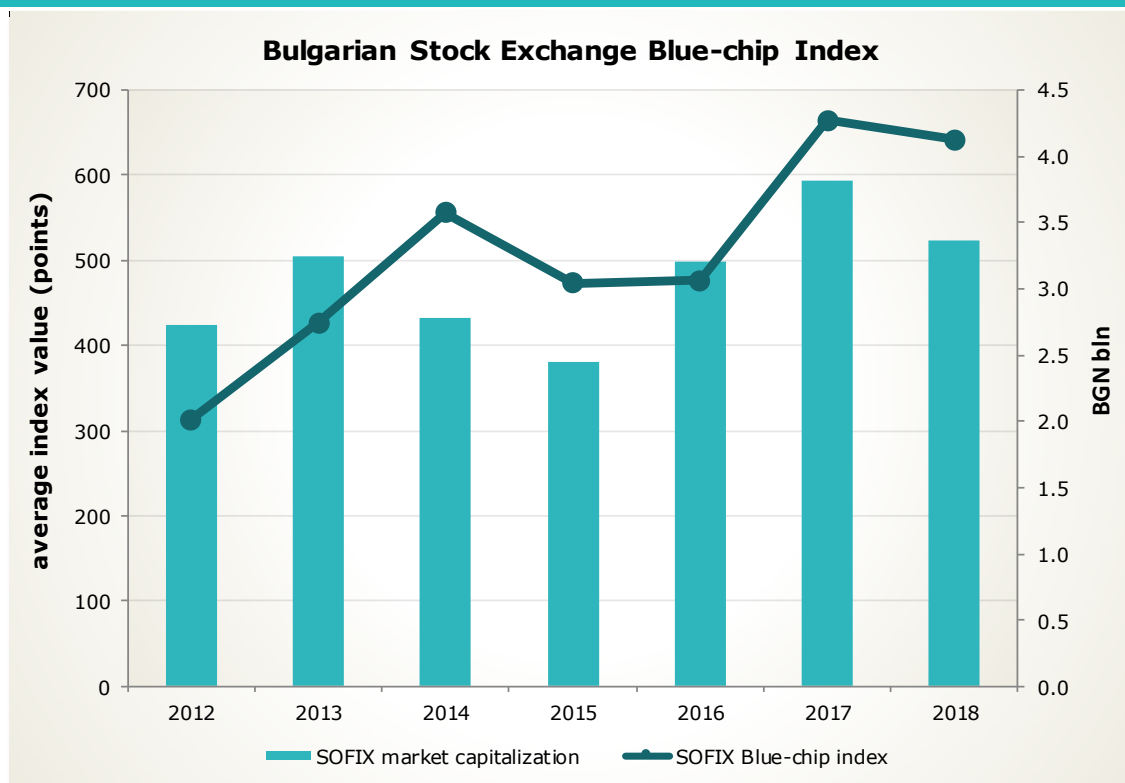
Source: FSC

6. CAPITAL MARKETS

Blue-chip SOFIX decreased by 3.3% in 2018

The Bulgarian equities dropped down in 2018, after rallying in 2017. SOFIX, the blue-chip index of the Bulgarian Stock Exchange (BSE), decreased by 3.3% y/y to 642 points in end-2018, according to BSE data. In Q4 2018 alone, SOFIX went down by 5.1% q/q.

The total turnover on BSE's regulated market came in at BGN 453.9 mln in 2018, compared to BGN 623.6 mln in 2017.



Source: BSE

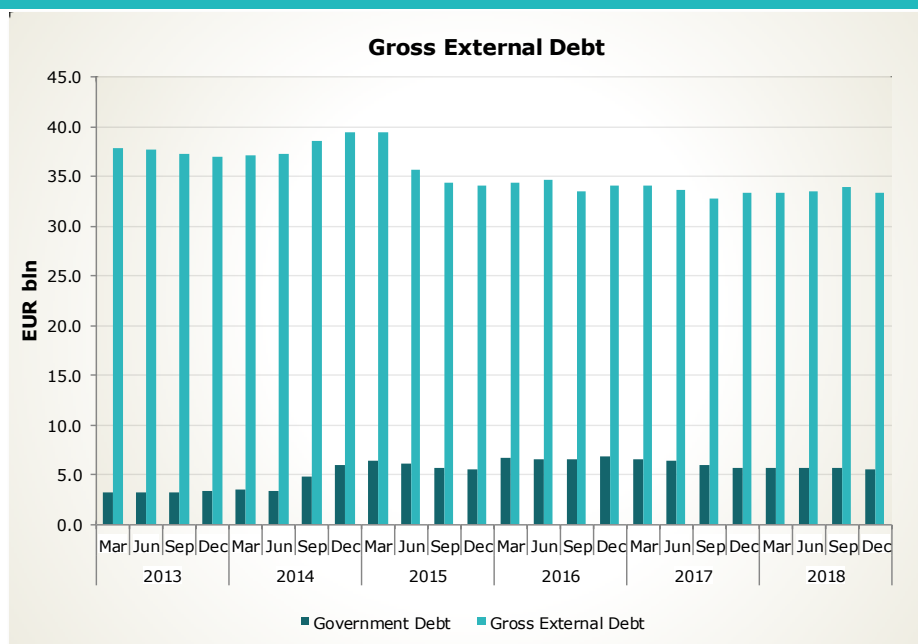
7. EXTERNAL SECTOR

7.1. FOREIGN DEBT

The gross external debt inched down by 0.2% y/y to EUR 33.343 bln at end- 2018

The gross external debt decreased by 0.2% y/y totalling EUR 33.343 bln at the end of December 2018, according to BNB. Relative to the economy, the gross external debt accounted for 60.4% of country's GDP.

As of end-December 2018, long-term liabilities amounted to EUR 25.174 bln, or 75.5% of the total debt, and short-term liabilities totalled EUR 8.169 bln, equal to 24.5% of the total debt.

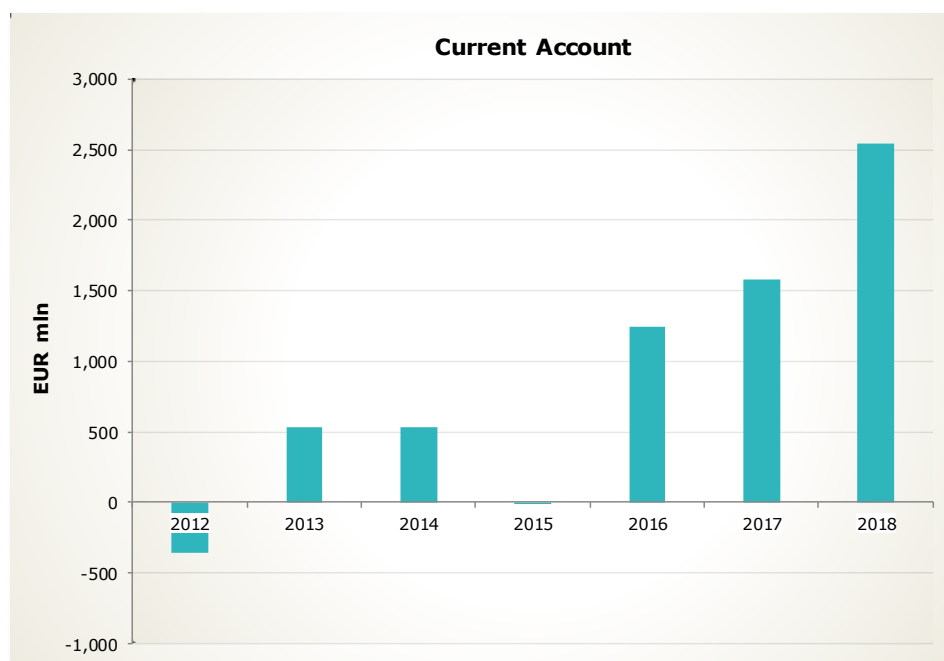


Source: BNB

7.2. BALANCE OF PAYMENTS

Current account balance turned negative in Q4 2018. For full 2018, the current account surplus increased with 61.4% y/y.

In the last quarter of 2018, Bulgaria had current account surplus of EUR 24 mln, compared to a surplus of EUR 2.257 bln in Q3 2018 and a deficit of BGN 651.5 mln in Q4 2017, according to the central bank statistics data. For full 2018, the current account surplus came in at BGN 2.548 bln, or 61.4% increase, compared to the previous year.



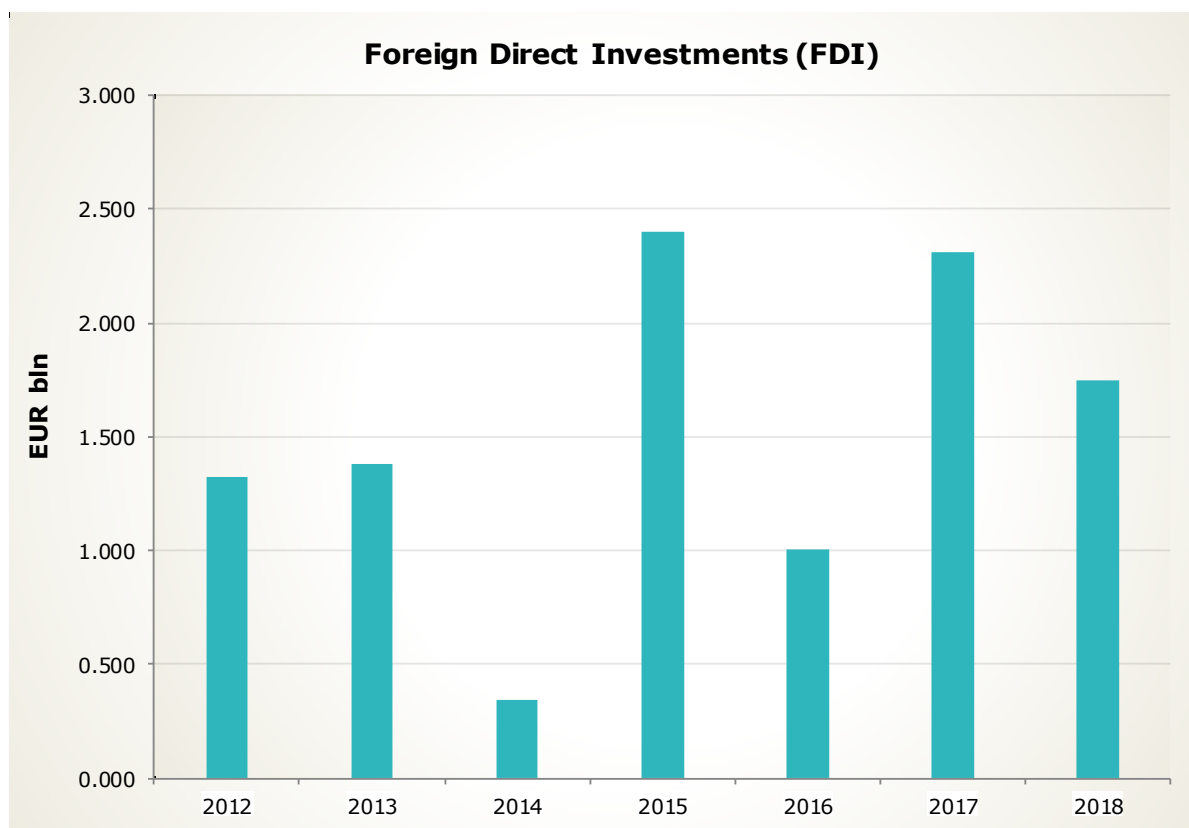
Source: BNB

7.3. FDI

FDIs declined for a third year in 2018

Country's Foreign Direct Investments (FDIs) in 2018 were positive at EUR 1.744 bln, down 24.6% y/y compared to BGN 2.314 bln FDIs in the previous year, according to BNB data. In 2018, FDIs accounted for a 3.8% 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 2019 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 65.5% y/y in 2018 to BGN 3.92 bln

The strong domestic demand, fuelled by the improved economic conditions and income rises, boosted imports in the country in 2018. The increased global prices of major commodity groups also contributed to the nominal rise in country's imports and it surged by 6.2% y/y to EUR 32.17 bln. In 2018, exports increased by 6.2% y/y to BGN 32.169 bln, up from EUR 30.286 bln and EUR 26.181 bln in 2016.

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 import's growth during the last quarter of 2018.



Source: BNB

7.5. TOURSIM

Number of foreign tourist overnights went up by 3.8% y/y in 2018

Tourist overnights of foreigners increased by an annual 3.8% to 17,748,925 in 2018, according to NSI data.

The number of foreign tourists also went up - by 5.5% y/y to more than 5.8 mln. The most arrivals were from Romania, Greece and Turkey.



Source: NSI

8. MAJOR DEVELOPMENTS

Bulgarian govt grants EUR 39 mln to ICGB to build gas link with Greece

Dec 19, 2018

Bulgaria's government said in December that it will grant BGN 76.2 mln to ICGB, the company developing the Gas Interconnector Greece-Bulgaria project, for the construction of the pipeline.

[Read the full story here](#)

Bulgaria's health ministry opens EUR 12.2 mln drug supply tender

Dec 14, 2018

Bulgaria's health ministry said in December that it has opened a BGN 23.8 mln tender for supply of pharmaceutical products needed in 2019.

[Read the full story here](#)

EU Commission endorses EUR 71 mln financing for Bulgarian emergency healthcare

Dec 13, 2018

The European Commission said that it has approved EUR 71 mln of Cohesion Policy financing for a project aimed at improving Bulgaria's emergency healthcare services.

[Read the full story here](#)

Bulgaria's govt allots EUR 685 mln for building 134 km of Hemus motorway

Dec 12, 2018

Bulgaria's government said in December that it will transfer an additional BGN 1.34 bln from this year's central budget to the regional development ministry for the construction of 134.2 kilometres of Hemus motorway from Boaza road junction to the city of Veliko Tarnovo.

[Read the full story here](#)

EC approves financing for upgrade of Bulgaria's Plovdiv-Burgas railway

Nov 15, 2018

The European Commission said in November that it has approved EUR 293 mln in Cohesion Fund financing for an upgrade of a 293-km railway connecting Plovdiv, Bulgaria's second largest city, to Burgas, on the Black Sea coast.

[Read the full story here](#)

Bulgaria signs EUR 70 mln road construction deal with Strabag-Bitumina tie-up

Nov 15, 2018

Bulgaria's Road Infrastructure Agency said in November that it has signed a BGN 137.5 mln contract for construction of a 14.5-kilometer road section with a tie-up between the Bulgarian and Polish units of Austria's Strabag, and Bitumina GmbH – Bulgaria, a subsidiary of Austria's Bitumina.

[Read the full story here](#)

Bulgaria, Greece commit to further develop two transport infrastructure projects

Nov 2, 2018

Bulgaria and Greece signed in November a joint declaration on the projects for an upgrade of the railway link Thessaloniki-Kavala-Alexandroupolis-Burgas-Varna and the construction of a high-speed road from Alexandroupolis to Burgas, Bulgaria's government said.

[Read the full story here](#)

Bulgarian govt adopts changes to central bank law in preparation for ERM entry

Oct 24, 2018

Bulgaria's government said in October it has approved amendments to the central bank law in accordance with its action plan for joining the Exchange Rate Mechanism II (ERM II) - the eurozone's waiting room, and the EU's Banking Union.

[Read the full story here](#)

EC oks funding for second stage of Sofia's integrated public transport project

Oct 10, 2018

Bulgaria's regional development ministry said that the European Commission has approved a BGN 107.3 mln grant for the second phase of the Sofia integrated public transport project.

[Read the full story here](#)

EBRD, EU, Bulgaria to invest up to EUR 230 mln in national water sector

Oct 4, 2018

A total of EUR 230 mln provided by the European Bank for Reconstruction and Development, the European Structural and Investment Funds and Bulgaria's budget will be invested in improvements in water supply, sewage and wastewater treatment in the country, the EBRD said in October.

[Read the full story here](#)

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