



REPUBLIC OF BULGARIA
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January/2014



BULGARIAN ECONOMY

Monthly Report

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Economic and Financial Policy Directorate

102, Rakovski Str., 1000 Sofia, Bulgaria
<http://www.minfin.bg/en/page/542>
e-mail: secretary.evp@minfin.bg

Highlights

According to flash estimates, **Bulgarian GDP growth accelerated to 1% yoy (s.a. data) in Q4 2013** from 0.7% in the previous quarter. External demand again largely accounted for the registered growth, with export of goods and services up by 9.4% and import up by 4.8%. Final consumption also gathered some speed expanding by 1%. After being on the increase for the last few quarters, investment in fixed capital recorded a decrease, down by 0.7%.

Short-term business statistics showed some mixed performance as the growth of retail sales and industrial output has been sustained as of November, while industrial turnover moved to negative territory after domestic sales decreased on a year earlier. Nevertheless, according to recent surveys, the **business climate** as well as the **consumer confidence** indicators both improved at the beginning of 2014 on the back of more optimistic expectations for the economic situation in the country.

The **jobless rate** increased marginally to 11.8% at the end of the year due to both lower demand on primary labour market and ALMM. **Consumer prices** went up by 0.4% mom in December, thus the annual average inflation in 2013 stood at 0.4%, while the end-of-period inflation rate reported negative at 0.9%.

The trade balance remained practically unchanged in November, while the surplus on services narrowed somewhat. Thus, following a minimal deficit during the month, the **current account surplus** accumulated from the beginning of the year reached EUR 1.13 bn (2.8% of GDP). The **financial account deficit** stood at EUR 1.9 bn (4.6% of GDP), up compared to Jan-Nov 2012 driven largely by the increase of bank assets abroad.

According to preliminary data, the **budget deficit under the CFP** stood at 1.8% in 2013, BGN 150 mln below the 2% deficit target set by the State Budget law. **Government debt** at the end of the year amounted to BGN 14.1 bn, i.e. BGN 500 mln less than the limit.

Recent Economic Developments

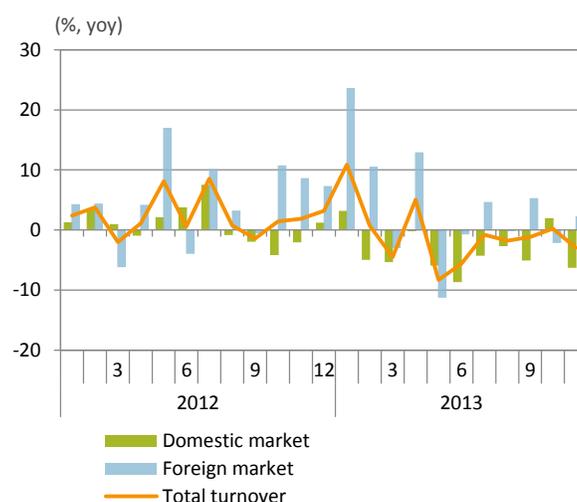
SHORT-TERM BUSINESS STATISTICS

Industrial turnover decreased by 2.9% yoy in November as domestic sales returned to negative territory, down by 6.3%. *Electricity, gas, steam and air conditioning supply* contributed the most for the reported decrease, followed by *manufacture of food products, beverages and tobacco*. At the same time, foreign market sales increased by 2.3% compared to a year earlier. *Manufacture of fabricated metal products, except machinery and equipment, and manufacture of weapons and ammunition* in particular, had a major contribution for the reported growth. *Manufacture of food products, as well as electricity, gas, steam and air conditioning supply* also added to the observed upward dynamics.

The growth in **industrial production** slowed to 1.5% yoy compared to an annual increase of 3.8% in October. The negative contribution of *electricity, gas, steam and air conditioning supply* and the lower increase in *manufacture of basic metals and fabricated metal products, except machinery and equipment* were the main reason for the decelerating trend in industrial activity.

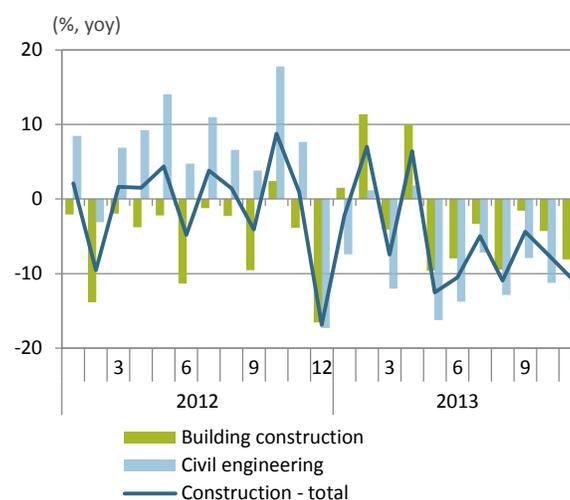
The favorable dynamics in **retail sales** have been sustained as their growth rate reached 6.3% over the corresponding month a year earlier. *Retail sales of computers, peripheral units and software* posted the largest increase, up 17.5% yoy, followed by *retail sales of audio and video equipment* and *other retail sales in non-specialized stores*, up by 14.8% and 10.8%, respectively.

Fig. 1: Industrial turnover



Source: NSI

Fig. 2: Construction production index



Source: NSI

The slump in the **construction production index** reached 10.5% yoy. Both *building construction* and *civil engineering* contributed for the registered decline, down by 8.1% and 13.5%, respectively.

BUSINESS SURVEYS

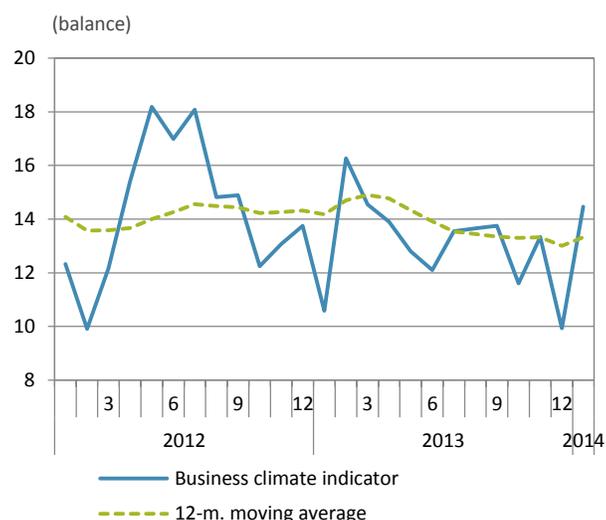
The **business climate indicator** increased by 4.6 pps in January, as the year started with more optimistic expectations about the business situation of enterprises in all observed sectors. However, the current situation continued to be difficult with respondents in industry reporting decrease in export orders in recent months, and managers in retail sector pointing out a drop in sales. Construction orders also decreased, nevertheless, expectations for the activity in the coming months were favorable. In the services sector, the number of respondents reporting insufficient demand as a problem fell by 4.9 pps compared to a month earlier.

According to the January **consumer survey**, the consumer confidence indicator has improved, up by 5.9 points compared to October survey results and up 5.2 points on a year earlier. The improvement came on the back of optimistic expectations concerning both the economic situation in the country and households' financial situation. Respondents didn't anticipate any increase in inflation or unemployment.

LABOUR MARKET

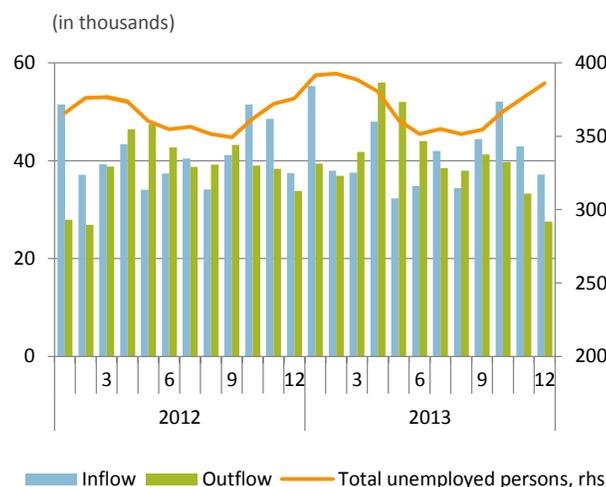
The **jobless rate** increased to 11.8% in December due to both lower demand on primary labour market and ALMM. The overall unemployment number went up by 2.6% mom (9.6 K) and totaled 386.2 K. Unemployment inflow reflected a lower intensity in the seasonal workers dismissals and the newly registered in the employment offices made a 14.3% decrease compared to a month earlier. The outflow of unemployed also fell, down by 17.2%, entirely driven by the smaller monthly number of persons who found jobs in December (10.6 K). The lower end-year activity of the implemented ALMM resulted in

Fig. 3: Business climate



Source: NSI

Fig. 4: Inflow, outflow and unemployed persons



Source: EA

a decrease in the number of people who started working under programs and measures for subsidized employment to 1.1 K. Meanwhile, the primary sector demand of labour also remained subdued, thus lowering the scope of people who found jobs to 5.9 K in December.

INFLATION DEVELOPMENTS

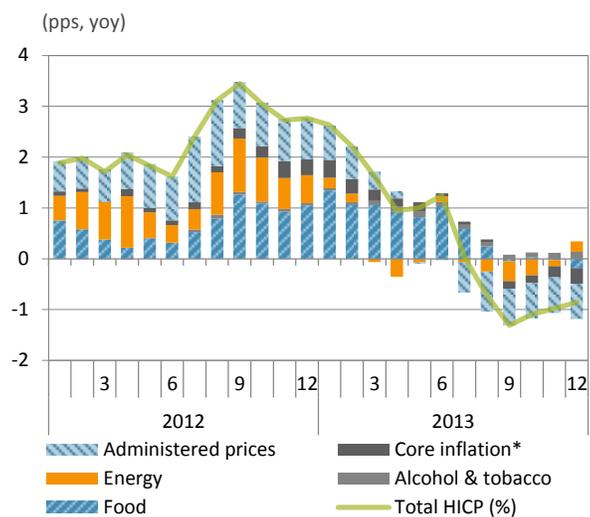
Consumer prices went up by 0.4% mom in December, thus the annual average inflation in 2013 stood at 0.4%, while the end-of-period inflation rate reported negative at 0.9%. Prices of market services increased by 1.3% mom largely due to seasonal hikes in prices of tourist services. Prices of domestic package holidays and accommodation services in resorts increased by 21.7% and 13.3% mom respectively, contributing together by 0.26 pps to the rise in the headline rate. Low cost airfares reported an 86.6% appreciation in December alone, adding another 0.12 pps. Automotive fuels were also responsible for the rise in the HICP, as their prices went up by 1.7% on average (+0.15 pps). Prices of foodstuffs remained broadly flat over the previous month, while prices of non-energy industrial goods continued on the decrease, down 0.5% mom.

EXTERNAL SECTOR

Following a minimal deficit of EUR 20.9 mln in November, the **current account surplus** accumulated from the beginning of the year reached EUR 1.13 bn (2.8% of GDP). In the month alone, export of goods continued to improve, although at a more moderate pace, up 1.9% yoy, while import rose 1.7% yoy, thus leaving trade balance practically unchanged.

Services receipts declined again, as other services export contracted by 25% yoy. The lower inflow resulted from smaller export of *computer and IT services* and *other business services*. Meanwhile, services import increased by 1.6% yoy, and thus contributed to a lower *services surplus*. The latter stood at 5% of GDP in Jan-Nov, being 5.8% in the same period of 2012. *The*

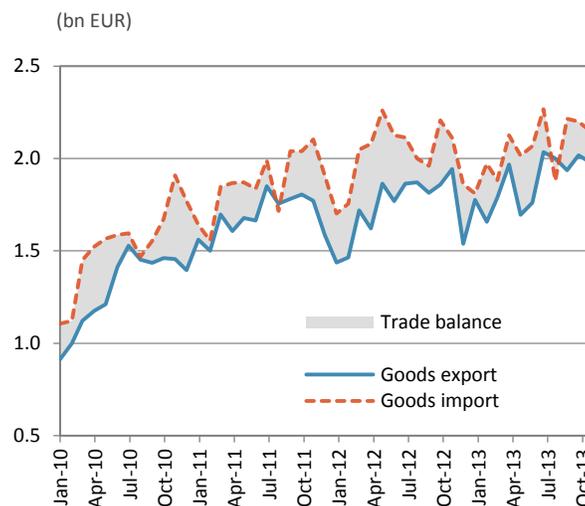
Fig. 5: HICP and contributions by main components



* Overall index excluding energy, food, alcohol and tobacco.

Source: NSI, MF

Fig. 6: Merchandise trade dynamics



Source: BNB

income deficit for the eleven months was 2.8% of GDP vs. 2.9% a year earlier, reflecting slightly higher payments to Bulgarians employed abroad. *Current transfers' surplus* increased to 5.4% of GDP, being 4.6% twelve months earlier.

Financial account deficit stood at EUR 1.9 bn (4.6% of GDP) compared with a surplus of EUR 1.7 bn in Jan-Nov 2012. Inflows of foreign portfolio and direct investment have been reported during the month, the increase of bank assets abroad, however, continued and proved as a main driver of the financial account deficit.

Gross external debt (GED) stood at EUR 37.4 bn (92.7% of GDP) as of end-November, being 95.6% of GDP a year earlier and 94.9% at end-December 2012. Indebtedness increased over the previous month as private non-financial companies' long-term bonds debt rose by EUR 840 mln. The external debt of other institutional sectors remained almost unchanged. Short-term debt represented 27% of GED. Net external debt widened marginally to 35.6% of GDP.

FINANCIAL SECTOR

International reserves dropped by 3.9% mom in January; nevertheless, they had their annual decrease down to 2.3% after a 7.2% yoy drop in December. Monthly dynamics were driven by the 6.1% decline of notes in circulation and the 12.1% decrease of the Government deposit. Lower demand for cash and the usual excess of budget expenditures over income in the beginning of the year were behind the drop in official reserves. On the other hand, the Banking Department deposit was the only component that reported positive change, reflecting the increase of gold prices in January. The coverage of the monetary base increased marginally by 5 bps to 162.7%. As of end-November the level of reserves could cover 6.1 months of imports or 141.4% of the short-term external debt.

Money supply growth decelerated to 8.9% yoy in December coming from 9.6% a month earlier. The latter resulted from the relative slowdown in the increase of the liquid aggregate

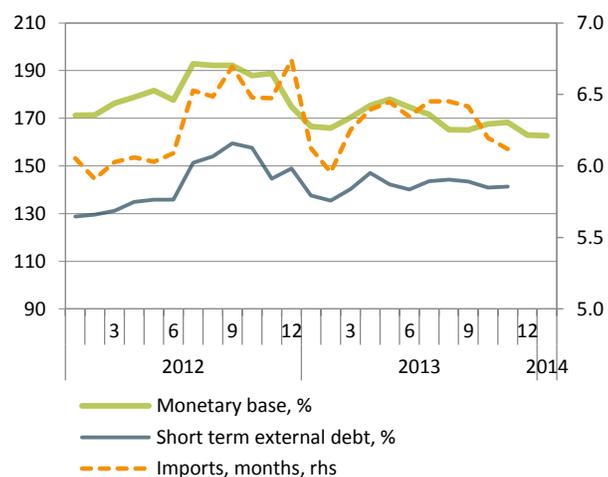
Fig. 7: FDI, Current and Financial Account

(January-November, bn EUR)



Source: BNB

Fig. 8: Coverage with FX Reserves



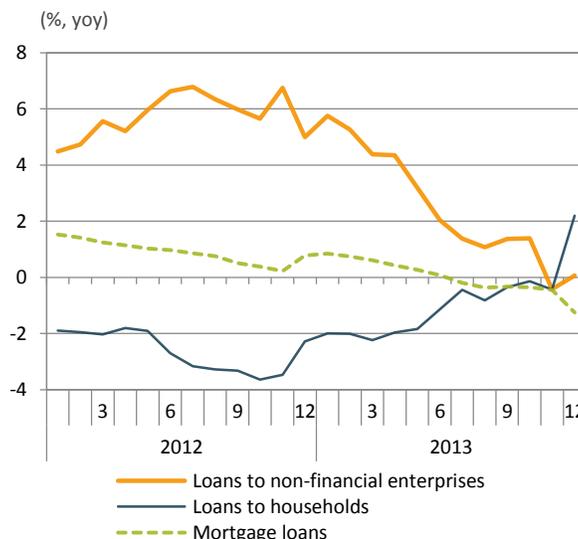
Source: BNB, MF

(M1), up 17.5%, as both money outside MFI and overnight deposits reported lower growth rates. At the same time, deposits with agreed maturity limited their decrease from 9.7% to 8.5% yoy, while deposits, redeemable at notice, grew by 63.6% compared to 71.5% at end-November. Broad money increased by 1.5% in December alone led by the 6.4% mom increase of deposits, redeemable at notice, and the 1.9% increase of deposits with agreed maturity. Total deposits expanded by 1% over the previous month, but their annual growth rate came slightly down from 9.9% in November to 9.4% at the end of December.

Credit to the private sector reported a 0.2% yoy increase at the end of 2013 after the 0.6% drop a month earlier. The increase of consumer credits, up 2.2% yoy, largely accounted for the registered growth. Corporate credit also had a positive contribution, up 0.1% yoy after a 0.4% yoy decrease in November. The slump of mortgages widened, down 1.2% yoy as of end-December from 0.4% at the end of the previous month. **Bad and restructured credits** reported a marginal 0.2% yoy increase after being on the decrease for seven months in a row. Nevertheless, their share in total credits for households and corporations narrowed further to 18.1% being 18.2% as of end-November.

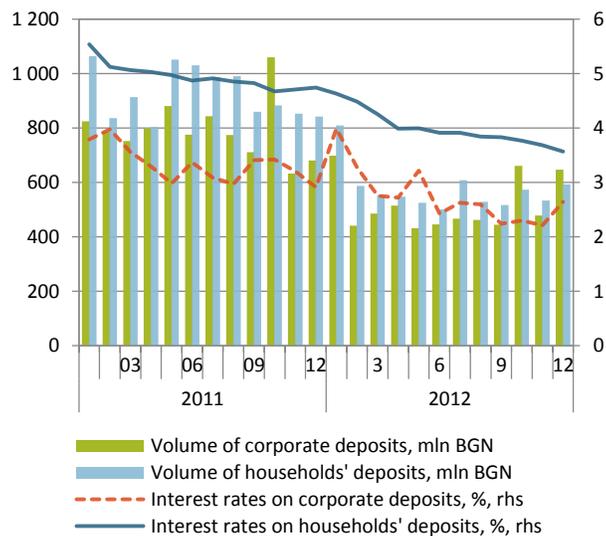
Weighted average interest rates on corporate and consumer credits went up by 53 and 76 bps, respectively, in December, while the average price of mortgages slightly declined, down 18 bps. Compared to December 2012, however, the monthly volumes of new credits were up by 23.5%, 14% and 12.3%, respectively for the three types mentioned above. Weighted average interest rate on local currency denominated deposits remained unchanged. At the same time, the average rate on deposits in euro went down by 23 bps and the US dollar deposits offered a 43 bps better return as compared to November. The total monthly amount of new deposits was by 17.6% lower compared to the corresponding month a year earlier.

Fig. 9: Credit growth



Source: BNB, MF

Fig. 10: Interest rates and volumes of time deposits in BGN up to 1Y



Source: BNB, MF

FISCAL DEVELOPMENTS

General government deficit amounted to BGN 1.4 bn (on a cash basis) at end-2013, equal to 1.8% of GDP. According to preliminary data, the reported negative balance stood below the targeted deficit level of 2% of GDP determined by the amendments of the 2013 State Budget Law.

Total revenue and grants equaled 95.4% of the plan, reaching a nominal growth rate of 5.5% yoy. Non-tax revenue came above the budget forecast at 104.5% of the plan, while tax revenue and grants were below the initial estimates, 97.9% and 70.7%, respectively. Tax revenue grew by 3.9% yoy as direct taxes were up by 3.3% yoy, indirect taxes - up by 2.2% yoy, and social and health insurance contributions – up by 8.3% yoy. Non-tax revenue increased by 10.8%, while grants were raised by 11.7% compared to 2012.

Total expenditure, including contribution to EU budget, increased by 9.3% compared to the previous year, with the highest contribution coming from social payments followed by capital expenditure. Compared to the annual forecast, general government expenditure equaled 95.2% of plan.

Fiscal reserve at end-December was BGN 4.7 bn (5.9% of GDP), i.e. BGN 200 mln higher than the limit set by the Budget Law.

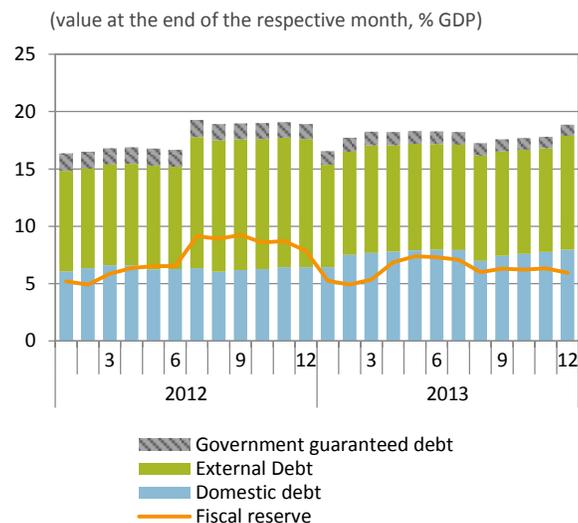
General government debt amounted to 18.9% of GDP at end-2013. Domestic debt stood at 8% of GDP, external debt – at 9.9% of GDP, and guaranteed debt – at 1% of GDP.

Fig. 11: Consolidated budget



Source: MF

Fig. 12: GG debt and fiscal reserve



Source: MF

Key Economic Indicators

		2010	2011	2012	2013	Q4'12	Q1'13	Q2'13	Q3'13	VII'13	VIII'13	IX'13	X'13	XI'13	XII'13
— GDP															
Gross Domestic Product ¹	% , yoy	0.4	1.8	0.8		0.6	0.4	0.2	0.7						
Consumption	% , yoy	0.5	1.5	1.8		0.4	-0.4	0.2	0.4						
Gross fixed capital formation	% , yoy	-18.3	-6.5	0.8		3.1	5.0	1.4	1.2						
Export	% , yoy	14.7	12.3	-0.4		-1.5	10.8	4.5	8.5						
Import	% , yoy	2.4	8.8	3.7		-0.4	5.6	2.0	7.4						
Agriculture	% , yoy	-6.2	-1.1	3.5		3.0	3.6	6.2	3.8						
Industry	% , yoy	-6.3	5.8	0.8		0.4	-0.3	-0.5	1.3						
Services	% , yoy	4.4	0.7	-0.2		-0.2	0.1	0.9	1.4						
Adjustments	% , yoy	-0.5	0.2	3.8		1.3	-1.0	0.8	1.5						
— Short-term business statistics															
Industrial production	% , yoy	2.0	5.8	-0.4		0.6	1.6	-4.1	-1.2	-1.3	-4.1	2.0	3.8	1.5	
Industrial turnover	% , yoy	14.1	17.2	2.3		2.1	2.2	-3.1	-1.2	-0.8	-1.8	-1.1	0.2	-2.9	
Retail trade turnover	% , yoy	-8.4	0.6	-2.3		-5.1	-3.8	1.5	5.5	4.8	5.2	6.7	6.9	6.3	
Construction output	% , yoy	-14.9	-12.8	-0.8		-1.9	-1.5	-5.9	-6.9	-5.0	-11.0	-4.4	-7.4	-10.5	
Total business climate	balance	9.6	14.2	14.3		13.0	13.8	12.9	13.6	13.5	13.7	13.7	11.6	13.3	9.9
Industry	balance	13.4	22.4	21.3		19.4	20.4	14.3	15.2	17.4	12.7	15.3	10.7	15.0	11.8
Retail trade	balance	10.1	17.3	16.4		19.3	17.0	18.1	21.6	20.9	21.9	21.8	23.4	22.8	19.9
Construction	balance	5.1	2.8	0.3		-1.8	1.3	5.0	2.7	1.9	4.3	1.8	2.2	1.9	-7.2
Services	balance	5.6	5.9	12.2		8.8	9.9	13.0	13.7	10.0	16.6	14.4	11.1	12.0	13.4
— Labour market															
Participation rate (15+)	level	52.0	52.5	53.1		53.6	52.8	53.9	54.8						
Employment rate (15+)	level	46.7	46.6	46.6		47.0	45.6	47.0	47.9						
Employment (LFS)	% , yoy	-3.9	-2.2	-2.5		-2.3	-1.7	0.7	-0.1						
Unemployment rate (LFS)	level	10.2	11.3	12.3		12.4	13.8	12.9	12.0						
Unemployment rate (Employment agency)	level	9.5	10.1	11.1		11.3	11.9	11.1	10.8	10.8	10.7	10.8	11.2	11.5	11.8
Nominal wage	% , yoy	6.4	5.8	13.3		10.3	4.3	3.8	3.7	5.1	3.1	3.1			
Real wage ²	% , yoy	3.3	2.4	10.7		7.3	2.1	2.7	4.4	5.1	3.8	4.5			
Labour productivity (GDP per employed)	% , yoy	4.5	4.1	3.4		2.7	2.5	-0.9	1.6						
Real ULC (GDP)	% , yoy	2.4	-2.2	-2.6		-6.6	8.1	11.7	9.6						
— Prices															
National index of consumer prices (CPI)	% , yoy	2.4	4.2	3.0	0.9	4.2	3.6	2.2	-0.6	0.5	-0.7	-1.6	-1.4	-1.5	-1.6
Harmonized index of consumer prices (HICP)	% , yoy	3.0	3.4	2.4	0.4	2.8	2.2	1.1	-0.7	0.0	-0.7	-1.3	-1.1	-1.0	-0.9
Domestic producer prices	% , yoy	7.1	8.6	5.4	-1.3	6.1	1.9	-0.7	-2.8	-1.8	-2.9	-3.5	-3.9	-4.0	-2.8
— Consolidated fiscal program (cumulative)															
Revenue and grants	mIn BGN	23 933	25 378	27 470	28 981	27 470	6 158	14 166	21 307	16 610	18 996	21 308	23 751	26 311	28 981
Total expenses	mIn BGN	26 755	26 867	27 828	30 430	27 827	6 955	14 172	21 668	16 778	19 209	21 668	24 194	26 883	30 430
Contribution to EU budget	mIn BGN	670	779	809	934	809	328	533	747	605	675	747	790	833	934
Cash deficit (-) / surplus (+)	mIn BGN	-2 823	-1 488	-358	-1 448	-358	-799	-7	-360	-168	-213	-360	-443	-572	-1 448
	% of GDP	-4.0	-2.0	-0.5	-1.8	-0.5	-1.0	0.0	-0.5	-0.2	-0.3	-0.5	-0.6	-0.7	-1.8
Government debt (incl. guaranteed debt)	mIn BGN	11 778	12 826	14 683	14 893	14 683	14 408	14 428	13 886	14 385	13 627	13 886	13 968	14 066	14 893

		2010	2011	2012	2013	Q4'12	Q1'13	Q2'13	Q3'13	VII'13	VIII'13	IX'13	X'13	XI'13	XII'13
	% of GDP	16.7	17.0	18.9	18.9	18.9	18.3	18.3	17.6	18.2	17.3	17.6	17.7	17.8	18.9
Fiscal reserve	mIn BGN	6 012	4 999	6 081	4 681	6 081	4 216	5 754	4 965	5 569	4 717	4 965	4 902	4 989	4 681
	%, yoy	-21.6	-16.9	21.6	-23.0	21.6	-6.9	13.7	-30.8	-21.4	-31.8	-30.8	-26.2	-26.2	-23.0
— Financial sector															
BNB International reserves	mIn EUR	12 977	13 349	15 552		15 552	14 493	14 590	14 937	14 938	14 875	14 937	14 452	14 289	14 426
Monetary base coverage	%	179.8	175.1	174.9		174.9	170.3	174.7	165.1	171.6	165.2	165.1	167.6	168.3	162.9
Coverage of import with FX reserves	months	7.3	6.2	6.7		6.7	6.3	6.3	6.4	6.5	6.5	6.4	6.2	6.1	
Coverage of short-term external debt	%	115.3	133.8	146.7		149.1	140.2	140.6	144.0	143.6	144.2	143.5	140.6	141.4	
Money M1 (Narrow money)	%, yoy	0.8	14.4	9.5		9.5	10.7	17.1	16.7	14.0	16.9	16.7	19.2	20.6	17.5
Money M3 (Broad money)	%, yoy	6.2	12.2	8.4		8.4	8.9	7.7	8.1	6.4	7.7	8.1	9.5	9.6	8.9
Deposits	%, yoy	6.6	13.2	8.4		8.4	9.3	7.8	8.3	6.4	7.8	8.3	9.9	9.9	9.4
Credit to private sector	%, yoy	1.1	3.3	3.0		3.0	2.3	0.8	0.5	0.5	0.3	0.5	0.7	-0.6	0.2
Credit to non-financial enterprises	%, yoy	2.4	5.7	5.0		5.0	4.4	2.0	1.4	1.4	1.1	1.4	1.4	-0.4	0.1
Credit to households	%, yoy	-0.8	-0.4	-1.0		-1.0	-1.3	-0.9	-0.6	-0.5	-0.8	-0.6	-0.6	-0.8	-0.2
Interest rate on short-term loans	%	8.5	7.2	7.6		7.3	7.6	8.5	7.3	7.4	7.2	7.2	8.3	7.0	8.9
Interest rate on time deposits	%	5.4	4.8	4.3		4.1	4.1	3.5	3.4	3.5	3.4	3.2	3.2	3.3	3.3
Exchange rate BGN/USD	eop	1.47	1.51	1.48		1.48	1.53	1.50	1.45	1.47	1.48	1.45	1.43	1.44	1.42
	per. av.	1.48	1.41	1.52		1.51	1.48	1.50	1.48	1.50	1.47	1.46	1.43	1.45	1.43
— Gross External Debt (GED)															
Gross external debt	% of GDP	102.7	94.1	94.8		94.8	93.2	92.5	92.1	92.8	92.2	92.0	90.9	92.7	
Short-term external debt	% of GED	30.2	27.8	27.7		27.8	27.5	27.6	27.9	27.7	27.4	27.7	27.3	26.9	
Intercompany lending	% of GED	40.4	42.7	41.6		41.6	42.3	43.3	43.4	42.7	42.6	42.6	42.3	42.6	
— Balance of payments															
Current account	mIn EUR	-533	39	-528		-493	-390	517	1 259	203	850	31	-67	-21	
<i>Current account (moving average)</i>	% of GDP	-1.5	0.1	-1.3		-1.3	-0.9	1.3	2.2	1.1	2.3	1.8	2.1	2.0	
Trade balance	mIn EUR	-2 764	-2 156	-3 622		-837	-444	-793	-379	-233	121	-279	-184	-168	
<i>Trade balance (moving average)</i>	% of GDP	-7.7	-5.6	-9.1		-8.7	-7.5	-6.5	-6.1	-6.4	-5.8	-6.1	-5.7	-5.7	
Export, f.o.b.	mIn EUR	15 561	20 264	20 793		5 343	5 223	5 428	5 972	2 035	2 001	1 936	2 017	1 980	
	%, yoy	33.0	30.2	2.6		3.5	13.0	3.3	7.6	9.2	7.0	6.7	8.4	1.9	
Import, f.o.b.	mIn EUR	18 325	22 420	24 415		-6 180	-5 666	-6 222	-6 351	-2 268	-1 881	-2 215	-2 201	-2 149	
	%, yoy	15.4	22.3	8.9		2.1	2.9	-3.8	4.5	7.3	-6.0	12.9	-0.3	1.7	
Capital account	mIn EUR	291	497	537		321	-9	83	156	39	72	57	52	91	
Financial account	mIn EUR	-673	-968	2 231		150	-735	-303	-758	92	-481	-7	-751	205	
Net Foreign Direct Investments	mIn EUR	977	1 199	1 302		-315	466	178	142	248	113	23	-120	174	
Net Portfolio Investments	mIn EUR	-635	-357	-931		-1 207	-577	-207	-146	-123	53	-57	-64	944	
Other Investments – net	mIn EUR	-990	-1 744	1 894		1 687	-615	-183	-744	-25	-647	29	-562	-909	
Change in BNB reserve assets	mIn EUR	384	-159	-2 161		-215	1 045	-527	-269	-250	129	-148	463	85	

Notes:

1. Reference year 2005, seasonally and working day adjusted data.
2. HICP deflated.