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March/2014

BULGARIAN ECONOMY

Monthly Report

April/2014

May/2014

June/2014

July/2014

August/2014

September/2014

October/2014

November/2014

December/2014

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Highlights

Short-term business statistics showed favorable developments in the beginning of the year as industrial output and retail sales gathered momentum and construction production reported an increase. Business climate indicator also improved. Against that background, industrial turnover growth remained negative after the registered slump in sales abroad.

Registered unemployment decreased marginally, while the unemployment rate stood at 12.2% in February. **Consumer prices** remained on the decrease, thus annual HICP inflation rate moved further into negative territory and stood at -2.1% yoy.

The **current account balance** was negative at 0.7% of GDP in January. The deficit more than doubled on a year earlier - as the substantial improvement in the income balance could not offset the widening of the trade deficit and the registered decrease in transfers' and services' surpluses. **Financial account** reported negative at EUR 441.7 mln compared to EUR 1 090.2 mln deficit a year earlier.

International reserves increased to EUR 14 bn as of end-March. The increase in the Government deposit largely accounted for these developments, due to the seasonal surge in tax income, while bank reserves went the opposite way. The monetary base coverage improved by 7.6 pps mom to 170.4%. As of end-January the level of reserves could cover 5.9 months of imports or 144.3% of the short-term external debt.

Consolidated budget deficit amounted to 0.9% of GDP on cash basis as of end-February, down by BGN 43.8 mln yoy, with a negative balance both under the national budget and the EU funds account. ●

Recent economic developments

SHORT-TERM BUSINESS STATISTICS

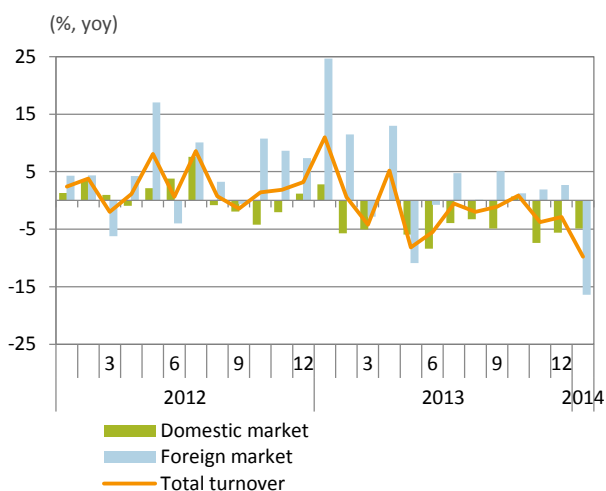
The increase of **industrial output** gathered momentum in January, up 2.1% yoy from 1.1% in December. *Investment goods, manufacture of motor vehicles, trailers and semi-trailers* in particular, contributed the most for the observed positive dynamics supported also by the narrowing negative contribution of *energy products*.

The slump in **industrial turnover** accelerated to 9.7% yoy in January mainly as a result of the reported decline in foreign market sales. The latter decreased by 16.4% yoy after reporting 2.7% yoy growth in December. *Manufacture of basic metals and fabricated metal products* had the largest negative contribution to the observed dynamics. At the same time, domestic sales decreased by 4.9% on a year earlier. *Electricity, gas, steam and air conditioning supply* accounted the most for the reported decline, followed by *manufacture of food products, beverages and tobacco*.

Retail sales continued to perform well, up by 5.6% on a year earlier. All retail sales' components registered increase, with *retail sales of computers, peripheral units and software* posting the largest gain, up 14.3% yoy, followed by *retail sales of audio and video equipment*, up 11.7%.

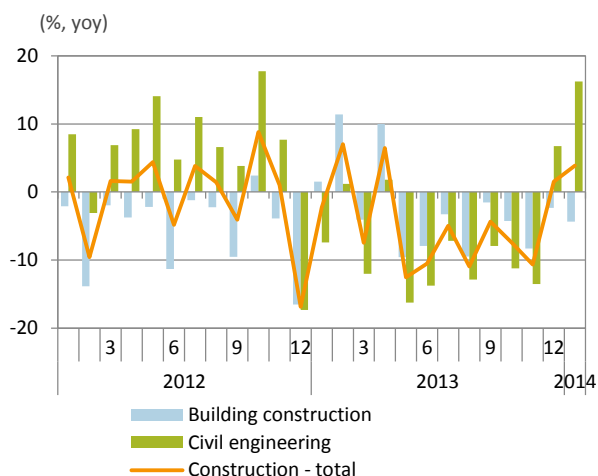
Construction production increased by 3.9% yoy due to the positive developments in *civil engineering*, up 16.2%, while *building construction* decreased by 4.3% yoy.

Fig. 1: Industrial turnover



Source: NSI

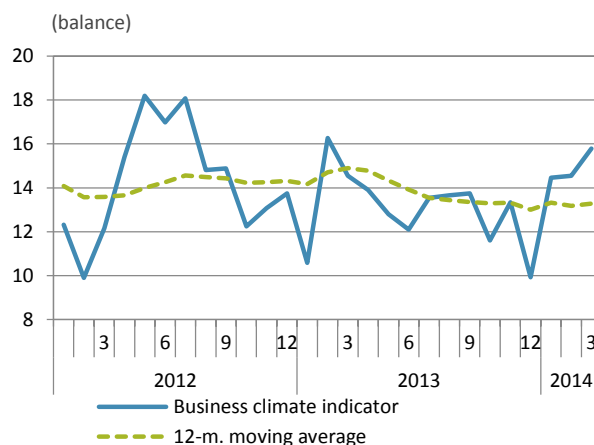
Fig. 2: Construction production index



Source: NSI

The **business climate indicator** improved by 1.2 pps in March due to more favorable expectations about the business situation of the enterprises in retail trade and construction. There was an increase in the number of respondents in retail trade expecting growth in sales, entrepreneurs in construction were also optimistic about the construction activity in the coming months. Higher demand was expected in services as well. Industry was the only sector where the business climate worsened over the previous month. Nevertheless, the production activity is expected to increase.

Fig. 3: Business climate

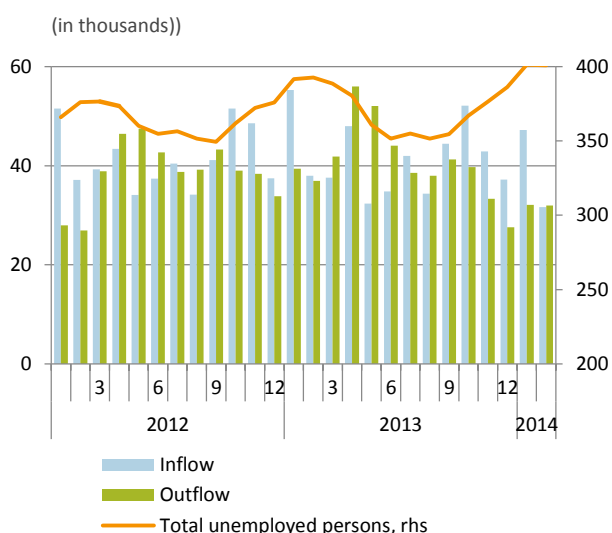


Source: NSI

LABOR MARKET

Registered unemployment decreased marginally, down by 0.1% mom to 400.9 K, while the unemployment rate stood at 12.2% in February. The unemployment inflow largely contributed to the positive development, as it decreased by 32.9% over January driven by the lower number of newly registered in the employment offices. The outflow of unemployed remained close to its level a month earlier due to the increased number of persons who dropped out of registration. The number of people who found jobs in February went down by 14.9% mom to 14.2 K, largely on the account of lower activity of subsidized employment programs, as most projects have already started in January. Despite being usually weak during winter months, demand on the primary labor market increased for a second month in a row and supported the higher number of persons who started working there to 10 K.

Fig. 4: Inflow, outflow and unemployed persons



Source: EA

INFLATION DYNAMICS

According to final data, consumer prices fell by 0.3% mom in January and posted another 0.6% decrease in February, as almost all HICP components reported decrease. Automotive fuels had the largest negative contribution (-0.23 pps) for the

monthly change in the total index as their prices fell by 2.7% on average. Prices of market services also posted a decline over the previous month, down by 0.8%, and subtracted another 0.2 pps from the headline rate. The latter, however, came entirely on the back of lower airfares on international flights. Prices of apparel and footwear also continued on the decrease, down 2.5% mom. Only food prices posted a minor increase, up 0.2%, mostly on the account of higher prices of vegetables.

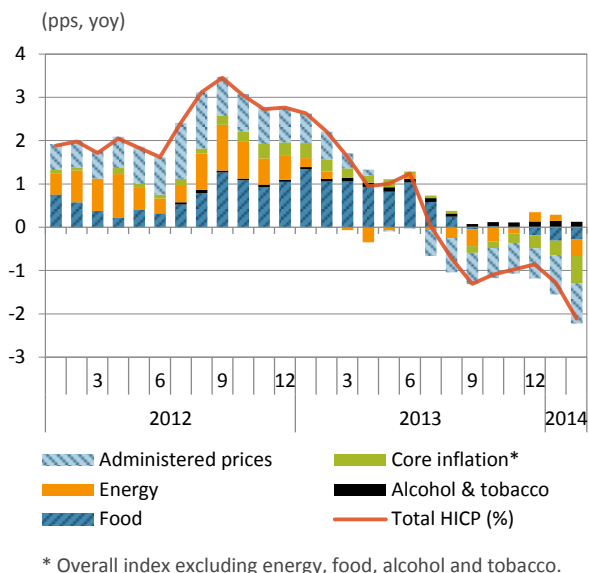
Annual HICP inflation rate moved further into negative territory and stood at -2.1% yoy. Deflation widened largely on the back of the reported 4.3% yoy decrease in prices of automotive fuels. Prices of market services also declined on a year earlier and added to these developments.

EXTERNAL SECTOR

Current account balance was negative at EUR 282 mln (0.7% of GDP) in January 2014. The deficit more than doubled on a year earlier, as the substantial improvement in income balance could not offset the rise in trade deficit and the registered decrease in transfers and services surplus. Merchandise export declined by 10% yoy, as exports to non-EU countries plummeted by 22% due to lower trade with petroleum products and raw materials. Imports rose 5.4% yoy reflecting higher import from the EU. As a result, the *negative trade balance* increased to 0.8% of GDP from 0.1% in January 2013.

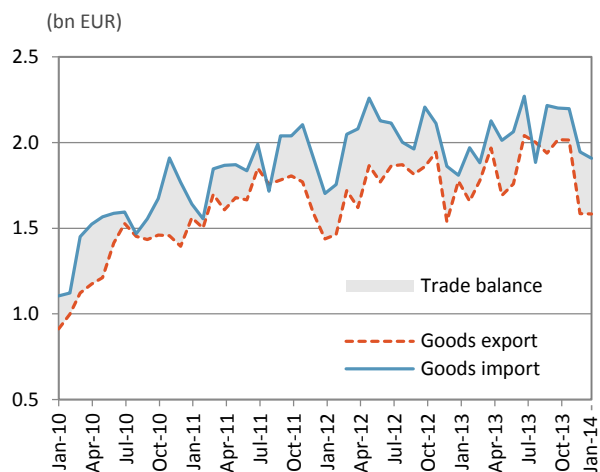
Other services export kept its downward trend, down 7.6% yoy, again on the account of lower export of computer and information services. Insurance services also had negative contribution, while the export of construction services increased. *Services surplus* narrowed to EUR 21.2 mln, which is half their level in January 2013, still it remained unchanged at 0.1% as a ratio to GDP. The *Income* improved to a balanced position from 0.4% of GDP deficit a year earlier. The latter,

Fig. 5: HICP and contributions by main components



Source: NSI, MF

Fig. 6: Merchandise trade dynamics



Source: BNB

however, resulted from the usual lack of data on investment payments to foreigners in the first month of the year, rather than from a substantial shift in payment dynamics, thus upward revisions are to be expected.

Financial account stood negative at EUR 441.7 mln compared to EUR 1 090.2 mln deficit in the same month of the previous year. While developments in January 2013 were driven by both the repayment of government global bonds and the increase of bank deposits abroad, in 2014 *portfolio investment balance* was slightly positive and the rise of banks' assets was more moderate.

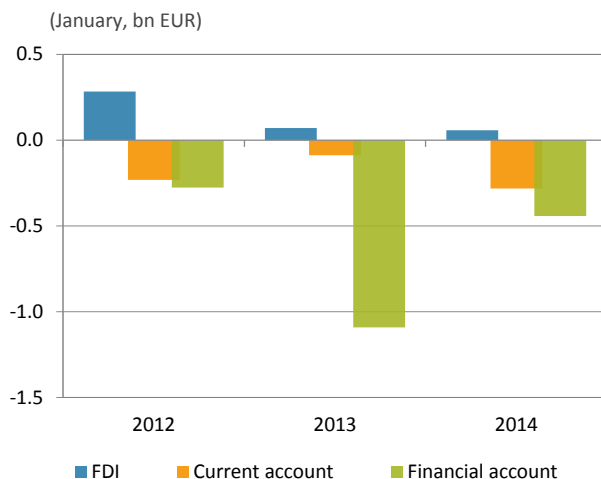
Gross external debt (GED) declined to EUR 37.27 bn (90.3% of GDP) as of end-January, being 93.5% at the end of 2013 and 93.6% of GDP twelve months earlier.

FINANCIAL SECTOR

International reserves expanded by 2.7% mom and reached EUR 14 bn as of end-March. The 25.6% increase in the Government deposit was exclusively responsible for these developments, due to the seasonal surge in tax income, while bank reserves went the opposite way, down by 1%. Despite the significant monthly growth, reserves continued to shrink in yoy terms. Their negative growth reached 3.7% at the end of March coming from 2.3% a month earlier. The monetary base coverage improved by 7.6 pps mom to 170.4% due to the decrease of bank reserves and the increase of total reserves. As of end-January the level of reserves could cover 5.9 months of imports or 144.3% of the short-term external debt.

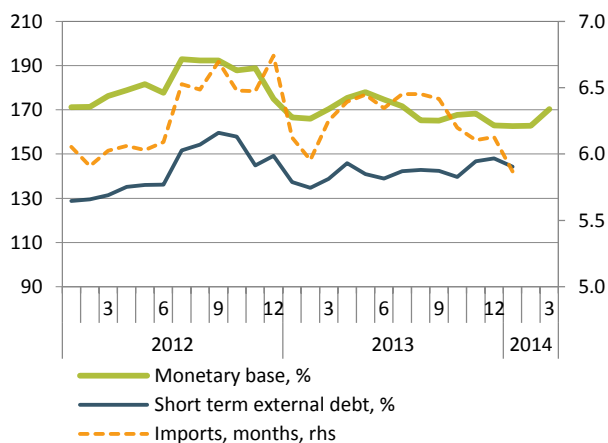
Money supply growth slowed somewhat to 9.2% yoy at the end of February, largely on the account of the reported slowdown in overnight deposits' growth from 29.8% to 22.2% yoy. Deposits redeemable at notice followed similar path as their increase decelerated to 50.7% from 59.1% a month earlier. Meanwhile, the decrease in deposits with agreed maturity narrowed to 7.5% yoy from 9.3% yoy in January.

Fig. 7: FDI, Current and Financial Account



Source: BNB

Fig. 8: Coverage with FX Reserves



Source: BNB, MF

Broad money went down by 0.1% over the previous month. Deposits redeemable at notice posted a 1.5% increase, still it was unable to compensate for the 1.2% drop in overnight deposits. Being the main factor behind M3 dynamics, total deposits declined by 0.1% mom as well, thus their annual growth slowed from 10.4% to 9.1% at the end of February.

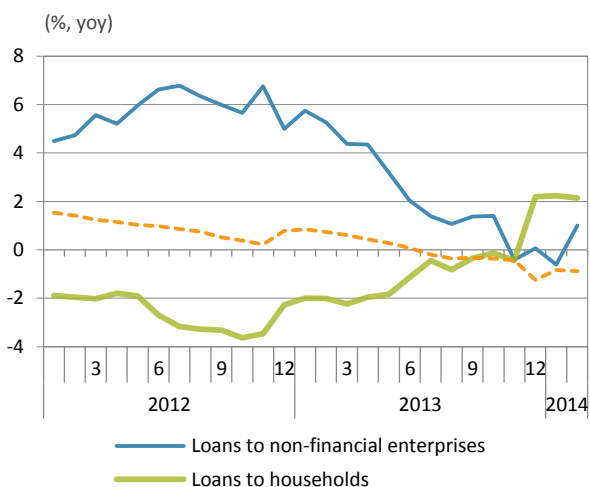
Credit to the private sector returned to positive territory in February, up by 0.7% yoy compared to the 0.4% decline in January. Corporate credit improved from the 0.6% yoy drop in the previous month and grew by 1%. Consumer credit kept its pace of increase almost unchanged at 2.1% yoy, while mortgages decreased marginally faster at 0.9%. Overdraft and other retail credits remained in the red, but limited their decrease, which also contributed positively to the overall dynamics of private credit. **Bad and restructured credits** increased by 0.3% yoy at the end of February which led to a 2 bps increase of their share in total credits for firms and households up to 18.2%.

Weighted average interest rate on credits to non-financial corporations decreased significantly in February, down by 2.3 pps, accompanied by a 16.8% increase in monthly volume of new credits on a year earlier. Average rates on consumer credits and mortgages also declined, down by 7 and 17 bps respectively, however, both types of credits reported lesser volumes compared to February 2013, down by 3% and 1.5% respectively. **Weighted average interest rate on deposits** in BGN and USD declined slightly, down by 8 and 11 bps respectively. At the same time, the return on EUR denominated deposits went up by 21 bps. The total sum of new deposits amounted to BGN 2 bn, which was by 8% less than twelve months earlier.

FISCAL DEVELOPMENTS

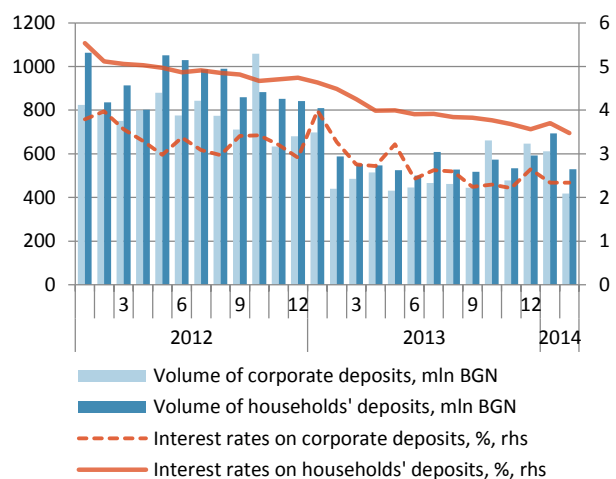
Consolidated budget deficit amounted to BGN 688.2 mln (0.9% of GDP) on cash basis at the end of February, down by

Fig. 9: Credit growth



Source: BNB, MF

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



Source: BNB, MF

BGN 43.8 mln on a year earlier. The balance was negative both under the national budget and the EU funds account.

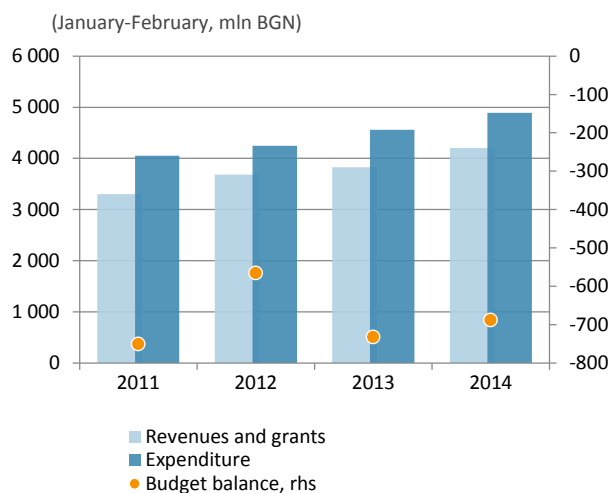
Total revenues and grants collected during the first two months of the year increased by 9.8% yoy, due to the higher level of grants received under the EU funds account. Total tax revenue was close to end-February-2013 receipts, as direct taxes increased by 29.6% yoy, indirect taxes decreased by 6.7% yoy and social and health insurance contributions were up by 1% yoy in nominal terms. Concerning the receipts from direct taxes and social security contributions, some changes in the legislation have been made in 2013 and 2014 regarding the terms of payment for the tax liabilities and the arrangements of the splitting of the single account, which affected their current dynamics. The decrease in indirect taxes was entirely due to the lower VAT receipts, related to higher VAT refunds in February. Excises, custom duties and tax on the insurance premium were up compared to the first two months of 2013, while non-tax revenues decreased by 2.6% yoy.

Total expenditure, including the contribution to the EU budget, increased by 7.3% in nominal terms in Jan-Feb 2014 compared to the same period last year. The increase came largely on the back of higher social payments, partially related to the base effect of the increase in pensions as of April 1, 2013, and capital expenditures in accordance with the efforts made for an accelerated absorption of EU funds. Interest payments decreased substantially in the first two months of the year, maintenance expenditure was down, as well.

Fiscal reserve amounted to BGN 6.1 bn at the end of February, It consisted of BGN 4.2 bn in fiscal reserve deposits at the BNB and other banks and BGN 1.9 bn of EU fund receivables for certified expenditure, advance payments, etc.

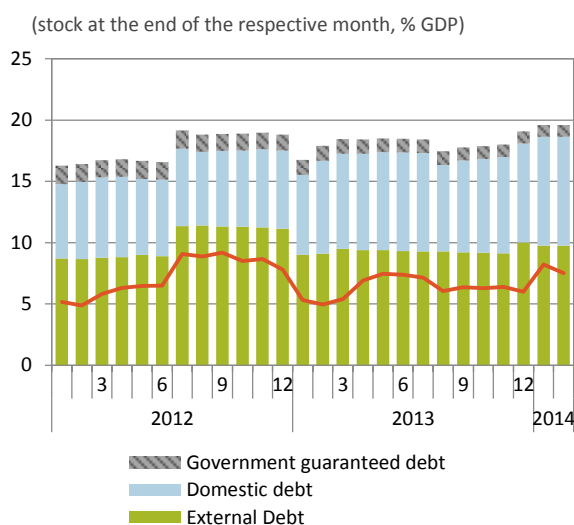
Government debt accounted for 18.6% of GDP, including domestic debt - at 8.9% of GDP and external debt at 9.8% of GDP. Government guaranteed debt stood at 1% of GDP. ●

Fig. 11: Consolidated budget



Source: MF

Fig. 12: GG debt and fiscal reserve



Source: MF

Key Economic Indicators

		2010	2011	2012	2013	Q1'13	Q2'13	Q3'13	Q4'13	Sep'13	Oct'13	Nov'13	Dec'13	Jan'14	Feb'14
— GDP															
Gross Domestic Product ¹	% , yoY	0.4	1.8	0.6	0.9	0.5	0.5	1.0	1.2						
Consumption	% , yoY	0.5	1.5	2.9	-1.4	-0.8	-0.9	-1.5	-1.6						
Gross fixed capital formation	% , yoY	-18.3	-6.5	4.0	-0.3	-2.1	-4.6	-0.4	2.5						
Export	% , yoY	14.7	12.3	-0.4	8.9	11.1	4.5	10.7	9.6						
Import	% , yoY	2.4	8.8	3.3	5.7	6.8	1.9	7.4	6.9						
Agriculture	% , yoY	-6.2	-1.1	-7.2	3.4	2.0	4.4	3.4	2.1						
Industry	% , yoY	-6.3	5.8	1.6	-0.2	-0.9	-0.2	0.7	1.2						
Services	% , yoY	4.4	0.7	0.0	1.5	1.3	2.4	2.0	1.8						
Adjustments	% , yoY	-0.5	0.2	3.9	-0.4	-0.8	-1.2	-0.6	-1.7						
— Short-term business statistics															
Industrial production	% , yoY	2.0	5.8	-0.4	-0.1	1.1	-4.8	0.4	2.7	3.6	4.8	2.3	1.1	2.1	
Industrial turnover	% , yoY	14.1	17.2	2.3	-1.0	2.2	-2.9	-1.2	-2.0	-1.1	0.8	-3.8	-2.9	-9.7	
Retail trade turnover	% , yoY	-8.4	0.6	5.3	2.9	-3.9	1.9	6.1	6.6	7.4	7.6	6.7	5.4	5.6	
Construction output	% , yoY	-14.9	-12.8	-0.8	-5.3	-1.5	-5.9	-6.9	-6.2	-4.4	-7.4	-10.7	1.5	3.9	
Total business climate	balance	9.6	14.2	14.3	13.0	13.8	12.9	13.6	11.6	13.7	11.6	13.3	9.9	14.5	14.6
Industry	balance	13.4	22.4	21.3	15.6	20.4	14.3	15.2	12.5	15.3	10.7	15.0	11.8	17.2	18.7
Retail trade	balance	10.1	17.3	16.4	19.7	17.0	18.1	21.6	22.0	21.8	23.4	22.8	19.9	21.3	19.2
Construction	balance	5.1	2.8	0.3	2.0	1.3	5.0	2.7	-1.0	1.8	2.2	1.9	-7.2	-0.6	2.1
Services	balance	5.6	5.9	12.2	12.2	9.9	13.0	13.7	12.2	14.4	11.1	12.0	13.4	17.1	14.1
— Labor market															
Participation rate (15+)	level	52.0	52.5	53.1	53.9	52.8	53.9	54.8	54.0						
Employment rate (15+)	level	46.7	46.6	46.6	46.9	45.6	47.0	47.9	47.0						
Employment (LFS)	% , yoY	-3.9	-2.2	-2.5	-0.4	-1.7	0.7	-0.1	-0.7						
Unemployment rate (LFS)	level	10.2	11.3	12.3	12.9	13.8	12.9	12.0	13.0						
Unemployment rate (Employment agency)	level	9.5	10.1	11.1	11.3	11.9	11.1	10.8	11.5	10.8	11.2	11.5	11.8	12.2	12.2
Nominal wage	% , yoY	6.4	5.8	6.6	10.5	4.3	3.8	3.5	3.1	3.1	3.8	3.4	2.2		
Real wage ²	% , yoY	3.3	2.4	4.1	10.0	2.1	2.7	4.4	4.1	4.5	4.9	4.4	3.1		
Labor productivity (GDP per employed)	% , yoY	4.5	4.1	3.2	1.3	2.6	-0.8	1.2	2.3						
Real ULC (GDP)	% , yoY	2.4	-2.2	1.3	6.1	5.3	8.4	7.8	2.4						
— Prices															
National index of consumer prices (CPI)	% , yoY	2.4	4.2	3.0	0.9	3.6	2.2	-0.6	-1.5	-1.6	-1.4	-1.5	-1.6	-2.2	-2.6
Harmonized index of consumer prices (HICP)	% , yoY	3.0	3.4	2.4	0.4	2.2	1.1	-0.7	-1.0	-1.3	-1.1	-1.0	-0.9	-1.4	-2.1
Domestic producer prices	% , yoY	7.1	8.6	5.4	-1.3	1.9	-0.7	-2.8	-3.6	-3.5	-3.9	-4.0	-2.8	-2.0	-2.5
— Consolidated fiscal program (cumulative)															
Revenues and grants	mIn BGN	23 933	25 378	27 470	28 981	6 158	14 166	21 307	28 981	21 308	23 751	26 311	28 981	2 071	4 203
Total expenses	mIn BGN	26 755	26 867	27 828	30 430	6 955	14 172	21 668	30 430	21 668	24 194	26 883	30 430	2 444	4 891
Contribution to EU budget	mIn BGN	670	779	809	934	328	533	747	934	747	790	833	934	87	274
Cash deficit (-) / surplus (+)	mIn BGN	-2 823	-1 488	-358	-1 448	-799	-7	-360	-1 448	-360	-443	-572	-1 448	-373	-688
	% of GDP	-4.0	-2.0	-0.5	-1.9	-1.0	0.0	-0.5	-1.9	-0.5	-0.6	-0.7	-1.9	-0.5	-0.9
Government debt (incl. guaranteed debt)	mIn BGN	11 778	12 826	14 683	14 893	14 408	14 428	13 886	14 893	13 886	13 968	14 066	14 894	15 823	15 806

		2010	2011	2012	2013	Q1'13	Q2'13	Q3'13	Q4'13	Sep'13	Oct'13	Nov'13	Dec'13	Jan'14	Feb'14
	% of GDP	16.7	17.0	18.8	19.1	18.4	18.5	17.8	19.1	17.8	17.9	18.0	19.1	19.6	19.6
Fiscal reserve ³	mIn BGN	6 012	4 999	6 081	4 681	4 216	5 754	4 965	4 681	4 965	4 902	4 989	4 681	6 625	6 061
	%, yoy	-21.6	-16.9	21.6	-23.0	-6.9	13.7	-30.8	-23.0	-30.8	-26.2	-26.2	-23.0	59.9	56.6
— Financial sector															
BNB International reserves	mIn EUR	12 977	13 349	15 552	14 426	14 493	14 590	14 937	14 426	14 937	14 452	14 289	14 426	13 870	13 589
Monetary base coverage	%	179.8	175.1	174.9	162.9	170.3	174.7	165.1	162.9	165.1	167.6	168.3	162.9	162.7	162.8
Coverage of import with FX reserves	months	7.3	6.2	6.7	6.2	6.3	6.3	6.4	6.2	6.4	6.2	6.1	6.1	5.9	
Coverage of short-term external debt	%	115.3	133.8	146.7	148.7	140.2	140.6	144.0	148.7	142.4	139.6	146.7	148.0	144.3	
Money M1 (Narrow money)	%, yoy	0.8	14.4	9.5	17.5	10.7	17.1	16.7	17.5	16.7	19.2	20.6	17.5	22.4	17.7
Money M3 (Broad money)	%, yoy	6.2	12.2	8.4	8.9	8.9	7.7	8.1	8.9	8.1	9.5	9.6	8.9	10.1	9.2
Deposits	%, yoy	6.6	13.2	8.4	9.4	9.3	7.8	8.3	9.4	8.3	9.9	9.9	9.4	10.4	9.1
Credit to private sector	%, yoy	1.1	3.3	3.0	0.2	2.3	0.8	0.5	0.2	0.5	0.7	-0.6	0.2	-0.4	0.7
Credit to non-financial enterprises	%, yoy	2.4	5.7	5.0	0.1	4.4	2.0	1.4	0.1	1.4	1.4	-0.4	0.1	-0.6	1.0
Credit to households	%, yoy	-0.8	-0.4	-1.0	-0.2	-1.3	-0.9	-0.6	-0.2	-0.6	-0.6	-0.8	-0.2	-0.2	0.0
Interest rate on short-term loans	%	8.5	7.2	7.6	7.9	7.6	8.5	7.3	8.1	7.2	8.3	7.0	8.9	9.8	6.5
Interest rate on time deposits	%	5.4	4.8	4.3	3.5	4.1	3.5	3.4	3.2	3.2	3.2	3.3	3.3	3.3	3.2
Exchange rate BGN/USD	eop	1.47	1.51	1.48	1.42	1.53	1.50	1.45	1.42	1.45	1.43	1.44	1.42	1.45	1.42
	per. av.	1.48	1.41	1.52	1.47	1.48	1.50	1.48	1.44	1.46	1.43	1.45	1.43	1.44	1.43
— Gross External Debt (GED)															
Gross external debt	% of GDP	102.7	94.3	95.2	93.5	94.9	94.3	93.7	93.5	93.7	92.8	93.8	93.5	90.3	
Short-term external debt	% of GED	30.2	27.9	27.6	26.1	27.6	27.9	28.0	26.1	28.0	27.9	26.0	26.1	25.8	
Intercompany lending	% of GED	40.4	42.8	41.7	42.5	42.4	42.7	43.1	42.5	43.1	43.3	43.5	42.5	42.7	
— Balance of payments															
Current account	mIn EUR	-533	33	-334	751	-412	541	1 073	-451	38	-38	-59	-354	-282	
<i>Current account (moving average)</i>	% of GDP	-1.5	0.1	-0.8	1.9	-0.7	1.4	1.8	-1.9	1.8	2.0	1.7	1.9	1.4	
Trade balance	mIn EUR	-2 764	-2 156	-3 460	-2 353	-449	-787	-390	-728	-279	-185	-182	-360	-324	
<i>Trade balance (moving average)</i>	% of GDP	-7.7	-5.6	-8.7	-5.9	-7.5	-6.5	-6.2	-5.9	-6.2	-5.8	-5.8	-5.9	-6.4	
Export, f.o.b.	mIn EUR	15 561	20 264	20 770	22 228	5 213	5 418	5 980	5 617	1 937	2 016	2 016	1 585	1 584	
	%, yoy	33.0	30.2	2.5	7.0	12.8	3.1	7.8	5.1	6.7	8.4	3.7	3.0	-10.9	
Import, f.o.b.	mIn EUR	18 325	22 420	24 230	24 582	-5 661	-6 205	-6 370	-6 345	-2 216	-2 202	-2 198	-1 945	-1 908	
	%, yoy	15.4	22.3	8.1	1.4	2.8	-4.0	4.8	2.7	13.0	-0.2	4.0	4.5	5.4	
Capital account	mIn EUR	291	504	541	2 684	16	124	166	287	55	52	86	22	-3	
Financial account	mIn EUR	-673	-886	1 466	24 745	-809	-196	-282	-179	-21	-541	-138	500	-442	
Net Foreign Direct Investments	mIn EUR	977	1 213	802	21 498	356	219	413	-30	20	31	253	-315	46	
Net Portfolio Investments	mIn EUR	-635	-357	-898	-3 373	-576	-206	-126	776	-57	-64	942	-98	1	
Other Investments – net	mIn EUR	-990	-1 676	1 596	1 528	-579	-118	-558	-1 474	18	-503	-1 330	913	-489	
Change in BNB reserve assets	mIn EUR	384	-159	-2 161	-1 380	1 045	-527	-269	332	-148	463	85	-197	627	

Notes:

1. Reference year 2005, seasonally and working day adjusted data;
2. HICP deflated;
3. Change in the structure of fiscal reserve as of 2014.