



Weekly Briefing

Bulgaria economy briefing:
GENERAL TRENDS OF BULGARIAN ECONOMIC SITUATION
AND DEVELOPMENT IN YEAR OF 2018

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GENERAL TRENDS OF BULGARIAN ECONOMIC SITUATION AND DEVELOPMENT IN YEAR OF 2018

The economy of Bulgaria functions on the principles of the free market, having a large private sector and a smaller public one. Bulgaria is an upper-middle-income country according to the World Bank, and is a member of the European Union (EU), World Trade Organization (WTO), Organization for Security and Co-operation in Europe (OSCE) and Organization of the Black Sea Economic Cooperation (BSEC). The national currency is the lev (plural leva), pegged to the euro at a rate of 1.95583 leva for 1 euro. With a territory of 110,994 square km Bulgaria is Europe's 16th-largest country. Bulgarian population of approximately 7.1 million people is predominantly urbanized and mainly concentrated in the administrative centers of its 28 regions. Most of the commercial and cultural activities are centered on the capital and largest city, Sofia. The strongest sectors of the economy are food industry, machinery and processing industries, agriculture, tourism and services, mining industry, power engineering, etc. Primary industrial exports are clothing, iron and steel, machinery and refined fuels. The main trading partners with largest contribution to the import/export are Germany, Italy, Romania, Turkey, Greece, France, Spain, Belgium, Netherlands, United Kingdom, Poland, Austria, Serbia, China, Czech Republic.

Key economic indicators

INDICATORS	Reference data		
	2016	2017	2018 (I-III)
GDP, real growth, %	3.9	3.8	2.7
Gross fixed capital formation	-6.6	3.2	3.0
Consumption	3.3	4.3	7.5
Export	8.1	5.8	-3.2
Import	4.5	7.5	3.8
Agriculture	5.3	8.9	-0.8
Industry excl. Construction	5.9	4.0	0.9
Construction	-6.8	4.4	2.1
Services	3.1	3.9	4.3

Adjustments	7.2	1.5	2.0
Inflation, yearly, %	2.4	0.4	2.8
Unemployment, rate in %	12.3	12.9	
Employment, %	0.5	1.8	-0.9
Budget surplus, % of GDP	1.6	0.8	
Government debt, % of GDP	29.1	25.9	22.5

Source: Ministry of Finance of Republic of Bulgaria

Gross Domestic Product (GDP)

According to the preliminary data, the produced **Gross Domestic Product (GDP)** at current prices in the third quarter of 2018 is 29 822 million BGN. The GDP per person amounted to 4 236 BGN. In USD terms at average quarterly exchange rate of 1.68233 BGN per dollar, the GDP amounted to 17 726 Million USD or 2 518 dollars per person. In Euro terms, the GDP is 15 248 million Euro or 2 166 Euro per person. According to the seasonally adjusted data, the GDP growth rate in the third quarter of 2018 is 3.1% compared to the same quarter of the previous year and 0.7% compared to the second quarter of 2018. It is the slowest expansion since the fourth quarter of 2014. Government spending rose less (3.6 percent vs 4.5 percent in Q2) and net external demand contributed negatively to growth, as exports fell further (-3.6 percent vs -1.9 percent) while imports grew (4.0 percent vs 5.0 percent). In contrast, household consumption (7.7 percent vs 7.5 percent) and fixed investment (7.0 percent vs 6.6 percent) went up faster. During the third quarter of 2018, 62.6% of GDP were spent for individual consumption.

As compared to the third quarter of 2017 the share of the agricultural sector in the gross value added of the economy decreases with 0.8 percentage points to 7.2%. The share of industrial sector decreases with 0.9 percentage points to 27.6%. The relative share of value added from service activities increases from 63.5% to 65.2% compared with the corresponding period of the previous year.

Bulgaria remains among the 10 countries with the lowest share of GDP in the EU. Bulgaria's gross domestic product is 0.3% of the EU total in 2017, making it among the 11 member states whose share is below 1%, according to Eurostat data. Bulgaria does not report a significant change compared to the previous year and is again at 21st position in the annual ranking. The country falls into one category with Hungary, Slovakia, Luxembourg, Croatia, Slovenia, Lithuania, Latvia, Estonia, Cyprus and Malta. It is worth noting, however, that countries with significantly less population than Bulgaria, such as Croatia, Slovenia and Lithuania, share the same share of European GDP.

The Gross Domestic Product per capita in Bulgaria was last recorded at 18563.31 US dollars in 2017, when adjusted by purchasing power parity (PPP). The GDP per Capita, in Bulgaria, when adjusted by Purchasing Power Parity is equivalent to 104 percent of the world's average.

Labour market

Registered unemployment followed a seasonal increase and edged up to 6.1% in December. The unemployment outflow declined, driven by reduced labour demand on the primary market, and reached its lowest value in the year.

In the third quarter of 2018 there were 3 205.3 thousand **employed persons aged 15 years and over**, of whom 1 712.2 thousand men and 1 493.2 thousand women. The share of employed persons in the total population aged 15 years and over was 53.3%. This share was 59.4% for men and 47.8% for women.

In the third quarter of 2018 there were 168.3 thousand **unemployed persons**, of whom 97.2 thousand (57.7%) men and 71.1 thousand (42.3%) women. **The unemployment rate** was 5.0% and went down by 0.8 percentage points from the third quarter of 2017.

According to the Bulgarian National Statistical Institute business inquiries in December 2018 34.1% of the industrial enterprises pointed out the **labour shortage** as a factor limiting their activity.

In September 2018 the **average wage and salary** was BGN 1 135 or 3.7% more compared to the previous month. Compared to September 2017 the increase was 6.7%.

Trade balance

In **2018** the **exports** of goods from Bulgaria **to third countries** decreased by 12.5% in comparison with the previous year and added up to 17 550.6 Million BGN. Main trade partners of Bulgaria were Turkey, China, Serbia, the United States, the Former Yugoslav Republic of Macedonia and the Russian Federation which accounted for 52.6% of the exports to non EU countries . In **December 2018** the **exports** of goods from Bulgaria **to third countries** decreased by 14.6% compared to the corresponding month of the previous year and amounted to 1 488.6 Million BGN.

Imports of goods to Bulgaria **from third countries** in **2018** increased by 7.4% in comparison with 2017 and added up to 23 012.3 Million BGN. The largest amounts were reported for the goods imported from the Russian Federation, Turkey, China and Serbia .

In October 2018 **the trade balance** recorded a deficit of EUR 233.3 million, compared with a deficit of EUR 57.6 million in October 2017. In January - October 2018 the trade balance

was negative amounting to EUR 1 829 million (3.5% of GDP), compared with a deficit of EUR 251.9 million (0.5% of GDP) in January - October 2017.

The **total foreign trade balance** was negative in **2018** and amounted to 7 669.8 Million BGN. At FOB/FOB prices (after elimination of transport and insurance costs on imports) in 2018 the total foreign trade balance was also negative and added up to 3 256.3 Million BGN.

The trade balance is still negative and the strategic plans suggest that this trend will continue. Obviously Bulgaria should improve its exports both in terms of quantity and quality, as well as in terms of added value and diversity. Otherwise it will be too difficult to speed up economic growth only through domestic consumption and foreign direct investments (which are too low at the moment).

Finally, government debt is on the rise and without any significant effect on the real economy (as a supportive factor). For the time being this is more likely to impose gradually growing weight upon society at large (the debt has almost doubled over the last 5 years as a share of the GDP).

Direct Investments

In October 2018 **the net direct investment** was positive amounting to EUR 5.3 million, compared with a negative balance of EUR 257.4 million in October 2017. In January - October 2018 direct investment recorded a negative balance of EUR 574.3 million (1.1% of GDP), compared with a negative balance of EUR 779.2 million (1.5% of GDP) in January - October 2017. **The foreign direct investment in Bulgaria** (under the directional principle) grew by EUR 9.9 million in October 2018 according to preliminary data, compared with an increase of EUR 262.3 million in October 2017. **The direct investment abroad** grew by EUR 15.2 million in October 2018, compared with an increase of EUR 6.5 million in October 2017.

Inflation

In 2018 **end of period inflation** was 2.3% . Inflation fell sharply in November-December, largely due to liquid fuels prices that were influenced by the decrease in crude oil prices. The **average annual inflation rate** in 2018 was 2.6% - close to the Autumn MF forecast of 2.7%.

Conclusion

Since the second half of last year, economic agencies and financial institutions began to adjust their forecasts downwards. Much of these adjustments are related to the external sector, the global slowdown in the economy and the decline in trade flows. Commercial tensions between the US and China will definitely affect trade flows and the global financial and economic situation. Bulgaria as a small and open economy also suffers from this slowdown in

trade flows. The data from the first nine months of last year are quite disturbing. Exports to third countries have been reduced, above all to Turkey, where there is a crisis.

The economic prospects for Bulgaria for this and the next two years are not quite positive and the risks remain relatively high. To the traditional external environment risks and changes in the external environment demand must be added to the internal risks associated with the traditionally unstable political environment. Estimates for the forecast period can be summarized in the following directions:

The Bulgarian economy is open and highly dependent on the external demand and the external financing. The export potential of the economy and its structure, are giving us a good reason to believe that we cannot rely on exports as a significant factor of growth.

External financing, in the form of foreign direct investment, will stay far from the levels achieved in the years before the global financial crisis. A major source of external funding will continue to be the funds under the EU funding programs, which are expected to gradually decrease over the period.

Considering the above two factors, it can be concluded that, as in both short-term and medium-term, growth will remain rather low and unstable, far from being necessary for catching up country as Bulgaria. In more specific terms, growth in 2019 is likely to slow down to around 3 to 3.5%.

The domestic demand and, in particular, private consumption will determine, the dynamics of the economic activity.

The overall prognosis for the development of Bulgarian economy in 2019 is not so positive. Many analysts predict a slowdown in growth as a result of many, mainly external factors among which is also the Europe's general economic instability and the rather complicated situation in the Eurozone.