

# BULGARIAN

# ECONOMY

## MONTHLY REPORT

Based on statistical data up to 16 February 2024

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### Gross Domestic Product – flash estimates

According to NSI flash estimates, GDP increased by 1.6% yoy s.a. in Q4 2023. Final consumption went up by 3.1% and gross fixed capital formation increased by 4.2%. Export decreased by 1%, while import went down by 5.4%.

### Short-term Business Statistics

In December 2023, the decrease in short-term indicators continued, with the exception of retail trade turnover. The decline in industrial production reached 7.6% yoy. For the first time since 2022 there was an increase in the output in electricity, gas, steam and air conditioning supply. At the same time, the decline in

manufacturing deepened. Industrial turnover went down by 21.2% mostly on the back of domestic turnover from energy goods. The construction output index fell by 6.4%. The growth of retail trade turnover decelerated to 0.7% yoy, as the trade with non-food products had negative contribution.

In January 2024, the business climate indicator improved markedly (3 points), while the consumer confidence remained broadly unchanged (-0.3 points). The assessments both for the present and future business situation of the enterprises improved in all sectors. The expectations for the construction activity and demand for services over the next 3 months were more optimistic. The average capacity utilization in industry was down by 1.0 pp compared to October 2023 and reached 75.2%. At the same time, the

respondents were optimistic about the future production tendency.

### Labour market

The employment and unemployment dynamics in Q4 2023 fully corresponded to the usual seasonal pattern. The participation rate was 73.7% (0.8 pps decrease in yoy terms), while the employment rate was 70.5% (down by 1.2 pps yoy). The unemployment rate was 4.3% and increased by 0.5 pps compared to the same quarter of 2023.<sup>1</sup> The signals that the trends of the last two years are close to a breaking point were affirmed.

### Wages

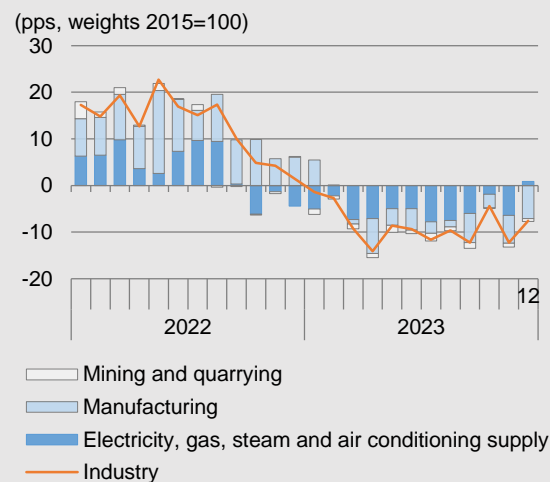
The average wage growth slowed to a nominal 13.0% yoy in Q4 2023 compared to 14.7% in the third quarter. The main contributor to nominal wage growth

was the public sector (14.0%), while nominal growth in the private sector remained lower and slowed to 12.6%. In real terms, the HICP-deflated wage growth rose to 7.2% yoy. The high growth in real income was mainly due to the wage increases in the public sector, which is not expected to affect competitiveness. The highest nominal wage increases were reported in construction (21.3% yoy) and accommodation and food services and activities (19.8% yoy).

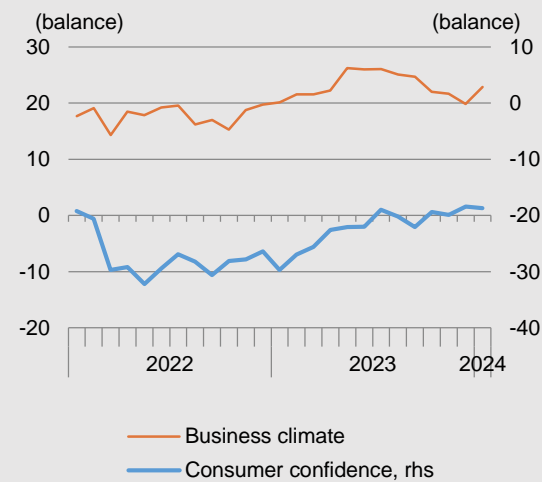
### Inflation

According to preliminary data, the monthly inflation rate was 0.2% in January 2024, as measured by the HICP. Prices of food products went up by 0.9% and accounted the most (0.2 pps), followed by core inflation components. Prices of water supply were hiked by 18.3%,

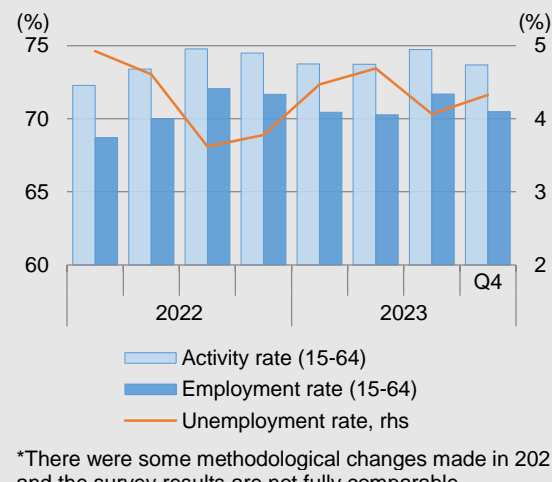
Graph 1 Contributions to industrial production growth



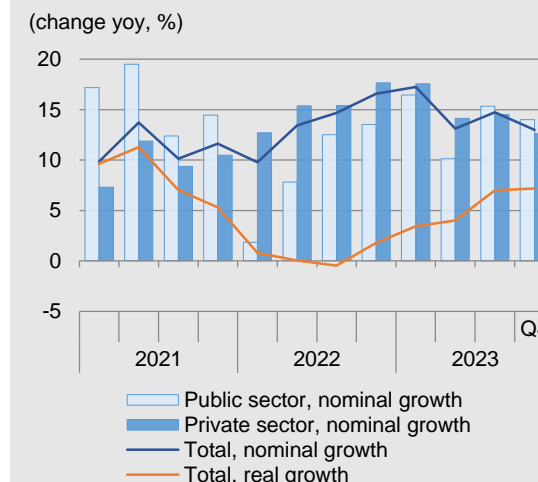
Graph 2 Business climate and consumer confidence



Graph 3 Activity, employment and unemployment rates\*



Graph 4 Nominal and real wage growth by economic sectors



\*There were some methodological changes made in 2021 and the survey results are not fully comparable.

though their contribution to the increase in the headline rate was compensated by a decline in prices of garments and footwear, down by 0.9%. International airfares also decreased, down by 23.5% mom. Energy prices went down by 1.2%, as well.

**The annual inflation rate decelerated further to 4% in January 2024, with all major HICP components contributing to the slowdown.** Core inflation narrowed to 4.8% yoy.

## External sector

**The current account balance turned negative in November 2023.** The decline of export of goods (down by 14.6% yoy) outpaced the drop in import (7.8% yoy). Export was driven mostly by trade with other EU member states and covered a broad range of goods. As a result, the trade deficit reached the highest level since December 2022. Growth in services exports continued to accelerate to 14.1% yoy driven mainly by Business and ICT services. Import of services also picked up sharply, up by 13.6% yoy, supported by Business services. The overall balance on income articles slightly improved. In January-November 2023, the current account balance remained positive

at EUR 714 mln (or 0.5% of GDP) as compared with a deficit of EUR 994.2 mln (1.8% of GDP) a year ago.

**The Gross external debt stood at 45.4% of projected GDP in November.** The General Government external debt increased by almost EUR 2.2 bn compared to a year ago. Over the month the Government issued new dual-tranche Eurobonds.

## Financial Sector

**Private sector credit ended 2023 strong and accelerated to 12% yoy vs. 11.3% yoy.** This was due both to households' loans and private companies credit, up by 15.9% and 6.9% yoy, respectively. Despite measures to withdraw liquidity from the banking system, the transmission of the ECB's monetary policy in Bulgaria is still relatively slow, especially in the mortgage segment. Demand for house purchases continued and their growth reached 20.5%. Consumer loans accelerated, too, up by 12.3% yoy in line with consumer confidence indicator improvement.

Overdraft of non-financial companies increased by 6.2% yoy in December as compared with 3.8% yoy a month earlier. Loans with maturity over 5 years continued

to contribute significantly to corporate credit dynamics, up by 9.9% yoy vs 9.3% yoy at end-November. At the same time, the volume of bad and restructured loans continued to decelerate in all major segments.

**Weighted average interest rates** on loans for house purchases remained low at 2.59% and close to their level in November (2.60%), while the average price of consumer loans went higher more prominent, up to 9.56% vs. 8.57% a month earlier. At the same time, the average price of corporate loans increased by 17 bps to 5.12%. Weighted average return on time deposits decreased a bit by 10 bps to 2.29%, driven by the slight decrease in rates on NFCs' deposits in EUR and USD, while those on households in major three currencies increased.

## Fiscal sector

**According to preliminary data, the deficit on the Consolidated Fiscal Program in 2023 amounted to 2.9% (BGN 5.6 bn) of projected GDP.** Cash budget receipts were up by 3.5% yoy and accounted for 96.5% of the full year plan embedded in the 2023 Budget Law. The increase was due to higher tax revenues (by 11.8% yoy),

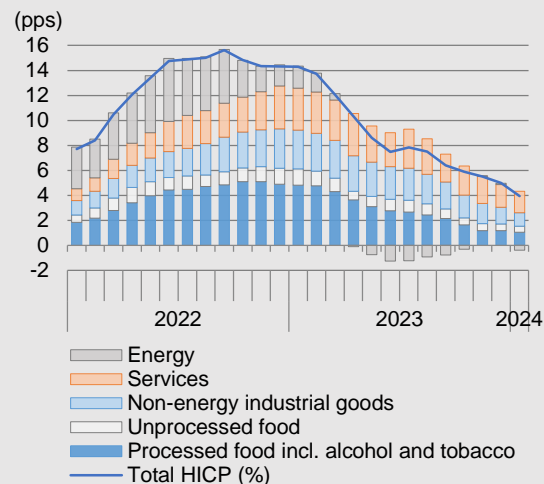
thus reaching 98.4% of the annual plan. Direct tax and social security contributions, up by 12.9 and 13.7% respectively, had the highest positive contribution. Both indirect tax revenues and other tax receipts, which include the targeted contributions from electricity traders and distributors since the beginning of 2023, also made a positive contribution. Proceeds from consumption taxes grew by 5.6% yoy, mostly on account of increased VAT receipts on domestic transactions and excise duties, while VAT on imports came 16.8% lower. Non-tax revenues and grants decreased by 9 and 36.1%, respectively.

Total expenditure reached 98.1% of the annual plan, and increased by 9.9%, mainly owing to capital, social and personnel spending, up by 63.3%, 16.7% and 17.8% yoy, respectively. Expenditure on subsidies decreased by 41%.

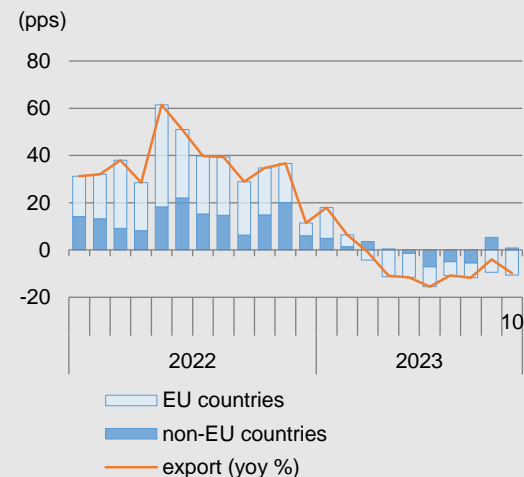
**Government debt-to-GDP ratio nearly equaled its previous year's level at 22% of projected GDP,** being 22.5% of GDP at end-2022. In absolute terms, public debt increased by BGN 4 bn.

<sup>1</sup> All data are for the 15-64 age group.

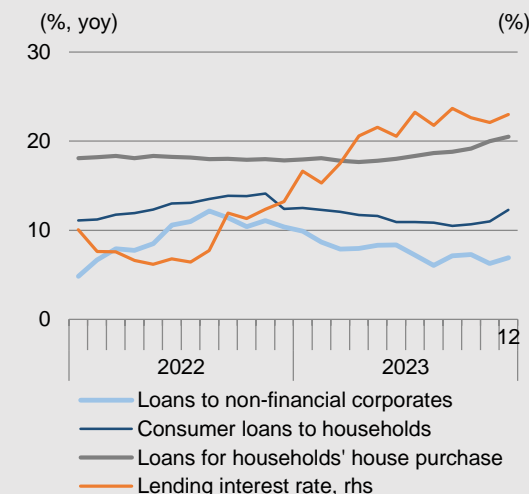
**Graph 5** Contributions by main HICP components



**Graph 6** Contributions to import dynamics by country groups



**Graph 7** Private sector credit



**Graph 8** Balance on the CFP

