

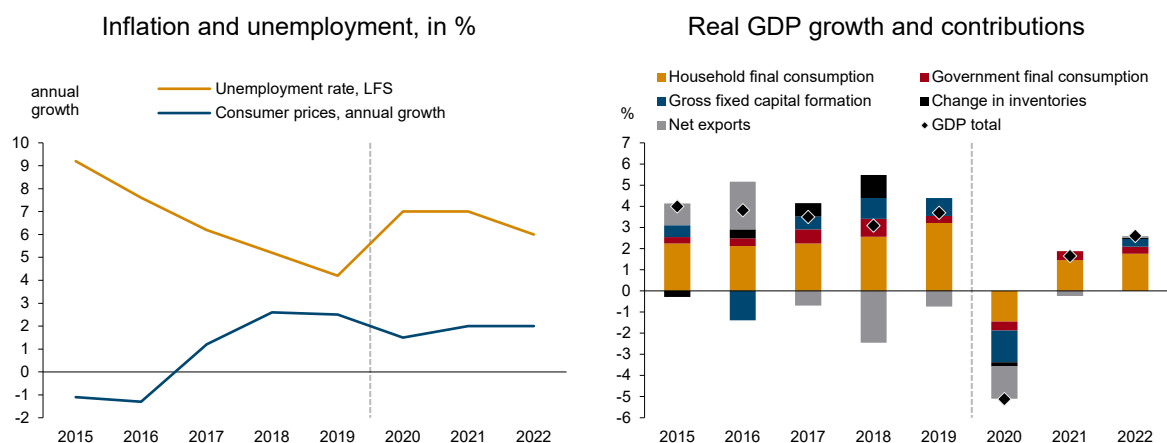


BULGARIA: Economy heading towards a slow recovery amidst continuing political unrest

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Political turmoil in Bulgaria continues for a third consecutive month, with daily protests demanding the resignation of the government. The negative economic shock of the COVID-19 pandemic was most pronounced in the second quarter, and its intensity has now subsided. In response, the authorities launched two packages of fiscal support measures. For 2020 as a whole, GDP should decline by some 5%, while a gradual recovery is expected over the following two years.

Figure 4.4 / Bulgaria: Main macroeconomic indicators



Source: wiiw Annual Database incorporating national and Eurostat statistics, own calculation. Forecasts by wiiw.

In recent months, the political scene in Bulgaria has been dominated by daily mass protest marches against the ruling coalition. These started on 9 July and have continued ever since. The rallies reflect widespread public frustration over the state of affairs in Bulgaria's social, political and economic life after 10 years of almost uninterrupted rule by the GERB party, led by Prime Minister Boyko Borisov. During this period, Mr Borisov has managed to undermine the constitutional separation of powers and to establish a system of authoritarian rule, in which he personally takes (or imposes) the important decisions in all three branches of power: executive, legislative and judicial.

The protestors' main demand is the resignation of Mr Borisov, as they claim he is responsible for the endemic corruption in the country. President Rumen Radev has also raised his voice in support of the protestors, stating his solidarity with their main concerns; however, he has no constitutional power to end a government's term in office. At the same time, Mr Borisov and the GERB party seem to be ignoring what is happening in the streets and are continuing with business as usual.

In September, Bulgaria was hit by a second wave of COVID-19. At first it was weaker than in other European countries, but the number of new cases has subsequently risen sharply. During the summer months, the spread of COVID-19 had subsided, largely thanks to the relatively rigorous containment measures. However, with the relaxation of the restrictions and the start of the school year, the coronavirus struck again. What is also worrying is that the mortality rate during this second wave has been higher than in the first wave.

The first policy response to the pandemic was launched by the government back in March. It amounted to fiscal support measures worth BGN 2.8 billion (some 2.4% of GDP). Within this package, the direct and indirect employment protection measures alone were estimated to account for BGN 1.5 billion. However, implementation of the policy support measures was rather slow: as of the end of August, total disbursements of employment support were put at some BGN 185 million. Nevertheless, according to estimates by one of the biggest trade unions, some 200,000 jobs have been saved thanks to the public support measures. Around two thirds of the payments were allocated to the three worst-affected sectors: manufacturing, the hospitality industry and retail trade. Apart from that, small and medium-sized enterprises received public support funds amounting to BGN 72 million.

In late summer, the government announced a second package of fiscal support measures worth some BGN 2.2 billion (2% of GDP). These included employment protection measures for a fresh period until the end of January 2021, to be backed by a EUR 511 million loan under the EU's SURE instrument. The government hopes that these measures will help save some 250,000 jobs this year. In addition, the new package contains social protection measures amounting to BGN 1.2 billion, including temporary increases in all pensions, extra pay for healthcare workers top-ups to unemployment benefits, and other similar instruments.

Within the overall negative context of the pandemic, some economic sectors have suffered badly, while others have proved quite resilient. The sector of the economy worst hit has been the important tourism industry, as the country's borders have remained closed for most of the year. According to preliminary estimates, the number of foreign tourists fell in 2020 by 75%, compared to 2019, while the total earnings of the tourism industry are estimated to have plunged by EUR 800 million, 22% down on 2019. Transportation has also suffered a blow. At the same time, gross manufacturing output only dipped by 3.7% year on year in the first quarter, and by 4.2% in the second. And indeed, some business services sectors such as ICT and financial services even recorded positive year-on-year growth in the first half of the year.

Overall, GDP dropped by 3.8% year on year in the first six months, the result of 1.8% growth in the first quarter followed by an 8.5% decline in the second. The shock to the labour market was weaker than initially feared: the annual average rate of unemployment for the year as a whole should not be above 7%. The weakening of domestic and external demand has contributed to a reduction in inflationary pressures.

All the major components of aggregate demand made a negative contribution to GDP growth in the first half of the year, with the exception of the net export of goods. That said, both goods exports and goods imports fell sharply in this period: the positive figure only reflects the fact that imports fell more than exports.

In monthly terms, the export of goods recorded its worst performance in April and May; thereafter the decline decelerated. Overall exports of services dropped considerably in 2020, reflecting the dismal tourist season. That notwithstanding, the robust export of ICT services continued to support a positive current account balance in 2020.

Fiscal performance deteriorated, but overall the government retained a relatively tight fiscal stance. The consolidated general government revenue in January-August dropped by 1.7% year on year, while in cash terms, total expenditure fell by 3.3%, despite the extraordinary outlays on coronavirus-related public support. This was achieved largely at the expense of public investment projects: public capital expenditure in January-August was slashed by 53%, compared to the same period of 2019.

In September, the Bulgarian government raised EUR 2.5 billion on the international bond markets in a dual-tranche sale of 10-year and 30-year Eurobonds, each tranche worth EUR 1.25 billion. No particular purpose of the new borrowing was announced and – given that Bulgaria already had a considerable fiscal reserve (around EUR 5 billion at mid-year) – this was likely a precautionary move in a favourable situation on the international financial markets.

In July, Bulgaria's bid to join ERM-2 was officially approved by euro area finance ministers and the European Central Bank. This decision followed years of effort by the Bulgarian authorities and was accompanied by a pledge that the country would undertake a series of additional structural reforms, including to strengthen prudential banking regulations and supervise the non-bank financial sector. So far, no target dates for joining the euro area have been announced.

Current business statistics indicate that the economy probably bottomed out in May-June and is now on the road to slow, gradual recovery. In annual terms, aggregate output in the second half of the year is expected to continue sinking, largely as a result of the slump recorded in the first quarter. For 2020 as a whole, the rate of GDP decline will probably be around 5%. The current account should remain in positive territory for the year as a whole.

A pattern of gradual recovery will likely prevail in 2021 and 2022, but the growth of aggregate output will remain sluggish. At the time of writing, the COVID-19 containment measures are not expected to be made tougher, and so the revival of private consumption and fixed investment is likely to precede that of exports; in the short run, the recovery is likely to be predominantly driven by domestic demand.

Table 4.4 / Bulgaria: Selected economic indicators

	2017	2018	2019 ¹⁾	2020 1Q	2020 2Q	2020 1-2Q	2020 Forecast	2021 Forecast	2022
Population, th pers., average	7,076	7,025	6,976	.	.	.	6,900	6,850	6,800
Gross domestic product, BGN mn, nom.	102,345	109,743	119,772	25,993	27,774	53,767	115,300	119,500	125,100
annual change in % (real)	3.5	3.1	3.7	1.8	-8.5	-3.8	-5.1	1.7	2.6
GDP/capita (EUR at PPP)	14,660	15,430	16,600	.	.	.	.	.	.
Consumption of households, BGN mn, nom.	60,969	64,936	69,853	16,315	16,247	32,562	.	.	.
annual change in % (real)	3.7	4.3	5.4	3.0	-4.1	-0.7	-2.5	2.5	3.0
Gross fixed capital form., BGN mn, nom.	18,795	20,624	22,404	3,557	5,181	8,739	.	.	.
annual change in % (real)	3.2	5.4	4.5	-10.2	-11.8	-11.2	-8.0	0.0	2.0
Gross industrial production ²⁾									
annual change in % (real)	3.4	0.3	0.7	-2.3	-12.9	-7.6	-6.0	2.0	3.0
Gross agricultural production									
annual change in % (real)	6.3	-0.4	-1.9	.	.	.	.	.	.
Construction industry ³⁾									
annual change in % (real)	4.6	1.6	3.8	-4.0	-10.1	-7.1	.	.	.
Employed persons, LFS, th, average	3,150	3,153	3,233	3,107	3,080	3,093	3,170	3,170	3,230
annual change in %	4.4	0.1	2.6	-1.3	-5.6	-3.5	-2.0	0.0	2.0
Unemployed persons, LFS, th, average	207	173	143	149	192	171	240	240	210
Unemployment rate, LFS, in %, average	6.2	5.2	4.2	4.6	5.9	5.3	7.0	7.0	6.0
Reg. unemployment rate, in %, eop	7.1	6.1	5.9	6.7	8.3	8.3	.	.	.
Average monthly gross wages, BGN	1,037	1,146	1,274	1,317	1,337	1,327	1,360	1,470	1,590
annual change in % (real, gross)	7.2	7.5	7.8	5.3	4.5	4.9	5.0	6.0	6.0
Consumer prices (HICP), % p.a.	1.2	2.6	2.5	3.0	1.1	2.0	1.5	2.0	2.0
Producer prices in industry, % p.a.	5.0	3.9	3.0	1.4	-4.4	-1.5	-2.0	1.0	2.0
General governm.budget, EU-def., % of GDP									
Revenues	36.0	38.5	38.0	.	.	.	36.0	37.0	39.0
Expenditures	34.9	36.5	36.0	.	.	.	38.5	38.0	39.0
Net lending (+) / net borrowing (-)	1.1	2.0	2.1	.	.	.	-2.5	-1.0	0.0
General gov.gross debt, EU def., % of GDP	25.3	22.3	20.2	.	.	.	25.0	24.0	23.0
Stock of loans of non-fin.private sector, % p.a.	3.3	7.7	7.4	7.1	4.9	4.9	.	.	.
Non-performing loans (NPL), in %, eop	10.4	7.8	6.6	8.0	8.1	8.1	.	.	.
Central bank policy rate, % p.a., eop ⁴⁾	0.00	0.00	0.00	0.00	0.00	0.00	0.0	0.0	0.0
Current account, EUR mn	1,825	554	1,848	409	250	659	1,300	1,200	1,000
Current account in % of GDP	3.5	1.0	3.0	3.1	1.8	2.4	2.2	2.0	1.6
Exports of goods, BOP, EUR mn	26,951	27,745	29,120	7,148	5,918	13,066	27,000	27,500	28,000
annual change in %	16.6	2.9	5.0	1.9	-16.1	-7.1	-7.3	1.9	1.8
Imports of goods, BOP, EUR mn	27,716	30,443	32,011	7,536	6,068	13,603	29,000	29,500	30,500
annual change in %	15.1	9.8	5.1	-1.1	-23.5	-12.5	-9.4	1.7	3.4
Exports of services, BOP, EUR mn	8,256	9,187	10,191	1,737	1,387	3,124	8,200	8,600	9,000
annual change in %	2.6	11.3	10.9	-1.6	-42.7	-25.4	-19.5	4.9	4.7
Imports of services, BOP, EUR mn	5,203	5,058	5,316	1,030	792	1,823	4,500	5,000	5,500
annual change in %	12.1	-2.8	5.1	-9.1	-41.7	-26.9	-15.4	11.1	10.0
FDI liabilities, EUR mn	1,760	1,539	1,472	274	291	565	2000	.	.
FDI assets, EUR mn	446	760	647	2	172	174	500	.	.
Gross reserves of NB excl. gold, EUR mn	22,257	23,620	23,072	24,578	25,972	25,972	.	.	.
Gross external debt, EUR mn ⁵⁾	33,852	34,487	35,178	34,501	34,472	34,472	35600	35000	34500
Gross external debt, % of GDP ⁵⁾	64.7	61.5	57.4	58.5	58.4	58.5	60.0	57.0	54.0
Average exchange rate BGN/EUR	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558	1.9558

1) Preliminary. - 2) Enterprises with 10 and more employees. - 3) Enterprises with 5 and more employees. - 4) Base interest rate. This is a reference rate based on the average interbank LEONIA rate of previous month (Bulgaria has a currency board). - 5) BOP 5th edition.

Source: wiiw Databases incorporating Eurostat and national statistics. Forecasts by wiiw.