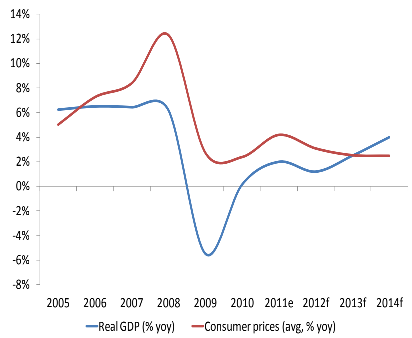
Bulgaria Monthly Economic Review

January 2012

Raiffeisen RESEARCH

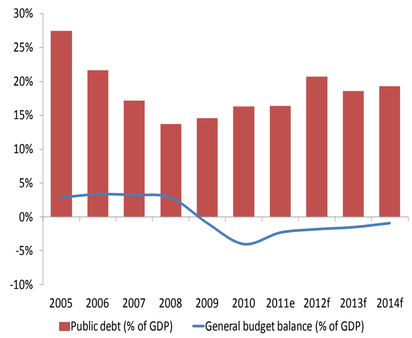
Highlights

GDP and inflation



Source: NSI, Raiffeisen RESEARCH

Budget balance and public debt



Source: MoF, Eurostat, Raiffeisen RESEARCH

- In October and November industrial production growth decelerated to 1.6% vis-a-vis the same period of the previous year. Similarly to the preceding months, in October and November construction output registered declines on an annual basis.
- On average for October and November, domestic trade marked a decrease of 3.3% yoy, which was larger than the one recorded for Q3.
- Considering the reported values of the monthly economic indicators, a low economic growth rate can be expected in Q4.
- The monthly inflation rate was 0.1% in December, which was significantly lower than expectations. The cumulative inflation rate for the whole 2011 reached 2.8%, and the annual average one – 4.2%.
- According to Eurostat's harmonized monthly unemployment statistics, unemployment was 11.5% at the end of 2011. That increase was expected with a view to the coming winter but at the same time the labour market problems caused by the economic crisis also continued being in place.
- The consolidated budget ended 2011 with a deficit of 2.1% of GDP. The value stood lower than the 2.5% deficit target set in the Law on the State Budget. The fiscal reserve was BGN 5 bn at the end of the year – by about BGN 500 mn above the legally established minimum.
- The currency board arrangement in the county remained stable. The FX reserves were EUR 13.3 bn at the end of 2011 covering 175.5% of the monetary base while the required minimum coverage is 100%.
- The growth rate of loans to non-financial enterprises accelerated on an annual basis to 5.7% in December 2011. At the same time loans to households stagnated.
- According to the monetary statistics, the share of bad and restructured loans shrank for the first time since March 2009, thus reaching 21.9%. according to the bank supervision statistics the share of bad loans at the end of 2011 was 14.93%.
- In December 2011 both non-financial enterprises and households augmented their savings in bank deposits.
- The current account balance for November was negative (EUR -126.5 mn), improving on an annual basis by about EUR 280 mn. Cumulatively from the beginning of the year, the current account surplus reached 3% of GDP.
- A balanced financial account (EUR -10.2 mn) was registered for the month. It resulted from an inflow of net FDI at the amount of EUR 47 mn and a negative balance of a comparable amount under other investments.

Analysts:

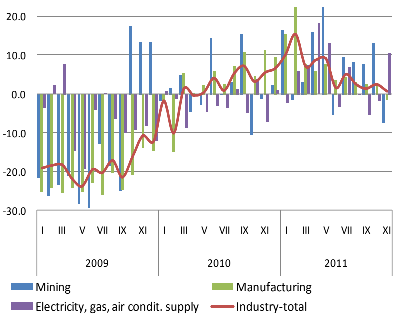
Kaloyan Ganev, PhD
kaloyan.ganev@raiffeisen.bg

Hristiana Vidinova
hristiana.vidinova@raiffeisen.bg

Industrial production growth slows down

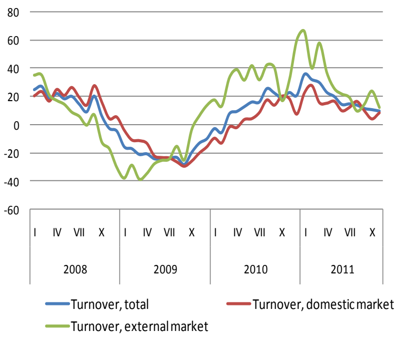
Construction and domestic trade register declines

Figure 1: Industrial production (yoy growth, %)



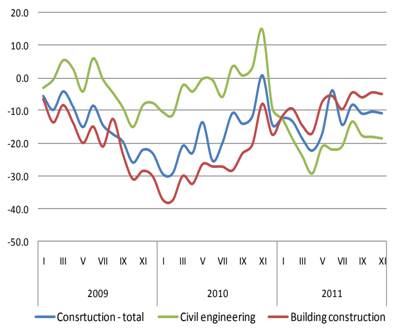
Source: NSI, Raiffeisen RESEARCH

Figure 2: Industrial turnover (yoy growth, %)



Source: NSI, Raiffeisen RESEARCH

Figure 3: Construction production (yoy growth, %)



Source: NSI, Raiffeisen RESEARCH

In October and November industrial production growth continued to decelerate. On average for the two months it reported a 1.6% increase over the same period of 2010, while growth in the third quarter was 3.3% yoy. The more unfavourable development was stemming mainly from the manufacturing industry, whose advance slowed to 0.6% yoy compared to 3.4% yoy in the third quarter. The decelerating growth trend in both the manufacturing and total industrial production has been observed since since the beginning of the year. A part of the explanation is the higher base at the end of 2010 resulting from the process of recovery in the industry.

Overall, the dynamics of industrial production coincides with the expectations of Raiffeisen RESEARCH, as for the period from the beginning of the year growth amounted to 5.5% yoy, compared to the forecast 5% increase for the whole year.

The diminished growth rate of industrial production in October and November was due to the fall in production in several subsectors, including the garment industry (10.2% yoy decrease), leather processing and footwear (9.3%), manufacture of chemical products (9.3%) and food production (6.1%). However, there was an acceleration of the favourable development in the following subsectors: manufacture of pharmaceutical products (21.5% yoy growth), production of basic metals (15.7%), fabricated metal products (13.6%) as the rates in increase exceeded those reported in the third quarter. Rapid rates of advance were maintained by the production of computer, electronic and optical products (11.5% rise), manufacture of machinery and equipment (8.9%) and manufacture of electrical equipment (6.2%).

Besides the manufacturing industry, the mining industry also marked a slowdown in its growth rate – from 8.5% yoy in the third quarter to 2.6% yoy in October-November. This development was due to a decline in the mining of metal ores and quarrying, while coal mining continued to step up on annual basis.

The production and distribution of electricity and heat and gas picked up by 4.4% yoy on average for October and November, accelerating vis-a-vis the marginal increase of 0.6% reported in the third quarter.

In October and November the industrial turnover stepped up on average by 10.3% yoy. The main contribution to this was brought by the dynamics of industrial turnover on the foreign markets, which continued to augment dynamically – 18% yoy on average. Meanwhile, the turnover on the domestic market realized a slight increase in these two months – 6.3% yoy.

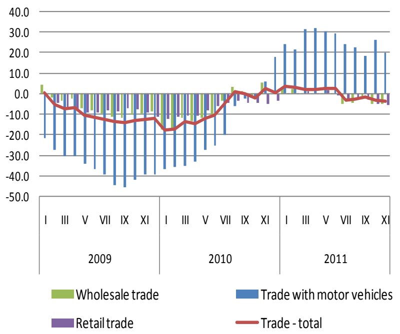
As far as the construction sector is concerned, similarly to the previous months, in October and November, its output contracted on an annual basis. Although in some quarters gross value added in the industry realized positive real growth rates yoy, it was probably due to a strong reduction of intermediate consumption. As a whole, the volume of production has been following a downward trend since the beginning of 2009 and thus the sector remains highly affected by the recession in the country.

On average for the two months construction output dropped by 10.5% yoy, reporting a similar rate of decline to that in the third quarter - 11.1%. Again, the decline was mainly due to the civil engineering, whose volume fell by 18.2% compared to October and November 2010 These data suggesta negative contribution of the infrastructure projects for the general construction activity. Since the beginning of the year the dynamics of civil engineering has been significantly worse than expected, especially as in 2010 the sector started recovering. On average for the period January-November 2011 civil engineering declined by

20% on an annual basis. This rate of decrease was similar to the one observed at the trough of the recession – 25%in 2009.

Meanwhile, although slowly, the pace of decline in building construction continued shrinking – from 6.5% decline on an annual basis in the third quarter to 4.5% yoy in October-November.

Figure 4: Trade turnover in constant prices (% yoy)



Source: NSI, Raiffeisen RESEARCH

On average for the period October-November the volume of domestic trade fell by 3.3% compared to the same period of 2010, accelerating by 1 percentage point vs. the decline in the third quarter of 2011.

Although the dynamics of internal trade is closely linked to the domestic consumption it should be born in mind that the two indicators differ. Although turnover in trade declined in the third quarter, consumption during the period registered an increase of 3.7% in real terms. It is therefore possible in the last quarter consumption to continue to achieve positive developments, as a result of the augmented compensation of employees in the first nine months of the year.

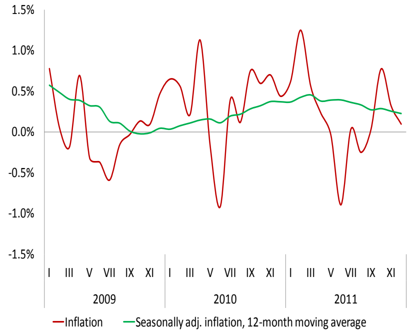
Concerning the trade subsectors, in October and November only trade in motor vehicles and motorcycles, and repair posted a positive real growth over the same period of 2010 – 23%,[1] slightly accelerating compared to the increase of 21.9 %, registered in the third quarter. Nevertheless, this subsector is relatively small and therefore does not contribute significantly to the dynamics of the turnover of total retail trade.

Wholesale tradeshrank by 5% compared to October-November 2010, mainly due to decline in the wholesale of agricultural raw materials and trade with animals and food, beverages and tobacco.

The volume of retail trade fell by a similar pace in the two months – 5.3% on year basis – and among its subsectors only the retail of pharmaceutical and medical goods, cosmetics and toiletries realized a positive growth rate (7.2%).

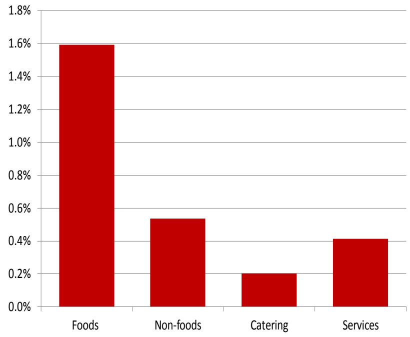
[1] The analysis of the domestic trade is based on the data on turnover of the trade, repair of motor vehicles and motorcycles sector at constant prices, and hence real growth rate on an annual basis.

Figure 5: Monthly inflation rate (%)



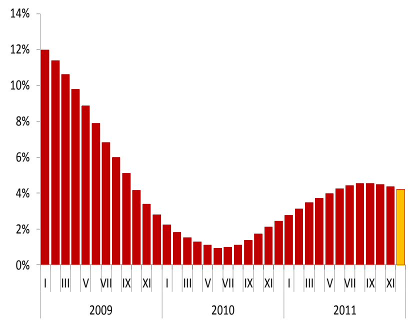
Source: NSI, Raiffeisen RESEARCH

Figure 6: Contributions to the cumulative inflation rate (p. p.)



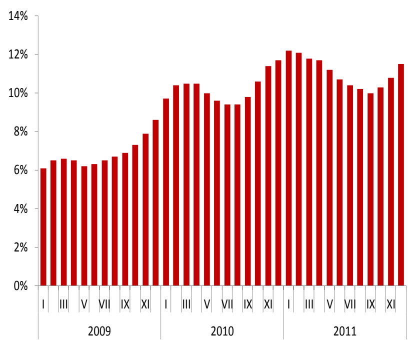
Source: NSI, Raiffeisen RESEARCH

Figure 7: Annual average inflation rate (%)



Source: NSI, Raiffeisen RESEARCH

Figure 8: Unemployment rate (%, not seasonally adjusted)



Source: Eurostat, Raiffeisen RESEARCH

Monthly inflation decelerates to 0.1%

Unemployment climbs smoothly

The national CPI monthly inflation rate in December was 0.1%. Contrary to expectations it slowed down additionally with respect to the atypically low November value of 0.3%. Foods got more expensive by 0.2% mom, and the largest was the price increase for vegetables (by 2.5%), while fruits registered a price decrease of 5.9%.

For non-foods, there was a minor price level decrease (by 0.1%) compared to November. The largest price declines were recorded by liquid fuels (2.2%), followed by fuels and lubricants for personal transport equipment (1.9%). Those declines reflected the temporary fall of the crude oil price (by about USD 1 per barrel) during that month. Respectively, the biggest price increase was reported for solid fuels (1%), due to the higher seasonal demand of those types of products. Services prices went up by 0.3% mom. Package holidays became more expensive (by 13%), and so did other transport and services (by 10.9%), and accommodation services (by 7.1%). Those price movements were mainly determined by seasonal factors such as winter tourism. Although the cited growth rates were high, they did not contribute significantly to the overall inflation rate since their respective weights in the consumption basket are small. The largest price increase in the services group was registered by internet connection services (by 2.1%). For catering, the recorded price increase was by 0.1%. Canteens prices went up by 8.1%, and those of restaurants, cafes and the like – by 0.8%.

The cumulative inflation rate for the whole 2011 was 2.8%, while our forecast figure stood at 3.2%. The annual data comparison shows that there was a deceleration of the inflation rate with respect to the data reported in December 2010 (4.5%). The contribution of foods was 1.6 percentage points (p. p.), of non-foods – 0.5 p. p., of services – 0.4 p. p., and of catering – 0.2 p. p. The annual average inflation rate for 2011 was 4.2%, and in this respected our forecast dating from the end of 2010 turned out accurate.

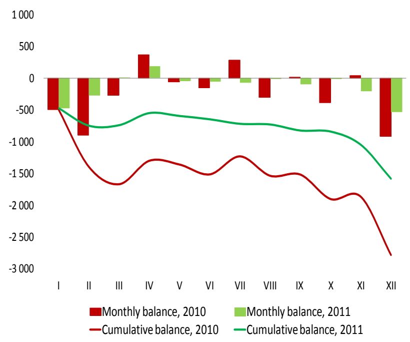
The December monthly inflation rate by the harmonized consumer price index (HIPC) was 0.3%. The end-of-year inflation was 2%, and the annual average inflation was 3.4%.

By the national index, we project 0.8% inflation on a monthly basis for January 2012; a contribution on behalf of the increased excise tax rates on fuels is also expected. The forecast annual inflation rate is 2.9%, and the forecast annual average figure is 4.3%.

***

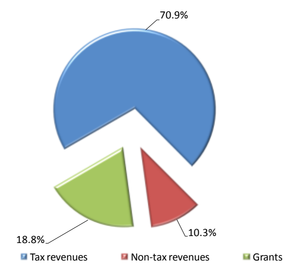
According to Eurostat data, unemployment in Bulgaria rose to 11.5% in December 2011. The estimated value of the indicator for Q4 is thus 10.9%, i.e. by 0.7 p. p. more than the Q3 value as reported by the Labour Force Survey. The unemployment increase was expected since there was a decrease of employment in sectors which were seasonally active during the summer months. At the same time, the positive impulses on behalf of aggregate demand are still missing, and therefore there is still no structural improvement in the labour market. The unemployment rate is expected to continue stepping up during the remaining winter months.

Figure 9: Consolidated budget cash balance (BGN mn)



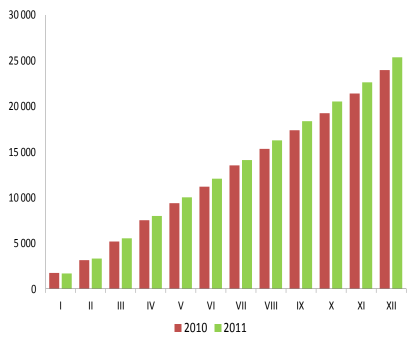
Source: MoF, Raiffeisen RESEARCH

Figure 10: Structure of budget revenues in December 2011 (%)



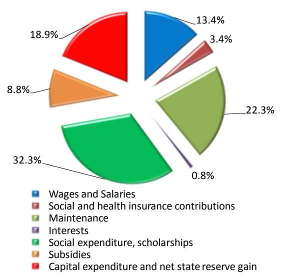
Source: MoF, Raiffeisen RESEARCH

Figure 11: Cumulative revenues (BGN mn)



Source: MoF, Raiffeisen RESEARCH

Figure 12: Structure of budget expenditures in December 2011 (%)



Source: MoF, Raiffeisen RESEARCH

Budget deficit lower than planned in 2011

The fiscal reserve approaches its minimum

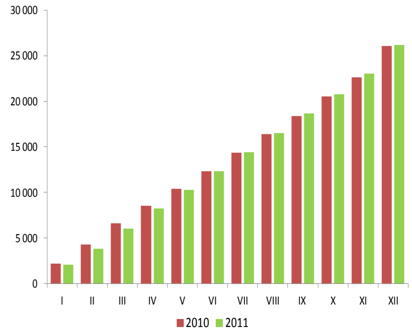
The consolidated budget deficit registered in December was BGN 533 mn. That result was formed by a national budget deficit of BGN 1.2 bn, and a EU funds surplus of BGN 656.4 mn. Thus the cumulative 2011 deficit amounted to BGN 1.6 bn, or 2.1% of the forecast GDP. On an annual basis, the deficit was lower by BGN 1.2 bn (43.2%), i.e. in 2011 a considerable budget consolidation took place, and even the deficit target of 2.5% of GDP set in the Law on the State Budget was outperformed. Although the reported deficit is cash-based and the accrual-based data have not been published yet, this value gives grounds to assume with significant confidence that the fiscal criterion for Eurozone membership has been complied with. As a consequence, the Excessive Debt Procedure which was imposed on Bulgaria in 2010 is expected to be abolished by the European Commission. Also, the compliance with the criterion is a positive fact which is expected to matter considerably in case the country decides to apply for including the Bulgarian lev in Exchange Rate Mechanism II (ERM II).

Revenues augmented in December by BGN 619.5 mn (29.2%) with respect to the value reported for November, thus reaching BGN 2.7 bn. The increase was basically due to the higher amounts of grants and tax revenues which grew on a monthly basis respectively by BGN 302.9 mn (142.9%) and BGN 233.8 mn (13.7%). Non-tax revenues increased for the month by BGN 82.8 mn (41.6%).

The revenues and grants accumulated for the whole year amounted to BGN 25.4 bn. Compared to December 2010 they increased by BGN 1.4 bn (6%). Tax revenues went up by BGN 1.6 bn (8.3%), and the increase was mainly due to indirect taxes, in particular to VAT receipts following from the higher crude oil prices. Non-tax revenues grew on an annual basis by BGN 4.4 mn (0.1%). With a view to the inflation of about 3% at the end of the year, non-tax revenues have practically gone down in real terms owing to the weak consumption in the country. Grants marked a decline at the amount of BGN 141.4 mn (8.8%). That decrease was due to the lower sum of EU funds absorbed by the Government, as compared to the 2010 figures. If juxtaposed to the budget plan, the execution of grants amounted to 66%, which can also be viewed as the main reason for cutting capital expenditures throughout the year in order to maintain a low budget deficit.

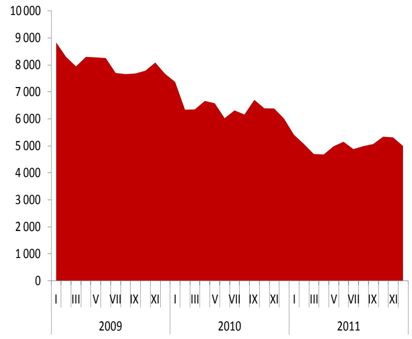
In December 2011 the nominal volume of budgetary expenditures was BGN 3.2 bn, going up by 929.6 mn (41.5%) vis-a-vis November. Maintenance costs displayed the largest monthly increase – by BGN 314.7 mn (80.7%). This type of expenditure is traditionally higher in December but there is so far no detailed information on what the causes might be. Next in size was the capital expenditure augmentation – by BGN 260.5 mn (76.9%), by which their monthly size was BGN 599.4 mn. The growth of this item during that month reflects its unbalanced distribution across the year and the delaying of expenditures as a buffer so that the funds are relocated in case there is an unfavourable budget development. Subsidies were by BGN 193.2 mn (222.4%) higher on a monthly basis, and the explanation is similar to the one pertaining to capital expenditures. The monthly increase of wages and salaries was BGN 52.3 mn (14%), and that of social and healthcare contributions – by BGN 12.2 mn (12.7%). Interest expenditures were higher by BGN 11.7 mn (80.5%).

Figure 13: Cumulative expenditures (BGN mn)



Source: MoF, Raiffeisen RESEARCH

Figure 14: Fiscal reserve (BGN mn)

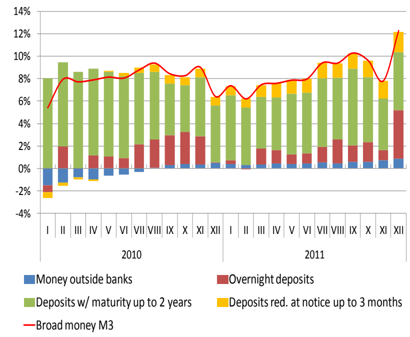


Source: MoF, Raiffeisen RESEARCH

The cumulative amount of consolidated budget expenditures was BGN 26.2 bn for the whole year. Compared to December 2010 it increased by the mere BGN 135.4 mn (0.5%), i.e. taking inflation aboard, there was a real contraction of expenditures. The largest absolute increase was recorded by social expenditures – by BGN 331.6 mn (3%). For the twelve 2011 months they stood at BGN 11.3 bn in total, and the main determinant of their increase, together with the ageing population, continued being unemployment. Subsidies were augmented by BGN 144.8 mn (9.7%) and reached BGN 1.6 bn. Wages and salaries rose by BGN 4.6 mn (0.1%) on an annual basis and thus amounted to BGN 4.1 bn, while social and healthcare contributions went up by BGN 68.2 mn (6.9%) adding up to BGN 1.1 bn. The increment of the maintenance costs was by BGN 2.6 mn (0.1%) up to BGN 4.5 bn; interest expenditures increased by BGN 60.8 mn (12.5%) to BGN 546.9 mn. Only capital expenditures recorded a decrease – by BGN 477.2 mn (13.4%), and their annual amount for 2011 stood at BGN 3.1 bn.

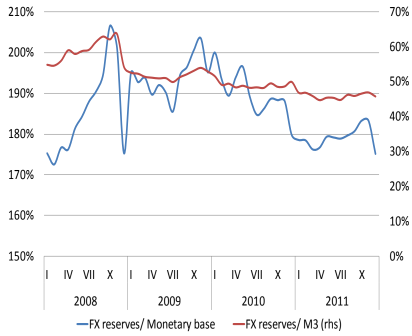
As of 31 December 2011 the fiscal reserve of the Government amounted to BGN 5 bn, i.e. by about BGN 500 mn higher than the minimum set in the 2011 Law on the State Budget. Compared to the end of 2010 it shrank by BGN 1 bn (16.9%). Its monthly decrease was by BGN 319 mn (6%). With a view to the legal requirement for a minimum of BGN 4.5 bn fiscal reserve for the end of 2012, the options to utilize the reserve as a source of budget deficit financing are severely limited. The latter implies the issuance of more considerable amount of public debt, including in the international markets.

Figure 15: Contributions to M3 growth (p. p.)



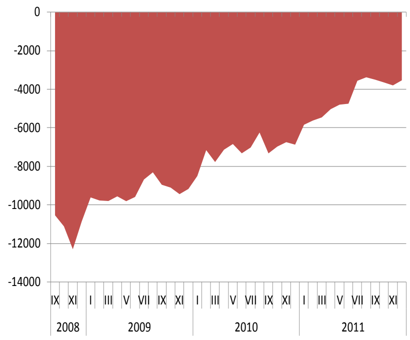
Source: BNB, Raiffeisen RESEARCH

Figure 16: FX coverage of monetary base and M3 (%)



Source: BNB, Raiffeisen RESEARCH

Figure 17: Net foreign assets of banks (BGN mn)



Source: BNB, Raiffeisen RESEARCH

Problematic loans down for the first time since March 2009

Savings in deposits still on the rise

In December 2011 the dynamics of money supply changed, and after the rate of increase of the M3 monetary aggregate was slowing down in October and November, in the last month of the year it accelerated to 12.2% yoy. The deposits with agreed maturity up to 2 years traditionally contributed the most to this growth rate – by 5.1 p. p., after they increased by 9.4% yoy. It is interesting to note that during that month overnight deposits registered an unusually high contribution – 4.3 p. p., as a result of their growth by 20% vis-a-vis December 2010 r. The latter could be related to the indications of stronger trade turnover in the days around the Christmas and New Year's holidays, but nevertheless account should also be taken of the fact that the base from December 2010 was relatively low. The growth rate of money outside banks also accelerated with respect to the one registered in November and reached 5.9%, while their contribution to the overall M3 growth rate amounted to 0.9 p. p. Deposits redeemable at notice up to 3 months increased by 20.8% yoy, and their contribution reached 1.8 p. p.

Compared to November 2011, money supply increased by 3.7%, after the decreases of 0.5% that were recorded for both October and November. By components, the largest was the increase of deposits redeemable at notice up to 3 months – by 6.9%, followed by money outside banks by 6.5% and overnight deposits by 5.1%. Deposits with agreed maturity up to 2 years increased on a monthly basis by the more moderate 1.7%.

As of 30 December 2011 the official FX reserves (the assets of the Issue Department of BNB) amounted to EUR 13.3 bn. This was the largest amount of reserves accumulated since 2008. On a yearly basis they increased by EUR 372.1 mn (2.9%).

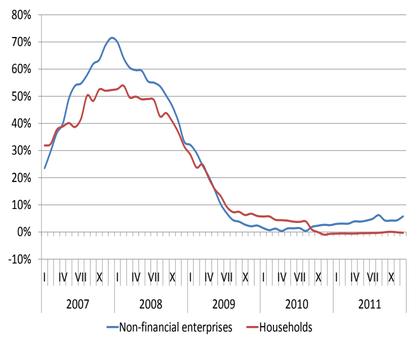
On a monthly basis their increase was by BGN 150.8 mn (1.1%), and it resulted from the growth of bank reserves by EUR 292.3 mn and the growth of notes and coins in circulation by EUR 127.6 mn; at the same time, the part of Government's fiscal reserve deposited in BNB decreased by EUR 244.3 mn, mainly due to the budget deficit realized during that month.

At the end of December 2011 the FX coverage of the monetary base was 175.1%. Compared to November the ratio registered a decrease – then it had been 183.3%. In spite of this, as the minimum required coverage is 100%, the level of the reserves continues being more than sufficient to guarantee the stability of the currency board arrangement.

The improvement on an annual basis of the net foreign assets of banks amounted to BGN 3.3 bn in December 2011. Of this amount, BGN 2.3 bn was brought about by a decrease in foreign liabilities (almost entirely constituting of deposits), and the remaining BGN 1.1 bn was the result of the increase in foreign assets. Compared to the previous months, banks' net foreign assets improved by BGN 262.1 mn (after the slight deterioration in November). The main factor causing the latter was the decrease of foreign liabilities (also almost entirely consisting of deposits) at the amount of BGN 196.2 mn. Foreign assets increased by BGN 65.9 mn.

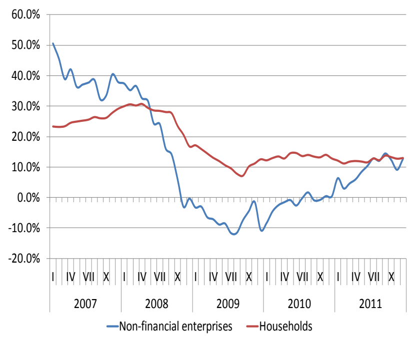
The dynamics of both assets and liabilities largely manifest the high level of liquidity in the banking system. At the same time they reflect the limited opportunities for banking business growth in the country at present.

Figure 18: Loans (% yoy)



Source: BNB, Raiffeisen RESEARCH

Figure 19: Deposits (% yoy)



Source: BNB, Raiffeisen RESEARCH

In December 2011 the loans to non-financial enterprises augmented on an annual basis by 5.7% (vis-a-vis 4.2% in November). On a monthly basis the increase was by BGN 543.9 mn (1.7%). For households the process direction was the opposite – there was a drop of 0.4% yoy. A decline was registered also on a monthly basis – by BGN 79.6 mn (0.4%), which indicates for them a continuing propensity to use windfall incomes (such as those related to Christmas and New Year bonuses) to reduce existing liabilities, while at the same time refraining from assuming new ones. By segments, consumer loans decreased by BGN 67.9 mn (0.9%) compared to November, and housing loans increased by only BGN 7.4 mn (0.1%).

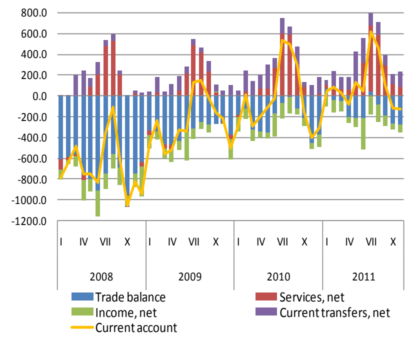
For the first time since March 2009 monetary statistics registered a drop in the volume of bad and restructured loans. With respect to November 2011 it fell by 0.2% and thus reached BGN 9.1 bn. Taken as a share in the total loan amount (excluding overdraft) bad and restructured loans amounted to 21.9% (against 22.1% a month earlier). The overall decline was due to the contraction of bad and restructured consumer loans, while the problematic company and mortgage loans continued their upward trend. [2]

In December 2011 the deposits[3] of non-financial enterprises increased by BGN 239.7 mn (1.8%) compared to November reaching the total of BGN 13.3 bn. On an annual basis the increase was by BGN 1.5 bn (12.8%). As a whole, there was a tendency for companies to save in bank deposits instead of redirecting the funds towards expansionary investments. Households' deposits increased vis-a-vis November 2011 by BGN 898.2 mn (3.1%). That amount was higher than the increments registered for the previous months but was still within the projected range for the last month of the year if the historically observed previous years' values are taken into consideration. The additional Christmas and New Year's bonuses to the incomes were probably the main factor which contributed to that increase. On an annual basis, household deposits augmented by BGN 3.5 bn (13%) and reached the stock of BGN 30.1 bn.

[2] According to bank supervision statistics, the bad loans share in banks' loan portfolios was 14.93% on average at the end of Q3 2011.

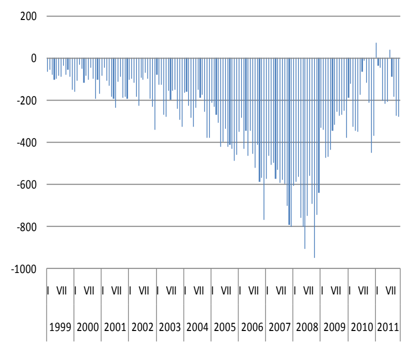
[3] The analysis does not cover the deposits which are excluded from the monetary aggregates, i.e. deposits with agreed maturity above 2 years, and deposits redeemable at notice more than 3 months.

Figure 20: Current account (EUR mn)



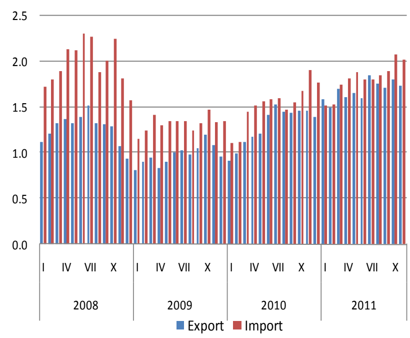
Source: BNB

Figure 21: Trade balance (EUR mn)



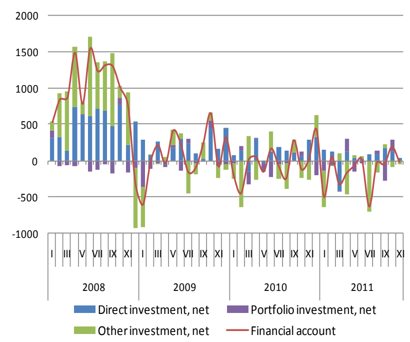
Source: BNB

Figure 22: Import and export of goods (EUR bn)



Source: BNB

Figure 23: Financial account (EUR mn)



Source: BNB

Gross domestic debt falls to EUR 35.5 bn

Banks contribute the most to it

In November, the current account deficit remained similar to the amount in the previous month – EUR 126.5 mn. Negative balances are typical for the last months of the year due to seasonal factors, but compared to previous years the deficit has shrunk significantly – by EUR 276.9 mn compared to November 2010.

Cumulatively for the period January-November 2011 the current account surplus amounted to nearly EUR 1.2 bn (3% of the projected annual GDP), vs. a deficit of EUR 165.3 mn in the same period of 2010. Raiffeisen RESEARCH's forecast for the whole year is to have the C/A balance shrinking to 2.1% of GDP, and it reflects an expected deficit in December.

The largest positive contributor to the C/A balance in November was net current transfers which amounted to EUR 114.8 mn during the month. Compared with November 2010 their net inflow rose by around EUR 50 mn (the increase was due to transfers to general government).

Net services also had a positive monthly balance – EUR 85.5 mn; they realized an improvement by EUR 77.3 mn on an annual basis. Historically, this is the highest value for this month of the year. Compared to November 2010 the increase in the services balance on the one hand was due to expansion of the export of transport services, which are linked to exports of goods. On the other hand, the positive contributions to the improvement were driven by reduced import of construction, business and other services (EUR 50.6 mn).

The biggest contribution to the C/A step-up over the November 2010 value was explained to a large extent by the trade balance's dynamics. Although compared to the summer months in November 2011 it posted a deficit, the latter was due to seasonal factors. On an annual basis, the trade balance improved by EUR 170 mn, reaching EUR-282.8 mn. Net exports of goods have been following an upward trend since late 2008 when the recession in the country began. In January-November 2011 its balance augmented by circa 1 bn over the same period of the previous year.

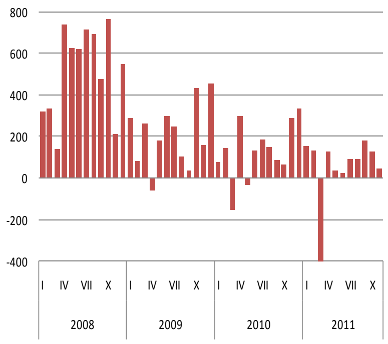
In November, exports of goods picked up by 19.1% yoy, decelerating from September, when growth was 23.6%. Generally, in the second half of 2011 the growth rate of exports has remained relatively high and stable – around 20% on a yearly basis.

However, the increase in imports of goods during the month was only 5.7% over a year earlier. The moderate growth rate was partly due to a base effect as during that period of 2010 imports rose very rapidly. A positive fact that should be borne in mind is that in nominal terms, as of November 2011 imports exceed the pre-recession values from November 2008.

Having recorded a deficit of EUR 74 mn in November, the income account brought a negative contribution to the C/A account. On an annual basis it deteriorated by EUR 21.8 mn due to a higher outflow of income from direct investment.

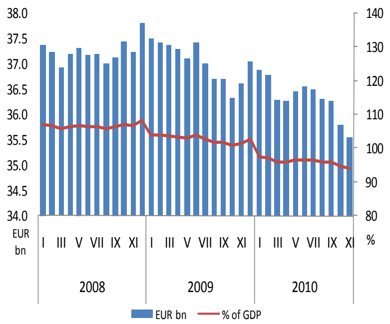
The capital account totalled to EUR 52.1 mn stemming from EU capital transfers to general government. Cumulatively from beginning of year, the capital account reached EUR 240 mn, stepping up by EUR 35 mn over the same period of 2010.

Figure 24: Net foreign direct investment inflow (EUR mn)



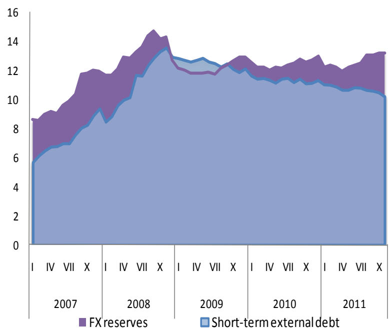
Source: BNB

Figure 25: Gross external debt (EUR bn, % of GDP)



Source: BNB, NSI, Raiffeisen RESEARCH

Figure 26: BNB's FX reserves vs. short-term external debt (EUR bn)



Source: BNB

The financial account was with a minor negative balance in November – EUR 10.2 mn, compared to a small positive balance of EUR 31.5 mn in November 2010. Net foreign direct investments during the month remained at a small amount – EUR 47 mn. Compared to November 2010 their amount contracted by nearly EUR 250 mn. From the beginning of the year, net inflows shrank by about 50% over the same period last year, despite the positive trend in terms of economic growth in the country.

Portfolio investment's balance was close to zero during the month (EUR -1.8 mn) and that of other investments was negative at EUR 48 mn. The latter, however, improved by a significant amount (EUR 197.3 mn) compared to November 2010. For the period from the beginning of the year on the account of other investments there has been a large outflow – EUR 1.7 bn, almost entirely formed by currency and deposits. In November, however, banks attracted net foreign currency and deposits at the amount of EUR 72.1 mn. However, it is early to say that there has been a change in banks' behaviour. During the months they repaid foreign loans totalling to EUR 113.2 mn.

In November, the current balance, capital and financial account amounted to EUR -84.7 mn. Considering errors and omissions worth EUR 20.2 mn, the overall balance reached EUR -64.6 mn. The latter led to a decrease by the same amount of BNB's FX reserves.

As a result of the dynamics in the balance of payments, as of November Bulgaria's gross external debt (GXD) amounted to EUR bn, which was the lowest value of this indicator since August 2008. Cumulatively from the beginning of the year GXD registered a significant decline – by nearly EUR 1.5 bn. As a share of GDP it fell to 94% in November 2011 vs. 102.8% at the end of 2010.

Similarly to most of 2011, in November banks were the major contributor to the decline of the GXD. From the beginning of the year the decline in GXD in the sector accrued to EUR 1.1 bn, representing about three quarters of the total decline of GXD in the economy. The behaviour of banks is associated with the high liquidity in the sector and still weak lending activity.

In November BNB's FX reserves remained relatively unchanged on a monthly basis at EUR 13.2 bn. As a result of the decline in short-term GXD, the coverage of short-term foreign liabilities continued to rise, reaching almost 130%, which is the highest value since mid-2008.

Key figures

	2007	2008	2009	2010	2011e	2012f
Real GDP (% yoy)	6.4	6.2	-5.5	0.2	2.0	1.2
Nominal GDP (EUR bn)	30.8	35.4	34.9	36.0	37.8	39.1
Nominal GDP per capita (EUR)	4028	4658	4618	4801	5168	5381
Nominal GDP per capita (EUR at PPP)	10049	10904	10368	10758	11439	11850
Household consumption (real, % yoy)	8.3	3.0	-7.6	-0.6	0.1	0.9
Government consumption (real, % yoy)	-1.6	-1.5	-4.9	-5.0	0.6	0.4
Gross fixed capital formation (real, % yoy)	11.8	23.4	-17.6	-16.5	-2.5	1.3
Exports of goods and services (real, % yoy)	6.1	3.0	-11.2	16.2	12.1	1.3
Imports of goods and services (real, % yoy)	9.6	4.2	-21.0	4.5	7.8	1.1
Industrial output (% yoy)	9.6	0.7	-18.3	2.0	5.0	0.7
Producer prices (avg, % yoy)	7.7	11.1	-6.2	8.5	11.7	7.4
Consumer prices (avg, % yoy)	8.4	12.3	2.8	2.4	4.3	3.1
Consumer prices (eop, % yoy)	12.5	7.8	0.6	4.5	3.2	2.6
Average monthly gross wages (BGN)	431	545	609	647	692	730
Average gross wages (% yoy)	19.5	26.5	11.8	6.3	6.9	5.5
Average monthly gross wages (EUR)	220	279	311	331	354	373
Average gross industrial wages (% yoy)	18.4	24.3	9.7	10.5	8.1	5.8
Employed persons (LFS, thd, avg)	3253	3361	3254	3053	2935	2898
Employment (avg, % yoy)	4.6	3.3	-3.2	-6.2	-3.9	-1.3
Unemployment rate (avg, %)	6.9	6.3	6.8	10.2	11.4	12.0
General budget balance (% of GDP)	3.3	2.9	-0.8	-3.9	-2.1	-1.8
Public debt (% of GDP)	17.2	13.7	14.6	16.3	16.4	20.7
Export of goods (EUR mn)	13512	15204	11699	15561	19404	18445
Import of goods (EUR mn)	20757	23802	15873	18325	21341	20463
Trade balance (EUR mn)	-7245	-8598	-4174	-2764	-1937	-2018
Current account balance (EUR mn)	-7755	-8182	-3116	-476	779	890
Current account balance (% of GDP)	-25.2	-23.1	-8.9	-1.3	2.1	2.3
Net foreign direct investment (EUR mn)	8341	6206	2505	1585	452	549
Net foreign direct investment (% of GDP)	28.7	17.5	7.2	4.4	1.2	1.4
Official FX reserves (EUR bn)	11.9	12.7	12.9	13.0	12.8	15.2
Official FX reserves (% of GDP)	38.8	35.9	37.0	36.1	33.8	38.9
Gross foreign debt (EUR bn)	29.0	37.2	37.8	37.0	35.7	36.5
Gross foreign debt (% of GDP)	94.2	105.1	108.3	102.8	94.4	93.2
EUR/BGN (eop)	1.96	1.96	1.96	1.96	1.96	1.96
EUR/BGN (avg)	1.96	1.96	1.96	1.96	1.96	1.96
USD/BGN (eop)	1.34	1.41	1.37	1.46	1.50	1.45
USD/BGN (avg)	1.43	1.33	1.40	1.47	1.42	1.48
EUR/USD (eop)	1.46	1.39	1.43	1.34	1.30	1.35
EUR/USD (avg)	1.37	1.47	1.39	1.33	1.38	1.32
Key interest rate (% avg)	3.9	5.2	2.0	0.2	0.2	0.5
3 month Sofibid (% avg)	4.4	5.9	4.1	2.3	2.0	2.4
10 year T-bond yield (% avg)	4.5	5.4	7.2	5.9	5.4	5.1
Ratings, long-term, foreign currency	Current	Outlook				Comment
S&P	BBB	stable				Rating confirmed in December
Moody's	Baa2	stable				Rating upgraded in July
Fitch	BBB-	stable				Outlook downgraded in December

Disclaimer

This document does not constitute an offer or invitation to subscribe for or purchase any securities and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. This document is being furnished to you solely for your information and may not be reproduced or redistributed to any other person. Any investment decision with respect to any securities of the respective company must be made on the basis of an offering circular or prospectus approved by such company and not on the basis of this document. RBI may have effected an own account transaction in any investment mentioned herein or related investments and or may have a position or holding in such investments as a result. RBI may have been, or might be, acting as a manager or co-manager of a public offering of any securities mentioned in this report or in any related security. Information contained herein is based on sources, including annual reports and other material which might have been made available by the entity which is the subject of this document. RBI believes all the information to be reliable, but no representations are made as to their accuracy and completeness. Unless otherwise stated, all views (including statements and forecasts) are solely those of RBI and are subject to change without notice. Investors in emerging markets need to be aware that settlement and custodial risk may be higher than in markets where there is a long established infrastructure and that stock liquidity may be impacted by the numbers of market makers which may therefore impact upon the reliability of any investments made as a result of acting upon information contained in this document. Special regulations for the Republic of Austria: This document does not constitute either a public offer in the meaning of the Kapitalmarktgesetz („KMG“) nor a prospectus in the meaning of the KMG or of the Boersegesetz. Furthermore this document does not intend to recommend the purchase or the sale of securities or investments in the meaning of the Wertpapieraufsichtsgesetz. This document shall not replace the necessary advice concerning the purchase or the sale of securities or investments. For any advice concerning the purchase or the sale of securities or investments kindly contact your RAIFFEISENBANK. Special regulations for the United Kingdom of Great Britain, Northern Ireland (UK) and Jersey (Channel Islands): Raiffeisen Bank International AG (RBI). This publication has been either approved or issued by Raiffeisen Bank International AG in order to promote its investment business. RBI London Branch is authorised by the Austrian Financial Market Authority (FMA) and subject to limited regulation by the Financial Services Authority (FSA). Details on the extent of the London branch's regulation by the Financial Services Authority are available on request. This publication is not intended for investors who are Retail Customers within the meaning of the FSA rules and should therefore not be distributed to them. Neither the information nor the opinions expressed herein constitute or are to be construed as an offer or solicitation of an offer to buy (or sell) investments. RBI may have effected an Own Account Transaction within the meaning of FSA rules in any investment mentioned herein or related investments and or may have a position or holding in such investments as a result. RBI may have been, or might be, acting as a manager or co-manager of a public offering of any securities mentioned in this report or in any related security. The RBI Jersey marketing representative office is not regulated by the Jersey Financial Services Commission as it does not perform any financial services activity in Jersey as defined by the Financial Services (Jersey) Law 1998 (FSJL).Special regulations for the United States of America (USA) and Canada: This document or any copy hereof may not be taken or transmitted or distributed, in the USA or Canada or their respective territories or possessions nor may it be distributed to any USA-person or person resident in Canada by any means other than via a US Broker Dealer. Any failure to comply with these restrictions may constitute a violation of USA or Canadian securities laws. Detailed disclaimer and disclosure as per Sect. 48f of the Stock Exchange Act: http://www.raiffeisenresearch.at-> "Disclaimer"