

АНАЛИТИЧЕН ОБЗОР НА АКТУАЛНИ ТЕНДЕНЦИИ В БЪЛГАРСКАТА ИКОНОМИКА

д-р Емил Калчев¹

Нов Български Университет

Резюме: В съответствие с тенденциите в ЕС и страните от Централна и Източна Европа, българската икономика се намира в подем. Брутният вътрешен продукт расте отвъд очакванията в среда на снижаваща се безработица и зараждаща се умерена инфлация, въпреки изборната ситуация в страната от есента на миналата година май 2017 г. и несигурната външна среда. Продукцията на индустрията и строителството растат, както и оборотите им. Търговията на вътреш-

ния и външния пазар също регистрира растящи обороти. Нещо повече, кредитирането расте за осми пореден месец според последни налични данни към юли 2017 г, след повече от две години на спад. То също ще подкрепи растежа на икономиката, която се очаква да продължи ускорения си растеж в идните тримесечия.

Ключови думи: приложна макроикономика, дескриптивен статистически анализ

ANALYTICAL OVERVIEW ON CONTEMPORARY TENDENCIES IN THE BULGARIAN ECONOMY

Emil Kalchev

New Bulgarian university

Abstract: Customer loyalty and engagement to the brand and/or company becomes an increasing company asset. To keep this situation the enterprises began to use as an important CRM tool a customer loyalty programs. Customer's frustration of the using of loyalty programs has a negative effect on the customer buying behavior and the organization's prof-

it. In this paper I highlighted as very important determinants of customer frustration of using customer loyalty programs their concrete design and their type as well as their service.

Keywords: Frustration, Client's Engagement, Loyalty Programs, CRM, Trust

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¹ Chief Assistant, PhD., Department of Economics, New Bulgarian University, email: e.kalchev@nbu.bg

Real GDP growth in Bulgaria reached 3.9% yoy in Q1 2017¹, overshooting the result from 2016 (3.4% yoy) and staying in line with the positive growth trend in CEE countries. Nevertheless, growth happened despite the transitory electoral situation since autumn 2016, which led to weaker investments due to political uncertainty among private investors, weak absorption of EU funds, and limited number of public investment projects. Otherwise, based on rapidly growing average salaries, low interest rates on deposits and credits, and rebounding inflation household consumption soared against the background of diminishing net export. On the other hand, the gross state budget accumulated a significant surplus, despite the annual decrease in revenues and increase in expenditures. The sound public finance is supported by solid monetary environment, since the coverage of the monetary base with FX reserves is high whereby currency board and banking system remain stable. Lending expanded in year-on-year terms while the share of non-performing and restructured loans stays relatively high, despite the smooth tendency of decline. Political setting is dominated by the external environment, which in general will remain as a source of risk (military conflicts, refugees, etc.). Internal political situation seems to be stable undergoing a typical summer lull disturbed by insignificant political scandals. In particular, the preparations for the Bulgaria's EU Presidency also play a crucial role for the internal political situation in the country.

Political Environment in Brief

Snap general elections were prepared and conducted in Q1 2017, which were marked by a fierce rivalry between GERB (Citizens for European Development of Bulgaria) and BSP (Bulgarian Socialist Party) for the leading political position. Indeed, their results were quite close to each other. As a result, a new coalition government of GERB and the United Patriots took office in May, which seems to remain stable in the middle term. Generally, the governing style is expected to be similar to the one of the previous GERB coalition: balancing

between the internal and external hubs of power and postponing needed radical structural reforms (judiciary, energy sector, education, pensions, healthcare, etc.). A strong political and economic potential for Bulgaria comprises the Bulgarian EU Presidency from 1 January 2018, which are in intensive preparation by the government. External political environment remains turbulent: ISIS, refugees, terror attacks in Europe, radicalization of neighboring Turkey, Brexit, Russia sanctions, etc.

From External to Internal Driven Growth Model

In Q1 2017, real economic growth reached 3.9% yoy. On the demand side, the positive influence of the external demand on the GDP growth became weaker unlike all quarters of 2016. As a result, the net export decreasing by 1.7% yoy in real terms registered a negative contribution of 3.0pp to the dynamics of the GDP. When it comes to the internal demand, the positive impact to the growth of the economy was given by the final consumption (5.7pp) as well as by gross investments (0.9pp).

Out of the GDP components, the import of goods and services grew by 10.1% compared to Q1 2016, while the export increased by 5.8% yoy. In fact, this was just the opposite dynamics to the one acting during the last year. In turn, final consumption increased by 6.8% yoy and gross investment by 5.1% yoy.

On the supply side, in Q1 a solid contribution to the GDP growth came, as expected, from the services sector (3.2pp), followed by the industry (0.7pp) while the agriculture remained flat (0.0pp). In the services sector, governmental services, health, education and social work (0.9pp), operations with real estate (0.7pp), and trade and repair of motor vehicles, hotels and restaurants (0.6pp) shore up the growth of the sector most intensively. They were followed by the financial and insurance activities (0.5pp.), scientific research (0.3pp.), and creation and dissemination of information (0.1pp). These facts reflect what happened in the country in Q1 2017: elections, more intensive purchases of real estate and motor vehicles due to considerable available savings, drop of loans and de-

¹ *Yoy* stands for year-on-year. *Q* means quarter.

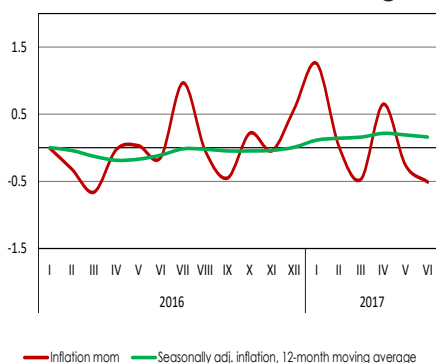
posits interest rates, and insufficient investment opportunities in the country.

Compensation of the labour employed registered 8.7% yoy rise within the nominal GVA growth of 5.9% yoy in Q1. In this context, gross operating surplus, which is an indicator for firms' production activities, slowed its growth to 2.1% (5.0% yoy in Q4 2016).

For the entire 2017, 3.7% GDP growth is forecasted, driven mainly by the consumption and to a lesser degree by the investment, which will be expectedly detained due to tight EU funds absorption and weak public investment. The latter was a consequence of the electoral situation in the country ended with the inauguration of the new government in May. In turn, the consumption will be supported by growing salaries, lower interest rates on deposits and loans, and rebounding inflation.

Reflecting the positive dynamics of the GDP in Q1, the employment rate rose by 1.5pp yoy to a level at 50.0%. Otherwise, the unemployment rate decreased by 1.7pp to 6.9%. Both indicators are anticipated to further improve in the coming quarters of 2017.

CPI registered 0.3% monthly deflation in May; since the beginning of the year, however, accumulated inflation of 1.2% was registered.²



Graph 1. CPI index dynamics (pp)

Source: NSI

The deflationary pressure weakened, reflecting the ECB policy and higher electricity prices. The European Central Bank (ECB) has left its policy regarding interest rates and quantitative easing unchanged. The president of the ECB Mr. Mario Draghi stated that more time and persistence is needed to reach the inflation target of 2.0%, which in turn will impact wages

and prices to rise accordingly. For now inflation is retained by the weak oil prices and the strong euro. According to ECB's forecasts, inflation within the Euro-area is expected to reach 1.6% in 2019. Prospects of reduced monetary stimulus are forcing financial markets to stay tense with current shifts being the appreciation of the EUR against the USD and the decrease of the yield for ten-year German benchmark government bonds. The first official decision regarding the future of the monetary policy path is expected to be announced in September.

Growth in Industry, Construction and Domestic Trade

In May 2017, the industrial output index rose to 115.1, or by 4.9% in comparison to April. Moreover it increased significantly by 11.2% compared to May 2016. Despite the fluctuating month-on-month index dynamics, its 12-month moving average increased to a level of 115p, which is slightly higher than in April (114p). The annual growth of the industrial production was logically due to the increase of contracting long term assets acquisition in the industry last year and the increased trust in the branch by 2.7 yoy in May. By components, the annual development was due to stronger manufacturing output by 15.8% yoy and mining industry production by 7.2% yoy, against the background of lower electricity, heat and gas production by 3.9% yoy. Within the manufacturing industry, stronger annual increase registered: the metal products production (40.3% yoy), machinery and equipment (37.4% yoy), computers and communication goods (17.2% yoy), healthcare products (17.0% yoy), etc. Not only was there a significant annual growth in industry but also its turnover soared in May – overall by 15.6% yoy. While the internal market sales rose by 11.2% yoy, these in the international market reached 21.5% yoy.

In line with the upward trend, the pace of expansion in construction accelerated to 14.0% yoy in May (-2.2% in April). The growth was driven by the increase of building construction by 21.1% as well as by the civil and engineering construction by 5.9%. The excellent performance of building construction, growing sus-

² This paper refers to tendencies according to last available data as of July 2017. Hence, it could take account.

tainably over five consecutive months, marked a resurrection within this segment after enduring a recession for thirteen months straight. On the other hand, civil and engineering construction was functioning beneath its capacity due to a weak absorption of European funds and weak public tenders in the last half year – as the government came into power in May. During the next months we expect an increase in civil and engineering construction based on the background of sustainable growth in building construction segment.

The turnover of the domestic trade also increased in May by 4.4% yoy, driven by the growth in the retail trade segment by 6.3%, in automobiles and motorcycles sales by 5.3%, and in the wholesale trade by 3.5%. Looking back, retail trade has the most stable tendency increasing steadily for 16 months straight.

The business surveys of the National Statistical Institute among the sectors of the economy show increasing dynamics of the general business climate indicator in May compared to April. Concerning the industry, the forecasts of the production activity over the next three months remain more reserved as a consequence of the uncertain economic environment and labor shortage. The assessments of the construction entrepreneurs on the construction activity over the next three months are, however, more optimistic. Obstacles for the sector's development, beside the uncertain economic environment, are the competition in the branch and labor shortage. In turn, retailers share increased optimism about sales and orders (internal and external). As main factors limiting the activity in the branch retailers point out the competition, the insufficient demand and the uncertain economic environment. On the other hand, the indicator for the business climate in the service sector increased as well. Also the tendency for demanding services is estimated as improving. The competition and the uncertain economic environment remain the most serious obstacles for the services business. In all sectors no price changes are expected over the next three months.

Sound Financial Environment

Based on statistics from May 2017, the gross foreign debt declined to EUR 34.2 bn,

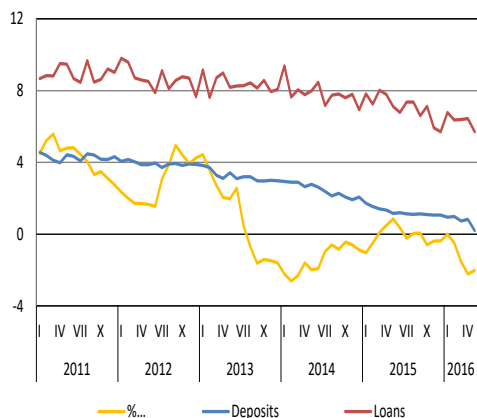
which was by EUR 599.0 mn less compared to April 2016. The largest part in its structure, the intercompany loans had a relative share of 35.4%, shrinking by 1.3pp yoy. The volume of 'other sectors' loans were 32.8% of the gross foreign debt, which was by 0.7 pp lower than the previous year share. The government debt takes the third position with a share of 18.8%, recording a decrease of 0.3 pp. External liabilities of the banking sector were in fourth position in the gross foreign debt structure. They increased by 2.3 pp yoy up to 13.0%. In other words the decrease of the gross foreign debt was driven by the dynamics of the intercompany loans, other sectors and government debt (total of EUR -1.3 bn.) while external bank liabilities counteracted to this trend with an increase of EUR 726.0 mn.

As of May 2017, the gross state budget accumulated a solid surplus of BGN 1.7 bn, which, however, was significantly smaller than those for the same period of 2016 (BGN 2.8 bn). Gross revenue and grants, collected by the state for the first five months of the year, amounted to BGN 14.7 bn (decrease by 0.9% yoy), while total expenses (including the contribution to the EU budget) reached BGN 13.0 bn (7.9% growth). The decrease in revenues was a result of tax contributions of 5.9pp, on the background of -6.8pp contribution of grants due to extremely weak EU funds absorption, while non-tax revenues remained flat (0.0pp). Subsidy expenses (2.3pp), social expenses (2.2pp), maintenance expenses (1.2pp), expenses for salary and remuneration (1.1pp), government insurance of civil servants (1.0pp), etc. had a positive impact, while capital expenses (-0.5pp) a negative one to the dynamics of total expenditures within the gross state budget.

FX reserves increased slightly by BGN 63.5 on a monthly basis in May, while the coverage of the monetary base enlarged by BGN 191.1 mn. Due to these two affects the FX coverage of the monetary base diminished insignificantly by 0.9pp to 166.6%. This high coverage ensures sufficient stability of the currency board agreement, as for its smooth functioning 100% coverage is required. The reason for

the enlarged monetary base was the increase in both monetary base by BGN 48.7 mn and liabilities to banks by BGN 72.8 bn. On the other hand, broad money (M3) rose by BGN 729.1 mn which in consequence narrowed, however, their coverage with FX reserves only very slight: by 0.4 pp up to 57.6%, due to the rise in the FX reserves.

The monetary statistics of the BNB reported again, for the eight consecutive month, a rise in lending - by 4.3% in May. When it comes to loans to non-financial enterprises they marked a surge of 3.3% yoy, while loans to households stepped up by 5.8% yoy.



Graph 2. Average interest rates on loans and deposits (% p.a.)

Source: BNB

In May, the relative share of non-performing and structured loans (NPLs), excluding overdrafts, narrowed its level by 0.2pp compared to April to the after all high level at 19.2%. However, it was by 3.3pp lower than in May previous year. NPLs concerning households were at 13.9% (-3.2pp yoy) in May 2017, while those of the non-financial enterprises took a more significant share of 23.8% (-3.2pp yoy).

Similar to loans deposits rose again by 7.1% yoy, with household deposits increasing by 6.1% yoy and those of non-financial enterprises by 9.6% yoy. The rigid sustainable growth of firms' deposits is an indicator of a relative tough investment process within corporations.

In May, the average nominal interest rates were close to their levels in April. Hence, the

average interest rate on deposits stayed at 0.3% p.a., while on loans it declined by 0.2pp to 5.0% p.a. As a result wanking sector margin tightened insignificantly to 4.7pp (4.9pp for April).

A few factors impacted the profitability of Bulgarian banks. First, the core funding price on average dropped sharply for all deposit categories in all currencies. Similar developments were also observed in average lending rates. Second, the credit risk considerations continued to set trends in the banking sector performance. The volume of NPLs (within the loans issued to the real economy) decreased moderately. Moreover, the 2016 Asset Quality Review (AQR) and stress test exercises confirmed (with modest transparency though) that the banks' capital positions are stable and the sector's ability to absorb shocks within unfavorable market conditions is adequate. The impetus to market consolidation, and partially clean-up, was preserved. In particular, the deal for the acquisition of the United Bulgarian Bank, a subsidiary of the National Bank of Greece, by the KBC Group was announced and is expected to be closed in Q2 2017. Furthermore, the sale of Victoria bank to private investors (a failed CCB bank subsidiary, 100% of equity to be sold) is expected to be closed in 2017. Following the merger between the Alpha Bank branch and Eurobank EFG, the number of banks operating in Bulgaria decreased to 27.

External Environment

In May, the current account went positive amounting to EUR 210.6 mn, while in May 2016 it registered a negative balance of EUR 5.7 mn. This dynamic was a result of improved balances in year-on-year terms of the primary income (from EUR -85.0 mn in May 2016 to EUR 50.7 mn in May 2017), trade balance (from EUR -213.2 mn to EUR -134.8 mn) and secondary income (from EUR 130.1 mn to EUR 165.2 mn). On this background, there was deterioration in the balance of services (from EUR 162.3 mn to EUR 129.4 mn).

The foreign direct investments in Bulgaria decreased by EUR 6.2 mn in May 2017 (EUR 130.2 mn for May 2017). Cumulatively, for the first five months of the year they amounted to

EUR 119.8 mn, which in turn was lower than in the same period of the previous year (EUR 525.7 mn).

Consequences and outlook

The real GDP growth for the first quarter of 2017 grew by 3.9% yoy, driven by the consumption. The Bulgarian economy profited from the weaker euro, the low oil prices and excessive supply of money. The consumption-driven growth pattern is expected to sustain further in 2017 and 2018, following the ongoing common growth model in the CEE region. Against the backdrop of booming private consumption net export is expected to become more sluggish, whereas investments are considered to turn positive on the basis of the achieved political stability, resulting in improved administrative capacity for EU funds utilisation, more public investments and positive signals to domestic and international investors. On the other hand, stepping up year on year lending to businesses since in stagnating interest environment also encourage growth and investments. Reflecting the GDP increase, unemployment rate declined by 1.7pp to 6.9% eop in Q1, which usually is the highest quarter rate in the year. The gross state budget accumulated a significant surplus, despite the annual decrease in revenues and increase in expenditures. The coverage of the monetary base with FX reserves was high. Currency board and banking system remain stable. Lending expanded in year-on-year terms. The share of non-performing and restructured loans stays high, despite the smooth tendency of declined. Political setting in 2017 will be dominated rather by the external environment, which in general will remain as a source of risk (military conflicts, refugees, etc.). In particular, the preparations for the Bulgaria's EU Presidency from 1 January 2018 will also play a crucial role for the internal political situation in the country. Moreover, the macro-economic environment was supportive for the banking sector and there were no negative shocks.

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