

BULGARIA MACROECONOMIC OVERVIEW Q2



A Brief Overview of Bulgaria's Economy, Politics and Markets

Economic Overview

After contracting by 4.2% in 2020, GDP is expected to rebound by 4.6% in 2021 and 4.9% in 2022, returning to its-pre pandemic level and exceeding it.

The reopening of the economy should create renewed strength in household demand and business investment, which will replace government spending (exceeding €3.5 bn in 2021) as the main engine of growth.

Household spending has remained the same during the pandemic because of the preservation of jobs. The economic recovery will be reflected in slight improvements in the labor market with unemployment falling to ~5%.

Since the beginning of the year the CPI has increased by a stable 2.3% and by a healthy 3.0% YoY. Overall inflation for the year is expected to be 1.9% and will accelerate to 2.5% in 2022, which is a sign of recovery and economic growth.

An indicator of recovery, not only domestically but internationally, is the spike in exports and imports for Q1 and Q2.

Bulgaria stands last in vaccination rates among EU countries. High vaccination rates are a prerequisite for the economy to return to normal levels again.

Accelerating vaccination has turned to an immediate policy priority, as it poses an immediate threat of another closure of the economy, currently being considered.

The government has increased its debt in 2020 and will continue to do so in 2021, to fulfil the promised SME and job support. A potential closure would mean taking on more debt and revisions of the budget.

Bulgaria expects to receive EU funds, estimated at 29 billion EUR for 2021-2027, and a budget revision, which, if managed effectively, can boost the recovery, and promote investment and productivity.

	2020	2021 Q1	2021 Q2	2022 (projected)
GDP (million €)	60,642	15,833	15,891	65,401
GDP Real Growth (%)	-4.2	-1.8	9.6	3.9
Average Annual Inflation Growth (%)	1.7	0.7	0.6	2.5
Unemployment rate (%)	6.7	6.3	5.7	4.8
Trade Balance (% of GDP)	-4.5	1.1	1	-2.3
Exports (% of GDP)	46.4	63.4	64	-
Imports (% of GDP)	51	62.3	63	-
Current Account (% of GDP)	-0.7	-0.1	-0.1	2
Budget surplus/deficit (% GDP)	-3.4	-	-	3
Government debt (% of GDP)	23.8	26.7	26	26
Foreign Direct Investment (% of GDP)	3.5	1	1.1	3.8

Source: National Statistical Institute

Economic Overview

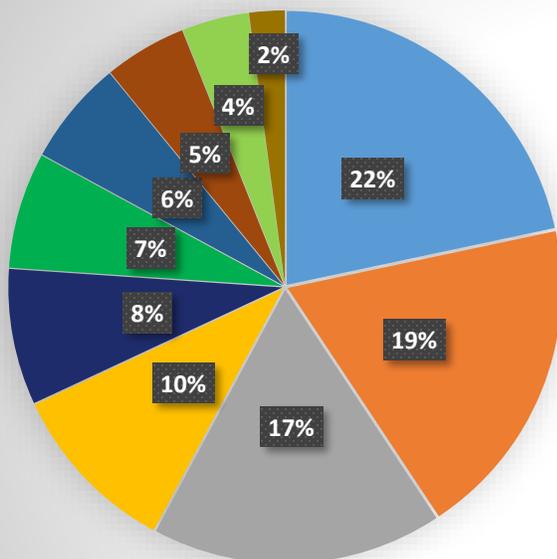
The size of each economic area by Gross Value Added (GVA), as of 2020 are the following: 70.7% for the services, 27.1% for the industrial one and 2.2% for the agricultural one.

From the top 300 companies in Bulgaria, 16.7% are in the industry of fuels and equally as much are in the energy industry. 15.9% relate to retail, followed by 14.3% in metals. The revenue from these 300 companies is a combined 54 billion EUR.

In terms of GVA, the leading sector with 22% of GVA, mostly connected with manufacturing and energy is pretty much related to the leaders in the top 300.

The second largest sector with 19%: trade, repairs, warehousing, hotels, and restaurants. Most of it comes from (hotels and restaurants) which takes up 15% of the GDP. The period June-September accounts for over 50% of the yearly arrivals in the country.

Sector by GVA (2020)



- Mining and quarrying; manufacturing industry; production and distribution of electricity and heat and gaseous fuels; water supply; sewerage, waste management and remediation activities - **22%**
- Trade, repair of automobiles and motorcycles; transport, warehousing and post offices; hotels and restaurants - **19%**
- Government; education; healthcare and social work - **17%**
- Real estate operations - **10%**
- Creation and dissemination of information and creative products; telecommunications - **8%**
- Professional activities and research; administrative and support service activities - **7%**
- Financial and insurance activities - **6%**
- Construction - **5%**
- Agriculture, forestry and fishing - **4%**
- Culture, sport and entertainment; other activities; activities of households as employers; undifferentiated activities of households for the production of goods and services for own consumption; activities of extraterritorial organizations and services - **2%**

Political Overview

Bulgaria joined ERM II in July 2020, which is a step closer to joining the Eurozone. The euro convergence criteria include price stability, sound public finance, exchange, and interest rate stability. If successful, Bulgaria will join the Eurozone in 2022.

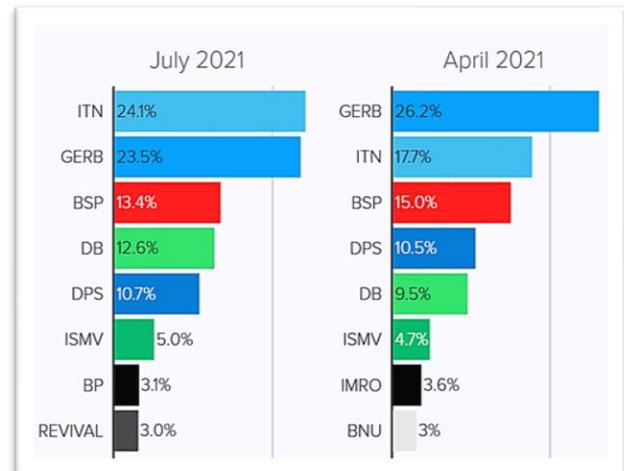
In recent years there have been crackdowns on political and administrative corruption in Bulgaria, which has alleviated foreign direct investment (3.5% of GDP) in the country and have made larger corporations less wary of the obstacles that usually come with growth and recognition.

The first parliamentary elections this year were won by GERB, however due to the rising opposition from other parties, they were not able to form a government.

In a surprising turn of events, in the second parliamentary elections this year, a new center-right party, ITN, was able to win the elections instead of GERB, which has not occurred in 12 years.

This year was also remarkable with the implementation of Magnitsky Sanctions by the U.S. on three major figures in corruption, two of which are allegedly the wealthiest businessmen in Bulgaria: Delyan Peevski and Vasil Bojkov, which are perceived as playing a big part in growing corruption locally.

Currently, an interim government with the highest historical approval rate has taken over until the next (third) parliamentary elections, scheduled for the 3rd of October.



Source: Politico

Bulgaria has very favorable policies and environments for business-making. The corporate tax rate is the lowest in the EU- 10%, with a VAT rate of 20%. The dividend taxation rate is 5%.

It has the lowest competitive cost of labor (€2/h) and office space rental in the EU (€8-14/sqm). In addition, Bulgaria is among the worldwide leaders in broadband quality and internet speeds.

Bulgaria has established itself as a top IT outsourcing country, being in 5th place in the world and 1st in Eastern Europe. It is the fastest growing industry, with a pool of 75,000 IT specialists, and currently accounts for 10% of the GDP.

There is no shortage of workforce: 60,500 graduates are produced each year, 70% of them studying English.

Markets Overview

The main index SOFIX has risen 26.6% since the beginning of 2021 and 31.2% YTD. However, it has yet to return and surpass its pre-pandemic levels.

Total market capitalization of the Bulgarian Stock Exchange reached EUR 5.6 billion as of the end of August, which is an increase of 32% compared to the end of August 2020.

The two dominant industries on the Bulgarian markets by market capitalization are Financial and insurance activities, with 42% of the market cap and manufacturing, with 28%.

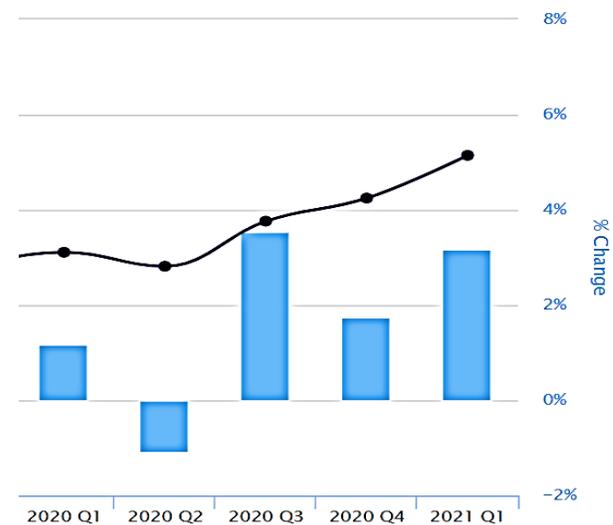


Source: Bulgarian Stock Exchange

New innovative markets were introduced in 2021. The first one is BEAM growth market, which allows for the listing of small-medium cap firms to be traded on a market separate from the main market. This market lets innovative companies gain access to capital markets funding, subject to less stringent regulation and requirements, which encourages entrepreneurship in the country.

The biggest gainers in terms of market cap on the Bulgarian Stock Exchange for 2021 Q2 have been local REITs and real estate firms.

Despite the freeze of the market in the spring, the housing sector ended the year positively with growth in demand and prices. In 2021, Bulgarian housing prices continue to rise, with a 5.4% YoY price change.



House Price Index change (Source: Moody's)

There is a gradual recovery of the urban and resort real estate markets in Bulgaria. There are several reasons for future optimism: the optimal level of supply and demand, low mortgage rates (<3.0%), expectations of the imminent entry of Bulgaria into the Schengen zone and the transition to the Euro.

Disclaimer

Guarantees

The analyst (s) responsible for the preparation of this document shall ensure that: (1) they take all necessary care to accurately reflect the information contained in this document; (2) no part of the analyst's remuneration is, has been or will be linked, directly or indirectly, to the recommendation or opinions expressed in this document.

Financial interest

Sofia International Securities may trade or own the financial instruments specified in this document. Sofia International Securities does not own more than 5% of the financial instruments in circulation, subject to analysis or comment in this document. The analyst (s) do not own any shares of the companies, unless explicitly mentioned.

Disclosure of information

Due care has been taken to ensure the accuracy of the facts cited, the reliability of the sources of information and the clear definition of the assumptions, predictions, forecasts and expected prices in this document. The information presented in this document is based on publicly available information, which is considered reliable, but for which no responsibility is taken for completeness and accuracy. Neither Sofia International Securities nor the company's employees should be held responsible for the publicly available information used. The opinion expressed in this document may differ from the disclosed views in other departments and divisions of Sofia International Securities or from other employees. Additional information on this document is available upon request. The sources of information in the tables and graphs in this document are calculations by Sofia International Securities, unless otherwise stated.

Risks for investors

This document has been prepared and presented for the purpose of summary and informational purposes only and does not constitute a study within the meaning of Art. 13 of Commission Delegated Directive (EU) 2017/593 of 7 April 2016. The information in this document should not be considered as an offer to buy or sell financial instruments or an independent investment council within the meaning of Directive 2014/65 / EU of The European Parliament and the Council of 15 May 2014, Sofia International Securities AD has not assessed the appropriateness in relation to the financial instruments mentioned in this document. The investment opportunities discussed in this document may not be appropriate for certain investors depending on their investment objectives and time horizon or in the context of their overall financial condition. The risks associated with investing in the financial instruments mentioned in this document are not fully explained. The price or value of the investment may decrease or increase. Securities or investments can lead to losses for the investor. A previous achievement is not a guarantee of future performance. Changes in exchange rates may have an adverse effect on the value, price or return on investment in securities. Sofia International Securities AD assumes no responsibility for losses incurred in connection with investments made on the basis of information contained in this document.

Copyright

The analyzes of Sofia International Securities are the exclusive property of the investment intermediary and any publication, distribution, reprinting and citation of content is possible only after the explicit written consent of the "Research and Analysis" department of the company. It is not allowed to use the analyzes of the investment intermediary from a third party for commercial purposes.