

# **Q1 2022**

# **BULGARIA**

ECONOMIC OVERVIEW

**SOFIA INTERNATIONAL SECURITIES AD**



# MACRO OVERVIEW

## A quarter of turmoil

The expectations at the end of 2021 that inflation would reach its highest point and start decreasing in 2022 were swiftly wiped out by the war in Ukraine, which rocked the world markets and sent the commodities prices soaring. The macro trends and the altered expectations in Bulgaria were similar to those in the Eurozone, if not even more pronounced. The expected hikes in the prices of electricity and water supply trickled down to the prices of nearly all end products, thus pushing the inflation further.

	2018	2019	2020	2021	2022
					<b>Q1</b>
GDP (EUR mln)	56 224	61 557	61 330	67 871	15 544
Harmonized CPI					
Previous period change %	2.3%	3.1%	0.0%	6.6%	3.6%
YoY change %	2.6%	2.5%	1.2%	2.8%	8.9%
Unemployment	6.1	5.9	6.7	4.8	
Average monthly salary (EUR)	586	648	711	793	814
Export (EUR mln)	27 742	29 119	27 272	34 278	10 673
%Δ compared to same period last year	2.9%	5.0%	-6.3%	25.7%	36.0%
% of GDP	49.3%	47.3%	44.5%	50.5%	14.2%
Import (EUR mln)	30 448	32 028	29 213	37 573	11 859
%Δ compared to same period last year	9.8%	5.2%	-8.8%	28.6%	41.8%
% of GDP	54.2%	52.0%	47.6%	55.4%	15.8%
Foreign Direct Investments (EUR mln)	968	1 639	2 997	1 265	1 056
% of GDP	1.7%	2.7%	4.9%	1.9%	1.4%
FX rate to EUR - pegged	1.95583	1.95583	1.95583	1.95583	1.95583
FX rate to USD	1.70815	1.74099	1.59386	1.72685	1.76185

Source: Bulgarian National Bank

Bulgaria's GDP in Q1 2022 grew 12.5% in absolute terms compared to Q1 2021 reaching EUR 15,544 mln. External trade had greater percentage increase. While exports increased 36% compared to quarter end 2021 reaching EUR 10,673 mln, the imports increased 41.8% to EUR 11,859 mln, thus continuing the drift towards being an overall importer.

The great YoY changes are the effect from the post covid restrictions economic boost – a trend noticeable in the previous quarters as well.

The change in the harmonized index of consumer prices was 5% where Transport was responsible in greatest extend for the hike, rising 13.5%. As expected, the biggest contributors in that sector were prices of fuels (rising 30.7%) and maintenance and repair of personal cars (20%). This is a direct consequence from the rise of the prices in fuels on the international markets.

Consumer groups	12m avg inflation
Food and non-alcoholic beverages	6.0%
Alcoholic beverages and tobacco	1.2%
Clothing and shoes	1.2%
Housing, utilities, gas and other fuel	7.5%
Home supplies and household services	4.0%
Healthcare	0.8%
Transport	13.5%
Communication	-3.7%
Entertainment and culture	4.4%
Education	5.0%
Restaurants and hotels	3.2%
Other goods and services	3.5%
<b>TOTAL</b>	<b>5.0%</b>

Source: National Statistics Institute

This trend is even more pronounced in the rise of the Housing, utilities, gas and other fuel sector (7.5%). The 77.3% rise in gas fuels, 13.7% rise in coal, 15.7% in heating energy and 10.1% in electricity propelled this account high. As mentioned, this is a direct consequence from the dynamics on the international energy markets.

These rising costs tricked down to sectors, where the production largely depends on energy costs – food and non-alcoholic beverages, marking the third largest increase of 6%. The largest contributor to that is the production of vegetable oils and animal fats (26.8%) whose meteoric rise was pushed further by the rise of sunflower oil prices due to the war in Ukraine, going from \$1,500 to \$2,360 per metric ton as per data by the World Bank. Other subsectors, which are also

susceptible to rises in energy and decreased supply stemming from the Ukraine conflict, such as bread and other grain foods, as well as vegetables, marked significant rises of 10.9% and 9.5% YoY.

# POLITICS

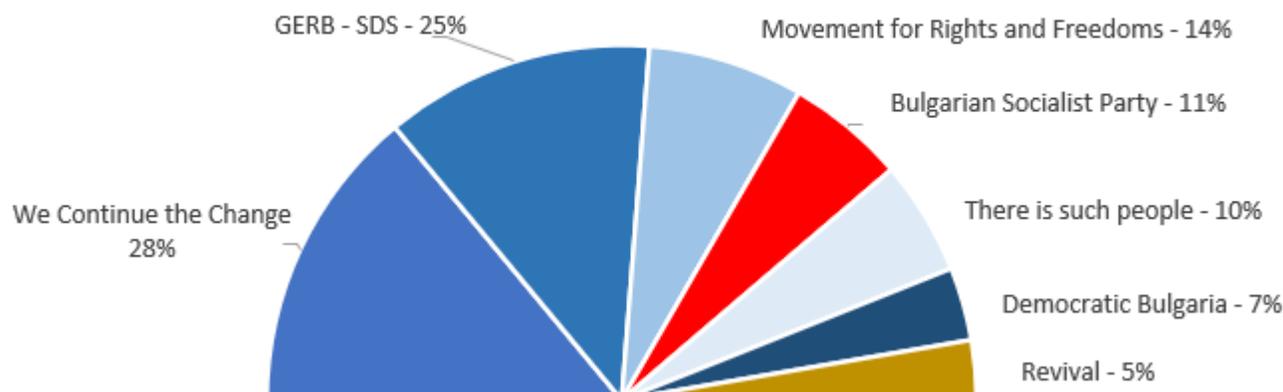
## Geopolitical tensions and political instability at home

Not surprisingly, the development of the conflict in Ukraine changed all forecasts and plans. Bulgaria's fairly new government faced increasingly tougher challenges. From one side it was the upcoming rise of the electricity and water costs. Electricity cost rose on average 11.5% across the country, which was the result of the rise of natural gas and carbon emissions costs on international markets. Heating and heated water costs (important for the residents of the largest cities) hikes reached 30% in Sofia.

From another it was the divide (and the resulting political support) stemming from the conflict. Unlike the population of former communist Central European countries, the Bulgarian population is still largely divided about the past and the future alignment of the state with foreign powers.

The political future is hard to predict. The current government is a coalition between We Continue the Change, Democratic Bulgaria, Bulgarian Socialist Party and There is such people for a total of 56% parliamentary support. The Bulgarian Socialist Party has issued numerous warnings to withdraw their support the country participates in further sanctions against Russia, but has stayed in the government. In the same time, on June 8<sup>th</sup>, 2022, There is such people surprisingly withdrew their support and the future seems unclear.

## Parliament seats per party



Source: [www.parliament.bg](http://www.parliament.bg)

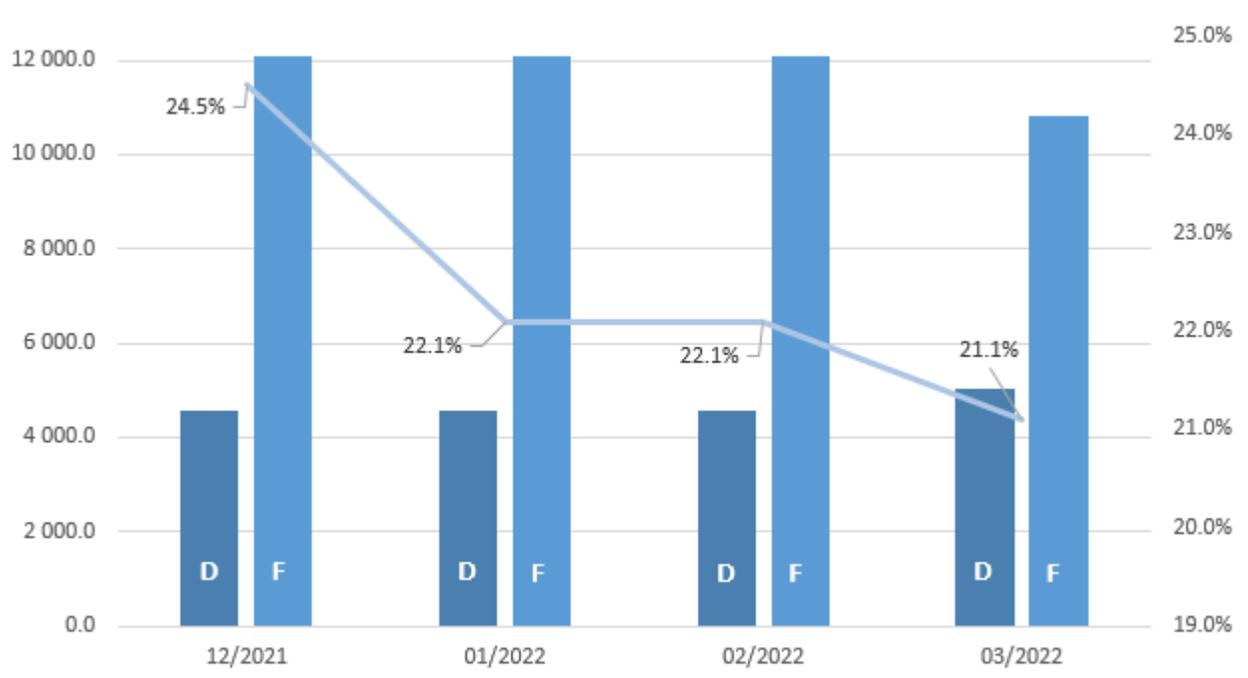
# DEBT AND CREDIT RATINGS

## Conservative approach giving positive results

Debt management by the government was conservative in Q1 2022. Both internal and external debt changed only due to repayments and new emissions of bonds on the open markets. Internal debt increased 10.64% to EUR 5,051mln, but remained the same portion of the GDP – 6.7%. The external debt was serviced properly and the maturity of a 7-year bond issue on 26.03.2022 helped decrease the overall external debt exposure. It went down 10.35% to reach EUR 10,821mln decreasing the weight on the annual GDP inflows from 17.8% at year end to 14.4% at the end of the quarter.

EUR mln	31/12/2021	31/01/2022	28/02/2022	31/03/2022
Domestic debt	4 565.4	4 556.0	4 554.7	5 051.0
government bonds	4 356.3	4 356.3	4 356.3	4 819.0
Foreign debt	12 070.1	12 070.5	12 070.4	10 820.6
government bonds on int'l CM	9 036.7	9 036.7	9 036.7	7 796.7
Loans from The World Bank	141.2	141.2	141.2	141.2
Loans from EU	1 402.3	1 402.3	1 402.3	1 402.3
Total debt	16 635.5	16 626.5	16 625.1	15 871.6
Total debt / GDP	24.5%	22.1%	22.1%	21.1%
Domestic debt / GDP	6.7%	6.0%	6.0%	6.7%
Foreign debt / GDP	17.8%	16.0%	16.0%	14.4%

Source: Ministry of Finance, Bulgaria



Source: Ministry of Finance, Bulgaria

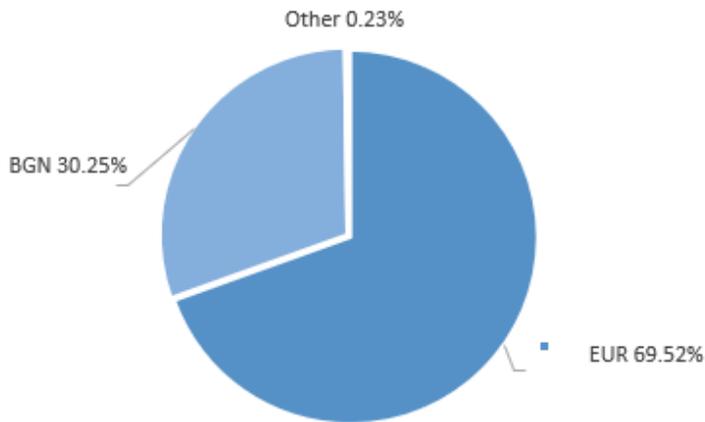
The table above shows the development of domestic (D) and foreign (F) debt over the duration of Q1 2022 as well as the proportion of total debt to country's GDP. The data is in the table on the previous page.

Strong fundamentals lead to positive rankings by Fitch reaffirming country's BBB with a positive outlook rating. Moody's rating is Baa1 stable and S&P's is BBB stable.

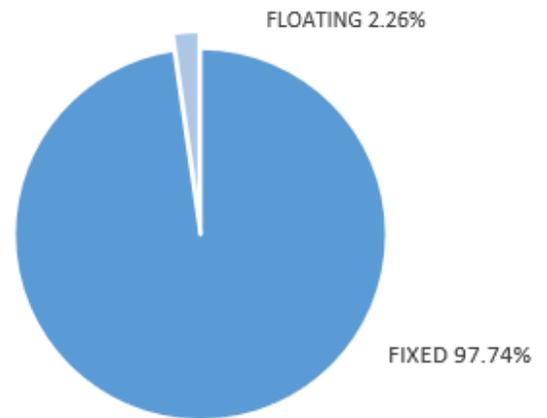
	S&P	Moody's	Fitch
Bulgaria	BBB	Baa1	BBB ↑
Greece	BB+	Ba3	BB↑
Turkey	B+↓	B2↓	
Romania	BBB-	Baa3	BBB-↓
Serbia	BB+↑	Ba2	BB+
Hungary	BBB	Baa2	BBB
Croatia	BBB-	Ba1	BBB↑
Bosnia	B	B3	

Source: www.tradingeconomics.com

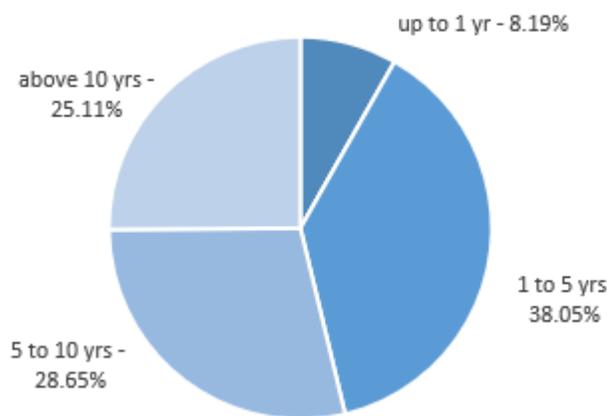
### Currency structure



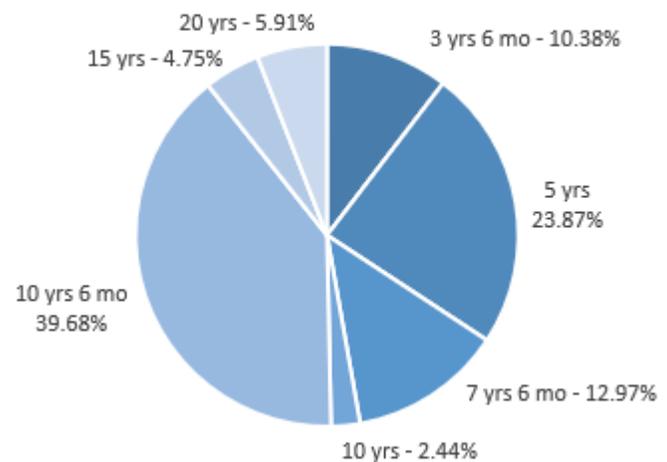
### Interest structure



### Remaining maturity



### Maturities of bonds in circulation



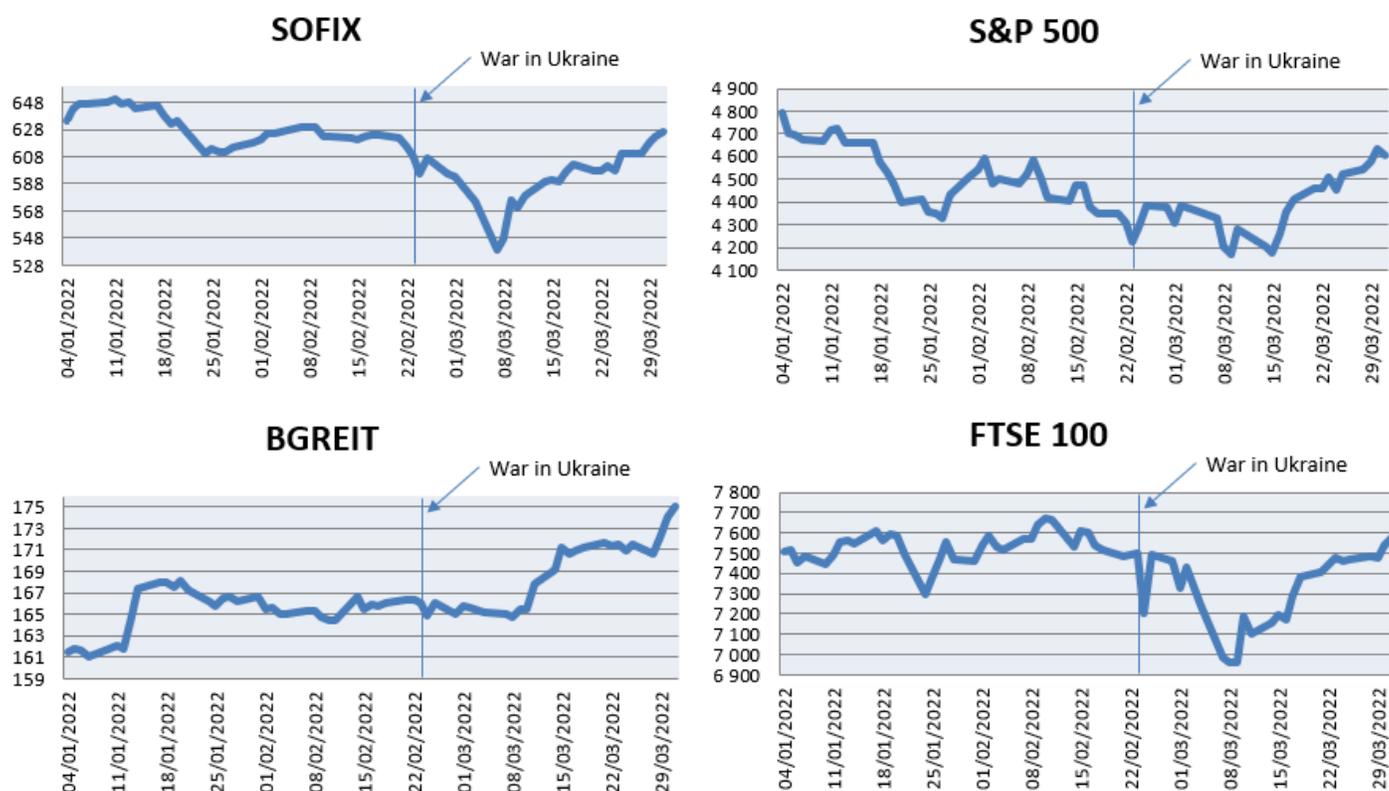
Source: Ministry of Finance, Bulgaria

Bulgaria's debt is primarily EUR-denominated, long-term and fixed interest. As such, it has predictable debt service burden, which allows for easy budgeting and meeting payment liabilities.

# BULGARIAN STOCK MARKET

## Positive divergence from global markets

Considering the war in Ukraine and the following backlash on the international and domestic markets, the Bulgarian Stock Exchange experienced similar shocks initially but recovered faster than the US and European markets. The main index SOFIX declined 1.4% for the period to reach 626.74 points. The big positive difference came from the BG REIT index increasing 6.74% to reach 175.04 points. This is hardly surprising given real estate businesses have performed very well internationally and Bulgaria in particular has been experiencing steady demand for Class A office space by the growing presence of IT and BPO companies.



Source: Bulgarian Stock Exchange and Bloomberg

The largest gain for the quarter was recorded by the producer of fertilizers Neochim AD (NEOH), which grew 154.4%. There are 2 main reasons for that. The annual report showed very positive results where revenues from clients increased by 59% , resulting in operational profit and net profit going over triple their previous values. To a great degree, this was due to the increased prices of natural gas in Europe, which is a main product needed for the production of fertilizers, which then was transferred into the pricing of fertilizers and ammonia – their main products, taking up 78% and 20% of sales

The resulting growth in the prices of foods affected the stock prices of Agria Group (AGH) and Zarneni Hrani Bulgaria (ZHBG), grain producers, to record the second and third highest growths – 87.7% and 64.3% respectively. Fourth and fifth positions are for First Investment Bank (FIB) – 55% - and Central Cooperative Bank (CCB) – 33.3%.

## New Listings

There was only 1 IPO during the quarter – the listing of Telematik Interactive AD (TIB), the producer and operator of gaming and sportsbook software. The raised capital of EUR 8.2m was intended to expand their operations in Peru and Ukraine, where they have local expertise. The listing, coincided with the start of the conflict in Ukraine, which essentially put an halt on the expansion plans there and forced them to look to more mature west-European markets. Nevertheless, the promise to distribute at least 40% of the profit as dividends, as well as the extremely positive year end performance (even improving in the first months of 2022), kept the investors' interest and the stock lost only 3% amid such global shocks directly affecting their plans.

As per the official Q1 financial results, the company recorded 32% YoY revenue growth (29% growth in Casino games segment and 68.5% growth in Sports-betting segment). The management has adjusted their plans and intends to use the funds to expand their operations in Kenya, where it started operating in January. Additionally, contracts with main suppliers and clients, paving the road for further expansion, were signed during some of the largest gaming exhibitions in EU during Q1.

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