

Q1 2023

BULGARIA

ECONOMIC OVERVIEW

SOFIA INTERNATIONAL SECURITIES AD



MACRO OVERVIEW

A better than expected performance

The expectations for a recession in Q1 resulting from the increases in energy and various commodities in 2022 did not materialize. Many export oriented companies continued to place orders and managed to record best performances in the quarter, which made them review their own expectations for 2023. Most have pushed the expected downturn to at least Q3. In the same time, while the hikes in some accounts were staggering, the economy kept growing albeit at a decreasing rate. GDP's annual real change grew by 3.9% in Q2 2022, 2.9% in Q3 2022 and 2.6% in Q4 2022 and we expect the Q1 2023 real data, which is pending release, to continue to the slow down trend.

	2018	2019	2020	2021	2022	2023
						Q1
GDP (EUR mln)	56 224	61 557	61 638	71 076	84 559	19 053
Harmonized CPI						
Previous period change %	2.3%	3.1%	0.0%	6.6%	14.3%	2.6%
YoY change %	2.6%	2.5%	1.2%	2.8%	13.0%	13.4%
Unemployment	6.1	5.9	6.7	4.8	5.4	n/a
Average monthly salary (EUR)	586	648	711	793	900	962
Export (EUR mln)	27 742	29 119	27 272	34 405	45 926	11 501
%Δ compared to same period last year	2.9%	5.0%	-6.3%	26.2%	33.5%	10.0%
% of GDP	49.3%	47.3%	44.2%	48.4%	54.3%	12.7%
Import (EUR mln)	30 448	32 028	29 213	37 291	50 816	12 015
%Δ compared to same period last year	9.8%	5.2%	-8.8%	27.7%	36.3%	4.9%
% of GDP	54.2%	52.0%	47.4%	52.5%	60.1%	13.3%
Foreign Direct Investments (EUR mln)	968	1 639	2 974	1 600	2 379	1 499
% of GDP	1.7%	2.7%	4.8%	2.3%	2.8%	1.7%
FX rate to EUR - pegged	1.95583	1.95583	1.95583	1.95583	1.95583	1.95583
FX rate to USD	1.70815	1.74099	1.59386	1.72685	1.83371	1.79846

Source: Bulgarian National Bank

Bulgaria's nominal GDP in Q1 2023 grew 10.5% in absolute terms compared to Q1 2022 reaching EUR 19,053 mln. External trade had slightly lower percentage change. While exports increased 10.0% compared to quarter end 2022 reaching EUR 10,501 mln, the imports increased 4.9% to EUR 12,015 mln, thus decreasing the focus as overall importer.

The great YoY changes in 2022 are the effect from the post covid restrictions economic boost – a trend noticeable in the previous quarters analyses, now it appears as annual figure.

The change in the harmonized index of consumer prices was 13.9% where Food and non-alcoholic beverages was responsible in greatest extend for the hike, rising 23.7%. All sub accounts rose with similar extensive rates and it is hard to point a single contributor or even a group. The only exception was Fruits, which rose with 8.8% only. Interesting enough, Vegetables more than doubled that growth at 18.6% and the majority of the rest mark above-23% increases, with Milk and dairy products taking the

top spot with 33.9%. The steep rises are the consequence of the rising cost of energy and water, which took place in 2022.

Consumer groups	12m avg inflation
Food and non-alcoholic beverages	23.7%
Alcoholic beverages and tobacco	4.5%
Clothing and shoes	7.4%
Housing, utilities, gas and other fuel	18.7%
Home supplies and household services	12.5%
Healthcare	6.3%
Transport	13.8%
Communication	4.2%
Entertainment and culture	7.9%
Education	9.3%
Restaurants and hotels	16.0%
Other goods and services	8.8%
TOTAL	13.9%

Source: National Statistics Institute

This trend can be clearly seen in the account with the second biggest increase – Housing, utilities, gas and other fuel, which rises with 18.7%. The majority of the sub accounts rise on average with 15%, but 2 sub accounts make the massive difference (which also trickles into other sectors as well) – Gas, rising by 57.6%, and Hard fuels, rising by 53.8%. These two, together with Electricity (which rose with modest 3.6%, following the big jump last year) are core cost contributors to the production in Food and non-alcoholic beverages.

The accounts with marked a significant increase is the Restaurants and Hotels. Not surprisingly, the largest increase was reported in the sub account that combines the lowest margin as they operate very close to cost basis and do not have the ability to absorb cost hikes – cafeterias – which rose by 26.6%.

Restaurants and bars rose with 19.7%, which decreases the attractiveness of Bulgaria as a cheaper destination compared to many European alternatives. Increasingly more analysis appear in media that the cost of a vacation in Bulgaria has become very similar to central or south European destinations.

This conclusion is supported by the rise in another account – Transport – which rose by 13.8% and where the biggest contributor is Air transport, rising by 24.7%. The third largest contributor to any vacation – Lodging – rose by 16%, largely affected by the energy prices increases.

POLITICS

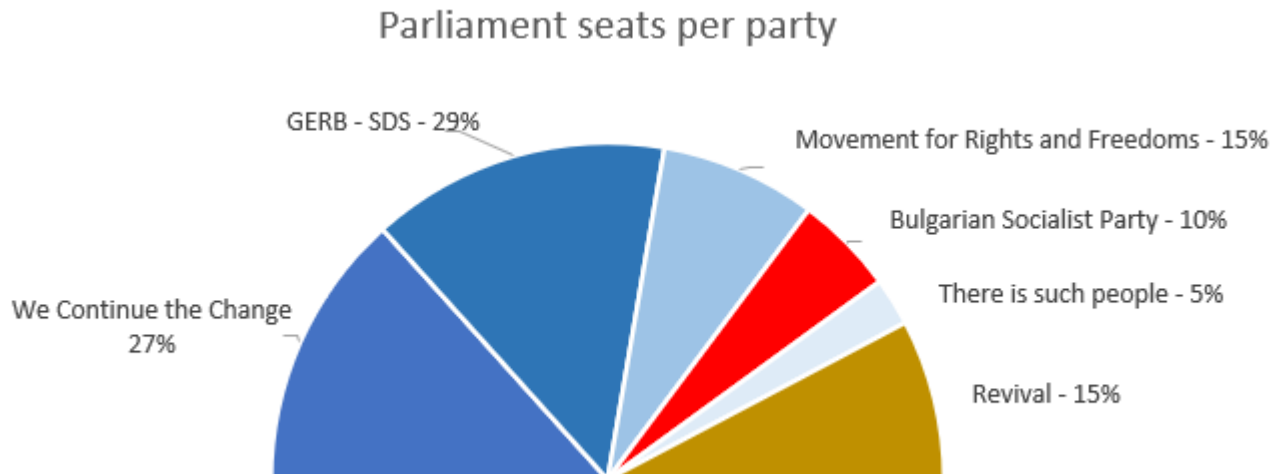
Political instability ad infinitum

The elections that took place on 02 April 2023 failed to produce a clear winner. The right and center-right parties, which are generally pro-western oriented, shrunk from 60% of the seats to 57%. Additionally, the big surprise from the previous parliament – There is such people – could not attract nearly as many voters this time and morphed into the smallest party in the parliament. On the other hand, the left and pro-Russian party Revival, was able to reap the benefits of disillusioned voters for There is such people and the Bulgarian Socialist Party and the anti-EU sentiment, which made them grew from 5% of the seats to triple their presentation to 15% of the parliament seats.

The political future is hard to predict. Even though on theory the pro-western parties hold a clear majority, their ongoing mutual accusations for corruption from one side and incompetence from another, create instability which so far is preventing the parliament to approve a government as there is no stable

support. This allowed the President, Rumen Radev, to appoint an interim government and to continue influence this way through candidates, which he deems suitable.

The latest developments are to introduce a hybrid type of government, where the appointed PM from one of the right parties will stay on the position for the first half of the time, with the representative of the other party holding the Vice PM position. At the mid date they are supposed to switch positions. This solution has not been used before and many hope that it might bring some short term stability. In reality, however, nothing can guarantee that the support will be there in a few months, which is why this path is deemed as highly questionable.



Source: www.parliament.bg

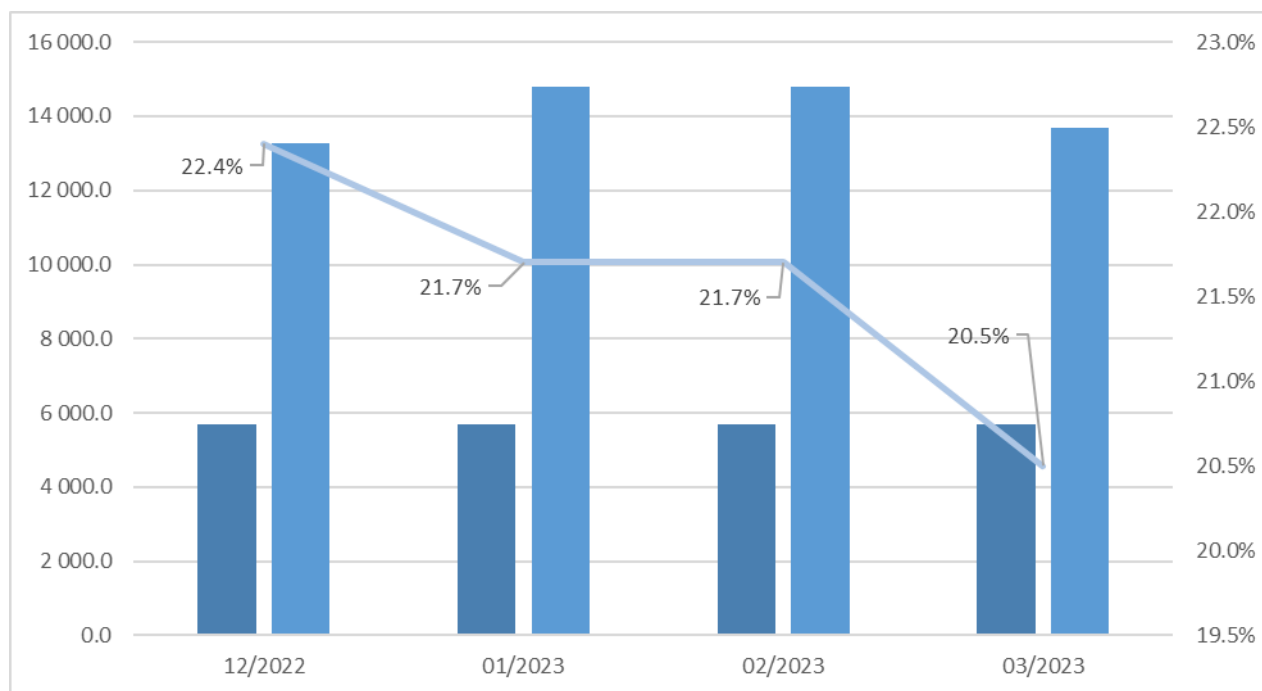
DEBT AND CREDIT RATINGS

Conservative approach giving positive results

Debt management by the government was conservative in Q1 2023. Domestic debt stayed practically the same, while foreign debt decreased because of larger repayments of EUR 1,057mln in January. Compared to last year, the debt levels to GDP are the same – 14.5% from GDP now vs 14.4% of it in Q1 2022. This shows that even the interim governments are frugal and are hesitant to increase debt beyond ability to repay, which contributes to the sense of stability on the markets.

EUR mln	31/12/2022	31/01/2023	28/02/2023	31/03/2023
Domestic debt	5 687.8	5 687.3	5 680.6	5 684.3
government bonds	5 494.3	5 494.3	5 494.3	5 494.3
Foreign debt	13 277.7	14 777.6	14 776.8	13 693.1
government bonds on int'l CM	9 036.7	9 036.7	9 036.7	7 796.7
Loans from The World Bank	106.0	106.0	106.0	106.0
Loans from EU	1 829.5	1 829.5	1 829.5	1 829.5
Total debt	18 965.5	20 464.9	20 457.4	19 377.5
Total debt / GDP	22.4%	21.7%	21.7%	20.5%
Domestic debt / GDP	6.7%	6.0%	6.0%	6.0%
Foreign debt / GDP	15.7%	15.7%	15.7%	14.5%

Source: Ministry of Finance, Bulgaria



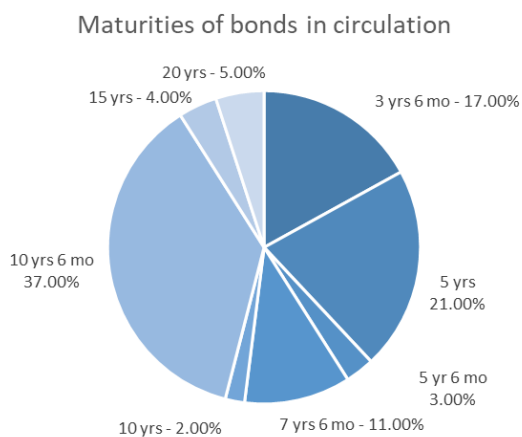
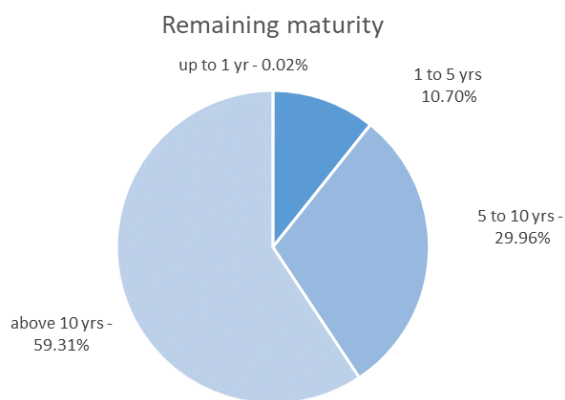
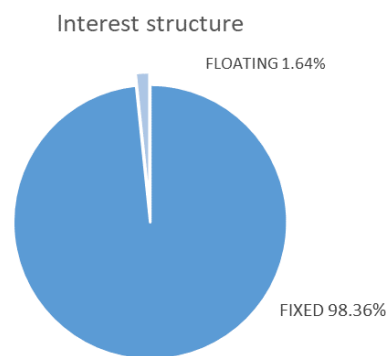
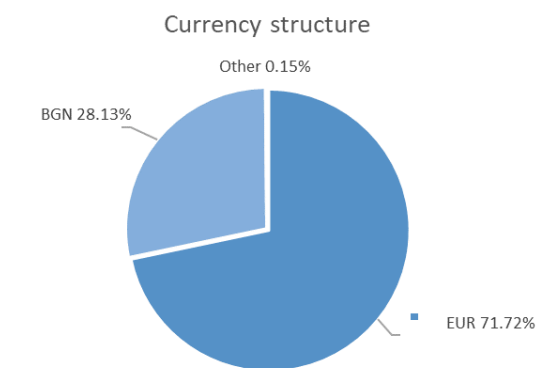
Source: Ministry of Finance, Bulgaria

The table above shows the development of domestic (D) and foreign (F) debt over the duration of Q1 2023 as well as the proportion of total debt to country's GDP.

Strong fundamentals lead to keeping the positive outlook by Moody's, which had a country review on 02/03/2023 and reaffirmed the rating of Baa1. The rest also stayed the same, while most countries in the region were downgraded. Similarly, Fitch also reaffirmed their rating on 13/05/2023.

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

Source: www.tradingeconomics.com



Source: Ministry of Finance, Bulgaria

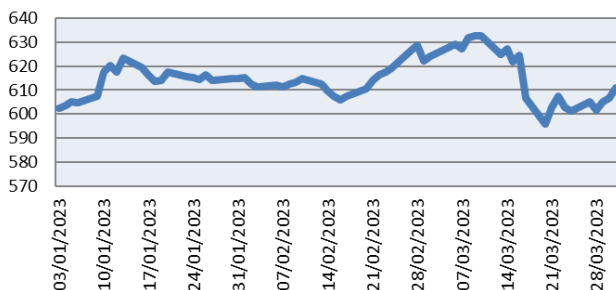
Bulgaria's debt is primarily EUR-denominated, long-term and fixed interest. As such, it has predictable debt service burden, which allows for easy budgeting and meeting payment liabilities.

BULGARIAN STOCK MARKET

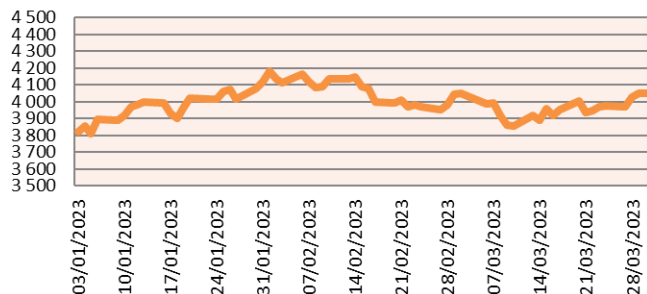
Positive divergence from global markets

The Bulgarian Stock Exchange followed the dynamics of the international markets. The expectations for a decline in Q1 did not materialize and the indexes marked modest increases. The main index SOFIX increased 1.55% for the period to reach 610.79 points by the end of the quarter. The big positive difference came from the BG REIT index increasing 2.62% to reach 187.97 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.

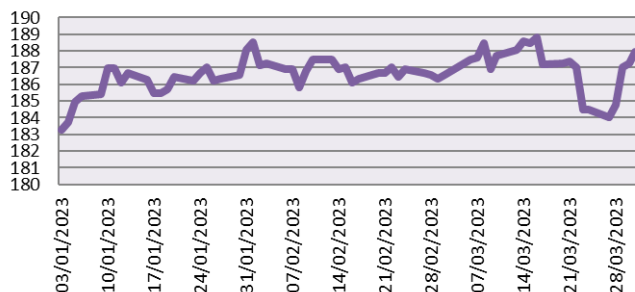
SOFIX



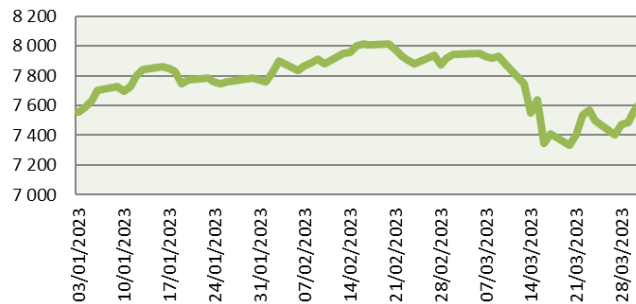
S&P 500



BG REIT



FTSE 100



Source: Bulgarian Stock Exchange and Bloomberg

Q1 Top Performers across indexes			
Index	Company	Ticker	Gain
SOFIX	Sopharma	SFA	18.83%
	Fibank	FIB	9.55%
	Advance Terrafund	ATER	9.09%
	BREF	BREF	9.00%
	Allterco	A4L	6.80%
BGBG40	Sopharma	SFA	18.83%
	EMKA AD	EMKA	17.95%
	Fibank	FIB	9.55%
	Elhim Iskra AD	ELHM	9.20%
	Advance Terrafund	ATER	9.09%
BGTR30	Sopharma	SFA	18.83%
	Fibank	FIB	9.55%
	Advance Terrafund	ATER	9.09%
	BREF	BREF	9.00%
	M+S Hydraulic	MSH	8.38%
BGREIT	Advance Terrafund	ATER	9.09%
	BREF	BREF	9.00%
	CCB Real Estate	CCBR	1.25%

Throughout the indexes, the largest gainers are some of the most traded companies as well and most recorded very positive 2022 results, which affected the demand for them.

New Listings

There were 2 issues which were admitted to trading on the BSE market for Q1 2023. Both were in the subscriptions rights segment - one of Balkan and Sea Properties REIT (BSP) on 15.02.2023 and the other of Sopharma Buildings REIT (SFB) on 27.02.2023.

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