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Eurobank Research

GLOBAL & REGIONAL FOCUS NOTES

FOR THE EA PERIPHERY AND THE CESEE

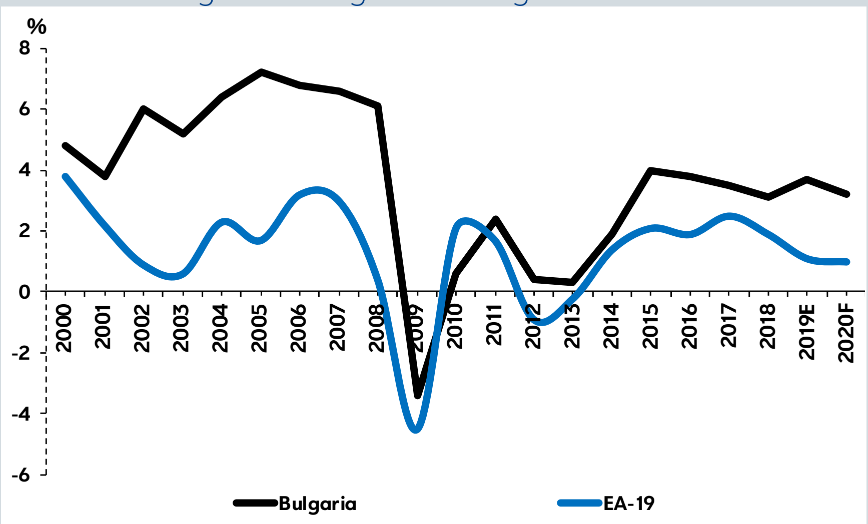
Trip Notes: Bulgaria

Key notes from our recent trip to Sofia: November 21st – 22nd

In late November, we traveled to Sofia where we met with high-level officials from the Finance Ministry, the IMF, think tanks as well as market participants from the domestic financial sector. The present note attempts to offer our readers a brief overview of current conditions in the domestic economy, the state of play with respect to ERM2 entry, the long-term challenges Bulgaria will be confronted with in the future and an overview of the latest domestic financial markets developments.

- The economy is in the best position in the post-Lehman period, capitalizing on the strong and above potential GDP growth momentum of 2015-2019
- Capacity and labor market constraints are becoming more evident and binding, thus necessitating policy action to address them
- The strong macroeconomic position and the progress in the ERM2 roadmap requirements are acknowledged by rating agencies: Following the recent S&P upgrade, all main rating agencies assign a positive outlook to the their long-term sovereign rating
- ERM2 entry is anticipated in Q2-2020, but Euroarea membership will most likely take longer to materialize

Figure 1: GDP growth in Bulgaria vs. EA 19



Source: Eurostat, Eurobank Research

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Part I: Current macroeconomic developments and medium term prospects

The GDP performance of Q3-2019 paves the way for the FY2019 reading to converge to the official forecasts at the end of last year.

On seasonally and calendar adjusted terms, real GDP expanded by 0.8% QoQ/3.7% YoY in Q3-2019 compared to 0.9% QoQ/3.8% YoY in Q2-2019 vs. 1.1% QoQ/3.9% YoY in Q1-2019, bringing the year-to-September performance at 3.8% YoY vs. 3.1% YoY in 9M-2018. Domestic demand was very supportive towards GDP growth acceleration throughout the outgoing year. Final consumption accelerated to 5.4% YoY in 9M-2019 up from 5.2% YoY in 9M-2018 and 3.9% YoY in 9M-2017, making a hefty contribution of 4.2ppts in the 9M-2019 reading vs. 4.0ppts in the 9M-2018. Gross fixed capital formation advanced by only 1.5% YoY in 9M-2019 making a contribution of only 0.3ppts, falling short of expectations, visibly lower than 5.7% YoY in 9M-2018 (down from 1.1ppts contribution in 9M-2018). Although part of the government expenditure is traditionally skewed to the last quarter of the year, this will most probably not suffice for the full year performance to reach 1.9% YoY, as the Ministry of Finance projected in autumn. Exports volume remained virtually flat at 0.3% YoY in 9M-2019 vs. 0.6% YoY in 9M-2018 down from 6.7% YoY in 9M-2017. Imports also remained subdued at 0.7% YoY in 9M-2019 vs. 5.1% YoY in 9M-2018 down from 7.5% YoY in 9M-2017. As a result, net exports' contribution to GDP growth became less negative in the first nine months of the year (-0.3ppts in 9M-2019 vs. -3.0ppts in 9M-2018)

Improving macroeconomic fundamentals shield Bulgaria's short-to-medium term trajectory against a turbulent international economic environment.

Overall, provided that on a quarterly basis the performance of Q3 is self-repeated in Q4, GDP growth is expected to have expanded briskly by 3.7% in FY2019 up from 3.1% in FY2018, more than three times higher than the expected EA-19 average (Figure 1). That would be more or less in line with the initial autumn 2018 forecasts of the Ministry of Finance[1] and the European Commission[2].

In contrast to its regional peers, the outgoing year has been a year of GDP growth acceleration and over performance for Bulgaria, factoring in the 2015-2019 period in which GDP growth averaged 3.6% up from only 1.1% in 2010-2014. The GDP growth outperformance of the outgoing year is rooted in the solid domestic demand dynamics which have been fueled by tighter than ever before labor market conditions and improved business and consumer sentiment along with a better than expected net exports outcome. The unemployment rate has reached a historical low-standing at 4.2% as of October and wages are rising rapidly amid increasing skill shortages.

Looking ahead, the growth outlook for next year was a key theme in our discussions. In our view, solid growth momentum is expected to continue in 2020 – albeit at a slower pace given the rise of external risks. Thus, our full-year forecast stands at 3.2%, driven by sound domestic demand dynamics. Private consumption will be in the driver's seat, receiving support from a tighter labor market, relatively low energy prices, convergence of wages towards EU average, a vibrant manufacturing sector in spite of the increasing world trade tensions, and increased tourism flows. Net exports' contribution is expected to exert a more negative effect in 2020, reflecting the weakness of the main trade partners of Bulgaria as well as still elevated global trade tensions, weighing thus on next year's growth prospects.

[1] Initially, the autumn 2018 forecasts of the Ministry of Finance stood at 3.7%, 3.5% and 3.5% for 2019-2021. Later on, in the spring2019 forecast, the MF downgraded the GDP forecast of 2019 to 3.4%. More information available at: https://www.minfin.bg/en/news/index.php/10475

[2] The European Commission autumn2018 forecasts for 2019: 3.7% & 2020: 3.6% https://ec.europa.eu/info/sites/info/files/economy-finance/ecfin_forecast_autumn_081018_bg_en.pdf

Investment, especially the public segment, will receive a boost from improved EU funds' absorption, which is also expected to rise further from the current level of 43.0%. With the end of the 2014-2020 programming period approaching, the government will need to step up spending for a number of mature projects. The impact of EU funds is about to become more pronounced and visible in the official statistics as well. According to the Ministry of Finance calculations, the GDP level of 2019 is 5.5% higher than that without the impact of EU funds, up from 4.0% in 2018 and only 2.1% in 2017.

Moreover, domestic credit conditions have turned more growth supportive. According to the latest data, credit activity expanded by 7.3% YoY in October compared to 7.1% YoY in September and still close to 8.4% YoY at the end of 2018. The readings are favorably compared to 4.7% in 2017 vs. only 1.5% YoY in 2016, up from -1.2% YoY in 2015. The rebound of credit activity is among those key drivers behind GDP growth acceleration in 2017-2019 and is expected to extend into 2020 as well.

Bulgaria is in the best condition in the post-Lehman period, but long-term challenges and constraints are slowly becoming more visible and binding

More importantly, the aforementioned-above potential for a consecutive number of years- GDP growth performance has been achieved without incurring macroeconomic imbalances, as was the case in 2004-2008 period. Being committed to a series of prudent policies for several years, Bulgaria has accomplished to maintain its fiscal and external metrics healthy and sound. As a result, given that the country has been running a general government surplus in ESA2010 terms in the last three years, public indebtedness ratios have remained at very low levels. Even by taking into account the military equipment provision expenditures, the general government in cash terms will run a small deficit of -2.% in FY2019 switching from a 0.1% surplus in FY2018, but in ESA2010 terms is expected to run a negligible surplus of 0.05% of GDP. The general government deficit target (in cash terms) of 2019 has been revised from 0.5% to 2.0% of GDP to reflect the purchase of military equipment. The parliament endorsed the government decision to buy eight F-16 jet fighters worth BGN 2.2bn from the US, paid in one instalment. However, the one-off cost for the budget is unlikely to be seen as a slippage or deviation from sound fiscal policies.

Accordingly, after years of deleveraging, the external position has also improved markedly. Bulgaria has been running either a balanced current account or a surplus since 2013. The current account surplus climbed to 8.2% of GDP in September 2019 up from 5.0% a year earlier and 3.5% in 2017. Thus, the gross external debt has come down to 57.8% in September 2019, down from 61.5% a year earlier, 65.4% in December 2017 and 96.9% in December 2010. The international investment position of Bulgaria had improved to -31.7% as of Q2-2019 down from -35.2% in 2018 and -91.9% in 2010.

The improvement of the metrics has not escaped notice of the rating agencies. Only recently, right after our trip to Sofia, Standard and Poor's raised the long-term sovereign rating of the country by one notch to BBB from BBB- with a positive outlook in early December. The rating agency cited the resilient economic performance of the country without building macroeconomic imbalances as the main driver behind its decision. At the same time, it acknowledged that the country's fiscal and external balance sheets are strong, and progress on entering the ERM II steadfast. The positive outlook of the ratings reflects the expectations of S&P that Bulgaria's progressively strengthening fiscal and external position will continue as the country grows resiliently in a weaker global environment. Equally, as of late March2019, Moody's and Fitch have both assigned a positive outlook in their respective ratings (Baa2 and BBB).

The main long term challenge of the country is to translate the GDP growth over performance into sustained and inclusive growth and convergence with other EU countries. Bulgaria's per capita income is only half of the EU average and income inequality is higher than EU average. Among the elements of any pursued strategy, should be strengthening the quality of institutions. Although some progress has been made in this area, which is partially acknowledged by the latest EU reports[3], the country still ranks very low on that front in the relevant World Bank and WEF reports when compared to EU and Euroarea average.

The second challenge of the country is to address the capacity constraints and increase its potential output. To do so, it needs to focus on the labor market bottlenecks and shortages. Those are more apparent than ever, as the economy operates close to, if not at, full employment. The robust economic performance has pushed employment and participation rates at historic highs. The employment and participation rates (15-64) are anticipated to have climbed further to 69.5% and 72.9% in 1H-2019 up from 67.7% and 71.5% respectively in 2018. The percentage of manufacturing companies citing labor force shortages as a key production constraint in the relevant EU Commission surveys, as of Q3-2019, stands very close to the multi-year highs recorded in Q2-2018. In fact, the relevant percentage for Bulgaria is three times higher than that in EA-19. Unfavorable demographics put an additional strain on the supply side of the economy. An ageing population coupled with immigration have resulted in the reduction of the working-age population[4].

The tightening of the labor market conditions is also reflected in the rise of the minimum and average wage and subsequently to the labor cost metrics[5]. Nominal wages (measured by compensation per employee) will have been expanding at an average of 7.5% YoY in 2010-2020[6] compared to 9.2% YoY in 2001-2010, albeit from comparatively low levels. The labor productivity (measured by GDP in constant prices/employed) will be lagging behind growing by 2.8% YoY on average in 2010-2020 down from 3.4% YoY in 2001-2010. Real wages will have been expanding on average by 5.8% YoY in 2010-2020 up from 5.0% in 2001-2010. Despite their increase, wages in Bulgaria remain the lowest in EU-28.

<u>So far</u>, rallying wages have had no negative impact on exports competitiveness. The exports market share, measured by the country's exports as a percentage of world exports, climbed from 0.14% in 2010 gradually to 0.18% in 2018. The export market share[7] growth (of both goods and services, *five-year average*) climbed at 13.4% in 2018 vs. 20.4% in 2017 and only 8% in 2010 (the relevant value has always been very positive with the exception of 2012 & 2013) and <u>above</u> the EU Commission MIP monitoring threshold *(-6%)*. The share of exports of G&S as a percentage of GDP stood at 65.9% (Goods: 49.5% +Services: 16.4%) in 2018, broadly unchanged in 2013-2016 vs. only 50.4% in 2010. Interestingly, the terms of trade[8], have also been on an improving trend, expanded on a five year average by 7.5% in 2018 according to Eurostat.

[3] On October 27th, the European Commission (EC) published the annual progress report under the Cooperation and Verification Mechanism (CVM). The CVM was set up at the accession of Bulgaria and Romania to the European Union in 2007 in order to monitor their progress in the areas of judicial reform, the fight against corruption and organized crime so as to join Schengen area at a later stage. The EC acknowledged that the progress made by Bulgaria under the CVM **is sufficient to meet Bulgaria's commitments made at the time of its accession to the EU**. However, the EC didn't lift the monitoring process leaving the final decision to take into account the observations of the EU Council and the European Parliament. The EC had provisionally closed three of the benchmarks with its previous report from Nov 2018, including judicial independence, legal framework and organized crime. Three more benchmark criteria, namely continued judicial reform, high-level corruption and corruption in general including local level and borders remaining open since the previous progress report in 2018, can now be considered to be satisfactorily fulfilled. In any case, the EC has stressed that follow-up efforts will be subject to the work of a post-monitoring council already established by the Bulgarian authorities.
[4] The population and the working age population (15-64) of Bulgaria decline by -5% and -10.5% during 2010-2018 (Source: European Commission AMECO database)
[5] The Real Effective Exchange Rate (REER) in Unit Labor Cost (ULC) terms appears much more inflated than that in CPI terms. REER in ULC terms (in USD against 37 trade partners, AMECO database) has increased cumulatively by 18.6% in 2015-2019. On the other hand, REER in CPI terms has increased cumulatively by only 1.3% in January2015-October2019. In fact if measured in January2010-October2019, it has declined by -3.8% which reflects the divergence of inflation dynamics between Bulgaria and EU (Bulgaria was in deflation in 2013-2016).
[6] European Commission Autumn forecasts are a tad less optimistic than the Ministry of Finance forecasts in 2019-2020 for the variables of nominal compensation per employee and labor productivity.
[7] On the negative side, the one year change of exports' market share in volume terms declined by -1.7% in 2018 with the five year change averaging at 1.6%.
[8] According to Eurostat, a country's terms of trade measures a country's export prices in relation to its import prices. The terms of trade are a measure of a country's trade competitiveness since they indicate how much imports an economy can get for a unit of export goods. They are calculated as the ratio of the price index for exports of goods and services to the price index for imports of goods and services. These are obtained by dividing current prices by chain-linked volumes using the standard reference year 2010. The indicator refers to the percentage change over 5 years, i.e. data are expressed as percentage change comparing year Y with the year Y–5.

ERM2 entry is insight and most probable than ever, but timely Euroarea entry is not guaranteed.

The government has made solid progress in the ERM2 entry requirements application checklist (Table 1). The checklist has been a part of a roadmap agreed with EU institutions and ECB following Bulgaria's official request in July 2018 to establish close co-operation with the ECB as part of its endorsed strategy to simultaneously join the ERM2 mechanism and the Banking Union.

Table 1: Bulgaria's performance in the ERM2 action plan

Measures	Progress as of December 2019	Status	Issues at stake
Harmonization of the Central Bank (BNB's) legal framework with that of the ECB's so as to access the BU	First round of legislative amendments completed	In progress	Second round of legislative amendments
Asset Quality Review (AQR) in 6 systemic banks	AQR completed in 07/2019	In progress	Follow up actions in 2 banks by 04/2020
Developing macro prudential supervision	Required legislative amendments completed	Complete	-
Strengthening the supervision framework in the non-banking sector	Design and implementation of a risk based system of supervision under Solvency II completed	Complete	-
Strengthening the anti-money laundering framework	4th and 5th anti money laundering directives properly embedded in the Bulgarian legislation	Complete	-
Improving the SOE governance by aligning legislation with the OECD guidelines on corporate governance of SOEs	The draft law is currently under public consultation	Complete	-
Enable the transfer of contributions to the Single Resolution Fund	Required legislation ratified	Complete	-

Source: Ministry of Finance presentation

If the capital shortfalls identified in the AQR & stress test for two domestic banks[9] are addressed, that would pave the way for swift ERM2 entry by April 2020. More specifically, First Investment Bank AD. and

[9] Earlier on in late July 2019, the ECB had published the findings of a comprehensive assessment of six Bulgarian banks. The exercise which comprised of an asset quality review and a stress test for UniCredit Bulbank AD, DSK Bank EAD, United Bulgarian Bank AD, First Investment Bank AD, Central Cooperative Bank AD, and Investbank AD started in November 2018. The AQR for the Bulgarian banks was carried out on the basis of the ECB's updated AQR methodology, which was published in June 2018 and took in account of the impact of accounting standard IFRS 9. The AQR was complemented by a stress test exercise, which looked at how the banks' capital positions would evolve under hypothetical baseline and adverse scenarios over the next three years (2019-21). The stress test was conducted using the methodology applied in the European Banking Authority's 2018 stress test. Four of the six banks covered by the comprehensive assessment – UniCredit Bulbank AD, DSK Bank EAD, United Bulgarian Bank AD and Central Cooperative Bank AD – do not face any capital shortfalls, as they did not fall below the relevant thresholds used in the AQR and the stress test.

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Investbank AD. face a capital shortfall of €262.9mn and €51.8mn respectively[10]. Based on our discussions, we concluded that actions to fulfill this requirement are underway. Aside from qualifying for ERM2 entry and staying for a minimum of two years, **Bulgaria also fulfills most of the rest of the nominal convergence criteria for Euroarea entry** (Table 2):

Table 2: Bulgaria's performance in the quantitative nominal convergence criteria

Criteria	Price Stability	Soundness of public finance	Sustainability of public finance	Durability of convergence	Exchange rate sustainability
Mean of measurement	Harmonize Consumer Price index	Public deficit as % of GDP (ESA2010)	Public debt as % of GDP (ESA2010)	Long-term interest rates	Deviation from the ERM rate
Reference value	Not higher than 1.5 ppts above the rate of the 3 best-performing member states	Not higher than 3% of GDP	Not higher than 60% of GDP	Not higher than 2 ppts above the average of the 3 best-performing member states	The LEV should not fluctuate ± 15% for at least two years
Bulgaria's performance	*2.4% YoY in November vs. 0.5% YoY in the 3 best performing Member States (Portugal, Greece, Cyprus)*	*A surplus of 0.05% of GDP in ESA2010 terms is projected in FY2019*	*Projected at 19.8% of GDP in ESA2010 terms in FY2019*	*0.35% as of September vs. 0.72% for the relevant EU-28 members*	*Will apply after Bulgaria enters the ERM II.*

Source: National Authorities, Eurostat, Eurobank Research

1) From a fiscal point of view, **Bulgaria is sound**: the **public debt** as a percentage of GDP stands well below 60%. The public debt to GDP ratio (in ESA2010 terms) is expected to reach 19.8% in 2019 down from 20.3% in 1H-2019 and 22.3% in 2018. In addition, the **fiscal balance** (in ESA2010 terms) is expected to end in surplus of 0.05% of GDP in 2019 vs. a surplus of 1.8% in 2018.

2) **Inflation criterion:** As of November2019, the 12-month average HICP stood 2ppts above the average of the three lowest (+/-1.5%) EU member HICP inflation rates (Portugal: 0.3% YoY, Greece: 0.5% YoY and Cyprus: 0.6% YoY). The 12-month average HICP in Bulgaria stood at 2.4% YoY in November2019 compared to a multi-month peak of 3.0% YoY in May-June2019. This could not be the case in the future if there is a new energy or foods prices supply-side shock.

3) **Long-term government yields** are no more than 2ppts higher, than the unweighted arithmetic average of the similar 10-year government bond yields in the 3 EU members with the lowest HICP inflation (having qualified as benchmark countries for the calculation of the HICP reference value): As of November2019, the long government yield for that purpose was clearly on a declining trend standing at 0.21% for Bulgaria vs 0.35% in September compared to 0.75% a year earlier and 0.72% for the relevant benchmark EU members (Portugal: 0.2%, Greece: 1.5% and Cyprus: 0.48% YoY).

[10] First Investment Bank AD, however, fell below the 8% CET1 (Common equity Tier 1) ratio threshold for AQR and the stress test's baseline scenario; the bank also fell below the 5.5% CET1 ratio threshold used in the adverse scenario of the stress test. Investbank AD fell below both the 8% CET1 ratio threshold used in the stress test's baseline scenario and the 5.5% CET1 ratio threshold used in the stress test's adverse scenario

4) **Compatibility of legislation**: As we have already described, as of late November 2019, the harmonization of legislation was in progress, being part of the ERM2 roadmap criteria. Earlier on, the latest ECB convergence report assessment in April 2018 had assessed that the Bulgarian law was not compliant with all the requirements for central bank independence, monetary financing prohibition, and legal integration into the Euro system.

However, it is common knowledge and understanding, that Bulgaria's prospective application to Euroarea in the future will also most probably be evaluated against real convergence criteria. Although the latter are not part of the Maastricht Treaty, they have been unofficially included in the list of commitments that prospective candidates will have to fulfil, on a case by case basis. Thus, the challenge for Bulgaria will be to accelerate real convergence towards the Euroarea[11], or alternatively to stay for a prolonged period of time in ERM2.

The benefits from prospective accession of Bulgaria in the ERM2

In our discussions with high-level officials we also focused on the benefits for Bulgaria once it enters the ERM2. There was a clear consensus that the impact will primarily stem from the improvement of the general image of the country along with the economic sentiment and the opinion international investors will shape for Bulgaria. From that point of view, the ERM2 accession will give a positive signal to investors, encouraging them to invest more and thus increase the funds flow in the country. At the same time, the benefits are also expected to be translated into enhanced economic growth as well, although they will not change the macroeconomic position of the country fundamentally. Indeed, according to the Ministry of Finance, the impact on the real economic growth is anticipated to be 1% in three years starting from the country's entry in the ERM2.

Looking ahead, the benefits of adopting the euro mainly stem from investors' enhanced confidence, sizeable progress on the country's ambitious reform agenda and reduced funding costs that may result from the anticipated sovereign rating upgrades by credit rating agencies. In view of the above, as the Governor of the Central Bank (BNB), Mr. Dimitar Radev, said recently in an interview[12], the decision about the Euro is strategic, not conjunctural and that the country should focus on the quality of the process. In addition, he added that the decision was unanimously supported at a national level. Moreover, he explained that the monetary regime allows for its implementation to happen quicker and seamlessly. More importantly, as a result of the firm commitment to not change the exchange rate regime until the country's Euroarea accession, the introduction of the Lev in ERM2 will not lead to any changes in the macroeconomic position.

On the other hand, EA decision makers, along with ticking the boxes in Bulgaria's checklist and monitoring the progress from a technocratic perspective, they are also trying to strike the optimum balance between deepening and enlarging the currency union. As a result, the decision regarding, Bulgaria's entry in the ERM2 and EMU at a later stage has an intense political tint. All in all, although uncertainties remain high, we anticipate to have more clarity within the first half of 2020.

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[11] Even if Bulgaria joined ERM2, it is still very questionable whether it would be allowed to join the Euroarea after only 2 years. Looking at the most similar cases: Latvia joined the ERM2 mechanism in late April 2005 *(Latvia: 50.2% GDP per capita in PPS in 2005)* and became a Euroarea member on Jan 1st, 2014 *(63.6% GDP per capita in PPS in 2014)*. Lithuania joined the ERM2 mechanism on June 28th, 2004 *(48.9% GDP per capita in PPS in 2004)* and became a Euroarea member on Jan 1st, 2015 *(74.7% GDP per capita in PPS in 2015)*

[12] https://www.bis.org/review/r191018d.htm

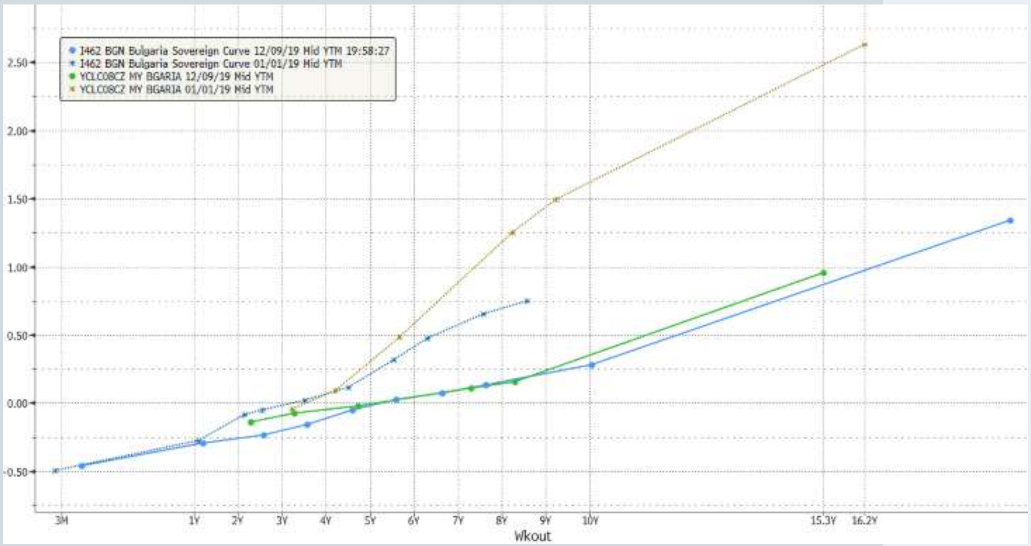
Part II. Markets overview in January - November 2019

Bond Market

The issuing activity on the Bulgarian local market has been limited over the last years mainly due to the good fiscal performance of the country and the tapping of international markets earlier in 2015 and 2016. To recall, no issuance took place in 2018, while in 2019 the Ministry of Finance placed EUR 509 mn in two issues, a 10.5-year and a 20-year bond. Market participants showed strong interest with an average coverage ratio of 1.57, and in particular 1.95 for the 10.5-year bond. Banks were the most active players on the primary market and acquired 48.6% of the total volume, followed by insurance companies with 23.9% and pension and guarantee funds with 23.6%. As expected, banks were more interested in the 10.5-year issue, while the other participants preferred the longer one.

The Ministry of Finance is expected to issue around €1.05bn of new debt in 2020. €0.53bn of the funds would serve to repay the three local bonds maturing next year and the remaining part would be set aside for the payment of Eurobonds in 2022. Meanwhile, the secondary market caught up with international sentiment and yields dropped to record low levels in 2019. While domestic bonds experienced more moderate decline in yields in the range of 10-47 bps, Eurobonds yields dropped by 100-160bps in the long-end, erasing the spread between the two curves. For comparison, the 8-year local paper is currently trading at 0.13% from 0.48% in the beginning of the year, while the 8-year Eurobond at 0.15% from 1.25% for the same period. Both curves flattened considerably for the period as long-term rates fell at higher degree than short-term rates.

Figure 2: Yield curve of the domestic bond market



Source: Bloomberg

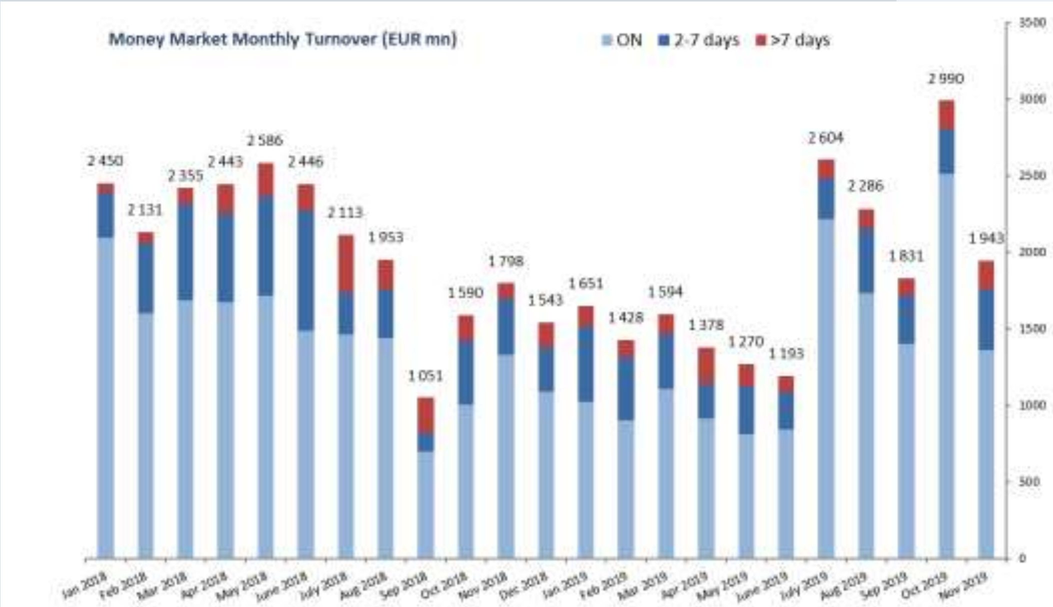
Money Market

Money market turnover, including both deposits and repo deals, amounted to €20.167bn for the period January-November 2019. Volumes were weaker between January and June and started climbing in July as liquidity in the banking system started accumulating with client deposits outpacing loans growth. Moreover, in October BNB increased the penalty for excess reserves from -0.6% to -0.7%, pushing volumes higher to €2.99bn for the same month and €1.943bn in November.

Overnight deals represent the greatest part of the market with a 74% share of total trades for the period January-November, followed by deals with maturity within a week (19% share) and longer maturities (8% share). In fact, the excess liquidity placed in the market since July has been almost entirely accommodated in overnight deals.

By type of deals, deposits represent 85% of the total trades for the first eleven months of 2019 or €17.4 bn., with 77% of them placed overnight, while 20% between 4 and 7 days. Meanwhile, repo deals amount to €2.8bn, half of which are overnight, 35% are between 8 days and 1 month and 8% above 1 month.

Figure 3: Money market monthly turnover in 2018-2019



Source: Bloomberg

Equity Market

The turnover of the Bulgarian Stock Exchange totaled €150 mn between January-November, reduced by 34% compared to the same period in 2018. Furthermore, the number of transactions also saw a significant drop on a period to period basis of 19% to 39.8k. The blue chip index SOFIX dropped by 8.1%YTD to 546.57 points. The broader BGBX40 and BGTR30 also recorded drops, while the real estate index BGREIT rose by 7 % for the year.

The Bulgarian equities remain subdued by the low liquidity and the attractive outperforming Western indices. On a positive note, starting in January 2020, a short ETF on the main Bulgarian index SOFIX will debut, and is expected to improve liquidity and lure more investors into the market. The government has vouched to support the listing of medium size enterprises in the stock market in an attempt to further diversify the profile of Bulgarian listed companies. Despite the relatively small size of the equity market, global trends are also reflected on the local market, with a fresh example being the recently submitted IPO prospectus of a local private equity firm.

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