

Bulgaria

By Alessandro Sciamarelli, EMF

Macroeconomic overview

The Bulgarian economy was severely hit by the global macroeconomic and financial turmoil in 2009. Real GDP fell by 5% and this represented the first recession after six consecutive years when economic growth exceeded 5%. According to 2009 annual data, the labour market was not considerably affected by the economic recession, although labour market data can be slow in reflecting the changes in the macroeconomic environment: the unemployment rate in Bulgaria increased from 5.6% in 2008 to 6.8% in 2009. The inflation rate, which was steadily above 6% in the three previous years, was mainly driven by the recessionary and deflationary developments in the economy, and plummeted from 12.5% in 2008 to 2.5% in 2009.

The dramatic decrease in domestic demand was behind the weak economic performance of the country: gross fixed capital formation fell by 26.9% and imports by 22.3%, while conversely exports increased by 12.6%, recording the first positive growth rate since 1998. As a result, the current account balance sharply improved, albeit remaining negative and recording a deficit of 8.3% of GDP (22.9% in 2008). Government spending, due to the worsening conditions of public finances, also provided a sharp negative contribution to GDP growth (-5.5%). As a result of lower corporate tax revenues stemming from the economic downturn, public finances recorded the first negative deficit to GDP ratio (-3.9%) since 2000.

Housing and mortgage markets

After providing a very strong contribution to real GDP growth during the years of the booming cycle, the residential construction sector was severely hit by the economic and financial crisis. Consistent with the correction from the previous cycle, gross fixed investment in construction experienced a dramatic fall of 26.9% on 2008 after the double-digit growth rates of the previous years (20.4% in 2008). The corresponding figure for the residential construction sub-sector is not available however. The number of residential building permits more than halved compared to 2008, reaching the historical low of 20,166 units, which represented a decrease of 59.2% on the previous year and of 69% on the peak recorded in 2007 (62,185). On the demand side, the housing market experienced its first severe recession as average national house prices fell in nominal terms by 21.4%, following on from growth rates in house prices above or around 15% in the previous three years which clearly outperformed most housing markets in the EU15 economies.

Mortgage debt to GDP ratio went from 11.6% in 2008 to 12.6% in 2009 as outstanding mortgage loans amounted to around EUR 4.3 billion from roughly 4 billion in 2008. Representative mortgage interest rates on loans denominated in BGN went down from 10.23% in December 2008 to 9.72% in December 2009, while mortgage interest rates on loans denominated in EUR decreased from 8.59% to 8.72% over the period.

	EU27, 2009	Bulgaria, 2009	Bulgaria, 2008
GDP growth (%)	-4.2	-5.0	6.0
Unemployment rate (%)	8.9	6.8	5.6
Inflation (%)	1.0	12.5	2.5
% owner occupied	68.2	96.5	96.5
Residential Mortgage Loans as % GDP	51.9	12.6	11.6
Residential Mortgage Loans per capita, EUR thousand	12.37	0.56	0.52
Total value of residential loans, EUR million	6,125,727	4,268	3,960
Annual % house price growth	-6.8	-21.4	24.9
Typical mortgage rate (euro area), %	2.71	9.72	10.23
Outstanding Covered Bonds as % outstanding residential lending	23.2	n/a	n/a

Sources: EMF, Eurostat, ECB, Bank of Bulgaria, SeeNews, National Statistical Institute of Bulgaria

Notes:

- Typical mortgage rate in the euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data.

Bulgaria=2002