

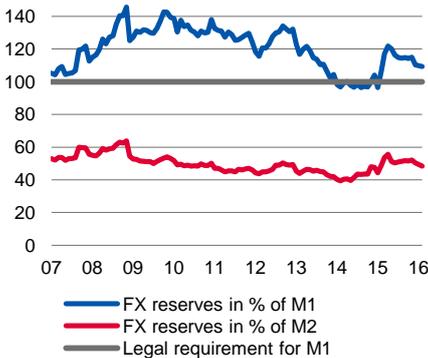


# Bulgaria

Frontier country report | April 29, 2016

## Currency board coverage has improved 1

FX reserves in % of monetary base



Sources: IMF, IHS Global GmbH, Deutsche Bank Research

## GDP growth recovering

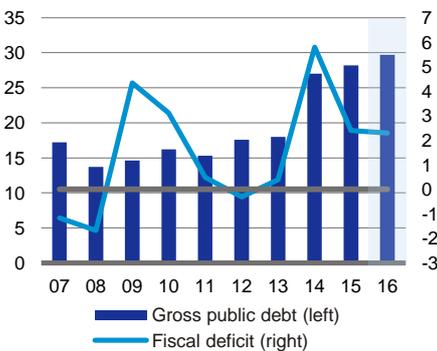
Real GDP grew faster than expected at 3% in 2015, driven by strong net exports which contributed 1.9 pp to the annual growth rate. For this year, we expect the growth rate to stay above 2% yoy, above the average annual growth rate of 1.4% registered after the severe recession in 2009. Strengthening domestic demand and improving absorption of EU funds (absorption rate for the 2007-2013 funding period reached almost 90%) will support economic growth. Inflation will likely pick up this year after remaining in negative territory in 2014 and 2015 (aop).

## EU membership and currency board provide stability

Domestic politics remains volatile – one of the junior partners left the ruling coalition (which has a minority in the national assembly) led by the business- and EU-friendly GERB in Dec 2015. Nevertheless, consensus prevails on prudent macroeconomic policies. EU membership and the currency board (chart 1) act as important institutional anchors for the country.

## Public debt remains low 2

% of GDP



Sources: IMF, EC, Deutsche Bank Research

## Banking sector bailout needs likely to remain limited after bank failure in 2014

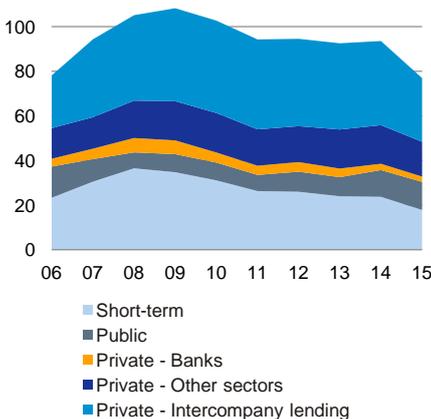
Gross public debt remains low at around 30% of GDP this year, even if it increased strongly from only 18% of GDP in 2013, before the failure and bail-out of one of the largest banks (chart 2). A wider macroeconomic fallout did not materialise. Due to the currency board, the central bank's role as lender of last resort is limited. Bulgaria adopted the EU Banking Resolution Directive last year which should limit future bailout costs for the government. A sector-wide asset-quality review this year will bring further clarity on potential bank recapitalisation needs.

## External debt is high, especially for the private sector

Gross external debt remained high at 77% of GDP last year but declined from over 90% of GDP in 2014 thanks to small current account surpluses (1.4% of GDP in 2015) and recovering GDP growth (chart 3). Public sector external debt only accounts for 16% of total external debt, the rest is private sector debt. Refinancing risks are mitigated by the fact that more than a third of external debt is intercompany lending. External financing requirements stand at close to 80% of FX reserves this year, a manageable level, thanks to a high level of FX reserves to support the currency board.

## Gross external debt declined 3

% of GDP



Sources: Haver, IMF, Deutsche Bank Research



## Bulgaria

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