



EXPECTED IMPACT OF THE COVID-19 PANDEMIC: SECTORAL ANALYSIS OF THE BULGARIAN ECONOMY

The rapid spread of COVID-19 deteriorates the global economic outlook. BCRA is on the opinion that the drastic efforts to contain the virus, combined with the oil prices collapse and high capital markets volatility, has generated a massive shock in many sectors, regions, and markets, which would inevitably escalate into a global recession. The combined effects are unprecedented, and their magnitude is difficult to measure currently.

The present analysis focuses on the structure of the Bulgarian economy and the expected pandemic impact on selected sectors. We believe that the development of the Bulgarian economy and the depth of the crisis largely depends on the duration of social exclusion measures in both the country and the major European economies. We expect freezing of large investment projects and a sharp drop in consumption and exports. Government measures to support business and pan-European coordination to manage the pandemic would be crucial factors for the pace of recovery.

Economic sectors will demonstrate different resilience. Small and medium-sized enterprises will be most affected as they are characterized by a lack of capital buffers and limited liquidity. We believe that these companies could cope with a one-month blockade of economic activity but extending this period would significantly exhaust their resources to compensate for the sharp decline in revenue. This will inevitably lead to job losses and bankruptcies in many sectors, which could hardly be constrained through government intervention.

We expect a sharp pickup in unemployment over the coming months. Currently, accurately forecasting this growth is very difficult, but the jobs and incomes of nearly 500,000 people are exposed to a serious risk¹, according to our estimates. As an initial move, more and more employers are putting their workers on unpaid leave, while the next move will escalate to mass dismissals. The Bulgarian government has announced that it plans to cover 60% of an employee's wage if the employer retains his workplace, but we believe the effectiveness of this measure will be limited. In the absence of revenue, it is impossible for a business to pay its fixed costs (for rents and loan instalments) and 40% of salaries plus the insurance of its employees. Employment reductions and loss of income will cause secondary economic effects - increasing uncertainty and limiting consumption and investment, which will practically transfer to almost all sectors.

¹ Data for employment structure by economic activity can be found in [APPENDIX 2](#) of the document.

Expected impact of the pandemic on selected economic sectors

MOST AFFECTED	MODERATE AFFECTED
<ul style="list-style-type: none"> ✓ Accommodation and food service activities ✓ Real estate activities ✓ Land, air and sea transport ✓ Manufacture of motor vehicles parts and transport equipment ✓ Manufacture of machinery ✓ Arts, entertainment and recreation 	<ul style="list-style-type: none"> ✓ Metallurgy ✓ Manufacture of textiles, wearing apparel and leather products ✓ Consumer durables trade ✓ Construction
GROWTH POTENTIAL	SUSTAINABLE DEVELOPMENT
<ul style="list-style-type: none"> ✓ Information and communication ✓ Food retail ✓ Online trade services ✓ Courier services ✓ Health services 	<ul style="list-style-type: none"> ✓ Manufacture of food products ✓ Pharmaceutical industry ✓ Waste management ✓ Defence

Currently, the most affected sectors of the Bulgarian economy are those with restricted activity. However, risk is also high in sectors that are strongly dependent on global supply chains or greatly sensitive to consumer behaviour. It should be borne in mind that the risk assessment is based on our current baseline scenario, but events are evolving daily, which is why a more pessimistic scenario for many other economic activities is possible. Our forecasts and estimates will evolve over time with the information available.

❖ Industry

The COVID-19 pandemic disrupts the supply chains of the industry, stops production and suppresses demand. The industrial sector accounts for about 23% of GVA and employment in Bulgaria. The production in many manufacturing enterprises in the country will continue with increased sanitary requirements and reduced turnover for some activities. Overall, a decline is expected mainly in industries with a high dependence on international supply chains. Such are, for example, the manufacturing of hardware products, communications equipment, and motor vehicle parts. Also, difficult logistics and closure of car plants in Europe will have a negative impact on the metallurgy, while the expected decline in demand for long-term consumer goods will also affect the production of machinery. Textile and clothing production are moderately exposed due to declining orders, but part of the sector could temporarily reorient itself to the manufacture of

sanitary masks and protective clothing. On the other hand, we expect sustainable development for the pharmaceutical sector, food production and waste management.

❖ **Accommodation and food service activities**

We expect tourism to be among the first and one of the most affected sectors in the country. Social exclusion measures include suspension of accommodation services and visitors restrictions to restaurants, nightclubs, bars, and spa centres. Accommodation and food service activities generate about 2.5% of the GVA of the Bulgarian economy, with a total number of employed persons exceeding 182,000 in 2019 (5.6% of total employment). Black Sea municipalities and mountain resorts, where the relative share of employees in the tourism sector is several times higher than the national average, would be particularly affected. Remote job opportunities in this sector are strongly limited, which puts the income of its employees at serious risk. At present, it is unclear what the duration of social exclusion measures will be and whether they will cover the summer season, but certainly, its early planning will be adversely affected by this uncertainty. We expect a recovery in the sector in the fourth quarter of 2020.

❖ **Trade**

Most of the sites in the shopping malls, as well as a number of smaller shops in the country, are closed indefinitely. At the same time, consumer confidence changes due to uncertainty in terms of income and employment. We expect temporarily households' refrain from large purchases and consumer loans. Growth is observed in the trade of food and medicine, but the demand for long-term goods (eg household appliances, cars, etc.) will decrease significantly, which will lead to a decline in total trade turnover. Consumers are avoiding busy retail chains and physical stores in general, which creates a growth potential for online commerce.

❖ **Construction**

Construction has generated an average of 4.2% of GVA in the last five years, while the employment in the sector equals 7.8% of total in 2019. Construction is an activity that could not be done remotely. No measures have been taken so far to halt construction activities, but a possible freeze on public procurement may pose a serious risk to the sector, as well as delaying private sector investment activity in the current situation. Another potential risk is the slowdown of European funds and their redirection in the fight against the virus.

❖ **Real estate activities**

We expect stagnation of real estate activities. Property inspections have been hampered by social exclusion measures, while many notaries in the country have suspended their operations, making it difficult to conclude new deals. In the current operational environment, commercial and office space is highly endangered. Delayed rent payments are possible, as shopping centers are almost completely closed. Property prices will decline, however, the magnitude of the decline is difficult to measure at this time because of the unclear duration of the emergency state. Changes in banks' credit activity also represent a key factor for the future development of the market.

❖ **Transport**

Transport services are an important economic activity, providing about 6% of GVA and 7% of total employment in the country. The emergency closure of intra-European borders has caused blockages at multiple border crossing points and delays in supply, but overall, the situation is already stabilizing. However, the economic slowdown represents a greater risk for the sector. An increasing number of European enterprises are operating at reduced turnover or are temporarily closed, which will naturally lead to a decline in land and sea freight orders. Several intercity bus lines have thinned their routes due to lack of passengers, and some have stopped services after the introduction of checkpoints at the exits of the regional cities. Air transport will be among the hardest-hit sectors globally, but its share in the structure of the Bulgarian economy is relatively low (0.2% of GVA). On the other hand, the courier business reports an ongoing increase in activity, which represents a growth potential for the coming months.

❖ **Information and communication**

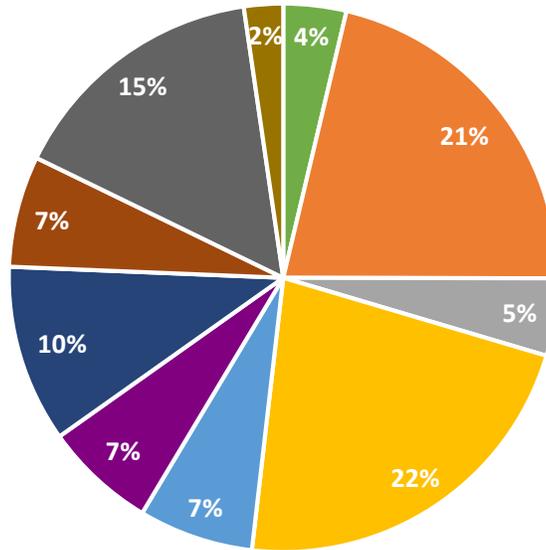
The sector is gaining increasing importance for the Bulgarian economy, with employment in it recording steady growth in recent years. We believe that ICTs are among the most resilient activities in the current crisis. This sector is innovative and adaptable in nature, and many of the working processes within it can be performed remotely. Social exclusion, work and education from home lead to a significant increase in the demand for technology products and services. In our opinion, the current situation will lead to a subsequent rethinking and reorganization of a large part of the business models, which represents a unique opportunity for the long-term growth of the sector.

❖ **Arts, entertainment and recreation**

Activity in this sector is virtually completely blocked by restrictions due to the coronavirus. Cinemas, theatres, galleries and museums in the country have been closed since the state of emergency. Concerts and mass events are cancelled. All sports facilities and gyms are closed as well. The incomes of a large number of self-employed persons in the entertainment business are seriously threatened, as they are not covered by the government employment measures currently in force. The decline in the sector is inevitable, while its magnitude depends directly on the duration of the social exclusion measures.

APPENDIX:

APPENDIX:1: Structure of GVA in 2019



- Agriculture, forestry and fishing
- Mining and quarrying; manufacturing; electricity, gas, steam and air conditioning supply; water supply; sewerage, waste management and remediation activities
- Construction
- Wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities
- Information and communication
- Financial and insurance activities
- Real estate activities
- Professional, scientific and technical activities; administrative and support service activities
- Public administration and defence; compulsory social security; education; human health and social work activities
- Arts, entertainment and recreation, repair of household goods and other services

Source: NSI

APPENDIX 2: Employment by economic activity: 2019

Economic activity	persons	share
Total	3 233 100	100.0%
Agriculture, forestry and fishing	214 100	6.6%
Mining and quarrying	33 900	1.0%
Manufacturing	607 300	18.8%
Electricity, gas, steam and air conditioning supply	43 700	1.4%
Water supply, sewerage, waste management and remediation activities	33 200	1.0%
Construction	252 500	7.8%
Wholesale and retail trade; repair of motor vehicles and motorcycles	539 800	16.7%
Transportation and storage	212 700	6.6%
Accommodation and food service activities	182 600	5.6%
Information and communication	99 900	3.1%
Financial and insurance activities	67 300	2.1%
Real estate activities	13 700	0.4%
Professional, scientific and technical activities	113 300	3.5%
Administrative and support service activities	124 300	3.8%
Public administration and defence; compulsory social security	224 800	7.0%
Education	185 800	5.7%
Human health and social work activities	166 500	5.1%
Arts, entertainment and recreation	53 000	1.6%
Other service activities	64 800	2.0%

Source: NSI

APPENDIX 3: Contributions to real GVA growth: 2015 – 2019



Source: NSI