
**United Bulgarian Bank
Bulgaria: Macroeconomic Update
March 2022**

Chief Economist Department

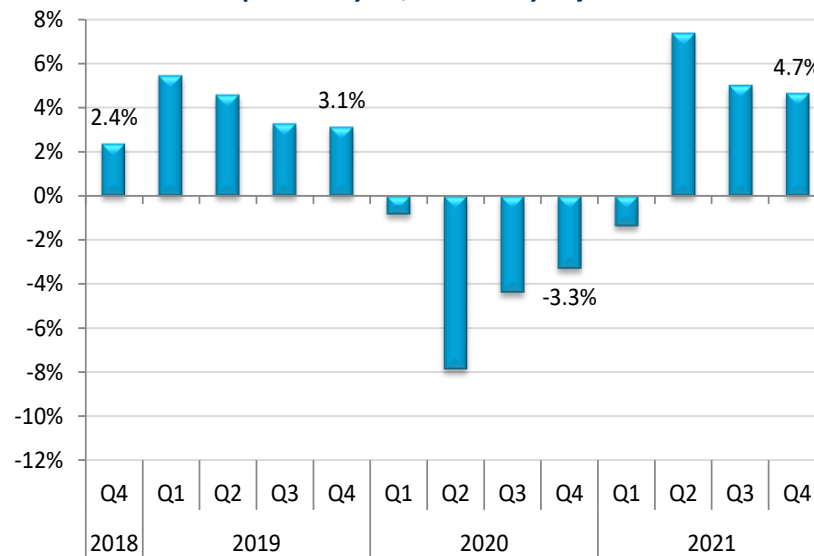
- **The Russian invasion of Ukraine has put global economic on edge and generating important economic and financial consequences.**
- **Reflecting Russia's critical role as a supplier of global (and especially European) oil and gas, oil prices reached multi-year highs while European gas prices reached record levels.** We assume oil prices will remain elevated in the first half of the year at 115 USD/barrel. With Russia and Ukraine being important exporters of a number of commodities and agricultural products, non-energy commodity prices have also climbed at unprecedented rates since the outbreak of the war (e.g. aluminum, nickel, palladium, as well as wheat and corn).
- **Strongly increasing energy, commodity and food prices generate new (strong) cost-push inflationary impulses to the global economy, adding to already exceptionally high inflation dynamics in the US and the euro area.** As a consequence, inflation is likely to increase further in the near term, and the current high inflation regime will extend well into 2022.
- **Negative demand and confidence shocks are leading not only to higher inflation but also to material downgrades in the short-term growth outlook, especially in Europe.** More persistent inflation is likely to significantly erode households' purchasing power, while increasing uncertainty may weigh on consumer and investor confidence. These developments would decrease aggregate demand, through lower consumption and investments, especially in the case of a prolonged conflict. As such, our scenario implies a substantial downgrade of economic growth.
- **Home markets, strongly dependent on energy imports from Russia, are significantly exposed to upward inflationary and downward growth pressures.** Home markets remain highly dependent on Russian energy imports especially gas and oil. We materially upgraded the inflation outlook in most home markets and downgraded the growth outlook for the coming quarters.

Bulgaria – GDP growth

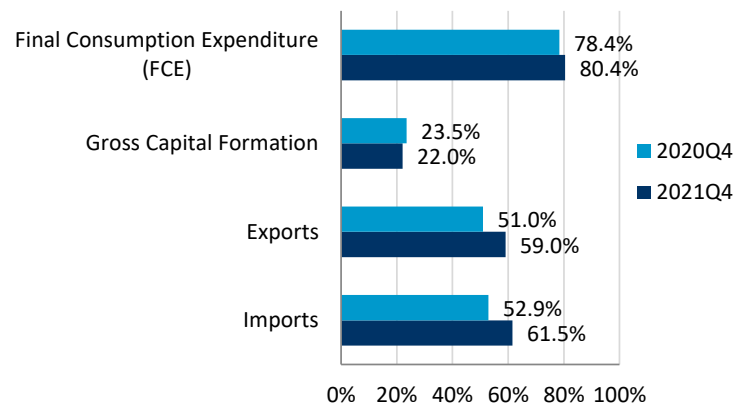
The Bulgarian economy advanced 4.7% year-on-year in the fourth quarter of 2021, higher than initial estimates of 4.5% increase but less than an upwardly revised 5% expansion in the previous quarter, preliminary data showed. Final consumption advanced (7.4% vs 7% in Q3 2021). Gross fixed capital formation continued to decline further (-4.6% vs -1.5%). On a quarterly basis, Bulgaria’s GDP rose 1%. Considering the full 2021 year, Bulgaria’s GDP increased 4.2% on year.

Forecast for annual real GDP growth for 2022 is 2.5%. The main reason is the impact of higher energy, commodity and food prices on household disposable income and hence consumption growth. The disruptive energy inflation also causes the supply shock - many firms are in danger for closure because of the high electricity, gas and oil prices. Also there is negative impact on consumer and business sentiment and, to a lesser extent impact on direct trade channels play a role.

GDP Growth rate, compared to the same quarter previous year, seasonally adjusted data

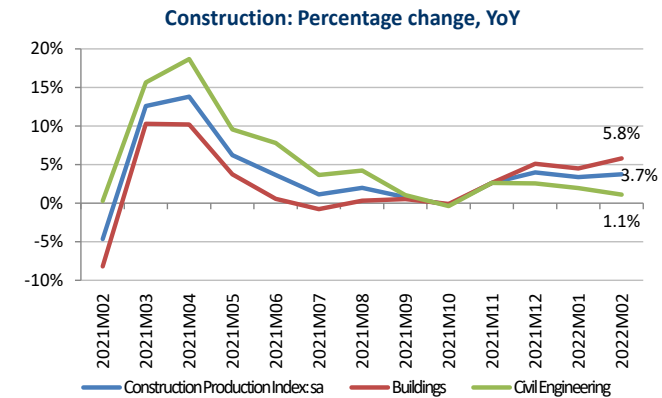
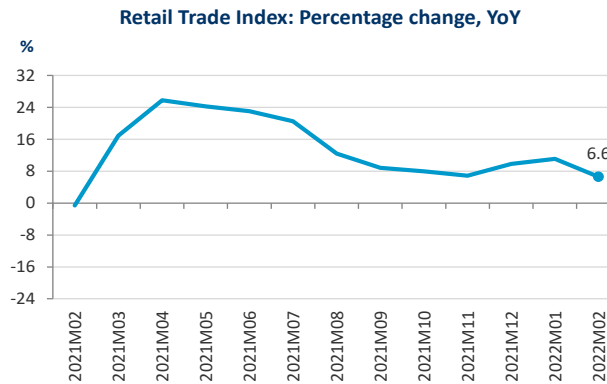
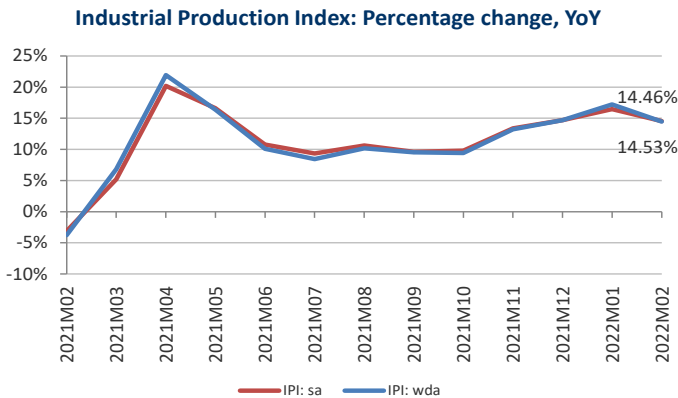
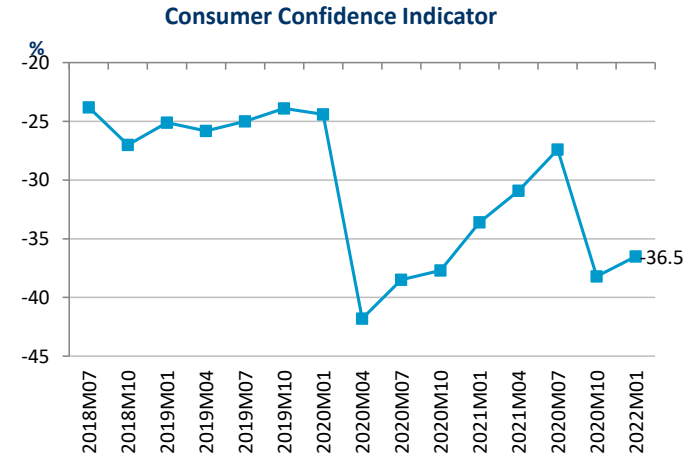
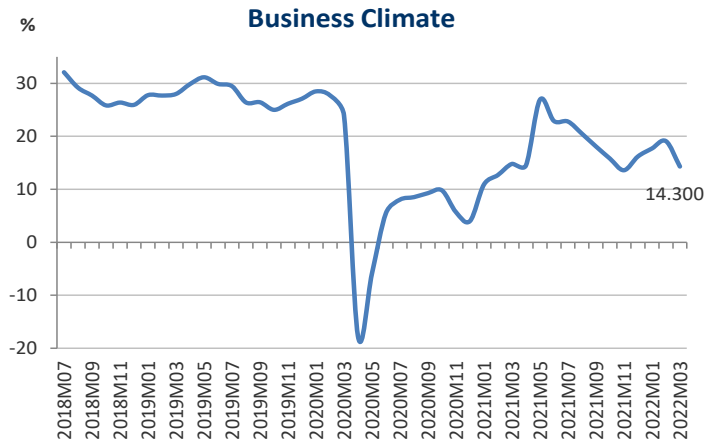


Structure of GDP by the expenditure approach for Q4 in 2020 and 2021



Bulgaria: Main Frequency Indicators

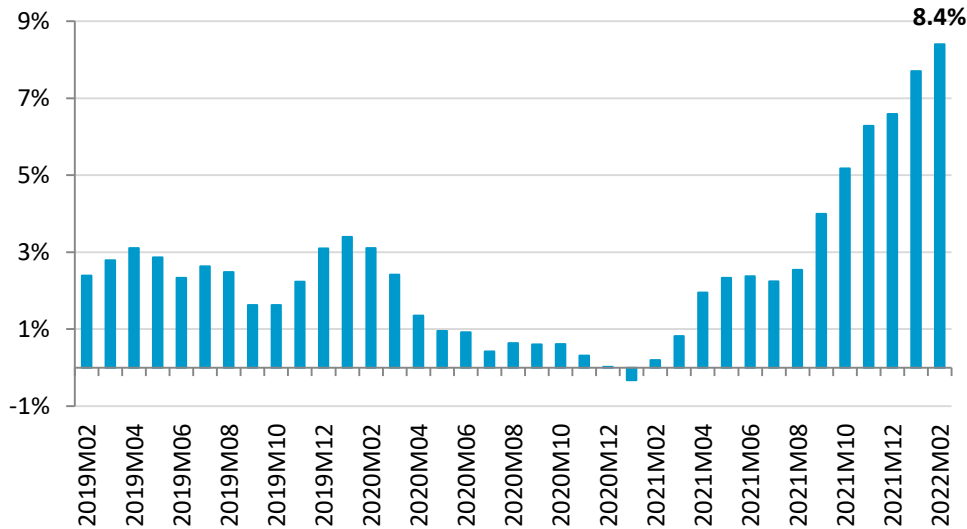
The most of high frequency indicators are decreasing in February. **Business climate indicator significantly decreased at the end of March.** Because of disruptive commodity inflation, direct trade problems and uncertainty in economic sentiment, caused by Russian-Ukrainian war, **our current growth forecast is 2.5% for 2022, 3% for 2023 and 3.5% for 2024.**



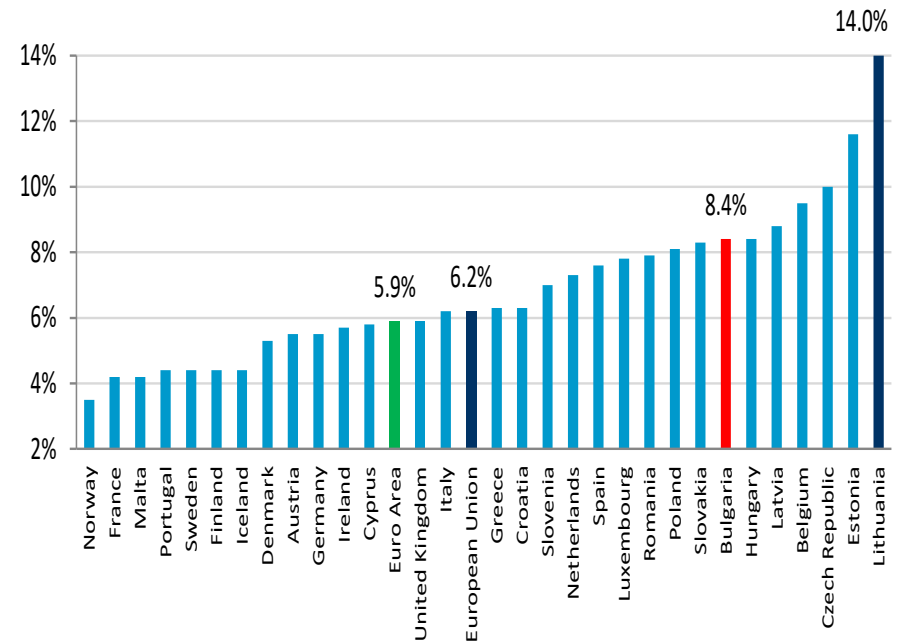
Bulgaria – Inflation (1)

Our upgraded price outlook envisages significantly higher commodity prices in 2022. The presence of catching up inflation due to traditionally lower incomes and price levels in Bulgaria compared to the euro area will facilitate the inflationary impact. **Our current forecast is substantial increase of inflation of average annual 11.1% for 2022, 5.3% for 2023 and 3% for 2023.** We suppose the peak of the inflation will be in the next months in the first half of the year, when we will observe double digit values. Our forecast for the inflation at end of 2022 year-on-year is 11% CPI and 10% HICP.

Harmonised Inflation

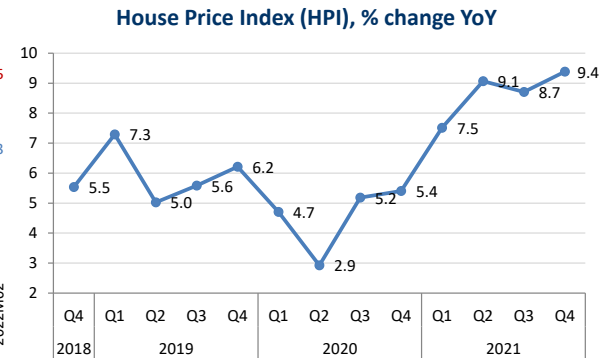
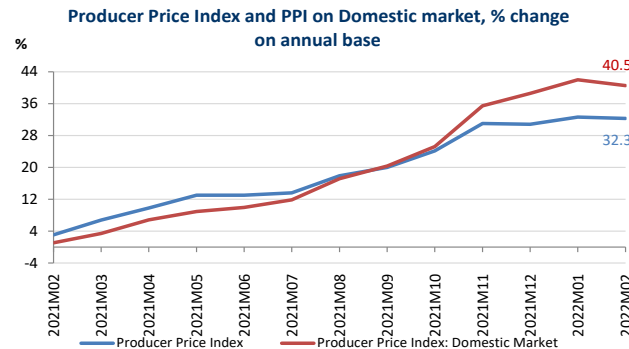
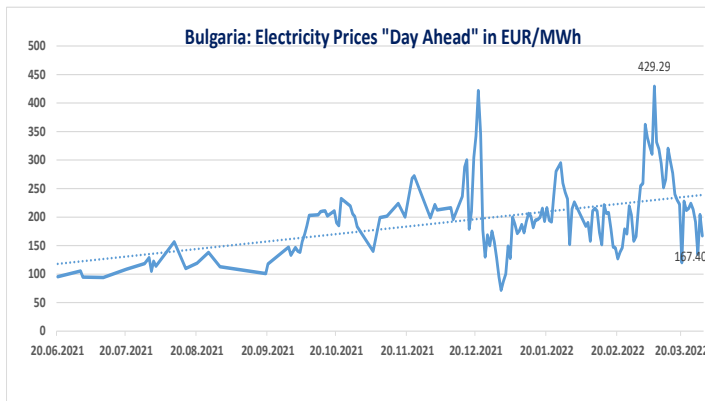
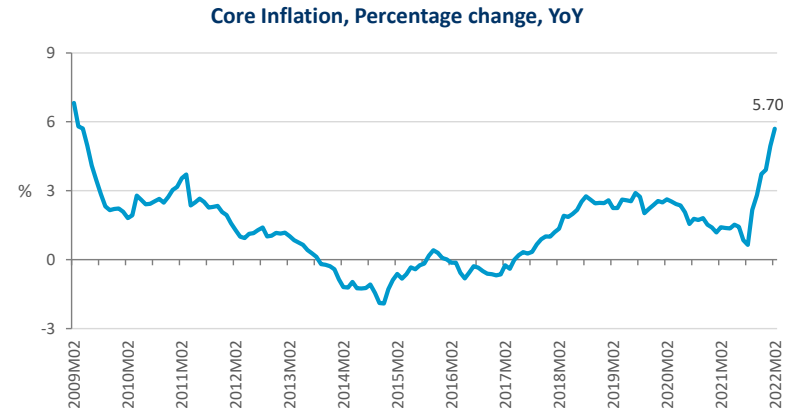
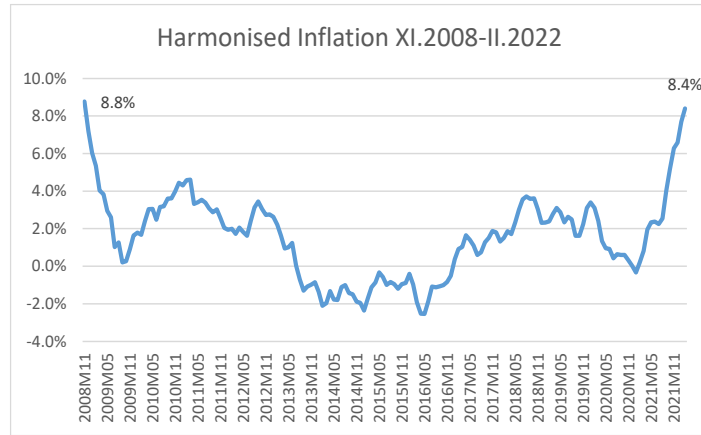


EU: HCPI Inflation (% y/y) by country - February 2022



Bulgaria: Inflation (2)

Both Bulgarian CPI and harmonized inflation has the highest record since November 2008. The core inflation is significantly lower than the overall inflation (5.7% vs 8.4%). This reflects the impact of high commodity prices and especially energy prices. Impact of the high cost of raw materials is increasing cost of input. The big increase in the Produces Price Index 32% yoy is evidence for this process. The electricity price “Day ahead” in Independent Bulgarian Energy Exchange (IBEX) reached record high of 429 EUR/Mwh on 08.03.2022. Low interest rates on bank deposits has led to increase in demand for housing and house prices.

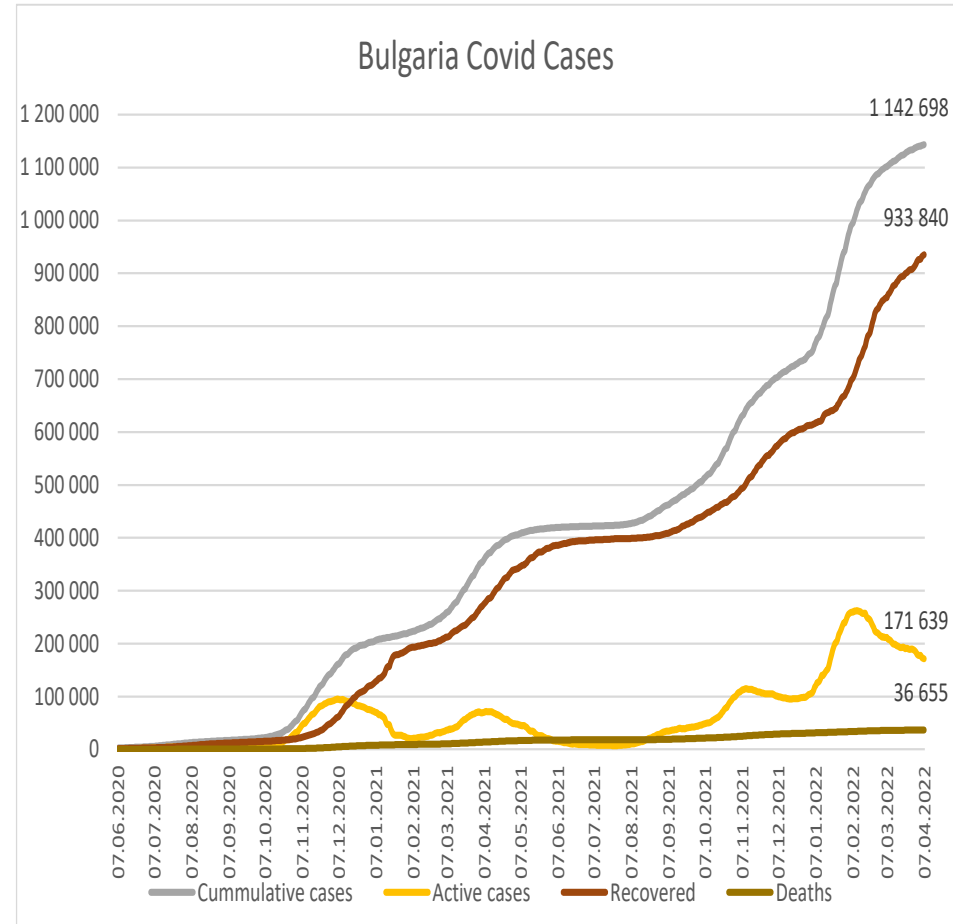


COVID-19 Status

In mid-February, the peak of Covid's fifth wave began to pass . The active cases are 171 639 on April 7, 2022 - by 87 994 less than in the active cases of two months ago. Mortality still increases, albeit with the smaller pace 36 655 on April 7, 2022 .

The vaccination process has slowed down. Pfizer, Moderna and Jansen vaccines are used. The fully vaccinated as of April 7, 2022 are 30% of population and 11% are with buster.

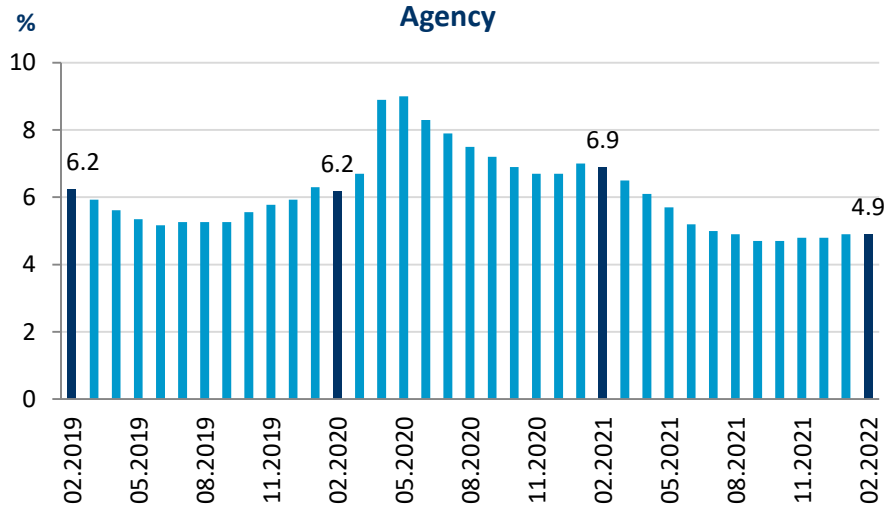
The anti-epidemic measures, based on the requirement to provide a green certificate are repealed from 20.03.2022. The emergency epidemiological situation is lifted on April 1. At this stage we don't expect the pandemic to be a significant obstacle to economic growth.



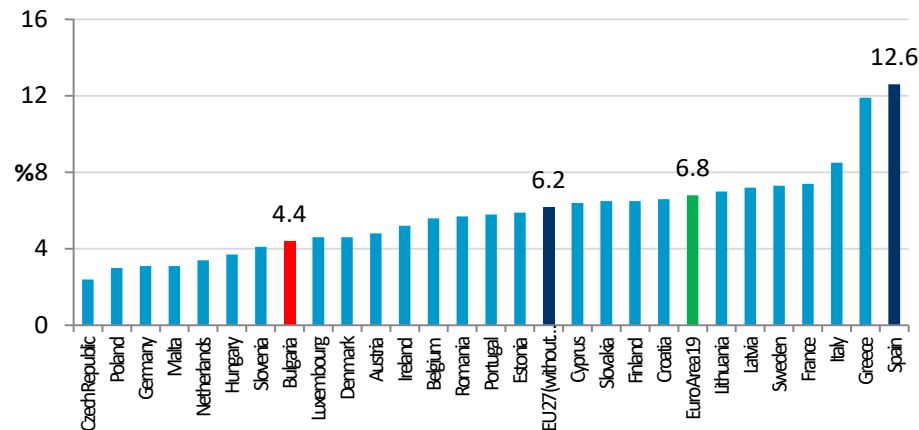
Bulgaria: Main Macroeconomic Indicators, Labor market

According to Agency of employment in February 2022 the rate of registered unemployment is 4.9%, hitting another all time record low. In February the harmonized unemployment rate in Bulgaria is 4.4% and is well below the average of EU. We expect moderate increase of unemployment of 6% for this year and 5% for the next year.

Unemployment Rate Bulgaria: National Employment Agency



EU: Unemployment rate seasonally adjusted by country, February 2022



Note:

According to the definition of the NSI, unemployed are persons aged 15 - 74 years who: 1) do not have a job during the observed period; 2) actively looking for work for a period of four weeks, incl. observed week, or have already found a job that they expect to start within three months after the end of the observation period, 3) have the opportunity to start work within two weeks after the end of the observed period.

The NSI assessment is based on a sample "Labor Force Survey", in which Bulgarian households are interviewed on a rotating basis. The labor force survey is performed on a two-stage nesting sample, including about 19.6 thousand households each quarter (about 0.65% of the households in the country). The definition of unemployment of the NSI is according to Regulation of the European Commission (EC) № 1897/2000.

The Employment Agency considers unemployed only persons who have registered with the labor offices.

Bulgaria – Outlook 2021 - 2024

The war in Ukraine changed the economic situation in Bulgaria and the world. Bulgaria is strongly dependent on energy imports from Russia (75% of gas and 54% of oil are from Russia) and is significantly exposed to upward inflationary and downward growth pressures. **Our current baseline scenario is similar to Ministry of Finance Macroeconomic Spring Forecast 2022.**

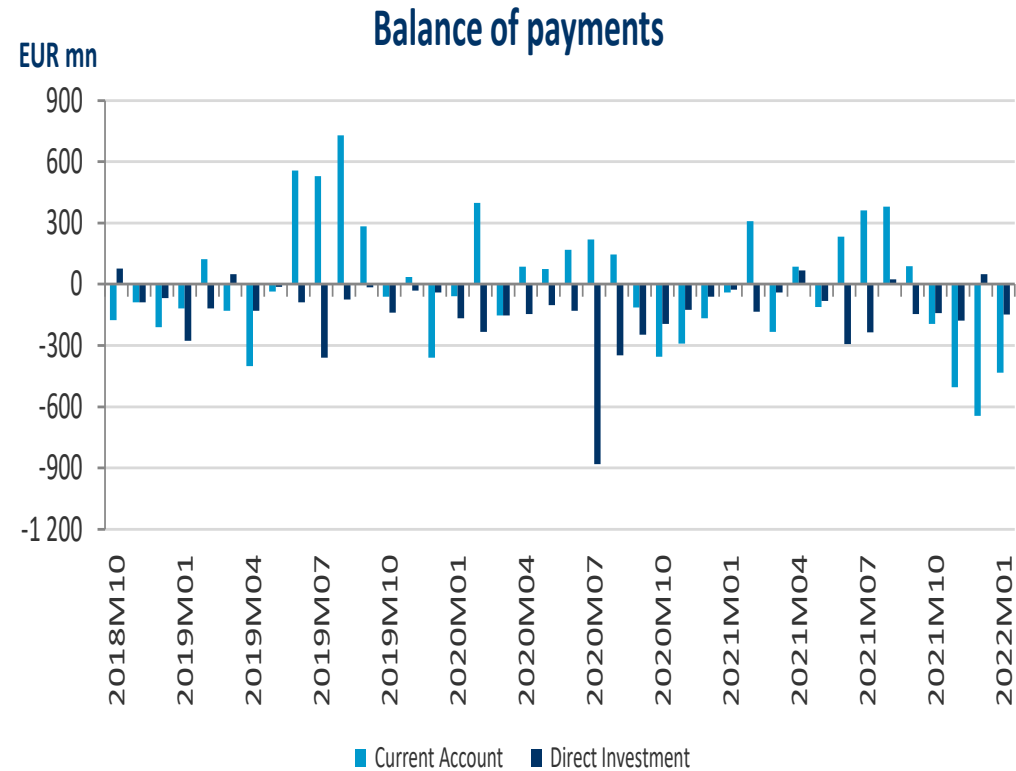
Bulgaria	Optimistic scenario					Base scenario					Pessimistic scenario				
	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024
April 8, 2022															
Real GDP growth (in %)	-4.3	4.5	3.5	4.1	3	-4.3	4.5	2.5	3	3.5	-4.3	4.5	-1	1.2	2
Inflation (in %, harmonised CPI, average)	1.2	2.8	6.6	3.8	2.3	1.2	2.8	11.1	5.3	3	1.2	2.8	15.5	9	3.4
Unemployment rate (% , end of year, Eurostat definition)	6.3	4.9	4.3	4.2	4.3	6.3	4.9	6	5	4.8	6.3	4.9	8	7	6
Government budget balance (in % of GDP)	-3	-3	-4.1	0	0.5	-3	-3.0	-4.5	-2	-1.2	-3	-3	-6	-3.5	-1.7
Gross public debt (in % of GDP)	24.3	26.2	29.4	31	31	24.3	26.2	29.8	31	32	24.3	26.2	30.7	36	38
Current account balance (in % of GDP)	0.4	-0.4	1	2	1	0.4	-0.4	-2	-1.5	-0.5	-0.4	-2	-2.5	-2	-1.5
House prices (annual %-change, existing and new dwellings, Eurostat def.)	5.4	8.7	9.0	6.0	4.0	5.4	8.7	7.5	5	3.5	5.4	8.7	5.5	4.0	0.0

Source: KBC, UBB

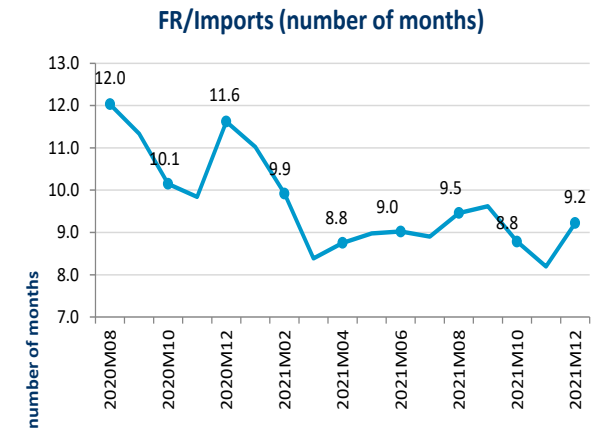
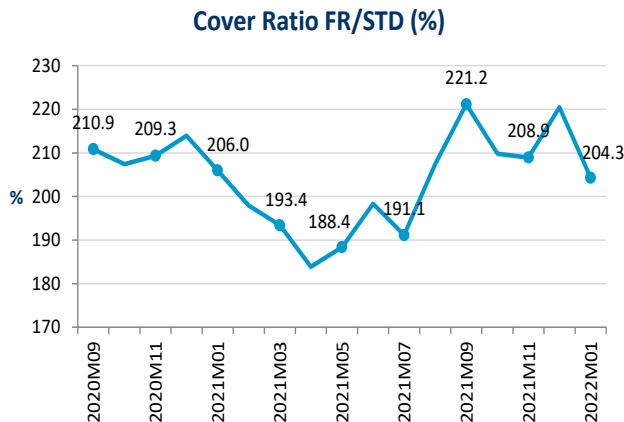
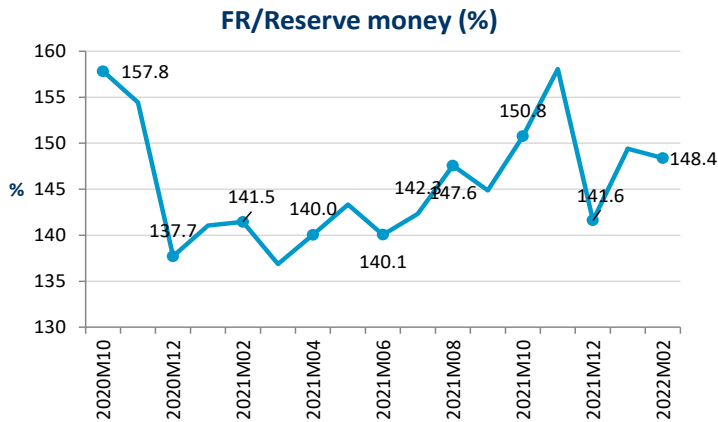
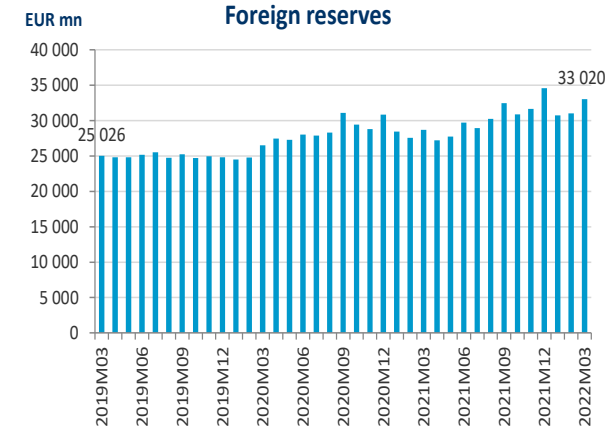
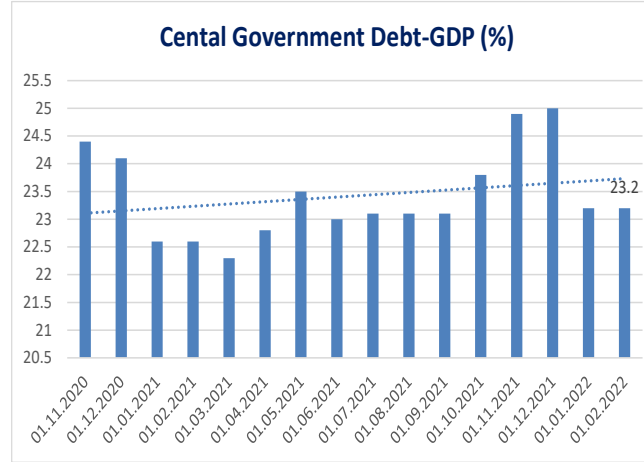
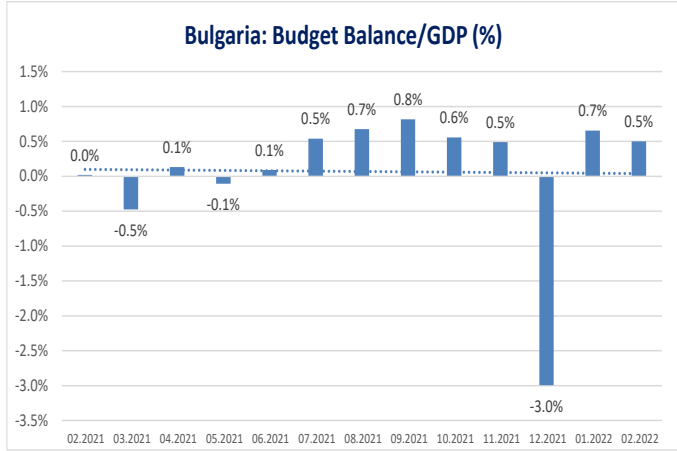
BULGARIA: Real GDP Growth (%)	2021	2022	2023	2024
KBC /UBB (April 2022)	4.5	2.5	3	3.5
World Bank (April 2021)	4.2	2.6	4.3	3.7
EC (February 2022)	4	3.7	3.9	n.a.
OECD (December 2021)	3.2	4.2	4.5	n.a.
IMF (February 2022)	4.5	4.4	4	3.6
MF (April 2022)	4.2	2.6	2.8	3.6
BNB (April 2022)	4.2	2.1	3.9	3.7
UniCreditBulbank (March 2021)	4.2	1.4	3.5	n.a.

BULGARIA: Harmonised CPI (%)	2021	2022	2023	2024
KBC /UBB (April 2022)	2.8	11.1	5.3	3
World Bank (April 2021)	3.3	9.3	3.4	2
EC (February 2022)	2.8	6.3	3.9	n.a.
OECD (December 2021)	3.0	4.8	2.3	n.a.
IMF (February 2022)	2.1	1.9	1.9	2
MF (April 2022)	2.8	10.4	5.1	2.7
BNB (April 2022)	6.6	9.6	3.9	3.1
UniCreditBulbank (March 2021)	3.3	12.1	4.3	n.a.

Bulgarian current account is negative for 2021 at -0.4% of GDP. Rising import prices and declining exports due to deteriorating competitiveness decrease the current account of the balance of payments. Geopolitical tensions have already led to a decline in tourists in Bulgaria. The recovery of this important sector is in danger. **Our current forecast for the current account is negative -2% of GDP for 2022 and -1.5% for 2023.**



Bulgaria: Currency board indicators are stable.



For contacts:
Petar Ignatiev, Chief Analyst,
e-mail: Petar.Ignatiev@ubb.bg, tel.: +359 2811 2982

Disclaimer: This document is for information only. The analyzed digital information is provided by reliable institutional sources such as KBC, NSI, MF, BNB, OECD, ECB, EC, IMF, WB, EBRD, EMIS Internet Securities-Bulgaria, CEIC Internet Securities-Bulgaria, EMD Holdings LLC. United Bulgarian Bank (UBB) officially accepts the accuracy and completeness of the data produced by them. Nor is the extent to which the hypotheses, risks and projections in this material reflect market expectations or their real chances can be guaranteed. Estimates are indicative. The data in this publication are of a general nature and is for information purposes only. This publication should not be used as a recommendation or offer for the purchase or sale of any financial instruments and securities and does not constitute an offer or prospectus within the meaning of the Public Offering of Securities Act, the Markets in Financial Instruments Act or other similar regulatory acts, including foreign ones. UBB and KBC are not responsible for the accuracy and completeness of this information. More information on topics could be obtained upon request.