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

Chief Economist Department

- **The war in Ukraine continues to be an important driver of the economic outlook and a major source of uncertainty.** Our base scenario assumes that the war will last for several more months, with the sustained negative supply shock from higher energy (and commodity) prices and sanctions remaining in place. While growth dynamics will slow below potential as inflation increases significantly and monetary policy tightens, this does not (yet) imply stagflationary dynamics. However, while we consider this **base scenario** the most likely, there are important risks surrounding it. A near-term sustainable ceasefire would somewhat ease the inflationary pressure from higher energy prices, though we view such an **optimistic scenario** as low(er) in probability. The higher-probability and more **pessimistic scenario** involves an escalation of the war that would trigger even more severe sanctions, likely leading to an unprecedented energy shock and stagflation.
- **Though energy prices have eased somewhat from the March highs, the situation remains extremely volatile and tight.** Inflation has become the overarching determinant of the global economic outlook of late, as March inflation figures in both the euro area and US continued to soar to new highs.
- **The supply-side disruptions that weighed on the recovery throughout 2021 appear to be giving rise to negative demand side headwinds.** These supply-side disruptions – namely higher commodity prices, higher shipping costs, and key input shortages – are reflected in surging inflation and are now exacerbated by the war in Ukraine. As a result, consumer confidence indicators in the euro area have deteriorated, suggesting weaker private consumption in the coming quarters.
- **Home market growth dynamics follow the trend seen in the euro area, with consumer confidence tumbling in March.** The war in Ukraine, sharply higher inflation, and further supply-side disruptions are behind the deterioration in sentiment. Despite the significant slowdown of growth, we do expect growth to remain in positive territory throughout the year on the back of other factors such as the easing of Covid containment measures.

## 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. **We expect a new slowdown in growth and acceleration of inflation due to the terminated gas supply contract with Gazprom.** The draft of new sanctions against oil imports from Russia also increases the risk for the Bulgarian economy. Our expectations are further slowdown of the growth 1.5% for 2022 and 2.6% for 2023. We expect moderate increase of unemployment of 6.5% for this year and 5.3% for the next year.

Bulgaria	Optimistic scenario					Base scenario					Pessimistic scenario				
	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024
<b>May 09, 2022</b>															
Real GDP growth (in %)	-4.3	4.5	3.5	4.1	3	-4.3	4.5	1.5	2.6	3.5	-4.3	4.5	-1	1.2	2
Inflation (in %, harmonised CPI, average )	1.2	2.8	9	4.8	3	1.2	2.8	12.5	6.5	3	1.2	2.8	15.5	9.1	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	5.3	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	-0.5	1	0.4	-0.4	-2.9	-1.9	-0.5	-0.4	-2	-3.5	-2	-1.5
House prices (annual %-change, existing and new dwellings, Eurostat def.)	5.4	8.7	9	6	4	5.4	8.7	8	5	3.5	5.4	8.7	5.5	4.0	0.0

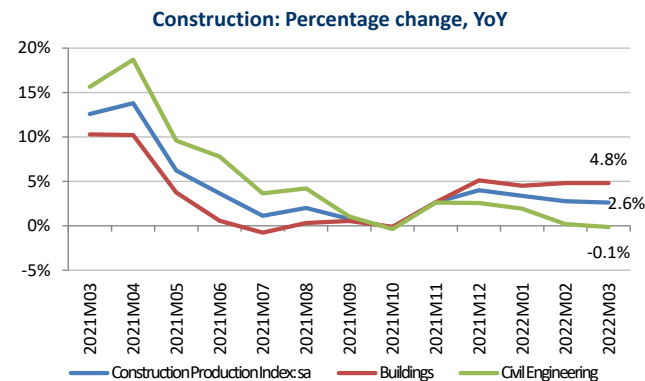
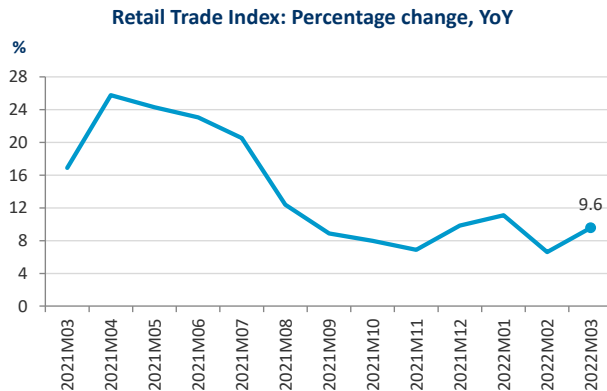
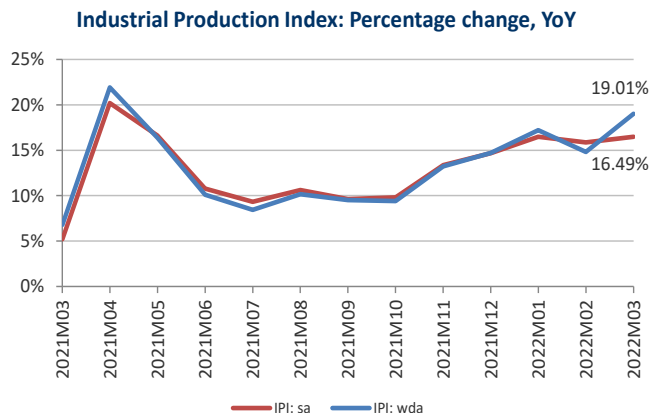
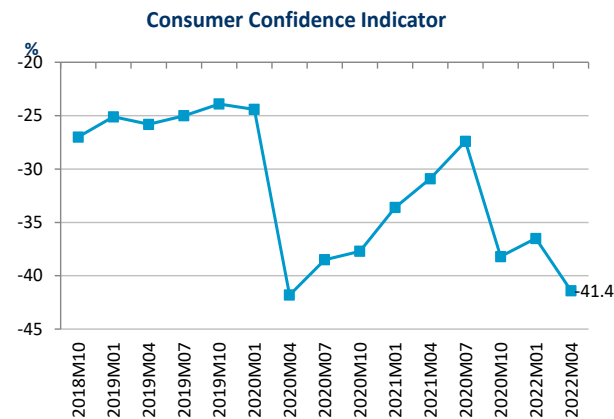
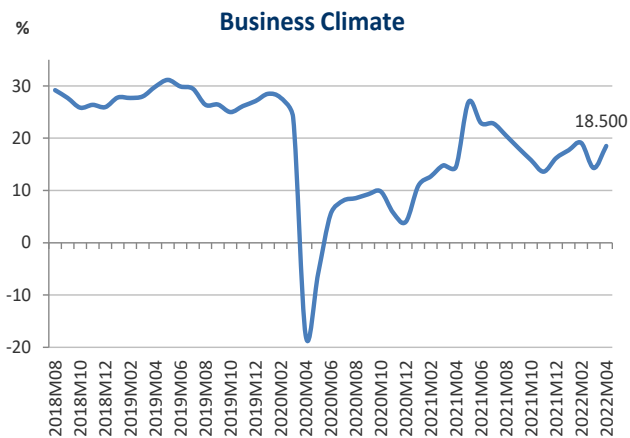
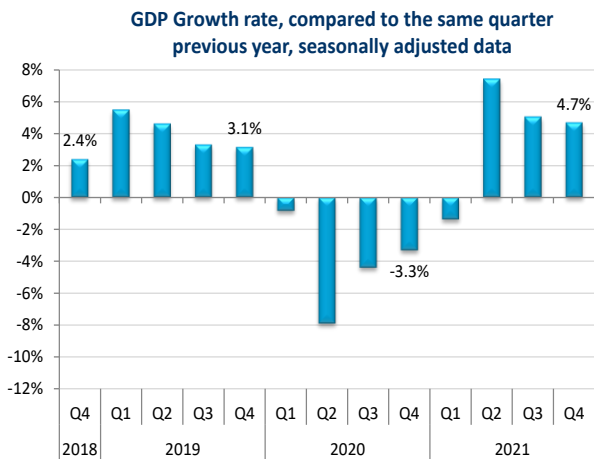
Source: KBC, UBB

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

BULGARIA: Harmonised CPI (%)	2022	2023	2024
KBC /UBB (April 2022)	11.1	5.3	3
World Bank (April 2021)	9.3	3.4	2
EC (February 2022)	6.3	3.9	n.a.
OECD (December 2021)	4.8	2.3	n.a.
IMF (April 2022)	11	3.3	2
MF (April 2022)	10.4	5.1	2.7
BNB (April 2022)	9.6	3.9	3.1
UniCreditBulbank (March 2021)	12.1	4.3	n.a.

# Bulgaria: GDP Growth and Main Frequency Indicators

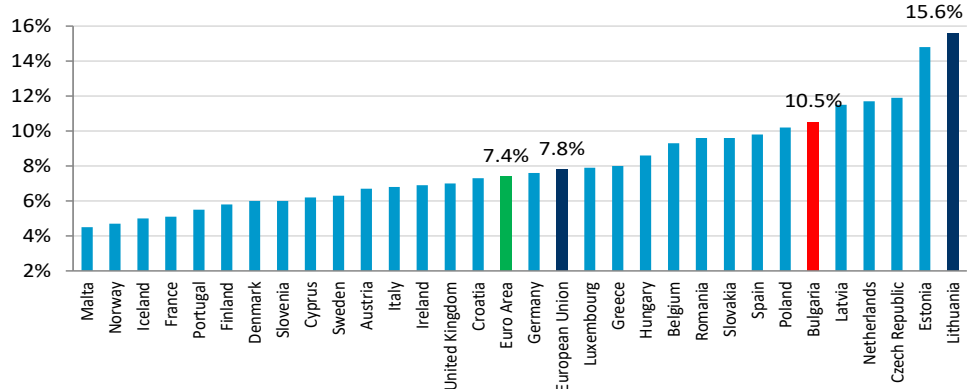
The Bulgarian economy advanced 4.7% year-on-year in the fourth quarter of 2021. The most of high frequency indicators are decreasing in February. Consumer confidence indicator significantly decreased at the end of April.



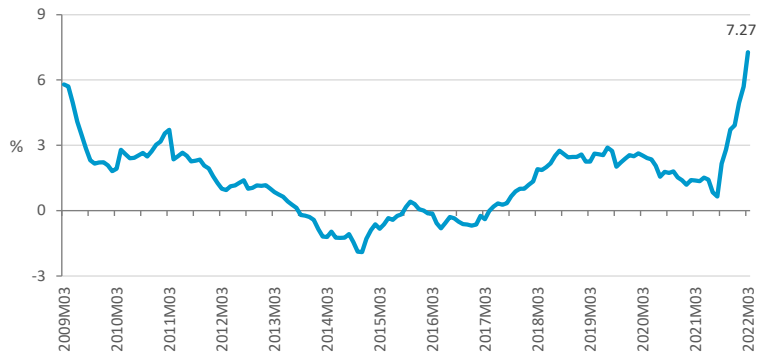
# Bulgaria: Inflation

Our new forecast is substantial increase of average annual inflation of 12.5% for 2022 and 6.5% for 2023. We suppose that we will see double-digit inflation rates throughout the year. The core inflation is significantly lower than the overall inflation (7.3% vs 10.5% in 03.2022). 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 36% yoy is evidence for this process.

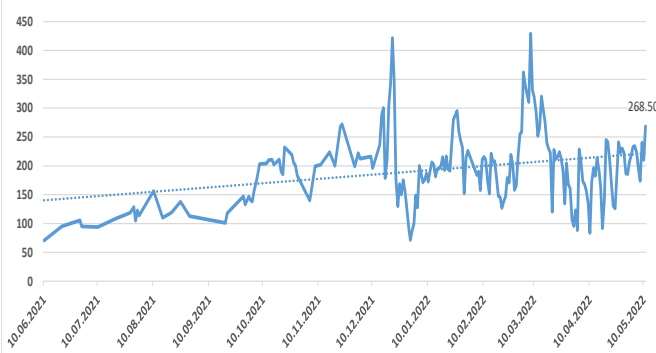
EU: HCPI Inflation (% y/y) by country - March 2022



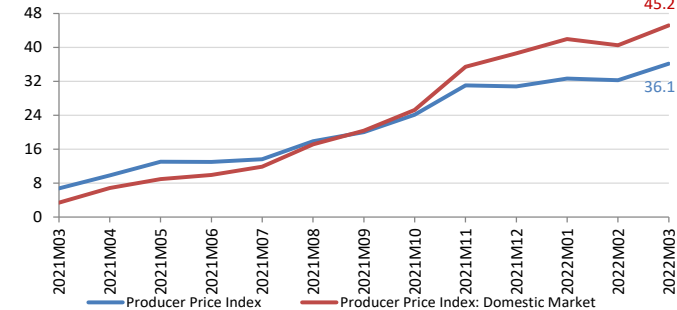
Core Inflation, Percentage change, YoY



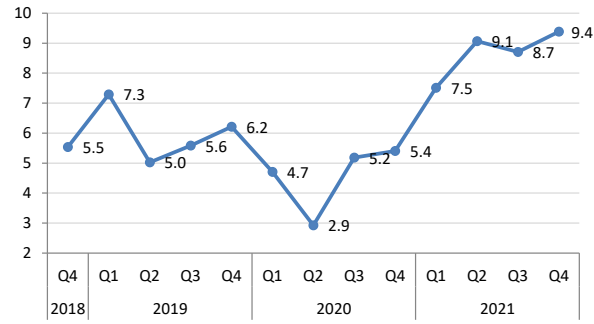
Bulgaria: Electricity Prices "Day Ahead" in EUR/MWh



Producer Price Index and PPI on Domestic market, % change on annual base



House Price Index (HPI), % change YoY



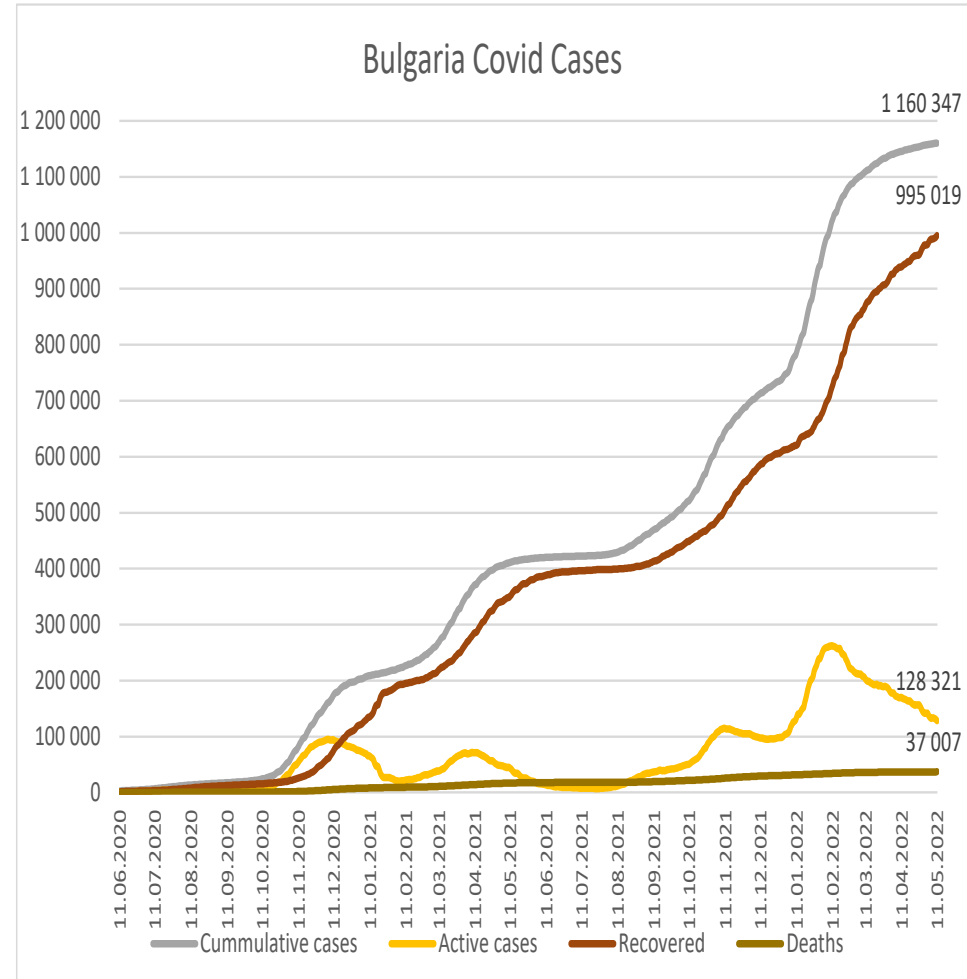
# COVID-19 Status

**In mid-February, the Covid's fifth wave began to pass.**

The active cases are 128 321 on May 11, 2022 - by 134 031 less than in the active cases of three months ago. Mortality has also slowed down 37 007 on May 11, 2022.

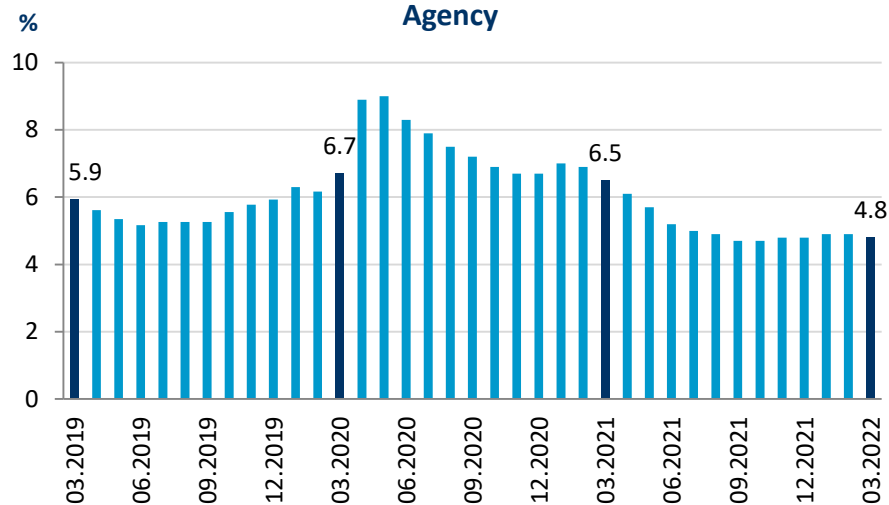
**The vaccination process has slowed down.** Pfizer, Moderna and Jansen vaccines are used. The fully vaccinated as of May 11, 2022 are 30% of population and 11% are with buster. The part of Bulgarian population is skeptical about vaccines.

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

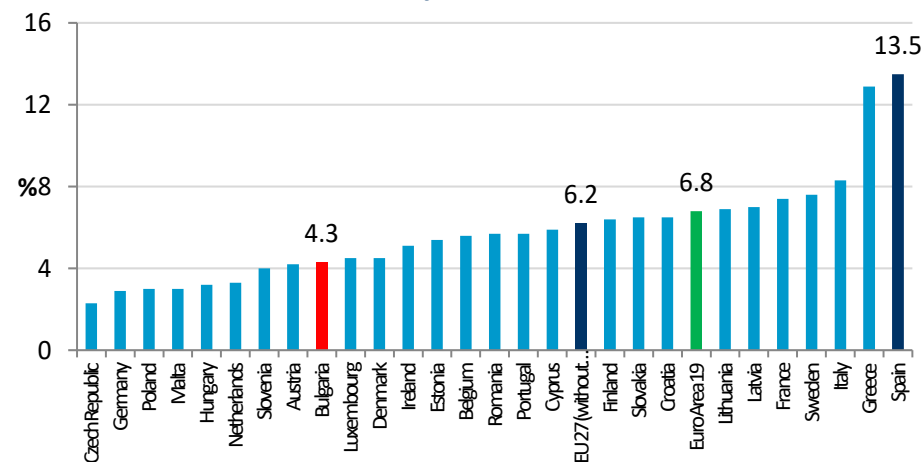


According to Agency of employment in March 2022 the rate of registered unemployment is 4.8%, hitting another all time record low. In March 2022 the harmonized unemployment rate in Bulgaria is 4.3% and is well below the average of EU. We expect moderate increase of unemployment of 6.5% for this year and 5.3% for the next year.

**Unemployment Rate Bulgaria: National Employment Agency**



**EU: Unemployment rate seasonally adjusted by country, March 2022**



**Note:**

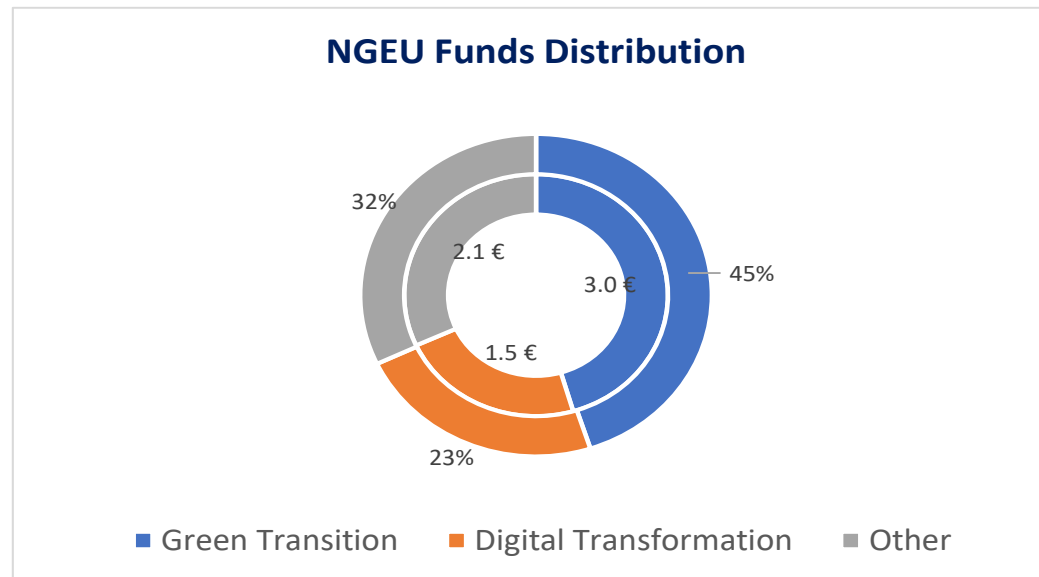
According to the definition of the NSI, unemployed are persons aged 15 - 74 years who: 1) do not have a job during the observed period; 2) actively looking for work for a period of four weeks, incl. observed week, or have already found a job that they expect to start within three months after the end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

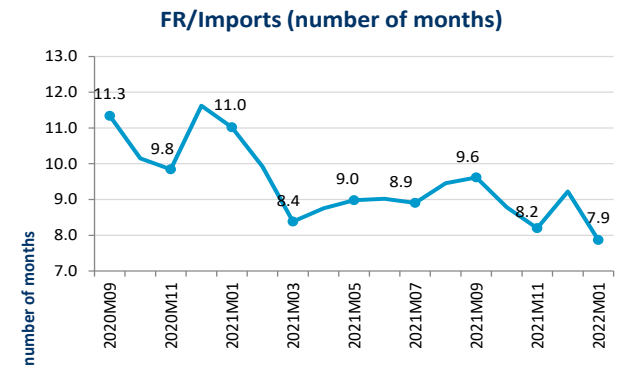
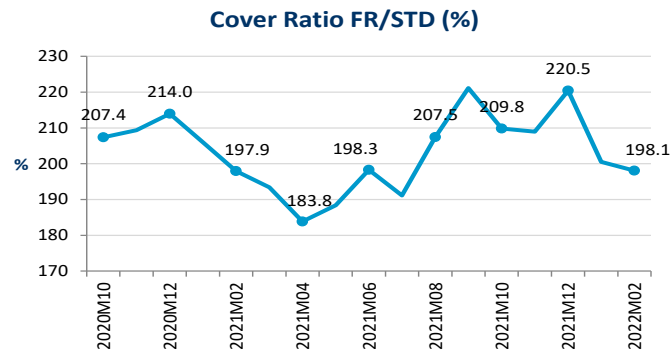
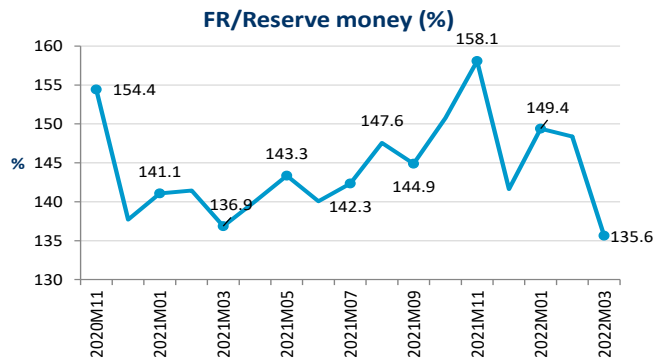
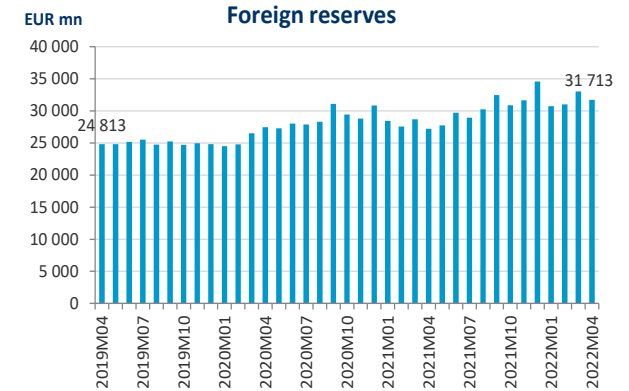
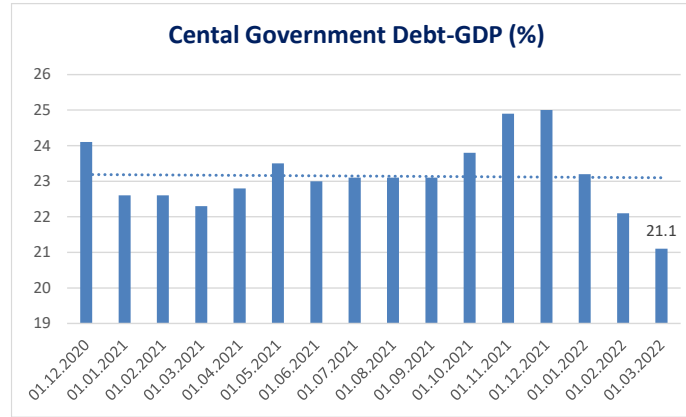
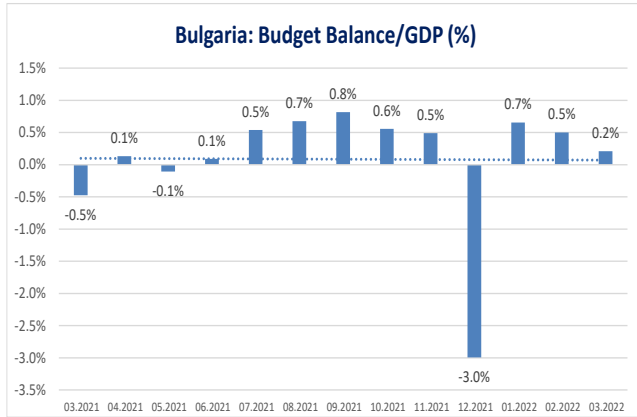
# Bulgaria: National Recovery and Resilience Plan.

- National Recovery and Resilience Plan (NGEU):** The total amount of the NGEU funds is 6.6 billion EUR, all of them grants. This is 10% of GDP. Bulgaria and Croatia are the countries with biggest share of NGEU funds and both countries are ERM 2 members and want sooner euro entry. The Green Transition share of NGEU Funds is 45% (3.0 billion EUR), 23% (1.5 billion EUR) of the funds are for Digital transformation and 32% (2.1 billion EUR) are the Others. The latest version of the National Recovery and Resilience Plan was presented to the European Commission on 15 October. Due to the late presentation, Bulgaria did not receive an advance under the Plan for last year. For this year, the planned absorption is modest - only 12% of the total amount. The biggest share are for the next three years. The first amounts are expected in mid-summer.
- At April 7 2022 the Head of European Commission Ursula von der Leyen personally handed the Prime Minister Kiril Petkov the approval of the European Commission for National Recovery and Resilience Plan, which will be voted on by the EU Council within 4 weeks.** Von der Layen called Bulgaria's plan "exceptional" and said it was "one of the greenest with the EU", comparing it to a total of 23 plans under consideration so far. The Prime Minister emphasized the fact that the money will provide us with full energy independence while maintaining the full capacity of the Marica basin power plants, but also full compliance with the **Green Pact**.





# Bulgaria: Currency board indicators are stable.



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