
United Bulgarian Bank
Bulgaria: Macroeconomic Update
June 2022

Chief Economist Department

Bulgaria – Outlook 2021 - 2024

We expect a slowdown in growth and acceleration of inflation due to the rising commodity prices and uncertainty in Europe due to the war in Ukraine. The political instability also increases the risk for the Bulgarian economy. Our expectations are slowdown of the growth of 1.5% for 2022 and 2.6% for 2023. Mistake base red numbers, old numbers are the bund.

Bulgaria	Optimistic scenario					Base scenario					Pessimistic scenario				
June 21, 2022	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024
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
Long-term interest rate, 10Y Government Bond Yield	0.4	0.70	3.25	3.55	3.55	0.4	0.70	3.20	3.70	3.70	0.4	0.70	2.30	2.20	2.10
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 (May 2022)	1.5	2.6	3.5
World Bank (April 2021)	2.6	4.3	3.7
EC (May 2022)	2.1	3.1	n.a.
OECD (June 2021)	2.5	2.3	n.a.
IMF (June 2022)	2.8	4.0	4.1
MF (April 2022)	2.6	2.8	3.6
BNB (April 2022)	2.1	3.9	3.7
UniCreditBulbank (June 2021)	2.7	2.0	n.a.

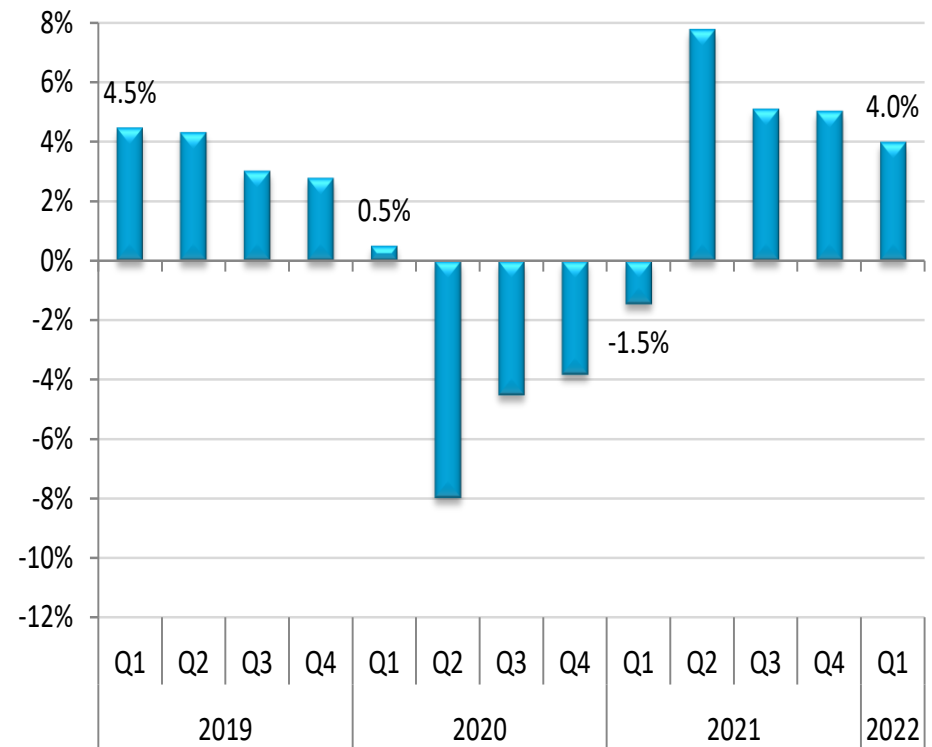
BULGARIA: Harmonised CPI (%)	2022	2023	2024
KBC /UBB (May 2022)	12.5	6.5	3
World Bank (April 2021)	9.3	3.4	2
EC (May 2022)	11.9	5.0	n.a.
OECD (June 2021)	14.1	8.5	n.a.
IMF (June 2022)	12.2	4.1	1.8
MF (April 2022)	10.4	5.1	2.7
BNB (April 2022)	9.6	3.9	3.1
UniCreditBulbank (June 2021)	13.7	7.8	n.a.

Bulgaria – GDP growth

The Bulgarian economy increased by 4.0% year-on-year in the first quarter of 2022, slowing from a revised 5% expansion in the previous quarter, preliminary data showed. Growth in final consumption eased (5.2% vs 7.2% in Q4) while gross fixed capital formation continued to decline (-5.6% vs -15.6%). Exports rose 6.5% year-on-year while imports surged by a faster 13.5%. On a quarterly basis, Bulgaria's GDP rose 0.8%, slowing from a 1.3% growth in the last quarter of 2021.

The growth outlook in Bulgaria is affected negatively by the Russian gas cut-off and subsequently negative impact on consumer and business sentiment, leading to a slowdown of growth to 1.5% in 2022, 2.6% in 2023 and 3.5% in 2024.

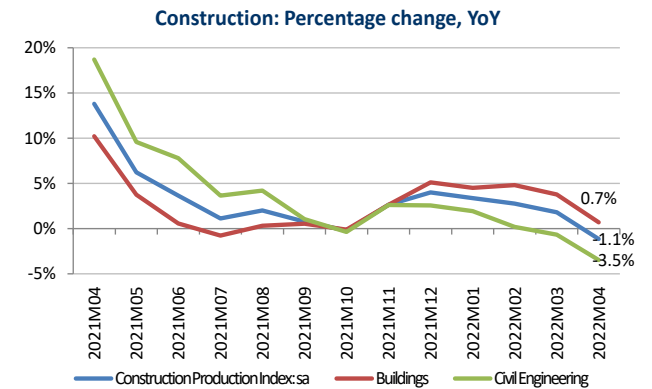
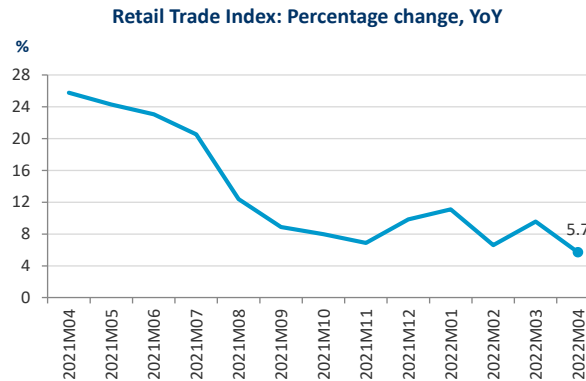
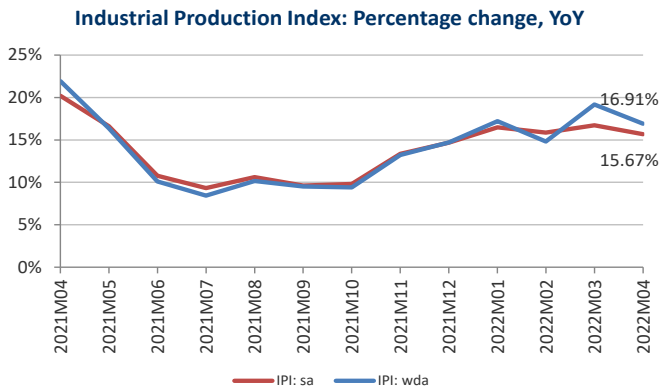
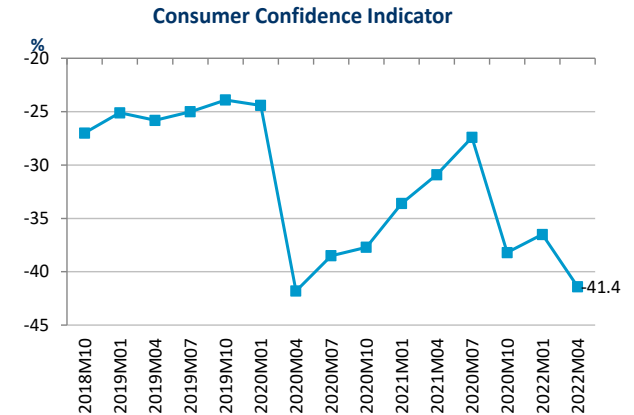
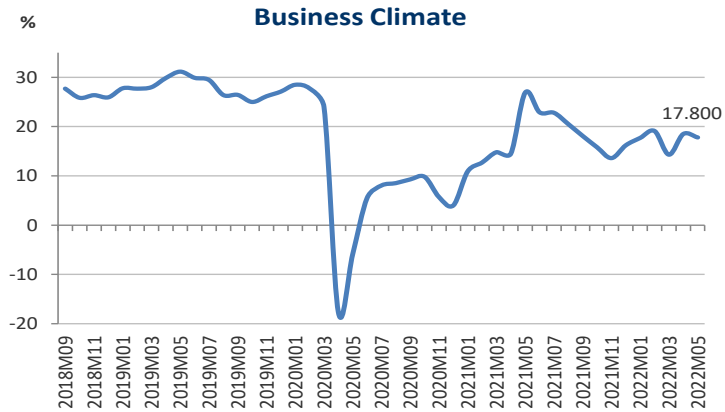
GDP Growth rate, compared to the same quarter previous year, seasonally adjusted data



Source: NSI

Bulgaria: Main Frequency Indicators

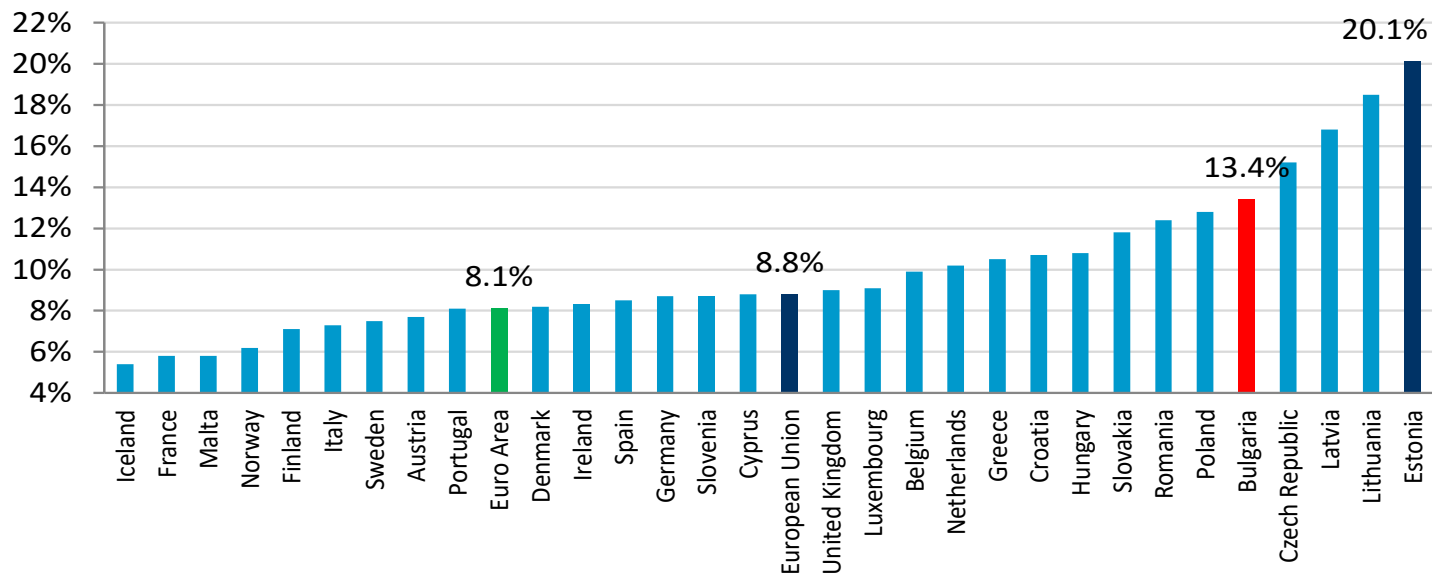
The high frequency indicators are decreasing in April. Business climate indicator decreased at the end of May. **Consumer confidence indicator significantly decreased at the end of April.**



Bulgaria – Inflation (1)

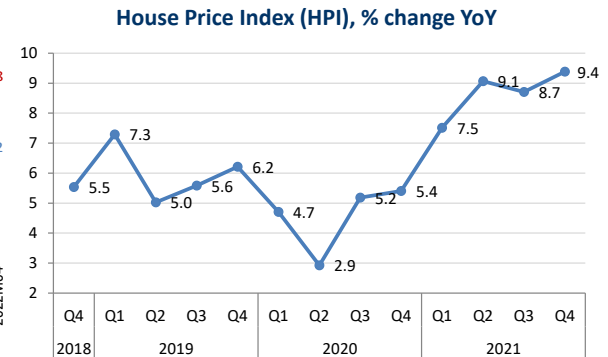
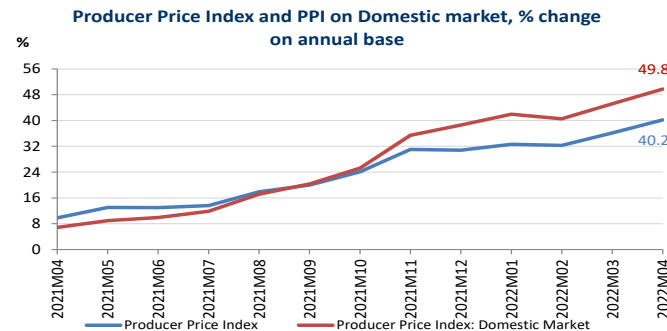
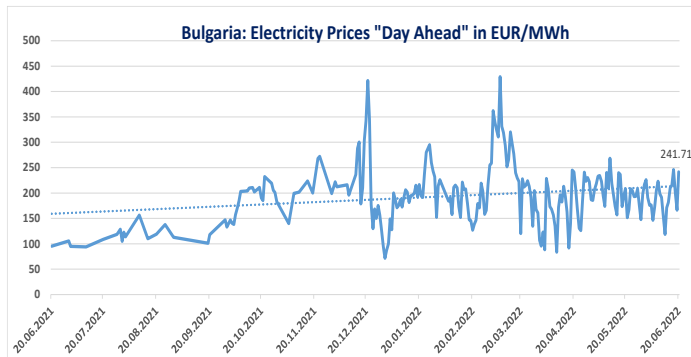
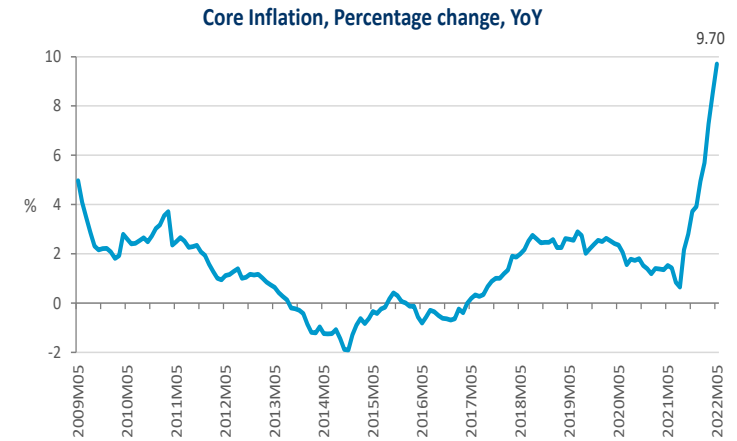
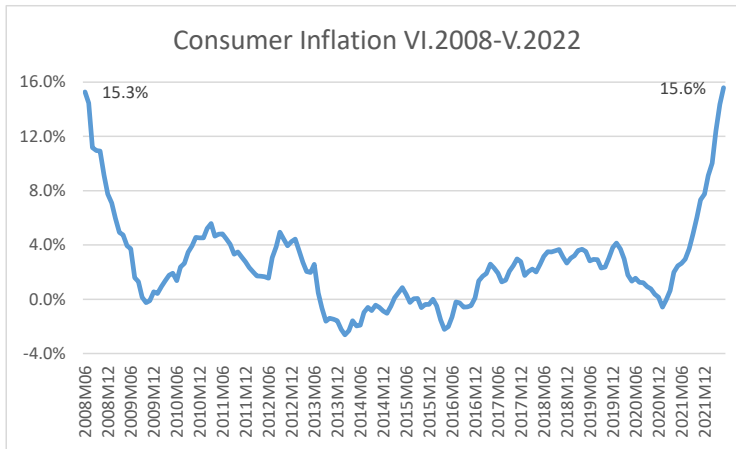
Inflation on in May increased to 13.4% yoy HICP and 15.6% CPI. **Our current forecast is substantial increase of average annual inflation of 12.5% HICP for 2022 and 6.5% for 2023.** We suppose that we will see double-digit inflation rates throughout the year. Our forecast for the inflation at end of 2022 year-on-year is 13.5% CPI and 12.5% HICP.

EU: HCPI Inflation (% , y/y) by country May 2022



Bulgaria: Inflation (2).

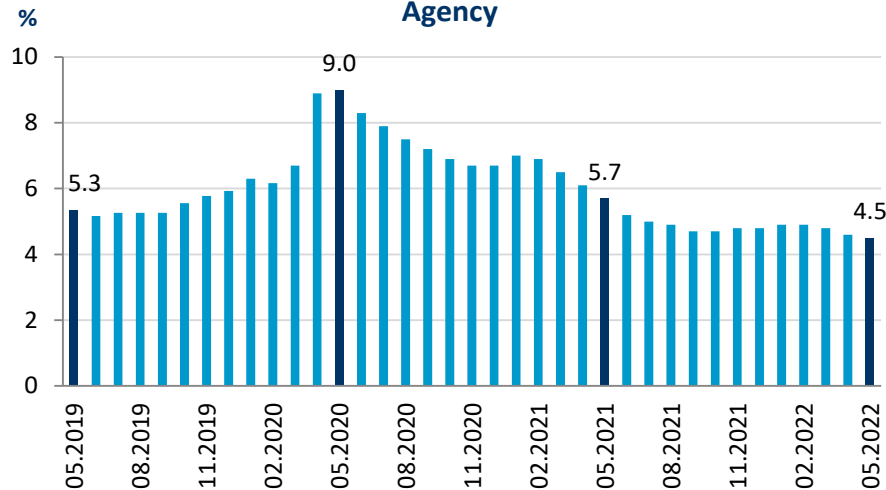
Both Bulgarian CPI and harmonized inflation has the highest record since July 2008. The core inflation is lower than the overall inflation (9.7% vs 13.6% in 05.2022). This reflects the impact of high commodity prices and especially energy prices. The big increase in the Producers Price Index 40% yoy is also evidence for this process. Low interest rates on bank deposits has led to increase in demand for housing and house prices.



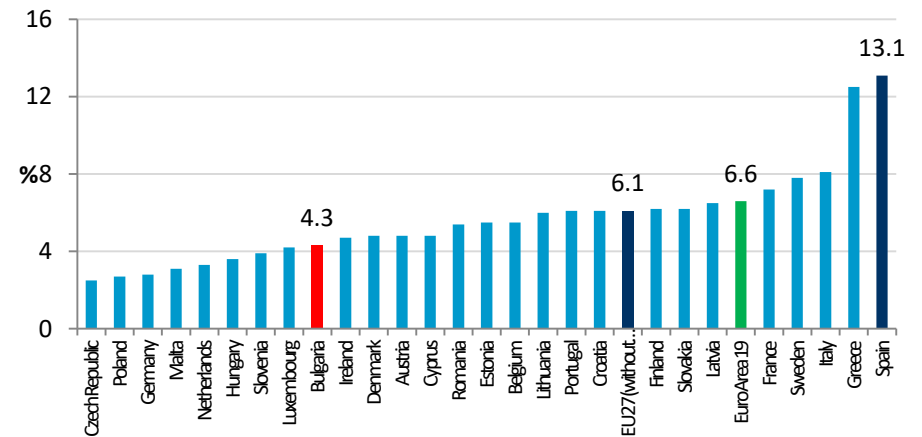
Bulgaria: Labor market

According to Agency of employment in May 2022 the rate of registered unemployment is 4.5%, hitting another all time record low. In May 2022 the harmonized unemployment rate in Bulgaria is 4.0% 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, May 2022



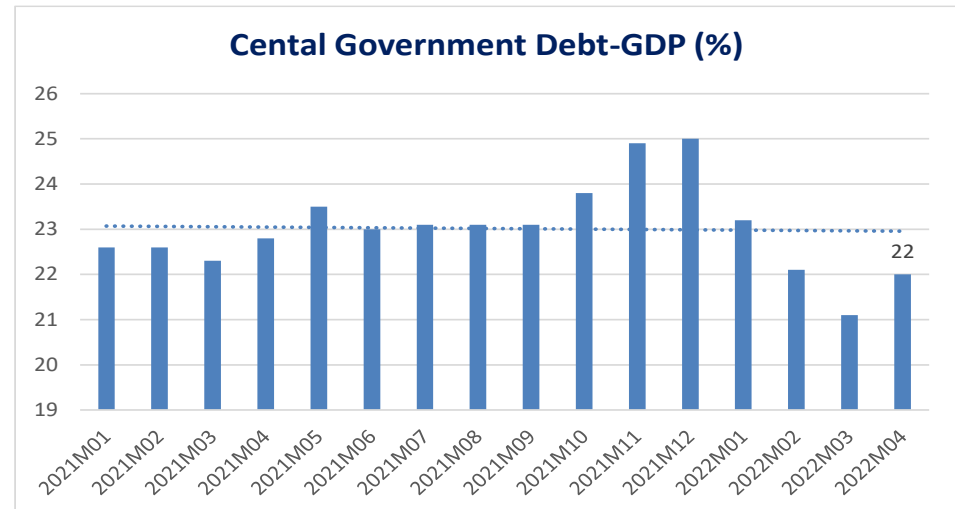
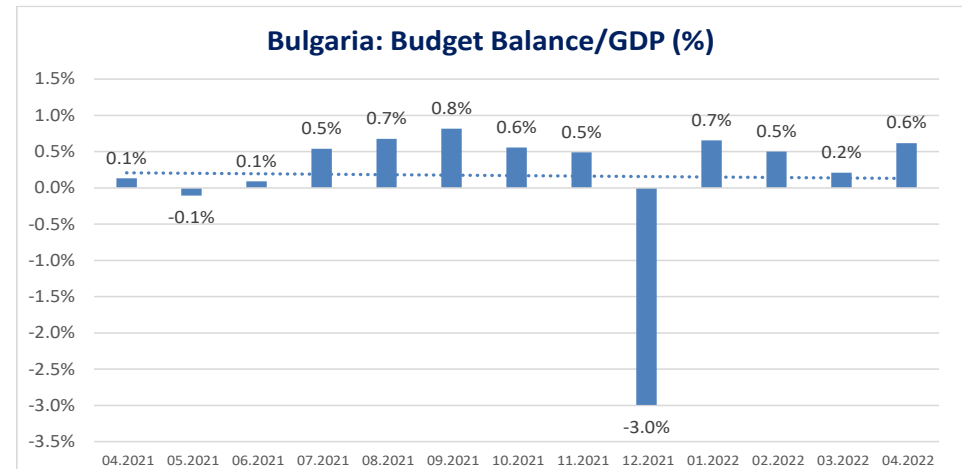
Note:

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.

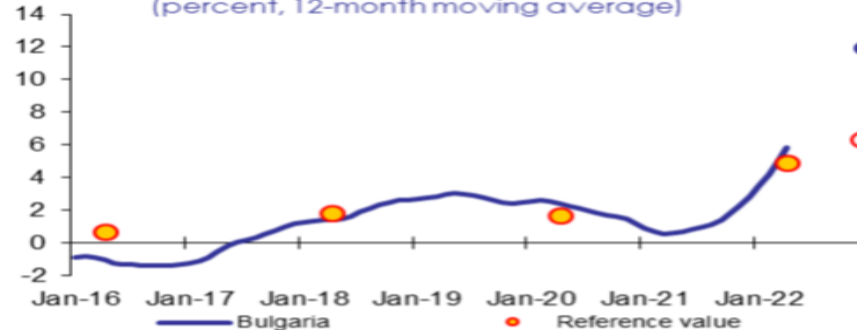
A Bill amending and supplementing the 2022 Law on the State Budget has been voted on the second reading in the parliament. The Bill provides for an urgent package of anti-crisis measures aimed at reducing the increasing inflationary pressures on the most affected groups of society and business. These measures mainly consist of *tax reductions and social payments, incl. a significant increase in pensions*. The net effect of an increase in budget expenditure is substantial. They are expected to be covered by higher government revenues. The factors for this increase are mainly the higher than initially planned tax receipts **and the expected higher revenues in the part of EU fund accounts, particularly from the Recovery and Resilience Plan**. BNB said, that in view of the goals of controlling inflation, **it is very important that the country does not bear significant additional fixed costs, against which there are no permanent revenues**. Otherwise there would be a the need for painful fiscal adjustments in the near future, whether or not this is in terms of revenue, **i.e. by increasing taxes and/or by cutting costs**.



European Commission and ECB Convergence Report 2022 Summary (1/2)

- **HICP inflation (12-months average of yearly rates):** The average inflation rate in Bulgaria during the 12 months to April 2022 was 5.9%, above the reference value of 4.9%. The Commission projects it to remain above the reference value in the months ahead. COMPLIANCE: **NO**.

Graph 2a: Bulgaria - Inflation criterion since 2016
(percent, 12-month moving average)



Note: The dots at the right end of the graph show the projected reference value and 12-month average inflation rate of the country in December 2022. The reference values for 2016, 2018 and 2020 refer to the reference values calculated in the previous Convergence Reports.

Source: Eurostat, Commission's Spring 2022 Economic Forecast.

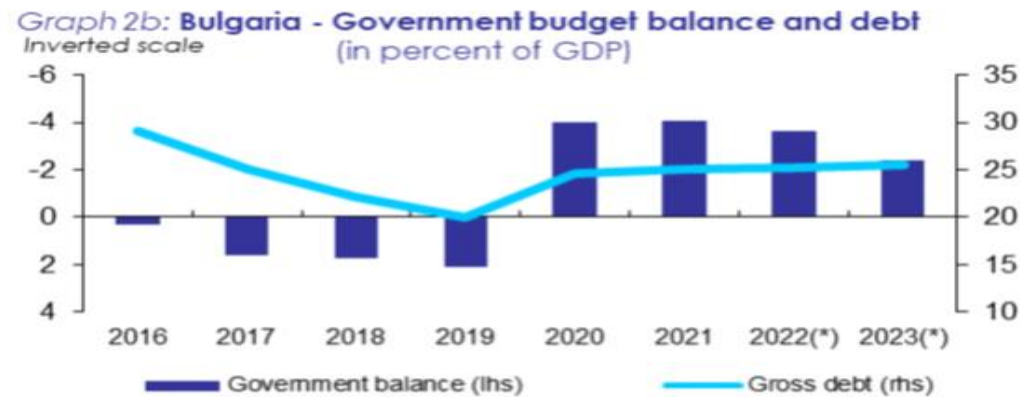
- **Compatibility of legislation.** Legislation in Bulgaria — in particular the Law on the Bulgarian National Bank — is not fully compatible with the compliance. COMPLIANCE: **NO**.
- **Long-term interest rates.** Bulgaria fulfils the criterion on the convergence of long-term interest rates. The average long-term interest rate in the year up to April 2022 was 0.5%, well below the reference value of 2.6%. Long-term interest rates in Bulgaria have been very low and fairly stable since the beginning of 2020 until the end of 2021, remaining within a band of 0.1-0.4%. COMPLIANCE: **YES**.

IMPORTANT REMARK: Article 140(1) of the Treaty on the Functioning of the European Union requires the European Commission and the European Central Bank (ECB) to report to the Council, at least once every 2 years, on the progress made by Member States in fulfilling their obligations on the achievement of economic and monetary union. The 2022 Convergence Report covers the following seven Member States with a derogation: Bulgaria, Czechia, Croatia, Hungary, Poland, Romania and Sweden.

European Commission and ECB Convergence Report

2022 Summary (2/2)

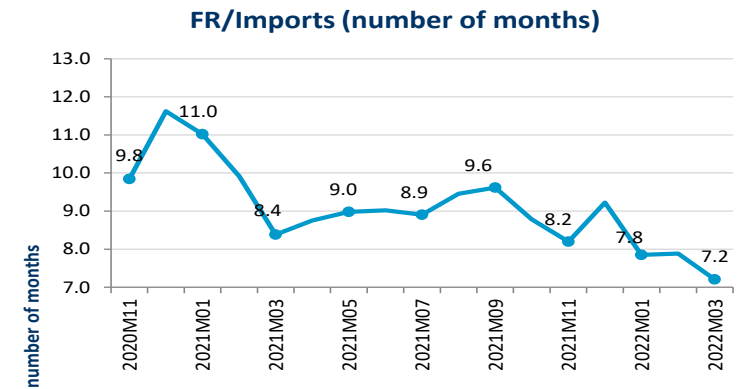
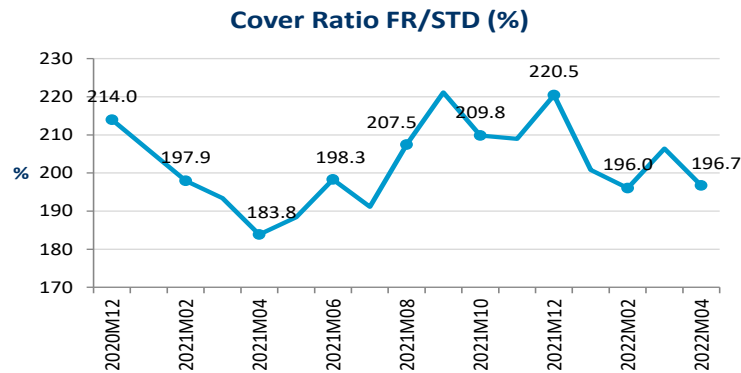
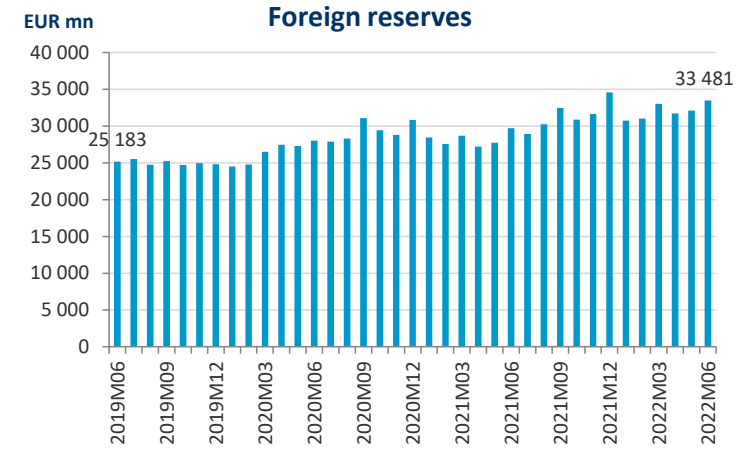
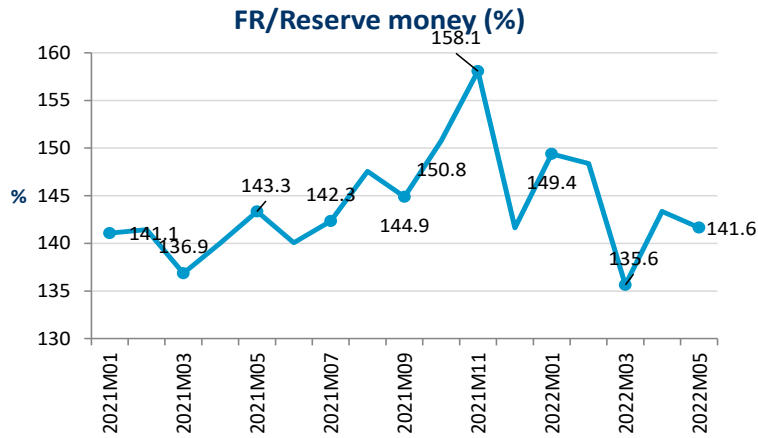
- **Public finance.** Bulgaria fulfils the criterion on public finances. Bulgaria is not the subject of a Council Decision on the existence of an excessive deficit. After a period of budget surpluses, the deficits are the result of the pandemic-induced shock and the measures taken by the Bulgarian government in response to it. The public debt-to-GDP ratio increased from just below 25% in 2020 to 25.1% in 2021, and is expected to remain broadly the same in 2022, before increasing slowly towards 26% in 2023. Bulgaria has developed a strong fiscal framework in recent years, and now has a better track record in compliance. COMPLIANCE: **YES**.



(*) Commission's Spring 2022 Economic Forecast.
Source: Eurostat, Commission's Spring 2022 Economic Forecast.

- **Exchange rate stability.** Bulgaria fulfils the exchange rate criterion. In line with its currency board arrangement, the exchange rate of the Bulgarian lev against the euro has been stable since the previous Convergence Report. By the time of a possible Council Decision in July 2022, the lev will have participated in ERM II for 24 months. COMPLIANCE: **YES**.

Bulgaria: Currency board indicators are stable.



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