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# Bulgaria: Macroeconomic Update

## October 2022

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# International Economic Environment

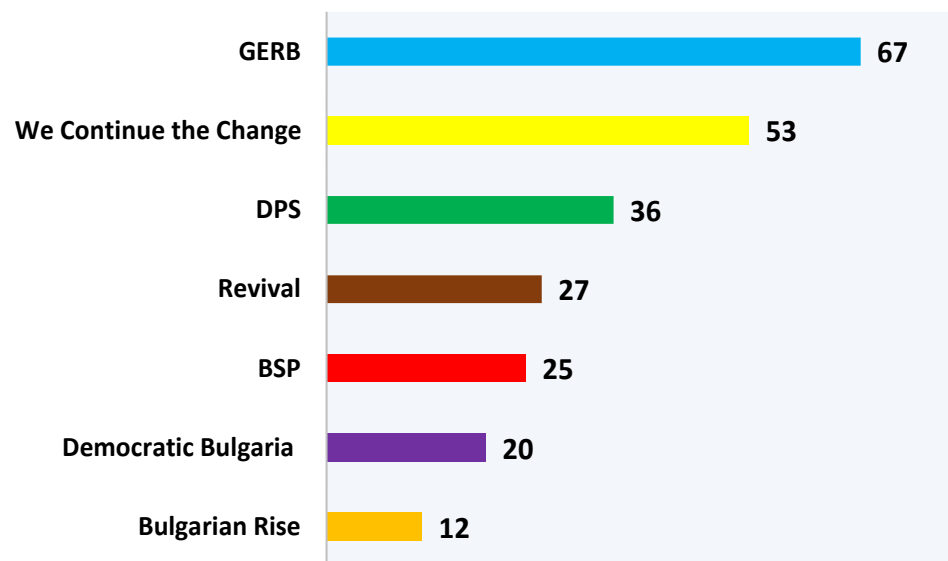
- Global economy is headed for a substantial **growth** slow-down in the coming quarters as headwinds are gaining strength. Especially European economies seem vulnerable.
- We expect several major economies as well as home markets to slip into (or already be in) short-lived and relatively mild technical recessions.
- KBC home markets, small open economies which are highly dependent on external growth, face similar growth challenges.
- **Inflation** remains stubbornly high in the euro area despite the nearing global growth slowdown and decreasing economic confidence. 10.7 yoy for October  
Persistent inflation dynamics force central banks to maintain a bold stance.
- The **ECB** has taken a major turn by raising its **policy rates** by 75 bp in September (+0.75 bp in October, now 2% refi rate, 1.5% dep rate) and we expect to reach 2.5% by end-2022 (2.25% dep rate).
- With central banks focused on excessive inflation, the **fiscal authorities** stand alone in absorbing the impact of the **energy crisis**.

# Bulgaria

## POLITICS

- Early parliamentary elections October, 2
- Difficult election of the speaker of the parliament
- Formation of new regular government? *Yes* 43.1%, *No* 52.1%, by Alfa Research, Oct. 25
- A period of political instability is considered (similar to 2021)
- Critical point: corruption
- generally a positional war about the political model of governance - based on corruption or recognizing the rule of law;
- political timelessness in the most inappropriate global political moment

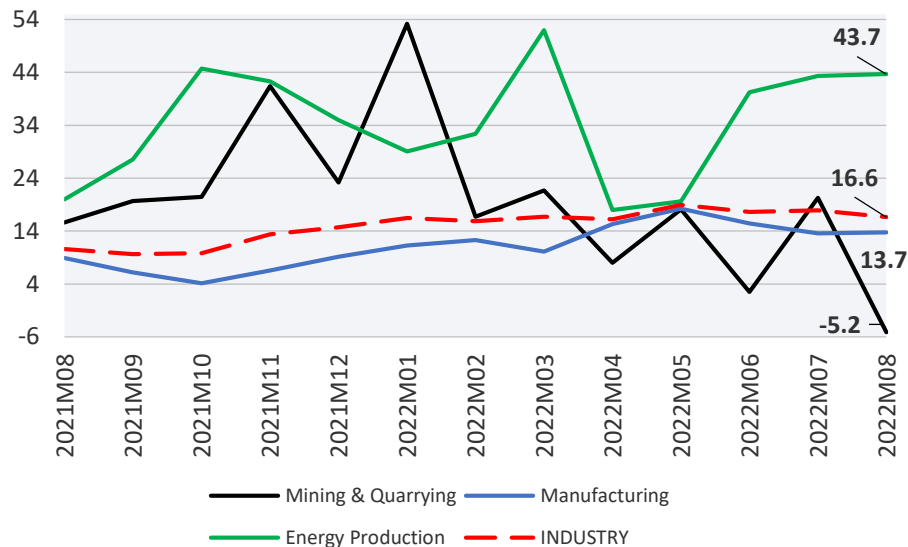
## Parliamentary Elections October 2022 - Seats in Parliament



48<sup>th</sup> parliament even more fragmented (7 parties vs. 6 in the 47<sup>th</sup>)

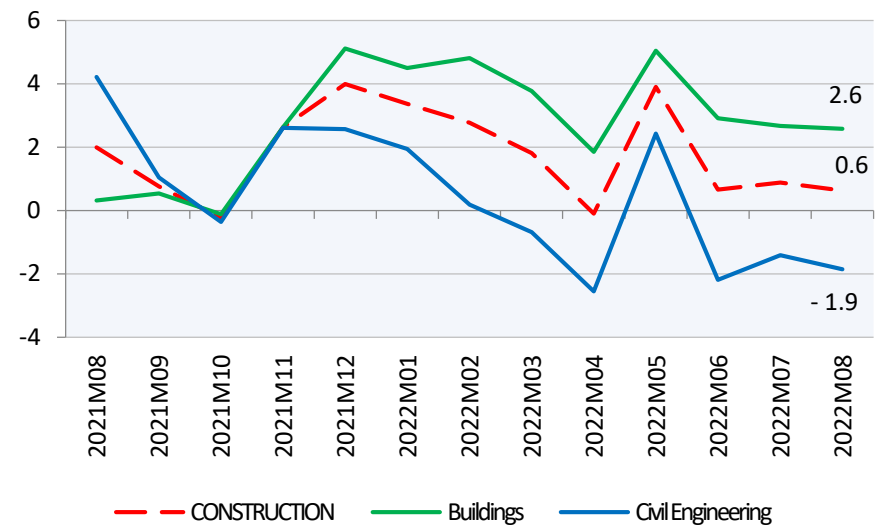
# Real Economy – High Frequency Indicators

## Industry by Components (% , yoy, real)



As of August, slightly increasing yoy dynamics of industry remaining on a quite high level (red dotted line, 16.6%); very high energy production upsurge (green line, 43.7), strong manufacturing rise (blue line, 13.7) and moderately declining mining&quarrying output (black, -5.2)

## Construction by Components (% , yoy, real)

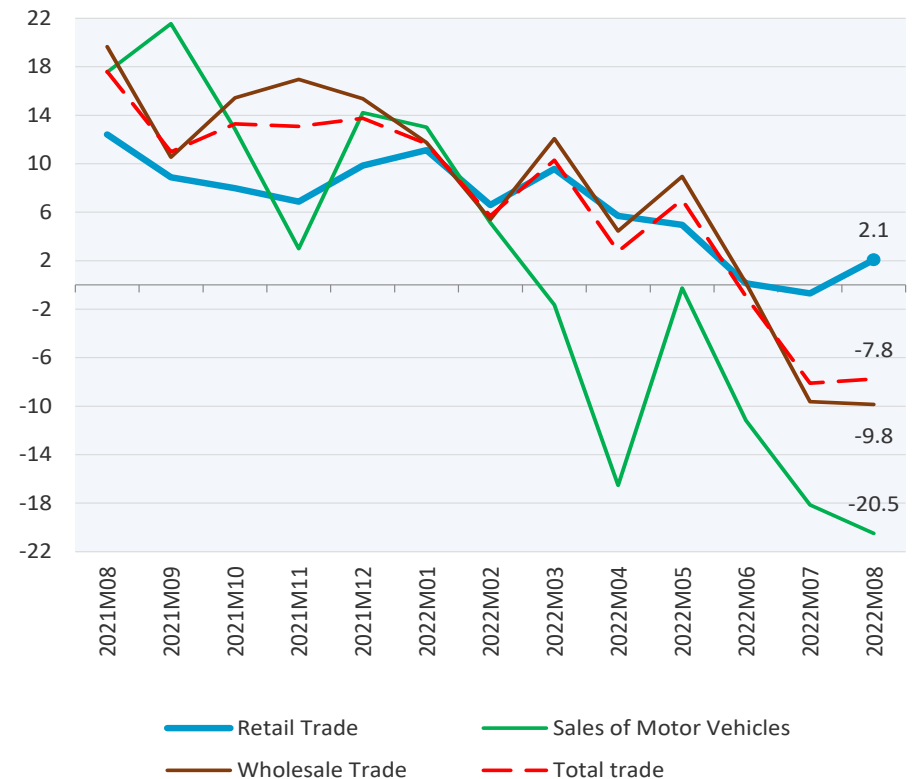


As of August, insignificantly increasing yoy dynamics of construction remaining on a low level (dotted red line, 0.6%); moderate upswing of buildings' and moderate decline in civil construction, 2.6%, -1.9%.

# Real Economy – High Frequency Indicators (1)

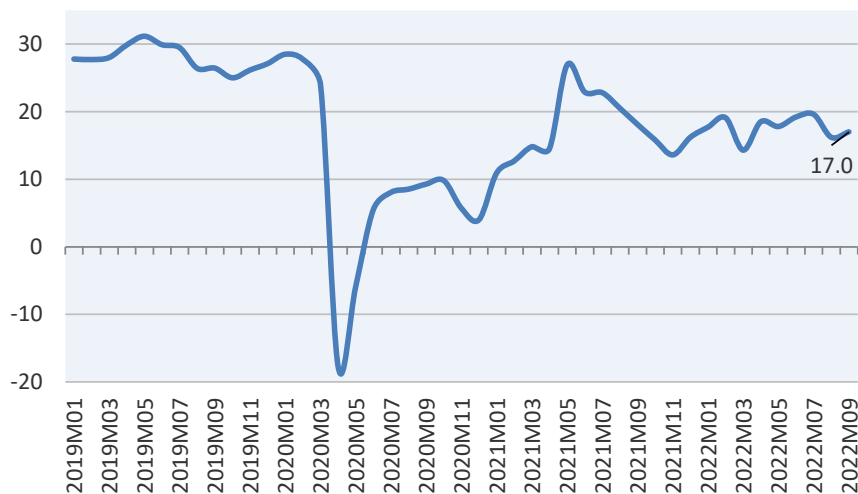
- Despite slight yoy growth in retail trade by 2.1% in August, the trend is still downward, signaling weakening in the demand (blue)
- Sales of motor vehicles strengthen this conclusion (-20.5% green)
- Wholesale trade is a predicting indicator for the short term development in the retail trade (-9.8, dark line)
- Driving factor: inflation
- All in all, slowing turnover indicates an impending lower economic activity

Trade by Components (% , yoy, real)



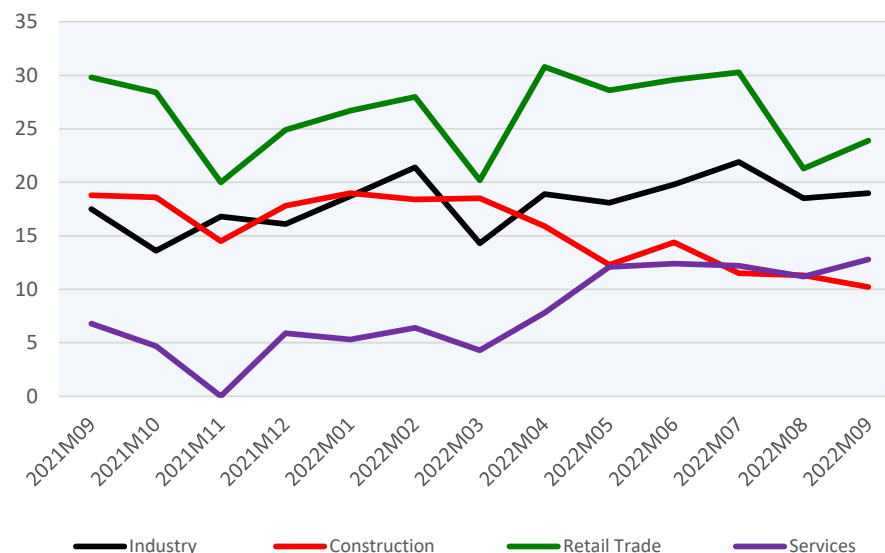
# What do Managers Expect in Short Term?

## Business Climate Index



**As of September, slightly increasing dynamics of the Business Climate Index remaining on a moderate level**

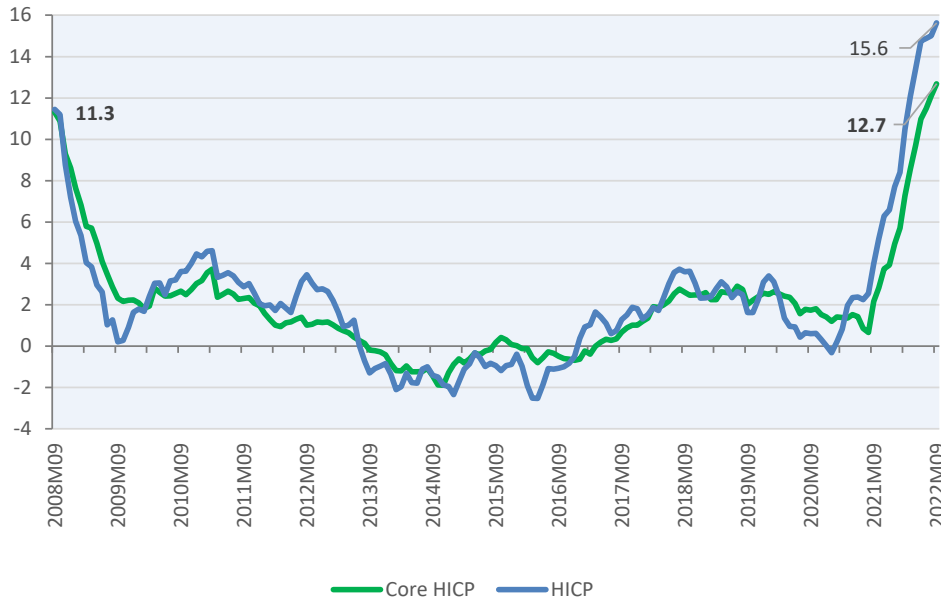
## Business Climate Index by Components



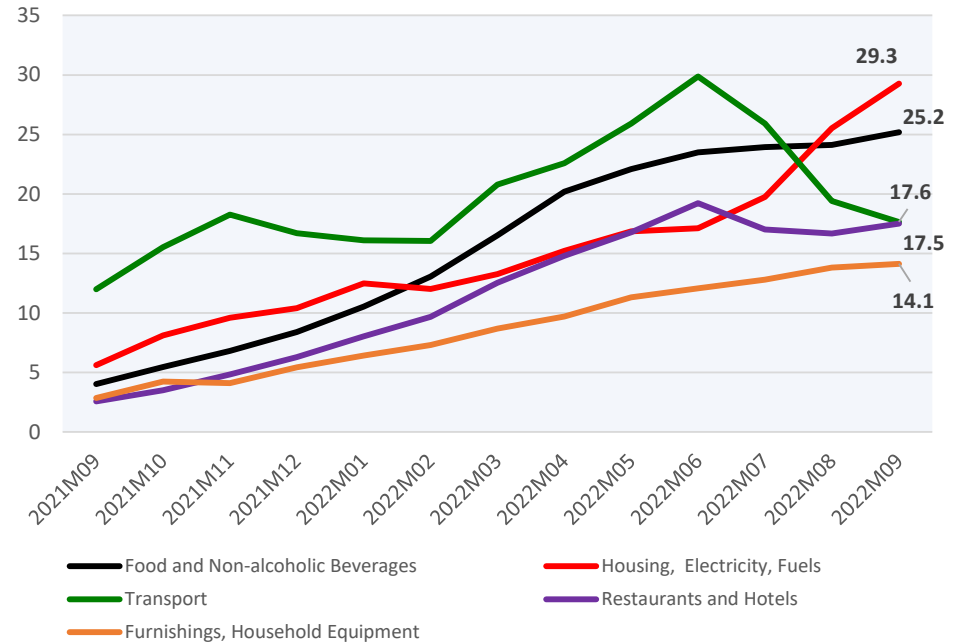
**Optimistic are managers in retail trade (green) and services (blue, inky), flat in industry (black) and pessimistic in construction (red) (September)**

# Inflation: a first-order problem

## HICP and Core HICP (% , yoy)



## Top 5 Most Inflationary Industries (HICP, % , yoy)



- HICP at 15.6% yoy in September (blue)
- Core inflation also increased rapidly (12.7% as of September) (green)
- Current inflation above those in 2009

- Housing, electricity & fuels (red, nearly 30%) very high and increasing followed by food & beverages (black, 25%)
- Quite high but decreasing inflation of transport (green) and restaurants & hotels (flattening) (purple), both 17-18%
- Furnishing & household equipment quite high and slowly increasing (orange, 14%)

# Public Finance

## STATE BUDGET

- Higher revenues in the state budget and lower expenses than expected until August 2022; unrealized capital expenditures due structural/political problems
- Surplus of BGN 1.7 bn as of August; lower deficit for the entire year outlined than previously expected
- The 2022 budget will apply to 2023. It needs to be rationed into 12 equal parts and each month 2023 needs to be fulfilled 1/12

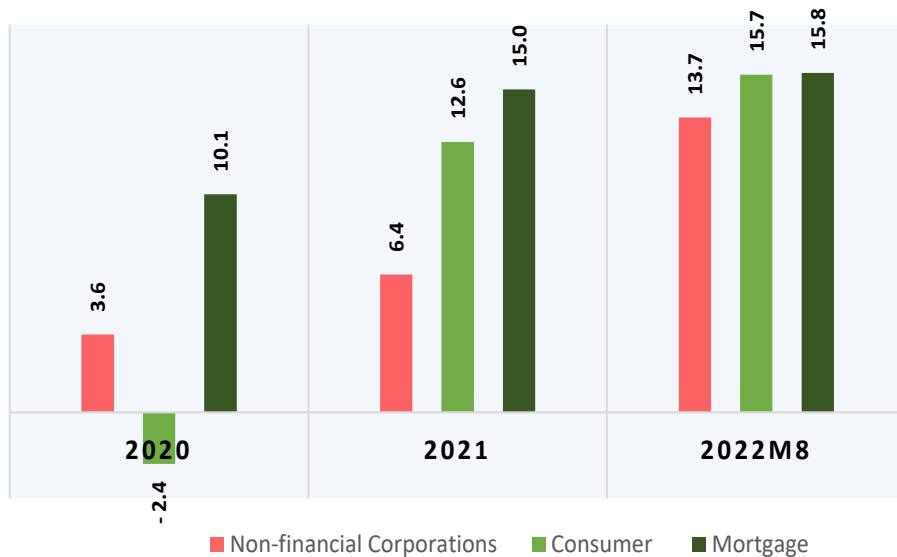
## State Budget Balance and Fiscal Reserve (BGN bn)





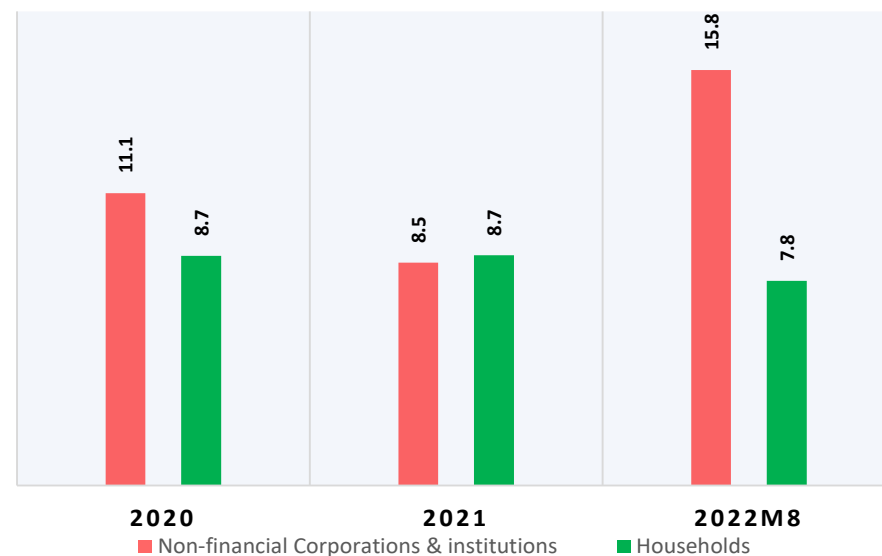
# Dynamics of Loans and Deposits

Loans (% , yoy)



As of August, loans to corporations grew by 13.7% yoy, while consumer and mortgage loans soared by 15.7% yoy and 15.8% yoy, respectively

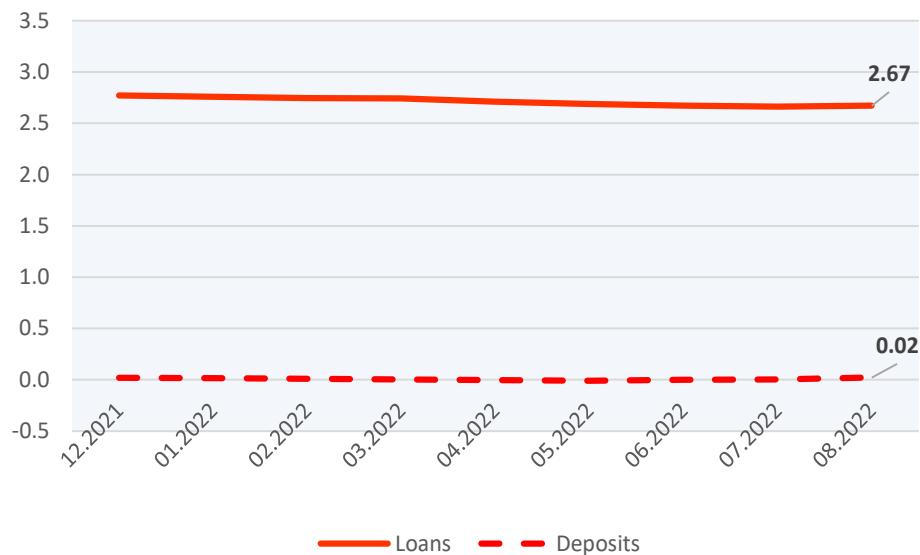
Deposits (% , yoy)



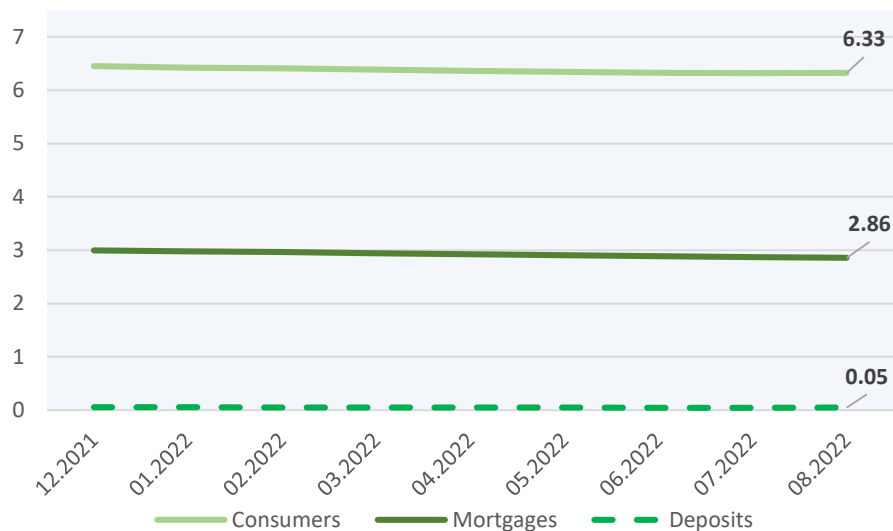
Deposits from corporations jumped by 15.8% yoy, while deposits from households increased moderately by 7.8% yoy as of August

# Bank Interest Rates

## Interest Rates Corporations (% , BGN)



## Interest Rates Households (% , BGN)



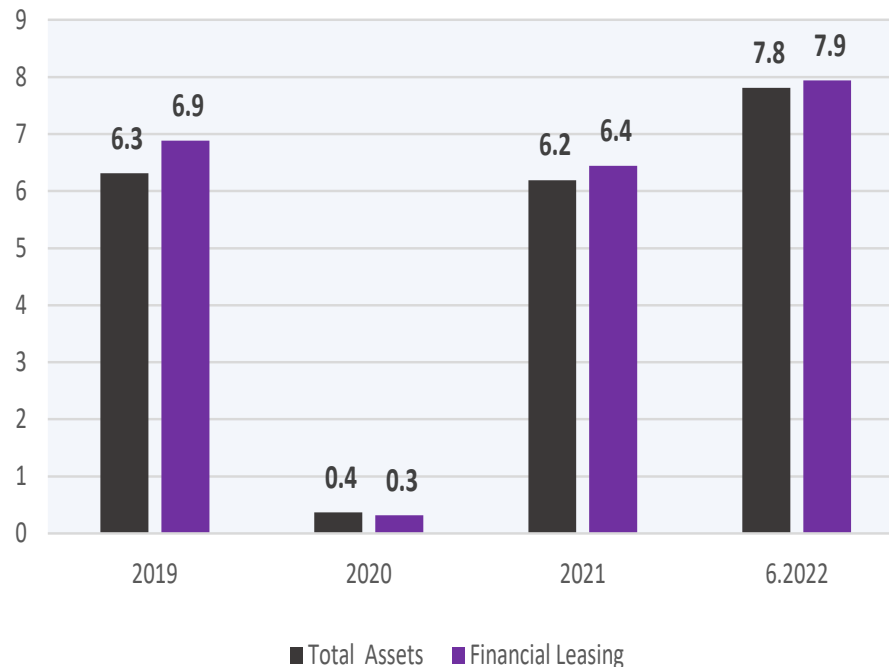
**Stable, very slightly narrowing interest rate margin of the sector during the period Aug. 22 – Aug. 23 (2.65pp in Aug.)**

**Stable, very slightly narrowing interest rate margins of the sector during the period Aug. 22 – Aug. 23 (2.81pp for mortgage and 6.28pp of consumer loans, Aug.)**

# Leasing Dynamics

- Full recovery in 2021 after almost flat dynamics in 2020
- Significant growth by nearly 8% of assets in the sector

Leasing Stock (% , yoy)



## Forecasts Overview

Bulgaria	Base scenario				
November 07, 2022	2020	2021	2022	2023	2024
Real GDP growth (in %)	-4	7.6	2.8	0.7	3.5
Inflation (in %, harmonised CPI, average )	1.2	2.8	13.5	10.5	3.5
Unemployment rate (% , end of year, Eurostat	6.3	4.6	5.3	6	4.8
Government budget balance (in % of GDP)	-3.8	-3.9	-3.5	-4.5	-2.5
Gross public debt (in % of GDP)	24.5	23.9	24	29	32
Current account balance (in % of GDP)	0	-0.5	-1.0	-2.8	-1.5
Long-term interest rate, 10Y Government Bond Yield	0.40	0.70	3.40	4.50	4.40
House prices (annual %-change, existing and new dwellings, Eurostat def.)	5.4	8.7	12	7	3.5
Revised <b>upward</b> ; Revised <b>downward</b>					

- Higher harmonized inflation at 13.5% ann. avg. for 2022 and 10.5% for 2023 projected (old forecast, 13.0% for 2022 and 6.8% for 2023)
- Lower GDP growth at 0.7% for 2023 forecasted (old forecast 1.6%)
- Corresponding changes in other indicators.

**Thank you for your attention!**

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