

Macroeconomic bulletin

Autumn 2023

October
2023



Sovereign credit rating

Bulgaria

MOODY'S
Baa1 stable

S&P Global
Ratings
BBB stable

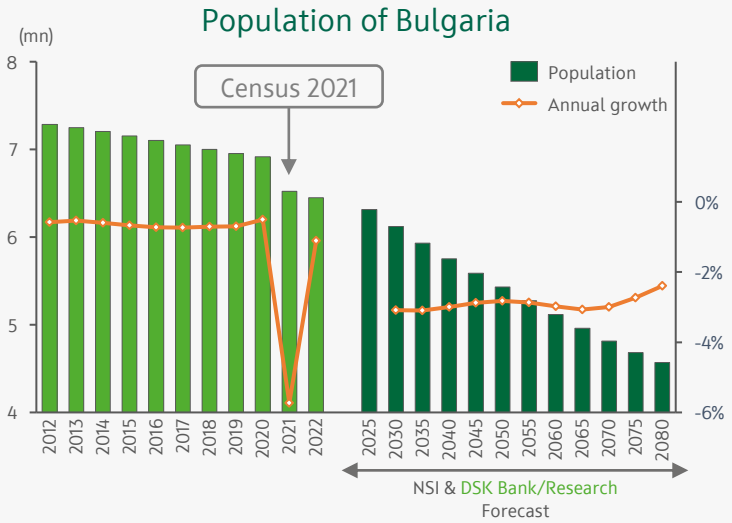
FitchRatings
BBB positive

- ❖ In the last few decades, the **world** (or at least the developed markets) had left in the past the military conflicts that disturb the economies. After the recent events in the Middle East and South Caucasus, along with the ongoing Russo-Ukrainian war, the international **environment** remains far from healthy. All of this contributes to an uncertain macroeconomic **environment** that is largely difficult to predict. Beyond that, central banks managed to deal with high **inflation**, although it turned out to be tougher than expected. We expect the approaching winter period to pass without serious shocks in the prices of **energy resources**. However, there remains the risk of force majeure and unexpected decisions taken by OPEC.
- ❖ **Bulgaria** remains relatively stable against the background of the uncertain external economic **environment**, and the expectations for the next few years are for a smooth recovery. The country's main trading partners (especially Euro area countries such as Germany and Italy), for which the latest forecasts are more pessimistic for 2024, are proving to be a brake on faster economic GDP growth. The main driver for GDP growth over the next few years will continue to be private consumption, which in turn will be fuelled mainly by a strong **labour market** and less influenced by low lending interest rates and subdued **inflation**.
- ❖ The focus of the political life in Bulgaria is the local elections at the end of October 2023, and we do not foresee serious shake-ups after that. We expect that in the mid-term the government's priorities will continue to be **Bulgaria's accession to the Euro area** and participation in the **RRF**.

Demographics

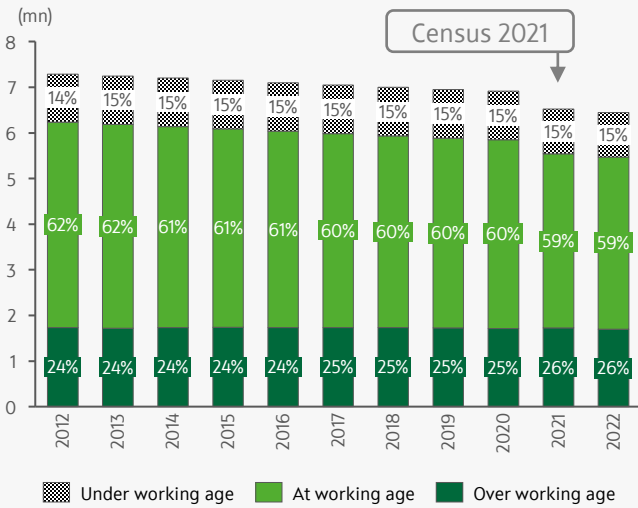
The big picture looks even more dramatic after the revised forecast

The published data on the Bulgarian population as of the End-2022 confirms the negative demographic trend, and this would not change without taking urgent long-term demographic and social measures against it. The trend of urbanization and concentration in Sofia continues, as every fourth person lives in Sofia-city (incl. the satellite settlements around the capital). The forecast of Bulgaria's population until 2080 after Census 2021 was also

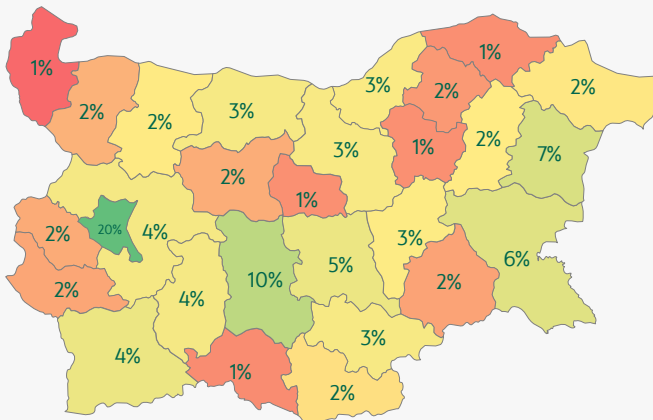


revised, and the big picture looks even more dramatic. The labour market will be thinning more and more, it would be respectively more difficult for companies to hire new employees, and the only possibility to deal with that in the mid-term is the development of digital government management and the possible allocation of human resources from state to private sector. However, this requires a purposeful state policy on digitization/automatization of the state services offered by the administration.

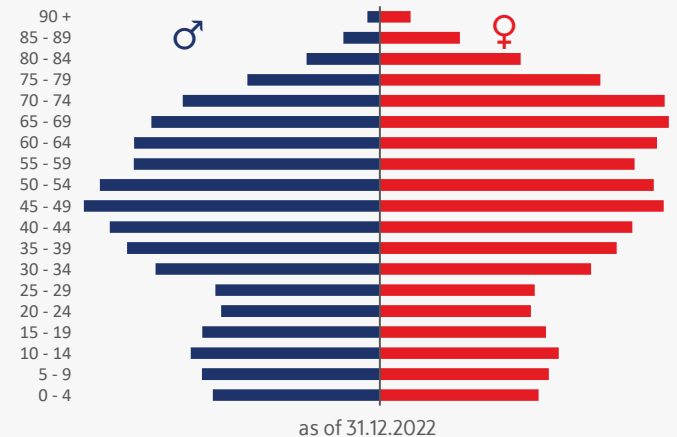
Population by working age status



Population by administrative regions as of 31.12.2022



Population pyramid: The process of ageing continues

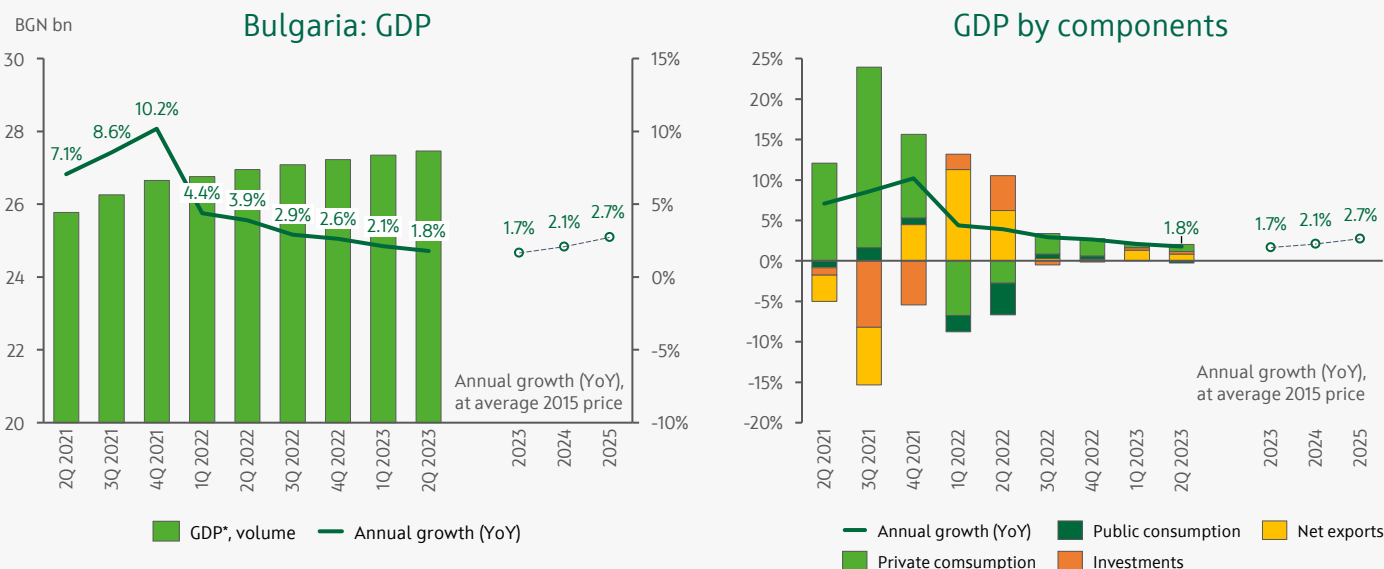




Gross Domestic Product

Cloudiness over the European economy - a matter of time to come over Bulgaria

The Bulgarian economy still illustrates stability in the conditions of serious uncertainties globally. China's recovery from Covid-19, the war in Ukraine, policies against climate change are major factors that condition the uncertain macroeconomic environment. Nevertheless, the momentum of the Bulgarian economy still shows healthy economic growth compared to the external environment. **Private consumption**, as a major component of GDP, we expect to continue to show a significant contribution to GDP growth mainly influenced by continued inflationary pressure, low interest rates on household loans and low unemployment.



We have revised down the contribution of **investments** to GDP growth for 2023 due to the expected delay in the implementation of the recommendations of the European Commission regarding the Recovery and Resilience Facility. As a result, cash flows are delayed/cancelled,

GDP, Bulgaria vs. Euro area



which reflects on economic activity in the public sector. On the other hand, international corporations are in the process of waiting for the course that Bulgaria will take in mid- and long-term, because of the political life, and for clear signals of favourable environment for investments.

Net exports reported a decrease due to factors such as reduced external demand, stabilized electricity prices and base effect. The expected reduced economic activity in the Euro Area will have a negative effect mainly on Bulgarian **export**, while **import** will be partly affected (import tied to export).

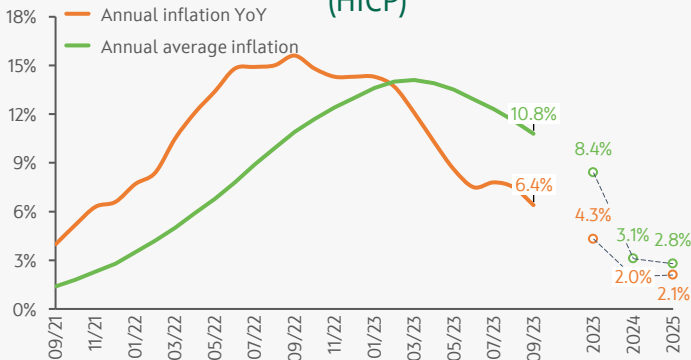
*Seasonally and calendar adjusted data



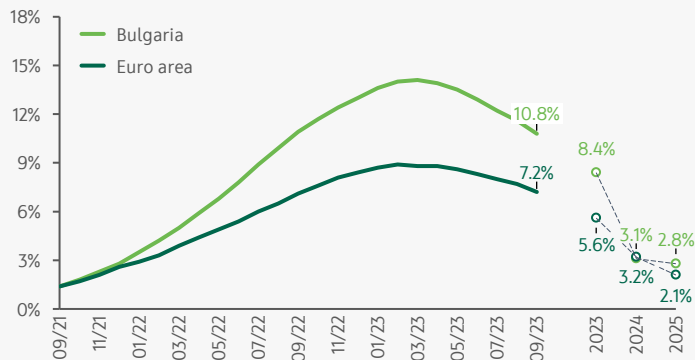
Inflation

Geopolitical tensions are putting pressure on reduced inflation in relation to energy prices

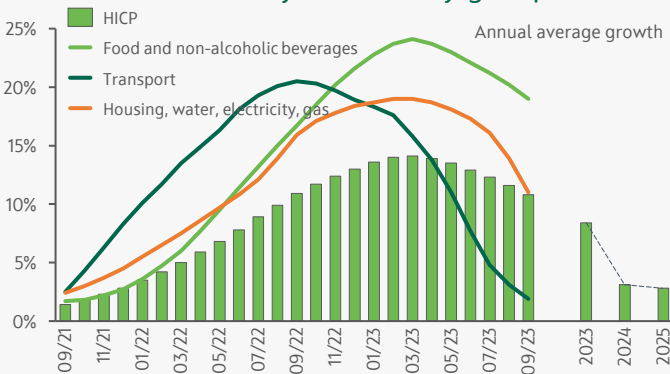
Harmonized Indices of Consumer Prices (HICP)



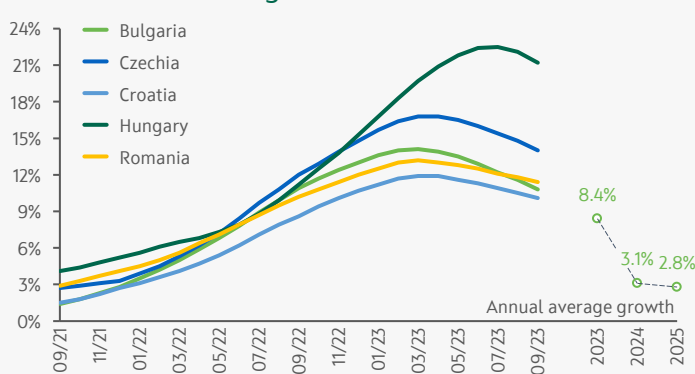
HICP, Bulgaria vs. Euro area



HICP by commodity group*



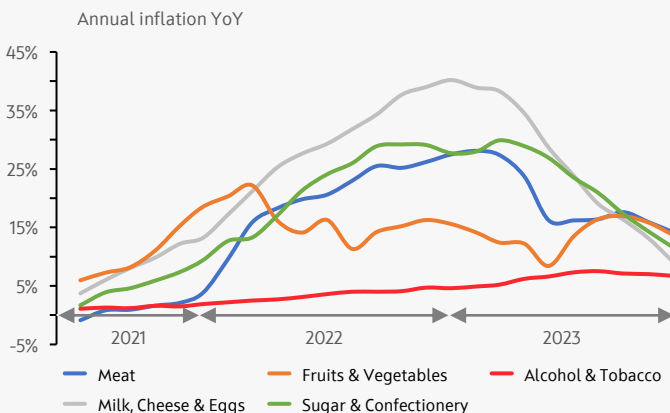
HICP, Bulgaria vs. CEE countries



The geopolitical tension in the Middle East is shaping as a new risk for the dynamics of inflationary pressure both in the world and in Bulgaria. As a result of the military conflict, an increase in oil prices is expected, which in turn has a direct and rapid effect on the prices of energy resources.

The latest inflation data shows that concerns about **sticky inflation** are starting to fade, however the risk of inflation related to imports remains high. Oil price, as one of the main drivers determining the dynamics of **inflation**, has shown serious volatility in the past few months and has

Basic basket inflation



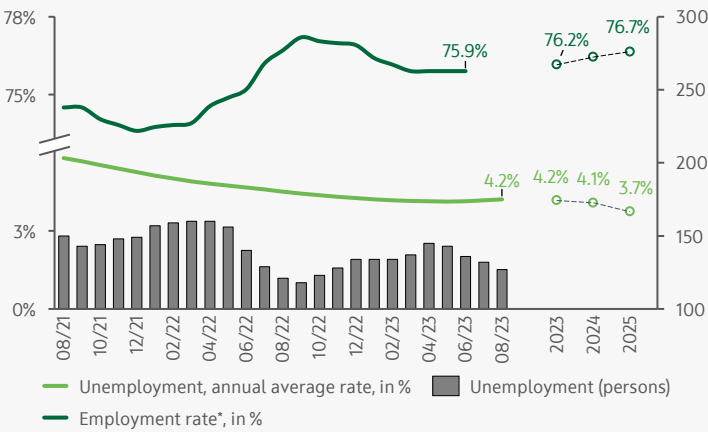
led us to revise the forecast upwards. The main risk for **inflation** remains force majeure events, mostly related to the Russian-Ukrainian war, tensions in the Middle East and unexpected decisions by OPEC. We anticipate annual average **inflation** at the End-2023 to be 8.4% (HICP). As a result, the prices of a good or service from the consumer basket are not expected to show different dynamics from the general consumer index.

*Three consumer groups with the largest weights in the HICP general basket are presented

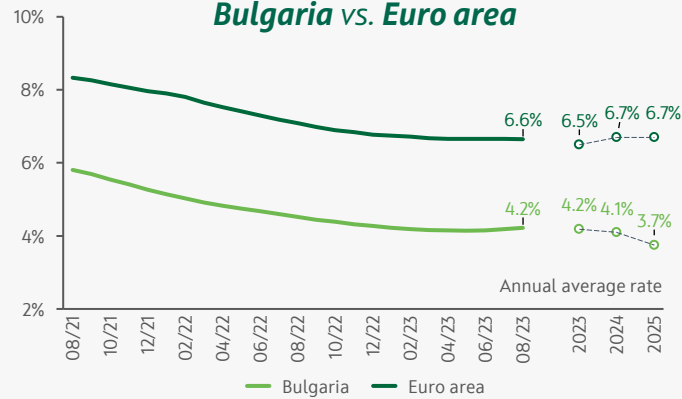
Labour market

Annual rise in nominal and real wage in mid-term by 10% and 6%, respectively

Unemployment & Employment*

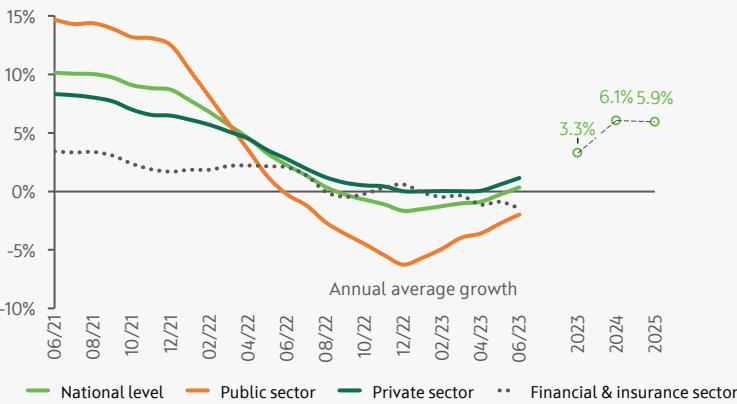


Unemployment Bulgaria vs. Euro area

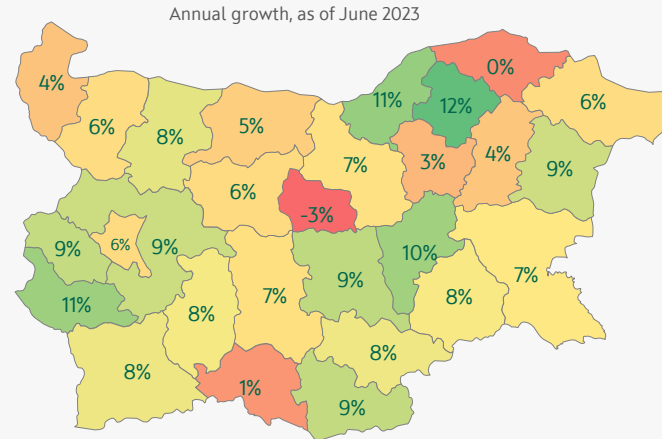


Euro area **unemployment** rate is low but is expected to rise in the upcoming quarters in line with weaker growth outlook. In Bulgaria, **unemployment** is also at low levels, which puts nominal wages and workers' compensation under pressure from high inflation. Strong labour market and an increase in nominal wages has a positive impact on persons who have been out of the labour market for a long time (discouraged persons) and is an incentive for their inclusion in the market.

Real wage by sectors



Nominal wage by location



We confirm our expectations of 4.2% **unemployment** rate at the end of 2023 (annual average rate) and have revised the mid-term forecast downward. Despite the cloudiness that has hung over the macroeconomic environment, the labour market is still less sensitive to GDP growth dynamics. Companies will continue to experience difficulties in finding qualified personnel.

By the middle of 2023, the annual **real wage** growth at the national level is already in the positive territory, mainly due to the continued increase in nominal wages on the one hand and on the other hand the decrease in inflation. Our forecast for annual **real wage** growth is to end 2023 at 3.3%, with the tendency to increase during the projected period.

*Unemployment rate is for the age range of 20 - 64 years of age.

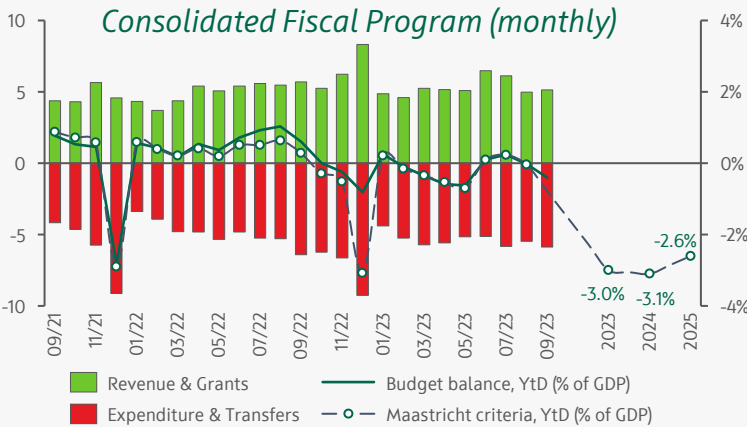


State budget

Expectations for a deficit of 3% in 2023, with the aim of meeting the Maastricht criteria of up-to-3% and joining the Euro area in 2025

BGN bn

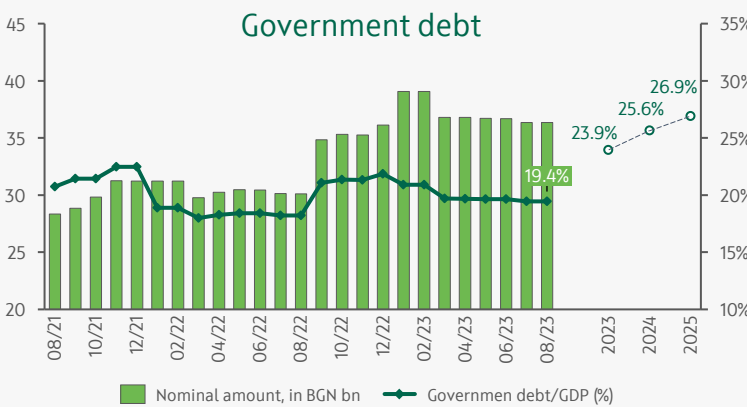
Consolidated Fiscal Program (monthly)



The main political focus in Bulgaria is the local elections at the end of October 2023. Apart from that, Bulgaria continues its path towards joining the Euro area and is gradually adopting legal changes that are recommended by the European Commission.

BGN bn

Government debt

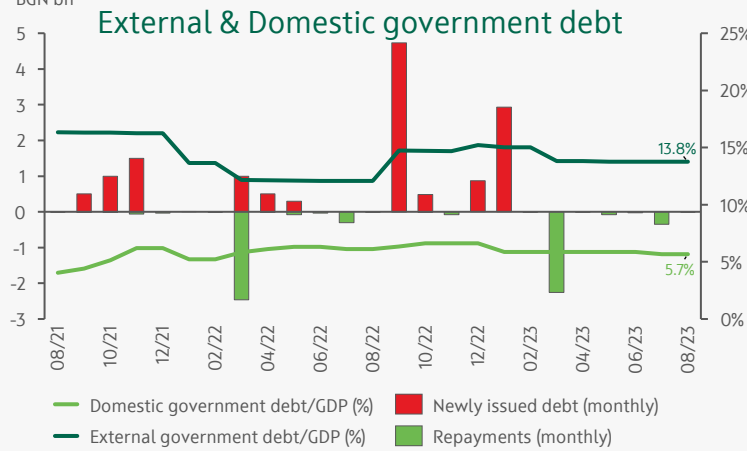


The date for the adoption of the euro in Bulgaria is confirmed: **January 1, 2025**.

Government finances, part of Bulgaria's accession criteria, with the latest reporting and forecast data, are not expected to deteriorate significantly, leading to over-indebtedness of the state.

BGN bn

External & Domestic government debt

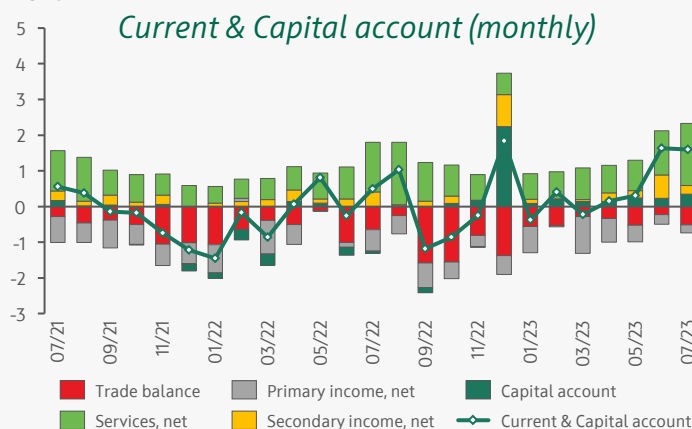


The government deficit as of September 2023 has increased and has reached -0.4% of GDP (BGN 0.8 bn), which is mainly due to interest payments on the government debt, paid government aid to the agricultural sector, etc.

Expectations are that the **government balance** will end 2023 at a deficit of 3%, and the **government debt**: ca. 24%. We expected more activity in the domestic market of the Bulgarian primary dealers of government securities, but after the measures taken by the central bank to limit liquidity in the banking system, we have revised this view.

BGN bn

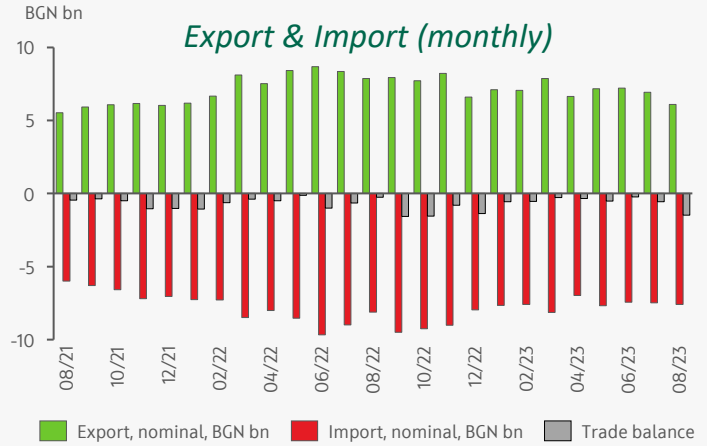
Current & Capital account (monthly)



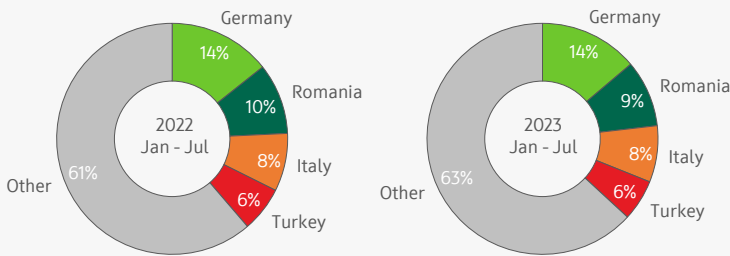
Trade & Investment

After the strong performance in 2022, Bulgaria's trade is expected to shrink

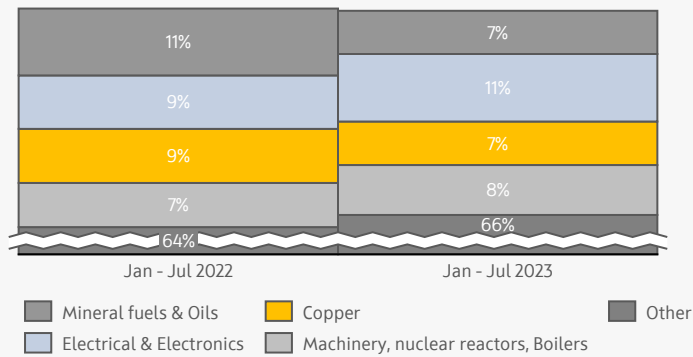
The country's **trade** in goods and services in the January - August period registered a year-on-year decrease, but this was expected. Decreases in **export** and **import** are largely due to the base effect (strong performance in 2022), lower electricity prices and production, calming consumer prices and other sectoral features.



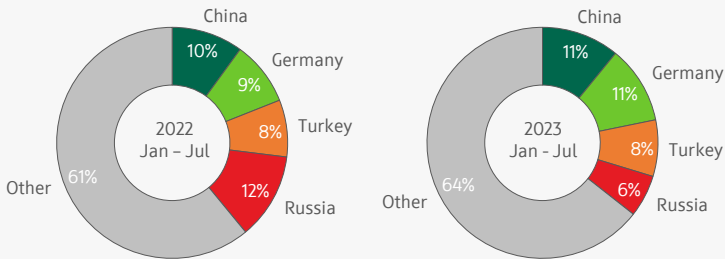
Export, main trade partners



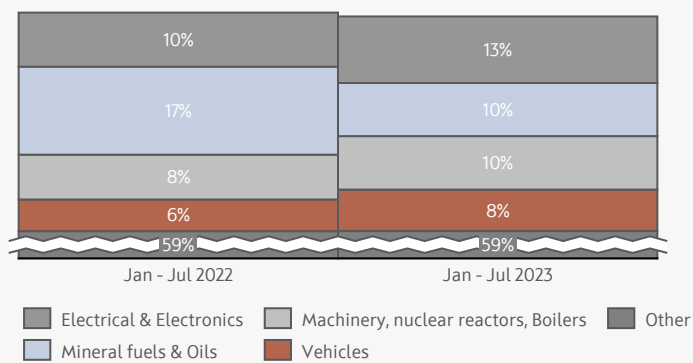
Export by category



Import, main trade partners



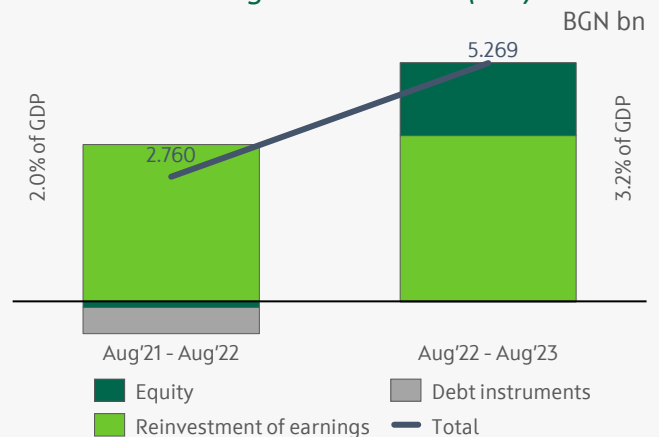
Import by category



Bulgarian **trade** with Russia has sharply reduced compared to a year ago (especially in terms of import).

The main group of **exported** goods that report significant annual growth are medicines, cosmetics, investment goods (vehicles, machines, spare parts), while raw materials such as fertilizers, non-ferrous metals and wood products report the highest decrease.

Direct Foreign Investments (DFI)

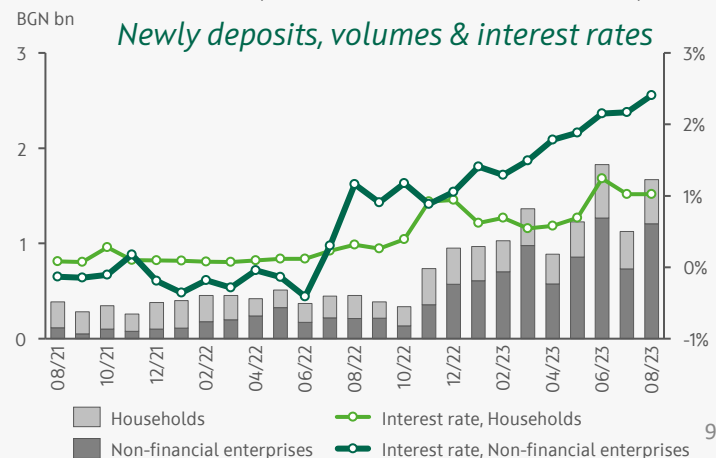
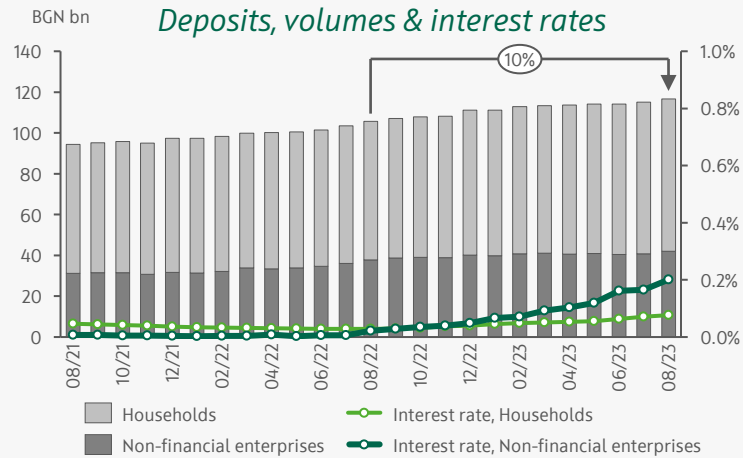
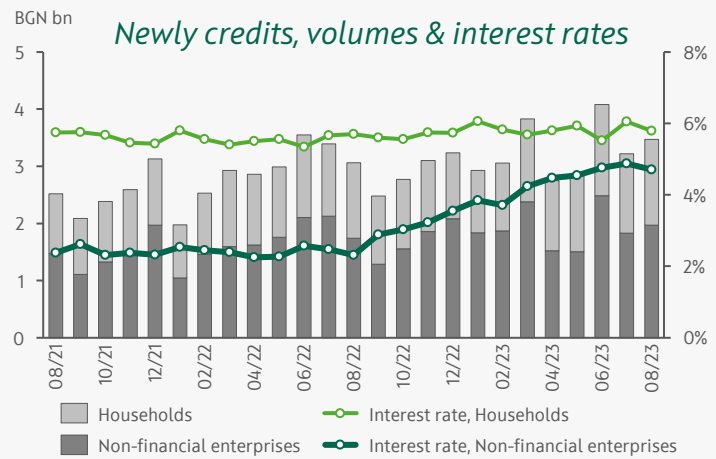
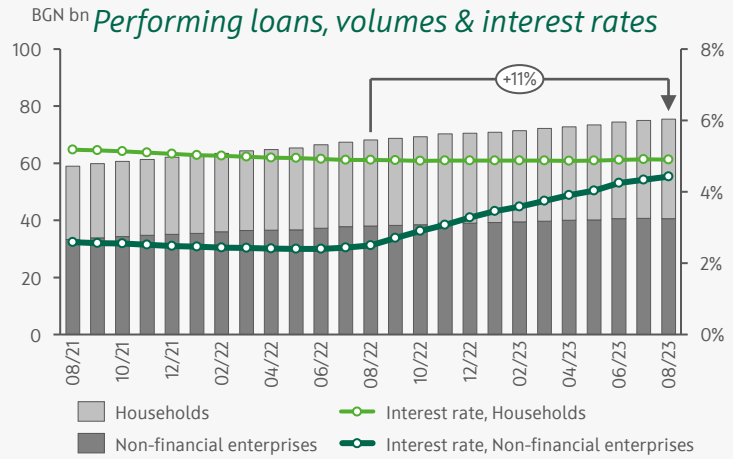


Banking system

EURIBOR is the main contributor to strong performance in the banking system in 2023

The banking sector in Bulgaria in 2023 continues to report a significant improvement in several financial indicators, with only the profit of the sector increasing by 70% on an annual basis. The high annual growth is mainly due to the increasing EURIBOR, which has a direct effect on **loans**, especially the corporate portfolio. The net interest income has increased by more than 57% on an annual basis. The transmission of the restrictive monetary policy of the ECB should be divided at least into two segments - retail and corporate. In corporate **lending**, the effect is almost immediately passed on to interest rates, and corporate portfolio and new business are almost double from a year ago. While the transmission in retail banking is realized with a significant time-lag. Interest rates for housing **loans** in Bulgaria continue to be one of the cheapest in the EU, and by the end of August 2023 remain at level of 2.6%.

The 3M EURIBOR from a negative level at the end of 2021 moved into the positive area and at the end of 2022 was 2.1%. Our expectations are for EURIBOR to peak in early 2024 and then gradually cool until the end of the projected period. This dynamic is in sync with the monetary policy conducted by the ECB.



Sources

Actual data



NATIONAL STATISTICAL INSTITUTE



MINISTRY OF FINANCE, BULGARIA



BULGARIAN NATIONAL BANK



STATISTICAL OFFICE OF THE EU



MINISTRY OF AGRICULTURE, BULGARIA

Forecasts



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(DEMOGRAPHIC FORECAST ONLY)



EUROPEAN CENTRAL BANK

(EURO AREA FORECAST ONLY)

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