

Macroeconomic bulletin

Autumn 2024

October
2024



Sovereign credit rating

Bulgaria

MOODY'S
Baa1 stable

S&P Global
Ratings
BBB positive

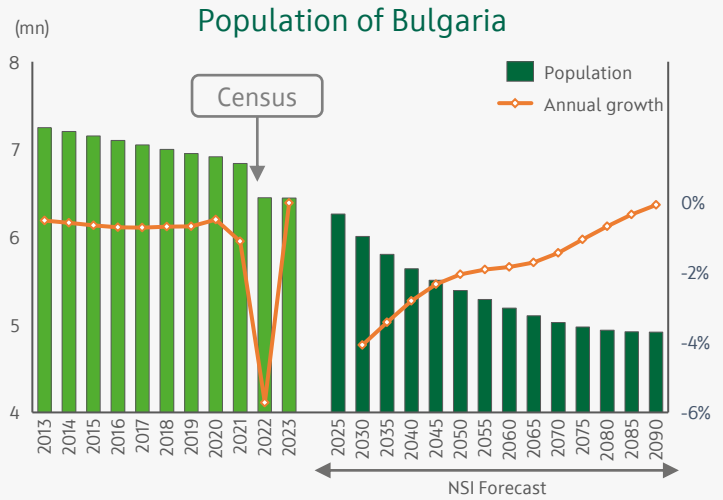
FitchRatings
BBB positive

- ❖ Faint attempts to revive the otherwise weakened **European economy**, which is struggling due to an aging population, lower productivity (compared to U.S. economy), and reduced competitiveness, are ongoing. International stability and security are seriously shaken due to the rising **military tension in the Middle & Far East**, which has enormous negative potential to further disrupt the already fragile and painstakingly slow recovery of the world after the coronavirus pandemic and its aftermath.
- ❖ The dynamics of **inflationary pressure** are subject to Central banks, and it is only a matter of time to achieve the target of 2%. Low **inflation** has not hindered the rising disposable **incomes** of the population and together with the low level of unemployment rate in the economy, are fuelling strong household consumption. Private consumption remains a key pillar in GDP growth. Macroeconomic trends in the **Euro area** are largely relevant to the Bulgarian economy, being a small and open economy. Nearly 65% of Bulgarian **exports** are directed to Euro area member states, with the largest trading partners being Germany, Italy, and Greece.
- ❖ Despite political instability and another early parliamentary elections in Bulgaria (October 27, 2024), the main goals for both regular and caretaker governments Bulgaria's acceptance in the **Euro area** (numerical inflation criterion and legislative changes), accession to the **Schengen** area, and more active participation in the **Recovery and Resilience Facility (RRF)** in 2025.

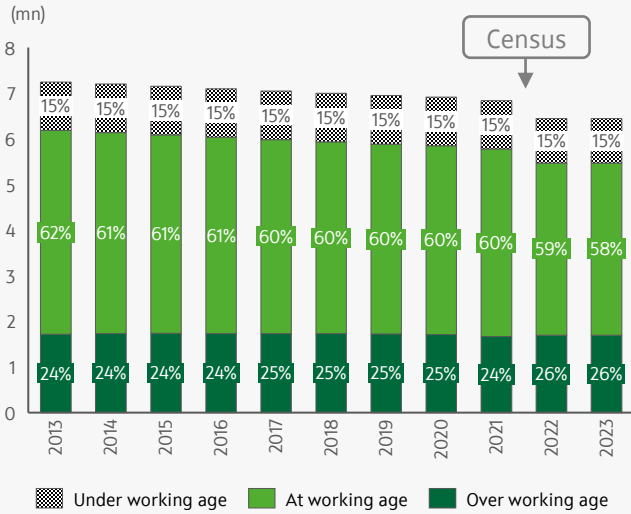
Demographics

Short-term obscuring of the long-term demographic crisis

The published data for 2023 shows a slight decrease in Bulgaria's population by just over 2 thousand people compared to a year ago. In fact, nothing has changed over the past year as the negative demographic trend remains. The only effect switching the serious decrease in the population in 2023 is the larger number of people who have settled in the country.

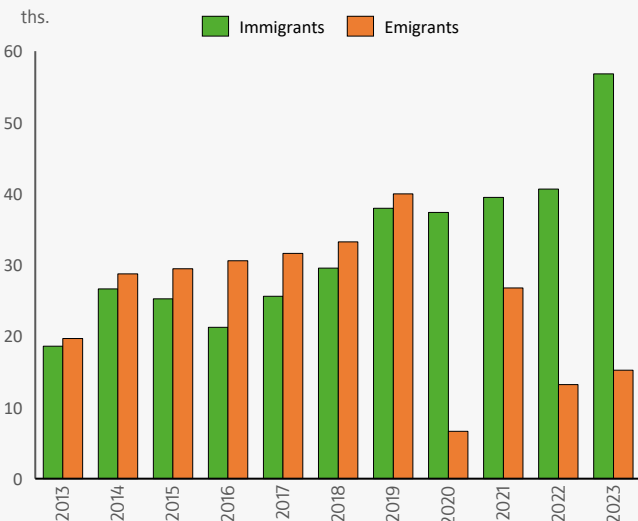


Population by working age status

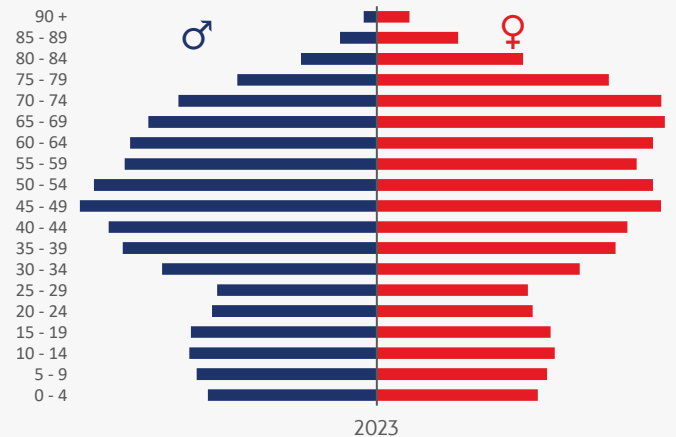


Nearly 60 thousand people have settled in, with the main reason for their migration being "job", coming from countries outside the EU - mainly from Ukraine and Turkey. The long-term trend provides a decrease in the population over the last 20 years by an average of 1% per year or nearly 67 thousand people - every year the population of Bulgaria is shrinking as the size of a town with a population as much as the one in Pernik (for comparison). All other aspects related to the population remain: high mortality, urbanization and concentration in the four major towns, aging of population and many depopulated territories.

International migration



Population pyramid: The process of ageing continues

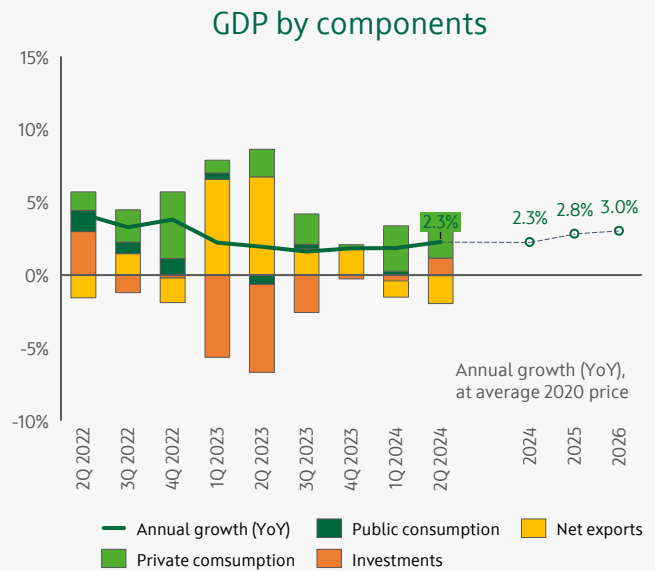
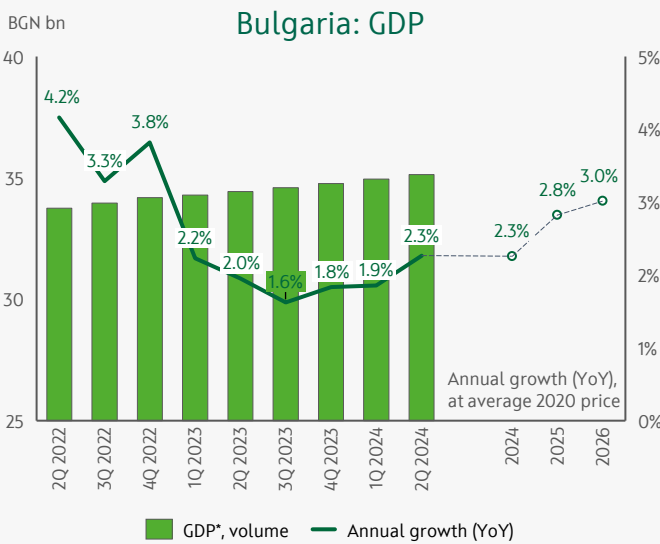


GDP

Gross Domestic Product (GDP)

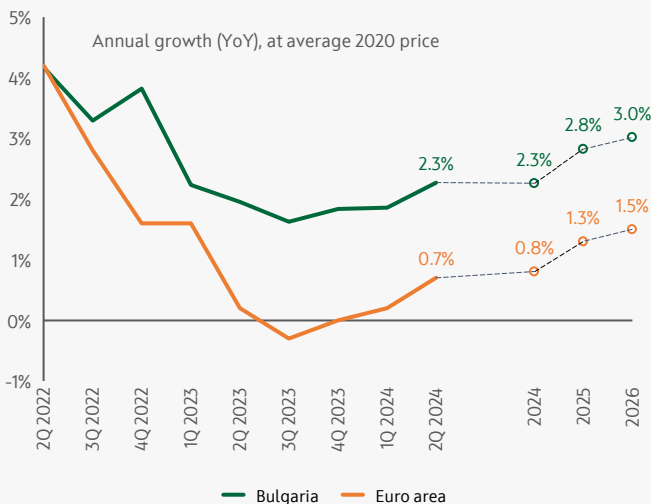
After the success landing - the economy has been orienting upward again

Economic activity in the Euro area started to recover in 2024 with expectations for a smooth medium-term recovery after weak and anemic GDP growth in 2023, while the Bulgarian economy continues to perform well, leaving behind a successful landing. Bulgaria's annual real GDP growth increases to 2.3% in the second quarter of 2024, with private consumption again remaining the main driver. In fact, in turn, will continue to be influenced by the growth of the population's disposable income and the relatively low interest rates on household lending.



Public consumption remains hostage to political uncertainty in the country and in the short term will maintain its neutral contribution to GDP growth. Investments report the same trend as public consumption, with the weakened external demand playing an additional weight. The

GDP, Bulgaria vs. Euro area



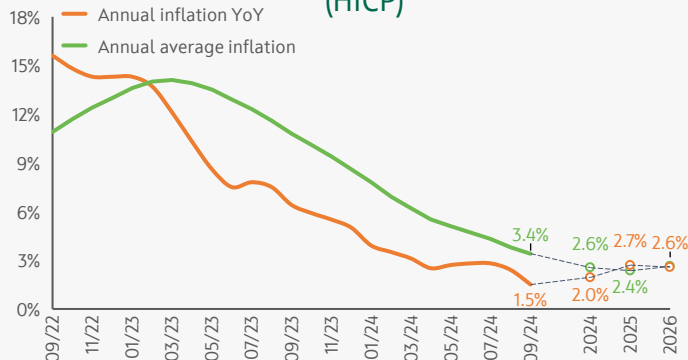
quarterly positive contribution of investments to GDP growth comes mainly along the lines of changes in inventories, weakening their negative effect. The macroeconomic medium-term forecast for a smooth recovery of the Euro area and international trade also determines our expectations for the dynamics of Bulgarian trade with the outside world - annual growth of exports and imports within 5-6% in the projected period (2024 - 2027).



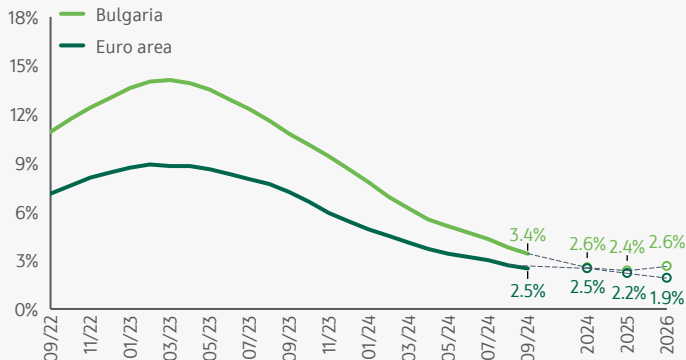
Inflation

The calm of oil and the actions of Central banks – extinguishing inflation

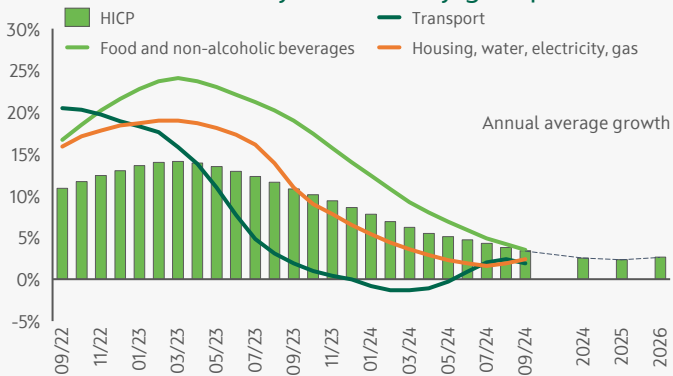
Harmonized Indices of Consumer Prices (HICP)



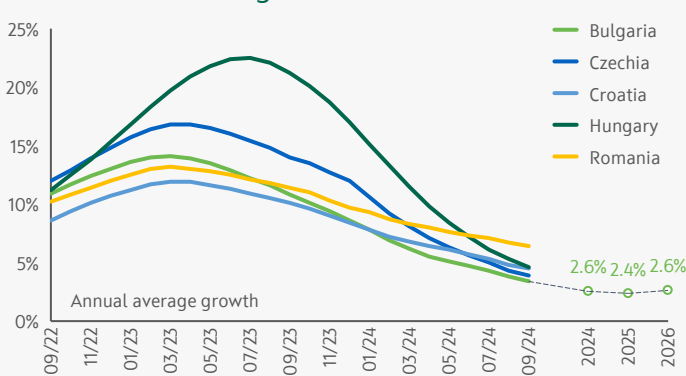
HICP, Bulgaria vs. Euro area



HICP by commodity group*

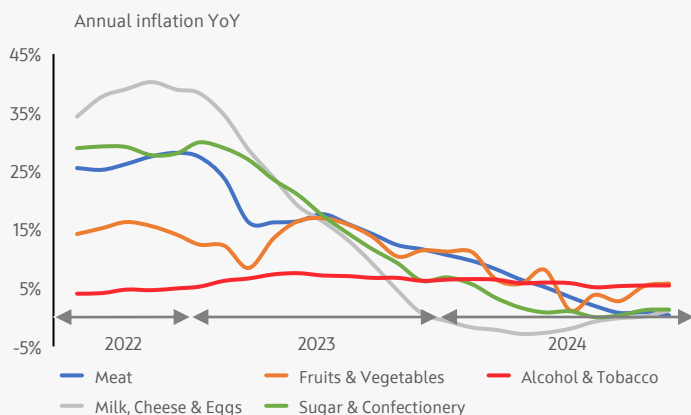


HICP, Bulgaria vs. CEE countries



The restrictive monetary policies of Central banks have played their part in combating **inflationary pressures**. Although **inflation** has been subdued, it remains above the permissible limits, and this is expected to happen in the medium term as well. The determinants of **inflation** demonstrate a fragile balance that is not expected to strengthen in the near term. The extremely dynamic geopolitical environment brings with it economic threats to international trade and energy resource prices, which in such scenarios have demonstrated sharp deterioration. Rising incomes of the population and the low interest rates on household lending on the one hand, and on the other

Basic basket inflation



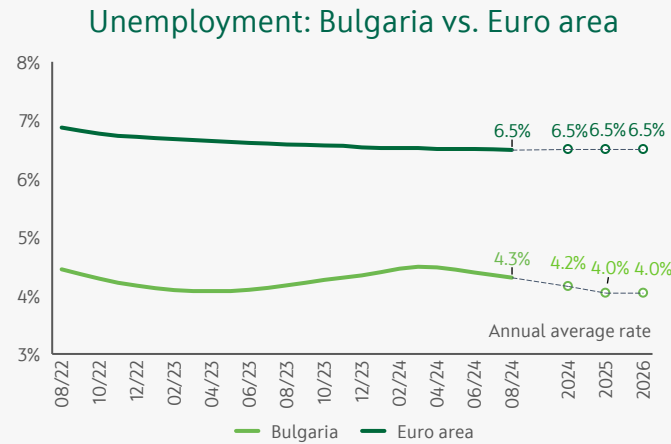
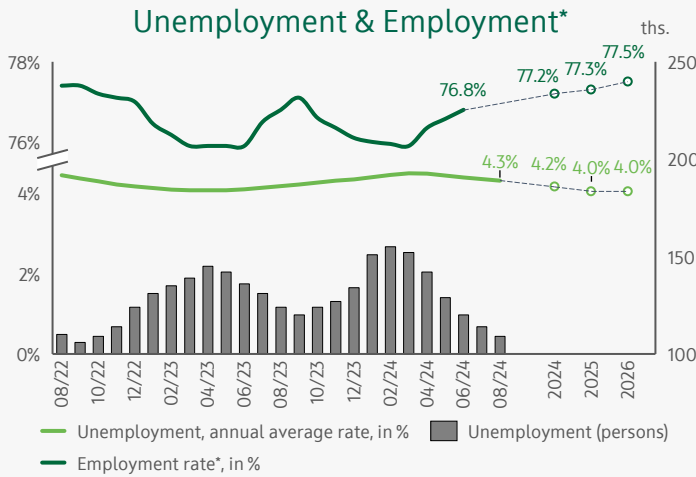
hand, relatively low energy resource prices in Bulgaria will largely determine the **inflationary trend** in Bulgaria in the coming years.

We expect **inflation** to continue to show a **disinflationary trend** until the end of 2024, after which it will fluctuate in a range between 2% - 3% during the period 2025 - 2026.

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

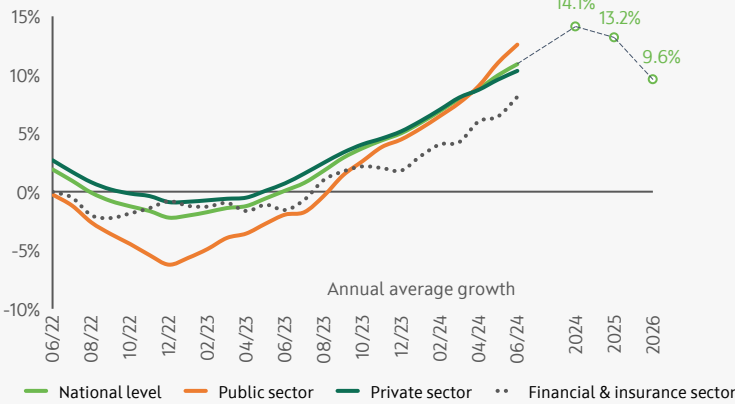
Labour market

Wage vs. Productivity - deterioration of competitiveness

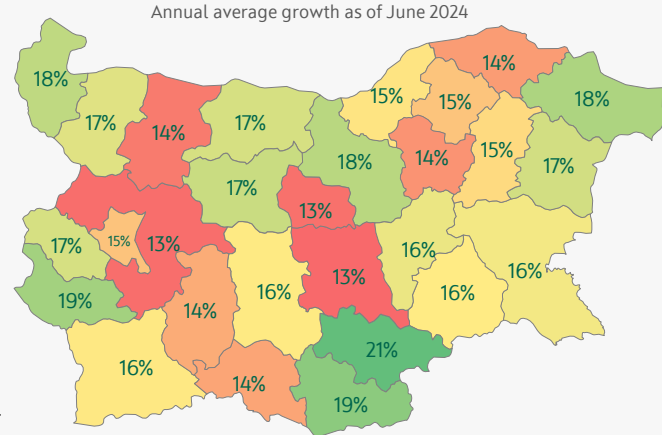


After taming inflation, the focus shifts to the **labour market** in Bulgaria - significant wage growth, low unemployment rate, a shortage of qualified **labour force**, and a negative demographic trend. Unlike inflation, which can be controlled in the medium term, the **labour market** is difficult to influence, and its stimulation requires a long-term, targeted demographic and social policies by the government.

Real wage by sectors



Nominal wage by location



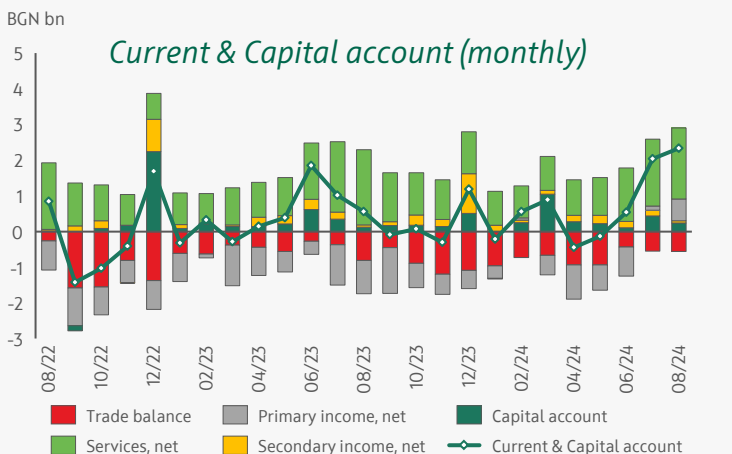
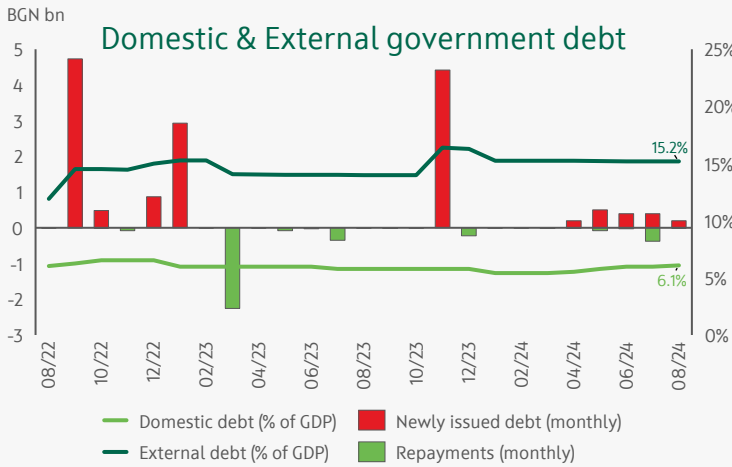
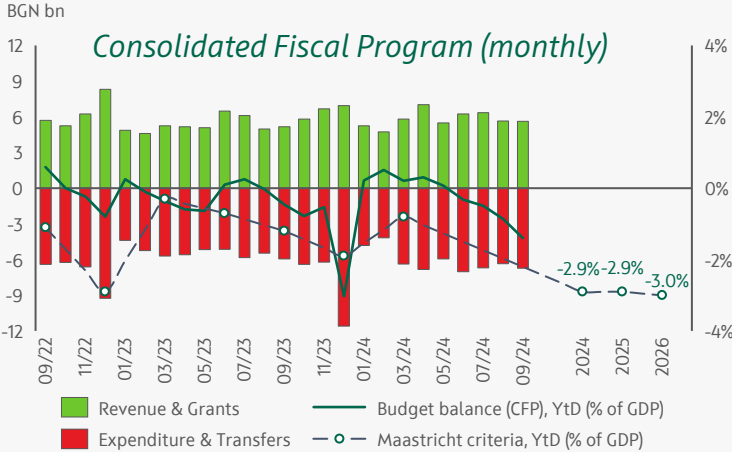
The **labour market** in Bulgaria is showing clear signals of "overheating", which the government and businesses would find difficult to control. Low **unemployment rate** and the beginning of economic recovery in Europe will continue to put serious pressure on labour costs. The latest data indicates an 18% annual increase in **wages**, with some regions exceeding 25% (Haskovo & Dobrich). Some low-paid sectors are struggling with high **wage** volatility, and together with the lower growth of labour productivity (vs. **wages**), this largely fuels business concerns about deteriorating competitiveness and subsequently negative effects on the country's domestic and external trade.

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



State finance

Political instability is increasing weighing on fiscal stability



October 27, 2024 – another round of early parliamentary election and ongoing political crisis in the country. Political instability worsens the economic conditions in which business operates, further slowing down the development of investment activity in the country. There is also a significant delay in the payment of **European funds** under the Recovery and Resilience Facility (RRF), as Bulgaria is one of the countries with the lowest absorption rate.

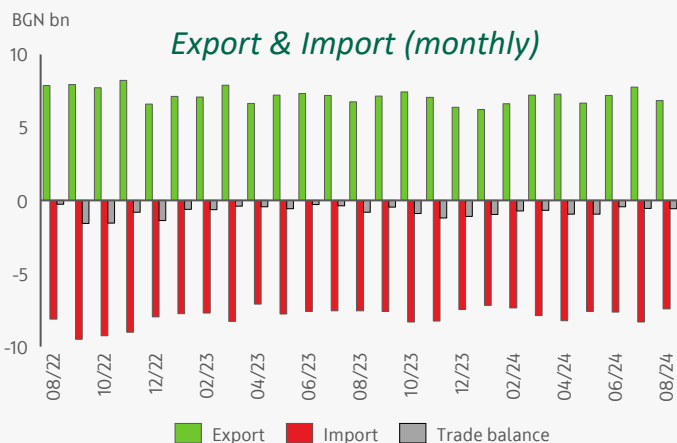
Bulgaria's **fiscal position** shows stability, but with increasingly serious threats of worsening the medium-term government balance. The continuous expansionary fiscal policy, largely triggered by COVID-19, will continue to put pressure on the government balance, resulting in the government debt increasing nominally and as a percentage of GDP by an average of half a percentage point per year.

Depending on the development of the U.S. presidential election in November and military conflicts, there is a new risk of increased **defense spending**, which will further weigh on the government budget.

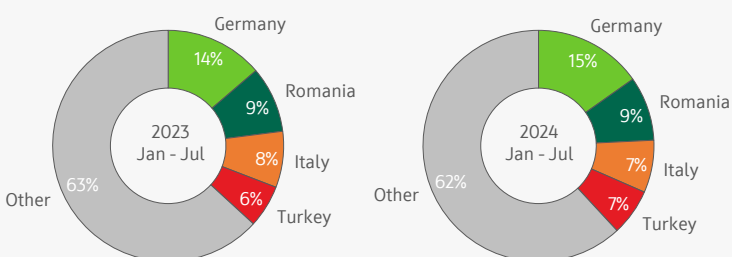
Trade & Investments

Sluggish recovery of trade, coupled with a lack of predictability in investments

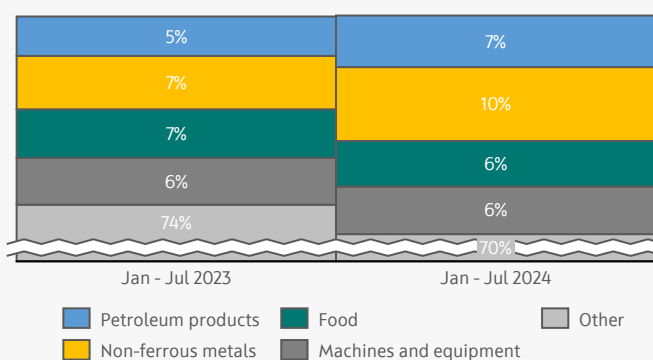
The latest data on Bulgaria's net exports confirm the relatively optimistic expectations for trade development, with the main drivers remain the increasing external demand for Bulgarian goods and services in general, and specifically the improvement of trade conditions with other Balkan countries.



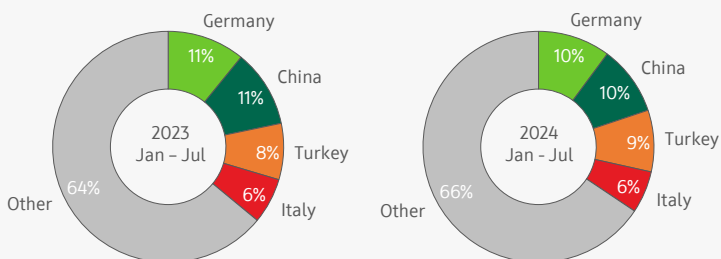
Export, main trade partners



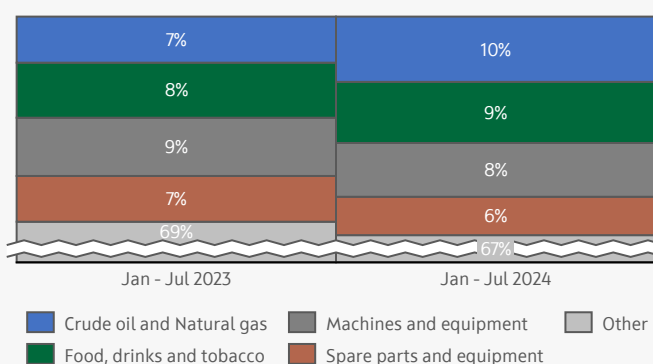
Export by category



Import, main trade partners

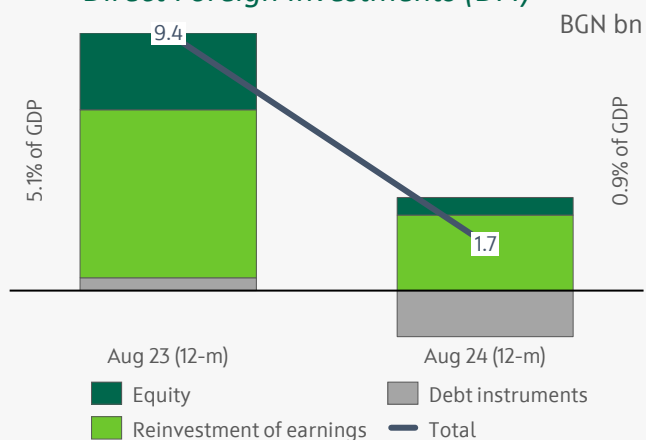


Import by category



Foreign Direct Investment (FDI) has significantly decreased on an annual basis mainly due to two factors: the first one is the base effect (the year 2022 and 2023 are characterized by high revenues/profits and high inflation), and the second one is the significant delay and postponement of large investment projects due to lack of a clear and predictable government policy for the business environment in Bulgaria.

Direct Foreign Investments (DFI)



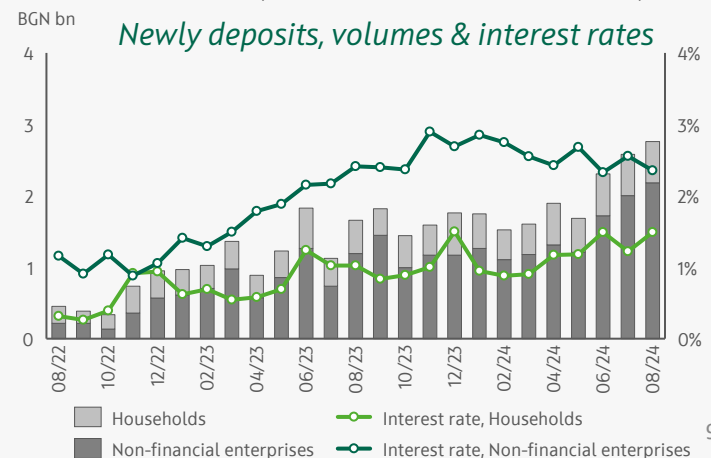
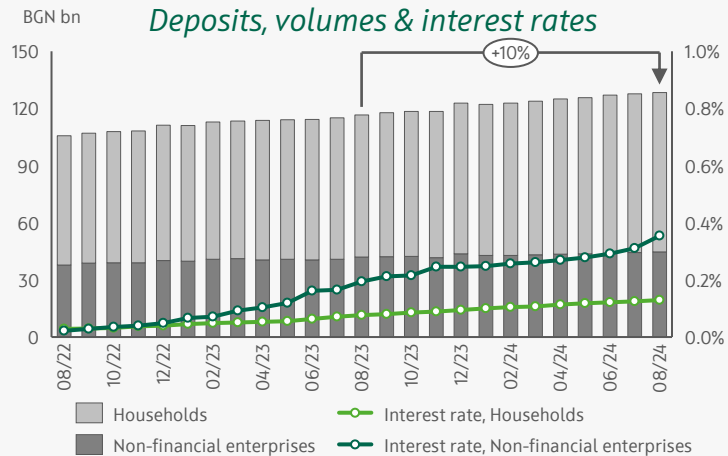
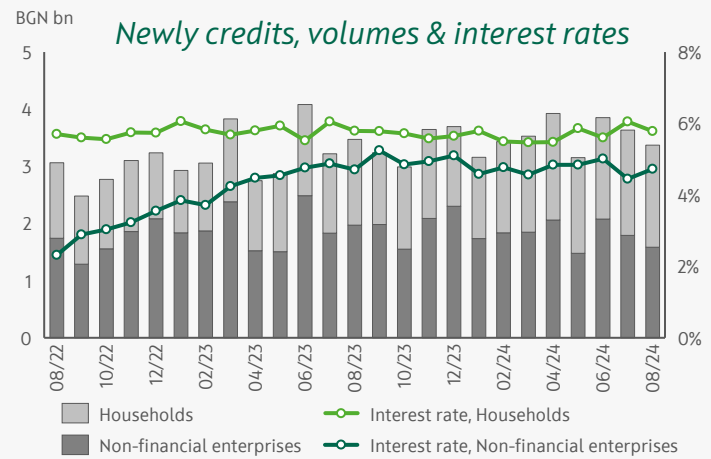
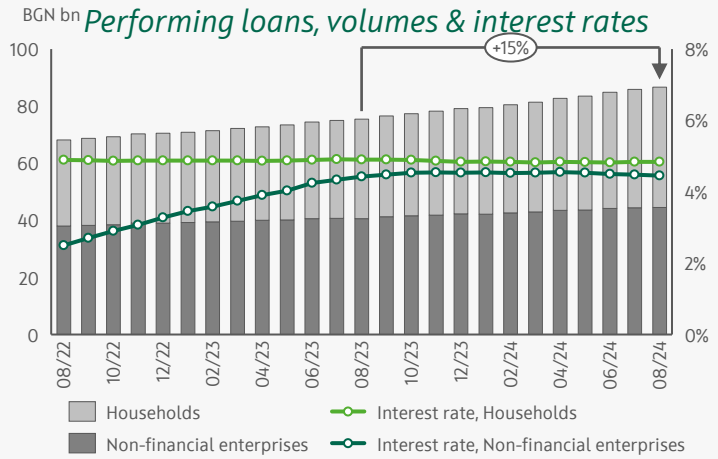
Banking system

Mortgage lending under increased supervision by the Central bank

Expectations for monetary policy easing by the Federal Reserve System and the European Central Bank were confirmed as both lowered their **key interest rates**, positively influencing market sentiment. Bulgarian businesses should be satisfied with this, as interest rates on newly issued investment **loans** will decrease within a few months.

However, the situation is different for household **lending** - the weak transmission, high competitiveness, and high liquidity in the banking sector largely maintain low **interest rates** on new production (especially for newly mortgage **loans**).

The Central bank (Bulgarian National Bank) increased monitoring of one segment of bank lending in the middle of last month (September 2024), namely **collateralized loans** secured by residential real estate. The requirements aim to prevent excessive indebtedness and increase the down payment by customers when taking out a **mortgage loans** (a protective measure). As a result of that, our medium-term expectations for the market development are a healthy cooling of housing credit activity and increased caution among borrowers.



Actuals & Forecasts

Annual rate of change

2022 2023 2024 2025 2026
Actuals Forecast

Gross Domestic Product *(revised)*

Real GDP Growth	4.0%	1.9%	2.3%	2.8%	3.0%
Private Consumption	4.0%	1.4%	3.6%	3.8%	3.5%
Public Consumption	12.0%	0.7%	1.5%	1.7%	2.0%
Investments	9.2%	-12.8%	4.0%	4.3%	4.0%
Exports	12.1%	0.0%	3.0%	4.8%	5.4%
Imports	15.3%	-5.5%	4.2%	5.8%	6.0%

Inflation & Housing prices

Consumer Price Indices (CPI)	16.9%	4.7%	2.4%	2.8%	2.9%
Consumer Price Indices (CPI) (12-m avg)	15.3%	9.5%	2.4%	2.6%	2.9%
Harmonized Index (HICP)	14.3%	5.0%	2.0%	2.7%	2.6%
Harmonized Index (HICP) (12-m avg)	13.0%	8.6%	2.6%	2.4%	2.6%
Basic basket* (CPI)	18.8%	7.5%	4.3%	3.5%	4.0%
Housing prices (HPI, national level)	13.4%	10.1%	12.3%	8.2%	6.7%
Housing prices (HPI, Sofia)	14.0%	9.7%	16.0%	9.7%	8.0%
Housing prices (HPI, Plovdiv)	9.0%	7.3%	7.7%	9.7%	8.5%
Housing prices (HPI, Varna)	12.8%	15.7%	23.4%	12.1%	10.3%

Labour market

Unemployment rate (EoP)	4.0%	4.4%	4.0%	4.0%	4.0%
Employment rate (20 - 64 years of age)	75.9%	76.2%	77.2%	77.3%	77.5%
Monthly wage (12-m avg)	1 739	1 991	2 334	2 707	3 031
Nominal wage growth (12-m avg)	13.1%	14.5%	17.3%	16.0%	12.0%
Real wage growth (12-m avg)	-2.2%	5.0%	14.8%	13.4%	9.1%

State Finance

Government debt (to-GDP)	21.5%	21.9%	22.4%	22.9%	23.6%
Government balance (CFP) (to-GDP)	-0.8%	-3.0%	-3.1%	-2.6%	-2.0%
Government balance (Maastricht) (to-GDP)	-2.9%	-1.9%	-2.9%	-2.9%	-3.0%

Banking sector

Total loans**	13.9%	13.1%	14.3%	10.6%	10.6%
Household loans**	16.7%	17.1%	20.4%	12.8%	11.5%
Company loans**	12.4%	10.6%	9.8%	8.8%	9.8%
Total deposits	15.8%	9.6%	9.5%	9.3%	8.6%
Household deposits	8.3%	11.0%	11.6%	9.9%	8.7%
Company deposits	25.6%	7.0%	8.4%	8.9%	8.9%

*Basic basket includes commodity groups, such as Meat, Milk, Cheese, Eggs, Fruits, Vegetables, Sugar, Spirits, Tobacco.

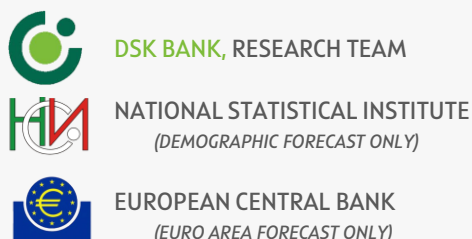
**Performing stock, based on Monetary and Interest Rate Statistics (Bulgarian National Bank)

Sources

Actual data



Forecasts



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