

Macroeconomic bulletin

Spring 2024

April
2024



Sovereign credit rating

Bulgaria

MOODY'S
Baa1 stable

S&P Global
Ratings
BBB positive

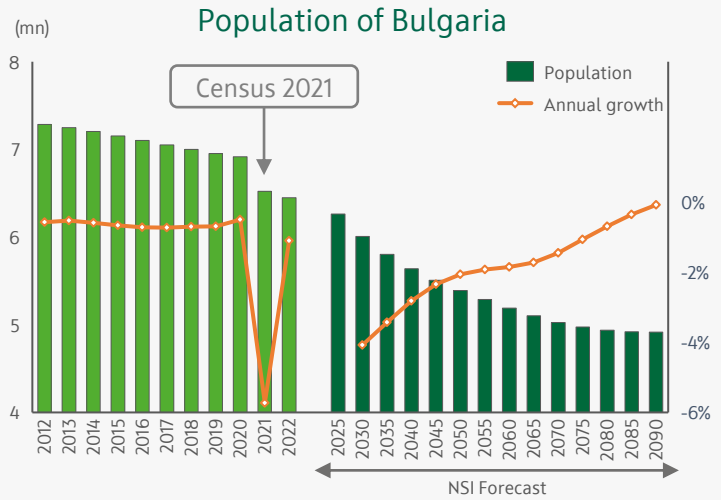
FitchRatings
BBB positive

- ❖ The tailwinds decrease as opposed to the increasing headwinds – this summarizes the feeling in 2024. **The escalating geopolitical tensions**, along with **local elections** in developed economies, will largely predetermine the path of the global economy over the next few years. The European Union's path is untidily scattered with pitfalls such as a **weakened economy, rising cheap imports from China** and **an aging population**. Despite this gloomy long-term forecast, in the mid-term, a smooth recovery of the European economy is expected, with the main driver being domestic consumer demand and global trade. The price of **oil** (Brent) is rising again, with expectations for the price of a barrel to remain ca. \$85-\$90 in 2024, driven by increased global demand (especially China), production cuts by OPEC, and escalating geo-tensions in the Middle East.
- ❖ The **Bulgarian** economy performed better compared to the average level in the EU for 2023. This was mainly due to the strong performance of the **labour market** and domestic demand from the population. Conversely, **investments** continue to be significantly below the long-term potential, as Bulgaria's participation in the Recovery and Resilience Facility is significantly delayed. Another **political crisis** is further delaying an already crucial overdue in receiving European funds and questions the adoption of the euro from January 1, 2025. However, **state finances** report resilience and strength. Furthermore, inflation in Bulgaria continues to report a significant disinflation trend, as we expect it to reach favourable business environment levels of 3.0%-3.5% by mid-2024.

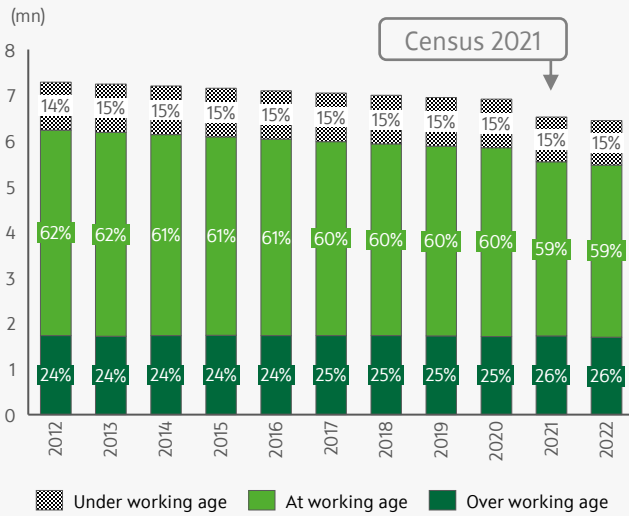
Demographics

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, which would continue if urgent long-term demographic and social measures are (not implemented) 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, which would create more obstacles for companies to hire new employees. The only possibility to manage with this issue in the mid-term is the development of digital government management and the possible allocation of human resources from public to private sector. However, this requires a purposeful state policy on digitization/automatization of the state services offered by the administration.

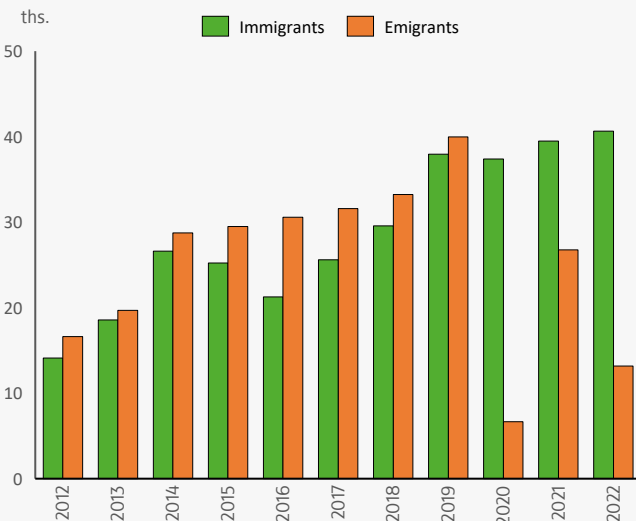


Population by working age status

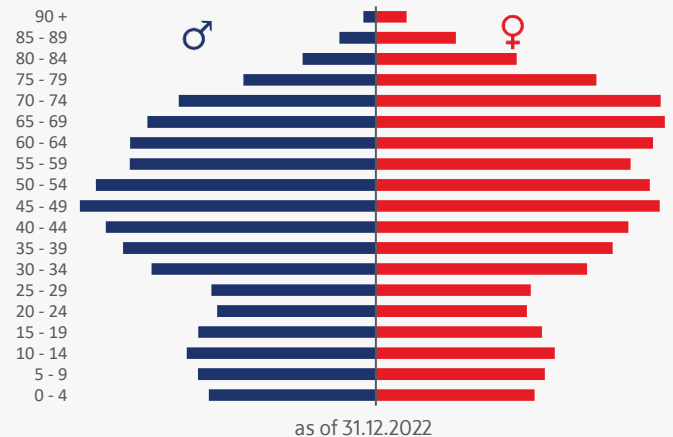


The forecast of Bulgaria's population until 2080 after Census 2021 was also revised, and the big picture looks even more dramatic. The labour market will be thinning more and more, which would create more obstacles for companies to hire new employees. The only possibility to manage with this issue in the mid-term is the development of digital government management and the possible allocation of human resources from public to private sector. However, this requires a purposeful state policy on digitization/automatization of the state services offered by the administration.

International migration



Population pyramid: The process of ageing continues

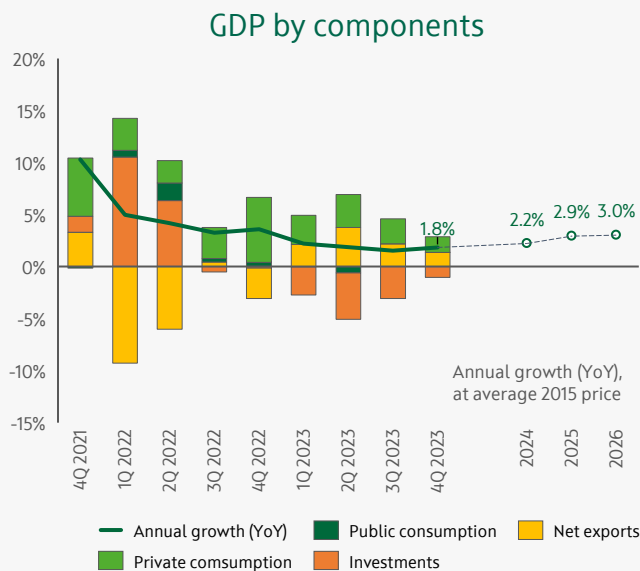
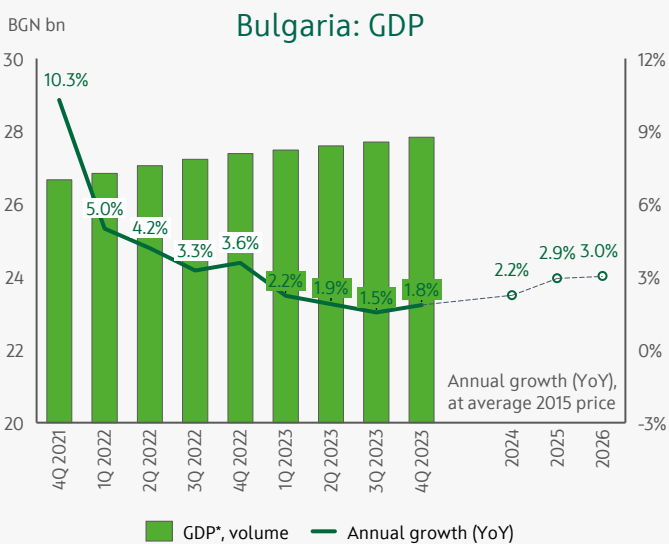




Gross Domestic Product

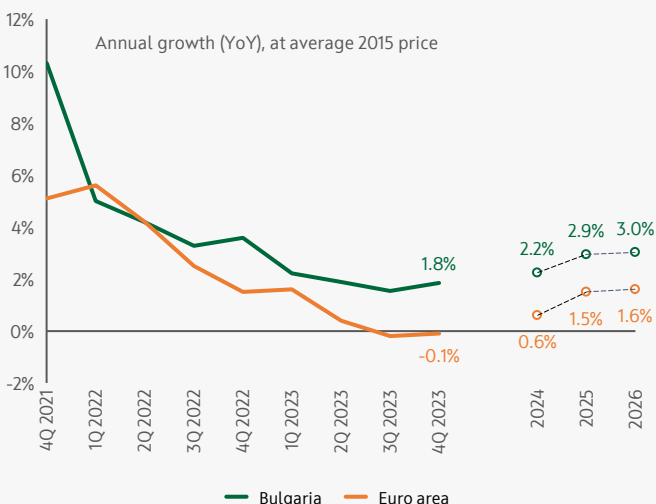
The bottoming out seems to be starting in Europe

The Bulgarian economy exhibited good performance in 2023 despite the challenges posed by a stagnant European economy, persistent high interest rates and inflation. The main contributor of this growth is **private consumption**, which continued to perform well, influenced mainly by the growth of disposable income of the population and low interest rates on newly granted consumer and housing loans. Additionally, **net exports** also contributed positively to **GDP** growth, the main reason for this being the larger decline in **imports** relative to **exports**, because of which the negative trade balance shrank to BGN-5 bn (2023) from BGN-9 bn (2022).



Our expectations for **GDP** dynamics in the mid-term as a catch-up economy are a smooth recovery, characterized by higher annual growth compared to the Euro area average. The contribution of **investments to GDP** growth has turned from positive in 2022 to negative in 2023

GDP, Bulgaria vs. Euro area



mainly due to the behaviour of business during the period with high inflation and the change in inventories. Our expectations for Bulgaria's participation in the Recovery and Resilience Facility have been revised downwards as the average annual investment growth has significantly decreased, along with the projected contribution to **GDP** growth. Bulgarian **export** fell last year by ca. 8%, the reasons for this being the lower prices of most goods, unexpected negative events in the energy sector and the stagnation of economic activity in Europe.

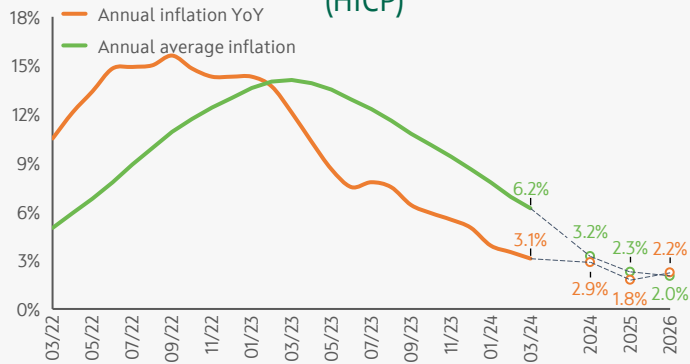
*Seasonally and calendar adjusted data



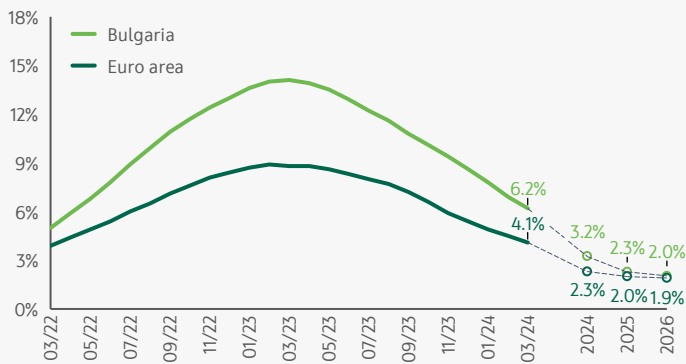
Inflation

A delicate balance between the price stability and monetary policy

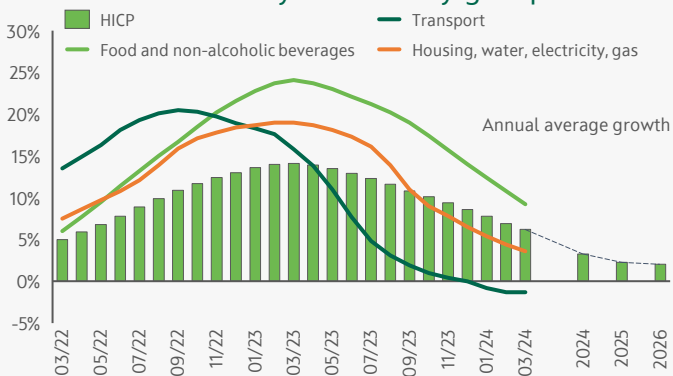
Harmonized Indices of Consumer Prices (HICP)



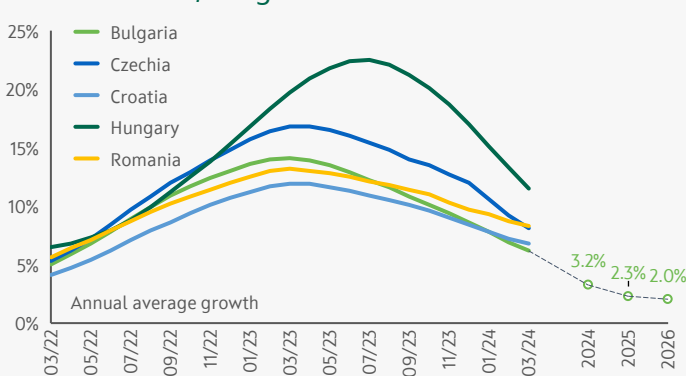
HICP, Bulgaria vs. Euro area



HICP by commodity group*

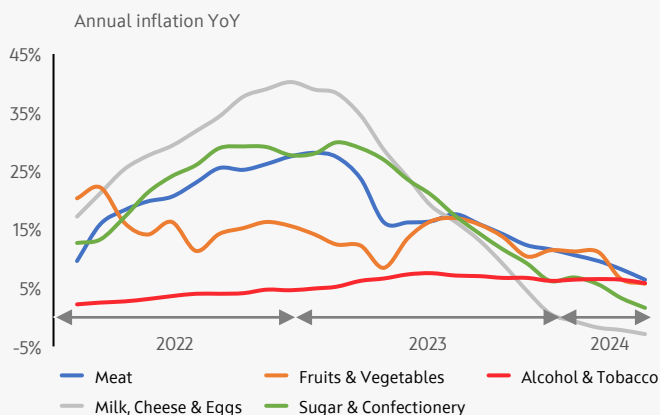


HICP, Bulgaria vs. CEE countries



Inflation worldwide has been falling with each passing month and is moving closer to central banks' targets. However, there are fears about reducing **inflation** to healthy levels for economies. For the time being, restrictive monetary policies are taming **inflation**, but it is still too early to finalize this process due to drivers that can return **inflationary pressure** related to wrong decisions. Compensation for the employed, the effects of military actions in several critical points around the world and trade disputes, together with local elections in major economies put pressure on the **disinflation** trend. In Bulgaria, the dynamics of the disinflationary trend is similar

Basic basket inflation

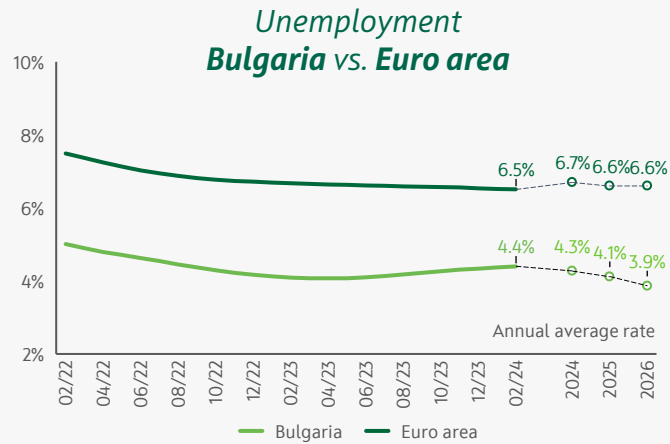
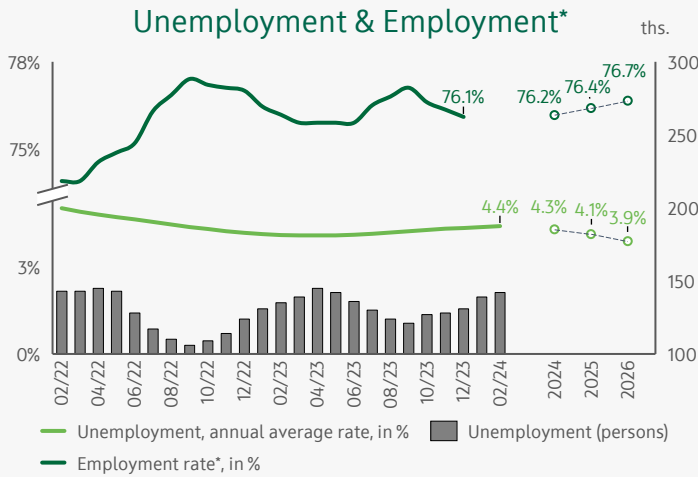


to the external environment, reporting lower level compared to other countries in the region. Our expectations for annual **inflation** are for a few more months to continue to decrease before stabilizing at levels of 2.0-2.5%. These levels will be fuelled in the next years by rising wages and high domestic demand (especially from households). **Inflation** risks: a sharp shift from restrictive to expansionary monetary policy and geopolitical/trade tensions.

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

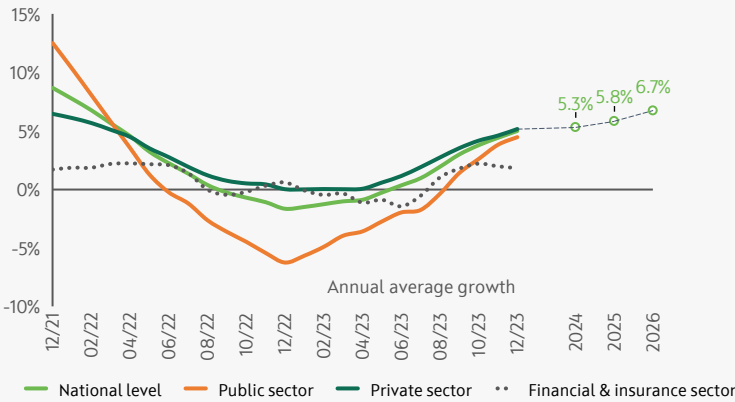
Labour market

One of the main pillars for the good performance of the economy

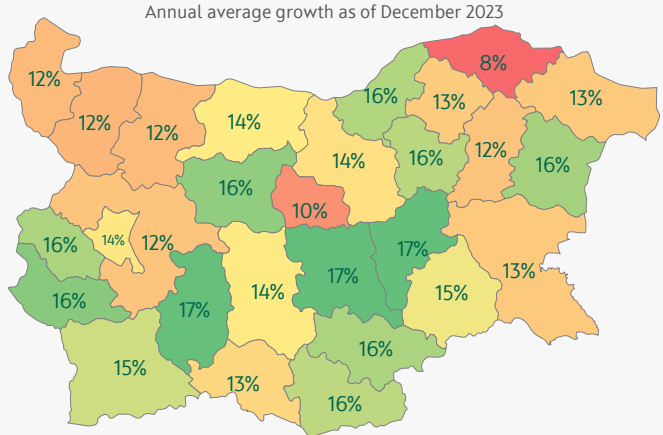


Excluding seasonality, the overall **labour market** continues to perform well in the first few months of 2024. Our expectations in the mid-term are that the market will continue to report positive trends in every aspect, supporting various segments and trends in the economy. From a long-term perspective, however, the negative demographic trend is yet to impact the business environment. For businesses to be successful, they will have to adapt to the new trends of an aging population, as well as catching up with Euro area average wages and declining labour force.

Real wage by sectors



Nominal wage by location



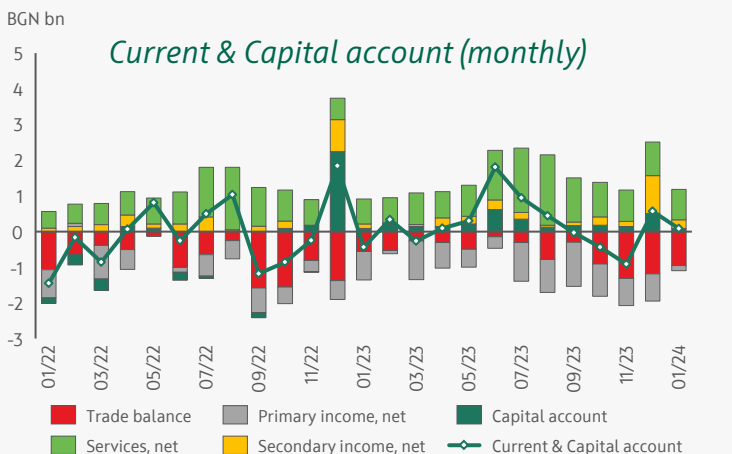
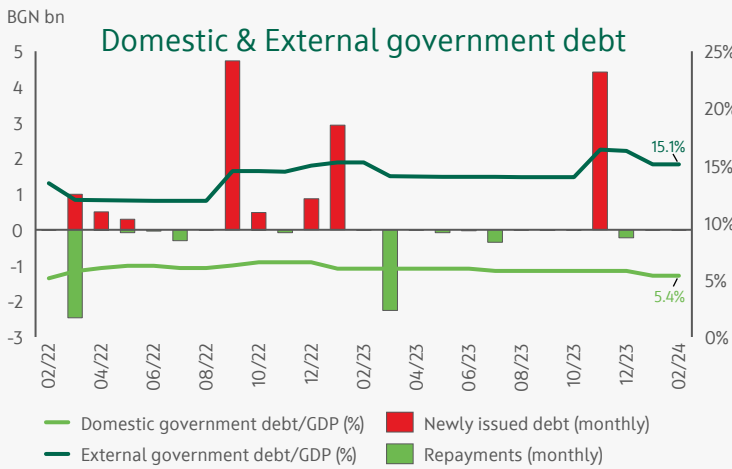
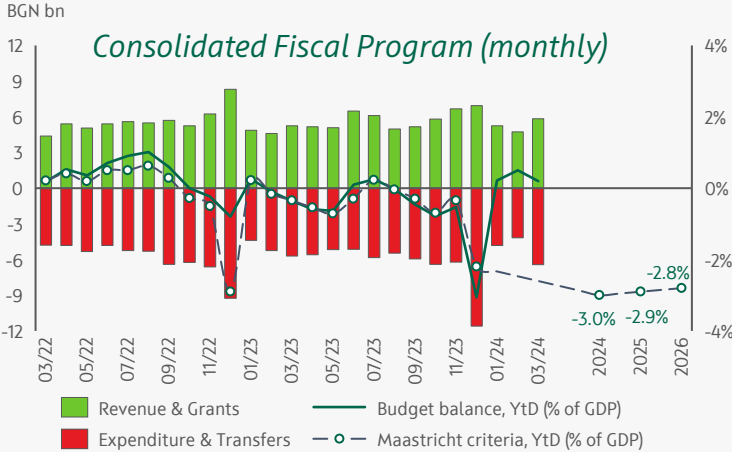
Nominal wage growth continues to be at a high level and for 2023 it reported 12%, corresponding to a real annual growth of 5%. Tight labour supply and the recovery of the economy will continue to put pressure on employers to increase wage, with our expectation over the next 3 years being an average annual increase of 9% (nominal), which corresponds to 6% in real terms. Also, the other driver, which is inflation and the compensating effect of it, subsides over time. We expect the level of unemployment and employment to register smooth positive trends, with unemployment falling below 4% at the end of the projected period, while employment will reach 77% (20-64 years of age).

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



State budget

Political instability again, putting risk on the road to the euro



June 9 – 2-in-1 – early parliamentary elections and European Parliament elections. This is as a result of serious upheavals in the recent weeks within the ruling coalition the failure of the government rotation. This development of the situation jeopardizes the road to the euro and the participation in the Recovery and Resilience Facility.

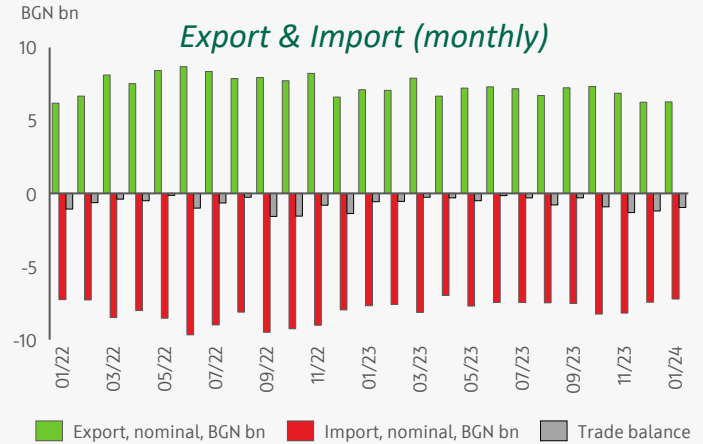
However, we remain optimistic about the adoption of the euro in 2025. The main indication of whether it will happen will be the convergence report of the ECB and the EC, which will be published in June 2024. According to the most recent data, Bulgaria almost fulfills the Maastricht criteria, with only the inflationary one still being an obstacle. Until the publication of the convergence report, the criterion will still not be met due to the higher inflation in Bulgaria.

The **state budget** performed better than expected and reported a deficit of 2.2% of GDP in 2023. As a result, the **government debt** continues to increase in nominal terms, and our expectations are that it will continue to increase smoothly and sustainably due to the chronic **deficits** embedded in the implemented fiscal policy. We do not expect the next regular government to drastically change the course of fiscal policy.

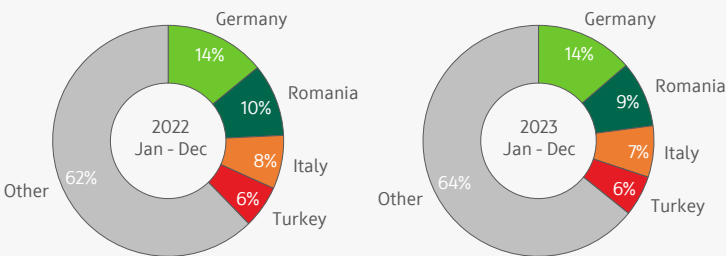
Trade & Investments

Weakened external demand and low inflation largely determine the trade

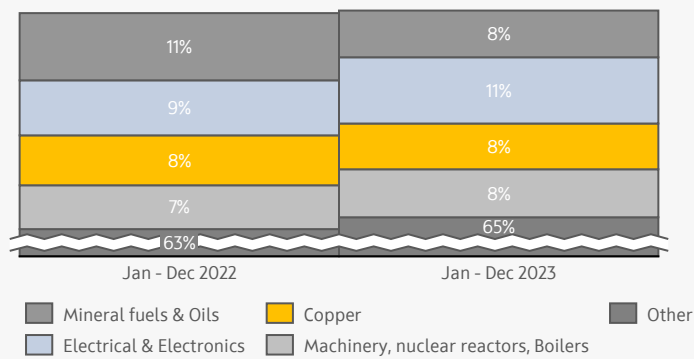
Bulgarian **exports** and **imports** experienced a decline in 2023, with the main driver for this downturn being reduced external demand, which was impacted by the weak performance of the European economy. Additionally, several serious shocks in the energy sector had negative effects on **trade**.



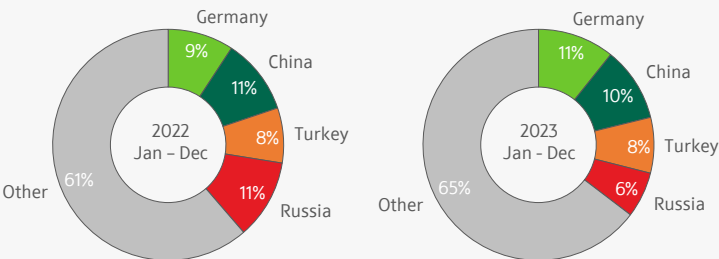
Export, main trade partners



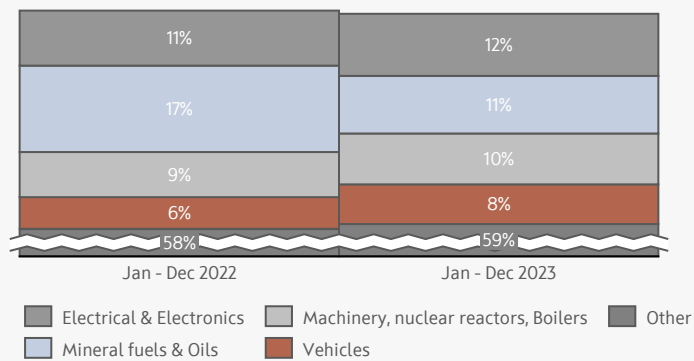
Export by category



Import, main trade partners

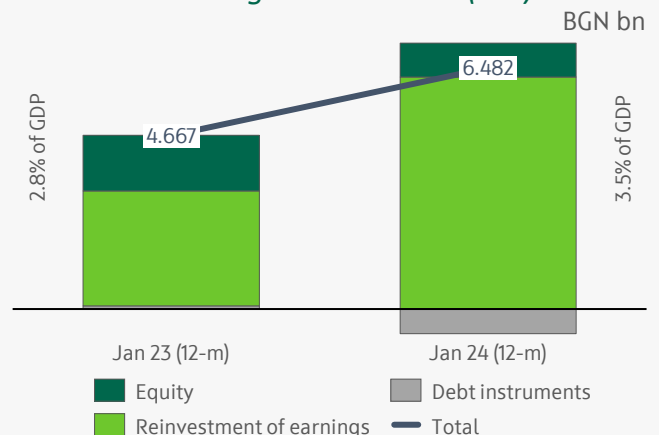


Import by category



Investment goods reported the largest annual growth of 11% in **exports**, while food (-17%), non-ferrous metals (-17%), and petroleum products (-33%) reported serious declines. Although total **exports** decreased in 2023 compared to 2022, exports to China demonstrated a growth of 30%. **Imports** from Russia are significantly decreasing their share in total imports since the invasion of Ukraine in February 2022.

Direct Foreign Investments (DFI)

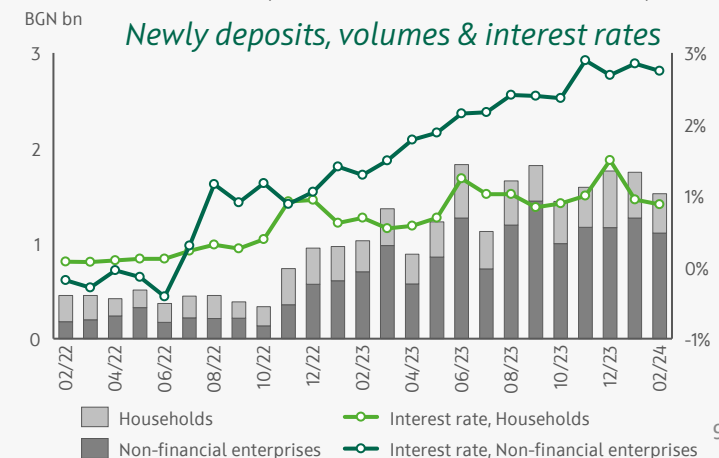
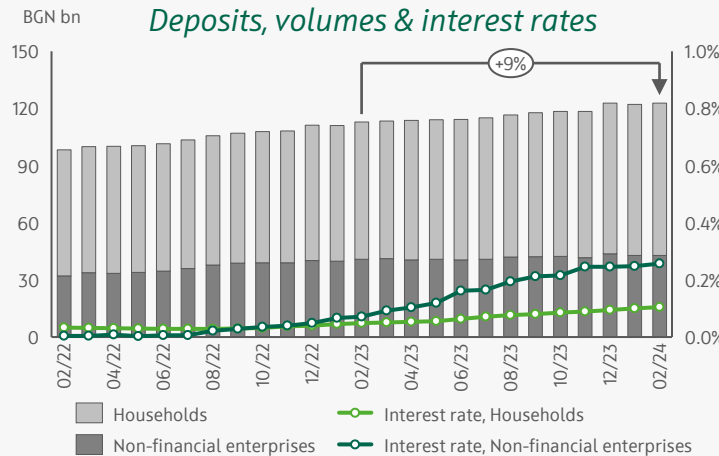
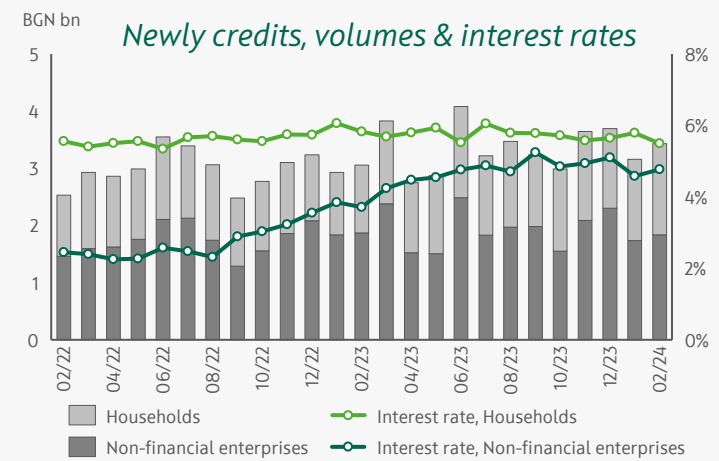
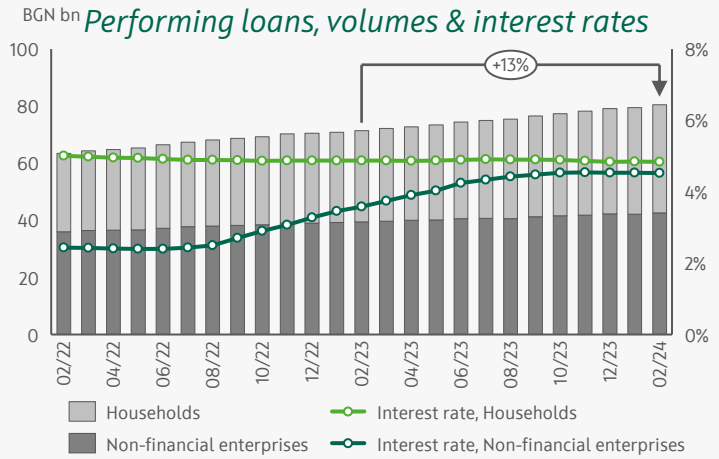


Banking system

ECB interest rates will not reach the expected low levels in the foreseeable future

There is growing optimism in the financial world regarding the initiation of **interest rates** reduction by central banks, and some have already begun the reduction. The restrictive monetary policy has effectively curbed inflationary pressures worldwide to a large extent. However, ensuring that inflation remains within the framework of price stability below 2% in the EU will be a challenging task. Even if this target is achieved, maintaining this level in the foreseeable future will pose another challenge for central banks. Investor intentions for swiftly reducing reference **interest rates** in Europe do not align with the reality and the intentions of the ECB.

The **banking sector** in Bulgaria has demonstrated a strong financial year (2023) with high profitability and efficiency. Non-banking financial players in the market continue to be one of the main drivers for digitalization and optimization with high intensity in the sector. Along with this, strong competition between banks for customers and market share in **lending** to households and high liquidity, **interest rates** continue to remain at low levels. Our expectations for housing and consumer loans **interest rates** are to gradually and prudently increase, avoiding unnecessary tension and stress for customers and their repayment capacity.



Sources

Actual data



NATIONAL STATISTICAL INSTITUTE



MINISTRY OF FINANCE, BULGARIA



BULGARIAN NATIONAL BANK



STATISTICAL OFFICE OF THE EU



MINISTRY OF AGRICULTURE, BULGARIA

Forecasts



DSK BANK, RESEARCH TEAM



NATIONAL STATISTICAL INSTITUTE
(DEMOGRAPHIC FORECAST ONLY)



EUROPEAN CENTRAL BANK
(EURO AREA FORECAST ONLY)

Disclaimer

- ❑ This document was issued by the **Research team of DSK Bank** and whether and in what time frame an update of this analysis will be published has not been determined in advance.
- ❑ The macroeconomic bulletin is for information purposes only and the information contained therein (in whole or in part) may not be disclosed, distributed, reproduced or published for any purpose without the prior and express consent of **DSK Bank**.
- ❑ The Macroeconomic Bulletin is based on publicly available information, the sources of which are indicated above. Neither **DSK Bank** nor the staff of **DSK Bank** assume any responsibility or liability regarding the accuracy or completeness of this document and are not responsible for errors in the transmission of factual or analytical data. **DSK Bank** reserves the right to change this estimate without notice.
- ❑ This document should not be construed as an offer to sell or buy any credit/financial product. The information in this document is general and should not be construed as personal advice as it has not been prepared for any particular investor. Accordingly, investors should, before taking any action thereon, seek professional investment advice.
- ❑ Statements in the macroeconomic bulletin may be considered forward-looking statements that are based on current expectations and projections of future events. This forecast is not a guarantee of future results and includes risks and uncertainties. Actual results may differ materially from those projected as a result of various force majeure circumstances.

Contacts



Petar.Atanasov@dskbank.bg



www.dskbank.bg



0700 10 375

*2375