

# Macroeconomic bulletin

*Summer 2023*

July  
2023



Sovereign credit rating

# Bulgaria

**MOODY'S**  
Baa1 stable

**S&P Global**  
Ratings  
BBB stable

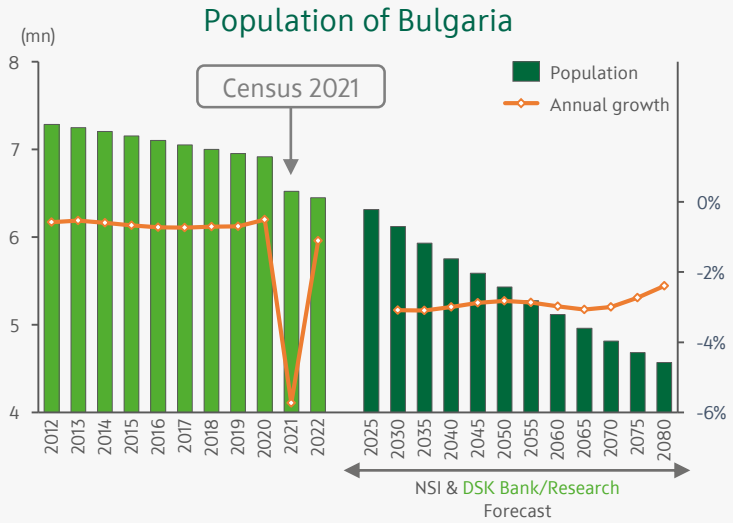
**FitchRatings**  
BBB positive

- ❖ The **world** is still experiencing the consequences of **post-COVID-19**, and with this the ongoing war in **Ukraine** further complicates the international economic environment, which still displays serious uncertainties. A new major economic factor is also shaping up that could lead to another breakdown in trade supply channels, and that is the tension in **East Asia** and **US**. All this reflects in the socio-economic life in every part of the world and has a full effect on consumer prices. Although the world is in **disinflation**, inflation has turned out to be much more resilient than the world expected. **Central banks** continue to hike interest rates as they battle inflation. We expect the ECB to raise interest rates at its next three meetings.
- ❖ **Bulgaria** transitioned to the heating season almost without issues mainly due to the warm winter and the relatively lower prices of electricity and natural gas. Macroeconomic indicators in **Bulgaria** show stable dynamics, only inflation and budget balance are at unhealthy levels, which are in the process of stabilization. As observed worldwide, inflation in the country is also in a disinflationary trend. Falling fuel prices are the main contributors to this trend. Our expectations for inflationary pressures are for inflation to ease sharply until the first few months of 2024, with the main driver gradually shifting from low fuel prices to declining food prices.
- ❖ We expect for the newly formed **government** between the two largest political parties through a rotation basis to be rather **unstable**, even more so with local vote coming up in the Autumn 2023. We confirm our forecast for a high probability of 2-in-1 elections (local & early parliamentary).

# Demographics

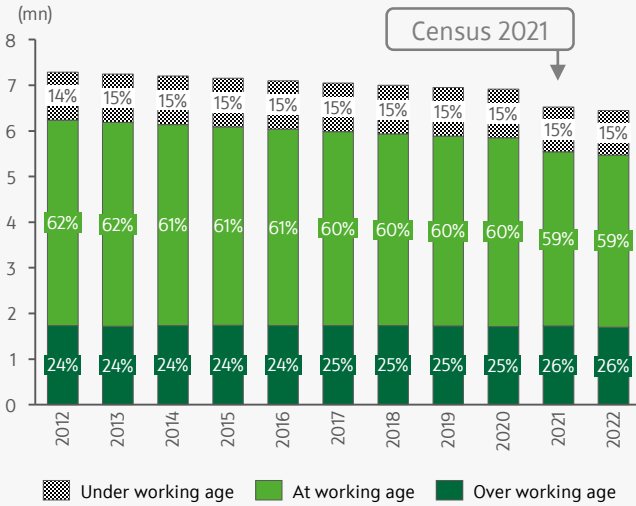
## The big picture looks even more dramatic after the revised forecast

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

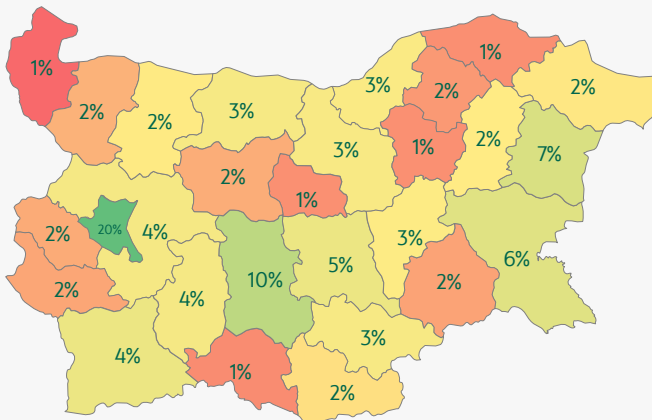


revised, and the big picture looks even more dramatic. The labour market will be thinning more and more, it would be respectively more difficult for companies to hire new employees, and the only possibility to deal with that in the mid-term is the development of digital government management and the 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.

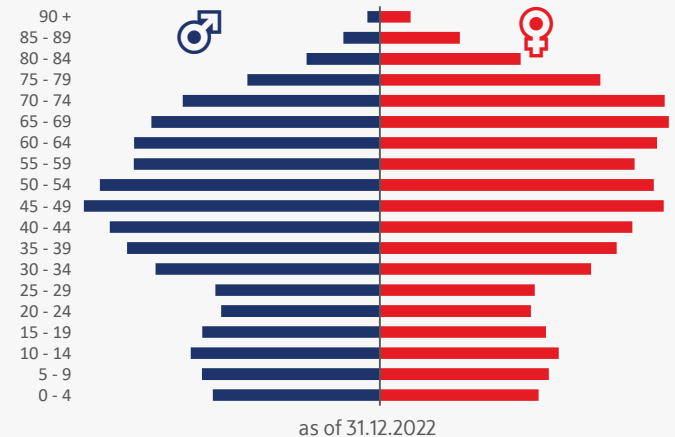
### Population by working age status



### Population by administrative regions as of 31.12.2022



### Population pyramid: The process of ageing continues



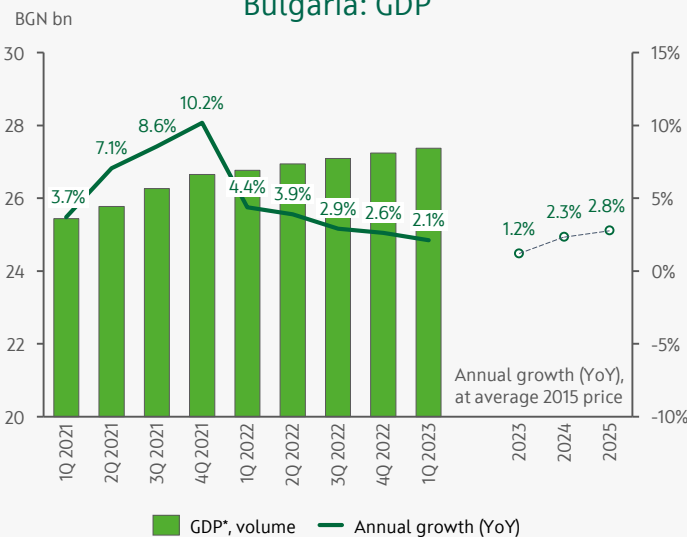


# Gross Domestic Product

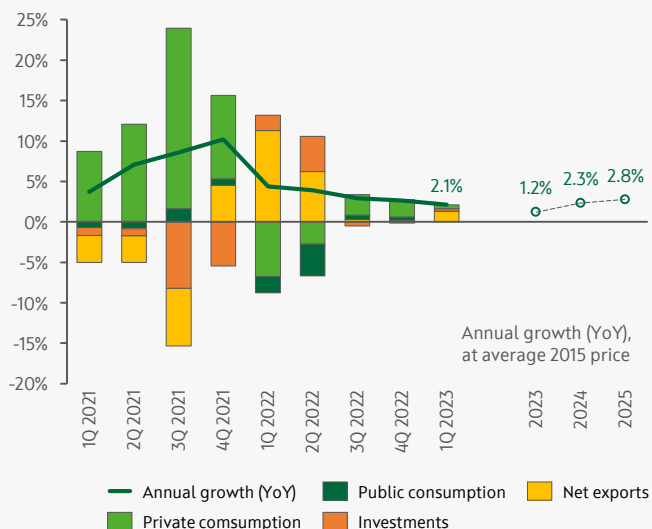
**Bulgaria will avoid the expected recession, while some Euro Area countries are already in it (or at least in a technical recession)**

As expected, the Bulgarian economy continues to show cooling of economic activity in sync with the Euro Area, although the expected shallow recession in Bulgaria did not materialize, meanwhile in some economies in Europe there is a recession (or at least a technical recession) such as Germany, Hungary, etc. **Private consumption** as the main element of **GDP** which has also has showed a positive contribution in the first quarter of 2023. However, its impact is decreasing, mainly due to high inflation, and expectations are that it will be also affected by the rise in interest rates on household lending.

### Bulgaria: GDP

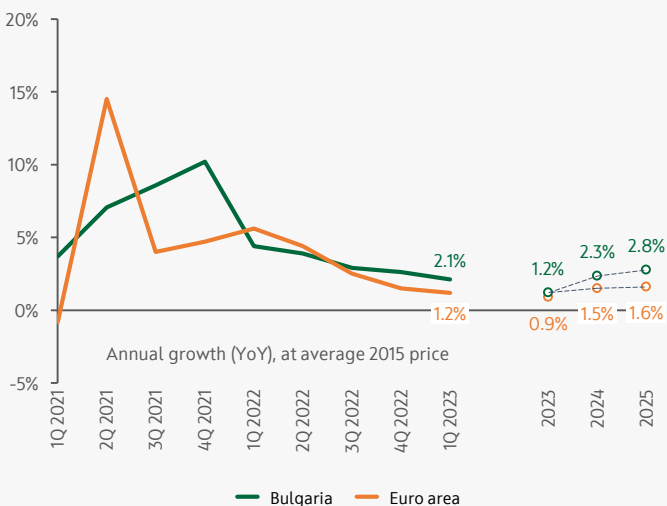


### GDP by components



**Investments** have also contributed to **GDP** growth, albeit significantly below a their long-term potential. We expect **investments** in the mid-term to increase their contribution to **GDP**, which would be supported by the Recovery and Resilience Facility and the stable credit rating of the

### GDP, Bulgaria vs. Euro area



country despite the past few years of political turbulence. **Net exports** in the past year have showed enviable annual growth. In the first quarter of 2023, **export** growth outpaced **import** growth and this contributes to a positive trade balance, which in turn is the largest contribution to **GDP** growth for the first quarter of 2023. Our **GDP** growth expectations are by the end of 2023, to fluctuate between 1-2% in the remaining three quarters of the year and end at 1.2% for 2023, before rebounding to 2.3% in 2024 and 2.8% in 2025.

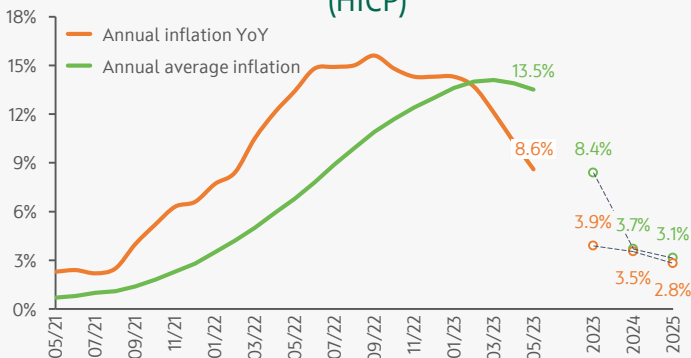
\*Seasonally and calendar adjusted data



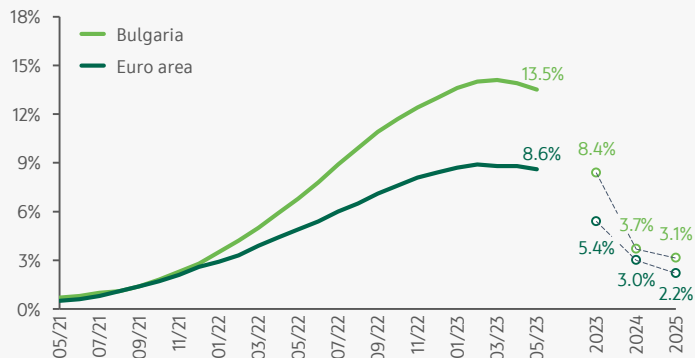
# Inflation

The economy faces disinflation: the question is what dynamic it will develop with and until when

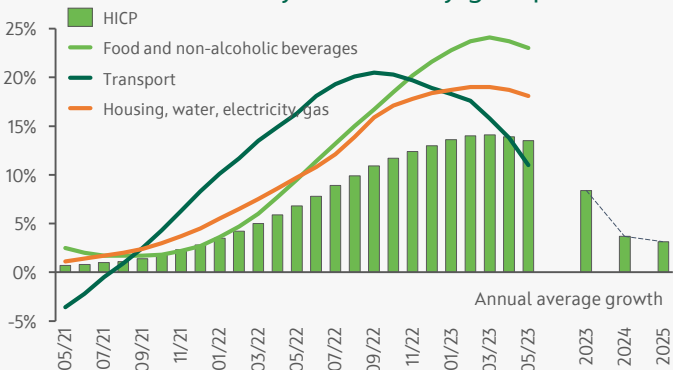
### Harmonized Indices of Consumer Prices (HICP)



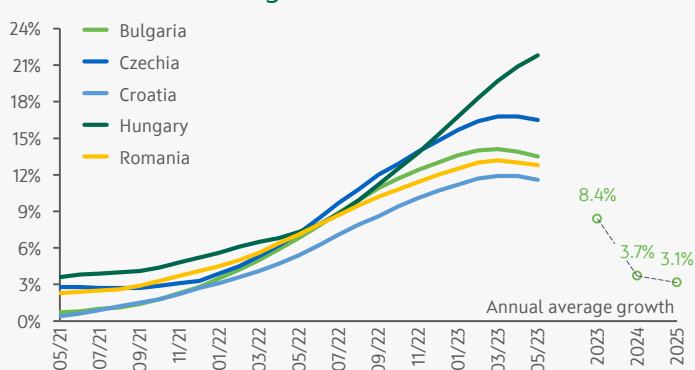
### HICP, Bulgaria vs. Euro area



### HICP by commodity group\*



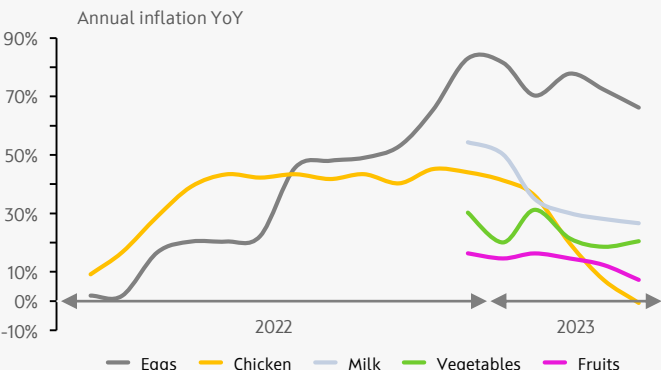
### HICP, Bulgaria vs. CEE countries



Many of the factors that led to high **inflation** last year have cooled. International trade, transport fuels, speculation are in the past and currently the Bulgarian economy is experiencing **disinflation**. However, **inflation** in some basic food products and non-alcoholic beverages remains at high levels and this is seriously affecting consumer behaviour and consumption. Speculative **inflation** is observed in some sectors, which will inevitably slow down the process of normalizing consumer prices in the economy and fulfilling the Maastricht criteria for **inflation**.

We expect annual average **inflation** at the end of 2023 to be ca. 8% (Harmonized Indices of

### Basic food inflation



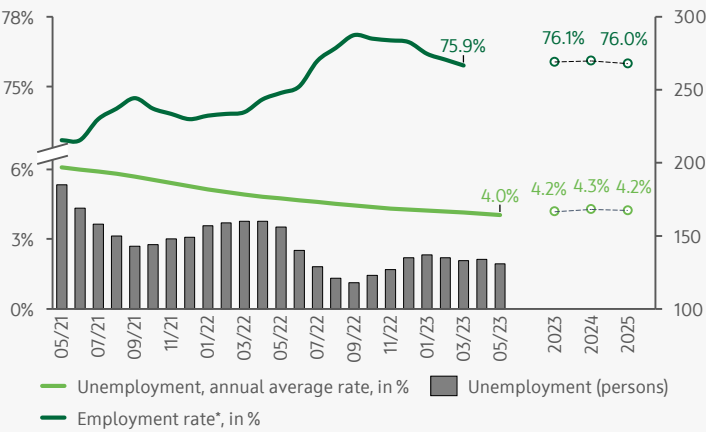
Consumer Prices), which has been revised from Macroeconomic bulletin Spring 2023. In our baseline scenario, we do not expect the ongoing war in Ukraine to have major negative effects on **inflation**. Also, part of our assumptions is that the main energy sources and agricultural commodities would not demonstrate a serious deviation from their current prices on the international market.

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

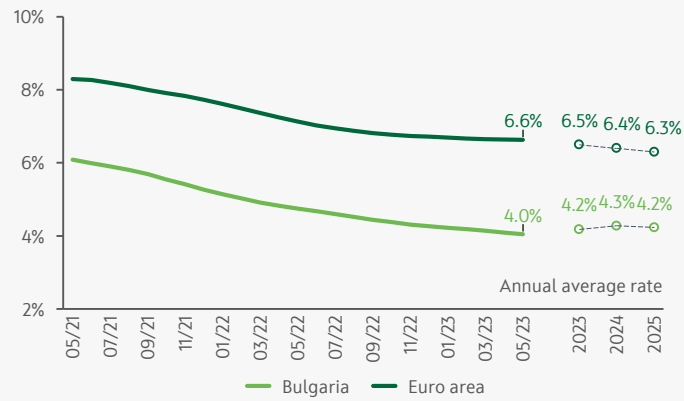
# Labour market

Government and companies incentives (incl. wages) can increase aggregate supply on the labour market

Unemployment & Employment\*

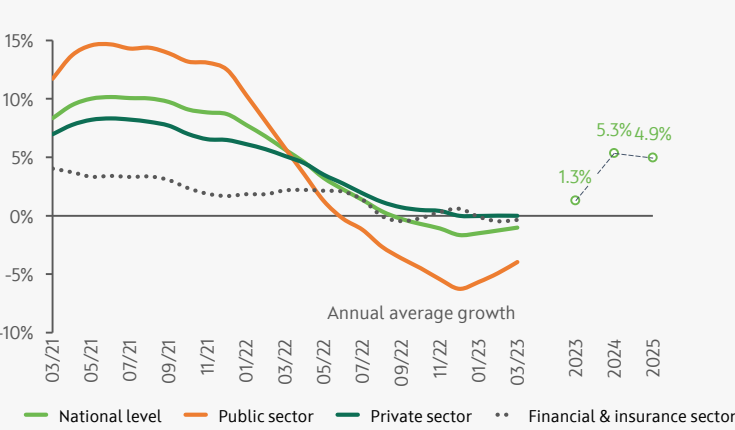


Unemployment, Bulgaria vs. Euro area

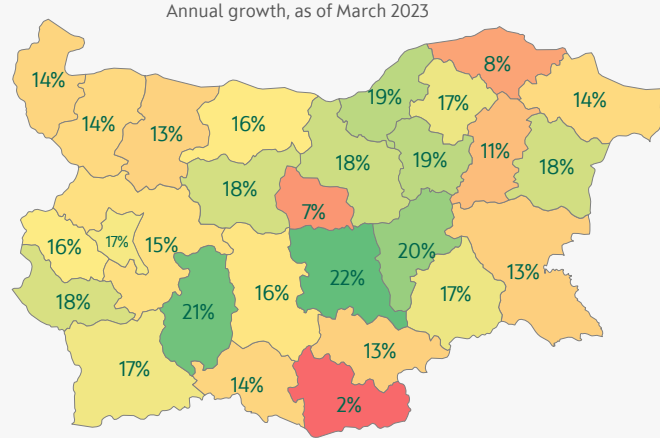


Labour market continues to demonstrate particularly low levels of unemployment not only in Bulgaria, but also in other EU countries and the US. However, unemployment in Bulgaria is still far from the natural rate of unemployment and there is potential for increasing employment. For this purpose, it will be increasingly difficult for companies to “woo” new workers. At the height of the tourism season, many companies will again find themselves in a situation where they will have to hire employees from other countries (most often Non-EU countries) due to demand outpacing local supply.

Real wage by sectors



Nominal wage by location



The government will restore its regional policy to increase employment in regions with high level of unemployment. This will further boost the labour market and as a result, we expect nominal wages to continue to show strong annual growth in the mid-term at 10%. However, real wage growth in 2022 contracted by 2%, mainly due to high inflation. The financial and insurance sector will continue to demonstrate relatively higher annual wage growth, with growth expected to be ca. 12% in the next three years.

In some regions in Bulgaria, wage growth in real terms was significantly undermined last year.

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

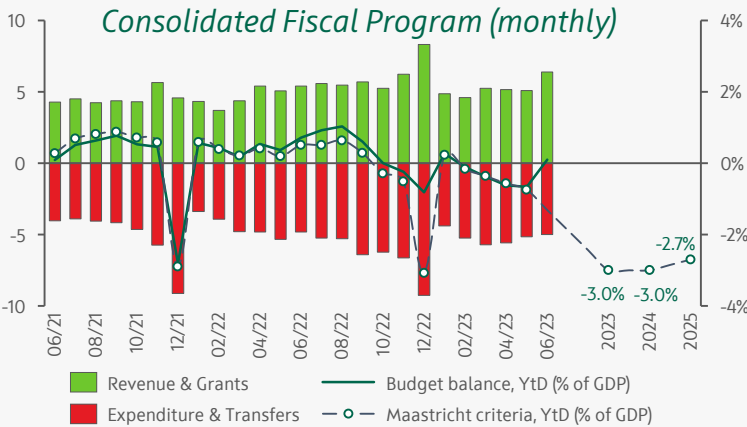


# State budget

## The way towards the accession of Bulgaria to the Euro Area continues with high priority after the formation of a regular government

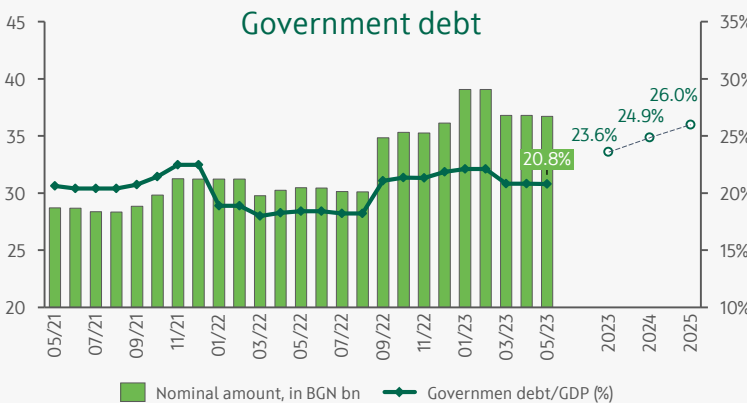
BGN bn

### Consolidated Fiscal Program (monthly)



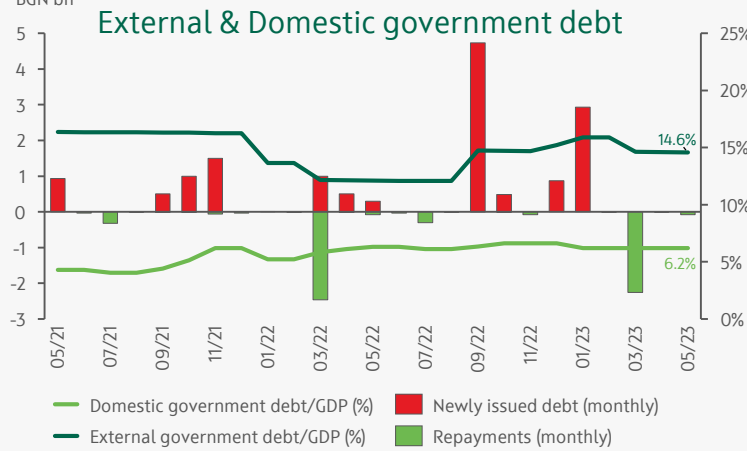
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### Government debt



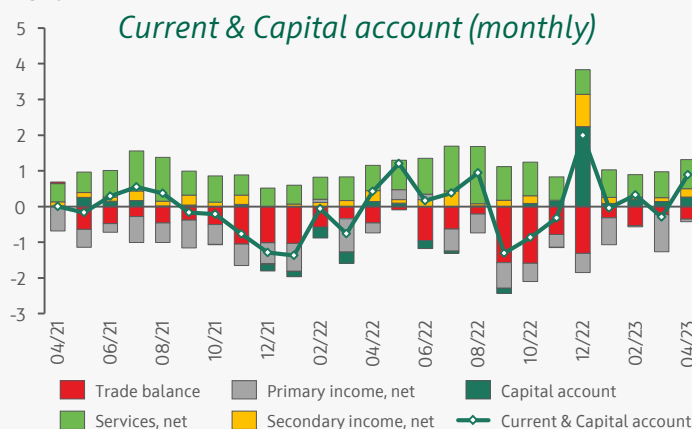
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### External & Domestic government debt



BGN bn

### Current & Capital account (monthly)



After another early parliamentary election was held in the Spring 2023, the two largest parties formed a coalition. They signaled that they will work with high priority on the **state budget**, Bulgaria's accession to the Euro Area, judicial reform and the implementation of numerous recommendations with the aim of Bulgaria's active participation in the Recovery and Resilience Facility (RRF). However, fears of a misunderstanding in the coalition and in the Autumn 2023 a 2-in-1 vote (local and new early parliamentary elections) remain.



One of Maastricht's criteria (Euro Area joining) covers **government debt** (% of GDP), and in the forecast period there are no indications that Bulgaria will go into excessive debt. The second measure is the **government surplus/deficit**. After a regular government was formed (albeit on a rotational basis) fears of an excessive **deficit** have reduced significantly, although there is still a risk of exceeding 3% at the end of 2023 due to the sharp rise in spending and the lack of revenue growth and tax collection.

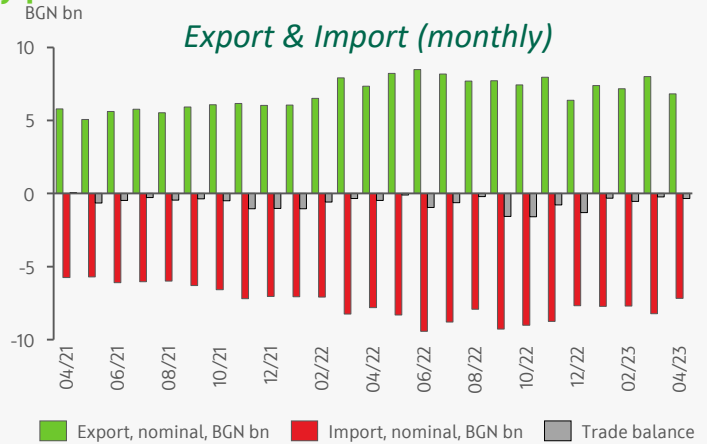


Our mid-term expectations are for **government debt** to increase with healthy annual growth coming from planned **deficit** close to but below 3%.

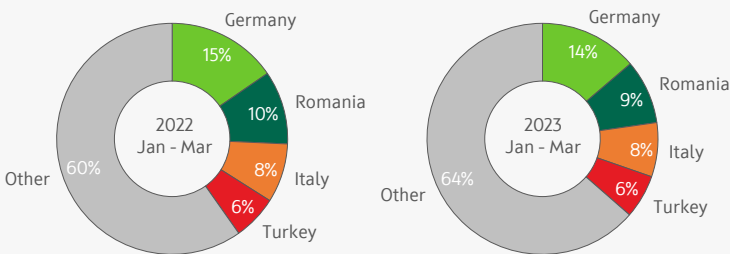
# Trade & Investment

**Increasing net exports due to investment goods and high consumer prices (food, pharmacy, clothes) despite lower electricity price**

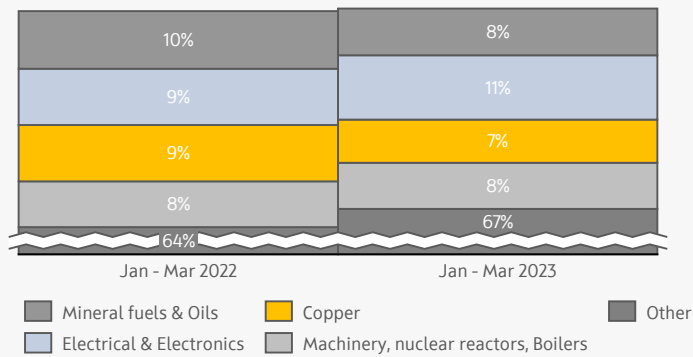
As of the end of April 2023, cumulative export and import continued to show annual growth, nonetheless significantly lower rates. This confirms the openness of the economy to foreign markets and sensitivity to the external environment. Bulgarian trade with Russia sharply reduced compared to a year ago (especially in terms of imports).



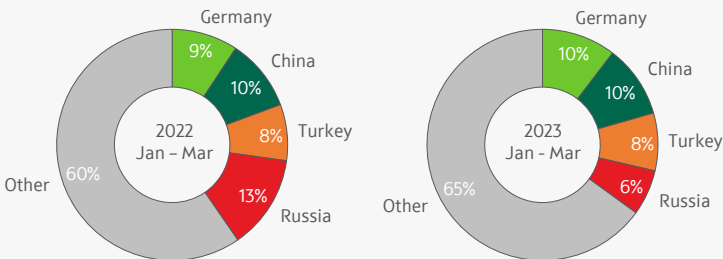
## Export, main trade partners



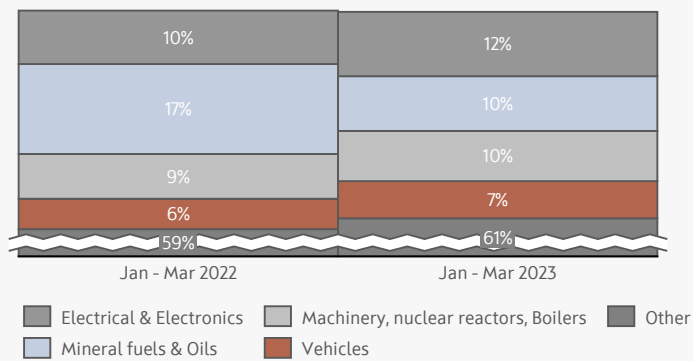
## Export by category



## Import, main trade partners

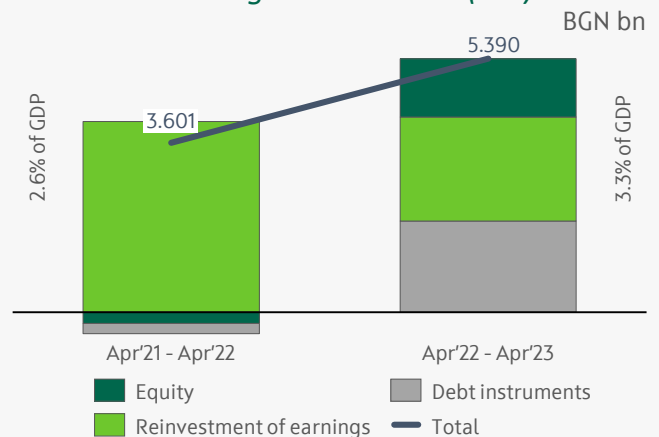


## Import by category



The main group of goods that have a positive effect on growth in exports are investment goods, such as vehicles & machinery, which in turn show significant annual growth in nominal terms. On the other hand, the amount of exported electricity is decreasing on an annual basis mainly due to the decreased/cooled price of the electricity.

## Direct Foreign Investments (DFI)



**Investments:** We expect for them to be positively impacted by the RRF in mid-term.

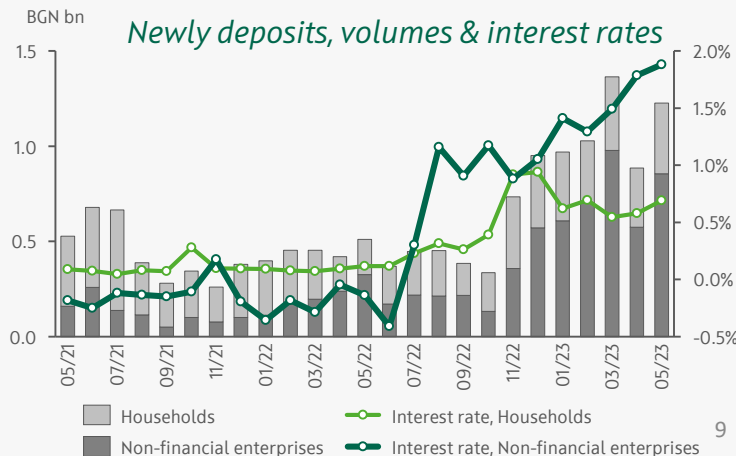
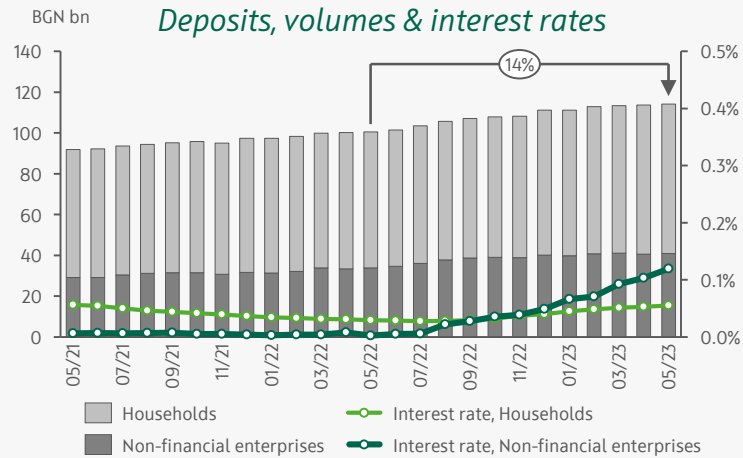
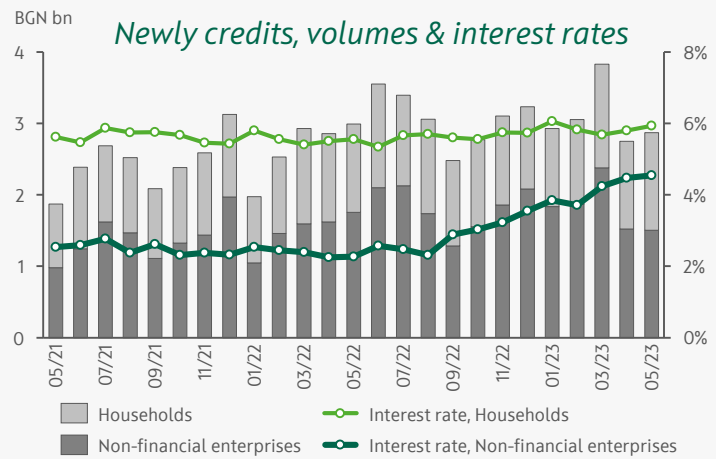
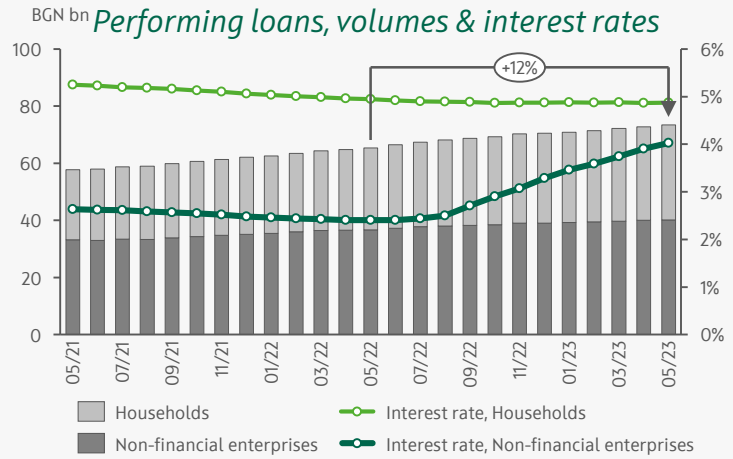


# Banking system

## EURIBOR will continue to hike until the end of the year

Banking sector profit in Bulgaria continues to report significant results at the end of April 2023, mainly due to an increase in the interest spread for business loans and liquid position. **Loans-to-deposits ratio** is ca. 66%, remaining stable compared to previous year and well below risk levels of 90-100%. This balance is the result of relatively uniform growth in **loans** and **deposits** in all segments. Interest rates on company loans have increased rapidly in full sync with the rise in Euribor. Futures suggest all Euribor rates to increase gradually by 5-10 bp per month till year end and the Euribor 3M to reach 3.8-3.9% as of year-end. Then Euribor will slightly decrease as ECB is expected to start decreasing rates. Euribor is directly dependent on ECB policy. ECB is expected to raise rates in the next 3 meetings (June, July and September) and probably to keep the same levels after then. A potential decrease of ECB rates is not expected in 2023 but may happen in the first quarter of 2024.

Despite the hike in interest rates, **housing lending** in Bulgaria remains one of the cheapest in the European Union, as interest rates on new production continue not peeling off the bottom.



# Sources

## Actual data



NATIONAL STATISTICAL INSTITUTE



MINISTRY OF FINANCE, BULGARIA



BULGARIAN NATIONAL BANK



STATISTICAL OFFICE OF THE EU



MINISTRY OF AGRICULTURE, BULGARIA

## Forecasts



RESEARCH TEAM, **DSK BANK**



NATIONAL STATISTICAL INSTITUTE  
*(DEMOGRAPHIC FORECAST ONLY)*



STATISTICAL OFFICE OF THE EU  
*(EURO AREA FORECAST ONLY)*

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