

Macroeconomic bulletin

Summer 2024

July
2024



Sovereign credit rating

Bulgaria

MOODY'S
Baa1 stable

S&P Global
Ratings
BBB positive

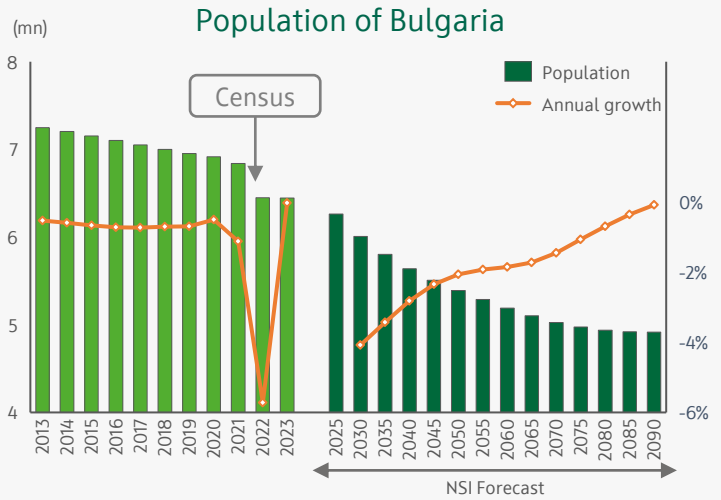
FitchRatings
BBB positive

- ❖ Everyone and everything is waiting for November - the month of the **US presidential elections**. In addition, elections in other developed countries also predetermine the tendency in 2024. The tension between **Israel** and **Iran** has been "postponed", because of which the price of **oil** continues to fluctuate between \$80-\$85 per barrel. Although with short-term deviations, the disinflationary trend continues with the ultimate target of central banks for inflation to get on track (ca. **2%**) by the end of 2024 - the beginning of 2025. The **ECB** has started the long-awaited loosening of the "interest rate" belt with claims for two more reductions by the end of the year. Due to the persistent inflation across the ocean, the **Fed** is currently giving cautious statements about its monetary policy. The **Eurozone** economy is experiencing headwinds and tailwinds - the strong labour market, falling inflation, and expectations for lower interest rates are threatened by political upheavals.
- ❖ **Bulgaria** is also undergoing a political crisis, formed after the next early parliamentary elections. Despite this, the economy continues to perform well, with the labour market in Bulgaria also being of major merit. Low unemployment and a shortage of labour force are putting pressure on nominal wages.
- ❖ The European Commission and the ECB confirmed that **Bulgaria** still does not meet one of the numerical criteria - inflation. In addition, their legislative recommendations and monitoring are mentioned. **New target date: January 1, 2026.**

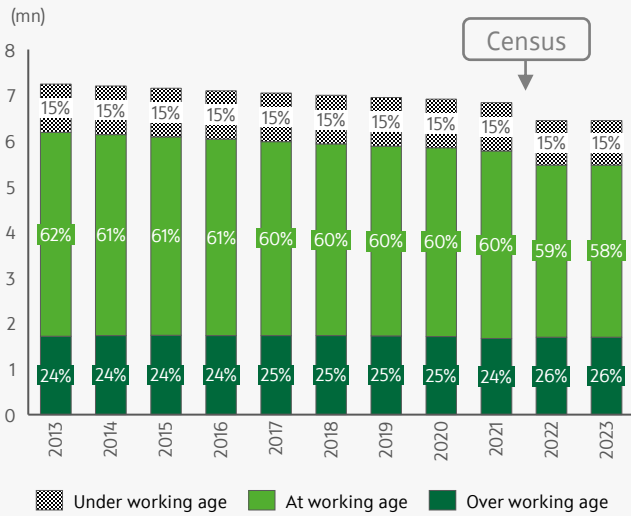
Demographics

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 changing the serious decrease in the population in 2023 is the larger number of people who have settled in the country.

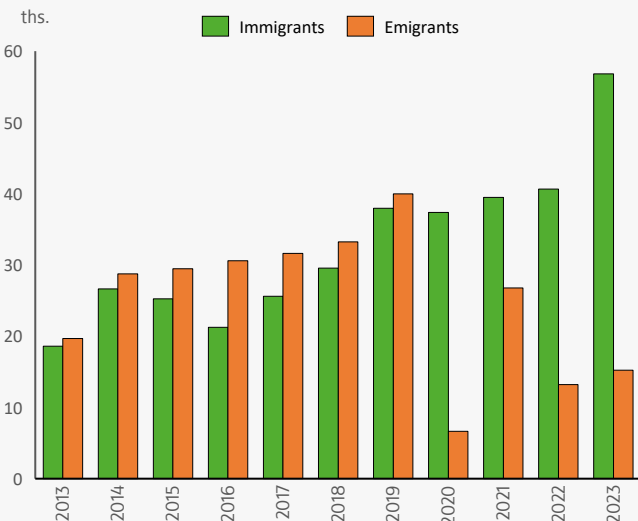


Population by working age status

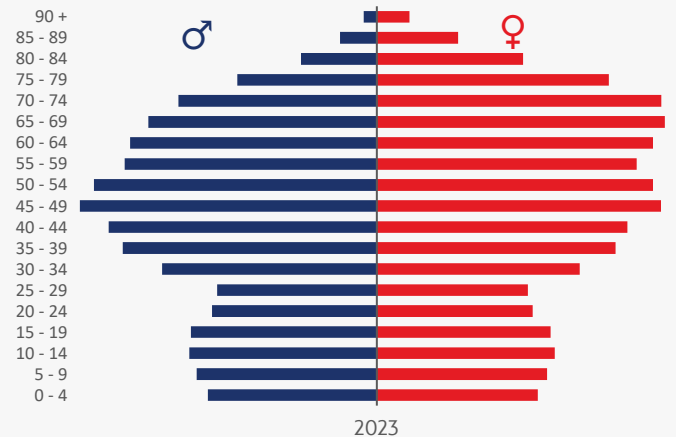


Nearly 60 thousand people have settled in, with the main reason for their migration being "job", coming from countries outside the EU - mainly from Ukraine and Turkey. The long-term trend shows a decrease in the population over the last 20 years by an average of 1% per year or nearly 67 thousand people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

International migration



Population pyramid: The process of ageing continues

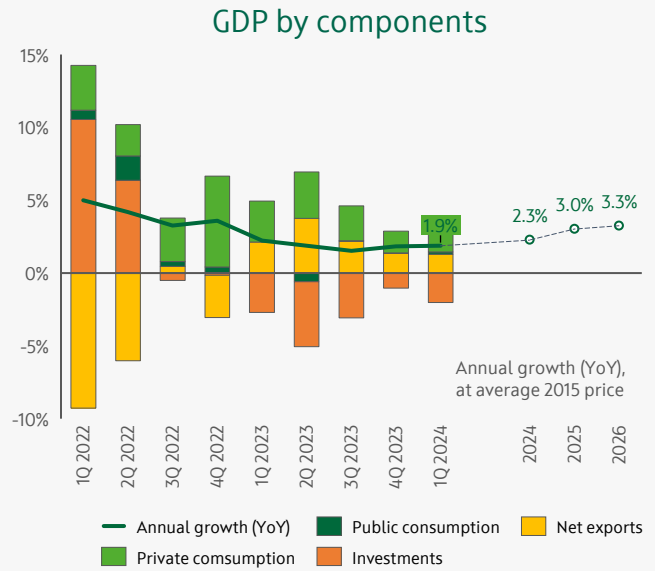
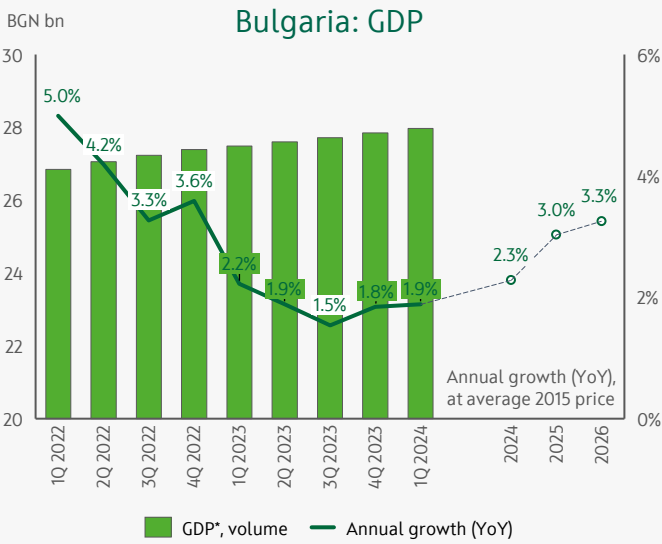


GDP

Gross Domestic Product (GDP)

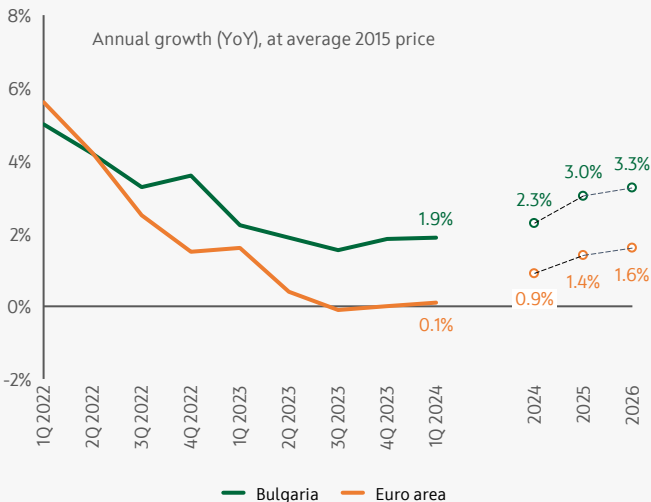
Good performance and optimistic forecast for mid-term dynamics

The Bulgarian economy reports annual growth of 1.9% in the first quarter of 2024. The main driver remains **private consumption**, which is still fueled by the strong labour market and rising incomes of the population. Low interest rates on lending to households also made a positive contribution. **Public consumption** has remained a neutral contributor to GDP growth over the past few years, although it has potential. **Investments** report strong volatility caused by political turbulence and the significant delay in the absorption of European funds by the Recovery and Resilience Facility (RRF).



After reporting serious growth during high inflation and the start of the war in Ukraine, the **inventory changes** over the last two years continue to report a decline as a sign of calming business sentiments and positive expectations in the continuity of production. After the cooling

GDP, Bulgaria vs. Euro area



of Bulgarian **imports** and **exports**, which began at the start of 2023, the latest data indicate a resurgence in trade volumes. Our mid-term expectation is to maintain a negative trade balance of ca. BGN 6-7 bn, generated by the higher growth of imports compared to the growth of exports. We have revised upwards the mid-term GDP growth forecast mainly due to more favourable external economic conditions.

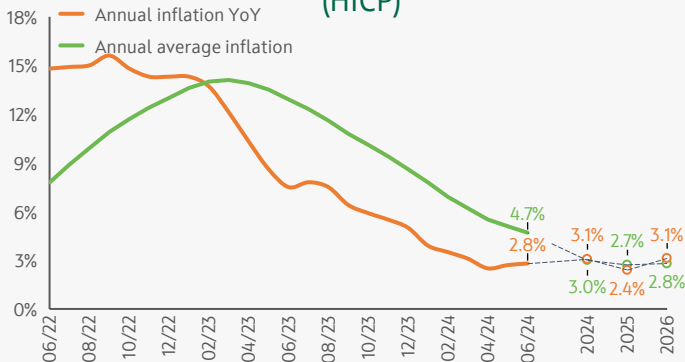
*Seasonally and calendar adjusted data



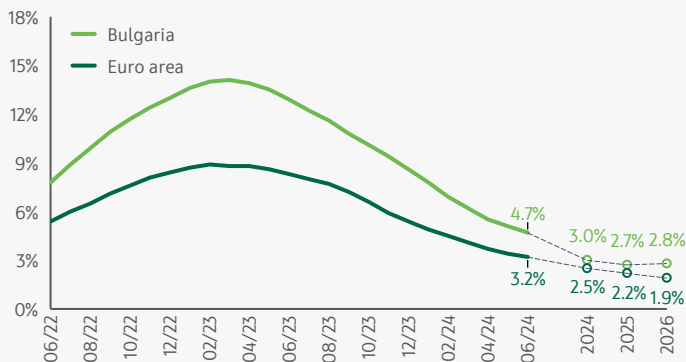
Inflation

Subduing inflation unlocks the hands of central banks

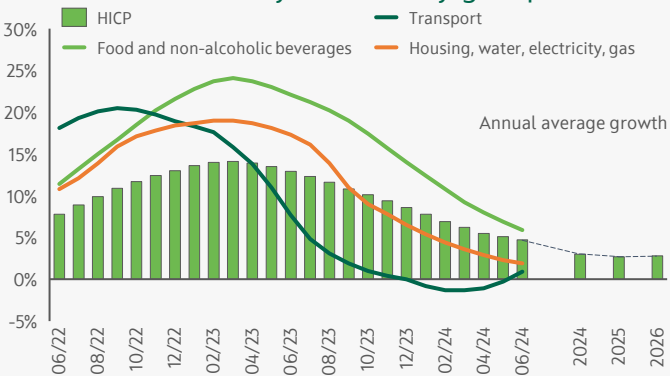
Harmonized Indices of Consumer Prices (HICP)



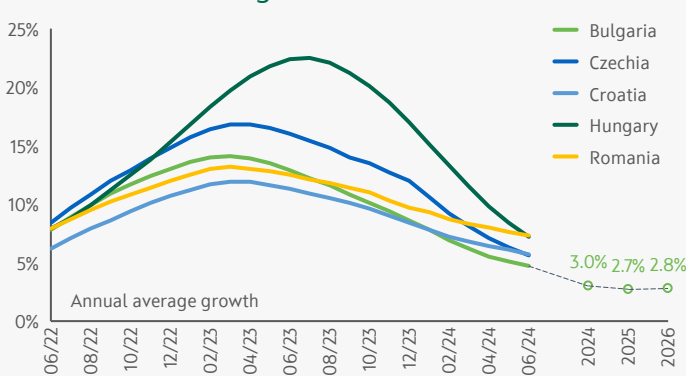
HICP, Bulgaria vs. Euro area



HICP by commodity group*

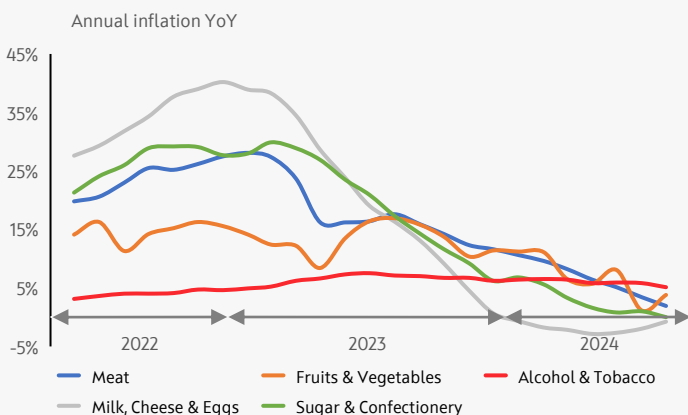


HICP, Bulgaria vs. CEE countries



Compared to a year ago, **inflationary pressure** has significantly decreased, yet expectations are for a more prolonged and stubborn **inflation**. The annual increases in consumer prices are at low levels, but looming risks seriously undermine expectations for low **inflation** in the mid-term. The balance is fragile, with the likelihood of price destabilization again, mainly caused by increasing incomes, expectations for a relaxation of restrictive monetary policy, and military tensions in Ukraine and Gaza. Here, the new president of the USA and his subsequent actions in every economic and military aspect will be of crucial importance. Our mid-term inflation expectations

Basic basket inflation

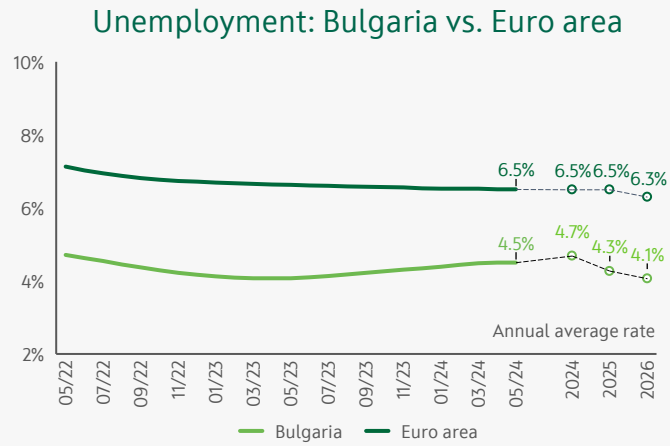
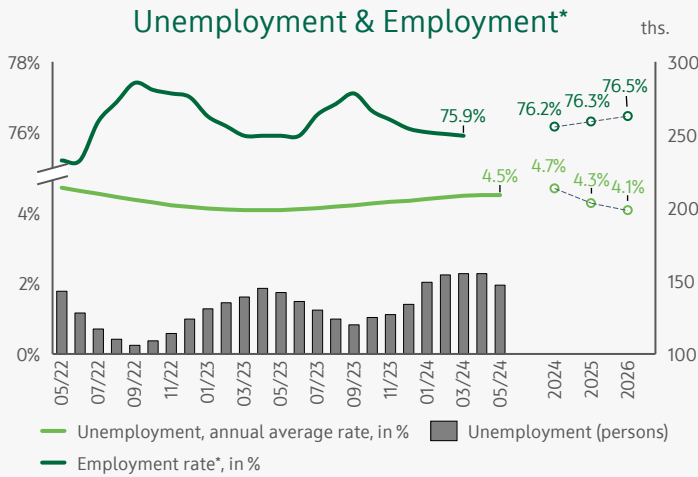


anticipate continued pressure due to the increasing disposable incomes of households and the relatively low interest rates on new business loans granted to households. Consequently, during the projected period from 2024 to 2026, we expect **inflation** in Bulgaria will hover ca. 2.8%, slightly exceeding the acceptable target of 2%.

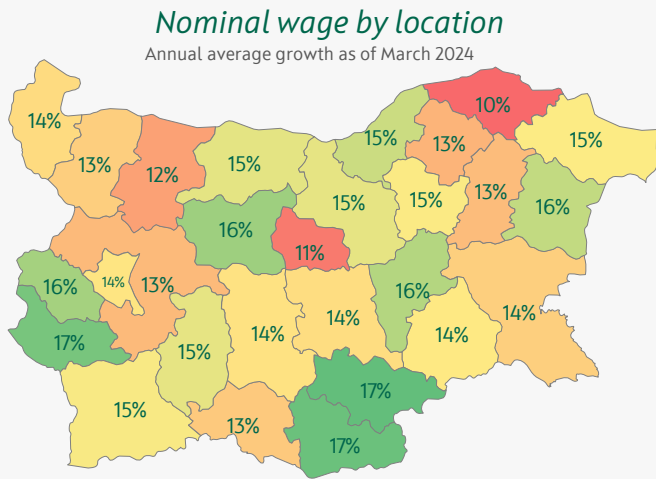
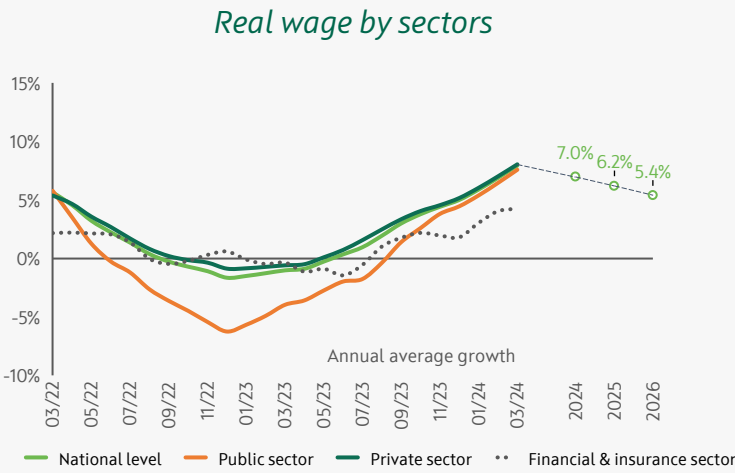
*Three consumer groups with the largest weights in the HICP general basket are presented

Labour market

Looking forward to a strong and sustainable collaboration between human capital and AI



In the peak of the summer season, the topic of labour shortage is a major one in the tourism. The process for importing workers remains sluggish, further hindering business. The largest number of foreign workers come from countries such as Turkey, Ukraine, and Uzbekistan, low-skilled, starting work in sectors such as tourism, construction, and transport. According to our projections, **unemployment** (12-m average) will gravitate ca. 4%, fueling nominal wages.



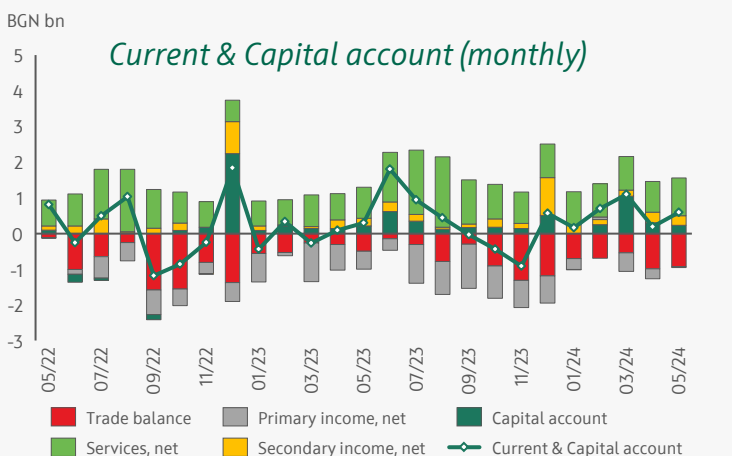
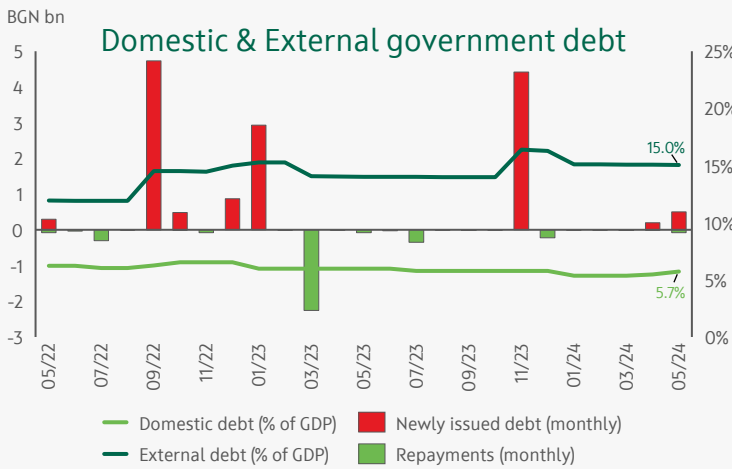
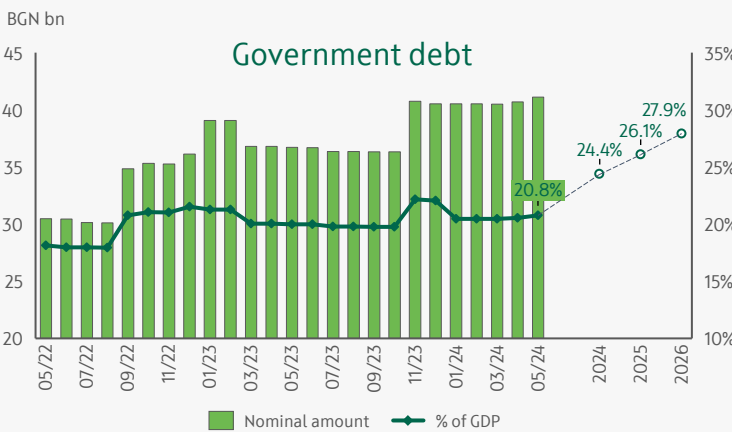
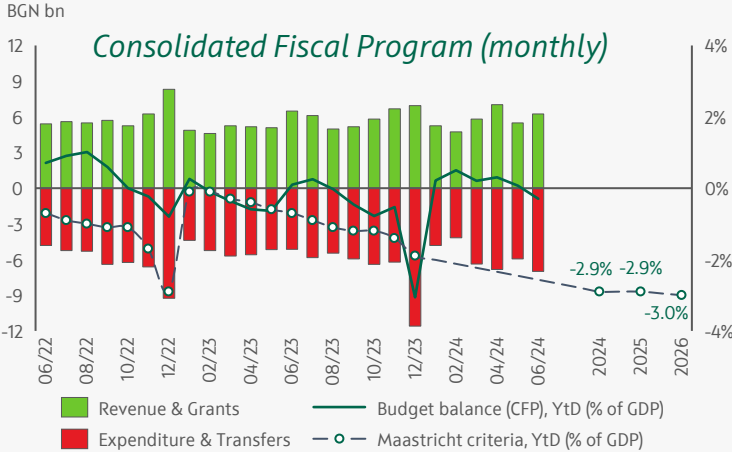
As of March 2024, the average monthly **salary** is BGN 2 070, with expectations to reach ca. BGN 2 200 by the end of 2024 and continue to increase by BGN 170 - 190 per year in the projected period from 2024 to 2026. In the long term, the recovery of economic activity in Bulgaria and the Euro area will bring about an even greater need for labour force, which will be increasingly eroded by the negative demographic trend and the declining "at working age" population. **An alternative solution** would be modernization/digitization, with the aim of increasing labour productivity, especially in the public administration, 100 000 people employed in the sector.

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



State finance

The road to the euro remains but has been extended. Political instability again



After the recent early parliamentary elections in Bulgaria, the political situation has worsened, putting into question key directions for the country's development. The adoption of the euro is being postponed with a new target date: **January 1, 2026**. The instability also leads to a serious delay in the absorption of European funds by the Recovery and Resilience Facility (RRF), with some of these amounts being irretrievably missed.

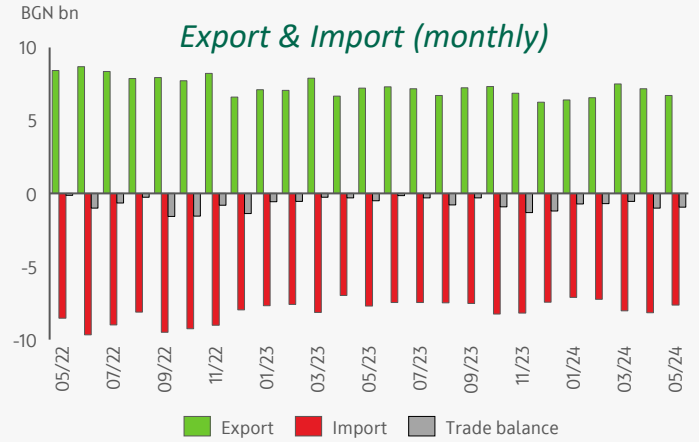
Despite this, the **state finances** do not show deterioration now - the **government balance** demonstrates a deficit of -0.3% (as of June 2024) with a surplus of +0.3% a year ago. Our mid-term forecast allows for the **budget** to report a deficit of ca. -3% at the end of each of the years under review, while on an accrual-based balance (**Maastricht criterion**) it should be slightly below 3%. The main driver for the deficits is expected to be the continuing fiscal policy of increasing social transfers.

The **government debt** as of May 2024 is BGN 41 bn or 20.8% of GDP, and our expectations are for a gradual increase mainly coming from chronic budget deficits.

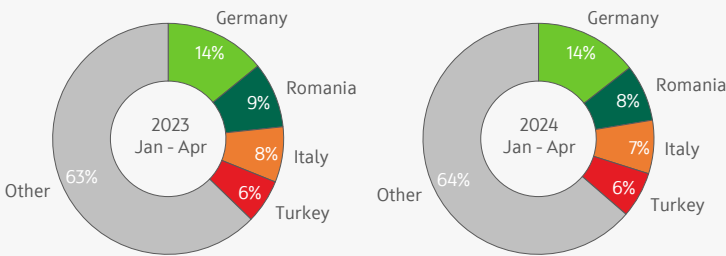
Trade & Investments

Tailwinds for the trade, headwinds for the investments

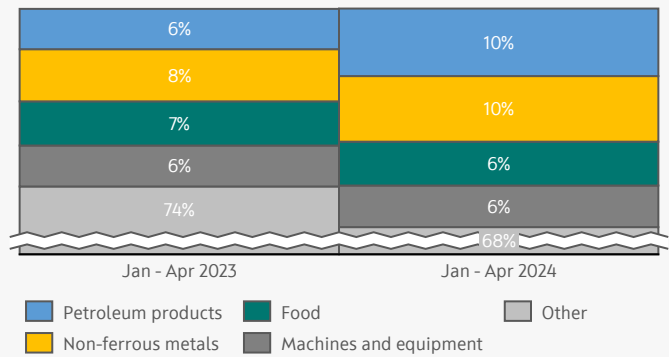
The current year begins with optimistic expectations for the development of **trade**, as the main factors will be the recovery of external demand for Bulgarian goods and services and the improvement of trade conditions with countries outside the European Union.



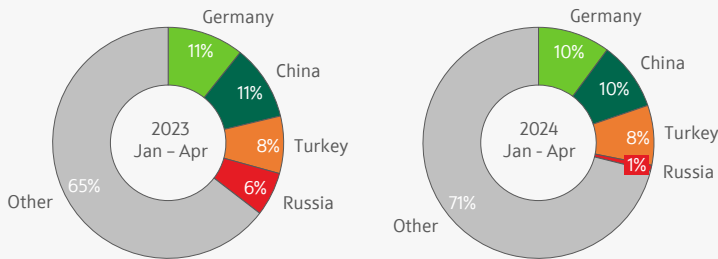
Export, main trade partners



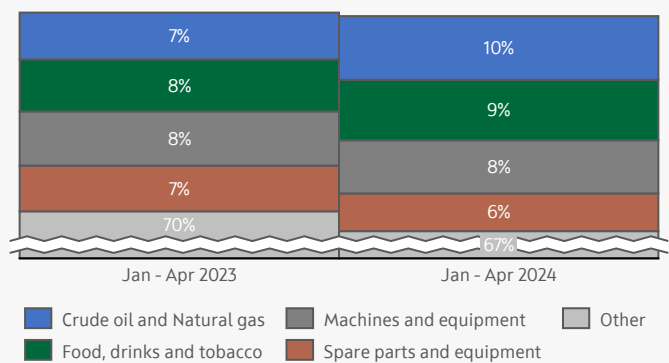
Export by category



Import, main trade partners

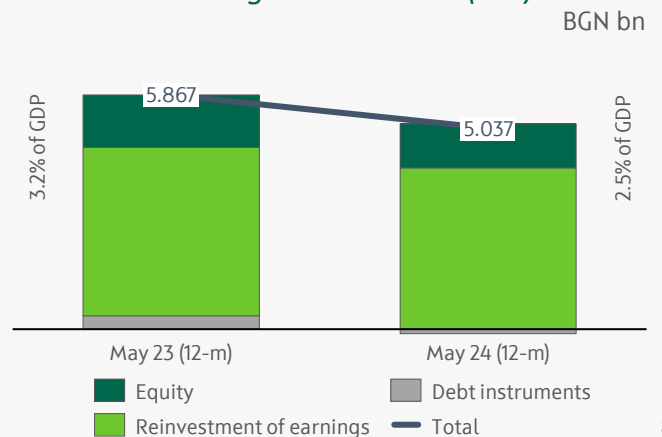


Import by category



The share of goods **exported** from Bulgaria to third countries is gradually increasing, forming "new" trading partners in the face of the USA, China, and Turkey. The rapid development of some of these countries predisposes to increasing demand, which Bulgaria can take advantage of by increasing its **trade** turnover. **The import** of energy resources is being diversified, replacing Russia with other suppliers.

Direct Foreign Investments (DFI)

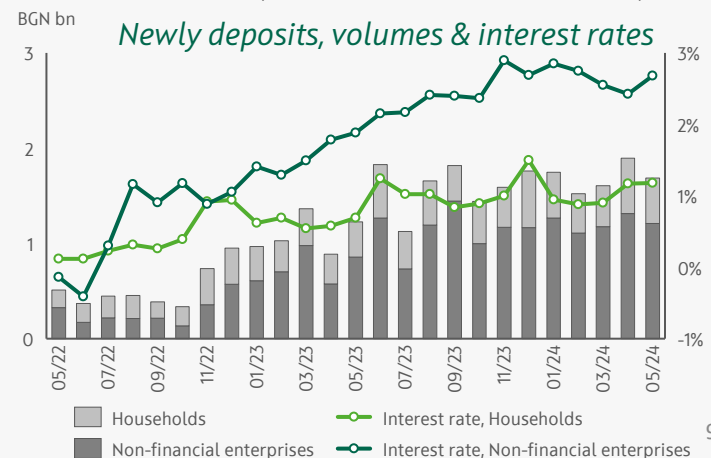
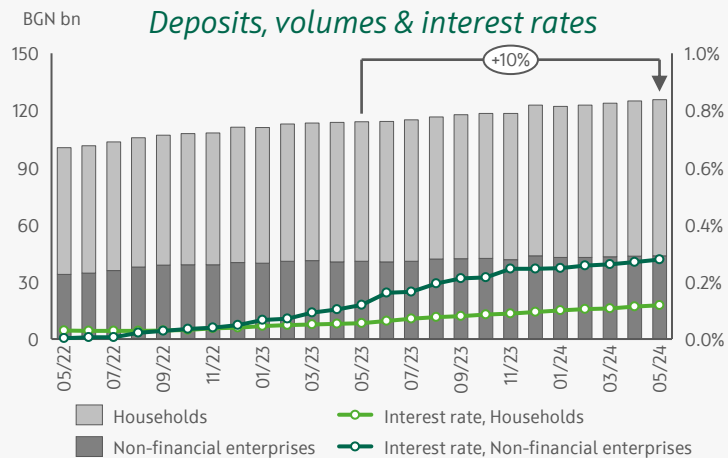
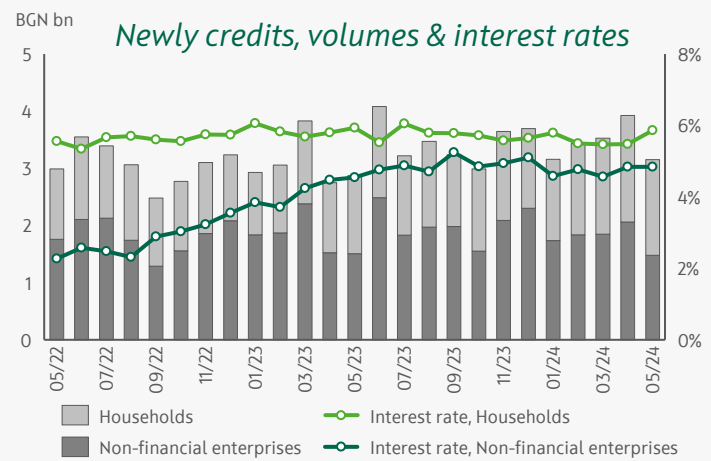
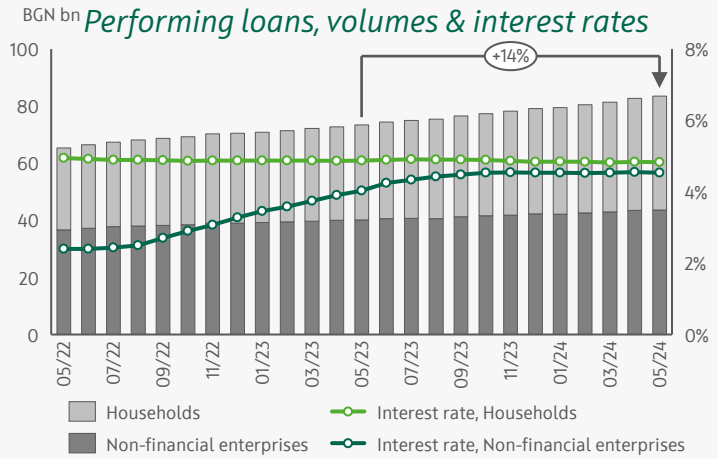


Banking system

Another strong year is shaping up for the banking sector

Central banks - how much, when, and at what cost ... As the financial sector expected, central banks began to ease the nearly year-long restrictive monetary policy. European Central Bank has lowered its interest rates by 25 basis points, expecting to do so two more times by the end of 2024. Federal reserve is also considering lowering interest rates, but with certain reservations about its actions, due to persistent inflationary pressure. All of this will support the **lending** to companies in Bulgaria, which showed a quick adaptation to the monetary policies implemented by the central banks. This is not the same case with consumer and housing **lending**, which is still taking place at low levels and shows a weak transmission of monetary policy.

Considering expectations for a drop in interest rates in Europe, the monitoring of the Central bank, the development of the economy, and the adoption of the euro in Bulgaria in 2026, our medium-term forecast forms a steadfast and perpetual advancements of the banking sector in Bulgaria with calming annual growth rates in both loan and deposit activities.



Actuals & Forecasts

Annual rate of change

2022 2023 2024 2025 2026
Actuals Forecast

Gross Domestic Product

Real GDP Growth	3.9%	1.8%	2.3%	3.0%	3.3%
Private Consumption	4.0%	4.9%	3.7%	3.8%	3.4%
Public Consumption	6.7%	-3.1%	1.1%	2.1%	3.1%
Investments	11.5%	-18.1%	-0.2%	3.1%	3.1%
Exports	11.6%	-1.9%	2.3%	4.2%	4.9%
Imports	15.0%	-6.3%	3.1%	4.9%	4.9%

Inflation & Housing prices

Consumer Price Indices (CPI)	16.9%	4.7%	2.8%	2.5%	3.6%
Consumer Price Indices (CPI) (12-m avg)	15.3%	9.5%	2.7%	2.6%	3.1%
Harmonized Index (HICP)	14.3%	5.0%	3.1%	2.4%	3.1%
Harmonized Index (HICP) (12-m avg)	13.0%	8.6%	3.0%	2.7%	2.8%
Basic basket* (CPI)	18.8%	7.5%	4.3%	3.7%	5.0%
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%	4.7%	4.3%	4.1%
Employment rate (20 - 64 years of age)	75.9%	76.2%	76.2%	76.3%	76.5%
Monthly wage (12-m avg)	1 739	1 991	2 184	2 376	2 578
Nominal wage growth (12-m avg)	13.7%	14.5%	9.7%	8.8%	8.5%
Real wage growth (12-m avg)	-1.7%	5.0%	7.0%	6.2%	5.4%

State Finance

Government debt (to-GDP)	21.5%	22.0%	24.4%	26.1%	27.9%
Government balance (CFP) (to-GDP)	-0.8%	-3.1%	-3.3%	-2.9%	-3.3%
Government balance (Maastricht) (to-GDP)	-2.9%	-1.9%	-2.9%	-2.9%	-3.0%

Banking sector

Total loans**	13.9%	13.1%	12.0%	9.5%	8.3%
Household loans**	16.7%	17.1%	17.9%	12.1%	10.0%
Company loans**	12.4%	10.6%	7.7%	7.4%	6.9%
Total deposits	15.8%	9.6%	6.3%	9.5%	7.6%
Household deposits	8.3%	11.0%	11.2%	12.8%	9.5%
Company deposits	25.6%	7.0%	1.9%	5.7%	5.5%

*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



NATIONAL STATISTICAL INSTITUTE



MINISTRY OF FINANCE, BULGARIA



BULGARIAN NATIONAL BANK



STATISTICAL OFFICE OF THE EU



MINISTRY OF AGRICULTURE, BULGARIA

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