

# Macroeconomic bulletin

*Winter*  
**2023-2024**

January  
2024



Sovereign credit rating

# Bulgaria

**MOODY'S**  
Baa1 stable

**S&P Global**  
Ratings  
BBB positive

**FitchRatings**  
BBB positive

- ❖ Almost two years have passed since the beginning of the Russian-Ukrainian war that was expected to be over within a few months. Two years later, the fighting continues, support for Ukraine brings with it political contradictions and division of the population. **2023** - the year of **uncertainly**, increasing **hostilities** around the world, **inflationary pressure** and **weak global economic growth**. Unfortunately, most of the factors from 2023 continue into 2024. Wars continue (even with expectations to spread further), threats to international trade, inflation is still far from central banks targets, and high interest rates slowing economic activity and **global economic growth**. **Oil** prices remain steady despite OPEC+ attempts to influence the price upwards but the increased US shale gas production counterbalancing this effect.
- ❖ The Bulgarian economy also slowed its growth in 2023 in line with the slowdown of the European economy. Generally, the **labour market** continues to perform well with unemployment rate remaining at low level, while wage growth continues to report significant increases as a result of which private consumption will be supported by rising household disposable income. **Inflation** has seriously reduced its pressure over the past year, reporting annual inflation of 5%, expected to further decline to 2% at the end of 2024 (HICP, annual inflation).
- ❖ The **Maastricht inflation criterion** for the euro adoption seems unlikely to be met by Bulgaria by the end of April 2024, which calls into question the Euro area entry date - **January 1, 2025**.

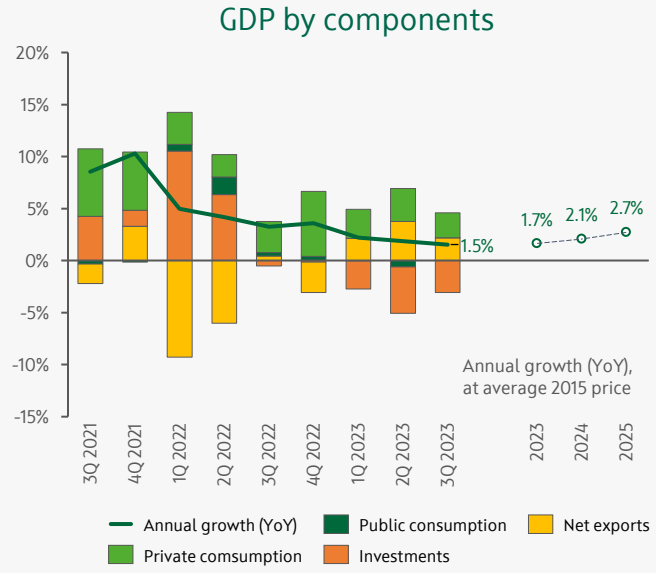
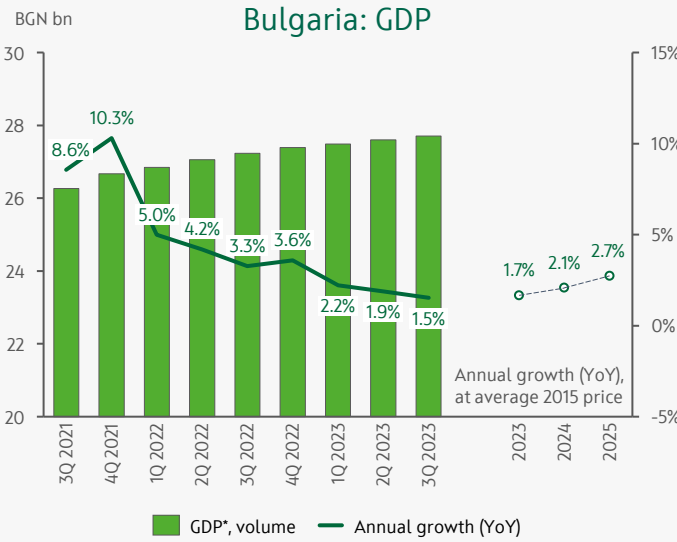




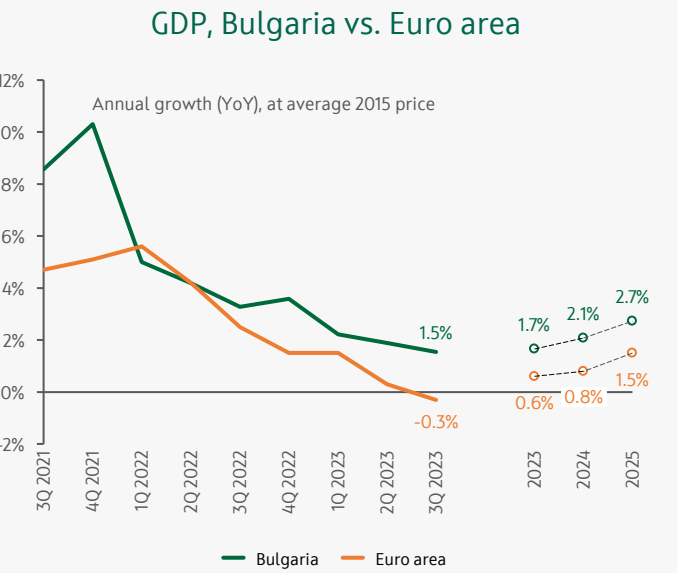
# Gross Domestic Product

## Waiting for the start of the recovery period in Europe and Bulgaria

The Bulgarian economy is successfully passing through the shallow recession in which the European economy finds itself. Despite the mid-term slowdown in economic activity, we expect the recovery to begin in early 2024. The recovery will be supported mostly by private consumption and net exports, while investment and government spending are not yet to show a sustained positive trend. **Private consumption** will continue to be the main driver of **GDP** growth largely supported by low lending rates, low unemployment, increasing disposable income and expansionary fiscal policy.



The revised **GDP** data affected **investments** mostly, altering their long-term potential. As a result, we have also revised the forecast growth of **investments** in the mid-term, expecting a strengthening of **investments** in both the public and private sectors, additionally supported by



the Recovery and Resilience Facility. **Net exports** have also seen a revision to the data as we expect strong contribution to **GDP** growth in 2023 due to a larger decline in **import** than **export**. 2023 is characterized by a weak performance of **net exports**, largely influenced by lower external demand, unexpected negative events in the Bulgarian industry and lower economic activity. With the recovery of the European and Bulgarian economy, expectations are for significantly more favorable conditions for trade.

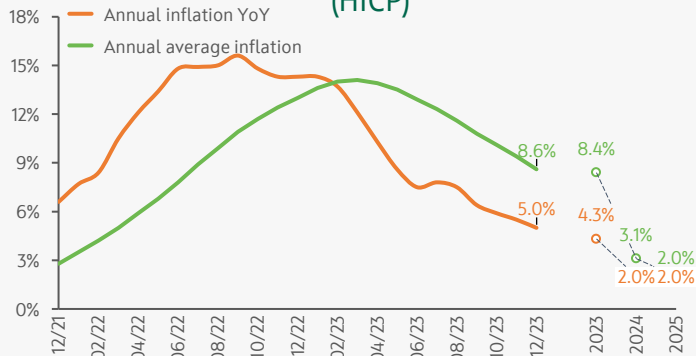
\*Seasonally and calendar adjusted data



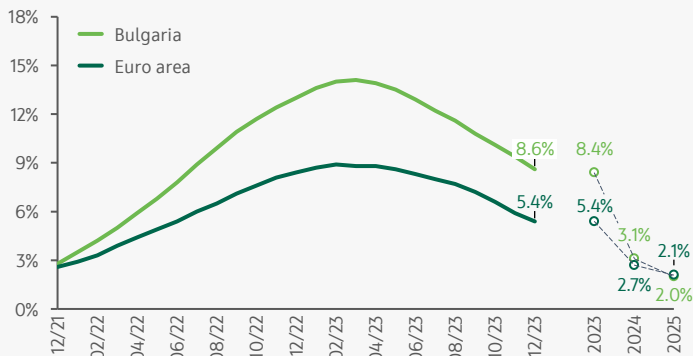
# Inflation

## Surrounded by many uncertainties, inflation is gradually reducing its pressure

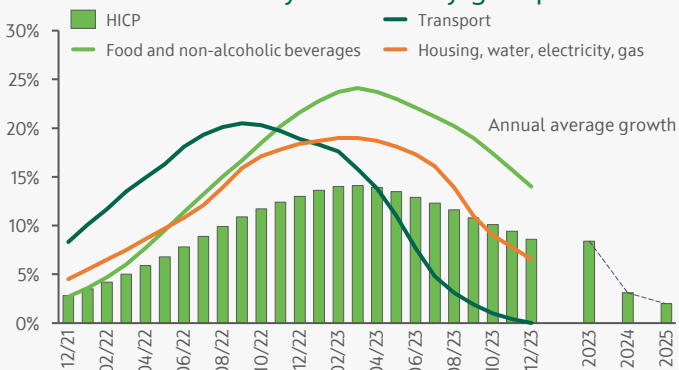
### Harmonized Indices of Consumer Prices (HICP)



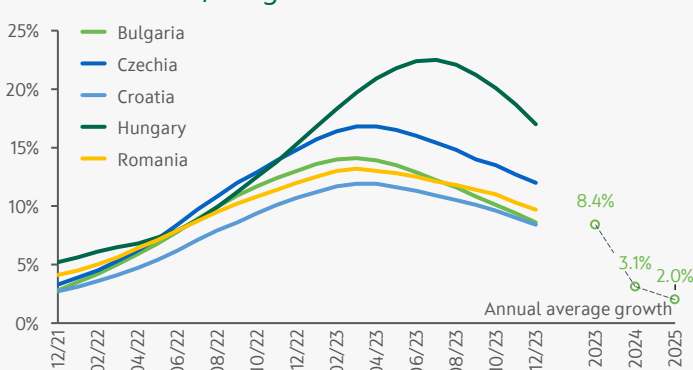
### HICP, Bulgaria vs. Euro area



### HICP by commodity group\*



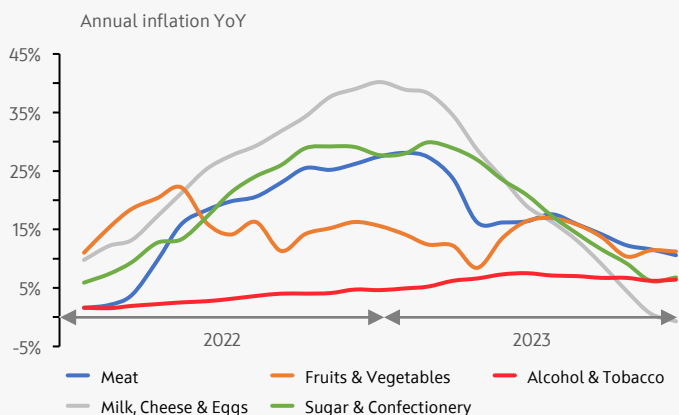
### HICP, Bulgaria vs. CEE countries



**Inflation** uncertainty is fading day by day, as only geopolitical tensions in various problematic regions of the world fuel fears returning to a full-blown inflationary crisis. International prices of energy resources are showing composure in the face of military actions, with expectations for healthy levels in the mid-term as well.

All countries (incl. Bulgaria) close to the Russian-Ukrainian war have a large negative effect on prices. In Bulgaria, the pressure is higher compared to the Euro Area average level but compared to the countries of Central and Eastern Europe, the **inflation** in Bulgaria performs relatively well.

### Basic basket inflation



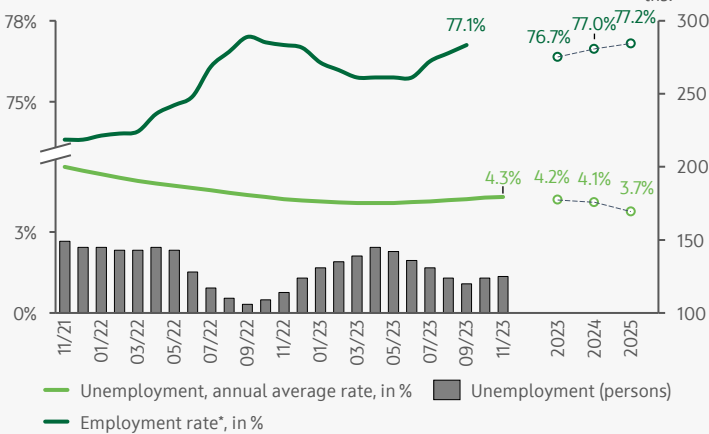
The disinflationary trend continues, confirmed by the latest data as of December 2023. Inflation (HICP) recorded an annual increase in all goods and services of 5%, falling sharply from 14% (Dec 2022). Despite the serious dropping trend, the biggest contributors to the inflationary course in 2023 were services, food, alcohol and tobacco, and restaurants. Our forecast for **inflation** is to ease its pressure, showing 2% by the End-2024.

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

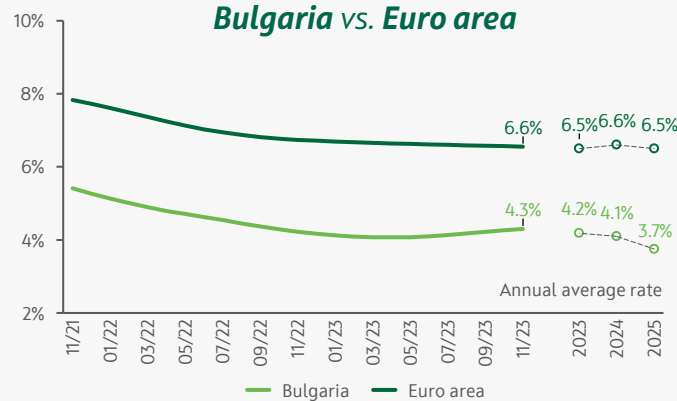
# Labour market

## The increase in terms of real wages is still gaining momentum

Unemployment & Employment\*

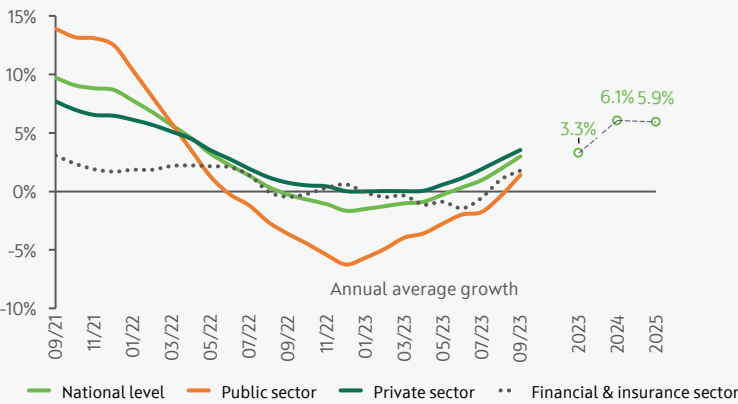


Unemployment Bulgaria vs. Euro area

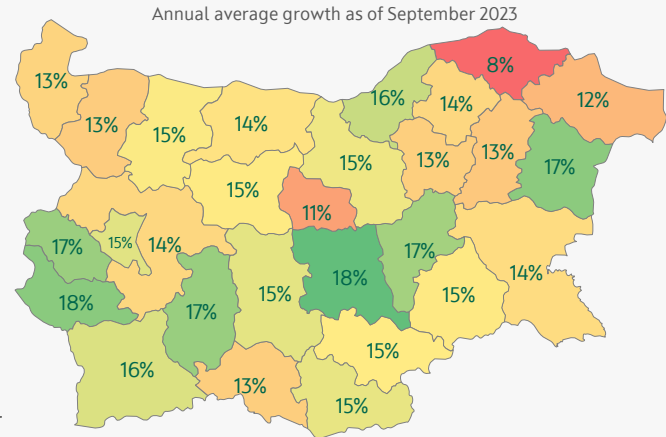


With inflation easing, the **labour market** seems to be taking over as the main topic that will be under scrutiny. The trend of the **labour market** in Bulgaria and the Euro Area is confirmed by comparing it with the latest macroeconomic bulletin Autumn 2023. The mid-term forecast for **unemployment** rate is to remain low, and in the context of a declining inflation and rising wages, households' purchasing power will be supported. Economic activity is in its bottoming-out, however employees have kept their jobs. Business continues facing recruitment challenges.

Real wage by sectors



Nominal wage by location



The current macro-environment determines a continued strong performance of the **labour market**. Among the most important drivers of rising disposable income are double-digit **nominal wage** growth, declining inflation, low unemployment, low lending rates. All this will have a positive contribution to the economic activity (private consumption is ca. 70% of GDP).

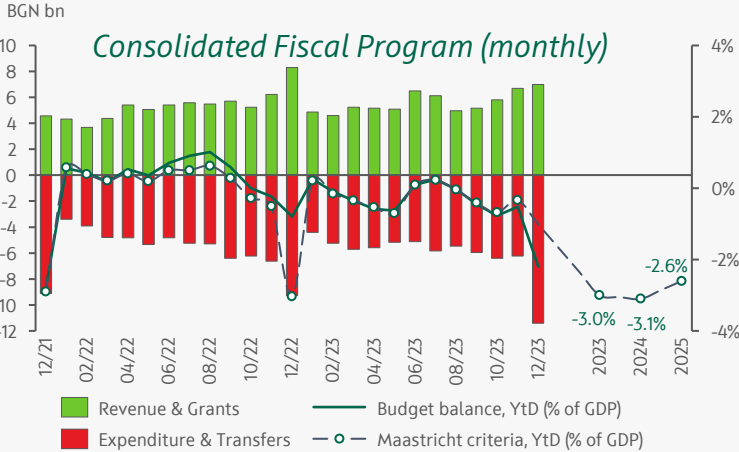
Our 2024 forecast for **unemployment** is 4.1% or a slight decrease by 0.1 pp. Moreover, the high **employment** and staff shortages in several sectors of the economy will additionally support the wages and as a result, the average **nominal wage** in 2024 will increase by 10% (in real terms by 6%). We also expect **employment** (20-64 years of age) to hover ca. 77% over the mid-term period.

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

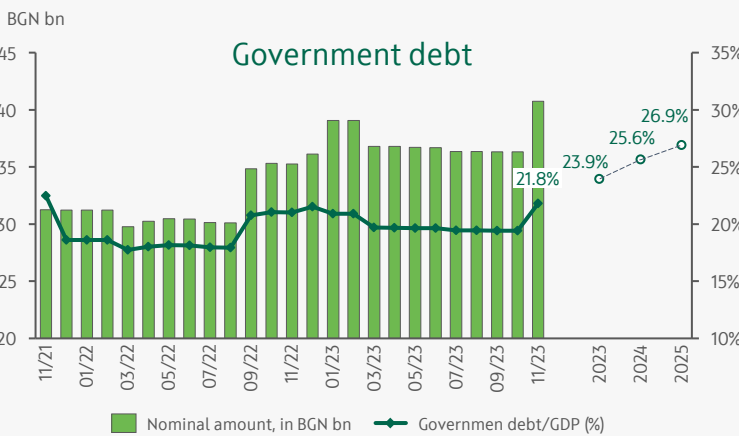


# State budget

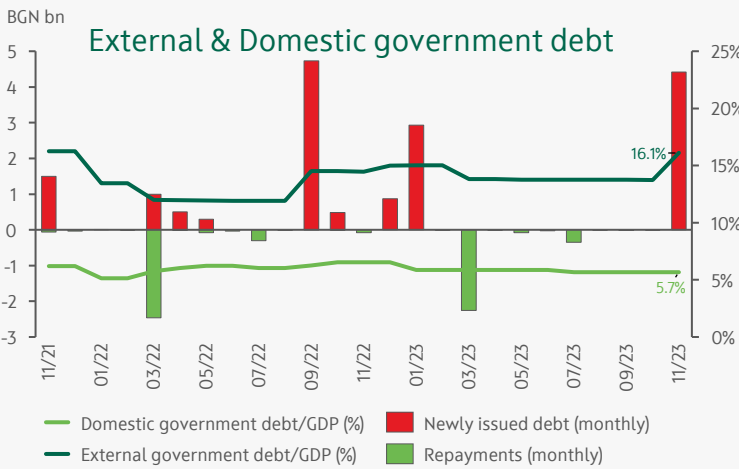
## Government finances – good performance and at planned levels in 2023



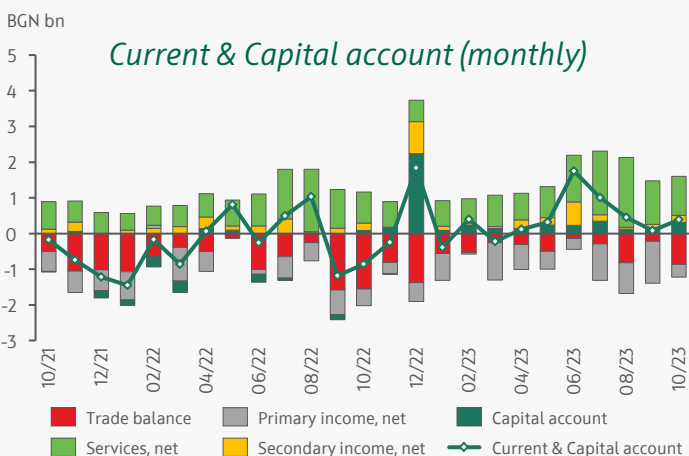
Already in the past, the local elections in Bulgaria in the autumn of 2023 did not lead to serious upheavals in the ruling coalition. The upcoming European Parliament election in June 2024 are generally not characterized by a high political activity, so we do not expect them to lead to extraordinary changes.



An important moment in Bulgarian political life is the publication of the convergence report of the European Central Bank and European Commission, which will assess Bulgaria's progress to adopt the euro. Expected publication: **June 2024**



The reference date to adopt the euro remains **January 1, 2025**. We expect Bulgaria to fulfill the Maastricht criteria, except for the inflation criterion. Inflation in the Euro area is decreasing as well as in Bulgaria, leaving a significant gap.

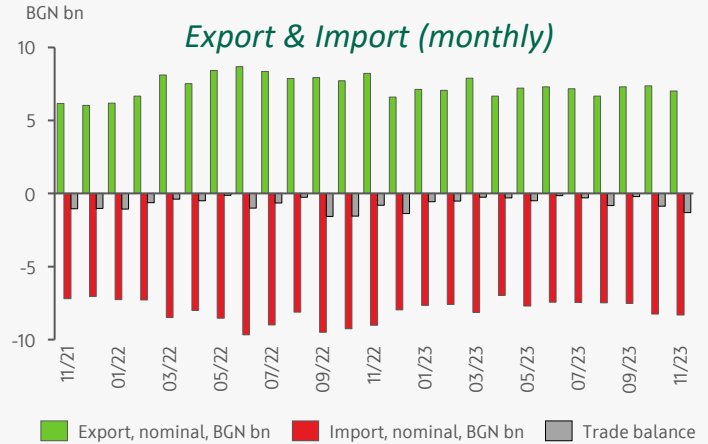


According to preliminary data, the **state budget** for 2023 performs better than expected (2.2% vs. 3.0%), which further confirms Bulgaria's goal to fulfill all other Maastricht criteria. **Government debt** in the mid-term is expected to increase smoothly and gradually, fueled mainly by chronic **deficits**. In general, for the sustainable financing of the **state budget**, support will be sought from the international markets.

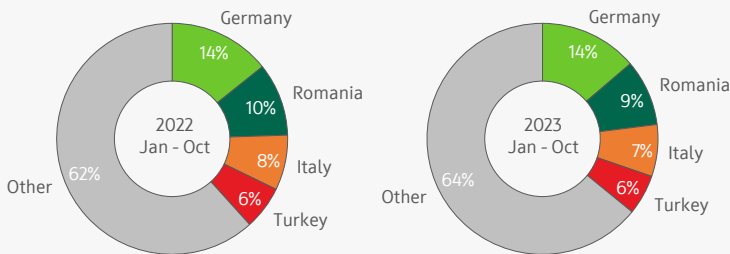
# Trade & Investment

## Contracting trade in 2023, with some tentative signs of a bottoming-out

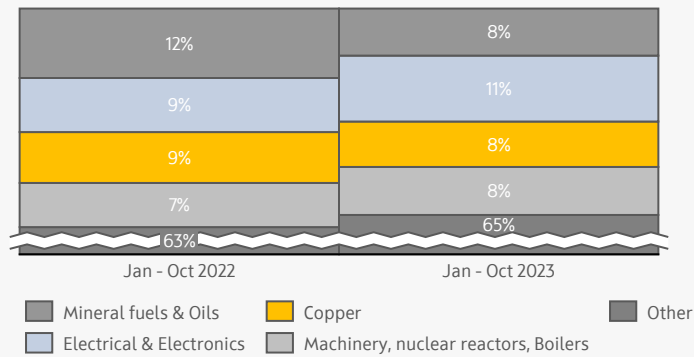
Bulgaria's **net export** of goods and services for the period January - October 2023 is expected to decrease compared to a year ago, which is largely impacted by several significant events in the energy sector, cooling inflation and weakened foreign demand.



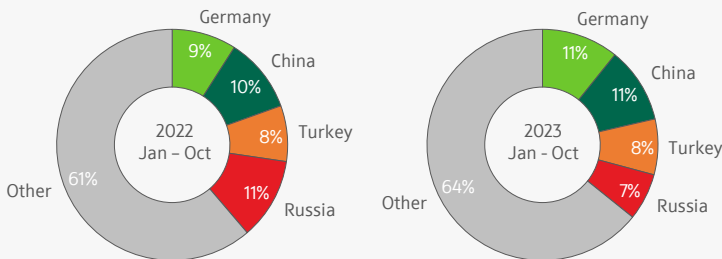
### Export, main trade partners



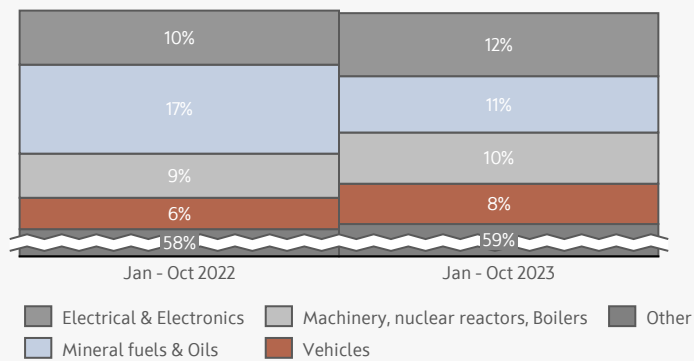
### Export by category



### Import, main trade partners



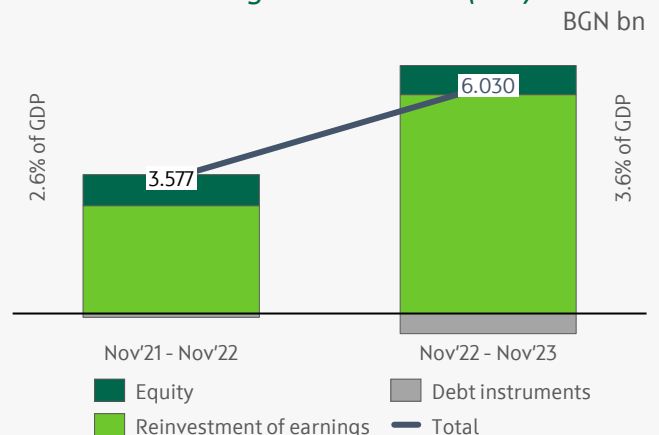
### Import by category



Bulgarian **trade** with Russia has sharply decreased 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)



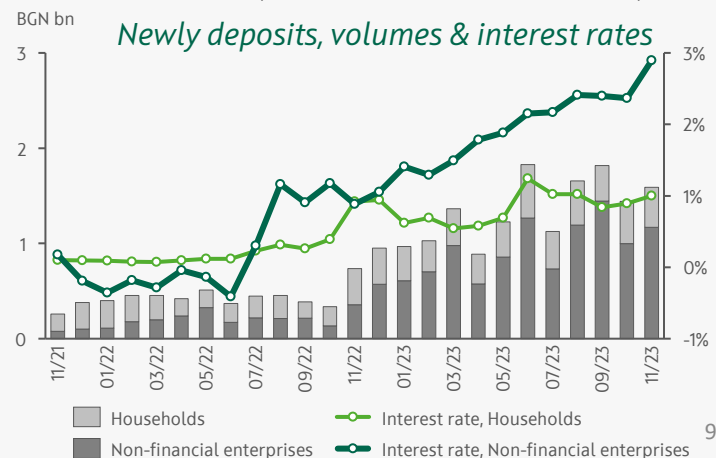
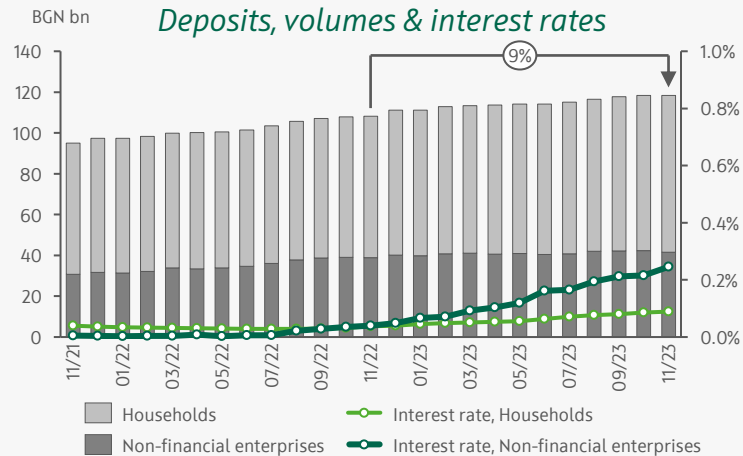
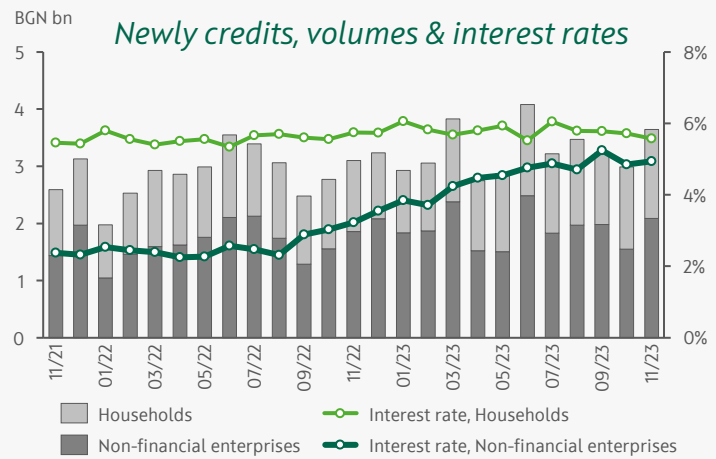
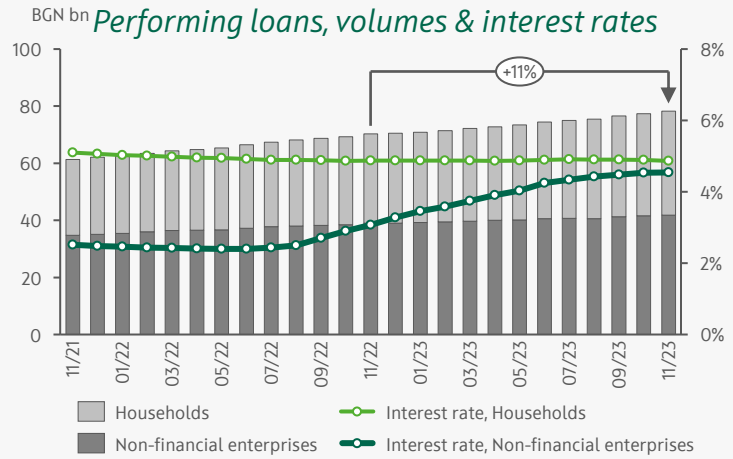


# Banking system

## After the strong 2023 in the banking sector, the regulators look for additional brake

In 2023, the banks in Bulgaria improved significantly their profitability and efficiency, with the profit of the sector increasing by 75% on an annual basis - in the amount of BGN 3.3 bn as of November 2023. The improvement is mainly due to the increased benchmark interest rates in 2023. In the beginning of 2024, the vibe in central banks is to hold the current high levels for some time to consume the desired effect, after which the reverse process of cutting interest rates will begin. Until mid-2024, we do not expect central banks to start an initiation for expansionary monetary policy needed for recovery of economic and lending activity in Europe.

The retail segment in Bulgaria continues to demonstrate the resistance to the increase in interest rates on newly granted loans despite the taken restrictive measures by the Bulgarian National Bank in mid-2023. Interest rates on mortgage loans remains at a record-low level at the end of November 2023 and 24 consecutive months has not budged from 2.6%. As a result of that and together with increasing household disposable income, the average annual growth of new production in the mortgage segment is 16% vs. 8% in the consumer segment.



# 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