

Macroeconomic bulletin

Winter 2024 - 2025

January
2025



Sovereign credit rating

Bulgaria

MOODY'S
Baa1 stable

S&P Global
Ratings
BBB positive

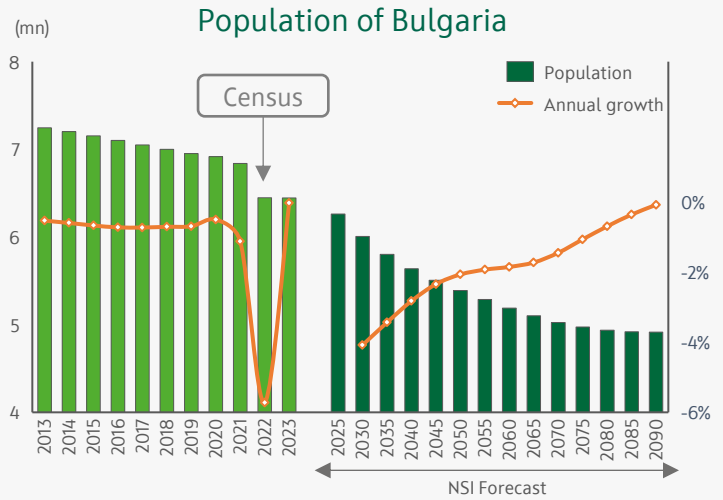
FitchRatings
BBB positive

- ❖ Global trade is in a stupor – in which direction will the trade policy across the ocean develop? While **the US** economy remains strong, **the Euro area** shows signs of slowing down on economic growth. The traditional economic engine of the **European Union, Germany**, has reported two consecutive years of recession, albeit shallow. Political uncertainty in **Germany** further weighs on the already stagnated economy.
- ❖ Although Bulgaria has been without a stable regular government for a long time, **one of the main goals** of the ruling regular/caretaker governments was achieved at the end of 2024. From the beginning of this year, Bulgaria is part of the Schengen area. **The second goal** is about to be fulfilled – the adoption of the euro. Inflation and the stability of public finances still represent an obstacle to the euro, but it seems that the new regular government is working on it. Obviously, the time for structural changes is ripe and necessary to maintain the balance of the state budget between the revenue and expenditure sides, which, in turn, is growing at a serious pace (pensions, public sector salaries, modernization of the Bulgarian army).
- ❖ However, **the third goal** of the state seems increasing unattainable – Bulgaria's active participation in the Recovery and Resilience Facility. The critical delay of politicians in undertaking the necessary structural changes and legislative amendments leads to irreversible losses of European funds, which in turn are an important factor for the innovative and investment activity of the private sector.

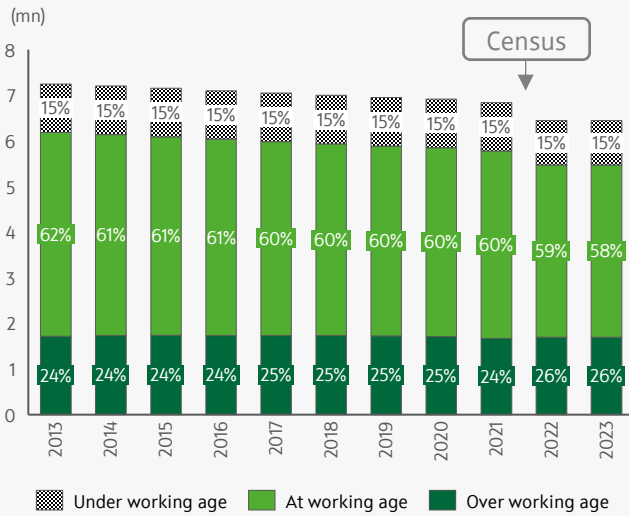
Demographics

The population of Bulgaria: declining, but with increasing immigration

The 2024 population data for Bulgaria has not yet been published, but despite of this, Bulgaria is increasingly attracting interest from foreign citizens who settle here. The data for 2023 shows that immigration entirely compensates for the otherwise declining population of the country. Nearly 60 000 people have settled, with the main reason being "job".

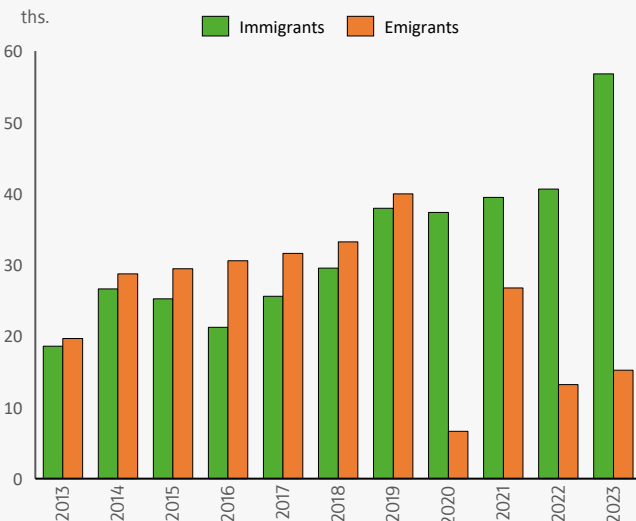


Population by working age status

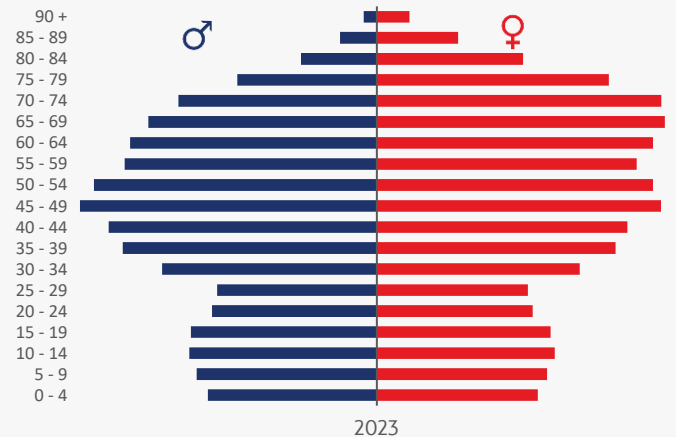


Traditionally, the flow is from Turkey, but after the war in Ukraine began, the list has expanded to include Russia and Ukraine. Over the past decade, Syria (and the Middle East in general) has also formed as a traditional source of immigrants. Until the onset of the COVID-19 pandemic, foreigners from the European Union wishing to stay in the country medium-term or long-term were approximately 2 000 people per year. This changed drastically after the pandemic, increasing to 7 000 people average per year.

International migration



Population pyramid: The process of ageing continues



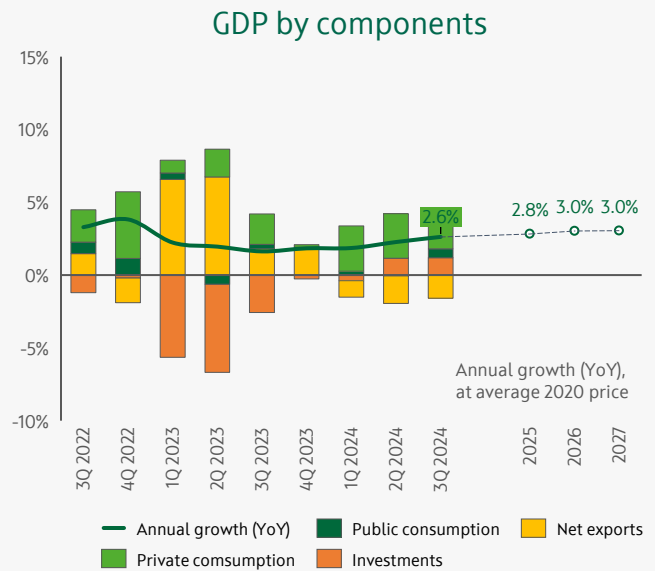
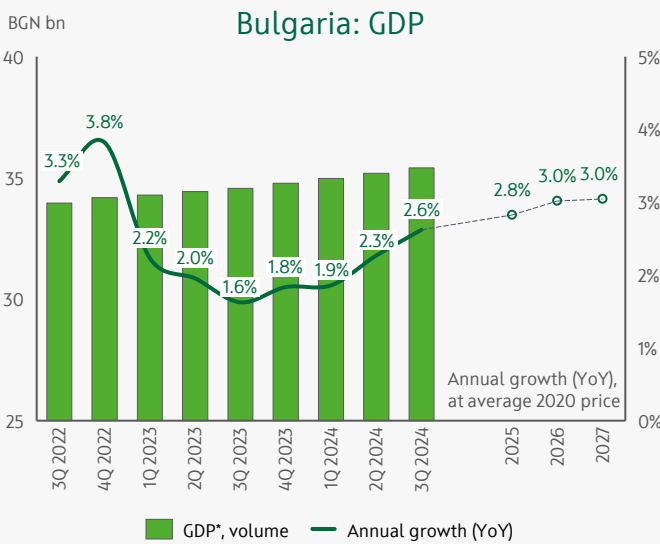
GDP

Gross Domestic Product (GDP)

Out of spite, the Bulgarian economy has one of the highest growth in the EU

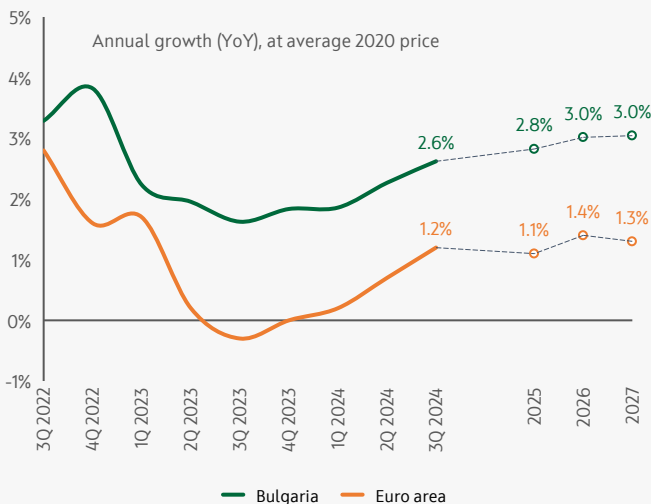
All expectations for a smooth recovery in the Euro area are at stake, depending on the newly elected president of the US. The first few months of the year will be crucial, as they will indicate the long-term foreign policy of the US.

In Bulgaria, the economy is performing better-than-expected. Bulgaria's GDP continues to report increasing annual growth, reaching 2.6% in the third quarter of 2024. This is an exceptional performance compared to other Euro area and EU countries.



Private consumption continues to show strong performance, driven mainly by increasing household incomes and low interest rates on lending. Public consumption remains relatively neutral in its contribution to GDP growth but has great potential in the long-term, which has

GDP, Bulgaria vs. Euro area



not yet been realized solely due to the political uncertainty. The ongoing modernization of the Bulgarian army and other defence expenditures are a long-term opportunity to support economic growth. In net exports, economic conditions are different as they depend on international factors. The slower recovery of main trading partners such as Germany, China, Turkey could seriously undermine our expectations for net export growth, and hence, a weaker-than-expected economic growth.

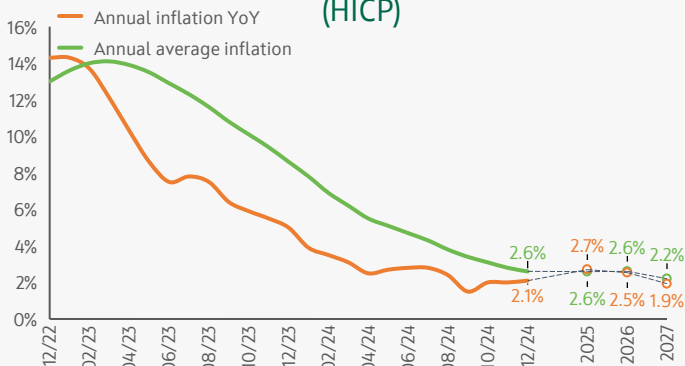
*Seasonally and calendar adjusted data



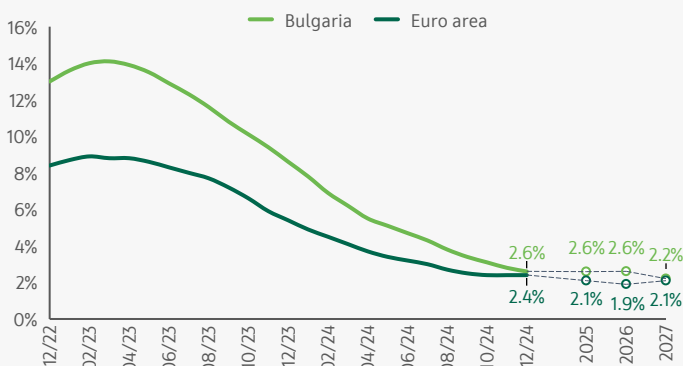
Inflation

The fulfillment of the inflation criterion is soon expected – with the January data

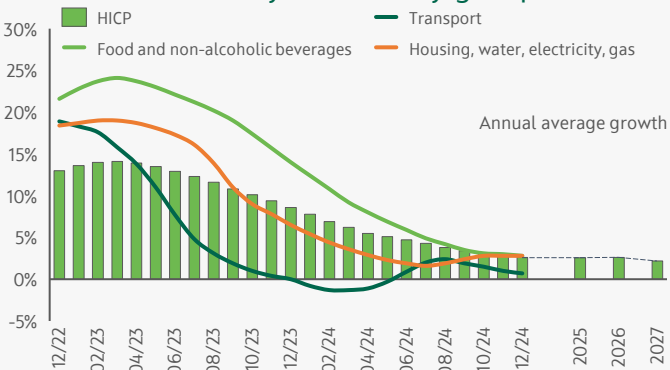
Harmonized Indices of Consumer Prices (HICP)



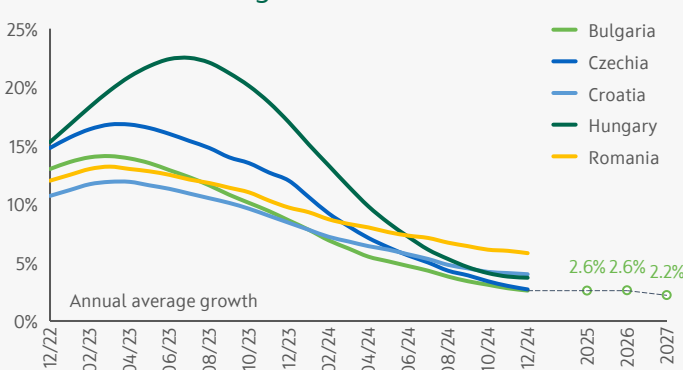
HICP, Bulgaria vs. Euro area



HICP by commodity groups*

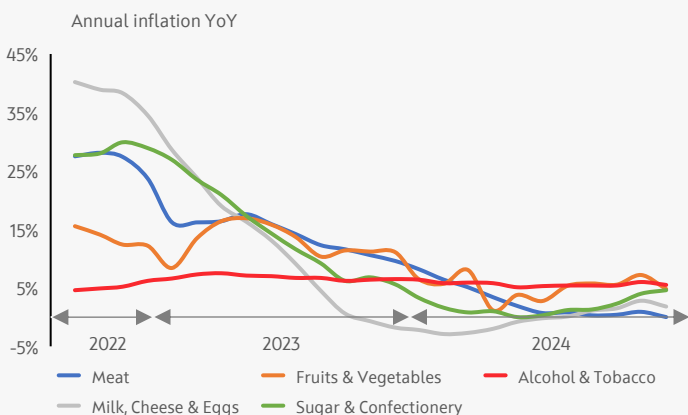


HICP, Bulgaria vs. CEE countries



Inflation in Bulgaria closed 2024 successfully, having almost touched the Maastricht criterion. Along with this, the new year begins with more optimism in the field of **inflation**, as energy sources demonstrate relative stability. In addition, there is a calming of military tensions in the Middle East, and it is expected to happen in Ukraine as well. This fragile balance between factors has predetermined **the disinflationary trend** in Bulgaria. Annual **inflation** as of December 2024 is ca. 3%, and our forecasts are that it will remain within the range of 2-3% until 2027. Only the colder winter exerts negative pressure on electricity and natural gas **prices**, but this is not expected to

Basic basket inflation



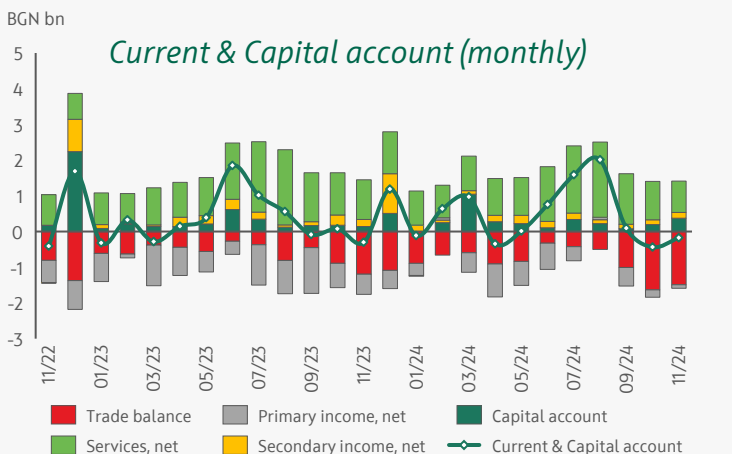
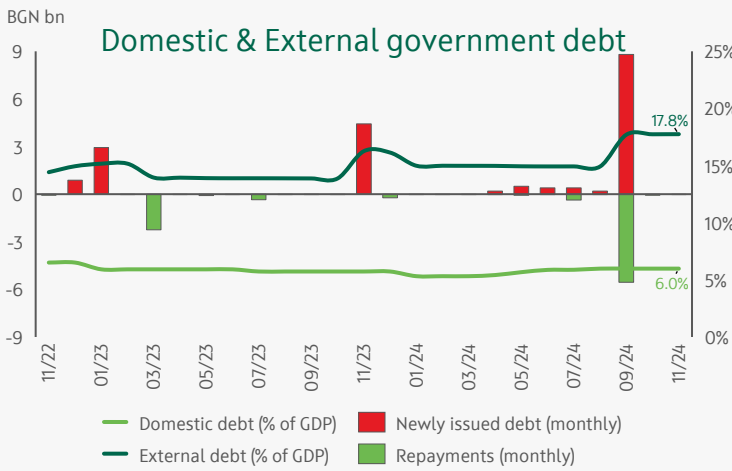
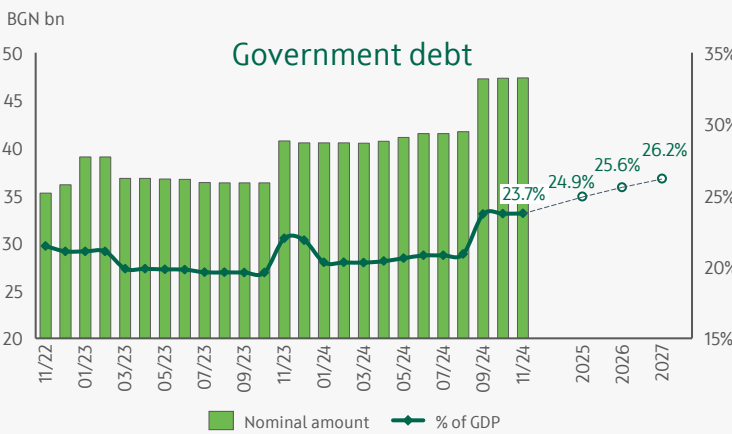
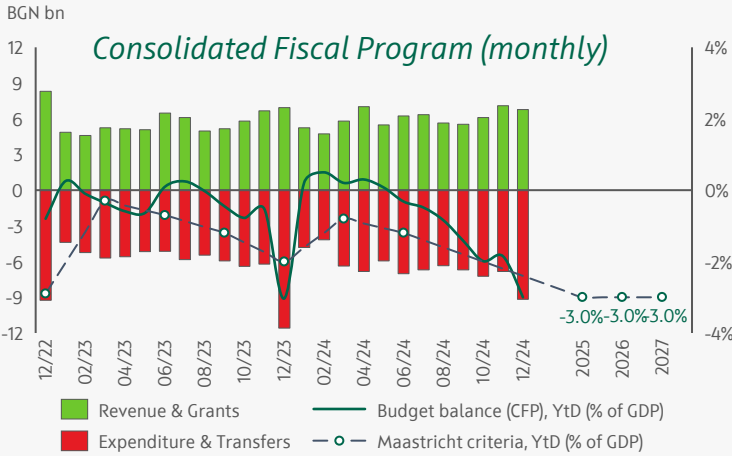
have a significant effect on the final consumer **prices**. Additionally, the last few weeks in Bulgaria have shown signs of **price** increases, mainly due to the removal of several sectoral discounts from the government (bread, flour, restaurants), which play a significant role and share in the consumer basket.

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



State finance

Newly formed regular government with an eye on the euro



After long negotiations, a **regular government** was formed based on coalition cooperation and common goals. Despite the political instability, one of the main goals was successfully achieved - **Bulgaria has been part of the Schengen area** since the beginning of 2025. The next goal is **the adoption of the euro** by the beginning of 2026.

An extraordinary convergence report from the ECB and EC will be requested after we meet the Maastricht inflation criterion (most likely with data from January 2025) and the new **state budget** for the next 3 years is revised. The budget must be sufficiently clear, feasible and must meet the criterion for stability of public finances (up to -3% deficit of GDP).

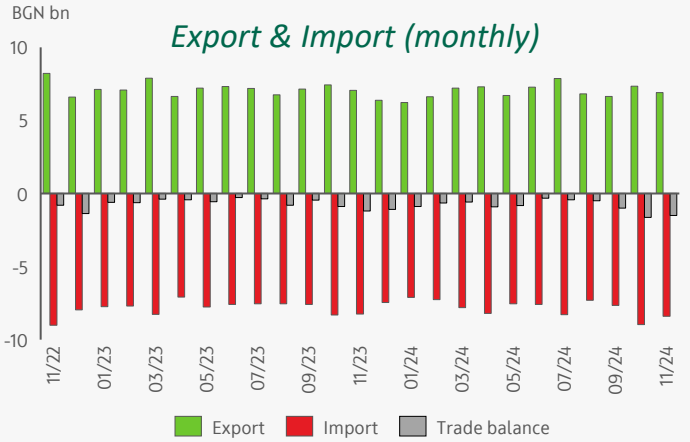
Without undertaking long-term state strategies, **the fiscal position** will be increasing difficult to balance, even within the -3% deficit limit.

And while **a budget** revision is expected, the Ministry of Defense is already indexing its salaries. Given the government's short deadline for preparing the draft **budget 2025-2028** (mid-February 2025), we do not expect serious initiatives for long-term structural changes.

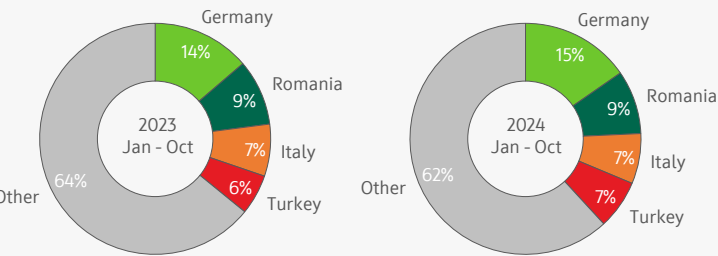
Trade & Investments

The global trade and investments – in the chains of an uncertain business environment

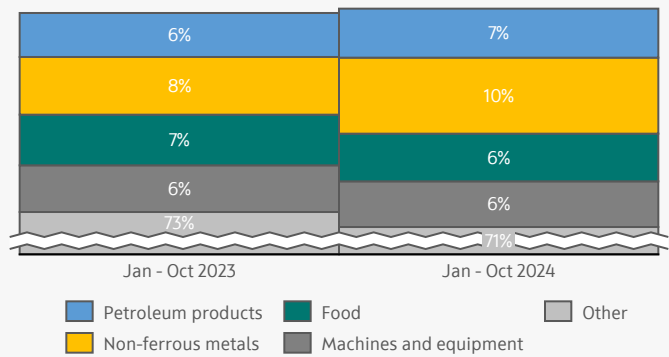
Despite the good performance of the economy, Bulgarian **exports** still face difficulties, recording a 2.5% annual decline. Consumer goods have registered a satisfactory annual growth of 3.4%, with the “Food, beverages, and tobacco” group standing out with a higher growth rate: +10.3%.



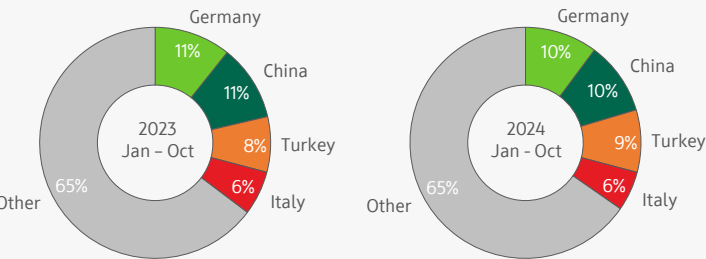
Export, main trade partners



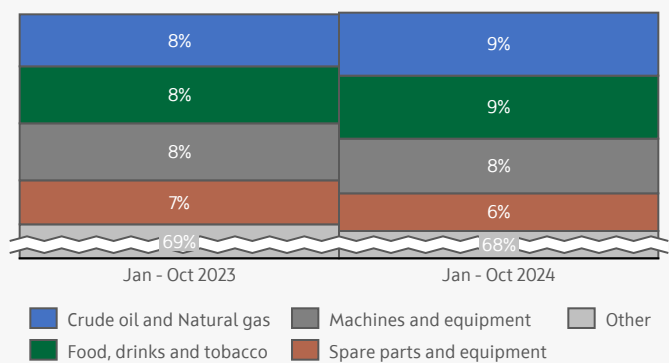
Export by category



Import, main trade partners

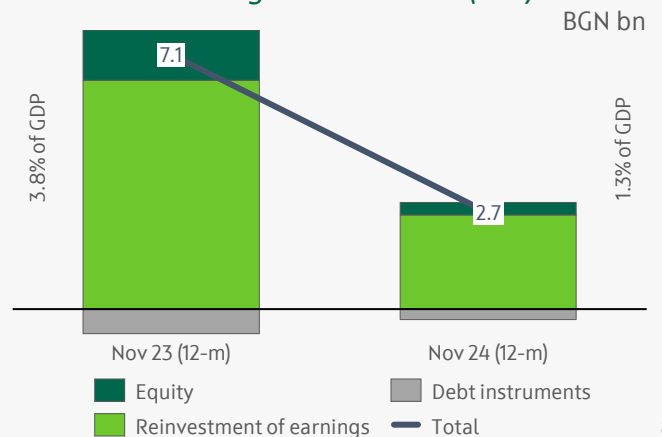


Import by category



The uncertain recovery in Europe (especially Germany), geopolitical tensions, political disagreements, and expectations of “trade wars” have led to a significant decline in **Foreign Direct Investment (FDI)** not only in Bulgaria, but also in the region. An additional factor for Bulgaria is the critical delay in absorbing funds from the Recovery and Resilience Facility (RRF).

Direct Foreign Investments (DFI)



Banking system

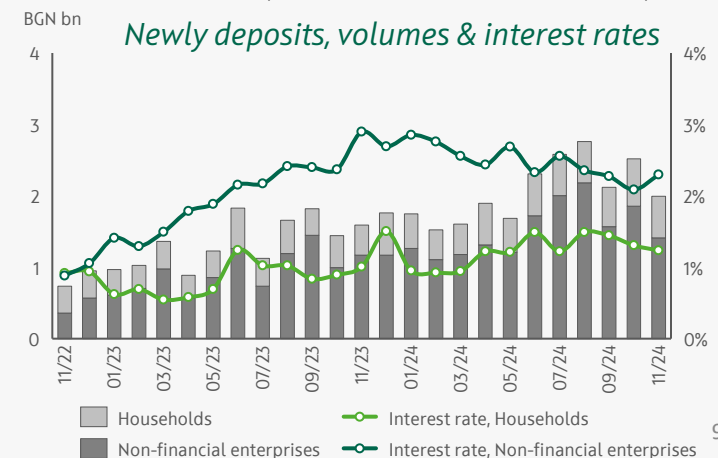
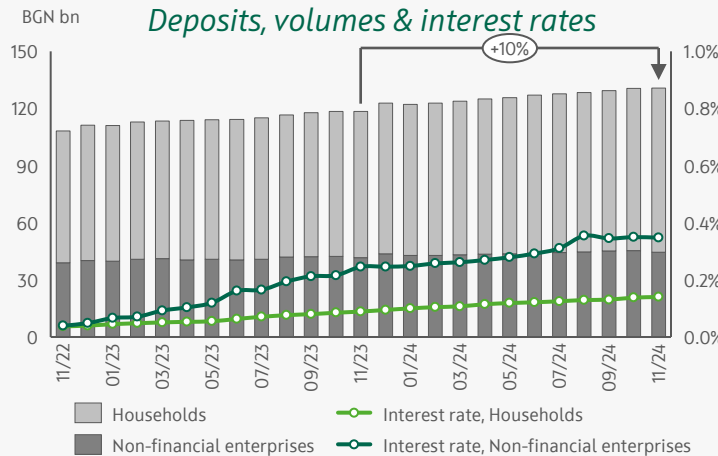
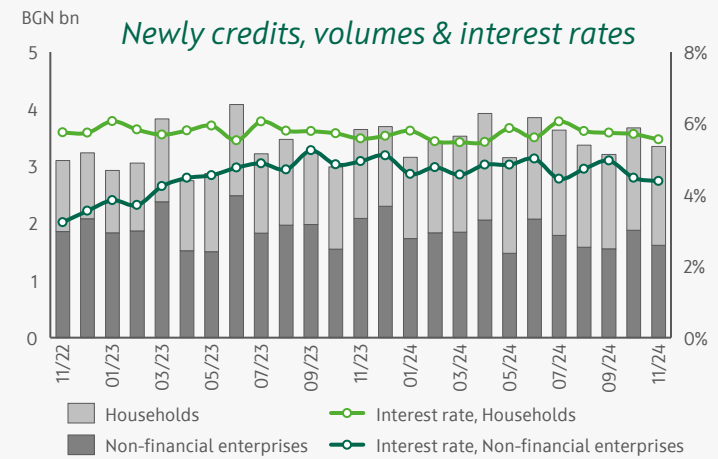
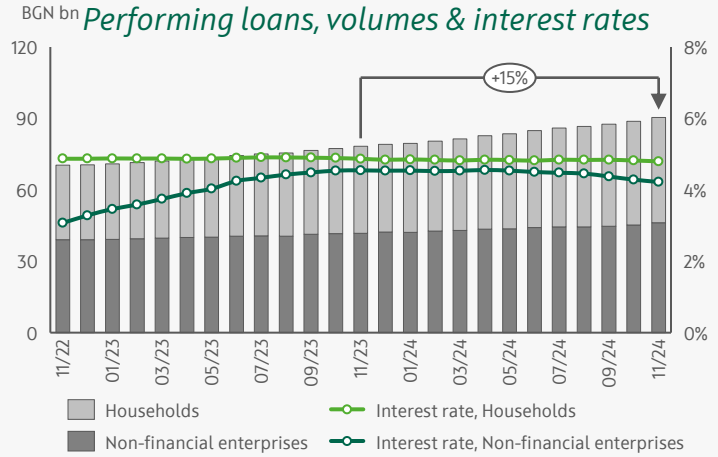
Rapid change from restrictive to expansionary ECB monetary policy

After taming inflation, central banks focused their efforts on the business environment. Our expectations for 2025 are that the **European Central Bank** will continue to stimulate economic activity by reducing the base interest rate by at least 100 basis points, but slower-than-expected growth and weakening inflationary pressure could prompt the **European Central Bank** to pursue even greater opportunities for easing monetary policy.

In Bulgaria, the **banking sector** is likely to report another strong financial year, with annual **profit** (after-tax) about BGN 3.4 billion, with a slight decrease on an annual base.

Credit exposures and the **deposit base** continue to increase in line with faster-than-expected economic growth in the country. **Credit activity** among households shows a stable trend, continuing to operate under relatively stable and low **interest rates**.

As a result of the macroprudential measures undertaken by the **Bulgarian National Bank** at the end of 2024, we assume that the volume of new **loans** will decrease due to the increased discipline rather than reduced demand from strong consumer impulse.



Actuals & Forecasts

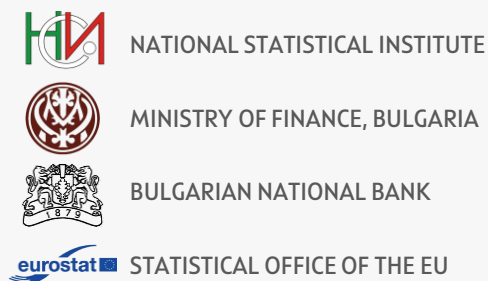
	2023	2024	2025	2026	2027
<i>Annual rate of change</i>	<i>Actuals</i>		<i>Forecast</i>		
Gross Domestic Product <i>(revised)</i>					
Real GDP Growth	1.9%	2.3%	2.8%	3.0%	3.0%
Private Consumption	1.4%	3.6%	3.8%	3.5%	3.5%
Public Consumption	0.7%	1.5%	1.7%	2.0%	2.0%
Investments	-12.8%	4.0%	4.3%	4.0%	3.6%
Exports	0.0%	3.0%	4.8%	5.4%	5.4%
Imports	-5.5%	4.2%	5.8%	6.0%	5.9%
Inflation & Housing prices					
Consumer Price Indices (CPI)	4.7%	2.2%	2.8%	2.9%	2.4%
Consumer Price Indices (CPI) (12-m avg)	9.5%	2.4%	2.5%	2.8%	2.6%
Harmonized Index (HICP)	5.0%	2.1%	2.7%	2.5%	1.9%
Harmonized Index (HICP) (12-m avg)	8.6%	2.6%	2.6%	2.6%	2.2%
Basic basket* (CPI)	7.5%	4.3%	3.5%	4.0%	3.6%
Housing prices (HPI, national level)	10.1%	12.3%	8.2%	6.7%	6.9%
Housing prices (HPI, Sofia)	9.7%	16.0%	9.7%	8.0%	9.2%
Housing prices (HPI, Plovdiv)	7.3%	7.7%	9.7%	8.5%	8.8%
Housing prices (HPI, Varna)	15.7%	23.4%	12.1%	10.3%	8.9%
Labour market					
Unemployment rate (EoP)	4.4%	4.2%	4.0%	4.0%	4.0%
Employment rate (20 - 64 years of age)	76.2%	77.0%	77.3%	77.5%	77.6%
Monthly wage (12-m avg)	1 991	2 295	2 661	2 980	3 307
Nominal wage growth (12-m avg)	14.5%	15.3%	16.0%	12.0%	11.0%
Real wage growth (12-m avg)	5.0%	12.9%	13.5%	9.1%	8.4%
State Finance					
Government debt (to-GDP)	22.9%	23.8%	24.9%	25.6%	26.2%
Government balance (CFP) (to-GDP)	-3.1%	-3.1%	-2.8%	-2.8%	-2.5%
Government balance (Maastricht) (to-GDP)	-2.0%	-3.0%	-3.0%	-3.0%	-2.7%
Banking sector					
Total loans**	13.1%	14.2%	11.1%	10.6%	9.6%
Household loans**	17.1%	20.4%	12.6%	11.7%	10.0%
Company loans**	10.4%	9.6%	10.0%	9.7%	9.3%
Total deposits	9.6%	9.5%	10.2%	7.7%	8.2%
Household deposits	11.0%	11.6%	11.5%	7.2%	8.1%
Company deposits	7.0%	8.4%	8.9%	8.9%	8.7%

*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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