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**United Bulgarian Bank  
Bulgaria: Macroeconomic Update  
November 2021**

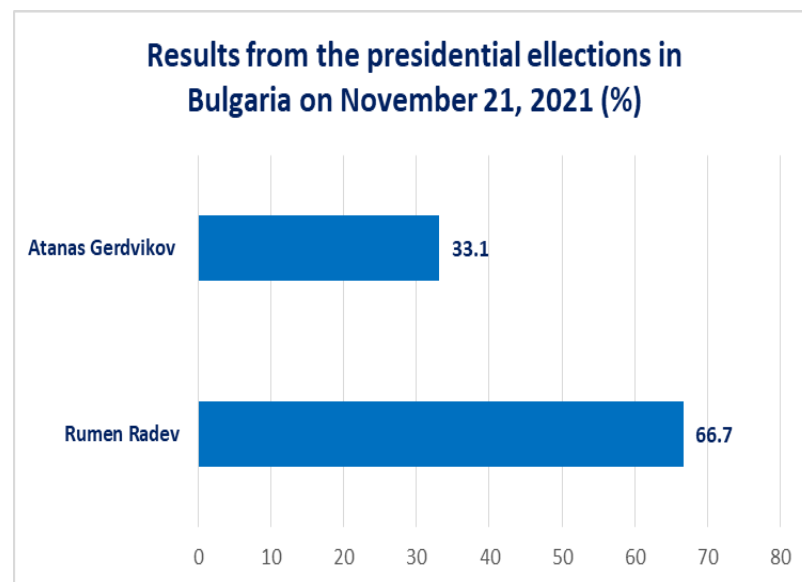
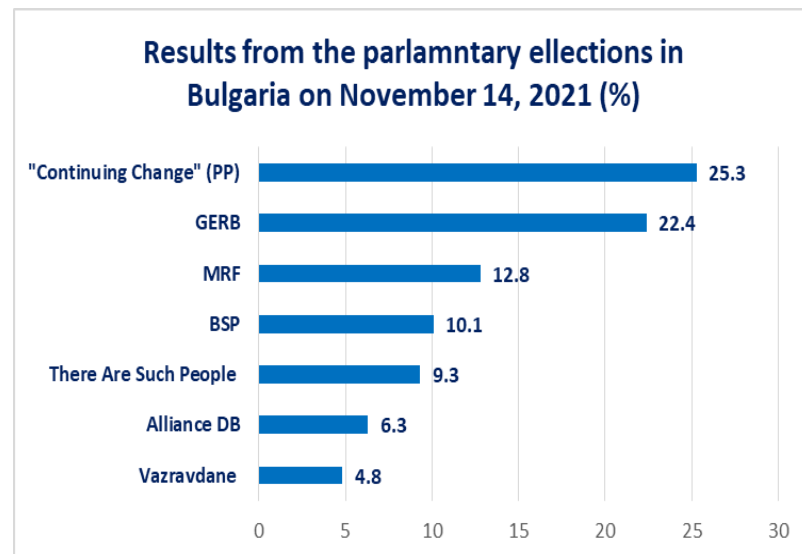
Chief Economist Department

# Bulgaria – Political situation

Parliamentary elections have led to a highly fragmented parliament, but the chances of forming a ruling coalition are higher this time. Recall that the elections on November 14 were the third held in 2021, after two unconvincing results in April and July. These elections (which resulted in a historically low turnout of 40%) were marked by the surprising performance of the new centrist anti-corruption party "**Continuing Change**" (PP), with 25.3% of the vote, but did not reach an absolute majority. The center-right GERB, with 22.4% of the vote. The Turkish minority party, the MRF, was third with 12.8% of the vote, followed by center-left BSP, with 10.1% of the vote. After failing to form a coalition government after winning the July election, the **There Are Such People** party took 5th place with 9.4% of the vote. Two other parties managed to cross the 4.0% electoral threshold and enter parliament, namely the right-wing alliance DB with 6.3% of the vote and the nationalist **Vazrazhdane party** with 4.8% of the vote. **In our opinion, the most probable scenario is a large coalition led by the PP and including the parties BSP, ITN and DB. We expect to see weeks of difficult coalition negotiations before the new government takes office, which will eventually end months of political crisis.**

**In the short term**, the main challenge is for the Bulgarian authorities to deal with the ongoing, severe wave of COVID-19, which comes against the backdrop of the lowest vaccination in the EU. Looking further, the new government needs to focus on the rapid and efficient absorption of available EU funds. Keep in mind that Bulgaria is eligible for € 22.5 billion (37% of GDP agreed in 2019) from the next-generation EU Fund and the EU's Multiannual Financial Framework until 2027, which absorption is key to the country's economy after COVID-19 recovery and rapprochement with the EU. It is worrying, however, that the historically low level of absorption poses a serious challenge in this regard. **Other challenges facing the new government include further strengthening the institutional framework and stepping up the fight against corruption and the rule of law. Efforts must also be made to address the unfavorable demographics and structurally weak labor markets that undermine Bulgaria's growth potential.**

**The presidential elections on November 21 ended with a convincing victory for R. Radev (66.7% according to the CEC), who was also supported by the PP, BSP, ITN, DB and NI parties. GERB's candidate Atanas Gerdjikov, who received 33.1% of the vote.**



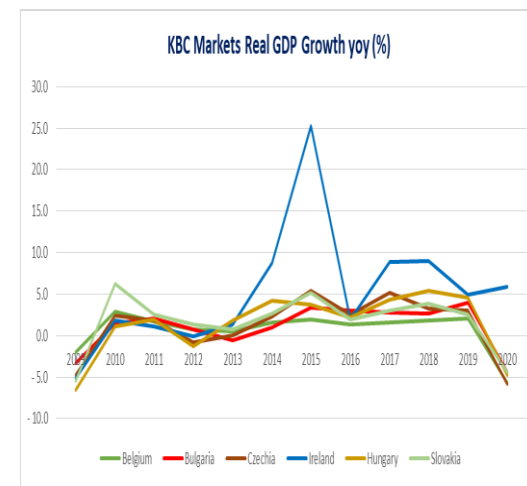
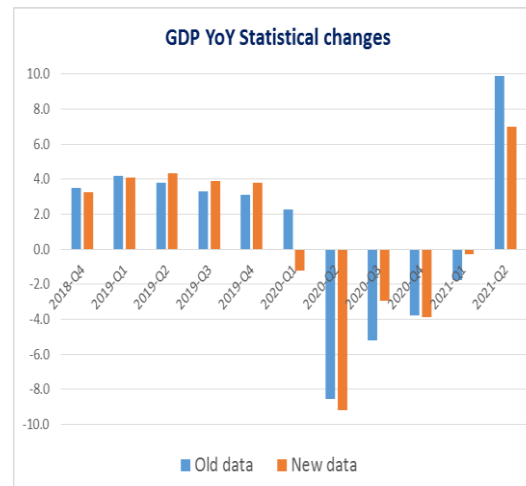
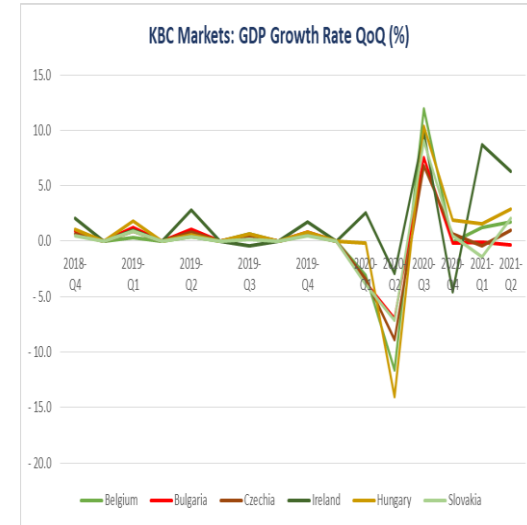
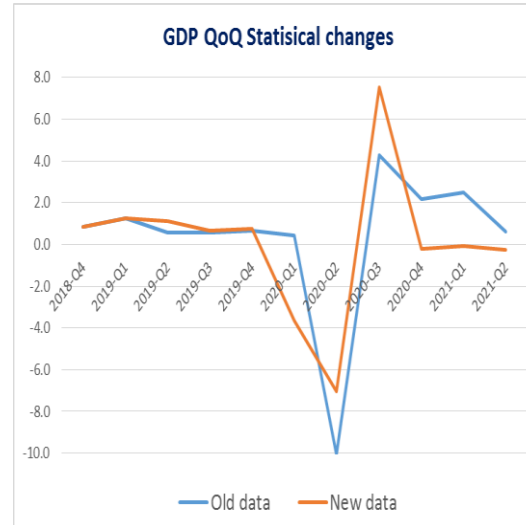
# Technical Issues - GDP Revised Data

At the end of October 2021 a standard revision of the data on seasonally adjusted GDP was performed by the Bulgarian National Statistical Institute. **The data have been revised for the period from the beginning of 2016 until now, the most significant being the revision of the period 2020-2021.**

The turbulent economic environment clearly makes statistics very difficult. **Our assumption is that a large part of the values of the express estimates for GDP are due to expert estimates and when new data are obtained, the revision is significant.**

The revision of the last three values of the time series of the quarterly GDP is especially radical, as for the fourth quarter of 2020 the value is revised from 2.2% to -0.2%, for the first quarter of 2021 the revision is from 2.5% to -0.1% and for the second quarter of 2021 the revision is from 0.6% to -0.3%. **Because of this revisions, it follows that the recovery of the Bulgarian economy from the pandemic crisis is weaker than previously registered.**

**Apart from the technical reasons, we should be added the low level of vaccination, which is the reason that the fourth wave of the pandemic is the strongest so far. Another factor is higher energy prices and particularly electricity prices, which has been affected more permanently than expected.**



# Bulgaria – Outlook 2021 - 2024

The forth wave of COVID-19, combined with disruptive inflation and ongoing political situation, as well as unexpected revisions of GDP which reverse the trend convince us to change the GDP forecast in Bulgaria. We offer new lower forecasts for annual GDP growth in the three scenarios - basic, pessimistic and optimistic. Growth in the baseline is 3.0% for 2021 and 4% for 2022. For the pessimistic it is 1.6% for 2021 and 3.6% for 2022. For the optimistic it is 3.5% for 2021 and 4.4% for 2022. The respective quarterly growth forecasts are consistent with the annuals.

Bulgarian MF, BNB and international Institutions also declined their projections for Bulgaria, but before the NSI flash estimates for GDP for Q3 2021.

Bulgaria	Optimistic scenario						Base scenario						Pessimistic scenario					
November 11, 2021	2019	2020	2021	2022	2023	2024	2019	2020	2021	2022	2023	2024	2019	2020	2021	2022	2023	2024
Real GDP growth (in %)	4 (3.4)	-4.3	3.5 (6)	4.4 (4)	3	3	4 (3.4)	-4.3	3 (4.3)	4	3	3	4 (3.4)	-4.3	1.6 (3)	3.6 (3)	3	3
Inflation (in %, harmonised CPI, average )	2.5	1.2	2.6	2.5	2.3	2.3	2.5	1.2	2.8	2.5	2	2	2.5	1.2	1.5	1.8	2	2.2
Unemployment rate (% , end of year, Eurostat definition)	4.2	4.8	5	4.3	4.2	4.3	4.2	4.8	5	4.8	4.6	4.6	4.2	4.8	8	9	9	9
Government budget balance (in % of GDP)	-1	-3	-1	-1	0	0.5	-1	-3	-3.9	-2	-1.8	-1.2	-1	-3	-4.9	-3	-2.5	-1.7
Gross public debt (in % of GDP)	20.4	24.3	24	25	26	26	20.4	24.3	26.9	28	29.1	30.1	20.4	24.3	28.7	30.7	32.3	35
Current account balance (in % of GDP)	1.2	0.4	4	3.8	2.6	2.6	4	0.4	2	3	1	1	4	0.4	0	0.3	0.4	0.4
Long-term interest rate, 10Y Government Bond Yield	1.2	0.4	-0.25	0.20	0.65	0.75	1.2	0.4	0.35	0.75	0.95	1.15	1.2	0.4	0.75	1	1.25	1.25
House prices (annual %-change, existing and new dwellings, Eurostat def.)	6	5.4	5.5	5.8	4.5	4.5	6	5.4	8	6.5	4.5	4.4	6	5.4	3.8	3.5	3	3

Source: KBC, UBB

The forecast from the previous period is indicated in brackets

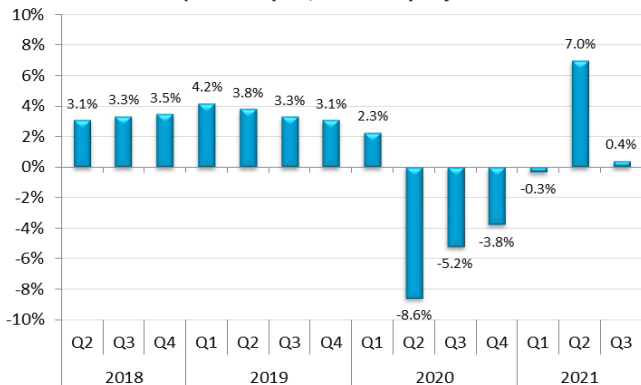
BULGARIA: Real GDP Growth (%)	2021	2022	2023	2024	BULGARIA: Harmonised CPI (avr. %)	2021	2022	2023	2024
KBC/UBB (November 2021)	3	4	3	3	KBC /UBB (November 2021)	2.8	2.5	2	2
Consensus economics (November 2021)	3.8 (4.3)	3.6 (3.9)	n.a.	n.a.	Consensus economics (November 2021)	2.7 (2.3)	2.3 (2.4)	n.a.	n.a.
EC (November 2021)	3.8 (4.6)	4.1	3.5	n.a.	EC (November 2021)	2.4 (1.9)	2.9 (2.5)	1.8	n.a.
OECD	3.8	4.4	n.a.	n.a.	OECD	1.4	1.9	n.a.	n.a.
IMF (October 2021)	4.5 (4.4)	4.4	2.8	3	IMF (October 2021)	2.1 (1)	1.9 (2)	2	2
MF (November 2021)	4	4.6 (4.9)	3.7	3.4	MF (November 2021)	2.4 (2.2)	4.2 (2.6)	2	2.1
BNB (October 2021)	3.9 (4.1)	4.7 (4.6)	3.8	n.a.	BNB (October 2021)	3.8 (3.5)	1.6 (0.8)	1.5 (1.1)	n.a.
UniCreditBulbank	3.5 (4.4)	3.9 (4.1)	n.a.	n.a.	UniCreditBulbank	2.8 (2.6)	4.2 (2.3)	n.a.	n.a.
OTP Bank	4.3 (4.6)	3.2 (4.1)	n.a.	n.a.	OTP Bank	3.1 (2)	4.9 (2.1)	n.a.	n.a.
Raifeisen Research	4.5 (3)	4	n.a.	n.a.	Raifeisen Research	2.3	2.8 (3)	n.a.	n.a.

Source: KBC, Consensus economics, BNB, MF

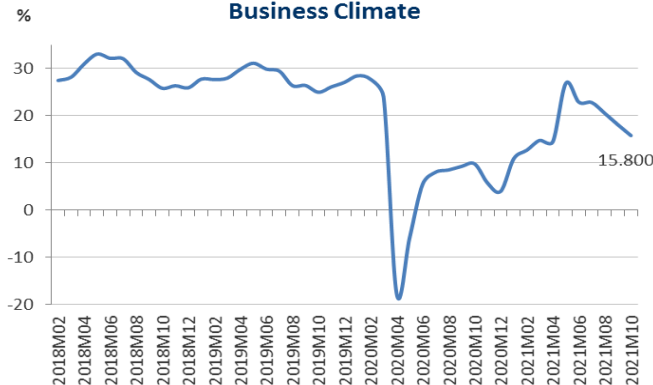
# Bulgaria: Main Frequency Indicators

The ongoing political situation and the strongest forth wave of COVID-19 pandemic impacted as declining the trend of high frequency indicators.

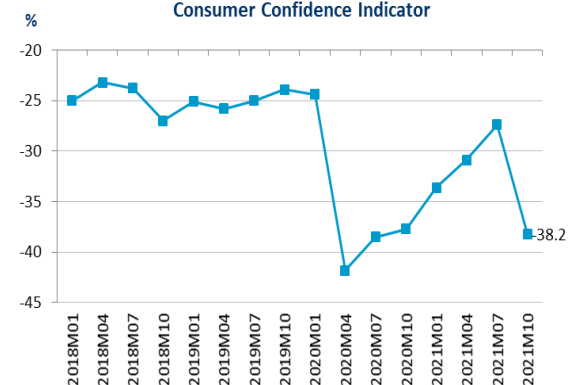
**GDP Growth rate, compared to the same quarter previous year, seasonally adjusted data**



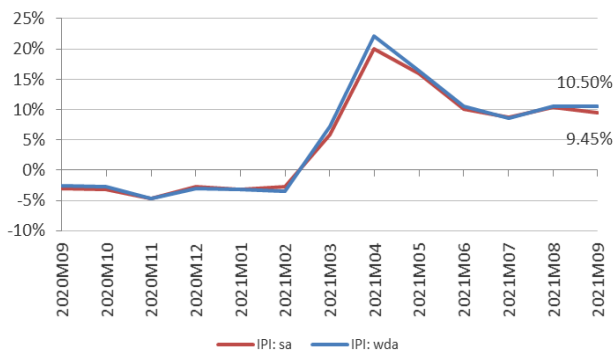
**Business Climate**



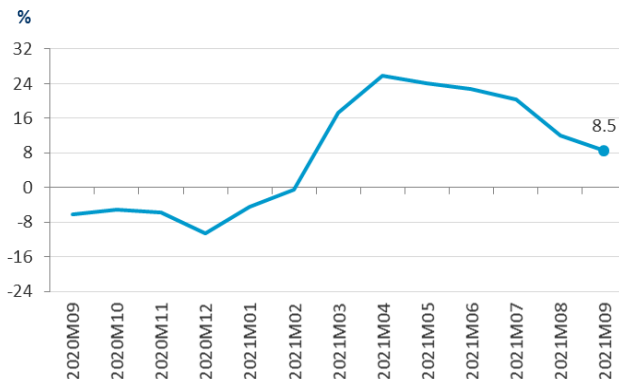
**Consumer Confidence Indicator**



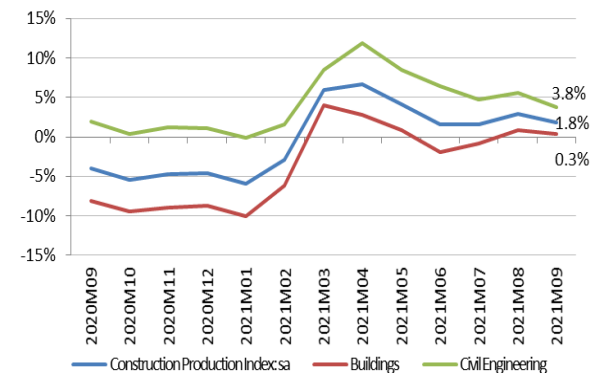
**Industrial Production Index: Percentage change, YoY**



**Retail Trade Index: Percentage change, YoY**



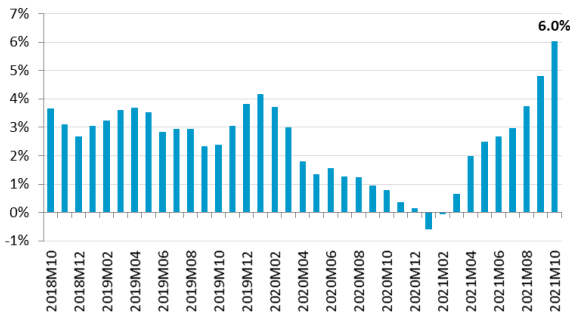
**Construction: Percentage change, YoY**



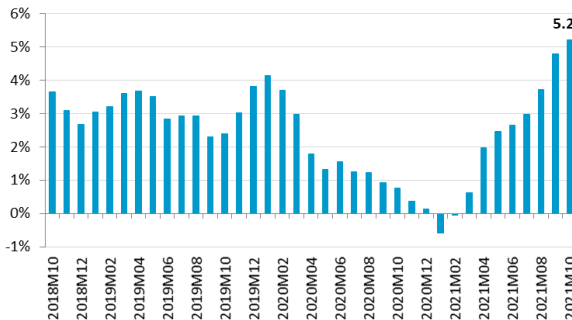
# Bulgaria: Prices Dynamics

Following the upward trend of inflation in the countries of the region, CPI inflation in Bulgaria accelerated to 6% yoy in October from 4.8% yoy in September and -0.6% yoy in January. HCPI inflation increased from 4% in September to 5.2% yoy in October amid higher price pressures on housing prices and utilities, transport, food and non-alcoholic beverages. **Inflation is expected to be on average higher this year than in 2020 mainly reflecting the structural changes related to energy prices increases.**

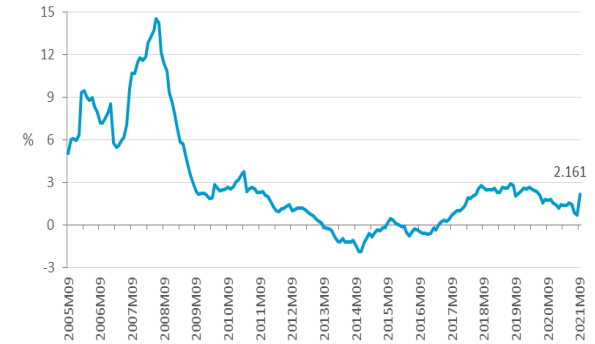
Inflation, y/y: 2018 - 2021



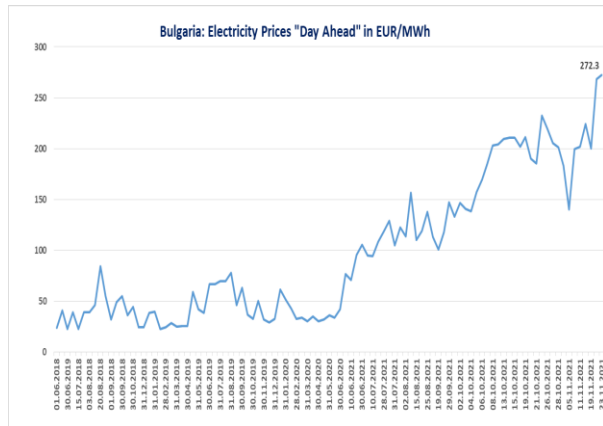
Harmonised Inflation, y/y: 2018 - 2021



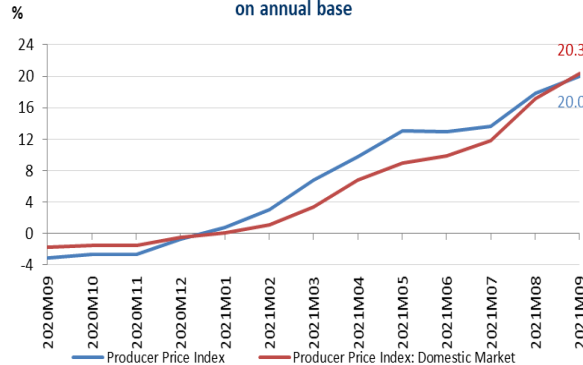
Core Inflation, Percentage change, YoY



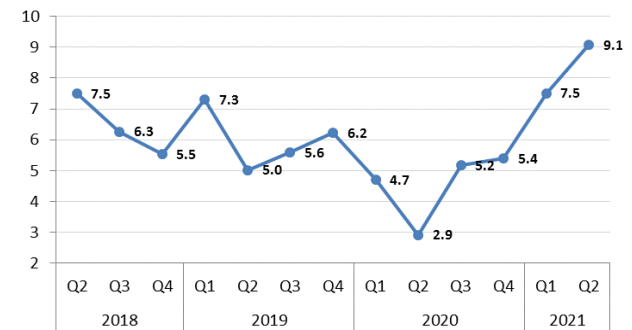
Bulgaria: Electricity Prices "Day Ahead" in EUR/MWh



Producer Price Index and PPI on Domestic market, % change on annual base

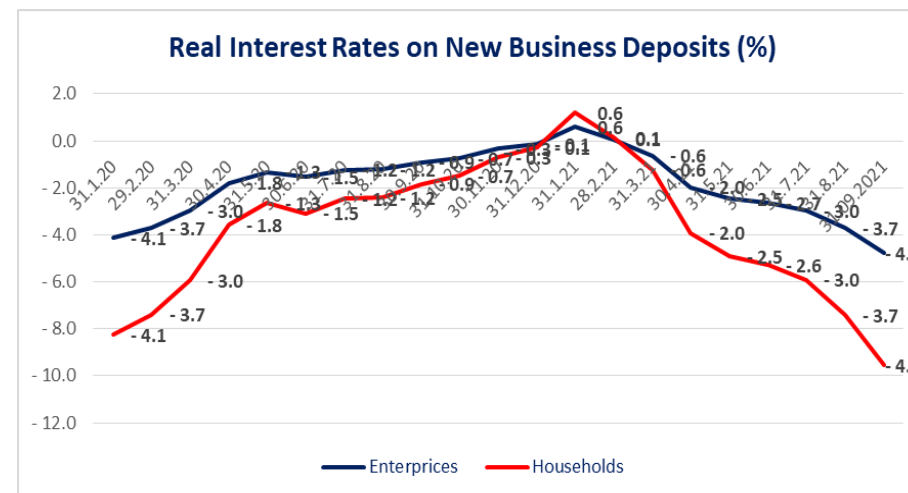
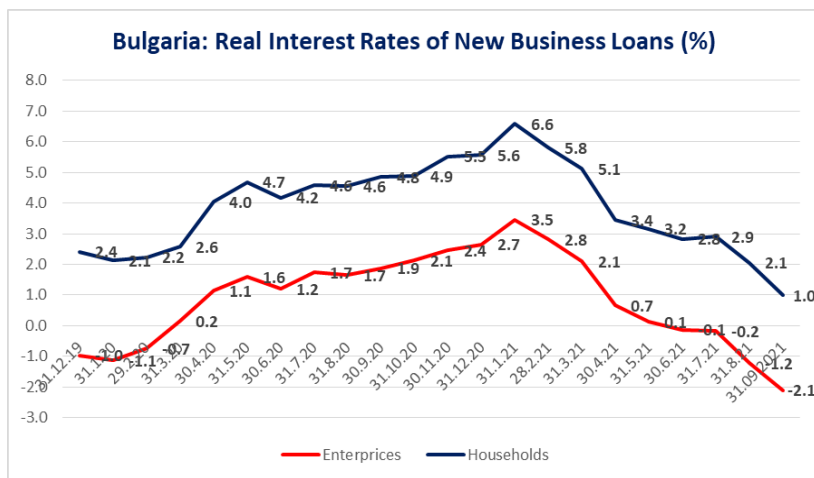
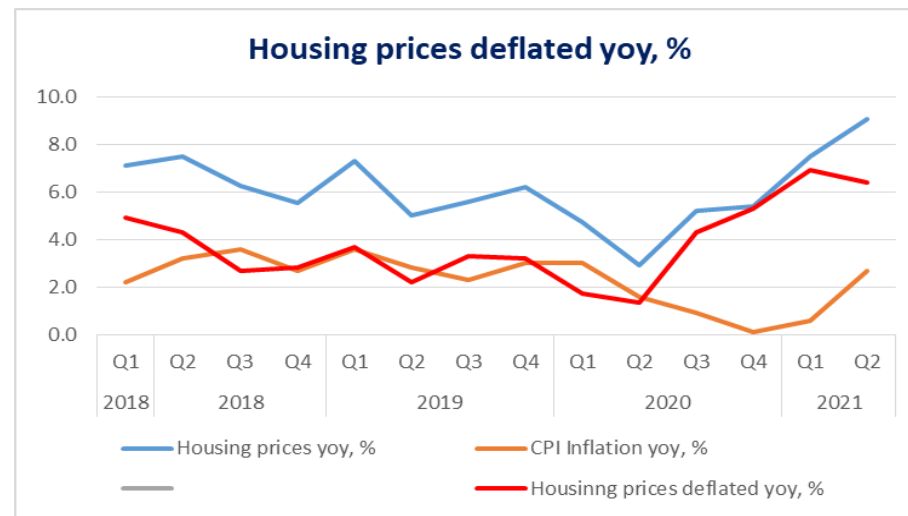
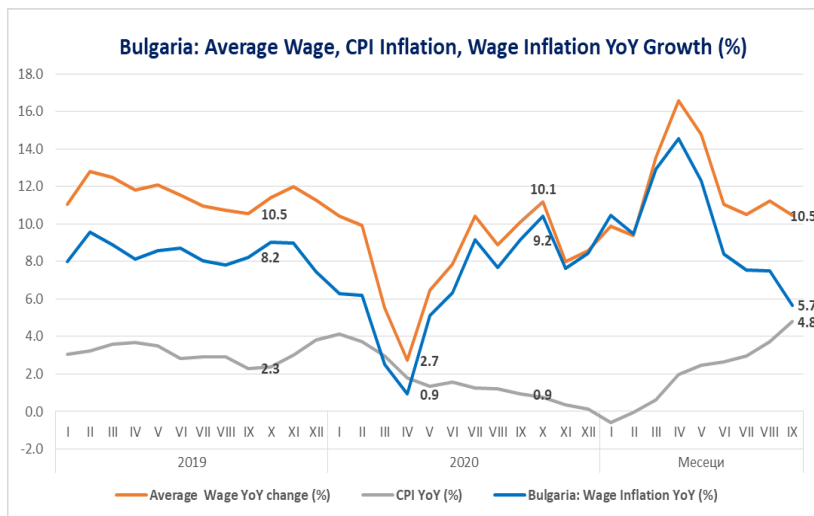


House Price Index (HPI), % change YoY



# Bulgaria: Prices Dynamic Impact

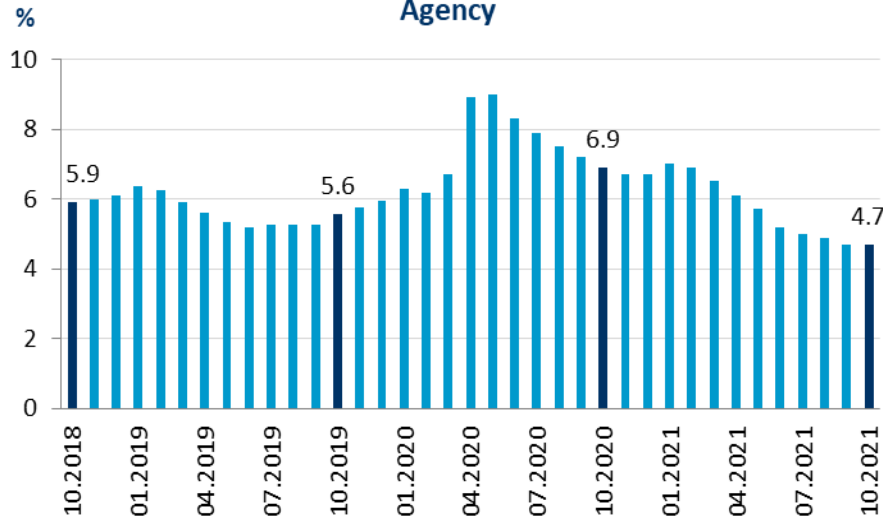
High energy prices and particularly electricity prices, had led both a supply shock (many companies are threatened with bankruptcy due to high electricity prices) and a destruction to domestic demand (high energy prices lead to higher inflation and this is reducing real incomes).



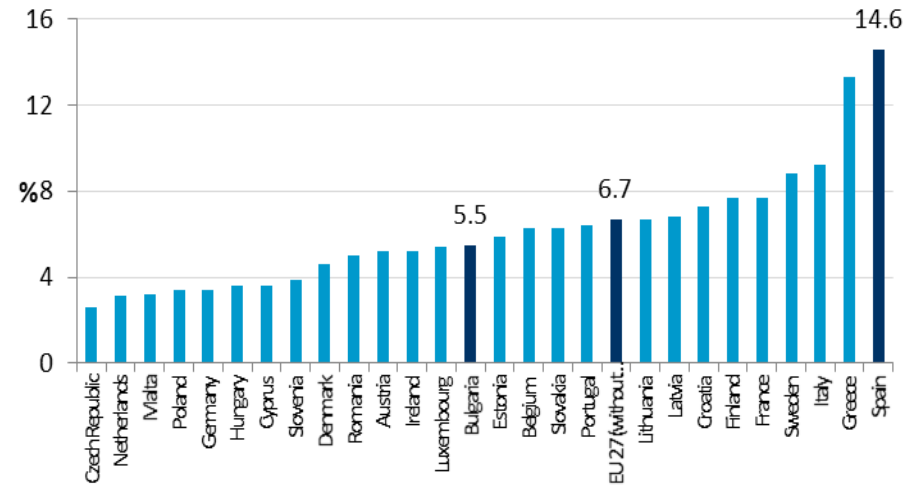
# Bulgaria: Main Macroeconomic Indicators, Labor market

According to Agency of employment in October 2021 the rate of registered unemployment is 4.7%, hitting another 14-year record low. The harmonized unemployment rate in Bulgaria is 5.5% and is below the average of EU.

Unemployment Rate Bulgaria: National Employment Agency



EU: Unemployment rate seasonally adjusted by country, September 2021



**Note:**

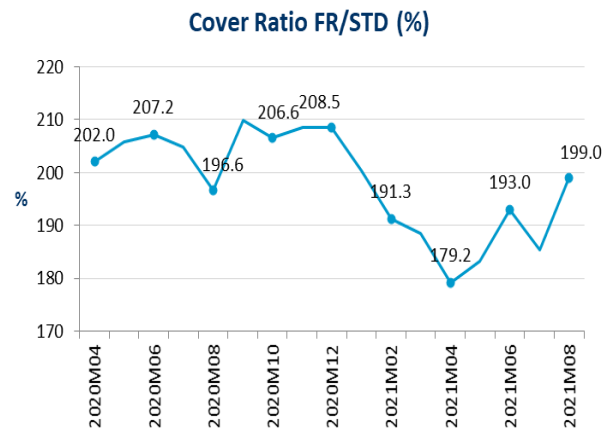
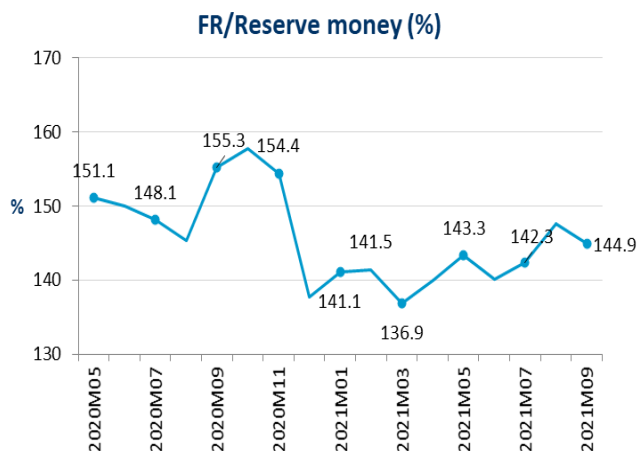
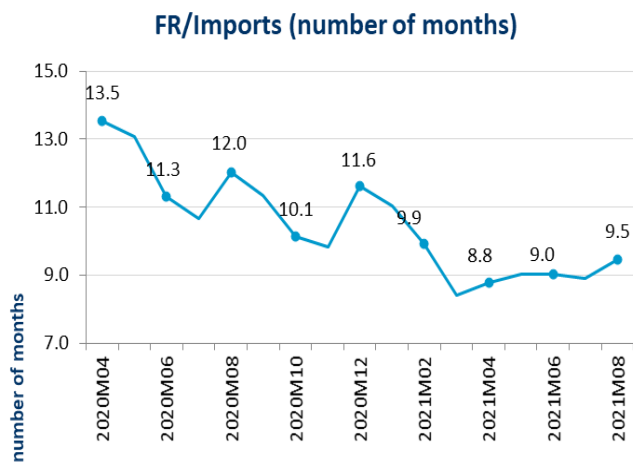
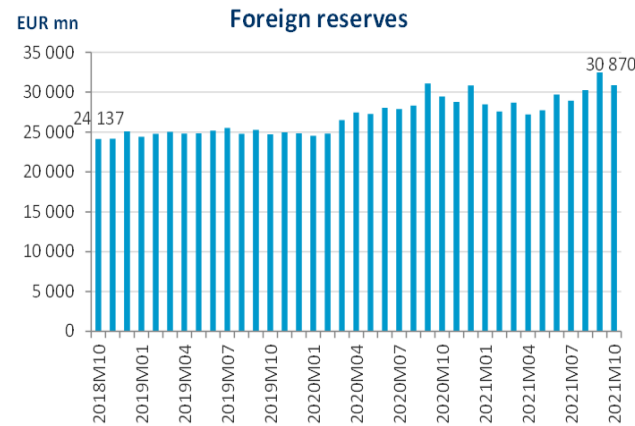
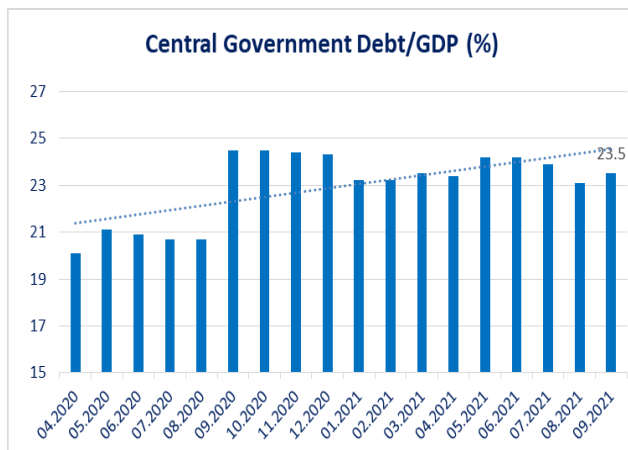
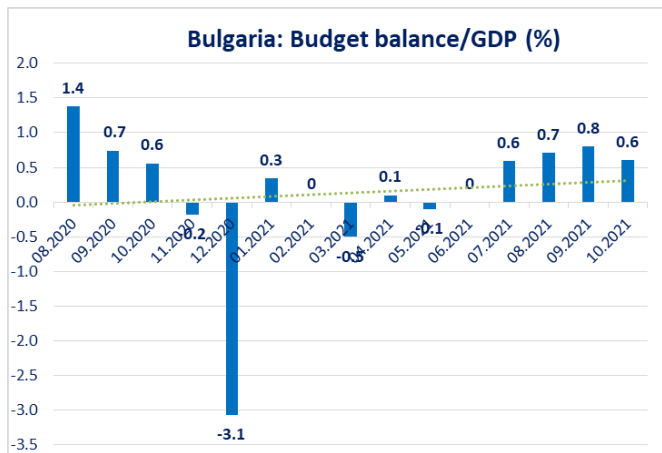
According to the definition of the NSI, unemployed are persons aged 15 - 74 years who: 1) do not have a job during the observed period; 2) actively looking for work for a period of four weeks, incl. observed week, or have already found a job that they expect to start within three months after the end of the observation period, 3) have the opportunity to start work within two weeks after the end of the observed period.

The NSI assessment is based on a sample "Labor Force Survey", in which Bulgarian households are interviewed on a rotating basis. The labor force survey is performed on a two-stage nesting sample, including about 19.6 thousand households each quarter (about 0.65% of the households in the country). The definition of unemployment of the NSI is according to Regulation of the European Commission (EC) № 1897/2000.

The Employment Agency considers unemployed only persons who have registered with the labor offices.



# Fiscal Indicators are stable and maintain the position of Currency Board in Bulgaria



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