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

Chief Economist Department

Probabilities of the Main Scenarios

Bulgaria Outlook 2020-2023

The Economy of Bulgaria

COVID - 19 Status in Bulgaria

Bulgaria's Main Macroeconomic Indicators

Banking sector

Probability of the Main Scenarios

Baseline scenario increasingly confirmed by recent events –the strong progress in vaccination in EU and the expected improvement of COVID -19 status in Bulgaria

	OPTIMISTIC SCENARIO	BASE SCENARIO	PESSIMISTIC SCENARIO
June probabilities 2020	15%	45%	40%
New APC 2020 Scenarios			
July-August probabilities	15%	45%	40%
September probabilities	15%	50%	35%
October probabilities	10%	55%	35%
November probabilities	10%	55%	35%
December probabilities	10%	55%	35%
Year 2021			
January probabilities	10%	60%	30%
February probabilities	10%	60%	30%
March probabilities	10%	60%	30%
April probabilities	10%	60%	30%
May probabilities	10%	70%	20%
June probabilities	10%	80%	10%
July probabilities	10%	80%	10%

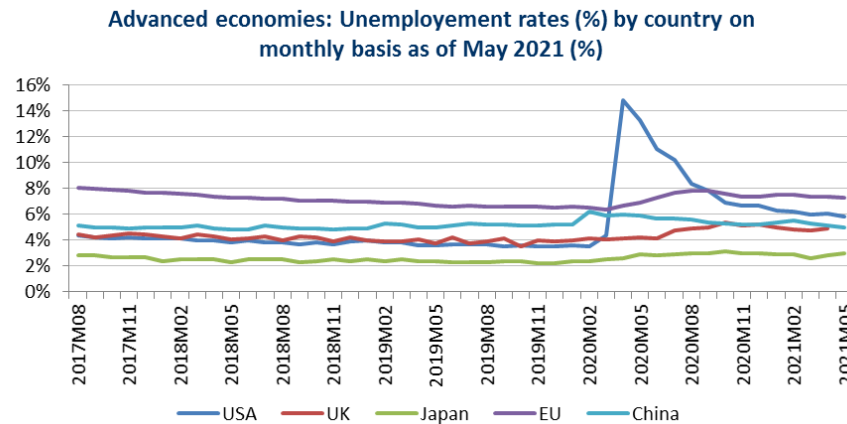
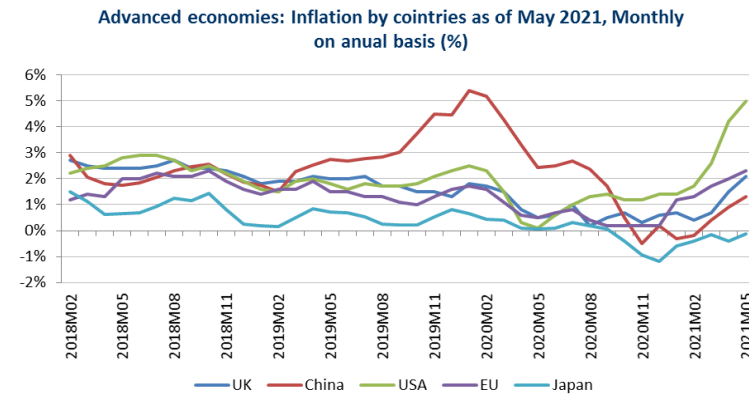
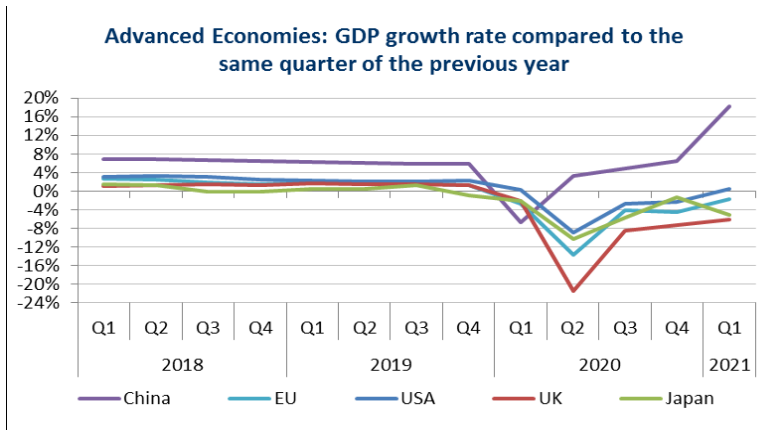
Source: KBC Economics

Arguments for Scenario Probabilities – July 2021

- **Based on recent events confirming this scenario, the probability of a baseline scenario is estimated at 80%, while the probability of a pessimistic scenario is reduced to 10%, reflecting the declining risks of complete collapse and / or permanent and comprehensive blockages, as collective immunity will most likely be reached by the end of the summer. In addition, societies are also better prepared to deal with new variants of viruses that are unlikely to lead to new blockages.**
- **The baseline scenario also reflects the short-term economic damage due to the second pandemic wave in the fourth quarter of 2020 and the gradual economic recovery in 2021. The economic costs of the second wave are significant in Q4 of 2020 and in Q1 of 2021 (in terms of below normal or negative growth), but significantly less than during the first wave amid better-than-expected economic resilience and targeted blocking measures.**
- **The successful introduction of vaccinations will initiate a comprehensive economic recovery, also supported by tax incentives, increased consumer and producer confidence, and the continued recovery of China and the United States. However, this recovery is expected to gain momentum mainly from the second half of 2021, as the extension of (partial) blocking measures continues to weigh on the economy in the first part of the year, allowing only a gradual opening of the economy.**
- **As the baseline scenario is increasingly confirmed by recent events, it remains the most likely economic scenario ahead (with increasing probability). However, the remaining risk is not symmetrical. The risks remain downward - heavier in the pessimistic scenario than in the optimistic scenario - and are associated with the resurgence of severe Covid-19 pandemic waves (including variants), potential failures in vaccination deployment or efficiency, and delayed fiscal stimulus. Additional fiscal stimulus or strong subdued demand and faster-than-expected broad economic opening could potentially lead to more positive economic developments.**

Overview global forecasts

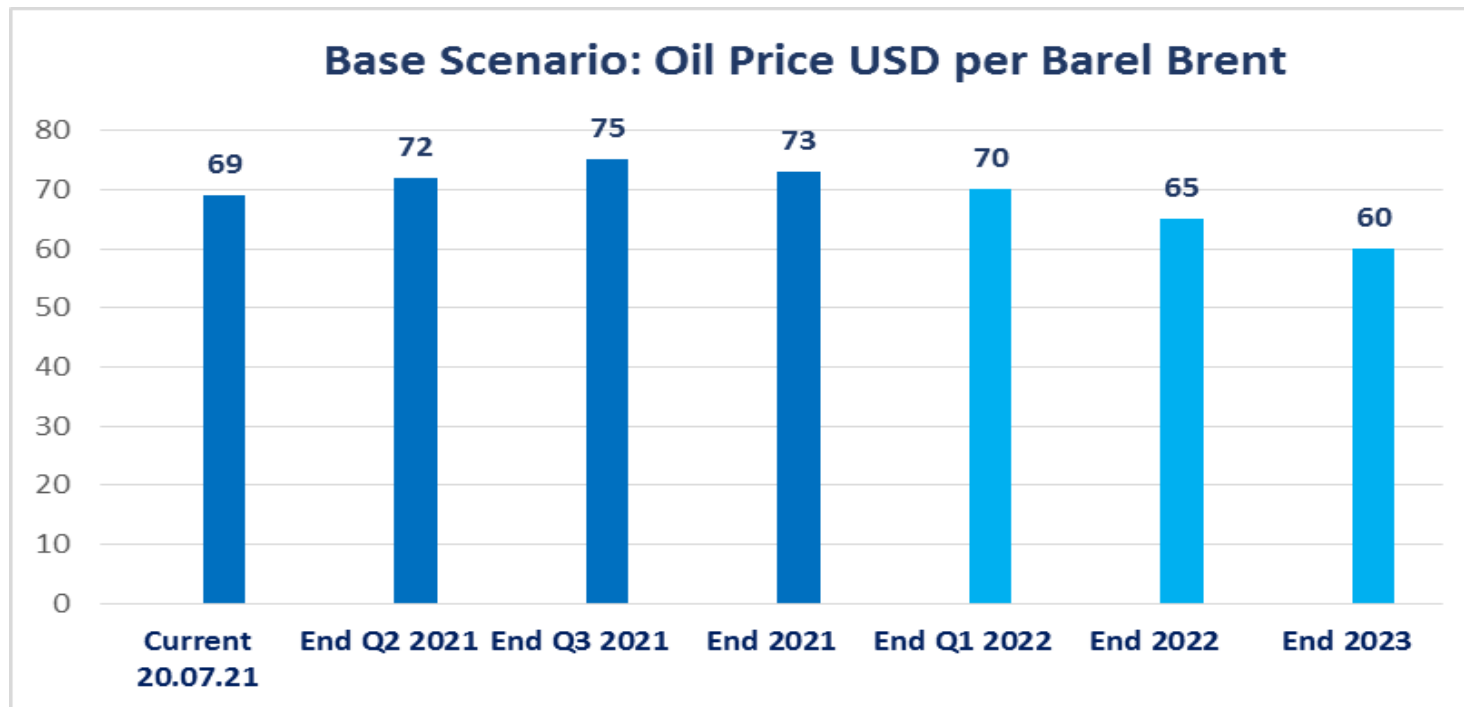
In Q1 2021 advanced economies performed better than initial market expectations as fiscal support impacted strongly on **GDP growth**. **Inflation increased** and followed the dynamics of international prices of oil and commodity prices on the international markets. **The labor market has continued to show signs of recovery** supported by broader economic re-opening, amid the rapid pace of vaccination and the ongoing government support.



Base scenario: Oil Prices Projections

Brent crude futures fell further to a 2-month low below USD 68 per barrel on July 20, 2021 after tumbling around 7% the day before, following OPEC+ decision to increase oil production after an initial setback and opposition from the UAE. The cartel decided to increase overall crude production by 400,000 barrels per day monthly starting August 2021 until phasing out the 5.8 million bpd production adjustment. The deal also gives Saudi Arabia, the UAE, Iraq, Kuwait and Russia higher baselines against which cuts are measured from May 2022, in line with UAE requests. The UAE’s baseline for oil production will be raised to 3.5 million bpd from 3.16 million, but below 3.8 million initially requested. Meanwhile, the rapid spread of the Delta variant of COVID-19 is also weighing on oil prices as renewed restrictions are introduced which curb fuel demand.

Brent crude oil is expected to trade at 73 USD/BBL by the end of 2021. Looking forward, we estimate it to trade at 65 USD/BB in 2022 and to return to 60USD/BB in 2023.

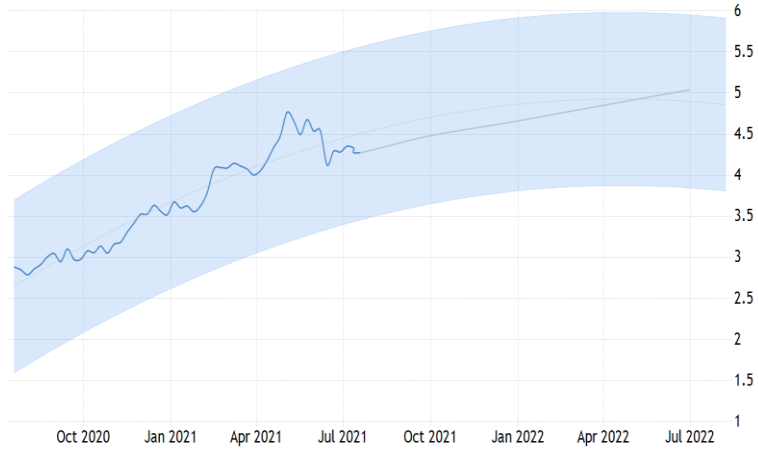


Base scenario: Metal Prices Projections (1)

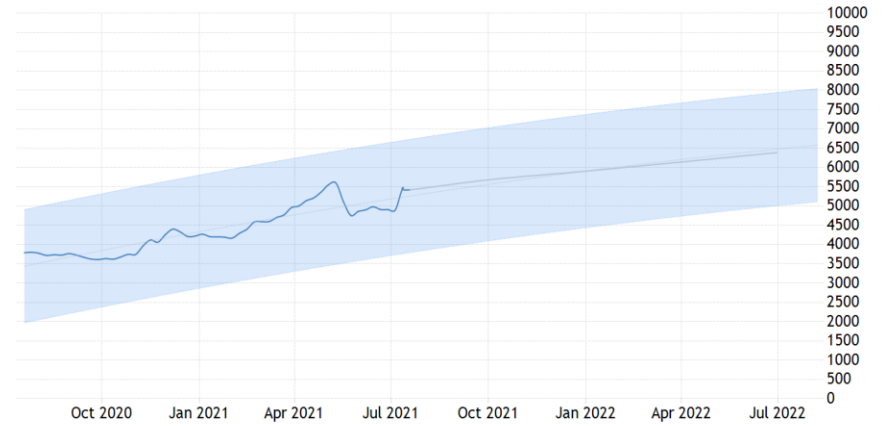
- **Copper futures have been trading in a tight range around USD 4.3 a pound**, which is more than 10% lower than an all-time high of almost USD.9 hit in the second week of May, pressured by slowing demand and a stronger dollar. Global copper smelting activity slipped in June as Chinese plants closed for maintenance, and new orders for German manufactured goods tumbled the most in May since a record fall in April last year. Meanwhile, inventories of copper in ShFE warehouses declined to their lowest since February 19th while copper stocks in bonded warehouses in China rose to their highest since July 2019. **Copper is expected to trade at 4.48 USD/LB by the end of 2021. Looking forward, we estimate it to trade at 5USD/LB in 2022.**
- **Shanghai steel futures surged above 5,500 yuan a tonne in mid-July**, approaching record levels of almost 6,000 hit on May 11th boosted by growing industrial demand while supply remains scarce in the aftermath of Covid-19. The US announced trillions of economic stimulus to support post-COVID recovery including funds for infrastructure such as new roads, rail and housing while the EU is committed to reaching net-zero emissions. Elsewhere, powerhouses China and Russia are trying to limit exports to help other industries at home. Meantime, latest data showed China's crude steel output rose by 11.8% from a year earlier in the first half of the year. China pledged to limit crude steel output in 2021 at no higher than the 1.065 billion tonnes it made last year but at the half-way stage of the year, the country has already produced 563.33 million tonnes of the metal. **Steel is expected to trade at 5676.29 Yuan/MT by the end of 2021. Looking forward, we estimate it to trade at 6385.31 in 2022.**
- **Prices for iron ore cargoes with a 63.5% iron content for delivery into Tianjin remained near USD220 per tonne at the beginning of July**, close to a record high of USD232 reached on May 12th supported by strong demand, declining stockpiles and concerns over supply. The stockpiles of imported iron ore at Chinese ports declined for four consecutive weeks to 123.95 Mt as of Jun 25, 2021, the lowest level in eight months. Meanwhile, Brazilian miner, Vale recently announced that it has halted production at its Timbopeba mine and part of its Alegria mine following warnings about tailings dam risks. Also, weekly Australian iron ore shipments have been disappointing through June. **Iron ore is expected to trade at 233.95 USD/MT by the end of 2021. Looking forward, we estimate it to trade at 271.69 USD/MT in 2022.**

Base scenario: Metal Prices Projection (2)

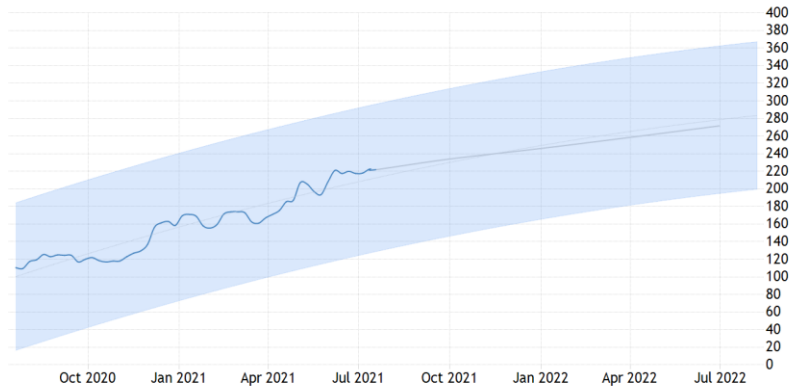
Copper



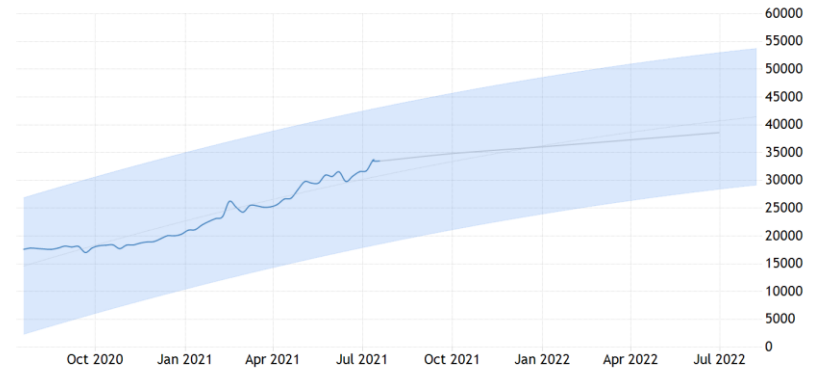
Steel



Iron ore



Tin



Base scenario: Agriculture products Prices Projections on International Markets (1)

Chicago wheat futures extended gains to trade above USD7 a bushel, the highest since mid-May as unfavorable weather in parts of the United States, Canada, and Russian growing areas raised alarm about global supplies. The USDA said farmers in the northern US Plains were set to harvest the smallest spring wheat crop in 33 years, due to severe drought in the key farming region. Elsewhere in Russia, the world's top wheat exporter, supply fears have also emerged due to sub-par yields in the key southern export region. Last week, the wheat market advanced almost 14%, the biggest weekly gain since June 2017. **Wheat is expected to trade at 713.45 USd/BU by the end 2021. Looking forward, we estimate it to trade at 826.60 in 2022.**

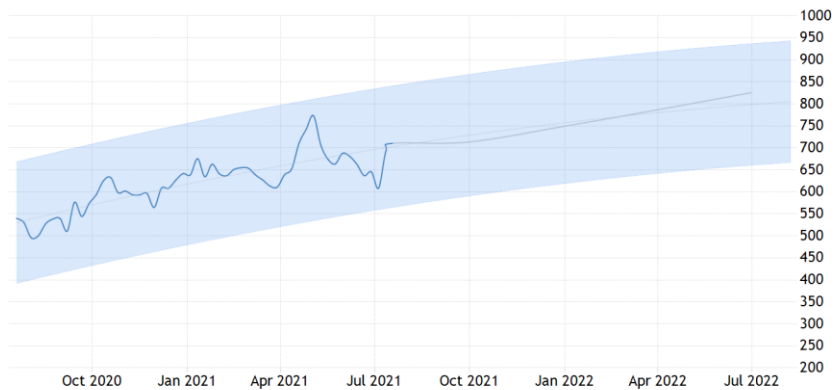
Chicago soybeans futures traded above USD14 a bushel, recovering from a five-month low of USD13 touched in June, on supply concerns as dry weather in key growing areas threatens to further tighten shrinking grain supplies. China, the world's top buyer of soybeans, brought in 10.48 million tonnes of the oilseed from top supplier Brazil in June, a 14% rise from May supported by the country's recovering pig herd but slightly down from 10.51 million tonnes the previous year's record high. Meantime, Chinese demand for US soybeans weakened. The US Department of Agriculture left 2021/22 soybean crop expectations unchanged, beating forecasts while the soybean harvest was seen at 4.405 billion bushels, based on a yield of 50.8 bushels per acre, compared with market consensus of 4.394 billion on a yield of 50.7. **Soybeans is expected to trade at 1495.73 USD/BU by the end of 2021. Looking forward, we estimate it to trade at 1676.16 USD/BU in 2022.**

Oat prices increased 72.50 USd/BU or 20.10% since the beginning of 2021. Oat is expected to trade at 381.86 USd/BU by the end of 2021. Looking forward, we estimate it to trade at 441.81USD/BU in 2022.

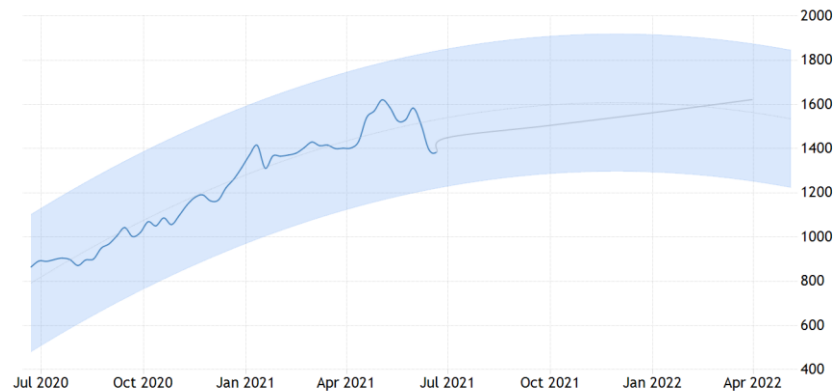
Corn prices increased 89.75 USd/BU or 18.54% since the beginning of 2021. Corn is expected to trade at 779.92 USd/BU by the end of 2021. Looking forward, we estimate it to trade at 905.69 in 2022.

Base scenario: Agriculture products Prices Projections on International markets (2)

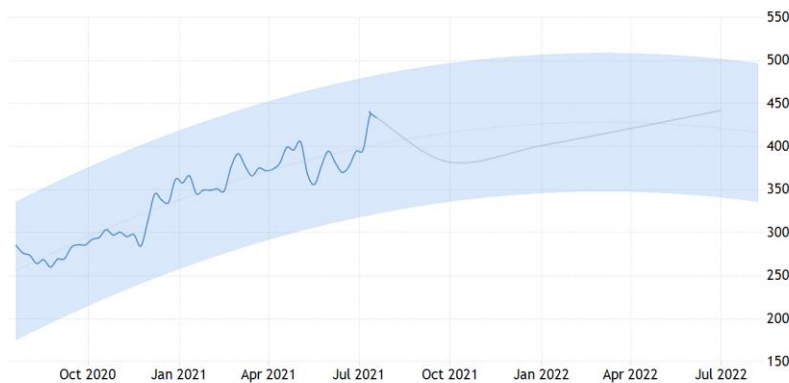
Wheat



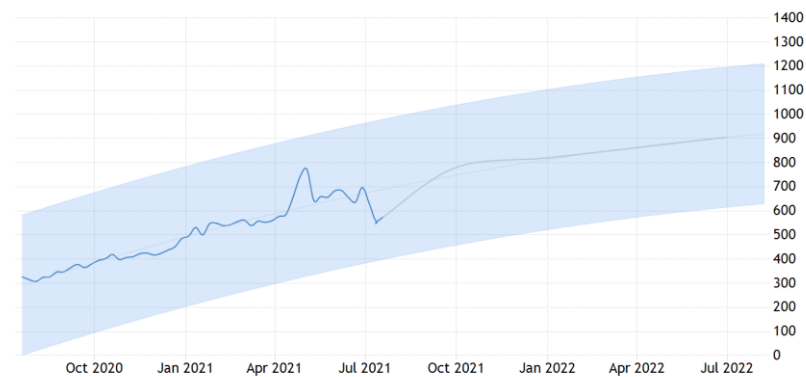
Soya



Oat



Corn



As of July 16, 2021, the prices of grain contracts on world stock markets reversed the trend and went up.

Wheat in the US rose by 16.00 dollars to 263.00 USD / ton, **that in France also rose** by 9.00 euros to 210.00 EUR / ton, **and prices in both Ukraine and Russia fell** by 12.00 and 14.00 dollars to the corresponding 228.00 and 230.00 USD / ton.

For corn in the US, after an attempt to recover, it rose by USD 9.00 to USD 285.00 / ton, **in Ukraine it fell** by USD 7.00 and USD 277.00 / ton.

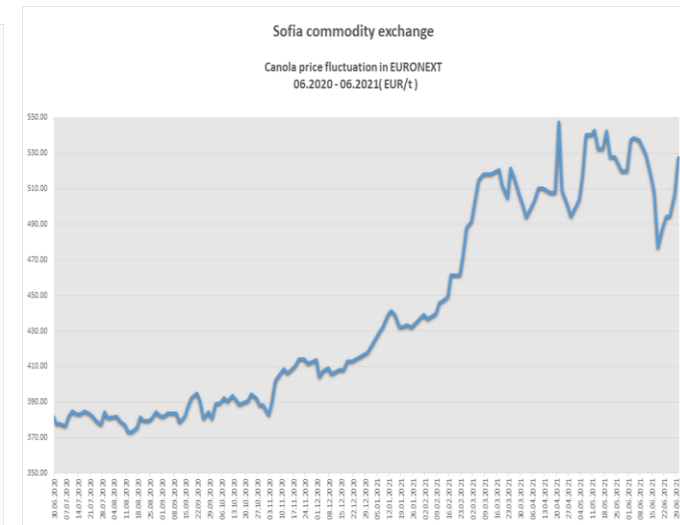
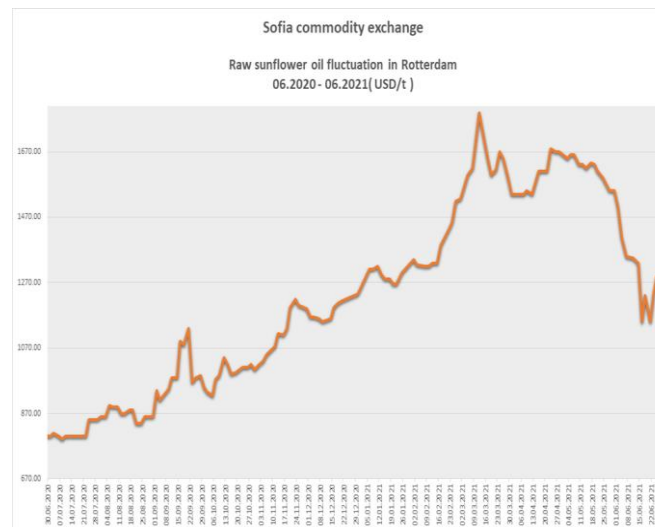
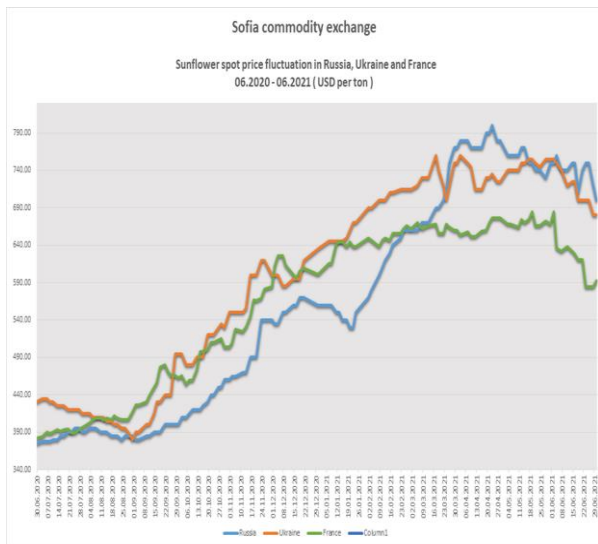
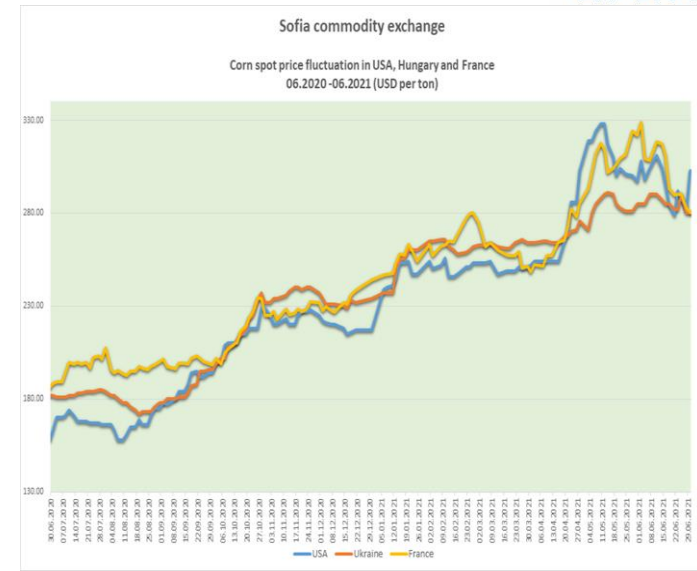
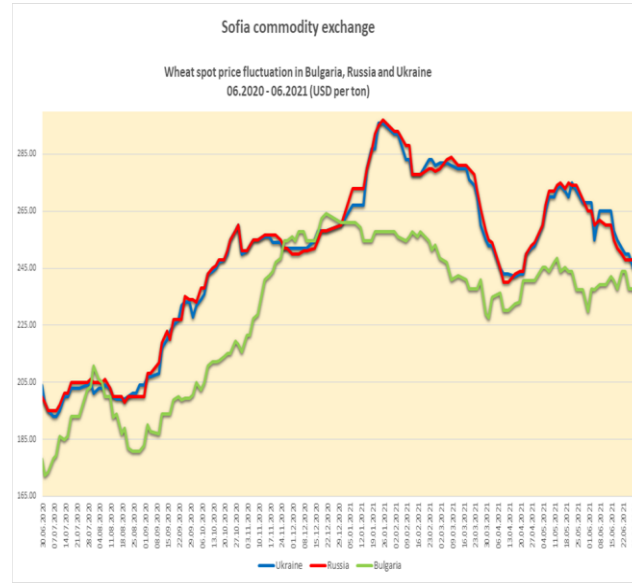
Barley is also quoted higher this week in France plus EUR 7.00 to 200.00 EUR / ton, **in Ukraine the decline** is USD 2.00 to 218.00 USD / ton.

Rapeseed in the European Union (Euronext), which suffered heavy losses in June but recovered from old prices in the first days of July, has now swung back from 29.25EUR to 548.00 EUR per tonne.

Unrefined sunflower oil on the Rotterdam Stock Exchange also increased by USD 40.00 to a price of USD 1270.00 / ton, and refined sugar went up by plus USD 3.70 to \$ 436.90 / ton on the London Stock Exchange.

In the "Grain" sub-district of the Sofia Commodity Exchange AD the quotations during the middle of July 2021 are sluggish, the traders are waiting for the new harvest. This week there was a quotation for the purchase of bread wheat at a price of BGN 370.00 / ton. For corn the supply is BGN 400.00 / ton, the buyers quoted at BGN 390.00 / ton, and for oilseed sunflower the announcements for searching for a new harvest are at BGN 850.00 - 900.00 / ton. All prices are without VAT.

Base scenario: Agriculture products Prices Impact on Bulgarian Grain Market (4)



Overview global forecasts

The European Commission has revised and increased its forecasts for Eurozone GDP for 2021 and 2022, saying that activity in Q1 2021 exceeded expectations, and the improved health situation has led to faster easing of restrictions to combat the pandemic in Q2 2021. **Eurozone GDP is expected to grow by 4.8% in 2021 and by 4.5% in 2022, compared with forecasts made in May of 4.3% and 4.4%, respectively.** The EC also said that real GDP is expected to return to pre-crisis levels in the fourth quarter of 2021, a quarter earlier than expected, but warned that it is essential to maintain political support as far as necessary as the uncertainty and risks associated with growth prospects remain high. Inflation, which has been below the ECB's target for years, is expected to accelerate to 1.9% in 2021 and slow to 1.4% in 2022.

Our projections are more conservative and they are based on the pace of the vaccination process among the EC countries, as well as on the potential threat from the new Delta variant of COVID-19 and eventually third wave of the pandemic.

	Real GDP growth							Headline inflation (US CPI)						
	2017	2018	2019	2020	2021	2022	2023	2017	2018	2019	2020	2021	2022	2023
EMU	2.7	1.9	1.3	-6.7	4.1 (3.9)	4.4	2.2	1.5	1.8	1.3	0.3	1.7 (1.4)	1.4	1.5
US	2.4	2.9	2.3	-3.5	6.5	4	2.2	2.1	2.4	1.8	1.1	3.2 (2.8)	2.3 (2.1)	2.2
China	6.9	6.6	6.1	2.3	8.3 (8.5)	5.2	5	1.6	2.1	2.9	2	1.4 (2.2)	2.5	2.2 (2.5)
Changes are in Bold. Projections from previous month are in brackets.														

Overview of the Interest rates Trends

Yields on 10-year US bonds reached a new 5-month low of 1.174% on July 20, after reporting 1.45% at the beginning of the month, amid the pursuit of security as the Delta virus (a variant of the coronavirus) it is spreading rapidly and countries are tightening restrictions, leading to fears of slowing global growth. Meanwhile, Fed Chairman Powell said the expected further progress towards full employment and price stability was still a long way off and signaled that inflation would remain high for several months before easing.

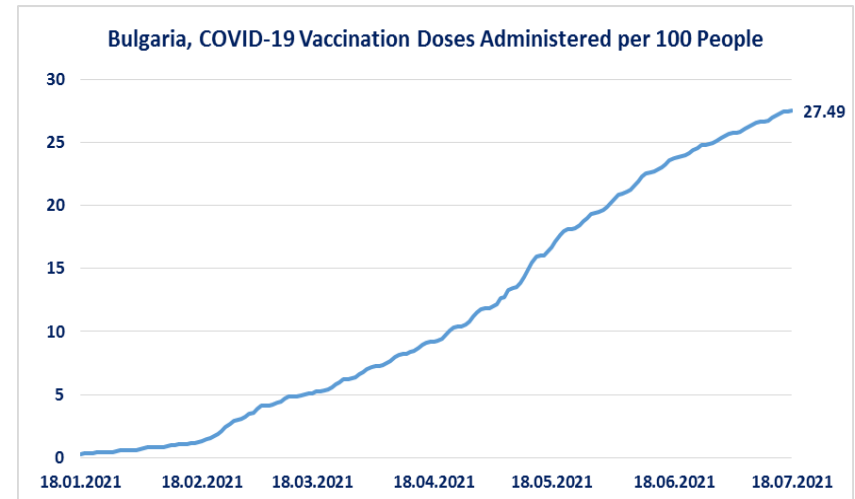
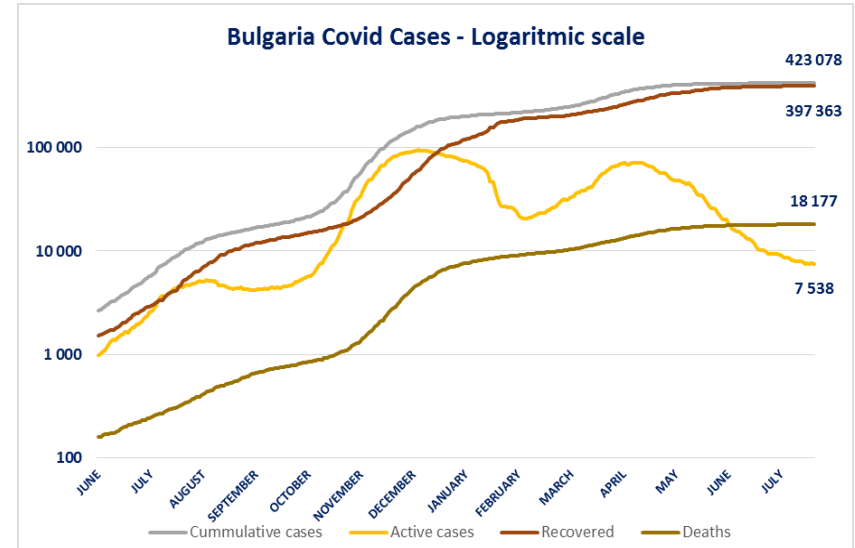
The ECB's monetary policy meeting on 22 July will be an important meeting, as the central bank will communicate its guidelines in a different and clearer way, bringing them into line with the new strategy. The ECB has announced its first review of the strategy since 2003, which includes a 2% inflation target in the medium term compared to the previous inflation target of less but close to 2%, as well as the inclusion of climate change considerations. in monetary policy operations. ECB President Christine Lagarde said the ECB would continue to maintain sustainable financial conditions and support the economy, and that now was not the time to talk about an exit strategy.

Germany's 10-year bond yields fell to -0.4%, hovering around their lowest level since mid-February due to global price increases with fixed-income instruments, concerns about the economic impact of COVID's Delta option -19 and expectations that the ECB will maintain its policy. The central bank is likely to update its monetary stimulus guidelines at its July 22 meeting and adhere to its monetary policy stance.

Advanced economies	Indicators	End 2020	Current 20.07.2021	Q2 2021	Q3 2021	End 2021	End 2022	End 2023
US	Fed policy rate (middle target range)	0.125	0.125	0.125	0.125	0.125	0.125	0.525 (0.125)
	10y Bond yield	1.58	1.174	1.6 (1.9)	1.9 (2.15)	2.15	2.50 (2.25)	2.6 (2.4)
Eurozone	ECB deposit rate	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.4
	ECB refi rate	0	0	0	0	0	0	0
Germany	10y Bond yield	-0.23	-0.4	0.15 (-0.15)	0.15 (-0.15)	0.2 (0)	0.40 (0.25)	(0.6) 0.5
	USD per EUR	1.21	1.217	1.20 (1.17)	1.23 (1.17)	1.26 (1.19)	1.32 (1.27)	1.35 (1.3)
Changes are in Bold. Projections from previous month are in brackets.								

Status of pandemic COVID-19 in Bulgaria

- Bulgaria recorded 423 078 Coronavirus Cases since the epidemic began, according to the World Health Organization (WHO). In addition, Bulgaria reported 18 177 Coronavirus Deaths. Bulgaria recorded 397 363 Coronavirus Recovered since the epidemic began.
- Bulgarians continue to be the biggest vaccine skeptics in the EU. With the continuing low rate of vaccination, we are facing new constraints in the economy. If there is good news, it is at the start of two advertising campaigns to promote vaccinations - one of the EC and one of the Ministry of Health. There is a serious need for them, but a few billboards and videos are unlikely to change attitudes quickly and easily. This can only happen with a radical change in strategy, much more targeted efforts to persuade different groups in society and a more aggressive campaign.
- The number of COVID-19 vaccination doses administered in Bulgaria rose to 1637956 as of July 18 2021. Thus, the number of COVID-19 vaccination doses administered per 100 people in Bulgaria rose to 27.49.



Bulgaria – Outlook 2021 - 2023 (1)

Bulgaria	Optimistic scenario					Base scenario					Pessimistic scenario				
July 8, 2021	2019	2020	2021	2022	2023	2019	2020	2021	2022	2023	2019	2020	2021	2022	2023
Real GDP growth (in %)	3.4	-4.2	4.8	4	3	3.4	-4.2	4.6	4	3	3.4	-4.2	2	2.1	3
Inflation (in %, harmonised CPI, average)	2.5	1.2	2.6	2.5	2.5	2.5	1.2	2.1	2.3	2	2.5	1.2	1.5	1.8	1
Unemployment rate (% , end of year, Eurostat definition)	4.2	4.8	4.8	4.6	4.2	4.2	4.8	5	4.8	4.6	4.2	4.8	8	9	9
Government budget balance (in % of GDP)	-1	-3	-1	-1	0	-1	-3	-3.9	-2	-1.8	-1	-3	-4.9	-3	-2.5
Gross public debt (in % of GDP)	20.4	24.3	24	25	26	20.4	24.3	26.9	28	29.1	20.4	24.3	28.7	30.7	32.5
Current account balance (in % of GDP)	1.2	0.4	4	3.8	2.6	4	0.4	2	3	1	4	0.4	0	0.3	0.4
Long-term interest rate, 10Y Government Bond Yield	1.2	0.4	0.9	1.4	2.1	1.2	0.4	0.4	0.8	1.1	1.2	0.4	0.75	1	1.25
House prices (annual %-change, existing and new dwellings, Eurostat def.)	6	5.4	5.5	5.8	4.5	6	5.4	5	4.8	4.4	6	5.4	3.8	3.5	3
Source: KBC, UBB															

Bulgaria – Outlook 2021 - 2023 (2)

- **Bulgaria's GDP contraction has so far been relatively slow, mainly due to stable domestic demand.** This year the recovery is stronger than expected and that is why we have raised our forecast for economic growth. In the medium term, by 2024, the influx of high resources from the previous and current multiannual financial framework of the EU (EU MFF), as well as additional funds from the NGEU instrument will provide a solid background for Bulgaria's economic growth. Our forecast is for growth of 4.6% for GDP in 2021, 4.0% for 2022 and 3% for 2023. Domestic demand is also expected to contribute to economic growth. The gradual easing of restrictive measures will encourage consumer demand in the second half of 2021, and the positive development of the labor market will support consumption in 2022. A key factor for the growth of investments will be the successful implementation of the National Recovery and Sustainability Plan.
- **The labor market situation is assessed as stable as a result of the implementation of employment retention measures** (so called 60/40 measure) and expects labor market indicators to improve further. A successful economic recovery this year and next will lead to a gradual reduction in unemployment to relatively low levels. The unemployment rate is expected to fall to 5% in 2021, and to fall to 4.8% in 2022 and to 4.6% in 2023.
- **Compensation per employee will increase** from 5% in 2021 to 6.9% in 2024 due to the government planned supportive measures for the business, financially secured with NGEU Funds, as well as based on the projections for Minimum wage increase by 10% yoy in the forecasted period. This is a moderate increase in the lowest incomes in the EU
- **After the reported slowdown in inflation in the country in 2020, due to lower energy prices and lower prices for food and services, it is expected to accelerate to 2.1% in 2021** (2.4% HIPC in June 2021). Among the factors for this will be the projected rise in energy prices and side effects due to higher fuel prices. In 2022 the total HICP will be at the level of 2.3%, in 2023 at the level of 2%. A moderate increase in incomes, combined with fiscal stability, will prevent a stronger rise in inflation
- **Even against this challenging domestic political environment and in the course of the pandemic, Bulgaria maintained a solid fiscal position.** From 2022, we expect consolidation to further reduce deficits, keeping government debt, net of liquid assets, at a low level of 26.9% in 2021, 28% in 2022 and 29.1% in 2023. External risks also appear to be manageable after several years of external net debt reduction, thanks to recurring current and capital surpluses that we expect to continue. The budget deficit is expected to be at 3.9% of GDP in 2021, 2% of GDP in 2022 and 1.8% in 2023.
- **The lev was included in ERM II and Bulgaria joined the banking union last year.** ERM II is the waiting room for eventual membership in the euro area, which we expect to take place only in a few more years, given that political considerations beyond Bulgaria's control may have an impact. The final decision rests with the finance ministers of the euro area and Denmark, as well as the ECB. We expect that at the moment the membership in ERM II will have limited effects on the activity of the BNB. We expect the ECB and the BNB to further strengthen their close cooperation, especially with regard to Bulgaria's integration into the Single Supervisory Mechanism.
- **Although the results of the recent elections underscore political fragmentation and confrontational decision-making, we do not believe that this development will slow down the most important political endeavors,** such as progress in joining the euro area or the absorption of EU funds. Bulgaria's leading parties will be guided in their policies, complying with the regulatory requirements of the Currency Board, Bulgaria's membership in the EU and NATO, and Bulgaria's membership in the ERM-II.

Bulgaria – Outlook 2021-2023 (3)

Most leading public and private institutions have upgraded their predictions for the Bulgaria's economic recovery in 2021. The HIPC Inflation will reflect assumptions related to the dynamics of international commodity and oil prices.

Regarding the forecasts, the European Commission (EC) has raised its forecast for Bulgaria's GDP growth this year to 4.6%. For 2022, the EC expects growth of 4.1%. Compared to the Spring Forecast, the annual real GDP growth rate is 1.1 pp. higher in 2021 and 0.6 pps. lower in 2022. The upward revision in 2021 reflects mainly the strong recovery in Q1 2021, while strong base effects explain the downward revision in 2022. The risks to the forecast are broadly balanced. On the upside, consumer demand may prove stronger than projected. On the downside, given the relatively slow rate of COVID-19 vaccination in the country, subsequent lockdown periods may be needed.

BNB also increased its projections for GDP at 4.1% in 2021, 4.6% for 2022 and 3.5% for 2023. According to BNB projection, CPI will be at 3.5% in 2021, 0.8% in 2022 and 1.1% for 2023.

Bulgaria GDP Growth (%): International Institutions Projections	2019	2020	2021	2022	2023
EC	3.4	-4.2	4.6	4.1	n.a
IMF	3.4	-4.2	4.4	4.4	n.a
BNB	3.4	-4.2	4.1	4.6	3.5
MF	3.4	-4.2	2.5	3	3.2

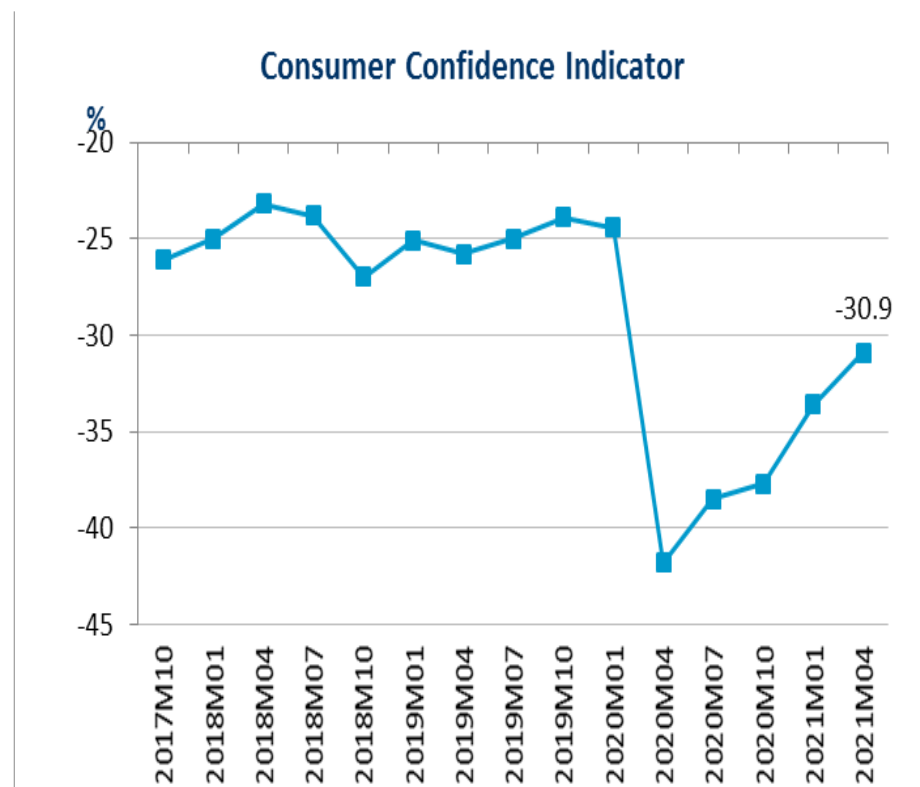
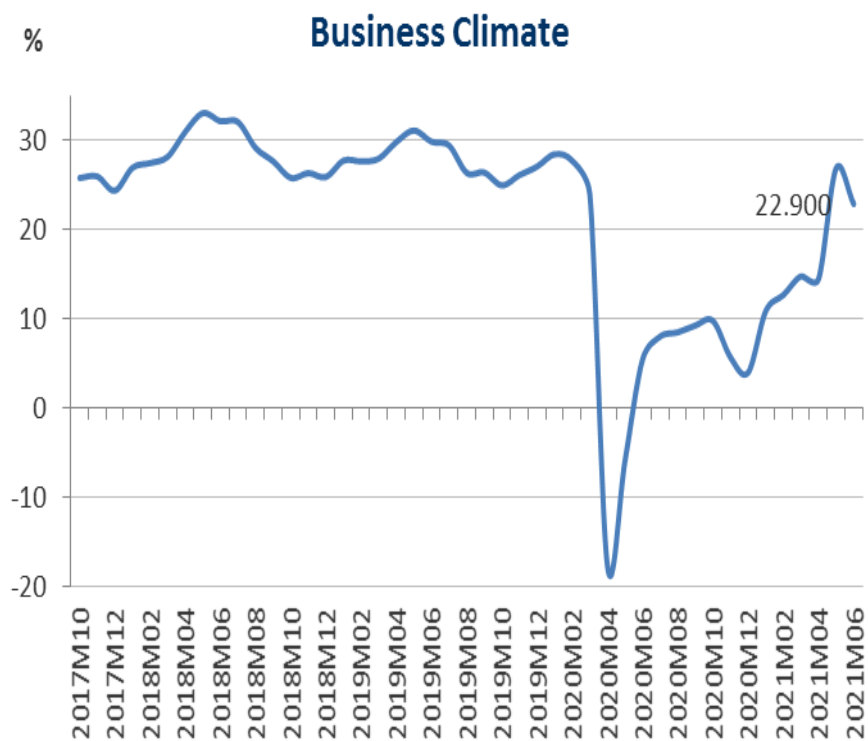
Bulgaria CPI Inflation rate (%): International Institutions Projections	2019	2020	2021	2022	2023
EC	2.5	1.2	1.9	2.5	n.a
IMF	2.5	1.2	1	2	n.a
BNB	2.5	1.2	3.5	0.8	1.1
MF	2.5	1.2	2.1	2.6	2.5

Source: EC, IMF, BNB, MF, KBC

Bulgaria: Main Macroeconomic Indicators (1)

In June 2021, the **total business climate indicator** decreased by 4.0 percentage points to 22.9 index points in comparison with the previous month, as a reduce of the indicator is registered in industry and construction.

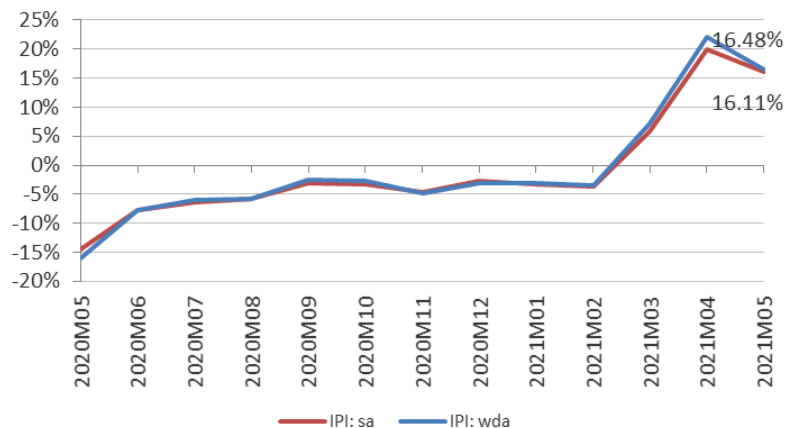
In April 2021, the total consumer confidence indicator increased by 2.7 percentage points in comparison with January 2021. An increase of consumer confidence among both urban and rural inhabitants by 2.4 and 2.7 percentage points respectively is reported.



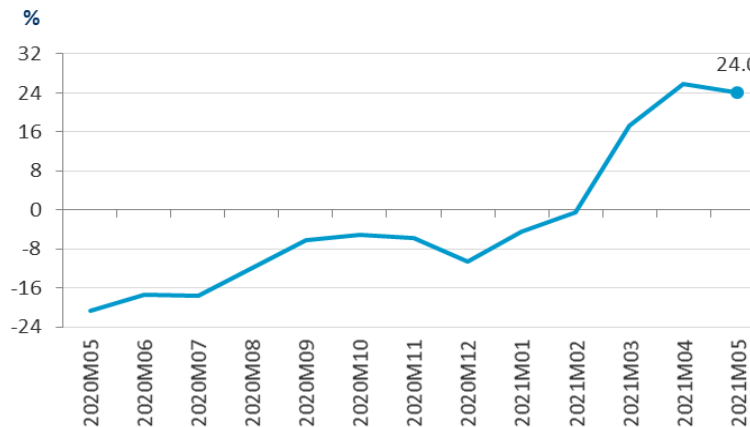
Bulgaria: Main Macroeconomic Indicators (2)

High Frequency Indicators in May 2021 stay in the positive territory with high trends. Tourism sector is deeply affected as contracted by 2.1% yoy in May 2021.

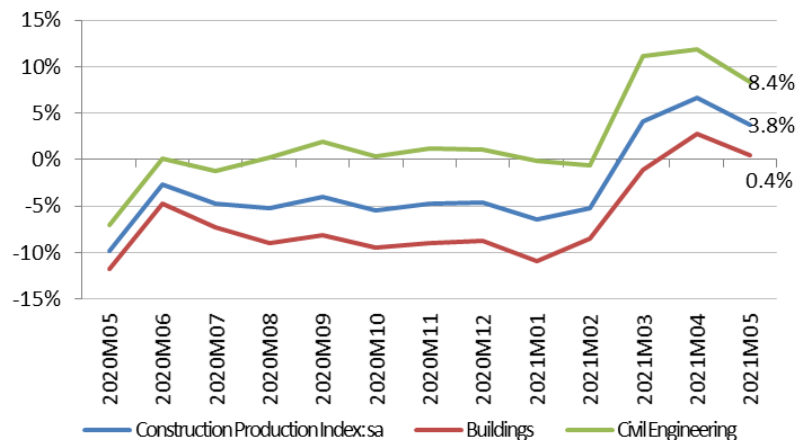
Industrial Production Index: Percentage change, YoY



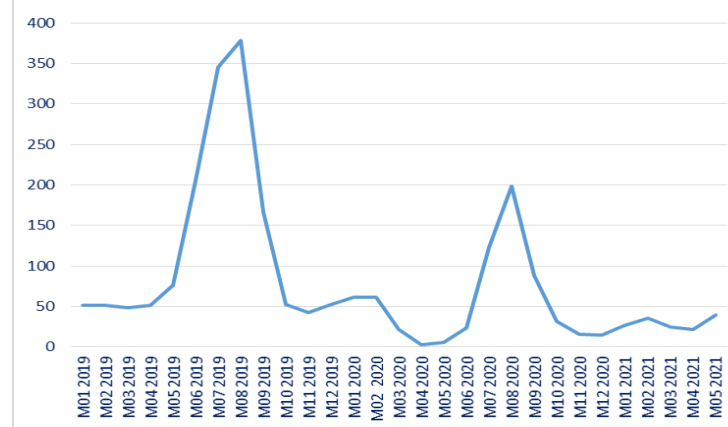
Retail Trade Index: Percentage change, YoY



Construction: Percentage change, YoY



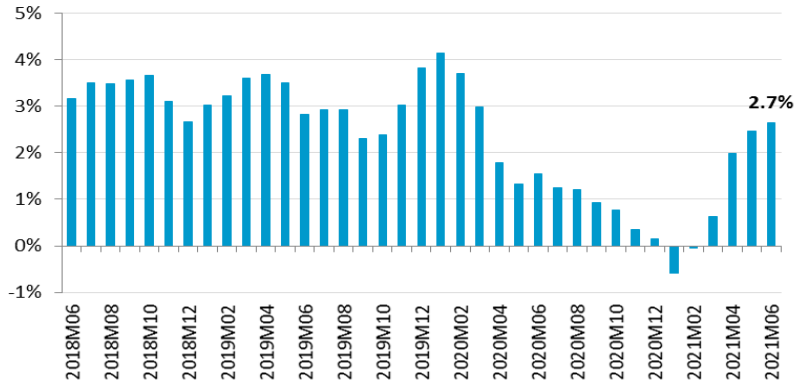
Tourism Revenues in BGN million, Monthly Data



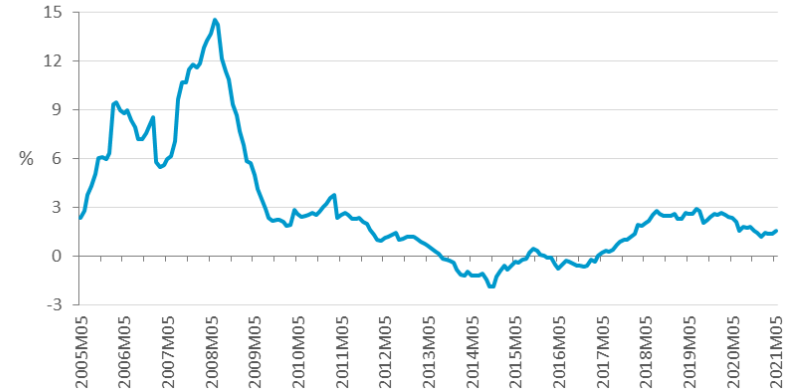
Bulgaria: Main Macroeconomic Indicators (3)

CPI and PPI declined following the trends Oil and Commodity prices on the international markets.

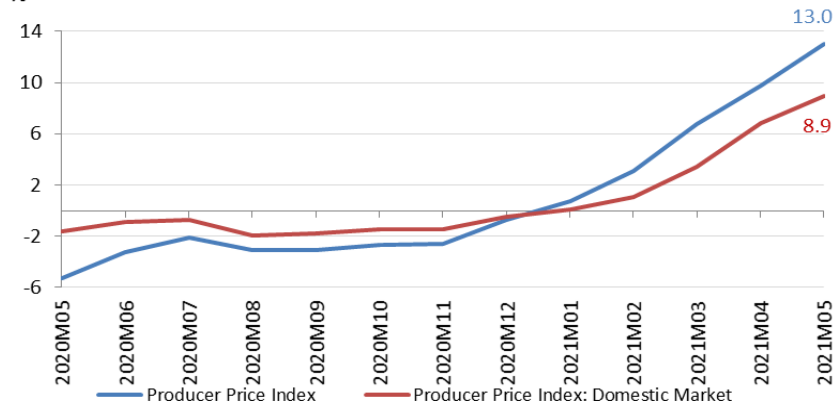
Inflation, y/y: 2018 - 2021



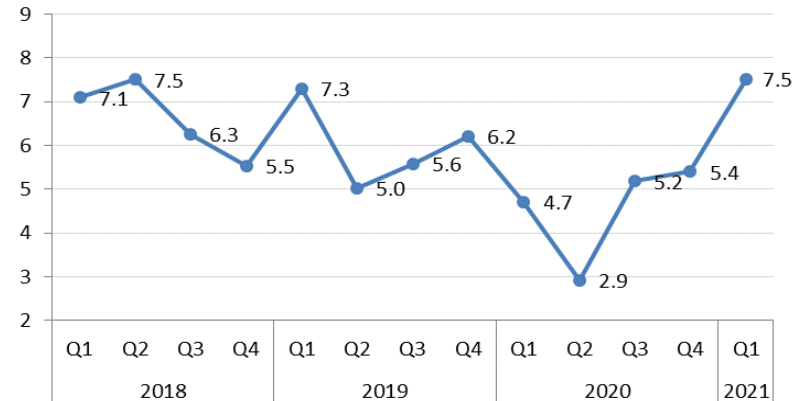
Core Inflation, Percentage change, YoY



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



House Price Index (HPI), % change YoY

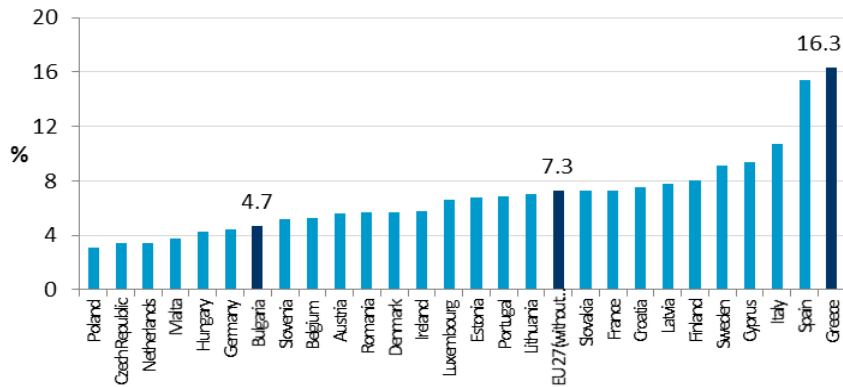


Bulgaria: Main Macroeconomic Indicators, Labor market (4)

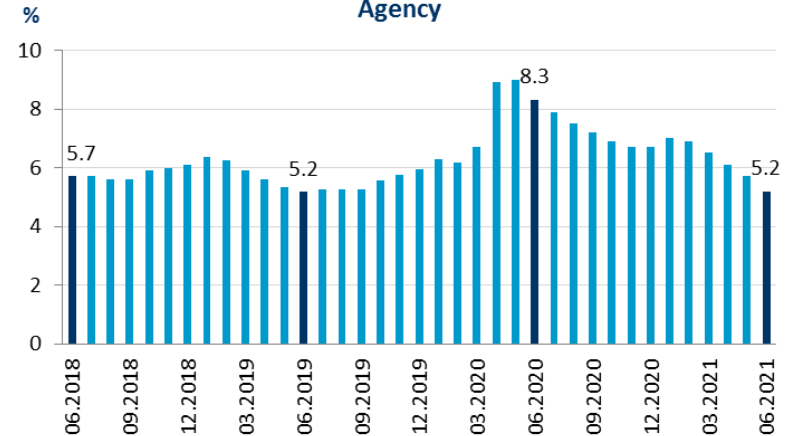
According to EUROSTAT data in May 2021 the harmonized unemployment rate in Bulgaria is 6.2% and remained flat compared to April 2021, while on an annual basis in May the increase is 0.4 pps.

According to Agency of employment in June 2021 the rate of registered unemployment is 5.2% and reported decrease by 0.5 pps compared to previous month, and decreased by 3.1 pps compared to June 2020.

EU: Unemployment rate seasonally adjusted by country, April 2021



Unemployment Rate Bulgaria: National Employment Agency



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.

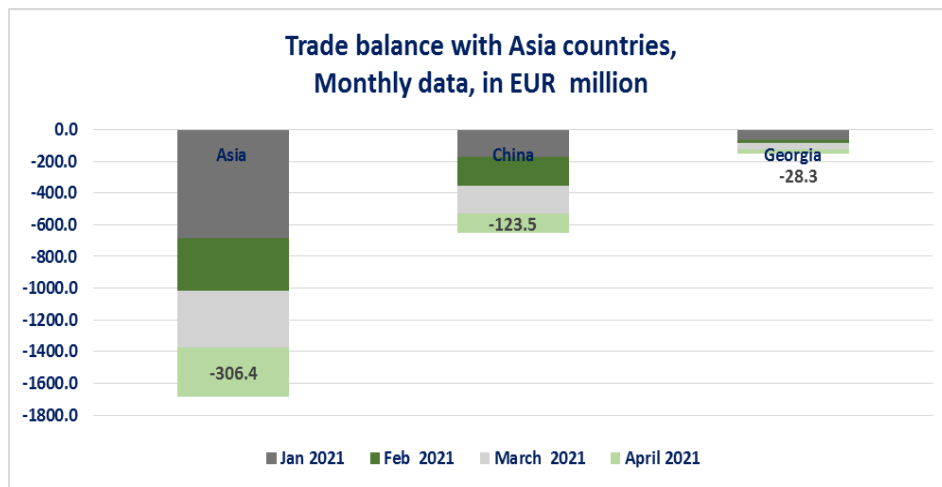
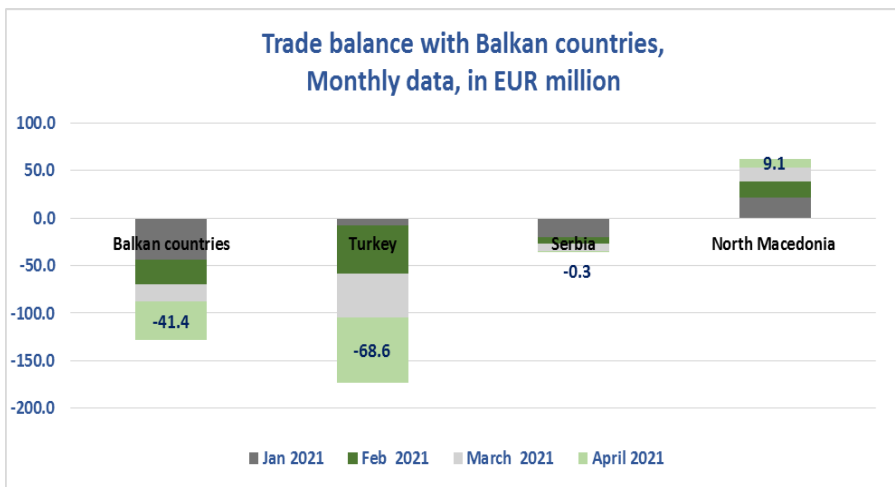
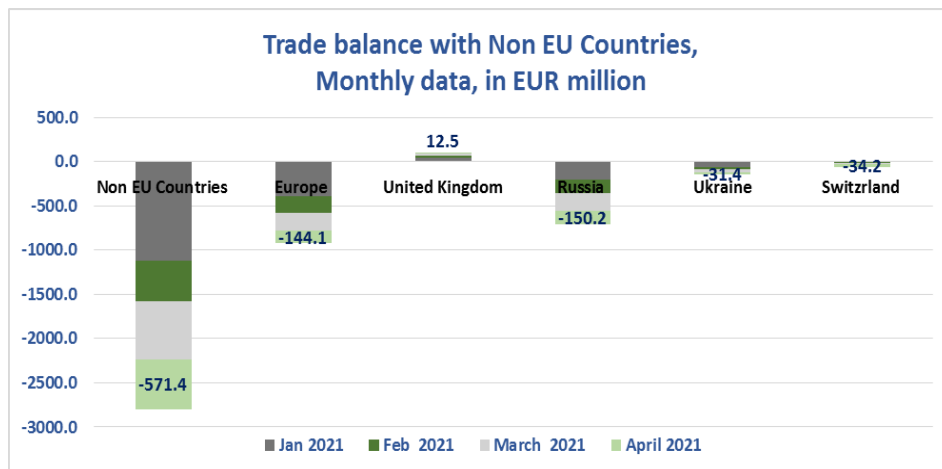
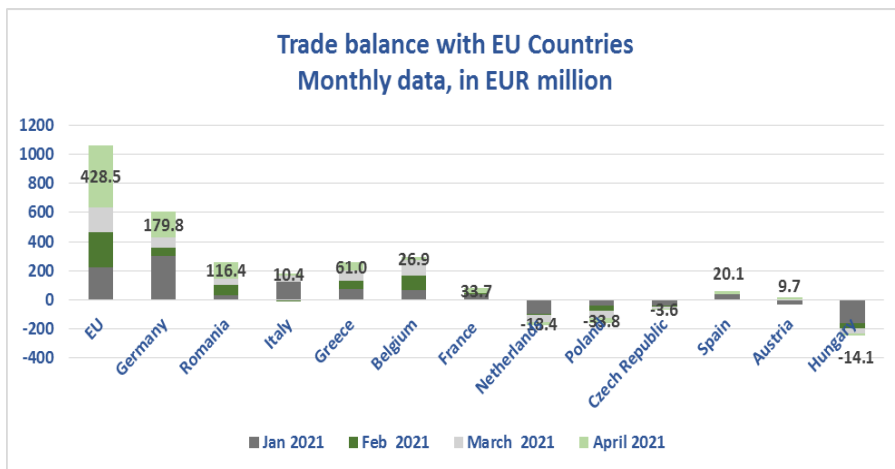
The NSI assessment is based on a sample "Labor Force Survey", in which Bulgarian households are interviewed on a rotating basis. The labor force survey is performed on a two-stage nesting sample, including about 19.6 thousand households each quarter (about 0.65% of the households in the country). The 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.

Source: NSI, AE

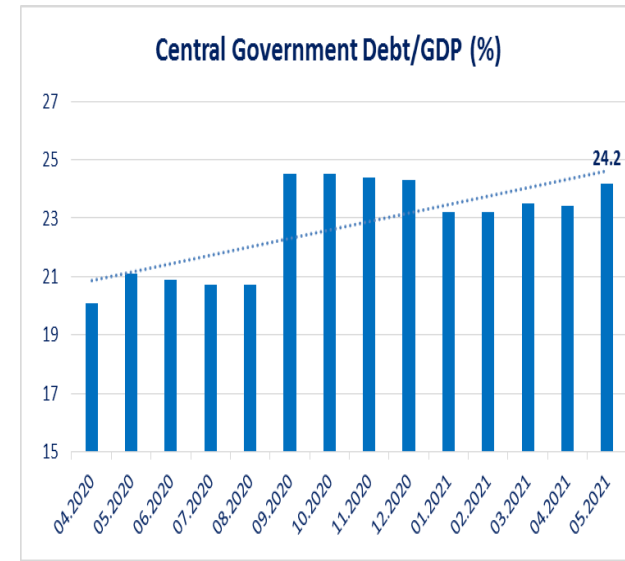
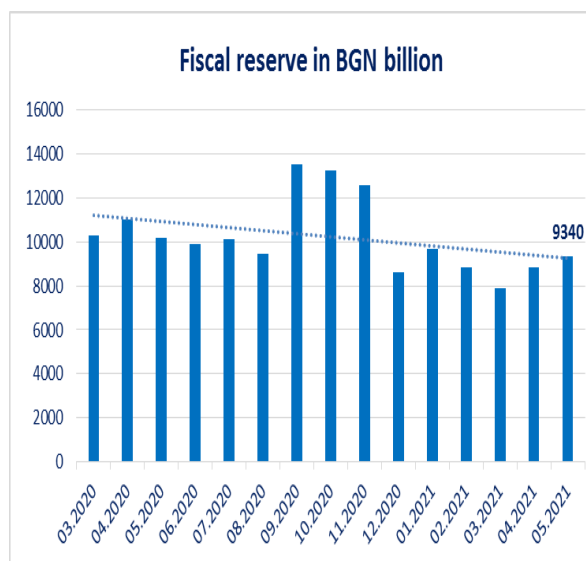
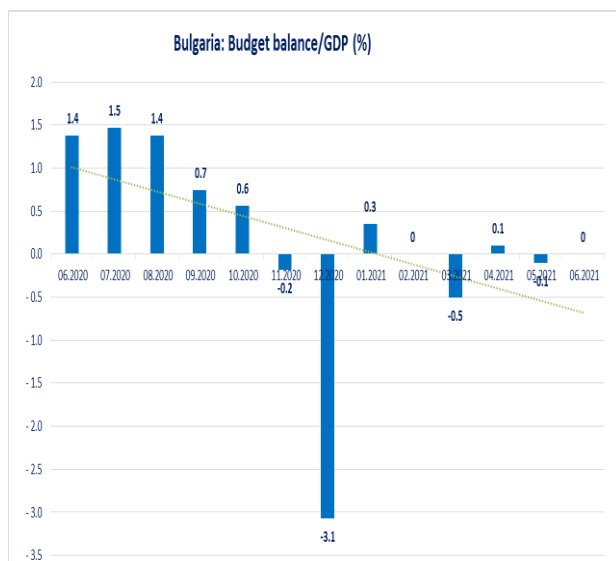
Bulgaria: Main Macroeconomic Indicators (5)

In April 2021 Bulgaria's Trade balance is negative at EUR 142.9 million with positive value only with EU countries at EUR 428.5 million. The trade balance is negative with Non – EU countries at EUR 571.4 million, with Balkan countries at EUR 41.4 million and with Asia countries at EUR 306.4 million.



Bulgaria's Fiscal position

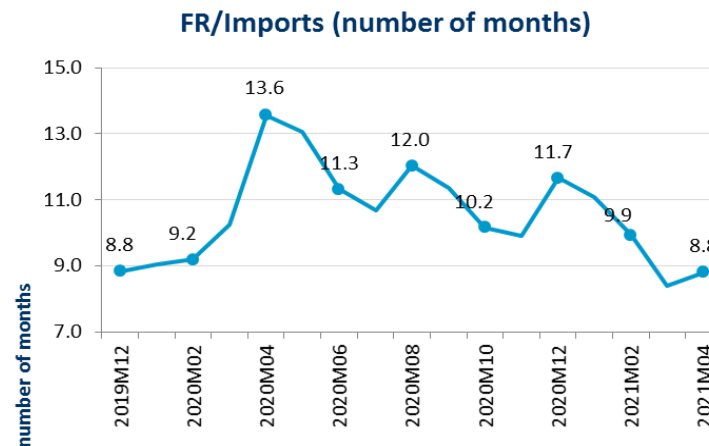
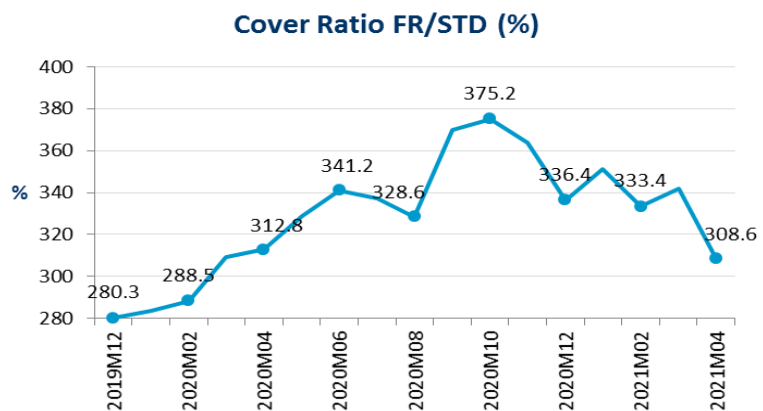
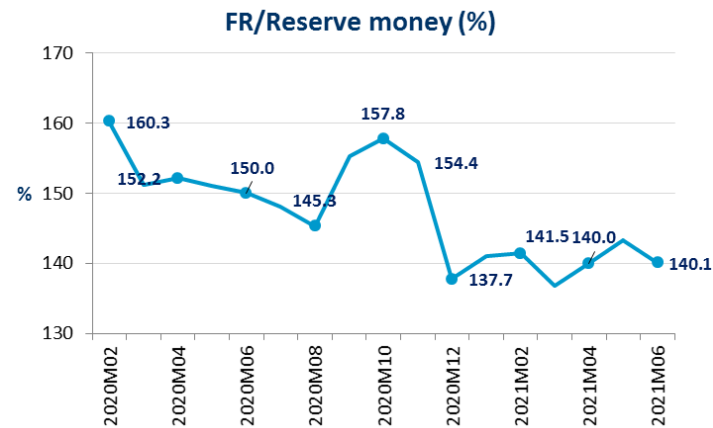
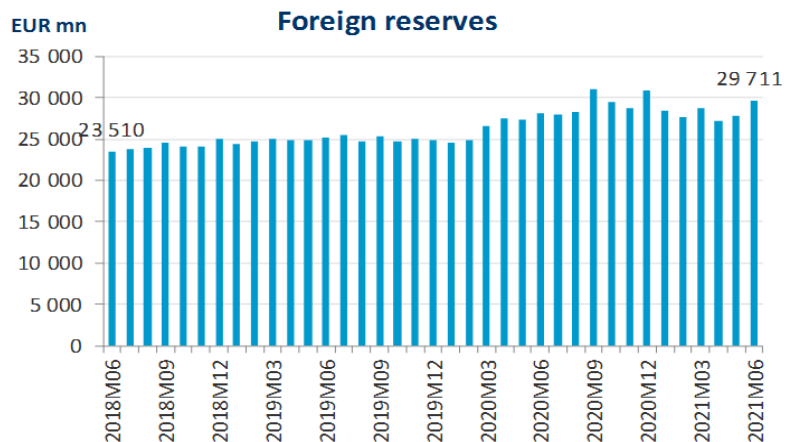
- Based on preliminary data and estimates the budget balance of the Consolidated Fiscal Programme (CFP) as of June 2021 is expected to be positive, to BGN 82 million.
- Fiscal reserve as of 31.05.2021 is BGN 9.34 billion, including BGN 8.49 billion fiscal reserve deposits in BNB and banks and BGN 0.85 billion receivables under the EU Funds for certified expenditure, advance payments, etc.
- The central government debt as at end-May | 2021 amounted to BGN 30 111.4 million, increasing by BGN 934 million as compared to end- April due to the absorption of funds related to a government loan under the SURE instrument. Domestic debt amounted to BGN 6,274.2 million and external debt – to BGN 23,837.2 million. **At the end of the reporting period the central government debt/GDP ratio is 24.2 %**, which represents an increase of 0.8 pps as compared to the end of April.



Source: MF

Bulgaria: Main Macroeconomic Indicators (7)

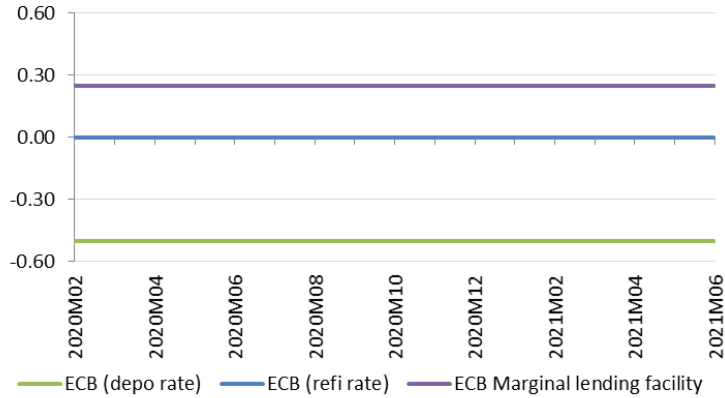
Currency Board Indicators



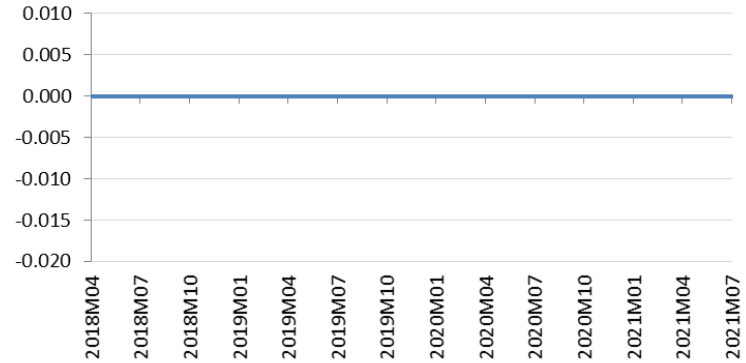
BULGARIA: BANKING SECTOR

Banking sector: Indexes and Interest Rates (1)

Policy Rates (in %)

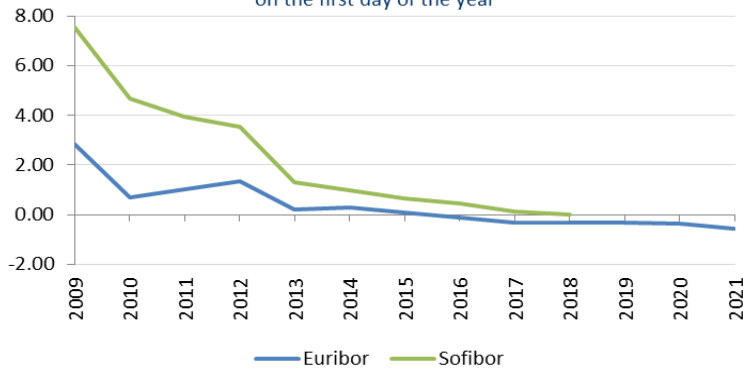


Base Interest Rate of the BNB (in %)



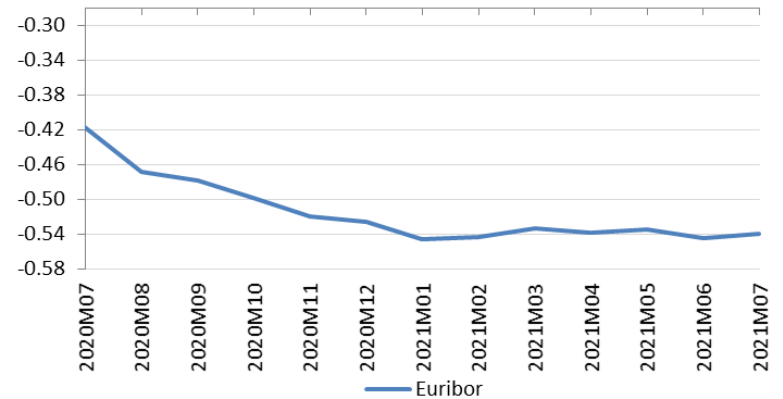
Indexes 3-months

on the first day of the year



Euribor Index 3-months

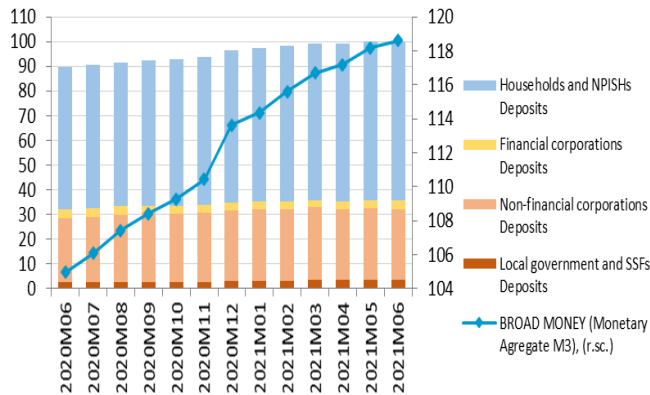
on the first day of the month



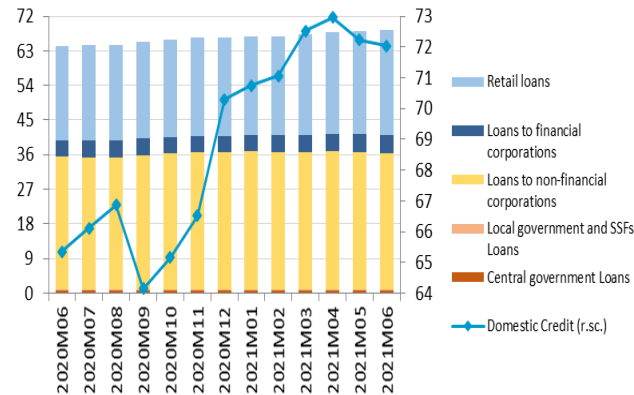
Banking sector: Monetary Survey (2)

- **At the end of June 2021, the deposits of the non-governmental sector** amounted to BGN 96.773 billion (76.8% of GDP), with an annual increase of 12.1%. **Deposits of non-financial corporations** amounted to BGN 29.356 billion (23.3% of GDP) at the end of June 2021. Compared to the same month of 2020, they increased by 12.9%. **Deposits of financial enterprises** increased by 15.4% yoy in June 2021 and at the end of the month reached BGN 3.627 billion (2.9% of GDP). **Deposits of Households and NPISHs** amounted to BGN 63.790 billion (50.6% of GDP) at the end of June 2021. They increased by 11.6% compared to the same month in 2020.
- **At the end of June 2021, loans to the non-governmental sector** amounted to BGN 67.376 billion (53.5% of GDP). Loans to non-financial corporations increased by 3.2% yoy in June 2021 and at the end of the month reached BGN 35.563 billion (28.2% of GDP). **Loans to households and NPISHs** amounted to BGN 27.112 billion (21.5% of GDP) at the end of June 2021. At the end of June 2021, **housing loans** amounted to BGN 12.945 billion and increased by 14.5% yoy. **Consumer loans** amounted to BGN 12,602 billion and increased by 9% compared to June 2020. On an annual basis, **other loans** decreased by 14.1%, reaching BGN 385.7 million. **Loans to employers and the self-employed** decreased by 0.6% yoy in June 2021. Loans to financial corporations amounted to BGN 4,702 billion (3.7% of GDP).
- At the end of June 2021 **the relative share of Bad and restructured loans was 7.5% compared to 7.6% in previous month and below 8.9% reported in June 2020.**

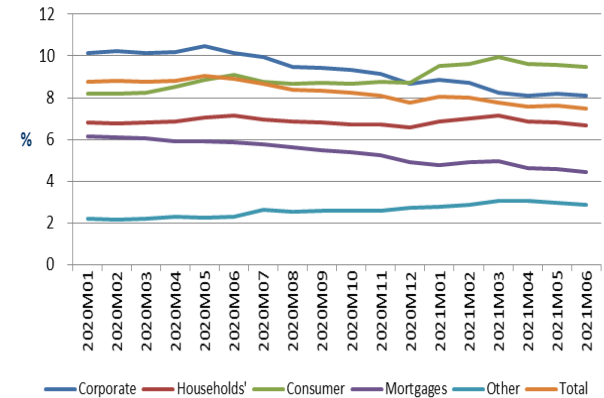
Deposits and Broad Money (M3), (BGN bn)



Loans and Domestic Credit (BGN bn)



Banking sector: Bad and restructured loans (%)



Banking sector: Interest Rates of New Business Loans (3)

- In June 2021 **Interest rates on new credits for enterprises decreased** compared to previous month in BGN, in EUR and in USD.
- In June 2021 **Interest rates of the new credits for households decreased their level** compared to previous month in BGN and increased in EUR and in USD.

BGN

%	6.30.20	3.31.21	4.30.21	5.31.21	6.30.21
enterprises	2.75	2.54	2.65	2.58	2.53
loans up to 1 year	3.35	2.57	2.64	3.02	3.23
loans over 1 up to 5 years	2.89	2.73	3.01	2.80	2.67
loans over 5 years	2.42	2.37	2.45	2.22	2.23
households	5.73	5.56	5.43	5.63	5.49
loans up to 1 year	22.36	25.91	24.75	25.40	24.05
- consumer loans	23.02	26.37	26.20	25.54	24.87
- mortgages	4.83	0.00	3.65	0.00	0.00
- other loans	4.62	3.99	2.92	3.65	4.00
loans over 1 up to 5 years	9.02	11.95	10.56	10.52	11.46
- consumer loans	9.79	12.82	11.15	11.03	12.08
- mortgages	3.25	2.82	2.61	2.83	2.76
- other loans	2.98	3.20	3.17	3.32	3.53
loans over 5 years	4.30	4.00	3.99	4.07	3.97
- consumer loans	5.63	5.39	5.42	5.43	5.43
- mortgages up to 10 years	3.16	2.85	2.88	3.03	3.00
- mortgages over 10 yrsrs	2.89	2.74	2.74	2.73	2.72
- other loans	4.08	3.36	3.10	3.20	3.23

Source: BNB

EUR

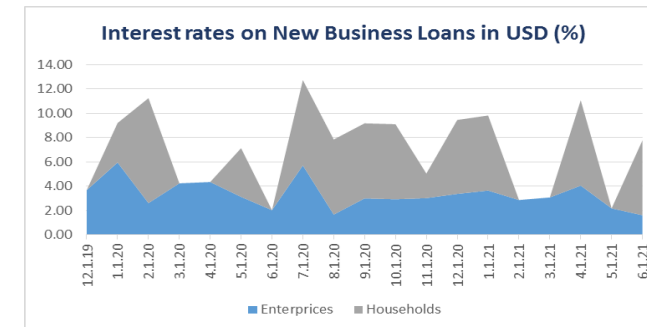
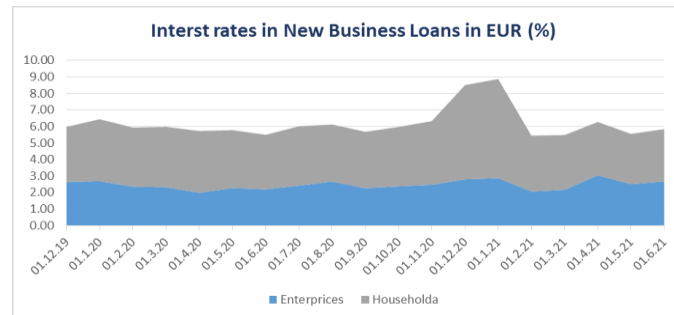
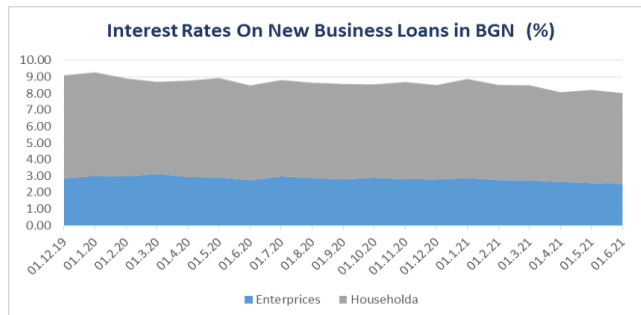
%	6.30.20	3.31.21	4.30.21	5.31.21	6.30.21
enterprises	2.20	2.17	3.04	2.50	2.67
loans up to 1 year	0.67	0.95	1.56	1.95	0.90
loans over 1 up to 5 years	1.64	2.63	3.12	2.68	2.59
loans over 5 years	2.60	2.17	3.18	2.59	3.02
households	3.30	3.31	3.23	3.05	3.16
loans up to 1 year	3.14	0.00	3.93	4.66	4.53
- consumer loans	-	-	5.24	4.42	4.53
- mortgages	3.14	0.00	0.00	0.00	0.00
- other loans	0.00	0.00	3.56	4.85	0.00
loans over 1 up to 5 years	3.14	4.23	3.64	2.87	3.70
- consumer loans	3.11	4.82	3.63	3.68	3.82
- mortgages	2.64	2.91	2.80	2.94	2.53
- other loans	4.18	0.00	5.12	2.84	0.00
loans over 5 years	3.32	3.29	3.20	3.16	3.15
- consumer loans	3.47	3.35	3.26	3.42	3.34
- mortgages up to 10 years	3.22	3.07	2.84	3.64	3.78
- mortgages over 10 yrsrs	3.61	3.34	3.26	3.25	3.10
- other loans	2.18	2.78	2.18	1.86	0.00

Source: BNB

USD

%	6.30.20	3.31.21	4.30.21	5.31.21	6.30.21
enterprises	2.04	3.99	4.06	2.19	1.62
loans up to 1 year	0.00	1.60	1.78	2.02	1.78
loans over 1 up to 5 years	2.04	5.03	2.18	1.66	0.00
loans over 5 years	3.14	1.58	5.11	4.65	1.57
households	0.00	0.00	7.02	0.00	6.17
loans up to 1 year	0.00	0.00	7.02	0.00	0.00
- consumer loans	0.00	0.00	7.02	0.00	0.00
- mortgages	0.00	0.00	0.00	0.00	0.00
- other loans	0.00	0.00	0.00	0.00	0.00
loans over 1 up to 5 years	0.00	0.00	0.00	0.00	0.00
- consumer loans	0.00	0.00	0.00	0.00	0.00
- mortgages	0.00	0.00	0.00	0.00	0.00
- other loans	0.00	0.00	0.00	0.00	0.00
loans over 5 years	0.00	0.00	0.00	0.00	6.17
- consumer loans	0.00	0.00	0.00	0.00	0.00
- mortgages up to 10 years	0.00	0.00	0.00	0.00	0.00
- mortgages over 10 yrsrs	0.00	0.00	0.00	0.00	0.00
- other loans	0.00	0.00	0.00	0.00	6.17

Source: BNB



Banking sector: Interest Rates of New Business Deposits (4)

- In June 2021 **Interest Rates of New Business on Deposits of Enterprises** compared to previous month reported remained flat in BGN and EUR and reported slight increase in USD.
- In June 2021 **Interest Rates of Deposits of Households** remained flat compared to previous month in BGN, EUR and in USD.

BGN

%	6.30.20	3.31.21	4.30.21	5.31.21	6.30.21
enterprises	0.01	0.01	0.01	0.00	0.00
Overnight deposits	0.01	0.01	0.01	0.00	0.00
Time deposits	-0.08	0.01	-0.05	-0.27	-0.34
Up to 1 month	-0.14	0.01	-0.18	-0.35	-0.52
Up to 3 months	0.00	0.02	0.01	0.10	0.11
Up to 6 months	0.00	0.00	0.00	0.01	0.00
Up to 1 year	0.29	0.01	0.07	0.08	0.12
Up to 2 years	0.07	0.00	0.10	0.00	0.04
Over 2 years	0.25	0.00	0.00	0.00	0.00
Redeemable at notice	0.00	0.00	0.00	0.00	0.00
households	0.02	0.03	0.03	0.01	0.01
Overnight deposits	0.01	0.03	0.03	0.00	0.00
Time deposits	0.11	0.07	0.07	0.09	0.08
Up to 1 month	0.01	0.01	0.01	0.01	0.01
Up to 3 months	0.02	0.01	0.01	0.01	0.00
Up to 6 months	0.06	0.04	0.06	0.08	0.06
Up to 1 year	0.21	0.14	0.17	0.19	0.16
Up to 2 years	0.50	0.18	0.23	0.22	0.22
Over 2 years	0.59	0.99	0.69	0.75	0.60
Redeemable at notice	0.31	0.25	0.25	0.25	0.24

Source: BNB

EUR

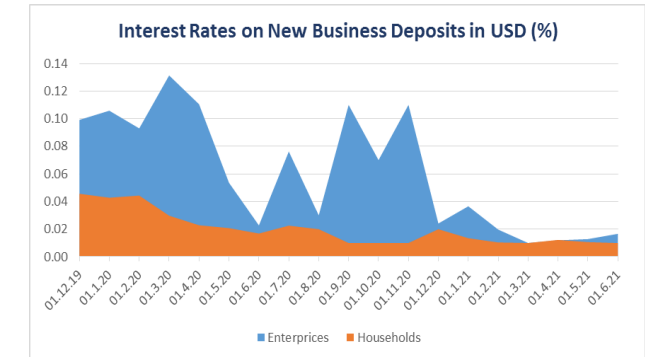
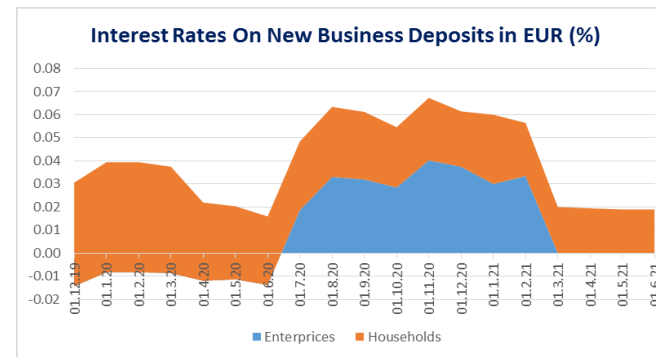
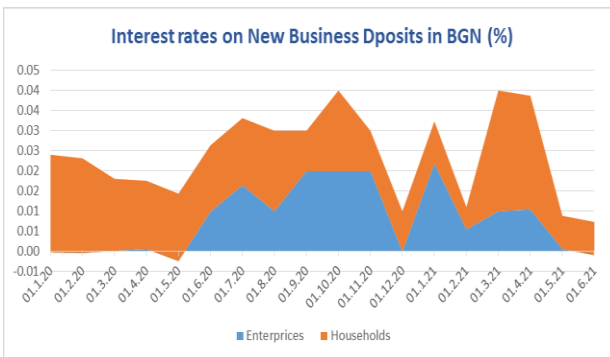
%	6.30.20	3.31.21	4.30.21	5.31.21	6.30.21
enterprises	0.02	0.00	0.00	0.00	0.00
Overnight deposits	0.02	0.00	0.00	0.00	0.00
Time deposits	0.03	0.01	0.02	0.01	-0.06
Up to 1 month	0.00	0.01	0.01	0.01	-0.32
Up to 3 months	0.01	0.01	0.00	0.00	0.00
Up to 6 months	0.01	0.00	0.00	0.01	0.00
Up to 1 year	0.13	0.00	0.03	0.00	0.06
Up to 2 years	0.00	0.15	0.00	0.00	0.02
Over 2 years	0.50	0.30	0.00	0.26	0.00
Redeemable at notice	0.00	0.00	0.00	0.00	0.00
households	0.03	0.02	0.02	0.02	0.02
Overnight deposits	0.01	0.00	0.00	0.00	0.00
Time deposits	0.12	0.06	0.06	0.09	0.07
Up to 1 month	0.01	0.01	0.01	0.01	0.01
Up to 3 months	0.02	0.00	0.01	0.00	0.01
Up to 6 months	0.09	0.04	0.05	0.06	0.04
Up to 1 year	0.18	0.09	0.12	0.20	0.14
Up to 2 years	0.38	0.16	0.25	0.24	0.22
Over 2 years	0.55	0.92	0.13	0.67	0.40
Redeemable at notice	0.60	0.54	0.53	0.51	0.52

Source: BNB

USD

%	6.30.20	3.31.21	4.30.21	5.31.21	6.30.21
enterprises	0.02	0.01	0.01	0.01	0.02
Overnight deposits	0.02	0.01	0.01	0.01	0.02
Time deposits	0.15	0.17	0.19	0.20	0.00
Up to 1 month	0.02	0.00	0.01	0.00	0.00
Up to 3 months	0.08	0.00	0.00	0.00	0.00
Up to 6 months	0.18	0.15	0.02	0.20	0.00
Up to 1 year	0.17	0.17	0.20	0.18	0.00
Up to 2 years	0.00	0.00	0.00	0.00	0.00
Over 2 years	0.00	0.00	0.00	0.00	0.00
Redeemable at notice	0.00	0.00	0.00	0.00	0.00
households	0.02	0.01	0.01	0.01	0.01
Overnight deposits	0.00	0.00	0.00	0.00	0.00
Time deposits	0.13	0.05	0.07	0.10	0.10
Up to 1 month	0.02	0.02	0.02	0.02	0.02
Up to 3 months	0.03	0.01	0.00	0.00	0.01
Up to 6 months	0.07	0.06	0.05	0.13	0.10
Up to 1 year	0.23	0.07	0.13	0.15	0.16
Up to 2 years	0.43	0.22	0.15	0.39	0.37
Over 2 years	0.55	0.10	0.70	0.79	0.47
Redeemable at notice	0.52	0.36	0.36	0.34	0.34

Source: BNB



Banking sector: Volumes Dynamics New Business Loans (5)

- In June 2021 **New credit volumes for enterprises increased** compared to previous month in BGN and in EUR, decreased in USD.
- In June 2021 **New credit volumes for Households increased** compared to previous month in BGN and decreased in EUR.

BGN

(million BGN)	6.30.20	3.31.21	4.30.21	5.31.21	6.30.21
enterprises	965.39	664.42	781.24	568.66	800.56
loans up to 1 year	151.58	105.95	115.82	81.50	110.52
loans over 1 up to 5 years	382.47	253.28	242.01	240.52	298.46
loans over 5 years	431.33	305.19	423.41	246.64	391.58
households	800.85	945.11	1023.83	891.10	1132.76
loans up to 1 year	19.70	15.95	17.75	17.90	20.43
- consumer loans	19.00	15.62	16.64	17.79	19.62
- mortgages	0.01	0.00	0.01	0.00	0.00
- other loans	0.70	0.33	1.10	0.12	0.81
loans over 1 up to 5 years	167.43	141.19	167.53	155.39	174.63
- consumer loans	148.32	128.54	155.34	145.32	162.25
- mortgages	1.69	1.57	2.76	1.35	1.86
- other loans	17.42	11.07	9.43	8.72	10.52
loans over 5 years	613.71	787.98	838.56	717.81	937.70
- consumer loans	312.99	371.88	389.19	354.10	430.11
- mortgages up to 10 years	15.11	19.33	21.61	19.43	23.50
- mortgages over 10 years	280.59	390.68	421.37	338.99	478.78
- other loans	5.02	6.08	6.39	5.30	5.31

Source : BNB

EUR

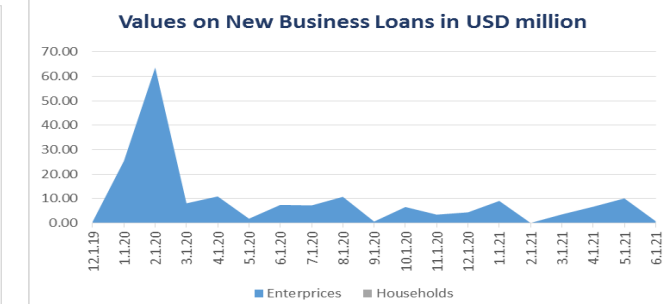
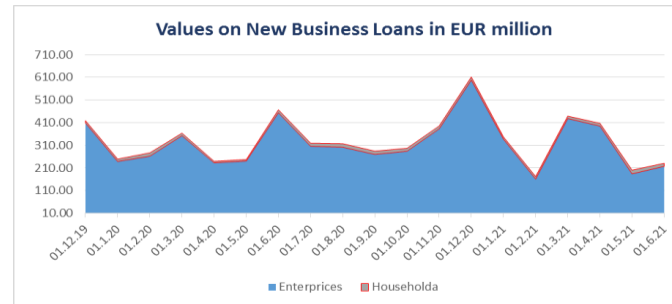
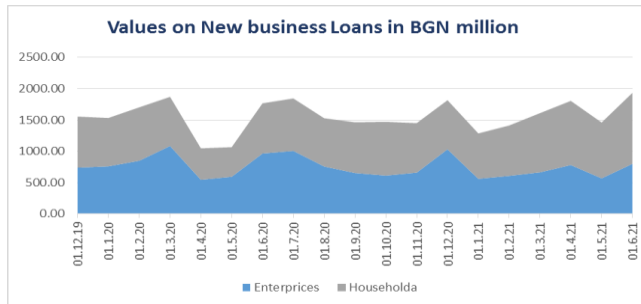
(million EUR)	6.30.20	3.31.21	4.30.21	5.31.21	6.30.21
enterprises	454.17	428.17	395.36	183.99	217.28
loans up to 1 year	36.56	20.22	31.86	30.09	23.82
loans over 1 up to 5 years	117.02	50.01	48.04	43.35	59.06
loans over 5 years	300.58	357.94	315.45	110.55	134.40
households	13.01	10.75	12.18	16.47	13.46
loans up to 1 year	0.01	0.00	0.06	0.03	0.01
- consumer loans	0.00	0.00	0.01	0.01	0.01
- mortgages	0.01	0.00	0.00	0.00	0.00
- other loans	0.00	0.00	0.04	0.02	0.00
loans over 1 up to 5 years	1.22	0.27	0.73	6.64	0.34
- consumer loans	0.93	0.18	0.59	0.26	0.31
- mortgages	0.17	0.08	0.08	0.01	0.03
- other loans	0.11	0.00	0.06	6.37	0.00
loans over 5 years	11.78	10.48	11.39	9.80	13.11
- consumer loans	2.14	2.39	2.15	1.75	2.08
- mortgages up to 10 years	1.08	1.28	0.87	0.19	0.19
- mortgages over 10 years	6.66	6.53	8.10	6.95	10.83
- other loans	1.90	0.27	0.26	0.91	0.00

Source : BNB

USD

(million USD)	6.30.20	3.31.21	4.30.21	5.31.21	6.30.21
enterprises	7.41	3.52	6.43	20.75	0.74
loans up to 1 year	0.00	0.46	0.32	16.80	0.20
loans over 1 up to 5 years	7.39	2.45	1.93	2.25	0.00
loans over 5 years	0.03	0.61	4.18	1.69	0.55
households	0.00	0.00	0.00	0.00	0.00
loans up to 1 year	0.00	0.00	0.00	0.00	0.00
- consumer loans	0.00	0.00	0.00	0.00	0.00
- mortgages	0.00	0.00	0.00	0.00	0.00
- other loans	0.00	0.00	0.00	0.00	0.00
loans over 1 up to 5 years	0.00	0.00	0.00	0.00	0.00
- consumer loans	0.00	0.00	0.00	0.00	0.00
- mortgages	0.00	0.00	0.00	0.00	0.00
- other loans	0.00	0.00	0.00	0.00	0.00
loans over 5 years	0.00	0.00	0.00	0.00	0.00
- consumer loans	0.00	0.00	0.00	0.00	0.00
- mortgages up to 10 years	0.00	0.00	0.00	0.00	0.00
- mortgages over 10 years	0.00	0.00	0.00	0.00	0.00
- other loans	0.00	0.00	0.00	0.00	0.00

Source : BNB



Banking sector: Volumes Dynamic of New Business Deposits (6)

- In June 2021 the volumes of new business deposits for enterprises increased compared to previous month in BGN, in EUR and in USD.
- In June 2021 the volumes of new business deposits of Households decreased in BGN and in USD, increased in EUR.

BGN

(million BGN)	6.30.20	3.31.21	4.30.21	5.31.21	6.30.21
enterprises	14185.92	16611.81	16682.67	16878.37	16918.03
Overnight deposits	14062.38	16405.76	16425.05	16766.68	16740.89
Time deposits	123.54	206.04	257.62	111.70	177.13
Up to 1 month	93.29	24.59	85.18	91.15	121.62
Up to 3 months	11.65	7.33	3.63	3.62	8.17
Up to 6 months	7.92	124.48	121.63	4.77	29.28
Up to 1 year	10.47	49.60	27.16	12.01	18.00
Up to 2 years	0.06	0.00	20.03	0.00	0.07
Over 2 years	0.15	0.03	0.00	0.14	0.00
Redeemable at notice	0.00	0.00	0.00	0.00	0.00
households	22442.82	26624.58	27445.19	27421.69	27807.33
Overnight deposits	21817.06	26017.15	26886.35	26895.82	27260.77
Time deposits	314.38	283.88	231.75	203.77	223.82
Up to 1 month	125.66	94.13	87.89	69.84	68.10
Up to 3 months	36.22	68.56	57.39	53.32	68.39
Up to 6 months	46.44	34.39	20.93	17.14	19.08
Up to 1 year	87.62	71.81	51.45	50.69	50.94
Up to 2 years	7.84	9.79	8.82	7.16	9.22
Over 2 years	10.61	5.19	5.28	5.63	8.10
Redeemable at notice	311.38	323.56	327.08	322.09	322.75

Source: BNB

EUR

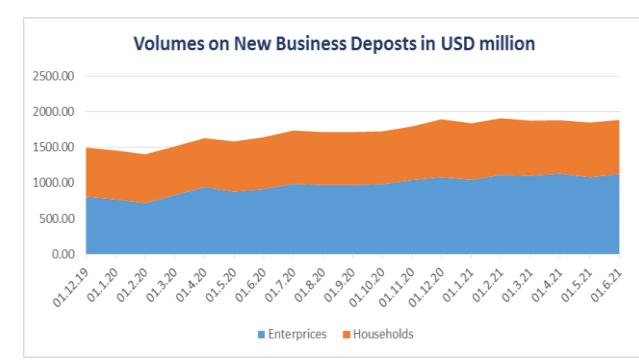
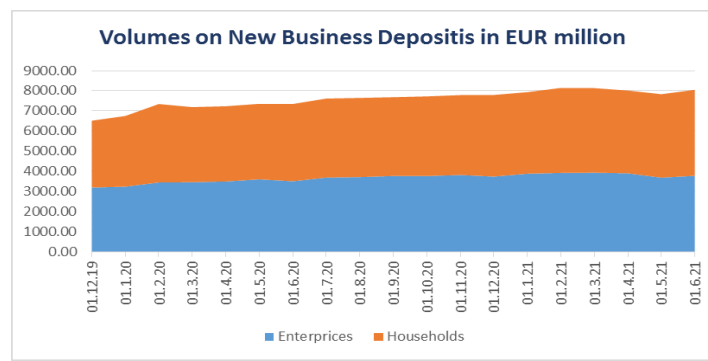
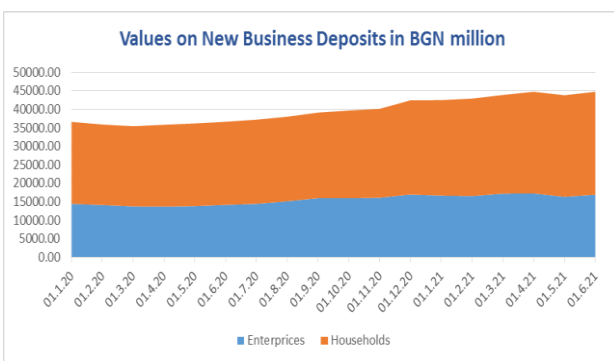
(million EUR)	6.30.20	3.31.21	4.30.21	5.31.21	6.30.21
enterprises	3505.08	3904.65	3735.80	3742.14	3777.65
Overnight deposits	3486.61	3833.69	3695.97	3721.52	3744.35
Time deposits	18.47	70.96	39.82	20.62	33.30
Up to 1 month	6.33	8.22	9.63	6.82	6.81
Up to 3 months	4.30	23.10	0.80	7.41	2.75
Up to 6 months	5.44	16.13	1.83	0.13	21.26
Up to 1 year	2.20	23.41	24.53	6.08	1.98
Up to 2 years	0.00	0.10	3.00	0.00	0.50
Over 2 years	0.20	0.00	0.04	0.17	0.00
Redeemable at notice	0.00	0.00	0.00	0.00	0.00
households	3839.58	4206.34	4113.88	4149.86	4270.34
Overnight deposits	3592.66	3944.79	3891.59	3958.59	4059.28
Time deposits	137.15	145.35	104.04	72.05	91.88
Up to 1 month	50.27	42.78	30.55	22.35	23.51
Up to 3 months	11.92	33.81	23.47	19.16	27.04
Up to 6 months	19.52	13.20	7.62	7.64	7.96
Up to 1 year	43.49	42.92	29.72	17.71	23.92
Up to 2 years	5.80	9.57	3.33	3.22	6.54
Over 2 years	6.15	3.07	9.35	1.97	2.91
Redeemable at notice	109.76	116.20	118.26	119.22	119.18

Source: BNB

USD

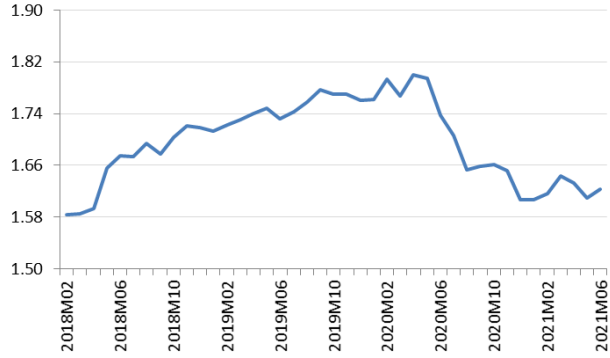
(million USD)	6.30.20	3.31.21	4.30.21	5.31.21	6.30.21
enterprises	915.09	1072.11	1082.54	1171.98	1124.20
Overnight deposits	912.76	1055.92	1074.05	1167.79	1114.25
Time deposits	2.33	16.19	8.49	4.19	9.96
Up to 1 month	0.41	0.00	0.18	0.00	0.00
Up to 3 months	0.01	0.06	0.00	0.00	0.00
Up to 6 months	1.78	0.20	0.03	3.81	9.96
Up to 1 year	0.14	15.93	8.27	0.38	0.00
Up to 2 years	0.00	0.00	0.00	0.00	0.00
Over 2 years	0.00	0.00	0.00	0.00	0.00
Redeemable at notice	0.00	0.00	0.00	0.00	0.00
households	726.35	772.27	748.04	765.68	760.02
Overnight deposits	692.36	725.05	717.99	734.91	733.36
Time deposits	19.61	31.56	14.43	14.68	10.52
Up to 1 month	8.45	5.82	5.89	3.65	3.05
Up to 3 months	2.15	9.42	3.27	3.72	3.24
Up to 6 months	2.08	2.10	1.14	0.74	0.99
Up to 1 year	4.78	9.86	3.26	5.85	2.16
Up to 2 years	0.97	0.45	0.30	0.25	0.31
Over 2 years	1.18	3.91	0.57	0.46	0.77
Redeemable at notice	14.38	15.66	15.61	16.09	16.15

Source: BNB

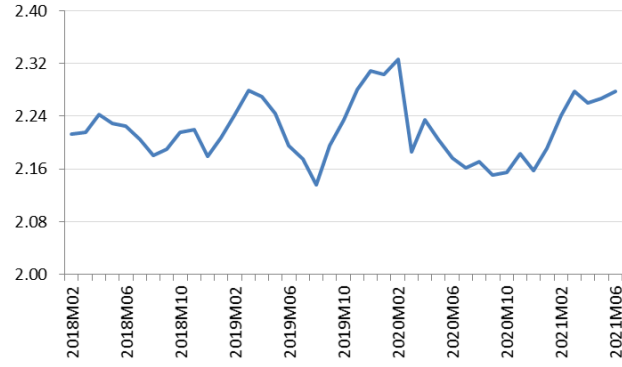


Banking sector: FX Rates (7)

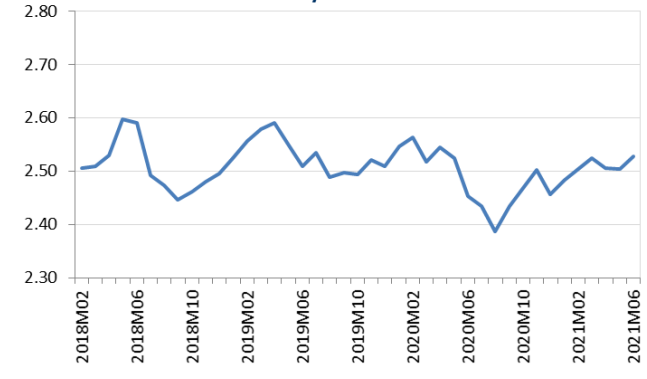
BGN/USD



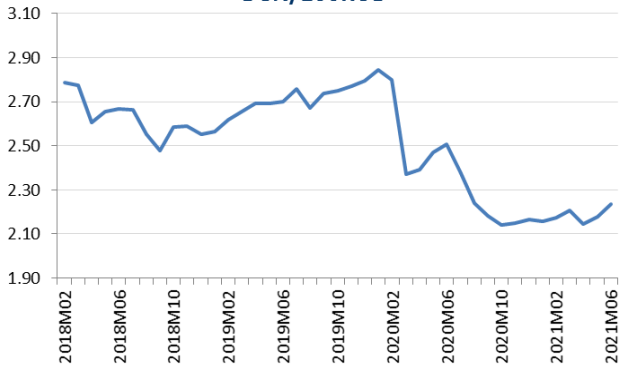
BGN/GBP



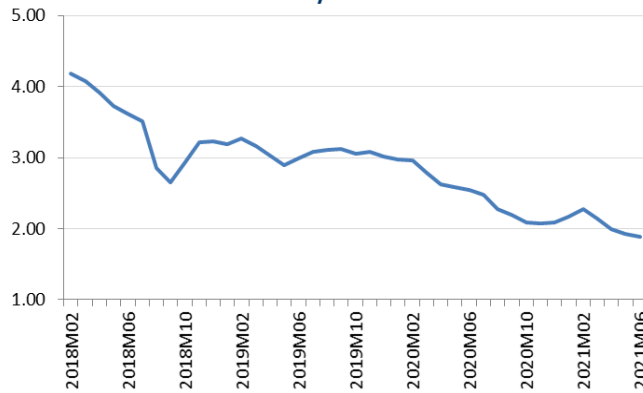
BGN/10CNY



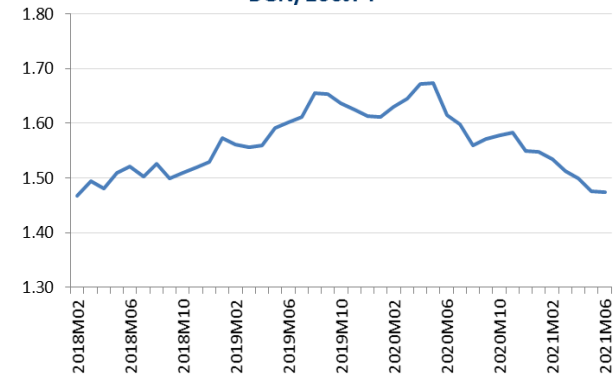
BGN/100RUB



BGN/10TRY



BGN/100JPY



For contacts:

**Petia Tzekova, Chief Economist,
e-mail: Petia.Tzekova@ubb.bg, tel.: +359 2 811 2980**
**Petar Ignatiev, Chief Analyst,
e-mail: Petar.Ignatiev@ubb.bg, tel.: +359 2811 2982**

Disclaimer: This document is for information only. The analyzed digital information is provided by reliable institutional sources such as KBC, NSI, MF, BNB, OECD, ECB, EC, IMF, WB, EBRD, EMIS Internet Securities-Bulgaria, CEIC Internet Securities-Bulgaria, EMD Holdings LLC. United Bulgarian Bank (UBB) officially accepts the accuracy and completeness of the data produced by them. Nor is the extent to which the hypotheses, risks and projections in this material reflect market expectations or their real chances can be guaranteed. Estimates are indicative. The data in this publication are of a general nature and is for information purposes only. This publication should not be used as a recommendation or offer for the purchase or sale of any financial instruments and securities and does not constitute an offer or prospectus within the meaning of the Public Offering of Securities Act, the Markets in Financial Instruments Act or other similar regulatory acts, Including foreign ones. UBB and KBC are not responsible for the accuracy and completeness of this information. More information on topics could be obtained upon request.