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

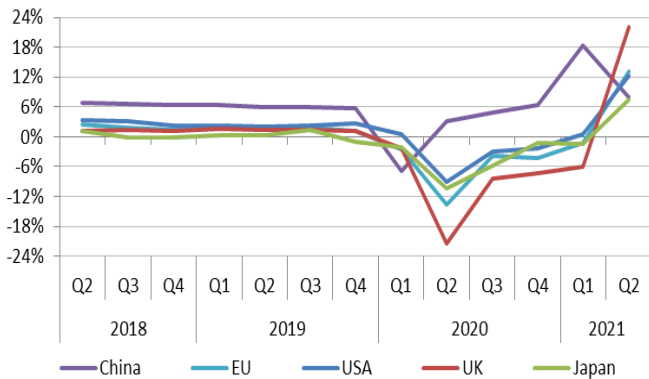
Chief Economist Department

Overview global forecasts m(1)

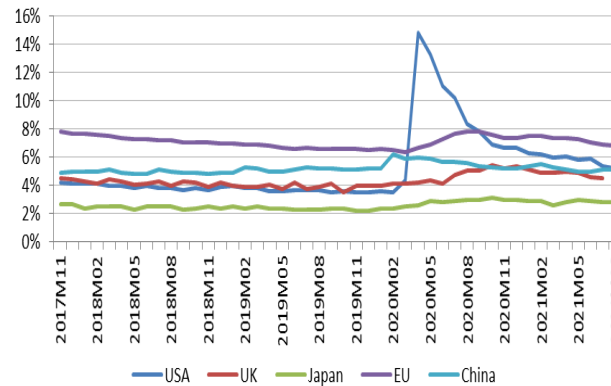
In Q2 2021 the euro area GDP growth was revised to 2.2% qoq and to 14.2% yoy, a solid recovery after two consecutive periods of contraction, amid a recovery in activity and domestic demand due to the recovery of the bloc's economies, aided by the rapid pace of vaccination against COVID-19. The annual inflation rate in the euro area was confirmed at 3.4% in September 2021, the highest before the global financial crisis in September 2008 and well above the European Central Bank's target of 2.0%. Energy prices are responsible for almost half of the total annual inflation reporting, rising 17.6% in September after 15.4% in August.

The US economy grew at an annual rate of 6.7% in Q2 of 2021, slightly higher than early estimates of 6.6%. The rapid spread of the coronavirus delta variant, supply chain disruptions, labor shortages and cooling in the housing market are driving growth for the rest of the year. The Fed recently lowered its growth forecasts for 2021 to 5.9%, but revised them higher for 2022 (3.8%) and 2023 (2.5%). The annual rate of inflation in the United States rose to a 13-year high of 5.4% in September 2021 from 5.3% in August.

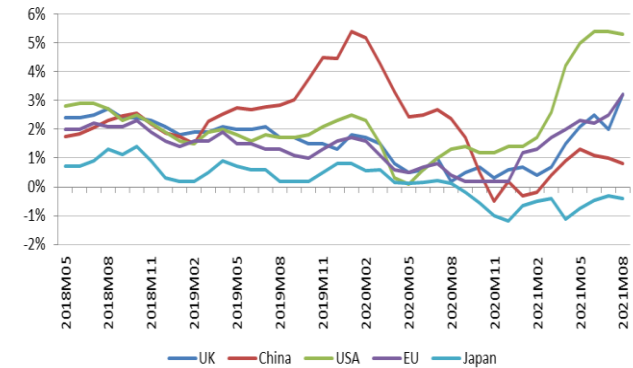
Advanced Economies: GDP growth rate compared to the same quarter of the previous year



Advanced economies: Unemployment rates (%) by country on monthly basis as of August 2021 (%)



Advanced economies: Inflation by countries as of August 2021, Monthly on annual basis (%)



Overview global forecasts (2)

ECB policymakers have discussed greater cuts in asset purchases, and some have even argued that markets already expect stimulus to end by March 2022. The ECB concluded that moderately lower rates of net asset purchases for the rest of the year would be appropriate against favorable financing conditions, together with improved medium-term inflation outlook. The ECB has also raised its growth and inflation forecasts for this year. Inflation is now at 2.2% in 2021 (versus 1.9%, estimated in June), 1.7% in 2022 (versus 1.5%) and 1.5% in 2023. compared to 1.4%). According ECB the euro area economy is expected to grow by 5% in 2021 (vs. 4.6%), 4.6% in 2022 (vs. 4.7%) and 2.1% in 2023 (compared to 2.1%).

The Fed recently lowered its growth forecasts for 2021 to 5.9%, but revised them higher for 2022 (3.8%) and 2023 (2.5%). Yield on 10-year US bonds currently increased to 1.64%, a new 5-month high as investors continue to rely on the recovery of the US economy amid strong corporate performance, although inflationary pressures continue due to rising energy prices. The Fed is expected to start raising interest rates next year.

Projections	Real GDP growth								Headline inflation (US CPI)							
	2017	2018	2019	2020	2021	2022	2024	2023	2017	2018	2019	2020	2021	2022	2023	2024
EMU	2.7	1.9	1.3	-6.7	4.8 (5)	4.4 (4.5)	2.3	1.7	1.5	1.8	1.3	0.3	2.2	1.7	1.8	1.9
US	2.4	2.9	2.3	-3.5	5.7 (6)	3.6 (3.9)	2.3	2	2.1	2.4	1.8	1.1	4.3	2.4	2.3	2.2
China	6.9	6.6	6.1	2.3	8.2 (8.8)	5.1 (5.4)	5.2	5	1.6	2.1	2.9	2	1.1 (1.2)	2.3	2.2	2

Advanced economies	Indicators	End 2020	Current	Q3 2021	End 2021	End 2022	End 2023	2024
			07.10.2021					
US	Fed policy rate (middle target range)	0.125	0.125	0.125	0.125	0.375 (0.125)	1.125 (0.625)	1.875 (0.625)
	10y Bond yield	1.58	1.53	1.7	1.7	2.6	2.7	2.7
Eurozone	ECB deposit rate	-0.5	-0.5	-0.5	-0.5	-0.5	-0.4	0
	ECB refi rate	0	0	0	0	0	0	0.25 (0)
Germany	10y Bond yield	-0.23	-0.23	-0.25	0	0.6	0.8	1.1
	USD per EUR	1.21	1.184	1.2	1.3	1.3	1.3	1.3

Changes are in Bold. Projections from previous month are in brackets

Bulgaria – Outlook 2021 - 2024

The IMF slightly increased its projection for GDP growth in Bulgaria to 4.5% for 2021 versus 4.4% projected in April. The GDP forecast for 2022 is unchanged at 4.4% and with slowdown expected in 2023 at 2.8%.

In its autumn forecast Bulgarian MoF increased its projection for GDP growth at 4.9% for 2021, 4% for 2022, 3.7% for 2023 and 3.4% for 2024. MoF also increased its projection for average HCPI at 2.2% for 2021, 2.6% for 2022, 2% for 2023 and 2.1% for 2024.

Bulgaria	Base scenario					
October 11, 2021	2019	2020	2021	2022	2023	2024
Real GDP growth (in %)	3.4	-4.2	4.3 (4.6)	4	3	3
Inflation (in %, harmonised CPI, average)	2.5	1.2	2.8 (2.1)	2.5 (2.3)	2	2
Unemployment rate (% , end of year, Eurostat definition)	4.2	4.8	5	4.8	4.6	4.6
Government budget balance (in % of GDP)	-1	-3	-3.9	-2	-1.8	-1.2
Gross public debt (in % of GDP)	20.4	24.3	26.9	28	29.1	30.1
Current account balance (in % of GDP)	4	0.4	2	3	1	1
Long-term interest rate, 10Y Government Bond Yield	1.2	0.4	0.35	0.75	0.95	1.15
House prices (annual %-change, existing and new dwellings, Eurostat def.)	6	5.4	8 (5)	6.5 (4.8)	4.5 (4.4)	4.4

Source: KBC, UBB

BULGARIA: Real GDP Growth (%)	2021	2022	2023	2024
KBC/UBB	4.3	4	3	3
Consensus economics	4.3	3.9	n.a.	n.a.
EC	4.6	4.1	n.a.	n.a.
OECD	3.8	4.4	n.a.	n.a.
IMF	4.4	4.4	2.8	3
MF	4	4.9	3.7	3.4
BNB	4.1	4.6	n.a.	n.a.
UniCreditBulbank	4.4	4.1	n.a.	n.a.
OTP Bank	4.6	4.1	n.a.	n.a.
Raiffeisen Research	3	4	n.a.	n.a.

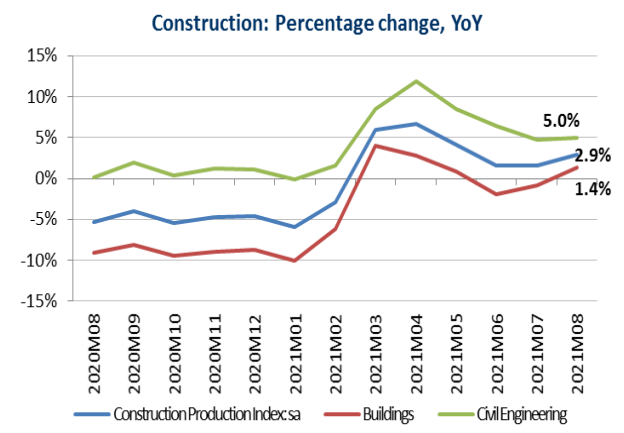
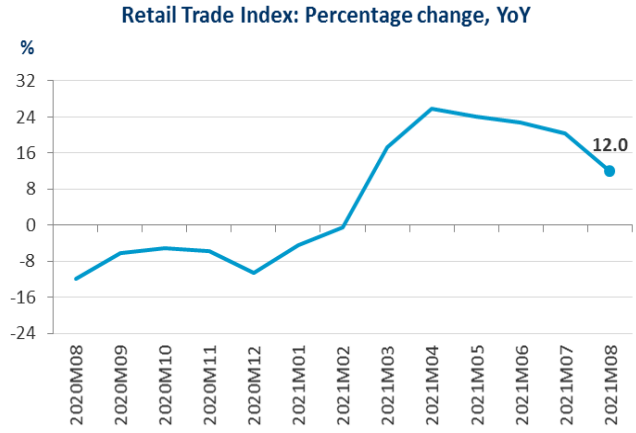
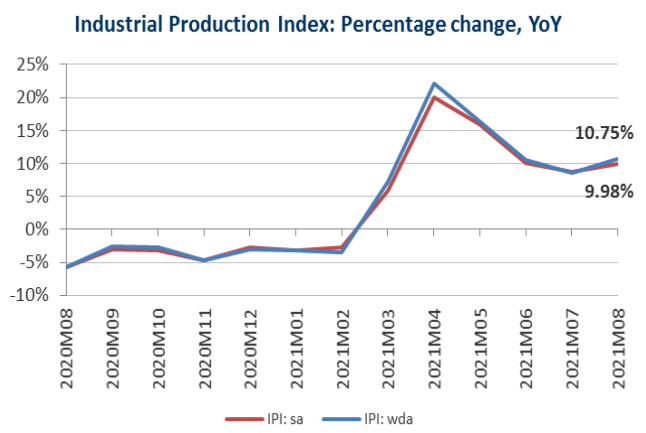
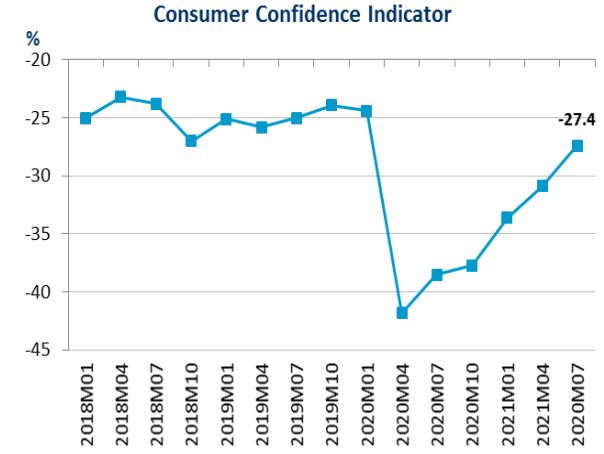
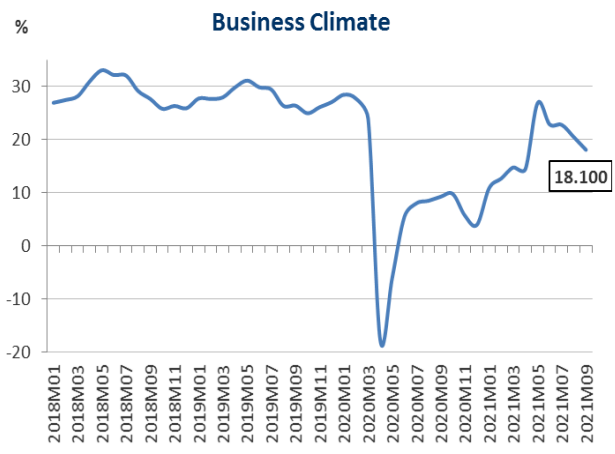
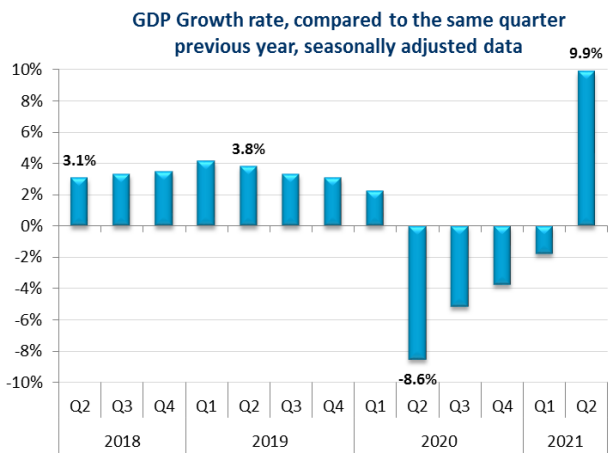
Source: KBC, Consensus economics, BNB, MF

BULGARIA: Harmonised CPI (avr. %)	2021	2022	2023	2024
KBC/UBB	2.8	2.5	2	2
Consensus economics	2.3	2.4	n.a.	n.a.
EC	1.9	2.5	n.a.	n.a.
OECD	1.4	1.9	n.a.	n.a.
IMF	1	2	2	2
MF	2.2	2.6	2	2.1
BNB	3.5	0.8	1.1	n.a.
UniCreditBulbank	2.6	2.3	n.a.	n.a.
OTP Bank	2	2.1	n.a.	n.a.
Raiffeisen Research	2.3	3	n.a.	n.a.

Source: KBC, Consensus economics, BNB, MF

Bulgaria: Main Macroeconomic Indicators (1)

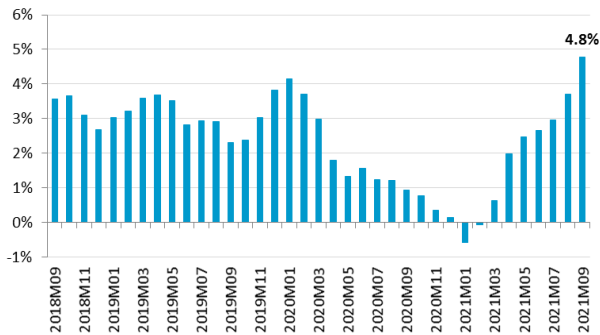
Bulgaria's entry into the 4-th wave of COVID-19 and still very low vaccination rate, as well as the introduction of an extraordinary measures increase the risk of new lockdown of the economy and form expectations for a slower pace of recovery even the currently positive trend of the short term indicators.



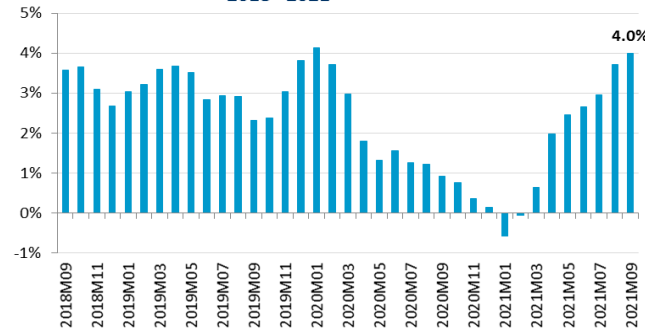
Bulgaria: Main Macroeconomic Indicators (2)

Following the upward trend of inflation in the countries of the region, CPI inflation in Bulgaria accelerated to 4.8% yoy in September from 3.7% yoy in August and -0.6% yoy in January. HCPI average inflation increased from 2.5% in August to 4.0% in September 2021 amid higher price pressures on housing prices and utilities, transport and food and non-alcoholic beverages. Inflation is expected to be on average higher this year than in 2020 mainly reflecting the energy prices increases, low base year due to the coronavirus crisis and a global supply squeeze.

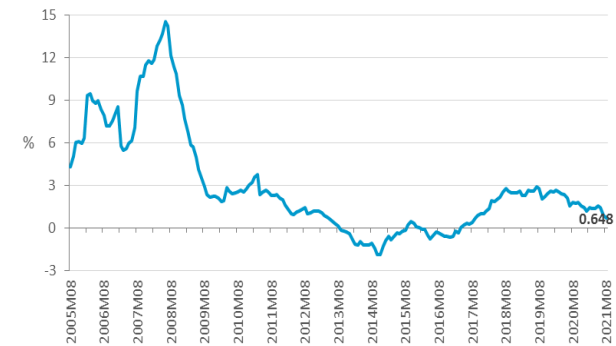
Inflation, y/y: 2018 - 2021



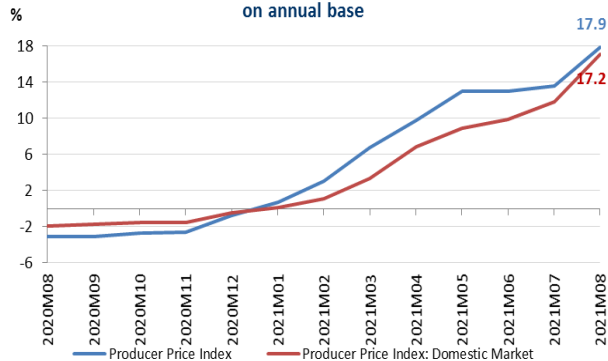
HIPC (average, %) 2018 - 2021



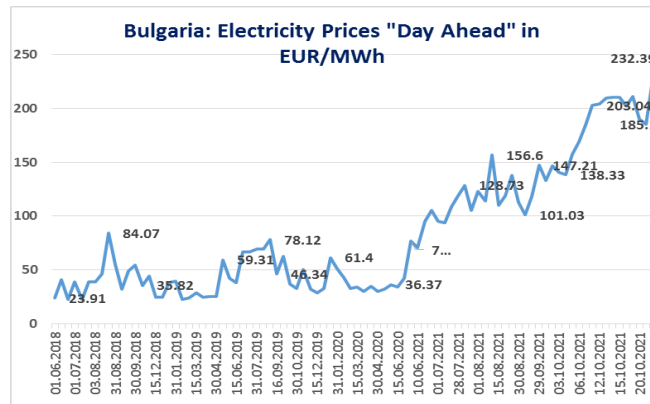
Core Inflation, Percentage change, YoY



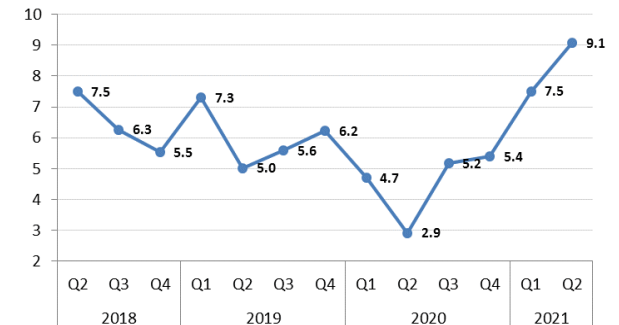
Producer Price Index and PPI on Domestic market, % change on annual base



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

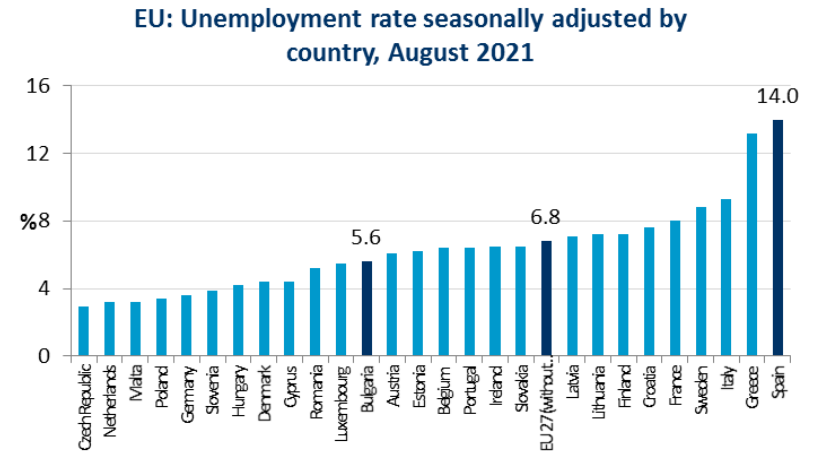
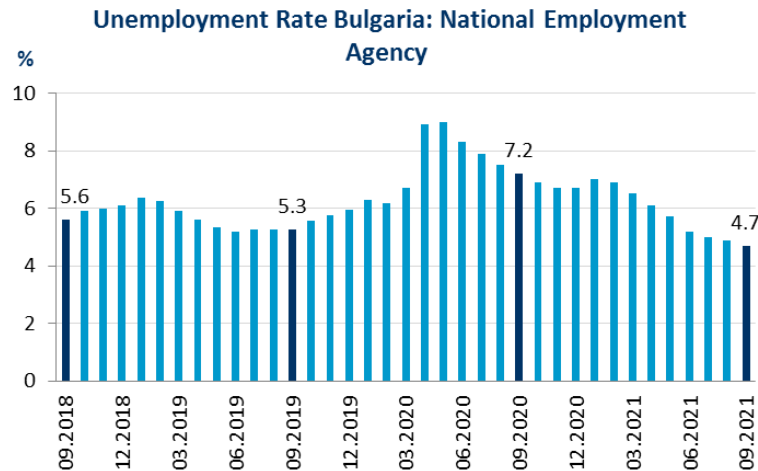


House Price Index (HPI), % change YoY



Bulgaria: Main Macroeconomic Indicators, Labor market (3)

According to Agency of employment in September 2021 the rate of registered unemployment is 4.7%, hitting another 14-year record low. The harmonized unemployment rate in Bulgaria is 5.6% and is below the average of EU.



Note:

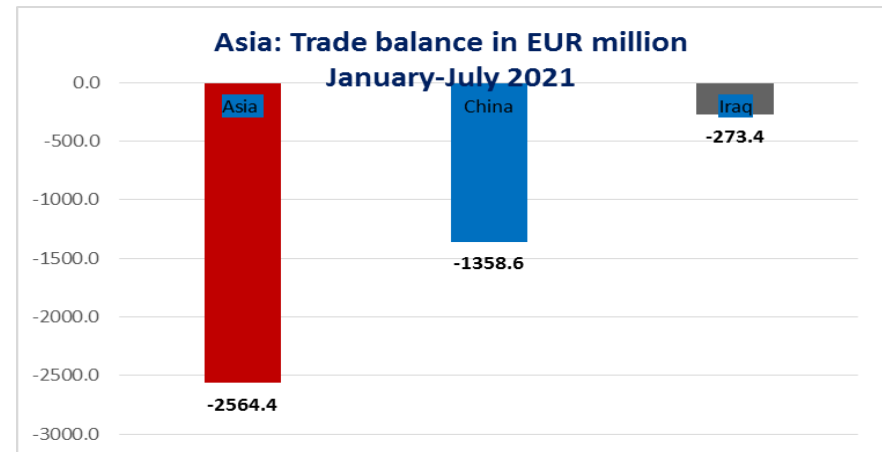
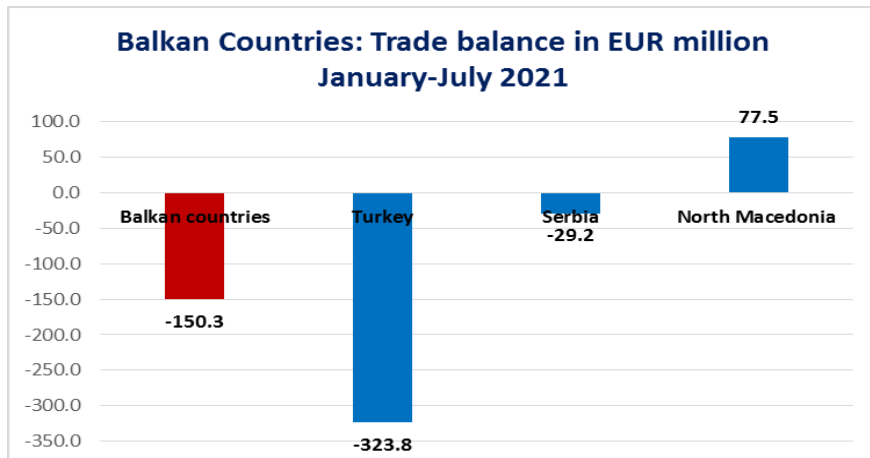
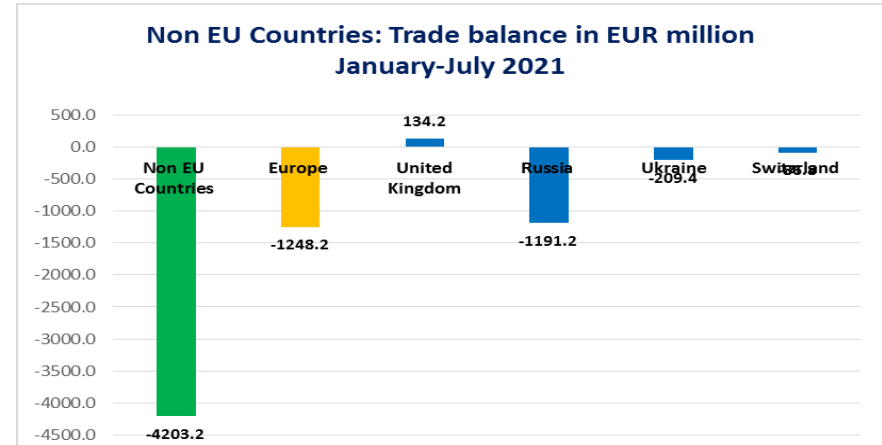
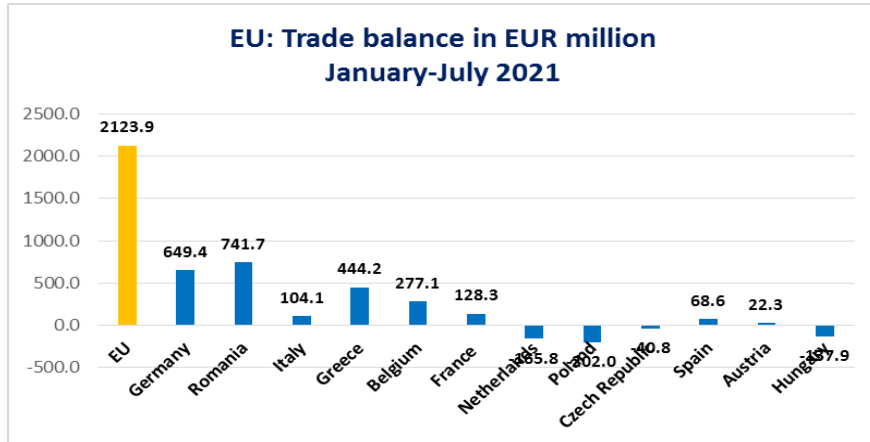
According to the definition of the NSI, unemployed are persons aged 15 - 74 years who: 1) do not have a job during the observed period; 2) actively looking for work for a period of four weeks, incl. observed week, or have already found a job that they expect to start within three months after the end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

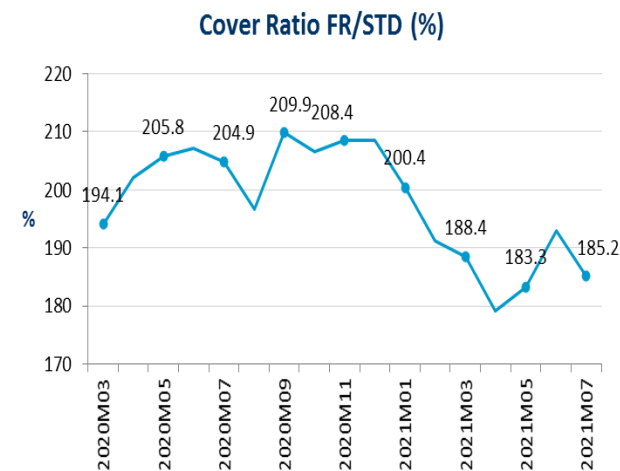
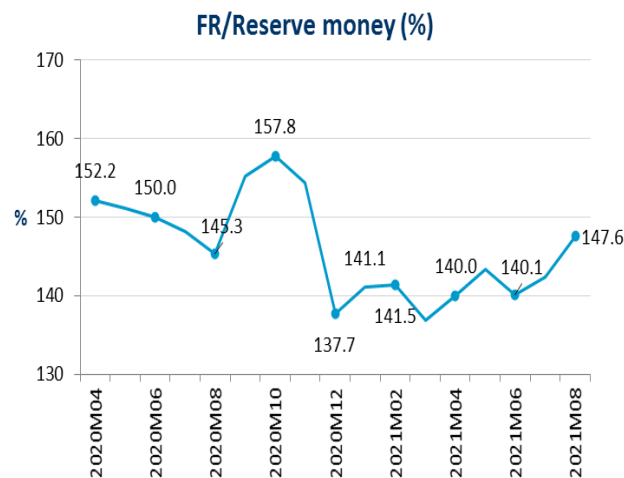
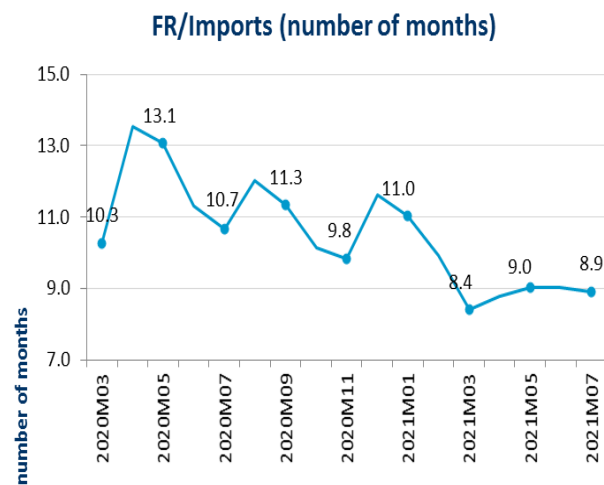
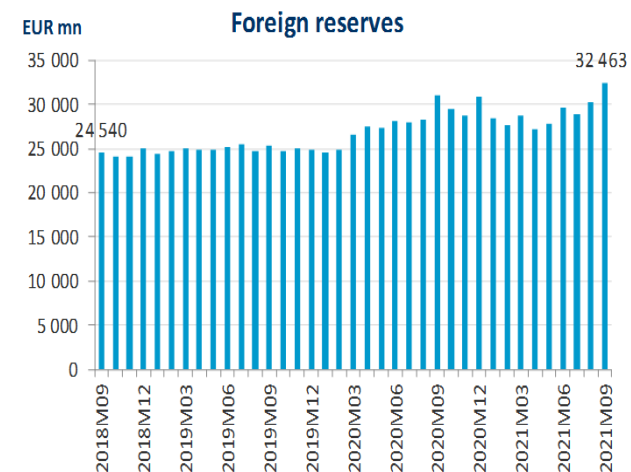
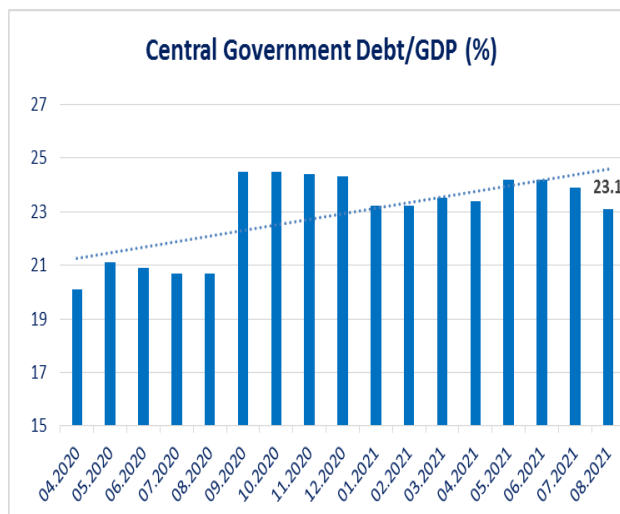
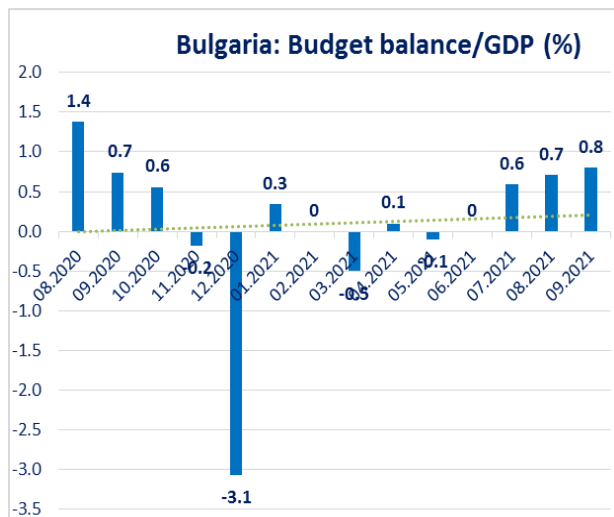
Bulgaria: Main Macroeconomic Indicators (4)

In January-July 2021 Bulgaria's Trade balance is negative at **EUR 2079.4 million** with positive value only with EU countries at **EUR 2123.9 million**. The trade balance is negative with Non – EU countries at **EUR 4208.2 million**, with Balkan countries at **EUR 150.3 million** and with Asia countries at **EUR 2564.4 million**.



Bulgaria: Main Macroeconomic Indicators (5)

Fiscal Indicators are stable and maintain the stability of Currency Board in Bulgaria.



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