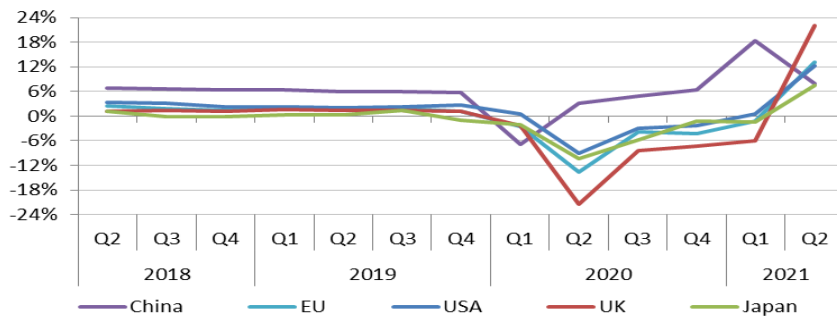

**United Bulgarian Bank
Bulgaria: Macroeconomic Update
September 2021**

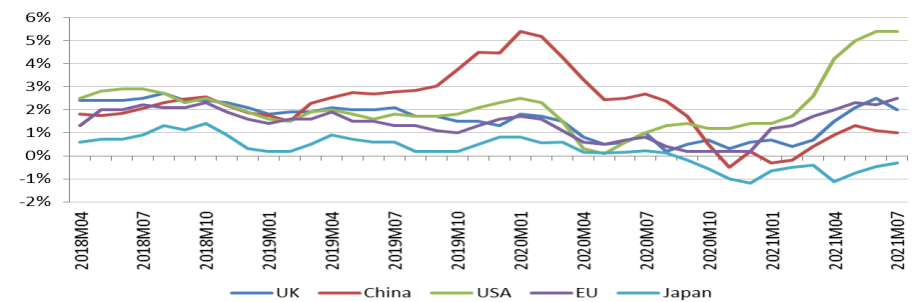
Chief Economist Department

In Q2 2021 advanced economies performed better than initial market expectations as fiscal support impacted strongly on GDP growth. The Eurozone annual inflation rate was confirmed at 3.0% in August 2021, highest since November 2011 and well above the European Central Bank's target of 2.0%. 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.

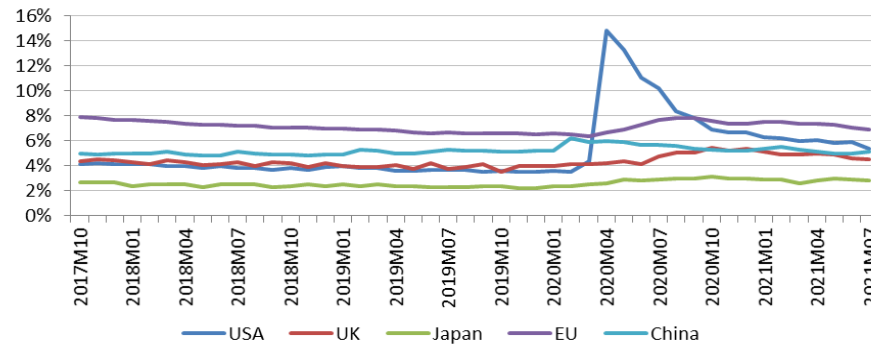
Advanced Economies: GDP growth rate compared to the same quarter of the previous year



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



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



Overview global forecasts

The yield on the benchmark 10-year Treasury note has been trading above 1.3% in September, as investors digest recent economic data and await further details on when the Fed will start cutting stimulus. Germany's benchmark 10-year Bund yield held at -0.3%, as markets appeared to stabilize following a sell-off Sep 20. Investors prepared for the US Federal Reserve decision due Wednesday, with officials set to deliver details about the tapering process. In Europe, traders digested a report saying the European Central Bank expects to hit its inflation target by 2025. Earlier this month, the ECB said it would moderately slow its pandemic emergency bond buying during the fourth quarter, but did not signal an end to the emergency stimulus.

Projections	Real GDP growth								Headline inflation (US CPI)							
	2017	2018	2019	2020	2021	2022	2023	2023	2017	2018	2019	2020	2021	2022	2023	2024
EMU	2.7	1.9	1.3	-6.7	5	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	6 (6.5)	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	8.8	5.4	5.2	5	1.6	2.1	2.9	2	1.2 (1.4)	2.3 (2.5)	2.2	2

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

Advanced economies	Indicators	End 2020	Current 10.09.2021	Q3 2021	End 2021	End 2022	End 2023	2024
US	Fed policy rate (middle target range)	0.125	0.125	0.125	0.125	0.125	0.625	1.625
	10y Bond yield	1.58	1.3	1.45	1.7	2.5	2.6	2.6
Eurozone	ECB deposit rate	-0.5	-0.5	-0.5	-0.5	-0.5	-0.4	-0.4
	ECB refi rate	0	0	0	0	0	0	0
Germany	10y Bond yield	-0.23	-0.33	-0.25	0	0.4	0.6	0.8
	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.

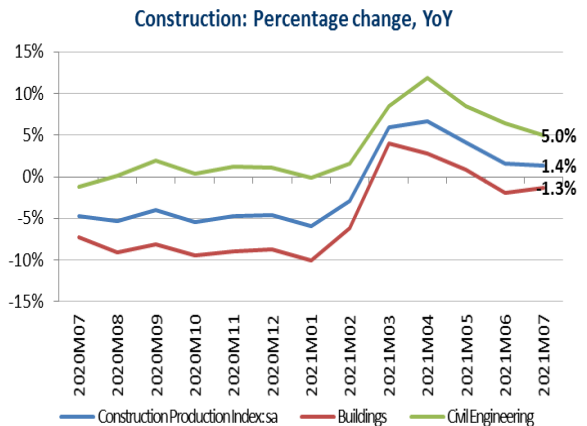
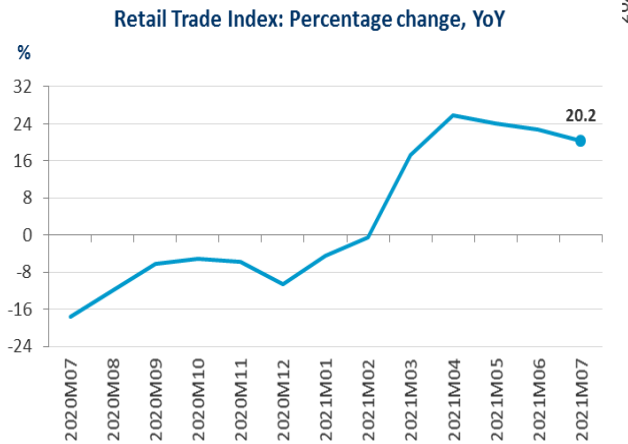
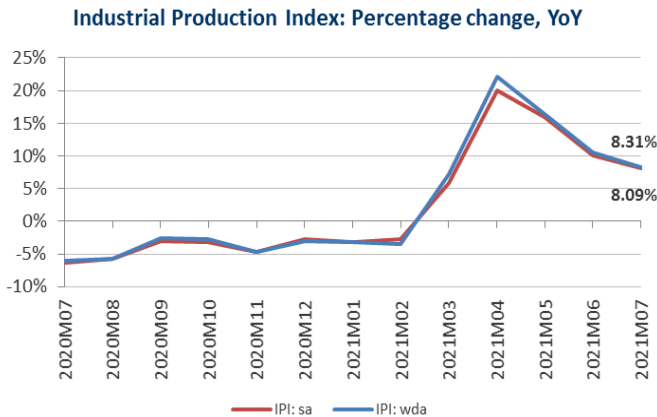
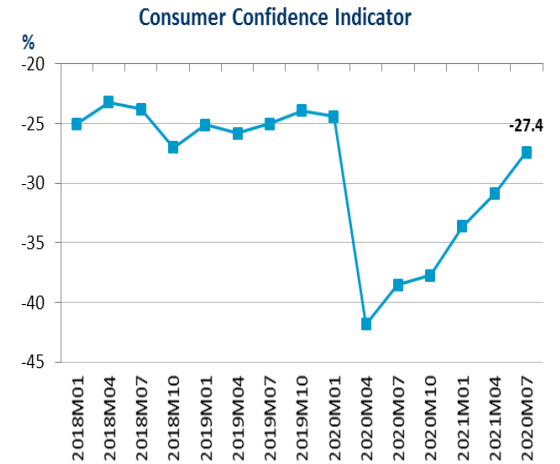
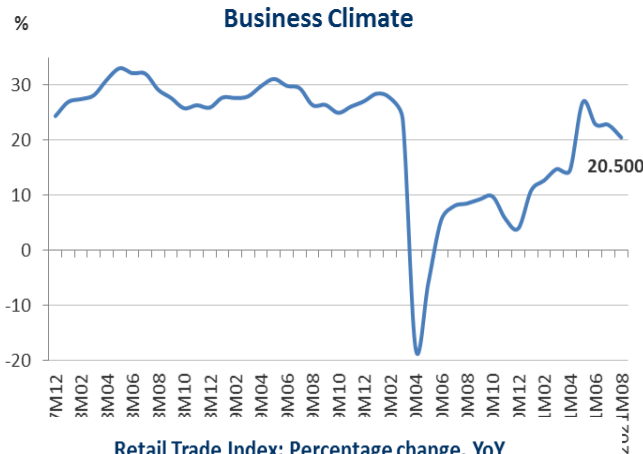
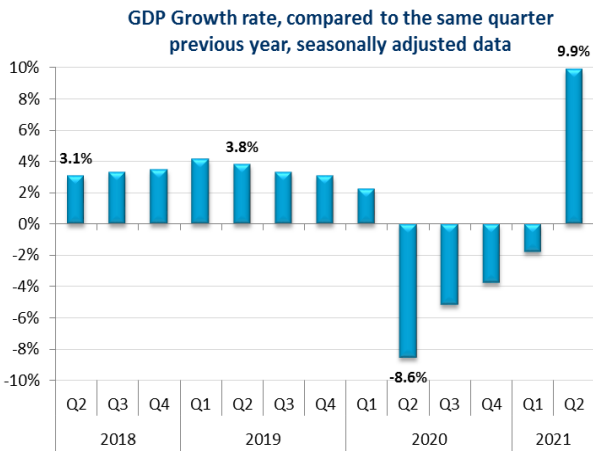
Bulgaria – Outlook 2021 - 2024

Bulgarian economy is projected to develop moderate following the global and regional trends. It's based on the huge amount of EU funds under NGEU and MFF 2021-27 programs (at BGN 16.6 billion). However, the very low vaccination rate may make the country more vulnerable to the 4-th wave of the pandemic.

Bulgaria	Optimistic scenario						Base scenario						Pessimistic scenario					
September 9, 2021	2019	2020	2021	2022	2023	2024	2019	2020	2021	2022	2023	2024	2019	2020	2021	2022	2023	2024
Real GDP growth (in %)	3.4	-4.2	6	4	3	3	3.4	-4.2	4.6	4	3	3	3.4	-4.2	3	3	3	3
Inflation (in %, harmonised CPI, average)	2.5	1.2	2.6	2.5	2.3	2.3	2.5	1.2	2.1	2.3	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	5	4.8	4.4	4.4	6	5.4	3.8	3.5	3	3
Source: KBC, UBB																		
BULGARIA: Real GDP Growth (%)					2021	2022	2023	2024	BULGARIA: Harmonised CPI (%)					2021	2022	2023	2024	
KBC/UBB					4.6	4	3	3	KBC/UBB					2.1	2.3	2	2	
Consensus economics					4.3	3.9	n.a.	n.a.	Consensus economics					2.3	2.4	n.a.	n.a.	
EC					4.6	4.1	n.a.	n.a.	EC					1.9	2.5	n.a.	n.a.	
OECD					3.8	4.4	n.a.	n.a.	OECD					1.4	1.9	n.a.	n.a.	
IMF					4.4	4.4	3.2	3	IMF					1	2	2	2	
MF					2.7	3.6	3.4	2.7	MF					1.8	2	2	2.1	
BNB					4.1	4.6	n.a.	n.a.	BNB					3.5	0.8	1.1	n.a.	
UniCreditBulbank					4.4	4.1	n.a.	n.a.	UniCreditBulbank					2.6	2.3	n.a.	n.a.	
OTP Bank					4.6	4.1	n.a.	n.a.	OTP Bank					2	2.1	n.a.	n.a.	
Raifeisen Research					3	4	n.a.	n.a.	Raifeisen Research					2.3	3	n.a.	n.a.	
Source: KBC, Consensus economics (August 2021), BNB (June 2021), MF (June 2021)																		

Bulgaria: Main Macroeconomic Indicators (1)

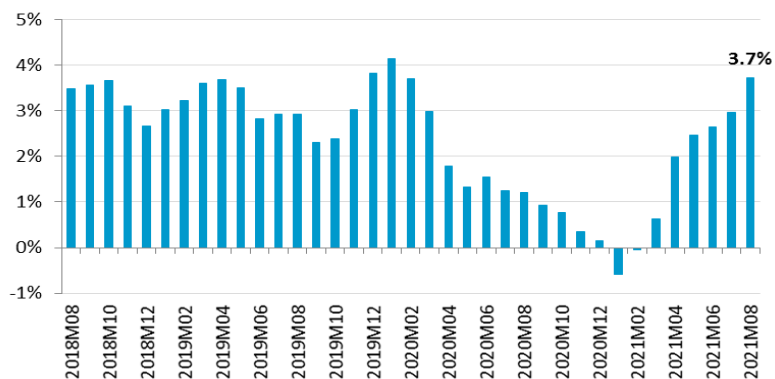
In Q2 2021 Bulgaria reported 9.9 % yoy increase of 9.9% according seasonally adjusted NSI data. The high growth for Q2 of 2021 is compensatory compared to the decline of -8.2% for Q2 of 2020. Bulgaria's entry into the fourth wave of COVID-19 and still very low vaccination rate, as well as the introduction of an emergency situation by the end of November 2021 form expectations for a slower pace of recovery even the currently the positive trend of short term indicators.



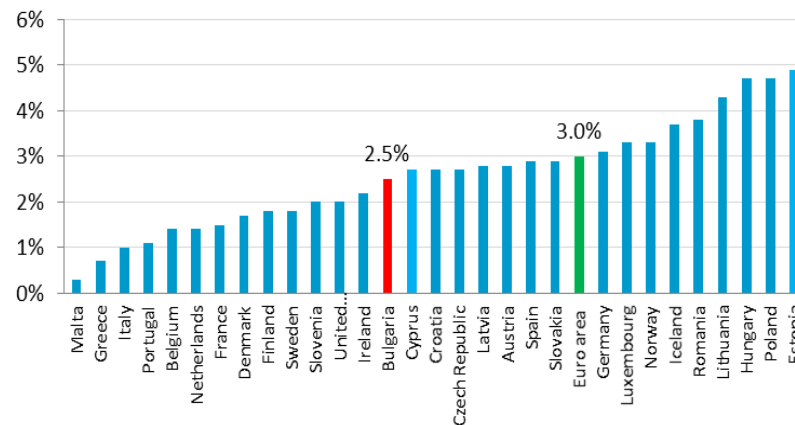
Bulgaria: Main Macroeconomic Indicators (2)

Harmonized inflation increased by 2.5% yoy in August from 2.2% yoy in July amid higher price pressures on housing and utilities, transport and food and non-alcoholic beverages. Inflation is expected to be on average higher this year than in 2020 mainly reflecting a low base year due to the coronavirus crisis and a global supply squeeze.

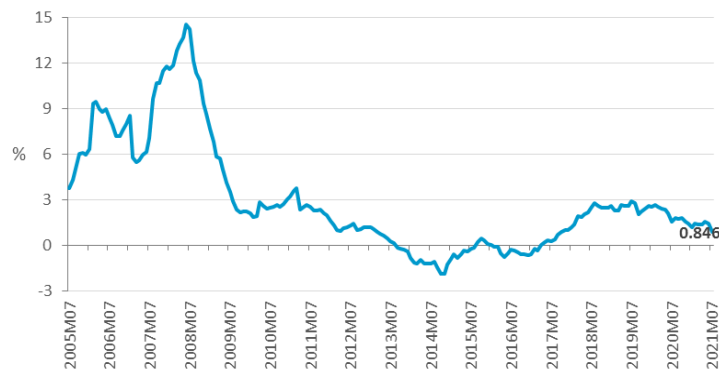
Inflation, y/y: 2018 - 2021



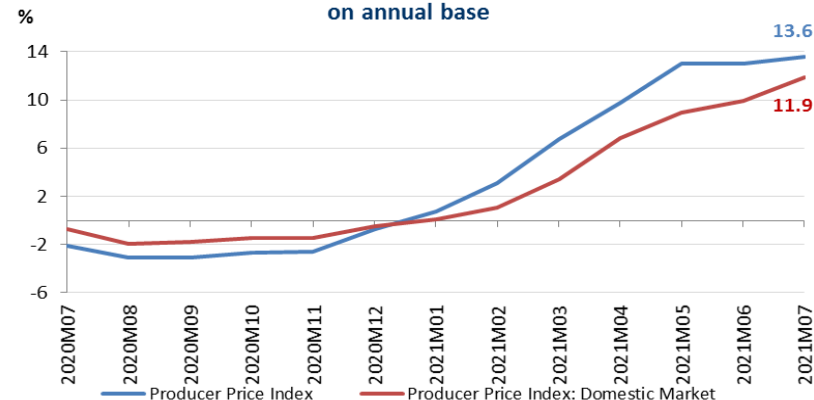
EU: HCPI Inflation (% y/y) by country - August 2021



Core Inflation, Percentage change, YoY

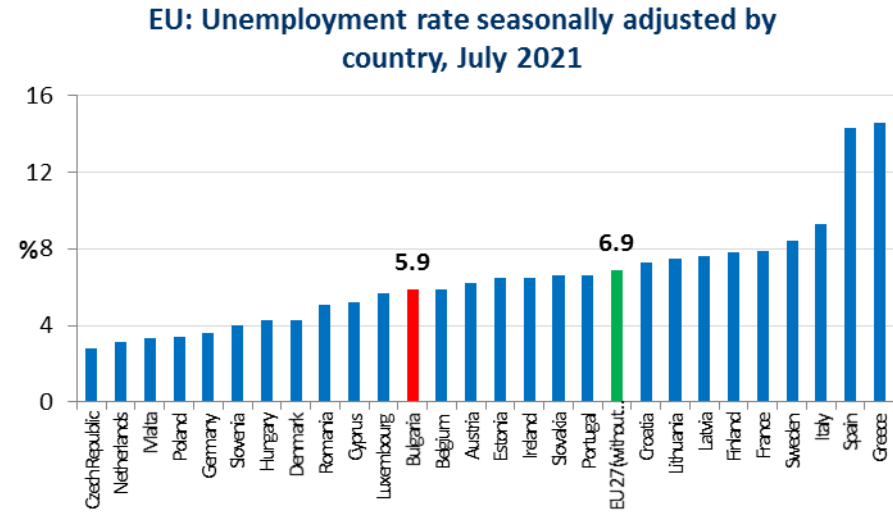
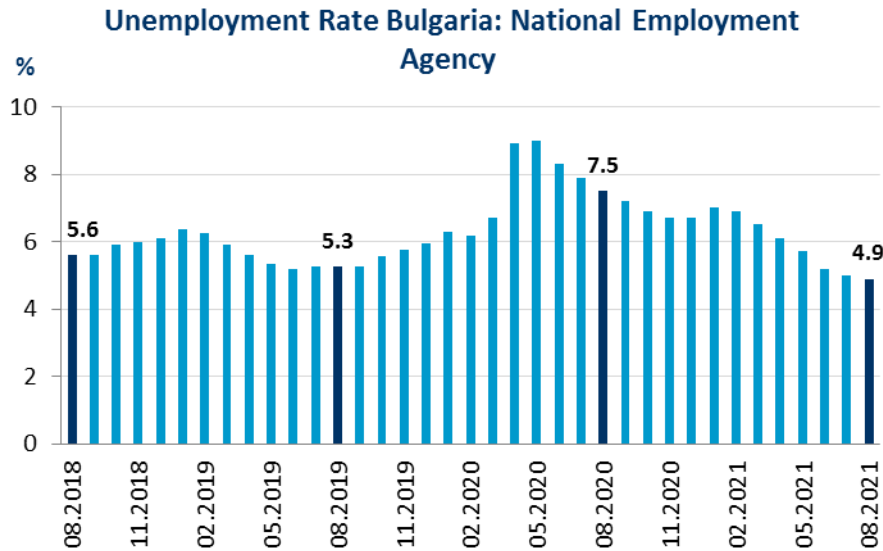


Producer Price Index and PPI on Domestic market, % change on annual base



Bulgaria: Main Macroeconomic Indicators, Labor market (3)

According to Agency of employment in August 2021 the rate of registered unemployment is 4.9%, hitting another 14-year record low. The harmonized unemployment rate is below the average of EU.



Note:

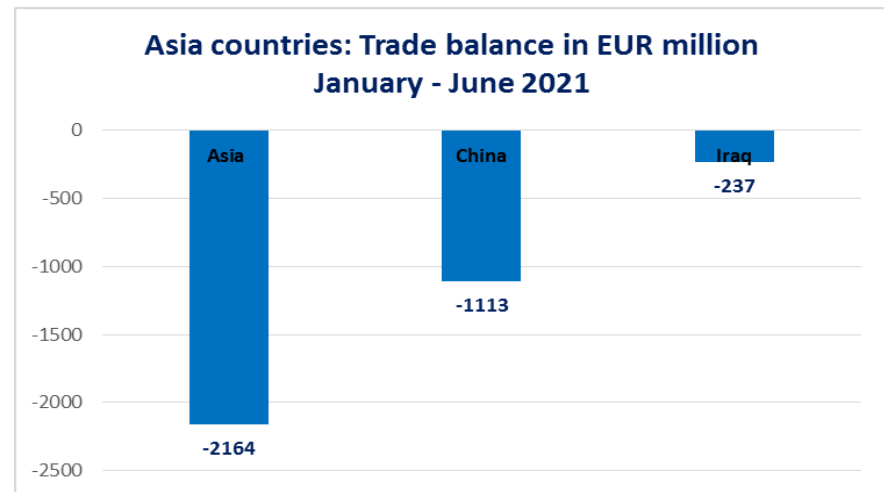
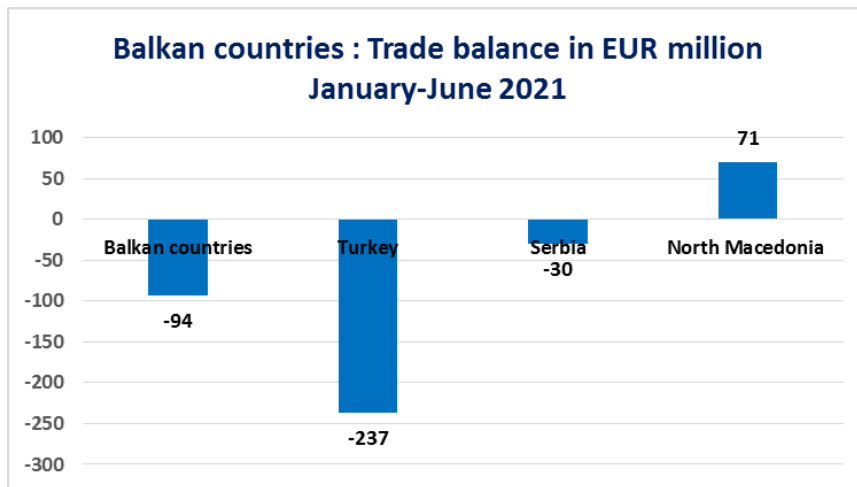
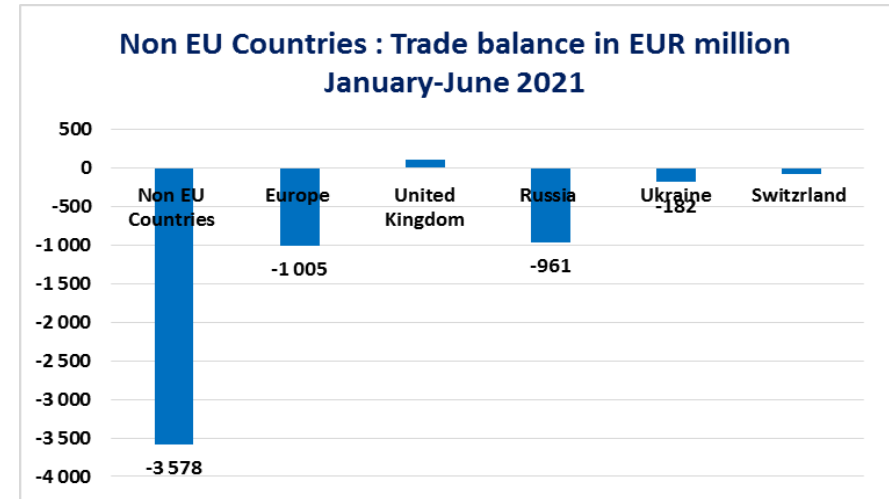
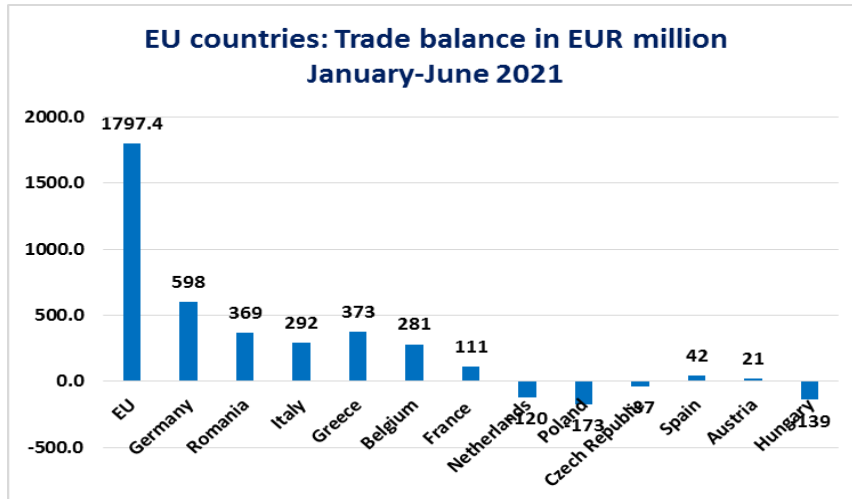
According to the definition of the NSI, unemployed are persons aged 15 - 74 years who: 1) do not have a job during the observed period; 2) actively looking for work for a period of four weeks, incl. observed week, or have already found a job that they expect to start within three months after the end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

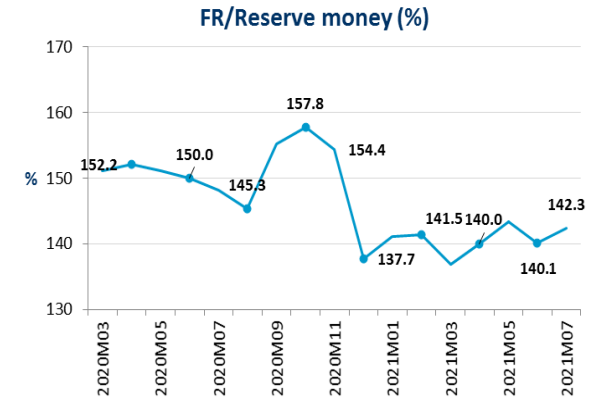
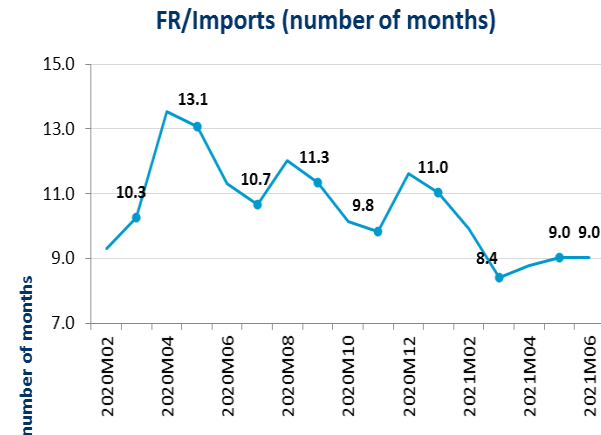
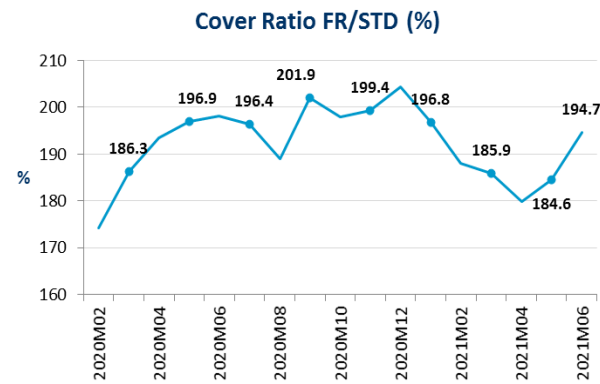
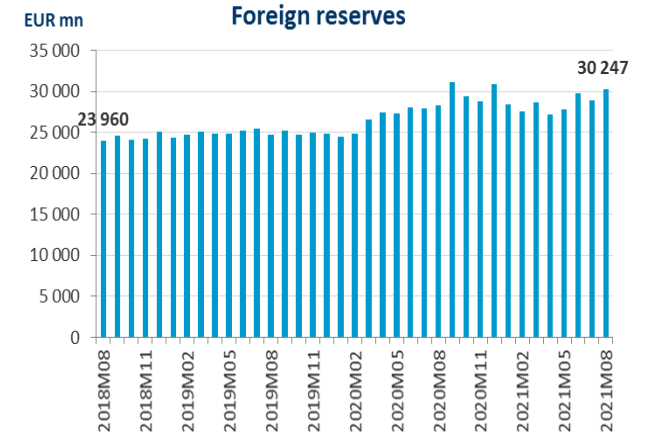
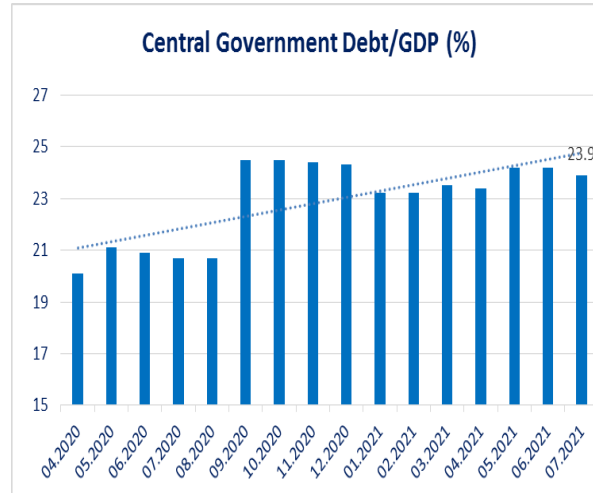
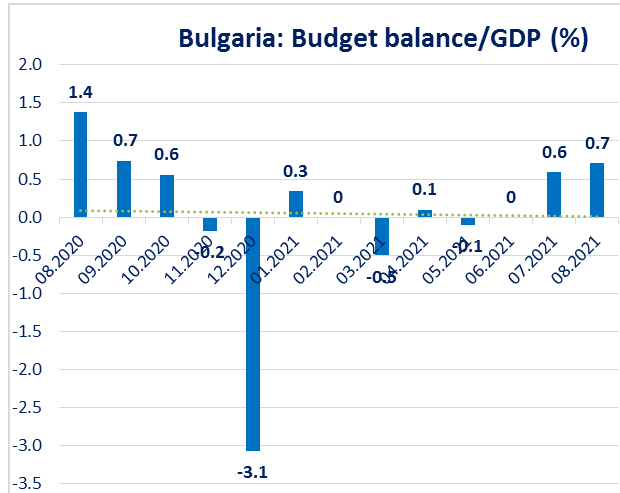
Bulgaria: Main Macroeconomic Indicators (4)

In January-June 2021 Bulgaria's Trade balance is negative at **EUR 1781 million** with positive value only with EU countries at **EUR 1797.4 million**. The trade balance is negative with Non – EU countries at **EUR 3578 million**, with Balkan countries at **EUR 94 million** and with Asia countries at **EUR 2164 million**.



Bulgaria: Main Macroeconomic Indicators (5)

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



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