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**United Bulgarian Bank  
Bulgaria: Macroeconomic Update  
January 2022**

Chief Economist Directorate

# Bulgaria – Inflation (1)

## Reasons

Both Bulgarian CPI and harmonized inflation has the highest record since December 2008. The biggest increase in prices are in sectors “Housing, water, electricity, gas and other fuels”, “Food and non-alcoholic beverages” and “Transport”. A number of pandemic-related factors continue to push inflation higher:

First, a strong recovery in energy prices, including crude oil, natural gas and electricity.

Second, the reopening of economies, in particular, the sectors severely hit by lockdowns where prices are normalizing from depressed levels.

Third, persistent global supply chain disruptions have led to a surge in pipeline price pressures and robust core goods inflation.

In this case of disruptive energy inflation we have both a supply shock (many companies are threatened with closure due to high electricity prices) and a decrease of domestic demand (higher inflation is reducing real incomes).



# Bulgaria – Inflation (2)

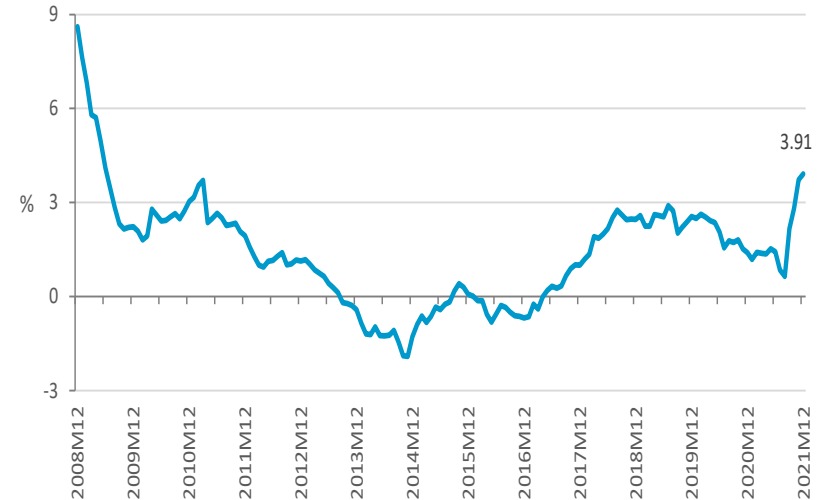
## Composition

As shown in the graph, the core inflation is significantly lower than the overall inflation. This reflects the impact of high commodity prices and especially energy crisis.

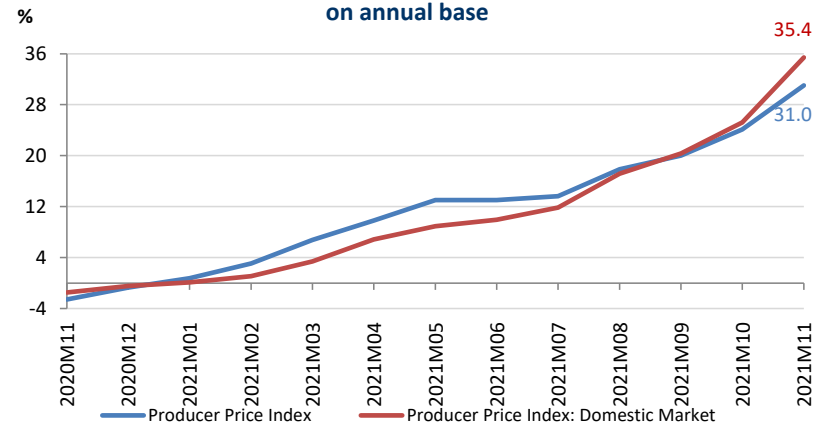
Private consumptions this year will contribute less to growth than the last year. Higher consumer price inflation will decrease the real incomes more than in 2021.

Impact of the high cost of raw materials is increasing cost of input, especially in sectors agriculture and food industry, manufacturing, construction and transport. The big increase in the Produces Price Index 31% yoy is evidence for this process.

Core Inflation, Percentage change, YoY



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

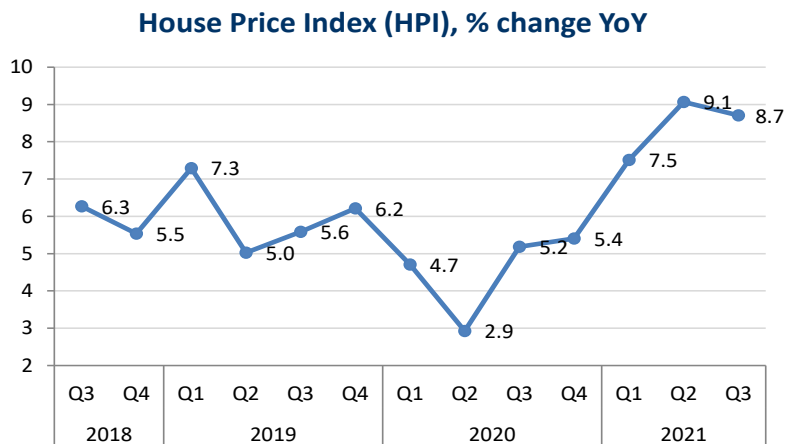
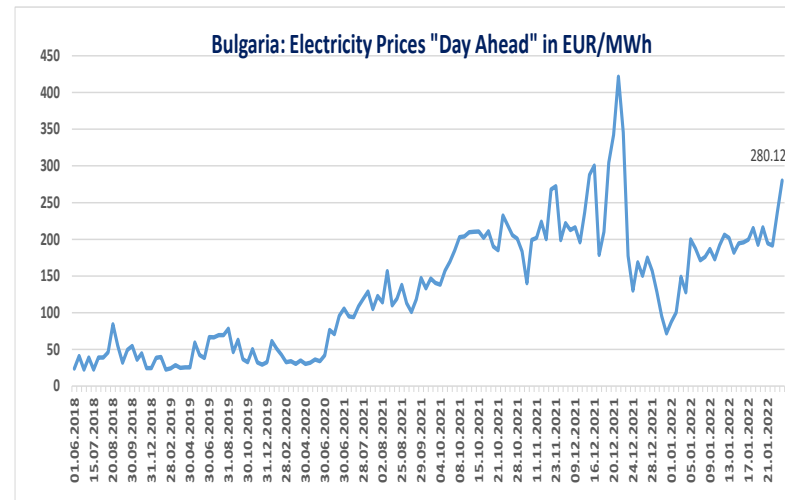


# Bulgaria – Inflation (3)

## Energy crisis

The correlation between gas and electricity prices has traditionally been strong in Europe. Even when most of the power plants in Bulgaria are based on the coal and nuclear energy (and not on gas), Bulgaria is part of the European market and the big external demand is pushing price up.

The policy of low interest rates on bank deposits has led to the desire to seek alternative forms of savings and a corresponding increase in demand for housing and house prices.



# Bulgaria – Inflation (4)

## Forecast

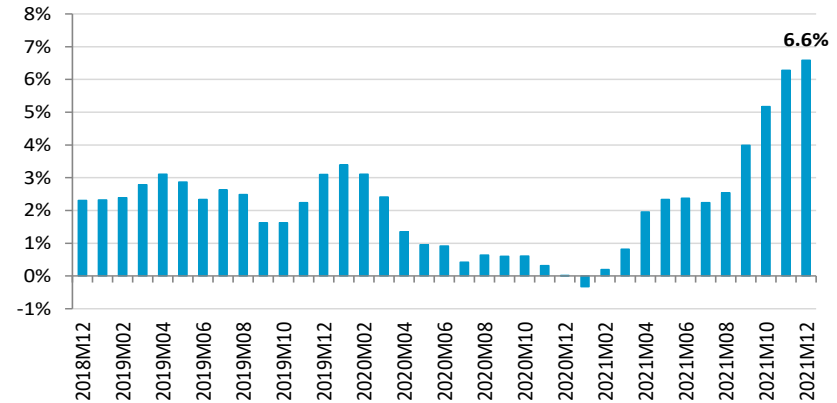
Central to this forecast is our expectation of a stabilization in energy prices, implying more favorable base effects. In addition, goods inflation is expected to decelerate, assuming some alleviation in global supply bottlenecks.

However, the latter is the largest uncertainty of our outlook, in particular with respect to the pace and extent of the pass-through of the natural gas price (and electricity prices) increases. The presence of catching up inflation due to traditionally lower incomes and price levels compared to the euro area is also a risk.

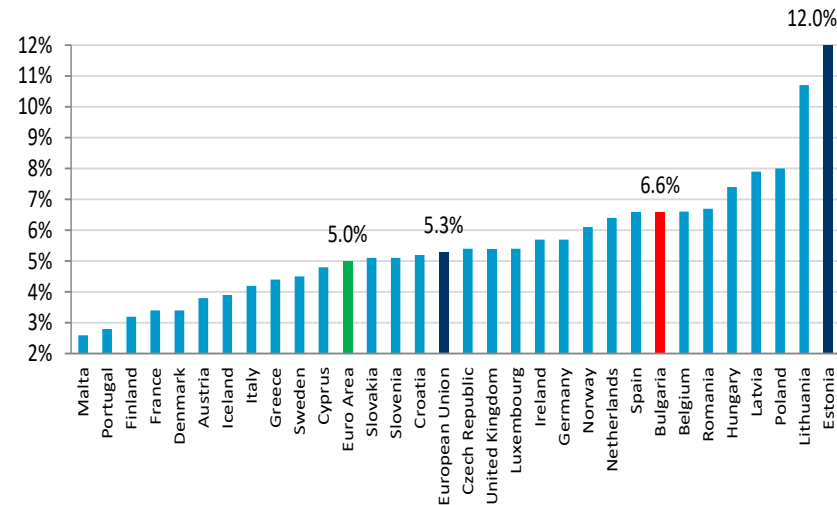
Our new forecast for this year is 5.5% HICP average annual.



Harmonised Inflation



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



## Bulgaria – Inflation (5)

Top 3 sectors at risk per Home Market based on DG ECFIN survey: overview table.

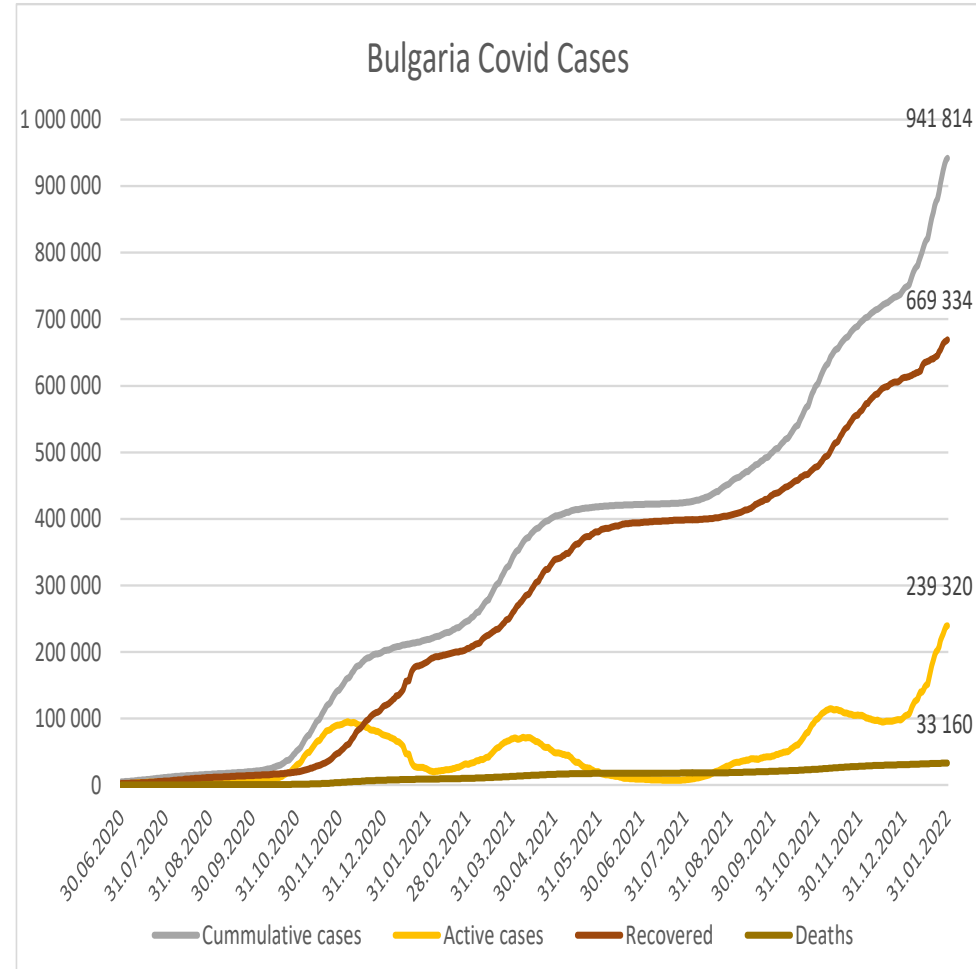
	Industrial sectors			Services sectors		
	Labour constraints	Equipment constraints	Low pricing power	Labour constraints	Equipment constraints	Low pricing power
Bulgaria	Electrical equipment, Rubber and plastic, Paper	Motor vehicles, Wood, Basic Metals	Leather, Transport equipment, Tobacco	Architectural and engineering services, Food and beverages services, Accommodation	Food and beverages services, Accommodation, Real estate services	Real estate services, Air transport services, Information services

# COVID-19 Status

At the end of December there is new acceleration of the active corona cases. They are 239 920 on January 31, 2022. Mortality also increases, albeit with the smaller pace 33 160 on January 31, 2022. Bulgaria is now in the fifth wave of pandemic, due to new Omicron variant (South African variant).

The vaccination process is accelerating, but is still insufficient. Pfizer, Moderna, Astra Zeneca and Jansen vaccines are used. The vaccinated as of January 31, 2022 are 60% of the population, 29% are fully vaccinated and 9% are with buster. The part of Bulgarian population is skeptical about vaccines.

New anti-epidemic measures based on the requirement to provide a green certificate: for vaccination, illness or a negative COVID-19 test result. The certificate is required for visits to entertainment, congress-conference events, seminars, trainings, etc. Restrictive measures in Bulgaria are liberal compared to most EU countries. Also economy now is more resilient to the restrictive measures.



# Bulgaria – Outlook 2021 - 2024

Our new estimation for the prices dynamics requires new forecast for the inflation. Inflation for this year will significantly increase from 2.5% average annual to 5.5%. The new revision in December convince us to slightly change the GDP growth in 2021. For 2022 is possible budget actualization in the summer and the forecast is cautious. The next year we expect fiscal consolidation.

Bulgaria	Optimistic scenario						Base scenario						Pessimistic scenario					
January 06, 2022	2019	2020	2021	2022	2023	2024	2019	2020	2021	2022	2023	2024	2019	2020	2021	2022	2023	2024
Real GDP growth (in %)	4	-4.3	3.7	4.6	3	3	4	-4.3	<b>3.4 (3.3.)</b>	4	3	3	4	-4.3	3.1	3.3	3	3
Inflation (in %, harmonised CPI, average )	2.5	1.2	2.8	10	6	4	2.5	1.2	2.8	<b>5.5 (2.5)</b>	<b>2.5 (2)</b>	2	2.5	1.2	2.8	1.7	1.8	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	5	6	5	4.6
Government budget balance (in % of GDP)	-1	-3	-3.2	-1	0	0.5	-1	-3	3.2	-4.5	-2	-1.2	-1	-3	-3.2	-3	-2.5	-1.7
Gross public debt (in % of GDP)	20.4	24.3	26.2	25	26	26	20.4	24.3	26.2	29.8	31	32	20.4	24.3	26.2	30.7	32.5	35
Current account balance (in % of GDP)	1.2	0.4	1	2	1	1	4	0.4	1	3	1	1	4	0.4	1	0.4	0.6	0.6
House prices (annual %-change, existing and new dwellings, Eurostat def.)	6	5.4	8.7	9.0	6.0	4.0	6	5.4	8.5	6.5	4.5	3.5	6	5.4	7.9	3.5	3.0	3.0

Source: KBC, UBB

BULGARIA: Real GDP Growth (%)	2021	2022	2023	2024
KBC /UBB (November 2021)	3.3	4	3	3
World Bank (December 2021)	3.3	3.8	3.6	n.a.
EC (November 2021)	3.8	4.1	3.5	n.a.
OECD	3.8	4.4	n.a.	n.a.
IMF (October 2021)	4.5	4.4	3.2	3
MF (December 2021)	3.7	4.6	3.7	3.4
BNB (October 2021)	3.9	4.7	n.a.	n.a.
UniCreditBulbank (December 2021)	3.6	3.6	4.3	n.a.

Source: KBC, BNB, MF

BULGARIA: Harmonised CPI (%)	2021	2022	2023	2024
KBC /UBB (November 2021)	2.8	2.5	2	2
World Bank (December 2021)	n.a.	n.a.	n.a.	n.a.
EC (November 2021)	2.4	2.9	1.8	n.a.
OECD	1.4	1.9	n.a.	n.a.
IMF (October 2021)	2.1	1.9	2	2
MF (December 2021)	2.8	4.9	1.9	2.1
BNB (October 2021)	3.8	1.6	1.5	n.a.
UniCreditBulbank (December 2021)	3.3	6	3	n.a.

Source: KBC, BNB, MF

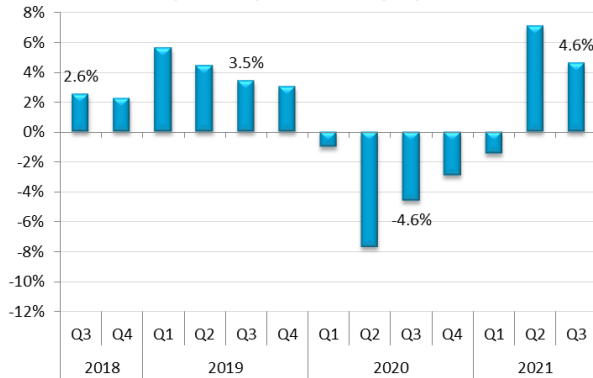


# Bulgaria: Main Frequency Indicators

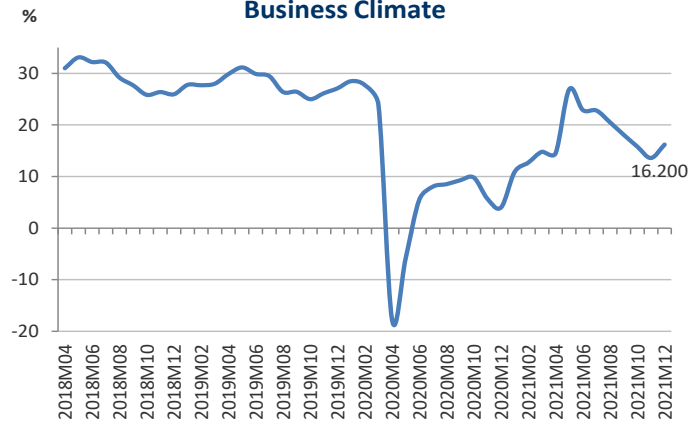
The energy crisis, political crisis and the strongest forth wave of COVID-19 pandemic impacted as declining of high frequency indicators.

Bulgaria's GDP growth slowed significantly in Q3 2021 according to the preliminary estimate, with growth declining on an annual basis after a strong recovery in Q2. With a more unfavorable base effect weighing on the figures, the slowdown was widespread in all sectors of the economy: private and public consumption growth slowed in the quarter, while capital expenditures shrank faster than in the Q2 2021. Turning to Q4, tightening restrictions, following a record high increase in Covid-19 cases in late October, naturally affected activity.

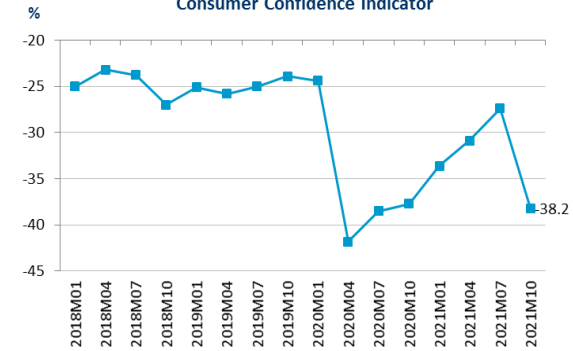
GDP Growth rate, compared to the same quarter previous year, seasonally adjusted data



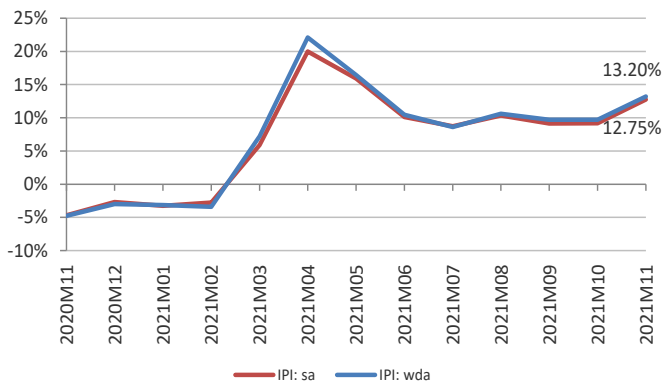
Business Climate



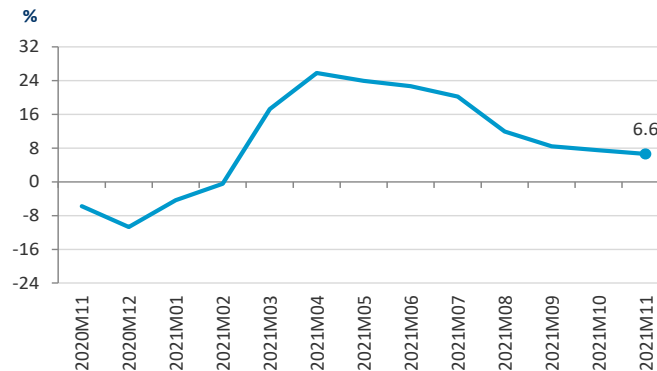
Consumer Confidence Indicator



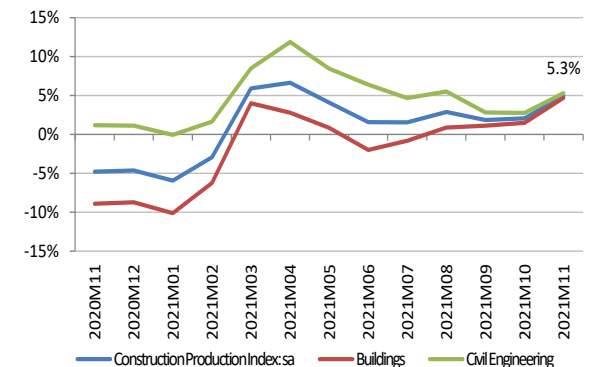
Industrial Production Index: Percentage change, YoY



Retail Trade Index: Percentage change, YoY

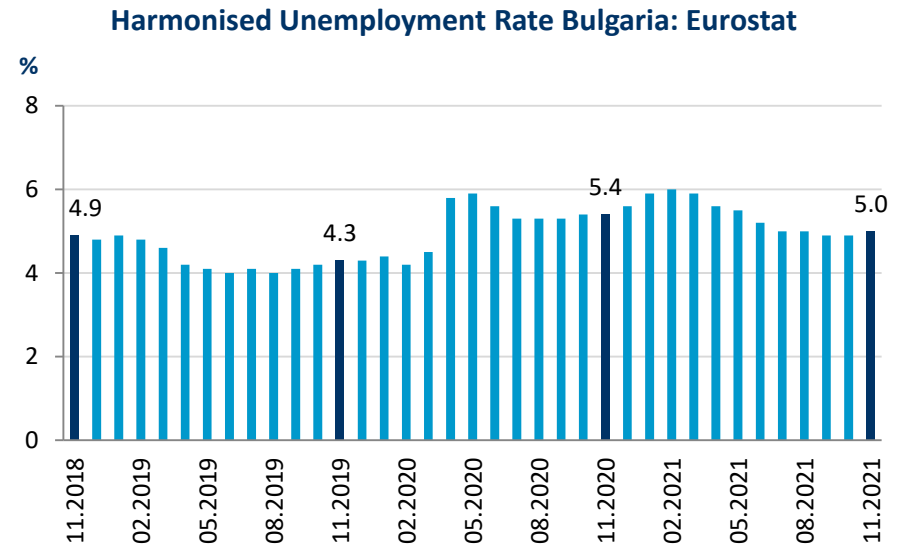
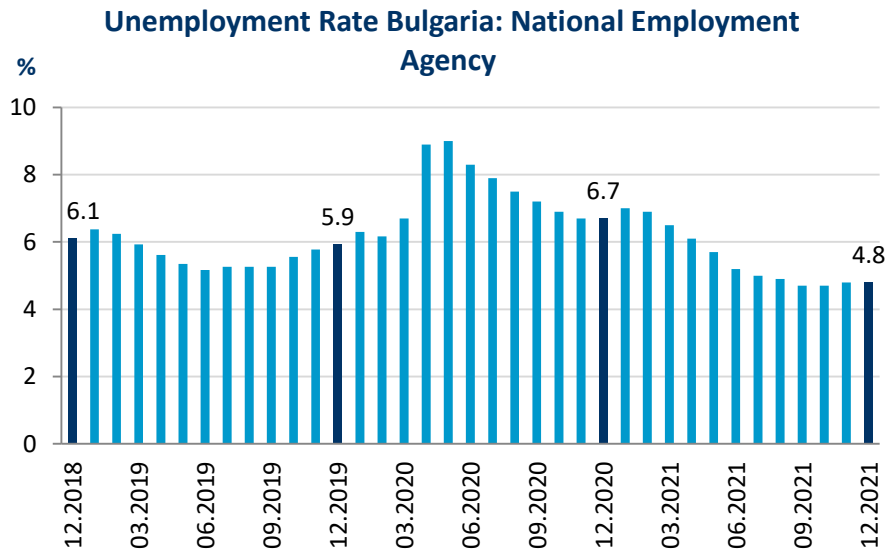


Construction: Percentage change, YoY



# Bulgaria: Main Macroeconomic Indicators, Labor market

According to Agency of employment in December 2021 the rate of registered unemployment is 4.8%, hitting another 14-year record low. In November the harmonized unemployment rate in Bulgaria is 5% and is below the average of EU.



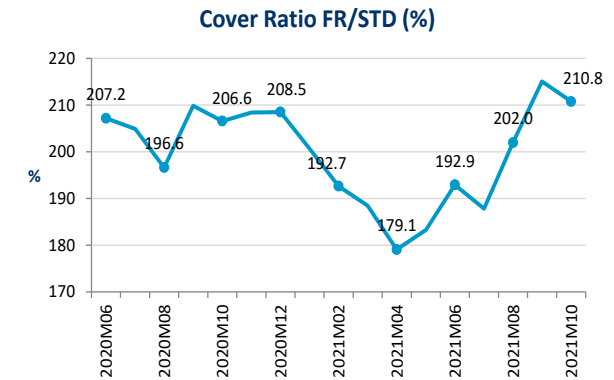
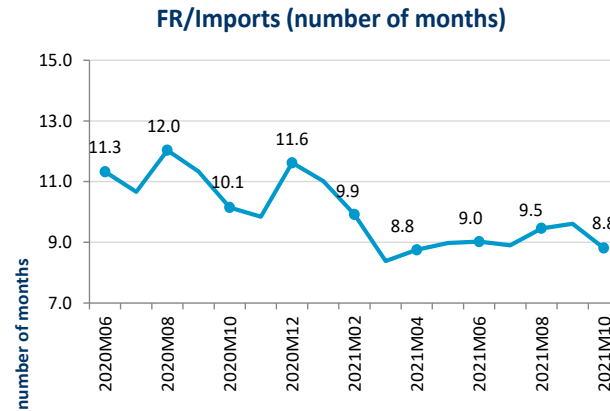
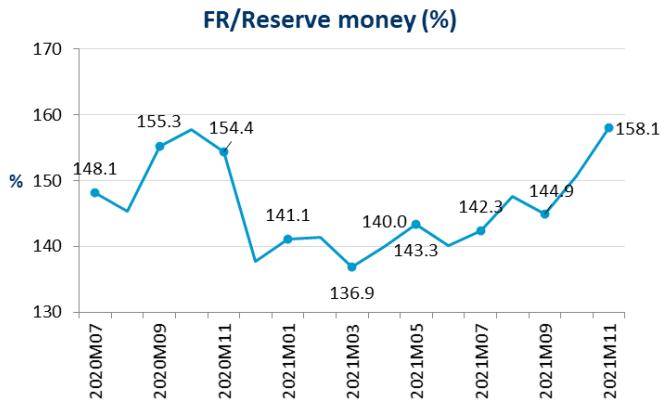
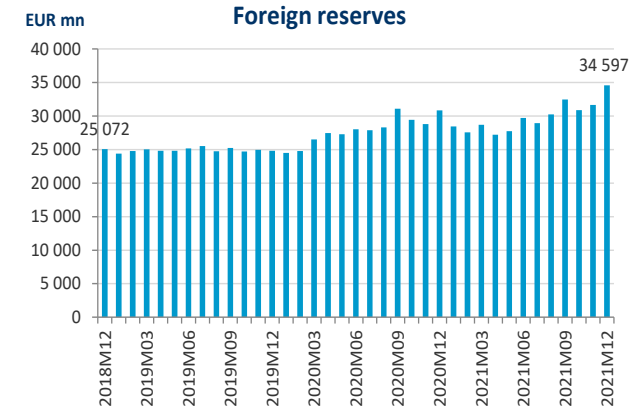
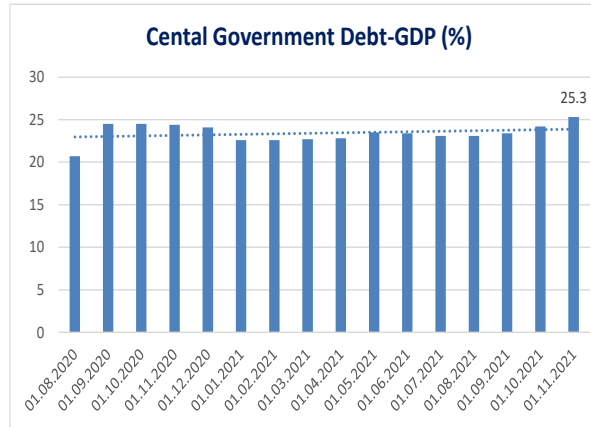
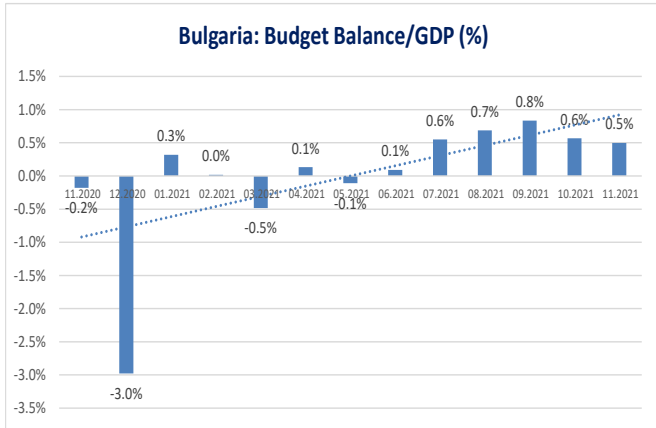
**Note:**

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.

# Fiscal Indicators are stable and maintain the position of Currency Board in Bulgaria New budget balance, debt and foreign reserves.



**For contacts:**  
**Petar Ignatiev, Chief Analyst,**  
**e-mail: [Petar.Ignatiev@ubb.bg](mailto:Petar.Ignatiev@ubb.bg), tel.: +359 2811 2982**

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