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

Chief Economist Department

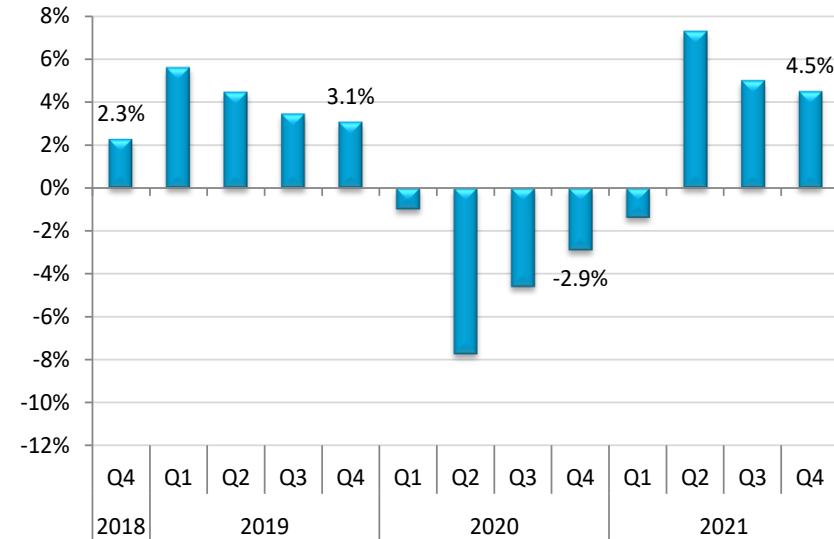
Bulgaria – GDP growth

The Bulgarian economy increased by 4.5% year-on-year seasonally adjusted data in the fourth quarter of 2021, below an upwardly revised 5% expansion in the previous quarter, flash estimates showed. Consumption grew faster (7.9% vs 7.1%) and net foreign trade contributed positively as exports surged 12.9% (vs 10% in Q3) while imports rose at a softer pace 11.2% (vs 14.3%). However, gross fixed capital formation declined further (-12.5% vs -11.7% in Q3). On a quarterly basis, Bulgaria’s GDP rose by 1%, increasing from an upwardly revised 0.8% in the third quarter of the year. The reason is the increase in the final consumption by 1.3%.

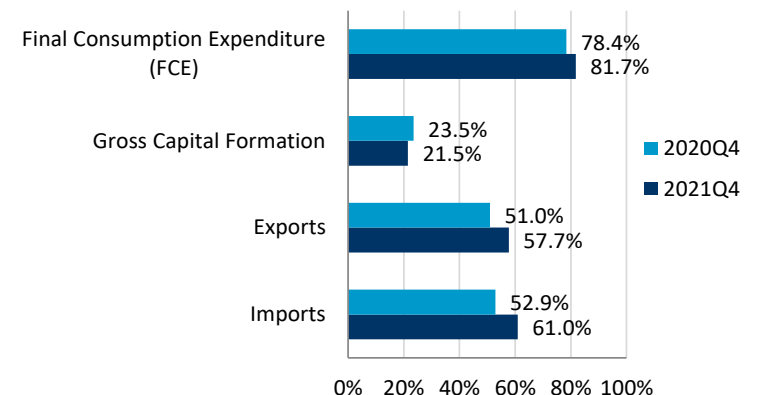
However, there are significant political and economic risks. The rising geopolitical tensions between Russia and Ukraine are reasons of concern. **The most important scenario is Full War : serious military actions, ban on trade, continuous damage on import/export from the region. Our expectation in this case are significant slowdown in GDP growth in 2022, increase in inflation HICP and moderate increase of unemployment.**

Economic risk: in the EC Winter Forecast 2022, higher energy and food prices are set to erode the purchasing power of low-income households. Energy intensive production is also expected to face challenges to remain competitive.

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

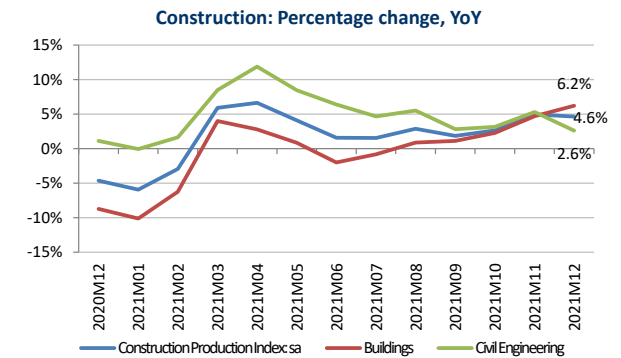
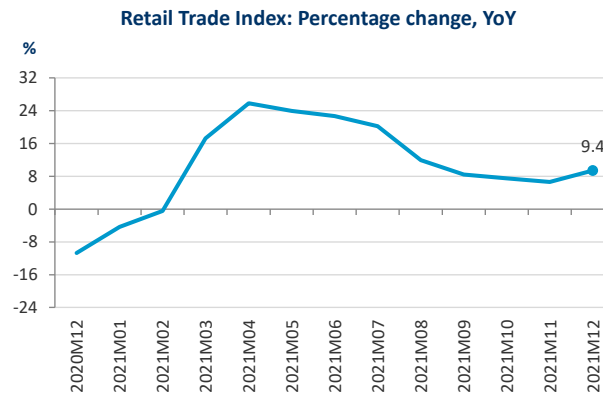
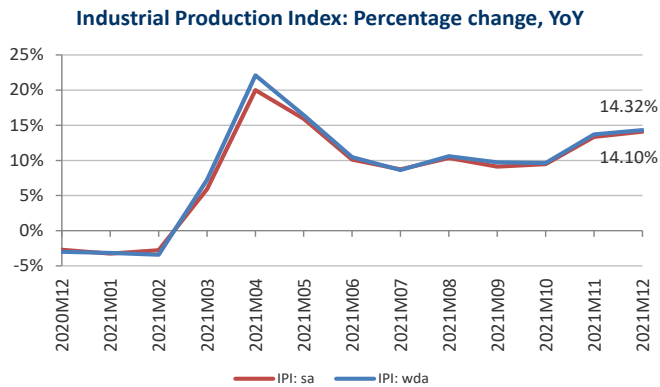
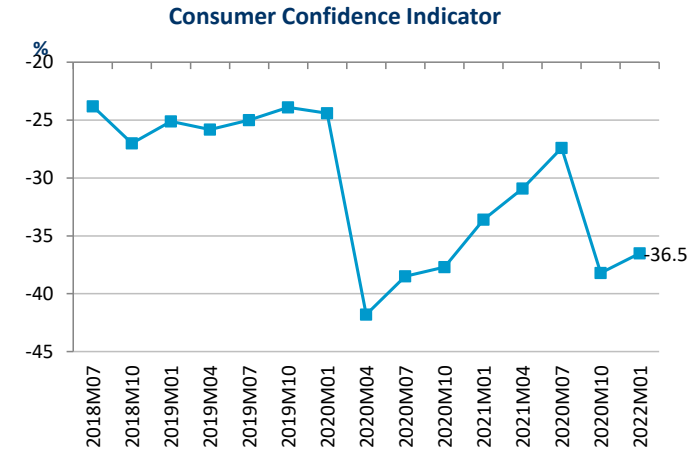
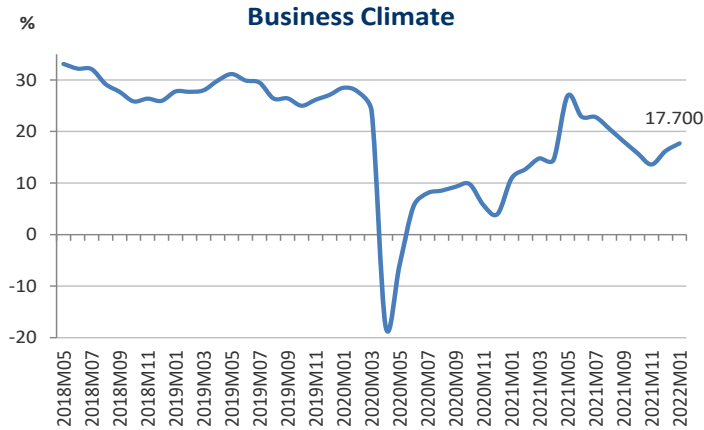


Structure of GDP by the expenditure approach for Q4 in 2020 and 2021



Bulgaria: Main Frequency Indicators

The political stabilization and the economic recovery from COVID impacted as increasing the trend of high frequency indicators. Bulgarian economic growth is expected to strengthen in 2022, supported by increased investment financed by the EU's Fund for recovery and resilience. However, mainly because of disruptive energy inflation and also geopolitical tensions, we plan to decrease our growth forecast.

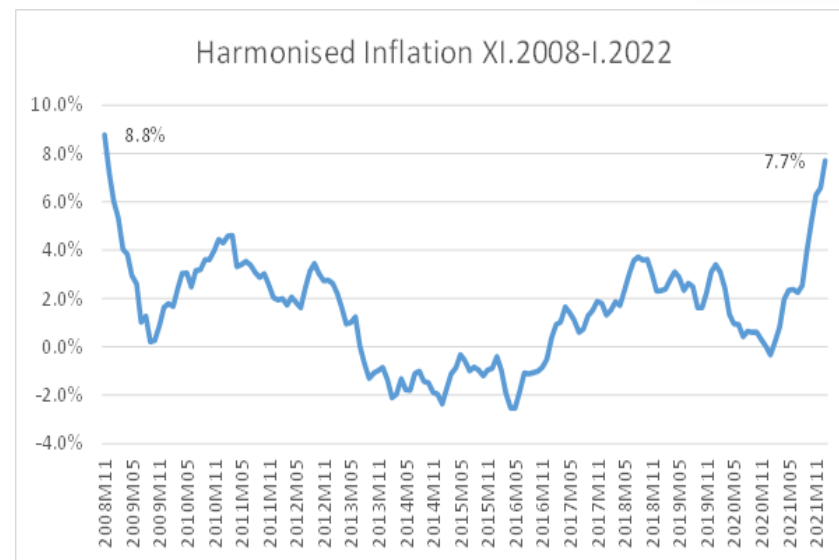


Bulgaria – Inflation (1)

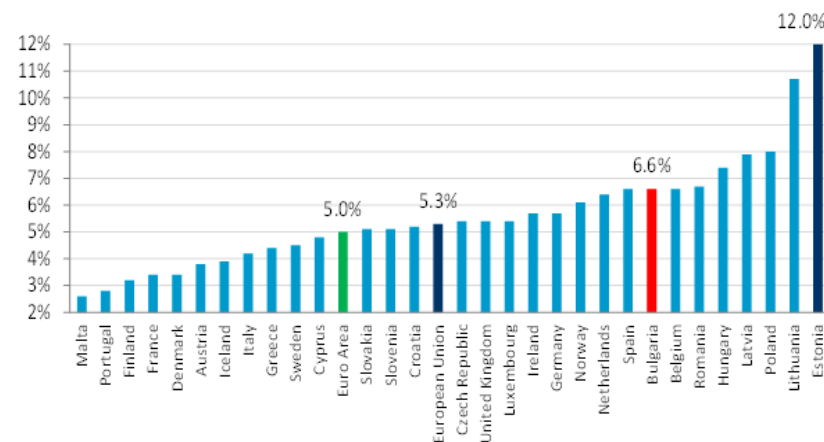
Both Bulgarian CPI and harmonized inflation has the highest record since December 2008. Central to this forecast is our expectation of a stabilization in energy prices, implying more favorable base effects. However, the latter is the largest uncertainty of our outlook, in particular with respect to the pace and extent of the pass-through of the natural gas price (and electricity prices) increases. This view is consistent with our upgraded oil price outlook, which envisages significantly higher oil prices in 2022. The presence of catching up inflation due to traditionally lower incomes and price levels compared to the euro area will facilitate the inflationary impact.

High inflation, particularly in 2023, can break the Euro convergence criteria for HICP reference value. Inflation is the biggest risk for the convergence process – high energy prices, high growth of the labor costs and/or higher inflationary expectations could make very difficult to slow down inflation.

In the EC Winter Forecast 2022, the regulated electricity prices are set to increase by 15% in mid-2022 and 20% in mid-2023. These factors are set to contribute to the persistence of energy inflation. BNB expects acceleration of labor costs per unit of output and has been radically increased their inflation forecast.



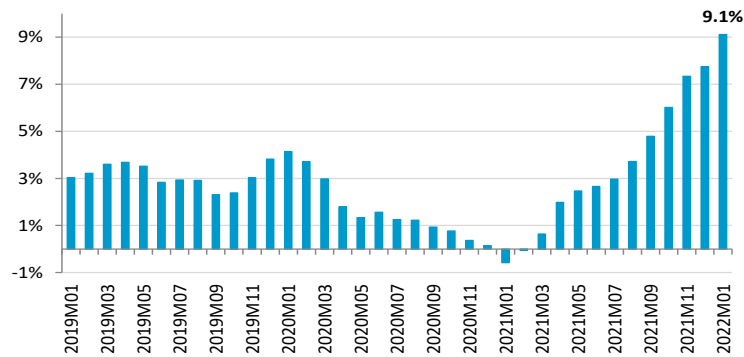
EU: HCPI Inflation (% y/y) by country - December 2021



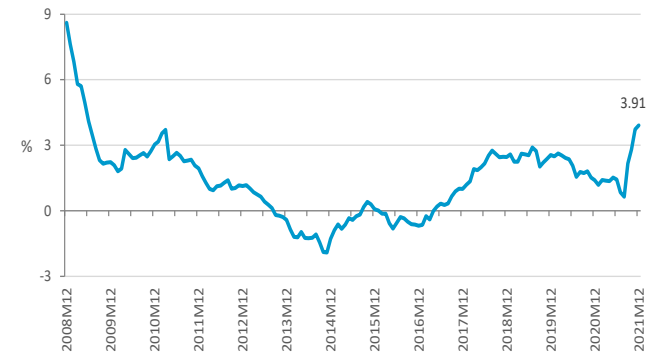
Bulgaria: Inflation (2)

The core inflation is significantly lower than the overall inflation. This reflects the impact of high commodity prices and especially energy prices. Low interest rates on bank deposits has led to increase in demand for housing and house prices. Impact of the high cost of raw materials is increasing cost of input. **We plan to raise our inflation forecast.**

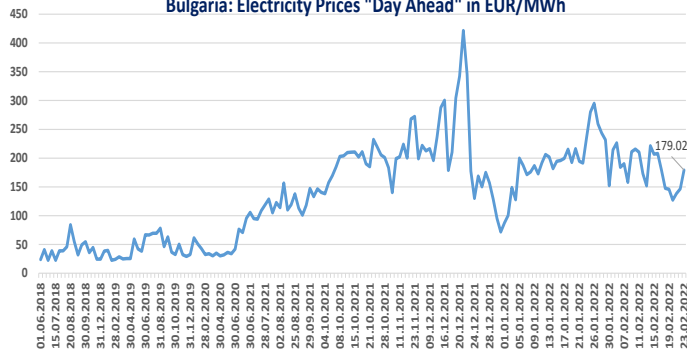
Inflation, y/y: 2019 - 2022



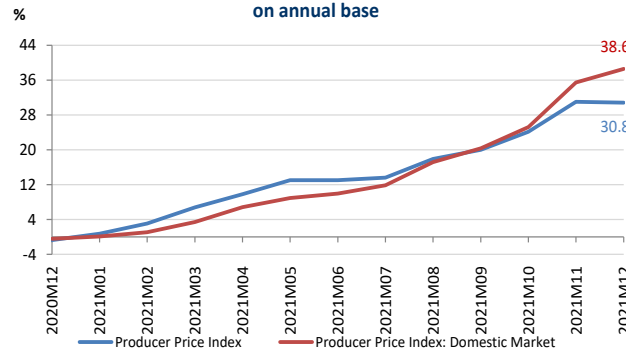
Core Inflation, Percentage change, YoY



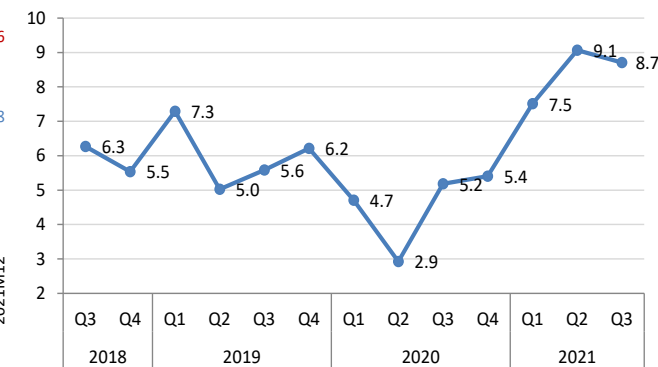
Bulgaria: Electricity Prices "Day Ahead" in EUR/MWh



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



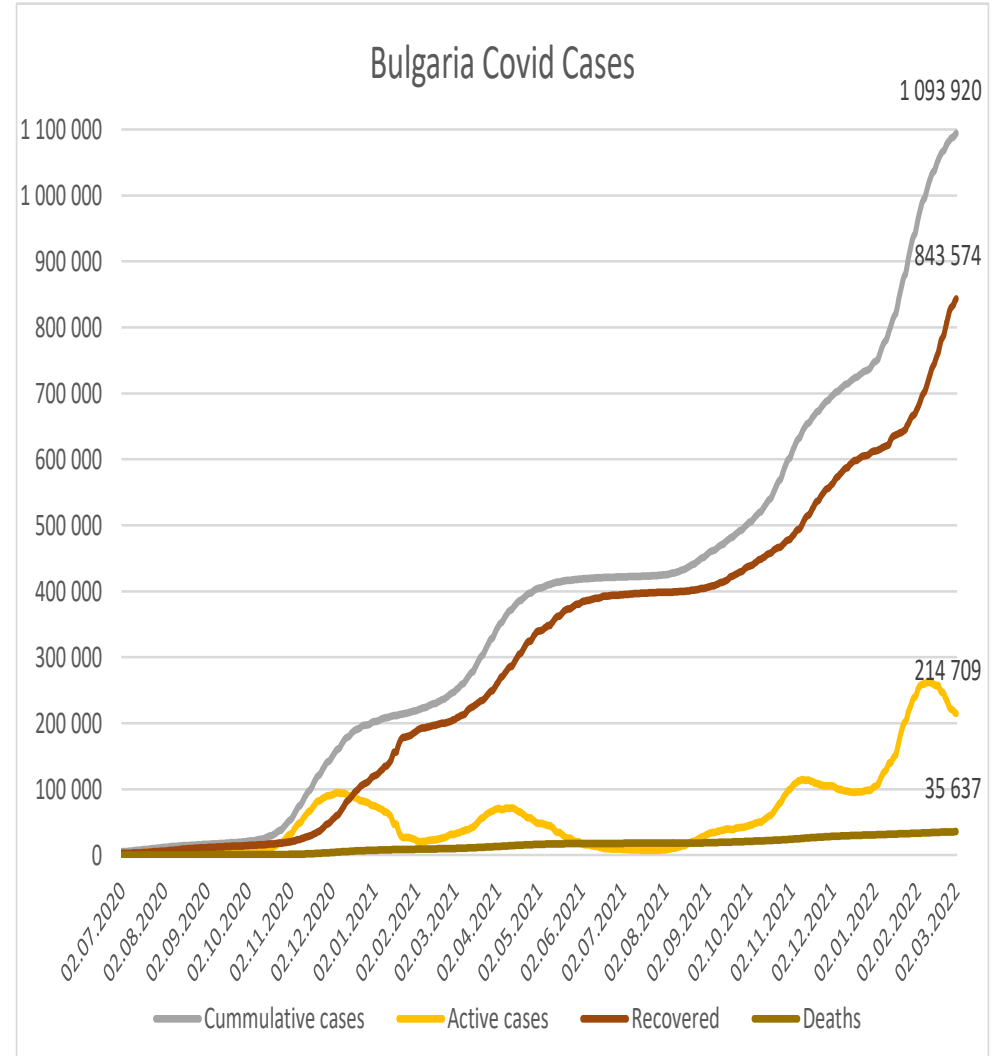
House Price Index (HPI), % change YoY



COVID-19 Status

In mid-February, the peak of Omicron's fifth wave began to pass . The active cases are 214 709 on March 02, 2022 - by 47 643 less than in the active cases of 21 days ago. Mortality still increases, albeit with the smaller pace 35 637 on March 02, 2022 .

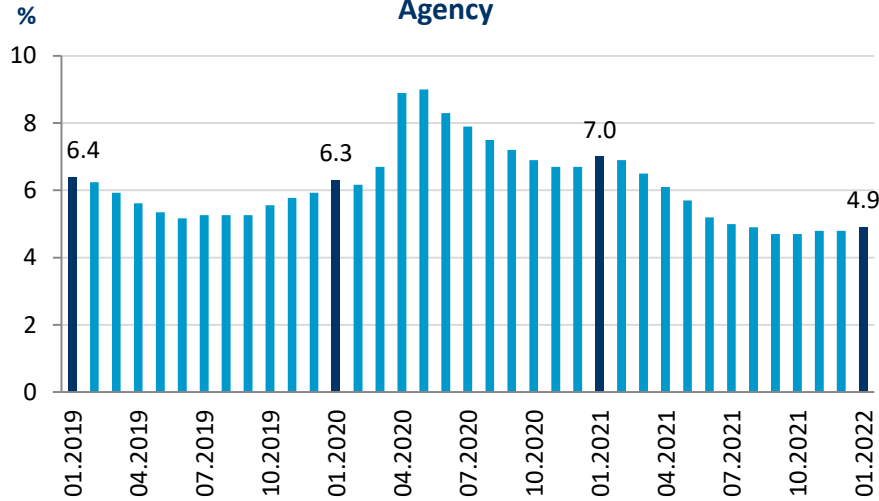
The vaccination process has slowed down. Pfizer, Moderna and Jansen vaccines are used. **The fully vaccinated as of March 02, 2022 are 30% of population and 10% are with buster.** The part of Bulgarian population is skeptical about vaccines. New anti-epidemic measures are based on the requirement to provide a green certificate. Restrictive measures in Bulgaria are liberal compared to most EU countries. Also economy now is more resilient to the restrictive measures.



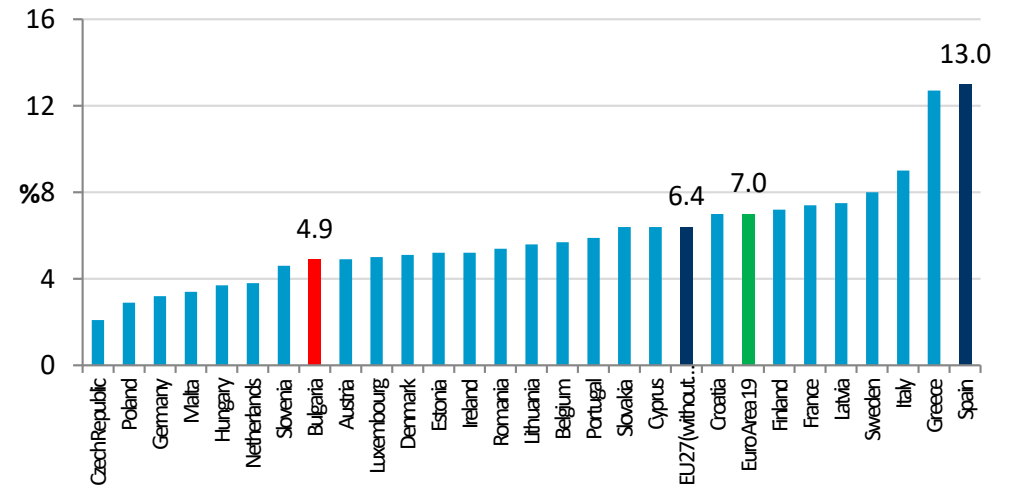
Bulgaria: Main Macroeconomic Indicators, Labor market

According to Agency of employment in January 2022 the rate of registered unemployment is 4.9%, hitting another 14-year record low. In December the harmonized unemployment rate in Bulgaria is 4.9% and is below the average of EU.

Unemployment Rate Bulgaria: National Employment Agency



EU: Unemployment rate seasonally adjusted by country, December 2021



Note:

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

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

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

Bulgaria – Outlook 2021 - 2024

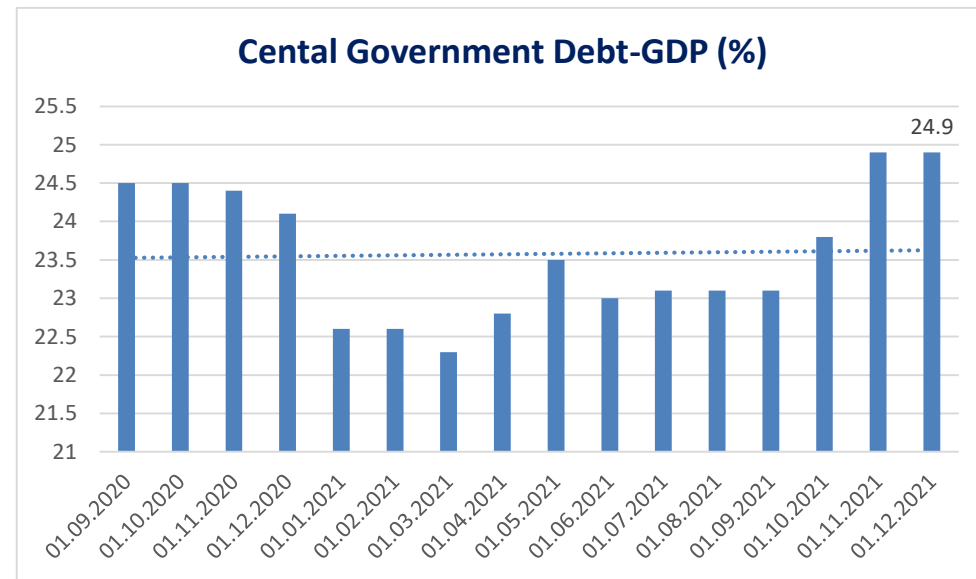
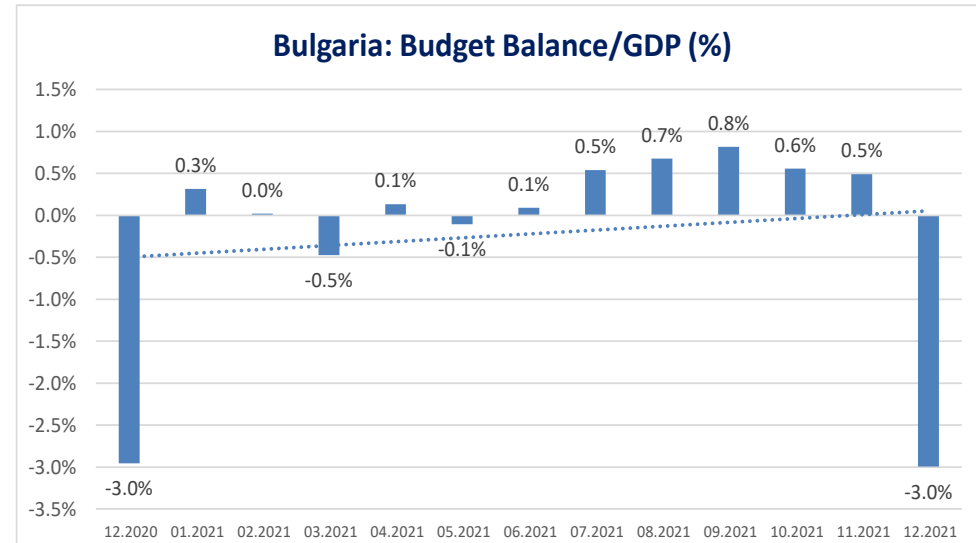
Our new forecasts for GDP is lower growth this year and higher growth next year. Our new forecasts for inflation is higher for this year and the next two years. We also changed the projections of current account this year for negative, because of large negative account in 2022.

March 07, 2022	2019	2020	2021	2022	2023	2024
Real GDP growth (in %)	4	-4.3	4.5	2.8	3.5	3
Inflation (in %, harmonised CPI, average)	2.5	1.2	2.8	8.8	5	3
Unemployment rate (% , end of year, Eurostat definition)	4.2	4.8	4.9	6	5	4.8
Government budget balance (in % of GDP)	-1	-3	-3.2	-4.5	-2	-1.2
Gross public debt (in % of GDP)	20.4	24.3	26.2	29.8	31	32
Current account balance (in % of GDP)	4	0.4	-2	-1.2	-0.5	1
House prices (annual %-change, existing and new dwellings, Eurostat def.)	6	5.4	8.5	6.5	4.5	3.5
Source: KBC, UBB						

BULGARIA: Real GDP Growth (%)	2021	2022	2023	2024
KBC /UBB (February 2022)	3.4	4	3	3
World Bank (December 2021)	3.3	3.8	3.6	n.a.
EC (February 2022)	4	3.7	3.9	n.a.
OECD (December 2021)	3.2	4.2	4.5	n.a.
IMF (February 2022)	4.5	4.4	4	3.6
MF (January 2022)	3.7	4.8	3.7	3.4
BNB (January 2022)	3.7	3.6	4.5	n.a.
UniCreditBulbank (December 2021)	3.6	3.6	4.3	n.a.

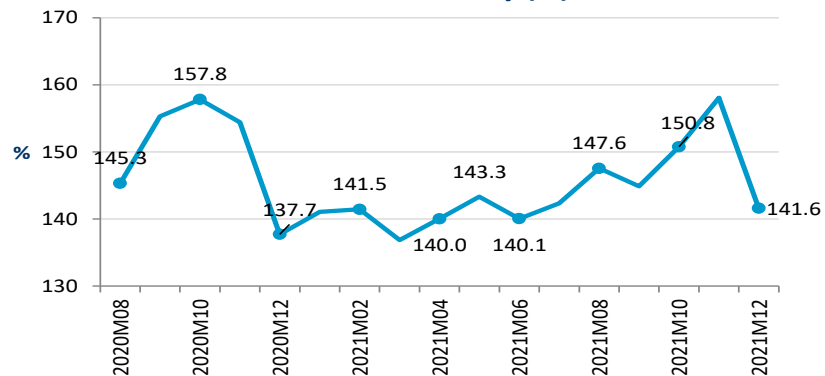
BULGARIA: Harmonised CPI (%)	2021	2022	2023	2024
KBC /UBB (February 2022)	2.8	5.5	2.5	2
World Bank (December 2021)	n.a.	n.a.	n.a.	n.a.
EC (February 2022)	2.8	6.3	3.9	n.a.
OECD (December 2021)	3.0	4.8	2.3	n.a.
IMF (February 2022)	2.1	1.9	1.9	2
MF (January 2022)	2.9	5.6	2.7	2.2
BNB (January 2022)	7.7	7.5	3.4	n.a.
UniCreditBulbank (December 2021)	3.3	6	3	n.a.

The National Assembly approved the new budget for 2022. The government has proposed to the parliament the 2022 budget with a deficit equivalent to 4.1% of the GDP. Against the background of the ongoing economic recovery, the budget is expected to cover funds for higher public investment and also increase in social spending. An actualization of the budget is planned in the mid-summer. It is envisaged that the budget deficit will be financed by issuing government debt. There should be a fiscal consolidation in the next year in order to achieve euro entry in 2024.



Bulgaria: Currency board indicators are stable.

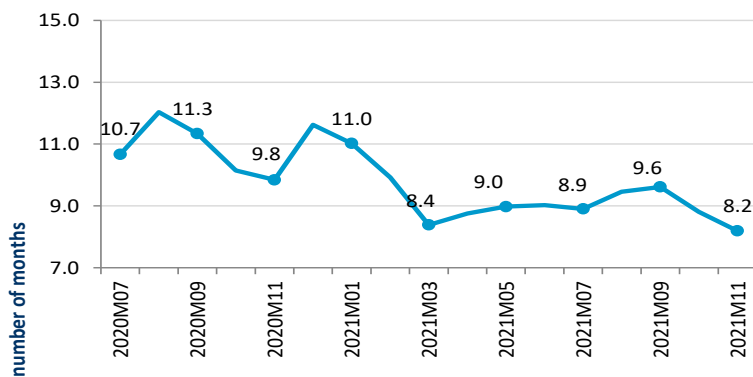
FR/Reserve money (%)



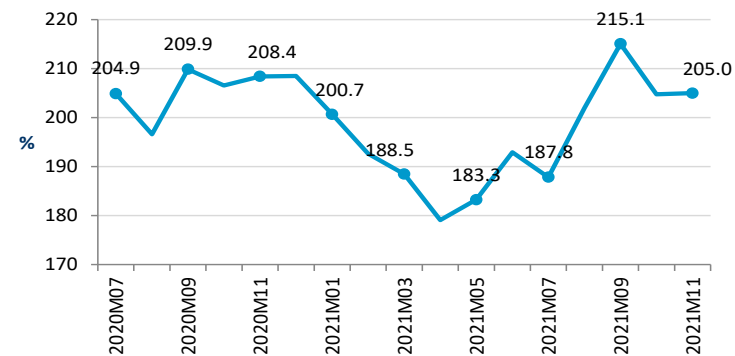
Foreign reserves



FR/Imports (number of months)



Cover Ratio FR/STD (%)



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