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

Chief Economist Department

- **The war in Ukraine continues to be a crucial driver of the economic outlook and a first-order factor of uncertainty.** In line with our baseline scenario, the conflict is expected to continue at least for several months, and the stepwise escalation of economic sanctions leads to persistent negative (energy) supply shocks, supply chain disruptions and substantial demand destruction (through confidence and terms of trade effects). We judge risks to be elevated and biased towards a more pessimistic scenario, including a further escalation of the war and unprecedented energy shocks and deficits, leading to recession and/or persistent stagflation dynamics. **The recent cut-off of Bulgaria from Russian gas supplies (due to non-ruble payment) is a clear warning signal.**
- **These developments highlight the ongoing uncertainty and upside risks surrounding energy prices in an already tight market.** As such, our near-term outlook for oil prices continues to pencil in persistently high prices throughout 2022 and 2023 (ending Q2 2022 at 115 USD/barrel and ending next year at 90 USD/barrel). All in all, persistently high energy prices imply a significant worsening of the terms of trade for most European economies, leading to worsening trade balances. Recent economic data raise concerns of stagflation risks going forward, especially for the European economy. Flash estimates for the first quarter of 2022 GDP contained generally negative surprises with economic growth underperforming relative to expectations. Euro area growth decelerated more than expected (0.2% qoq). The stagflationary footprint of the recent economic shocks is becoming more and more apparent.
- **Inflation remains the overarching determinant of the global economic outlook, as inflation in the euro area stabilizes at elevated levels.** Inflationary pressures remain elevated due to persistently high energy and food prices, remaining pipeline pressures (pass-through of increased production costs). This broadening of inflationary pressures is also reflected in high core inflation and increasing inflation expectations. Euro area headline inflation is now expected to average 7.3% in 2022 and 4.0% in 2023, well above the ECB's target.
- **Home market growth dynamics follow the trend seen in the euro area.** Negative (energy) supply shocks and supply chain disruptions as well as decreasing (internal and external) demand reinforce each other and cause a major slowdown of economic activity against the backdrop of high inflation. **The growth outlook in Bulgaria is affected negatively by the Russian gas cut-off and subsequently higher gas prices, leading to a downward revision of growth to 1.5%.**

## Bulgaria – Outlook 2021 - 2024

Bulgaria is strongly dependent on energy imports from Russia (75% of gas and 54% of oil are from Russia) and is significantly exposed to upward inflationary and downward growth pressures. **We expect a new slowdown in growth and acceleration of inflation due to the terminated gas supply contract with Gazprom.** Our expectations are further slowdown of the growth 1.5% for 2022 and 2.6% for 2023.

Bulgaria	Optimistic scenario					Base scenario					Pessimistic scenario				
May 09, 2022	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024
Real GDP growth (in %)	-4.3	4.5	3.5	4.1	3	-4.3	4.5	1.5	2.6	3.5	-4.3	4.5	-1	1.2	2
Inflation (in %, harmonised CPI, average )	1.2	2.8	9	4.8	3	1.2	2.8	12.5	6.5	3	1.2	2.8	15.5	9.1	3.4
Unemployment rate (% , end of year, Eurostat definition)	6.3	4.9	4.3	4.2	4.3	6.3	4.9	6.5	5.3	4.8	6.3	4.9	8	7	6
Government budget balance (in % of GDP)	-3	-3	-4.1	0	0.5	-3	-3.0	-4.5	-2	-1.2	-3	-3	-6	-3.5	-1.7
Gross public debt (in % of GDP)	24.3	26.2	29.4	31	31	24.3	26.2	29.8	31	32	24.3	26.2	30.7	36	38
Current account balance (in % of GDP)	0.4	-0.4	-1	-0.5	1	0.4	-0.4	-2.9	-1.9	-0.5	-0.4	-2	-3.5	-2	-1.5
House prices (annual %-change, existing and new dwellings, Eurostat def.)	5.4	8.7	9	6	4	5.4	8.7	8	5	3.5	5.4	8.7	5.5	4.0	0.0

Source: KBC, UBB

BULGARIA: Real GDP Growth (%)	2022	2023	2024
KBC /UBB (May 2022)	1.5	2.6	3.5
World Bank (April 2021)	2.6	4.3	3.7
EC (May 2022)	2.1	3.1	n.a.
OECD (December 2021)	4.2	4.5	n.a.
IMF (April 2022)	3.2	4.5	2.8
MF (April 2022)	2.6	2.8	3.6
BNB (April 2022)	2.1	3.9	3.7
UniCreditBulbank (March 2021)	1.4	3.5	n.a.

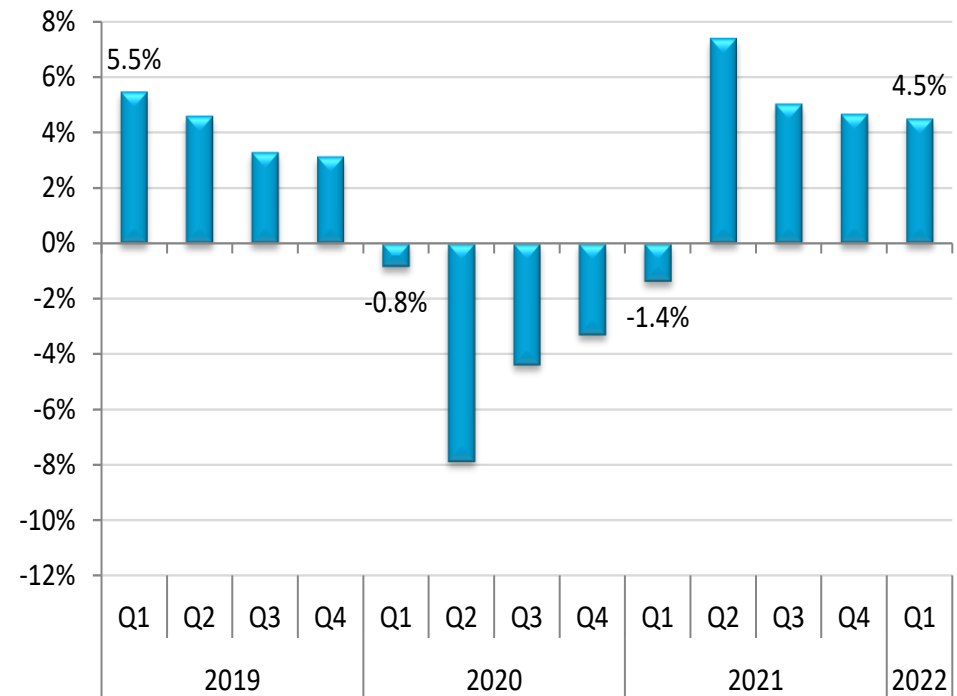
BULGARIA: Harmonised CPI (%)	2022	2023	2024
KBC /UBB (May 2022)	12.5	6.5	3
World Bank (April 2021)	9.3	3.4	2
EC (May 2022)	11.9	5.0	n.a.
OECD (December 2021)	4.8	2.3	n.a.
IMF (April 2022)	11	3.3	2
MF (April 2022)	10.4	5.1	2.7
BNB (April 2022)	9.6	3.9	3.1
UniCreditBulbank (March 2021)	12.1	4.3	n.a.

## Bulgaria – GDP growth

The Bulgarian economy increased by 4.5% year-on-year in the first quarter of 2022, below an upwardly revised 5.2% expansion in the previous quarter, flash estimates showed. Final consumption slowed (6.6% vs. 7.5% in Q4) while gross fixed capital formation declined less (6.1% vs. 15.2%). Exports went up 11.8% (vs. 13.6% in Q4), while imports rose faster at 13.6% (vs. 11.2% in Q4). On a quarterly basis, Bulgaria’s GDP grew by 1.0%, easing from an upwardly revised 1.4% in the last quarter of 2021.

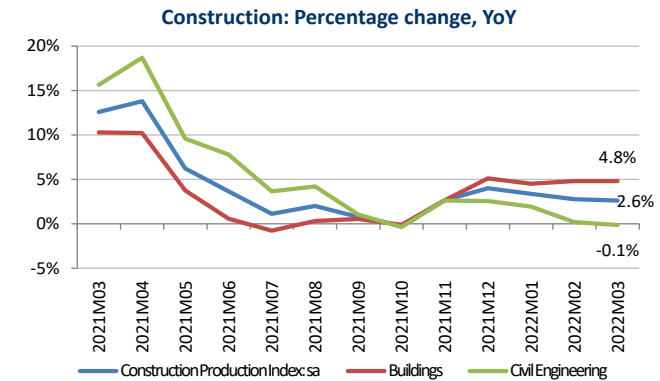
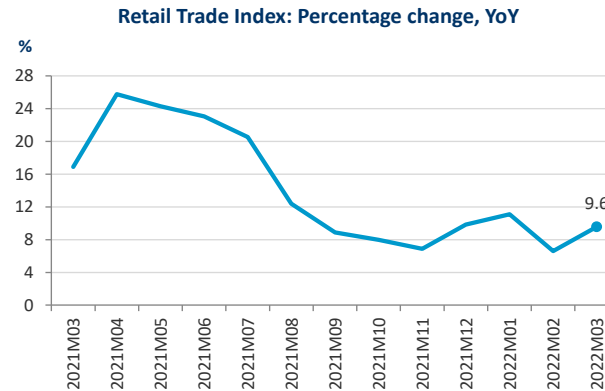
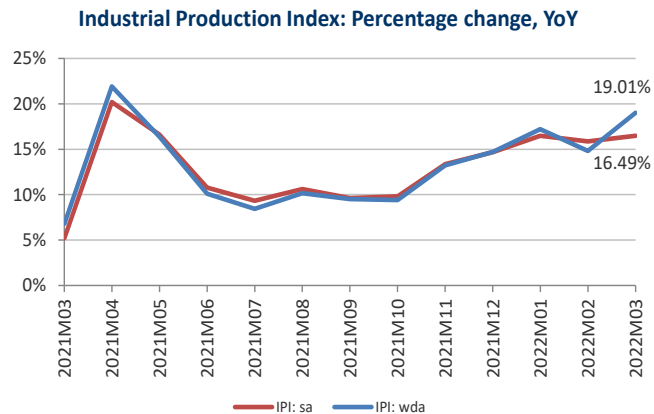
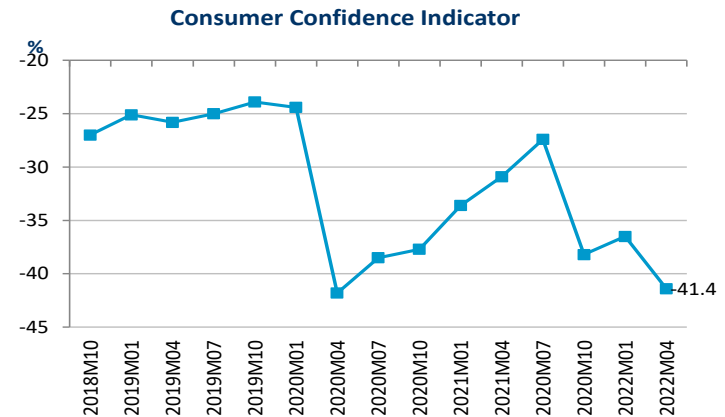
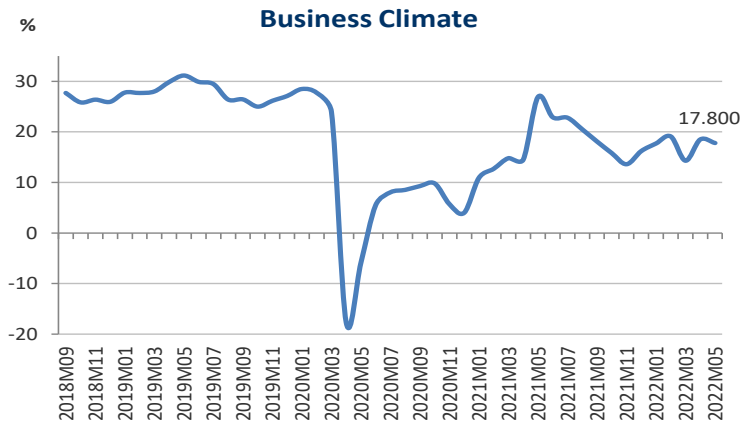
Forecast for annual real GDP growth has been revised downward 1.5% in 2022 and 2.6% in 2023 vs previous forecast 2.5% in 2022 and 3% in 2023. The main reason is due to the terminated gas supply contract with Gazprom and subsequently higher gas prices. Also there is negative impact on consumer and business sentiment.

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



# Bulgaria: Main Frequency Indicators

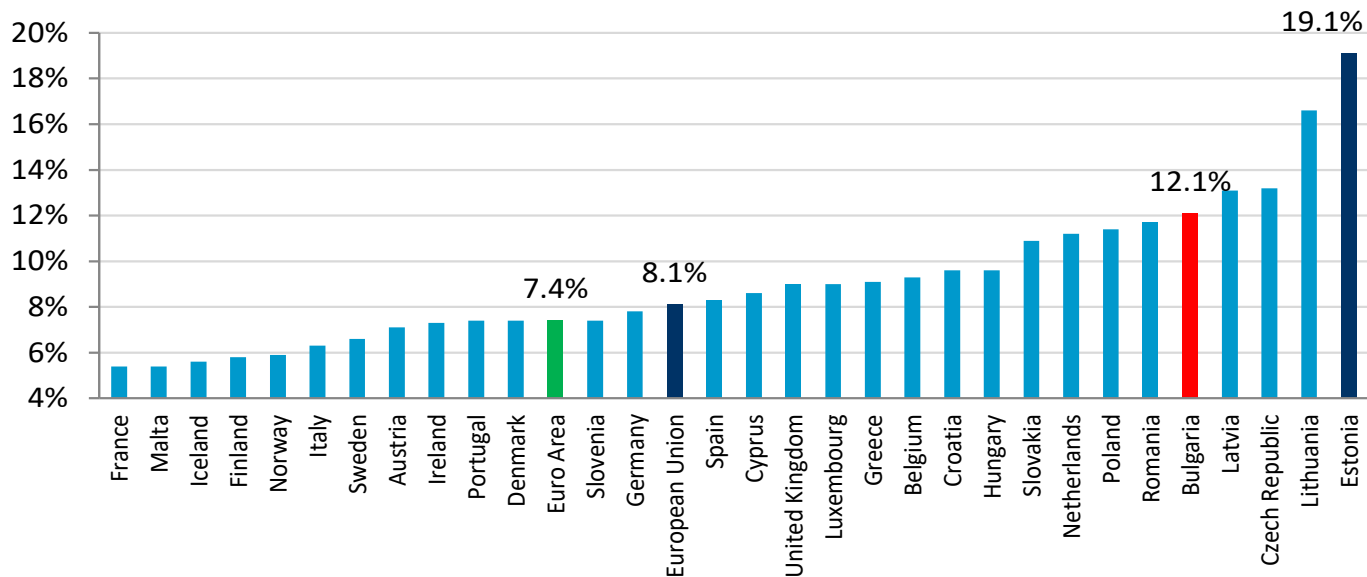
The most of high frequency indicators are stable from the beginning of the year. **Consumer confidence indicator significantly decreased at the end of April.**



# Bulgaria – Inflation (1)

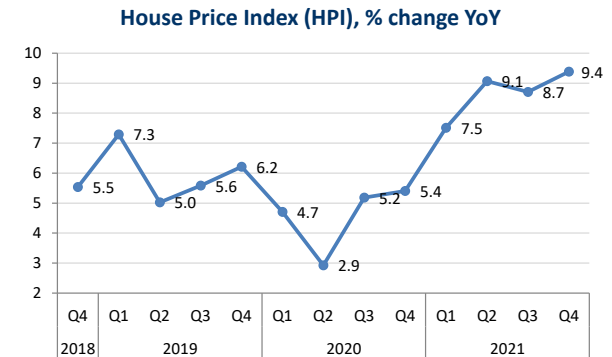
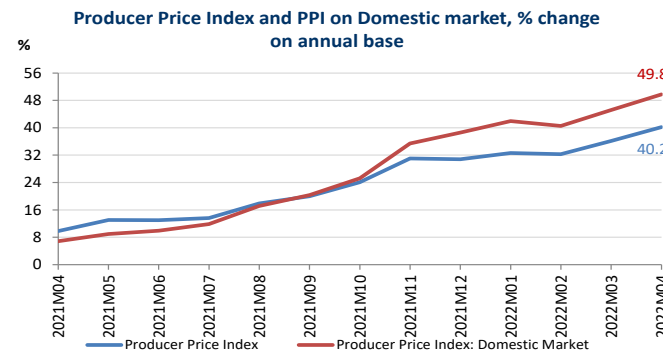
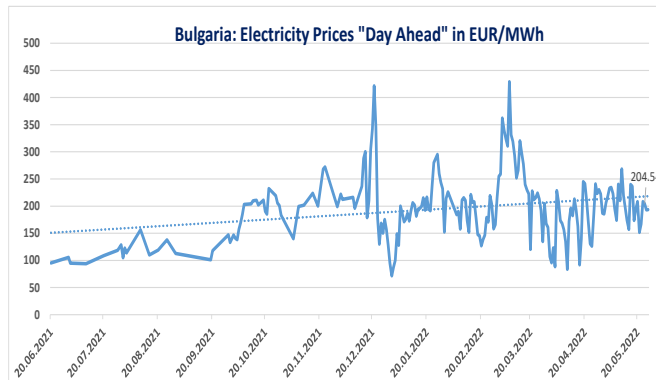
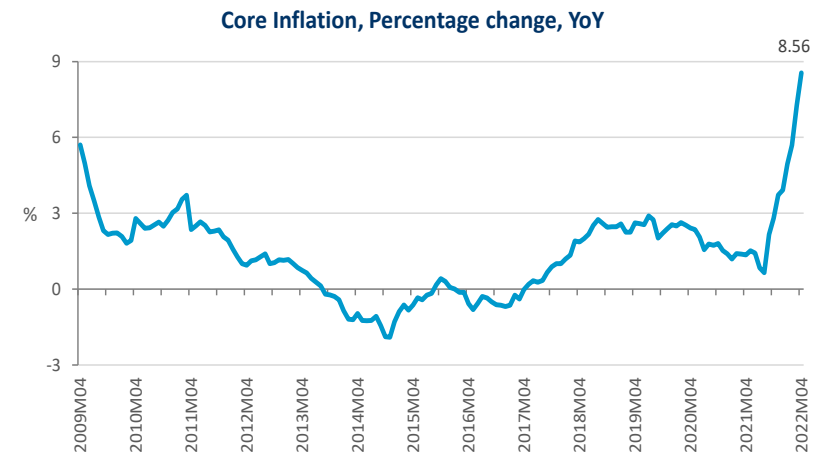
Our upgraded price outlook envisages acceleration of inflation in 2022 due to Russian gas cut-off and subsequently higher energy prices. **Our new forecast is substantial increase of average annual inflation of 12.5% for 2022 and 6.5% for 2023.** We suppose that the peak of the inflation will be in the next months. We suppose that we will see double-digit inflation rates throughout the year. Our forecast for the inflation at end of 2022 year-on-year is 13.5% CPI and 12.5% HICP.

### EU: HCPI Inflation (% y/y) by country April 2022



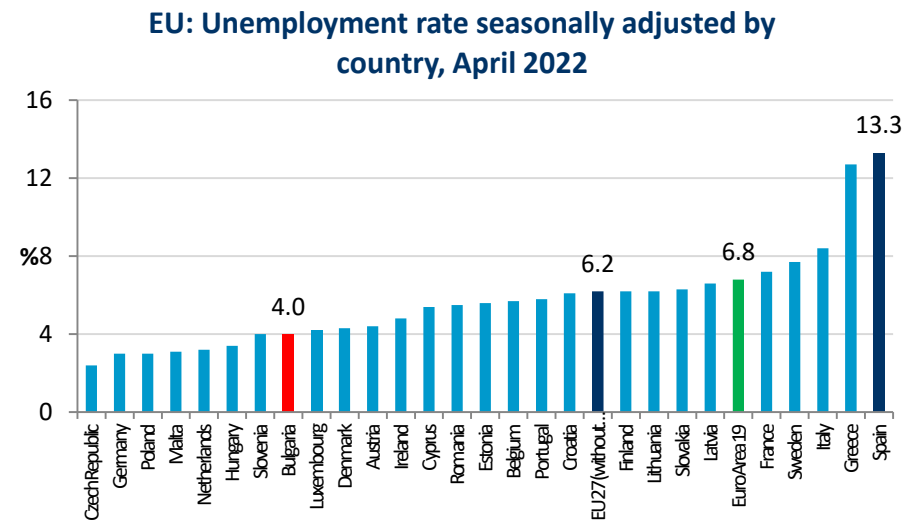
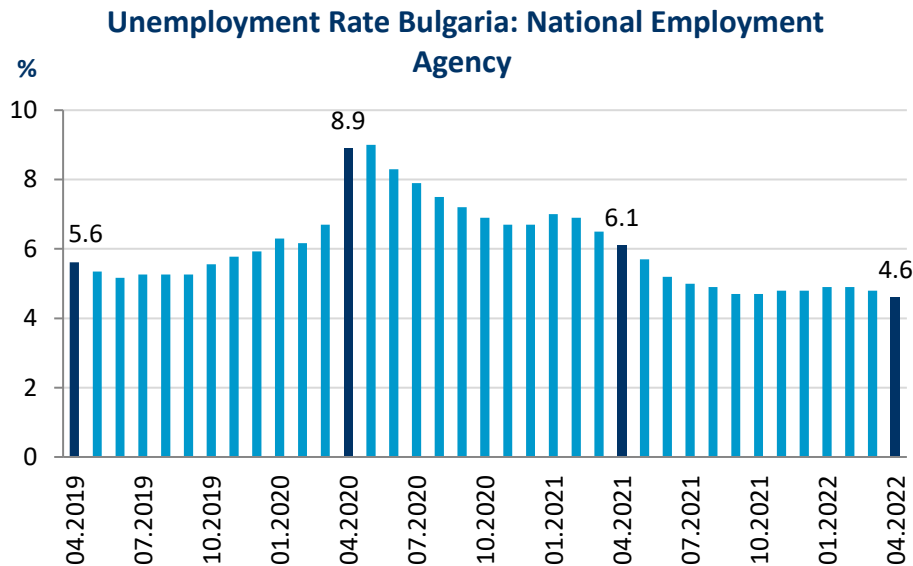
# Bulgaria: Inflation (2).

Both Bulgarian CPI and harmonized inflation has the highest record since July 2008. The core inflation is significantly lower than the overall inflation (8.6% vs 12.1% in 04.2022). This reflects the impact of high commodity prices and especially energy prices. Impact of the high cost of raw materials is increasing cost of input. The big increase in the Producers Price Index 40% yoy is evidence for this process. Low interest rates on bank deposits has led to increase in demand for housing and house prices.



# Bulgaria: Labor market

According to Agency of employment in April 2022 the rate of registered unemployment is 4.6%, hitting another all time record low. In March 2022 the harmonized unemployment rate in Bulgaria is 4.3% and is well below the average of EU. **We expect moderate increase of unemployment of 6.5% for this year and 5.3% for the next year.**



**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.

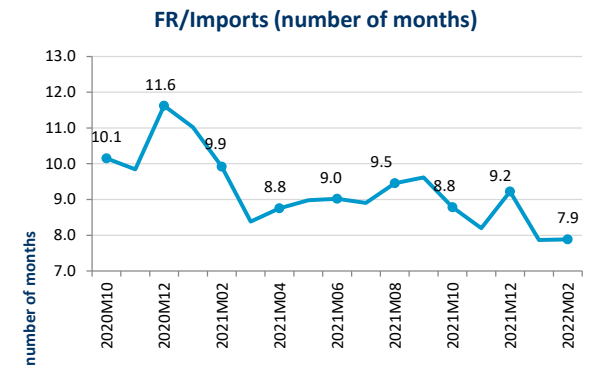
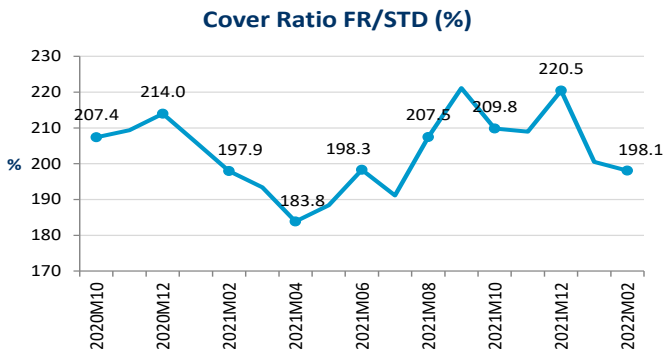
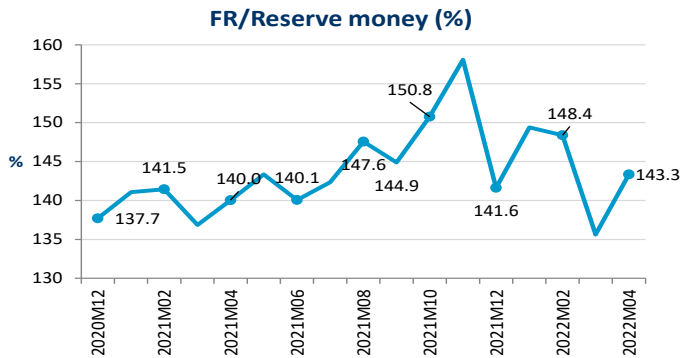
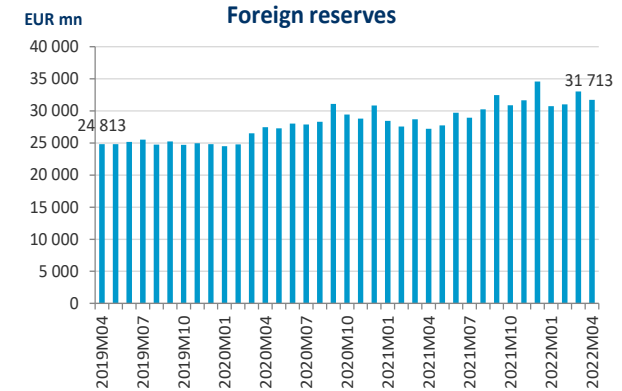
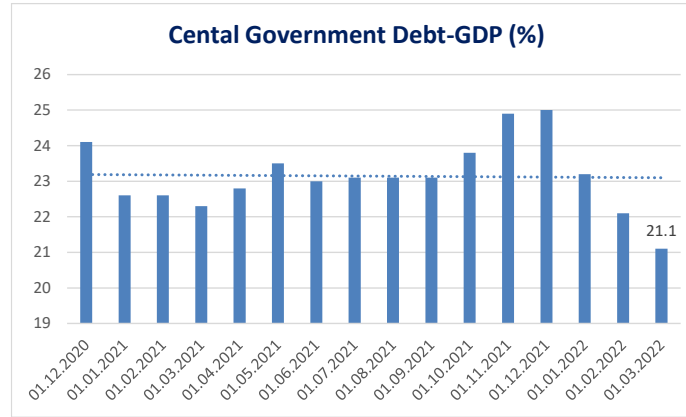
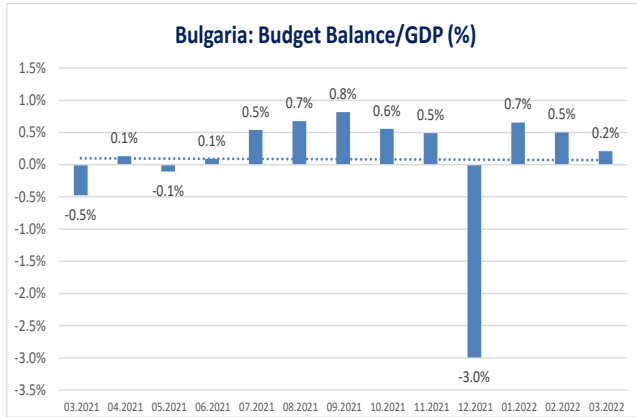


# Bulgaria Euro adoption - convergence criteria

- **HICP inflation (12-months average of yearly rates):** Shall not exceed the HICP reference value, which is calculated as the average of the rates in the 3 EU member states with the lowest HICP inflation plus 1.5%. **Inflation is the biggest risk for the convergence process.** Inflation for April 2022 of 4.9% is well above to the HICP reference value of 5.9% and Bulgaria is not complying to the inflation criteria. In 2023, there are concerns regarding the sustainability of inflation convergence in Bulgaria over the longer term. COMPLIANCE: **NO**.
- **Budget deficit to GDP.** The ratio of the government deficit relative to GDP must not exceed 3%. Deficit ratio excess above the 3% limit in 2020-22 has been caused by exceptional circumstances (pandemic of Covid 19 and war in Ukraine). Bulgaria has a good track record of lower deficits in 2008-2019. It is expected that this criterion will be met in 2023. COMPLIANCE: **YES**.
- **Government debt-to-GDP ratio.** The ratio of gross government deb, must not exceed 60% of GDP at the end of the preceding fiscal year. Bulgaria has a very good track record on this criterion. We don't expect breaking the criterion anytime soon. COMPLIANCE: **YES**.
- **Long-term interest rates.** Shall be no more than 2.0% higher from the average of the similar 10-year government bond yields in the 3 EU member states with the lowest HICP inflation. Bulgaria has a very good track record on this criterion - in April 2022, the long-term interest rate was 0.5% compared to the 2.6% reference value. We don't expect breaking the criterion anytime soon. COMPLIANCE: **YES**.
- **Exchange rate stability.** No changes in EUR/BGN exchange rate have been observed in the last 20 years. The two consecutive years membership in ERM II will be fulfilled at the end of July 2023. COMPLIANCE: **YES**.
- **Compatibility of legislation.** The European Commission and the ECB demand changes to the Law of BNB. There is a risk that the insufficient time of year and a half until 01.01.2024 to leave the state institutions and the banking system technically insufficiently prepared for the euro adoption. COMPLIANCE: **NO**.

*REMARK: The conclusions are based on the Convergence Reports of European Commission and ECB, released on 01.06.2022.*

# Bulgaria: Currency board indicators are stable.



**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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