
Bulgaria: Macroeconomic Update

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International Economic Environment

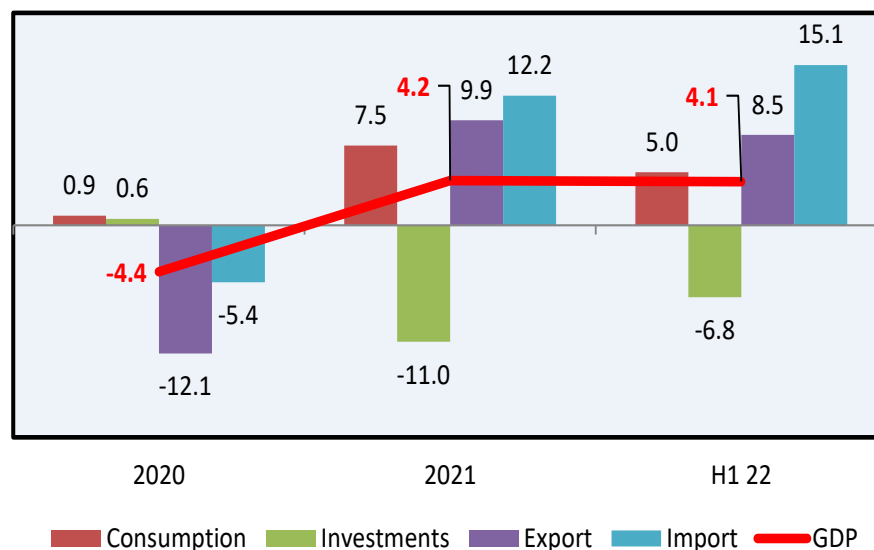
- Macroeconomic outlook of advanced economies remains dominated by the energy crisis, persistent inflation and monetary policy tightening.
- Energy prices rose by 38.3% yoy in August. The energy crisis can pose (critical) risks to (energy-intensive) European economies. EU is contemplating unprecedented measures to limit economic scarring.
- High energy prices continue to drive up European inflation. In August, inflation reached a new high in EA: 9.1% yoy (8.9% yoy in July).
- Persistent inflation dynamics force central banks to maintain a bold stance. The current policy rate of FED is 3-3.25% range and we expect to reach 4-4.25% range at the end of the year.
- The ECB has taken a major turn by raising its policy rates by 75 bp in September and we expect to reach 2.5% by end-2022.
- KBC home markets, small open economies highly dependent on external environment, face similar growth perspectives.

Bulgaria

POLITICS

- Early parliamentary elections on October, 2
- Election campaign dominated rather by populism, scandals, etc.
- Low turnout and a fragmented parliament expected
- A period of political instability is considered (somehow similar to 2021)

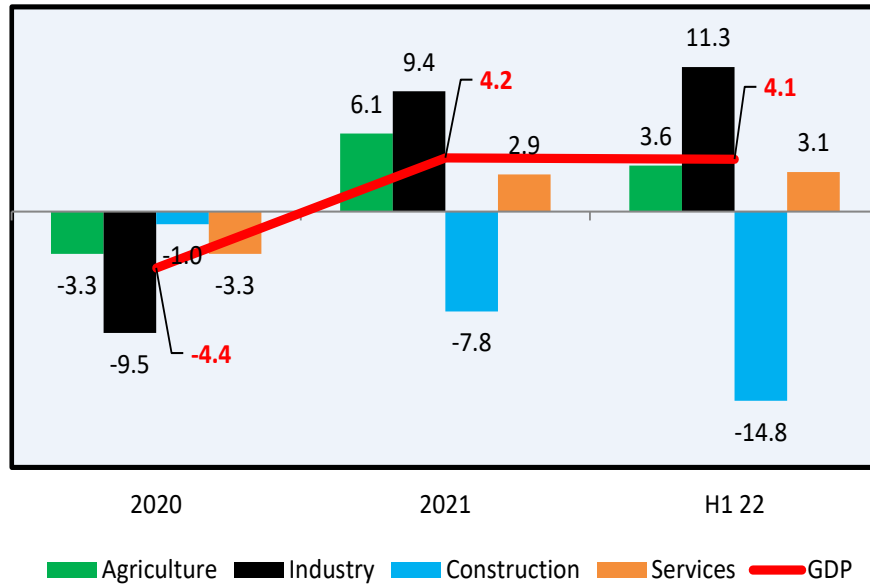
GDP by Components on Demand Side (% , real, yoy)



Strong performance in H1 positive driven by consumption, retained by investment and net export

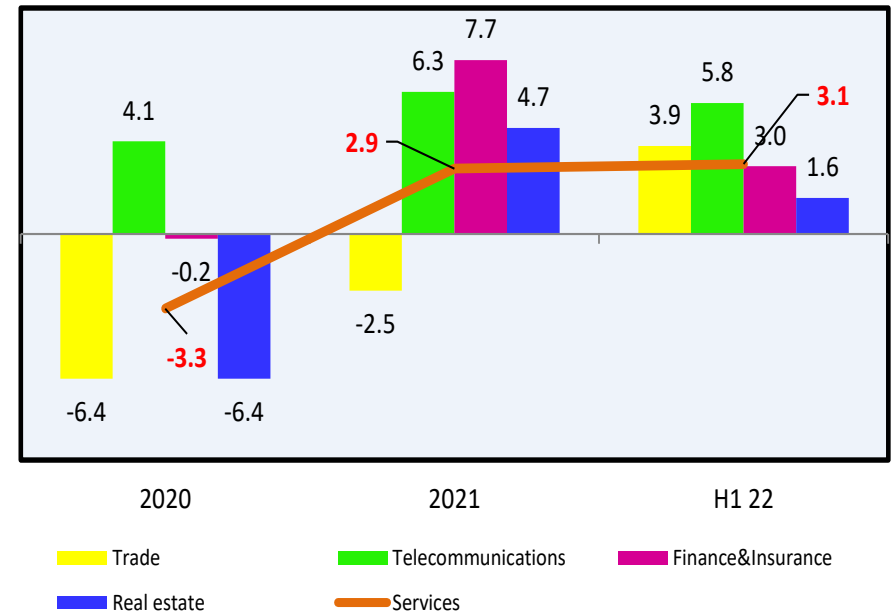
GDP on Production Side

GDP by Components (% , real, yoy)



As of H1, strong growth in industry accompanied by moderate increase in agriculture and services against the backdrop of solid decrease in construction

Services sector by Components (% , real, yoy)

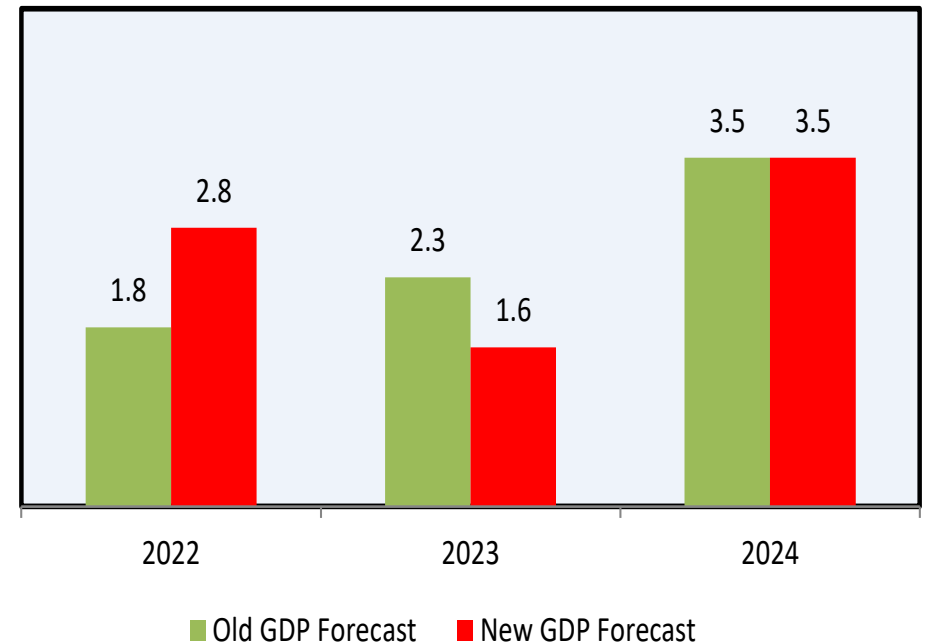


Sustainable growth in telecommunications and finance & insurance, along with a recovery in trade and real estate operations in H1

GDP Outlook

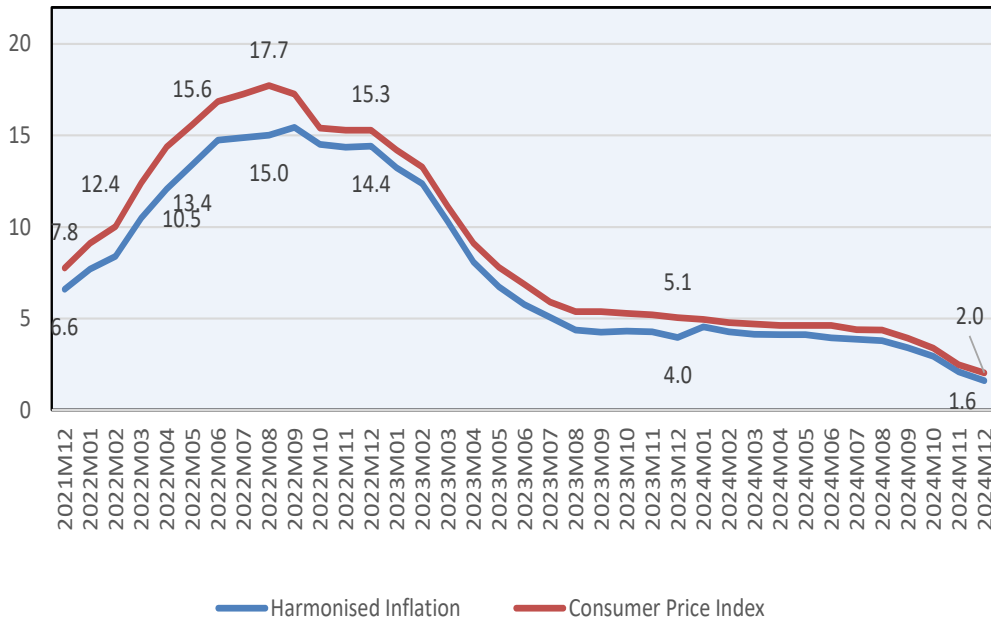
- H1 data speaks for stronger growth than expected in 2022
- Revisions in line with the general vision of KBC Economics
- Low growth in Q3 and decrease for Q4 22 considered; risk factors materialization in Q4 22 and Q1 23 (gas shortage, export narrowing, etc.)
- Revision for 2024 under consideration

Old vs. New GDP Forecast (% , real, yoy)

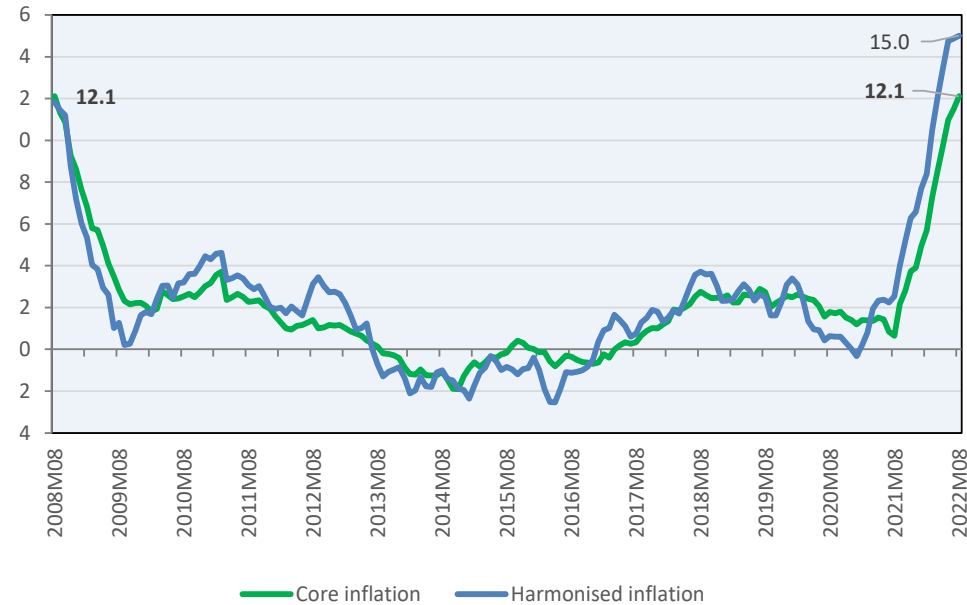


Inflation: first-order problem

HICP and CPI Outlook (% , yoy)



HICP and Core-HICP (% , yoy)

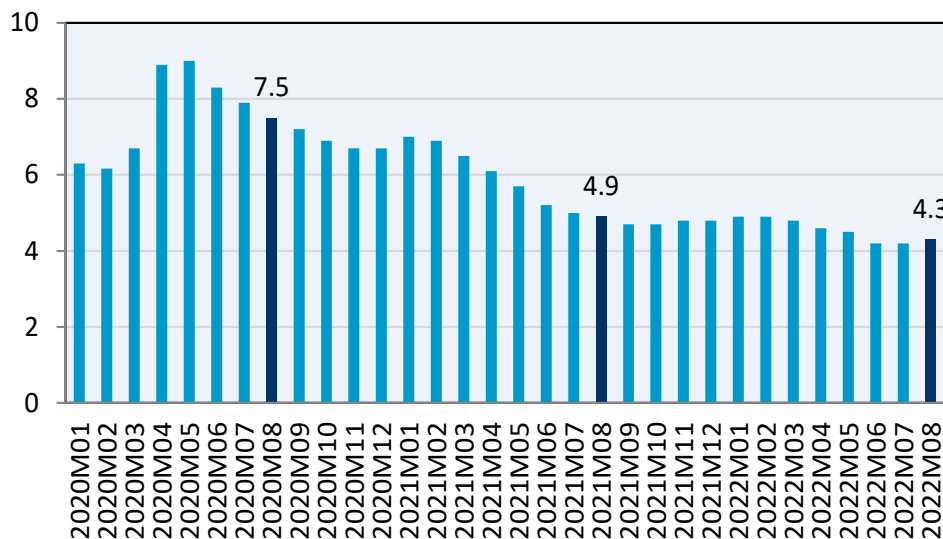


- HICP at 15% yoy in August
- Slowing monthly dynamics (July, August)
- Further slowing expected

- Core inflation below overall inflation since August 2021
- Core inflation also increased very fast to a very high level (12.1% as of August 2022)

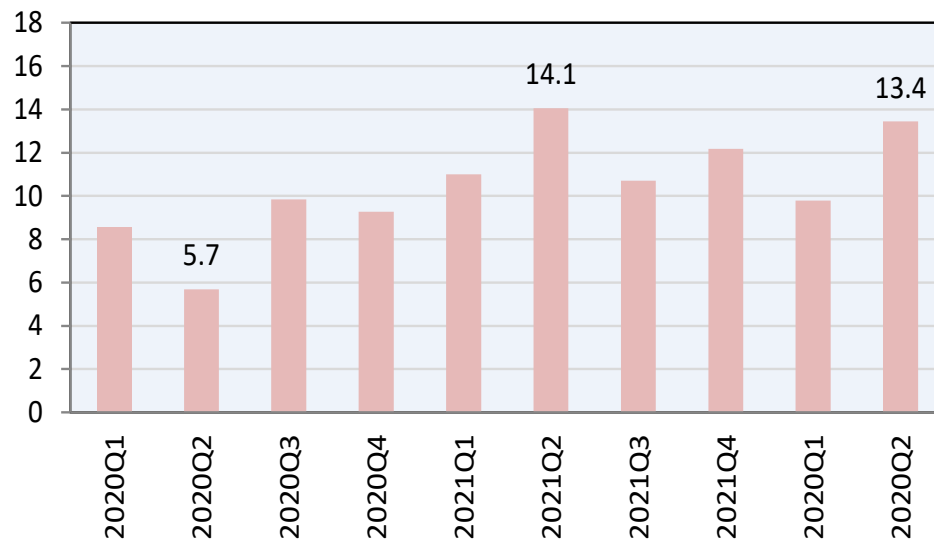
Labor market

Unemployment Rate Dynamics (%)



- Sustainable decreasing trend of unemployment rate
- Hot labor market, with a lot of vacancies and high employee turnover rates

Average Salary Growth (% , yoy)



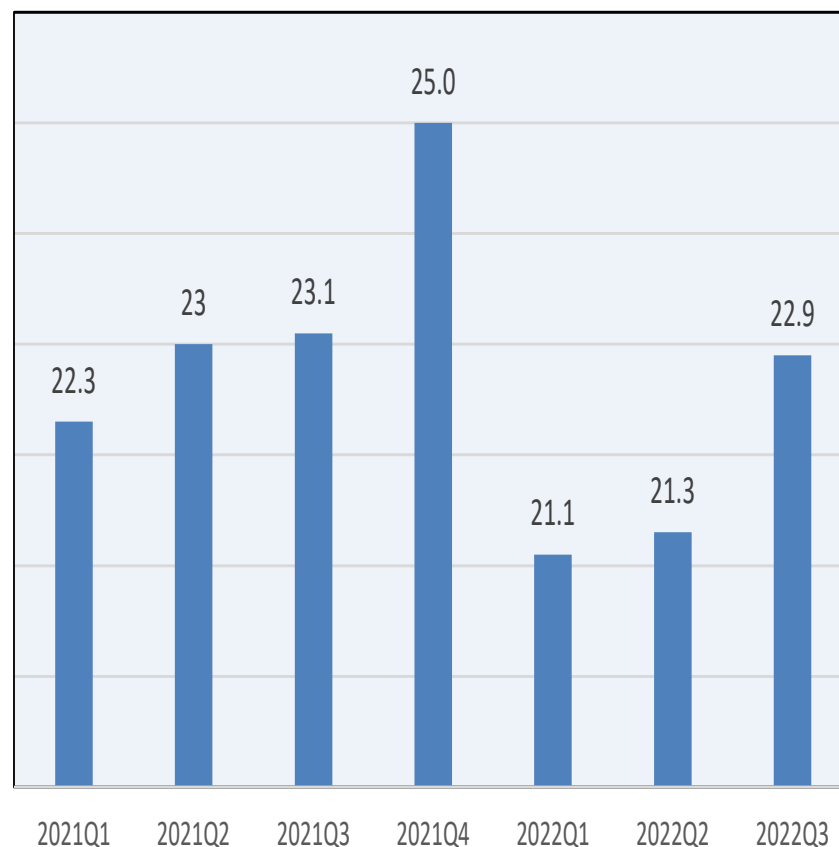
- Solid and sustainable nominal increase in wages
- Real wages growth in 2022 flat

Public Finance

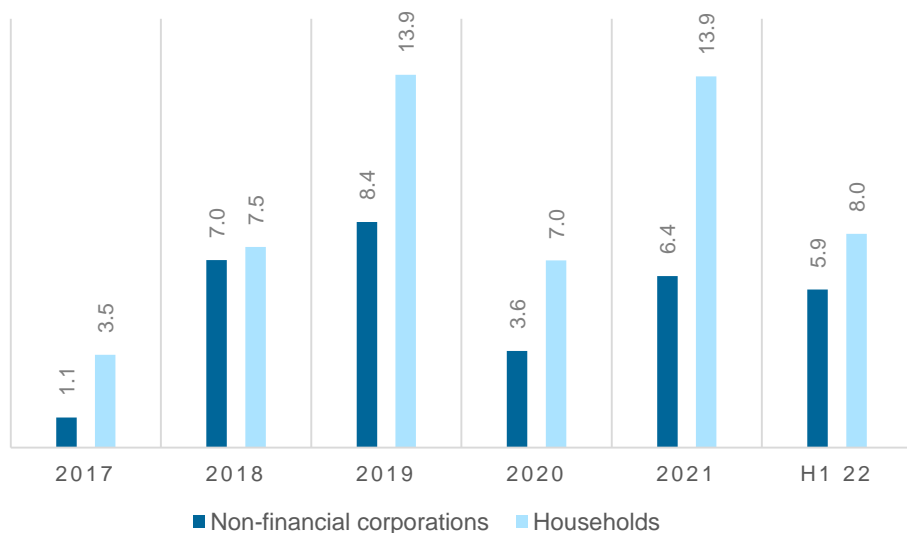
NEW DEBT ISSUANCE

- Dual-tranche Eurobond issuance totaling EUR 2.25 bn on the international debt market (September, 15)
- 7-year coupon (4.125%) bonds in a nominal value of EUR 1.5 bn (YTM 4.33%)
- 12-year coupon (4.625%) bonds for EUR 750 mn (YTM 4.81%)
- The two Eurobond tranches increased government debt to BGN 34.5 bn or 22.9% of GDP (according Ministry of Finance)
- The Eurobond placement is within the limit of EUR 5.3 bn voted by the parliament in July; current free limit of EUR 2.1 bn
- No further placements on international markets planned in 2022
- Challenging debt issue in increasing inflation and rates' environment and ongoing global/internal political uncertainty

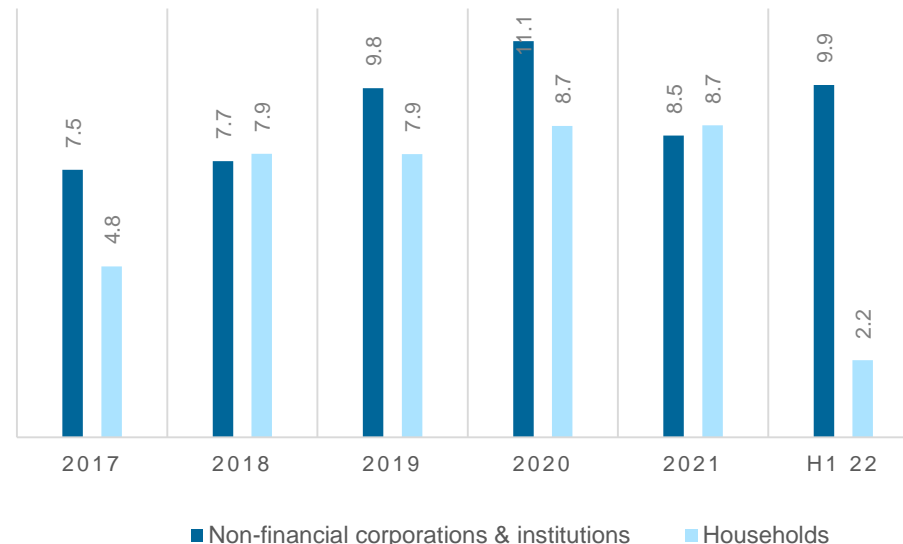
Government Debt (% of GDP)



Loans (% , yoy, H1 22 eop)



Deposits (% , yoy, H1 22 eop)



- Relative high growth of loans extended to households by 8.0% (June 22 -Dec. 21) as of H1 2022, while loans to corporations stepped up by 5.9%
- High growth of deposits from households by 9.9% (June 22 -Dec. 21) as of H1 2022, while deposits from corporations went up by 2.2%
- Lower growth of loans and deposits expected in H2 22 due to expectations for increasing interest rates and high inflationary environment.

Forecasts Overview

	Baseline scenario				
	2020	2021	2022	2023	2024
Real GDP growth (in %)	-4	4	2.8	1.6	3.5
Inflation (in %, harmonised CPI, average)	1.2	2.8	13.0	6.8	3.6
Unemployment rate (% , end of year, Eurostat definition)	6.3	4.6	5.3	6.0	4.8
Government budget balance (in % of GDP)	-4	-4.1	-4.5	-3.0	-2.0
Gross public debt (in % of GDP)	24.7	25.1	27	29.8	30
Current account balance (in % of GDP)	0.1	-0.2	-2.5	-2.8	-1.5
Long-term interest rate, 10Y Government Bond Yield	0.4	0.70	3.40	3.70	3.60
House prices (annual % average)	5.4	8.7	9.5	5	3.5

Revised **upward** ; Revised **downward**

- Higher GDP growth in 2022 compared to 2023 driven mainly by consumption, low investment
- Higher inflation in 2022 than in 2023 due to monetary policy tightening
- Moderate increase in unemployment rate in 2023 in line with the lower GDP growth

Thank you for your attention!

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