
Bulgaria: Macroeconomic Update

November 2022

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International Economic Environment

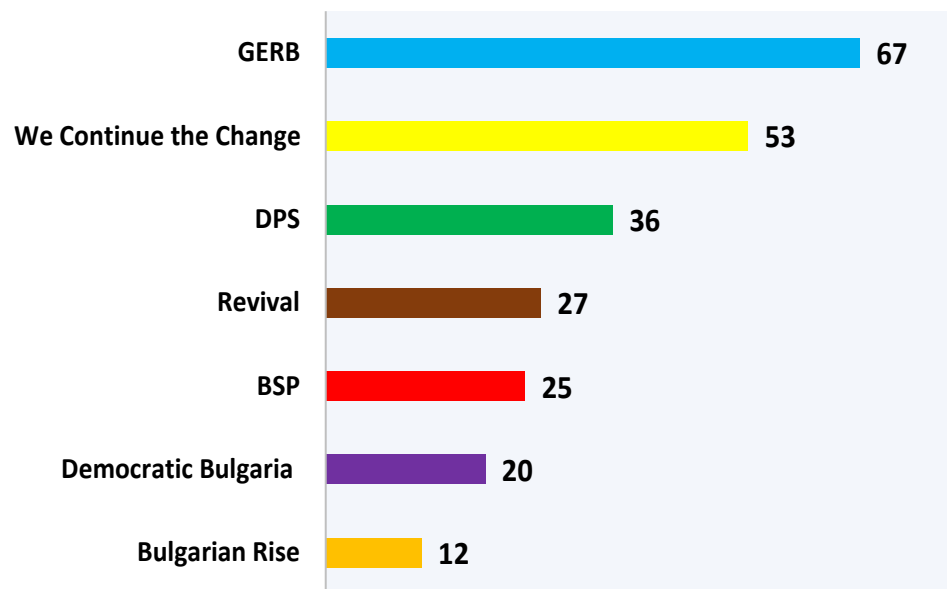
- Driven by soft weather conditions, European **gas prices** declined for the second month in a row, reaching 123 EUR per MWh at the end of October, down from a peak of 349 EUR per MWh in August.
- However, high **energy prices** (as a whole) drove euro area inflation to a record 10.7% yoy in October. Energy prices rose by a staggering 41.9% yoy, while food, alcohol & tobacco rose by 13.1% yoy.
- European economies and KBC home markets face similar growth challenges.
- **Inflation** remains stubbornly high in the euro area despite the approaching global growth slowdown and decreasing economic confidence. Persistent inflation dynamics force the major central bank to maintain a bold stance on fighting inflation while tradeoffs become more visible.
- The **ECB** confirmed its hawkish stance by a second consecutive 75 bps rate increase **policy rates** in October and we expect to reach 2.5% by end-2022.
- The **interest rate** environment is expected to evolve rapidly, bringing interest rates to a new equilibrium in the first half of 2023. Against a background of mounting recession and inflation risks as well as liquidity tightening, **credit risk premiums** have increased substantially.

Bulgaria

POLITICS

- The consultations of the president with the political parties have ended.
- The President handed over the first mandate to GERB.
- The talks between the first and second political forces (GERB and PP), did not lead to the needed compromise to form a government.
- Early elections in March 23 likely.

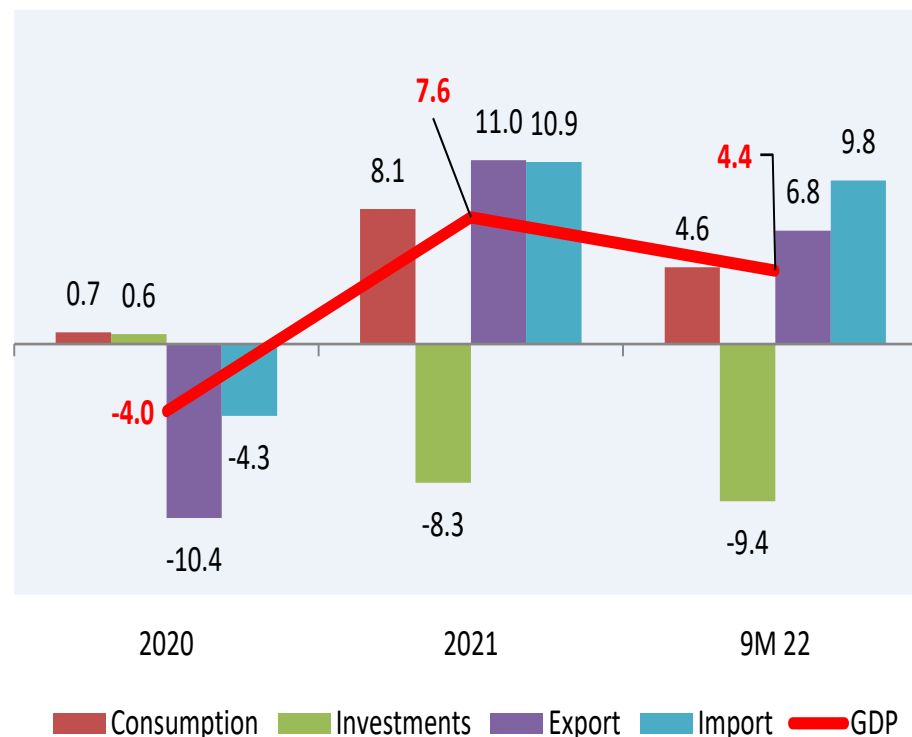
Parliamentary Elections October 2022 - Seats in Parliament



Current Economic Activity

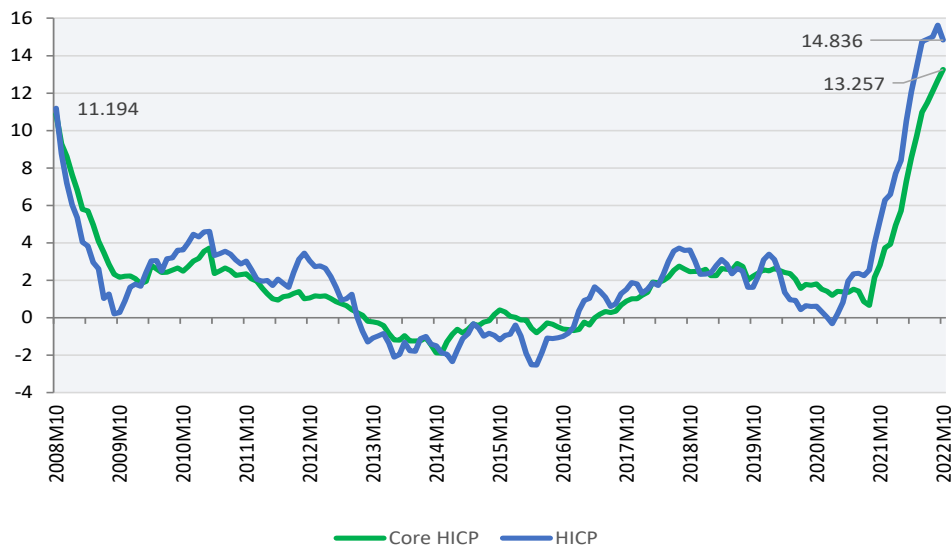
- Revision by NSI of the data on real growth from 4.2% to 7.6% in 2021
- Despite the changed bases, real annual growths in all three quarters of 2022 were solid: 5.3% in Q1, 4.8% in Q2 and 3.2%
- This dynamics corresponds with a 4.4% yoy rise for 9M 22, driven by consumption amid significant drop in investment and imports outpacing exports
- We expect low/negative yoy growth in Q4

GDP by Components (% , real, yoy)

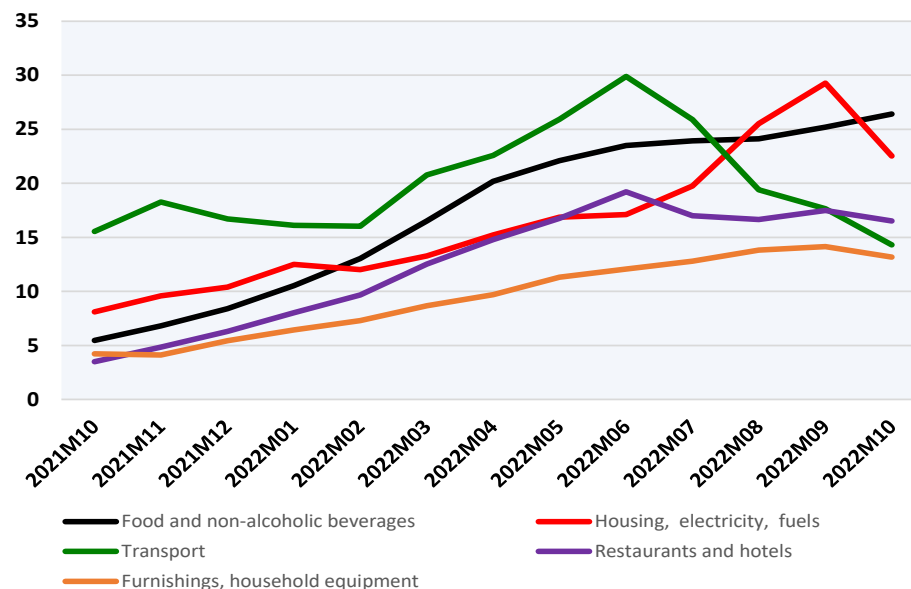


Inflation

HICP and Core HICP (% , yoy)



The Top 5 Inflationary Branches from September (HICP, %, yoy)

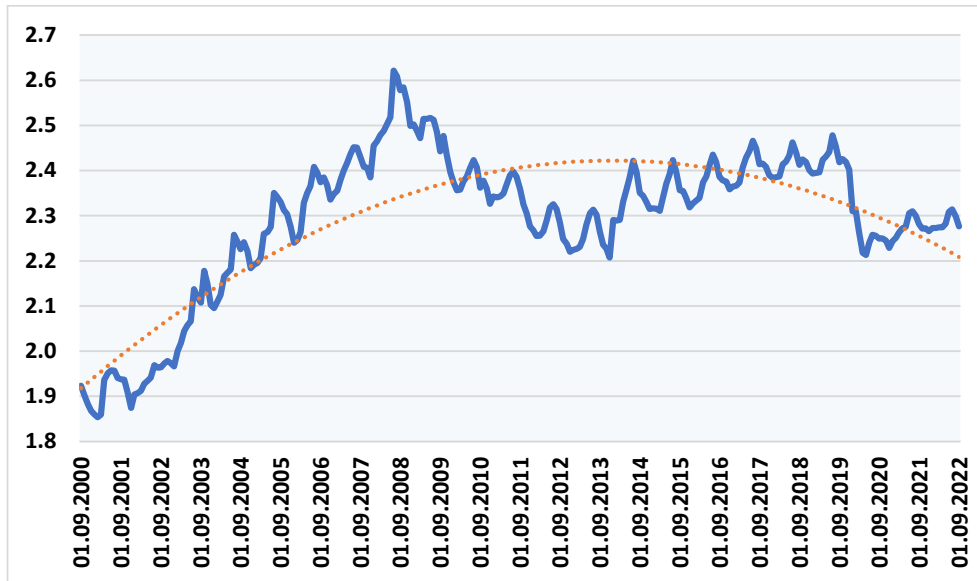


- HICP at 14.8% yoy as of October (15.6% yoy in September)
- However, core inflation is increasing further to 13.3 yoy in October (12.7% yoy as of September)

- Only prices of food & non-alcoholic beverages keep increasing among the five inflationary strongest industries in September 2022
- It is not clear whether the slowdown in inflation in the other four industries is temporary or a trend

Employment and Unemployment

Employed persons(mn)



Unemployment Rate (% , harmonised)

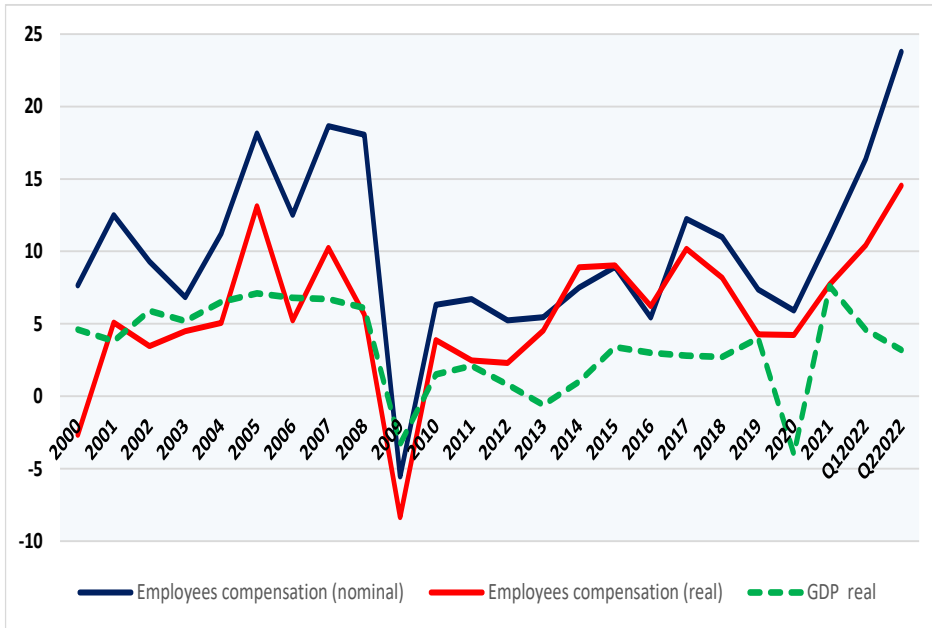


Demographic replacement rate is the number of persons who enter the labor market when 100 persons retired. According to census 2021, the rate is 61%. In 2011, it was 70% and in 2001 124%.

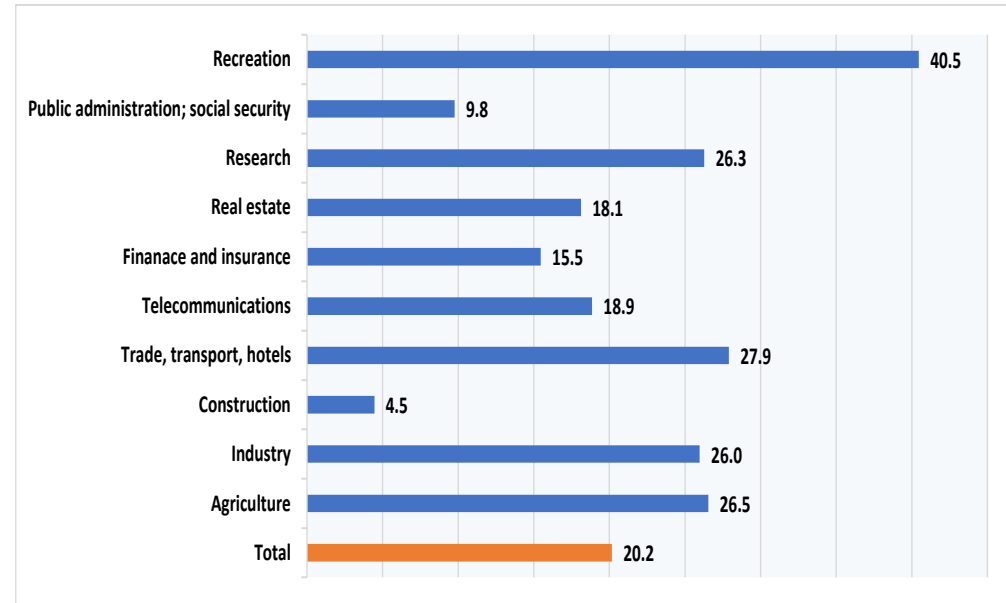
Unemployment rate is steadily decreasing reaching record low levels in the last periods, e.g. 4.6% as of September 2022.

Labor Costs Dynamics

Compensation of Employees and GDP (% , yoy)



Compensation of Employees by Sectors (% , nominal, yoy, H1 22)

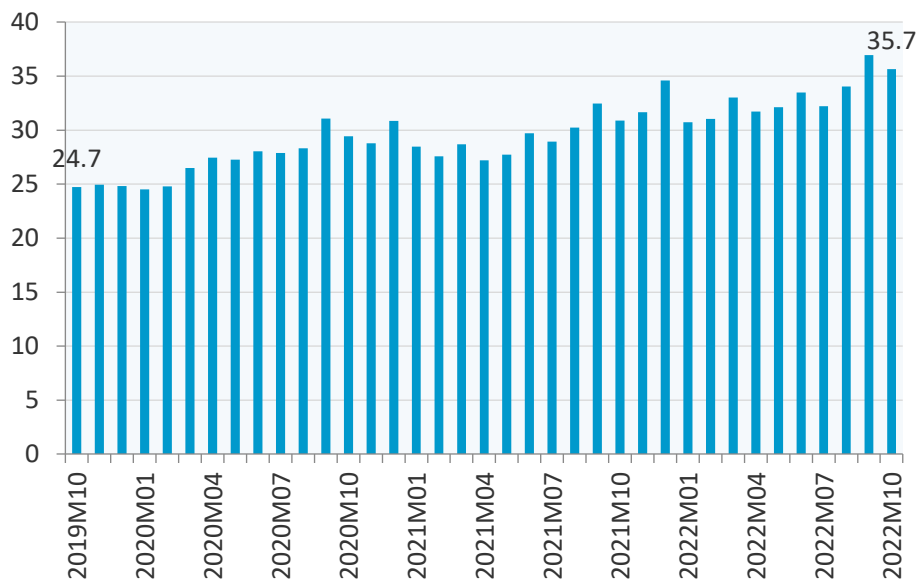


Nominal growth in employees' compensation is driven by a demographic and other factors, among which inflation is not by all means the strongest one

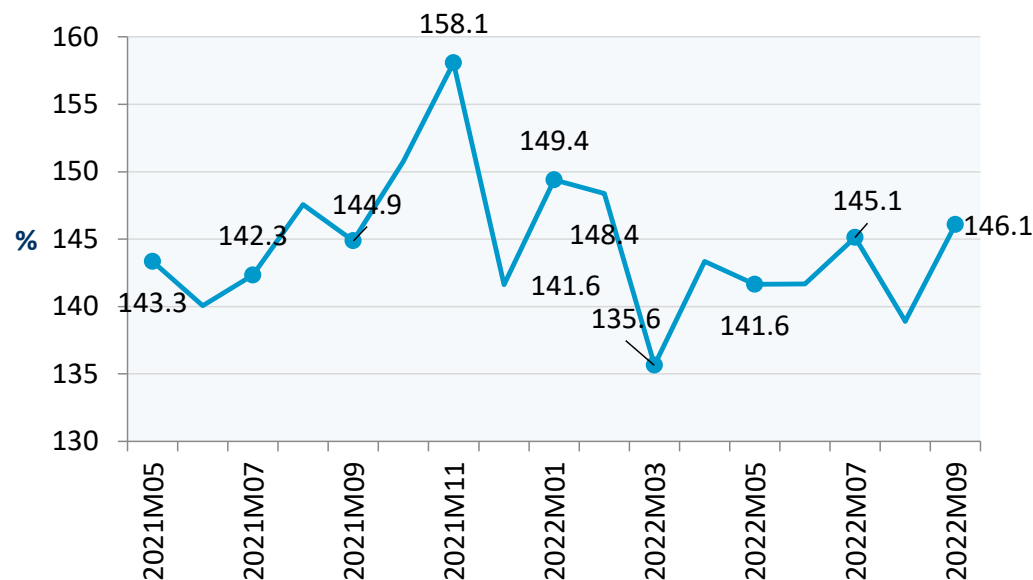
All branches reacted to inflation and labor market situation in H1 by increasing their costs for employees, although to a different degree depending on the context of their particular business

Key Monetary Indicators

Foreign Reserves (EUR, bn)



Coverage of MB by FX Reserves (%)

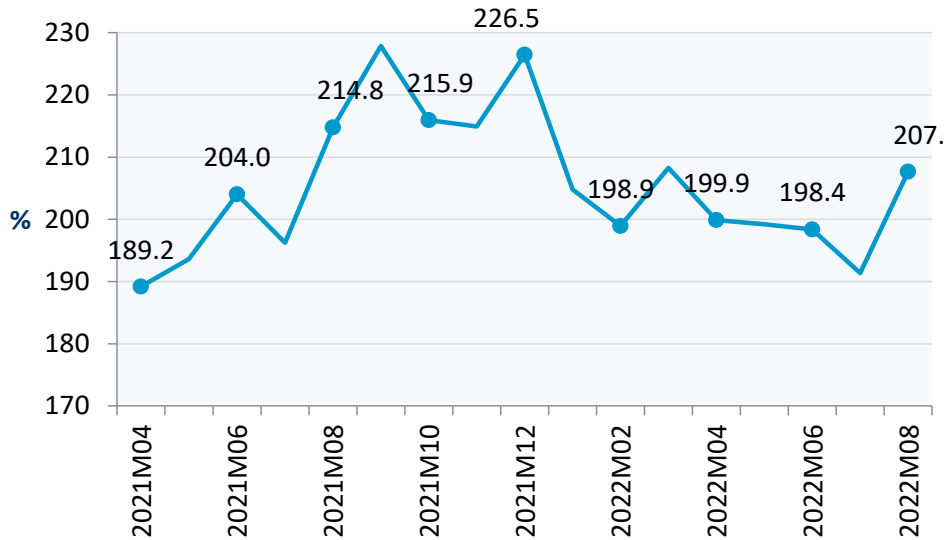


Increasing foreign reserves: from EUR 24.7 bn as of October 2019 to EUR 35.5 bn in October 2022

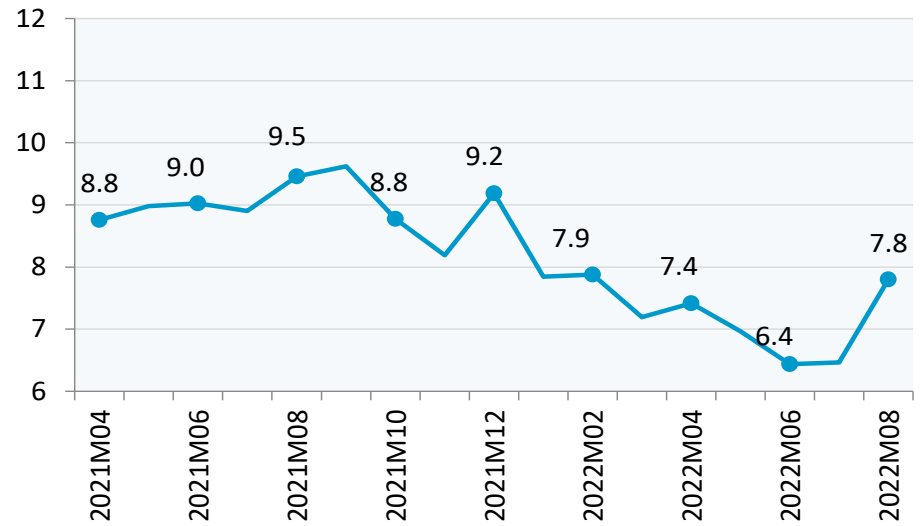
- Stable coverage of monetary base (MB) with foreign exchange (FX) reserves beyond the 100% limit to ensure the stability of the currency board
- Increase in the coverage in September 2022 to 146.1%

Financial Stability Indicators

Coverage of Short Term Debt with FX Reserves (%)



Coverage of Imports with FX Reserves (months)

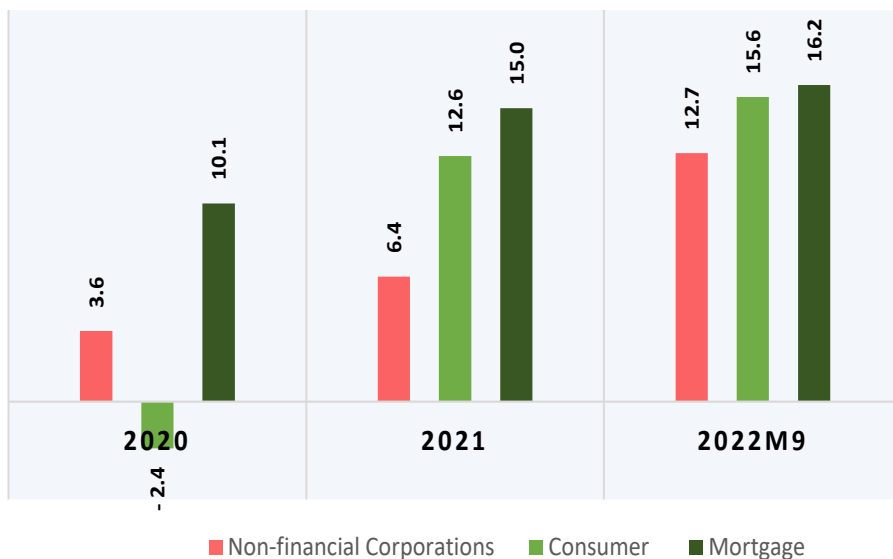


- Short term debt covered with FX reserves to a quite high extent
- Improvement in August

The coverage of imports with FX reserves is also improving

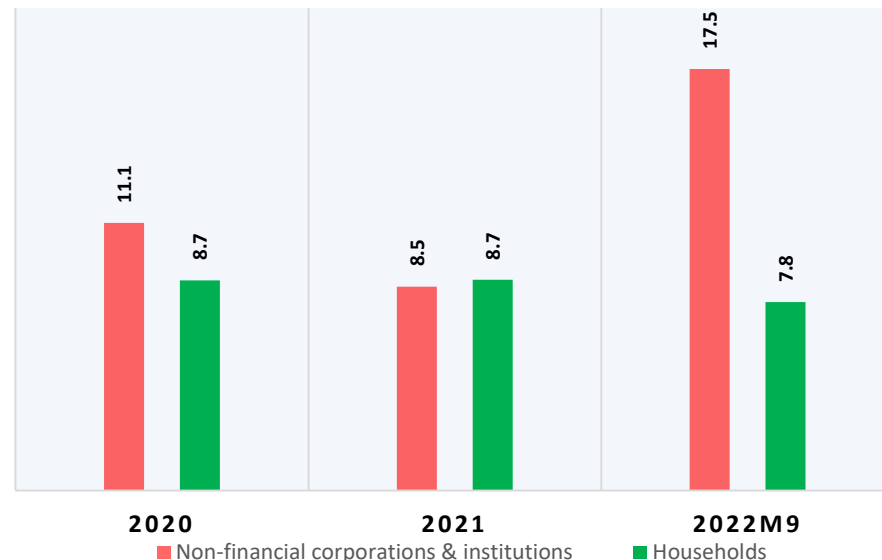
Banking Sector: Positive Current Situation

Loans (% , yoy)



As of September, loans to corporations grew by 12.7% yoy, while consumer and mortgage loans soared by 15.6% yoy and 16.2% yoy, respectively

Deposits (% , yoy)



Deposits from corporations jumped by 17.5% yoy, while deposits from households increased moderately by 7.8% yoy as of September

Forecasts Overview

Bulgaria	Base scenario				
December 05, 2022	2020	2021	2022	2023	2024
Real GDP growth (in %)	-4	7.6	3.5	0.7	3.5
Inflation (in %, harmonised CPI, average)	1.2	2.8	13.5	10.5	3.5
Unemployment rate (% , end of year, Eurostat definition)	6.3	4.6	5	6	4.8
Government budget balance (in % of GDP)	-3.8	-3.9	-3.5	-4.5	-2.5
Gross public debt (in % of GDP)	24.5	23.9	23	28	30
Current account balance (in % of GDP)	0	-0.5	-1	-2.8	-1.5
Long-term interest rate, 10Y Government Bond Yield	0.40	0.7	4.6	5.6	5.4
House prices (annual %-change, existing and new dwellings, Eurostat def.)	5.4	8.7	12	7	3.5
Source: KBC, UBB					

- Higher GDP growth for 2022 at around 3.5% due to better development in Q3 2022.

Thank you for your attention!

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