

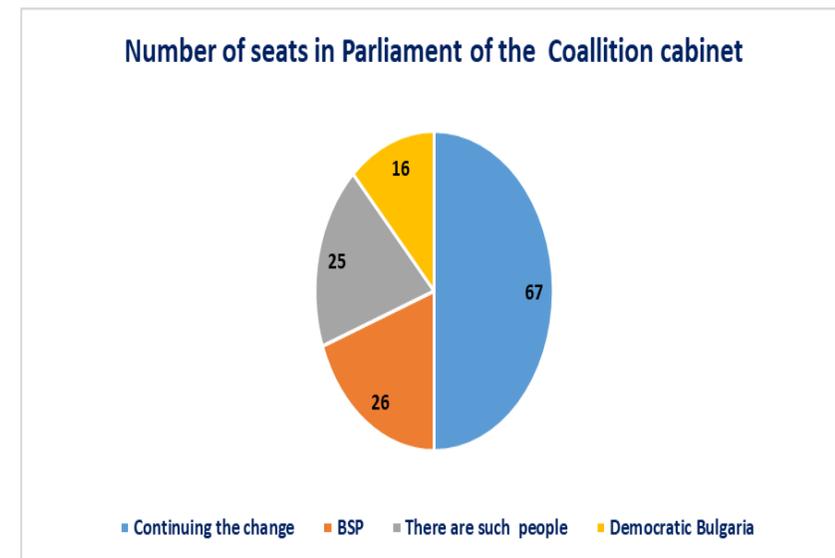
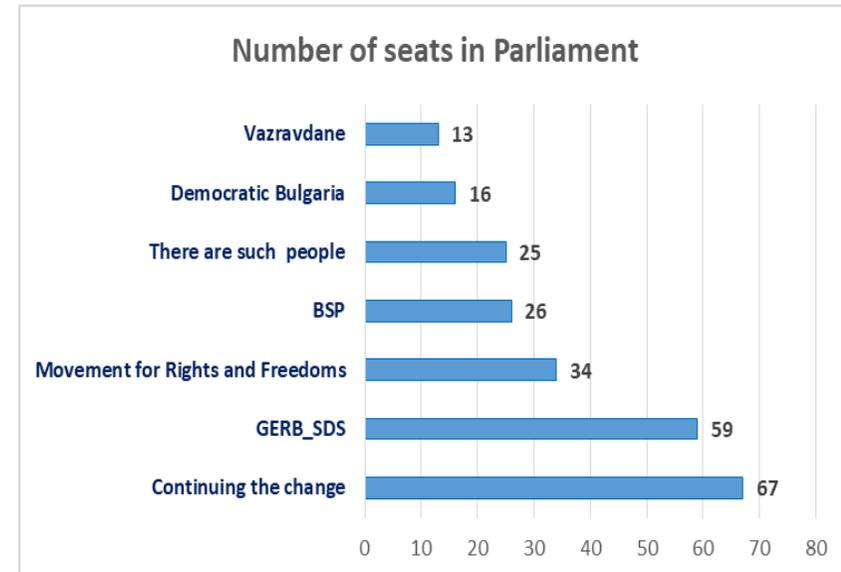
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**United Bulgarian Bank  
Bulgaria: Macroeconomic Update  
December 2021**

Chief Economist Department

Bulgaria has a new coalition government. The four-party coalition consists of the centrists "Continuing Change" (PP), "Democratic Bulgaria" (DB), the center-left Bulgarian Socialist Party (BSP) and "There is such a people" (ITN), one of the anti-establishment parties that emerged after last year's anti-corruption protests. Together, they hold 134 of the 240 seats in the National Assembly. "We continue the change" started just two months before the parliamentary elections on November 14, winning 67 seats and displacing GERB in second place. Bulgaria held a total of three elections this year, but forming a government proved impossible after unconvincing results in April and July.

Although "We Continue Change" is a new formation, its leaders Kiril Petkov and Asen Vassilev were respectively ministers of economy and finance in Bulgaria's caretaker government from May to September. "We continue to change" shares an anti-corruption agenda with some anti-establishment parties (including ITN), but also has an economic program in place focused on improving the business environment, attracting FDI and increasing productivity through educational and institutional reforms. The emergence of a four-party coalition reduces short-term political uncertainty, which could hamper the timely implementation of the EU-funded recovery and resilience plan.



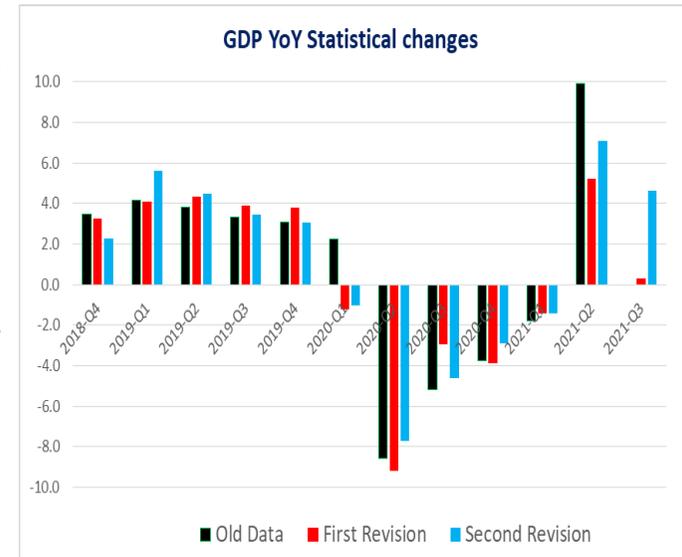
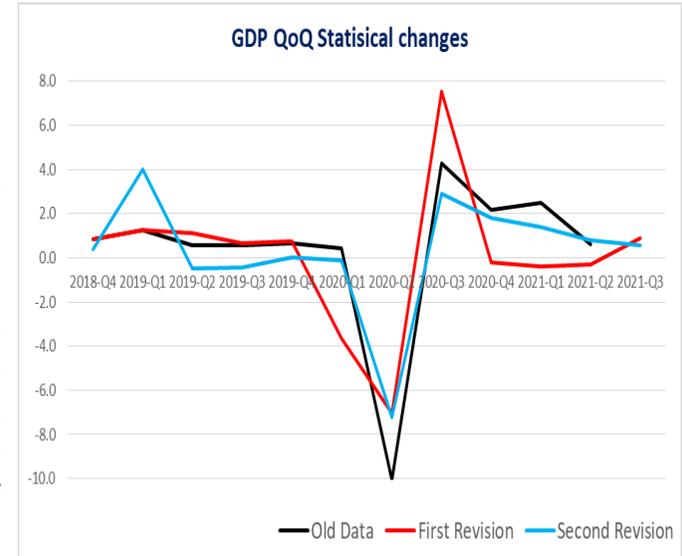
# Technical Issues - GDP Revised Data

At the end of November, the NSI published its flash estimation for the third quarter of 2021, during which Bulgaria ranked as the country with the slowest recovering economy in the EU. Meanwhile, in December, National Statistics dramatically changed its GDP data for Q3 of the year. Flash estimation released in mid-November showed 0.4% yoy growth, revised with preliminary figures at 4.6%. The difference comes mainly from a revaluation of consumption and exports, which are growing more. Flash estimation of GDP are based on very incomplete data and are defined as "the earliest picture of the economy". That is why they often undergo revisions with the publication of preliminary data a month later. The second revision partially restored the trend, sharply reversed by the first revision.

A similar correction was expected now, especially since the growth of 0.4% does not correspond to most other data on the decline in unemployment, credit growth and the overall feeling that the recovery rate has not fallen much. However, such a sharp reverse in the trend of GDP growth has not been made so far. And probably partly due to the overall revision of seasonally adjusted GDP data since 2000, which the NSI presented on October 20, 2021, as well as the technology of adjusting the data.

The NSI estimates the nominal amount of GDP in Q3 at BGN 36.1 billion, or BGN 555 million more than the flash estimation. The biggest increase comes from more consumption, which is the main driver of economic growth for the period. Seasonally adjusted data on GDP growth on an annual basis have also changed - consumption grew by 6.8% (5.1% in the flash estimation), investment also reported a slight increase (compared to -3% previously reported), while net exports were negative contribution.

However, part of the higher growth in consumption is predictable from imports, which shrink net exports, which reduces its contribution to GDP. The NSI has also revised the growth data on a quarterly basis, which is now 0.3% lower due to foreign trade. There is also a change in the data for growth in each of the last three quarters - now it is positive, while before there were minuses.

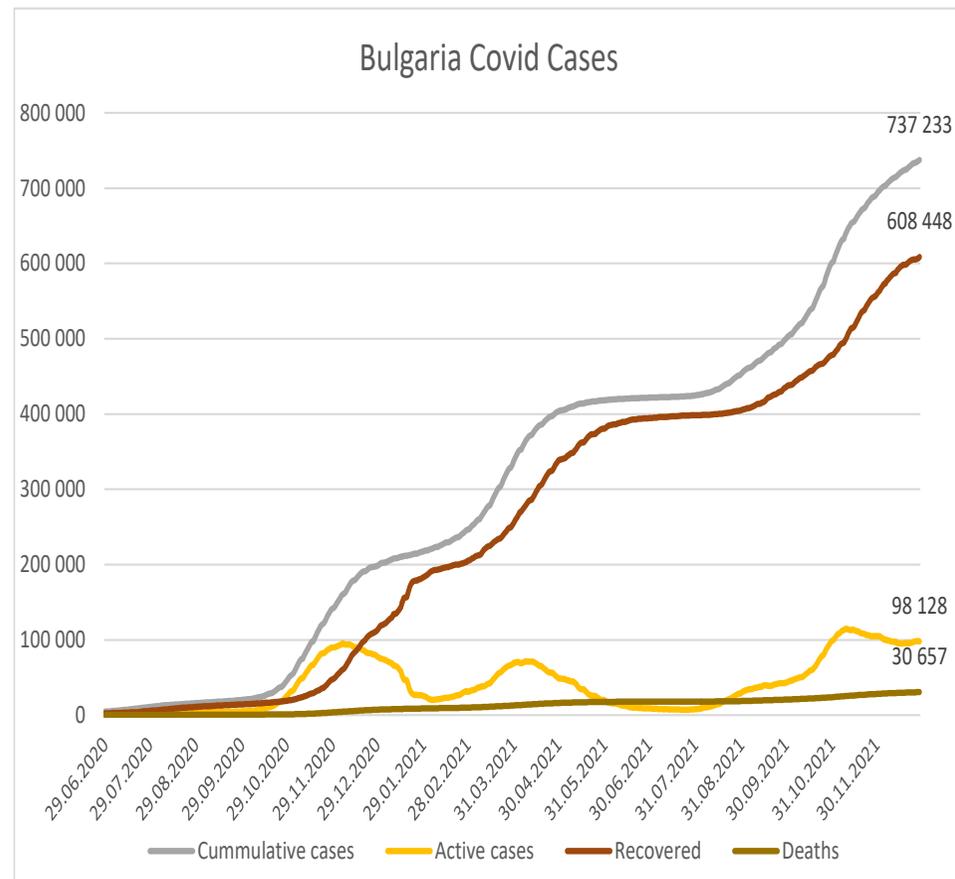


# COVID-19 Status

At the end of December, Bulgaria achieved success in the fight against the fourth wave of the pandemic. New coronavirus cases have dropped and the number of recovered have reached high levels. Accordingly, the active cases decreased and the growth of the cumulative cases also slowed down. Mortality is also reduced. Bulgaria recorded 30 657 coronavirus deaths since the epidemic began, according to Ministry of Health. Active coronavirus cases are 98 128 on December 29, 2021. In addition, Bulgaria reported 737 233 cumulative coronavirus cases and 608 448 coronavirus recovered on December 29, 2021.

**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 cinemas, theaters, museums, galleries, restaurants and entertainment, gyms, gyms and more. The document is also needed for holding congress-conference events, seminars, trainings, etc. The employees of the respective sites / organizers of the respective events must also meet the requirement. The public backlash and even resistance against the restrictive measures is significant and they are hot topic in the public debate. Enforcement of the measures is difficult.

The vaccination process is accelerating, but is still insufficient. Pfizer, Moderna, Astra Zeneca and Jansen vaccines are used. **The vaccinated as of December 27, 2021 are 53% of the population. 27% are fully vaccinated.** The part of Bulgarian population is skeptical about vaccines.



# Bulgaria – Outlook 2021 - 2024

The fourth wave of COVID-19, combined with the high inflation, as well as unexpected revisions of GDP which reverse the trend convince us to change the GDP forecast in Bulgaria. Growth in the baseline scenario is 3.0% for 2021 and 4% for 2022. For the pessimistic scenario it is 1.6% for 2021 and 3.6% for 2022. For the optimistic scenario it is 3.5% for 2021 and 4.4% for 2022. The corresponding quarterly growth forecasts are in line with the annual ones.

BNB and international Institutions also declined their projections for Bulgaria, but before the NSI flash estimates for GDP for Q3 2021. MF changed its projection for GDP at 3.7% for 2021.

Bulgaria	Optimistic scenario						Base scenario						Pessimistic scenario					
	2019	2020	2021	2022	2023	2024	2019	2020	2021	2022	2023	2024	2019	2020	2021	2022	2023	2024
December 2021																		
Real GDP growth (in %)	4	-4.3	3.5	4.4	3	3	4	-4.3	3	4	3	3	4	-4.3	1.6	3.6	3	3
Inflation (in %, harmonised CPI, average)	2.5	1.2	2.6	2.5	2.3	2.3	2.5	1.2	2.8	2.5	2	2	2.5	1.2	1.5	1.8	2	2.2
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	8	9	9	9
Government budget balance (in % of GDP)	-1	-3	-1	-1	0	0.5	-1	-3	-3.9	-2	-1.8	-1.2	-1	-3	-4.9	-3	-2.5	-1.7
Gross public debt (in % of GDP)	20.4	24.3	24	25	26	26	20.4	24.3	26.9	28	29.1	30.1	20.4	24.3	28.7	30.7	32.3	35
Current account balance (in % of GDP)	1.2	0.4	4	3.8	2.6	2.6	4	0.4	2	3	1	1	4	0.4	0	0.3	0.4	0.4
Long-term interest rate, 10Y Government Bond Yield	1.2	0.4	-0.25	0.20	0.65	0.75	1.2	0.4	0.35	0.75	0.95	1.15	1.2	0.4	0.75	1	1.25	1.25
House prices (annual %-change, existing and new dwellings, Eurostat def.)	6	5.4	5.5	5.8	4.5	4.5	6	5.4	8	6.5	4.5	4.4	6	5.4	3.8	3.5	3	3
Source: KBC, UBB																		
The forecast from the previous period is indicated in brackets																		

BULGARIA: Real GDP Growth (%)	2021	2022	2023	2024
KBC/UBB (November 2021)	3	4	3	3
Consensus economics (November 2021)	3.8	3.6	n.a.	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	2.8	3
MF (December 2021)	3.7(4.3)	4.6	3.7	3.4
BNB (October 2021)	3.9	4.7	3.8	n.a.
UniCreditBulbank	3.5	3.9	n.a.	n.a.
OTP Bank	4.3	3.2	n.a.	n.a.
Raiffeisen Research	4.5	4	n.a.	n.a.

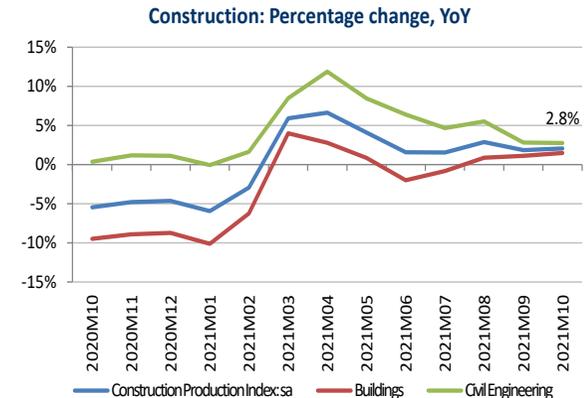
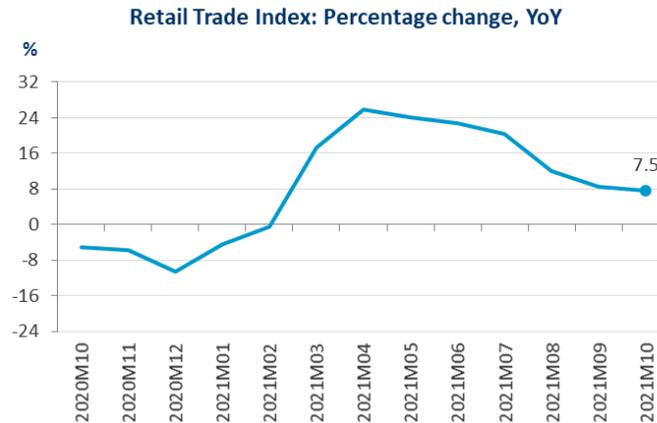
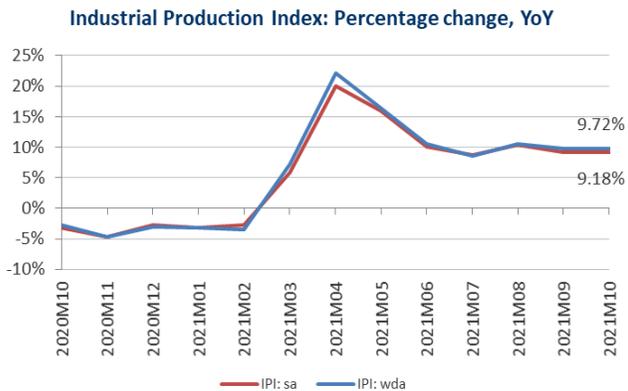
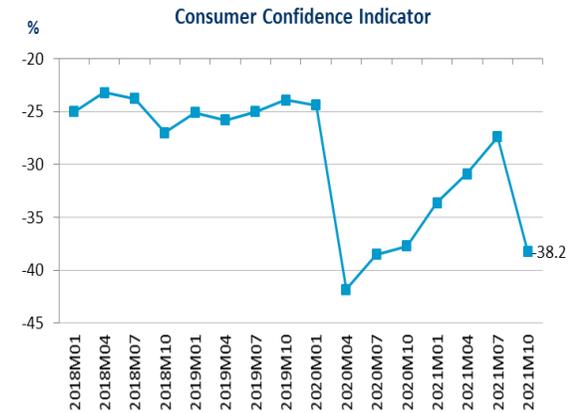
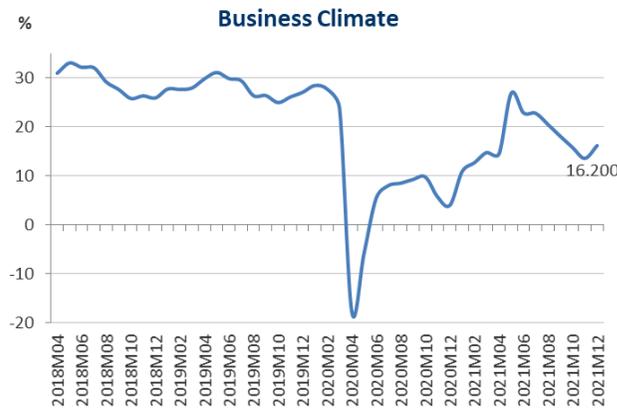
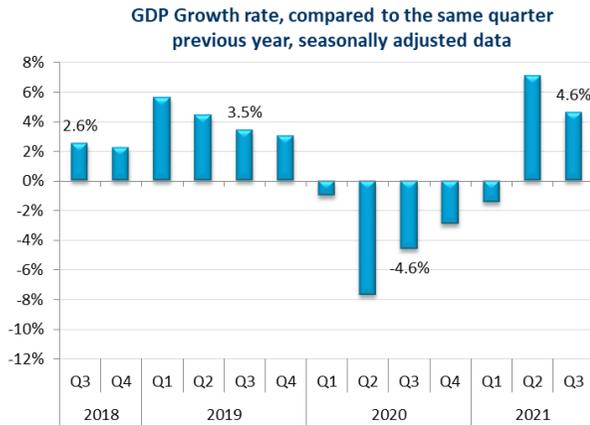
Source: KBC, Consensus economics, BNB, MF

BULGARIA: Harmonised CPI (avr. %)	2021	2022	2023	2024
KBC /UBB (November 2021)	2.8	2.5	2	2
Consensus economics (November 2021)	2.7	2.3	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 (2.4)	(4.9) 4.2	1.9 (2)	2.1
BNB (October 2021)	3.8	1.6	1.5	n.a.
UniCreditBulbank	2.8	4.2	n.a.	n.a.
OTP Bank	3.1	4.9	n.a.	n.a.
Raiffeisen Research	2.3	2.8	n.a.	n.a.

Source: KBC, Consensus economics, BNB, MF

# Bulgaria: Main Frequency Indicators

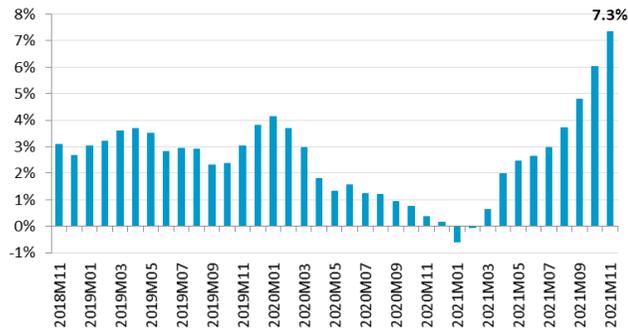
The ongoing political situation and the strongest forth wave of COVID-19 pandemic impacted as declining the trend of high frequency indicators. Bulgaria's GDP growth slowed significantly in Q3 2021 according to the preliminary estimate, with growth declining on an annual basis after a strong recovery 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 lower 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 in Q3. The short-term indicators naturally worsened their trend.



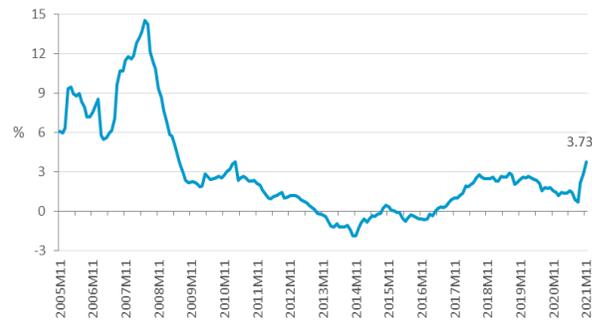
# Bulgaria: Prices Dynamics

Inflation in Bulgaria increased in November 2021 to 7.3% and to 6.3% for the Harmonised CPI. In November 2021 the average inflation reported 2.7% and 2.3% Harmonized, average annual inflation. This high values resulted from the combined impact of rising food prices, energy, and increased domestic demand, which affects core inflation. **The increase in prices is expected to decline in the H2 of 2022 due to the elimination of the impact of core effects and the average annual Harmonized inflation is expected to be at 2%.**

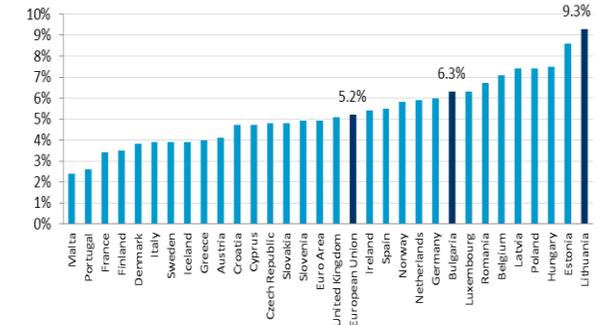
Inflation, y/y: 2018 - 2021



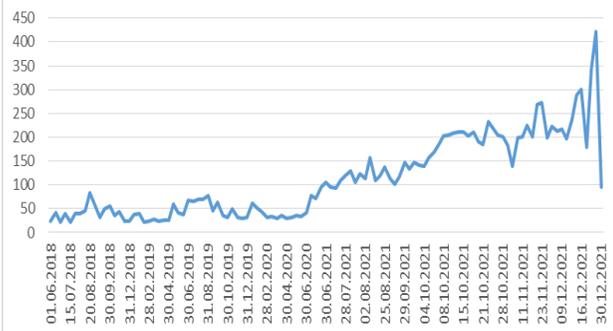
Core Inflation, Percentage change, YoY



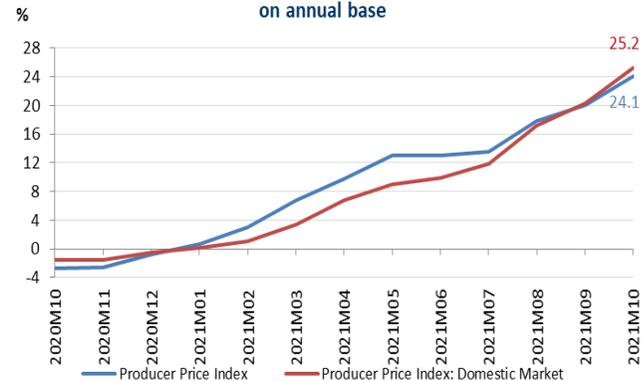
EU: HCPI Inflation (% y/y) by country - November 2021



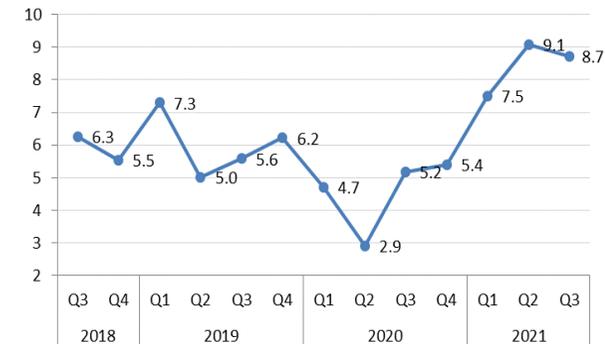
Bulgaria electricity prices in segment "Day ahead" in EUR/KWh



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

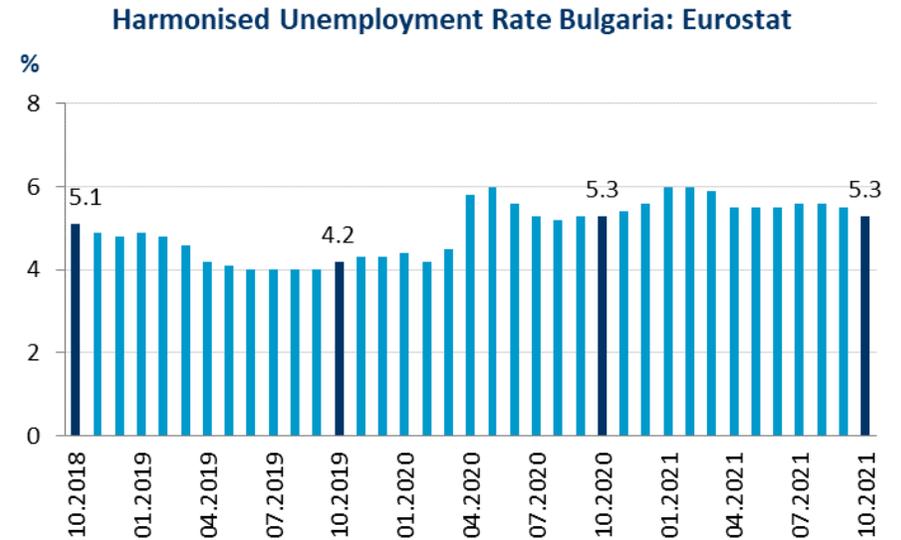
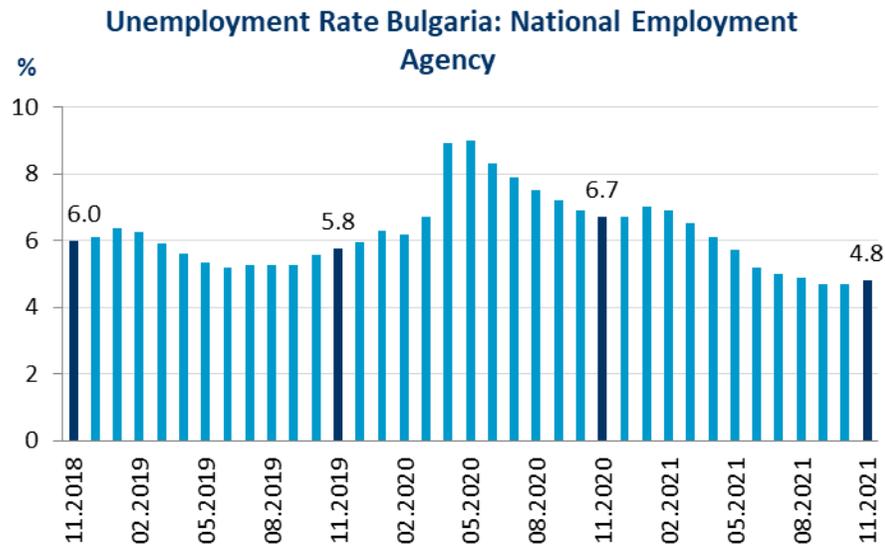


House Price Index (HPI), % change YoY



## Bulgaria: Main Macroeconomic Indicators, Labor market

According to Agency of employment in November 2021 the rate of registered unemployment is 4.8%, hitting another 14-year record low. In October the harmonized unemployment rate in Bulgaria is 5.3% and is below the average of EU.



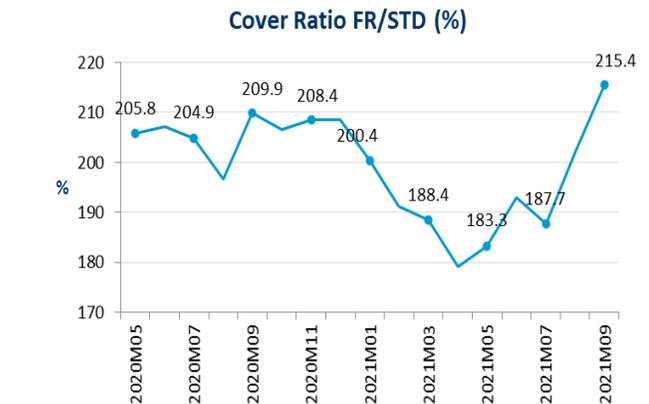
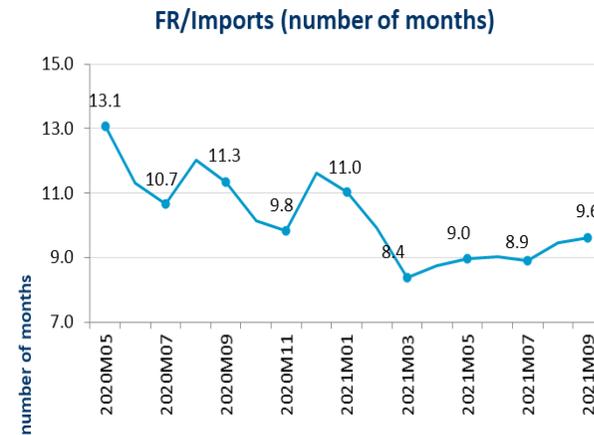
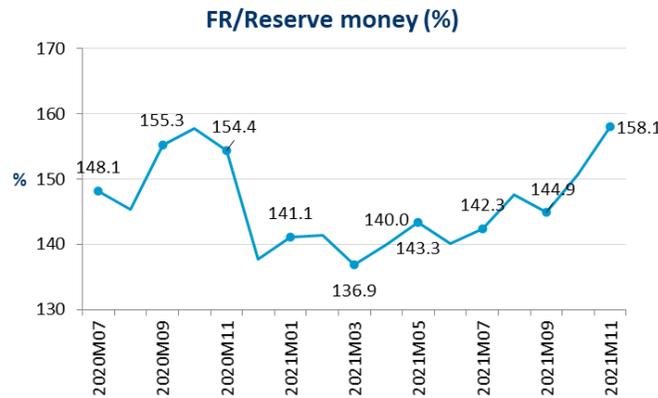
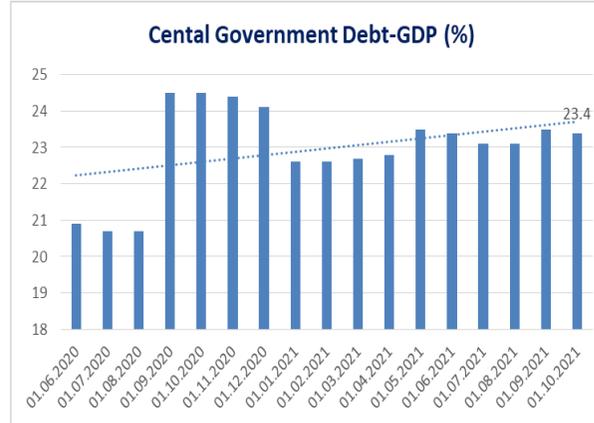
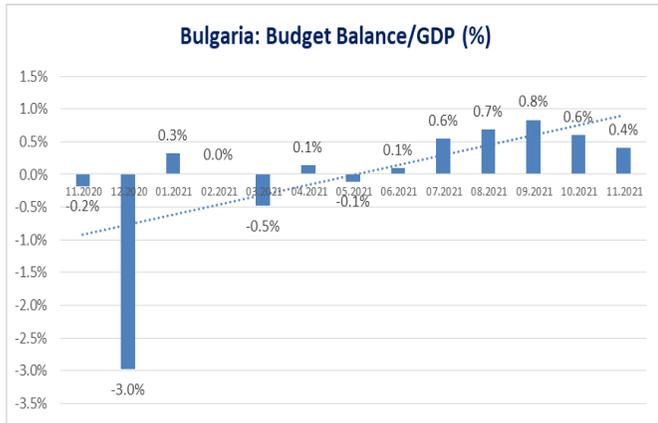
**Note:**

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.



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