UniCredit Bulbank

BULGARIA

Quarterly Macroeconomic Review 3Q2025

Macroeconomic and Market Research

„The economy is in a strong position as it prepares to join the eurozone“

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This quarterly macroeconomic review of Bulgarian economy was published on 25 July 2025. It employs statistical data and information available as of 20 July 2025.

Outlook

Bulgaria is set to become the newest member of the eurozone on January 1, 2026. On the eve of euro adoption, the economy is in a strong position, exhibiting no major macroeconomic imbalances, aside from elevated income inequality and a high proportion of the population at risk of poverty and social exclusion. The GDP growth outlook remains favorable, underpinned by robust domestic demand, which continues to be supported by rapid increases in household incomes and expanding retail credit.

Our baseline scenario anticipates a slowdown in consumer price inflation in the remaining months of this year and continuing into next year. The easing of inflationary pressures is expected to draw support from a comprehensive government information campaign planned for this year, which should help stabilize inflation expectations and curb speculative price increases.

Political instability poses the main downside risk to our favorable baseline macroeconomic scenario. The potential collapse of the government and ensuing snap elections later this year or in early 2025, could jeopardize the efforts of institutions tasked with euro adoption, including initiatives aimed at addressing public concerns that, in the absence of decisive regulatory measures against speculative pricing the transition to the euro could exacerbate inflationary pressures.

MACROECONOMIC DATA AND FORECASTS

	2022	2023	2024	2025F	2026F	2027F
GDP (EUR bn)	86.1	94.7	103.7	112.9	121.8	130.9
Population (mn)	6.4	6.4	6.4	6.4	6.4	6.4
GDP per capita (EUR)	13 351	14 694	16 112	17 591	19 052	20 538
Real economy, yoy change (%)						
GDP	4.0	1.9	2.8	3.2	3.0	2.8
Private Consumption	3.9	1.4	4.2	5.1	3.6	3.1
Public Consumption	8.0	1.1	4.5	4.9	3.4	3.0
Fixed Investment	6.5	10.2	-1.1	11.1	5.4	8.3
Exports	12.1	0.0	-0.8	-0.5	3.9	4.2
Imports	15.3	-5.5	1.3	5.0	5.5	6.4
Labor market						
Monthly wage, nominal (EUR)	905	1 043	1 188	1 320	1 441	1 566
Real wage, change (%)	-1.9	5.6	11.4	7.1	5.7	5.6
Unemployment rate (%)	4.1	4.3	4.2	3.7	3.4	3.2
Fiscal accounts (% of GDP)						
Budget balance (ESA 2010)	-3.0	-2.0	-3.0	-3.5	-4.0	-4.5
Budget balance SGP based	-3.0	-2.0	-3.0	-3.0	-3.0	-3.0
Public debt	22.0	22.3	23.6	27.8	30.1	32.5
External accounts (% of GDP)						
Current account balance	-2.7	-0.9	-1.8	-2.5	-2.6	-3.4
Net FDI	4.1	4.2	2.2	3.2	3.5	3.5
Gross foreign debt	50.3	47.5	47.4	50.5	51.2	51.8
Prices stability, yoy change (%)						
Inflation (CPI), avg	15.3	9.6	2.4	4.1	3.4	3.1
Inflation (CPI), eop	16.9	4.7	2.2	4.1	3.2	3.0
Housing Price Index (HPI)	13.8	9.9	16.5	12.8	8.7	7.2
Monetary sector, yoy change (%)						
Loans to households	14.6	15.9	20.8	16.7	12.8	11.7
Loans to non-financial corporations	10.4	7.3	10.1	9.0	9.3	8.3
Deposits on households	8.3	11.0	11.8	14.0	6.1	8.2
Deposits on non-financial corporations	26.6	9.0	7.0	9.7	6.5	7.6

Source: National Statistical Institute, Bulgarian National Bank, Ministry of Finance, UniCredit Bulbank

ECONOMIC GROWTH WILL REMAIN DOMINATED BY DOMESTIC DEMAND

We expect strong 3.2% growth this year

We have revised upward our forecast for real GDP growth in 2025 to 3.2% year-on-year, compared with 3.1% in our projection published three months ago. We now expect stronger growth in both private consumption and investment (Chart 1). However, the positive impact of upward revisions to consumption and investment in our baseline scenario will be partially offset by weaker exports, which will increase the negative contribution of net exports to growth, compared to our forecast from three months ago.

Retail credit growth shows no signs of slowing down

Faster-than-expected expansion of retail credit reported so far this year has prompted us to revise our projection for household credit growth. Our models suggest that retail credit growth will reach 16.7% in 2025, up from the 14.9% year-on-year increase projected in our forecast three months ago. Although to a lesser extent, stronger private consumption growth in our new baseline scenario will also benefit from somewhat tighter labor market conditions, which we now observe compared to April.

Renegotiation of the RRP is set to boost investments

Stronger-than-anticipated progress in implementing the structural reforms outlined in the Recovery and Resilience Plan (RRP) has prompted an upward revision to our gross fixed capital formation forecast. This revision also reflects the government's success in renegotiating the RRP, by securing a higher allocation for Bulgaria, while significantly simplifying related conditionalities. As a result, we now expect Bulgaria to absorb 85% of the total RRP funds, compared with the 55% assumption in our previous forecast (Chart 2).

The outlook for exports has worsened

Uncertainty triggered by the U.S. administration's shift toward isolationist policies is set to prove more pronounced and persist longer than we anticipated three months ago. This, combined with increasing risks that tariffs on European goods may ultimately exceed earlier expectations, has forced us to revise down our export forecast. We now expect a 0.5% drop in real exports in 2025, compared to a 1.3% rise in April.

Domestic demand will remain the main driver of growth

Our baseline scenario envisages real GDP growth of 3.0% year-on-year in 2026. Domestic demand and particularly private consumption will remain the principal growth driver next year. However, we expect the pace of consumption growth to decelerate for two main reasons. First, wage growth is projected to slow, reflecting fiscal consolidation efforts, which are expected to include a moderation in public sector pay increases. Second, and equally importantly, further tightening of borrower-based measures, that are likely at the end of this year or early next year, remains part of our baseline. This underpins our forecast that household credit growth will decelerate to 12.8% year-on-year in 2026 and further to 11.7% in 2027.

Stronger external demand is likely in 2026

The most recent UniCredit and IMF forecasts for GDP growth in Bulgaria's twenty most important export markets have been used to calculate external demand over the forecast period. According to our calculations, external demand will strengthen in 2026, as growth in key trading partners is forecast to gradually rebound from the negative impact of higher tariffs, which caused a marked deceleration of global trade in 2025.

CHART 1: GDP GROWTH IN CEE COUNTRIES THIS YEAR WILL CONTINUE TO BE PRIMARILY DRIVEN BY DOMESTIC DEMAND

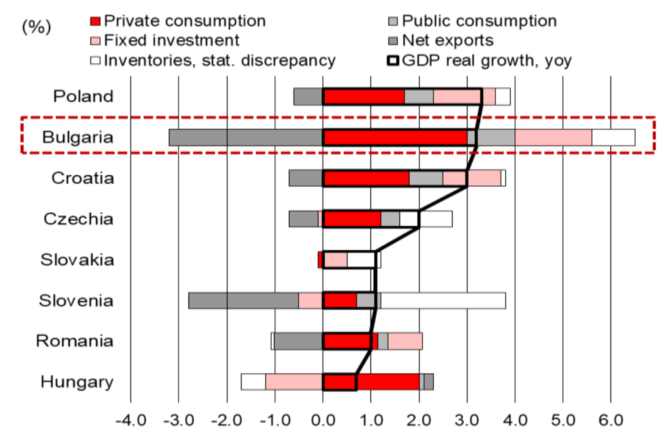
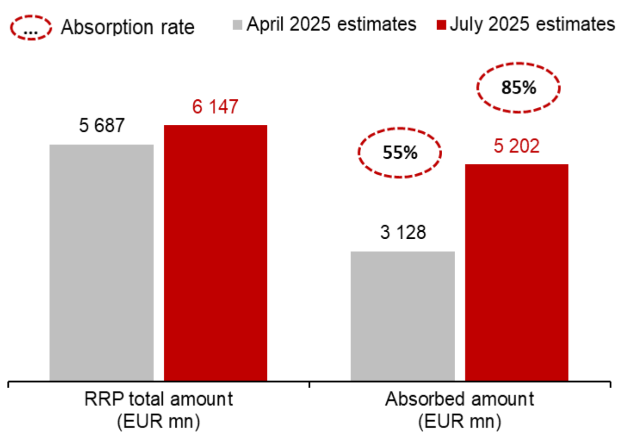


CHART 2: THE SIMPLIFICATION OF REQUIREMENTS WILL ALLOW FOR AN INCREASE IN ABSORBED FUNDS UNDER THE RRP



Source: National Statistical Institute, UniCredit

A smaller volume of planned maintenance and reconstruction activities in export-oriented manufacturing sectors in 2026, compared to 2025, will also support exports. After taking all these factors into account, we forecast real export growth of 3.9% year-on-year next year, following two years of decline in real terms.

The current buildup of inventories is likely to end soon

The ongoing trend of inventory accumulation was one of the factors supporting our upward revision to the 2025 GDP growth forecast. This trend was predominantly driven by firms' desire to increase their stockpile of inventories in order to mitigate the negative impact of higher U.S. tariffs on foreign trade volumes. We believe that the buildup of inventories will come to an end once the stockpile reaches around 2% of GDP, which we expect will occur by the end of 2025. Next year, we expect inventories to stabilize at the already reached level of around 2% of GDP, meaning their impact on growth will be neutral.

INFLATIONARY PRESSURES MAY PROVE MORE DEEPLY ENTRENCHED

CPI rose to 4.4% year-on-year in June

Consumer price inflation, measured according to the national methodology, rose to 4.4% year-on-year in June, marking the highest level since December 2023 (Chart 3). Food prices have been the main driver of inflation since the beginning of the year. As a result, accumulated food inflation in Bulgaria reached 5.2% for the 1H2025, the third-highest rate among the EU27 member states (Chart 4).

Administratively regulated prices have been a significant contributor to the recent increase in inflation

The recent acceleration in consumer price inflation appears to reflect the lagged effects of structural rigidities and institutional constraints. During the extended period of political instability, regulatory inertia limited the passthrough of rising production and input costs to administratively regulated prices, resulting in a growing discrepancy between administered price levels and their cost-recovery benchmarks. As a result, significant cost pressures were deferred during this period. Following the establishment of a regular government with a comfortable parliamentary majority in January, a process of gradual alignment of regulated prices with underlying cost structures has started. This delayed adjustment has produced additional upward pressure on inflation in the first six months so far this year, as previously suppressed components began to converge toward their more sustainable levels.

The expiration of the reduced VAT rate on bread, bakery products, and catering services has constituted an additional one-off factor contributing to the increase in inflation observed in the first half of the current year. However, the underlying inflationary pressures extend beyond these two one-off factors. Persistently tight labor market conditions, together with robust household credit growth, have driven aggregate demand higher, thereby reinforcing inflationary pressures.

The recent increase in inflation expectations requires attention

The inflation outlook has been further clouded by a notable upward shift in household inflation expectations over the past three months (Chart 5), reflecting potential second-round effects.

CHART 3: JUNE SAW CONSUMER PRICE INFLATION RISE ABOVE THE 4.0% YEAR-ON-YEAR THRESHOLD

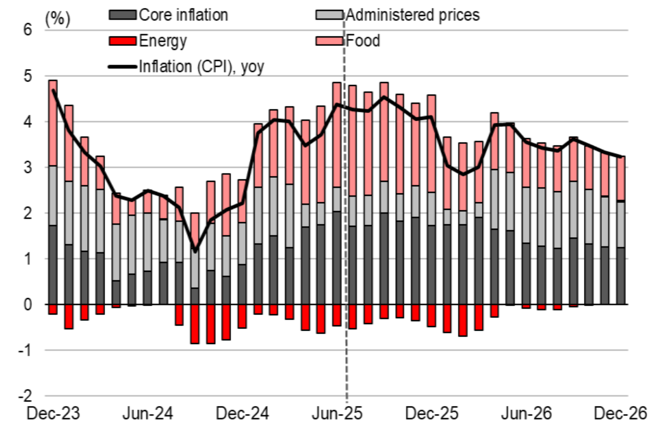
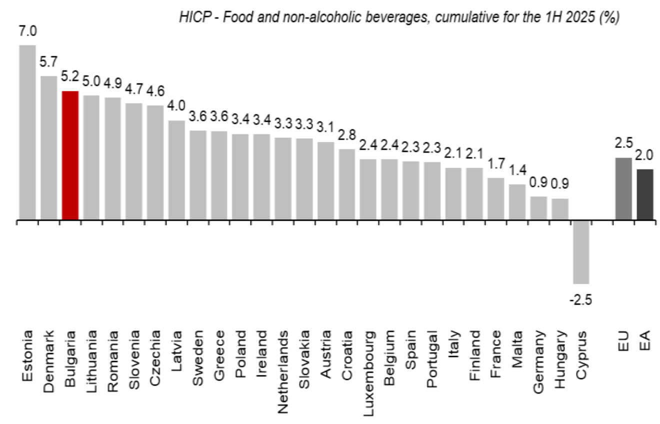


CHART 4: IN THE 1H2025, BULGARIA REGISTERED THE THIRD-HIGHEST RATE OF CUMULATIVE FOOD INFLATION AMONG EU MEMBER STATES



Source: Eurostat, National Statistical Institute, UniCredit Bulbank

A principal factor behind this shift appears to be the pronounced increase in housing prices, which rose by 15.1%on year-on-year basis in Q1 2025, ranking second highest within the EU27, and likely influencing Bulgarian households' inflation sentiment through the expectations channel.

Price pressures are expected to moderate

Under the baseline scenario, inflation is projected to moderate in the latter half of 2025 and further into 2026. Contributing factors include a robust agricultural harvest expected this year and the government's information campaign planned for the months leading up to the euro adoption next year. This campaign is expected to play a key role in anchoring household inflation expectations and curbing speculative price increases, thereby helping to moderate inflationary pressures to more tolerable levels.

Political stability remains a key prerequisite for curbing inflation

Political instability remains the main downside risk to our favorable inflation scenario. A potential governmental collapse followed by new elections, either later this year or early next year, could undermine institutional efforts related to the euro adoption process. More specifically, such political instability may weaken efforts to effectively address public concerns about the potential for heightened inflationary pressures following euro adoption, especially if sufficiently rigorous regulatory measures to curb speculative price increases in goods and services markets are not implemented.

ENCOURAGING IMPROVEMENTS IN TAX COLLECTION ARE UNDERWAY

The fiscal revenue target is ambitious

The consolidated fiscal program envisages an increase in tax and social security revenues from 28.9% of GDP in 2024 to 32.7% in 2025, representing a substantial rise of 3.8 percentage points (Chart 6). The removal of reduced VAT rates on bread, flour, and selected tourism services, combined with higher excise duties on tobacco and tobacco products, as well as increased revenue from the toll system, is expected to contribute approximately 0.5 percentage points of GDP to fiscal revenues. The remaining additional tax and social security revenue, amounting to a significant 2.7 percentage points of GDP, is projected to come from government measures aimed at reducing the informal (shadow) economy.

A substantial reduction in the informal sector is a key policy objective

We consider this policy choice appropriate, given the significant size of country's informal economy. Depending on the methodology used, estimates suggest that the shadow economy accounts for between one-quarter and one-third of total economic activity. Capturing even a portion of these undeclared transactions, given the approximately 30% combined tax and social security contribution burden, carries substantial potential for fiscal revenues generation. In practice, the targeted 3.2 percentage points increase in tax and social security revenues implies that the government is seeking to reduce the size of the informal economy by an amount equivalent to around 11% of country's GDP.

CHART 5: HOUSEHOLD INFLATION EXPECTATIONS HAVE MARKEDLY RISEN IN THE PAST FEW MONTHS

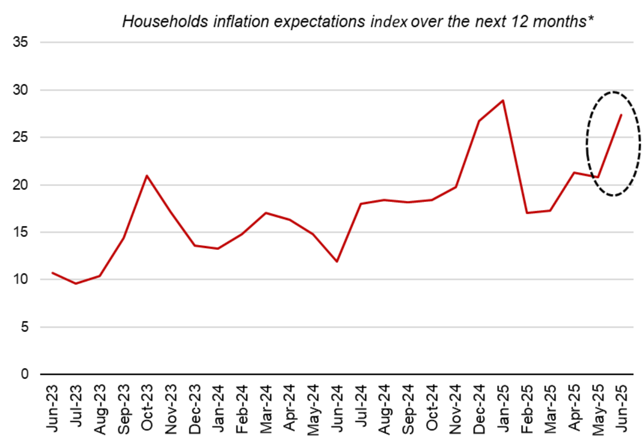
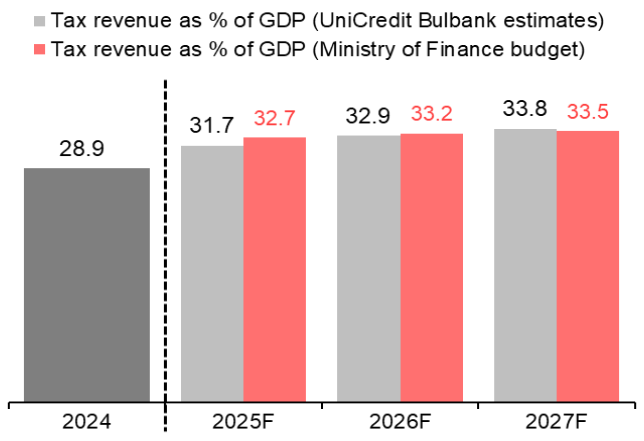


CHART 6: BULGARIA'S FISCAL PLAN ENVISAGES A SIGNIFICANT INCREASE IN TAX REVENUES IN 2025



Source: Eurostat, National Statistical Institute, Ministry of Finance, UniCredit Bulbank

* The index reflects the balance between the relative share of those expecting price increases and those expecting price decreases. The index value ranges from -100 to +100, with higher values indicating expectations for stronger price growth.

To achieve this goal, the government is primarily relying on stricter control over goods associated with high fiscal risk. This includes the advanced declaration of the movement of such goods, which is a measure introduced for a first time in 2024. While it is true that tax revenues have so far underperformed relative to the targets set in the budget, the Ministry of Finance considers this shortfall to be temporary. It emphasizes that it is still too early for a conclusive assessment, because the integration of systems operated by the National Revenue Agency (NRA) and the Customs Agency with the Road Infrastructure Agency, enabling real-time access to traffic camera data, was only completed couple of weeks ago.

The fiscal deficit will remain consistent with the 3% ceiling set by the Stability and Growth Pact

In our budget execution forecast, we assume that the government will achieve two-thirds of its target. As a result, efforts to curb the shadow economy are expected to increase tax and social security revenues by around 2.2 percentage points of GDP. To maintain the fiscal deficit within the targeted 3.0% of GDP, we anticipate that public capital expenditures will be curtailed by approximately 1.1 percentage points of GDP. This would reduce capital spending to 5.3% of GDP, compared to the originally budgeted 6.4% (Chart 7).

Additional defense outlays of 1% of GDP are assumed in our baseline

We expect that Bulgaria will exceed its budget deficit target by up to 1% of GDP to finance additional investment aimed at expanding the country's defense capabilities. This deviation from the 3% budget deficit target is unlikely to trigger an Excessive Deficit Procedure, as Bulgaria is expected to receive a waiver from the European Commission. As a result, the deficit is projected to reach 4.0% of GDP, while for the purposes of the Stability and Growth Pact (SGP), the deficit will remain at 3.0% of GDP (Chart 8).

Tax compliance is projected to further improve

Under the assumption of continued political stability, which is an integral part of our baseline scenario, we expect to see further increases in tax and social security revenues relative to GDP next year. More precisely, we forecast an additional revenue gain equivalent to 1.2 percentage points of GDP, bringing total tax and social security revenues to 32.9% of GDP. Part of this increase is expected to originate from further hikes in excise duties on tobacco and alcoholic beverages, as outlined in the government's medium-term fiscal projection. Additional revenue may also result from higher taxation of gambling and, potentially, the introduction of taxes on some categories of unhealthy foods. As was the case in 2025, the bulk of the anticipated revenue increase in 2026 is projected to come from measures aimed at reducing the size of the informal economy and improving overall tax compliance.

The rates of the main taxes are likely to rise in 2027 and 2028

After a prolonged period during which the rates of the main taxes remained unchanged, Bulgaria appears to be approaching a turning point, with increases in key tax rates becoming likely. Against this backdrop, our forecast anticipates a cumulative increase in pension insurance contributions of 3.0 percentage points over 2027 and 2028, in line with the latest government medium-term fiscal projections.

CHART 7: ALTHOUGH FAILING SHORT OF THE ORIGINAL TARGET, PUBLIC CAPITAL EXPENDITURE IS EXPECTED TO INCREASE SIGNIFICANTLY IN 2025

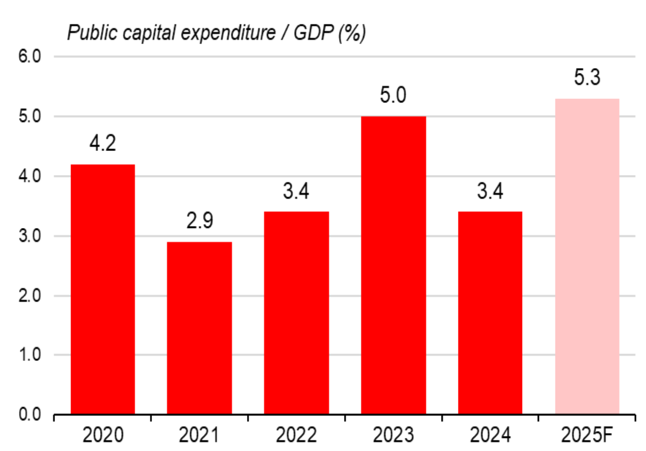
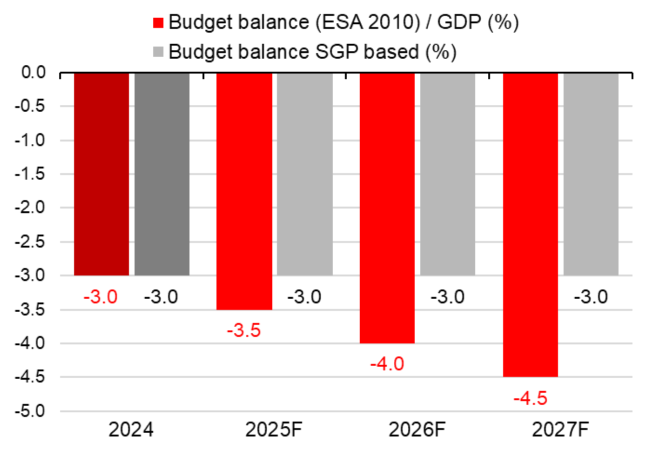


CHART 8: DESPITE INCREASED DEFENSE SPENDING, THE DEFICIT IN 2025 IS EXPECTED TO STAY WITHIN THE REQUIREMENTS OF THE SGP



Source: National Statistical Institute, Ministry of Finance, UniCredit Bulbank

GDP AND INFLATION FORECAST REVISIONS

	Forecast as of July 2025				Forecast as of April 2025				Revision (percentage change)			
	2024	2025F	2026F	2027F	2024	2025F	2026F	2027F	2024	2025F	2026F	2027F
Real yoy growth (%)												
GDP	**2.8**	**3.2**	**3.0**	**2.8**	**2.8**	**3.1**	**3.3**	**2.7**	**0.0**	**0.1**	**-0.3**	**0.1**
Private Consumption	4.2	5.1	3.6	3.1	4.2	3.3	3.1	2.9	0.0	1.8	0.5	0.2
Public Consumption	4.5	4.9	3.4	3.0	4.5	6.5	4.2	3.5	0.0	-1.6	-0.8	-0.5
Fixed Investment	-1.1	11.1	5.4	8.3	-1.1	6.4	6.2	2.6	0.0	4.7	-0.8	5.6
Exports	-0.8	-0.5	3.9	4.2	-0.8	1.3	4.7	4.7	0.0	-1.8	-0.8	-0.5
Imports	1.3	5.0	5.5	6.4	1.3	3.6	5.8	5.3	0.0	1.4	-0.3	1.2
Contribution to growth (%)												
GDP	**2.8**	**3.2**	**3.0**	**2.8**	**2.8**	**3.1**	**3.3**	**2.7**	**0.0**	**0.1**	**-0.3**	**0.1**
Private Consumption	2.5	3.0	2.2	1.9	2.5	1.9	1.8	1.7	0.0	1.1	0.3	0.2
Public Consumption	0.8	0.9	0.7	0.6	0.8	1.2	0.8	0.7	0.0	-0.3	-0.2	-0.1
Fixed Investment	-0.2	1.9	1.0	1.6	-0.2	1.1	1.1	0.5	0.0	0.8	-0.1	1.1
Exports	-0.5	-0.3	2.2	2.4	-0.5	0.8	2.8	2.8	0.0	-1.1	-0.5	-0.4
Imports	-0.7	-2.8	-3.2	-3.8	-0.7	-2.0	-3.3	-3.0	0.0	-0.8	0.1	-0.7
YoY growth, average (%)												
CPI inflation, total	**2.4**	**4.1**	**3.4**	**-**	**2.4**	**3.5**	**3.0**	**-**	**0.0**	**0.5**	**0.4**	**-**
Foods	2.6	6.2	3.5	-	2.6	3.4	2.7	-	0.0	2.8	0.7	-
Energy	-4.3	-5.0	-2.3	-	-4.3	0.8	-2.4	-	0.0	-5.8	0.1	-
Administered prices	5.4	3.9	4.7	-	5.4	6.2	5.4	-	0.0	-2.4	-0.6	-
Core inflation	2.7	4.7	3.9	-	2.7	3.4	3.2	-	0.0	1.4	0.7	-
Contribution to growth (%)												
CPI inflation, total	**2.4**	**4.1**	**3.4**	**-**	**2.4**	**3.5**	**3.0**	**-**	**0.0**	**0.5**	**0.4**	**-**
Foods	0.9	2.0	1.1	-	0.9	1.1	0.9	-	0.0	0.9	0.2	-
Energy	-0.4	-0.4	-0.2	-	-0.4	0.1	-0.2	-	0.0	-0.5	0.0	-
Administered prices	1.1	0.8	1.0	-	1.1	1.3	1.1	-	0.0	-0.5	-0.1	-
Core inflation	0.8	1.7	1.7	-	0.8	1.0	1.0	-	0.0	0.7	0.7	-

Source: National Statistical Institute, UniCredit Bulbank

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