



BULGARIA

Quarterly Macroeconomic Review 1Q2026



Macroeconomic and Market Research

**„The window for addressing the chronically
high budget deficit is narrowing“**

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Outlook

One month ahead of the forthcoming parliamentary elections, a significant reshaping of the political landscape is underway. Public opinion polls point to a less fragmented parliamentary configuration, with two parties sufficient to form a government and three parties capable of attaining a qualified majority. This increases the likelihood of establishing a governing coalition capable of forming a stable government and advancing several difficult structural reforms. From today's perspective, the most probable post-election outcome appears to be a coalition between Progressive Bulgaria and the liberals from PP-DB.

Despite political instability and the inflationary pressures triggered by the conflict in the Middle East, we expect GDP growth to remain relatively strong and resilient. We project that average annual consumer price inflation will reach 4.9% in 2026. The conflict in the Middle East is the main reason for the upward revision of the inflation forecast. The increase in energy prices is expected to be relatively short-lived. We do not anticipate significant indirect effects, nor do we expect second-round effects resulting from the inflationary shock induced by the conflict. We also do not expect the conflict to reduce the global economy's capacity for extracting, transporting, and processing crude oil and natural gas. The fiscal impact is expected to be limited.

The window of opportunity for addressing the problem of a chronically high budget deficit is narrowing. In our assessment, the scope for deficit reduction through expenditure restraint is limited, while a return to fiscal austerity policies appears unrealistic given the substantial political costs involved. Against this backdrop, a durable resolution of the deficit problem necessitates an increase in the tax and social-security burden. The good news is that the magnitude of the required adjustment is such that, even after its implementation, low taxation will continue to represent a source of competitive advantage for the economy.

MACROECONOMIC DATA AND FORECASTS

	2023	2024	2025	2026F	2027F	2028F
GDP (EUR bn)	94.7	103.7	116.0	126.7	136.8	147.3
Population (mn)	6.4	6.4	6.4	6.4	6.4	6.4
GDP per capita (EUR)	14 694	16 112	18 083	19 811	21 468	23 186
Real economy, yoy change (%)						
GDP	1.7	3.4	3.1	2.8	3.0	2.9
Private Consumption	1.1	4.9	7.8	4.1	3.7	3.1
Public Consumption	1.1	3.6	6.8	2.5	3.3	3.5
Fixed Investment	10.2	1.5	11.4	0.1	5.6	5.6
Exports	0.0	1.8	-2.1	4.7	4.3	5.1
Imports	-5.5	3.9	5.9	5.0	5.8	6.2
Labor market						
Monthly wage, nominal (EUR)	1 043	1 189	1 331	1 469	1 615	1 763
Real wage, change (%)	5.6	11.5	7.4	5.6	6.4	6.0
Unemployment rate (%)	4.3	4.2	3.5	3.5	3.4	3.3
Fiscal accounts (% of GDP)						
Budget balance (ESA 2010)	-2.0	-3.0	-3.1	-3.4	-3.8	-2.9
Budget balance (cash basis)	-3.0	-3.0	-3.1	-3.4	-3.0	-2.8
Public debt	22.3	23.6	27.2	29.8	31.9	33.4
External accounts (% of GDP)						
Current account balance	-1.2	-1.4	-5.9	-5.1	-3.6	-2.4
Net FDI	3.9	2.1	2.5	2.5	3.0	2.7
Gross foreign debt	48.3	48.7	49.7	49.4	49.9	50.4
Prices stability, yoy change (%)						
Inflation (CPI), avg	9.6	2.4	4.6	4.9	3.5	3.2
Inflation (CPI), eop	4.7	2.2	5.0	4.6	3.3	3.1
Housing Price Index (HPI)	9.9	16.5	15.3	9.5	7.7	6.7

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

PROSPECTS FOR FORMING A STABLE PARLIAMENTARY MAJORITY AFTER THE ELECTIONS ARE IMPROVING

A significant reshaping of the political landscape is underway

Several public opinion surveys indicate an advantage for the Progressive Bulgaria coalition in the upcoming parliamentary elections in April (see chart). If these attitudes do not change substantially over the course of the election campaign, the formation of a coalition led by former President Rumen Radev would result in significant shifts on the Bulgarian political landscape. This development also appears likely to be accompanied by an increase in voter turnout which, if realized, would strengthen the initial level of public confidence in the incoming National Assembly and, potentially, in the government it may subsequently form.

Expectations point to a less fragmented parliament

Public sentiment remains highly fluid and does not allow for far-reaching conclusions regarding the post-election environment. Nevertheless, developments to date suggest that, in the next National Assembly, only two parties would likely be sufficient to form a government, while three parties would be able to secure a qualified majority, enabling constitutional amendments (see chart). This increases the probability of establishing a governing coalition capable of forming a cabinet and advancing several difficult reforms.

A coalition between Progressive Bulgaria and PP-DB appears likely to form a government

From today’s perspective, the authors of this report view a coalition between Progressive Bulgaria and the liberals from PP-DB as the most likely outcome after the elections. Unfortunately, at the time of drafting this report, most important parties have not yet published their electoral platforms, which makes it difficult to anticipate the contours of the economic policy of the next government.

THE ECONOMY WILL CONTINUE TO DRIFT UNTIL A NEW GOVERNMENT IS FORMED

The economy is operating on autopilot

Political instability has become a persistent feature of Bulgaria’s conflict-prone political system. This constitutes an adverse development, as political instability entails economic costs, primarily manifested through forgone opportunities.

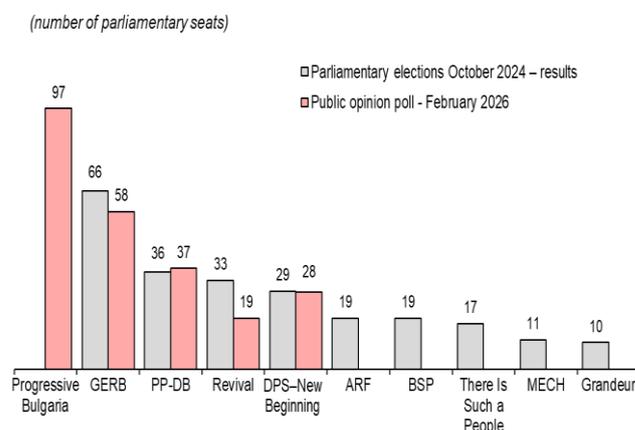
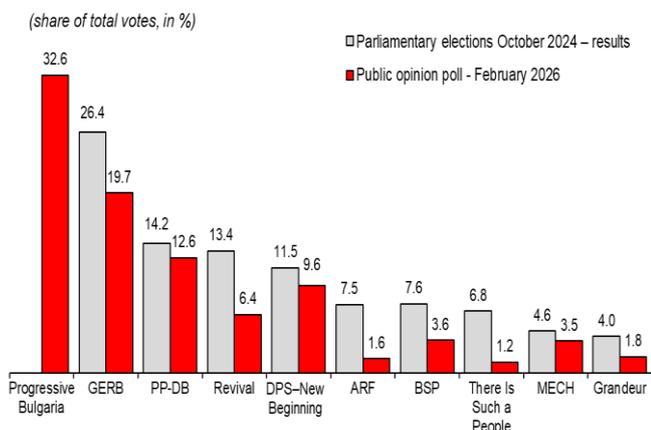
The political instability observed at the end of 2025 and the beginning of 2026 has resulted in a deceleration of the reform process. Uncertainty regarding policy continuity has increased, which has adversely affected the political-risk premium assigned to the country by investors.

The risk of losing funds under the RRP has increased

Incentives for tax-payment avoidance have increased, which is likely to lead to some deterioration of the budget balance in the first half of the current year. The absorption of EU funds has slowed, and the risk of losing resources under the Recovery and Resilience Plan has risen, as political parties in the outgoing National Assembly have redirected their attention towards the forthcoming election campaign, while the remaining timeframe for the implementation of the structural reforms agreed with the European Commission is rapidly diminishing. Changes in the public administration following the appointment of the caretaker government will lead to delays in infrastructure construction and, consistent with previous episodes of political instability, projects financed from national sources are expected to be the most affected.

IT APPEARS THAT A SIGNIFICANT SHIFT IN VOTERS’ POLITICAL PREFERENCES IS UNDERWAY

ELECTORAL ATTITUDES IN FEBRUARY 2026 INDICATE EXPECTATIONS FOR A LESS FRAGMENTED PARLIAMENT



Source: Central Election Commission, Alpha Research Agency (The public opinion poll is conducted in the period 23 Feb – 2 Mar 2026), UniCredit Bulbank

Countering attempts at speculative price increases has become more difficult

Political instability has further limited the authorities' ability to address speculative price-increasing practices. Although it is still premature to assess with sufficient precision the extent of inflation resulting from the conversion of prices of goods and services into the new national currency, it can be stated with a high degree of confidence that the outcome would have been more favorable had the conversion process been managed by a regular government supported by a functioning parliament.

ECONOMIC GROWTH IS EXPECTED TO REMAIN RESILIENT DESPITE NEWLY EMERGED HEADWINDS

Headwinds to growth have intensified

Despite ongoing political instability and the inflationary pressures arising from the conflict in the Middle East, real GDP growth is expected to remain comparatively robust. Specifically, we project real GDP growth of 2.8% in 2026, accelerating to 3% in 2027.

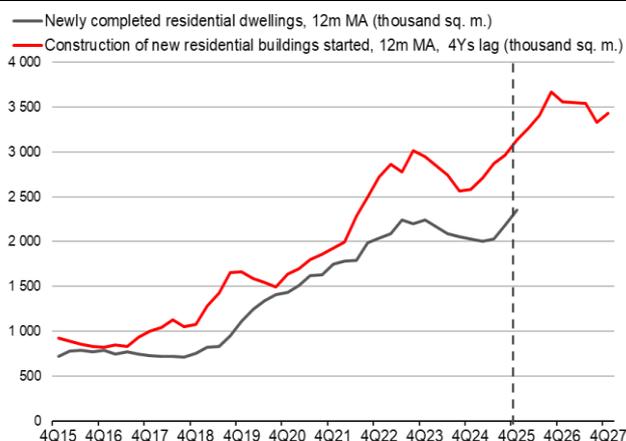
Euro area accession generated a significant impulse to aggregate demand in 2025. Although the magnitude of this impulse is diminishing, it will continue to support economic activity in the beginning of 2026. Residential construction remains a key driver of growth (see chart). Investment in new renewable-energy projects provides additional support to keep GDP growth on a robust path. Moreover, although the absorption of funds under the Recovery and Resilience Plan remains incomplete, these resources nonetheless contribute to higher investment and, consequently, to stronger real GDP growth.

Rising inflation is eroding the purchasing power of incomes

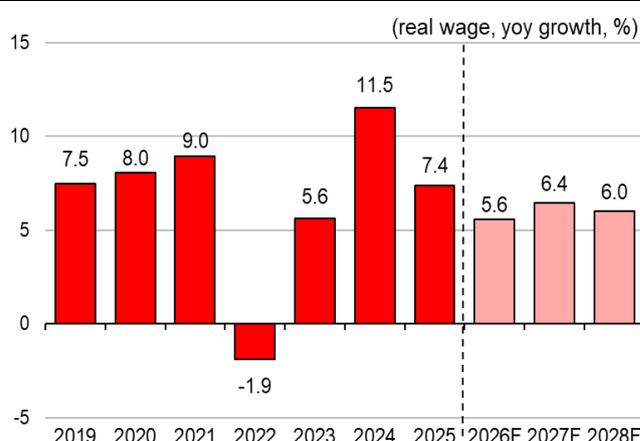
Public capex is expected to represent the weakest component of domestic demand in 2026. The anticipated deceleration in budget-revenue growth is likely to constrain the fiscal space available for additional outlays, including higher public investment. Domestic demand is furthermore projected to moderate as a result of a slowdown in income growth and, consequently, private consumption. In this forecast round, real growth in the average wage is projected to decelerate to 5.6% in 2026, compared with 7.4% in 2025 (see chart). This outcome reflects a combination of higher inflation - driven by the energy-price shock associated with the conflict in the Middle East - and a marked deceleration in public-sector wage dynamics, which is expected to spill over, at least partially, into slower private-sector wage growth.

For 2027, real growth in the average wage is projected to accelerate to 6.4%, largely reflecting the anticipated easing of inflation. To a lesser extent, the acceleration is attributable to a reversion towards higher indexation levels in the public sector, following the subdued levels in the first half of 2026.

THE CONSTRUCTION OF NEW HOUSING WILL CONTINUE TO BE AN IMPORTANT FACTOR SUPPORTING INVESTMENT AND GROWTH



THE GROWTH OF WAGES WILL SLOW DUE TO INFLATION AND THE LOWER INDEXATION OF INCOMES IN THE PUBLIC SECTOR



Source: National Statistical Institute, UniCredit Bulbank

THE DISINFLATION PROCESS IS BEING DELAYED DUE TO THE CONFLICT IN THE MIDDLE EAST

We have revised our HICP forecast upward

Average annual inflation is projected to reach 4.9% in 2026 (see chart). A more pronounced moderation of inflation in the Bulgarian economy—to an average rate of 3.5%—is expected to materialize in 2027.

We expect military operations to be short-lived

The conflict in the Middle East constitutes the principal factor behind the upward revision of our consumer price inflation forecast for Bulgaria. Under the baseline scenario, military operations are assumed to continue for several additional weeks. According to estimates by UniCredit Group economists, the associated energy-price shock is expected to raise average inflation in the euro area by 0.6 percentage points in 2026. Under this scenario, the ECB is expected to refrain from policy intervention.

We do not anticipate damage to energy infrastructure

The projection rests on two main assumptions. First, that the leadership of the Iranian regime will refrain from damaging the region’s energy infrastructure, with a view to preserving their prospects of remaining in power; otherwise, retaliatory strikes against the regime would intensify. Second, that the United States has limited appetite for a prolonged escalation of tensions due to the approaching mid-term elections.

We expect a short-lived shock that dissipates rapidly once hostilities end

Futures prices indicate that the average crude-oil price in 2026 will increase by approximately USD 10 per barrel relative to the levels recorded in 2025 (see chart). The impact on natural-gas prices is expected to be more substantial, with an average increase of EUR 16 per megawatt-hour projected for 2026 relative to 2025. The energy-price shock is expected to dissipate relatively quickly according to our baseline. For 2027, crude-oil prices are projected to return to the levels observed prior to the conflict, whereas natural-gas prices are expected to require somewhat more time to go back where they were before the conflict.

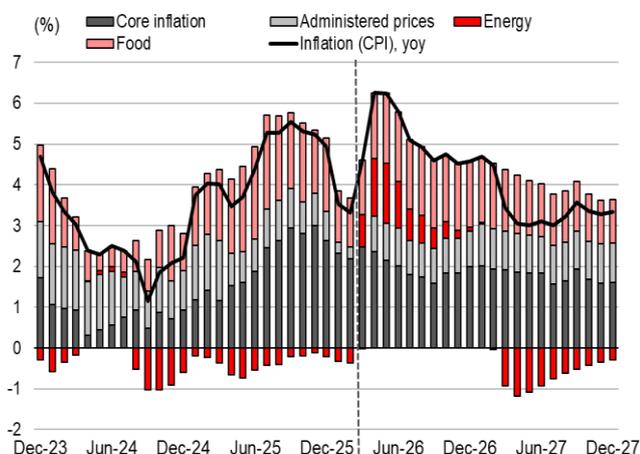
We do not foresee second-round inflation effects or an increase in inflation expectations

The increase in energy prices is likely to be temporary. We do not anticipate significant indirect effects, nor do we expect second-round effects in response to the inflationary shock triggered by the conflict. We do not expect the conflict to impede the global economy’s capacity to extract, transport or process crude oil and natural gas. Furthermore, we do not consider the shock likely to have a lasting impact on inflation expectations, which - according to our baseline - are expected to begin easing more visibly in 2H2026.

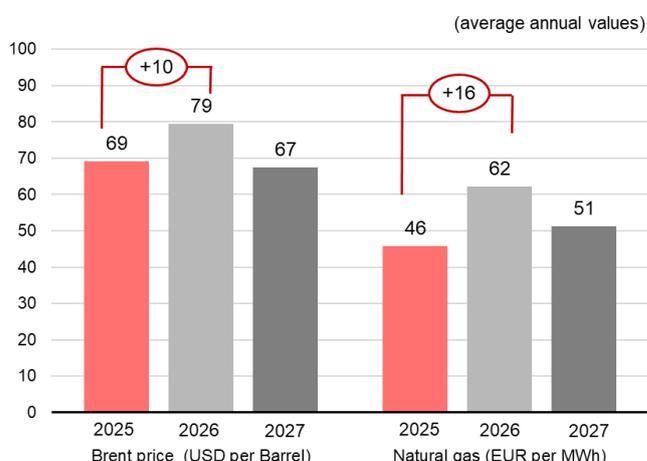
Under our baseline scenario, the conflict is not expected to materially affect the fiscal position

Under the baseline scenario, the fiscal impact of the energy shock is expected to be limited. In this scenario, fiscal support would be targeted towards the most affected households and businesses, with an estimated budgetary impact of 0.2% of GDP. In the case of a prolonged conflict, the government would increase fiscal support to the most vulnerable households and companies, resulting in higher budgetary expenditure. In the event of an escalation, the existing mechanism supporting electricity consumers in the corporate sector would likely be enhanced and broadened, thereby increasing fiscal costs.

WE HAVE RAISED OUR INFLATION FORECAST FOR THE CURRENT YEAR DUE TO THE SHOCK IN ENERGY PRICES



FUTURES INDICATE A MODERATELY SIZED INCREASE IN THE PRICES OF CRUDE OIL AND NATURAL GAS IN 2026



Source: World Bank, CME Group, National Statistical Institute, UniCredit Bulbank

THE TIME AVAILABLE TO ADDRESS THE CHRONICALLY ELEVATED BUDGET DEFICIT IS RUNNING OUT

Measures aimed at expenditure restraint and enhanced revenue collection are anticipated

We expect the new government to implement reductions in public-sector employment and to introduce temporary wage freezes in selected public-sector areas. Additional measures aimed at curbing the informal economy are likewise anticipated, with the objective of strengthening tax compliance. At the same time, fiscal revenue growth is projected to moderate, as the frequent changes of government strengthen incentives for tax evasion. The conflict in the Middle East is expected to delay the planned increase in toll charges for heavy-duty vehicles and to necessitate support measures for the households and businesses most adversely affected by the energy prices shock. Against this backdrop, the budget deficit on an accrual basis is projected to widen to 3.4% of GDP in 2026 under our baseline scenario.

Despite some deterioration, the fiscal deficit is expected to remain contained

In 2027, substantial payments under already signed contracts for strengthening the army's defence capabilities are due. This implies that, absent additional revenue-raising measures, the budget deficit will expand further and will likely exceed the levels envisaged under the Stability and Growth Pact for a second consecutive year. The European Commission is unlikely to initiate an excessive-deficit procedure, as part of this expenditure relates to defence and will be excluded from the assessment of the budget balance. Financial markets are also unlikely to respond with a sharp increase in required yields on newly issued government debt, given that Bulgaria's public debt remains among the lowest in the EU and that markets expect the authorities, in due course, to take the necessary steps to reduce the deficit to sustainable levels.

Expenditure restraint and improved revenue collection will be insufficient to deliver a durable reduction in the deficit

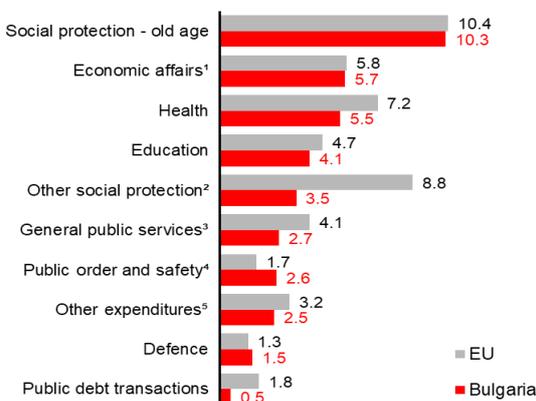
A lasting resolution of the problem of a chronically elevated deficit in public finances will require reducing the budget deficit to 1% of GDP. At GDP growth rates close to current levels, such an adjustment would stabilise the debt-to-GDP ratio at its present level of around 30% of GDP. In the assessment of the authors, the scope for deficit reduction through expenditure cuts is limited, as most public systems are underfunded (see chart). Moreover, a reversion to strict austerity policies would likely prove unsustainable due to the high political cost associated with such an approach. In this context, a lasting solution requires an increase in the tax and social-security contribution burden. The ratio of taxes and social-security contributions to GDP will need to rise by approximately 3 percentage points over the next several years. The positive news is that the required adjustment is of such magnitude that Bulgaria would continue to exhibit the second-lowest tax-and-social-security-contribution burden in the EU even after its implementation, and low taxation would remain a source of competitive advantage for the economy (see chart). Cross-country comparisons are unlikely to shift materially, in our view, as other EU member states face similar pressures and are themselves subject to upward tax-adjustment requirements.

The time available to address the chronically elevated deficit is running out

Expenditure restraint and improvements in tax collection are insufficient to deliver a permanent correction and, in essence, amount to a strategy of postponement. Persisting with such an approach beyond 2026 would heighten the risk of the deficit moving onto an unsustainable trajectory. A continuation of a postponement strategy after 2026 would be risky, as any subsequent shock - whose occurrence is only a matter of time - could potentially trigger a significant deterioration in the country's fiscal position.

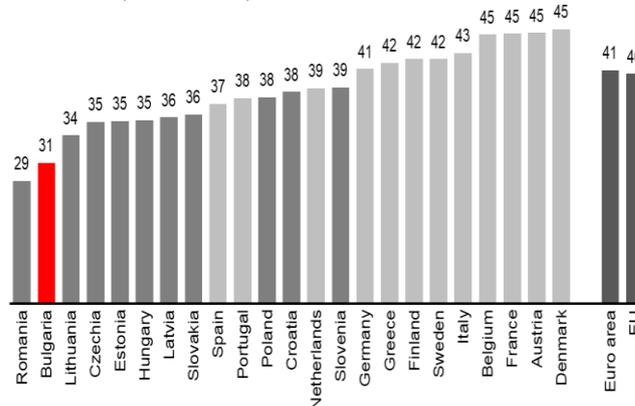
IN BULGARIA, MOST BUDGET-FINANCED SYSTEMS APPEAR UNDERFUNDED

General government expenditure by function (as % of GDP, 2023)



BULGARIA HAS THE SECOND-LOWEST LEVEL OF TAX AND SOCIAL SECURITY BURDEN AMONG EUROPEAN UNION COUNTRIES

Total tax revenue (as % of GDP, 2024)



Source: European Commission (AMECO), Eurostat, UniCredit Bulbank

¹ Public expenditures supporting economic activity and competitiveness, including investments and subsidies in transport, energy, agriculture, industry, tourism, and infrastructure development; ² Public expenditures directed at reducing social risks and inequalities, such as social transfers, unemployment benefits, and support for vulnerable groups; ³ Public expenditures for the functioning of public administration, public finance management, external relations, and elections; ⁴ Public expenditures for the police, judiciary, prosecution service, prison system, and security agencies; ⁵ Public expenditures for culture, sports, religious activities, environmental protection, and other specific public functions.

GDP AND INFLATION FORECAST REVISIONS

	Forecast as of March 2026				Forecast as of December 2025				Revision (percentage change)			
	2024	2025	2026F	2027F	2024	2025F	2026F	2027F	2024	2025	2026F	2027F
Real yoy growth (%)												
GDP	3.4	3.1	2.8	3.0	3.4	3.4	2.8	2.7	0.0	-0.3	0.0	0.3
Private Consumption	4.9	7.8	4.1	3.7	4.9	7.6	4.0	3.5	0.0	0.2	0.1	0.2
Public Consumption	3.6	6.8	2.5	3.3	3.6	6.9	2.5	2.7	0.0	-0.1	0.0	0.6
Fixed Investment	1.5	11.4	0.1	5.6	1.5	9.2	-0.7	7.2	0.0	2.2	0.8	-1.6
Exports	1.8	-2.1	4.7	4.3	1.8	-3.0	3.5	4.5	0.0	0.9	1.2	-0.2
Imports	3.9	5.9	5.0	5.8	3.9	3.9	3.5	6.7	0.0	2.0	1.5	-0.9
Contribution to growth (%)												
GDP	3.4	3.1	2.8	3.0	3.4	3.4	2.8	2.7	0.0	-0.3	0.0	0.3
Private Consumption	2.9	4.6	2.5	2.3	2.9	4.5	2.5	2.2	0.0	0.1	0.0	0.1
Public Consumption	0.7	1.3	0.5	0.6	0.7	1.3	0.5	0.5	0.0	0.0	0.0	0.1
Fixed Investment	0.3	2.0	0.0	1.0	0.3	1.6	-0.1	1.3	0.0	0.4	0.1	-0.3
Exports	1.1	-1.3	2.7	2.5	1.1	-1.8	2.0	2.6	0.0	0.5	0.7	-0.1
Imports	-2.2	-3.4	-2.9	-3.5	-2.2	-2.3	-2.0	-3.9	0.0	-1.1	-0.9	0.4
YoY growth, average (%)												
CPI inflation, total	2.4	4.6	4.9	3.5	2.4	4.7	4.5	3.7	0.0	-0.1	0.4	-0.2
Foods	2.7	5.7	5.0	4.2	2.6	6.2	5.4	-	0.1	-0.5	-0.4	-
Energy	-4.0	-4.4	8.1	-9.0	-4.3	-4.6	-2.0	-	0.4	0.2	10.1	-
Administered prices	5.6	4.7	3.5	4.8	5.4	3.9	4.1	-	0.1	0.8	-0.6	-
Core inflation	2.4	5.5	5.0	4.4	2.7	6.5	6.2	-	-0.3	-1.0	-1.2	-
Contribution to growth (%)												
CPI inflation, total	2.4	4.6	4.9	3.5	2.4	4.7	4.5	3.7	0.0	-0.1	0.4	-0.2
Foods	0.9	1.9	1.6	1.3	0.9	1.9	1.8	-	0.0	0.0	-0.2	-
Energy	-0.4	-0.4	0.6	-0.6	-0.4	-0.3	-0.2	-	0.0	-0.1	0.8	-
Administered prices	1.2	1.0	0.7	1.0	1.1	0.8	0.9	-	0.1	0.2	-0.2	-
Core inflation	0.7	2.1	2.0	1.8	0.8	2.3	2.4	-	-0.1	-0.2	-0.4	-

Source: National Statistical Institute, UniCredit Bulbank

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