



ECONOMIC REVIEW

1/2024



BULGARIAN NATIONAL BANK

— 145 YEARS —

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The BNB quarterly Economic Review presents information and analysis of balance of payments dynamics, monetary and credit aggregates, their link with the development of the real economy, and their bearing on price stability. External environment developments are also analysed since they directly affect Bulgarian economy.

The Economic Review, issue 1/2024 was presented to the BNB Governing Council at its 30 April 2024 meeting. It employs statistical data and information published up to 16 April 2024. Expectations of economic developments in Bulgaria in the short term (until the third quarter of 2024), as described in this issue, are based on the BNB macroeconomic forecast prepared as of 27 March 2024. The estimates and projections presented in this publication should not be regarded as advice or recommendations. The user of the information is solely liable for any consequences thereof.

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ABBREVIATIONS

ABSP	Asset-Backed Securities Purchase Programme
APP	Asset Purchase Programme
APRC	Annual percentage rate of charge
BNB	Bulgarian National Bank
CBPP	Covered Bond Purchase Programme
cif	cost, insurance, freight
CEE	Central and Eastern European countries
CFP	Consolidated Fiscal Programme
CNY	Chinese Yuan
COMEX	Commodity Exchange
CPI	Consumer Price Index
CSPP	Corporate Sector Purchase Programme
EC	European Commission
ECB	European Central Bank
EIB	European Investment Bank
EONIA	Euro OverNight Index Average
EU	European Union
EURIBOR	Euro Interbank Offered Rate
EWRC	Energy and Water Regulatory Commission
FDI	Foreign Direct Investment
FOB	Free on Board
FOMC	Federal Open Market Committee
GDP	Gross Domestic Product
HICP	Harmonized Index of Consumer Prices
HPI	House Price Index
IBEX	Independent Bulgarian Energy Exchange
IEA	International Energy Agency
IMF	International Monetary Fund
ISM	Institute for Supply Management
LEONIA	LEv OverNight Index Average
LFS	Labour Force Survey
LIBOR	London Interbank Offered Rate
LNG	Liquefied natural gas
LTRO	Longer-term refinancing operation
M3	broad money
MF	Ministry of Finance
MFIs	Monetary Financial Institutions
mt	metric tons
MMBtu	Metric Million British Thermal Unit
NPISHs	Non-profit institutions serving households
NRRP	National Recovery and Resilience Plan
NSI	National Statistical Institute
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of Petroleum Exporting Countries
PBoC	People's Bank of China
PCE	Personal Consumption Expenditures
PELTRO	Pandemic Emergency Longer-Term Refinancing Operations
PEPP	Pandemic Emergency Purchase Programme
PMI	Purchasing Managers' Index
PPI	Producer Price Index
PSPP	Public Sector Purchase Programme
SITC	Standard International Trade Classification
SNA	System of National Accounts
TLTRO	Targeted Longer-Term Refinancing Operations
TPI	Transmission Protection Instrument
VAT	Value Added Tax
€STR	Euro Short-term Rate

SUMMARY

Global GDP growth stabilised on a quarterly basis in the fourth quarter of 2023 and stood at 0.5 per cent in real terms, with data on economic indicators showing an acceleration in growth in the first quarter of 2024. In the first three months of 2024, global economic activity increased in services and manufacturing in both developed and emerging market economies. Leading economic indicators in the United States point to some deceleration in real GDP growth, while China reported an acceleration in economic activity. Euro area economic data signalled continued economic stagnation. Bulgarian exports of goods are likely to record higher growth than assumed on the basis of data and expectations for world trade and external demand in the first half of 2024, due to the exhausted base effect of country-specific factors limiting exports in early 2023.

Global inflation continued to decline year-on-year in the first quarter of 2024, due to the fall in crude oil and food prices, as well as to the effects of tight monetary policies by leading central banks. These developments, coupled with the structure of the Bulgarian economy and foreign trade, point to the existence of unfavourable terms of trade in the first quarter of 2024. The Federal Reserve and the ECB made no changes to their monetary policies, but continued to signal a possible cut in key interest rates during the current year. In March 2024, the ECB announced changes to the monetary policy operational framework, which provide for a narrowing of the spread between the rate on the deposit facility and the main refinancing rate at 15 basis points.

Bulgaria's current and capital account surplus for the last 12 months as of January 2024 was 1.6 per cent of GDP compared to 1.3 per cent of GDP as of December 2023, due to the current account shift from a deficit to a small surplus. The financial account balance for the last 12 months as of January 2024 was negative reflecting the stronger accumulation of liabilities to non-residents compared to the acquisition of foreign assets by Bulgarian residents. As a result of the flows in the current, capital and financial account of the balance of payments, Bulgaria's gross international reserves for the last 12 months as of January 2024 increased by EUR 1.1 billion.

In the first two months of 2024, annual growth of non-financial corporations' deposits continued to slow down, with the persistent trend of falling nominal turnover in the industrial sector potentially affecting this development. Households' preference to keep their free funds in the form of deposits in the banking system and rising labour income contributed further to the relatively high growth of household deposits, which stood at 10.8 per cent by the end of February. In the context of still low interest rates on new time deposits of households overall for the banking system, deposit growth continued to be almost entirely driven by overnight deposits.

High liquidity and capitalisation in the banking sector, as well as competition between banks, limit the effects of the increased euro area key interest rates and of the rise in minimum required reserve rate by the BNB to 12 per cent from 1 July 2023 on interest rates on new loans in the household sector. Annual growth of credit to households accelerated to 17.1 per cent in February 2024, reflecting to a larger extent housing loans and, to a lesser extent, consumer loans. Demand for loans by households continued to be supported by rising labour income and interest rate levels, which remained very low on housing loans. In February 2024, credit growth to non-financial corporations reached 8.0 per cent.

In the fourth quarter of 2023, real GDP increased by 0.5 per cent on a quarterly basis (0.4 per cent in the third quarter), while on an annual basis growth was 1.8 per cent. Overall for 2023, economic activity increased by 1.8 per cent in real terms as a result of these developments. By final consumption expenditure components, domestic demand had the main positive contribution to annual real GDP growth in the fourth quarter of 2023, followed by net exports, while changes in inventories contributed negatively

thereto. In the fourth quarter, gross value added increased by 0.2 per cent year-on-year due to the construction and services sectors, while manufacturing and agriculture decreased. The labour force declined on an annual basis in the fourth quarter of 2023 due to the continued decline in the working-age population and labour outflows, while the unemployment rate increased by 0.4 percentage points to 4.2 per cent. National accounts data recorded employment growth of 1.2 per cent year-on-year, mainly driven by the services sector, while labour shortages in Bulgaria continued to widen, exerting upward pressure on wages in real terms despite the reported decline in labour productivity.

According to the composite economic activity indicator constructed by the BNB, in the first quarter of 2024 quarter-on-quarter real GDP growth in Bulgaria is expected to accelerate, which is a prerequisite for the formation of similar dynamics in the annual rate of change of the indicator. In the second and third quarters of 2024, real GDP is projected to continue growing both quarter-on-quarter and year-on-year, supported mainly by domestic demand and the assumed improvement in the outlook for external demand for Bulgarian goods and services.

Annual inflation, as measured by the HICP, continued to slow down and stood at 3.1 per cent in March 2024. This dynamics was mainly driven by the base effect of rapid price increases in food and core component groups in 2023 and, to a lesser extent, by the depreciation of energy products and industrial goods. Strong growth rates in private consumption and unit labour costs were factors stemming from the domestic environment, which continued to exert pro-inflationary pressure. In March 2024, services and goods and services with administratively controlled prices and tobacco products made the largest positive contribution to headline inflation, followed by food products. Annual inflation is projected to continue to decelerate in the second and third quarters of 2024. However, the anticipated sustained strong consumer demand and rising unit labour costs will continue to exert pro-inflationary pressure on prices.

1. EXTERNAL ENVIRONMENT

1.1. Current Business Situation

Global Environment

In the fourth quarter of 2023, global GDP growth stabilised on a quarterly basis and stood at 0.5 per cent in real terms (0.5 per cent in the third quarter), with data on economic indicators (global PMIs in services and manufacturing sectors) signalling an acceleration in growth in the first quarter of 2024. In the first three months of 2024, economic activity increased in services and manufacturing in both developed and emerging market economies. In January 2024, after nine months of decline, the volume of world trade in goods rose on an annual basis, mainly driven by China's foreign trade.

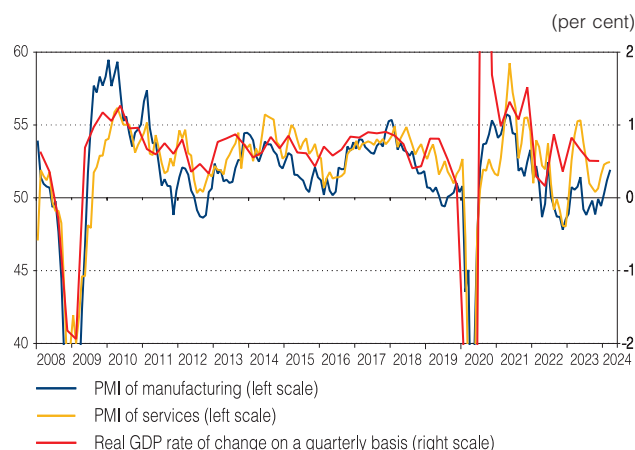
Global inflation continued to moderate in the first two months of 2024, reaching 3.2 per cent year-on-year as of February, compared to 3.8 per cent in December 2023. The slowdown in inflation was due to the annual fall in energy and food prices, as well as the effects of the tight monetary policies of leading central banks.

International Commodity Prices

In the first quarter of 2024, the Brent oil price fell quarter-on-quarter (by 1.1 per cent in dollars¹ and by 2.1 per cent in euro) to USD 83.1 *per* barrel (EUR 76.6 *per* barrel). On an annual basis, the price rose both in dollars (2.1 per cent) and in euro (0.9 per cent), after four quarters of decline. At the same time, natural gas prices in the European market continued to fall on an annual basis (by 48.6 per cent in euro).

The main factors behind the rise in oil prices were the increasing risks to the oil supply owing to geopolitical tensions in the Middle East and the extension of OPEC+ measures limiting oil

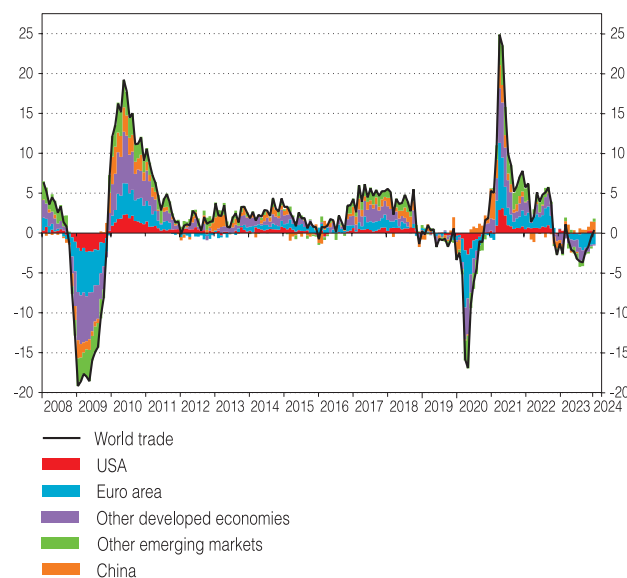
Manufacturing and Services PMIs and Change in World Real GDP



Sources: JP Morgan, World Bank.

World Trade in Goods

(per cent, percentage points, annual rate of volume change and contribution by region)

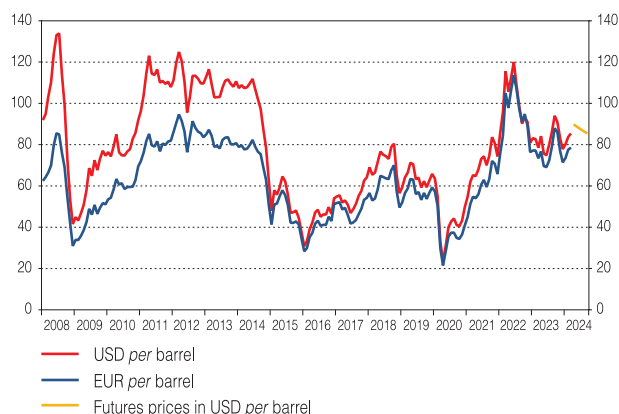


Source: CPB Netherlands Bureau for Economic Policy Analysis.

¹ Hereinafter referred to as the US dollar.

production² until the end of the first half of 2024. The military conflict between Israel and Hamas and the consequent response of Houthi rebels supported by Iran in Yemen have led to disruptions to maritime transport through the Red Sea due to rising attacks on ships. Attacks caused an increase in the risk premium in the oil price as well as a change in global trade routes. An additional factor supporting the crude oil price rise was economic data released over the period, pointing to more sustainable economic growth in the United States and China compared to market participants' expectations by early 2024.

Prices and Futures of Brent Crude Oil



Note: Future prices are average contracts prices for 1-15 April 2024, USD per barrel.

Sources: World Bank, ECB, JP Morgan and BNB calculations.

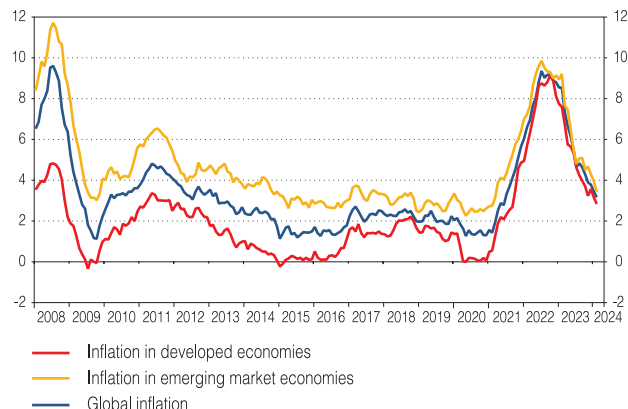
The main factors behind the significant decline in gas prices in the first quarter were the stable supplies of the commodity as well as higher than normal seasonal temperatures in Europe, which resulted in lower gas demand over the period and historically high seasonal levels of gas stocks in gas storages in the region.

In January–March 2024, the average metal and mineral price index decreased by 9.2 per cent on an annual basis in dollars (by 10.3 per cent in euro). The decline reflected a change in market expectations of maintaining restrictive financing conditions over a longer period of time, which has a limiting effect on the demand for metals for industrial purposes. The price of copper, which is of key importance to Bulgarian exports, also declined year-on-year.

² At the OPEC+ meeting of 3 March 2024, it was decided to extend the measures in force until the end of the second quarter of the year, as well as the additional voluntary production cuts introduced by some OPEC+ member countries by a total of 2.2 million barrels per day.

Inflation Measured through CPI

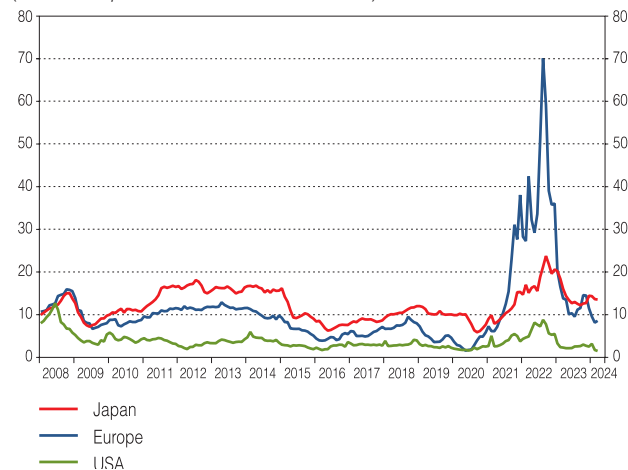
(per cent, on an annual basis; seasonally adjusted data)



Source: World Bank.

Natural Gas Prices

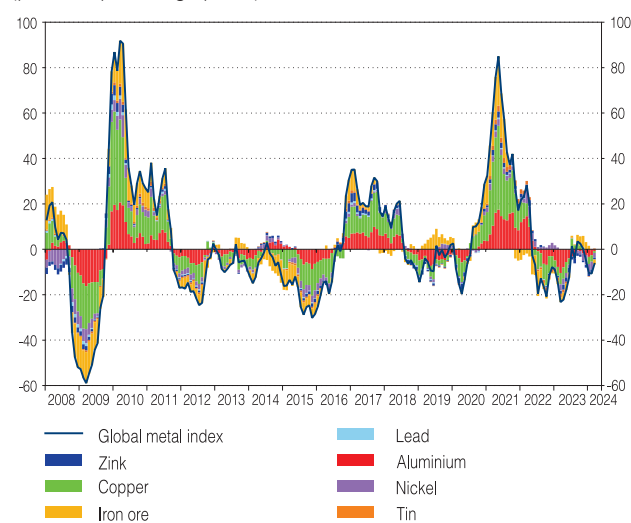
(US dollars per million British thermal unit)



Source: World Bank.

Metal Price Indices

(per cent, percentage points)



Note: Annual rate of change (per cent) and contribution (percentage points) by sub-component of relevant price indices measured in US dollars.

Sources: World Bank and BNB calculations.

In January–March 2024, the total food price index recorded an annual decrease of 9.5 per cent in dollars (10.5 per cent in euro). Lower prices of vegetable fats, corn, wheat and soybean contributed most to the decline in food price index. The price of wheat, which is essential for Bulgarian food exports, recorded an annual decrease during the quarter driven by the strong supply by the European Union, the Russian Federation and the US, as well as by the effect of the high base in 2023.

The United States

In the first quarter of 2024, leading US economic indicators signalled some moderation in economic activity growth. Over the review period, the manufacturing and services PMIs indicate an increase in activity, but data on individual consumption and retail sales suggest a slowdown in household consumption growth.

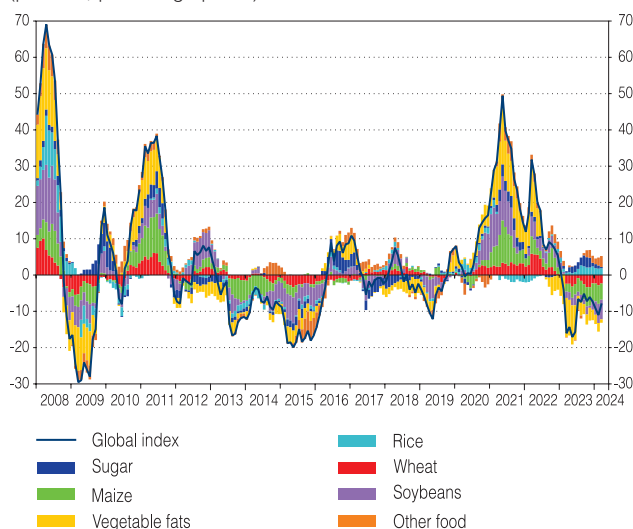
US labour market conditions remained favourable over the quarter. The number of employees in the non-agricultural sector increased by a total of 829 thousand (compared to an increase of 637 thousand in the fourth quarter of 2023), while the ratio of offered new jobs to the number of unemployed remained 1.4 for the second consecutive quarter. At the same time, the unemployment rate increased to 3.8 per cent in the first quarter of 2024 from 3.7 per cent in the fourth quarter of 2023.

In the first two months of 2024, annual consumer price inflation declined, remaining, however, above the 2 per cent target set by the US Federal Reserve. In February, the annual rate of change in the price index of individual consumer expenditure stood at 2.5 per cent, compared to an average of 2.8 per cent in the fourth quarter of 2023. The annual growth rate of the core PCE index, which excludes the food and energy components, slowed to 2.8 per cent in February, from 3.2 per cent on average in the fourth quarter of 2023. The decrease in core inflation in the first two months of 2024 compared with the previous quarter was driven by lower housing and medicine price inflation.

In the first quarter of 2024, the Federal Open Market Committee (FOMC) decided not to initiate changes to monetary policy. The prospect of lower inflation was assessed by the Committee to

Food Price Indices

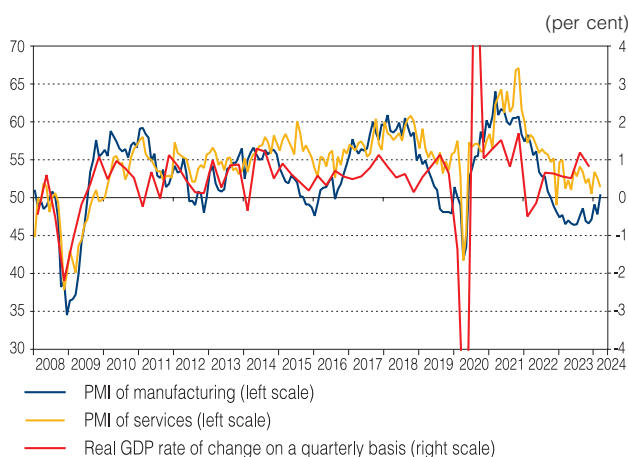
(per cent, percentage points)



Note: Annual rate of change (per cent) and contribution (percentage points) by sub-component of relevant price indices measured in US dollars.

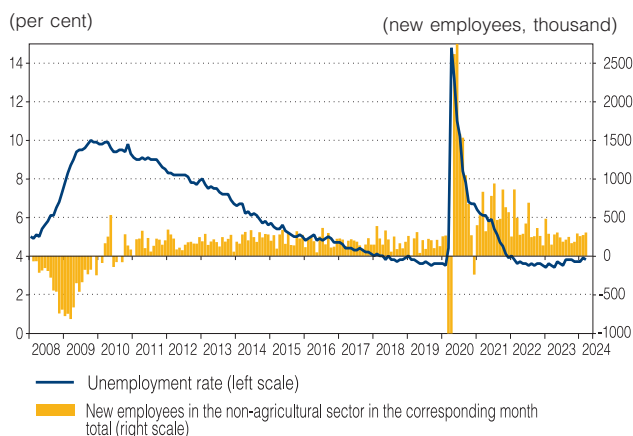
Sources: World Bank and BNB calculations.

Manufacturing and Services PMIs and Changes in US Real GDP



Sources: Institute for Supply Management (ISM), Bureau of Economic Analysis.

US Unemployment Rate and a Monthly Change in the Number of New Employees in the US Non-agricultural Sector



Note: The number of new employees in the non-agricultural sector for April and June 2020 is not evident in the chart, coming to -20,514 and 4565 thousand.

Source: Bureau of Labour Statistics.

be insufficient to achieve the inflation target in a sustainable manner and to initiate monetary policy easing.

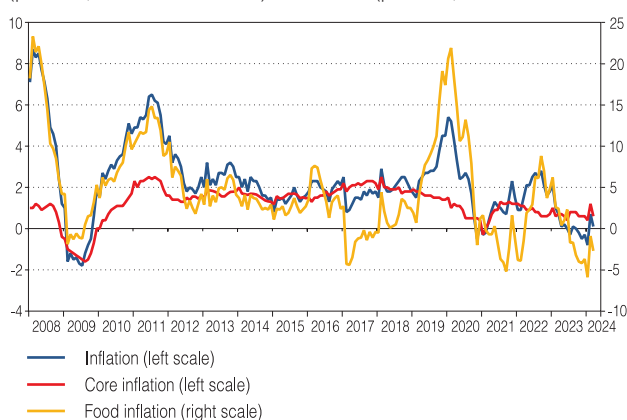
In March 2024, the median of FOMC members' individual forecasts about the federal funds rate in 2024 remained at 4.6 per cent, corresponding to a target rate corridor of 4.50-4.75 per cent, which is a 75 basis-point decrease from the current level. At the same time, members' projections for the federal funds rate in 2025 and 2026 and its long-term equilibrium level were revised upwards.

China

China's quarterly real GDP growth picked up to 1.6 per cent in the first quarter of 2024, from 1.2 per cent in the fourth quarter of 2023. Public investment and, to a lesser extent higher external demand, contributed largely to the economic activity growth. Structural problems in the Chinese residential construction sector continued to act as a constraint on domestic economic activity. In the first quarter of 2024, the volume of sales of residential property declined by 20.0 per cent year-on-year (compared with a decrease of 8.1 per cent in the fourth quarter of 2023), while the volume of housing loans fell by 38.8 per cent year on year (compared with a decrease of 8.3 per cent in the fourth quarter of 2023). Over the same period, the growth of retail sales slowed significantly to 4.7 per cent year on year, from 8.7 per cent in the fourth quarter of 2023.

China's Inflation Rate

(per cent, on an annual basis) (per cent, on an annual basis)

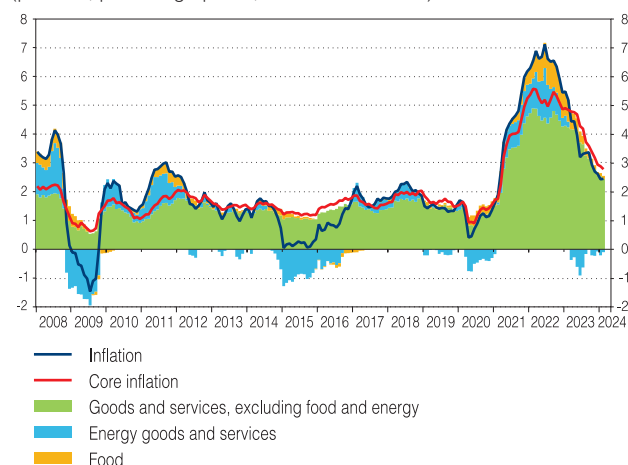


Notes: Inflation is measured by consumer price index. Core inflation is measured by consumer price index, excluding food and energy expenditure.

Source: National Bureau of Statistics of China.

US Inflation Rate

(per cent; percentage points; on an annual basis)



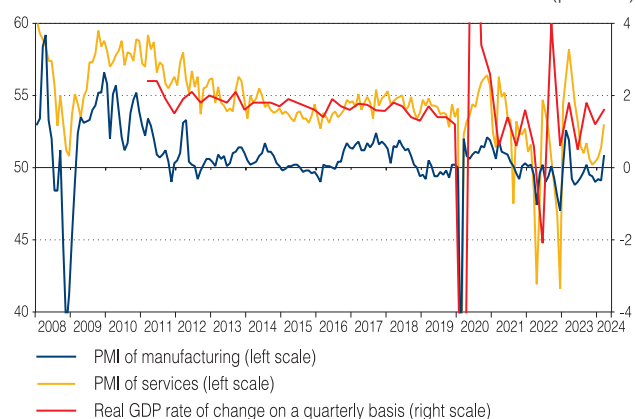
Notes: Inflation is measured by personal consumption expenditure index.

Core inflation is measured by personal consumption expenditure index, excluding food and energy expenditure.

Source: Bureau of Economic Analysis.

Manufacturing and Services PMIs and Changes in China's Real GDP

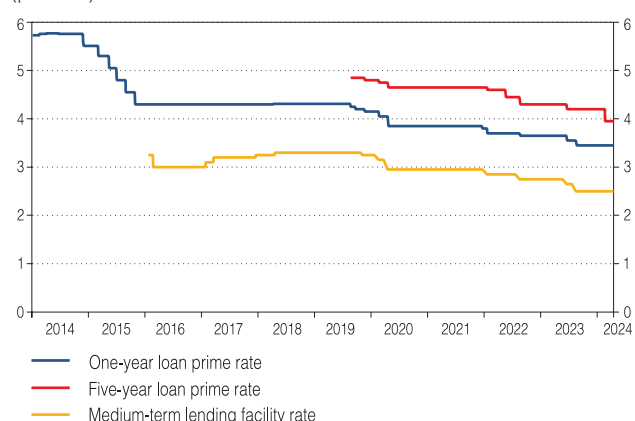
(per cent)



Sources: National Bureau of Statistics of China and China Federation of Logistics and Purchasing.

Reference Rates in China

(per cent)



Source: People's Bank of China.

In February and March 2024, the deflationary trend in consumer prices was interrupted, with the consumer price index increasing by 0.7 per cent and 0.1 per cent year on year respectively. Increases in prices of non-food goods and energy products were the main factor behind the inflation recorded during this period. Core inflation increased from 1.1 per cent on average in the fourth quarter of 2023 to 1.9 per cent and 0.8 per cent in February and March 2024, respectively.

In the first quarter of 2024, the People's Bank of China continued to loosen its monetary policy, lowering the interest rate on five-year loan prime rate (LPR), which is a reference rate for domestic mortgage loans, by 25 basis points to 3.95 per cent, while the interest rate on loans with a maturity of one year was kept unchanged at 3.45 per cent.

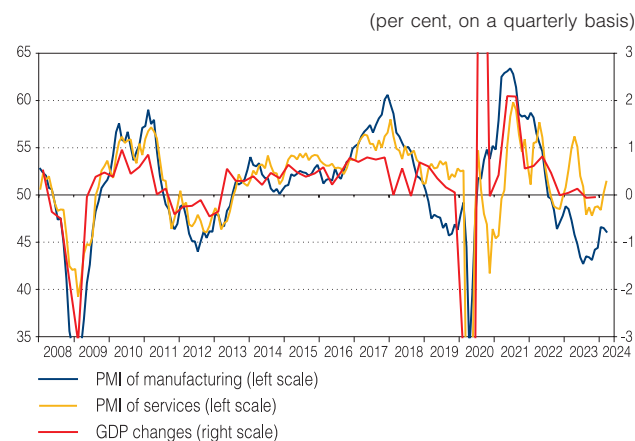
Euro Area

In the fourth quarter of 2023, euro area real GDP recorded a zero change on a quarterly basis. Of the components of final consumption expenditure, the positive contribution of investment and government consumption to the change in GDP was offset by the negative contribution of net exports and changes in inventories. The contribution of private consumption to real GDP growth was neutral. Germany, Bulgaria's largest trading partner, recorded a 0.3 per cent decline in real GDP from the previous quarter, while economic activity in Italy, Bulgaria's other major trading partner, picked up by 0.2 per cent quarter-on-quarter.

Data available by mid-April 2024 on economic indicators in the euro area, including PMI indices, signalled a small quarter-on-quarter increase in euro area real GDP in the first quarter of 2024.

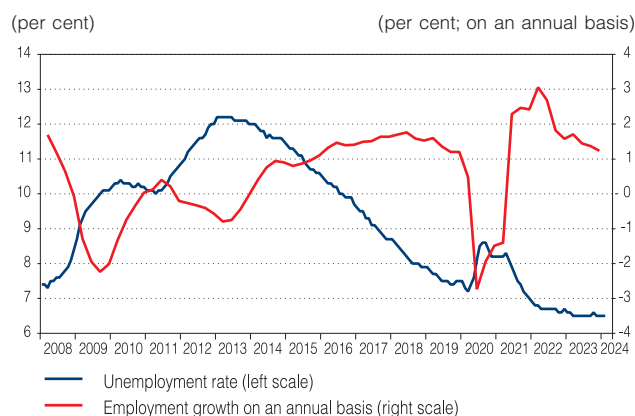
The economic stagnation in the euro area, which started in the fourth quarter of 2022, has not yet resulted in a substantial deterioration in labour market conditions in the region. The unemployment rate remained at very low historical levels, staying at 6.5 per cent in the first two months of 2024. At the same time, the annual growth rate of euro area employment slowed further, rising by 1.2 per cent year on year in the fourth quarter, compared to 1.4 per cent in the previous quarter.

Manufacturing and Services PMIs and Change in Euro Area Real GDP



Source: Eurostat.

Euro Area Unemployment Rate and Employment Growth



Source: Eurostat.

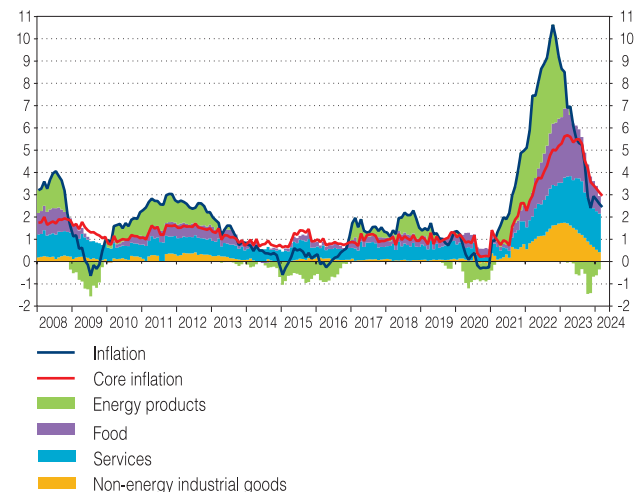
Annual consumer price inflation in the euro area continued to moderate in the first quarter of 2024, reaching 2.4 per cent in March, down from 2.9 per cent in December 2023. The slowdown in inflation on an annual basis was mainly due to lower food inflation. In the first quarter of 2024, the significant negative contribution of gas and electricity prices decreased as a result of the exhausted effect of the high base in the previous year. Core inflation, excluding food and energy products, also slowed down to 2.9 per cent on an annual basis in March 2024, compared to 3.4 per cent in December 2023. The decline in core inflation was due to the slowdown in inflation in some services and home furnishings.

In view of the continued downward trend in annual inflation in the euro area towards the ECB's target value during the period from February to April 2024, the Governing Council of the European Central Bank kept the policy rates unchanged (at 4.5 per cent, 4.75 per cent and 4.0 per cent, respectively, on the main refinancing operations, marginal lending facility and deposit facility). At its April Governing Council meeting on monetary policy, the ECB signalled that in case the downward trend in inflation remains stable, it could initiate lowering key interest rates in June. The ECB further announced in March changes to the monetary policy operational framework³, according to which on 18 September 2024 the interest rate on the main refinancing operations will be adjusted so that the spread between the interest rate on the main refinancing operations and the interest rate on the deposit facility is reduced from the current 50 basis points to 15 basis points. The interest rate on the marginal lending facility will also be adjusted so that the spread between the interest rate on the marginal lending facility and the interest rate on the main

³ The new framework provides for the ECB Governing Council to continue setting the monetary policy using the interest rate on the deposit facility. The Eurosystem will provide liquidity to commercial banks through a wide range of instruments, including main refinancing operations and three-month longer-term refinancing operations. New structural longer-term refinancing operations and Eurosystem structural portfolio securities will be introduced at a later stage. The main refinancing operations will play a key role in meeting banks' liquidity needs, and along with the three-month longer-term refinancing operations will continue to be conducted through fixed rate tender procedures with full allotment against broad collateral. The ECB Governing Council plans to undertake a new review of the monetary policy framework by 2026.

Euro Area Inflation Rate

(per cent; percentage points; on an annual basis)



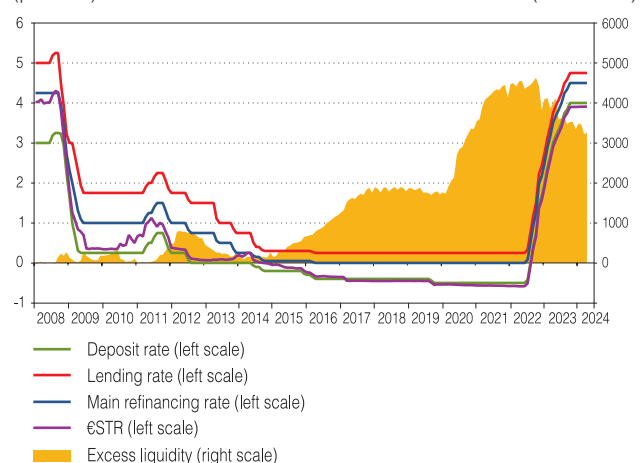
Notes: Inflation is measured by HICP.

Core inflation is measured by HICP, excluding energy products, food, alcohol and tobacco products.

Source: Eurostat.

ECB Interest Rates, EONIA, €STR and Excess Liquidity in the Euro Area Banking System

(per cent) (EUR billion)



Note: The EONIA/€STR series is composed of: EONIA between 2008 and 14 March 2017; pre-€STR between 15 March 2017 and 30 September 2019; €STR in the period after 30 September 2019.

Source: ECB.

refinancing operations remains unchanged (25 basis points).

In the first quarter of 2024, the average value of the €STR increased marginally to 3.91 per cent from 3.90 per cent in the fourth quarter of 2023. EURIBOR unsecured deposit rates either did not change significantly over that period, except for the 12-month interest rate, which recorded an increase of 16 basis points. German government bond yields increased in the first quarter of 2024, rising by 45 basis points to 2.85 per cent in the two-year maturity sector and by 27 basis points to 2.30 per cent in the ten-year maturity sector. A key factor behind the rise in both the 12-month EURIBOR and German government bond yields was the weakening of market expectations that the ECB will start to lower policy rates in early second quarter as expectations for the first interest rate have shifted from April to June 2024.

1.2. Impact on the Bulgarian Economy

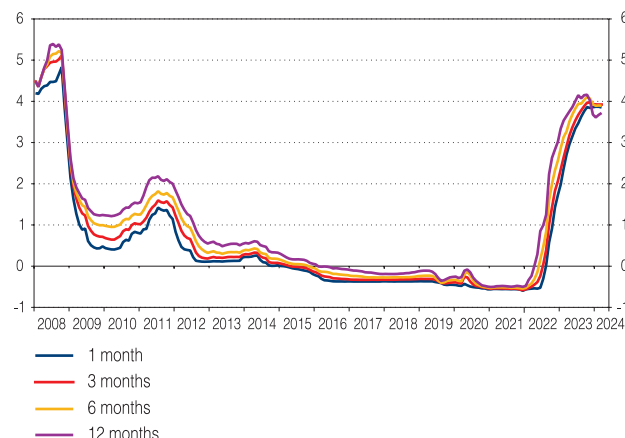
Given the weak economic activity in Bulgaria's main euro area trading partners, real exports of goods declined slightly on a quarterly basis in the fourth quarter of 2023 according to seasonally adjusted NSI national account data. Despite the risks to global economic activity and trade, currently available data suggest an acceleration in the growth of foreign demand for Bulgarian goods and services in the first half of 2024, both year-on-year and quarter-on-quarter, which will have a favourable impact on the real volumes of Bulgarian exports. Given the exhausted base effect of country-specific factors limiting Bulgarian exports in early 2023, growth in exports of goods in early 2024 could exceed what is currently assumed based on data and expectations for global trade and foreign demand.

Developments in international commodity prices in the first quarter of 2024, characterised by a year-on-year decline in metal and food prices in euro and rising oil prices, coupled with the structure of the Bulgarian economy and foreign trade, point to unfavourable terms of trade⁴ in the first quarter of 2024. This is likely to limit the positive effects of the expected growth of economic activity in Bul-

⁴ Unfavourable terms of trade refer to a more significant annual decline in the deflator of exports of goods than that of imports of goods.

EURIBOR

(per cent)



Source: ECB.

garia's major trading partners on country's trade balance.

Keeping Federal Reserve and ECB policy rates at restrictive levels in the first quarter of 2024 and signals of a possible cut thereof over the course of the year are likely to have a heterogeneous effect on financing conditions in Bulgaria's individual economic sectors. According to the currency board principles, the changes in euro area money market rates may be expected to continue to be passed through relatively quickly to interest rates on the interbank money market in Bulgaria. However, as of the first quarter of 2024, the increase in lending and deposit rates of households in Bulgaria remained considerably weaker than assumed on the basis of ECB's restrictive monetary policy. The main factors behind this continued to be country-specific and were mostly related to high liquidity, a sound capital position and strong competition in the banking sector. As a result, in a scenario of declining key ECB interest rates in 2024, improved financing conditions can be expected mainly for government and firms, while the lending and deposit rates for households are not expected to decrease further from their current levels.

2. EXTERNAL FINANCIAL FLOWS

2.1. Balance of Payments and Foreign Trade

Bulgaria's current and capital account balance was positive for the last 12 months as of January 2024, which implied no need for external financing of the economy. However, the financial account balance was slightly negative due to the smaller amount of Bulgarian residents' newly acquired foreign assets compared to their liabilities over the period⁵. As a result of these developments, Bulgaria's gross international reserves for the last 12 months as of January 2024 increased by EUR 1.1 billion. In January 2024, the amount of gross international reserves remained high according to indicators commonly used in practice, equalling the amount of nominal imports of goods and services⁶ for a period of 8.4 months (9.3 months in December 2023), while the ratio of international reserves⁷ to Bulgaria's short-term external debt stood at 4.8 in January 2024 (compared to 5.0 in December 2023).

Current Account and Capital Account

The current account deficit narrowed in 2023 with January 2024 data pointing to a continuation of this trend. At the same time, the capital account surplus increased in 2023 compared with 2022 due to greenhouse gas emission allowances trading, as according to January 2024 data the dynamics observed in 2023 did not change substantially. As a result of these developments, the current and capital account surplus over the last 12 months as of January 2024 reached 1.6 per cent of GDP, compared to 1.3 per cent of GDP as of December 2023.

Trade Balance and Foreign Trade in Goods

In 2023, the negative balance in trade in goods decreased compared to 2022, mainly driven by a larger decline in nominal imports than exports. At

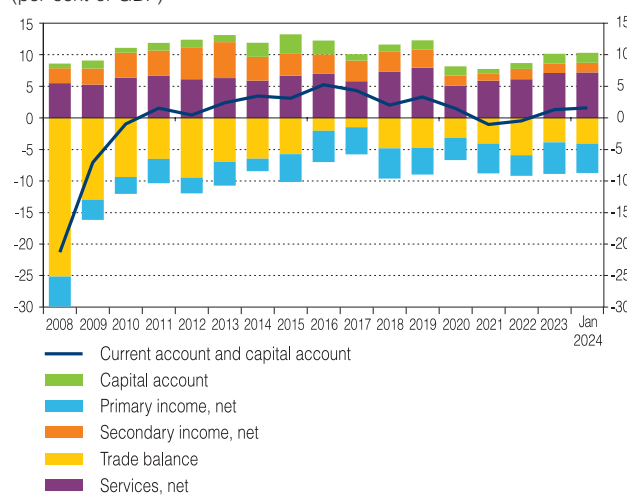
⁵ The analysis is based on the analytical reporting of the balance of payments.

⁶ Calculated for the last 12 months as of January 2024.

⁷ The analysis is based on gross international reserves on the BNB Issue Department balance sheet. The market value of international reserves includes changes stemming from transactions, valuation adjustments and price revaluation.

Current and Capital Account Flow Dynamics and Contribution by Components

(per cent of GDP)



Notes: January 2024 data on the current and capital account flows are accumulated for the last 12 months.

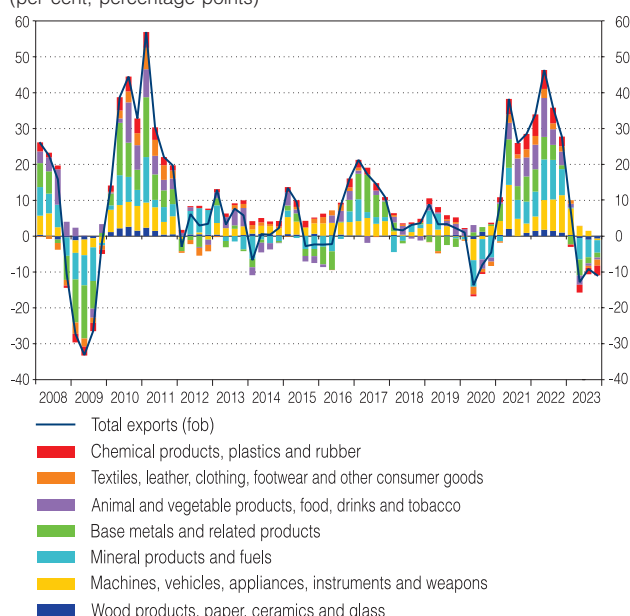
Nominal GDP data for the last four quarters up to the fourth quarter of 2023 are used in calculating the current and capital account flows to GDP ratios for January 2024.

Sources: BNB, NSI, BNB calculations.

the same time, January 2024 data point to a further decrease in goods exports, contributing to the increase in the trade deficit for the last 12 months as of January 2024. On the basis of more detailed data available up to December 2023⁸, it can be assumed that the trade deficit decline in the previous year was largely driven by changes in volumes of trade flows, while the terms of trade in Bulgaria were unfavourable⁹. Foreign demand for Bulgarian goods and services grew by 0.5 per cent in real terms in 2023¹⁰, implying that the decline in Bulgarian exports of goods in real terms is entirely due to country-specific factors.

Exports by Commodity Group under the Combined Nomenclature, Contribution to the Overall Rate of Change by Sub-components

(per cent, percentage points)



Note: Quarterly data are used. The last observation is for the fourth quarter of 2023.

Source: BNB.

According to detailed data by commodity group in foreign trade statistics, the year-on-year decline in exports of goods in real terms¹¹ in 2023 was almost entirely due to the negative contribution of the energy product groups (oil products, natural

⁸ Non-seasonally adjusted national account GDP data.

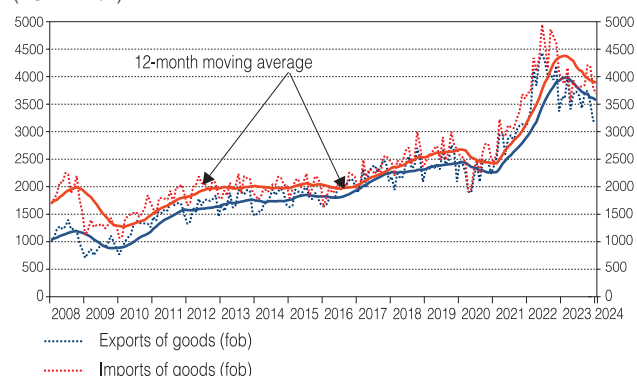
⁹ The unfavourable terms of trade in 2023 resulted in a stronger year-on-year price fall in exports of goods than in imports of goods according to non-seasonally adjusted GDP data.

¹⁰ ECB calculations of March 2024.

¹¹ Real volumes of exports and imports of commodity groups have been constructed under the Standard International Trade Classification (SITC) by using NSI data on export and import prices of the relevant commodity groups under the SITC and Eurostat data on nominal values of exports of the same commodity groups under the SITC.

Nominal Exports and Imports of Goods Dynamics (Balance of Payments Statistics Data)

(EUR million)

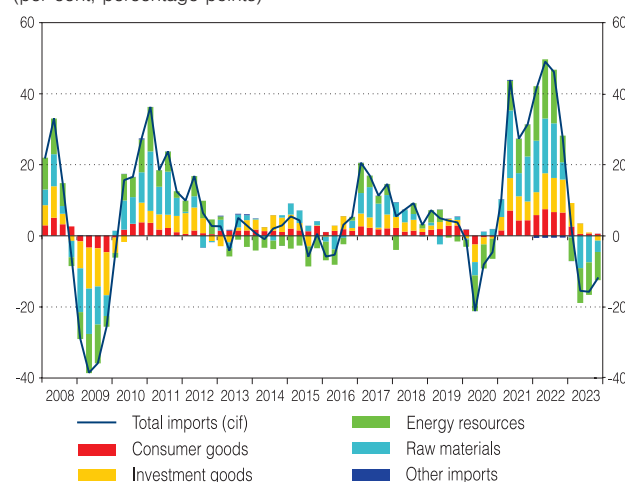


Note: Monthly data are used. The last observation is for January 2024.

Source: BNB.

Imports of Commodity Groups by Use, Contribution to the Overall Rate of Change by Sub-components

(per cent, percentage points)



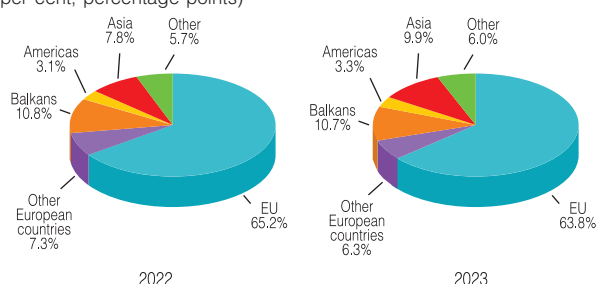
Note: Quarterly data are used. The last observation is for the fourth quarter of 2023.

Source: BNB.

gas and electricity) and non-ferrous metals. The main factors behind the decline in exports for these groups in real terms were the ban on exports to countries other than Ukraine of processed crude oil products originating in Russia¹², in force since 5 February 2023, and repairs in leading manufacturing companies. Real imports of goods by product group exhibited a broad-based decline year-on-year, with imports of fuels and raw materials falling the most significantly. This can be explained by a lower need for imports in view of firms' policies to reduce their stocks of raw materials and finished products since late 2022, as well as the country-specific factors listed above limiting production and exports. The trade deficit for the last 12 months as of January 2024 widened to 4.1 per cent of GDP from 3.9 per cent of GDP in December 2023, with exports of goods in January 2024 registering a stronger year-on-year decline than in imports of goods.

Geographical Breakdown of Exports of Goods

(per cent, percentage points)



Source: BNB.

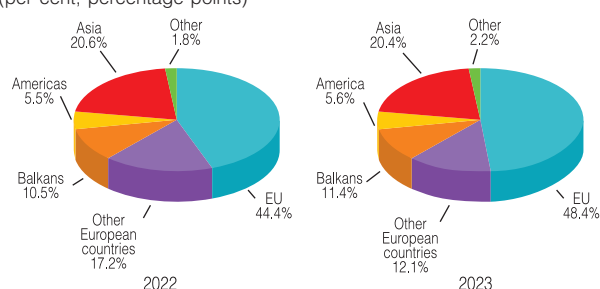
Balance on Trade in Services

In 2023, the surplus in services trade increased compared with the previous year, with growth in nominal exports of services outpacing that of imports. Higher revenue from tourism and computer and information services contributed most significantly to the increase in exports. According to NSI data, the number of visits of foreign nationals to Bulgaria increased by 16.0 per cent in 2023, with visits from Turkey and Romania making the largest contribution. Thus, the number of visits of foreigners to Bulgaria in 2023 matched the level of 2019, before the COVID-19 pandemic hit the tourist sector. Concurrently, the year-on-year increase in nominal imports of services in 2023 was mostly a result of higher expenditure

¹² For further details, see [Official Journal of the European Union \(OJ L 322\)](#), 16 December 2022.

Geographical Breakdown of Imports of Goods

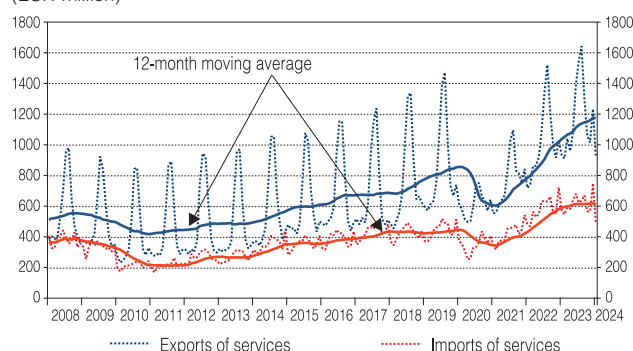
(per cent, percentage points)



Source: BNB.

Nominal Exports and Imports of Services Dynamics (Balance of Payments Statistics Data)

(EUR million)



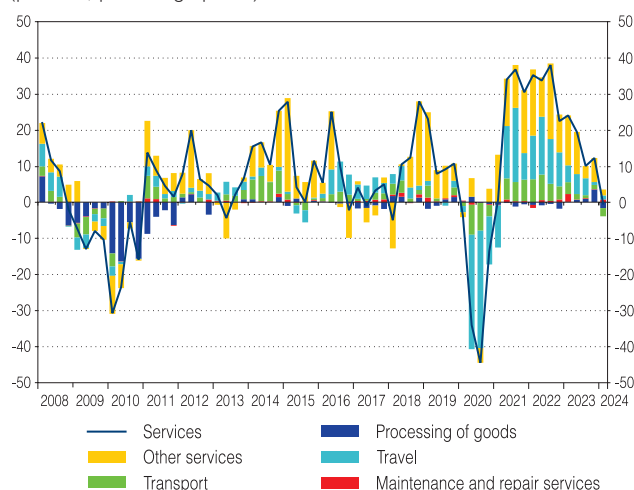
Note: Monthly data are used. The last observation is for January 2024.

Source: BNB.

of Bulgarian residents on travel abroad, which rose by 16.3 per cent on an annual basis. At the beginning of 2024, there were indications of a decline in imports of services, while their exports remained almost unchanged, and thus the positive balance of trade in services for the last 12 months as of January 2024 increased slightly from the surplus recorded at the end of 2023 to stand at 7.2 per cent of GDP.

Annual Change of Exports of Services and Contribution by Sub-components

(per cent, percentage points)



Notes: Quarterly data are used.

Data on foreign trade flows for the first quarter of 2024 are for January and have been compared with the respective data for January 2023.

Source: BNB.

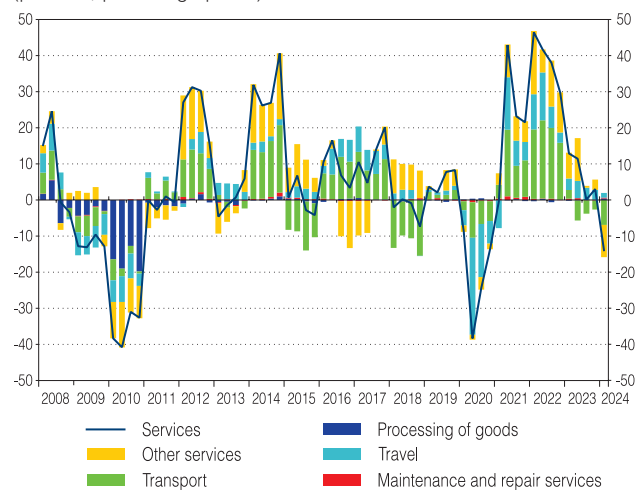
Net Primary Income Account and Net Secondary Income Account

Net primary income deficit increased significantly in 2023 as a result of higher outflows under the equity income sub-item related to reinvested earnings on direct investment. At the beginning of 2024, there was some decrease in outgoing payments to non-residents, but data are preliminary and subject to revision.

At the same time, in 2023 and early 2024, net secondary income surplus did not change substantially from 2022, and stood at 1.5 per cent of GDP. In 2023, there was an increase in remittances received from workers abroad, which was, however, partially offset by outgoing current transfers from general government and by amounts paid by other sectors to non-residents for non-life insurance premiums and claims.

Annual Change of Imports of Services and Contribution by Sub-components

(per cent, percentage points)



Notes: Quarterly data are used.

Data on foreign trade flows for the first quarter of 2024 are for January and have been compared with the respective data for January 2023.

Source: BNB.

Financial Account and International Investment Position

In 2023, the negative financial account balance widened from 2022, reflecting the stronger accumulation of liabilities to non-residents compared to the acquisition of foreign assets by Bulgarian residents over the year. The rise in total foreign assets in 2023 was mainly driven by non-bank private sector, which posted an increase in the form of debt securities and foreign direct investment. Financial account liabilities to non-residents increased in all main sectors in 2023, with foreign companies' reinvested profit in the country contributing most, followed by long-term government bonds issued during the year. For the last 12 months as of January 2024, the negative financial account balance contracted to EUR -208.6 million (0.2 per cent of GDP) compared with EUR -2152.5 million as of December 2023 (2.3 per cent of GDP) due to banks' operations which increased their foreign assets in January in line with the recent years' trend.

Foreign direct investment (FDI) in Bulgaria¹³ amounted to 65.0 per cent of GDP at the end of 2023 (against 68.4 per cent at end-2022). The inflow of attracted direct investment (liabilities) in Bulgaria increased by 30.4 per cent in 2023 compared with 2022, totalling EUR 4.1 billion¹⁴. The flow was mostly in the form of reinvested earnings of the non-financial corporations and the banking sector, as well as equity capital in unquoted shares of non-financial corporations in Bulgaria. The sectors that attracted the largest share of FDI in 2023 were financial and insurance services, followed by industry.

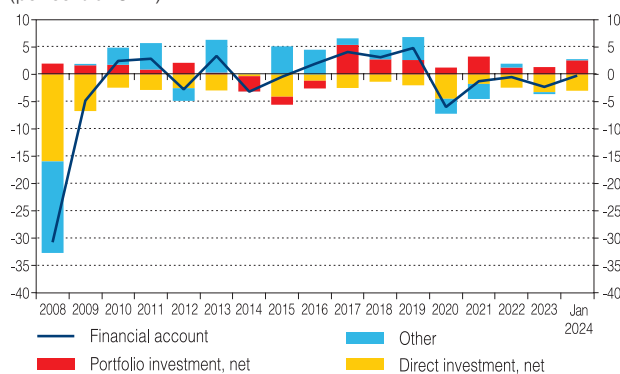
As a result of balance of payments movements and changes due to valuation adjustments and price revaluations, the amount of Bulgaria's international investment position fell strongly to -7.6 per cent of GDP at the end of 2023 compared with -12.9 per cent of GDP at the end of 2022. These developments were mainly attributable to the significant growth in foreign assets of Bulgarian residents in the form of debt securities. Liabilities to non-residents increased mainly due to direct investment in Bulgaria and the holdings of debt securities by non-residents. Growth in economic activity in nominal terms also contrib-

¹³ International investment position data are used.

¹⁴ Preliminary data subject to revision.

Financial Account Flow Dynamics and Contribution by Components

(per cent of GDP)

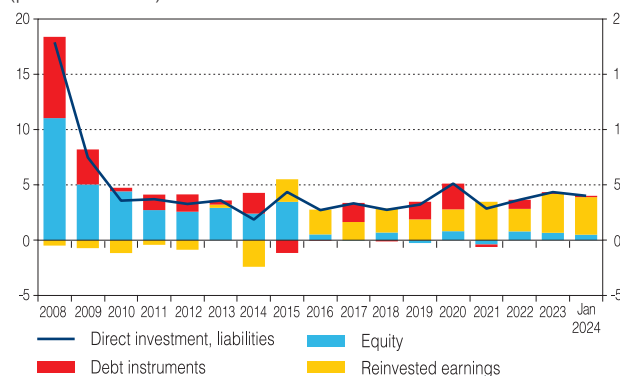


Notes: The Other item includes Other Investments, Net, and Financial Derivatives (Other than Reserves) and Employee Stock Options, Net. January 2024 data on financial account flows are accumulated for the last 12 months. Nominal GDP data for the last four quarters up to the fourth quarter of 2023 are used in calculating the financial account flows to GDP ratios for January 2024.

Sources: BNB, NSI, BNB calculations.

Direct Investment – Liabilities by Type of Investment

(per cent of GDP)



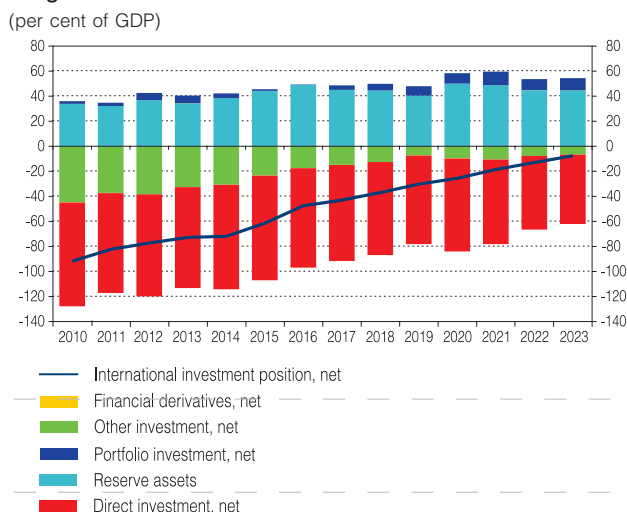
Notes: January 2024 data on direct investment liabilities flows are accumulated for the last 12 months.

Nominal GDP data for the last four quarters up to the fourth quarter of 2023 are used in calculating the direct investment liabilities to GDP ratios for January 2024.

Sources: BNB, NSI, BNB calculations.

uted to the decline in the international investment position to GDP ratio, but to a lesser extent than changes in the amount of the position's assets and liabilities.

Bulgaria's International Investment Position



Sources: BNB, NSI, BNB calculations.

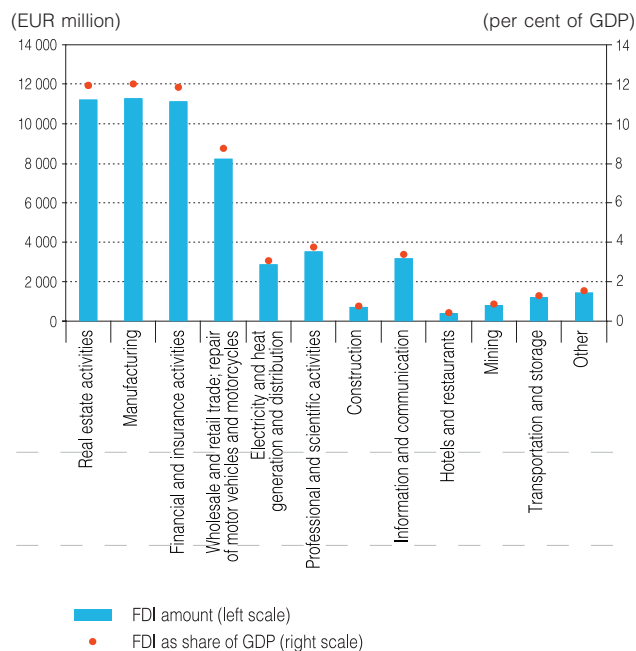
2.2. BNB Gross International Reserves

By the end of March 2024, the market value of Bulgaria's international reserves (including valuation adjustments and price revaluations) was EUR 38.5 billion (BGN 75.3 billion), decreasing by EUR 3.4 billion (BGN 6.7 billion) from the end of December 2023. The amount of gross international reserves reflects the dynamics of financial flows generated in the interaction of external and internal economic factors and corresponds to the BNB Issue Department balance sheet liabilities¹⁵, according to the currency board principles. The lower Issue Department liabilities in the first quarter of 2024 were largely driven by a reduction in liabilities to banks, entirely due to a decline of banks' excess reserves.¹⁶ The reduction in liabilities to government and budget organisations of BGN 0.9 billion and the decrease in currency in circulation of BGN 0.6 billion contributed less to the decrease in Issue Department liabilities. Concurrently, Banking Department deposit rose by BGN 0.8 billion, reflecting stronger return

¹⁵ BNB Issue Department liabilities include banknotes and coins in circulation, liabilities to banks and liabilities to the government and budget organisations, liabilities to other depositors and Banking Department deposit.

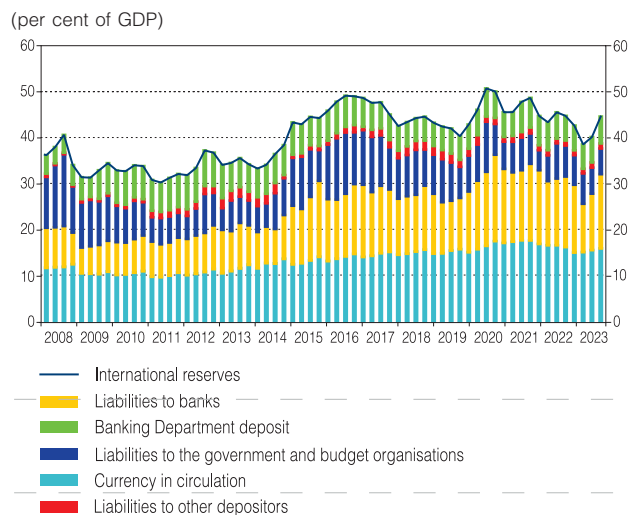
¹⁶ For more information on bank reserve developments, see Chapter 3 Money and Credit.

FDI in Bulgaria by Economic Sectors as of December 2023



Sources: BNB, NSI, BNB calculations.

Liabilities Structure of the BNB Issue Department Balance Sheet



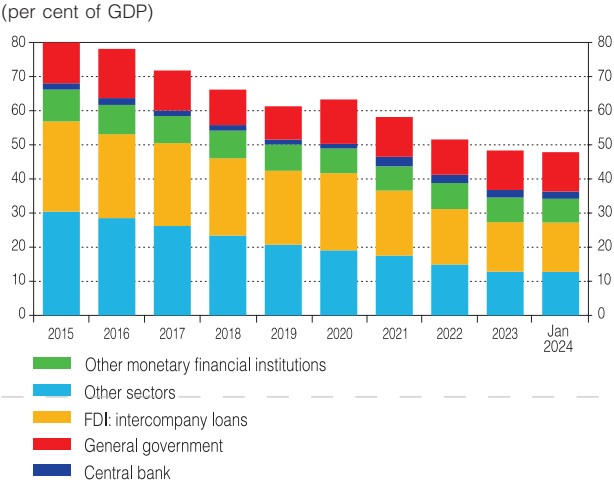
Sources: BNB, NSI, BNB calculations.

from the international reserve management. As of December 2023, the BNB international reserves amounted to 44.6 per cent of GDP (44.8 per cent of GDP at end-December 2022).

2.3. External Debt

As of January 2024, Bulgaria's gross external debt was EUR 45.0 billion (47.9 per cent of GDP), marking a drop of EUR 452.4 million from December 2023 and decreasing further as a share of GDP. With the exception of the banking sector, the nominal value of the external debt in most sectors remained close to that of December 2023. As of January 2024, the share of long-term debt in total gross external debt rose to 82.6 per cent from 81.6 per cent in December 2023.

Gross External Debt



Note: Nominal GDP data for the last four quarters up to the fourth quarter of 2023 are used in calculating gross external debt to GDP ratio for January 2024.

Sources: BNB, NSI, BNB calculations.

3. MONEY AND CREDIT

3.1. Monetary and Credit Aggregates

Deposits of the Non-government Sector

Over the first two months of 2024, the annual growth of non-government sector's deposits¹⁷ in the banking system followed a downward trend, remaining high at 8.5 per cent at the end of February (9.5 per cent at end-2023). The declining dynamics was driven by the lower growth of non-financial corporations' deposits, reaching 5.1 per cent (9.0 per cent by December 2023). In the first two months of 2024, growth of household deposits remained broadly unchanged, standing at 10.8 per cent at the end of February (11.0 per cent as of December 2023).

The ongoing downward trend in nominal turnover in the industrial sector¹⁸ was a factor potentially influencing the continued slowdown in the annual growth of corporate deposits. Data on deposits of non-financial corporations by sector of economic activity at the end of 2023 show that the sector of wholesale and retail trade; repair of motor vehicles and motorcycles is the main contributor to the growth slowdown compared to end-2022. Concurrently, in the first two months of 2024 the retail sector (excluding trade of motor vehicles and motorcycles) recorded some acceleration in the annual growth of nominal turnover compared to the end of 2023.

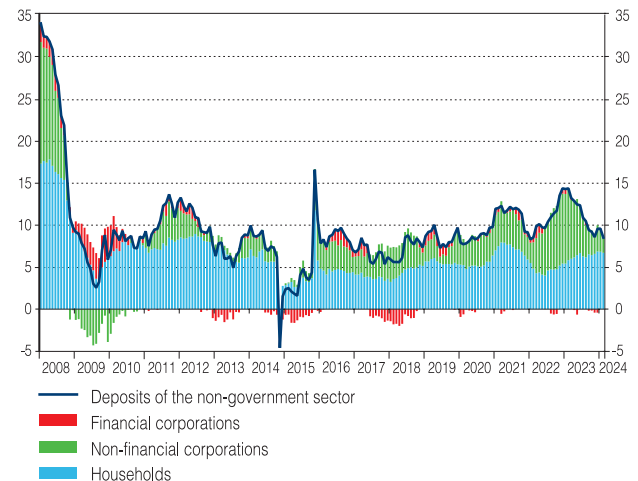
As regards the type of deposits of non-financial corporations, in the January – February 2024 period, there was a deceleration in the annual growth rate of both overnight deposits and those with an agreed maturity, with overnight deposits

¹⁷ Non-government sector's deposits include deposits of households, non-financial corporations and financial corporations. Deposits of households and non-financial corporations (96.9 per cent on average for the last 12 months as of February 2024) comprise the major share of all non-government sector's deposits and thus the analysis focused on these two sectors.

¹⁸ In February 2024, the decline in nominal turnover for the total industry amounted to 13.1 per cent on an annual basis (against an annual decline of 21.1 per cent in December 2023).

Annual Growth of Non-government Sector's Deposits and Contribution by Sector

(per cent, percentage points)

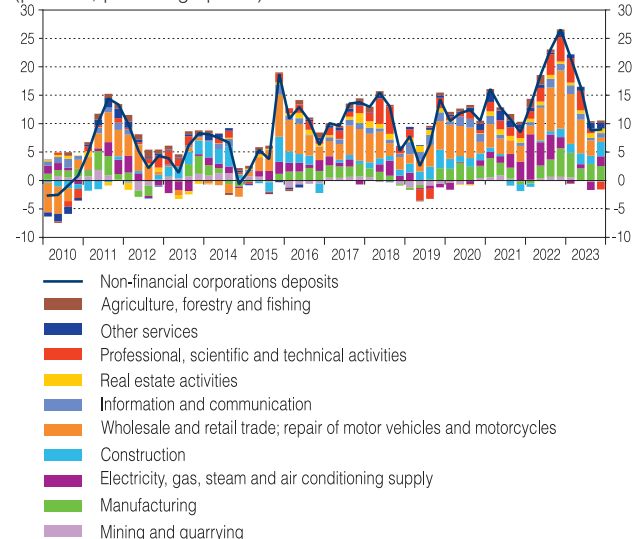


Note: The annual growth rate of non-government sector deposits in November 2015 reflects the exhausted base effect of KTB removal as a reporting unit from the monetary statistics in November 2014.

Source: BNB.

Annual Growth of Non-financial Corporations' Deposits and Contribution by Economic Activity

(per cent, percentage points)

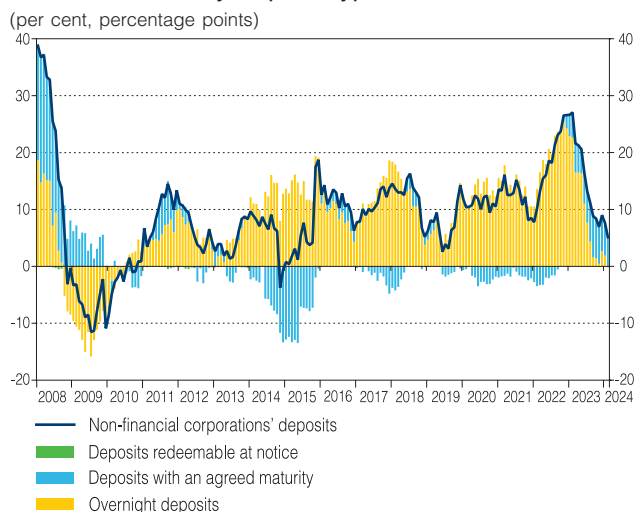


Notes: The data on deposits of non-financial corporations by economic activity start in 2009. The economic activities 'Water supply, sewerage, waste management and remediation activities', 'Education', 'Human health and social work activities', 'Arts, entertainment and recreation' and 'Other service activities' are included in the category 'Other services'.

Source: BNB.

reporting a slight year-on-year decline by February. As of February, deposits with an agreed maturity, that tended to gradually grow in 2023, continued to have the major contribution to the annual growth of non-financial corporations' deposits. The main contributor to the increase in corporate deposits with an agreed maturity was upward dynamics in interest rates on new time deposits in this sector.

Annual Growth of Non-financial Corporations' Deposits and Contribution by Deposit Type

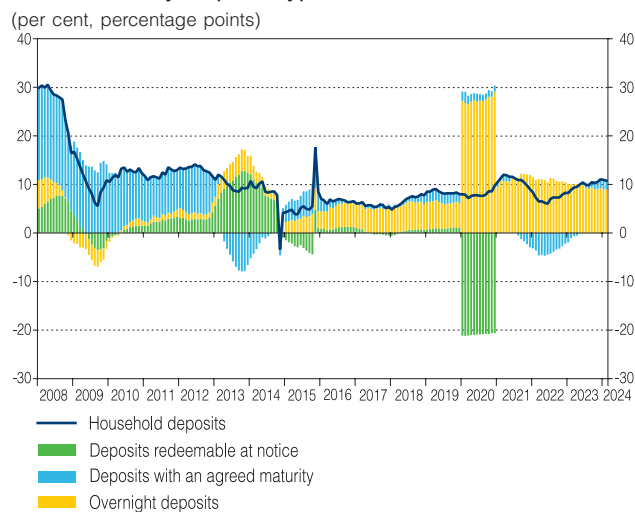


Source: BNB.

Maintained households' preference to keep their free funds in the form of deposits in the banking system and rising labour income contributed further to the relatively high growth of household deposits. Over the first two months of 2024, overnight deposits continued to contribute most to the annual growth of deposits in this sector, while the contribution of deposits with agreed maturity was low and unchanged from the end of 2023. The low contribution of deposits with an agreed maturity was driven by the still very low level of interest rates on new time deposits of households in the banking system, which have not encouraged households to channel part of their savings towards time deposits.

In the first two months of 2024, the annual growth of broad monetary aggregate M3 remained comparatively high, reaching 8.0 per cent in February, from 8.7 per cent at the end of 2023. Overnight deposits continued to have the major contribution to M3 growth. In terms of the currency structure,

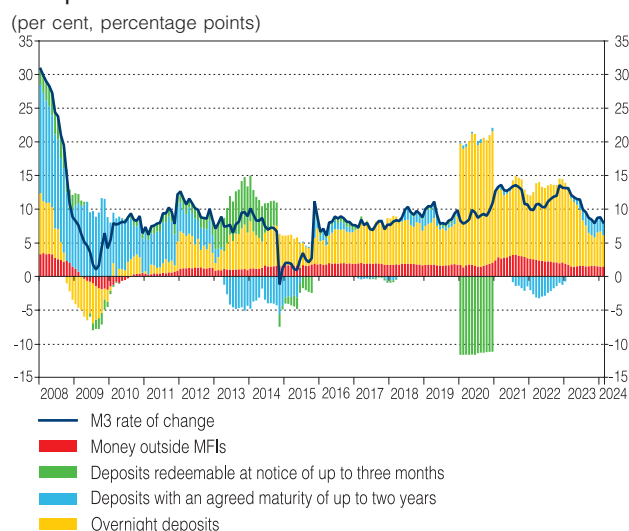
Annual Growth of Households' Deposits and Contribution by Deposit Type



Note: In view of the analysis of the banking products and in line with the methodological requirements, transferable savings deposits have been reclassified from the Deposits redeemable at notice of up to three months indicator to the Overnight deposits of the household sector indicator with the January 2020 data.

Source: BNB.

Annual Rate of Change in M3 and Contribution by Components



Notes: In view of the analysis of the banking products and in line with the methodological requirements, transferable savings deposits have been reclassified from the Deposits redeemable at notice of up to three months indicator to the Overnight deposits of the household sector indicator with the January 2020 data.

Source: BNB.

the preferences of both firms and households to save primarily in local currency remained between January and February 2024.

Reserve Money

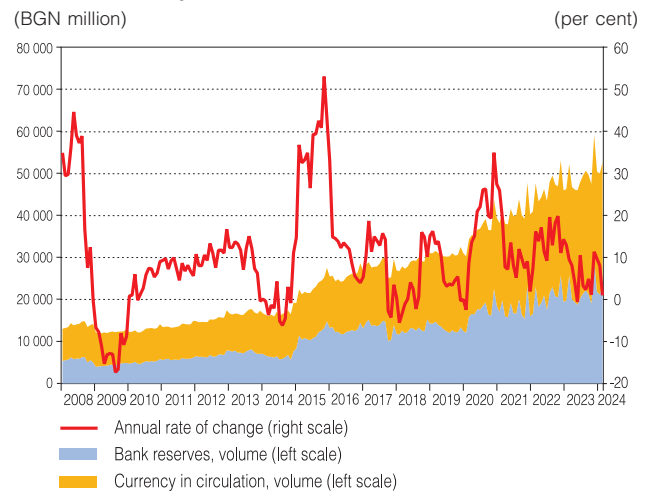
At the end of March 2024, reserve money grew by 1.0 per cent on an annual basis (11.3 per cent in December 2023). Currency in circulation contributed entirely to reserve money growth, while the contribution of bank reserves was negative due to a reduction in banks' excess reserves and, to a lesser extent, to a decline in banks' funds in the TARGET-BNB system. A factor affecting the decline in excess reserves and banks' funds in the TARGET system was the negative spread between the interest rate on banks' excess reserves held at the BNB (0 per cent) and the ECB deposit facility rate (4 per cent), which created an incentive for banks to seek higher yields on their assets.

The decrease in bank deposits with the BNB observed in the first quarter of 2024 compared to end-2023 reflected the fall in excess reserves following their usually higher levels at the end of each calendar year. At the same time, the minimum required reserves (MRR) continued to grow driven by the rising deposit base and the increased MRR rate by the BNB (to 12 per cent as of 1 July 2023)¹⁹. In March 2024, the effective implicit ratio of the MRR was 11.68 per cent (11.73 per cent in December 2023) as bank deposits with the BNB comprised 10.74 percentage points in minimum required reserves, and the remaining 0.94 percentage points were in the form of recognised cash balances. In March 2024, excess funds over the required minimum of reserve assets under Ordinance No 21 was 5.8 per cent of MRR on an average daily basis, from 12.7 per cent of MRR in December 2023.

In the first three months of 2024, the annual growth of currency in circulation continued to fol-

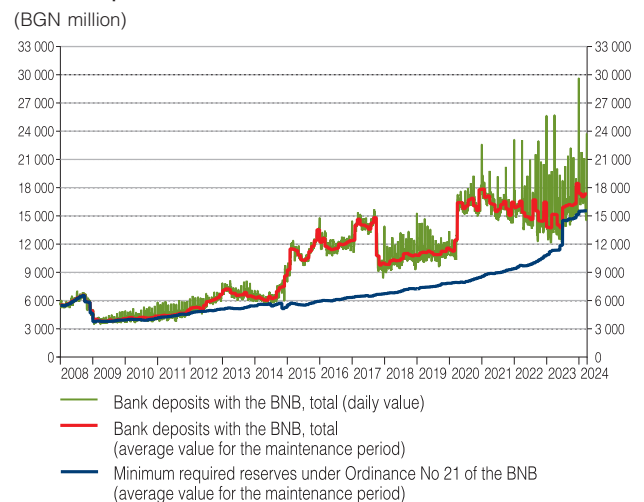
¹⁹ Under Article 3 of BNB Ordinance No 21 on the Minimum Required Reserves Maintained with the Bulgarian National Bank by Banks, effective as of 1 July 2023, the rate of minimum required reserves is 12 per cent of the reserve base, and banks do not maintain MRR on attracted funds from government and local budgets. The MRR rate on funds attracted from residents and non-residents is 10 per cent of the reserve base, and from government and local budgets 0 per cent in the 1–30 June 2023 period. Until 1 June 2023, the MRR rate on funds attracted from residents is 10 per cent of the reserve base, from non-residents 5 per cent and from government and local budgets 0 per cent.

Reserve Money



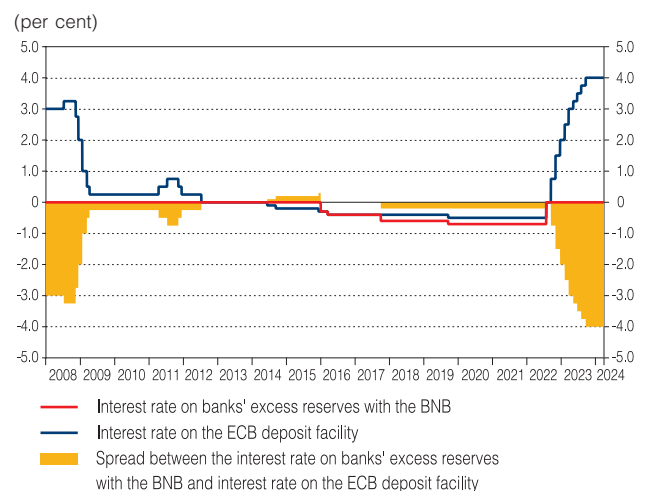
Source: BNB.

Bank Deposits with the BNB



Source: BNB.

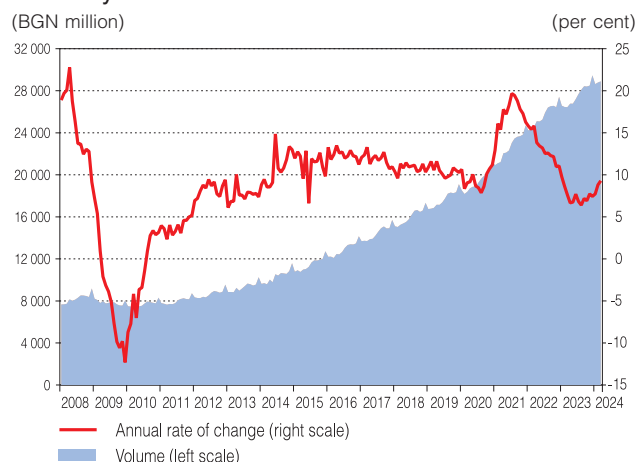
Deposit Facility Rate of ECB and Interest Rate on Banks' Excess Reserves with the BNB



Sources: BNB, ECB.

low a upward trend, coming to 9.3 per cent at the end of the quarter (7.4 per cent in December 2023). The higher growth of currency in circulation since the beginning of the year can be partly explained by one-off factors due to the low base effect over the corresponding period of the previous year.

Currency in circulation



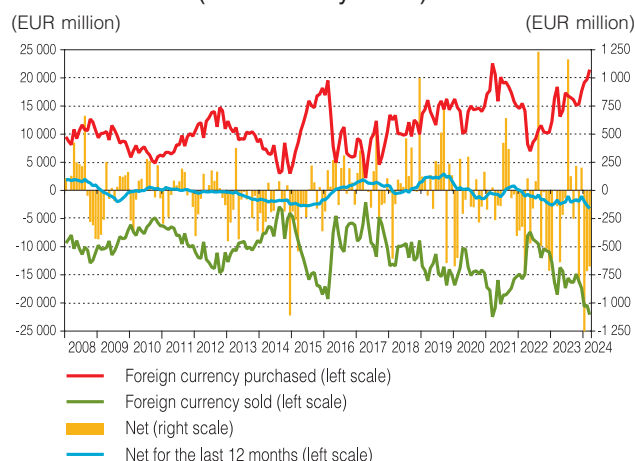
Source: BNB.

Reserve currency (euro) trading with the BNB is the main lev liquidity management instrument of banks under currency board arrangements. In the January – March 2024 period, BNB sales (net) to banks amounted to EUR 2.9 billion.

Credit to the Non-government Sector

In the first two months of 2024, annual growth of credit to non-financial corporations accelerated slightly, reaching 8.0 per cent at the end of February (7.3 in December 2023). This dynamics reflected the stronger growth rate of loans, excluding overdrafts, reaching 9.0 per cent (7.6 per cent at the end of 2023). Concurrently, in the case of corporate overdrafts, the annual growth remained close to that at the end of 2023, standing at 6.3 per cent by February. The increase in firms' investment activity in the second half of 2023 is a likely factor behind the stronger annual growth of corporate loans in early 2024. The results of the Bank Lending Survey, conducted by the BNB on a quarterly basis, indicate that the need to ensure financial resources for investment, working capital and inventories was the main factor behind the enhanced demand for loans in the fourth quarter of 2023. Volumes of

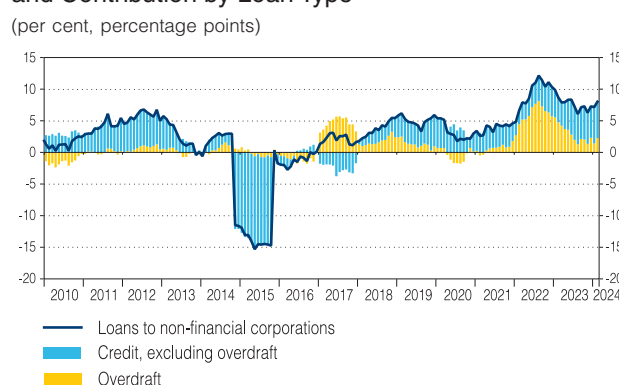
Foreign Currency Purchases and Sales between the BNB and Banks (on a Monthly Basis)



Notes: Net means currency purchased minus currency sold by the BNB. Data refer to all bank transactions in foreign currency including liquidity management operations related to the transfer of own funds from lev accounts with the BNB to own accounts with the BNB in euro *vice versa*.

Source: BNB.

Annual Growth of Credit to Non-financial Corporations and Contribution by Loan Type



Note: The annual growth rate of loans to non-financial corporations in November 2015 reflects the exhausted base effect of KTB removal as a reporting unit from the monetary statistics in November 2014.

Source: BNB.

new corporate loans tended to retain their levels in the January – February 2024 period²⁰.

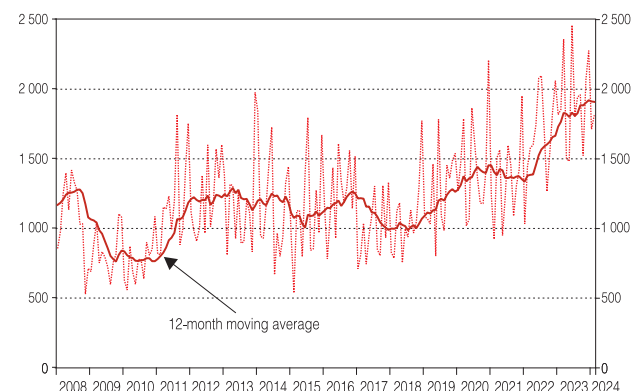
In the first two months of 2024, annual growth of credit to households continued its upward trend since the end of 2023, reaching 17.1 per cent in February 2024 (15.9 per cent in December 2023), mainly driven by housing loans and, to a lesser extent, consumer credit. Growth in housing loans was 22.0 per cent on an annual basis (20.5 per cent as of December 2023), while consumer loans stood at 13.1 per cent (12.3 per cent at end-2023). Demand for loans by households continued to be supported by rising labour income and interest rate levels, which remained very low in the case of housing loans. Bank Lending Survey results indicated that in the fourth quarter of 2023 the demand for financial resources to purchase durable goods and goods intended for current consumption was crucial for higher demand for consumer credit, while the state of the macroeconomic environment was the only factor that has a bearing on declining demand for consumer financing compared with the previous quarter. In the case of housing loans, households' needs of funds for purchasing first and additional residence, as well as low interest rates, contributed most to higher demand, while housing market prospects and the macroeconomic environment dampened demand for loans. On the supply side, the ample liquidity, banks' sound capital position and the competition between them had an impact on the growth of credit to households, which continued to limit the effects of the tightening of ECB monetary policy and the increase in the minimum reserve rate by the BNB on household lending rates. In addition, growth in residential property prices constitutes a precondition for an increase in volumes of new housing loans, which also supports housing lending growth. New consumer and housing loans continued to show an upward trend in lending volumes²¹ in the first two months of 2024.

²⁰ Based on 12-month moving average.

²¹ Based on 12-month moving average.

New Loans to Non-financial Corporations (Monthly Volumes)

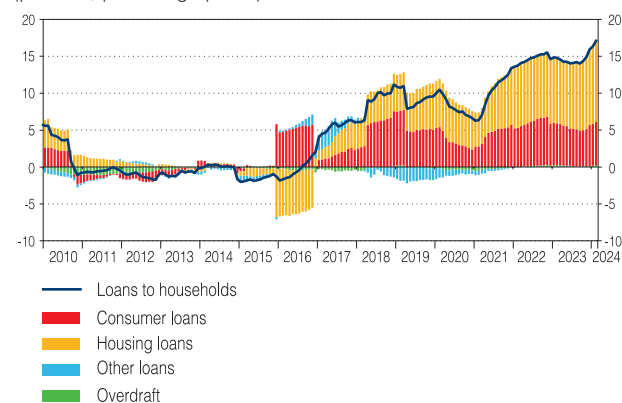
(BGN million)



Source: BNB.

Annual Growth of Household Credit and Contribution by Loan Type

(per cent, percentage points)

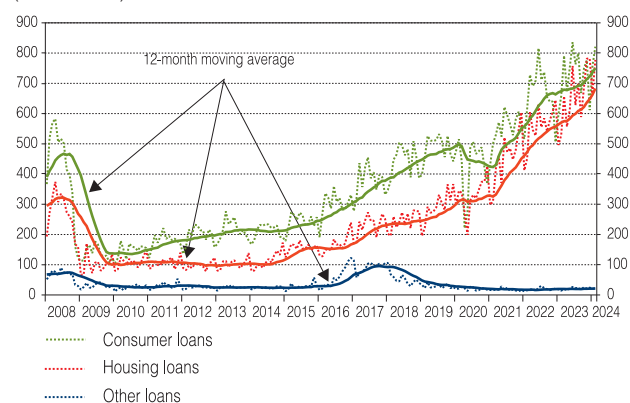


Note: Based on additional information received from reporting units, a revision of household loans was carried out according to their purpose of use in the period December 2015–August 2019.

Source: BNB.

New Loans to Households (Monthly Volumes)

(BGN million)



Source: BNB.

Bank Lending Survey

The weighted results of the Bank Lending Survey²² in the fourth quarter of 2023 point to a slight tightening of lending standards²³ for granting loans to large corporate and household customers and retention of broadly unchanged lending standards in the SME segment. Banks reported a tightening of credit standards for both corporate and consumer loans to households with respect to interest rates, while those for housing loans reported a slight reduction in interest rate spread. At the same time, as regards corporate and consumer loans, easing of conditions for maximum loan amount was reported, while in the case of housing loans it was in terms of interest rates. Tightened credit policies (credit standards and conditions²⁴) reflected primarily the lower risk appetite of banks and, to a lesser extent, increased risk assessments. Macroeconomic environment and borrowers' solvency played a key role in risk assessment. Competition, the cost of borrowed funds, banks' liquidity position and housing market prospects continued to affect the slight easing of lending standards and credit conditions for households.

In the fourth quarter of 2023, banks reported an increase in demand for corporate loans, subdued growth in demand for housing loans and retention of demand for consumer loans compared with the previous quarter. The main factors considered by banks to have affected the higher demand for corporate loans were the increased needs to ensure financial resources for working capital and inventories, as well as for investment. Concurrently, households' needs of funds for purchasing first and additional residence, as well as low interest rates, contributed most to higher demand for housing loans.

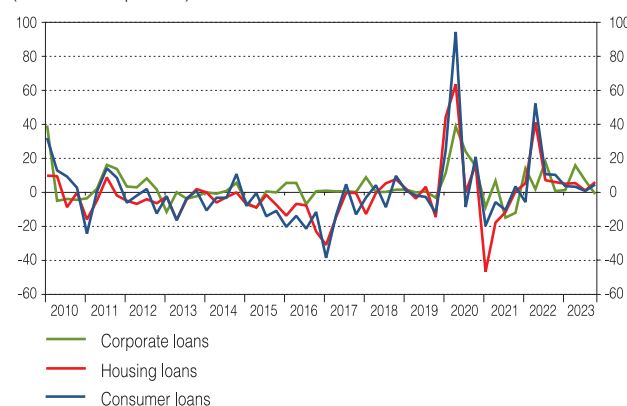
²² Bank Lending Survey in Bulgaria is carried out by the BNB on a quarterly basis. Summarised results of the survey are presented through weighting bank responses by their market share in the relevant credit segment.

²³ Credit standards are understood as internal bank guidelines or criteria for loan approvals established prior to negotiating the terms of extended loans. Credit standards determine the type of the loan and collateral considered eligible by banks, taking into account specific priorities by sector, *etc.* Credit standards specify also all relevant conditions to be met by a borrower.

²⁴ Credit conditions typically involve the reference interest rate surcharge, the loan amount, conditions for its utilisation and other conditions, fees and commissions, collateral or guarantees to be provided by a borrower.

Changes in Credit Standards

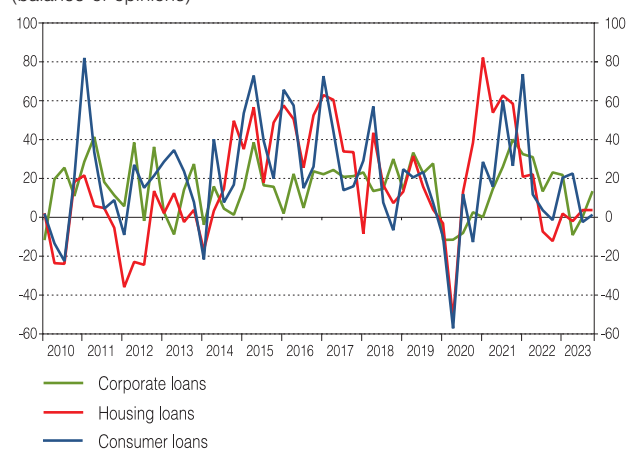
(balance of opinions)



Source: BNB.

Changes in Credit Demand

(balance of opinions)



Notes: As regards credit standards, charts present banks' balance of opinions defined as a difference in percentage points between the percentage of banks responding 'tightened' ('considerably' and 'somewhat'), and the percentage of banks responding 'eased' ('considerably' and 'somewhat').

As regards credit demand, the balance of opinions is defined in percentage points as a difference between the percentage of banks responding 'increased' ('considerably' and 'somewhat') and the percentage of banks responding 'reduced' ('considerably' and 'somewhat'). All opinions are weighted by the bank's market share in the relevant credit segment. Data presented in the chart show the change from the previous quarter.

Source: BNB.

3.2. Interest Rates

Interbank Money Market Interest Rates

Over the first quarter of 2024, trading volumes in the interbank money market remained high, with the volume of lev-denominated overnight unsecured lending transactions concluded in January–March 2024 amounting to BGN 27,288 million. Banks' demand for liquidity in the interbank money market amid maintaining low levels of excess reserves with the BNB, on which the interest rate was 0 per cent, continued to be the major factor behind the high levels of trading volumes.

Policy rate dynamics in the euro area was transmitted comparatively quickly to interbank money market interest rates under the functioning Bulgarian currency board. As of March 2024, the monthly value of the LEONIA Plus index was 3.79 per cent (unchanged from December 2023), while the spread between LEONIA Plus and €STR was -12 basis points (-11 basis points in December 2023).

Interest Rates on Deposits

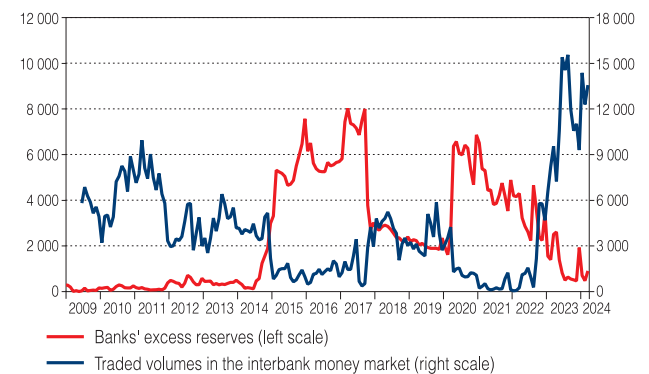
At the beginning of 2024, the weighted average interest rate on new time deposits in the household sector remained at low levels, standing at 0.88 per cent in February. Ample liquidity and continued inflows of attracted funds into the banking system were the major factors behind persistently low interest rates on new time deposits of households across the banking system. These factors did not create any incentive for most major commercial banks to start raising interest rates on new time deposits, and these rates at large banks remained close to 0 per cent. As a result, the transmission of the ECB's monetary policy tightening and the effects of the BNB's increase in the minimum reserve rate on interest rates on new household deposits remained limited for the banking system as a whole.

The weighted average rate on new time deposits of non-financial corporations was 2.75 per cent in February 2024 (2.69 per cent as of December 2023). New deposits in levs posted a decrease, while deposits in euro and dollars increased slightly compared with December 2023 levels.

Weighted average interest rates on outstanding amounts of time deposits in the first two months of 2024 recorded an insignificant increase in the household sector to 0.4 per cent (0.3 per cent at

Banks' Excess Reserves and Traded Volumes in the Interbank Money Market

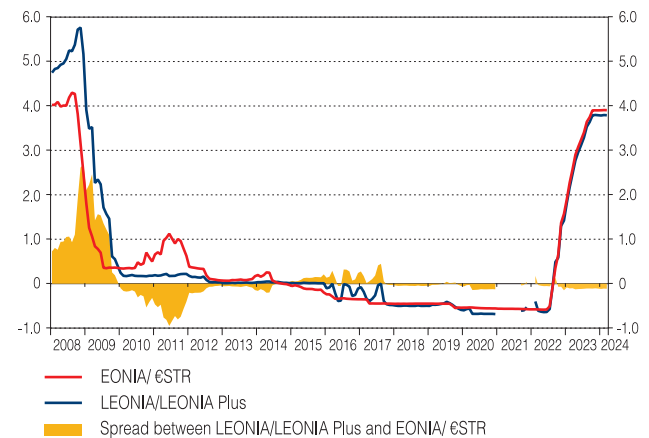
(BGN million)



Sources: BNB, ECB.

Interbank Money Market Rates on Overnight Deposits (Average Monthly Value)

(per cent, percentage points)

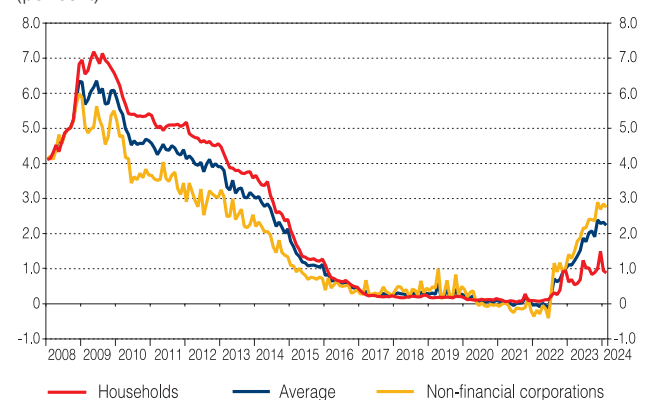


Notes: The EONIA/€STR series is composed of: EONIA between 2008 and 14 March 2017; pre-€STR between 15 March 2017 and 30 September 2019; €STR in the period after 30 September 2019. LEONIA Plus replaced LEONIA on 1 July 2017. LEONIA Plus monthly values are calculated as an arithmetic average for days when overnight unsecured lending transactions are concluded in the interbank market in levs.

Sources: BNB, ECB.

Interest Rates on New Time Deposits by Sectors

(per cent)



Notes: The average interest rate is calculated for all sectors, maturities and currencies weighted by the relevant volumes of new deposits. Average deposit rates for non-financial corporations and households are based on interest rates for all maturities and currencies weighted by relevant volumes of new deposits.

Source: BNB.

end-2023) and sustained levels of the end of the previous year in the non-financial corporations' sector (1.7 per cent). The interest rates on outstanding amounts of overnight deposits of households remained at 0 per cent and were slightly higher in the non-financial corporations' sector.

Interest Rates on Loans

Ample liquidity and capitalisation of the banking sector, as well as competition between banks continued to limit the effects of euro area policy rates' rises and of the increased MRR rate on new lending rates in the household sector.

In the first two months of 2024, the annual percentage rate of charge (APRC) on newly granted consumer loans decreased to 8.83 per cent (10.10 per cent as of December 2023 and 9.07 per cent as of November)²⁵, which was fully supported by the decrease in interest rates. New loans for house purchase did not show a significant change in the APRC and in the interest rate during this period: 2.87 per cent and 2.55 per cent, respectively, by the end of February (2.86 per cent and 2.59 per cent by December 2023).

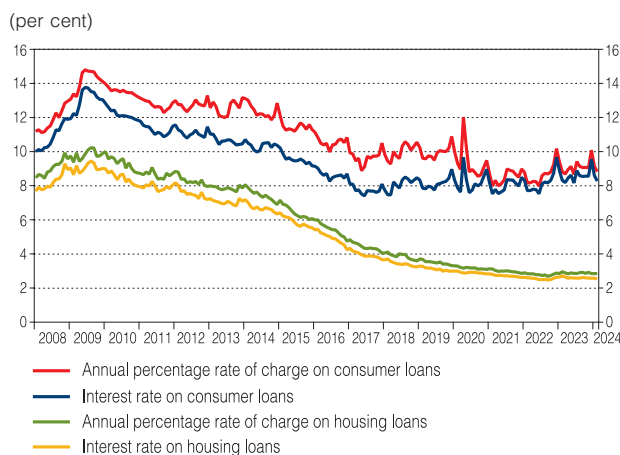
In the non-financial corporations' sector, the weighted average interest rate on new loans decreased by 33 basis points to 4.78 per cent in February (5.11 per cent at the end of 2023). By currency, a more significant decline was observed in loans in dollars and levs (by 64 and 29 basis points, respectively), while euro-denominated loans recorded an insignificant decline compared to December 2023 (by 7 basis points).

Government Securities Yields

As of end-March 2024, the calculated benchmark yield curve of Bulgarian Eurobonds issued and traded in international capital markets remained close to its level of the end of 2023, falling marginally from end-December 2023, excluding the maturity sectors of up to and including two years which recorded a slight increase. By the end of the first quarter of 2024, the spread between Bulgarian and German government bond yields declined compared with the end of 2023 across all maturities, with the spread narrowing being most pronounced for securities maturing in 2030

²⁵ Thus indicated values of interest rates and APRC on new loans to households and non-financial corporations, as stated hereinafter, are shown on a monthly basis.

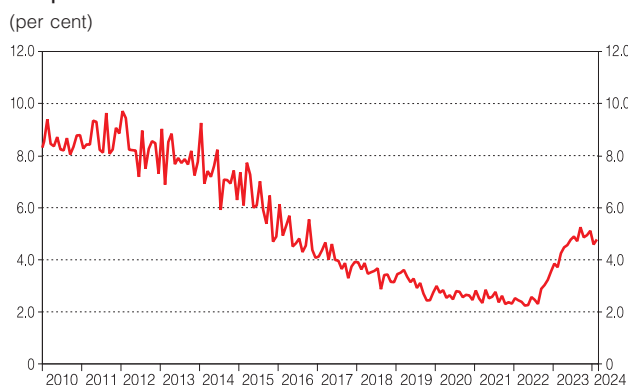
Interest Rates and APRC on New Household Loans



Note: The difference between the APRC and the relevant interest rates reflects the approximate per cent of all non-interest service charges on loans (including fees and commissions).

Source: BNB.

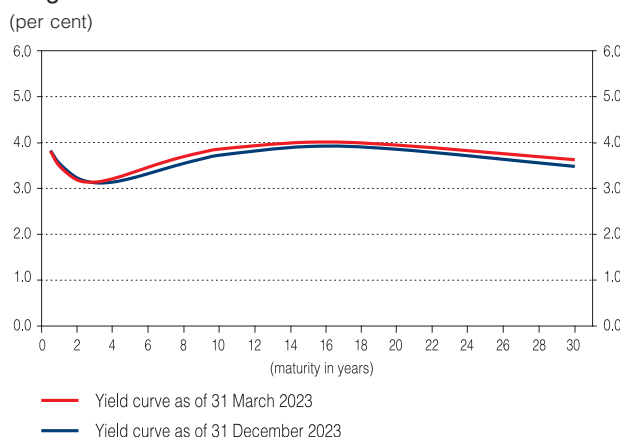
Interest Rate on New Loans to Non-financial Corporations



Note: The interest rate on new loans to non-financial corporations is calculated by weighting the interest rates for all maturities and currencies by the corresponding volumes of new loans.

Source: BNB.

Bulgarian Government Bond Yield Curve



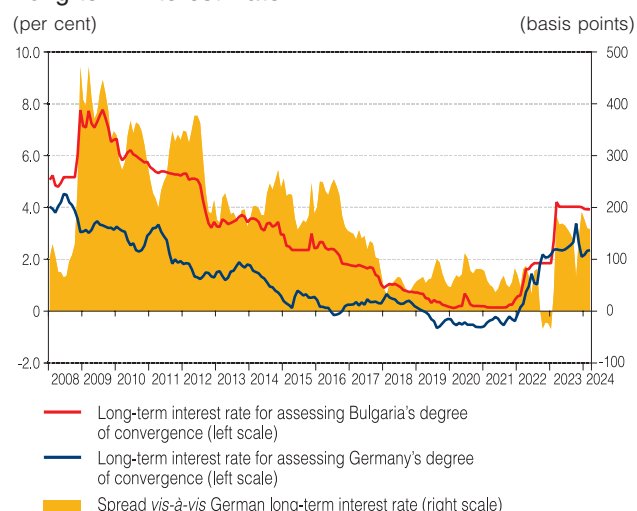
Notes: The benchmark yield curve of Bulgarian government bonds is constructed on the basis of an extended version of the Nelson-Siegel-Svensson model (1994). The chart employs daily yield data on Bulgarian government securities issued and traded in international capital markets, published in the MF Central Government Debt and Guarantees Monthly Bulletin.

Sources: MF, BNB calculations.

(by 61 basis points). The narrowing of spreads reflected mainly an increase in German government bond yields and, to a lesser extent, a decline in Bulgarian government bond yields. The decline in Bulgarian government bond yields was strongest for maturing securities in 2030 (by 27 basis points).²⁶

In March 2024, the long-term interest rate for assessing Bulgaria's degree of convergence was 3.93 per cent, declining by 8 basis points from December 2023²⁷, and the spread *vis-à-vis* Germany's long-term interest rate was 158 basis points.

Long-term Interest Rate for Assessing Bulgaria's Degree of Convergence and Spread *vis-à-vis* German Long-term Interest Rate



Sources: BNB, ECB.

²⁶ An increase in Bulgaria's government bond yields was recorded only in securities maturing in 2024 (by 20 basis points).

²⁷ Daily data indicate that the long-term interest rate remained unchanged from 10 January 2024 to end-March 2024 at 3.93 per cent, most likely due to the lack of transactions in Bulgarian benchmark bonds in the secondary government securities market over this period. For calculating the long-term interest rate for assessing the degree of convergence, see [methodological notes](#) on the BNB website.

4. ECONOMIC ACTIVITY

4.1. Current Economic Environment

Gross Domestic Product

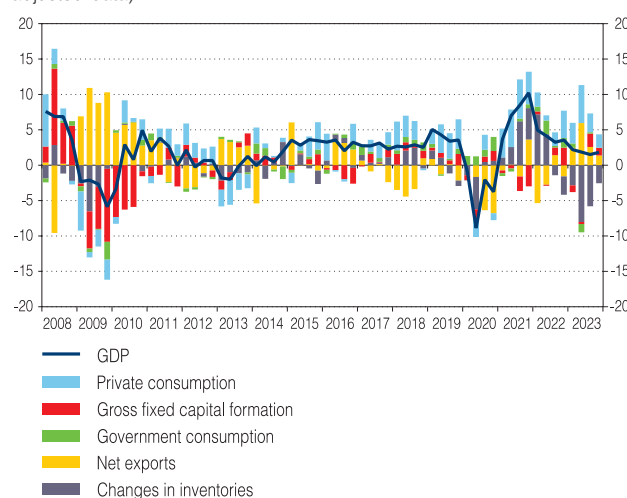
According to NSI seasonally adjusted data, real GDP in the fourth quarter of 2023 increased by 0.5 per cent on a quarterly basis (0.4 per cent in the third quarter), and by 1.8 per cent on an annual basis, according to non-seasonally adjusted data. Reflecting this dynamics, overall for 2023, economic activity increased by 1.8 per cent in real terms, supported by the growth in employment and real wages in a context of rising labour shortages, by the fiscal policy stimulus measures in terms of increased social transfers to households and growth in government investments, and by the strong credit activity and negative interest rates on household deposits in real terms, which contributed to households' high propensity to consume. The acceleration in economic activity over 2023 was constrained by the weakening growth of external demand for Bulgarian goods, emerging specific factors in some export-oriented economic sectors and firms' policy to reduce significant stocks of raw materials and finished products accumulated from mid-2021 to end-2022.

By final consumption expenditure component, domestic demand had the main positive contribution to annual real GDP growth in the fourth quarter of 2023, followed by net exports, while changes in inventories contributed negatively thereto.

In the fourth quarter of 2023, private consumption rose by 3.2 per cent year on year in real terms (compared to 4.8 per cent in the previous quarter), supported by the growth in employment and wages in real terms. Other factors positively affecting final consumption expenditure of households were the year-on-year increase in consumer loans and the improved consumer confidence indicator. Government consumption at constant prices increased by 0.6 per cent year on year in the fourth quarter of 2023 (compared to 0.3 per cent in the previous quarter), while data on the

Contribution to GDP Growth by Final Use Component in Real Terms (Quarterly Data)

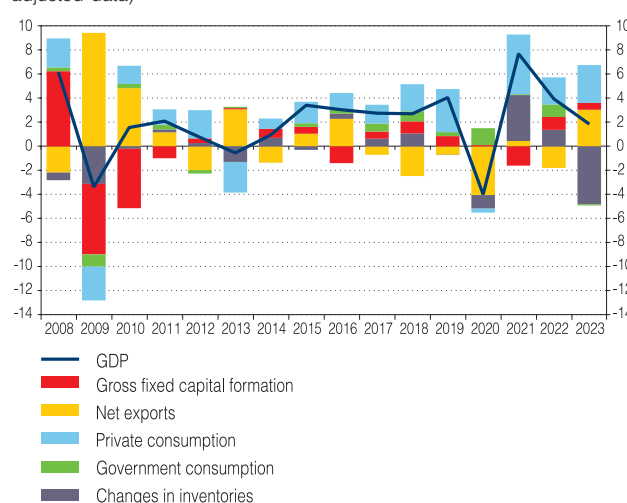
(per cent; percentage points; on an annual basis; non-seasonally adjusted data)



Sources: NSI, BNB calculations.

Contribution to Real GDP Growth by Final Use Component (by Year)

(per cent; percentage points; on an annual basis; non-seasonally adjusted data)



Sources: NSI, BNB calculations.

implementation of the Consolidated Fiscal Programme (CFP) show that compensation of public employees and health expenditure had a positive contribution to government consumption growth over the period²⁸.

In the fourth quarter of 2023, fixed capital investments rose by 5.2 per cent on an annual basis (compared with 12.6 per cent in the previous quarter). According to BNB estimates,²⁹ this growth was driven by the private sector, while the general government sector had a negative contribution. Data on the implementation of the CFP provide a preliminary indication that government investments in the fourth quarter of 2023 were limited by the slower implementation of nationally financed projects. The main factors favouring growth of investment activity in the private sector were the increased final consumption expenditure, the reported annual growth in sales of new dwellings, the decline in spare capacities in some industrial sub-sectors and the active supply of credit by banks.

Net exports had a positive contribution to the annual growth of real GDP in the fourth quarter of 2023, driven by a greater decline in imports than in exports of goods and services³⁰. The reported decline of 1.9 per cent in exports was due to the goods component, while services contributed positively. The year-on-year change in imports was -4.3 per cent in real terms, with the fall again entirely attributable to the group of goods. Downward dynamics of goods imports can be partly explained by firms' policies to limit the stock of available raw materials and finished products which have been observed since late 2022.

In the fourth quarter of 2023, gross value added in Bulgaria rose by 0.2 per cent in real terms on both quarterly³¹ and annual basis. In the industrial sector, gross value added rose by 0.6 per cent year on year, entirely due to the construction sub-

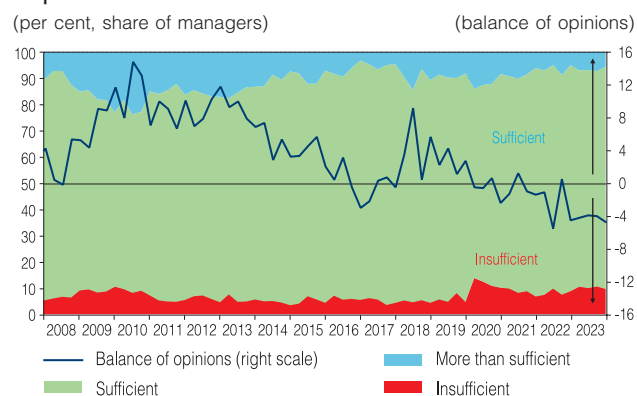
²⁸ For details, see Fiscal Policy Effects on the Economy Section in this Chapter.

²⁹ The NSI does not provide official data on the breakdown of total investments into private and public. The series on private investment is constructed by the BNB as a difference between total investment and the estimated amount of public investment on an accrual basis in real terms. Public investment estimates for the fourth quarter of 2023 are based on information from the monthly reports on CFP implementation.

³⁰ For details, see the Balance of Payments and External Trade Section in Chapter 2: External Financial Flows.

³¹ NSI seasonally adjusted data.

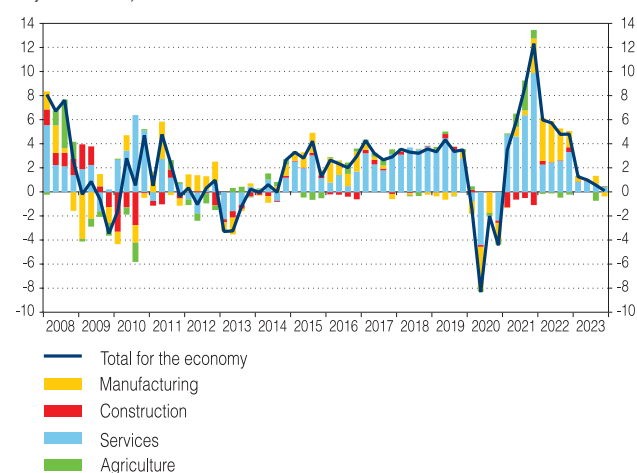
Production Capacity in Industry with Regard to Expected Demand over the Next Months



Sources: NSI, BNB calculations.

Gross Value Added Rate of Change in Real Terms and Contribution by Sector

(per cent; percentage points; on an annual basis; non-seasonally adjusted data)



Sources: NSI, BNB calculations.

sector, while manufacturing recorded a decline³². Value added in the services sector posted annual growth of 0.9 per cent in the fourth quarter of 2023, with trade, transport, accommodation and food service activities having the largest positive contribution. At the end of 2023, value added in agriculture fell by -0.9 per cent on an annual basis.

Cyclical Position of the Bulgarian Economy

In the fourth quarter of 2023, the cyclical position of the economy continued to be characterised by a positive output gap, according to BNB estimates. This suggests that part of the production factors in the economy have been overloaded beyond their optimal level, which is in line with the low historical level of unemployment, the significant labour shortages and the persistent upward pressure on wages at a rate above that of labour productivity.

Short-term indicators of economic activity showed broadly retained quarterly real GDP growth in the first quarter of 2024.³³ Indicators tracking the business climate³⁴, consumer confidence, retail trade turnover and the level of output in services (not related to trade)³⁵ continued to rise on a quarterly basis, while those showing the level of industrial production indicated some deterioration compared to the previous quarter. These developments show uneven and mostly services-focused economic growth at the beginning of 2024. All the listed indicators continued to exceed their long-term average value, which was in line with the positive GDP deviation from its potential level. Reduced differences in firms' assessments of their current economic situation and short-term economic outlook were reflected in a decrease of the uncertainty indicator calculated by the BNB in the first quarter of 2024.

³² For details, see the Behaviour of Firms Section in this Chapter.

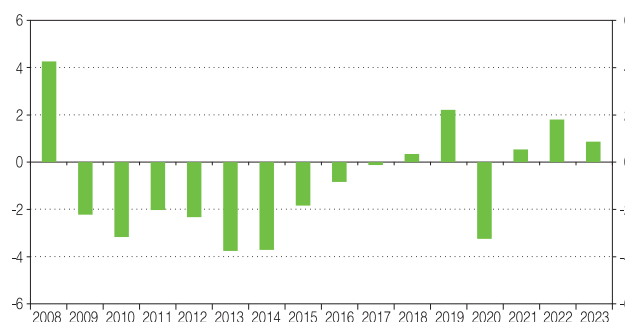
³³ Data on the services production index are available as of January 2024, while the indices of industrial production and retail turnover are available as of February 2024. Data on business climate and consumer confidence are available as of March 2024.

³⁴ The first quarter of 2024 saw a deterioration in the business climate compared to the previous quarter. However, after the application of the HP filter (with a parameter $\lambda = 100$) to eliminate short-term data fluctuations, the transformed series shows a continued improvement in this indicator.

³⁵ Eurostat seasonally adjusted data.

Deviation of Economic Activity from Potential Output

(per cent, output gap)

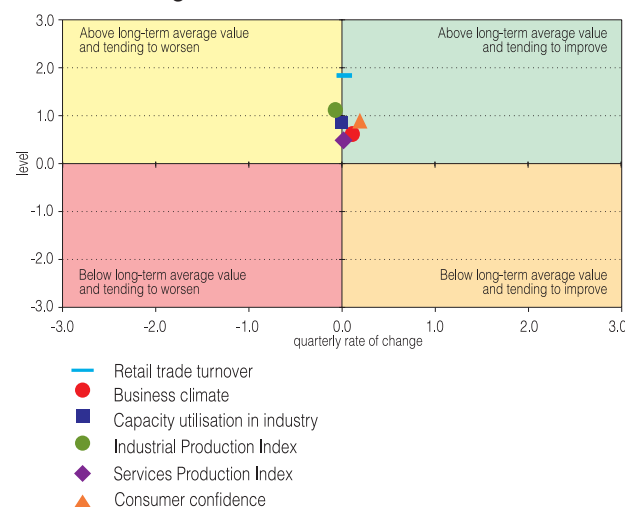


Notes: Results are obtained through the application of a multivariate model with unobserved components presented in the research topic on Methods for Estimating the Cyclical Position of the Economy, *Economic Review, issue 1 of 2019*.

The output gap is the deviation of the current level of economic activity from potential output measured as a percentage of potential output.

Sources: NSI, BNB calculations.

Cyclical Position of the Economy in the First Quarter of 2024 According to Selected Economic Indicators



Notes: The chart compares the level (the vertical axis) and the quarterly change (the horizontal axis) of selected economic indicators. Data are averaged for the available months in the first quarter of 2024. Data on the services production index, which are published with a considerable delay, refer to January 2024. Data on the industrial production index and retail trade refer to the January–February 2024 period. Each series has been transformed using the HP filter (with a parameter $\lambda = 100$) in order to eliminate short-term fluctuations, after which it has been standardised. Standardisation of statistical series in order to improve their comparability is a reason for constructed indicators to change within the range of -1 to 1, and they are characterised by a historical average value of 0 and a standard deviation of 1. The four chart grids allow to distinguish the positions of the relevant economic indicators in individual phases of the business cycle. For example, if a given indicator is in the upper right grid, it means that it is characterised by a positive deviation from its long-term average value and continues to increase on a quarterly basis.

Sources: NSI, BNB calculations.

Economic Activity Expectations

According to the composite economic activity indicator constructed by the BNB,³⁶ in the first quarter of 2024, quarterly real GDP growth in Bulgaria is expected to rise on a quarter-on-quarter basis at an accelerating pace, which is a prerequisite for similar dynamics also in the annual rate of change of this indicator. Quarterly growth of the composite indicator was primarily driven by consumer confidence improvements, positioning of the global PMI index above the neutral bound of 50 points, the increased production indices in construction, retail trade and services (not related to trade) in real terms, as well as increased loans to households and firms. In the second and third quarters of 2024, real GDP is expected to continue growing on both quarterly and annual basis, supported mainly by domestic demand and an assumed improvement in the prospects for external demand for Bulgarian goods and services.

4.2. Labour Market

Labour Supply

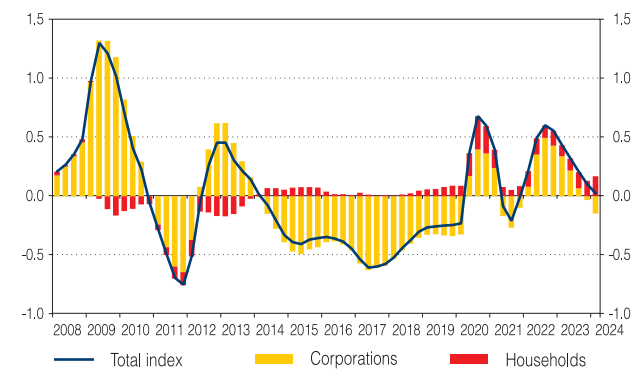
In the fourth quarter of 2023, labour supply, as measured by the labour force³⁷, declined by 1.5 per cent year on year due to the continued decline in the working-age population and labour outflows. The number of inactive persons increased by 1.2 per cent year on year, along with that of unemployed persons, while the number of persons employed declined. In the fourth quarter of 2023,

³⁶ The services (not related to trade) production index is available as of January 2024, while production indices in industry, construction, retail turnover, producer prices in manufacturing and data on new loans to firms and households are available as of February 2024. Global PMI, the registered unemployment rate and the business climate and consumer confidence indicators are available as of March 2024.

³⁷ Labour force includes employed and unemployed persons in the age group 15 and over.

Indicator of Differences in Economic Agents' Assessments about the Expectations of Economic Development in the Short Term

(deviation from long-term average)

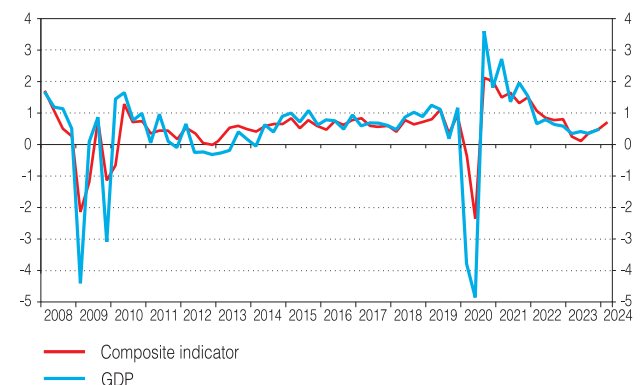


Notes: Higher values of this indicator should be interpreted as an increase in differences of economic agents' assessments. Positive/negative values of the total index show that differences in assessments are above/below their long-term level. This indicator is constructed under a methodology presented in: *Ivanov, E. 'Constructing an Uncertainty Indicator for Bulgaria', BNB Discussion Papers 109/2018*, and corresponds to the indicator U1 constructed in the paper.

Sources: EC, BNB calculations.

Composite Economic Indicator of Economic Activity

(per cent, on a quarterly basis)



Notes: This indicator is constructed on the basis of a dynamic factor model whose purpose is to derive the total component in dynamics of various indicators with a monthly frequency. Dynamics of the composite indicator may be used as a guidance for the change in real GDP of Bulgaria.

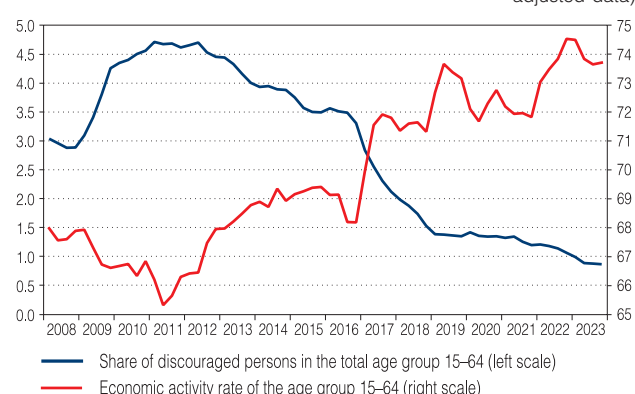
Selected indicators of the model include: production indices in industry, construction and services; retail trade turnover indices; unemployment rate; indicators of the business climate and consumer confidence; producer price index in industry; new loans to corporations and households; global PMI.

Sources: NSI, Employment Agency, BNB calculations.

In the fourth quarter of 2023, the economic activity rate³⁸ also declined on an annual basis, but on average there was a slight increase to 73.9 per cent (73.7 per cent in 2022) as a result of the more favourable development in the first half of 2023. At the same time, the decline in employment according to Labour Force Survey (LFS) data was not consistent with the reported growth (according to NSI national accounts data) and short-term statistics of employment and labour costs, possibly due to differences in definitions of employed persons and the methodologies used across individual statistics.

Economic Activity and Share of Discouraged Persons

(per cent, seasonally adjusted data) (per cent, seasonally adjusted data)



Notes: From the beginning of 2022, there is a break in time series due to the use of 2021 population census data. Seasonally adjusted data presented here are affected by the break in time series.

Sources: NSI Labour Force Survey, BNB calculations.

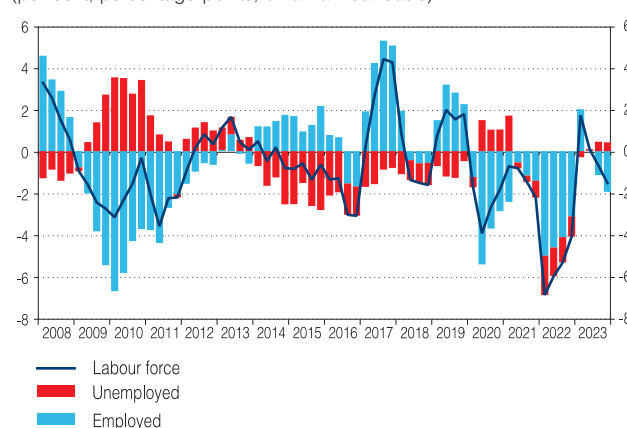
One of the main differences compared to national accounts data concerns residents working abroad, which are included in the Labour Force Survey but are not part of the composition of employees, according to national accounts. In addition, the participation of respondents in the Labour Force Survey is voluntary, which can make an unrepresentative sample of national accounts employment dynamics, where various additional sources of information are used³⁹.

³⁸ In early 2021, the NSI made changes to the LFS methodology, and from 2022 LFS data reflected the results of the 2021 census. These changes are not reflected in previous years and lead to a break in the time series. Seasonally adjusted LFS data were affected by the break in the series in early 2021 and 2022 and therefore, non-seasonally adjusted data are analysed here.

³⁹ For details on the differences between employees based on national accounts and LFS, see [NSI](#) and [Eurostat](#).

Contribution to the Change in Labour Force by Component

(per cent; percentage points; on an annual basis)

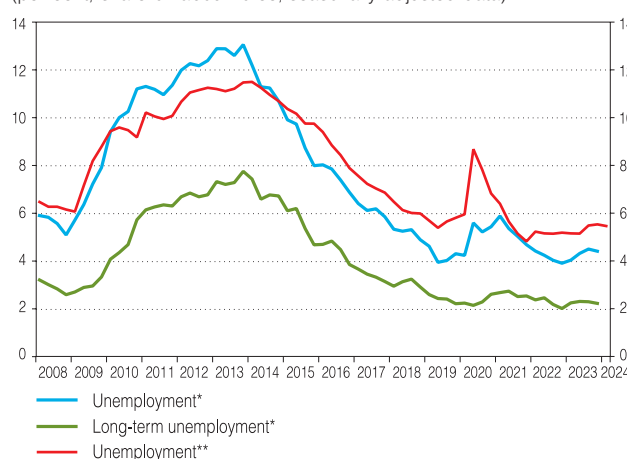


Notes: Data refer to the age group of 15 and over. From the beginning of 2022, there is a break in time series due to the use of 2021 population census data. Data prior to 2022 have not been revised, which was reflected in a year-on-year decline in the labour force in 2022.

Sources: NSI Labour Force Survey, BNB calculations.

Unemployment Rate

(per cent, share of labour force; seasonally adjusted data)



* NSI data.

** Employment Agency data.

Notes: From the beginning of 2022, there is a break in time series due to the use of 2021 population census data in the estimation of Labour Force Survey results. Seasonally adjusted data presented here are affected by the break in time series.

Sources: NSI Labour Force Survey, Employment Agency, BNB calculations.

In the fourth quarter of 2023, the unemployment rate⁴⁰ increased by 0.4 percentage points year on year to 4.2 per cent, according to non-seasonally adjusted LFS data. The largest contributors to the reported increase were the unemployed persons in the 35–44 age group. According to the more frequent seasonally adjusted Employment Agency data, in the first quarter of 2024, the unemployment level remained almost unchanged from the previous quarter.

Labour Demand

In the fourth quarter of 2023, the number of employed (according to national accounts data) increased by 1.2 per cent year on year, with the services sector, notably general government, education, human health and social work activities having the main contribution, while employed in manufacturing and agriculture continued to decline. At the same time, job vacancies in the economy⁴¹ declined by 8.2 per cent on an annual basis, with the contribution of all sectors except manufacturing. While declines in job vacancies and increases in unemployed persons according to LFS data suggest lower labour demand in the economy over the fourth quarter of 2023, the proportion of firms identifying labour shortages as a factor hampering their activity⁴² continued to pick up. This trend continued in early 2024, reaching historical peaks, to which all major economic sectors have contributed. These developments suggest that, despite weaker labour demand in Bulgaria, upward pressures on wages remain driven by limited labour supply.

Productivity and Compensation per Employee

In the fourth quarter of 2023, labour productivity⁴³ declined by 0.3 per cent year on year, mostly reflecting the reported decline in the services sector. Labour productivity in construction also decreased slightly, unlike manufacturing where it increased, reflecting the continuing decline in the number of persons employed in this sector. The decrease in labour productivity across

⁴⁰ The unemployment rate is the proportion between the number of unemployed and the labour force for the age group 15 and older, based on Labour Force Survey data.

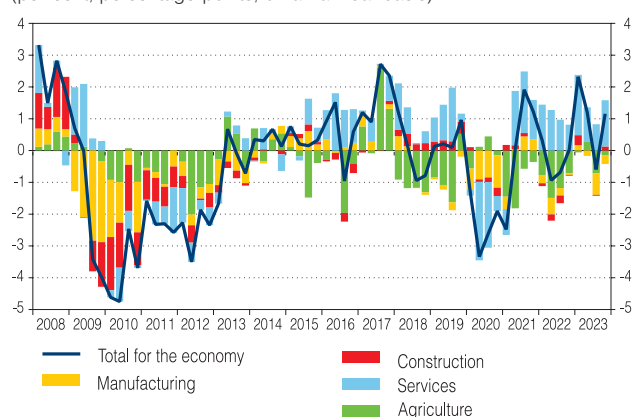
⁴¹ Based on NSI short-term statistics on employment and labour costs.

⁴² According to NSI business situation survey data.

⁴³ Labour productivity is calculated after adjusting gross value added (total for the economy) for imputed rent.

Contribution to Changes in the Number of Employed by Economic Sector

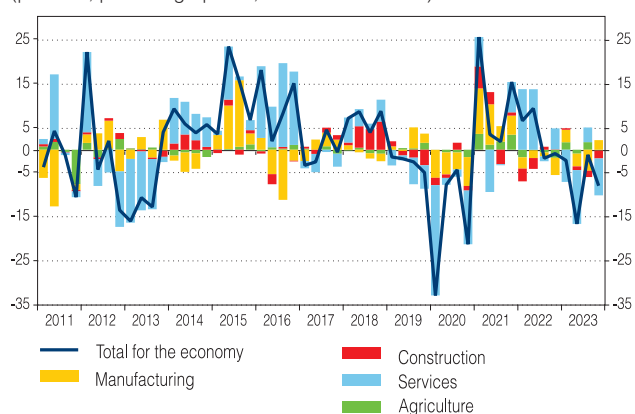
(per cent; percentage points; on an annual basis)



Sources: NSI – System of National Accounts (SNA), BNB calculations.

Contribution to the Change in the Number of Job Vacancies by Economic Sector

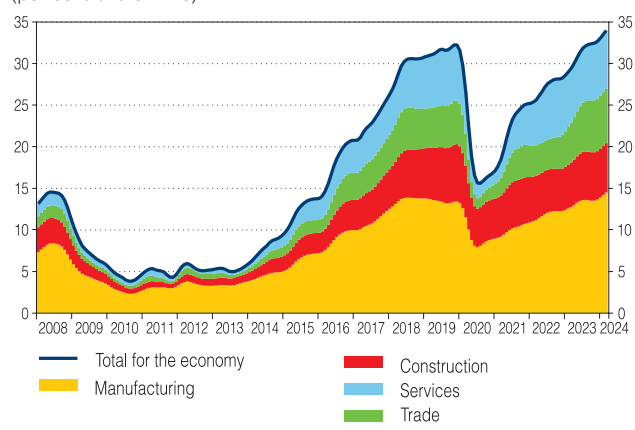
(per cent; percentage points; on an annual basis)



Sources: NSI, BNB calculations.

Labour Shortages (Seasonally Adjusted and Sector-Weighted Monthly Data)

(per cent of the firms)



Note: Data up to and including March 2024 are used.

Sources: NSI, BNB calculations.

the economy and the slowdown in inflation were reflected in lower growth of nominal compensation *per* employee in the fourth quarter of 2023 compared with the annual rise recorded in the previous quarter, but the growth rate remained high in line with increasing domestic labour shortages and reached 10.5 per cent on an annual basis. In real terms⁴⁴, compensation *per* employee rose by 4.7 per cent on an annual basis, with all major sectors contributing to this and construction reporting the largest growth.

According to data on the average monthly gross wage,⁴⁵ nominal annual wage growth also slowed down slightly, but remained high in both the private (12.6 per cent) and the public sector (14 per cent) in the fourth quarter of 2023.

4.3. Behaviour of Firms

Data for the fourth quarter of 2023 signal that firms' nominal unit labour costs for the total economy slightly increased compared with the corresponding period of the previous year.⁴⁶ According to the breakdown of the final demand deflator, higher compensation of employees was the main factor behind the year-on-year increase in the cost of production. Concurrently, the fall in prices of imported raw materials and the appreciation of the nominal effective exchange rate of the lev against the currencies of Bulgaria's main trading partners offset to a large extent higher labour costs. The deflationary impact of the external environment led to a year-on-year decline in producer prices in both agriculture and industry during the review quarter, while the effects on final consumer prices were considerably less pronounced and limited mainly to the decline in transport fuel prices. Data on the final demand deflator indicate that firms' pricing policies have been geared towards some reduction in the profit margin on an annual basis.

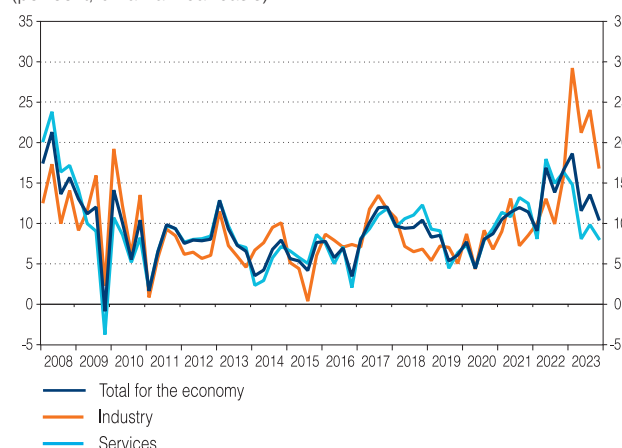
⁴⁴ Nominal compensation *per* employee was deflated by the HICP to calculate the indicator in real terms.

⁴⁵ According to NSI's short-term statistics on employment and labour costs.

⁴⁶ This section reviews in detail corporations' labour costs and investment, while expenditure on raw materials (the so-called intermediate consumption) is not explicitly analysed due to the lack of public data at a quarterly frequency. However, the data on industrial producer prices for intermediate goods presented in the section provide an indication of the evolution of these costs.

Compensation *per* Employee at Current Prices

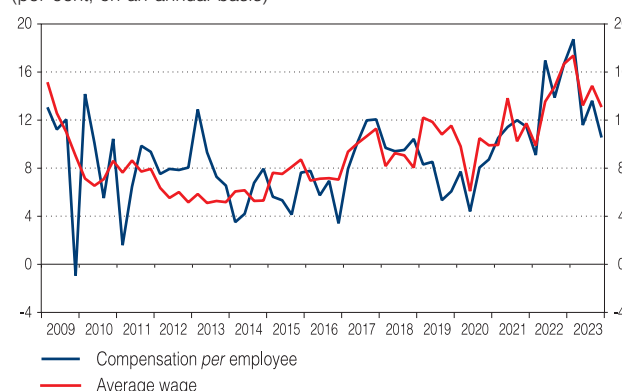
(per cent; on an annual basis)



Source: NSI – SNA.

Compensation *per* Employee and Average Wage at Current Prices

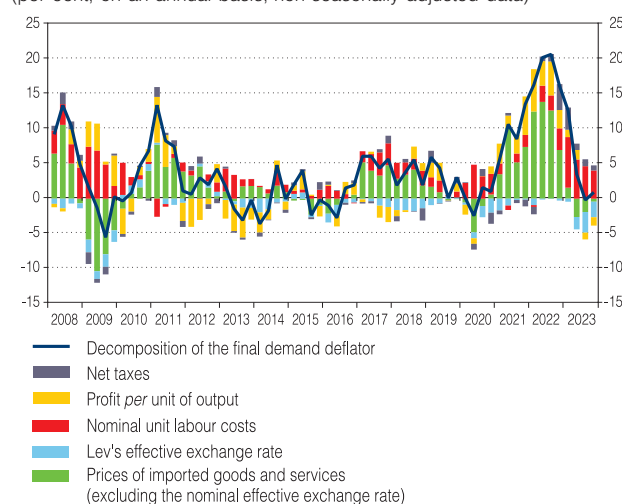
(per cent; on an annual basis)



Sources: NSI – System of National Accounts (SNA), short-term statistics of employment and labour costs.

Decomposition of the Final Demand Deflator

(per cent, on an annual basis; non-seasonally adjusted data)



Sources: NSI, BNB calculations.

Labour Costs of Corporations

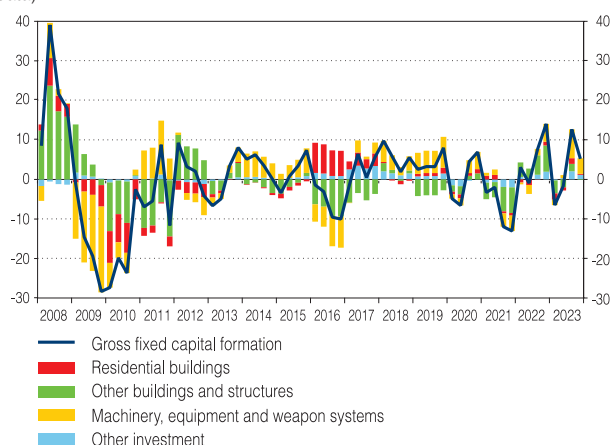
The increase in firms' unit labour costs moderated slightly to 10.8 per cent year on year in the fourth quarter of 2023 (11.3 per cent in the previous quarter), but the growth rate remained historically high as a result of increasing labour shortages, which continued to support the rise in compensation *per* employee in real terms. All economic sectors contributed to the reported slowdown in nominal unit labour cost growth in the economy, with the exception of construction, which recorded growth acceleration to 24.7 per cent year on year⁴⁷.

Investment Costs of Corporations

According to BNB estimates, in the fourth quarter of 2023 private investment in real terms increased on an annual basis in line with final consumption expenditure growth, the active supply of credit resources by banks and strong capacity utilisation in industry. By asset type, investment in machinery, equipment and weapons systems was the main contributor to growth, followed by investment in intellectual property products and non-residential buildings and other structures.

Contribution by Asset Type to the Annual Rate of Change in Investment in Fixed Capital

(per cent; percentage points; on an annual basis; non-seasonally adjusted data)



Sources: Eurostat, BNB calculations.

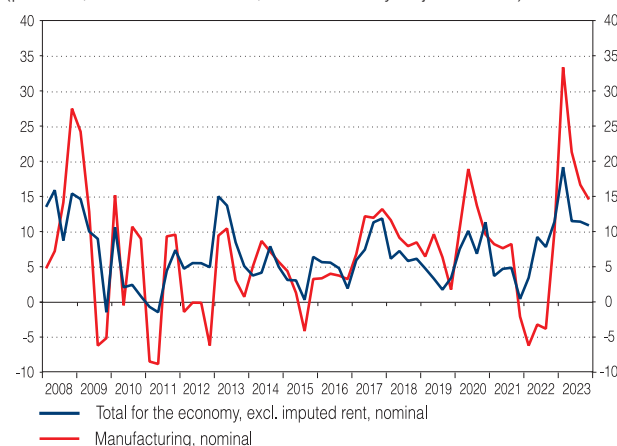
Firms' financing sources

In the fourth quarter of 2023, firms used mostly external sources of funding to finance their activities. Based on non-seasonally adjusted data for the total economy, the nominal gross operating surplus which can be used by firms to finance their activities decreased by 1.9 per cent on an annual

⁴⁷ For details, see the Labour Market Section in this Chapter.

Unit Labour Costs

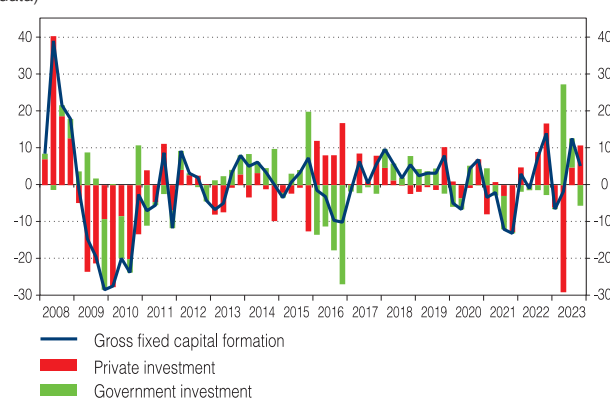
(per cent, on an annual basis; non-seasonally adjusted data)



Sources: NSI, BNB calculations.

Contribution of Private and Public Sectors to the Annual Rate of Change in Investment in Real Terms

(per cent, percentage points; on an annual basis; non-seasonally adjusted data)



Notes: The NSI does not provide official data on the breakdown of total investment into private and public. The series on private investment is constructed by the BNB as a difference between total investment and the estimated amount of public investment on an accrual basis in real terms.

Sources: NSI, BNB calculations.

basis in the fourth quarter of 2023, which was due to agriculture (-1.2 percentage points), construction (-0.7 percentage points) and manufacturing (-0.6 percentage points), while the services sector (0.5 percentage points) had a positive contribution. Firms' financing by resources other than gross operating surplus posted a year-on-year increase in nominal terms and was entirely due to borrowings.

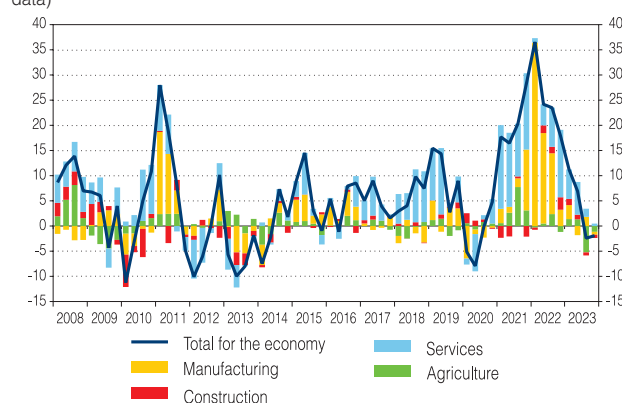
Price policy of the firms

In the fourth quarter of 2023, firms' selling prices in industry, as measured by the Producer Price Index in Industry (PPI), posted a decline of 15.4 per cent on an annual basis. Price declines were reported in both domestic and international producer prices. This was mainly due to lower prices for energy products and, to a lesser extent, to intermediate goods. Although these products account for a significant part of the production costs of firms in Bulgaria, producer prices of consumer and investment products reported a year-on-year increase, which may be related to the continued rise in unit labour costs in industry amid high labour shortages.⁴⁸ The annual decline in the PPI slowed down in the first quarter of 2024 reaching -9.3 per cent in February 2024, mainly driven by the developments in energy commodity prices in international markets.

Producer price indices in services (not related to trade) in the fourth quarter of 2023 reported annual growth in all sub-sectors with the exception of maritime transport. Selling prices in the retail sub-sector (excluding the trade in motor vehicles and motorcycles), which is the closest one to the customers in the supply chain, went up by 2.7 per cent in the fourth quarter of 2023 (compared to 3.6 per cent in the previous quarter). The annual growth rate of the NSI retail price index accelerated to 4.9 per cent in February 2024. The increase in prices in the services sector can be explained with the higher producer prices of consumer products and the increase in unit labour costs.

Annual Rate of Change of Nominal Gross Operating Surplus and Contribution by Sector

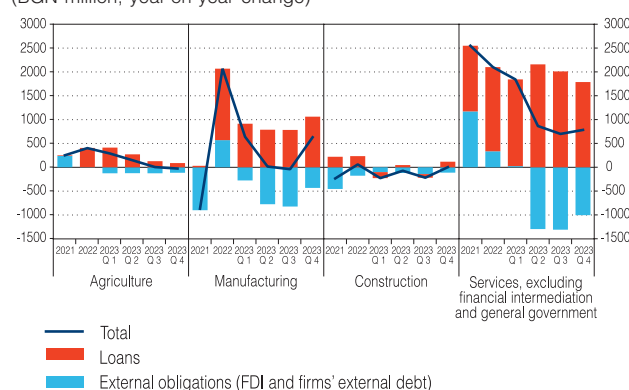
(per cent; percentage points; on an annual basis; non-seasonally adjusted data)



Sources: NSI, BNB calculations.

Financing Sources*

(BGN million, year-on-year change)

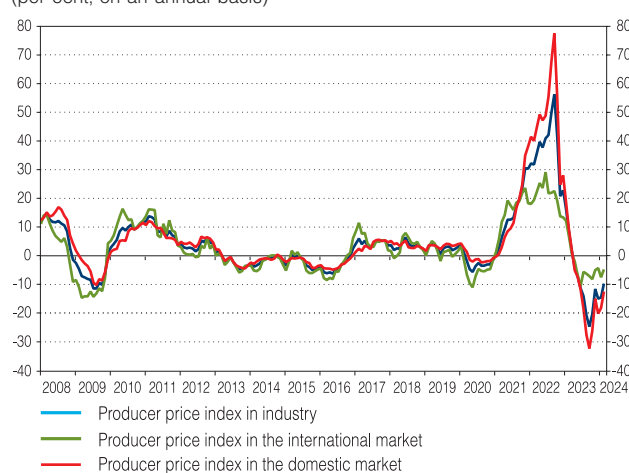


* Sources of financing other than the gross operating surplus.

Source: BNB.

Rate of Change of Producer Price Index in Industry

(per cent; on an annual basis)



Source: NSI.

⁴⁸ For details, see the Labour Market Section in this Chapter.

Economic indicators

NSI data on short-term business statistics provide divergent signals about firms' behaviour across individual sectors of economic activity in the first quarter of 2024.⁴⁹

According to BNB seasonally adjusted data, the overall business climate indicator slightly decreased between January and March 2024 compared with the previous quarter. A deterioration in sentiment was recorded in industry, construction and trade, while business climate for firms in the services sector improved. The uncertain economic environment remained the most serious obstacle hampering corporations' activity and the effect of this factor weakened compared to the previous quarter. At the same time, the share of corporations that identify labour shortages as a limiting factor for their activity remained close to one of the highest values in historical terms and was the second most serious obstacle to the activity of companies. In the first quarter of 2024, managers' estimates of firms' expected production activity and staff recruitment for the next three months worsened compared with the previous quarter.

The NSI short-term business statistics data point to a decline in the industrial production index at constant prices between January and February 2024 both compared to the fourth quarter of 2023 and on an annual basis. Concurrently, the indices of construction production and retail trade turnover⁵⁰ tended to increase.

Growth in construction production in January and February 2024 both on a quarterly and annual basis was due to higher activity as a result of the higher activity associated with construction of facilities and specialised construction works, while building construction posted a decrease. The NSI business climate survey suggests that in the first quarter of 2024 the uncertain economic environment, commodity prices and labour shortages remained the main constraints for the construction firms.

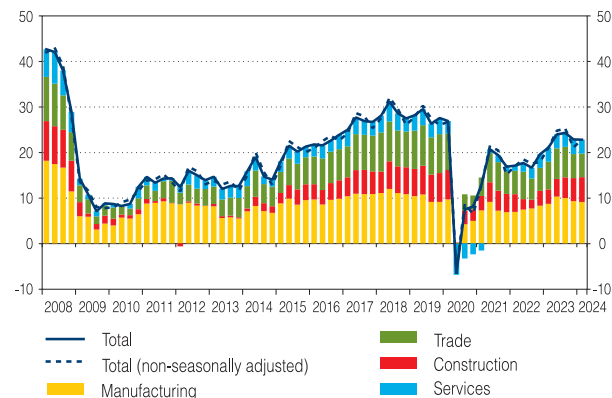
Between January and February 2024 the industrial production index decreased both on a quarterly and annual basis underpinned by all

⁴⁹ For more details on the composite economic indicator, see the Current Economic Environment Section in this Chapter.

⁵⁰ Eurostat seasonally adjusted data.

Business Climate

(balance of opinions, per cent; seasonally adjusted data)

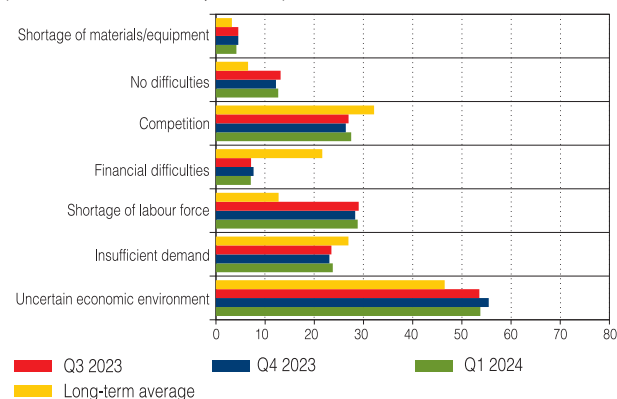


Notes: The answers to the NSI survey questions are presented in a three tier category scale: 'increase', 'unchanged', 'decrease'. Balances of opinions are calculated as a difference between relative shares of extreme options of replies: 'increase' minus 'decrease'. The business climate indicator is a geometric average of the balances of opinions about the current and expected business situation in corporations in the next six months.

Sources: NSI, BNB calculations.

Factors Hampering Economic Activity of Corporations

(relative share of all corporations)

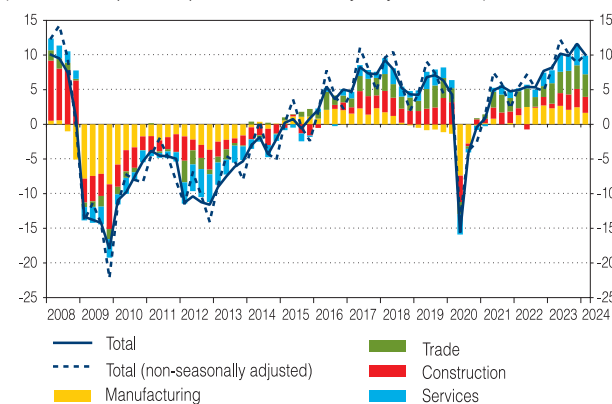


Note: Data are averaged for the relevant period and weighted by the share of corporations by sector (manufacturing, construction, trade and services).

Sources: NSI, BNB calculations.

Corporations' Expectations about Staff Recruitment in the Following Three Months

(balance of opinions, per cent; seasonally adjusted data)



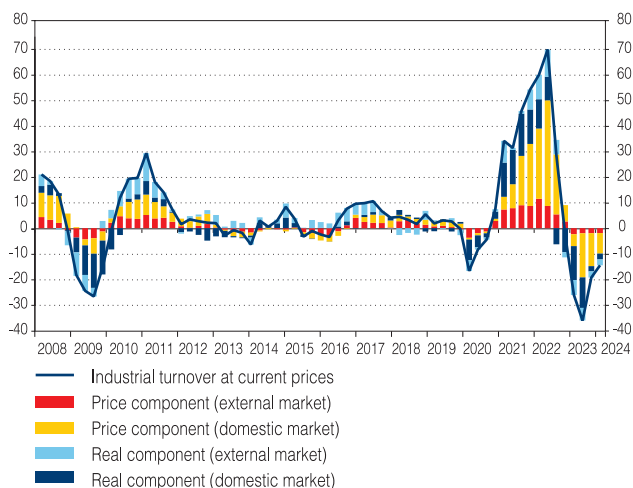
Notes: The answers to the NSI survey questions are presented in a three tier category scale: 'increase', 'unchanged', 'decrease'. Balances of opinions are calculated as a difference between relative shares of extreme options of replies: 'increase' minus 'decrease'.

Sources: NSI, BNB calculations.

main sub-sectors. Data on nominal turnover in manufacturing show that lower industrial activity on an annual basis was impacted by developments both in international and domestic markets. Between January and February 2024 retail turnover at constant prices increased on a quarterly and annual basis, with retail trade in food, drinks and tobacco having the strongest positive contribution to growth.

Industrial Turnover Dynamics

(per cent; percentage points; on an annual basis; non-seasonally adjusted data)



Note: Data for the first quarter of 2024 refer to January and February.
Sources: NSI, BNB calculations.

4.4. Household Behaviour

Household Revenue

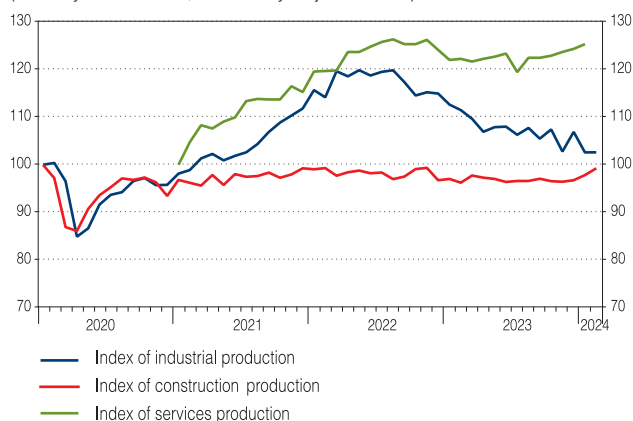
According to NSI's household budget survey data, in the fourth quarter of 2023, nominal household revenue growth⁵¹ slowed down on an annual basis as a result of weaker growth in total household income, while revenue from withdrawn savings increased.

In the fourth quarter of 2023, growth in total household income slowed down in nominal terms to 18.1 per cent year on year, reflecting mainly a lower increase in pensions due to a base effect of pension recalculations and their increased maximum amount from 1 October 2022. Nominal annual growth in wage income also slowed down slightly compared to the reported increase

⁵¹ Household income includes all household cash income from sources such as wages, pensions, self-employment, social security benefits, allowances and valued in-kind income (the monetary value of goods and services received in kind by households, such as social transfers in kind) grouped under the 'Total income' category, as well as withdrawals of savings and loans.

Dynamics of the Production Index in Manufacturing, Construction and Services

(January 2020 = 100; seasonally adjusted data)

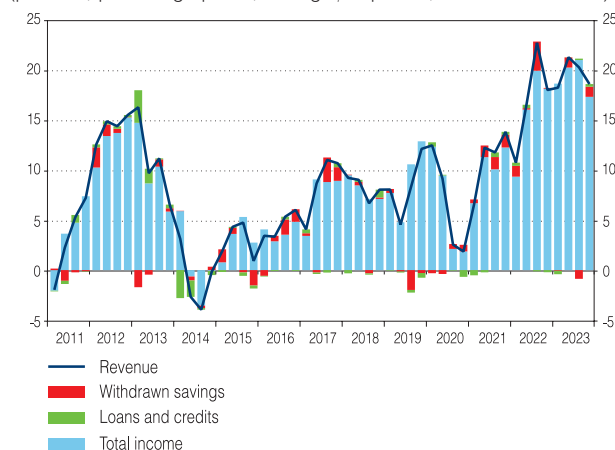


Note: The index of services production is based on January 2021=100.

Sources: NSI, Eurostat, BNB calculations.

Contributions to Change in Household Revenue

(per cent, percentage points; average *per* person, on an annual basis)



Sources: NSI – Household Budget Survey, BNB calculations.

in the previous quarter, but remained high in line with data on the wage *per* employee⁵² from the National Accounts of the NSI and on the average monthly gross wage from NSI's short-term statistics⁵³. A similar development was also recorded in the annual growth of total household income in real terms⁵⁴, reaching 12.0 per cent in the fourth quarter of 2023 (14.3 per cent on an annual basis in the third quarter of 2023), with a continued rise in domestic labour shortages contributing to the retention of the high growth. As a result, in the fourth quarter of 2023, growth in households' real disposable income⁵⁵ was 10.2 per cent on an annual basis and continued to support household consumption.

Household Expenditure

In the fourth quarter of 2023, total household expenditure⁵⁶ increased in nominal terms by 18.1 per cent year on year, compared with an annual growth rate of 21.2 per cent in the third quarter of 2023, with deceleration in the growth rate mainly reflecting weaker increases in domestic consumer prices. At the same time, expenditure on taxes and social security contributions continued to increase at a faster pace than consumer expenditure, and the trend towards a gradual increase in their share of total household expenditure was sustained.

In the fourth quarter of 2023, growth in household nominal consumption expenditure slowed to 15.9 per cent on an annual basis (from 19.4 per cent in the third quarter), mainly as a result of weaker growth in expenditure on leisure, cultural recreation and education.

⁵² The wage is calculated by dividing the wage bill to the number of employed in the economy.

⁵³ A possible discrepancy in the dynamics presented by the NSI household budget survey data and the national accounts data and NSI's short-term statistic on wages could be explained with the differences in the three statistics in terms of how the data are collected, their scope and the definitions used.

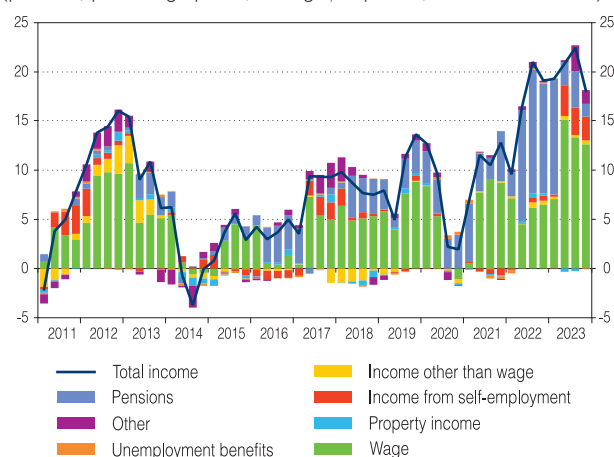
⁵⁴ To obtain total income in real terms, nominal values are deflated by the HICP.

⁵⁵ Real disposable income of households is calculated based on the NSI household budget survey data and represents total income less taxes, social security contributions and regular transfers to other households, deflated by the HICP.

⁵⁶ Total expenditure include consumer spending, taxes, social contributions, regular transfers to other households and other expenditure. For more details, see [NSI's Methodology](#) on the Household Budget Survey.

Contribution to the Change in Total Monthly Household Income

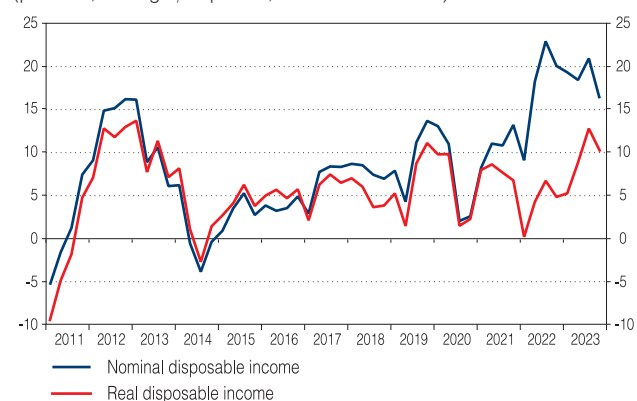
(per cent, percentage points; average *per* person, on an annual basis)



Sources: NSI – Household Budget Survey, BNB calculations.

Household Disposable Income

(per cent, average *per* person, on an annual basis)

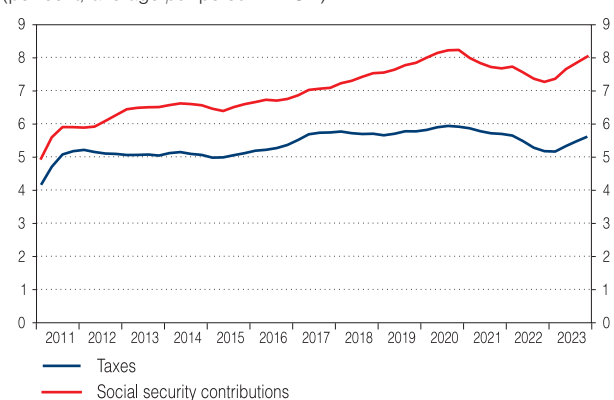


Note: Real disposable income of households represents total income reduced by taxes, social security contributions and regular transfers to other households, HICP deflated.

Sources: NSI – Household Budget Survey, BNB calculations.

Shares of Taxes and Social Security Contributions in Total Household Expenditure

(per cent, average *per* person – BGN)



Note: A moving average for the last four quarters is used in order to adjust the data and show the trend in the developments.

Source: NSI – Household Budget Survey.

Growth of household consumption expenditure in real terms⁵⁷ was 9.9 per cent on an annual basis, compared with 11.4 per cent in the third quarter. Increases were reported across all types of expenditure, with food and non-alcoholic beverages and transport costs contributing most significantly to this growth. These developments were consistent with reported dynamics of private consumption, according to NSI's national accounts data, which increased by 3.2 per cent year on year, from 4.8 per cent in the third quarter of 2023.⁵⁸

Household Savings

In the fourth quarter of 2023, the propensity of households to save⁵⁹ part of their earned income⁶⁰ remained broadly unchanged from the previous quarter, according to seasonally adjusted data. Accumulated net assets of households in the banking system increased somewhat, due to continued strong growth of deposits, despite persistently negative real interest rates, possibly reflecting limited alternatives to invest savings accumulated by households. Concurrently, the accumulated amount of households' net assets in the banking system at the end of 2023 remained at a level lower than the average level for the last ten years, reflecting the continued high growth of loans to households.

4.5. Fiscal Policy Effects on the Economy

Fiscal policy supported Bulgaria's economic activity in 2023 with regard to growth of public investments and increased social transfers to households.⁶¹ The programme for compensation of the

⁵⁷ Household consumer expenditure are deflated by overall HICP. Sub-components of consumer expenditure are deflated by the corresponding HICP groups.

⁵⁸ Comparing national accounts data and the NSI's Household Budget Survey, the differences in the two statistics in terms of the way of collecting data, their coverage and the definitions used should be taken into account.

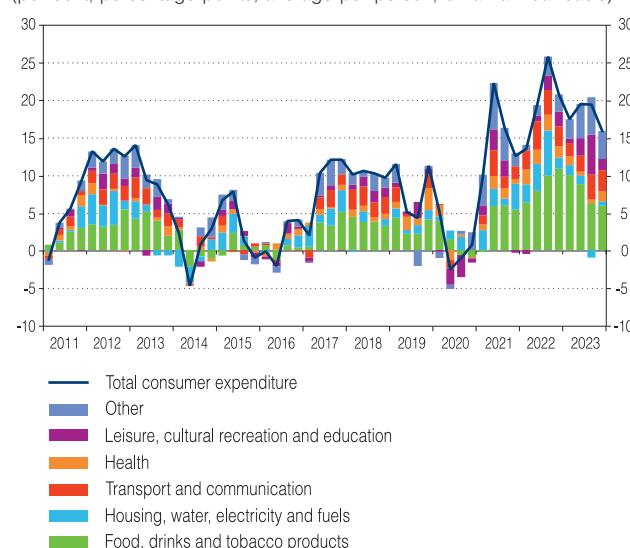
⁵⁹ Household savings are measured by the difference between the total income and the total expenditure in the relevant quarter. The propensity to save is calculated as a ratio between savings and gross income in the relevant quarter.

⁶⁰ Income is gross income in the relevant quarter reduced by taxes and social security contributions.

⁶¹ At the time of the preparation of this issue of the Economic Review the quarterly general government non-financial accounts published by the NSI are available up to and including the third quarter of 2023. The estimate of general government investment for the fourth quarter of 2023 is based on the monthly CFP performance reports. The CFP performance data are also an indicator of the dynamics of social transfers to households.

Contribution to the Change in Consumer Expenditure of Households

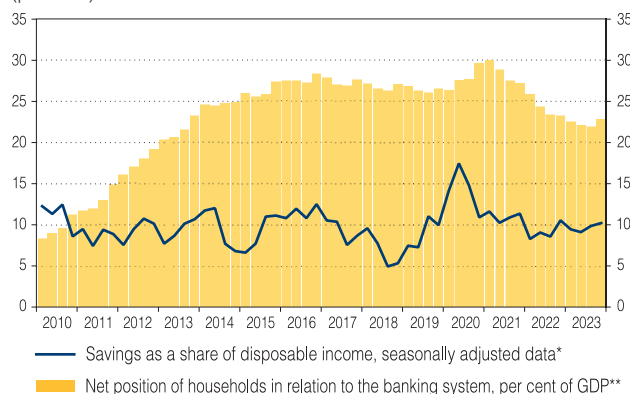
(per cent; percentage points; average per person, on an annual basis)



Sources: NSI – Household Budget Survey, BNB calculations.

Household Propensity to Save

(per cent)



Notes: Savings as a share of disposable income represent the difference between total income and total expenditure of households as a share of total income reduced by taxes, social security contributions and regular transfers to other households.

The net position of households *vis-à-vis* the banking system is the difference between deposits and loans of households.

* Based on NSI data. BNB seasonally adjusted data.

** BNB and NSI data. Nominal GDP data for the last four quarters up to and including the fourth quarter of 2023 are used to calculate the ratio to GDP.

Sources: NSI – Household Budget Survey, BNB.

firms for high electricity prices was extended in 2023, but the realised monthly average stock exchange price of electricity was below the compensation threshold for such compensations in most months of the year.

In the fourth quarter of 2023, government consumption contributed positively to the growth of economic activity in Bulgaria, whereas according to BNB estimates, general government investments had a limiting impact on GDP growth. Social payment policy supported household disposable income growth and continued to indirectly stimulate economic activity⁶² over the review period.

Government consumption recorded year-on-year growth in the fourth quarter of 2023 of 12.2 per cent in nominal terms (0.6 per cent in real terms). Data on the CFP implementation for the fourth quarter of 2023 show that compensation of employees in the public sector and healthcare costs contributed positively to this dynamics. Monthly reports on CFP implementation also give a preliminary indication that in the last quarter of 2023 government investments were mainly supported by the implementation of projects financed by EU funds, which is in line with the closure of the 2014–2020 programming period.⁶³ In addition, data on the CFP implementation are also an indicator of growth in social transfers to households on an accrual basis in the fourth quarter of 2023, supported by the 12 per cent increase in pensions from 1 July 2023.

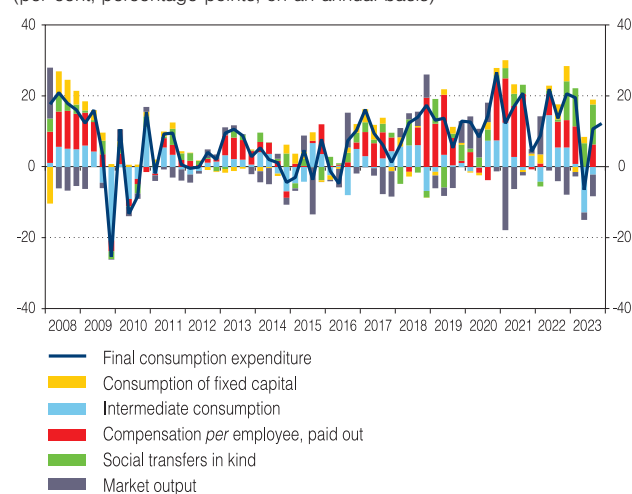
By the end of February 2024, the total CFP budget expenditure decreased by 7.0 per cent on an annual basis, which was determined mainly by the reimbursement of BGN 1.2 billion from the foreign funds account under the Ministry of Regional Development and Public Works (MRDPW) budget

⁶² In the fourth quarter of 2023, additional fiscal measures with an indirect impact on economic activity in Bulgaria continued to be the tax relief for children, the reduced VAT rate of 9 per cent for restaurant, catering and tourist services, as well as for books, baby food and diapers, and the zero VAT rate for the supply of bread.

⁶³ The estimation was made taking into account the impact of the expenditures on the foreign funds account of the Ministry of Regional Development and Public Works (MRDPW) in the amount of BGN 1.2 billion for the Investment Programme for Municipal Projects presented in the State Budget Law of the Republic of Bulgaria for 2024. These funds are reflected as an expenditure in the December 2023 CFP.

Contribution of Major Groups of Expenditure to Government Consumption Growth in Nominal Terms (Quarterly Data)

(per cent; percentage points; on an annual basis)

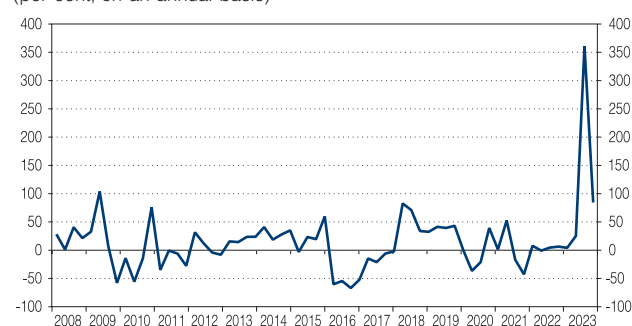


Note: At the time of the preparation of this issue of the Economic Review, the quarterly general government non-financial accounts published by the NSI are available up to and including the third quarter of 2023 and therefore, a breakdown of the components of government consumption for the fourth quarter of 2023 is not available.

Sources: NSI, BNB calculations.

Rate of Change in Gross Fixed Capital Formation of the General Government Sector in Nominal Terms (Quarterly Data)

(per cent; on an annual basis)



Note: At the time of the preparation of this issue of the Economic Review the quarterly general government non-financial accounts published by the NSI are available up to and including the third quarter of 2023.

Sources: NSI, BNB calculations.

in February 2024.⁶⁴ On a cash basis, this transaction is reflected as a reduction in capital expenditure by the same amount in February⁶⁵. At the end of February 2024, subsidy expenditure was 56.0 per cent on an annual basis, lower than in the same period of 2023, due to a reduction in subsidies paid to compensate companies for the significant fall in the average monthly stock price of electricity.

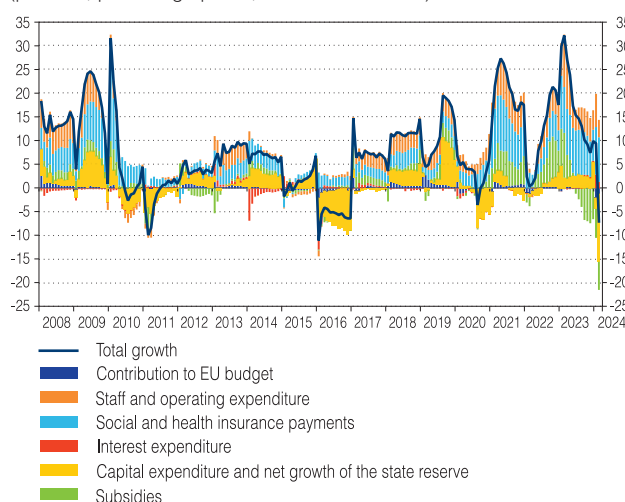
The 11.1 per cent year-on-year decline in operating expenditure as of February 2024 also contributed to the lower total budget expenditure, while personnel costs increased by 19.7 per cent on an annual basis over the same period. The growth in personnel costs was due to the increase in wages of some budget employees in the second half of 2023 and the increase in the national minimum wage from the beginning of 2024.⁶⁶

The available data on the implementation of the CFP as of February 2024 do not provide a sufficiently clear indication of the impact of government consumption on economic activity in Bulgaria in the first quarter of 2024. At the same time, the CFP capital expenditure at the end of February 2024, excluding the transaction for the reimbursement of BGN 1.2 billion from the foreign funds account of the MRDPW budget, are lower compared to the same period of the previous year. This implies a limited impact of government investment on GDP growth in the first quarter of 2024.

Total budget revenue under the CFP grew by 5.4 per cent on an annual basis by the end of February 2024, which was due almost entirely to tax revenue. The increase in tax revenue was primar-

Contribution of Major Groups of Expenditure to Total Budget Expenditure Growth, Cumulatively

(per cent; percentage points; on an annual basis)



Notes: In January 2016 reports under the CFP, personnel costs include expenditure on wages, social security and other remunerations, while in those for previous periods, the latter were included in operating expenditure. To prevent inconsistencies of data prior to and after January 2016 resulting from the methodological change, personnel costs and operating expenditure data are presented aggregately in the chart.

Sources: MF, BNB calculations.

⁶⁴ According to the information of the Ministry of Finance, in February 2024, pursuant to Article 71, paragraph 1 of the Decree No 13 of the Council of Ministers of 2024, a total of BGN 1.2 billion was reimbursed from the foreign funds account of the budget of the Ministry of Regional Development and Public Works. In the course of the implementation of the 2024 budget, these funds will be made available by an act of the Council of Ministers on the basis of signed agreements with the Ministry of Regional Development and Public Works as transfers to municipalities to finance the Investment Programme for Municipal Projects under Article 107 of the State Budget Law of the Republic of Bulgaria for 2024.

⁶⁵ Without the reimbursement of these funds from the foreign funds account of the MRDPW budget, total budget expenditure as of February 2024 would have grown by 5.5 per cent on an annual basis.

⁶⁶ In addition, under Article 1, paragraph 5, item 8.1 of the State Budget Law for 2024, funds have been earmarked to redress imbalances in staff remuneration in budget organisations.

ily due to receipts from social and health insurance contributions, as well as excise duties.

By end-February 2024, the CFP budget balance was negative and amounted to BGN 994 million (0.5 per cent of GDP⁶⁷).

⁶⁷ Nominal GDP data for the last four quarters up to and including the fourth quarter of 2023 are used in calculating the ratio. The budget balance of the CFP would have been BGN 206 million in deficit (0.1 per cent of GDP for 2023) had the transaction on the reimbursement of BGN 1.2 billion from the foreign funds account of the MRDPW budget as of February 2024 not taken place.

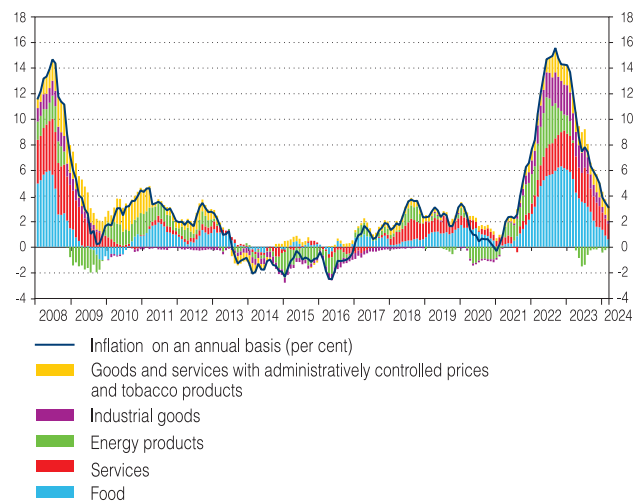
5. PRICE DEVELOPMENTS

5.1. Consumer Prices

Annual inflation, measured by HICP, continued to decelerate, reaching 3.1 per cent in March 2024 (compared to 5.0 per cent in December 2023). This dynamics was mainly driven by the base effect of rapid price increases in food and core component groups in 2023 and, to a lesser extent, by the depreciation of energy products and industrial goods. At the same time, unit labour cost growth in the context of labour shortages contributed to higher production costs for firms, while strong consumer demand provided a prerequisite for firms to pass on higher costs to final consumer prices. Services, as well as goods and services with administratively controlled prices and tobacco products, followed by food products were the major positive contributors to headline inflation in March 2024, with these groups recording an increase in the price level on a quarterly basis compared with end-2023. Fiscal policy continued to have a pro-inflationary impact due to the increases in social payments and compensation of public sector employees in recent years, which supported household disposable income and consumption growth and set preconditions for continued high inflation in the more demand-sensitive HICP components, such as services. Concurrently, the maintenance of budget deficits financed by external issues of government securities has a further impact on the continued inflow of attracted funds and the persistence of high liquidity in the banking system. This, in turn, impedes the full transmission of the ECB's monetary policy on deposit and lending rates to the household sector in Bulgaria. The gradual decline in consumer price inflation created conditions for real interest rates on new household time deposits to become less negative, and they continued, albeit to a lesser extent, to underpin private consumption growth and consumer price increases. Although interest rates on new consumer loans turned positive in real terms since mid-2023, newly extended con-

Inflation and Contribution of Major Commodity and Services Groups to It

(per cent; percentage points; on an annual basis)



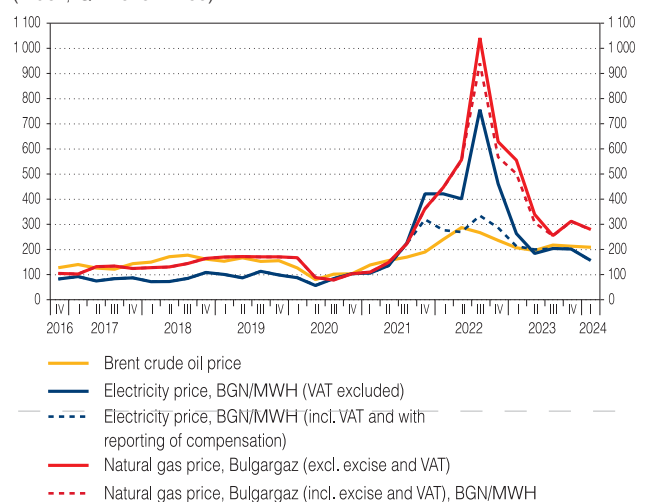
Notes: This structure corresponds to the Eurostat classification; tobacco products and goods and services with administratively controlled prices are presented separately.

The index of goods and services with administratively controlled prices is calculated by weighing the relevant elementary aggregates of the consumer basket.

Sources: NSI, BNB calculations.

Primary Energy Commodity Prices

(Index, Q4 2020 = 100)



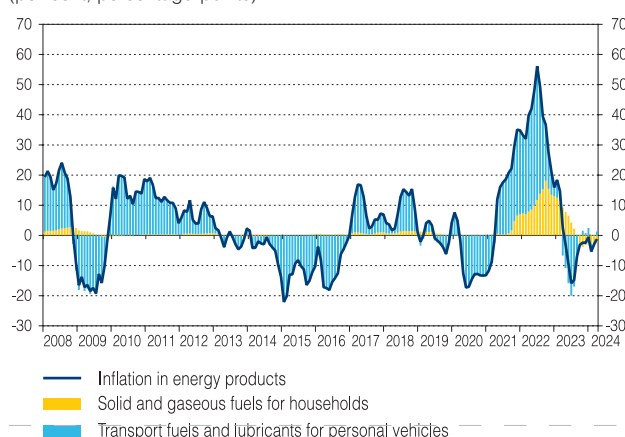
Notes: The electricity price refers to the Day Ahead segment of the Independent Bulgarian Energy Exchange EAD (IBEX).

The price of natural gas sold by Bulgargaz EAD does not include prices for access and transmission through the gas transmission networks.

Sources: ECB, IBEX, EWRC.

Contribution of Major Sub-groups to Energy Inflation (Excluding those with Controlled Prices)

(per cent; percentage points)



Sources: NSI, BNB calculations.

sumer loans continued to show an upward trend in volumes, which was an additional factor with a pro-inflationary effect in early 2024.

Energy Products Prices

In March 2024, energy products made a slight negative contribution to overall inflation, with prices in the group falling by 1.3 per cent on an annual basis (compared to a 0.6 per cent decline in December 2023). The fall in prices was driven by solid fuels, which continued to depreciate on both an annual and a quarterly basis. Concurrently, the sub-sector of transport fuels had a small positive contribution to energy inflation, in line with the surge in crude oil prices on international markets.

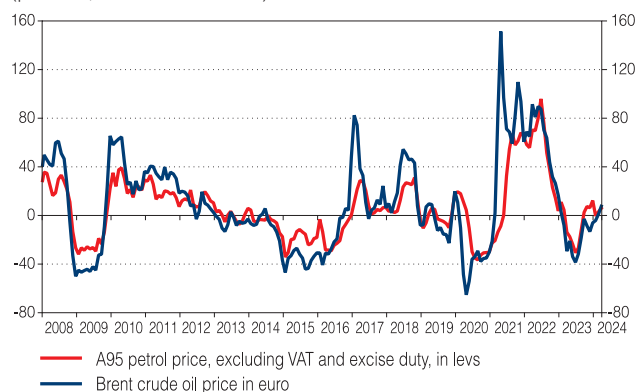
Food Prices

The annual growth rate of food prices moderated to 2.3 per cent in March 2024 (compared with 6.0 per cent in December 2023), with this group contributing positively to overall inflation, which was driven by both unprocessed and processed food.

Unprocessed food prices recorded an annual growth rate of 5.0 per cent (compared with 10.4 per cent in December 2023), with the slowdown in inflation mainly reflecting the impact of a base effect from high rates of increase in prices in 2023 and, to a lesser extent, from a year-on-year decline in euro food prices on international markets. The meat and meat products and fruit and vegetables sub-groups had the largest positive contribution to the increase in

Rate of Change in Brent Crude Oil and A95 Petrol Prices

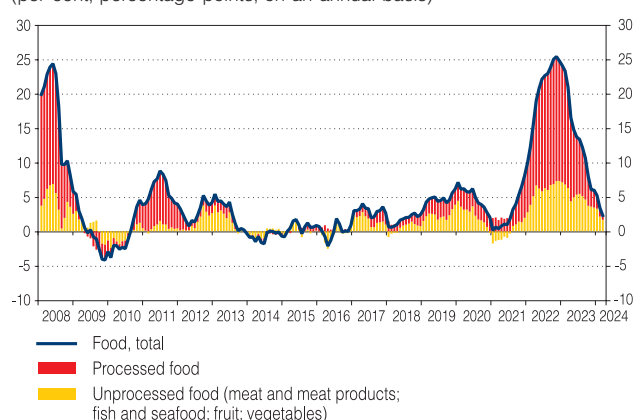
(per cent; on an annual basis)



Sources: ECB, NSI, BNB calculations.

Rate of Change of Food Price Index and Contribution of Processed and Unprocessed Food

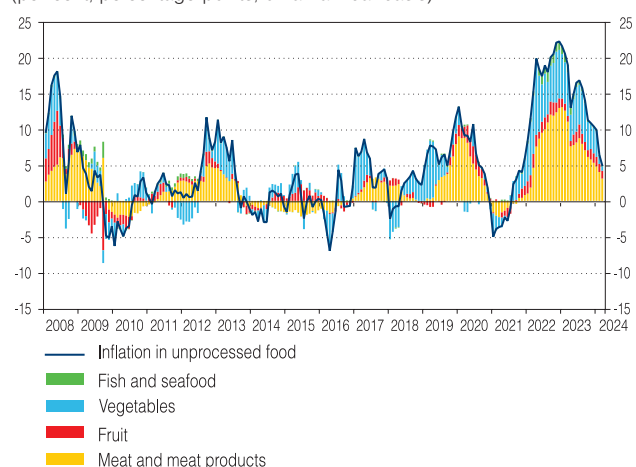
(per cent; percentage points; on an annual basis)



Sources: NSI, BNB calculations.

Contribution of Major Sub-groups to Unprocessed Food Inflation

(per cent; percentage points; on an annual basis)



Sources: NSI, BNB calculations.

prices, which was due to the appreciation of imported goods in Bulgaria⁶⁸ and to the persistently higher agricultural input costs⁶⁹.

Processed food inflation stood at 0.9 per cent in March 2024 (compared to 3.8 per cent at the end of 2023), with the animal and vegetable fats and oils and milk and dairy products sub-groups contributing most significantly thereto. The main factors contributing to this development were the substantial year-on-year decline in the prices of imported products⁷⁰ and the reduction in the production cost for these food products⁷¹. Concurrently, the non-alcoholic beverages sub-group, followed by bread and cereals had the most significant positive contribution, in line with the observed increase in the producer price indices in these sectors⁷².

Core Inflation

In the first quarter of 2024, core inflation (including services and industrial goods prices) continued to slow down, reaching 3.3 per cent on an annual basis in March 2024 compared with 5.3 per cent in December 2023. The sustained growth in services prices was the main driver behind this increase in prices.

Annual inflation of industrial goods stood at 1.3 per cent in March 2024 compared with 3.3 per cent at the end of 2023. The most sizeable negative contribution to inflation in the durable goods sub-group was that of personal computers, while in the non-durable goods – that of clothing and footwear. At the same time, in the non-durable goods sub-group household goods, personal hygiene devices and spare parts made a significant positive contribution to industrial goods price rises. This development

⁶⁸ BNB calculations based on NSI data on import prices by commodity group according to the Standard International Trade Classification (SITC) as of the fourth quarter of 2023 have been used.

⁶⁹ NSI data on price indices of goods and services intended for current consumption in agriculture as of the fourth quarter of 2023 have been used.

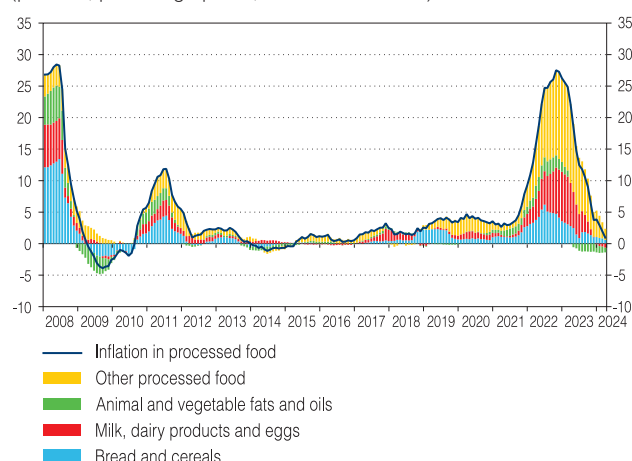
⁷⁰ BNB calculations based on NSI data on import prices by commodity group according to the Standard International Trade Classification (SITC) as of the fourth quarter of 2023 have been used.

⁷¹ On the basis of Producer Price Index (PPI) data as of February 2024 prices related to the production of vegetable and animal oils and fats and milk and dairy products decreased by 27.6 per cent and 3.2 per cent on an annual basis, respectively.

⁷² Data on PPI as of February 2024 have been used.

Contribution of Major Sub-groups to Processed Food Inflation

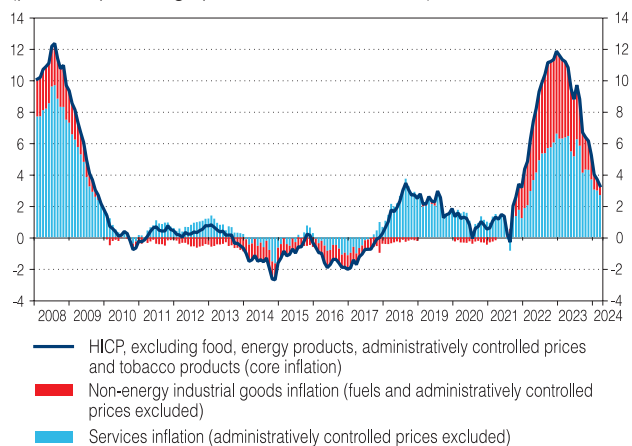
(per cent; percentage points; on an annual basis)



Sources: NSI, BNB calculations.

Core Inflation and Contribution of Services and Non-energy Industrial Goods to It

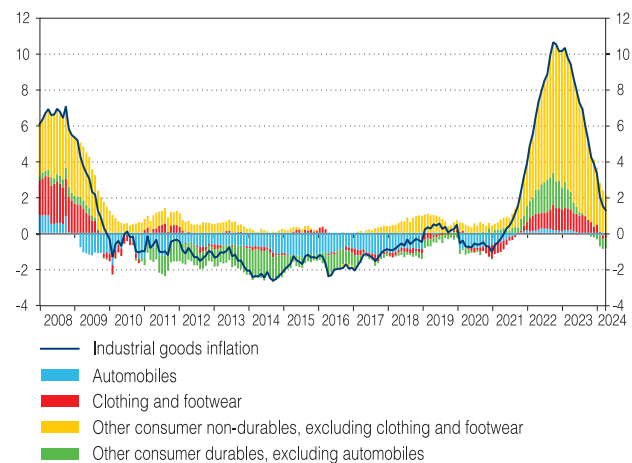
(per cent; percentage points; on an annual basis)



Sources: NSI, BNB calculations.

Contribution of Major Sub-groups to Inflation in Industrial Goods (Excluding Energy Products)

(per cent; percentage points; on an annual basis)



Sources: NSI, BNB calculations.

was largely attributable to the annual growth in households' final consumer expenditure⁷³.

In March 2024, the annual growth rate of services prices stood at 5.2 per cent compared to 7.1 per cent in December 2023, with catering and accommodation services contributing most to inflation in this group. The price increases in these sub-groups were driven by the continued growth in unit labour costs and strong consumer demand which contributed to a limited pass-through by firms of falling electricity and natural gas prices to final consumer prices.

Goods and Services with Administratively Controlled Prices and Tobacco Products

In March 2024, inflation in goods and services with administratively controlled prices and tobacco products accelerated to 5.6 per cent from 5.4 per cent in December 2023. Medicinal products⁷⁴, tobacco products⁷⁵, water and sewerage services⁷⁶, electricity⁷⁷ and education had the most significant positive contribution. Concurrently, central gas supply⁷⁸ had a low negative contribution to the increase in prices in the group of goods with administratively controlled prices, which reflected the dynamics in international gas prices.

The diffusion index, which indicates the share of goods and services with year-on-year price growth, remained unchanged from Decem-

⁷³ According to NSI data as of February 2024, real turnover in non-energy industrial goods retail trade (excluding trade in automotive fuels and lubricants) grew by 3.2 per cent on an annual basis.

⁷⁴ Medicinal products included in the so-called positive drug list posted the strongest price rise. These are medicinal products whose prices are set administratively by the National Council on Prices and Reimbursement of Medicinal Products. The prices are based on the lowest producer price in the European Union, with a percentage surcharge added.

⁷⁵ The rise in tobacco products' prices was the consequence of an increase in excise duty rates on these products, which came into effect on 1 January 2024 in line with the excise duty calendar, as set out in the [Law on Amendment to the Tax and Social Insurance Procedure Code](#), published in the Darjaven Vestnik, issue 100 of 16 December 2022.

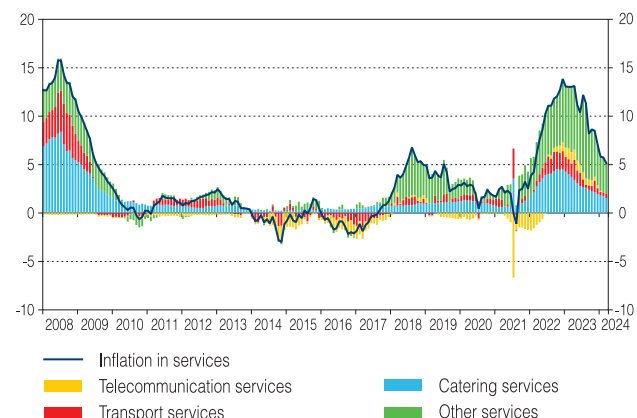
⁷⁶ The increase in the prices of water supply and sewerage services was in accordance with a decision of the Energy and Water Regulation Commission (EWRC) of 22 December 2023 on changes to the prices of water supply and sewerage companies in Bulgaria, as outlined in their business plans.

⁷⁷ A 4.37 per cent average increase in the electricity price for household consumers was adopted for the new regulatory period by a [decision of the EWRC](#) of 30 June 2023. The price increase came into effect on 1 July 2023 for a period of one year.

⁷⁸ The price of central gas supply reported a decline of 29.6 per cent on an annual basis as of August 2024. For more information, see [EWRC's press release](#) of 1 March 2024.

Contribution of Major Sub-groups to Inflation in Services

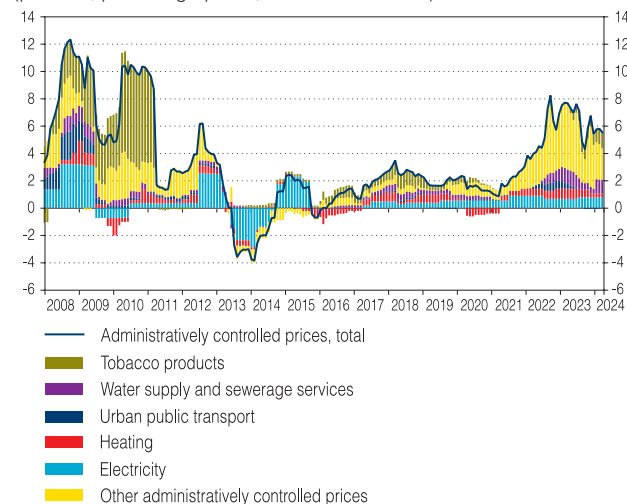
(per cent; percentage points; on an annual basis)



Sources: NSI, BNB calculations.

Contribution of Major Sub-groups to Inflation in Administratively Controlled Prices (Including Tobacco Products)

(per cent; percentage points; on an annual basis)



Sources: NSI, BNB calculations.

ber 2023 and stood at 81.4 per cent in March 2024. As regards the rate of increase in prices, the relative share of sub-indices with price growth of more than 5 per cent on an annual basis declined significantly and stood at 37.2 per cent (compared with 50.0 per cent at the end of 2023).

Inflation Expectations

According to regular business surveys on economic developments conducted by the NSI, the first quarter of 2024 saw a fluctuation in managers' sentiment in the industrial and services sectors regarding a possible increase in selling prices. At the same time, a slight increase in the share of managers anticipating price rises over the subsequent three months was observed in the retail trade sector, which is closest to consumers in the supply chain. However, the managers expecting an increase in the price of goods in retail trade anticipate that this will be at the same or at a slower pace than previously recorded, implying similar inflation developments for food and industrial goods groups in the coming months.

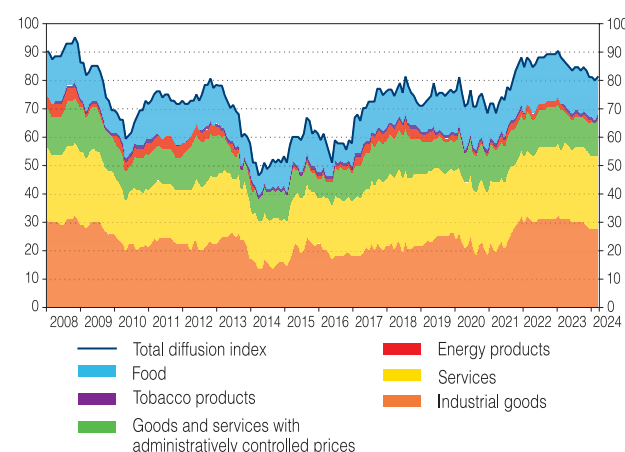
Based on managers' sentiment and current developments, as well as on our assumptions about the changes in international commodity prices and labour market developments, annual inflation is anticipated to continue to decline in the second and third quarters of 2024. Strong private consumption is expected to continue, which is a prerequisite for firms to pass on to a significant extent their increased production costs to final consumer prices, and the projected growth in unit labour costs to continue to exert pro-inflationary pressure on prices.

5.2. House Prices

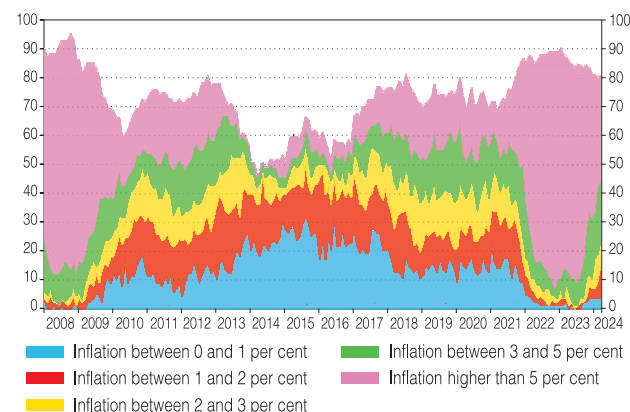
In the fourth quarter of 2023, the house price index (HPI) increased by 10.1 per cent year on year (up from 9.2 per cent in the previous quarter), reflecting price increases in both new

Diffusion Index

a) relative share of increasing HICP sub-indices on an annual basis by major groups of goods and service (per cent)



b) relative share of increasing HICP sub-indices on an annual basis by the size of the increase (per cent)

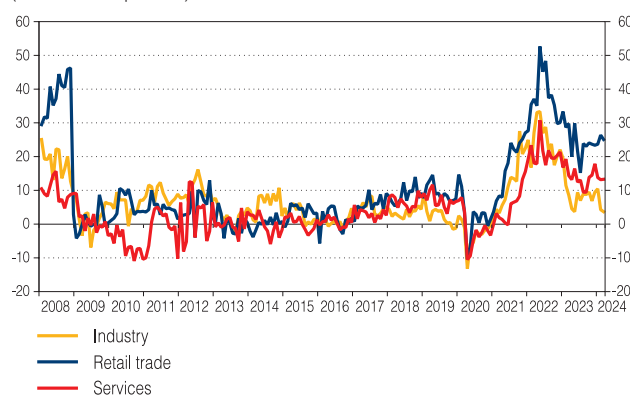


Notes: Data on the HICP 4-digit level sub-indices (sub-classes according to the NSI methodology) have been used. The diffusion index shows the share of sub-indices reporting an increase in value on an annual basis. When calculating the relative shares, the weight of the relevant sub-indices in the consumer basket is not taken into account.

Sources: NSI, BNB calculations.

Expectations of Selling Prices in Industry, Retail Trade and Services in the Following Three Months

(balance of opinions)



Source: NSI.

(10.5 per cent) and existing homes (9.8 per cent). By regional cities, the acceleration of annual house price growth was most pronounced in Sofia. Factors that continued to support housing demand and price increases were rising labour income, continued strong credit activity in an environment of historically low annual percentage rate of charges (APRC) on new housing loans, and the lack of sufficient alternatives for investing the savings accumulated in the economy in an environment of negative real interest rates on deposits. In addition, in the fourth quarter of 2023 there was a significant increase in the volume of concluded sale and purchase transactions (by 19.1 per cent on an annual basis), as well as in the issued building permits for new residential buildings (by 66.2 per cent on an annual basis). At the same time, supply-side factors limiting growth in house prices were the continued slow-down in the growth rate of construction costs⁷⁹ for new dwellings in the fourth quarter of 2023 (2.8 per cent on an annual basis, compared with 3.4 per cent in the previous quarter) and the weakening of households' sentiment towards home ownership.⁸⁰ Over the fourth quarter of 2023, the price-to-rent ratio, which is a frequently used indicator of undervaluation/overvaluation of housing, continued to exceed significantly (by 34.6 per cent) its long-term (historical) average value⁸¹. This signals that household decisions to purchase a home were driven by reasons other than ensuring an immediate financial benefit by subletting newly-acquired properties. Such reasons could include expectations of continued house price growth (and future capital gains on sale), or the perception of residential properties as a value-preserving asset in an environment of low deposit rates and high inflation. At the same time, estimates based on the BNB macroeconomic model⁸² point to a significantly lower positive deviation of current residential property prices in Bulgaria from their long-term equilibrium level (5.2 per cent). This is determined by the fact that rising household incomes combined with persistently negative

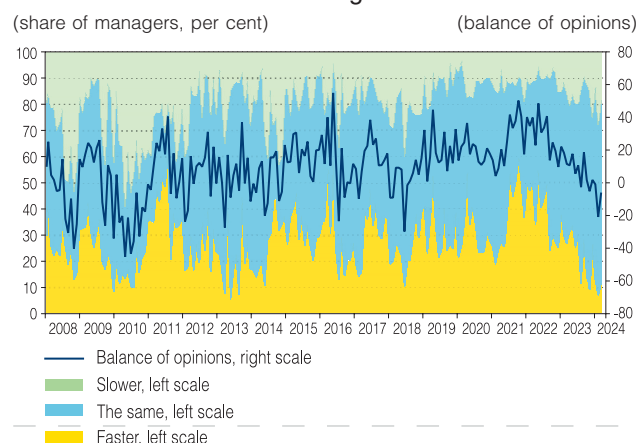
⁷⁹ Eurostat data have been used.

⁸⁰ Data of the regular NSI household budget survey, seasonally adjusted by the BNB.

⁸¹ Calculated for the period from the first quarter of 2000 to the fourth quarter of 2023.

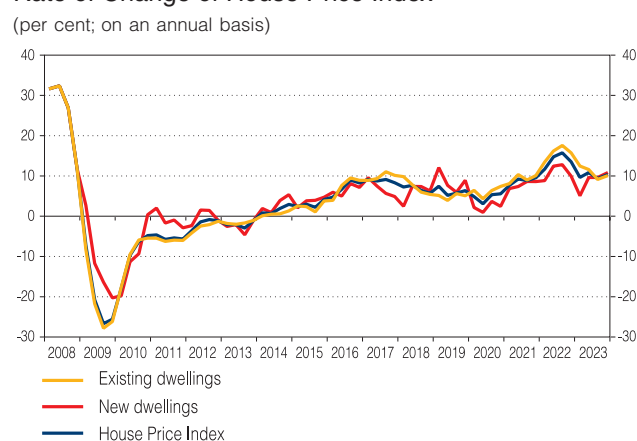
⁸² Additional information on this model is available in the research topic Dynamics of House Prices in Bulgaria between 2000 and 2016, [Economic Review, issue 1 of 2017](#).

Expectations for the Rate of Growth in Selling Prices in Retail Trade Over the Following Three Months



Source: NSI.

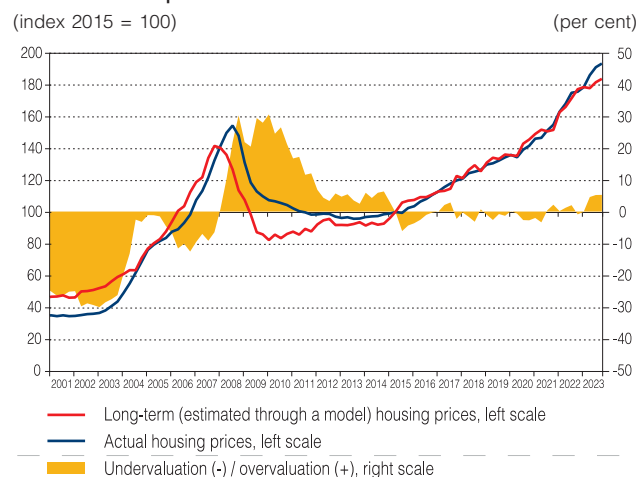
Rate of Change of House Price Index



Note: From the beginning of 2022, the HPI is calculated on the basis of data from an administrative source only (the Property Registry), which is the reason why the data are not fully comparable with those of previous years.

Source: NSI.

Actual and Equilibrium House Prices

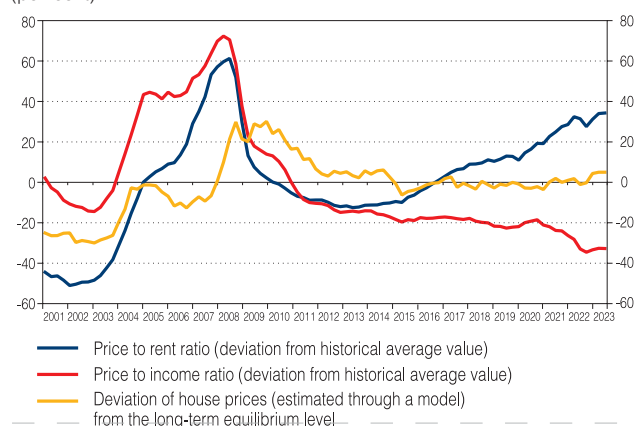


Sources: NSI, BNB calculations.

real interest rates on housing loans increase the affordability of housing, which is reflected in the model as an increase in its equilibrium price.

Indicators of Undervaluation/Overvaluation of Housing

(per cent)



Sources: NSI, BNB calculations.

Key Indicators of the Housing Market Developments in Bulgaria

(per cent; year-on-year change)

Indicators	2019	2020	2021	2022	2023			
					I	II	III	IV
Price developments								
House Price Index, total	6.0	4.6	8.7	13.8	9.5	10.7	9.2	10.1
New dwellings	8.5	2.2	7.7	10.8	4.9	9.5	9.5	10.5
Existing dwellings	4.8	6.0	9.2	15.6	12.3	11.4	9.0	9.8
Inflation (HICP)	2.5	1.2	2.8	13.0	13.4	8.8	7.2	5.5
House rentals, paid by tenants (HICP)	3.3	2.5	1.7	6.3	9.5	8.5	7.9	7.8
Lending								
New housing loans	12.4	18.1	24.0	33.5	17.8	14.6	13.4	16.4
Annual percentage rate of charge on new housing loans (per cent, at the end of the period)	3.5	3.2	3.0	2.8	2.8	2.8	2.9	2.9
Housing loans balances	0.0	-15.5	14.4	17.5	17.8	18.0	18.8	20.5
Construction and Investment								
Permits issued for the construction of new residential buildings (square meters)	-7.9	-9.0	25.1	20.6	-16.8	-18.3	-31.3	66.2
Value added in construction (at average annual prices for 2015)	3.7	-1.0	-17.1	5.4	1.1	0.7	0.1	1.6
Constriction Production Index, building construction	4.9	-9.1	1.5	0.1	3.3	3.1	4.1	0.7
Fixed investment; residential buildings	-3.3	-10.3	102.1	19.2	-9.6	-5.0	8.8	1.6
Construction Cost Index for new buildings	5.6	2.3	11.0	53.6	52.9	18.6	3.4	2.8

Notes: Values indicating the amount of the APRC on housing loans to households are averages (weighted by the relevant volumes of new loans) for a 12-month period.

In calculating the annual growth rate of new house purchase loans, cumulative data for the last 12 months were used.

Sources: NSI, BNB, Eurostat.

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THE SCULPTURAL COMPOSITION BY KIRIL SHIVAROV DEPICTING HERMES AND DEMETER ON THE SOUTHERN FAÇADE OF THE BULGARIAN NATIONAL BANK BUILDING IS USED IN COVER DESIGN.