



ECONOMIC REVIEW

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SUMMARY



BULGARIAN NATIONAL BANK

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SUMMARY

In the third quarter of 2025, global GDP growth slowed down in real terms to 0.6 per cent on a quarterly basis. PMI data for industry and services in the fourth quarter signalled a retention of the growth rates in the global economy close to those observed in the third quarter.

In the euro area, signs of accelerating economic activity growth were reported in the second half of 2025 and early 2026. This would have a favourable effect on real exports of Bulgarian goods and services, given Bulgaria's strong integration into international trade and the production capacity recovery after completing scheduled repairs in large domestic enterprises over the first half of 2025.

Commodity price developments in international markets over the fourth quarter of 2025, reflecting mainly in a continuous year-on-year decline in energy and food prices, in combination with the structure of the Bulgarian economy and foreign trade are preconditions for the emergence of favourable terms of trade for Bulgaria, thus contributing to the reduction of Bulgaria's trade deficit.

Despite falling energy and food prices, global annual inflation accelerated in the fourth quarter of 2025, mainly in emerging economies, unlike developed countries which recorded a slowdown compared to the third quarter.

In the fourth quarter of 2025, the US Federal Reserve System continued to lower the federal funds rate corridor by 25 basis points at each of the monetary policy meetings to 3.50–3.75 per cent. Federal Open Market Committee's decisions continued to be largely justified by increased risks to the US labour market development. Taking into account inflation dynamics in the euro area and prospects for its stabilisation around the target, the ECB Governing Council left unchanged the interest rates on the deposit facility, the main refinancing operations and the marginal lending facility at 2.00 per cent, 2.15 per cent and 2.40 per cent, respectively, in the fourth quarter of 2025.

Bulgaria's current and capital account balance for the last 12 months as of October 2025 turned into a deficit of 3.4 per cent of GDP, compared to a surplus of 0.4 per cent of GDP as of December 2024, reflecting primarily the increase in the trade deficit. Concurrently, Bulgaria was a net recipient of funds from the rest of the world, with a negative financial account balance of 5.1 per cent of GDP as of October 2025. As a result of the flows on the current, capital and financial account of the balance of payments for the last 12 months as of October 2025, Bulgaria's gross international reserves increased by EUR 185 million.

In 2025, annual growth of non-government sector deposits remained strong, accelerating in the second half of the year to 13.6 per cent at the end of November. This was driven by commercial banks' campaigns intended to households to deposit free cash holdings in levs in order to be automatically converted into euro following Bulgaria's accession to the euro area from the beginning of 2026. Annual growth of credit to non-financial corporations and households accelerated slightly compared to the end of 2024 and stood at 15.3 per cent in November 2025. Loans to households, in particular housing loans, continued to have a major contribution to the total credit growth. Factors supporting growth in housing loans included increasing labour income, the persistence of very low interest rates, as well as high liquidity and sound capital position of banks.

In the third quarter of 2025, annual growth in economic activity was 3.0 per cent, according to non-seasonally adjusted NSI data (compared to 3.5 per cent in the previous quarter). This was mainly due to the stronger growth in imports of goods and services, coupled with lower exports and a slowdown in government consumption growth. In the structure of growth over the quarter, a significant positive contribution of domestic demand continued to be observed (7.6 percentage points), driven by all sub-

components, mostly private consumption, while the negative contribution of net exports fell to -5.4 percentage points (from -3.6 percentage points in the second quarter). Gross value added rose by 2.8 per cent on an annual basis in the third quarter, reflecting the positive contribution of all major economic sectors. Employment rose by 2.3 per cent on an annual basis and labour shortages declined slightly, remaining, however, at a historically high level. Despite strong labour demand, the increase in compensation *per* employee slowed in nominal and real terms to 8.1 per cent and 4.3 per cent on an annual basis in the third quarter of 2025.

Short-term indicators continued to provide divergent signals of economic activity across sectors in the fourth quarter of 2025. A decline in indicators tracking household sentiment and business climate was observed over the period. In addition, the industrial production index and services production index stood below their long-term averages. However, capacity utilisation in industry remained unchanged, while retail trade turnover increased further on an annual basis. The combination of these factors creates prerequisites for the quarter-on-quarter real GDP growth in the fourth quarter of 2025 to stay close to that observed in the previous quarter. In the first half of 2026, real GDP growth is expected to continue being supported mainly by domestic demand, while the negative contribution of net exports is set to decline.

Upward price dynamics was observed across the supply chain in the third quarter of 2025, which, however, impacted the reported growth of the Harmonised Index of Consumer Prices (HICP) to a limited extent. At the same time, the difference between HICP and CPI dynamics persisted, with annual CPI inflation rising more strongly since the beginning of the second quarter of 2025 to reach 5.0 per cent in December. At the end of the year, the difference between the two measures of inflation was 1.5 percentage points, which is explained by the higher contribution of food, electricity and accommodation services to the CPI.

Annual HICP inflation stood at 3.5 per cent in December 2025 (compared to 2.1 per cent at the end of 2024), with major contributors to this acceleration being the services and food groups, as well as the declining negative contribution of the energy products group. Rising unit labour costs and strong private consumption, which enabled firms to pass on higher production costs to final consumers, were the main factors behind inflation acceleration. Inflation is expected to slow down in the first half of 2026, driven mainly by expected deceleration of food and services inflation, reflecting the base effect of the restored standard 20 per cent VAT rate for bread and flour supply and restaurant and catering services from January 2025.

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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.