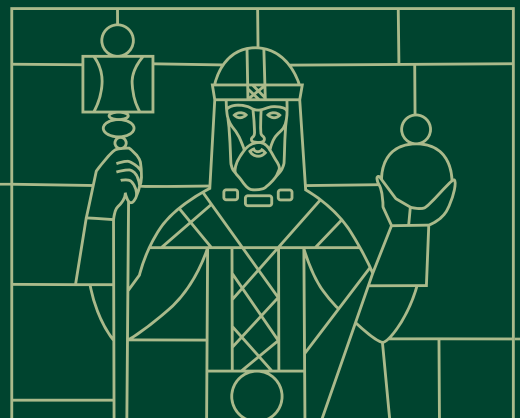




BULGARIAN  
NATIONAL BANK  
EUROSYSTEM

# Economic Review

ISSUE 1  
**2026**







BULGARIAN  
NATIONAL BANK  
EUROSYSTEM

# Economic Review

## 1/2026

The BNB Economic Review presents information and analysis of balance of payments flow dynamics, monetary and credit aggregates, their link with the development of the real economy, and their bearing on price stability in Bulgaria. External environment developments are also analysed since they directly affect the Bulgarian economy. The Economic Review bulletin also contains a forecast of key macroeconomic indicators for Bulgaria. The forecast is prepared by the Economic Research, Forecasting and Monetary Policy Directorate and does not necessarily reflect the views of the BNB Governing Council members regarding the prospects for the development of the Bulgarian economy. Information regarding the forecast preparation procedure, as well as technical explanations about the macroeconomic forecasting model can be found in Economic Review, issue 4/2015, 68–70.

The Economic Review, Issue 1/2026 was presented to the BNB Governing Council at its 31 March 2026 meeting. It employs statistical data and information published up to 19 March 2026. The forecast of key macroeconomic indicators for the 2026–2028 period provided in the document was finalised on 25 March and is based on assumptions about global economic developments and commodity prices in international markets as of 11 March 2026. The estimates and projections published in this issue should not be regarded as advice or recommendation. The user of the information is solely liable for any consequences.

The Economic Review is available on the BNB website, Research and Publications menu, BNB Periodical Publications sub-menu. Reproduction of parts of this publication is permitted provided that the source is acknowledged. Please address notes, comments and suggestions to the BNB, Economic Research, Forecasting and Monetary Policy Directorate at 1000 Sofia, 1, Knyaz Alexander I Square.

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## Abbreviations

ABSPP	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

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Hostilities in the Middle East and the resulting shipping disruptions through the Strait of Hormuz, a key route for global trade in oil and liquefied natural gas, have led to a significant instability in global energy markets and pushed up energy commodity prices. This review of the economic situation in Bulgaria is based on data available as of 19 March 2026, which mostly do not take into account the economic and financial consequences of the conflict in the Middle East.

Before the onset of the conflict in the Middle East, global economic activity continued to be resilient, growing at a relatively steady quarter-on-quarter rate over the last three years. In the fourth quarter of 2025, global GDP growth slowed down in real terms by 0.2 percentage points to 0.5 per cent on a quarterly basis, with global PMI data in the first two months of 2026 indicating some acceleration in the global economic growth rates. In the fourth quarter of 2025, the United States' quarterly real GDP growth slowed to 0.2 per cent on a quarter-on-quarter basis, while annual inflation over this period remained above the Federal Reserve target. According to economic indicators in China, real GDP growth slowed down in early 2026, compared to quarter-on-quarter growth of 1.2 per cent in the fourth quarter of 2025, while annual inflation accelerated to 1.3 per cent in February, from an average of 0.6 per cent for the last three months of 2025. In the euro area, quarterly real GDP growth slowed to 0.2 per cent in the fourth quarter, from 0.3 per cent in the previous quarter, with data on economic indicators reflecting developments before the outbreak of the war in the Middle East, suggesting a continued moderate increase in economic activity in the first two months of 2026. Euro area annual inflation stood at 1.9 per cent in February 2026, with services continuing to have the main positive contribution. According to the ECB staff macroeconomic projections published on 19 March 2026, the euro area real GDP growth rate is expected to slow down to 0.9 per cent in 2026, and average annual inflation to be 2.6 per cent in 2026.

In the first quarter of 2026, the reference interest rates of the Federal Reserve and the ECB were unchanged. In March, both institutions highlighted that the conflict in the Middle East creates uncertainty and causes risks of higher inflation and lower economic growth in the United States and the euro area, respectively.

Bulgaria's real GDP growth in 2025 was 3.2 per cent (3.1 per cent, according to non-seasonally adjusted data). Private consumption continued to be the main driver behind economic activity growth in 2025, while net exports had a negative contribution. Fiscal policy directly impacted GDP growth through the increase in government consumption and investments, and indirectly through increased social transfers to households and strong growth in employee compensation expenditure in the general government sector. Labour market conditions remained tight in 2025. Employment rose by 2.1 per cent (2.2 per cent, according to non-seasonally adjusted data), recording its largest increase since 2008, while the unemployment rate fell to 3.5 per cent. While labour shortages started to ease in the second half of 2025, they remained historically high and continued to exert upward pressure on compensation per employee. In 2025, it increased by 10.2 per cent (10.4 per cent, according to non-seasonally adjusted data), with its growth rate exceeding domestic inflation and contributing to the increase in household income in real terms.

Amid ample banking system liquidity in Bulgaria, interest rates on deposits and loans to households and non-financial corporations remained broadly unchanged at the beginning of 2026, compared to the end of 2025. An additional contributor to the high liquidity was the intensive household depositing of free cash holdings at the end of 2025 and the release of a significant part of commercial banks' minimum reserves following Bulgaria's accession to the euro area on 1 January 2026. Growth in total credit to non-financial corporations and households slowed down to 15.0 per cent at the end of January (15.5 per cent in December 2025).

Business climate surveys suggest that firms' sentiment deteriorated across all major sectors in 2025, with this trend continuing in early 2026. Nevertheless, in the first quarter of 2026, more positive household sentiment, continued credit growth and a decrease in the unemployment rate signal that economic activity will increase at a pace close to that of the fourth quarter of 2025.

Annual inflation in Bulgaria, measured by the Harmonised Index of Consumer Prices (HICP), stood at 2.1 per cent in February 2026, compared to 3.5 per cent in December 2025. The decline in inflation was mainly impacted by the base effect related to the substantial price increases in some goods and services in early 2025, as well as the transport fuels price decrease in the first two months of the year. The most significant contributor to the growth in consumer prices as of February 2026 was the food group, followed by that of services. At the same time, the domestic macroeconomic environment continued to have a pro-inflationary impact through rising unit labour costs and strong private consumption. As a result of the escalating tensions in the Middle East, crude oil prices in international markets climbed significantly in March, and this is expected to push up transport fuel prices in Bulgaria in the following months.

The BNB forecast of key macroeconomic indicators covers the 2026–2028 period and is based on assumptions about global economic developments and commodity prices in international markets as of 11 March 2026. According to the baseline forecast, real GDP growth in 2026 will slow down to 3.0 per cent compared to 2025, thereafter gradually declining to 2.9 per cent and 2.8 per cent in 2027 and 2028, respectively. Economic activity growth over the forecast horizon will continue to be driven mainly by the increase in domestic demand and, in particular, in private consumption. Consumer expenditure is expected to grow at high rates in line with projected tight labour market conditions, which will remain a factor for labour income growth. In 2026, net exports are projected to have a positive contribution to economic activity growth, reflecting an expected recovery in goods exports. This is driven by both the assumptions about external demand dynamics, as well as the suspension of one-off effects that limited exports in 2025. In 2027 and 2028, net exports are anticipated to have a negative contribution to GDP growth. Compared with the BNB December 2025 forecast, real GDP growth for 2026 and 2027 is expected to be lower.

Annual inflation is projected to accelerate to 4.0 per cent at the end of 2026, and average annual inflation to reach 3.7 per cent this year. It is expected that higher crude oil prices caused by the war in the Middle East will be a determining factor for consumer price dynamics in 2026. Growth in unit labour costs and strong private consumption will continue to act as domestic pro-inflationary factors. According to the 2027 forecast, inflation would slow down, with the main driver behind the average annual inflation moderation being energy products prices, the growth rate of which is expected to slow significantly due to the high base effect of 2026, while services inflation is forecast to remain persistently high. In 2028, headline inflation is expected to remain at its 2027 level, with that in core components projected to slow down, and to accelerate in energy products due to the introduction of the ETS2 system in the EU. Compared with the December forecast, we expect higher growth in consumer prices over 2026, while price increase expectations for 2027 remain unchanged.

Risks to the GDP and inflation forecast for Bulgaria are oriented mainly to lower than projected growth of economic activity in the baseline projections and possibly higher inflation, with these risks stemming mainly from the external environment given the hostilities in the Middle East, the escalation of geopolitical confrontations and rising energy commodity prices. An internal factor creating uncertainty to the materialisation of the forecast is the political situation in Bulgaria in the context of upcoming early parliamentary elections in April 2026, as well as the lack of an adopted 2026 state budget and a medium-term budget forecast.

In view of the elevated uncertainty stemming from the military conflict in the Middle East, the baseline forecast is complemented by an adverse and a severe scenario to illustrate possible macroeconomic effects in the event of shocks of varying intensity and duration on energy product supply and prices. Under the adverse scenario, average annual inflation is higher than in the

baseline projections by 0.7 percentage points in 2026, by 1.4 percentage points in 2027 and by 0.6 percentage points in 2028. Emergence of the strongest effects on inflation in 2027 is related to estimates of delayed pass-through of higher euro area non-energy goods prices to Bulgaria and delayed indirect effects on the other HICP components. Under the severe scenario, simulations show that headline inflation is higher than in the baseline forecast by 1.2 percentage points in 2026, 3.4 percentage points in 2027 and 2.3 percentage points in 2028, reflecting stronger indirect and second-round effects.

# 1. External Environment

## 1.1. Current Business Situation

### Global Environment

In the fourth quarter of 2025, global GDP growth slowed down in real terms to 0.5 per cent compared to 0.7 per cent in the previous quarter. Global PMI data for services and manufacturing in the first two months of 2026 indicate some acceleration in global economy growth rates. Sustained economic activity growth was reported in services, while manufacturing recorded a significant increase, compared to the fourth quarter of 2025, driven by a recovery in global demand and an increase in new orders, including those for exports.

In the fourth quarter of 2025, world trade volumes increased at a steady rate similar to the previous quarter. US foreign trade volumes remained low, likely reflecting the high import tariffs imposed in the country. As of December, annual growth in world trade volumes was 4.9 per cent, the same as in September 2025.

Global inflation slowed in the first two months of 2026 due to moderated consumer price growth in both advanced economies and developing market economies.

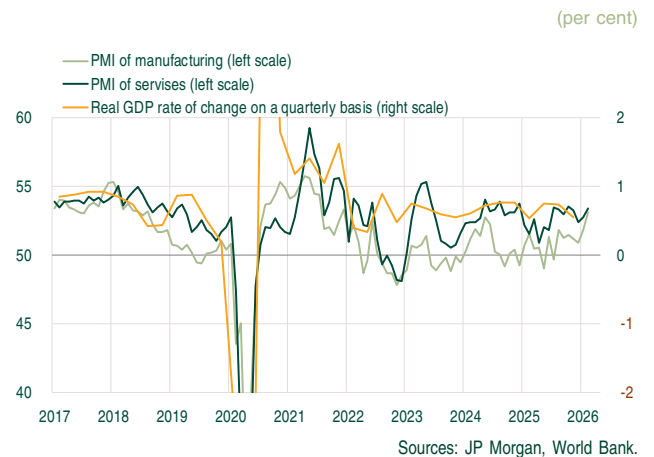
### International Commodity Prices

In the first two months of 2026, energy commodity prices continued to fall on an annual basis. Brent crude oil prices in euro fell by 21.3 per cent on an annual basis (measured in dollars,<sup>1</sup> the drop was 10.7 per cent). In the European market, the price of natural gas also recorded a significant drop of 32.5 per cent in euro (23.4 per cent in dollars). The military conflict in the Middle East, which began at the end of February,<sup>2</sup> has led to significant volatility and an increase in international energy commodity prices. Maritime transport routes

<sup>1</sup> Hereinafter referred to as the US dollar.

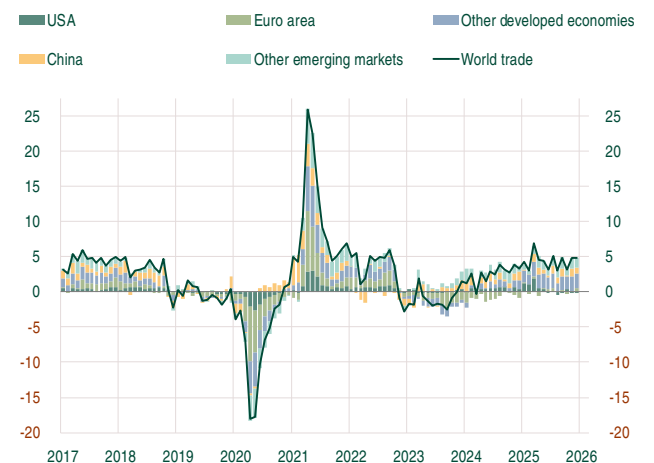
<sup>2</sup> On 28 February 2026, the United States and Israel launched surprise military actions in Iran.

### Manufacturing and Services PMIs and Change in World Real GDP



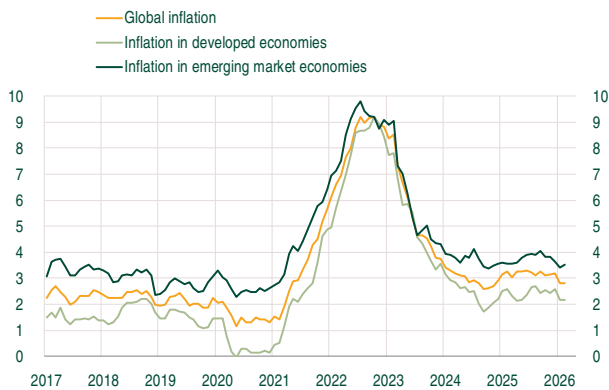
### World Trade in Goods

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



## Inflation Measured through CPI

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



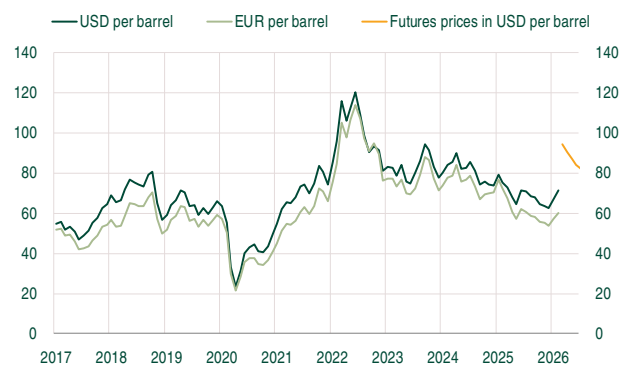
Source: World Bank.

through the Strait of Hormuz, through which a significant share of world trade in oil and liquefied natural gas passes, have been cut off, and some of the oil and natural gas production facilities in the region have suffered significant damage. In the period from 1 to 19 March 2026, the average oil price increased by close to 40 per cent compared to February, reaching an average of just under USD 100 *per barrel*, the highest price since mid-2022. The higher natural gas prices were even more significant—rising by just over 60 per cent compared to February, to an average of EUR 53/MWh (the highest level since early 2023).

In the January–February 2026 period, the average metal and mineral price index rose by 26.9 per cent on an annual basis in US dollars and by 11.9 per cent in euro. The rise in metal prices was driven by upward dynamics in almost all metals in the index, with copper and aluminium having the main positive contribution. The price of copper, which is essential for Bulgarian exports, increased mainly as a result of strong demand driven by the administrative measures of the authorities in China and the strengthening of industrial activity at the end of the period. U.S. trade policy and investments in artificial intelligence industries have further contributed to rising prices. The war in the Middle East has affected the supply of raw materials and the export of aluminium to the region, which accounts for about 9 per cent of the world's primary aluminium production. As a result, aluminium prices in March<sup>3</sup> rose by about 10 per cent compared to February.

<sup>3</sup> Average for the 1 to 19 March 2026 period.

## Prices and Futures of Brent Crude Oil

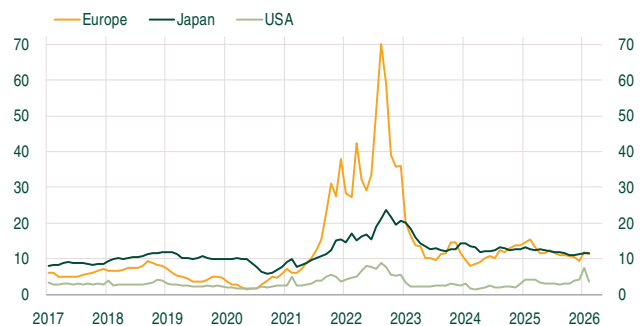


Note: Future prices are average prices for 1–19 March 2026, USD per barrel.

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

## Natural Gas Prices

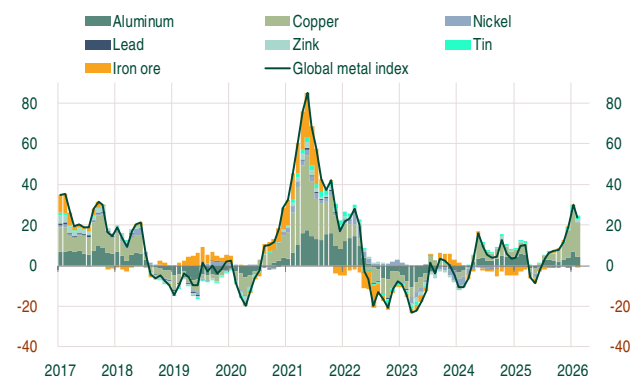
(US dollars *per million British thermal unit*)



Source: World Bank.

## Metal Price Indices

(per cent; percentage points)



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

Sources: World Bank and BNB calculations.

Over the same period, the overall food price index recorded an annual decrease of 1.7 per cent in US dollars (13.4 per cent in euro). Lower prices of sugar and rice contributed most to the decline in the overall food price index. The decline in wheat price, which is essential for Bulgarian food exports, was mainly due to estimates of significant wheat yields during the season and an increase in stocks.

### The United States

US real GDP recorded quarterly growth of 0.2 per cent in the fourth quarter of 2025, compared with growth of 1.1 per cent in the third quarter. The significant slowdown in quarterly real GDP growth in the fourth quarter was driven by the contraction in net exports and public sector consumption and investment,<sup>4</sup> as well as a smaller positive contribution of private consumption. Changes in inventories and private investment contributed positively to growth in the fourth quarter. Throughout 2025, US GDP grew by 2.1 per cent in real terms compared to 2.8 per cent in 2024. In 2025, private consumption contributed most to growth (1.8 percentage points).

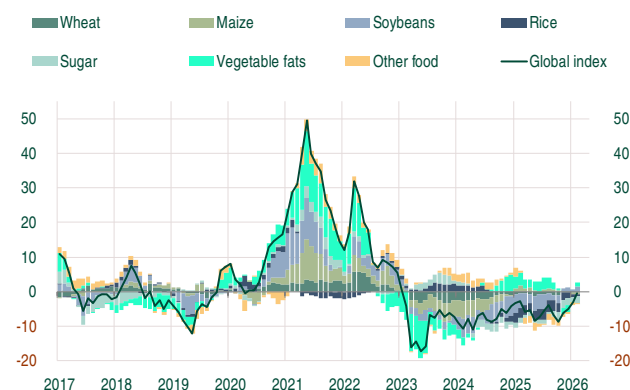
Key US labour market indicators did not change substantially in the first two months of 2026. In January and February, the number of people employed in the non-agricultural sector increased by 34 thousand, compared with a decrease of 116 thousand jobs in the fourth quarter of 2025, when, due to the partial shutdown of federal institutions, public sector employment decreased significantly. The ratio of new jobs advertised to the number of unemployed persons in January remained at 0.9 for the third consecutive month. In the first two months of 2026, the unemployment rate did not change significantly, standing at 4.4 per cent in February.

In January 2026, annual consumer price inflation remained above the Federal Reserve's target, with the annual rate of change in the price index of individual consumer expenditure remaining at 2.8 per cent – the average for

<sup>4</sup> The decrease in the public sector contribution is due to the partial shutdown of the US federal government between 1 October and 12 November 2025 (the longest historical shutdown). It was caused by the lack of an agreement between Democrat and Republican representatives that would have ensured the passing of a bill for the government's temporary funding.

### Food Price Indices

(per cent; percentage points)

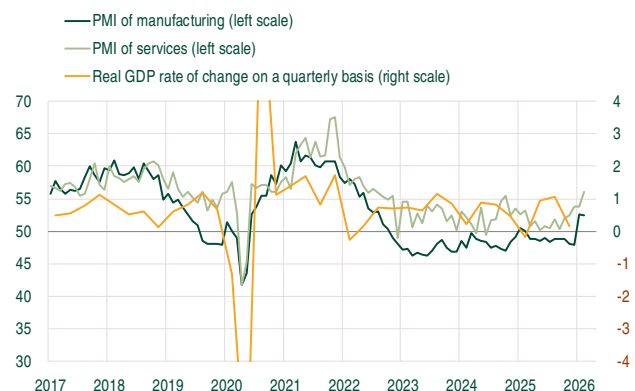


Note: Annual rate of change (per cent) and contribution by sub-component (percentage points) of relevant price indices measured in US dollars.

Sources: World Bank and BNB calculations.

### Manufacturing and Services PMIs and Change in US Real GDP

(per cent)



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

the fourth quarter of 2025. Annual growth of the core personal consumption expenditure index, excluding food and energy products, went up to 3.1 per cent in January from 2.9 per cent on average in the fourth quarter of 2025. The increase was mainly due to the rise in prices of some services such as financial and insurance services, leisure services, as well transport services and healthcare services.

At both of its meetings in January and March, the Federal Open Market Committee (FOMC) decided to keep the federal funds rate unchanged at 3.50–3.75 per cent. In January, the FOMC confirmed its long-term objectives and monetary policy strategy. The press release for the meeting dropped the wording that the risks of a fall in employment had increased. The main difference between the press release from the March meeting and the previous one was the sentence that the consequences of events in the Middle East for the US economy are unclear.

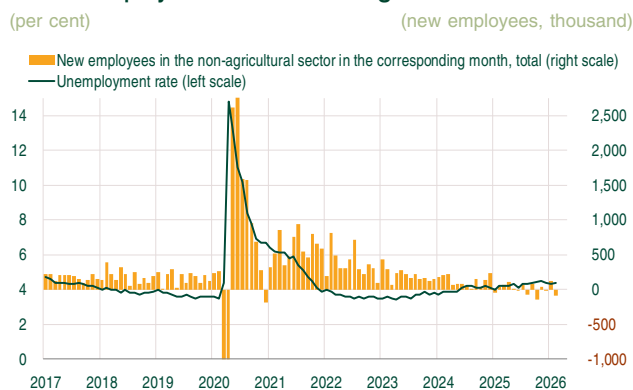
In March 2026, the Committee members' summarised forecasts showed an improvement in expectations for economic growth and increased inflation projections. The median of expectations for the federal funds rate remained unchanged from December 2025. These expectations correspond to a benchmark interest rate range of 3.25–3.50 per cent in 2026 and imply a decrease of 25 basis points over the year.

## China

In the first two months of 2026, economic indicators in China (the PMI indices) continued to exhibit volatile dynamics below the neutral limit of 50 points, signalling a slowdown in economic activity on a quarterly basis. At the same time, annual industrial production growth accelerated from 5.2 per cent in December 2025 to 6.3 per cent in the January–February 2026 period, supported by steady external demand.

In early March, the session of the National People's Congress took place, announcing the GDP growth target for 2026 'between 4.5 per cent and 5 per cent' in real terms, which is lower than the previous target of 'around 5 per cent' for 2024 and 2025.

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

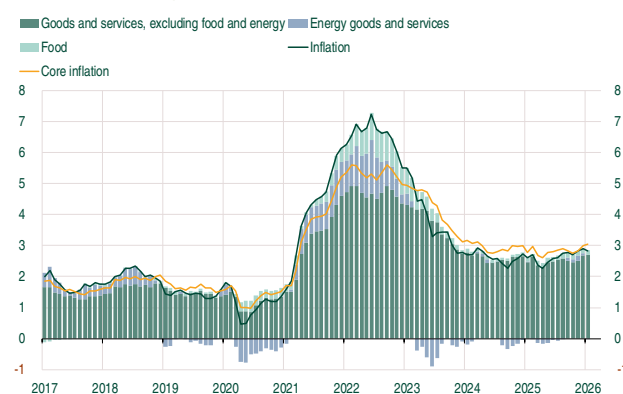


Note: The number of new employees in the non-agricultural sector in April and June 2020 are not evident in the chart, coming to -20,471 and 4631 thousand.

Source: Bureau of Labour Statistics.

## US Inflation Rate

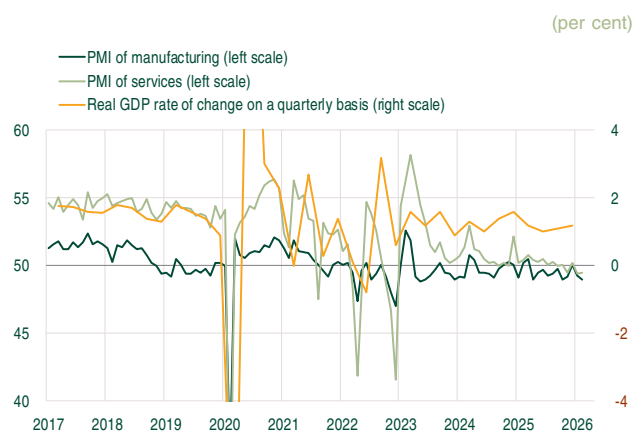
(per cent; percentage points; on an annual basis)



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



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

In early 2026, annual inflation in China rose, with consumer price index growth reaching 1.3 per cent in February, up from an average of 0.6 per cent in the fourth quarter of 2025. The largest annual price increases were recorded in food (by 1.7 per cent) and services (by 1.8 per cent).

After a period of stabilisation in the second half of 2025, the downward trend in China's house prices resumed again in the first months of 2026. In February, the annual decline in house prices in major cities accelerated to 2.2 per cent compared to an average annual decline of 0.9 per cent in the fourth quarter of 2025.

In the first quarter of 2026, the People's Bank of China left unchanged its monetary policy.

## Euro Area

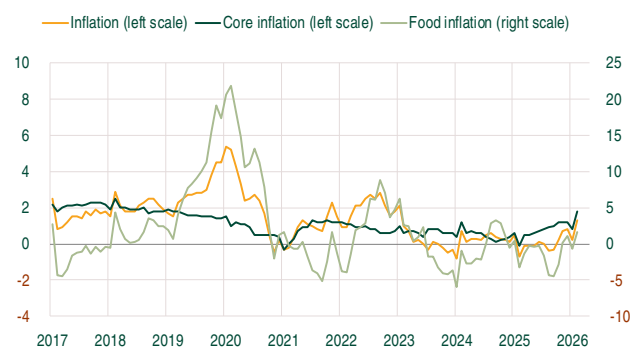
In the fourth quarter of 2025, euro area real GDP growth slowed down to 0.2 per cent on a quarterly basis, from 0.3 per cent in the previous quarter<sup>5</sup>. Private consumption and investments had a major positive contribution to growth, while net exports had a less negative impact, as observed in the second and third quarters of 2025. In terms of gross value added, all main sectors contributed positively to economic growth on a quarterly basis, with the largest contributors being the real estate, financial and professional services sectors, as well as the public sector. In the four largest euro area economies, quarter-on-quarter GDP growth stood at 0.2 per cent in France, 0.3 per cent in Germany and Italy and 0.8 per cent in Spain, respectively. Overall, for 2025, euro area real GDP growth stood at 1.5 per cent according to seasonally adjusted data (compared to 0.9 per cent in 2024).

The euro area data on economic indicators available as of March 2026, reflecting developments prior to the start of the war in the Middle East, provide indications of continued moderate growth in economic activity during the first two months of 2026. According to PMI index dynamics, this growth continues to be driven mainly by the services sector. Industry

<sup>5</sup> Excluding Ireland, where high volatility in GDP data is typically observed, the quarterly growth of economic activity in the euro area stood at 0.4 per cent in the fourth quarter of 2025.

## China's Inflation Rate

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

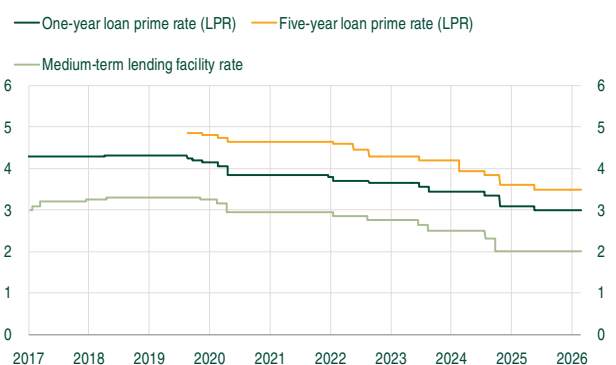


Notes: Inflation is measured by consumer price index. Core inflation is measured by consumer price index, excluding food and energy expenditure.

Source: National Bureau of Statistics of China.

## Reference Rates in China

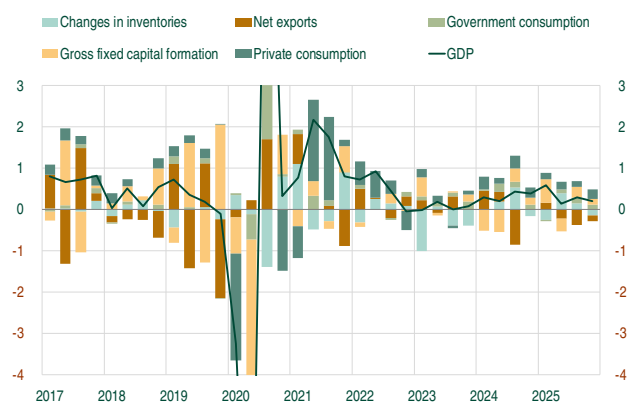
(per cent)



Source: People's Bank of China.

## Contribution to Real GDP Growth by Final Use Component (Quarterly Rate of Change)

(per cent; percentage points; on a quarterly basis)



Source: Eurostat.

also recorded a slight improvement, covering both current production, as well as new orders and expectations for future activity. Data from the European Commission’s business surveys for January and February 2026 showed a retention of the trend from the second half of 2025 towards an increase in the retail business climate indicator, as well as a gradual improvement in consumer sentiment, albeit from still low levels.

According to the ECB staff macroeconomic forecast published on 19 March 2026, euro area real GDP growth rate is expected to slow to 0.9 per cent in 2026. This represents a downward revision of 0.3 percentage points compared with the previous December 2025 macroeconomic forecast, mainly reflecting the negative effects of the war in the Middle East<sup>6</sup>.

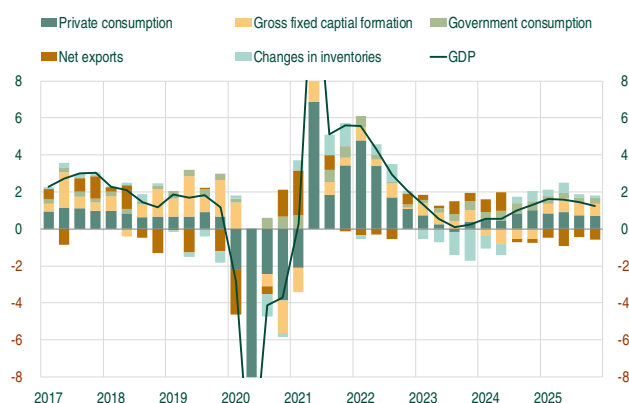
In early 2026, labour market conditions in the euro area remained broadly stable. The unemployment rate remained close to its historical lows, standing at 6.1 per cent in January 2026, a decrease of 0.1 percentage points from December 2025. The labour force continued to grow in the fourth quarter of 2025 and early 2026, remaining a major driver of employment growth. At the same time, labour demand indicators – the job vacancy rate, labour shortages according to the European Commission’s business surveys and the employment PMIs – signalled its weakening. This has led to a decline in labour market tightness and is a prerequisite for a slowdown in wage growth in the coming quarters.

In the first two months of 2026, annual consumer price inflation in the euro area remained below, but close to the ECB’s 2 per cent target, following the retention of the gradual downward trend in 2025 from the highs in 2022–2023. Headline inflation stood at 1.9 per cent on an annual basis in February 2026, with services continuing to be the main positive contributor. The trend towards a slight slowdown in inflation was mainly driven by the fall in energy products prices (-3.1 per cent year-on-year in February 2026), while core inflation excluding food and energy products was resilient, standing at 2.4 per cent in February. The war in the Middle East and

<sup>6</sup> For further details, see [ECB staff macroeconomic projections](#), March 2026.

### Contribution to Real GDP Growth by Final Use Component (Annual Rate of Change)

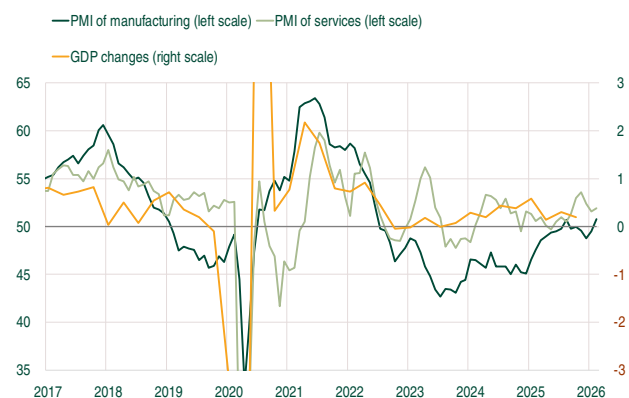
(per cent; percentage points; on an annual basis)



Source: Eurostat.

### Manufacturing and Services PMIs and Change in Euro Area Real GDP

(per cent, on a quarterly basis)



Source: Eurostat.

the sharp rise in oil and natural gas prices in March 2026 worsened the short-term prospects for inflation in the euro area, with inflation expected to stand at 2.6 per cent in 2026 according to the ECB's baseline staff macroeconomic projections published on 19 March (revised by 0.7 percentage points compared with the December 2025 macroeconomic projections). In view of the high uncertainty surrounding the developments of the war in the Middle East, the ECB published also alternative scenarios for the dynamics of the euro area economy with longer and stronger increases in energy prices than assumed in the baseline forecast. These scenarios show significantly higher inflation in the region over the projection horizon, including due to accumulating second-round effects from high energy prices.<sup>7</sup>

At its meetings in February and March 2026, the ECB Governing Council kept unchanged the reference 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. According to the ECB Governing Council, the war in the Middle East has significantly increased uncertainty in the economy, posing upside risks to inflation and downside risks to economic growth.<sup>8</sup>

Between the beginning of the year and 19 March 2026, euro area money market rates did not see a significant change from their average for the fourth quarter of 2025. The average value of the €STR benchmark overnight rate stood at 1.93 per cent and remained unchanged from the average value of the indicator for the last three months of 2025.

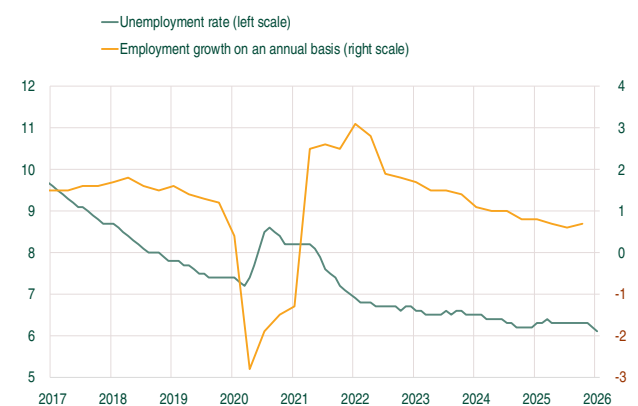
Over the same period, the slope of the German government bond yield curve declined, due to the relatively higher increase in two-year government bond yields (by 47 basis points to 2.59 per cent) compared with the increase in ten-year government bond yields (by 10 basis points to 2.96 per cent). This dynamics mainly reflected strengthened expectations among market participants that key ECB interest rates would increase in the short

<sup>7</sup> For further details, see [ECB staff macroeconomic projections](#), March 2026.

<sup>8</sup> For more information, see the ECB Governing Council [Decision](#) of 19 March 2026 relating to monetary policy.

## Euro Area Unemployment Rate and Employment Growth

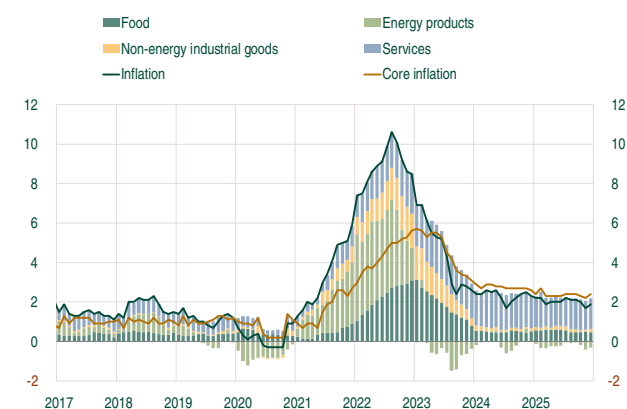
(per cent) (per cent; on an annual basis)



Source: Eurostat.

## 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.

term, owing to increased risks to inflation in the euro area following the escalation of the conflict in the Middle East and rising energy commodity prices.

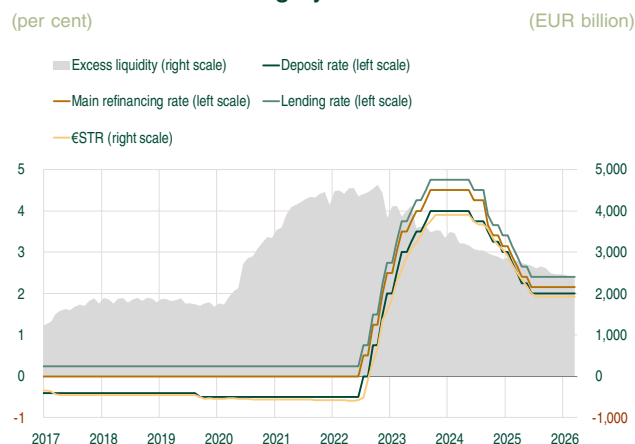
## 1.2. Impact on the Bulgarian Economy

The dynamics of Bulgarian goods exports in 2025 deviated from the growth of foreign demand due to country-specific factors related to planned repairs in key export-oriented enterprises in the period February–July 2025. With the completion of repairs, Bulgarian goods exports started to recover on a quarterly basis and are expected to turn to year-on-year growth in early 2026, with the signals from the economic indicators of economic activity acceleration in the euro area in the first quarter of 2026 further supporting similar dynamics of Bulgarian exports. However, the positive expectations are balanced by the significant uncertainty stemming from the escalation of the military conflict in the Middle East since the end of February 2026, which poses significant risks to global supply chains and may limit the growth of global economic activity and trade, and thus of Bulgarian exports.

International commodity price dynamics as of March 2026 has been characterised by significant price increases in energy commodities and metals, while food prices have decreased. Combined with the structure of Bulgarian foreign trade and domestic price processes (mostly in terms of labour costs), these processes create prerequisites for the formation of favourable trading conditions for Bulgaria in the first quarter of 2026, which is a factor for limiting the country's trade deficit.

The four key interest rate cuts made by the ECB Governing Council in the first half of 2025 resulted in improved financing conditions of the Bulgarian government and non-financial corporations in the country. Changes in euro area money market interest rates continued to be passed on relatively rapidly to interbank money market rates in Bulgaria in line with the principles of the currency board in place until the end of 2025. Concurrently, the transmission of the ECB's key interest rate cut to interest rates on housing and consumer loans in Bulgaria was very weak in 2025, as it had been in the preced-

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



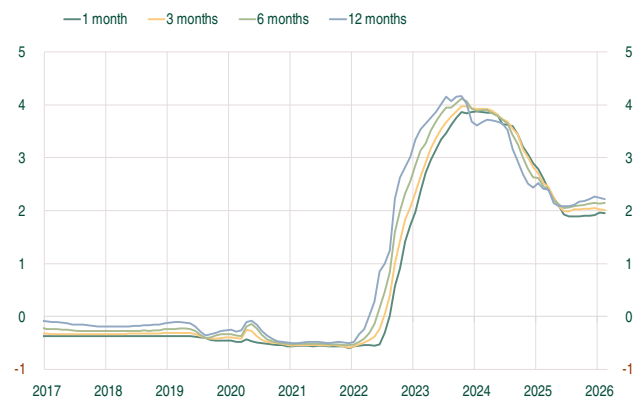
Note: The EONIA/€STR series is composed of: EONIA between 2008 and 14 March 2017; pre-€STR between 15 March 2017 and 30 September 2019; €STR in the period after 30 September 2019.

Source: ECB.

ing upward phase of the interest rate cycle, reflecting mainly country-specific factors. The high liquidity in the banking system, which was further impacted by the significantly lower amount of minimum reserve requirements of banks following Bulgaria's accession to the euro area since the beginning of 2026, is currently reflected in a strong decrease in trading volumes in the country's interbank market. At the same time, there is a narrowing of the negative spread between the interest rate in the Bulgarian interbank market and the interest rates in the interbank money market in the euro area. Ample liquidity in the banking system and the unchanged key euro area interest rates from mid-2025 to date do not constitute a precondition for changes in the interest rates on deposits and loans in Bulgaria.

## EURIBOR

(per cent)



Source: ECB.

## 2. External Financial Flows

### 2.1. Balance of Payments and Foreign Trade

In 2025, the current and capital account balance posted a deficit of EUR 4.0 billion (3.5 per cent of GDP), which implied the use of external financing of the economy. The financial account balance during the period was negative, amounting to EUR 2.6 billion (2.3 per cent of GDP), which was due to a larger increase in newly assumed liabilities to non-residents compared to the newly acquired foreign assets of Bulgarian residents. After taking into account also the amount of the item 'net errors and omissions' (-1.7 per cent of GDP), Bulgaria's gross international reserves in 2025 fell by EUR 3.4 billion (2.9 per cent of GDP). Despite this decrease, the amount of gross international reserves as of December 2025 remained at a high level according to widely accepted indicators, covering nominal imports of goods and services<sup>9</sup> for a period of 8.0 months (8.9 months in December 2024). The ratio of international reserves<sup>10</sup> to Bulgaria's short-term external debt amounted to 3.3 times in December 2025 (compared to 4.1 times in December 2024).

#### Current Account and Capital Account

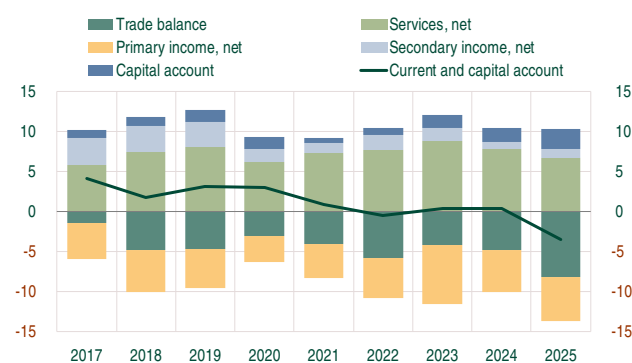
Current and capital account balance in 2025 turned to a deficit of 3.5 per cent of GDP (against a surplus of 0.4 per cent of GDP in 2024). This was mainly due to the deterioration in the current account, whose deficit widened to 5.9 per cent of GDP in 2025 (against a deficit of 1.4 per cent of GDP in 2024), mostly on the back of a growing trade deficit. At the same time, the capital account surplus rose to 2.4 per cent of GDP (from 1.7 per cent of GDP in 2024) mainly due to higher incoming capital transfers to the general government sector in the form of investment subsidies.

<sup>9</sup> Calculated for the last 12 months as of December 2025.

<sup>10</sup> 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)



Note: Data on the current and capital account flows as of December 2025 are accumulated for the last 12 months. Nominal GDP data for the last four quarters up to the fourth quarter of 2025 inclusive are used in calculating the GDP ratio for December 2025.

Sources: BNB, NSI, BNB calculations.

## Trade Balance and Foreign Trade in Goods

In 2025, the trade deficit widened year on year to 8.2 per cent of GDP (against a deficit of 4.8 per cent in 2024), its lowest value since 2012. This deterioration was driven by a combination of a decline in nominal goods exports of 3.2 per cent and growth in nominal goods imports of 6.2 per cent. According to seasonally adjusted national accounts data, this dynamics has developed against the backdrop of favourable trading conditions<sup>11</sup> with goods exports falling by 3.9 per cent on an annual basis for 2025 and imports increasing by 5.7 per cent in real terms.

According to BNB calculations based on detailed foreign trade data in real terms under the Standard International Trade Classification (SITC),<sup>12</sup> weak exports of goods in 2025 reflected largely country-specific factors. The decline in exported real volumes over the first nine months of 2025 was concentrated in the groups of petroleum products and non-ferrous metals, which is directly related to implemented large-scale repairs in key oil processing and metallurgy enterprises.

Year-on-year growth in real imports of goods in 2025 was broad-based across commodity groups, reflecting both strong domestic demand and increased uncertainty in global trade amid trade and geopolitical conflicts in the beginning of the year. Natural gas and machines contributed mostly to the increase in real imports in the first nine months of 2025, while imports of petroleum products and metal ores declined over the same period, which is likely linked to above mentioned repairs.

## Balance on Trade in Services

The surplus on trade in services for 2025 was 6.7 per cent of GDP (against a surplus of 7.8 per cent of GDP in 2024).

In 2025, services exports climbed by 1.0 per cent year on year, with the positive contribution of revenue from travel, transport and information services offsetting declines in professional and consulting services. According to NSI data, in 2025 the number of visits of foreign nationals to Bulgaria increased by

<sup>11</sup> Unfavourable terms of trade in 2025 are expressed in a larger year-on-year rise in goods export prices compared to goods imports, according to seasonally adjusted GDP data.

<sup>12</sup> Real volumes of exported and imported commodity groups have been constructed under the Standard International Trade Classification, 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.

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

(per cent of GDP)

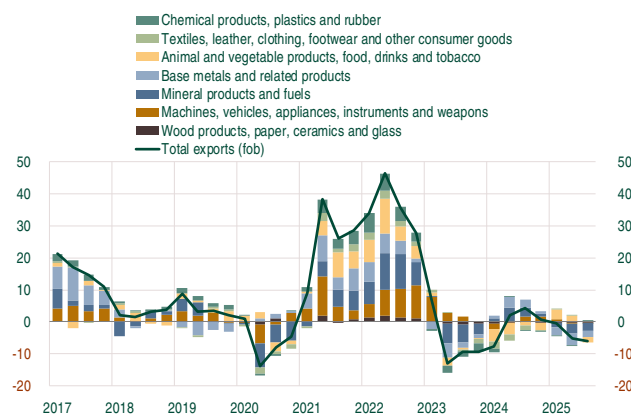


Note: Monthly data are shown in the chart, with the last observation referring to December 2025.

Source: BNB.

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

(per cent, percentage points)

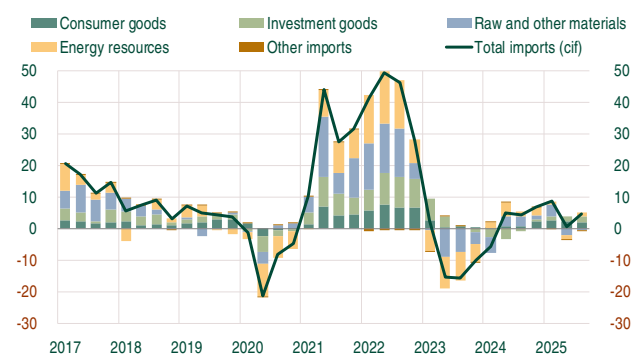


Note: Quarterly data are used. The last observation is for the third quarter of 2025.

Source: BNB.

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

(per cent, percentage points)

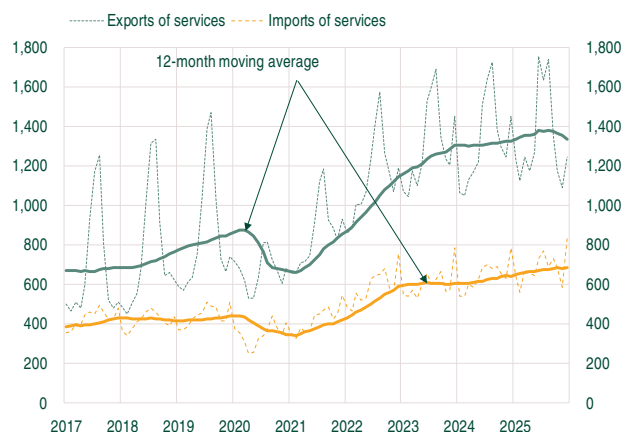


Note: Quarterly data are used. The last observation is for the third quarter of 2025.

Source: BNB.

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

(EUR million)



Note: Monthly data are shown in the chart, with the last observation referring to December 2025.

Source: BNB.

2.7 per cent on an annual basis, with those from Romania, Greece and Türkiye contributing most significantly.

At the same time, nominal imports of services increased by 6.4 per cent year on year in 2025. This was mainly due to expenses of Bulgarian residents on travel abroad (growing by 11.2 per cent on an annual basis), as well as expenses of Bulgarian residents on technical business services and transport services.

## Net Primary Income Account and Net Secondary Income Account

Net primary income deficit increased to 5.6 per cent of GDP in 2025 (compared to 5.3 per cent of GDP in 2024), mainly reflecting lower receipts as a share of GDP from investment funds of Bulgarian residents abroad.

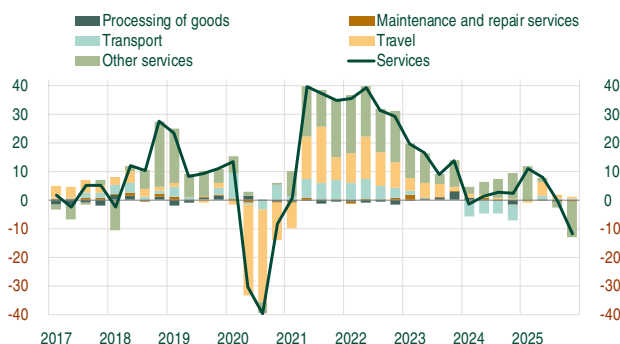
Concurrently, net secondary income surplus was 1.1 per cent of GDP for 2025, remaining broadly unchanged from 2024.

## Financial Account and International Investment Position

In 2025, the financial account balance was negative at EUR 2.6 billion (2.3 per cent of GDP), against a positive balance of EUR 0.3 billion (0.3 per cent of GDP) in 2024. Residents' newly acquired foreign assets increased by EUR 9.9 billion in 2025, mainly in the form of bank currency and deposits, as well as portfolio investments in debt securities of banks and other financial corporations. At the same time, new liabilities *vis-à-vis* non-residents rose by EUR 12.5 billion, mainly in terms of general

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

(per cent, percentage points)

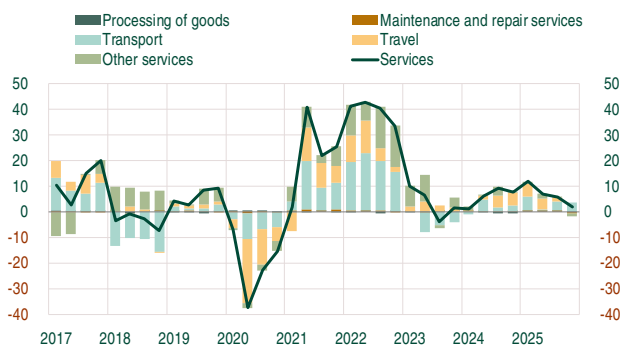


Note: Quarterly data are used. The last observation is for the fourth quarter of 2025.

Source: BNB.

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

(per cent, percentage points)

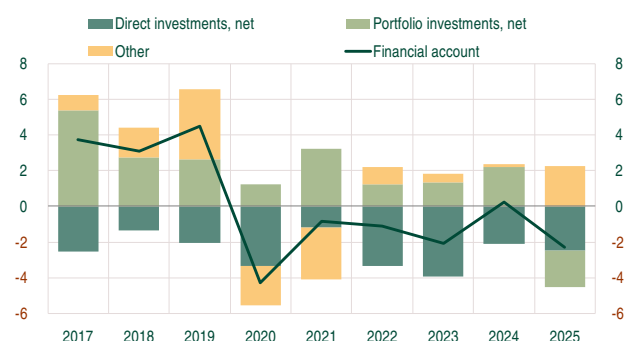


Note: Quarterly data are used. The last observation is for the fourth quarter of 2025.

Source: BNB.

## 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.

December 2025 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 2025 inclusive are used in calculating the GDP ratio for December 2025.

Sources: BNB, NSI, BNB calculations.

government debt issued and direct investments attracted in Bulgaria.

In 2025, the inflow of attracted direct investments (liabilities) amounted to EUR 4.3 billion,<sup>13</sup> compared with EUR 3.3 billion for 2024, and this increase was mainly in the form of reinvested earnings of non-financial corporations.

Bulgaria's FDI<sup>14</sup> were 55.5 per cent of GDP at the end of the third quarter of 2025 (against 57.4 per cent at the end of 2024), continuing their long-term downward trend as a ratio to GDP from the peak levels before the global financial crisis.

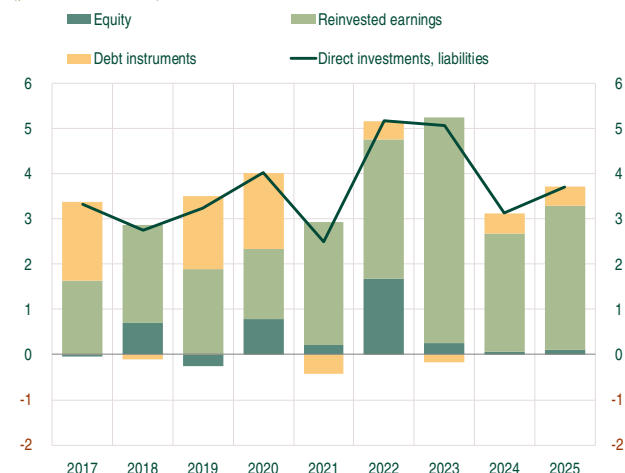
As a result of balance of payments movements and changes due to valuation adjustments and price revaluations, Bulgaria's international investment position deficit rose to 3.3 per cent of GDP at the end of the third quarter of 2025, compared with a deficit of 0.4 per cent of GDP at the end of 2024, due to the faster growth in liabilities to non-residents compared to that of Bulgarian residents' assets.

<sup>13</sup> Preliminary data subject to revision.

<sup>14</sup> The latest available data of September 2025 on the international investment position are used.

## Direct Investment – Liabilities by Type of Investment

(per cent of GDP)

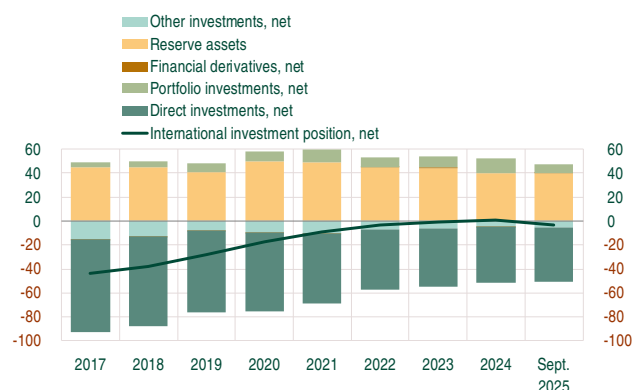


Note: December 2025 data on direct investment liabilities flows are accumulated for the last 12 months. Nominal GDP data for the last four quarters up to the fourth quarter of 2025 inclusive are used in calculating the GDP ratio for December 2025.

Sources: BNB, NSI, BNB calculations.

## Bulgaria's International Investment Position

(per cent of GDP)



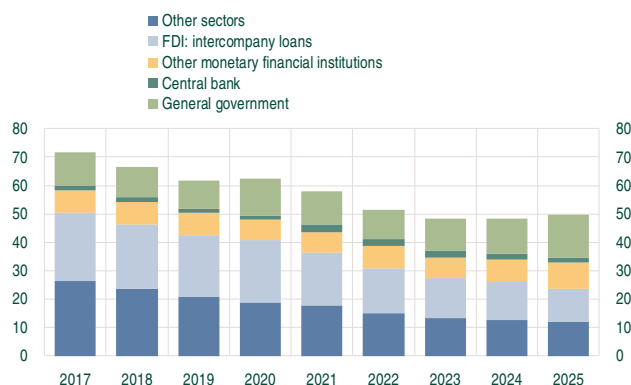
Sources: BNB, NSI, BNB calculations.

## 2.2. External Debt

After a long-standing downward trend in gross external debt as a share of GDP, an increase was recorded in this indicator at the end of 2025 compared to the end of 2024, its value reaching 49.7 per cent of GDP. In nominal terms, gross external debt rose by EUR 7.2 billion to EUR 57.7 billion, the largest being observed in long-term government debt securities (by EUR 4.6 billion), given government debt issues in international markets in May and July 2025. By the end of 2025, the share of long-term debt in total gross external debt fell to 79.2 per cent (compared with 79.8 per cent at the end of December 2024).

### Gross External Debt

(per cent of GDP)



Note: Nominal GDP data for the last four quarters up to the fourth quarter of 2025 inclusive are used in calculating gross external debt to GDP ratio for December 2025.

Sources: BNB, NSI, BNB calculations.

## 3. Interest Rates, Deposits and Loans

### 3.1. Interest Rates

In the first two months of 2026, there was a significant decrease in the interbank money market activity in Bulgaria compared to the end of 2025. The average daily volume of all types of concluded transactions (deposits and repos) in January and February amounted to EUR 73 million and EUR 88 million, respectively (compared to EUR 416 million in December 2025 and EUR 361 million on average for the whole of 2025). The strong contraction in traded volumes in the interbank money market could be fully linked to the lowering of banks' MRR rate to 1 per cent (at an effective implicit rate of 11.77 per cent in December 2025) following Bulgaria's accession to the euro area from the beginning of 2026.<sup>15</sup> Significant liquidity releases as a result of lower minimum reserve requirements have been reflected in a reduction in banks' incentives to trade in the interbank market. With regard to the structure of transactions, there has been a significant decrease in overnight deposit transactions since the beginning of 2026, while repo volumes recorded a relatively smaller decline.

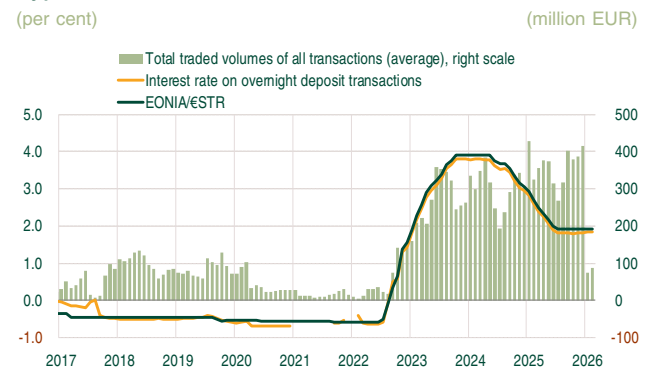
In January 2026 and February 2026, the average interest rate on all types of concluded transactions in the interbank money market in Bulgaria was 1.90 per cent and 1.93 per cent, respectively (1.82 per cent in December 2025), with this increase mainly determined by repo transactions. The overnight deposit rate increased by 3 basis points compared to December 2025 and reached 1.85 per cent on average in the first two months of the year, its spread with €STR remaining negative (-8 basis points), but narrowing compared to the end of 2025 (-11 basis points).<sup>16</sup>

Reflecting the high banking liquidity, which was further supported by intensive cash depositing

<sup>15</sup> For more information on the initial effects on the banking sector of Bulgaria's accession to the euro area from early 2026, see the topical research entitled *Analysis of the Initial Effects of the Monetary Regime Change in Bulgaria on the Banking Sector*.

<sup>16</sup> For 2025 on average, the spread between the interest rate on unsecured overnight deposit transactions in levs (LEONIA Plus) and €STR was negative at -11 basis points.

**Interbank Money Market Rate on Overnight Deposits in Bulgaria, EONIA/€STR and Traded Volumes on All Types of Transactions**

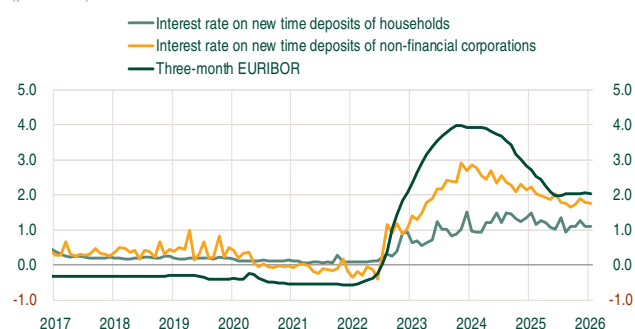


Note: The EONIA/€STR series is composed of: EONIA between 2008 and 14 March 2017; pre-€STR between 15 March 2017 and 30 September 2019; €STR in the period after 30 September 2019.

Source: BNB, ECB.

## Interest Rates on New Time Deposits by Type and Three-Month EURIBOR

(per cent)



Note: Average interest rates on new time deposits of non-financial corporations and households are based on interest rates for all maturities and currencies weighted by relevant volumes of new deposits.

Sources: BNB, ECB.

in the second half of 2025, and the release of a significant portion of banks' minimum reserves from 1 January 2026, interest rates on newly attracted funds from households remained at low levels at the beginning of the year. In January 2026, the average weighted interest rate on new time deposits of households was 1.11 per cent (1.09 per cent as of end-2025). The average weighted interest rate on new time deposits of non-financial corporations fell slightly to 1.77 per cent in January (1.80 per cent at end-2025).

In January 2026, interest rates on time deposit balances in both the household sector and non-financial corporations remained unchanged from their levels at the end of 2025, standing at 0.53 per cent and 1.66 per cent, respectively (0.52 per cent and 1.65 per cent in December 2025).

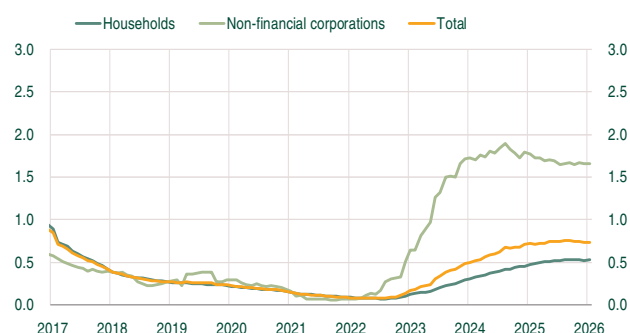
In the first two months of 2026, the long-term interest rate for assessing Bulgaria's degree of convergence was 3.93 per cent, remaining unchanged in the period since February 2024.<sup>17</sup> At the same time, in February 2026 the spread *vis-à-vis* Germany's long-term interest rate was 119 basis points, up 7 basis points against December 2025.

In January 2026, the annual percentage rate of charge (APRC) and the interest rate on newly granted loans for house purchase remained at levels similar to those at the end of the

<sup>17</sup> Daily data indicate that the long-term interest rate remained unchanged from 10 January 2024 to the end of February 2026 at 3.93 per cent, which is 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.

## Interest Rates on Outstanding Amounts of Time Deposits

(per cent)



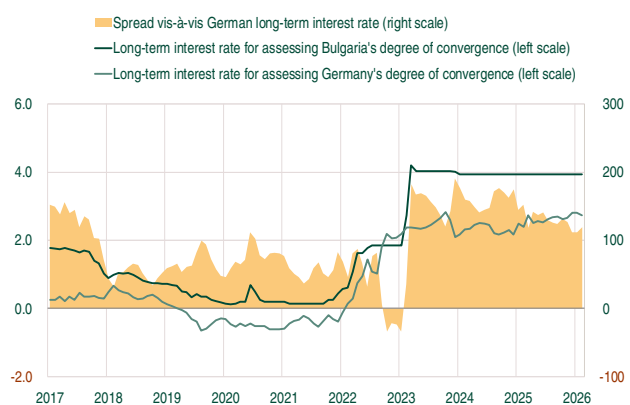
Note: Average interest rates on time deposit balances for non-financial corporations, households and in total are based on interest rates for all maturities and currencies weighted by relevant volumes of time deposits.

Source: BNB.

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

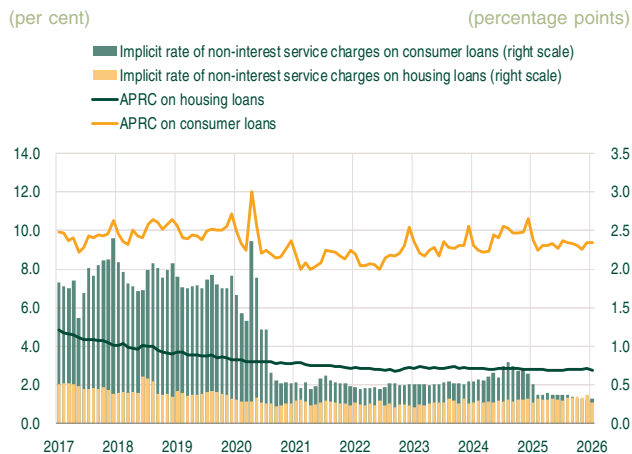
(per cent)

(basis points)



Sources: BNB, ECB.

## APRC on New Household Loans and the Implicit Rate of Non-Interest Service Charges



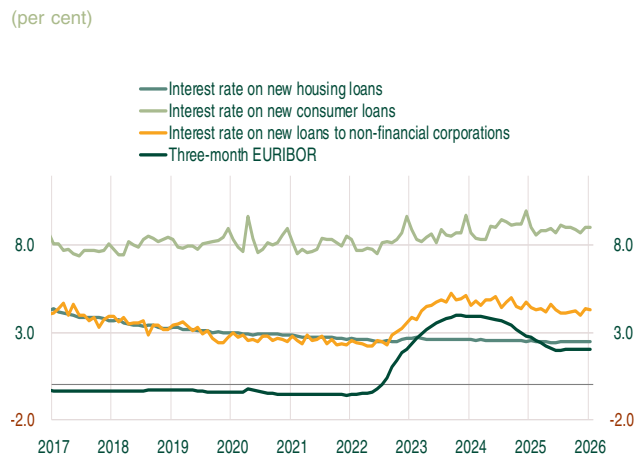
Note: The implicit rate is calculated as the difference between the APRC (Annual Percentage Rate of Charge) and the corresponding interest rates on newly negotiated housing and consumer loans. It reflects the approximate per cent of all non-interest service charges on loans (including fees and commissions).

Source: BNB.

previous year, standing at 2.74 per cent and 2.46 per cent, respectively (2.84 per cent and 2.47 per cent in December 2025). Retention of interest rates on loans for house purchase at low levels continued to contribute to the high liquidity in the banking system and the sound capital position of banks, thus affecting maintenance of low levels of interest rates on time deposits, which most commercial banks use as a reference in setting interest rates on housing loans. The annual percentage rate of charge and the interest rate on new consumer loans in January also remained unchanged, standing at 9.37 per cent and 9.05 per cent, respectively (9.36 per cent and 9.05 per cent at the end of 2025).

The weighted average interest rate on newly granted loans to non-financial corporations decreased by 10 basis points in January 2026 to 4.28 per cent (4.38 per cent at the end of 2025). Since mid-2025, there has been a relative stabilisation in the interest rate on new corporate loans (other than overdrafts), which is likely to be influenced by the significantly higher share of loans in euro compared with the household sector, the linkage to euro area interbank market benchmark indices and the unchanged euro area policy rates over this period.

## Interest Rates on New Loans and Three-Month EURIBOR

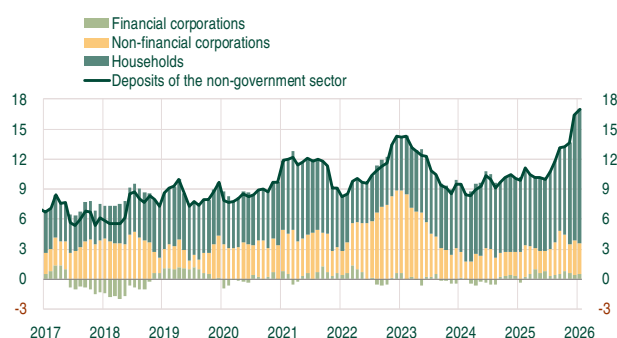


Note: Average interest rates on new loans to non-financial corporations and households are based on interest rates for all maturities and currencies weighted by the relevant volumes of new loans. The interest rate on new loans to non-financial corporations refers to loans other than overdrafts.

Sources: BNB, ECB.

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

(per cent, percentage points)



Source: BNB.

## 3.2. Deposits and Loans

### Deposits of Non-financial Corporations and Households

Non-governmental sector deposits<sup>18</sup> in the banking system increased by 17.0 per cent year on year as of January 2026 (16.4 per cent in December 2025), and household deposits continued to play a key role in the growth.

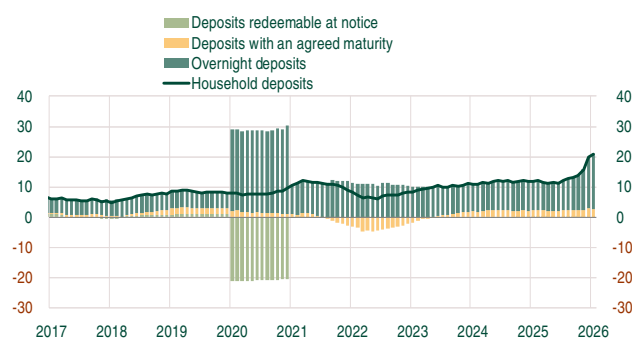
The trend to acceleration in the annual growth rate of household deposits, which started in the second half of 2025, continued, albeit less pronounced, in early 2026. At the end of January, they registered an increase of 21.0 per cent compared to the same period in 2025 (19.8 per cent as of December 2025). Overnight deposits contributed almost entirely to the reported growth, while the contribution of deposits with an agreed maturity remained very low in the context of persistently low interest rates on time deposits. A key factor behind the high growth rate of household deposits, especially towards the end of 2025, was the intensive depositing of lev cash holdings with the aim of their automatic conversion into euro upon Bulgaria's accession to the euro area from the beginning of 2026.

At the end of January 2026, deposits of non-financial corporations increased by 9.2 per cent on an annual basis (10.2 per cent as of December 2025), with overnight deposits continuing to have the main contribution to

<sup>18</sup> Non-government sector deposits include deposits of households, non-financial corporations and financial corporations. Deposits of households and non-financial corporations (97.1 per cent on average for the last 12 months as of January 2026) comprised the major share of all non-government sector deposits, and the analysis is therefore focused on these two sectors.

## Annual Growth of Households' Deposits and Contribution by Deposit Type

(per cent, percentage points)

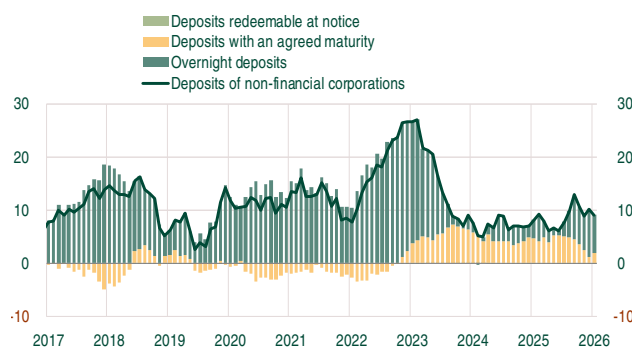


Note: In view of the analysis of the banking products and in line with the methodological requirements, transferable savings deposits have been reclassified from the Deposits redeemable at notice of up to three months indicator to the Overnight deposits of the Household sector indicator with the January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

Source: BNB.

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

(per cent, percentage points)



Source: BNB.

the growth. Data by sector of economic activity show that trade, real estate operations and construction played a decisive role in the growth of corporate deposits by end-2025. The observed accelerated growth rate of non-financial corporations' deposits in the second half of 2025 can be linked to the reported growth of gross operating surplus for the total economy in nominal terms, which, according to seasonally adjusted data, was 19.2 per cent year on year (9.0 per cent on an annual basis for the whole of 2025).

In early 2026, there was an increase in the volumes of new time deposits of non-financial corporations and a corresponding slight decrease of these volumes in the household sector compared to the end of 2025.

### Bank Lending Survey

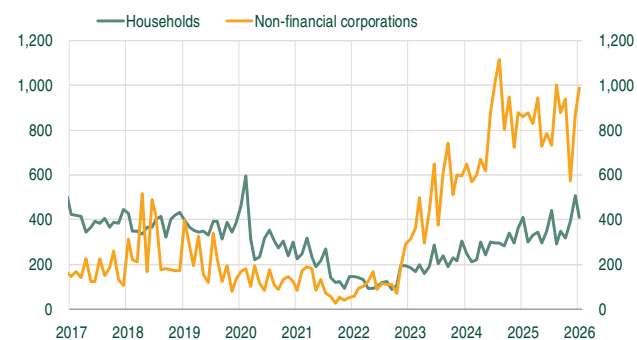
Weighted lending survey results for the fourth quarter of 2025<sup>19</sup> show tightening of standards for corporate loans and consumer and other loans to households, as well as retained standards for approving housing loans compared to July–September 2025. The tightening of standards for lending to firms refers only to long-term loans in the segment of large enterprises and is driven by specific factors. Banks' assessment of borrowers' creditworthiness affected the tightening of lending standards for consumer and other loans. In the case of housing loans, the liquidity position of banks and the general state of the macroeconomic environment had a weak influence towards easing of the standards.

According to the weighted balance of opinions, demand for loans or credit lines by enterprises and for housing loans increased compared to July–September 2025, while demand for consumer and other loans remained unchanged. Firms' needs of funds for investment purposes and refinancing, restructuring or renegotiating debts had a major effect on higher demand for corporate loans. Stronger demand for housing loans was driven by favourable housing market prospects, consumer perceptions, low interest rates and available own funds/savings.

<sup>19</sup> In the fourth quarter of 2025, Bulgaria participated in a test run of the bank lending survey in the euro area, and therefore the ECB's questionnaire was fully applied along with the common methodology for all euro area countries, resulting in a reduction of the number of banks participating in the survey. Although the survey used so far has been largely synchronised with that in the euro area, there have been methodological changes in certain questions, and for this reason the survey in the fourth quarter of 2025 was not fully comparable to the one used up to and including the third quarter of 2025.

### New Time Deposits of Non-financial Corporations and Households (Monthly Volumes)

(EUR million)

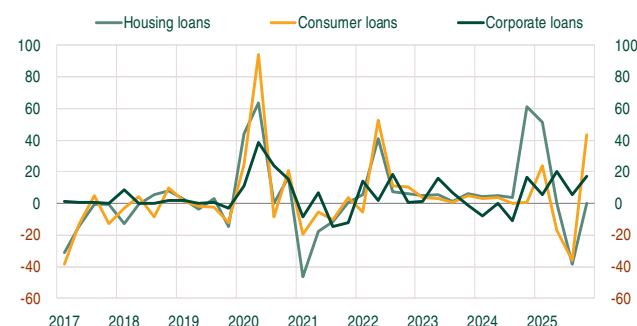


Source: BNB.

### Changes in Credit Standards and Credit Demand

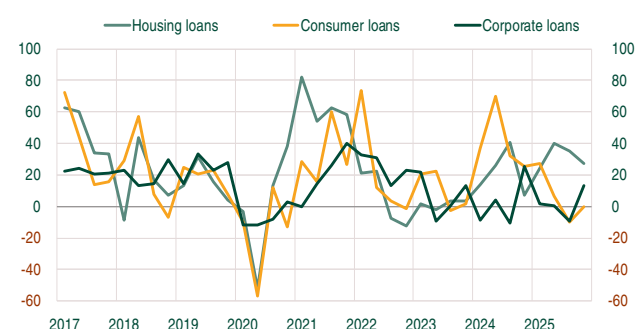
#### a) changes in credit standards

(balance of opinions)



#### b) changes in credit demand

(balance of opinions)



Note: Data for the fourth quarter of 2025 are based on an applied questionnaire which is fully harmonised with that for euro area countries and on a reduced number of participating commercial banks in Bulgaria, in line with the common methodology for conducting the bank lending survey in euro area countries. As a result, data for the fourth quarter of 2025 are not fully comparable with those of previous quarters and years. Until the third quarter of 2025, consumer loans include only this type of loans to households, and in the fourth quarter of 2025 – also loans other than consumer and housing.

Source: BNB.

## Loans to Non-financial Corporations and Households<sup>20</sup>

The annual growth rate of loans to non-financial corporations and households at the end of January 2026 was 15.0 per cent (15.5 per cent as of December 2025), with loans to households continuing to be the main contributor to the growth.

Annual growth in both housing and consumer loans slowed slightly in early 2026, standing at 27.9 per cent and 12.8 per cent, respectively, by end-January (28.2 per cent and 13.3 per cent in December 2025). Housing loans continued to play a decisive role in the growth of total credit to households, while the contribution of consumer loans remained comparatively lower.

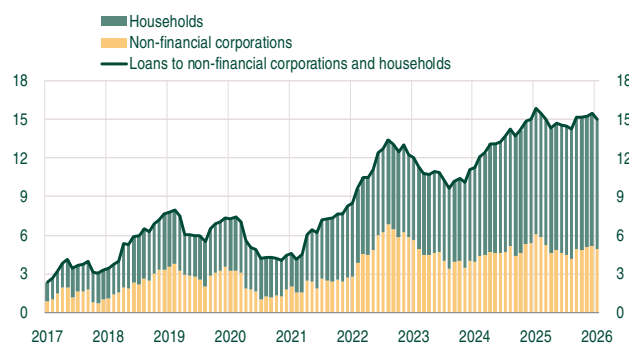
Retention of interest rates on housing loans at historically very low levels, rising labour income and limited possibilities for investing savings accumulated in the economy amid negative real rates on deposits continued to contribute to the household credit growth. According to bank lending survey results for the fourth quarter of 2025, the main factor supporting demand for housing loans was the favourable housing market outlook. On the supply side, banks' high liquidity and sound capital position continued to contribute to the growth of credit to households in early 2026.

The growth rate of credit to non-financial corporations moderated slightly compared with December 2025 and stood at 9.6 per cent on an annual basis by end-January 2026 (10.1 per cent as of December 2025). The downward trend in the contribution of overdrafts to the overall growth of corporate loans along with the concurrent increase of the contribution of loans excluding overdraft, which started from the beginning of 2025, continued in the first month of 2026. Bank lending survey results for the fourth quarter of 2025 show that the need of financial resources for working capital and accumulation of inventories was a factor for lower demand for bank financing. At the same time, firms' investment needs had a major influence on the growth in credit demand. By sector of economic activity, production and distribution of electricity, heating, and gaseous fuels had the largest contribution to the corporate credit growth in the fourth

<sup>20</sup> The indicator 'loans' in this Section refers only to loans in the sectors of non-financial corporations and households and does not include repurchase transactions, as they are of negligible size. In the table *Forecast of Key Macroeconomic Indicators for 2026–2028* of the BNB Macroeconomic Forecast publication, the total indicator 'loans and repo transactions' is presented in view of comparability with the indicators of the macroeconomic projections for the euro area.

## Annual Growth of Credit to Non-financial Corporations and Households and Contribution by Sector

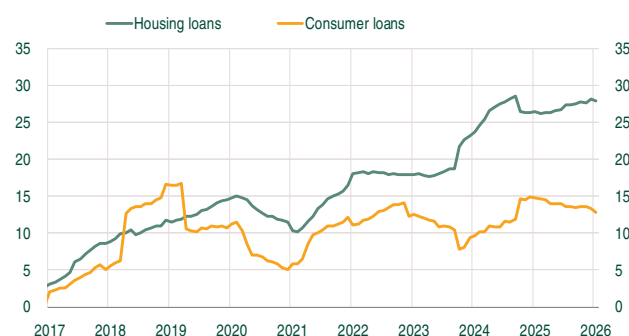
(per cent, percentage points)



Source: BNB.

## Annual Growth of Consumer and Housing Loans

(per cent)

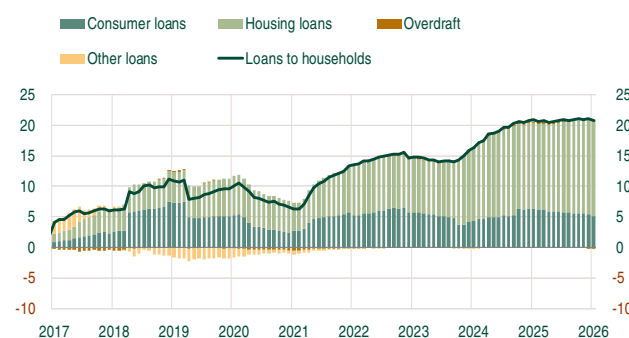


Note: Based on additional information received from reporting units, a revision of household loans was carried out according to their purpose of use in the December 2015–August 2019 period.

Source: BNB.

## Annual Growth of Credit to Households and Contribution by Loan Type

(per cent, percentage points)

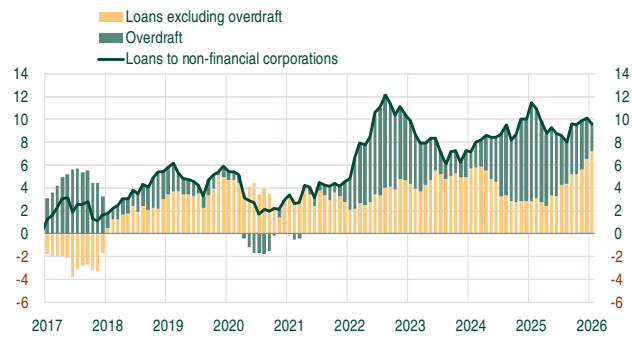


Note: Based on additional information received from reporting units, a revision of household loans was carried out according to their purpose of use in the December 2015–August 2019 period.

Source: BNB.

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

(per cent, percentage points)



Source: BNB.

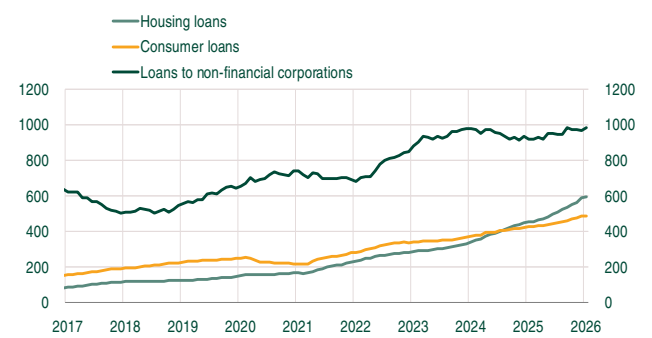
quarter of 2025, while real estate operations, manufacturing and construction had comparatively lower contributions.

Newly extended loans<sup>21</sup> to non-financial corporations increased slightly in January 2026 compared to the end of 2025. Volumes of new housing and consumer loans remained at levels similar to those recorded at the end of the previous year.

<sup>21</sup> Based on 12-month moving average.

## New Loans to Non-financial Corporations and Households (Monthly Volumes)

(EUR million)



Note: Data on monthly volumes of new loans to non-financial corporations and households are based on 12-month moving average.

Source: BNB.

# 4. Economic Activity

## 4.1. Current Economic Environment

### Gross Domestic Product

In the fourth quarter of 2025, seasonally adjusted GDP retained its trend to grow at a relatively high steady rate of 0.8 per cent on a quarterly basis. Real GDP growth in the second half of 2025 was higher than projected in the BNB’s December 2025 forecast. Year-on-year GDP growth at the end of the year was 3.0 per cent,<sup>22</sup> resulting in an overall increase in economic activity of 3.2 per cent over 2025 compared to 2024 (3.1 per cent, according to non-seasonally adjusted data). In terms of growth composition, domestic demand continued to be the main driver for real GDP growth, as in the past two years. At the same time, a substantial negative contribution of net exports was observed in 2025 due to one-off factors that led to a temporary decline in goods exports, combined with imports growth.

Within domestic demand, the largest positive contribution to GDP growth in 2025 was recorded in private consumption, followed by gross fixed capital formation and government consumption. The high growth rate of households’ final consumption expenditure (7.7 per cent on an annual basis) was supported by rising employment, growing labour income, increasing fiscal transfers to households and high credit activity, while maintaining favourable financing conditions for households. Households’ final consumption expenditure growth in 2025 was mostly driven by expenses on non-durable goods and services.

Government consumption also recorded historically high growth in 2025 (7.0 per cent compared to 2024). Nominal data on the implementation of the Consolidated Fiscal Programme as of end-December 2025 indicate that higher staff, operating and healthcare costs affected this growth.<sup>23</sup>

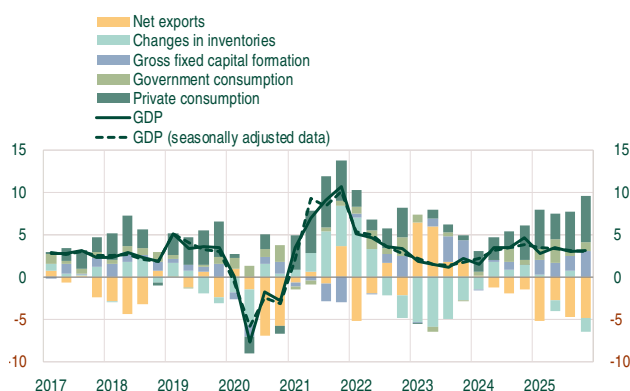
Fixed capital investments increased by 10.3 per cent in 2025 compared to 2024, with the

<sup>22</sup> NSI’s seasonally adjusted data.

<sup>23</sup> For details, see Fiscal Policy Effects on the Economy in this Chapter.

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

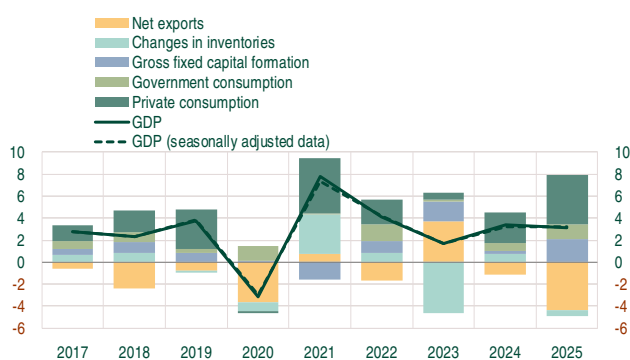
(per cent; percentage points; on an annual basis)



Sources: NSI, BNB calculations.

### Contribution to Real GDP Growth by Final Use Component (Annual Data)

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



Sources: NSI, BNB calculations.

biggest acceleration in the annual growth being recorded at the end of the year. According to BNB estimates,<sup>24</sup> both private and public<sup>25</sup> sectors contributed to this growth. Factors favouring growth in investment activity of the private sector in 2025 were the increased final consumption expenditure, sales of new dwellings and rising supply of credit resources by banks. There was also a higher inflow of foreign direct investments in the sectors related to financial services, manufacturing and information services. Despite the high investment activity, according to business surveys published by the NSI, the business climate deteriorated in 2025 compared to 2024. CFP implementation data provide an indication that government investments were mainly supported by the implementation of projects financed by EU funds and in particular those under the National Recovery and Resilience Plan. At the same time, the delivery of fighter jets to the Bulgarian army, prepaid in 2019, also contributed to the increase in public investments during 2025.

Net exports had a significant negative contribution to the economic activity dynamics in 2025 (-4.4 percentage points, according to non-seasonally adjusted data). This was determined by a year-on-year decline in exports of goods and services (2.1 per cent) combined with growth in imports of goods and services (5.9 per cent).<sup>26</sup> With regard to exports, the geographical breakdown of foreign trade flows<sup>27</sup> shows a larger decline in goods exports to EU countries compared to those to third countries. Dynamics of goods exports was strongly affected by the repairs carried out in key metal and oil processing enterprises. As these repairs were concentrated in the first half of 2025, some recovery was observed in exports over the second half of the year. Strong growth in private consumption and investments, which are characterised by a high import component according to BNB estimates, contributed to the increased imports of goods on an annual basis in 2025.

<sup>24</sup> The NSI does not provide official data on the breakdown of total investments into private and public. The series of private (non-residential) investments is constructed by the BNB as a difference between total investments, the estimated amount of public investments on an accrual basis in real terms and housing investments. The public investment estimate is based on quarterly non-financial accounts of the general government sector and CFP implementation reports published by the NSI and the MF, accordingly.

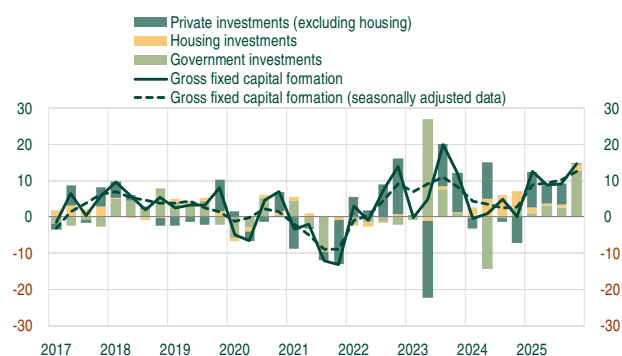
<sup>25</sup> For details on public investment dynamics, see Fiscal Policy Effects on the Economy Section in this Chapter.

<sup>26</sup> For details, see the Balance of Payments and Foreign Trade Section in Chapter 2: External Financial Flows.

<sup>27</sup> Foreign trade data in nominal terms are used in the analysis.

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

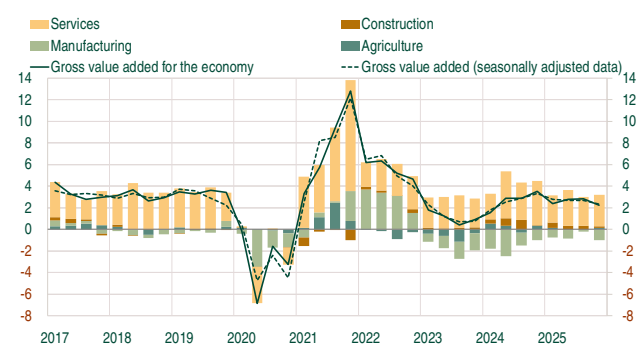
(per cent; percentage points; on an annual basis)



Sources: NSI, BNB calculations.

## Gross Value Added Rate of Change in Real Terms and Contribution by Sector (Quarterly Data)

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



Sources: NSI, BNB calculations.

In terms of economic sectors, gross value added in Bulgaria increased year on year in 2025 by 2.6 per cent in real terms, according to seasonally adjusted and non-seasonally adjusted data. The services sector had the largest contribution to this growth, notably the sub-sectors of general government; education; human health and social work activities, trade, transport, accommodation and food services and real estate operations. Value added in industry rose in the construction sub-sector, while in manufacturing it continued to decline, a trend that has been observed since 2023. The decline in value added in industry in 2025 was consistent with the annual decline in the industrial production index and goods exports. The contribution of the agricultural sector to total value added in the economy remained close to neutral.

### Cyclical Position of the Bulgarian Economy

The BNB's estimates of the cyclical position of the economy show that in 2025 the economic activity in Bulgaria remained above its potential level, with the gap widening compared to the 2024 estimate. This suggests that part of the resources in the economy continue to be overloaded beyond their optimal level, which is consistent with our estimates that the current unemployment rate is below its natural level. In addition, strong growth in domestic demand components and tight labour market conditions also contributed to the positive deviation of economic activity from potential output.

Short-term indicators<sup>28</sup> provided mixed signals regarding economic activity by sector in early 2026.<sup>29</sup> In manufacturing, output continued to decline and economic agents' sentiment deteriorated. Firms' sentiment in the services sector was also more negative. At the same time, the business climate in construction and trade improved compared to end-2025. In early 2026, an increase in indicators tracking household sentiment<sup>30</sup> was observed, as households' expectations regarding Bulgaria's future financial and economic situation improved.

### Economic Activity Expectations

The composite economic activity indicator constructed by the BNB based on high frequency

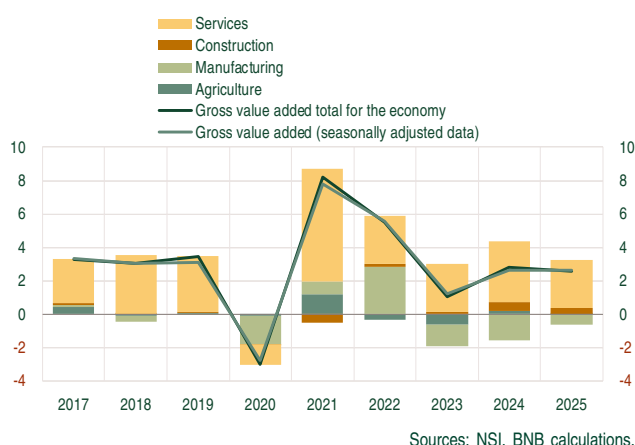
<sup>28</sup> Data on the services production index are available as of December 2025, and industrial production and retail trade indices are available as of January 2026.

<sup>29</sup> For details, see the Behaviour of Firms Section in this Chapter.

<sup>30</sup> According to Eurostat seasonally adjusted data.

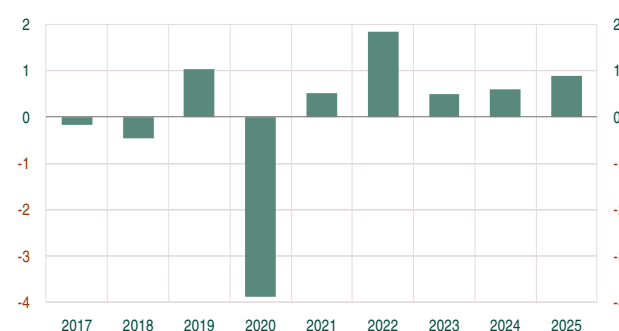
### Gross Value Added Rate of Change in Real Terms and Contribution by Sector (by Year)

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



### Deviation of Economic Activity from Potential Output

(per cent, output gap)



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

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.

data<sup>31</sup> signals that real GDP growth in the first quarter is expected to remain close to the previous quarter's level both on a quarterly and annual basis. Positive factors include improved sentiment among households and firms in the construction and trade sectors, increased lending activity, and a decrease in the unemployment rate. At the same time, data on industrial production and services production most likely indicate lower economic activity growth.

## 4.2. Labour Market

### Labour Supply

In 2025, the downward trend in labour supply, as measured by labour force<sup>32</sup>, observed over the past three years continued, with the average annual decline amounting to 0.8 per cent. The labour outflows had the main contribution to the decrease, while no significant change was reported for the population over 15 years, according to NSI's Labour Force Survey data. According to Eurostat experimental statistics<sup>33</sup>, there was a shift to inactivity in both employed and unemployed persons. The number of inactive persons rose by 0.9 per cent in 2025, with those aged 15–34 contributing most to this growth. As a result, the economic activity rate<sup>34</sup> of the 15 and older age group decreased by 0.4 percentage points amounting to 55.1 per cent in 2025.

The labour force composition showed a simultaneous decrease in employed and unemployed persons. Labour Force Survey data show a decline in the unemployment rate<sup>35</sup> to 3.5 per cent in 2025 (4.2 per cent in 2024), with all age groups contributing to this effect, except for the persons aged 15–24. Data published by the Employment Agency also reported a decline in

<sup>31</sup> Data on newly extended loans to corporations and households, the unemployment rate, the retail trade turnover index, producer prices in manufacturing, industrial and construction production indices are available as of January 2026, while those on the business climate, consumer confidence and global PMI are as of February 2026. Data on production in services (not related to trade) are as of December 2025.

<sup>32</sup> Labour force includes employed and unemployed persons in the age group of 15 and over, based on NSI's Labour Force Survey data. BNB seasonally adjusted data are used.

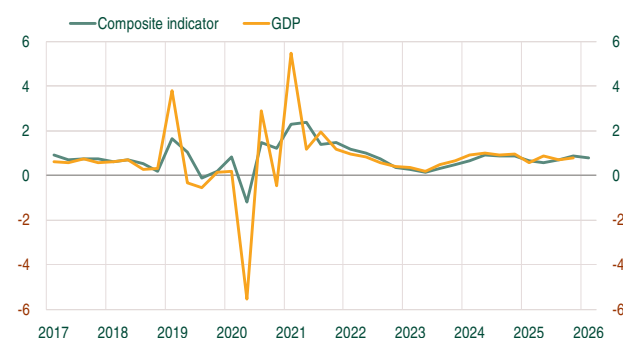
<sup>33</sup> Eurostat's experimental statistics is derived from Labour Force Survey data and identifies flows between employment, unemployment and labour market inactivity.

<sup>34</sup> The economic activity rate is the proportion between economically active persons (labour force) and the population of the same age. In early 2021, the NSI made changes to the LFS methodology and revised data on the basis 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 time series.

<sup>35</sup> The unemployment rate is the proportion between the number of unemployed and the labour force for the age group 15 and older. BNB seasonally adjusted data are used.

### Composite Economic Activity Indicator

(per cent, on a quarterly basis)

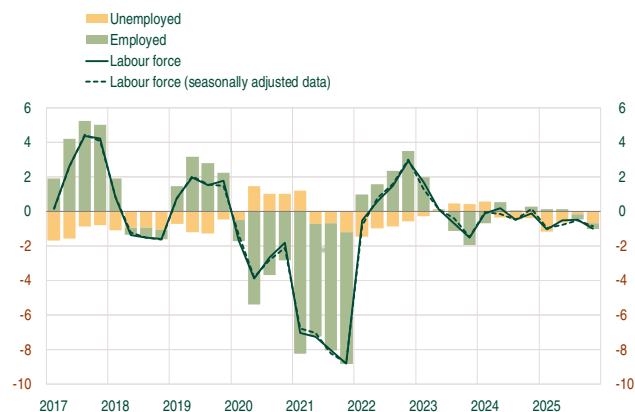


Note: This indicator is constructed on the basis of a dynamic factor model whose purpose is to derive the total component in dynamics of various indicators with a monthly frequency. Dynamics of the composite indicator may be used as a guidance for the change in real GDP of Bulgaria. Selected indicators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

### Contribution to the Change in Labour Force by Component

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

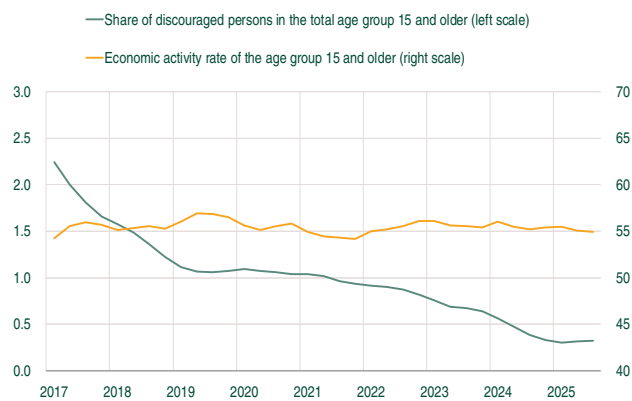


Notes: Data refer to the age group 15 and over. From the beginning of 2021, there is a break in the time series due to the use of population data from census 2021. Data prior to 2021 have not been revised, which is reflected in a year-on-year decline of labour force in 2021.

Sources: NSI Labour Force Survey, BNB calculations.

## Economic Activity and Share of Discouraged Persons

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



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

Sources: NSI Labour Force Survey, BNB calculations.

the unemployment rate in 2025, albeit less pronounced than that among the unemployed persons in the LFS data, and according to the data for January and February, this trend continued into early 2026.

At the same time, the decreased number of employees according to the Labour Force Survey was not consistent with the strong employment growth, according to national accounts data. Divergent dynamics could be attributed both to differences in the definitions of employees and the methodologies used in various statistics, as well as the Labour Force Survey's inability to cover exhaustively short-term employees from third countries, who are becoming increasingly important for employment growth in the country.<sup>36</sup>

## Labour Demand

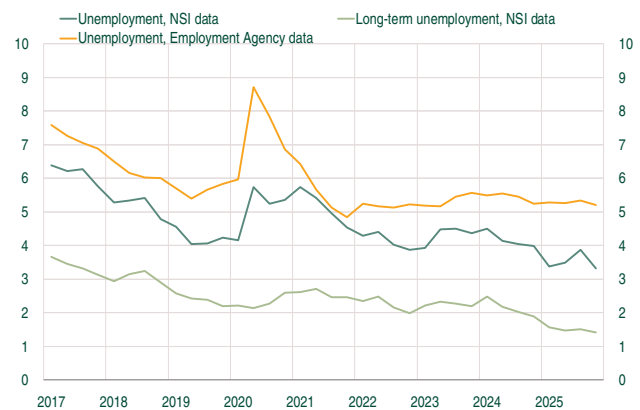
According to national accounts data, employment in 2025 recorded its strongest increase (2.1 per cent seasonally adjusted and 2.2 per cent non-seasonally adjusted) since 2008, with growth in the last two quarters of the year exceeding the expectations set out in our latest forecast from December 2025. The main contributor to the reported increase was the rise in the employment in services and construction. Despite the gradual decline<sup>37</sup> in the growth of job vacancies in the economy during the year, the average increase for 2025 remained very strong histori-

<sup>36</sup> For details on the differences between employees based on national accounts and LFS, see NSI and Eurostat.

<sup>37</sup> Based on NSI's short-term statistics of employment and labour costs.

## Unemployment Rate

(percentage of the labour force, seasonally adjusted data)

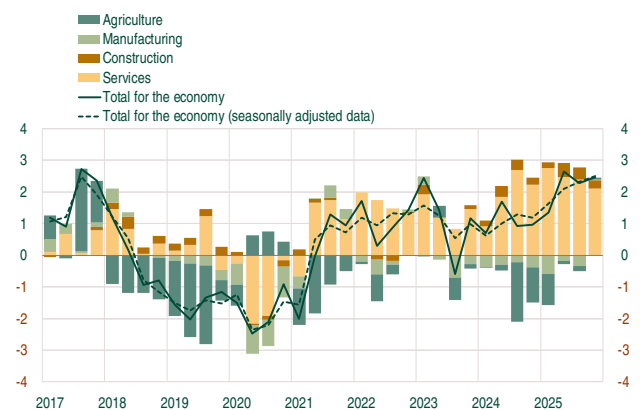


Notes: Since the beginning of 2021, there has been a break in time series due to the use of 2021 census population data when assessing the LFS results. Seasonally adjusted data presented here are affected by the break in time series.

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

## Contribution to the Change in the Number of Employed by Economic Sector

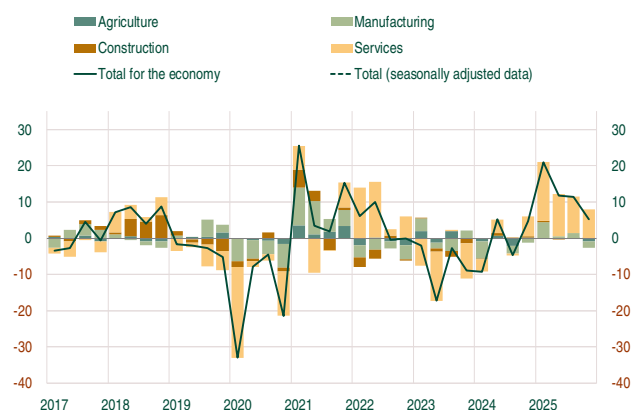
(per cent; percentage points; on an annual basis)



Sources: the NSI – 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.

cally, standing at 12.5 per cent, mainly due to the services sector. The share of firms identifying labour shortages as a factor hampering their activity<sup>38</sup> followed a similar trend and began to decline in the second half of 2025. This trend continued into the first two months of 2026. At the same time, the labour shortage remained very high historically, and combined with strong employment growth, this suggests that labour demand in the economy continues to outpace supply. As a result, upward pressure on wages in real terms exceeding the growth rate of labour productivity continued in 2025.

## Productivity and Compensation *per Employee*

In 2025, real labour productivity growth<sup>39</sup> stood at 1.1 per cent (0.9 per cent according to non-seasonally adjusted data), with a decline reported only in manufacturing. Despite the decline, the increase in compensation *per employee* in manufacturing accelerated strongly in 2025 in both nominal (24.0 per cent) and real terms (19.8 per cent), contributing significantly to maintaining high wage growth for the total economy. All other sectors reported a weaker growth of compensation *per employee* compared to the previous year. As a result, compensation *per employee* for the total economy increased by 10.2 per cent in 2025 (10.4 per cent according to non-seasonally adjusted data), while in real terms<sup>40</sup> it amounted to 6.6 per cent (according to seasonally adjusted and non-seasonally adjusted data).

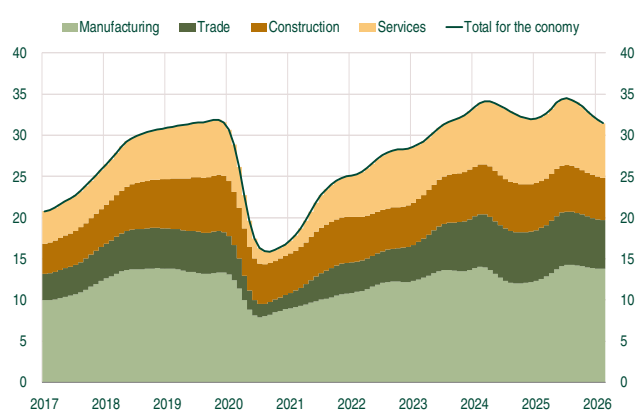
<sup>38</sup> According to NSI's Business Situation Survey data.

<sup>39</sup> Real GDP measures labour productivity in the total economy. Sector labour productivity is calculated based on sector value added in real terms.

<sup>40</sup> Nominal compensation *per employee* was deflated by the HICP to calculate the indicator in real terms.

## Labour Shortages (Seasonally Adjusted and Weighted by Sectors Monthly Data)

(per cent of the firms)

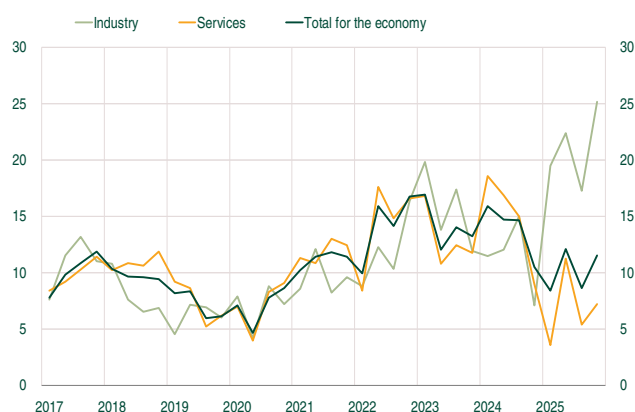


Note: Data up to and including February 2026 are used.

Sources: NSI, BNB calculations.

## Compensation *per Employee* at Current Prices

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



Source: NSI – SNA.

The reported dynamics was consistent with short-term statistics data on employment and labour costs of the NSI, according to which nominal growth in wage income decreased to 11.5 per cent in 2025 (15.3 per cent in 2024), but remained historically high, reflecting tight labour market conditions. At the same time, lower income growth in 2025, according to national accounts data, likely reflects both the use of various sources to assess employees and differences in definitions and scope of compensation *per* employee, as well as additional estimates of labour costs in the 'shadow economy', which are produced in the national accounts system.

### 4.3. Behaviour of Firms

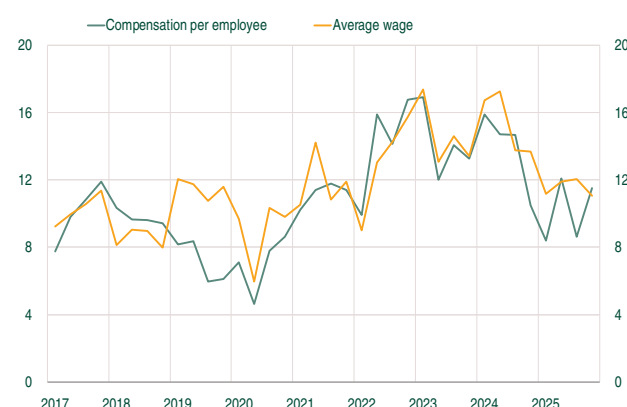
The final demand deflator rose at a relatively high rate by historical standards in 2025, largely due to domestic factors related to labour costs and firms' profit growth, and to a lesser extent, to rising import prices. The second half of 2025 saw upward dynamics in the prices across the whole supply chain: import prices, producer prices (both in industry and services), and consumer prices, measured by the private consumption deflator. This suggests also a further increase in consumer prices, measured by the HICP, over the following months, although this inflation was lower than the private consumption deflator due to methodological specificities and a greater effect of administratively controlled prices.

### Labour Costs of Corporations

In 2025, the growth of firms' nominal unit labour costs for the total economy slowed down to 9.0 per cent, compared to 11.5 per cent in 2024 (seasonally adjusted), but remained high historically. The reported slowdown reflected lower growth of compensation *per* employee, although labour market conditions remained strongly tight. Services contributed most to the slowdown by economic sector (6.8 per cent in 2025, compared with 13.1 per cent in 2024), while industry experienced a strong acceleration (23.3 per cent in 2025, against 15.6 per cent in 2024), mainly due to the acceleration in the nominal wage growth in the sector and, to a lesser extent, the reported decline in value added in the sector, given the repairs carried out in key enterprises.

### Compensation *per* Employee and Average Wage at Current Prices

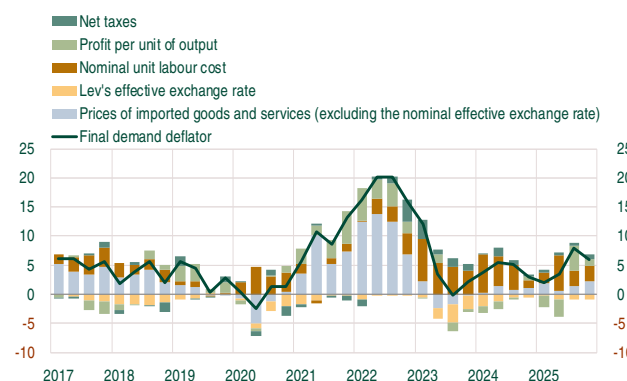
(per cent, on an annual basis; seasonally adjusted data)



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

### Decomposition of the Final Demand Deflator

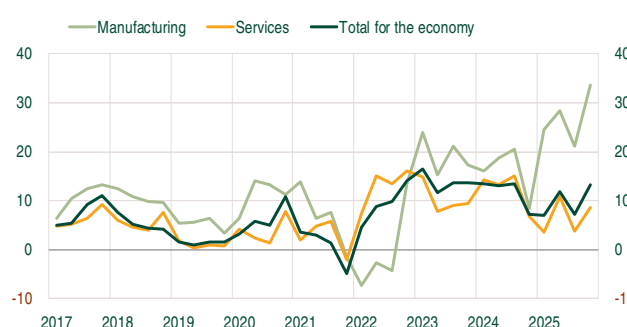
(per cent, on an annual basis; non-seasonally adjusted data)



Sources: NSI, BNB calculations.

### Unit Labour Costs

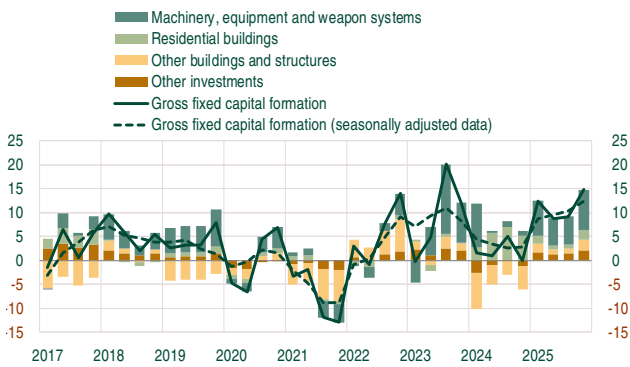
(per cent, on an annual basis; seasonally adjusted data)



Sources: NSI, BNB calculations.

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

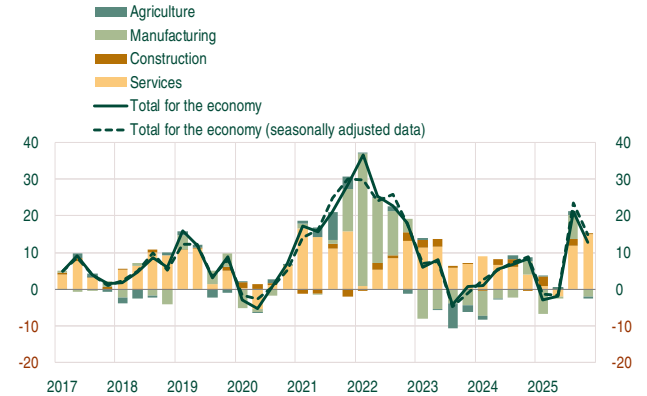
(per cent; percentage points; on an annual basis)



Sources: Eurostat, BNB calculations.

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

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



Sources: NSI, BNB calculations.

## Investment Expenditure of Corporations

BNB estimates<sup>41</sup> show that in 2025 investment expenditure rose on an annual basis in both the public and private sectors. Investment in all types of assets increased, with investments in machinery, equipment and weapons systems having the largest contribution.

## Financing Sources for Corporations

The nominal gross operating surplus indicating firms' free resources that could finance their activities internally, increased significantly in 2025 (8.8 per cent year-on-year) compared to its average historical growth rates, with the increase mostly concentrated in the second half of 2025. Growth in firms' gross operating surplus over the year was observed in all sectors except manufacturing, with the services sector (7.6 percentage points) making the largest positive contribution, followed by construction (1.0 percentage point).

## Price Policy of Corporations

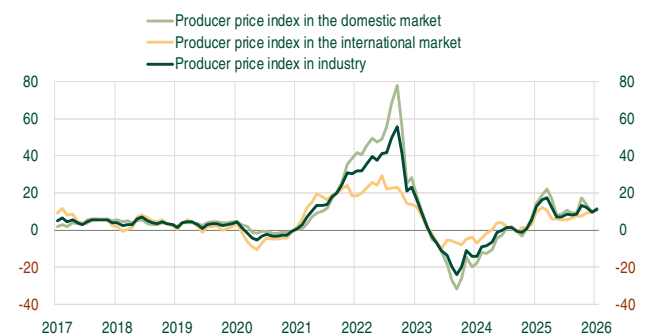
In 2025, the downward trend in firms' selling prices in industry<sup>42</sup> observed over the previous two years came to an end. The producer price index in industry (PPI) increased by 11.1 per cent in 2025 compared to 2024, driven by both the domestic (13.1 per cent) and the international

<sup>41</sup> 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. The estimate of public investment is based on data from quarterly non-financial accounts of the general government sector and reports on the implementation of the consolidated fiscal programme published by the NSI and the MF, accordingly.

<sup>42</sup> Measured by the Producer Price Index (PPI) in industry.

## Rate of Change of Producer Price Index in Industry

(per cent; on an annual basis)



Source: NSI.

market (8.0 per cent). In the domestic market, PPI growth was broad-based, with the largest growth being recorded in energy products (30.2 per cent) and food production (24.3 per cent). In the international market, prices rose in mining and quarrying and in the production of basic metals, while energy product prices fell on an annual basis. In the first nine months of 2025, PPI in services (not related to trade) increased by 5.5 per cent on an annual basis. An increase in prices was reported in all sectors, with real estate operations (10.3 per cent) and accommodation and food services (9.1 per cent) posting the strongest price rise. The construction cost index increased by 11.8 per cent in 2025, driven by both a significant increase in labour costs (by 18.1 per cent year-on-year) and a rise in domestic prices of construction materials (by 9.8 per cent). In 2025, the increase in selling prices in retail trade (excluding trade in motor vehicles and motorcycles), which is the closest one to the customers in the supply chain, was moderate (1.0 per cent on an annual basis). Within the trade sector, food prices increased most significantly (6.2 per cent).

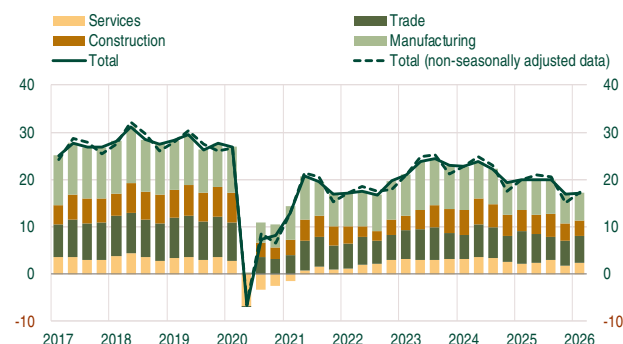
## Economic Indicators

NSI data on the business climate show a deterioration in firms' sentiment in 2025 across all major sectors (manufacturing, trade, services and construction), with this trend continuing in early 2026. The indicator reflects a deterioration in managers' sentiment about the current economic situation, while their sentiment about the future business situation improves. NSI's business climate surveys suggest that the uncertain economic environment continues to be the most serious impediment to the firms' operations, and historically this factor has always been a major concern for firms. Managers' employment sentiment over the next three months showed a downward trend in 2025, driven by the services and trade sectors, with an improvement being registered only in construction. This trend continued in January–February 2026.

NSI data on short-term business statistics provide divergent signals about economic activity in various sectors of the economy. The industrial production index continued to decline for a third consecutive year in 2025, with a broad-based decline by product group. The decrease in nominal industrial volumes was limited by an increase in prices. The construction production index increased on an annual basis in 2025, with an increase in the number of issued building permits for construction of new buildings. The services production

## Business Climate

(balance of opinions, per cent)

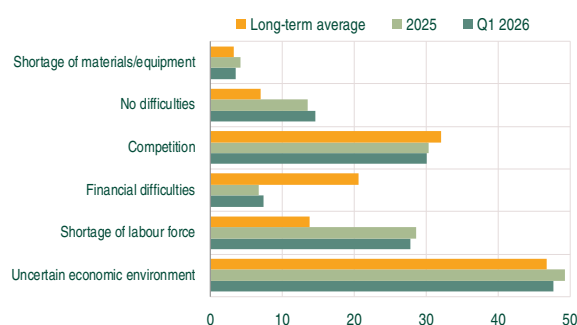


Notes: The answers to the NSI survey questions are presented in a three-tier category scale: 'increase', 'unchanged', 'decrease'. Balances of opinions are calculated as a difference between relative shares of extreme options of replies: 'increase' minus 'decrease'. The business climate indicator is a geometric average of the balances of opinions about the current and expected business situation in corporations in the next six months. Data for the first quarter of 2026 are up to February.

Sources: NSI, BNB calculations.

## Factors Hampering Economic Activity of Corporations

(relative share of all corporations)

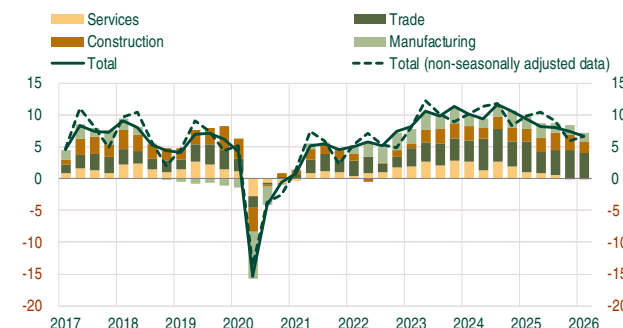


Note: Average data for the relevant period, weighted by the relative share of corporations by sector (manufacturing, construction, trade and services). Data for the first quarter of 2026 are up to February.

Sources: NSI, BNB calculations.

## Firm's Employment Expectations in the Next Three Months

(balance of opinions, per cent)

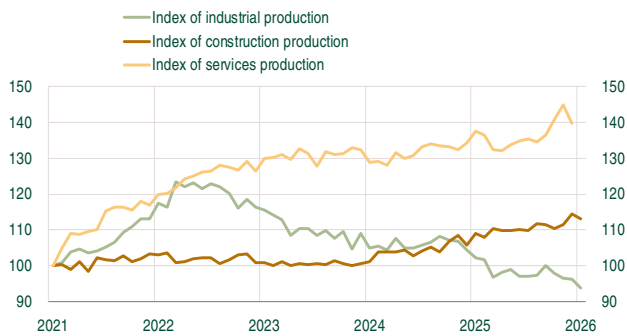


Notes: The answers to the NSI survey questions are presented in a three-tier category scale: 'increase', 'unchanged', 'decrease'. Balances of opinions are calculated as a difference between relative shares of extreme options of replies: 'increase' minus 'decrease'. Data for the first quarter of 2026 are up to February.

Sources: NSI, BNB calculations.

## Dynamics of the Production Index in Manufacturing, Construction and Services

(January 2021 = 100; seasonally adjusted data)



Sources: NSI, Eurostat, BNB calculations.

index (excluding trade) increased in 2025, this growth accelerating at the end of the year. Across sub-sectors, the largest activity growth in October was observed in information and communication services and real estate activities. Nominal retail trade turnover increased in 2025, with real volumes of all components except food recording growth, in line with the strong increase observed in consumer expenditure over the course of the year.

### 4.4. Household Behaviour

#### Household Revenue

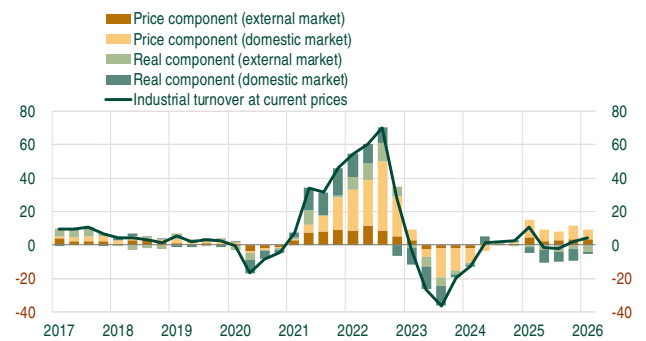
According to the NSI's Household Budget Survey, nominal growth in household revenue<sup>43</sup> slowed down in 2025 reflecting both the lower growth in total household income and smaller revenue from withdrawn savings and received loans and credit.

In 2025, the nominal growth of total household income gradually slowed down and stood at 11.8 per cent for the year (11.6 per cent according to non-seasonally adjusted data), against an increase of 18.2 per cent in 2024. All sub-components of total income contributed to the reported slowdown compared to the previous year, with lower income from self-employment and wage income contributing the most, followed by pensions and other one-off income from insurance, lotteries, inheritance, etc. Lower wage income growth was in line with average monthly gross wage dynamics derived from the NSI's short-term statistics and NSI's national accounts data on

<sup>43</sup> 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.

## Industrial Turnover Dynamics

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

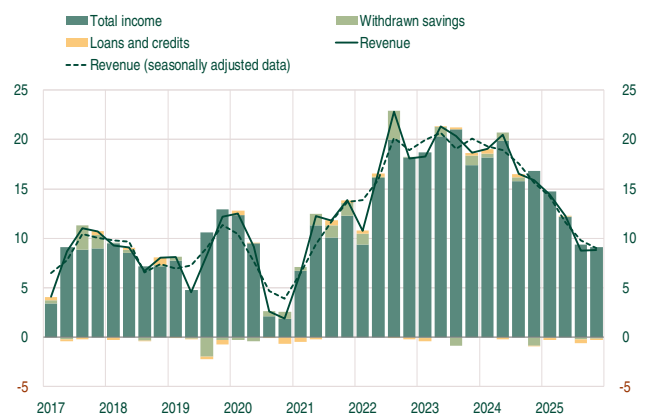


Note: Data for the first quarter of 2026 are up to January.

Sources: NSI, BNB calculations.

## Contributions to the Change in Household Revenues

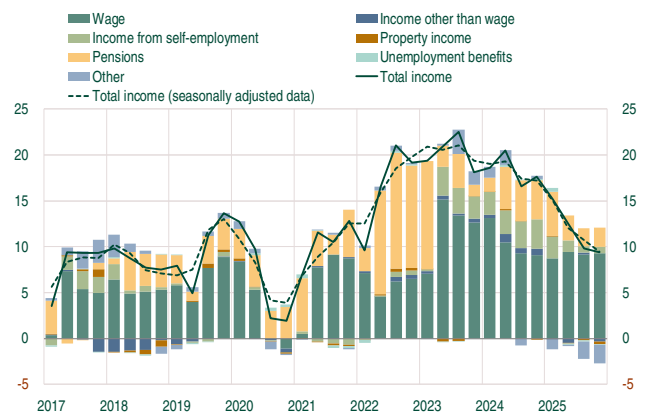
(per cent, percentage points; average per person, on an annual basis)



Source: NSI – Household Budget Survey, BNB calculations.

## Contribution to the Change in Total Household Income

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



Sources: NSI – Household Budget Survey, BNB calculations.

wages *per* employee<sup>44</sup>, which also reported a slowdown in growth. Despite lower growth and different growth rates across statistics as a result of the different definitions and data sources used, all three statistics recorded an increase in labour income in real terms, implying that they continued to support household consumption in 2025. Annual growth of total income in real terms<sup>45</sup> stood at 7.9 per cent in 2025 (15.2 per cent in 2024), which was also reflected in a smaller increase in households' real disposable income<sup>46</sup> of 7.0 per cent in 2025 (6.9 per cent according to non-seasonally adjusted data), against an increase of 14.7 per cent in the previous year.

### Household Expenditure

Total household expenditure<sup>47</sup> followed gradual slowdown dynamics in household revenue growth, rising by 9.0 per cent in nominal terms in 2025 (8.9 per cent according to non-seasonally adjusted data), compared with 16.7 per cent in 2024. The reported slowdown mainly reflected the weaker increase in consumer expenditure. At the same time, expenditure on taxes and social contributions continued to rise at a faster rate than consumer expenditure, and their share in total household expenditure increased throughout the year.

In 2025, consumer expenditure increased by 8.1 per cent in nominal terms (7.9 per cent according to non-seasonally adjusted data), compared with 15.4 per cent in 2024, and all types of expenditure contributed to the reported slowdown, with the exception of expenditure on housing, water, electricity and fuels.

In real terms<sup>48</sup>, growth in consumer expenditure was 4.5 per cent in 2025 (4.3 per cent according to non-seasonally-adjusted data), driven mainly by food and non-alcoholic beverages expenditure. At the same time, the slowdown in real consumer expenditure growth was not in line with the strong increase in private consumption of 7.7 per cent in 2025 based

<sup>44</sup> Wage per employee is calculated by dividing the wage bill to the number of employed in the economy.

<sup>45</sup> To obtain total income in real terms, nominal values are deflated by the HICP.

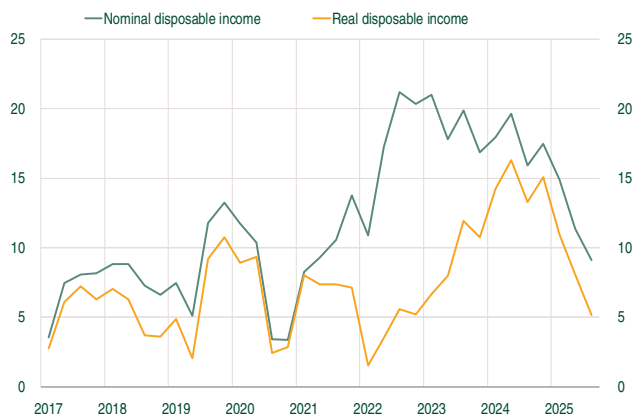
<sup>46</sup> Real disposable income of households is calculated based on the NSI household budget survey data and represents total income less taxes, social security contributions and regular transfers to other households, deflated by the HICP.

<sup>47</sup> Total expenditure include consumer expenditure, taxes, social contributions, regular transfers to other households and other expenditure. For details, see NSI's [methodology](#) on the Household Budget Survey.

<sup>48</sup> Household consumer expenditure are deflated by overall HICP. Sub-components of consumer expenditure are deflated by the corresponding HICP groups.

### Household Disposable Income

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

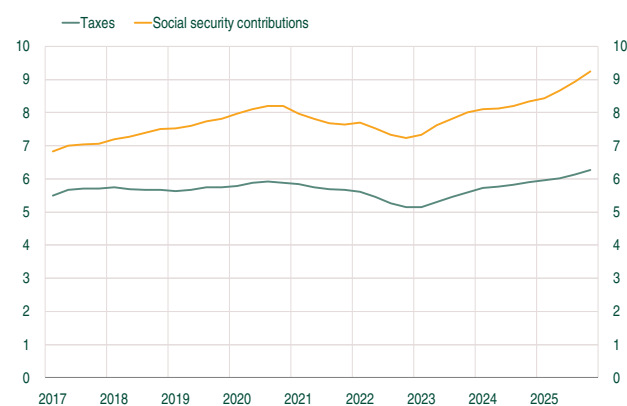


Note: Real disposable income of households represents total income reduced by taxes, social security contributions and regular transfers to other households, HICP deflated.

Sources: NSI – Household Budget Survey, the NSI, BNB calculations.

### Share of Taxes and Social Security Contributions in Total Household Expenditure

(per cent, EUR average per person)

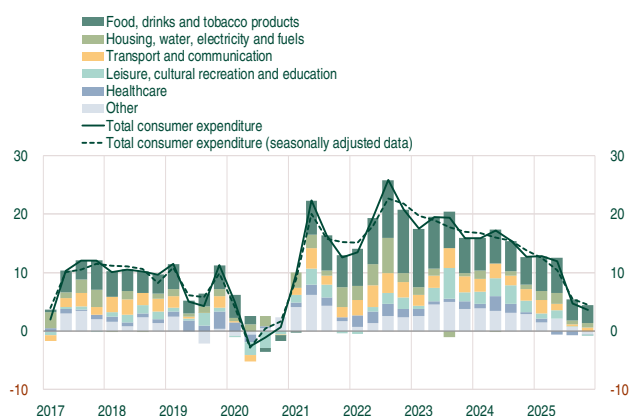


Note: A moving average for the last four quarters is used in order to adjust the data and show the trend in the developments.

Source: NSI – Household Budget Survey.

## Contribution to the Change in Household Consumer Expenditure

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



Sources: NSI – Household Budget Survey, BNB calculations.

on NSI's national accounts data. The divergent dynamics between the two statistics is probably due to the different way of data collection, their scope and definitions used. NSI's national accounts data on private consumption have a larger scope and are considered more representative of the economy, having much better coverage of higher-income population groups. One of the factors that likely contributes to the underestimation of these groups' expenditures in the Household Budget Survey data is the principle of voluntary participation in the survey, which limits its scope.

## Household Savings

In the second half of 2025, households' propensity to save<sup>49</sup> part of their income<sup>50</sup> started to increase, although the incentives for saving remained low throughout the year given the negative real interest rates on household deposits. As a result, the reported increase is probably due to the depositing of funds for an automatic conversion prior to Bulgaria's accession to the euro area. At the same time, accumulated net household assets in the banking system gradually declined over the year, supporting household consumption, with the exception of the fourth quarter of 2025, which was driven by the high growth of household deposits.

## 4.5. Fiscal Policy Effects on the Economy

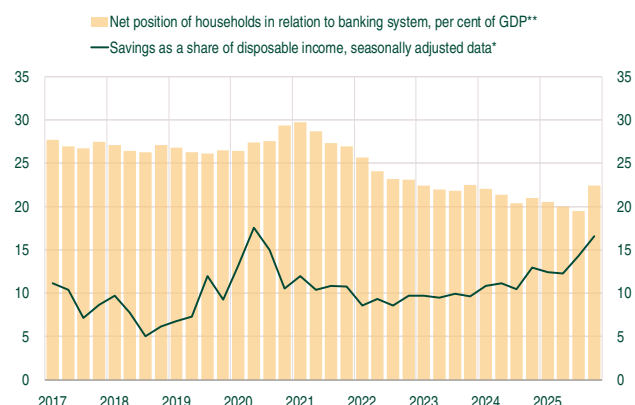
Fiscal policy continued to boost economic activity in Bulgaria. In 2025, fiscal policy

<sup>49</sup> 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.

<sup>50</sup> Income is gross income in the relevant quarter reduced by taxes and social security contributions.

## 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.

\* NSI data. BNB seasonally adjusted data.

\*\* BNB and NSI data. Nominal GDP data for the last four quarters are used in calculating the GDP ratio.

Sources: NSI's Household Budget Survey, BNB.

directly impacted real GDP growth through the increased government consumption and investments, and indirectly through higher social transfers to households and continued strong growth in employee compensation expenditure in the general government sector.<sup>51</sup>

According to the NSI's seasonally adjusted data, in the fourth quarter of 2025 government consumption continued to grow at a relatively high rate, observed as a trend since the second half of 2024. In the last quarter of 2025, government consumption registered annual growth of 5.6 per cent in real terms, while for the whole of 2025 it increased by 7.0 per cent. According to the monthly data on the implementation of the Consolidated Fiscal Programme (CFP), the growth of government consumption in the fourth quarter of 2025 was influenced by staff, operating and healthcare expenditures, with the implementation of the CFP as of December providing an indication that these items of budget expenditure also contributed to the growth of government consumption for the whole of 2025.

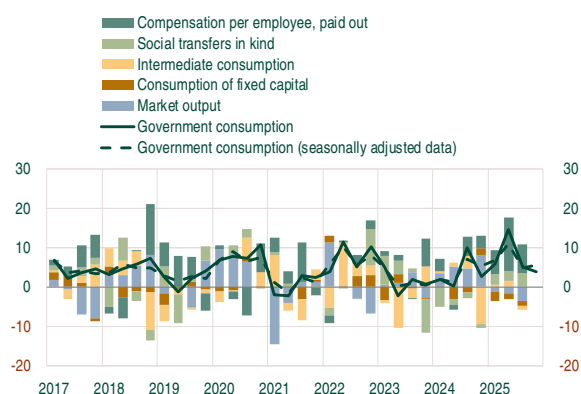
Growth in CFP capital expenditure slowed down in the fourth quarter of 2025, remaining, however, at a relatively high level of 50.5 per cent year on year, while, overall, for 2025, this growth stood at 69.5 per cent. The annual growth of capital expenditure in the fourth quarter of 2025 continued to be driven mainly by capital expenditure financed by EU funds and, to a lesser extent, by national funds. According to the Ministry of Finance's bulletin, the growth of capital expenditure in 2025 was substantially supported by payments for projects under the EU funds accounts, in particular those under the National Recovery and Resilience Plan. The reported growth in CFP capital expenditure at the end of 2025 implies maintenance of the positive effect of general government gross fixed capital formation on GDP growth in the fourth quarter of 2025, as fixed capital investments increased by 25.7 per cent year on year in nominal terms in the first three quarters (12.7 per cent in real terms, seasonally adjusted).<sup>52</sup>

<sup>51</sup> As of the cut-off date of this Economic Review issue, the quarterly non-financial accounts of the general government published by the NSI, are available up to and including the third quarter of 2025. The estimate of general government investments for the fourth quarter of 2025 is based on monthly CFP implementing reports. The CFP implementation data give also an indication of the dynamics of social transfers to households, as well as of the compensation expenditure of employees in the general government sector.

<sup>52</sup> At the same time, deliveries of the major part of fighter aircrafts for the Bulgarian army, prepaid in 2019, are expected to be recorded as an increase in gross fixed capital formation of the general government sector in the fourth quarter of 2025, though having a neutral effect on real GDP growth over the quarter due to already recorded cost of this equipment in imports of goods in Bulgaria.

### Contributions by Components to Government Consumption Growth in Real Terms (Quarterly Data)

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

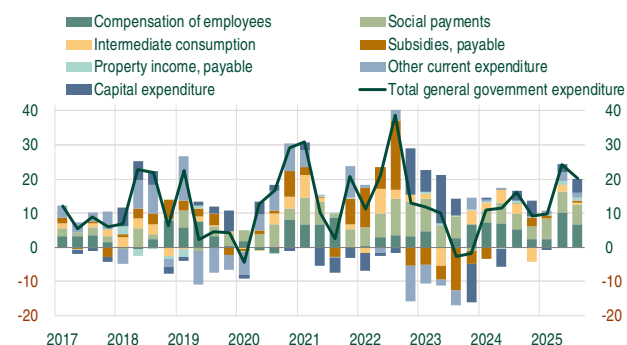


Note: The contributions of the components of government consumption relate to the dynamics of the non-seasonally adjusted series of government consumption in real terms. The components of government consumption are deflated by the total deflator of government consumption. As of the cut-off date of this Economic Review issue, the quarterly non-financial accounts of the general government published by the NSI, are available up to and including the third quarter of 2025 and, therefore, a breakdown of the components of government consumption for the fourth quarter of 2025 is not available.

Sources: Eurostat, NSI. BNB calculations.

## Contribution of Main Expenditure Groups to the Growth of Total Expenditure of the General Government Sector in Nominal Terms (Quarterly Data)

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



Sources: Eurostat, NSI. BNB calculations.

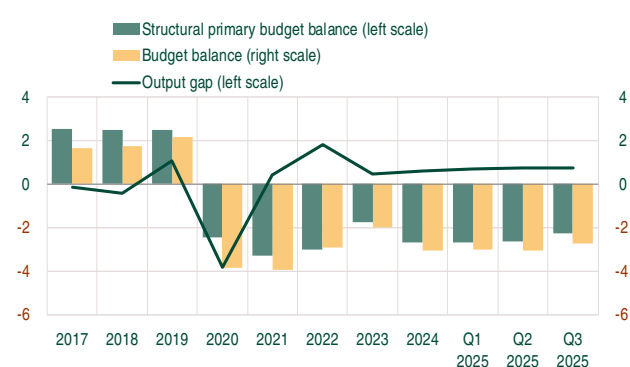
In the third quarter of 2025, total general government expenditure recorded annual growth of 20.1 per cent. The main contributors to this growth were current expenditure and, most importantly, expenditure on compensation of employees, which increased by 24.0 per cent and social expenditure (with growth of 14.4 per cent compared to the same period in 2024). Expenditure on compensation of employees and social payments remain structurally crucial for the upward dynamics of budgetary expenditure, as the trend of the past few years for such expenditure to contribute significantly to the deterioration of Bulgaria's fiscal position was preserved in 2025. CFP implementation data for the fourth quarter of 2025 provide an indication that fiscal policy continues to support households' disposable income through higher wage and social expenditures, with these expenditure items growing year on year by 20.0 per cent and 11.9 per cent, respectively, at the end of the year. Wage expenditure growth was driven by the increases in staff expenditure in defence and security sectors, as set out in the State Budget Law of the Republic of Bulgaria for 2025, by being automatically linked to the average wage in the country and in secondary education, based also on the average wage, as well as increases in the wages of other public sector employees. At the same time, the growth in social payments, which amounted to 14.5 per cent in the first nine months of 2025, was mainly driven by the 8.6 per cent pensions indexation from 1 July 2025, while the growth in social transfers in kind (which mainly cover healthcare expenditure) was relatively less important.<sup>53</sup>

<sup>53</sup> In addition, the increase in the poverty line for 2025 compared to 2024 (by 21.3 per cent) resulted in an increase in social benefits and financial support tied to its value and paid under the Law on Social Assistance, the Law on the Disabled and the Law on Child Protection. The increase in the minimum wage in 2025 (by 15.4 per cent) affected the level of remuneration of personal assistants under the Law on the Personal Assistance.

## Position of the Economy in the Business Cycle, General Government Budget Balance and Structural Primary Budget Balance

(per cent of potential GDP)

(per cent of GDP)

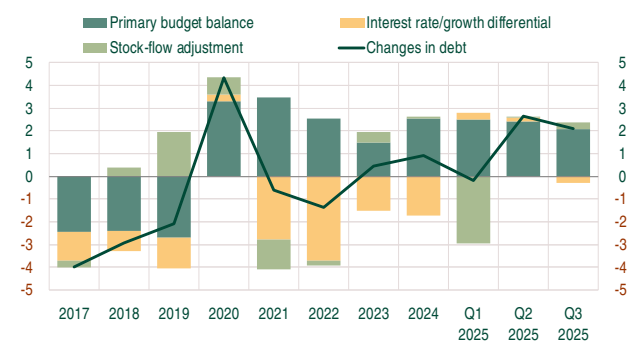


Note: For more information on estimates of the structural primary budget balance of general government, see the topical research on Analysis of Bulgaria's fiscal stance in the period after 2020, *Economic Review*, issue 3 of 2025. See the Current Economic Environment section in this chapter on the assessment of the cyclical position of the Bulgarian economy. Data for the last four quarters up to and including the corresponding quarter of 2025 are used in the calculations for 2025.

Sources: Eurostat, NSI. BNB calculations.

## Contributions to the Change in General Government Debt

(percentage points of GDP)



Note: The change in general government debt is between the last quarter of two consecutive years in a calendar year completed or, in the absence of data for the last quarter of a calendar year, between a given quarter of the relevant calendar year and the previous quarter. The growth and interest rate effect (the so-called snowball effect) represents the overall effect on debt dynamics of the differential between nominal GDP growth and the implicit interest rate paid on debt (interest expenditure relative to the level of debt in the previous period). Stock-flow adjustment is the difference between the change in debt between two periods and the budget balance. GDP for the last four quarters up to and including the corresponding quarter of 2025, is used in calculating the debt ratio as a percentage of GDP for 2025. The remaining calculations for 2025 used data for the last four quarters up to and including the corresponding quarter of 2025.

Sources: Eurostat, NSI. BNB calculations

Total general government revenue grew by 24.6 per cent year on year in the third quarter of 2025. Current revenue, other than direct and indirect taxes, social security and market output revenue were the main contributors to this growth. Data for the first three quarters of the year show that the increase in total budget revenue (by 20.3 per cent year on year) was mainly due to revenue from current taxes on income and wealth, as well as other current revenue.<sup>54</sup>

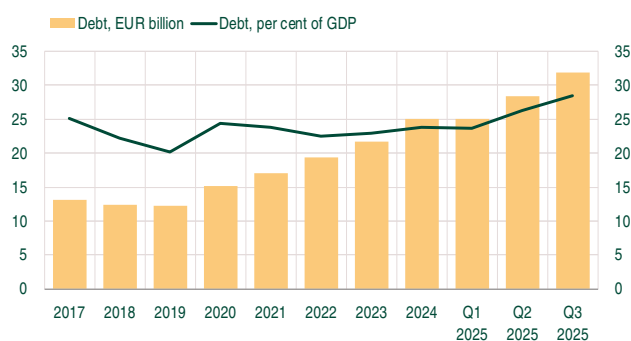
The general government balance as of the third quarter of 2025 came to a deficit of 2.7 per cent of GDP.<sup>55</sup> BNB estimates of the cyclical position of the economy for the last four quarters up to and including the third quarter of 2025 show a continuation of the procyclical fiscal policy pursued since 2021, which is expressed in maintaining structural primary budget deficits (the structural primary budget deficit is estimated at 2.3 per cent of potential GDP as of the third quarter of 2025).<sup>56</sup> Procyclical fiscal policy stimulates domestic demand and creates additional inflationary pressures in the context of a continuing upward phase of the business and financial cycle in the Bulgarian economy.

As of end-September 2025, the general government debt increased to 28.4 per cent of GDP<sup>57</sup> (from 23.8 per cent of GDP at the end of 2024). Sustained primary budget deficits remain a determining factor for the increase in government debt, while the constraining effect on the debt growth of the favourable differential between nominal GDP growth and the implicit interest rate paid on debt (the so-called 'snowball effect') weakened in 2025.

## General Government Debt

(per cent of GDP)

(EUR billion)



Note: GDP for the last four quarters up to the corresponding quarter of 2025 is used in calculating the ratio as a percentage of GDP for 2025.

Sources: Eurostat, NSI. BNB calculations.

<sup>54</sup> Other current revenue includes property income (including dividend income) and other current transfers.

<sup>55</sup> The calculation of the ratio uses the data on the general government budget balance for the last four quarters up to and including the third quarter of 2025, as well as the nominal amount of the GDP for the last four quarters up to and including the third quarter of 2025.

<sup>56</sup> The approach used to assess the structural primary budget balance of the general government sector is detailed in the topical research on [Analysis of Bulgaria's fiscal stance in the period after 2020](#), Economic Review, issue 3 of 2025. On the assessment of the cyclical position of the Bulgarian economy, see the Current Economic Environment Section in this Chapter.

<sup>57</sup> Nominal GDP data for the last four quarters up to and including the third quarter of 2025 are used in calculating the ratio.

# 5. Price Developments

## 5.1. Consumer Prices

Annual inflation, measured by the HICP, came to 2.1 per cent in February 2026, compared with 3.5 per cent at the end of 2025. The slowdown in inflation was mainly due to the base effect of the more substantial price hikes in early 2025, as well as the fall in the price of transport fuels in the first two months of the current year. The most significant contribution to consumer price growth as of February 2026 was made by the food group, followed by the services group, with prices in these two groups continuing to rise on a monthly basis in the first two months of the year. Inflation for January–February 2026 was 0.6 percentage points lower than projected in the December 2025 BNB macroeconomic forecast, mainly owing to lower than expected food price growth.

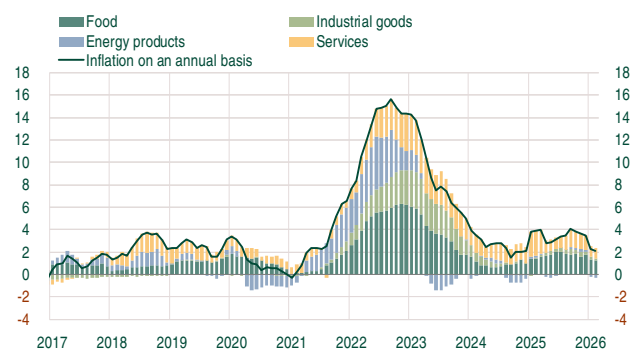
The trend towards pro-inflationary pressures, driven by the domestic macroeconomic environment, was sustained in the first two months of 2026. High unit labour cost and private consumption growth continued to be key drivers of this trend, allowing firms to more easily pass on higher production costs to final consumer prices. Fiscal policy also continued to have a strong pro-inflationary effect. Factors such as automatic increases in the minimum wage and remuneration of public sector employees as of January 2026, as well as year on year increases in social payments, continued to support household consumption and disposable income. Concurrently, the maintenance of budget deficits funded by government security issues in international markets contributed to preserving high liquidity in the banking system and therefore to low deposit and lending rates in the household sector in Bulgaria. As a result, incentives for households to save some of their disposable income remained subdued, further supporting their consumption and rising consumer prices.

### Energy Products Prices

Energy products have seen a decline in prices since the beginning of 2026, with prices in the group falling by 2.6 per cent as of February (compared to an increase of 1.8 per cent in December 2025). The main contributors

## Inflation and Contributions of Major Commodity and Services Groups to It

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

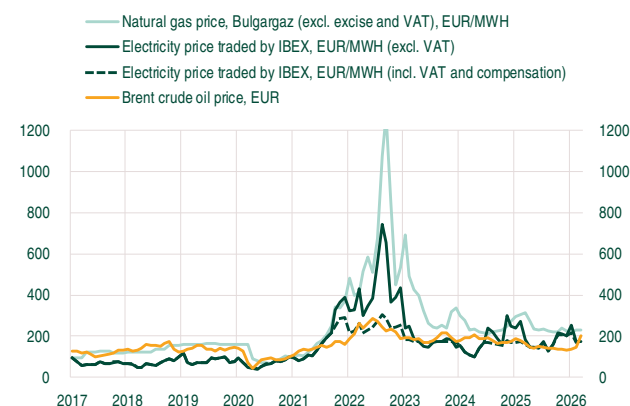


Note: The structure used corresponds to the Eurostat classification.

Sources: NSI, BNB calculations.

## Primary Energy Commodity Prices

(Index, December 2020 = 100)

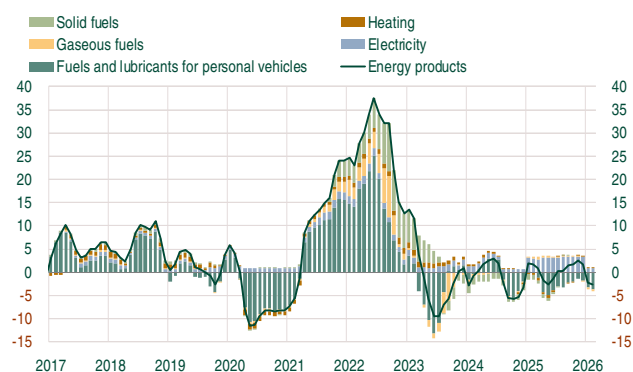


Notes: The electricity price refers to the day ahead segment of the Independent Bulgarian Energy Exchange EAD (IBEX). The price of natural gas sold by Bulgargaz EAD does not include prices for access and transmission through the gas transmission networks.

Sources: ECB, IBEX, EWRC.

## Contributions of Major Sub-groups to Energy Products Inflation

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



Sources: NSI, BNB calculations.

to this were the base effect of the electricity price hike of January 2025,<sup>58</sup> followed by transport fuels, which recorded a sharp fall in prices on an annual basis in line with the price of crude oil in the international market. As a result of the escalating tensions in the Middle East, crude oil prices in international markets rose significantly in March and this is expected to have a significant effect on transport fuel prices in the Bulgarian market in the following months.

## Food Prices

The annual growth rate of food prices stood at 4.5 per cent in February 2026 (from 6.3 per cent in December 2025), with this group having again the most significant positive contribution to headline inflation. The major contributor to food price rises was the group of processed food, and, to a lesser extent, that of unprocessed food.

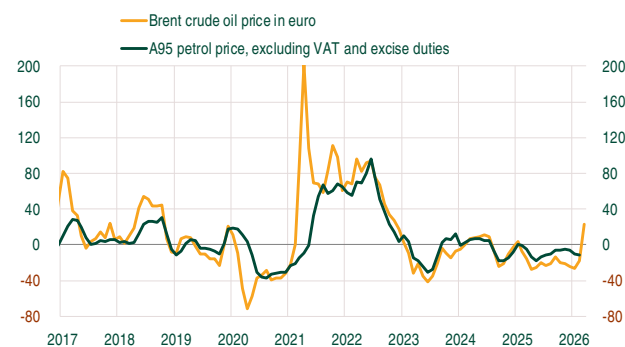
Unprocessed food inflation accelerated to 6.4 per cent (compared to 5.8 per cent at the end of 2025), with price increases in the vegetables subgroup being the main driver of the acceleration of inflation in the group. The highest price growth was recorded for greenhouse vegetables, most likely due to higher heating and electricity costs for producers.

Annual inflation in the group of processed food decelerated, reaching 3.9 per cent in February 2026 (from 6.4 per cent at the end of 2025). The slowdown was mainly driven by a base effect of the rapid price increase in early 2025 following the restoration of the standard VAT rate for the supply of bread and flour. A

<sup>58</sup> The average electricity price increase for household consumers by 8.42 per cent came into force by EWRC decision on 1 January 2025. The price was additionally increased by 2.58 per cent on average on 1 July 2025 by EWRC decision.

## Rate of Change in Brent Crude Oil and A95 Petrol Prices

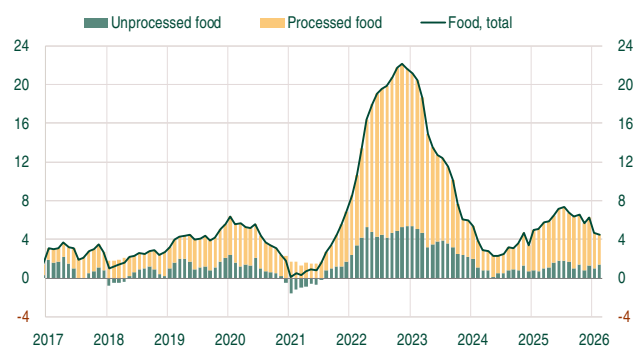
(per cent; on an annual basis)



Sources: ECB, NSI, BNB calculations.

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

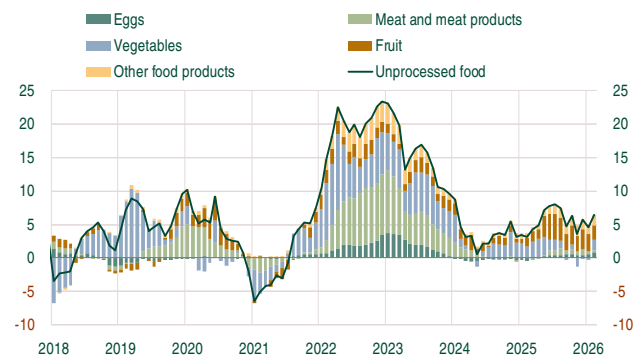
(per cent; percentage points; on an annual basis)



Sources: NSI, BNB calculations.

## Contribution of Major Sub-groups to Unprocessed Food Inflation

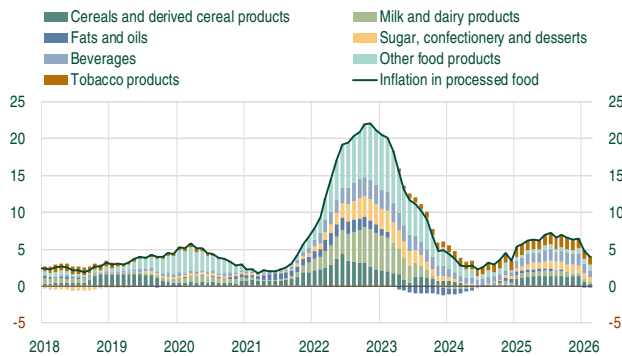
(per cent; percentage points; on an annual basis)



Sources: NSI, BNB calculations.

## Contribution of Major Sub-groups to Processed Food Inflation

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



Sources: NSI, BNB calculations.

slowdown in inflation was also observed in the sugar, confectionery and desserts and coffee, tea and cocoa groups, which can be explained by lower prices for cocoa, coffee and sugar in international markets.

## Core Inflation

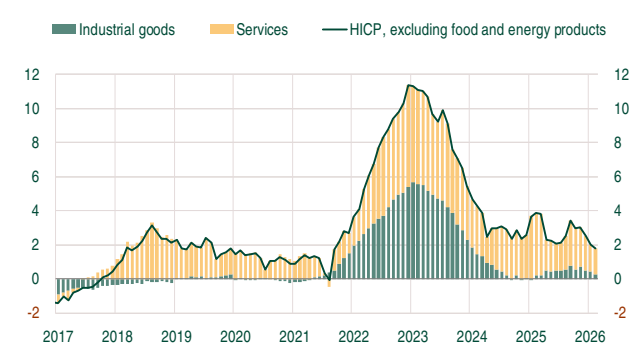
Core inflation (including services and industrial goods prices) slowed to 1.8 per cent in February 2026 compared with 2.5 per cent in December 2025. The group of services and, to a lesser extent, that of industrial goods contributed most strongly to core component price rise.

Industrial goods inflation slowed to 0.5 per cent in February 2026 (1.0 per cent at the end of 2025). Inflation in medicines and medicinal products group and, to a lesser extent, in clothing and footwear group decelerated most significantly, while deflation continued in personal computers and sound and image reproduction technique groups.

Annual inflation in the services group stood at 3.0 per cent in February 2026 (compared to 4.0 per cent at the end of 2025), with a slowdown in inflation compared to the end of 2025 mostly recorded in the telecommunications services group. The catering sub-group also registered a slight year on year slowdown in inflation due to the exhausted base effect of the restored standard 20 per cent VAT rate for restaurant and catering services from the previous year. At the same time, the group posted monthly price growth in January and February 2026.

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

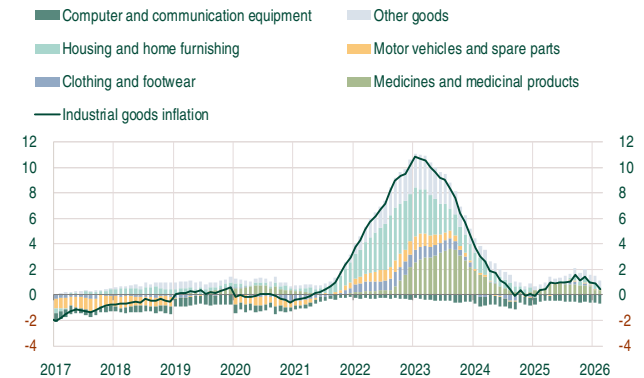
(per cent; percentage points; on an annual basis)



Sources: NSI, BNB calculations.

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

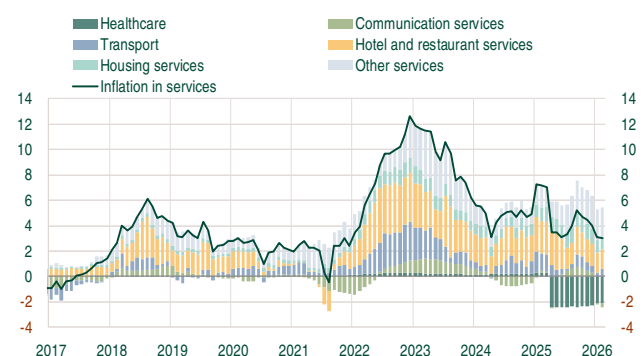
(per cent; percentage points; on an annual basis)



Sources: NSI, BNB calculations.

## Contribution of Major Sub-groups to Inflation in Services

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



Sources: NSI, BNB calculations.

## Goods and Services with Administratively Controlled Prices and Tobacco Products

The group of goods and services with administratively controlled prices and tobacco products recorded a price decline of 1.1 per cent in February 2026 (compared with 1.7 per cent at the end of 2025). The observed dynamics is mostly driven by a base effect of the increase in electricity prices in early 2025, while the hospital services sub-component continued to make a strong negative contribution to group inflation following the decrease in hospital stay fees in April 2025.<sup>59</sup>

The diffusion index indicating the share of goods and services groups with an annual price increase declined to 70.4 per cent in February 2026, from 72.5 per cent in December 2025. As regards the rate of price increase, the relative share of sub-components with price increases of more than 5 per cent on an annual basis also fell to 45.8 per cent (compared with 48.6 per cent at the end of 2025).

## Inflation Expectations

Regular NSI business surveys show that in February 2026 the share of managers in services, manufacturing and retail who expect an increase in selling prices over the next three months, decreased compared with December 2025, in line with the dynamics of headline inflation, in line with the dynamics of headline inflation in early 2026. Given the current developments in the Middle East and the movement of crude oil prices in international markets since the beginning of March, the results of the business surveys as of February probably do not provide a sufficiently up-to-date indication of the short-term trajectory of inflation.

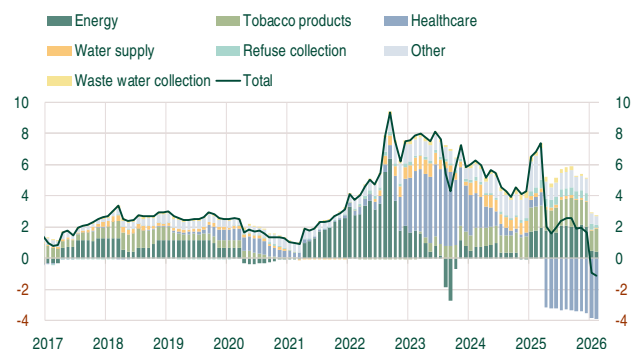
## 5.2. Housing Prices

Annual growth of the House Price Index (HPI) was 15.4 per cent in the third quarter of 2025 (compared to 15.5 per cent in the previous quarter). Price rises mainly reflected the increase in existing house prices (18.2 per cent), while prices of newly constructed dwellings slowed down to 11.0 per cent on an annual basis compared to the first half of the year. Price increases were wide-ranging across regional cities, with Varna recording the greatest acceleration in growth rate (19.0

<sup>59</sup> By Decree No 28 of 16 April 2025 on the implementation of the State Budget of the Republic of Bulgaria for 2025, published in the Darjaven Vestnik, Issue 33 of 17 April 2025, the hospital stay charge was lowered from BGN 5.80 to BGN 1.00.

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

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

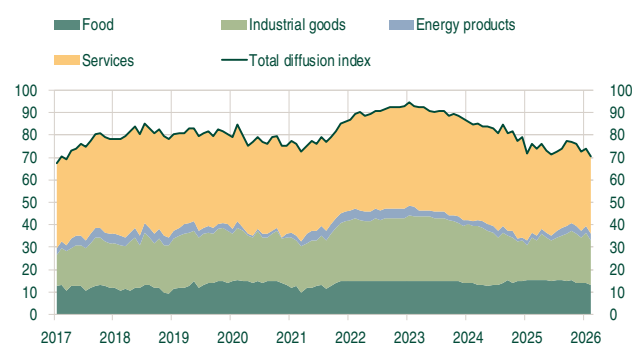


Sources: NSI, BNB calculations.

## Diffusion Index (Relative Shares of Increasing HICP Sub-indices on an Annual Basis)

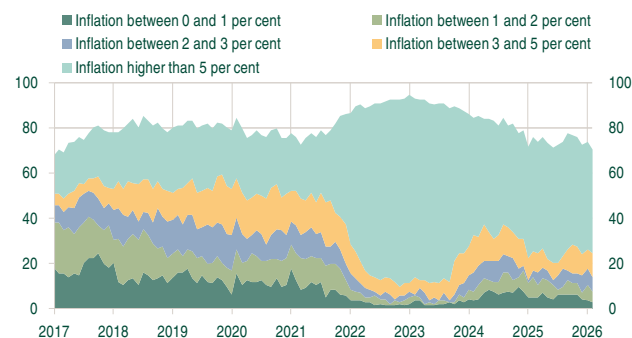
### a) by major goods and services groups

(per cent, relative shares of increasing HICP sub-indices on an annual basis)



### b) by the size of the increase

(per cent, relative shares of increasing HICP sub-indices on an annual basis)



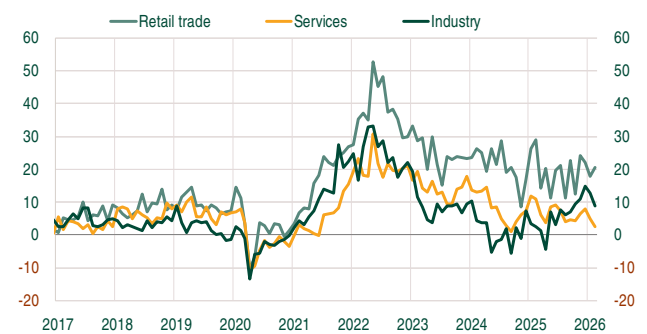
Notes: Data on the HICP 4-digit level sub-indices (sub-classes according to the NSI methodology) have been used. The diffusion index shows the share of sub-indices reporting an increase in value on an annual basis. When calculating the relative shares, the weight of the relevant sub-indices in the consumer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

Sources: NSI, BNB calculations.

per cent on an annual basis). Factors which continued to support housing demand and to add to housing price rises were higher labour income, the retained strong lending activity in an environment of historically low annual percentage rates of charges on new housing loans, and more limited opportunities to invest the accumulated savings in the context of negative real interest rates on households deposits. Other pro-inflationary factors were the preservation of historically favourable household attitudes<sup>60</sup> for house purchases and reported annual growth in construction costs<sup>61</sup> of new buildings in the first quarter of 2025 (by 13.0 per cent compared to a growth of 12.0 per cent in the previous quarter). Over the third quarter of 2025 the price-to-rent ratio, which is a frequently used indicator of undervaluation/overvaluation of houses, continued to exceed significantly (by 48.9 per cent) its long-term (historical) average value<sup>62</sup>. This shows that household decisions to purchase a home continue to

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

(balance of opinions)



Source: NSI.

### Key Indicators of the Housing Market Developments in Bulgaria

(%, year on year change)

	2022	2023	2024	2025	2025			
					I	II	III	IV
<b>Price developments</b>								
House price index, total	13.8	9.9	16.5	-	15.1	15.5	15.4	-
New dwellings	10.8	8.6	17.8	-	13.4	14.9	11.0	-
Existing dwellings	15.6	10.6	15.7	-	16.2	16.0	18.2	-
Inflation (HICP)	13.0	8.6	2.6	3.5	3.9	2.9	3.7	3.7
House rentals, paid by tenants (HICP)	6.3	8.4	5.6	9.6	7.3	8.6	10.5	11.9
<b>Lending</b>								
New housing loans (for the last 12 months)	33.5	15.7	30.7	28.7	27.1	27.0	25.9	32.2
Annual percentage rate of charge on new housing loans (per cent, at the end of the period)	2.8	2.9	2.8	0.0	2.8	2.8	2.8	2.8
Housing loans, balances	18.1	18.8	25.8	27.3	29.1	26.8	27.6	28.2
<b>Construction and investment</b>								
Permits issued for the construction of new residential building (square metres)	20.6	-4.9	-14.2	27.5	8.2	9.5	32.3	62.9
Value added in construction (at average annual prices for 2015)	5.3	3.8	5.2	6.5	6.0	7.0	5.4	4.7
Construction Production Index, building construction	0.1	2.7	-0.7	4.1	4.3	3.4	6.0	5.7
Fixed investment, residential buildings	-1.4	0.3	35.1	6.6	7.7	4.1	4.5	9.8
Construction cost index for new buildings	54.8	16.3	4.0	11.8	7.2	12.0	13.0	14.7

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 home purchase loans, cumulative data for the most recent 12 months were used.

Sources: NSI, BNB, Eurostat.

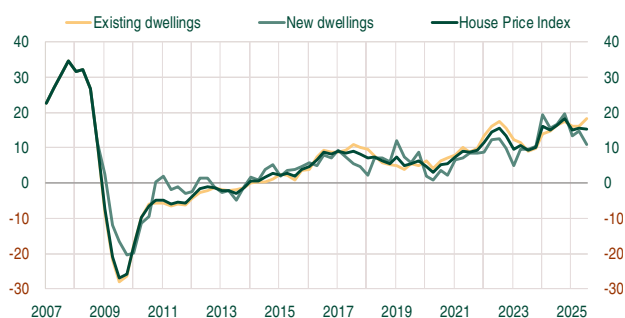
<sup>60</sup> Data of the regular NSI Household Budget Survey, seasonally adjusted by the BNB.

<sup>61</sup> Eurostat data are used.

<sup>62</sup> Calculations for the period from the first quarter of 2000 to the third quarter of 2025.

## Rate of Change of House Price Index

(per cent; on an annual basis)



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.

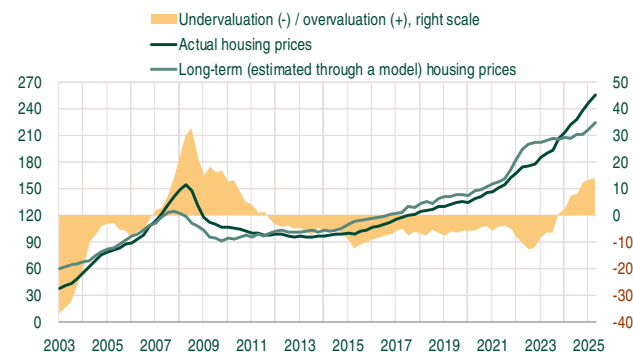
be driven by reasons other than ensuring an immediate financial benefit by letting newly acquired properties. Such reasons could be the expectations of a further increase in house prices (and realised capital gains after a sale in the future) or perceptions of residential properties as an asset for preserving value in an environment of negative interest rates on household deposits. Concurrently, estimates based on the BNB macroeconomic model<sup>63</sup>, suggest a significantly lower positive deviation of current residential property prices in Bulgaria from their long-term equilibrium level (13.8 per cent). This is determined by the fact that rising household income combined with persistently negative real interest rates on housing loans push up the affordability of houses, which is reflected in the model as an increase in its equilibrium price.

<sup>63</sup> Additional information on this model is available in the topical research on *Dynamics of House Prices in Bulgaria between 2000 and 2016*.

## Actual and Equilibrium Housing Price

(index 2015 = 100)

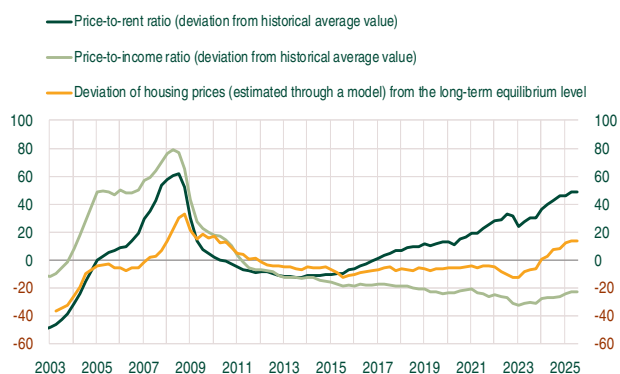
(per cent)



Sources: NSI, BNB calculations.

## Indicators of Undervaluation/Overvaluation of Housing

(per cent)



Sources: NSI, BNB calculations.

## 6. Macroeconomic Forecast (March, 2026)

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The BNB's March 2026 macroeconomic forecast is based on the ECB's assumptions about global economic developments and commodity prices in international markets as of 11 March 2026. Assumptions suggest that average quarterly oil, gas and electricity prices will peak at around USD 90 *per* barrel, EUR 59/MWh and EUR 141/MWh in the second and the beginning of the third quarters of 2026, respectively, before declining in subsequent quarters. The war in the Middle East and the resulting shipping disruptions through the Strait of Hormuz – a key route for global trade in oil and liquefied natural gas, along with attacks on energy infrastructure in the region, have led to significant instability in global energy markets and pushed up energy commodity prices as of the cut-off date of the forecast. Therefore, the degree of uncertainty surrounding the forecast remains highly elevated, with the baseline scenario being complemented by two alternative negative scenarios that aim to illustrate the potential macroeconomic effects of a stronger and more prolonged shock on the supply and prices of energy goods, without assessing the likelihood that they could actually materialise.

The baseline forecast assumes real GDP growth to reach 3.0 per cent in 2026, before moderating slightly to 2.9 per cent in 2027 and 2.8 per cent in 2028. Private consumption and, to a significantly lesser extent, government consumption and net exports are expected to contribute positively to economic activity in 2026. In 2027 and 2028, net exports are projected to contribute negatively to the growth of economic activity, while investment will contribute positively, contrary to what is forecast for 2026. Private consumption is expected to continue to have a major contribution to GDP growth throughout the projection horizon, in line with the anticipated increase in households' real disposable income and employment. Labour market conditions are expected to remain tight owing to the ongoing unfavourable demographic processes in Bulgaria, which lead to a decrease in the workforce. As a result, limited labour supply will continue to exert upward pressure on wages in real terms over the period 2026–2028. In 2026, net exports are expected to contribute positively to the increase in economic activity, reflecting the recovery in the growth of goods exports, given the underlying technical assumptions about the dynamics of external demand and the one-off effects of the completion of repairs that temporarily restrained exports in 2025. However, for the rest of the projection horizon, export growth is expected to remain weaker than historically observed, partly due to external demand assumptions. This, coupled with the acceleration in domestic demand growth and the associated increase in imports of goods and services in 2027 and 2028 at rates higher than those of exports, implies a negative contribution of net exports to GDP growth. Gross fixed capital formation is forecast to decrease in 2026 in real terms and then to increase in 2027 and 2028, this dynamics being strongly influenced by the projected profile of public investment and the time profile of the expected deliveries of military equipment to the country. In 2026, private investments are expected to continue growing, albeit at a slower pace than in 2025, with growth projected to accelerate in 2027 and 2028, in line with favourable financing conditions, rising demand and the assumption of foreign investment inflows,<sup>64</sup> as well as increasing investments in housing,<sup>65</sup> which will be boosted by both higher prices and household income growth.

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<sup>64</sup> In October 2025, the Executive Directors of VMZ Vazovski Mashinostroitelni Zavodi EAD (Vazovsky Machine Building Plants) and the German concern 'Rheinmetall' AG signed a strategic contract for the construction of a gunpowder and ammunition plant on the territory of the country as the project will be implemented through a joint company. The total investment is planned to amount to close to EUR 1 billion. The forecast assumes that this investment will be made in 2027 and 2028.

<sup>65</sup> The forecast of residential investments includes the assumption of additional investments under the national energy efficiency programme for multi-family residential buildings.

Compared to the December 2025 forecast, real GDP growth for 2026 and 2027 is expected to be lower. The revision of 0.1 percentage points for 2026 is due to lower growth in goods exports, given the stronger than initially projected export performance in the second half of 2025 and the increased uncertainty in the external environment. These factors, coupled with the observed deterioration of the business climate at the end of 2025, are also a prerequisite for lower private investment growth in 2026. For 2027, real GDP growth has been reduced by 0.2 percentage points, which is driven by expected lower government consumption.

Annual inflation measured by the Harmonised Index of Consumer Prices (HICP) is projected to accelerate to 4.0 per cent at the end of 2026 (compared to 3.5 per cent at the end of 2025), while the average annual inflation is expected to reach 3.7 per cent in 2026 (3.5 per cent in 2025). On the external macroeconomic side, the main pro-inflationary factor is expected to be the price of crude oil in the international market, which rose strongly in March driven by the escalation of tensions in the Middle East. These developments are expected to have a significant direct effect on transport fuel prices in 2026, which will be transmitted indirectly to the prices of other main groups of the consumer basket, such as food and core components, in the second half of the year. The domestic macroeconomic environment is expected to continue exerting pro-inflationary pressures through unit labour cost growth and strong private consumption, allowing for a high degree of pass-through of increased production costs to final consumer prices. In 2027, inflation is anticipated to slow to 3.0 per cent at the end of the period and to 3.2 per cent on average for the year, with the slowdown in annual average inflation driven mainly by energy components, where price growth is expected to decelerate significantly due to the high base from 2026, while services inflation is projected to remain persistently high. In 2028, average annual inflation is expected to be 3.2 per cent, as inflation in all core sub-components of the consumer basket is anticipated to slow down from the previous year, except for the group of energy products, where an acceleration in inflation is projected as a result of the envisaged introduction of the ETS 2 system in the EU<sup>66</sup>. According to BNB estimates, the introduction of EST 2 in Bulgaria, without the parallel introduction of fiscal compensatory measures intended to affected households, will lead to 0.5 percentage points higher annual average inflation in 2028.

The inflation forecast has been revised towards higher growth in consumer prices, both at the end and on an annual average basis for 2026, mainly due to an upward revision in the international crude oil price assumptions. For 2027, the headline inflation forecast has not changed significantly, but by sub-component, there are offsetting revisions. Core inflation for 2027 has been increased in line with the expected indirect effects of the increase in energy prices in the previous year, while energy product prices are expected to grow at a lower pace due to a base effect of their significant increase in 2026.

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<sup>66</sup> The EU Emission Trading System 2 (ETS 2) is an emissions trading mechanism that imposes a price on carbon emissions by placing obligations on fuel suppliers. For more information, see the box entitled [The Macroeconomic impact of climate change policies in the euro area](#), ECB, Eurosystem staff macroeconomic projections, December 2025.

## GDP<sup>67</sup> and Inflation Forecast Revisions (25 March 2026 *vis-à-vis* 4 December 2025)

Annual rate of change, per cent	Forecast of 25 March 2026				Forecast of 4 December 2025				Revision (percentage points)			
	2025	2026	2027	2028	2025	2026	2027	2028	2025	2026	2027	2028
GDP at constant prices	3.2	3.0	2.9	2.8	3.2	3.1	3.1	-	0.0	-0.1	-0.2	-
HICP at end of period	3.5	3.7	3.2	3.2	3.6	3.5	3.2	-	-0.1	0.2	0.0	-

Sources: BNB, NSI.

Risks to the real GDP growth and inflation forecast in Bulgaria are primarily oriented towards lower than projected growth of economic activity in the baseline scenario and possibly higher inflation. These risks stem mainly from the external macroeconomic environment given the hostilities in the Middle East, the aggravation of geopolitical clashes and the rise in energy commodity prices. As regards the domestic economic environment, the uncertainty to the forecast stems from the parameters of the State Budget Law for 2026 and the medium-term fiscal forecast, which will depend on the formation of a regular government following the upcoming parliamentary elections in April 2026 and its fiscal policy priorities.

<sup>67</sup> GDP data are seasonally and working-day adjusted.

## Forecast of Key Macroeconomic Indicators for 2026–2028

Annual rate of change (per cent)	2025	2026 <sup>f</sup>	2027 <sup>f</sup>	2028 <sup>f</sup>
GDP at constant prices <sup>1</sup>	3.2	3.0	2.9	2.8
Private consumption	7.7	3.8	3.5	3.5
Government consumption	7.0	3.5	3.1	3.1
Gross fixed capital formation	10.3	-1.7	3.0	3.8
Exports of goods and services	-2.1	4.5	3.4	3.4
Imports of goods and services	5.9	4.0	3.9	4.5
HICP (average for the period)	3.5	3.7	3.2	3.2
HICP (at end of period)	3.5	4.0	3.0	2.8
Core Inflation <sup>2</sup>	2.5	3.7	2.8	2.3
Food <sup>2</sup>	6.3	5.2	3.7	2.9
Energy products <sup>2</sup>	1.8	2.7	2.5	5.2
Employment <sup>1</sup>	2.1	0.9	0.4	0.2
Unit labour costs <sup>1</sup>	9.0	6.3	6.3	6.3
Labour productivity <sup>1</sup>	1.1	2.1	2.5	2.6
Unemployment rate (share of labour force, per cent) <sup>1</sup>	3.5	3.4	3.1	3.0
Loans to non-financial corporations and households <sup>3</sup>	15.3	11.6	10.2	8.5
Loans to non-financial corporations	9.9	7.6	7.8	5.8
Loans to households	21.1	15.5	12.3	10.8
Deposits of the non-government sector	16.4	8.4	8.2	7.6
<b>Per cent of GDP</b>	<b>2025</b>	<b>2026<sup>f</sup></b>	<b>2027<sup>f</sup></b>	<b>2028<sup>f</sup></b>
Balance of payments current account	-5.9	-5.0	-4.4	-5.0
Trade balance	-8.2	-7.8	-7.9	-8.3
Services, net	6.7	6.9	6.9	7.0
Primary income, net	-5.6	-5.2	-5.0	-4.9
Secondary income, net	1.1	1.1	1.7	1.2
<b>Annual rate of change (per cent)</b>	<b>2025</b>	<b>2026<sup>f</sup></b>	<b>2027<sup>f</sup></b>	<b>2028<sup>f</sup></b>
External assumptions				
External demand	3.8	2.5	3.2	3.3
Average annual Brent oil price (in USD)	-14.9	17.6	-11.2	-2.7
Average annual price of non-energy products (in USD) <sup>4</sup>	4.3	4.7	1.8	1.7
Brent oil price at the end of period (in USD)	-14.8	21.7	-8.7	-1.0
Price of non-energy products at the end of period (in USD)	4.8	4.2	1.6	1.9

Notes:

1. Seasonally and working-day adjusted data.

2. The main components of the HICP correspond to Eurostat's classification. Core inflation includes the prices of services and industrial goods.

3. Include loans and repo transactions.

4. Prices of non-energy products are weighted according to the structure of Bulgarian imports of goods.

Sources: BNB, NSI and ECB.

# Highlight

## Alternative Scenarios for the Economic Implications of the War in the Middle East

Given the high degree of uncertainty surrounding the development of the military conflict in the Middle East and its impact on international oil and natural gas prices, as well as on global economic activity, the baseline macroeconomic forecast is complemented by two alternative scenarios: an adverse and a severe. They have been developed through simulations with the BNB's macroeconomic forecast model and applying the assumptions used in the euro area macroeconomic projections published by the ECB on 19 March 2026.<sup>1</sup> These scenarios illustrate possible macroeconomic effects in the event of a stronger and more prolonged shock on supply and prices of energy products. They do not include an assessment of the likelihood of their materialisation and do not take into account the effects of potential monetary and fiscal policy measures.

### Description of the Adverse and Severe Scenarios

The adverse and severe scenarios have been prepared by the BNB based on the assumptions developed by the ECB, which differ in three key factors: (1) the size of the initial shock in supply and prices of energy commodities in international markets; (2) persistence of disruptions in the supply chains of these commodities; and (3) the degree of uncertainty in international financial markets.

- **Adverse Scenario:** It is assumed that in the second quarter of 2026, around 40 per cent of the usual flows of oil and liquefied natural gas passing through the Strait of Hormuz will be temporarily hampered, mainly due to the blockade of transport routes. It is also assumed that there will be no significant damage to the energy infrastructure in the region. This would result in a significant but short-lived increase in energy commodity prices and a moderate increase in the uncertainty in international financial markets. Disruptions in the supplies of these commodities would persist until the third quarter of 2026, followed by a relatively rapid recovery in trade flows.
- **Severe Scenario:** This scenario assumes a more intense and prolonged shock to the energy commodity supply, including a suspension of around 60 per cent of the flows in the Strait of Hormuz. In addition to logistical difficulties, there is also a risk of direct damages to the energy infrastructure of energy-exporting countries in the Middle East as a result of military operations, which would significantly prolong the time required to restore the supplies of these commodities. Volumes would only begin to return to normal in the first quarter of 2027, and the process would be gradual. Accordingly, the uncertainty in international financial markets would be more intense and prolonged, further amplifying the negative economic effects.

### Transmission Mechanism to the Bulgarian Economy

The scenarios for Bulgaria take into account the main channels through which external shocks are transmitted to a small open economy. First, the external demand channel plays a key role, reflecting the impact of the economic activity slowdown in Bulgaria's trading partners on exports of Bulgarian goods and services. Second, the pass-through channel to final consumer prices, where higher euro area non-energy commodity prices affect corresponding prices in Bulgaria, is included.

<sup>1</sup> For further details, see *ECB staff macroeconomic projections, March 2026*.

Oil and natural gas prices have a direct effect on consumer prices of energy products in Bulgaria. At the same time, they also have an indirect impact on the other main groups of the Harmonised Index of Consumer Prices, particularly on food and services prices, *via* rising production costs of corporations. Second-round effects from higher oil and natural gas prices on inflation could arise from wage indexation and an associated rise in unit labour costs.

As regards food prices, the simulation assumes a degree of pass-through of energy prices to food prices, corresponding to the rate observed in 2022-2023, which is higher than the average estimated historical elasticity. This assumption reflects an expectation that additional second-round effects may intensify in the context of severe energy shocks.

### Simulation Results

Simulation results show that if the adverse and severe scenarios for Bulgaria materialise, higher inflation and lower economic activity growth compared to the baseline projections can be observed, with the effects being stronger and more prolonged under the severe scenario.

According to the adverse scenario, inflation would increase in 2026, mainly driven by energy prices, with price pressures thereafter gradually transmitted to food and, to a more limited extent, to core inflation. Over the whole projection period, inflation would be higher than in the baseline projections by 0.7 percentage points in 2026, by 1.4 percentage points in 2027 and by 0.6 percentage points in 2028. The maximum effect would emerge in 2027, reflecting both estimated delayed pass-through of higher euro area non-energy goods prices to Bulgaria and delayed indirect effects on the other HICP components. The impact on economic activity would be relatively short-lived, with real GDP growth being lower by 0.3 percentage points in 2026 compared to the baseline forecast, followed by a gradual recovery as the shock in external demand subsides. As a result, economic activity growth in 2027 and 2028 would be 0.2 percentage points higher than the baseline, mainly due to the lower 2026 base. The level of real GDP in the adverse scenario reverts to its baseline projections values in 2028.

The severe scenario shows more intense and prolonged inflationary pressures. The initial shock in the prices of energy products would be larger and more persistent, leading to a more pronounced pass-through to food prices and subsequently to an acceleration in core inflation over the projection horizon. The acceleration in core inflation reflects both indirect effects of higher prices of energy products and food and additional second-round effects. As a result, headline inflation would be higher than in the baseline by 1.2 percentage points in 2026, by 3.4 percentage points in 2027 and by 2.3 percentage points in 2028, reflecting stronger indirect and second-round effects. Concurrently, economic activity would slow down significantly for a longer period, with real GDP growth being lower by 0.6 percentage points in 2026 and by 0.3 percentage points in 2027 compared to the baseline forecast. In 2028, GDP growth would be higher than in the baseline projections, due to the lower base in the previous two years. Real GDP would remain below the baseline level throughout the entire forecast horizon.

**TABLE 1**

### Simulation Results of the Effects of the War in the Middle East on the Bulgarian Economy under the Adverse and Severe Scenarios

#### Effects on GDP and Average Annual Inflation in Bulgaria (percentage points deviation from baseline)

	Change in Real GDP			Average Annual Inflation (HICP)		
	2026	2027	2028	2026	2027	2028
Adverse Scenario	-0.3	0.2	0.2	0.7	1.4	0.6
Severe Scenario	-0.6	-0.3	0.4	1.2	3.4	2.3

Source: BNB.

**TABLE 2****Simulation Results of the Effects of the War in the Middle East on the Bulgarian Economy under the Adverse and Severe Scenarios****Effects of Average Annual Inflation in Bulgaria by Component**  
*(percentage points deviation from baseline)*

	Adverse Scenario			Severe Scenario		
	2026	2027	2028	2026	2027	2028
<b>Headline Inflation as Measured by HICP</b>	0.7	1.4	0.6	1.2	3.4	2.3
Food Inflation	1.2	3.1	1.7	1.8	5.5	3.7
Inflation in Energy Products	2.7	-0.4	-1.9	4.6	5.1	-0.7
Core Inflation	0.1	1.0	0.6	0.3	2.1	2.2

Source: BNB.

**Constraints Related to Scenario Preparation**

It should be noted that the simulations are illustrative and aim to present the main economic mechanisms through which the war in the Middle East would affect the Bulgarian economy. Therefore, by their construction, they do not cover all factors that could significantly affect consumer price developments and economic activity. First, simulations do not assume a shut-down of crude oil physical deliveries to Bulgaria. Moreover, there is no additional monetary and fiscal policy response beyond that already projected in the baseline, nor any effects on inflation and economic activity of a potential deterioration in household and corporate perceptions. In fact, the significant inflation increase, especially under the severe scenario, would likely trigger monetary policy tightening in the euro area, as well as implementation of various fiscal measures to support vulnerable households and firms. While monetary policy tightening would be a precondition for lower inflation than presented in the alternative scenarios, the impact of fiscal policy measures on inflation and economic activity would not be straightforward and would depend on the orientation, scope and impact of the measures on aggregate demand.

In addition, some additional transmission channels are not explicitly included in the analysis. One of them is the impact on electricity prices given the high integration of the Bulgarian market with those of Romania and Greece, where natural gas plays a significant role in electricity production. Another channel relates to the international market of fertilisers, given the role of natural gas as the main raw material for their production and the fact that a significant part of the global trade in fertilisers passes through the Strait of Hormuz. This creates prerequisites for an increase in international prices of the main agricultural products.

## Analysis of the Initial Effects of the Monetary Regime Change in Bulgaria on the Banking Sector

With Bulgaria's accession to the euro area from the beginning of 2026, the currency board regime, in force from July 1997 to the end of 2025, was terminated. This topical research aims to analyse the initial effects on the banking sector in Bulgaria of the new monetary regime operating in Bulgaria after the BNB's accession to the Eurosystem in the beginning of 2026.

### Key Features of the Currency Board Which Functioned until the End of 2025 and of the New Monetary Regime from the Beginning of 2026

Under the currency board in Bulgaria, the Bulgarian National Bank's primary objective of maintaining price stability was achieved through ensuring the stability of the national currency. The functioning of the currency board in Bulgaria was based on three fundamental principles: (1) a fixed exchange rate of the lev to the euro; (2) full coverage of the total amount of BNB monetary liabilities by high-liquid foreign reserves<sup>1</sup>; (3) the central bank's obligation to unconditionally and irrevocably sell and purchase levs against the reserve currency (euro) at the exchange rate fixed by the Law on the BNB. In accordance with these principles, the national currency was issued solely against providing reserve currency at the fixed exchange rate, as a result of which an automatic mechanism of balancing national currency demand and supply was guaranteed.<sup>2</sup>

Under the currency board arrangement, in force until the end of 2025, BNB's functions in relation to conducting monetary policy were limited. The BNB did not execute open market operations nor did it set the main policy rate.

Under this monetary regime, the BNB's main instrument for influencing the monetary conditions in Bulgaria was the regulation of minimum required reserves for commercial banks, with this instrument allowing the provision or withdrawal of liquidity from the banking system depending on the specific macroeconomic conditions. The second instrument the BNB could use in order to affect monetary conditions was the interest rate on excess reserves of commercial banks maintained at the central bank. The BNB could also indirectly influence monetary conditions in Bulgaria through the implementation of supervisory and macroprudential measures, but the primary objective of supervisory and macroprudential policy is building of buffers and improving the quality of banking system assets with a view to safeguarding financial stability rather than having a direct effect on monetary conditions.

With Bulgaria's accession to the euro area, the BNB's primary objective of maintaining price stability is preserved, and this objective is already achieved through the full involvement of the central bank in the formulation and implementation of the Eurosystem's monetary policy.<sup>3</sup> The principle of the Eurosystem functioning is limited to centralised decision-making on common monetary policy by the Governing Council of the European Central Bank (ECB) and decentralised implementation of this policy by the national central banks of euro area Member States.

The definition and implementation of the Eurosystem's monetary policy are provided for in its strategic and operational frameworks. The strategic framework defines the monetary policy objective – maintaining price stability in the euro area. According to the ECB's current monetary policy strategy, the quantitative definition of the price stability objective is to maintain infla-

<sup>1</sup> Unlike the traditional currency board, which usually provides coverage only for banknotes and coins, the currency board in Bulgaria provided coverage for all BNB's monetary liabilities, including banknotes and coins in circulation, liabilities to banks, liabilities to the government and budget organisations, and liabilities to other depositors.

<sup>2</sup> For more information on the principles of operation of the currency board, see the highlight entitled *The Principles of Operation of the Currency Board in Bulgaria*, Economic Review, Issue 1/2009.

<sup>3</sup> The Eurosystem comprises the European Central Bank and the national central banks of the Member States whose currency is the euro.

tion at 2 per cent in the medium term.<sup>4</sup> The operational framework includes the common rules for Eurosystem's monetary policy instruments and procedures, through which decisions of the ECB Governing Council concerning the monetary policy conduct in the euro area are implemented in a decentralised manner but under uniform conditions in all Member States. It aims to steer short-term money market interest rates so that they follow policy rates.

Eurosystem's monetary policy instruments can be divided into standard and non-standard. Standard instruments through which the ECB influences short-term money market rates and manages liquidity of the euro area banking system include open market operations, standing facilities and minimum reserve requirements. Open market operations are used to provide or absorb liquidity from the banking system of the euro area with the aim of steering short-term money market rates, managing liquidity and signalling the Eurosystem's monetary policy stance. These operations are classified into four categories: main refinancing operations (the most important monetary policy instrument for managing money markets), longer-term refinancing operations, fine-tuning operations and structural operations. Standing facilities (the deposit facility and the marginal lending facility) are used to provide or absorb overnight liquidity from the banking system, signal the monetary policy stance, and set the limits (a ceiling and a floor) for overnight interest rates. The minimum reserve requirement instrument requires credit institutions to hold a certain portion of their attracted funds with the central banks without being able to use them for other purposes, with the MRR rate standing at 1 per cent since 2012. Non-standard monetary policy instruments aim to help improve the monetary policy transmission and include instruments, such as asset purchase programmes, forward guidance, and targeted longer-term refinancing programmes for banks.

With Bulgaria's accession to the euro area, the BNB assumes the obligation to implement the common monetary policy of the Eurosystem. Hence, the BNB no longer has discretion to determine the reserve base for the MRR, the MRR rate and the interest rate on banks' excess reserves. Concurrently, the change in the monetary regime did not trigger a fundamental change in the method of determining monetary conditions in Bulgaria. Within the currency board framework where the lev was fixed to the euro, amid strong Bulgaria's financial and economic integration with euro area countries, the effects of euro area monetary policy spilled over to the Bulgarian economy. Major factors historically affecting the degree to which monetary conditions in the euro area were transmitted to monetary conditions in Bulgaria were related to the level of banking system liquidity, the assessment of borrower risk premium and of the country as a whole, as well as banks' risk appetite. Bulgaria's entry into the euro area is a prerequisite for the transmission of Eurosystem's monetary policy to Bulgaria's financial and economic conditions to become more direct and gradually strengthen, reflecting the direct implementation of the Eurosystem's monetary policy instruments in Bulgaria. The BNB, in turn, retains the possibility to use the set of macroprudential instruments, with their main objective remaining the maintenance of the banking system stability in Bulgaria.

## Initial Effects of the Monetary Regime Change in Bulgaria on the Banking Sector

### Minimum Reserves of Commercial Banks at the BNB

The MRR amount to be held by commercial banks at the central bank is determined based on the reserve base and the MRR rate. Under the currency board regime in Bulgaria, the BNB used the MRR mainly as a tool for maintaining precautionary liquidity buffers in the banking system due to its limited role as a lender of last resort. At the same time, the BNB made several changes to the scope of the reserve base and the minimum reserve rate in order to pursue counter-cyclical monetary policy and manage liquidity in the banking system.

Just before Bulgaria's accession to the euro area, the MRR rate was 12 per cent, applied to funds attracted by banks from residents and non-residents (excluding funds attracted from central and local government budgets), with 50 per cent of banks' cash balances being accepted also as minimum reserves. No distinction was made for funds attracted by banks across term and initial maturity. By end-2025, the effective minimum reserve rate was 11.77 per cent and banks' mini-

<sup>4</sup> The ECB Governing Council considers the 2 per cent inflation target in the medium term to be symmetric, meaning that deviations both above and below 2 per cent are regarded as equally undesirable.

minimum required reserves amounted to EUR 10.1 billion (BGN 19.7 billion), which were remunerated by the BNB at 0 per cent. Strong growth of private sector deposits amid rising labour income and limited low-risk investment alternatives contributed to the high amount of banks' minimum required reserves at the BNB in the years prior to Bulgaria's accession to the euro area.

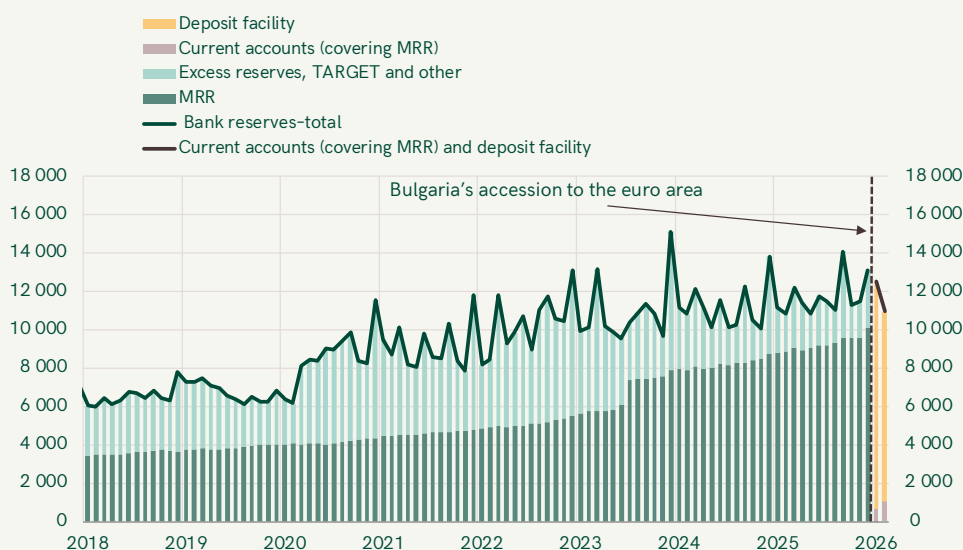
With the accession to the common monetary union, Bulgaria became subject to the common rules in the euro area, involving a change in the applicable MRR rate, maintenance periods and the reserve base scope. As required by Regulation (EU) 2021/378 of the ECB of 22 January 2021,<sup>5</sup> the reserve base includes deposits and debt securities issued. A zero per cent rate is applied to deposits with an agreed maturity of over two years, deposits redeemable at notice of over two years, repos and debt securities with an agreed maturity of over two years. In addition, liabilities to euro area credit institutions subject to minimum reserve requirements are excluded from the reserve base. A 1 per cent rate is applied to all other liabilities included in the reserve base.

The decrease in the reserve base and the significant cut in the applicable MRR rate led to a substantial decline in commercial banks' minimum reserve requirements (Chart 1). For the first maintenance period (from 1 January 2026 to 10 February 2026), the required amount of minimum reserves was EUR 798 million, down by EUR 9.3 billion from the end of 2025. Banks' minimum reserves at the BNB continue to be remunerated at 0 per cent after the change in the monetary regime in line with the current operational framework of the Eurosystem.

### CHART 1

#### Impact of the MRR Rate Reduction on Banks' Funds Held at the BNB

(EUR million)



Note: Current accounts (covering minimum required reserves) include banks' funds for covering minimum reserves and those exceeding minimum reserve requirements. To ensure comparability with data for the period prior to the beginning of 2026, data are presented as of the end of the relevant month and do not coincide with the MRR maintenance periods.

Source: BNB.

Banks' possibilities for using the significant liquidity released as a result of the reduction in the MRR rate include investments in Bulgarian government securities, an increase in foreign assets, growth in lending to the private sector or maintenance of the released funds on the deposit facility at a current rate of 2 per cent. According to the new BNB balance sheet data, the main portion of banks' minimum reserves were transferred to the deposit facility, thus ensuring return on maintained funds at close to zero risk. Within the first two months of 2026, there was some decrease in these funds. Statistical balance sheet data on other monetary

<sup>5</sup> <https://op.europa.eu/en/publication-detail/-/publication/3f003aed-7bec-11eb-9ac9-01aa75ed71a1>.

financial institutions (other MFIs)<sup>6</sup> for January 2026 show a stronger decline in the amount of repo agreements and banks' deposits and a corresponding stronger increase in the amount of their holdings of debt securities. Part of banks' deposit facility funds are probably invested in alternative assets providing higher yields, such as Bulgarian government bonds and securities of other euro area residents.

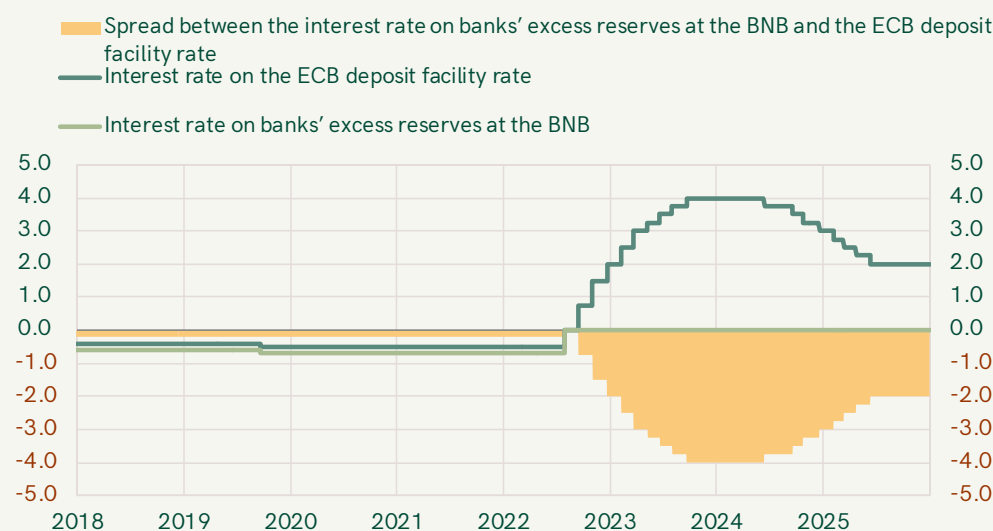
### Interbank Money Market Trade

A major function of the interbank money market is raising and providing liquidity among commercial banks in Bulgaria, with unsecured overnight deposits being the most commonly used instrument in the market until the end of 2025. In the 2023–2025 period, interbank money market activity in Bulgaria was relatively high, with the average daily volume of concluded transactions amounting to EUR 416 million (BGN 814 million) as of December 2025.

### CHART 2

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

(per cent, percentage points)



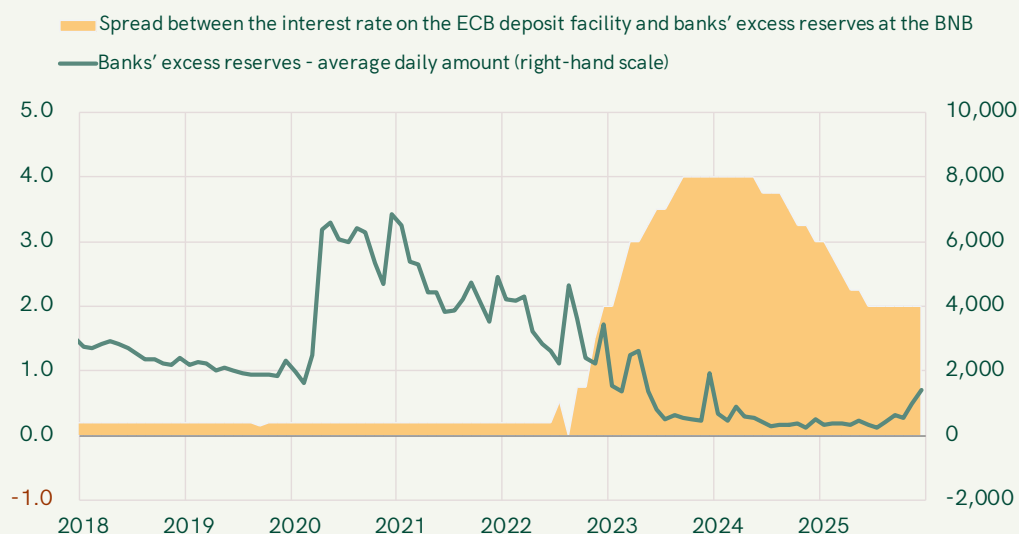
Source: BNB.

ECB's monetary policy tightening cycle, which started in July 2022, contributed to the formation of a negative spread between the interest rate on banks' excess reserves at the BNB (0 per cent) and the ECB deposit facility rate (Chart 2). As a result, banks started to gradually reduce their excess reserves at the BNB and raise more liquidity from the domestic interbank money market (Chart 3 and Chart 4). Following the reversal of the euro area interest rate cycle from mid-2024, the spread between the interest rate on banks' excess reserves at the BNB and the ECB deposit facility rate remained negative, which continued to contribute to a comparatively high interbank money market activity. An additional factor for the active trading in this market was the positive spread between the ECB deposit facility rate and the average interbank money market rate in Bulgaria, which created an opportunity for an interest rate arbitrage related to the generation of additional income by domestic commercial banks owned by euro area credit institutions (Chart 4).

<sup>6</sup> The analysis employs BNB's monetary statistics data.

### CHART 3

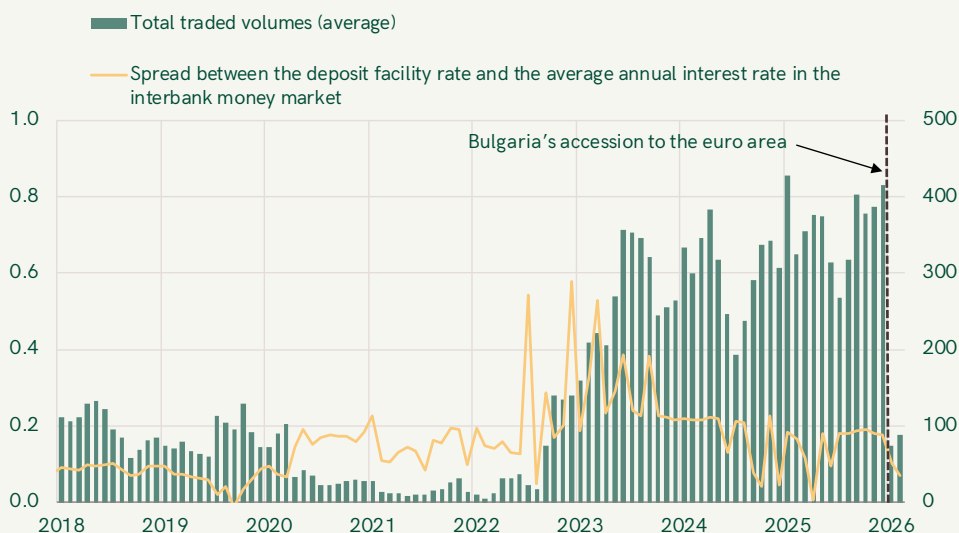
**Spread Between the ECB Deposit Facility Rate and the Interest Rate on Banks' Excess Reserves at the BNB, and the Amount of Excess Reserves**  
(per cent, percentage points) (EUR million)



Source: BNB.

### CHART 4

**Spread between the ECB Deposit Facility Rate and the Interbank Money Market Rate, and Traded Volumes in the Interbank Money Market**  
(per cent, percentage points) (EUR million)



Source: BNB.

The release of significant additional liquidity in the banking system following Bulgaria's entry into the euro area led to a strong reduction in banks' incentives to trade in the interbank money market. As a result, the activity in this market has declined significantly since the beginning of 2026, with the average daily volume of concluded transactions reaching EUR 73 million in January (down 82 per cent from traded volumes in December 2025) and in February

this volume came to EUR 88 million (down 79 per cent from December 2025). In addition, trading data for the interbank money market for the first two months of 2026 show a significant decline in the share of deposit transactions and an increase in the share of repurchase agreements in total transactions. This change was mainly due to the significant decrease in the volumes of deposit transactions concluded since the beginning of 2026 compared to the average monthly volumes in 2025, with the average monthly volumes of concluded repurchase agreements remaining relatively unchanged. Concurrently, since the beginning of 2026, a slight increase has been recorded in both the overnight deposit rate and the average interest rate on all concluded transactions in the interbank money market in Bulgaria. The upward dynamics recorded in the two rates in the first two months of the year resulted in a narrowing of spreads with euro area money market rates.

### **Access of Commercial Banks in Bulgaria to Eurosystem Monetary Policy Instruments**

With Bulgaria joining the euro area, commercial banks were granted direct access to the Eurosystem's monetary policy instruments. In order to provide access to and participate in these instruments, commercial banks had to be approved by the central bank in advance as eligible monetary policy counterparties. The process of regulating the relations between the BNB and commercial banks was formalised in a special ordinance of the BNB (Ordinance No 45) and completed in the period prior to euro area accession.

Banks' ability to generate income at a very low risk determined the active use from early 2026 of one of the Eurosystem's standard monetary policy instruments, such as the standing deposit facility. At the same time, despite the possibility of using open market operations, data from the BNB's new statistical balance sheet show that banks have not made active use of this possibility since the beginning of the year. There were single and of minimum quantity participations of certain counterparties in the main refinancing operations, as well as in the marginal lending facility, which are of a test nature and are aimed at verifying banks' operational readiness to use the Eurosystem's monetary policy instruments. The lack of incentives to use these instruments can be explained by the current very high liquidity in the banking system.

### **Interest Rates on Deposits and Loans**

Interest rates on loans to natural persons and legal entities may be variable or fixed for the whole or part of the duration of the credit agreement. In the case of the variable interest rates prevailing in the Bulgarian market, the interest rate is composed of two components. The first component is a reference interest rate set by a specific commercial bank to which banks apply a case-by-case approach and, for most of the cases, is based on a selected deposit rate (interest rates on outstanding amounts of deposits with different maturities of the BNB interest rate statistics are most commonly used). The second component is a risk margin, which largely depends on the borrower's specific characteristics, such as creditworthiness and credit history, income level and income stability (for individuals), respectively, the level and stability of revenue of non-financial corporations, indebtedness, loan collateral, as well as the macroeconomic environment and market conditions.

With Bulgaria's accession to the euro area, deposits and loans of natural persons and legal entities in national currency were automatically converted into euro. As a result, the BNB suspended the calculation and publication of interest rates in levs. This has created a need for commercial banks applying variable lending rates, the reference component of which is based on deposit interest rates denominated in levs, to update their interest rate methodologies. A review of commercial banks' interest rate bulletins and methodological documents in early 2026 shows that with regards to consumer and housing loans, the majority of banks retained their approach from the end of 2025, replacing the interest rates on deposits in levs used so far with similar indicators in euro. For a minority of banks, reference interest rates are linked to EURIBOR indices with different maturities. At the same time, with regards to loans to non-financial corporations, a more balanced distribution is observed as benchmarks based on deposit rates and based on EURIBOR are used roughly to the same extent.

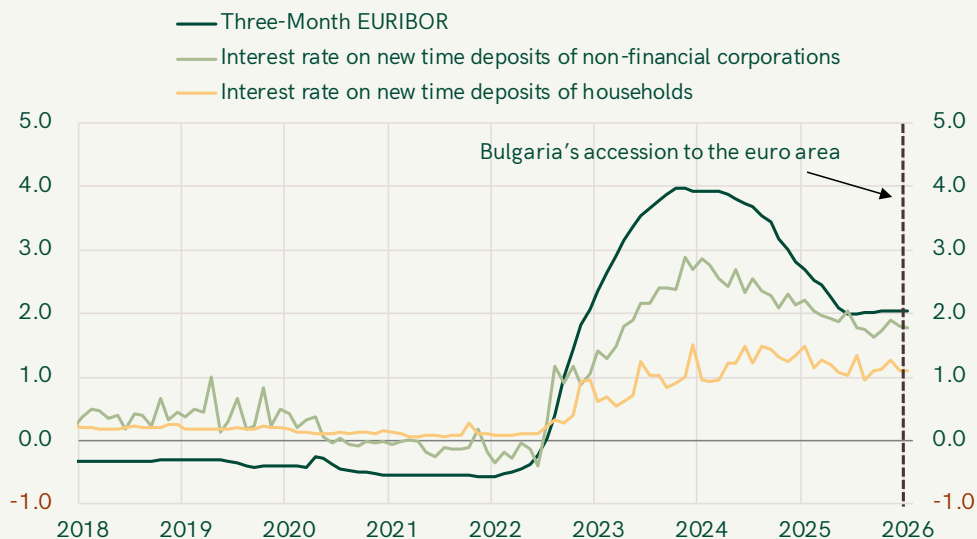
BNB interest rate statistics data for January 2026 show limited changes in interest rates on deposits of households and non-financial corporations compared to the levels at the end of the previous year. In the household sector, the average weighted interest rate on newly attracted deposits increased by 2 basis points, while for non-financial corporations it decreased by 3 basis points. At the end of January 2026, there were no significant changes in the average weighted

interest rates on new loans compared to the end of 2025. Consumer loans recorded a slight increase of 1 basis point, compared to December 2025, while housing loans recorded a decrease by 1 basis point. In the non-financial corporations' sector, the average weighted interest rate on new loans decreased by 10 basis points for the same period.

### CHART 5

#### Interest Rates on New Deposits and Three-Month EURIBOR

(per cent)

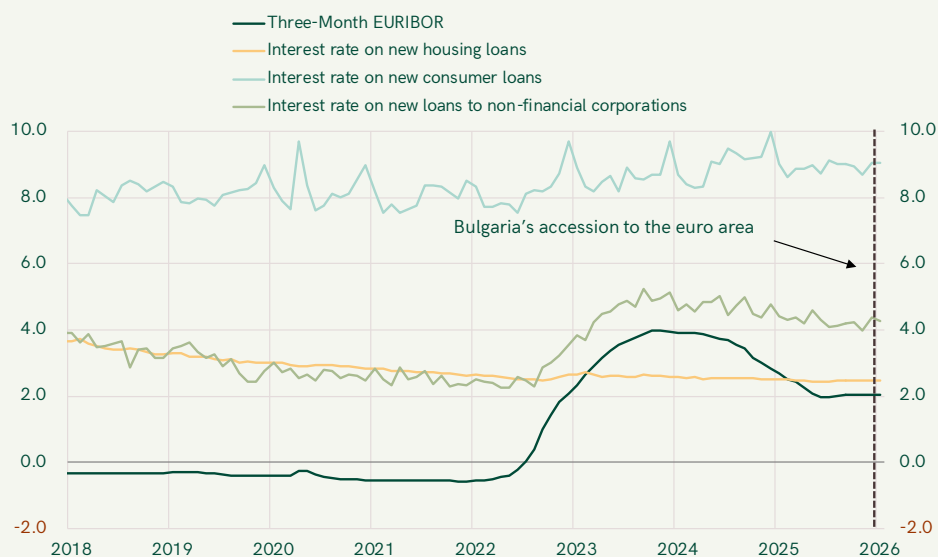


Source: BNB.

### CHART 6

#### Interest Rates on New Loans and Three-Month EURIBOR

(per cent)



Note: Interest rates on new loans to non-financial corporations do not include overdrafts.

Source: BNB.

The initial limited effects of the change in the monetary regime on deposit and lending rates in Bulgaria can be explained by several main factors:

- A short period since the introduction of the new monetary regime: the period since Bulgaria's accession to the euro area has been rather short and therefore no effects are observed at this stage related to a potential strengthening of the transmission of Eurosystem's monetary policy to Bulgaria's monetary conditions. Ample liquidity in Bulgaria's banking system and the unchanged key euro area interest rates from mid-2025 to date do not constitute a precondition for changes in the interest rates on deposits and loans in Bulgaria.
- Specificities of the Bulgarian banking system: the interbank money market, where the transmission of the ECB's monetary policy is fastest, has more of a supporting role in the liquidity management of commercial banks. To finance their lending activities, banks in Bulgaria rely heavily on resident deposits, which accounted for around 73 per cent of the banking system liabilities at the end of 2025. In addition, the banking sector is characterised by high levels of liquidity well above minimum regulatory requirements, mainly as a result of the continuing upward trend in deposits and, above all, preserved households' preferences to keep their free funds mainly in the form of deposits in the banking system. Ample liquidity limits banks' incentives to raise deposit rates, which serve as the basis for the formation of lending rates and, to a significant extent, determine their dynamics.
- Maintaining the methodologies used to determine reference lending rates: after Bulgaria's accession to the euro area, the majority of commercial banks have retained their approach in determining reference lending rates and continued to base them on outstanding deposit rates. These rates are generally characterised by more limited and slower dynamics than interbank interest rates, which also contribute to the current slight changes in lending rates. The current low interest rates on outstanding amounts of deposits are also supported by the high share of overnight deposits in total deposits of non-financial corporations and households in the banking system.

## Conclusion

This topical research provides an analysis of the initial effects on the banking sector of the new monetary regime that has been operating in Bulgaria since its accession to the euro area from the beginning of 2026. The available data so far show that, as expected, the bulk of commercial banks' liquidity released as a result of the significantly lower amount of minimum reserve requirements has been transferred to the deposit facility. Further developments in deposit facility funds maintained by banks will depend on the specific macroeconomic conditions and banks' individual decisions to invest the released liquidity, taking into account the profitability and risk associated with potential alternative assets to which this liquidity could be directed. Ample banking system liquidity is currently reflected in a strong decline in trading volumes in the interbank market, with a narrowing also being observed in the spread between the interest rate in the interbank market in Bulgaria and the interest rates in the interbank money market in the euro area. To date, ample liquidity in the banking system limits the use of main refinancing operations and the marginal lending facility by banks. In the current environment, there are no factors for significant changes in deposit and lending rates in Bulgaria. At the same time, Bulgaria's accession to the euro area is a precondition for the transmission of the Eurosystem's monetary policy to the country's financial and economic conditions to become more direct and to gradually strengthen over time.

ISSN 2367 – 4962 (online)