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Contents

Summary.....4

Topical Research.....6

- Competitiveness of Bulgarian Exports of Goods after 2022 6

Highlight.....14

- Alternative Scenarios for the Economic Implications
of the Conflict in the Middle East.....14

Summary

The Middle East conflict continues to affect severely international energy prices. The negative effects of the conflict on the global economy were partly offset by adjustments in global demand for energy resources and by increasing global investment in development of artificial intelligence. In the first and second quarters of 2026, real quarterly growth of global GDP stabilised at 0.6 per cent, with global PMI data in July and August 2026 indicating significant increases in the growth rates of the global economy in the third quarter of 2026. Nevertheless, the unfolding of the Middle East conflict remains a key factor behind the materialisation of such dynamics, with risks to global supply chains, global economic activity, inflationary developments and international trade remaining high.

Economic growth in the United States, China and the euro area remained relatively robust in the first half of 2026, despite accelerated inflation in all three regions. In this context, between January and September 2026, the US Federal Reserve raised the federal funds rate target by 25 basis points, while the ECB raised the key euro area interest rates in two steps by a total of 50 basis points.

In Bulgaria real GDP continued to grow at a relatively high and steady rate in the first half of 2026. Domestic demand, particularly private consumption, remained a key driver of economic growth, while net exports had a negative contribution. As a result, Bulgaria's current account deficit increased further to 8.1 per cent of GDP on a twelve-month basis as of July 2026, marking the highest level of the deficit since 2009. The worsening of the current account was mainly due to the trade balance of goods, as real exports of goods declined, while imports continued to grow buoyantly underpinned by strong domestic demand. While some of the unfavourable export developments in recent years have been attributable to one-off factors, the continuously increasing trade deficit is indicative of potential structural problems associated with weakening competitiveness of Bulgarian enterprises (see the topical research 'Competitiveness of Bulgarian Exports of Goods after 2022').

Labour market conditions in Bulgaria remain very tightened historically, but signs of cooling started to emerge in the second quarter of the year. Employment growth slowed down to 0.2 per cent on an annual basis in the second quarter of 2026, while the unemployment rate slightly increased to 3.4 per cent on a quarterly basis. Although labour shortage remained very high historically, it continued to gradually decline, which was also reflected in weaker pressure for wage rises. Growth in nominal compensation *per* employee slowed down to 4.1 per cent on an annual basis in the second quarter of 2026, posting a decline of 1.9 per cent in real terms.

Short-term indicators provide divergent signals of economic activity dynamics in the third quarter of 2026. Overall, they suggest that Bulgaria's real GDP growth will remain close to that observed in previous quarters. Business climate surveys suggest that firms' sentiment worsened across all major sectors, with this trend being in place since early 2026. However, households' sentiment was more positive in the third quarter of 2026 and retail trade volumes continued to grow, signalling that economic activity will remain supported by private consumption over the review period.

Annual HICP inflation accelerated to 5.0 per cent in August 2026, from 3.5 per cent in December 2025. Energy products and services contributed most strongly to this acceleration, with the conflict in the Middle East leading to a rise in oil and fuel prices and an increase in firms' production and transportation costs. Higher income, social payments and consumer lending supported consumption and the pass-through of increased expenses to final prices, and administrative and

tax changes had an additional pro-inflationary effect. Concurrently, food inflation slowed down due to base effects and higher agricultural production in Bulgaria.

Ample banking system liquidity continued to retain interest rates on newly attracted funds by the non-government sector relatively low in the first seven months of 2026. At the same time, interest rates on new time deposits of households tended to increase over the review period. Annual growth of non-government sector deposits remained high, but at the end of July 2026 slowed down to 15.4 per cent, from 16.4 per cent in December 2025. Growth in loans to non-financial corporations and consumer loans to households tended to accelerate, while the annual growth rate of housing loans slowed to 25.7 per cent in July (28.2 per cent at the end of 2025).

The BNB forecast of key macroeconomic indicators covers the 2026–2028 period and is based on information published as of 21 September 2026. The assumptions about global economic conditions and international commodity prices are from the ECB macroeconomic projections of September and reflect the information available as of 19 August.

According to the forecast baseline, Bulgaria's real GDP growth will decelerate to 2.8 per cent in 2026 and 2.5 per cent in 2027, thereafter accelerating to 2.7 per cent in 2028. In 2026, the slowdown is expected to be mainly driven by lower growth in public consumption and investments rather than by the more negative contribution of net exports of goods and services. In 2027, the projected slight slowdown in GDP growth will mainly reflect lower growth in private consumption and a decline in fixed capital investments, while net exports are expected to contribute positively to economic activity growth. In 2028, real GDP growth is projected to accelerate driven by the recovery in public investment growth which will be mainly attributable to the expected higher investment funded by EU funds.

Annual inflation is projected to accelerate to 5.2 per cent at the end of 2026, while average annual inflation is expected to reach 4.6 per cent. Prices of energy products and services are expected to be the main factors responsible for consumer price developments in 2026. Inflation in 2027 is projected to decelerate to 2.9 per cent at the end of the year (3.1 per cent on average in 2027), due mainly to the high base of energy prices in 2026 and the technical assumptions about dynamics of international energy commodity prices underlying the baseline. Inflation in services is expected to remain high and food price inflation is projected to accelerate due to the indirect effect of the hikes in energy prices. In 2028, inflation is expected to decelerate further to 2.6 per cent at the end of the year and to 2.9 per cent on an average annual basis. Consumer price growth will slow down in all major groups, except for energy products which will be affected by the planned introduction of ETS 2 in the EU.

Risks to the GDP forecast are assessed as balanced for 2026, while for 2027 and 2028 risks are tilted towards lower-than-projected growth. Meanwhile, in view of the further escalation of the Middle East conflict after the date when the assumptions about international commodity prices were made, it is considered that risks are tilted towards higher-than-projected inflation in 2026 and 2027.

Given the heightened uncertainty stemming from the conflict in the Middle East, the baseline scenario is complemented by three alternative macroeconomic scenarios: a milder, an adverse and a severe scenario, which is aimed to illustrate the possible macroeconomic effects if shocks varying in magnitude and duration materialise, affecting supply and energy product prices.

Topical Research

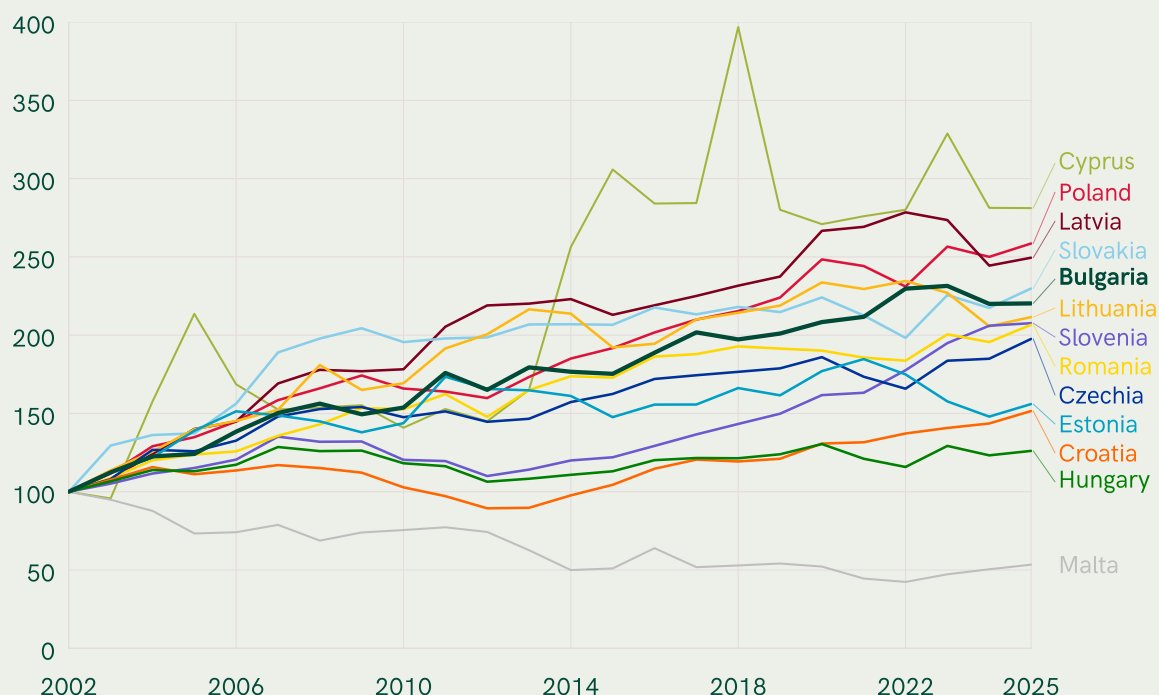
Competitiveness of Bulgarian Exports of Goods after 2022

Exports of goods have been among the main drivers of Bulgaria's economic growth and real convergence over the past two decades. Between 2002 and 2023, the country's share in world exports of goods more than doubled, outpacing most of the EU Member States that joined since 2003 (new Member States – NMS) (Chart 1). However, since 2023, real exports of goods have lagged behind the external demand for Bulgarian goods and services, and thus Bulgaria's market share in global trade has declined (Chart 2), while it continues to rise in the other NMS. In view of these developments, this topical research aims to analyse the extent to which the decline in exports of goods is due to temporary restrictions on the supply side and unfavourable external environment, and the extent to which it reflects a structural deterioration in the competitiveness of Bulgarian producers.

CHART 1

Market Share in World Exports of Goods, by Country

(index, 2002 = 100)



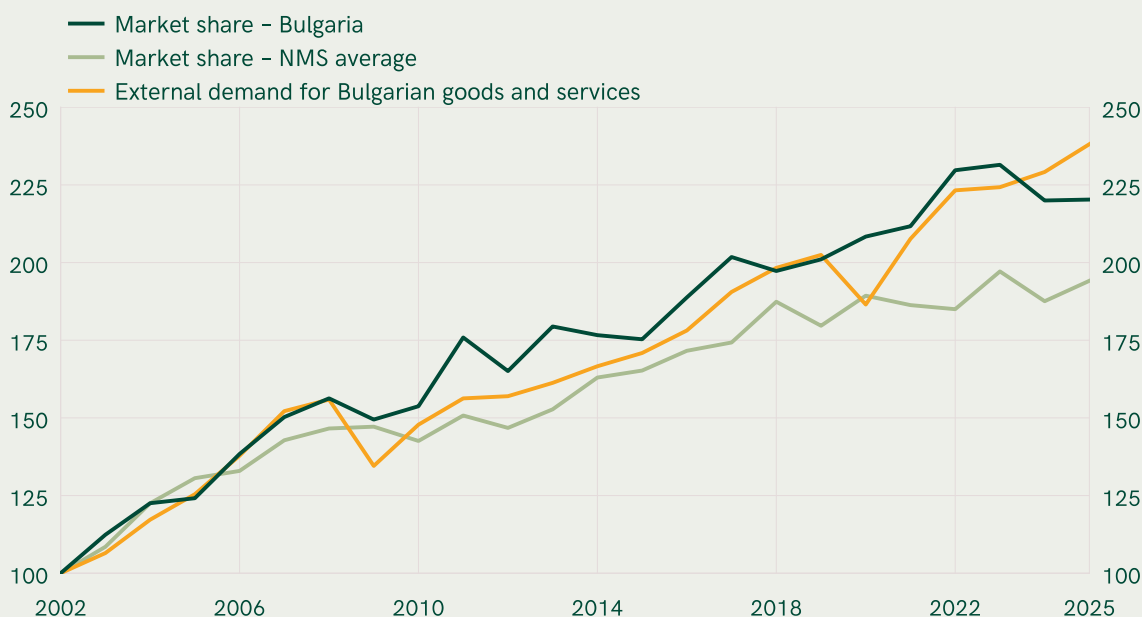
Note: The market share is the share of the exports of goods (FOB) of the respective country in world exports, according to AMECO data. The 2025 values are a forecast of the European Commission.

Sources: AMECO, BNB, own calculations.

CHART 2

Export Market Share of Bulgaria and New Member States Relative to Foreign Demand

(index, 2002 = 100)



Note: The market share is based on AMECO data. The 2025 values are a forecast of the European Commission. The average for the new Member States (NMS) is an arithmetic mean of the indices of the 12 countries that joined the EU after 2003, excluding Bulgaria. External demand is the real imports of goods and services of Bulgaria's trading partners, weighted by country share in Bulgarian exports.

Sources: AMECO, BNB, own calculations.

A significant part of the decline in exports of goods after 2022 has been concentrated in several commodity groups, affected by one-off factors in recent years (see Chart 3). In 2023, the fall in real exports of goods by 1.9 per cent was almost entirely driven by fuels, as a result of export restrictions on petroleum products produced from Russian crude oil¹, as well as non-ferrous metals, whose production was limited by repairs in the largest metallurgical enterprise. In 2024, the 2.6 per cent growth in exports of goods mainly resulted from the increased exports of electricity, while weak agricultural harvests² and the decrease in exports of machinery and transport equipment, related also to the slowdown in economic activity in European industry, contributed negatively. In 2025, almost all of the 4.1 per cent decline in real exports of goods was attributable to the limited production due to scheduled repairs in the two largest enterprises operating in the oil processing and metallurgy sector³.

However, adverse developments in exports of goods are not limited solely to groups affected by one-off factors. Even after the exclusion of fuels and non-ferrous metals, the contribution of the remaining groups to the annual change in total exports of goods was

¹ Since February 2023, petroleum products produced from imported Russian crude oil cannot be exported from Bulgaria according to the derogation from EU sanctions.

² According to the NSI, the volume of crop output decreased by 7.0 per cent in 2024 due to drought.

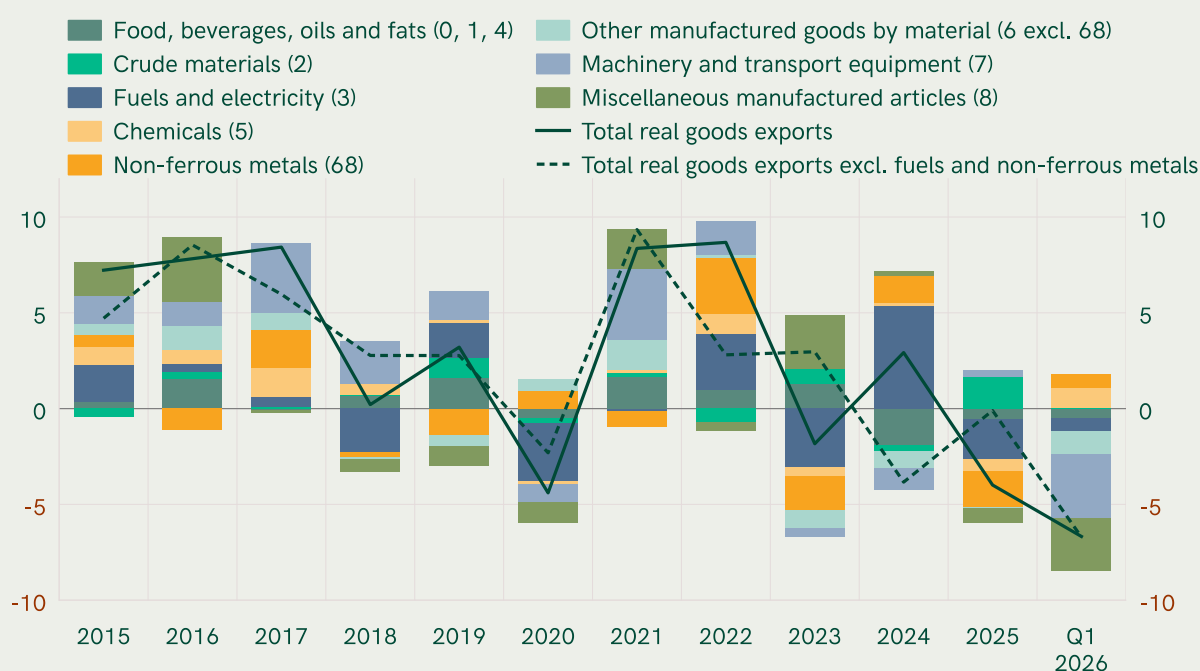
³ The repair in Lukoil Neftohim Burgas was carried out from 26 February to 26 May 2025, and in Aurubis Bulgaria from 12 May to mid-July 2025.

negative in 2024 (around -4 percentage points compared to a growth in external demand of 2.3 per cent), close to zero in 2025 (compared to external demand growth of 3.8 per cent) and strongly negative in the first quarter of 2026 (-6.7 percentage points compared to annual growth in external demand of 2.5 per cent in January-March 2026). Therefore, one-off factors in exports of fuels and metals could explain the decline in total exports in 2023 and 2025, but not its lag behind the growth in external demand observed since 2024, covering most commodity groups. This suggests that this trend may be underpinned by structural problems related to the price and non-price competitiveness of Bulgarian exporters.

CHART 3

Contribution to Real Goods Export Growth by Commodity Group

(per cent, percentage points)



Note: Standard International Trade Classification (SITC) groups. The group codes in the classification are indicated in brackets.

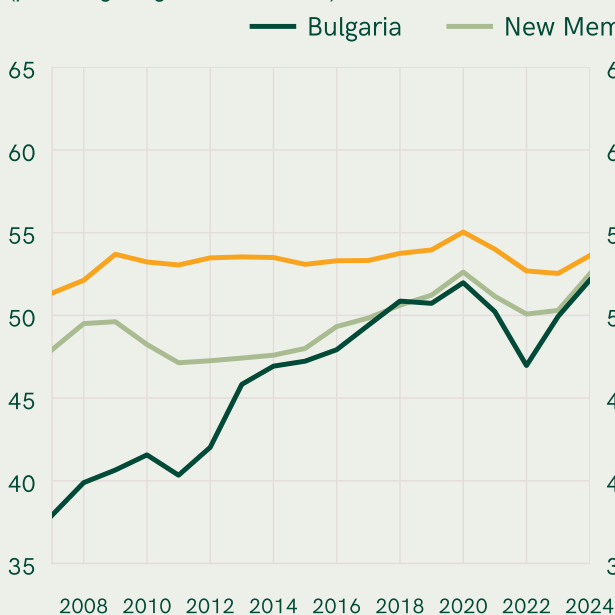
Sources: NSI, BNB, own calculations.

Standard indicators of price competitiveness point to continued increase in cost pressures in the Bulgarian economy. This is a long-term trend driven by the processes of real and nominal convergence of the Bulgarian economy. Over the past two decades, growth in compensation per employee in Bulgaria has outpaced labour productivity growth, with unit labour costs rising significantly faster than in the euro area and the real effective exchange rate deflated by them continuing to appreciate. At the same time, the share of compensation of employees in gross value added rose from around 38 per cent in 2007 to 52 per cent in 2024 and is already close to the NMS and euro area average (see Chart 4). The dynamics of these indicators point to a gradual decline in the competitive advantage of relatively lower labour costs in Bulgaria.

CHART 4

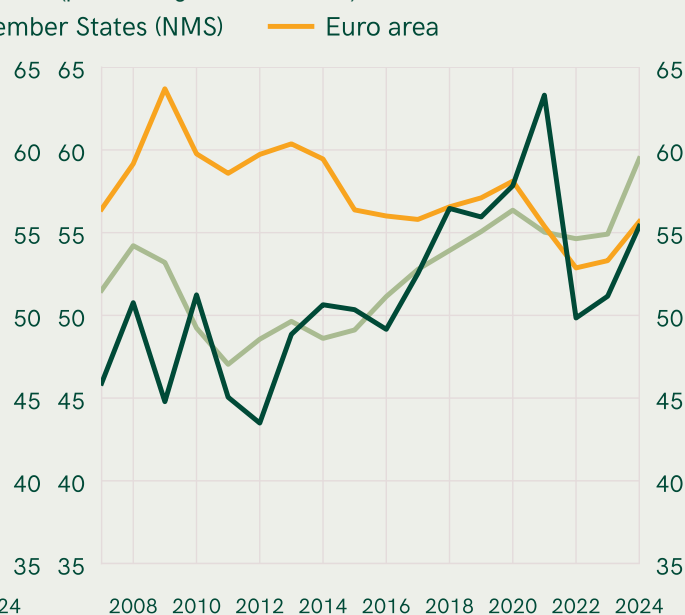
(a) Compensation of Employees as a Share of Gross Value Added in the Total Economy

(percentage of gross value added)



(b) Compensation of Employees as a Share of Gross Value Added in Manufacturing

(per cent of gross value added)



Note: The new Member States include the countries that have joined the EU since 2004, excluding Bulgaria.

Sources: Eurostat, own calculations.

However, aggregate labour cost indicators are not in themselves a reliable benchmark for the competitiveness of exports of goods. Ivanov and Ivanova study (2021)⁴ shows that the rise in labour costs in the Bulgarian economy is predominantly concentrated in the non-tradable sectors and largely reflects the process of economic convergence. Therefore, it is more indicative for the analysis of export competitiveness to track developments in manufacturing that accounts for the bulk of exports of goods and, in particular, to explore whether labour costs are growing faster than sales revenues, to what extent firms pass on rising costs to prices or absorb them at the expense of profits, and whether there are substantial differences across sub-sectors. The latest similar calculations by Ivanov and Ivanova (2021) are available for the pre-pandemic period. In the current analysis, these calculations have been updated and expanded using Orbis data⁵ on the financial statements of 2613 manufacturing enterprises in Bulgaria for the period 2015 to 2024.

Data show that personnel costs in manufacturing rose almost two and a half times over this period, with total number of employees almost unchanged, while the remaining costs of the sampled firms increased roughly in line with the growth of their sales⁶ (see Chart 5a). The gap between labour costs and sales dynamics widened between 2022 and 2024, when total personnel costs grew by about 25 per cent, while sales declined by 6.4 per cent. As a result, personnel costs as a share of these enterprises' sales rose from 11.0

⁴ Ivanov, E., Ivanova, N. (2021), 'Determinants of Bulgarian Exports: the Role of Price and Non-Price Competitiveness', BNB Discussion Paper DP/118/2021.

⁵ The panel includes 2613 of the largest manufacturing enterprises, with detailed reporting data for each year from 2015 to 2024, accounting together for around 60 per cent of turnover in Bulgarian manufacturing.

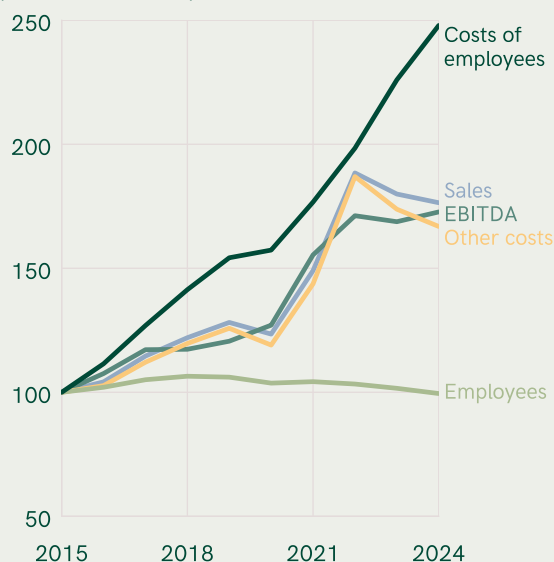
⁶ The analysis uses sales revenue (the 'Sales' indicator in Orbis) and not the total turnover ('Turnover' in Orbis), as turnover also includes financing revenues which do not reflect the competitiveness of production.

per cent in 2022 to 14.6 per cent in 2024 for manufacturing as a whole reaching its highest level over the entire period from 2015 to 2024 in all the sub-sectors under review. Data show that this share increased most in the textiles, clothing and leather and machinery, electrical and transport equipment sub-sectors (see Chart 5b).

CHART 5

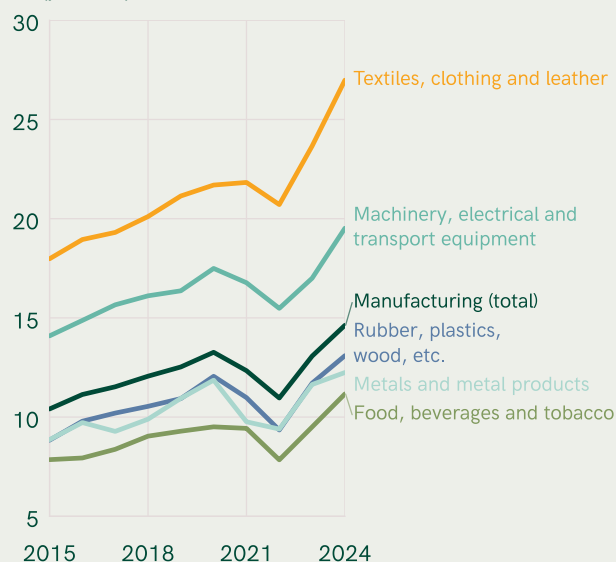
(a) Sales, Profit, Costs and Employment in Manufacturing

(indices, 2015 = 100)



(b) Personnel Costs as a Share of Sales by Sub-sector

(per cent)



Note: Indicators are in the standardised format of Orbis: sales are net sales revenue excluding VAT (Sales); staff costs include remuneration and social security contributions (Costs of employees); other costs include material costs (Material costs), other operating items (Other operating items, net), depreciation and amortisation (Depreciation & amortisation) and Interest (interest paid). EBITDA is earnings before interest, taxes, depreciation and amortisation. All indicators are calculated from the amounts for the undertakings in the panel, at current prices in euro.

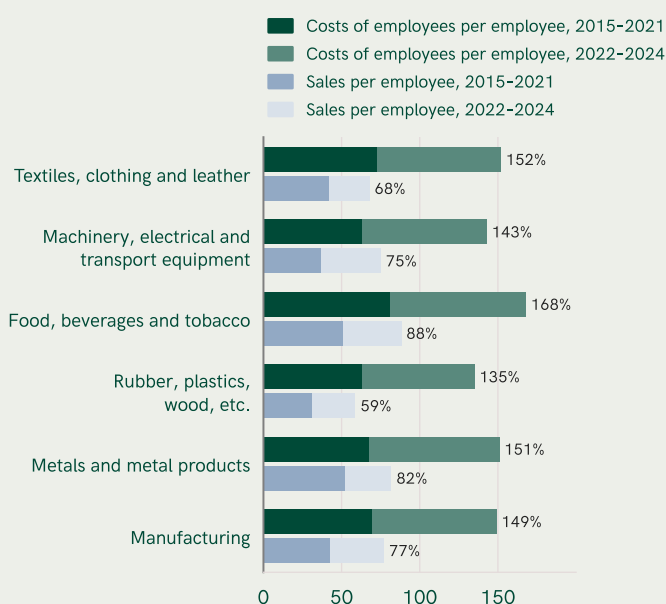
Sources: Orbis (Moody's), own calculations.

Between 2015 and 2024, personnel costs *per* employee grew faster than sales *per* employee in all the sub-sectors under review, with most of the gap accumulating over the last three years (see Chart 6a). An indirect benchmark of the pass-through of this pressure to sales prices is the producer price index for the external market, which records the changes in the prices at which firms sell their production for exports (see Chart 6b). From 2015 to 2021 price dynamics at sub-sector level was relatively close to that of the euro area, except for the metal and metal products sub-sector. However, from 2022 to 2024, Bulgarian exporters' prices increased noticeably faster in most sub-sectors, indicating a pass-through of cost pressures in sales prices, although the approach used does not allow to distinguish directly the impact of labour costs from that of other factors.

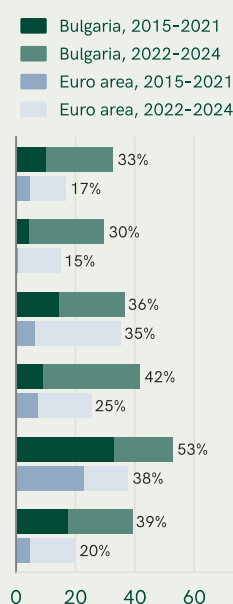
At the same time, the average profit margin measured by the EBITDA/turnover ratio in the period from 2022 to 2024 is lower than between 2015 and 2021 in three of the five sub-sectors under review (see Chart 6c). The enterprises most vulnerable to labour cost growth are those in the textiles, clothing, leather sub-sector, where the share of personnel costs is the highest and profit margins are the lowest.

CHART 6
(a) Personnel Costs and Sales per Employee

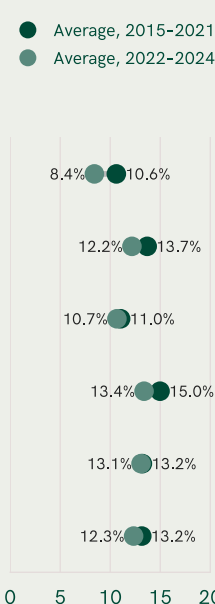
(growth in 2015-2024, per cent)


(b) Producer Prices in the External Market

(growth in 2015-2024, per cent)


(c) Average Profit Margin

(EBITDA/sales, per cent)



Notes: In panels (a) and (b) the contributions of both periods are calculated in relation to the level of 2015. In panel (c) the profit margin is the average of the annual EBITDA/sales ratios for the relevant period. Corporate data for 2024 are preliminary.

Sources: Orbis (Moody's), own calculations.

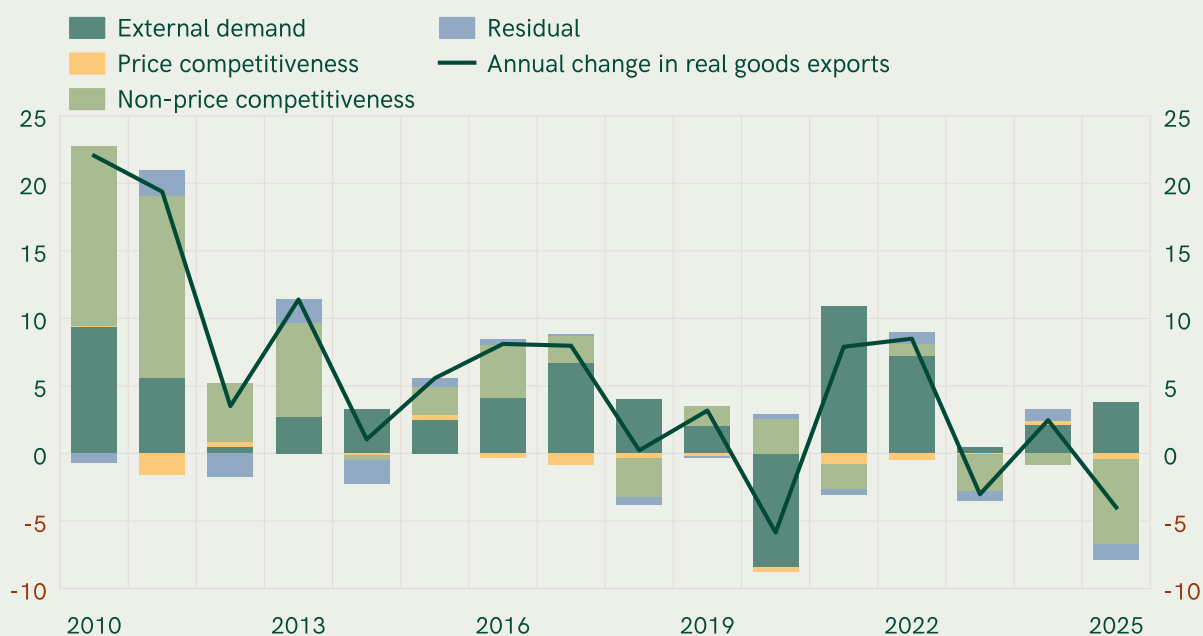
Cost pressures related to labour costs do not necessarily translate directly into a deterioration in price competitiveness, as firms can absorb part of the cost increase through a lower profit margin without raising their selling prices. However, a prolonged decline in profitability limits investment opportunities that could help improve firms' non-price competitiveness.

Model estimates based on the Ivanov and Ivanova (2021)⁷ approach show that exports of goods have lagged behind external demand growth since 2023, which is mainly explained by the negative contribution of non-price competitiveness with limited negative impact of price competitiveness (see Chart 7). A possible reason for model estimates to show a greater importance of deterioration in non-price than price competitiveness is the largest effect (in absolute terms) of specific one-off factors related to repairs and other export restrictions on oil products and metals, which have constrained the growth of exports of goods over the past three years. In contrast to these temporary factors, long-term rising labour cost pressures have had a more gradual negative impact on goods export dynamics.

⁷ The estimates follow the state-space model of Ivanov and Ivanova (2021), BNB, DP/118/2021. Non-price competitiveness is an inobservable component assessed by Kalman filter. It may also reflect factors that are not separately reported, such as interruptions of production due to repairs. As the model cannot identify the specific reasons for these changes, the negative contribution of non-price competitiveness is not clear evidence of a persistent loss of competitiveness.

CHART 7**Factors Behind the Change in Real Goods Exports**

(per cent, percentage points)

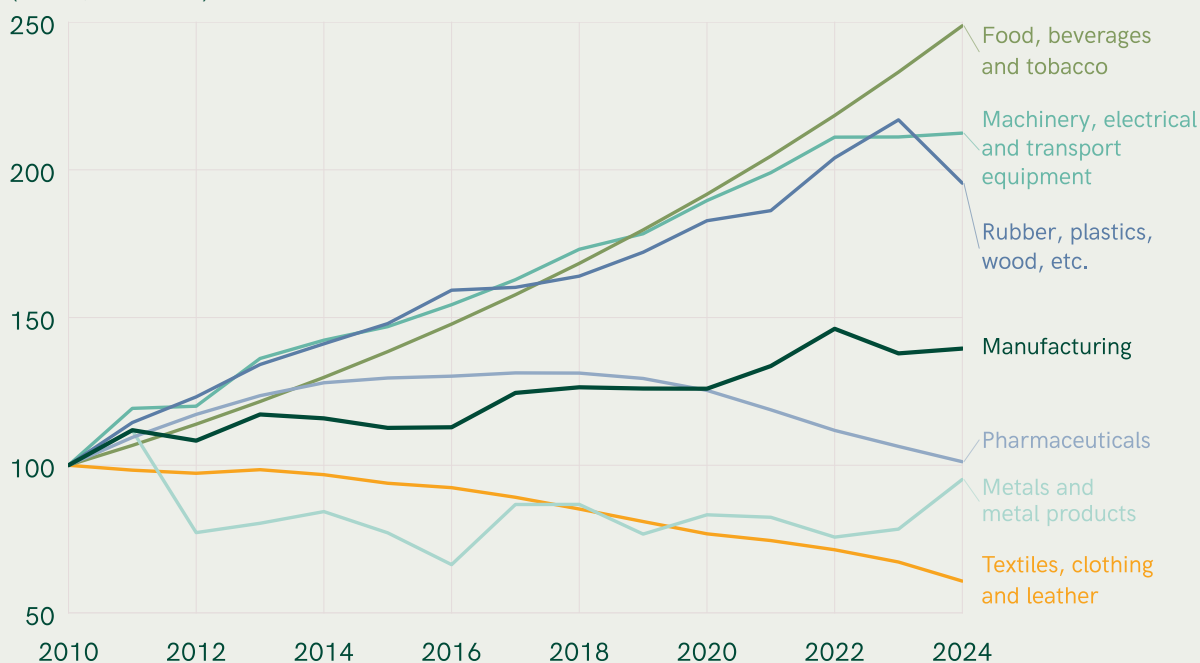


Sources: NSI, BNB, own calculations.

Deterioration in non-price competitiveness is reported in a number of sub-sectors, including those not directly affected by one-off factors (see Chart 8). Model estimates show that the greatest loss of non-price competitiveness is registered in textiles, clothing and leather sub-sectors and in the manufacture of rubber and plastics where a decline in profit margins is also observed. In the absence of information on one-off factors affecting production in these sectors, such a combination of factors could be an indication of structural problems in the relevant sub-sectors and of a risk that exports of these goods will continue to lag behind external demand.

CHART 8**Non-Price Competitiveness by Manufacturing Sub-sector (Model Estimates)**

(indices, 2010 = 100)



Note: Due to the volatility of Bulgarian exports of energy products and its specificities, it was considered that such a model would not reliably assess the impact of price and non-price factors on its competitiveness, and therefore no assessment for this group is presented

Sources: NSI, BNB, own calculations.

Conclusion

One-off factors explain a significant part of the decline in real exports of goods over recent years, but do not fully clarify the reasons for its weak performance. There are signs of a sustained and broad-based weakening of the competitive positions of Bulgarian exporters in terms of both price and non-price competitiveness across commodity groups. Against the background of strongly rising labour costs and falling profit margins in some industrial enterprises, a sustained improvement in Bulgarian goods exports will increasingly depend on effective investment to improve productivity and non-price competitiveness of exporting firms.

Highlight

Alternative Scenarios for the Economic Implications of the Conflict in the Middle East

As of the cut-off date of the forecast on 21 September, the military conflict in the Middle East continues to be a source of significant uncertainty surrounding the forecast baseline. Therefore, similarly to our June 2026 forecast, the baseline scenario is complemented by three alternative macroeconomic scenarios: a milder scenario, an adverse scenario and a severe scenario. It should be noted that the forecast baseline is based on assumptions about international price dynamics in main commodity groups as of 19 August. As of 21 September, oil prices were at levels around 23 US dollars (USD) *per* barrel higher than the oil price assumptions for September in the forecast baseline.

The scenarios have been developed using the BNB's main simulation model, and their design and underlying assumptions follow those set out in the alternative scenarios of the ECB staff macroeconomic projections for the euro area published on 10 September 2026¹. These three scenarios differ in terms of the impact of the energy price shock, as well as the strength of its transmission to non-energy goods and services prices. The scenarios do not assess the likelihood of their materialisation and do not take into account the effects of potential monetary and fiscal policy measures beyond those set out in the baseline. They are purely illustrative and aim to present changes in the key macroeconomic indicators under various assumptions about international commodity price dynamics.

Description of the Alternative Negative Scenarios

The scenarios reflect the impact of the military conflict on the Bulgarian economy in case of divergent developments in international prices of oil, natural gas, electricity², food, the exchange rate of euro against the US dollar and the external demand for Bulgarian goods and services (see Chart 1). As in June, the path of international oil and gas prices in the alternative scenarios is calculated based on the distribution of expected prices of these commodities, derived from option prices as of 19 August. In the milder scenario for the fourth quarter of 2026, oil and gas prices follow the 25th percentile of these distributions: the 75th percentile in the adverse scenario and the 95th percentile in the severe scenario. These percentiles reflect market participants' assessment of the current risks surrounding energy prices and implicitly cover alternative developments for the conflict in the Middle East and the associated potential disruptions in energy supplies.

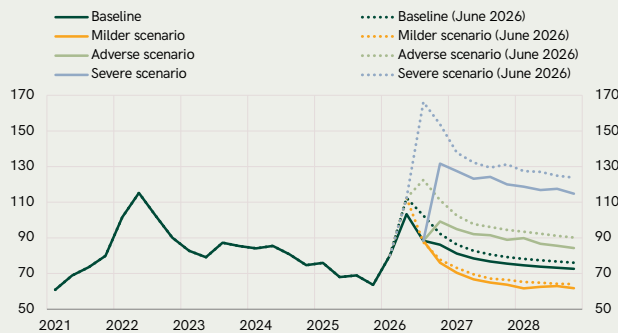
¹ For further details, see [ECB staff macroeconomic projections, September 2026](#).

² For the sake of consistency and comparability across countries, the assumptions about the trajectory of energy prices in individual scenarios are provided to the BNB by the ECB, except those for electricity for non-household consumers. Reflecting the large importance of the electricity price for non-household consumers for producer price dynamics in the Bulgarian market, it is included in the preparation of the scenarios for the Bulgarian economy, with the deviation from the baseline being derived on the basis of its historical relationship with international natural gas prices.

CHART 1

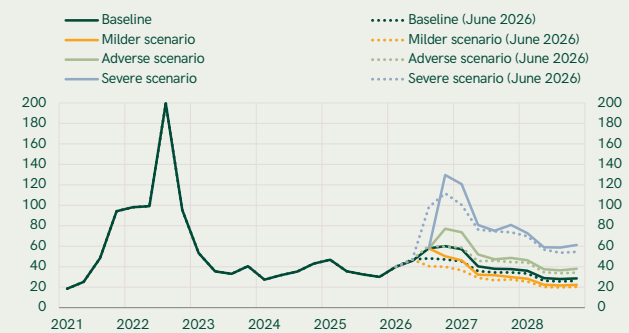
(a) International Oil Price

(USD/barrel)



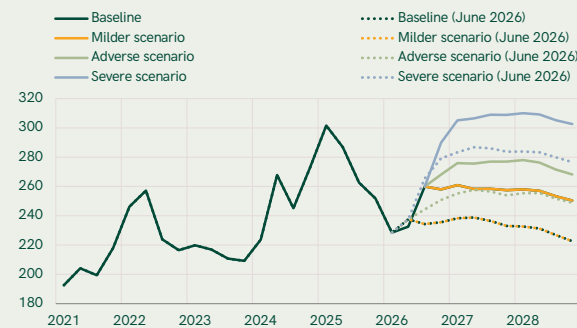
(b) International Natural Gas Price

(EUR/MWh)



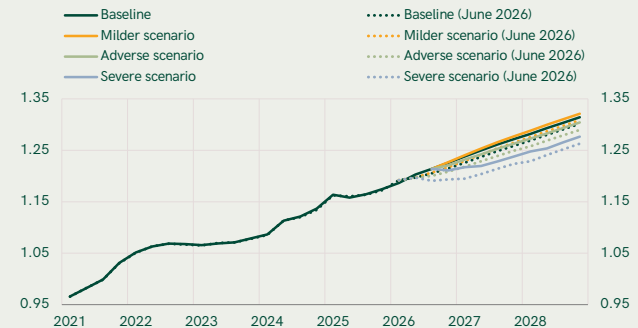
(c) International Food Prices

(USD)



(d) External Demand for Bulgarian Goods Services

(index, 2020 = 100)



Source: ECB, BNB calculations.

- Under the **milder scenario**, oil prices are assumed to fall to around USD 75 *per barrel* in the fourth quarter of 2026, compared with USD 78 *per barrel* in the June forecast, while natural gas prices are expected to reach EUR 50 *per MWh*, compared with EUR 40 *per MWh* in the June forecast. This trajectory of energy prices is consistent with market expectations that the conflict could still be resolved quickly, leading to a rapid normalisation of international oil and natural gas markets. This scenario includes additional assumptions about stronger external demand for Bulgarian goods and services *vis-à-vis* the baseline and an appreciation of the euro against the US dollar. In the milder scenario, international food prices remain unchanged compared to their baseline level.
- Under the **adverse scenario**, oil prices increase to around USD 100 *per barrel* (compared with USD 111 in the June forecast), while natural gas prices increase to around EUR 75 *per MWh* (compared with EUR 60 *per MWh* in the June forecast) in the fourth quarter of 2026. Energy product prices remain significantly above the level assumed in the baseline scenario throughout the projection horizon. This is in line with market expectations of a longer-lasting conflict than assumed in the forecast baseline. As regards food prices, an increase is also projected compared to the baseline. This scenario also includes assumptions about weaker external demand for Bulgarian goods and services and a depreciation of the euro against the dollar. In addition, the adverse

scenario also assumes emergence of non-linear indirect³ and second-round effects on inflation.

- Under the **severe scenario**, international oil prices increase by 50 per cent, while natural gas prices more than double relative to the baseline, reaching around USD 130 *per* barrel and EUR 130 *per* MWh, respectively, in the fourth quarter of 2026 (compared with USD 154 *per* barrel and 112 *per* MWh, respectively, under the severe scenario in the June forecast). Compared with the adverse scenario, the energy price and other variables shock is both stronger and highly persistent, with deviations from the baseline still being of a similar magnitude up to the end of the projection horizon. This scenario is consistent with market participants' expectations of a prolonged military conflict accompanied by disruptions in energy supplies⁴. Assumptions in this scenario also include a stronger increase in non-energy prices than in the adverse scenario, lower external demand, a stronger depreciation of the euro against the dollar and stronger indirect and second-round effects on inflation compared to the adverse scenario.

The main channels through which external shocks under the three scenarios are transmitted to the Bulgarian economy relate to the external demand for Bulgarian goods and services, international prices of food and energy resources, and the related non-linear second-round effects on inflation and GDP (see Chart 3). These channels are described in greater detail in the June 2026 BNB forecast⁵.

Simulation Results

Simulation results show that if the milder scenario for Bulgaria materialises, lower inflation can be observed over the entire forecast horizon along with a higher growth of economic activity in 2027 and 2028 compared to the baseline. At the same time, the two negative scenarios lead to higher inflation and lower growth of economic activity in 2027 and 2028 compared to the baseline, with stronger and more prolonged effects in the severe scenario (see Table 1). By component of inflation, the energy shock would have the strongest effect on energy prices and core inflation. As regards economic activity, the negative effects would most strongly impact goods and services exports, followed by fixed capital investments and private consumption (see Chart 2). Current GDP and inflation data for the first half of the year show that their dynamics is closest to the milder scenario of June 2026. As a result of the relatively favourable developments in the first six months of 2026, current scenarios show that the potential effects of the conflict in the Middle East (see Chart 4) materialise mostly in 2027.

³ The different degree of non-linearity between energy prices and inflation is also reflected in the scenarios. In periods of high inflation, the transmission of the energy shock to final consumer prices may be significantly stronger than historically observed. With tight labour market conditions and larger price shocks, it is typical to observe a non-linear relationship between energy product prices and inflation, which standard linear models cannot describe. This non-linearity is reflected to a different degree in the adverse and severe scenarios. In the BNB's main simulation model, these non-linear links are captured by calibrating the coefficients in the equations used to model services inflation and food inflation in order to reflect expected stronger indirect and second-round effects of the shocks in the two negative scenarios. These calibrations are based on the estimated amount of respective coefficients over the 2022-2023 high inflation period in Bulgaria.

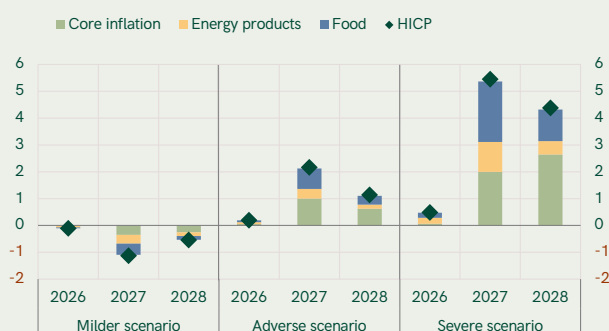
⁴ The trajectory of energy prices assumed under the severe scenario implies an approximately 8 per cent reduction in global oil supply and a 12 per cent reduction in liquefied natural gas supply compared to the baseline. These calculations are based on ECB estimates of the historical relationship between the volume of global supply of energy commodities and their prices.

⁵ For more information, see the highlight entitled 'Alternative Scenarios for the Economic Implications of the War in the Middle East' in the June 2026 Macroeconomic Forecast.

CHART 2

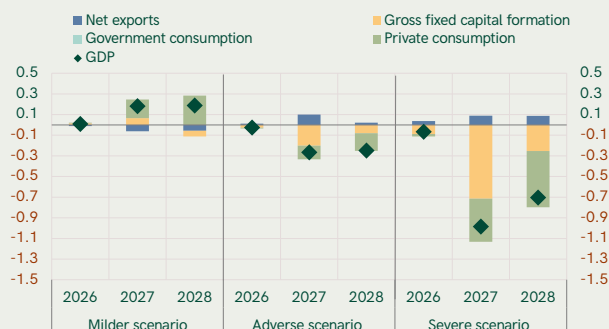
(a) Deviation of the HICP from the Baseline and Contributions by Component

(percentage points)



(b) Deviation of Real GDP Growth from the Baseline and Contributions by Component

(percentage points)

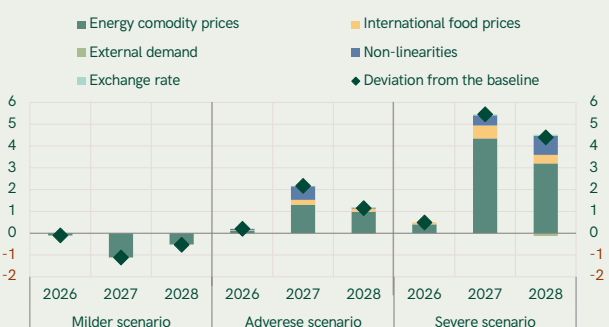


Source: BNB calculations.

CHART 3

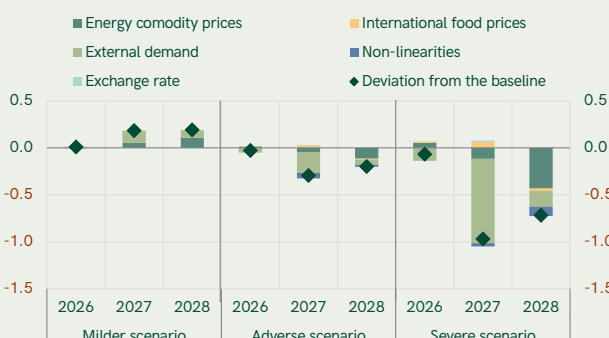
(a) Deviation of the HICP from the Baseline and Contributions by Shock

(percentage points)



(b) Deviation of Real GDP Growth from the Baseline and Contributions by Shock

(percentage points)



Source: BNB calculations.

In the **milder scenario**, the inflation forecast is lower than in the baseline almost entirely due to the underlying dynamics of energy prices, in particular electricity prices for non-household consumers and international oil prices (see Chart 3 (a)). In 2026, inflation is 0.1 percentage points lower, amounting to 4.5 per cent on average for the year. By HICP component, the deviation from the baseline is driven mainly by the group of energy products (see Chart 2 (a)). In 2027 and 2028, consumer price growth is lower by 1.1 percentage points and 0.5 percentage points, respectively, compared to the baseline, coming to 2.0 per cent and 2.4 per cent, respectively. Core components of the consumer basket are the main contributors to lower inflation in the 2027-2028 period, reflecting the estimated pass-through of energy price developments with a time lag (see Chart 2 (a)). As regards economic activity, GDP growth remains broadly unchanged in 2026, but is 0.2 percentage points higher than the baseline in 2027 and 2028. The stronger economic activity at the end of the forecast horizon is mainly due to higher private consumption, as well as higher exports of goods and services compared to the baseline (see Chart 2 (b)).

In the **adverse scenario**, inflation is higher compared to the baseline by 0.2 percentage points in 2026, by 2.2 percentage points in 2027 and by 1.1 percentage points in 2028. The largest deviation from the baseline is observed in 2027, reflecting both delayed indirect effects of the

energy shock on the other HICP components and projected non-linear second-round effects in consumer food and services prices. In the adverse scenario, inflation would be 4.8 per cent in 2026, before accelerating to 5.3 per cent in 2027 and slowing down to 4.1 per cent in 2028 (see Table 1). The impact on economic activity is most pronounced in 2027 and 2028, contributing to lower growth compared to the baseline scenario by 0.3 percentage points and 0.2 percentage points in 2027 and 2028, respectively. The lower real GDP growth is due to weaker increase in goods and services exports, fixed capital investments and private consumption. Concurrently, this decline in domestic demand and exports components is reflected in lower imports of goods and services, leading to a positive deviation of net exports compared to the baseline. Real GDP growth under the adverse scenario slows down to 2.2 per cent in 2027, before accelerating to 2.5 per cent in 2028 as energy prices fall (see Table 1).

Under the **severe scenario**, more intense and prolonged pro-inflationary pressures are observed (see Chart 4). Acceleration of inflation in 2026 and 2027 reflects both indirect effects of higher energy and food prices and stronger non-linear second-round effects than projected in the adverse scenario (see Chart 3 (a)). As a result, headline inflation is higher than in the baseline by 0.5 percentage points in 2026 and by 5.5 percentage points in 2027, standing at 5.1 per cent and 8.5 per cent, respectively (see Table 1). Assuming a lower degree of pass-through of energy prices and labour costs to the HICP towards historical values, inflation slows down to 7.3 per cent in 2028. Economic activity in a severe scenario decreases significantly over the whole projection horizon, with real GDP growth being lower by 0.1 percentage points in 2026, by 1.0 percentage points in 2027 and by 0.7 percentage points in 2028 compared to the forecast baseline. As a result, under the severe scenario, real GDP growth stands at 2.7 per cent in 2026, slowing down to 1.5 per cent in 2027 (mainly driven by weaker external demand for Bulgarian goods and services), before accelerating to 2.0 per cent in 2028 (see Table 1).

TABLE 1

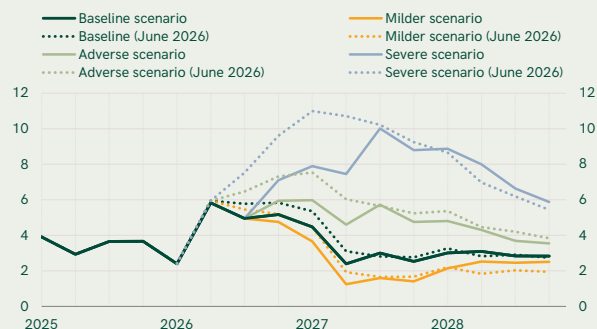
Simulation Results for the Effects of the Conflict in the Middle East on the Bulgarian Economy

	Real GDP growth (per cent)			Average annual inflation based on HICP (per cent)		
	2026	2027	2028	2026	2027	2028
Baseline	2.8	2.5	2.7	4.6	3.1	2.9
Adverse scenario	2.8	2.2	2.5	4.8	5.3	4.1
Severe scenario	2.7	1.5	2.0	5.1	8.5	7.3
Milder scenario	2.8	2.7	2.9	4.5	2.0	2.4

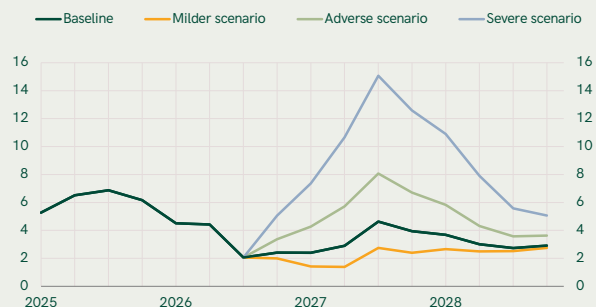
Source: BNB.

CHART 4

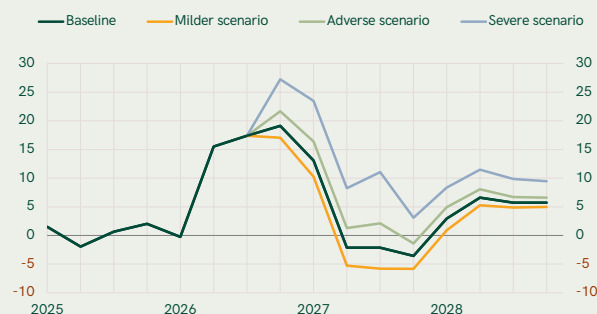
(a) Inflation (based on HICP)
(per cent)



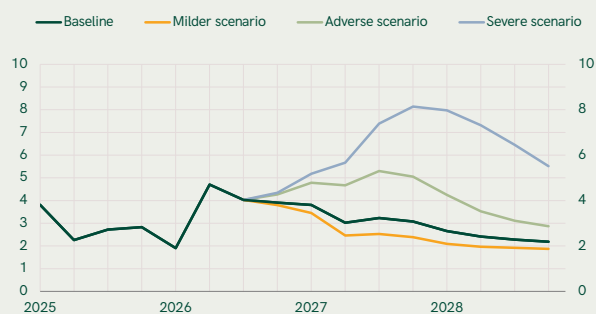
(b) Food inflation
(per cent)



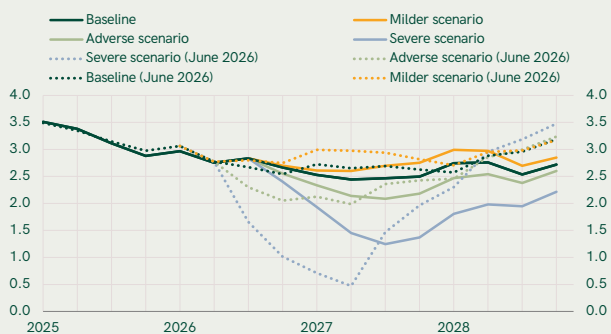
(c) Inflation in Energy Products
(per cent)



(d) Core Inflation
(per cent)



(e) Real GDP Growth
(per cent, annual growth)



Source: BNB calculations.

