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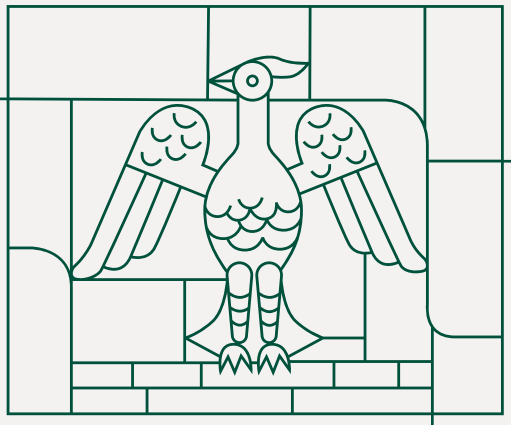
Macroeconomic Forecast



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The BNB Macroeconomic Forecast provides annual projections of major macroeconomic indicators for Bulgaria in the current and the following two years. The macroeconomic forecast is prepared by the BNB Economic Research, Forecasting and Monetary Policy Directorate and does not necessarily reflect the views of the members of BNB Governing Council about the prospects for the development of the Bulgarian economy. Information regarding the forecast preparation procedure, as well as technical details on the macroeconomic forecasting model can be found in Economic Review, issue 4/2015, 67-70.

The Macroeconomic Forecast publication (June 2026) contains a projection of key macroeconomic indicators, prepared as of 27 May 2026. The estimates and projections published in this issue should not be regarded as advice or recommendation. The information in the publication should be used exclusively at the user's risk.

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Content

Summary

The BNB forecast of key macroeconomic indicators is prepared as of 27 May 2026 based on assumptions of the European Central Bank (ECB) about global economic developments and prices of main commodity groups in international markets as of 21 May 2026.

According to the assumptions about global economic activity and trade developments in the baseline scenario of the forecast, growth of external demand for Bulgarian goods and services will slow down to 2.1 per cent in 2026, which is significantly below the average historical growth rate and lower than the increase projected in the March 2026 macroeconomic forecast of the BNB. In 2027 and 2028, the effects of the conflict in the Middle East are assumed to gradually weaken, with external demand growth expected to accelerate in these two years to 3.1 and 3.8 per cent, respectively, despite the ongoing processes of trade fragmentation. According to the underlying technical assumptions, euro prices of energy commodities will increase significantly in 2026 as a result of the conflict in the Middle East, mainly in oil and gas prices, before declining in 2027 and 2028. Non-energy commodity prices are assumed to rise moderately over the entire projection horizon.

According to the baseline of the forecast, Bulgaria's real GDP growth will decelerate to 2.8 per cent in 2026 and 2.7 per cent in 2027, thereafter accelerating to 2.9 per cent in 2028. In 2026, the growth rate of all domestic demand components is expected to slow down in comparison to 2025, which will be partially offset by the reduction in net exports' negative contribution as a result of the exhausted one-off factors, which limited exports in 2025. The growth rate of private consumption will decrease in the second half of 2026 and in 2027 due to the negative effects of higher inflation in real disposable income of households, but it will continue to be the main contributor to economic activity growth over the whole forecast horizon. Gross fixed capital formation is projected to increase slightly in 2026, before accelerating in 2027, driven by the increase in private investment and the assumption of investments in the military industry, while public investments are assumed to decline over this period. In 2028, GDP growth is projected to accelerate in line with the technical assumption of an external demand recovery, the expected acceleration in final consumer expenditure growth amid easing inflationary pressures and higher investment.

The annual deposit growth of the non-government sector is expected to follow a slowing trend over the projection horizon, reflecting the high base of end-2025, as well as the expected wage growth rate slowdown in the period up to 2028. The annual growth of credit to the non-government sector is projected to remain comparatively high in the 2026–2028 period, but to follow a downward trend in both corporate and household loans.

Annual HICP inflation is projected to accelerate to 5.9 per cent at the end of 2026, while average annual inflation is expected to be 5.0 per cent. It is anticipated 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. For 2027, inflation is projected to decelerate, with the biggest contributor being energy product prices, where consumer price growth is expected to slow significantly due to the high base of 2026. Inflation in core components of the consumer basket and food in 2027 is projected to remain persistently high due to second-round effects of the higher energy prices in the previous year. For 2028, both year-end inflation and average annual inflation are projected to slow down, mostly in core and food inflation. At the same time, energy products inflation is expected to accelerate in relation to the introduction of the ETS2 system in the EU.

In view of the preliminary agreement signed on 17 June between the United States and Iran to end the war in the Middle East, the assessment of risks to the forecast has been updated as of 18 June.

Assuming sustained compliance with the agreement reached between the United States and Iran, risks to the inflation forecast in 2026 and 2027 are assessed as oriented towards lower consumer price growth. These risks stem mainly from the likelihood of a more significant decline in energy commodity prices and a rapid recovery of shipping over the Strait of Hormuz compared to the baseline assumptions, as it would affect domestic transport fuel prices and limit indirect and second-round effects on the other HICP components.

Risks to the GDP forecast are assessed as oriented towards higher growth in 2026 and 2027, and – as balanced for 2028. Risks related to the external environment stem from the possibility of stronger growth in global trade and external demand for Bulgarian goods and services, falling commodity prices, as well as reduced uncertainty compared to the baseline. Concurrently, a weaker than expected consumer price increase in Bulgaria would have a positive effect on household purchasing power and thus lead to higher growth in private consumption. Risks to the forecast also stem from the parameters that will be laid down in the State Budget Law for 2026 and the medium-term fiscal forecast of the government.

As of the cut-off date of the forecast on 27 May, the conflict in the Middle East is a source of significant uncertainty in the baseline of the macroeconomic forecast. That is why the Highlight presents alternative scenarios for the Bulgarian economy's development based on different assumptions about the duration and intensity of the energy shock caused by the conflict. The preliminary agreement between the United States and Iran to end the war, signed on 17 June, reduces somewhat the uncertainty surrounding the baseline of the forecast.

Forecast of Key Macroeconomic Indicators for 2026–2028

The BNB macroeconomic forecast (June 2026) is prepared in accordance with the schedule and framework for the production of Eurosystem staff macroeconomic projections. This forecast is also included in the common indicators of the macroeconomic projections for the euro area published by the ECB on 11 June 2026.[1]

External Environment

The BNB forecast of key macroeconomic indicators is prepared as of 27 May 2026 and based on assumptions from the ECB's latest forecast [2] of June 2026 about global economic developments and prices of main commodity groups in international markets as of 21 May 2026.

According to assumptions, the growth of external demand for Bulgarian goods and services will slow down to 2.1 per cent in 2026, which is significantly below the average historical growth rate and lower than the increase projected in the March 2026 macroeconomic forecast of the BNB. In 2027 and 2028, in line with assumptions about the gradual fading-out of the effects caused by the war in the Middle East, external demand growth is expected to accelerate to 3.1 and 3.8 per cent, respectively, despite the ongoing processes of trade fragmentation.

As regards euro price developments[3] for energy commodities (crude oil, natural gas, electricity[4]), and for food[5], the forecast incorporates assumptions from the ECB's 21 May 2026 forecast, while for the remaining groups of non-energy commodities[6] (metals[7] and other commodities[8]) international futures contract prices are used as of 21 May 2026. The assumptions underlying the forecast imply a significant increase in energy commodity prices in 2026 due to the conflict in the Middle East, before their decline in 2027 and 2028, given the assumed easing of geopolitical tensions set out in the baseline. Crude oil euro prices are assumed to increase by 34.8 per cent in 2026 and to decrease by 15.0 per cent and 6.2 per cent in 2027 and 2028, respectively. Despite the assumed energy commodity price drops in 2027 and 2028, crude oil prices at the end of the projection horizon will remain persistently higher than their 2025 level. In contrast to crude oil prices, euro prices of natural gas and electricity in 2028 are assumed to be lower when compared to 2025. At the same time, assumptions about non-energy commodity prices suggest moderate growth over the whole projection horizon, with divergent developments across sub-components in 2026, consisting of significant metal price increases (by around 24 per cent) combined with a decline in food prices (by around 14 per cent). As a result of these assumptions, Bulgaria's weighted average international trade prices of raw materials in euro are expected to rise at rates of around 6.8 per cent in 2026, 1.0 per cent in 2027 and 0.1 per cent in 2028.

With regard to quarterly interest rates in the euro area, technical assumptions suggest a gradual increase from 2.24 per cent in the second quarter of 2026 to 2.79 per cent in the second quarter of 2027, followed by a minimal decline until the end of the projection horizon.

[1] For further details, see the Highlight *The BNB Macroeconomic Forecast in the Framework of the Eurosystem and ECB Projection Exercises* in the BNB publication Macroeconomic Forecast December 2025.
[2] For further details, see ECB staff macroeconomic projections, June 2026.
[3] The forecast of commodity prices in euro uses the assumptions about the EUR-USD rate of the ECB projections.
[4] The forecast of electricity prices is based on the ECB's assumptions about price developments on the German electricity exchange.
[5] Including pigmeat, coffee, wheat, maize, rice, soybeans, sugar, cocoa, milk and livestock weighted in accordance with Bulgaria's foreign trade flows.
[6] Metal and agricultural commodity prices over the projection horizon are based on used futures contracts concluded in international markets, with data available for most of them until the end of 2028. As regards commodities for which no public information on sufficient concluded futures contracts is available until the end of 2028, their price dynamics is assessed by taking into account their historical correlation with the dynamics of global trade set out in the external assumptions of the forecast.
[7] Including steel, copper, aluminium, lead, zinc, nickel and tin weighted in accordance with Bulgaria's foreign trade flows.
[8] Including agricultural commodities such as rubber, timber and cotton weighted in accordance with Bulgaria's foreign trade flows.

Economic Activity in Bulgaria

The negative external shock resulting from the conflict in the Middle East significantly affected inflation in Bulgaria, while its impact on economic activity remained limited. Since the beginning of the year, the business climate and consumer confidence in Bulgaria have deteriorated, which, coupled with less favourable assumptions about external demand growth and higher energy commodity inflation, has lead to some slowdown in the projected quarterly GDP growth in the first and second quarters of 2026 as seen in short-term forecasting models. However, NSI flash estimates of GDP in the first quarter of 2026 indicate a retention of sustainable real GDP growth, which is driven mainly by high final consumption growth and fixed capital investments. Given the momentum in consumer spending and continued tight labour market conditions, a subsequent slowdown in GDP growth can be observed with some delay, as well as in the event of renewed escalation of the conflict in the Middle East. Bulgaria's real GDP growth is expected to slow down from 3.2 per cent in 2025 to 2.8 per cent in 2026, with slower growth in all domestic demand components projected in the second half of the year. The expected contraction in the negative contribution of net exports to the real GDP change in 2026 will offset the projected slowdown in the growth of domestic demand components to some extent, and therefore GDP growth in 2026 is expected to remain close to the average rate for the last ten years.

Private consumption will continue to be the main contributing component to economic activity growth in both 2026 and throughout the forecast horizon. According to projections, it will be supported by rising labour income (mainly in the private sector), household loans growth, projected negative real interest rates on deposits that limit savings incentives, as well as an increase in social payments. However, given some deterioration in consumer confidence in early 2026 and projected higher inflation, which will limit growth in real disposable income of households, the consumer expenditure growth rate is expected to decelerate to 4.2 per cent on average for the year, with a more significant slowdown to be observed at the end of the year. In the context of the current budget extension law[9] as of the cut-off date of the forecast, government consumption growth is also expected to slow down, reaching 3.6 per cent in 2026, mainly as a result of the assumptions about weaker growth in intermediate consumption and compensation of employees. Investment activity in 2026 is projected to remain similar to that of the previous year, with growth mainly in private investment (by 3.0 per cent). Public investment is expected to decrease in 2026 due to the high base of 2025, but will nevertheless be supported by the implementation of projects under the National Recovery and Resilience Plan (NRRP), the Multiannual Financial Framework (MFF) for 2021–2027 and the municipal investment programme. Despite the adverse external environment, exports of goods are expected to recover in 2026 due to the exhaustion of the 2025 temporary limiting factors. At the same time, net exports will retain their negative contribution to GDP growth as a result of the higher growth in goods imports amid a continuing rise in domestic demand, but will fall significantly compared to 2025, when, in addition to temporary declines in exports due to repairs, imports of military equipment were also increasing.

In 2027, real GDP growth is expected to continue slowing down from the previous year to 2.7 per cent. The main contributor to the slowdown will be the lower real private consumption growth rate caused by the weakening of household purchasing power due to projected higher inflation in 2026 and 2027. Households are expected to react to the price shock with a delay, as they are likely to initially use some of their savings accumulated in previous years to mitigate the negative effect of inflation acceleration on their real incomes, similarly to the previous period with high inflation in 2022 and 2023. Despite the projected slowdown, consumer expenditure will continue to increase in real terms and will have a major positive contribution to the growth of economic activity in Bulgaria. Labour market developments will play a leading role in this, given the expected increase in labour shortages, which will continue to exert pressure on labour income to grow at a rate above that of labour productivity and inflation. Gross fixed capital formation is projected to increase by 1.7 per cent in 2027, driven by an increase in private

[9] This refers to the Law amending the Law on Revenue and Expenditure in 2026 pending the adoption of the State Budget Law of the Republic of Bulgaria for 2026, the Law on the Budget of Public Social Security for 2026 and the National Health Insurance Fund Budget Act for 2026, published in the Darjaven Vestnik on 27 March 2026.

investments, including those in housing, while public investments are expected to decrease. Private investments will be underpinned by favourable financing conditions[10], as well as growing domestic and external demand for Bulgarian goods and services. The forecast for private business investments includes the assumption of foreign investment inflows related to the military industry in 2027 and 2028.[11] Housing investments are expected to be stimulated in terms of both the supply side given the continuing trend of rising house prices, and the demand side in line with household disposable income growth and favourable conditions for financing *via* bank loans. Concurrently, given the significant volume of investments subject to implementation and the limited time horizon, some of the NRRP projects are assumed to be actually completed in 2027, although the period for implementation of the plan formally ends in 2026. The amount of projected NRRP investments for 2027 in the forecast is lower than that for 2026, which will contribute to a continued decline in annual public investments in 2027 as well. The negative contribution of net exports to economic activity is expected to contract in 2027. This will be driven by the accelerated growth of goods and services exports, which is expected to be closer to that of external demand, and by slower growth of goods and services imports. According to BNB projections of key macroeconomic indicators, in the absence of a medium-term budget forecast as of the cut-off date of this publication, government consumption growth in real terms is expected to slow down to 3.0 per cent in 2027.

In 2028, domestic demand growth is expected to accelerate again, while net exports will have a stronger negative contribution to economic activity. As a result, real GDP is projected to grow by 2.9 per cent in 2028, supported by increases in real disposable income, investment activity and higher growth of goods exports in line with the assumed improvement in external demand at the end of the forecast horizon.

Balance of Payments

The current account balance is expected to be negative at 5.9 per cent of GDP in 2026, after which the deficit will narrow to 4.9 per cent of GDP in 2027 and increase again to 5.1 per cent of GDP in 2028. This dynamics of current account flows will be mainly driven by the trade balance deficit, the increase of which in 2026 and 2028 will be owed to the stronger growth in imports of goods compared to that of exports of goods, including due to the underlying technical assumptions for supplies of new trains[12] and military equipment. At the same time, we expect the surplus on services trade balance to remain relatively high and stable as a share of GDP over the forecast horizon at a level close to that of 2025, driven by the continuing growth of tourist visits to Bulgaria and the exports of computer and information services. Net primary income deficit is expected to decline slightly as a percentage of GDP over the forecast horizon compared to 2025. Capital account surplus is also anticipated to decline as a share of GDP, due to the projected profile of the proceeds of EU receipts, including under the NRRP.

Labour Market

Labour market conditions are expected to remain tight throughout the forecast horizon. We expect employment growth to remain high at 1 per cent in 2026, with the continuing support of third-country workers on short-term contracts, who start to play an increasingly important role in determining employment dynamics in Bulgaria. According to Employment Agency data, the number of issued positive opinions on labour market access to third-country nationals remained high in the first four months of 2026, suggesting that they will support the increase in employed persons in the current year as well. Employment growth is projected to slow down to 0.2 per cent in 2027 and to 0.1 per cent in 2028, as a result of ongoing adverse demographic trends in Bulgaria leading to a decrease in

[10] Although the forecast of interest rates on new loans to corporations foresees a gradual increase from mid-2026, they are expected to remain at historically relatively lower levels over the period 2026–2028.

[11] 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.

[12] For further information on the value of the included technical assumptions about the supply of units see the press release of the Ministry of Transport and Communications.

labour force. The decline in the working age population and projected real GDP growth will result in a gradual decrease in the unemployment rate from 3.3 per cent in 2026 to 3.0 per cent in 2028. Real labour productivity growth rate is expected to amount to 1.8 per cent in 2026 and to increase further to 2.5 per cent in 2027 and 2.8 per cent in 2028, reflecting similar growth rates to that projected for GDP given the expected slight increase in employment over this period. Nominal compensation *per* employee is projected to increase by 9.1 per cent in 2026. Factors that will support wage growth over this period include economic activity growth while maintaining a high share of firms reporting labour shortages as a factor constraining their activity, rising real labour productivity, the 12.6 per cent increase in the minimum wage since the beginning of the year, as well as the projected increase in public sector wages[13]. Growth in compensation *per* employee is expected to reach 9.4 per cent in 2027 and 8.7 per cent in 2028 and to remain higher than that which corresponds to the projected growth in labour productivity and inflation, mainly due to limited labour supply in Bulgaria. As a result, wage growth in real terms will continue to support household consumption over the entire projection horizon, but will also be reflected in higher labour costs and, consequently, in lower cost and price competitiveness of firms in Bulgaria. Nominal unit labour costs are projected to grow by 7.2 per cent in 2026, with growth moderating to 6.7 per cent in 2027 and 5.7 per cent in 2028, in line with higher labour productivity over this period and a lower rate of wage growth in 2028.

Monetary Sector

In line with market expectations of upward dynamics in short-term interest rates in the euro area money market and a projected strengthening of the ECB's monetary policy transmission to the Bulgarian economy following Bulgaria's accession to the euro area, interest rates on new time deposits for both the non-government sector and households are expected to follow a gradual upward trend over the forecast horizon. Interest rates on new corporate loans are also expected to follow upward dynamics in the period up to 2028, with a stronger increase projected until the end of 2027.

The annual growth of non-government sector's deposits is projected to slow down to 8.5 per cent at the end of 2026, mainly driven by the high end-2025 base determined by the intensive depositing of cash holdings in the banking system prior to euro area accession. In 2027 and 2028, a further slowdown is expected in the annual growth rate of deposits to 8.3 per cent and 7.7 per cent, respectively, as a result of the expected slowdown in wage growth in the economy. Annual growth of credit to the non-government sector is expected to decline to 12.2 per cent at the end of 2026, 10.3 per cent at the end of 2027 and 8.5 per cent at the end of 2028. The projected downward dynamics will mainly reflect the expected slowdown in household credit in line with slower growth in private consumption and housing prices.

Inflation

The inflation forecast is based on underlying technical assumptions for international prices of energy and agricultural commodities and the projected degree and speed of their pass-through to final consumer prices of food and services. Based on the information available as of 21 May 2026, the inflation forecast assumes an increase in the excise duty for tobacco products for 2026–2027 as provided for in the Law on Excise Duties and Tax Warehouses[14]. In addition, an assumption was made of a rise in water supply and sewerage prices over the forecast horizon, in line with the practice adopted by the EWRC and water supply and sewerage companies for a price indexation based on inflation, as well as higher electricity prices since the middle of each year of the forecast horizon, based on assumptions regarding electricity prices of the Independent Bulgarian Energy Exchange EAD (IBEX).

[13] For 2026, the forecast includes the 5.0 per cent increase in public sector wages provided for in the budget extension law, as well as an assumption of wage indexation in the defence, security and higher education sectors based on existing legislation.

[14] Amendments to the excise calendar for the period from May 2025 to January 2029 were adopted by the State Budget Law of the Republic of Bulgaria for 2025 (published in Darjaven Vestnik, issue 26 of 2025). These changes foresee a simultaneous increase in the specific excise duty rate and a reduction in the proportional excise rate on tobacco products. At the same time, the total minimum excise duty *per* 1000 cigarettes is foreseen to increase by 3.7 per cent from 1 May 2025, by 5.7 per cent from 1 January 2026 and by 5.4 per cent from 1 January 2027.

Annual inflation measured by HICP[15] is projected to accelerate to 5.9 per cent at the end of 2026 (compared to 3.5 per cent at the end of 2025), with average annual inflation coming to 5.0 per cent in 2026 (3.5 per cent in 2025). The group of energy products is expected to be the largest contributor to the acceleration of inflation in 2026, followed by core inflation[16]. Factors expected to affect consumer price developments are primarily related to the external macroeconomic environment, with the international price of Brent crude oil assumed to increase by 34.8 per cent on average for 2026 as a result of the conflict in the Middle East. At the same time, the domestic macroeconomic environment is also expected to continue to have a pro-inflationary effect, driven mainly by high growth rates of private consumption and unit labour costs. Growth in energy product prices on an annual basis is projected to peak at 14.4 per cent in the second quarter of 2026 (against a decline of 0.3 per cent on an annual basis in the first quarter of 2026), after which it is expected to gradually slow down in line with the assumptions of the Brent crude oil price on international markets. Concurrently, the significant acceleration in energy product inflation is expected to be transmitted indirectly to the prices of other main groups of the consumer basket in the second half of the year. Core inflation is expected to accelerate to 4.0 per cent on average for 2026 (from 2.9 per cent in 2025), reflecting mainly the services sector. Food inflation is expected to be 5.4 per cent on average for 2026 and to accelerate to 6.3 per cent at the end of the year.

In 2027, the growth rate of consumer prices is expected to slow down to 3.5 per cent on average for the year. The slowdown is mainly due to energy components, where price growth is expected to slow down significantly due to the high base of 2026. At the same time, services and food inflation is expected to remain high at 5.5 per cent and 4.4 per cent on average in 2027, respectively, driven by the indirect and second-round effects of the increases in transport fuel prices in 2026.

For 2028, both end-year inflation and average annual inflation are projected to slow down to 2.6 per cent and 2.9 per cent, respectively. A slowdown is expected across all sub-components, with the exception of energy products, mainly due to the base effect resulting from the high price growth of the previous two years. Although technical assumptions suggest significantly lower international oil prices in 2028, the growth rate of energy product prices in Bulgaria is expected to accelerate as a result of the envisaged introduction of the ETS2 system in the EU[17]. According to BNB estimates, the introduction of ETS2 in Bulgaria, without the parallel introduction of fiscal compensatory measures intended to affected households, would lead to 0.5 percentage point higher annual average inflation in 2028.

Forecast Revisions

Compared to the March 2026 Macroeconomic Forecast, current expectations are for GDP growth to remain resilient but lower in 2026 and 2027 and higher in 2028. The main factors behind the GDP and inflation revision in the forecast are related to developments in the external environment, most notably the conflict in the Middle East, as well as to the incoming economic data for January–April 2026.

For 2026, the forecast is for a higher negative contribution of net exports and a stronger increase in all domestic demand components (mainly fixed capital investments) compared to the March forecast. The higher negative contribution of net exports in the current forecast is due to both weaker exports of goods and services given the assumption of weaker external demand for Bulgarian goods and services, as well as expected higher imports. Part of the supplies of military equipment that were projected for 2025 in the previous forecast have been shifted to early 2026 in the current forecast due to new information regarding their statistical reporting. This also contributes to the revision in the dynamics of goods imports in 2026. Revisions in domestic demand components are mainly due to incoming data for the first quarter of the current year, which suggest continued positive momentum in domestic demand components. Compared to the March forecast, private consumption is expected to increase more significantly mainly due to the strong upward trend observed in consumer expenditure at the end of 2025 and the beginning of 2026, as indicated by labour market data and increased retail trade turnover in January–March 2026. The upward revision in fixed capital investments in 2026 is affected by new economic data showing higher than expected investment activity at the beginning of the year. Public investments for 2026 have been

[15] Harmonised Index of Consumer Prices.
[16] Core inflation is measured by the HICP and includes prices of services and industrial goods, as defined by Eurostat.
[17] The EU Emission Trading System 2 (ETS2) 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.

revised upwards, leading to a lower year-on-year decline in them for 2026. This revision reflects data on the implementation of the Consolidated Fiscal Programme as of end-March 2026, which indicate a higher than expected level of general government investments, as well as the statistical reporting in 2026 of military equipment supplies, which in the previous forecast were expected to be reported in 2025.

In 2027, GDP growth was revised downwards compared to the March forecast, mainly due to weaker private consumption growth given the projected decline in household purchasing power as a result of the upward revision of consumer price inflation in 2026 and 2027, and, to a lesser extent, due to weaker investment growth. In 2028, higher GDP growth compared to the previous forecast reflects the acceleration in the growth of goods exports given the assumption of higher external demand. For the 2027–2028 period, the forecast envisages lower growth in both private and public investments. These developments are consistent with the expected slight deterioration in private sector financing conditions. The revision in private investments in 2028 also reflects the removal of the assumption in the previous forecast of additional investments under the Energy Efficiency of Multi-Family Residential Buildings National Programme due to the uncertainty surrounding its financing. Fixed capital investments of the general government sector are influenced by the base effect stemming from projected higher investments in 2026 and 2027.

The forecast for average annual inflation has been revised towards a stronger rise in consumer prices in 2026 by 1.3 percentage points (an upward revision of 1.9 percentage points for end-year inflation), with energy products' revision being the most significant, where average annual inflation has been increased by 6.6 percentage points. The revision in energy inflation is partly due to higher oil prices under the updated external assumptions, but also to the higher than expected materialisation in March and April 2026. In these months, fuel prices in Bulgaria increased more strongly compared to their historical dependence on international oil prices, as set out in the BNB basic forecasting model. An upward revision of 0.3 percentage points is also reflected in the average annual inflation for 2027 (although inflation at end-2027 is lower than that in the March forecast by 0.4 percentage points), due to the projected indirect and second-round effects of higher energy product prices in 2026 on core inflation, which increased by 0.4 percentage points, and on food inflation, which increased by 0.1 percentage points. For 2028, a stronger slowdown in inflation is projected compared to the March forecast (by 0.3 percentage points in average annual inflation and by 0.2 percentage points in end-year inflation), which is in line with the technical assumptions for international prices of energy and agricultural commodities, with an additional impact from the base effect of the stronger price increases in the previous two years.

TABLE 1

GDP[18] and Inflation Forecast Revisions (27 May 2026 *vis-à-vis* 25 March 2026)

Annual rate of change (per cent)	Forecast of 27 May 2026				Forecast of 25 March 2026				Revision (percentage points)			
	2025	2026	2027	2028	2025	2026	2027	2028	2025	2026	2027	2028
GDP at constant prices	3.2	2.8	2.7	2.9	3.2	3.0	2.9	2.8	0.0	-0.2	-0.2	0.1
HICP at end of period	3.5	5.9	2.7	2.6	3.5	4.0	3.0	2.8	0.0	1.9	-0.3	-0.2

Sources: BNB, NSI.

Risks to the Forecast

In view of the preliminary agreement signed on 17 June between the United States and Iran to end the war in the Middle East, the assessment of risks to the forecast has been updated as of 18 June.

Risks to the inflation forecast are assessed as downward for 2026 and 2027 and as balanced for 2028. Assuming that the agreement reached between the United States and Iran is sustainable, the crude oil price is likely to be lower than that projected in the baseline. Depending on the speed

[18] GDP figures are seasonally and working-day adjusted.

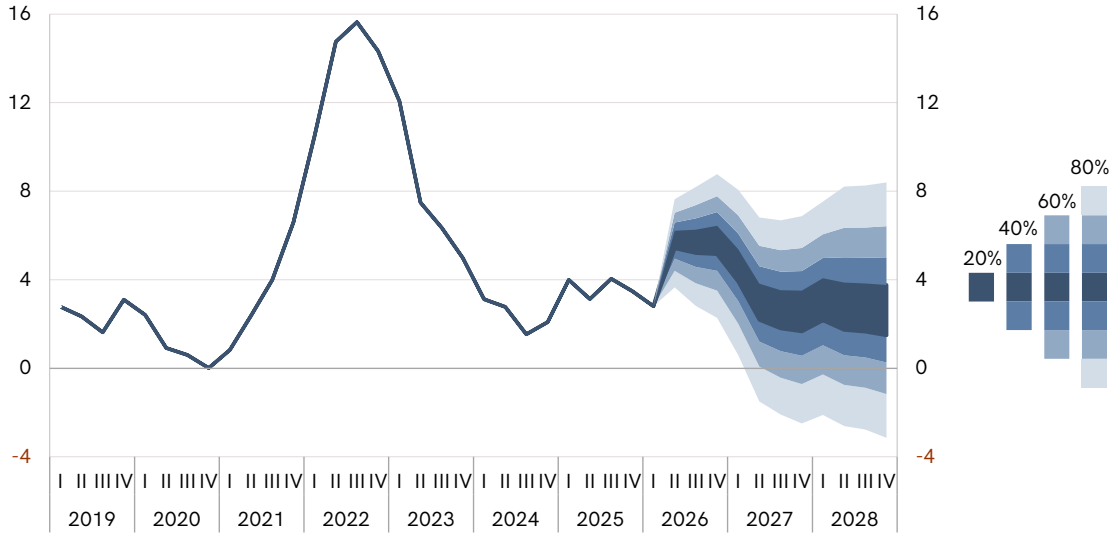
at which crude oil supplies through the Strait of Hormuz will recover, these processes may result in significantly lower inflation in transport fuels in Bulgaria. The normalisation of supply chains would also lead to lower than expected prices of non-energy and agricultural commodities, which would result in weaker consumer price growth in Bulgaria. These factors may limit indirect and second-round effects set out in the baseline and consequently lead to weaker than projected inflation for the end of 2026 and the beginning of 2027. Risk of higher inflation over the whole projection horizon stems from the likelihood that firms will pass on rising labour costs faster and to a larger extent to final consumer prices, as well as from the possibility that inflation in goods and services with administratively controlled prices will be higher than that set out in the baseline.

The forecast uncertainty for a particular indicator may be graphically illustrated by means of a fan chart. It illustrates the degree of uncertainty surrounding the baseline forecast. In the event of an asymmetric distribution of the probabilities, the chart also reflects the balance of risks surrounding the forecast. Chart bands of a particular colour indicate an interval within which the forecast value is expected to fall with a certain probability[19] (for more details, see the notes to the charts). Usually, each interval widens with the increase in the forecast horizon, reflecting the increasing uncertainty further into the future. The middle band of the chart, depicted in the darkest colour, includes the baseline of an annual change in inflation (measured by the HICP), and the constructed distribution shows a 20 per cent probability for the actual value to fall within this band in each of the quarters. The fan chart of inflation suggests that with a probability of 60 per cent, annual inflation in consumer prices is expected to range between 3.5 and 7.8 per cent at the end of 2026.

CHART 1

Fan Chart of Expected Inflation on an Annual Basis at the End of the Period

(per cent)



Notes: The fan chart shows the expert views of the forecasters on the uncertainty surrounding the projected value based on a probability distribution. The middle band of the chart, depicted in the darkest colour, includes the central projection and the probability distribution shows 20 per cent probability for the actual value to fall in this band in each of the quarters. If neighbouring bands (in the same brighter colour) are added to the middle band, there would be a 40 per cent coverage of the probability mass. Thus, by adding each same colour couple of bands, the probability for the value to fall there would be increased by 20 percentage points to reach 80 per cent. The probability for the value to remain outside the coloured part of the chart is 20 per cent based on the distribution chosen.

Sources: NSI, BNB.

[19] The fan chart is constructed on the basis of the so-called asymmetric exponential distribution. To present the forecasting team's estimate of the uncertainty of projected values, it is necessary to estimate the *general uncertainty of the forecast* (by determining the dispersion σ of the distribution) and the so-called *balance of risks* (by determining the asymmetry parameter ν of the distribution), which indicates the direction in which the realised value is more likely to deviate from the projected value. The balance of risks is determined subjectively by the forecasters on the basis of possible changes in the structure of the economy, inaccuracies in the information available at the time of the forecast production, imperfections in forecasting methods employed, forthcoming economic policy decisions, *etc*. Historical data on the average forecast error made by the BNB experts when preparing previous forecasts are used to determine the general uncertainty to the forecast. For details on the construction of the fan chart, see the highlight on *Measurement and Presentation of Uncertainty in Forecasting Economic Indicators* in Economic Review, 2012, issue 1.

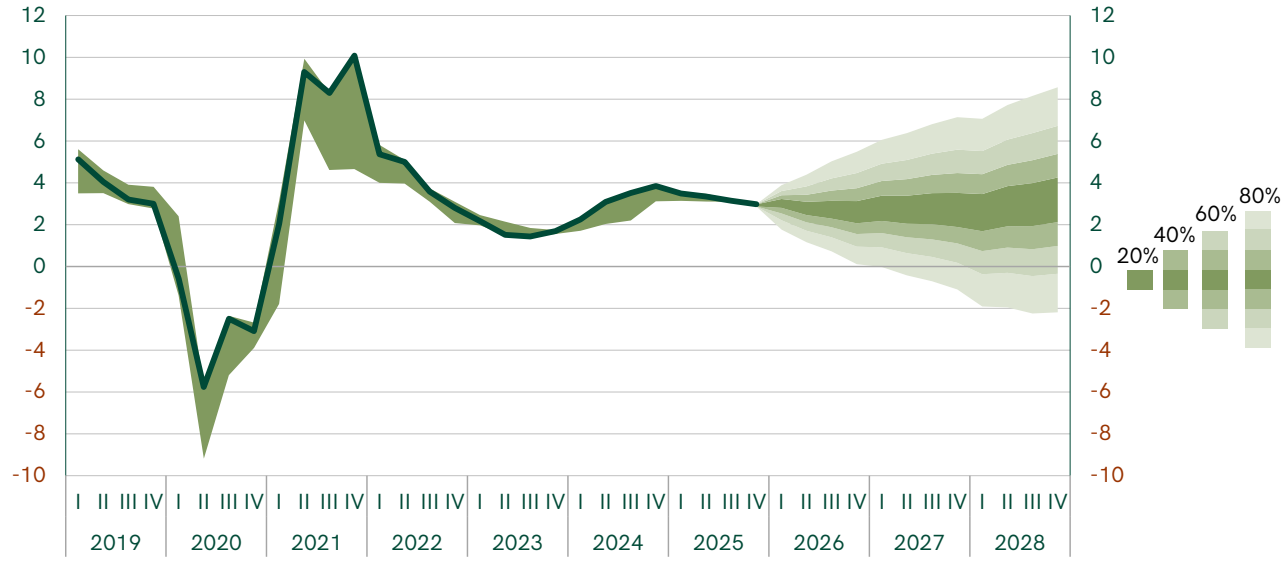
Assuming compliance with the US-Iran ceasefire agreement and normalisation of shipping through the Strait of Hormuz, risks to the GDP forecast are assessed as oriented towards higher growth in 2026 and 2027 and balanced for 2028. Risks to the economic growth related to the external environment stem from the possibility of higher growth in world trade and external demand for Bulgarian goods and services, decreasing commodity prices compared with the baseline, as well as reduced uncertainty. As regards the domestic environment, there are risks of higher private consumption growth in 2026 and 2027 compared to the baseline. Weaker than expected rise in consumer prices in Bulgaria would have a positive effect on household purchasing power. At the same time, private consumption could be supported by a lower than projected propensity of households to save given the projected strong negative real interest rates on household deposits. Risk to the GDP forecast also stems from the parameters that will be laid down in the State Budget Law for 2026 and the medium-term fiscal forecast of the government. They have a direct impact on household disposable income and government consumption and on the size of government investments. In addition, there is a risk of lower real GDP growth in Bulgaria over the entire forecast horizon as a result of a slower than projected implementation of investment projects financed by both national and EU funds.

According to the fan chart illustrating the GDP distribution for 2026, there is a 60 per cent probability that the annual rate of change of real GDP will fall within the range of 1.6 per cent to 4.0 per cent.

CHART 2

Fan Chart of the Expected Annual Rate of Change in Real GDP

(per cent)



Notes: The chart provides historical series (including revisions) and annual real GDP growth forecast according to seasonally and working-day adjusted data. The black line shows the annual change in real GDP according to the latest available NSI data. The fan chart shows the expert views of the forecasters on the uncertainty surrounding the projected value based on a probability distribution. The reporting period includes revised GDP growth estimates, with the latest reporting periods revised on fewer occasions, thus narrowing the band. The middle band of the projected horizon chart, depicted in the darkest colour, includes the central projection and the probability distribution shows a 20 per cent probability for the actual value to fall in this band in each of the quarters. If neighbouring bands (in the same brighter colour) are added to the middle band, there would be a 40 per cent coverage of the probability mass. Thus, by adding each same colour couple of bands, the probability for the value to fall there would be increased by 20 percentage points to reach 80 per cent. The probability for the value to remain outside the coloured part of the chart is 20 per cent based on the distribution chosen.

Sources: NSI, BNB.

TABLE 2

Forecast of Key Macroeconomic Indicators for 2026–2028

Annual rate of change (per cent)	2025	2026 f	2027 f	2028 f
GDP at constant prices[1]	3.2	2.8	2.7	2.9
Private consumption	7.7	4.2	3.1	3.5
Government consumption	7.0	3.6	3.0	3.0
Gross fixed capital formation	10.3	0.4	1.7	2.7
Exports of goods and services	-2.1	2.8	3.2	3.8
Imports of goods and services	5.9	3.9	3.5	4.4
HICP (average for the period)	3.5	5.0	3.5	2.9
HICP (at end of period)	3.5	5.9	2.7	2.6
Core Inflation[2]	2.5	4.9	2.8	2.2
Food[2]	6.3	6.3	3.3	2.7
Energy products[2]	1.8	10.2	0.3	5.1
Employment[1]	2.1	1.0	0.2	0.1
Unit labour costs[1]	9.0	7.2	6.7	5.7
Labour productivity[1]	1.1	1.8	2.5	2.8
Unemployment rate (share of labour force, per cent)[1]	3.5	3.3	3.1	3.0
Loans to non-financial corporations and households[3]	15.3	12.2	10.3	8.5
Loans to non-financial corporations	9.9	8.2	8.1	5.9
Loans to households	21.1	16.0	12.4	10.9
Deposits of the non-government sector	16.4	8.5	8.3	7.7

Per cent of GDP	2025	2026 f	2027 f	2028 f
Balance of payments current account	-5.7	-5.9	-4.9	-5.1
Trade balance	-8.0	-8.7	-8.3	-8.3
Services, net	7.0	7.0	7.0	7.0
Primary income, net	-5.9	-5.4	-5.2	-4.8
Secondary income, net	1.1	1.1	1.5	1.1

Annual rate of change (per cent)	2025	2026 f	2027 f	2028 f
External assumptions				
External demand	3.9	2.1	3.1	3.8
Average annual Brent oil price (in USD)	-14.9	40.1	-15.1	-6.2
Average annual price of non-energy products (in USD)[4]	4.2	6.7	2.7	1.2
Brent oil price at the end of period (in USD)	-14.8	45.1	-14.2	-4.0
Price of non-energy products at the end of period (in USD)	4.6	7.5	1.2	1.3

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. Including 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.

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

As of the cut-off date of the forecast on 27 May, the military conflict in the Middle East is a source of significant uncertainty for the baseline of the macroeconomic forecast. The baseline is therefore complemented by three alternative macroeconomic scenarios: a milder scenario, an adverse scenario and a severe scenario. They 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 11 June 2026.[1] These three scenarios differ in terms of the size of the energy price shock and 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. These scenarios take into account the specificities of the Bulgarian economy and cover the main channels through which the Middle East conflict impacts it.

It should be noted that the preliminary agreement signed on 17 June between the United States and Iran to end the war reduces uncertainty in the forecast baseline, with oil prices as of 18 June staying at levels below the baseline.

Description of the Alternative Adverse Scenarios

The three alternative scenarios differ mainly in terms of the size and duration of the international energy price shock, the strength of its transmission to non-energy goods and services prices and the degree of uncertainty in international financial markets. In particular, 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, electricity,[2] food, the exchange rate of the euro against the US dollar, external demand for Bulgarian goods and services and non-energy prices in the euro area (see Chart 1).

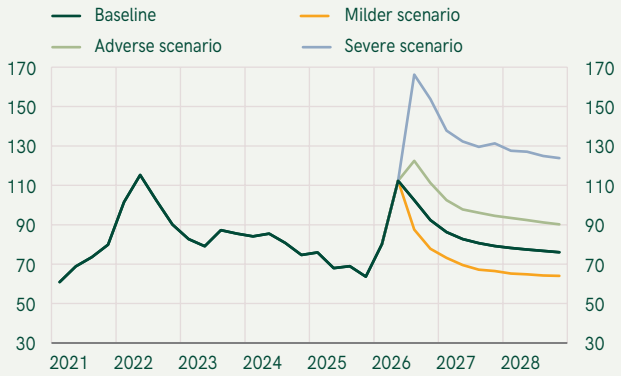
The path of international oil and gas prices in the alternative scenarios is based on the distribution of expected prices of these commodities, derived from option prices as of 28 May. A technical assumption is made that from the third quarter of 2026 oil and gas prices follow the 25th percentile of market-based distributions in the milder scenario, the 75th percentile in the adverse scenario and the 95th percentile in the severe scenario. These percentiles provide the market participants' assessment of the risks stemming from energy commodity prices and implicitly reflect market expectations about the evolution of the war in the Middle East. The different degree of non-linearity between energy prices and inflation is also reflected in designing the scenarios. In periods of high inflation, the propagation 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 prices and inflation, which standard linear models cannot describe. This non-linearity is reflected [3] to a different degree in the adverse and severe scenarios.

[1] For further details, see ECB staff macroeconomic projections, June 2026.
[2] 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 scenarios for the Bulgarian economy based on its historical relationship with international natural gas prices.
[3] In the BNB's main simulation model, these non-linearities 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 relevant coefficients over the high-inflation period in 2022–2023 in Bulgaria and cover the first year of the simulation.

CHART 1

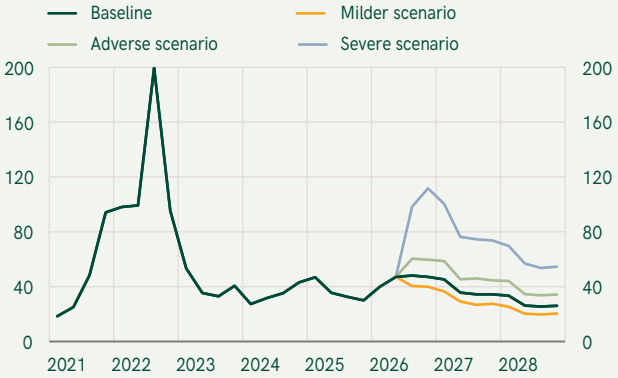
(a) International Oil Price

(USD/barrel)



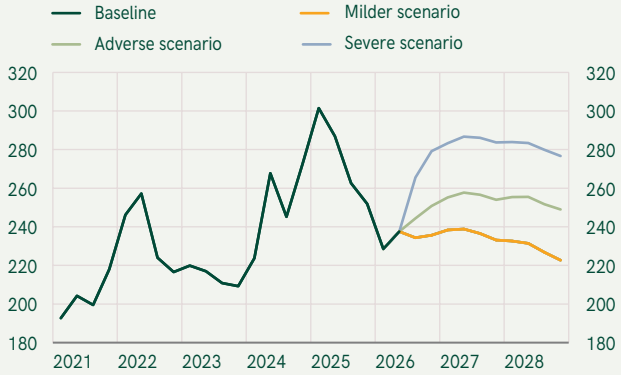
(b) International Natural Gas Price

(EUR/MWh)



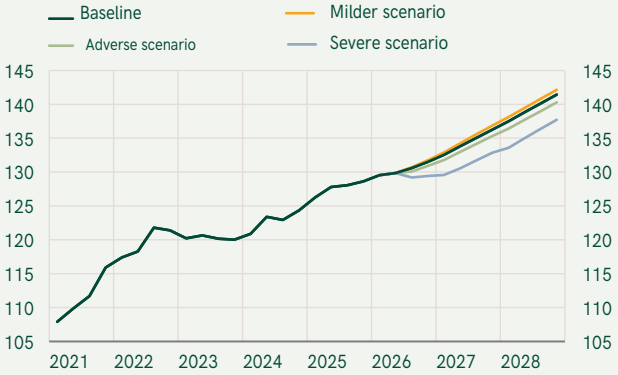
(c) International Food Prices

(USD)



(d) External Demand for Bulgarian Goods and Services

(index 2020 = 100)



Source: ECB, BNB calculations.

The main features of the alternative scenarios are:

- **Milder scenario:** Energy prices are assumed to remain 15–20 per cent below the baseline levels. As a result, in the third quarter of 2026 the oil price is assumed to drop to USD 88 per barrel and the gas price to EUR 41 *per* MWh. This dynamics is in line with part of market expectations that the conflict would be resolved in a relatively short period of time and by the end of 2026 prices would gradually return to their pre-conflict levels . 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.
- **Adverse scenario:** A stronger and more prolonged increase in energy prices is assumed compared with the baseline along with higher uncertainty and more significant indirect and second-round effects on inflation. In this scenario, oil and natural gas prices would peak in the third quarter of 2026 (USD 122 *per* barrel and EUR 60 *per* MWh, respectively), remaining around 20–30 per cent above the baseline levels throughout the whole forecast horizon. As regards food prices, an increase is also projected compared to the baseline. This scenario includes also assumptions about weaker external demand for Bulgarian goods and services and a depreciation of the euro against the dollar. In addition, the adverse scenario assumes also emergence of non-linear indirect and second-round effects on inflation.

- **Severe scenario:** This scenario implies that international oil prices would be around 60 per cent higher than the baseline and natural gas prices around 100 per cent higher, reaching USD 166 *per* barrel and EUR 98 *per* MWh in the third quarter of 2026. 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 conflict coupled with significant damage to oil and gas production and transmission infrastructure. Assumptions in this scenario include also a higher degree of uncertainty in the economic environment and a stronger increase in non-energy prices than in the adverse scenario. At the same time, the severe scenario assumes 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 Transmission Mechanism to the Bulgarian Economy

Scenarios for Bulgaria take into account the main channels through which external shocks are transmitted to a small open economy. External demand channel, reflecting the impact of the military conflict on economic activity in our trading partners and hence exports of Bulgarian goods and services plays a key role for Bulgaria's economic activity.

Oil, natural gas and electricity 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 sub-components of the Harmonised Index of Consumer Prices (HICP), particularly food and services prices, *via* rising production costs of corporations. Second-round effects from higher oil, gas and electricity prices on inflation are visible through indexation of wages and a subsequent increase in unit labour costs. Accordingly, the extent to which price increases from the initial shock affect real economic activity in Bulgaria depends on the degree to which increases in firms' and households' income may offset their higher costs.

Dynamics of international food commodity prices has a direct impact on food prices in Bulgaria. In addition, a higher degree of pass-through of energy prices to consumer food prices is included, which is consistent with the historical elasticity observed in the 2022–2023 period and is higher than the average estimated historical elasticity. At the same time, services prices imply a higher degree of labour cost pass-through, also in line with the estimated dependence over the 2022–2023 high inflation period. These assumptions reflect an expectation of a potential intensification of non-linear second-round effects in a scenario of a strong and prolonged energy price shock.

Simulations take into account assumptions about price increases in industrial goods in the euro area under an adverse and a severe scenario and their price declines under a milder scenario. These assumptions have an impact on dynamics of these goods prices in Bulgaria.

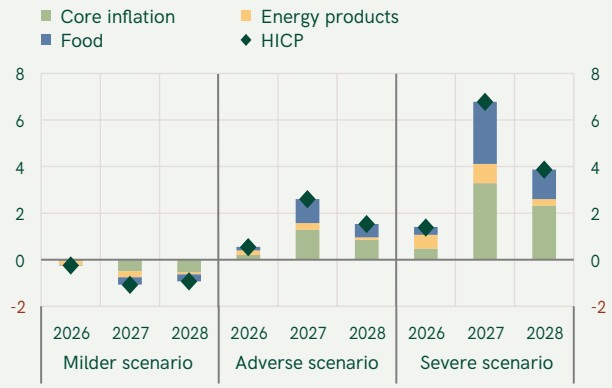
Simulation Results

Simulation results show that if the milder scenario would materialise, lower inflation and higher growth of economic activity would be observed for Bulgaria compared to the baseline. At the same time, the two negative scenarios lead to higher inflation and lower growth of economic activity compared with 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 energy shock would most strongly impact goods and services exports and private consumption (see Chart 2).

CHART 2

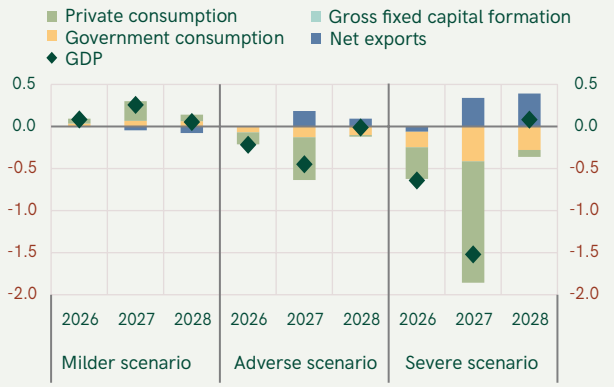
(a) Deviation of the HICP from the Baseline and Contributions by Component

(percentage points)



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

(percentage points)

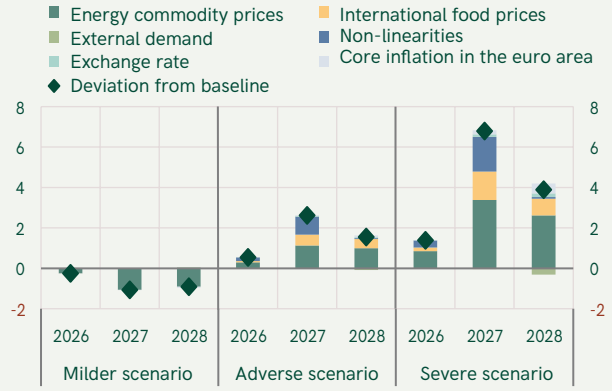


Source: BNB calculations.

CHART 3

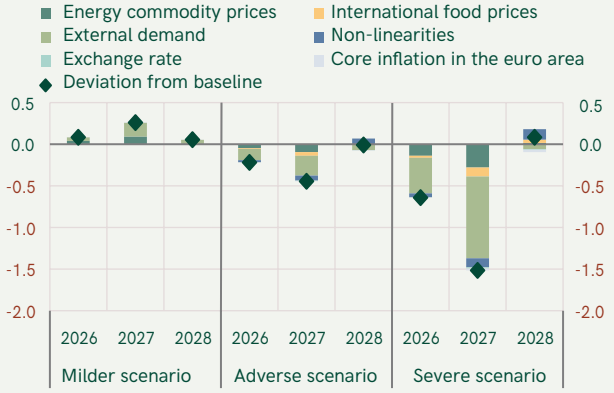
(a) Deviation of the HICP from the Baseline and Contributions by Shock

(percentage points)



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

(percentage points)



Source: BNB calculations.

In a milder scenario, the forecast is for lower than baseline inflation for the whole projection horizon, which is mainly 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 0.2 percentage points lower at 4.8 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 0.9 percentage points, respectively, compared to the baseline, coming to 2.4 per cent and 2.0 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 is higher than the baseline over the whole projection horizon (see Chart 2 (b).

In an adverse scenario, inflation increases in 2026, mainly driven by energy price dynamics, initially reflected in transport fuels and subsequently transmitted to core inflation and the food group. Inflation is higher for the whole projection horizon compared to the baseline, by 0.5 percentage points in 2026, by 2.6 percentage points in 2027 and by 1.5 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 an adverse scenario, inflation would be 5.5 per cent in 2026, before accelerating to 6.1 per cent in 2027 and slowing down to 4.5 per cent in 2028 (see Table 1). The impact on economic activity is towards lower growth compared to the forecast baseline, by 0.3 percentage points in 2026 and 0.5 percentage points in 2027, followed by a gradual recovery in external demand as the shock fades out. Lower real GDP growth in 2026 and 2027 is due to weaker growth in private consumption, fixed capital investments and exports of goods and services. Concurrently, this decline in domestic demand components and exports is reflected in lower imports of goods and services, leading to a positive deviation of net exports compared to the baseline. Real GDP growth in an adverse scenario slows down to 2.5 per cent in 2026 and 2.2 per cent in 2027, before accelerating to 2.9 per cent in 2028 (see Table 1).

Under a severe scenario, more intense and prolonged inflationary pressures are observed (see Chart 4). The initial energy price shock is larger and more persistent, resulting in a more pronounced pass-through to core and food inflation. 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 1.4 percentage points in 2026 and by 6.8 percentage points in 2027, standing at 6.4 per cent and 10.3 per cent, respectively (see Table 1).

TABLE 1

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

	Real GDP growth (per cent)			Average annual inflation (based on HICP)		
	2026	2027	2028	2026	2027	2028
Baseline	2.8	2.7	2.9	5.0	3.5	2.9
Milder scenario	2.8	2.9	3.0	4.8	2.4	2.0
Adverse scenario	2.5	2.2	2.9	5.5	6.1	4.5
Severe scenario	2.1	1.2	3.0	6.4	10.3	6.8

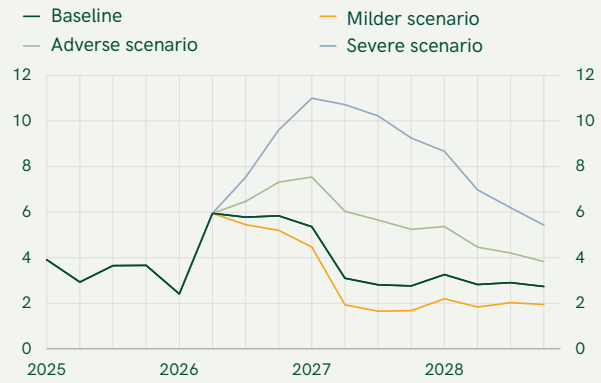
Source: BNB.

Assuming a lower degree of pass-through of energy prices and labour costs to the HICP towards historical values, inflation slows down to 6.8 per cent in 2028. Economic activity in a severe scenario decreases significantly, with real GDP growth being lower by 0.7 percentage points in 2026 and by 1.5 percentage points in 2027 compared to the forecast baseline to reach 2.1 per cent and 1.2 per cent, respectively (see Table 1). Lower growth is mainly attributable to the assumption of weaker external demand for Bulgarian goods and services. In 2028, GDP growth is higher than in the baseline, due to the lower base of the previous two years. However, the level of real GDP in the severe scenario remains lower than the baseline over the whole projection horizon.

CHART 4

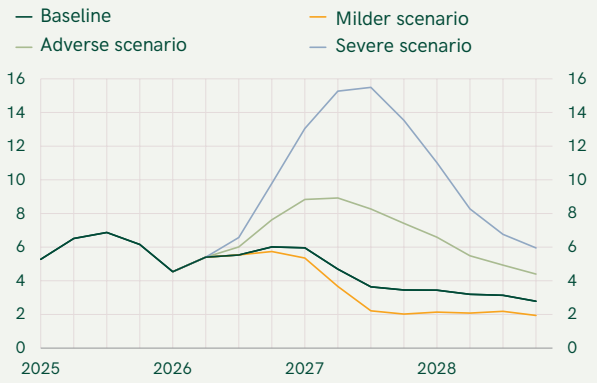
(a) Inflation (based on HICP)

(per cent)



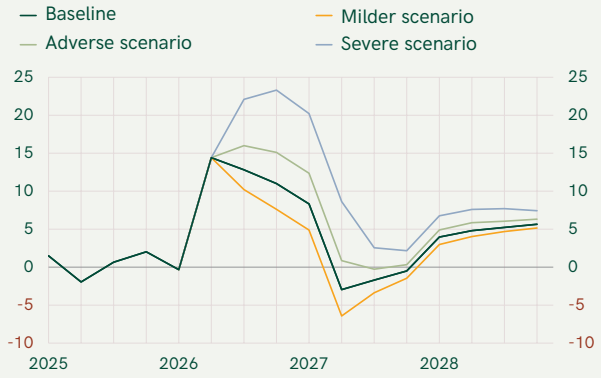
(b) Food Inflation

(per cent)



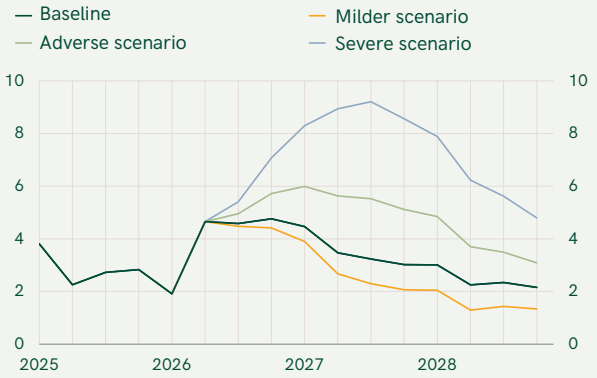
(c) Energy Inflation

(per cent)



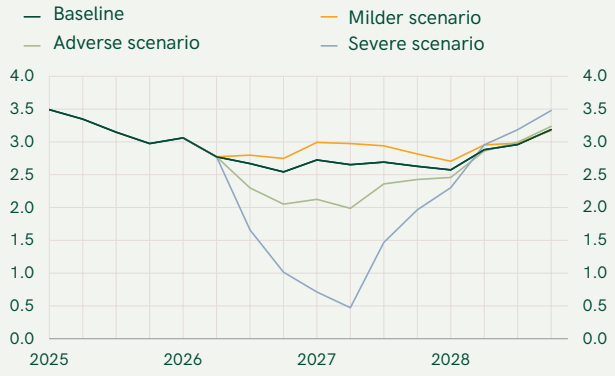
(d) Core Inflation

(per cent)



(e) Real GDP Growth

(per cent, annual growth)



Source: BNB calculations.

Analysis of Labour Market Conditions and Their Impact on Inflation in Bulgaria

Over the past few years, Bulgaria's labour market has been characterised by persistently tight labour conditions, driven by both strong labour demand and limited labour supply. This resulted in high wage growth, which in turn underpinned a strong growth in private consumption and an increase in its share of GDP. Along with its effect on the economic activity, the high growth rate of labour costs became an increasingly important factor for inflation dynamics in Bulgaria. This topical research aims to present the main labour market developments in recent years, to assess their role in wage and inflation dynamics and to highlight their importance in shaping expectations for the development of the Bulgarian economy.

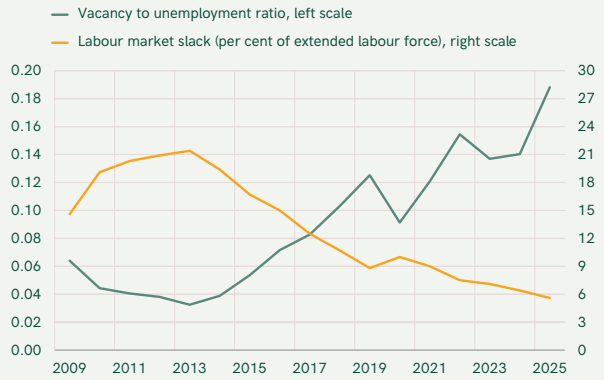
In 2025, a number of indicators reflecting labour demand and supply in Bulgaria reached record highs, with our country standing out among the Central and Eastern European and euro area countries with some of the tightest labour market conditions.

As regards demand-side indicators, the unemployment rate reached a historical low of 3.5 per cent[1] in 2025, and the share of enterprises pointing to labour shortages as a factor limiting their productive activity increased to a record high of 33.2 per cent on average[2]. A historical peak was also recorded in the ratio of job vacancies to the number of unemployed persons in the country (Chart 1).

CHART 1

Labour Market Tightness in Bulgaria

(job vacancies *per* unemployed person) (per cent)



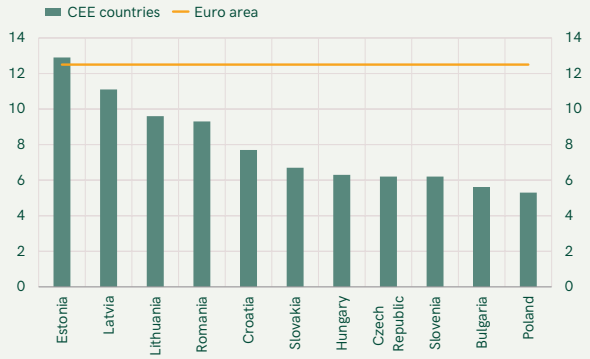
Notes: Lower labour market slack implies a reduction in potential labour supply and hence tightening of labour market conditions, and *vice versa*. The ratio of job vacancies to unemployed persons is interpreted in reverse: a lower value implies that labour supply exceeds demand and therefore labour market conditions are less tight. Labour market slack data for Bulgaria before 2009 are not available.

Source: Eurostat.

CHART 2

Labour Market Slack in 2025

(per cent of extended labour force)



Note: As of 2026, the euro area comprises 21 Member States.

Source: Eurostat.

Data on labour market slack[3] also suggest that labour market conditions in Bulgaria were tighter in 2025 than in other Central and Eastern European (CEE) countries[4], with the exception of Poland, and the corresponding indicator for the euro area (Chart 2). In addition, the number of per-

[1] Labour Force Survey (LFS) data refer to the age group 15 and over.
[2] According to NSI's Business Situation Survey data.
[3] Labour market slack measures the potential reserve of persons that could be included in employment. It covers unemployed, part-time workers, people seeking a job but not immediately available to work, as well as people available to work but not seeking. The indicator is presented as a percentage of the potential labour force, which includes, in addition to the labour force, the last three categories of labour slack.
[4] The CEE countries comprise Bulgaria, the Czech Republic, Estonia, Croatia, Latvia, Lithuania, Hungary, Poland, Romania, Slovenia, and Slovakia.

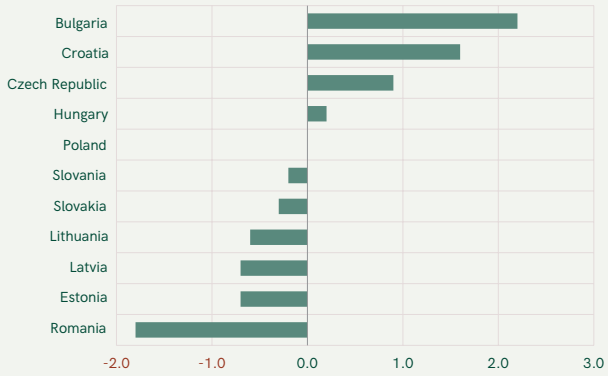
sons employed in Bulgaria rose by 2.2 per cent in 2025, which represents the strongest growth since 2008 and is the highest growth rate in employment among the CEE countries (Chart 3).

At the same time in 2025, the vacancy rate in the CEE countries was lower than in the euro area (except the Czech Republic), suggesting lower demand pressures (Chart 4). The number of job vacancies in Bulgaria also remained below the 2019 level in the course of the year. Concurrently, job vacancy rates in the euro area and most of the CEEC declined in 2025, while Lithuania and Bulgaria recorded growth, suggesting that demand pressures on the labour market increased in these two countries.

CHART 3

Employment Growth in the CEE Countries in 2025

(per cent, annual change)

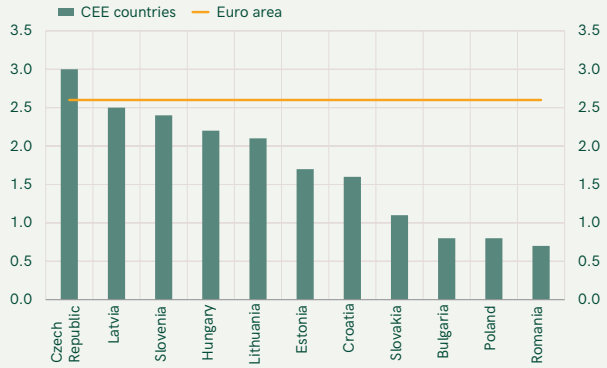


Source: Eurostat.

CHART 4

Job Vacancy Rate in 2025

(three-year average)



Note: As of 2026, the euro area comprises 21 Member States.

Source: Eurostat.

On the supply side, adverse demographic developments, which are reflected in a shrinking working-age population, can be identified as the main factor leading to tight labour market conditions in Bulgaria and most of the other CEE countries. The working age population (15–74 years) fell by 8.5 per cent in the region between 2001 and 2025, while the euro area recorded an increase of 5 per cent over the same period (Chart 5). The declining labour supply is particularly relevant for Bulgaria, which stands out as the country with the worst demographic trends among the CEE countries, where the working-age population declined by 24.3 per cent between 2001 and 2025 (Chart 6). In the aftermath of the COVID-19 pandemic, a number of CEE countries, including Bulgaria, recorded positive net migration, mainly as a result of returning nationals. However, these migration flows are not sufficient to offset population decline and ageing, especially in Bulgaria. Even if positive net migration flows persist, labour market conditions in Bulgaria are expected to remain very tight as the negative effect of an ageing and declining population significantly exceeds the positive effect of net migration and will continue to lead to a decrease in the working-age population, according to Eurostat's demographic projections[5]. According to a study by Karagyozova-Markova (2015)[6], the continued increase in the retirement age under the 2015 pension reform in Bulgaria will also not be sufficient to fully offset population decline.

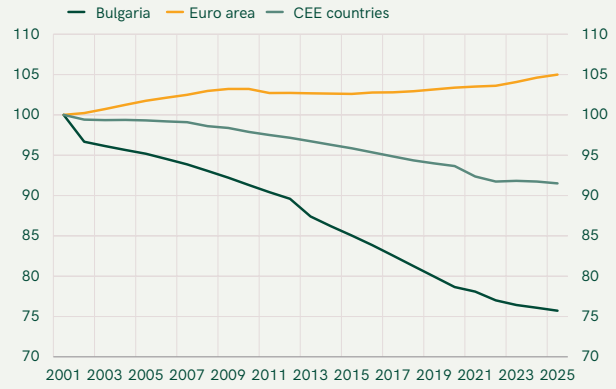
[5] For more information, see Eurostat population projection data for the 15-74 age group under a higher migration scenario.

[6] For more details, see *Karagyozova-Markova (2015), Population Aging and Long-Term Sustainability of Public Finances in Bulgaria,* Sofia University, *St. Kliment Ohridski.*

CHART 5

Working Age Population, 15–74 Years

(Index, 2001=100)



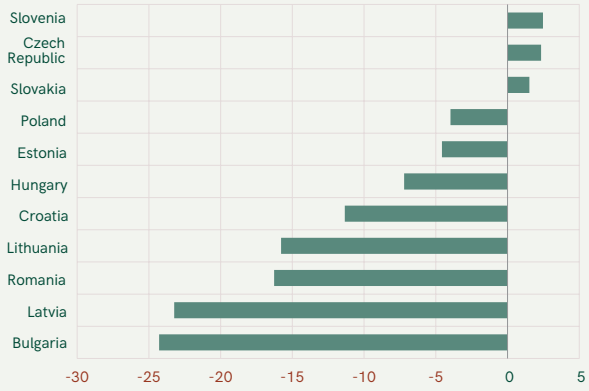
Note: As of 2026, the euro area comprises 21 Member States.

Source: Eurostat.

CHART 6

The Change of the Working Age Population in the CEE Countries over the 2001–2005 Period, 15–74 Years

(per cent)



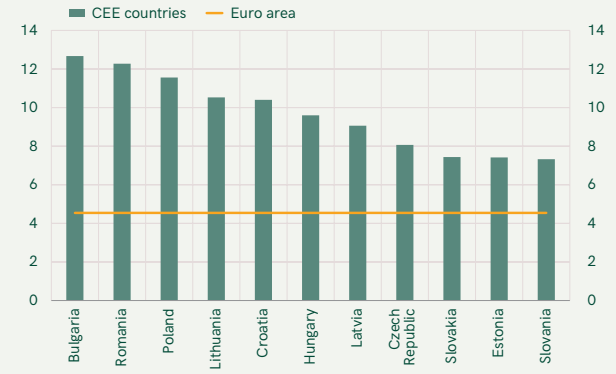
Source: Eurostat.

Bulgaria's labour market conditions thus described are likely to have led to an increase in the bargaining power of workers in wage setting, which is a factor for high nominal wage growth exceeding the corresponding growth in labour productivity and inflation. Nominal compensation *per* employee in Bulgaria rose by 12.7 per cent on average over the period 2021–2025, while average annual inflation and real labour productivity growth for the same period came to 6.1 per cent and 2.9 per cent, respectively. Wage growth in Bulgaria was higher than in the other CEE countries in the period 2021–2025 (Chart 7), reflecting both a lower base and a more limited labour supply as a result of ongoing adverse demographic developments in Bulgaria. Similar developments were recorded for unit labour cost growth rates (Chart 8).

CHART 7

Average CPE Growth in the CEE Countries for the 2021–2025 Period

(per cent, annual change)



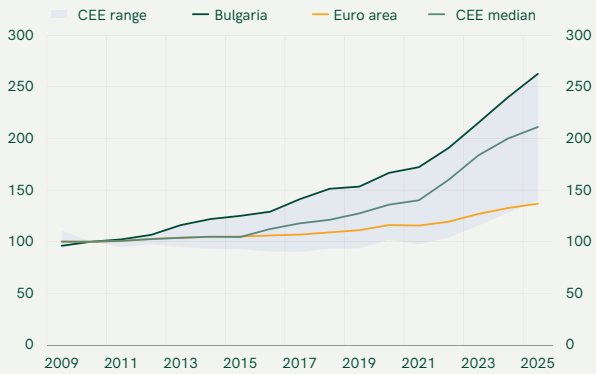
Note: As of 2026, the euro area comprises 21 Member States.

Source: Eurostat.

CHART 8

Nominal Unit Labour Cost

(index, 2010=100)



Source: Eurostat.

In addition to tight labour market conditions, other factors that have supported wage growth in Bulgaria in recent years include the introduction of an automatic minimum wage setting mechanism[7], which creates a close relationship between the minimum and the average wage, as well as the strong increase in public sector wages[8], which was also accompanied by a significant rise in the number of employees in this sector[9].

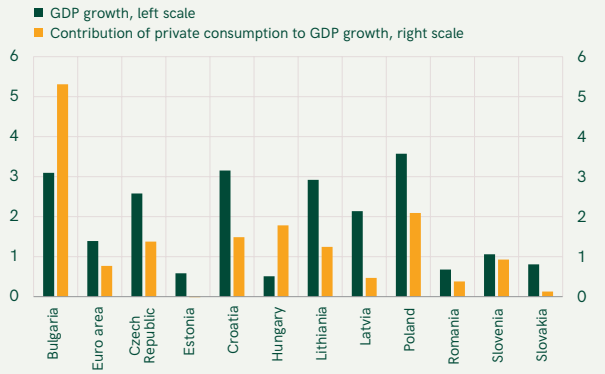
[7] As of 1 January 2024, the minimum wage amounts to 50 per cent of the average gross wage for the previous 12 months.
[8] Compensation *per* employee in the general government sector; education; human health and social work activities rose by 13 per cent on average over the period 2021–2025, with an increase of 12.7 per cent in compensation *per* employee for the total economy over the same period.
[9] Employees in the general government sector; education; human health and social work activities increased by 2.7 per cent on average over the period 2001–2025, compared with an average growth of 1.1 per cent for total employment in the economy over the same period.

High wage growth in Bulgaria resulted in a strong increase in private consumption, which contributed most to GDP growth (Chart 9). Private consumption growth stood at 7.8 per cent in 2025, representing the highest increase among the CEE countries (Chart 10). In the context of a strong domestic consumption, firms were able to pass on higher labour costs to end-users, which resulted in persistently high services inflation. The current BNB forecast projects these developments to remain in the coming years given the expectations of continued tight labour market conditions. As a result, the relationship between wages and consumer prices can be expected to continue to strengthen. However, the pass-through of rising wages to final consumer prices in Bulgaria is still lower than in most CEE countries and the euro area, based on both data on the share of compensation of employees in gross value added (Chart 11), and on data on the share of wages in total firms' expenses on goods and services (Chart 12). As a result, wage growth in Bulgaria can be expected to remain among the highest in the CEE region in the coming years, supported by convergence processes and a shrinking labour force.

CHART 9

Contribution of Consumption to GDP Growth in 2025

(per cent, annual change) (percentage points)

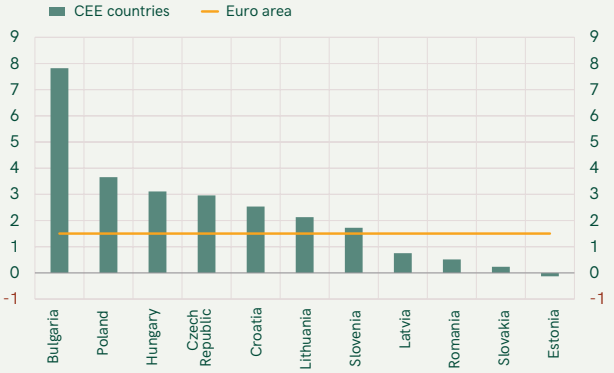


Source: Eurostat.

CHART 10

Private Consumption Growth in CEE Countries in 2025

(per cent, annual change)

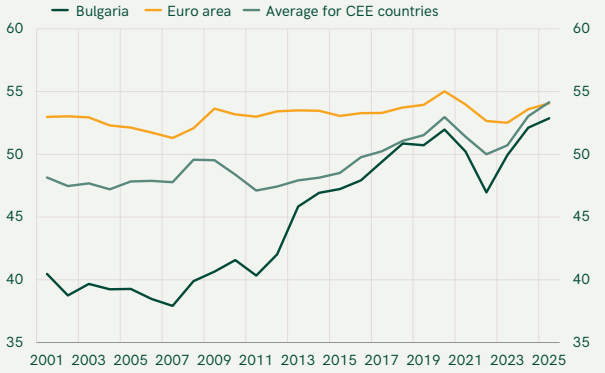


Note: As of 2026, the euro area comprises 21 Member States.
Source: Eurostat.

CHART 11

Share of Compensation of Employees in Gross Value Added

(per cent)

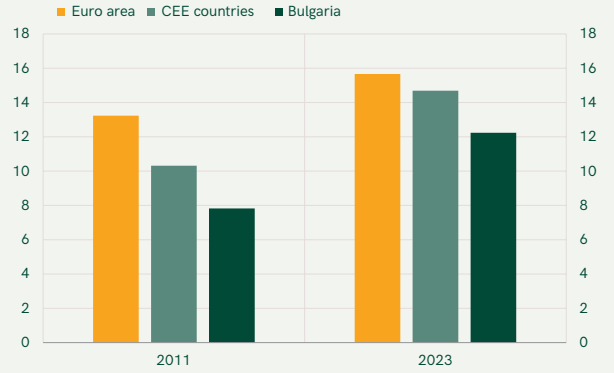


Note: As of 2026, the euro area comprises 21 Member States.
Source: Eurostat.

CHART 12

Share of Wages in Total Firms' Expenses on Goods and Services

(per cent)



Note: Data available up to 2023.
Source: Eurostat.

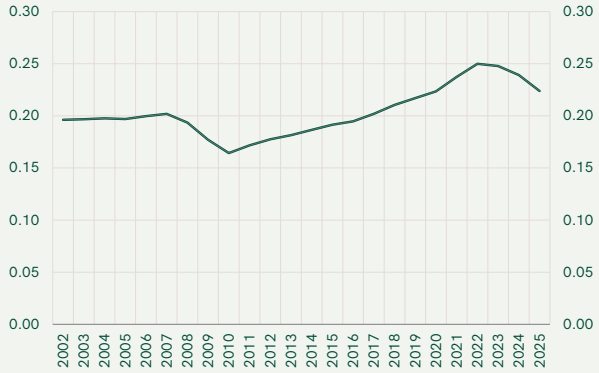
According to Kasabov's study (2024)[10] the relationship between wages and consumer prices in Bulgaria is estimated using a model that incorporates the unemployment rate, unit labour costs and import prices by allowing the coefficients to vary over time. The results show that the relationship between inflation and wages has gradually strengthened over the past 15 years (Chart 13) and also indicate that it is dependent on the inflation regime and shocks in the economy.

[10] For more information, see: *Kasabov (2024), The Impact of Labour Costs on Prices in Bulgaria, BNB Discussion Paper 121, 2025.*

CHART 13

Labour Cost Pass-through in the Long-run

(wage growth to inflation pass-through ratio)



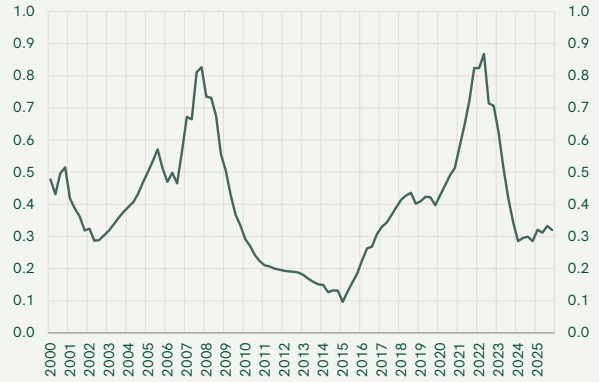
Note: The chart shows the cumulative change in HICP inflation within 12 quarters following an increase in unit labour costs by 1 per cent.

Source: Kasabov (2024)

CHART 14

Core Inflation Persistence

(persistence ratio
1 = strong persistence, 0 = weak persistence)



Note: The chart shows the results for the time-varying persistence of core inflation, for which a state-space regression has been calculated, modelling the dynamics of core inflation, and the series presented on the line represents the time-varying coefficient of the regression of the first lag of core inflation. Values close to 0 should be interpreted as low inflation persistence, while values close to 1 should be interpreted as periods of high core inflation persistence.

Sources: NSI, BNB calculations.

A growing number of studies support the claim that inflation dynamics depends on the inflation regime, as the effect and transmission of shocks vary depending on the inflationary environment (Borio et al., 2023[11]). Kasabov and Slavova study (2025)[12] confirms this hypothesis for Bulgaria, and the results show that developments in consumer prices in Bulgaria depend on the inflationary regime. The study uses a non-linear Markov regime switching model, which endogenously identifies low and high inflation regimes and assesses how the pass-through of economic shocks to consumer prices between the two regimes changes. According to the study's estimates, the economy enters a high-inflation regime when it exceeded 4.6 per cent, which is the period in Bulgaria from the end of 2021 to the end of 2023. High inflation regimes are characterised by a stronger pass-through of both internal and external shocks, higher inflation persistence and stronger joint dynamics of individual price categories.

Estimates include data up to the end of 2025 and thus do not cover the energy commodity price shock following the war in the Middle East that started in March 2026. Data until the end of 2025 give grounds to believe that the Bulgarian economy has exited the high inflation regime that started at the end of 2021, with volatility and persistence of underlying inflation (Chart 14) having decreased significantly and inflation having again started to be largely driven by variations in individual sub-groups (idiosyncratic factors) (Chart 15). At the same time, according to estimates based on the analysis of the main components[13], a common factor continues to explain a large part of the price developments across the different HICP components up to the end of 2025 (Chart 16). Lower volatility coupled with significant simultaneous price developments suggest that, despite the slowdown in inflation, there is still a strong common factor that is unobservable but weighs on the growth rates of final consumer prices in Bulgaria. This is most likely due to domestic labour cost pressures, which remain elevated and have become a main driver of inflation in Bulgaria. As a result of the escalation of the conflict in the Middle East in March 2026, inflation in energy products in Bulgaria rose sharply between March and May 2026, while headline inflation in April and May 2026 remained above 4.6 per cent, which can be considered as a threshold for a new transition of the economy to a high-inflation regime, characterised by a stronger

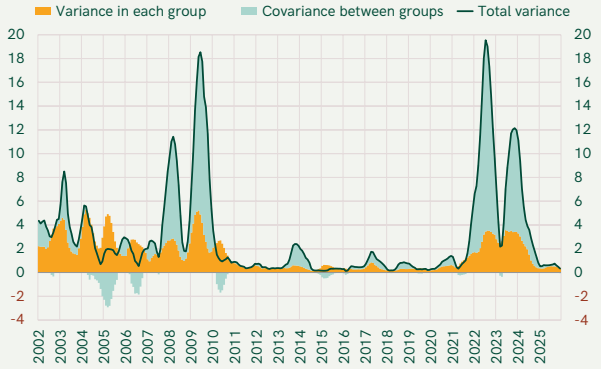
[11] For more information, see: *Borio et al. (2023), The two-regime view of inflation, BIS Paper 133, 2023*.
[12] For more information, see *Kasabov and Slavova (2025)*, *From Low to High Inflation: Regime Shifts and Changes in Economic Shock Transmission*, BNB Discussion Paper 125, 2025.
[13] The analysis of the main components summarises the information from a large set of variables into a smaller set of unobserved components, which reflect the underlying dynamics of variation in data.

pass-through of both internal and external shocks, higher inflation persistence and stronger joint dynamics of individual price categories.

CHART 15

Inflation Variance

(per cent, percentage points)

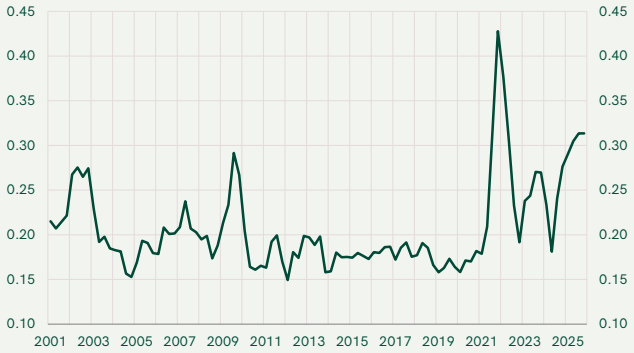


Sources: NSI, BNB calculations.

CHART 16

Degree of Co-movement across HICP Groups

(per cent)



Note: The chart shows the share of total variation attributable to the first main component based on the analysis of the main components, calculated as an 18-month moving average.

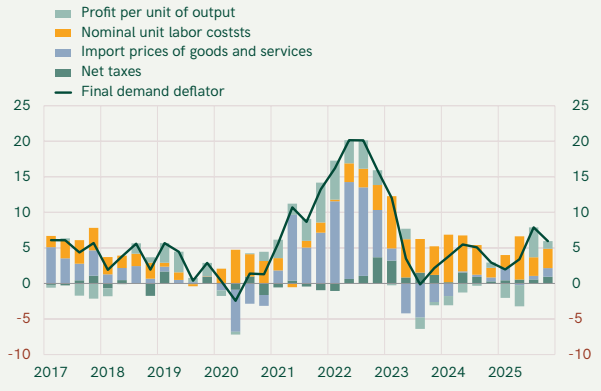
Sources: NSI, BNB calculations.

The dominant role of domestic price pressures in inflationary developments in Bulgaria in recent years, except for the periods of external energy price shocks in 2021–2022 and beyond March 2026, can be illustrated by a decomposition of the final demand deflator. This indicator makes it possible to distinguish between the contribution of domestic and external price factors to inflation developments. Over the past few years, the final demand deflator has followed a steady upward trend, with its growth outpacing HICP inflation (Chart 17). The decomposition of the deflator into components indicates that the external environment has an almost neutral impact on prices after the decrease in importance of prices of imported goods and services in 2023, while labour costs continued to make a significant positive contribution throughout the period. At the same time, almost all of the price increase, measured by the final demand deflator after 2023, can be explained by unit labour cost growth. This is a deviation from observed historical dependencies before the 2022 high inflation period. As unit labour costs continue to grow and private consumption remains high, firms have limited incentives to absorb the increased costs at the expense of their profits and may thus largely pass them on to final consumer prices. To some extent, this is also reflected in firms' inflation expectations, which remain at relatively high levels, particularly in the retail trade sector (Chart 18).

CHART 17

Final Demand Deflator

(per cent, percentage points)

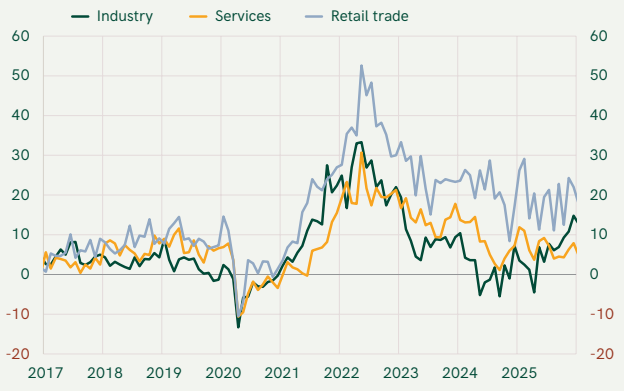


Sources: NSI, BNB calculations.

CHART 18

Inflation Expectations

(balance of opinions)



Source: NSI.

Finally, the analysis shows that the factors driving inflation dynamics in Bulgaria have changed materially in recent years, with domestic factors gaining significantly more importance than before 2020. The combination of very tight labour market conditions and a pro-cyclical fiscal policy paves the way for persistent domestic inflationary pressures. At the same time, the Bulgarian economy remains highly sensitive to external inflationary shocks due to the relatively high energy intensity of GDP and the significant share of foreign value added in final demand. Therefore, a persistent increase in energy commodity prices, including as a result of a renewed escalation of the conflict in the Middle East, would further fuel inflationary pressures and increase significantly the risk of a prolonged high-inflation regime in Bulgaria.

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