



BULGARIAN NATIONAL BANK

БЪЛГАРСКА НАРОДНА БАНКА

ECONOMIC REVIEW

1/2024
SUMMARY



BULGARIAN NATIONAL BANK

— 145 YEARS —

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SUMMARY

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

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

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

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

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

In the fourth quarter of 2023, real GDP increased by 0.5 per cent on a quarterly basis (0.4 per cent in the third quarter), while on an annual basis, growth was 1.8 per cent. Overall for 2023, economic activity increased by 1.8 per cent in real terms as a result of these developments. By final consumption expenditure component, domestic demand had the main positive contribution to annual real GDP growth in the fourth quarter of 2023, followed by net exports, while changes in inventories contributed negatively thereto. In the fourth quarter, gross value added increased by 0.2 per cent year on year due to the construction and services sectors, while manufacturing and agriculture decreased. The labour force

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

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

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

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