



ECONOMIC REVIEW

2/2024



BULGARIAN NATIONAL BANK

145 YEARS

ECONOMIC REVIEW

2/2024



BULGARIAN NATIONAL BANK

— 145 YEARS —

The BNB quarterly Economic Review presents information and analysis of balance of payments dynamics, monetary and credit aggregates, their link with the development of the real economy, and their bearing on price stability. External environment developments are also analysed since they directly affect Bulgarian economy.

The Economic Review, issue 2/2024 was presented to the BNB Governing Council at its 30 July 2024 meeting. It employs statistical data and information published up to 15 July 2024. Expectations of economic developments in Bulgaria in the short term (until the fourth quarter of 2024), as described in this issue, are based on the BNB macroeconomic forecast prepared as of 26 June 2024. The estimates and projections presented in this publication should not be regarded as advice or recommendations. The user of the information is solely liable for any consequences thereof.

The Economic Review is available on the BNB website, Research and Publications menu, Periodical Publications submenu. Please address notes, comments and suggestions to the BNB, Economic Research and Forecasting Directorate at 1000 Sofia, 1, Knyaz Alexander I Square.

© Bulgarian National Bank, 2024
1, Knyaz Alexander I Square
1000 Sofia
Tel.: (+359 2) 9145-1317, 1744

Website: www.bnb.bg

This issue includes materials and data received up to 30 July 2024.

The contents of the BNB Economic Review may be quoted or reproduced without further permission. Due acknowledgement is requested.

ISSN 2367 – 4962 (online)

C ONTENTS

SUMMARY	9
1. EXTERNAL ENVIRONMENT	11
1.1. Current Business Situation.....	11
1.2. Impact on the Bulgarian Economy	17
2. EXTERNAL FINANCIAL FLOWS	19
2.1. Balance of Payments and Foreign Trade.....	19
2.2. BNB Gross International Reserves	23
2.3. External Debt	23
3. MONEY AND CREDIT	25
3.1. Monetary and Credit Aggregates	25
3.2. Interest Rates.....	30
4. ECONOMIC ACTIVITY.....	34
4.1. Current Economic Environment	34
4.2. Labour Market.....	37
4.3. Behaviour of Firms	40
4.4. Household Behaviour	44
4.5. Fiscal Policy Effects on the Economy	46
5. PRICE DEVELOPMENTS.....	49
5.1. Consumer Prices	49
5.2. House Prices.....	53

Charts

Manufacturing and Services PMIs and Changes in World Real GDP.....	11	Annual Growth of Non-financial Corporations' Deposits and Contribution by Deposit Type.....	26
World Trade in Goods.....	11	Annual Growth of Households' Deposits and Contribution by Deposit Type.....	26
Prices and Futures of Brent Crude Oil.....	12	Annual Rate of Change in M3 and Contribution by Components.....	26
Inflation Measured through CPI.....	12	Reserve Money.....	27
Natural Gas Prices.....	12	Bank Deposits with the BNB.....	27
Metal Price Indices.....	12	Currency in circulation.....	27
Food Price Indices.....	13	Foreign Currency Purchases and Sales between the BNB and Banks (on a Monthly Basis).....	28
Manufacturing and Services PMIs and Change in US Real GDP.....	13	Annual Growth of Credit to Non-financial Corporations and Contribution by Loan Type.....	28
US Unemployment Rate and a Monthly Change in the Number of New Employees in the US Non-agricultural Sector.....	14	New Loans to Non-financial Corporations (Monthly Volumes).....	28
US Inflation Rate.....	14	Annual Growth of Household Credit and Contribution by Loan Type.....	29
Manufacturing and Services PMIs and Change in China's Real GDP.....	14	New Loans to Households (Monthly Volumes).....	29
China's Inflation Rate.....	15	Changes in Credit Standards.....	29
Manufacturing and Services PMIs and Change in Euro Area Real GDP.....	15	Changes in Credit Demand.....	30
Euro Area Unemployment Rate and Employment Growth.....	16	Spread between ECB Deposit Facility Rate and LEONIA/LEONIA Plus and Traded Volumes on the Interbank Money Market in Bulgaria.....	30
Euro Area Inflation Rate.....	16	Spread between ECB Deposit Facility Rate and Interest Rate on Banks' Excess Reserves with the BNB and Amount of Excess Reserves.....	31
ECB Interest Rates, EONIA, €STR and Excess Liquidity in the Euro Area Banking System.....	16	Interbank Money Market Rates on Overnight Deposits (Average Monthly Value).....	31
EURIBOR.....	17	Interest Rates on New Time Deposits by Sectors.....	32
Current and Capital Account Flow Dynamics and Contribution by Components.....	19	Interest Rates and APRC on New Household Loans.....	32
Nominal Goods Exports and Imports Dynamics (Balance of Payments Statistics Data).....	20	Interest Rate on New Loans to Non-financial Corporations.....	32
Exports by Commodity Group under the Combined Nomenclature, Contribution to the Overall Rate of Change by Sub-component.....	20	Bulgarian Government Bond Yield Curve.....	33
Imports of Commodity Groups by Use, Contribution to the Overall Rate of Change by Sub-component.....	21	Long-term Interest Rate for Assessing Bulgaria's Degree of Convergence and Spread vis-à-vis German Long-term Interest Rate.....	33
Nominal Services Exports and Imports Dynamics (Balance of Payments Statistics Data).....	21	Contribution to GDP Growth by Final Use Component in Real Terms (Quarterly Data).....	34
Annual Change of Exports of Services and Contribution by Sub-component.....	21	Production Capacity in Industry (with Regard to Expected Demand over the Next Months).....	35
Annual Change of Imports of Services and Contribution by Sub-component.....	22	Gross Value Added Rate of Change in Real Terms and Contribution by Sector.....	35
Financial Account Flow Dynamics and Contribution by Component.....	22	Deviation of Economic Activity from Potential Output.....	36
Direct Investment – Liabilities by Type of Investment.....	23	Cyclical Position of the Economy in the Second Quarter of 2024 According to Selected Economic Indicators.....	36
Bulgaria's International Investment Position.....	23	Indicator of Differences in Economic Agents' Assessments about the Expectations of Economic Development in the Short Term.....	37
Liabilities Structure of the BNB Issue Department Balance Sheet.....	23	Composite Economic Indicator of Economic Activity.....	37
Gross External Debt.....	24	Contribution to the Change in Labour Force by Component.....	38
Annual Growth of Non-government Sector's Deposits and Contribution by Sector.....	25	Economic Activity and Share of Discouraged Persons.....	38
Annual Growth of Non-financial Corporations' Deposits and Contribution by Economic Activity.....	25	Unemployment Rate.....	38

Contribution to Changes in the Number of Employed by Economic Sector	39	Contribution of Major Sub-groups to Unprocessed Food Inflation	50
Contribution to the Change in the Number of Job Vacancies by Economic Sector	39	Contribution of Major Sub-groups to Processed Food Inflation.....	51
Labour Shortages (Seasonally Adjusted and Sector-Weighted Monthly Data)	39	Core Inflation and Contribution of Services and Non-energy Industrial Goods to It.....	51
Compensation <i>per</i> Employee at Current Prices	40	Contribution of Major Sub-groups to Inflation in Industrial Goods (Excluding Energy Products)	51
Compensation <i>per</i> Employee and Average Wage at Current Prices	40	Contribution of Major Sub-groups to Inflation in Services.....	52
Decomposition of the Final Demand Deflator	40	Contribution of Major Sub-groups to Inflation in Administratively Controlled Prices (Including Tobacco Products).....	52
Unit Labour Costs.....	41	Diffusion Index.....	52
Contribution of Private and Public Sectors to the Annual Rate of Change in Investment in Real Terms.....	41	Expectations for the Rate of Growth in Selling Prices in Retail Trade over the Following Three Months	53
Contribution by Asset Type to the Annual Rate of Change in Investment in Fixed Capital	41	Expectations of Selling Prices in Industry, Retail Trade and Services in the Following Three Months.....	53
Annual Rate of Change of Nominal Gross Operating Surplus and Contribution by Sector	42	Rate of Change of House Price Index.....	54
Financing Sources.....	42	Actual and Equilibrium House Prices.....	54
Rate of Change of Producer Price Index in Industry.....	42	Indicators of Undervaluation/Overvaluation of Housing.....	54
Business Climate.....	43		
Factors Hampering Economic Activity of Corporations	43	Tables	
Corporations' Expectations about Staff Recruitment in the Following Three Months	43	Key Indicators of the Housing Market Developments in Bulgaria	55
Dynamics of the Production Index in Manufacturing, Construction and Services	44		
Industrial Turnover Dynamics	44		
Contributions to Change in Household Revenue	44		
Contribution to the Change in Total Monthly Household Income.....	45		
Household Disposable Income	45		
Shares of Taxes and Social Security Contributions in Total Household Expenditure.....	45		
Contribution to the Change in Consumer Expenditure of Households	46		
Household Propensity to Save	46		
Contribution of Major Groups of Expenditure to Government Consumption Growth in Nominal Terms (Quarterly Data).....	47		
Rate of Change in Gross Fixed Capital Formation of the General Government Sector in Nominal Terms (Quarterly Data)	47		
Contribution of Major Groups of Expenditure to Total Budget Expenditure Growth, Cumulatively	48		
Inflation and Contribution of Major Commodity and Services Groups to It.....	49		
Primary Energy Commodity Prices.....	49		
Rate of Change of Food Price Index and Contribution of Processed and Unprocessed Food	50		
Contributions of Major Sub-groups to Energy Inflation (Excluding those with Controlled Prices)	50		
Rate of Change in Brent Crude Oil and A95 Petrol Prices.....	50		

ABBREVIATIONS

ABSP	Asset-Backed Securities Purchase Programme
APP	Asset Purchase Programme
APRC	Annual percentage rate of charge
BNB	Bulgarian National Bank
CBPP	Covered Bond Purchase Programme
cif	cost, insurance, freight
CEE	Central and Eastern European countries
CFP	Consolidated Fiscal Programme
CNY	Chinese Yuan
COMEX	Commodity Exchange
CPI	Consumer Price Index
CSPP	Corporate Sector Purchase Programme
EC	European Commission
ECB	European Central Bank
EIB	European Investment Bank
EONIA	Euro OverNight Index Average
EU	European Union
EURIBOR	Euro Interbank Offered Rate
EWRC	Energy and Water Regulatory Commission
FDI	Foreign Direct Investment
FOB	Free on Board
FOMC	Federal Open Market Committee
GDP	Gross Domestic Product
HICP	Harmonized Index of Consumer Prices
HPI	House Price Index
IBEX	Independent Bulgarian Energy Exchange
IEA	International Energy Agency
IMF	International Monetary Fund
ISM	Institute for Supply Management
LEONIA	LEv OverNight Index Average
LFS	Labour Force Survey
LIBOR	London Interbank Offered Rate
LNG	Liquefied natural gas
LTRO	Longer-term refinancing operation
M3	broad money
MF	Ministry of Finance
MFIs	Monetary Financial Institutions
mt	metric tons
MMBtu	Metric Million British Thermal Unit
NPISHs	Non-profit institutions serving households
NRRP	National Recovery and Resilience Plan
NSI	National Statistical Institute
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of Petroleum Exporting Countries
PBoC	People's Bank of China
PCE	Personal Consumption Expenditures
PELTRO	Pandemic Emergency Longer-Term Refinancing Operations
PEPP	Pandemic Emergency Purchase Programme
PMI	Purchasing Managers' Index
PPI	Producer Price Index
PSPP	Public Sector Purchase Programme
SITC	Standard International Trade Classification
SNA	System of National Accounts
TLTRO	Targeted Longer-Term Refinancing Operations
TPI	Transmission Protection Instrument
VAT	Value Added Tax
€STR	Euro Short-term Rate

SUMMARY

In the first quarter of 2024, global GDP growth accelerated on a quarterly basis. The United States reported a slowdown in economic activity, while China's real GDP growth accelerated and that of the euro area stood at 0.3 per cent on a quarterly basis after a decline of 0.1 per cent in the fourth quarter of 2023. The latest data on economic indicators showed an acceleration in global economic activity growth in the second quarter of 2024. At the same time, developments in the volume of world trade in goods were volatile in the first four months of the year, with the euro area continuing to contribute negatively to its change, while economic indicators signalled a close to zero quarter-on-quarter change in real GDP in the region over the second quarter.

Global inflation continued to decline in April and May 2024, though at a slower pace than in previous months. The slower decline in inflation was driven by the higher energy commodity prices and inflation persistence in food and core components of consumer price indices. Taking into account the persistence of US inflation, the Federal Reserve did not change the target range for the federal funds rate in the second quarter, but decided to slow the pace of decline in its holdings of securities. In June, the ECB Governing Council cut its key interest rates by 25 basis points in view of the ECB's forecast for a decline in annual inflation in the euro area towards the target value.

Bulgarian exports of goods are likely to record higher growth than assumed on the basis of data and expectations for global trade and foreign demand in the second quarter of 2024, due to the exhausted base effect of country-specific factors limiting exports in early 2023. Developments in international commodity prices, coupled with the structure of the Bulgarian economy and foreign trade, were a prerequisite for unfavourable terms of trade in Bulgaria to prevail in the second quarter of 2024.

Bulgaria's current and capital account surplus for the last 12 months as of April 2024 was 2.6 per cent of GDP compared with a surplus of 1.3 per cent of GDP as of December 2023, which was largely due to the current account shift from a deficit to a surplus and to a rise in the capital account surplus. The financial account balance for the last 12 months as of April 2024 was negative, reflecting the lower amount of newly acquired foreign assets of Bulgarian residents compared to the accumulated liabilities over the period. 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 April 2024 increased by EUR 2.2 billion.

In the first five months of 2024, annual growth of non-government sector's deposits in the banking system remained high at 9.3 per cent at the end of May, as household deposits continued to contribute most significantly to growth. The strong rise in labour income and households' maintained preferences to invest their free funds primarily in the form of deposits in the banking system were the main factors behind the accelerated growth of household deposits to 11.7 per cent on an annual basis.

Between January and May 2024, annual growth of credit to non-financial corporations followed a slight upward trend, reflecting the higher rate of increase in corporate overdrafts. The growth of credit to households accelerated further since the end of 2023 and reached 18.8 per cent in May, with housing loans and, to a lesser extent, consumer loans contributing mainly to the upward dynamics. The main factors that continued to support demand for loans by households were rising labour income and persistently very low levels of interest rates on housing loans. On the supply side, this growth was affected by the ample liquidity, banks' sound capital position and the competition between them, which continued to limit the effects of ECB monetary policy tightening and of the increased minimum reserve rate by the BNB on household lending rates.

In the first quarter of 2024, real GDP in Bulgaria increased by 0.4 per cent from the previous quarter, with economic activity growth accelerating by 0.1 percentage points on an annual basis to reach 1.9 per cent.

By final consumption expenditure component, domestic demand made the main positive contribution to annual real GDP growth in the first quarter of 2024, followed by net exports, while changes in inventories contributed negatively thereto. In the first quarter, gross value added rose by 3.3 per cent year on year due to the services, manufacturing and agriculture sectors. National accounts data recorded employment growth of 0.7 per cent on an annual basis, mainly driven by the services sector, while labour shortages continued to widen, exerting upward pressure on wages in real terms.

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

The annual growth rate of the HICP slowed down to 2.8 per cent in June 2024, reflecting mainly the base effect of high rates of consumer price increases in 2023, primarily in the groups of services and food. Rising unit labour costs and persistent strong consumer demand continued to be the pro-inflationary factors stemming from the internal macroeconomic environment. As a result, services and goods with administratively controlled prices and tobacco products, followed by food products, made the largest positive contribution to headline inflation in June 2024. Annual inflation is projected to follow a gradual downward trend in the second half of 2024. The expected growth rates of both private consumption and unit labour costs amid labour shortages will continue to be factors with a pro-inflationary effect on final consumer prices.

1. EXTERNAL ENVIRONMENT

1.1. Current Business Situation

Global Environment

In the first quarter of 2024, global GDP growth accelerated on a quarterly basis to 0.7 per cent in real terms (0.5 per cent in the fourth quarter of 2023), with global PMIs data on the services and manufacturing sectors indicating a further acceleration in the growth over the second quarter of 2024. Concurrently, in the first four months of the year, volatile dynamics was observed in the volume of global trade in goods. In April, its annual growth was 1.8 per cent, with all major regions contributing positively to this, except the euro area, whose contribution to the world trade growth has remained negative since end-2022.

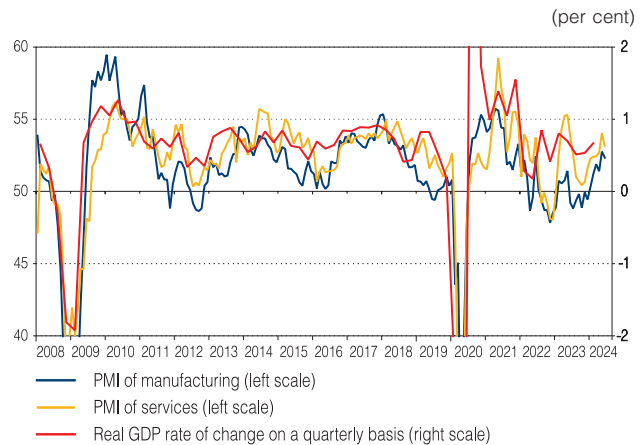
Global inflation continued to decline in April and May 2024, though at slower rates than in previous months. In May, global inflation was 3.1 per cent on an annual basis, from 3.2 per cent in March, with the limited decline in inflation reflecting higher energy prices and relatively stable inflation in food and core components of consumer price indices.

International Commodity Prices

In the second quarter of 2024, the Brent oil price rose quarter on quarter (by 2.1 per cent in dollars¹ and by 2.9 per cent in euro) to USD 84.9 *per barrel* (EUR 78.8 *per barrel*). On an annual basis, the price increase in US dollars was 8.5 per cent and in euro 9.8 per cent, with geopolitical

¹ Hereinafter referred to as the US dollar.

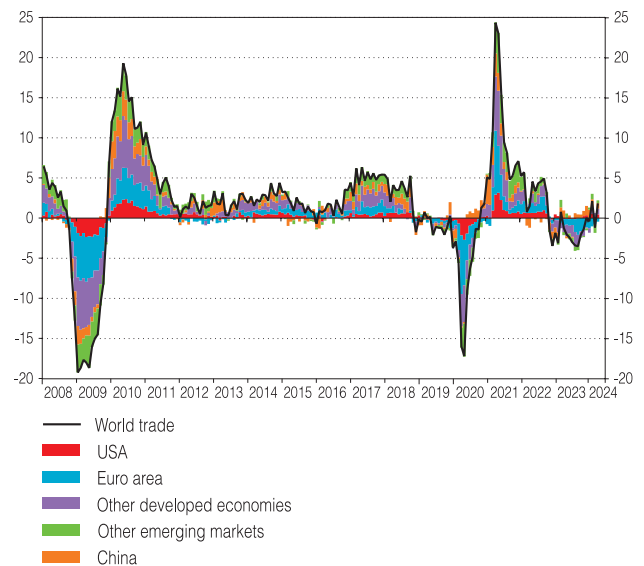
Manufacturing and Services PMIs and Changes in World Real GDP



Sources: JP Morgan, the World Bank.

World Trade in Goods

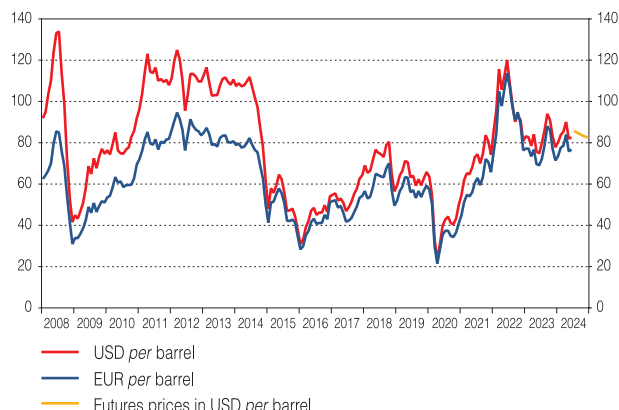
(per cent, percentage points, annual rate of volume change and contribution by region)



Source: CPB Netherlands Bureau for Economic Policy Analysis.

risks in the Middle East² and OPEC+³ policy targeting oil production cuts appearing to be the main factors for oil price rises in this period.

Prices and Futures of Brent Crude Oil



Note: Future prices are average contracts prices for 1–12 July 2024, USD *per barrel*.

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

Over the same period, natural gas prices in the European market continued to fall on an annual basis (by 11.5 per cent in dollars and 10.4 per cent in euro), though on a quarterly basis they rose by 14.5 per cent in dollars and 15.5 per cent in euro. The increase in gas prices on a quarterly basis can be explained by the increased risks to its future supply in view of geopolitical uncertainties in the Middle East and limited deliveries to the EU during this period due to accidents at gas production and supply facilities in Norway.⁴

In April–June 2024, the average metal and mineral price index increased by 9.3 per cent on an annual basis in dollars (by 10.6 per cent in euro). Copper and aluminium had the largest positive contribution to the annual change in this index, while nickel was the only metal with a negative contribution to the change. The price of copper,

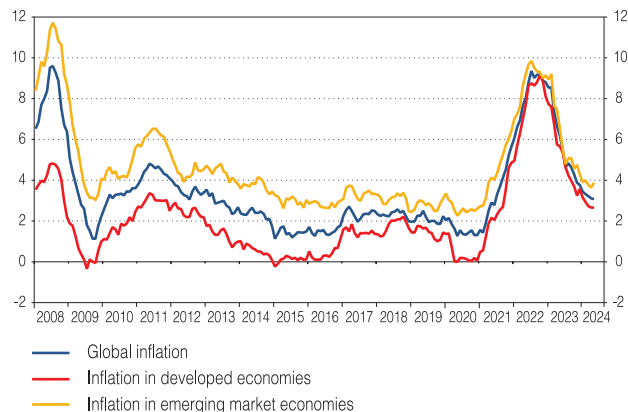
² Risks stemmed from the military conflict in the Gaza Strip, attacks of the Yemen's Houthi rebels on ships passing through the Red Sea and military tensions between Israel and Iran.

³ At the OPEC+ meeting on 2 June, a decision was taken to extend overall production limits to 3.66 million barrels *per day* by 12 months until the end of 2024. It was also decided that the eight OPEC+ members, that announced additional voluntary cuts of 2.2 million barrels *per day*, would extend them by merely three months into end-September 2024. The parties also agreed that additional voluntary cuts would be phased out within 12 months, from September 2024 to September 2025, in line with market developments. As a result of these decisions, supply constraints of around 5.7 per cent of global demand (5.86 million barrels *per day*) will continue to apply in the third quarter of 2024.

⁴ Since the start of the war in Ukraine, Norway has become a major supplier of natural gas to the EU.

Inflation Measured through CPI

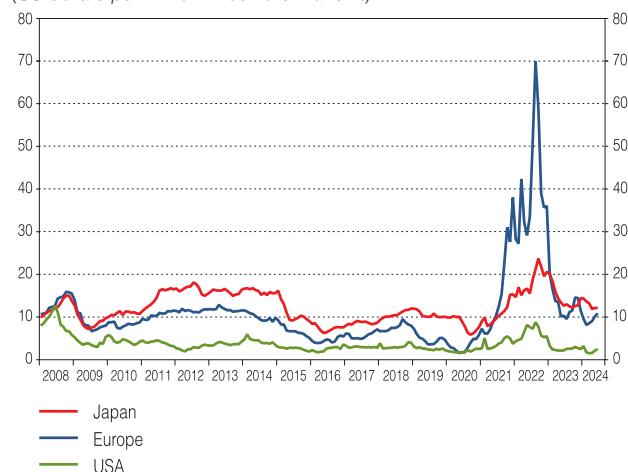
(per cent, on an annual basis; seasonally adjusted data)



Source: the World Bank.

Natural Gas Prices

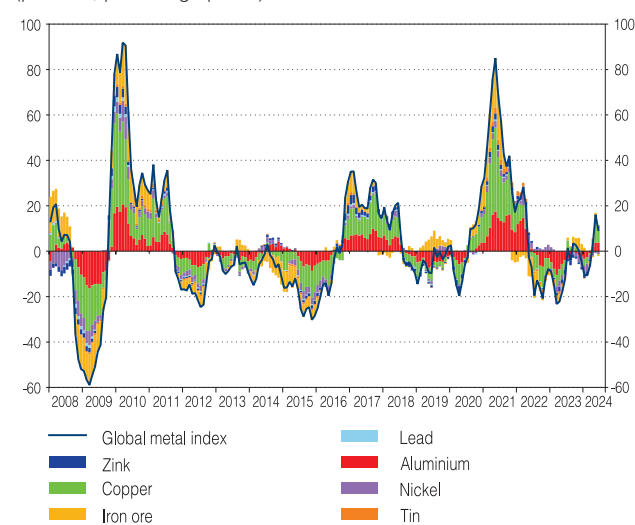
(US dollars *per million British thermal unit*)



Source: World Bank.

Metal Price Indices

(per cent, percentage points)



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

Sources: World Bank and BNB calculations.

which is of key importance for Bulgarian exports, rose on an annual basis reflecting positive expectations of demand for copper and idiosyncratic risks related to supply over the quarter.

In the same period, the total food price index recorded an annual decrease of 8.0 per cent in dollars (6.9 per cent in euro). Lower prices of corn, wheat, soybean and sugar contributed most to the decline in the overall food price index. Concurrently, oranges, coconut oil and rice recorded a significant price increase on an annual basis. Price declines in wheat, which is essential for Bulgarian food exports, were due to favourable weather factors related to seasonal production in the northern hemisphere and improved production prospects in some major exporting countries, including Kazakhstan and Ukraine.

United States

In the first quarter of 2024, US real GDP posted quarterly growth of 0.4 per cent compared to 0.8 per cent in the fourth quarter of 2023. The slowdown in quarterly real GDP growth reflected the lower growth rate of private consumption and declining net exports. Private investment growth accelerated over the review period driven by the increase in housing investments.

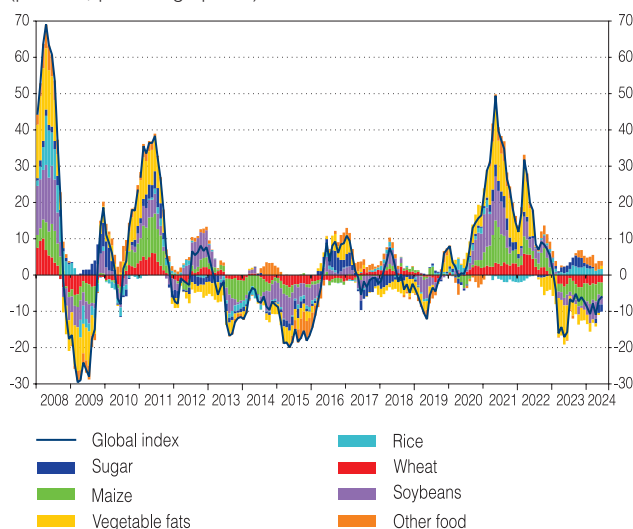
In the second quarter of 2024, US leading economic indicators signalled retention of economic growth rates similar to those in the first quarter. Manufacturing PMI showed a decline in economic activity in the sector, while the analogous services indicator pointed to a slowdown in the growth of the sector compared to the previous quarter. Data on individual consumption and retail sales indicated a weaker increase in household consumption.

Major labour market indicators deteriorated slightly in the second quarter. The number of employees in the non-agricultural sector increased by 532,000 (by 802,000 in the first quarter of 2024), and the ratio of announced new jobs to the number of unemployed decreased to 1.2, down from an average of 1.4 in the first quarter. At the same time, the unemployment rate rose to 4.1 per cent in the second quarter of 2024, from 3.8 per cent in the previous quarter.

In the second quarter of 2024, annual consumer price inflation declined, remaining, however, above the 2 per cent target set by the Federal Reserve System. In May, the annual rate of change of the

Food Price Indices

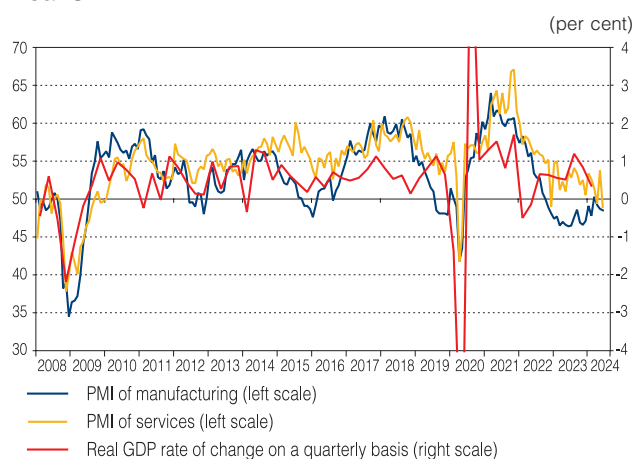
(per cent, percentage points)



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

Sources: World Bank and BNB calculations.

Manufacturing and Services PMIs and Change in US Real GDP



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

price index of personal consumption expenditure slowed to 2.6 per cent, from 2.7 per cent in April and 2.6 per cent on average in the first quarter of 2024. The annual growth rate of the core PCE price index (excluding food and energy products) moderated to 2.6 per cent in May, from 2.8 per cent in April and 2.9 per cent on average in the first quarter of 2024. The slowdown in core inflation in April and May was due to declines in most durable goods prices, while services prices increased.

In the second quarter of 2024, the FOMC maintained its target range for the federal funds rate within 5.25–5.50 per cent, but decided to slow the pace of reducing its securities holdings⁵ and to update its monetary policy guidance in the light of the inflation persistence during the review period.

In June 2024, the median of FOMC members' individual forecasts about the federal funds rate in 2024 was raised to 5.1 per cent, corresponding to a target rate corridor of 5.00-5.25 per cent, which is a 25 basis-point decrease from the current level. Projections of the interest rate level in 2025 were also revised, with members expecting a 100 basis point decrease instead of the 75 basis points expected in March to a level corresponding to a target interest rate corridor of 4.00–4.25 per cent. The estimate of the long-run equilibrium level of the federal funds rate was raised from 2.60 to 2.80 per cent.

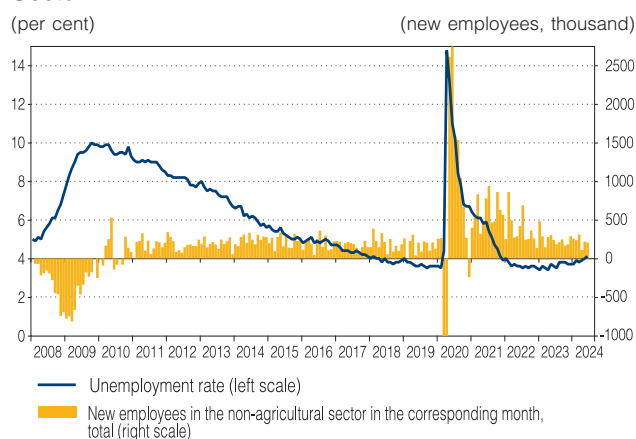
China

After accelerating to 1.6 per cent in the first quarter of 2024 (from 1.2 per cent in the fourth quarter of 2023), China's quarterly real GDP growth slowed down significantly (to 0.7 per cent) in the second quarter of the year. Over this period, year-on-year moderation was observed in real economic activity growth of both manufacturing (to 5.6 per cent, down from 6.0 per cent in the first quarter) and services (to 4.2 per cent, down from 5.0 per cent in the first quarter).

Structural problems in the Chinese residential construction sector continued to act as a constraint

⁵ In May 2024, a change was announced in the plan for reducing the Federal Reserve's balance sheet figure, and with effect from 1 June 2024, the amount above which maturing securities would continue to be reinvested was cut by USD 35 billion to USD 60 billion. The amount of maturing agency debt securities and mortgage-backed securities was kept at USD 35 billion, while that of maturing US government bonds was reduced from USD 60 billion to USD 25 billion.

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

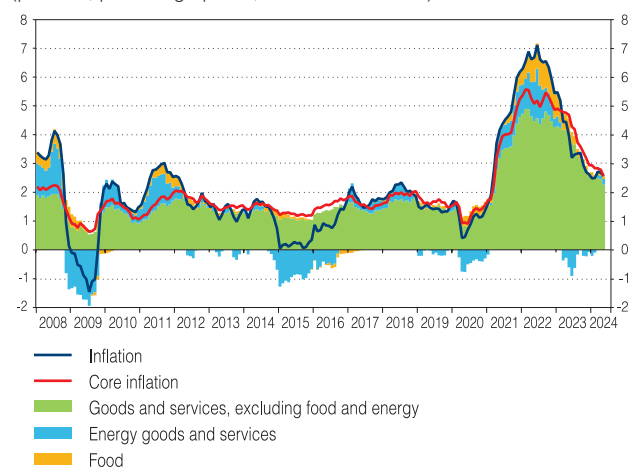


Note: New employees in the non-agricultural sector for April and June 2020 are not evident in the chart, their number coming to -20,514 and 4565 thousand.

Source: Bureau of Labour Statistics.

US Inflation Rate

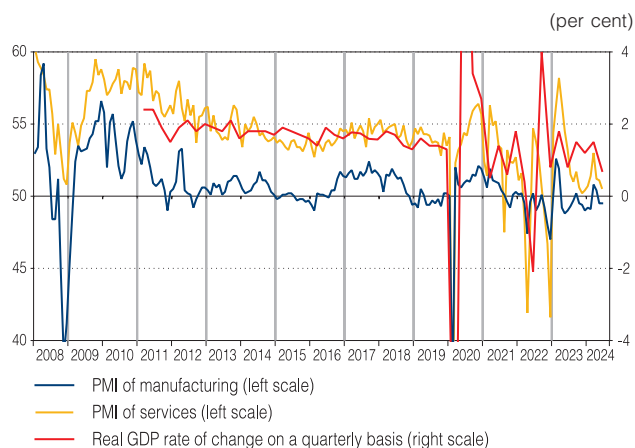
(per cent; percentage points; on an annual basis)



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

Source: Bureau of Economic Analysis.

Manufacturing and Services PMIs and Change in China's Real GDP



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

on domestic economic activity. In the second quarter of 2024, the physical volume of residential property sales declined by 20.3 per cent year on year (compared with a decrease by 20.0 per cent in the first quarter of 2024), while the volume of loans for house purchase fell by 40.0 per cent on an annual basis (compared with a decrease of 38.8 per cent in the first quarter of 2024). On 17 May 2024, the People's Bank of China announced a housing market support package aimed at boosting demand and reducing the volume of unsold existing dwellings. The minimum initial contribution rate for first dwelling was reduced from 20 per cent to 15 per cent and for secondary residences – from 30 per cent to 20 per cent. The People's Bank of China is expected to lend RMB 300 billion at an interest rate of 1.75 per cent to local authorities for purchasing land and unsold properties from construction entrepreneurs. Local authorities will be able to offer purchased properties in the form of social housing.

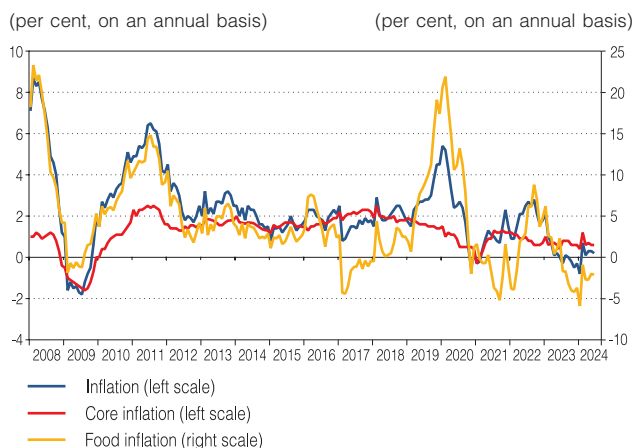
Consumer price inflation in China remained at a very low level in the second quarter of 2024, reaching 0.2 per cent on an annual basis in June, against 0.3 per cent in May and April. Non-food goods and energy products had the main positive contribution to inflation, while food prices continued to experience deflation. Core inflation remained stable over the period, standing at 0.6 per cent in June against 0.7 per cent on average in the first quarter of 2024.

In the second quarter of 2024, the People's Bank of China left unchanged its monetary policy stance.

Euro Area

In the first quarter of 2024, euro area real GDP increased by 0.3 per cent on a quarterly basis, compared with a decline of 0.1 per cent in the fourth quarter of 2023. Among the final consumption expenditure components, net exports and, to a lesser extent, private consumption had the main positive contribution to the change in GDP. Investments and changes in inventories had a negative contribution to the quarter-on-quarter change in real GDP. In Germany, Bulgaria's largest trading partner, 0.2 per cent growth was recorded in real GDP compared to the previous quarter, while economic activity in Italy, Bulgaria's other major

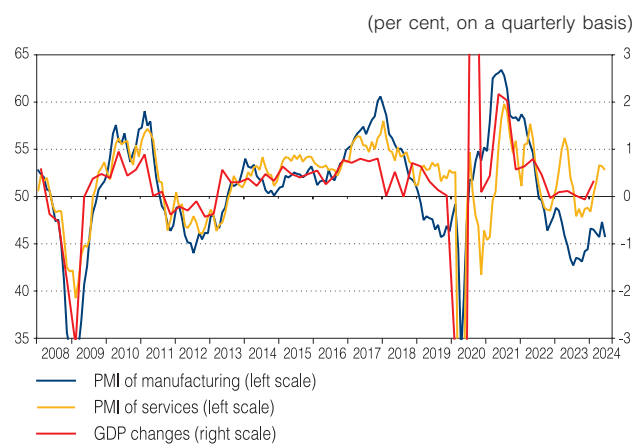
China's Inflation Rate



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

Source: National Bureau of Statistics of China.

Manufacturing and Services PMIs and Change in Euro Area Real GDP



Source: Eurostat.

trading partner, picked up by 0.3 per cent quarter on quarter.

Mid-July 2024 data on economic indicators in the euro area, including PMIs, signalled a close to zero quarterly change in euro area real GDP over the second quarter of 2024.

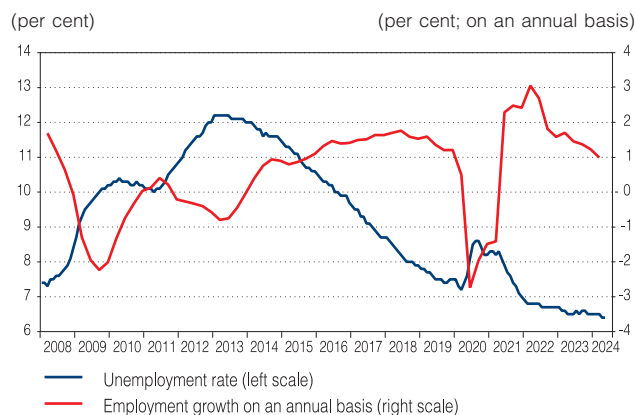
Labour market conditions in the euro area remained favourable in the second quarter of the year. The unemployment rate remained at historically low levels, falling to 6.4 per cent in April and May 2024, against 6.5 per cent on average in the first quarter of the year. At the same time, the growth rate of euro area employment slowed down further, rising by 1.0 per cent year on year in the first quarter, compared to 1.2 per cent growth in the previous quarter.

Euro area annual consumer price inflation was volatile in the second quarter of 2024, reaching 2.5 per cent in June, compared with 2.4 per cent in March 2024. The slight acceleration in inflation on an annual basis was mainly due to higher inflation in electricity, unprocessed food and combined passenger transport. Processed food, industrial goods and air ticket prices had a more essential negative contribution to inflation. In June, core inflation, excluding food and energy products, stabilised at its March level, reaching 2.9 per cent on an annual basis.

In view of the prospects of lowering euro area annual inflation towards the ECB's target, the Governing Council at its June meeting decreased by 25 basis points the interest rate on the main refinancing operations and interest rates on the marginal lending facility and the deposit facility to 4.25, 4.50 and 3.75 per cent, respectively, with effect from 12 June 2024. The ECB announced that it would continue to follow a data-dependent and meeting-by-meeting approach to determining the appropriate level and duration of monetary policy restriction, without committing in advance to a specific interest rate trajectory. The ECB Governing Council confirmed that it would reduce in the second half of the year the Eurosystem's holdings of PEPP securities by an average of EUR 7.5 billion *per* month.

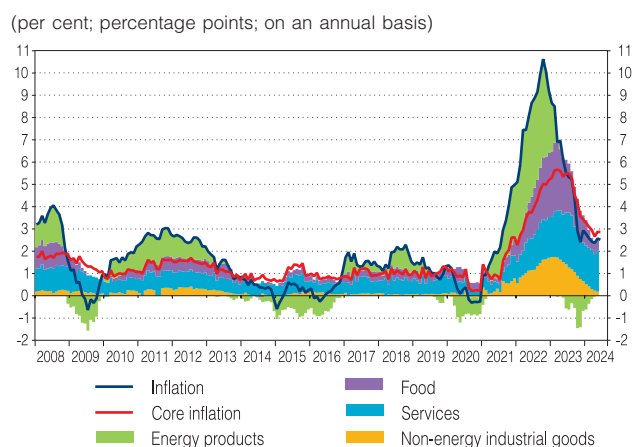
In the second quarter of 2024, the average value of the €STR overnight reference rate decreased to 3.86 per cent, from 3.91 per cent in the first quarter of 2024. Unsecured deposit rates in the

Euro Area Unemployment Rate and Employment Growth



Source: Eurostat.

Euro Area Inflation Rate

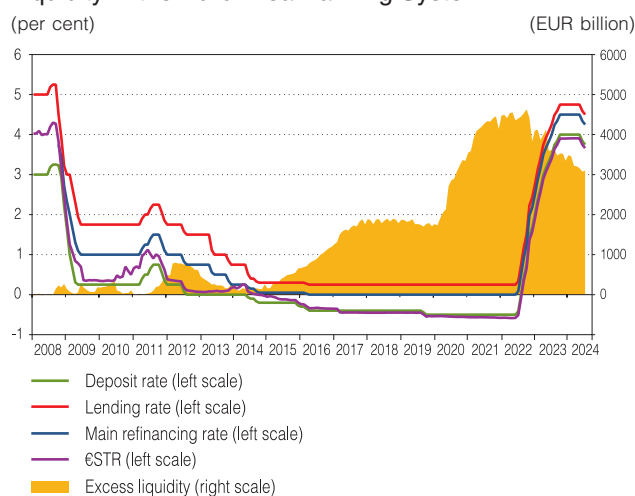


Notes: Inflation is measured by the HICP.

Core inflation is measured by HICP, excluding energy products, food, alcohol and tobacco products.

Source: Eurostat.

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



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

Source: ECB.

interbank market (EURIBOR) also declined over the period. In the second quarter of 2024, German government bond yields declined in the maturity sectors of up to and two years inclusive, while rising in the longer-term sectors; in the two-year maturity sector, yields fell by 2 basis points to 2.83 per cent, and those in the ten-year sector rose by 20 basis points to 2.50 per cent. The main factor behind the decline in short-term interest rates was the ECB's decision to cut the deposit facility rate by 25 basis points. The yield increase in long-term maturity sectors reflected market participants' expectations of ECB's interest cuts at a slower rate than expected in the first quarter of 2024. The increase in yields at the end of the review period was constrained by the increasing demand for low-risk assets due to the political uncertainty in France triggered by the snap parliamentary elections.

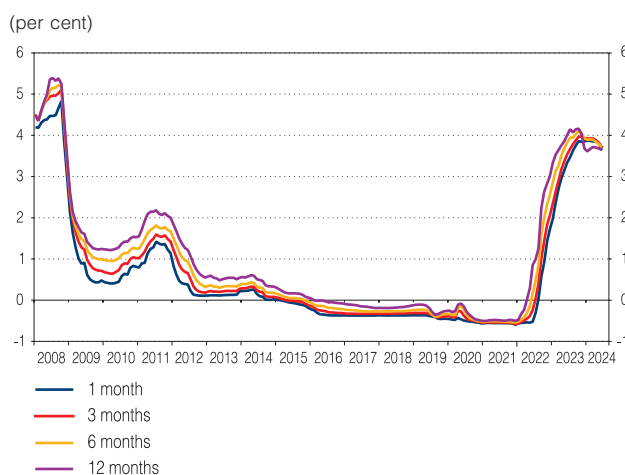
1.2. Impact on the Bulgarian Economy

Real exports of goods declined on an annual basis in the first quarter of 2024 despite the economic activity strengthening in Bulgaria's major trading partners of the euro area. The decline in Bulgarian exports was mainly due to the base effect of higher exports of Bulgarian food products in 2023 when part of the cereals harvest unrealised in 2022 was sold. Concurrently, technical assumptions suggest accelerating growth in external demand for Bulgarian goods and services in the second quarter of 2024 given the upward trend of global economic indicators, as a similar path of the global economic activity should have a favourable effect on the volumes of Bulgarian exports. Given the base effect of the unwinding of country-specific factors limiting Bulgarian exports in early 2023, growth of goods exports in the second quarter of 2024 is assumed to outperform that of external demand.

Commodity price dynamics in international markets over the second quarter of 2024, which is expressed in a significant increase in metal and oil prices and a moderate decline in food prices on an annual basis, indicates unfavourable terms of trade⁶ over this period, given the structure of the Bulgarian economy and foreign trade. This is likely to limit the positive effects of the expected

⁶ Unfavourable terms of trade refer to a larger annual increase in the deflator of goods imports compared to that of goods exports.

EURIBOR



Source: ECB.

growth of economic activity in Bulgaria's major trading partners on country's trade balance.

Cuts in ECB's key interest rates in June and Federal Reserve's signals about their possible decrease in the United States in 2024 are prerequisites for an improvement in the financing conditions for the Bulgarian government and private sector. According to the currency board principles, changes in euro area money market rates may be expected to continue to be passed through relatively quickly to interest rates in the interbank money market in Bulgaria. As of the second quarter of 2024, however, the reported increase in household lending and deposit rates in Bulgaria remained considerably weaker than assumed, given the ECB's monetary policy pursued. The main factors behind this were country-specific, mostly related to high liquidity, a sound capital position and strong competition in the banking sector. Reflecting these specificities of the Bulgarian monetary sector, the decrease in the key ECB's interest rates in June 2024 may be expected to improve the financing conditions for the government and firms, in particular, while interest rates on loans and deposits of households are expected to remain broadly unchanged.

2. EXTERNAL FINANCIAL FLOWS

2.1. Balance of Payments and Foreign Trade

Bulgaria's current and capital account balance was positive for the last 12 months as of April 2024, which implied no need for external financing of the economy. However, the financial account balance was slightly negative due to the smaller amount of Bulgarian residents' newly acquired foreign assets compared to their liabilities over the period.⁷ As a result of these changes, Bulgaria's gross international reserves for the last 12 months as of April 2024 increased by EUR 2.2 billion, though decreasing by EUR 4.8 billion between January and April 2024 (against a decrease of EUR 3.7 billion in January–April 2023). As of April 2024, the amount of gross international reserves remained high according to indicators commonly used in practice, equalling the amount of nominal imports of goods and services⁸ for a period of 8.3 months (9.3 months in December 2023). The ratio of international reserves⁹ to Bulgaria's short-term external debt was 5.2 as of April 2024 (5.0 as of December 2023).

Current Account and Capital Account

Bulgaria's current and capital account surplus for the last 12 months as of April 2024 was 2.6 per cent of GDP compared with 1.3 per cent of GDP as of December 2023. This was largely due to the current account shift from a deficit to a surplus and, to a smaller extent, to the increased capital account surplus. The current account balance in the last 12 months as of April 2024 was positive at 0.5 per cent of GDP (against a deficit of 0.3 per cent of GDP in December 2023), with all items contributing to its improvement compared to the end of 2023, excluding the trade balance, whose deficit has risen since early 2024. At the same time, the capital account surplus as

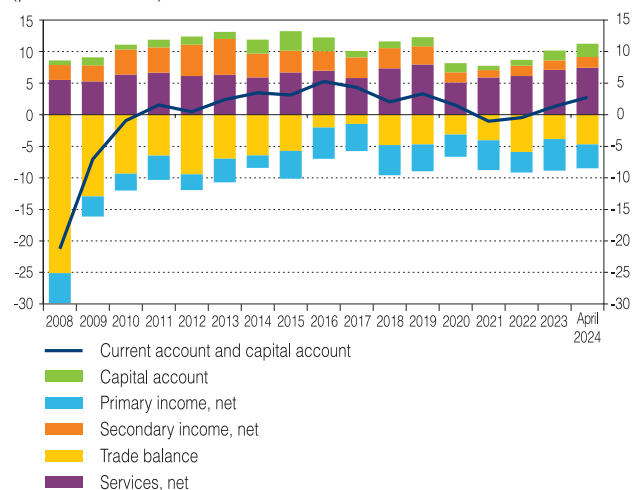
⁷ The analysis is based on the analytical reporting of the balance of payments.

⁸ Calculated for the last 12 months as of April 2024.

⁹ The analysis is based on gross international reserves on the BNB Issue Department balance sheet. The market value of international reserves includes changes stemming from transactions, valuation adjustments and price revaluations.

Current and Capital Account Flow Dynamics and Contribution by Components

(per cent of GDP)



Notes: April 2024 data on the current and capital accounts are accumulated for the last 12 months. Nominal GDP data for the last four quarters up to and including the first quarter of 2024 are used in calculating the GDP ratio for April 2024.

Sources: BNB, NSI, BNB calculations.

of April 2024 grew to 2.1 per cent of GDP, with its increase against December 2023 (1.6 per cent of GDP) mainly due to the rise in capital transfers to the general government sector in the form of investment subsidies.

Trade Balance and Foreign Trade in Goods

In the first four months of 2024, the trade balance deficit widened from the corresponding period of 2023 as a result of the year-on-year decline in nominal exports of goods (3.3 per cent) compared to the weak growth in imports (1.0 per cent). More detailed national accounts data available until the end of the first quarter of 2024 suggest that these developments were driven by adverse terms of trade¹⁰, while on an annual basis, goods imports recorded a larger decline (3.1 per cent) than goods exports (2.8 per cent)¹¹ over the period. Downward dynamics of real imports of goods is likely to reflect the continued lower accumulation of stocks of commodities, raw materials and finished products by firms over the first quarter of 2024, as well as the year-on-year decline in exports of goods in real terms, probably due to a slower recovery of external demand for Bulgarian goods and services¹² and some country-specific factors.

According to BNB calculations based on more detailed foreign trade data under the Standard International Trade Classification (SITC)¹³ in the first quarter of 2023, the year-on-year decline in goods exports was driven to a greater extent by price factors and, to a lesser extent, by changes in real volumes. They suggest that the groups of machines and cereals¹⁴ contributed to the annual decrease in goods exports in real terms over the first quarter, while non-ferrous metals, energy products (mainly processed petroleum products and, to a lesser extent, electricity) and medicines had a positive contribution.

¹⁰ Unfavourable terms of trade in the first quarter of 2024 are expressed in a stronger year-on-year price fall in exports of goods than in imports of goods, according to non-seasonally adjusted GDP data.

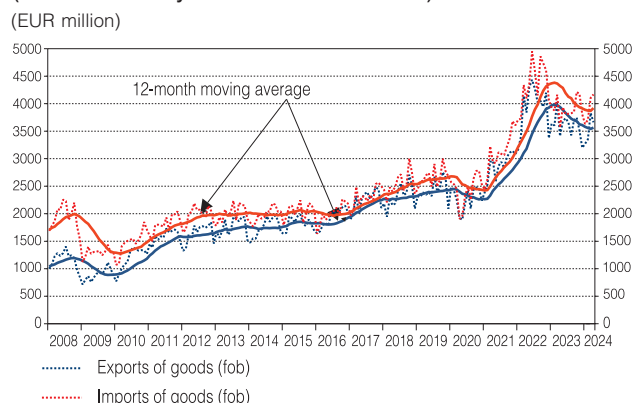
¹¹ According to non-seasonally adjusted GDP data from national accounts for the first quarter of 2024.

¹² ECB calculations of June 2024.

¹³ Real volumes of exports and imports of commodity groups have been constructed under the Standard International Trade Classification (SITC) by using NSI data on export and import prices of the relevant commodity groups under the SITC and Eurostat data on nominal values of exports of the same commodity groups under the SITC.

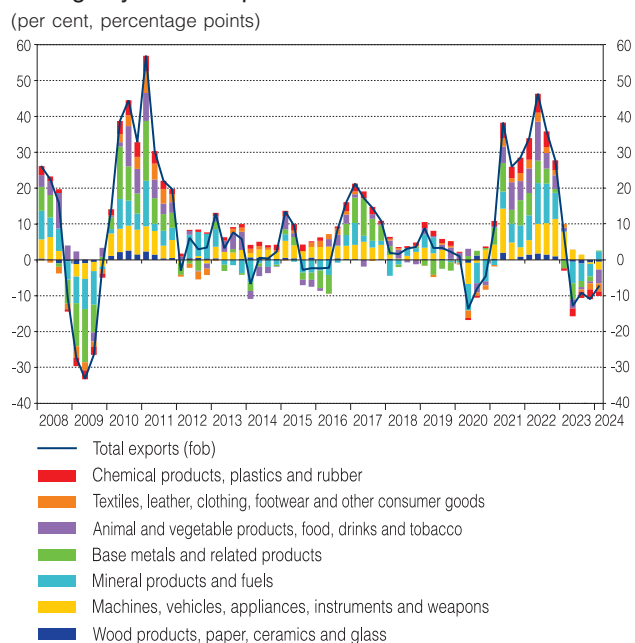
¹⁴ The decline of exports in this group was mainly due to the base effect of higher than usual exports in 2023 when part of the cereals harvest unrealised in 2022 was sold.

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



Note: Monthly data are used. The last observation is for April 2024.
Source: BNB.

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



Note: Quarterly data are used. The last observation is for the first quarter of 2024.

Source: BNB.

Between January and March 2024, nominal imports of goods recorded a 5.1 per cent decline on an annual basis, driven by all commodity groups (by use¹⁵) except for the group of energy resources and consumer goods. According to BNB calculations, this dynamics of goods imports was mainly due to the combination of lower imports of machines and metals and a year-on-year fall in imported goods prices.

Hence, for the last 12 months as of April 2024, the trade balance deficit increased to 4.5 per cent of GDP, from 3.9 per cent of GDP in December 2023.

Balance on Trade in Services

Services trade surplus for the last 12 months as of April 2024 increased to 7.3 per cent of GDP, from 7.1 per cent of GDP in December 2023. This was mainly due to the annual decline in imports of services (-8.5 per cent) in January–April 2024, while nominal exports registered moderate growth (2.5 per cent). Higher revenue related to travel and transport services, which rose on an annual basis by 13.4 per cent and 10.8 per cent, contributed most significantly to the exports growth in January–April 2024. According to NSI data, the number of visits of foreign nationals to Bulgaria increased on an annual basis by 6.6 per cent in the first five months of 2024, with visits from Romania, Türkiye and Greece contributing most significantly to this effect. The year-on-year decrease in nominal imports of services in January–April 2024 was mainly due to lower expenditure of Bulgarian residents on insurance and pension services¹⁶ and transport, while expenses by Bulgarian residents on travel abroad rose by 5.0 per cent on an annual basis.

Net Primary Income Account and Net Secondary Income Account

The deficit under the net primary income item decreased in the first four months of 2024 compared to the same period of 2023 as a result of lower outflows related to reinvested earnings from direct investments and lower inflows on the other primary income sub-item. For the last 12 months as of April 2024, net primary income deficit was 4.0 per cent of GDP against 5.0 per cent of GDP in December 2023.

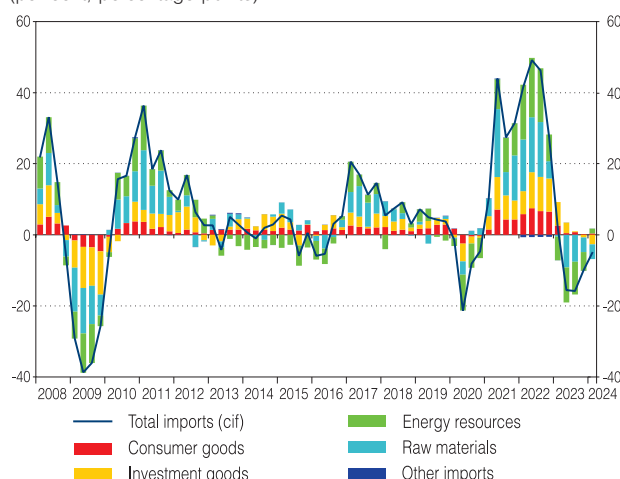
Concurrently, the surplus on net secondary income for the last 12 months as of April 2024

¹⁵ Foreign trade data published by the BNB.

¹⁶ Preliminary data subject to revision.

Imports of Commodity Groups by Use, Contribution to the Overall Rate of Change by Sub-component

(per cent, percentage points)

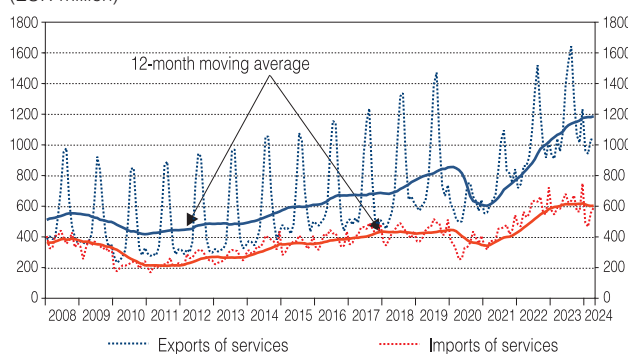


Note: Quarterly data are used. The last observation is for the first quarter of 2024.

Source: BNB.

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

(EUR million)

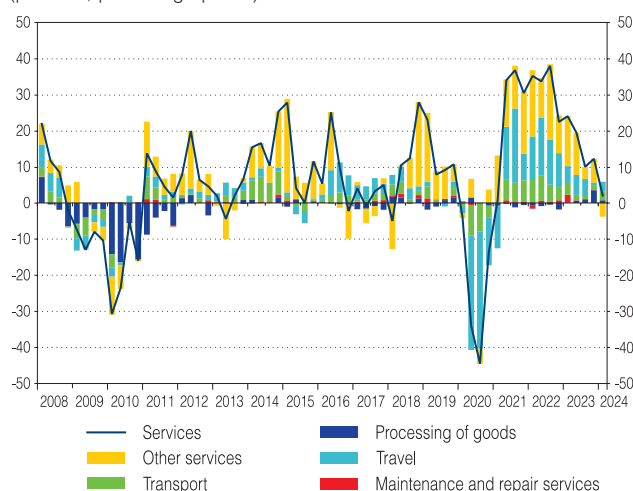


Note: Monthly data are used. The last observation is for April 2024.

Source: BNB.

Annual Change of Exports of Services and Contribution by Sub-component

(per cent, percentage points)



Notes: Quarterly data are used. The last observation is for the first quarter of 2024.

Source: BNB.

remained largely unchanged at 1.7 per cent of GDP, from 1.5 per cent of GDP in December 2023, with incoming transfers to the general government sector increasing since early 2024.

Financial Account and International Investment Position

Between January and April 2024, the financial account balance was positive, while for the last 12 months as of April 2024, it was negative at EUR -935 million (EUR -2.2 billion in December 2023), driven by the accumulation of larger liabilities to non-residents compared to the acquisition of Bulgarian residents' foreign assets. The increase in assets and decrease in liabilities in the form of banking sector's foreign currency and deposits contributed to the positive financial account balance in the first four months of 2024. The increase in portfolio investments in the form of banks and financial corporations' debt securities also contributed to the rise in total foreign assets over this period.

Foreign direct investments in Bulgaria¹⁷ were 63.4 per cent of GDP at the end of the first quarter of 2024 (against 65.0 per cent at end-2023). The inflow of attracted direct investments (liabilities) into Bulgaria fell by 87.8 per cent compared with the same period of 2023 to EUR 250 million.¹⁸ Non-residents' investments in debt instruments and equity in the banking sector increased, while investments of foreign companies in the form of debt instruments recorded a decline.

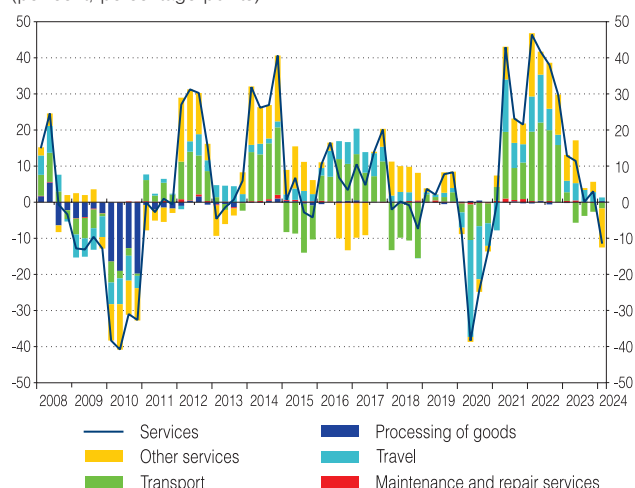
As a result of balance of payments developments and changes driven by valuation adjustments and price revaluations, the international investment position of Bulgaria continued to decrease, to -7.1 per cent of GDP at the end of the first quarter of 2024, from -7.6 per cent of GDP at the end of 2023. This dynamics was largely due to the stronger decline in liabilities to non-residents (mainly in the form of direct investment) compared with Bulgarian residents' foreign assets, which, in turn, declined mainly on the back of the central bank's reserve assets, while foreign portfolio investment of Bulgarian residents and assets in the form of foreign currency and bank deposits abroad increased.

¹⁷ International investment position data are used.

¹⁸ Preliminary data subject to revision.

Annual Change of Imports of Services and Contribution by Sub-component

(per cent, percentage points)

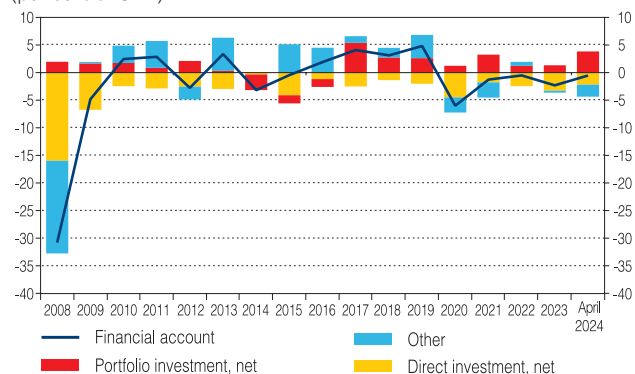


Notes: Quarterly data are used. The last observation is for the first quarter of 2024.

Source: BNB.

Financial Account Flow Dynamics and Contribution by Component

(per cent of GDP)



Notes: The Other item includes Other Investments, Net, and Financial Derivatives (Other than Reserves) and Employee Stock Options, Net. April 2024 data on financial account flows are accumulated for the last 12 months. Nominal GDP data for the last four quarters up to and including the first quarter of 2024 are used in calculating the GDP ratio for April 2024.

Sources: BNB, NSI, BNB calculations.

2.2. BNB Gross International Reserves

By the end of June 2024, the market value of Bulgaria's international reserves (including valuation adjustments and price revaluations) was EUR 37.7 billion (BGN 73.7 billion), decreasing by EUR 4.2 billion (BGN 8.3 billion) from the end of December 2023. The amount of gross international reserves reflects the dynamics of financial flows generated in the interaction of external and internal economic factors and, in accordance with the principles of the functioning of the currency board in Bulgaria, corresponds to the BNB Issue Department balance sheet liabilities.¹⁹ The decrease in the Issue Department liabilities by the end of the first six months of 2024 *vis-à-vis* the end of 2023 was largely driven by a reduction in the amount of liabilities to banks, mainly as a result of the decrease in banks' excess reserves due to their normally higher year-end levels.²⁰ International reserves grew by EUR 2.5 billion (BGN 4.8 billion) on an annual basis, driven mainly by the increase in banks' minimum required reserves due to the higher MRR rate (12 per cent), effective as of 1 July 2023, and the growing deposit base. To a lesser extent, the increase in the BNB Issue Department liabilities was due to an increase in the deposits of the Banking Department which resulted from higher returns from international reserve management and gold price rises, as well as from the increase in banknotes and coins in circulation. Concurrently, government and budget organisations' deposits decreased by EUR 1.7 billion (BGN 3.4 billion). As of March 2024, the BNB's international reserves amounted to 40.4 per cent of GDP (44.6 per cent of GDP at the end of December 2023 and 38.6 per cent at the end of June 2023).

2.3. External Debt

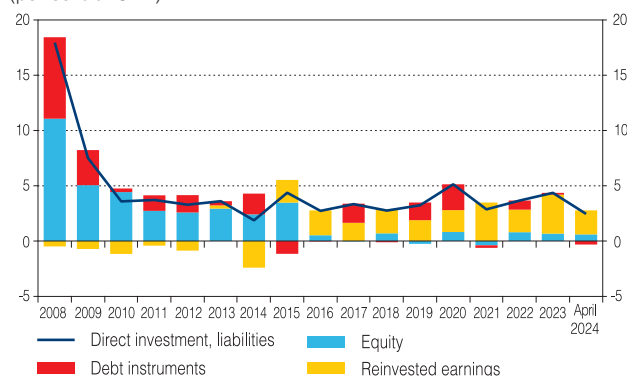
As of April 2024, Bulgaria's gross external debt reached EUR 43.1 billion (45.2 per cent of GDP), down EUR 2.3 billion from December 2023 and continued to decrease as a share of GDP. The nominal value of the external debt in all sectors declined from the end of 2023 levels, with inter-

¹⁹ BNB Issue Department liabilities include banknotes and coins in circulation, liabilities to banks and liabilities to the government and budget organisations, liabilities to other depositors and Banking Department deposit.

²⁰ For more information on bank reserve developments, see Money and Credit in Chapter 3.

Direct Investment – Liabilities by Type of Investment

(per cent of GDP)

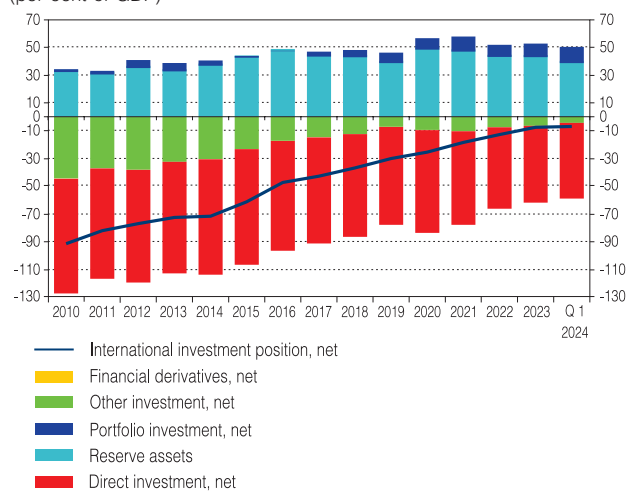


Notes: April 2024 data on direct investment liabilities flows are accumulated for the last 12 months. Nominal GDP data for the last four quarters up to and including the first quarter of 2024 are used in calculating the GDP ratio for April 2024.

Sources: BNB, NSI, BNB calculations.

Bulgaria's International Investment Position

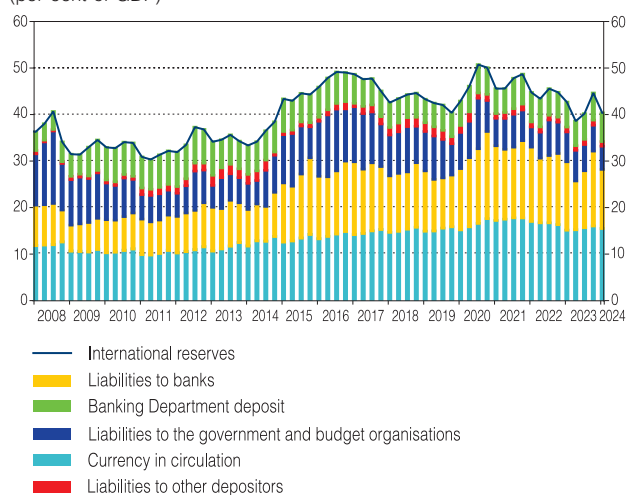
(per cent of GDP)



Sources: BNB, NSI, BNB calculations.

Liabilities Structure of the BNB Issue Department Balance Sheet.

(per cent of GDP)

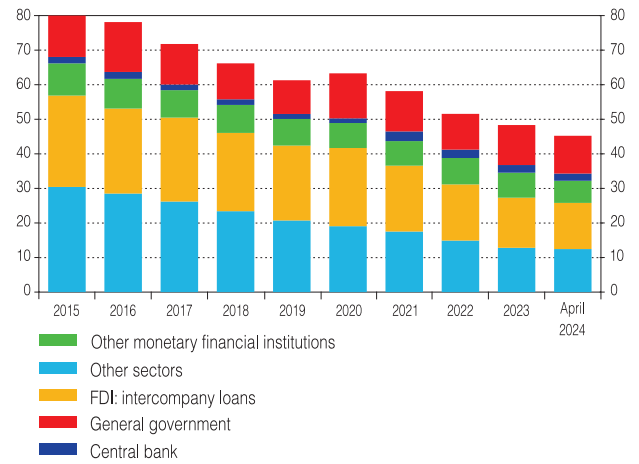


Sources: BNB, NSI, BNB calculations.

company lending and banking sector recording the largest decline. As of April 2024 the share of long-term debt in Bulgaria's total gross external debt rose to 83.1 per cent (81.6 per cent in December 2023).

Gross External Debt

(per cent of GDP)



Note: Nominal GDP for the last four quarters up to and including the first quarter of 2024 are used in calculating the gross external debt to GDP ratio for April 2024.

Sources: BNB, NSI, BNB calculations.

3. MONEY AND CREDIT

3.1. Monetary and Credit Aggregates

Deposits of the Non-government Sector

Over the first five months of 2024, the annual growth of non-government sector's deposits²¹ in the banking system remained high, reaching 9.3 per cent at the end of May (9.5 per cent at end-2023). Household deposits continued to make a major and increasing contribution to deposit growth, accelerating to 11.7 per cent (11.0 per cent at end-December 2023). In the non-financial corporations sector, there was a further slowdown in growth in the first quarter of the year and a slight acceleration thereafter, with corporate deposits growing by 6.7 per cent on an annual basis at the end of May 2024 (9.0 per cent at end-December 2023).

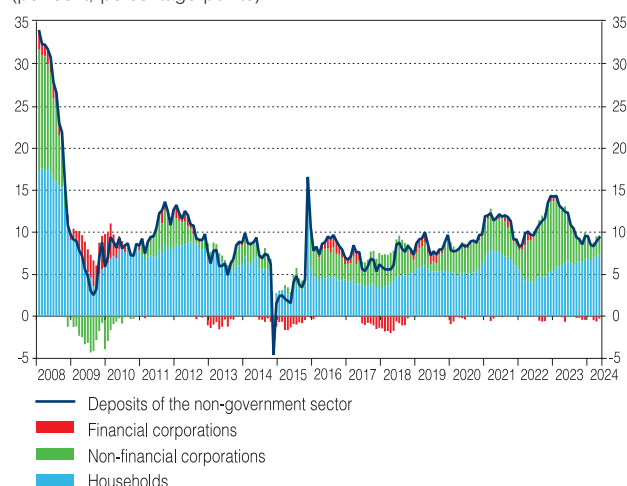
Data on deposits of non-financial corporations by sector of economic activity for the first quarter of 2024 show that, compared with the same period in 2023, the repair of motor vehicles and motorcycles sector was the main contributor to the slowdown in annual growth in deposits. These data also show that the professional activities and research services sector had the largest negative contribution to the change in corporate deposits at the end of the first quarter of this year. Concurrently, the annual increase in nominal turnover in manufacturing reported in April 2024 and the accelerated nominal turnover growth in the retail sector in the April–May period are potential factors for a stronger growth of corporate deposits in the second quarter of the year.

Over the first five months of 2024, a slowdown in the annual growth of corporate deposits with an agreed maturity was reported, while the growth of overnight deposits remained close to that

²¹ Non-government sector's deposits include deposits of households, non-financial corporations and financial corporations. Deposits of households and non-financial corporations comprised the largest share of all non-government sector's deposits (97.0 per cent on average for the last 12 months as of May 2024), and therefore, the analysis is focused on these two sectors.

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

(per cent, percentage points)

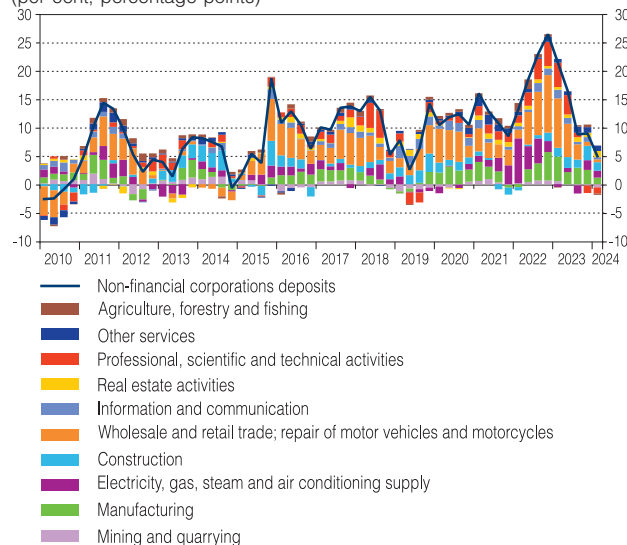


Note: The annual growth rate of non-government sector deposits in November 2015 reflects the exhausted base effect of KTB removal as a reporting unit from the monetary statistics in November 2014.

Source: BNB.

Annual Growth of Non-financial Corporations' Deposits and Contribution by Economic Activity

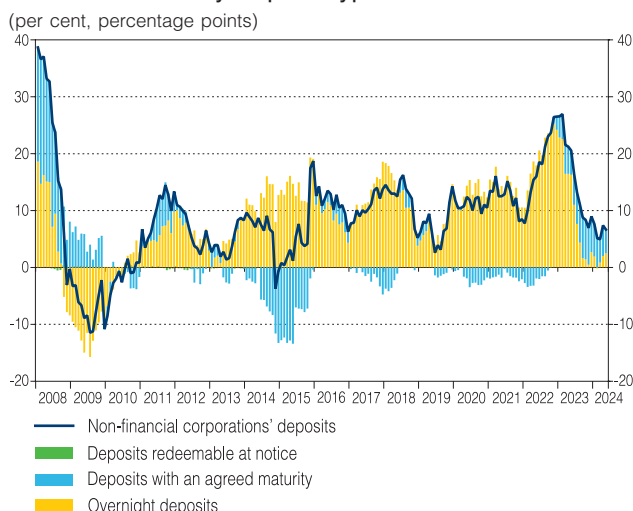
(per cent, percentage points)



Notes: The data on deposits of non-financial corporations by economic activity a start in 2009. The economic activities 'water supply, sewerage, waste management and remediation activities', 'education', 'human health and social work activities', 'arts, entertainment and recreation' and 'other service activities' are included in the category 'other services'.

Source: BNB.

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



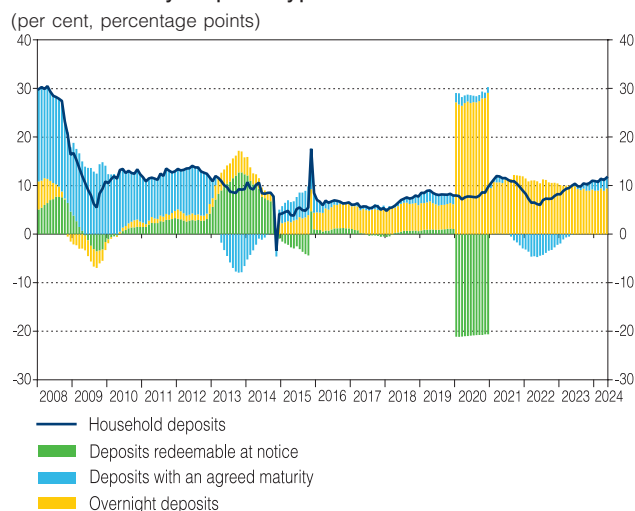
Source: BNB.

at the end of 2023. Against the background of an upward trend in interest rates on new time deposits of corporations between the third quarter of 2022 and the end of 2023, deposits with an agreed maturity continued to be the main contributor to corporate deposit growth as of the second quarter of 2024.

The strong rise in labour income and households' maintained preferences to invest their free funds primarily in the form of deposits in the banking system were the main factors behind the accelerated growth of household deposits in the first five months of 2024. Overnight deposits continued to have the major contribution to M3 growth. The contribution of deposits with agreed maturity, albeit increasing, remained low as a result of the relatively slow increase in interest rates on new time deposits of households (particularly in those of smaller banks), which did not provide significant incentives for households to open time deposits.

In the first five months of 2024, the growth of the broad monetary aggregate M3 remained relatively high, accounting for 8.6 per cent on an annual basis at the end of May (8.7 per cent in December 2023). Overnight deposits continued to have the largest contribution to M3 growth, while deposits with an agreed maturity of up to two years declined slightly. In terms of the currency structure, the preference of both households and firms to save primarily in local currency remained sustained in the January–May 2024 period.

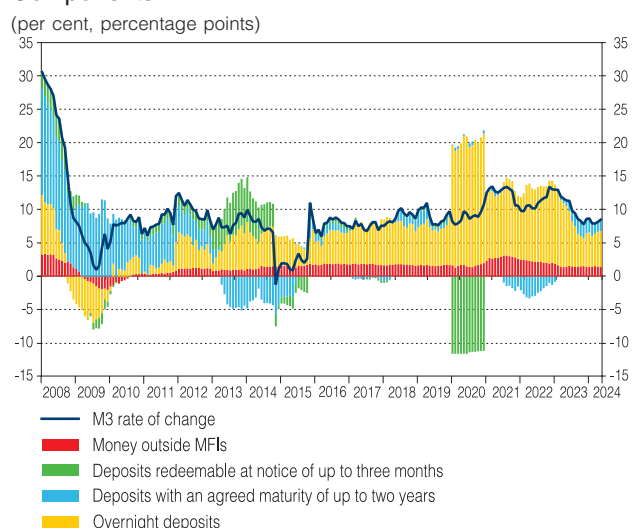
Annual Growth of Households' Deposits and Contribution by Deposit Type



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

Source: BNB.

Annual Rate of Change in M3 and Contribution by Components



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

Source: BNB.

Reserve Money

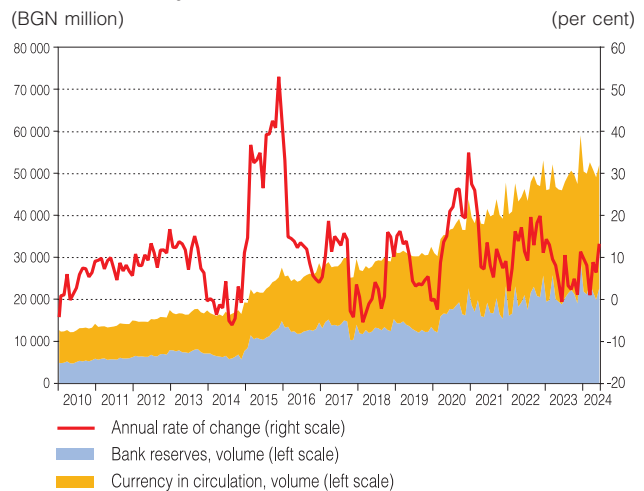
By end-June 2024 annual growth of reserve money was 13.2 per cent (11.3 per cent as of December 2023). Banks' reserves contributed more strongly to reserve money growth as a result mainly of the base effect of the increase in the minimum required reserves rate from 10 to 12 per cent, effective as of 1 July 2023²², while the contribution of currency in circulation was lower.

The decrease in bank reserves between January and June 2024 compared to their end-December 2023 level was driven entirely by excess reserves, following the typically higher level at the end of each calendar year, with the reduction in excess reserves concentrated mainly in January. At the same time, banks' minimum required reserves followed an upward trend due to the higher deposit base. In June 2024, the effective implicit ratio of the MRR was 11.68 per cent (11.73 per cent in December 2023); with bank deposits with the BNB comprising 10.77 percentage points in minimum required reserves, and the remaining 0.91 percentage points being in the form of recognised cash balances. In June 2024, excess of the banks' funds over the required minimum of reserve assets under Ordinance No 21 was 2.6 per cent of the MRR on an average daily basis, from 12.7 per cent of MRR in December 2023. Between January and June 2024 banks' funds in the TARGET-BNB system did not change significantly on an average daily basis from the end of the previous year.

In the first six months of 2024, the annual growth of currency in circulation accelerated, reaching 8.1 per cent at the end of June (7.4 per cent in December 2023). Higher growth of currency in circulation can be partly explained by a base effect, reflecting the low base in the same period of the previous year, and by the increase in private consumption, which supported cash payments in addition to the increase in card payments.

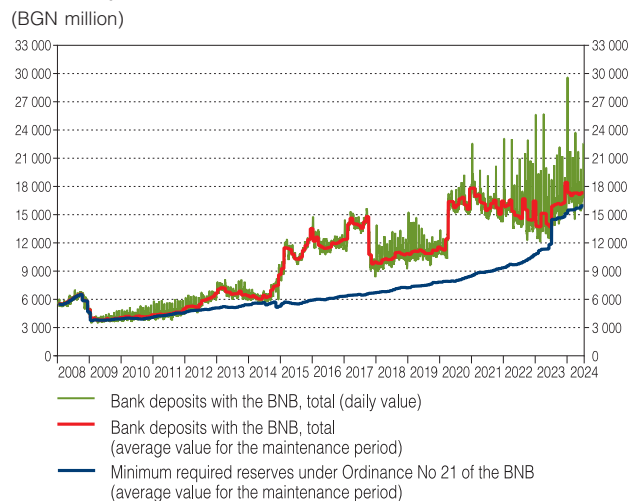
²² The two rises in the minimum required reserves rate initiated by the BNB in 2023 – from 5 per cent to 10 per cent for funds attracted by banks from non-residents effective as of 1 June 2023, and from 10 per cent to 12 per cent for funds attracted from residents and non-residents, effective from 1 July 2023 – have led to a significant increase in the funds maintained by banks with the BNB as required reserves. A more substantial increase in the amount of minimum required reserves was observed after the second increase in the minimum required reserve rate due to the fact that attracted funds from residents accounted for the predominant share of total attracted funds in the banking system (88.5 per cent by end-June 2023).

Reserve Money



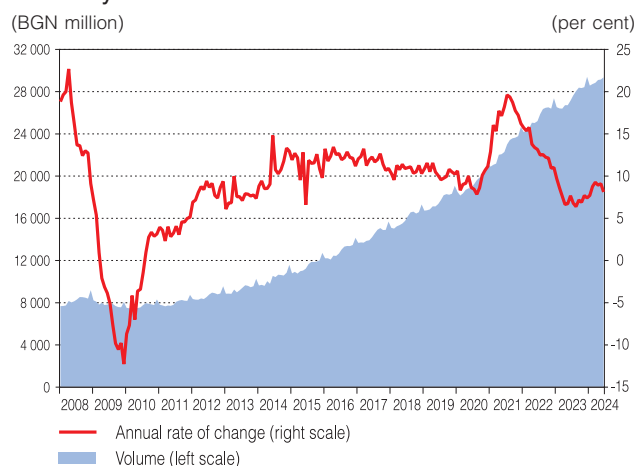
Source: BNB.

Bank Deposits with the BNB



Source: BNB.

Currency in circulation



Source: BNB.

Reserve currency (euro) trading with the BNB is the main lev liquidity management instrument of banks under the currency board arrangement. In the January–June 2024 period, BNB sales (net) to commercial banks amounted to EUR 3.9 billion.

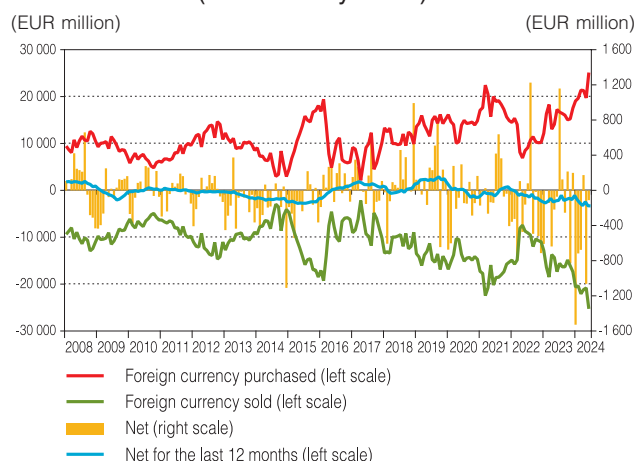
Credit to the Non-government Sector

In the first five months of 2024, annual growth of credit to non-financial corporations accelerated slightly, reaching 8.4 per cent at the end of May (7.3 per cent as of December 2023). The observed dynamics was driven by corporate overdraft, which rose by 10.3 per cent on an annual basis (6.6 per cent in December 2023), while the annual growth rate of loans excluding overdraft remained close to that at the end of 2023 and came to 7.4 per cent as of May. BNB quarterly Bank Lending Survey shows that the need to provide financial resources for working capital and inventory accumulation, as well as for investment purposes, was the main factor supporting the demand for corporate loans in the first quarter of 2024. According to data on loans from non-financial corporations by economic activity sector, construction played a decisive role for the acceleration of annual growth of corporate loans in the first quarter of the year. In terms of volumes of new corporate loans, the trend in the January–May 2024 period was to remain at levels similar to those at the end-2023.²³

In the first five months of 2024, the upward trend in annual growth of loans to households continued, reaching 18.8 per cent as of May (15.9 per cent in December 2023). Housing loans and, to a lesser extent, consumer credit contributed to the upward dynamics. Growth in housing loans came to 24.4 per cent on an annual basis (20.5 per cent in December 2023), while consumer loans stood at 13.9 per cent (12.3 per cent at end-2023). The main factors that continued to support demand for loans by households were rising labour income and persistently very low levels of interest rates on housing loans. Results from the Bank Lending Survey indicate that in the first quarter of 2024, the principal driver of the elevated demand for consumer loans was the increased need for financial resources to purchase both current consumption goods and durable goods. At the same time, according to the Survey data, households' needs for funding

²³ Based on 12-month moving average.

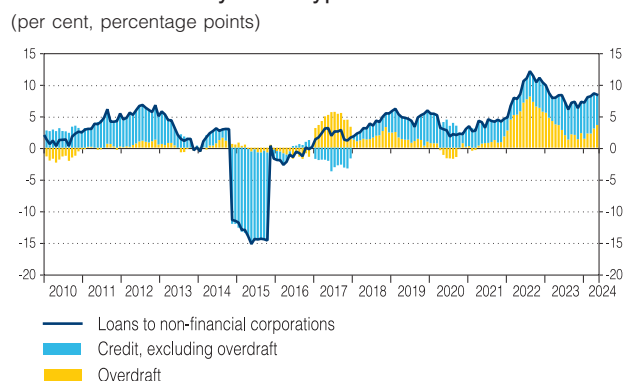
Foreign Currency Purchases and Sales between the BNB and Banks (on a Monthly Basis)



Notes: Net means currency purchased minus currency sold by the BNB. Data refer to all bank transactions in foreign currency including liquidity management operations related to the transfer of own funds from lev accounts with the BNB to own accounts with the BNB in euro and vice versa.

Source: BNB.

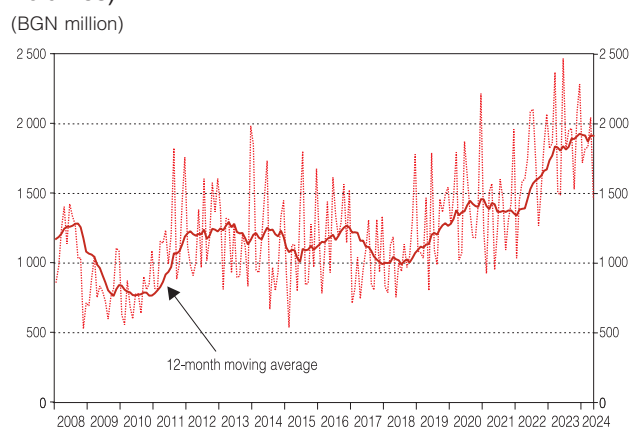
Annual Growth of Credit to Non-financial Corporations and Contribution by Loan Type



Note: The annual growth rate of loans to non-financial corporations in November 2015 reflects the exhausted base effect of KTB removal as a reporting unit from the monetary statistics in November 2014.

Source: BNB.

New Loans to Non-financial Corporations (Monthly Volumes)



Source: BNB.

the purchase of their first home and, to a lesser extent, their assessment of the macroeconomic environment and the outlook for the housing market, have contributed to an increased demand for housing loans. On the supply side, the ample liquidity, banks' sound capital position and the competition between them had an impact on the growth of credit to households, which continued to limit the effects of the tightening of ECB monetary policy and the increase in the MRR rate by the BNB on household lending rates. In addition, the acceleration in residential property price growth in early 2024 was a prerequisite for an increase in the volume of new housing loans, which also supports the growth in loans for house purchases. New consumer and housing loans continued to show an upward trend in lending volumes²⁴ in the first five months of 2024. Concurrently, the share of new loans to households used to renegotiate or refinance existing exposures reported a decline compared to 2023 in both segments, with a more significant decline observed in loans for house purchases.²⁵

Bank Lending Survey

The weighted results of the Bank Lending Survey²⁶ for the first quarter of 2024 point to an easing of lending standards²⁷ for loans to corporations and a slight tightening of the lending standards for consumer and housing loans. Banks reported easing of credit conditions for firms in terms of collateral requirements, while in consumer and housing loans the easing was reported with regard to maximum loan amount. The most significant tightening of the terms and conditions

²⁴ Based on 12-month moving average.

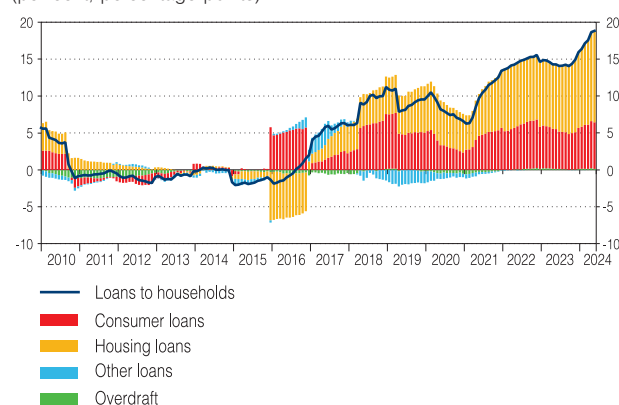
²⁵ Over the first five months of 2024, the share of renegotiated loans and new business loans for refinancing averaged 23.5 per cent of the total volume of new loans for house purchases (27.2 per cent in 2023). In the consumer credit segment, the share of renegotiated loans and new business loans for refinancing came to an average of 14.9 per cent of the total volume of new consumer loans (16.8 per cent in 2023). BNB interest rate statistics data are used, as detailed in the Table 'Interest Rates and Volumes of New Business on Renegotiated Loans and Loans for Refinancing Other than Overdraft to Households Sector by Original Maturity'.

²⁶ Bank Lending Survey in Bulgaria is carried out by the BNB on a quarterly basis. Summarised results of the survey are presented through weighted bank responses by their market share in the relevant credit segment.

²⁷ Credit standards are understood as internal bank guidelines and criteria for loan approvals established prior to negotiating the terms of extended loans. Credit standards determine the type of the loan and collateral considered admissible by banks, taking into account specific priorities by sector, etc. Credit standards specify also all relevant conditions to be met by a borrower.

Annual Growth of Household Credit and Contribution by Loan Type

(per cent, percentage points)

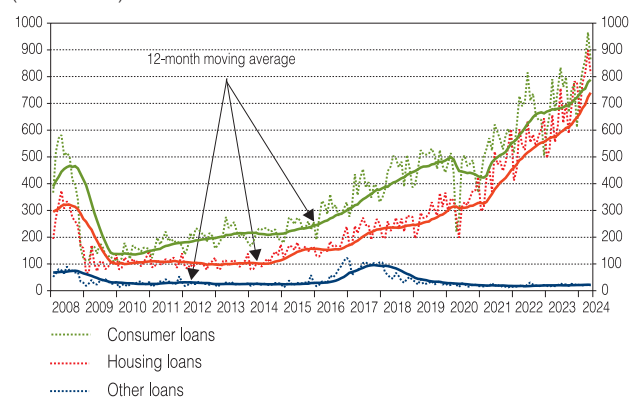


Note: Based on additional information received from reporting units, a revision of household loans was carried out according to their purpose of use in the period December 2015–August 2019.

Source: BNB.

New Loans to Households (Monthly Volumes)

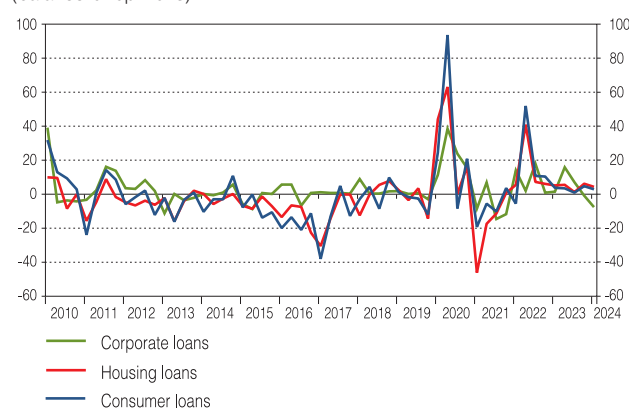
(BGN million)



Source: BNB.

Changes in Credit Standards

(balance of opinions)



Source: BNB.

for all three types of loans was observed in terms of the interest rates and the interest rate spread. The primary driver behind the tightening of credit policy (lending standards and conditions²⁸) of banks with regard to loans to enterprises and households during the January to March 2024 period was the lower risk appetite. Concurrently, competition, banks' liquidity position and the cost of attracted funds were the factors that contributed to the easing of household lending standards and conditions, while collateral risk assessments had in turn led to an easing of credit policy on loans to enterprises.

In the first quarter of the year banks reported a significant increase in demand for consumer loans compared with the previous quarter, more moderately increasing demand for loans for housing needs and loans by large enterprises, and reduced demand for loans by small and medium-sized enterprises. According to the banks, the main factors supporting the demand for business loans in the first quarter of 2024 were the increased need for bank funds for investment purposes, as well as for working capital and accumulation of inventories. Household demand for funds for the purchase of current consumption goods and durable goods was the main contributor to the increase in demand for consumer credit. The need for funds to buy a first home was the determinant of higher demand for home loans, while the assessment of the macroeconomic environment and the assessment of the outlook for the housing market were relatively less important.

3.2. Interest Rates

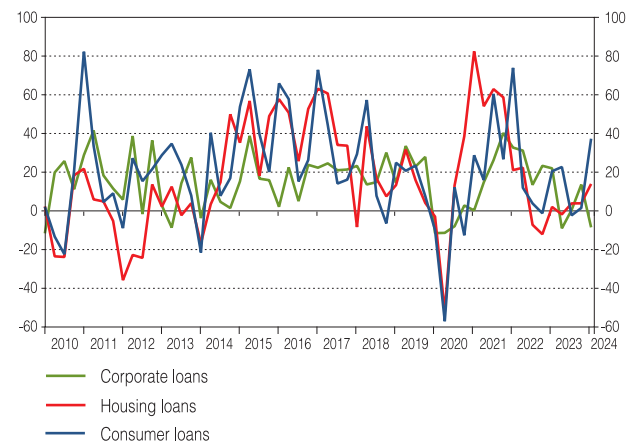
Interbank Money Market Interest Rates

In the first half of 2024, trading volumes in the interbank money market remained high, with the average daily volume of unsecured overnight deposit transactions concluded in levs amounting to BGN 309 million in June 2024 (BGN 347 million in December 2023). In an environment of a positive spread between the interest rate on the ECB deposit facility and the interest rate on banks' excess reserves with the BNB (0 per cent), the amount of excess reserves maintained remained very low. On the one hand, banks used trading

²⁸ Credit conditions typically involve the reference interest rate surcharge, the loan amount, conditions for its utilisation and other conditions, fees and commissions, collateral or guarantees to be provided by a borrower.

Changes in Credit Demand

(balance of opinions)

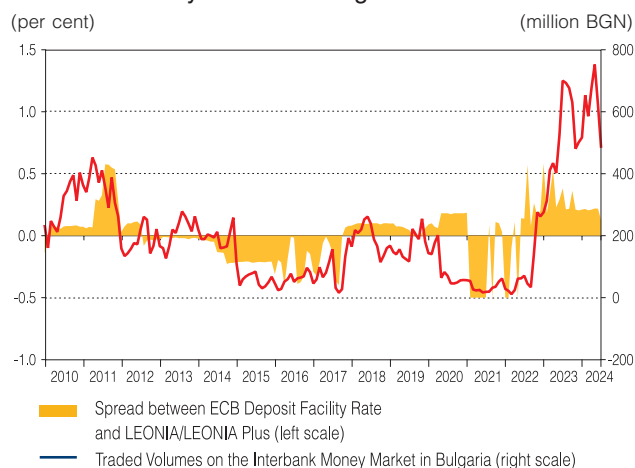


Notes: As regards credit standards, charts present banks' balance of opinions defined as a difference in percentage points between the percentage of banks responding 'tightened' ('considerably' and 'somewhat'), and the percentage of banks responding 'eased' ('considerably' and 'somewhat').

As regards credit demand, the balance of opinions is defined in percentage points as a difference between the percentage of banks responding 'increased' ('considerably' and 'somewhat') and the percentage of banks responding 'reduced' ('considerably' and 'somewhat'). All opinions are weighted by the bank's market share in the relevant credit segment. Data presented in the chart show the change from the previous quarter.

Source: BNB.

Spread between ECB Deposit Facility Rate and LEONIA/LEONIA Plus and Traded Volumes on the Interbank Money Market in Bulgaria



Notes: The traded volumes are presented on an average daily basis and include deposits and repos. The share of overnight deposits in the total volume of money market transactions was 73.0 per cent on average in 2023 and 65.3 per cent on average for the period January–June 2024.

Sources: BNB, ECB.

in the interbank money market to raise liquidity at very low levels of excess reserves. On the other hand, a factor for the observed intensification of trading on this market in the period from mid-2022 is the possibility of interest rate arbitrage related to the generation of income by banks with parent banks in the euro area, in the presence of a positive spread between the interest rate on the ECB deposit facility and the interest rate on the interbank money market in Bulgaria.

As of June 2024, the monthly value of the LEONIA Plus index rose to 3.63 per cent (3.79 per cent in December 2023), while the spread between LEONIA Plus and €STR was negative, amounting to -21 basis points (-11 basis points in December 2023).

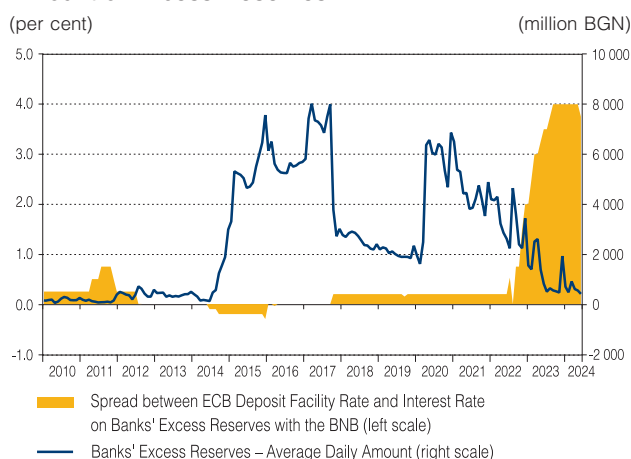
Interest Rates on Deposits

High liquidity and continued inflows of attracted funds in the banking system continued to limit the transmission of the ECB monetary policy tightening and the 2023 increase by the BNB of the minimum required reserves rate on interest rates on newly attracted funds by households. In the first five months of 2024, some smaller commercial banks reported an increase in the interest rates offered on new time deposits to the household sector, but large commercial banks continued to keep these rates close to 0 per cent. As a result, overall for the banking system, interest rates on new time deposits for households remained at low levels. In May 2024 the average weighted interest rate on new time deposits of households accounted for 1.18 per cent (1.50 per cent as of December 2023). By currency, a more significant decline was observed in deposits denominated in US dollars, which account for a relatively small share of the volume of new household time deposits, while the decline in deposits denominated in lev and euro was less pronounced.

The average weighted interest rate on new time deposits of non-financial corporations accounted for 2.68 per cent in May 2024 (2.69 per cent as of December 2023). Newly negotiated corporate deposits in both levs and US dollars declined, while euro-denominated deposits increased slightly from December 2023.

The weighted average interest rates on outstanding time deposits showed a slight upward trend between January and May 2024 both in the

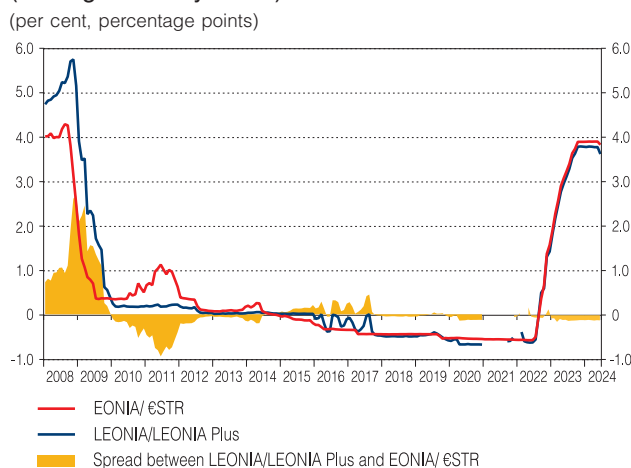
Spread between ECB Deposit Facility Rate and Interest Rate on Banks' Excess Reserves with the BNB and Amount of Excess Reserves



Notes: The BNB introduced a definition of excess reserves of banks on 4 January 2016 with the adoption of the new Ordinance 21 on the Minimum Required Reserves Maintained with the Bulgarian National Bank by Banks. Until 4 January 2016 an interest rate of 0 per cent was applied on banks' funds maintained with the BNB, which exceed the amount of the minimum required reserves.

Sources: BNB, ECB.

Interbank Money Market Rates on Overnight Deposits (Average Monthly Value)



Notes: The EONIA/€STR series is composed of: EONIA between 2008 and 14 March 2017; pre-€STR between 15 March 2017 and 30 September 2019; €STR in the period after 30 September 2019. LEONIA Plus replaced LEONIA on 1 July 2017. The monthly values of LEONIA Plus are calculated as an arithmetic average of the days on which overnight unsecured lending transactions are concluded on the interbank market in levs.

Sources: BNB, ECB.

household sector (to 0.4 per cent in May, from 0.3 per cent at the end of 2023) and in the non-financial corporations sector (to 1.8 per cent in May, from 1.7 per cent in December 2023).

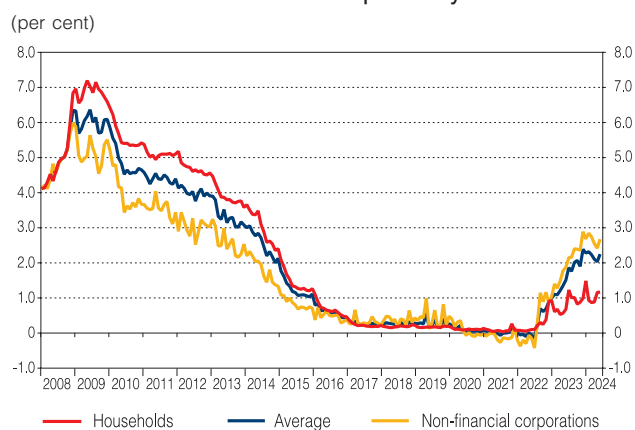
Interest Rates on Loans

In the first five months of the year, the annual percentage rate of charge (APRC) and the interest rate on new consumer credit fell to 9.65 per cent and 9.0 per cent respectively in the household sector (10.10 per cent and 9.56 per cent as of December 2023).²⁹ The APRC and the interest rate on newly originated housing loans remained at levels similar to those at the end of 2023, reaching 2.81 per cent and 2.53 per cent, respectively, in May (2.86 per cent and 2.59 per cent as of December 2023). The high liquidity and capitalisation of the banking sector, as well as competition between banks in the housing and consumer credit segments, continued to be the main factors behind the limited transmission effects of the ECB's monetary policy tightening and the limited effects of the increase in the MRR rate undertaken by the BNB on interest rates on loans to households.

In the non-financial corporations' sector, the weighted average interest rate on new loans decreased by 26 basis points to 4.85 per cent in May (5.11 per cent at the end of 2023). By currency, there was a significant decline in loans in US dollars (by 452 basis points), while the weighted average interest rate for loans denominated in lev and euro, which account for the bulk of new corporate loans, declined slightly compared to the December 2023 level (by 18 basis points and 29 basis points, respectively). The much higher share of euro-denominated corporate loans, where interest rates are often linked to benchmark indices in the euro area interbank market, accounted for the larger increase in lending rates to corporations than to households in the period from mid-2022 to mid-2024. Concurrently, newly originated loans to households are almost entirely denominated in levs, and interest rates on them are formed by some of the larger banks based on a selected interest rate on outstanding balances of deposits only for the house-

²⁹ The indicated values of interest rates and APRC on new loans to households and non-financial corporations presented in this and the following section are on a monthly basis.

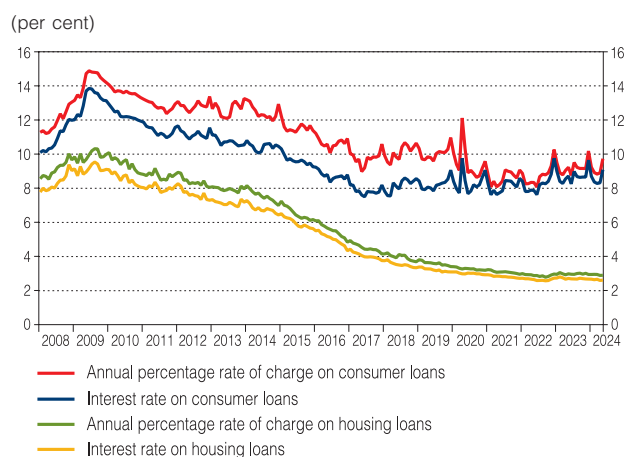
Interest Rates on New Time Deposits by Sectors



Notes: The average interest rate is calculated for all sectors, maturities (current accounts and overnight deposits are not included) and currencies weighted by the relevant volumes of new deposits. Average deposit rates for non-financial corporations and households are based on interest rates for all maturities and currencies weighted by relevant volumes of new deposits.

Source: BNB.

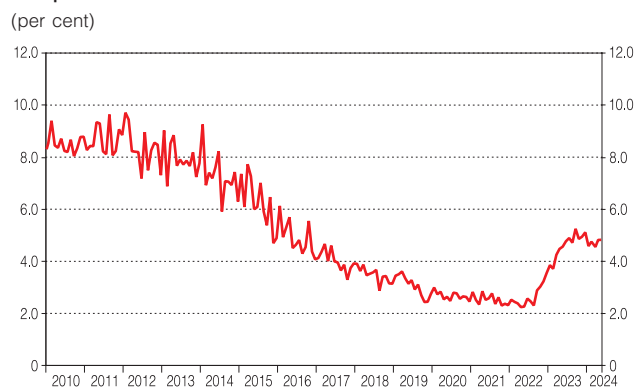
Interest Rates and APRC on New Household Loans



Note: The difference between the APRC and the relevant interest rates reflects the approximate per cent of all non-interest service charges on loans (including fees and commissions).

Source: BNB.

Interest Rate on New Loans to Non-financial Corporations



Note: The interest rate on new loans to non-financial corporations is calculated for all maturities and currencies weighted by the respective volumes of new loans.

Source: BNB.

hold sector or total for banking system which remain at low levels.

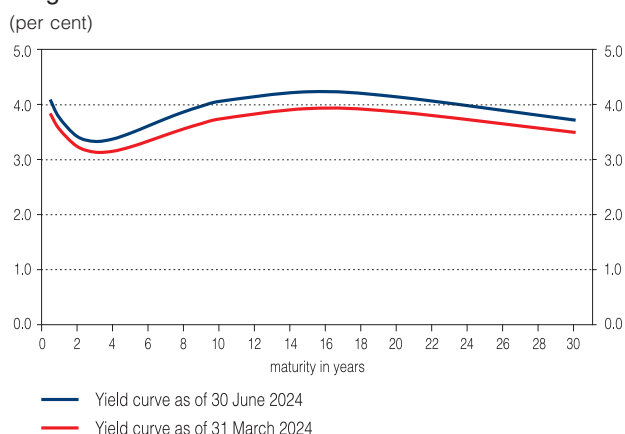
Government Securities Yields

As of end-June 2024, the reference yield curve of Bulgarian Eurobonds issued and traded in international capital markets reported an increase on the end of March 2024 in all maturity sectors. By the end of the second quarter of 2024, the spread between the yields of Bulgarian and German government securities widened compared to the end of March 2024 for all government securities, which was most pronounced for securities maturing in 2024 and 2027 (by 64 and 20 basis points, respectively). The widening of spreads on government bonds maturing in 2024 (3 September 2024) reflected the rise in Bulgarian government bond yields, while German government bond yields fell, possibly reflecting the impact of renewed political uncertainty in Bulgaria. In the other maturity sectors, the rise in yields on Bulgarian government bonds was somewhat stronger than the rise in yields on German government bonds compared with the end of the first quarter of 2024.

In June 2024, the long-term interest rate for assessing Bulgaria's degree of convergence stood at 3.93 per cent, remaining unchanged in the period from February 2024³⁰, and the spread *vis-à-vis* Germany's long-term interest rate stood at 145 basis points.

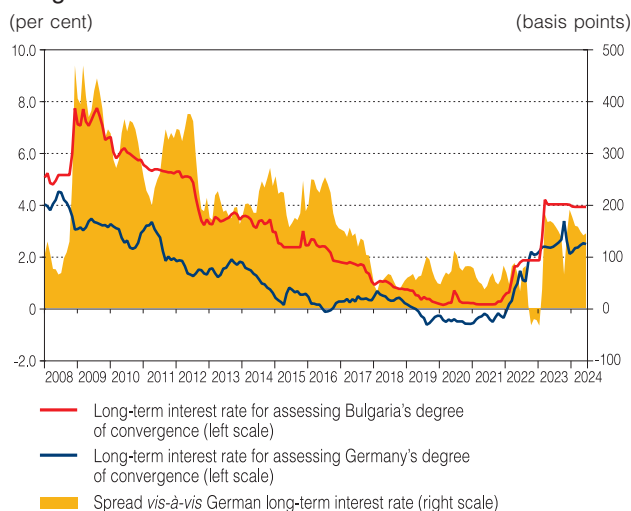
³⁰ Daily data indicate that the long-term interest rate remained unchanged from 9 January 2024 to end-June 2024 at 3.93 per cent, which is most likely due to the limited amount of transactions with Bulgaria's benchmark bond on the secondary government securities market during this period. For calculating the long-term interest rate for assessing the degree of convergence, see the [methodological notes](#) on the BNB website.

Bulgarian Government Bond Yield Curve



Notes: The reference yield curve of Bulgarian government bonds is constructed on the basis of an extended version of the Nelson–Siegel–Svensson model (1994). The chart employs daily yield data on Bulgarian government securities issued and traded in international capital markets, published in the MF Central Government Debt and Guarantees Monthly Bulletin. Sources: MF, BNB calculations.

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



Sources: BNB, ECB.

4. ECONOMIC ACTIVITY

4.1. Current Economic Environment

Gross Domestic Product

Based on NSI seasonally adjusted data, real GDP increased by 0.4 per cent in the first quarter of 2024 compared to the previous quarter. According to non-seasonally adjusted data, economic activity growth accelerated slightly on an annual basis, reaching 1.9 per cent (compared to 1.8 per cent in the previous quarter). By final consumption expenditure component, domestic demand made the main positive contribution to annual real GDP growth in the first quarter of 2024, followed by net exports, while changes in inventories continued to contribute negatively thereto. Reduced firms' propensity to accumulate inventories can be explained by the improved functioning of global supply chains, falling non-energy commodity prices in international markets and lower production activity in manufacturing³¹.

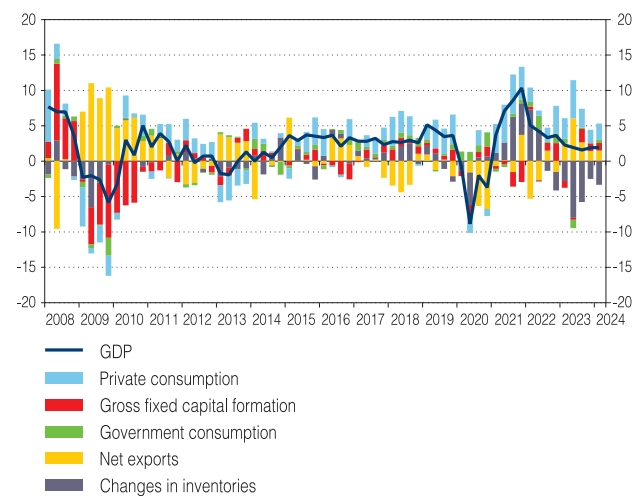
In the first quarter of 2024, private consumption at constant prices rose by 3.7 per cent year on year (compared to 3.2 per cent in the previous quarter), supported by the growth in employment and wages in real terms. Other factors positively affecting final consumption expenditure of households were the year-on-year increase in consumer loans, low households' saving incentives in view of the negative real interest rates on bank deposits, as well as the improved consumer confidence. In the first quarter of 2024, government consumption at constant prices increased by 2.3 per cent on an annual basis (against 0.6 per cent in the last quarter of 2023). Data on the implementation of the Consolidated Fiscal Programme (CFP) show that compensation of public employees and health expenditure had a positive contribution to government consumption growth over the period.³²

³¹ NSI working day adjusted data on the industrial production index are used.

³² For details, see Fiscal Policy Effects on the Economy Section in this Chapter.

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

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



Sources: NSI, BNB calculations.

In the first quarter of 2024, fixed capital investment rose by 8.4 per cent year on year (compared with 5.2 per cent in the previous quarter). According to BNB estimates³³, this growth was due mainly to private and, to a lesser extent, general government sector. In the review period the main factors favouring growth of investment activity in the private sector were the increased final consumption expenditure, the reported annual growth in sales of new dwellings and the active supply of credit by banks. The indicator comparing production capacity in industry to expected demand remained below its long-term average, which was another potential factor for investment in order to expand existing production capacity in some industrial sub-sectors³⁴. Data on the implementation of the CFP provide a preliminary indication that government investment in the first quarter of 2024 was mainly driven by the implementation of nationally financed projects.

Net exports had a positive contribution to the annual growth of real GDP in the first quarter of 2024, driven by a greater decline in imports than in exports of goods and services³⁵. The reported decline of 2.5 per cent in exports was due to the goods component, while exports of services remained at a level similar to that in the corresponding quarter of the previous year. The year-on-year change in imports was -3.9 per cent in real terms, with the fall entirely attributable to both goods and services. Downward dynamics of goods imports can be partly explained by firms' policies to limit the stock of available raw materials and finished products which have been observed since late 2022.

Gross value added in Bulgaria increased by 1.1 per cent in real terms on the previous quarter³⁶, while annual growth according to non-

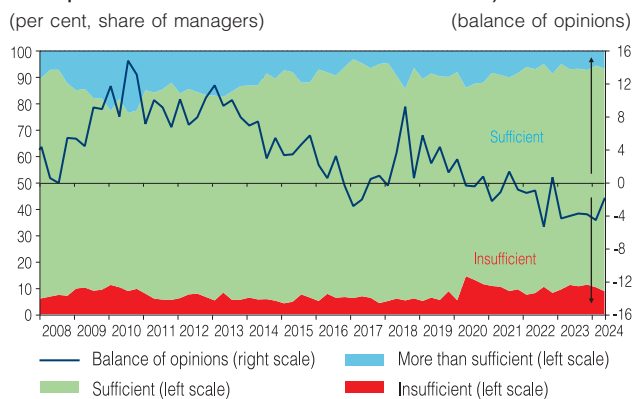
³³ The NSI does not provide official data on the breakdown of total investments into private and public. The series on private investment is constructed by the BNB as a difference between total investment and the estimated amount of public investment on an accrual basis in real terms. Public investment estimates for the first quarter of 2024 are based on information from the monthly CFP performance reports, while for the rest of the historical period the analysis employs data from quarterly non-financial accounts of the general government sector published by the NSI.

³⁴ According to the regular EC survey on investment activity in industry, the share of investment aimed at improving efficiency is expected to increase in 2024, possibly reflecting continued high labour shortages coupled with sustainable wage growth.

³⁵ For details, see the Balance of Payments and External Trade Section in Chapter 2.

³⁶ NSI seasonally adjusted data.

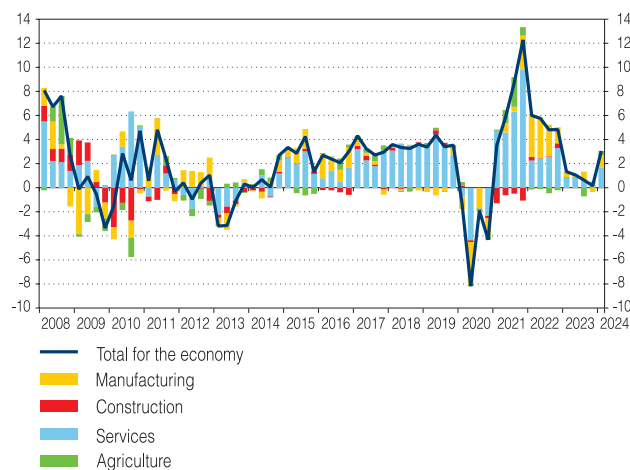
Production Capacity in Industry (with Regard to Expected Demand over the Next Months)



Sources: NSI, BNB calculations.

Gross Value Added Rate of Change in Real Terms and Contribution by Sector

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



Sources: NSI, BNB calculations.

seasonally adjusted data amounted to 3.1 per cent. In the industrial sector, gross value added rose by 3.3 per cent year on year, entirely due to the manufacturing sub-sector, while construction recorded a slight decline.³⁷ Value added in the services sector posted annual growth of 2.5 per cent in the first quarter of 2024, with trade, transport, accommodation and food service activities, and general government, education, human health and social work activities having the largest positive contribution. Between January and March 2024, value added in agriculture increased by 2.4 per cent on annual basis.

Cyclical Position of the Bulgarian Economy

In the first quarter of 2024, the cyclical position of the economy continued to be characterised by a positive output gap, according to BNB estimates. This suggests that part of the production factors in the economy have been overloaded beyond the optimal level, which is in line with the low historical level of unemployment, the significant labour shortages and the persistent upward pressure on wages at a rate above that of labour productivity.

Short-term indicators of economic activity signalled primarily retained quarterly real GDP growth in the second quarter of 2024.³⁸ Indicators tracking the business climate³⁹, consumer confidence, retail trade turnover and the level of output in services (not related to trade)⁴⁰ continued to rise on a quarterly basis, while that showing the level of industrial production indicated some deterioration compared to the previous quarter. These developments show uneven and mostly services-focused economic growth in the second quarter of 2024. All the listed indicators continued to exceed their long-term average value, which was in line with the positive GDP deviation from its potential level. Reduced differences in firms' assessments of their current economic situation and short-term economic outlook were reflected in a decrease of the uncertainty indicator calculated by the BNB in the second quarter of 2024.

³⁷ For details, see the Behaviour of Firms Section in this Chapter.

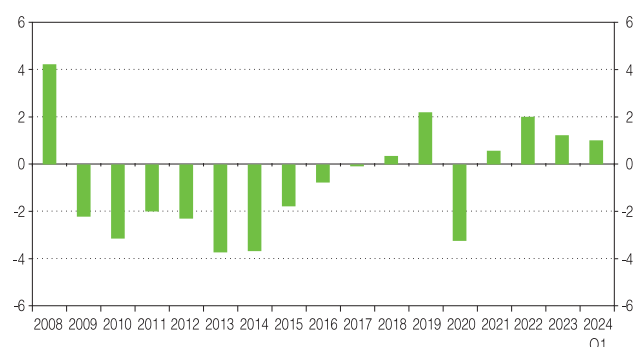
³⁸ Data on the services production index are available as of April 2024, while the indices of industrial production and retail turnover are available as of May 2024. Data on business climate and consumer confidence are available as of June 2024.

³⁹ BNB seasonally adjusted data.

⁴⁰ Eurostat seasonally adjusted data.

Deviation of Economic Activity from Potential Output

(per cent, output gap)

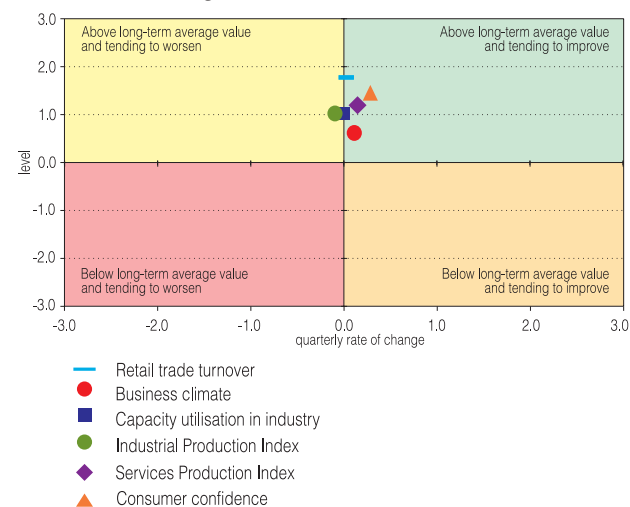


Notes: Results are obtained through the application of a multivariate model with unobserved components presented in the research topic on Methods for Estimating the Cyclical Position of the Economy, *Economic Review, issue 1 of 2019*.

The output gap is the deviation of the current level of economic activity from potential output measured as a percentage of potential output. The deviation for the first quarter of 2024 is calculated on the basis of actual GDP and estimated potential output for the last four quarters as of March 2024.

Sources: NSI, BNB calculations.

Cyclical Position of the Economy in the Second Quarter of 2024 According to Selected Economic Indicators



Notes: The chart compares the level (the vertical axis) and the quarterly change (the horizontal axis) of selected economic indicators. Data are averaged for the available months in the second quarter of 2024. Data on the services production index, which are published with a considerable delay, refer to April 2024. Data on the industrial production index and retail trade refer to the April–May 2024 period. Each series has been transformed using the HP filter (with a parameter $\lambda = 100$) in order to eliminate short-term fluctuations, after which it has been standardised. Standardisation of statistical series in order to improve their comparability is a reason for constructed indicators to change within the range of -1 to 1, and they are characterised by a historical average value of 0 and a standard deviation of 1. The four chart grids allow to distinguish the positions of the relevant economic indicators in individual phases of the business cycle. For example, if a given indicator is in the upper right grid, it means that it is characterised by a positive deviation from its long-term average value and continues to increase on a quarterly basis.

Sources: NSI, BNB calculations.

Economic Activity Expectations

According to the composite economic activity indicator⁴¹ constructed by the BNB, in the second quarter of 2024, Bulgaria's real GDP growth is expected to slightly accelerate on a quarter-on-quarter basis, which is a prerequisite for the formation of similar dynamics in the annual rate of change of the indicator. Quarterly growth of the composite indicator was primarily driven by the improved consumer confidence and business climate in retail trade, positioning of the global PMI index above the neutral bound of 50 points, the increased production indices in construction and services (not related to trade) in real terms, rising retail trade turnover in real terms, as well as increased loans to households and firms. In the third and fourth quarters of 2024, real GDP is expected to continue growing on both quarterly and annual basis, supported mainly by domestic demand and an assumed improvement in the prospects for external demand for Bulgarian goods and services.

4.2. Labour Market

Labour Supply

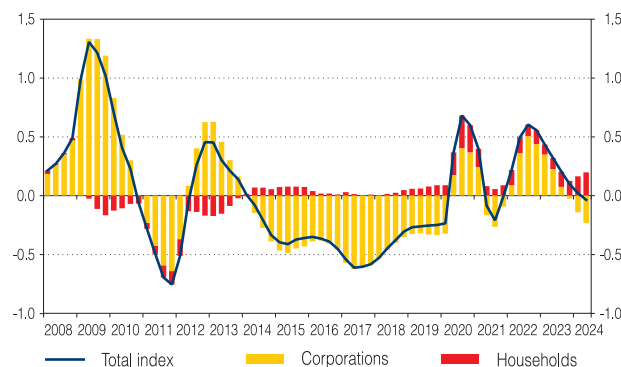
In the first quarter of 2024, labour supply, as measured by the labour force⁴², declined by 0.1 per cent year on year due to a rise in the number of inactive persons, while the labour force reported some increase in the number of unemployed persons coupled with a decrease in employees. For the first time since 2005, no decline was recorded for the population aged over 15 years, reflecting the increase in the number of persons over 65, while the population in the 15-64 age group continued falling. These developments are in line with the lower mortality registered in Bulgaria. As a result of the above

⁴¹ The services (not related to trade) production index is available as of April 2024, while production indices in industry, construction, retail turnover, producer prices in manufacturing and data on new loans to firms and households, global PMI, the registered unemployment rate are available as of May 2024. Business climate and consumer confidence indicators are available as of June 2024.

⁴² Labour force includes employed and unemployed persons in the age group of 15 and over.

Indicator of Differences in Economic Agents' Assessments about the Expectations of Economic Development in the Short Term

(deviation from long-term average)

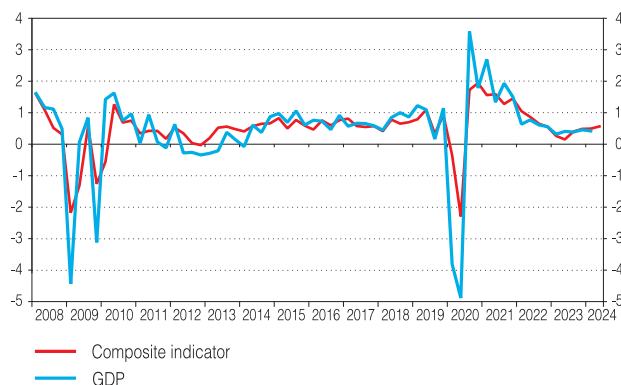


Notes: Higher values of this indicator should be interpreted as an increase in differences of economic agents' assessments. Positive/negative values of the total index show that differences in assessments are above/below their long-term level. This indicator is constructed under a methodology presented in: *Ivanov, E. 'Constructing an Uncertainty Indicator for Bulgaria', BNB Discussion Papers 109/2018*, and corresponds to the indicator U1 constructed in the paper.

Sources: EC, BNB calculations.

Composite Economic Indicator of Economic Activity

(per cent, on a quarterly basis)



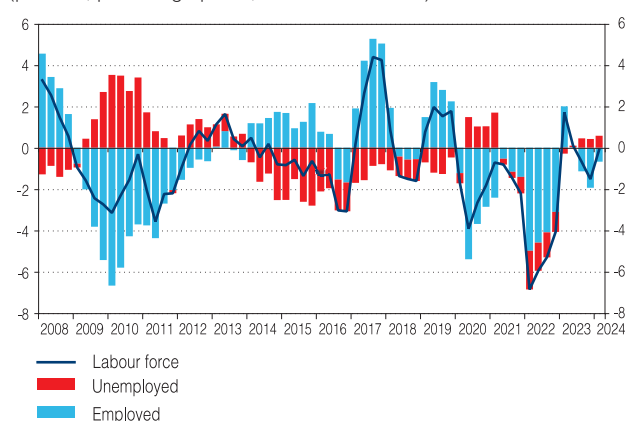
Notes: This indicator is constructed on the basis of a dynamic factor model whose purpose is to derive the total component in dynamics of various indicators with a monthly frequency. Dynamics of the composite indicator may be used as a guidance for the change in real GDP of Bulgaria.

Selected indicators of the model include: production indices in industry, construction and services; retail trade turnover indices; unemployment rate; indicators of the business climate and consumer confidence; producer price index in industry; new loans to corporations and households; global PMI.

Sources: NSI, Employment Agency, BNB calculations.

Contribution to the Change in Labour Force by Component

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



Notes: Data refer to the age group of 15 and over. From the beginning of 2022, there is a break in time series due to the use of 2021 population census data. Data prior to 2022 have not been revised, which was reflected in a year-on-year decline in the labour force in 2022.

Sources: NSI Labour Force Survey, BNB calculations.

developments, the economic activity rate⁴³ of the age group of 15 and over declined slightly on an annual basis, while the 15-64 age group reported an increase to 74 per cent (against 73.7 per cent in the first quarter of 2023).

Labour Force Survey (LFS) data on the decline in employment over the first quarter of 2024 continued to differ from the dynamics of employees according to NSI national accounts data and short-term statistics of employment and labour expenses, possibly due to differences in definitions of employed persons and the methodologies used across individual statistics⁴⁴. Concurrently, all three statistics show a decrease in the number of employees in industry, with developments in this sector being the main factor behind the lower labour demand in the economy at the beginning of 2024.

In the first quarter of 2024, the unemployment rate⁴⁵ increased by 0.6 percentage points year on year to 5.0 per cent, according to non-seasonally adjusted LFS data. Both the number of long-term

⁴³ In early 2021, the NSI made changes to the LFS methodology, and from 2022 LFS data reflected the results of the 2021 census. These changes are not reflected in previous years and lead to a break in the time series. Seasonally adjusted LFS data were affected by the break in the series in early 2021 and 2022. Therefore, non-seasonally adjusted data are analysed here.

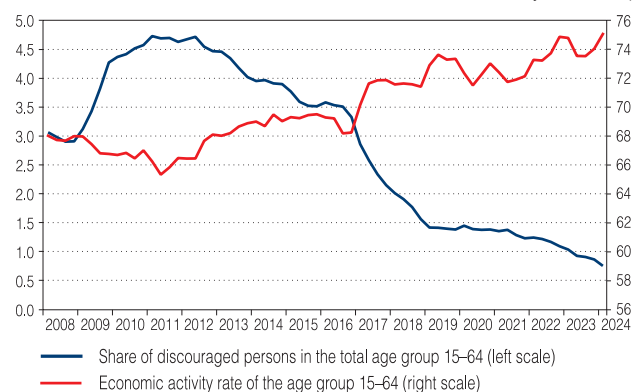
⁴⁴ For details on the differences between employees based on national accounts and LFS, see [NSI](#) and [Eurostat](#).

⁴⁵ The unemployment rate is the proportion between the number of unemployed and the labour force for the age group of 15 and over, based on LFS data.

Economic Activity and Share of Discouraged Persons

(per cent, seasonally adjusted data)

(per cent, seasonally adjusted data)



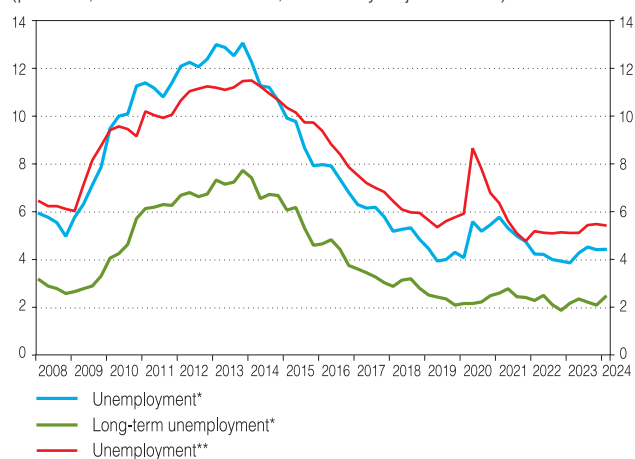
Notes: From the beginning of 2022, there is a break in time series due to the use of 2021 population census data.

Seasonally adjusted data presented here are affected by the break in time series.

Sources: NSI Labour Force Survey, BNB calculations.

Unemployment Rate

(per cent, share of labour force; seasonally adjusted data)



* NSI data.

** Employment Agency data.

Notes: From the beginning of 2022, there is a break in time series due to the use of 2021 population census data in the estimation of Labour Force Survey results.

Seasonally adjusted data presented here are affected by the break in time series.

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

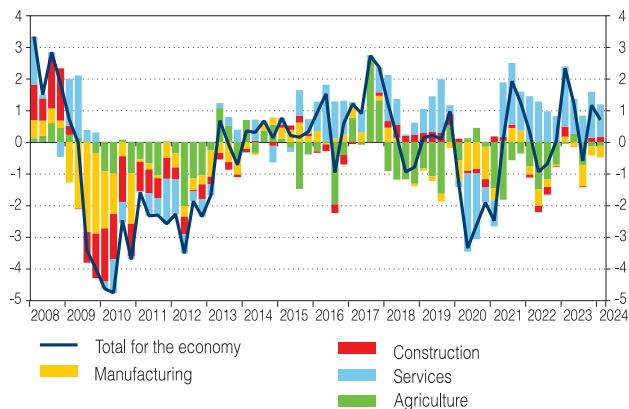
unemployed and the number of unemployed of up to one year increased. According to seasonally adjusted Employment Agency data, in the second quarter the unemployment rate remained almost unchanged from that recorded at the beginning of the year.

Labour Demand

In the first quarter of 2024, the number of employed (according to national accounts data) increased by 0.7 per cent year on year, with the services and construction sectors having the main contribution. The general government, education, human health and social work activities sub-sector made the largest contribution to the reported employment growth for the fourth consecutive quarter, while the number of persons employed in manufacturing and agriculture continued falling.

Contribution to Changes in the Number of Employed by Economic Sector

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



Sources: NSI – System of National Accounts (SNA), BNB calculations.

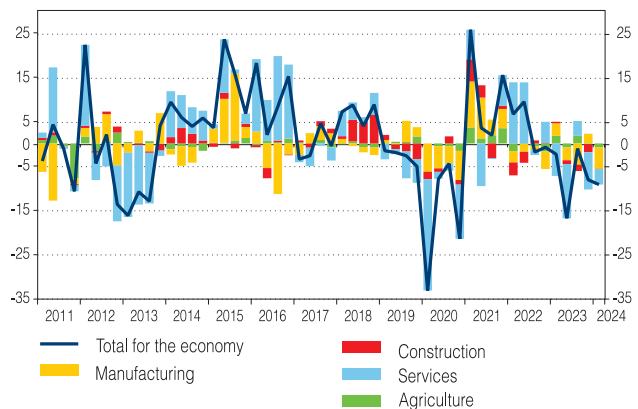
Job vacancies in the economy⁴⁶ also declined by 9.2 per cent on an annual basis, mainly driven by manufacturing, followed by the services sector. Declines in job vacancies and increases in unemployed and inactive persons suggest lower labour demand in the economy over the fourth quarter of 2024. At the same time, the proportion of firms identifying labour shortages as a factor hampering their activity⁴⁷ continued rising in the first quarter of 2024 and, despite a slight slowdown in the second quarter, remained at a historical high level. These developments indicate

⁴⁶ Based on NSI short-term statistics on employment and labour costs.

⁴⁷ According to NSI business situation survey data.

Contribution to the Change in the Number of Job Vacancies by Economic Sector

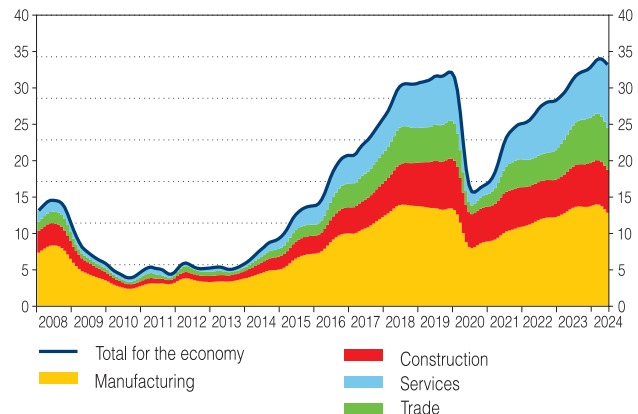
(per cent; percentage points; on an annual basis)



Sources: NSI, BNB calculations.

Labour Shortages (Seasonally Adjusted and Sector-Weighted Monthly Data)

(per cent of the firms)



Note: Data up to and including June 2024 are used.

Sources: NSI, BNB calculations.

that labour demand in Bulgaria continued to outpace supply and to exert an upward pressure on wages at a rate which is higher than that of labour productivity.

Productivity and Compensation per Employee

In the first quarter of 2024, labour productivity⁴⁸ rose by 4 per cent year on year due to agriculture, manufacturing and services. Concurrently, labour productivity in construction fell as a result of an increase in the number of persons employed amid a decline in value added and increasing labour shortages in this sector. The increase in labour productivity across the economy, large labour shortages and minimum wage rises of 19.6 per cent since the beginning of the year were reflected in a significant increase in nominal compensation *per* employee of 13.7 per cent on an annual basis in the first quarter of 2024. In real terms⁴⁹, compensation *per* employee rose by 9.9 per cent on an annual basis. All sectors contributed to this, with culture, sport and entertainment (17.7 per cent) reporting the largest growth within services.

Data on the average gross monthly wage⁵⁰ show that a strong wage increase of 16.8 per cent on an annual basis in nominal terms in the first quarter of 2024 was reported in both private and public sectors.

4.3. Behaviour of Firms

Data for the first quarter of 2024 indicate that firms' nominal unit labour costs for the total economy increased compared with the corresponding period of the previous year.⁵¹ Rising labour costs contributed most to this, while according to data on the final demand deflator the upward pressure from raw materials import prices continued to ease as a result of the appreciation of the Bulgarian lev against the currencies of Bulgaria's major

⁴⁸ Labour productivity is calculated after adjusting gross value added (total for the economy) for imputed rent.

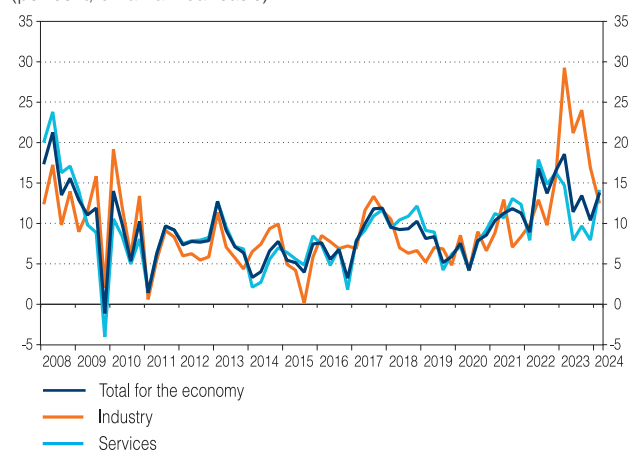
⁴⁹ Nominal compensation *per* employee was deflated by the HICP to calculate the indicator in real terms.

⁵⁰ According to NSI's short-term statistics on employment and labour costs.

⁵¹ This section reviews in detail corporations' labour costs, while expenditure on raw materials (the so-called intermediate consumption) is not analysed due to the lack of public data at a quarterly frequency. However, the data on industrial producer prices for intermediate goods presented in the section provide an indication of the evolution of these costs.

Compensation per Employee at Current Prices

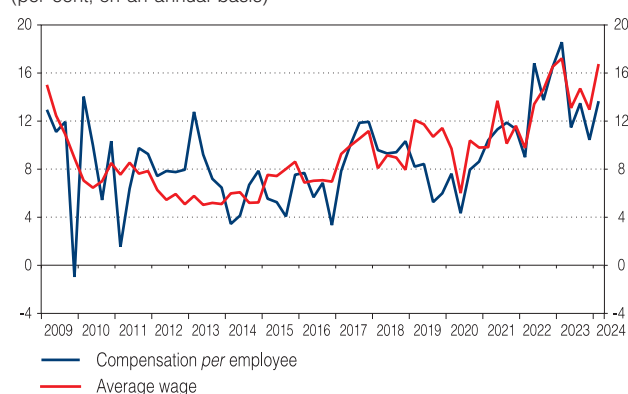
(per cent; on an annual basis)



Source: NSI – SNA.

Compensation per Employee and Average Wage at Current Prices

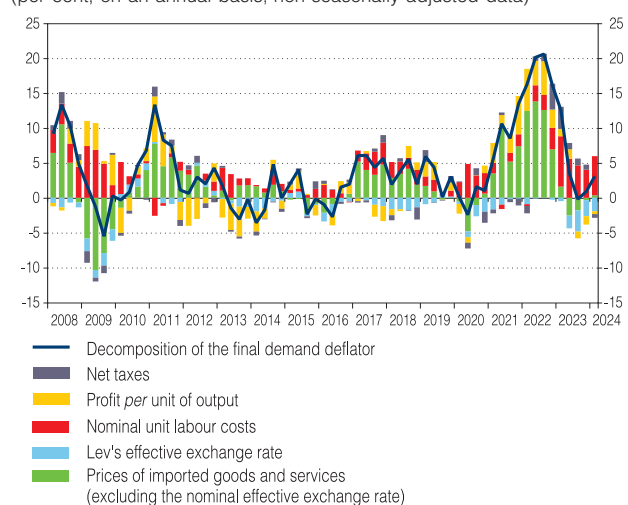
(per cent; on an annual basis)



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

Decomposition of the Final Demand Deflator

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



Sources: NSI, BNB calculations.

trading partners⁵². Corporations' price policy was oriented towards passing on the higher production costs to final prices, which led to a slight decrease in the profit margin on an annual basis.

Labour Costs of Corporations

Firms' unit labour costs increased to 9.3 per cent year on year in the first quarter of 2024 (10.8 per cent in the fourth quarter of 2023). The slowdown in their growth reflected both weaker growth in compensation *per* employee compared with the increase in the fourth quarter of 2023 (in line with the deceleration in inflation) and real labour productivity growth⁵³. Across economic sectors, a deceleration in the annual growth of nominal unit labour costs compared to the previous quarter was observed in agriculture, manufacturing and construction, while in the services sector there was an acceleration in growth to 13.1 per cent on an annual basis.

Investment Costs of Corporations

According to BNB estimates⁵⁴, in the first quarter of 2024 private sector investment spending in real terms increased on an annual basis in line with final consumption expenditure growth, sales of new dwellings and the active supply of credit resources by banks. By asset type, investment in machinery, equipment and weapons systems was the main contributor to growth, followed by investment in intellectual property products, residential buildings, and other buildings and structures.

Firms' Financing Sources

In the first quarter of 2024, firms used both external and internal sources of funding to finance their activities. Based on non-seasonally adjusted data for the total economy, the nominal gross operating surplus which can be used by firms to finance their activities increased by 2.6 per cent on an annual basis in the first quarter of 2024,

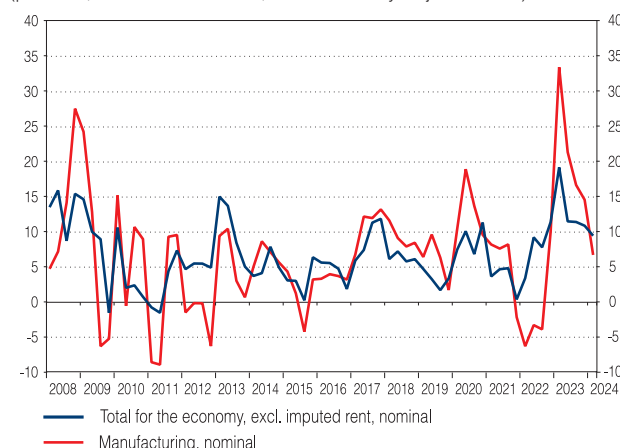
⁵² For calculating lev's effective exchange rate, see [methodological notes](#) on the BNB website.

⁵³ For more details, see the Labour Market Section in this Chapter.

⁵⁴ The NSI does not provide official data on the breakdown of total investments into private and public. The series on private investment is constructed by the BNB as a difference between total investment and the estimated amount of public investment on an accrual basis in real terms. Public investment estimates for the first quarter of 2024 are based on information from the monthly CFP performance reports, while for the rest of the historical period the analysis employs data from quarterly non-financial accounts of the general government sector published by the NSI.

Unit Labour Costs

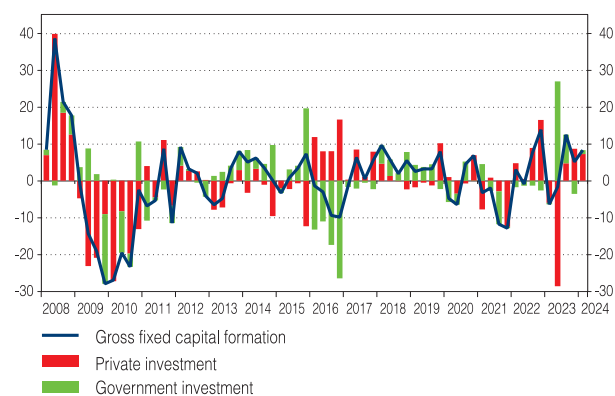
(per cent, on an annual basis; non-seasonally adjusted data)



Sources: NSI, BNB calculations.

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

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

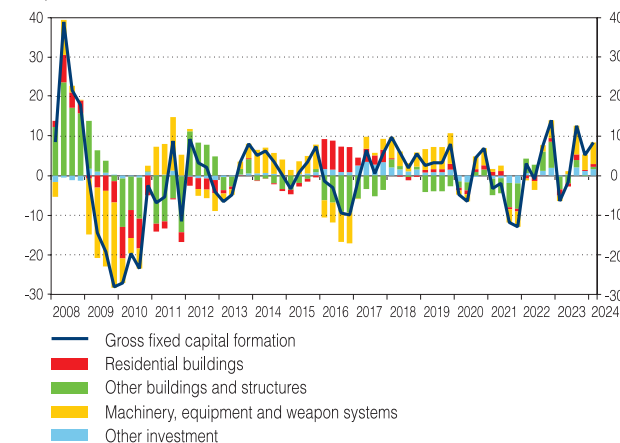


Notes: The NSI does not provide official data on the breakdown of total investment into private and public. The series on private investment is constructed by the BNB as a difference between total investment and the estimated amount of public investment on an accrual basis in real terms.

Sources: NSI, BNB calculations.

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

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



Sources: Eurostat, BNB calculations.

which was entirely due to services (7.7 percentage points), while manufacturing (3.2 percentage points), agriculture (1.1 percentage points) and construction (0.8 percentage points) reported a decrease in gross operating surplus. Firms' financing by resources other than gross operating surplus posted a year-on-year increase in nominal terms and was entirely due to borrowings. Thus, the trend observed in 2023 where firms replace funds attracted from non-residents⁵⁵ by loans received from Bulgaria continued, which can be explained by the lower interest rates in Bulgaria compared to the euro area.

Price Policy of the Firms

In the first quarter of 2024, firms' selling prices in industry, as measured by the Producer Price Index in Industry (PPI), posted a decline of 10.8 per cent on an annual basis. Price declines were reported in both domestic and international producer prices. This was mainly due to the lower prices for energy products and, to a lesser extent, intermediate goods. Although these products account for a significant part of the production costs of firms in Bulgaria, producer prices of consumer and investment products reported a year-on-year increase, which may be related to the continued rise in unit labour costs in the industry amid high labour shortages.⁵⁶ The annual decline in PPI slowed down significantly in the second quarter of 2024 reaching -1.2 per cent in May 2024.

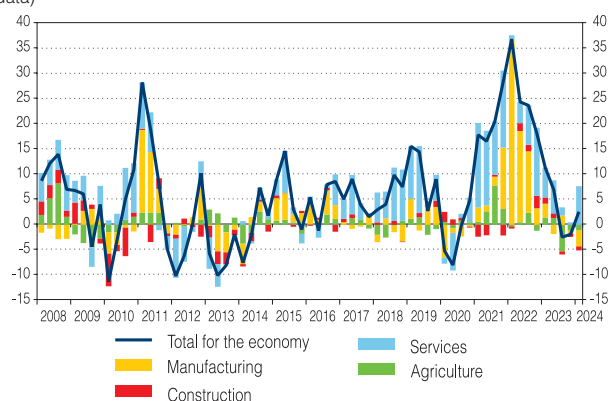
Producer price indices in services (not related to trade) in the first quarter of 2024 increased on an annual basis in all sub-sectors with the exception of services related to transportation and storage. The most significant price increase in services was reported in administrative and support service activities, real estate activities and accommodation and food service activities. Selling prices in the retail sub-sector (excluding the trade in motor vehicles and motorcycles), which is the closest one to the customers in the supply chain, went up by 5.0 per cent in the first quarter of 2024 (compared to 2.7 per cent in the previous quarter). The annual growth rate of retail prices decelerated to 4.4 per cent in May 2024. The increase in prices in the services sector can be explained with the higher

⁵⁵ Preliminary data on foreign direct investment and firms' external debt subject to subsequent revisions.

⁵⁶ For details, see the Labour Market Section in this Chapter.

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

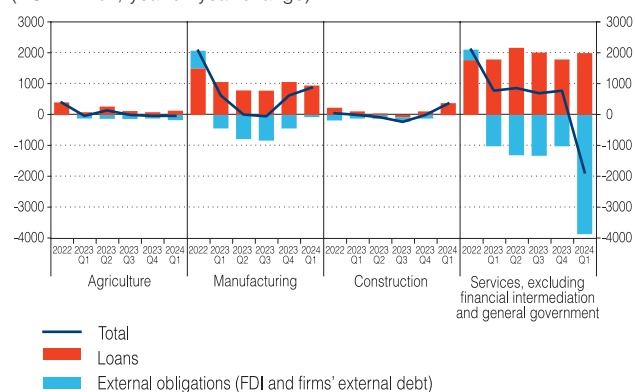
(per cent; percentage points; on an annual basis; non-seasonally adjusted data)



Sources: NSI, BNB calculations.

Financing Sources*

(BGN million, year-on-year change)



* Sources of financing other than the gross operating surplus.

Source: BNB.

Rate of Change of Producer Price Index in Industry

(per cent; on an annual basis)



Source: NSI.

producer prices of consumer products and the increase in unit labour costs.

Economic Indicators

NSI data on short-term business statistics provide divergent signals about firms' position across individual sectors of economic activity in the second quarter of 2024.⁵⁷

BNB seasonally adjusted data show that between April and May 2024 the overall business climate indicator rose from the previous quarter. An improvement in sentiment was recorded in services and trade, while the business climate indicator for firms in manufacturing declined. The uncertain economic environment remained the most serious obstacle hampering corporations' activity and impact of this factor weakened compared to the previous quarter. Managers pointed to intense competition as the second most important factor limiting their activities. The share of corporations that identify labour shortages as a limiting factor for their activity remained close to one of the highest values in historical terms and remained the third most important obstacle to the activity of companies. In the second quarter of 2024, managers' estimates of firms' expected production activity and staff recruitment for the next three months worsened compared with the previous quarter.

The NSI short-term business statistics data point to a decline in the industrial production index at constant prices between April and May 2024 both compared to the first quarter and on an annual basis. The indices of construction production and retail trade turnover⁵⁸ tended to increase both on a quarterly and annual basis.

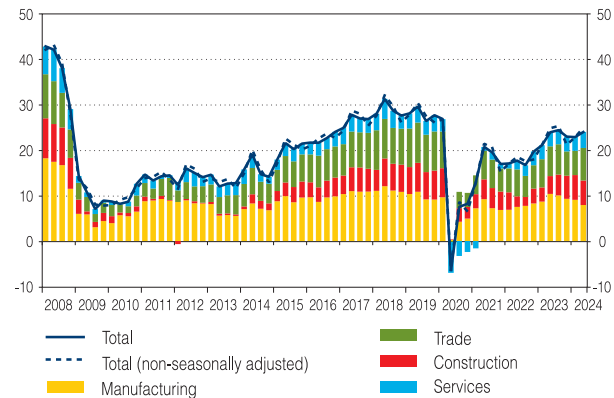
Growth in construction production in the April to May 2024 period compared to the same period of the previous year reflected the higher activity related to construction of facilities and specialised construction works, while building construction posted a slight decrease. The NSI business climate survey suggests that in the second quarter of 2024 the uncertain economic environment and labour shortages remained the main constraints for the construction firms.

⁵⁷ For more details on the composite economic indicator, see the Current Economic Environment Section in this Chapter.

⁵⁸ Eurostat seasonally adjusted data.

Business Climate

(balance of opinions, per cent; seasonally adjusted data)

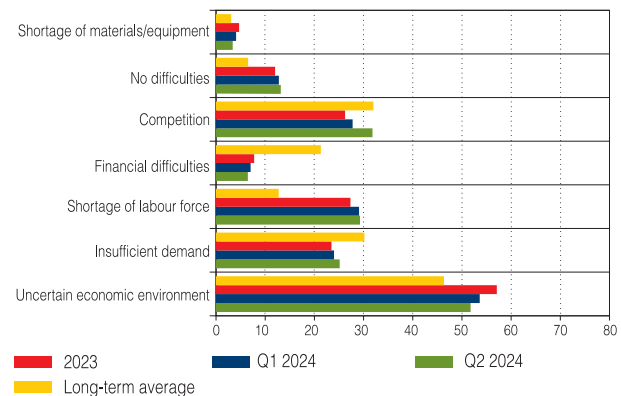


Notes: The answers to the NSI survey questions are presented in a three tier category scale: 'increase', 'unchanged', 'decrease'. Balances of opinions are calculated as a difference between relative shares of extreme options of replies: 'increase' minus 'decrease'. The business climate indicator is a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

Sources: NSI, BNB calculations.

Factors Hampering Economic Activity of Corporations

(relative share of all corporations)

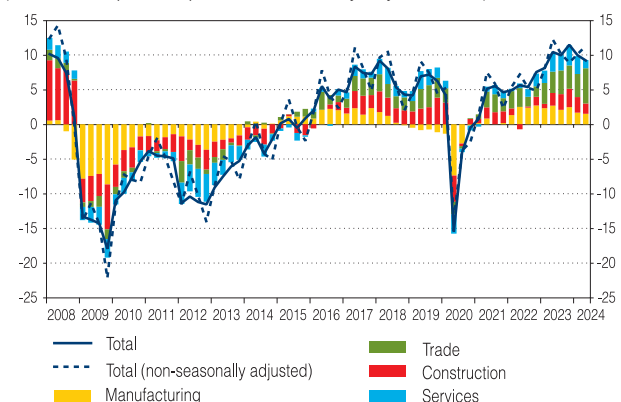


Note: Data are averaged for the relevant period and weighted by the share of corporations by sector (manufacturing, construction, trade and services).

Sources: NSI, BNB calculations.

Corporations' Expectations about Staff Recruitment in the Following Three Months

(balance of opinions, per cent; seasonally adjusted data)



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

Sources: NSI, BNB calculations.

Between April and May 2024, the industrial production index decreased on an annual basis underpinned by all main sub-sectors. Nominal industrial turnover data show that economic activity in the sector was mainly constrained by international market developments. Between April and May 2024, retail turnover at constant prices increased on an annual basis at an accelerating pace, with trade in food, drinks and tobacco having the strongest positive contribution to growth.

4.4. Household Behaviour

Household Revenue

According to NSI's household budget survey data, nominal household revenue growth⁵⁹ accelerated on an annual basis in the first quarter of 2024, as a result of the stronger growth in total household income and borrowings and loans received, while revenue from withdrawn savings contributed less to growth compared to the fourth quarter of 2023.

Total household income growth increased in nominal terms to 18.6 per cent year on year in the first quarter of 2024 (up from 18.1 per cent in the fourth quarter of 2023), with income from wages, self-employment and pensions being the main contributor to growth.

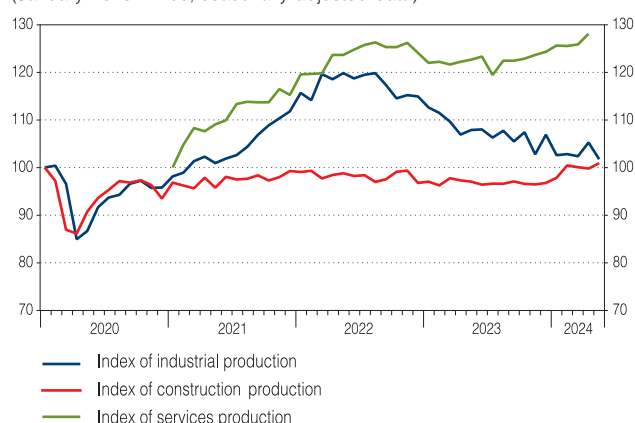
In real terms⁶⁰, total household income growth also accelerated in the first quarter of 2024 to 14.6 per cent on an annual basis, from 12.0 per cent in the fourth quarter of 2023. This was due both to slowing inflation and labour shortages in Bulgaria, which continued to put pressure on employers to increase wages. As a result, annual wage income increased by 20.2 per cent in real terms in the first quarter of 2024. NSI household budget survey data show that the acceleration in real annual wage income growth was in line with the reported rise in growth of remuneration in real terms according to data on the wage *per*

⁵⁹ Household income includes all household cash income from sources such as wages, pensions, self-employment, social security benefits, allowances and valued in-kind income (the monetary value of goods and services received in kind by households, such as social transfers in kind) grouped under the 'Total income' category, as well as withdrawals of savings and loans.

⁶⁰ To obtain total income in real terms, nominal values are deflated by the HICP.

Dynamics of the Production Index in Manufacturing, Construction and Services

(January 2020 = 100; seasonally adjusted data)

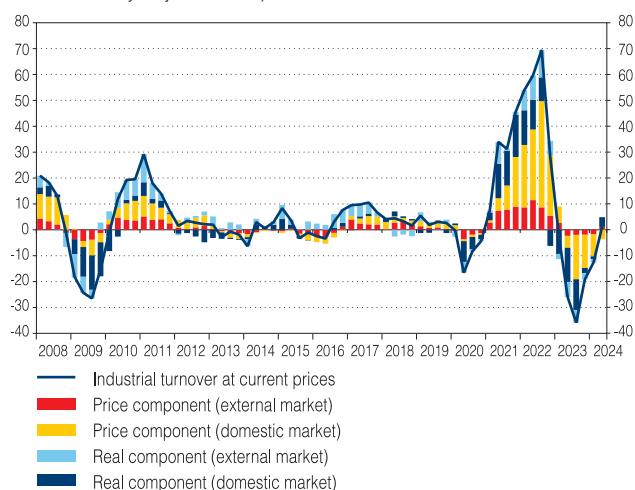


Note: The index of services production is based on January 2021=100.

Sources: NSI, Eurostat, BNB calculations.

Industrial Turnover Dynamics

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

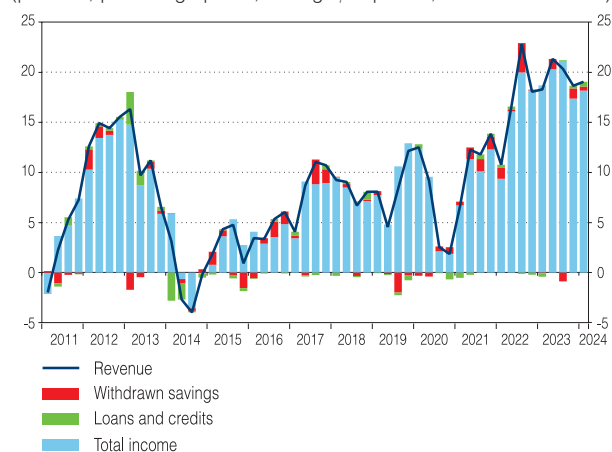


Note: Data for the second quarter of 2024 refer to April and May.

Sources: NSI, BNB calculations.

Contributions to Change in Household Revenue

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



Sources: NSI – Household Budget Survey, BNB calculations.

employee⁶¹ from the National Accounts of the NSI and on the average monthly gross wage data from NSI's short-term statistics⁶². These developments were reflected in higher annual growth of real disposable income⁶³ of households, which stood at 13.3 per cent in the first quarter of 2024 and continued to support private consumption.

Household Expenditure

Total household expenditure⁶⁴ rose in nominal terms by 17.4 per cent year on year over the first quarter of 2024, compared with annual growth of 18.1 per cent in the fourth quarter of 2023 in line with the continued moderation in inflation in Bulgaria. While annual growth in expenditure on taxes and social security contributions also slowed down compared with the previous quarter, the upward trend in total expenditure persisted.

Over the first quarter of 2024, nominal consumer expenditure growth remained at 15.9 per cent on an annual basis as reported at end-2023, with lower growth in expenditure on food and non-alcoholic beverages, clothing and footwear, healthcare and transport being offset by increased expenditure on housing, water, electricity and fuels, home furnishing and maintenance, leisure, cultural recreation and education.

In real terms⁶⁵, household consumption expenditure growth accelerated to 12 per cent on an annual basis (from 9.9 per cent in the fourth quarter 2023) supported by higher growth in real disposable income. Increases were reported across all types of expenditure, with leisure, cultural recreation and education expenditure contributing most to the growth. This dynamics was in line with NSI national accounts data, which also reported an acceleration in the real annual

⁶¹ The wage is calculated by dividing the wage bill to the number of employed in the economy.

⁶² A possible discrepancy in the dynamics presented by the NSI household budget survey, national accounts data and short-term wage statistics could be explained with the differences in the three statistics in terms of how the data are collected, their scope and the definitions used.

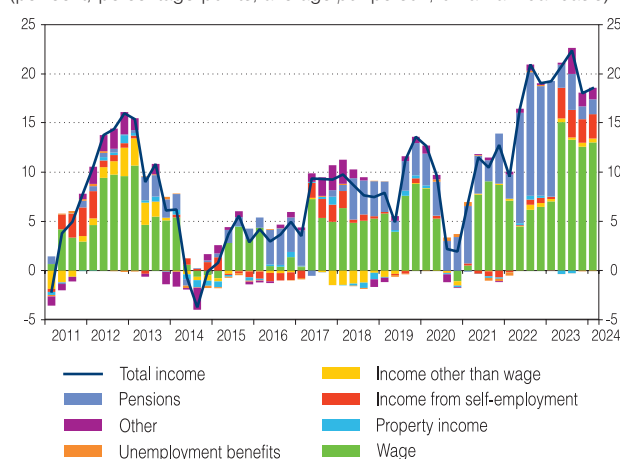
⁶³ Real disposable income of households is calculated based on the NSI household budget survey data and represents total nominal income less taxes, social security contributions and regular transfers to other households, deflated by the HICP.

⁶⁴ Total expenditure include consumer spending, taxes, social contributions, regular transfers to other households and other expenditure. For more details, see [NSI's Methodology](#) on the Household Budget Survey.

⁶⁵ Household consumer expenditure are deflated by overall HICP. Sub-components of consumer expenditure are deflated by the corresponding HICP groups.

Contribution to the Change in Total Monthly Household Income

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



Sources: NSI – Household Budget Survey, BNB calculations.

Household Disposable Income

(per cent, average *per person*, on an annual basis)

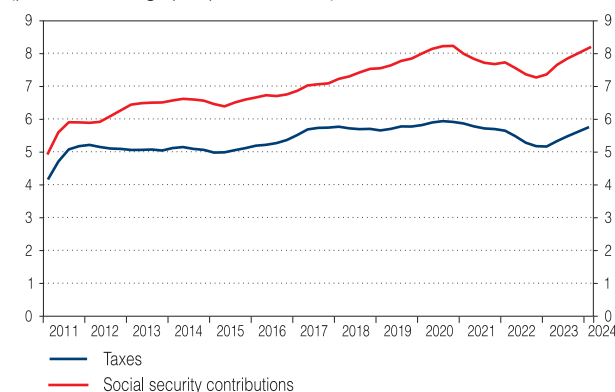


Note: Real disposable income of households represents total income reduced by taxes, social security contributions and regular transfers to other households, HICP deflated.

Sources: NSI – Household Budget Survey, BNB calculations.

Shares of Taxes and Social Security Contributions in Total Household Expenditure

(per cent, average *per person* – BGN)



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

Source: NSI – Household Budget Survey.

growth of private consumption to 3.7 per cent in the first quarter of 2024, compared to 3.2 per cent in the fourth quarter of 2023.⁶⁶

Household Savings

In the first quarter of 2024, the propensity of households to save⁶⁷ part of their earned income⁶⁸ increased slightly from the previous quarter (according to seasonally adjusted data). This is likely due to higher household income, which led not only to higher consumption growth but also to an increase in savings. Concurrently, the accumulated amount of households' net assets in the banking system declined slightly reflecting the strong increase in loans to households which outpaced annual deposit growth. As a result, funds withdrawn from the banking system, according to BNB money statistics, also continued to support growth in household consumption in the first quarter of 2024.

4.5. Fiscal Policy Effects on the Economy

In the first quarter of 2024, fiscal policy had a positive impact on economic activity growth in Bulgaria mainly through the reported government consumption growth⁶⁹ and social payments supporting household disposable income⁷⁰.

In the first quarter of 2024, annual growth in government consumption was 22.1 per cent in nominal terms (2.3 per cent in real terms). Data on the CFP implementation as of end-March 2024 indicate that compensation of employees in the public sector and healthcare expenditure

⁶⁶ When comparing national accounts data and the NSI's Household Budget Survey, the differences in the two statistics in terms of the way of collecting data, their coverage and the definitions used should be taken into account.

⁶⁷ Household savings are measured by the difference between the total income and the total expenditure in the relevant quarter. The propensity to save is calculated as a ratio between savings and gross income in the relevant quarter.

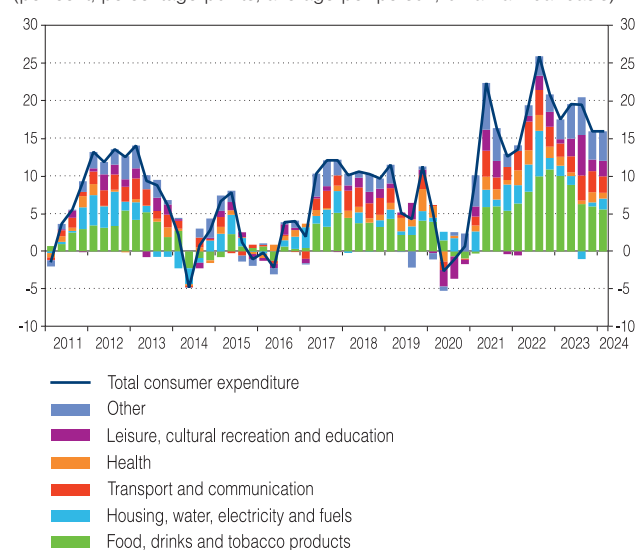
⁶⁸ Income is gross income in the relevant quarter reduced by taxes and social security contributions.

⁶⁹ At the time of the preparation of this issue of the Economic Review the quarterly general government non-financial accounts published by the NSI are available up to and including the fourth quarter of 2023. The estimate of general government investment for the first quarter of 2024 is based on the monthly CFP performance reports. The CFP implementation data also provide indication of the dynamics of social transfers to households.

⁷⁰ In the first quarter of 2024, the other fiscal measures with an indirect impact on economic activity in Bulgaria continued to be the tax relief for children, the reduced VAT rate of 9 per cent for restaurant, catering and tourist services, as well as for books, baby food and diapers, and the zero VAT rate for the supply of bread.

Contribution to the Change in Consumer Expenditure of Households

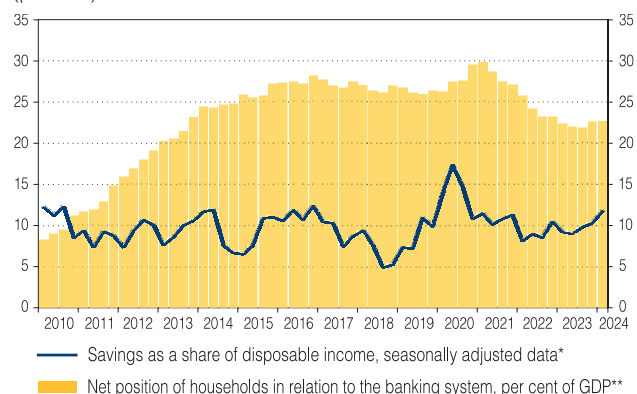
(per cent; percentage points; average per person, on an annual basis)



Sources: NSI – Household Budget Survey, BNB calculations.

Household Propensity to Save

(per cent)



Notes: Savings as a share of disposable income represent the difference between total income and total expenditure of households as a share of total income reduced by taxes, social security contributions and regular transfers to other households.

The net position of households *vis-à-vis* the banking system is the difference between deposits and loans of households.

* Based on NSI data. BNB seasonally adjusted data.

** BNB and NSI data. Nominal GDP data for the last four quarters up to and including the first quarter of 2024 are used to calculate the ratio to GDP.

Sources: NSI – Household Budget Survey, BNB.

made a positive contribution to the increase in government consumption. CFP capital expenditure, without taking into account the transaction on the reimbursement of BGN 1.2 billion from the account for foreign funds under the Ministry of Regional Development and Public Works (MRDPW) budget⁷¹, shows weak annual growth and implies a slight positive effect of general government gross fixed capital formation on GDP growth in the first quarter of 2024. In addition, the reported increase in social expenditure under the CFP by 18 per cent at the end of March 2024 provides an indication of growth in social transfers to households, mainly driven by the 12 per cent increase in pensions as of 1 July 2023.

By the end of May 2024, total budget expenditure under the CFP increased by 7.7 per cent on an annual basis. This growth was driven by social expenditure mainly as a result of higher pensions paid following the increase in July 2023, as well as personnel costs due to the increase in the minimum wage as of 1 January 2024 and the rise in remuneration of pedagogical staff and in some other sectors of public administration⁷². Total budget expenditure growth accelerated from the end of the first quarter (0.0 per cent at the end of March 2024) mainly as a result of the decreased annual rate of decline in capital expenditure financed by national funds, as well as in subsidy expenditure.

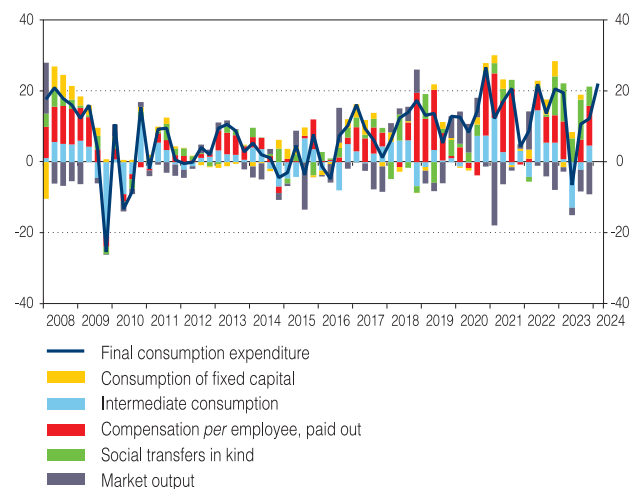
Annual growth rates of personnel costs and healthcare expenditure as of May 2024 (from 22.9 per cent and 24.9 per cent, respectively) give grounds to assume that the impact of government consumption on economic activity in Bulgaria will increase in the second quarter of 2024. At the same time, CFP capital expenditure as of

⁷¹ According to the information of the Ministry of Finance, in February 2024, pursuant to Article 71, paragraph 1 of the Decree No 13 of the Council of Ministers of 2024, a total of BGN 1.2 billion was reimbursed from the foreign funds account of the budget of the Ministry of Regional Development and Public Works, which is reflected as a reduction in capital expenditure by the same amount. In the course of the implementation of the 2024 budget, these funds will be made available by an act of the Council of Ministers on the basis of signed agreements with the Ministry of Regional Development and Public Works as transfers to municipalities to finance the Investment Programme for Municipal Projects under Article 107 of the State Budget Law of the Republic of Bulgaria for 2024.

⁷² Under Article 1, paragraph 5, item 8.1 of the State Budget Law for 2024, funds have been earmarked to redress disparities in staff remuneration in budget organisations. In addition, the increase in public sector wages, as projected in the State Budget Law for 2023, adopted on 28 July 2023 contributed to the increase in personnel costs on an annual basis.

Contribution of Major Groups of Expenditure to Government Consumption Growth in Nominal Terms (Quarterly Data)

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

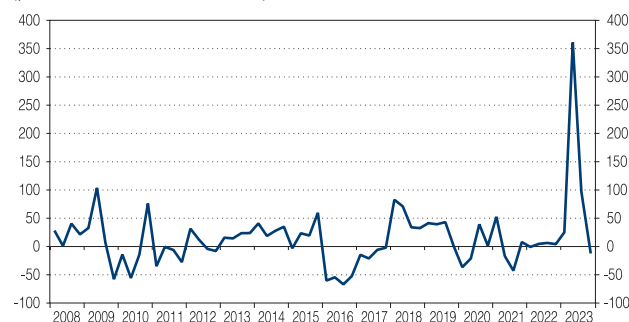


Note: At the time of the preparation of this issue of the Economic Review, the quarterly general government non-financial accounts published by the NSI are available up to and including the fourth quarter of 2023 and therefore, a breakdown of the components of government consumption for the first quarter of 2023 is not available.

Sources: NSI, BNB calculations.

Rate of Change in Gross Fixed Capital Formation of the General Government Sector in Nominal Terms (Quarterly Data)

(per cent; on an annual basis)



Note: At the time of the preparation of this issue of the Economic Review the quarterly general government non-financial accounts published by the NSI are available up to and including the fourth quarter of 2023.

Sources: NSI, BNB calculations.

end-May 2024, excluding the transaction for the reimbursement of BGN 1.2 billion, is higher by 13.5 per cent compared to the same period of the previous year, implying a positive impact of general government investment on GDP growth in the second quarter of 2024.

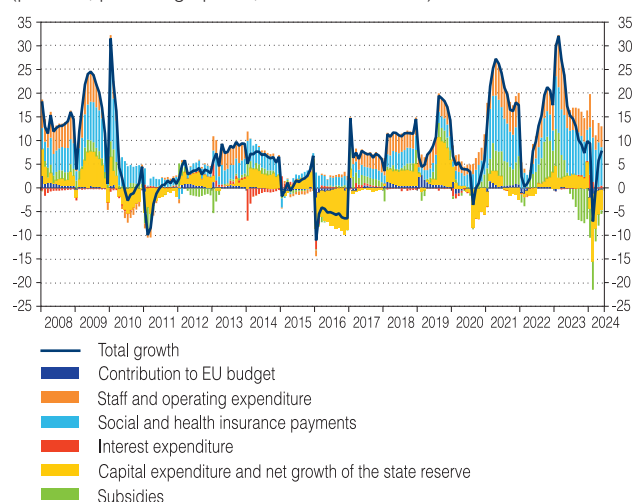
Total budget revenue under the CFP grew by 13.4 per cent on an annual basis as of the end of May 2024, with growth driven mostly by tax revenue. The increase in tax revenue was primarily due to receipts from social and health insurance contributions, as well as from Value Added Tax (VAT). Compared to the end of the first quarter, the growth rate of total budget revenue accelerated (7.3 per cent by end-March 2024) due mainly to tax revenue, in particular VAT and excise tax revenue, and, to a lesser extent, non-tax revenue, to which contributed the funds collected in April 2024 with a one-off effect of BGN 660 million for the year from the Bulgarian National Bank's contribution to the state budget.

By end-May 2024, the CFP budget balance was positive and amounted to BGN 147 million (0.1 per cent of GDP⁷³).

⁷³ Nominal GDP data for the last four quarters up to and including the first quarter of 2024 are used in calculating the ratio. The budget balance of the CFP would have been BGN 1053 million in deficit (0.6 per cent of GDP) had the transaction on the reimbursement of BGN 1.2 billion from the foreign funds account of the MRDPW budget as of May 2024 not taken place.

Contribution of Major Groups of Expenditure to Total Budget Expenditure Growth, Cumulatively

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



Notes: In January 2016 reports under the CFP, personnel costs include expenditure on wages, social security and other remunerations, while in those for previous periods, the latter were included in operating expenditure. To prevent inconsistencies of data prior to and after January 2016 resulting from the methodological change, personnel costs and operating expenditure data are presented aggregately in the chart.

Sources: MF, BNB calculations.

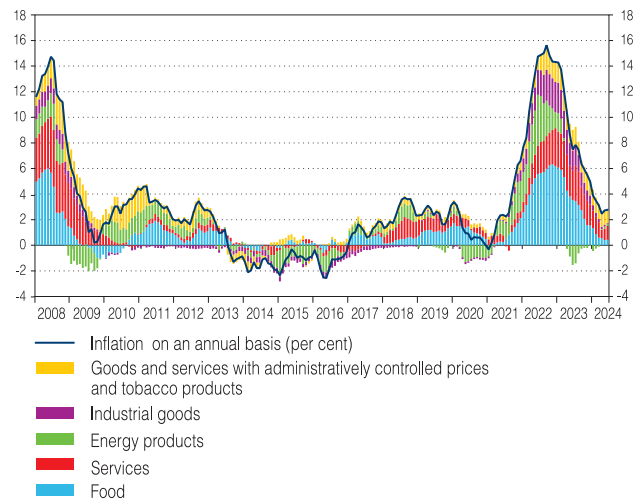
5. PRICE DEVELOPMENTS

5.1. Consumer Prices

In June 2024, annual HICP inflation was 2.8 per cent (compared to 5.0 per cent in December 2023), mainly driven by a base effect built-up in the groups of services and food and by the decline in the prices of industrial goods. As regards the domestic macroeconomic environment, sustained strong consumer demand and rising unit labour costs continued to exert a pro-inflationary pressure. In June 2024, services, goods and services with administratively controlled prices and tobacco products, followed by food products, made the largest positive contribution to headline inflation. Despite the reported slowdown in the annual growth rate of prices in these HICP components since the beginning of the year, the price index increased as of June 2024 compared to the end of 2023. Fiscal policy continued to have a pro-inflationary impact stemming from higher social payments and compensation of employees in the public sector in recent years, which supported household disposable income and consumption growth and set preconditions for retention of high inflation in the more demand-sensitive HICP components, such as services. Concurrently, the maintenance of budget deficits financed by external issues of government securities has a further impact on the continued inflow of attracted funds and the persistence of ample liquidity in the banking system. This impedes the full transmission of the ECB's monetary policy on deposit and lending rates to the household sector in Bulgaria. As a result of the gradual decline in consumer price headline inflation, real interest rates on new household time deposits were still negative but less, continuing, albeit to a lesser extent, to underpin private consumption growth and consumer price increases. Although real interest rates on new consumer loans turned positive since mid-2023, newly extended consumer loans continued to show an upward trend in volumes, which was an additional factor with a pro-inflationary effect in the first half of 2024.

Inflation and Contribution of Major Commodity and Services Groups to It

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



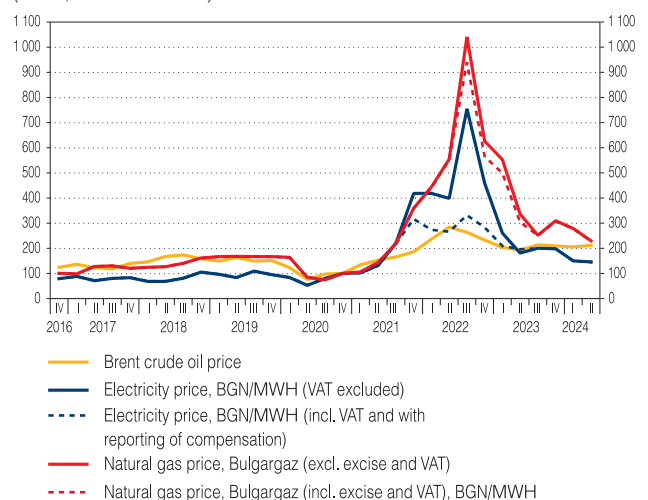
Notes: This structure corresponds to the Eurostat classification; tobacco products and goods and services with administratively controlled prices are presented separately.

The index of goods and services with administratively controlled prices is calculated by weighing the relevant elementary aggregates of the consumer basket.

Sources: NSI, BNB calculations.

Primary Energy Commodity Prices

(index, Q4 2020 = 100)



Notes: The electricity price refers to the Day Ahead segment of the Independent Bulgarian Energy Exchange EAD (IBEX).

The price of natural gas sold by Bulgargaz EAD does not include prices for access and transmission through the gas transmission networks.

Sources: ECB, IBEX, EWRC.

Energy Products Prices

The annual growth in energy prices was 1.7 per cent in June 2024 (compared to a decline of -0.6 per cent in December 2023). This dynamics reflected mainly the prices of transport fuels, which rose by 6.0 per cent due to the established base effect of their rapid price decline in early 2023 and, to a lesser extent, to the direct effects of higher international oil prices. Concurrently, the subgroup of solid fuels continued to make a negative contribution to inflation in energy products as of June 2024.

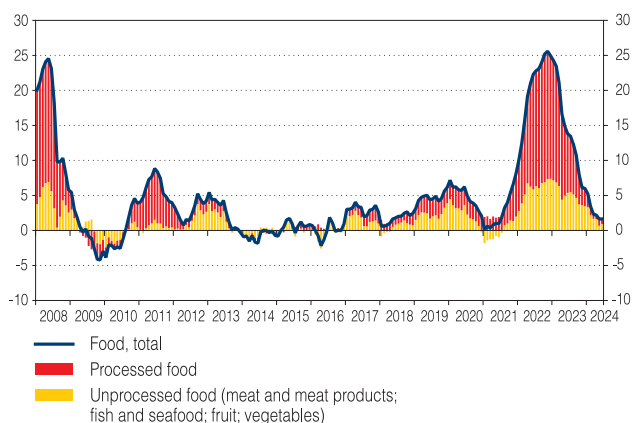
Food Prices

Food inflation followed a slowing trend and stood at 1.7 per cent in June 2024 (compared with 6.0 per cent in December 2023), mainly driven by the emergence of a base effect and, albeit to a lesser extent, by the decline in the prices of some of these products. This group continued to make a strong positive contribution to the HICP increase as a result of both processed and unprocessed food.

Annual unprocessed food inflation decelerated to 2.7 per cent in June 2024 (compared to 10.4 per cent in December 2023).

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

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



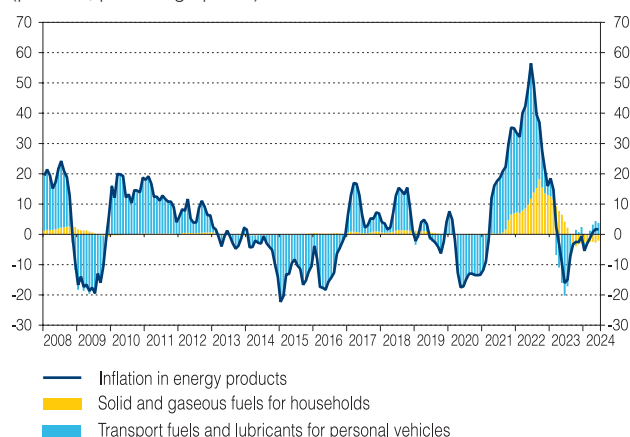
Sources: NSI, BNB calculations.

The sub-groups of meat and meat products and fruit and vegetables continued to make the highest positive contribution to the rise in unprocessed food prices which was due to the year-on-year increase in wholesale and retail prices of pork and beef⁷⁴, higher import prices of these

⁷⁴ The analysis employs data as of June 2024 from the Ministry of Agriculture on wholesale and retail prices in Bulgaria.

Contributions of Major Sub-groups to Energy Inflation (Excluding those with Controlled Prices)

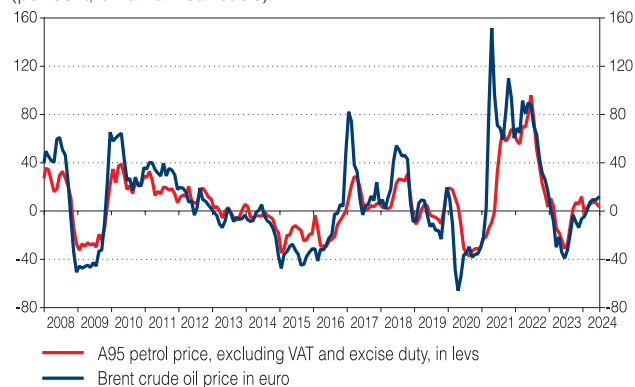
(per cent; percentage points)



Sources: NSI, BNB calculations.

Rate of Change in Brent Crude Oil and A95 Petrol Prices

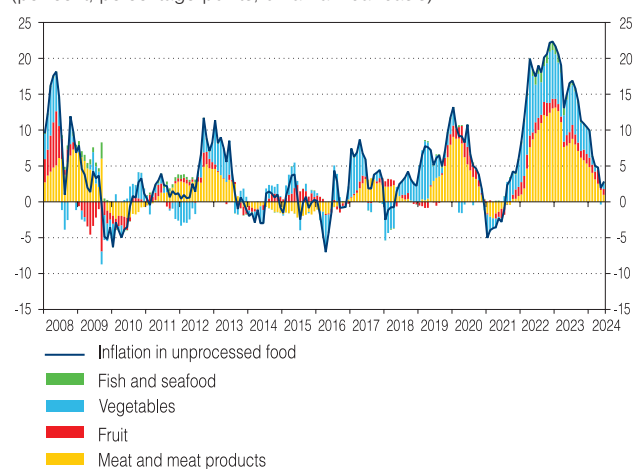
(per cent; on an annual basis)



Sources: ECB, NSI, BNB calculations.

Contribution of Major Sub-groups to Unprocessed Food Inflation

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



Sources: NSI, BNB calculations.

products⁷⁵, as well as to the persistently high domestic production costs in agriculture⁷⁶.

In June 2024, processed food prices grew by 1.1 per cent on an annual basis (compared to 3.8 per cent in December 2023). Non-alcoholic beverages, followed by bread and cereals made a positive contribution to the rise in processed food prices. This development was due to an increase in domestic production costs in these sectors⁷⁷, as well as to the price hikes of imported products of these categories⁷⁸. At the same time, the sub-groups of animal and vegetable oils and fats and dairy products made a slightly negative contribution to processed food inflation, reflecting the downward path of their import prices⁷⁹ and a year-on-year decline in producer prices of these food products.

Core Inflation

Core inflation, including prices of services and industrial goods, was 2.5 per cent in June 2024 (from 5.3 per cent at the end of 2023), with the increase in the prices of services, and, to a lesser extent, of industrial goods largely contributing to this dynamics.

The annual growth rate of industrial goods prices slowed to 0.2 per cent in June 2024 (from 3.3 per cent in December 2023), reflecting both base effects of the previous year's price increases and lower prices of some of these goods. The sub-group of durable goods had the largest negative contribution to inflation, with personal computers, automobiles and large and small household appliances adding most strongly to this effect. Concurrently, personal hygiene devices and household goods contributed most substantially to price rises in the non-durable goods sub-group. These developments were largely

⁷⁵ BNB calculations based on NSI data on import prices by commodity group according to the Standard International Trade Classification (SITC) as of the first quarter of 2024 have been used.

⁷⁶ NSI data on price indices of goods and services intended for current consumption in agriculture as of the first quarter of 2024 are used.

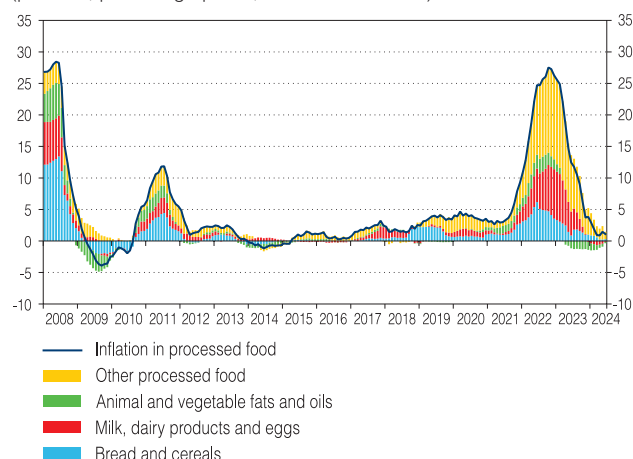
⁷⁷ Data on producer price indices (PPI) as of May 2024 have been used.

⁷⁸ BNB calculations based on NSI data on import prices by commodity group according to the SITC as of the first quarter of 2024 have been used.

⁷⁹ BNB calculations based on NSI data on import prices by commodity group according to the SITC as of the first quarter of 2024 have been used.

Contribution of Major Sub-groups to Processed Food Inflation

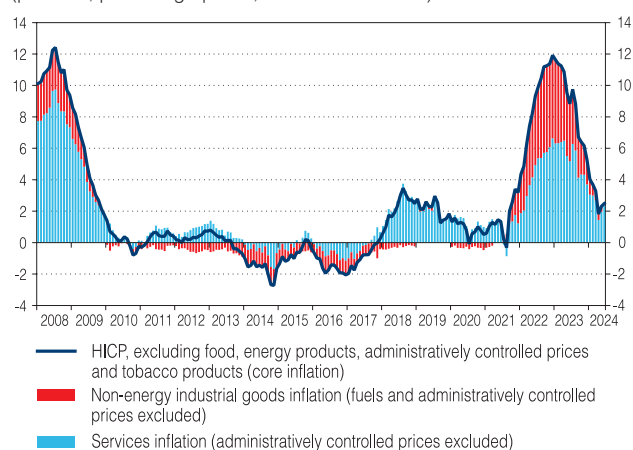
(per cent; percentage points; on an annual basis)



Sources: NSI, BNB calculations.

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

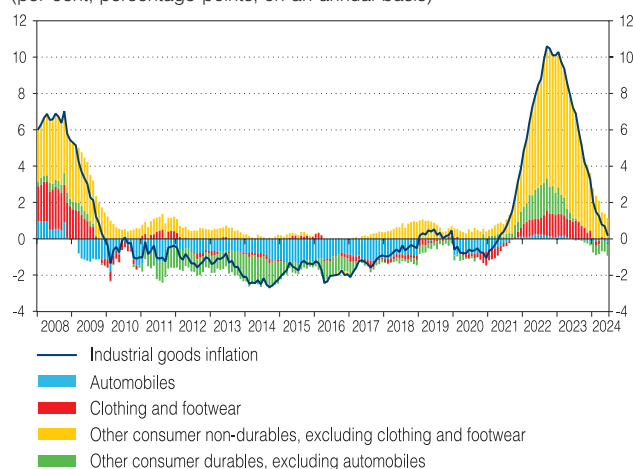
(per cent; percentage points; on an annual basis)



Sources: NSI, BNB calculations.

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

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



Sources: NSI, BNB calculations.

attributable to continued annual growth in household final consumption expenditure⁸⁰.

Annual inflation in the group of services remained high, reaching 4.6 per cent in June 2024 (compared to 7.1 per cent in December 2023). Catering, accommodation services and package holidays had the largest positive contribution to price rises in the group. The main factors responsible for retained high inflation rates in the first six months of 2024 were the persistent strong consumer demand and a continuous rise in unit labour costs.

Goods and Services with Administratively Controlled Prices and Tobacco Products

In June 2024 the annual inflation rate of goods and services with administratively controlled prices and tobacco products stood at 4.9 per cent, from 5.4 per cent at the end of 2023. Price hikes were mainly driven by the sub-groups of tobacco products⁸¹, pharmaceuticals⁸², water and sewerage services⁸³ and electricity⁸⁴. Other sub-groups with controlled prices, which had a significant contribution to inflation in June 2024 were railway transport⁸⁵ and education. Concurrently, central gas supply had a low negative contribution to the increase in prices in the group of goods with administratively controlled prices, which matched the price dynamics in the European gas market.

The diffusion index, which indicates the proportion of goods and services with year-on-year price

⁸⁰ According to NSI data as of May 2024, real turnover in non-food retail trade (excluding trade in automotive fuels and lubricants) grew by 4.2 per cent on an annual basis.

⁸¹ The rise in tobacco products' prices was due to an increase in excise duty rates on these products, which came into effect on 1 January 2024 in line with the excise duty calendar, as set out in the [Law on Amendments to the Tax and Social Insurance Procedure Code](#), published in the Darjaven Vestnik, issue 100 of 16 December 2022 (available in Bulgarian only).

⁸² Medicinal products included in the so-called positive drug list posted the strongest price rise. These are medicines whose prices are set administratively by the National Council on Prices and Reimbursement of Medicinal Products on the basis of the lowest producer price in the European Union and a percentage surcharge.

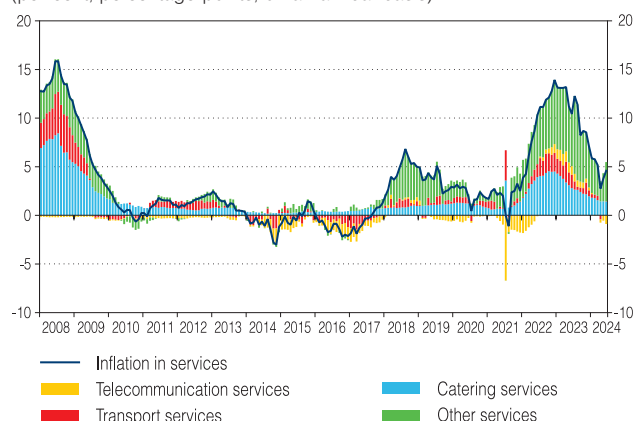
⁸³ The increase in the prices of water supply and sewerage services was in accordance with a decision of the Energy and Water Regulation Commission (EWRC) of 22 December 2023 on changes to the prices of water supply and sewerage companies in Bulgaria, as outlined in their business plans.

⁸⁴ A 4.37 per cent increase in the average electricity price for household consumers was adopted for the new regulatory period by a [decision of the EWRC of 30 June 2023](#) (available in Bulgarian only). The price increase came into effect on 1 July 2023 for a period of one year.

⁸⁵ The increase in railway transport prices is averaged 20 per cent and came into effect on 7 May 2024.

Contribution of Major Sub-groups to Inflation in Services

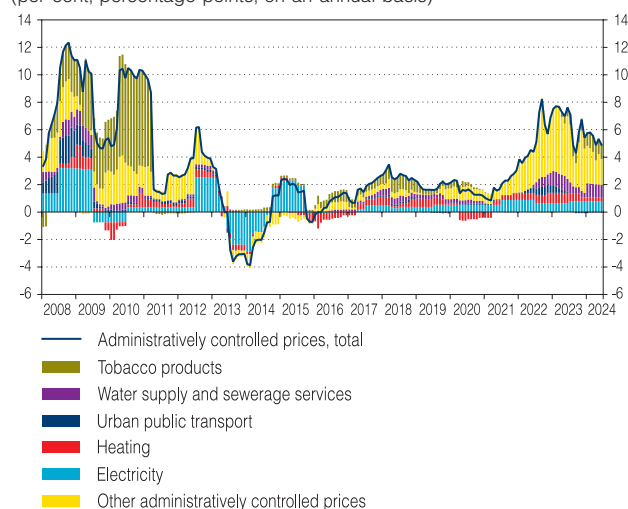
(per cent; percentage points; on an annual basis)



Sources: NSI, BNB calculations.

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

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

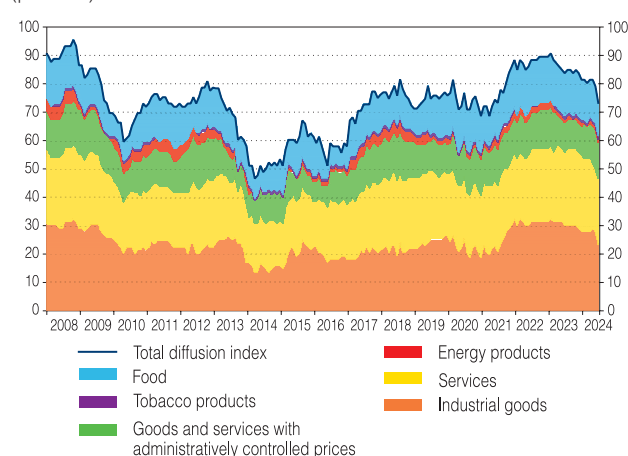


Sources: NSI, BNB calculations.

Diffusion Index

a) relative shares of increasing HICP sub-indices on an annual basis by major groups of goods and services)

(per cent)



growth, fell to 73.3 per cent in June 2024 from 81.4 in December 2023. As regards the amount by which prices rose, the share of goods and services with inflation of above 5 per cent also decreased, reaching 37.2 per cent, from 50.0 per cent at the end of 2023.

Inflation expectations

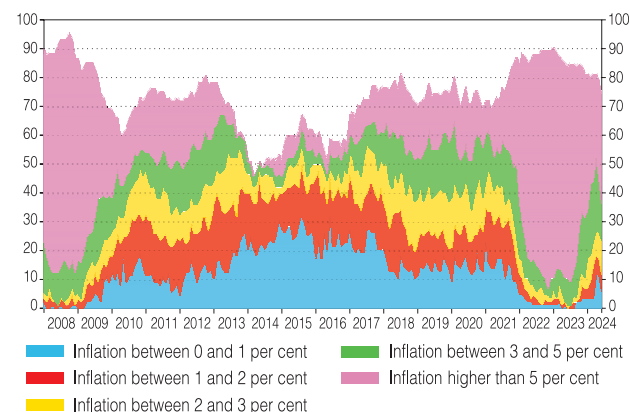
According to the regular NSI business surveys, the share of firms which foresee an increase of selling prices in the following three months decreased gradually in the first half of 2024. By economic sector, this trend was most pronounced in industry and services and, to a lower degree, in retail trade. Concurrently, the prevailing expectations in the group of retail trade managers forecasting price hikes are that the increase will be at the same or a slower pace than that observed previously, which implies similar dynamics of inflation also in the groups of food and industrial goods over the following months.

Based on current trends, managers' expectations, our assumptions about movements in international commodity prices, and given labour market and economic activity developments in Bulgaria, annual inflation in the second half of 2024 is projected to follow a gradual downward trend. A factor that is expected to continue exerting pro-inflationary pressures is the projected rise in unit labour costs amid continued strong consumer demand, which implies a limited pass-through of lower prices of some energy sources and imported products by firms to final consumer prices.

5.2. House Prices

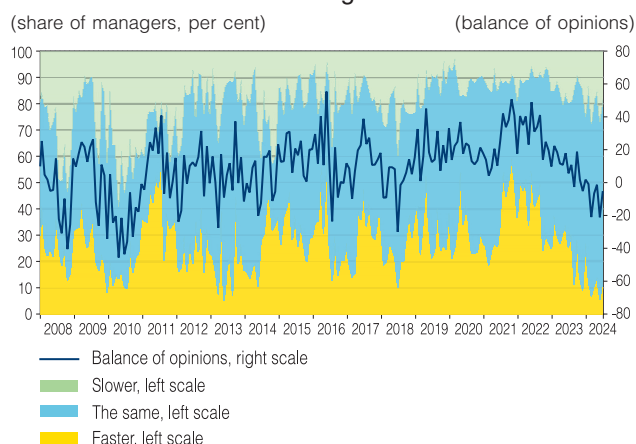
Annual growth in the house price index accelerated significantly to 16.0 per cent on an annual basis in the first quarter of 2024, from 10.1 per cent in the previous quarter, reflecting both the appreciation of new and existing dwellings (19.2 and 14.1 per cent respectively). Price increases were wide-ranging across regional cities, with the growth rate accelerating significantly both in Sofia and Varna. Factors supporting housing demand and thereby contributing to higher prices included the increased labour income, strong credit activity in an environment of historically low annual percentage rate of charge (APRC) on new home loans, and more limited opportunities to invest savings accumulated in the economy in an environment of negative real deposit rates. Concurrently, factors limiting house price

b) relative shares of increasing HICP sub-indices on an annual basis by the size of the increase (per cent)



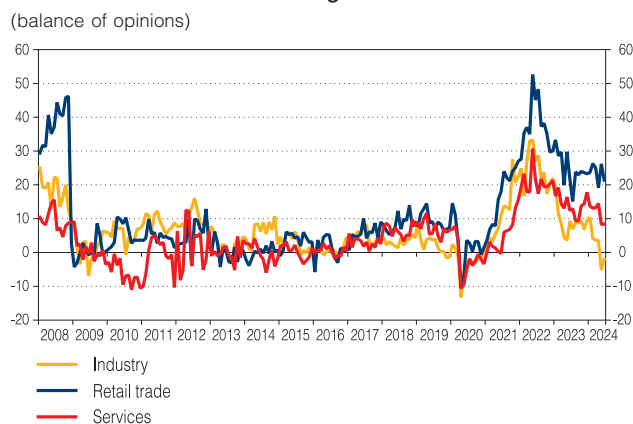
Notes: Data on the HICP 4-digit level sub-indices (sub-classes according to the NSI methodology) have been used. The diffusion index shows the share of sub-indices reporting an increase in value on an annual basis. When calculating the relative shares, the weight of the relevant sub-indices in the consumer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

Expectations for the Rate of Growth in Selling Prices in Retail Trade over the Following Three Months



Source: NSI.

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



Source: NSI.

growth in the total economy in early 2024 were the decrease in the volume of concluded transactions (by 27.1 per cent on a quarterly basis), as well as maintaining the construction cost index⁸⁶ for new buildings at a similar level compared to the previous quarter. The price-to-rent ratio, which is a frequently used indicator of undervaluation/overvaluation of houses, continued to exceed significantly (by 40.2 per cent) its long-term (historical) average⁸⁷ in the first quarter of 2024. This suggests that household decisions to purchase a dwelling are driven by reasons other than an immediate financial benefit by renting newly acquired properties. Such reasons could include expectations of continued house price growth (and future capital gains on sale), or the perception of residential properties as a value-preserving asset in an environment of low deposit rates and high inflation. At the same time, estimates based on the BNB macroeconomic model⁸⁸, point to a significantly lower positive deviation of current residential property prices in Bulgaria from their long-term equilibrium level (10.6 per cent). This is determined by the fact that rising household incomes combined with persistently negative real interest rates on housing loans increase the affordability of housing, which is reflected in the model as an increase in its equilibrium price.

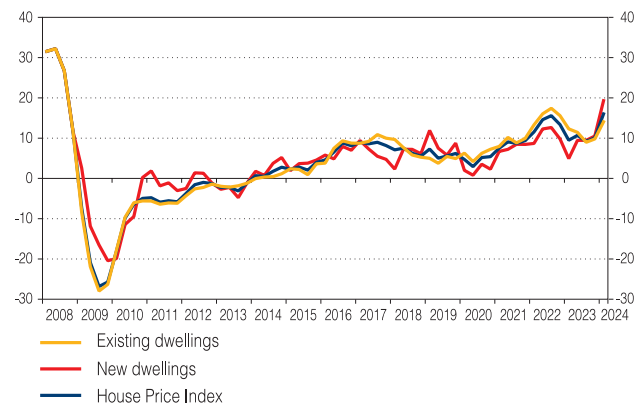
⁸⁶ Eurostat data are used.

⁸⁷ Calculated for the period from the first quarter of 2000 to the first quarter of 2024.

⁸⁸ Additional information on this model is available in the research topic Dynamics of House Prices in Bulgaria between 2000 and 2016, *Economic Review, issue 1 of 2017*.

Rate of Change of House Price Index

(per cent; on an annual basis)



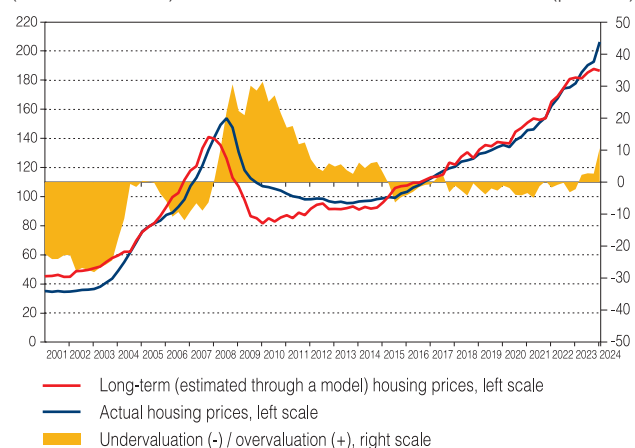
Note: From the beginning of 2022, the HPI is calculated on the basis of data from an administrative source only (the Property Registry), which is the reason why the data are not fully comparable with those of previous years.

Source: NSI.

Actual and Equilibrium House Prices

(index 2015 = 100)

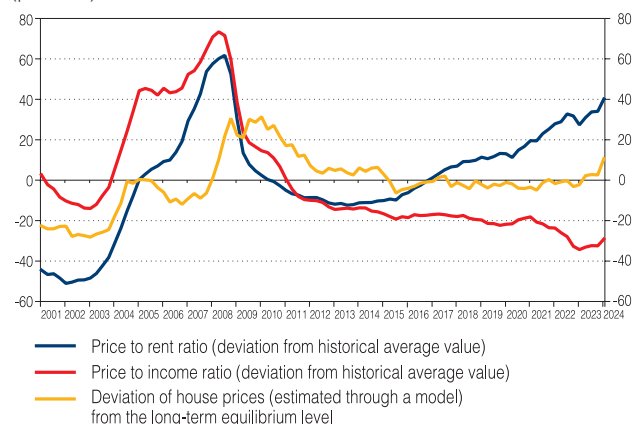
(per cent)



Sources: NSI, BNB calculations.

Indicators of Undervaluation/Overvaluation of Housing

(per cent)



Sources: NSI, BNB calculations.

Key Indicators of the Housing Market Developments in Bulgaria

(per cent; year-on-year change)

Indicators	2020	2021	2022	2023	2023			2024
					II	III	IV	I
Price developments								
House Price Index, total	4.6	8.7	13.8	9.9	10.7	9.2	10.1	16.0
New dwellings	2.2	7.7	10.8	8.6	9.5	9.5	10.5	19.3
Existing dwellings	6.0	9.2	15.6	10.6	11.4	9.0	9.8	14.1
Inflation (HICP)	1.2	2.8	13.0	8.6	8.8	7.2	5.5	3.5
House rentals, paid by tenants (HICP)	2.5	1.7	6.3	8.4	8.5	7.9	7.8	5.4
Lending								
New housing loans	18.1	24.0	33.5	15.5	14.6	13.4	16.4	21.1
Annual percentage rate of charge on new housing loans (per cent, at the end of the period)	3.2	3.0	2.8	2.9	2.8	2.9	2.9	2.9
Housing loans balances	12.9	14.0	18.1	18.8	18.0	18.8	20.5	22.7
Construction and Investment								
Permits issued for the construction of new residential buildings (square meters)	-9.0	25.1	20.6	-4.9	-18.3	-31.3	66.2	23.4
Value added in construction (at average annual prices for 2015)	-1.0	-17.1	5.4	0.7	0.7	0.1	1.6	-0.1
Constriction Production Index, building construction	-9.1	1.5	0.1	2.8	3.1	4.1	0.7	-1.5
Fixed investment; residential buildings	0.7	0.6	-1.4	-0.2	-5.0	8.8	1.6	4.7
Construction cost index for new buildings	2.3	11.4	53.1	16.2	18.6	3.4	2.8	2.9

Notes: Values indicating the amount of the APRC on housing loans to households are averages (weighted by the relevant volumes of new loans) for a 12-month period.

In calculating the annual growth rate of new home purchase loans cumulative data for the last 12 months were used.

Sources: the NSI, the BNB, Eurostat.

ISSN 2367-4962 (ONLINE)

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.