



ECONOMIC REVIEW

1/2025



BULGARIAN NATIONAL BANK

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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 1/2025 was presented to the BNB Governing Council at its 22 May 2025 meeting. It employs statistical data and information published up to 30 April 2025. Expectations of economic developments in Bulgaria in the short term (until the third quarter of 2025), as described in this issue, are based on the BNB macroeconomic forecast prepared as of 26 March 2025. The estimates and projections published in this issue should not be regarded as advice or recommendation. The user of the information is solely liable for any consequences thereof.

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This issue includes materials and data received up to 16 May 2025.

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ISSN 2367 – 4962(online)

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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 fourth quarter of 2024, global real GDP increased by 0.8 per cent on a quarterly basis. However, manufacturing and services PMIs suggest slowing growth in the first three months of 2025. According to preliminary estimates, economic activity in the first quarter of 2025 accelerated in the euro area, slowed down in China and declined on a quarterly basis in the US. In April 2025, the US initiated a substantial shift in their trade policy, significantly increasing tariffs on imports of goods from their major trading partners. Deterioration in the terms of trade with the United States is expected to lead to significant negative economic effects at a global level in the short and medium term. The direct exposure of Bulgarian exports to the US is relatively limited, and therefore direct effects on Bulgaria's economic activity through the trade channel are expected to be relatively weak. Indirect negative effects are likely to be significantly stronger, which in combination with expected weakening of Bulgarian goods exports due to planned repairs would be a prerequisite for net exports to limit growth of economic activity in Bulgaria over the first half of 2025.

Commodity price dynamics in international markets over the first quarter of 2025, which is expressed in a year-on-year decline of food and oil prices and a year-on-year rise in metal prices, coupled with the structure of the Bulgarian economy and foreign trade, are a precondition for the favourable terms of trade for Bulgaria during this period.

Global inflation continued to accelerate in the first two months of 2025, but slowed significantly to 2.9 per cent in March due to falling fuel prices in advanced economies, including the United States and the euro area. In view of the uncertain policy of the new US administration and the persistence of inflation, the Federal Reserve System kept the federal funds rate unchanged within the range of 4.25–4.50 per cent, but decided to slow down the downsizing of its balance sheet. Taking into account inflation dynamics in the euro area and the outlook of stabilisation around its target, the European Central Bank lowered in March and April interest rates on the deposit facility, main refinancing operations and the marginal lending facility by a total of 50 basis points to 2.25 per cent, 2.40 per cent and 2.65 per cent, respectively.

The current and capital account balance for the last 12 months as of February 2025 was negative at -0.6 per cent of GDP, with the deficit increasing by 0.5 percentage points from its level in December 2024. The negative current account balance widened to -2.6 per cent of GDP as of February, almost entirely due to the widening trade deficit, while the capital account surplus grew to 1.9 per cent of GDP owing to the increase in investment subsidies received by the general government sector. Concurrently, Bulgaria's gross international reserves rose by 0.3 per cent of GDP in the last 12 months as of February 2025. As a result, in the last 12 months as of February 2025, Bulgaria was a net beneficiary of funds from the rest of the world, with a deficit of 1.0 per cent of GDP being recorded on the financial account due to a lower level of newly acquired foreign assets of Bulgarian residents compared to their liabilities.

Annual growth of non-government sector's deposits remained relatively high at 10.5 per cent at the end of March 2025. Household deposits, which rose by 11.4 per cent on an annual basis, continued to contribute most to this growth. In the first quarter of 2025, the trend to accelerated annual growth of credit to households, which started in late 2023 and continued in 2024, came to a halt, with growth remaining close to that at end-2024. Housing loans continued to have the largest contribution to the total growth of household credit, recording a 26.4 per cent increase on an annual basis at the end of March (26.3 per cent in December 2024). BNB Bank Lending Survey results show a significant tightening of lending standards for housing loans in the fourth quarter of 2024, which may be linked to the BNB requirements for the indicators of credit standards in extending and renegotiating loans secured by residential real estate, effective since the beginning of October 2024. Corporate loans' growth continued to be driven mainly by

the corporate overdraft, which rose by 20.3 per cent on an annual basis at the end of the first quarter of the year.

In the fourth quarter of 2024, real GDP in Bulgaria rose by 0.9 per cent from the previous quarter, and economic activity growth accelerated further on an annual basis to 4.1 per cent. By final consumption expenditure component, final consumption and changes in inventories had the largest contributions to the annual growth of real GDP in the fourth quarter of 2024, while net exports contributed negatively. Gross value added rose on an annual basis by 3.3 per cent in the fourth quarter, supported by all major sectors except agriculture. Employment rose by 1.0 per cent on an annual basis, with the services and construction sectors contributing to its growth. Despite strong labour demand and reported labour productivity growth, the increase of compensation per employee slowed significantly in nominal and real terms to 4.0 per cent and 1.9 per cent, respectively on an annual basis in the fourth quarter of 2024.

The composite economic activity indicator constructed by the BNB signals that real GDP growth in the first quarter of 2025 will slow down from the previous quarter on both quarterly and annual basis. Real GDP growth in the second and third quarters of 2025 is expected to be mainly supported by domestic demand, while net exports will continue to have a negative contribution to the growth.

Annual HICP inflation accelerated to 4.0 per cent in March 2025, from 2.1 per cent at the end of 2024, driven mainly by the faster increase of prices in the groups of food, goods and services with administratively controlled prices and services, and to a lesser extent by slowing rates of decline in prices of energy products and industrial goods. Accelerated price increases in most of these groups were mainly influenced by one-off factors related to rising administered prices and indirect taxes, as well as persistent pro-inflationary pressures from growing unit labour costs and strong private consumption, which contributed largely to the pass-through of increased expenses by firms to final consumers. In March 2025, services, followed by goods and services with administratively controlled prices and tobacco products, as well as food products had the largest positive contributions to headline inflation. The rate of increase in consumer prices over the second and third quarters of 2025 is expected to remain close to that of the first quarter, but the uncertainty surrounding this outlook is high given the deepening global trade war.

1. EXTERNAL ENVIRONMENT

1.1. Current Business Situation

Global Environment

In the fourth quarter of 2024, global GDP growth accelerated to 0.8 per cent in real terms, from 0.6 per cent in the previous quarter. Data on global PMI in services and manufacturing indicate a slowdown in growth in the first quarter of 2025. The economic activity decelerated in services, while manufacturing reported growth after two quarters of stagnation. The improved economic activity in manufacturing was driven by a process of overstocking by firms in response to the new US administration's intentions of a change in the foreign trade policy and the imposition of sizeable tariff rates on goods imported from main trading partners. This process was also reflected in the world trade volume data at the end of 2024 and the beginning of 2025. In January 2025, annual growth of world trade amounted to 5.0 per cent, from 3.4 per cent in November 2024, with the United States and China contributing most to the growth acceleration. In January euro area trade increased on an annual basis for the first time since the end of 2022.

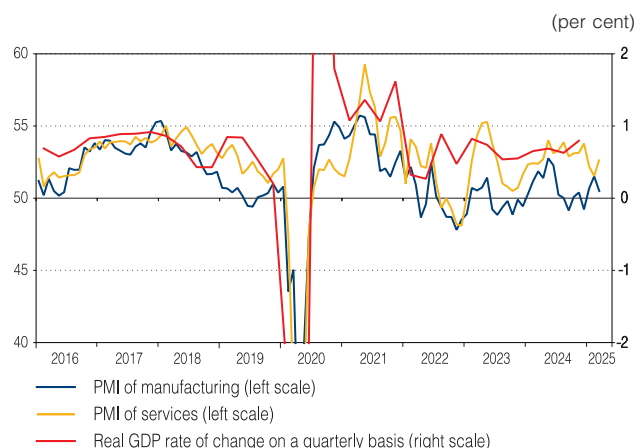
Global inflation continued to accelerate in the first two months of 2025, but slowed significantly to 2.9 per cent in March due to falling fuel prices in advanced economies.

International Commodity Prices

In the first quarter of 2025, the Brent oil price increased quarter-on-quarter (by 1.4 per cent in dollars¹ and by 2.9 per cent in euro) to USD 75.6 per barrel (EUR 71.9 per barrel). Oil price fell on an annual basis in both US dollars (by 9.0 per cent) and euro (6.1 per cent). A key factor behind this was the growing uncertainty about global economic and trade prospects as a result of the trade policy of the new US presidential

¹ Hereinafter referred to as the US dollar.

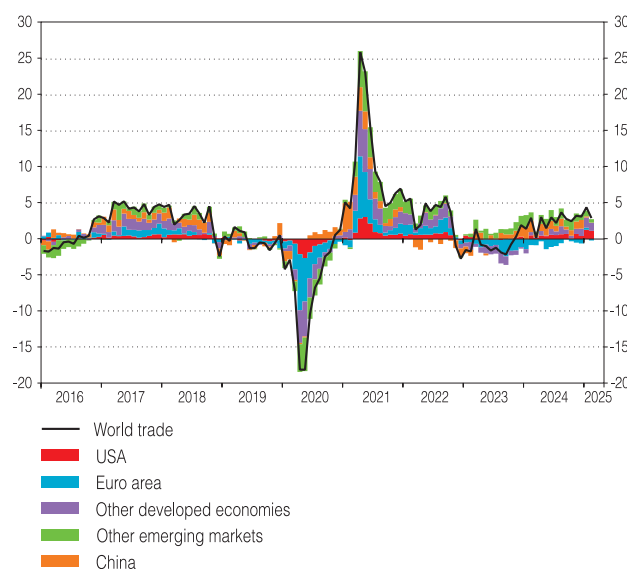
Manufacturing and Services PMIs and Changes in World Real GDP



Sources: JP Morgan, World Bank.

World Trade in Goods

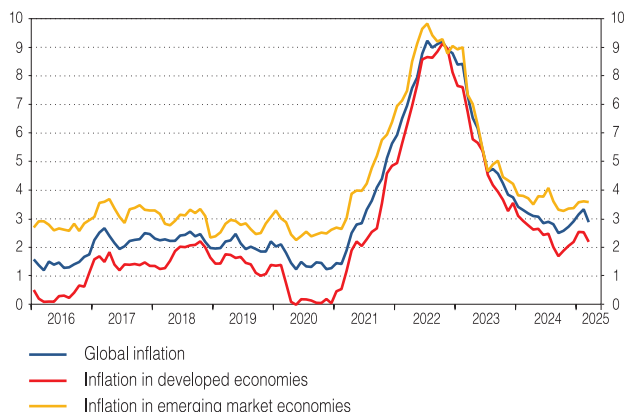
(per cent, percentage points, annual rate of volume change and contribution by region)



Source: CPB Netherlands Bureau for Economic Policy Analysis.

Inflation Measured through CPI

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



Source: World Bank.

administration. At the same time, the increased demand related to seasonal factors in Europe and the United States, as well as the new sanctions introduced against the Russian and Iranian oil sectors, mitigated the decline in oil prices over the quarter. The continuation of OPEC+ policy on production cuts also limited the reduction in prices over the period.

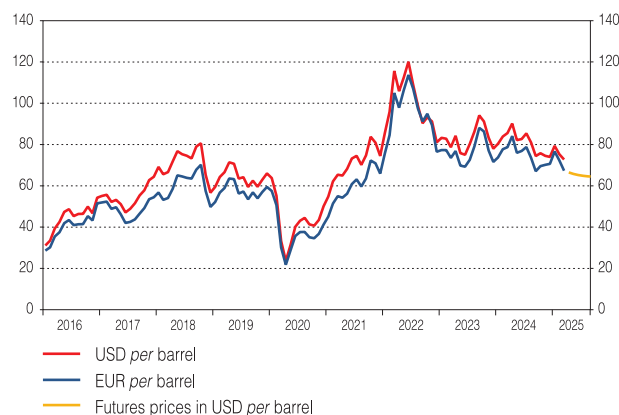
In the first quarter of 2025, natural gas prices in the European market posted a strong year-on-year increase (by 64.7 per cent in US dollars and 70.1 per cent in euro), with a more moderate quarterly rise by 6.2 per cent in US dollars and 7.8 per cent in euro on a quarterly basis. The main factors behind price rises in natural gas in the European market were the suspension of Russian gas transit through Ukraine at the beginning of a year² and lower levels of stocks in European gas storage facilities compared to historical average levels³.

In the January–March 2025 period the average metal and mineral price index increased by 7.9 per cent on an annual basis in US dollars (11.3 per cent in euro). Copper and aluminium made the largest positive contribution to the annual change in the index. The price of copper, which is of key importance for Bulgarian exports, increased mainly due to the price premium relat-

² On 1 January 2025, Ukraine's gas transmission system operator suspended Russian gas transit for Europe due to the expiry of the five-year Russian gas transit contract concluded in 2019.

³ According to GIE (Gas Infrastructure Europe) data, on 31 March European gas storage capacity was filled to 33.8 per cent, compared to an average of 44.4 per cent as of the same date in the period 2019–2024.

Prices and Futures of Brent Crude Oil

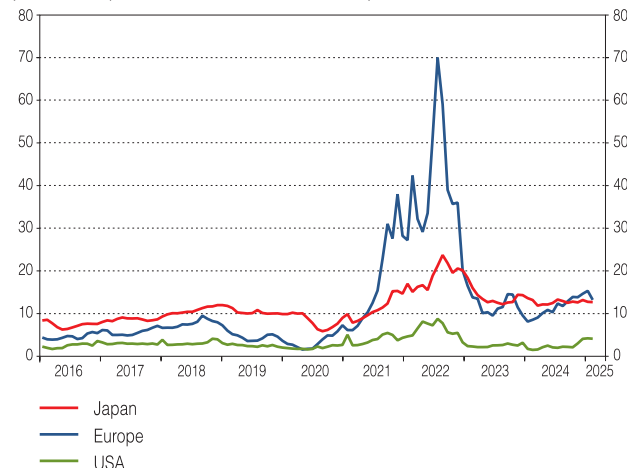


Note: Future prices are average prices of April 2025 contracts, USD per barrel.

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

Natural Gas Prices

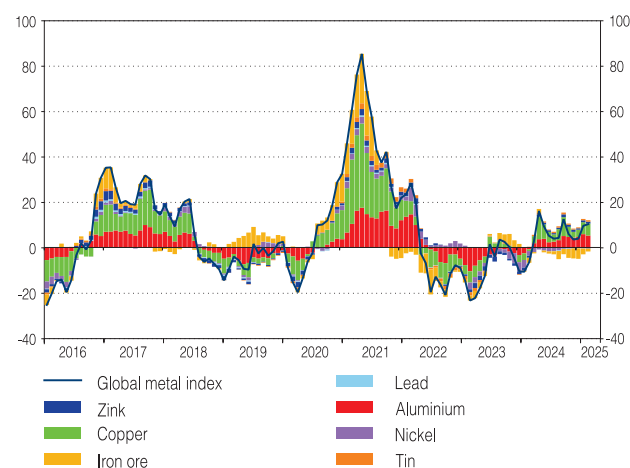
(US dollars per million British thermal unit)



Source: World Bank.

Metal Price Indices

(per cent, percentage points)



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

Sources: World Bank and BNB calculations.

ed to the new US trade policy and the stockpiling by economic agents which began before the new tariff rates entered into force. Data on economic activity in manufacturing in the United States and Europe which proved to be more robust than market expectations had an upward price effect.

In the same period, the total food price index recorded an annual decrease of 4.0 per cent in dollars (0.8 per cent in euro). Lower prices of soybean and rice contributed most to the decline in the overall food price index. Price decline in wheat, which is essential for Bulgaria's food exports, was due to the fading market concerns about the harvest situation in some major exporters of the North hemisphere. An additional factor exerting pressure on wheat price was the deterioration of market sentiment as a result of increasing uncertainty caused by changes in US trade policy.

The United States

In the first quarter of 2025, US real GDP declined by 0.1 per cent on a quarterly basis, compared to a 0.6 per cent growth in the fourth quarter of 2024. The fall in real GDP in the first three months of 2025 was largely driven by the negative contribution of net exports due to the strong increase in imports before the new higher tariffs entered into force in the United States. Slower private consumption growth also contributed to the economic downturn in the first quarter. The negative contribution of net exports was partially offset by an increase in inventories and investment.

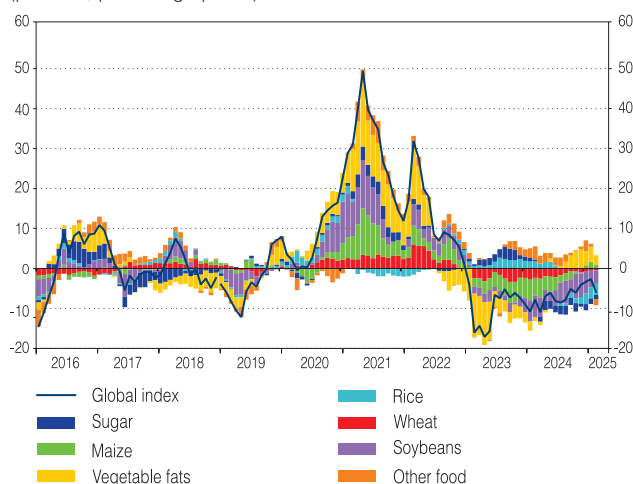
In March and April 2025, the US leading economic indicators signalled growth recovery in the second quarter of 2025.

The main US labour market indicators did not change substantially in the first quarter of 2025. The number of employees in the non-agricultural sector increased by a total of 398 thousand (by 628 thousand in the fourth quarter of 2024), and the ratio of announced new jobs to the number of unemployed decreased to 1.0, down from 1.1 in the two previous quarters. Concurrently, the average unemployment rate in the first quarter remained unchanged at 4.1 per cent for the second consecutive quarter.

In the first quarter of 2025, annual consumer price inflation declined, remaining, however,

Food Price Indices

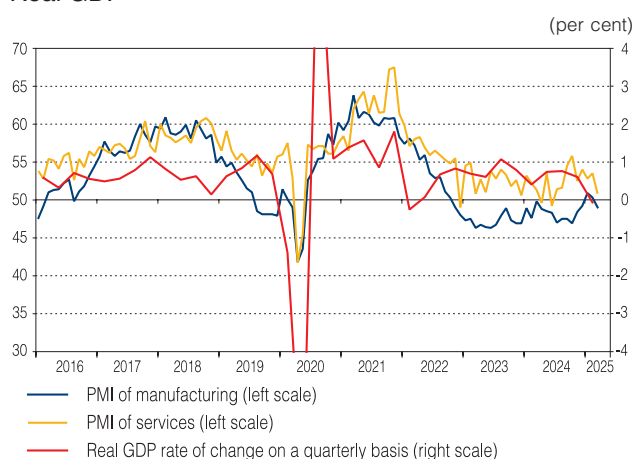
(per cent, percentage points)



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

Sources: World Bank and BNB calculations.

Manufacturing and Services PMIs and Change in US Real GDP



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

above the 2 per cent target set by the Federal Reserve System. In March the annual rate of change in the price index of personal consumption expenditure decelerated to 2.3 per cent from 2.6 per cent in December 2024. The inflation slowdown was due to lower prices of transport fuels and services and, to a lesser extent, lower inflation in housing costs. The annual growth rate of the core PCE index, which excludes the food and energy components, slowed to 2.6 per cent in March, from 2.9 per cent at the end of 2024.

In the first quarter of 2025, the US Federal Open Market Committee (FOMC) maintained its target range for the federal funds rate at 4.25–4.50 per cent, changing, however, the parameters of Federal Reserve's balance sheet reduction plan. The high uncertainty due to changes in the US administration's policy related to trade, immigration, public finance and regulatory framework contributed to the decision to keep the reference interest rate unchanged. At the March FOMC monetary policy meeting, Committee members decided for the first time since May 2024 to slow the speed of Federal Reserve's balance sheet drawdown. As of 1 April, the amount above which maturing securities will continue to be reinvested was reduced from USD 60 billion to USD 40 billion.⁴

In March 2025, Committee members' summarised forecasts did not show a change in their expectations of the federal funds rate for the period 2025–2027. The median of the forecasts continued to show an expected level of 3.9 per cent at the end of 2025, corresponding to a target corridor of 3.75–4.00 per cent, or a decrease of 50 basis points compared to the current interval. The estimate of the long-run equilibrium level of the federal funds rate remained at 3.00 per cent.

⁴ 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 25 billion to USD 5 billion.

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

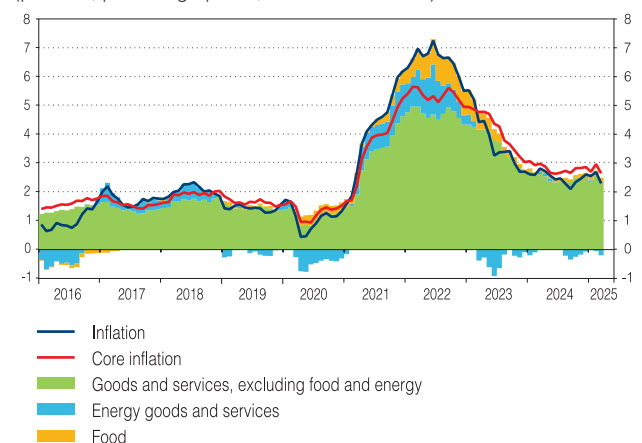


Note: The number of new employees in the non-agricultural sector in April and June 2020 are not evident in the chart, coming to -20,477 and 4,615 thousand.

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.

Changes in US Trade Policy

At the beginning of Donald Trump's second term as President of the United States, the new government placed the main emphasis of its economic policy on introducing significant changes to foreign trade relationships. On 20 January 2025, the US President signed an executive order to undertake a review of, and identify, any unfair trade practices by other countries until 1 April 2025 and prepare recommendations for introducing reciprocal tariff rates where such practices exist. By the end of April 2025, tariffs introduced or planned to be introduced by the US can be divided depending on their scope into country-specific or group-specific duties and product-specific duties (sector tariffs).

The first group of tariff rates includes:

- A tariff rate on imports from China, which was set at 10 per cent on 4 February and subsequently increased several times to 145 per cent under the reciprocal tariffs;
- A 25 per cent tariff rate on imports from Mexico and Canada. Initially, it had to enter into force on 4 February 2025, but was twice postponed by 30 days, and on 2 April the postponement was extended indefinitely;
- 'Reciprocal tariffs' which will apply to imports from almost all countries having trade relationships with the US. The reciprocal tariffs are imposed in response to the existing duties, tax policies and other policies of these countries, including with regard to exchange rates and unfair foreign trade practices. Reciprocal tariffs do not apply to goods subject to specific duties, such as steel and aluminium, cars and car parts, as well as to an additional list of energy and certain other goods. A 10 per cent baseline tariff on imports from all trade partners (excluding Canada and Mexico) took effect on 5 April 2025, along with higher rates reaching 50 per cent for some countries, depending on the size of their trade surplus with the US. On 9 April, the US President announced that reciprocal tariffs would be paused for 90 days for all countries, except China. The baseline tariff of 10 per cent was sustained;
- The US Government announced it would introduce a 25 per cent duty rate on imports of goods from the European Union which had not been introduced by the end of April. On 2 April, President Trump noted that the reciprocal tariff on goods imports from the EU would be 20 per cent.

The second group of specific duty rates introduced for specific products includes:

- A 25 per cent tariff rate on imports of steel and aluminium, announced on 10 February and entered into force on 12 March 2025;
- A 25 per cent duty rate on imports of cars and certain car parts. The tariff rate for cars became effective on 3 April 2025 and that for car parts should be introduced before 3 May;
- The US Government plans to introduce specific tariffs also for other commodity groups, such as pharmaceutical products, semiconductors, *etc.*

The period after the new presidential administration took office on 20 January 2025 has been characterised by a considerable uncertainty in international financial markets caused by frequent changes in President Trump's positions on the size and scope of the new tariffs. A particularly strong impact on international financial markets came from the introduction and subsequent postponement of increased tariffs for Canada and Mexico; the application and temporary suspension of reciprocal tariffs; and the drastic increase in import tariffs for China to 145 per cent. At the end of April, the US President stated that his administration was in talks with the Government of China to conclude a tariff agreement.

Despite the provisional and changing nature of the US government's trade policy, most of the current analyses on the impact of increased tariffs on global trade, inflation and growth concluded that effects on the global economy would be negative. The IMF model-based assessment published in April 2025¹ shows that as a result of the increased tariffs, the negative impact on global economic growth in the short term (until 2027) would be between 0.4 and 1.0 percentage points of global GDP. Assuming that the tariffs introduced by the US are constant, the long-term negative impact on global economic growth (within ten years) is estimated to be between 0.9 and 0.2 percentage points of global GDP.

¹ World Economic Outlook, International Monetary Fund, April 2025.

China

China's quarterly real GDP growth slowed to 1.2 per cent in the first quarter of 2025, from 1.6 per cent in the fourth quarter of 2024. Domestic demand continued to support economic growth, owing to government accommodative policy. At the same time, increased export orders before a rise in US tariffs on Chinese goods boosted external demand. In the first quarter, retail sales and industrial production accelerated further to 5.9 per cent and 7.7 per cent on an annual basis respectively, compared to 3.8 per cent and 5.6 per cent on average in the last quarter of 2024.

In the first four months of 2025, economic indicators (PMIs) continued to fluctuate around the neutral 50 point limit.

Annual consumer price inflation in China was negative in March 2025, standing at -0.1 per cent, compared with 0.1 per cent at the end of 2024. Foodstuffs contributed most significantly to inflation. Core inflation accelerated slightly, reaching 0.5 per cent year on year in March (0.4 per cent in December 2024).

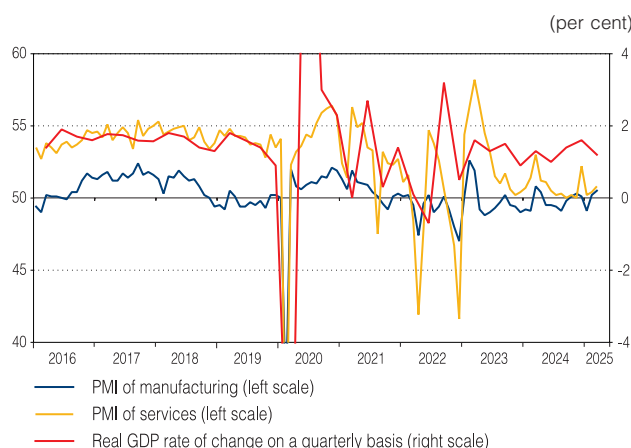
In the first quarter of 2025, the trend towards stabilisation in the real estate market persisted. In March, the annual decline in residential property prices in larger cities slowed down to -2.8 per cent, from -4.3 per cent on average in the fourth quarter.

Between January and April 2025, the People's Bank of China did not undertake new monetary policy measures, but expressed its readiness to do so on several occasions, where necessary.

Euro Area

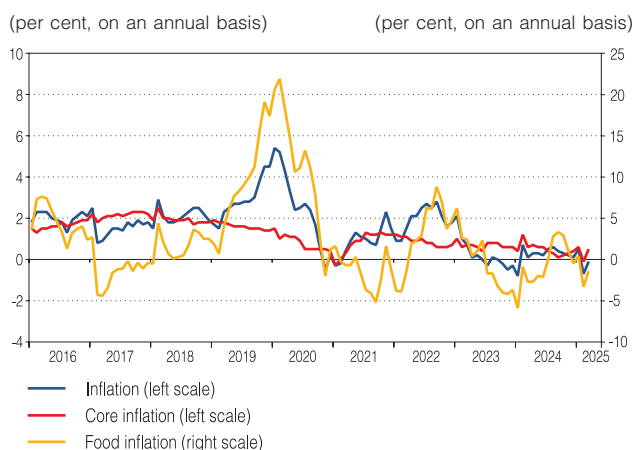
Euro area real GDP slowed to 0.2 per cent on a quarterly basis in the fourth quarter of 2024, compared to 0.4 per cent in the third quarter of 2024. All main components of final consumption expenditure, excluding changes in inventories and net exports, contributed positively to quarter-on-quarter changes in GDP. According to preliminary data, euro area GDP growth accelerated in real terms to 0.4 per cent on a quarterly basis in the first quarter of 2025. In Germany, Bulgaria's major trading partner, real GDP fell by 0.2 per cent on

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.

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.

a quarterly basis in the fourth quarter of 2024 and increased by 0.2 per cent quarter on quarter in the first quarter of 2025. Italy, Bulgaria's other major trading partner, posted a quarterly growth in real GDP of 0.2 per cent and 0.3 per cent in the third and fourth quarters, respectively.

Data on euro area economic indicators, including PMIs, available at the end of April 2025, point to a sustained quarterly growth rate in euro area real GDP in the second quarter of 2025. PMI indices reported a slight increase in economic activity in services, while according to the assessment of corporate managers in manufacturing the decline in sector's activity continued to slow down.

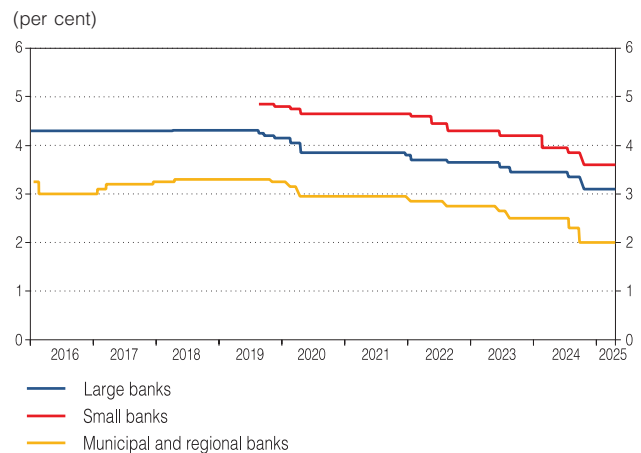
Labour market conditions in the euro area remained comparatively favourable in the first quarter of the year. The unemployment rate remained at very low historical levels, stabilising at 6.2 per cent in the fourth quarter of 2024 and the first quarter of 2025. Employment reported slower growth, increasing by 0.8 per cent year on year in the fourth quarter, compared to 1.0 per cent growth in the previous quarter.

In the first quarter of 2025, annual consumer price inflation in the euro area decelerated. In March, it stood at 2.2 per cent, from 2.4 per cent in December 2024, with the slowdown mainly due to falling transport fuels and lower services price inflation. At the end of the first quarter core inflation excluding food and energy products was 2.4 per cent on an annual basis, compared to 2.7 per cent at the end of 2024, reflecting mainly lower inflation in transport services and package holidays.

Taking into account inflation dynamics in the euro area and the prospects for its stabilisation around the ECB's inflation target, the Governing Council of the central bank lowered the reference interest rates by 25 basis points at the March and April 2025 meetings to 2.25, 2.40 and 2.65 per cent respectively for the deposit facility, main refinancing operations and marginal lending facility.

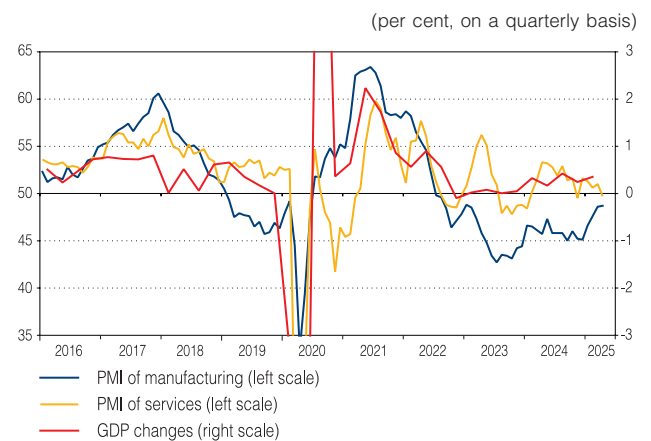
Lower key ECB interest rates and market participants' expectations for the ECB monetary policy were the main factors contributing to the decline in euro area money market interest rates in the

Reference Rates in China



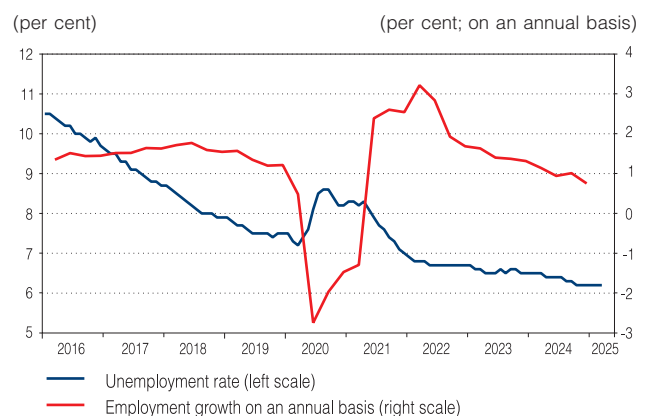
Source: National Bureau of Statistics of China.

Manufacturing and Services PMIs and Change in Euro Area Real GDP



Source: Eurostat.

Euro Area Unemployment Rate and Employment Growth



Source: Eurostat.

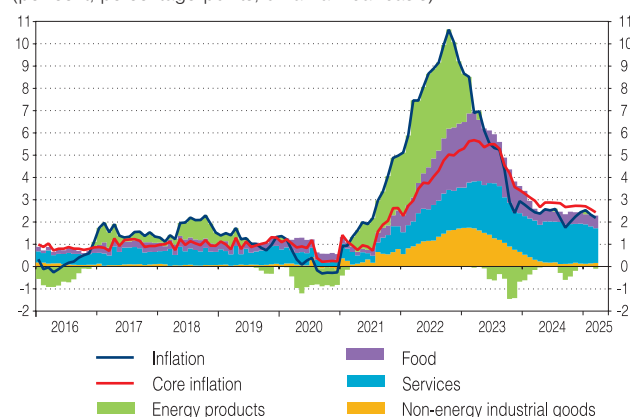
first four months of 2025. The average value of €STR, the reference overnight interest rate, reached 2.34 per cent in April 2025 compared to 2.71 in the first quarter of 2025 and 3.20 per cent in the fourth quarter of 2024. German government bond yields in the first quarter of 2025 decreased in the maturity sectors of up to one year and increased in longer-term maturity sectors, before declining in all maturity sectors in April. In the period from January to the end of April 2025 bond yields fell by 40 basis points to 1.69 per cent in the two-year maturity sector and by 8 basis points to 2.44 per cent in the ten-year maturity sector. The main factor behind the decline in German government bond yields in the short-term maturity sectors was the reduction in the key ECB interest rates. Market participants' expectations of increasing German government bond issues contributed to higher yields in the long-term maturity sectors, following an agreement on the implementation of a fiscal plan that will increase Bulgaria's defence and infrastructure expenditure. Higher German government bond yields in long-term maturity sectors were constrained by increased demand for low-risk assets due to the uncertainty caused by the trade policy of the new US presidential administration.

1.2. Impact on the Bulgarian Economy

Despite some acceleration in global economic activity and trade at the end of 2024, given the overstocking by firms in response to the new US administration's intentions of a change in the foreign trade policy of the country, real exports of Bulgarian goods and services declined on an annual basis in the fourth quarter of 2024, mainly driven by Bulgaria-specific factors. Concurrently, the signals from economic indicators for a slowdown in the quarterly growth of global economic activity in the first quarter of 2025 and the negative effects of the entry into force of the broad-based tariffs on global trade in goods are also likely to result in weakening external demand for Bulgarian goods and services over this period. The direct exposure of Bulgarian exports to the US is relatively limited and therefore direct effects on Bulgaria's economic activity through the trade channel are expected to be relatively weak. However, the deepening of the trade war creates serious uncertainty about the development of world

Euro Area Inflation Rate

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



Notes: Inflation is measured by the HICP.

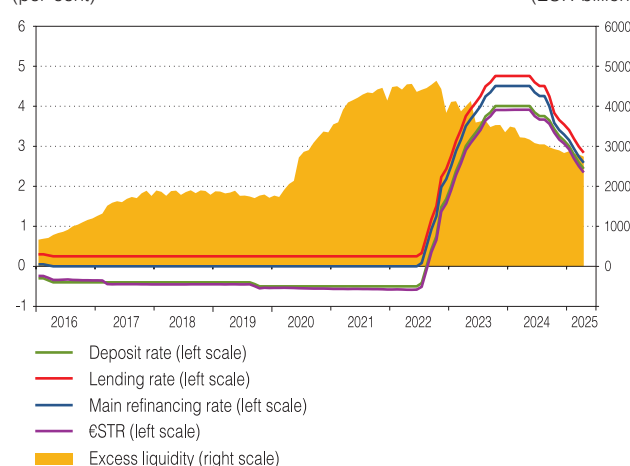
Core inflation is measured by HICP, excluding energy products, food, alcohol and tobacco products.

Source: Eurostat.

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

(per cent)

(EUR billion)



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

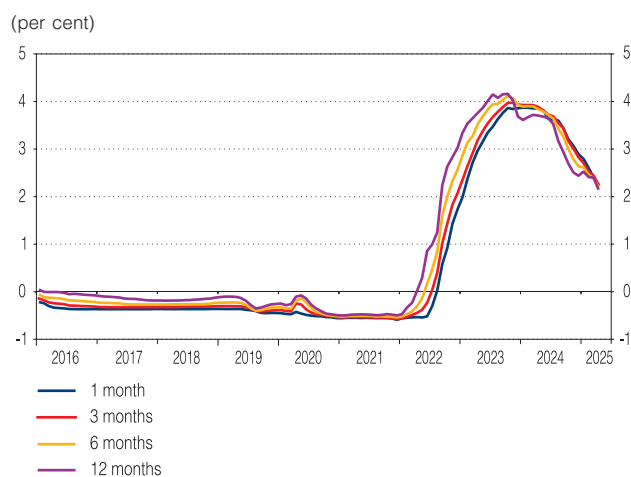
Source: ECB.

trade and the external demand for European goods, which is a precondition for significant indirect effects on the demand for Bulgarian goods by main trading partners. This, in combination with expected weakening of Bulgarian goods exports due to planned repairs is a prerequisite for net exports to contribute negatively to changes in the economic activity in Bulgaria over the first half of 2025.

Commodity price dynamics in international markets in the first quarter of 2025, resulting in a year-on-year decline in food and oil prices and an annual rise in metal prices, are indicative of favourable terms in trade in the first quarter of 2025 given the structure of the Bulgarian economy, external trade and domestic price developments, especially in terms of labour costs.

The cut in key interest rates by the ECB which continued in the first quarter of 2025 resulted in improved financing conditions of the Bulgarian government and non-financial corporations in Bulgaria. According to the currency board principles, the changes in euro area money market rates may be expected to continue to be passed through relatively quickly to interest rates on the interbank money market in Bulgaria. Concurrently, the transmission from the ECB's key interest rate cut to interest rates on household loans, in particular in the housing lending segment, was very weak, as it had been in the preceding upward phase of the interest rate cycle, reflecting mainly country-specific factors.

EURIBOR



Source: ECB.

2. EXTERNAL FINANCIAL FLOWS

2.1. Balance of Payments and Foreign Trade

Over the last 12 months as of February 2025, Bulgaria's current and capital account balance was negative with low deficit (0.6 per cent of GDP), while Bulgaria's gross international reserves rose by EUR 334.2 million (0.3 per cent of GDP). As a result, Bulgaria was a net beneficiary of funds from the rest of the world, with a deficit of 1.0 per cent of GDP being recorded on the financial account due to a lower level of newly acquired foreign assets of Bulgarian residents compared to their liabilities⁵. As of February 2025, the amount of gross international reserves continued to be high according to indicators generally accepted in practice, equalling the amount of nominal imports of goods and services⁶ for a period of 8.3 months (9.1 months in December 2024), while the ratio of international reserves⁷ to Bulgaria's short-term external debt stood at 4.5 times in February 2025 (compared 4.3 in December 2024).

Current Account and Capital Account

The current account deficit increased in 2024 with February 2025 data pointing to a continuation of this trend as the deficit reached 2.6 per cent of GDP. Concurrently, the capital account surplus in 2024 increased slightly from 2023 mainly as a result of investment subsidies to the general government sector, with data for February 2025 not substantially changing the dynamics observed in 2024 and the surplus remaining at slightly below 2 per cent of GDP.

Trade Balance and Foreign Trade in Goods

In 2024, the deficit in the balance of trade in goods widened to 5.2 per cent of GDP from 4.2 per cent of GDP in 2023 due to a decline in nominal exports

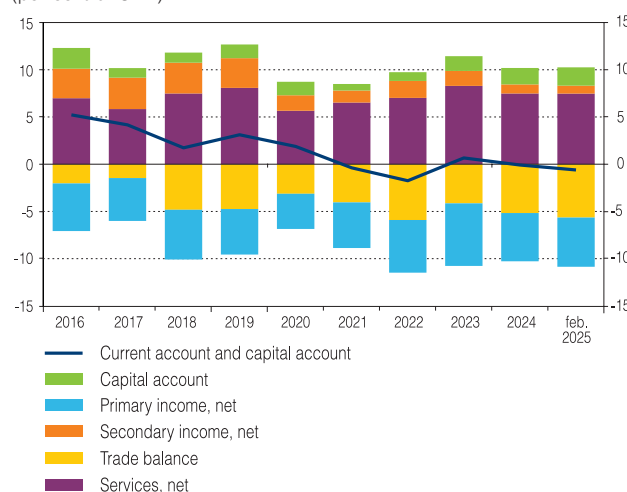
⁵ The analysis is based on the analytical reporting of the balance of payments.

⁶ Calculated for the last 12 months as of February 2025.

⁷ The analysis is based on gross international reserves on the BNB Issue Department balance sheet. The market value of international reserves includes changes stemming from transactions, valuation adjustments and price revaluation.

Current and Capital Account Flow Dynamics and Contribution by Components

(per cent of GDP)

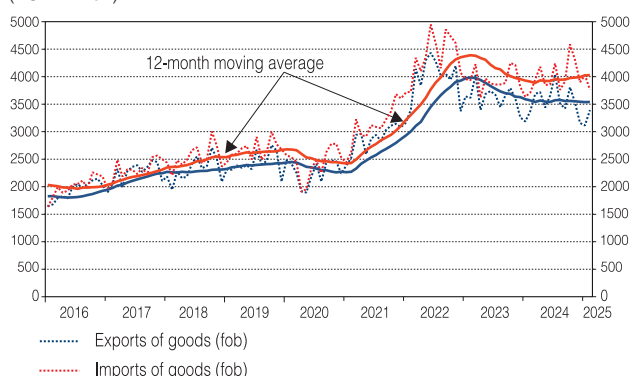


Notes: February 2025 data on the current and capital account flows are accumulated for the last 12 months.

Nominal GDP data for 2024 are used in calculating the ratio to GDP for February 2025. BNB, NSI, BNB calculations.

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

(EUR million)



Note: Monthly data are used. The last observation is for February 2025.

Source: BNB.

and an increase in nominal imports of goods. NSI national account data show that the expansion of the trade deficit in 2024 was due to both the change in volume of trade flows and unfavourable conditions of trade for the country⁸. External demand for Bulgarian goods and services grew by 1.1 per cent in real terms in 2024⁹, implying that the decline observed in Bulgarian exports of goods in real terms (-0.9 per cent) is most likely due to country-specific factors such as weaker agricultural harvest in 2024. According to detailed data by commodity group in foreign trade statistics, the year-on-year fall in exports of goods in real terms¹⁰ in 2024 was almost entirely attributable due to the negative contribution of cereals, oil seeds and fruits, and machines. Imports of goods rose by 1.6 per cent in real terms in 2024, with the groups of fuels (oil and refined petroleum products) and raw materials (metal ores and scrap) contributing most strongly. At the same time, data for the first two months of 2025 indicate a further decline in exports of goods and a rise in imports in nominal terms. At the beginning of 2025, the trade deficit continued to increase and reached 5.6 per cent of GDP in the last 12 months as of February. Nominal exports of metals and fuels dropped year on year in January -February 2025, possibly related

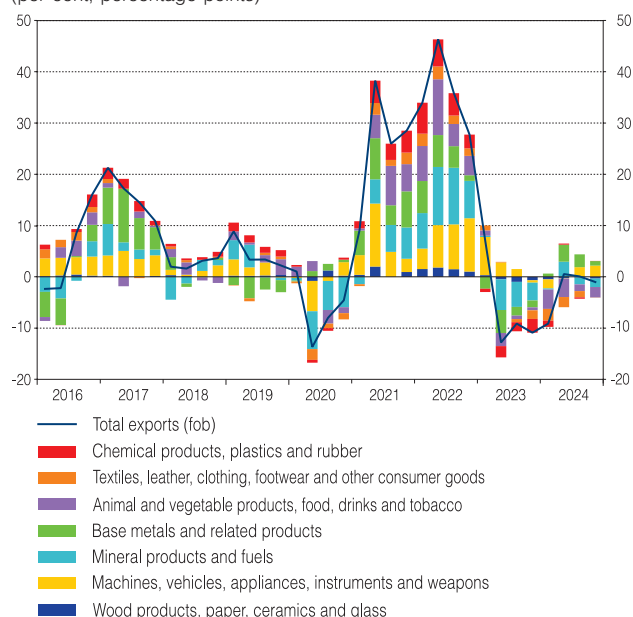
⁸ The unfavourable terms of trade in 2024 resulted in a stronger year-on-year price fall in exports of goods than in imports of goods according to non-seasonally adjusted GDP data.

⁹ ECB calculations of March 2025.

¹⁰ 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.

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

(per cent, percentage points)

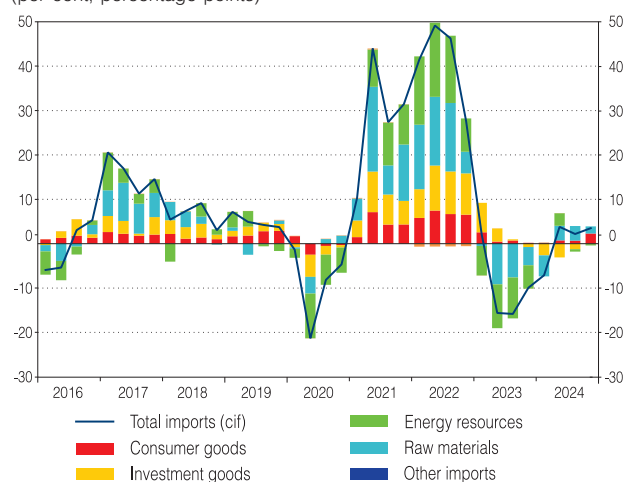


Note: Quarterly data are used. The last observation is for the fourth quarter of 2024.

Source: BNB.

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

(per cent, percentage points)

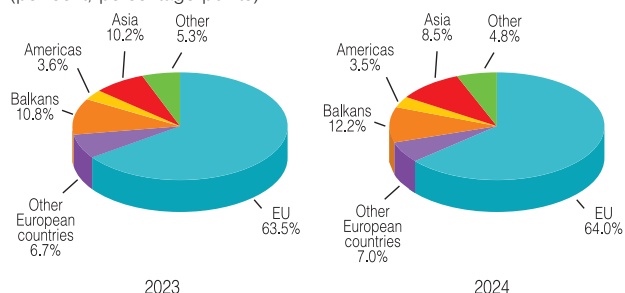


Note: Quarterly data are used. The last observation is for the fourth quarter of 2024.

Source: BNB.

Geographical Breakdown of Exports of Goods

(per cent, percentage points)



Note: The sum total may not add up to 100 per cent due to rounding.
Source: BNB.

to planned repairs in large industrial enterprises¹¹, while nominal imports of goods continued to grow over the same period.

Balance on Trade in Services

In 2024, the positive balance of trade in services declined slightly from the previous year to 7.5 per cent of GDP (against 8.3 per cent of GDP in 2023), with nominal imports of services increasing more than nominal exports. Information services contributed most to the increased exports of services in 2024, while the growth of nominal exports of services was largely driven by higher expenditure of Bulgarian residents on travel abroad, which rose by 14.4 per cent on an annual basis. In the first two months of 2025, nominal imports and exports of services remained almost unchanged from the same period of 2024 and as a result the surplus on trade in services for the last 12 months as of February 2025 remained unchanged from the end of 2024.

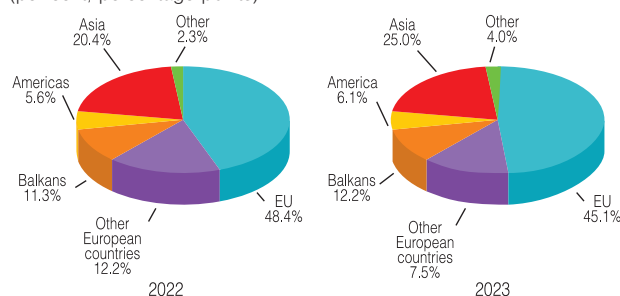
Net Primary Income Account and Net Secondary Income Account

In 2024, net primary income deficit narrowed significantly to 5.1 per cent of GDP (against a deficit of 6.6 per cent of GDP in 2023). This reflected a decline in outflows under the equity income sub-item related to reinvested earnings on direct investment, with preliminary data subject to revision. In the first two months of 2025, the deficit on net primary income widened owing to higher outbound dividend payments to non-residents on an annual basis.

¹¹ For further details, see [Macroeconomic Forecast, March 2025](#).

Geographical Breakdown of Imports of Goods

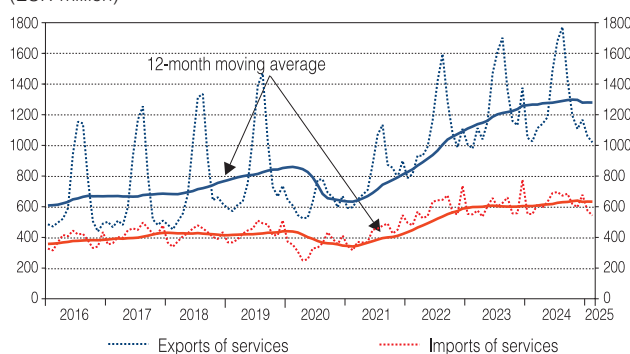
(per cent, percentage points)



Note: The sum total may not add up to 100 per cent due to rounding.
Source: BNB.

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

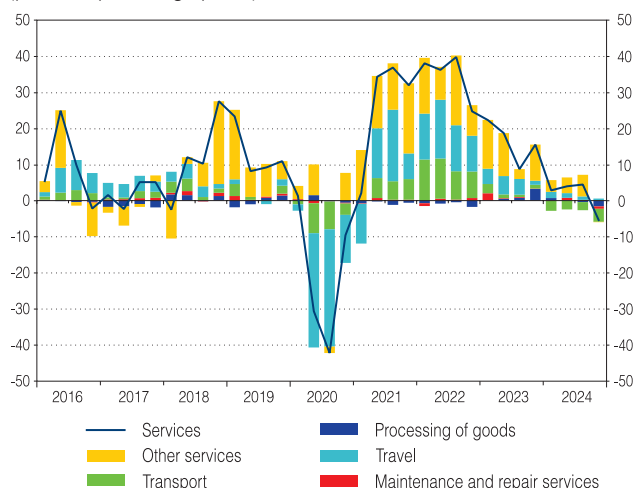
(EUR million)



Note: Monthly data are used. The last observation is for February 2025.
Source: BNB.

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

(per cent, percentage points)



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

Source: BNB.

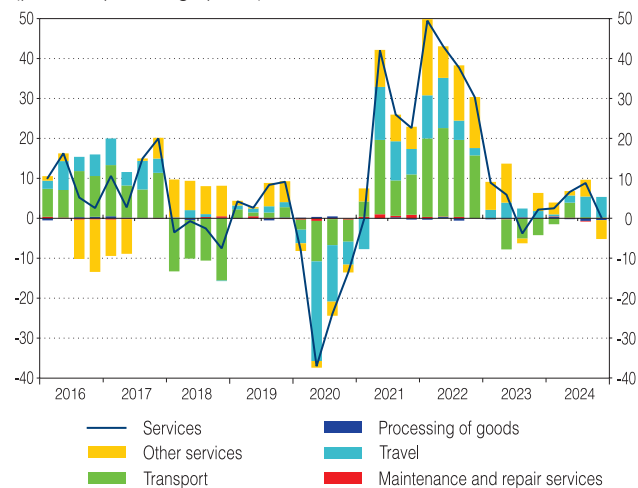
At the same time, in 2024 and the first two months of 2025, net secondary income surplus declined as a share of GDP compared to its 2023 level, accounting for 0.8 per cent of GDP in the last 12 months as of February 2025 (against 1.6 per cent of GDP in 2023). In 2024, the decline in the surplus was mainly due to a decrease in current transfers to the general government sector, while the decrease in January and February 2025 was driven by higher net outflows of the general government sector.

Financial Account and International Investment Position

In 2024, the financial account balance was positive at 0.2 per cent of GDP (compared to a negative balance of 2.5 per cent of GDP in 2023), reflecting higher acquisition of foreign assets against liabilities to non-residents over the period. Newly acquired foreign assets in 2024 were concentrated mostly in the non-bank private sector (mainly in the form of portfolio investments) and, to a lesser extent, in the banking sector (again primarily in the form of portfolio investment), while newly assumed liabilities *vis-à-vis* non-residents were fairly evenly distributed between the private banking sector, private non-bank sector and the general government sector. Compared with the structure of the financial account of 2023, assets in the form of portfolio investment posted the largest increase in 2024, while other investment

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

(per cent, percentage points)

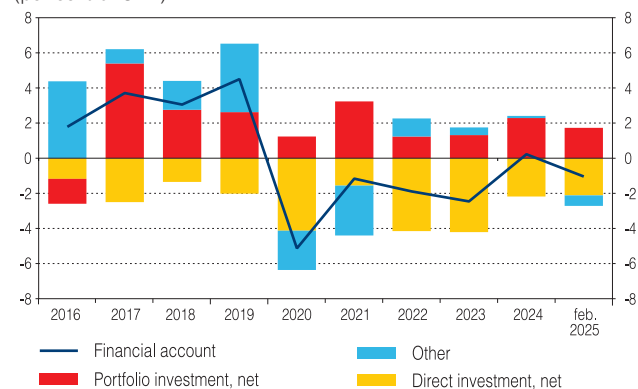


Notes: Quarterly data are used. The last observation is for the fourth quarter of 2024.

Source: BNB.

Financial Account Flow Dynamics and Contribution by Components

(per cent of GDP)



Notes: The Other item includes Other Investments, Net, and Financial Derivatives (Other than Reserves) and Employee Stock Options, Net. February 2025 data on financial account flows are accumulated for the last 12 months. Nominal GDP data for 2024 are used in calculating direct investment liabilities to GDP ratio for February 2025.

Sources: BNB, NSI, BNB calculations.

item in liabilities rose most. At the beginning of 2025, the amount of newly acquired foreign assets of Bulgarian residents was lower than that at the beginning of 2024, and therefore the cumulative financial account balance for the last 12 months as of February 2025 reported a deficit of 1.0 per cent of GDP, with a positive balance as of December 2024.

Foreign direct investment in Bulgaria¹² amounted to 61.0 per cent of GDP at the end of 2024 (against 64.2 per cent at end-2023). The inflow of attracted direct investment (liabilities) in Bulgaria declined by 37.4 per cent in 2024 compared with 2023, amounting to EUR 3.2 billion¹³. The flow decline was mostly in the form of unlisted equity shares of non-financial corporations in Bulgaria and reinvested earnings non-financial corporations. The sectors that attracted the largest share of foreign investment in 2024 were financial and insurance services, followed by wholesale and retail trade.

As a result of balance of payments movements and changes due to valuation adjustments and price revaluations, the amount of Bulgaria's international investment position fell to -3.7 per cent of GDP at the end of 2024 compared with -6.3 per cent of GDP at the end of 2023. These developments were mainly attributable to a combination of the decline in direct investment of non-residents as a percentage of GDP and the significant growth in the foreign assets of Bulgarian residents in the form of long-term debt securities. Nominal economic activity growth also contributed to the decline in international investment position to GDP ratio.

2.2. BNB International Reserves

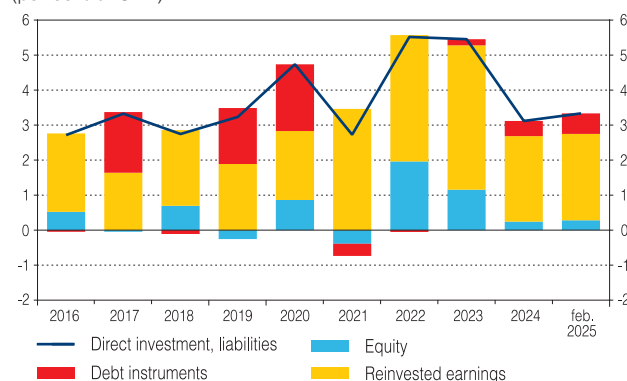
At the end of March 2025, the market value of Bulgaria's international reserves (including valuation adjustments and price revaluations) was EUR 39.4 billion (BGN 77.1 billion), an increase of EUR 1.0 billion (BGN 1.9 billion) on an annual basis. The amount of gross international reserves reflects the dynamics of financial flows generated in the process of external and internal economic factors interaction and corresponds to the BNB

¹² International investment position data are used.

¹³ Preliminary data subject to revision.

Direct Investment – Liabilities by Type of Investment

(per cent of GDP)



Notes: February 2025 data on direct investment liabilities flows are accumulated for the last 12 months.

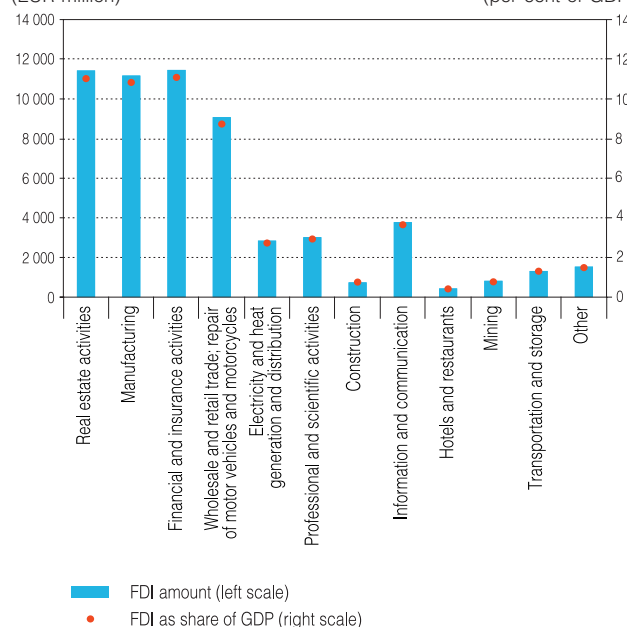
Nominal GDP data for 2024 are used in calculating direct investment liabilities to GDP ratio for February 2025.

Sources: BNB, NSI, BNB calculations.

FDI in Bulgaria by Sector of Economic Activity as of December 2024

(EUR million)

(per cent of GDP)



Sources: BNB, NSI, BNB calculations.

Issue Department balance sheet liabilities according to the currency board principles in Bulgaria.¹⁴ Banking Department deposit contributed most to the increase in Issue Department liabilities compared to March 2024 as a result of higher returns from international reserve management and gold price rises, while the rise in currency in circulation had a relatively lower contribution. Liabilities to government and budget organisations posted a decline on an annual basis, while liabilities to banks remained broadly unchanged. As of December 2024, the BNB international reserves amounted to 40.5 per cent of GDP (44.3 per cent of GDP at end-December 2023).

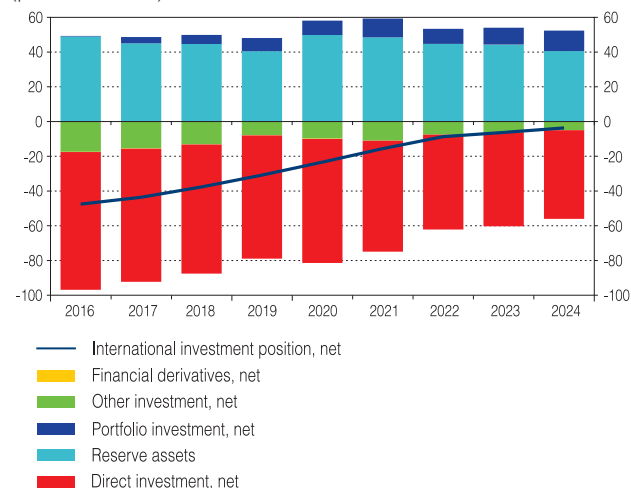
2.3. External Debt

As of February 2025, Bulgaria's gross external debt was EUR 47.9 billion (46.1 per cent of GDP), down EUR 1.3 billion from December 2024 and continued to decrease as a share of GDP. Lower external debt in nominal value was mostly in the form of short-term currency and deposits instruments in the banking sector, while debt levels of other sectors remained close to those of end-2024. As of February 2025 the share of long-term debt in total gross external debt rose to 82.1 per cent from 80.3 per cent in December 2024.

¹⁴ 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.

Bulgaria's International investment position

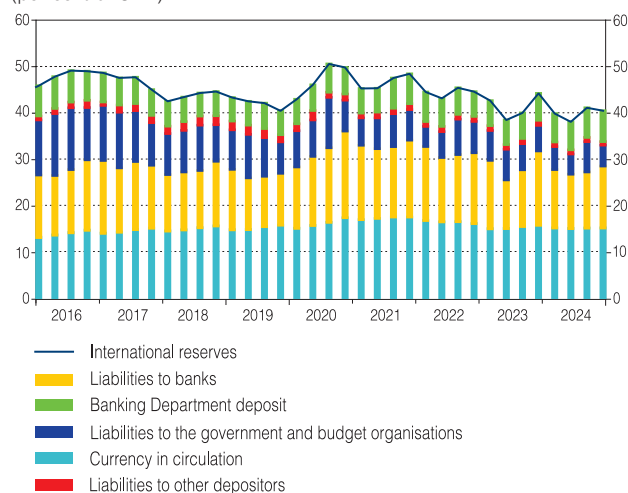
(per cent of GDP)



Sources: BNB, NSI, BNB calculations.

Liabilities Structure of the BNB Issue Department Balance Sheet

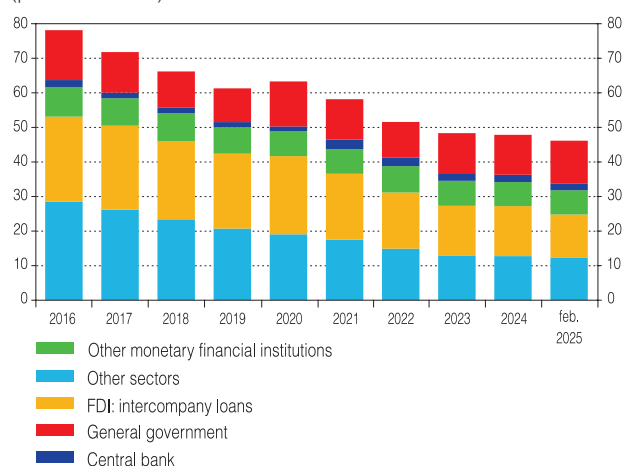
(per cent of GDP)



Sources: BNB, NSI, BNB calculations.

Gross External Debt

(per cent of GDP)



Note: Nominal GDP for 2024 is used in calculating gross external debt to GDP ratio for February 2025.

Sources: BNB, NSI, BNB calculations.

3. MONEY AND CREDIT

3.1. Monetary and Credit Aggregates

Deposits of the Non-government Sector

Over the first three months of 2025, the annual growth of non-government sector's deposits¹⁵ in the banking system remained relatively high, amounting to 10.5 per cent at the end of March (10.1 per cent at end-2024). The slight upward dynamics contributed to the accelerated growth of non-financial corporations' deposits, reaching 8.0 per cent (7.0 per cent in December 2024). In the first quarter of 2025, household deposits remained the main contributor to total non-government sector's deposit growth on an annual basis, with annual growth close to that at the end of the previous year amounting to 11.4 per cent.

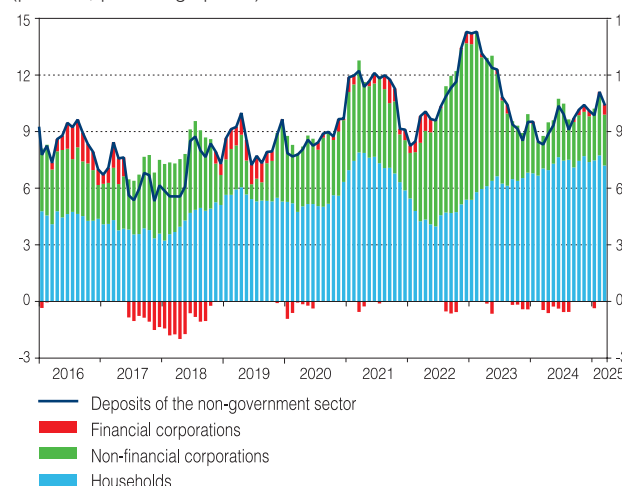
Rising labour income and households' persistent preferences to maintain some of their free funds mainly in the form of deposits in the banking system continued to support growth in household deposits. Overnight deposits remained the main contributor to increased household deposits, while the contribution of deposits with an agreed maturity remained significantly lower as a result of sustained low interest rates on new time deposits. As regards the currency structure of deposits, between January and March 2025 households retained their preferences for saving primarily in national currency. At the same time, the share of their foreign currency deposits, almost entirely in euro, increased somewhat from the beginning of the fourth quarter of 2024.

Data on non-financial corporations' deposits by economic sector show that wholesale and retail trade, repair of motor vehicles and motorcycles had the largest contribution to total growth in corporate deposits at the end of the fourth quarter of 2024. Over the period January–March 2025, the

¹⁵ 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 (97.3 per cent on average for the last 12 months as of March 2025), and therefore, the analysis is focused on these two sectors.

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

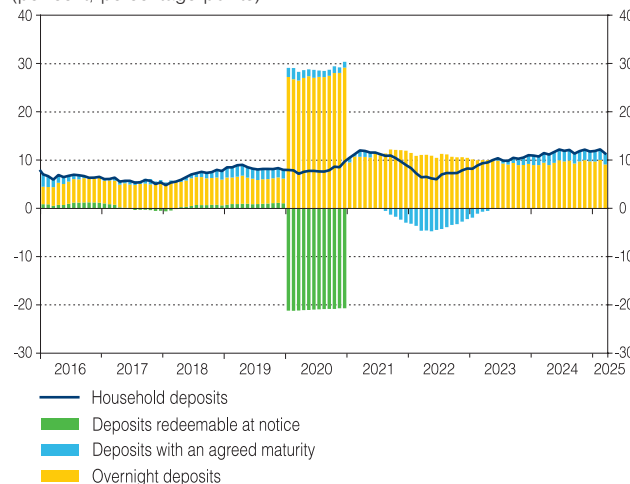
(per cent, percentage points)



Source: BNB.

Annual Growth of Household Deposits and Contribution by Deposit Type

(per cent, percentage points)

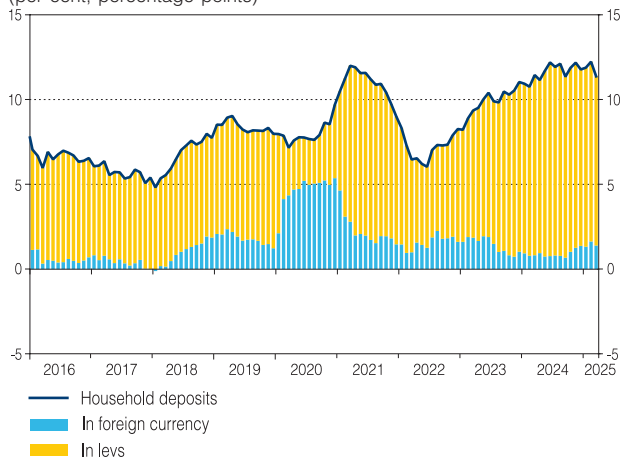


Note: In view of the analysis of the banking products and in line with the methodological requirements, transferable savings deposits have been reclassified from the Deposits redeemable at notice of up to three months indicator to the Overnight deposits of the household sector indicator with the January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

Source: BNB.

Annual Growth of Household Deposits and Contribution by Currency

(per cent, percentage points)



Source: BNB.

contribution of overnight deposits to total deposit growth in the non-financial corporations sector increased slightly, while that of deposits with an agreed maturity remained close to that reported at the end of 2024. These developments may reflect the downward trend in interest rates on new time deposits of firms as observed since 2024 and continuing at the beginning of 2025. As regards the currency structure of non-financial corporations' deposits, a trend towards a gradual increase in the share of foreign currency deposits (almost entirely in euro) was observed. At the same time, foreign exchange trade of commercial banks with corporations shows growth in net sales of euro since 2024, possibly reflecting the increased preferences of firms to maintain euro savings in banks.

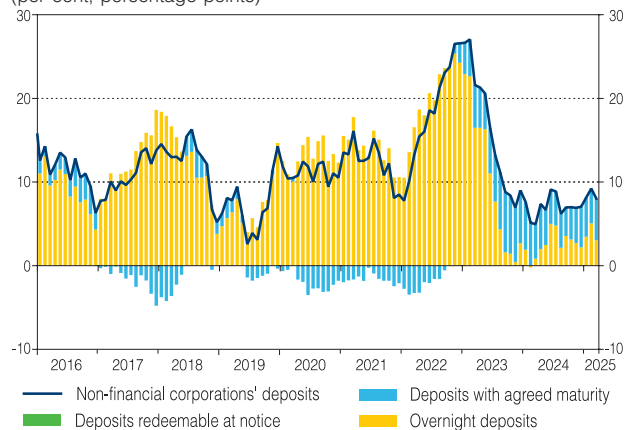
In the first three months of 2025, the annual growth of broad monetary aggregate M3 remained comparatively high, accounting for 8.9 per cent on an annual basis in March, from 8.7 per cent at the end of 2024. Overnight deposits continued to have the largest contribution to M3 growth, while the contribution of deposits with an agreed maturity of up to two years remained significantly lower.

Reserve Money

In March 2025, annual growth of reserve money was 2.2 per cent (-1.6 per cent by end-December 2024), with currency in circulation almost entirely contributing to it. Between January and March 2025, the contribution of bank reserves to the annual growth of the reserve base remained close to zero, as the increase in minimum reserve requirements and banks' funds in the TARGET-

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

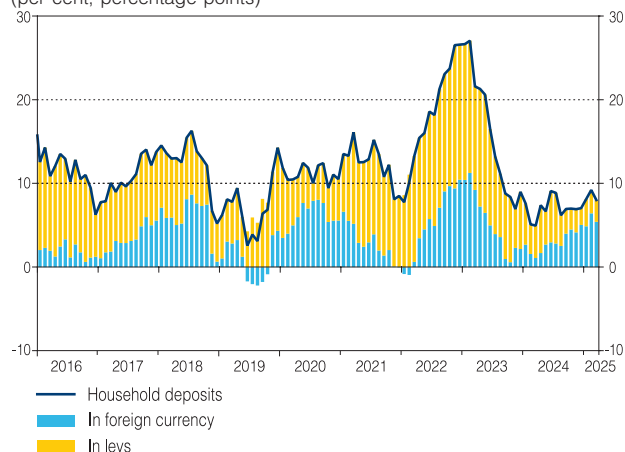
(per cent, percentage points)



Source: BNB.

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

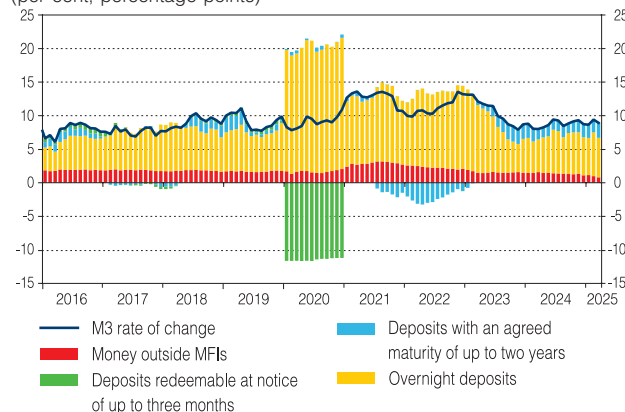
(per cent, percentage points)



Source: BNB.

Annual Rate of Change in M3 and Contribution by Component

(per cent, percentage points)



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

Source: BNB.

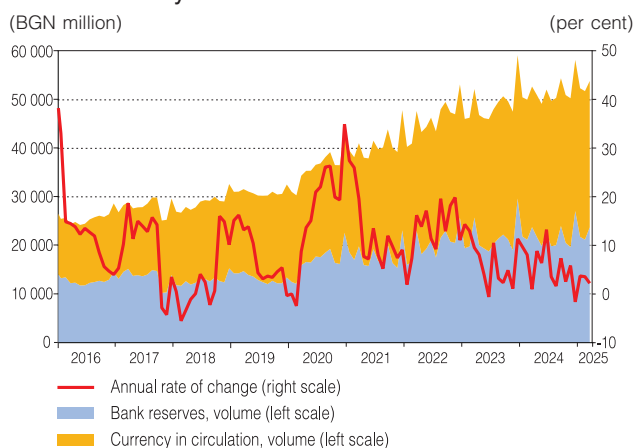
BNB system was offset by a reduction in banks' excess reserves.

Over the first quarter of 2025, banks' deposits with the BNB decreased from the end of 2024 as a result of a decline in excess reserves and banks' funds in the TARGET-BNB system after generally higher levels at the end of each calendar year, where a significant increase was reported, particularly in excess reserves. In March 2025, excess funds over the required minimum of reserve assets under Ordinance No 21 was 2.2 per cent of minimum required reserves (MRR) on an average daily basis, from 3.0 per cent of MRR in December 2024. At the same time, minimum required reserves continued growing driven by rising deposit base. In March 2025, the effective implicit ratio of the MRR was 11.74 per cent (11.77 per cent in December 2024) as bank deposits with the BNB comprised 10.91 percentage points in minimum required reserves, and the remaining 0.84 percentage points were in the form of recognised cash balances.

In the first quarter of 2025, the annual growth of currency in circulation continued to follow a slowing trend, coming to 4.2 per cent at end-March (5.5 per cent in December 2024). The downward dynamics of currency in circulation may reflect lower households' propensity for cash payments, as card payments data point to continued high rates of increase in card transactions in the first quarter of 2025. Another potential factor for slowing growth in currency in circulation is related to the prospect of Bulgaria joining the euro area and a possible increase in the propensity of some households to convert in advance existing savings in currency.

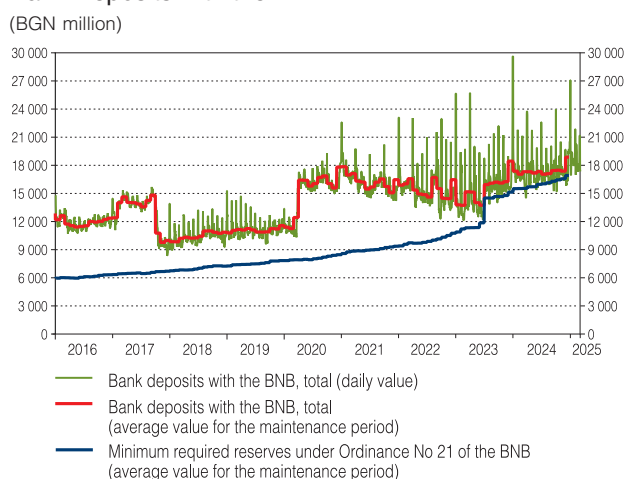
Reserve currency (euro) trading with the BNB is the main lev liquidity management instrument of banks under currency board arrangements. Over the period covering the last twelve months as of March 2025, BNB sales (net) to banks amounted to EUR 5.1 billion. The significant increase in net currency sales by the BNB to banks in the period from the beginning of 2024 largely reflects currency demand (mainly euro) by clients – natural and legal persons. The bulk of net currency sales by commercial banks to clients has been targeted to businesses, amounting to EUR 6.0 billion in the last 12 months as of March 2025. At the same time, in the second half of 2024, and especially in the first quarter of 2025, natural persons were also a net buyer of currency from banks, and in

Reserve Money



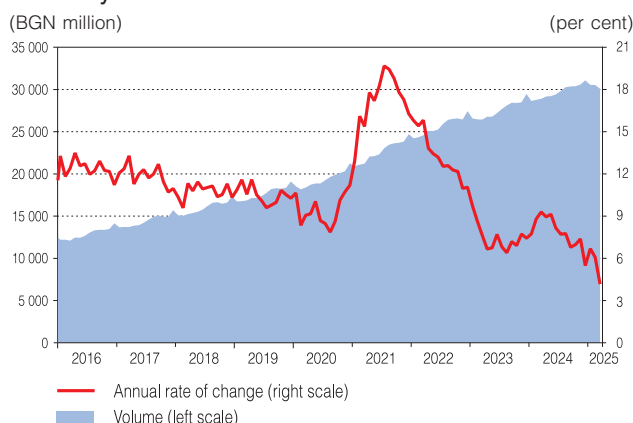
Source: BNB.

Bank Deposits with the BNB



Source: BNB.

Currency in Circulation



Source: BNB.

the last 12 months as of March this year they purchased net EUR 1.0 billion from banks. The increase in households' demand for reserve currency in recent months may reflect currency conversion of savings in advance in view of the prospect of Bulgaria joining the euro area.

Credit to the Non-government Sector

At the end of the first quarter of 2025, the annual growth rate of credit to non-financial corporations and households amounted to 15.0 per cent, remaining close to that reported in December 2024. The household sector continued to contribute more to total credit growth.

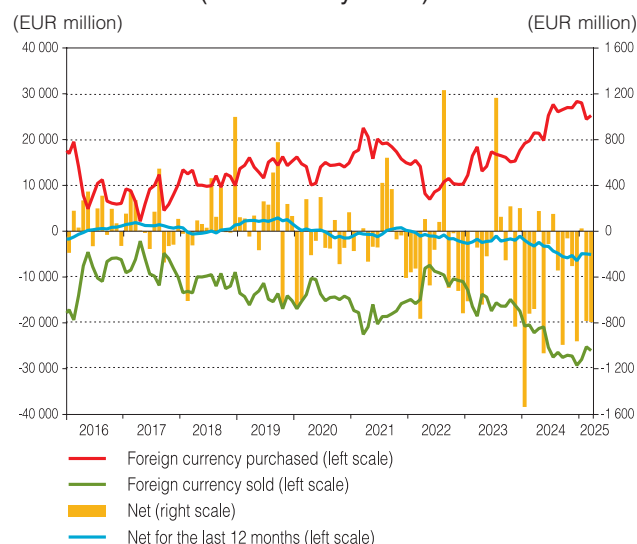
In the first quarter of 2025, the accelerated trend in annual growth of credit to households, which started in late 2023 and continued in 2024, came to a halt, retaining growth close to that at end-2024. Housing loans continued to have the largest contribution to the total growth of household credit, recording a 26.4 per cent increase on an annual basis at the end of March (26.3 per cent in December 2024). BNB's Bank Lending Survey results show a significant tightening of standards for housing loans in the fourth quarter of 2024, which may be linked to the BNB requirements for indicators of credit standards in extending and renegotiating loans secured by residential real estate, effective since the beginning of October 2024.¹⁶ Annual growth of consumer loans declined to 14.6 per cent in March 2025 (14.9 per cent in December 2024).¹⁷

The main factor behind household demand for loans continued to be growing labour income and low interest rates on housing loans. BNB's quarterly Bank Lending Survey indicate that in the fourth quarter of 2024 household needs of funds for purchasing first home were the main drivers

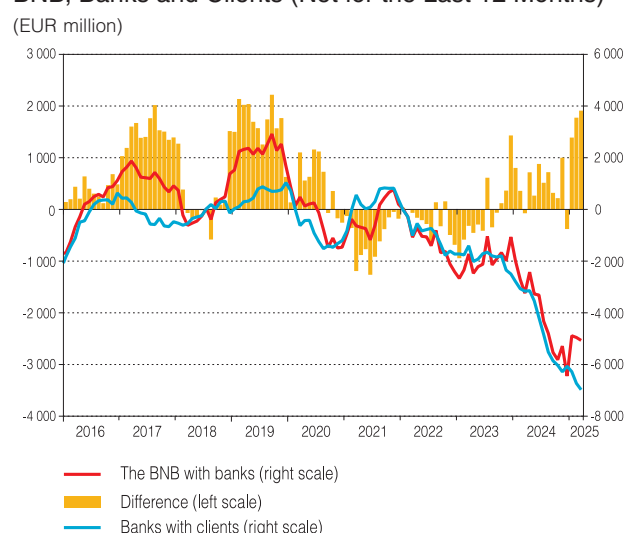
¹⁶ In the course of the assessment of lending collateralised by residential real estate, which indicates a potential build-up of medium-term risks to the bank system, on 11 September 2024 the BNB Governing Council adopted requirements on indicators of credit standards in extending and renegotiating loans collateralised by residential real estate. These requirements concern borrowers and aim at ensuring for prevention purposes the resilience of the banking system. For further information on the ongoing review of the dynamics and development of credit standards in lending to households collateralised by residential real estate property, see the BNB [press release](#) of March 2025:

¹⁷ Based on additional information received from reporting agents, data for the period October 2023 to November 2024, consisting of the reclassification of a certain volume of consumer loans into housing loans, were revised in April 2025. As a result of the reclassification that has taken place, annual changes in the respective loan types over that period have also been revised.

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



Foreign Currency Sales and Purchases between the BNB, Banks and Clients (Net for the Last 12 Months)



of increased demand for housing loans. At the same time, the higher demand for consumer loans was boosted most by the demand for financial resources for purchasing durable goods and current consumption goods. On the supply side, lending activity in the household sector continued to be supported by banks' high liquidity, banks' sound capital position as well as strong competition between them for market share in housing and consumer lending segments. As a result of these factors, interest rates on new housing loans remained at historically very low levels in the first three months of 2025, continuing to support high lending activity. Strong growth in residential property prices in 2024 was a precondition for an increase in the volume of new housing loans, which also supported the growth of housing lending over the course of the year. Between January and March 2025 new consumer and housing loans rose in volumes compared to end-2024¹⁸, with consumer loans increasing slightly more significantly.

At the end of the first quarter of 2025, annual growth of credit to non-financial corporations was 9.9 per cent (10.1 per cent as of December 2024). Growth in corporate loans continued to be driven mainly by corporate overdrafts, which rose by 20.3 per cent on an annual basis in March. Annual growth in corporate loans excluding overdraft remained unchanged from the end of the previous year, reaching 4.3 per cent in March. According to the results of the Bank Lending Survey for the fourth quarter of 2024, the need for financial resources for working capital and inventories, as well as for investment purposes, was the leading factor behind the stronger demand for corporate loans and this trend in demand for loans by corporations may continue in the first quarter of 2025. New corporate loans volumes in January-March 2025 remained at levels close to their end-2024 levels.¹⁹

Bank Lending Survey

The weighted results of the Bank Lending Survey²⁰ in the fourth quarter of 2024 suggest tightening

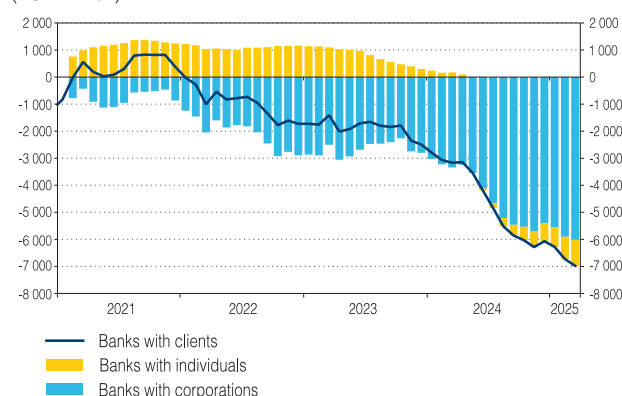
¹⁸ Based on 12-month moving average.

¹⁹ Based on 12-month moving average.

²⁰ Bank Lending Survey in Bulgaria is carried out by the BNB on a quarterly basis. Summarised results of the survey are presented through weighting bank responses by their market share in the relevant credit segment.

Foreign Currency Sales and Purchases between the Banks and Clients (Net for the Last 12 Months)

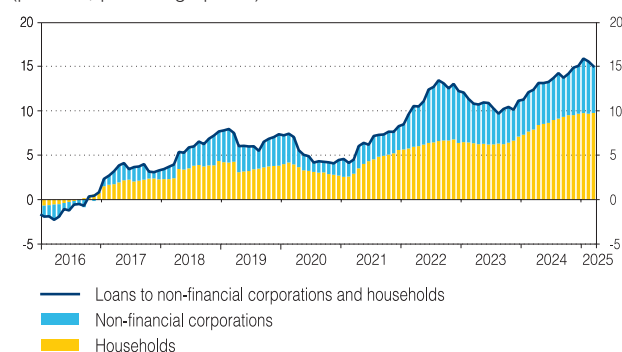
(EUR million)



Source: BNB.

Annual Growth of Credit to Non-financial Corporations and Households

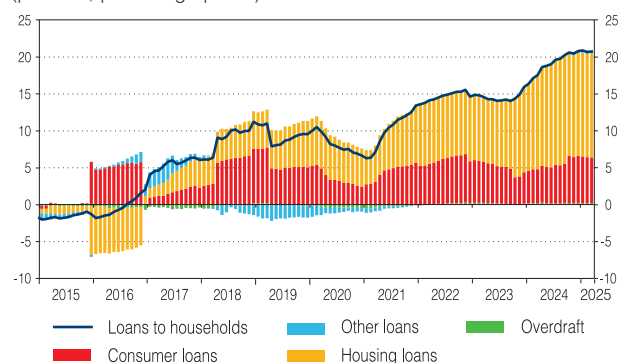
(per cent, percentage points)



Source: BNB.

Annual Growth of Household Credit and Contributions by Loan Type

(per cent, percentage points)



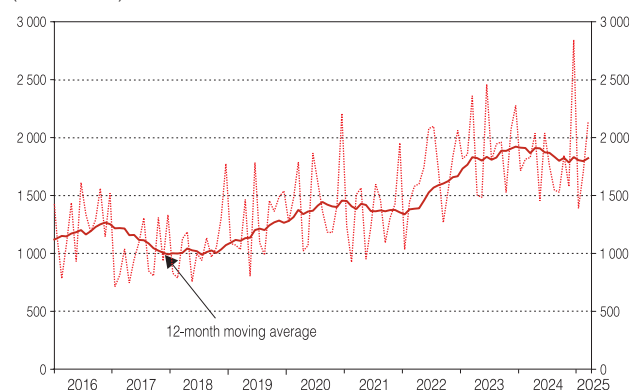
Note: Based on additional information received from reporting units, a revision of household loans was carried out according to their purpose of use in the period December 2015 – August 2019.

Source: BNB.

of standards²¹ for corporate loans, retention of broadly unchanged standards for consumer loans and significant tightening of standards for housing loans compared to July–September 2024. The likely reason for the strong tightening reported in housing credit standards was the BNB's macroprudential measures related to housing lending, which entered into force at the beginning of October 2024. The most significant tightening of housing loan conditions²² is reported in terms of collateral requirements and, to a lesser extent, the maximum duration of the credit. In the case of corporate loans, a slight tightening was observed in fees and commissions and the premium for riskier loans, while easing of conditions was reported in terms of collateral and interest rate spread requirements. Concurrently, in the case of consumer loans, banks reported easing mainly in terms of interest rates and fees and commissions. The primary driver behind banks' credit policy tightening (credit standards and conditions) in terms of loans to corporations was the cost of attracted funds, while in terms of consumer and housing loans, banks' lower risk appetite contributed most.

New Loans to Non-financial Corporations (Monthly Volumes)

(BGN million)



Note: Volumes of new loans to enterprises shown in the chart do not include overdrafts.

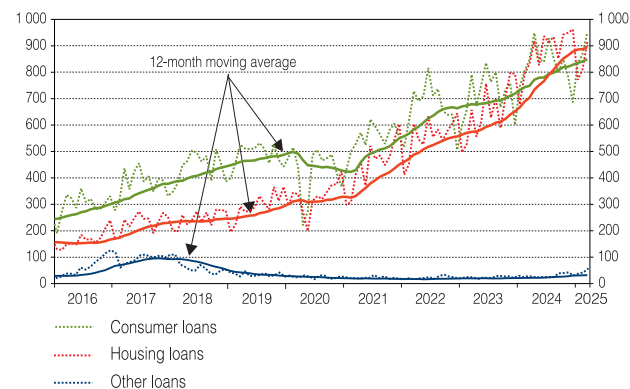
Source: BNB.

²¹ Credit standards are understood as internal bank guidelines or 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.

²² 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.

New Loans to Households (Monthly Volumes)

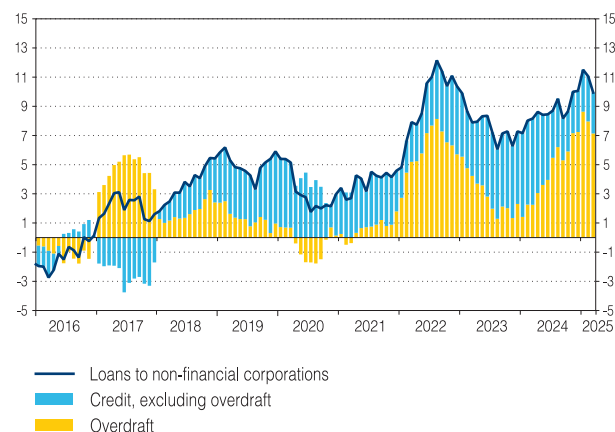
(BGN million)



Source: BNB.

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

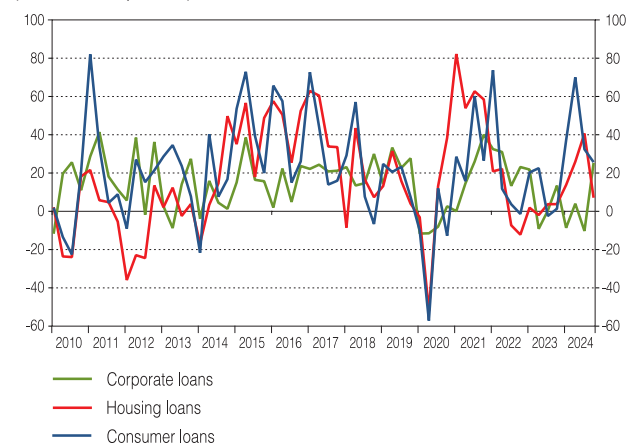
(per cent, percentage points)



Source: BNB.

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.

In the fourth quarter of 2024, banks reported an increase in demand for both corporate and consumer loans and housing loans compared with July-September 2024. The main factor that, according to banks, boosted demand for corporate loans was the increased need to provide bank resources for working capital and accumulation of inventories. Demand for financial resources for purchasing durable goods and current consumption goods contributed most to the increased demand for consumer loans, while households' needs for funds for purchasing first home contributed most to the higher demand for housing loans.

3.2. Interest Rates

Interbank Money Market Interest Rates

In the first quarter of 2025, trading volumes in the interbank money market remained at a relatively high level. The average daily volume of concluded lev unsecured overnight deposit transactions amounted to BGN 455 million in March 2025 (BGN 477 million in December 2024). Banks' raising of liquidity in the interbank money market amid very low levels of excess reserves with the BNB, on which the interest rate was 0 per cent, continued to be a likely factor behind the high levels of trading volumes. Another factor for the high trade levels was the possibility of interest rate arbitrage related to the generation of income by banks with parent banks in the euro area, given the continued positive spread between the interest rate on the ECB deposit facility and the interbank money market rate in Bulgaria.

The policy rate reductions since mid-June 2024, which marked the start of the euro area monetary policy easing cycle, were passed on relatively quickly to the interest rates on concluded lev unsecured overnight deposit transactions in the interbank money market in the context of the currency board in Bulgaria. In March 2025, the monthly value of LEONIA Plus was 2.39 per cent (2.95 per cent in December 2024), while the spread between LEONIA Plus and €STR remained negative at -11 basis points, unchanged from December 2024.

Interest Rates on Deposits

In the first quarter of 2025, the weighted average interest rate on new time deposits in the

Changes in Credit Standards

(balance of opinions)

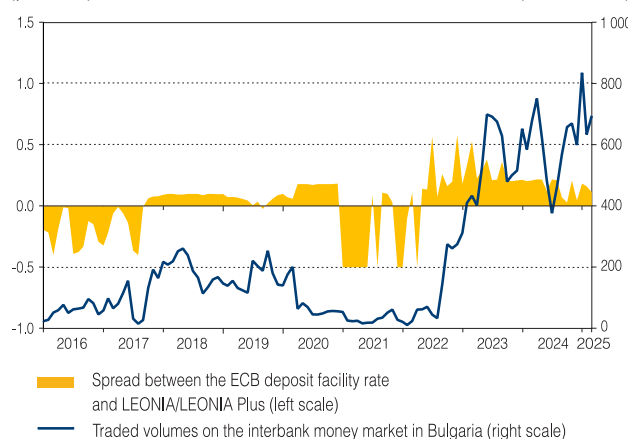


Source: BNB.

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

(per cent)

(million BGN)



Notes: The traded volumes are presented on an average daily basis. The share of overnight deposits in the total volume of money market transactions amounts to 72.8 per cent on average in the January-March 2025 period.

Sources: BNB, ECB.

household sector remained at relatively low levels, standing at 1.27 per cent in March (1.35 per cent as of December 2024). In an environment of ample banking system liquidity in Bulgaria, the transmission of ECB's monetary policy to household deposit interest rates remained weak in the downward phase of the euro area interest rate cycle, as it had been in the preceding upward phase of the interest rate cycle. A specific feature of the Bulgaria's banking system is that banks in Bulgaria are mainly financed by deposits of residents, while the interbank money market has only a supporting role in their financing. In early 2025, large commercial banks attracting the bulk of household deposits continued to keep interest rates on new time deposits close to 0 per cent. Concurrently, interest rates on new household time deposits offered by some smaller commercial banks decreased, with the number of banks that reduced interest rates being higher than in the last quarter of 2024.

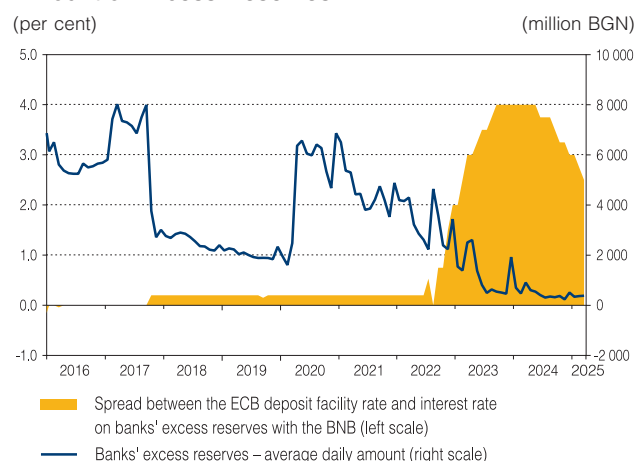
The weighted average rate on new time deposits of non-financial corporations was 1.96 per cent in March 2025 (2.13 per cent as of December 2024). The downward trend in the average weighted interest rate on new time deposits observed since the beginning of 2024 continued in the first quarter of 2025. The downward dynamics of new corporate deposit rates in euro was most pronounced, while deposits in levs and US dollars changed only marginally from the levels of December 2024. A potential factor behind the downward dynamics in the interest rates on new time deposits of corporations is banks' attempts to maintain interest margin amid falling interest rates on new corporate loans affected by falls in interest rates in the euro area. This reflected the linking of part of corporate interest rates to the reference indices in the euro area interbank market.

The weighted average interest rate on outstanding amounts of time deposits of households amounted to 0.53 per cent in March 2025 (0.48 per cent at the end of 2024). The weighted average interest rate on outstanding amounts of time deposits of corporations was 1.72 per cent (1.79 per cent in December 2024).

Interest Rates on Loans

At the beginning of 2025, the weighted average interest rate on new housing loans remained at

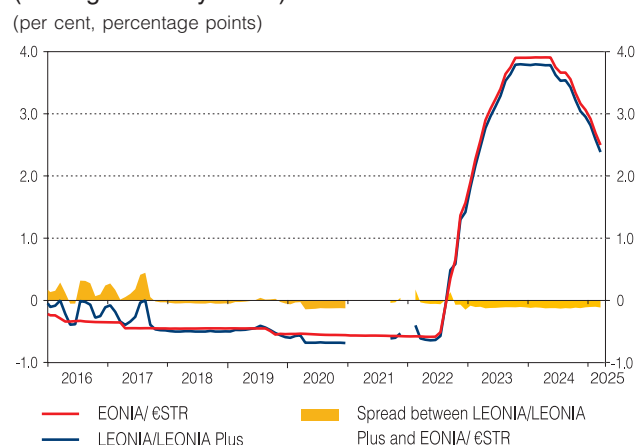
Spread between ECB Deposit Facility Rate and Interest Rate on Banks' Excess Reserves with the BNB and Amount of Excess Reserves



Notes: The BNB introduces a definition of excess reserves of banks on 4 January 2016 with the adoption of new Ordinance 21 on the Minimum Required Reserves Maintained with the Bulgarian National Bank by Banks. In the period until 4 January 2016 an interest rate of 0 per cent is 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)

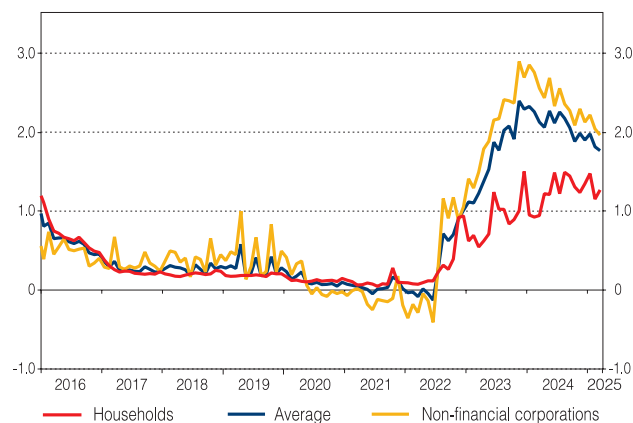


Notes: The EONIA/€STR series is composed of: EONIA between 2008 and 14 March 2017; pre-€STR between 15 March 2017 and 30 September 2019; €STR in the period after 30 September 2019. LEONIA Plus replaced LEONIA on 1 July 2017. LEONIA Plus monthly values are calculated as an arithmetic average for days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

Sources: BNB, ECB.

Interest Rates on New Time Deposits by Sector

(per cent)



Notes: The average interest rate is calculated from the interest rates 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.

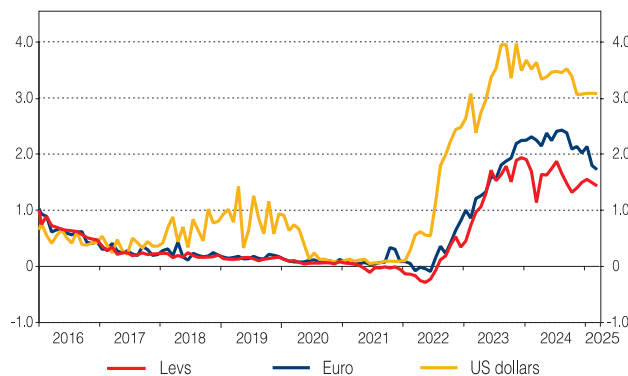
historically very low levels. Both in the upward phase of the euro area interest rate cycle, and in the current downward phase, the transmission of the ECB's monetary policy to interest rates on housing loans in Bulgaria remained very limited. Ample liquidity in the banking system, sound capital position of banks and competition between them for market shares in the housing loan segment were some of the main factors behind the very limited transmission of monetary policy in the euro area. Interest rates on new consumer loans recorded a slight downward trend since mid-2024. Loans to households in Bulgaria are almost entirely denominated in levs, and interest rates on them are formed by most large banks based on selected interest rates on outstanding balances of household time deposits, which remain at very low levels. As a result, the transmission of monetary policy in the euro area to interest rates on loans to households in Bulgaria was significantly lower than that to the interest rates on loans to corporations, where the bulk of the loans are denominated in euro.

In the first three months of 2025, the annual percentage rate of charge (APRC) and the interest rate on new consumer loans recorded a decrease to 9.27 per cent and 8.90 per cent respectively (10.63 per cent and 9.98 per cent in December 2024).²³ New loans for house purchase did not

²³ Thus indicated values of interest rates and APRC on new loans to households and non-financial corporations in this and the next paragraph are shown on a monthly basis.

Interest Rates on New Time Deposits by Currency

(per cent)

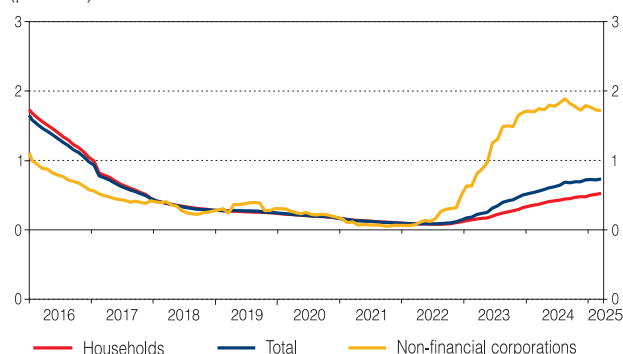


Notes: The average interest rates by currency are based on rates for all sectors and maturities weighted by relevant volumes of new deposits.

Source: BNB.

Interest Rates on Outstanding Amounts of Time Deposits

(per cent)

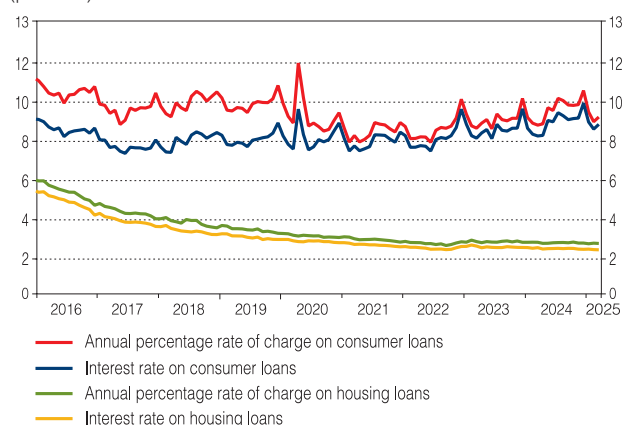


Note: Average interest rates on outstanding amounts of time deposits are calculated from the interest rates for all currencies and maturities (current accounts and overnight deposits are not included) weighted by the relevant volumes of new deposits for the relevant sector.

Source: BNB.

Interest Rates and APRC on New Household Loans

(per cent)



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.

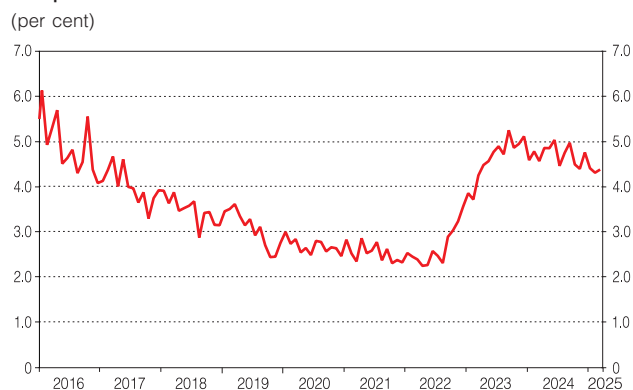
show a significant change in the APRC and in the interest rate compared to the prior year: 2.80 per cent and 2.48 per cent, respectively, in March (2.82 per cent and 2.50 per cent by December 2024).

In the non-financial corporations' sector, the average weighted interest rate on new loans decreased by 38 basis points to 4.38 per cent in March 2025 (4.76 per cent at the end of 2024). By currency, a more significant decline was reported in loans in dollars and levs (by 155 and 41 basis points, respectively), while euro-denominated loans recorded a decline of 20 basis points compared to December 2024. Taking into account some volatility in interest rates on new corporate loans between mid-2024 and the end of the first quarter of 2025, it may be noted that interest rates on euro-denominated loans declined most by 110 basis points, reflecting the stronger transmission from ECB monetary policy to new corporate lending rates in euro.

Government Securities Yields

At the end of the first quarter of 2025, the calculated benchmark yield curve of Bulgarian Eurobonds issued and traded in international capital markets posted a decline in bond yields with a residual maturity of less than five years and an increase in the other maturity sectors compared with the end of December 2024. By end-March 2025, spreads between the yields on Bulgarian and German euro-denominated government bonds narrowed compared to the end of December 2024 for all government bonds, with the decline being most pronounced for the bonds maturing in 2030 and 2044 (by 28 and 27 basis points, respectively). The narrowing of spreads resulted from the increase in German government bond yields with a residual maturity of up to five years amid a simultaneous decrease in the yields on Bulgaria's government securities and the lower increase in Bulgarian government bond yields with a residual maturity over five years compared to that of German government bonds. The narrowing of spreads was likely influenced by the following factors, such as the formation of a regular government in Bulgaria in early 2025 and its announced priority to join the euro area, followed by a request for extraordinary convergence reports to be prepared by the European Commission and the European Central Bank.

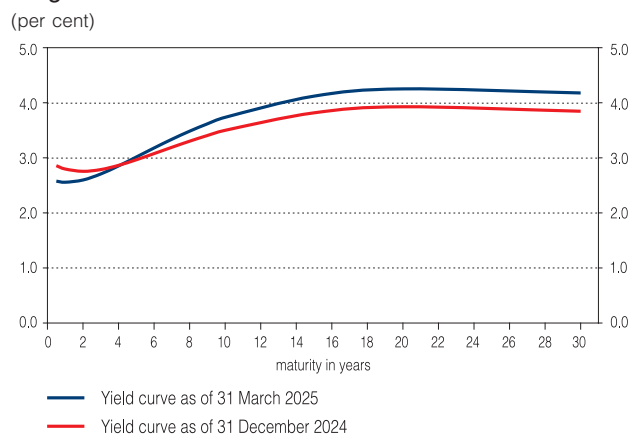
Interest Rate on New Loans to Non-financial Corporations



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

Source: BNB.

Bulgarian Government Bond Yield Curve

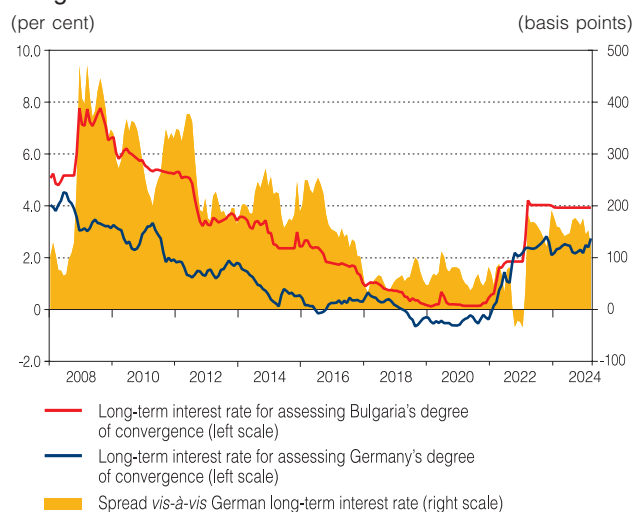


Notes: The reference yield curve of Bulgarian government bonds is constructed on the basis of an extended version of the Nelson-Siegel-Svensson model (1994).

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.

In March 2025, the long-term interest rate for assessing Bulgaria's degree of convergence was 3.93 per cent, remaining unchanged in the period since February 2024.²⁴ At the same time, in March 2025 the spread *vis-à-vis* Germany's long-term interest rate stood at 119 basis points.

²⁴ Daily data indicate that the long-term interest rate remained unchanged from 10 January 2024 to the end of March 2025 at 3.93 per cent, which is most likely due to the lack of transactions in Bulgarian benchmark bond in the secondary government securities market over this period. For calculating the long-term interest rate for assessing the degree of convergence, see [methodological notes](#) on the BNB website.

4. ECONOMIC ACTIVITY

4.1. Current Economic Environment

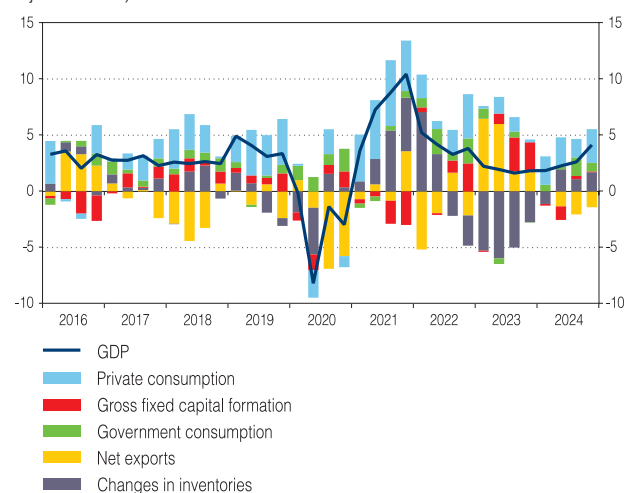
Gross Domestic Product

Based on NSI's seasonally adjusted data, real GDP increased in the fourth quarter of 2024 by 0.9 per cent compared to the previous quarter. Year-on-year growth in economic activity accelerated significantly to 4.1 per cent²⁵ (from 2.6 per cent in the previous quarter). By final consumption expenditure component, final consumption and changes in inventories had the largest contribution to the annual growth of real GDP in the fourth quarter of 2024, while net exports contributed negatively. As a result, economic activity increased by 2.8 per cent in real terms for 2024, supported by the growth in employment and labour income in real terms, as well as by the high lending activity and negative interest rates on household deposits in real terms, which contributed to a comparatively high households' propensity to consume. Fiscal policy continued to exert a pro-cyclical effect and stimulated domestic demand mainly through increases in social payments and compensation of employees in the public sector. The external environment had a limiting effect on real GDP growth in 2024, given subdued economic activity in Bulgaria's main trading partners, which, in addition to emerging country-specific factors related to the weaker agricultural harvest, constrained export growth.

In the fourth quarter of 2024, private consumption rose by 5.1 per cent year on year in real terms (compared to 2.9 per cent in the previous quarter), supported by the growth in employment and labour income, as well as by fiscal transfers to households.

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

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



Sources: NSI, BNB calculations.

²⁵ According to non-seasonally adjusted NSI data.

Data from non-financial accounts of the general government sector indicate that government consumption posted a fall on an annual basis in the fourth quarter of 2024 (-1.3 per cent in nominal terms), mainly reflecting a decline in intermediate consumption expenditure²⁶.

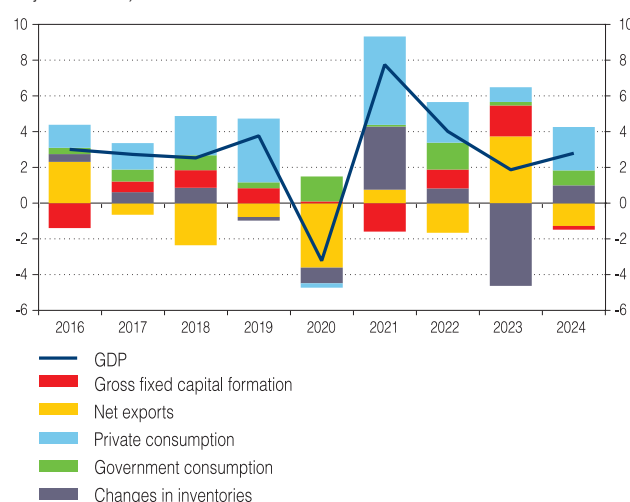
In the fourth quarter of 2024, fixed capital investments remained at the level of the last quarter of 2023, falling 1.1 per cent in real terms for the year. According to BNB estimates²⁷, this fall was due to government investments²⁸, while private investments contributed positively.

Net exports continued to have a negative contribution to the annual growth of real GDP in the fourth quarter of 2024, driven by the fall in exported goods and services coupled with growth in imports of goods and services.²⁹ The reported exports decline of 1.6 per cent was entirely due to the services component, while exports of goods went up slightly from the corresponding quarter of the previous year. Imports of goods posted 3.0 per cent growth in real terms on an annual basis, in line with growing household consumption and accumulation of stocks of commodities, raw materials and finished products in the economy.

Gross value added in Bulgaria increased by 0.9 per cent in real terms compared to the previous quarter³⁰, while growth on an annual basis was 3.3 per cent, according to non-seasonally adjusted data. In industry, gross value added rose by 1.4 per cent on an annual basis, mainly driven by construction and, to a lesser extent

Contribution to Real GDP Growth by Final Use Component (by Year)

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



Sources: NSI, BNB calculations.

²⁶ The NSI published actual data from general government non-financial accounts on 22 April 2025 and they are likely to be reflected in the System of National Accounts at a later stage. Currently available national accounts data published on 7 March 2025 are preliminary, indicating that in the fourth quarter of 2024 government consumption increased year on year (by 3.7 per cent in nominal terms and 3.5 per cent in real terms).

²⁷ The NSI does not provide official data on the breakdown of total investments into private and public. The series on private investments is constructed by the BNB as a difference between total investments and the estimated amount of public investments on an accrual basis in real terms. The public investment estimate is based on data from quarterly non-financial accounts of the general government sector published by the NSI.

²⁸ For details on public investment dynamics, see Fiscal Policy Effects on the Economy Section in this Chapter.

²⁹ For details, see the Balance of Payments and External Trade Section in Chapter 2: External Financial Flows.

³⁰ NSI seasonally adjusted data.

by manufacturing³¹. Annual value added in services grew by 3.5 per cent in the fourth quarter of 2024, with all sub-sectors contributing to this effect. Value added in agriculture decreased by 7.4 per cent on an annual basis, which is probably related to the weaker agricultural harvest³² in 2024 compared to the previous year.

Cyclical Position of the Bulgarian Economy

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

Short-term indicators of economic activity gave mixed signals of quarterly growth of real GDP in the first quarter of 2025.³³ Firms and households' sentiment measured by indicators from the NSI business climate and consumer confidence surveys remained above their long-term averages. However, at the beginning of the year there was a slight deterioration in firms' assessments of the current and future business situation in Bulgaria, as well as an increase in the share of households expecting a deterioration in the domestic economic situation and their financial position. At the same time, indicators tracking firms' current production activity (the industrial production index, the level of production in services³⁴ and

³¹ Value added indicators in industry (in real terms) and the industrial production index often experience similar dynamics and informative value on economic activity developments in the industrial sub-sector. In the fourth quarter of 2024, however, the industrial production index recorded a decline on an annual basis, while value added increased, driven by certain sub-sectors. This difference is probably due to methodological specificities. Other indicators, such as an economic situation and employment survey, suggest a deterioration of economic activity in this sector over the fourth quarter of 2024.

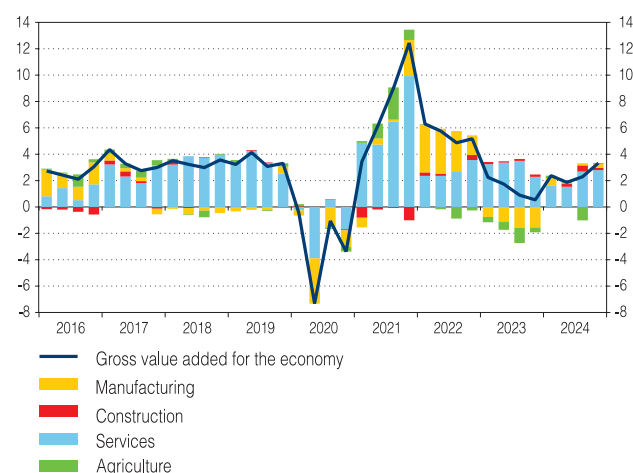
³² According to the [second NSI estimate](#) on final output in agriculture for 2024, the production volume of the agricultural sector decreased by 3.4 per cent, while prices reported a fall of 5.1 per cent.

³³ Data on the services production index are available as of January 2025, while industrial production and retail trade indices are available as of February 2025.

³⁴ Eurostat seasonally adjusted data.

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

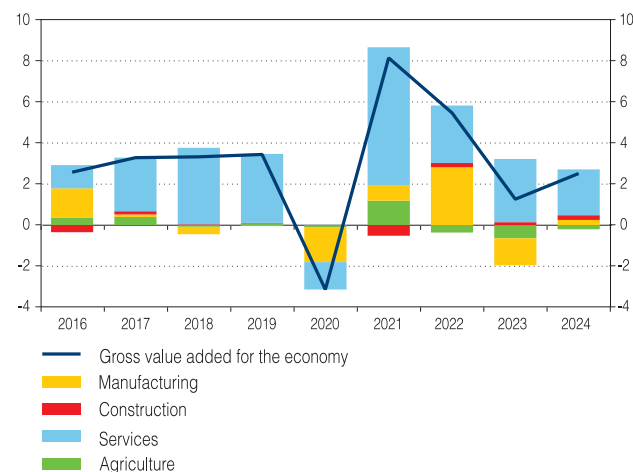
(per cent; percentage points; on an annual basis; non-seasonally adjusted data)



Sources: NSI, BNB calculations.

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

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



Sources: NSI, BNB calculations.

retail trade turnover³⁵) were positioned close to or below their long-term averages. NSI's business climate surveys suggest that in the first quarter of 2025 the uncertain economic environment, commodity prices and insufficient demand and labour shortages remained the main constraints for firms in industry. The indicator of differences in economic agents' assessments about the expectations of economic activity in the short term, calculated by the BNB, declined in the first quarter of 2025 as a result of convergence of firms' assessments.

Economic Activity Expectations

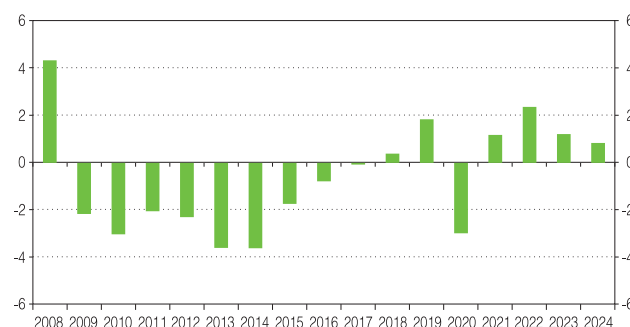
The composite economic activity indicator constructed by the BNB signals that real GDP growth in the first quarter of 2025 will slow down from the previous quarter on both quarterly and annual basis. Quarterly growth of the composite indicator over the quarter³⁶ was mainly driven by employment growth in the fourth quarter of the year, increased credit activity for households and corporations, and positioning of the global PMI above the neutral 50 point limit. On the other hand, lower quarterly growth of the composite indicator was mainly due to the data on the fall in retail trade and industrial production turnover in January–February 2025 compared with the fourth quarter of 2024, and the deterioration in the consumer confidence index.

Real GDP growth in the second and third quarters of 2025 will be mainly supported by private consumption. Government consumption and investments are also expected to contribute positively. Net exports are expected to continue having a negative contribution, given the uncertainty about the prospects for external demand for Bulgarian goods and services, which combined with planned repairs in large enterprises in industry would limit real exports of goods.

³⁵ The first quarter of 2025 saw a deterioration in retail trade turnover compared to the previous quarter. However, after the standardisation and application of the HP filter (with a parameter $\lambda = 10$) to eliminate short-term data fluctuations, the transformed series shows a continued improvement in this indicator.

³⁶ The services (not related to trade) production index is available as of January 2025, while production indices in industry, construction, retail trade turnover, producer prices in manufacturing, the registered unemployment rate and data on new loans to firms and households are available as of February 2025. Business climate, consumer confidence and global PMI indicators are available as of March 2025.

Deviations of Economic Activity from Potential Output (per cent, output gap)

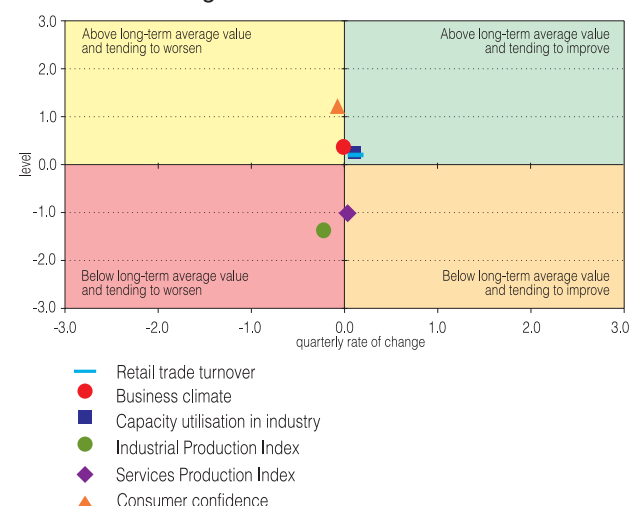


Notes: Results are obtained through the application of a multivariate model with unobserved components presented in the topical research on Methods for Estimating the Cyclical Position of the Economy, *Economic Review, issue 1 of 2019*.

The output gap is the deviation of the current level of economic activity from potential output measured as a percentage of potential output.

Sources: NSI, BNB calculations.

Cyclical Position of the Economy in the First Quarter of 2025 According to Selected Economic Indicators

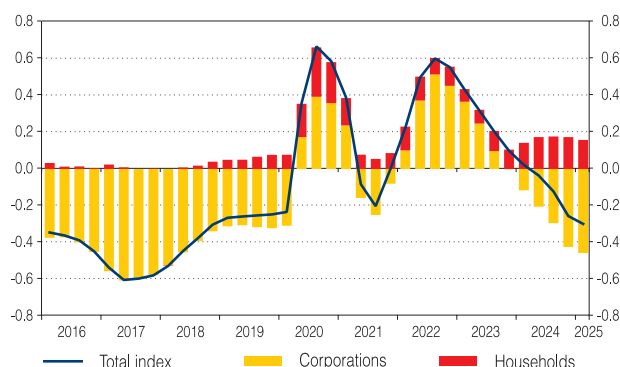


Notes: The chart compares the level (the vertical axis) and the quarterly change (the horizontal axis) of selected economic indicators. Data are averaged for the months available in the first quarter of 2025. Each series is transformed to stationary, and then a HP filter is applied to remove short-term fluctuations in data. Statistical series are standardised to improve their comparability, and constructed indicators are therefore 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.

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 *U1* indicator constructed in the paper.

Sources: EC, BNB calculations.

4.2. Labour Market

Labour Supply

In the fourth quarter of 2024, labour supply, measured by the labour force³⁷, declined by 0.1 per cent on an annual basis due to the outflow of persons from the labour force, while population aged 15+ continued to increase, according to NSI's Labour Force Survey data. According to Eurostat's experimental statistics³⁸, the rise in persons outside the labour force was due to the switch of part of active persons to inactivity. The number of inactive people increased by 0.3 per cent year on year, with persons who are not willing to work because of retirement or training contributing most to this increase. This dynamics resulted in a decrease in the labour force participation rate³⁹ for the 15+ group to 55.3 per cent

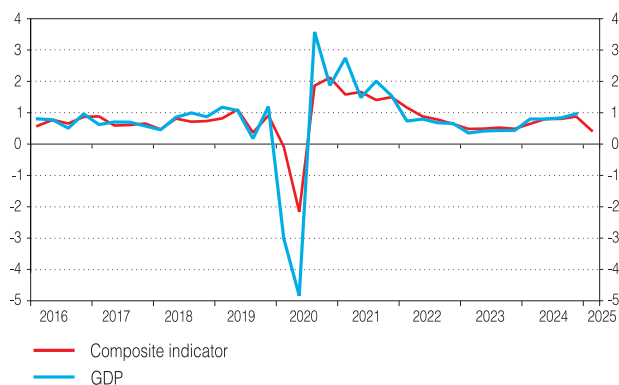
³⁷ Labour force includes employed and unemployed persons in the 15+ age group, according to NSI's Labour Force Survey data.

³⁸ Eurostat's experimental statistics is derived from Labour Force Survey data and identifies flows between employment, unemployment and labour market inactivity.

³⁹ The economic activity rate is the proportion between economically active persons (labour force) and the population of the same age. In early 2021, the NSI made changes to the LFS methodology and revised data on the basis of the 2021 census. These changes are not reflected in previous years and lead to a break in time series. Seasonally adjusted LFS data were affected by the break in the series in early 2021, and therefore non-seasonally adjusted data are analysed here.

Composite Economic Indicator of Economic Activity

(per cent, on a quarterly basis)



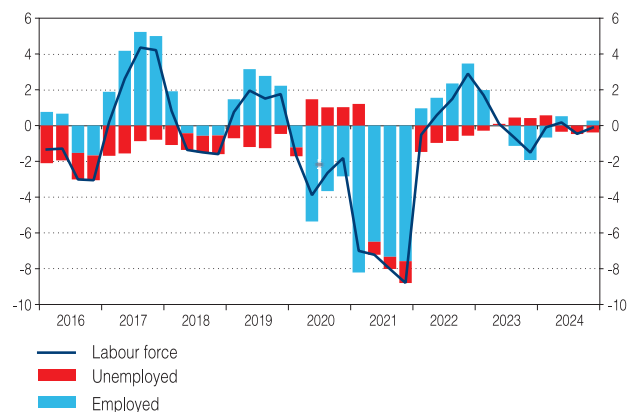
Notes: This indicator is constructed on the basis of a dynamic factor model whose purpose is to derive the total component in dynamics of various indicators with a monthly frequency.

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; business climate and consumer confidence indicators; producer price index in industry; new loans to corporations and households; global PMI.

Sources: NSI, Employment Agency, BNB calculations.

Contribution to the Change in Labour Force by Component

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

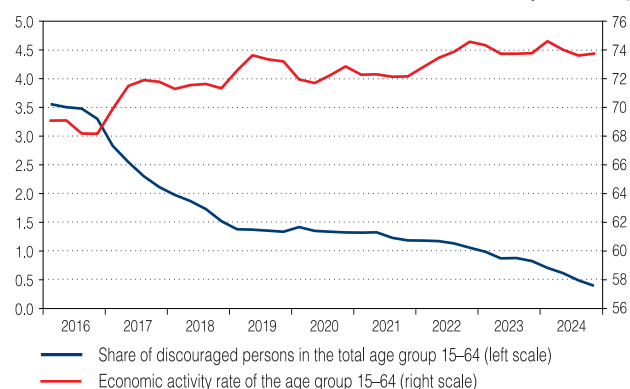


Notes: Data refer to the age group 15 and over. From the beginning of 2021, there is a break in series due to the use of 2021 population census data. Data prior to 2021 have not been revised, which was reflected in a year-on-year decline of labour force in 2021.

Sources: NSI – Labour Force Survey, BNB calculations.

Economic Activity and Share of Discouraged Persons

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



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

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

Sources: NSI – Labour Force Survey, BNB calculations.

in the fourth quarter of 2024, reaching 55.5 per cent on average for the year (55.3 per cent in 2023). Concurrently, the 15–64 age group recorded a slight increase in the economic activity rate to 74 per cent in 2024 (73.9 per cent in 2023).

In the fourth quarter of 2024, the labour force composition showed an increase in employed persons and a decrease in unemployed in line with the increase in real GDP. According to LFS' seasonally unadjusted data, unemployment⁴⁰ fell to 3.8 per cent in the fourth quarter of 2024, from 4.2 per cent in the same quarter of 2023. Employment Agency's seasonally adjusted data also indicate a lower quarter-on-quarter unemployment rate in the fourth quarter of 2024, and this dynamics continued in the first quarter of 2025.

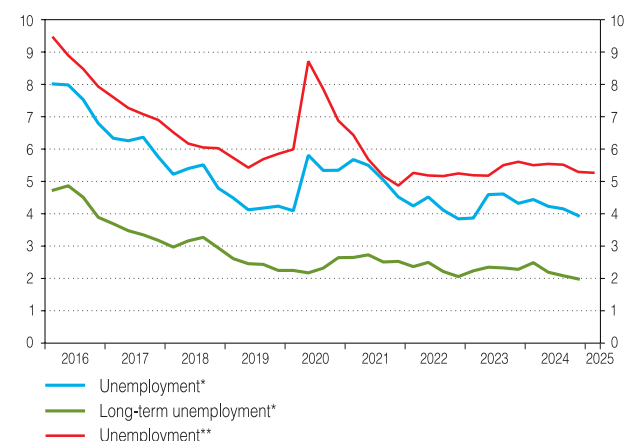
Labour Demand

In the fourth quarter of 2024, employment rose by 1.0 per cent on an annual basis according to national accounts data, with services contributing most to the reported growth, in particular trade, repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities. The number of persons employed in construction also increased, while that in industry and agriculture declined. Data on

⁴⁰ The unemployment rate is the proportion between the number of unemployed and the labour force for the age group 15 and older, based on Labour Force Survey data.

Unemployment Rate

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



* NSI data.

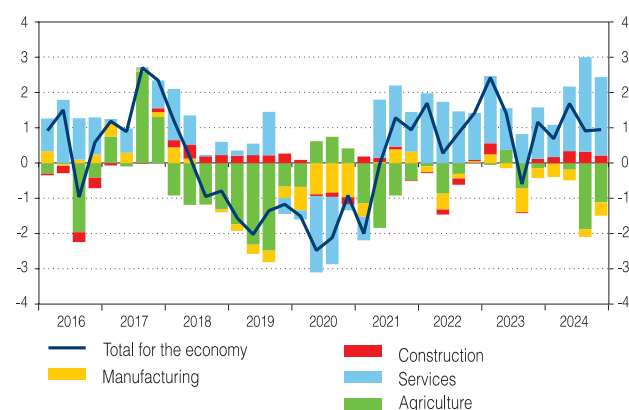
** Employment Agency data.

Notes: From the beginning of 2021, 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.

Contribution to Changes in the Number of Employed by Economic Sector

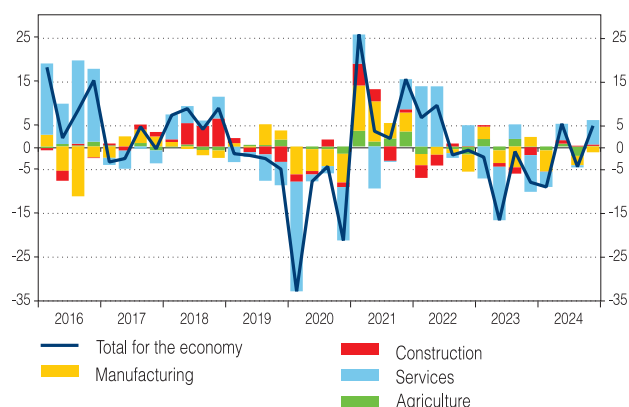
(per cent; percentage points; on an annual basis)



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

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.

job vacancies in the economy⁴¹ also suggest stronger labour demand, posting an increase of 4.7 per cent on an annual basis in the fourth quarter of 2024, mainly due to the services sector and in particular transport, storage and communication sub-sector. At the same time, job vacancies in industry continued to fall under the influence of the deteriorated external environment. At the same time, the share of firms identifying labour shortages as a factor hampering their business activity⁴² decreased slightly in the fourth quarter of 2024, due to a reduction in job shortages in services and industry, with developments in services being sustained at the beginning of 2025.

Productivity and Compensation per Employee

In the fourth quarter of 2024, real labour productivity growth⁴³ rose by 3.6 per cent on an annual basis, with all economic sectors contributing to this effect. Despite the stronger labour productivity rise, growth of compensation *per* employee in nominal terms decelerated to 4.0 per cent on an annual basis in the fourth quarter of 2024, from 11.6 per cent in the third quarter. Lower bonuses paid at the end of the year and decreased staff shortages in services and industry probably contributed to the slowdown. Concurrently,

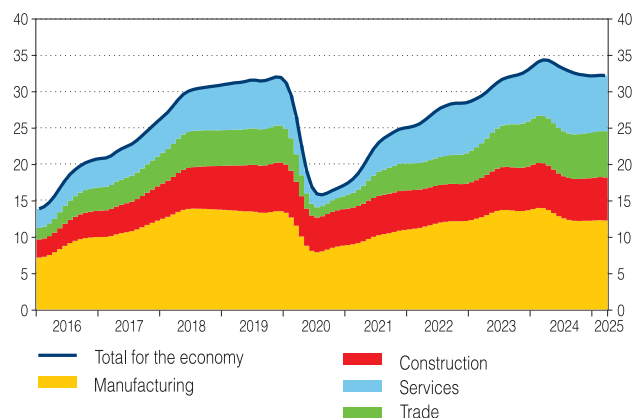
⁴¹ Based on NSI's short-term statistics of employment and labour costs.

⁴² According to NSI's business situation survey data.

⁴³ Labour productivity is calculated after removing imputed rent from gross value added.

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

(per cent; proportion of firms)

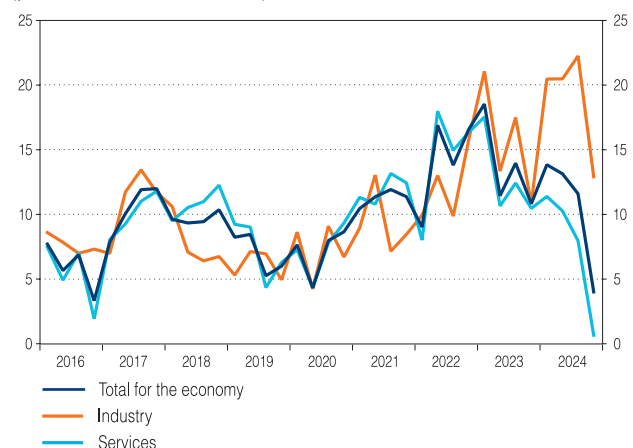


Note: Data up to March 2025 inclusive are used.

Sources: NSI, BNB calculations.

Compensation *per* Employee at Current Prices

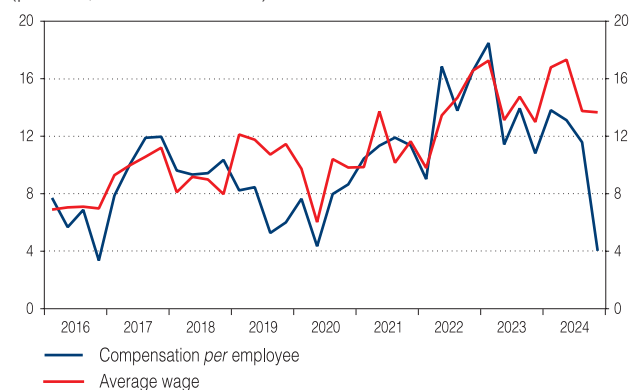
(per cent; on an annual basis)



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.

lower growth in compensation *per* employee on national accounts did not correspond to the growth of the average monthly gross wage (13.7 per cent), according to NSI's short-term statistics on employment and labour costs, which recorded high wage growth in both private (14.2 per cent) and public (12.0 per cent) sectors. Wage increases remained high, based also on household budget survey data, and reached 16.5 per cent. Higher labour demand also does not imply such a slowdown in wage growth.

Compensation *per* employee in real terms⁴⁴ rose by 1.9 per cent on an annual basis in the fourth quarter of 2024 (9.1 per cent in the third quarter) as a result of the growth in industry (10.6 per cent) and agriculture (10.7 per cent), while services reported a 1.3 per cent decline on an annual basis.

4.3. Behaviour of Firms

In the fourth quarter of 2024, an upward trend in firms' nominal unit labour costs continued to be observed on an annual basis. There are indications that price pressures in the economy remain elevated, mainly due to factors related to the domestic economic environment and, to a lesser extent, to the growth in import prices of raw and other materials. Despite the slowing labour costs growth and given the strong consumer demand, firms' pricing policy was oriented towards full pass-through of higher production costs to final prices and an increase in profit margins on an annual basis in the fourth quarter of 2024.

Labour Costs of Firms

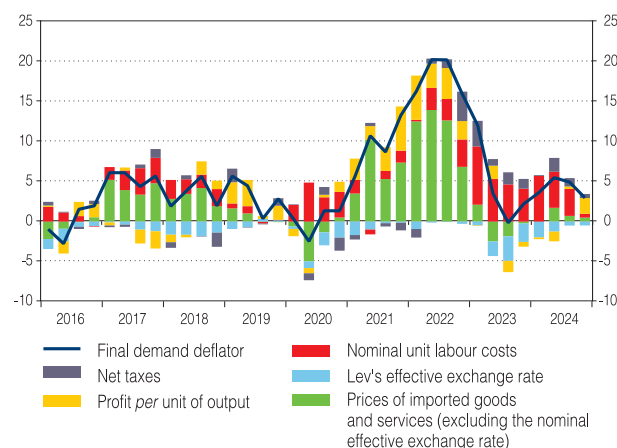
In the fourth quarter of 2024, unit labour costs of corporations rose slightly in nominal terms by 0.4 per cent on an annual basis, from 9.5 per cent in the third quarter. The slowdown in growth reflected both the weaker increase in compensation *per* employee⁴⁵ compared with previous

⁴⁴ Nominal compensation per employee was deflated by the HICP to calculate the indicator in real terms.

⁴⁵ Growth in compensation *per* employee in nominal terms decelerated to 4.0 per cent on an annual basis in the fourth quarter, which was not in line with the reported growth in average monthly gross wage (13.7 per cent) according to NSI's short-term statistics on employment and labour costs, as well as with rising wage income (16.5 per cent), according to household budget survey data. For details, see the Behaviour of Households Section in this Chapter.

Final Demand Deflator

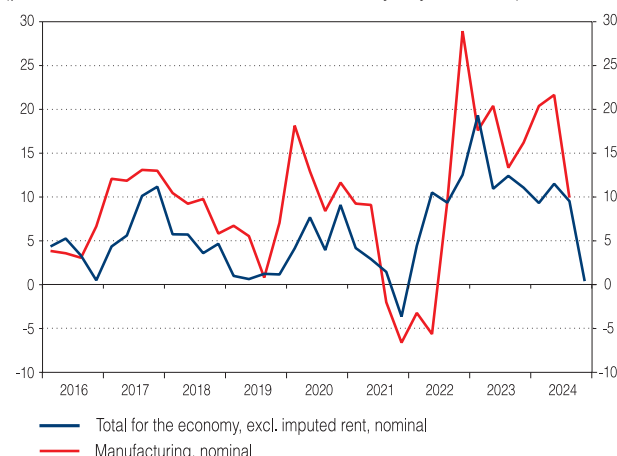
(per cent, on an annual basis; non-seasonally adjusted data)



Sources: NSI, BNB calculations.

Unit Labour Costs

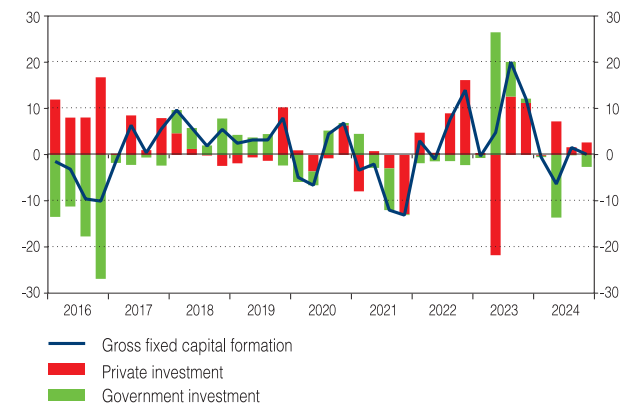
(per cent, on an annual basis; non-seasonally adjusted data)



Sources: NSI, BNB calculations.

Contribution of the Private and Public Sectors to the Annual Rate of Change in Investments 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 investments into private and public. The private investment series is constructed by the BNB as a difference between total investments and the estimated amount of public investments on an accrual basis in real terms.

Sources: NSI, BNB calculations.

quarters and accelerated annual growth of real labour productivity. All economic sectors contributed to the slowdown in nominal unit labour costs growth, with the exception of agriculture, where there was a slight growth acceleration to 12.6 per cent (against 11.4 per cent in the third quarter of 2024).

Firms' Investment Expenditure

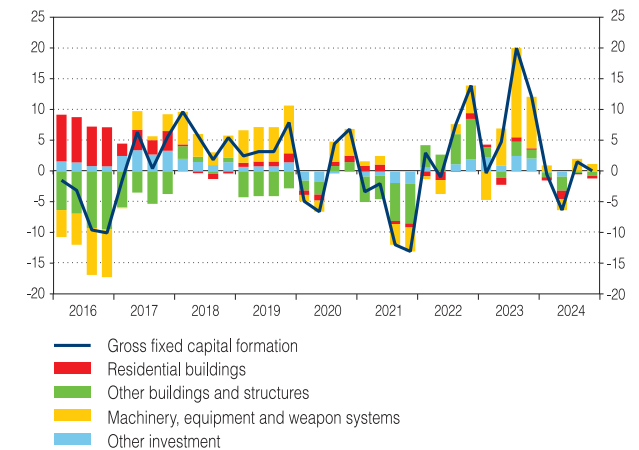
According to BNB estimates,⁴⁶ private sector expenditure on investments in real terms reported low year-on-year growth in the fourth quarter of 2024. By asset type, only investments in machines, equipment and weapon systems had a positive contribution to the growth, while all other types of assets recorded a decline in the fourth quarter of 2024. Factors that had a positive effect on investment activity in the non-government sector over 2024 were the increased private consumption, active supply of lending resources by banks and enhanced demand for new dwellings.⁴⁷ Nonetheless, dynamics of private investments is likely to have remained subdued in the fourth quarter of 2024, given

⁴⁶ The NSI does not provide official data on the breakdown of total investments into private and public. The series on private investments is constructed by the BNB as a difference between total investments and the estimated amount of public investments on an accrual basis in real terms.

⁴⁷ The analysis employs NSI data on the number of new dwellings sold in 2024 and on household sentiment for house purchase.

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

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

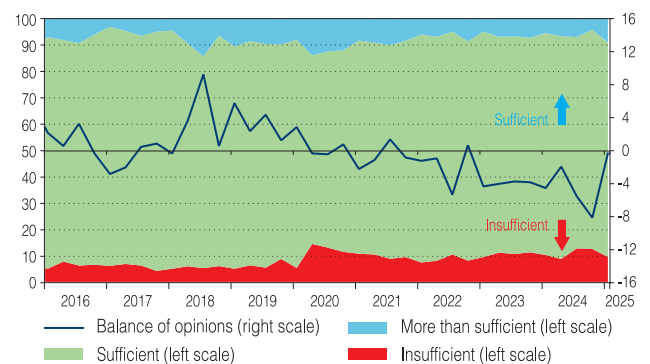


Sources: Eurostat, BNB calculations.

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

(per cent, share of managers)

(balance of opinions)



Sources: NSI, BNB calculations.

the weak growth in external demand for Bulgarian goods and services and the reported slight deterioration in firms' expectations about the future economic situation, as well as increased spare production capacity in some manufacturing sub-sectors at end-year.

Financing Sources for Corporations

In the fourth quarter of 2024, firms used both internal and external sources of financing for their activities. Based on non-seasonally adjusted data for the total economy, the nominal gross operating surplus which could be used by firms to finance their activities increased by 10.5 per cent on an annual basis in October–December 2024 (6.8 per cent in the previous quarter). This increase reflected the positive contribution of services sectors (by 5.3 percentage points) and manufacturing (by 5.0 percentage points), while agriculture and construction had a close to neutral contribution to the growth. Firms' financing by resources other than gross operating surplus increased year on year in nominal terms through received bank loans, which could be explained by favourable financing terms in Bulgaria.

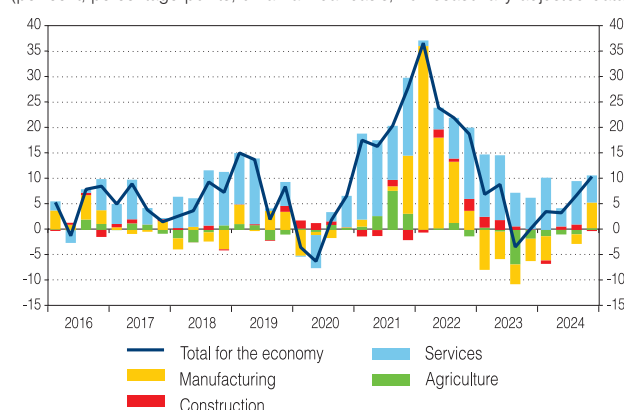
Pricing Policy of Corporations

In the fourth quarter of 2024, firms' selling prices in industry, as measured by the Producer Price Index (PPI) in industry, posted an increase of 1.7 per cent on an annual basis, before accelerating significantly to 15.4 per cent in the first quarter of 2025. The PPI rise at the beginning of the year was driven by both domestic and international prices. In the internal market, the year-on-year PPI increase was broad-based, with the largest growth being reported in production and distribution of electricity and heat and coal extraction, as well as in basic metals and food production.

In the fourth quarter of 2024, producer price indices in services (not related to trade) continued to increase on an annual basis in all sub-sectors. Real estate operations (9.9 per cent) and hotels and restaurants (8.5 per cent) reported the strongest price increase in services.

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

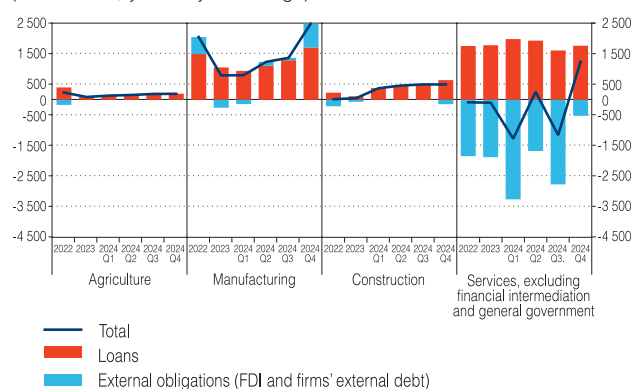
(per cent; percentage points; on an annual basis; non-seasonally adjusted data)



Sources: NSI, BNB calculations.

Financing Sources*

(BGN million, year-on-year change)

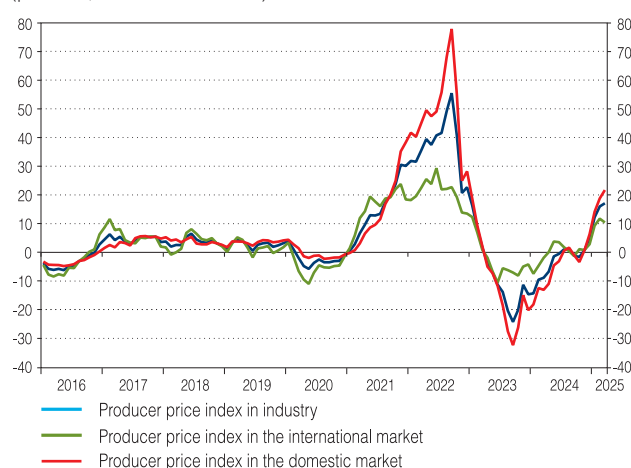


* Sources of financing other than the gross operating surplus.

Source: BNB.

Rate of Change of Producer Price Index in Industry

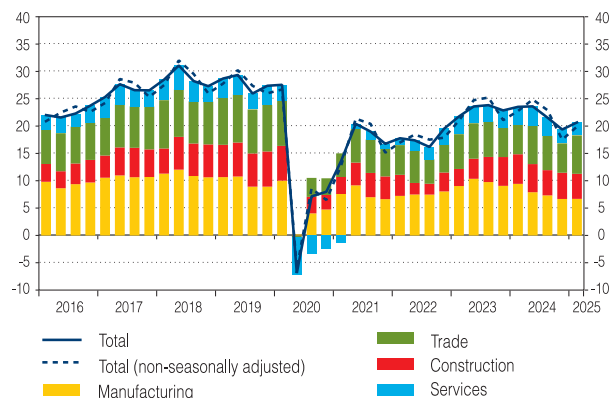
(per cent; on an annual basis)



Source: NSI.

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.

Selling prices in the retail sub-sector (excluding trade in motor vehicles and motorcycles), which is the closest to customers in the supply chain, went up by 2.2 per cent on an annual basis in the fourth quarter of 2024 (compared to 2.6 per cent in the third quarter). The annual growth rate of retail trade prices decelerated to 0.9 per cent in January–February 2025. Increased prices in trade can be explained by rising food prices, partly compensated by declining prices of automotive fuels and lubricants.

Economic Indicators

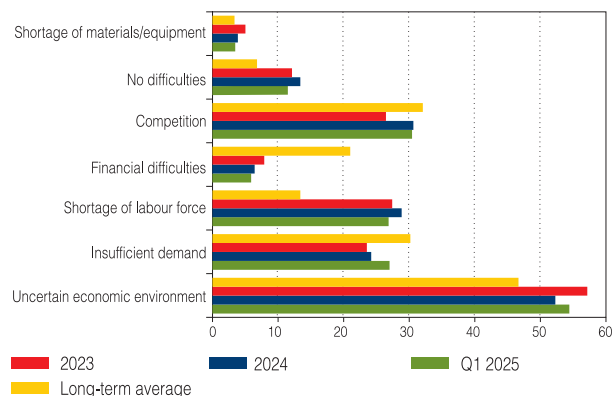
NSI data on short-term business statistics provide divergent signals about firms' performance across individual sectors of economic activity in the first quarter of 2025.⁴⁸

BNB's seasonally adjusted data show that in January–March 2025 the overall business climate indicator rose from the previous quarter. An improvement in sentiment was reported in the retail trade sector, unlike all other sectors where it declined from the previous quarter. The uncertain economic environment and strong competition remained the most important obstacles to firms' business activity, with the share of

⁴⁸ For more details on the composite economic indicator, see the Current Economic Environment Section in this Chapter.

Factors Hampering Economic Activity of Corporations

(relative share of all corporations)

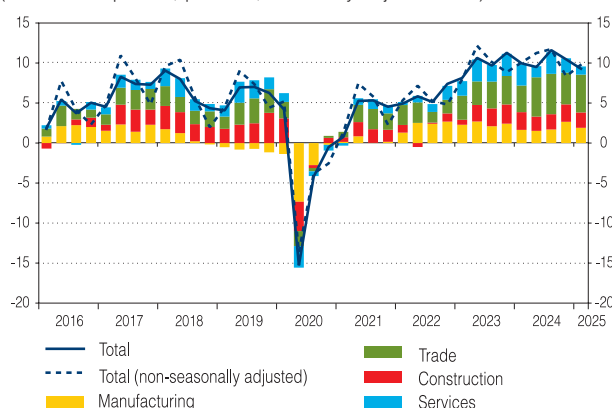


Note: Data are averaged for the relevant period and weighted by the share of corporations by sector (manufacturing, construction, trade and services).

Sources: NSI, BNB calculations.

Corporations' Expectations about Staff Recruitment in the Following Three Months

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

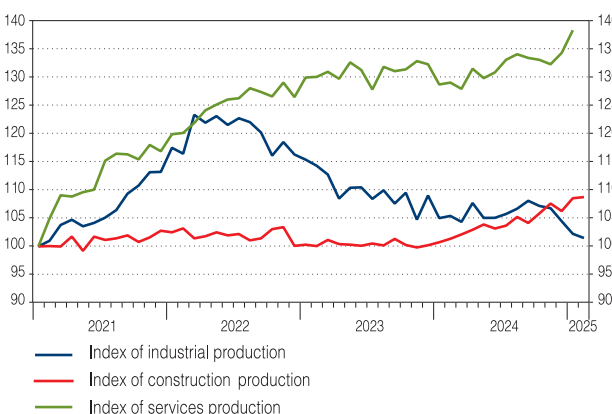


Notes: The answers to the NSI survey questions are presented in a three-tier category scale: 'increase', 'unchanged', 'decrease'. Balances of opinions are calculated as a difference between relative shares of extreme options of replies: 'increase' minus 'decrease'.

Sources: NSI, BNB calculations.

Dynamics of the Production Index in Manufacturing, Construction and Services

(index, January 2021 = 100; seasonally adjusted data)



Sources: NSI, Eurostat, BNB calculations.

enterprises identifying insufficient demand as a limiting factor also increasing *vis-à-vis* the previous year. In the first quarter of 2025, managers' sentiment about staff employment worsened somewhat, despite the improved expectations of production over the following three months.

The industrial production index declined year on year in January–February 2025, according to working day-adjusted data, due to manufacturing and intermediate consumption products. Nominal industrial turnover data show year-on-year growth over the period, entirely due to price increases in the external and domestic markets. Concurrently, construction production and services production indices tended to rise. The year-on-year increase in construction production during January–February 2025 was a result of the higher economic activity in building construction, construction of facilities and specialised construction works. In January–February 2025, growth of retail trade at constant prices slowed significantly on an annual basis due to decreased trade in food, beverages and tobacco products and slowing growth in textile, clothing, footwear and leather.

4.4. Household Behaviour

Household Revenue

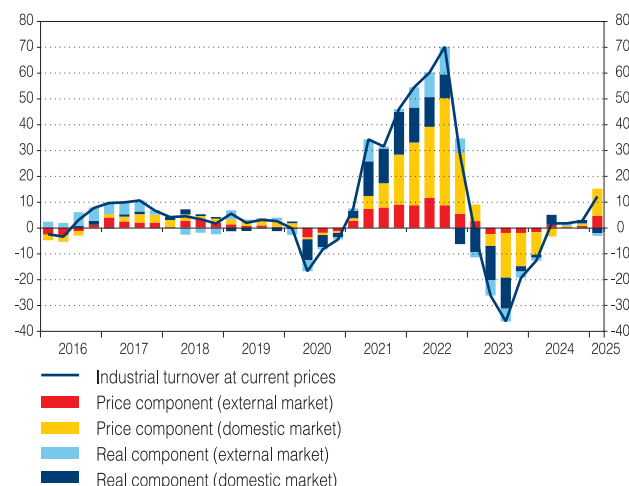
According to NSI's household budget survey data, nominal household revenue growth⁴⁹ slowed slightly year on year in the fourth quarter of 2024, owing mainly to a decrease in revenue from withdrawn savings, while the growth rate of total household income accelerated on an annual basis.

In the fourth quarter of 2024, total household income rose by 17.6 per cent on an annual basis (16.6 per cent in the third quarter), with a stronger increase in annual growth compared to the previous quarter mainly reflecting other income, which includes revenue from sales, regular transfers from other households and one-off income from insurance, lotteries, inheritance, *etc.* At the

⁴⁹ Household income includes all household monetary income from sources such as wages, pensions, self-employment, social security benefits, allowances and valued in-kind income (the monetary value of goods and services received in kind by households, such as social transfers in kind) grouped under the 'Total income' category, as well as withdrawals of savings and loans.

Industrial Turnover Dynamics

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

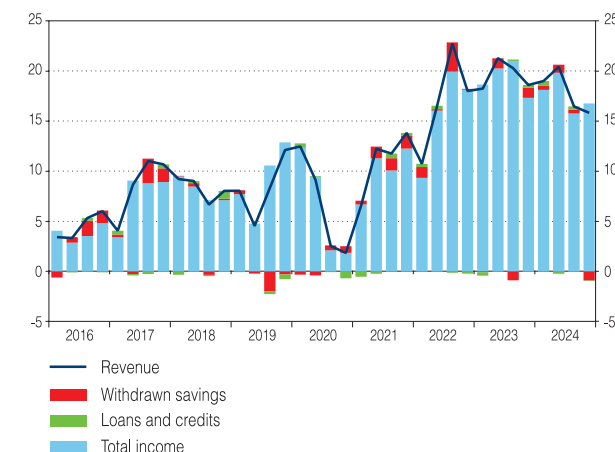


Note: Data for the first quarter of 2025 relate to the January–February period.

Sources: NSI, BNB calculations.

Contributions to the Change in Household Revenues

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



Sources: NSI – Household Budget Survey, BNB calculations.

same time, annual growth in wage income slowed down slightly to 16.5 per cent in the fourth quarter of 2024 compared to 17.1 per cent in the third quarter, which was in line with average monthly gross wage data of the NSI short-term statistics, but considerably lower than the reported slowdown based on NSI's national accounts data on the wage per employee.^{50 51} Concurrently, total household income growth accelerated in real terms⁵² to 15.3 per cent on an annual basis in the fourth quarter of 2024 (14.0 per cent in the third quarter), supported by the slowdown in consumer prices observed over this period. As a result, the growth rate of households' real disposable income⁵³ also accelerated, to 15.0 per cent on an annual basis in the fourth quarter of 2024 (against 13.3 per cent in the third quarter).

Household Expenditure

In the fourth quarter of 2024, nominal growth in total household expenditure⁵⁴ was 13.7 per cent on an annual basis compared to the annual growth of 16.2 per cent in the previous quarter, with the slowdown reflecting a weaker increase in consumer expenses. At the same time, annual growth in tax and social security expenditure rose from the previous quarter, its share in total household expenses further increasing.

In the fourth quarter of 2024, nominal growth in consumer expenditure slowed down to 12.7 per cent on an annual basis (from 15.4 per cent in the third quarter), with expenses on leisure, cultural recreation and education contributing most to this. Similar dynamics was reported in consumer expenditure in real terms⁵⁵, its

⁵⁰ For more information on the possible causes of wage moderation, see the Labour Market Section of this Chapter.

⁵¹ The wage is calculated by dividing the wage bill to the number of employed in the economy.

⁵² To obtain total income in real terms, nominal values are deflated by the HICP.

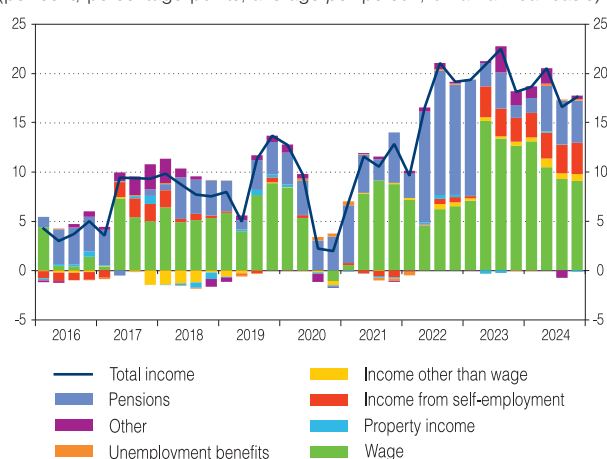
⁵³ Real disposable income of households is calculated based on the NSI household budget survey data and represents total income less taxes, social security contributions and regular transfers to other households, deflated by the HICP.

⁵⁴ Total expenditure includes consumer spending, taxes, social contributions, regular transfers to other households and other expenditure. For details, see NSI's [methodology](#) on the Household Budget Survey.

⁵⁵ Household consumer expenditure are deflated by the overall HICP. Sub-components of consumer expenditure are deflated by the corresponding HICP groups.

Contribution to the Change in Total Monthly Household Income

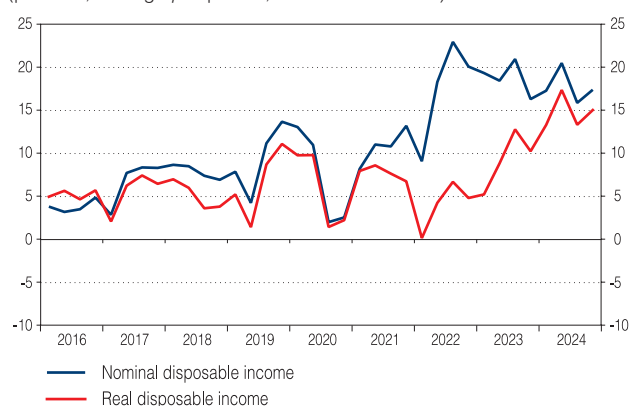
(per cent, percentage points; average *per person*, on an annual basis)



Sources: NSI – Household Budget Survey, BNB calculations.

Household Disposable Income

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

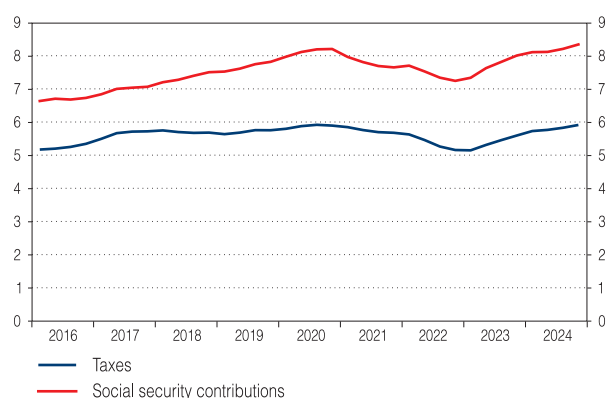


Note: Real disposable income of households represents total income reduced by taxes, social security contributions and regular transfers to other households, HICP-deflated.

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 trends.

Source: NSI – Household Budget Survey.

growth slowing to 10.4 per cent on an annual basis in the fourth quarter of 2024 (compared to an annual increase of 12.9 per cent in the third quarter). At the same time, NSI's national accounts data, which have a broader scope, show that annual real growth of private consumption accelerated to 5.1 per cent on an annual basis in the fourth quarter of 2024 (2.9 per cent in the third quarter). Despite divergent developments affected by differences in data collection, coverage and definitions used, both household budget and national accounts data give grounds to suggest that consumer expenditure remained high in the fourth quarter of 2024.

Household Savings

In the fourth quarter of 2024, households' propensity to save⁵⁶ part of their income⁵⁷ increased from the previous quarter, according to seasonally adjusted data, which was in line with worsened consumer sentiment at the end of 2024. The accumulated amount of household net assets in the banking system also rose slightly due to continued growth in household deposits despite persistently negative real interest rates. Concurrently, households' net assets in the banking system at end-2024 remained at a level lower than the average level for the last ten years, which reflected the continued high growth of loans to households, thus supporting further household consumption.

4.5. Fiscal Policy Effects on the Economy

Fiscal policy supported Bulgaria's economic activity in 2024 through the growth of government consumption and increased social transfers to households. In addition, the programme to compensate firms for the price of electricity was extended in 2024, with the average monthly stock price exceeding the set compensation threshold for almost all months of the second half of 2024.⁵⁸

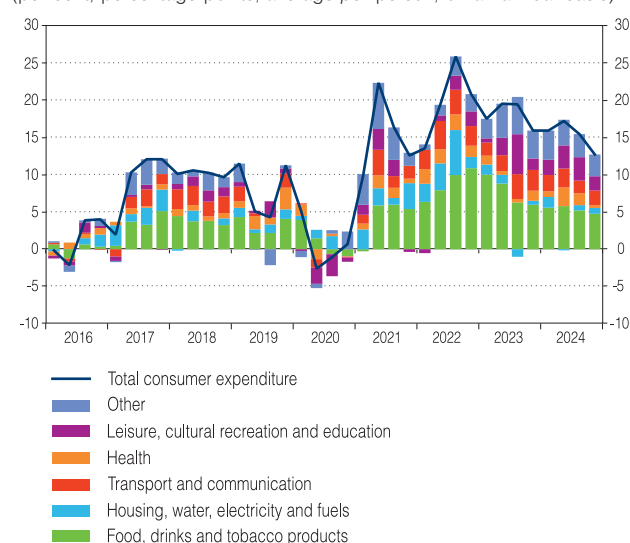
⁵⁶ Household savings are measured by the difference between the total income and the total expenditure in the relevant quarter. The propensity to save is calculated as a ratio between savings and gross income in the relevant quarter.

⁵⁷ Income is gross income in the relevant quarter reduced by taxes and social security contributions.

⁵⁸ From 1 July 2024, the threshold for paying compensation to final non-household electricity customers was reduced from BGN 200/MWh to BGN 180/MWh.

Contribution to the Change in Households' Consumer Expenditure

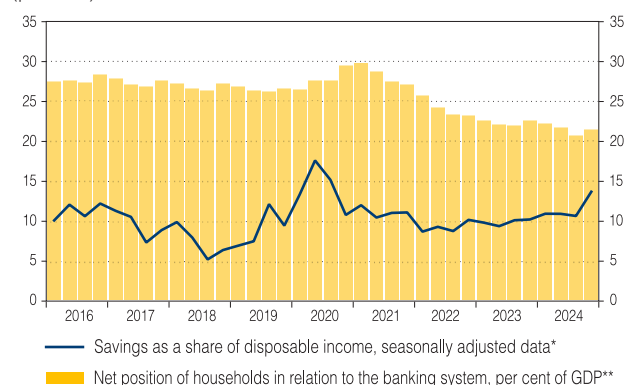
(per cent, percentage points; average *per person*, on an annual basis)



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.

* NSI data. Data seasonally adjusted by the BNB.

** Based on BNB and NSI data. Nominal GDP data for 2024 are used in calculating the ratio to GDP.

Sources: NSI – Household Budget Survey, BNB.

Data from non-financial accounts of the general government sector show that government consumption declined on an annual basis in the fourth quarter of 2024 (1.3 per cent in nominal terms), mainly due to a decline in intermediate consumption expenditure (by 31.1 per cent), reflecting also the significant slowdown in the growth of compensation of employees in the public sector (to 0.9 per cent on an annual basis, from 18.6 per cent in the third quarter). Concurrently, government consumption in 2024 reported nominal annual growth of 15.4 per cent, mainly as a result of expenses on compensation of employees, which posted an increase of 18.5 per cent on an annual basis. In the fourth quarter of 2024, fixed capital investments of the general government sector posted an annual decline (4.5 per cent in nominal terms and 12.5 per cent in real terms⁵⁹). Information on Consolidated Fiscal Programme implementation indicates that the decrease in government investments over the fourth quarter is likely due to projects financed by national funds and to those financed by EU funds.⁶⁰ Total investments of the general government sector for 2024 declined by 14.9 per cent on an annual basis in nominal terms, driven by the high base in 2023 upon completion of investment projects under the 2014–2020 programme period.

In the fourth quarter of 2024, fiscal policy continued to support economic activity through both household disposable income and the electricity compensation programme for corporations.⁶¹ Social expenditure excluding in kind posted an increase of 14.7 per cent on an annual basis in the last quarter of 2024, reflecting the 11 per cent increase in pensions from 1 July 2024. Subsidy expenditure rose by 58.2 per cent on

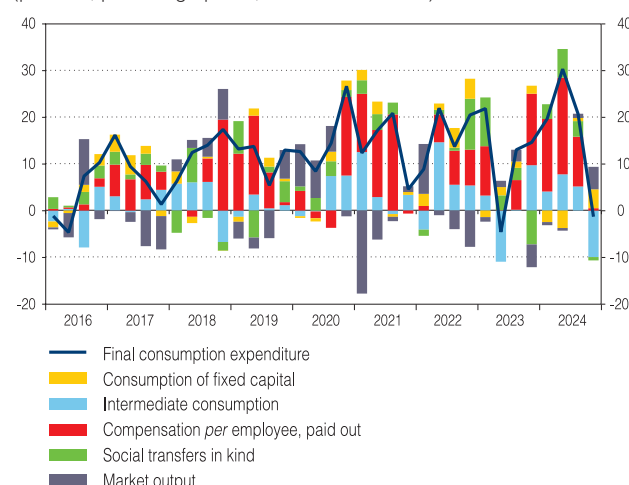
⁵⁹ The estimated real amount of investments in fixed capital of the general government sector is deflated by the gross fixed capital formation deflator for the total economy.

⁶⁰ To ensure comparability of CFP data in the BNB estimate of the contributions to the annual rate of change of CFP capital expenditure in the fourth quarter of 2024, BGN 1.2 billion of funds were excluded, which were reported on a cash basis as capital expenditure in December 2023, but planned for implementation of municipal investment projects for 2024.

⁶¹ In the fourth quarter of 2024, additional 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 and catering services, books, baby food and diapers, and the zero VAT rate for the supply of bread.

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

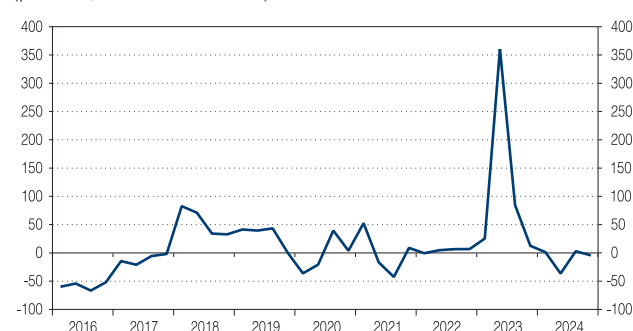
(per cent; percentage points; on an annual basis)



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)



Sources: NSI, BNB calculations.

an annual basis over the same period, driven by subsidies on compensation of firms for the price of electricity.

By the end of February 2025, total CFP budget expenditure posted an increase of 33.8 per cent on an annual basis, reflecting mainly the strong increase in capital expenditure due to the base effect of February 2024. In this month, BGN 1.2 billion of funds were recovered from the foreign funds account under the Ministry of Regional Development and Public Works budget which was reported on a cash basis as a decrease in capital expenses by the same amount. Social expenses also contributed strongly to the growth in total budget expenditure, posting annual growth of 13.2 per cent at the end of February 2025.

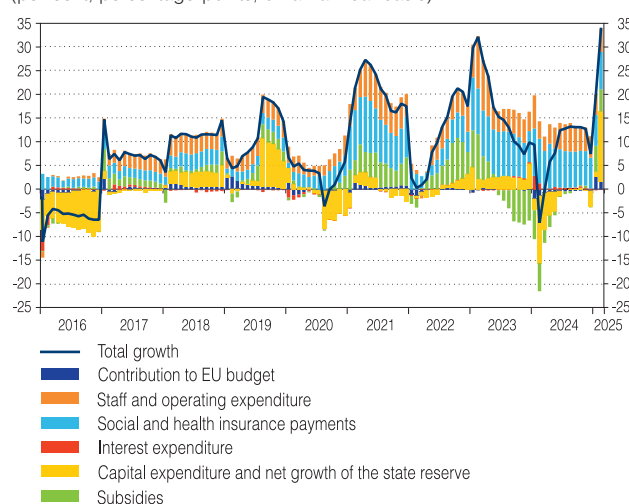
Staff expenditure growth by 14.7 per cent on an annual basis as of February 2025, as well as increased operating expenditure by 3.1 per cent on an annual basis also contributed to the higher total budget expenditure. At the same time, if eliminating the above mentioned transaction in February 2024 with a view to data comparability, capital expenditure also rose (by 30.6 per cent on an annual basis), driven by capital expenses financed by EU funds. Staff and operating expenditure dynamics along with capital expenditure suggest that government consumption and government investments are likely to have had a supportive effect on the growth in Bulgaria's economic activity in the first quarter of 2025.

By end-February 2025, total CFP budget revenue rose by 10.4 per cent on an annual basis, reflecting largely tax revenue. VAT revenue growth, which rose by 23.1 per cent as of February 2025, contributed most to the tax revenue growth, supported by additional budget revenue after the expiry of the reduced VAT rate of 9 per cent on restaurant and catering services and the zero VAT rate for bread supply since the beginning of 2025.

As of end-February 2025, budget balance under the CFP was negative, its deficit reaching BGN 999.7 million (0.5 per cent of GDP⁶²).

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

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



Notes: In the Consolidated Fiscal Programme reports for January 2016, staff costs include wage, insurance and other remuneration expenditure, while in the reports for past periods the latter were included in operating expenditure. To prevent inconsistencies of data prior to and after January 2016 resulting from the methodological change, staff costs and operating expenditure data are presented aggregately in the chart.

Sources: MF, BNB calculations.

⁶² Nominal GDP data for 2024 are used in calculating the ratio.

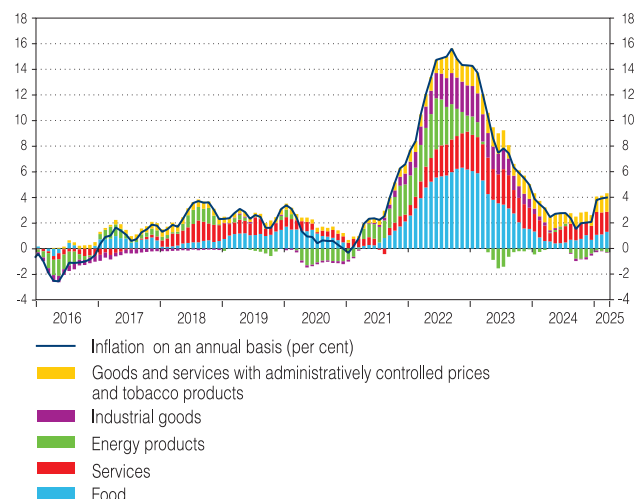
5. PRICE DEVELOPMENTS

5.1. Consumer Prices

Annual HICP inflation accelerated to 4.0 per cent in March 2025, from 2.1 per cent in December 2024, driven mainly by the faster increase of prices in the groups of food, goods and services with administratively controlled prices and services, and, to a lesser extent, by slowing rates of decline in prices of energy products and industrial goods. In March 2025, services, followed by goods and services with administratively controlled prices and tobacco products, as well as food products had the largest positive contribution to headline inflation. Accelerated price increases in most of these groups were mainly influenced by one-off factors related to rising administered prices and indirect taxes, as well as persistent pro-inflationary pressures from growing unit labour costs and strong private consumption, which contributed largely to the pass-through of increased expenses by firms to final consumers. At the same time, energy products and industrial goods continued to have a slightly negative contribution to changes in consumer prices in March 2025. Fiscal policy continued to have a pro-inflationary impact due to the increases in social payments, compensation of public sector employees and minimum wage in recent years, which supported household disposable income and consumption growth, creating a prerequisite 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 maintenance 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. Real interest rates on new household time deposits continued to be negative and to underpin private consumption growth and consumer price increases. Although real interest rates on new consumer loans turned positive from mid-2023, newly extended consumer loans continued to show an upward trend in vol-

Inflation and Contribution of Major Commodity and Services Groups to It

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



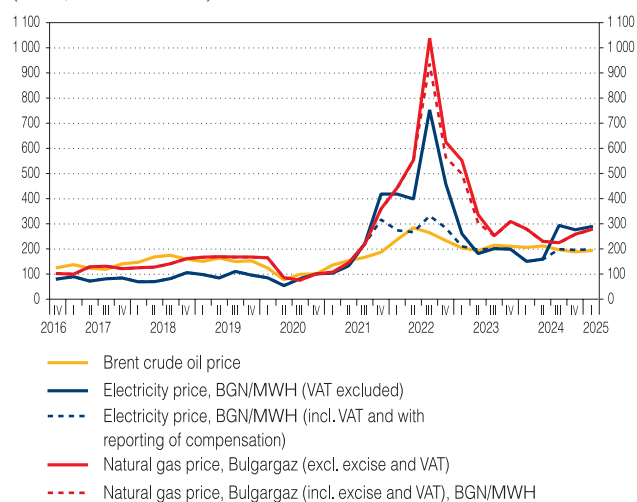
Notes: This structure corresponds to the Eurostat classification; tobacco products and goods and services with administratively controlled prices are presented separately.

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)

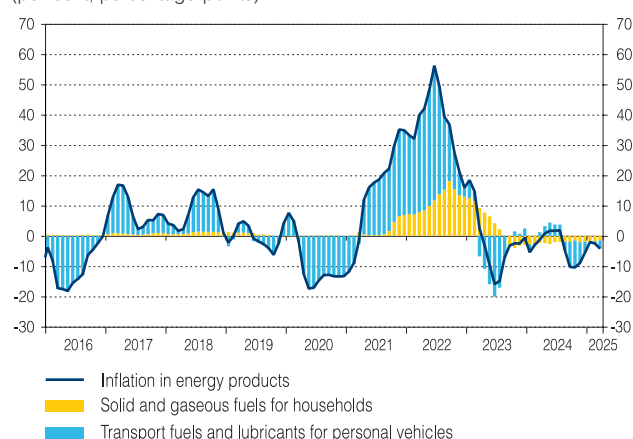


Notes: The electricity price refers to the Day Ahead segment of the Independent Bulgarian Energy Exchange EAD (IBEX). The price of natural gas sold by Bulgargaz EAD does not include prices for access and transmission through the gas transmission networks.

Sources: ECB, IBEX, EWRC.

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

(per cent; percentage points)



Sources: the NSI, BNB calculations.

umes, which was an additional factor with a pro-inflationary effect in the first three months of 2025.

Energy Products Prices

Deflation was reported in energy products amounting to -4.3 per cent on an annual basis in March 2025 (compared to -5.6 per cent in December 2024). The price falls were driven by continuing lower prices of both transport and solid fuels on an annual basis. Concurrently, both sub-groups posted a quarterly price increase in the first quarter of 2025 compared to the previous quarter, which was in line with the rise in international crude oil price.

Food Prices

The annual growth rate of food prices accelerated to 5.4 per cent in March 2025 (compared with 2.7 per cent at the end of 2024), and this group continued to make a significant positive contribution to HICP growth, which was driven by both unprocessed and processed food.

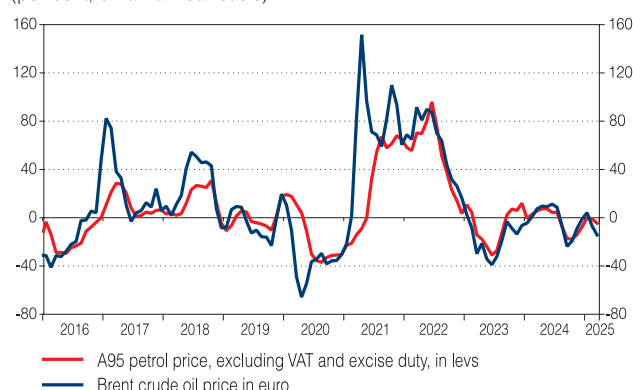
Unprocessed food group recorded annual price growth of 3.3 per cent in March 2025 (compared to 2.8 per cent at the end of 2024) and the sub-group of fruit and vegetables continued to have the largest positive contribution to the higher prices of these goods. This can be explained by the increased prices of imported products⁶³, as well as the upward dynamics of wholesale prices in Bulgarian markets⁶⁴.

⁶³ BNB calculations based on NSI data on import prices by commodity group according to the Standard International Trade Classification (SITC) as of the fourth quarter of 2024 have been used.

⁶⁴ Weekly data from the State Commission on Commodity Exchanges and Markets (SCCEM) as of March 2025 are used.

Rate of Change in Brent Crude Oil and A95 Petrol Prices

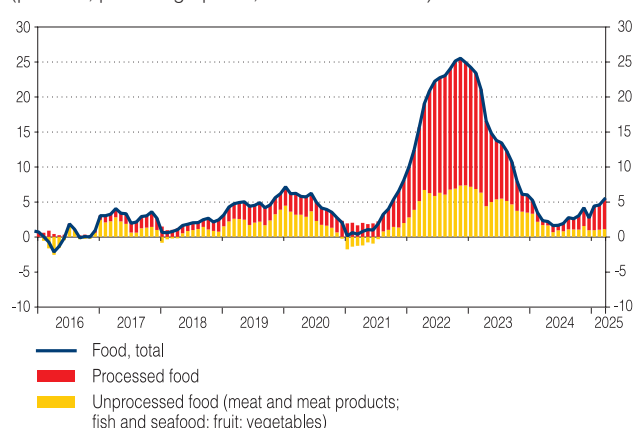
(per cent; on an annual basis)



Sources: ECB, NSI, BNB calculations.

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

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



Sources: NSI, BNB calculations.

The growth rate of processed food prices accelerated to 6.5 per cent in March 2025 (from 2.7 per cent in December 2024). The sub-groups that contributed significantly to the price increase in the group were mainly bread and cereals, followed by coffee, tea and cocoa, sugars and sugar confectionery and milk, dairy products and eggs. This dynamics was driven by the restored standard 20 per cent VAT rate for bread and flour supply from 1 January 2025, the annual growth in import prices of these products⁶⁵ and the annual rise in domestic production costs in these sectors⁶⁶.

Core Inflation

In the first quarter of 2025, core inflation (including services and industrial goods prices) accelerated from the previous quarter to 3.2 per cent in March 2025 compared with 2.1 per cent at the end of 2024. The price rise in this group was entirely due to higher services prices, whose growth rate accelerated, while industrial goods continued to record deflation.

Consumer prices in the group of industrial goods posted a year-on-year decline of 0.1 per cent in March 2025 (compared with a price decrease of 0.7 per cent at the end of 2024), and the lower decline reflected both base effects and price rises in some sub-groups of goods. Durable goods had a negative contribution to headline inflation, in particular personal computers, sound or video reproducing technique and large and small household appliances. At the same time, non-durables recorded year-on-year price increases, and this sub-group continued to contribute positively to the price rise of industrial goods. These changes were mainly due to the price increase in jewelry and watches, horticulture and floriculture goods and spare parts and were in line with the continued strong consumer demand.

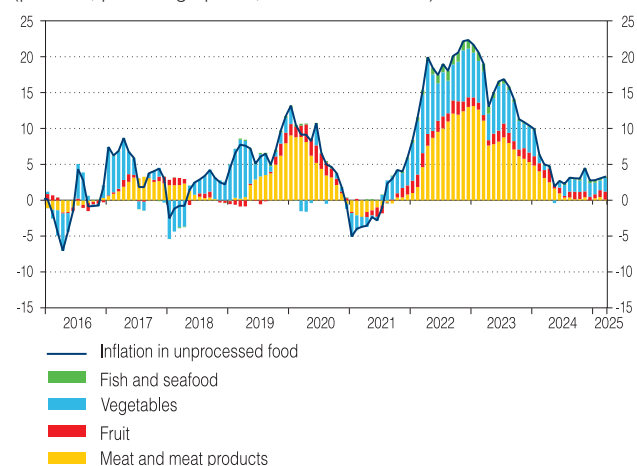
Annual services inflation stood at 6.5 per cent in March 2025 (compared to 4.6 per cent in December 2024). The acceleration was mainly determined by the faster rates of increase of prices in catering and accommodation services, with the main drivers for higher prices in these groups being the restored standard 20 per cent VAT rate for the supply of restaurant and catering services,

⁶⁵ BNB calculations based on NSI data on import prices by commodity group according to the SITC as of the fourth quarter of 2024 have been used.

⁶⁶ NSI data on producer price indices in industry in the domestic market (PPI) as of March 2025 are used.

Contribution of Major Sub-groups to Unprocessed Food Inflation

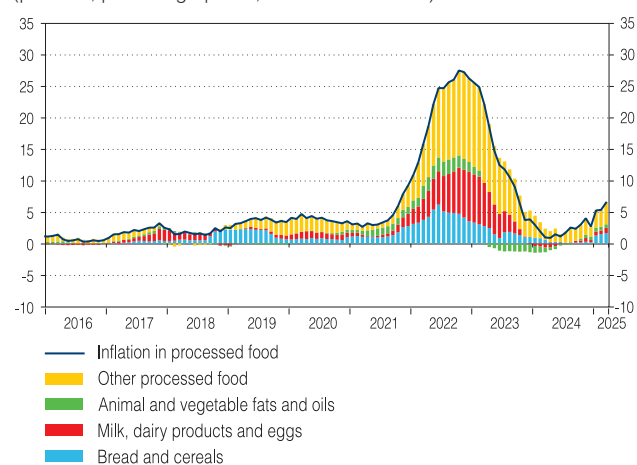
(per cent; percentage points; on an annual basis)



Sources: NSI, BNB calculations.

Contribution of Major Sub-groups to Processed Food Inflation

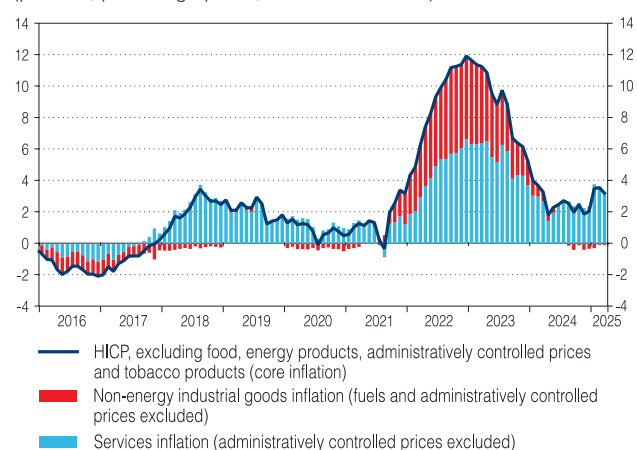
(per cent; percentage points; on an annual basis)



Sources: the NSI, BNB calculations.

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

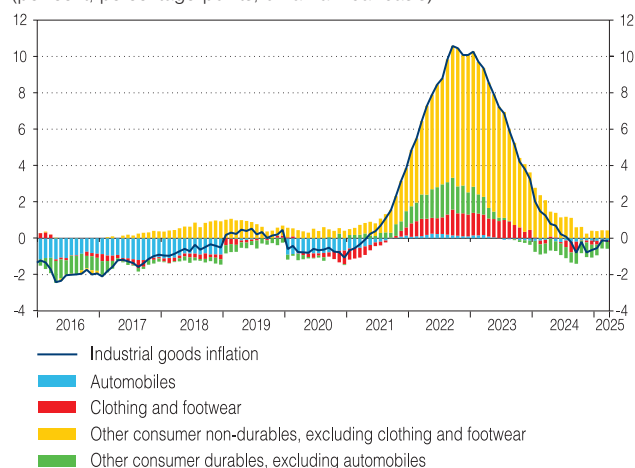
(per cent; percentage points; on an annual basis)



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.

the sustained increase in unit labour costs and indirect effects of higher food prices. Other sub-groups contributing positively to the increase in services prices included maintenance and repair of personal transport vehicles and house rentals, while telecommunication services posted a year-on-year decline.

Goods and Services with Administratively Controlled Prices and Tobacco Products

Inflation in the group of goods and services with administratively controlled prices and tobacco products accelerated significantly to 7.1 per cent in March 2025 (from 3.9 per cent in December 2024). Electricity⁶⁷ and tobacco products⁶⁸ contributed most positively to price rises. Other sub-groups with a significant price rise were medical products⁶⁹, passenger rail transport, education and refuse collection and disposal. At the same time heating⁷⁰ had a slightly negative contribution to the rise of end-use consumer prices.

⁶⁷ The average electricity price increase for household consumers of 8.42 per cent came into force by [EWRC decision](#) on 1 January 2025.

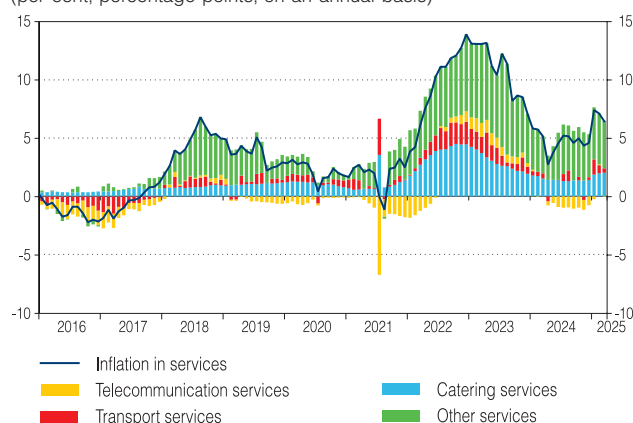
⁶⁸ The rise in tobacco products' prices was the consequence of an increase in excise duty rates on these products, which came into effect on 1 January 2025 in line with the excise duty calendar, as set out in the [Law on Amendments to the Tax and Social Insurance Procedure Code](#), published in the *Darjaven Vestink*, issue 100 of 16 December 2022.

⁶⁹ 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.

⁷⁰ An average decrease of 8.47 per cent in the heating price for household consumers was adopted for the new regulatory period by a [decision of the EWRC](#) of 30 June 2024. The price decrease came into effect on 1 July 2024 for a period of one year ahead.

Contribution of Major Sub-groups to Inflation in Services

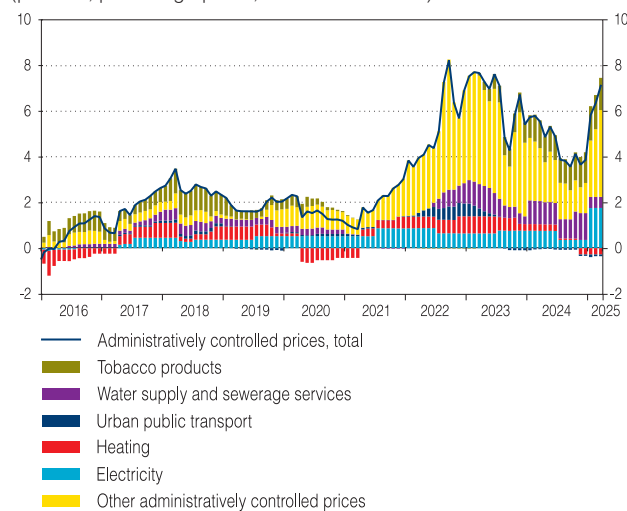
(per cent; percentage points; on an annual basis)



Sources: the NSI, BNB calculations.

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

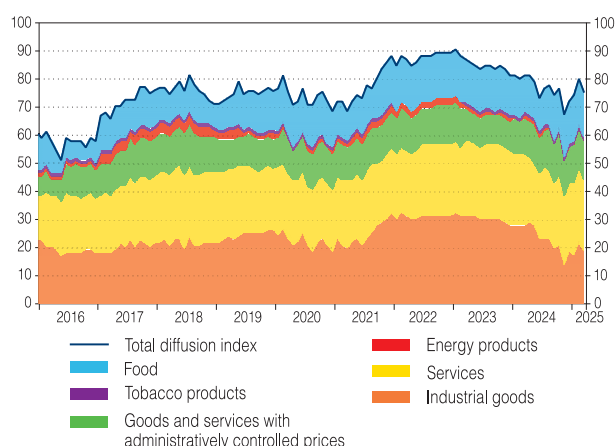
(per cent; percentage points; on an annual basis)



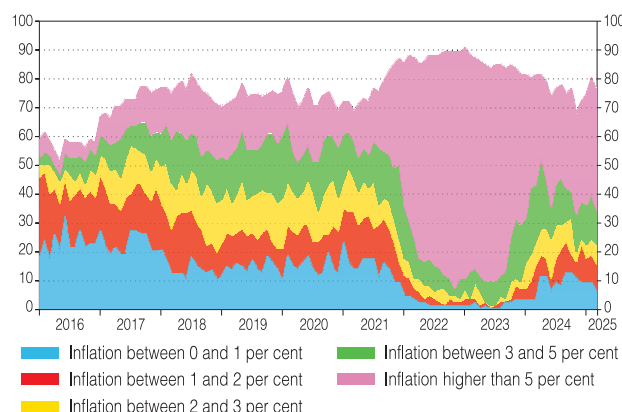
Sources: NSI, BNB calculations.

Diffusion Index

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



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.

The diffusion index, which indicates the proportion of goods and services with year-on-year price growth, rose to 75.6 per cent in March 2025 compared to 72.1 per cent in December 2024.

As regards the rate of price increase, the relative share of sub-indices with price increases of more than 5 per cent on an annual basis remained high at 41.9 per cent (compared with 34.9 per cent at the end of 2024).

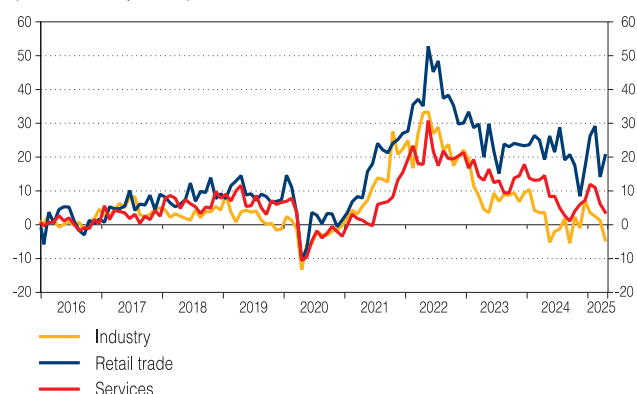
Inflation expectations

The regular NSI business situation surveys shows that in the first four months of 2025 the share of managers in the retail trade sector expecting selling price increases over the next three months rose from the last quarter of 2024, while services and industry sectors recorded weakening attitudes towards future price increases. In the group of retail trade managers who expect prices to rise, there is an increasing proportion of those expecting faster rates of increase *vis-à-vis* 2024. These developments are a prerequisite for some acceleration of domestic inflation to be observed in the short term.

Given the current trends along with the technical assumptions on the evolution of international commodity prices, projected dynamics of the labour market and domestic economic activity and assumptions about effects of the expected growth in some administratively set prices, the growth

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

(balance of opinions)

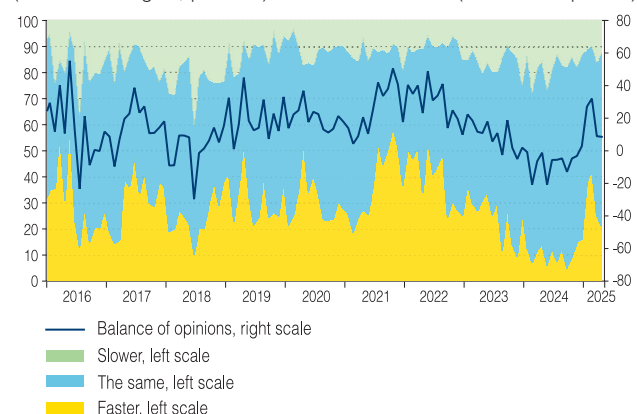


Source: NSI.

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

(share of managers, per cent)

(balance of opinions)



Source: NSI.

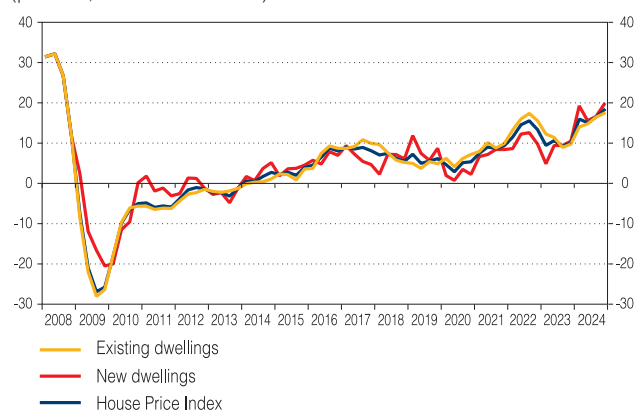
rate of consumer prices in the second and third quarters of the year is expected to remain close to that in the first quarter of 2025. Projected substantial growth in unit labour costs and private consumption are anticipated to remain factors with a pro-inflationary effect.

5.2. Housing Prices

The annual growth rate of the House Price Index (HPI) accelerated to 18.3 per cent in the fourth quarter of 2024 (compared to 16.5 per cent in the previous quarter). Price increases reflected the price rises of both new and existing dwellings (19.7 and 17.4 per cent, respectively). Housing price increases were wide-ranging across regional cities, with the growth rate accelerating significantly in Varna and Sofia. Factors that continued to support housing demand and price increases were rising labour income, continued strong credit activity in an environment of historically low annual percentage rates of charges on new housing loans, and more limited possibilities

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.

Key Indicators of the Housing Market Developments in Bulgaria

(per cent; year-on-year change)

Indicators	2021	2022	2023	2024	2024			
					I	II	III	IV
Price developments								
House Price Index, total	8.7	13.8	9.9	16.5	16.0	15.1	16.5	18.3
New dwellings	7.7	10.8	8.6	17.8	19.3	15.6	16.7	19.7
Existing dwellings	9.2	15.6	10.6	15.7	14.1	14.8	16.5	17.4
Inflation (HICP)	2.8	13.0	8.6	2.6	3.5	2.7	2.2	2.0
House rentals, paid by tenants (HICP)	1.7	6.3	8.4	5.6	5.4	5.0	6.2	5.6
Lending								
New housing loans	24.0	33.5	15.5	28.9	21.1	27.2	33.1	33.4
Annual percentage rate of charge on new housing loans (per cent, at the end of the period)	3.0	2.8	2.9	2.8	2.9	2.9	2.9	2.8
Housing loans balances	14.0	18.1	18.8	25.8	22.7	24.8	25.9	29.1
Construction and Investment								
Permits issued for the construction of new residential buildings (square meters)	25.1	20.6	-4.9	-14.2	23.4	-13.8	-1.8	-41.3
Value added in construction (at average annual prices for 2015)	-10.8	5.3	3.8	5.2	0.3	2.2	6.4	12.5
Constriction Production Index, building construction	1.8	0.1	2.7	-0.7	-3.7	-0.7	-1.8	3.6
Fixed investment; residential buildings	0.6	-1.4	0.3	-4.0	-3.4	-9.1	-1.4	-2.9
Construction cost index for new buildings	11.4	54.8	16.3	4.0	2.6	4.1	3.9	5.4

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 housing loans, cumulative data for the last 12 months were used.

Sources: NSI, BNB, Eurostat.

to invest accumulated savings in the context of negative real interest rates on households deposits. Other pro-inflationary factors included the preservation of favourable historical household sentiment⁷¹ for house purchases, as well as the annual increase in the construction costs⁷² for new buildings in the fourth quarter of 2024 (by 5.4 per cent compared with growth of 3.9 per cent in the previous quarter). Over the fourth quarter of 2024, the price-to-rent ratio, which is a frequently used indicator of undervaluation/overvaluation of houses, continued to exceed significantly (by 48.1 per cent) its long-term (historical) average value.⁷³ This shows that household decisions to purchase a home were driven by reasons other than ensuring an immediate financial benefit by letting newly acquired properties. Such reasons could be the expectations of a continuing increase in house prices (and realised capital gains after a sale in the future) or perceptions of residential properties as an alternative asset for preserving value in an environment of negative interest rates on household deposits. At the same time, estimates based on the BNB macroeconomic model⁷⁴ suggest a significantly lower positive deviation of current residential property prices in Bulgaria from their long-term equilibrium level (14.6 per cent). This is determined by the fact that rising household income combined with persistently very low real interest rates on housing loans push up housing affordability, which is reflected in the model as an increase in their equilibrium price.

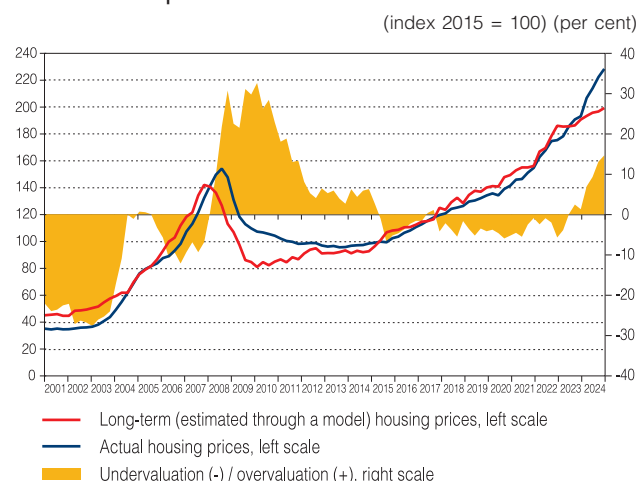
⁷¹ Data of the regular NSI household budget survey, seasonally adjusted by the BNB.

⁷² Eurostat data are used.

⁷³ Calculated for the period from the first quarter of 2000 to the fourth quarter of 2024.

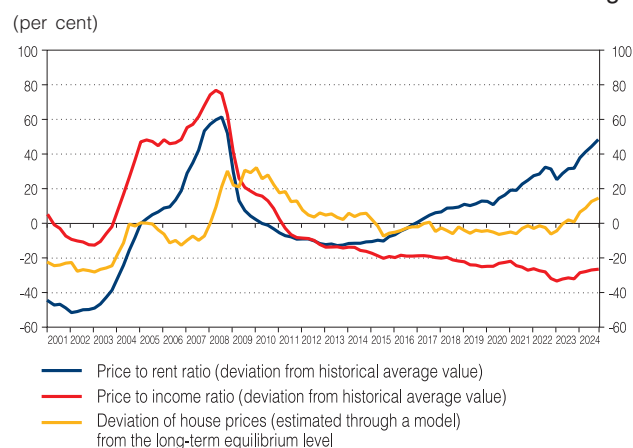
⁷⁴ Additional information on this model is available in the research topic Dynamics of House Prices in Bulgaria between 2000 and 2016, *Economic Review*, issue 1 of 2017. 1.

Actual and Equilibrium House Prices



Sources: NSI, BNB calculations.

Indicators of Undervaluation/Overvaluation of Housing



Sources: NSI, BNB calculations.

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.