



ECONOMIC REVIEW  
2/2025



BULGARIAN NATIONAL BANK



# ECONOMIC REVIEW

2/2025



**BULGARIAN NATIONAL BANK**

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

The Economic Review, issue 2/2025 was presented to the BNB Governing Council at its 31 July 2025 meeting. It employs statistical data and information published up to 9 July 2025. Expectations of economic developments in Bulgaria in the short term (until the fourth quarter of 2025), as described in this issue, are based on the BNB macroeconomic forecast prepared as of 26 June 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.

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

© Bulgarian National Bank, 2025  
1000 Sofia, Bulgaria 1; Knyaz Alexander I Square

Website: [www.bnb.bg](http://www.bnb.bg)

This issue includes materials received up to 25 July 2025.

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

ISSN 2367 – 4962 (online)

# C ONTENTS

---

SUMMARY .....	9
1. EXTERNAL ENVIRONMENT .....	11
1.1. Current Business Situation.....	11
1.2. Impact on the Bulgarian Economy .....	16
2. EXTERNAL FINANCIAL FLOWS .....	18
2.1. Balance of Payments and Foreign Trade.....	18
2.2. BNB International Reserves.....	22
2.3. External Debt .....	23
3. MONEY AND CREDIT .....	24
3.1. Monetary and Credit Aggregates .....	24
3.2. Interest Rates.....	31
4. ECONOMIC ACTIVITY.....	35
4.1. Current Economic Environment .....	35
4.2. Labour Market.....	38
4.3. Behaviour of Firms .....	41
4.4. Household Behaviour .....	45
4.5. Fiscal Policy Effects on the Economy .....	47
5. PRICE DEVELOPMENTS.....	50
5.1. Consumer Prices .....	50
5.2. Housing Prices.....	54

## Charts

Manufacturing and Services PMIs and Changes in World Real GDP .....	11	Annual Growth of Household Deposits and Contribution by Deposit Type .....	24
World Trade in Goods .....	11	Annual Growth of Household Deposits and Contribution by Currency .....	25
Inflation Measured through CPI .....	12	Annual Growth of Non-financial Corporations' Deposits and Contribution by Deposit Type .....	25
Prices and Futures of Brent Crude Oil .....	12	Annual Growth of Non-financial Corporations' Deposits and Contribution by Currency .....	25
Natural Gas Prices .....	12	Annual Rate of Change in M3 and Contribution by Component .....	25
Metal Price Indices .....	12	Reserve Money .....	26
Food Price Indices .....	13	Bank Deposits with the BNB .....	26
Manufacturing and Services PMIs and Change in US Real GDP .....	13	Currency in Circulation .....	26
US Unemployment Rate and a Monthly Change in the Number of New Employees in the US Non-agricultural Sector .....	13	Foreign Currency Purchases and Sales between the BNB and Banks (on a Monthly Basis) .....	27
US Inflation Rate .....	14	Foreign Currency Purchases and Sales between the BNB, Banks and Final Customers (Net for the Last 12 Months) .....	27
Manufacturing and Services PMIs and Change in China's Real GDP .....	14	Foreign Currency Purchases and Sales between Banks and Final Customers (Net for the Last 12 Months) .....	27
China's Inflation Rate .....	14	Annual Growth of Credit to Non-financial Corporations and Households .....	28
Reserve Requirement Ratio in China .....	14	Annual Growth of Credit to Non-financial Corporations and Contribution by Loan Type .....	28
Reference Rates in China .....	15	New Loans to Non-financial Corporations (Monthly Volumes) .....	28
Manufacturing and Services PMIs and Change in Euro Area Real GDP .....	15	Annual Growth of Household Credit and Contributions by Loan Type .....	29
Euro Area Unemployment Rate and Employment Growth .....	16	New Loans to Households (Monthly Volumes) .....	29
Euro Area Inflation Rate .....	16	Changes in Credit Standards .....	29
ECB Interest Rates, EONIA, €STR and Excess Liquidity in the Euro Area Banking System .....	16	Spread between ECB Deposit Facility Rate and LEONIA/LEONIA Plus and Traded Volumes in the Interbank Money Market in Bulgaria .....	30
EURIBOR .....	17	Changes in Credit Demand .....	30
Current and Capital Account Flow Dynamics and Contribution by Components .....	18	Spread between ECB Deposit Facility Rate and Interest Rate on Banks' Excess Reserves with the BNB and Amount of Excess Reserves .....	30
Nominal Exports and Imports of Goods Dynamics (Balance of Payments Statistics Data) .....	19	Interbank Money Market Rates on Overnight Deposits (Average Monthly Value) .....	31
Exports by Commodity Group under the Combined Nomenclature, Contribution to the Overall Rate of Change by Sub-components .....	19	Interest Rates on New Time Deposits by Sector .....	31
Imports of Commodity Groups by Use, Contribution to the Overall Rate of Change by Sub-components .....	20	Interest Rates on New Time Deposits by Currency .....	32
Nominal Exports and Imports of Services Dynamics (Balance of Payments Statistics Data) .....	20	Interest Rates on Outstanding Amounts of Time Deposits .....	32
Annual Change of Exports of Services and Contribution by Sub-components .....	21	Interest Rates and APRC on New Household Loans .....	33
Annual Change of Imports of Services and Contribution by Sub-component .....	21	Interest Rate on New Loans to Non-financial Corporations .....	33
Financial Account Flow Dynamics and Contribution by Components .....	21	Reference Government Securities Yield Curve in Bulgaria .....	34
Direct Investment – Liabilities by Type of Investment .....	22	Long-term Interest Rate for Assessing Bulgaria's Degree of Convergence and Spread vis-à-vis German Long-term Interest Rate .....	34
Bulgaria's International Investment Position .....	22	Contribution to Real GDP Growth by Final Use Component in Real Terms (Quarterly Data) .....	35
Liabilities Structure of the BNB Issue Department Balance Sheet .....	22	Gross Value Added Rate of Change in Real Terms and Contribution by Sector (Quarterly) .....	36
Gross External Debt .....	23	Deviations of Economic Activity from Potential Output .....	36
Annual Growth of Non-government Sector's Deposits and Contribution by Sector .....	24		

Cyclical Position of the Economy in the Second Quarter of 2025 According to Selected Economic Indicators.....	37	Inflation and Contribution of Major Commodity and Services Groups to It.....	50
Indicator of Differences in Economic Agents' Assessments about the Expectations of Economic Development in the Short Term .....	37	Primary Energy Commodity Prices.....	50
Composite Economic Indicator of Economic Activity .....	38	Contribution of Major Sub-groups to Energy Inflation (Excluding those with Controlled Prices) .....	51
Contribution to the Change in Labour Force by Component.....	38	Rate of Change in Brent Crude Oil and A95 Petrol Prices.....	51
Economic Activity and Share of Discouraged Persons.....	39	Rate of Change of Food Price Index and Contribution of Processed and Unprocessed Food .....	51
Unemployment Rate.....	39	Contribution of Major Sub-groups to Unprocessed Food Inflation.....	51
Contribution to Changes in the Number of Employed by Economic Sector.....	40	Contribution of Major Sub-groups to Processed Food Inflation.....	52
Contribution to the Change in the Number of Job Vacancies by Economic Sector.....	40	Core Inflation and Contribution of Services and Non-food Goods to It.....	52
Labour Shortages (Seasonally Adjusted and Sector-Weighted Monthly Data) .....	40	Contribution of Major Sub-groups to Inflation in Industrial Goods (Excluding Energy Products).....	52
Compensation <i>per</i> Employee at Current Prices .....	40	Contribution of Major Sub-groups to Inflation in Services.....	53
Compensation <i>per</i> Employee and Average Wage at Current Prices.....	41	Contribution of Major Sub-groups to Inflation in Administratively Controlled Prices (Including Tobacco Products) .....	53
Final Demand Deflator.....	41	Diffusion Index.....	54
Unit Labour Costs.....	42	Expectations of Selling Prices in Industry, Retail Trade and Services in the Following Three Months.....	54
Contribution of the Private and Public Sectors to the Annual Rate of Change in Investments in Real Terms .....	42	Rate of Change of House Price Index.....	54
Contribution by Asset Type to the Annual Rate of Change in Investments in Fixed Capital.....	42	Actual and Equilibrium Housing Prices .....	55
Annual Rate of Change of Nominal Gross Operating Surplus and Contribution by Sector .....	43	Indicators of Undervaluation/Overvaluation of Housing Prices .....	56
Financing Sources.....	43		
Rate of Change of Producer Price Index in Industry.....	43		
Dynamics of the Production Index in Manufacturing, Construction and Services .....	43		
Industrial Turnover Dynamics .....	44		
Dynamics of Nominal Retail Trade Volumes .....	44		
Business Climate.....	44		
Factors Hampering Economic Activities of Corporations .....	44		
Contributions to the Change in Household Revenue .....	45		
Contribution to the Change in Total Monthly Household Income .....	45		
Household Disposable Income .....	46		
Shares of Taxes and Social Security Contributions in Total Household Expenditure.....	46		
Contribution to the Change in Households' Consumer Expenditure.....	46		
Household Propensity to Save .....	47		
Contribution of Major Groups of Expenditure to Government Consumption Growth in Nominal Terms (on a Quarterly Basis).....	48		
Rate of Change in Gross Fixed Capital Formation of the General Government Sector in Nominal Terms (Quarterly Data).....	48		
Contribution of Major Groups of Expenditure to Total Budget Expenditure Growth, Cumulatively .....	49		
		<b>Tables</b>	
		Key Indicators of the Housing Market Developments in Bulgaria .....	55

## ABBREVIATIONS

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



# SUMMARY

---

In the first quarter of 2025, real global GDP growth slowed down to 0.6 per cent on a quarterly basis. PMIs data on manufacturing and services signalled a further deceleration in growth over the second quarter of 2025. Uncertainty regarding the ongoing changes of the US trade policy *vis-à-vis* their main trading partners continued to affect adversely global activity. Given Bulgaria's strong integration into global trade, this set of factors is likely to have a negative impact on real exports of Bulgarian goods and services in the second quarter of 2025.

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

Global inflation increased in the second quarter of 2025 driven by the accelerated consumer price growth in developing economies, while inflation slowed in advanced economies. The Federal Reserve System left the federal funds rate unchanged within the range of 4.25–4.50 per cent, taking into account the uncertainty regarding the effects on inflation and labour market as a result of changes in the economic policy of the US administration. Given the inflation dynamics in the euro area and the outlook of stabilisation around its target, the European Central Bank lowered in June the interest rates on the deposit facility, main refinancing operations and the marginal lending facility by 25 basis points each to 2.00 per cent, 2.15 per cent and 2.40 per cent, respectively.

The balance of payments current and capital account deficit for the last 12 months as of April 2025 amounted to 1.7 per cent of GDP, against a deficit of 0.1 per cent of GDP as of December 2024, mainly reflecting the deterioration in the current account balance due to the increase in trade deficit. During the last 12 months, as of April 2025, Bulgaria was a net recipient of funds from the rest of the world, with the financial account balance being negative at 1.8 per cent of GDP, reflecting the lower level of foreign assets newly acquired by Bulgarian residents over the period compared to newly incurred liabilities from non-residents. As of April 2025, Bulgaria's gross international reserves posted a EUR 0.1 billion decline as a result of current, capital and financial account flows over the last 12 months.

During the first five months of 2025, annual growth of non-government sector's deposits remained strong and amounted to 10.2 per cent at the end of May. Household deposits, which rose by 11.5 per cent on an annual basis, continued to contribute most to this growth. Between January and May 2025, the annual growth rate of credit to households remained close to that reported at the end of 2024, reaching 20.7 per cent in May. Growth in consumer loans slowed down, while a tendency of maintaining similar growth levels was observed in housing loans, which continued to have the largest contribution to household credit growth. BNB's Bank Lending Survey results show a significant tightening of standards for housing loans in the fourth quarter of 2024 and further tightening in the first quarter of 2025, which may be linked to the BNB requirements for indicators on lending standards in extending and renegotiating loans secured by residential real estate, effective since the beginning of October 2024. Annual growth of loans to non-financial corporations slowed down to 9.3 per cent, driven by the corporate overdrafts.

In the first quarter of 2025, the annual growth of economic activity slowed to 2.9 per cent, from 4.1 per cent in the previous quarter. In the growth decomposition over the quarter, a significant positive contribution of domestic demand was observed (8.8 percentage points), along with an increase in the negative contribution of net exports (-5.4 percentage points). By final expenditure component, private consumption, followed by investment in fixed capital and government consumption were the main contributors to annual real GDP growth. Driven by growing domestic demand, the growth rate of imports of goods accelerated, while exports continued to decline. Gross value added rose by 2.5 per cent on an annual basis in the

first quarter, supported by all major sectors except the industry sector. Employment went up by 1.4 per cent year on year, while labour shortages continued to increase. Strong labour demand and tight labour market conditions were reflected into an increase in nominal compensation *per* employee by 10.7 per cent on an annual basis in the first quarter of 2025.

Economic indicators in the second quarter of 2025 suggest that quarter-on-quarter economic activity growth in Bulgaria will slow down slightly from the previous quarter while annual growth will remain close to that of the previous quarter. Real GDP growth until the end of the year is projected to be supported mostly by domestic demand, while net exports are expected to continue to have a negative contribution.

Annual HICP inflation came to 2.9 per cent in May 2025, from 2.1 per cent at the end of 2024, with the groups of food and services being the main drivers of this acceleration. Rising unit labour costs and strong private consumption, which enabled firms to pass on higher production costs to final consumers, contributed most to inflation acceleration. In the second quarter of 2025, headline inflation slowed down to 2.8 per cent on average in April–May 2025 against 3.9 per cent in the first quarter of 2025, reflecting lower inflation in the goods and services with administratively controlled prices and tobacco products and stronger fall in energy prices. Based on the technical assumptions on the evolution of international commodity prices, projected dynamics of the labour market and domestic economic activity and forecast's underlying assumptions about the effects of the rise in some administratively set prices, the rate of increase of consumer prices is expected to accelerate in the second half of 2025.

# 1. EXTERNAL ENVIRONMENT

## 1.1. Current Business Situation

### Global Environment

In the first quarter of 2025, real global GDP growth slowed down to 0.6 per cent, from 0.8 per cent in the previous quarter. Data on global PMI services and manufacturing indicate a further deceleration in growth in the second quarter of 2025, associated with the continuing uncertainty stemming from changes in the US foreign trade policy. The services sector reported a slowdown in economic activity, but the sector remains at the forefront of global economic activity. Activity in manufacturing continued to increase somewhat, owing to order increases in the period preceding the rise in import tariffs in the United States. This was also reflected in data on world trade volumes, whose annual growth amounted to 3.8 per cent in April 2025, compared to 3.1 per cent in December 2024.

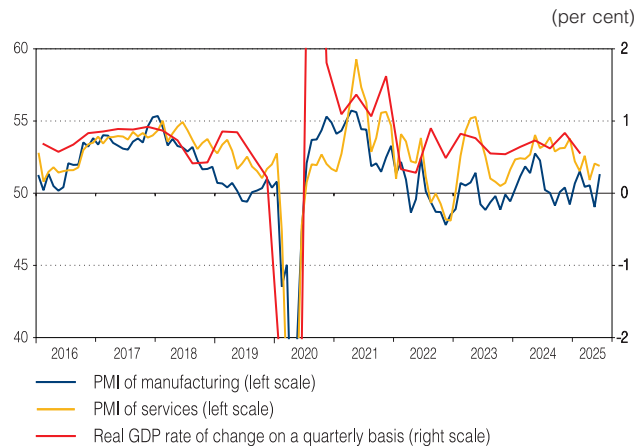
Global inflation intensified in April and May 2025 due to accelerated consumer price growth in developing economies, while inflation slowed in advanced economies.

### International Commodity Prices

In the second quarter of 2025, the Brent oil price fell quarter on quarter (by 10.4 per cent in dollars<sup>1</sup> and by 16.9 per cent in euro) reaching USD 67.8 *per barrel* (EUR 59.8 *per barrel*). Oil price fell on an annual basis in both US dollars (by 20.1 per cent) and euro (by 24.1 per cent). A key factor behind this was the ongoing uncertainty about global economic and trade prospects as a result of changes in the US foreign trade policy. Further downward pressure on prices was driven by OPEC+ decisions to gradually ease production restrictions and thus to increase oil supply in global markets. Heightened geopolitical tensions in the Middle East in June led to sharp but short-term increases in oil prices.

<sup>1</sup> Hereinafter referred to as the US dollar.

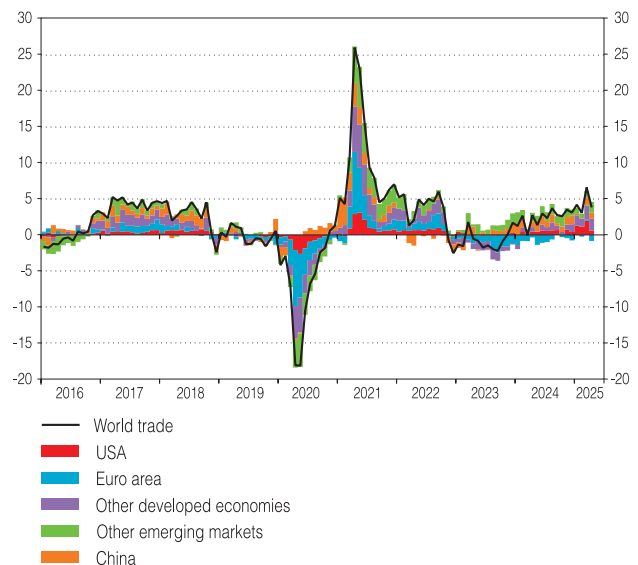
Manufacturing and Services PMIs and Changes in World Real GDP



Sources: JP Morgan, World Bank.

### World Trade in Goods

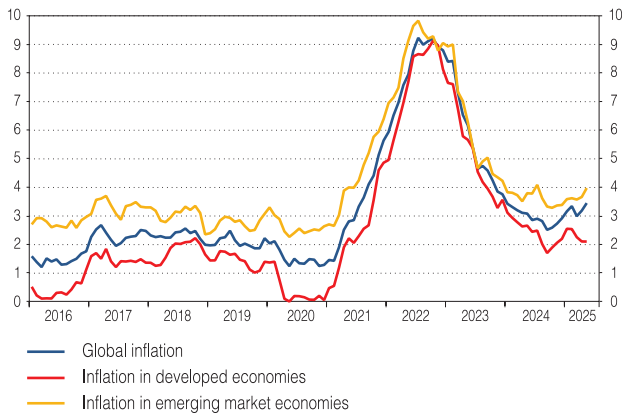
(per cent, percentage points, annual rate of volume change and contribution by region)



Source: CPB Netherlands Bureau for Economic Policy Analysis.

## Inflation Measured through CPI

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



Source: World Bank.

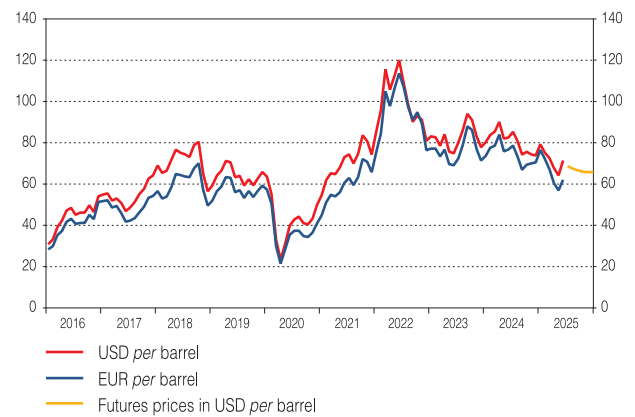
In the second quarter of 2025, natural gas prices in the European market continued to increase year on year (by 18.4 per cent in US dollars and 12.5 per cent in euro), however, posting a decline of 17.6 per cent in US dollars and 23.6 per cent in euro on a quarterly basis. Stronger demand to fill the gas storage facilities in Europe, which remained below the historical average for the period<sup>2</sup>, was a determining factor behind the price rise in natural gas in the European market, while seasonal demand remained relatively weak. Increased geopolitical tensions in the Middle East also exerted further upward pressure on natural gas prices.

In April–June 2025, the average metal and mineral price index declined by 5.4 per cent on an annual basis in dollars (by 10.2 per cent in euro). All raw materials included in the index, except for tin, posted a decline, with iron ore and nickel making the strongest negative contribution. The price of copper, which is of key importance for Bulgarian exports, declined mainly reflecting supply-side base effects. Copper prices rose on a quarterly basis, due to risks stemming from the US foreign trade policy as well as technical factors related to supply on the London Metal Exchange.

In the same period, the total food price index recorded an annual decrease of 7.0 per cent in dollars (11.6 per cent in euro). Lower prices of rice and soybean contributed most to the decline

<sup>2</sup> According to GIE (Gas Infrastructure Europe) data, on 30 June 2025, European gas storage facilities were filled to 58.9 per cent, compared to an average of 70 per cent as of the same date in the period 2019-2024.

## Prices and Futures of Brent Crude Oil

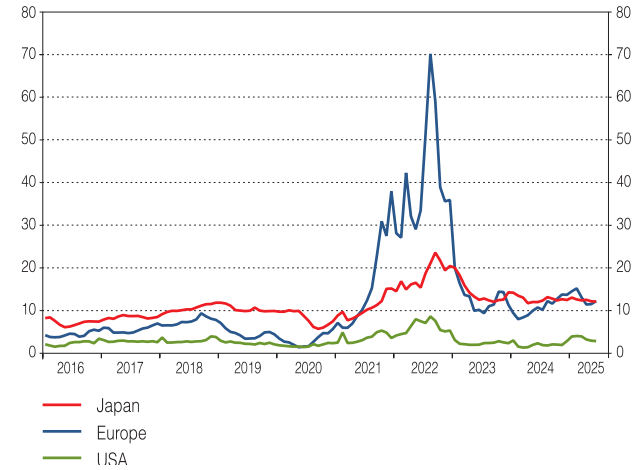


Note: Future prices are average prices of April 2025 contracts, USD per barrel.

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

## Natural Gas Prices

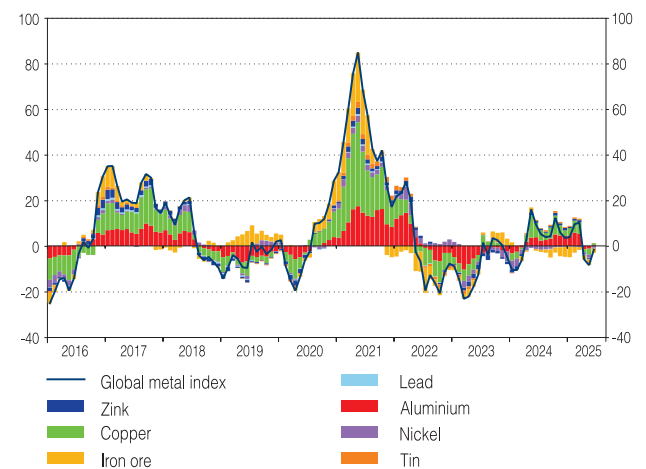
(US dollars per million British thermal unit)



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.

in the overall food price index. The decline in wheat price, which is essential for Bulgarian food exports, was due essentially to base effects and stabilisation of raw material supply prospects.

### The United States

In the second quarter of 2025, leading US economic indicators reported a slowdown in the growth of economic activity. Over the review period, PMIs for manufacturing and services as well as data on individual consumption and retail sales signalled a slight increase in investment and private consumption over the period. At the same time, US trade balance data show a significant improvement compared to the first quarter of 2025, signalling a substantial positive contribution of net exports to the change in US GDP in the second quarter.

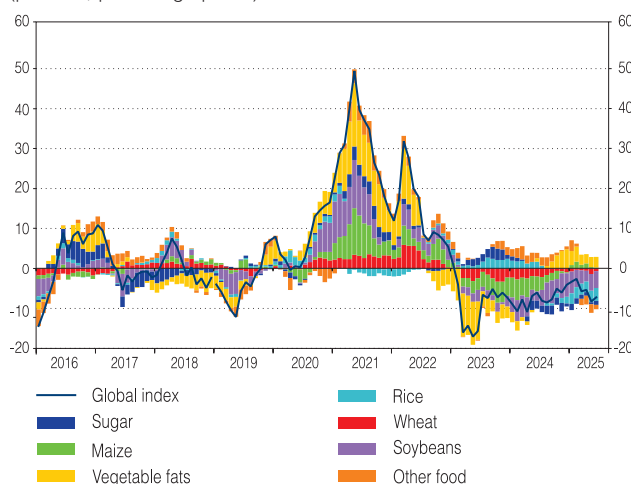
Major labour market indicators in the United States stabilised in the second quarter of 2025. The number of employed in the non-agricultural sector increased by a total of 449 thousand, compared with an increase of 333 thousand in the first quarter of 2025. The ratio of announced new jobs to the number of unemployed in May remained on average 1.1, as in the previous three quarters. Concurrently, the average unemployment rate in the second quarter rose to 4.2 per cent compared to 4.1 per cent in the previous two quarters.

In the second quarter of 2025, annual consumer price inflation continued to stabilise slightly above the 2 per cent target set by the Federal Reserve. In May, the annual rate of change in the price index of personal consumption expenditure remained unchanged i.e. 2.3 per cent, as was the value of the indicator in March. The annual growth rate of the core PCE price index (excluding food and energy products) also retained in May its March level of 2.7 per cent. The price increase in some durables was offset by the decrease in financial services prices.

In the second 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. Changes in the parameters of the Federal Reserve's balance sheet reduction plan adopted in March, were also reconfirmed. In June, the Committee noted that uncertainty about the economic outlook had declined but was still high.

### Food Price Indices

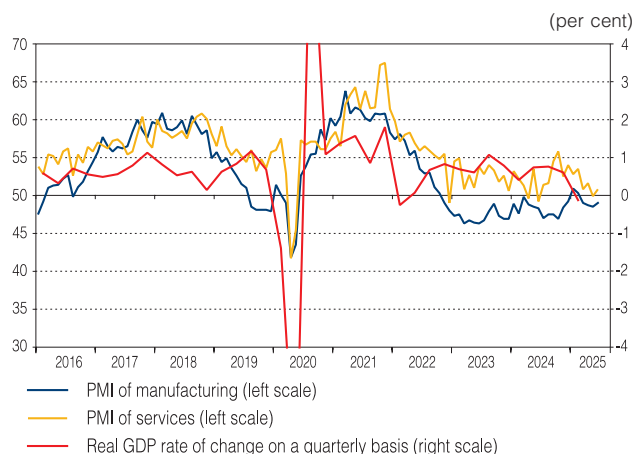
(per cent, percentage points)



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

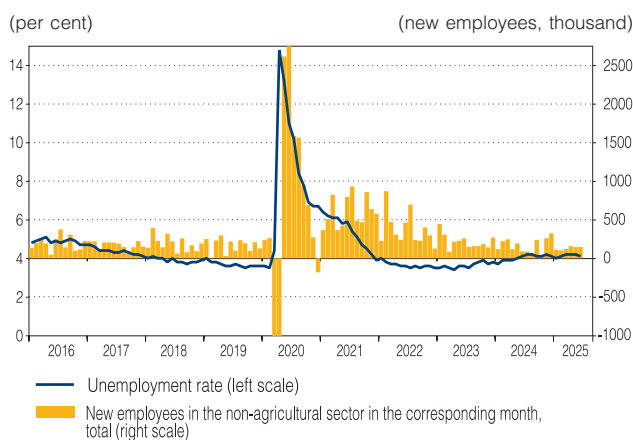
Sources: World Bank and BNB calculations.

### Manufacturing and Services PMIs and Change in US Real GDP



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

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

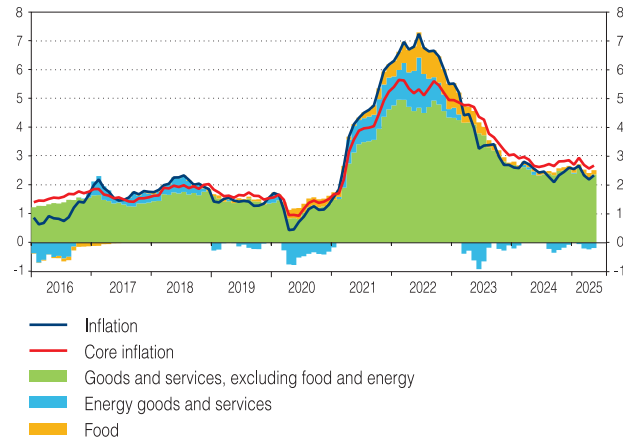


Note: The number of new employees in the non-agricultural sector in April and June 2020 are not evident in the chart, coming to -20,471 and 4631 thousand.

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.

In June 2025, the Committee members' summarised forecasts showed a deterioration in US economic growth expectations and expectations of a longer period of higher inflation and unemployment. The median of expectations of the federal funds rate at the end of 2025 was retained at 3.9 per cent, corresponding to a target corridor of 3.75-4.00 per cent or a decrease of 50 basis points from the current range. The estimate of the long-run equilibrium level of the federal funds rate remained at 3.00 per cent.

## China

In the second quarter of 2025, economic indicators (PMIs) continued to exhibit a volatile dynamics around the neutral limit of 50 points. The activity in the services sector was higher, while indicators in industry signalled a continued stagnation.

Annual consumer price inflation in China increased slightly in June 2025, standing at 0.1 per cent compared to a deflation of 0.1 per cent in March. The increase in headline inflation is due to higher core inflation, which in June 2025 reached 0.7 per cent on an annual basis, from 0.5 per cent in March. Food made a major negative contribution to headline inflation over the review period.

In the second quarter of 2025, the trend towards stabilisation in the real estate market persisted. In May the annual decline in residential property prices in larger cities decelerated to -1.7 per cent from -3.1 per cent on average in the first quarter.

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

(per cent)

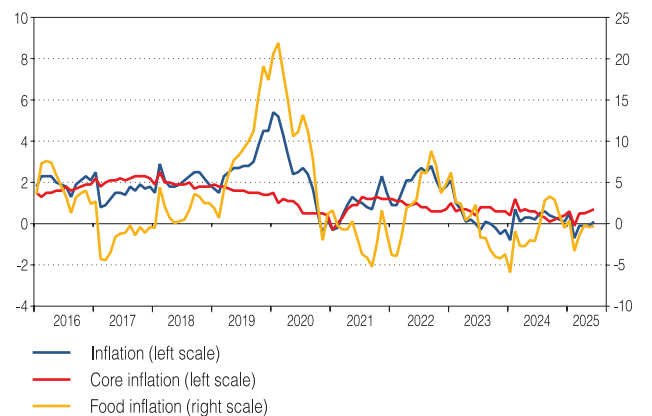


Sources: National Bureau of Statistics of China and China Federation of Logistics and Purchasing.

## China's Inflation Rate

(per cent, on an annual basis)

(per cent, on an annual basis)

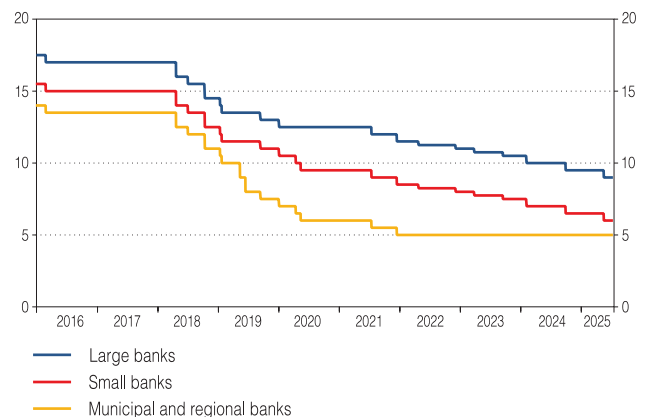


Notes: Inflation is measured by consumer price index. Core inflation is measured by consumer price index, excluding food and energy expenditure.

Source: National Bureau of Statistics of China.

## Reserve Requirement Ratio in China

(per cent)



Source: People's Bank of China.

In May, the People's Bank of China took monetary policy easing measures by lowering by 10 basis points the one-year loan prime rate and the interest rate on loans with a maturity of five years (mortgage reference) to 3.00 per cent and 3.50 per cent, respectively. The central bank decreased the interest rate on the seven-day refinancing operations by 10 basis points to 1.4 per cent. Concurrently, the minimum reserve rates of large and small banks were lowered by 50 basis points to 9.0 per cent and 6.5 per cent, respectively. The reduction in reserve requirements by the institution is estimated to release liquidity to commercial banks of around RMB 1 trillion (EUR 119 billion).

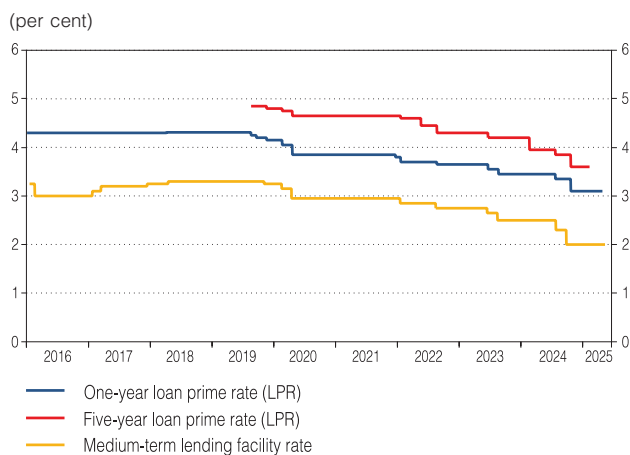
### Euro Area

Euro area real GDP accelerated to 0.6 per cent on a quarterly basis in the first quarter of 2024, compared to 0.3 per cent in the fourth quarter of 2023. All main components of final consumption expenditure, excluding changes in inventories and government consumption, contributed positively to quarter-on-quarter changes in GDP. Euro area GDP growth was significantly affected by data on Ireland due to the statistical effects of multinational enterprises' activity in the country, mainly in terms of investment in intellectual property products and transport equipment. Euro area net exports were also supported by Irish exports of pharmaceutical products, reflecting early stockpiling in the United States driven by expectations of higher import tariffs in the country. In Germany, Bulgaria's major trading partner, real GDP growth accelerated quarter on quarter by 0.4 per cent in the first quarter of 2024 and in Italy, Bulgaria's other major trading partner, real GDP grew by 0.3 per cent quarter on quarter in the first quarter of 2024.

Data on euro area economic indicators, including PMIs, available in the beginning of July 2024, point to a slower quarterly growth rate in euro area real GDP in the third quarter of 2023. PMI indices reported a deceleration 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.

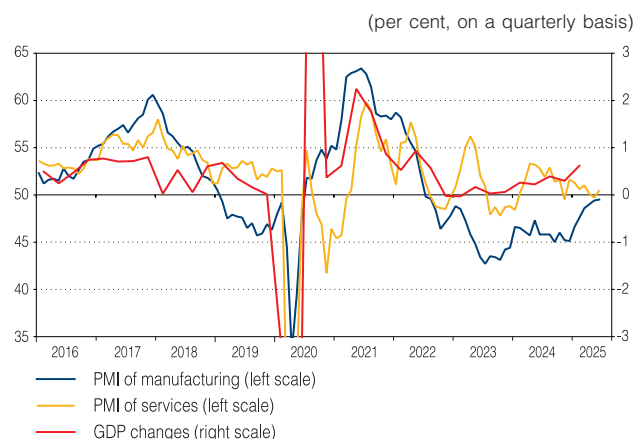
Labour market conditions in the euro area remained comparatively favourable in the second quarter of the year. The unemployment rate remained at historically low levels, averaging 6.3 per cent in April

### Reference Rates in China



Source: People's Bank of China.

### Manufacturing and Services PMIs and Change in Euro Area Real GDP



Source: Eurostat.

and May 2025. Concurrently, employment tended to slow down further, growing by 0.7 per cent on an annual basis in the first quarter of 2025, compared to the 0.8 per cent rise in the previous quarter.

In the second quarter of 2025, annual consumer price inflation in the euro area decelerated. In June 2025, it stood at 2.0 per cent, compared to 2.2 per cent in March 2024, with the slowdown mainly reflecting the decline in transport fuel prices and lower services inflation. In the same month, core inflation excluding food and energy products came to 2.3 per cent on an annual basis, from 2.4 per cent in March.

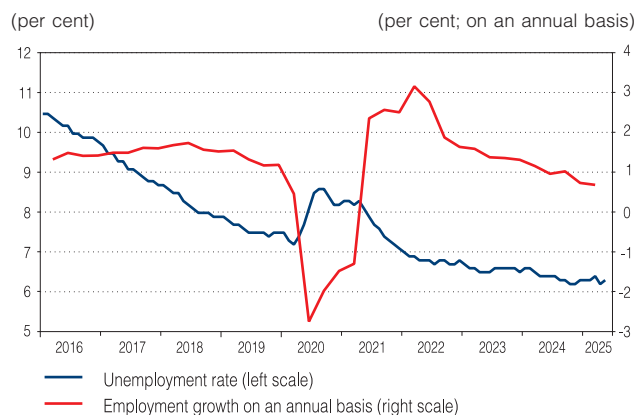
Taking into account inflation dynamics in the euro area and the prospects for its stabilisation around the ECB's inflation target, the ECB Governing Council lowered the reference interest rates by 25 basis points at its June 2025 meeting to 2.00, 2.15 and 2.40 per cent, respectively, for the deposit facility, main refinancing operations and marginal lending facility.

The ECB's key interest rate cuts was a main driver for the decline in euro area money market interest rates in the second quarter of 2025. The average value of the €STR benchmark overnight rate reached 2.17 per cent over that period from 2.71 per cent in the first quarter of 2025. German government bond yields declined by 19 basis points to 1.86 per cent in the two-year maturity sector and decreased by 13 basis points to 2.61 per cent in the ten-year sector. The main factor behind the decline in German government bond yields in the second quarter were the two ECB interest rate cuts. German government bond yield dynamics over the quarter was strongly influenced by information on developments in US foreign trade policy and the related demand for low-risk assets. Rising geopolitical tensions also contributed to the decline in German government bond yields.

## 1.2. Impact on the Bulgarian Economy

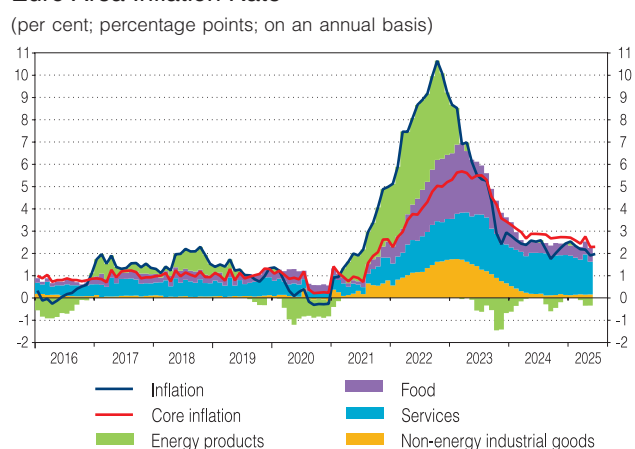
Accelerated economic activity of Bulgaria's main euro area trading partners early this year created a favourable external environment for Bulgarian trade. However, real exports of goods and services from Bulgaria posted a quarterly decline in the first quarter of 2025, mainly driven by internal factors related to repairs in key enterprises in

## Euro Area Unemployment Rate and Employment Growth



Source: Eurostat.

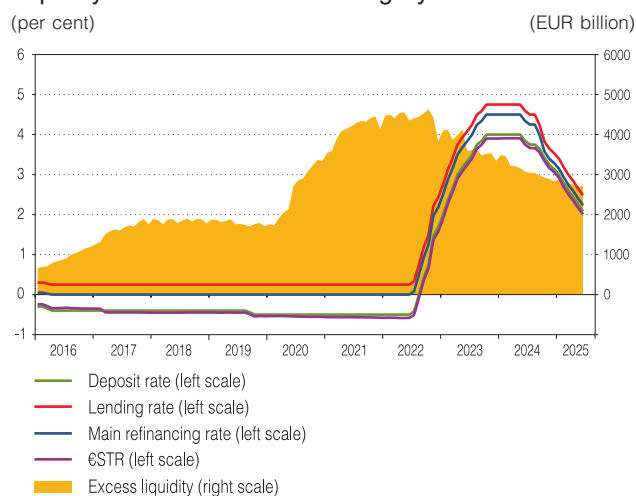
## Euro Area Inflation Rate



Notes: Inflation is measured by the HICP. Core inflation is measured by HICP, excluding energy products, food, alcohol and tobacco products.

Source: Eurostat.

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



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

Source: ECB.

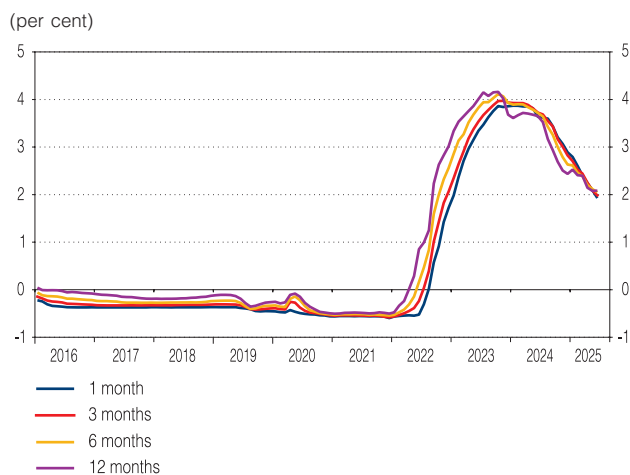


manufacturing. Concurrently, signals from economic indicators of slowdown in quarterly growth of global economic activity in the second quarter of 2025 are also likely to result in weaker external demand for Bulgarian goods and services over this period. An additional negative risk also stems from a possible deepening of trade tensions between the US and its main economic partners. These factors are a prerequisite for a decline in economic activity in Bulgaria, given the high degree of openness of the Bulgarian economy and the large share of exports in GDP.

Commodity price dynamics in international markets in the second quarter of 2025, resulting in year-on-year significant reductions in oil, food and metal prices, are indicative of favourable terms of trade in the second quarter of 2025 given the structure of the Bulgarian economy, foreign trade and domestic price developments, especially in terms of labour costs.

The cut in key interest rates by the ECB which continued in the second 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 Bulgaria, in particular in the housing lending segment, remains 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

Between January and April 2025, the current and capital account balance was negative at EUR 1.7 billion (1.6 per cent of GDP), implying also the use of external financing in the economy. However, the financial account balance was positive at EUR 2.2 billion (2.1 per cent of GDP) due to the higher level of newly acquired foreign assets by Bulgarian residents over the period compared to their newly incurred liabilities to non-residents. As a result of these developments, gross international reserves of Bulgaria fell by EUR 4.0 billion (3.8 per cent of GDP) between January and April 2025 (from a decline of EUR 4.8 billion in the same period of 2024). For the last 12 months as of April 2025, the decrease stood at EUR 0.1 billion (0.1 per cent of GDP). As of April 2025, the amount of gross international reserves remained high according to indicators commonly used in practice, equalling the amount of nominal imports of goods and services<sup>3</sup> for a period of 8.2 months (9.1 months in December 2024). The ratio of international reserves<sup>4</sup> to Bulgaria's short-term external debt amounted to 4.7 times in April 2025 (compared to 4.3 times in December 2024).

#### *Current Account and Capital Account*

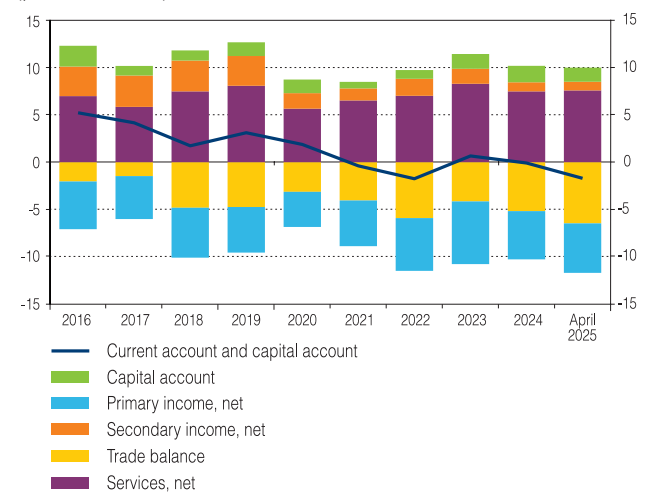
The current and capital account deficit for the last 12 months as of April 2025 reached 1.7 per cent of GDP, compared to a deficit of 0.1 per cent of GDP as of December 2024. The increase in the deficit was mainly due to the deterioration in the current account, whose deficit grew to 3.2 per cent of GDP in the last 12 months as of April 2025 (against 1.8 per cent of GDP as of December 2024). The deterioration in the current account balance was mainly driven by the increasing trade deficit, while balance sheets of the other current account components for the last 12 months remained at similar levels compared

<sup>3</sup> Calculated for the last 12 months as of April 2025.

<sup>4</sup> 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: April 2025 data on the current and capital account flows are accumulated for the last 12 months. Nominal GDP data for the last four quarters, including the first quarter of 2025, are used in calculating the GDP ratio for April 2025.

Sources: BNB, NSI, BNB calculations.

to their values at the end of 2024. At the same time, the capital account surplus fell to 1.5 per cent of GDP for the last 12 months as of April 2025 (from 1.7 per cent of GDP as of December 2024), mainly as a result of a decline in capital transfers received by the general government in the form of investment grants.

### Trade Balance and Foreign Trade in Goods

In the first four months of 2025, the trade balance deficit widened from the corresponding period of 2024, as a result of the year-on-year decline in nominal exports of goods by 3.9 per cent and growth in nominal imports by 5.6 per cent. According to national accounts data available until the end of the first quarter of 2025, this dynamics has developed amid favourable terms of trade<sup>5</sup>, with real exports of goods declining by 4.3 per cent year on year in the first quarter of 2025, while real imports increased by 6.3 per cent.

According to BNB calculations based on detailed foreign trade data under the Standard International Trade Classification (SITC)<sup>6</sup> the weak exports of goods in the first quarter of 2025 are largely due to country-specific factors. The decrease in exported real volumes was driven by petroleum products and non-ferrous metals (in connection with repair works in key Bulgarian enterprises in the field of oil processing and metallurgy), followed by medicines. A further limiting factor for export growth continued to be the historically weak growth in external demand for Bulgarian goods and services<sup>7</sup>.

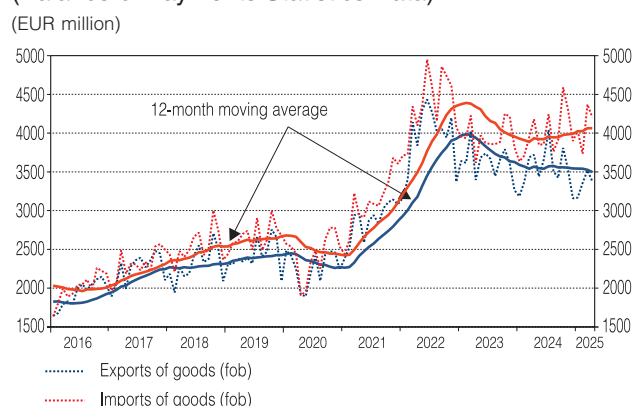
At the same time, the increase in real imports of goods in the first quarter of 2025 has been broad-based by commodity group, possibly reflecting the increased uncertainty in global trade amid the escalation of trade and geopolitical conflicts at the beginning of the year. Imports of natural gas, probably driven by market participants' expectations of oil price rises in 2025 and the need to fill gas storage facilities prior to winter months, had the most significant contribution to this growth.

<sup>5</sup> Unfavourable terms of trade in the first quarter of 2025 result in a stronger year-on-year price increase in exports of goods than in imports of goods, according to non-seasonally adjusted GDP data.

<sup>6</sup> 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.

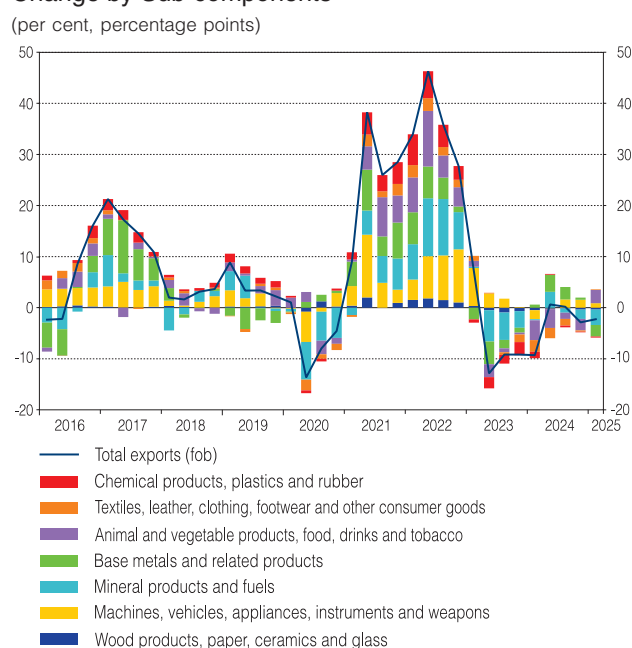
<sup>7</sup> ECB calculations of June 2025.

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



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

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



Note: Quarterly data are used. The last observation is for the first quarter of 2025.

Source: BNB.

As a result of these developments, the trade deficit for the last 12 months as of April 2025 widened to 6.5 per cent of GDP, from 5.2 per cent of GDP in December 2024.

### Balance on Trade in Services

Services trade surplus for the last 12 months as of April 2025 increased to 7.6 per cent of GDP, from 7.5 per cent of GDP in December 2024. This was mainly due to a combination of annual growth in imports of services by 2.8 per cent in January–April 2025 and a decline in nominal imports by 2.9 per cent.

Between January and April 2025, the continued growth in revenue from information and business services contributed most significantly to the increase in services exports on an annual basis. According to NSI data, the number of visits of foreign nationals to Bulgaria increased on an annual basis by 1.2 per cent in the first four months of 2025, with visits from Romania and Greece making the largest contribution to this effect.

At the same time, the year-on-year decrease in nominal imports of services since the beginning of the year was mainly driven by lower expenditure of Bulgarian residents on insurance and pension services<sup>8</sup>, while expenses by Bulgarian residents on travel abroad rose by 22.2 per cent on an annual basis.

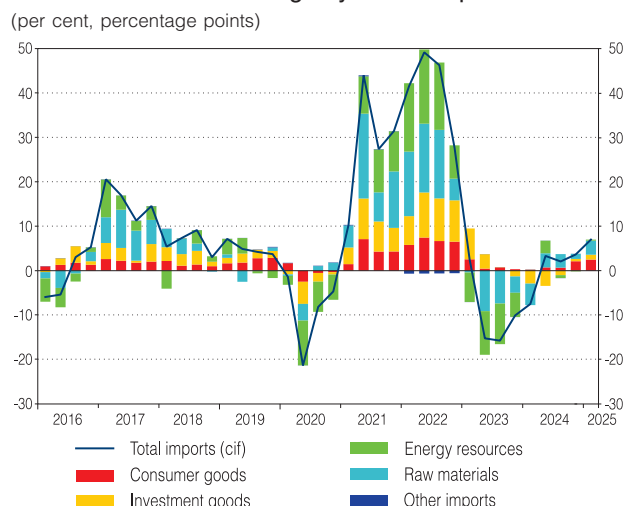
### Net Primary Income Account and Net Secondary Income Account

The deficit on the net primary income item remained broadly unchanged for the last 12 months as of April 2025, coming to 5.2 per cent of GDP from 5.1 per cent of GDP in December 2024. The deficit increased slightly on an annual basis between January and April 2025 as a result of higher outflows related to reinvested earnings on direct investment.

The surplus on net secondary income for the last 12 months as of April 2025 was 0.9 per cent of GDP, also remaining largely unchanged compared to 1.0 per cent of GDP in December 2024, with outgoing current transfers of the general government sector increasing since early 2025.

<sup>8</sup> Preliminary data subject to revision.

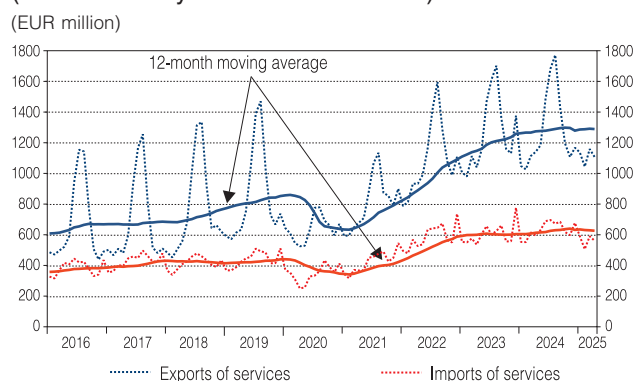
### Imports of Commodity Groups by Use, Contribution to the Overall Rate of Change by Sub-components



Note: Quarterly data are used. The last observation is for the first quarter of 2025.

Source: BNB.

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

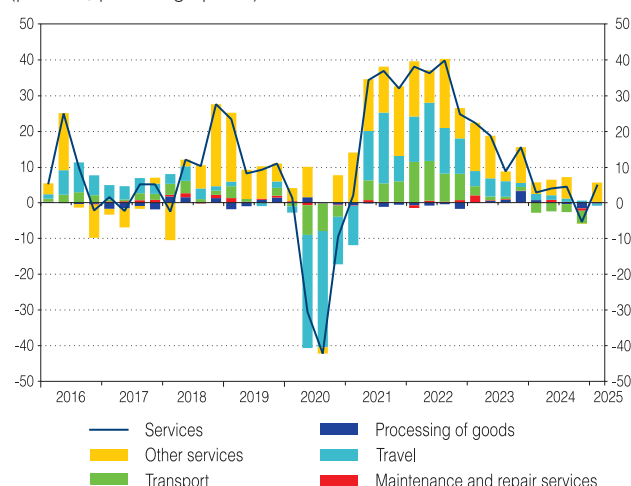


Note: Monthly data are used. The last observation is for April 2025.

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 first quarter of 2025.

Source: BNB.

## Financial Account and International Investment Position

As of April 2025, the financial account balance for the last 12 months was negative at EUR 1.9 billion (1.8 per cent of GDP) compared to a positive balance of EUR 0.2 billion (0.2 per cent of GDP) as of December 2024. Although the financial account balance was positive in the first four months of 2025, there was a lower amount of newly acquired foreign assets by Bulgarian residents compared to the same period of 2024, while newly incurred liabilities to non-residents increased (against a decline in the first four months of 2024). The reduction in accumulated foreign assets between January and April 2025 was most pronounced in portfolio investment by banks and other financial corporations in the form of debt securities. At the same time, newly incurred liabilities to non-residents in the first four months of 2025 increased mainly in terms of direct investment related to reinvested earnings.

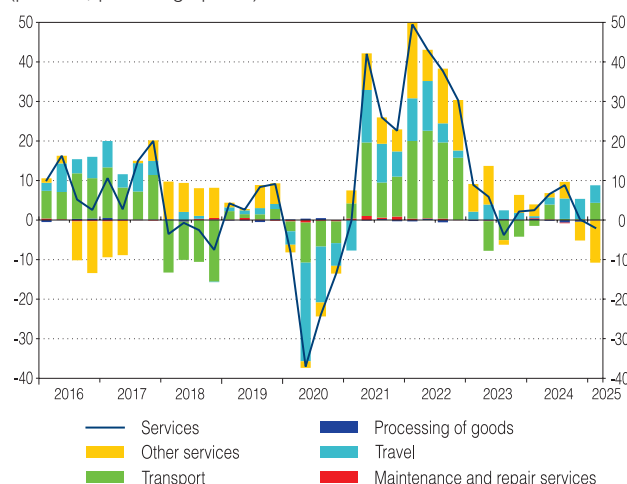
Foreign direct investments in Bulgaria<sup>9</sup> were 61.6 per cent of GDP at the end of the first quarter of 2025 (against 61.0 per cent at end-2024). Between January and April 2025, the inflow of attracted direct investment (liabilities) in Bulgaria amounted to EUR 1.6 billion<sup>10</sup>, compared with

<sup>9</sup> International investment position data are used.

<sup>10</sup> Data for 2024 and 2025 are preliminary and subject to revision.

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

(per cent, percentage points)

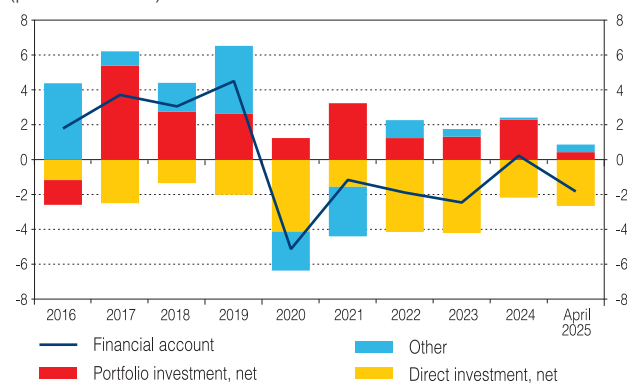


Notes: Quarterly data are used. The last observation is for the first quarter of 2025.

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. April 2025 data on financial account flows are accumulated for the last 12 months. Nominal GDP data for the last four quarters, including the first quarter of 2025, are used in calculating the GDP ratio for April 2025.

Sources: BNB, NSI, BNB calculations.

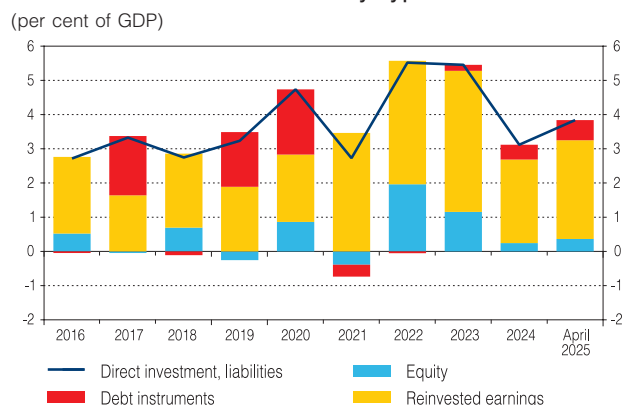
EUR 0.8 billion over the same period of 2024. This increase was mainly in the form of debt instruments and reinvested earnings of non-financial corporations. The sectors that attracted the largest share of foreign investment in the first quarter of 2025 were wholesale and retail trade and financial and insurance services.

As a result of balance of payments movements and changes due to valuation adjustments and price revaluations, the balance of Bulgaria's international investment position contracted to 4.9 per cent of GDP at the end of the first quarter of 2025, compared with 3.7 per cent of GDP at the end of 2024. These developments resulted from a combination of a decline in Bulgarian residents' foreign assets (mainly in the form of central bank reserve assets) and an increase in liabilities to non-residents (in the form of equity capital and reinvested earnings), while liabilities to non-residents in the form of long-term debt securities declined.

## 2.2. BNB International Reserves

At the end of June 2025, the market value of Bulgaria's international reserves (including valuation adjustments and price revaluations) was EUR 40.8 billion (BGN 79.7 billion), an increase of EUR 3.0 billion (BGN 6.0 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 Issue Department balance sheet liabilities according to the currency board principles in Bulgaria. The increase in liabilities of the Issue Department compared to end-June 2024 was driven by the rise in liabilities to the government and budget organisations and the increase in the Banking Department deposit, reflecting higher yields from the international reserve management and the higher price of gold. Concurrently, liabilities to other depositors and, to a lesser extent, currency in circulation posted a decline on an annual basis. As of end-March 2025, BNB international reserves were 37.6 per cent of GDP (40.5 per cent of GDP at end-December 2024).

## Direct Investment – Liabilities by Type of Investment

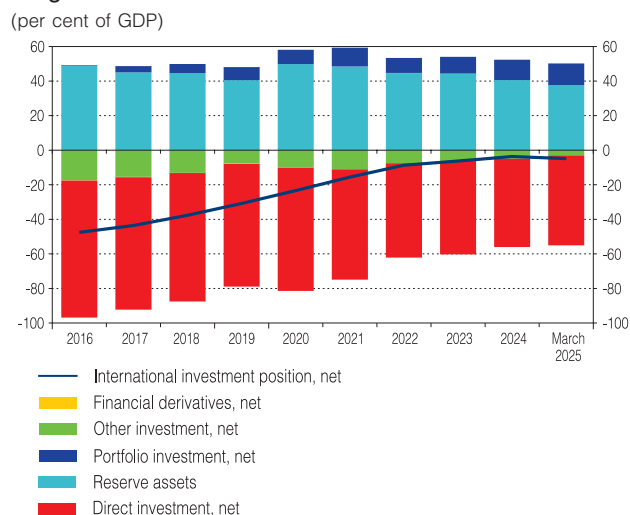


Notes: April 2025 data on direct investment liabilities flows are accumulated for the last 12 months.

Nominal GDP data for the last four quarters, including the first quarter of 2025, are used in calculating the GDP ratio for April 2025.

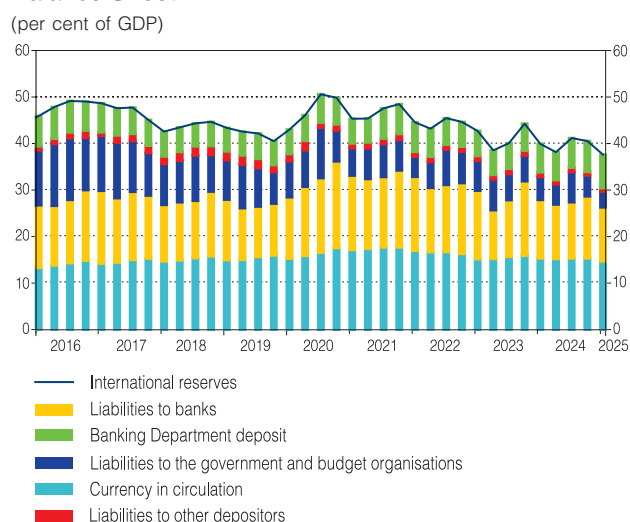
Sources: BNB, NSI, BNB calculations.

## Bulgaria's International Investment Position



Sources: BNB, NSI, BNB calculations.

## Liabilities Structure of the BNB Issue Department Balance Sheet



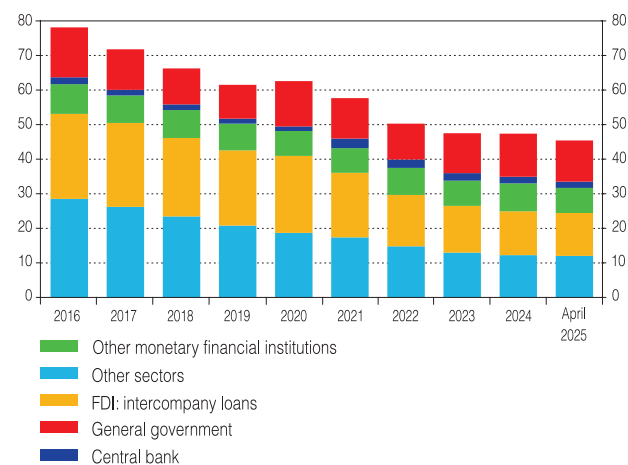
Sources: BNB, NSI, BNB calculations.

## 2.3. External Debt

As of April 2025, Bulgaria's gross external debt was EUR 47.6 billion (45.4 per cent of GDP), down EUR 1.5 billion from December 2024 and continued to decrease as a share of GDP. The decline in debt was broad-based across sectors, with the largest decline observed in the banking sector (fully in the form of short-term liabilities in currency and deposits), as well as in general government long-term debt securities as a result of their purchase by Bulgarian citizens on the secondary market. As of April 2025, the share of long-term debt in Bulgaria's total gross external debt rose to 82.7 per cent (80.3 per cent in December 2024).

### Gross External Debt

(per cent of GDP)



Note: Nominal GDP for the last four quarters, including the first quarter of 2025, is used in calculating the gross external debt to GDP ratio for April 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 five months of 2025, annual growth of non-government sector deposits<sup>11</sup> in the banking system remained relatively high, amounting to 10.2 per cent at the end of May (10.1 per cent at end-2024). Household deposits continued to contribute most to the total non-government sector deposits.

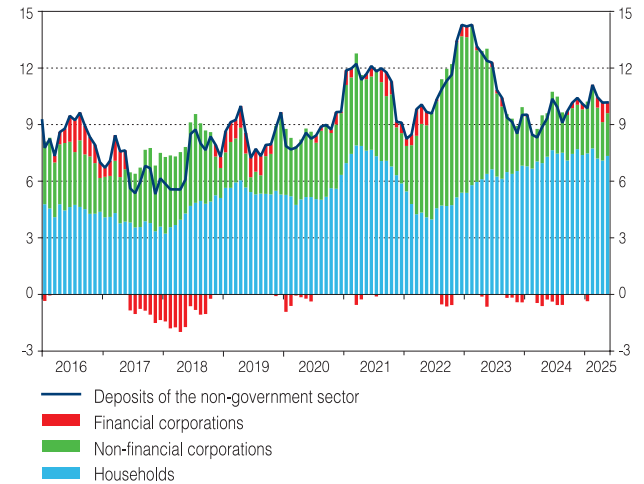
At the end of May 2025, household deposits grew by 11.5 per cent on an annual basis (11.8 per cent in December 2024). Major factors that continued to support household deposit growth included increasing labour income and households' persistent preferences to maintain some of their free funds in the form of deposits in the banking system. As a result of persistently low interest rates on new time deposits, overnight deposits continued to have the largest contribution to the growth of household deposits, while the contribution of deposits with an agreed maturity remained significantly lower. As regards the currency structure of deposits, between January and May 2025 households retained their preferences for saving primarily in local currency. At the end of May, the share of households' deposits in foreign currency (almost entirely in euro) remained at a level, similar to that of the end of 2024, reaching 29.5 per cent.

Annual growth of non-financial corporations' deposits came to 6.7 per cent in May 2025 (7.0 per cent at the end of December 2024). Data on non-financial corporations' deposits by economic sector show that wholesale and retail trade, repair of motor vehicles and motorcycles had the larg-

<sup>11</sup> 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 (97.2 per cent on average for the last 12 months as of May 2025), and therefore, the analysis is focused on these two sectors.

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

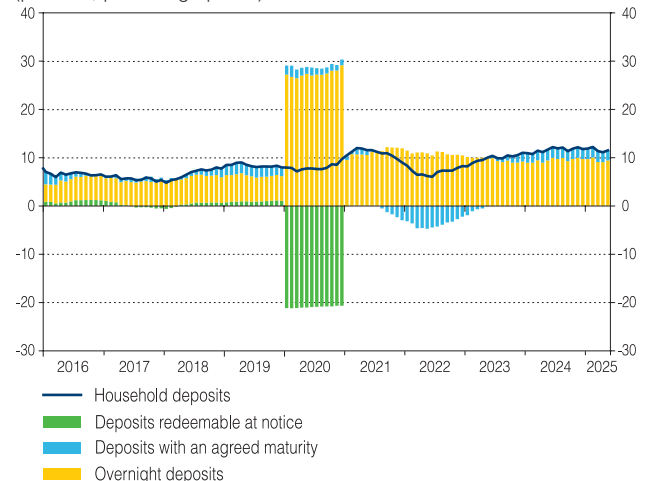
(per cent, percentage points)



Source: BNB.

### Annual Growth of Household Deposits and Contribution by Deposit Type

(per cent, percentage points)



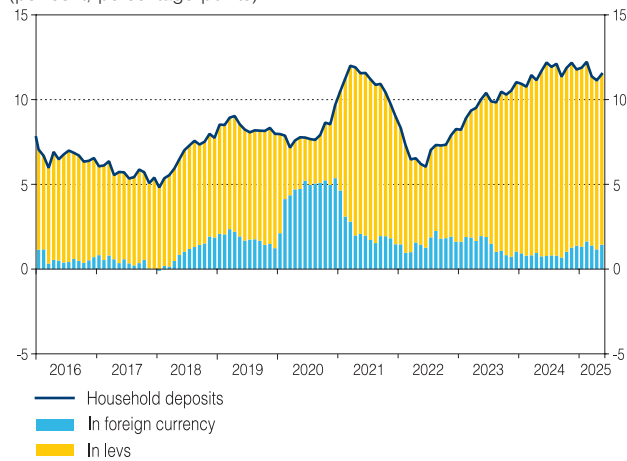
Note: In view of the analysis of the banking products and in line with the methodological requirements, transferable savings deposits have been reclassified from the Deposits redeemable at notice of up to three months indicator to the Overnight deposits of the household sector indicator with the January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

Source: BNB.



### Annual Growth of Household Deposits and Contribution by Currency

(per cent, percentage points)



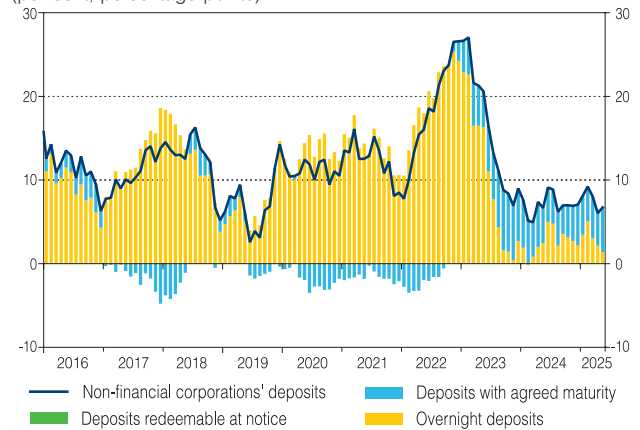
Source: BNB.

est contribution to the total growth in corporate deposits in the first quarter of 2025. Over the first five months of the year, the contribution of overnight deposits to total deposit growth in the non-financial corporations sector followed a slight downward trend, while deposits with an agreed maturity of over two years and, to a lesser extent, deposits of up to two years increased. As regards the currency structure of non-financial corporations' deposits, in the period from the second quarter of 2024 to mid-2025, the share of foreign currency deposits (entirely in euro) tended to increase, reflecting the enhanced preference of firms to maintain savings with banks in euro (as of May the share of foreign currency corporate deposits accounted for 37.2 per cent of total deposits). Foreign currency trade of banks with firms also registered a stronger increase in net sales of euro to corporations over the same period.

In the first five months of 2025, annual growth of the broad monetary aggregate M3 remained unchanged from December 2024, reaching 8.7 per cent at the end of May 2025. Divergent developments were observed across broad money components: the contribution of money outside monetary financial institutions decreased, its decline being fully offset by the increasing contribution of deposits with a maturity of up to two years and that of overnight deposits.

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

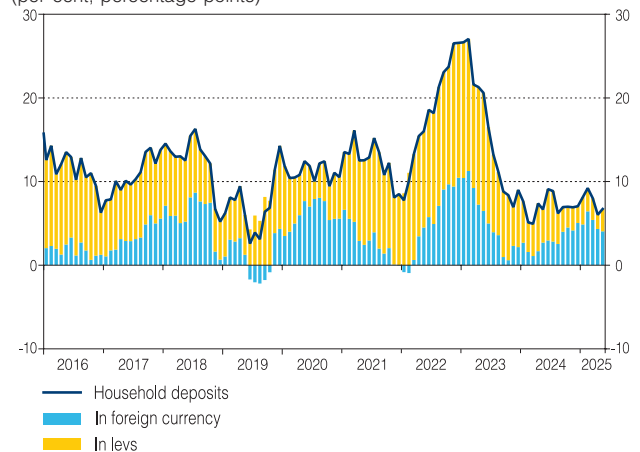
(per cent, percentage points)



Source: BNB.

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

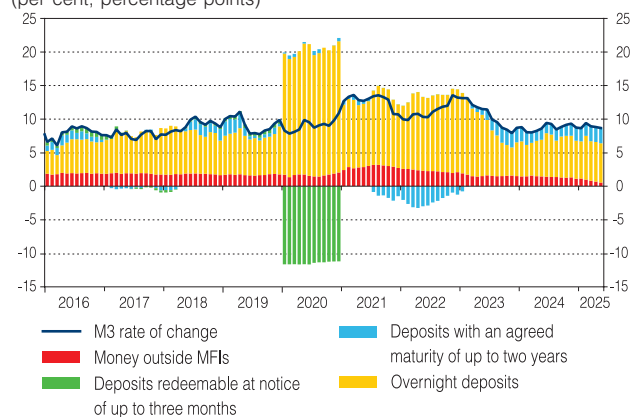
(per cent, percentage points)



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.

## Reserve Money

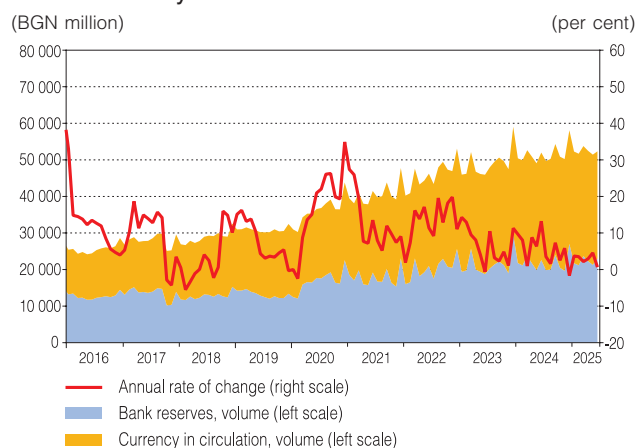
In June 2025, annual growth of reserve money was 0.6 per cent (-1.6 per cent by end-December 2024), with the increasing banking reserves almost entirely contributing to it. The contribution of currency in circulation to the annual growth of reserve money followed a gradual downward trend in the first half of the year, with currency in circulation at the end of June decreasing slightly from the same period of 2024.

Over the first half 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 typically higher levels at the end of each calendar year, where a more substantial and temporary increase was reported, particularly in excess reserves. In June 2025, excess funds over the required minimum of reserve assets under Ordinance No 21 was 1.9 per cent of minimum required reserves on an average daily basis, from 3.0 per cent of MRR in December 2024. Minimum reserve requirements tended to increase further as a result of the rising reserve base. In June 2025, the effective implicit ratio of the MRR was 11.70 per cent (11.77 per cent in December 2024), with bank deposits at the BNB comprising 10.85 percentage points in minimum required reserves, and the remaining 0.85 percentage points in the form of recognised cash balances.

Over the first six months of 2025, the annual growth of currency in circulation followed a downward trend. In the second quarter, the slowdown trend accelerated, with a 0.3 per cent decline on an annual basis reported at the end of June (against 5.5 per cent growth in December 2024). Strong downward dynamics of currency in circulation since the beginning of the year can be largely associated with a pre-conversion of cash holdings by households and firms in view of Bulgaria's pending accession to the euro area from the beginning of 2026. This is also supported by foreign exchange trade data in the domestic currency market, showing a significant increase in net sales of currency (mainly euro) to final customers in the first half of 2025, continuing the trend observed since mid-2024.

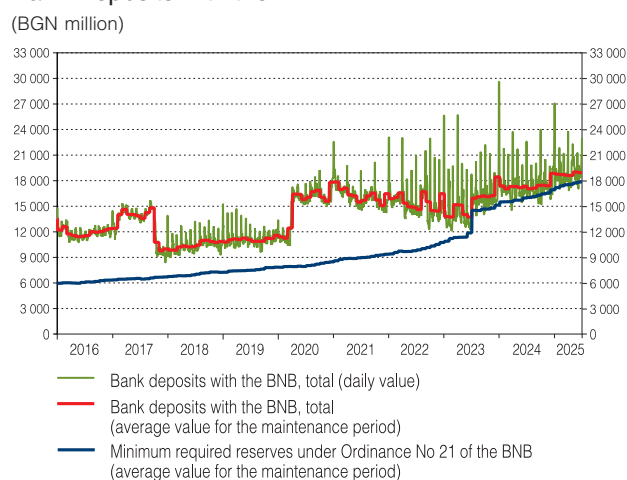
Reserve currency (euro) trading with the BNB is the main lev liquidity management instrument of banks under the currency board arrangement. For the last twelve months as of June 2025, the BNB's net sales to banks were EUR 6.0 billion (against

## Reserve Money



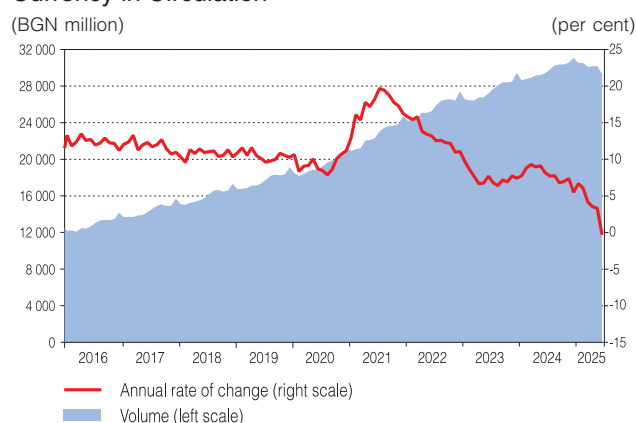
Source: BNB.

## Bank Deposits with the BNB



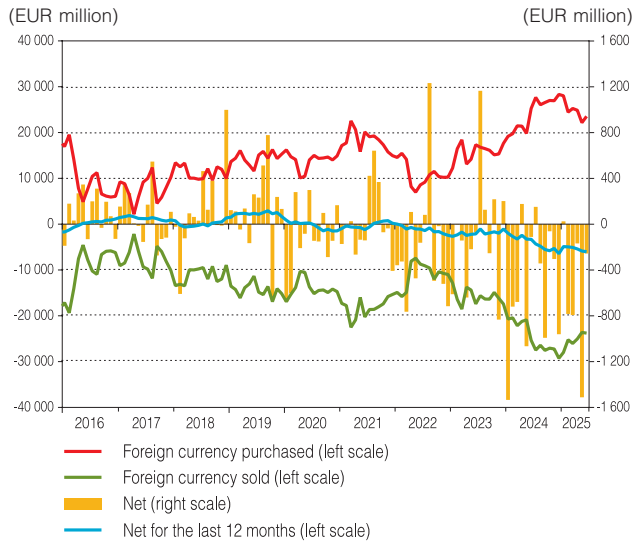
Source: BNB.

## Currency in Circulation



Source: BNB.

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



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

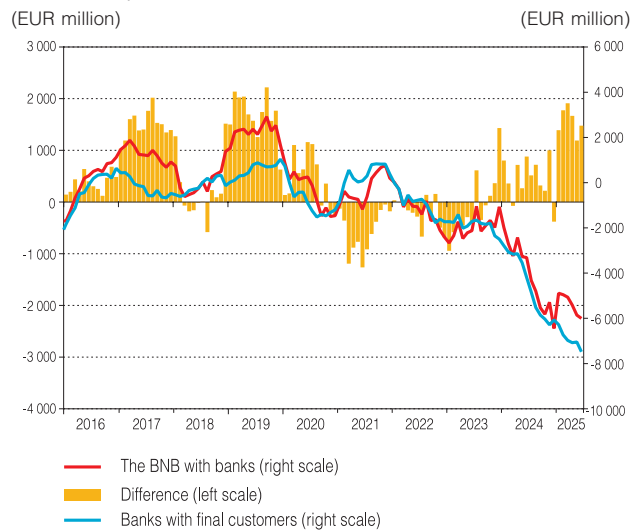
net sales of EUR 3.3 billion for the last twelve months as of June 2024). The increase in net reserve currency sales by the BNB to commercial banks observed since mid-2024 and in the first half of 2025 largely reflects demand for currency by banks' final customers: physical persons and legal entities. The bulk of net currency sales by commercial banks to final customers was targeted to corporations, amounting to EUR 6.0 billion in the last 12 months as of June 2025. At the same time, an upward trend in net volumes of foreign currency sold to natural persons by banks was also observed: EUR 1.5 billion in the last 12 months as of June 2025. Increased demand for a reserve currency reflects a pre-conversion of part of available savings of firms and households in view of the prospect of Bulgaria joining the euro area in early 2026.

### Credit to the Non-government Sector

Annual growth of credit to the non-government sector slowed down slightly over the first five months of 2025, standing at 14.7 per cent at the end of May (15.0 per cent in December 2024). This slowdown was mainly driven by the lower growth rate of credit to non-financial corporations, while growth of credit to households remained close to that at the end of 2024.

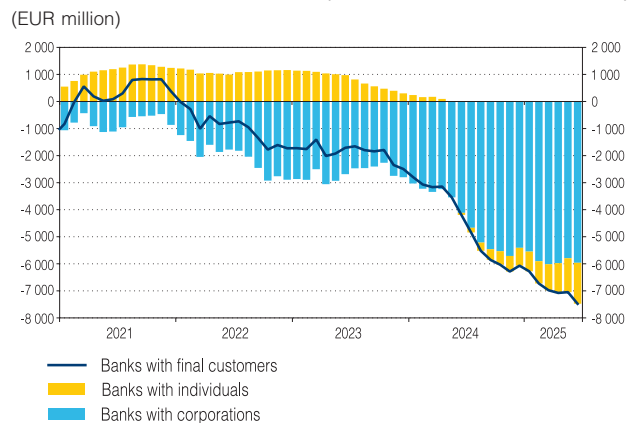
At the end of May 2025, the annual growth rate of credit to non-financial corporations slowed down slightly to 9.3 per cent (10.1 per cent as

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



Note: Net means currency purchased minus currency sold. Source: BNB.

### Foreign Currency Purchases and Sales between Banks and Final Customers (Net for the Last 12 Months)



Source: BNB.

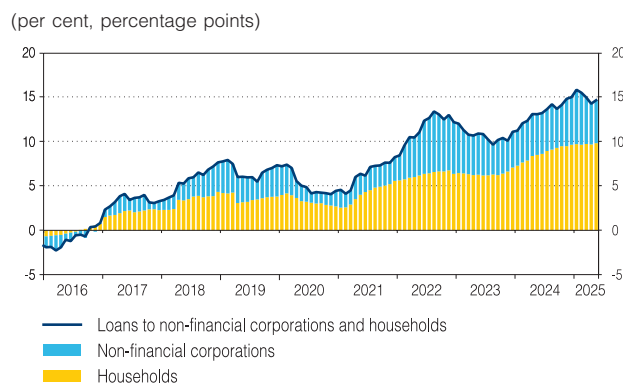
of December 2024), driven by the corporate overdraft, which rose by 16.7 per cent (21.0 per cent in December 2024). A likely factor behind the slowdown in overdraft is reduced demand for funds for working capital and inventories in the first quarter of the year, according to the BNB quarterly bank lending survey. Concurrently, credit growth excluding overdraft accelerated slightly to 5.2 per cent (4.3 per cent by end-2024). Bank lending survey results suggest that the need to provide finance for investment purposes increased significantly in both the last quarter of 2024 and the first quarter of 2025. An additional factor that, according to survey data, supported firms' demand for loans was the level of interest rates. This factor may be linked to the downward trend in corporate lending rates (excluding overdraft), observed since 2024 in the context of the downward phase of the euro area interest rate cycle. According to data on loans to non-financial corporations by sector of economic activity, manufacturing, education, construction and administrative and support service activities contributed most to the annual growth of corporate loans at the end of the first quarter of 2025. In terms of volumes of new corporate loans, a retention at levels similar to 2024 was observed in the January–May 2025 period.<sup>12</sup>

In the first five months of 2025, the annual growth rate of credit to households remained close to that reported at the end of 2024, reaching 20.7 per cent in May. Housing loans continued to be the main contributor to the total growth of credit to households, with their annual growth rate accounting for 26.7 per cent (26.3 per cent in December 2024 and 28.6 per cent in September 2024). BNB's bank lending survey results show significant tightening of standards for housing loans in the fourth quarter of 2024 and further tightening in the first quarter of 2025, which may be linked to the BNB requirements for credit standards' indicators in extending and renegotiating loans secured by residential real estate, effective since the beginning of October 2024.<sup>13</sup> Annual growth of

<sup>12</sup> Based on 12-month moving average.

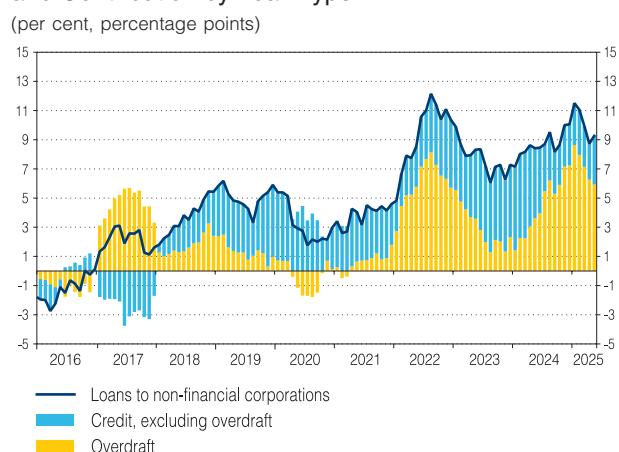
<sup>13</sup> In the course of the assessment of lending collateralised by residential real estate, which indicates a potential build-up of medium-term risks to the banking system, on 11 September 2024 the BNB Governing Council adopted requirements for the indicators of credit standards in extending and renegotiating loans secured by residential real estate. These requirements are based on the borrowers and aim to ensure for precautionary reasons the banking system resilience. 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:

### Annual Growth of Credit to Non-financial Corporations and Households



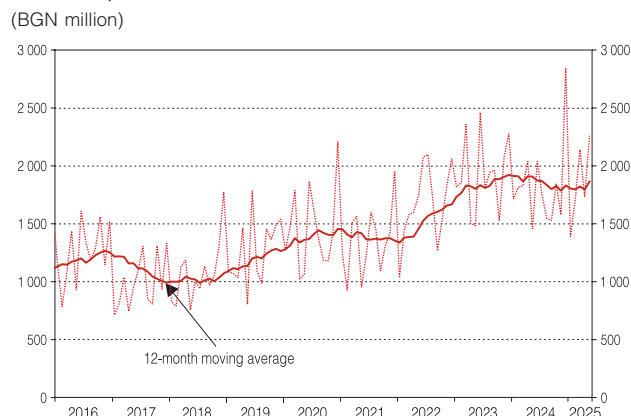
Source: BNB.

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



Source: BNB.

### New Loans to Non-financial Corporations (Monthly Volumes)

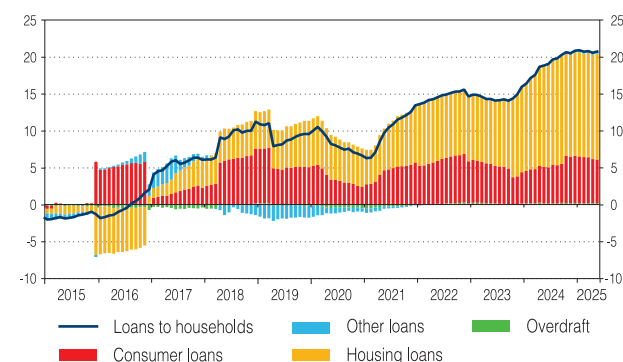


Note: Volumes of new loans to non-financial corporations shown in the chart do not include overdrafts.

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.

consumer loans fell to 14.0 per cent in May 2025 (14.9 per cent at the end of December 2024).

Retention of historically low interest rates on loans for house purchase and rising labour income continued to support household credit growth. According to the results of the bank lending survey, demand for housing loans in the first quarter of 2025 was determined mainly by households' needs for funds to purchase first house. On the supply side, high banking liquidity, stable capital position of banks and competition between them continued to contribute to the household credit growth. At the same time, strong growth in residential property prices continued to support the increase in newly extended housing loans, which rose in the first five months of 2025 *vis-à-vis* end-2024 levels.<sup>14</sup> In consumer loans, the upward trend in new credit volumes also persisted.

### Bank Lending Survey

Weighted results of the Bank Lending Survey<sup>15</sup> in the first quarter of 2025 indicate tightening of standards<sup>16</sup> for corporate, consumer and housing loans compared with October–December 2024, most pronounced in loans for house purchase. In the first quarter of 2025, banks reported tighten-

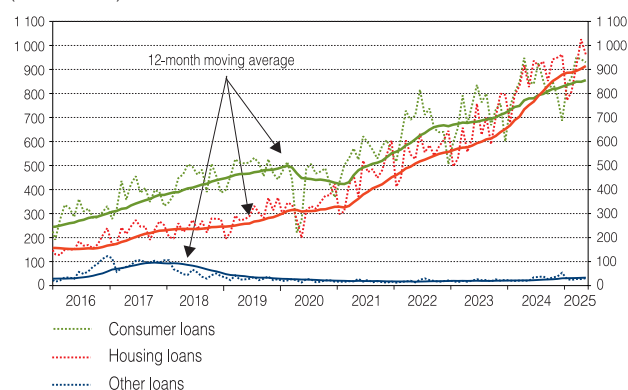
<sup>14</sup> Based on 12-month moving average.

<sup>15</sup> 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 bank market share in the relevant credit segment.

<sup>16</sup> 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 eligible by banks, taking into account specific priorities by sector, *etc.* Credit standards specify also all relevant conditions to be met by a borrower.

## New Loans to Households (Monthly Volumes)

(BGN million)



Source: BNB.

## Changes in Credit Standards

(balance of opinions)

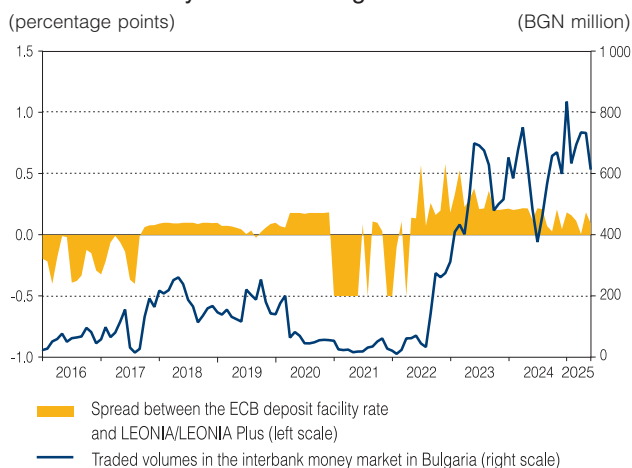


Source: BNB.

ing of credit conditions<sup>17</sup> for firms mainly in terms of interest rate spreads and lending rates, and, to a lesser extent, additional requirements for the borrower. Banks reported a notable easing of conditions in terms of fees and commissions on consumer loans, and in credit interest rates and spreads on housing loans. At the same time, credit conditions tightening was reported in the maximum duration of housing loans. Bank lending policy tightening (credit standards and conditions) with regard to corporate and housing loans between January and March 2025 was mainly driven by the increased risk assessment with a leading factor being the state of the macroeconomic environment. In addition, banks' lower risk appetite had also an impact on the tightened credit policy for both housing and consumer loans.

In the first quarter of 2025, banks reported a stronger increase in demand for consumer and housing loans and a weaker rise in demand for corporate loans compared to October–December 2024. The main factor considered by banks to push up demand for corporate loans was the enhanced need for bank resources for investment purposes, while limited demand for financial resources to ensure working capital and accumulation of inventories contributed to the weaker demand for corporate loans. Concurrently, demand for financial resources for purchasing durable goods and current consumption goods,

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

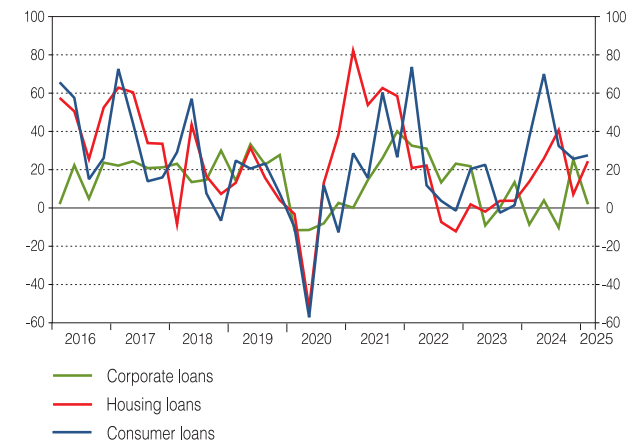


Notes: The traded volumes are presented on an average daily basis. The share of overnight deposits in the total volume of money market transactions was 70.5 per cent on average in January–June 2025. Sources: BNB, ECB.

<sup>17</sup> Credit conditions typically involve the reference interest rate surcharge, the loan amount, conditions for its utilisation and other conditions, fees and commissions, collateral or guarantees to be provided by a borrower.

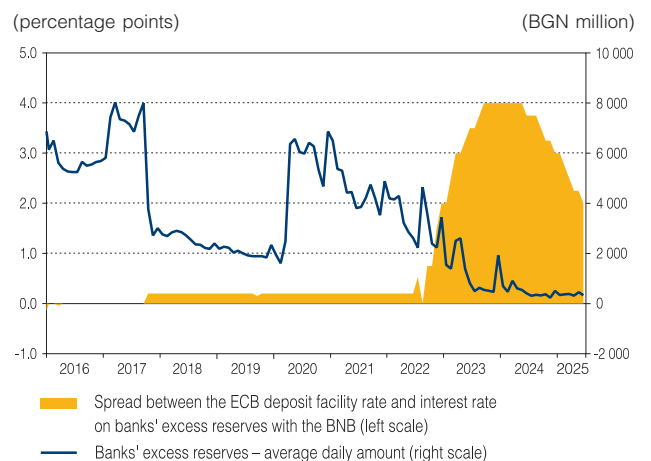
### Changes in Credit Demand

(balance of opinions)



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

### Spread between ECB Deposit Facility Rate and 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 No 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 to banks' funds maintained with the BNB, which exceed the amount of the minimum required reserves. Sources: BNB, ECB.

as well as the level of interest rates contributed most to the increased demand for consumer loans. Higher demand for housing loans over the quarter reflected households' need for funds for purchasing first residence and, to a lesser extent, the assessment of housing market prospects, the level of interest rates, needed funds for additional house purchases and the assessed state of the macroeconomic environment.

## 3.2. Interest Rates

### Interbank Money Market Interest Rates

In January–June 2025, the interbank money market activity remained comparatively high. The average daily volume of concluded lev unsecured overnight deposit transactions amounted to BGN 408 million in June 2025 (BGN 477 million in December 2024). Raising liquidity by banks in the interbank money market amid maintained very low levels of excess reserves with the BNB at 0 per cent interest rate continued to be a likely factor behind the retention of high trading volumes in the interbank money market. Another essential factor for this was the possibility of interest rate arbitrage related to the generation of income by banks with parent banks in the euro area, given the maintained positive spread between the interest rate on the ECB deposit facility and the interbank money market rate in Bulgaria.

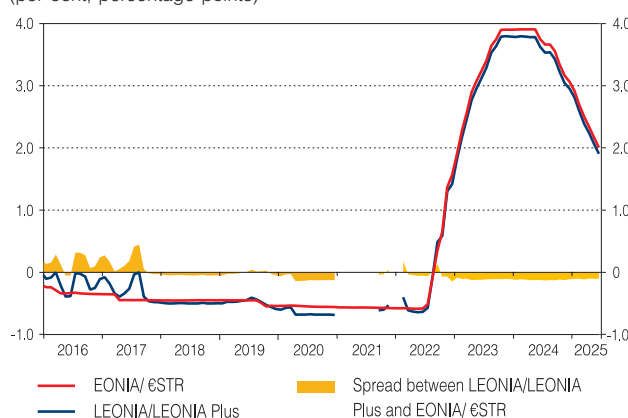
In the context of a functioning currency board in Bulgaria, the continued decline in euro area policy rates over the first half of 2025 was passed on relatively quickly to the interest rates on overnight unsecured lending transactions in levs concluded the interbank money market in Bulgaria. In June 2025, the monthly value of LEONIA Plus was 1.91 per cent (2.95 per cent in December 2024), while the spread between LEONIA Plus and €STR remained negative at -10 basis points (-11 basis points in December 2024).

### Interest Rates on Deposits

In the first five months of 2025, the weighted average interest rate on new time deposits in the household sector followed a downward trend, standing at 1.08 per cent in May (1.35 per cent as of December 2024). High banking system liquidity in Bulgaria continued to be the main factor behind the retained low levels of interest rates on newly attracted funds from households. Between January

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

(per cent, percentage points)

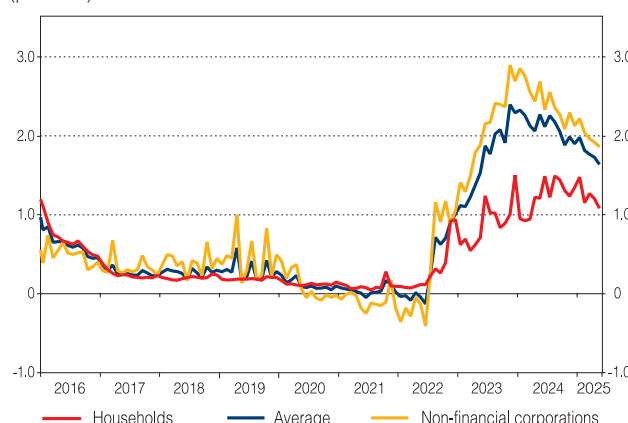


Notes: The EONIA/€STR series is composed of: EONIA between 2008 and 14 March 2017; pre-€STR between 15 March 2017 and 30 September 2019; €STR in the period after 30 September 2019. LEONIA Plus replaced LEONIA on 1 July 2017. LEONIA Plus monthly values are calculated as an arithmetic average for days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

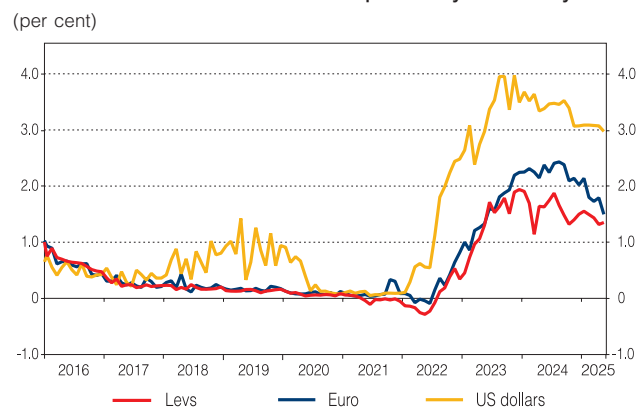
Source: BNB.

and May 2025, interest rates on new time deposits of households offered by some smaller banks decreased, while large commercial banks attracting the bulk of household deposits continued to maintain interest rates on new time deposits close to 0 per cent. By currency, the largest drop in household interest rates as of May 2025 compared to end-2024 was reported in US dollar deposits (by 53 basis points), which occupied, however, a negligible share in total new household deposits. Concurrently, the decrease in interest rates on new time deposits of households in euro and levs was comparatively weak (by 37 and 15 basis points, respectively). The decrease in key euro area interest rates since mid-2024 is a potential factor behind the downward dynamics in interest rates on attracted funds from households in euro, most of which are new time deposits of up to one year.

In the non-financial corporations sector, the downward trend in the weighted average interest rate on new time deposits observed since the beginning of 2024 was sustained in the first five months of 2025, with the interest rate reaching 1.86 per cent at the end of May (2.13 per cent in December 2024). The most significant decline was reported in the average weighted interest rate on new corporate deposits in euro (by 55 basis points), while this decrease in lev-denominated deposits was weaker (by 17 basis points). The weighted average interest rate on new corporate US dollar deposits, which were significantly lower in volume than those in levs and euro, decreased by 11 basis points. A potential factor for the downward dynamics of interest rates on new time deposits in euro and levs in the non-financial corporate sector is banks' attempts to maintain the interest margin amid falling interest rates on new corporate loans affected by the downward phase of the euro area interest rate cycle. This reflected the linkage of corporate interest rates in euro to the benchmark indices in the euro area interbank money market.

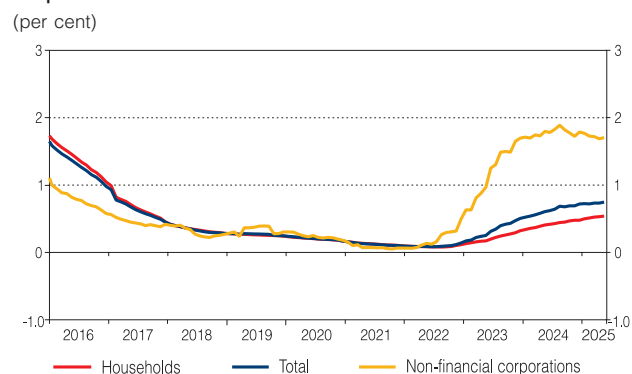
In the first five months of 2025, there was no significant change in interest rates on time deposit balances in the households and non-financial corporations sectors. In May 2025, the weighted average interest rate on households' time deposit balances was 0.54 per cent (0.48 per cent at the end of 2024), while that in the non-financial corporations sector accounted for 1.70 per cent (1.79 per cent in December 2024).

### Interest Rates on New Time Deposits by Currency



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



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 on Loans

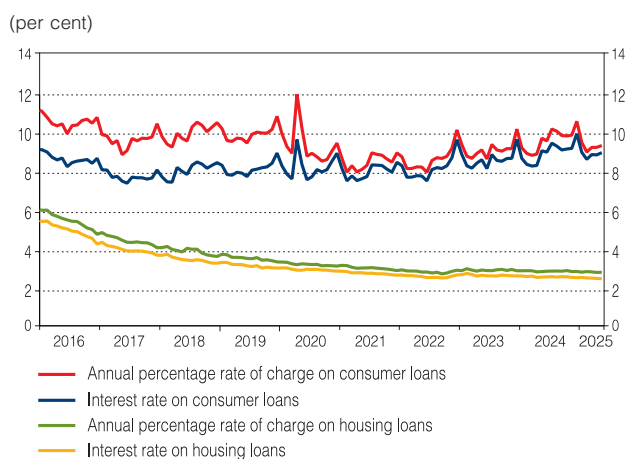
High banking liquidity, stable capital position and competition between banks for a market share in consumer and mortgage lending segments continued to contribute to the limited transmission of the ECB monetary policy on lending rates for households in Bulgaria. Interest rates on new consumer loans exhibited some volatility over the review period, with a potential factor involving the specificity of the product, *i.e.* a different risk profile of individual borrowers and a lack of collateral in most cases which affected the interest rate surcharge. Interest rates on housing loans did not change significantly in the first five months of the year. This reflected mainly the formation of interest rates on these loans by some large banks on the basis of selected rates on household time deposit balances, which remained at very low levels.

Between January and May 2025, both the annual percentage rate of charge (APRC) and the interest rate on new consumer loans decreased, accounting for 9.37 per cent and 9.00 per cent at the end of May 2025 (10.63 per cent and 9.98 per cent as of December 2024).<sup>18</sup> In May, the APRC on newly originated housing loans and the interest rate thereon remained at levels similar to those of 2024 at 2.78 per cent and 2.45 per cent, respectively, (2.82 per cent and 2.50 per cent as of December 2024).

The weighted average interest rate on new loans to non-financial corporations decreased by 16 basis points to reach 4.60 per cent in May 2025 (4.76 per cent at the end of 2024). By currency, the most pronounced decline was reported in US dollar loans (by 207 basis points), but the share of these loans in total new corporate loans was negligible. Concurrently, declines in euro and lev-denominated loans compared to December 2024 were 28 basis points and 6 basis points, respectively. The main factors behind the more significant decline in interest rates on corporate loans in euro is their link to interbank money market benchmark indices in the euro area, as well as monetary policy easing by the ECB, which started in mid-2024 and continued in the first half of 2025.

<sup>18</sup> 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.

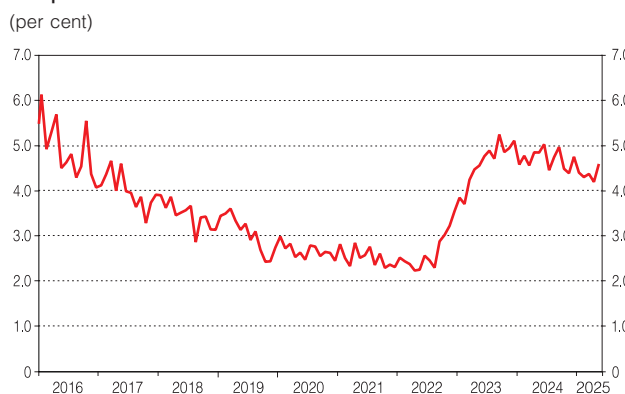
## Interest Rates and APRC on New Household Loans



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

Source: BNB.

## Interest Rate on New Loans to Non-financial Corporations



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

Source: BNB.

## Government Securities Yields

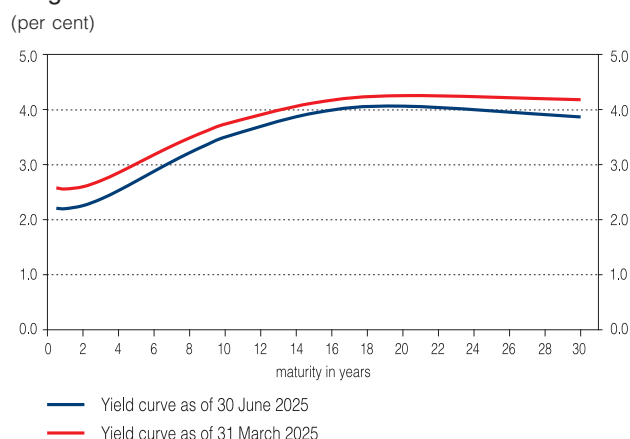
At the end of the second quarter of 2025, the calculated reference yield curve of Bulgarian Eurobonds issued and traded in international capital markets showed a decline of bond yields in all maturity sectors compared with the end of March 2024. By end-June 2025, spreads between the yields on Bulgarian and German euro-denominated government bonds narrowed compared to the end of March 2025 in all government bonds, most pronounced in securities maturing in 2036 and 2050 (by 25 and 23 basis points, respectively). The spread narrowing reflected a stronger decline in Bulgarian government bond yields compared to German government bond yields in almost all maturity sectors. The spread narrowing is likely to have been affected by declines in the political uncertainty upon the formation of a permanent government in Bulgaria in early 2025 and its announced priority for joining the euro area, as well as positive assessments provided by the European Commission and the European Central Bank in requested *ad hoc* convergence reports.

In June 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.<sup>19</sup> At the same time, in May 2025, the spread *vis-à-vis* Germany's long-term interest rate was 137 basis points.<sup>20</sup>

<sup>19</sup> Daily data indicate that the long-term interest rate remained unchanged from 10 January 2024 to the end of June 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.

<sup>20</sup> As of the cut-off date of this Economic review issue, Germany's long-term interest rate data for June 2025 were not available.

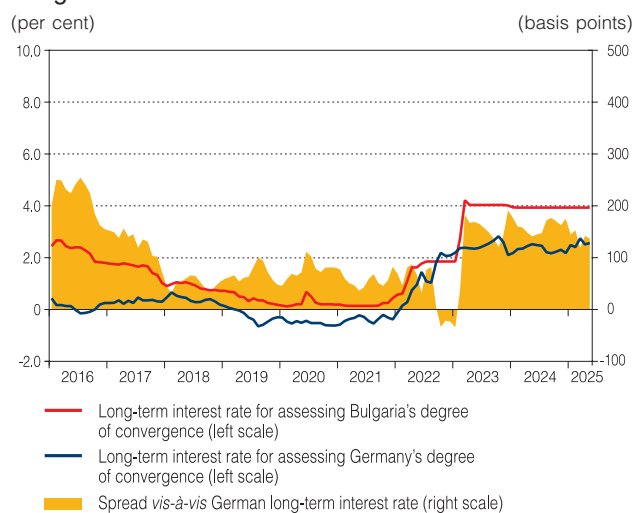
## Reference Government Securities Yield Curve in Bulgaria



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



Note: As of the cut-off date of this issue of Economic Review, German long-term interest rate data for June 2025 were not available, and therefore, data shown in the chart are up to and including May 2025.

Sources: BNB, ECB.

# 4. ECONOMIC ACTIVITY

## 4.1. Current Economic Environment

### Gross Domestic Product

In the first quarter of 2025, real GDP increased by 0.6 per cent on a quarterly basis, according to seasonally adjusted data of the NSI. Economic activity growth decelerated to 2.9 per cent<sup>21</sup> on an annual basis (from 4.1 per cent in the previous quarter). In the structure of growth over the quarter, a significant positive contribution of domestic demand was observed (8.8 percentage points), along with an increase in the negative contribution of net exports (-5.4 percentage points). By final expenditure component, private consumption, followed by investments in fixed capital and government consumption were the main positive contributors to the annual real GDP growth. The growth rate of goods imports accelerated and exports continued to decline, driven by the growing domestic demand.

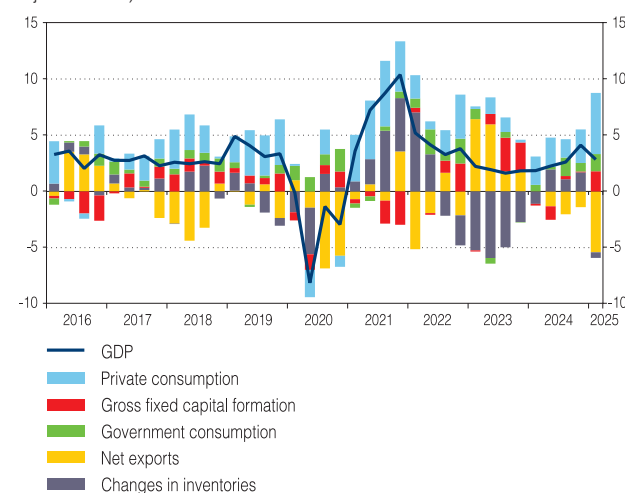
Over the review quarter, private consumption continued to grow at a high rate in real terms (9.0 per cent), supported by the increase in employment and in real remunerations in the public and private sectors, government social payments, strong lending activity and weak incentives for saving, given the negative real interest rates on deposits.

Government consumption at constant prices rose by 7.4 per cent (from 3.5 per cent in the previous quarter). CFP implementation data as of end-March 2025 indicate that healthcare and operating expenditure<sup>22</sup> had a positive contribution to the increase in government consumption.

Fixed capital investments grew by 13.4 per cent in real terms over the first quarter of 2025, mainly due to private investments and, to a lesser extent, public investments, according to

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

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



Sources: NSI, BNB calculations.

<sup>21</sup> According to non-seasonally adjusted NSI data.

<sup>22</sup> For details, see Fiscal Policy Effects on the Economy Section in this Chapter.

BNB estimates.<sup>23</sup> Factors supporting growth in investment activity in the private sector were the increase in final consumption expenditure and improved expectations of production activity by corporations. Government investments were mainly supported by the implementation of projects financed by EU funds, and to a lesser extent, by nationally financed projects.

Net exports contributed negatively to economic activity, driven by a drop in exports of goods and services (-3.9 per cent), coupled with growth in imports of goods and services (4.8 per cent).<sup>24</sup> Geographical breakdown of foreign trade flows shows a decrease in exports both to EU and third countries. Growth in goods imports reflected increasing household consumption and investment activity over the first quarter of the year.

Gross value added in Bulgaria rose by 0.5 per cent in real terms compared to the previous quarter,<sup>25</sup> while year-on-year growth was 2.5 per cent, according to non-seasonally adjusted data, with all sectors except for industry contributing to this. In the services sector, value added continued to increase steadily (by 4.2 per cent) in the first quarter of 2025, with the main positive contributions from trade, transport, accommodation and food service activities and the general government. Gross value added in industry fell by 2.0 per cent on an annual basis due entirely to the manufacturing sub-sector, which is in line with the annual decline observed in the industrial production index over the quarter and exports of goods.

### Cyclical Position of the Bulgarian Economy

BNB's estimates of the cyclical position of the economy show that economic activity in Bulgaria was above its potential level in the beginning of the year. This shows that part of the resources in the economy are still employed above their

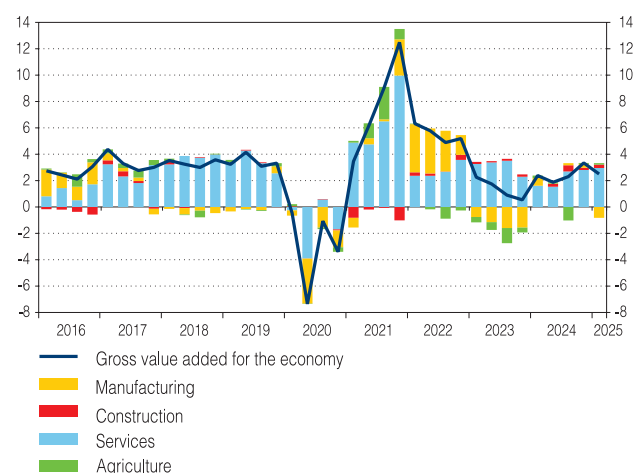
<sup>23</sup> The NSI does not provide official data on the breakdown of total investments into private and public. The private investment series is constructed by the BNB as a difference between total investments and the estimated amount of public investments on an accrual basis in real terms. At the cut-off date of this issue of *Economic Review*, quarterly non-financial accounts of the general government sector published by the NSI are available up to and including the fourth quarter of 2024, and the assessment of public investments for the first quarter of 2025 is therefore based on information from the consolidated fiscal programme (CFP) implementation reports published by the MF.

<sup>24</sup> For details, see the Balance of Payments and External Trade Section in Chapter 2: External Financial Flows.

<sup>25</sup> NSI seasonally adjusted data.

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

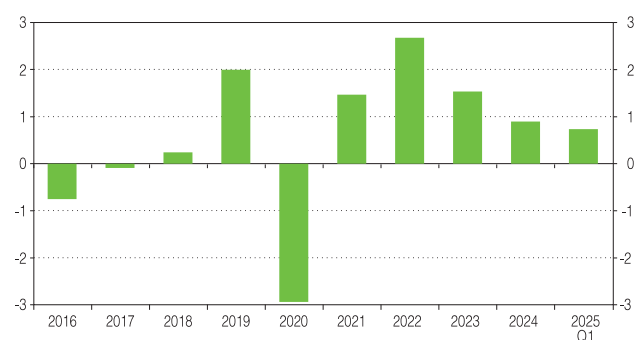
(per cent; percentage points; on an annual basis; non-seasonally adjusted data)



Sources: NSI, BNB calculations.

### 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.

optimal level, which is in line with historically low unemployment and significant labour shortages.

Short-term economic activity indicators signalled slowing quarter-on-quarter growth of real GDP in the second quarter of 2025.<sup>26</sup> Part of the indicators tracking firms' current production activity (industrial production index, production in services<sup>27</sup>) were positioned below their long-term averages. Over the review quarter, firms' estimates of the current business situation in Bulgaria worsened, but expectations of their future economic situation and production activity in the following three months improved. At the same time, attitudes of households<sup>28</sup> remained at high historical levels, reflecting retention of their high estimates of current household budget performance and incentives for incurring major expenses. This, in combination with a continuing increase in retail trade volumes on an annual basis, is a prerequisite for retaining the positive contribution of private consumption to the economic activity growth.

In the second quarter, the BNB-constructed indicator of differences in economic agents' assessments about the expectations of economic activity in the short term remained at a level close to the previous quarter.

### Economic Activity Expectations

The composite indicator of economic activity constructed by the BNB signals that real GDP growth in Bulgaria will slow down slightly in the second quarter of 2025 compared to the previous quarter, while annual growth will remain close to that of the previous quarter. Quarterly growth of the composite indicator<sup>29</sup> was mainly driven by employment growth in the fourth quarter of 2024, increased credit activity of households and corporations, and global PMI positioning above the neutral 50 point limit. On the other hand, weaker quarterly growth of the composite indicator was mainly due to the continued annual decline in industrial production.

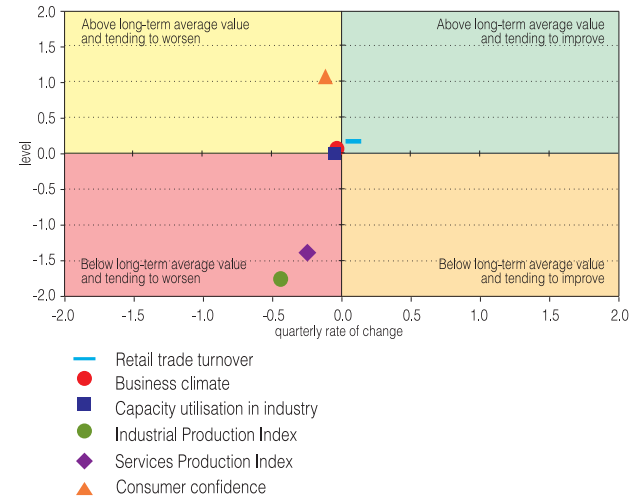
<sup>26</sup> Data on the services production index are available as of April 2025, while industrial production and retail trade indices are available as of May 2025.

<sup>27</sup> Eurostat seasonally adjusted data.

<sup>28</sup> Measured by the NSI's consumer survey.

<sup>29</sup> Data on new loans to corporations and households, retail trade turnover index, producer prices in manufacturing, global PMI and registered unemployment rates are available as of May 2025, while production indices in industry, construction, services production (not related to trade) are available as of April 2025.

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

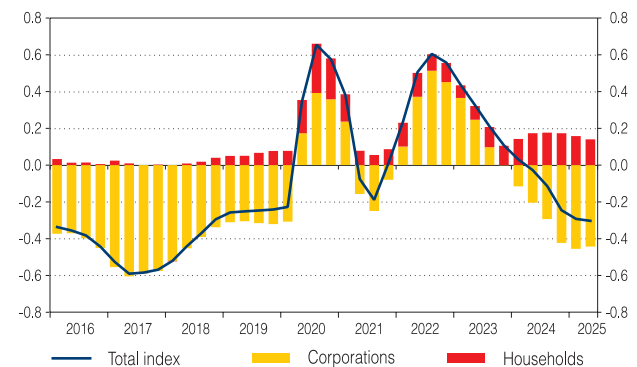


Notes: The chart compares the level (the vertical axis) and the quarterly change (the horizontal axis) of selected economic indicators. Data are averaged for available months within the second quarter of 2025. Each series is transformed to stationary, and then a *HP* filter is applied to remove short-term 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.

In the third and fourth quarters of 2025, real GDP is projected to continue growing on an annual basis at rates similar to those observed at the beginning of the year. Private consumption is expected to have an essential positive contribution to the economic activity growth, supported by tight labour market conditions. Government consumption and a projected increase in fixed capital investments will also have a positive contribution to domestic demand over the forecast horizon. Uncertainties about prospects for international trade policies in combination with planned repairs in large manufacturing enterprises are expected to lead to an increased accumulation of inventories in the economy and a lower volume of exported goods in the second quarter of the year. Strong domestic demand will be a factor behind a higher increase in imports of goods, whereby net exports will continue to contribute negatively to the real GDP growth.

## 4.2. Labour Market

### Labour Supply

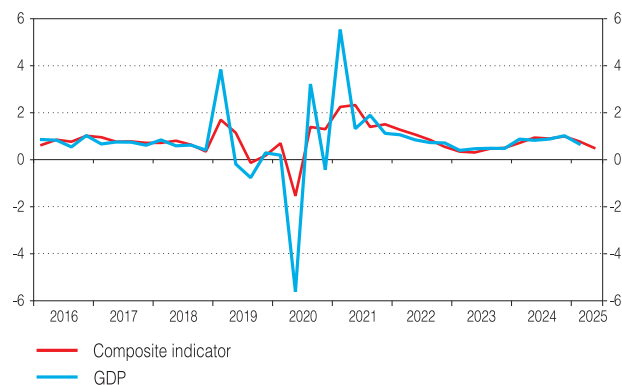
In the first quarter of 2025, labour supply, as measured by the labour force<sup>30</sup>, declined by 1.1 per cent year on year due to labour outflows, while no change was reported for the population over 15 years, according to NSI Labour Force Survey data. The number of inactive persons rose by 1.4 per cent year on year, with those unwilling to work for personal or family reasons contributing the most, namely the persons aged 15–24 according to the age structure. As a result of the increased number of inactive persons, the economic activity rate<sup>31</sup> of the age group of 15 and older decreased to 54.9 per cent in the first quarter of 2025 (compared to 55.5 per cent in the corresponding period of 2024), while the 15–64 age group stood at 73.3 per cent (74.0 per cent in the first quarter of 2024).

<sup>30</sup> Labour force includes employed and unemployed persons in the age group of 15 and over, based on NSI Labour Force Survey data.

<sup>31</sup> 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 the time series. Seasonally adjusted LFS data were affected by the break in the series in early 2021. Therefore, non-seasonally adjusted data are analysed here.

## Composite Economic Indicator of Economic Activity

(per cent, on a quarterly basis)



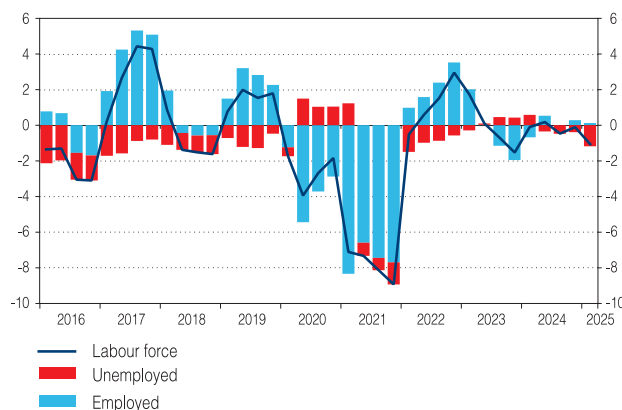
Notes: This indicator is constructed on the basis of a dynamic factor model whose purpose is to derive the total component in dynamics of various indicators with a monthly frequency.

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)

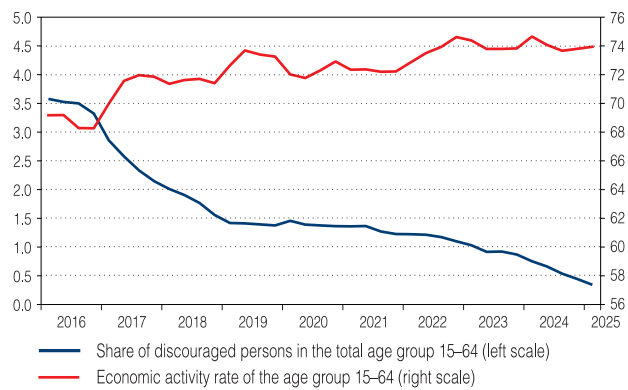


Notes: Data refer to the age group 15 and over. From the beginning of 2021, there is a break in series due to the use of 2021 population census data. Data prior to 2021 have not been revised, which was reflected in a year-on-year decline of labour force in 2021.

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 first quarter of 2025, the labour force reported some increase in the number of employees coupled with a decrease in unemployed persons in line with real GDP growth. Concurrently, according to data from Eurostat's experimental statistics<sup>32</sup>, the decline in the number of unemployed persons was due not only to the employment growth, but also to the switch of some unemployed persons to inactivity. Non-seasonally adjusted Labour Force Survey data reported a decline in the unemployment rate<sup>33</sup> to 3.9 per cent in the first quarter of 2025 (5.0 per cent in the corresponding quarter of 2024), with all age groups contributing to this effect. According to seasonally adjusted Employment Agency data, in the first quarter of 2025, the unemployment rate remained almost unchanged from the previous quarter, possibly due to the exclusion from the scope of registered unemployed of students and pensioners who are actively seeking and willing to start work but are not registered with job centres<sup>34</sup>. At the same time, Employment Agency data for April and May suggest a lower unemployment rate in the second quarter of 2025.

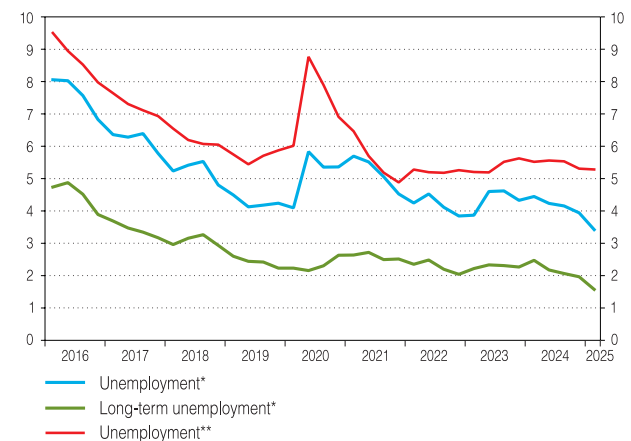
<sup>32</sup> Eurostat's experimental statistics is derived from Labour Force Survey data and identifies flows between employment, unemployment and labour market inactivity.

<sup>33</sup> 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.

<sup>34</sup> For more details on the differences in the scope of unemployed persons according to data from the LFS and the Employment Agency, see the NSI metadata.

## Unemployment Rate

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



\* NSI data.

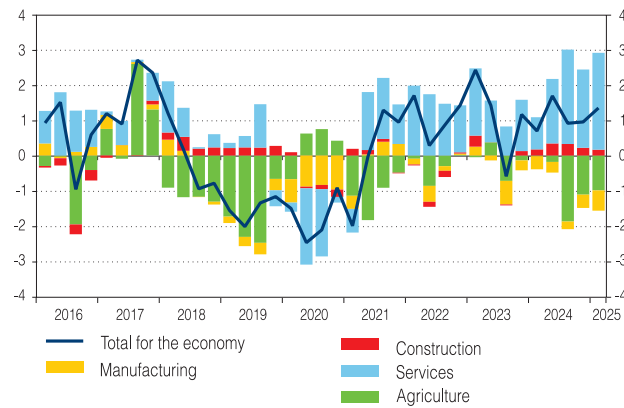
\*\* Employment Agency data.

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.

### Labour Demand

According to national accounts data, in the first quarter of 2025, employment rose by 1.4 per cent on an annual basis, mainly due to the services sector, 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 employment in manufacturing and agriculture continued to fall. Data on job vacancies in the economy<sup>35</sup> also recorded a strong increase of 21.0 per cent on an annual basis in the first quarter of 2025, mainly due to the services sector, but manufacturing also had a positive contribution for the first time since end-2023. Concurrently, the proportion of firms identifying labour shortages as a factor hampering their activity<sup>36</sup> started to increase in the first quarter of 2025, reaching historical peaks in May 2025, to which all major economic sectors have contributed. These developments suggest that labour demand increased in the first quarter of 2025, putting upward pressure on wage growth, given the limited labour supply in Bulgaria.

### Productivity and Compensation per Employee

In the first quarter of 2025, real labour productivity<sup>37</sup> rose by 1.2 per cent on an annual basis (compared with 3.6 per cent in the fourth

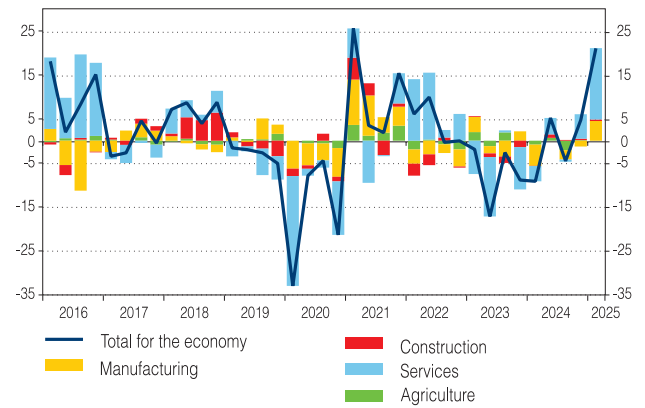
<sup>35</sup> Based on NSI's short-term statistics of employment and labour costs.

<sup>36</sup> According to NSI's business situation survey data.

<sup>37</sup> Labour productivity is calculated after removing imputed rent from gross value added.

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

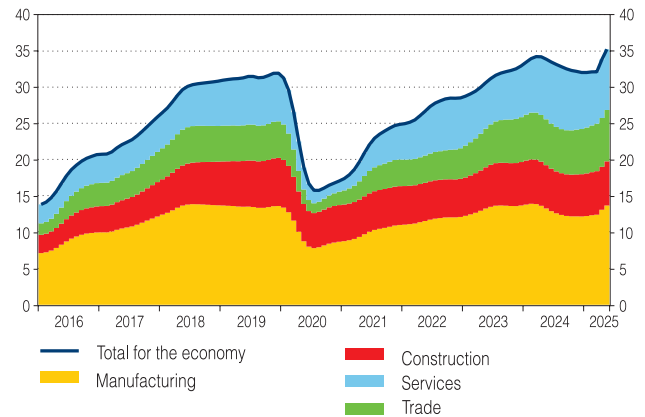
(per cent; percentage points; on an annual basis)



Sources: NSI, BNB calculations.

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

(per cent; proportion of firms)

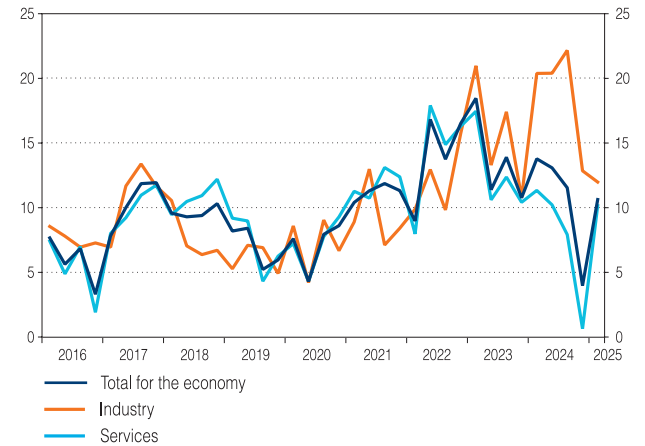


Note: Data up to and including May 2025 are used.

Sources: NSI, BNB calculations.

### Compensation per Employee at Current Prices

(per cent; on an annual basis)

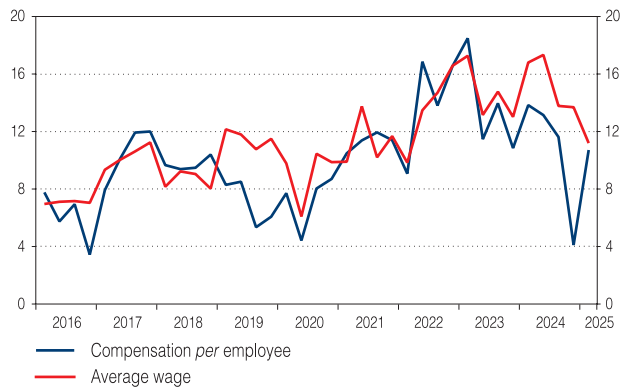


Source: NSI – SNA.



### 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.

quarter of 2024) due to agriculture and construction. Despite weaker labour productivity growth compared to the previous quarter, large labour shortages in Bulgaria and the stronger increase in consumer prices translated into an increase in nominal compensation *per* employee at 10.7 per cent on an annual basis in the first quarter of 2025. In real terms<sup>38</sup>, compensation *per* employee rose by 6.5 per cent year on year in the first quarter of 2025 as a result of reported growth in industry (7.8 per cent) and services (6.0 per cent), while agriculture reported a decrease of 1.6 per cent on an annual basis.

NSI’s short-term statistics on employment and labour costs also reported a strong increase in the average nominal monthly gross wage of 11.1 per cent on an annual basis in the first quarter of 2025, with high wage growth recorded in both the private (11.8 per cent) and the public sector (9.2 per cent).

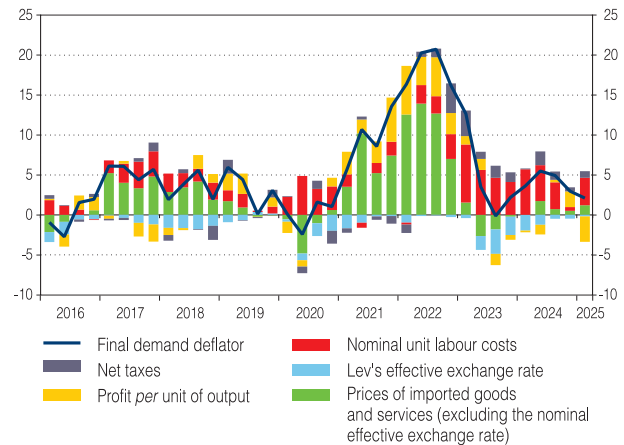
### 4.3. Behaviour of Firms

In the first quarter of 2025, an upward trend in firms’ nominal unit labour costs was observed on an annual basis. Factors supporting the growth in the final demand deflator over the review quarter were mainly related to the domestic economic environment and, to a lesser extent, growth in import prices of raw and other materials. Accelerated growth in firms’ labour costs continued to be the main factor in maintaining price pressures in the economy. Over the review

<sup>38</sup> Nominal compensation *per* employee was deflated by the HICP to calculate the indicator in real terms.

### Final Demand Deflator

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



Sources: NSI, BNB calculations.

period, corporations' price policy was oriented towards incomplete passing on the higher production costs to final prices, leading to a decline in profits *per* unit of output.

### Labour Costs of Corporations

In the first quarter of 2025, firms' unit labour costs rose in nominal terms by 9.3 per cent. Continuing wage growth was driven by the persistent upward trend in labour demand amid limited supply, annual growth of real labour productivity, as well as the increased minimum wage effective since the beginning of the year, and the public sector wage growth. All economic sectors contributed to the reported acceleration of the annual growth of nominal unit labour costs, with the exception of agriculture, which recorded a decline.

### Firms' Investment Expenditure

According to BNB estimates<sup>39</sup>, in the first quarter of 2025, private sector investment expenses increased on an annual basis in line with final consumption expenditure growth and improving firms' expectations about production activity and the future economic situation in Bulgaria. Investments in all types of assets increased, with those in machinery, equipment and weapons systems having the largest positive contribution.

### Financing Sources for Corporations

In the first quarter of 2025, external and internal financing used by corporations for their activities posted a decline. Based on non-seasonally adjusted data for the total economy, the nominal gross operating surplus fell by 6.6 per cent on an annual basis. This was mainly due to manufacturing (-4.4 percentage points) and services (-2.9 percentage points), which also registered a stronger contraction of the net amount of attracted external funds.

### Pricing Policy of Corporations

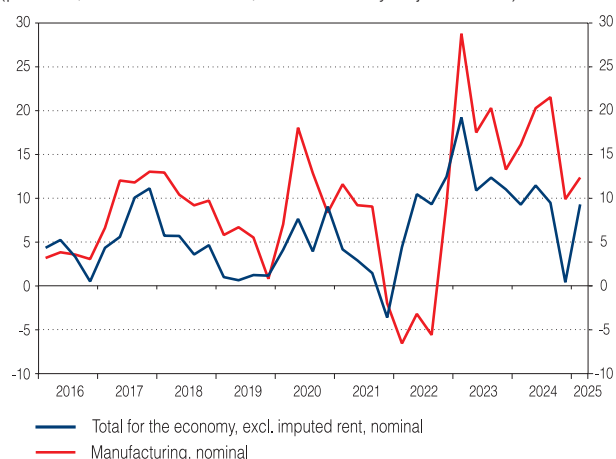
In the first quarter of 2025, firms' selling prices in industry<sup>40</sup> rose by 15.4 per cent on an annual

<sup>39</sup> 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.

<sup>40</sup> Measured by the Producer Price Index (PPI) in industry.

### 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)

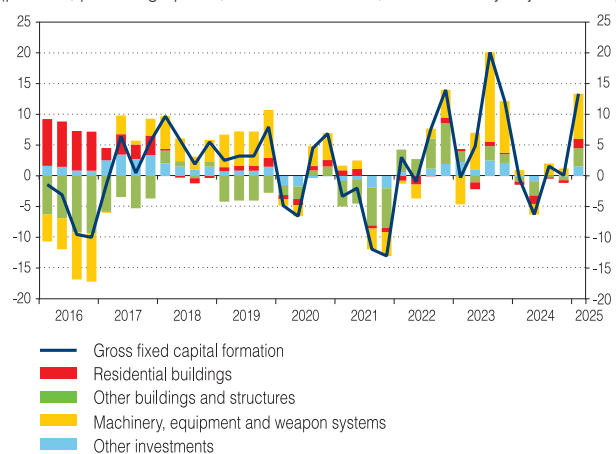


Notes: The NSI does not provide official data on the breakdown of total investments into private and public. The private investment series is constructed by the BNB as a difference between total investments and the estimated amount of public investments on an accrual basis in real terms.

Sources: NSI, BNB calculations.

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

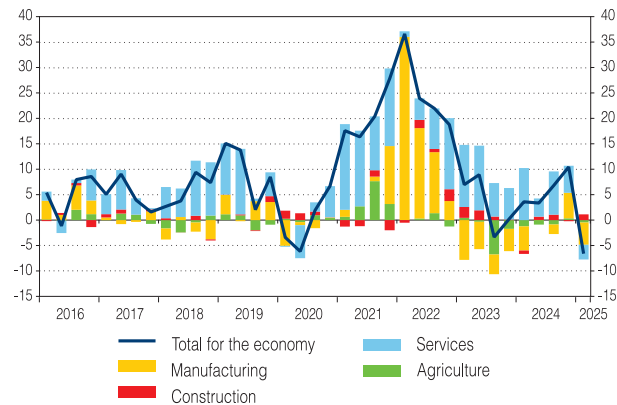
(per cent; percentage points; on an annual basis; non-seasonally adjusted data)



Sources: Eurostat, BNB calculations.

## 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.

basis, before slowing down to 7.2 per cent in May 2025. The PPI increase at the beginning of the year was mainly driven by domestic prices and, to a lesser extent, international market prices. In the internal market, the year-on-year PPI increase between January and May 2025 was broad-based, with the largest growth being reported in energy products, as well as in basic metals and food production.

In the first quarter of 2025, producer prices in services (not related to trade) continued to rise on an annual basis in all sub-sectors. The most significant price increase in services was reported in accommodation and food service activities (9.6 per cent), and real estate activities (9.3 per cent). Between April and May 2025, the increase in selling prices in the retail sub-sector (excluding trade in motor vehicles and motorcycles), which is the closest one to the customers in the supply chain, was similar to that of the first quarter (1.0 per cent). The slight increase in trade prices was driven by rising food prices, partly compensated by declining prices of automotive fuels and lubricants, as well as household and computer equipment.

### Economic Indicators

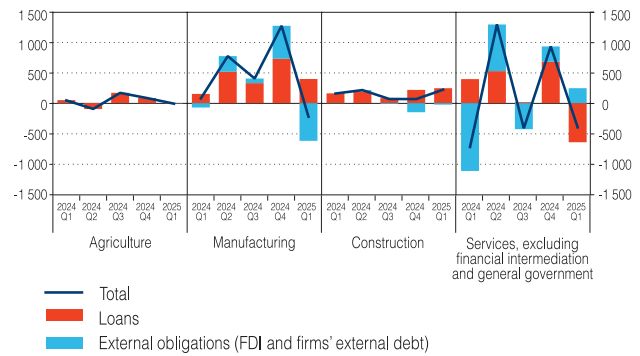
NSI data on short-term business statistics provide divergent signals about firms' performance across individual sectors of economic activity in the second quarter of 2025.<sup>41</sup>

The industrial production index declined year on year in April 2025, according to working day-

<sup>41</sup> For more details on the composite economic indicator constructed by the BNB, see the Current Economic Environment Section in this Chapter.

## Financing Sources\*

(BGN million, year-on-year change)

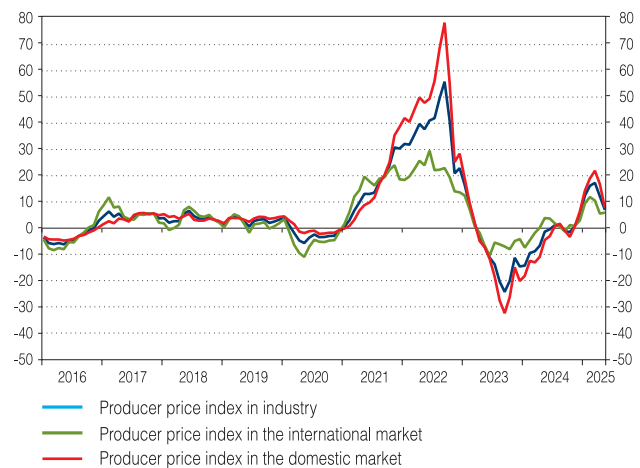


\* Sources of financing other than the gross operating surplus.

Source: BNB.

## Rate of Change of Producer Price Index in Industry

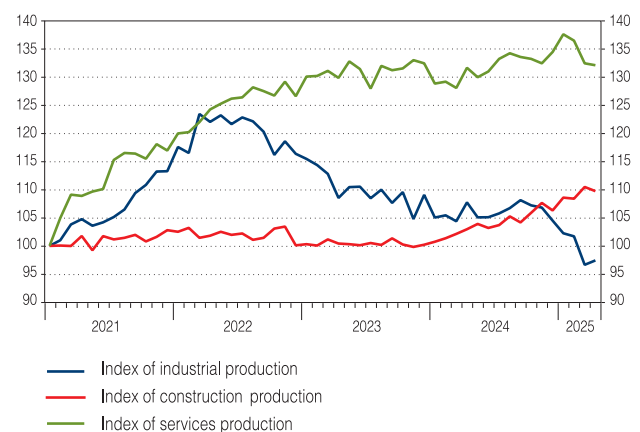
(per cent; on an annual basis)



Source: NSI.

## Dynamics of the Production Index in Manufacturing, Construction and Services

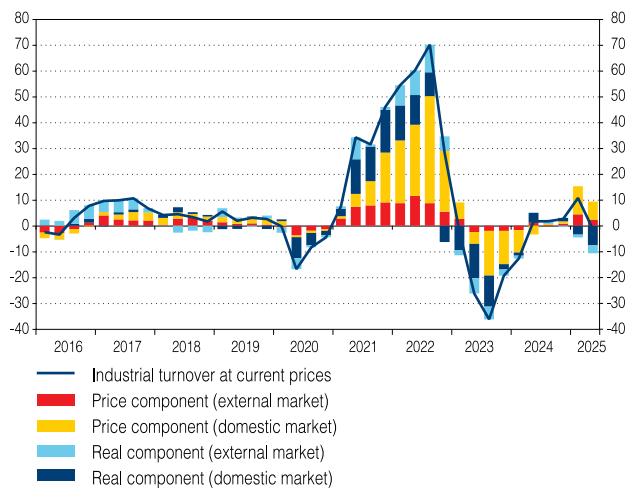
(index, January 2021 = 100; seasonally adjusted data)



Sources: NSI, Eurostat, BNB calculations.

## Industrial Turnover Dynamics

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



Note: Data for the second quarter of 2025 refer to April–May.  
Sources: NSI, BNB calculations.

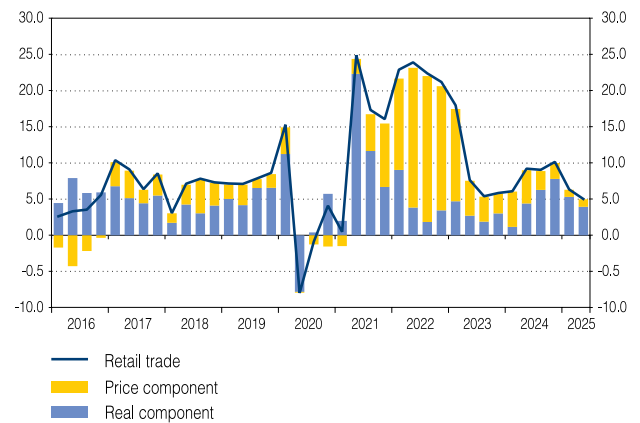
adjusted data, mainly due to energy products, as well as manufacturing (production of food, basic metals and clothing). Data on nominal industrial volumes reported annual growth between January and April 2025, entirely due to the increase in external and internal market prices. Concurrently, construction production and services production indices tended to rise. The year-on-year increase in construction production during January–April 2025 was a result of the higher economic activity in construction of facilities and specialised construction activities. Growth of retail trade turnover at constant prices slowed down on an annual basis, largely due to the price component, while real volumes continued to grow steadily.

In the second quarter of 2025, the overall business climate indicator<sup>42</sup> remained at the level reached at the beginning of the year. An improvement in sentiment was reported in manufacturing, unlike all other sectors where it remained broadly unchanged. The improvement in managers' sentiment in manufacturing reflected more optimistic expectations about the future economic situation, production activity and staff recruitment expectations over the next three months. According to surveys conducted by the NSI on the business climate in the second quarter of 2025, the share of corporations that identify the uncertain economic environment as a factor hampering their activity decreased, while

<sup>42</sup> BNB seasonally adjusted data.

## Dynamics of Nominal Retail Trade Volumes

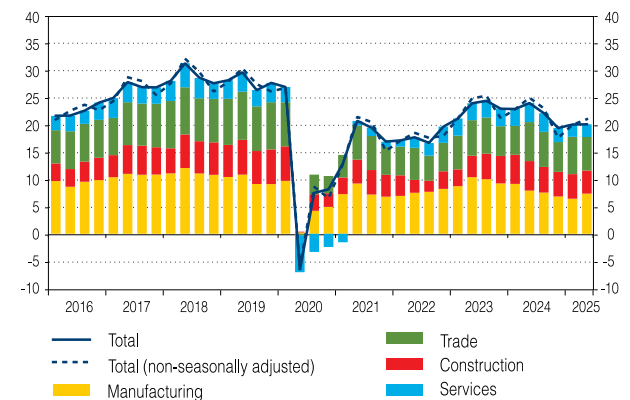
(per cent, percentage points on corresponding quarter of previous year, non-seasonally adjusted data)



Note: Data for the second quarter of 2025 refer to April and May.  
Sources: NSI, BNB calculations.

## Business Climate

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

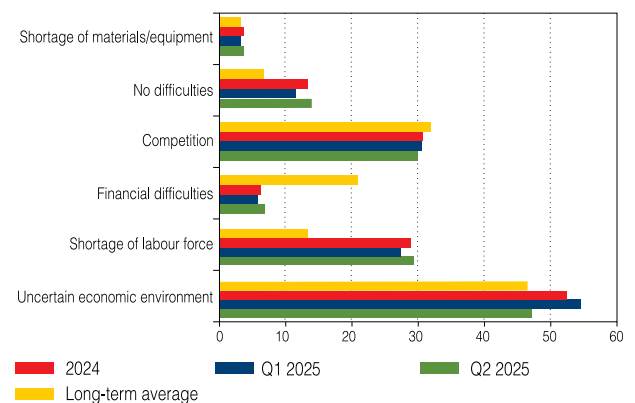


Notes: The answers to the NSI survey questions are presented in a three tier category scale: 'increase', 'unchanged', 'decrease'. Balances of opinions are calculated as a difference between relative shares of extreme options of replies: 'increase' minus 'decrease'. The business climate indicator is a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

Sources: NSI, BNB calculations.

## Factors Hampering Economic Activities 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.

the share of those that cite labour shortages as an obstacle increased.

#### 4.4. Household Behaviour

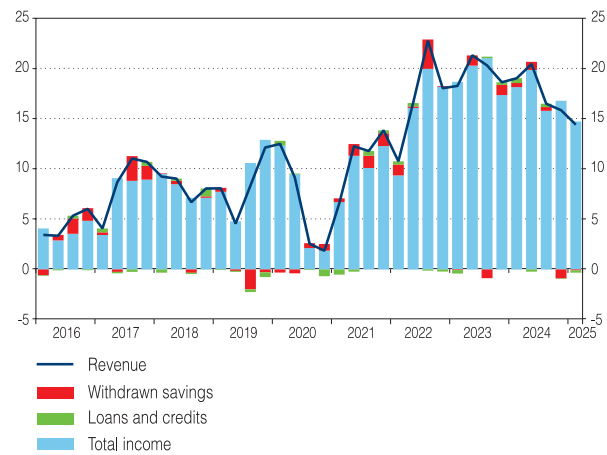
##### Household Revenue

According to NSI's household budget survey, in the first quarter of 2025, annual nominal growth in household revenue<sup>43</sup> slowed down slightly from the previous quarter, though remaining at a historically peak, due to the sustained high growth rate in total household income.

In the first quarter of 2025, total household income growth increased in nominal terms by 15.2 per cent year on year (17.6 per cent in the fourth quarter of 2024), reflecting the strong increase in wage and pension income. At the same time, annual growth in total household income moderated slightly from the previous quarter, largely due to lower income from other income<sup>44</sup> category and weaker growth of income excluding wages and self-employment. Annual growth in wage income also slowed slightly to 15.5 per cent (from 16.5 per cent in the previous quarter), but remained very high historically, reflecting tight labour market conditions and high labour shortages in Bulgaria. In the first quarter of 2025, the strong wage growth was in line with the NSI's short-term gross wage data and NSI's national accounts data on wages *per employee*,<sup>45</sup> which also reported strong growth in labour income (by 11.1 per cent and 10.7 per cent on an annual basis, respectively). In real terms,<sup>46</sup> total household income rose by 10.8 per cent on an annual basis, from 15.3 per cent in the fourth quarter of 2024, reflecting the stronger rise in consumer prices over this period. As a result, the growth rate of real disposable

##### Contributions to the Change in Household Revenue

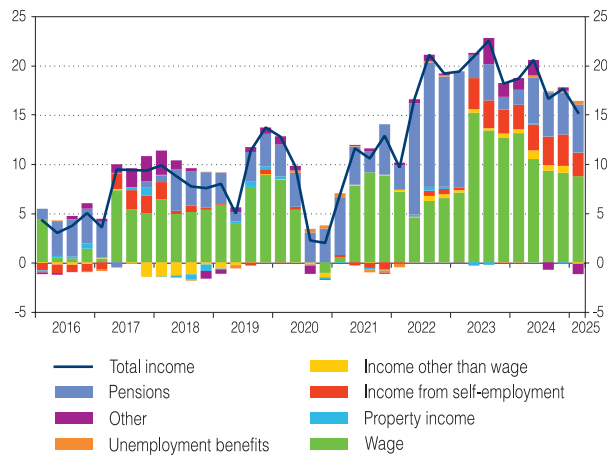
(per cent, percentage points; average *per person*, on an annual basis)



Sources: NSI – Household Budget Survey, BNB calculations.

##### 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.

<sup>43</sup> Household income includes all household cash income from sources, such as wages, pensions, self-employment, social security benefits, allowances and valued in-kind income (the monetary value of goods and services received in kind by households, such as social transfers in kind) grouped under the 'Total income', category, as well as withdrawals of savings and loans.

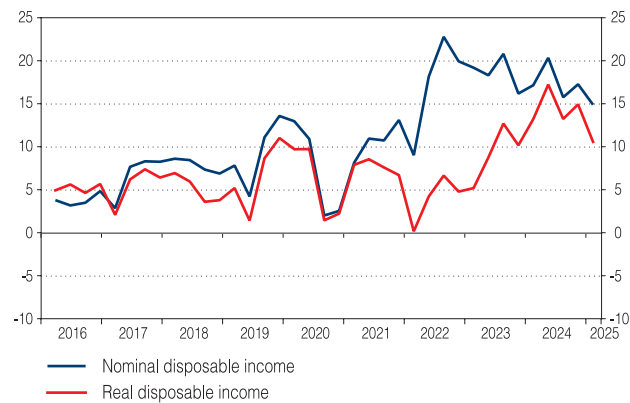
<sup>44</sup> The other income category covers revenue from sales, regular transfers from other households and one-off income from insurance, lotteries, inheritance, *etc.*

<sup>45</sup> Wage *per employee* is calculated by dividing the wage bill to the number of employed in the economy.

<sup>46</sup> To obtain total income in real terms, nominal values are deflated by the HICP.

## 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.

income<sup>47</sup> of households stood at 10.6 per cent on an annual basis (against 15.0 per cent in the fourth quarter of 2025) and continued to contribute to the strong increase in consumer expenditure.

## Household Expenditure

In the first quarter of 2025, total household expenditure<sup>48</sup> rose nominally by 13.3 per cent on an annual basis (against 13.7 per cent in the fourth quarter of 2024), with the annual growth rate of consumer expenditure remaining similar to that in the previous quarter. At the same time, expenditure on taxes and social contributions continued to increase at a faster pace than consumer expenses, and the trend towards a gradual increase in their share of total household expenditure was sustained.

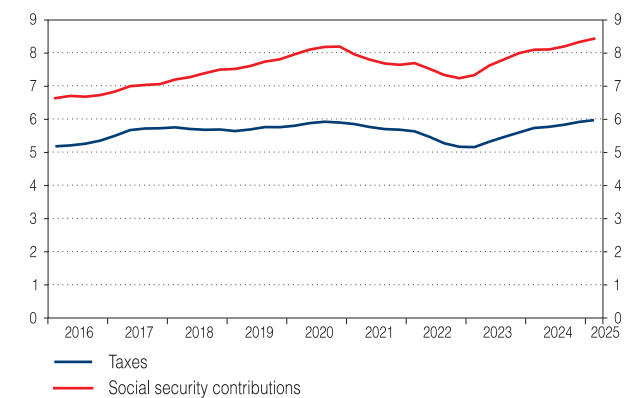
In the first quarter of 2025, consumer expenditure went up by 12.8 per cent on an annual basis in nominal terms (12.7 per cent in the fourth quarter of 2024), with lower increase in expenditure on leisure, cultural recreation and education, on home furnishing and maintenance, as well as clothing and footwear being entirely offset by higher expenditure on food and non-alcoholic beverages, on housing, water, electricity and fuels – in line with higher food inflation

<sup>47</sup> 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.

<sup>48</sup> Total expenditure includes consumer spending, taxes, social contributions, regular transfers to other households and other expenditure. For more details, see [NSI's Methodology](#) on the Household Budget Survey.

## Shares of Taxes and Social Security Contributions in Total Household Expenditure

(per cent, BGN average *per person*)

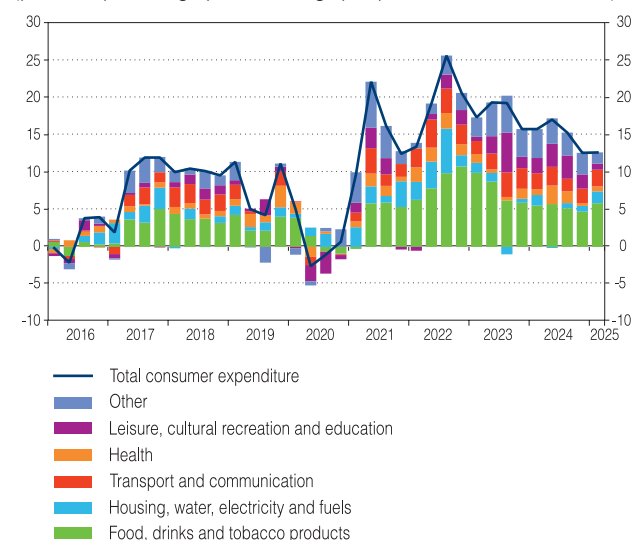


Note: A moving average for the last four quarters is used in order to adjust the data and show the trend in the developments.

Source: NSI – Household Budget Survey.

## 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.

and an increase in the electricity price for households since the beginning of the year.

In real terms,<sup>49</sup> growth in consumer expenditure was 8.5 per cent on an annual basis, driven mainly by food and non-alcoholic beverages expenditure, followed by transport and communications expenditure. NSI's national accounts data, which have a broader coverage, also reported a strong increase in annual real private consumption growth of 9.0 per cent on an annual basis in the first quarter of 2025.

### Household Savings

In the first quarter of 2025, households' propensity to save<sup>50</sup> part of their income<sup>51</sup> decreased compared to the previous quarter, according to seasonally adjusted data, in line with low incentives for saving given the negative real interest rates on deposits of households. The accumulated amount of net household assets in the banking system also slowed down slightly due to the continued strong growth of loans to households. As a result, both the lower propensity to save and the decline in net household assets supported private consumption growth in the first quarter of 2025.

## 4.5. Fiscal Policy Effects on the Economy

In the first quarter of 2025, fiscal policy had a positive effect on economic activity growth in Bulgaria mainly through the reported government consumption growth<sup>52</sup> and social payments supporting household disposable income.

Government consumption grew by 5.6 per cent in nominal terms on an annual basis (7.4 per cent in real terms). Data on the CFP implementation as of end-March 2025 indicate that health-

<sup>49</sup> Household consumer expenditure are deflated by the overall HICP. Sub-components of consumer expenditure are deflated by the corresponding HICP groups.

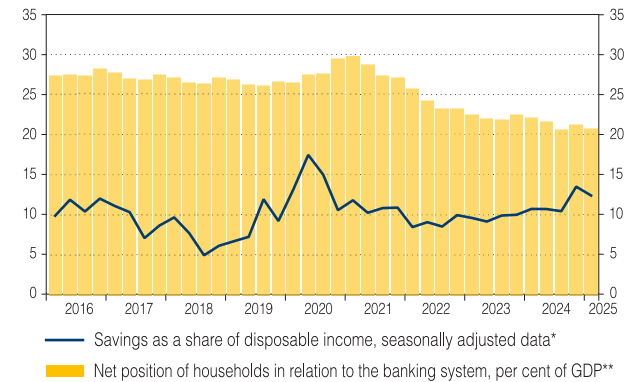
<sup>50</sup> Household savings are measured by the difference between the total income and the total expenditure in the relevant quarter. The propensity to save is calculated as a ratio between savings and gross income in the relevant quarter.

<sup>51</sup> Income is gross income in the relevant quarter reduced by taxes and social security contributions.

<sup>52</sup> As of the cut-off date of this issue of Economic Review, the quarterly general government non-financial accounts published by the NSI are available up to and including the fourth quarter of 2024. The estimate of general government investments, for the first quarter of 2025 is based on the monthly CFP performance reports. The CFP performance data also provide indication of the dynamics of social transfers to households.

### 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.

\*\* BNB and NSI data. Nominal GDP data for the last four quarters up to and including the first quarter of 2025 are used to calculate the ratio to GDP.

Sources: NSI – Household Budget Survey, BNB.

care and current operating expenditure had a positive contribution to the increase in government consumption.<sup>53</sup> CFP capital expenditure, without taking into account the transaction on the reimbursement of BGN 1.2 billion from the account for foreign funds under the Ministry of Regional Development and Public Works budget in February 2024,<sup>54</sup> shows annual growth of 8.0 per cent and implies a slight positive effect of general government's gross fixed capital formation on GDP growth in the first quarter of 2025. In addition, the reported increase in social expenditure under the CFP by 14 per cent at the end of March 2025 is an indication of growth in social transfers to households, mainly driven by the increase of pensions by 11 per cent as of 1 July 2024. At the same time, in the first quarter of the year, the stock exchange price of electricity remained above the threshold of BGN 180, at which compensation is paid under the extended programme for the costs of non-household electricity customers, the latter being another fiscal measure with an impact on economic activity in Bulgaria.

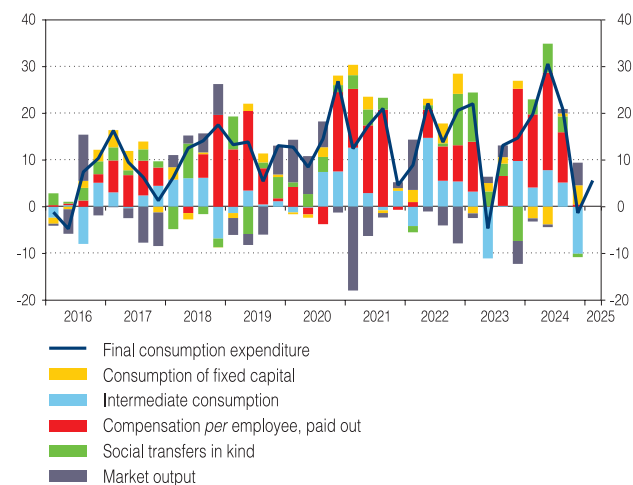
By the end of May 2025, total CFP budget expenditure posted an increase of 21.4 per cent on an annual basis, close to that in the first quarter (22.2 per cent by end-March 2025).

<sup>53</sup> The CFP performance data indicate that staff expenditure grew by 12.0 per cent on an annual basis by end-March 2025, and this increase is expected to have a positive effect on the dynamics of the government consumption deflator. Concurrently, in the first quarter of 2025, the government consumption deflator recorded a decline of 1.7 per cent on an annual basis.

<sup>54</sup> In February 2024, 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.

### Contribution of Major Groups of Expenditure to Government Consumption Growth in Nominal Terms (on a Quarterly Basis)

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

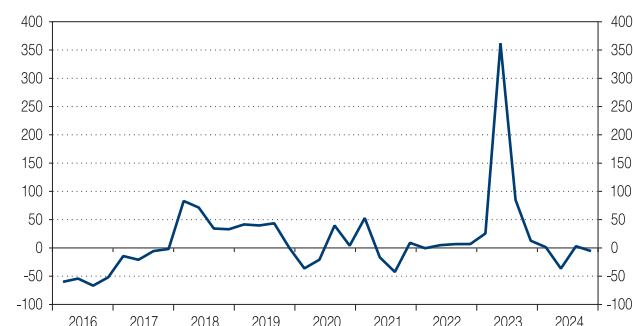


Note: As of the cut-off date of this issue of Economic Review, the quarterly general government non-financial accounts published by the NSI are available up to and including the fourth quarter of 2024, and therefore, a breakdown of the components of government consumption for the first quarter of 2025 is not available.

Sources: NSI, BNB calculations.

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

(per cent; on an annual basis)



Note: As of the cut-off date of this issue of Economic Review, the quarterly general government non-financial accounts published by the NSI are available up to and including the fourth quarter of 2024.

Sources: NSI, BNB calculations.



Social, capital<sup>55</sup> and staff expenditure had a high positive contribution to the growth of total budget expenditure. The 11 per cent increase in pensions from 1 July 2024 and the 21.3 per cent rise in the poverty line from 1 January 2025, used to index certain social benefits, were the factors determining social expenditure growth. Concurrently, increases in expenditure on defence and security staff, in secondary education, and higher wages of other employees in the public sector contributed to the reported annual growth in CFP staff expenditure, as set out in the State Budget Law of the Republic of Bulgaria for 2025.

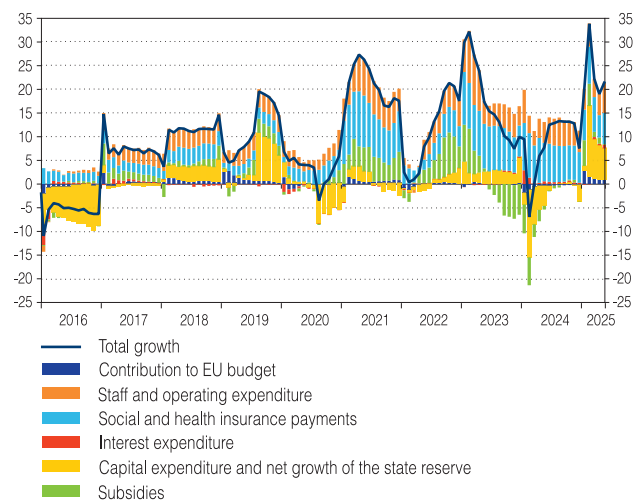
Data on the performance of CFP capital expenditure for April and May 2025 indicate that general government gross fixed capital formation will provide stronger support for the increase in economic activity in Bulgaria over the second quarter of the year. At the same time, the reported slowdown in healthcare expenditure growth and the acceleration in staff expenditure growth, which is partly reflected in the government consumption deflator, suggest a slowdown in real government consumption growth in the second quarter of 2025.

Total budget revenue under the CFP grew by 11.5 per cent on an annual basis as of the end of May 2025, with growth driven mostly by tax revenue. The increase in tax revenue reflected primarily receipts from value added tax (VAT) and social and health insurance contributions.

<sup>55</sup> With a view to data comparability, when eliminating the transaction of February 2024 referred to in note Government consumption grew by 5.6 per cent in nominal terms on an annual basis (7.4 per cent in real terms). Data on the CFP implementation as of end-March 2025 indicate that healthcare and current operating expenditure had a positive contribution to the increase in government consumption. CFP capital expenditure, without taking into account the transaction on the reimbursement of BGN 1.2 billion from the account for foreign funds under the Ministry of Regional Development and Public Works budget in February 2024, shows annual growth of 8.0 per cent and implies a slight positive effect of general government's gross fixed capital formation on GDP growth in the first quarter of 2025. In addition, the reported increase in social expenditure under the CFP by 14 per cent at the end of March 2025 is an indication of growth in social transfers to households, mainly driven by the increase of pensions by 11 per cent as of 1 July 2024. At the same time, in the first quarter of the year, the stock exchange price of electricity remained above the threshold of BGN 180, at which compensation is paid under the extended programme for the costs of non-household electricity customers, the latter being another fiscal measure with an impact on economic activity in Bulgaria., capital expenditure at the end of May 2025 shows an increase of 33.1 per cent on an annual basis.

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

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



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

Sources: MF, BNB calculations.

Compared to the end of the first quarter, the growth rate of total budget revenue accelerated (6.8 per cent by end-March 2025), reflecting mainly the lower negative contribution of revenue from grants due to the gradual depletion of the high base effect in March 2024,<sup>56</sup> as well as increased excise revenue due to the increases in excise duty on tobacco products from 1 May 2025.

As of end-May 2025, the CFP budget balance was negative at BGN 2606 million (1.3 per cent of GDP<sup>57</sup>).

---

<sup>56</sup> Data on the financial implementation of European funds in March 2024 reported a pre-funding received from Bulgaria for the new 2021-2027 programming period.

<sup>57</sup> Nominal GDP data for the last four quarters up to and including the first quarter of 2025 are used in calculating the ratio.

# 5. PRICE DEVELOPMENTS

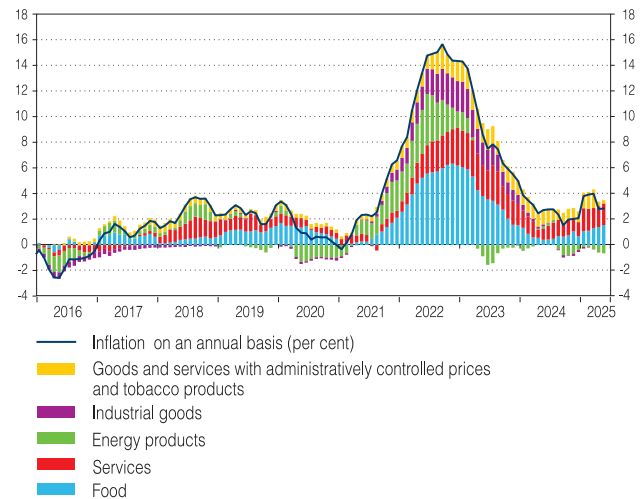
## 5.1. Consumer Prices

Annual inflation measured by the HICP came to 2.9 per cent in May 2025, from 2.1 per cent in December 2024, with the groups of food and services being the main drivers of acceleration. Consumer price rises continued to be affected mainly by factors related to domestic processes, such as the increasing unit labour costs and strong private consumption, which enabled firms to pass on higher production costs to final consumers. An additional pro-inflationary factor was the restored standard VAT rate of 20 per cent on the supply of bread and flour and on restaurant and catering services from 1 January 2025. Fiscal policy also continued to have a pro-inflationary effect through increases in social payments and public sector wages, as well as through the automatic increase in the minimum wage. These measures contributed to the growth in household real disposable income and strong private consumption. The maintenance of budget deficits funded by external government bond issues was an additional pro-inflationary factor, as it contributed to maintaining high liquidity in the banking system and therefore to the limited transmission of the ECB's monetary policy on deposit and lending rates in the household sector in Bulgaria. As a result, the amount of new consumer loans continued to rise and support the increase in household consumption.

Concurrently, headline inflation began to slow down on a quarterly basis in the second quarter of 2025 to 2.8 per cent on average for April–May 2025 (from 3.9 per cent in the first quarter of 2025). The slower rise in consumer prices in the second quarter of 2025 reflected both the slowdown in inflation in administratively controlled prices and tobacco products and a stronger price decline in energy products.

### Inflation and Contribution of Major Commodity and Services Groups to It

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



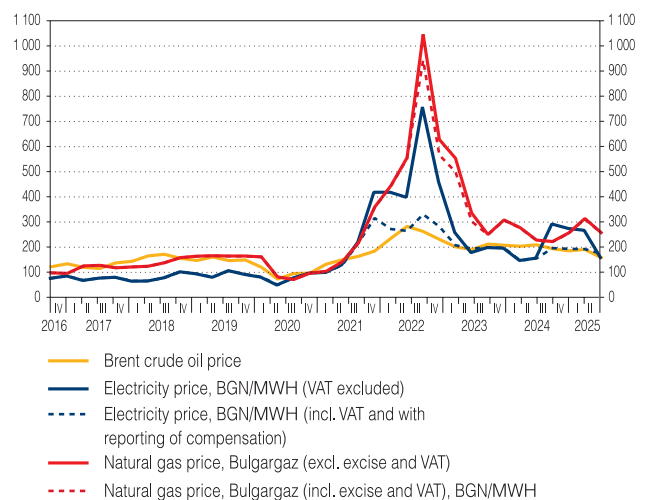
Notes: This structure corresponds to the Eurostat classification; tobacco products and goods and services with administratively controlled prices are presented separately.

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

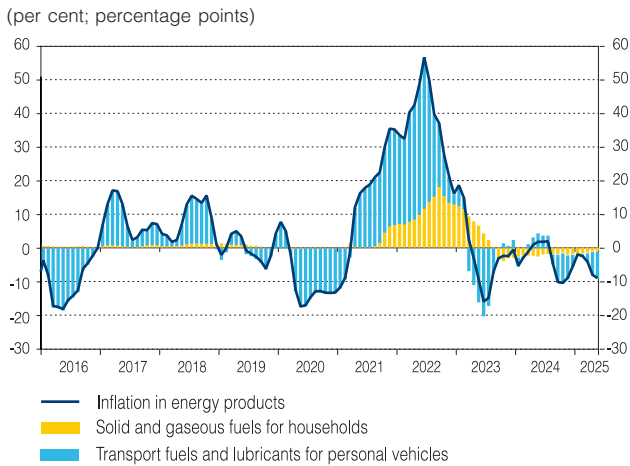
(index, Q4 2020 = 100)



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)



Sources: NSI, BNB calculations.

### Energy Products Prices

May 2025 saw a 9.1 per cent annual fall in energy product prices (against a decline of 5.6 per cent in December 2024). Prices of transport and solid fuels also posted a decline. Concurrently, the stronger price decline in this group compared to the end of 2024 was entirely attributable to the continuing decrease in transport fuel prices, which was in line with lower crude oil prices in international markets.

Similar dynamics was also reported on a quarterly basis. In the April–May period, the energy price decline reached 8.6 per cent on an annual basis compared to an average annual decline of 3.0 per cent in the first quarter of 2025.

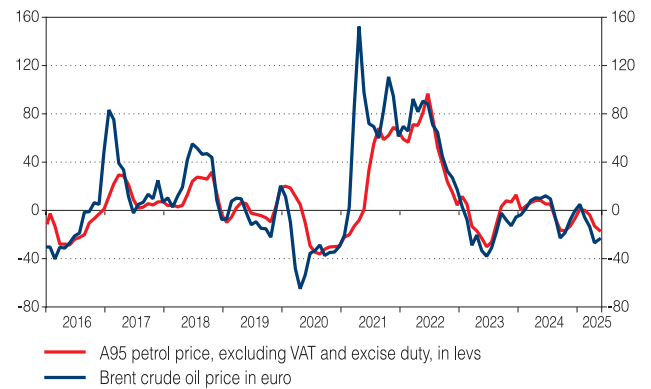
### Food Prices

The upward trend in food inflation which started in the beginning of the year continued and in May 2025 came to 6.4 per cent on an annual basis (from 2.7 per cent in December 2024). As a result, the increase in prices in this group contributed most strongly to higher headline inflation in May 2025 compared to the end of 2024. This dynamics reflected accelerated growth in both unprocessed and processed food prices.

In May 2025, annual inflation in unprocessed food accelerated to 5.9 per cent (2.8 per cent at the end of 2024), with the fruit and vegetables sub-group posting the strongest increase. This can be ascribed to both higher import prices of fruit and vegetables<sup>58</sup> and an increase in wholesale prices

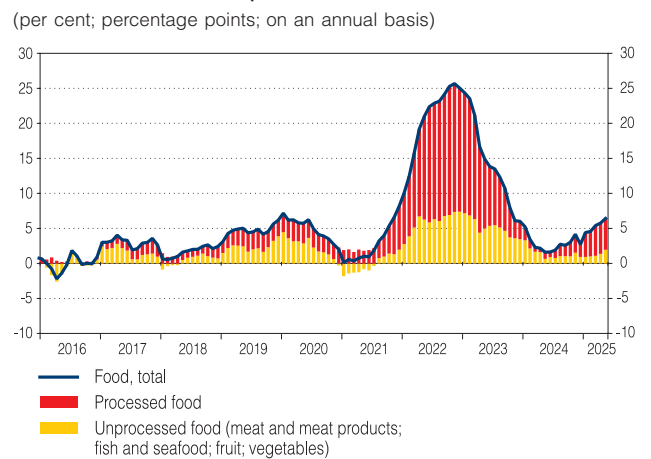
<sup>58</sup> The analysis employs BNB calculations based on NSI data on import prices by commodity group according to the Standard International Trade Classification (SITC) as of the first quarter of 2025.

### Rate of Change in Brent Crude Oil and A95 Petrol Prices (per cent; on an annual basis)



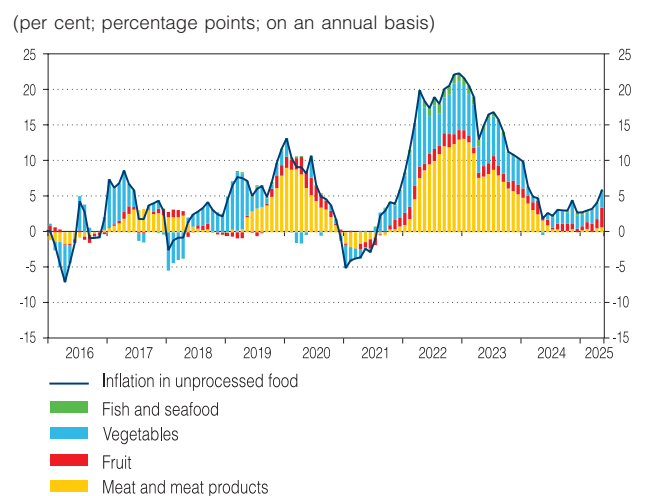
Sources: ECB, NSI, BNB calculations.

### 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.

### Contribution of Major Sub-groups to Unprocessed Food Inflation (per cent; percentage points; on an annual basis)



Sources: NSI, BNB calculations.

at markets in Bulgaria,<sup>59</sup> which might also be a result of a poorer harvest in the country.

Processed food inflation also picked up to 6.7 per cent year on year in May 2025 (against 2.7 per cent in December 2024), with the sub-group of bread and cereals having the highest positive contribution, followed by sugar and shugar confectionary, and coffee, tea and cocoa sub-groups. The major factors behind inflation in these groups were the restored standard VAT rate of 20 per cent on bread and flour supply in early 2025, higher import prices of these products<sup>60</sup> and the year-on-year increase in domestic production costs in these sectors.<sup>61</sup>

Between April and May 2025, average annual food inflation accelerated to 6.1 per cent compared with a 4.8 per cent increase in the first quarter of 2025.

### Core Inflation

Core inflation (including services and industrial goods prices) picked up to 3.5 per cent in May 2025 compared with 2.1 per cent at the end of 2024. The price rise in this group was entirely due to the continued price increase of services, which had the largest positive contribution to overall inflation in May 2025.

In May 2025, the group of industrial goods exhibited a year-on-year decline of -0.1 per cent in consumer prices (against a decrease of -0.7 per cent in December 2024), with the fall reflecting mainly lower prices of consumer durables and, particularly, the sub-groups of personal computers and the sound or video reproducing technique. Concurrently, consumer prices of non-durable goods continued to rise in line with strong consumer demand, with the sub-groups of jewellery and watches and spares contributing most to this increase.

In May 2025, annual inflation in services accelerated to 7.0 per cent (against 4.6 per cent at the end of 2024), which continued to be driven mainly by price rises in public catering and accommodation services. The main factors contributing to

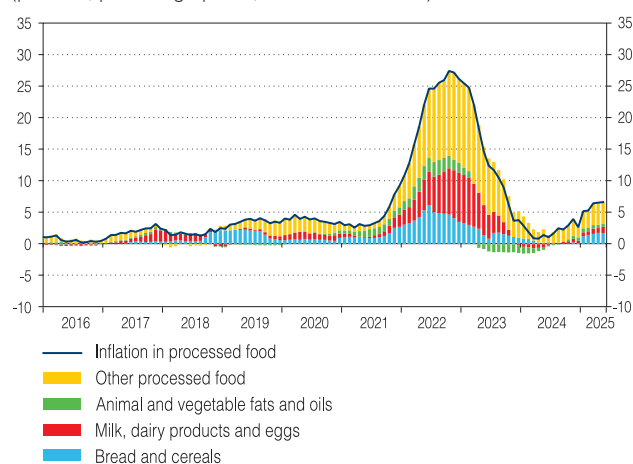
<sup>59</sup> Weekly data from the State Commission on Commodity Exchanges and Markets (SCCEM) as of June 2025 are used.

<sup>60</sup> BNB calculations based on NSI data on import prices by commodity group according to the Standard International Trade Classification (SITC) as of the first quarter of 2025 are used.

<sup>61</sup> NSI data on producer price indices (PPI) in industry in the domestic market as of May 2025 are used.

### Contribution of Major Sub-groups to Processed Food Inflation

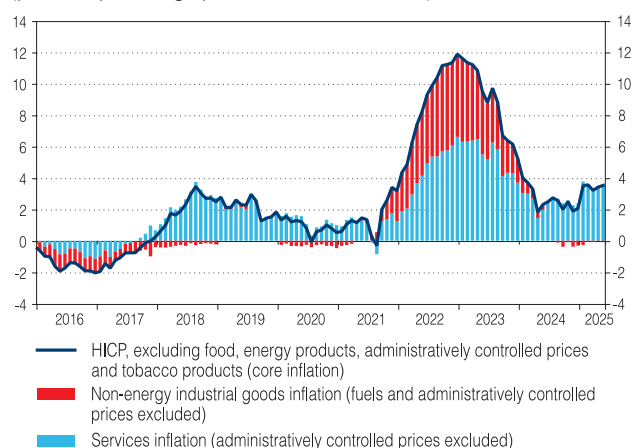
(per cent; percentage points; on an annual basis)



Sources: NSI, BNB calculations.

### Core Inflation and Contribution of Services and Non-food Goods to It

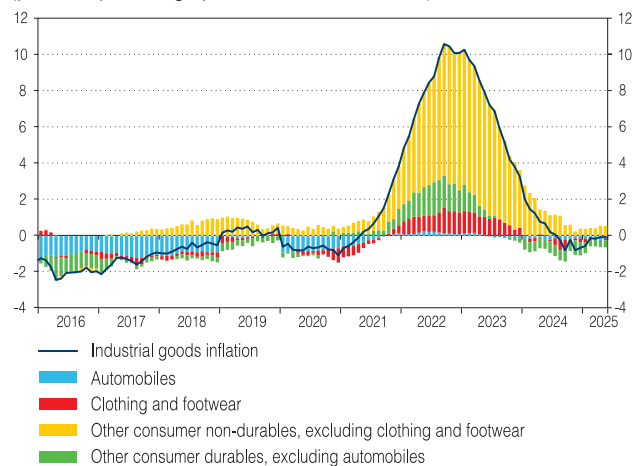
(per cent; percentage points; on an annual basis)



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.

higher consumer prices in this group were rising labour costs and strong private consumption, as well as the restored standard VAT rate of 20 per cent for supply of restaurant and catering services.

### Goods and Services with Administratively Controlled Prices and Tobacco Products

Annual inflation in the group of goods and services with administratively controlled prices and tobacco products slowed down to 1.0 per cent in May 2025 (from 3.9 per cent at the end of 2024), largely due to the reduction in the fee of hospital services from April 2025. At the same time, inflation in the electricity sub-group increased from the end of 2024, and this sub-group continued to have the highest positive contribution to the increase in consumer prices in the group<sup>62</sup> followed by the tobacco sub-group<sup>63</sup>. Other sub-groups contributing to higher administratively controlled prices were medical products<sup>64</sup>, education and refuse collection and disposal.

The diffusion index, which indicates the share of goods and services posting an annual price rise, grew to 76.7 per cent in May 2025, from 72.1 per cent in December 2024. As regards the rate of price increases, the share of sub-indices with price increases of more than 5 per cent on an annual basis rose to 40.7 per cent (from 34.9 per cent at the end of 2024).

### Inflation Expectations

Regular NSI business surveys show that in June 2025 the share of managers in the services and retail trade sectors expecting selling price rises in the following three months have increased both from the end of 2024 and from the previous month. These developments suggest that inflation in services will continue to rise in the short run.

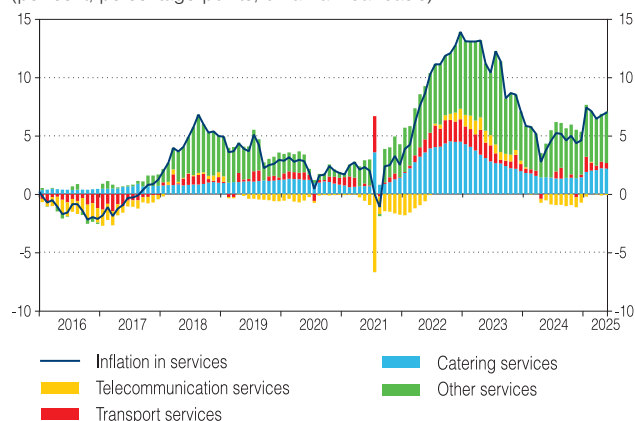
<sup>62</sup> The average electricity price increase for household consumers by 8.42 per cent came into force by [EWRC decision](#) on 1 January 2025. The price was additionally increased by 2.58 per cent on 1 July 2025 by [EWRC decision](#).

<sup>63</sup> The rise in tobacco product prices was due to 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.

<sup>64</sup> 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.

### Contribution of Major Sub-groups to Inflation in Services

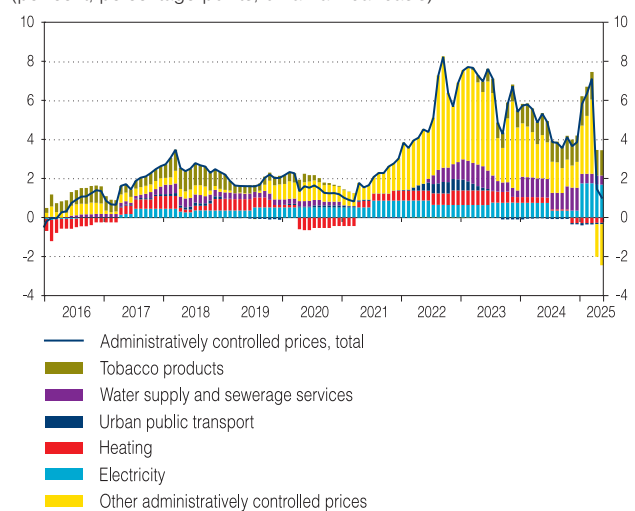
(per cent; percentage points; on an annual basis)



Sources: NSI, BNB calculations.

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

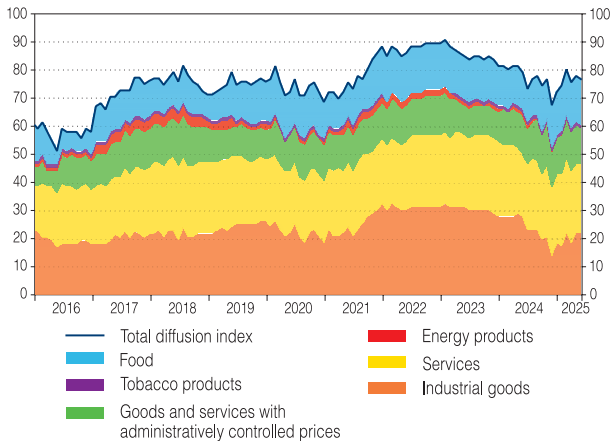
(per cent; percentage points; on an annual basis)



Sources: NSI, BNB calculations.

## Diffusion Index

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



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.

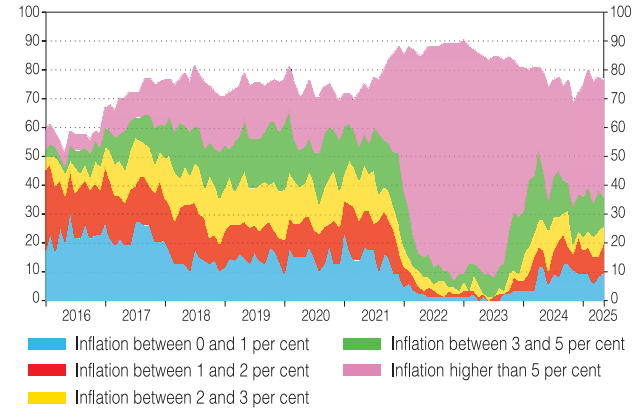
Sources: NSI, BNB calculations.

Based on current trends, technical assumptions about international commodity price developments, projected labour market dynamics and economic activity in Bulgaria, as well as assumptions in the forecast about the effects of expected increases in some administratively set prices, the rate of consumer price growth is expected to accelerate in the second half of 2025 as compared with May 2025. These developments will be mainly driven by the expected buoyant consumption and rising unit labour costs, which will continue to exert upward pressure on prices, and by the assumptions about a slower price decrease in energy products.

## 5.2. Housing Prices

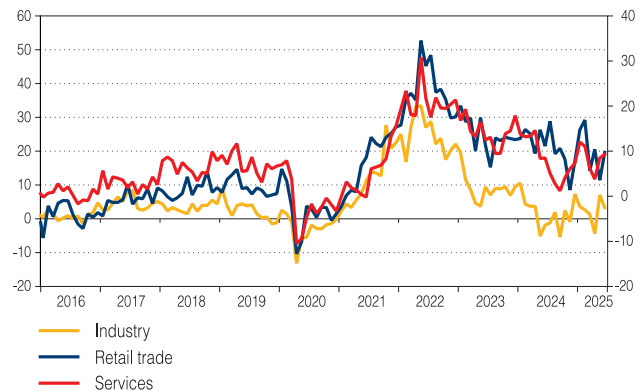
The annual growth rate of the House Price Index (HPI) stood at 15.1 per cent in the first quarter of 2025 (compared to 18.3 per cent in the previous quarter). The price rise reflected higher prices of both new and existing dwellings (13.4 and 16.2 per cent, respectively). Increases in housing prices were wide-ranging across regional cities, with the growth rate accelerating most significantly in Russe and Varna. Factors which continued to support housing demand and to add to housing price rises were higher labour income, the retained strong lending activity in an environment of historically low annual percentage rates of charges on new housing loans, and more limited

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



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

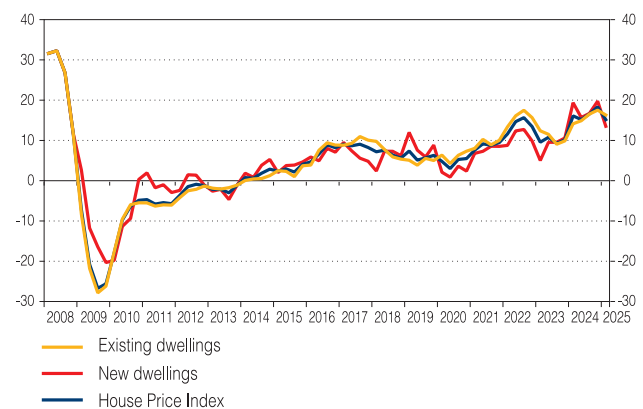
(balance of opinions)



Source: NSI.

## Rate of Change of House Price Index

(per cent; on an annual basis)

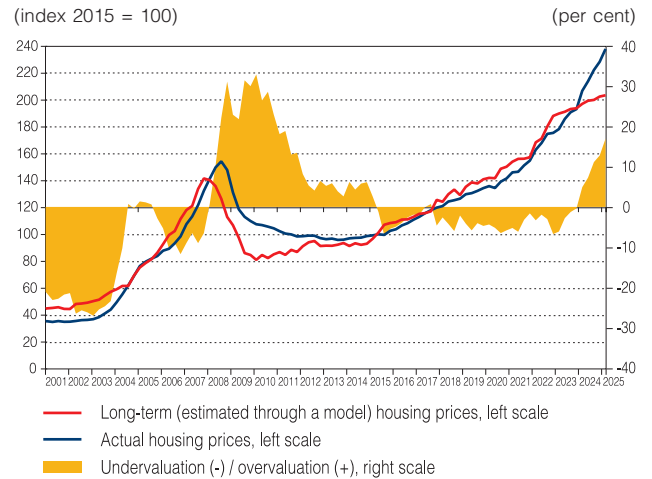


Note: From the beginning of 2022, the HPI is calculated on the basis of data from an administrative source only (the Property Registry), which is the reason why the data are not fully comparable with those of previous years.

Source: NSI.

opportunities to invest the accumulated savings in the context of negative real interest rates on household deposits. Other pro-inflationary factors included the historically favourable household sentiments<sup>65</sup> for house purchases and reported annual growth in construction costs<sup>66</sup> on new buildings in the first quarter of 2025 (by 7.2 per cent compared with 5.4 per cent in the previous quarter). Over the first quarter of 2025, the price-to-rent ratio, which is a frequently used indicator of undervaluation/overvaluation of houses, continued to exceed significantly (by 47.5 per cent) its long-term (historical) average value.<sup>67</sup> 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 expectations of a further increase in house prices

### Actual and Equilibrium Housing Prices



Sources: NSI, BNB calculations.

### Key Indicators of the Housing Market Developments in Bulgaria

(per cent; year-on-year change)

Indicators	2021	2022	2023	2024	2025 I
<b>Price developments</b>					
House Price Index, total	8.7	13.8	9.9	16.5	15.1
New dwellings	7.7	10.8	8.6	17.8	13.4
Existing dwellings	9.2	15.6	10.6	15.7	16.2
Inflation (HICP)	2.8	13.0	8.6	2.6	3.9
House rentals, paid by tenants (HICP)	1.7	6.3	8.4	5.6	7.3
<b>Lending</b>					
New housing loans	24.0	33.5	15.7	30.7	27.1
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	2.8
Housing loans balances	14.0	18.1	18.8	25.8	29.1
<b>Construction and Investment</b>					
Permits issued for the construction of new residential buildings (square meters)	25.1	20.6	-4.9	-14.2	8.2
Value added in construction (at average annual prices for 2015)	-10.8	5.3	3.8	5.2	6.0
Construction Production Index, building construction	1.8	0.1	2.7	-0.7	4.3
Fixed investment; residential buildings	0.6	-1.4	0.3	-4.0	10.0
Construction Cost Index for new buildings	11.4	54.8	16.3	4.0	7.2

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.

<sup>65</sup> Seasonally adjusted data of the BNB obtained from the regularly conducted NSI household budget survey are used.

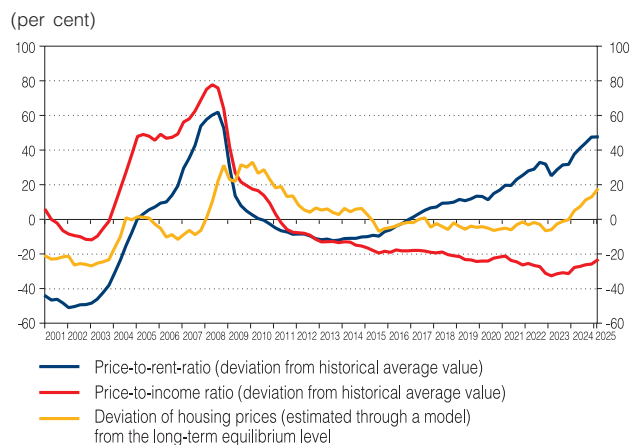
<sup>66</sup> Eurostat data are used.

<sup>67</sup> Calculated for the period from the first quarter of 2000 to the first quarter of 2025.



(and generation of capital gains after a sale in the future) or perceptions of residential property as an alternative asset for preserving value in the context of negative interest rates on household deposits. Concurrently, estimates based on the BNB macroeconomic model<sup>68</sup> suggest a significantly lower positive deviation of current residential property prices in Bulgaria from their long-term equilibrium level (17.0 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.

### Indicators of Undervaluation/Overvaluation of Housing Prices



Sources: NSI, BNB calculations.

<sup>68</sup> 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.

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.