Economic Review

3/2025

BULGARIAN NATIONAL BANK

ECONOMIC REVIEW

3/2025

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ABBREVIATIONS

ABSPP   Asset-Backed Securities Purchase Programme
APP   Asset Purchase Programme
APRC   Annual percentage rate of charge
BNB   Bulgarian National Bank
CBPP   Covered Bond Purchase Programmne
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 second quarter of 2025, real global GDP growth accelerated to 0.7 per cent on a quarterly basis, driven by temporary factors related to increased volatility in net exports and inventories of leading economies, as a result of changes in US foreign trade policy. PMI data on manufacturing and services point to accelerated growth in the third quarter of 2025. In view of Bulgaria's strong integration into global trade, this set of factors is likely to have a positive impact on real exports of Bulgarian goods and services in the third quarter of 2025, which decreased due to country-specific factors in the first half of 2025.

Commodity price dynamics in international markets over the third quarter of 2025, resulting mainly in a continuous year-on-year decline in energy and food 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, thus contributing to reduce the trade balance deficit. Despite declining energy commodity and food prices, global annual inflation accelerated in the third quarter of 2025 in both developing and advanced economies.

In September 2025, the US Federal Reserve System lowered the target range for the federal funds rate by 25 basis points to 4.00–4.25 per cent, the decision being motivated by the increased risks to US labour market developments. Taking into account the inflation dynamics in the euro area and the prospects for its stabilisation around the target, in the second quarter the ECB Governing Council kept the interest rates on the deposit facility, the main refinancing operations and the marginal lending facility unchanged at 2.00 per cent, 2.15 per cent and 2.40 per cent, respectively.

The current and capital account deficit for the last 12 months as of July 2025 amounted to 2.2 per cent of GDP, against a surplus 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. For the last 12 months as of July 2025, Bulgaria was a net recipient of funds from the rest of the world. During this period the amount of net receipts exceeded significantly the current and capital account deficit and the financial account balance was negative at 8.4 per cent of GDP. As of July 2025, Bulgaria's gross international reserves posted a EUR 5.7 billion increase as a result of flows on current, capital and financial account of the balance of payments over the last 12 months.

In the July-August period, the annual growth of non-government sector's deposits accelerated to 11.8 per cent (10.1 per cent at the end of 2024). The reported higher growth was probably driven by campaigns launched by certain commercial banks to deposit free cash balances in levs without a fee to automatically convert them into euro following Bulgaria's accession to the euro area from the beginning of 2026. In the first eight months of the year, household credit growth remained close to that at the end of 2024 (20.8 per cent), with housing loans contributing most to this effect. The main factors supporting growth in these loans were the rising labour income, the persistence of very low interest rates as well as the high liquidity and sound capital position of banks. The results of the BNB Bank Lending Survey show unchanged standards for housing loans in the second quarter of 2025 after the significant tightening of these standards reported in the last quarter of 2024 and a further tightening in the first quarter of this year. The tightening of standards may be linked to the requirements introduced by the BNB for indicators of credit standards in extending and renegotiating loans secured by residential real estate, effective since the beginning of October 2024.

In the second quarter of 2025, annual growth of economic activity accelerated to 3.5 per cent (from 2.9 per cent in the previous quarter), mainly driven by the decrease in imports of goods (by 0.2 per cent) and the significant acceleration in government consumption growth (up 16.3 per cent). By component, private consumption continued to contribute significantly, rising by 6.9 per cent on an annual basis in real terms, underpinned by employment growth and household disposable income growth, while the contribu-

tion of net exports remained negative (-3.1 percentage points compared to -5.4 percentage points in the first quarter). Gross value added rose by 2.6 per cent on an annual basis in the second quarter, with only services sector contributing positively. Labour market conditions remained very tight in the second quarter of 2025. Employment rose by 3.7 per cent year on year, while labour shortages continued to increase to historically high levels. These factors resulted in an increase in nominal compensation per employee by 18.5 per cent on an annual basis in the second quarter of 2025.

Short-term indicators provided divergent signals about economic activity by sector in the third quarter of 2025. Some of the indicators which monitor firms' current production activity were positioned below their long-term values, while retail trade turnover increased on an annual basis and household sentiment remained at historically high values. This is a prerequisite for a slight acceleration in quarterly real GDP growth in the third quarter of 2025, with estimates suggesting that private consumption will continue to play a key role in GDP growth. At the end of 2025 and early 2026, real GDP growth is projected to continue to be supported mostly by domestic demand, while the negative contribution of net exports is expected to contract at the end of the year and start contributing positively to the economic activity in early 2026.

Annual inflation measured by the Harmonised Index of Consumer Prices (HICP) came to 3.5 per cent in August 2025, from 2.1 per cent at the end of 2024, with the groups of food and services contributing most to the acceleration, where annual inflation in recent months remained at rates of around 6-7 per cent. Rising unit labour costs and strong private consumption, which enabled firms to pass on higher production costs to final consumers, were the main factors behind inflation acceleration. After the temporary slowdown in growth rates, annual inflation started to accelerate again in the third quarter, reaching 3.5 per cent on average in the July-August period, from 2.9 per cent in the second quarter of 2025. The acceleration of inflation was mainly due to the slower rate of price falls in energy products, as well as the stronger price growth observed in the groups of food and administratively controlled prices. Inflation is expected to rise further in the second half of 2025, before moderating at the beginning of 2026.

1. EXTERNAL ENVIRONMENT

1.1. Current Business Situation

Global Environment

In the second quarter of 2025, real global GDP growth accelerated to 0.7 per cent, from 0.5 per cent in the previous quarter. Economic growth acceleration mainly reflected one-off effects related to increased volatility in net exports and inventories of leading economies due to changes in US foreign trade policy. Data on global PMI services and manufacturing indicate an acceleration of growth in the third quarter of 2025. Services reported a significant increase in economic activity due mainly to business services and financial services. Manufacturing exhibited volatility on an upward trend compared with the second quarter.

Changes in US foreign trade policy also resulted in the dynamics of world trade volume, whose annual growth accelerated in the first quarter of 2025 due to increased orders before higher tariffs on US imports entered into force, while in the second quarter there was a gradual slowdown in growth as a result of the entry into force of part of the new tariff rates. In June, annual growth in world trade volumes was 3.1 per cent against 6.7 per cent in March 2025.

Global inflation intensified in July and August 2025 due to accelerated consumer price growth in both developing economies and advanced economies.

International Commodity Prices

In the third quarter[1] of 2025, the Brent crude oil price in US dollars[2] increased quarter on quarter to USD 69.6 *per* barrel (2.6 per cent), while the price of the commodity in euro decreased slightly (by 0.2 per cent to EUR 59.7 *per* barrel). Oil price fell on an annual basis in both US dollars (by 13.2 per cent) and euro (by 18.2 per cent). The main factor behind this decline was the deci-

Manufacturing and Services PMIs and Changes in World Real GDP

(per cent)

- PMI of manufacturing (left scale)
- PMI of services (left scale)
- Real GDP rate of change on a quarterly basis (right scale)
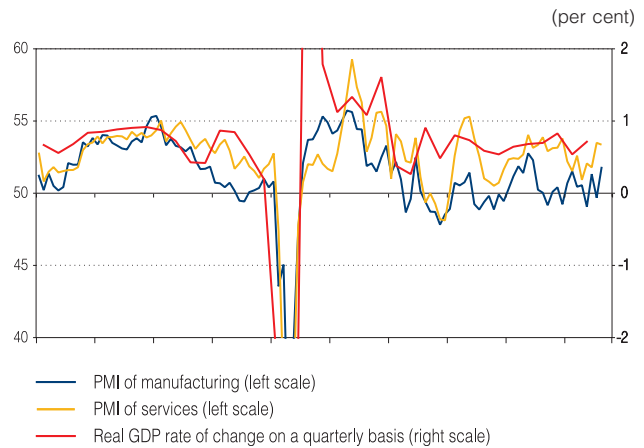
Sources: *JP Morgan,* World Bank.

World Trade in Goods

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

- World trade
- USA
- Euro area
- Other developed economies
- Other emerging markets
- China
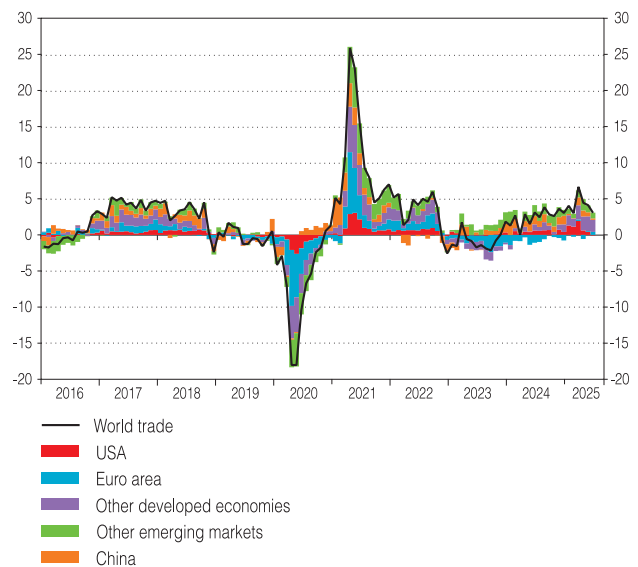
Source: CPB Netherlands Bureau for Economic Policy Analysis.

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[1] Data available as of August 2025.
[2] Hereinafter referred to as the US dollar.

Inflation Measured through CPI

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

- Global inflation
- Inflation in developed economies
- Inflation in emerging market economies

Source: World Bank.

Prices and Futures of Brent Crude Oil

- USD *per* barrel
- EUR *per* barrel
- Futures prices in USD *per* barrel

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

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

Natural Gas Prices

(US dollars *per* million British thermal unit)

- Japan
- Europe
- USA

Source: World Bank.

Metal Price Indices

(per cent, percentage points)

- Global metal index
- Zink
- Copper
- Iron ore
- Lead
- Aluminium
- Nickel
- Tin

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.

sions of the OPEC+ countries to gradually ease production limits and to increase production in non-OPEC+ countries.

In the third quarter of 2025, natural gas price in the European market decreased year on year by 1.0 per cent in US dollars and 6.6 per cent in euro and continued to decline on a quarterly basis (by 4.1 per cent in US dollars and 6.7 per cent in euro). The main contributors to the decline in natural gas prices included the higher base as a result of the high risk premium in the third quarter of 2024, the high filling levels of gas storage facilities in Europe[3], as well as increased imports of liquefied natural gas from the United States, which reduced security of supply concerns.

In July–August 2025, the average metal and mineral price index rose by 4.7 per cent on an annual basis in dollars and declined by 1.8 per cent in euro. The increase in the index reflected mainly the positive contribution of aluminium and copper price hike. The price of copper, which is of key importance for Bulgarian exports rose as a result of increased demand related to the risks of changes in US foreign trade policy.

In the same period, the total food price index recorded an annual decrease of 4.6 per cent in dollars (10.6 per cent in euro). Lower prices of rice and soybean contributed most to the decline in the overall food price index. The decline in wheat price, which is essential for Bulgarian food exports, was mainly due to increased global sup-

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[3] According to GIE (Gas Infrastructure Europe) data, on 31 March European gas storage capacity was filled to 77.7 per cent, compared to an average of 86 per cent as of the same date in the period 2019-2024.
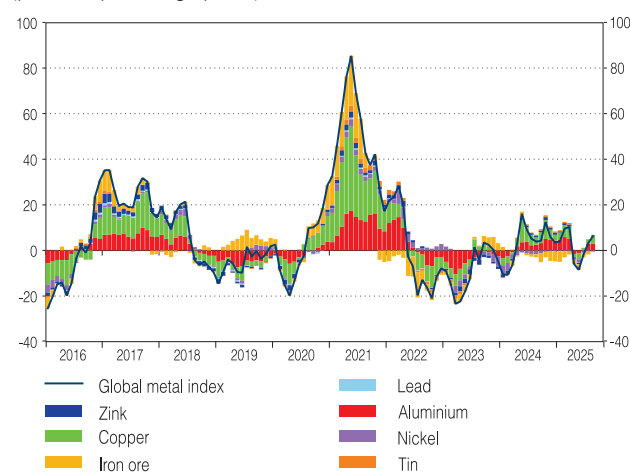
ply, lower demand from leading importers in Asia and North Africa, as well as higher harvests in the EU and Russia.

The United States

US real GDP recorded quarter on quarter growth of 0.9 per cent in the second quarter of 2025, compared with a decline of 0.2 per cent in the first quarter. The recovery in growth in the second quarter was largely due to the fall in imports, which resulted in a significant positive contribution of net exports, coupled with accelerated consumer spending. The strong positive contribution of net exports was partially offset by the significant decline in inventories. Investment contributed positively to growth in the second quarter, which was lower than in the previous quarter, while investment and public sector consumption had a slightly negative contribution.

The main US labour market indicators deteriorated somewhat in the third quarter of 2025. The number of employees in the non-agricultural sector increased by a total of 101 thousand in July and August (against an increase of 164 thousand jobs in the second quarter of 2025). The ratio of new jobs advertised to the number of unemployed persons fell in July to 0.99, from 1.05 in June, as for the first time since April 2021 it was below one. The unemployment rate rose to 4.3 per cent in August from 4.2 per cent in the second quarter.

In the third quarter of 2025, annual consumer price inflation slightly increased, remaining above the 2 per cent target set by the US Federal Reserve System. In July, the annual rate of change in the price index of individual consumer expenditure reached 2.6 per cent, compared to an average of 2.4 per cent in the second quarter. Annual growth of the core personal consumption expenditure index, excluding food and energy products, went up to 2.9 per cent in July, from 2.7 per cent on average in the second quarter of 2025. The increase was mainly due to higher prices of financial services and certain durable goods.

In September 2025, the US Federal Open Market Committee (FOMC) lowered the federal funds rate target by 25 basis points to a range of 4.00 to 4.25 per cent. The decision was motivated by the increased risks to labour market developments.

In September 2025, the Committee members' summarised forecasts showed a moderate

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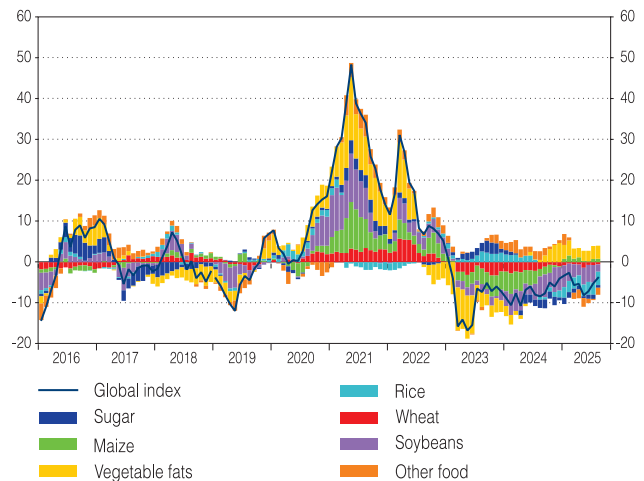
Note: Annual rate of change (per cent) and contribution by sub-component (percentage points) of relevant price indices measured in US dollars.

Sources: World Bank and BNB calculations.

Manufacturing and Services PMIs and Change in US Real GDP
(per cent)
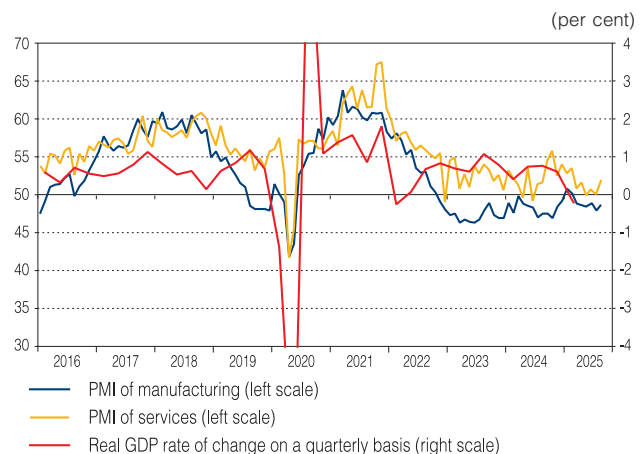
Sources: *Institute for Supply Management (ISM), Bureau of Economic Analysis*.

improvement in expectations for economic growth and sustained medium-term inflation and unemployment dynamics. The median of expectations of the federal funds rate was revised downwards by 25 basis points for 2025, 2026 and 2027 to 3.6 per cent, 3.4 per cent and 3.1 per cent respectively. The estimate of the long-run equilibrium level of the federal funds rate remained at 3.00 per cent.

China

China's real GDP rose by 1.1 per cent on a quarterly basis in the second quarter of 2025, from 1.2 per cent in the previous quarter. The main factor behind the growth slowdown was the high base for the previous two quarters, when a stronger increase in exports was observed driven by the forthcoming entry into force of new US tariffs.

In the third quarter of 2025, economic indicators (PMIs) continued to evolve with volatility around the neutral limit of 50 points. The activity in the services sector was higher, while indicators in manufacturing signalled a continuing stagnation.

In August 2025, an annual consumer price deflation of 0.4 per cent was recorded in China, compared with an inflation rate of 0.0 per cent on average in the second quarter. The decline in consumer prices was mainly due to the fall in food prices, while core inflation accelerated further to 0.9 per cent on an annual basis in August compared to 0.6 per cent on average in the second quarter.

The downward trend in house prices in China persisted in the third quarter of 2025. In August, the annual decline in residential property prices in larger cities decelerated to -0.9 per cent, from -1.7 per cent on average in the second quarter.

In August, the Chinese authorities announced measures to support consumer demand in the form of a government-financed discount of 1 percentage point on the interest rate on consumer loans and service sector business loans.

In the third quarter of 2025, the People's Bank of China left unchanged its monetary policy.

Euro Area

Euro area real GDP decelerated to 0.1 per cent on a quarterly basis in the second quarter of

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

(per cent)   (new employees, thousand)

Unemployment rate (left scale)

New employees in the non-agricultural sector in the corresponding month, total (right scale)
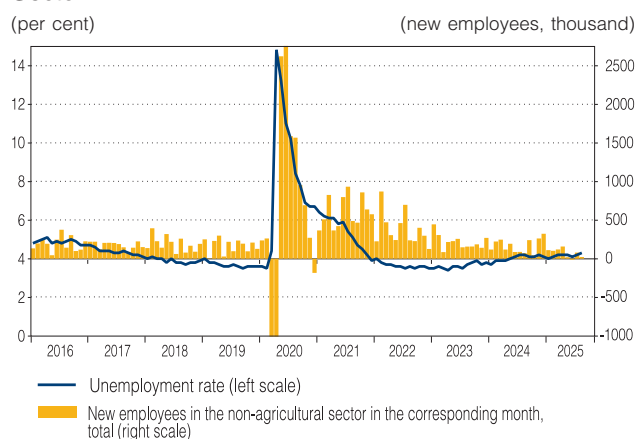
Note: The number of new employees in the non-agricultural sector in April and June 2020 is not evident in the chart, coming to 20,471 and 4631 thousand.

Source: Bureau of Labour Statistics.

US Inflation Rate

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

Inflation

Core inflation

Goods and services, excluding food and energy

Energy goods and services
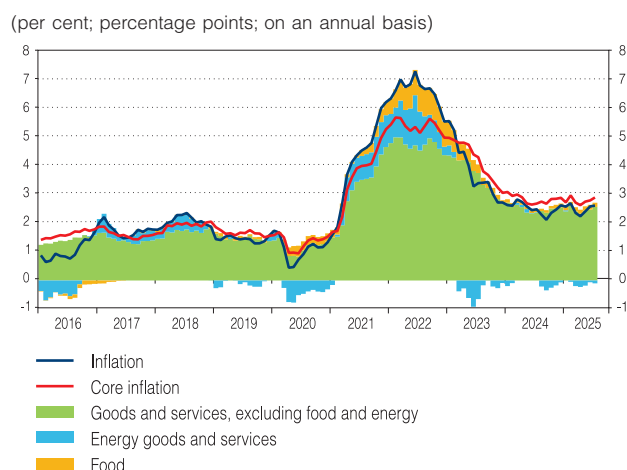
Food

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

Source: Bureau of Economic Analysis.

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

(per cent)

PMI of manufacturing (left scale)

PMI of services (left scale)

Real GDP rate of change on a quarterly basis (right scale)
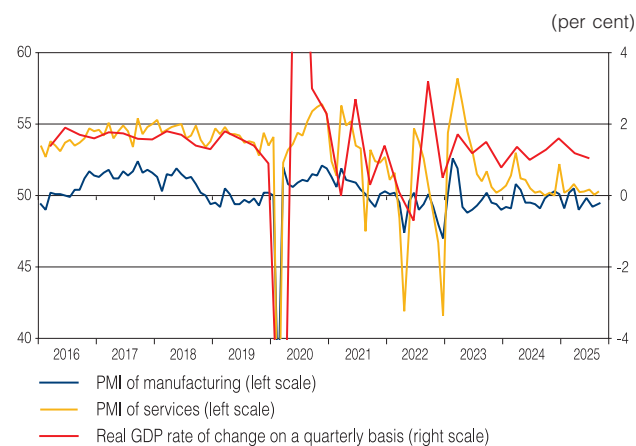
Sources: National Bureau of Statistics of China and China Federation of Logistics and Purchasing.

China's Inflation Rate

(per cent, on an annual basis)   (per cent, on an annual basis)

- Inflation (left scale)
- Core inflation (left scale)
- Food inflation (right scale)
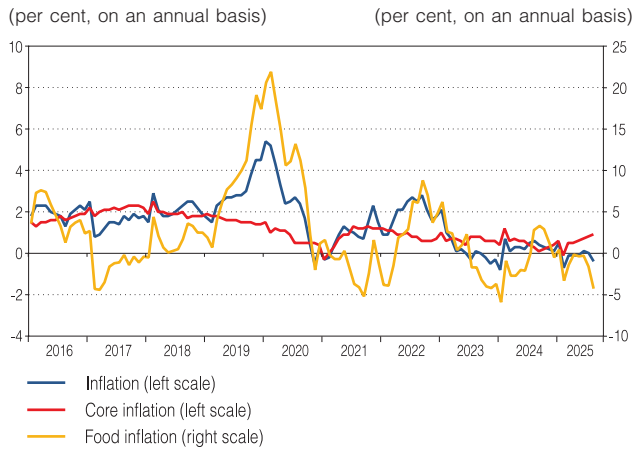
Notes: Inflation is measured by consumer price index.
Core inflation is measured by consumer price index, excluding food and energy expenditure.

Source: National Bureau of Statistics of China.

Reserve Requirement Ratio in China

(per cent)

- Large banks
- Small banks
- Municipal and regional banks

Source: People's Bank of China.

Reference Rates in China

(per cent)

- One-year loan prime rate (LPR)
- Five-year loan prime rate (LPR)
- Medium-term lending facility rate

Source: People's Bank of China.

2025, from 0.6 per cent in the first quarter. The main components of final consumption expenditure excluding investment and net exports had a positive contribution to the quarterly change in GDP. In Germany and Italy, which are Bulgaria's major trading partners in the EU, real GDP fell by 0.3 per cent and 0.1 per cent on a quarterly basis in the second quarter of 2025.

Data on euro area economic indicators, including PMIs as of end-September 2025, suggest that quarterly real GDP growth rate in euro area remained subdued in the third quarter of 2025. PMIs reported a slight acceleration 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 third quarter of the year. The unemployment rate remained at historically low levels, falling to 6.2 per cent in July, from 6.3 per cent in the second quarter. Employment growth tended to slow down further, increasing by 0.6 per cent on an annual basis in the second quarter of 2025, compared to the 0.8 per cent growth in the previous quarter.

In the third quarter of 2025, annual consumer price inflation in the euro area remained relatively stable. In August 2025, it came to 2.0 per cent, as high as its average in the second quarter of the year. Core inflation, excluding food and energy products, also slowed down to 2.3 per cent on an annual basis in August 2024, compared to 2.4 per cent in second quarter of 2025.
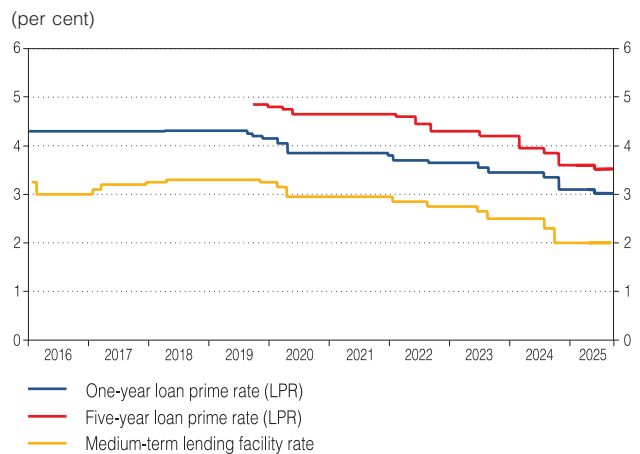
Taking into account inflation dynamics in the euro area and the prospects for its stabilisation around the ECB's inflation target, in the third quarter of 2025 the ECB Governing Council kept the reference interest rates unchanged at 2.00, 2.15 and 2.40 per cent, respectively, for the deposit facility, main refinancing operations and marginal lending facility.

Euro area money market interest rates in the third quarter of 2025 remained largely unchanged from the end of the second quarter, reflecting the maintenance of key ECB interest rates. The average value of the €STR benchmark overnight rate reached 1.92 per cent over the quarter, compared to 2.17 per cent in the second quarter of 2025.

German government bond yields increased in the period from 1 July to 25 September, rising by 18 basis points to 2.04 per cent in the two-year maturity sector and by 17 basis points to 2.77 per cent in the ten-year maturity sector. Major factors behind the increase in German government bond yields in the third quarter were the decline in market expectations of lower key ECB interest rates in September, as well as market participants' expectations of an increase in German government bond issues in view of the need to finance infrastructure and defence expenditures.

1.2. Impact on the Bulgarian Economy

Bulgarian goods exports dynamics in the first half of 2025 did not follow that of economic activity and external demand by Bulgaria's major trading partners, with Bulgarian exports declining on an annual basis, while global trade and euro area economic activity recorded accelerated annual growth. This divergent dynamics was due to country-specific factors related to planned repair activities in key export-oriented enterprises in the second quarter. With the completion of these repairs in the third quarter and given the signs of an acceleration in economic activity in Bulgaria's major trading partners in the euro area, exports can be expected to return to year-on-year growth. The risks of less favourable developments related to possible changes in the US foreign trade policy appear to be considerably more limited than at the beginning of the year due to their partial materialisation, which gives exporters greater predictability and is also likely to contribute to the increase in Bulgarian exports of goods.

Manufacturing and Services PMIs and Change in Euro Area Real GDP

(per cent, on a quarterly basis)

- PMI of manufacturing (left scale)
- PMI of services (left scale)
- GDP changes (right scale)
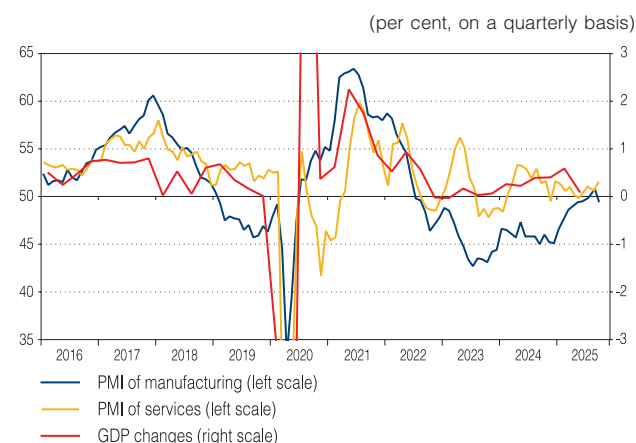
Source: Eurostat.

Euro Area Unemployment Rate and Employment Growth

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

- Unemployment rate (left scale)
- Employment growth on an annual basis (right scale)
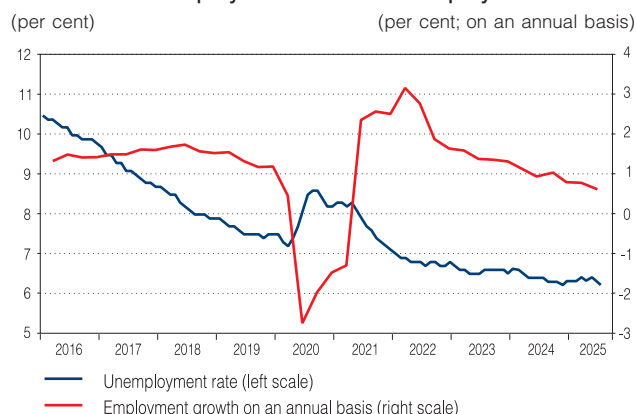
Source: Eurostat.

Euro Area Inflation Rate

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

- Inflation
- Core inflation
- Energy products
- Food
- Services
- Non-energy industrial goods
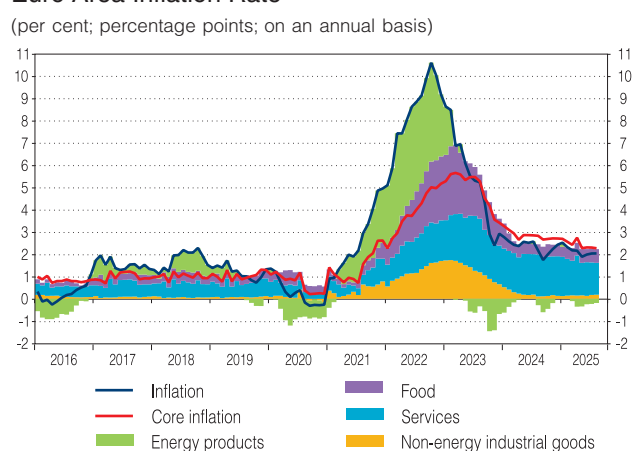
Notes: Inflation is measured by the HICP.
Core inflation is measured by HICP, excluding energy products, food, alcohol and tobacco products.

Source: Eurostat.

Commodity price dynamics in international markets over the third quarter of 2025, resulting mainly in significant year-on-year declines in oil and food prices, coupled with the structure of the Bulgarian economy and foreign trade and domestic price developments, mainly in terms of labour costs, indicate the emergence of favourable terms of trade in the third quarter of 2025, thus contributing to reduce Bulgaria's trade balance deficit.

The four key interest rate cuts made by the ECB in the first half of 2025 resulted in improved financing conditions of the Bulgarian government and non-financial corporations in Bulgaria. Changes in euro area money market interest rates were passed on relatively rapidly to interbank money market rates in Bulgaria in line with the principles of the functioning of the currency board. Concurrently, the transmission from the ECB's key interest rate cut to interest rates on housing and consumer loans in Bulgaria was very weak, as it had been in the preceding upward phase of the interest rate cycle, reflecting mainly country-specific factors.

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

(per cent)   (EUR billion)

- Deposit rate (left scale)
- Lending rate (left scale)
- Main refinancing rate (left scale)
- €STR (left scale)
- Excess liquidity (right scale)
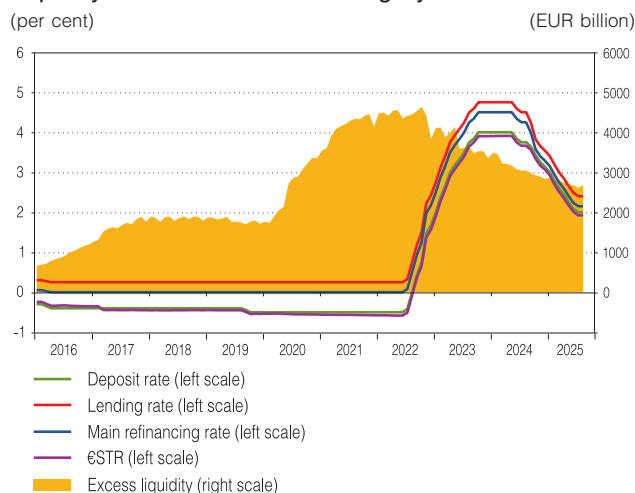
Note: The EONIA/€STR series is composed of: EONIA between 2008 and 14 March 2017; pre-€STR between 15 March 2017 and 30 September 2019; €STR in the period after 30 September 2019.

Source: ECB.

EURIBOR

(per cent)

- 1 month
- 3 months
- 6 months
- 12 months
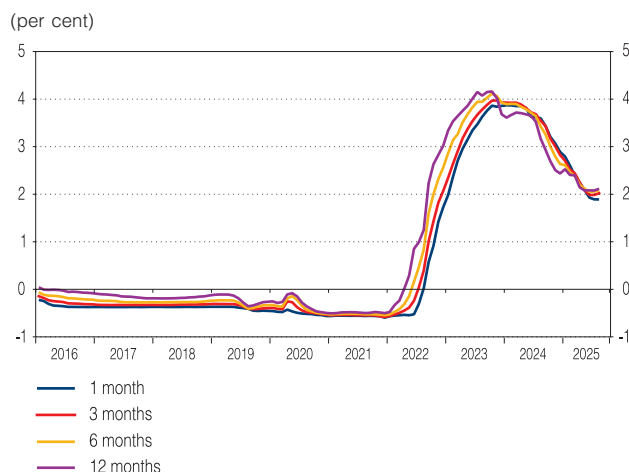
Source: ECB.

2. EXTERNAL FINANCIAL FLOWS

2.1. Balance of Payments and Foreign Trade

Between January and July 2025, the current and capital account balance posted a deficit of EUR 1.8 billion (1.7 per cent of GDP), implying a need of external financing of the economy. The financial account balance over the period was negative at EUR 3.2 billion (3.0 per cent of GDP) due to the lower amount of newly acquired foreign assets of Bulgarian residents compared to their newly incurred liabilities. As a result of these developments, Bulgaria's gross international reserves rose by EUR 0.9 billion (0.8 per cent of GDP) between January and July 2025 (from a decline of EUR 5.7 billion in the same period of 2024). As of July 2025, the amount of gross international reserves remained high according to indicators commonly used in practice, covering the nominal imports of goods and services[4] for a period of 9.0 months (8.9 months in December 2024). The ratio of international reserves[5] to Bulgaria's short-term external debt amounted to 3.9 times in June 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 July 2025 reached 2.2 per cent of GDP, compared to a surplus of 0.1 per cent of GDP as of end-2024. This was mainly due to the deterioration in the current account, whose deficit reached 3.4 per cent of GDP in the last 12 months as of July 2025 (against 1.6 per cent of GDP as of December 2024) mainly as a result of the increasing trade deficit. At the same time, the capital account surplus fell to 1.2 per cent of GDP in the last 12 months as of July 2025 (from 1.7 per cent of GDP as of December 2024) mainly due to lower incoming capital transfers to the general government sector in the form of investment grants.

Current and Capital Account Flow Dynamics and Contribution by Components
(per cent of GDP)

- Current account and capital account
- Capital account
- Primary income, net
- Secondary income, net
- Trade balance
- Services, net

Notes: July 2025 data on the current and capital account flows are accumulated for the last 12 months.
Nominal GDP data for the last four quarters, through the second quarter of 2025 inclusive, are used in calculating the GDP ratio for July 2025.

Sources: BNB, NSI, BNB calculations.

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[4] Calculated for the last 12 months as of July 2025.

[5] 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.

Trade Balance and Foreign Trade in Goods

Between January and July 2025, the trade deficit widened on an annual basis owing to a combination of a decline in nominal exports of goods of 4.4 per cent and growth of nominal imports of goods of 4.2 per cent. According to national accounts data available until the end of the second quarter of 2025, this dynamics has evolved amid favourable terms of trade[6], with real exports of goods declining by 5.3 per cent year on year in the first half of 2025, while real imports of goods increased by 2.9 per cent.

According to BNB calculations based on detailed foreign trade data in real terms under the Standard International Trade Classification (SITC)[7] the weak exports of goods in the first six months of 2025 are largely due to country-specific factors. Petroleum products and non-ferrous metals contributed most to the lower exported real volumes. The decrease in exports of these groups can be explained by repairs in key Bulgarian enterprises in the field of oil processing and metallurgy. Year-on-year growth in real imports of goods in the first half of 2025 was broad-based by commodity group, reflecting increased uncertainty in global trade amid trade and geopolitical conflicts at the beginning of the year and strong domestic demand in Bulgaria, but its dynamics varied across quarters. Imports of goods increased significantly in the first quarter of 2025, with imports of natural gas contributing most (possibly due to market expectations of commodity price rises and higher usage needs in the winter months). In the second quarter, however, total imports of goods posted a slight decline on an annual basis due entirely to lower imports of petroleum products and metal ores, which is likely to be related to repair activities in key enterprises over the period.

As a result of these developments, the trade balance deficit for the last 12 months as of July 2025 widened to 6.9 per cent of GDP, from 4.9 per cent of GDP in December 2024.

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[6] Favourable terms of trade in the first half 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.

[7] 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.

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

(EUR million)
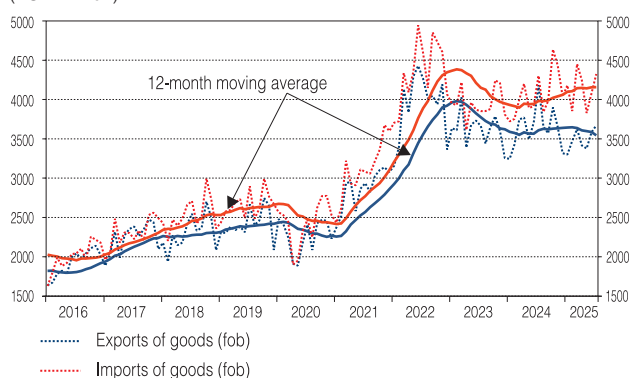
Note: Monthly data are used. The last observation is for July 2025.
Source: BNB.

Exports by Commodity Group under the Combined Nomenclature, Contribution to the Overall Rate of Change by Sub-components
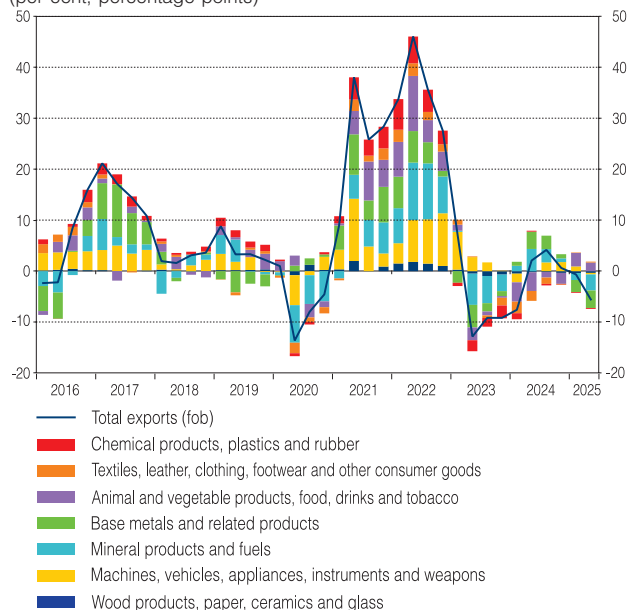
(per cent, percentage points)

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

Balance on Trade in Services

The surplus on trade in services for the last 12 months as of July 2025 amounted to 7.4 per cent of GDP, remaining unchanged from the end of 2024.

Between January and July 2025 services exports picked up by 3.4 per cent on an annual basis, driven mainly by revenue from travel and information services. According to NSI data, the number of visits of foreign nationals to Bulgaria increased on an annual basis by 1.4 per cent in the first seven months of 2025, with visits from Romania, Greece and Türkiye contributing most significantly to this effect.

Nominal imports of services between January and July 2025 increased by 1.1 per cent on an annual basis, mainly due to higher expenditure on travel abroad of Bulgarian residents (up by 17.5 per cent on an annual basis) and higher imports of transport services.

Net Primary Income Account and Net Secondary Income Account

The deficit under the net primary income item decreased slightly between January and July 2025, driven by higher inflows related to compensation of employees and other primary income. As a result, for the last 12 months as of July 2025, net primary income deficit was 4.8 per cent of GDP, against 5.1 per cent of GDP in December 2024.

The surplus on the net secondary income item for the last 12 months amounted to 0.9 per cent of GDP as of July 2025, remaining broadly unchanged from 1.0 per cent of GDP in December 2024.

Financial Account and International Investment Position

As of July 2025, the financial account balance for the last 12 months was negative at EUR 9.0 billion (8.4 per cent of GDP) against a positive balance of EUR 0.1 billion (0.1 per cent of GDP) as of December 2024, driven mainly by newly incurred liabilities to non-residents. In the first seven months of 2025, a lower amount of newly acquired foreign assets by Bulgarian residents compared to the same period of 2024 and a significant increase in the amount of newly incurred liabilities to non-residents compared to January-July 2024 were recorded. The lower increase

Imports of Commodity Groups by Use, Contribution to the Overall Rate of Change by Sub-components
(per cent, percentage points)
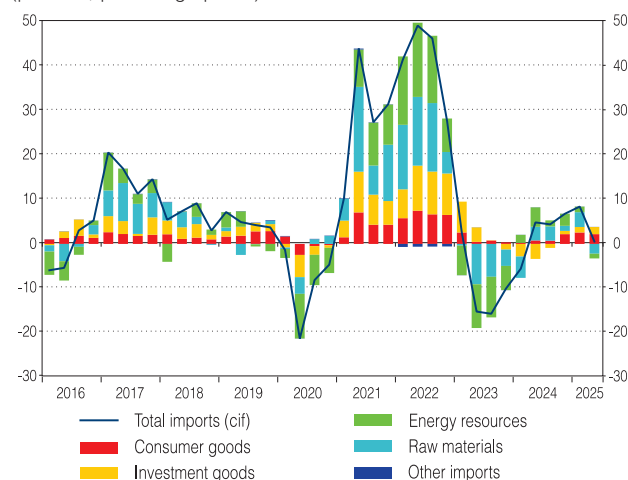
Note: Quarterly data are used. The last observation is for the second quarter of 2025.
Source: BNB.

Nominal Exports and Imports of Services Dynamics (Balance of Payments Statistics Data)
(EUR million)
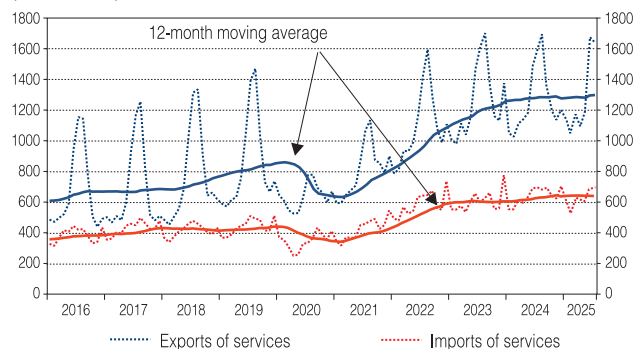
Note: Monthly data are used. The last observation is for July 2025.
Source: BNB.

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 second quarter of 2025.

Source: BNB.

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

Sources: BNB, NSI, BNB calculations.

Direct Investment – Liabilities by Type of Investment

(per cent of GDP)
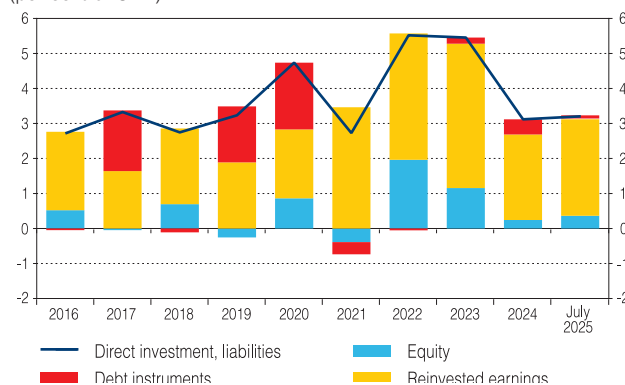
Notes: July 2025 data on direct investment liabilities flows are accumulated for the last 12 months.
Nominal GDP data for the last four quarters, including the second quarter of 2025, are used in calculating the GDP ratio for July 2025.

Sources: BNB, NSI, BNB calculations.

in newly acquired foreign assets of Bulgarian residents in the January-July 2025 period compared to the same period of the previous year was mainly due to portfolio investment in the form of debt securities of banks and other financial corporations, while the increase in liabilities was mainly related to the issuance of long-term general government debt securities.

Between January and July 2025, the inflow of attracted direct investment (liabilities) in Bulgaria amounted to EUR 1.9 billion[8], compared with EUR 1.6 billion over the same period of 2024. This increase was mainly in reinvested earnings of non-financial corporations. The sectors that attracted the largest share of foreign investment in the first half of 2025 were financial and insurance services and wholesale and retail trade.

Bulgaria's FDI[9] amounted to 61.6 per cent of GDP at the end of the first quarter of 2025 (against 61.0 per cent at the end of 2024), but in the longer term the downward trend as a ratio to GDP compared to its peak levels before the global financial crisis continued.

As a result of balance of payments movements and changes due to valuation adjustments and price revaluations, Bulgaria's international investment position deficit rose to 4.9 per cent of GDP at the end of the first quarter of 2025, compared

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[8] Data for 2024 and 2025 are preliminary and subject to revision.

[9] The latest available data from March 2025 on the international investment position has been used.

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). At the same time, the most recent balance of payments data point to a further deterioration of the international investment position balance in the second quarter of 2025, given Bulgarian debt securities issuance in international markets over the period.

2.2. BNB International Reserves

At the end of August 2025, the market value of Bulgaria's international reserves (including valuation adjustments and price revaluations) was EUR 42.8 billion (BGN 83.7 billion), an increase of EUR 5.6 billion (BGN 10.9 billion) on an annual basis. The amount of gross international reserves reflects the dynamics of financial flows generated in the process of external and internal economic factors interaction and corresponds to the BNB Issue Department balance sheet liabilities according to the currency board principles in Bulgaria. The increase in liabilities to government and budget organisations, driven mainly by government bond issuance on international capital markets in July 2025, had a major contribution to the increase in Issue Department liabilities compared to the increase in Issue Department liabilities. The increase in bank reserves, which was mainly driven by minimum reserve requirements as a result of the increase in the reserve base, played a relatively minor role in the increase in the liabilities of the Issue Department. As of end-June 2025, BNB international reserves were 38.1 per cent of GDP (40.5 per cent of GDP at end-December 2024).

2.3. External Debt

In June 2025, Bulgaria's gross external debt amounted to EUR 53.0 billion (49.5 per cent of GDP), rising by EUR 3.9 billion from December 2024. The increase in the debt was most pronounced in long-term general government debt securities given the government debt issuance in international markets in May 2025. As of June 2025, the share of long-term debt in total gross external debt remained broadly unchanged from December 2024 at around 80 per cent.

Bulgaria's International Investment Position
(per cent of GDP)
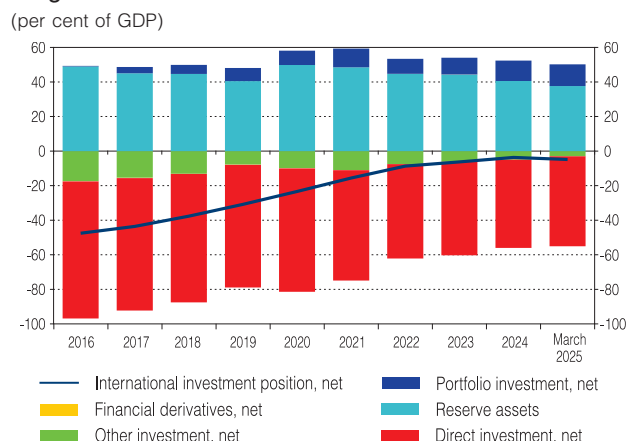
Sources: BNB, NSI, BNB calculations.

Liabilities Structure of the BNB Issue Department Balance Sheet
(per cent of GDP)
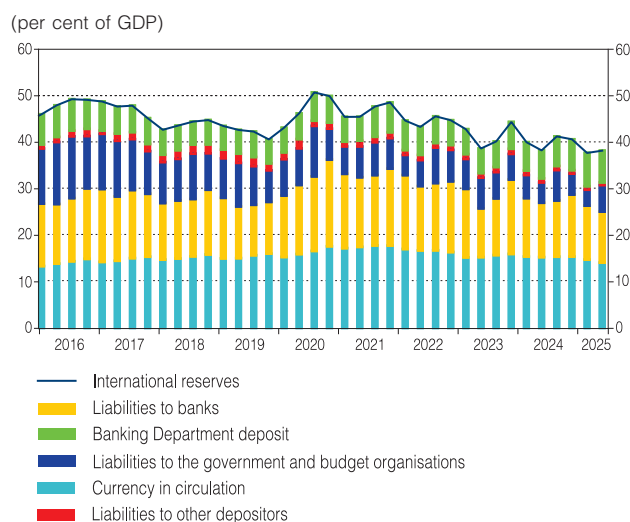
Sources: BNB, NSI, BNB calculations.

Gross External Debt
(per cent of GDP)
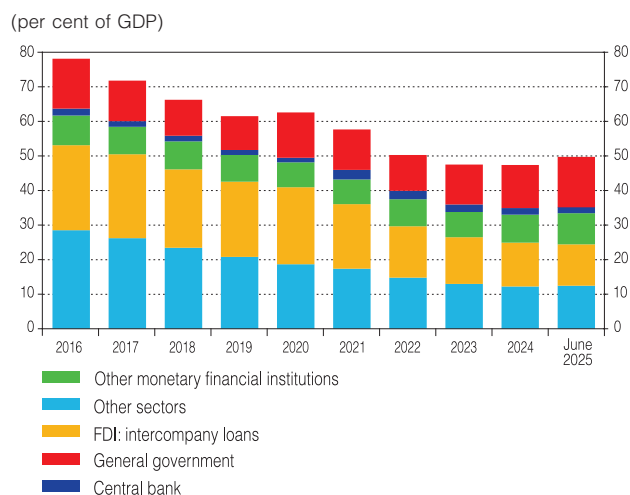
Note: Nominal GDP for the last four quarters, including the second quarter of 2025, is used in calculating gross external debt to GDP ratio for June 2025.

Sources: BNB, NSI, BNB calculations.

3. MONEY AND CREDIT

3.1. Monetary and Credit Aggregates

Deposits of the Non-government Sector

After relatively stable growth in non-government sector's deposits[10] in the first and second quarters of 2025, annual growth accelerated in July-August, reaching 11.8 per cent (10.1 per cent at the end of 2024 and 10.0 per cent in June 2025). In the third quarter, both household and non-financial corporations sectors reported higher growth in deposits. The upward dynamics of deposits in this period was supported by promotion campaigns launched by some banks to deposit free cash holdings in levs without a fee for automatic conversion into euro following Bulgaria's accession to the euro area in early 2026.

At the end of August 2025, annual growth of household deposits accounted for 12.7 per cent (11.8 per cent in December 2024). Rising labour income, households' persistent preferences to maintain some of their free funds mainly in the form of deposits in the banking system, and the more intensive deposit of free cash holdings in the period prior to Bulgaria's accession to the euro area were major factors affecting household deposit growth. As regards the maturity structure of deposits in this sector, between January and August 2025 the largest contribution of overnight deposits was retained owing to low interest rates on new time deposits. The contribution of deposits with an agreed maturity was significantly smaller over this period. As regards the currency structure, in the first eight months of the year households retained their preference for saving primarily in levs, with deposits in local currency continuing to be the most significant contributor to the annual growth rate of deposits in the sector. At the same time, since the end of the

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[10] Non-government sector's deposits include deposits of households, non-financial corporations and financial corporations. Deposits of households and non-financial corporations comprised the major share of all non-government sector's, deposits (97.1 per cent on average for the last 12 months as of August 2025) and, therefore, the analysis is focused on these two sectors.

Annual Growth of Non-government Sector's Deposits and Contribution by Sector
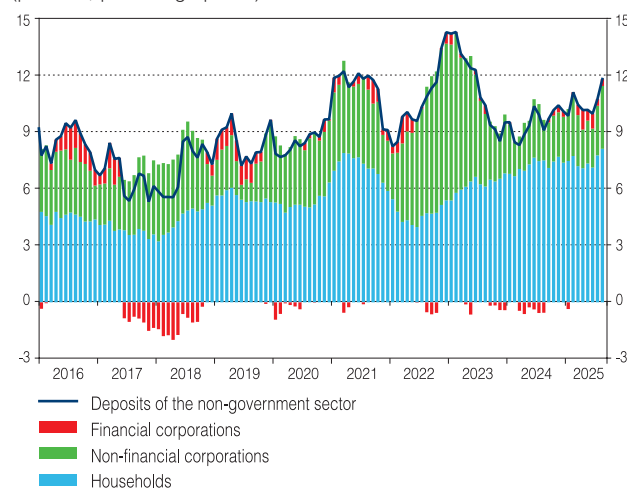
(per cent, percentage points)

Legend:
- Deposits of the non-government sector
- Financial corporations
- Non-financial corporations
- Households

Source: BNB.

Annual Growth of Household Deposits and Contribution by Deposit Type

(per cent, percentage points)

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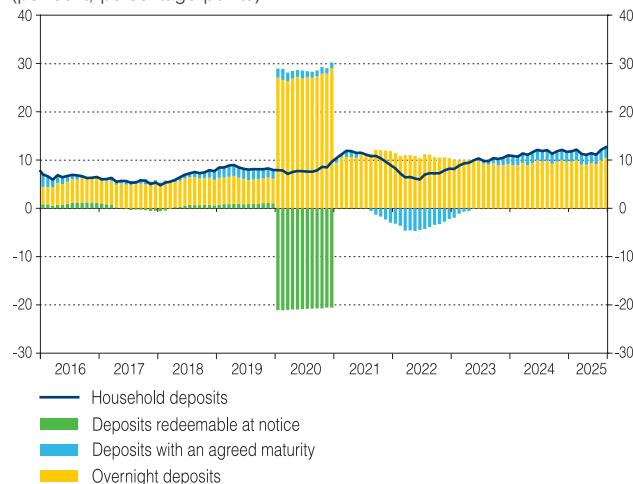
Note: In view of the analysis of the banking products and in line with the methodological requirements, transferable savings deposits have been reclassified from the Deposits redeemable at notice of up to three months indicator to the Overnight deposits of the household sector indicator with the January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

Source: BNB.

Annual Growth of Household Deposits and Contribution by Currency

(per cent, percentage points)

Household deposits
In foreign currency
In levs
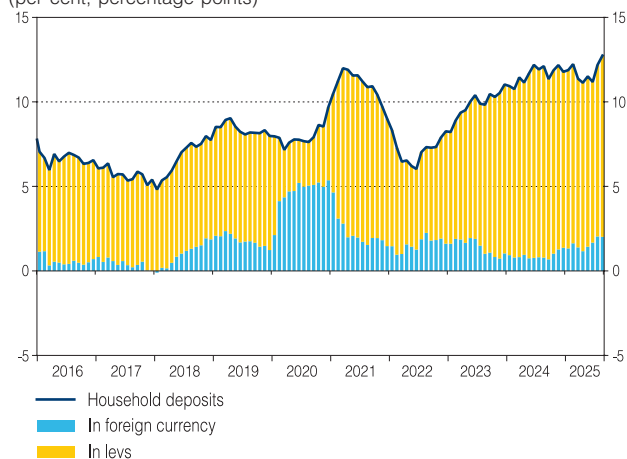
Source: BNB.

second quarter the contribution of foreign currency deposits (mainly in euro) also increased somewhat, remaining, however, significantly lower than that of deposits in domestic currency.

At the end of August 2025, the annual growth of non-financial corporations' deposits accounted for 9.9 per cent (7.0 per cent at the end of December 2024). Data by sector of economic activity show that real estate activities, professional activities and research and construction were crucial for corporate deposit growth in the second quarter of the year. Between January and June deposits with an agreed maturity contributed most to total corporate deposit growth, while in the third quarter of 2025 the contribution of deposits with an agreed maturity started to decrease at the expense of increased overnight deposits. As regards the currency structure of deposits in the sector, the contribution of lev deposits increased in the first eight months of the year, more significantly in July and August.

The annual growth of the broad monetary aggregate M3 slowed down, accounting for 8.0 per cent at the end of August (8.7 per cent in December 2024). Between January and August 2025, a clear downward trend was recorded in the contribution of money outside monetary financial institutions to broad monetary aggregate growth, and since the end of the second quarter this contribution turned negative. Overnight deposits posted an increase from the end of 2024, which was more significant and concentrated in the third quarter of the year and may be linked to the deposit of free cash in the banking

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

(per cent, percentage points)

Non-financial corporations' deposits
Deposits redeemable at notice
Deposits with agreed maturity
Overnight deposits

Source: BNB.

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

(per cent, percentage points)

Household deposits
In foreign currency
In levs
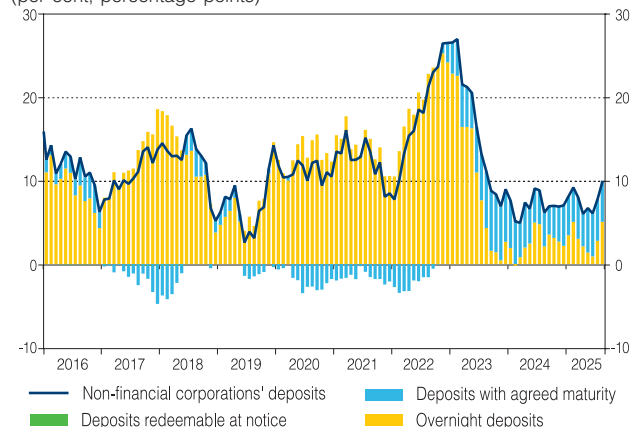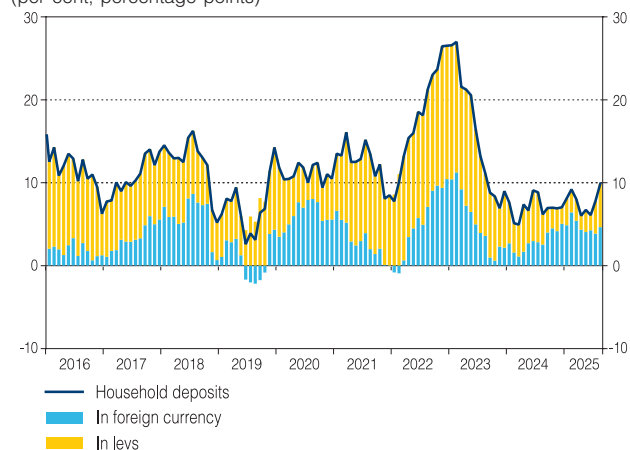
Source: BNB.

Annual Rate of Change in M3 and Contribution by Components
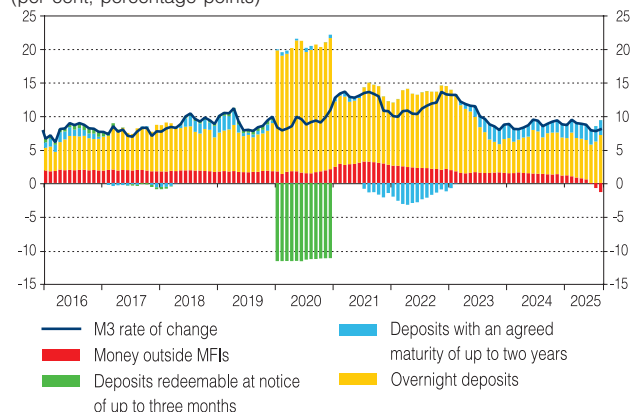
(per cent, percentage points)

M3 rate of change
Money outside MFIs
Deposits redeemable at notice of up to three months
Deposits with an agreed maturity of up to two years
Overnight deposits

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.

system for the purpose of automatically converting them into euro from the beginning of 2026.

Reserve Money

In August 2025, reserve money posted a decline of 0.6 per cent from the same period of 2024. The downward dynamics was entirely driven by the significant decrease in currency in circulation in the period from the beginning of 2025, its contribution to the annual change in reserve money turning negative from the end of the second quarter of the year to reach -3.8 percentage points at the end of August.

Over the first eight months 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 August 2025, banks' funds maintained at the BNB in excess over the required minimum of reserve assets under Ordinance No 21 was 2.3 per cent of minimum required reserves on an average daily basis, from 3.0 per cent of MRR in December 2024. Between January and August 2025 there was an upward dynamics in minimum reserve requirements as a result of an increasing reserve base. In August 2025, the effective implicit ratio of the MRR was 11.72 per cent (11.77 per cent in December 2024), as bank deposits with the BNB comprised 10.84 percentage points in minimum required reserves, and the remaining 0.89 percentage points were in the form of recognised cash balances.

In the first eight months of the year, annual growth of currency in circulation followed a clear downward trend, which accelerated at the end of the second and third quarters of the year. At the end of June, currency in circulation fell from -0.3 per cent on an annual basis and at the end of August the decline increased to -6.2 per cent (against an annual growth of 5.5 per cent in December 2024). The factors determining the decline in currency in circulation included the pre-conversion of cash holdings by economic agents before the accession to the euro area in early 2026 and the more intensive deposit of free cash holdings in the banking system since the beginning of the third quarter.

Reserve Money

(BGN million) · (per cent)

- Annual rate of change (right scale)
- Bank reserves, volume (left scale)
- Currency in circulation, volume (left scale)
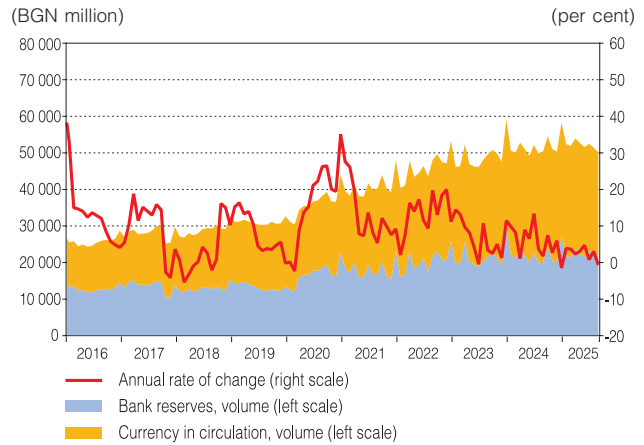
Source: BNB.

Bank Deposits with the BNB

(BGN million)

- Bank deposits with the BNB, total (daily value)
- Bank deposits with the BNB, total (average value for the maintenance period)
- Minimum required reserves under Ordinance No 21 of the BNB (average value for the maintenance period)
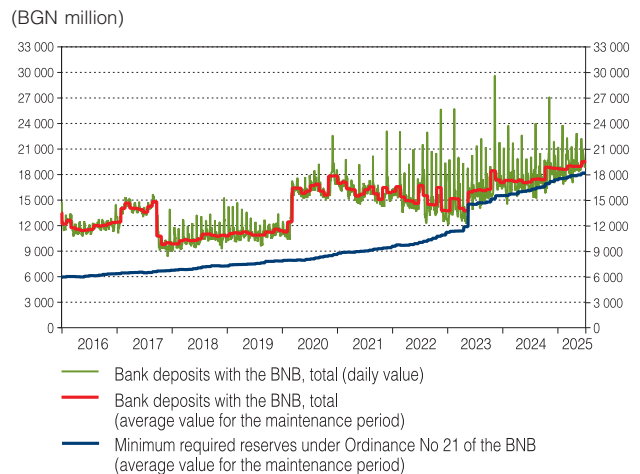
Source: BNB.

Currency in Circulation

(BGN million) · (per cent)

- Annual rate of change (right scale)
- Volume (left scale)
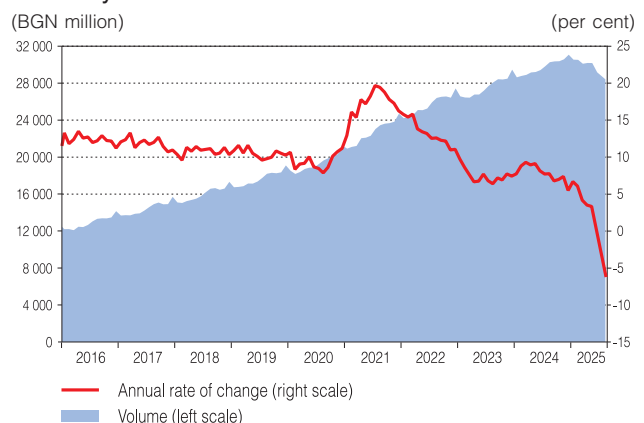
Source: BNB.

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

(EUR million)   (EUR million)

— Foreign currency purchased (left scale)
— Foreign currency sold (left scale)
▮ Net (right scale)
— Net for the last 12 months (left scale)
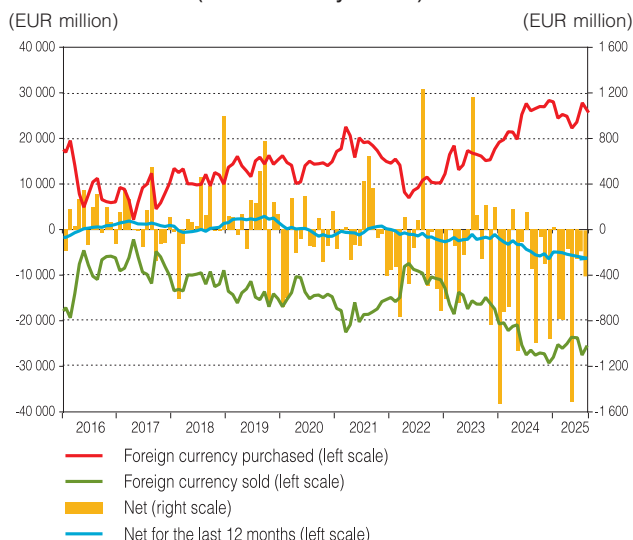
Notes: Net means currency purchased minus currency sold by the BNB.
Data refer to all bank transactions in foreign currency including liquidity management operations related to the transfer of own funds from lev accounts with the BNB to own accounts with the BNB in euro and *vice versa*.
Source: BNB.

Reserve currency (euro) trading with the BNB is the main lev liquidity management instrument of banks under currency board arrangements. For the last twelve months as of August 2025, net BNB sales to banks amounted to EUR 6.4 billion (against net sales of EUR 4.8 billion in the last twelve months as of August 2024).

Over the first eight months net reserve currency sales by the BNB to banks increased. Net sales of currency (mainly euro) by commercial banks to final customers (natural and legal entities) also followed an upward trend, which declined somewhat since the beginning of the third quarter, compared to the previous months, driven by trade with corporations. However, as of the end of August 2025, the bulk of net currency sales by commercial banks to final customers continued to be targeted to legal entities, amounting to EUR 5.4 billion in the last 12 months as of August 2025. In the first eight months of the year net volumes of sold currency (mainly euro) by banks to individuals continued to increase, with individuals purchasing net EUR 1.8 billion from banks in the last 12 months as of August 2025.

Credit to the Non-government Sector

Over the period January–August 2025, the annual growth of total credit to non-government sector slowed down to 14.2 per cent by end-August

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

(EUR million)   (EUR million)

— The BNB with banks (right scale)
▮ Difference (left scale)
— Banks with final customers (right scale)
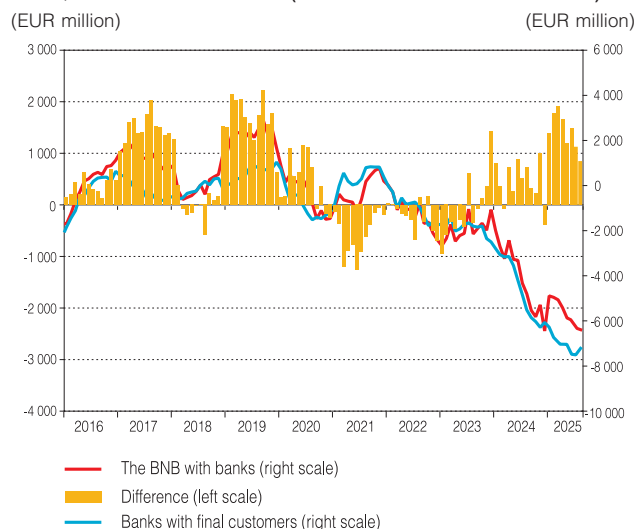
Note: Net means currency purchased minus currency sold.
Source: BNB.

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

(EUR million)   (EUR million)

— Banks with final customers
▮ Banks with individuals
▮ Banks with corporations
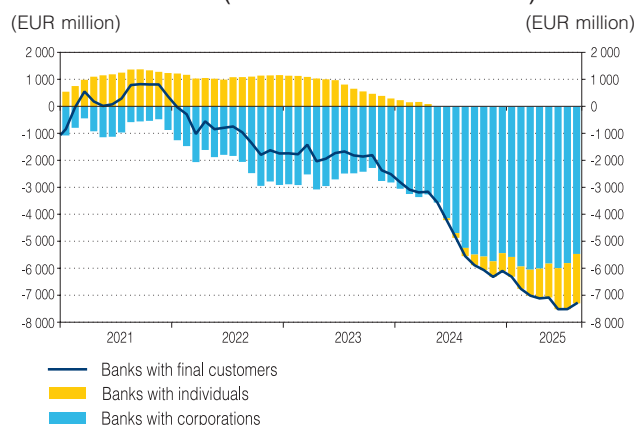
Note: Net means currency purchased minus currency sold.
Source: BNB.

(15.0 per cent by end-December 2024). The downward dynamics reflected the lower rate of growth of credit to non-financial corporations, while the growth of credit to households remained unchanged in August compared to the end of 2024.

Annual growth of credit to non-financial corporations decelerated to 8.0 per cent by end-August 2025 (10.1 per cent in December 2024). These developments reflected the slowdown in corporate overdraft growth in the second and third quarters, accounting for 9.9 per cent in August (291.0 per cent in December 2024). A possible factor behind the lower growth of overdraft is the decrease in accumulated inventories in the economy in the first half of the year reported according to NSI preliminary data on the economic activity in Bulgaria. Growth of credit excluding overdraft accelerated to 6.9 per cent at the end of the first eight months of the year (4.3 per cent by end-2024). BNB quarterly bank lending survey shows that the need to provide financial resources for investment purposes was one of the main factors behind the higher demand for loans by firms between the last quarter of 2024 and the end of the first half of 2025. An additional factor behind the stronger demand for corporate loans, according to the survey results, is interest rates. This factor can be linked to the decline in interest rates on corporate loans (excluding overdrafts) observed in 2024, which continued in 2025 in the context of the downward phase of the euro area interest rate cycle. Data on loans by sector of economic activity show that by the end of the second quarter of 2025 real estate activities, construction and manufacturing sectors had the largest contribution to the annual growth of corporate loans. As regards the volumes of new corporate loans, a slight upward trend was observed between January and August 2025.[11]

In the first eight months of the year, the annual growth rate of credit to households remained close to that reported at the end of 2024, reaching 20.8 per cent in August. Housing loans continued to be the main contributor to total household sector credit growth, with their annual growth rate slightly accelerating from the middle of the second quarter to reach 27.4 per cent at the end of August (26.3 per cent in December 2024). The results of the Bank Lending Survey

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[11] Based on 12-month moving average.

Annual Growth of Credit to Non-financial Corporations and Households
(per cent, percentage points)

- Loans to non-financial corporations and households
- Non-financial corporations
- Households
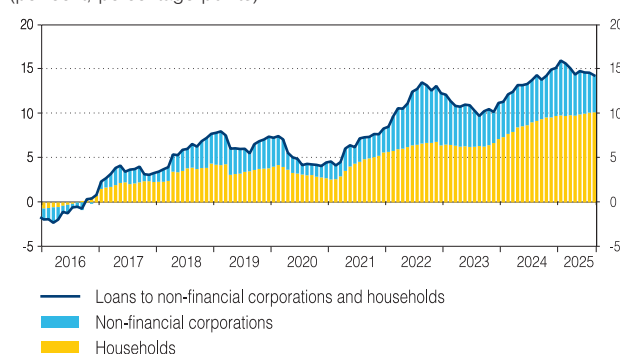
Source: BNB.

Annual Growth of Credit to Non-financial Corporations and Contribution by Loan Type
(per cent, percentage points)

- Loans to non-financial corporations
- Credit, excluding overdraft
- Overdraft
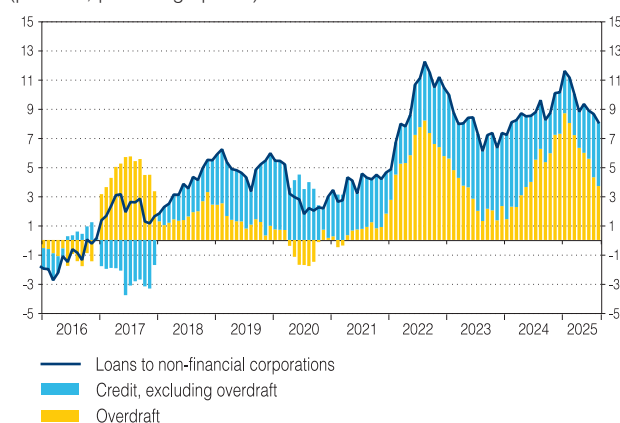
Source: BNB.

New Loans to Non-financial Corporations (Monthly Volumes)
(BGN million)

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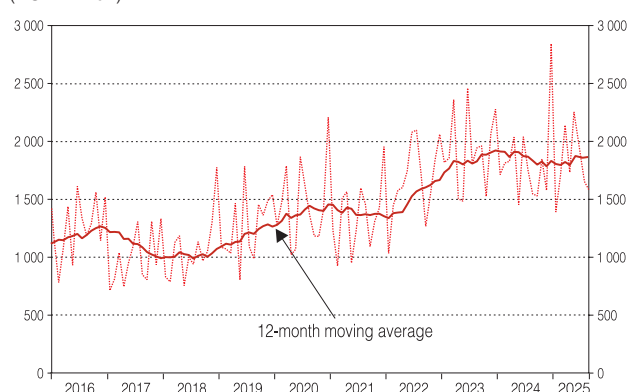
Note: Volumes of new loans to non-financial corporations shown in the chart do not include overdrafts.

Source: BNB.

Money and Credit

show unchanged lending standards for housing loans in the second quarter of 2025 after the significant tightening of these standards reported in the last quarter of 2024, and a further tightening in the first quarter of this year. Tightening of credit standards for housing loans by banks may be linked to the BNB requirements for indicators of credit standards in extending and renegotiating loans secured by residential real estate, effective since the beginning of October 2024.[12] Annual growth of consumer loans tended to slow down to 13.6 per cent in August 2025 (14.9 per cent in end-December 2024).

Rising labour income and retained interest rates on housing loans at historically low levels continued to contribute to household credit growth. According to the results of the bank lending survey for the first two quarters of 2025, the main factors supporting demand for housing loans were households' needs for first and additional home purchases, prospects for housing market developments and interest rates. On the supply side, household credit growth continued to be underpinned by high liquidity in the banking system and stable capital position of banks. In terms of volumes of new housing loans, the upward trend in volumes was observed over the first eight months of the year[13]. Dynamics of new consumer loan volumes over the review period was also upward.

Bank Lending Survey

The weighted results of the bank lending survey[14] in the second quarter of 2025 indicate tightening

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[12] In the course of the assessment of lending secured 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 on indicators of credit standards in extending and renegotiating loans secured by residential real estate. These requirements concern borrowers and aim at ensuring for prevention purposes the resilience of the banking system. For further information on the ongoing review of the dynamics and development of credit standards in lending to households secured by residential real estate property, see the BNB press release of March 2025:

[13] Based on 12-month moving average.

[14] 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.

Annual Growth of Household Credit and Contributions by Loan Type
(per cent, percentage points)
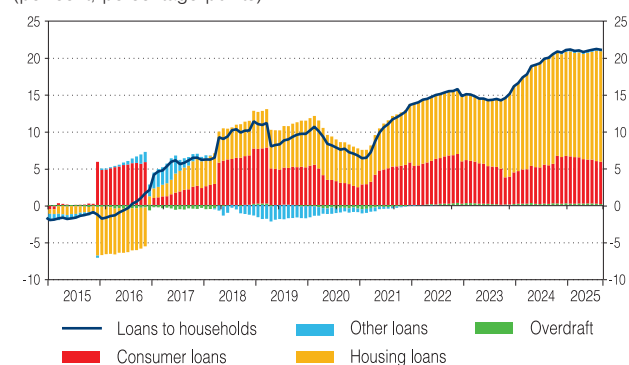
Note: Based on additional information received from reporting units, a revision of household loans was carried out according to their purpose of use in the period December 2015 – August 2019.

Source: BNB.

New Loans to Households (Monthly Volumes)
(BGN million)
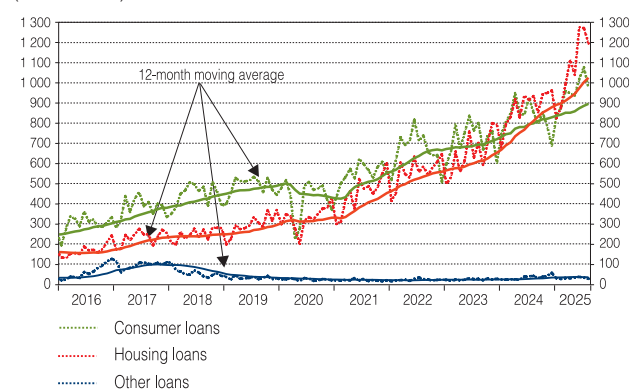
Source: BNB.

Changes in Credit Standards
(balance of opinions)

Source: BNB.

of standards[15] for corporate loans, easing of lending standards for consumer loans and unchanged lending standards for housing loans compared with January-March 2025. Banks reported tightening of credit conditions[16] for corporations, mainly in terms of lending rates and interest rate spreads. As regards consumer loans, conditions eased considerably in terms of the maximum loan amount and, to a lesser extent, in terms of fees and commissions, while as regards housing loans the conditions were loosened in terms of interest rates and were tightened in terms of fees and commissions. Between April and June 2025, the cost of attracted funds had the strongest effect in terms of tightening of banks' lending (credit standards and conditions) compared to the previous quarter. In the case of housing loans, the risk assessment based on housing market developments, has contributed to a loosening of credit policy, while banks' lower risk appetite resulted in the tightening of credit policy. In addition, competition from other banks has contributed to ease credit policies regarding both housing and consumer loans.

Changes in Credit Demand
(balance of opinions)

- Corporate loans
- Housing loans
- Consumer loans

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
(per cent, percentage points) (BGN million)

- ▮ Spread between the ECB deposit facility rate and interest rate on banks' excess reserves with the BNB (left scale)
- — Banks' excess reserves – average daily amount (right scale)

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

Sources: BNB, ECB.

Spread between ECB Deposit Facility Rate and LEONIA/LEONIA Plus and Traded Volumes on the Interbank Money Market in Bulgaria
(per cent, percentage points) (BGN million)

- ▮ Spread between the ECB deposit facility rate and LEONIA/LEONIA Plus (left scale)
- — Traded volumes in the interbank money market in Bulgaria (right scale)
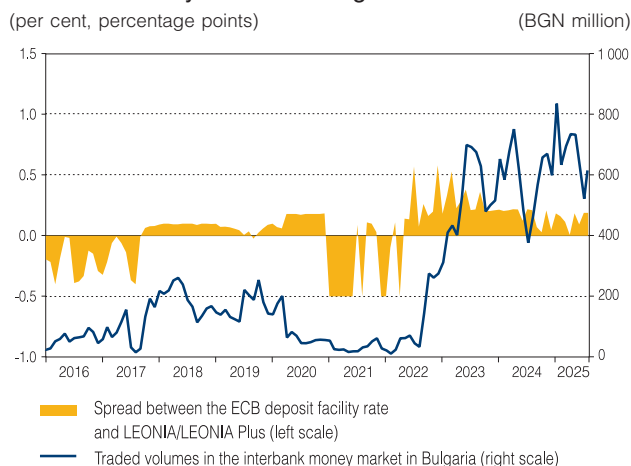
Notes: The traded volumes are presented on an average daily basis. The share of overnight deposits in the total volume of money market transactions amounts to 70.8 per cent on average for January–August 2025.

Sources: BNB, ECB.

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[15] 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.

[16] 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.

Money and Credit

In the second quarter of 2025, banks reported an increase in demand for consumer loans, housing loans and loans to small and medium-sized enterprises and a decline in the demand in large enterprises segment. According to banks, the need for bank resources for working capital and accumulation of inventories was the main factor behind the increased demand for corporate loans compared with January – March 2025, while the need for bank resources for mergers, acquisitions and restructuring contributed to lower demand for corporate loans. Financial resource needs for purchase of durable goods continued to contribute most to the higher demand for consumer loans in the second quarter of the year, while households' needs of funds for purchase of first home was the main driver behind the higher demand for housing loans over this period.

3.2. Interest Rates

Interbank Money Market Interest Rates

In the first eight months of 2025, interbank money market activity remained relatively high. The average daily volume of concluded lev unsecured overnight deposit transactions followed a slightly downward trend, amounting in August to BGN 433 million (BGN 477 million in December 2024). Likely factors behind liquidity raising from the interbank market continue to be the low levels of excess reserves with the BNB maintained by banks, on which the interest rate is 0 per cent, and the possibility of interest rate arbitrage related to the generation of income from banks with parent banks in the euro area amid a positive spread between the ECB deposit facility rate and the interbank money market rate in Bulgaria.

In the context of a functioning currency board in Bulgaria, the four cuts in key interest rates undertaken by the ECB in the first half of 2025 were passed on relatively quickly to the interest rates on overnight unsecured lending transactions in levs concluded in the interbank money market in Bulgaria. In August 2025, the monthly value of LEONIA Plus was 1.82 per cent (2.95 per cent in December 2024), while the spread between LEONIA Plus and €STR remained negative at -11 basis points, unchanged from December 2024.

Interbank Money Market Rates on Overnight Deposits
(Average Monthly Value)
(per cent, percentage points)
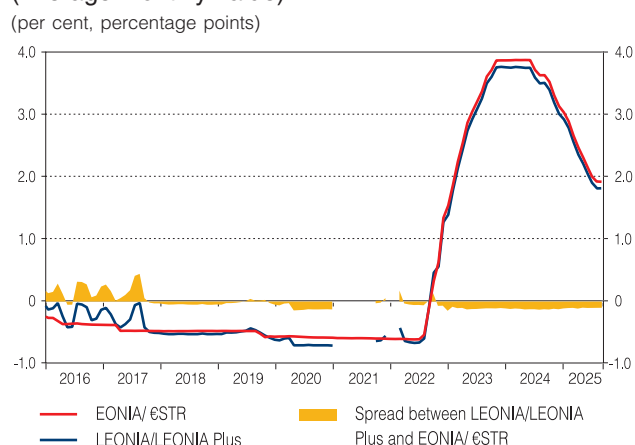
Notes: The EONIA/€STR series is composed of: EONIA between 2008 and 14 March 2017; pre-€STR between 15 March 2017 and 30 September 2019; €STR in the period after 30 September 2019.
LEONIA Plus replaced LEONIA on 1 July 2017. LEONIA Plus monthly values are calculated as an arithmetic average for days when overnight unsecured lending transactions are concluded in the interbank market in levs.

Sources: BNB, ECB.

Interest Rates on Deposits

In the first eight months of the year, the weighted average interest rate on new time deposits in the household sector decreased to 0.95 per cent in August (1.35 per cent in December 2024). High banking system liquidity remained the main factor behind the retention of interest rates at very low levels on newly attracted funds from households. By currency, the largest drop in household interest rates as of August 2025 compared to December 2024 was reported in US dollar deposits (by 80 basis points), but these deposits represent a negligible share in total new household deposits. A decrease in interest rates on new time deposits of households, but to a lesser extent, was also reported in euro deposits (by 40 basis points) and lev deposits (by 28 basis points). The decrease in key euro area interest rates, which continued in the first half of 2025, 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.

Over the period January–August 2025, the weighted average interest rate on new time deposits of non-financial corporations continued to follow a downward trend, reaching 1.75 per cent by end-August (2.13 per cent in December 2024). By currency, the most pronounced decline was reported in euro deposits (by 67 basis points), while lev and dollar deposits posted a relatively weaker decline (by 37 basis points and 17 basis points). The downward dynamics of interest rates on new time deposits of corporations in euro and levs likely reflects banks' attempts to maintain interest margin amid falling interest rates on new corporate loans affected by falls in interest rates in the euro area. This is due to the methodology applied by commercial banks to link interest rates on loans to corporations granted in euros to reference indices in the euro area interbank monetary market.

In the first eight months of the year, interest rates on outstanding amounts of time deposits of households increased slightly, reaching 0.56 per cent in August 2025 (0.48 per cent at the end of 2024). The weighted average interest rate on outstanding amounts of time deposits of non-financial corporations was 1.66 per cent (1.79 per cent in December 2024).

Interest Rates on New Time Deposits by Sector
(per cent)
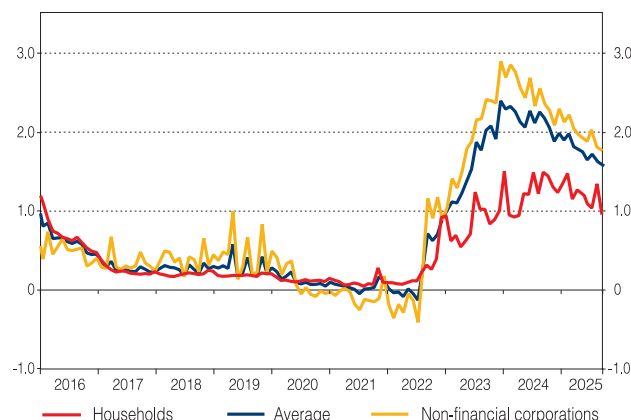
Notes: The average interest rate is calculated from the interest rates for all sectors, maturities (current accounts and overnight deposits are not included) and currencies weighted by the relevant volumes of new deposits.
Average deposit rates for non-financial corporations and households are based on interest rates for all maturities and currencies weighted by relevant volumes of new deposits.
Source: BNB.

Interest Rates on New Time Deposits by Currency
(per cent)
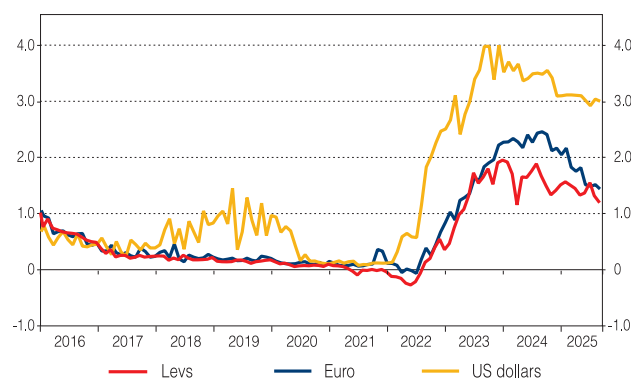
Note: The average interest rate by currency is calculated from the interest rates for all sectors and maturities weighted by the relevant volumes of new deposits.
Source: BNB.

Interest Rates on Outstanding Amounts of Time Deposits
(per cent)
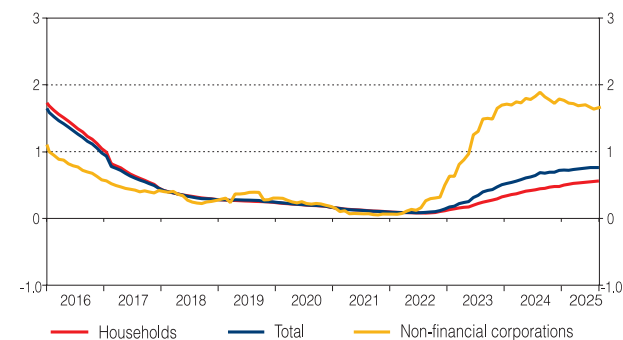
Note: Average interest rates on outstanding amounts of time deposits are calculated from the interest rates for all currencies and maturities (current accounts and overnight deposits are not included) weighted by the by the relevant volumes of new deposits for the relevant sector.
Source: BNB.

Interest Rates on Loans

In the first eight months of 2025, interest rates on new housing loans remained almost unchanged from end-2024. The annual percentage rate of charge (APRC) and the interest rate on these loans amounted to 2.80 per cent and 2.46 per cent (2.82 per cent and 2.50 per cent as of December 2024)[17]. High banking system liquidity and stable capital position of banks were the main factors behind the retained low interest rates on housing loans. These factors continued to contribute to the retention of low interest rates on outstanding amounts of time deposit of households, which some large commercial banks use as a reference in setting interest rates on loans in levs.[18] Interest rates on new consumer loans exhibited some volatility on a monthly basis but overall, a downward trend was observed. In August, the APRC and the interest rate on these loans amounted to 9.37 per cent and 8.99 per cent respectively (10.63 per cent and 9.98 per cent in December 2024).

The average weighted interest rate on new corporate loans decreased by 62 basis points in the first eight months of 2025, reaching 4.13 per cent in August (4.76 per cent in December 2024). By currency, the most significant decline was reported in dollar loans (by 171 basis points), but their share in the total volume of newly extended corporate loans is insignificant. A decrease from end-2024 is also observed in interest rates on loans in euro and levs by 89 basis points and 33 basis points, respectively. A determining factor for the more significant decline in interest rates on corporate loans in euro compared to those in levs is their linkage to reference indices in the euro area interbank monetary market.

Government Securities Yields

By end-August 2025, the calculated benchmark yield curve of Bulgarian Eurobonds issued and traded in international capital markets posted a decline in bond yields with a residual maturity of less than three years and an increase in the other

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[17] 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.

[18] Loans in levs account for a significant share of newly granted loans to households (in August 2025, this share amounted to 96.7 per cent of total new loans to households).

Interest Rates and APRC on New Household Loans
(per cent)

- Annual percentage rate of charge on consumer loans
- Interest rate on consumer loans
- Annual percentage rate of charge on housing loans
- Interest rate on housing loans
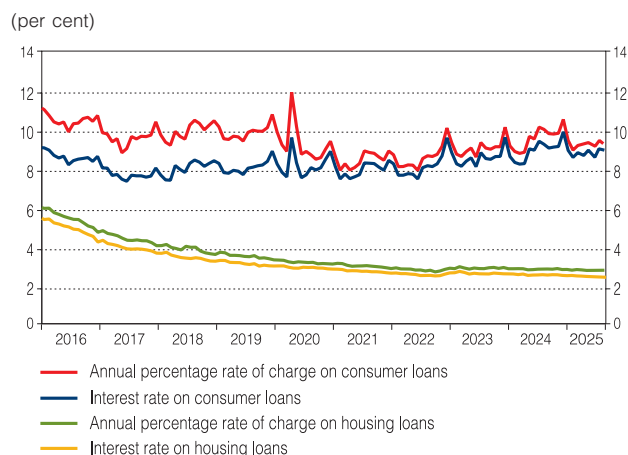
Note: The difference between the APRC and the relevant interest rates reflects the approximate per cent of all non-interest service charges on loans (including fees and commissions).
Source: BNB.

Interest Rate on New Loans to Non-financial Corporations
(per cent)
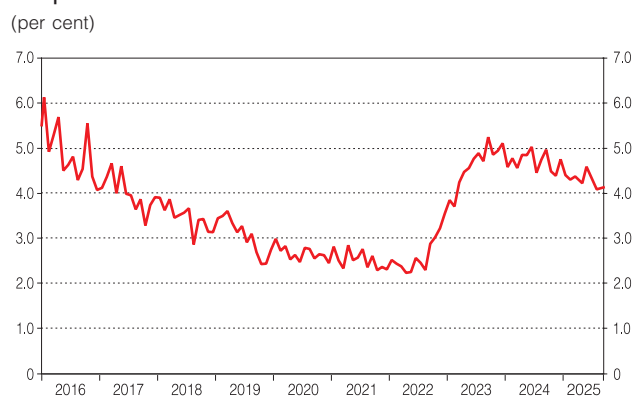
Note: The interest rate on new loans to non-financial corporations is calculated for all maturities and currencies weighted by the relevant volumes of new loans.
Source: BNB.

Bulgarian Government Bond Yield Curve
(per cent)

- Yield curve as of 29 August 2025
- Yield curve as of 30 June 2025
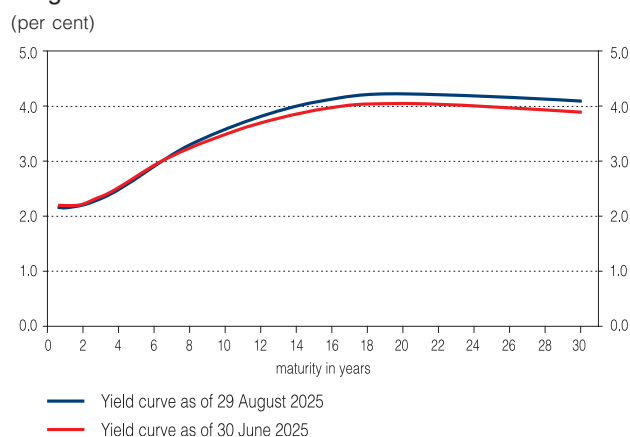
Notes: The reference yield curve of Bulgarian government bonds is constructed on the basis of an extended version of the *Nelson–Siegel–Svensson* model (1994).
The chart employs daily yield data on Bulgarian government securities issued and traded in international capital markets, published in the MF Central Government Debt and Guarantees Monthly Bulletin.

Sources: MF, BNB calculations.

maturity sectors compared with the end of June 2025. By end-August 2025, spreads between the yields on Bulgarian and German euro-denominated government bonds narrowed compared to the second quarter for all government bonds, with the decline being most pronounced for the bonds maturing in 2027, 2028 and 2033 (14, 11 and 12 basis points, respectively). The narrowing of spreads reflected a stronger increase in German government bond yields compared to the increase in almost all Bulgarian government bonds. The observed narrowing of spreads is likely to have been influenced by the official decision on Bulgaria's accession to the euro area as of 1 January 2026, announced in early July.

In August 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.[19] At the same time, in August 2025 the spread *vis-à-vis* Germany's long-term interest rate stood at 126 basis points.

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

(per cent) (basis points)

- Long-term interest rate for assessing Bulgaria's degree of convergence (left scale)
- Long-term interest rate for assessing Germany's degree of convergence (left scale)
- Spread *vis-à-vis* German long-term interest rate (right scale)
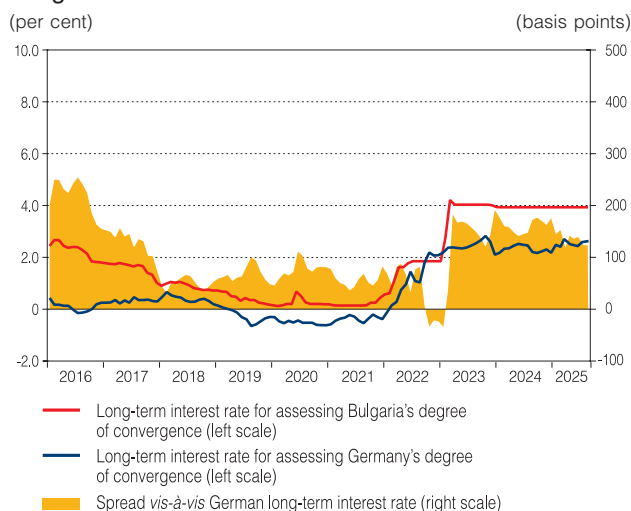
Sources: BNB, ECB.

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

4. Economic activity

4.1. Current Economic Environment

Gross Domestic Product

In the second quarter of 2025, real GDP increased by 0.9 per cent on a quarterly basis, according to seasonally adjusted NSI data. Economic activity growth accelerated on an annual basis to 3.5 per cent[20] (compared to 2.9 per cent in the previous quarter). This was mainly driven by the decrease in goods imports (-0.2 per cent) and the significant acceleration in government consumption growth (16.3 per cent). In the structure of growth over the quarter, a significant positive contribution of domestic demand continued to be observed (8.8 percentage points), its value remaining unchanged from the previous quarter, while the negative contribution of net exports fell to -3.1 percentage points (from -5.4 percentage points in the previous quarter).

In the second quarter of 2025, private consumption grew by 6.9 per cent on an annual basis in real terms (from 9.0 per cent in the previous quarter), continuing to be supported by the increase in employment, labour income and credit activity, as well as by rising fiscal transfers to households.

Government consumption at constant prices rose significantly by 16.3 per cent (from 7.4 per cent in the previous quarter). Data on Consolidated Fiscal Programme (CFP) performance as of end-June 2025 indicate that wage and healthcare expenses had the main positive contribution to the increase in government consumption in nominal terms.[21] According to CFP data, government staff expenditure in the second quarter of 2025 rose by 27.5 per cent on an annual basis, which is a prerequisite for significantly higher growth in

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

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

- GDP
- Private consumption
- Gross fixed capital formation
- Government consumption
- Net exports
- Changes in inventories
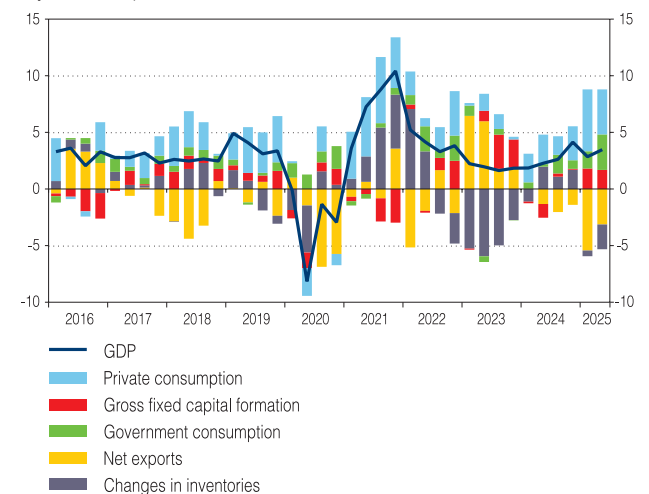
Sources: NSI, BNB calculations.

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[20] According to non-seasonally adjusted NSI data.

[21] For details, see Fiscal Policy Effects on the Economy Section in this Chapter.

the government consumption deflator than that reported in NSI data and would be reflected in lower government consumption growth in real terms.

Over the second quarter of 2025, fixed capital investments rose by 9.5 per cent on an annual basis (compared to 13.4 per cent in the previous quarter). According to BNB estimates[22], this growth was due mainly to the public[23] and, to a lesser extent, private sector. Data on Consolidated Fiscal Programme performance indicate that government investments in the review quarter were largely supported by the implementation of EU-funded projects and, to a lesser extent, by nationally funded ones. Factors favouring growth of investment activity in the private sector were the increased final consumption expenditure in the economy, implying the need to boost production and active supply of credit resources by banks. The indicator comparing production capacity in industry to expected demand remained below its long-term average, appearing to be a potential factor for investments in order to expand the existing production capacity.

Net exports had a negative contribution to economic activity in the second quarter of 2025, driven by the fall in exported goods and services (-4.9 per cent) coupled with slight growth in imports of goods and services (0.1 per cent).[24] The dynamics of exports was influenced by repairs carried out in key metal and oil processing enterprises. Weaker exports, together with the reported decline in accumulated inventories in the economy which are characterised by a high import component,[25] contributed significantly to the year-on-year decline in goods imports.

Gross value added in Bulgaria increased by 0.7 per cent in real terms from the previous quarter.[26]

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[22] 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. Public investment estimates are based on information from quarterly non-financial accounts of the general government sector, published by the NSI.

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

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

[25] According to BNB estimates.

[26] NSI's seasonally adjusted data.

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

(per cent, share of managers)   (balance of opinions)
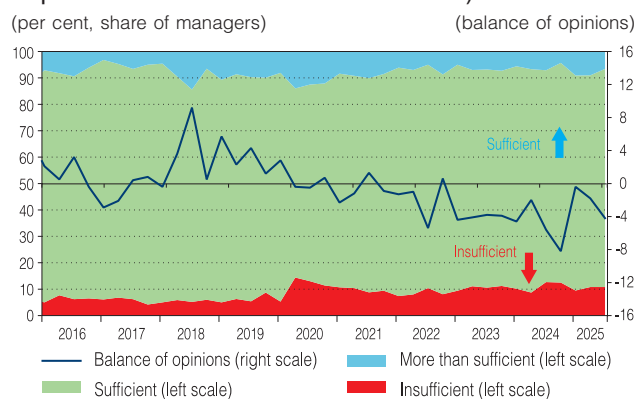
Sources: NSI, BNB calculations.

Contribution to Gross Value Added in Real Terms by Sector
(Quarterly Data)

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

Sources: NSI, BNB calculations.

Economic Activity
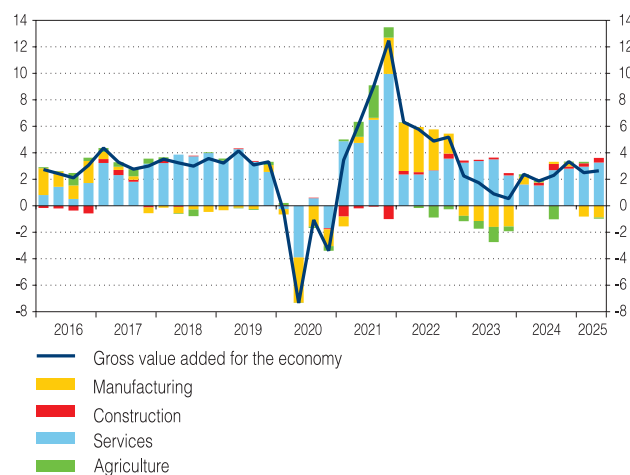
Concurrently, its year-on-year growth, according to non-seasonally adjusted data, was 2.6 per cent, reflecting only the contribution of the services sector. Value added in industry and agriculture fell year on year. Value added in the services sector continued to increase steadily (by 4.7 per cent) in the second quarter of 2025, with the general government, real estate operations and information and communication sub-sectors having the most substantial positive contributions. Gross value added in industry fell by 2.0 per cent on an annual basis. This was entirely due to the manufacturing sub-sector in line with the annual decline in the industrial production index over the quarter and in exports of goods and is likely to have been related to the repairs in key enterprises in metallurgy and oil processing.

Cyclical Position of the Bulgarian Economy

BNB estimates of the economy's cyclical position suggest that in the second quarter of the year domestic economic activity remained above its potential. This indicates that part of the resources in the economy continued to be overloaded beyond their optimal level, in line with the historically low unemployment rate and significant labour shortages.

Short-term indicators[27] provided divergent signals regarding economic activity in the third quarter of 2025. [28] Part of the indicators tracking firms' current production activity (industrial production index and services production index[29]) were positioned below their long-term averages. At the same time, household sentiment[30] remained at historically high levels. This, coupled with a continuing rise in retail trade turnover on an annual basis, is a prerequisite for retaining the positive contribution of private consumption to economic activity growth.

Over the third quarter, the indicator of differences in economic agents' assessments about expectations of economic activity in the short term, calculated by the BNB, remained at a level close to that of the previous quarter.

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[27] Data on the services production index are available as of June 2025, and industrial production and retail trade indices are as of July 2025.

[28] For details, see the Behaviour of Firms Section in this Chapter.

[29] Eurostat's seasonally adjusted data.

[30] Measured by the NSI Consumer Survey.

Deviation of Economic Activity from Potential Output
(per cent, output gap)
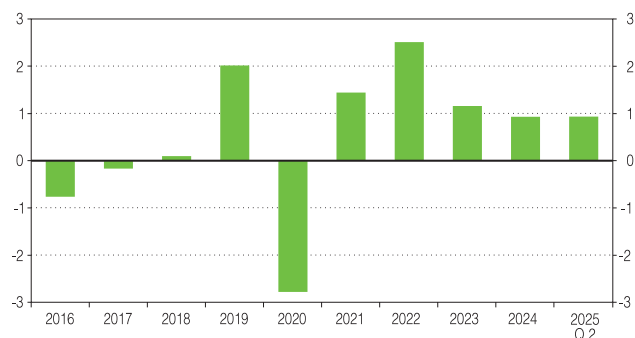
Notes: Results are obtained through the application of a multivariate model with unobserved components presented in the topical research on *Methods for Estimating the Cyclical Position of the Economy*, *Economic Review*, 2019, issue 1.
The output gap is the deviation of the current level of economic activity from potential output measured as a percentage of potential output.

Sources: NSI, BNB calculations.

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

— Retail trade turnover
● Business climate
■ Capacity utilisation in industry
● Industrial Production Index
◆ Services Production Index
▲ Consumer confidence
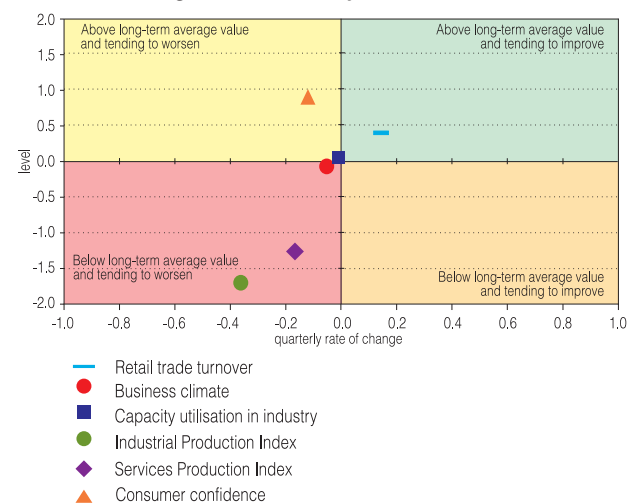
Notes: The chart compares the level (the vertical axis) and the quarterly change (the horizontal axis) of selected economic indicators. Data are averaged for available months within the third quarter of 2025. Each series is transformed to stationary, and then a *HP* filter is applied to remove short-term 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.

Economic Activity Expectations

The composite economic activity indicator constructed by the BNB based on high frequency data[31] signals that quarterly real GDP growth in the third quarter is expected to accelerate slightly compared to the estimate for the second quarter. Acceleration in quarterly growth of the composite indicator over the quarter was mainly driven by firms' sentiment in services and construction, increased credit activity for households and corporations, and global PMI positioning above its neutral 50 point threshold. There is however an uncertainty on whether GDP growth would follow the composite indicator dynamics, since economic growth accelerated in the second quarter without such dynamics being implied by the composite economic indicator.[32]

At the end of 2025 and in early 2026, real GDP is projected to continue growing on an annual basis at similar rates to those observed at the beginning of 2025. Real GDP growth will continue to be supported primarily by domestic demand. With the end of repairs in manufacturing, the negative contribution of net exports is expected to shrink at the end of the year and to start contributing positively to economic activity in early 2026.

4.2. Labour Market

Labour Supply

In the second quarter of 2025, labour supply, measured by labour force,[33] declined by 0.5 per cent year on year due to labour outflows, while population over 15 years rose slightly, based on NSI's Labour Force Survey data. Accord-

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[31] Data on newly extended loans to corporations and households, retail trade turnover index, producer prices in manufacturing, industrial and construction production indices are available as of July 2025, global PMI and registered unemployment rate are as of August 2025, and those on production in services (not related to trade) as of June 2025.

[32] The scope of high frequency data used for the BNB dynamic factor model does not include fiscal variables, which is the reason why the estimates for the second quarter of 2025 do not reflect the significant government consumption growth and its contribution to GDP growth. This leads to an underestimation of the quarterly GDP growth for the second quarter of 2025 compared to that according to NSI's seasonally adjusted data.

[33] Labour force includes employed and unemployed persons in the age group of 15 and over, based on NSI's Labour Force Survey data.

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

(deviation from long-term average)

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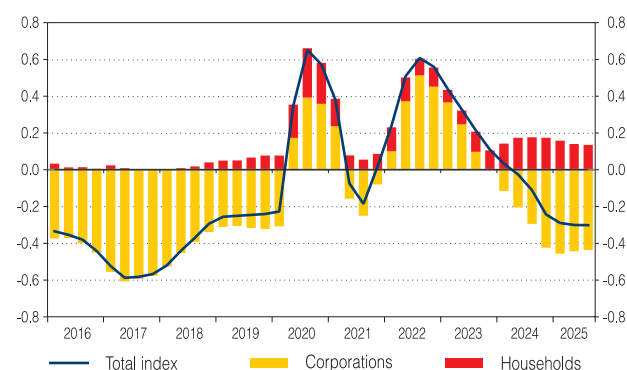
Notes: Higher values of this indicator should be interpreted as an increase in differences of economic agents' assessments. Positive/negative values of the total index show that differences in assessments are above/below their long-term level. This indicator is constructed under a methodology presented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

Sources: EC, BNB calculations.

Composite Economic Indicator of Economic Activity

(per cent, on a quarterly basis)

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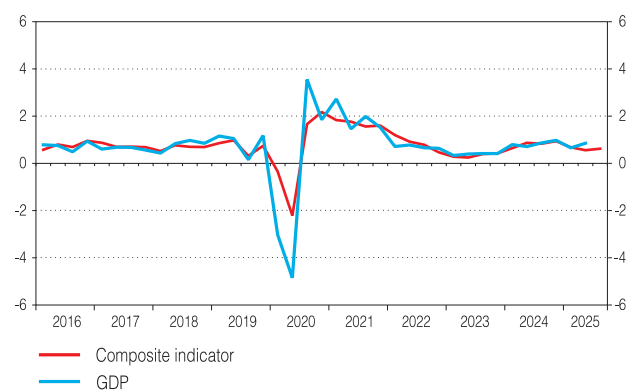
Notes: This indicator is constructed on the basis of a dynamic factor model whose purpose is to derive the total component in dynamics of various indicators with a monthly frequency. Dynamics of the composite indicator may be used as a guidance for the change in real GDP of Bulgaria. Selected indicators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

ing to Eurostat's experimental statistics,[34] the increase in persons outside labour force is due to the simultaneous shift of part of employed and unemployed persons into inactivity. The number of inactive persons rose by 0.8 per cent year on year, with persons unwilling to work for personal or family reasons contributing further to this, those being the persons aged 15–34, according to the age structure. As a result, the economic activity rate[35] of the age group of 15 and older decreased to 55.2 per cent in the second quarter of 2025 (55.5 per cent in the corresponding period of 2024), and that in the 15–64 age group stood at 73.7 per cent (74.1 per cent in the second quarter of 2024).

Over the second quarter of 2025, labour force recorded a slight increase in employees and a decrease in unemployed persons in line with real GDP growth. Non-seasonally adjusted Labour Force Survey data show a decline in the unemployment rate[36] to 3.6 per cent in the second quarter of 2025 (4.3 per cent in the corresponding quarter of 2024), with all age groups contributing to this effect, except for the persons aged 15–24. According to seasonally adjusted Employment Agency data, the unemployment rate in the second quarter of 2025 remained close to the level of the previous quarter, with a similar development being expected also for the third quarter of 2025, according to July and August data.[37]

At the same time, the slight increase in the number of employees according to the Labour Force Survey did not correspond to the strong rise in employment based on national accounts data,

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

[35] 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.

[36] 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.

[37] Divergent dynamics in the level of unemployment between the two statistics is probably due to both the exclusion of students and pensioners from the scope of registered unemployed who are actively seeking and willing to work but are not registered with job centres and to the Employment Agency's use of data on economically active persons since the last census, while the Labour Force Survey uses current data of the latest observation. For further details, see NSI metadata.

Contribution to the Change in Labour Force by Component

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

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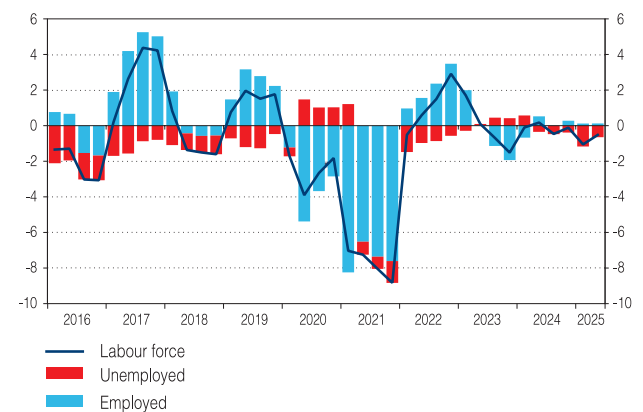
Notes: Data refer to the age group 15 and over. From the beginning of 2021, there is a break in series due to the use of 2021 population census data. Data prior to 2021 have not been revised, which was reflected in a year-on-year decline of labour force in 2021.

Sources: NSI Labour Force Survey, BNB calculations.

Economic Activity and Share of Discouraged Persons

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

- Share of discouraged persons in the total age group 15–64 (left scale)
- Economic activity rate of the age group 15–64 (right scale)
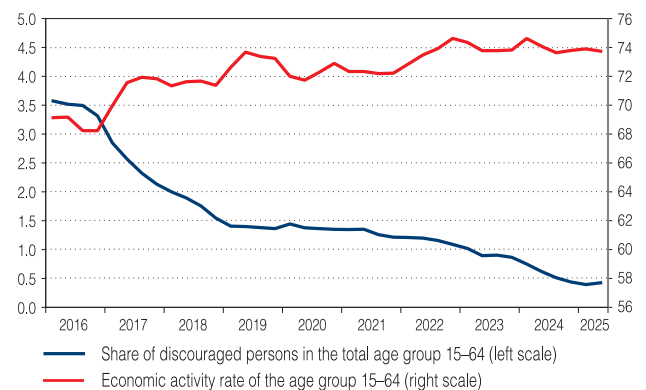
Notes: From the beginning of 2021, there is a break in series due to the use of 2021 population census data.
Seasonally adjusted data presented here are affected by the break in time series.

Sources: NSI Labour Force Survey, BNB calculations.

which could be due to the inability of the Labour Force Survey to cover exhaustively short-term employees from third countries, which are starting to be increasingly important for employment growth in Bulgaria.[38]

Labour Demand

In the second quarter of 2025, the number of employed (according to national accounts data) rose by 3.7 per cent year on year. Employees in the services sector, in particular trade, repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities and construction contributed positively to the growth, while the downward trend in employment in manufacturing and agriculture was sustained. Job vacancy data in the economy[39] also posted an increase – by 11.8 per cent on an annual basis in the second quarter of 2025, with the services sector contributing again most strongly to the growth, followed by manufacturing where job vacancies picked up slightly. At the same time, the proportion of firms identifying labour shortages as a factor hampering their activity[40] increased in the second quarter and the first two months of the third quarter, with all major economic sectors contributing to this. In view of these developments, labour demand is assumed to continue to grow in the second quarter of 2025, while supply remains constrained. As a result, wage pressures increased in the second quarter of 2025.

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.

Unemployment Rate

(per cent, share of labour force; seasonally adjusted data)
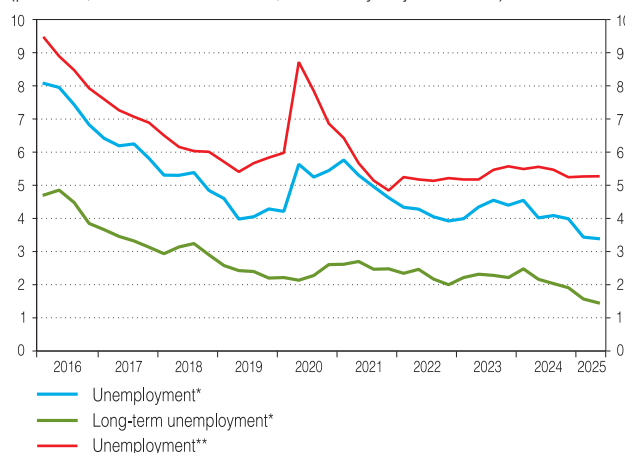
Notes: Since the beginning of 2021, there has been a break in time series due to the use of 2021 census population data when assessing the LFS results. Seasonally adjusted data presented here are affected by the break in time series.

* NSI data.

** Employment Agency data.

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)
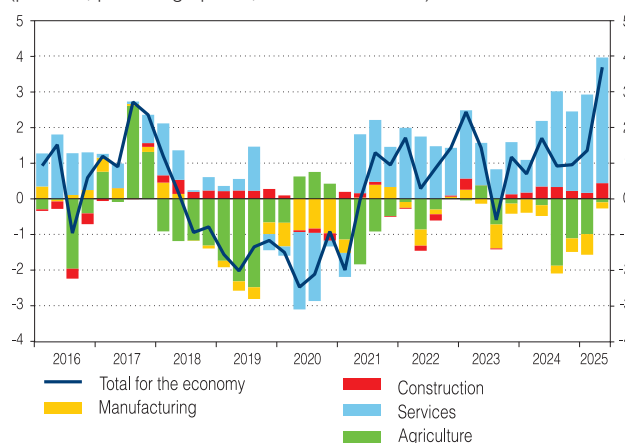
Sources: NSI – SNA, BNB calculations.

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

(per cent; proportion of firms)
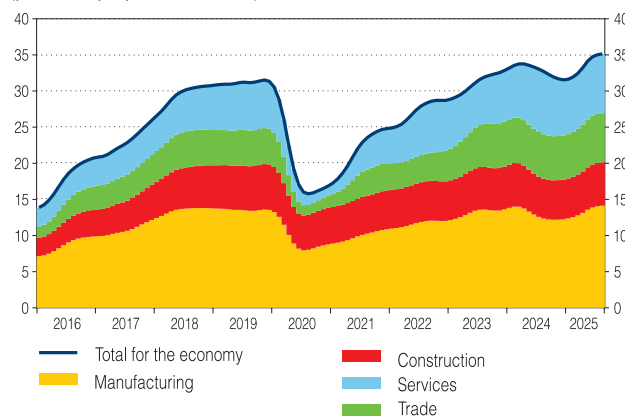
Note: Data up to and including August 2025 are used.

Sources: NSI, BNB calculations.

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[38] For details on the differences between employees based on national accounts and LFS, see NSI and Eurostat.

[39] Based on NSI's short-term statistics of employment and labour costs.

[40] According to NSI's Business Situation Survey data.

Productivity and Compensation per Employee

In the second quarter of 2025, real labour productivity[41] declined by 1.7 per cent on an annual basis, with a fall reported in both industry and services and in agriculture. Despite the decline in labour productivity and slower growth in consumer prices, nominal compensation per employee recorded a strong increase of 18.5 per cent on an annual basis, reflecting large labour shortages in Bulgaria. In real terms,[42] compensation per employee rose by 15.1 per cent year on year, with only agriculture recording a decrease.

NSI's Household Budget Survey and short-term statistics of employment and labour costs also suggest strong growth in wage income, recording a nominal increase of 16.7 per cent and 12.0 per cent, respectively, on an annual basis in the second quarter of 2025. According to average monthly gross wage data, wage growth was high year on year in both the private (11.4 per cent) and the public sector (13.8 per cent).

4.3. Behaviour of Firms

Growth in the final demand deflator accelerated in the second quarter of 2025, entirely due to factors related to the domestic economic environment, primarily growth in nominal unit labour costs of corporations.

Labour Costs of Firms

In the second quarter of 2025, firms' unit labour costs[43] rose in nominal terms by 20.5 per cent on an annual basis. High growth reflected both the strong wage rise as a result of large labour shortages in Bulgaria and increases in minimum wage and public sector wages since the beginning of the year, as well as decreased real labour productivity. All economic sectors contributed to the rise in nominal unit labour costs, with real estate operations recording the highest growth (36.2 per cent).

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[41] Labour productivity is calculated after removing imputed rent from gross value added.

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

[43] Unit labour costs are calculated after removing imputed rent from gross value added.

Compensation per Employee at Current Prices

(per cent; on an annual basis)
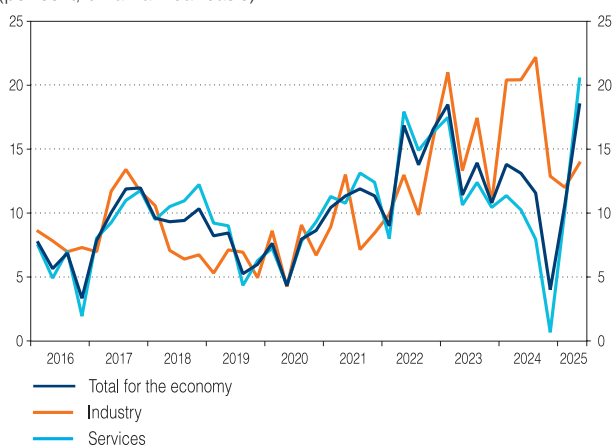
Source: NSI – SNA.

Compensation per Employee and Average Wage at Current Prices

(per cent; on an annual basis)
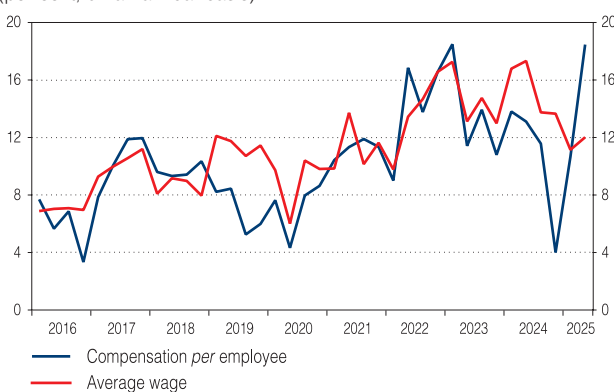
Sources: NSI – System of National Accounts (SNA), short-term statistics of employment and labour costs.

Final Demand Deflator

(per cent, on an annual basis; non-seasonally adjusted data)
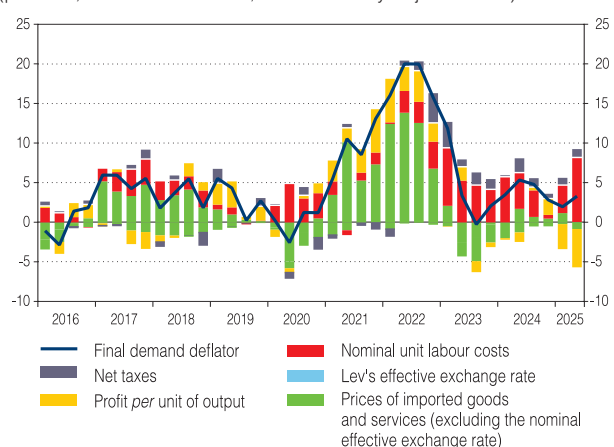
Sources: NSI, BNB calculations.

Firms' Investment Expenditure

BNB estimates[44] show that in the first quarter of 2025 investment expenditure rose on an annual basis in both the private and public sectors. Investments in all types of assets increased, with investments in machinery, equipment and weapons systems having the largest positive contribution.

Financing Sources for Firms

According to non-seasonally adjusted data for the total economy, the nominal gross operating surplus indicating firms' free resources that could finance their internal operations decreased by 6.1 per cent on an annual basis in the first quarter of 2025 due mainly to services (a -7.4 percentage point contribution) and construction (a -0.3 percentage point contribution), with these sectors reporting an increase in the net amount of attracted external funds in the form of loans and newly assumed foreign liabilities.

Pricing Policy of Firms

In the second quarter of 2025, firms' selling prices in industry[45] rose by 8.9 per cent on an annual basis and by 8.6 per cent in July 2025. The PPI increase since 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's increase in April–July 2025 was broad-based, with the largest growth being reported in energy products, metal ores and food and drink production.

In the second quarter of 2025, PPI 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 July 2025, the increase in selling prices in the retail trade sub-sector

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[44] 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. The estimate of public investments is based on data from quarterly non-financial accounts of the general government sector and reports on the implementation of the Consolidated Fiscal Programme published by the NSI and the MF, accordingly.

[45] Measured by the Producer Price Index (PPI) in industry.

Unit Labour Costs

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

- Total for the economy, excl. imputed rent, nominal
- Manufacturing, nominal
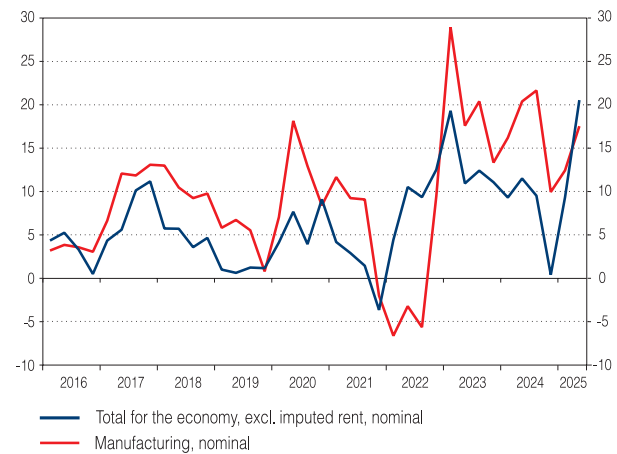
Sources: NSI, BNB calculations.

Contribution of 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)

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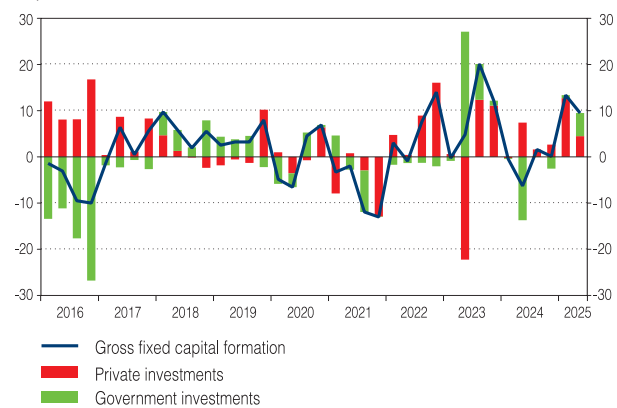
Notes: The NSI does not provide official data on the breakdown of total investments into private and public.
The series on private investments is constructed by the BNB as a difference between total investments and the estimated amount of public investments on an accrual basis in real terms.

Sources: NSI, BNB calculations.

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

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

- Gross fixed capital formation
- Residential buildings
- Other buildings and structures
- Machinery, equipment and weapon systems
- Other investments
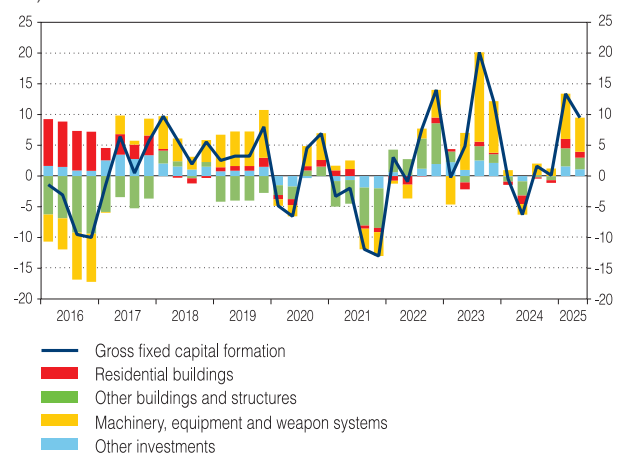
Sources: Eurostat, BNB calculations.

Economic Activity

(excluding trade in motor vehicles and motorcycles), which is the closest one to the customers in the supply chain, was similar to that in the first quarter (1.3 per cent). The slight price increase in the trade sector can be explained by decreased prices of automotive fuels, lubricants and household and computer equipment, partly offsetting food price growth.

Economic Indicators

NSI data on the business climate and short-term business statistics on production and turnover in manufacturing, trade, services and construction production for July–August 2025 provide mixed signals about firms' performance across individual sectors of economic activity.[46]

In July–August 2025, the overall business climate indicator[47] remained at the level reached at the beginning of the year. An improvement in sentiment was reported in construction and services, unlike manufacturing where this indicator deteriorated. The improvement of managers' sentiment in construction reflected their more optimistic expectations about the future economic situation, construction activity and staff recruitment expectations over the next three months. The NSI Business Climate Survey suggests that the uncertain economic environment continues to be the most serious impediment to firms' operations. The proportion of enterprises identifying shortages of labour force and materials/equipment as a factor hampering their activities increased in July–August 2025. Concurrently, managers' sentiment about recruitment remained almost unchanged from the second quarter, though posting some deterioration from the beginning of the year, mainly in the manufacturing and trade sectors.

The industrial production index continued to decline on an annual basis in July 2025, driven mainly by energy products and the production of metals, food products and clothing. Data on nominal industrial volumes show slight annual growth in April–July 2025, entirely due to the increase in domestic market prices and, to a lesser extent, external market prices.

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[46] For more details on the composite economic indicator constructed by the BNB, see the Current Economic Environment Section in this Chapter.

[47] BNB's seasonally adjusted data.

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)
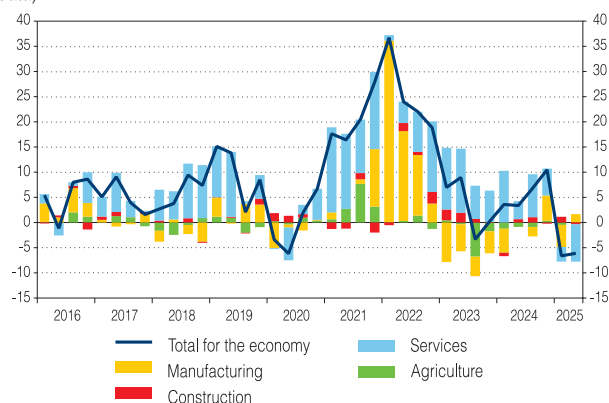
Sources: NSI, BNB calculations.

Rate of Change of Producer Price Index in Industry

(per cent; on an annual basis)
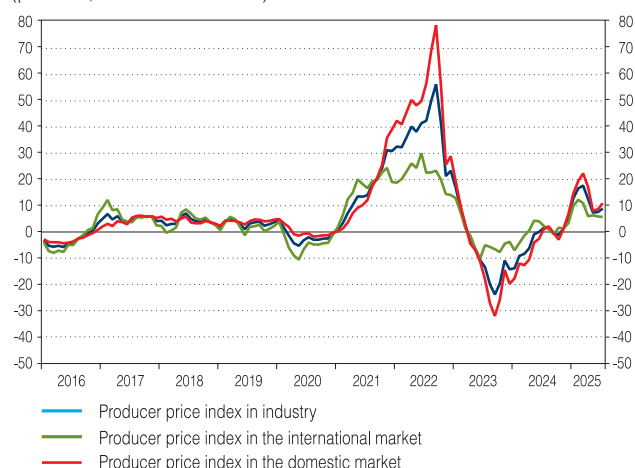
Source: NSI.

Business Climate

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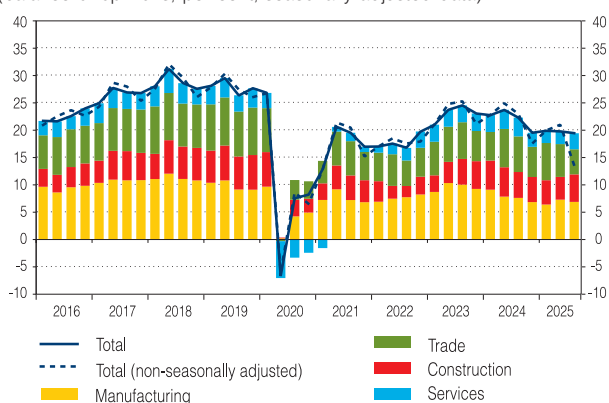
Notes: The answers to the NSI survey questions are presented in a three tier category scale: 'increase', 'unchanged', 'decrease'. Balances of opinions are calculated as a difference between relative shares of extreme options of replies: 'increase' minus 'decrease'. The business climate indicator is a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

Sources: NSI, Eurostat, BNB calculations.

Factors Hampering Economic Activity of Corporations

(relative share of all corporations)

■ 2024	■ Q2 2025	■ Q3 2025
■ Long-term average		
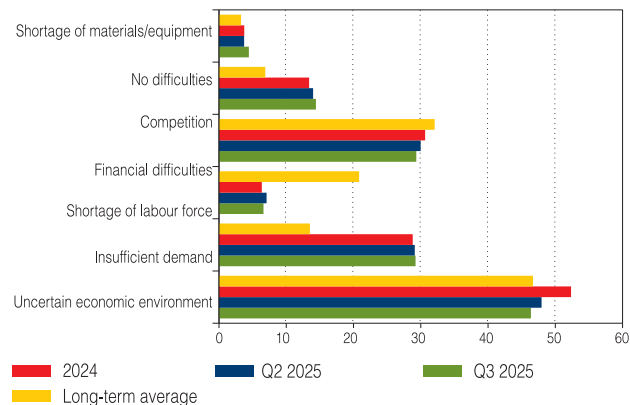
Note: Average data for the relevant period, weighted by the relative share of corporations by sector (manufacturing, construction, trade and services). Data for the third quarter of 2025 are available up to August.

Sources: NSI, BNB calculations.

The construction production index continued to rise year on year in July, mainly on account of the higher activity in construction of buildings and facilities. According to the NSI Business Climate Survey, in July and August 2025, firms' expectations in construction about their future business situation improved, and the share of firms reporting difficulties in their business decreased.

Retail trade turnover growth at constant prices accelerated on an annual basis in July 2025 due to the broad-based increase in real volumes of all components, except the food, drinks and tobacco group. The continuing increase in trade volumes reflects the high level of consumer confidence and consumer purchasing power.

4.4. Household Behaviour

Household Revenue

According to NSI Household Budget Survey, nominal growth in household revenue[48] continued to slow down on an annual basis in the second quarter of 2025 due to lower growth in total household income, while revenue from withdrawn savings and received loans and credit increased slightly.

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[48] 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.

Corporations' Expectations about Staff Recruitment in the Following Three Months
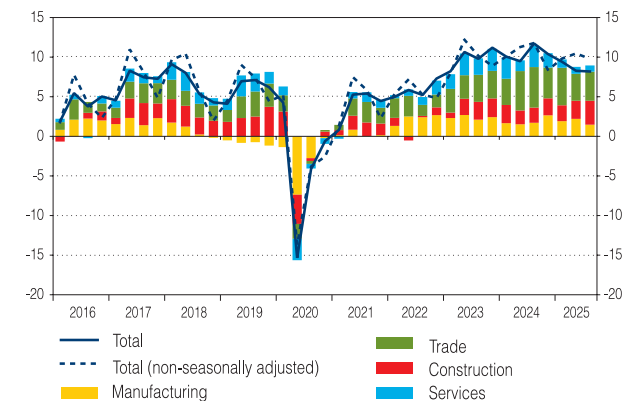
(balance of opinions, per cent; seasonally adjusted data)

— Total	■ Trade
---- Total (non-seasonally adjusted)	■ Construction
■ Manufacturing	■ Services

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'. Data for the third quarter of 2025 are available up to August.

Sources: NSI, BNB calculations.

Dynamics of the Production Index in Manufacturing, Construction and Services

(January 2021 = 100; seasonally adjusted data)

— Index of industrial production	
— Index of construction production	
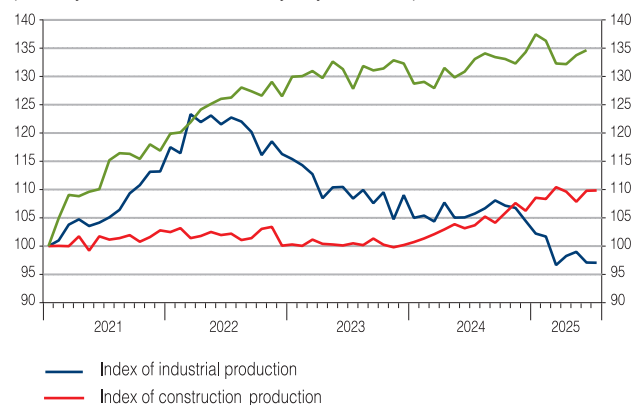
Sources: NSI, Eurostat, BNB calculations.

Industrial Turnover Dynamics

(per cent; percentage points; on an annual basis; non-seasonally adjusted data)
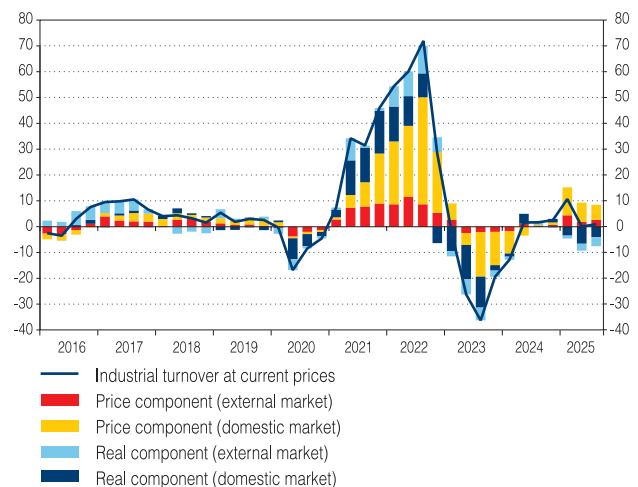
— Industrial turnover at current prices	
■ Price component (external market)	
■ Price component (domestic market)	
■ Real component (external market)	
■ Real component (domestic market)	

Note: Data for the third quarter of 2025 are available up to July.
Sources: NSI, BNB calculations.

In the second quarter of 2025, total household income posted 12.6 per cent growth on an annual basis (15.2 per cent in the first quarter of 2025), the slowdown from the previous quarter being largely due to lower growth in income from pensions and self-employment. Concurrently, wage income growth accelerated to 16.7 per cent on an annual basis (from 15.5 per cent in the first quarter), reflecting tight labour market conditions and high labour shortages in Bulgaria. Stronger growth in wage income was in line with average monthly gross wage data from the NSI short-term statistics and NSI national accounts data on wages *per* employee,[49] which reported accelerated growth in labour income to 12.0 and 19.0 per cent, respectively, on an annual basis in the second quarter of 2025.

Total household income in real terms[50] followed similar dynamics, with growth slowing down to 9.4 per cent on an annual basis in the second quarter of 2025 (10.8 per cent in the first quarter of 2025). As a result, households' real disposable income[51] recorded a weaker increase of 8.7 per cent year on year in the second quarter of 2025 (10.6 per cent in the first quarter of 2025), but its growth rate remained higher than the historical average and continued to support the strong growth in private consumption.

Household Expenditure

In the second quarter of 2025, total household expenditure[52] increased in nominal terms by 11.7 per cent year on year, compared with annual growth of 13.3 per cent in the first quarter of 2025, with deceleration reflecting a weaker increase in consumer expenditure. At the same time, expenditure on taxes and social contributions continued to rise at a faster pace than consumer expenses, and the trend towards a

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[49] Wage *per* employee is calculated by dividing the wage bill to the number of employed in the economy.

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

[51] Real disposable household income is calculated on the basis of NSI Household Budget Survey data and represents total nominal income reduced by taxes, social security contributions and regular transfers to other households, HICP-deflated.

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

Contributions to the Change in Household Revenue

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

- Revenue
- Withdrawn savings
- Loans and credits
- Total income
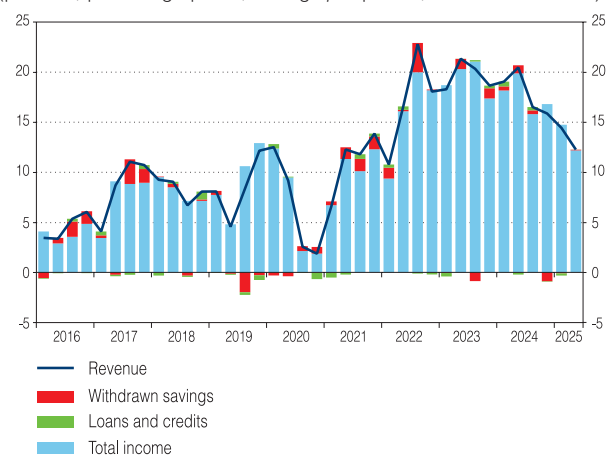
Source: NSI – Household Budget Survey, BNB calculations.

Dynamics of Nominal Retail Trade Volumes

(per cent, percentage points on corresponding quarter of previous year, non-seasonally adjusted data)
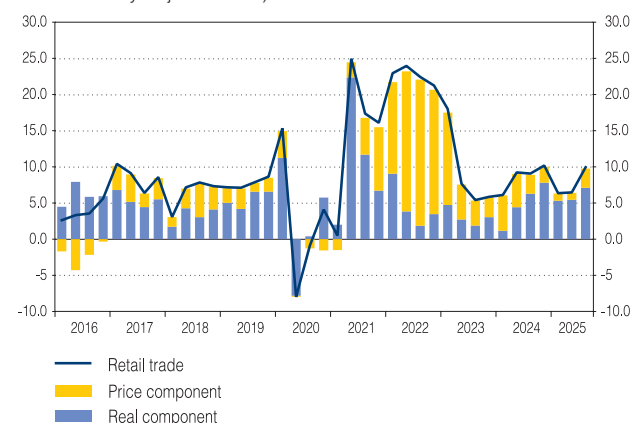
- Retail trade
- Price component
- Real component

Note: Data for the third quarter of 2025 are available up to July.
Sources: NSI, BNB calculations.

Contribution to the Change in Total Monthly Household Income

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

- Total income
- Pensions
- Other
- Unemployment benefits
- Income other than wage
- Income from self-employment
- Property income
- Wage
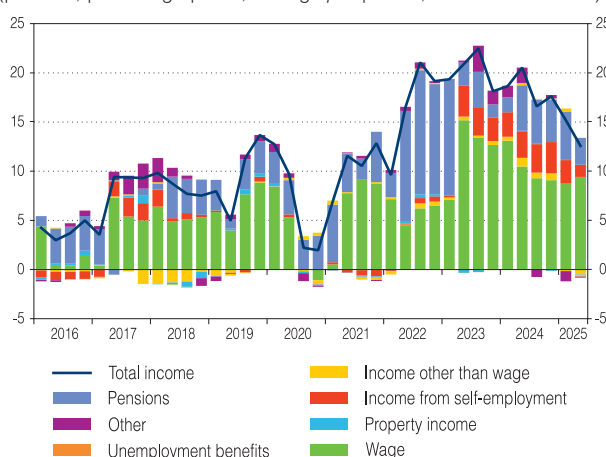
Sources: NSI – Household Budget Survey, BNB calculations.

gradual increase in their share of total household expenditure was sustained.

In the second quarter of 2025, consumer expenditure went up by 11.9 per cent on an annual basis in nominal terms (12.8 per cent in the first quarter of 2025), with the slowdown in their growth rate being in line with the slower growth of consumer prices in Bulgaria. By consumer expenditure sub-component, lower healthcare expenses and weaker transport expenditure growth contributed most strongly to the slowing growth, likely reflecting the decreased hospital services fee since April 2025 and lower prices of transport fuels.

In real terms,[53] consumer expenditure growth accelerated slightly on an annual basis to 8.7 per cent in the second quarter of 2025 (8.5 per cent in the first quarter of 2025), with increased expenditure on leisure, cultural recreation and education, and on home furnishing and maintenance contributing most significantly. NSI national accounts data, which were broader in scope, also reported a strong increase in private consumption, but real growth slowed down to 6.9 per cent year on year in the second quarter of 2025 (9.0 per cent in the first quarter of 2025). Despite divergent developments affected by differences in the manner of data collection, coverage and definitions used, data from the Household Budget Survey and national accounts give grounds to assume that consumer expenditure growth remained historically high in the second quarter of 2025.

Household Savings

In the second quarter of 2025, households' propensity to save[54] part of their income[55] 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

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

[54] 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.

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

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

Nominal disposable income
Real disposable income
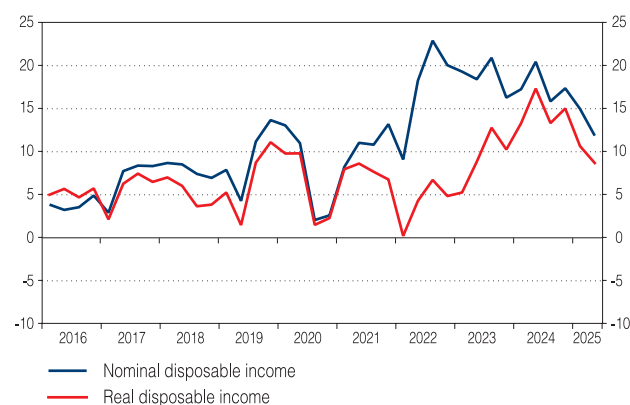
Note: Real disposable income of households represents total income reduced by taxes, social security contributions and regular transfers to other households, HICP deflated.
Sources: NSI – Household Budget Survey, the NSI, BNB calculations.

Shares of Taxes and Social Security Contributions in Total Household Expenditure
(per cent, BGN average *per* person)

Taxes
Social security contributions
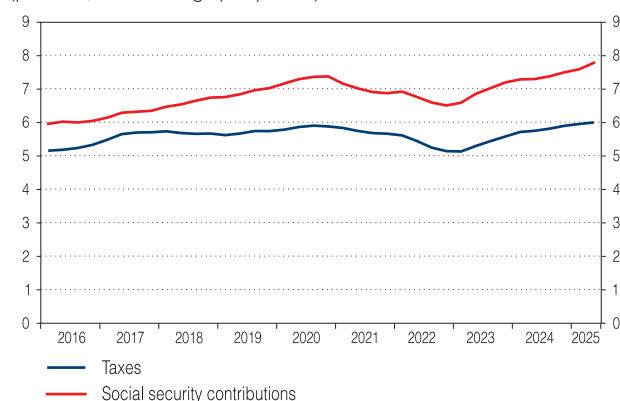
Note: A moving average for the last four quarters is used in order to adjust the data and show the trend in the developments.
Source: NSI – Household Budget Survey.

Contribution to the Change in Households' Consumer Expenditure
(per cent; percentage points; on an annual basis)

Total consumer expenditure
Other
Leisure, cultural recreation and education
Health
Transport and communication
Housing, water, electricity and fuels
Food. drinks and tobacco products
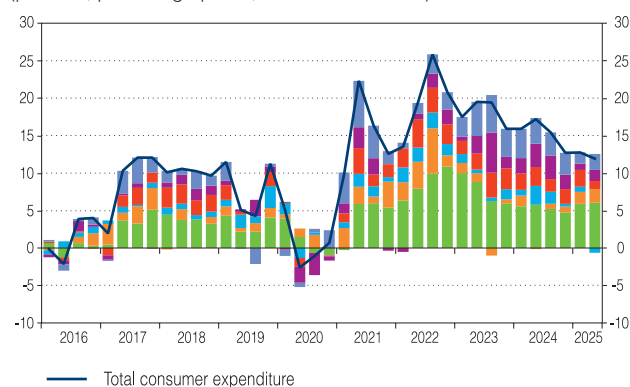
Sources: NSI – Household Budget Survey, BNB calculations.

households. As a result, both the lower propensity to save and the decline in net household assets supported private consumption growth in the second quarter of 2025.

4.5. Fiscal Policy Effects on the Economy

In the second quarter of 2025, fiscal policy continued to have a positive influence on economic activity growth in Bulgaria mainly through the reported government consumption growth.[56] Government investments and social transfers, which supported household disposable income, also had a positive effect.[57]

Over the second quarter, government consumption grew by 26.9 per cent in nominal terms on an annual basis (16.3 per cent in real terms). Data on the implementation of the Consolidated Fiscal Programme for the second quarter of 2025 indicate that staff, healthcare and operating expenditure had a positive contribution to the increase in government consumption in nominal terms.[58] In the second quarter of 2025, CFP capital expenditure reported an increase of 37.4 per cent on an annual basis, driven primarily by capital expenses financed by EU funds. Annual growth in capital expenditure over this period implies a significant positive effect of gross fixed capital formation of the general government sector on GDP growth in the second quarter of 2025. At the same time, the reported increase in social expenditure under the CFP by 14.6 per cent on an annual basis in this period indicates a rise in social transfers to households, driven mainly by the 11.0 per cent increase in pensions from 1 July 2024.

By end-July 2025, total budgetary expenses under the CFP grew by 21.1 per cent on an annual basis,[59] with social expenditure having the largest positive contribution mainly due to higher pensions paid following the increases since July 2024

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[56] At the time of preparation of this Economic Review issue, quarterly non-financial accounts of the general government, published by the NSI, are available up to and including the first quarter of 2025. The estimate of general government investments for the second quarter of 2025 is based on the monthly CFP performance reports. CFP performance data give also an indication of the dynamics of social transfers to households.

[57] For more information on the fiscal stance, see the topical research on *Analysis of Bulgaria's fiscal stance in the period after 2020*, presenting estimates of the country's fiscal stance in the context of the cyclical development of the economy.

[58] Data on CFP performance indicate that staff expenditure posted an increase of 27.5 per cent on an annual basis in the second quarter of 2025, suggesting a significantly stronger rise in the government consumption deflator than that for this quarter (9.2 per cent on an annual basis).

[59] In February 2024, a total of BGN 1.2 billion was reimbursed from the foreign funds account of the Ministry of Regional Development and Public Works budget, which is reflected on a cash basis as a reduction in capital expenditure under the CFP by the same amount. Without this transaction, growth of total CFP budget expenditure would be 17.7 per cent in July 2025.

Household Propensity to Save

(per cent, percentage points)

— Savings as a share of disposable income, seasonally adjusted data*

▮ Net position of households in relation to the banking system, per cent of GDP**
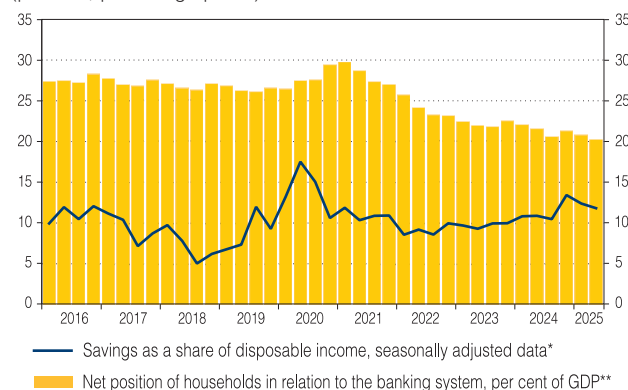
Notes: Savings as a share of disposable income represent the difference between total income and total expenditure of households as a share of total income reduced by taxes, social security contributions and regular transfers to other households. The net position of households *vis-à-vis* the banking system is the difference between deposits and loans of households.

* NSI data. BNB seasonally adjusted data.

** BNB and NSI data. Nominal GDP data for the last four quarters are used in calculating the GDP ratio.

Sources: NSI's Household Budget Survey, BNB.

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)

— Final consumption expenditure
▮ Compensation *per* employee, paid out
▮ Consumption of fixed capital
▮ Social transfers in kind
▮ Intermediate consumption
▮ Market output
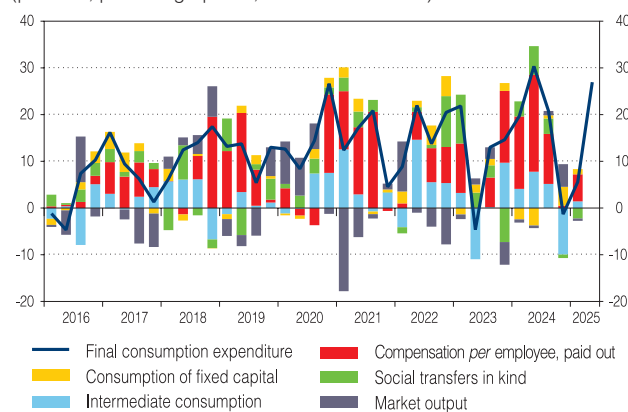
Note: At the time of preparation of this issue of the Economic Review, quarterly non-financial accounts of the general government sector published by the NSI are available up to and including the first quarter of 2025 and, therefore, a breakdown of the components of government consumption for the second quarter of 2025 is not available.

Sources: NSI, BNB calculations.

and July 2025.[60] Capital[61] and staff expenditure had also a high positive contribution to the annual growth of total budget expenditure. At the end of July, staff expenditure rose by 20.9 per cent on an annual basis, reflecting higher staff expenses in defence and security projected in the 2025 State Budget Law, in secondary education and higher wages of other public sector employees. Compared with the end of the second quarter of 2025, total budget expenditure growth accelerated to 20.6 per cent in June, mainly as a result of higher growth in subsidy expenditure (10.2 per cent in July against 2.5 per cent in June). The increase in subsidy expenditure was mainly driven by subsidies paid by the Electricity System Security Fund.

Data on CFP capital expenditure performance for July 2025 indicate that general government's gross fixed capital formation will continue to support the increase in domestic economic activity over the third quarter of the year. In addition, the year-on-year increase in healthcare, operating and staff expenses reported in July 2025 provides grounds for assuming that the positive effect of government consumption on Bulgaria's economic activity growth will be maintained.

Total budget revenue under the CFP grew by 13.5 per cent on an annual basis by end-July 2025, its growth reflecting largely higher tax revenue. Tax revenue growth of 16.7 per cent as of July reflected primarily value added tax receipts and social and health insurance contributions. Annual growth in VAT revenue as of July (16.4 per cent) was entirely driven by VAT revenue from domestic transactions and intra-Community acquisitions (net). Compared with the end of the second quarter of 2025, the growth rate of total budget revenue accelerated (13.1 per cent in June), reflecting mainly accelerated growth in non-tax revenue and a higher rise in VAT receipts.

By end-July 2025, a CFP deficit was reported at BGN 4279 million (2.0 per cent of GDP[62]).

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

(per cent; on an annual basis)
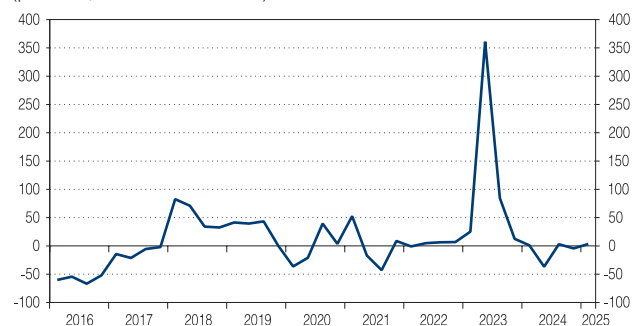
Note: At the time of preparation of this Economic Review issue, quarterly non-financial accounts of the general government secor, published by the NSI, are available up to and including the first quarter of 2025.

Sources: NSI, BNB calculations.

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

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

- Total growth
- Contribution to EU budget
- Staff and operating expenditure
- Social and health insurance payments
- Interest expenditure
- Capital expenditure and net growth of the state reserve
- Subsidies
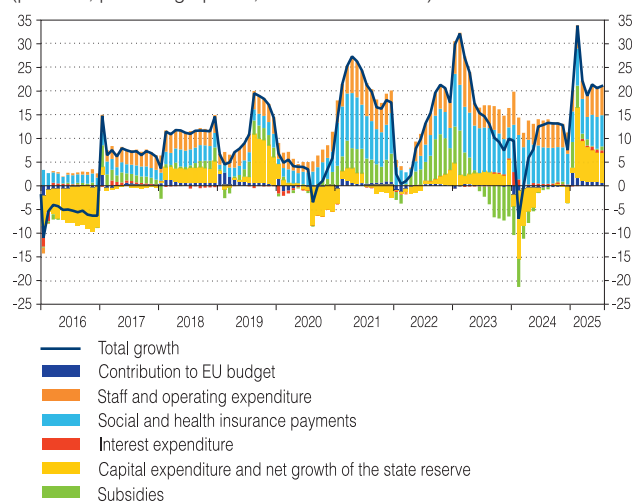
Sources: MF, BNB calculations.

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[60] The increase in pensions by 8.6 per cent took effect from 1 July 2025.

[61] With a view to data comparability, in eliminating the February 2024 transaction referred to in note 59, capital expenditure as of end-July rose by 34.3 per cent on an annual basis, while without eliminating this transaction, it increased by 93.4 per cent on an annual basis.

[62] Nominal GDP data for the last four quarters up to and including the second quarter of 2025 are used in calculating the ratio.

5. PRICE DEVELOPMENTS

5.1. Consumer Prices

In August 2025, annual HICP inflation rose to 3.5 per cent, from 2.1 per cent in December 2024, with the groups of food and services contributing most strongly to the increase followed by administratively controlled prices. Important factor behind accelerated inflation in these groups was the restored standard VAT rate of 20 per cent on the supply of bread and flour and on restaurant and catering services, which came into force in early 2025, as well as increases in some administratively controlled prices and indirect taxes.

Consumer price rises continued to be driven mainly by factors related to domestic processes, such as increasing unit labour costs and private consumption, which enabled firms to pass on higher production costs to final consumers. 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 growth in household real disposable income and strong private consumption. Concurrently, 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.

Following the temporary slowdown in the growth rate of consumer prices on an annual basis in the second quarter of the year, annual inflation started to accelerate again in the third quarter, reaching 3.5 per cent on average in July and August (compared with 2.9 per cent in the second quarter of 2025). This reflected mainly the lower rate of price decline of energy products and accelerated price growth in the groups of food and administratively controlled prices.

Inflation and Contribution of Major Commodity and Services Groups to It
(per cent; percentage points; on an annual basis)
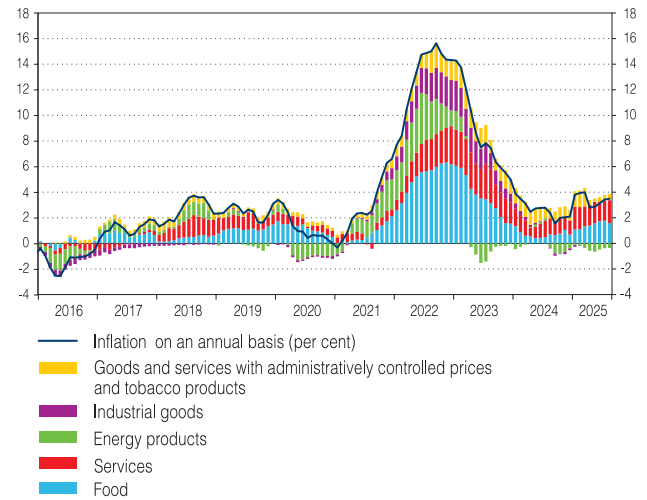
Notes: This structure corresponds to the Eurostat classification; tobacco products and goods and services with administratively controlled prices are presented separately.

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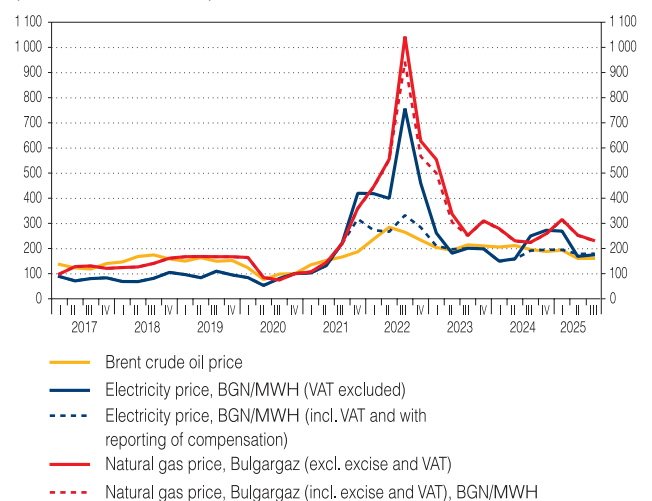
Notes: The electricity price refers to the Day Ahead segment of the Independent Bulgarian Energy Exchange EAD (IBEX). The price of natural gas sold by Bulgargaz EAD does not include prices for access and transmission through the gas transmission networks.

Sources: ECB, IBEX, EWRC.

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

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

Inflation in energy products
Solid and gaseous fuels for households
Transport fuels and lubricants for personal vehicles

Sources: NSI, BNB calculations.

Rate of Change in Brent Crude Oil and A95 Petrol Prices

(per cent; on an annual basis)

A95 petrol price, excluding VAT and excise duty, in levs
Brent crude oil price in euro
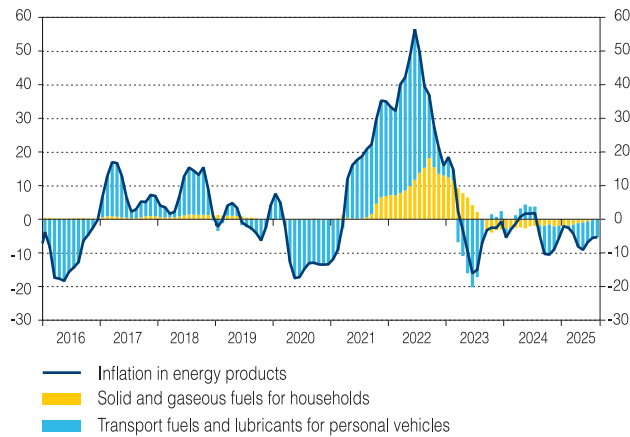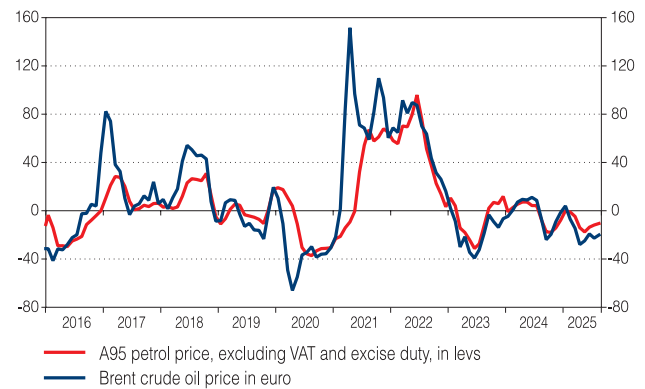
Sources: ECB, NSI, BNB calculations.

Energy Products Prices

In August 2025, energy products made a negative contribution to headline inflation, with deflation of -5.3 per cent on an annual basis being reported in the group (compared to -5.6 per cent in December 2024). The price decline was entirely driven by the transport fuel sub-group, the prices of which continued to decrease in line with crude oil prices on international markets.

Food Prices

The annual growth rate of food prices accelerated to 6.6 per cent in August 2025, (from 2.7 per cent in December 2024), with the group continuing to make a significant positive contribution to headline inflation. Price increases were reported in both processed and unprocessed food, but processed food contributed more strongly to accelerating inflation in the food group.

Annual unprocessed food inflation stood at 5.9 per cent in August 2025 compared with 2.8 per cent at the end of 2024. Fruit sub-group was the most significant contributor and an important factor behind the acceleration of inflation in the group. This can be ascribed to higher wholesale prices at markets in Bulgaria[63], which in

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

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

Food, total
Processed food
Unprocessed food (meat and meat products; fish and seafood; fruit; vegetables)
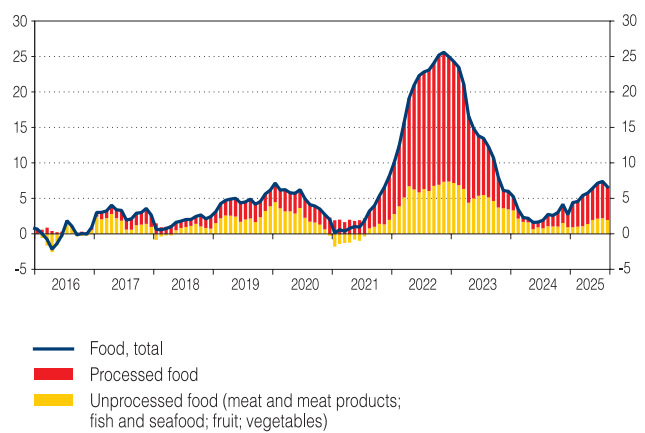
Sources: NSI, BNB calculations.

Contribution of Major Sub-groups to Unprocessed Food Inflation

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

Inflation in unprocessed food
Fish and seafood
Vegetables
Fruit
Meat and meat products

Sources: NSI, BNB calculations.

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[63] Weekly data from the State Commission on Commodity Exchanges and Markets (SCCEM) as of August 2025 have been used.
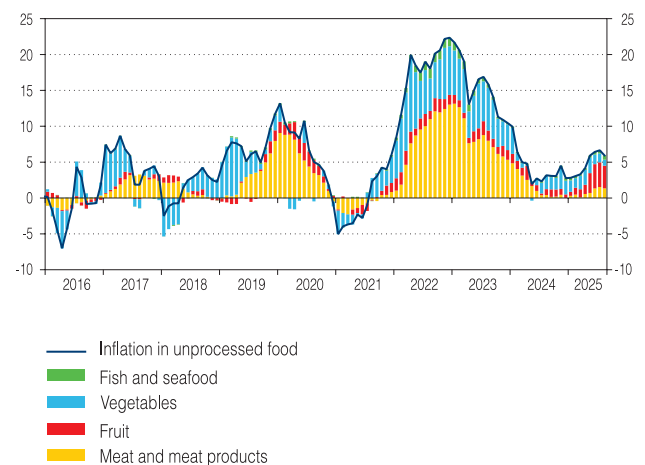
Price Developments

turn was most likely due to the weaker harvest[64] in 2025. Meat and meat products component also had a positive contribution to accelerating unprocessed food inflation, which could be explained by higher wholesale and retail prices of poultry and beef in the country[65].

Annual inflation in the group of processed food retained its accelerating trend, reaching 6.9 per cent in August 2025 (compared to 2.7 per cent in December 2024), with price rises in the group again driven by bread and cereals, sugar and sugar confectionery, milk, dairy products and eggs and coffee, tea and cocoa sub-groups. This development can be explained by the standard VAT rate restored in January 2025 on bread and flour supply, as well as higher prices of these products on global markets.

Core Inflation

Core inflation (including services and industrial goods prices) also retained its trend of previous months, coming to 3.5 per cent in August 2025, compared with 2.1 per cent in December 2024. Price rises in this group were almost entirely due to services prices, which also had the largest contribution to headline inflation growth in August.

Prices of industrial goods increased slightly, their growth rate reaching 0.3 per cent in August 2025 (against a decline of -0.7 per cent at the end of 2024). This increase was mainly due to the group of consumer non-durables, with spare parts and materials for repair and maintenance sub-groups having the highest positive contribution. Concurrently, the prices of consumer durables posted a decline again in the group, with the sub-groups of personal computers and the sound or video reproducing technique contributing most to this trend.

In August 2025, inflation in services was 6.7 per cent (against 4.6 per cent by end-2024), with catering services and package holidays and accommodation being the main contributors. Important decisive factors behind this dynamics in services prices were rising unit labour costs, which boosted private consumption, as well as the

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[64] Data as of September 2025 of the Ministry of Agriculture on the production of main fruits and vegetables in Bulgaria are used.
[65] Data as of September 2025 of the Ministry of Agriculture on wholesale and retail meat prices in Bulgaria are used.

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

- Inflation in processed food
- Other processed food
- Animal and vegetable fats and oils
- Milk, dairy products and eggs
- Bread and cereals
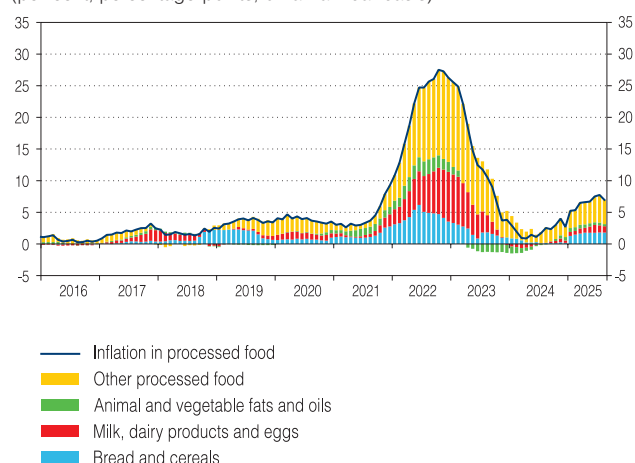
Sources: NSI, BNB calculations.

Core Inflation and Contribution of Services and Non-energy Industrial Goods to It
(per cent; percentage points; on an annual basis)

- HICP, excluding food, energy products, administratively controlled prices and tobacco products (core inflation)
- Non-energy industrial goods inflation (fuels and administratively controlled prices excluded)
- Services inflation (administratively controlled prices excluded)
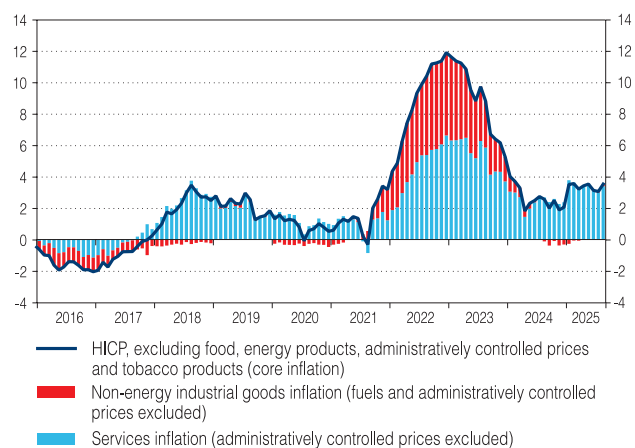
Sources: NSI, BNB calculations.

Contribution of Major Sub-groups to Inflation in Industrial Goods (Excluding Energy Products)
(per cent; percentage points; on an annual basis)

- Industrial goods inflation
- Automobiles
- Clothing and footwear
- Other consumer non-durables, excluding clothing and footwear
- Other consumer durables, excluding automobiles
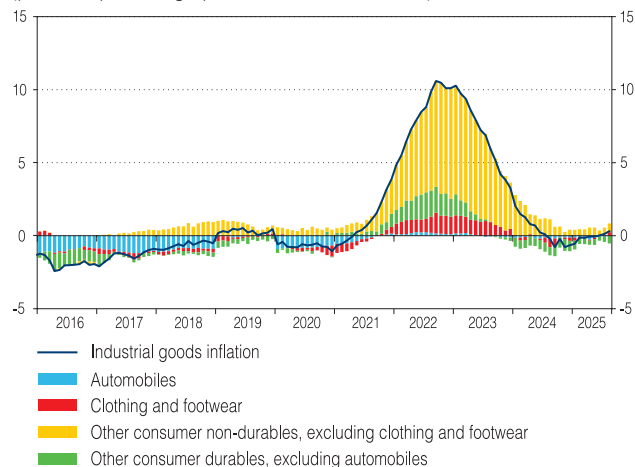
Sources: NSI, BNB calculations.

restored standard VAT rate of 20 per cent since the beginning of the year for supply of restaurant and catering services.

Goods and Services with Administratively Controlled Prices and Tobacco Products

Prices in the group of goods and services with administratively controlled prices and tobacco products posted an increase of 2.3 per cent in August 2025 (against 3.9 per cent at the end of 2024) driven mainly by inflation in the electricity[66] and tobacco products[67] sub-groups. Other sub-groups contributing to the increase in administratively controlled prices were medical products,[68] education and refuse collection and disposal. At the same time, the hospital services sub-group continued to have a strong negative contribution to the headline inflation following the decrease of fees in this sub-group in April 2025.

The diffusion index indicating the share of goods and services posting an annual price rise picked up to 76.7 per cent in May 2025, from 72.1 per cent in December 2024. As regards the rate of price rises, the share of sub-indices with price increases of more than 5 per cent on an annual basis went up to 41.9 per cent (from 34.9 per cent at end-2024).

Inflation Expectations

Regular NSI Business Surveys show that in August 2025 the share of managers expecting selling price rises in the following three months declined somewhat from the previous month. This was most pronounced in services and retail trade and could indicate some slowdown or retention of inflation in these sub-groups over the next quarter.

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[66] The average electricity price increase for household consumers by 8.42 per cent came into force by an EWRC decision of 1 January 2025. The price was additionally raised by an average of 2.58 per cent from 1 July 2025 by an EWRC decision.

[67] The rise in tobacco product prices was due to an increase in excise duty rates on these products, effectctive from 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.

[68] Medicines 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)

- Inflation in services
- Telecommunication services
- Transport services
- Catering services
- Other services
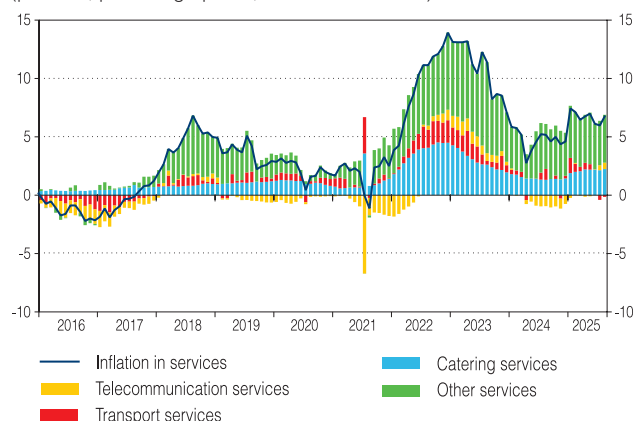
Sources: NSI, BNB calculations.

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

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

- Administratively controlled prices, total
- Tobacco products
- Water supply and sewerage services
- Urban public transport
- Heating
- Electricity
- Other administratively controlled prices
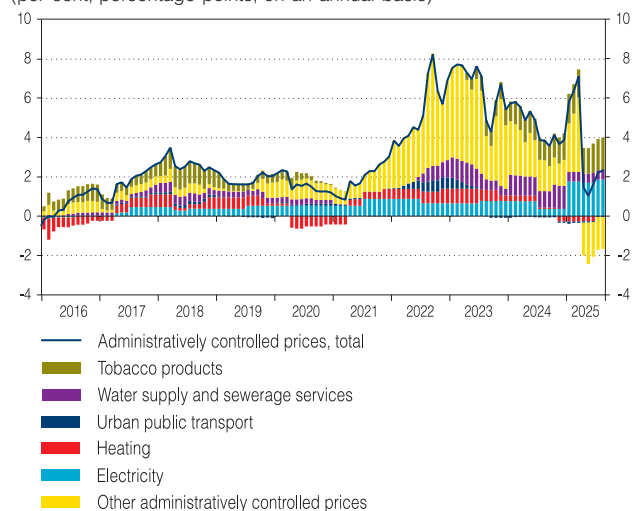
Sources: NSI, BNB calculations.

Diffusion Index

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

- Total diffusion index
- Food
- Tobacco products
- Goods and services with administratively controlled prices
- Energy products
- Services
- Industrial goods

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

- Inflation between 0 and 1 per cent
- Inflation between 1 and 2 per cent
- Inflation between 2 and 3 per cent
- Inflation between 3 and 5 per cent
- Inflation higher than 5 per cent

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

Expectations of Selling Prices in Industry, Retail Trade and Services in the Following Three Months
(balance of opinions)

- Industry
- Retail trade
- Services

Source: NSI.

Based on current trends, technical assumptions about international commodity price dynamics, projected labour market developments and economic activity in Bulgaria, inflation is expected to increase slightly in the second half of 2025. Factors, which are expected to have a pro-inflationary effect, are the projected rise in unit labour costs and expected strong private consumption, as well as curbing price declines in energy products. Inflation is expected to moderate in early 2026 as a result of weaker price increases in administratively controlled prices and food, according to the assumptions used.

5.2. Housing Prices

Annual growth of the House Price Index (HPI) was 15.5 per cent in the second quarter of 2025 (compared to 15.1 per cent in the previous quarter). The price increase reflected the simultaneous increase in prices of both new (by 14.9 per cent) and existing dwellings (by 16.0 per cent). Price increases were wide-ranging across regional cities, with the rate accelerating most significantly in Varna. Factors which continued to support housing demand and to add to housing price rises were expanding labour income, strong lending activity in an environment of historically low annual percentage rates of

Rate of Change of House Price Index
(per cent; on an annual basis)

- Existing dwellings
- New dwellings
- House Price Index
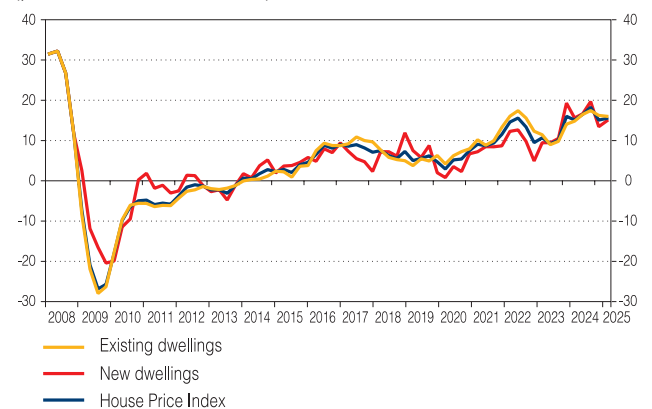
Note: From the beginning of 2022, the HPI is calculated on the basis of data from an administrative source only (the Property Registry), which is the reason why the data are not fully comparable with those of previous years.
Source: NSI.

charges on new housing loans, and more limited opportunities to invest accumulated savings in the context of negative real interest rates on households deposits. Other pro-inflationary factors were the retention of historically favourable household attitudes[69] for house purchases and reported annual growth in construction costs[70] of new buildings in the first quarter of 2025 (by 12.0 per cent compared with 7.2 per cent in the previous quarter). Over the second quarter of 2025, the price-to-rent ratio, which is a frequently used indicator of undervaluation/overvaluation of houses, continued to exceed significantly (by 49.2 per cent) its long-term (historical) average value.[71] 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 a result of an expected further increase in house prices (and generation of capital gains after a sale in the future) or a perceptions of residential property as an asset for preserving value in the context of negative interest rates on household deposits. Concurrently, the estimates based on the BNB macroeconometric model[72] suggest a significantly lower positive deviation of current residential property prices in Bulgaria from their long-term equilibrium level (18.1 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 its equilibrium price.

Actual and Equilibrium Housing Prices

(index 2015 = 100)   (per cent)

- Long-term (estimated through a model) housing prices, left scale
- Actual housing prices, left scale
- Undervaluation (-) / overvaluation (+), right scale
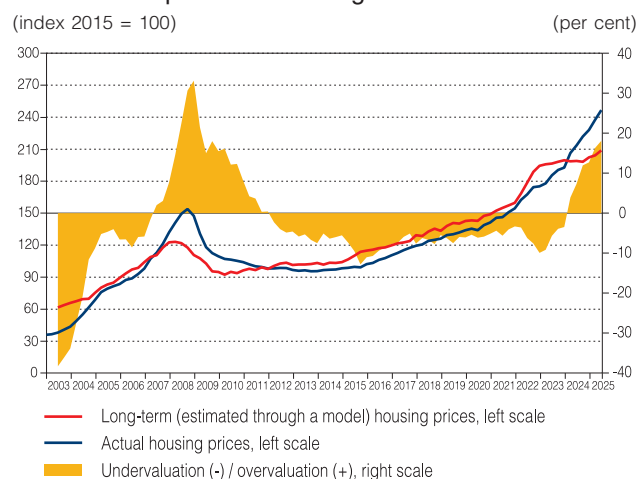
Sources: NSI, BNB calculations.

Indicators of Undervaluation/Overvaluation of Housing

(per cent)

- Price-to-rent-ratio (deviation from historical average value)
- Price-to-income ratio (deviation from historical average value)
- Deviation of housing prices (estimated through a model) from the long-term equilibrium level

Sources: NSI, BNB calculations.

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[69] Seasonally adjusted data of the BNB obtained from the regularly conducted NSI Household Budget Survey have been used.

[70] Eurostat data are used.

[71] Calculated for the period from the first quarter of 2000 to the second quarter of 2025.

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

Price Developments

Key Indicators of the Housing Market Developments in Bulgaria

(per cent; year-on-year change)

Indicators	2021	2022	2023	2024	2025 I	2025 II
Price developments						
House Price Index, total	8.7	13.8	9.9	16.5	15.1	15.5
New dwellings	7.7	10.8	8.6	17.8	13.4	14.9
Existing dwellings	9.2	15.6	10.6	15.7	16.2	16.0
Inflation (HICP)	2.8	13.0	8.6	2.6	3.9	2.9
House rentals, paid by tenants (HICP)	1.7	6.3	8.4	5.6	7.3	8.6
Lending						
New housing loans	24.0	33.5	15.7	30.7	29.5	27.0
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	2.8
Housing loans balances	14.0	18.1	18.8	25.8	26.4	29.6
Construction and Investment						
Permits issued for the construction of new residential buildings (square meters)	25.1	20.6	-4.9	-14.2	8.2	9.5
Value added in construction (at average annual prices for 2015)	-10.8	5.3	3.8	5.2	6.0	7.0
Constriction Production Index, building construction	1.8	0.1	2.7	-0.7	4.3	3.4
Fixed investment; residential buildings	0.6	-1.4	0.3	-4.0	10.0	6.3
Construction cost index for new buildings	11.4	54.8	16.3	4 0	7.2	12.0

Notes: Values indicating the amount of the APRC on housing loans to households are averages (weighted by the relevant volumes of new loans) for a 12-month period.
In calculating the annual growth rate of new home purchase loans cumulative data for the most recent 12 months were used.

Sources: NSI, BNB, Eurostat.

TOPICAL RESEARCH

Analysis of Bulgaria's fiscal stance in the period after 2020

A country's fiscal stance is generally assessed as appropriate if it ensures an appropriate balance between the objectives of achieving sustainability of public finances and stabilisation in economic activity. The prudent fiscal policy implemented by Bulgaria allowed it to respond to the economic shock caused by the COVID-19 pandemic in 2020 with very good fiscal indicators, which provided the necessary fiscal space to undertake stimulus measures to limit the negative effects of the pandemic spread. At the same time, a sustainable trend of maintaining budget deficits was formed in the period after 2020 in Bulgaria, reflecting both a prolonged period of political instability and easing of fiscal policy as well as the impact of other factors such as the military conflict in Ukraine that started in 2022. The aim of this study is to analyse in greater depth Bulgaria's fiscal stance in the period after 2020, comparing it with the cyclical position of the economy over the same period, as well as examining the synchronisation of the ongoing fiscal policy with the monetary and macroprudential policy measures of the Bulgarian National Bank (BNB) and the outlook for the sustainability of public finances.

The budget balance reacts automatically to the dynamics of economic activity, mainly through the change in tax and social security revenues and unemployment benefits, which contribute to smooth the economic cycle regardless of the discretionary measures of the fiscal policy. The impact of automatic stabilisers on the budget balance is usually measured by its cyclical component, which, in turn, depends on estimates of the cyclical position of the economy and the elasticity of the budget balance as a percentage of GDP to the change in the cyclical position of the economy. At the same time, the budget balance reflects also governments' discretionary decisions on the expenditure and revenue side of the budget, as well as non-cyclical factors beyond the control of governments. There is no uniform definition or a uniform approach in the economic literature to estimate a country's fiscal stance. Different approaches are used to capture the aggregate impact of discretionary fiscal measures on the budget balance through certain indicators.

Approaches for the assessment of the fiscal stance

Approaches for the assessment of the fiscal stance can be broadly divided into three groups.

The first (referred to as 'top-down') approach uses the cyclically adjusted (or structural[1]) budget balance, *i.e.* the budget balance, that would be realized if the level of economic activity was consistent with the potential level of output in a country. Interest expenditure is deducted from the cyclically adjusted (structural) balance[2], as interest expenditure is assumed to be outside the direct control of governments, at least in the short run. When viewed in terms of its level, the cyclically adjusted primary (respectively structural primary) balance can be considered an appropriate indicator of the underlying fiscal position of the country, as it provides an indication of the level of fiscal support to economic activity provided by governments in addition to automatic stabilisers. In turn, the change in this balance compared to the previous year may be seen as a more appropriate indicator regarding the amount of the additional impulse (stimulus) by which fiscal policy contributes to the economic activity in a particular year, as presented by the growth rate of real GDP.

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[1] The structural budget balance is the cyclically adjusted balance calculated on the basis of cyclically adjusted revenue and expenditure items, net of one-off or temporary fiscal measures.

[2] The cyclically adjusted (structural) budget balance, which excludes interest expenditure, is the so-called cyclically adjusted primary balance (structural primary balance, respectively).

The European Central Bank (ECB) uses the annual change in the cyclically adjusted primary balance[3] as the main indicator for determining the fiscal policy stance (or direction/course) of the individual euro area countries. In turn, the European Fiscal Board, which has a mandate to assess the adequacy of the euro area fiscal stance as a whole, considers the level of the structural primary balance as an indicator of the degree of support provided by fiscal policy to aggregate demand in the economy, and this support is defined as expansionary or restrictive. The European Fiscal Board measures the fiscal impulse through the annual change in the structural primary balance and identifies it as expansionary or restrictive accordingly.

The main constraints in using a top-down approach to measuring the fiscal stance are related to the uncertainty regarding both the assessment of output gap and estimates of the elasticity of individual budget revenues and expenditures to the change in the cyclical position of the economy[4]. In addition, this approach does not provide information on individual discretionary fiscal measures on the revenue and expenditure side of the budget, but for the purpose of determining the impact of fiscal policy on economic activity, these measures play an important role as a number of empirical studies point to significant differences in the size of fiscal multipliers[5] in individual tax and expenditure budget measures.

The second (referred to as 'bottom-up') approach defines active fiscal policy by estimating the amount of fiscal measures on the revenue and expenditure side of the budget. A limitation to the practical application of this approach is often the lack of sufficient and detailed information to allow measuring the exact amount of budgetary effect of government discretionary measures both *ex ante* and *ex post*. Another limitation of this approach is that it does not sufficiently take into account the impact on the current fiscal stance of discretionary measures that have entered into force in previous years.

The third approach to assessing the fiscal stance is based on a combination of elements from the above two approaches and can be defined as mixed. Building on the reformed fiscal framework of the European Union (EU), which has been in place since the end of April 2024[6], the European Commission (EC) is currently applying a similar mixed approach to assessing the fiscal stance of EU Member States[7]. Under this approach, the European Commission measures the fiscal stance as the increase in net budget expenditures relative to medium-term potential output growth. The net expenditure indicator covers budget expenditures that are generally under governments' control. This expenditure excludes interest expenditure, the cyclical component of unemployment benefits expenditure, as well as one-off and temporary budget expenditures. The amount of discretionary measures on the revenue side of the budget (net of revenue measures of a one-off and temporary nature) is also excluded from the net budget expenditures. The European Commission determines a country's fiscal stance as contractionary if the indicator so calculated grows at a lower rate than nominal medium-term potential GDP growth, and as expansionary if the net expenditure growth rate is higher than that of medium-term potential output.

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[3] The amount of fiscal measures to support the financial sector is deducted from the cyclically adjusted primary balance. In addition, as of 2021, it is also net of revenue from grants under the Next Generation EU (NextGenerationEU) instrument, as this revenue does not have an impact on economic activity because it does not have a direct impact on demand.

[4] A detailed analysis of the main weaknesses in the use of the cyclically adjusted balance to assess the fiscal stance is provided in the article: *Braz, C. and M. M. Campos (2021). Challenges in Measuring Fiscal Effects. Bank of Portugal Working Paper 2021-08.*

[5] For more information on fiscal multipliers in Bulgaria, see: *Karagyozova-Markova, K., Deyanov, G. and Iliev, V. (2013). Fiscal Policy and Economic Growth in Bulgaria. BNB Discussion Papers, 90/2013.*

[6] The 2024 EU Revised Fiscal Framework is presented in detail in the Research topic *European Union's Revised Economic Governance Framework and Its Potential Implications for Bulgaria's Fiscal Policy BNB, Economic Review,* issue 3/2024.

[7] For more detailed information on the Commission's approach to assessing the fiscal stance of EU Member States, see: *Cepparulo, A. et al. (2024) An Assessment of the Euro Area Fiscal Stance since the Pandemic. European Economy Economic Brief 080/July 2024.*

Assessment of Bulgaria's fiscal stance

Taking into account the information available, in this research topic the fiscal stance of Bulgaria is estimated only by applying a close to a 'top-down' approach. It is based on the methodology currently applied within the European System of Central Banks.[8]

The method for determining the fiscal stance uses the cyclically adjusted balance as the main indicator, which is calculated as follows:

$$CAB_t = \frac{B_t}{Y_t} - \varepsilon^B \times G_t \, ,$$

where CAB_t is the cyclically adjusted balance as a percentage of nominal potential GDP; B_t is the budget balance in level; Y_t is the nominal GDP in level; ε^B is the semi-elasticity of the budget balance as a percentage of GDP relative to the cyclical position of the economy[9], this semi-elasticity being considered a constant parameter; G_t is the output gap (the difference between the level of economic activity in a given year and the potential level of output in that year, measured as a percentage of potential output).

The semi-elasticity of the budget balance is the difference between the semi-elasticities of total budget revenues (ε^R) and total budget expenditures (ε^E), and these semi-elasticities are the sum of the contributions of revenue and expenditure items (designated by indexes ^{i} and ^{j}) to the respective semi-elasticity, as shown in the following equation:

$$\varepsilon^B = \varepsilon^R - \varepsilon^E = \sum_i \varepsilon_i^R - \sum_j \varepsilon_j^E .$$

At the same time, the elasticities of individual revenue and expenditure items to the output gap are defined as the product of two elasticities (elasticity of a fiscal variable to the corresponding macroeconomic base and elasticity of each individual macroeconomic base to the change in the cyclical position of the economy).

The estimate of the semi-elasticity of Bulgaria's budget balance (as a percentage of GDP) relative to the output gap used in the current calculations is 0.31. This means that a 1 percentage point increase (decrease) in the output gap is reflected in an improvement (deterioration) in the budget balance of 0.31 percentage points of GDP. The semi-elasticity of total budget revenues is estimated at -0.08 and the semi-elasticity of total budget expenditures is estimated at -0.39. The semi-elasticity of total revenue close to zero indicates that the dynamics of budget revenues (as percentage of GDP) reflects the impact of the business cycle, and, as a result, the total revenue-to-GDP ratio remains broadly unchanged when moving through the phases of expansion and contraction of the economic cycle[10]. At the same time, the dynamics of most budget expenditures is assumed not to depend on the business cycle historically, which means that the total expenditure-to-GDP ratio is largely influenced by the denominator (GDP), while the impact of the numerator (expenditure) is very limited.[11] As a result, the semi-elasticity of budget expenditures is relatively

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[8] The methodology is presented in detail in *Braz, C., M. M. Campos and S. Sazedj (2019). The New ESCB Methodology for the Calculation of Cyclically adjusted Budget Balances: An Application to the Portuguese Case. Bank of Portugal Working Paper 2019-07,* as well as *Morris, R. and L. Reiss (2020). A decomposition of Structural Revenue Developments for Euro Area Member States. ECB Working Paper Series No 2455. August 2020.*

[9] The semi-elasticity captures the impact of the business cycle on both the numerator (budget balance) and the denominator (GDP) of the budget balance-to-GDP ratio.

[10] Non-tax revenues are characterised by relatively low cyclicality and their contribution to the semi-elasticity of total revenue is slightly negative.

[11] In times of economic contractions, the total expenditure-to-GDP ratio can be expected to increase and, in the expansion phase of the business cycle, it can be expected to decline.

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higher in absolute terms than that of total budget revenues. The estimated semi-elasticity of the budget balance used currently is very close to the assessment in the European Commission's 2019 publication, according to which the semi-elasticity of Bulgaria's budget balance amounts to 0.298.[12]

From the cyclically adjusted budget balance thus obtained, interest expenditure has been additionally deducted. In addition, one-off and other temporary fiscal measures, driven by factors beyond the control of the government, which have a significant but short-term effect on the budget balance are also netted-out[13]. As a result of these adjustments to the cyclically adjusted balance, estimates of the structural primary balance are obtained.

Analysis of Bulgaria's fiscal stance after 2020 in the context of the cyclical position of the economy and the BNB monetary and macroprudential policy over the same period. Risks to the sustainability of public finances

The structural primary balance is the main indicator used to analyse Bulgaria's fiscal position over the period since 2020 as presented below. The fiscal stance is assessed using annual data from non-financial accounts of the general government sector published by the National Statistical Institute as of 22 April 2025 and BNB estimates of potential GDP prepared as part of the BNB macroeconomic forecast from June 2025.[14] The analysis covers the period 2007–2024.

Chart 1: Structural Primary Budget Balance and Cyclical Position of the Economy
(per cent of potential GDP)

Output gap
Structural primary budget balance
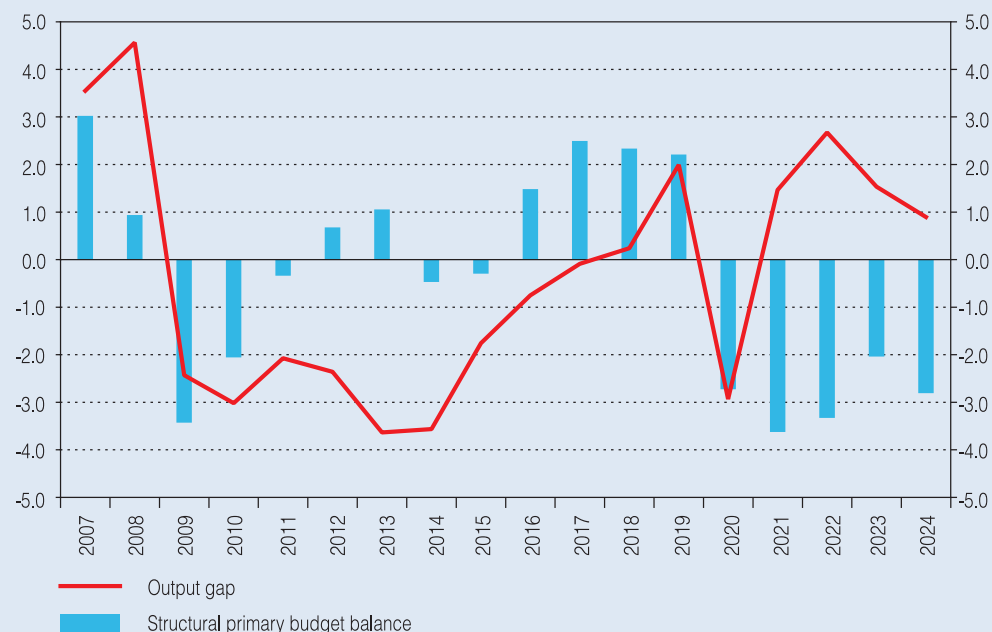
Source: NSI and own calculations.

When considering the level of the structural primary budget balance and the cyclical position of the economy, the estimates for the 2007–2019 period generally point that the ongoing fiscal policy has been counter-cyclical, and this continued in 2020 with the fiscal measures taken to cushion

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[12] European Commission's assessment of Bulgaria's budget balance semi-elasticity is published in Table I.3. In *Mourre, G., A. Poissonnier and M. Lausegger (2019). The Semi-Elasticities Underlying the Cyclically-Adjusted Budget Balance: An Update and Further Analysis. European Economy Discussion Paper 098/May 2019*.

[13] In this analysis, such one-off and other temporary fiscal measures have no significant impact on Bulgaria's structural budget balance estimates for most of the period under review, which covers 2007-2024. In particular, their impact is limited to only two years (2007 and 2014). When determining one-off and other temporary fiscal measures the definition used by the European System of Central Banks is followed.

[14] The BNB macroeconomic forecast from June 2025 is published on the BNB website. The estimate of potential GDP is derived from a multivariate model with unobserved components presented in the research topic on *Methods for Estimating the Cyclical Position of the Economy*, BNB, Economic Review, issue 1/2019.

the economic and health impact of the COVID-19 pandemic. Concurrently, in 2021–2024 amid upward dynamics of the business cycle, which signals overheating economic activity in Bulgaria, there has been a reversal of the counter-cyclical fiscal policy pursued until then and a shift to a pro-cyclical policy as a result of sustained structural primary budget deficits. As regards the fiscal impulse which in this study is measured by the annual change in the structural primary budget balance, a pro-cyclical and accommodative fiscal stance is estimated for 2021 and 2024, while in 2022–2023, the fiscal impulse is identified as counter-cyclical and restrictive.

Chart 2: Annual Change in the Structural Primary Budget Balance and Cyclical Position of the Economy
(per cent in potential GDP)

Output gap

Annual change in the structural primary budget balance
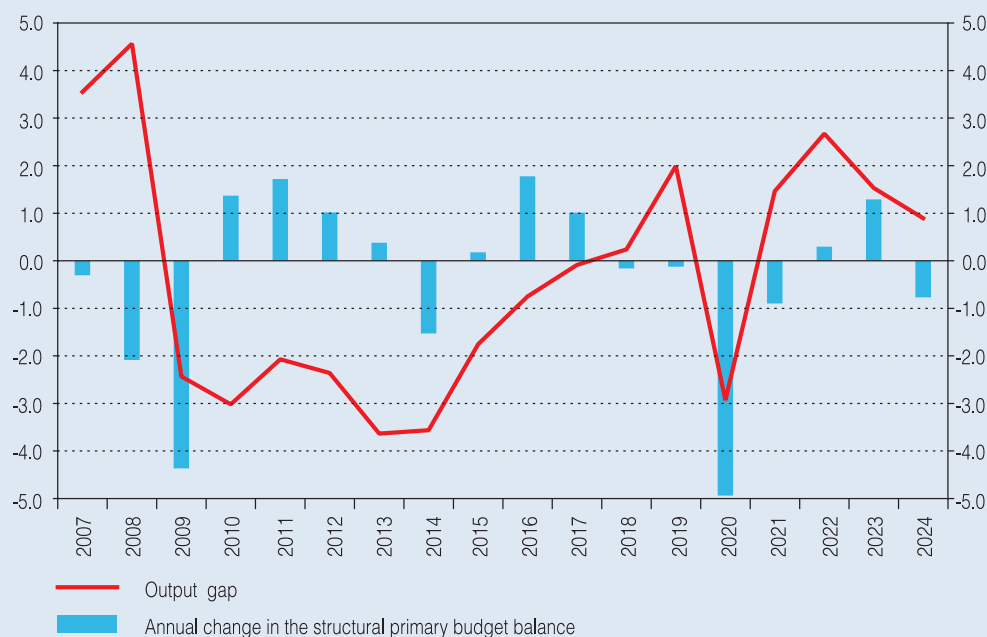
Source: NSI and own calculations.

Estimates of the cyclical position of the economy are related to uncertainty in their preparation in real time and are also subject to revisions in view of regular revisions to GDP data and, in the period from 2020, additional uncertainty in the estimates is also added by determining the impact of the shock caused by the spread of the COVID-19 pandemic on the level of potential output. As mentioned above, uncertainties in the assessment of structural developments in terms of government revenue and expenditure are also caused by the use of the semi-elasticities regarding the cyclical position of the economy. In particular, uncertainty in estimates of semi-elasticities stems from the fact that they are calculated over a specific historical period, while in a particular year the cyclical component of individual revenue and expenditure items could deviate from historical dependencies. This would distort the assessment of the cyclical component of the budget balance and, consequently, the estimated structural developments in its dynamics.

Notwithstanding these limitations, the estimates presented indicate that in 2021–2024, a clear downward trend in Bulgaria's fiscal stance was observed as a result of the sustained structural primary deficits, as well as a tendency of continuous pro-cyclical fiscal policy. In addition, taking into account the general government deficit forecast for 2025 (-2.9 per cent of GDP) and interest expenditure forecast (0.8 per cent of GDP) from the Updated Medium-term Budget Forecast for the 2025–2028 Period of the Ministry of Finance of 24 February 2025, as well as the BNB estimate for a persistent positive output gap, a continued pro-cyclical and expansionary fiscal policy in 2025 can be inferred from a continued negative structural primary budget balance. This conclusion is also supported by the EC forecast, which, based on the indicator for the growth of

net budget expenditure relative to medium-term potential GDP growth, also determines Bulgaria's fiscal position as expansionary in 2025.[15]

To determine the macroeconomic effects from the implemented expansionary fiscal policy, the factors that contributed to the deterioration in Bulgaria's budgetary position, as measured by the structural primary budget balance, are analysed in more detail from 2020-onwards, with developments in government expenditure and government revenues assessed separately.

Over the 2020–2024 period, on average, the structural primary budget balance was negative, with a deficit of -2.9 per cent of potential GDP, while for the historical period from 2007 to 2019, the average balance was positive at 0.6 per cent of potential GDP. The deterioration of the budgetary position between the two periods is determined by an increase in primary budget expenditure by 4.7 percentage points, while the increase in total revenue, measured in structural terms, estimated at 1.2 percentage points, only partially limits the structural deficit.

The increase in primary budget expenditures as a percentage of potential GDP since 2020 compared to the previous period considered was mainly driven by subsidy expenditure, expenditure on compensation of employees in the public sector and pensions expenditure (pensions expenditure accounts for the largest share of social transfers excluding social transfers in kind). The increase in subsidy expenditure mainly reflects the impact of the measures taken to support business and preserve employment to limit the negative consequences of the COVID-19 pandemic (such as the so-called 60/40 programme, which ran until mid-2022), as well as programme measures to compensate industrial end-users for high electricity prices following the start of the war in Ukraine, which continues in a modified version in 2025, notwithstanding a substantial decrease in the price of electricity. Expenditure on compensation of employees and pension expenditure, which account for about half of the primary expenditure and are entirely expenditure of a permanent nature, also contribute significantly to the upward dynamics of government expenditure relative to potential GDP dynamics and are important factors for the structural deterioration of Bulgaria's budgetary position over the last few years. These two expenditure items also recorded the most significant increase when comparing their levels to potential GDP in 2024 and 2019. At the same time, expenditure on fixed capital investment of the general government sector, which is a prerequisite for raising the long-term growth potential of the economy, declined both in the period 2020–2024 compared to 2007–2019, and in 2024 compared to 2019.

Over the past few years, dynamics of the compensation of employees expenditure reflected remuneration policies in individual areas of the public sector, the effects of the increase in minimum wage (including linking it to the average wage in the economy since 2024), as well as the pronounced upward trend in public sector employees, which contributed to a further tightening in labour market conditions in Bulgaria[16]. In addition, since 2017, a policy has been implemented to increase the remuneration of teaching staff – initially with the aim of doubling their salaries by 2021, and from 2022 – with the aim of achieving an average salary for teaching staff of no less than 125 per cent of the national average wage for the previous year. Automatic wage-setting mechanisms for the lowest jobs in the defence and security sector also entered into force from the beginning of 2025, linking them to the average wage in the economy for the second quarter of the previous year.

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[15] For further details, see *European Commission, European Economic Forecast, Spring 2025. Institutional Paper 318/May 2025.*

[16] National accounts data show that the number of employed persons in the general government, education, human health and social work activities sector, which provides an indication of those employed in the general government sector, posted an increase of 12.4 per cent in 2024, compared to 2019. In the first half of 2025, the number of persons employed in this sector continues to rise (by 3.4 per cent year-on-year). Concurrently, the number of persons employed in the general government, education, human health and social work activities sector decreased by 8.9 per cent in 2019, compared to 2007.

The increase in pension expenditure is due to two main factors, which include annual indexation under the so-called Swiss rule and the effect of the pension supplement initially introduced as a temporary COVID-19 pension supplement for all pensioners, which in 2022 was transformed into a permanent measure by adding it to the basic amount of pensions.

Cyclically adjusted budget revenues, measured as a percentage of potential GDP, posted a relatively limited increase over the 2020–2024 period, compared with the average ratio for 2007–2019, mainly driven by social insurance contributions and direct tax revenues of firms and households. Non-tax revenue as a percentage of potential GDP posted a decline over the review period, limiting the upward dynamics of the total revenue, while VAT revenue maintained its ratio to potential GDP. It should be noted that several discretionary measures undertaken on the revenue side after 2020 have had some limiting effect on tax revenue dynamics. These measures include the initially introduced as a temporary but subsequently transformed into a permanent measure related to the increased amount of tax relief for families with children (which is not targeted) as well as the temporarily reduced VAT rates on certain goods and services, some of which were reinstated to the standard level in 2024, while another part was reinstated only since the beginning of 2025.

Chart 3: Cyclically Adjusted Primary Budget Expenditures
(per cent of potential GDP)
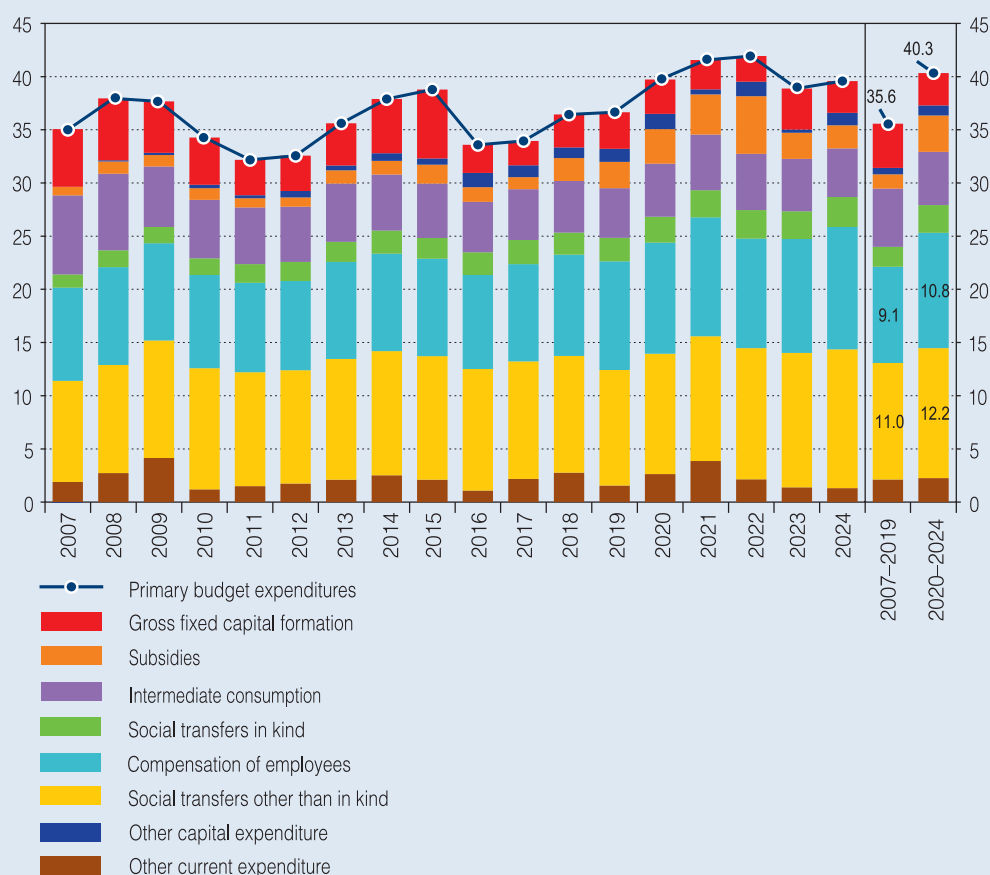
Note: '2007-2019' and '2020-2024' marked on the chart show the arithmetic mean value of the series given for the the respective period.
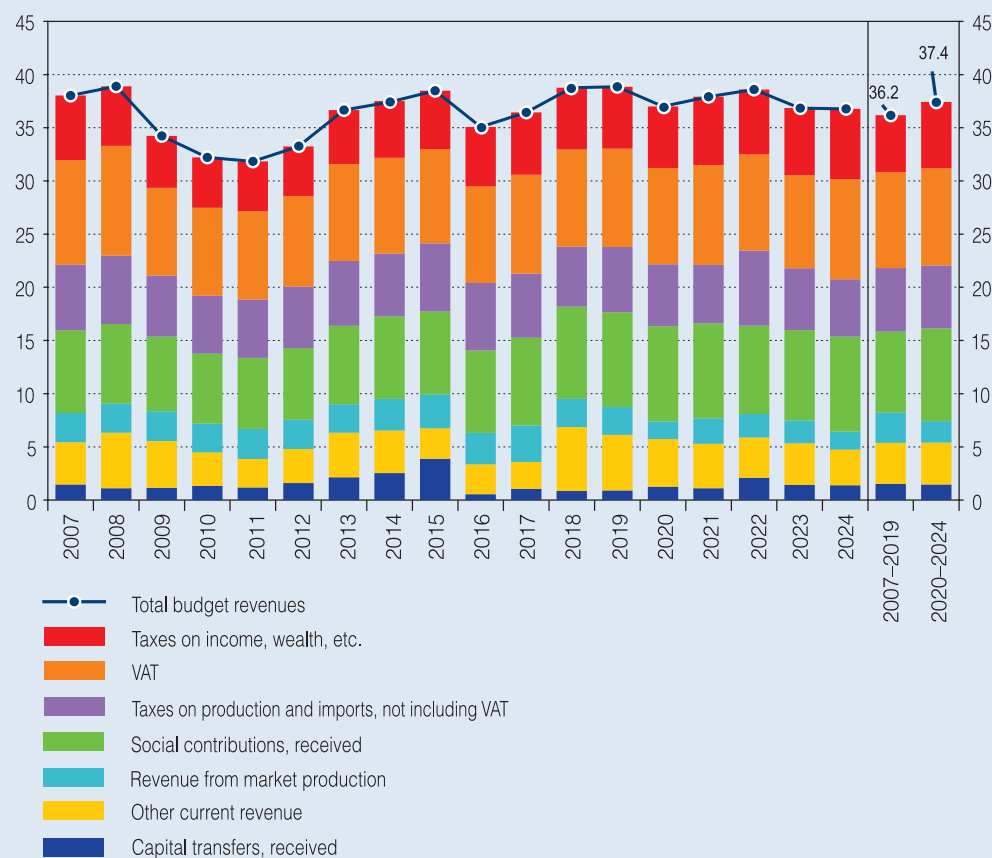Source: NSI and own calculations.

The expansionary fiscal policy pursued over the past few years, which has supported domestic demand and exerted inflationary pressure by strengthening the wage-price link, has not been synchronised with the BNB consistent counter-cyclical policy implemented through both macroprudential instruments and limited monetary policy instruments. Over most of the period from the end-2021 to

mid-2025 macroeconomic developments in Bulgaria are characterised by sustained high core inflation, a trend towards significant tightening of labour market conditions, strong wage growth (in both private and public sectors), strong private consumption and household credit growth, and accelerated house price growth. In this context of macroeconomic developments and taking into account estimates of an upward phase of the business and financial cycle, the BNB successively raised the countercyclical capital buffer rate from 0.5 per cent to 2.0 per cent, the minimum reserve requirements from 10 per cent to 12 per cent, and introduced additional requirements for credit standard indicators on extending and renegotiating loans secured by residential real estate. Concurrently, the stimulative fiscal policy implemented during this period reduced the effectiveness of the BNB counter-cyclical measures.

Chart 4: Cyclically Adjusted Budget Revenues
(per cent of potential GDP)

Note: '2007-2019' and '2020-2024' marked on the chart show the arithmetic mean value of the series given for the respective period.

Source: NSI and own calculations.

The new fiscal framework in the EU, which is less restrictive in respect of fiscal rules to countries with low public indebtedness as Bulgaria, does not have a restrictive effect on the budget deficit, but only limits it 3% of GDP[17]. However, the protracted pro-cyclical and expansionary fiscal policy would have a negative impact on economic growth in Bulgaria. Various empirical studies suggest that the increased cyclicality of public spending increases the volatility of economic growth and

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[17] See footnote 6.

also enhances economic uncertainty.[18] Similar developments would be a potential precondition for generating macroeconomic imbalances and worsening financial stability in Bulgaria.

In addition to potential risks to economic and financial stability, the structural deterioration of the fiscal stance also poses risks to the sustainability of public finances. Risks to fiscal sustainability stem mainly from strong growth in current non-interest budget expenditure, which is hardly reversible in nature, the expanding application of automatic mechanisms for indexation of budget expenditure, creating significant short- and medium-term pressure on the expenditure side of the budget, and the prospects for a rapid increase in public debt, irrespective of its current low level. A protracted and/or rapid increase in public debt would increase interest expenditure and pose a risk to fiscal sustainability with potentially negative effects on economic activity, particularly in a context of heightened uncertainty about developments in the global economic environment. Similar upward debt dynamics would limit the the available fiscal space to increase investment in fixed capital, to meet NATO commitments for higher defence and security spending, and to address external shocks and future structural budgetary risks, including risks related to population ageing.

To mitigate potential macroeconomic risks and the risks to the sustainability of public finances arising from Bulgaria's deteriorated fiscal position, fiscal consolidation measures are to be taken, but they should not have a negative effect on economic growth. Concurrently, given the only mildly restrictive nature of the new European fiscal rules for low-debt countries and to preserve Bulgaria's fiscal sustainability, it is essential for the national fiscal rules to remain sufficiently conservative.

Conclusion

The analysis shows that in the 2020–2024 period a clear trend toward deterioration of the country's fiscal stance is observed, driven mainly by the significant increase in compensation of employees and pension expenditure. This expenditure accounts for a significant portion of current budget spending and will continue to put pressure on the expenditure side of the budget due to the expanding application of automatic mechanisms for budget expenditure indexation. Estimates of the fiscal stance also suggest an implementation of a procyclical fiscal policy since 2021, which has boosted domestic demand and created additional inflationary pressure in the context of an upward phase of the business and financial cycle in the economy. The procyclical fiscal policy poses not only potential risks for higher volatility in macroeconomic activity, but also risks for the sustainability of public finances. To mitigate these risks, it is essential to implement fiscal consolidation measures which contribute to the improvement of Bulgaria's fiscal stance but at the same time they should not adversely affect economic growth. Concurrently, taking into account the only mildly restrictive nature of the new European fiscal rules for low-debt countries and to preserve Bulgaria's fiscal sustainability, it is essential for the national fiscal rules to remain sufficiently conservative.

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[18] See *Chrysanthakopoulos, C. et al. (2025) Government Spending cyclicality, Economic Stability and Uncertainty.* Economic Systems. Economic Systems (May 2025); *Fatas, A. and I. Mihov (2003). The Case for Restricting Fiscal Policy Discretion*. The Quarterly Journal of Economics 118(4). 1419-1447.