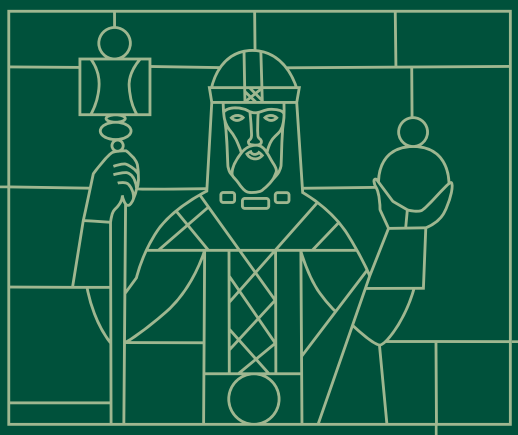
BULGARIAN
NATIONAL BANK
EUROSYSTEM

Economic Review

ISSUE 2
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EUROSYSTEM

Economic Review

2/2026

The BNB Economic Review presents information and analysis of balance of payments dynamics, monetary and credit aggregates, their link with the development of the real economy, and their bearing on price stability. External environment developments are also analysed since they directly affect Bulgarian economy. The Economic Review bulletin also contains a forecast of key macroeconomic indicators for Bulgaria. The forecast is prepared by the BNB Economic Research, Forecasting and Monetary Policy Directorate and does not necessarily reflect the views of the BNB Governing Council members regarding the prospects for the development of the Bulgarian economy. Information regarding the forecast preparation procedure, as well as technical details on the macroeconomic forecasting model can be found in Economic Review, issue 4/2015, 67-70.

The Economic Review, Issue 2/2026 was presented to the BNB Governing Council at its 9 October 2026 meeting. It employs statistical data and information published up to 18 September 2026. The forecast of key macroeconomic indicators for the 2026–2028 period provided in the document was finalised on 21 September and is based on assumptions about global economic developments and commodity prices in international markets as of 19 August 2026.

The estimates and projections published in this issue should not be regarded as advice or recommendation. The user of the information is solely liable for any consequences. The Bulgarian National Bank, members of the BNB Governing Council and the BNB staff involved in the preparation of this publication shall not be liable whatsoever for any use of the projections, estimates and all other information in this publication by any other person.

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BSPP	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

The Middle East conflict continues to affect severely international energy prices. The negative effects of the conflict on the global economy were partly offset by adjustments in global demand for energy resources and by increasing global investment in development of artificial intelligence. In the first and second quarters of 2026, real quarterly growth of global GDP stabilised at 0.6 per cent, with global PMI data in July and August 2026 indicating significant increases in the growth rates of the global economy in the third quarter of 2026. Nevertheless, the unfolding of the Middle East conflict remains a key factor behind the materialisation of such dynamics, with risks to global supply chains, global economic activity, inflationary developments and international trade remaining high.

Economic growth in the United States, China and the euro area remained relatively robust in the first half of 2026, despite accelerated inflation in all three regions. In this context, between January and September 2026, the US Federal Reserve raised the federal funds rate target by 25 basis points, while the ECB raised the key euro area interest rates in two steps by a total of 50 basis points.

In Bulgaria real GDP continued to grow at a relatively high and steady rate in the first half of 2026. Domestic demand, particularly private consumption, remained a key driver of economic growth, while net exports had a negative contribution. As a result, Bulgaria's current account deficit increased further to 8.1 per cent of GDP on a twelve-month basis as of July 2026, marking the highest level of the deficit since 2009. The worsening of the current account was mainly due to the trade balance of goods, as real exports of goods declined, while imports continued to grow buoyantly underpinned by strong domestic demand. While some of the unfavourable export developments in recent years have been attributable to one-off factors, the continuously increasing trade deficit is indicative of potential structural problems associated with weakening competitiveness of Bulgarian enterprises (see the topical research 'Competitiveness of Bulgarian Exports of Goods after 2022').

Labour market conditions in Bulgaria remain very tightened historically, but signs of cooling started to emerge in the second quarter of the year. Employment growth slowed down to 0.2 per cent on an annual basis in the second quarter of 2026, while the unemployment rate slightly increased to 3.4 per cent on a quarterly basis. Although labour shortage remained very high historically, it continued to gradually decline, which was also reflected in weaker pressure for wage rises. Growth in nominal compensation per employee slowed down to 4.1 per cent on an annual basis in the second quarter of 2026, posting a decline of 1.9 per cent in real terms.

Short-term indicators provide divergent signals of economic activity dynamics in the third quarter of 2026. Overall, they suggest that Bulgaria's real GDP growth will remain close to that observed in previous quarters. Business climate surveys suggest that firms' sentiment worsened across all major sectors, with this trend being in place since early 2026. However, households' sentiment was more positive in the third quarter of 2026 and retail trade volumes continued to grow, signalling that economic activity will remain supported by private consumption over the review period.

Annual HICP inflation accelerated to 5.0 per cent in August 2026, from 3.5 per cent in December 2025. Energy products and services contributed most strongly to this acceleration, with the conflict in the Middle East leading to a rise in oil and fuel prices and an increase in firms' production and transportation costs. Higher income, social payments and consumer lending supported consumption and the pass-through of increased expenses to final prices, and administrative and tax changes had an additional pro-inflationary effect. Concurrently, food inflation slowed down due to base effects and higher agricultural production in Bulgaria.

Ample banking system liquidity continued to retain interest rates on newly attracted funds by the non-government sector relatively low in the first seven months of 2026. At the same time, interest rates on new time deposits of households tended to increase over the review period. Annual growth of non-government sector deposits remained high, but at the end of July 2026 slowed down to 15.4 per cent, from 16.4 per cent in December 2025. Growth in loans to non-financial corporations and consumer loans to households tended to accelerate, while the annual growth rate of housing loans slowed to 25.7 per cent in July (28.2 per cent at the end of 2025).

The BNB forecast of key macroeconomic indicators covers the 2026–2028 period and is based on information published as of 21 September 2026. The assumptions about global economic conditions and international commodity prices are from the ECB macroeconomic projections of September and reflect the information available as of 19 August.

According to the forecast baseline, Bulgaria's real GDP growth will decelerate to 2.8 per cent in 2026 and 2.5 per cent in 2027, thereafter accelerating to 2.7 per cent in 2028. In 2026, the slowdown is expected to be mainly driven by lower growth in public consumption and investments rather than by the more negative contribution of net exports of goods and services. In 2027, the projected slight slowdown in GDP growth will mainly reflect lower growth in private consumption and a decline in fixed capital investments, while net exports are expected to contribute positively to economic activity growth. In 2028, real GDP growth is projected to accelerate driven by the recovery in public investment growth which will be mainly attributable to the expected higher investment funded by EU funds.

Annual inflation is projected to accelerate to 5.2 per cent at the end of 2026, while average annual inflation is expected to reach 4.6 per cent. Prices of energy products and services are expected to be the main factors responsible for consumer price developments in 2026. Inflation in 2027 is projected to decelerate to 2.9 per cent at the end of the year (3.1 per cent on average in 2027), due mainly to the high base of energy prices in 2026 and the technical assumptions about dynamics of international energy commodity prices underlying the baseline. Inflation in services is expected to remain high and food price inflation is projected to accelerate due to the indirect effect of the hikes in energy prices. In 2028, inflation is expected to decelerate further to 2.6 per cent at the end of the year and to 2.9 per cent on an average annual basis. Consumer price growth will slow down in all major groups, except for energy products which will be affected by the planned introduction of ETS 2 in the EU.

Risks to the GDP forecast are assessed as balanced for 2026, while for 2027 and 2028 risks are tilted towards lower-than-projected growth. Meanwhile, in view of the further escalation of the Middle East conflict after the date when the assumptions about international commodity prices were made, it is considered that risks are tilted towards higher-than-projected inflation in 2026 and 2027.

Given the heightened uncertainty stemming from the conflict in the Middle East, the baseline scenario is complemented by three alternative macroeconomic scenarios: a milder, an adverse and a severe scenario, which is aimed to illustrate the possible macroeconomic effects if shocks varying in magnitude and duration materialise, affecting supply and energy product prices.

1. External Environment

1.1. Current Business Situation

Global Environment

In the first and second quarters of 2026, global GDP growth stabilised at 0.6 per cent in real terms, as it was in the fourth quarter of 2025. Global PMI data for services and manufacturing in July and August 2026 point to an increase in global economy growth rates in the third quarter of 2026.

Global inflation accelerated significantly in the second and third quarters of 2026, mostly reflecting the rise in international energy commodity prices following the disruption of oil exports from the Middle East as a result of the US-Iran conflict and the subsequent closure of the Strait of Hormuz to commercial shipping.

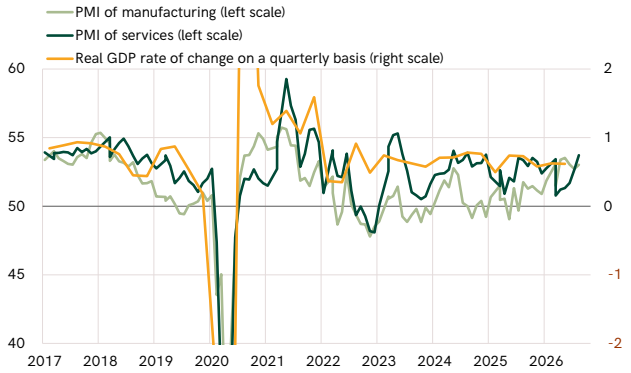
International Commodity Prices

In the second quarter of 2026, Brent oil prices reached the highest levels since the second quarter of 2022. In the third quarter[1], prices fell on a quarterly basis (by 16.6 per cent in US dollars and 15.6 per cent in euro to an average of USD 87.2 and EUR 75.7 *per* barrel, respectively), which was due to the periods of calm in the conflict, Chinese authorities' measures to curb demand on the spot oil market and release of oil reserves by OECD countries. These factors reduced market participants' concerns about the realisation of the most negative oil shortage scenarios and contributed to a partial normalisation of oil prices. On an annual basis, however, the average oil price continued to rise in the third quarter of 2026, going up by 28.1 per cent in euro and by 26.2 per cent in US dollars.

Between April and August the average natural gas price in the European market also picked up significantly both on quarter-on-quarter and year-on-year basis. In the third quarter[2],

Manufacturing and Services PMIs and Change in World Real GDP

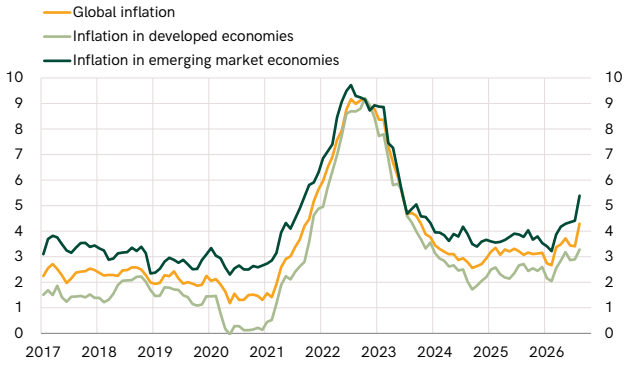
(per cent)



Sources: JP Morgan, World Bank.

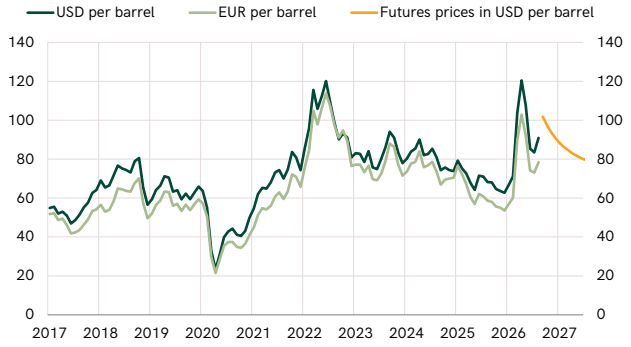
Inflation Measured through CPI

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



Sources: World Bank.

Prices and Futures of Brent Crude Oil



Note: Future prices are average prices for 1-18 September 2026, USD *per* barrel.

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

[1] Hereinafter referred to as the US dollar.

[2] Data available as of August.

natural gas prices rose on an annual basis by 73.4 per cent in US dollars and by 75.9 per cent in euro. The main factors behind the year-on-year price increase in natural gas were the developments in the Middle East, along with strong demand and competition for liquefied natural gas volumes from Asian countries. A further factor in the rise of natural gas prices has been the persistently lower stock levels in European gas storage facilities compared to historical averages[3].

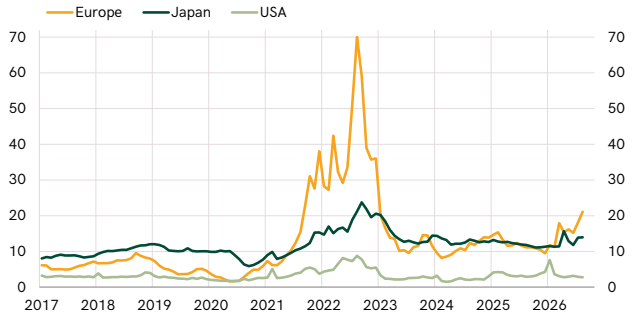
Metal prices also increased compared to the end of March, with the average metal and mineral price index increasing by 29.0 per cent in US dollars and by 30.9 per cent in euro in July-August 2026. The rise in metal prices was attributable to the upward dynamics in almost all metals in the index, with copper and aluminium having the largest positive contribution. The price of copper, which is essential for Bulgarian exports, rose mainly as a result of higher demand driven by the increased investments in artificial intelligence-related industries and specific factors on the supply side. The continuing market effects of US customs policy and enhanced demand related to accumulation of inventories further contributed to this rise.

Over the same period, the overall food price index registered an annual increase of 10.3 per cent in US dollars and 12 per cent in euro. Higher oil and fertiliser prices and specific climate factors for specific raw materials were the main drivers of this increase. The surge in wheat price, which is essential for Bulgarian food exports, was among the main factors behind the index's rise. Its price was supported by strong demand, concerns about harvests in key production regions and risks surrounding major export channels through the Black Sea.

[3] According to GIE (Gas Infrastructure Europe) data, on 1 September 2026, European gas storage facilities were filled to 65.6 per cent, compared to an average of 83.8 per cent as of the same date in the period 2020-2025.

Natural Gas Prices

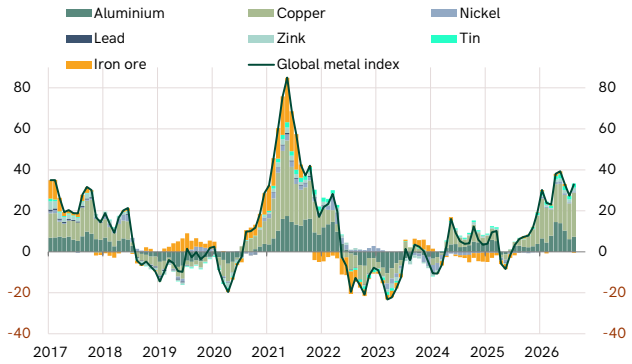
(US dollars *per* million British thermal unit)



Source: World Bank.

Metal Price Indices

(per cent; percentage points)

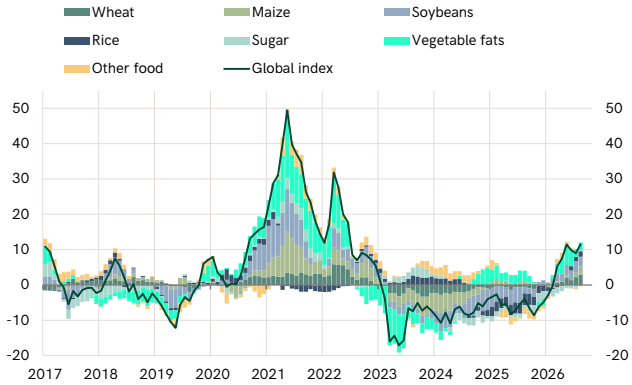


Note: Annual rate of change (per cent) and contribution by sub-component (percentage points) of relevant price indices measured in US dollars.

Sources: World Bank and BNB calculations.

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.

The United States

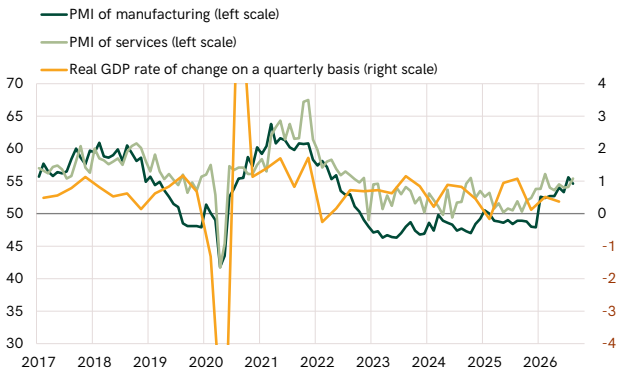
In the first half of 2026, US GDP increased in real terms, with growth of 0.5 per cent in the first quarter on a quarterly basis and slightly higher than the 0.4 per cent growth in the second quarter. Investment growth accelerated significantly in the first quarter, mostly in sectors related to the development of artificial intelligence. In the same period, public sector consumption and investment growth recovered after the partial shutdown of federal institutions in the fourth quarter of 2025. Private consumption growth slowed down and the negative contribution to net exports growth increased due to the accelerated growth in imports. In the second quarter of 2026, private consumption growth accelerated significantly, while investment growth remained high. Nevertheless, a slight slowdown in economic activity growth on a quarterly basis was registered over this period due to the accelerated increase in imports, negative contribution of inventories and a decline in public sector consumption and investments.

Between January and August 2026, key US labour market indicators stabilised after some deterioration in the second half of 2025. Over this period, the average monthly increase in the number of employed in the non-agricultural sector of the economy was 80 thousand, against an average monthly increase of 10 thousand in 2025. The job openings-to-unemployed ratio in July 2026 was 1.05 against 0.87 at the end of 2025. In August 2026, the unemployment rate stabilised at 4.1 per cent for a second consecutive month, from 4.3 per cent on average in the first half of the year and 4.4 per cent at the end of 2025.

In the first half of 2026, annual consumer price inflation remained above the Federal Reserve's target, with the annual rate of change in the price index of personal consumption expenditure (PCE) stabilising at 3.7 per cent for a second consecutive month in July compared to 3.5 per cent on average in the first half of the year. Annual growth of the core PCE index, excluding food and energy components, stabilised at 3.3 per cent for a second consecutive month in July, the same as its average value in the first half of 2026. Maintenance of the relatively high level

Manufacturing and Services PMIs and Change in US Real GDP

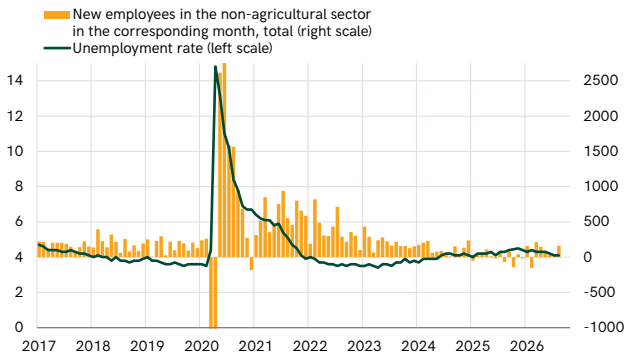
(per cent)



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

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

(per cent) (new employees, thousand)

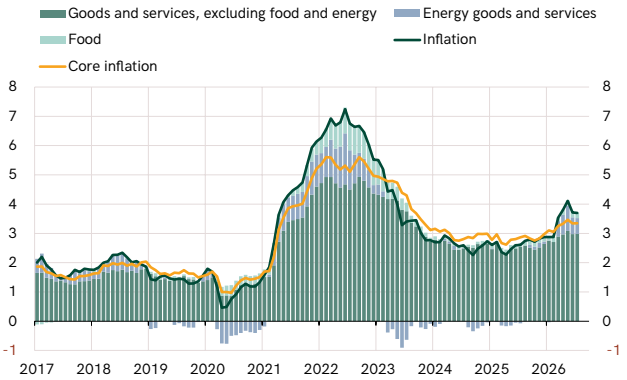


Note: The number of new employees in the non-agricultural sector in April and June 2020 are not evident in the chart, coming to -20,469 and 4631 thousand.

Source: Bureau of Labour Statistics.

US Inflation Rate

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



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

Sources: Bureau of Economic Analysis.

of core inflation in the US in 2026 was due to sustained services inflation, which offset the slower annual growth in consumer prices in a number of goods.

Taking into account the inflation dynamics, as well as the stable U.S. labour market conditions, the Federal Open Market Committee (FOMC) raised the federal funds rate target range by 25 basis points to 3.75-4.00 per cent in September, the first increase since July 2023. The FOMC meeting press release stated that the decision would support a more timely return of inflation to the 2 per cent target. Committee members' Summary of Economic Projections as of September 2026 showed improved expectations for economic growth and higher inflation forecasts. The median of expectations for the federal funds rate was also raised compared to June 2026, corresponding to a target range of 4.00-4.25 per cent at the end of 2026, implying a further increase of 25 basis points until the end of 2026.

China

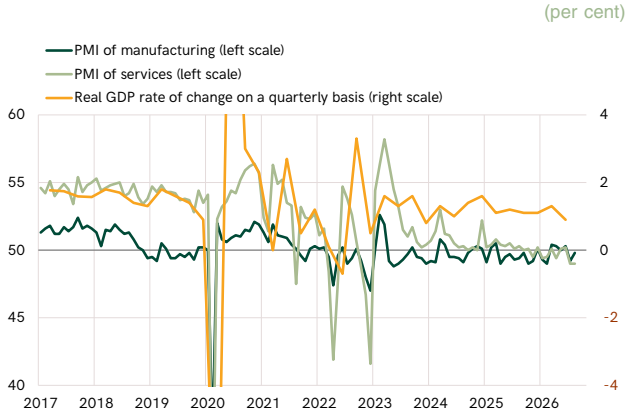
In the second quarter of 2026, China's real GDP growth slowed to 4.3 per cent on an annual basis from 5.0 per cent in the first quarter. On a quarterly basis, the Chinese economy grew by 0.9 per cent against 1.3 per cent in the first quarter. The main factor behind the growth slowdown was the decline in fixed asset investments and weak growth of domestic consumption, as well as continued deterioration of the conditions in the construction and real estate sectors.

In the second quarter of 2026, economic indicators in China (the PMI indices) continued to exhibit a volatile dynamics around the neutral limit of 50 points, while in July and August they declined signalling a slowdown in economic activity. At the same time, annual industrial production growth accelerated slightly, from 4.5 per cent in July 2025 to 5.2 per cent in August, from 4.6 per cent on average in the second quarter.

In the first half of 2026, annual inflation accelerated to 1.0 per cent on average, with the main positive contribution of food prices.

However, in July and August food prices had a negative contribution to inflation, which

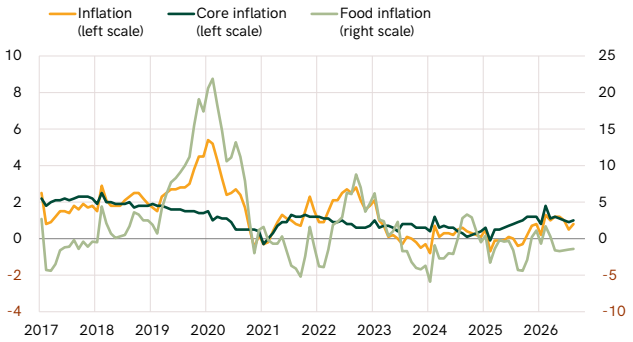
Manufacturing and Services PMIs and Changes in China's Real GDP



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

China's Inflation Rate

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

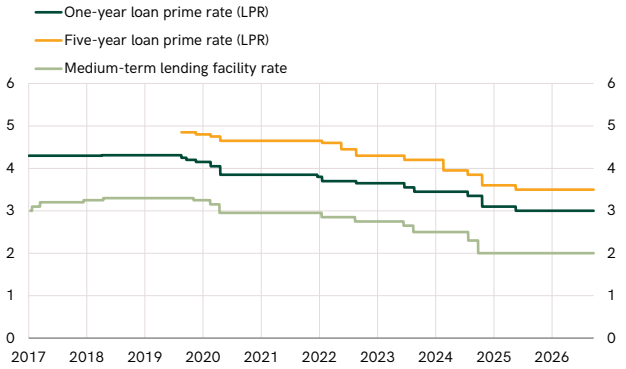


Notes: Inflation is measured by consumer price index.
Core inflation is measured by consumer price index, excluding food and energy expenditure.

Source: National Bureau of Statistics of China.

Reference Rates in China

(per cent)



Source: People's Bank of China.

slowed down again to 0.5 and 0.8 per cent on an annual basis.

In response to the situation in the Middle East, in the second quarter of 2026 China lowered crude oil imports by nearly 30 per cent on an annual basis. Domestic oil demand was met by the country's oil reserves, while refineries were not allowed to export oil products. In July, during the temporary U.S.-Iran ceasefire, exports of oil products recovered for a short time.

After a period of stabilisation in the second half of 2025, the downward trend in house prices in China worsened again in the first half of 2026. Between January and June, the average annual decline in house prices in major cities accelerated to 1.9 per cent compared to an average annual decline of 1.1 per cent in the second half of 2025.

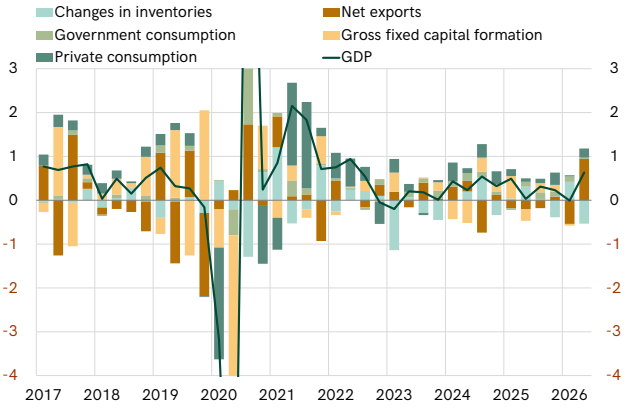
In the first and second quarters of 2026, and in the period July-August, the People's Bank of China left unchanged its monetary policy.

Euro Area

Euro area GDP increased in real terms in the first half of 2026, with growth fully concentrated in the second quarter. After the economic activity remained unchanged between January and March, GDP grew by 0.6 per cent on a quarterly basis in April-June[4]. In the first three months of the year, private con-

Euro Area Real GDP Growth and Contributions by Final Consumption Component (On a Quarterly Basis)

(per cent; percentage points; on a quarterly basis)



Source: Eurostat.

[4] Excluding Ireland, which is characterised by high volatility in real GDP data, euro area economic activity increased by 0.3 per cent on a quarterly basis in the first and second quarters of 2026.

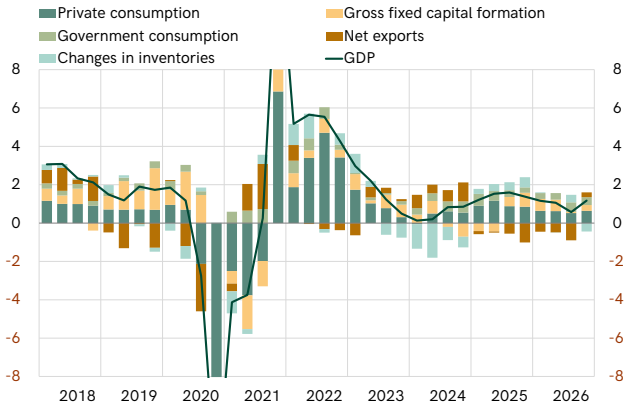
sumption growth decelerated and investments and exports of goods and services declined amid heightened global uncertainty and rising energy prices as a result of the conflict in the Middle East. However, these effects were offset by the targeted accumulation of inventories and by growth in government consumption in real terms. In the second quarter of 2026, the euro area economy returned to growth supported by an increase in exports, as well as by an increase in household consumption expenditure. Developments across economic sectors indicated a broad-based expansion of economic activity over the period. In terms of gross value added, all major sectors contributed positively to the quarter-on-quarter growth, with the largest contribution coming from manufacturing and services related to trade, transport, accommodation and food service activities. Real GDP dynamics continued to exhibit significant differences in the four largest euro area economies. In the second quarter of 2026, Spain posted growth in economic activity of 0.7 per cent on a quarterly basis, Germany and Italy – 0.3 per cent and 0.2 per cent, respectively, while real GDP in France remained unchanged.

Data on economic indicators available as of September 2026 point to a sustained growth in economic activity in the third quarter. PMI data signal an increase in manufacturing output amid rising investment expenditure in artificial intelligence and defence. In the services sector, an upward dynamics of the activity is also expected in the third quarter, with PMI indices showing an output growth in July and August, supported by increased tourist services costs.

According to the ECB staff macroeconomic projections for the euro area, published on 10 September 2026, the euro area real GDP growth rate is expected to stand at 0.9 per cent in 2026. This represents an upward revision by 0.1 percentage point compared to the previous macroeconomic forecast of June 2026. The revision is mainly due to higher than expected economic growth in the second quarter as well as positive indications of economic activity indicators in the third quarter of the year.[5]

Euro area real GDP growth and Contributions by Final Consumption Component (On an Annual Basis)

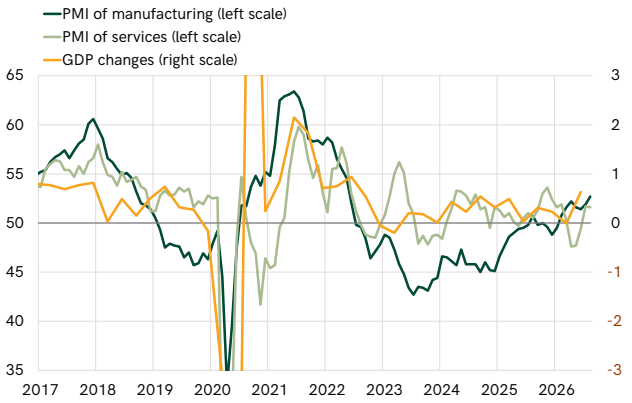
(per cent; percentage points; on an annual basis)



Source: Eurostat.

Manufacturing and Services PMIs and Change in Euro Area Real GDP

(per cent, on a quarterly basis)



Source: Eurostat.

[5] For further details, see ECB staff macroeconomic projections for the euro area, September 2026.

The euro area labour market remained relatively resilient in the first half of 2026, despite the negative economic effects of the conflict in the Middle East. The unemployment rate stayed close to historical lows and came to 6.4 per cent in July 2026 (from 6.3 per cent at the end of 2025). At the same time, employment rose by 0.1 per cent on a quarterly basis in the first and second quarters of 2026. Economic indicators such as job vacancy rate showed a decline in euro area labour demand since the beginning of the year, implying continued low employment growth in the second half of the year. Against this background, annual growth in compensation *per* employee slowed down to 3.3 per cent in the second quarter of 2026, from 3.6 per cent at the end of 2025[6]. According to the ECB macroeconomic forecast at the end of 2026 and the beginning of 2027, annual wage growth is expected to remain close to current levels. The main factors projected to support nominal wage growth are the acceleration of inflation in 2026, as well as the expected increase in economic activity.

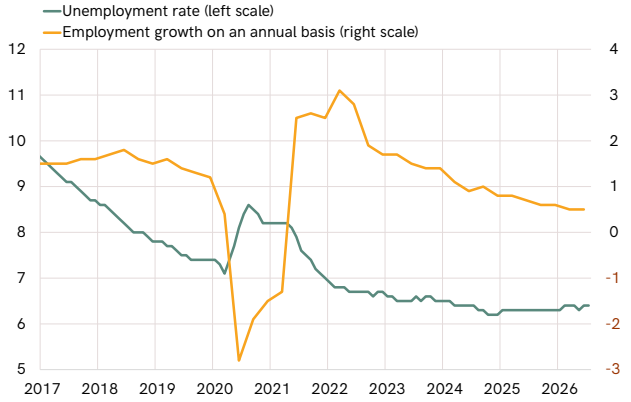
Euro area annual inflation, measured by the HICP accelerated significantly in the period after March 2026, reaching 3.2 per cent in August 2026 (from 2.0 per cent at the end of 2025), mostly driven by higher energy product prices. In line with labour cost developments, inflation in core HICP components remained persistently high in the first eight months of 2026, standing at 2.4 per cent in August, from 2.3 per cent at the end of 2025. As of August 2026, the indirect effects of higher energy prices remained limited. However, ECB experts expect them to intensify towards the end of 2026 and in 2027, given the magnitude and duration of the global energy shock.

According to the baseline of the September ECB macroeconomic projections euro area inflation is set to be 3.0 per cent in 2026 and to remain above the target level of 2.0 per cent in the next two years. To illustrate the uncertainty around the baseline, the ECB publishes updated scenarios of inflation dynamics in realising energy product price trajectories other than those projected in the baseline. Under the milder scenario, which

[6] Seasonally adjusted data.

Euro Area Unemployment Rate and Employment Growth

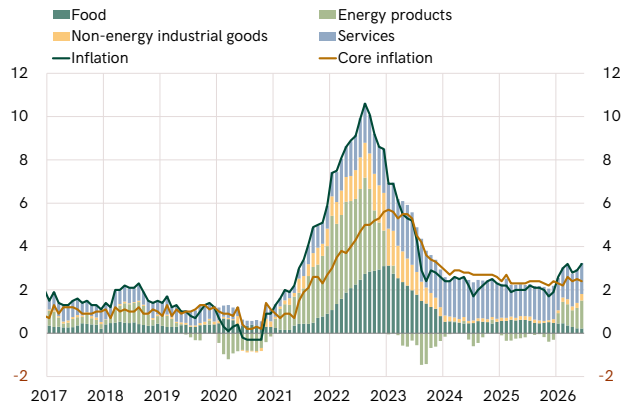
(per cent) (per cent; on an annual basis)



Source: Eurostat.

Euro Area Inflation Rate

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



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

Source: Eurostat.

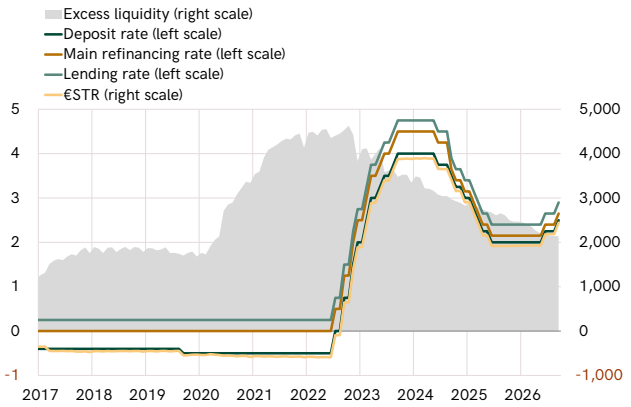
foresees a rapid resolution of the military conflict, inflation is expected to slow to just below 2.0 per cent in 2027 and to remain at this level in 2028. Under the adverse and severely adverse scenario, including continued disruptions in global energy supplies and indirect and second-round effects, inflation is expected to remain significantly above target throughout the entire projection horizon assuming an unchanged monetary policy.[7]

In view of the accelerating inflation and assessment of prevailing upside risks to its dynamics, the ECB Governing Council raised the benchmark interest rates by 25 basis points to 2.50 per cent on the deposit facility, 2.65 per cent on main refinancing operations and 2.90 per cent on the marginal lending facility at its June and September 2026 meetings.[8]

Short-term money market interest rates in the euro area increased in line with the increase in benchmark interest rates by the ECB Governing Council. As of 18 September 2026, the average value of the €STR overnight reference rate was 2.44 per cent, up 52 basis points from the end of 2025 and 51 basis points from the level before the beginning of the military conflict in the Middle East.

Between the end of the first quarter and 18 September 2026, the German government bond yield curve shifted upwards, with yields rising across different maturity sectors of relatively similar size. Two-year government bond yields rose by 66 basis points to 3.28 per cent, while ten-year government bond yields picked up by 52 basis points to 3.52 per cent. This dynamics was part of a more synchronised increase in global government bond yields. The main factors behind this were rising inflation expectations and changing monetary policy expectations of leading central banks, as well as growing financing needs with government and corporate debt, including in relation to investment in artificial intelligence. In addition, market participants reported increasing concerns about US fiscal sustainability in view of high budget deficits

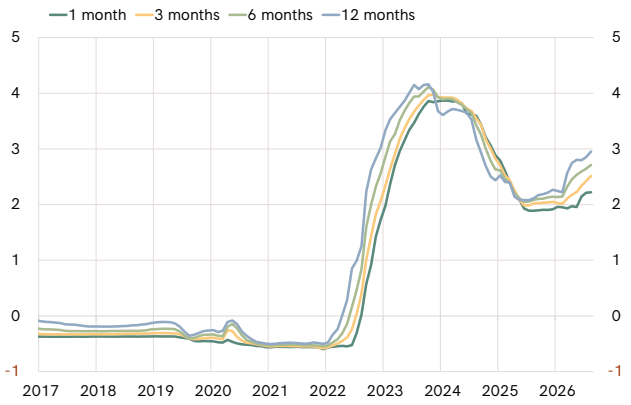
ECB Interest Rates, EONIA, €STR and Excess Liquidity in the Euro Area Banking System



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

Source: ECB.

EURIBOR



Source: ECB.

[7] For further details, see ECB staff macroeconomic projections for the euro area, September 2026.

[8] For more information, see the ECB Governing Council Decisions of 11 June 2026 and 10 September 2026 relating to monetary policy.

and sizeable government debt, which contributed to the rise in long-term US government bond yields and also affected government bond yields in other advanced economies.

1.2. Impact on the Bulgarian Economy

In the first half of 2026, Bulgarian exports of goods declined on an annual basis despite growth in external demand. The discrepancy between the dynamics of exports and external demand was observed against the background of a slower than expected recovery of production after the repairs of 2025 in two major Bulgarian export-oriented enterprises and indications of structural weaknesses in the competitive positions of Bulgarian exporters. Concurrently, global economic indicators signalled a continued increase in economic activity in the third quarter of 2026. The ongoing conflict in the Middle East remained a source of significant uncertainty for global supply chains, with potential negative effects on global economic activity and trade in goods and thus on Bulgarian exports.

In an environment of heightened geopolitical uncertainty, according to the data available as of 18 September 2026, international prices of commodities, including energy commodities and metals, recorded a significant year-on-year increase. Combined with the structure of Bulgarian foreign trade and domestic price developments (mostly in terms of labour costs), these developments create prerequisites for the formation of unfavorable trading conditions for Bulgaria in the third quarter of 2026.

The two key interest rate increases in the euro area by the ECB Governing Council in June and September 2026 contributed to tightening financing conditions of the Bulgarian government and non-financial corporations in Bulgaria. Changes in euro area money market interest rates continued to be passed on relatively rapidly to interbank money market rates in Bulgaria. Concurrently, the transmission of the ECB's monetary policy to interest rates on consumer and especially housing loans in Bulgaria remained very limited in the first seven months of 2026, mainly reflecting the high liquidity in the banking system and banks' sound capital position.

2. External Financial Flows

2.1. Balance of Payments and Foreign Trade

Between January and July 2026, the trend of recent years for the Bulgarian economy to use external financial resources to finance its expenditure was sustained, with the current and capital account balance posting a deficit of EUR 3.7 billion (3.0 per cent of GDP) for this period. As a result, the financial account balance over the period was negative, amounting to EUR 2.9 billion (2.4 per cent of GDP), with the amount of newly assumed liabilities to non-residents exceeding that of newly acquired foreign assets of Bulgarian residents.

Current Account and Capital Account

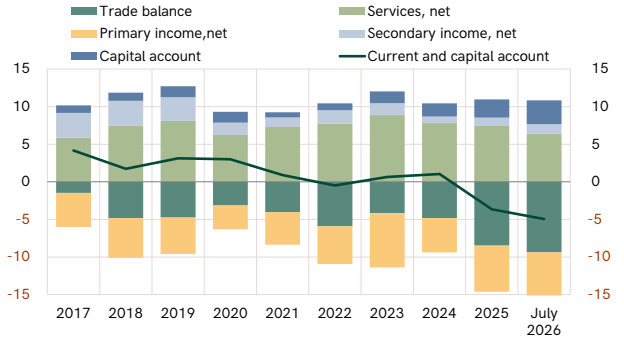
The current and capital account deficit for the last 12 months as of July 2026 increased to 4.9 per cent of GDP, against a deficit of 3.7 per cent of GDP as of December 2025 (such value has not been recorded in Bulgaria since 2009). This was mainly due to the worsening of the current account (on the back of the increasing trade deficit) over the period, whose deficit reached 8.1 per cent of GDP as of July 2026 (against a deficit of 6.1 per cent of GDP as of December 2025). At the same time, the capital account surplus rose to 3.2 per cent of GDP (from 2.4 per cent of GDP in 2025) mainly due to higher incoming capital transfers to the general government sector in the form of investment subsidies.

Trade Balance and Foreign Trade in Goods

The trade deficit for the last 12 months as of July 2026 widened to 9.4 per cent of GDP (against a deficit of 8.5 per cent as of December 2025), reaching its highest level since 2010. The increased deficit was due to the higher growth of nominal goods imports compared to that of nominal exports. While some of the adverse developments in exports in recent years have been driven by one-off and cyclical factors, a persistent worsening of the trade deficit points to structural problems, possibly related to the weakening of the

Current and Capital Account Flow Dynamics and Contribution by Components

(per cent of GDP)



Note: Data on the current and capital account flows as of July 2026 are accumulated for the last 12 months. Nominal GDP data for the last four quarters up to the second quarter of 2026 inclusive are used in calculating the GDP ratio for July 2026.

Sources: BNB, NSI, BNB calculations.

competitiveness of Bulgarian exports[9]. These factors overlap with long-term global trade challenges related to increasing trade fragmentation and deepening geopolitical conflicts.

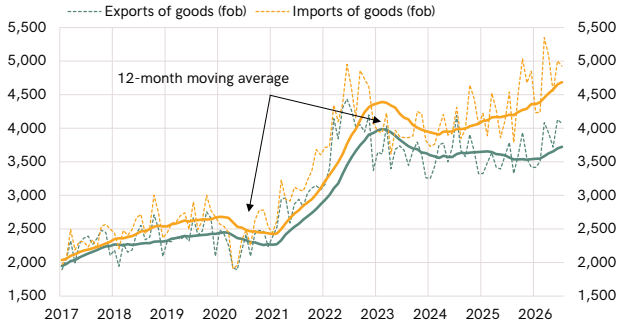
According to seasonally adjusted national accounts data, the increase in the trade deficit has developed amid favourable terms of trade[10], with real exports of goods falling by 0.4 per cent in the first half of 2026 and real imports increasing by 10.2 per cent compared to the same period of 2025.

BNB calculations based on detailed foreign trade data in real terms according to the Standard International Trade Classification (SITC[11]) available until the end of the first quarter of 2026 show an annual decline in real exports in most commodity groups, with machines having the largest negative contribution. This occurs against the backdrop of the ongoing subdued activity in the German industry, with which Bulgarian exporters are closely associated within the global production chains. A sizeable negative contribution comes also from various finished products, mainly articles of apparel and clothing accessories sub-group and cereals, the latter being most likely impacted by the weaker corn harvest in 2025.[12]

Concurrently, real import growth since the beginning of the year was the strongest in the groups of machines and petroleum products. Higher imports of machines were concentrated in a specific sub-group (electrical machinery and parts), which may be due also to one-off deliveries related to enhanced domestic demand as a result of the increased investment activity in Bulgaria, including completion of projects under the National Recovery and Resilience Plan[13].

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

(EUR million)

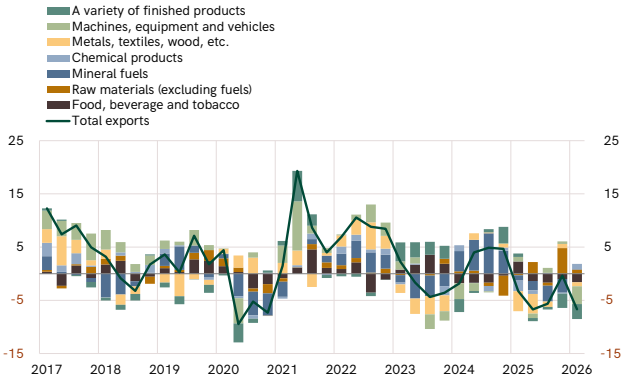


Note: Monthly data are used. The last observation is for July 2026.

Source: BNB.

Real Exports by Commodity Group under the Standard International Trade Classification, Contributions to the Overall Annual Rate of Change by Component

(per cent, percentage points)



Note: Quarterly data are used. They have been constructed by the BNB 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.

Source: NSI, Eurostat, BNB calculations.

[9] For more information on the factors behind goods exports dynamics, see the topical research 'Competitiveness of Bulgarian Exports of Goods after 2022' at the end of this section.

[10] Favourable terms of trade in the first half of 2026 are expressed in a larger year-on-year rise in goods export prices compared to goods imports, according to seasonally adjusted GDP data.

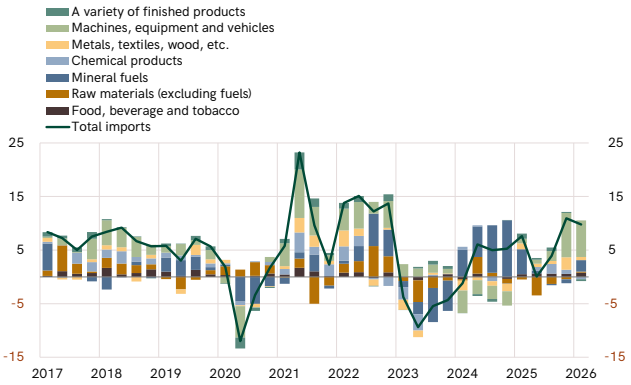
[11] Real volumes of exported and imported commodity groups have been constructed under the Standard International Trade Classification (SITC), using NSI data on export and import prices of the relevant commodity groups under the SITC and Eurostat data on nominal values of exports of the same commodity groups under the SITC.

[12] For more details, see NSI Second estimation on final output in agriculture for 2025.

[13] For further information on the implementation of energy projects under the Recovery and Resilience Plan, see the press release by the Ministry of Energy.

Real Imports by Commodity Group under the Standard International Trade Classification (SITC), Contributions to the Overall Annual Rate of Change by Component

(per cent, percentage points)



Note: Quarterly data are used. They have been constructed by the BNB 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 group under the SITC.

Source: NSI, Eurostat, BNB calculations.

Balance on Trade in Services

The surplus on trade in services over the last 12 months as of July 2026 declined to 6.3 per cent of GDP, from 7.4 per cent of GDP in 2025. Between January and July 2026, services exports fell by 7.5 per cent, from the same period in 2025, with insurance and pension services[14] and travel services reporting the largest decline. According to NSI data, visits of foreign nationals to Bulgaria increased by 0.7 per cent on an annual basis over the same period, with visits from Romania, Greece and Türkiye contributing most significantly. Concurrently, imports of services in the first seven months of 2026 grew by 1.8 per cent on an annual basis, mainly due to higher expenditure of Bulgarian residents on transport services, while travel of Bulgarian residents abroad fell by 1.1 per cent on an annual basis.

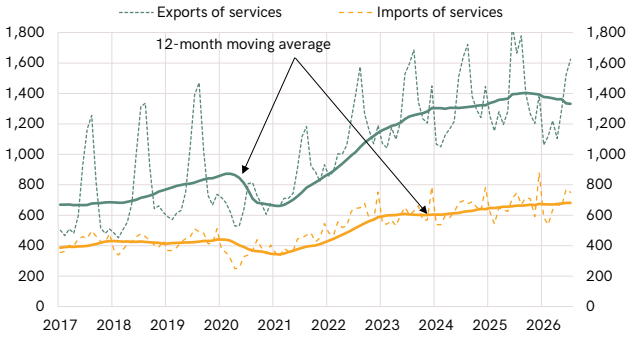
Net Primary Income Account and Net Secondary Income Account

Net primary income deficit rose to 6.4 per cent of GDP for the last 12 months as of July 2026 (from 6.1 per cent of GDP as of the end of 2025), mainly due to the higher

[14] Data on insurance and pension services for January-July 2026 are preliminary and subject to revision. As of the cut-off date of this Economic Review issue, exports under this item for January-July 2026 are close to zero and by EUR 444 million lower on an annual basis for the period.

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

(EUR million)

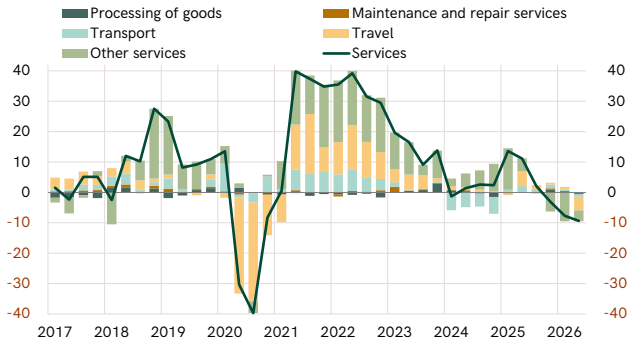


Note: Monthly data are used. The last observation is for July 2026.

Source: BNB.

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

(per cent, percentage points)

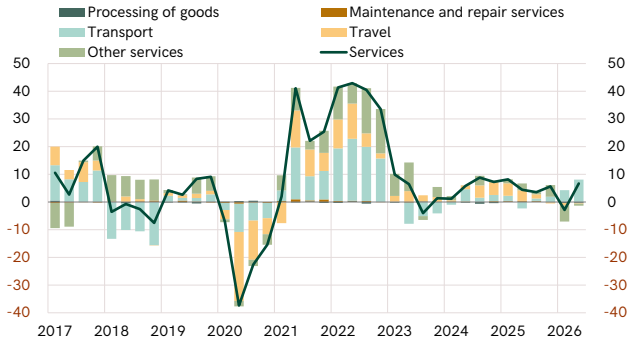


Note: Quarterly data are used. The last observation is for the second quarter of 2026.

Source: BNB.

Annual Change of Nominal Imports of Services and Contribution by Sub-components

(per cent, percentage points)



Note: Quarterly data are used. The last observation is for the second quarter of 2026.

Source: BNB.

direct investment income paid out to non-residents as a share of GDP.

Concurrently, net secondary income surplus was 1.3 per cent of GDP in the last 12 months as of July 2026, remaining broadly unchanged from end-2025.

Financial Account and International Investment Position

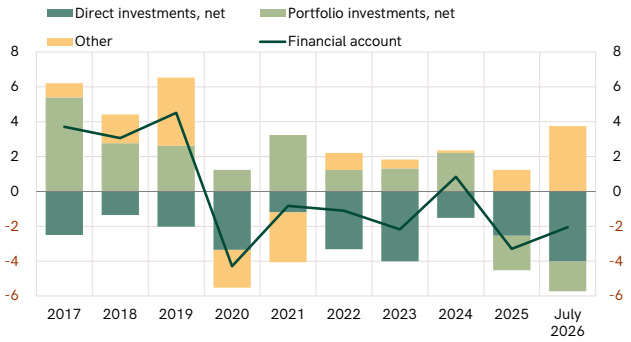
For the last 12 months as of July 2026, the financial account balance was negative at EUR 2.5 billion (2.0 per cent of GDP), compared with a negative balance of EUR 3.8 billion (3.3 per cent of GDP) as of December 2025. In the first seven months of 2026, Bulgarian residents' foreign assets increased by EUR 11.9 billion (against EUR 3.4 billion in the same period of 2025) and liabilities to non-residents by EUR 14.8 billion (compared to EUR 7.6 billion in the same period of the previous year). Significantly higher gross flows were mainly due to the currency and deposits item of the central bank, reflecting the effects of the BNB accession to the Eurosystem since the beginning of 2026 rather than a change in the external financing of the economy.[15]

Another significant change in financial account data reporting since Bulgaria's accession to the euro area was observed in long-term debt securities, which saw a EUR 6.7 billion decrease in BNB assets[16] in the January-July 2026 period, while banks' foreign assets increased by EUR 2.6 billion, largely due to the lower banks' minimum reserve requirements since the beginning of the year.

Between January and July 2026, the inflow of attracted direct investment (liabilities)

Financial Account Flow Dynamics and Contribution by Components

(per cent of GDP)

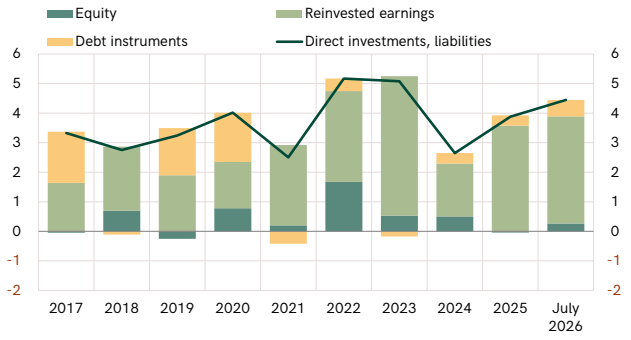


Notes: The Other item includes Other Investments, Net, and Financial Derivatives (Other than Reserves) and Employee Stock Options, Net. July 2026 data on financial account flows are accumulated for the last 12 months.

Source: BNB, NSI, BNB calculations.

Direct Investment – Liabilities by Type of Investment

(per cent of GDP)



Note: July 2026 data on direct investment liabilities flows are accumulated for the last 12 months. Nominal GDP data for the last four quarters up to the second quarter of 2026 inclusive are used in calculating the direct investment liabilities flows to GDP ratios for July 2026.

Source: BNB, NSI, BNB calculations.

[15] As part of the Eurosystem, the BNB is allocated a share of all euro banknotes in circulation as determined by the ECB's capital key. From 1 January 2026, under 'other investments, currency and deposits' item of the central bank sector, the following is reported: the difference between this share and the banknotes actually put into circulation by the BNB—as a claim on the Eurosystem (asset); the difference between this share and the estimated amount of euro in circulation in the country—as a liability to non-residents (liability), since the remainder of the banknotes due to the BNB is used outside Bulgaria; as well as the change in the balance of the TARGET payment system, which regulates payments in euro between Bulgaria and other countries.

[16] By the end of 2025, the bulk of BNB's international reserves were in euro-denominated assets: securities and deposits. With the adoption of the euro as national currency, they are no longer considered as reserve assets and, as of 1 January 2026, shall be reported in 'portfolio investments' (securities) and, 'other investments' (deposits), which is only a reclassification and not a balance of payments transaction.

in Bulgaria amounted to EUR 3.3 billion[17], compared with EUR 2.3 billion over the same period of 2025, and was mainly in the form of equity and reinvested earnings in non-financial corporations. The sectors that attracted the largest share of foreign investment in the first half of 2026 were wholesale and retail trade and financial and manufacturing.

Bulgaria's FDI[18] were 54.2 per cent of GDP at the end of the first quarter of 2026 (against 55.5 per cent at the end of 2025), continuing their long-term downward trend as a ratio to GDP from the peak levels before the global financial crisis.

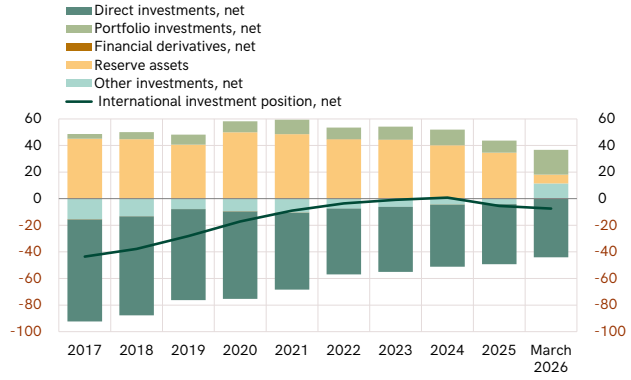
As a result of balance of payments movements and changes due to valuation adjustments and price revaluations, Bulgaria's international investment position deficit rose to 7.4 per cent of GDP at the end of the first quarter of 2026, compared with a deficit of 5.5 per cent of GDP at the end of 2025, due to the faster growth in liabilities to non-residents compared to that of Bulgarian residents' foreign assets[19].

2.2. External Debt

In June 2026, Bulgaria's gross external debt stood at EUR 69.6 billion (56.6 per cent of GDP), rising by EUR 11.1 billion, from December 2025. The increase was mainly due to the BNB's short-term external liabilities (by EUR 9.0 billion) in relation to the allocation of euro banknotes within the Eurosystem following Bulgaria's accession to the euro area[20]. The share of long-term debt in total gross external debt fell to 69.9 per cent (compared with 79.0 per cent as of December 2025).

Bulgaria's International Investment Position

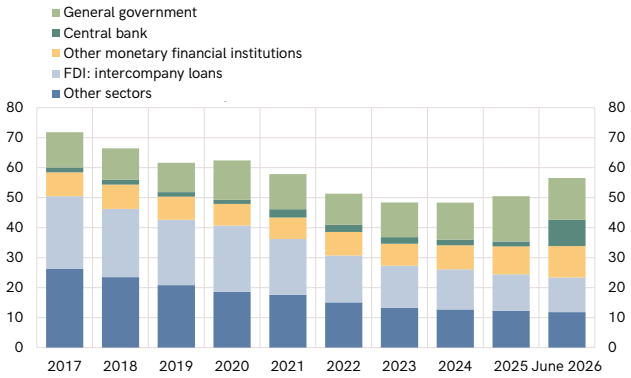
(per cent of GDP)



Sources: BNB, NSI, BNB calculations.

Gross External Debt

(per cent of GDP)



Note: Nominal GDP data for the last four quarters up to the second quarter of 2026 inclusive are used in calculating the gross external debt to GDP ratio for June 2026.

Sources: BNB, NSI, BNB calculations.

[17] Data for 2025 and 2026 are preliminary and subject to revision.

[18] The latest available data from March 2026 on the international investment position have been used.

[19] Similar to the balance of payments, BNB euro-denominated assets in IIP, which by the end of 2025 were part of the international reserves, are already reported in Portfolio Investments and Other Investments. This is only reclassification and does not change total assets, but as a result, the IIP reserve assets amounted to EUR 7.9 billion as of March 2026 (compared to EUR 40 billion as of December 2025).

[20] See note 6. The gross external debt includes the liability to non-residents related to euro banknotes allocated to the BNB, which is classified as short-term as the banknotes have no maturity date. The item is of a technical nature, does not result from external financing and is not repayable.

Topical Research

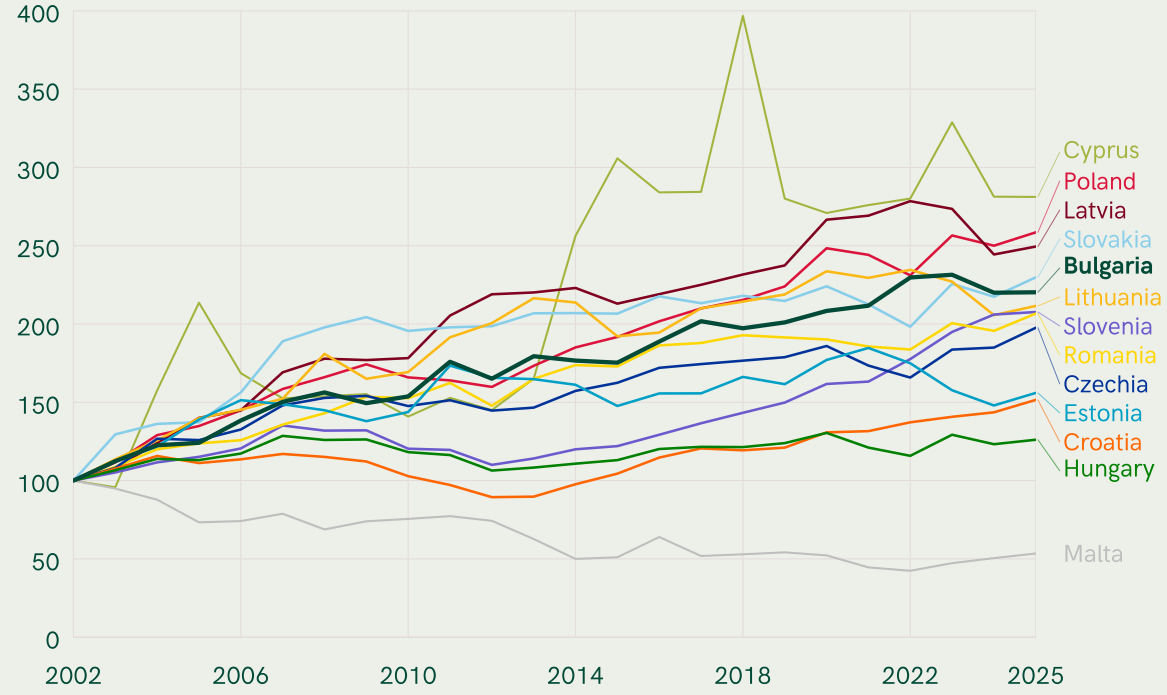
Competitiveness of Bulgarian Exports of Goods after 2022

Exports of goods have been among the main drivers of Bulgaria's economic growth and real convergence over the past two decades. Between 2002 and 2023, the country's share in world exports of goods more than doubled, outpacing most of the EU Member States that joined since 2003 (new Member States – NMS) (Chart 1). However, since 2023, real exports of goods have lagged behind the external demand for Bulgarian goods and services, and thus Bulgaria's market share in global trade has declined (Chart 2), while it continues to rise in the other NMS. In view of these developments, this topical research aims to analyse the extent to which the decline in exports of goods is due to temporary restrictions on the supply side and unfavourable external environment, and the extent to which it reflects a structural deterioration in the competitiveness of Bulgarian producers.

CHART 1

Market Share in World Exports of Goods, by Country

(index, 2002 = 100)



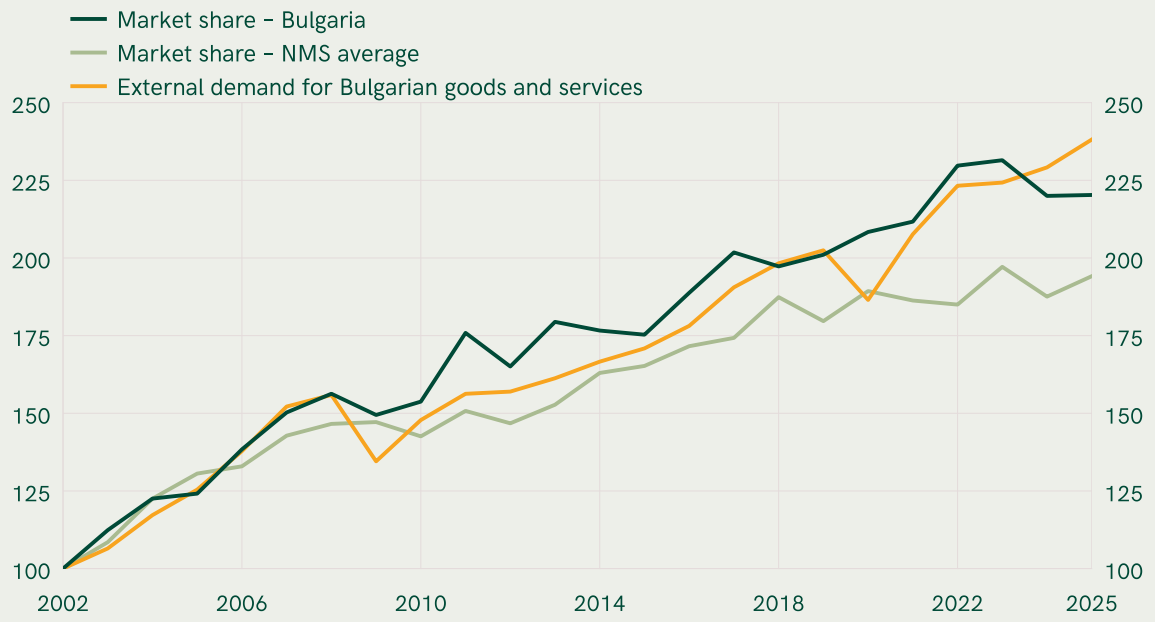
Note: The market share is the share of the exports of goods (FOB) of the respective country in world exports, according to AMECO data. The 2025 values are a forecast of the European Commission.

Sources: AMECO, BNB, own calculations.

CHART 2

Export Market Share of Bulgaria and New Member States Relative to Foreign Demand

(index, 2002 = 100)



Note: The market share is based on AMECO data. The 2025 values are a forecast of the European Commission. The average for the new Member States (NMS) is an arithmetic mean of the indices of the 12 countries that joined the EU after 2003, excluding Bulgaria. External demand is the real imports of goods and services of Bulgaria's trading partners, weighted by country share in Bulgarian exports.

Sources: AMECO, BNB, own calculations.

A significant part of the decline in exports of goods after 2022 has been concentrated in several commodity groups, affected by one-off factors in recent years (see Chart 3). In 2023, the fall in real exports of goods by 1.9 per cent was almost entirely driven by fuels, as a result of export restrictions on petroleum products produced from Russian crude oil[1], as well as non-ferrous metals, whose production was limited by repairs in the largest metallurgical enterprise. In 2024, the 2.6 per cent growth in exports of goods mainly resulted from the increased exports of electricity, while weak agricultural harvests[2] and the decrease in exports of machinery and transport equipment, related also to the slowdown in economic activity in European industry, contributed negatively. In 2025, almost all of the 4.1 per cent decline in real exports of goods was attributable to the limited production due to scheduled repairs in the two largest enterprises operating in the oil processing and metallurgy sector[3].

However, adverse developments in exports of goods are not limited solely to groups affected by one-off factors. Even after the exclusion of fuels and non-ferrous metals, the contribution of the remaining groups to the annual change in total exports of goods was negative in 2024 (around -4 percentage points compared to a growth in external demand of 2.3 per cent), close to zero in 2025 (compared to external demand growth of 3.8 per

[1] Since February 2023, petroleum products produced from imported Russian crude oil cannot be exported from Bulgaria according to the derogation from EU sanctions.

[2] According to the NSI, the volume of crop output decreased by 7.0 per cent in 2024 due to drought.

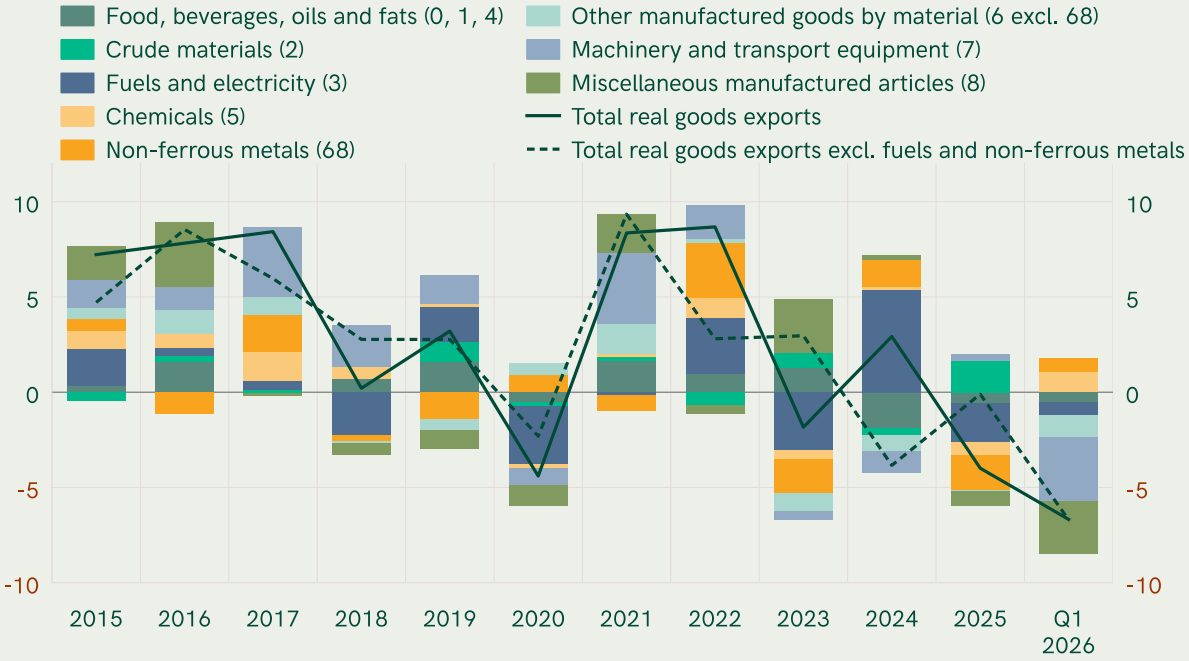
[3] The repair in Lukoil Neftohim Burgas was carried out from 26 February to 26 May 2025, and in Aurubis Bulgaria from 12 May to mid-July 2025.

cent) and strongly negative in the first quarter of 2026 (-6.7 percentage points compared to annual growth in external demand of 2.5 per cent in January-March 2026). Therefore, one-off factors in exports of fuels and metals could explain the decline in total exports in 2023 and 2025, but not its lag behind the growth in external demand observed since 2024, covering most commodity groups. This suggests that this trend may be underpinned by structural problems related to the price and non-price competitiveness of Bulgarian exporters.

CHART 3

Contribution to Real Goods Export Growth by Commodity Group

(per cent, percentage points)



Note: Standard International Trade Classification (SITC) groups. The group codes in the classification are indicated in brackets.

Sources: NSI, BNB, own calculations.

Standard indicators of price competitiveness point to continued increase in cost pressures in the Bulgarian economy. This is a long-term trend driven by the processes of real and nominal convergence of the Bulgarian economy. Over the past two decades, growth in compensation per employee in Bulgaria has outpaced labour productivity growth, with unit labour costs rising significantly faster than in the euro area and the real effective exchange rate deflated by them continuing to appreciate. At the same time, the share of compensation of employees in gross value added rose from around 38 per cent in 2007 to 52 per cent in 2024 and is already close to the NMS and euro area average (see Chart 4). The dynamics of these indicators point to a gradual decline in the competitive advantage of relatively lower labour costs in Bulgaria.

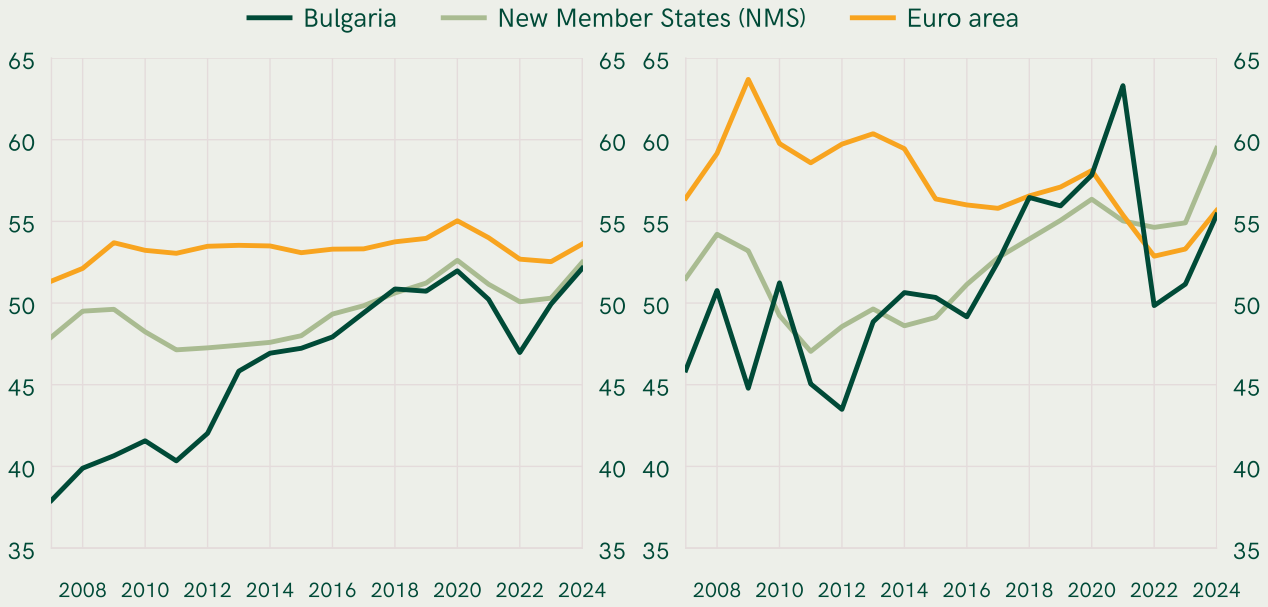
CHART 4

(a) Compensation of Employees as a Share of Gross Value Added in the Total Economy

(percentage of gross value added)

(b) Compensation of Employees as a Share of Gross Value Added in Manufacturing

(per cent of gross value added)



Note: The new Member States include the countries that have joined the EU since 2004, excluding Bulgaria.

Sources: Eurostat, own calculations.

However, aggregate labour cost indicators are not in themselves a reliable benchmark for the competitiveness of exports of goods. Ivanov and Ivanova study (2021)[4] shows that the rise in labour costs in the Bulgarian economy is predominantly concentrated in the non-tradable sectors and largely reflects the process of economic convergence. Therefore, it is more indicative for the analysis of export competitiveness to track developments in manufacturing that accounts for the bulk of exports of goods and, in particular, to explore whether labour costs are growing faster than sales revenues, to what extent firms pass on rising costs to prices or absorb them at the expense of profits, and whether there are substantial differences across sub-sectors. The latest similar calculations by Ivanov and Ivanova (2021) are available for the pre-pandemic period. In the current analysis, these calculations have been updated and expanded using Orbis data[5] on the financial statements of 2613 manufacturing enterprises in Bulgaria for the period 2015 to 2024.

Data show that personnel costs in manufacturing rose almost two and a half times over this period, with total number of employees almost unchanged, while the remaining costs of the sampled firms increased roughly in line with the growth of their sales[6] (see Chart 5a). The gap between labour costs and sales dynamics widened between 2022 and 2024, when total personnel costs grew by about 25 per cent, while sales declined by 6.4 per cent. As a result, personnel costs as a share of these enterprises' sales rose from 11.0 per cent in

[4] Ivanov, E., Ivanova, N. (2021), 'Determinants of Bulgarian Exports: the Role of Price and Non-Price Competitiveness', BNB Discussion Paper DP/118/2021.

[5] The panel includes 2613 of the largest manufacturing enterprises, with detailed reporting data for each year from 2015 to 2024, accounting together for around 60 per cent of turnover in Bulgarian manufacturing.

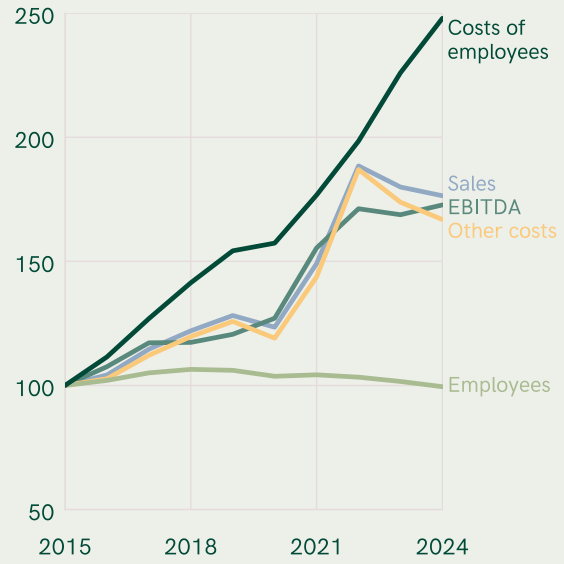
[6] The analysis uses sales revenue (the 'Sales' indicator in Orbis) and not the total turnover ('Turnover' in Orbis), as turnover also includes financing revenues which do not reflect the competitiveness of production.

2022 to 14.6 per cent in 2024 for manufacturing as a whole reaching its highest level over the entire period from 2015 to 2024 in all the sub-sectors under review. Data show that this share increased most in the textiles, clothing and leather and machinery, electrical and transport equipment sub-sectors (see Chart 5b).

CHART 5

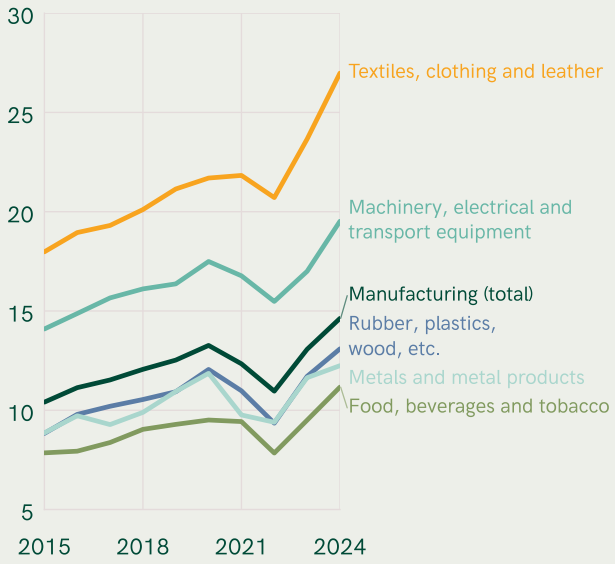
(a) Sales, Profit, Costs and Employment in Manufacturing

(indices, 2015 = 100)



(b) Personnel Costs as a Share of Sales by Sub-sector

(per cent)



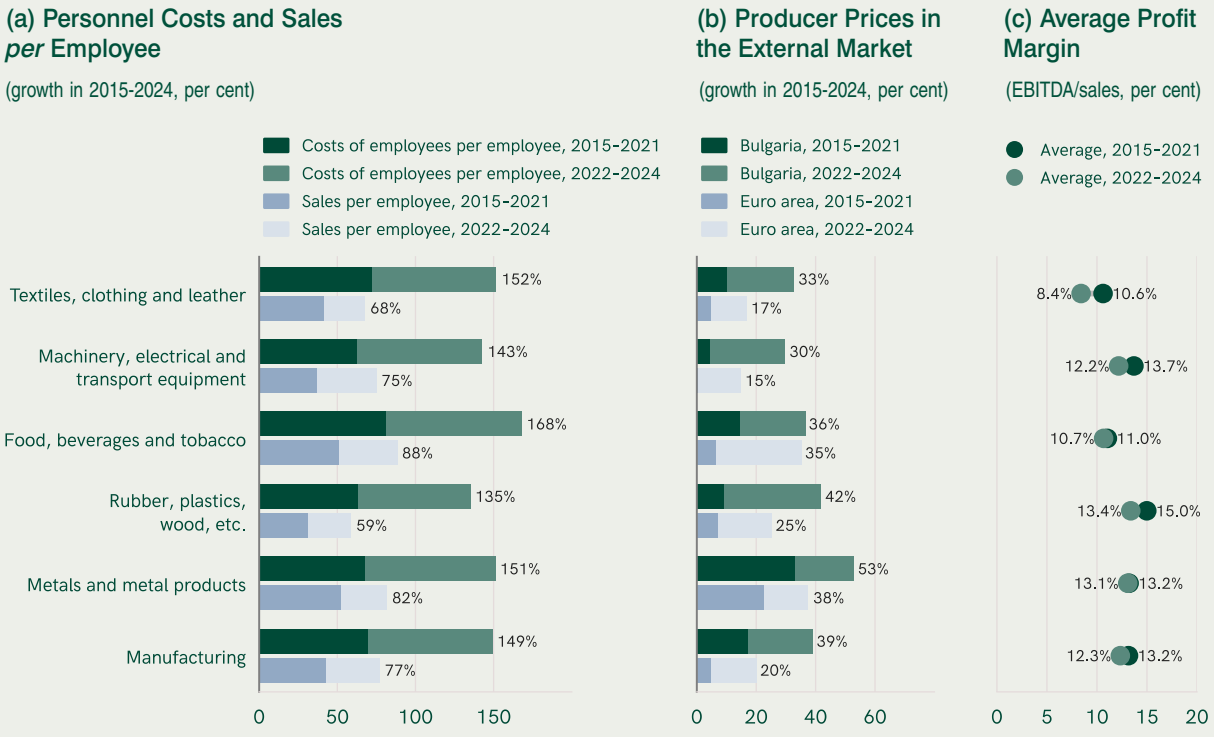
Note: Indicators are in the standardised format of Orbis: sales are net sales revenue excluding VAT (Sales); staff costs include remuneration and social security contributions (Costs of employees); other costs include material costs (Material costs), other operating items (Other operating items, net), depreciation and amortisation (Depreciation & amortisation) and Interest (interest paid). EBITDA is earnings before interest, taxes, depreciation and amortisation. All indicators are calculated from the amounts for the undertakings in the panel, at current prices in euro.

Sources: Orbis (Moody's), own calculations.

Between 2015 and 2024, personnel costs *per* employee grew faster than sales *per* employee in all the sub-sectors under review, with most of the gap accumulating over the last three years (see Chart 6a). An indirect benchmark of the pass-through of this pressure to sales prices is the producer price index for the external market, which records the changes in the prices at which firms sell their production for exports (see Chart 6b). From 2015 to 2021 price dynamics at sub-sector level was relatively close to that of the euro area, except for the metal and metal products sub-sector. However, from 2022 to 2024, Bulgarian exporters' prices increased noticeably faster in most sub-sectors, indicating a pass-through of cost pressures in sales prices, although the approach used does not allow to distinguish directly the impact of labour costs from that of other factors.

At the same time, the average profit margin measured by the EBITDA/turnover ratio in the period from 2022 to 2024 is lower than between 2015 and 2021 in three of the five sub-sectors under review (see Chart 6c). The enterprises most vulnerable to labour cost growth are those in the textiles, clothing, leather sub-sector, where the share of personnel costs is the highest and profit margins are the lowest.

CHART 6



Notes: In panels (a) and (b) the contributions of both periods are calculated in relation to the level of 2015. In panel (c) the profit margin is the average of the annual EBITDA/sales ratios for the relevant period. Corporate data for 2024 are preliminary.

Sources: Orbis (Moody's), own calculations.

Cost pressures related to labour costs do not necessarily translate directly into a deterioration in price competitiveness, as firms can absorb part of the cost increase through a lower profit margin without raising their selling prices. However, a prolonged decline in profitability limits investment opportunities that could help improve firms' non-price competitiveness.

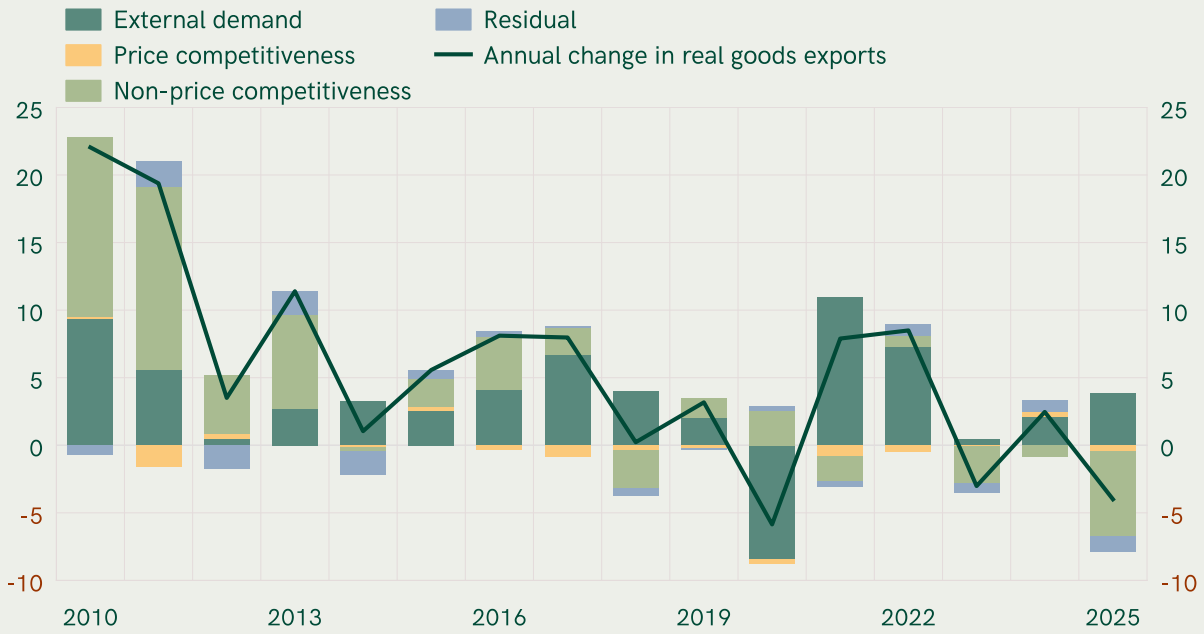
Model estimates based on the Ivanov and Ivanova (2021)[7] approach show that exports of goods have lagged behind external demand growth since 2023, which is mainly explained by the negative contribution of non-price competitiveness with limited negative impact of price competitiveness (see Chart 7). A possible reason for model estimates to show a greater importance of deterioration in non-price than price competitiveness is the largest effect (in absolute terms) of specific one-off factors related to repairs and other export restrictions on oil products and metals, which have constrained the growth of exports of goods over the past three years. In contrast to these temporary factors, long-term rising labour cost pressures have had a more gradual negative impact on goods export dynamics.

[7] The estimates follow the state-space model of Ivanov and Ivanova (2021), BNB, DP/118/2021. Non-price competitiveness is an inobservable component assessed by Kalman filter. It may also reflect factors that are not separately reported, such as interruptions of production due to repairs. As the model cannot identify the specific reasons for these changes, the negative contribution of non-price competitiveness is not clear evidence of a persistent loss of competitiveness.

CHART 7

Factors Behind the Change in Real Goods Exports

(per cent, percentage points)



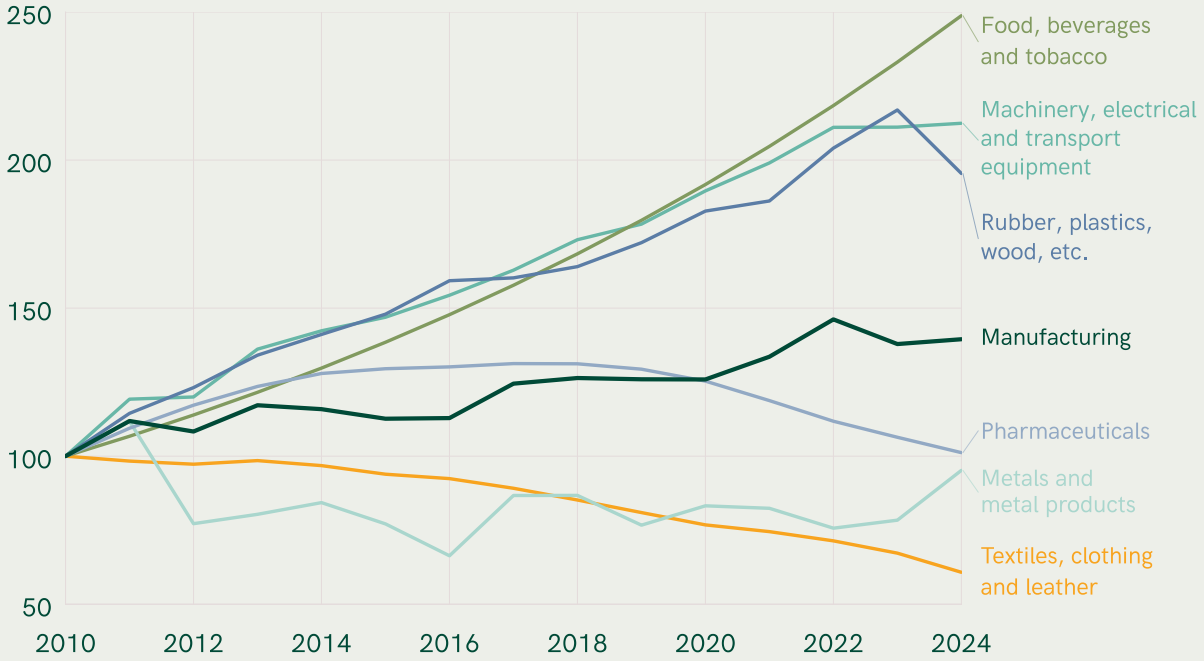
Sources: NSI, BNB, own calculations.

Deterioration in non-price competitiveness is reported in a number of sub-sectors, including those not directly affected by one-off factors (see Chart 8). Model estimates show that the greatest loss of non-price competitiveness is registered in textiles, clothing and leather sub-sectors and in the manufacture of rubber and plastics where a decline in profit margins is also observed. In the absence of information on one-off factors affecting production in these sectors, such a combination of factors could be an indication of structural problems in the relevant sub-sectors and of a risk that exports of these goods will continue to lag behind external demand.

CHART 8

Non-Price Competitiveness by Manufacturing Sub-sector (Model Estimates)

(indices, 2010 = 100)



Note: Due to the volatility of Bulgarian exports of energy products and its specificities, it was considered that such a model would not reliably assess the impact of price and non-price factors on its competitiveness, and therefore no assessment for this group is presented

Sources: NSI, BNB, own calculations.

Conclusion

One-off factors explain a significant part of the decline in real exports of goods over recent years, but do not fully clarify the reasons for its weak performance. There are signs of a sustained and broad-based weakening of the competitive positions of Bulgarian exporters in terms of both price and non-price competitiveness across commodity groups. Against the background of strongly rising labour costs and falling profit margins in some industrial enterprises, a sustained improvement in Bulgarian goods exports will increasingly depend on effective investment to improve productivity and non-price competitiveness of exporting firms.

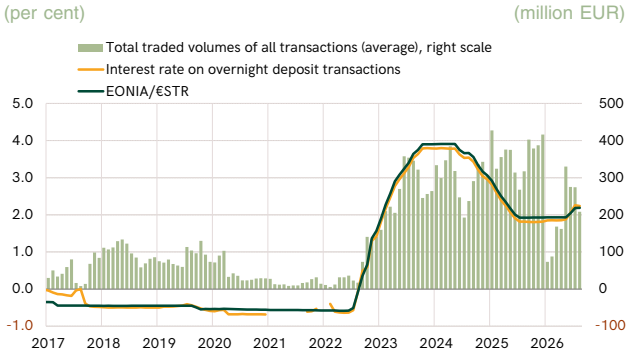
3. Interest Rates, Deposits and Loans

3.1. Interest Rates

Following the significant decrease in the interbank money market activity in Bulgaria at the beginning of 2026, trading volumes recovered somewhat between March and August. The activity decline at the beginning of the year most likely reflected the significant increase in free liquidity in the banking system following the lowering of banks' MRR rate after Bulgaria's accession to the euro area[21]. Initially, part of the released liquidity was directed to the ECB deposit facility, which reduced banks' need to trade with each other to manage their short-term liquidity. In the following months, the reallocation of part of these funds to other assets, including government securities of Bulgaria and other euro area countries, was a factor potentially influencing the gradual recovery of interbank market activity. In August, the average daily volume of all types of concluded transactions (deposits and repos) in the interbank money market amounted to EUR 208 million (EUR 416 million in December 2025 and EUR 81 million on average for the first two months of 2026). Between March and May 2026, higher total volumes were driven to a greater extent by repo transactions, while from June onwards, activity growth was concentrated mainly in deposit transactions, particularly overnight deposits.

Since the beginning of 2026, an upward trend was observed in the average interest rate on overnight deposit transactions in the interbank money market in Bulgaria, alongside a gradual narrowing of the spread relative to interest rates on the interbank money market in the euro area. The increase in the interbank interest rates in Bulgaria reflected the strengthening transmission of

Interbank Money Market Rate on Overnight Deposits in Bulgaria, EONIA/€STR and Traded Volumes on All Types of Deals



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.

Source: BNB, ECB.

[21] As of 1 January 2026, banks' minimum reserve requirement rate was lowered to 1 per cent (at an effective implicit rate of 11.77 per cent in December 2025).

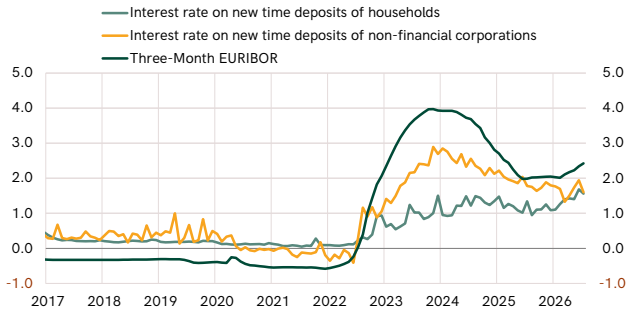
the ECB monetary policy and, from June onwards, was also supported by rising money market rates in the euro area. In August, the average interest rate on overnight deposits in Bulgaria's money market stood at 2.24 per cent (compared with 1.82 per cent in December 2025). The negative spread between the interest rate on overnight deposit transactions and the €STR narrowed to 5 basis points in May (from -11 basis points in December 2025), turned positive in June, and reached 5 basis points in August.

In the first seven months of 2026, ample banking system liquidity continued to play a key role in keeping interest rates on attracted funds by the non-government sector at relatively low levels. At the same time, interest rates on new time deposits of households showed an upward trend, with the average weighted interest rate reaching 1.56 per cent in July (compared to 1.09 per cent at the end of 2025). A potential factor behind the upward trend is the strengthening of the ECB's monetary policy transmission to interest rates on newly attracted funds in Bulgaria. This was likely supported by Bulgarian banks' ability to obtain return on excess liquidity held in the ECB deposit facility at close to zero risk, increasing their incentives to raise the cost of funds attracted from households. In the non-financial corporations' sector, the interest rate on new time deposits was more volatile and showed no clear trend over the period, reaching 1.60 per cent in July, compared with 1.80 per cent in December 2025. The higher volatility likely reflects the greater importance of individually negotiated terms for corporate deposits. The dynamics of the average weighted interest rate were also affected by changes in the currency structure of new time deposits of corporations, particularly the declining share of USD deposits, which carry significantly higher interest rates than euro deposits.

Between January and July 2026, the average weighted interest rates on time deposit balances in both household and non-financial corporations' sectors followed a slight upward trend from their levels at the end of

Interest Rates on New Time Deposits by Type and Three-Month EURIBOR

(per cent)

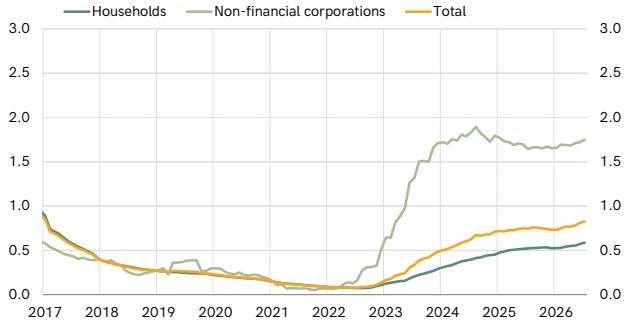


Note: Average interest rates on new time deposits of non-financial corporations and households are based on interest rates for all maturities and currencies weighted by relevant volumes of new deposits.

Source: BNB, ECB.

Interest Rates on Outstanding Amounts of Time Deposits

(per cent)



Note: Average interest rates on time deposit balances for non-financial corporations, households and in total are based on interest rates for all maturities and currencies weighted by relevant volumes of time deposits.

Source: BNB.

2025. In July 2026, they stood at 0.59 per cent and 1.75 per cent, respectively (0.52 per cent and 1.65 per cent in December 2025).

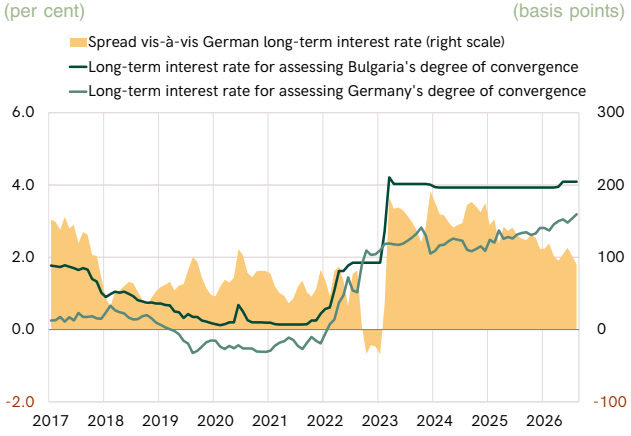
In August 2026, the long-term interest rate for assessing Bulgaria's degree of convergence was 4.09 per cent, up 16 basis points on end-2025 [22]. At the same time, in August 2026, the spread vis-à-vis German long-term interest rate was 90 basis points (a decrease of 22 basis points compared with the end of the previous year). The observed narrowing of the spread *vis-à-vis* German long-term interest rate was mainly due to the rise in the German long-term interest rate over the period (by 38 basis points), while the rise in the Bulgarian long-term interest rate was significantly smaller.

In the first seven months of 2026, the annual percentage rate of charge (APRC) and the interest rate on new housing loans declined slightly, reaching 2.77 per cent and 2.43 per cent, respectively, in July (2.84 per cent and 2.47 per cent in December 2025). Ample liquidity in the banking system and banks' sound capital position continued to play a key role in keeping interest rates on housing loans at historically low levels over this period. These factors continued to contribute to the retention of still low interest rates on time deposit balances for households, which many commercial banks use as a reference in setting interest rates on housing and consumer loans. The annual percentage rate of charge (APRC) and the interest rate on new consumer loans posted a non-significant increase in the first seven months of the year, amounting to 9.42 per cent and 9.12 per cent, respectively, in July (9.36 and 9.05 per cent at the end of 2025).

In the non-financial corporations' sector, the average weighted interest rate on new corpo-

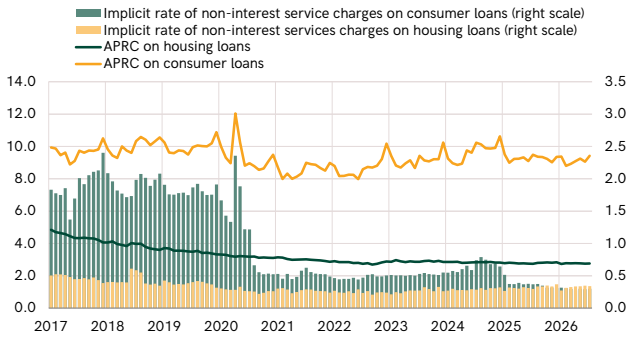
[22] Daily data show that the long-term interest rate remained unchanged from 1 December 2025 to 27 April 2026 at 3.93 per cent, and from 28 April 2026 to 31 August 2026, it stood at 4.09 per cent. The relative stability of the interest rate is probably due to a limited number of transactions with Bulgarian benchmark bonds in the secondary government securities market. For calculating the long-term interest rate for assessing the degree of convergence, see methodological notes on the BNB website.

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



Sources: BNB, ECB.

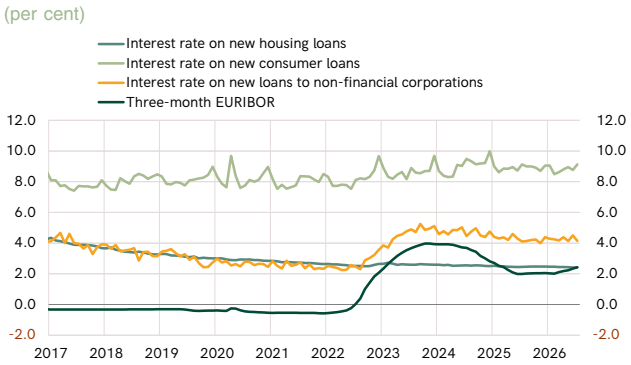
APRC on New Household Loans and the Implicit Rate of Non-Interest Service Charges



Note: The implicit rate is calculated as the difference between the APRC (Annual Percentage Rate of Charge) and the corresponding interest rates on newly negotiated housing and consumer loans. It reflects the approximate per cent of all non-interest service charges on loans (including fees and commissions).

Source: BNB.

Interest Rates on New Loans and Three-Month EURIBOR



Note: Average interest rates on new loans to non-financial corporations and households are based on interest rates for all maturities and currencies weighted by the relevant volumes of new loans. The interest rate on new loans to non-financial corporations refers to loans other than overdrafts.

Source: BNB, ECB.

rate loans decreased slightly in the first seven months of 2026, reaching 4.15 per cent by end-July (4.38 per cent in December 2025). The limited change in the interest rate is consistent with the euro area's key interest rates remaining unchanged for most of the period and with euro area interbank market reference indices playing a greater role in the pricing of corporate loans compared with that of household loans.

3.2. Deposits and Loans

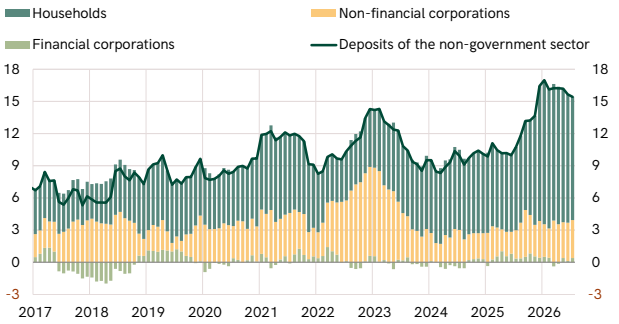
Deposits of Non-financial Corporations and Households

In the first seven months of 2026, the annual growth of non-government sector's deposits[23] in the banking system followed a downward trend, reaching 15.4 per cent in July (16.4 per cent in December 2025). Household deposits remained the main contributor to the growth reported over the review period.

The significant acceleration in household deposit growth, which was particularly pronounced towards the end of the second half of 2025 and continued in January 2026, came to a halt. Between February and July, the growth rate slowed, reaching 17.8 per cent at the end of July (compared with 19.8 per cent in December 2025 and 21.0 per cent in January 2026). The slowdown in annual growth was attributable to the significantly lower volume of lev-denominated cash deposited into the banking system for automatic conversion into euro following Bulgaria's accession to the euro area at the beginning of 2026, as well as the substantial slowdown in wage growth in the economy reported in the second quarter of the year. Overnight deposits remained the main contributor to increased household deposits, while the contribution of deposits with an agreed maturity remained low in the context of sustained low interest rates on new time deposits (which remained negative in real terms).

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

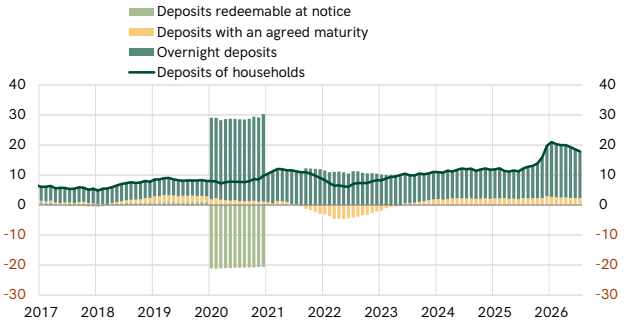
(per cent, percentage points)



Source: BNB.

Annual Growth of Households' Deposits and Contribution by Deposit Type

(per cent, percentage points)



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

Source: BNB.

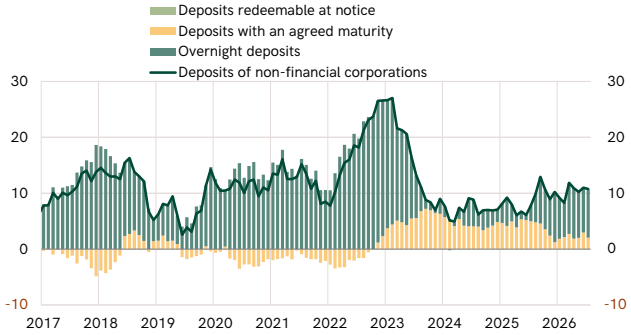
[23] Non-government sector's deposits (residents in Bulgaria) include household deposits, deposits of non-financial corporations and deposits of financial corporations whose centre of main economic interest and economic activity lies within the geographic territory of Bulgaria. Deposits of households and non-financial corporations (97.2 per cent on average for the last 12 months as of July 2026) comprise the major share of all non-government sector's deposits, and the analysis therefore is focused on these two sectors.

In the first seven months of 2026, the annual growth of non-financial corporations' deposits remained close to that reported at the end of the previous year, reaching 10.8 per cent in July (10.2 per cent in December 2025). Overnight deposits continued to play a key role in the increase in corporate deposits. Data by sector of economic activity indicate that the largest contributions to the growth of corporate deposits in the first half of 2026 came from the following sectors: production and distribution of electricity, heating, and gaseous fuels, trade, and real estate operations. The relatively high growth in gross operating surplus for the total economy, which averaged 21.7 per cent in nominal terms in the first half of 2026 according to seasonally adjusted data, along with the acceleration in credit growth to non-financial corporations, provided a basis for the increase in corporate deposits over the period.

Between January and July 2026, the volumes of new time deposits to non-financial corporations increased. At the same time, in the household sector, these volumes posted a slight decline from the level reached at the end of 2025.

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

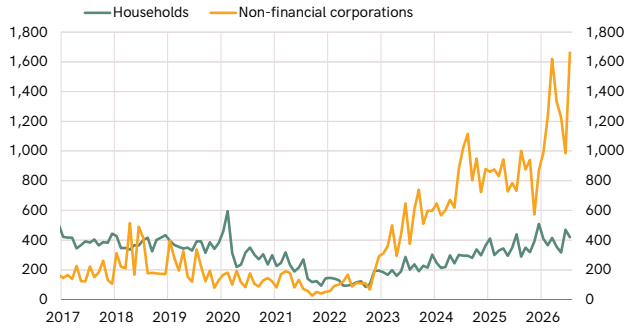
(per cent, percentage points)



Source: BNB.

New Time Deposits to Non-financial Corporations and to Households (Monthly Volumes)

(EUR millions)



Source: BNB.

Bank Lending Survey[24]

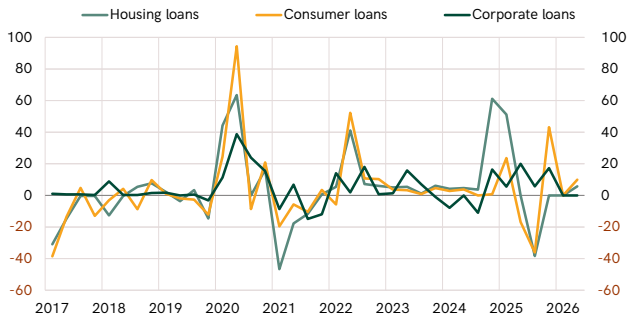
The weighted results of the Bank Lending Survey in Bulgaria for the first and second quarters of 2026 show that corporate lending standards remained unchanged in the first half of the year. At the same time, standards for housing and consumer loans, as well as other lending to households remained unchanged in January-March 2026, but tightened somewhat in the second quarter of the year. Regarding the reported tightening of standards, banks cited increased risk assessment (which is linked to the macroeconomic environment, borrower solvency assessment, housing market prospects and collateral risks) and their lower risk appetite as the main factors.

According to the weighted balance of banks' opinions, demand for corporate loans and credit lines by enterprises declined in the first and second quarters of 2026 compared with the previous quarter. As regards demand for housing and consumer loans, as well as other lending to households, it decreased in the first quarter and picked up in the April-June period, with demand for consumer loans increasing significantly. Banks reported that the levels of interest rates were the main factor behind the weaker demand for corporate loans in both quarters. According to banks' responses, changes in demand for housing and consumer loans in both quarters were driven primarily by consumer sentiment. The decline in demand in the first quarter was also attributable to interest rate levels and households' reduced need to purchase durable goods.

Changes in Credit Standards and Credit Demand

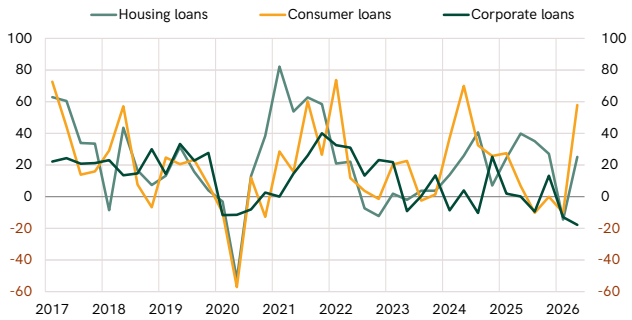
a) changes in credit standards

(balance of opinions)



b) changes in credit demand

(balance of opinions)



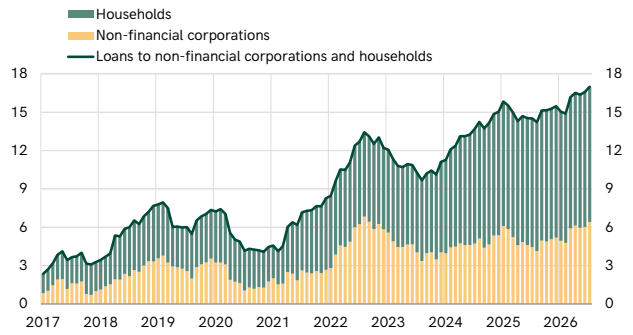
Notes: Data for the fourth quarter of 2025 are based on the use of a fully harmonised questionnaire, identical to that used in euro area countries and a decrease in the number of participating commercial banks in Bulgaria, in line with the common methodology for conducting the Bank Lending Survey in euro area countries. As a result, data for the fourth quarter of 2025 are not fully comparable to those for previous quarters and years. Up to the third quarter of 2025, consumer loans comprise only this type of credit to households, whilst in the fourth quarter of 2025 they also include loans other than consumer and housing loans. Quarterly data on credit standards and credit demand show changes compared to the previous quarter.

Source: BNB.

[24] Detailed information on the results of the survey can be found in the BNB quarterly publication Bank Lending Survey for Bulgaria.

Annual Growth of Credit to Non-financial Corporations and Households and Contribution by Sector

(per cent, percentage points)



Source: BNB.

Loans to Non-financial Corporations and Households[25]

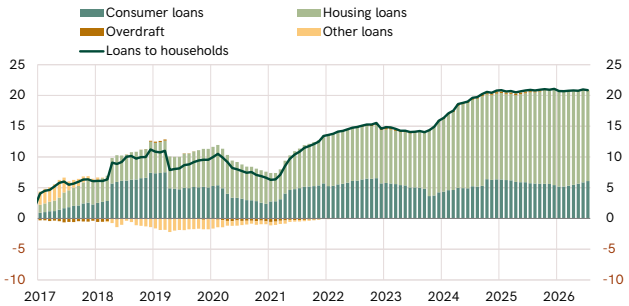
Following a slight slowdown in the annual growth rate of credit to non-financial corporations and households during the first two months of 2026, growth accelerated between March and July, driven by an increase in credit to non-financial corporations. By end-July 2026, total credit growth rose to 17.0 per cent (15.5 per cent by end-December 2025).

In the first seven months of the year, the annual growth rate of credit to households remained close to that reported in December 2025, reaching 20.8 per cent at the end of July (21.1 per cent as of December 2025). Although housing loans remained the main contributor to the total growth of credit to households, their annual growth rate followed a downward trend, reaching 25.7 per cent at the end of July (28.2 per cent at the end of 2025). According to the Bank Lending Survey, consumer sentiment, the assessment of housing market prospects and the availability of alternative sources of financing, constrained demand for housing loans in the first half of the year. Survey results also indicate that risk assessment and banks' lower risk appetite contributed to tightening of the standards for housing loans between April and June.

[25] The indicator 'loans' in this Section refers only to loans in the sectors of non-financial corporations and households and does not include repurchase transactions, as they are of negligible size. In the table Forecast of Key Macroeconomic Indicators for 2026–2028 of the BNB Macroeconomic Forecast publication, the total indicator 'loans and repo transactions' is presented in view of comparability with the indicators of the macroeconomic projections for the euro area.

Annual Growth of Credit to Households and Contribution by Loan Type

(per cent, percentage points)

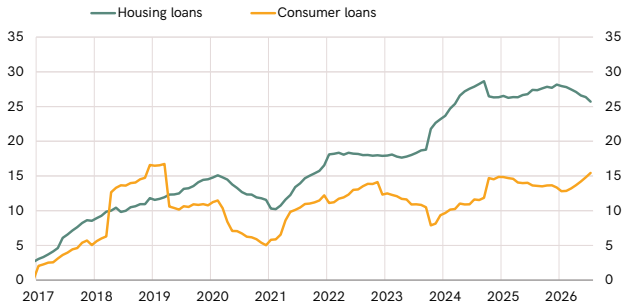


Note: Based on additional information received from reporting units, a revision of household loans was carried out according to their purpose of use in the period December 2015–August 2019.

Source: BNB.

Annual Growth of Consumer and Housing Loans

(per cent)



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.

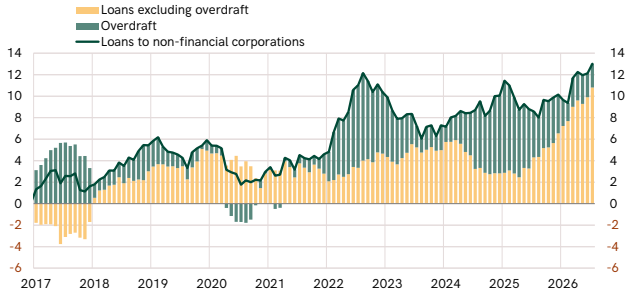
Concurrently, the annual growth of consumer loans showed an upward dynamics at the end of the first quarter of 2026, reaching 15.4 per cent in July (13.3 per cent at end-2025).

Following the slight slowdown in the annual growth rate of credit to non-financial corporations reported in the first two months of 2026, growth accelerated over the March-July period, reaching 13.0 per cent in July, compared with 10.1 per cent in December 2025 and 9.4 per cent in February 2026. The upward dynamics of corporate loans continued to be driven by loans, excluding overdrafts, while the contribution of overdrafts remained low. By sector of economic activity, production and distribution of electricity, heating, and gaseous fuels, real estate operations, and manufacturing had the largest contribution to the corporate credit growth in the first half of 2026.

In the first seven months of 2026, the volumes of new housing, consumer and corporate loans[26] followed an upward trend compared to end-2025.

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

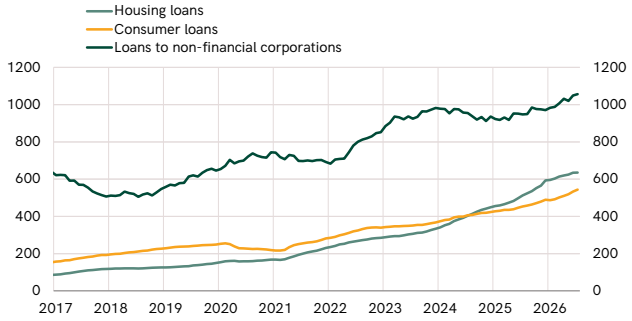
(per cent, percentage points)



Source: BNB.

New Loans to Non-financial Corporations and Households (Monthly Volumes)

(EUR millions)



Note: Data on monthly volumes of new loans to non-financial corporations and households are based on 12-month moving average.

Source: BNB.

[26] Based on 12-month moving average.

4. Economic Activity

4.1. Current Economic Environment

Gross Domestic Product

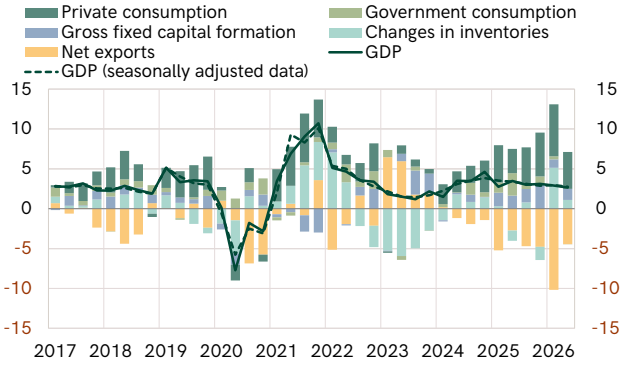
Quarterly real GDP growth in the second quarter of 2026 was 0.7 per cent, which was in line with that projected in the BNB macroeconomic forecast of June 2026. This relatively high growth rate was maintained for the fourth consecutive quarter. In the first half of 2026, economic growth slowed to 2.9 per cent[27] in the first half of 2026 (2.8 per cent according to non-seasonally adjusted data), compared with growth of 3.2 per cent in 2025 (3.1 per cent according to non-seasonally adjusted data). Over the same period, domestic demand remained a key driver of economic activity growth, underpinned by both historically very high private consumption growth and fixed capital investment. At the same time, the negative contribution of net exports increased, reflecting a decline in exports of goods and services coupled with growth in imports.

Real private consumption growth accelerated in the first half of 2026 compared with the rate observed at the end of 2025. The strong growth in final consumption expenditure of households (9.1 per cent year-on-year) was supported by the increase in employment, rising labour income, higher fiscal transfers to households[28], and high credit activity amid continued favourable financing conditions for households.

According to seasonally adjusted NSI data, real government consumption increased by 1.2 per cent year-on-year in the first half

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

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



Sources: NSI, BNB calculations.

[27] According to NSI seasonally adjusted data.

[28] It should be noted that since the beginning of 2026, the publication of quarterly data on household revenue and expenditure from the Household Budget Survey has been discontinued, limiting the scope for analysing household behaviour. These data will continue to be published on an annual basis, with a continued focus on household expenditure. The new data series will not be comparable to previous periods due to both methodological changes and the use of a new expenditure classification. Following the discontinuation of the publication of these data, the Household Behaviour subsection, which was included in the current section up to the previous issue of this publication (Economic Review 1/2026), has been removed.

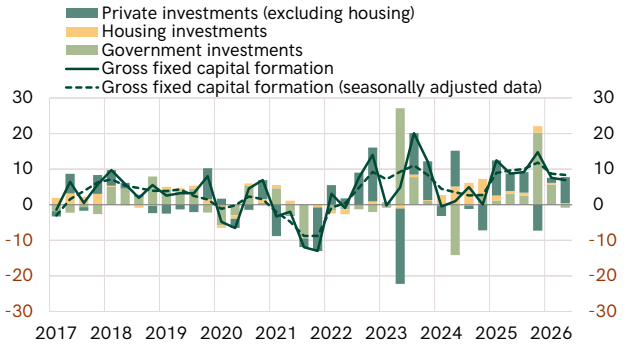
of 2026, compared with 9.1 per cent in the same period of 2025.[29] BNB estimates indicate that the dynamics in compensation of employees in the public sector was the main factor contributing to the growth slowdown.

Gross fixed capital formation increased by 8.5 per cent in real terms in the first half of 2026 compared with the same period of 2025. According to BNB estimates[30], the growth was driven primarily by the public[31] sector in the first quarter of the year, while the private sector was the main contributor in the second quarter. Factors supporting the growth of investment activity in the private sector in the first half of 2026 included the increase in final consumption expenditure, the greater supply of lending resources by banks, and increasing external demand. There are currently no indications that the continuing deterioration in the business climate and the uncertain external environment will negatively affect current investment activity. Housing investment increased, but at a more moderate pace than in 2024 and 2025. Despite rising labour and material costs in the construction sector, data on new buildings and the increase in the number of construction permits indicate continued growth in construction production.

Net exports had a significant negative contribution to the economic activity dynamics in the first half of 2026 (-10.2 percentage points in the first quarter and -4.4 percentage points in the second quarter[32]). This was attributable to a year-on-year decline in real exports of goods and services (-3.5 per cent), combined with growth in real imports of goods and services (8.3 per cent)[33] in the first half of 2026. Dynamics of goods exports in 2025 was strongly affected by the repairs carried out

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

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



Sources: NSI, BNB calculations.

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

[30] The NSI does not provide official data on the breakdown of total investments into private and public. The series on private (non-residential) investments is constructed by the BNB as a difference between total investments, the estimated amount of public investments on an accrual basis in real terms and housing investments. The public investment estimate is based on quarterly non-financial accounts of the general government sector and CFP implementation reports published by the NSI and the MF, accordingly.

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

[32] According to non-seasonally adjusted data.

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

in key metal and oil processing enterprises. Some recovery in exports of goods from these groups was observed in the second half of 2025 and early 2026. Nevertheless, according to detailed foreign trade statistics[34], the year-on-year decline in real goods exports in the first quarter of 2026 was broad-based across commodity groups. As regards imports, strong growth in private consumption, investments and inventories in the economy, which are characterised by a high import component according to BNB estimates, contributed to the increased imports of goods on an annual basis in the first half of 2026.

Gross value added in Bulgaria increased by 2.3 per cent year-on-year in real terms in the first half of 2026, based on seasonally adjusted data (2.2 per cent according to non-seasonally adjusted data). The services sector had the largest contribution to this growth, notably the sub-sectors of general government; education; human health and social work activities, trade, transport, accommodation and food services and real estate operations. Value added in industry rose year-on-year in the construction sub-sector, while in manufacturing it continued to decline, a trend that has been observed since 2023. The decline in value added in industry in the first half of 2026 was consistent with the annual declines in the industrial production index, goods exports, employment in the sector, as well as with firms' assessments of lower capacity utilisation. The contribution of the agricultural sector to annual growth in the total value added in the economy remained close to neutral in the first six months of 2026.

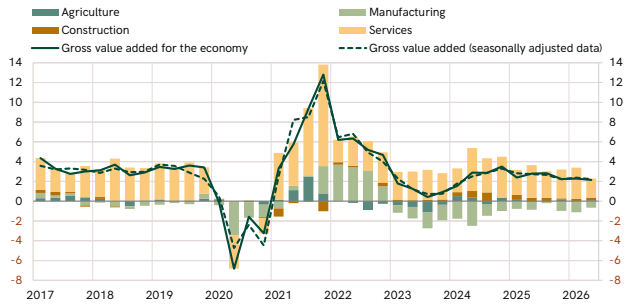
Cyclical Position of the Bulgarian Economy

BNB's estimates of the cyclical position of the economy show that in the first half-year the economic activity in Bulgaria remained above its potential level. This indicates that part of the resources in the economy continued to be overloaded beyond their optimal level, which is consistent with our estimates that the current unemployment rate is below its natural

[34] 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.

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

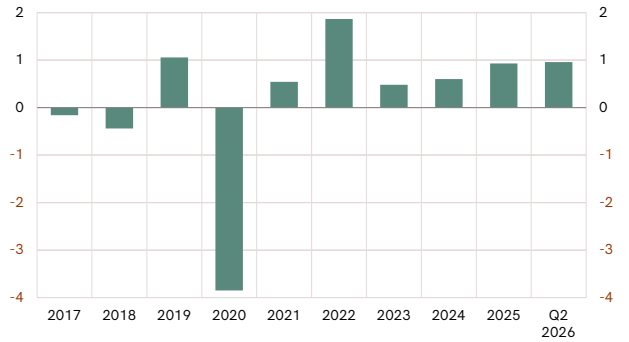
(per cent; percentage points; on an annual basis)



Sources: NSI, BNB calculations.

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, 1/2019.
The output gap is the deviation of the current level of economic activity from potential output measured as a percentage of potential output.

Sources: NSI, BNB calculations.

level. In addition, strong growth in domestic demand components and tight labour market conditions also contributed to the positive deviation of economic activity from potential output.

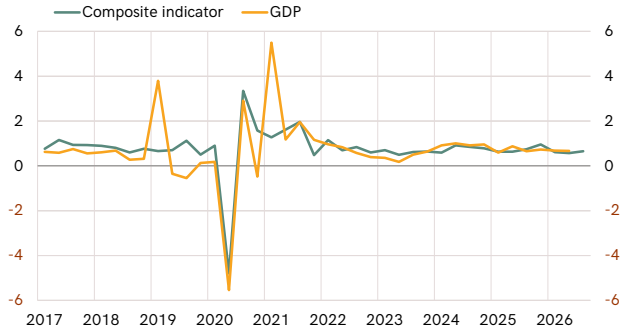
Short-term indicators provided mixed signals regarding economic activity in the third quarter of 2026.[35] In manufacturing, output continued to decline and economic agents' sentiment deteriorated across all sectors of the economy compared with the beginning of the year. On the other hand, retail trade turnover is increasing, as are indicators tracking household sentiment[36], as households' expectations regarding Bulgaria's future financial and economic situation improve.

Economic Activity Expectations

The composite economic activity indicator constructed by the BNB based on high frequency data[37] signals that real GDP growth in the third quarter is expected to remain close to that observed in the previous four quarters (0.7 per cent on a quarterly basis). The more positive households' sentiment, the positioning of the global PMI above the neutral limit of 50 points, retail trade turnover, services production, and lending activity are all contributing positively. At the same time, data on industrial production, international trade and the deterioration in firms' sentiment across all sectors of the economy indicate lower GDP growth.

Composite Economic Activity Indicator

(per cent, on a quarterly basis)



Notes: This indicator is constructed on the basis of a dynamic factor model whose purpose is to derive the total component in dynamics of various indicators with a monthly frequency. Dynamics of the composite indicator may be used as a guidance for the change in real GDP of Bulgaria. Selected indicators of the model include: production indices in industry, construction and services; retail trade turnover indices; unemployment rate; indicators of the business climate and consumer confidence; producer price index in industry; new loans to corporations and households; global PMI.

Sources: NSI, Employment Agency, BNB calculations.

[35] For details, see the Behaviour of Firms and Household Behaviour Sections in this Chapter.

[36] According to Eurostat seasonally adjusted data.

[37] Data on newly extended loans to corporations and households, the retail trade turnover index, producer prices in manufacturing, industrial and construction production indices, consumer confidence are available as of July 2026, while those on the business climate, the unemployment rate and global PMI are as of August 2026. Data on production in services (not related to trade) are as of June 2026.

4.2. Labour Market

Labour Supply

In the first six months of 2026, the downward trend in labour supply, as measured by labour force[38], observed for the fourth consecutive year, continued declining by 0.6 per cent, from the same period in 2025. The decline was mostly due to labour outflows, also reflecting the decrease in population over 15 years of age, according to NSI's Labour Force Survey data. The labour force continued to show a simultaneous decrease in employed and unemployed persons, with more employed than unemployed persons shifting to inactivity in the first half of 2026, according to Eurostat experimental statistics[39]. The number of inactive persons rose by 0.6 per cent on an annual basis in the first six months of 2026, with persons between 25 and 34 years contributing most to this growth. As a result, the economic activity rate[40] of the 15 and older age group decreased by 0.3 percentage points, amounting to an average of 55.0 per cent in the first half of 2026.

According to Labour Force Survey data, the unemployment rate[41] amounted to an average of 3.3 per cent in the first six months of 2026, from 3.6 per cent in the same period of the previous year. Concurrently, the unemployment rate slightly increased on a quarterly basis in the second quarter of 2026, with unemployed persons increasing across all age groups. This dynamics was in line with Employment Agency data, which show a continued slight increase in unemployment rate on a quarterly basis in July and August 2026, suggesting that both supply and demand for labour started to decline.

[38] Labour force includes employed and unemployed persons in the age group of 15 and over based on NSI Labour Force Survey data. BNB seasonally adjusted data are used.

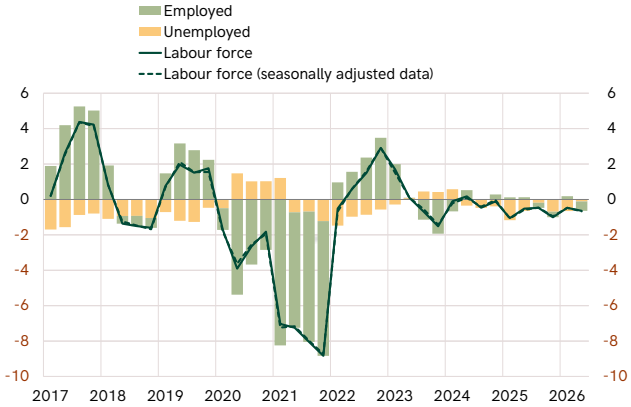
[39] Eurostat's experimental statistics is derived from Labour Force Survey data and identifies flows between employment, unemployment and labour market inactivity.

[40] The economic activity rate is the proportion between economically active persons (labour force) and the population of the same age.

[41] The unemployment rate is the proportion between the number of unemployed and the labour force for the age group 15 and older. BNB seasonally adjusted data are used.

Contribution to the Change in Labour Force by Component

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

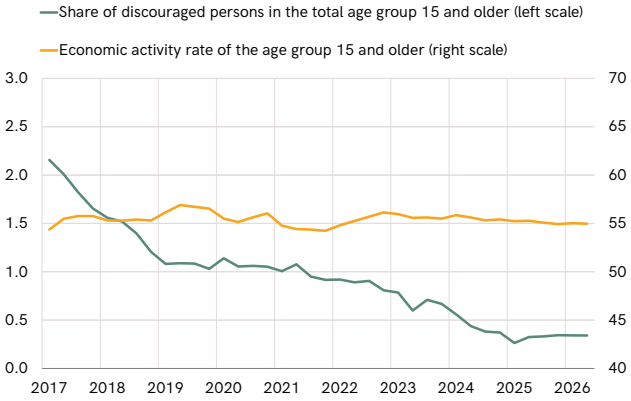


Notes: Data refer to the age group 15 and over. From the beginning of 2021, there is a break in the time series due to the use of population data from census 2021. Data prior to 2021 have not been revised, which is reflected in a year-on-year decline of labour force in 2021.

Sources: NSI Labour Force Survey, BNB calculations.

Economic Activity and Share of Discouraged Persons

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

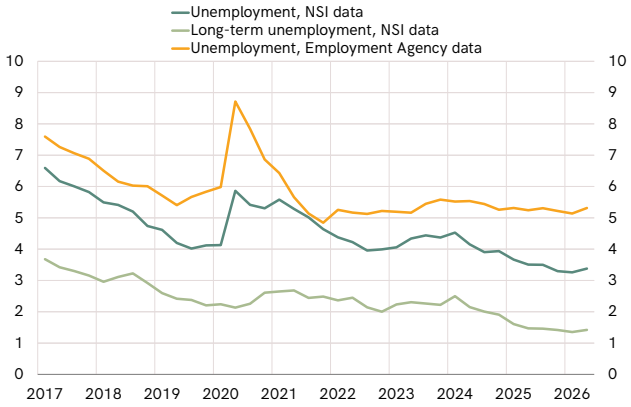


Notes: From the beginning of 2021, there is a break in series due to the use of 2021 population census data. Provided seasonally adjusted data are affected by the break in time series.

Sources: NSI Labour Force Survey, BNB calculations.

Unemployment Rate

(percentage of the 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.

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

Labour Demand

National accounts data show that employment growth decelerated significantly to 0.2 per cent on an annual basis in the second quarter of 2026, which was more pronounced than expected in our latest forecast of June 2026. At the same time, according to non-seasonally adjusted data, employment fell by 0.4 per cent on a year-on-year basis due to declines in agriculture and manufacturing, as well as weaker employment growth in the services and construction sector. As a result, employment growth moderated to 0.7 per cent on an annual basis in the first six months of 2026 (0.4 per cent according to non-seasonally adjusted data), compared to a growth of 2.0 per cent in the same period of 2025 (according to seasonally adjusted and non-seasonally adjusted data). At the same time, the number of job vacancies in the economy started to fall since the beginning of the year, with the decline being driven further in the second quarter by the services sector, particularly the trade sub-sector and the transport, storage and communication sub-sector. The share of firms identifying labour shortages as a factor hampering their activity also continued to decrease in the first half of 2026, this dynamics was retained in July and August, reflecting the decrease in manufacturing and services labour shortages. These processes suggest that labour demand in the economy slowed in the second quarter of 2026, thereby also lowering pressure for wage growth.

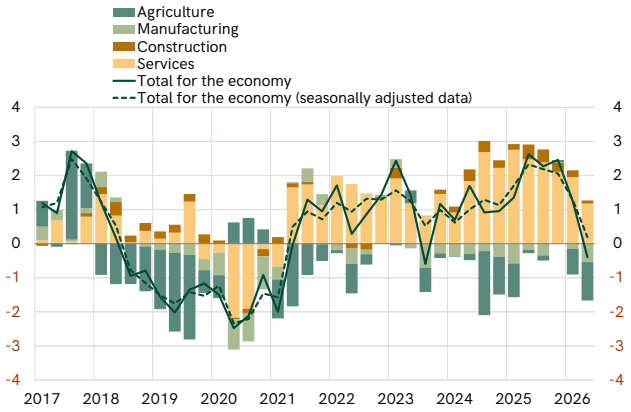
Productivity and Compensation *per* Employee

In the first half of 2026, real labour productivity[42] rose by 2.1 per cent on an annual basis (2.4 per cent according to non-seasonally adjusted data), with growth accelerating to 2.6 per cent on an annual basis in the second quarter. Despite the stronger labour productivity increase in the second quarter of 2026, growth in compensation per employee slowed in nominal terms to 4.1 per cent year-on-year (4.3 per cent according to non-seasonally adjusted data), and as a result of

[42] Real GDP measures labour productivity in the total economy. Sector labour productivity is calculated based on sector value added in real terms. Seasonally adjusted data.

Contribution to Change in the Number of Employed by Economic Sector

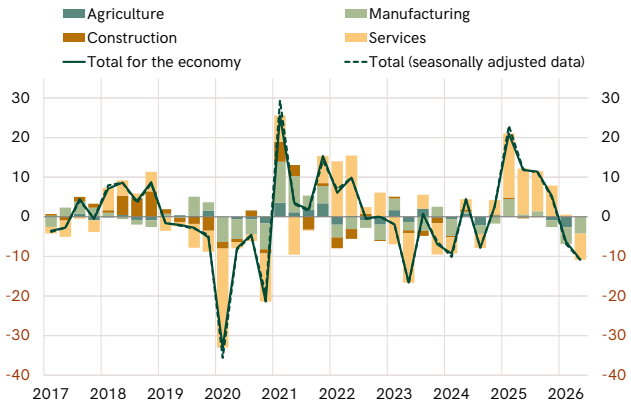
(per cent; percentage points; on an annual basis)



Sources: the NSI – SNA, BNB calculations.

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

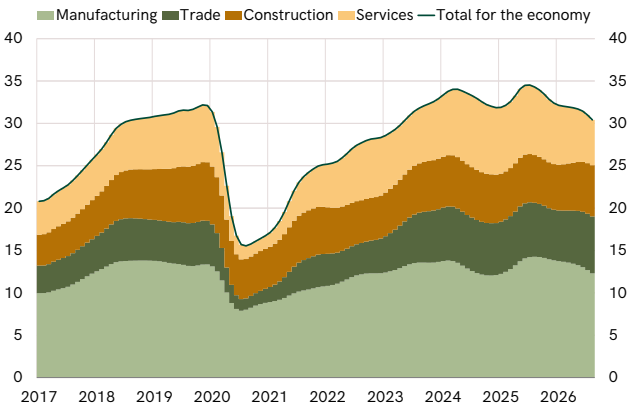
(per cent; percentage points; on an annual basis)



Sources: Eurostat, BNB calculations.

Labour Shortages (Seasonally Adjusted and Weighted by Sectors Monthly Data)

(per cent of the firms)

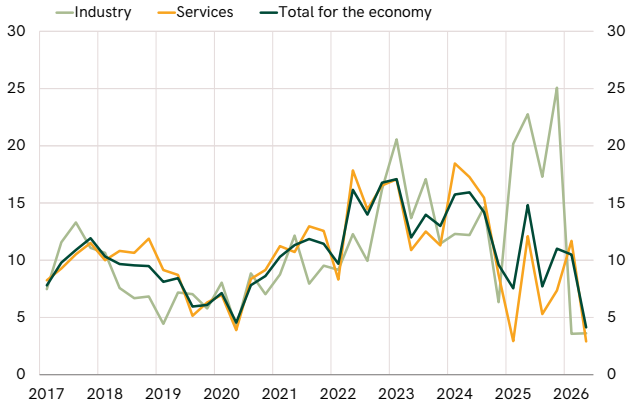


Note: Data up to and including August 2026 are used.

Sources: NSI, BNB calculations.

Compensation *per* Employee at Current Prices

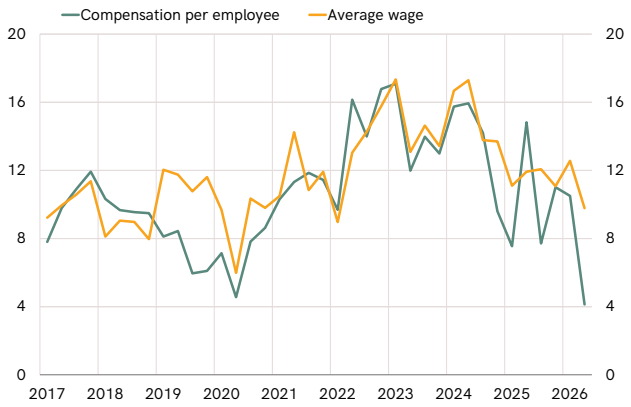
(per cent, on an annual basis; seasonally adjusted data)



Source: NSI – SNA.

Compensation *per* Employee and Average Wage at Current Prices

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



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

accelerated inflation in real terms[43], an annual decline of 1.9 per cent was reported for the first time since the third quarter of 2022. By economic sectors, compensation *per* employee in real terms decreased in the second quarter of 2026 in manufacturing and services, where declines in both the general government; education; human health and social work sub-sector and the real estate operations sub-sector were reported.

Short-term statistics data on employment and labour costs of the NSI also reported a slowdown in wage income growth[44] to 9.8 per cent in the second quarter of 2026, mainly due to a weaker increase in public sector wages. Despite weaker labour demand and a slowdown in income growth during the second quarter of 2026, labour market conditions remained tight by historical standards and continued to support consumer expenditure, however, at the same time, the labour market began to show some signs of cooling compared with the developments observed in 2025.

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

[44] The different price dynamics in the two labour income statistics likely reflects both the use of various sources to assess employees and differences in definitions and scope of compensation per employee as well as additional estimates of labour costs in the 'shadow economy', which are produced in the national accounts system.

4.3. Behaviour of Firms

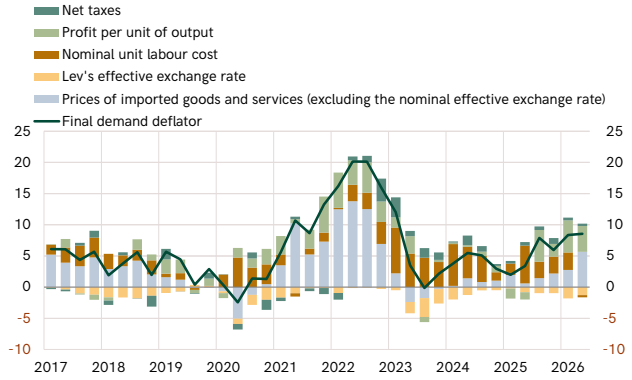
During the first half of 2026, producer prices in firms continued to rise. The final demand deflator continued to rise at a comparatively high historical rate over the same period due to both domestic and external factors. On the one hand, the deflator's increase is owed to higher prices of imported goods and services, and on the other hand – to the price policy of firms, which was oriented towards raising profit margins (mainly in the manufacturing and business services sectors). However, growth in nominal unit labour costs remained significantly lower in the second quarter of the year compared to the average of the 2022-2025 period.

Labour Costs of Corporations

In the first six months of 2026, the growth in firms' nominal unit labour cost[45] slowed down to 5.0 per cent on an annual basis (from 9.7 *per* cent in the same period of 2025), mainly as a result of developments in the second quarter of the year, when reports showed significantly lower increase in compensation per employee amid accelerated real labour productivity growth[46]. By economic sector, nominal unit labour costs increased slightly in both manufacturing and services sectors, with a year-on-year fall reported in the real estate operations sub-sector and the general government; education; human health and social work sub-sector[47], reflecting the decline in compensation *per* employee in both sub-sectors during the second quarter of 2026.

Decomposition of the Final Demand Deflator

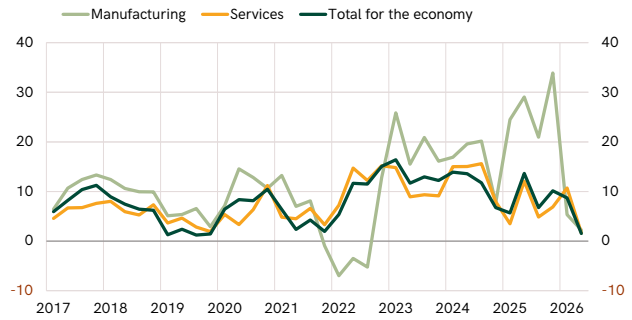
(per cent, on an annual basis; non-seasonally adjusted data)



Sources: NSI, BNB calculations.

Unit Labour Costs

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



Sources: NSI, BNB calculations.

[45] According to seasonally adjusted data on nominal unit labour costs based on GDP.

[46] For details, see the Labour Market Section in this Chapter.

[47] The decline in this sector was largely due to one-off factors related to a base effect of public sector wages. Public sector wages increased in the second quarter of 2025 (with effect from the beginning of the year), leading to a significant rise in compensation per employee - up 19.6 per cent on an annual basis.

Investment Expenditure of Corporations

In the first half of 2026, firms' investment spending in real terms continued rising on an annual basis. BNB estimates[48] show that expenditure on fixed capital investment increased on an annual basis in both public and private sectors. By asset type, investment picked up across all types, with investments in machinery, equipment and weapons systems having the largest contribution.

Financing Sources for Corporations

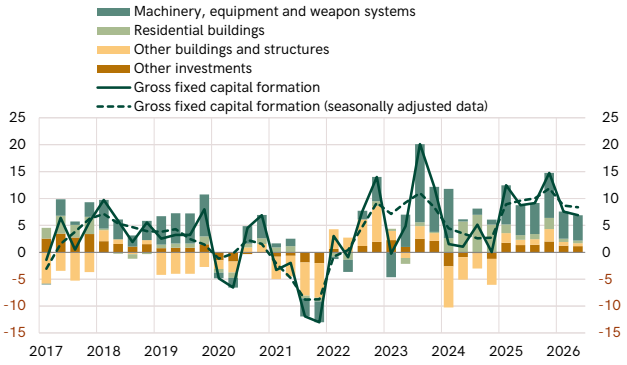
According to seasonally adjusted data, the gross operating surplus usable by firms to finance their activities rose significantly by 21.7 per cent on an annual basis in the first half of 2026. This is owed to the services sectors (annual growth of 18.3 per cent) and industry (40.4 per cent), while agriculture posted a decline (-9.7 per cent). The larger amount of the operating surplus in services was caused by the growth of both production in real terms, as well as selling prices.

Price Policy of Corporations

In the April-July 2026 period, firms' selling prices[49] reported a year-on-year growth of 15.9 per cent, driven by both domestic and international markets. In the domestic market, as well as in the international market, growth in the producer price index (PPI) was broad-based, but the largest increase was recorded in mining and quarrying, and energy products. In the first quarter of 2026, PPI in services (not related to trade) rose by 5.5 per cent on an annual basis. Higher prices were reported in all sectors, with real estate operations (14.7 per cent) and accommodation, and food services (7.2 per cent) posting the strongest price rise. The PPI of construction materials in the domestic market grew by 10.0 per cent in the second quarter of 2026. In the April-July 2026 period, the increase in selling prices of retail trade (excluding trade in motor vehicles

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

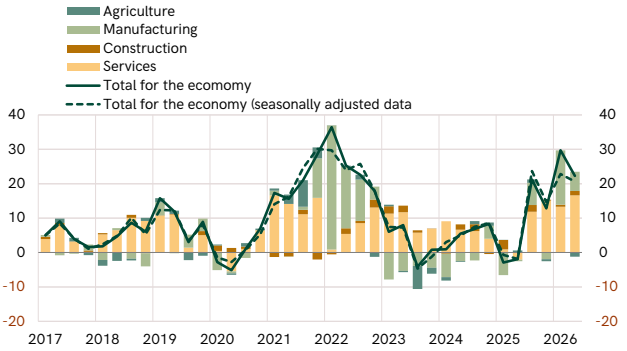
(per cent; percentage points; on an annual basis)



Sources: Eurostat, BNB calculations.

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

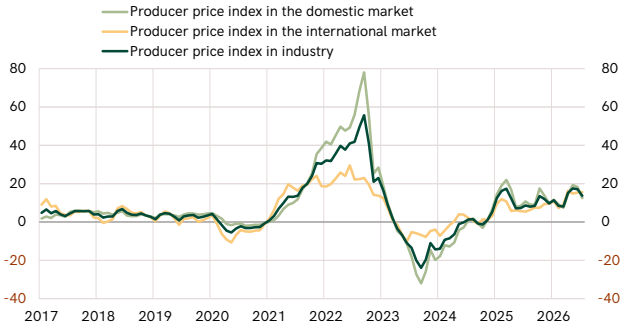
(per cent; percentage points; on an annual basis)



Sources: NSI, BNB calculations.

Rate of Change of Producer Price Index in Industry

(per cent; on an annual basis)



Source: NSI.

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

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

and motorcycles), which is the closest one to the customers in the supply chain, accelerated to 5.1 per cent (compared to 1.0 per cent in 2025). The largest price increase in the trade sector was observed in the retail trade of automotive fuels and lubricants (25.1 per cent).

Economic Indicators

NSI data on the business climate show a continued deterioration in firms' sentiment in the second and third quarters of 2026 across all major sectors (manufacturing, trade, services and construction), a trend observed since 2024. The indicator reflects a deterioration in managers' sentiment about the current and future production activity. NSI's business climate surveys suggest that the uncertain economic environment continues to be the most serious impediment to the firms' operations, and historically this factor has always been a major concern for firms. Since the beginning of the year, a downward trend has been observed in managers' employment sentiment over the next three months, with it declining further in July and August 2026 (mostly in manufacturing and services).

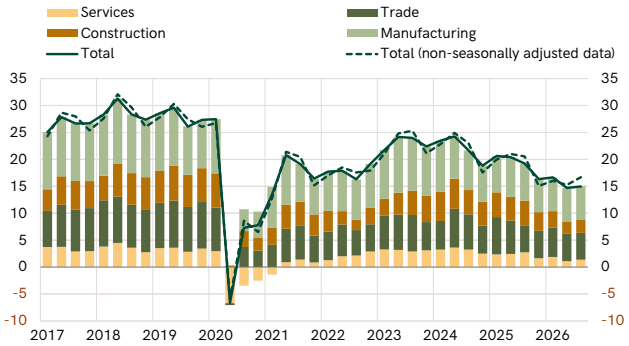
NSI data on short-term business statistics provide divergent signals about economic activity in various sectors of the economy. The industrial production index continued to decrease in the first seven months of 2026, in line with the decline in value added and employment in the sector, as well as a decline in goods exports. Over the same period, nominal turnover rose on an annual basis, but this was entirely due to domestic and international prices.

Construction sector data show that the number of new buildings decreased slightly at the beginning of the year, while the number of permits issued for construction of new buildings continued to grow. According to NSI's business climate surveys between the beginning of the year and August, construction corporations reported that the main obstacles to their operations were the uncertain economic environment and labour shortages, as well as higher prices of materials.

The services production index (excluding trade) rose in the first half of 2026. By sub-sectors, the largest increase in activity was observed

Business Climate

(balance of opinions, per cent)

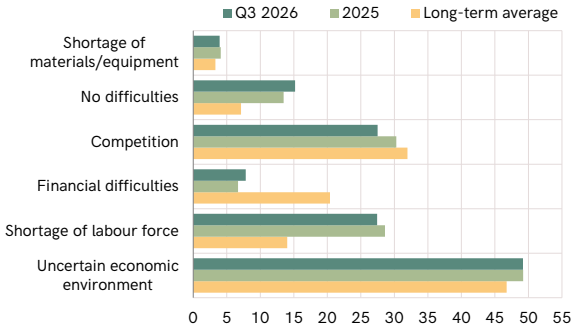


Notes: The answers to the NSI survey questions are presented in a three-tier category scale: 'increase', 'unchanged', 'decrease'. Balances of opinions are calculated as a difference between relative shares of extreme options of replies: 'increase' minus 'decrease'. The business climate indicator is a geometric average of the balances of opinions about the current and expected business situation in corporations in the next six months. Data for the third quarter of 2026 are available up to August.

Sources: NSI, BNB calculations.

Factors Hampering Economic Activity of Corporations

(relative share of all corporations)

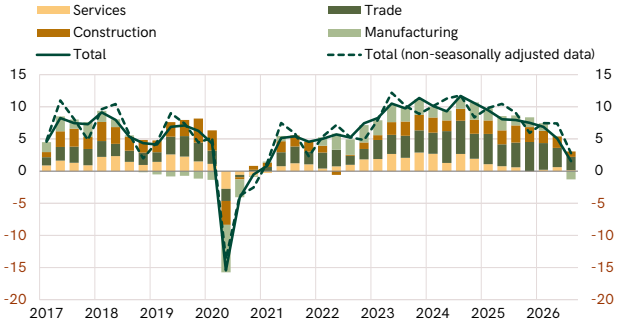


Note: Average data for the relevant period, weighted by the relative share of corporations by sector (manufacturing, construction, trade and services).

Sources: NSI, BNB calculations.

Corporations' Expectations about Staff Recruitment in the Following Three Months

(balance of opinions, per cent)



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

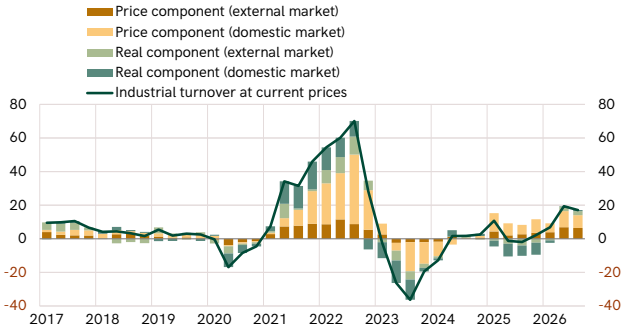
Sources: NSI, BNB calculations.

in professional and administrative activities, followed by information and communication services.

Nominal retail trade turnover picked up significantly in the first seven months of the year, with growth accelerating further over the summer months. This was driven by both real volumes of sales and price component and was broad-based across all commodity groups.

Industrial Turnover Dynamics

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

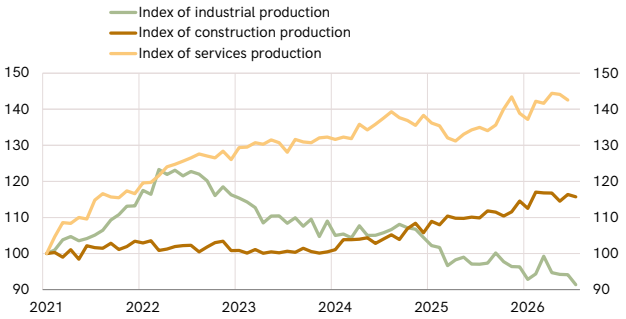


Note: Data for the third quarter of 2026 are available up to July.

Sources: NSI, BNB calculations.

Dynamics of the Production Index in Manufacturing, Construction and Services

(January 2021 = 100; seasonally adjusted data)



Sources: NSI, Eurostat, BNB calculations.

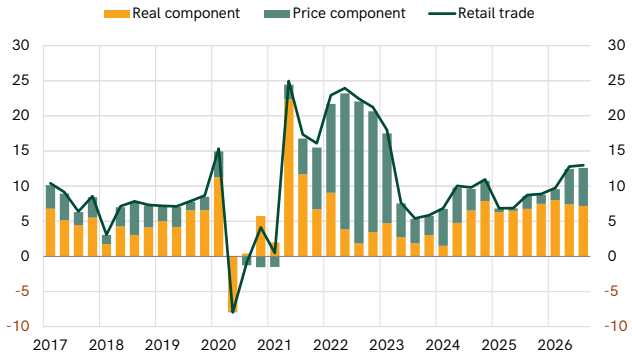
4.4. Fiscal Policy Effects on the Economy

In the first half of 2026, fiscal policy continued to contribute positively to economic activity in Bulgaria, but less than in 2025. The weaker positive effect reflected lower growth rates in government consumption and fixed capital investments over the first six months of the year when compared to the same period of 2025, as recorded in the context of the current Budget Extension Law[50]. At the same time, the trend of household income support through increased social transfers continued in the first half of 2026.[51]

According to seasonally adjusted NSI data, government consumption in real terms rose by 1.2 per cent on an annual basis in the first half of 2026, with growth slowing down significantly from the 9.1 per cent increase reported in the same period of 2025. Data from non-financial accounts of the general government sector show that the lower growth during the first quarter of this year is mainly driven by the moderated growth in compensation of employees in the public sector and, to a lesser extent, by the fall in intermediate consumption expenditure. At the same time, monthly data on the implementation of the Consolidated Fiscal Programme (CFP) show that the annual growth rate of personnel costs slowed down significantly in the second quarter of 2026 (to 1.5 per cent in nominal terms) compared to the previous quarter (23.2 per cent), implying a retention of the limiting effect of compensation of

Dynamics of Nominal Retail Trade Volumes

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

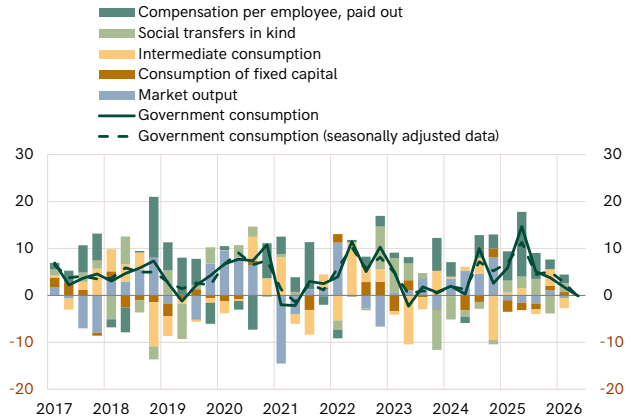


Notes: Data for the third quarter of 2026 are available up to July.

Sources: NSI, BNB calculations.

Contributions by Components to Government Consumption Growth in Real Terms (Quarterly Data)

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



Notes: The contributions of the components of government consumption relate to the dynamics of the non-seasonally adjusted series of government consumption in real terms. The components of government consumption are deflated by the total deflator of government consumption. 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 2026 and, therefore, a breakdown of the components of government consumption for the second quarter of 2026 is not available.

Sources: Eurostat, NSI. BNB calculations.

[50] This refers to the Law amending the Law on Revenue and Expenditure in 2026 pending the adoption of the State Budget Law of the Republic of Bulgaria for 2026, the Law on the Budget of Public Social Security for 2026 and the Law on the Budget of the National Health Insurance Fund for 2026 (published in Darjaven Vestnik, issue 113 of 23 December 2025 and Darjaven Vestnik, issue 30 of 27 March 2026). The Extension Law was effective from 1 January 2026 until the publication of the State Budget Law of the Republic of Bulgaria on 31 July 2026 (Darjaven Vestnik, issue 69 of 31 July 2026).

[51] As of the cut-off date of this Economic Review issue, the quarterly non-financial accounts of the general government published by the NSI, are available up to and including the first quarter of 2026. The estimate of general government investments for the second quarter of 2026 is based on monthly CFP implementing reports. The CFP implementation data also indicate the dynamics of social transfers to households, as well as the dynamics of government consumption's sub-components.

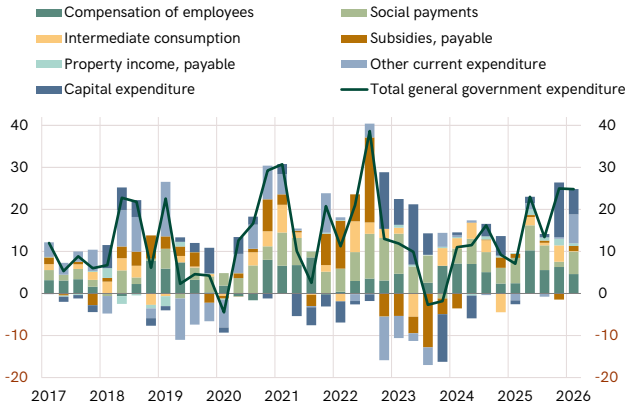
employees costs on government consumption dynamics in that quarter.[52]

BNB estimates show that general government fixed capital investment increased on an annual basis in the first half of 2026. According to seasonally adjusted reporting data, growth was 22.3 per cent in real terms[53] in the first quarter of 2026 (compared to 6.8 per cent in the corresponding quarter of 2025), while BNB preliminary estimates suggest a year-on-year decline in public investments in the second quarter of this year. CFP implementation data as of end-June 2026 suggest that capital expenditure financed by EU funds was crucial for the increase in total capital expenditure since the beginning of the year. The receipt of the funds from the fourth payment under the National Recovery and Resilience Plan (NRRP) in July and the project reporting deadline under the NRRP by the end of August imply strong growth in the government's gross fixed capital formation in the third quarter of 2026.

In the first quarter of 2026, total general government expenditure increased by 24.8 per cent on an annual basis. On the basis of non-financial accounts data, the last few years trend according to which social expenditure and compensation of employees expenditure made a strong positive contribution to growth in total budget expenditure continued in the first three months of the year. These components rose by 12.0 per cent and 14.9 per cent, respectively, on an annual basis in nominal terms. Social expenditure picked up mostly as a result of the indexation of pensions by 8.6 per cent as of 1 July 2025. Growth in compensation of employees reflects the wage increase of all public sector employees by 5 per cent in 2026 as provided for in the Extension Law, as well as the 12.6 per cent increase in the minimum wage since the beginning of the year. At the same time, CFP data indicate that fiscal policy continued to support household disposable income

Cyclical Position of the Economy, General Government Budget Balance and Structural Primary Budget Balance (Quarterly Data)

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



Sources: Eurostat, NSI, BNB calculations.

[52] In the first half of 2026, personnel costs dynamics was impacted by a baseline effect largely driven by the wage indexation in the public order and security sector and the defence sector, which became effective according to the State Budget Law of the Republic of Bulgaria for 2025 (published in the Darjaven Vestnik, issue 26 of 27 March 2025) and was based on the average wage in Bulgaria for the second quarter of 2024.

[53] The public investment deflator is calculated on the basis of BNB estimates of investments in the economy other than housing, assuming that public investments are part of these investments.

in the second quarter of 2026, albeit to a lesser extent than in the first quarter. Social expenditure growth decelerated to 6.4 per cent on an annual basis in the second quarter (11.9 per cent in the first quarter), while that of staff expenditure fell to 1.5 per cent.

Total general government revenue grew by 10.4 per cent on a year-on-year basis in the first quarter of 2026, with social security and indirect tax revenues having the largest contribution. Growth in contribution revenue was supported by wage dynamics in the private and public sectors, also reflecting the increased minimum and maximum social security income as of 1 April 2025, as well as the increase in the minimum wage from the beginning of 2026. CFP data indicate that growth in indirect tax revenue over the period was mainly driven by VAT revenue.

The general government balance, calculated on a cumulative basis as of the first quarter of 2026, stood at a deficit of 4.6 per cent of GDP.[54] BNB estimates of the cyclical position of the economy show that the implementation of a pro-cyclical fiscal policy continues from 2021 onwards. This trend is reflected in the maintenance of structural primary budget deficits in the context of a retained positive deviation of economic activity from its potential level (according to BNB estimates, the structural primary budget deficit is 4.1 per cent of potential GDP as of the first quarter of 2026 against 3.0 per cent for 2025).[55]

In 2025, general government debt increased significantly to 29.9 per cent of GDP (from 23.8 per cent of GDP at the end of 2024). Stock-flow adjustment, which was strongly influenced by operations to increase the capital of Bulgarian Development Bank EAD and Bulgarian Energy Holding EAD, contributed most to this rise.[56] By end-March 2026, general government debt decreased to 28.5 per

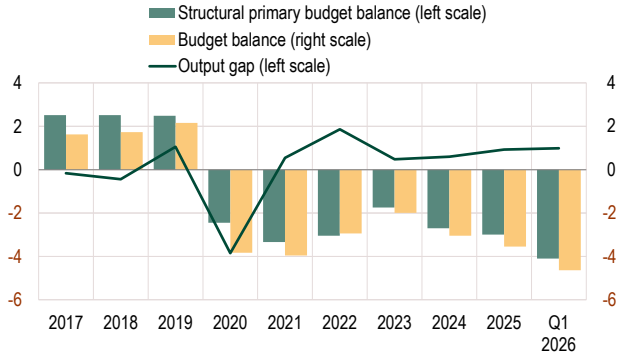
[54] The calculation of the ratio uses the data on the general government budget balance for the last four quarters up to and including the first quarter of 2026, as well as the nominal amount of the GDP for the same period.

[55] The approach used to assess the structural primary budget balance of the general government sector is detailed in the topical research on Analysis of Bulgaria's fiscal stance in the period after 2020, Economic Review, issue 3 of 2025. See the Current Economic Environment section in this chapter on the assessment of the cyclical position of the Bulgarian economy.

[56] For more details, see the Government Debt Management Strategy for the 2026-2028 period.

Cyclical Position of the Economy, General Government Budget Balance and Structural Primary Budget Balance

(per cent of potential GDP) (per cent of GDP)

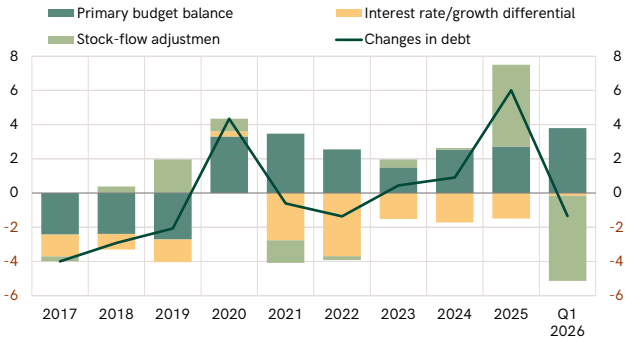


Notes: Note: For more information on estimates of the structural primary budget balance of general government, see the topical research on Analysis of Bulgaria's fiscal stance in the period after 2020, Economic Review, issue 3 of 2025. See the Current Economic Environment section in this chapter on the assessment of the cyclical position of the Bulgarian economy. Data for the last four quarters up to and including the first quarter 2026 are used in the calculations for the first quarter 2026.

Sources: Eurostat, NSI. BNB calculations.

Contributions to the Change in General Government Debt

(percentage points of GDP)



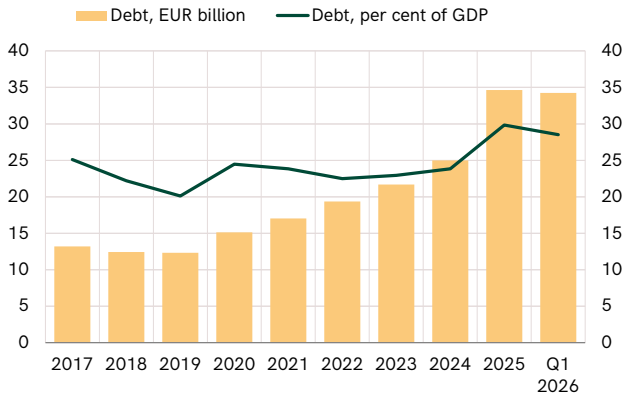
Notes: The change in general government debt is between the last quarter of two consecutive years in a calendar year completed or, in the absence of data for the last quarter of a calendar year, between a given quarter of the relevant calendar year and the previous quarter. The growth and interest rate effect (the so-called snowball effect) represents the overall effect on debt dynamics of the differential between nominal GDP growth and the implicit interest rate paid on debt (interest expenditure relative to the level of debt in the previous period). Stock-flow adjustment is the difference between the change in debt between two periods and the budget balance. GDP for the last four quarters up to and including the first quarter of 2026, is used in calculating the debt ratio as a percentage of GDP for the first quarter of 2026. The remaining calculations for 2026 used data for the last four quarters up to and including the first quarter of 2026.

Sources: Eurostat, NSI. BNB calculations.

cent of GDP[57], with stock-flow adjustment having a key role in this decline. At the same time, the constraining impact on debt growth of the favourable differential between nominal GDP growth and the implicit interest rate paid on debt has narrowed significantly, while sustained primary budget deficits remain a key driver of the continued debt-increasing trend.

General Government Debt

(per cent of GDP) (EUR billion)



Note: GDP for the last four quarters up to and including the first quarter of 2026 is used in calculating the ratio as a percentage of GDP for the first quarter of 2026.

Sources: Eurostat, NSI. BNB calculations.

[57] Nominal GDP for the last four quarters up to and including the first quarter of 2026 is used in calculating the ratio. General government debt in nominal terms decreased from EUR 34.6 billion at the end of December 2025 to EUR 34.2 billion at the end of March 2026.

5. Price Developments

5.1. Consumer Prices

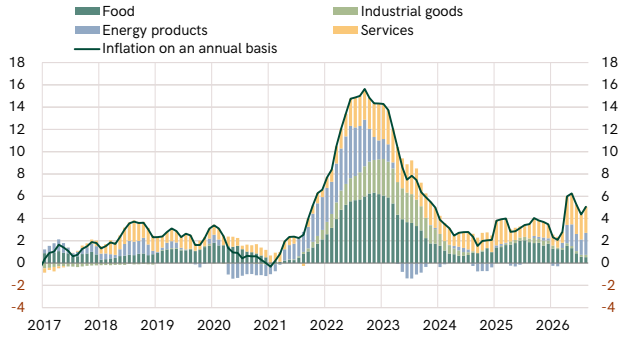
Annual HICP inflation accelerated to 5.0 per cent in August 2026, from 3.5 per cent at the end of 2025. Energy products and services contributed most strongly to this effect, while the food group recorded a significant slowdown in consumer price growth mainly due to the base effect and better agricultural harvest compared to the previous year. In the July-August 2026 period inflation was 1.0 percentage point lower than projected in the BNB macroeconomic forecast of June 2026, mainly owing to lower than expected food price growth.

External macroeconomic environment was an important factor behind price developments in recent months. As a result of the conflict in the Middle East, Brent crude oil prices rose significantly, which directly affected consumer prices by increasing transport fuel prices and indirectly by pushing up production and transportation costs of firms. In the internal macroeconomic environment, strong private consumption, underpinned by growth in household disposable income, continued to facilitate the pass-through of higher firms' costs to final consumer prices. Fiscal policy also had a pro-inflationary effect through the automatic increase in the minimum wage and rising year-on-year social payments, which continued to boost household consumption and disposable income. The continued policy of budget deficits funded by external government bond issues contributed to maintaining high liquidity in the banking system and therefore to the limited transmission of the ECB monetary policy on deposit and lending rates in the household sector in Bulgaria. As a result, the volumes of new consumer loans continued to rise and underpin the increasing household consumption.

Some administrative and tax changes also made an additional albeit one-off positive

Inflation and Contributions of Major Commodity and Services Groups to It

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

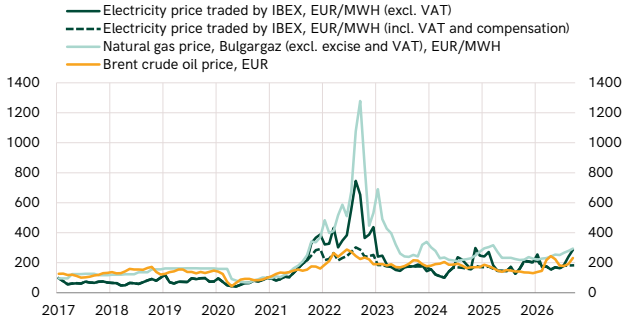


Notes: The structure used corresponds to the Eurostat classification.

Sources: NSI, BNB calculations

Primary Energy Commodity Prices

(Index, December 2020 = 100)



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

Sources: ECB, IBEX, EWRC.

contribution to the acceleration in inflation compared with the end-2025, including the base effect of decreased prices of hospital services in 2025, the increase in excise duty rates on cigarettes and tobacco products in January[58] and August[59] 2026, the rise in road tolls[60] in August 2026 and the higher prices of electricity[61] for domestic consumers from July 2026.

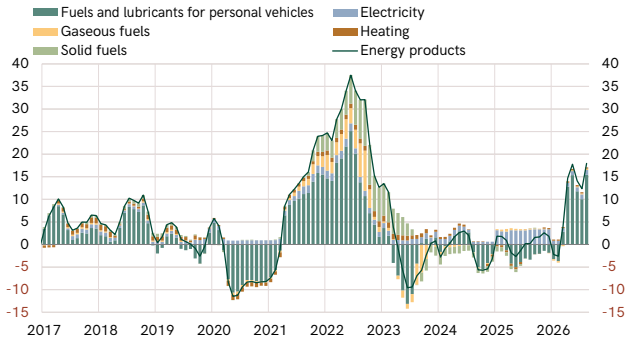
Energy Products Prices

Inflation in energy products accelerated to 17.9 per cent on an annual basis in August 2026, from 1.8 per cent in December 2025. These developments were mainly due to the escalation of the conflict in the Middle East, affecting the price of Brent crude oil, which reached levels of around USD 115 per barrel on several occasions in March, April and May 2026. By mid-September, data show even higher fuel prices per litre at petrol stations than in April 2026, although the Brent price remained lower than the levels reached at the time. A possible reason for this discrepancy is that, in the early months, available stocks of transportation fuels in the EU acted as a cushion and limited the immediate pass-through of the international price shock to end users. Eurostat data point to approximately 5.1 per cent lower emergency stocks of oil and petroleum products at the end of June 2026 compared to the same month of the previous year, and are compatible with a similar effect. In addition, fuel traders in Bulgaria are likely to have retained higher prices in retail trade and also for a preventive reason due to uncertainty about crude oil prices on international markets.

Annual inflation in natural gas accelerated to 14.9 per cent in August 2026 amid defla-

Contributions of Major Sub-groups to Energy Products Inflation

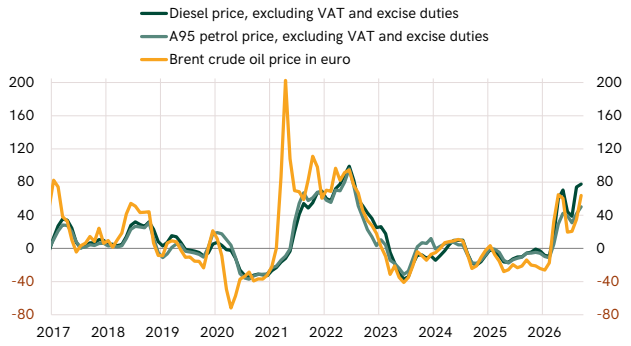
(per cent; percentage points; on an annual basis)



Sources: NSI, BNB calculations.

Rate of Change in the Prices of Brent Crude Oil, A95 Petrol Prices and Vehicle Diesel

(per cent; on an annual basis)



Sources: ECB, NSI, BNB calculations.

[58] The rise in tobacco products' prices was due to an increase in excise duty rates on these products, which came into effect on 1 January 2026 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.

[59] The adoption of the State Budget Law for 2026, published in the Darjaven Vestnik, issue 69 of 31 July 2026, changed the excise duty rate on cigarettes with effect from 1 August 2026.

[60] By Decree No 95 of 29 July 2026 amending the Tariff for the fees collected for passage and use of the national road network, adopted by Council of Ministers Decree No 370 of 2019, published in the Darjaven Vestink, issue 69 of 31 July 2026, toll rates are raised by 30 per cent, with effect from 1 August 2026.

[61] The average electricity price rise by 3.0 per cent for household consumers came into force by EWRC decision on 1 July 2026.

tion of 4.0 per cent at the end of 2025. This occurs against the backdrop of an annual rise of around 90 per cent in August 2026 of the TTF price, which serves as the main benchmark for the wholesale gas price in Europe. The difference is due to the fact that the price approved by the EWRC reflects a mix of supplies under different contractual terms, as well as public delivery and storage costs.

Food Prices

The growth rate of consumer prices in the food group slowed down to 1.9 per cent in August 2026, from 6.3 per cent in December 2025. A deceleration was recorded in both processed and unprocessed food prices.

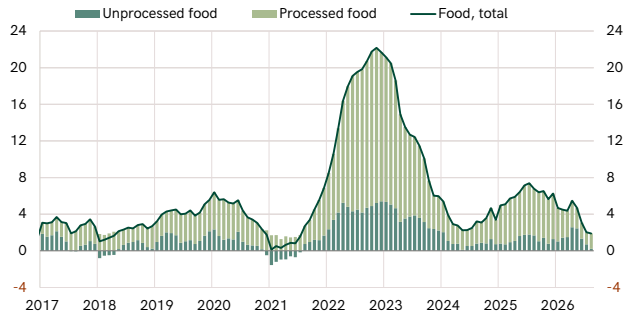
In August 2026, inflation in unprocessed food slowed to 1.0 per cent on an annual basis, from 5.8 per cent in December 2025. In April and May 2026, a significant price hike of 11.3 per cent and 10.9 per cent, respectively, was reported in this group, which is most attributable to the effect of the escalating conflict in the Middle East on the prices of exporters of unprocessed food. The groups of vegetables and fruit contributed most strongly to this effect as these goods are mostly imported in Bulgaria at this time of the year. However, over the last three months, inflation in unprocessed food slowed significantly, driven mainly by fruit and meat and meat products, which posted a year-on-year price fall and vegetables the prices of which slowed down significantly on an annual basis. These developments are probably mostly attributable to the seasonal shift from imported to domestically produced goods, particularly in the fruit and vegetable groups, coupled with data on a rich agricultural harvest[62] in Bulgaria.

Annual processed food inflation fell to 2.2 per cent, from 6.4 per cent in December 2025. Unlike unprocessed food, this subgroup did not experience any acceleration in prices as a result of the price shock triggered by the rise in energy commodity prices. These developments can be partly explained by the high base from the previous year,

[62] Data as of September 2026 of the Ministry of Agriculture for the production of main fruit and vegetables in Bulgaria are used.

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

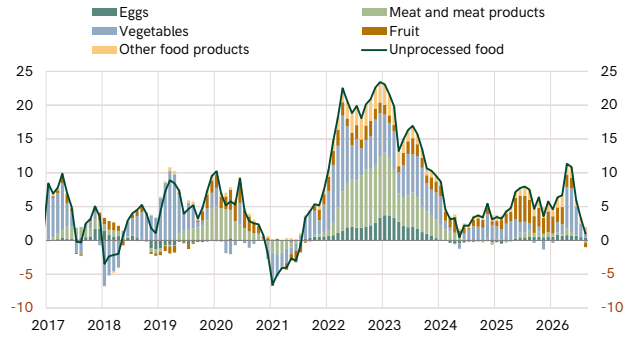
(per cent; percentage points; on an annual basis)



Sources: NSI, BNB calculations.

Contribution of Major Sub-groups to Unprocessed Food Inflation

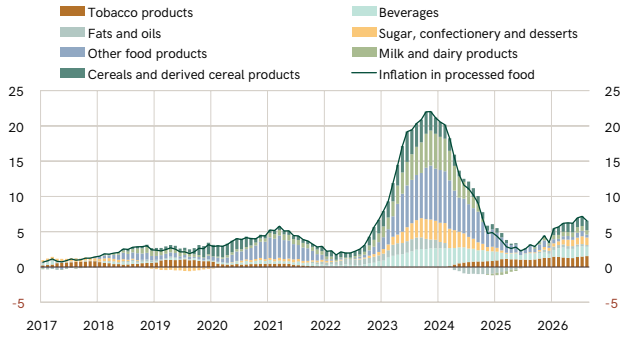
(per cent; percentage points; on an annual basis)



Sources: NSI, BNB calculations.

Contribution of Major Sub-groups to Processed Food Inflation

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



Sources: NSI, BNB calculations.

when consumer prices were rising much faster. Inflation slowed down significantly in the groups of drinks, milk and dairy products and sugar, sugar products and deserts, as well as in the cereals and cereal product group, as the one-off effect of the restored VAT rate on bread and flour in 2025 was exhausted. The group of oils and fats exhibited deflation on an annual basis. Moreover, higher energy costs are usually passed on to processed food prices with a lag due to agreed delivery terms and the length of production cycles, implying possible further price pressures in the following months.

Core Inflation

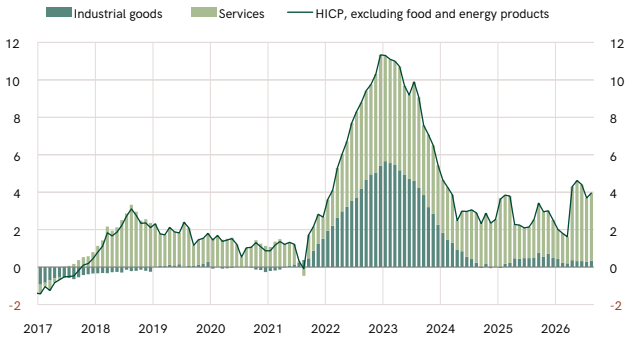
Core inflation (including services and industrial goods prices) accelerated to 4.2 per cent in August 2026, from 2.5 per cent in December 2025. The services group contributed most to price rises in core components of the consumer basket, while the contribution of industrial goods was considerably more limited.

Annual inflation in the group of services accelerated to 7.2 per cent in August 2026 compared to 4.0 per cent at the end of 2025. This dynamics was driven by emerging indirect effects of higher fuel prices and road tolls on transportation services prices. The base effect of lower hospital services prices in 2025 also had a significant impact. Other sub-groups contributing strongly to the price hike were restaurant and hotel services. The dynamics of these prices was affected by pro-inflationary factors such as strong consumer demand of households, rising unit labour costs and increased energy prices.

Inflation in the group of industrial goods slowed down to 0.7 per cent in August 2026 (from 1.0 per cent at the end of 2025). The group of medicines and medicinal products posted the most significant decrease in price growth. A year-on-year price decline was recorded for a number of categories of industrial goods, including footwear, household textiles, household appliances, second-hand motor cars, computer and communications equipment, as well as cameras.

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

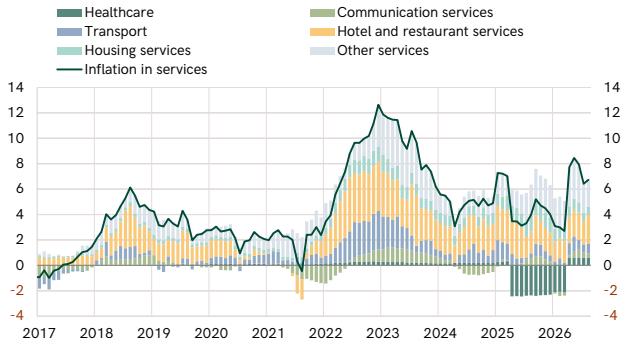
(per cent; percentage points; on an annual basis)



Sources: NSI, BNB calculations.

Contribution of Major Sub-groups to Inflation in Services

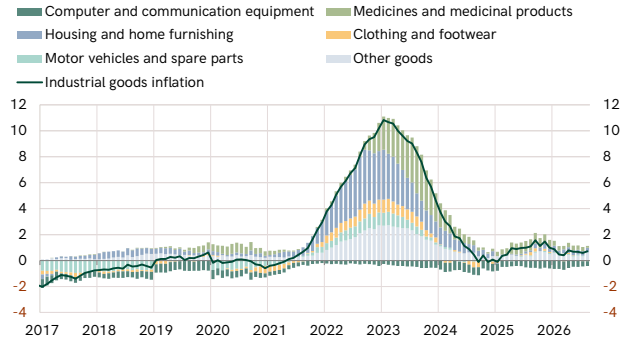
(per cent; percentage points; on an annual basis)



Sources: NSI, BNB calculations.

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

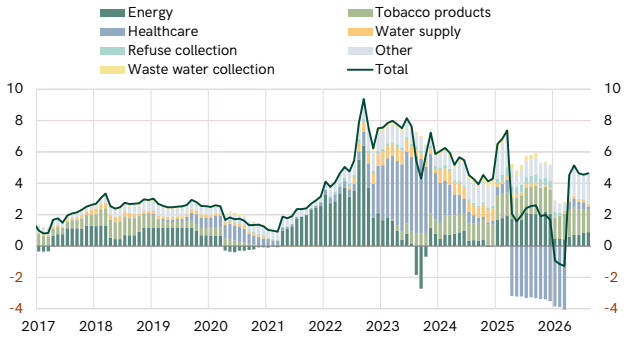
(per cent; percentage points; on an annual basis)



Sources: NSI, BNB calculations.

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

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



Sources: NSI, BNB calculations.

Goods and Services with Administratively Controlled Prices and Tobacco Products

Inflation in goods and services with administratively controlled prices and tobacco products increased to 4.6 per cent in August 2026, from 1.7 per cent by end-2025. This acceleration was largely driven by the base effect of the reduced fees for hospital stays of April 2025. Projected price increases in the sub-groups of administrative services[63], cigarettes and electricity had an additional pro-effect.

The diffusion index indicating the share of goods and services groups with higher annual prices increased to 74.6 per cent in August 2026, from 72.5 per cent in December 2025. As regards the rate of price increase, the share of sub-components with price increases of more than 5 per cent on an annual basis also fell to 45.8 per cent, from 48.6 per cent at the end of 2025.

Inflation Expectations

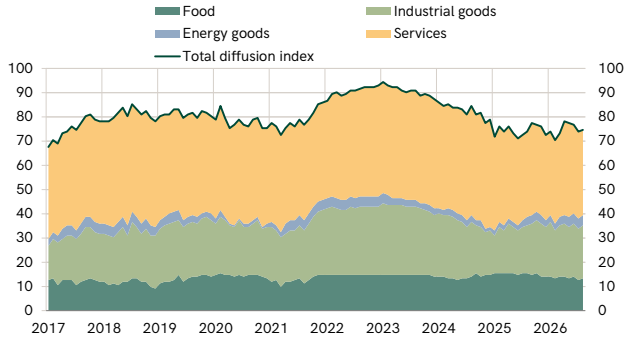
The regular NSI business surveys show that in August 2026 the share of managers in services and industry sectors expecting selling price rises in the following three months increased slightly from December 2025, but remained well below the peaks recorded since the onset of the conflict in the Middle East. In retail trade, the share of managers expecting selling prices to rise in the following three months decreased moderately from December

[63] The Council of Ministers adopted draft amendment to Tariff No 4 of 24 June 2026 to increase fees for issuing personal documents.

Diffusion Index (Relative Shares of Increasing HICP Sub-indices on an Annual Basis)

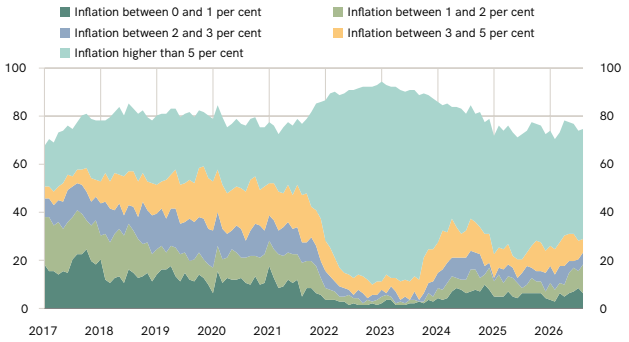
a) by major goods and services groups

(per cent, relative shares of increasing HICP sub-indices on an annual basis)



b) by the size of the increase

(per cent, relative shares of increasing HICP sub-indices on an annual basis)

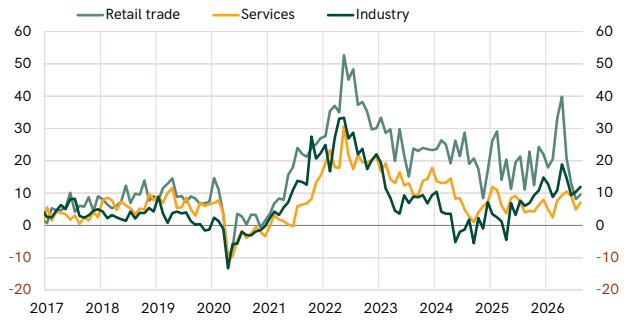


Notes: Data on the HICP 4-digit level sub-indices (sub-classes according to the NSI methodology) have been used. The diffusion index shows the share of sub-indices reporting an increase in value on an annual basis. When calculating the relative shares, the weight of the relevant sub-indices in the consumer 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)



Source: NSI.

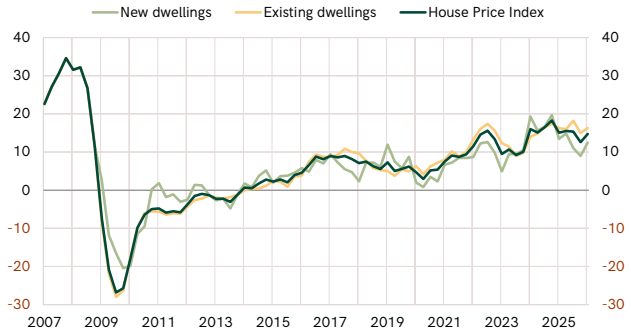
2025 and strongly compared to the peak levels recorded in March and April. In view of the hostilities in the Middle East and the dynamics of crude oil prices on international markets since early September, the results of the business surveys for August may not adequately reflect the latest changes in price expectations and thus provide a limited indication of the short-term trajectory of inflation.

5.2. Housing Prices

The annual growth rate of the House Price Index (HPI) accelerated to 14.8 per cent in the first quarter of 2026, from 12.6 per cent at end-2025). The price increase reflected higher prices of both existing dwellings (by 16.3 per cent) and newly constructed dwellings (by 12.5 per cent). Price increases were widespread across regional cities, with Burgas and Sofia exhibiting the strongest growth rate acceleration (by 17.7 per cent and 16.0 per cent on an annual basis, respectively). Factors which continued to support housing demand and to add to housing price rises were higher labour income, the strong lending activity in an environment of historically low

Rate of Change of House Price Index

(per cent; on an annual basis)



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

Source: NSI.

Key Indicators of the Housing Market Developments in Bulgaria

(per cent; year-on-year change)

	2022	2023	2024	2025	2026 I	2026 II
Price developments						
House price index, total	13.8	9.9	16.5	14.6	14.8	-
New dwellings	10.8	8.6	17.8	12.0	12.5	-
Existing dwellings	15.6	10.6	15.7	16.4	16.3	-
Inflation (HICP)	13.0	8.6	2.6	3.5	2.4	5.8
House rentals, paid by tenants (HICP)	6.3	8.4	5.6	9.6	10.5	9.9
Lending						
New housing loans (for the last 12 months)	33.5	15.7	30.7	28.7	31.8	27.5
Annual percentage rate of charge on new housing loans (per cent, at the end of the period)	2.8	2.9	2.8	2.8	2.8	2.8
Housing loans, balances	18.1	19.5	27.0	27.3	27.5	26.4
Construction and investment						
Permits issued for the construction of new residential building (square metres)	20.6	-4.9	-14.2	27.5	33.3	3.6
Value added in construction (at average annual prices for 2020)	5.3	3.8	11.0	6.5	4.3	3.8
Construction Production Index, building construction	0.1	2.8	-0.1	4.1	12.4	10.9
Fixed investment, residential buildings	-1.4	0.3	35.1	6.6	3.0	2.3
Construction cost index for new buildings	54.8	16.3	4.0	11.8	13.9	9.6

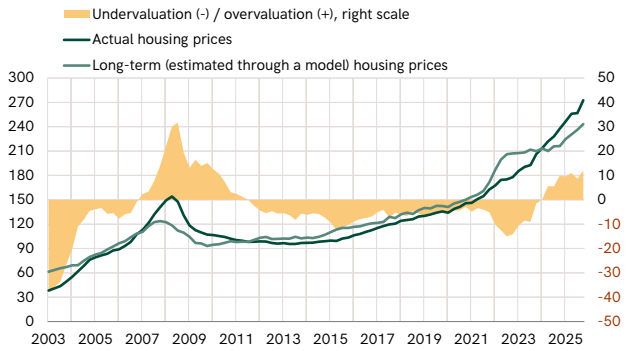
Notes: Values indicating the amount of the APRC on housing loans to households are averages (weighted by the relevant volumes of new loans) for a 12-month period.
In calculating the annual growth rate of new home purchase loans, cumulative data for the most recent 12 months were used.

Sources: NSI, BNB, Eurostat.

annual percentage rates of charges on new housing loans, and more limited opportunities to invest the accumulated savings in the economy in the context of negative real interest rates on households deposits. The construction cost index for new buildings slowed down to 9.6 per cent on an annual basis in the second quarter of 2026, from 14.7 per cent at the end of 2025. Despite this slowdown, index growth remains steadily high and continues to underpin the rise house prices. Over the first quarter of 2026, the price-to-rent ratio, which is a frequently used indicator of undervaluation/overvaluation of houses, continued to exceed significantly (by 50.3 per cent) its long-term (historical) average value.[64] This shows that household decisions to purchase a home continue to be driven by reasons other than ensuring an immediate financial benefit by letting newly acquired properties. Such reasons could be the expectations of a further increase in house prices (and realised capital gains after a sale in the future) or perceptions of residential properties as an alternative asset for preserving value in an environment of negative interest rates on household deposits. Concurrently, estimates based on the BNB macroeconometric model[65], suggest a significantly lower positive deviation of current residential property prices in Bulgaria from their long-term equilibrium level (12.1 per cent). This is determined by the fact that rising household income combined with persistently negative real interest rates on housing loans push up the affordability of houses, which is reflected in the model as an increase in its equilibrium price.

Actual and Equilibrium Housing Prices

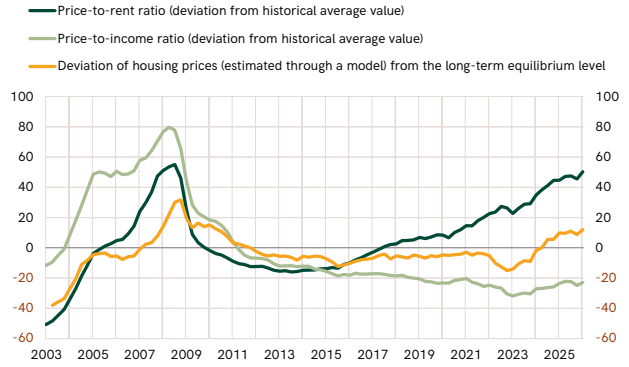
(index 2015 = 100) (per cent) (%)



Sources: NSI, BNB calculations.

Indicators of Undervaluation/Overvaluation of Housing

(per cent)



Sources: NSI, BNB calculations.

[64] Calculated for the period from the first quarter of 2000 to the first quarter of 2026.

[65] 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.

6. Macroeconomic Forecast (September, 2026)

The BNB forecast of key macroeconomic indicators was prepared as of 21 September, based on the ECB assumptions about global economic developments and prices of main commodity groups in international markets as of 19 August 2026.

The ongoing conflict in the Middle East and bottlenecks in the supply of energy commodities through the Strait of Hormuz maintain a heightened uncertainty to the forecast. Baseline assumptions suggest a gradual decline in average quarterly oil prices over the projection horizon, their level expected to be around USD 86 per barrel in the fourth quarter of 2026. Natural gas and electricity prices are set to peak at around EUR 60 *per* MWh and EUR 146 *per* MWh, respectively, over the same quarter, thereafter following a downward trend. Similar to the June 2026 forecast, the baseline of the forecast is complemented by three alternative scenarios. They illustrate the potential macroeconomic effects of different developments in the supply and prices of energy commodities, without assessing the likelihood of their materialisation.

According to the forecast baseline, Bulgaria's real GDP growth will slow down to 2.8 per cent in 2026 and 2.5 per cent in 2027, thereafter accelerating to 2.7 per cent in 2028. In 2026, all domestic demand components are expected to support economic activity, and net exports to have a strong negative contribution to the growth due to a decline in exports and a significant increase in imports. At the same time, the slowdown in real GDP growth compared with the previous year is expected to stem predominantly from the projected lower growth in public expenditure and investments, rather than from a more negative contribution of net exports of goods and services[1]. Lower government consumption growth in 2026 is mainly driven by the expected weaker increase in compensation of employees in the public sector[2]. Despite the projected slowdown, public investment growth will remain high in 2026, mainly supported by completed projects under the National Recovery and Resilience Plan (NRRP).

In 2027, the projected slight moderation in GDP growth reflects exclusively the lower growth in domestic demand, while the contribution of net exports is expected to turn positive. The slowdown in domestic demand growth was mainly driven by lower private consumption growth and a decline in fixed capital investments. Private consumption growth is projected to start slowing in the second half of 2026 and more significantly in 2027 due to the negative effects of higher inflation on real disposable income of households. The decline in investments is driven by the general government sector due to a base effect related to the completion of projects under the NRRP in 2026.

In 2028, real GDP growth is forecast to accelerate under the influence of the recovery in public investment growth, mainly due to the expected increase in investments financed by European funds. Despite the accelerated exports growth at the end of the projection horizon, exports are expected to grow at a slower pace than historically observed, in line with the assumptions for external demand and reflecting signs of deteriorating competitiveness of Bulgarian goods exporters[3].

[1] Net exports had a significant negative contribution to the GDP growth also in 2025, but this was largely due to one-off factors limiting exports of goods.

[2] Wage developments in the public sector are in line with the income policy for public sector employees set out in the State Budget Law of the Republic of Bulgaria for 2026.

[3] For an analysis of the factors behind goods exports dynamics, see the topical research 'Competitiveness of Bulgarian Exports of Goods after 2022'.

Compared with the June 2026 forecast, we expect a similar growth rate of real GDP in 2026 and lower growth for 2027 and 2028. The revision by -0.2 percentage points for 2027 is mainly due to updated estimates of the trajectory of fixed capital investments, which in the current forecast decline in real terms in 2027 (as opposed to growth in the June forecast), following a significant upward revision of general government investments for 2026, assuming almost full implementation of NRRP projects. This revision of domestic demand components is partly offset by lower growth in goods imports, turning the contribution of net exports from negative to positive. The decrease in real GDP growth in 2028 (by 0.2 percentage points) in the current forecast is mainly due to lower private consumption growth as a result of the downward revision of private and public sector wage growth in 2027 and 2028 and lower fiscal transfers to households, which further dampen household purchasing power *vis-à-vis* the conductive June forecast.

Annual HICP inflation is expected to accelerate to 5.2 per cent at the end of 2026 (from 3.5 per cent at the end of 2025), while average annual inflation is anticipated to be 4.6 per cent in 2026 (against 3.5 per cent in 2025). The acceleration compared to 2025 is mainly due to inflation in energy products and, to a much lesser extent, in services, while the increase in prices of food and industrial goods is expected to slow down. Significant pro-inflationary pressures are stemming from the external environment. International crude oil prices are expected to have a direct effect on transport fuel prices in 2026, which will be transmitted indirectly to the prices of other main groups of the consumer basket, such as food and core components. We expect the domestic macroeconomic environment to continue exerting pro-inflationary pressures, driven by robust private consumption, which remains conducive to a more complete and direct pass-through of higher production costs to final consumer prices. In 2027, inflation is expected to slow down to 3.1 per cent on average for the year (2.9 per cent at the end of the period), with energy products contributing most to the slowdown mainly due to the high base of 2026 and the baseline assumptions for commodity price dynamics in international markets. Services inflation is expected to remain high in 2027, and food inflation to accelerate due to indirect effects of the increase in energy prices over the previous year. Average annual inflation in 2028 is projected to continue slowing down and to stand at 2.9 per cent (2.6 per cent at the end of the year). We expect price increases across all major components of the consumer basket to moderate compared with the previous year, with the exception of energy products, reflecting the planned introduction of ETS2 in the EU.[4] According to BNB estimates, the ETS2 introduction in Bulgaria without parallel fiscal compensatory measures for affected households would lead to 0.5 percentage points higher average annual inflation in 2028.

The inflation forecast has been revised downward, with lower projected consumer price growth both at the end of the year and on an annual average basis for 2026, reflecting primarily a downward revision in food inflation given the lower-than-expected increase in food prices over the last reporting months relative to the June 2026 forecast. A further factor contributing to the downward revision compared with June is the assumption of weaker second-round effects from higher energy prices on other inflation components, in light of the pass-through observed in the latest available data. For 2027, the headline inflation forecast has also been revised towards a lower price increase, particularly in the food group.

[4] The EU Emission Trading System 2 (ETS 2) is an emissions trading mechanism that imposes a price on carbon emissions by placing obligations on fuel suppliers. For more information, see the box entitled The Macroeconomic impact of climate change policies in the euro area, ECB, Eurosystem staff macroeconomic projections, December 2025.

GDP[5] and Inflation Forecast Revisions (September 2026 *vis-à-vis* June 2026)

Annual rate of change (per cent)	Forecast of September 2026				Forecast of June 2026				Revision (percentage points)			
	2025	2026	2027	2028	2025	2026	2027	2028	2025	2026	2027	2028
GDP at constant prices	3.2	2.8	2.5	2.7	3.2	2.8	2.7	2.9	0.0	0.0	-0.2	-0.2
HICP at end of period	3.5	4.6	3.1	2.9	3.5	5.0	3.5	2.9	0.0	-0.4	-0.4	0.0

Sources: BNB, NSI.

Against the backdrop of heightened geopolitical tensions between the United States and Iran and the associated increase in international energy commodity prices, the uncertainty surrounding the outlook for the Bulgarian economy remains high. Taking into account the technical assumptions regarding the external economic environment underlying the baseline, risks to the real GDP growth forecast are assessed as broadly balanced for 2026, while for 2027 and 2028 risks are tilted towards lower-than-projected growth. At the same time, risks to the inflation forecast are assessed as tilted to the upside in 2026 and 2027, while remaining broadly balanced for 2028, with these risks stemming primarily from the external environment. Given the geopolitical situation in the Middle East as of the end of September, crude oil prices are likely to remain above the level assumed in the forecast baseline until the end of 2026. This would lead to higher inflation in energy products for 2026, which will be passed on to the other inflation components at the end of 2026 and in 2027. This, in turn, would have a negative impact on real household income and would increase firms' production costs, which will adversely affect private consumption and investment activity in 2026 and 2027. Consumer expenditure growth could be further constrained, albeit from the historically high rates recorded in the first half of 2026, should the adverse developments in the labour market observed since the second quarter of 2026 intensify in view of weaker domestic labour demand and a decline in real compensation *per* employee. Meanwhile, the currently strong growth of private consumption could persist through the end of 2026 if the adverse effects of higher inflation were to materialise later than envisaged in the baseline. The uncertainty surrounding the forecast arises from the parameters of the budgetary framework, which could result in lower GDP growth, in view of the substantial deceleration in current expenditure growth in 2027 and 2028 envisaged in the Updated Medium-Term Budget Forecast (UMTBF) for 2026-2028 compared with the assumptions incorporated into the current BNB forecast. The parameters of the budgetary framework presented in the UMTBF for 2026-2028 are not fully reflected in the current forecast due to the lack of specific measures that would contribute materially to the fiscal consolidation envisaged by the government. Additional uncertainty to the current forecast also stems from the draft State Budget Law for 2027 and the new medium-term fiscal forecast of the government, which are expected to be published in October.

[5] GDP figures are seasonally and working-day adjusted.

Forecast of Key Macroeconomic Indicators for 2026–2028

Annual rate of change (per cent)	2025	2026 f	2027 f	2028 f
GDP at constant prices[1]	3.2	2.8	2.5	2.7
Private consumption	7.8	7.7	3.4	2.9
Government consumption	6.9	2.6	2.4	2.3
Gross fixed capital formation	10.1	12.4	-5.1	2.8
Exports of goods and services	-2.1	-1.3	3.6	3.7
Imports of goods and services	5.9	7.3	1.8	3.8
HICP (average for the period)	3.5	4.6	3.1	2.9
HICP (at end of period)	3.5	5.2	2.9	2.6
Core Inflation[2]	2.5	3.9	3.3	2.1
Food[2]	6.3	2.8	3.8	2.8
Energy products[2]	1.8	18.2	-1.5	5.0
Employment[1]	2.1	0.7	0.2	0.1
Unit labour costs[1]	9.0	5.1	5.4	5.0
Labour productivity[1]	1.1	2.1	2.3	2.6
Unemployment rate (share of labour force, per cent)[1]	3.5	3.4	3.2	3.0
Loans to non-financial corporations and households[3]	15.3	15.6	12.0	9.7
Loans to non-financial corporations	9.9	12.1	9.4	6.8
Loans to households	21.1	18.9	14.3	12.3
Deposits of the non-government sector	16.4	8.9	7.9	7.5
Per cent of GDP	**2025**	**2026 f**	**2027 f**	**2028 f**
Balance of payments current account	-6.1	-8.9	-7.4	-6.7
Trade balance	-8.5	-10.7	-9.6	-9.1
Services, net	7.4	6.1	6.4	6.5
Primary income, net	-6.1	-5.5	-5.9	-5.6
Secondary income, net	1.1	1.2	1.7	1.5
Annual rate of change (per cent)	**2025**	**2026 f**	**2027 f**	**2028 f**
External assumptions				
External demand	3.8	2.8	3.6	3.7
Average annual Brent oil price (in USD)	-14.9	29.5	-12.8	-5.7
Average annual price of non-energy products (in USD)[4]	4.2	7.5	3.1	1.4
Brent oil price at the end of period (in USD)	-14.8	35.4	-12.3	-3.9
Price of non-energy products at the end of period (in USD)	4.7	8.6	1.3	1.5

Notes:

1. Seasonally and working-day adjusted data.
2. The main components of the HICP correspond to Eurostat's classification. Core inflation includes the prices of services and industrial goods.
3. Including loans and repo transactions.
4. Prices of non-energy products are weighted according to the structure of Bulgarian imports of goods.

Sources: BNB, NSI and ECB.

Highlight

Alternative Scenarios for the Economic Implications of the Conflict in the Middle East

As of the cut-off date of the forecast on 21 September, the military conflict in the Middle East continues to be a source of significant uncertainty surrounding the forecast baseline. Therefore, similarly to our June 2026 forecast, the baseline scenario is complemented by three alternative macroeconomic scenarios: a milder scenario, an adverse scenario and a severe scenario. It should be noted that the forecast baseline is based on assumptions about international price dynamics in main commodity groups as of 19 August. As of 21 September, oil prices were at levels around 23 US dollars (USD) *per* barrel higher than the oil price assumptions for September in the forecast baseline.

The scenarios have been developed using the BNB's main simulation model, and their design and underlying assumptions follow those set out in the alternative scenarios of the ECB staff macroeconomic projections for the euro area published on 10 September 2026[1]. These three scenarios differ in terms of the impact of the energy price shock, as well as the strength of its transmission to non-energy goods and services prices. The scenarios do not assess the likelihood of their materialisation and do not take into account the effects of potential monetary and fiscal policy measures beyond those set out in the baseline. They are purely illustrative and aim to present changes in the key macroeconomic indicators under various assumptions about international commodity price dynamics.

Description of the Alternative Negative Scenarios

The scenarios reflect the impact of the military conflict on the Bulgarian economy in case of divergent developments in international prices of oil, natural gas, electricity[2], food, the exchange rate of euro against the US dollar and the external demand for Bulgarian goods and services (see Chart 1). As in June, the path of international oil and gas prices in the alternative scenarios is calculated based on the distribution of expected prices of these commodities, derived from option prices as of 19 August. In the milder scenario for the fourth quarter of 2026, oil and gas prices follow the 25th percentile of these distributions: the 75th percentile in the adverse scenario and the 95th percentile in the severe scenario. These percentiles reflect market participants' assessment of the current risks surrounding energy prices and implicitly cover alternative developments for the conflict in the Middle East and the associated potential disruptions in energy supplies.

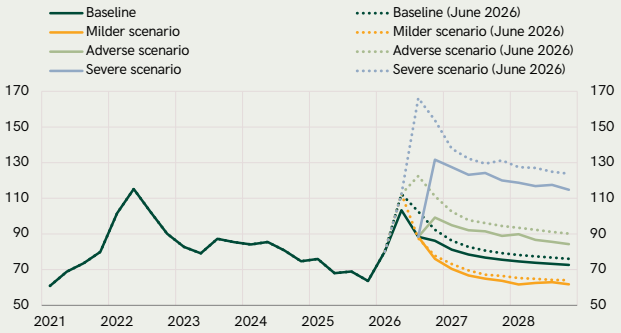
[1] For further details, see ECB staff macroeconomic projections, September 2026.

[2] For the sake of consistency and comparability across countries, the assumptions about the trajectory of energy prices in individual scenarios are provided to the BNB by the ECB, except those for electricity for non-household consumers. Reflecting the large importance of the electricity price for non-household consumers for producer price dynamics in the Bulgarian market, it is included in the preparation of the scenarios for the Bulgarian economy, with the deviation from the baseline being derived on the basis of its historical relationship with international natural gas prices.

CHART 1

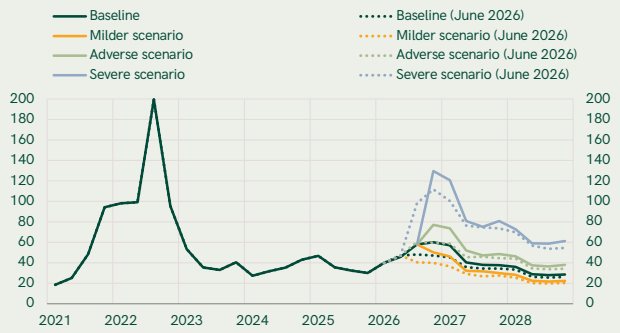
(a) International Oil Price

(USD/barrel)



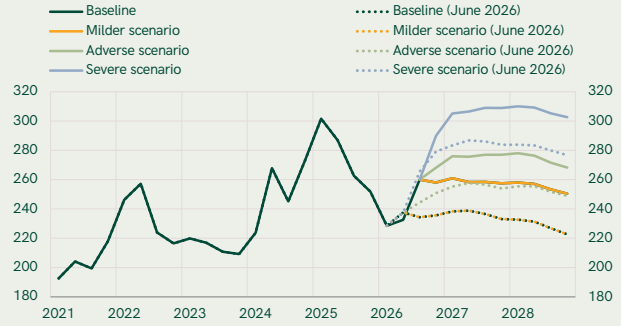
(b) International Natural Gas Price

(EUR/MWh)



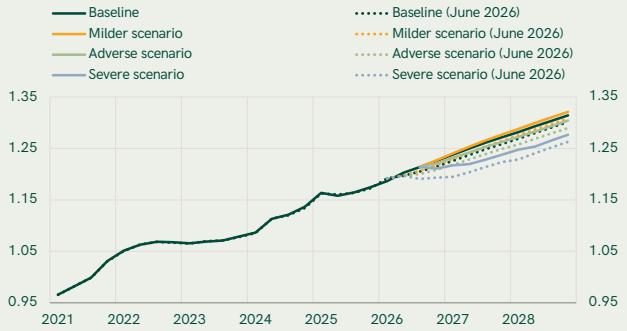
(c) International Food Prices

(USD)



(d) External Demand for Bulgarian Goods Services

(index, 2020 = 100)



Source: ECB, BNB calculations.

- Under the **milder scenario**, oil prices are assumed to fall to around USD 75 *per* barrel in the fourth quarter of 2026, compared with USD 78 *per* barrel in the June forecast, while natural gas prices are expected to reach EUR 50 *per* MWh, compared with EUR 40 *per* MWh in the June forecast. This trajectory of energy prices is consistent with market expectations that the conflict could still be resolved quickly, leading to a rapid normalisation of international oil and natural gas markets. This scenario includes additional assumptions about stronger external demand for Bulgarian goods and services *vis-à-vis* the baseline and an appreciation of the euro against the US dollar. In the milder scenario, international food prices remain unchanged compared to their baseline level.
- Under the **adverse scenario**, oil prices increase to around USD 100 *per* barrel (compared with USD 111 in the June forecast), while natural gas prices increase to around EUR 75 *per* MWh (compared with EUR 60 *per* MWh in the June forecast) in the fourth quarter of 2026. Energy product prices remain significantly above the level assumed in the baseline scenario throughout the projection horizon. This is in line with market expectations of a longer-lasting conflict than assumed in the forecast baseline. As regards food prices, an increase is also projected compared to the baseline. This scenario also includes assumptions about weaker external demand for Bulgarian goods and services and a depreciation of the euro against the dollar. In addition, the adverse

scenario also assumes emergence of non-linear indirect[3] and second-round effects on inflation.

- Under the **severe scenario**, international oil prices increase by 50 per cent, while natural gas prices more than double relative to the baseline, reaching around USD 130 *per* barrel and EUR 130 *per* MWh, respectively, in the fourth quarter of 2026 (compared with USD 154 *per* barrel and 112 *per* MWh, respectively, under the severe scenario in the June forecast). Compared with the adverse scenario, the energy price and other variables shock is both stronger and highly persistent, with deviations from the baseline still being of a similar magnitude up to the end of the projection horizon. This scenario is consistent with market participants' expectations of a prolonged military conflict accompanied by disruptions in energy supplies[4]. Assumptions in this scenario also include a stronger increase in non-energy prices than in the adverse scenario, lower external demand, a stronger depreciation of the euro against the dollar and stronger indirect and second-round effects on inflation compared to the adverse scenario.

The main channels through which external shocks under the three scenarios are transmitted to the Bulgarian economy relate to the external demand for Bulgarian goods and services, international prices of food and energy resources, and the related non-linear second-round effects on inflation and GDP (see Chart 3). These channels are described in greater detail in the June 2026 BNB forecast[5].

Simulation Results

Simulation results show that if the milder scenario for Bulgaria materialises, lower inflation can be observed over the entire forecast horizon along with a higher growth of economic activity in 2027 and 2028 compared to the baseline. At the same time, the two negative scenarios lead to higher inflation and lower growth of economic activity in 2027 and 2028 compared to the baseline, with stronger and more prolonged effects in the severe scenario (see Table 1). By component of inflation, the energy shock would have the strongest effect on energy prices and core inflation. As regards economic activity, the negative effects would most strongly impact goods and services exports, followed by fixed capital investments and private consumption (see Chart 2). Current GDP and inflation data for the first half of the year show that their dynamics is closest to the milder scenario of June 2026. As a result of the relatively favourable developments in the first six months of 2026, current scenarios show that the potential effects of the conflict in the Middle East (see Chart 4) materialise mostly in 2027.

[3] The different degree of non-linearity between energy prices and inflation is also reflected in the scenarios. In periods of high inflation, the transmission of the energy shock to final consumer prices may be significantly stronger than historically observed. With tight labour market conditions and larger price shocks, it is typical to observe a non-linear relationship between eenergy product prices and inflation, which standard linear models cannot describe. This non-linearity is reflected to a different degree in the adverse and severe scenarios. In the BNB's main simulation model, these non-linear links are captured by calibrating the coefficients in the equations used to model services inflation and food inflation in order to reflect expected stronger indirect and second-round effects of the shocks in the two negative scenarios. These calibrations are based on the estimated amount of respective coefficients over the 2022-2023 high inflation period in Bulgaria.

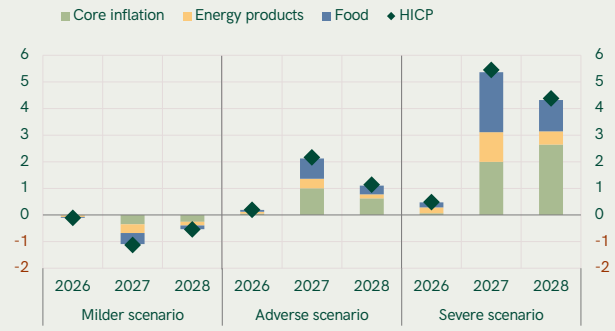
[4] The trajectory of energy prices assumed under the severe scenario implies an approximately 8 per cent reduction in global oil supply and a 12 per cent reduction in liquefied natural gas supply compared to the baseline. These calculations are based on ECB estimates of the historical relationship between the volume of global supply of energy commodities and their prices.

[5] For more information, see the highlight entitled 'Alternative Scenarios for the Economic Implications of the War in the Middle East' in the June 2026 Macroeconomic Forecast.

CHART 2

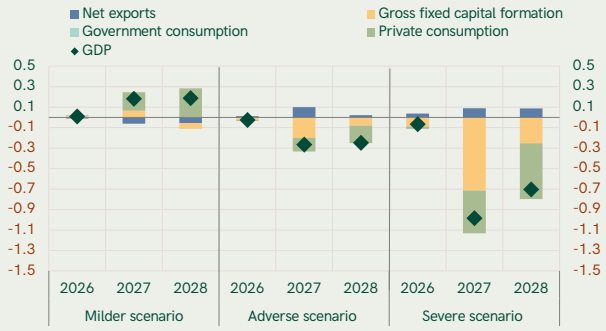
(a) Deviation of the HICP from the Baseline and Contributions by Component

(percentage points)



(b) Deviation of Real GDP Growth from the Baseline and Contributions by Component

(percentage points)

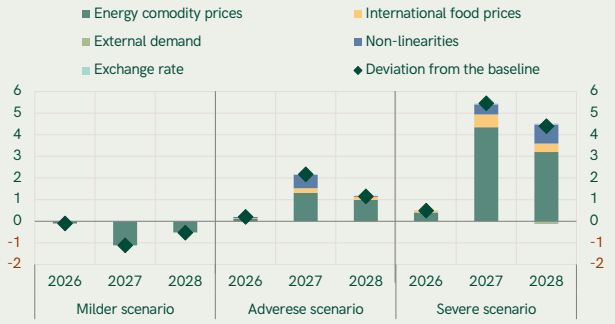


Source: BNB calculations.

CHART 3

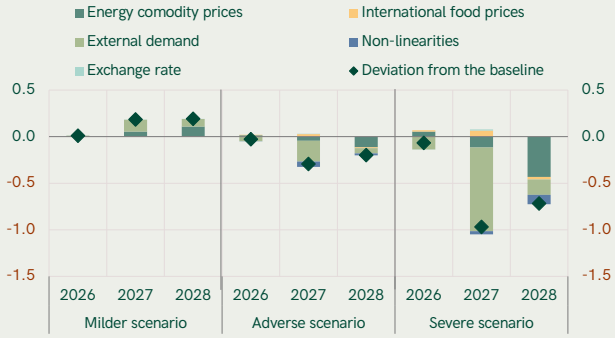
(a) Deviation of the HICP from the Baseline and Contributions by Shock

(percentage points)



(b) Deviation of Real GDP Growth from the Baseline and Contributions by Shock

(percentage points)



Source: BNB calculations.

In the **milder scenario**, the inflation forecast is lower than in the baseline almost entirely due to the underlying dynamics of energy prices, in particular electricity prices for non-household consumers and international oil prices (see Chart 3 (a)). In 2026, inflation is 0.1 percentage points lower, amounting to 4.5 per cent on average for the year. By HICP component, the deviation from the baseline is driven mainly by the group of energy products (see Chart 2 (a)). In 2027 and 2028, consumer price growth is lower by 1.1 percentage points and 0.5 percentage points, respectively, compared to the baseline, coming to 2.0 per cent and 2.4 per cent, respectively. Core components of the consumer basket are the main contributors to lower inflation in the 2027–2028 period, reflecting the estimated pass-through of energy price developments with a time lag (see Chart 2 (a)). As regards economic activity, GDP growth remains broadly unchanged in 2026, but is 0.2 percentage points higher than the baseline in 2027 and 2028. The stronger economic activity at the end of the forecast horizon is mainly due to higher private consumption, as well as higher exports of goods and services compared to the baseline (see Chart 2 (b)).

In the **adverse scenario**, inflation is higher compared to the baseline by 0.2 percentage points in 2026, by 2.2 percentage points in 2027 and by 1.1 percentage points in 2028. The largest

deviation from the baseline is observed in 2027, reflecting both delayed indirect effects of the energy shock on the other HICP components and projected non-linear second-round effects in consumer food and services prices. In the adverse scenario, inflation would be 4.8 per cent in 2026, before accelerating to 5.3 per cent in 2027 and slowing down to 4.1 per cent in 2028 (see Table 1). The impact on economic activity is most pronounced in 2027 and 2028, contributing to lower growth compared to the baseline scenario by 0.3 percentage points and 0.2 percentage points in 2027 and 2028, respectively. The lower real GDP growth is due to weaker increase in goods and services exports, fixed capital investments and private consumption. Concurrently, this decline in domestic demand and exports components is reflected in lower imports of goods and services, leading to a positive deviation of net exports compared to the baseline. Real GDP growth under the adverse scenario slows down to 2.2 per cent in 2027, before accelerating to 2.5 per cent in 2028 as energy prices fall (see Table 1).

Under the **severe scenario**, more intense and prolonged pro-inflationary pressures are observed (see Chart 4). Acceleration of inflation in 2026 and 2027 reflects both indirect effects of higher energy and food prices and stronger non-linear second-round effects than projected in the adverse scenario (see Chart 3 (a)). As a result, headline inflation is higher than in the baseline by 0.5 percentage points in 2026 and by 5.5 percentage points in 2027, standing at 5.1 per cent and 8.5 per cent, respectively (see Table 1). Assuming a lower degree of pass-through of energy prices and labour costs to the HICP towards historical values, inflation slows down to 7.3 per cent in 2028. Economic activity in a severe scenario decreases significantly over the whole projection horizon, with real GDP growth being lower by 0.1 percentage points in 2026, by 1.0 percentage points in 2027 and by 0.7 percentage points in 2028 compared to the forecast baseline. As a result, under the severe scenario, real GDP growth stands at 2.7 per cent in 2026, slowing down to 1.5 per cent in 2027 (mainly driven by weaker external demand for Bulgarian goods and services), before accelerating to 2.0 per cent in 2028 (see Table 1).

TABLE 1

Simulation Results for the Effects of the Conflict in the Middle East on the Bulgarian Economy

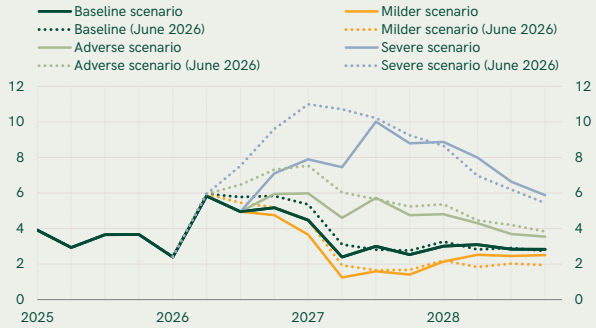
	Real GDP growth (per cent)			Average annual inflation based on HICP (per cent)		
	2026	2027	2028	2026	2027	2028
Baseline	2.8	2.5	2.7	4.6	3.1	2.9
Adverse scenario	**2.8**	**2.2**	**2.5**	**4.8**	**5.3**	**4.1**
Severe scenario	2.7	1.5	2.0	5.1	8.5	7.3
Milder scenario	**2.8**	**2.7**	**2.9**	**4.5**	**2.0**	**2.4**

Source: BNB.

CHART 4

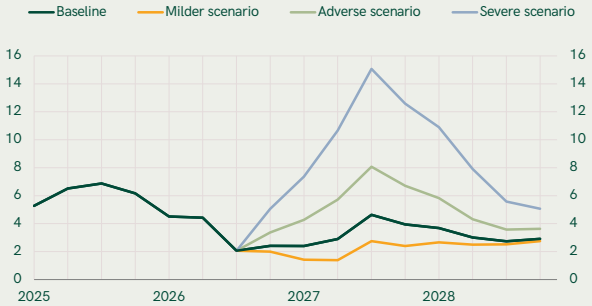
(a) Inflation (based on HICP)

(per cent)



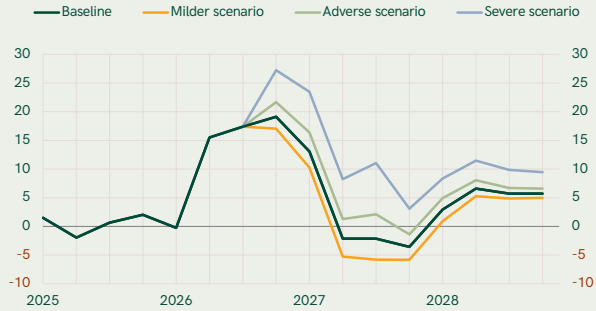
(b) Food inflation

(per cent)



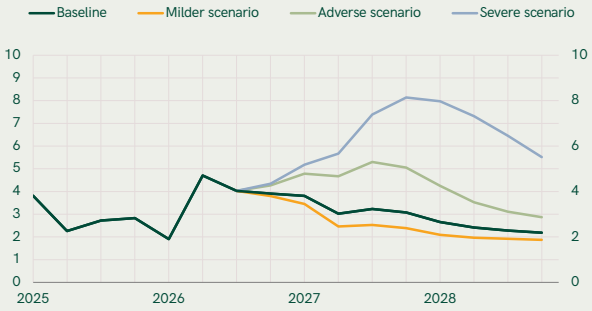
(c) Inflation in Energy Products

(per cent)



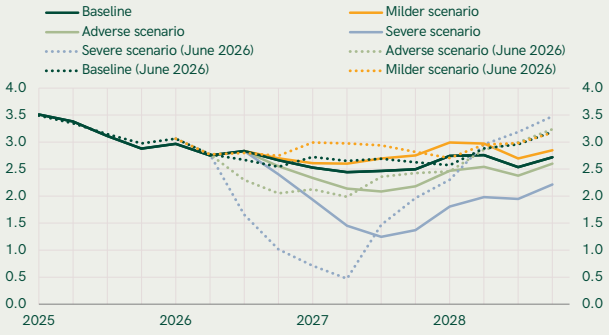
(d) Core Inflation

(per cent)



(e) Real GDP Growth

(per cent, annual growth)



Source: BNB calculations.