



MACROECONOMIC FORECAST

MARCH 2025



BULGARIAN NATIONAL BANK

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The BNB quarterly Macroeconomic Forecast provides annual projections of major macroeconomic indicators for Bulgaria in the current and next two years. The macroeconomic forecast is prepared by the BNB Economic Research, Forecasting and Monetary Policy Directorate and does not necessarily reflect the views of the members of BNB Governing Council about 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 Macroeconomic Forecast (March 2025) was presented to the BNB Governing Council at its meeting on 17 April 2025, and it contains a projection of the key macroeconomic indicators, prepared as of 26 March 2025. The estimates and projections published in this issue should not be regarded as advice or recommendation. The information in the publication should be used exclusively at the user's risk.

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Abbreviations

BNB	Bulgarian National Bank
GDP	Gross Domestic Product
EC	European Commission
EU	European Union
EWRC	Energy and Water Regulatory Commission
ECB	European Central Bank
CPI	Consumer Price Index
CFP	Consolidated Fiscal Programme
NSI	National Statistical Institute
NRRP	National Recovery and Resilience Plan
OPEC	Organization of Petroleum Exporting Countries
HICP	Harmonised Index of Consumer Prices
VAT	Value Added Tax

SUMMARY

The BNB forecast of key macroeconomic indicators is prepared as of 26 March 2025 based on the assumptions about global economic developments and price dynamics of main commodity groups in international markets as of 6 March 2025. Therefore, the forecast does not take into account effects of a sharp escalation of the trade war following the broad-based tariffs announced by the United States on 2 April.

The assumptions about global economic activity and trade developments suggest that growth of external demand for Bulgarian goods and services will be lower than projected in the December 2024 macroeconomic forecast of the BNB over the whole projection horizon. This is mainly due to the deteriorated economic outlook for Bulgaria's major trading partners in the euro area, as a result of which external demand growth is expected to remain at low historical levels, reaching 2.3 per cent in 2025 and accelerating to 3.0 per cent in 2026 and 2027. These assumptions do not reflect the effects of changes in international customs tariffs introduced after 19 February 2025, meaning that growth in demand for Bulgarian goods and services could be lower over the entire projection horizon. Market participants expect that international energy commodity prices in euro will decline in 2025, mainly in oil prices, while natural gas and electricity prices are anticipated to be higher than the ones in 2024. The technical assumptions for euro prices of non-energy products in international markets show significant price rises in 2025, which will be most pronounced in certain groups of food and agricultural raw materials. As a result, euro commodity prices weighted by their importance for Bulgaria's international trade are anticipated to grow at rates slightly below 6.0 per cent in 2025 and between 1.8 and 2.7 per cent in the next two years.

Bulgaria's real GDP growth is expected to reach 2.8 per cent in 2025, before slowing down to 2.2 per cent in 2026 and accelerating to 3.1 per cent in 2027. This real GDP dynamics is mainly driven by the government consumption dynamics, the set profile of government investments and net exports. Fixed capital investments are expected to grow strongly, by 7.2 per cent in 2025, to decline by 2.7 per cent in 2026 and to rise again in 2027, with this profile largely being affected by deliveries of military equipment. Private consumption is envisaged to grow at high rates (slightly below 4.0 per cent) over the whole forecast horizon, appearing to be the GDP component with the highest positive contribution which is in line with the projected increase in employment for 2025–2026 and in real disposable income of households. The elevated global economic uncertainty and planned repairs in large manufacturing enterprises are expected to contribute to an increase in inventories accumulated in the economy which are likely to have a positive contribution to the economic growth in 2025 (0.3 percentage points). As regards exports of goods and services, growth is expected over the whole forecast horizon, which will however be temporarily limited in 2025 by the projected repairs in manufacturing and subdued economic activity in Bulgaria's main trading partners.

Annual inflation measured by the Harmonised Index of Consumer Prices (HICP) is expected to accelerate to 3.5 per cent at the end of 2025 (compared to 2.1 per cent at the end of 2024), with average annual inflation coming to 3.8 per cent (2.6 per cent in 2024). All major goods and services groups will contribute to the acceleration of inflation, with food and services groups contributing most positively to the HICP at the end of 2025. The projected rise in labour costs and strong consumer demand are anticipated to continue exerting pro-inflationary pressures in the medium term and to maintain high services inflation. At the end of 2026, the forecast is for annual inflation to slow down to 2.5 per cent (2.4 per cent on average for the year), due mainly to the goods and services with administratively controlled prices and food. Average annual inflation is expected to accelerate slightly to 2.6 per cent in 2027.

Changes in international customs tariffs introduced after 19 February 2025, which are not reflected in the current macroeconomic forecast, and the ongoing geopolitical conflicts create significant risks of lower real GDP growth in Bulgaria over the whole forecast horizon compared to the baseline scenario.

A major internal risk of lower economic activity in Bulgaria continues to be the likelihood of a slower than projected in the baseline scenario assumption of implementation of investment projects financed by both national and EU funds. At the same time, there is a risk of larger than projected defence expenses, as a result of both higher public investments and public consumption.

The sharp escalation of the trade war after the announced US broad-based tariffs on 2 April leads to a very high uncertainty about the development of inflation globally, in Europe and in Bulgaria. The net effect of the trade war on inflation in Bulgaria will depend on a number of interrelated factors, including on the response of leading economies, notably the EU, effects on import prices, euro exchange rate fluctuations, changes in international commodity prices, effects of a potential restructuring of global supply chains and a possible shift of trade flows from China and other countries to Europe, changing economic agents' consumption and investment sentiment amid a high uncertainty, as well as on the monetary and fiscal policy responses in major economic regions.

Between 2 and 9 April 2025, as a result of the sharp deterioration in the global economic outlook, international oil prices fell significantly below the current forecast assumptions, which, all other things being equal, is an external factor for lower inflation in Bulgaria in the short term. At the same time, there are still internal factors posing a risk of higher than projected inflation and they are related to a possible larger increase in administratively controlled prices in Bulgaria and to a potentially faster and stronger pass-through by firms of projected labour costs growth to final consumer prices.

FORECAST OF KEY MACROECONOMIC INDICATORS FOR 2025–2027

External Environment

The BNB forecast of key macroeconomic indicators is prepared as of 26 March 2025 based on assumptions about global economic developments and price dynamics of main commodity groups in international markets as of 6 March 2025. Therefore, the forecast does not take into account the effects of a sharp escalation of the trade war following the broad-based tariffs announced by the United States on 2 April.

Assumptions about developments in external demand for Bulgarian goods and services are based on the latest European Central Bank (ECB) projections¹. Foreign demand is expected to grow at a slower pace than projected in the BNB macroeconomic forecast of December 2024, reflecting mainly worsening economic prospects of Bulgaria's major trading partners in the euro area and increasing risks to global trade, including the US protectionist foreign trade policy and rising uncertainty over geopolitical conflicts. The assumptions imply that growth in external demand for Bulgarian goods and services will accelerate from 2.3 per cent in 2025 to 3.0 per cent in 2026 and 2027. These rates are comparatively low historically and are impacted by ongoing processes of trade fragmentation, heightened geopolitical tensions and structural problems in some Bulgaria's major trading partners.

The ECB assumptions include information as of 19 February and, therefore, they do not take into account the effects of the broad-based tariffs announced by the United States on 2 April on the European and Bulgarian econo-

my, respectively.² From this perspective, there is a significant risk of more negative dynamics of external demand for Bulgarian goods and services compared to the forecast baseline scenario.

Assumptions about the change in euro prices³ of energy commodities (crude oil, natural gas, electricity)⁴ and non-energy commodities⁵ (metals⁶, food⁷ and other commodities⁸) take into account prices of futures contracts concluded in international markets as of 6 March 2025 and thus do not take into account significant price changes resulting from the broad-based tariffs announced by the United States on 2 April. As of 6 March 2025, market participants expect euro energy prices in international markets to

² A list of the included changes in customs tariffs in the assumptions about global economic activity and external demand for Bulgarian goods and services is provided in [Box 2](#) 'The impact of tariffs on the March 2025 staff projections' of the March 2025 ECB staff macroeconomic projections for the euro area.

³ The forecast for euro prices of commodities is based on a technical assumption about the EUR/USD exchange rate, which is fixed for the entire forecast horizon at its average value for the last ten days as of the date when the external environment assumptions were made.

⁴ The assumption about price dynamics of petroleum products for the entire projection horizon is based on data on futures contracts traded in international markets. Estimates of electricity price movements are based on market information on futures contracts concluded in the German market, encompassing the period until the first quarter of 2026 (inclusive), after which a technical assumption is made that prices will remain unchanged until the end of 2027. As regards natural gas, prices of futures contracts for delivery at Title Transfer Facility (TTF) rates until the first quarter of 2026 (inclusive) are also used, after which a technical assumption is made that prices will remain unchanged until the end of 2027.

⁵ Futures contracts concluded for trading of relevant commodities in international markets are used, with data available until the end of the first quarter (inclusive) of 2026. Public information on sufficient volumes and number of futures transactions for these commodities in international markets is not available for the remainder of the forecast horizon. Therefore, price dynamics is estimated by taking into account the historical correlation with the global trade dynamics set forth in the forecast's external assumptions.

⁶ Including steel, copper, aluminium, lead, zinc, nickel and tin weighted in accordance with Bulgaria's foreign trade flows.

⁷ Including pigmeat, coffee, wheat, maize, rice, soybeans, sugar, cocoa, milk and livestock weighted in accordance with Bulgaria's foreign trade flows.

⁸ Including rubber, timber and cotton weighted in accordance with Bulgaria's foreign trade flows.

¹ For further details, see [ECB staff macroeconomic projections for the euro area](#), March 2025. The ECB forecast includes information on the global economy development as of 6 February 2025 and information on dynamics of euro area economic activity as of 19 February 2025.

continue declining over the entire forecast horizon due mainly to crude oil prices, while prices of natural gas and electricity are expected to increase in 2025. Non-energy commodity prices are assumed to grow significantly on an annual basis in 2025. As a result, euro commodity prices weighted by their importance for Bulgaria's international trade will grow at rates slightly above 6.0 per cent in 2025 and within 1.8 and 2.7 per cent in 2026 and 2027.

As regards crude oil, technical assumptions prepared as of 6 March 2025 suggest a decline in euro prices over the entire projection horizon due to expected lower demand for crude oil and a higher OPEC production. Market participants expect the price of natural gas in Europe to increase in 2025 on an annual basis, mainly reflecting the heightened geopolitical uncertainty related also with the expiry of the Russian gas transit contract through Ukraine, as well as increased demand for liquefied natural gas, before decreasing somewhat on a quarterly basis in the first quarter of 2026. The assumptions suggest that the average electricity price will increase on an annual basis in 2025 and in the first quarter of 2026. The assumptions imply that the electricity price will increase on an annual basis in the first quarter of 2026 and the average annual price in 2025 will remain higher than in 2024. The technical assumption suggests that natural gas and electricity prices in the European market will remain unchanged until the end of the forecast horizon compared to those reported in the first quarter of 2026.

Market participants expect a stronger increase in euro prices of non-energy commodities in international markets in 2025 (growth of about 6.3 per cent) compared with that projected in the BNB forecast of December 2024. The increase will be most pronounced in particular food groups and agricultural commodities. As regards food prices in euro, market expectations as of 6 March 2025 suggest that the increase will be concentrated in particular products, such as coffee, maize and cocoa. Given the high base of 2025, euro food price growth is assumed to slow significantly in 2026, leading to similar dynamics in the overall non-energy commodity price index. The assumptions underlying the forecast imply that growth in metal prices will accelerate in 2025 and will also slow down

in 2026, with the increase in 2025 being concentrated in iron, steel and aluminium prices. As a result, the assumptions made as of 6 March 2025 suggest that euro prices of non-energy commodities will rise by 2.6 per cent in 2026. It is assumed for 2027 that prices of non-energy commodities will grow at a rate of around 3 per cent in line with growth in global economic activity and trade.

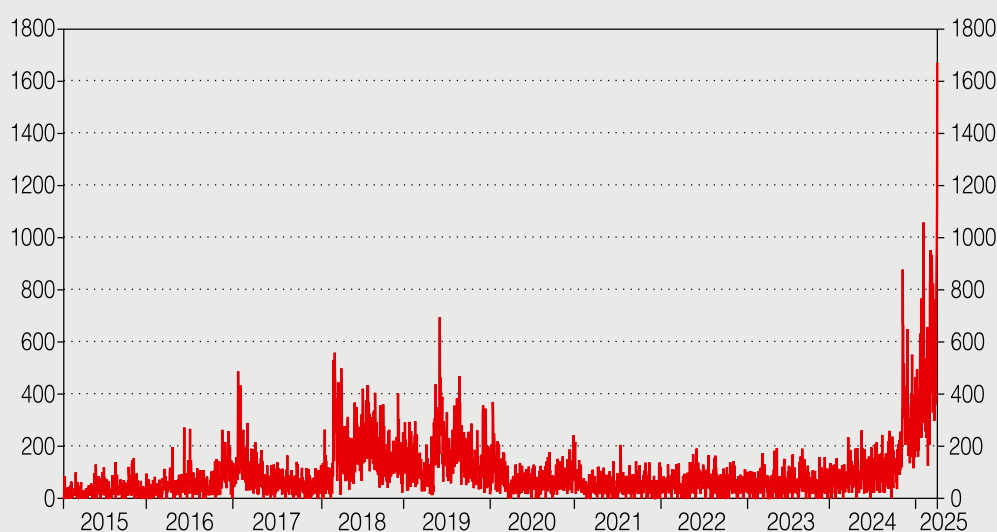
In the first week following the announcement of US tariffs on 2 April, international commodity prices changed significantly, with oil prices falling strongly on account of the sharp deterioration in the global economic outlook.

As regards short-term interest rates in the euro area, market participants' expectations, as set in the technical assumptions of the forecast, suggest a continued gradual downward trend up to and including the first quarter of 2026. Thereafter, short-term interest rates are expected to start increasing gradually.

EXPOSURE OF BULGARIAN EXPORTS TO THE UNITED STATES

The sharp escalation of the global trade war following the broad-based tariffs announced by the United States on 2 April 2025 creates significant uncertainties regarding global trade and, consequently, economic and price developments in global terms, in Europe and in Bulgaria.

Chart 1: Trade Policy Uncertainty Index (TPU)



Note: The Trade Policy Uncertainty Index (TPU) measures how often the topic is mentioned in seven leading newspapers, with 1 per cent of all articles corresponding to 100. Daily data are used. The last observation is for 4 April 2025.

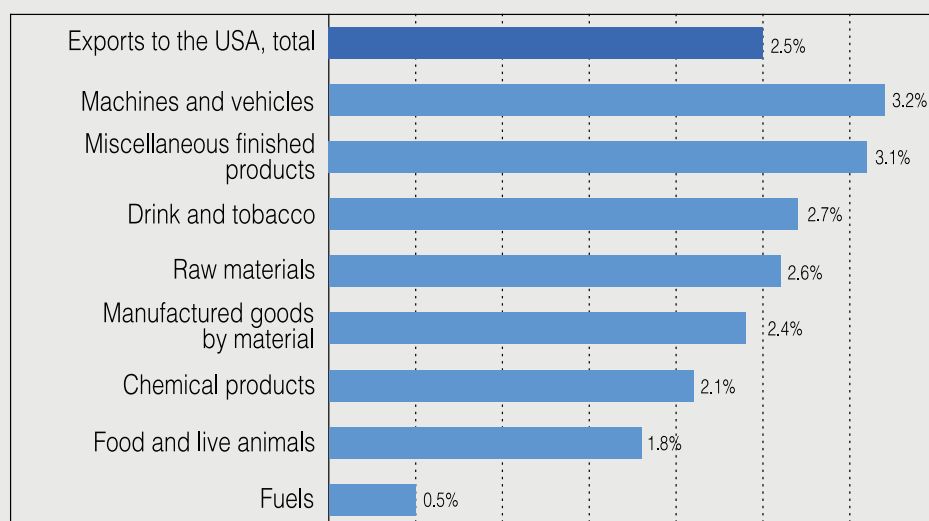
Source: Caldara, Dario, Matteo Iacoviello, Patrick Molligo, Andrea Prestipino, and Andrea Raffo, „*The Economic Effects of Trade Policy Uncertainty*“, manuscript presented at the 91st meeting of the Carnegie-Rochester-NYU Conference on Public Policy, April 2019.

As of 9 April 2025, customs tariffs imposed by the United States on goods from the EU include a 25 per cent tariff on imports of steel and aluminium products (effective as of 12 March 2025), 25 per cent tariff on imports of all vehicles and some vehicle parts (effective as of 3 April 2025) and 10 per cent tariff on imports of almost all other goods¹ (effective as of 9 April 2025). As of 3 May 2025, it has been planned to impose a customs tariff of 25 per cent on the EU imports of all other vehicle parts that have not been affected by the tariffs already entered into force.

The main impact channel of the trade war for Bulgaria's economic activity is expected to be through foreign trade flows. The US share in Bulgarian exports was relatively low, as according to gross foreign trade statistics, 2.5 per cent of Bulgarian exports of goods in nominal terms, or EUR 1.1 billion, were intended for the United States.

¹ On 2 April 2025, the US President announced the introduction of a 20 per cent baseline tariff on all goods imported from the EU as of 9 April 2025. On the date of entry into force, 9 April, the measure was paused for 90 days, with a baseline tariff of 10 per cent temporarily imposed on almost all goods imported from the EU for this period. Goods already subject to a higher customs tariff, as well as several other groups of goods, are excluded.

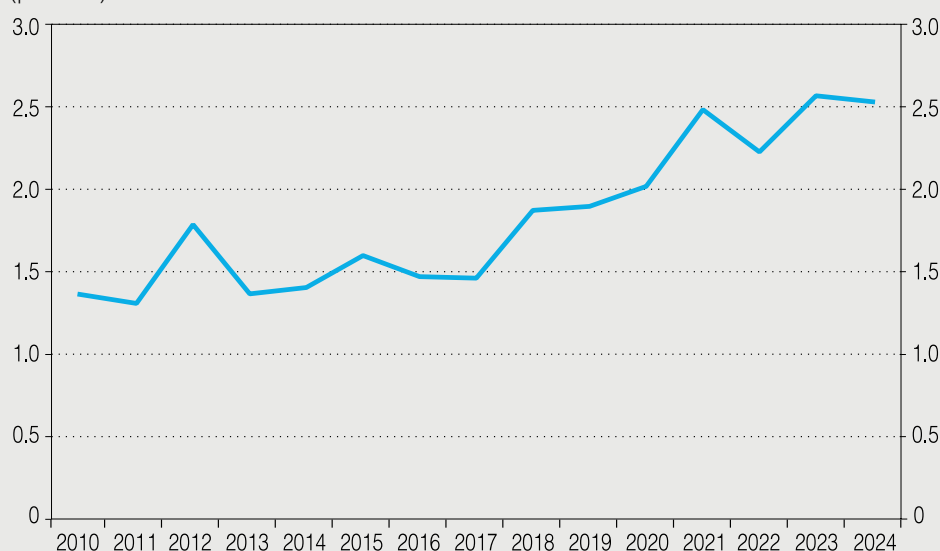
Chart 2: Share of Bulgaria's Total Nominal Exports of Goods to the United States in 2024 by Commodity Group



Source: BNB, own calculations.

Chart 3: Share of Bulgaria's Total Nominal Exports of Goods to the United States in Total Bulgarian Exports of Goods for the 2010–2024 Period

(per cent)



Source: BNB, own calculations.

Gross foreign trade statistics do not fully reflect the exposure of the Bulgarian economy to US domestic demand. This is due to Bulgaria's high integration into global production chains, with a significant part of Bulgarian value added reaching the US market indirectly through exports to third countries. Therefore, the OECD TiVA database was used for a more precise assessment, with the latest available data as of 2020.

Chart 4: Structure of Bulgarian Exports of Goods to the United States in Nominal Terms (2010–2024)

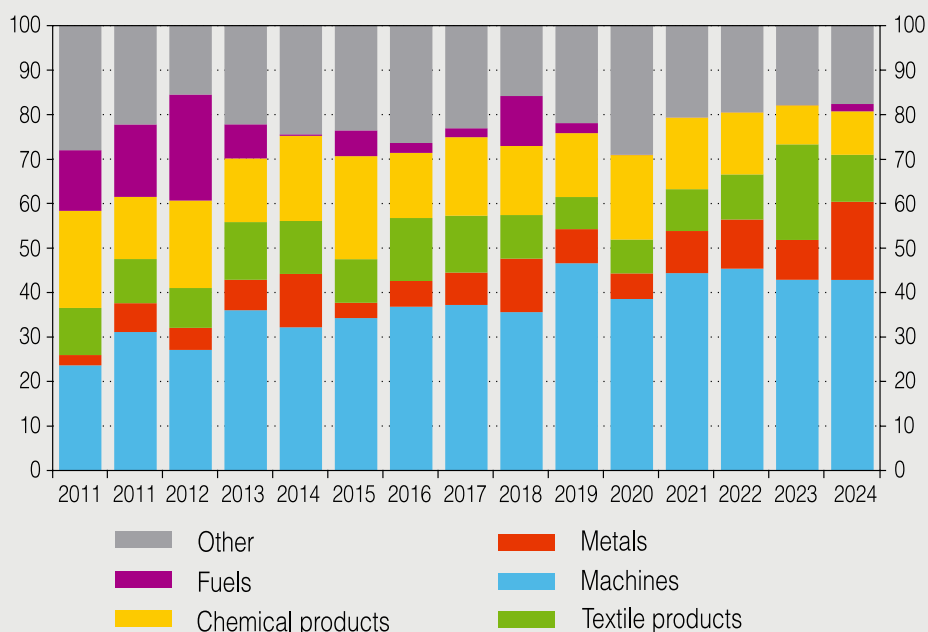
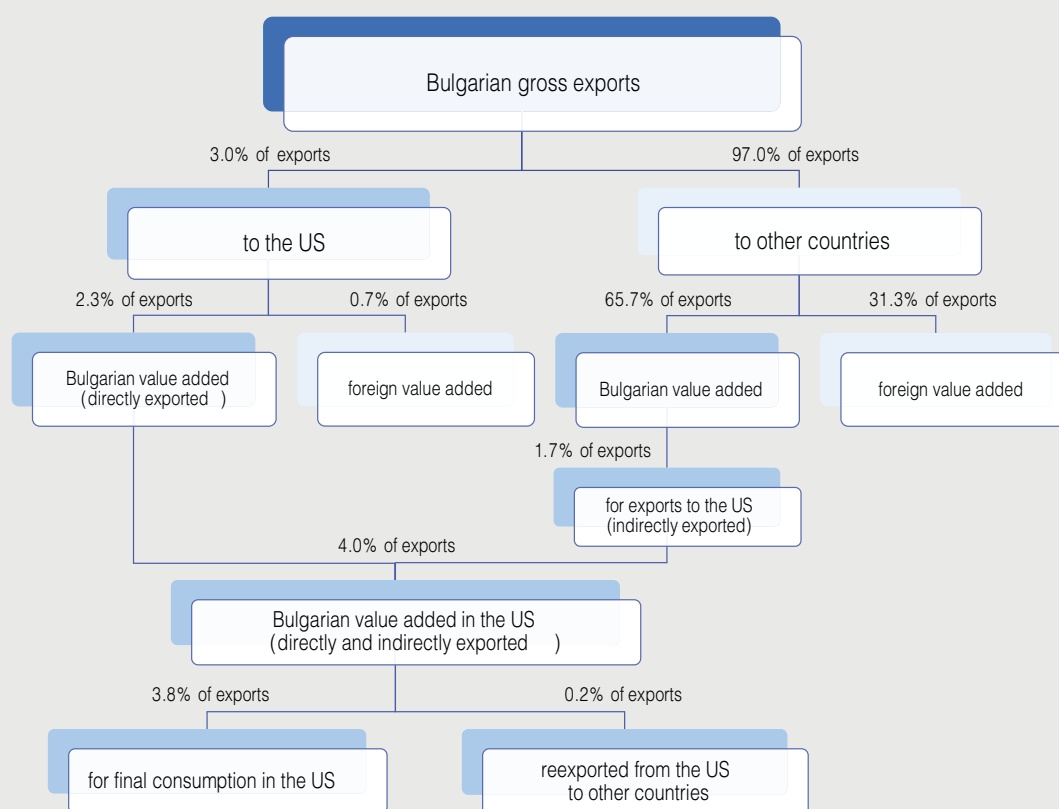


Chart 5: Decomposition of Bulgaria's Gross Exports of Goods and Services in 2020

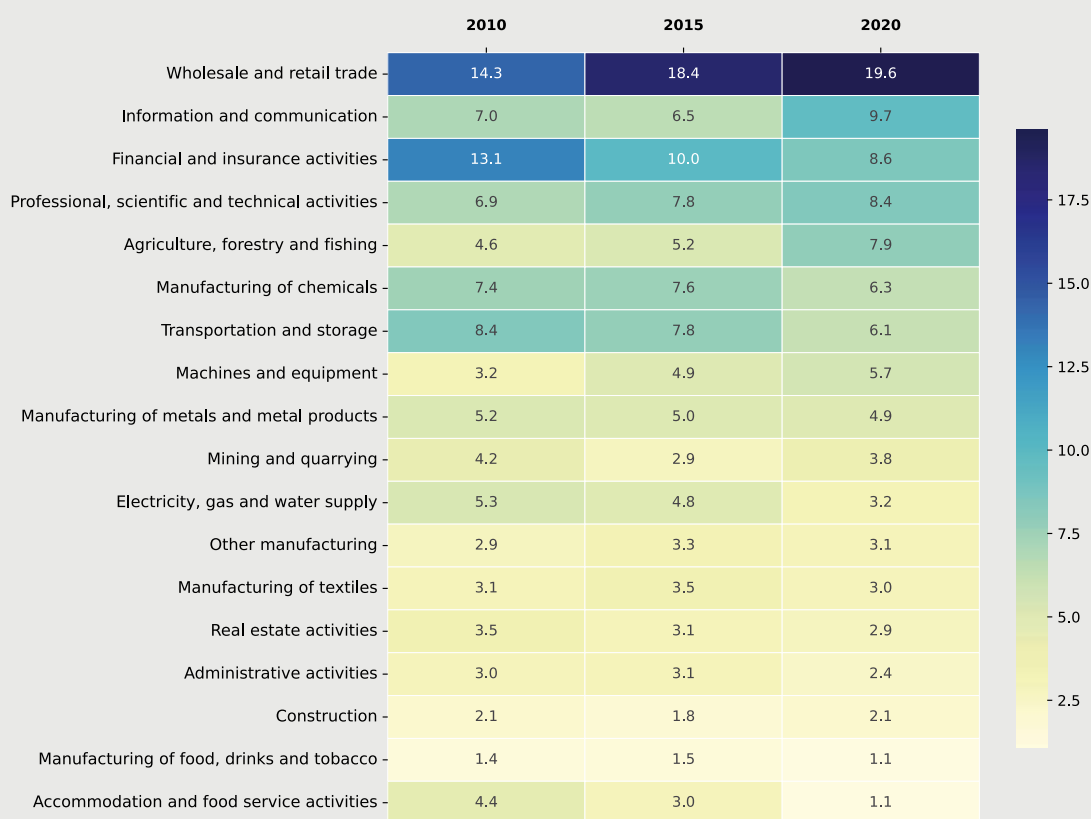


Source: OECD December 2023 TiVA database, BNB, own calculations.

The analysis shows that although 3.0 per cent of Bulgaria's gross exports of goods and services in 2020 were directed to the United States, a total of 4.0 per cent of gross exports of Bulgarian goods and services reached the US market in the form of Bulgarian value added. Of this share, 3.8 per cent were intended for final consumption in the United States and depended directly on US domestic demand, while the remaining 0.2 per cent were reexported to third countries. Assuming that the 3.8 per cent share corresponds to the direct exposure of Bulgarian exports to the US market, compared to Bulgaria's exports of goods in 2024 (EUR 43.1 billion), US import tariffs would affect Bulgarian goods intended for exports to the amount of about EUR 1.6 billion.

Further information on the sectoral distribution of Bulgarian value added intended for final consumption in the United States is provided in Chart 6. In 2020, Bulgarian wholesale and retail trade, followed by information, financial and professional services and agriculture occupied the largest share of Bulgarian value added consumed in the United States.

Chart 6: Sector Share in Total Bulgarian Value Added Used for Final Consumption by the US Economy



Source: BNB, own calculations.

The assessments show that the exposure of Bulgarian exports to the United States was relatively limited and, therefore, the direct effects on Bulgaria's economic activity through the trade channel are expected to be relatively weak. However, the deepening of the trade war creates serious uncertainty about global trade developments and external demand for European goods. This is a prerequisite for significant indirect negative effects on demand for Bulgarian goods by Bulgaria's major trading partners. Currently, these effects cannot be quantified due to the ongoing changes in foreign trade policies of the leading economies, that are likely to trigger significant changes in global trade flows and restructuring of supply chains. Although difficult to forecast, these effects have the potential to be substantial, posing a major risk of lower growth in Bulgarian exports over the entire forecast horizon compared to the baseline scenario.

Economic Activity in Bulgaria

In 2024, annual growth of real GDP was 2.8 per cent according to non-seasonally adjusted data of the NSI. Available economic indicators⁹ for January and February 2025 indicate that in the first quarter of 2025 the economic activity in Bulgaria will continue to grow at a rate similar to that in previous quarters. Taking into account these estimates and the technical assumptions of the external economic environment, real GDP growth is projected to reach 2.8 per cent in 2025, pushed up mainly by the continued strong growth in final consumption and, to a lesser extent, changes in inventories¹⁰, while net exports will contribute negatively.

Private consumption is projected to increase by 3.6 per cent in real terms in 2025 (from 4.2 per cent in 2024), and real disposable income of households is expected to continue growing, though at a slower pace, in line with lower growth in nominal labour income compared to 2024 and projected acceleration of inflation in Bulgaria. Factors favourable to consumer expenditure growth in 2025 will be the increased amount of social transfers to households, public sector wage growth and high lending activity. Government consumption is projected to rise by 4.1 per cent in 2025 (against 4.6 per cent in 2024), with dynamics of compensation of employees in the public sector contributing most substantially to this.¹¹ Fixed capital investments are projected to grow by 7.2 per cent in real terms over 2025, supported by both the private

and public sectors. Major factors underpinning private sector investments are the projected increase in final demand for Bulgarian goods and services, lower lending rates for corporations and active supply of credit resources by banks, while the uncertain external environment will have a dampening effect on investment activity. At the same time, public sector investments are expected to grow in 2025 following a decrease in the previous year, driven by the implementation of projects financed by EU funds under the National Recovery and Resilience Plan (NRRP)¹². The forecast employs a technical assumption that a total of 45 per cent of the funds approved for Bulgaria under the Recovery and Resilience Facility will be absorbed by 2026, mainly through fixed capital investments of the general government sector. We expect net exports to retain their negative contribution to the annual rate of change in real GDP in 2025 (-1.6 percentage points) due to the projected weaker growth in exports compared to imports of goods and services. Despite the assumed improvement in external demand for Bulgarian goods and services compared to the previous year, exports are expected to register low growth (2.4 per cent in real terms) in 2025, likely to be limited by planned repairs in large manufacturing enterprises¹³ over the first half of the year. As a result of this and of continued strong growth of final demand components and BNB estimates of their import content, growth in imports of goods and services (5.4 per cent in real terms on an annual basis) is expected to be higher than that of exports.

Economic growth is projected to slow down to 2.2 per cent in 2026, before accelerating to 3.1 per cent in 2027. Private consumption is anticipated to grow at high rates throughout the whole projection horizon, appearing to be the GDP component with the highest positive

⁹ This refers to the following indicators: production indices in industry, construction and services; retail trade turnover index; the unemployment rate; business climate and consumer confidence index; producer price index in industry; new loans to corporations and households; global PMI.

¹⁰ In 2024, an increased accumulation of inventories (up 95.7 per cent in new stocks, compared to a drop of 81.4 per cent in 2023) was observed in the economy. This dynamics is expected to be sustained in the first half of 2025 in line with increased global economic and geopolitical uncertainty, including as regards future developments in international trade policies, as well as expected repairs in large manufacturing enterprises in Bulgaria.

¹¹ Projected dynamics of compensation of employees in the public sector for 2025 takes into account information on the adopted amendments to the Law on the Ministry of Interior and the Law on Defence and Armed Forces of the Republic of Bulgaria, which will enter into force retroactively from 1 January 2025. It also includes information of the State Budget Law for 2025 and the Updated Medium-Term Budgetary Forecast for 2025–2028 (24 February 2025), according to which the policy of maintaining wages in the education sector at 125 per cent of the national average wage will continue, and wages in the state structures for which no other increase is foreseen will increase by 5.0 per cent in 2025.

¹² The expected acquisition of new fighter planes for the Bulgarian Air Force is expected to be another factor supporting investment activity growth in 2025. In the forecast, this acquisition has a neutral contribution to real GDP growth, as the acquisition costs are equally accounted for in government investments and goods imports.

¹³ According to [the quarterly report](#) of Aurubis, a repair in its Pirdop copper plant is planned for the second quarter of 2025. In addition, according to [tenders announced](#) by LUKOIL, planned repairs are foreseen in the Neftochim Burgas refinery, launched in February 2025 for about three months. Although there is no formal press release by the company, this information is confirmed by industry sources, such as [S&P Global](#).

contribution, which is in line with a projected increase in real household disposable income. Government consumption growth in real terms is expected to slow down to 1.7 per cent in 2026, thereafter accelerating to 2.6 per cent in 2027, according to the Updated Medium-Term Budgetary Forecast for 2025–2028 (24 February 2025) and additional technical assumptions of the BNB on the growth of public sector wages and healthcare expenditure. Public investments would have a major contribution to the projected decline in gross fixed capital formation for the total economy in 2026 and to its increase in 2027 due to reporting information of the Updated Medium-Term Budgetary Forecast for 2025–2028 on the time profile of expected deliveries of military equipment. In addition, the negative contribution of net exports will shrink significantly in 2026, before expanding again in 2027. Dynamics of net exports will reflect the projected acceleration of goods and services exports in line with underlying technical assumptions on external demand and completion of repairs, which are expected to limit exports in 2025. At the same time, growth of goods and services imports is expected to slow down in 2026, before accelerating again in 2027, mostly in line with the profile of fixed capital investments characterised by a high import content.

Balance of Payments

The balance of payments current account is expected to be negative at 2.3 per cent of GDP in 2025, and then the deficit is anticipated to gradually rise to 2.9 per cent of GDP in 2026 and to 3.4 per cent of GDP in 2027. The increased trade balance deficit as a result of anticipated higher growth of goods imports than exports is projected to be the main contributor to the current account deficit. At the same time, we expect the surplus on services trade to remain high and to stabilise as a share of GDP over the forecast horizon, driven by the continuing growth of tourist visits to Bulgaria and the strong growth of exports of computer and information services. The deficit on net primary income item for the whole projection horizon is expected to decrease slightly as a percentage of GDP compared to its 2024 level, broadly in line with the expected decrease in euro area interest rates and the relevant expected rate of

return on foreign investments in Bulgaria. Over the forecast horizon, the capital account surplus is expected to remain at a lower level as a share of GDP compared to 2024, reflecting a predicted profile of EU receipts, including those under the NRRP.

Labour Market

We expect employment growth to slow down to 0.3 per cent in 2025 and to 0.1 per cent in 2026, and the number of employed persons to decline by 0.2 per cent in 2027 as a result of ongoing adverse demographic developments in Bulgaria leading to a decrease in labour force. At the same time, the decline in working-age population and projected GDP growth will result in a gradual decrease in the unemployment rate from 4.0 per cent in 2025 to 3.7 per cent in 2027. Real labour productivity is expected to grow at rates similar to GDP amid limited possibilities for increasing employment. Compensation *per* employee is projected to increase by 9.3 per cent in 2025, supported by economic activity growth, the 15.4 per cent minimum wage rise since the beginning of the year, planned wage increases in the public sector and high labour shortages. Growth in compensation *per* employee is expected to slow down in the coming years in line with projected lower inflation. At the same time, mounting labour shortages will continue to exert upward pressure on wages, with their growth rates remaining higher than the corresponding growth in labour productivity and inflation, underpinning consumer expenditure throughout the projection horizon. Growth in compensation *per* employee is expected to reach 7.0 per cent in 2026 and to rise to 7.9 per cent in 2027, in line with projected stronger growth in labour productivity. Unit labour costs growth is anticipated to slow down gradually from 6.6 per cent in 2025 to 4.5 per cent in 2027 in line with higher labour productivity amid more moderate wage growth.

Monetary Sector

Taking into account market expectations of a further decline in short-term euro area interest rates and declines in interest rates on newly attracted household funds for the whole banking system which started in mid-2024 and continued in early 2025, interest rates on new time depos-

its of the non-government sector are projected to decrease slightly in 2025, before remaining close to the levels achieved at end-2025. Interest rates on new loans to non-financial corporations are expected to decline more significantly over the projection horizon owing to their stronger link to short-term interest rate developments in the euro area. Compared to the previous forecast, both deposit and lending rates have been revised upwards, reflecting a revision toward higher short-term interest rates in the euro area.

In line with the projected slowdown in wage growth, the annual growth of non-government sector's deposits is expected to remain relatively high, but to slow down to 9.5 per cent at the end of 2025 and to reach 7.8 per cent at the end of 2026 and 7.6 per cent at the end of 2027. The annual growth rate of non-government sector's loans is also projected to follow a slowing trend to 12.7 per cent at the end of 2025, 10.2 per cent at the end of 2026 and 8.9 per cent at the end of 2027. This downward dynamics is anticipated to reflect the projected slowdown in the growth of corporate overdraft, private investments and housing prices along with a decrease in inflation.

Inflation

The inflation forecast for 2025–2027 depends to a large extent on the technical assumptions for international prices of energy and agricultural commodities, the projected degree and speed of their pass-through to final consumer prices of food and services and on the effects of implemented fiscal measures. This forecast is based on information available as of 26 March 2025 on the following government measures: increases in the excise duty on tobacco products for 2025–2027 in accordance with the Excise Duties and Tax Warehouses Law¹⁴; changes in the prices

of water and sewerage services in 2025–2027.¹⁵ In preparing the forecast, it is assumed that the measure for providing compensation to business electricity consumers will remain in force after March 2025.¹⁶

Annual inflation is projected to accelerate to 3.5 per cent at the end of 2025 (from 2.1 per cent at the end of 2024), and average annual inflation to reach 3.8 per cent in 2025 (compared to 2.6 per cent in 2024). These developments will be driven by the projected acceleration in food inflation, core HICP components and administered prices, as well as the expected contraction in the decline of transport fuel prices.

Food and services are anticipated to be the groups with the highest positive contribution to inflation at the end of 2025. The main factors with a pro-inflationary effect in the food group relate to assumed rises in international agricultural commodity prices and the restored standard 20 per cent VAT rate for bread and flour from 1 January 2025, which was temporarily reduced to 0 per cent for the 9 July 2022 to 31 December 2024 period. The upward dynamics of services inflation will be influenced by indirect effects of rising food prices, as well as the restoration of the standard VAT rate for restaurant and catering services at 20 per cent from 1 January 2025, which was temporarily reduced to 9 per cent for the period from 1 July 2020 to 31 December 2024. Projected high growth rates in unit labour costs and persistently strong consumer demand are expected to be the other essential factors exerting upward pressure on services prices (5.0 per cent by the end of the year). Industrial goods (exclud-

¹⁵ The projected increase in water supply and sewerage prices is based on [business plans approved by the EWRC](#) for the development of water supply and sewerage companies in Bulgaria in 2022–2026, as well as on updated business plans at end-2024 on the basis of which [higher prices of water supply and sewerage services for 2025](#) were approved. For 2027, assumptions show continuing price increases in these services in line with the practice adopted by the EWRC and water supply and sewerage companies for a price indexation based on inflation.

¹⁶ By a [decision of the Council of Ministers](#) of 23 January 2025, the compensation of non-household end-users of electricity was approved until the end of March 2025. It is 100 per cent of the difference between the average monthly stock exchange price for the day-ahead segment of the Independent Bulgarian Energy Exchange EAD for the respective month and the BGN 180/MWh threshold. An assumption is incorporated in the forecast that firms will continue to receive compensation for the price of electricity after March 2025, owing to expectations of persistently high volatility and prices of electricity in international markets.

¹⁴ Amendments to the excise calendar for the period from May 2025 to January 2029 were adopted by the State Budget Law of the Republic of Bulgaria for 2025 (published in [Darjaven Vestnik, issue 26 of 2025](#)). These changes foresee a simultaneous increase in the specific excise duty rate and a reduction in the proportional excise rate on tobacco products. At the same time, the total minimum excise duty per 1000 cigarettes is foreseen to increase by 3.7 per cent from 1 May 2025, by 5.7 per cent from 1 January 2026 and by 5.4 per cent from 1 January 2027.

ing energy products) are projected to shift from deflation at end-2024 to low inflation at end-2025, which is influenced by technical assumptions about euro area industrial goods price dynamics. Inflation in the group of goods and services with administratively controlled prices and tobacco products is expected to accelerate to 4.8 per cent at the end of 2025, from 3.9 per cent at the end of 2024 (annual average inflation of 5.9 per cent against 4.6 per cent in 2024). This is mainly due to the raised fee for issuing identity documents in force from the beginning of 2025, increased prices of tobacco products as a result of changed excise duty rates, higher electricity prices for household consumers approved by the EWRC¹⁷ and projected increases in water and sewerage prices. A further increase in administered prices over the second quarter of 2025 is expected due to increases since 1 May 2025 of the minimum excise duty on tobacco products by 3.7 per cent and in the vignette fee by 11.5 per cent (from BGN 87 to BGN 97) set out in the State Budget Law¹⁸.

At the end of 2026, the growth rate of consumer prices is projected to slow down to 2.5 per cent (against an annual average of 2.4 per cent), reflecting mainly projections of significantly lower inflation in the group of food and administratively controlled prices, while core inflation will remain similar to its level of the previous year. These developments in food inflation broadly follow the assumptions used in the forecast for energy and agricultural commodity prices in international markets. Concurrently, retention of high core inflation is largely driven by expectations of a sustained strong pro-inflationary effect of domestic macroeconomic factors—strong growth in private consumption and unit labour costs. At the same time, in line with the assumptions about declining oil prices in international markets, the energy products

group is projected to continue to have a negative contribution to the headline inflation by the end of 2026 (albeit less negative than that at end-2025), which, however, is not expected to be reflected significantly in the other HICP components, given the domestic pro-inflationary factors listed above. For 2027, both average annual inflation and inflation at the end of the year are projected to be 2.6 per cent. Although growth in core component prices is expected to follow a gradual downward trend, this group will continue to have the largest contribution to headline inflation in line with the projected upward dynamics of labour costs. Inflation in the food group is expected to accelerate in 2027, while the rate of decline in energy prices will decrease, which can be explained by the underlying technical assumptions about international food and oil prices. For 2026–2027, an assumption is made that administered prices will rise in line with the projected dynamics of firms' labour costs, with an exception to this approach for regulated prices of central gas supply¹⁹, and those of tobacco products and water supply and sewerage services. For these prices, public information on their development is taken into account. The growth rate of administered prices thus obtained for 2026–2027 is further increased on an expert basis to include the average estimated error observed historically in the group's inflation²⁰.

¹⁷ From 1 January 2025, the [EWRC approved](#) a rise in the electricity price for household consumers by 8.42 per cent.

¹⁸ The State Budget Law of the Republic of Bulgaria for 2025 provides also that children's medicines will become free of charge from 1 July 2025. This measure is likely to have a deflationary effect, but it is not included in the forecast due to inability to accurately assess its effect. Other changes in administered prices which were announced after finalisation of the forecast and not [included in the baseline scenario](#) are the 14.3 per cent decrease in the natural gas price for household and business consumers approved by the EWRC with effect from 1 April 2025 and the 20 per cent cut in the postal services price for April 2025.

¹⁹ The forecast includes a technical assumption that the price of central gas supply would follow dynamics of the natural gas price in international markets.

²⁰ See the highlight 'Assessment of the Size and Factors Behind the Inflation Forecast Error in the Post-Covid-19 Pandemic Period', published in the [June 2023 Macroeconomic Forecast](#).

F FORECAST REVISIONS

Compared to the December 2024 macroeconomic forecast, current expectations are for higher real GDP growth in 2025, lower growth in 2026 and higher growth in 2027. The main drivers of the revision in the GDP forecast and its components are related to additional incoming reporting data on economic activity in the fourth quarter of 2024 and the first quarter of 2025 and to changes in the technical assumptions about the external environment.

Compared to the December 2024 forecast, the upward revision of real GDP growth by 0.3 percentage points in 2025 is mainly due to the projected stronger increase in government consumption and positive contribution of inventories. These revisions are only partially offset by the expected lower growth in exports of goods and services and slightly weaker growth in private consumption. The revision in government consumption is mainly related to the inclusion in the forecast of information on higher expenditure on wages, healthcare and intermediate consumption as projected in the State Budget Law for 2025. The contribution of inventories to GDP growth is expected to be positive in 2025 (compared with a neutral contribution projected in the December 2024 forecast), which is based on the expected continued trend of firms' accumulation of inventories observed in 2024 on account of the increased economic uncertainty about future developments in international trade policies and heightened geopolitical tensions. This, in combination with new technical assumptions about external environment developments which imply a slower increase in external demand over the whole forecast horizon compared to the previous BNB macroeconomic forecast, and including new information on additional repairs in the manufacturing sector, are a precondition for more negative contribution of net exports to real GDP growth in 2025. The revision of private consumption stems mainly from the upward revision in consumer price growth in 2025,

leading to a slower increase in households' disposable income in real terms compared to the previous macroeconomic forecast.

Economic activity growth has been revised down by 0.8 percentage points in 2026 and up by 0.6 percentage points in 2027 compared to the December 2024 macroeconomic forecast. This reflects the revision of fixed capital investments and is partly compensated by the change in the contribution of net exports, while final consumption growth remains broadly unchanged. The downward revision of fixed capital investments in 2026 and the upward revision in 2027 is mainly driven by new information received from the Updated Medium-Term Budgetary Forecast for the period 2025-2028 on public investments related to the acquisition of military equipment. The downward revision of public investment in 2026 also reflects the technical assumption of the BNB about a lower amount of funds expected to be used under the NRRP over the year compared to the previous BNB forecast. The stronger growth in goods exports contributed to the less negative contribution of net exports in 2026 given the new external assumptions and the exhausted negative effects of repairs limiting exports in 2025, coupled with retention of growth of goods imports close to that of the December 2024 forecast.

The projected headline inflation at the end of 2025 has not been revised *vis-à-vis* the December 2024 macroeconomic forecast, but the average annual inflation in the current forecast reached 3.8 per cent, up 0.5 percentage points compared with the previous forecast. The upward revision in annual average inflation in 2025 reflects significant upward revisions in energy products (by 4.2 percentage points towards smaller price falls) and in the group of services (by 1.6 percentage points towards stronger price increases). These revisions are mainly due to reported data received (especially in ser-

vices, where inflation continues to be persistently high at the beginning of 2025), as well as to changes in assumptions about price dynamics of major energy commodities in international markets. The forecast for annual inflation at the end of 2026 and in 2027 has been increased by 0.4 and 0.2 percentage points respectively, with inflation in all major sub-components revised towards higher growth in consumer prices in 2026, while in 2027 the revision is explained by a higher forecast for services inflation.

GDP and Inflation Forecast Revisions (26 March 2025 vis-à-vis 15 January 2025)

Annual rate of change, per cent	Forecast of 26 March 2025				Forecast of 15 January 2025				Revision (percentage points)			
	2024	2025	2026	2027	2024*	2025	2026	2027	2024	2025	2026	2027
GDP at constant prices	2.8	2.8	2.2	3.1	2.8	2.5	3.0	2.5	0.0	0.3	-0.8	0.6
Private consumption	4.2	3.6	3.9	3.7	4.2	3.7	4.0	3.6	0.0	-0.1	-0.1	0.1
Government consumption	4.6	4.1	1.7	2.6	4.6	1.3	1.5	2.9	0.0	2.8	0.2	-0.3
Gross fixed capital formation	-1.1	7.2	-2.7	9.9	-1.1	7.6	2.8	1.4	0.0	-0.4	-5.5	8.5
Exports of goods and services	-0.8	2.4	4.6	3.4	-0.8	2.9	4.2	3.5	0.0	-0.5	0.4	-0.1
Imports of goods and services	1.3	5.4	4.8	5.7	1.3	5.4	4.7	4.4	0.0	0.0	0.1	1.3
HICP at end of period	2.1	3.5	2.5	2.6	2.1	3.5	2.1	2.4	0.0	0.0	0.4	0.2
Core Inflation	2.1	3.2	2.9	2.8	2.1	3.0	2.4	2.4	0.0	0.2	0.5	0.4
Energy products	-5.6	-3.1	-1.0	-0.7	-5.6	-3.2	-1.2	0.0	0.0	0.1	0.2	-0.7
Food	2.7	4.8	2.5	3.4	2.7	4.9	2.3	3.4	0.0	-0.1	0.2	0.0
Goods and services with administratively controlled prices and tobacco products	3.9	4.8	2.7	2.1	3.9	5.1	2.1	2.1	0.0	-0.3	0.6	0.0

* Reporting data for 2024, not projected as of 15 January 2025.

Source: BNB.

RISKS TO THE FORECAST

The baseline scenario of the forecast is characterised by high uncertainty about external developments due to the sharp intensification of the trade war following the announcement by the United States on 2 April of broad-based tariffs, ongoing military conflicts and increased geopolitical tensions in general. Taking into account the assumptions underlying the baseline scenario, risks to the real GDP growth forecast are assessed as broadly oriented towards lower real GDP growth in Bulgaria over the whole forecast horizon.

Risks of lower economic activity stem from both global and domestic macroeconomic environment. As regards the global environment, these risks relate mainly to the likelihood of weaker external demand for Bulgarian goods and services due to the uncertainty about changes in international trade policies of the United States, China and the European Union. The likelihood of slower than planned implementation of investment projects financed by both national and EU funds remains a major internal risk. At the same time, there is a risk of increased defence expenditure than projected in the forecast, due to higher public investment and higher public consumption. In addition, private consumption is likely to be higher than projected in the baseline scenario in case of a larger than anticipated increase in wages and fiscal transfers to households and a lower propensity of households to save given the retention of negative real interest rates on deposits.

The forecast uncertainty for a particular indicator may be graphically illustrated by means of a fan chart. Chart bands of a particular colour indicate an interval within which the forecast value is expected to fall with a cer-

tain probability²¹ (for more details, see the notes to the charts). Usually, each interval widens with the increase in the forecast horizon, reflecting the increasing uncertainty further into the future. The middle band of the chart, depicted in the darkest colour, includes the baseline scenario of annual rate of change of real GDP, and the constructed distribution shows a 20 per cent probability for the actual value to fall within this band in each of the quarters. According to the probability distribution for 2025 with a 60 per cent probability, the annual rate of change of real GDP is expected to be in the range of 1.2 per cent to 3.8 per cent.

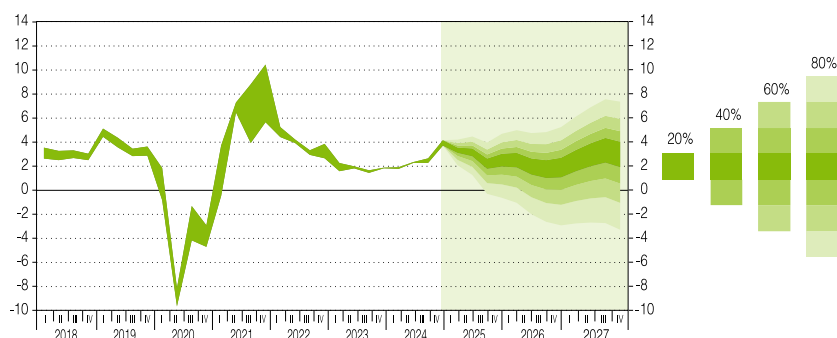
The deepening of the trade war leads to very high uncertainty about the evolution of inflation globally, in Europe and in Bulgaria. Customs tariffs, by their very nature, have a pro-inflationary effect as they raise the prices of imported goods. Such an effect could also occur in Bulgaria in case the European Union also increases customs restrictions as a retaliatory measure. On the other hand, the trade war is likely to lead to a significant deterioration in global economic activity, which, in turn would exert disinflationary pressures by weakening both external and domestic demand. A disinflationary effect could also arise from shifting larger trade flows from China and other countries to Europe as a result of tariffs introduced by the US. Ultimately, the balance

²¹ The fan chart is constructed on the basis of the so-called asymmetric exponential distribution. To present the forecasting team's estimate of the uncertainty of projected values, it is necessary to estimate the general uncertainty of the forecast (by determining the dispersion σ of the distribution) and the so-called balance of risks (by determining the asymmetry parameter ν of the distribution), indicating in which direction the realised value is more likely to deviate from the projected value. The balance of risks is determined subjectively by the forecasters on the basis of possible changes in the structure of the economy, inaccuracies in the information available at the time of the forecast production, imperfections in forecasting methods employed, forthcoming economic policy decisions, *etc.* Historical data on the average forecast error made by the BNB experts when preparing previous forecasts are used to determine the general uncertainty to the forecast. For details on the construction of the fan chart, see Measurement and Presentation of Uncertainty in Forecasting Economic Indicators, [Economic Review](#), 2012, issue 1.

between these opposing effects makes the net impact of the trade war on inflation in Bulgaria uncertain and difficult to assess. It will depend on a number of interrelated factors, including the scope and duration of foreign trade measures, the effects on the euro exchange rate and international commodity prices, the effects of a potential restructuring of global supply chains and the possible reallocation of trade flows from China and other countries to Europe, changes in economic agents' consumption and investment sentiment amid high uncertainty, as well as the monetary and fiscal policy responses of major economic regions.

Risks to Bulgaria's inflation forecast are currently assessed as rather balanced, with major pro-inflationary risks continuing to stem mainly from factors internal to Bulgaria. These risks relate to possibly larger increases in administered prices, as well as a potentially faster and stronger pass-through by firms of projected labour cost growth to final consumer prices. A possible discontinuation of the programme to compensate business consumers for the price of electricity and a stronger carry-over of the increase of certain indirect taxes on consumer prices than projected in the baseline scenario would also result in higher than projected inflation. At the same time, between 2 and 9 April 2025, as a result of the sharp deterioration in the global economic outlook following the tariffs announced by the United States on 2 April, international oil prices fell significantly below the current forecast assumptions, which, all other things being equal, is an external factor for lower inflation in Bulgaria in the short term.

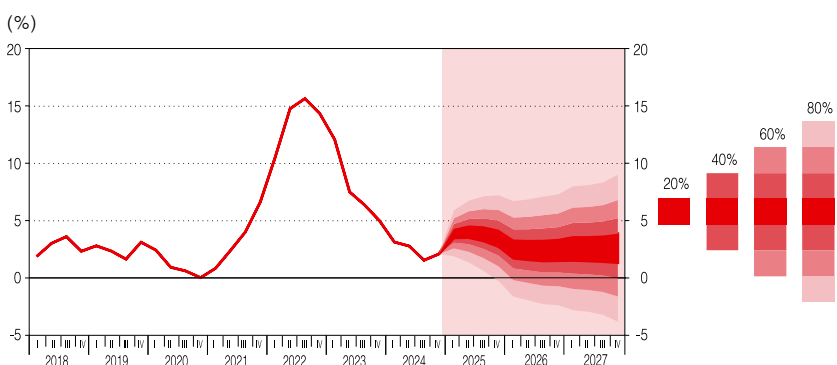
Fan Chart of the Expected Annual Rate of Change in Real GDP
(%)



Notes: The chart provides historical series and annual real GDP growth forecast according to non-seasonally adjusted data. The fan chart shows the expert views of the forecasters on the uncertainty surrounding the projected value based on a probability distribution. The reporting period includes revised GDP growth estimates, with the latest reporting periods revised on fewer occasions, thus narrowing the band. The middle band of the projected horizon chart, depicted in the darkest colour, includes the central projection and the probability distribution shows a 20 per cent probability for the actual value to fall in this band in each of the quarters. If neighbouring bands (in the same brighter colour) are added to the middle band, there would be a 40 per cent coverage of the probability mass. Thus, by adding each same colour couple of bands, the probability for the value to fall there would be increased by 20 percentage points to reach 80 per cent. The probability for the value to remain outside the coloured part of the chart is 20 per cent based on the distribution chosen.

Source: BNB.

Fan Chart of the Expected Annual Rate of Change in Inflation at the End of the Period
(%)



Notes: The fan chart shows the expert views of the forecasters on the uncertainty surrounding the projected value based on a probability distribution. The middle band of the chart, depicted in the darkest colour, includes the central projection and the probability distribution shows 20 per cent probability for the actual value to fall in this band in each of the quarters. If neighbouring bands (in the same brighter colour) are added to the middle band, there would be a 40 per cent coverage of the probability mass. Thus, by adding each same colour couple of bands, the probability for the value to fall there would be increased by 20 percentage points to reach 80 per cent. The probability for the value to remain outside the coloured part of the chart is 20 per cent based on the distribution chosen.

Source: BNB.

The fan chart of inflation suggests that with a probability of 60 per cent, annual inflation in consumer prices is expected to range between 1.0 per cent and 5.9 per cent at the end of 2025.

Forecast of Key Macroeconomic Indicators for 2025-2027

(%)

	2024	2025	2026	2027
Annual rate of change				
GDP at constant prices	2.8	2.8	2.2	3.1
Private consumption	4.2	3.6	3.9	3.7
Government consumption	4.6	4.1	1.7	2.6
Gross fixed capital formation	-1.1	7.2	-2.7	9.9
Exports of goods and services	-0.8	2.4	4.6	3.4
Imports of goods and services	1.3	5.4	4.8	5.7
HICP at end of period	2.1	3.5	2.5	2.6
Core Inflation	2.1	3.2	2.9	2.8
Energy products	-5.6	-3.1	-1.0	-0.7
Food	2.7	4.8	2.5	3.4
Goods and services with administratively controlled prices and tobacco products	3.9	4.8	2.7	2.1
Employment	1.1	0.3	0.1	-0.2
Unit labour costs	8.5	6.6	4.9	4.5
Labour productivity	1.7	2.5	2.0	3.3
Unemployment rate (share of labour force, %)	4.2	4.0	3.8	3.7
Claims on the non-government sector	14.5	12.7	10.2	8.9
Claims on corporations ¹	10.3	8.7	7.0	6.2
Claims on households	20.8	18.2	14.0	11.7
Deposits of the non-government sector	10.1	9.5	7.8	7.6
Share of GDP				
Balance of payments current account	-1.8	-2.3	-2.9	-3.4
Trade balance	-5.2	-7.0	-7.0	-8.0
Services, net	7.5	7.6	7.7	7.7
Primary income, net	-5.1	-4.6	-4.6	-4.5
Secondary income, net	1.0	1.6	1.0	1.5
Annual rate of change				
External assumptions				
External demand	1.1	2.3	3.0	3.0
Average annual Brent oil price (in USD)	-2.3	-9.7	-4.5	-1.7
Average annual price of non-energy products (in USD) ²	3.3	3.7	2.8	2.9
Brent oil price at the end of period (in USD)	-11.2	-5.0	-2.6	-1.4
Price of non-energy products at the end of period (in USD)	4.5	4.4	2.9	2.8

¹ Data refer to non-financial corporations.

² Prices of non-energy products are weighted according to the structure of Bulgarian imports of goods.

Source: BNB.

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THE SCULPTURAL COMPOSITION BY KIRIL SHIVAROV DEPICTING HERMES AND DEMETER ON THE SOUTHERN FAÇADE OF THE BULGARIAN NATIONAL BANK BUILDING IS USED IN COVER DESIGN.