



MACROECONOMIC FORECAST

JUNE 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 publication (June 2025) was presented to the BNB Governing Council at its meeting on 8 July 2025, and it contains a projection of key macroeconomic indicators, prepared as of 26 June 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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1000 Sofia, Bulgaria 1;
Knyaz Alexander I Square
Website: www.bnb.bg

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CONTENTS

SUMMARY.....	5
FORECAST OF KEY MACROECONOMIC INDICATORS FOR 2025-2027.....	7
External Environment	7
Economic Activity in Bulgaria	8
Balance of Payments	9
Labour Market	10
Monetary Sector	10
Inflation	10
FORECAST REVISIONS	13
RISKS TO THE FORECAST.....	15

HIGHLIGHT

Effects of an Oil Price Shock on Inflation and Real GDP in Bulgaria	18
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CHARTS

• Fan Chart of the Expected Annual Rate of Change in Real GDP.....	16
• Fan Chart of Expected Inflation on an Annual Basis at the End of the Period.....	16
• Chart 1: Brent oil price from 1 April to 30 June 2025	18

TABLES

• GDP and Inflation Forecast Revisions (26 June 2025 <i>vis-à-vis</i> 26 March 2025).....	14
• Forecast of Key Macroeconomic Indicators for 2025–2027	17
• Table 1: Brent Crude Oil Scenarios	19
• Table 2: Effect on HICP Inflation in Bulgaria	19
• Table 3: Effect on Real GDP Growth	19

Abbreviations

BNB	Bulgarian National Bank
GDP	Gross Domestic Product
VAT	Value Added Tax
EC	European Commission
EU	European Union
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	Harmonized Index of Consumer Prices
UMTBF	Updated Medium-Term Budgetary Forecast

SUMMARY

The BNB forecast of key macroeconomic indicators is prepared as of 26 June 2025 based on assumptions about global economic developments and price dynamics of main commodity groups in international markets as of 6 June 2025.

The assumptions about global economic activity and trade developments suggest that external demand for Bulgarian goods and services will be lower than projected in the March 2025 macroeconomic forecast of the BNB. This is mainly due to the deteriorated economic outlook for Bulgaria's major trading partners in the euro area and the ongoing processes of trade fragmentation and escalating geopolitical conflicts. As a consequence of these factors, external demand growth will remain historically low, expected to reach 2.0 per cent in 2025, 2.5 per cent in 2026 and 3.1 per cent in 2027. Market participants' expectations and underlying technical assumptions imply that international energy commodity prices in euro in 2025 and 2026 will decrease mainly for oil, before stabilising in 2027, while euro prices of non-energy commodities are expected to increase slightly over the entire projection horizon, driven mainly by higher prices of some food groups and agricultural raw materials. As a result, euro commodity prices weighted by their importance for Bulgaria's international trade are anticipated to decline by around 4.0 per cent in 2025, to increase by around 0.5 per cent in 2026 and their growth to accelerate to approximately 3.0 per cent in 2027.

Over the 2025-2027 period, real GDP growth in Bulgaria is expected to remain close to that of 2024 and to reach 2.9 per cent in 2025, before slowing down slightly to 2.7 per cent in 2026 and 2027. The main contributor to GDP growth over the forecast horizon will be the continued strong growth in private consumption driven mainly by the projected increase in real disposable household income and employment. At the same time, net exports will have a mostly negative contribution. Assumptions of low growth in external demand for Bulgarian goods and services coupled with repair activities in key enterprises in manufacturing in Bulgaria in early 2025 are factors for weaker performance of exports compared to imports over most of the forecast horizon. In 2025 and 2027, the dynamics of public investment and goods imports is affected by the acquisition of a new military equipment, with a neutral effect on GDP.

As a consequence of Bulgaria's upcoming accession to the euro area from 1 January 2026, annual growth of deposits is projected to accelerate mainly as a result of the expected stronger free cash depositing in the banking system over the period prior to Bulgaria's accession to the euro area with the purpose of subsequent conversion into euro. At the same time, we expect Bulgaria's accession to the euro area to be reflected in strengthening the transmission of the ECB's monetary policy to the monetary conditions in the country. The annual credit growth of the non-governmental sector is projected to follow a slowing trend, but to remain relatively high over the period 2025-2027.

Annual inflation measured by the Harmonised Index of Consumer Prices (HICP) is expected to accelerate to 3.8 per cent at the end of 2025 (compared to 2.1 per cent at the end of 2024), with an average annual inflation coming to 3.6 per cent in 2025 (2.6 per cent in 2024). The main pro-inflationary factors for Bulgaria in 2025 are related to domestic dynamics, such as rising labour costs and high growth of private consumption, allowing for a full pass-through of increased production costs to final consumers, as well as higher administratively controlled prices in some goods and services and tobacco products. At the same time, the external environment will limit headline inflation as a result of the assumed decline in energy product prices in international markets. At the end of 2026, inflation is projected to remain at its level at the end of 2025 (3.7 per cent on average for the year), while maintaining a high rate of price increase in core components will be a major contributor to consumer price growth. For 2027, inflation at the end of the year, as well as average annual inflation, are forecast to slow down to 3.0 per cent and 3.3 per cent respectively, reflecting a more moderate increase in services prices in line with expected unit labour cost dynamics.

The baseline scenario of the forecast is characterised by a high degree of uncertainty stemming from the external environment. The main sources of uncertainty are associated with potential changes in US trade

policy and responses of their main trading partners, as well as the likelihood of deepening geopolitical conflicts in the Middle East. These factors are likely to have a significant negative impact on Bulgaria's economic activity. Risks to the GDP forecast are assessed as balanced for 2025 and oriented towards lower growth over the rest of the projection horizon, with risks to weaker economic activity stemming primarily from the global environment. Concurrently, there remains the risk of lower real GDP growth in Bulgaria as a result of a slower than projected implementation of investment projects financed by both national and EU funds.

Prevailing risks to the inflation forecast suggest a stronger increase in consumer prices *vis-à-vis* the base-line scenario for the whole forecast horizon. These risks stem mainly from domestic processes and relate mainly to the possibility of potentially larger than expected increases in administratively controlled prices and, eventually, a faster and stronger pass-through by firms of projected labour cost growth to final consumer prices. In addition, heightened geopolitical tensions globally pose risks of sharp rises in commodity prices, such as energy products, which would also have a pro-inflationary effect given the structure of the Bulgarian economy.

As the forecast assumptions do not reflect the effects of the escalation of the military conflict in the Middle East in the second half of June 2025, which has caused significant volatility in commodity prices, especially oil prices, this publication includes a brief highlight with assessments of the sensitivity of economic activity and inflation in Bulgaria to a crude oil price shock.

FORECAST OF KEY MACROECONOMIC INDICATORS FOR 2025-2027

External Environment

The BNB forecast of key macroeconomic indicators is prepared as of 26 June 2025 based on assumptions about global economic developments and price dynamics of main commodity groups in international markets as of 6 June 2025.

Forecast's underlying assumptions about developments in external demand for Bulgarian goods and services are based on the latest European Central Bank (ECB) projections¹. Based on these assumptions, external demand for Bulgarian goods and services is expected to be weaker than projected in the BNB macroeconomic forecast of March 2025, reflecting worsening economic prospects of Bulgaria's major trading partners in the euro area and the high uncertainty in global trade as a result of the ongoing processes of trade fragmentation and deepening geopolitical conflicts. Assumptions suggest that external demand growth for Bulgarian goods and services will amount to 2.0 per cent in 2025, 2.5 per cent in 2026 and 3.1 per cent in 2027, with these growth rates being historically relatively low.

Assumptions for the euro price change² in energy commodities (crude oil, natural gas, electricity)³

and non-energy commodities⁴ (metals⁵, food⁶ and other commodities⁷) take into account prices of futures contracts concluded in international markets as of 6 June 2025. According to market participants' expectations as of 6 June 2025, euro energy prices in international markets will decline in 2025 and 2026, mainly due to crude oil prices, and partly to electricity prices, while the price of natural gas is expected to increase in 2025. Concurrently, the assumptions for euro prices of non-energy products in international markets imply that they will rise slightly over the projection horizon, with price hikes most pronounced in certain groups of food and agricultural raw materials, while metal prices are expected to decrease in 2025 and 2026. As a result, euro commodity prices weighted by their importance for Bulgaria's international trade will decline at rates between 0.2 and 0.6 per cent in 2025, before returning to growth from 0.3 to 0.7 per cent in 2026 and of about 3.0 per cent in 2027.

As regards crude oil, technical assumptions as of 6 June 2025 imply a decrease in euro prices mainly in 2025 and, to a lesser extent in 2026, reflecting the expected lower demand for oil due to the risks to global economic growth and trade as well as to the increased global oil supply, while for 2027 assumptions imply a slight increase in oil prices. Market participants expect the price of natural gas in Europe to rise on average in 2025, mainly owing to the high geopolitical uncertain-

¹ For further details, see [ECB staff macroeconomic projections](#), June 2025. The ECB forecast includes information on the global economy development as of 14 May 2025 and information on dynamics of euro area economic activity as of 23 May 2025.

² 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.

³ The assumption about price dynamics of petroleum products for the whole 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.

⁴ Futures contracts concluded for trading of relevant commodities in international markets are used, with data available until the end of the second quarter (inclusive) of 2026. For the remainder of the projection horizon, no public information on a sufficient volume and number of futures contracts for these commodities in international markets is available, and dynamics of prices is therefore assessed by taking into account their historical relationship with global trade developments set out in the forecast.

⁵ Including steel, copper, aluminium, lead, zinc, nickel and tin weighted in accordance with Bulgaria's foreign trade flows.

⁶ Including pigmeat, coffee, wheat, maize, rice, soybeans, sugar, cocoa, milk and livestock weighted in accordance with Bulgaria's foreign trade flows.

⁷ Including rubber, timber and cotton weighted in accordance with Bulgaria's foreign trade flows.

ty, including the expiry in the beginning of the year of the Russian gas transit contract through Ukraine, as well as the increased demand for liquefied natural gas, and thereafter to decline somewhat on a quarterly basis in the second quarter of 2026 due to the seasonal profile of demand for raw material. The price of electricity is expected to fall on an annual basis in 2025 and the first quarter of 2026 on average, but to rise in the second quarter. The technical assumption suggests that natural gas and electricity prices in the European market will remain unchanged until the end of the forecast horizon from the level reached in the second quarter of 2026.

Market participants expect a significantly lower increase in euro prices of non-energy commodities in international markets in 2025 (growth of about 1.1 per cent) compared with that projected in the BNB forecast of March 2025. Food price increase in 2025 will be more pronounced in specific food groups and agricultural commodities, while average weighted price of metals is expected to post a decrease. As regards food prices in euro, market expectations as of 6 June 2025 suggest that the increase in 2025 will be concentrated in particular products, such as coffee, cocoa and livestock. Given the high base and assumptions of appreciation of the euro against the US dollar in 2025, euro food prices are expected to register a slight decrease in 2026. In the case of metal prices, the assumptions also imply a slight decrease in 2025 (mostly for nickel, lead and iron) followed by a retention in metal prices in 2026. As a result of this development, non-energy commodity prices in euro will rise by around 1.2 per cent in 2026. For 2027, non-energy commodity prices are assumed to grow at rates of around 3 per cent, in line with growth in global economic activity and trade.

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 the first quarter of 2026. Thereafter, short-term interest rates are expected to start increasing smoothly.

The forecast's underlying assumptions do not reflect the effects of the deepening of the military conflict in the Middle East in the second half of June 2025, with escalating tensions leading to significant volatility in the prices of certain commodities, notably oil. Therefore, a brief highlight is

included in the current publication providing estimates of the sensitivity of economic activity and inflation in Bulgaria to a crude oil price shock.

Economic Activity in Bulgaria

In the first quarter of 2025, real GDP increased by 2.9 per cent on an annual basis according to non-seasonally adjusted NSI data. In the structure of growth over the quarter, a significant positive contribution of domestic demand (8.8 percentage points) was observed along with an increase in the negative contribution of net exports (-5.4 percentage points). Available economic indicators⁸ for April and May 2025 show that in the second quarter of 2025 the economic activity in Bulgaria will continue to grow quarter on quarter at a rate similar to that in the previous quarter (0.6 per cent).

Taking into account these estimates and the technical assumptions about the external economic environment, real GDP growth is projected to remain stable at 2.9 per cent in 2025. GDP growth in 2025 will be mainly driven by the positive contribution of the continued strong growth in private consumption and, to a lesser extent, the increase in fixed capital investment, public consumption and accumulation of inventories, while net exports will contribute negatively. In 2025, private consumption is expected to accelerate its real growth rate to 5.8 per cent (compared to 4.2 per cent in 2024). The projected strong growth of real wages in the public and private sectors, net fiscal transfers to households, high lending activity and employment growth are factors that will support household consumption expenditure. Government consumption is expected to rise by 4.1 per cent in 2025, which will be mainly driven by the dynamics in compensation of employees in the public sector.⁹ After the reported decline in fixed capital investment in the total economy by 1.1 per cent in 2024, it is projected that investment will grow by 9.6 per cent

⁸ 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 indices; producer price index in industry; new loans to corporations and households; global PMI.

⁹ The forecast of the 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. It also includes information from the State Budget Law for 2025 and the Updated Medium-Term Budget Forecast for the period 2025-2028 (from 24 February 2025), according to which the wage maintenance policy in the secondary education sector continues at a level of 125 per cent relative to the national average wage, while wages for budget structures for which no other increase is foreseen will rise by 5.0 per cent in 2025.

in real terms in 2025, with both private and public sectors expected to contribute to this. Private sector investment is anticipated to be supported by the projected increase in final demand and credit growth, while the heightened uncertainty in the external environment will have a limiting effect on firms' investment activity. At the same time, following a decrease in the previous year, public sector investment is expected to grow in 2025 underpinned by the implementation of projects financed by EU funds under the National Recovery and Resilience Plan (NRRP) as well as the acquisition of new fighter planes for the Bulgarian Air Force¹⁰. The forecast maintains 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 forecast increased accumulation of inventories in the economy in 2025¹¹ in line with heightened global geopolitical and economic uncertainty, including with regard to the future development of international trade policies, as well as repair work in major manufacturing enterprises in the country¹². The negative contribution of net exports to real GDP in 2025 is expected to increase to -3.5 percentage points due to the projected decline in exports of goods and services coupled with growth in imports. Despite the forecast's underlying assumption of some improvement in external demand for Bulgarian goods and services compared to the previous year, goods exports are expected to record a decline (of 1.2 per cent in real terms) in 2025, which will be concentrated in the first half of the year when repairs are planned in major manufacturing enterprises in Bulgaria. As a result of the above, and of the continued strong growth of final demand components, imports of goods and services are expected to grow by 5.6 per cent in real terms on an annual basis in 2025.

In 2026 and 2027, economic growth is expected to slow down slightly to 2.7 per cent, but its structure will be different in both years. Private

consumption is projected to continue growing at a high rate in these two years, contributing most significantly to economic growth, supported mainly by labour market developments *i.e.* in particular, the expected increase in labour shortages will continue to exert an upward pressure on labour income at a rate higher than that of labour productivity and inflation. Gross fixed capital formation is projected to decline in 2026 in real terms, before increasing in 2027. This dynamics will be determined by public investment, the forecast of the latter being based on information reported from the Updated Medium-Term Budget Forecast (MTBS) for the years 2025-2028 (from 24 February 2025) concerning the time profile of expected deliveries of military equipment in Bulgaria. Government consumption growth in real terms is expected to slow down to 1.9 per cent in 2026, thereafter accelerating to 2.7 per cent in 2027, the forecast for this GDP component being based on information from MTBS for 2025-2028 and additional technical assumptions of the BNB. Net exports are projected to have a positive contribution to GDP growth in 2026, before turning negative again in 2027. Dynamics of net exports in 2026 will reflect the projected recovery of growth of goods exports given the underlying technical assumptions and completion of repairs, which are anticipated to limit exports in 2025. In 2027, exports of goods and services are anticipated to grow at a rate close to that of external demand. The growth of imports of goods and services is expected to slow down in 2026, before accelerating again in 2027, with supplies of new military equipment included in the forecast having the strongest impact on this dynamics.

Balance of Payments

The balance of payments current account is expected to be negative at 4.1 per cent of GDP in 2025, thereafter decreasing to 3.0 per cent of GDP in 2026 and increasing again to 3.8 per cent of GDP in 2027. Current account flow dynamics will be mainly determined by the trade balance deficit which deteriorated in 2025 and 2027, due to the expected higher growth of goods imports than exports, given the projected supplies of new military equipment. 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 at a level close to that of 2024, driven by the continuing growth of tourist visits to Bulgaria and the strong growth of exports of computer and information services.

¹⁰ In the forecast, the acquisition of fighter planes has a neutral contribution to real GDP growth, as the acquisition costs are equally accounted for in government investments and in goods imports.

¹¹ A technical assumption is made for the 2026-2027 period that the contribution of inventories to the economic activity dynamics will be neutral.

¹² According to media information, the LUKOIL Neftochim Burgas refinery [carried out a scheduled repair](#) from 26 February to 26 May 2025. At the same time, Aurubis Bulgaria launched on 12 May 2025 a [large-scale capital repair](#) in its Pirdop plant with a planned duration of 62 days.

The deficit on net primary income item for the projection horizon is expected to decrease slightly as a percentage of GDP compared to its 2024 level, broadly in line with an expected decrease in euro area interest rates and an anticipated 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 projected profile of EU receipts, including under the NRRP.

Labour Market

Employment growth is expected to remain strong, standing at 0.9 per cent in 2025, underpinned mainly by the services sector. We expect the increase in the number of employed persons to slow down to 0.2 per cent in 2026 and to 0.1 per cent in 2027, as a result of ongoing adverse demographic developments in Bulgaria leading to a decrease in labour force. Working-age population declines and projected real GDP growth will result in a gradual decrease in the unemployment rate from 3.6 per cent in 2025 to 3.3 per cent in 2027. Concurrently, real labour productivity is expected to increase by 1.8 per cent in 2025, followed by a rise of 2.5 per cent in 2026 and 2.6 per cent in 2027, indicating growth rates similar to those of GDP, amid limited possibilities for increasing employment. Compensation *per* employee is projected to increase by 11.0 per cent in nominal terms in 2025 as a result of higher economic activity, high labour shortages in Bulgaria, the 15.4 per cent minimum wage rise since the beginning of the year and wage increases in the public sector. The growth rate of compensation *per* employee is expected to slow down in the next two years to about 8 per cent, which is higher than the corresponding growth in labour productivity and inflation, reflecting tight labour market conditions and expanding labour market shortages. Wage increases will continue to support household consumption over the entire forecast horizon, but will also be reflected in higher labour costs for firms. We project nominal unit labour cost growth to be 9.0 per cent in 2025 and to decelerate to 5.6 per cent in 2026 and 5.4 per cent in 2027, in line with higher labour productivity amid a projected lower rate of wage growth.

Monetary Sector

By end-2025, interest rates on new time deposits of the non-government sector are expected to remain almost unchanged, but divergent

developments are anticipated across individual sectors. The trend to a slight decline in interest rates on new time deposits in the non-financial corporations' sector is projected to be sustained. Concurrently, some increase in the household sector is expected, indicated by the higher interest rates offered by some large commercial banks towards the end of the second quarter, which could be linked to the attempt to attract some of the households' free cash in the banking system. As a result of Bulgaria's expected accession to the euro area in the beginning of 2026, the transmission of the ECB monetary policy to interest rates on deposits and loans in Bulgaria is projected to increase, with its degree during the last euro area interest rate cycle being relatively limited, especially in the household sector. Interest rates on new loans to non-financial corporations are projected to decline further until the beginning of 2026, before gradually increasing in line with market expectations for short-term interest rate developments in the euro area.

The annual growth of non-government sector's deposits is assumed to accelerate to 15.7 per cent at the end of 2025, mainly as a result of the expected stronger free cash depositing in the banking system over the period prior to Bulgaria's accession to the euro area with the purpose of subsequent conversion into euro. Some of the commercial banks announced a removal of bank fees for a certain period of time in 2025 upon depositing levies on accounts at tills or *via* ATMs, which will be automatically converted into euro upon accession to the euro area. Annual growth of non-government sector's deposits is expected to slow down to 6.3 per cent at end-2026, driven mainly by the high end-2025 base and a likely partial withdrawal of deposited funds from the banking system in early 2026. At end-2027, deposits are projected to increase by 8.0 per cent, their dynamics reflecting mainly the wage growth rate in the economy. Annual growth of credit to the non-government sector is expected to follow a downward trend but to remain relatively high over 2025–2027, reflecting private consumption growth, a continued rise in real disposable income of households and projected growth, albeit at lower than current rates, in housing prices.

Inflation

The inflation forecast for 2025–2027 is based 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. On the basis of information available as of 26 June 2025, the following government measures are set out in the forecast: increases in the excise duty on tobacco products for 2025–2027 in accordance with the Excise Duties and Tax Warehouses Law¹³ and changes in the prices of water and sewerage services in 2025–2027.¹⁴ In preparing the forecast, it was assumed that heating and electricity prices for household consumers would increase by 4.5 per cent and 4.6 per cent, respectively, from 1 July 2025,¹⁵ and that the measure providing compensation to non-household electricity consumers would continue to be in place throughout the whole forecast period.¹⁶

Annual inflation is expected to accelerate to 3.8 per cent at the end of 2025 (from 2.1 per cent at the end of 2024), and average annual inflation to reach 3.6 per cent in 2025 (compared to 2.6 per cent in 2024). Higher inflation in 2025 is mainly due to domestic developments linked to the high consumer demand and a significant rise in firms' labour costs, leading to a stronger price increase in firms' core HICP components and food. Other factors contributing to price increases in services and food over 2025 include the restoration of the standard VAT rate of 20 per cent for bread and flour supply, and restaurant and catering services as of 1 January 2025, in addition to the emergence of indirect effects of rising food prices in some service sub-groups. As a result,

services inflation is expected to accelerate to 8.2 per cent at the end of 2025 (7.6 per cent on average for the year), with food inflation standing at 6.1 per cent (5.8 per cent on average for 2025). Inflation in administered prices and tobacco products is expected to slow down from 3.9 per cent at the end of 2024 to 1.0 per cent at the end of 2025 (2.7 per cent on average for the year), mainly due to the decrease in hospital services fees from the second quarter of 2025. Pro-inflationary factors involve the raised fee for issuing identity documents from the beginning of 2025, higher prices of tobacco products as a result of changed excise duty rates, the vignette fee increase (from BGN 87 to BGN 97) since 1 May 2025, and projected increases in water and sewerage prices, and heating and electricity for household consumers. Concurrently, the technical assumptions set out in the forecast suggest that the external environment will continue to have a disinflationary effect in 2025, mainly due to an assumed decline in international oil prices and corresponding lower prices of transport fuels in the first half of 2025. Energy product prices are projected to decline by 4.8 per cent at the end of 2025 (compared to a 5.6 per cent fall in 2024), with a 5.3 per cent decrease on average for the year (compared to a 3.8 per cent fall in 2024).

In 2026, the growth rate of consumer prices is projected to remain close to its 2025 level (3.8 per cent at the end of the year and 3.7 per cent on average for the year). Core inflation will remain high and continue to have the largest contribution to headline inflation as a result of strong private consumption growth and sustained tight labour market conditions, with growing labour shortages in Bulgaria continuing to put upward pressure on employers to increase labour costs in real terms. Food inflation is expected to slow down both at the end of 2026 and on average for the year, which is in line with assumed international food prices. Technical assumptions in the forecast suggest declines in international oil prices over 2026, which will result in a retention of the negative contribution of energy products to headline inflation, but these declines are expected to be smaller than in the previous year. Over a medium-term horizon, an assumption is made that administratively controlled prices will rise in line with projected dynamics of firms' labour costs, with an exception to this approach for regulated prices of central gas

¹³ 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.

¹⁴ 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 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.

¹⁵ The EWRC proposed an increase in electricity prices of 4.6 per cent and in heating by 4.5 per cent on average during the new regulatory period starting from 1 July 2025, but at the time of preparing the forecast, no final decision had been taken.

¹⁶ By a [decision of the Council of Ministers](#) of 17 April 2025, the compensation of non-household end-users of electricity was approved until the end of June 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 June 2025, owing to expectations of persistently high volatility and electricity prices in international markets.

supply¹⁷, tobacco products and water supply and sewerage services. 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 this group's inflation.¹⁸ For 2027, both end-year inflation and average annual inflation are projected to slow down to 3.0 per cent and 3.3 per cent, respectively, mainly due to the expected slowdown in services price growth. At the same time, core inflation is anticipated to have again the largest positive contribution to headline inflation, reflecting firms' projected increases in labour costs. In 2027, food inflation is projected to remain close to the level of 2026, while energy prices are projected to increase slightly in line with the technical assumptions used for energy product prices in international markets.

¹⁷ The forecast provides a technical assumption that the central gas price will follow the natural gas price dynamics in international markets.

¹⁸ See the highlight *Assessment of the Size and Factors Behind the Errors in the Inflation Forecasts in the Post-COVID-19 Pandemic Period*, published in the June 2023 Macroeconomic Forecast.

FORECAST REVISIONS

Compared to the March 2025 [macroeconomic forecast](#), current expectations are for higher real GDP growth in 2025 and 2026 and lower growth in 2027. The main drivers for revising the GDP forecast and its main components relate to incoming additional reporting data on economic activity in the first quarter of 2025 and changed technical assumptions for the external environment.

Compared to the March 2025 forecast, the revision to higher real GDP growth is minimal, mainly due to projected higher growth in domestic demand components (mainly private consumption) and an assumed stronger positive contribution of changes in inventories over 2025, given the increased economic and geopolitical uncertainty. However, these revisions are almost entirely compensated by a more negative development in exports of goods and services, reflecting the underlying new technical assumptions which imply a weaker increase in external demand over 2025 and 2026 compared to the previous macroeconomic forecast. The revision to a stronger rise in private consumption stems mainly from the very high growth observed in the first quarter of 2025 and labour market signals about further employment and labour income growth in real terms. The expected growth in fixed capital investments during 2025 is higher than the previous forecast, mainly due to investments financed by EU funds other than those under the NRRP.¹⁹

Economic activity growth was raised by 0.6 percentage points in 2026 and decreased by 0.4 percentage points in 2027 compared to the macroeconomic forecast of March 2025. The changed profile of real GDP growth in these two years compared to the previous forecast reflects largely more divergent dynamics of the contribution of net exports to GDP growth, driven by new assumptions about the growth of external demand for Bulgarian goods and services and a changed approach to reporting the import

component of public investments in military equipment.

The inflation forecast is revised towards a stronger rise in consumer prices at end-2025 (by 0.4 percentage points) as a result of projected higher growth rates in services and food prices in line with upward revisions to the growth in private consumption and wages. At the same time, average annual inflation is lower (by 0.2 percentage points) than in the March 2025 forecast, mainly due to the expected weaker increase in administratively controlled prices and updated assumptions implying a lower crude oil price. The inflation forecast at the end of 2026 and 2027 has been increased by 1.3 and 0.5 percentage points, respectively. The upward revision in 2026 is mainly due to projected higher core inflation and, to a lesser extent, to a stronger rise in food and administratively controlled prices, while the revision in 2027 covers all major HICP sub-components. The average annual inflation in 2026 and 2027 is also expected to be higher than the previous forecast (by 1.3 and 0.8 percentage points, respectively).

¹⁹ The reporting data on consolidated fiscal programme implementation as of April 2025 suggest a stronger increase in these investments compared to the previous forecast.

GDP and Inflation Forecast Revisions (26 June 2025 *vis-à-vis* 26 March 2025)

Annual rate of change, per cent	Forecast of 26 June 2025				Forecast of 26 March 2025				Revision (percentage points)			
	2024	2025	2026	2027	2024	2025	2026	2027	2024	2025	2026	2027
GDP at constant prices	2.8	2.9	2.7	2.7	2.8	2.8	2.2	3.1	0.0	0.0	0.6	-0.4
Private consumption	4.2	5.8	4.1	3.7	4.2	3.6	3.9	3.7	0.0	2.2	0.2	0.0
Government consumption	4.6	4.1	1.9	2.7	4.6	4.1	1.7	2.6	0.0	0.0	0.1	0.1
Gross fixed capital formation	-1.1	9.6	-4.9	9.7	-1.1	7.2	-2.7	9.9	0.0	2.4	-2.1	-0.2
Exports of goods and services	-0.8	-0.5	5.2	3.4	-0.8	2.4	4.6	3.4	0.0	-3.0	0.6	0.0
Imports of goods and services	1.3	5.6	3.9	6.5	1.3	5.4	4.8	5.7	0.0	0.2	-0.9	0.8
HICP at end of period	2.1	3.8	3.8	3.0	2.1	3.5	2.5	2.6	0.0	0.4	1.3	0.5
Core inflation	2.1	5.0	4.7	3.0	2.1	3.2	2.9	2.8	0.0	1.8	1.9	0.2
Energy products	-5.6	-4.8	-2.1	1.3	-5.6	-3.1	-1.0	-0.7	0.0	-1.7	-1.0	2.0
Food	2.7	6.1	3.7	3.6	2.7	4.8	2.5	3.4	0.0	1.3	1.2	0.2
Goods and services with administratively controlled prices and tobacco products	3.9	1.0	3.4	2.9	3.9	4.8	2.7	2.1	0.0	-3.8	0.7	0.8

Source: BNB.

RISKS TO THE FORECAST

The baseline scenario of the forecast is characterised by a high degree of uncertainty surrounding external developments due to changes in US trade policy and potential responses of their main trading partners, as well as to the deepening geopolitical conflicts in the Middle East. Technical assumptions underlying the baseline scenario imply a gradual fading-out of the negative effects of this uncertainty, but we consider that there are risks of lower growth in global trade and hence external demand for Bulgarian goods and services, as well as of increased volatility in commodity prices over the projection horizon.

Risks to the real GDP growth forecast are assessed as balanced for 2025, while for 2026 and 2027 risks of lower economic activity in Bulgaria prevail, stemming largely from an adverse global environment development. On the domestic side, there remains the risk of lower real GDP growth in case of a slower than projected implementation of investment projects financed by both national and EU funds. On the other side, a risk exists of larger than projected defence expenses, in terms of both higher public investments and higher public consumption which would lead to higher GDP growth. Private consumption is also likely to be larger than projected in the baseline scenario for 2026 and 2027 in case of higher increases in wages and fiscal transfers to households and a lower propensity of households to save if real interest rates on deposits remain negative.

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 certain proba-

bility²⁰ (for 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 an 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 chart 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 1.9 per cent to 3.6 per cent.

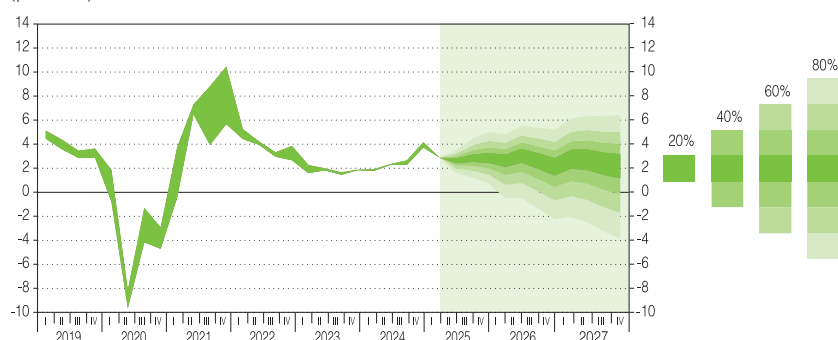
Prevailing risks to the inflation forecast suggest a stronger increase in consumer prices *vis-à-vis* the baseline scenario for the whole forecast horizon. These risks stem mainly from domestic processes and relate largely to the possibility of potentially higher than expected increases in administered prices and, eventually, a faster and stronger pass-through by firms of projected labour costs growth to final consumer prices. In addition, heightened geopolitical tensions globally pose risks of sharp rises in commodity prices, such as oil, which would also have a pro-inflationary effect given the structure of the Bulgarian economy. 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 compared to the baseline scenario would also result in higher than projected inflation.

²⁰ 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 more information on the construction of the fan chart, see the highlight entitled [Measurement and Presentation of Uncertainty in Forecasting Economic Indicators](#), *Economic Review*, issue 1 of 2012. 1.

Another internal risk to the inflation forecast stems from the planned 1.0 percentage point increase in the social contribution to the Pensions Fund in 2027 set out in the Updated Medium-Term Budgetary Forecast for 2025–2028, which in the context of a strongly tight domestic labour market is likely to be fully passed through to final consumer prices. Potential higher growth of public sector wages in 2026–2027 compared to the forecast baseline scenario would also pose risks of higher inflation over the forecast horizon. Downside risks to the inflation outlook stem mostly from the international environment and relate to the potential negative effects of ongoing trade fragmentation processes, which could lead to weaker global economic activity and thus to a change in commodity prices.

The fan chart of inflation suggests that with a probability of 60 per cent, annual inflation in consumer prices will be within the range from 2.1 to 6.3 per cent at the end of 2025.

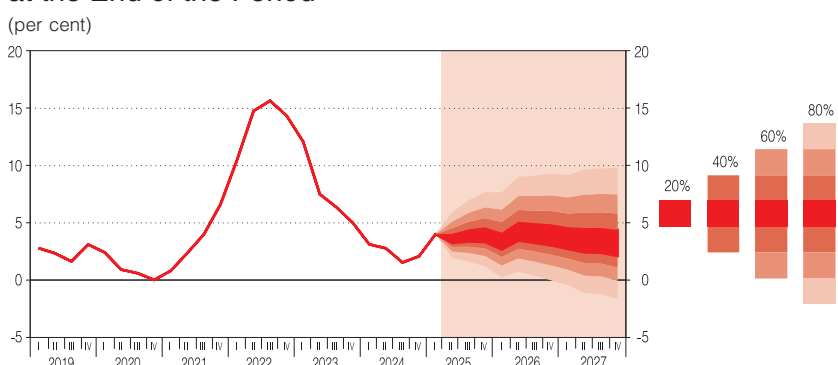
Fan Chart of the Expected Annual Rate of Change in Real GDP
(per cent)



Notes: The chart provides historical series and annual real GDP growth forecast according to non-seasonally adjusted data. The fan chart shows 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 Expected Inflation on an Annual Basis at the End of the Period
(per cent)



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.

Forecast of Key Macroeconomic Indicators for 2025–2027

(per cent)

	2024	2025	2026	2027
Annual rate of change				
GDP at constant prices	2.8	2.9	2.7	2.7
Private consumption	4.2	5.8	4.1	3.7
Government consumption	4.6	4.1	1.9	2.7
Gross fixed capital formation	-1.1	9.6	-4.9	9.7
Exports of goods and services	-0.8	-0.5	5.2	3.4
Imports of goods and services	1.3	5.6	3.9	6.5
HICP at end of period	2.1	3.8	3.8	3.0
Core inflation	2.1	5.0	4.7	3.0
Energy products	-5.6	-4.8	-2.1	1.3
Food	2.7	6.1	3.7	3.6
Goods and services with administratively controlled prices and tobacco products	3.9	1.0	3.4	2.9
Employment	1.1	0.9	0.2	0.1
Unit labour costs	8.5	9.0	5.6	5.4
Labour productivity	1.7	1.8	2.5	2.6
Unemployment rate (share of labour force, per cent)	4.2	3.6	3.4	3.3
Claims on the non-government sector	14.5	13.7	11.4	9.9
Claims on corporations ¹	10.3	9.3	8.1	7.5
Claims on households	20.8	19.8	15.4	12.5
Deposits of the non-government sector	10.1	15.7	6.3	8.0
Share of GDP				
Balance of payments current account	-1.8	-4.1	-3.0	-3.8
Trade balance	-5.2	-7.7	-6.6	-8.0
Services, net	7.5	7.2	7.3	7.3
Primary income, net	-5.1	-4.9	-4.8	-4.7
Secondary income, net	1.0	1.2	1.1	1.5
Annual rate of change				
External assumptions				
External demand	1.7	2.0	2.5	3.1
Average annual Brent oil price (in USD)	-2.3	-16.9	-5.4	1.6
Average annual price of non-energy products (in USD) ²	3.3	4.5	3.5	3.1
Brent oil price at the end of period (in USD)	-11.2	-15.5	1.2	1.7
Price of non-energy products at the end of period (in USD)	4.6	5.6	3.3	3.0

¹ Data refer to non-financial corporations.

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

Source: BNB.

EFFECTS OF AN OIL PRICE SHOCK ON INFLATION AND REAL GDP IN BULGARIA

The escalated conflict between Iran and Israel in mid-June 2025 caused significant volatility in the price of oil in international markets. Amid heightened geopolitical risks and concerns about possible supply disruptions through the Strait of Hormuz, the Brent crude oil price exceeded temporarily by more than 10 per cent the assumptions embedded in the current macroeconomic forecast (see Chart 1).

Chart 1: Brent Oil Price from 1 April to 30 June 2025

(spot, US dollars/barrel)



Source: JP Morgan.

Although crude oil prices quickly returned to the levels set out in the technical assumptions of the forecast, global energy commodity markets remain highly sensitive to such geopolitical shocks. This vulnerability is particularly significant for Bulgaria given the relatively high share of oil products in country's imports (9.7 per cent of total goods imports in 2024), the high energy intensity of the economy and the high share of energy prices in the consumer basket (10.8 per cent for 2025).

In view of an increased probability of enhanced volatility in international oil prices and given the structure of the Bulgarian economy, the current highlight assesses potential macroeconomic effects for Bulgaria in case of a longer oil price shock. The assessment is based on the BNB's main macroeconomic simulation model. The baseline scenario in the simulation represents the current macroeconomic forecast of 26 June 2025 and embedded assumptions of Brent crude oil price dynamics in US dollars, while the alternative scenario assumes a steady increase in the oil price by 10 per cent above the level in the baseline scenario, which would remain until the end of 2027. The simulation-estimated effects on inflation and real GDP for Bulgaria are presented in Tables 1, 2 and 3.

Simulation estimates suggest that a permanent oil price shock of 10 per cent would have a prolonged pro-inflationary effect and a limited impact on Bulgaria's economic growth. HICP inflation would be higher by between 0.09 and 0.14 percentage points over the 2025 to 2027 period compared to the baseline scenario. At the same time, the effect on real GDP growth is negative

and limited in the first year of the shock (amounting to 0.02 percentage points in 2025), thereafter being neutralised.

Table 1: Brent Crude Oil Scenarios

Indicator 2024	Scenario	2025	2026	2027
Oil (US dollars <i>per</i> barrel)	Baseline	\$67.1	\$63.5	\$64.5
	Alternative	\$73.8	\$69.8	\$70.9
	Difference	+10%	+10%	+10%

Table 2: Effect on HICP Inflation in Bulgaria

Indicator	Scenario	2025	2026	2027
HICP	Baseline	3.6%	3.7%	3.3%
	Alternative	3.8%	3.9%	3.4%
	Difference (in percentage points)	+012	+014	+0.09

Table 3: Effect on Real GDP Growth

Indicator	Scenario	2025	2026	2027
GDP	Baseline	2.9%	2.7%	2.7%
	Alternative	2.8%	2.7%	2.7%
	Difference (in percentage points)	-0.02	+0.01	0.00

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