



# TOPICAL RESEARCH AND HIGHLIGHTS

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

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**BULGARIAN NATIONAL BANK**

## 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	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

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.