

BULGARIA

Table 1 **2023**

Population, million	6.4
GDP, current US\$ billion	102.2
GDP per capita, current US\$	15997.1
International poverty rate (\$2.15) ^a	0.7
Lower middle-income poverty rate (\$3.65) ^a	2.0
Upper middle-income poverty rate (\$6.85) ^a	5.8
Gini index ^a	39.0
School enrollment, primary (% gross) ^b	87.3
Life expectancy at birth, years ^b	71.5
Total GHG emissions (mtCO2e)	50.5

Source: WDI, Macro Poverty Outlook, and official data.

a/ Most recent value (2021), 2017 PPPs.

b/ Most recent WDI value (2021).

Bulgaria's economy slowed down in 2023 in tune with trends in key trading partners. Inflation kept decelerating, but the pace is slow and puts at risk the country's eurozone accession bid for 2025. Real wage increases outpaced productivity growth in 2023, fueling concerns about competitiveness. A reescalation of political uncertainty threatens the government's reform agenda.

Key conditions and challenges

Even if Bulgaria has gradually converged to average EU incomes since the turn of the century, its development path has remained uneven. By 2022, its GDP per capita reached 62.1 percent of the EU average GDP per capita in purchasing power parity but Bulgaria remained the poorest member state. Moreover, institutional and governance weaknesses continue to hinder the country's faster productivity growth and development.

Bulgaria succeeded to weather the recent crises relatively well, not least due to timely fiscal support for households and businesses. Economic growth declined only moderately in 2020, followed by a robust recovery in 2021-2022. The fiscal position remained strong despite increased discretionary spending in response to the shocks. The bottom-line deficit did not surpass the 3 percent limit in any of the crisis years and public debt – at projected 23.8 percent of GDP in 2023 – remains among the lowest in the EU.

In 2015-2020, Bulgaria's economic growth improved living standards for the average and poorest 40 percent of households. These improvements led to a notable 9.6 percentage points reduction in poverty (using the US\$6.85 poverty line) over the period. However, in 2021, this positive trend was reversed due to inflationary pressures and reduced employment rates among the unskilled.

In comparative terms, poverty levels remain relatively high by EU standards. Similarly, Bulgaria's inequality has been the highest in the EU for years in a row, with the Gini coefficient at 40.8 in 2021.

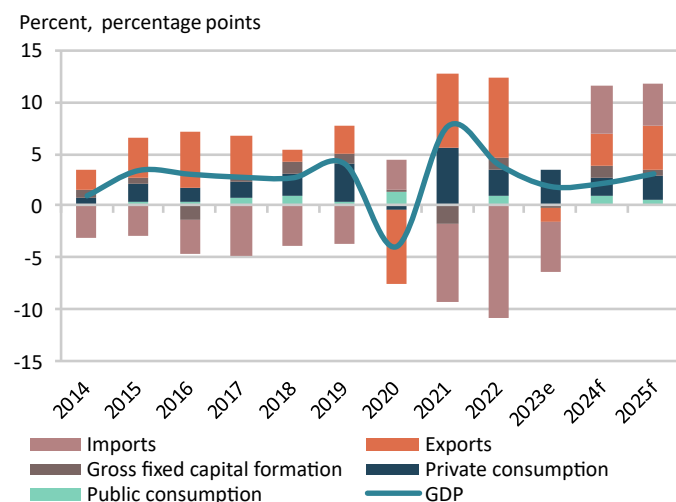
Since early 2021, the country has been marred by political instability and lost momentum for the reform agenda. This was briefly interrupted by two short-lived regular governments that tried to step up efforts and deliver on major policy goals, including milestones under the National Recovery and Resilience Plan. Yet, renewed political turmoil threatens to send the country back into an early elections spiral, with reduced appetite for reform.

Recent developments

Despite the stagnation of some of its key export markets, Bulgaria's economy managed to stay afloat thanks to robust private consumption. Nevertheless, the economy's expansion slowed down to 1.8 percent in 2023, as strong household consumption (+5.4 percent) and reduced contribution from negative net exports were offset by stagnating government consumption and a slump of gross capital formation. The latter fell by 18.1 percent due to a drawdown on inventories built up in 2021-2022, and likely cautiousness by businesses to reinvest in inventories during a slowdown.

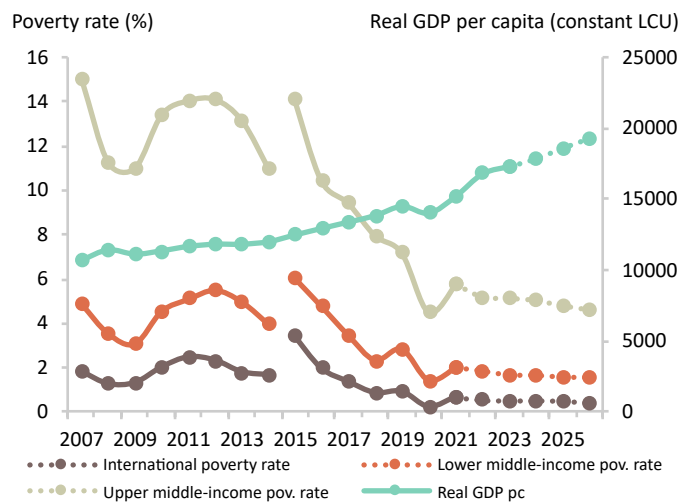
The deceleration of economic activity resulted in a moderate decline of employment in the second half of the year. Yet, nominal wages kept rising at double-digit rates y/y throughout 2023. Real average

FIGURE 1 Bulgaria / Real GDP growth and contributions to real GDP growth



Sources: World Bank and Bulgarian National Statistical Institute.

FIGURE 2 Bulgaria / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

wage growth thus came close to 5 percent for 2023, exceeding labor productivity growth and fueling concerns about the country's competitiveness.

Consumer price growth kept decelerating throughout 2023 to reach 3.8 percent y/y by January 2024. Yet, disinflation has been slow and annual average inflation reached a 15-year high of 9.5 percent in 2023.

Following the rapid deterioration of the fiscal position in early 2023, the balance improved later in the year as measures for strengthening revenue collection bore fruit. WB estimates suggest that on accrual basis the fiscal deficit reached 2.4 percent of GDP in 2023, or below the 3 percent Maastricht ceiling. The EC's Convergence Report on Bulgaria's readiness for eurozone accession is expected in June 2024. For the moment, inflation remains the only challenging Maastricht criterion for accession, but the gap between actual inflation rates and the line benchmark is shrinking rapidly.

Poverty reduction (using the 6.85\$ poverty line) is expected to have slowed down in 2023 and reached 5.12 percent, mostly due to decelerated economic growth and

still-high food and energy prices that affected adversely those whose nominal wages have not kept pace with inflation. The energy cost burden varies across households due to different consumption patterns and energy needs, with single-elderly households particularly affected.

Outlook

The economy's growth is expected to pick up in 2024-2025 with the expected recovery in the eurozone. Bulgaria's target to join the eurozone in 2025 may be difficult but not impossible to reach, should there be a stable government and the disinflation trend continues in the coming months, as expected.

Even if the banking sector remains stable and highly profitable (with net profit up 64 percent in 2023), the ongoing credit expansion – mirrored by a construction boom – fuels concerns about the build-up of a construction-credit bubble. The latter may lead to a painful correction and increase of non-performing loans – at 3.63 percent at

end-2023 – going forward. Credit growth remained almost unabated at 12.4 percent y/y at end-2023 (against 12.7 percent at end-2022), with credit to households even accelerating to 15.9 percent, against 14.6 percent at end-2022. Similarly, construction permits for residential buildings kept growing at double-digit rates in Q4/2023.

Political risks have re-escalated after a failed PM rotation between the two ruling coalition partners that toppled the most recent regular government in March 2024. The country is now heading towards a new round of early elections – the 6th in about three years – which threaten to slow reform momentum and jeopardize the achievement of key policy goals such as near-term eurozone membership.

The government's budget sets a (cash-basis) 3 percent fiscal deficit target for 2024 on the back of an ambitious capital spending program. Thus, consolidation seems to have been put off beyond 2024. The current account is projected to keep its slight surplus in 2024-2026 due to the expected downward adjustment of import prices of key raw materials and the increase of net services export.

TABLE 2 Bulgaria / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	7.7	3.9	1.8	2.1	3.1	2.7
Private consumption	8.5	3.9	5.4	2.6	3.4	3.6
Government consumption	0.4	5.5	-0.4	5.9	3.4	3.0
Gross fixed capital investment	-8.3	6.5	3.3	4.0	1.3	2.6
Exports, goods and services	11.2	11.6	-1.9	4.8	5.8	6.0
Imports, goods and services	10.7	15.0	-6.3	6.3	5.5	6.6
Real GDP growth, at constant factor prices	8.0	5.3	1.8	2.1	3.1	2.7
Agriculture	28.8	-4.4	-3.9	4.3	1.2	1.0
Industry	1.7	12.1	0.9	4.7	5.2	5.3
Services	8.8	3.9	2.6	1.1	2.5	1.9
Inflation (consumer price index)	3.3	15.3	9.5	5.9	4.2	2.0
Current account balance (% of GDP)	-1.7	-1.4	1.6	1.6	2.0	2.2
Net foreign direct investment inflow (% of GDP)	1.8	2.4	3.1	2.5	2.7	2.6
Fiscal balance (% of GDP)	-2.7	-0.8	-3.1	-2.9	-2.7	-2.6
Revenues (% of GDP)	37.7	38.6	36.5	38.1	38.7	38.9
Debt (% of GDP)	23.9	22.6	23.7	23.2	23.2	22.8
Primary balance (% of GDP)	-2.3	-0.4	-2.6	-2.5	-2.3	-2.3
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	0.7	0.5	0.5	0.5	0.5	0.4
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	2.0	1.8	1.7	1.7	1.6	1.6
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	5.8	5.2	5.1	5.0	4.8	4.6
GHG emissions growth (mtCO₂e)	7.1	6.3	-0.4	0.6	0.6	0.1
Energy related GHG emissions (% of total)	78.7	75.9	75.0	73.8	72.6	71.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.

a/ Calculations based on ECAPOV harmonization, using 2022-EU-SILC. Actual data: 2021. Nowcast: 2022-2023. Forecasts are from 2024 to 2026.

b/ Projection using neutral distribution (2021) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.