

# BULGARIA

**Table 1** **2023**

Population, million	6.4
GDP, current US\$ billion	102.2
GDP per capita, current US\$	15855.4
International poverty rate (\$2.15) <sup>a</sup>	0.7
Lower middle-income poverty rate (\$3.65) <sup>a</sup>	2.0
Upper middle-income poverty rate (\$6.85) <sup>a</sup>	5.8
Gini index <sup>a</sup>	39.0
School enrollment, primary (% gross) <sup>b</sup>	87.3
Life expectancy at birth, years <sup>b</sup>	74.4
Total GHG emissions (mtCO2e)	50.1

Source: WDI, Macro Poverty Outlook, and official data.  
 a/ Most recent value (2021), 2017 PPPs.  
 b/ Most recent WDI value (2022).

*The Bulgarian economy has embarked on a recovery path in early 2024 aligned with the moderate pick-up of activity in the eurozone. The widening gap between real wage and productivity growth and the potential build-up of a construction-credit bubble warrant close monitoring. The country struggles with a continued political crisis that jeopardizes the reform agenda.*

## Key conditions and challenges

Since the start of the century, Bulgaria's authorities have adhered to macroeconomic stability, underpinned by a currency board arrangement and fiscal prudence. This has helped the country weather the recent crises relatively well while remaining on a stable income convergence path. Bulgaria's GDP per capita reached 64 percent of the European Union (EU) average (in purchasing power parity terms) in 2023, while the country joined the ranks of high-income countries effective July 1, 2024.

Despite that, the country continues to face multiple development challenges. A key horizontal constraint is deep-rooted institutional and governance weaknesses, which enable state capture by vested interests and discourage investment. This suppresses productivity and private sector growth, while also resulting in suboptimal public services. A rapid decline in the population—one of the worst globally—also limits the country's economic potential while exerting increasing pressure on public systems.

Despite some recent progress, Bulgaria continues to experience one of the highest levels of income poverty and inequality within the EU. From 2016 to 2020, economic growth led to improved living standards and significant poverty reduction. However, this trend reversed in 2021 due to the lingering effects of the pandemic, inflation, and rising unemployment

among the less educated. Income inequality remains high, making the country the most unequal EU member.

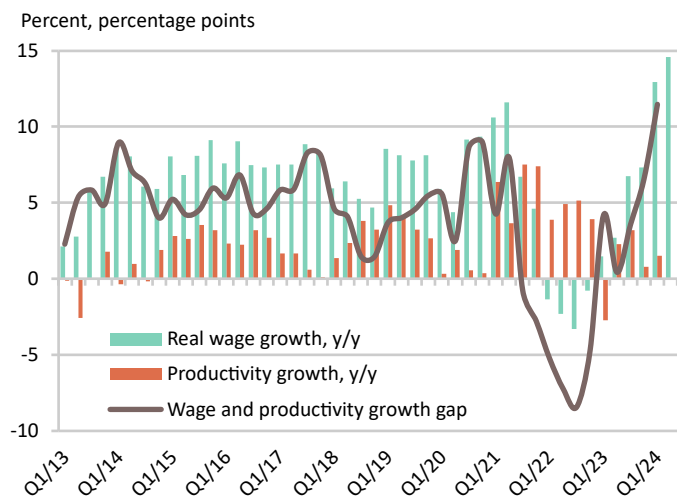
Since early 2021, Bulgaria has been marred by political instability and lost reform momentum. Thus, the country has failed to deliver on major policy goals, including some of the milestones under the National Recovery and Resilience Plan.

Despite the political turmoil, near-term eurozone entry has remained a key government priority. Should inflation meet the Maastricht criterion before end-2024, as expected, the country could join the eurozone from mid-2025 or January 2026. Full-fledged Schengen Area membership and OECD accession have been consistently pursued, too. Yet, continued political turmoil and early elections in October 2024 jeopardize the reform agenda.

## Recent developments

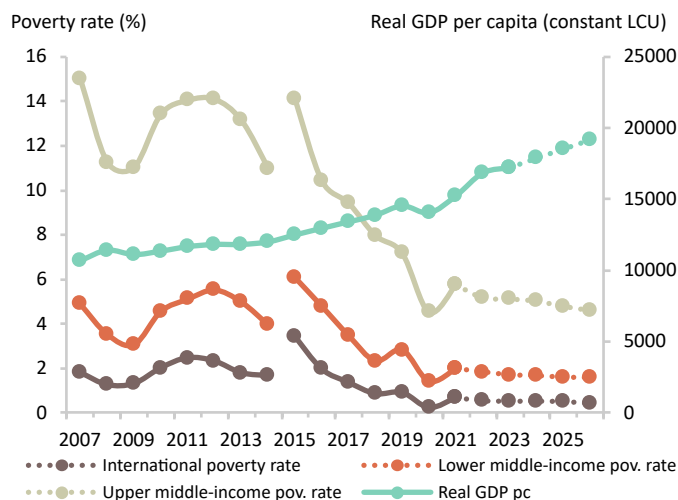
The first two quarters of 2024 saw a recovery of GDP growth to 1.9 and 2 percent y/y, respectively, in line with the firming of growth in the wider EU. Noteworthy, while growth in Q1 was driven by final consumption, Q2 saw exports embarking on a recovery path, too. Consumption was fed by unabating wage growth, which accelerated to 13 and 15 percent y/y in real terms in Q1 and Q2 2024, respectively, due to a hike of the minimum wage by 19 percent from start-2024 and long-standing labor shortages. While the gap between real wage and productivity growth has been consistently positive since 2013 (the only exception to this trend

**FIGURE 1 Bulgaria / Real wage and productivity growth gap**



Source: World Bank.

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



Source: World Bank. Notes: see Table 2.

was 2022, when inflation shot up markedly, it reached a 15-year high of above 10pp in Q1 2024, fueling concerns about the economy's competitiveness.

The pick-up of growth and the minimum wage increase—which affected positively the bottom of the income distribution - are expected to have supported further poverty reduction in early 2024. Despite this positive development, the employment rate among the working-age population with low education (ISCED 0-2) dropped from 39.2 percent in Q3 2023 to 33.2 percent in Q1 2024, highlighting a worrying trend amidst the broader recovery.

Consumer price inflation kept decelerating in the year to date, further improving the purchasing power of households. Annual average HICP inflation slowed to 4.3 percent in July, which narrowed the gap with the line criterion for eurozone entry to just 1.3 percentage points. Should this disinflationary trend continue, Bulgaria could meet the criterion—which is the only remaining hurdle to euro adoption—before year-end.

The fiscal position remains stable. The general government deficit on a cash basis reached 0.5 percent of the World Bank's GDP projection in the year to July 2024. The deficit for the full year, on an accrual basis, is expected to be kept below

the 3 percent Maastricht ceiling, given the government's aspiration for prompt eurozone accession. As in previous years, however, this may require cutting down on planned capital spending. In late August 2024, the government successfully placed a record-high volume of EUR 4.34bn of EUR and USD-denominated bonds on international markets, which testified to continued market access at attractive terms.

## Outlook

The economy's growth is projected to pick up in 2024-2025 with the expected recovery in the eurozone. This is expected to have a benign impact on domestic poverty reduction, while also keeping Bulgaria on its convergence path towards average EU incomes. Bulgaria's target to join the eurozone from mid-2025 or January 2026 is also within reach, should the disinflation trend continue in the coming months, as expected.

Credit to households remains on the radar due to its accelerating growth that reached 19 percent y/y in June 2024. The increase was propelled by long-term household mortgage loans and consumer loans (with above 5-year maturity) which grew by 25 and 15 percent y/y, respectively, in June.

This trend is mirrored by an ongoing construction boom and fuels concerns about the build-up of a construction-credit bubble, which may be followed by a painful correction and increase in non-performing loans. For the time being, however, non-performing loans remain low at 3.64 percent as of June 2024, down from 3.80 percent a year ago. In an attempt to mitigate those risks, effective October 1, the central bank introduced several requirements for new mortgage loans to households including a 50 percent ceiling for the loan service-to-income ratio, an 85 percent ceiling for loan-to-mortgage value, and a maximum 30-year loan maturity.

Political risks have re-escalated in recent months following a failed attempt at formation of a regular government after the latest round of early elections in June 2024. The country is now heading towards new snap elections in October—the 7th in a row in about three years—which jeopardizes the reform agenda and provides fertile ground for populist policies. The latter could result in further expansion of current expenditure at the expense of capital spending, as evidenced in the past. Even if the headline fiscal deficit is likely to stay below the 3 percent Maastricht ceiling, public investment would remain below peers, capping the country's growth potential.

**TABLE 2 Bulgaria / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2021	2022	2023	2024e	2025f	2026f
<b>Real GDP growth, at constant market prices</b>	7.7	3.9	1.8	2.2	2.8	2.7
Private consumption	8.5	3.9	5.4	2.6	3.1	3.6
Government consumption	0.4	5.5	-0.4	11.3	3.6	2.8
Gross fixed capital investment	-8.3	6.5	3.3	-2.6	1.3	2.6
Exports, goods and services	11.2	11.6	-1.9	2.3	5.6	6.0
Imports, goods and services	10.7	15.0	-6.3	3.5	5.5	6.6
<b>Real GDP growth, at constant factor prices</b>	8.0	5.3	1.8	2.2	2.8	2.7
Agriculture	28.8	-4.4	-3.9	1.5	1.2	1.0
Industry	1.7	12.1	0.9	1.3	5.2	5.3
Services	8.8	3.9	2.6	2.5	2.1	1.9
<b>Inflation (consumer price index)</b>	3.3	15.3	9.5	2.6	2.2	2.0
<b>Current account balance (% of GDP)</b>	-1.7	-1.4	-0.3	-0.7	-0.5	-1.0
<b>Net foreign direct investment inflow (% of GDP)</b>	1.8	2.4	3.2	2.5	2.8	2.7
<b>Fiscal balance (% of GDP)</b>	-2.7	-0.8	-3.0	-3.1	-3.0	-2.9
<b>Revenues (% of GDP)</b>	37.7	38.6	36.3	39.0	39.5	39.8
<b>Debt (% of GDP)</b>	23.9	22.6	22.9	23.4	23.7	23.6
<b>Primary balance (% of GDP)</b>	-2.3	-0.4	-2.6	-2.7	-2.6	-2.5
<b>International poverty rate (\$2.15 in 2017 PPP)<sup>a,b</sup></b>	0.7	0.5	0.5	0.5	0.5	0.4
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>a,b</sup></b>	2.0	1.8	1.7	1.7	1.6	1.6
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>a,b</sup></b>	5.8	5.2	5.1	5.0	4.8	4.6
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	6.8	6.0	-0.7	-0.6	-0.1	-0.1
<b>Energy related GHG emissions (% of total)</b>	78.9	76.3	74.8	74.0	73.1	72.1

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.