

Monitoring Bulgaria: Euro adoption is within sight, but not there yet

Bulgaria's economic outlook shows mixed signals, with moderate GDP growth driven by consumption but also challenges concerning industrial activity, trade deficits, and inflation pressures. Political stability remains crucial for euro adoption in 2026



Bulgaria at a glance

- **GDP growth:** Bulgaria's economic growth improved to 2.7% in 2024, driven by private and government consumption, despite a contraction in investment. We estimate a similar growth pace in 2025 and 2026.
- **Industrial activity:** Output remains below pre-pandemic levels, with manufacturing showing some growth, but mining, quarrying, and energy production lagging.
- **Balance of payments:** The trade deficit worsened by 28% in 2024, with gains in trade with Germany only partially offsetting losses with Romania, Turkey, and Greece. Tourism inflows are expected to help the current account in 2025.
- **Inflation and fiscal policy:** Inflation pressures are rising due to VAT changes and high wage growth. We see year-end CPI inflation climbing to 4.6%, from 2.2% at the end of 2024.
- **Bulgaria's 2025 budget** projects a deficit of 3.0% of GDP, which we think is credible.

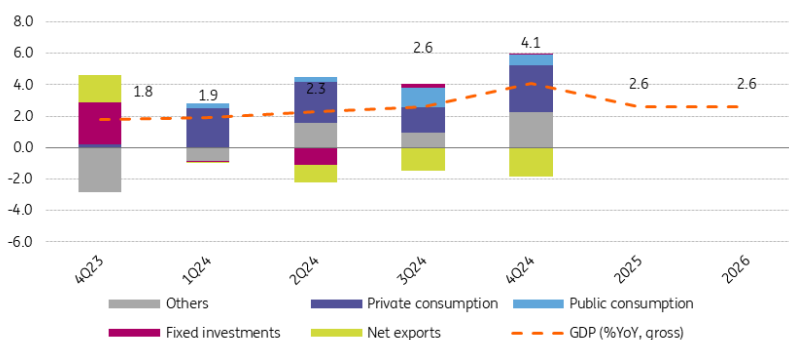
- **Our base case remains that Bulgaria will join the eurozone on 1 January 2026.** However, political stability is crucial for this adoption, especially if rising inflation necessitates a more accommodating stance from European leaders to support Bulgaria's entry into the eurozone.

GDP growth: improving but for the wrong reasons

Annual GDP growth in Bulgaria picked up some mild speed throughout 2024, coming in at 2.7% (2023: 1.9%). Private and government consumption were the important large positive contributors to this stronger growth. Strong growth rates in private and public wages provided the tailwind. Meanwhile, investment fell into a contraction, after two years of visible expansions. Imports recovered some of the losses incurred in 2023, jumping ahead of the more muted export dynamics and weighing on growth. What's more, unmet commitments from the Recovery and Resilience Facility, mostly on energy and anti-corruption, led the European Commission to cancel the second payment request of EUR 653mn. Meanwhile, on the 2021-2017 Multiannual Financial Framework, data published by the Ministry of Finance shows that Bulgaria spent EUR 1bn up until the end of January 2025, out of the total EUR 12.9bn allocated for this exercise.

On the supply side of the economy, GDP data shows positive developments in the construction, services and public administration sectors, as well as a partial recovery in industrial activity.

Relatively robust growth still expected



Source: NSI, ING

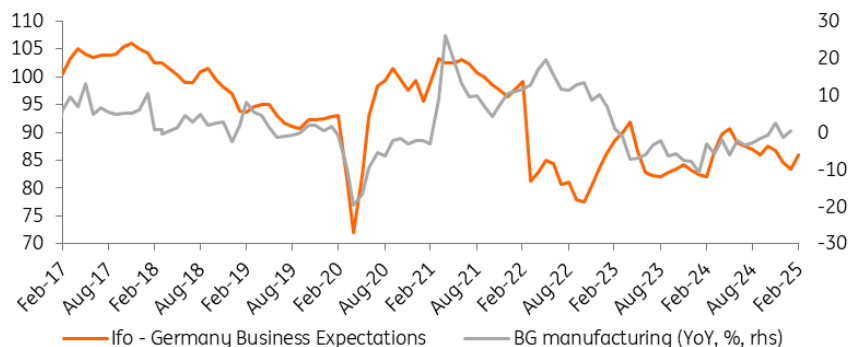
On the outlook, we continue to see growth remaining robust, at 2.6% in 2025. The recent wage advancements and an expansionary fiscal policy should continue to benefit private and public consumption. Moreover, the Schengen ascension and broader regional projects like the Vertical Gas Corridor, Nato-led infrastructure upgrades and the Three Seas Initiative should also bring some early benefits to activity and productivity. That said, the political uncertainty could weigh on investments. After a government was formed in January, the Bulgarian Constitutional Court ruled in favour of a vote recount of the previous election results, which could lead to modifications of the parliament structure given the initial close results. This is a key factor to watch ahead.

Industry: still not in shape

Industrial activity has continued to remain in negative territory, reflecting the ongoing weakness of key trading partners such as Germany and Romania. Data up to January indicates that industrial output has fallen again, and is now 1.3% below its pre-pandemic levels—a decline compared to

the second half of last year. Currently, only manufacturing activity is above its pre-pandemic levels, while both mining and quarrying, as well as energy production, are significantly below, with double-digit declines.

Industrial production barely muddling through



Source: NSI, ING, Ifo Institute

Over the past three months, certain sub-sectors have shown annual growth, including the manufacturing of other transport equipment, fabricated metal products, basic pharmaceuticals, chemicals, and tobacco products. However, motor vehicles, clothing, leather, and energy production have performed worse during the same period. Unless the recently planned fiscal stimulus from Germany and Europe more broadly is implemented, the prospects for Bulgaria's export-driven industry remain limited. Nonetheless, the Schengen ascension and regional infrastructure developments should provide some positive momentum.

Trade and the balance of payments

The trade deficit worsened by 28% in 2024. Notably, a worsening trade surplus with Romania was more than offset by a significant surplus gain in trade with Germany. Additionally, the trade balances with neighbouring Turkey and Greece both deteriorated over the year. In terms of products, the trade balances for food and live animals, crude materials, and fuel worsened, but these were partially offset by stronger performances in manufacturing.

In 2025, the current account is expected to benefit from another year of healthy tourism inflows. The still-struggling European economy might lead more Western tourists to seek more competitive holiday alternatives, potentially boosting services exports. This could help offset some of the pressures from the goods deficit that are still anticipated.

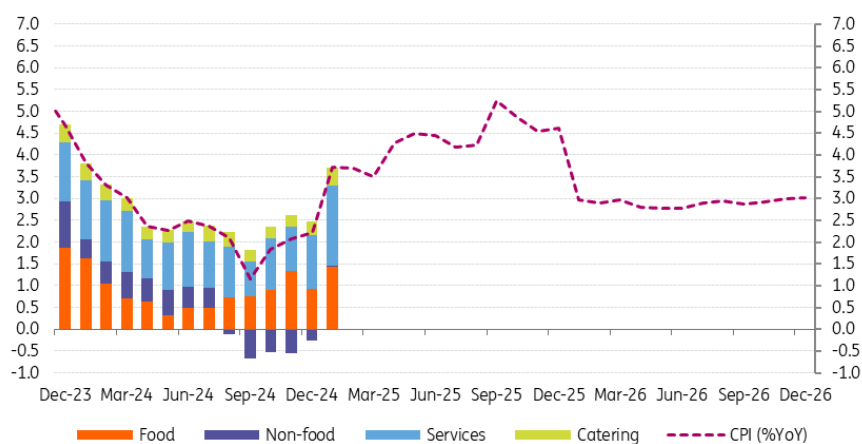
Concerning other BoP categories, now with a new government in place, the capital account and secondary income are more likely to benefit from EU funding, as long as the protracted political turmoil does not return. All in all, it should still take a while until political risk ranks lower on foreign investors' heatmaps, keeping the near-term risks for FDI to the downside. In 2024, FDI fell to EUR 11498mn compared to EUR 3284mn in 2023, mainly due to falls in reinvested earnings.

Overall, regional projects like the Vertical Corridor, the Three Seas Initiative and some Nato-led investments could prove beneficial for FDI ahead and offset, at least partly, the negative impact of delayed reforms. Stable governance over the course of 2025 could lead to a more sustained increase for FDI in 2026.

Inflation: upside pressures ahead

Inflation began the year strongly, with a 2.0% month-on-month increase. Significant price hikes were observed across various sectors, particularly in housing, utilities, food, restaurants, and hotels. The primary driver behind these increases was changes in taxation, especially regarding VAT. Additionally, high wage growth and an upcoming stimulative fiscal policy are likely to exert further upward pressure on demand. However, the recent rise in the unemployment rate, if sustained, could somewhat mitigate these effects. Furthermore, with export growth still unlikely to see a meaningful recovery, certain areas of internal demand, including labour, should remain manageable in terms of their inflationary impact. A key factor to monitor is the liberalisation of the electricity market. Overall, we expect CPI inflation to end this year at 4.6% and next year at 3.0%.

A short-lived uptick in inflation



Source: NSI, ING

Fiscal outlook: Maastricht criteria sets the upper bound

Bulgaria’s 2025 budget envisages a deficit of 3.0% of GDP. Throughout 2024, compared to capital expenditure, the compensation of employees was 3.4 times larger, while social expenditure was 5.1 times larger. This represents a significant worsening to the detriment of public investments compared to 2023, when the same ratios stood at 1.9 and 3.3, and aligns with the growing debate around the sustainability of the current trends in public wages.

Ultimately, until some form of credible political stability takes shape, fiscal uncertainty is likely to prevail. While Bulgaria has the capacity to borrow more, the risk of failing to meet another Maastricht criterion could trigger some minimal adjustment responses from authorities in the second half of the year. An increase in the tax burden cannot be excluded.

All told, our base case is that the budget deficit will close at 3.0% of GDP in 2025.

Will this be enough for euro adoption?

Regarding euro adoption, we maintain our long-held base case for the country to join eurozone in January 2026. However, we must acknowledge that some uncertainties are beginning to emerge around this forecast as well. The short-term rise in inflation could become a more significant issue, potentially shifting the decision from a technical to a more

political one.

Additionally, potential changes in the parliament structure could introduce further uncertainties, especially if the recounting of votes leads to new parties entering the scene. With these factors in mind, the January 2026 estimate for euro adoption is not without concerns. Ultimately, we believe that the most important criterion for Bulgaria's euro adoption is the unwritten one of political stability. If that is achieved, the other elements are more likely to fall into place.

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