



BULGARIA

November 2025

2025 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STAFF SUPPLEMENT

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV consultation with Bulgaria, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on lapse-of-time basis following discussions that ended on September 23, 2025, with the officials of Bulgaria on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 3, 2025.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Supplement** updating information on recent developments.

The documents listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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IMF Executive Board Concludes 2025 Article IV Consultation with Bulgaria

FOR IMMEDIATE RELEASE

- *Considering the underlying demand strength and cyclical position of the economy, tighter fiscal policy is recommended with a reorientation from short-term demand support towards quality investment.*
- *Macroprudential policy will need to remain nimble, and close monitoring of systemic risk in the real estate market is warranted.*
- *Addressing productivity and demographic challenges will require persistent governance reforms, sustained investment in human capital, and increased labor market participation.*

Washington, DC – November 24, 2025: The Executive Board of the International Monetary Fund (IMF) completed the 2025 Article IV Consultation for Bulgaria¹ and endorsed the staff appraisal on a lapse-of-time basis without a meeting.²

Domestic demand is driving a robust expansion of the Bulgarian economy. GDP grew by 3.4 percent in 2024 and by 3.2 percent in the first half of 2025, propelled by sustained private consumption underpinned by strong credit growth and fiscal easing. Inflation accelerated in early 2025 and remains elevated. With record low unemployment the labor market is tight, and real wages are growing rapidly.

The near-term growth outlook is positive. Growth is projected to remain at around 3 percent in 2025 and 2026, supported by domestic consumption and public investment funded under the Resilience and Recovery Plan (RRP). Headline inflation is projected to average around 3½ percent in 2025 and 2026, before declining. Risks to the outlook arise mainly from domestic policy uncertainty, domestic demand pressures, and heightened external volatility.

Executive Board Assessment

Economic momentum is strong, the labor market is tight, and inflation is elevated. High wage growth has driven income convergence, and credit is expanding rapidly, but productivity growth is lagging. External demand is subdued, reflecting slower growth in key EU markets and global uncertainty. Still, the external position in 2024 is assessed to be broadly in line with

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

² The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

fundamentals and desirable policy settings. Looking ahead, the current account is projected to remain negative in the near term.

The adoption of the euro is a major milestone and an opportunity to strengthen institutions, enhance policy credibility, and raise medium-term growth. Euro adoption prospects provide a near-term boost to the outlook. The transition to the euro is expected to strengthen institutional credibility and investor confidence while reducing currency risk and transaction costs. Some of these benefits are already visible in narrowing sovereign spreads and recent upgrades to Bulgaria's credit rating.

Fiscal tightening in 2026 would help cool the economy. Fiscal policy is expected to remain expansionary in 2025–26. Considering underlying demand strength and the economy's cyclical position, a neutral stance is recommended, which can be achieved by a combination of expenditure and revenue measures. Moderating public wage growth and benefit indexation in particular would generate significant fiscal savings and ease inflationary pressures. The substantial recapitalization of SOEs contributes to fiscal easing and underscores the need for greater transparency. More generally, increasing the consistency and transparency of public policies would reduce distortions and strengthen the credibility of fiscal reporting.

Pension reform should focus on sustainability and adequacy. The deficit of the pay-as-you-go pension scheme is widening, and population aging will further increase the shortfall. Financial sustainability needs to be strengthened by increasing contribution revenues, with a key measure being removing the cap on insurable income, which has not kept up with wage growth. At the same time, improving the adequacy of pensions to reduce old-age poverty remains a priority. Meanwhile, efforts to strengthen the system's second and third pillars should continue.

Maintaining fiscal space amid rising spending pressures will require prudent policies and forward-looking reforms. While the overall risk of debt distress remains low, public debt is increasing, owing to sustained deficits and sizeable recapitalizations of SOEs. Addressing spending pressures from aging, defense, infrastructure, and the energy transition will also require fiscal space. The revenue-generating capacity of the flat-tax regime appears insufficient to meet increasing demands for quality services; in the medium term, more revenue could be raised by increasing tax rates for both personal and corporate income and moving to progressive income taxation.

Macroprudential policy will need to remain nimble. The financial sector remains resilient. Still, rapid growth of consumer credit, particularly mortgage loans, has increased systemic risks in the real estate market. The BNB's close monitoring of the housing market is therefore welcome. Looking ahead, with the drop in reserve requirements following euro adoption, some liquidity may eventually flow into lending and further propel household credit, adding to market pressures. Therefore, macroprudential policy, notably through borrower-based measures, will have to proactively manage credit market risks.

Durably raising living standards will require continued structural reforms, enhanced governance, and strategic investments in human and physical capital. Growth dividends from scaling up quality public investment and reducing structural policy gaps could be substantial, particularly through the RRP. Improving governance and institutional quality is essential for long-term growth and building trust. Addressing productivity and demographic challenges will require sustained investment in human capital and increased labor market participation. Reform is also crucial for the transition to a more resilient, more efficient, and cleaner energy sector, with stronger governance and reduced fiscal vulnerabilities.

Bulgaria: Selected Economic Indicators, 2024–26 (Annual percent change, unless otherwise indicated)			
	2024	2025 Proj.	2026 Proj.
Real GDP	3.4	3.0	3.1
Real domestic demand	4.7	7.1	3.8
Public consumption	3.6	5.3	1.7
Private consumption	4.9	8.0	5.3
Gross capital formation	5.3	5.9	1.3
Net exports 1/	-1.1	-3.6	-0.7
Exports of goods and services	1.8	-1.6	3.8
Imports of goods and services	3.9	4.8	5.1
Resource utilization			
Potential GDP	3.0	2.9	3.1
Output gap (percent of potential GDP)	0.4	0.6	0.6
Unemployment rate (percent of labor force)	4.2	3.5	3.4
Price			
GDP deflator	7.2	6.0	4.4
Consumer price index (HICP, average)	2.6	3.6	3.4
Consumer price index (HICP, end of period)	2.1	4.0	3.0
Fiscal indicators (percent of GDP)			
General government net lending/borrowing (cash basis)	-3.0	-3.4	-3.5
General government primary balance	-2.8	-3.0	-2.8
Cyclically adjusted overall balance (percent of potential GDP)	-3.2	-3.7	-3.7
General government gross debt	23.8	28.4	29.9
Monetary aggregates			
Broad money	8.7	5.7	9.1
Domestic private credit	14.5	13.1	11.8
External sector (percent of GDP)			
Current account balance	-1.6	-3.8	-3.2
o/w: Merchandise trade balance	-4.8	-7.8	-7.6
Net international investment position	-4.4	-4.9	-4.1
Sources: Bulgarian authorities; and IMF staff estimates.			
1/ Contribution to GDP growth.			



BULGARIA

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

November 3, 2025

KEY ISSUES

Context. Bulgaria is approaching a major milestone with the adoption of the euro in January 2026. Euro area accession provides a near-term boost to the outlook and offers an opportunity to reinforce institutions, bolster policy credibility, and raise medium-term growth. In a challenging environment—a minority government is in place since January 2025, following the seventh parliamentary election in four years—the 2025 budget has been approved, the EU Recovery and Resilience Plan (RRP) has been renegotiated, and euro adoption is advancing.

Outlook and Risks. GDP growth is projected to be strong at around 3 percent in 2025 and 2026, driven by sustained domestic demand, underpinned by robust wage growth, credit expansion, and fiscal easing. At the same time, external demand for Bulgaria's exports is expected to stay subdued, reflecting slower growth in key EU markets and global uncertainty. Inflation is elevated and projected to decline only gradually. Risks to the outlook arise from domestic policy uncertainty, domestic demand pressures that may lead to more prolonged elevated inflation, and heightened external volatility.

Key Policy Recommendations

- **Fiscal.** Tighter fiscal policy is recommended; a neutral fiscal stance would require an adjustment of about 1 percent of GDP. Moderating public wage growth and benefit indexation would generate fiscal savings and ease inflationary pressures. Fiscal structural reforms that focus on wage, social, and investment spending efficiency, improved state-owned enterprise (SOE) governance, and mobilizing more revenues are needed to address medium-term spending pressures.
- **Financial.** Rapid growth of mortgage loans has increased systemic risks in the real estate market. Macroprudential policy will need to remain nimble, and close monitoring of evolving systemic risks is warranted.
- **Structural.** Addressing productivity and demographic challenges to boost medium-term growth will require persistent governance reforms, sustained investment in human capital, and increased labor market participation. Scaling up quality public investment and reducing structural policy gaps could deliver substantial growth dividends. Energy sector reforms should aim to strengthen resilience, efficiency, and sustainability, while improving governance and reducing fiscal risks.

Approved By
Helge Berger (EUR)
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Discussions took place in Sofia during September 10–23, 2025. The team comprised Fabian Bornhorst (head), Thibault Cezanne, Giacomo Magistretti, Vahram Stepanyan, Torsten Wezel (all EUR), and Iglia Vassileva (local economist, EUR). Carlos Mulas Granados, (Senior Regional Representative, EUR) and Nina Stoyanova (OED) attended some of the meetings. Tina Kang and Cheryl Li (EUR) assisted in the preparation of the report. The mission met with Prime Minister Zhelyazkov, Minister of Finance Petkova, Bulgarian National Bank Governor Radev, other ministers and senior officials, the Budget and Finance Commission of the National Assembly, and representatives of labor and business organizations, think tanks, commercial banks, and international organizations.

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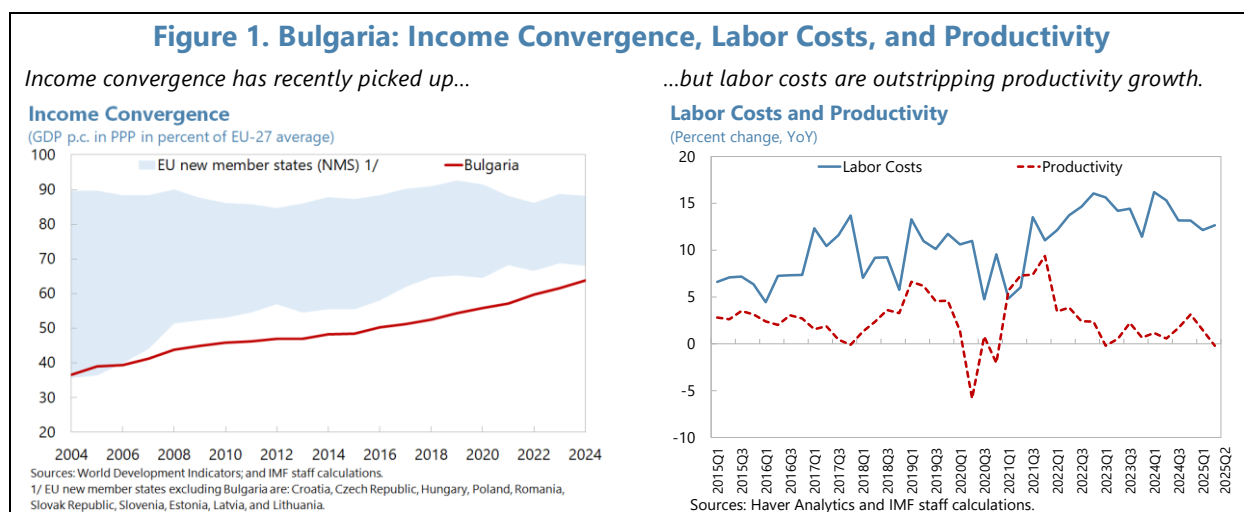
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CONTEXT

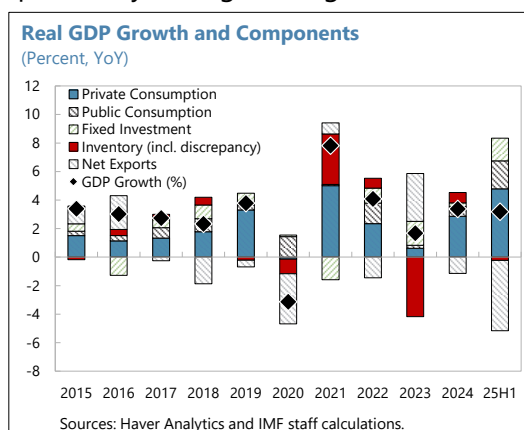
1. Bulgaria is approaching a major milestone with the adoption of the euro in January 2026. In addition to marking a high point in Bulgaria's integration with the European Union (EU), euro adoption is an opportunity to strengthen institutions, enhance policy credibility, and raise medium-term growth. It is expected to provide a near-term boost to growth from lower risk premia, enhanced investor confidence, and the associated loosening of financial conditions. Realizing the full benefits of euro adoption, however, will depend on maintaining reform momentum and policy continuity amid a complex political landscape. The October 2024 election marked the seventh vote in four years and resulted in a minority government coalition. The government has approved the 2025 budget, advanced euro adoption, and renegotiated the EU Recovery and Resilience Plan (RRP). However, political fragmentation and repeated, but unsuccessful, no-confidence votes point to an unsettled environment that could complicate effective policymaking.

2. Convergence has been advancing, even if incomes still lag peers, but fiscal, inflationary, and competitiveness pressures are emerging (Figure 1). While Bulgaria is still the poorest EU member, growth has recently picked up and led to an acceleration of real income convergence. At the same time, the economy is operating above capacity, with elevated inflation underpinned by strong wage growth; fiscal policy is easing, and credit is expanding rapidly. Unit labor costs (ULCs) are outpacing productivity growth. As income levels are increasing, demands for welfare and more equitable policies are also mounting, leading to expenditure likely surpassing the revenue-generating capacity of the flat-tax regime.

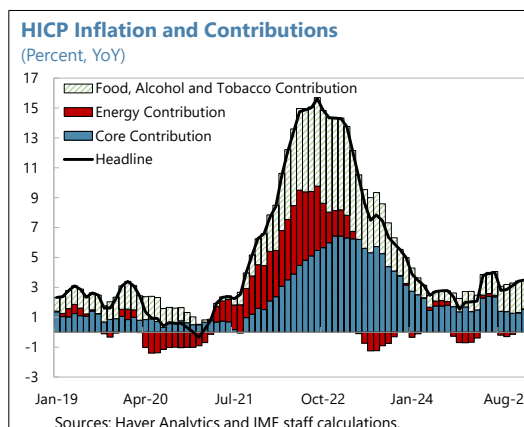


RECENT ECONOMIC DEVELOPMENTS

3. Domestic demand is driving a robust expansion, and a tight labor market supports strong wage growth. Real GDP grew by 3.4 percent in 2024 and by 3.2 percent in the first half of 2025, propelled by sustained private consumption underpinned by strong credit growth and fiscal easing. After slowing last year, investment is also growing again. Uncertainty and slowing external demand contributed to subdued growth of real exports in 2024, which has decelerated further in the first half of 2025. With record low unemployment and reported labor shortages—despite positive net migration and increasing employment of foreign workers—the labor market is tight. Together with widespread indexation and one-off increases in public sector wages, real wages are growing rapidly by about 9 percent (Figure 2).



4. Inflation accelerated in early 2025 and remains elevated. After closing 2024 at 2.1 percent, headline inflation rose to 3.4 percent in the first half of 2025 compared to the same period last year, and core inflation reached 3 percent. The acceleration was particularly noticeable following the reinstatement of the standard VAT rate on bread, flour, and restaurant services, and increases in administered prices in early 2025. Inflation slowed in the second quarter, but remains elevated. While food prices are increasing, energy prices have declined since mid-2023, in line with global trends. Overall, inflation has recently been driven mostly by services.



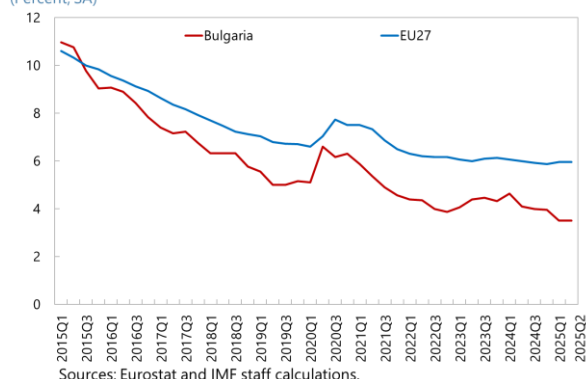
5. The neutral fiscal stance of last year is giving way to fiscal easing in 2025, driven by rising expenditures. Strong revenue collection and investment underspending resulted in a deficit in line with the budget and in a broadly neutral fiscal stance in 2024. While the stance aligned with staff's recommendation, the composition of the adjustment did not (Annex V). Capital spending declined, wages and social spending continued on an upward trend, subsidies remained at a relatively high level, and transfers to the pension system increased further as the COVID-related fiscal response has not yet been fully reversed. Tax revenues were broadly unchanged with revenue from personal income tax remaining one of the lowest in the EU (Figures 3 and 14). For 2025, preliminary cash data through August show that substantial revenue growth (13 percent y-o-y) is outpaced by rising expenditure (20 percent y-o-y). Government debt has also increased significantly, mostly due to the issuance of EUR 7.2 billion (about 6 percent of GDP) in Eurobonds.

Figure 2. Bulgaria: Labor Market Developments

The unemployment rate is declining and reached a record low of 3.5 percent.

Unemployment Rate

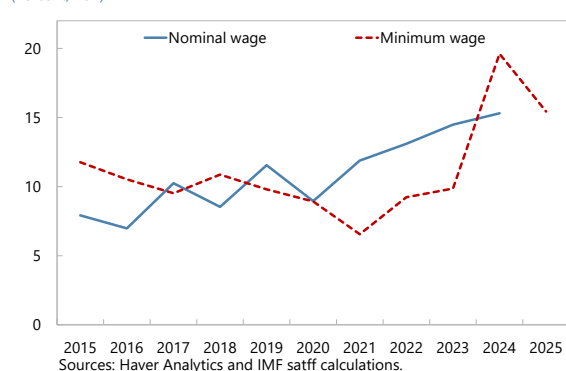
(Percent; SA)



The minimum wage increased by 15 percent in January, in line with the formula that pegs it to average wage growth.

Nominal Average and Minimum Wage Growth

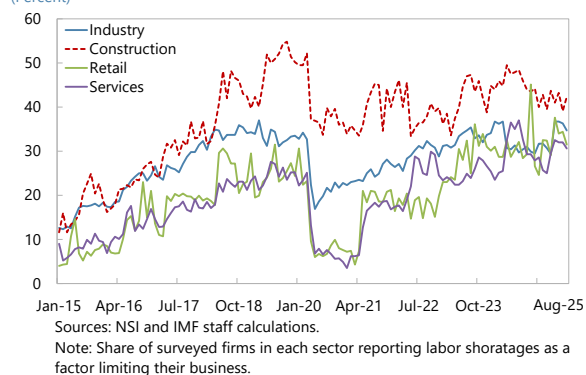
(Percent, YoY)



...firms still report significant labor shortages, ...

Reported Labor Shortages

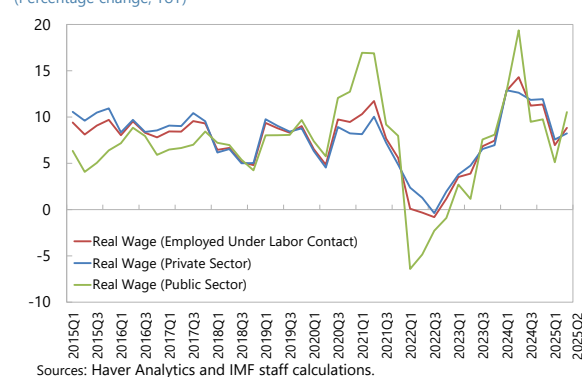
(Percent)



Real wage growth remains strong, especially in the public sector.

Real Wage Growth

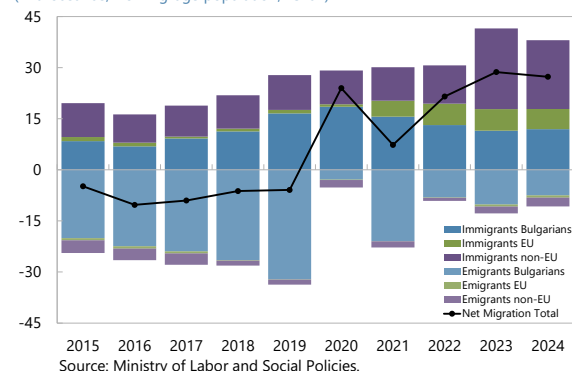
(Percentage change, YoY)



Despite a reversal in migration trends since the pandemic...

Migration Flows

(In thousands; working-age population, 15-64)



...some of which are filled by foreign workers, who nevertheless still represent a small share of the labor force.

Residence Permits for Employment

(In thousands)

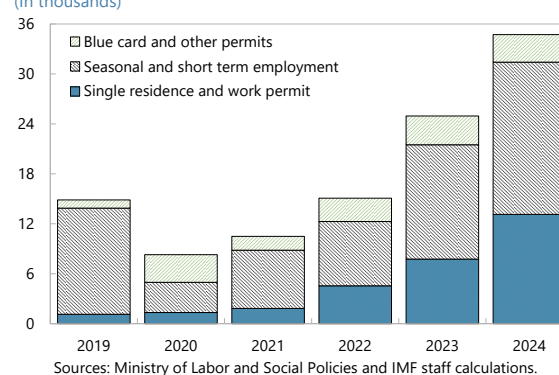
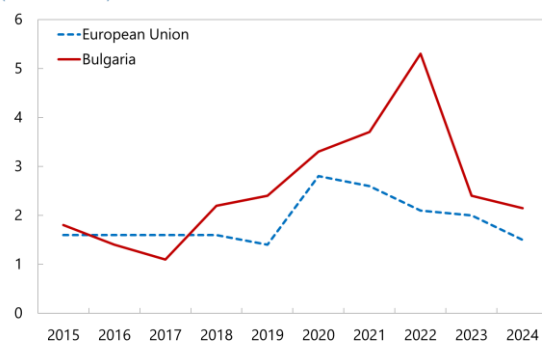


Figure 3. Bulgaria: Fiscal Developments

Fiscal subsidies are higher than EU average.

Fiscal Subsidies

(Percent of GDP)

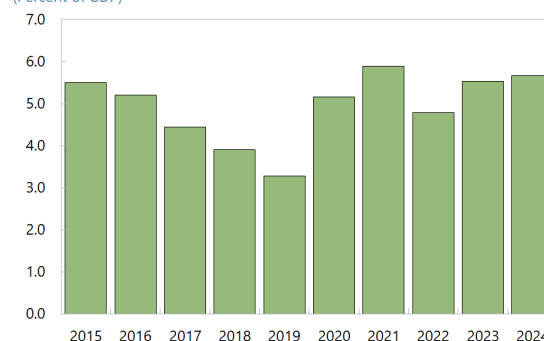


Sources: Eurostat, Haver Analytics and IMF staff calculations.

The pension system records persistent deficits.

Fiscal Transfers to Social Insurance Fund

(Percent of GDP)

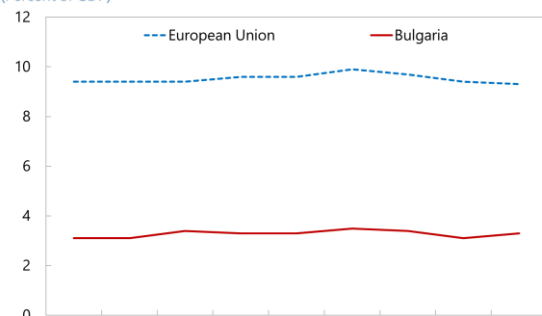


Sources: NSSI and IMF staff calculations.

Personal income tax receipts are very low...

Personal Income Tax

(Percent of GDP)

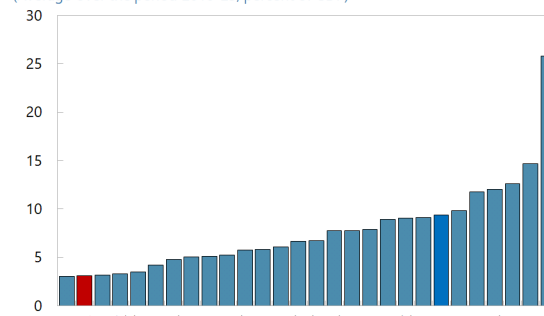


Sources: Eurostat and IMF staff calculations.

...reflecting the very low income tax rate.

Personal Income Tax

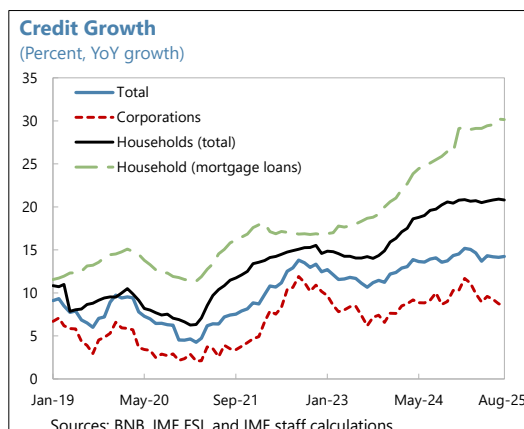
(Average over the period 2010-23, percent of GDP)



Sources: Eurostat and IMF staff calculations.

6. Bank lending has accelerated amid easing financial conditions, prompting the BNB to introduce borrower-based measures (BBMs).

Supported by falling interest rates and ample bank liquidity, credit to the non-financial private sector grew strongly, at 14 percent (August, y-o-y). Household credit is outpacing corporate credit (21 vs. 8 percent). Mortgage loans—more than half of household credit—have been particularly dynamic (30 percent). In response, the BNB introduced BBMs on mortgage loans in October 2024, notably a Loan-to-Value (LTV) limit of 85 percent, a Debt-Service-to-Income (DSTI) limit of 50 percent, and a maturity limit of 30 years, consistent with staff's recommendations.



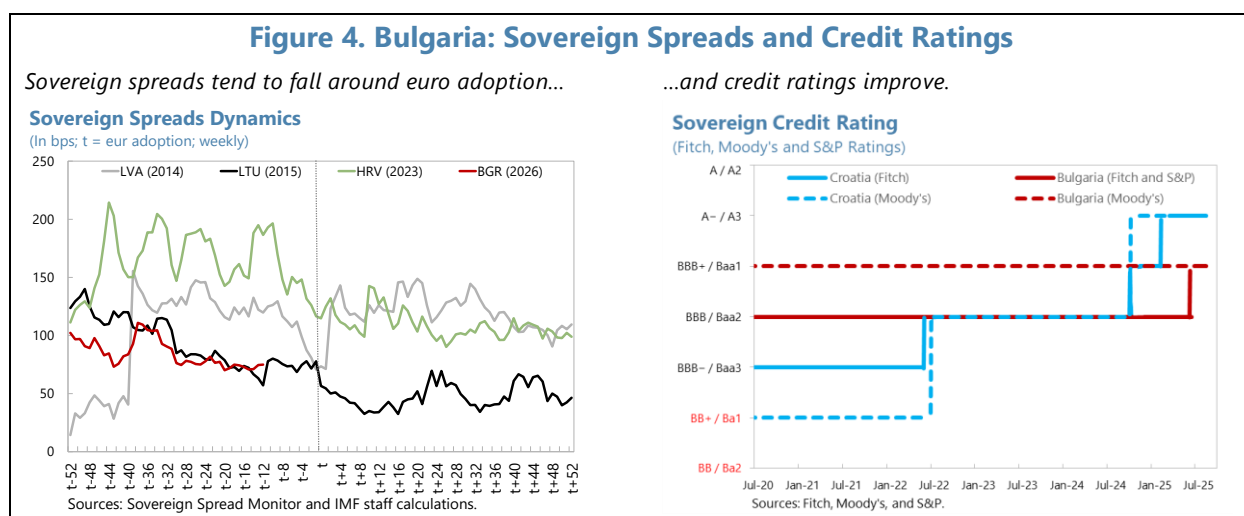
Sources: BNB, IMF FSI, and IMF staff calculations.

7. The external position in 2024 was broadly in line with fundamentals. The current account deficit widened to 1.6 percent of GDP, close to its estimated norm. Net exports of services remained robust, with a surplus of 7.3 percent of GDP, more than offsetting the negative performance of net exports of goods, which contracted 4.8 percent of GDP. The real effective

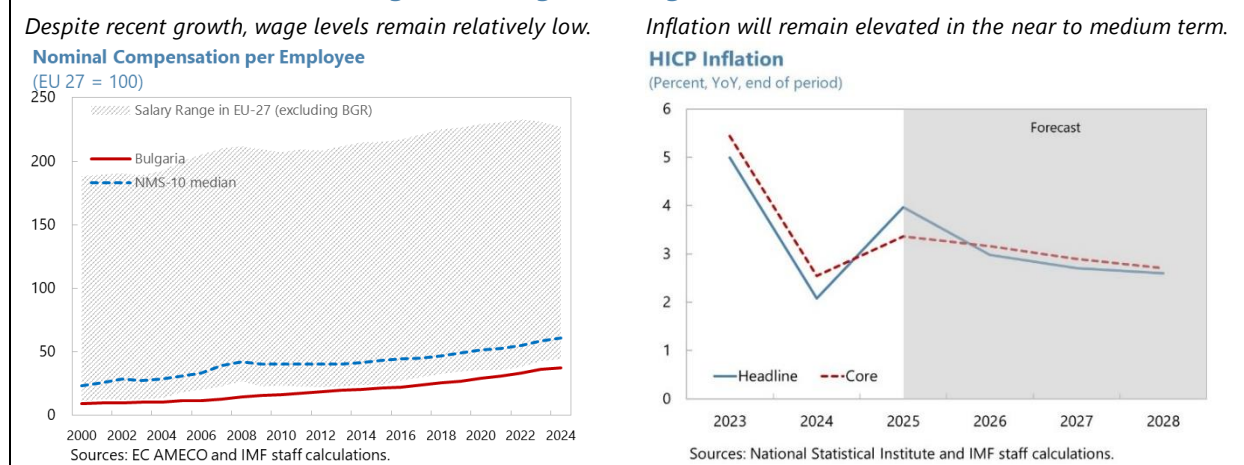
exchange rate, deflated by ULCs, appreciated by around 3 percent in 2024, and 17 percent since 2020 (Annex II). These trends continued into the first half of 2025.

OUTLOOK AND RISKS

8. The near-term growth outlook is positive. Growth is projected to remain robust at around 3 percent in 2025 and 2026, supported by domestic consumption and RRP-funded public investment. Euro adoption is expected to lower sovereign risk premia and enhance investor confidence, providing a boost to growth (Figure 4). Coupled with the planned reduction in reserve requirements, financial conditions are projected to ease and lower funding costs, keeping private credit growing at double digits in 2026. The banking sector outlook is therefore positive, underpinned by strong credit growth and high profitability. However, external demand for Bulgaria's exports is expected to remain subdued, reflecting slower growth in key EU markets and global uncertainty. As a result, together with one-off factors, the current account is projected to weaken to -3.8 percent in 2025 before narrowing over the medium term.



9. At around 3½ percent, average inflation is expected to remain elevated in 2025 and 2026, declining gradually thereafter. Wage dynamics are a key driver: rising wages in the context of tight labor markets, minimum wage increases linked to average wages, and public sector wage indexation are driving income convergence toward the EU average, but are also boosting domestic demand. With labor costs rising faster than productivity (Figure 1), profit margins are being squeezed, reinforcing the passthrough from wage increases to prices. Robust wage growth is expected to continue, as Bulgaria's salaries are the lowest in the EU (Figure 5). Separately, there are concerns that menu price adjustments in the context of the currency changeover lead to price increases beyond cost drivers. While there is little evidence of persistently higher inflation following euro adoption—experience suggests a small and temporary effect—and measures such as dual pricing and retail price monitoring are being implemented (Annex VI), a further easing of financial and fiscal conditions could add to inflationary pressures.

Figure 5. Bulgaria: Wages and Inflation

10. Risks are elevated and mostly tilted to the downside (Annex I):

- **Domestically**, with a positive output gap, persistently strong domestic demand fueled by an expansionary fiscal policy may lead to overheating and build-up of inflationary pressures. Rapid credit expansion and banks' growing exposure to mortgage credit could create vulnerabilities in the financial sector. In the absence of carefully calibrated policies these developments could result in macro-financial imbalances. Reform momentum could fade post-euro adoption, including due to re-emerging policy uncertainty, and put the benefits of integration at risk. On the upside, euro adoption may lead to larger-than-expected foreign investment, potentially boosting productivity.
- **Externally**, subdued activity in Europe and heightened geopolitical tensions could weigh on growth. Uncertainty and/or higher tariffs and trade barriers could reduce trade and FDI and raise shipping costs, weakening investment and growth. While direct trade exposure to the U.S. is limited¹ and external financing needs are relatively low in the near-term, implications through indirect trade exposure via main trading partners are more substantial. A downside scenario encompassing global divergences, an escalation of the trade war, higher global uncertainty, and tighter financial conditions calibrated to the April 2025 WEO (Box 1.1, Scenario A) could lead to a growth reduction of 0.1–0.2 percentage points, on average per year, over 2025–30. The tightening of sanctions on Russian energy companies, some of which are operating in Bulgaria, represents a further downside risk.

Authorities' Views

11. The authorities broadly concurred with staff's views on outlook and risks. They shared staff's assessment of the cyclical position of the economy and acknowledged the inflationary

¹ About 2.5 percent of goods were exported to the U.S. in 2024, while the value added reaching the U.S. through global value chains for direct consumption was 3.8 percent of exports in 2020.

pressures stemming from minimum and public wage indexations. They underscored the importance of political stability to reap the full benefits from euro adoption.

POLICY DISCUSSIONS

Euro adoption provides an opportunity to strengthen institutions, enhance policy credibility, and raise medium-term growth. To fully realize these benefits—and avoid macro-financial imbalances—policymakers should: (i) tighten and reorient fiscal policy from short-term demand support towards investment, and, in the medium term, raise more revenue to respond to rising demands, including by moving to progressive income taxation; (ii) closely monitor credit and liquidity risks during the transition, standing ready to adjust macroprudential policies; and (iii) accelerate structural reforms to lift productivity, benefit from the EU single market, and secure disbursements under the RRP. The latter includes investments in infrastructure and human capital, energy sector liberalization, and improved governance. A predictable and consistent policy environment will benefit these goals.

A. Fiscal Policy to Anchor Macroeconomic Stability

Near-Term

12. An expansionary fiscal stance is projected for 2025, reflecting increased current spending and lower-than-projected revenue collection (Text table 1). Staff projects a fiscal impulse of 0.7 percent of GDP, somewhat smaller than envisaged in the 2025 budget.² This is explained by substantially lower projected revenues (2.7 percent of GDP), both from taxes and grants, and projected large under execution of capital expenditure, with spending thus leaning more heavily into consumption support. Discretionary current expenditure increases in 2025 are in turn driven by a substantial increase in public sector wage bill, primarily on account of a large pay rise in the defense and security sector. The budget also includes several revenue-increasing measures such as an increase in maximum insurable income for Social Security Contributions (SSC), reversal of reduced VAT rates, increase in excise rates, and large dividend payments from SOEs. Furthermore, profit tax payments from commercial banks for 2026 were frontloaded into 2025, possibly at the expense of future revenue.

² The cyclically adjusted primary balance (CAPB) does not reflect that some expenditure is financed by EU grants ([2024 Article IV](#), Box 1); the measure of the stance is therefore complemented by the CAPB excluding net EU grants.

Text Table 1. Bulgaria: Fiscal Projections^{1/}
(In percent of GDP)

	2024	2025		2026
		Budget	IMF staff	IMF staff
Total revenues, of which	33.3	38.3	35.6	36.3
Tax and social-security revenues	26.8	29.5	28.4	28.3
Nontax revenues	4.7	5.4	4.9	4.3
Grants	1.8	3.4	2.3	3.7
Total expenditure, of which	36.3	41.2	39.0	39.8
Compensation	7.9	7.9	8.3	8.1
Use of goods and services	3.7	4.2	3.8	3.7
Subsidies	3.0	3.1	3.0	3.3
Social expenditures, including pensions	16.8	18.1	18.1	18.0
Capital expenditures	3.3	6.1	3.9	4.5
Overall balance	-3.0	-2.9	-3.4	-3.5
CAPB excluding EU grants	-3.7	-5.0	-4.4	-5.5
Memo:				
Projected RRP grants 2/			0.4	2.2

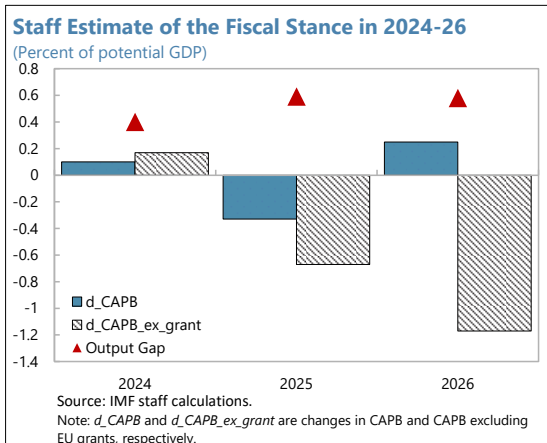
Sources: Authorities and IMF staff calculations.

1/ Different from the budget presentation, social insurance contributions paid for government employees are excluded from both revenue and expenditure.

2/ Assumes that most of the second installment is disbursed in 2025 and that only the third and the fourth installments are disbursed in 2026.

13. A substantial recapitalization of SOEs is underway, further contributing to fiscal easing and underscoring the need for greater transparency and improved reporting. Of the planned gross debt issuance (8.2 percent of GDP), a significant part (3.2 percent of GDP) will be used for capital injections into the Bulgarian Development Bank (BDB) and Bulgarian Energy Holding (BEH), two entities outside the general government. In return, the BDB is expected to finance municipal capital spending (0.4 percent of GDP). While efforts to address municipal investment needs are commendable, more transparency is needed on the selection, funding, and execution of municipal projects, and on the role of the BDB. BEH is expected to pay the government 100 percent of 2024 dividends and a 2025 interim dividend (0.7 percent of GDP) in 2025. Requiring SOEs to pay regular and interim dividends while simultaneously recapitalizing them sends conflicting signals about underlying policy intentions and SOEs' financial health. Moreover, requiring SOEs to transfer all profits to boost budgetary revenues can constrain their ability to reinvest, and should be reconsidered.³

14. Under unchanged policies, fiscal policy will remain expansionary in 2026.⁴ Increases in current spending follow from existing indexation practices, further supporting household incomes and consumption. Capital investments are also set to increase with the implementation of the RRP. The activation of the national escape clause under the EU's Stability and Growth Pact will allow for higher defense spending. As a result, the fiscal deficit is



³ For background, see 2024 SIP "[Bulgaria: Fiscal Risks From State-Owned Enterprises](#)".

⁴ The draft 2026 budget was not available at the time of the Article IV mission.

projected to increase further in 2026–27 before gradually declining, but would still stay above 3 percent of GDP in the medium term (Table 4b).⁵

15. Considering the underlying demand strength and the economy’s cyclical position, a neutral stance is recommended. This would require an adjustment of about 1 percent of GDP, relative to staff’s baseline projections, and can be achieved through a combination of expenditure and revenue measures (text table). On the expenditure side, moderating public sector wage growth and benefit indexation by de-linking them from average and minimum wage increases would generate significant fiscal savings and ease inflationary pressures. Reducing expenditure on goods and services and replacing untargeted subsidies (e.g., electricity subsidies to businesses) with targeted transfers would enhance spending efficiency. On the revenue side, efforts to improve VAT compliance should continue. In the near term, increasing revenues from property taxation is recommended, for example, by revisiting property valuations for tax purposes, as this would also help cool the housing market. Excise taxes on tobacco can be increased faster to help secure additional resources. Advancing the increase of social security contributions by one percent, planned for 2027, would also strengthen the financial sustainability of the pension system. At the same time, prioritizing EU-funded investment which is grant-based would support growth without adding substantially to fiscal pressures.

Possible Fiscal Consolidation Measures, 2026	
Measure	Yield 1/
<i>Revenue</i>	
Increase Social Security Contribution rate by 1 percent	0.2
Increase property tax revenues	0.2
Further strengthen revenue administration	0.2
Accelerate excise tax increases	0.05
<i>Expenditure</i>	
Reduce spending on goods and services	0.2
Restrain public sector wage growth	0.1
De-link social payments from minimum wage increase	0.1
Freeze subsidies at 2025 level in nominal terms	0.1
Total	1.2
Source: IMF staff estimates.	
1/ Percent of GDP, relative to staff’s baseline projections.	

Medium-Term

16. Debt is on an upward trend from low levels, and medium-term pressures are building. While the overall risk of debt distress remains low (Annex III), public debt has been on an upward trend, owing to sustained deficits and sizeable recapitalizations of SOEs. The recent trend deterioration in fiscal outcomes adds to rising fiscal risks. Addressing spending pressures from aging, defense, infrastructure, and the energy transition will require fiscal space. Furthermore, as expectations for quality public services grow with income convergence, more revenues are needed to meet rising demands. The highest income inequality and child poverty rates in the EU, combined with migration-driven regional disparities, have intensified calls for equitable access to infrastructure and public goods. Yet gaps in education, healthcare, long-term care, and pension adequacy for the poor—amplified by aging—persist. Addressing these pressures requires not only spending policy

⁵ The European Commission (EC) assessed in June 2025 that a deviation from the recommended net expenditure growth in 2025 could be within the flexibility provided by the escape clause. Relatedly, Bulgaria received an allocation of Euro 3.3 billion under the EU’s SAFE instrument which, once disbursed, will increase government debt. The disbursement schedule and modalities are yet to be finalized.

reform but a sustained increase in revenues—closer to peer levels and commensurate with expected scope and quality of public services.

17. Meeting growing demands will require targeted expenditure rationalization and, eventually, stronger revenue mobilization.

- On the spending side, such reforms should focus on: (i) eliminating untargeted subsidies and better targeting of transfers; (ii) reforming public sector compensation and employment frameworks with a view to containing the wage bill; and (iii) improving spending efficiency, especially in health, education, and infrastructure.
- On the revenue side, the revenue-generating capacity of the flat-tax regime appears insufficient to meet increasing demands for quality services. In the medium term, more revenues could be raised by increasing tax rates for both personal and corporate income and moving to progressive income taxation, thereby reducing income inequality (Box 1). Continued strengthening of tax administration, including enhanced audit and control procedures and compliance risk management would support revenue collection.

Box 1. Bulgaria: Income Tax Reform to Raise Revenues and Introduce Progressivity

Moving from the current flat tax to a progressive personal income tax (PIT) system can increase revenues and reduce income inequality.

A simple simulation demonstrates revenue and distributional impacts of a hypothetical PIT reform.

The scenario considers a progressive system with a basic deduction and three brackets taxed at 10, 14, and 20 percent. Assuming reform implementation in 2026 for illustrative purposes, this could generate about 1 percent of GDP in additional revenues and reduce the post-tax Gini coefficient by around 3 points. Such outcome also may lower the need for social transfers. The lowest quintile would face virtually no tax payments as incomes fall below the deduction threshold. Under this scenario, the average PIT rate would still be among the lowest in the EU.

Bulgaria: Current PIT System and Reform Scenario Estimates for 2026

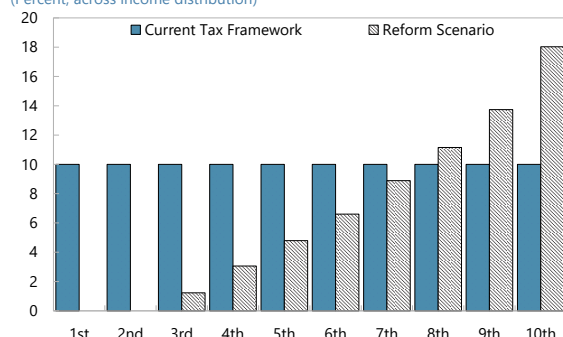
	Current regime	Reform scenario
Tax system characteristics		
Revenue (in percent of GDP)	3.70	4.72
Change in tax revenue (in percent of GDP)	0.00	1.02
Average tax rate	10.00	12.77
Redistribution		
Post-tax Gini coefficient	55.03	51.86
Redistributive capacity	0.00	3.17
Share paying tax	99.97	79.58

Source: IMF staff estimates. All values in percent except otherwise indicated.

Box 1. Bulgaria: Income Tax Reform to Raise Revenues and Introduce Progressivity (Concluded)

Average Tax Rate

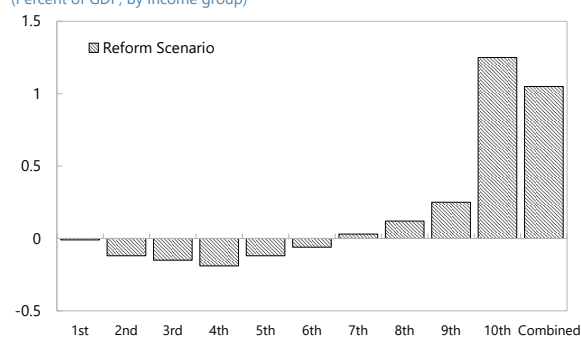
(Percent, across income distribution)



Sources: World Inequality Database, IBFD, and IMF staff calculations.

Revenue Change

(Percent of GDP, by income group)



Sources: World Inequality Database, IBFD, and IMF staff calculations.

The reform should be accompanied by strengthened administration with better use of operational audits to estimate the PIT gap and enhanced tax control and auditing processes. This would help avoid an increase in tax evasion at the high-income end when progressive taxation is implemented.

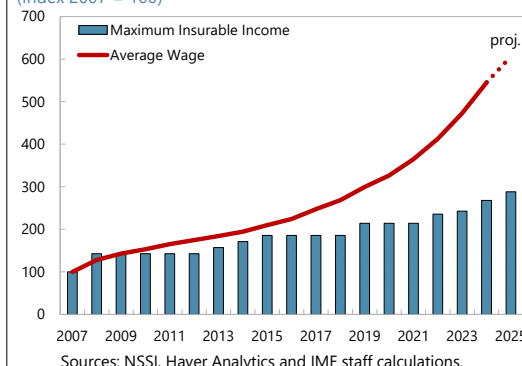
A concomitant increase in the corporate income tax rate could be considered. Moving from the current 10 to 15 percent, together with the current dividend tax rate, will broadly align it with the top PIT rate of 20 percent under the reform scenario and raise more tax revenues.

18. Pension system reform should focus on sustainability and pension adequacy.

The deficit of the pay-as-you-go pension scheme is widening (Figure 6), and population aging will further increase the shortfall. Financial sustainability needs to be strengthened by increasing contribution revenues, with a key measure being removing the cap on insurable income, which has not kept up with wage growth (text chart). Strengthening further the link between contributions and payments can raise incentives to contribute, including by removing the ceiling on pensions and phasing out pandemic-related benefits.⁶ Meanwhile, improving the adequacy of pensions to reduce old-age poverty risk remains a priority. In parallel, efforts under the *Roadmap for Improving the Pension System* to strengthen the system's second and third pillars should continue, beginning with offering more flexible risk-return profiles.

Maximum Insurable Income and Wages

(Index 2007 = 100)



Sources: NSSI, Haver Analytics and IMF staff calculations.

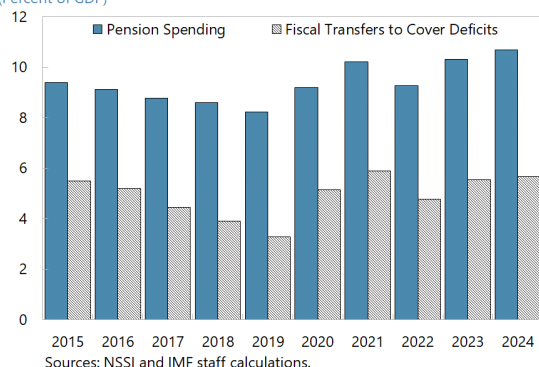
⁶ For background, see 2024 SIP [“The Bulgarian Pension System: Caught Between Adequacy and Sustainability”](#).

Figure 6. Bulgaria: Pension Spending and Adequacy

Pension spending has increased and is in large part deficit-financed.

Pension Spending

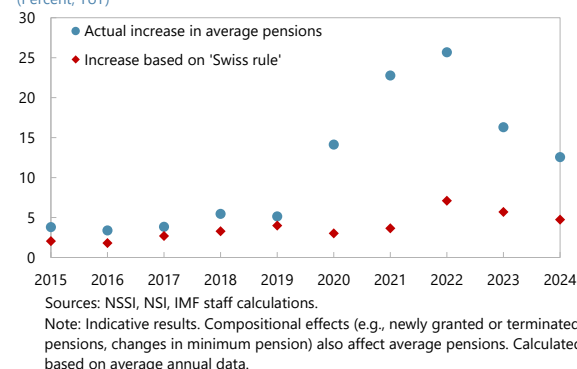
(Percent of GDP)



Pensions have grown much faster than implied by the pension rule, including to ensure pension adequacy.

Actual and Rules-Based Pension Increases

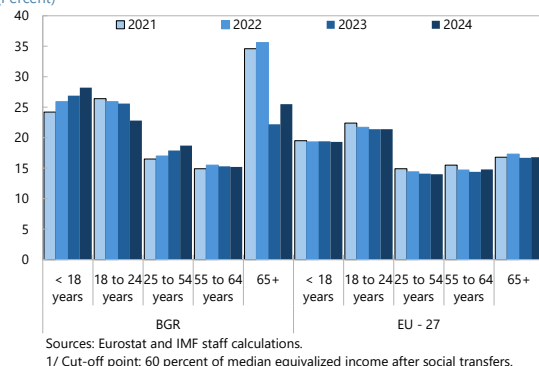
(Percent, YoY)



Old-age poverty risk remains elevated...

At-Risk-of-Poverty Rate by Age Group 1/

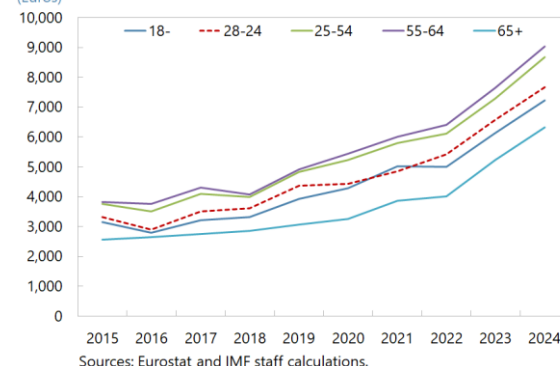
(Percent)



...as income growth has been uneven.

Median Equivalized Net Income by Age Group

(Euros)



Authorities' Views

19. The authorities agreed with many of staff's recommendations but do not support moving to a progressive tax regime or removing the cap on maximum insurable income.

They noted that recent political instability has weighed on public finances. Furthermore, the 2025 budget was adopted with substantial delay, limiting the timely impact of revenue measures. The authorities reiterated their commitment to fiscal sustainability and plan to include consolidation measures in the 2026 budget and strengthen revenue collection. They maintained that reforms should focus on improving the efficiency of current spending—particularly in the health and education sectors—and of public investment and better targeting transfers. The authorities agree that wage indexations in the public sector have put a large burden on the budget and that current indexation mechanisms may not be fiscally sustainable. They reiterated that progressive taxation could increase tax evasion and emphasized that the flat-tax regime has served the country well. The need to recapitalize SOEs and the BDB arises from their important role in investing in energy sector and financing other priority investment projects. The *Roadmap for Improving the Pension System* is expected to be finalized by end-2025, but broader pension reforms are politically sensitive and require careful analysis.

B. Financial Policies to Minimize Risks

20. The financial sector remains resilient (Figure 8). Banks are well capitalized (CAR of 23 percent) supported by appropriately calibrated mandatory capital buffers—including relatively high systemic risk (3 percent) and countercyclical (2 percent) capital buffers. Although strong competition for mortgage credit depresses average loan rates, interest margins remain adequate thanks to near-zero funding costs amid an ample and growing deposit base ahead of the euro changeover. Consequently, profitability is high (2.3 percent return on assets) and liquidity is ample (Liquidity Coverage Ratio of 254 percent). The NPL ratio has declined to 3.2 percent, aided by strong credit growth, though consumer loan NPLs have inched up to 3.7 percent. Risk persists from credit diversion to less-regulated non-bank lenders which have a significantly higher NPL ratio of 8 percent, though the sector is still small. Meanwhile, euroization of loans and deposits has accelerated in anticipation of euro adoption.

21. Still, rapid growth of consumer credit, particularly mortgage loans, has increased systemic risks in the real estate market (Box 2; Figure 7). While structural financial deepening remains appropriate given low starting levels, household debt is rising faster than incomes. Specifically, housing loans are growing at 27 percent y/y and now account for close to 60 percent of household credit, raising potential concentration risk. Recent house price growth reflects in large part underlying structural changes, including strong and sustained demand alongside limited supply. While affordability has improved with rising incomes, pockets of diminished housing affordability remain. Although the structural factors point to a gradual moderation in house price growth, overvaluation and high vacancy rates are risk factors that require close monitoring. Potential triggers for a housing market correction could originate from a substantial economic slowdown, including if productivity gains do not keep up with real wage growth, and, in the long term, declining population. In the event, non-performing household loans could increase along with rising personal insolvencies,⁷ and softer credit demand would weigh on bank profitability.

Box 2. Bulgaria: Housing Demand Outpaces Supply Despite Affordability Gains

House price growth is moderating, with elevated valuations concentrated in urban centers. House prices grew strongly by 15.1 percent y/y in Q1 2025, moderating from 18.3 percent in Q4 2024. The increase was driven by domestic buyers and purchases of existing dwellings, with growth concentrated in large cities, especially the capital, Sofia. Model-based estimates suggest house prices are overvalued by 10–15 percent.¹

Demand is primarily driven by structural factors. Sustained income growth, combined with low mortgage rates, has significantly expanded the borrowing capacity of households. Although household indebtedness has risen, it remains relatively low overall. High owner occupancy—at about 85 percent—reflects long-standing preferences, while rural-to-urban migration and net immigration since 2020 add to housing demand. Cash-cofinanced purchases are common in real estate transactions, but recent trends suggest an uptick in cash-financed acquisitions ahead of euro adoption. Expectations of continued valuation increases are likely to have further reinforced demand, encouraging early purchases and investment-driven activity.

⁷ In June 2025, Bulgaria adopted its first personal insolvency law, similar to systems in other European countries. The law will become operational after the creation of an electronic registry system and provides individuals with a formal way to address unsustainable debts, balancing debtor and creditor interests through a court-supervised process.

Box 2. Bulgaria: Housing Demand Outpaces Supply Despite Affordability Gains (Concluded)

Supply is structurally constrained, and the stock of dwellings is relatively low. With rising incomes demand for high-quality dwellings is higher than supply. At the same time, vacancy rates remain elevated—around one third nationally and over 25 percent in Sofia²—reflecting rural-urban migration and limited investment alternatives. Title disputes also play a role. While residential construction permits and projects have edged up recently, the supply response has so far been modest,³ and construction costs have risen due to higher material costs and labor shortages.

Housing affordability remains uneven across population groups. Housing affordability has improved markedly with rising incomes, with the housing cost overburden⁴ rate declining from 20.7 percent in 2016 to a low of 8.0 percent in 2024. At the same time, affordability at EU average is low compared to some peers, and cost burdens are particularly elevated for low-income households (30.7 percent), tenants renting at market rates (27.8 percent), and single-person households (17.6 percent). Mortgage interest tax credits for young families aim to support affordability, while grant-based funding is available for enhancing the energy efficiency of old buildings.

1/ See [BNB Economic Review 1/2025](#) and EC [Convergence Report 2025 on Bulgaria](#).

2/ See [UNH Bulgaria](#).

3/ Residential permits allow construction within three years of issuance.

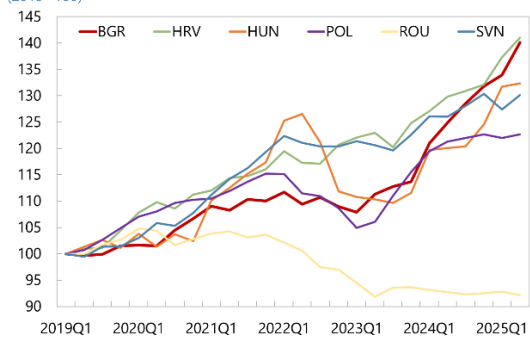
4/ Defined as the percentage of the population living in a household where total housing costs represent more than 40 percent of the total disposable household income. Data for 2024 from Eurostat.

Figure 7. Bulgaria: Housing Market and Household Leverage

House prices have rapidly increased...

Real House Prices

(2019=100)

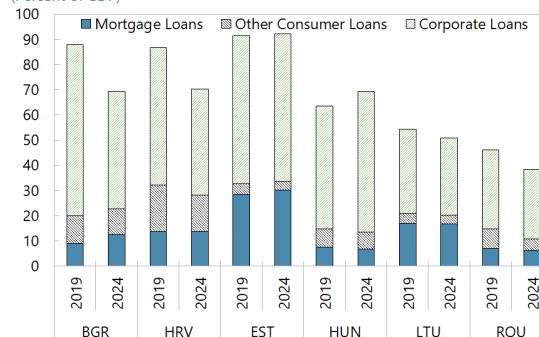


Sources: Haver Analytics and IMF staff calculations.

...fueled by rising but still low household debt...

Composition of Bank Credit

(Percent of GDP)



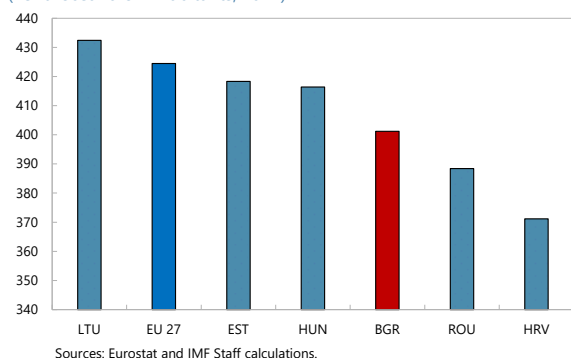
Sources: Eurostat, Haver Analytics, and IMF staff calculations.

Figure 7. Bulgaria: Housing Market and Household Leverage (Concluded)

...and limited supply of existing dwellings...

Number of Dwellings

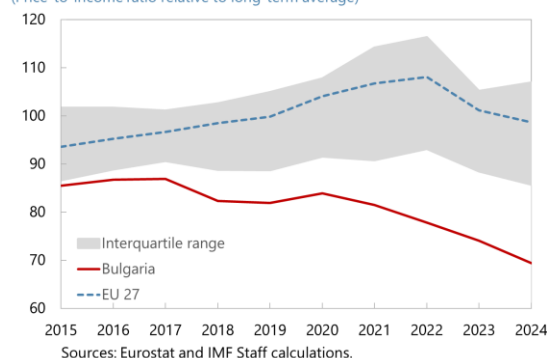
(Per thousand of inhabitants, 2021)



Affordability, however, improved thanks to rising incomes...

Housing Affordability

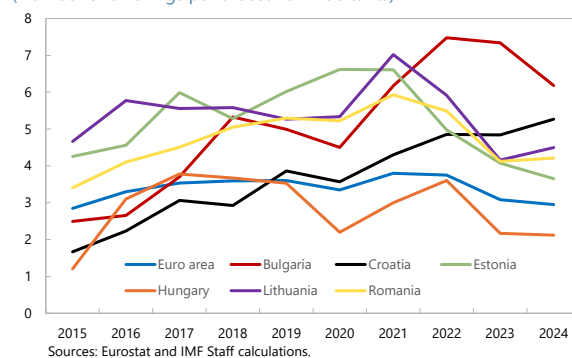
(Price-to-income ratio relative to long-term average)



...even though building permit issuances have accelerated recently.

Residential Building Permits

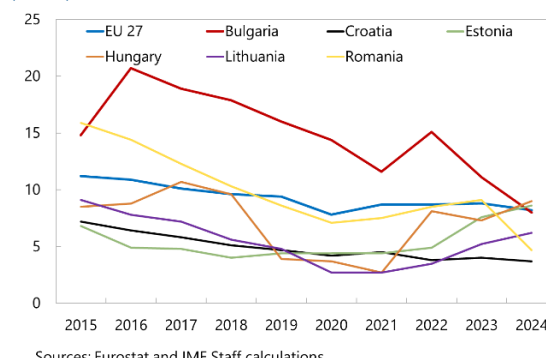
(Number of dwellings per thousand inhabitants)



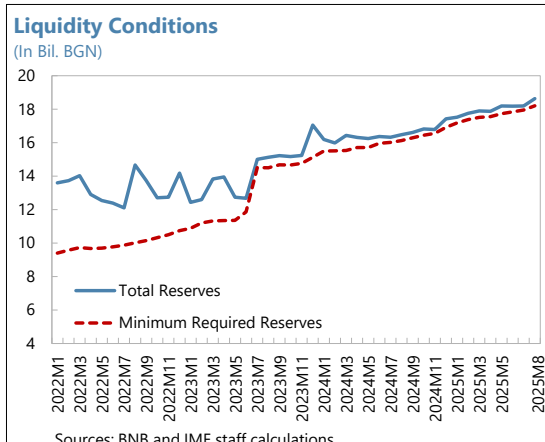
...and even reached European average but is still rather low in regional comparison.

Housing Cost Overburden Rate

(Percent)

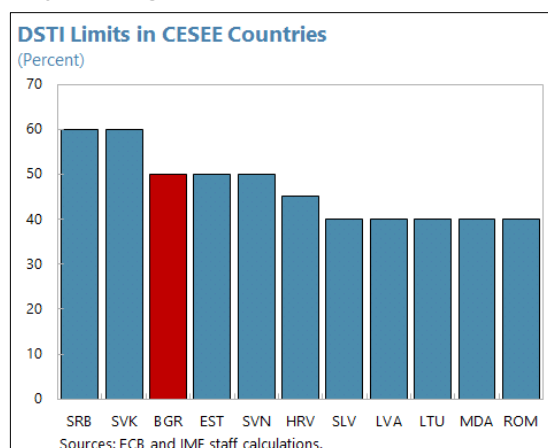


22. Liquidity management will shift significantly with euro adoption, eventually strengthening monetary transmission (Figure 8). Minimum reserve requirements were increased to keep excess liquidity constrained (text chart). Excess liquidity will increase once reserve requirements are lowered from 12 percent to the ECB's uniform rate of 1 percent in January 2026. After euro adoption, banks, particularly domestic ones, are expected to redirect excess reserves to the ECB. In the long run, this shift could strengthen monetary transmission as lending and deposits rates become more responsive to policy rate changes with risk premia converging, and the ECB's standing facility provides a remunerated floor—unlike the previously unremunerated reserves. However, competition in the dynamic mortgage market, perceived as a gateway for onboarding clients, may prevent banks from raising rates in the short term, limiting the effectiveness of monetary transmission.



23. Following euro adoption, macroprudential policy will become the primary tool for systemic risk management and will need to proactively manage credit market risks. The BNB

will no longer be able to control accessible bank liquidity by adjusting the minimum reserve requirement. While most banks are not expecting an immediate impact on credit supply and are likely to hold excess liquidity in the ECB's deposit facility, some may channel it to additional lending, potentially compounding credit market pressures, including in housing (Annex VI). To safeguard financial stability, the BNB may have to nimbly adjust macroprudential instruments, particularly BBMs, to ensure credit expansion remains aligned with household incomes and to prevent the buildup of housing market imbalances. Following the introduction of the BBMs, the annual growth rate of mortgage loans slowed by 2 percentage points on impact, and the share of newly originated mortgage loans above the DSTI limit dropped from 25 to 3 percent at year-end, according to the BNB. The DSTI limit of 50 percent is high in regional comparison and may need to be tightened should house price growth not abate.



Authorities' Views

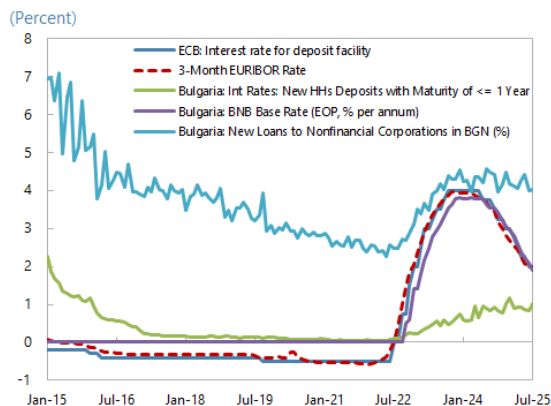
24. The authorities emphasized that the BNB is closely monitoring financial sector risks.

They agreed that risks could emerge if credit expansion accelerates. They assessed that the BBMs are well designed and calibrated for the current situation and have been successful in containing risks. Still, the BNB stands ready to make adjustments in policy instruments as needed. Regarding additional liquidity release after the euro adoption, the authorities consider accelerated credit expansion as unlikely, pointing out that banks have had excess liquidity for some time.

Figure 8. Bulgaria: Monetary and Banking Sector Developments

Monetary transmission has room to improve.

Selected Interest Rates and Yields



Mortgage rates kept declining, while interest (and deposit) rates for NFI have inched up.

Lending and Deposit Rates

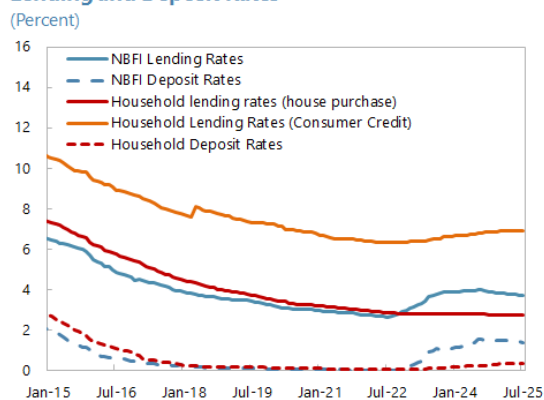
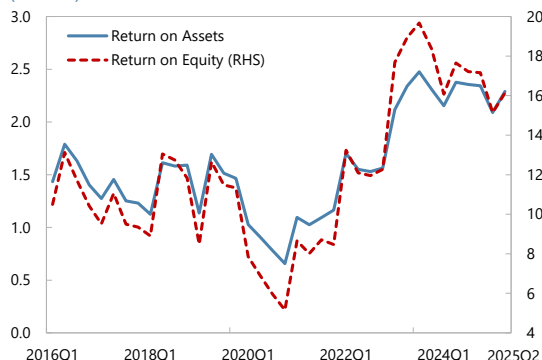
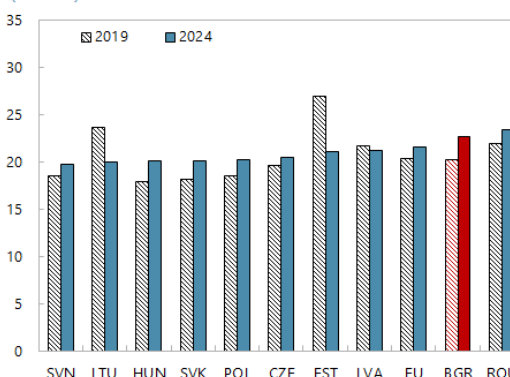


Figure 8. Bulgaria: Monetary and Banking Sector Developments (Concluded)*Bank profitability is at historical highs.***Bank Profitability**

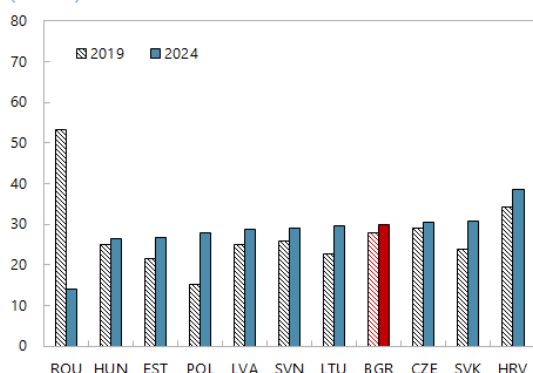
(Percent)

*The banking sector remains well capitalized...***Capital Adequacy Ratio**

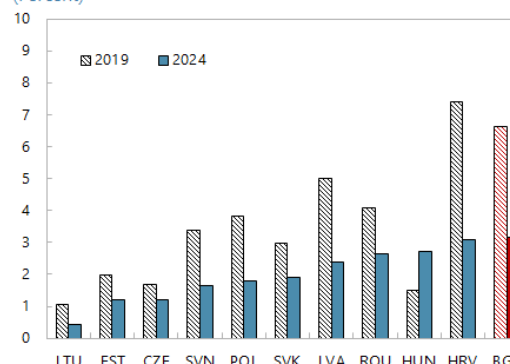
(Percent)

*...and liquid.***Liquid Assets to Total Assets**

(Percent)

*NPLs remain comparatively high, but they continue to decline.***NPL to Total Gross Loans**

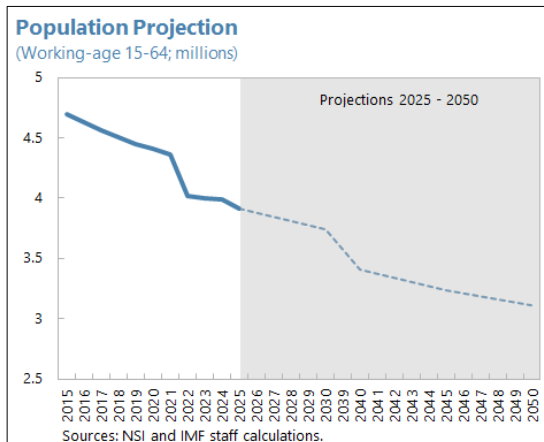
(Percent)

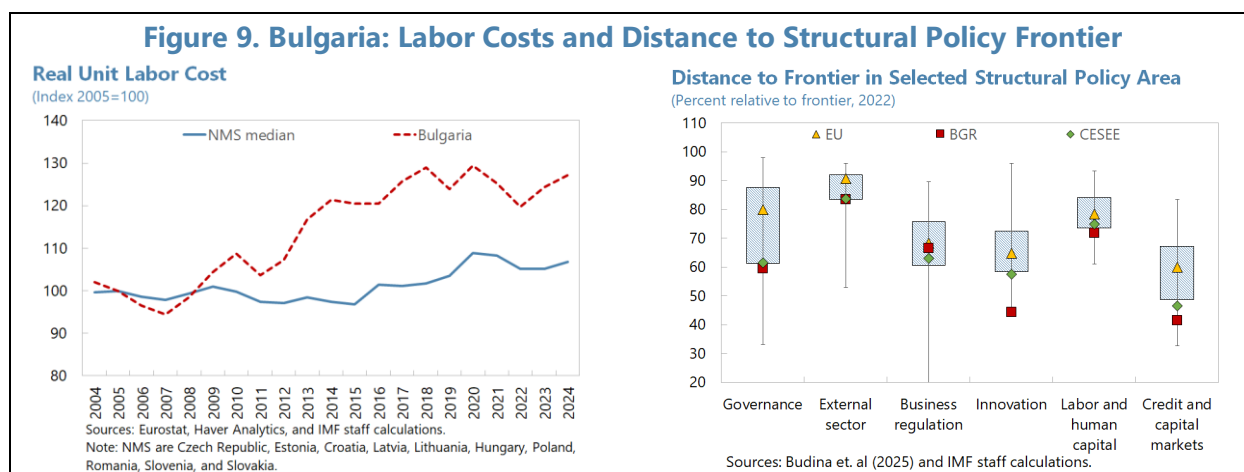


Sources: BNB; Haver; and IMF FSI.

C. Structural Policies to Raise Medium-Term Growth

25. Bulgaria faces significant headwinds to medium-term growth due to low productivity and a shrinking population. Productivity growth remains relatively low, and structural gaps are large, slowing income convergence and medium-term growth (Figures 1 and 9). The working-age population is expected to decline by as much as 20 percent in the next 25 years, which is among the fastest declines globally. At the same time, Bulgaria ranks the lowest in the EU in academic achievement and has a substantial digital skills gap ([2024 Article IV Staff Report](#)).





26. To counter these trends, sustained investment in human capital is critical. Enhancing education outcomes, expanding digital and AI-related skills, and fostering innovation can raise productivity and mitigate the economic impact of demographic decline. Incentivizing inactive workers—particularly youth and minority groups—to enter the labor force, and facilitating the employment of foreign workers, would help offset labor shortages, as highlighted in the [2024 Article IV Staff Report](#) and in the [2025 European Semester assessment](#).⁸ These measures would also support competitiveness by containing unit labor cost growth and improving workforce quality.

27. Beyond human capital, structural reforms are essential to ensure Bulgaria remains an attractive investment destination. Improving non-price competitiveness and closing large structural policy gaps, especially in the areas of governance and innovation (Figure 9), are key priorities. Accelerating structural reforms to deepen integration with the EU single market is equally critical. Staff estimates suggest that closing half of the structural policy gaps could lead to a large increase in the level of GDP in the range of 5–10 percent over medium-term (Budina et al., 2025).

Scaling Up Quality Public Investment

28. Growth dividends from scaling up quality public investment could be substantial. Expanding and improving infrastructure will boost both current and potential growth. At the same time, there is room to improve the effectiveness and efficiency of public investment, including by better forecasting and prioritizing multiannual capital expenditures and adequately informing the budget, strengthening project appraisal and selection, and improving procurement. Staff estimates that full absorption of EU funds would boost GDP by 1 percent in 2030; if paired with efficiency improvements, the gain could reach 2.3 percent.⁹

29. The revised RRP is ambitious, and full disbursement will be a challenge. Only 22 percent (EUR 1.4 bn) of the grants under the RRP were disbursed as of end-September 2025. The government successfully renegotiated the RRP earlier in the year, and the revised plan foresees four

⁸ [Legislative amendments](#) introduced in April aim to facilitate the extension of residence permits for foreigners.

⁹ See accompanying Selected Issues Paper “Scaling up quality public investment for stronger growth.”

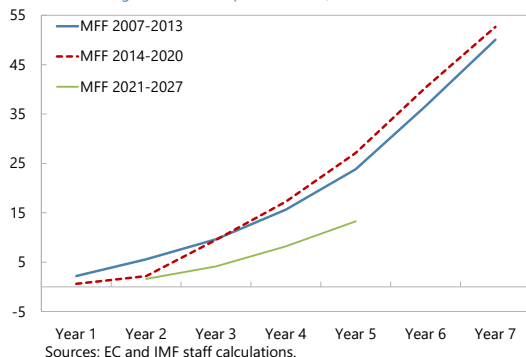
additional installments totaling EUR 4.9 bn before funds expire in August 2026. Given politically challenging reforms and ambitious investment projects, staff's baseline projects that only about three quarters of RRP grants will be disbursed (Figure 10). Hence, implementation of the RRP reforms and investments should be an immediate priority.

Figure 10. Bulgaria: Recovery and Resilience Plan

Current Multiannual Financial Framework (excluding RRP) implementation is slower compared to previous periods.

Absorption Rates by Programming Period

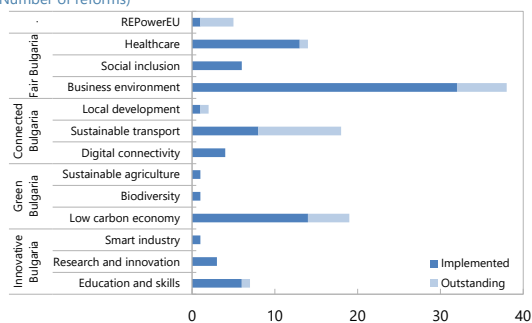
(Percent of total budget; as of end-September 2025)



Reform implementation has progressed, but key reforms are yet to be completed.

Revised RRP: Reform Implementation

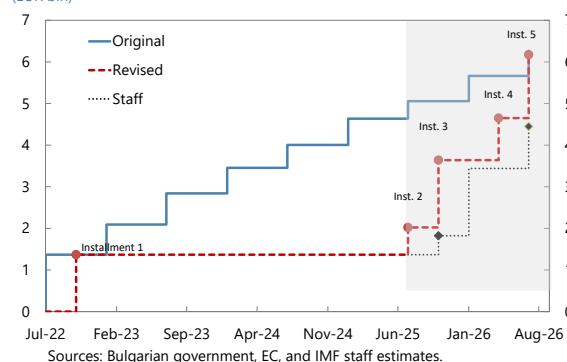
(Number of reforms)



The revised RRP has an ambitious disbursement schedule.

RRP Disbursement Schedules

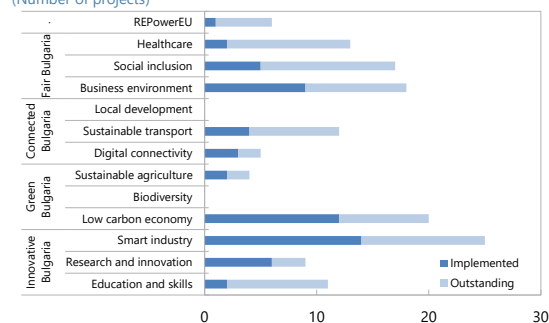
(EUR bln)



The implementation of investment projects is lagging.

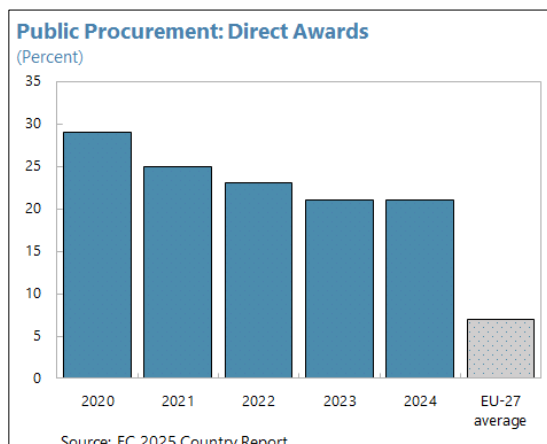
Revised RRP: Investment Project Implementation

(Number of projects)



Strengthening Governance and Rule of Law

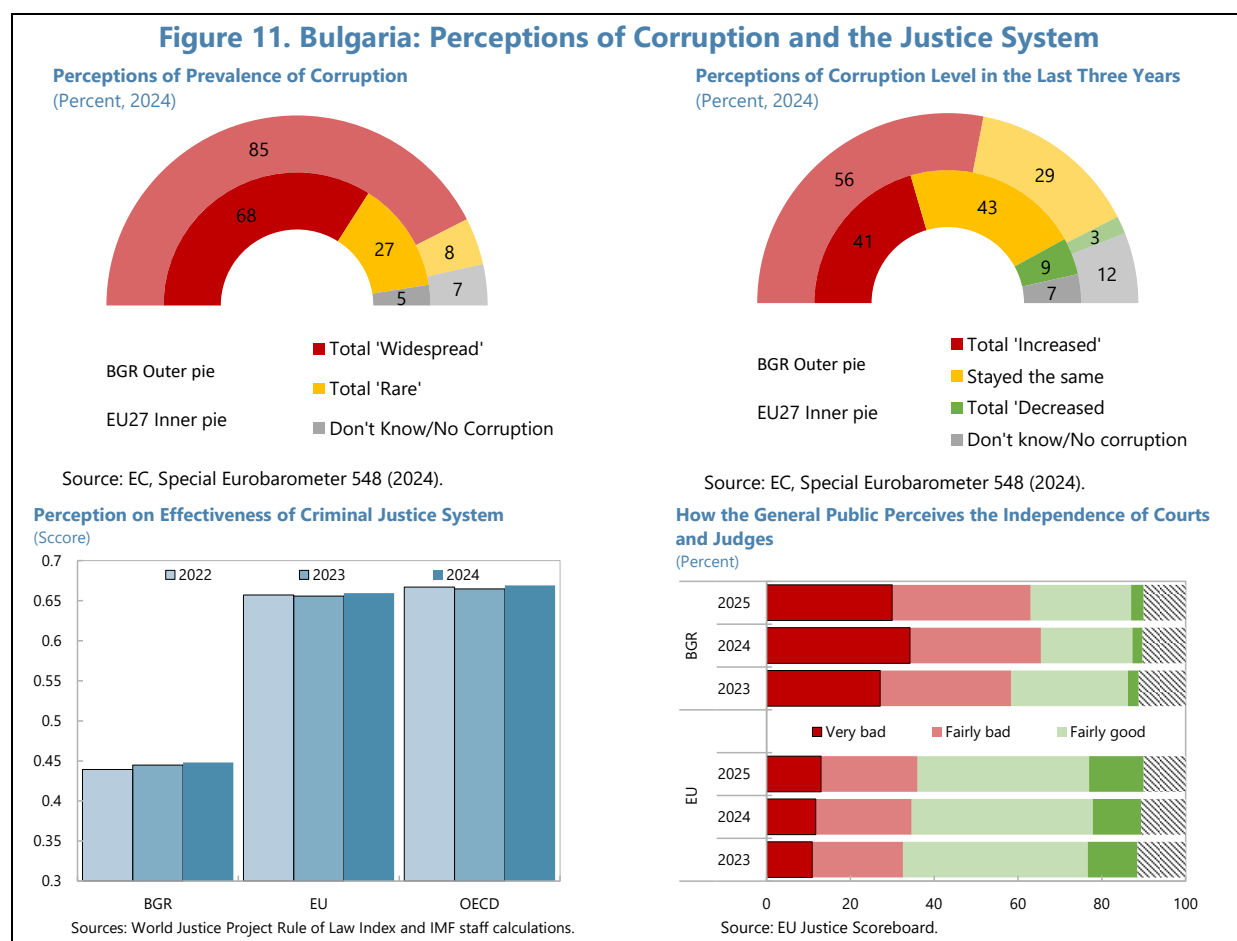
30. Challenges in the rule of law, public procurement, and SOE governance continue to limit reform effectiveness and public trust. Better institutions have been shown to increase the efficiency of structural reforms ([Budina et al, 2025](#)). But trust in public institutions is relatively low, quality of justice remains a challenge, and corruption is perceived as a major problem (Figure 11). The anti-corruption reform agenda remains unfinished: while institutional restructuring of the relevant agencies



has begun, critical gaps persist—particularly in ensuring transparent, merit-based, and impartial appointment procedures and securing operational independence of the new Anti-Corruption Commission. Shortcomings have prompted EC concerns, possibly leading to the suspension of RRP funding related to this reform. In public procurement, single bidder and negotiated outcomes remain too prevalent ([EC 2025 Country Report](#)).

31. Improving governance and institutional quality is essential for long-term growth.

Addressing these issues would strengthen institutional credibility, unlock EU funds, and improve the efficiency of public spending. Advancing reforms to boost competition in procurement, strengthening anti-corruption enforcement, and improving judicial integrity—alongside faster adoption of single market legislation—will be critical to enhance the business climate.



32. While legislative progress has been made on strengthening anti-money laundering and combating the financing of terrorism (AML/CFT) framework, exiting the FATF grey list will require effective implementation of the legal framework. The May 2025 [MONEYVAL report](#) upgraded technical compliance with five FATF recommendations, and now Bulgaria remains only partially compliant in eight areas. In June, the Parliament approved amendments to the Law on Measures Against the Financing of Terrorism. To exit the FATF grey list, Bulgaria needs to address the remaining items from [FATF action plan](#) which mainly focus on the effective implementation of

the legal framework. An effective AML/CFT system will provide the authorities also with tools to strengthen governance measures, including money laundering investigations and prosecutions to address corruption and organized crime, and beneficial ownership measures to improve procurement transparency.

Energy Sector Reforms

33. Reform is crucial for the transition to a more resilient, more efficient, and cleaner energy sector, with stronger governance and reduced fiscal vulnerabilities. Despite some progress aligned with the RRP, significant fossil fuel reliance, the highest energy intensity in the EU, and untargeted subsidies continue to distort market signals and exacerbate environmental and fiscal risks. Plans to expand renewable energy production, enhance grid connection and storage capacity, add nuclear capacity, and boost energy efficiency—particularly through building renovations—need to be implemented. The electricity price threshold at which businesses receive subsidies was recently increased. While a step in the right direction, these untargeted subsidies remain a fiscal burden, risk distorting market signals, and discourage energy efficiency investments. Recent legislative changes—including a new electricity pricing mechanism and amendments to the Energy Act—preserve regulated household tariffs and enable continued reliance on coal-fired electricity generation. A more competitive electricity market would enhance price formation and improve investment incentives. Targeted support for energy-poor households can help address affordability concerns. Reducing financial interdependence within the Bulgarian Energy Holding and strengthening its governance would improve transparency, contribute to a more efficient resource allocation, and support the energy transition.

Authorities' Views

34. The authorities concurred with staff that productivity-enhancing reforms, increased labor force, and quality public investment are key to raising medium-term growth. Wide-ranging structural reforms continue to be implemented under the RRP that will unlock substantial funds for public investment. To expand the labor force, efforts are ongoing to identify and engage with people who are not in employment or education, incentivize the return of Bulgarians currently working abroad, and facilitate the employment of non-EU nationals by introducing a one-stop-shop for permits and by expanding bilateral arrangements with the countries of origin. In September 2025, the government launched a project to improve the efficiency and quality of public investment, as part of a reform aiming to establish a sustainable framework for planning and managing public investments.

35. The authorities have taken important steps in advancing governance and rule-of-law agenda, including as part of the RRP reform milestones/targets. To this end, several important legislative acts have been adopted including acts on whistleblower protection, AML/CFT, and personal insolvency. The government is working with the National Assembly and the EC to complete the reform of the Anti-Corruption Commission.

36. The authorities agreed on the importance of strengthening energy sector resilience and accelerating the energy transition. They highlighted their ongoing efforts to increase the share of renewable energy and improve transmission and storage capacity. Ongoing efforts to define and assess energy poverty are an important step for the introduction of targeted support and liberalization of the retail electricity market.

STAFF APPRAISAL

37. Economic momentum is strong, the labor market is tight, and inflation is elevated. High wage growth has driven income convergence, and credit is expanding rapidly, but productivity growth is lagging. External demand is subdued, reflecting slower growth in key EU markets and global uncertainty. Still, the external position in 2024 is assessed to be broadly in line with fundamentals and desirable policy settings. Looking ahead, the current account is projected to remain negative in the near term.

38. The adoption of the euro is a major milestone and an opportunity to strengthen institutions, enhance policy credibility, and raise medium-term growth. Euro adoption prospects provide a near-term boost to the outlook. The transition to the euro is expected to strengthen institutional credibility and investor confidence while reducing currency risk and transaction costs. Some of these benefits are already visible in narrowing sovereign spreads and recent upgrades to Bulgaria's credit rating.

39. Fiscal tightening in 2026 would help cool the economy. Fiscal policy is expected to remain expansionary in 2025–26. Considering underlying demand strength and the economy's cyclical position, a neutral stance is recommended, which can be achieved by a combination of expenditure and revenue measures. Moderating public wage growth and benefit indexation in particular would generate significant fiscal savings and ease inflationary pressures. The substantial recapitalization of SOEs contributes to fiscal easing and underscores the need for greater transparency. More generally, increasing the consistency and transparency of public policies would reduce distortions and strengthen the credibility of fiscal reporting.

40. Pension reform should focus on sustainability and adequacy. The deficit of the pay-as-you-go pension scheme is widening, and population aging will further increase the shortfall. Financial sustainability needs to be strengthened by increasing contribution revenues, with a key measure being removing the cap on insurable income, which has not kept up with wage growth. At the same time, improving the adequacy of pensions to reduce old-age poverty remains a priority. Meanwhile, efforts to strengthen the system's second and third pillars should continue.

41. Maintaining fiscal space amid rising spending pressures will require prudent policies and forward-looking reforms. While the overall risk of debt distress remains low, public debt is increasing, owing to sustained deficits and sizeable recapitalizations of SOEs. Addressing spending pressures from aging, defense, infrastructure, and the energy transition will also require fiscal space. The revenue-generating capacity of the flat-tax regime appears insufficient to meet increasing

demands for quality services; in the medium term, more revenue could be raised by increasing tax rates for both personal and corporate income and moving to progressive income taxation.

42. Macprudential policy will need to remain nimble. The financial sector remains resilient. Still, rapid growth of consumer credit, particularly mortgage loans, has increased systemic risks in the real estate market. The BNB's close monitoring of the housing market is therefore welcome. Looking ahead, with the drop in reserve requirements following euro adoption, some liquidity may eventually flow into lending and further propel household credit, adding to market pressures. Therefore, macroprudential policy, notably through borrower-based measures, will have to proactively manage credit market risks.

43. Durably raising living standards will require continued structural reforms, enhanced governance, and strategic investments in human and physical capital. Growth dividends from scaling up quality public investment and reducing structural policy gaps could be substantial, particularly through the RRP. Improving governance and institutional quality is essential for long-term growth and building trust. Addressing productivity and demographic challenges will require sustained investment in human capital and increased labor market participation. Reform is also crucial for the transition to a more resilient, more efficient, and cleaner energy sector, with stronger governance and reduced fiscal vulnerabilities.

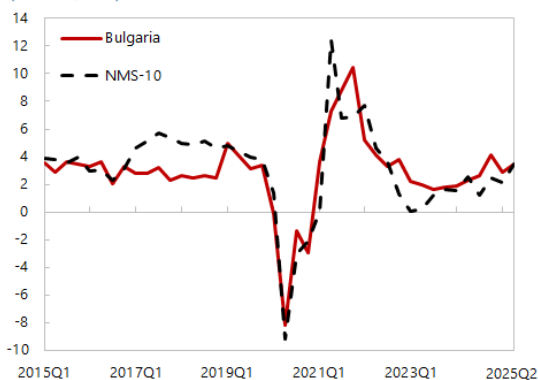
44. It is recommended that the next Article IV consultation be held on the standard 12-month cycle.

Figure 12. Bulgaria: Real Sector and Price Developments

Growth has been generally stronger than in peers in the last three years.

Real GDP Growth

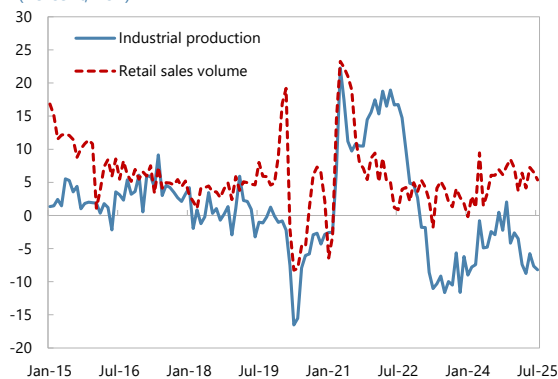
(Percent, YoY)



Retail sales growth remains robust, while industrial production has been declining since the end of 2024...

Industrial Production and Retail Sales Volume

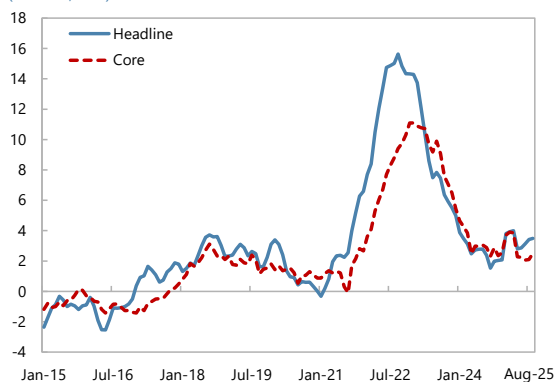
(Percent, YoY)



Inflation accelerated in January due to inflationary policy changes compounding underlying pressures from strong domestic demand, ...

Inflation Dynamics

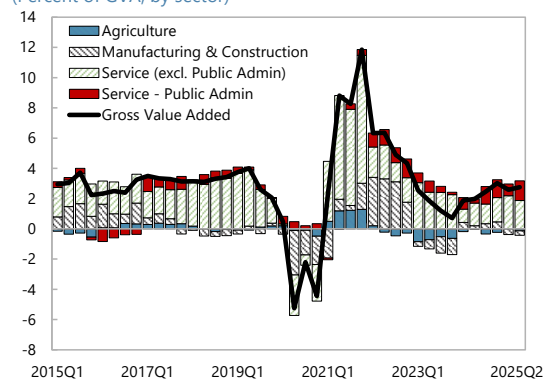
(Percent, YoY)



Activity in the services sector, including public administration, is the main engine of growth.

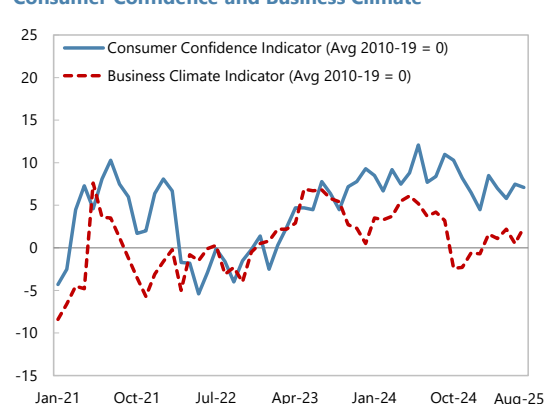
Contributions to Gross Value Added Growth

(Percent of GVA, by sector)



...a disconnect visible also in more buoyant sentiment among consumers than businesses.

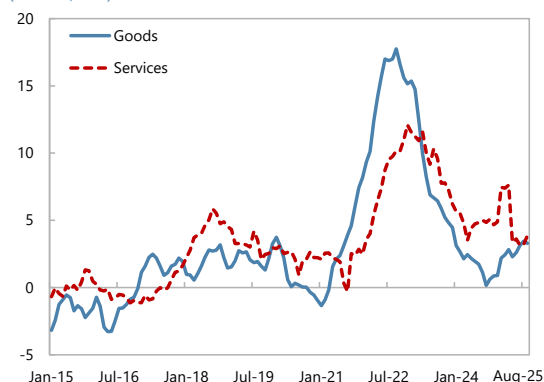
Consumer Confidence and Business Climate



...before retrenching in April as health services prices, especially hospital fees, were lowered.

HICP Inflation

(Percent, YoY)



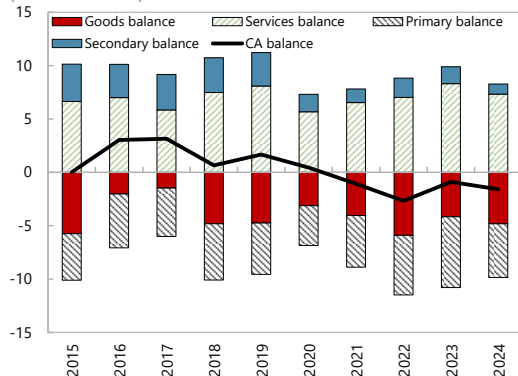
Sources: Haver Analytics; National authorities; and IMF staff calculation.

Figure 13. Bulgaria: External Sector Developments

The current account deficit that opened up during the pandemic is persisting.

Current Account

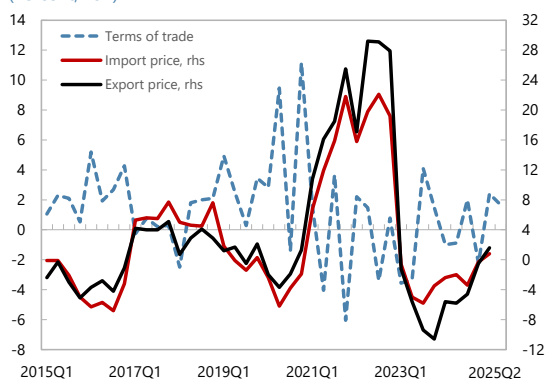
(Percent of GDP)



Both import and export prices have been declining since 2023, but they are recovering.

Export/Import Prices and Terms of Trade

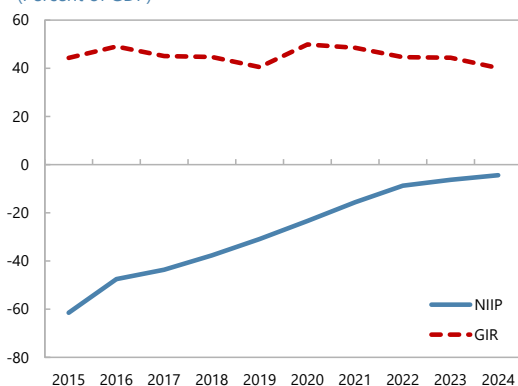
(Percent, YoY)



The NIIP continued to improve, while gross international reserves marginally declined to 40.1 percent of GDP.

Net International Investment Position and Reserves

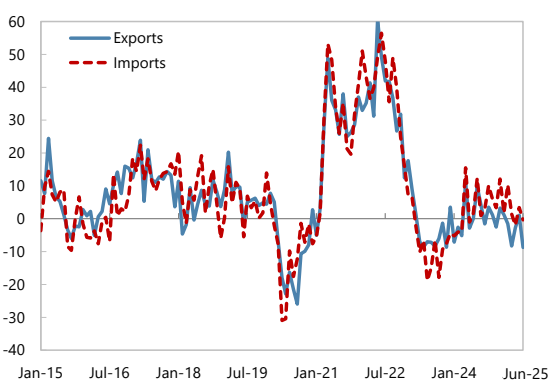
(Percent of GDP)



Weak external demand is contributing to exports decline, while imports are holding up on the back of robust domestic demand and military equipment purchases.

External Trade (Goods and Services)

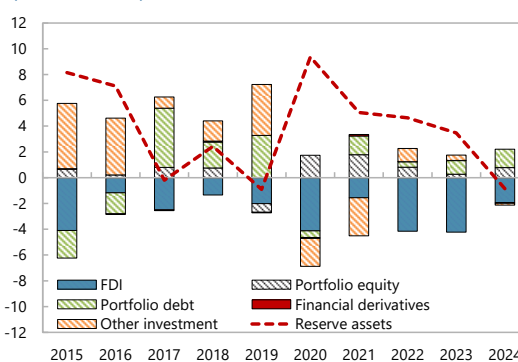
(Percent, YoY)



A decline in FDI and Eurobond issuance drove the financial account balance.

Financial Account

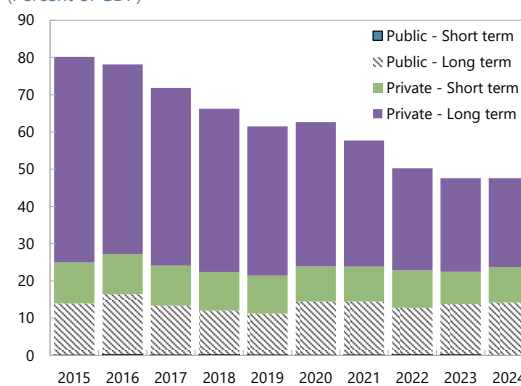
(Percent of GDP)



External debt remained stable at 47.6 percent of GDP.

External Debt

(Percent of GDP)



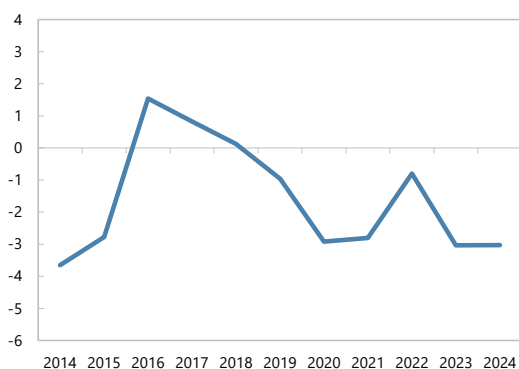
Sources: BNB; Haver; and IMF staff estimates.

Figure 14. Bulgaria: Fiscal Developments

The fiscal deficit remained unchanged in 2024...

Overall Balance

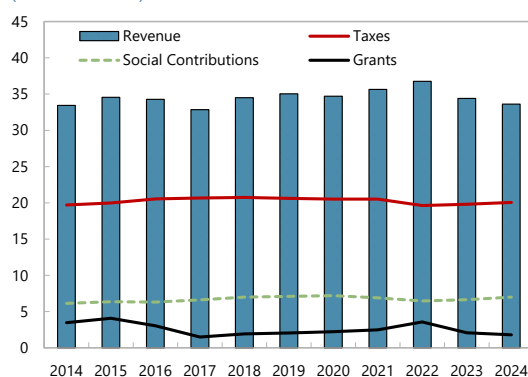
(Percent of GDP)



...as revenue fell slightly...

Current Primary Revenue by Components

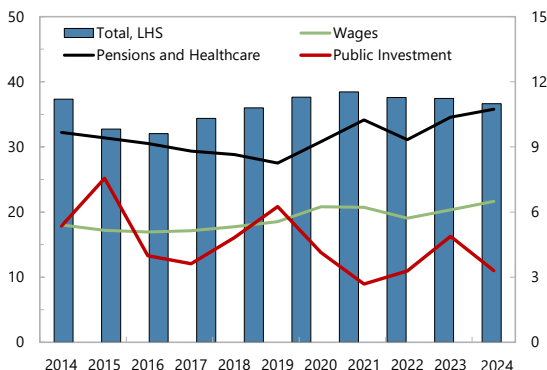
(Percent of GDP)



...along with a similar decline in expenditure.

Growth of Selected Expenditure Items

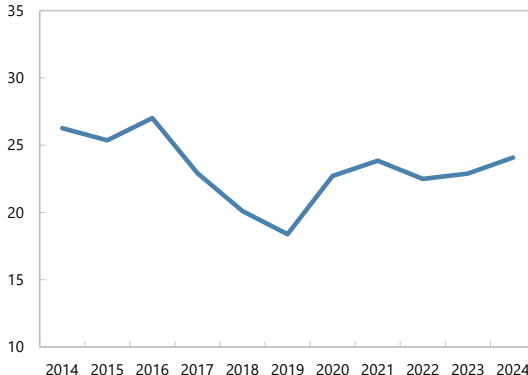
(Percent of GDP)



Public debt, although rising...

Government Gross Debt

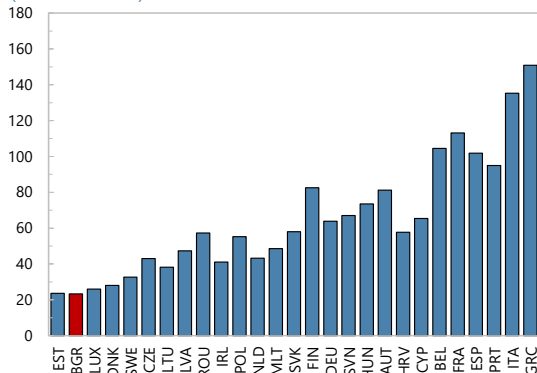
(Percent of GDP)



...continues to be among the lowest in the EU.

Government Debt, 2024

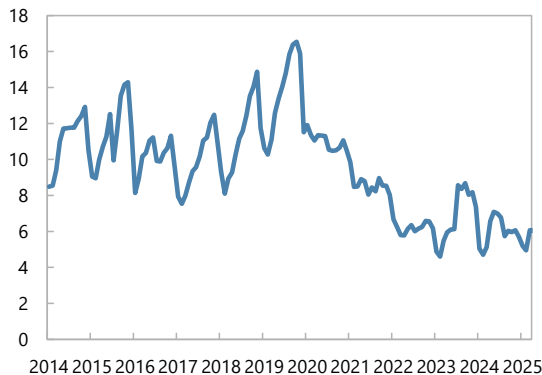
(Percent of GDP)



At end-2024, the fiscal reserve stayed broadly unchanged from a year ago.

Fiscal Reserve Account

(Percent of GDP)



Sources: Bulgarian authorities; Eurostat; Bloomberg Finance L.P.; and IMF staff estimates.

Table 1. Bulgaria: Selected Economic Indicators, 2021–30
(Annual percentage change, unless noted otherwise)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
					Projections					
Real GDP	7.8	4.1	1.7	3.4	3.0	3.1	2.8	2.7	2.6	2.6
Real domestic demand	7.2	5.9	-1.9	4.7	7.1	3.8	3.1	2.1	2.3	2.5
Public consumption	0.5	8.0	1.1	3.6	5.3	1.7	1.4	1.0	0.8	0.9
Private consumption	8.6	4.0	1.1	4.9	8.0	5.3	3.8	3.2	3.1	3.1
Gross fixed capital formation	-8.3	6.5	10.2	1.5	13.9	1.3	2.6	-0.6	1.0	1.9
Private investment	-7.4	10.0	1.9	5.5	7.1	4.1	3.5	2.5	2.1	2.2
Public investment	-12.7	-11.1	61.7	-14.1	48.1	-8.8	-1.2	-13.7	-4.8	0.2
Stock building 1/	3.5	0.8	-4.4	0.7	-1.3	0.0	0.0	0.0	0.0	0.0
Net exports 1/	0.8	-1.4	3.3	-1.1	-3.6	-0.7	-0.3	0.7	0.4	0.2
Exports of goods and services	11.6	12.1	0.0	1.8	-1.6	3.8	6.8	6.5	6.3	6.1
Imports of goods and services	10.7	15.3	-5.5	3.9	4.8	5.1	7.3	5.3	5.7	5.8
Resource utilization										
Potential GDP	3.0	3.0	3.0	3.0	2.9	3.1	3.2	2.9	2.7	2.6
Output gap (percent of potential GDP)	0.7	1.7	0.5	0.4	0.6	0.6	0.2	0.1	0.0	0.0
Unemployment rate (percent of labor force)	5.2	4.2	4.4	4.2	3.5	3.4	3.3	3.2	3.2	3.2
Price										
GDP deflator	7.0	15.9	8.0	7.2	6.0	4.4	3.6	3.1	2.7	2.7
Consumer price index (HICP, average)	2.8	13.0	8.6	2.6	3.6	3.4	2.8	2.6	2.5	2.4
Consumer price index (HICP, end of period)	6.6	14.3	5.0	2.1	4.0	3.0	2.7	2.6	2.5	2.3
Core consumer price index (HICP, average)	1.4	7.6	8.9	3.1	3.0	3.5	3.0	2.8	2.6	2.5
Core consumer price index (HICP, end of period)	2.7	11.1	5.4	2.5	3.4	3.2	2.9	2.7	2.5	2.4
Fiscal indicators (percent of GDP)										
General government net lending/borrowing (cash basis)	-2.8	-0.8	-3.0	-3.0	-3.4	-3.5	-3.6	-3.3	-3.1	-3.1
General government primary balance	-2.7	-0.8	-3.0	-2.8	-3.0	-2.8	-2.7	-2.3	-2.1	-2.1
Structural overall balance	-3.5	-1.4	-3.2	-3.2	-3.6	-3.1	-3.7	-3.4	-3.1	-3.1
Structural primary balance	-3.5	-1.4	-3.2	-2.9	-3.3	-2.4	-2.8	-2.3	-2.1	-2.1
Cyclically-adjusted overall balance (percent of potential GDP)	-3.1	-1.5	-3.2	-3.2	-3.7	-3.7	-3.7	-3.4	-3.1	-3.1
General government gross debt	23.8	22.5	22.9	23.8	28.4	29.9	31.7	33.3	34.7	36.0
Monetary aggregates										
Broad money	10.7	13.2	8.7	8.7	5.7	9.1	8.3	7.5	7.1	7.1
Domestic private credit	8.8	12.5	12.2	14.5	13.1	11.8	10.3	9.8	7.9	7.8
Exchange rates regime										
Leva per U.S. dollar (end of period)	1.7	1.8	1.8	1.9	...	...	...	...	...	...
Nominal effective rate	2.0	1.5	4.3	2.9	...	...	...	...	...	...
External sector (percent of GDP)										
Current account balance	-1.1	-2.7	-0.9	-1.6	-3.8	-3.2	-2.6	-1.3	-0.3	-0.1
o/w: Merchandise trade balance	-4.0	-5.9	-4.2	-4.8	-7.8	-7.6	-7.7	-7.0	-6.8	-6.7
Net international investment position	-15.6	-8.7	-6.3	-4.4	-4.9	-4.1	-4.0	-3.4	-2.0	-0.4
Gross external debt	57.7	50.3	47.6	47.6	49.3	48.7	48.2	48.1	48.8	49.3

Sources: Bulgarian authorities and IMF staff estimates.

1/ Contribution to GDP growth.

Table 2. Bulgaria: Macroeconomic Framework, 2021–30
(Annual percentage change, unless noted otherwise)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	Projections									
GDP and prices										
Real GDP	7.8	4.1	1.7	3.4	3.0	3.1	2.8	2.7	2.6	2.6
Real GDP per working age population	14.2	7.8	2.4	3.8	4.5	4.0	3.7	3.6	3.5	3.5
Real GDP per capita	9.0	10.4	1.7	3.5	5.5	4.0	3.7	3.6	3.5	3.5
Real domestic demand	7.2	5.9	-1.9	4.7	7.1	3.8	3.1	2.1	2.3	2.5
<i>Of which: private</i>	8.6	4.0	1.1	4.9	8.0	5.3	3.8	3.2	3.1	3.1
GDP deflator	7.0	15.9	8.0	7.2	6.0	4.4	3.6	3.1	2.7	2.7
Consumer price index (HICP, average)	2.8	13.0	8.6	2.6	3.6	3.4	2.8	2.6	2.5	2.4
Nominal wages	12.3	13.4	15.3	14.5	12.4	11.3	9.2	7.2	6.4	5.9
Real effective exchange rate, CPI based	1.3	5.0	5.2	-0.2	...	...	...	...	...	...
Monetary aggregates (percent change)										
Broad money	10.7	13.2	8.7	8.7	5.7	9.1	8.3	7.5	7.1	7.1
Domestic private credit	8.8	12.5	12.2	14.5	13.1	11.8	10.3	9.8	7.9	7.8
Saving and investment (percent of GDP)										
Gross national saving	19.6	20.0	18.9	18.8	16.4	17.0	17.4	18.0	18.7	18.6
Government	-0.1	2.5	1.9	0.3	0.5	1.0	-0.6	0.0	0.1	0.0
Private	19.7	17.5	17.0	18.5	15.9	16.0	18.1	18.0	18.6	18.6
Gross domestic investment	20.7	22.7	19.8	20.4	20.2	20.2	20.0	19.3	19.0	18.7
Government	2.7	2.4	3.8	3.2	4.3	3.8	3.6	3.0	2.8	2.7
Private	18.0	20.3	16.0	17.3	15.9	16.4	16.4	16.3	16.1	16.0
General government (percent of GDP)										
Revenue	35.6	36.8	34.5	33.3	35.6	36.3	34.1	33.9	33.6	33.3
Tax revenue (including social security contributions)	27.4	26.1	26.5	26.8	28.4	28.3	28.5	28.8	28.7	28.6
Non-Tax revenue	5.7	7.1	5.9	4.7	4.9	4.3	4.0	3.8	3.6	3.4
Grants	2.5	3.6	2.1	1.8	2.3	3.7	1.6	1.3	1.3	1.3
Expenditure	38.5	37.6	37.5	36.3	39.0	39.8	37.7	37.2	36.8	36.4
Balance (net lending/borrowing on cash basis)	-2.8	-0.8	-3.0	-3.0	-3.4	-3.5	-3.6	-3.3	-3.1	-3.1
Cyclically-adjusted overall balance (percent of potential GDP)	-3.1	-1.5	-3.2	-3.2	-3.7	-3.7	-3.7	-3.4	-3.1	-3.1
Balance of payments (percent of GDP)										
Current account	-1.1	-2.7	-0.9	-1.6	-3.8	-3.2	-2.6	-1.3	-0.3	-0.1
Trade balance	-4.0	-5.9	-4.2	-4.8	-7.8	-7.6	-7.7	-7.0	-6.8	-6.7
Services balance	6.5	7.0	8.3	7.3	7.0	6.9	7.2	7.2	7.3	7.3
Primary income balance	-4.8	-5.6	-6.6	-5.0	-4.2	-3.9	-3.3	-2.7	-2.1	-2.0
Secondary income balance	1.3	1.8	1.6	1.0	1.2	1.4	1.2	1.2	1.3	1.3
Capital account	0.7	0.9	1.6	1.7	2.2	3.4	1.8	1.5	1.5	1.6
Financial account	-1.2	-1.9	-2.5	0.1	-4.8	-1.1	0.0	1.2	0.6	1.0
<i>Of which: Foreign direct investment</i>	-1.6	-4.1	-4.2	-1.9	-2.9	-3.5	-3.7	-3.7	-3.7	-3.7
Memorandum items:										
Gross international reserves (billions of euros)	34.6	38.4	41.9	42.1	45.6	47.2	46.1	44.8	45.8	46.5
Short-term external debt (percent of GDP) 1/	9.6	10.3	9.0	9.6	9.8	9.4	8.4	7.4	6.5	5.5
Export volume (goods, percent change)	8.0	8.7	-1.9	2.9	-3.0	2.7	6.3	6.3	6.3	6.1
Import volume (goods, percent change)	9.7	13.7	-5.8	3.8	5.4	4.7	7.3	4.6	5.5	5.6
Terms of trade (percent change)	0.3	2.4	-2.4	-1.4	0.2	1.4	0.9	0.2	-0.1	0.0
Output gap (percent of potential GDP)	0.7	1.7	0.5	0.4	0.6	0.6	0.2	0.1	0.0	0.0
Nominal GDP (billions of leva)	139.5	168.4	184.9	204.9	221.5	238.3	253.8	268.9	283.5	298.9
Nominal GDP (billions of euros)	71.3	86.1	94.5	104.8	113.3	121.8	129.8	137.5	145.0	152.8

Sources: Bulgarian authorities; and IMF staff estimates.

1/ At original maturity.

Table 3. Bulgaria: Balance of Payments, 2021–30
(Billions of euros, unless noted otherwise)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
					Projections					
Current account balance	-0.8	-2.3	-0.8	-1.7	-4.3	-3.9	-3.3	-1.8	-0.4	-0.2
Trade balance	-2.9	-5.1	-3.9	-5.0	-8.8	-9.2	-9.9	-9.6	-9.8	-10.2
Exports (f.o.b.)	34.4	47.1	43.5	43.7	41.9	42.7	45.9	49.2	52.8	56.5
Imports (f.o.b.)	37.3	52.2	47.5	48.8	50.7	51.9	55.9	58.8	62.6	66.7
Services balance	4.7	6.0	7.9	7.7	7.9	8.4	9.4	9.9	10.6	11.2
Exports of non-factor services	9.7	13.1	15.1	15.3	15.5	16.4	18.0	19.4	20.8	22.3
Imports of non-factor services	5.1	7.1	7.3	7.6	7.6	8.0	8.6	9.5	10.2	11.1
Primary Income balance	-3.5	-4.8	-6.3	-5.3	-4.8	-4.8	-4.3	-3.8	-3.0	-3.1
Receipts	2.3	2.5	2.7	3.1	4.0	4.6	5.5	6.2	6.9	7.5
Payments	5.8	7.3	9.0	8.3	8.7	9.4	9.8	10.0	9.9	10.6
Secondary income balance	0.9	1.5	1.5	1.0	1.3	1.7	1.5	1.7	1.9	1.9
Capital account balance	0.5	0.8	1.5	1.8	2.5	4.2	2.3	2.1	2.2	2.4
Financial account balance	-0.8	-1.6	-2.3	0.1	-5.4	-1.3	0.0	1.6	0.9	1.5
Foreign direct investment balance	-1.1	-3.6	-4.0	-2.0	-3.2	-4.2	-4.8	-5.1	-5.4	-5.7
Portfolio investment balance	2.3	1.1	1.2	2.3	-0.7	3.1	6.4	6.9	6.5	7.4
Other investment balance	-2.1	0.9	0.4	-0.1	-1.5	-0.2	-1.5	-0.2	-0.2	-0.2
Errors and omissions	3.1	3.9	0.3	-1.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	3.6	4.0	3.3	-0.9	3.5	1.6	-1.1	-1.3	1.0	0.7
Financing	-3.6	-4.0	-3.3	0.9	-3.5	-1.6	1.1	1.3	-1.0	-0.7
Gross international reserves (increase -)	-3.6	-4.0	-3.3	0.9	-3.5	-1.6	1.1	1.3	-1.0	-0.7
Memorandum items:	(Percent of GDP, unless otherwise indicated)									
Current account balance	-1.1	-2.7	-0.9	-1.6	-3.8	-3.2	-2.6	-1.3	-0.3	-0.1
Merchandise trade balance	-4.0	-5.9	-4.2	-4.8	-7.8	-7.6	-7.7	-7.0	-6.8	-6.7
Exports	48.2	54.8	46.1	41.8	37.0	35.0	35.4	35.8	36.4	37.0
Imports	52.3	60.7	50.2	46.6	44.8	42.6	43.1	42.8	43.2	43.7
Capital account balance	0.7	0.9	1.6	1.7	2.2	3.4	1.8	1.5	1.5	1.6
Foreign direct investment balance	-1.6	-4.1	-4.2	-1.9	-2.9	-3.5	-3.7	-3.7	-3.7	-3.7
Terms of trade (merchandise, percent change)	0.3	2.4	-2.4	-1.4	0.2	1.4	0.9	0.2	-0.1	0.0
Exports of goods (volume, growth rate)	8.0	8.7	-1.9	2.9	-3.0	2.7	6.3	6.3	6.3	6.1
Imports of goods (volume, growth rate)	9.7	13.7	-5.8	3.8	5.4	4.7	7.3	4.6	5.5	5.6
Exports of goods (prices, growth rate)	16.8	26.1	-5.9	-2.4	-1.2	-0.8	1.2	0.8	0.9	0.8
Imports of goods (prices, growth rate)	16.4	23.2	-3.6	-1.0	-1.4	-2.2	0.3	0.6	0.9	0.9
Net international investment position	-15.6	-8.7	-6.3	-4.4	-4.9	-4.1	-4.0	-3.4	-2.0	-0.4
GDP (billions of euro)	71.3	86.1	94.5	104.8	113.3	121.8	129.8	137.5	145.0	152.8

Sources: Bulgarian authorities; and IMF staff estimates.

Table 4a. Bulgaria: General Government Operations, 2021–30^{1/}
(Billions of leva, unless otherwise indicated)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	Projections									
Revenue	49.7	61.9	63.7	68.2	78.8	86.6	86.5	91.1	95.3	99.4
Taxes	28.6	33.0	36.7	40.7	47.5	50.7	53.9	56.9	60.4	63.6
Taxes on profits	3.4	4.6	5.0	5.3	6.6	6.8	7.3	7.7	8.2	8.6
Taxes on income	4.9	5.3	6.2	7.2	8.0	8.9	9.3	9.6	9.7	9.8
Value-added taxes	13.0	15.3	16.2	18.5	22.7	24.5	26.1	27.8	30.0	32.1
Excises	5.7	5.7	6.1	6.9	7.4	7.9	8.4	8.9	9.4	9.9
Customs duties	0.3	0.5	0.3	0.3	0.4	0.4	0.4	0.4	0.5	0.5
Other taxes	1.5	1.6	2.8	2.4	2.4	2.2	2.3	2.4	2.6	2.7
Social contributions	9.6	10.9	12.3	14.2	15.5	16.8	18.4	20.5	21.1	21.7
Grants	3.5	6.0	3.8	3.6	5.0	8.8	4.0	3.4	3.6	3.8
Other revenue 2/	8.0	12.0	10.9	9.7	10.8	10.3	10.3	10.2	10.2	10.2
Expenditure	53.7	63.2	69.3	74.3	86.3	94.9	95.7	100.1	104.2	108.8
Expense	48.3	57.3	59.9	67.3	77.2	83.8	87.7	90.6	94.6	98.8
Compensation of employees	10.4	11.6	13.7	16.1	18.5	19.4	20.3	21.2	22.3	23.4
Wages and salaries	8.7	9.6	11.3	13.2	16.2	17.5	18.4	19.3	20.2	21.2
Other compensation	1.7	2.0	2.4	3.0	2.2	1.9	1.9	1.9	2.1	2.2
Use of goods and services	5.1	7.1	7.2	7.5	8.4	8.9	9.2	9.5	9.8	10.2
Interest	0.6	0.7	0.8	1.0	1.4	2.3	2.9	3.4	3.6	3.9
External	0.5	0.5	0.7	0.8	1.4	2.0	2.6	3.0	3.0	3.2
Domestic	0.1	0.2	0.1	0.2	0.0	0.2	0.3	0.4	0.6	0.8
Subsidies	7.3	10.5	6.2	6.2	6.6	7.8	7.6	7.1	7.1	7.1
Grants 3/	1.7	1.7	1.8	1.6	2.0	2.2	2.4	2.3	2.4	2.6
Social benefits	22.9	25.5	29.7	34.4	40.0	42.9	45.0	46.8	49.1	51.4
Pensions	14.3	15.7	19.2	21.8	24.2	26.3	27.9	29.2	30.6	31.9
Social assistance	3.6	4.1	4.1	5.1	6.9	7.2	7.3	7.3	7.7	8.2
Health Insurance Fund	5.0	5.6	6.4	7.6	8.9	9.4	9.8	10.2	10.8	11.4
Other expense	0.3	0.3	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Contingency	1.6	0.4	0.4	0.3	0.4	0.5	0.5	0.5	0.6	0.6
Net acquisition of nonfinancial assets 4/	3.7	5.5	9.0	6.8	8.7	10.6	7.6	9.0	9.1	9.3
Net lending/borrowing	-3.9	-1.3	-5.6	-6.2	-7.6	-8.3	-9.2	-9.0	-8.9	-9.4
Primary balance	-3.8	-1.4	-5.5	-5.7	-6.7	-6.7	-7.0	-6.2	-6.1	-6.2
Financing	3.9	1.3	5.6	6.2	7.6	8.3	9.2	9.0	8.9	9.4
Privatization proceeds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net external financing	0.7	2.5	4.6	5.3	14.8	7.6	6.7	6.8	6.7	7.8
Net domestic financing	1.7	-0.2	1.4	1.0	0.3	0.7	2.5	2.2	2.2	1.6
Net lending and other items	0.2	-3.4	1.3	-0.1	-7.5	0.0	0.0	-0.1	0.0	0.0
Memorandum items:										
Fiscal reserve account	9.7	12.1	10.4	11.4	11.4	11.4	11.4	11.4	11.4	11.4
Gross public debt	33.3	37.9	42.4	48.8	62.9	71.2	80.4	89.5	98.4	107.7
Nominal GDP (percent change)	15.3	20.7	9.8	10.8	9.2	7.6	6.5	5.9	5.4	5.4
Real GDP (percent change)	7.8	4.1	1.7	3.4	3.0	3.1	2.8	2.7	2.6	2.6
HICP inflation (percent change)	2.8	13.0	8.6	2.6	3.6	3.4	2.8	2.6	2.5	2.4
Nominal private consumption (percent change)	15.2	20.7	9.3	10.2	14.1	7.8	6.7	6.6	5.8	5.9
Nominal imports (percent change)	26.9	40.0	-7.7	3.1	3.3	2.8	7.6	5.9	6.7	6.8

Sources: Ministry of Finance; and IMF staff estimates.

1/ On cash basis. The data correspond to the Consolidated Fiscal Program of the government.

2/ Includes dividends. For 2021, it includes the Sofia Airport concession revenue BGN 660 million.

3/ Contribution to EU budget.

4/ Includes only acquisitions of nonfinancial assets, i.e., capital expenditure. For 2021, includes concession revenue BGN 660 million for the Sofia Airport.

Table 4b. Bulgaria: General Government Operations, 2021–30^{1/}
(Percent of GDP, unless otherwise indicated)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	Projections									
Revenue	35.6	36.8	34.5	33.3	35.6	36.3	34.1	33.9	33.6	33.3
Taxes	20.5	19.6	19.8	19.9	21.4	21.3	21.2	21.2	21.3	21.3
Taxes on profits	2.4	2.7	2.7	2.6	3.0	2.9	2.9	2.9	2.9	2.9
Taxes on income	3.5	3.2	3.4	3.5	3.6	3.7	3.7	3.6	3.4	3.3
Value-added taxes	9.3	9.1	8.8	9.0	10.3	10.3	10.3	10.3	10.6	10.7
Excises	4.1	3.4	3.3	3.4	3.3	3.3	3.3	3.3	3.3	3.3
Customs duties	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other taxes	1.1	1.0	1.5	1.2	1.1	0.9	0.9	0.9	0.9	0.9
Social contributions	6.9	6.5	6.7	6.9	7.0	7.0	7.3	7.6	7.4	7.3
Grants	2.5	3.6	2.1	1.8	2.3	3.7	1.6	1.3	1.3	1.3
Other revenue 2/	5.7	7.1	5.9	4.7	4.9	4.3	4.0	3.8	3.6	3.4
Expenditure	38.5	37.6	37.5	36.3	39.0	39.8	37.7	37.2	36.8	36.4
Expense	34.6	34.1	32.4	32.8	34.8	35.2	34.5	33.7	33.4	33.1
Compensation of employees	7.5	6.9	7.4	7.9	8.3	8.1	8.0	7.9	7.9	7.8
Wages and salaries	6.2	5.7	6.1	6.4	7.3	7.3	7.2	7.2	7.1	7.1
Other compensation	1.2	1.2	1.3	1.4	1.0	0.8	0.8	0.7	0.7	0.7
Use of goods and services	3.6	4.2	3.9	3.7	3.8	3.7	3.6	3.5	3.5	3.4
Interest	0.5	0.4	0.4	0.5	0.6	0.9	1.1	1.3	1.3	1.3
External	0.4	0.3	0.4	0.4	0.6	0.9	1.0	1.1	1.1	1.1
Domestic	0.1	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.2	0.3
Subsidies	5.3	6.3	3.4	3.0	3.0	3.3	3.0	2.6	2.5	2.4
Grants 3/	1.2	1.0	1.0	0.8	0.9	0.9	1.0	0.9	0.9	0.9
Social benefits	16.4	15.1	16.1	16.8	18.1	18.0	17.7	17.4	17.3	17.2
Pensions	10.2	9.3	10.4	10.6	10.9	11.0	11.0	10.9	10.8	10.7
Social assistance	2.6	2.5	2.2	2.5	3.1	3.0	2.9	2.7	2.7	2.7
Health Insurance Fund	3.6	3.3	3.5	3.7	4.0	4.0	3.9	3.8	3.8	3.8
Other expense	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Contingency	1.1	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Net acquisition of nonfinancial assets 4/	2.7	3.3	4.9	3.3	3.9	4.5	3.0	3.3	3.2	3.1
Net lending/borrowing	-2.8	-0.8	-3.0	-3.0	-3.4	-3.5	-3.6	-3.3	-3.1	-3.1
Primary balance	-2.7	-0.8	-3.0	-2.8	-3.0	-2.8	-2.7	-2.3	-2.1	-2.1
Financing	2.8	0.8	3.0	3.0	3.4	3.5	3.6	3.3	3.1	3.1
Privatization proceeds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net external financing	0.5	1.5	2.5	2.6	6.7	3.2	2.7	2.5	2.4	2.6
Net domestic financing	1.3	-0.1	0.8	0.5	0.1	0.3	1.0	0.8	0.8	0.5
Net lending and other items	0.2	-2.0	0.7	-0.1	-3.4	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Gross public debt	23.8	22.5	22.9	23.8	28.4	29.9	31.7	33.3	34.7	36.0
Output gap (percent of potential GDP)	0.7	1.7	0.5	0.4	0.6	0.6	0.2	0.1	0.0	0.0
Nominal GDP (billions of leva)	139.5	168.4	184.9	204.9	221.5	238.3	253.8	268.9	283.5	298.9

Sources: Ministry of Finance; and IMF staff estimates.

1/ On cash basis. The data correspond to the Consolidated Fiscal Program of the government.

2/ Includes dividends. For 2021, it includes the Sofia Airport concession revenue BGN 660 million.

3/ Contribution to EU budget.

4/ Includes only acquisitions of nonfinancial assets, i.e., capital expenditure. For 2021, includes concession revenue BGN 660 million for the Sofia Airport.

Table 5. Bulgaria: Monetary Accounts, 2021–30
(Billions of leva, unless otherwise indicated)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	Projections									
Monetary Survey										
Net foreign assets	71.3	82.7	87.3	89.0	95.3	98.4	95.6	93.0	94.8	96.1
Net domestic assets	78.5	84.4	97.8	116.5	130.6	145.4	161.6	178.2	193.2	208.5
Domestic credit	78.7	84.5	96.8	114.6	128.8	143.6	159.9	176.6	191.6	206.9
General government	5.2	1.8	4.0	8.5	8.7	9.4	11.9	14.1	16.3	17.8
Non-government	73.5	82.6	92.7	106.2	120.1	134.3	148.0	162.5	175.4	189.1
Broad money (M3)	125.8	142.4	154.8	168.3	177.8	194.1	210.1	225.9	241.8	258.9
Currency outside banks	22.4	25.0	27.1	28.9	21.2	25.5	30.6	35.7	41.3	47.5
Reserve money	47.8	53.1	59.1	58.1	53.3	59.4	65.8	72.2	78.8	86.1
Deposits 1/	103.4	117.4	127.6	139.4	156.7	168.6	179.5	190.2	200.5	211.4
Accounts of the Bulgarian National Bank										
Net foreign assets	63.8	71.1	78.0	78.4	85.3	88.4	86.3	83.8	85.7	87.0
Net foreign reserves (billions of euro)	32.6	36.4	39.9	40.1	43.6	45.2	44.1	42.8	43.8	44.5
Net domestic assets	-11.1	-13.1	-12.1	-10.8	-10.9	-11.0	-11.1	-11.2	-11.2	-11.3
Net claims on government	-8.8	-11.6	-10.6	-9.2	-9.2	-9.2	-9.2	-9.2	-9.2	-9.2
Base money	47.8	53.1	59.1	58.1	53.3	59.4	65.8	72.2	78.8	86.1
Currency in circulation	22.4	25.0	27.1	28.9	21.2	25.5	30.6	35.7	41.3	47.5
Banks reserves	25.4	28.1	31.9	29.3	32.2	33.9	35.2	36.5	37.6	38.7
Deposit money banks										
Net foreign assets	7.4	11.6	9.3	10.6	10.0	9.9	9.3	9.2	9.2	9.1
Gross foreign assets	17.1	24.1	24.1	28.2	28.5	29.3	29.6	30.5	31.5	32.5
Gross foreign liabilities	9.7	12.5	14.8	17.7	18.5	19.3	20.3	21.3	22.3	23.4
Net domestic assets	87.7	96.4	108.9	126.1	140.2	154.9	171.1	187.7	202.7	217.9
Domestic credit	87.3	95.9	107.2	123.8	137.9	152.8	169.0	185.7	200.8	216.1
Memorandum items:	(Annual percentage change, unless otherwise indicated)									
Base money	9.1	11.1	11.3	-1.6	-8.2	11.3	10.9	9.6	9.2	9.3
Broad money	10.7	13.2	8.7	8.7	5.7	9.1	8.3	7.5	7.1	7.1
Domestic non-government credit	8.8	12.5	12.2	14.5	13.1	11.8	10.3	9.8	7.9	7.8
Domestic deposits	9.6	13.5	8.7	9.3	12.4	7.6	6.5	5.9	5.4	5.4
Domestic currency	13.8	13.3	12.2	9.7	12.4	7.3	6.3	5.7	5.2	5.2
Foreign currency	2.3	13.9	2.0	8.2	12.4	8.1	7.1	6.5	6.0	6.0
Money multiplier (ratio)	2.6	2.7	2.6	2.9	3.3	3.3	3.2	3.1	3.1	3.0
Velocity (M3) (ratio)	1.1	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
GDP (billions of leva)	139.5	168	185	205	222	238	254	269	284	299

Sources: BNB and IMF staff estimates.

1/ Includes deposits at central bank.

Table 6. Bulgaria: Financial Soundness Indicators, 2016–24
(Percent)

	2016	2017	2018	2019	2020	2021	2022	2023	2024
Core indicators									
Capital adequacy									
Capital to risk-weighted assets	22.2	22.1	20.4	20.2	22.7	22.6	21.0	21.7	22.7
Tier 1 capital to risk-weighted assets	20.9	20.9	19.4	19.5	22.1	22.0	20.6	20.6	21.3
Asset quality									
Nonperforming loans to total gross loans	13.2	10.4	7.8	6.6	5.8	5.9	4.5	3.6	3.2
Nonperforming loans net of provisions to capital	44.7	36.6	28.2	23.9	20.8	16.5	14.3	10.6	9.2
Large exposures to capital	61.7	61.0	80.8	91.7	58.6	69.4	74.1	0.0	0.0
Earnings and profitability									
Return on assets	1.4	1.2	1.6	1.5	0.7	1.2	1.6	2.3	2.3
Return on equity 1/	10.4	9.3	11.8	11.3	5.2	8.5	12.3	18.4	17.2
Net interest income to gross income	69.2	69.4	65.1	65.0	63.7	57.3	56.7	65.9	65.9
Noninterest expense to gross income	44.0	45.7	44.8	46.9	57.0	52.1	49.6	42.9	42.0
Personnel expense to total income	18.4	20.3	20.3	20.9	21.8	20.3	19.3	17.1	16.9
Liquidity									
Liquid assets to total assets	32.4	33.1	28.9	27.9	30.3	30.7	29.7	30.9	29.8
Liquid assets to short-term liabilities	41.0	41.5	35.8	33.9	36.3	39.0	38.6	39.3	38.0
Encouraged indicators									
Deposit-taking institutions									
Capital to assets 2/	11.6	11.4	10.8	11.6	11.9	11.1	9.9	10.1	10.3
Trading income to total income	10.3	2.3	8.9	8.1	4.5	5.5	4.6	4.5	3.6
Personnel expenses to noninterest expenses	41.7	44.5	45.2	44.5	38.2	38.9	38.9	39.9	40.4
Customer deposits to total (non-interbank) loans	134.7	138.8	139.2	139.2	144.7	139.1	141.1	136.2	130.7
Foreign currency denominated loans to total loans	32.0	26.7	25.2	24.5	23.4				
Sources: BNB and IMF staff estimates.									
1/ Return on equity is calculated with Tier I capital as denominator.									
2/ Capital to assets is based on Tier I capital.									

Annex I. Risk Assessment Matrix¹

Source of Risks and Relative Likelihood	Expected Impact	Policy Response
Bulgaria-Specific Risks		
High Fiscal policy miscalibration. Too loose fiscal policy and fiscal slippages.	High Excessively expansionary fiscal policy amidst robust private demand may rekindle inflation in the short term and undermine fiscal sustainability in the medium term.	Tighten fiscal policy to support disinflation, growth, and income convergence by focusing on expanding the supply capacity of the economy.
High Political instability. Re-emerging policy uncertainty.	High Reform momentum could fade, jeopardizing progress needed to unlock RRP funds and the quality of fiscal adjustment; policy uncertainty would hamper policy making.	Shore up political and social consensus on policy continuity.
Medium Property market overheating and credit excess.	Medium Rapid credit expansion and banks' growing exposure to mortgage credit could create vulnerabilities in the financial sector.	Continuously monitor real estate and credit risks, tighten macroprudential policies as needed.
Global Risks		
High Escalating Trade Measures and Prolonged Uncertainty. Rising trade barriers and prolonged policy uncertainty could reduce trade, investment, and growth. Inflationary pressures may re-emerge—especially in countries imposing tariffs. These effects can be amplified by strategic complementarities or bottlenecks in global value chains or inventory overhang.	Medium As a globally integrated small open economy, a disruption in trade and FDI flows will impact Bulgaria. However, deep EU integration, strengthened with euro adoption, will provide a buffer against extra-EU shocks, which will affect Bulgaria mostly indirectly through economic slowdown in trading partners.	In case of severe disruptions, targeted, time-bound fiscal measures to support vulnerable households and firms.

¹ The risk assessment matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Source of Risks and Relative Likelihood	Expected Impact	Policy Response
Global Risks		
High Commodity price volatility. Shifts in supply and demand—driven by geopolitical tensions and conflicts, OPEC+ actions, or the green transition—may fuel commodity price swings, intensifying external and fiscal pressures, social unrest, and macroeconomic instability.	Medium Commodities have a large weight in the inflation basket and a sharp rise in their price would hurt business and households. Adverse terms of trade shock would weaken the external position.	In the event of steep price increases, consider targeted and temporary support for the most vulnerable groups
High Geopolitical Tensions. Intensification of conflicts, coupled with the weakening of multilateralism, may trigger commodity price volatility, increase migration pressures, reignite inflation, and weigh on growth by undermining confidence, investment, tourism, trade, and supply chains.	Medium An escalation of conflicts would affect the economy through lower external demand and disruptions of commodity trade that rekindle inflation. Direct energy and trade links with Russia and Ukraine have decreased and financial links are extremely low.	In case of severe disruptions, fiscal stimulus and well-targeted, temporary support for most vulnerable groups should be deployed.

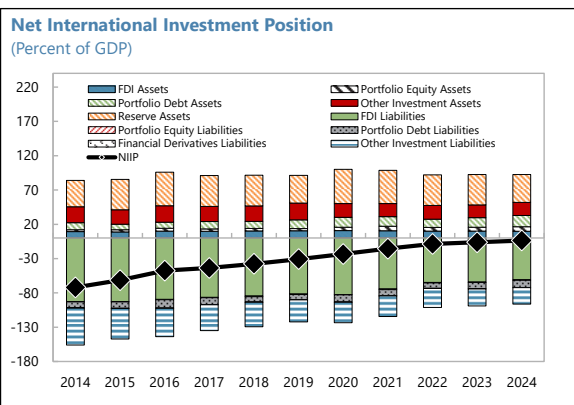
Annex II. External Sector Assessment

Overall Assessment: The external position in 2024 is assessed to be broadly in line with the level implied by medium-term fundamentals and desirable policies. This assessment is subject to frequent and large data revisions. The current account is expected to deteriorate in 2025, and then record a narrowing deficit over the projection period.

Potential Policy Responses: Maintaining an external position consistent with medium-term fundamentals requires balanced growth, which can be supported by policies that stimulate investment, raise Bulgaria's productivity and potential growth, and foster economic convergence.

Foreign Assets and Liabilities: Position and Trajectory

Background. The NIIP continued its steady improvement, reaching -4.4 percent of GDP in 2024. The main drivers are an increase in portfolio assets, especially debt securities, and a decrease in liabilities, most notably FDI liabilities. On the contrary, reserve assets declined by 4.2 percent of GDP. Positive current account developments until 2020 and economic growth performance during most of the period have contributed to the favorable NIIP trend.



Assessment. The NIIP is projected to deteriorate in 2025, due to the issuance of external public debt planned in the 2025 budget. Over the medium term, the NIIP-to-GDP ratio is expected to improve on account of faster increase of assets—notably portfolio assets and, to a lesser extent, reserve assets—than liabilities. Overall NIIP financing vulnerabilities appear low, as foreign direct investment accounts for a large share of the position.

2024 (% GDP)	NIIP: -4.4	Gross Assets: 91.7	Debt Assets: 16.2	Gross Liab.: 96.1	Debt Liab.: 10.4
--------------	------------	--------------------	-------------------	-------------------	------------------

Current Account

Background. After eight years of surpluses from 2013 to 2020, the CA turned negative in 2021 and remained negative through 2024, when it declined by 0.7 percent to -1.6 percent of GDP (Figure 13). The deterioration was largely due to the goods trade balance, with subdued external demand, reduced harvest, and unfavorable export price dynamics leading to a decline in goods exports of 4.8 percent of GDP. Despite a 1.0 percentage points of GDP decline from the high level of 2023, the services trade balance remained large and positive (7.3 percent of GDP), while an improvement of 1.6 percent of GDP was registered in the primary income balance, driven by lower payments and higher remittances. The unfavorable external environment and country-specific factors, including the import of fighter jets and planned repairs at plants of major manufacturing exporters, are expected to weigh on the CA in 2025. Errors and omissions are estimated at -0.9 percent of GDP for 2024, but data uncertainty remains high due to frequent and substantial revisions.

Assessment. The adjusted CA is estimated to be at par with the norm, with the latter calculated at -1.5 percent according to the CA model.

Bulgaria: Model Estimates for 2024 (In percent of GDP)		
	CA model 1/ (in percent of GDP)	REER model 1/ (in percent of GDP)
CA-Actual	-1.6	
Cyclical contributions (from model) (-)	-0.1	
Natural disasters and conflicts (-)	0.0	
Adjusted CA	-1.5	
CA Norm (from model) 2/	-1.5	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	-1.5	
CA Gap	-0.1	-3.7
o/w Relative policy gap	3.1	
Elasticity	-0.4	
REER Gap (in percent)	0.1	8.3

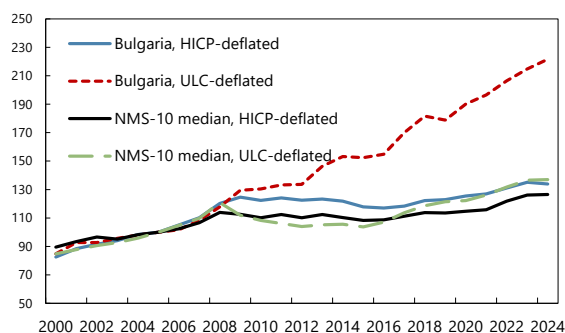
1/ Based on the EBA-lite 3.0 methodology.
2/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. The HICP-based real effective exchange rate (REER) declined by about 1 percent in 2024, on account of the relatively faster disinflation experienced by Bulgaria compared to peers. However, the ULC-based REER continued to grow in 2024, driven by rapidly rising wages and widening the gap relative to peers.

Assessment. While the REER is assessed to be at the CA model norm, the REER model implies an overvaluation of 8.3 percent. While wages in Bulgaria remain among the lowest in the EU, the persistent erosion in cost competitiveness highlights the need for reforms to boost non-price competitive factors to benefit from integration and increase the returns from Schengen and euro adoption.

Real Effective Exchange Rates
(Index 2005 = 100)



Sources: European Commission; and IMF staff calculations.

Note: NMS-10 are Czech Republic, Estonia, Croatia, Latvia, Lithuania, Hungary, Poland, Romania, Slovenia, and Slovakia.

Capital and Financial Accounts: Flows and Policy Measures

Background. Bulgaria's external debt ratio remained stable in 2024, ending the year at 47.6 percent of GDP. Public external debt increased to EUR 14.9 bn (14.2 percent of GDP) by end-2024 and is expected to steadily increase, as a share of GDP, in the medium term. On the contrary, private sector debt declined from 33.8 percent of GDP in 2023 to 33.3 percent in 2024. Preliminary data show net FDI inflows at about EUR 2 bn in 2024. This figure would correspond to a decline of almost 50 percent with respect to the average flow in the previous two years, but this series is highly volatile and often revised.

Assessment. External debt remains low and about 80 percent of it is long term, limiting Bulgaria's vulnerability to volatility in international capital flows. Prospects for FDI inflows are expected to improve with euro adoption. However, the planned increase in public external debt merits monitoring.

FX Intervention and Reserves Level

Background. Gross international reserves increased by EUR 128 mn, reaching EUR 42 bn by the end of 2024 (40.1 percent of GDP).

Assessment. Foreign exchange reserves are assessed to be adequate under the currency board arrangement, which is bound to cease once Bulgaria joins the euro area.¹ Upon adopting the euro, Bulgaria's currency will have the status of a global reserve currency, and the exchange rate will float freely.

¹ Under a currency board regime, reserves are required to cover currency in circulation, liabilities to banks, the government, and other depositors.

Annex III. Debt Sustainability Analysis

Annex III. Table 1. Bulgaria: Risk of Sovereign Stress

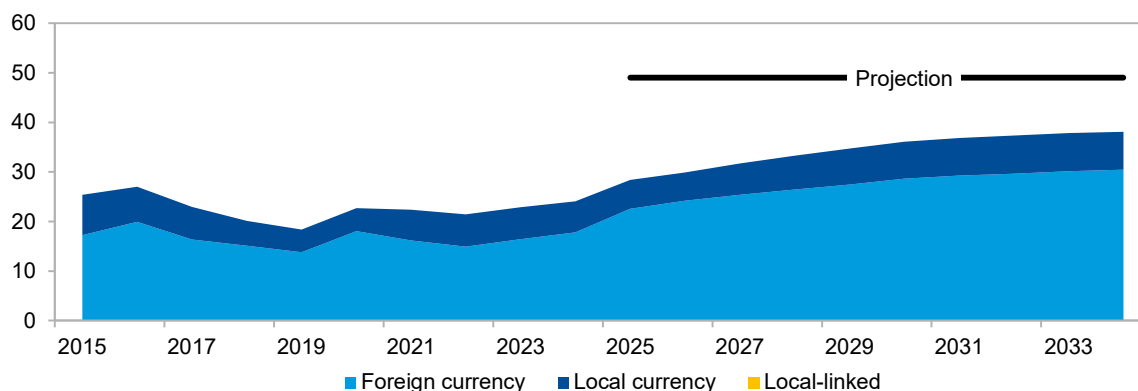
Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Low	The overall risk of sovereign stress is low, reflecting a relatively low level of vulnerability in the near term and medium term. Public debt is the second lowest in the EU and is sustainable.
Near term 1/			
Medium term	Moderate	Low	Medium-term risks are mainly associated with an upward trend in debt, caused by the sustained deficits and debt issuance to recapitalize state-owned entities. Still, the upper bound of debt in the fanchart simulation remains below 60 percent of GDP by 2030. Staff's assessment of the medium-term risks is low.
Fanchart	Moderate	...	
GFN	Low	...	
Stress test	...	...
Long term	...	Moderate	Long-term risks remain moderate as defense and aging-related expenditures on health and social security feed into debt dynamics.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	
Debt stabilization in the baseline			No
DSA summary assessment			
<p>Commentary: Bulgaria is at a low overall risk of sovereign stress. Public debt is sustainable and is the second lowest in the EU. In the medium term, the persistent deficit putting debt on an upward trend can be a concern. Even in this case, debt remains below 60 percent of GDP. Over the longer run, Bulgaria should continue with reforms to tackle fiscal pressures from challenges such as ageing, defense, and energy transition.</p>			
<p>Source: IMF staff estimates and assessments</p> <p>Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.</p> <p>1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.</p> <p>2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.</p>			

Annex III. Figure 1. Bulgaria: Debt Coverage and Disclosures

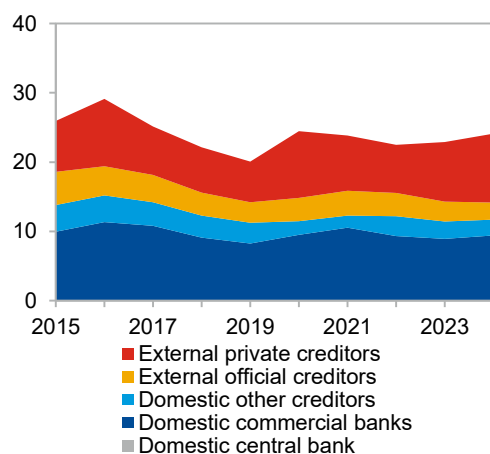
Annex III. Figure 1. Bulgaria: Debt Coverage and Disclosures										Comments
1. Debt coverage in the DSA: 1/										
CG GG NFPS CPS Other										
1a. If central government, are non-central government entities insignificant?										n.a.
2. Subsectors included in the chosen coverage in (1) above:										
Subsectors captured in the baseline										Inclusion
CPS NFPS GG: expected CG	1	Budgetary central government		Yes	Not applicable					
	2	Extra budgetary funds (EBFs)		No						
	3	Social security funds (SSFs)		Yes						
	4	State governments		Yes						
	5	Local governments		Yes						
	6	Public nonfinancial corporations		No						
	7	Central bank		No						
	8	Other public financial corporations		No						
3. Instrument coverage:										
Currency & deposits Loans Debt securities Oth acct. payable 2/ IPSGSs 3/										
4. Accounting principles:										
Basis of recording Valuation of debt stock										
Non-cash basis 4/ Cash basis Nominal value 5/ Face value 6/ Market value 7/										
5. Debt consolidation across sectors:										
Consolidated Non-consolidated										
Color code: ■ chosen coverage ■ Missing from recommended coverage ■ Not applicable										
Reporting on Intra-Government Debt Holdings										
Issuer										
CPS NFPS GG: expected CG	1	Budget. central govt								0
	2	Extra-budget. funds								0
	3	Social security funds								0
	4	State govt.								0
	5	Local govt.								0
	6	Nonfin pub. corp.								0
	7	Central bank								0
	8	Oth. pub. fin. corp								0
Total										0 0 0 0 0 0 0 0 0
1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.										
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.										
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.										
4/ Includes accrual recording, commitment basis, due for payment, etc.										
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).										
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.										
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.										

Annex III. Figure 2. Bulgaria: Public Debt Structure Indicators

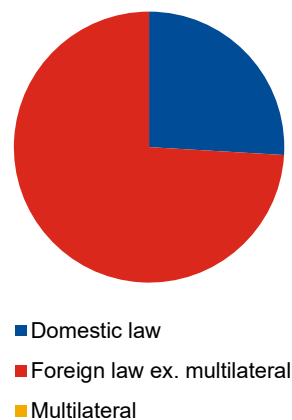
Debt by Currency (Percent of GDP)



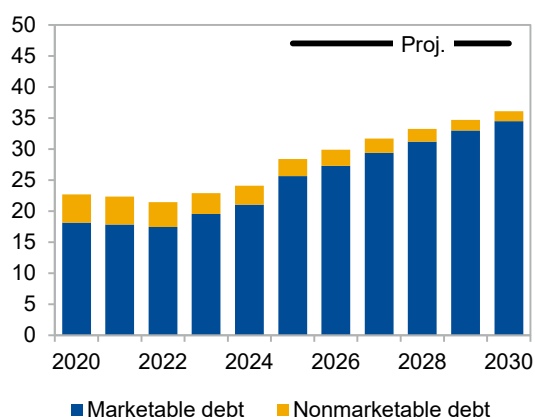
Public Debt by Holder (Percent of GDP)



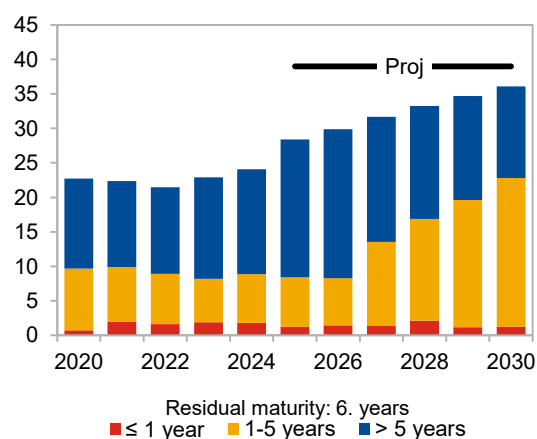
Public Debt by Governing Law, 2024 (Percent)



Debt by Instruments (Percent of GDP)



Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is general government.

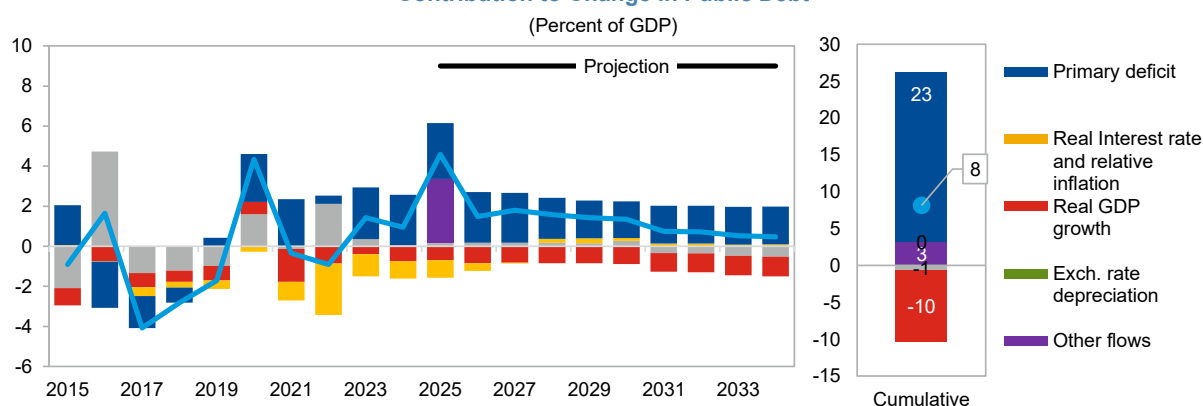
Source: IMF staff estimates.

Annex III. Figure 3. Bulgaria: Baseline Scenario (Percent of GDP, unless indicated otherwise)

(percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public debt	23.8	28.4	29.9	31.7	33.3	34.7	36.0	36.8	37.5	38.0	38.5
Change in public debt	1.0	4.6	1.5	1.8	1.6	1.4	1.3	0.7	0.7	0.5	0.5
Contribution of identified flows	0.9	4.4	1.3	1.6	1.4	1.3	1.1	1.1	1.1	1.0	1.0
Primary deficit	2.5	2.8	2.5	2.5	2.1	1.9	1.8	1.9	1.9	1.9	1.9
Noninterest revenues	33.3	35.6	36.3	34.1	33.9	33.6	33.3	33.6	33.6	33.6	33.6
Noninterest expenditures	35.8	38.4	38.9	36.6	35.9	35.5	35.1	35.5	35.5	35.5	35.5
Automatic debt dynamics	-1.6	-1.6	-1.2	-0.9	-0.7	-0.6	-0.8	-0.8	-0.8	-0.9	-0.9
Real interest rate and relative inflation	-0.9	-0.9	-0.4	0.0	0.2	0.3	0.1	0.1	0.1	0.1	0.1
Real interest rate	-0.9	-0.9	-0.4	0.0	0.2	0.3	0.1	0.1	0.1	0.1	0.1
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-0.8	-0.7	-0.9	-0.8	-0.8	-0.9	-0.9	-0.9	-0.9	-1.0	-1.0
Real exchange rate	0.0	...	...	...	...	...	...	...	...	...	...
Other identified flows	0.0	3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	0.0	3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	0.0	0.2	0.2	0.2	0.2	0.1	0.3	-0.3	-0.4	-0.5	-0.5
Gross financing needs	4.3	4.8	4.4	4.8	4.5	5.0	4.0	4.2	8.4	7.0	7.3
of which: debt service	1.8	2.1	1.9	2.3	2.4	3.1	2.2	2.3	6.5	5.2	5.4
Local currency	-0.1	1.5	1.1	0.6	0.6	0.9	0.5	0.6	1.4	1.2	1.3
Foreign currency	1.9	0.6	0.8	1.8	1.8	2.3	1.7	1.7	5.2	4.0	4.1
Memo:											
Real GDP growth (percent)	3.4	3.0	3.1	2.8	2.7	2.6	2.6	2.6	2.6	2.6	2.6
Inflation (GDP deflator; percent)	7.2	6.0	4.4	3.6	3.1	2.7	2.7	2.7	2.7	2.7	2.7
Nominal GDP growth (percent)	10.8	8.1	7.6	6.5	5.9	5.4	5.4	5.4	5.4	5.4	5.4
Effective interest rate (percent)	2.4	2.0	2.9	3.5	3.7	3.5	3.1	3.1	3.1	3.0	3.0

Contribution to Change in Public Debt



Source: IMF staff estimates.

Staff commentary: The projection assumes that under no policy changes, the deficit will sustain. This results in an increase in debt over time. Even in this case, debt remains below 60 percent of GDP.

Annex III. Figure 4. Bulgaria: Realism of Baseline Assumptions

Forecast Track Record 1/

Public debt to GDP

Primary deficit

r - g

Exchange rate depreciat

SFA

t+1

t+3

t+5

Comparator Group:

Emerging Markets, Non-Commodity Exporter, Surveillance

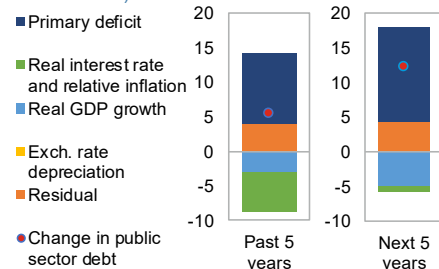
Color code:

Optimistic ■ > 75th percentile
■ 50-75th percentile
■ 25-50th percentile
Pessimistic ■ < 25th percentile

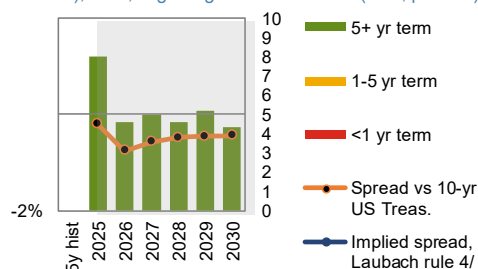
Historical Output Gap Revisions 2/

Public Debt Creating Flows

(Percent of GDP)

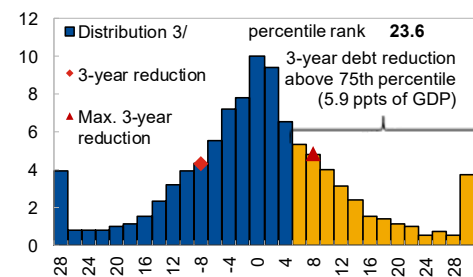


Bond Issuances (bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))



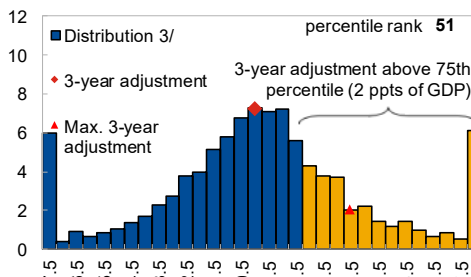
3-Year Debt Reduction

(Percent of GDP)



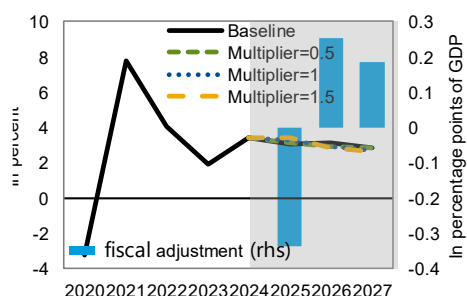
3-Year Adjustment in Cyclically-Adjusted

Primary Balance (percent of GDP)



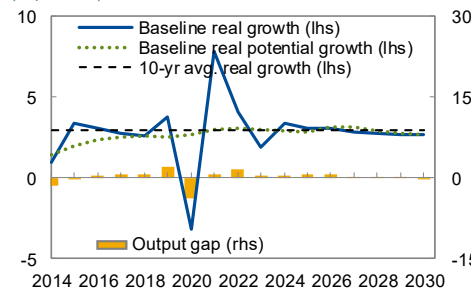
Fiscal Adjustment and Possible Growth Paths

(lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS))



Real GDP Growth

(in percent)



Commentary: Realism analysis does not point to major concerns.

Source : IMF staff estimates.

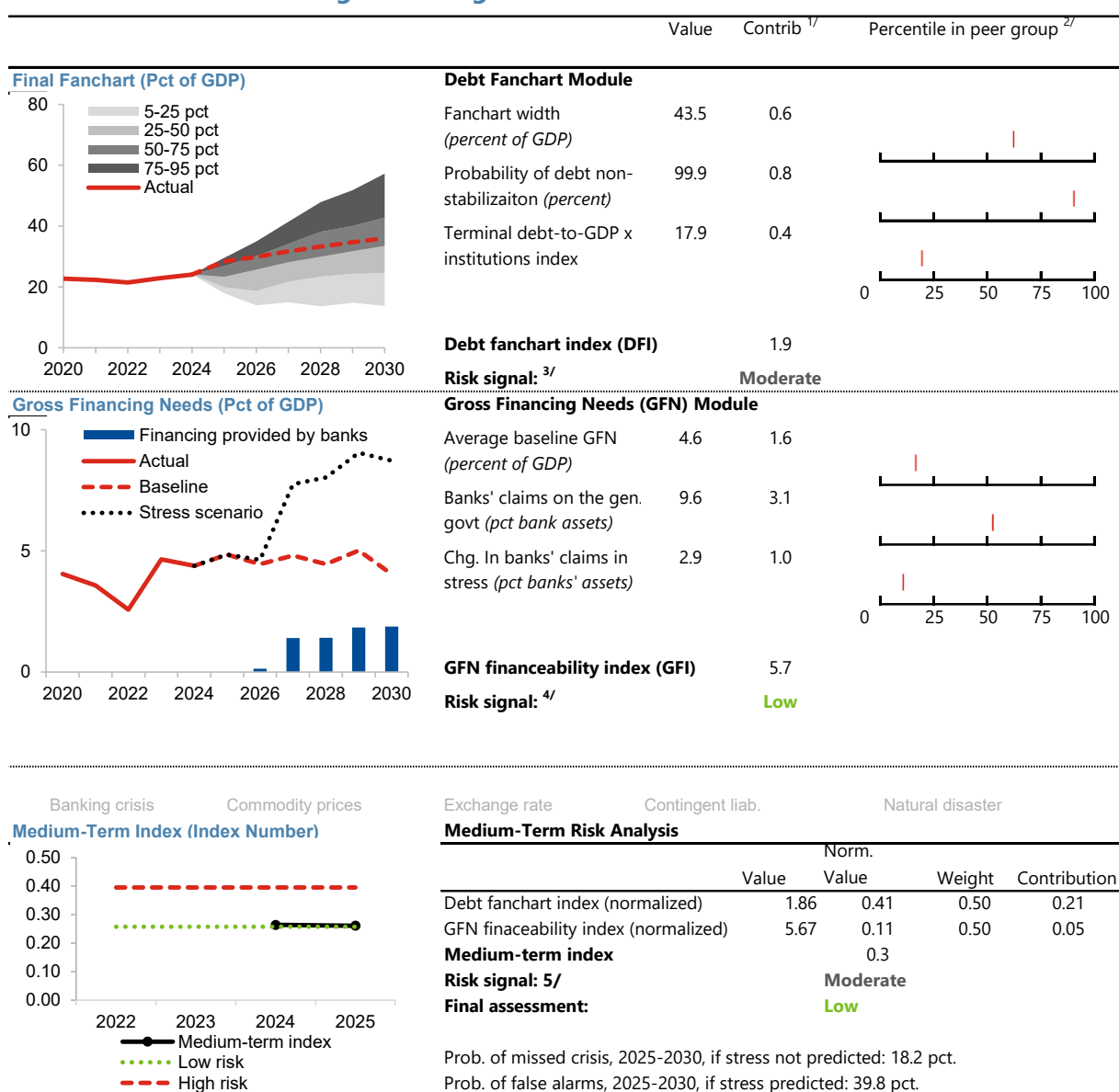
1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates and final estimates in the latest October WEO) in the total distribution of revisions across the data sample.

3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Annex III. Figure 5. Bulgaria: Medium-Term Risk Assessment



Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.

2/ The comparison group is emerging markets, non-commodity exporter, surveillance.

3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.

4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.

5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Annex IV. Data Issues

Annex IV. Table 1. Bulgaria: Data Adequacy Assessment for Surveillance							
Data Adequacy Assessment Rating 1/							
A							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	A	A	A	B	A	B	A
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	A	A	B	B	A		
Granularity 3/	B		A	B	B		
			A		A		
Consistency			A	C		B	
Frequency and Timeliness	A	A	A	A	A		
<p>Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.</p> <p>1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.</p> <p>2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF <i>Review of the Framework for Data Adequacy Assessment for Surveillance</i>, January 2024, Appendix I).</p> <p>3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.</p>							
A	The data provided to the Fund are adequate for surveillance.						
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.						
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.						
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.						
<p>Rationale for staff assessment. Limited data weaknesses do not affect staff's analysis of macroeconomic and financial risks. However, the frequent and large revisions of the BOP and large errors and omissions require caution in the analysis and limit the relevance of the EBA assessment.</p>							
<p>Changes since the last Article IV consultation. External Sector Statistics coverage and granularity assessments changed to "B" amid persistent and large revisions of BOP data, including errors and omissions.</p>							
<p>Corrective actions and capacity development priorities. The data provided to the Fund is adequate for surveillance. Regarding the coverage of GFS, more information on the budgetary government flows between budgetary central government and SOEs would help better identify and monitor fiscal risks. The BNB is revising the methodology used to collect data on FDI, moving to more frequent and comprehensive regular assessments, with the aim of limiting the frequency and size of BOP data revisions.</p>							
<p>Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. N.A.</p>							
<p>Other data gaps. N.A.</p>							

Annex IV. Table 2. Bulgaria: Data Standards Initiatives

Bulgaria adheres to the Special Data Dissemination Standard (SDDS) Plus since May 2016 and publishes the data on its National Summary Data Page. The latest SDDS Plus Annual Observance Report is available on the Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>).

Annex IV. Table 3. Bulgaria: Table of Common Indicators Required for Surveillance (As of September 30, 2025)

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data ⁶	Frequency of Reporting ⁶	Expected Frequency ^{6,7}	Bulgaria ⁸	Expected Timeliness ^{6,7}	Bulgaria ⁸
Exchange Rates	30-Sep-25	30-Sep-25	D	D	D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Aug-25	Sep-25	M	M	M	M	1W	3W
Reserve/Base Money	Aug-25	Sep-25	M	M	M	M	2W	2W
Broad Money	Aug-25	Sep-25	M	M	M	M	1M	NLT 1M
Central Bank Balance Sheet	Aug-25	Sep-25	M	M	M	M	2W	2W
Consolidated Balance Sheet of the Banking System	Aug-25	Sep-25	M	M	M	M	1M	NLT 1M
Interest Rates ²	30-Sep-25	30-Sep-25	D	D	D	...	...	...
Consumer Price Index	Aug-25	Sep-25	M	M	M	M	1M	NLT 2W
Revenue, Expenditure, Balance and Composition of Financing ³ —General Government ⁴	Aug-25	Sep-25	M	M	A/Q	Q	2Q/12M	4M
Revenue, Expenditure, Balance and Composition of Financing ³ —Central Government	Aug-25	Sep-25	M	M	M	M	1M	1M
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	Jul-25	Sep-25	M	M	Q	Q	1Q	1Q
External Current Account Balance	Jul-25	Sep-25	M	M	Q	M	1Q	7W
Exports and Imports of Goods and Services	Jul-25	Sep-25	M	M	M	M	8W	6W
GDP/GNP	Jun-25	Sep-25	Q	Q	Q	Q	1Q	NLT 90D
Gross External Debt	Jul-25	Sep-25	M	M	Q	M	1Q	2M
International Investment Position	Jul-25	Sep-25	Q	Q	Q	Q	1Q	3M

¹ Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

² Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³ Foreign, domestic bank, and domestic nonbank financing.

⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵ Including currency and maturity composition.

⁶ Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

⁷ Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

⁸ Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "...".

Annex V. Past Fund Advice

2024 Article IV Recommendations	Policy Actions
Fiscal Policy	
Reduce the fiscal deficit to achieve a neutral fiscal stance in 2024, including by fully reversing reduced VAT rates, eliminating the cap on social contributions, and increasing PIT rates.	Pre-pandemic VAT rates were fully restored as of January 2025. The cap on social contributions was raised but not eliminated, while PIT rates were unchanged. The fiscal stance was neutral, with capital expenditures underperforming.
Ensure the timely implementation of RRP reforms to unlock remaining funds to invest in human capital, infrastructure, digitalization and innovation.	No RRP installments were disbursed in 2024 and H1 2025 and the government renegotiated the RRP in 2025.
Inform public wage policy with a comprehensive review.	No comprehensive review was initiated.
Move from the low flat corporate and personal income tax rates of 10 percent to higher and progressive (for PIT) rates, to reduce inequalities and raise more revenue.	No reform of the tax system has been initiated.
Prevent the buildup of contingent liabilities from state-owned enterprises and improve their governance and productivity.	While some SOEs received substantial capital injections and fiscal support in the 2025 budget, no major actions were undertaken to improve governance and efficiency.
Structural Reforms	
Increase the financial sustainability of the pension system while improving its adequacy.	No major changes to the first pillar, but the roadmap for pension reform (especially pillars 2 and 3) is expected for end-2025.
Continue efforts to strengthen the governance framework and mitigate corruption.	Parliament approved amendments to the Law on Measures Against the Financing of Terrorism and progress was made toward compliance with FATF recommendations. A whistleblower protection mechanism was adopted. Progress on the anti-corruption agenda is unfinished.
Financial Sector Policies	
Introduce borrower-based measures to help preserve asset quality amidst risks of a house prices-mortgage credit spiral, strong credit growth, and elevated uncertainty.	The BNB introduced BBMs on mortgage loans in October 2024, notably an LTV limit of 85 percent, a DSTI limit of 50 percent, and a maturity limit of 30 years.

Annex VI. Benefits and Challenges from Euro Adoption

This annex analyzes recent euro changeover cases to draw lessons for Bulgaria's euro adoption. Benefits include strengthened investor confidence, declining sovereign risk premia, lower transaction costs due to elimination of currency risk, domestic interest rates gradually converging to the euro area average, and membership in euro area institutions. Challenges arise from dealing with temporarily higher inflation due to conversion of prices and managing excess liquidity from applying the lower ECB reserve requirements.

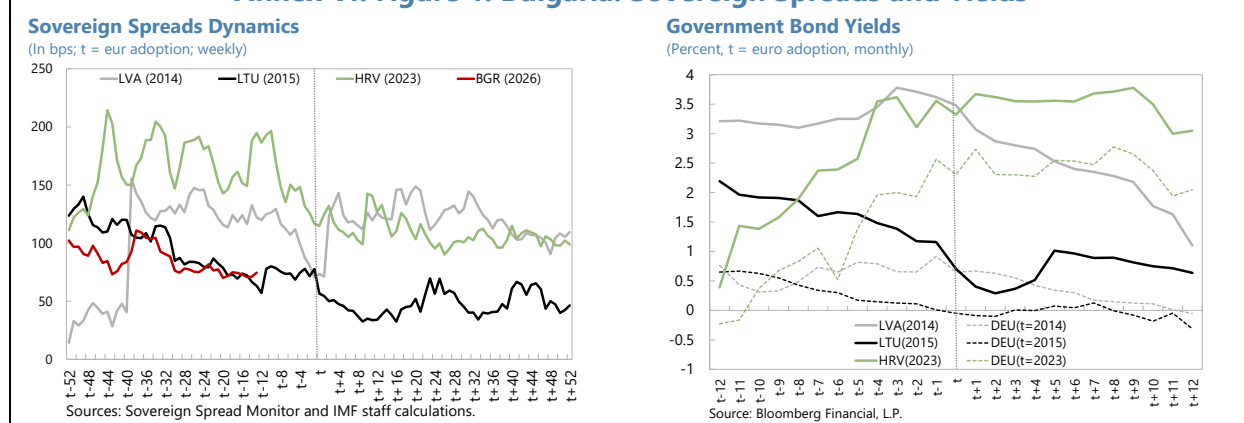
1. Bulgaria's adoption of the euro in January 2026 is expected to bring distinct benefits.

It is expected that euro adoption will further strengthen investor confidence, fostering inward investment. Notwithstanding the country's long-standing currency board, the formal elimination of currency risk to the euro as prevailing trading currency, obviating the need for currency conversion, will lower transaction costs of economic agents. The changeover also reduces the sovereign risk premium, as already evidenced by a ratings upgrade following the EU Council decision, in turn lowering the funding cost of the government and banks alike. In general, low bank funding costs can also be expected to reduce loan rates in some segments, which promotes economic activity. While Bulgaria has already participated in the Single Supervisory Mechanism (SSM) since 2020, euro adoption will give the authorities membership in euro area (EA) institutions, notably the European Central Bank (ECB) as well as the Single Resolution Board (SRB) and, if desired, the European Stability Mechanism (ESM), thereby bolstering the financial safety net.

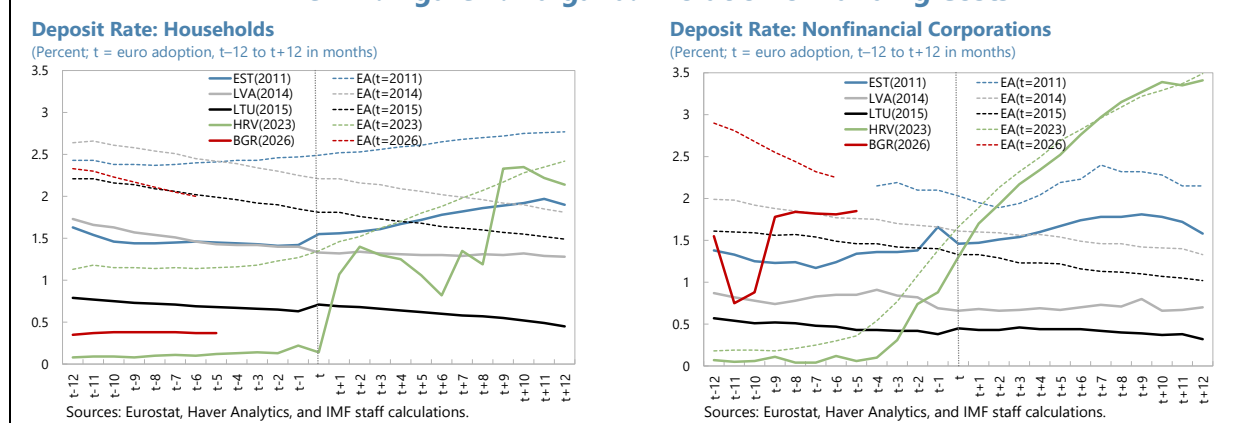
2. Banks are expected to benefit after shouldering changeover costs. They will initially incur logistical and IT-related expenses in the run-up to euro adoption and thereafter lose fees for currency exchange involving the euro. However, domestic banks will gain access to the ECB's Deposit Facility,¹ currently some remunerated at 2 percent, allowing for carry trade given near-zero deposit rates amid high and rising excess liquidity. They will also benefit from lower capital charges on holdings of euro-denominated securities. Finally, banks will gain access to the ECB emergency liquidity assistance, providing them with additional assurances.

3. Evidence from more recent euro changeover cases confirms the incidence of falling spreads. The reduction of sovereign risk premia began about three months before euro adoption in the cases of Latvia (2014) and Croatia (2023), while spreads in Lithuania (2015) were on a downward trajectory already more than one year before the changeover. The trend continued after euro adoption, albeit at a slower pace. Sovereign spreads in Bulgaria show a similar evolution so far (Figure 1). In addition, government bond yields in the Latvia and Lithuania narrowed the gap to German yields (less so in Croatia that had a smaller gap to begin with).

¹ Banks that are subsidiaries of banks domiciled in the EA have effectively had access to the ECB Deposit Facility all along. The change therefore applies to domestic banks that are not part of such banking groups.

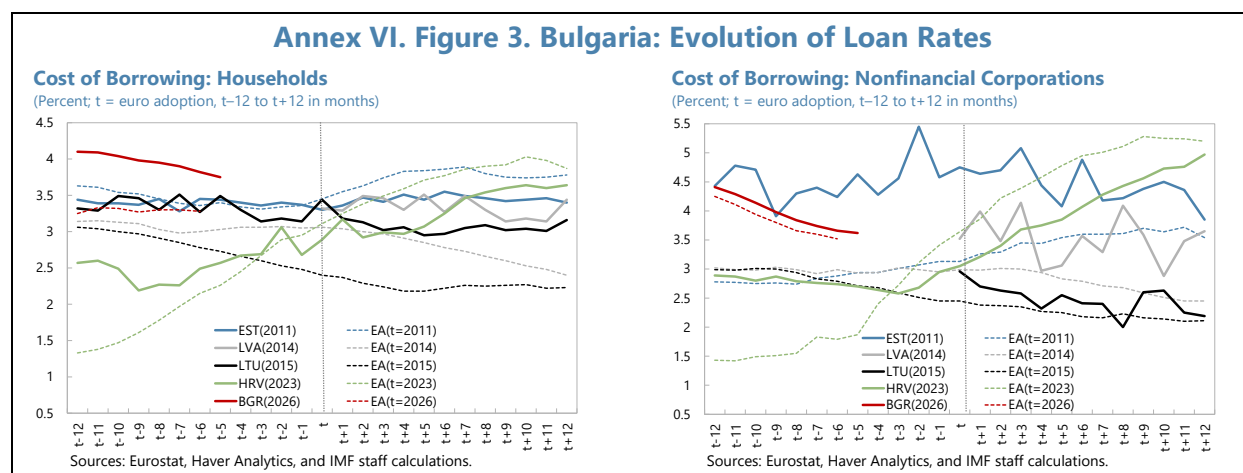
Annex VI. Figure 1. Bulgaria: Sovereign Spreads and Yields

4. In the banking sector, evidence from the recent euro adoption cases creates the expectation of funding costs gradually converging to the euro area average (Figure 2). Deposit rates for households in Croatia converged from a strongly negative differential to the EA average, while much weaker convergence was observed in the three Baltics countries. Similarly, there was perfect convergence in deposits rates of non-financial corporations (NFCs) in Croatia, whereas in Latvia moderate convergence could be observed and almost none in the Estonia and Lithuania, with all three Baltics countries remaining well below the average EA rates in the respective time periods. In Bulgaria, household deposit rates have stayed very low and given excess liquidity will likely remain depressed. By contrast, deposit rates of NFCs have started converging to the EA average, increasing banks' overall funding costs slightly.

Annex VI. Figure 2. Bulgaria: Evolution of Funding Costs

5. Loan rates tended to move in sync with adjusting funding costs (Figure 3). While loan rates for households in Estonia and Croatia stagnated or rose, they increasingly undercut the average EA rate. The opposite was the case for the other two Baltic countries where a positive interest rate differential was maintained. In a similar fashion, Estonia and Lithuania saw the differential to the EA in the cost of borrowing for NFCs converge toward zero, and Croatia turned a positive differential into a negative one, whereas the interest spread widened in Latvia. In Bulgaria, the degree of convergence will depend on if and when banks will adopt Euribor as the benchmark

for pricing deposits and loans. Preliminary findings point to a continuation, for the time being, of household loan pricing based on the near-zero deposit rates plus a risk premium instead of applying the higher Euribor rates.



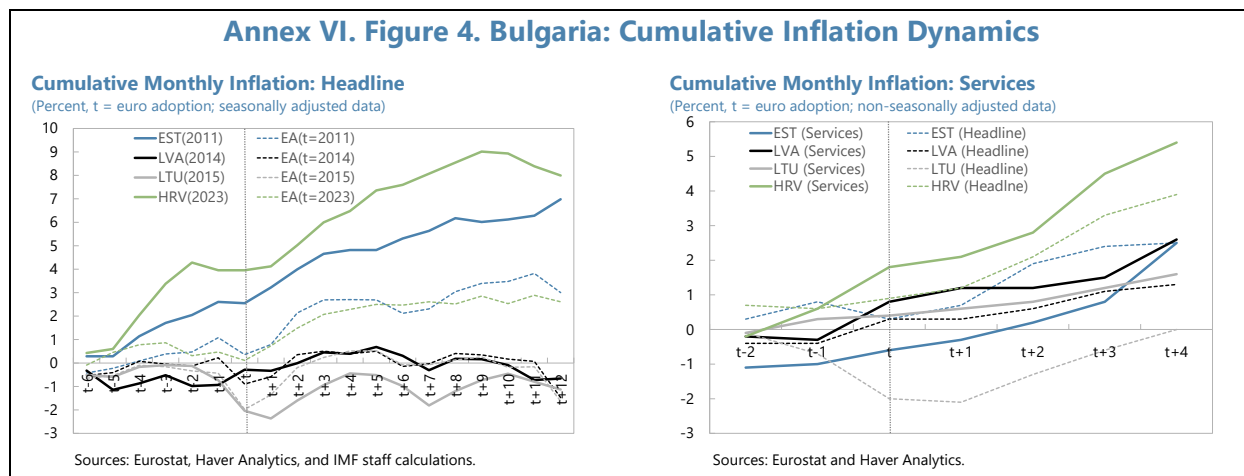
6. At the same time, there are challenges associated with euro adoption, particularly managing price setting in the changeover process. For the first wave of euro adopters in 1999/2002 as well as Slovakia (2009) and Estonia (2011) studies concluded that while there was in fact an upward impact, it was relatively limited and confined to a certain number of sectors such as services or smaller retailers (Aucremanne et al., 2009; Beblavy, 2010; Meriküll and Rõõm, 2014). Also, the degree of price convergence depended on initial price level differentials to Germany as the largest EA economy (Lurka and Kattuman, 2023). For the first euro adopters the one-time impact on the general price level was limited to between 0.1 and 0.3 percentage points (Eurostat, 2003; Ercolani and Dutta, 2007).

7. A specific problem is that inflation perceived by consumers often exceeds actual inflation. This perception gap is primarily propelled by price increases in frequently purchased goods compared to stable or falling prices of consumer durables as well as complex conversion rates and media reporting (Ehrmann, 2011; Falagiarda et al. 2023). It has the potential to subsequently impact actual inflation via higher wage demands. Even though in many cases the gap persisted for several months or even years after euro adoption, there is little evidence of spillovers to real consumption, wage formation or inflation expectations (Aucremanne et al., 2009).

8. Evidence from the more recent euro adoption cases tends to corroborate temporary inflation effects. In Estonia (2011) and Croatia (2023), headline inflation started accelerating ahead of euro adoption, with the differential in cumulative monthly inflation continuing to widen after the changeover in the context of a high inflation environment, whereas in the other two Baltics countries inflation tracked EA inflation closely in a low inflation environment (Figure 4. LHS). Focusing on the period just before and after euro adoption,² the run-up in inflation was in part driven by higher

² Using the time window of two months before to four months after euro adoption avoids biases in the non-seasonally adjusted series which are the only form of services inflation data available for individual EA countries.

services inflation that showed a spike relative to headline inflation in all four cases in the month of euro adoption (in Estonia, the negative differential narrowed, Figure 4, RHS).



9. As in other changeover cases, fair price conversion in Bulgaria is being safeguarded by dual pricing and monitoring of retail price changes. Dual display of prices has proven central to familiarizing consumers with the prevailing retail prices expressed in the new currency. In Bulgaria, based on the Law on the Introduction of the Euro, the requirement to display prices in lev and euro became effective in early August and will remain in place for all of 2026. The authorities are also preparing a dedicated website, where weekly pricing information from large retail chains is to be published. In addition, the government began monitoring price setting, starting in June 2025 with the National Revenue Authority conducting inspections in retail outlets, identifying price hikes in some of the 14 groups of goods monitored (to be continued through end-2026). In July, three government institutions³ joined forces to ensure transparency and effective competition during the changeover as well as to create a mechanism for joint action, including possible sanctions from October 2025, to prevent unjustified price increases before and after euro adoption. Importantly, the Consumer Protection Commission tracks on its website prices of key products at large supermarkets.

10. Another challenge relates to managing excess bank liquidity caused by moving to the lower ECB reserve requirements. In January 2026, reserve requirements for domestic banks will drop by 11 percentage points to the uniform ECB rate of 1 percent of eligible liabilities, freeing up a sizable liquidity buffer for alternative investment. While a recent survey suggests that Bulgarian banks will choose to maintain a sizable part of that liquidity in the remunerated ECB Deposit Facility, alternative uses such as purchases of government securities or additional lending are conceivable, subject to internal limits and risk-return considerations. The freed-up liquidity may, at least in part, be gradually used to augment consumer credit, particularly for house purchases—a sector that already shows signs of overheating.

³ The Commission for the Protection of Competition (CPC), the Consumer Protection Commission (CPC) and the Communications Regulation Commission (CRC).

11. As a result, macroprudential policy will have to play a pivotal role after euro adoption.

With the loss of monetary policy tools upon euro adoption, notably autonomous setting of reserve requirements, the authorities will have to use macroprudential policy in conjunction with fiscal policy as the principal instrument in managing domestic demand and safeguarding financial stability. Here, it will be important to frequently re-assess the settings of macroprudential tools, notably the borrower-based measures that Bulgaria introduced in October 2024. In particular, the limits to the debt-service-to-income ratio (DSTI) and loan-to-value ratios, currently set at 50 and 15 percent, respectively, need to be reassessed and possibly finetuned periodically. Although already elevated, the authorities may also revisit the setting of macroprudential capital buffers, notably the Systemic Risk Buffer and the Countercyclical Capital Buffer. Bank-specific risks such as from very high concentration in mortgage loans may also be addressed by Pillar 2 requirements as part of the Supervisory Review and Evaluation Process (SREP).

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BULGARIA

November 3, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

European Department

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FUND RELATIONS

(As of September 30, 2025, unless specified otherwise)

Membership Status

Joined on September 25, 1990. Article VIII status assumed on September 24, 1998.

General Resources Account

	SDR Million	Percent Quota
Quota	896.30	100.00
IMF's Holdings of Currency (Holdings Rate)	798.18	89.05
Reserve Tranche Position	98.13	10.95

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	1,469.94	100.00
Holdings	1,487.61	101.20

Outstanding Purchases and Loans None

Latest Financial Arrangements

	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	Aug 06, 2004	Mar 31, 2007	100.00	0.00
Stand-By	Feb 27, 2002	Mar 15, 2004	240.00	240.00
EFF	Sep 25, 1998	Sep 24, 2001	627.62	627.62

Projected Payments to Fund

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2025	2026	2027	2028	2029
Principal	
Charges/Interest		0.01	0.01	0.01	0.01
Total		0.01	0.01	0.01	0.01

Exchange Rate Arrangements

The currency of Bulgaria is the lev. Since July 1, 1997, the Bulgarian National Bank has operated a currency board arrangement. From July 1, 1997, to December 31, 1998, the lev was fixed to the Deutsche Mark at BGN 1000 per Deutsche Mark. Since January 1, 1999, the lev has been fixed to the euro at BGN 1.95583 per euro. Bulgaria joined the European Union (EU) on January 1, 2007. Bulgaria has accepted the obligations under Article VIII, Sections 2, 3, 4, and maintains an exchange system free of multiple currency practices and restrictions on the making of payments and transfers for

current international transactions, aside from restrictions imposed solely for security reasons and notified to the Fund pursuant to Executive Board Decision No. 144-(52/51).

Resident Representative

Mr. Mulas-Granados is the Senior Regional Representative for Central, Eastern and South-Eastern Europe, based in Warsaw. He took up the position in September 2025.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

- As of September 30, 2025, Bulgaria has relations with the World Bank Group, the European Bank for Reconstruction and Development, and the European Investment Bank.
- Further information can be obtained from the following hyperlinks.

International Financial Institution	Hyperlink
The World Bank Group	https://www.worldbank.org/en/country/bulgaria/
The European Bank for Reconstruction and Development (EBRD)	https://www.ebrd.com/bulgaria.html
The European Investment Bank	https://www.eib.org/en/projects/country/bulgaria



BULGARIA

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—SUPPLEMENTARY INFORMATION

November 11, 2025

Approved By
Helge Berger (EUR)
S. Jay Peiris (SPR)

Prepared by the European Department (EUR) in consultation with Strategy, Policy, and Review (SPR) and Legal (LEG) Departments.

This supplement provides information on developments since the issuance of the staff report on November 4, 2025. The information does not change the thrust of the staff appraisal.

1. The 2026 draft budget was published and will be discussed in Parliament in the coming weeks. The draft targets a deficit of 3 percent of GDP and includes several revenue measures. Key policy proposals include a 2-percentage point increase in the social security contribution rate and a higher ceiling for insurable income, broadly consistent with staff's recommendation. Additional measures include raising the dividend income tax rate from 5 to 10 percent and tobacco excise taxes. Altogether, policy measures would raise about 1.2 percent of GDP. The draft further envisages revenue gains from tax administration measures of about 1.4 percent of GDP, which staff considers optimistic. Significant expenditure consolidation measures, however, are absent. Public wage expenditure is set to increase by about 11 percent, reflecting existing wage indexation mechanisms for the education, defense, and security sectors and a 5 percent increase for other government employees. The draft also envisages additional discretionary spending on subsidies, transfers, and other compensation of about 0.4 percent of GDP. The draft budget projects that public debt will increase to about 31 percent of GDP in 2026, including due to 2.6 percent of GDP borrowing under the EU's SAFE instrument for defense spending. The fiscal policy challenges and risks for 2026 remain broadly as outlined in the staff report.

2. The acceleration of inflation in the third quarter of 2025 is in line with staff projections. HICP headline inflation rose to 4.1 percent and core inflation reached 3.4 percent y/y in September. While food prices stabilized, prices for services strengthened to 5.2 percent y/y in September. In the first three quarters of 2025, average HICP inflation reached 3.5 percent compared to the same period last year. These developments are in line with staff projections. The proposed increase in the public wage bill in the draft 2026 budget presents an upside risk to inflation.

3. Risks to the outlook continue to evolve. Strengthened U.S. sanctions against Lukoil, a Russian energy company which owns the Burgas refinery and a large network of gas stations in Bulgaria, are set to take effect on November 21. Possible ensuing disruptions present risks to the fuel supply and may have negative budgetary implications. To safeguard energy security, the authorities are preparing to appoint a special manager at the refinery, while Lukoil announced plans to divest its international holdings.