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BULGARIA

Monitoring Bulgaria: From euro adoption to the fiscal test

Bulgaria has carried solid domestic momentum into the second half of 2026, even as elevated inflation, a wider fiscal deficit and a weak external position complicate the post-euro picture. The next phase of convergence will depend less on the currency changeover and more on fiscal credibility, investment execution and productivity



Sofia in Bulgaria, which saw economic expansion of 2.8% in the first half of 2026

Bulgaria's economy at a glance

- **GDP:** Consumption and investment continue to power growth, while net exports are keeping a foot on the brake. We forecast growth of 2.9% in 2026, followed by 2.3% in 2027.
- **Industry and construction:** Labour shortages and economic uncertainty remain key constraints on industry, while residential construction continues to expand.
- **Inflation:** We expect inflation to average 5.1% in 2026 before slowing to 3.2% in 2027. Second-round effects from the sizeable fiscal impulse and a potentially prolonged energy shock are the main upside risks, especially to our 2027 forecast.
- **Fiscal policy:** Low public debt remains an important buffer, but expenditure rigidities make the planned consolidation in 2027-28 demanding.

GDP: still resilient, but increasingly unbalanced

The economy expanded by 2.8% year-on-year in the first half of 2026. Domestic demand remained strong, supported by a 7.1% increase in private consumption and a 7.3% rise in investment. However, much of this demand spilled into imports rather than domestic production. Exports fell by 4.1%, while imports increased by a striking 8.5%, leaving net exports to offset most of the gains from domestic demand. The picture is largely similar to 2025, but the imbalances have become more pronounced.

In the near term, household spending should continue to benefit from a tight labour market and still-strong, double-digit wage growth. Public investment should also advance, supported by the final phase of the Recovery and Resilience Facility (RRF). Whether this public-sector push can generate a stronger and more durable private-investment cycle will be an important factor to watch.

This is not a cost-free expansion, however. Strong demand is keeping services inflation elevated, credit growth continues to accelerate, and the current account deficit is likely to remain under pressure. We expect growth to moderate from 3.1% in 2025 to around 2.9% in 2026 and 2.3% in 2027. The main variables to watch are household demand, energy prices, private investment and the pace of export normalisation.

At its core, Bulgaria remains a domestic-demand-led growth story, but the quality and sustainability of that growth are coming under increasing scrutiny. Euro area membership provides a stronger institutional anchor, but risks continue to stem from the country's procyclical fiscal stance, particularly if weaker growth eventually coincides with the need for more substantial fiscal adjustment.

One important development for both consumption and public finances is the revised minimum wage framework. The new approach is intended to weaken the automatic link between average wages and the minimum wage, moderating future increases in the wage floor. This should help contain fiscal costs and wage-related inflation pressures from 2027 onwards.

Bulgaria's broader credit fundamentals nevertheless remain supportive. Public debt is still low, while euro-area membership strengthens the country's financial and institutional position. These buffers should help cushion the impact of rising debt and spending pressures.

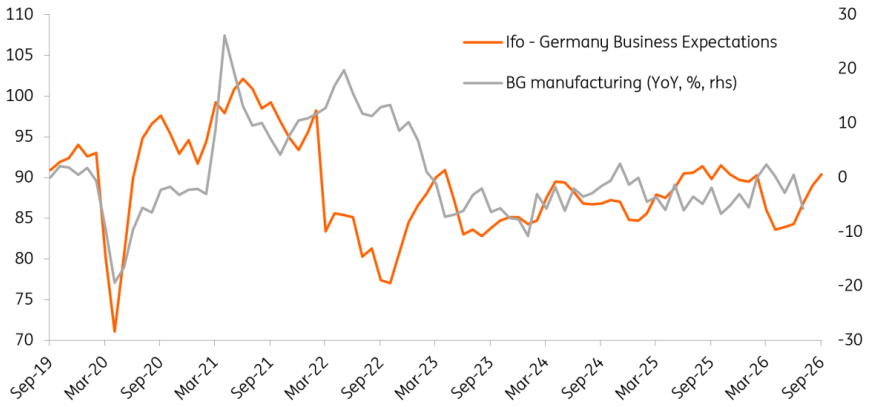
Euro adoption has also strengthened Bulgaria's monetary and financial anchor. At the same time, the alignment of bank reserve requirements with euro-area rules released liquidity previously held for prudential purposes under the lev exchange rate regime, improving funding conditions across the economy. While this should support investment and financial deepening, it also raises the importance of macroprudential policy as credit growth and property prices accelerate.

Industry and construction: a two-speed investment picture

The industrial picture remains uncertain. Output fell by 4.5% year-on-year in the first seven months of 2026, extending the weakness seen in 2025, when production declined by 7.2%. Manufacturing, mining and energy output have all remained under pressure.

Weak external demand, particularly from Europe's core manufacturing markets, continues to weigh on export-oriented producers. Labour shortages and uncertainty about the economic outlook also remain among the main constraints reported by companies.

Ifo indicator and Industrial Production (manufacturing)



Source: NSI, Ifo Institute, ING

Construction provides a clearer positive signal, although the underlying picture is uneven. Between January and July, building construction increased by 11.2% year-on-year, compared with growth of 4.0% in civil engineering and just 0.7% in specialised construction activities.

The strength of residential construction reflects a large pipeline of projects already moving into execution. Although activity has eased from the exceptionally strong levels recorded in early 2026, both permits and construction starts remain well above year-earlier levels. Development continues to be concentrated in Sofia, Plovdiv, Varna and Burgas, supported by robust mortgage lending and rapid house-price growth.

Civil engineering, by contrast, remains more dependent on public procurement, EU reimbursements and the sequencing of major transport and utility projects. Its slowdown is therefore more likely to reflect delays and uneven project execution.

Overall, the construction sector has undergone a rotation. Private building activity and the existing property pipeline are proving much stronger than the execution of large infrastructure projects.

Category	2024	2025	Jan-Jul 2026 (YoY)
Total construction	5.9%	5.8%	5.6%
Buildings	2.7%	4.1%	11.2%
Civil engineering	8.0%	7.6%	4.0%
Specialized activities	8.1%	6.4%	0.7%

Source: NSI, ING

Inflation: Services price pressures continue to cause trouble

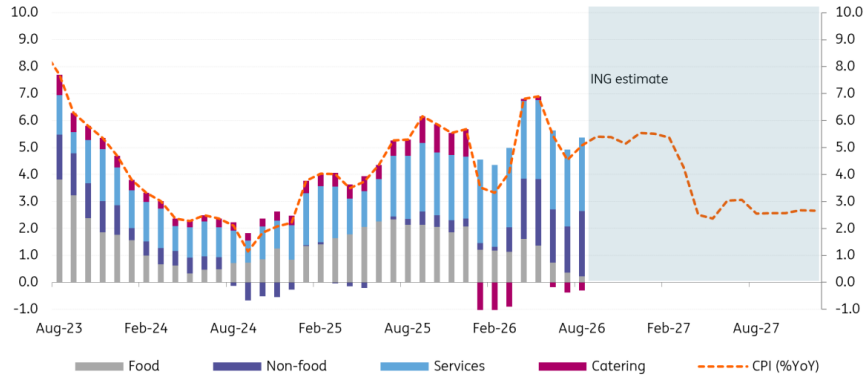
Headline CPI inflation accelerated to 5.1% in August and averaged around 5.0% in the first eight months of 2026. Transport inflation has stood out, remaining in double digits for much of the year, while services inflation has been persistently sticky. Food inflation has provided some relief, but only recently.

The main drivers have been strong domestic demand, higher energy prices and a tight labour market that continues to push up labour costs. Rounding and repricing effects associated with the currency changeover may also have played a role, but they do not appear to have been the main driver.

Looking ahead, the most important upside risks come from second-round effects related to the sizeable fiscal impulse and the possibility of a more prolonged energy shock. After averaging around 5.1% in 2026, we expect inflation to slow to 3.2% in 2027 as services and non-food inflation return to more manageable levels.

A normalisation in demand growth should support disinflation. Public spending will moderate as the fiscal position is gradually repaired, while the rapid accumulation of household debt should eventually constrain private consumption as debt-servicing costs rise. The revised minimum-wage formula should also help temper wage-driven inflation from 2027.

CPI Inflation (%, YoY) and Components (ppts)



Fiscal: low debt but a rapidly narrowing margin for error

Parliament approved the 2026 budget in July with a cash-deficit target of 5.7% of GDP, compared with 3.5% in 2025. Investment has contributed to the increase in spending, but recurring expenditure, particularly wages, pensions and social transfers, remains the dominant concern for both the current position and the eventual consolidation effort.

Bulgaria's low starting public debt ratio remains its strongest fiscal buffer. The problem lies in its overall direction and composition. Public wages, pensions and social expenditure generate substantial carry-over costs, while capital spending has been elevated by the final year of RRF implementation. The planned reduction in the cash deficit to 3.8% of GDP in 2027 and 3.0% in 2028 will not be effortless, particularly given expenditure rigidities and resistance to tax increases.

The fiscal position weakened noticeably in August, although the monthly change was heavily influenced by the timing of RRF transactions. The cash deficit widened from 1.7% of GDP at the end of July to around 2.4% one month later. This reflected a sharp increase in investment spending as projects were accelerated ahead of the RRF implementation deadline, following the temporary support to July's balance from an EU disbursement.

The EU's excessive-deficit procedure should provide an additional external discipline mechanism. Although markets are unlikely to question Bulgaria's near-term prospects given its low debt and euro-area membership, higher issuance, diminishing fiscal buffers and uncertainty over the adjustment strategy could gradually change the way the sovereign is perceived.

Bulgaria's fiscal story may therefore shift from one centred on bond scarcity and convergence towards a more conventional balance between supply, execution and fiscal risk.

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