

Dimitar Radev: Economic prospects in an uncertain global environment

Address by Mr Dimitar Radev, Governor of the Bulgarian National Bank, at AmCham Business Breakfast Bulgaria 2026, Sofia, 3 April 2026.

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Dear colleagues,

Ladies and gentlemen,

Thank you for the invitation.

In the current environment, dialogue between institutions and the business community is not a formality – it is a necessity. Uncertainty may appear as a macroeconomic concept, but for businesses it is never abstract. It is reflected in delayed investment, more cautious hiring, tighter margins, more complex pricing decisions, and heightened attention to financing, liquidity and risk.

This is where the discussion should begin – with the real economy, not only with the forecast.

This morning I would like to focus on four issues: where the economy stands today; how the external environment has changed; what this implies for companies and investors; and what policy response is needed to preserve stability, resilience and competitiveness.

A solid starting point in a more difficult environment

Until recently, the broader economic environment remained relatively supportive.

Growth proved more resilient than many had expected, while inflation gradually moderated. Bulgaria entered 2026 from a position of relative strength.

Economic growth last year was around 3.2 percent, driven primarily by domestic demand. Private consumption was supported by rising real incomes and a still tight labour market. Employment remained high. Inflation declined significantly from the peaks of previous years and stood at around 2.1 percent in February this year.

The banking sector also remained in a strong position-liquid, well-capitalized and stable. Credit growth, while still dynamic, has begun to normalize.

In short, Bulgaria entered this year with sound fundamentals.

But sound fundamentals are not the same as immunity. For a small and open economy like ours, the external environment always matters. Today, it matters more than usual.

The return of energy risk

The war in the Middle East has altered the outlook in a meaningful way.

For Europe—and for Bulgaria in particular—the most direct transmission channel is energy. This brings back a difficult combination: higher inflation and weaker growth.

This is not merely a technical revision to the forecast. It represents a material change in the balance of risks.

Our current baseline suggests that growth in Bulgaria may moderate to around 3 percent this year, while inflation may rise to approximately 3.7 percent, driven primarily by higher energy prices and still elevated domestic inflationary pressures, particularly in services.

In an environment such as this, however, the baseline forecast is only a starting point. What matters more is how risks evolve around it.

For this reason, the Bulgarian National Bank has also developed alternative scenarios. In the **adverse scenario**, the shock is stronger than in the baseline, but still relatively temporary. Inflation remains elevated for longer, and growth slows more visibly before recovering. In the **severe scenario**, the shock is more prolonged and transmits more broadly through production costs, wages and pricing behaviour. In that case, inflation becomes more persistent and the slowdown more pronounced.

At present, developments appear to be moving closer to the adverse scenario.

The broader message, however, is clear: the risks are no longer evenly balanced. And when external shocks persist, they rarely remain confined to a single sector. What begins with energy can gradually spread through the wider economy.

This has implications for monetary conditions. But it also has direct implications for business.

Implications for companies

It is natural to compare the current situation with the energy shock of 2022 and 2023. There is one obvious similarity – and several important differences.

The similarity is straightforward. Once again, we are facing an energy shock in a region that imports a significant share of its energy. That means there is a real economic cost.

And that cost cannot be made to disappear.

It can be softened. It can be managed. It can be distributed differently. But it cannot be eliminated.

That is the realistic starting point.

The first important difference is that demand conditions are less supportive than they were then. Back in 2022 and 2023, many firms still benefited from strong post-pandemic demand. That gave them more room to pass through higher costs. Today,

that room is clearly smaller. Business sentiment is more cautious, especially in manufacturing and in externally exposed sectors.

The second difference is that fiscal space is also more limited.

Bulgaria continues to benefit from a relatively low public debt ratio, and that remains an important strength. But it is equally true that our fiscal position today is not as favourable as it was before 2020. Over the past several years, part of the fiscal buffer that had been built up was gradually used. Fiscal space has become tighter. And while Bulgaria remains in a comparatively better position than many others, the room for broad and repeated support measures is clearly more limited than it used to be.

This is an important reality.

It means that, in the period ahead, firms may need to absorb a larger share of the adjustment themselves.

In practical terms, that implies closer attention to costs, more careful liquidity management, more selective investment decisions and greater operational flexibility.

The third difference is that financing conditions are also changing.

So far, in Bulgaria, this has been less visible because the banking system remains highly liquid. But that should not create a false sense of insulation. Over time, financing conditions here will also be shaped by the broader external environment.

This is why the current period should be used carefully.

If financing conditions remain relatively favourable for some time, this is an opportunity not only to expand, but also to prepare – to invest in energy efficiency, in technology, in more resilient supply chains and in stronger balance sheets.

For an individual company, that is prudent management. For the economy as a whole, it is also a competitiveness strategy.

Policy priorities

In periods of elevated uncertainty, the quality of domestic policy becomes even more important.

The principle here should be simple: the more unstable the external environment becomes, the more predictable the domestic one must be.

That is especially true for Bulgaria.

We are a small and open economy. That has been one of the drivers of our growth and convergence. But it also means that we are more exposed to weaker external demand, disruptions in trade flows and imported price shocks. And because Bulgaria remains one of the more energy-intensive economies in Europe, energy shocks affect us more directly - through production costs, inflation and competitiveness.

In this environment, policy should focus on three priorities.

First, fiscal policy must remain disciplined

Fiscal policy should preserve buffers – not weaken them further.

This matters even more today, precisely because part of those buffers has already been used in recent years.

That means maintaining a credible medium-term fiscal framework. It also means avoiding measures that provide short-term relief at the expense of longer-term stability. Where support is necessary, it should be targeted, temporary and efficient.

The lesson from recent years is not that fiscal policy should be inactive. The lesson is that it should be better focused.

Broad-based measures often appear attractive politically, but economically they can be expensive and, at times, counterproductive – especially when they sustain demand in ways that add to inflationary pressures.

The issue, therefore, is not whether the state should act. The issue is whether it acts in a way that protects stability rather than gradually undermining it.

For businesses, that predictability matters. A stable macroeconomic environment is not only a public finance objective. It is also part of the investment climate.

Second, the business environment is part of economic policy

When costs are rising and margins are under pressure, frictions in the business environment become even more costly.

That is why improving the business environment is not a secondary reform agenda. It is part of the macroeconomic response.

Reducing administrative burdens, improving institutional efficiency, strengthening the rule of law and increasing regulatory predictability all have a direct economic effect. They lower the cost of doing business, improve planning and support investment.

This matters for domestic firms. And it matters even more for international investors.

In a world where capital is becoming more selective, the quality of institutions is not a background issue. It is part of the investment case.

Third, resilience must increasingly come from productivity

Over the longer term, resilience cannot be built primarily through compensation. It has to be built through adaptation.

That means better infrastructure, more digitalization, more innovation, higher efficiency and stronger productivity growth.

For Bulgaria, one area deserves particular emphasis: energy efficiency.

This is not only an environmental objective. It is above all a matter of competitiveness.

It reduces vulnerability to imported inflation, improves cost predictability and strengthens resilience both at company level and across the economy.

In that sense, energy efficiency is not only about the future. It is also about macroeconomic stability today.

The euro area as a strategic anchor

Let me conclude with one broader point.

One of the clearest examples of how a strategic policy choice can strengthen both short-term confidence and long-term resilience is Bulgaria's accession to the euro area.

Euro area membership does not replace the need for sound domestic policy. But it does strengthen the framework within which that policy operates.

It enhances credibility. It reduces uncertainty. It supports investor confidence. And it deepens financial integration.

The benefits for the financial system are equally significant.

For the private sector, this translates into something very practical: a more predictable environment in which long-term decisions can be taken with greater confidence.

And in a world such as today's, predictability itself becomes a competitive advantage.

Ladies and gentlemen,

The period ahead is likely to remain challenging.

External shocks will not disappear. Energy volatility will remain. Geopolitical uncertainty will continue to shape the environment in which we all operate.

But the economic effects of shocks are never determined solely from the outside.

They also depend on what we do at home – on the quality of institutions, on the discipline of policy and on the ability of firms to adapt.

That is why the right response today is not overreaction.

It lies in maintaining a clear course, discipline and predictability.

In macroeconomic policy.

In fiscal choices.

In institutional direction.

And in the long-term effort to improve productivity and competitiveness.

If we preserve that discipline, Bulgaria will be well placed not only to absorb the current shock, but also to emerge from it stronger, more competitive and better prepared for the next phase of growth.

Thank you!