

## **Dimitar Radev: The current environment is not defined primarily by the baseline scenario. It is defined by the widening range of outcomes around it**

Statement by Mr Dimitar Radev, Governor of the Bulgarian National Bank, at a meeting organised by the Bulgarian Spirit Diplomatic Society with Heads of diplomatic missions in the Republic of Bulgaria, Sofia, 30 March 2026.

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Excellencies,

Ladies and Gentlemen,

Thank you for the opportunity to speak with you today. It is a pleasure to address such a distinguished diplomatic audience here in Sofia.

We are meeting at a time when uncertainty remains elevated - but is also becoming increasingly immediate in its transmission. Developments that were previously perceived as external shocks are now feeding directly into inflation expectations, energy prices, financing conditions and broader confidence.

In that sense, geopolitics is no longer simply part of the background. It has become part of the macroeconomic environment itself. This is particularly evident when military conflict interacts with energy markets, logistics and trade flows.

Recent developments in the Middle East, as well as risks affecting key transport corridors, have once again illustrated how quickly tensions in energy markets can influence the European outlook - including for the euro area and for Bulgaria as part of it.

For economic policymakers, this represents a meaningful shift in the environment in which decisions are taken. Resilience can no longer be understood only in cyclical or financial terms. It must also be understood in institutional, strategic and increasingly geopolitical terms.

Allow me to structure my remarks around three themes:

first, the political framework;

second, the macroeconomic environment;

and third, the priorities of economic policy.

### **1. The political framework**

Let me begin with the political context.

Across Europe, policymaking has become more demanding. The external environment is more volatile. The margin for error is narrower. And the interaction between geopolitics and economics has become more immediate.

For Bulgaria, this has direct relevance.

Our strategic orientation remains clear and unchanged. Bulgaria is firmly anchored in the European institutional and political framework. This continues to be the central organising principle of our economic and institutional development.

At the same time, the risks affecting our region can no longer be described as external in any narrow sense. They are transmitted through multiple channels - energy, logistics, investor sentiment and security perceptions.

In such conditions, credibility becomes a first-order variable. For smaller and more open economies such as Bulgaria, credibility is not simply desirable. It is functional. It reduces uncertainty, supports macroeconomic stability and strengthens the capacity of institutions to operate effectively under pressure.

This is one reason why institutional continuity matters so much. Bulgaria has benefited for more than two decades from a framework built around macro-financial prudence and policy discipline. That framework has served the country well in periods of instability - and it remains highly relevant today.

At the same time, the current pre-election period once again highlights a structural weakness in the domestic political environment. Bulgaria has demonstrated strategic continuity in its major geopolitical and institutional choices. That continuity should not be underestimated. In that sense, the country's strategic trajectory has proved more stable than its governing configurations.

But strategic orientation and day-to-day governability are not the same thing. The more immediate challenge has been the repeated difficulty of translating political competition into durable governing capacity. In recent years, this has been reflected in repeated elections, fragmented parliamentary configurations and shortened policy horizons.

The current electoral cycle is unfolding against the backdrop of a broader reconfiguration of the political landscape, including new alignments and renewed competition for influence. This does not represent a breakdown of the institutional framework. But it does carry a cost. It shortens the horizon of policymaking, weakens reform continuity and makes it more difficult to sustain medium-term fiscal and structural priorities with the necessary consistency.

This matters even more in the current environment. Within the euro area, credibility depends not only on strategic alignment, but also on the capacity to govern effectively. For Bulgaria, euro area membership reinforces an anchor that was already central to the policy framework. What changes now is the degree of institutional participation - and the level of responsibility that comes with it.

The issue is not political contestation as such. That is inherent to democratic systems. The issue is whether political competition is able to generate a governing framework that is sufficiently stable, disciplined and operationally coherent.

Let me be clear: this is not a political judgment. It is a macroeconomic one. Because in an environment of already elevated external uncertainty, avoidable domestic ambiguity carries a cost. It affects expectations, confidence and, ultimately, economic outcomes.

## **2. The macroeconomic environment**

Let me turn to the macroeconomic picture.

The global economy has remained more resilient than many expected. But that resilience should be interpreted with due caution.

The baseline scenario remains one of moderate growth and continued disinflation, particularly in Europe. At the same time, uncertainty around that scenario remains elevated - and increasingly linked to geopolitical and energy developments.

Recent discussions at the level of the Governing Council of the European Central Bank have underlined precisely this point. At the monetary policy meeting on 18–19 March, the potential effects of the conflict in the Middle East on euro area inflation were assessed in detail.

The assessment was that the short-term impact is likely to operate primarily through energy prices. The medium-term effects, however, will depend on the duration of the conflict and the extent to which these shocks are transmitted to consumer prices and economic activity.

Against that background, the Governing Council decided to leave the key interest rates unchanged and reaffirmed its commitment to stabilising inflation at 2% over the medium term. At the same time, it did not pre-commit to a specific future path of interest rates.

The key point is the following.

The current environment is not defined primarily by the baseline scenario. It is defined by the widening range of outcomes around it. The transmission from geopolitics to macroeconomic variables is no longer indirect or delayed. It can be immediate.

Adjustments in energy prices, disruptions in transport and trade, or a deterioration in the broader security environment can affect inflation, growth and confidence within a relatively short timeframe.

Three transmission channels are particularly important.

The first is energy: markets remain sensitive to geopolitical developments and supply disruptions.

The second is strategic fragmentation: trade, supply chains and investment decisions are increasingly shaped by geopolitical considerations.

The third is confidence: economic agents adjust behaviour at an early stage in response to rising uncertainty.

For Bulgaria, these channels are especially relevant. As a small and open economy within the euro area, Bulgaria remains sensitive to external demand, financial conditions and energy developments.

At the same time, the country entered this period from a relatively solid starting position. Growth remains positive. The labour market is robust. And the banking sector remains well capitalised, liquid and resilient.

At the same time, the inflation shocks of previous episodes have left a durable imprint. Even as disinflation has proceeded from earlier peaks, the cumulative effects on households and businesses remain significant.

In parallel with its participation in the Eurosystem, the Bulgarian National Bank has also carried out a focused analytical assessment of the potential effects of higher international energy prices on inflation in Bulgaria.

The baseline scenario points to average inflation of around 3.7% in 2026, followed by gradual moderation. At the same time, under more adverse assumptions, inflation could be higher by between 0.7 and 1.2 percentage points in 2026, with the effects potentially proving more persistent in subsequent years.

This underlines an important point.

Risks to the inflation outlook are not only elevated. They are also asymmetric and closely linked to geopolitical developments.

That is precisely why scenario-based analysis is so important. Not as a tool for prediction, but as a way to understand transmission mechanisms and the potential magnitude and persistence of shocks.

This also highlights a central issue for countries within the euro area. With euro area membership now in place in Bulgaria, nominal convergence has effectively reached its institutional endpoint. But real convergence remains the more demanding - and more consequential - task.

Sustainable convergence depends on productivity, competitiveness, institutional quality and the capacity to generate higher value-added growth. In that sense, euro area membership does not reduce the importance of these factors. It increases it. Because many of the pressures we are observing are structural rather than cyclical.

### **3. Priorities of economic policy**

Let me turn, finally, to the priorities of economic policy.

They can be summarised under three principles: stability, credibility and adaptation.

First, stability.

Stability is not a passive objective. It is an enabling condition for the rest of policy.

For Bulgaria, euro area membership reinforces an anchor that was already central to the economic policy framework. It does not reduce the room for macroeconomic adjustment compared with the previous regime.

What changes now is the institutional setting in which policy discipline and economic adaptation have to operate. This places even greater weight on domestic policies - fiscal discipline, competitiveness and institutional effectiveness.

This applies with particular force in the fiscal sphere. Bulgaria enters this period with relatively low public debt, while fiscal prudence remains an important part of its institutional credibility.

At the same time, the fiscal stance has become less conservative than in the pre-2020 period. This means that fiscal consolidation needs to return to the centre of the macroeconomic policy agenda - but in a way that preserves the capacity to respond in a more uncertain external environment.

This is not a simple policy exercise. It requires prioritisation, consistency and, above all, governability.

In practical terms, this means that the quality of the next governing configuration will have direct economic significance.

Second, credibility.

Today, credibility depends less on stated intentions and more on consistent implementation. Institutions are ultimately judged by how they function. In Bulgaria's case, this has a very concrete dimension. And the Bulgarian National Bank is a clear example.

The next phase of convergence and policy credibility will depend less on the articulation of broad strategic objectives - which are already largely established - and more on the capacity of the political system to ensure continuity in implementation.

The challenge is no longer to define the direction. The challenge is to govern effectively within that direction. That is now the key domestic test.

As a member of the Eurosystem, the Bulgarian National Bank now participates directly in the formulation of the common monetary policy, moving from a position of close alignment to one of full institutional participation.

This should not be regarded simply as an institutional milestone. It is an enduring responsibility.

Third, adaptation.

The policy focus must increasingly shift towards the underlying capacity of the economy - human capital, infrastructure, digitalisation and innovation.

Energy resilience, especially in the context of recent developments, is now a macroeconomic issue.

And Bulgaria's convergence model will need to rely increasingly on productivity, skills and the quality of investment.

Excellencies,

Ladies and Gentlemen,

The defining feature of the current environment is not uncertainty alone. It is the speed with which uncertainty is transmitted into economic outcomes.

When geopolitical developments begin to affect energy costs, inflation expectations and confidence simultaneously, the premium on policy and institutional credibility rises significantly.

Resilience cannot be improvised. It must be built – through institutions, discipline and consistency.

For Bulgaria, now operating within the euro area, the task is clear.

The country's strategic direction is not in question. The more immediate question is whether the domestic political environment can provide the continuity and effectiveness required in a more demanding context. That is where the next phase will be determined – not in declarations, but in governance.

In today's environment, instability rarely appears first as a formal crisis. More often, it appears as delay, hesitation and institutional insufficiency. And under current conditions, those costs become more visible - and more consequential.

Because resilience is not given. It is built.

Thank you for your attention.