

Dimitar Radev: Money growth - Bulgaria in the eurozone

Speech by Mr. Dimitar Radev, Governor of the BNB, at the opening of the "Money growth: Bulgaria in the eurozone" conference, organised by Capital newspaper, Sofia, 13 May 2026.

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Ladies and Gentlemen,

Thank you for the invitation to open this forum.

Let me begin by saying that the euro area is an important anchor of stability, confidence and economic protection. This, however, does not diminish the role of national policies – on the contrary, it makes them even more important.

In this context, I would like to focus on three interrelated topics: inflation, the macroeconomic environment and the economic policy priorities ahead.

These issues should not be viewed in isolation. Decisions in one area inevitably affect developments in the others. This is precisely why economic outcomes will increasingly depend on domestic policies and institutional quality – on fiscal discipline, competitiveness and the predictability of policymaking.

1. Inflation: External Impulse and Domestic Economic Environment

To understand this new framework, we must first examine inflation dynamics, as they most immediately reflect the interaction between external shocks and domestic policies.

Inflation is not an abstract statistical indicator.

It is felt directly – in incomes, savings, borrowing costs, and in the confidence of households and businesses.

It is therefore important to distinguish clearly between the source of the shock and the way it is transmitted into the domestic economy.

If we look back at 2022, we can see that under the impact of the global energy crisis and the subsequent external price shocks, average annual inflation in Bulgaria reached 13%, peaking at 15.6% during certain months, compared with 8.4% and 10.6%, respectively, in the euro area.

Today, we are once again witnessing an external price shock linked to geopolitical tensions and volatility in energy markets. As of April this year, inflation in Bulgaria stands at 6.2% – significantly lower than in 2022, but still above the euro area average of 3%.

This raises an important question: if the external impulse is common, why are the outcomes across economies so different?

The answer lies in the way this shock is transmitted into the domestic economy.

Three factors are particularly important in this regard.

First - the structure of the economy.

Higher energy intensity and greater dependence on imports lead to a faster and stronger pass-through of external price shocks.

Second - the competitive environment.

When competition is limited, prices tend to rise more rapidly and normalise more slowly. This makes inflationary processes more persistent.

Third – fiscal policy and domestic demand.

In recent years, fiscal policy has often amplified rather than moderated the economic cycle. Income growth in the public sector outpaced productivity, while automatic indexation mechanisms further reinforced this effect. Under conditions of constrained supply, this inevitably translates into secondary inflationary pressures.

Sustainable income growth must be underpinned by higher productivity. This is the natural mechanism of real convergence, and it functions effectively within the framework of the euro area.

However, when income growth systematically exceeds productivity growth, inflationary and macroeconomic imbalances accumulate, undermining the competitiveness of the economy. These imbalances are ultimately corrected through prices and a decline in real purchasing power.

The role of credit should also be assessed carefully.

Credit activity is not a primary source of inflation, but under conditions of strong domestic demand it can amplify existing trends.

This is why the macroprudential policy of the Bulgarian National Bank remains a key instrument for limiting procyclicality and strengthening financial stability.

The recent increase in the countercyclical capital buffer to one of the highest levels in Europe serves precisely this purpose - both to limit the accumulation of risks and to strengthen the resilience of the banking system amid strong credit demand.

Macroprudential policy, however, cannot compensate for deficiencies in fiscal policy.

2. The Macroeconomic Environment

This naturally brings us to the broader macroeconomic environment.

Inflation dynamics cannot be analysed separately from the overall condition of the economy.

Today, the Bulgarian economy is characterised by a clear divergence between a strong financial sector and a weakening fiscal position, reflecting the policy stance in these two areas.

The banking system remains well-capitalised, liquid and profitable – at levels above the European Union average. This is an important stabilising factor for the economy.

The fiscal position, however, is characterised by persistent deficits and accelerating growth in public debt, albeit from a relatively low initial level.

In this context, it is important to emphasise the following: for macroeconomic stability, what matters is not only the current level of debt, but also the direction and pace at which it is evolving.

It is precisely the dynamics of debt that are critical in the medium term, and the trend in recent years has been unfavourable.

3. Economic Policy Priorities

This economic picture gives rise to several clear priorities.

First – fiscal discipline and countercyclicality.

Fiscal policy should be stabilising rather than procyclical.

This means:

- control over current expenditure;
- limiting untargeted spending increases;
- rebuilding fiscal buffers.

Automatic indexation mechanisms should be discontinued, as they permanently embed inflation into the cost structure of the economy.

Second – productivity, incomes and the efficiency of public expenditure.

The key issue is not merely the size of public spending, but its capacity to generate long-term economic potential.

Priority should be given to investment in infrastructure, energy connectivity, digitalisation, human capital and technological upgrading. These are the foundations for higher productivity and, consequently, for sustainable income growth and long-term economic expansion.

Third – competition and institutions.

Competition is the principal mechanism for ensuring price discipline and sustainable economic growth.

When competition weakens, inflationary processes become more inertial and persistent.

This is why institutional quality has direct macroeconomic significance – including the effective functioning of competition authorities and consumer protection institutions.

Fourth – structural transformation.

Long-term development requires an economy with higher value added, greater energy efficiency and stronger technological capacity.

This requires investment in innovation, skills and modernisation, which reduce the structural vulnerabilities of the economy and enhance its capacity to absorb external shocks.

4. Conclusion

Let me conclude by summarising the main points.

Inflation in Bulgaria is the result of the interaction between external shocks and domestic structural factors.

External factors provide the initial impulse.

Domestic factors determine its strength and persistence.

Within the euro area, the common monetary framework acts as a stabilising anchor, limiting part of the external uncertainty.

At the same time, however, this places even greater responsibility on domestic policymaking.

Economic stability will increasingly depend on fiscal discipline, structural competitiveness and institutional effectiveness.

In such an environment, the euro area can provide a stable monetary framework.

But sustainable economic success cannot be imported from abroad.

Ultimately, sustainable real convergence is not a matter of external conditions, but of domestic resilience, consistency and trust.

Thank you.