

## 20. BULGARIA

*The strength of Bulgaria's economy and the positive external and fiscal balances before the outbreak of COVID-19 should help it recover from the large economic shock caused by the pandemic. Unemployment is already increasing, albeit from historic lows, even though government support is cushioning the blow to the labour market. Investment is projected to fall sharply in 2020 and to recover partially in 2021. Household consumption, improvements in the labour market and a return of export growth should drive a recovery in 2021.*

### Sharp recession followed by a partial recovery

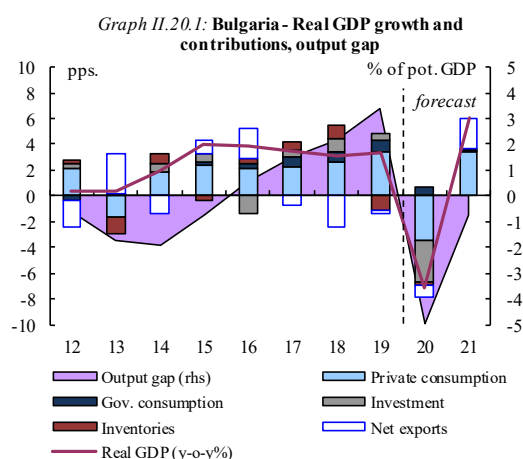
At the onset of the COVID-19 pandemic, economic conditions in Bulgaria were favourable. At 3.4%, GDP growth in 2019 was robust for the fifth year in a row, mainly driven by growing household consumption. This positive trend has been interrupted by the COVID-19 outbreak. Bulgaria's real GDP is projected to contract by over 7% in 2020, largely due to the adverse impact of measures taken to contain the spread of the pandemic following the declaration of a state of emergency on 13 March 2020. The sectors directly subject to these measures (e.g. retail, transport, hotels and restaurants, art and entertainment) are estimated to be operating at 30-40% of their capacity, while important negative spillover effects are also expected on the rest of the economy.

A rebound in economic activity is expected in the second half of 2020 with the gradual lifting of the confinement measures. Domestic demand is projected to strengthen already in the third quarter and should continue growing in the fourth.

Government measures to protect income and employment should support household consumption, which is nevertheless expected to fall by almost 6% in 2020. Investment is set to shrink by 18% in 2020 on account of current and expected financial hardship at the firm level due to drastically reduced cash flows. Liquidity support schemes are expected to mitigate chain defaults but not to stimulate new investment.

The slowdown of international economic activity has had a negative effect on Bulgaria's exports since end-2019. In 2020, a broad-based fall in exports of more than 13% is expected, mainly due to the worldwide impact of the COVID-19 pandemic. Imports are expected to contract by more than 12%, mainly due to the large fall in investment but also due to the decline in exports, which have a significant import content.

In 2021, growth is forecast to rebound to around 6%, partially offsetting the decline in 2020. Private consumption is set to drive the recovery, as the labour market is expected to improve. Growth is also forecast to benefit from an assumed rebound in exports. Investment, however, is expected to follow a slower recovery path with an annual growth of only 1%, as high uncertainty and still weak business finances are set to suppress and postpone investment activity.



Risks to this macroeconomic outlook arise from the uncertainty on the degree of take up and success of the measures to support the economy. The impact of the epidemic on consumption patterns will also be critical for the strength and duration of the recovery phase.

### Unemployment rate surges from historic lows

The unemployment rate has increased significantly since the COVID-19 containment measures were put in place, boosted in part by the return of workers from abroad. Job losses are set to be most pronounced in the services sector (which accounts for more than 60% of employment), where the disruption is likely to last longest. The unemployment rate is expected to jump to 7% in 2020, after having reached historic lows of 4.2% in

2019. In 2021, a partial recovery in employment is projected to take place and the unemployment rate to decrease to 5¾%. Nominal wage growth, after years of substantial gains, is expected to moderate to 3½% in 2020 and 2¼% in 2021.

### Oil price shock pushing down inflation

Consumer price inflation is expected to fall from 2.5% in 2019 to 1.1% in 2020 and stay at that level in 2021. This can be largely explained by the sizeable impact of the collapse in oil prices. Core inflation is set to fall to 2% in 2020 reflecting lower prices in non-energy industrial goods and a slowdown in services inflation. In 2021, core inflation is forecast to decelerate further to 1.3% due to a smaller price increase of processed food.

### Fiscal policy to support public health and the economy

Bulgaria is facing the COVID-19 pandemic from a strong fiscal position. In 2019, the budget surplus reached 2.1% of GDP. As part of the package of measures to contain the pandemic and its impact the government announced a higher spending on

medical equipment, wage bonuses and increases for the medical and security staff, as well as subsidies, tax deferrals, state guarantees and a reallocation of investment funds to support the economy. The severe macroeconomic outlook is set to increase spending on unemployment and social benefits and curtail the revenue from taxes. The overall impact on the budget is estimated to be close to 5 pps. of GDP relative to the previous year, pushing the balance into a deficit of around 2¾% of GDP in 2020 after four years of surplus.

In 2021, based on a no-policy-change assumption, the budget deficit is forecast at 1¾% of GDP, mainly due to the positive impact of higher economic growth on revenues and the fading impact of some expenditure measures. General government debt is expected to increase and reach over 25% of GDP in both 2020 and 2021, as a result of the primary deficit, the contraction in GDP and certain measures to support liquidity in the economy (e.g. the capital strengthening of the Bulgarian Development Bank to provide state guaranteed loans) that do not affect the deficit but which do weigh on debt.

Table II.20.1:

### Main features of country forecast - BULGARIA

	2018			Annual percentage change						
	bn BGN	Curr. prices	% GDP	00-15	2016	2017	2018	2019	2020	2021
GDP	109.7	100.0		3.6	3.8	3.5	3.1	3.4	-7.2	6.0
Private Consumption	65.5	59.7		4.6	3.5	3.8	4.4	5.8	-5.8	5.6
Public Consumption	18.0	16.5		1.4	2.2	4.3	5.3	5.5	4.0	0.7
Gross fixed capital formation	20.6	18.8		6.4	-6.6	3.2	5.4	2.2	-18.0	1.0
of which: equipment	8.5	7.7		7.1	-14.8	4.4	8.8	3.1	-21.7	2.4
Exports (goods and services)	72.2	65.9		5.5	8.6	5.8	1.7	1.9	-13.2	10.8
Imports (goods and services)	69.4	63.3		6.6	5.2	7.4	5.7	2.4	-12.5	6.8
GNI (GDP deflator)	110.7	100.9		3.6	5.6	5.1	2.7	3.1	-7.3	6.1
Contribution to GDP growth:		Domestic demand		4.8	1.1	3.6	4.4	4.8	-6.0	3.7
		Inventories		-0.1	0.4	0.6	1.1	-1.2	-0.2	0.0
		Net exports		-1.0	2.2	-0.7	-2.4	-0.3	-0.9	2.3
Employment				0.2	0.5	1.8	-0.1	0.3	-2.5	0.5
Unemployment rate (a)				11.7	7.6	6.2	5.2	4.2	7.0	5.8
Compensation of employees / head				8.5	5.8	10.5	9.7	6.1	3.4	2.3
Unit labour costs whole economy				5.0	2.4	8.7	6.3	3.0	8.6	-3.1
Real unit labour cost				0.4	-0.1	4.5	2.2	-1.6	8.1	-5.4
Saving rate of households (b)				-	-	-	-	-	-	-
GDP deflator				4.5	2.5	3.9	4.0	4.7	0.5	2.4
Harmonised index of consumer prices				4.6	-1.3	1.2	2.6	2.5	1.1	1.1
Terms of trade goods				-0.4	3.9	0.3	0.7	1.8	-1.6	0.2
Trade balance (goods) (c)				-15.0	-2.1	-1.5	-3.3	-2.8	-3.3	-1.6
Current-account balance (c)				-6.5	5.3	6.1	4.7	5.2	3.3	5.4
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-5.7	7.3	7.1	5.8	6.4	4.7	6.8
General government balance (c)				-0.7	0.1	1.1	2.0	2.1	-2.8	-1.8
Cyclically-adjusted budget balance (d)				-0.6	-0.1	0.7	1.3	1.1	-1.3	-1.6
Structural budget balance (d)				-	-0.1	0.7	1.3	1.1	-1.3	-1.6
General government gross debt (c)				29.6	29.3	25.3	22.3	20.4	25.5	25.4

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

Note: Contributions to GDP growth may not add up due to statistical discrepancies.