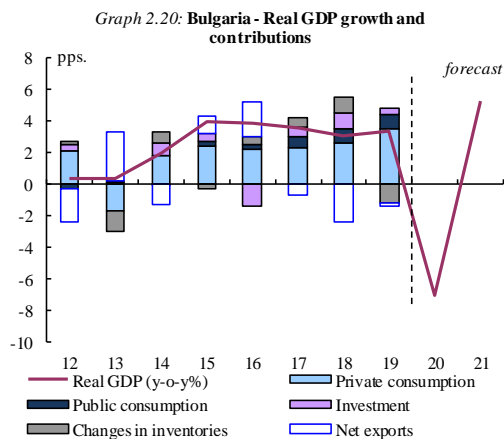


## 2.20. BULGARIA

Despite a good economic performance at the start of the year, the COVID-19 pandemic and the measures needed to contain it since mid-March have had an adverse impact on economic activity. Annual real GDP growth fell from 3.4% in 2019 to 1.2% (y-o-y) in 2020-Q1. Domestic demand declined on the back of lower private consumption and shrinking investment. The deterioration in business sentiment and short-term indicators, which began in April, point to a sharp drop in economic activity in the second quarter. Private consumption has slumped as a result of containment measures, while reduced revenues, lower capacity utilisation and high uncertainty are set to hold back investment. Since March 2020, the significantly worsened external environment has weighed on goods exports, while travel restrictions have resulted in a sharp drop in services trade.

With the easing of lockdown measures, private consumption is expected to rebound in the second half of the year and continue to expand at a moderate pace in 2021 as consumer confidence is gradually restored. Investment is expected to return to positive quarterly growth only next year, mainly because uncertainty remains high. Exports are forecast to pick up gradually throughout the second half of the year and into 2021. Overall, real GDP is expected to decline by around 7% in 2020 and then pick up by 5<sup>1</sup>/<sub>3</sub>% in 2021. Risks to the forecast are broadly balanced, in line with the risks to the economy of the EU.



Inflation is forecast to settle at around 1% in 2020 and 2021. Headline inflation has been on a downward path since the beginning of the year, owing to the drop in energy prices. The expected contraction of seasonal demand for tourist services and the temporary reduction of VAT rates for the sector are set to dampen services price inflation in the second half of the year. In 2021, inflation is expected to remain low, with positive contributions from food and services prices.