20. BULGARIA

In the first half of 2021, the economic recovery in Bulgaria was held back by high economic uncertainty and containment measures. Investment and services exports remained supressed, while domestic consumption and goods exports contributed positively to aggregate demand. These two factors, combined with the implementation of the Recovery and Resilience Plan, are set to boost economic growth in the next two years. The fiscal stimulus remains strong in 2021. As of 2022, the budget deficit is expected to narrow. Low vaccination rates and high energy prices present short-term challenges to the recovery.

Recovery postponed

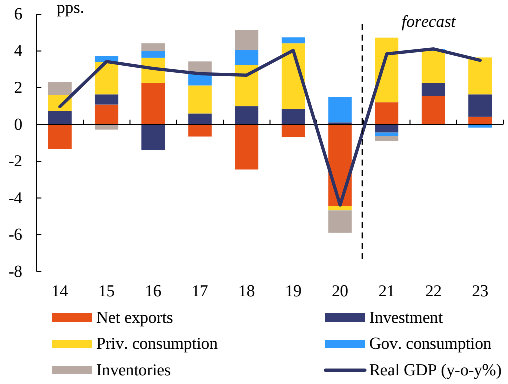
After the swift rebound in the third quarter of last year, real GDP remained roughly unchanged until mid-2021. Investment activity continued to stagnate in the first half of the year, constrained by still high uncertainty. Services exports regained some ground but remained well below full capacity. The short-term indicators point to some 40% fewer foreign tourist arrivals during the peak July-August season. Although the accommodation industry partially compensated for the shortfall in foreign demand by attracting domestic visitors, both the number of beds available and the occupancy rate were well below normal levels.

On the positive side, private consumption remained robust, underpinned by the expansion of disposable income. Exports of goods recovered swiftly, benefitting from the pick-up in external demand. Following the supportive fiscal policy of 2020, government consumption continued to contribute to aggregate demand in the first half of 2021.

In response to the rise in coronavirus cases, the COVID-19 certificate was introduced for visitors and workers in public places as of 21 October 2021. Given the low vaccination rates in the country, these restrictions are set to weigh on private consumption for several months, until smooth operation of the new regime and higher vaccination rates are achieved. Overall, real GDP is forecast to grow by 3.8% in the current year.

In 2022, GDP growth is forecast to accelerate to 4.1% and remain strong at 3.5% in 2023. The forecast incorporates expenditures financed by RRF grants, for a cumulative amount of 4.3% of 2019 GDP over the forecast horizon. Recent hikes in energy and food prices are set to erode the purchasing power of low-income households. However, increases in social transfers and pensions in the current and next year should offset the effect of higher prices on households' budgets. The expansion of consumer demand is set to continue on the back of a tight labour market, high consumer confidence and strong lending activity. Goods exports are forecast to grow in parallel with external demand, while services exports are projected to recover more gradually.

Graph II.20.1: **Bulgaria - Real GDP growth and contributions**



The risks to the forecast are tilted to the downside. The new introduction of the COVID-19 certificate may prove insufficient to contain infection rates and adjustment to the new normal may take longer. In addition, the impact of higher energy prices on headline inflation and consequently on private consumption may be stronger than expected.

Labour market set to tighten gradually

After an initial surge at the onset of the COVID-19 pandemic, the seasonally adjusted unemployment rate has stabilised at around 5.5% since June 2020. In parallel, the labour market participation rate has dropped on average by around 1 ppt since the beginning of the crisis. The government's job retention schemes have played a significant role in minimising job losses by allowing a temporary transition towards short-time work schemes. In the next two years, the favourable economic outlook is set to tighten the labour market, with unemployment rates gradually declining to 4.6% in 2022 and 4.4% in 2023. At the same time, the transition back to full-time work and a projected increase in activity rates are forecast to partially alleviate the pressure on the labour market and on wages. Nevertheless, growth of wages is expected to remain strong at 9% in 2022 and 7.9% in 2023.

Headline inflation to accelerate

HICP inflation accelerated sharply in the second and third quarters of 2021 on account of higher prices of energy and unprocessed food. The seasonal price increases in tourism services have been less pronounced, which helped contain overall services inflation. Annual inflation is set to accelerate to 2.4% in 2021 and 2.9% in 2022 on the back of high energy prices and their second-round effects. Inflation is then forecast to decelerate to 1.8% in 2023 as these effects are expected to dissipate.

Fiscal stimulus remained strong

The general government deficit is projected at 3.6% of GDP in 2021. The improvement from the previous year's deficit of 4% of GDP is mainly due to statistical corrections in 2020 general government accounts. The fiscal stimulus has remained robust in 2021, as the government extended the emergency support to households, businesses and the health sector, and put in place new measures to support vulnerable groups. However, a recovery in tax revenues is set to offsets the impact on the deficit of still strong expenditure growth. The deficit is forecast to decrease in 2022 as most of the emergency measures are set to discontinue and larger receipts from the EU, including the RRF, are planned to finance most of the forecast increase in public investment. General government debt is expected to be around 26.7% of GDP in 2021 and remain around that level thereafter.

Table II.20.1:

Main features of country forecast - BULGARIA

	2020		Annual percentage change						
bn BGN	Curr. prices	% GDP	02-17	2018	2019	2020	2021	2022	2023
GDP	120.0	100.0	3.4	2.7	4.0	-4.4	**3.8**	**4.1**	**3.5**
Private Consumption	70.4	58.7	3.8	3.7	6.0	-0.4	**6.0**	**3.0**	**3.4**
Public Consumption	23.4	19.5	1.6	5.3	2.0	8.3	**-1.0**	**0.5**	**-0.9**
Gross fixed capital formation	23.0	19.2	4.0	5.4	4.5	0.6	**-2.3**	**4.0**	**6.9**
of which: equipment	10.4	8.7	3.1	8.8	15.1	3.3	**-8.6**	**2.7**	**7.7**
Exports (goods and services)	66.4	55.3	7.6	1.7	4.0	-12.1	**10.0**	**8.0**	**5.4**
Imports (goods and services)	64.6	53.9	7.3	5.8	5.2	-5.4	**8.0**	**5.9**	**5.0**
GNI (GDP deflator)	115.8	96.6	3.5	-3.5	4.6	-3.6	**3.9**	**3.5**	**3.4**
Contribution to GDP growth: Domestic demand			3.8	4.1	4.7	1.3	**2.9**	**2.6**	**3.1**
Inventories			0.0	1.1	0.0	-1.2	**-0.3**	**0.0**	**0.0**
Net exports			-0.4	-2.4	-0.7	-4.4	**1.2**	**1.5**	**0.4**
Employment			0.6	-0.1	0.3	-2.3	**0.0**	**0.9**	**0.6**
Unemployment rate (a)			10.2	5.2	4.2	5.1	**5.1**	**4.6**	**4.4**
Compensation of employees / head			8.1	9.7	6.9	7.2	**9.7**	**9.0**	**7.9**
Unit labour costs whole economy			5.2	6.7	3.1	9.5	**5.7**	**5.6**	**4.9**
Real unit labour cost			0.9	2.4	-2.0	5.1	**1.8**	**0.9**	**1.3**
Saving rate of households (b)			:	:	:	:	**:**	**:**	**:**
GDP deflator			4.2	4.2	5.2	4.2	**3.9**	**4.6**	**3.5**
Harmonised index of consumer prices			3.4	2.6	2.5	1.2	**2.4**	**2.9**	**1.8**
Terms of trade goods			1.6	0.7	1.9	4.3	**1.3**	**-1.9**	**1.0**
Trade balance (goods) (c)			-13.2	-4.8	-4.7	-3.2	**-3.4**	**-3.4**	**-2.8**
Current-account balance (c)			-5.2	1.0	1.9	-0.6	**0.4**	**1.2**	**2.7**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-4.1	2.0	3.3	0.9	**2.4**	**3.7**	**5.0**
General government balance (c)			-0.6	1.7	2.1	-4.0	**-3.6**	**-2.8**	**-2.1**
Cyclically-adjusted budget balance (d)			-0.7	1.5	1.3	-2.9	**-3.1**	**-2.8**	**-2.5**
Structural budget balance (d)			-0.3	1.5	1.3	-2.9	**-3.1**	**-2.8**	**-2.5**
General government gross debt (c)			24.5	22.1	20.0	24.7	**26.7**	**26.7**	**26.8**

(a) Eurostat definition. (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.