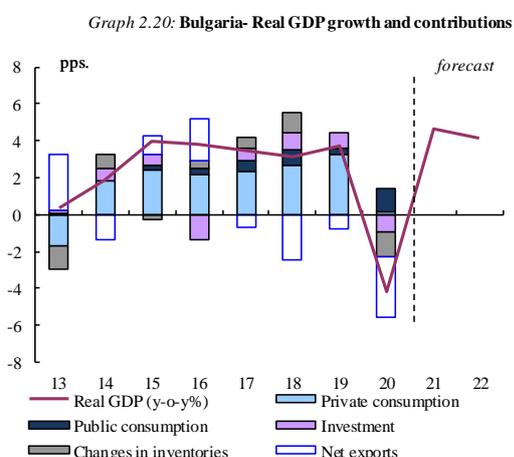


2.20. BULGARIA

Despite continued pandemic-related restrictions to economic activity, real GDP grew by 2.5% quarter-on-quarter in the first quarter of 2021, driven by exports and private consumption. Consumer confidence reached pre-crisis levels in April and May, suggesting further improvements in domestic consumer demand this year. In 2022, household consumption is projected to continue to expand, in line with the improving situation of the labour market. Exports of goods and services are forecast to follow the favourable developments in external demand and the lifting of containment measures. The start of the implementation of the Recovery and Resilience Plan is set to support aggregate investment in 2022.

Overall, real GDP growth is expected to reach 4.6% in 2021 and 4.1% in 2022. Compared to the Spring Forecast, the annual real GDP growth rate is 1.1 pp. higher in 2021 and 0.6 pps. lower in 2022. The upward revision in 2021 reflects mainly the strong recovery in the first quarter of this year, while strong base effects explain the downward revision in 2022. The risks to the forecast are broadly balanced. On the upside, consumer demand may prove stronger than projected. On the downside, given the relatively slow rate of COVID-19 vaccination in the country, subsequent lockdown periods may be needed.



Inflation is set to accelerate to 1.9% in 2021 on the back of higher assumed energy prices and some second-round effects from increased fuel prices. Non-energy industrial goods and processed food are also forecast to sustain stronger price dynamics. In 2022, HICP inflation is expected to reach 2.5%, supported by aggregate demand.