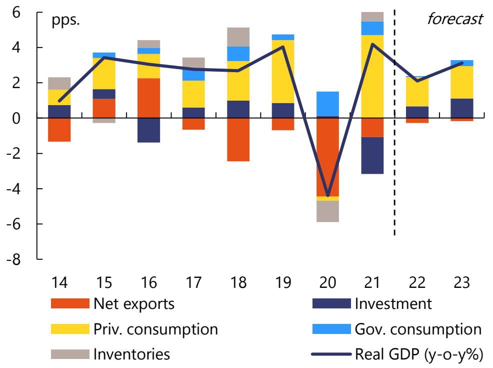
20. BULGARIA

In 2022, price pressures and the associated adjustment process are set to weigh on household consumption, while the increased uncertainty is expected to negatively affect private investment. With inflation gradually slowing down in 2023, GDP growth is projected to accelerate from 2.1% in 2022 to 3.1% in 2023. The government balance is forecast to slowly recover to 3.7% of GDP in 2022. The effect of the phase-out of most pandemic-related measures is expected to be partially offset by measures put in place in response to high energy prices, aid to people fleeing the war in Ukraine and pension updates.

Lower growth amid strong price pressures

In 2021, economic activity recovered from the COVID-19 crisis on the back of robust private consumption growth and strong rebound in goods exports. Investment was on a declining path due to high uncertainty. With the global rise in energy prices, domestic inflation started to accelerate in the second half of 2021.

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



GDP growth is expected to slow down to 2.1% in 2022, due to a slower expansion in domestic and external demand, and grow by 3.1% in 2023. Given the high energy intensity of the economy, with energy and commodity prices set to remain high, firms are expected to respond to the cost-push shock by restricting nominal wage growth and postponing new hiring and investment decisions. On aggregate, firms' reactions are forecast to lead to lower investment activity. Lower private investment is forecast to be fully compensated by public investment, supported by the RRF funds.

Private consumption growth is expected to decelerate markedly to 2.8% in 2022 and to increase slightly to 3% in 2023. The 2022 slowdown in consumer spending is linked to expected strong price increases that are set to erode real disposable income.

Russia's war of aggression against Ukraine and the sanctions on the Russian economy pose additional challenges for the production sector through the trade channel. The direct exposure of Bulgarian goods exports to Russia and Ukraine is relatively limited, at 1.3% for each country in 2021. Nevertheless, the overall negative effect of the war on external demand is set to limit export dynamics. The discontinuation of natural gas supplies by Gazprom in late April is expected to be compensated through alternative sources, leading to a one-off increase in gas prices.

In 2023, GDP growth is forecast to accelerate, supported by the intensified public investment, financed by the RRF, and the improved outlook for external demand.

Labour demand set to stagnate

The decreased hiring intensity is expected to lead to a stabilisation of unemployment rates at slightly below 5%. The labour market situation is set to improve the bargaining position of employers, leaving wages to grow below consumer prices. People fleeing the war in Ukraine are not expected to immediately integrate in the labour market, notably in the context of the decreased hiring intensity. They are, however, expected to increase demand for goods, services and accommodation.

High inflation driven by energy and commodity price pressures

Consumer price inflation is expected to reach 11.9% in 2022 and then to decrease to 5% in 2023. All HICP components are forecast to exhibit high increases in 2022. Energy price inflation is projected to gain momentum until mid-2022 and then to gradually abate and turn negative in 2023, following with a lag the expected gradual decline in international oil and gas prices. High annual food inflation in 2022 is driven by the strong increase in the first three months of the year and the expected dynamics of international food commodity and energy prices. Services inflation is driven by cost-push shocks in the transport and catering services. Higher prices of non-energy industrial goods are set to increase via cost pressures and higher prices of imported goods.

Government budget balance set to slowly recover

The general government budget deficit is forecast to improve only slightly in 2022, reaching 3.7% of GDP, from 4.1% in 2021. While the costs of most pandemic support measures are gradually falling from 4.3% of GDP in 2021 to 1.8% of GDP in 2022, new measures in response to high energy prices and Russia's military aggression against Ukraine are preventing a stronger recovery of the government balance. On top of increasing fiscal costs related to the people fleeing Ukraine and the measures implemented in response to high energy prices, the extension of business support schemes and pension system amendments continue to weigh on public finances. However, the deficit is on track to further fall to 2.4% in 2023 on the back of the positive impact of RRF investments on the economy and the phase-out of COVID-19 measures.

Bulgaria's general government debt ratio is set to marginally increase to 25.3% of GDP in 2022 with a further increase to 25.6% of GDP in 2023 due to the persistent deficits. However, in both years, the snowball effect on gross public debt as a percentage of GDP is projected to be negative, thereby somewhat cushioning the impact of the deficits.

Table II.20.1:

Main features of country forecast - BULGARIA

	2021				Annual percentage change					
	bn BGN	Curr. prices	% GDP	02-17	2018	2019	2020	2021	2022	2023
GDP		132.7	100.0	3.4	2.7	4.0	-4.4	**4.2**	**2.1**	**3.1**
Private Consumption		78.8	59.4	3.8	3.7	6.0	-0.4	**8.0**	**2.8**	**3.0**
Public Consumption		26.5	20.0	1.6	5.3	2.0	8.3	**4.0**	**0.3**	**1.7**
Gross fixed capital formation		22.0	16.6	4.0	5.4	4.5	0.6	**-11.0**	**4.0**	**6.9**
Exports (goods and services)		83.7	63.0	7.6	1.7	4.0	-12.1	**9.9**	**4.5**	**4.2**
Imports (goods and services)		82.2	62.0	7.3	5.8	5.2	-5.4	**12.2**	**5.0**	**4.5**
GNI (GDP deflator)		128.4	96.7	3.5	-3.5	4.6	-3.6	**4.4**	**1.3**	**3.0**
Contribution to GDP growth:	Domestic demand			3.8	4.1	4.7	1.3	**3.4**	**2.4**	**3.3**
	Inventories			0.0	1.1	0.0	-1.2	**1.9**	**0.0**	**0.0**
	Net exports			-0.4	-2.4	-0.7	-4.4	**-1.1**	**-0.3**	**-0.2**
Employment				0.6	-0.1	0.3	-2.3	**0.2**	**0.2**	**0.4**
Unemployment rate (a)				11.6	6.2	5.2	6.1	**5.3**	**5.4**	**5.3**
Compensation of employees / head				8.1	9.7	6.9	7.2	**9.5**	**9.7**	**7.7**
Unit labour costs whole economy				5.2	6.7	3.1	9.5	**5.4**	**7.7**	**4.8**
Saving rate of households (b)				-3.4	:	:	:	**:**	**:**	**:**
GDP deflator				4.2	4.2	5.2	4.2	**6.2**	**9.5**	**3.9**
Harmonised index of consumer prices				3.4	2.6	2.5	1.2	**2.8**	**11.9**	**5.0**
Terms of trade goods				1.6	0.7	1.9	4.3	**2.1**	**-0.3**	**-0.8**
Trade balance (goods) (c)				-13.2	-4.8	-4.7	-3.2	**-5.1**	**-5.7**	**-5.9**
Current-account balance (c)				-5.2	1.0	1.9	-0.5	**-1.1**	**-1.8**	**-1.8**
General government balance (c)				-0.6	1.7	2.1	-4.0	**-4.1**	**-3.7**	**-2.4**
Structural budget balance (d)				-0.3	1.5	1.4	-2.9	**-3.8**	**-3.5**	**-2.7**
General government gross debt (c)				24.5	22.1	20.0	24.7	**25.1**	**25.3**	**25.6**

(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.