

2.20. BULGARIA

After the marked decline in economic activity in 2020, the economy rebounded in 2021. Private consumption was the main growth driver on the back of favourable labour market conditions, strong consumer confidence and robust income growth, supported also by increased pensions and transfers. In contrast, investment underperformed in 2021. It was held back by persistently high uncertainty with regard to the COVID-19 pandemic situation, the introduction of containment measures and the external environment. Exports of goods and services have also contributed to the recovery. Nevertheless, foreign tourist visits remained well below pre-crisis levels. Overall, real GDP is expected to have increased by 4% in 2021.

Inflation accelerated sharply as from September 2021, driven by high fuel and gas prices and related indirect effects. To prevent further increases in electricity and heating prices for households, on 15 December the parliament imposed a moratorium on retail price changes until end-March 2022. Further measures to rein in energy price hikes for final consumers are currently being discussed. Looking forward, this year and next inflation will be largely determined by the magnitude of the indirect effects of high energy prices and the decisions of the national regulator on how to adjust retail prices to the expected evolution of wholesale prices. As a baseline scenario, the regulated electricity prices are set to increase by 15% in mid-2022 and 20% in mid-2023. These increases are consistent with the estimates by the energy regulator and with the past magnitudes and timing of price increases. These factors are set to contribute to the persistence of energy inflation leading to 6.3% and 3.9% headline inflation in 2022 and 2023, respectively.

Despite the accelerated inflation, economic growth is forecast to remain strong at 3.7% in 2022 and 3.9% in 2023. Both exports and domestic demand, also stimulated by the RRP-funded investments, are set to support the expansion. Disposable income is forecast to grow in real terms despite higher inflation. Nevertheless, higher energy and food prices are set to erode the purchasing power of low-income households in the absence of additional compensations. Energy intensive production is also expected to face challenges to remain competitive.

