

## 2.20. BULGARIA

Real GDP growth strengthened from 3.1% in 2018 to 3.5% (year-on-year) in the first quarter of 2019. The recovery in exports that had begun in the second half of 2018 continued in the first months of 2019 and contributed strongly to the economic expansion. Private consumption continued to exhibit robust growth, underpinned by favourable labour market outcomes and strong lending activity. Investment increased only slightly – while investment in equipment grew strongly, it was largely offset by declines in other investment components. Positive expectations about future economic activity and high capacity utilisation in industry prompted increases in private investment.

Real GDP growth is forecast to recover to 3.3% in 2019 and 3.4% in 2020, in line with the spring forecast. Due to the weakening external environment, Bulgaria’s economy is expected to expand at a slower pace in the second half of this year and then maintain a similar growth rate throughout 2020. Positive trends in disposable income should help to sustain private consumption dynamics, while sound profits, accommodative financing conditions and optimistic expectations about the domestic economy are set to stimulate investment activity. The balance of risks is tilted to the upside for the current year. Improved consumer confidence in combination with higher disposable income could spur more private spending. In addition, the rapid growth of exports to several relatively small destinations outside the EU in the first four months of 2019 suggests potentially high capacity for export reorientation. If the entry into new export markets is sustained, that could lead to better export performance.

Headline inflation decelerated at the end of 2018 as the effects of high energy prices and one-off statistical effects in services dissipated. In the first five months of 2019, however, inflation gathered pace again due to higher fuel prices and the continued rise of food prices. In the second half of the year, the envisaged price hikes in regulated energy prices will push up inflation, while the effects from energy and services price increases in 2018 will gradually disappear. Inflation is set to ease to 2.4% in 2019 and 1.7% in 2020.

