

**2.2. BULGARIA**

Real GDP growth reached 0.9% (q-o-q) in the first quarter of 2018, maintaining last year’s momentum when the economy grew by 3.6%. The ongoing expansion is being driven by strong private consumption and higher investment. Wage increases continued to boost private consumption, while a recovery in the use of EU investment funding programmes is fuelling the growth of public investment. Economic sentiment continues to improve and survey data show expectations of increasing orders, higher output and greater demand, which suggests that the economy should continue expanding in the coming quarters.

Real GDP growth is forecast to remain robust at 3.8% in 2018 and 3.7% in 2019, driven mainly by domestic demand. Positive labour market developments and planned wage increases in the public sector should provide the fuel for continued private consumption growth. Investment growth is also expected to be strong over the forecast period, mainly due to the recovery in EU funds absorption, but also due to stronger private sector investment. At the same time, the contribution from net exports to GDP is expected to be negative. Although solid external demand should support export growth, strong domestic consumption and investment mean that imports will continue to outweigh exports.

Price pressures increased in the spring months as a result of a steep rise in oil prices and second round effects on food prices. Administered prices were also raised significantly over the same period. HICP inflation is thus expected to rise to 2.0% in 2018 before slowing down to 1.8% in 2019. This pattern is mainly due to a strong base effect in energy products, while the rise in real disposable incomes should provide continued support to consumption and prices generally.

