2.2. BULGARIA

Real GDP growth lost momentum in 2018, when Bulgaria's economy grew at an estimated rate of 3.2% compared to 3.8% in the previous year. The main driver of this slowdown was the weakening of exports due to softer external demand from large trading partners in the EU and Turkey, as well as some country-specific one-off events.

Trends in the domestic economy, by contrast, were more positive. Wage increases continued to fuel private consumption growth and the recovery in the use of EU investment funding provided a boost to investment growth. Survey data point to increasing orders and higher output, which suggests that GDP growth should recover in the coming quarters.

Domestic demand was the main engine of growth in 2018 and is expected to remain so in 2019 and 2020. Labour market tightening and additional public sector wage increases should provide continued support for private consumption in 2019. Private and public investment are also expected to remain strong, thanks to the low interest rate environment and EU funding.

Overall, real GDP growth is expected to increase to 3.6% in 2019 and remain at 3.6% in 2020. The current growth pattern suggests a relatively small impact from external shocks and exports are expected to stage a moderate recovery. Risks to the economic outlook are tilted to the downside and mainly stem from the possibility of weaker demand in major export markets.

Price pressures increased in 2018. Overall, headline inflation reached 2.6% in 2018. This is due to the rise in energy prices, while strong domestic demand and increases in unprocessed food prices, due to disappointing harvest, added to inflationary pressures. Despite the support of strong demand and high wage growth, inflation is expected to fall to 2.0% in 2019, mainly as a result of base effects, and then ease further to 1.8% in 2020.

Graph 2.2: **Bulgaria - Real GDP growth and contributions**