

**T**he spring macroeconomic forecast of the Ministry of Finance takes into account the changes in the external environment – the economic development of Bulgaria's main trade partners and the dynamics of international commodity prices. The main uncertainty remains the spread of COVID-19 internationally, as well as in Bulgaria. In developing the forecast, it was assumed that the measures taken to limit the spread of the virus will be most severe in the first quarter of 2021, both in Bulgaria and the EU. Accelerating the vaccination process will support the economic development by gradually removing restrictions and returning smoothly to the normal functioning of economies.

Macroeconomic indicators in 2020 showed a relatively moderate impact of the crisis in Bulgaria. GDP decreased by 4.2% in real terms compared to a decline of 6.2% in the EU. In 2021, the economic situation is expected to improve and Bulgaria's GDP to grow by 2.7%. Private consumption will grow, supported by increased employment, while the still uncertain economic environment will constrain private investment. Government consumption will keep its positive contribution to the economic growth. Intensification of foreign trade is expected which will lead to an increase in export of goods and a positive contribution of net export to GDP growth.

Employment recovery is expected to start around mid-year, thus it will increase by 0.5% in 2021, while the annual average unemployment rate will reach 5%. The higher economic activity and demand for labour will contribute to the acceleration in the nominal growth rate of compensation per employee to 6.4%.

Inflation dynamics in the country will be driven by the expected increase in energy prices and those of transport fuels in particular, due to the higher crude oil prices. Inflation in services will also accelerate backed by the strengthening of domestic demand. Annual average inflation in 2021 will reach 1.8%.

Demand for credit from the private sector will remain subdued in 2021 and its growth rate will continue to slow down until the end of the year.

GDP growth will accelerate to 3.6% in 2022, driven by higher growth of household consumption, investment and export of services. In 2023-2024, the pace of growth will slow down, with export having a lower contribution in both years due to a slowdown in external demand.

The main negative risk to the forecast is related to the development of the epidemic situation both in the country and globally. If a long-term solution of the COVID-19 pandemic is not found, the expected recovery of the external environment and export growth will not materialize. Prolonged uncertainty could lead to further delays in spending and investment plans.

The Ministry of Finance has developed a macroeconomic scenario that simulates a more unfavorable development of the external environment in the period 2021-2022, allowing for a longer recovery to the pre-crisis levels of the Bulgaria's main trading partners. In such scenario, the real GDP growth in the country in 2021 and 2022 will be 1.5 and 1.7 pps. lower compared to the baseline.

There are also positive risks to the macroeconomic forecast. Some of them relate to the successful management of the international health crisis and the positive effects of global demand and investment activity.

Another positive risk arises from the possibility of absorbing the funds of the Recovery and Resilience Facility. Bulgaria will have access to over BGN 12 bn for economic recovery and increasing growth potential. An assessment of the effects on key macroeconomic indicators of the absorption of funds is presented. The real GDP growth of the country is expected to increase and the level of GDP at constant prices will be 3.8% higher at the end of the period in 2026 compared with the baseline scenario. ●

## 1. External Environment

The spread of the COVID-19 pandemic and the measures taken to control the infection predetermined the downward economic dynamics globally in 2020. Both developed and developing economies were affected. The shock to the world production was much more pronounced compared to the Global Financial and Economic Crisis of 2008-2009, and its scale gave rise to comparisons with the periods of world military conflicts and the Great Depression of 1929-1933. Gross Domestic Product (GDP) of the European Union (EU) also shrank at a record pace, but data for the second half of 2020 showed a high degree of adaptability of businesses and households, which raises expectations for a relatively rapid recovery, with an improvement in the health situation.

The current macroeconomic forecast is based on the assumption that the most severe measures against the spread of COVID-19 will be in the first quarter of the year in both the EU and Bulgaria, after which the acceleration of the vaccination process will help to gradually remove the restrictions and return smoothly to the normal functioning of economies. The planned budget incentives will also play a significant role in stimulating the economic activity in the world's leading economies. Global GDP growth is expected to be 5.5%, with the US and developing countries, especially China, helping to reach the pre-crisis levels of the world economy as early as in 2021. The

European economy will grow by 3.9% this year, and a recovery compared to 2019 will be expected in 2022. From 2023, growth rates in both the EU and the world will slow down, reflecting the normalization of the economic activity. Assumptions for the development of the external environment suggest an accelerated increase in demand for Bulgarian goods and services in 2021 and 2022, followed by a slowdown at the end of the projection horizon.

The assumption for the BGN/USD exchange rate is based on the pegged exchange rate of the local currency vis-à-vis the euro and a technical assumption for the USD/EUR exchange rate. The latter is assumed to remain unchanged over the projection horizon at the average levels for the ten-working-day period ending on the cut-off date of 17.03.2021. This implies an average exchange rate of USD1.20 per euro in 2021, which will decline to USD1.19 in 2022 and remain unchanged until the end of the forecasting period. This path indicates a nominal appreciation of 4.8% of the euro in 2021 and a marginal 0.2% depreciation in 2022.

The average price of a barrel of Brent crude oil was 42.3 USD in 2020 against an expected price of USD 36.5 in the Autumn forecast, thus reporting a smaller decrease as compared to 2019. In 2021, the crude oil price is expected to increase by 40.2% over the previous year, in line with

### External assumptions: difference from the previous forecast

	Spring forecast 2021				Autumn forecast 2020			Difference from the previous forecast		
	2021	2022	2023	2024	2021	2022	2023	2021	2022	2023
World real GDP [%]	5.5	4.2	3.9	3.6	5.1	3.4	3.4	0.4	0.8	0.5
EU real GDP [%]	3.9	3.9	3.1	2.3	5.8	2.6	2.5	-1.9	1.3	0.6
USD/EUR exchange rate	1.20	1.19	1.19	1.19	1.18	1.18	1.18	0.01	0.01	0.01
Oil price, Brent [USD/barrel]	59.3	55.7	53.7	52.6	43.8	46.4	49.1	15.5	9.3	4.6
Non-energy commodity prices, in USD [%]	14.8	-1.6	-1.4	-1.4	2.5	2.1	2.1	12.3	-3.7	-3.6
EURIBOR 3month [%]	-0.5	-0.5	-0.3	-0.1	-0.5	-0.5	-0.5	-0.1	0.0	0.2

Source: MF, EC, IMF

the market expectations and the assumed depreciation of the US dollar against the euro. In 2022, we expect a -6.1% decrease which will gradually decelerate to -3.6% and -2% in 2023 and 2024, respectively.

The prices of non-energy commodities in USD are assumed to increase by 14.8% in 2021 mostly on the ac-

count of the expected stronger rebound in prices of metals and food, up by 22% and 14.6% respectively. In 2022-2024, prices of non-energy commodities are expected to decrease by an average of 1.5%. •

## 2. Gross Domestic Product

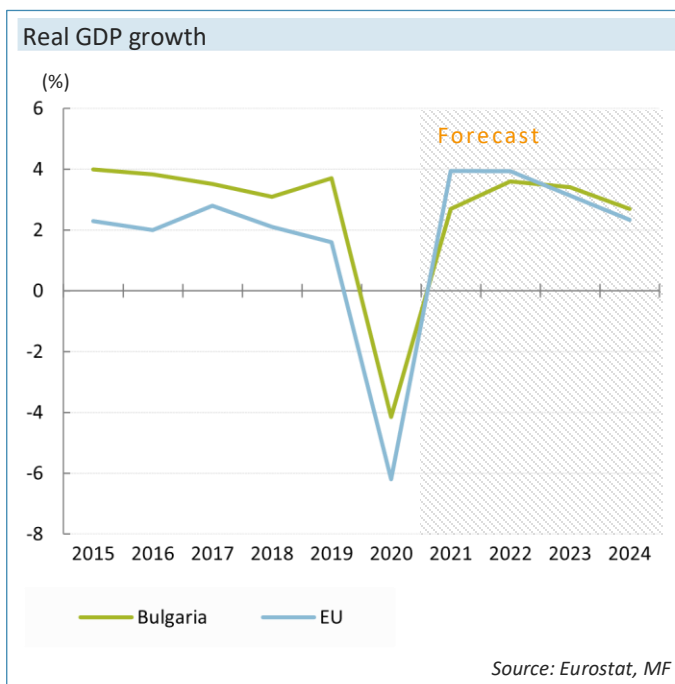
In 2020, Bulgaria's gross domestic product decreased by 4.2% in real terms against a 3% fall expected in the autumn forecast. This resulted mainly from the more negative net export contribution as compared to the autumn expectations. On the one hand, the decrease in export of goods slightly exceeded expectations, and on the other hand, the contraction in import was less pronounced due to higher than projected domestic demand.

In 2021, GDP growth is projected to reach 2.7%. Containment measures against the spread of COVID-19 will have a negative effect on household consumption in the first quarter of the year, after which it will increase, supported by increased employment. In total its annual growth will be about 2%. The decline in investment will continue in 2021, but at a slower pace. Private investment is the component that will recover most slowly from the COVID-19 crisis due to the still uncertain economic environment. We expect them to start growing towards the end of 2021 and the beginning of 2022, when investors feel the improvement of the economic environment in terms of aggregate demand. As in 2020, government consumption will contribute to economic growth by nearly 1 pps.

We still expect recovery of foreign trade in 2021, driven by an increase in export of goods, while growth in services will be limited due to the containment measures. The restrictive measures introduced in the first months of 2021 in a number of EU countries – Bulgaria's trading partners - will slow down the recovery of the EU, which will be reflected in a lower growth rate of export compared to the autumn forecast. Pre-crisis levels in trade in goods will be

reached in 2022. The recovery of services will be more gradual, predetermined by the much slower revival of international travel. The contribution of net export to GDP growth will be positive (1.2 pps).

GDP growth will accelerate to 3.6% in 2022 supported by household consumption and investment. Increased consumer confidence and increasing incomes will lead to private consumption growth of 3.8%. Private investment activity is also expected to start recovering and investment in the economy to increase by 3%. At the same time, due to the consolidation measures, public consumption is not expected to contribute to GDP growth. Overall export growth will accelerate. The services will make a major

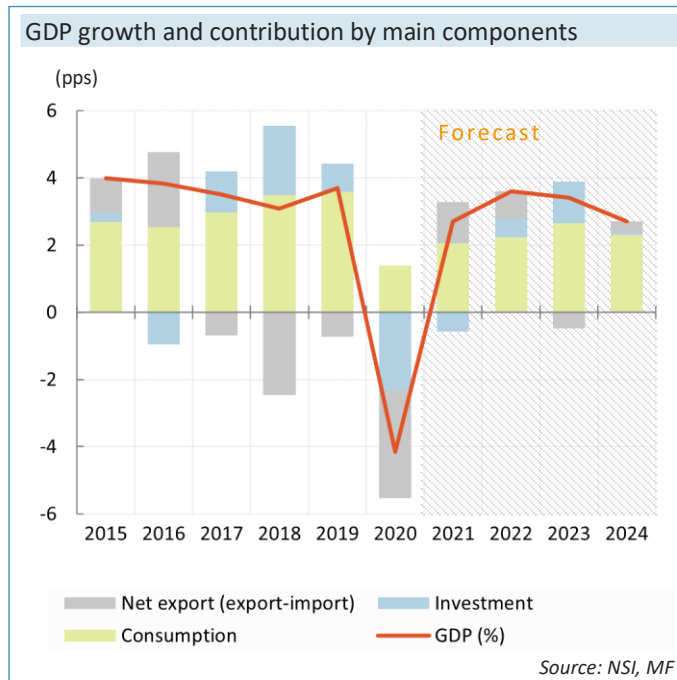


contribution due to the expected increase in foreign tourists. Export of goods will maintain their pace of growth, supported by the ongoing recovery in the EU and major trading partners. The contribution of net export to GDP will again be positive. In 2023 and 2024, economic growth will decelerate to 3.4% and 2.7%, respectively. Export will have a lower contribution in both years due to the slow-down in external demand. In 2023, a one-off factor will significantly increase both public investment and import. Public investment will also be supported by the higher European funds absorption due to the deadline for funds absorption of the programming period 2014-2020. In 2024, a decline in public investment is expected due to the higher base effect from the previous year which will contribute to the slowdown in GDP growth. •

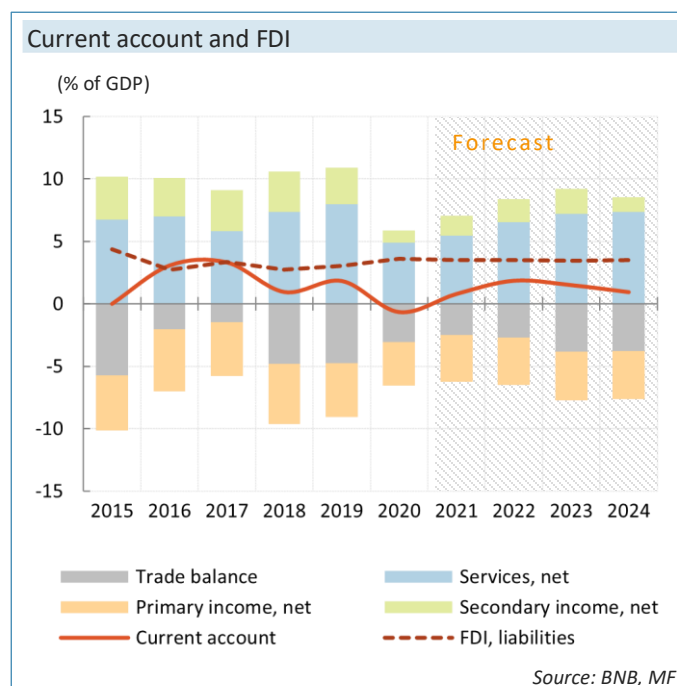
### 3. Balance of Payments

In 2020, the current account balance deteriorated to a deficit of 0.7% of GDP. Although the direction was in line with the autumn forecast, the reported reading was much lower than the projected small but positive balance. The difference is due to a stronger-than-expected negative effect on trade in goods and services, and secondary income in the second half of the year.

During the forecast period, the current account surplus is expected to recover. The increase in external demand, combined with higher international commodity prices, will be reflected in higher nominal growth in export of goods (9.4%) compared to import (7.9%) in 2021 and a reduction in the trade deficit. In the coming years, the impact of prices will be limited and nominal growth will be determined by changes in quantities. We forecast a slight increase in the trade deficit as a result of the acceleration of imports due to the stable domestic demand and more moderate export growth at the end of the forecast horizon. In 2023, the import of defense equipment will have an additional negative contribution.



The expected gradual easing of the restrictive measures in the country and in our main partners will be an important stimulus for the recovery of the international tourism. Globally, the dynamics will also depend on the



tendency of people to travel far from home, as well as on the speed of recovery of air transport and the provision of all accompanying travel services. Revenues from foreign travel in Bulgaria and export of related transport services are expected to grow at double-digit rates in 2021–2022, but both the export of services and the balance of services will remain below the pre-crisis levels until 2023.

In line with the improvement of the economic activity, there will be an increase in remittances from abroad. Due to the accelerated disbursement of funds from the European social and investment funds at the end of the pro-

gramming period, higher incoming transfers to the general government sector are expected. They will have a more significant contribution to the development of the current account surplus in 2021–2023, while in 2024 they will be traditionally lower, related to the gradual absorption of funds from the new programming period.

Foreign direct investment will amount to about 3.5% of GDP over the projection horizon. The overall dynamics of the balance of payments assume maintaining a stable external position and a stable level of international reserves.●

## 4. Labour Market and Incomes

The COVID-19 containment measures were the major factor behind labour market dynamics in 2020. As early as mid-March, with the first lockdown introduced, the number of unemployed in the country began to rise sharply, thus reaching its highest level for the whole year in May. At the same time, there was a decline in the employment which was most pronounced in activities severely restricted and even partially closed as a result of the restrictive measures (accommodation and food service activities, travels, transport, etc.) or where demand and supply chains were severely disrupted.

As a result, in 2020 the annual average decrease in employment in the economy was 2.3% and the unemployment rate increased by 0.9 pps over the previous year to 5.1%. To mitigate the negative effect of COVID-19 on labour market and to preserve the existing jobs the government undertook short-term measures, with one of the most important measures on employment being the so-called “60/40” program. Under it the government subsidizes 60% of the payments for salaries and social securities in companies where sales have decreased by more than 20% on an annual basis due to the COVID crisis. Only in 2020 about 230 thousand jobs were subsidized under this measure and it is still in force in the first half of 2021.

In the first half of 2021, the dynamics of employment will continue to be determined mainly by the restrictive COVID-19 measures and by the vaccination campaign progress. Therefore, no significant recovery in employment is expected before the middle of the year. In the second half of 2021, however, we expect a slight increase in the number of employees compared to 2020 due to several favorable factors. First, the vaccination campaign will gain momentum and a relatively large part of the population will be protected from the virus, which will allow both loosening of existing measures and increased flow of foreign tourists to Bulgaria due to reduced risk of contagion. Secondly, the seasonal dynamics of employment will increase the influence of the first factor. As a result, as well as the expected start of the post-crisis economic recovery process, employment is expected to grow by 0.5% (yoy) for 2021, and the average annual unemployment rate to be 5%.

In 2022–2023 the employment growth is expected to accelerate, which will be determined primarily by the recovery of the economy and relatively high economic growth expected. As a result, the activity rate (15+) will approach the level of 58%, which will be more than 1 percentage point above its level in the last pre-crisis year (2019). The unemployment rate is expected to keep declining to levels below 4.5%.



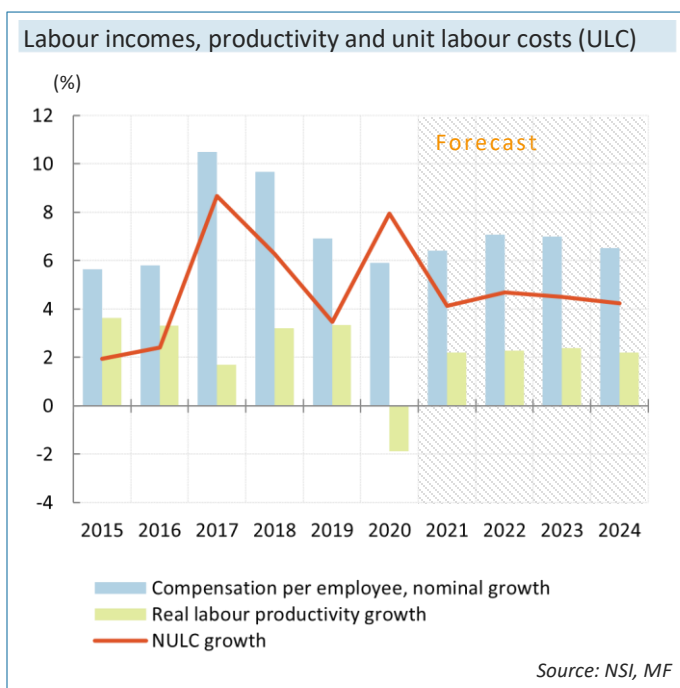
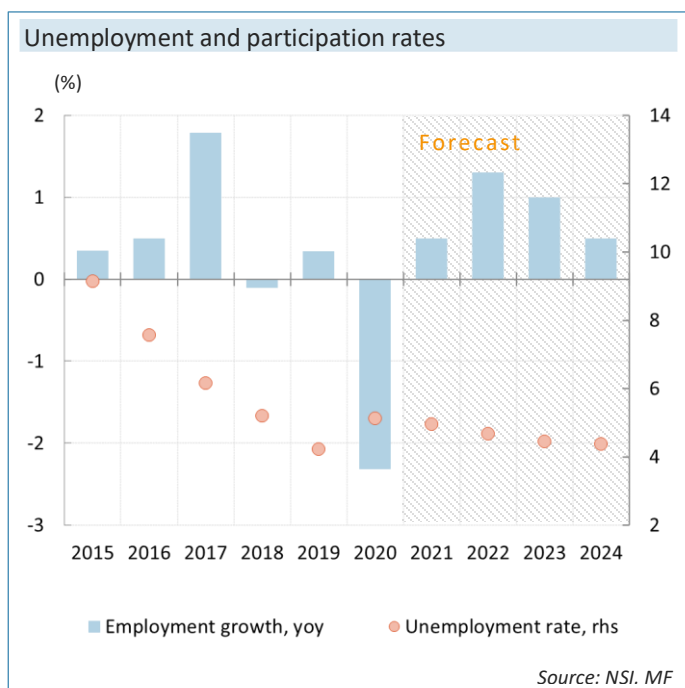
In 2024, economic growth will continue to determine the higher demand for labour in economy, but a further increase in the number of employees will begin to experience the limiting impact of demographic factors. Therefore, the expectations for 2024 are that the number of employees will continue to grow, but at a slower pace compared to the previous two years (0.5%), and the decrease in the unemployment rate will be minimal.

The negative effect of the pandemic on labor incomes in the total economy was less pronounced. Compensation per employee grew by 5.9% in 2020 and exceeded the estimates from the autumn forecast. Declines in wage bill per employee were reported by four sectors of the economy (real estate; information activities; trade, hotels and restaurants, and transport; arts, sports and entertainment), while in the industrial and public sectors the indicator increased by double-digit rates. The compensation per employee dynamics reflected also the upward trend of employers' social security costs.

The medium-term outlook for labour incomes has been revised upwards as well but remained close to the autumn forecast. The expected country's economic rebound and higher labour demand in 2021 will help compensation per employee to further speed up to a nominal 6.4%. A more significant acceleration of the indicator will

be observed in the services following the expected recovery in the second half of the year. Furthermore, the envisaged wage increases in priority public sector activities as well as the “front-line” structures in the fight against the pandemic and minimum wage would have additional positive contribution on compensation per employee dynamics. Compensation per employee growth will continue to accelerate to 7.1% in 2022 supported by the expected full recovery of the Bulgarian economy relative to the pre-pandemic level and more substantial upward employees’ dynamics. Afterwards, compensation per employee growth will remain high but it is projected to decelerate gradually due to limitations from the labour supply and the expected moderate employment increases.

Following the reported decline of 1.9% in 2020, labour productivity is projected to turn into positive territory throughout the forecasting period 2021-2024. GDP per employed (at constant prices) will exceed its pre-crisis level as of 2021. Over the medium-term, labour productivity growth is projected to gradually accelerate and to peak in 2023 (up by 2.5%). Following the strong increase in 2020, unit labour costs (ULC) are expected to be depressed by the rebound in labour productivity in 2021-2024. Nominal ULCs are projected to grow by an annual rate of 4% throughout the forecast period. •

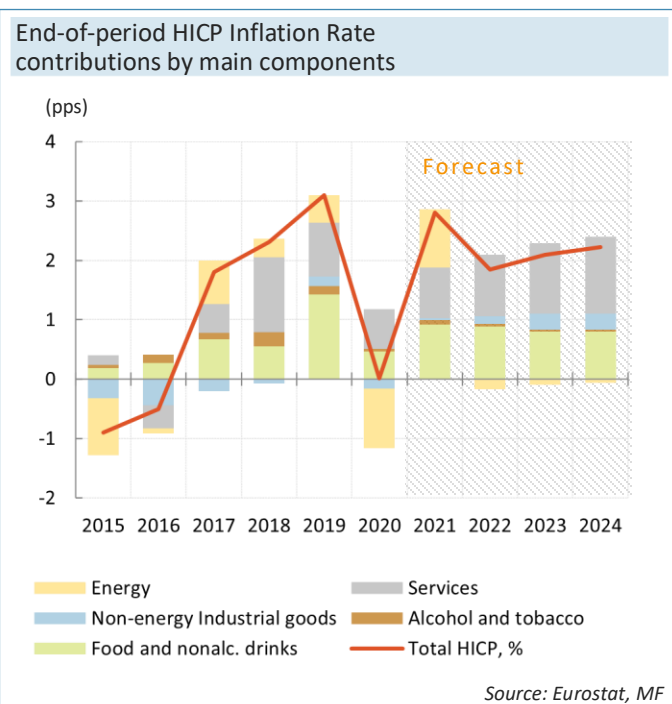


## 5. Inflation

The annual average HICP inflation in 2020 was 1.2%, being close to the expected 1.4%. However, the end-of-period inflation rate narrowed to 0% yoy against the 0.8% expected in the autumn forecast. Energy had the largest negative contribution mainly on the account of lower crude oil prices on international markets. Core inflation also decelerated during the year and reached 1.4% yoy in December. The latter was formed mainly by the increase in prices of services and processed food, which turned out to be lower than expected, thus the end-of-period inflation rate was also lower as against the autumn forecast.

Currently, we expect stronger rebound in prices of crude oil and non-energy commodities in 2021 in comparison to the autumn assumptions. This together with the reported data for the first two months of the year led to corrections in the projected change in energy and food prices. Furthermore, the latest data on HICP item weights, published in March, pointed to a change in the consumption pattern due to the COVID-19 pandemic. This also led to corrections in the expected contribution by main HICP components not only in 2021, but also until the end of the forecasting period.

In January, the annual inflation rate briefly moved to negative territory, after which accelerated to 0.2% yoy in February. Headline inflation is expected to keep accelerating and reach 2.8% yoy at the end of the year. The expected increase in international crude oil prices will result in higher domestic energy prices, as those for transport fuels are assumed to increase by almost 17% yoy in December 2021. Services inflation is expected to accelerate to 2.6% backed by the stronger domestic demand. On the other hand, the anticipated increase in domestic food prices will also lead to higher prices for catering. Prices of



non-energy industrial goods will also post a minor increase and given the expected increase in services prices, the positive contribution of core inflation<sup>1</sup> to the end-of-period inflation will strengthen. The annual average inflation rate in 2021 is expected to be 1.8%.

The annual average inflation rate in 2022 will accelerate to 2%, while the end-of-period inflation will narrow to 1.8%. The latter will be largely on the account of the expected decrease in prices of crude oil which accordingly will translate into lower prices and lower contribution from transport fuels. At the end of the forecasting horizon, the annual average and the end-of-period inflation rates will slightly accelerate to 2.1% and 2.2%, respectively. Core inflation is also expected to increase led by the stronger domestic demand. •

<sup>1</sup> The total index excluding unprocessed food and energy.



## 6. Financial Sector

The annual growth of credit to the private sector followed a slowdown trend from March 2020 after the declared State of emergency in the country as a result of the pandemic. The slowdown was not noticeable at first, but in the course of the measures and economic effects caused by the crisis, it accelerated. At the end of 2020, the annual credit growth decreased to 4.4% compared to 9.3% at the end of 2019. The process was more pronounced in loans to non-financial corporations and consumer loans, and to a lesser extent in housing credits. Limited economic activity and a high degree of uncertainty contributed to the contraction of credit growth for non-financial corporations to 3% at the end of 2020 compared to 5.9% a year earlier.

Household credit increased by 6.6% at the end of 2020 compared to 9.5% at the end of 2019. Consumer credit growth slowed to 5% from 10.8% at the end of the previous year. Housing loans were least affected by the pandemic, maintaining double-digit annual growth. It amounted to 11.6% compared to 14.5% at the end of 2019.

Compared to the autumn forecast, the expectations for claims on households have been revised in a downward direction due to the new deterioration of the health situation in the country in the first quarter of 2021 and the increased uncertainty. The expectations for the claims on enterprises have been revised in an upward direction, mainly due to the better performance compared to the more conservative expectations in the autumn forecast.

Demand for credit<sup>2</sup> from the private sector will remain subdued in 2021, with the slowdown continuing until the end of the year, taking into account supply-side factors such as banks' propensity to take less risk and possible interest rate increases. The expected lower credit growth in 2021 will be a result of weaker demand and negative effects on investment activity resulting from the COVID-19

situation, as well as due to the effect of the gradual expiration of the moratorium on deferral of due liabilities to banks. The slowdown in the growth of loans to households takes into account the current dynamics and the expected slowdown in the growth of loans for consumption and for house purchase.

In 2021, the annual growth of claims on enterprises<sup>3</sup> is projected to be around 2.8%, and of claims on households - 4.3%. In total, the growth of claims on the private sector in 2021 is expected to be around 3.4%.

In 2022 demand for credit will be higher, in line with expectations of accelerating growth in income and consumer confidence, as well as investment. Higher credit growth for households will be in line with the acceleration in growth in compensation of employees and will support the expected recovery in consumption. Claims on enterprises at the end of 2022 will slightly accelerate to a 3.9% annual growth, and those of households - to 4.9%. In total, the growth of claims on the private sector in 2022 is expected to be around 4.3%.

In the period 2023-2024 the acceleration in credit growth for the private sector will continue for both corporations and households, in line with the recovery in domestic demand. The growth of credit to non-financial corporations will have a gradual upward trend in the expected recovery of private investment. The total growth of receivables from enterprises will accelerate to 4.7% in 2023 and 5.6% in 2024. The credit for households will also gradually accelerate, with a steady increase in compensation of employees and a lower unemployment rate. The annual growth of claims on households in 2023 and 2024 is projected to be 5.8 and 6.4%, respectively. The total annual growth of claims on the private sector at the end of 2024 will reach 5.9%.

<sup>2</sup> The forecast for the development of private credit is made taking into account the current dynamics and expectations for the measures implemented by the BNB and by the government under the two anti-

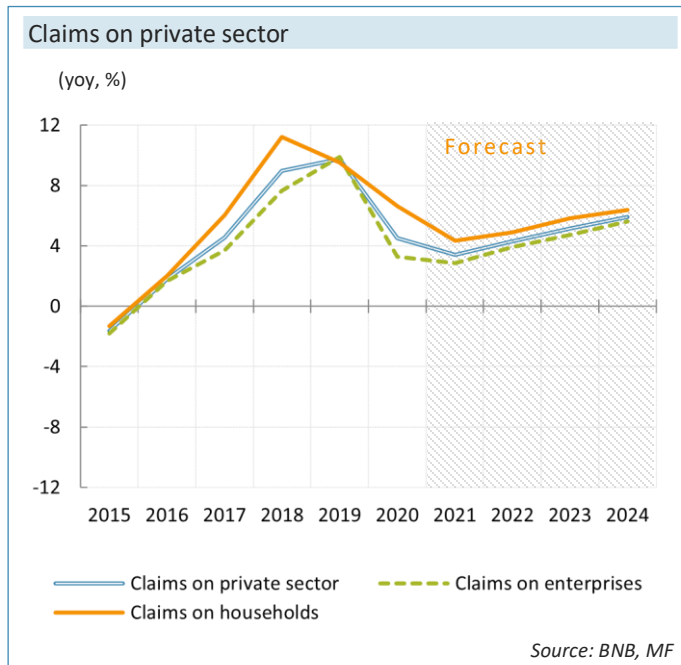
crisis programs guaranteed by the Bulgarian Development Bank (BDB) to support individuals and companies, affected by the pandemic.

<sup>3</sup> The data refer to non-financial and financial enterprises from the BNB Monetary Statistics.

In 2021, we expect the propensity to save to be more pronounced in a still uncertain environment. As economic recovery and confidence increase, we expect deposits to grow at a slower pace.

At the end of 2020, January and February 2021, the annual growth of money supply accelerated mainly due to the increase in money in circulation and overnight deposits. At the end of February 2021, the annual growth was 13.3% compared to 10.9% at the end of 2020. It is expected that at the end of 2021 the annual growth of money supply will slow down compared to current levels, to about 11.7%.

In the period 2022-2024 we expect the growth of money supply to continue to slow down together with the intensification of economic activity and the increase of investment confidence on the part of the corporations. At the end of the forecast period, its annual growth will be around 10.5%. ●



## 7. Risks

The current macroeconomic forecast depends on the way the epidemic situation develops in the country, as well as on a global scale. An important prerequisite is the gradual containment of the pandemic and the implementation of the government's immunization program. If the situation develops differently, this could lead to significant deviations in the forecast.

As regards the external environment, if a long-term solution to the COVID-19 pandemic is not found, and/or the restrictive measures in individual countries are extended, a weaker recovery in export by the end of the year and/or a slower pace of increase may be observed during the forecast period. The uncertainty about the visits of foreign tourists in the country is especially high. The development of the epidemic situation, incl. the speed and level of immunization of the population, as well as the provision of predictable and safe transport conditions to and from the place of accommodation, will be important factor for the recovery of the tourism. Rising geopolitical tensions and the introduction of new trade restrictions and protectionist measures could have a negative impact on world trade and the country's foreign demand.

Economic uncertainty is reflected in the postponement of companies' investment plans. Longer than expected duration of the deteriorating epidemic situation may result in a slower recovery of investment in the country, incl. in terms of incoming foreign investment.

The main risks to the inflation forecast are mainly related to the dynamics of international prices. The existing risks related to the expectations of oil prices are assessed as broadly balanced with a certain predominance of those in the downward direction, as a complication of the global pandemic situation would lead to a tightening of containment measures, which in turn would affect oil demand to a greater extent than other commodities. On the other hand, if OPEC+ Members agree to limit further their production and together with lower US output will rather stabilise crude oil prices around their current levels.

In general, the caution in the behavior of corporations and households will remain increased, which may lead to further delays in purchases and investment plans even if the affected economic activities begin to recover. The risks to the forecast for the monetary sector, apart from a slower and weaker than expected economic recovery, are related to the effects after the end of the anti-crisis government programs to support households and corporations and the expiration of the moratorium on loan payments.

There are also upside risks. With the faster normalization of global economic activity, we can observe a more favourable impact from the external environment. At the same time, higher investment can be expected in the country.

The funds provided under the Recovery and Resilience Facility will also have a positive effect on the economy. Bulgaria will have access to over BGN 12 bn to support recovery and to increase growth potential. ●

MAIN ECONOMIC INDICATORS	ACTUAL DATA*		PROJECTIONS			
	2019	2020	2021	2022	2023	2024
<b>International Environment</b>						
World real GDP (%)	2.8	-3.4	5.5	4.2	3.9	3.6
EU real GDP (%)	1.6	-6.2	3.9	3.9	3.1	2.3
USD/EUR exchange rate	1.12	1.14	1.20	1.19	1.19	1.19
Crude oil, Brent (USD, bbl)	64.0	42.3	59.3	55.7	53.7	52.6
Non-energy commodity prices (in USD, %)	-4.2	3.0	14.8	-1.6	-1.4	-1.4
EURIBOR 3month (%)	-0.4	-0.4	-0.5	-0.5	-0.3	-0.1
<b>Gross Domestic Product</b>						
Nominal GDP (mln BGN)	119 772	118 605	124 480	131 354	138 448	144 880
Real GDP growth (%)	3.7	-4.2	2.7	3.6	3.4	2.7
Consumption	4.7	1.8	2.6	2.8	3.4	2.9
Gross fixed capital formation	4.5	-5.1	-3.4	3.0	7.2	0.4
Export of goods and services	3.9	-11.3	5.8	6.8	4.8	3.5
Import of goods and services	5.2	-6.6	3.7	5.7	6.0	3.2
<b>Labour Market and Prices</b>						
Employment growth (SNA, %)	0.3	-2.3	0.5	1.3	1.0	0.5
Unemployment rate (LFS, %)	4.2	5.1	5.0	4.7	4.4	4.4
Compensation per employee (%)	6.9	5.9	6.4	7.1	7.0	6.5
GDP deflator (%)	5.3	3.3	2.2	1.9	1.9	1.9
Annual average HICP inflation (%)	2.5	1.2	1.8	2.0	2.0	2.1
<b>Balance of Payments</b>						
Current account (% of GDP)	1.8	-0.7	0.8	1.9	1.5	0.9
Trade balance (% of GDP)	-4.7	-3.1	-2.5	-2.7	-3.8	-3.8
Foreign direct investments (% of GDP)	3.0	3.6	3.5	3.5	3.5	3.5
<b>Monetary Sector</b>						
Money M3 (%)	9.9	10.9	11.7	11.2	10.7	10.5
Claims on enterprises (%)	9.9	3.3	2.8	3.9	4.7	5.6
Claims on households (%)	9.5	6.6	4.3	4.9	5.8	6.4

\* The forecast is based on statistical data up to 23 March 2021, unless noted otherwise

Source: MF, NSI, BNB, IMF, EC

## 8. Alternative scenario

The alternative macroeconomic scenario assumes less favourable external environment than expected in the baseline scenario. This includes protracted recovery of the EU and world economy, reflected in a slower growth in 2021 and 2022. For the rest of the period the growth rates of Bulgaria's main trading partners are slightly higher than the baseline scenario, yet GDP levels remain permanently lower. Under this alternative scenario, a full recovery of both EU and global GDP to 2019 levels is expected to be achieved in 2023. There is also a slower rise in international prices in 2021 and a slight increase in the period after that, due to a slower recovery of the world economy related to the COVID-19 pandemic. This mainly affects the prices of energy goods and metals, which are more dependent on global economic activity, and to a lesser extent the prices of food, which are mainly affected by weather conditions in the producing countries. Expectations of a slower recovery of the global and European economies will increase the demand for US dollars as a safe heaven currency, which will lead to the appreciation of the dollar against the baseline scenario.

The assumption for deteriorating development of the external environment will be reflected in more unfavorable dynamics of the country's GDP, as its real growth is expected to be lower by 1.5 pps and 1.7 pps in 2021 and

2022, respectively. Although growth is expected to accelerate for the rest of the period, the level of GDP in the alternative scenario will remain permanently below the one in the baseline scenario. The changed external conjuncture will be reflected in lower growth rates of export of goods and services in the first two years, which will be followed by a year of faster recovery. A slower recovery in external demand will suppress the recovery in labour demand and income, which in turn will constrain the growth rate of household consumption. The uncertain external environment will further limit investment activity, but the effect will be somewhat slower than other components of demand. In the first two years, a slower rise in the price level in the country is expected, expressed both in terms of GDP deflator and inflation (HICP). This will have a negative impact on the level of GDP at current prices and, despite the subsequent accelerated rise in price levels, it will remain lower than in the baseline scenario. The current account balance will follow the trends in foreign trade and will deteriorate compared to the baseline scenario.

A summary of the anticipated changes in key macroeconomic indicators due to the amended assumptions are presented in the following table.

### External assumption of the alternative scenario (difference from the baseline scenario)

	2021	2022	2023	2024
World real GDP (pps)	-3.3	-2.7	2.3	0.2
EU real GDP (pps)	-2.4	-1.6	1.6	0.5
USD/EUR exchange rate (%)	-2.5	-2.0	-1.5	-1.0
Crude oil, Brent (USD, bbl, %)	-14.3	-7.9	-2.4	3.2
Metal prices (in USD, %)	-9.1	-5.5	-1.8	2.1
Prices of agricultural raw materials (in USD, %)	-4.0	-1.8	0.1	1.9
Food prices (in USD, %)	-3.9	-1.0	0.7	2.4
Non-energy commodity prices (in USD, %)	-5.4	-2.6	-0.3	2.1

Source: MF

**Main macroeconomic indicators (difference from the baseline scenario)**

	2021	2022	2023	2024
<b>Gross Domestic Product</b>				
GDP level current prices [%]	-2.5	-5.4	-4.8	-4.5
Real GDP level [%]	-1.5	-1.7	0.2	0.1
Consumption [%]	-0.5	-1.0	-1.4	-0.6
Gross fixed capital formation [%]	-0.1	-1.7	-5.2	1.6
Export of goods and services [%]	-4.3	-3.3	3.5	-0.3
Import of goods and services [%]	-2.4	-2.3	-0.2	-0.6
<b>Labour Market and Prices</b>				
Employment level [%]	-0.9	-1.0	0.1	0.0
Unemployment rate, LFS [pps]	0.5	0.7	0.5	0.3
Average wage level [%]	-0.3	-0.9	-0.7	-0.5
GDP deflator [pps]	-0.9	-1.3	0.4	0.2
Annual average HICP inflation [pps]	-0.8	-0.4	0.2	0.6
<b>Balance of Payments</b>				
Current account in % of GDP [pps]	-1.5	-2.8	-0.5	-0.5

Source: MF

## 9. Expected effects of the implementation of the Recovery and Resilience Plan (2021–2026)

Bulgaria is expected to be one of the main beneficiaries of the EC Recovery and Resilience Facility. The national Recovery and Resilience Plans should include both investment components and structural reforms in the context of the European Semester. Given the amount of funds allocated to the country, a significant positive economic impact is expected. Hence, an assessment of the possible macroeconomic effects of the implementation of funds under the National Recovery and Resilience Plan has been prepared, assuming that the budgetary effect will be neutral.

An assumption has been made for the distribution of funds at the amount of BGN 12.6 bn by final expenditure and by years for the period 2021-2026. According to the preliminary estimates submitted in connection with the implementation of the Plan, the absorbed funds will be lower in the first three years, when about 26.2% of them

are expected to be allocated. Transfers are then expected to increase rapidly, reaching a peak in 2025, before declining slightly at the end of the period. The distribution of funds by components is made after reviewing the individual projects and assuming what part of the funds are for public consumption and investment. The main share of financing is expected to be realized in the form of public investment, and 13.7% – as public consumption. Part of the funds under the program are distributed as private investment. The absorption by individual components will follow similar dynamics in the 2021-2026 period.

The positive effect of the funds will lead to higher GDP at constant prices by 3.8%, compared to the baseline scenario at the end of the period. Real GDP growth is expected to accelerate. Significantly larger government in-



**Assessment of the effects of the Recovery and Resilience Plan (difference with a scenario without the funds under the Plan)**

	2021	2022	2023	2024	2025	2026
<b>Gross Domestic Product</b>						
Real GDP level [%]	0.3	0.9	1.9	2.8	4.1	3.8
Consumption [%]	0.2	0.7	1.6	2.9	4.4	5.3
Gross fixed capital formation [%]	1.1	4.1	8.5	12.7	19.0	18.1
Export of goods and services [%]	0.0	0.0	0.2	0.6	1.0	1.5
Import of goods and services [%]	0.1	0.7	1.8	3.5	5.6	7.4
<b>Labour Market and Prices</b>						
Employment level [%]	0.2	0.6	1.1	1.6	2.4	2.3
Unemployment rate, LFS [pps]	-0.1	-0.3	-0.6	-0.8	-1.2	-1.1
Average wage level [%]	0.1	0.2	0.4	0.6	0.8	0.7
GDP deflator [pps]	0.0	0.1	0.1	0.1	0.2	0.2
Annual average HICP inflation [pps]	0.0	0.1	0.1	0.2	0.2	0.1
<b>Balance of Payments</b>						
Current account in % of GDP [pps]	-0.1	-0.5	-1.1	-1.9	-2.9	-3.4

*Source: MF*

vestment, as a result of the Plan, will stimulate the overall investment activity in the country. Positive effect will also be observed on private investment. This will affect the demand for labour, and is expected to increase the number of employees by 2.3% till 2026, compared to the scenario without funds under the Plan. The unemployment rate is estimated to be lower by 1.1 pps at the end of the period. Increased employment and further increases in income will contribute to higher household consumption. Higher domestic demand will be reflected in higher levels of import, while a more significant posi-

tive effect on export will be observed after 2022. Increased economic activity in the country is not expected to significantly affect the price level measured by the deflator of GDP or inflation (HICP). The effect on the current account will be determined by the growing domestic demand, which will lead to its deterioration compared to the baseline scenario.

The anticipated changes in key macroeconomic indicators resulting from the changes in the assumptions made are summarized in the following table. ●