MACROECONOMIC FORECAST

Autumn 2021

Ministry of Finance of the Republic of Bulgaria

The autumn macroeconomic forecast of the Ministry of Finance takes into account the strong rebound in global economy and in particular in the EU in the first half of 2021. The favourable trend is expected to continue in the next year, but in 2023–2024 the growth of global GDP as well as of Bulgaria's main trade partners will ease as the COVID-19 related positive base effect will fade away and a gradual fiscal consolidation will be underway.

The autumn forecast is based on the assumption that the implementation of the National Recovery and Resilience Plan (RRP) of Bulgaria will begin in 2022. This will reflect into stronger economic growth, all else being equal. The expected significant investments under the RRP will spur productivity growth in the economy and, respectively, income growth.

In 2021, real GDP growth is projected to reach 4%, and 4.9% in 2022. The acceleration of economic growth in the next year will be driven by investments. Public investment will be supported by the RRP, and private investment – by improved economic environment and higher demand. Household consumption will increase at a more moderate rate in 2022, due to the high base in 2021 and a slight slowdown in income growth.

The annual average employment will remain almost unchanged in 2021 compared to the previous year – a growth of 0.1%, while in 2022–2024 the growth of the indicator is expected to accelerate due to the exhaustion of COVID-19 negative impact on economy and the expected positive effects of the RRP on employment and unemployment in the country. The medium-term wage outlook is revised upwards. Compensation per employee is projected to grow by 8.8% in 2021 and 7.8% in 2022.

The expectations in the autumn forecast are for a stronger rise in oil and non-energy commodity prices in 2021 compared to the assumptions in the spring. Inflation will continue to accelerate to 3.8% at the end of 2021 and the annual average inflation will be 2.2%. In 2022, the annual average inflation is expected to accelerate to 2.6%, while the end-of-period inflation will slow down to 2%.

The projections for the private credit in 2021 are revised upwards. The increase in claims on enterprises is expected to be around 4.1% yoy, and on claims on households – 10.3%. Credit to non-financial corporations will accelerate in the period 2022–2023, in line with the recovery of private investment and supported by the RRP.

The presented forecast depends on the evolution of the epidemic situation both within the country and globally. An important prerequisite for its realisation is preserving relatively low levels of spread of the virus and limited transfer of effects from the pandemic to the economy.

A risk to the forecast in the 2022–2024 period is the realisation of the investments under the projects in the RRP and the projects financed by the European funds.

The risk of a further rise in international commodity prices in 2022 is increasing due to the still existing supply chain disruptions. An alternative scenario based on this assumption has been developed to assess its impact on key macroeconomic indicators.

Another risk to the forecast is the forthcoming revision of national accounts data, which the National Statistical Institute will publish at the end of October and which may require a change in the projected nominal value and dynamics of GDP and its components. •

1. External Assumptions

The strong rebound in economic activity in the first half of 2021 and the upward trend in most short-term indicators supported the expected robust economic growth in the world and, in particular, in the EU, in the current year. In 2021, the global economy is expected to surpass its pre-crisis level and EU GDP to recover a significant part of the loss in 2020. At the same time, in recent months there have been first signs that economic growth is losing momentum. The trend is expected to continue in 2022 for many of Bulgaria's trade partners, as COVID-19 related positive base effect is expected to fade away, fiscal stimulus will be phasing out and gradual fiscal consolidation will be underway. In the period 2023-2024, annual GDP growth for both the world and the EU is expected to continue to slow down and converge to its long-term average rates.

The assumption for the BGN/USD exchange rate in the current forecast 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 17.09.2021. According to this technical assumption, the average annual exchange rate of the euro in 2021 is expected to be USD 1.19. This indicates a nominal 4.4% appreciation of the single currency, which is 0.4 pps lower than the spring forecast. Until the end of the forecast horizon, the exchange rate is expected to be USD 1.18 per euro.

The average price of Brent crude oil in 2021 is expected to be USD 67.8 per barrel, which corresponds to an increase of 60.3% compared to the previous year. In line with current market expectations, there is an upward correction not only in 2021, but also in the following year, when prices are expected to stabilize at their current levels and to decrease only slightly to an average of USD 67.3 in 2022. A more significant decline in oil prices is expected in 2023 and 2024, down by 4.8% and 3.4%, respectively.

Non-energy commodity prices are assumed to go up by 24.2% on average in dollar terms this year, compared to an expected 14.8% increase in the spring forecast. This is due to the higher expected growth rate of all major price subgroups. The expectations are for a 2.6% decrease in the prices of non-energy commodities in 2022, mainly due to lower metal prices, after which an increase of 0.8% on average is expected in 2023 and 2024.

External assumptions: difference from the previous forecast

	Autumn forecast 2021 r.				Spring forecast 2021 r.				Difference from the previous forecast			
External environment	**2021**	**2022**	**2023**	**2024**	**2021**	**2022**	**2023**	**2024**	**2021**	**2022**	**2023**	**2024**
World real GDP, %	6.0	4.9	3.6	3.4	5.5	4.2	3.9	3.6	0.5	0.7	-0.3	-0.2
EU real GDP, %	4.8	4.4	2.3	1.9	3.9	3.9	3.1	2.3	0.8	0.5	-0.9	-0.5
USD/EUR exchange rate	1.19	1.18	1.18	1.18	1.20	1.19	1.19	1.2	0.00	-0.01	-0.01	-0.01
Oil price, Brent (USD/barrel)	67.8	67.3	64.1	61.9	59.3	55.7	53.7	52.6	8.5	11.6	10.4	9.3
Non-energy commodity prices, in USD, %	24.2	-2.6	0.8	0.8	14.8	-1.6	-1.4	-1.4	9.4	-1.0	2.2	2.2
EURIBOR 3month (%)	-0.5	-0.5	-0.5	-0.4	-0.5	-0.5	-0.3	-0.1	0.0	0.0	-0.1	-0.2

Source: MF, EC, IMF

The forecast incorporates a probable deterioration in the epidemic situation in the second half of 2021 both in the EU and in Bulgaria. No severe containment measures are envisaged in the country and the imposed restrictions are expected to lead only to a slight slowdown in domestic demand.

The forecast is based on the assumption that the implementation of the RRP will start in 2022. This will lead to higher growth in domestic demand in the forecast horizon. The stronger growth in consumption and investment, will feed into higher growth in import, respectively to some deterioration of the contribution of net exports to GDP dynamics and lower current account balance.

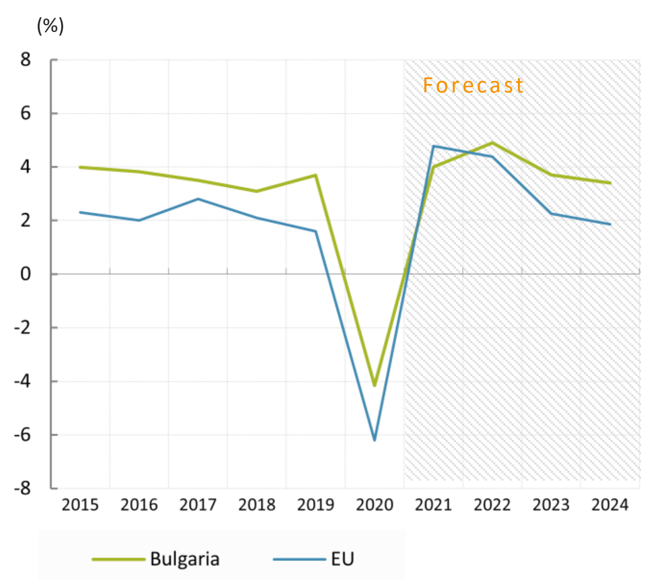
2. Gross Domestic Product

Real GDP growth is expected to reach 4% in 2021. This is an upward revision to both the Spring forecast and the forecast included in the Amendment to the 2021 Budget Act. The positive correction comes from the higher growth of domestic demand reported in the first two quarters of the year. In the 2022–2024 period, GDP growth rates are raised to 4.9%, 3.7% and 3.4%, respectively, taking into account the funds under the RRP. Nominal GDP growth in 2021 is expected to reach 8.1% and slow down over the forecast horizon to 5.4% in 2024. The growth of the GDP deflator in the current year is estimated at 3.9%, with major contribution coming from public consumption, followed by investment. The two components are affected by the increase in compensations in *general government* and higher metal prices. The impact of these factors is expected to ease down in the following years and GDP deflator will come close to the rate of inflation.

In the first half of 2021, real GDP growth reached 3.1%. The acceleration to the expected 4% for the whole year will be on the back of a less negative contribution of net export, while domestic demand is expected to slow down. In particular, the growth of household consumption will slightly ease down in the second half of 2021 due to the high base in the third quarter of 2020 and the deterioration in the epidemic situation in the country, which began in September 2021. As a result, real growth in private consumption will reach 5.1% for the year, down from 6% in the first half. Growth of fixed capital investment in 2021 is expected to be around 1%. In the second half of 2020 public investments increased by over 60% yoy and due to the high base no significant increase in public capital expenditures is expected in July-December 2021. At the same time, private investment activity is still weak. The expected slowdown in domestic demand will be reflected in similar import dynamics. Export growth is projected to accelerate in the second half of the year, based on stronger export of services during the active tourist season, stable foreign demand and a rebound in export of certain commodity groups, following a temporary decline in 2020 (e.g. cereals).

GDP growth will accelerate to 4.9% in 2022, driven by investment growth of nearly 14%. Public investments will be supported by the allocation of funds under the RRP.

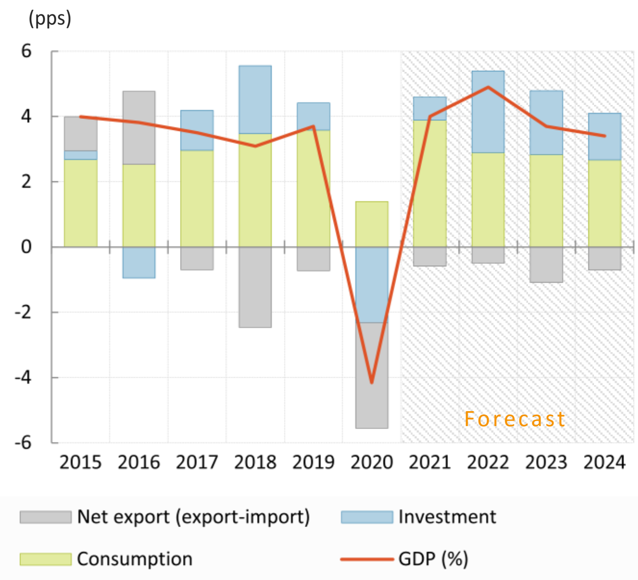
Real GDP growth



Source: Eurostat, MF

Private co-financing under the RRP will also stimulate private investment. The latter will increase also due to improved expectations related to reduced uncertainty among economic agents and strong demand. Given the high growth of private consumption in 2021 and the slight slowdown in income growth in 2022, household consumption is expected to increase at a more moderate rate in 2022, up by 3.5%. Public consumption will continue to contribute to GDP growth. As a result of the weaker growth of external demand, exports of goods will slow down compared to the previous year. The increase in services export is expected to remain significant, as tourism services will keep recovering. A downward trend is also expected in the growth of import of goods and services. Still, the overall rate will remain higher than that of export and the contribution of net export to GDP growth will remain negative.

GDP growth and contribution by main components



Source: NSI, MF

In 2023 and 2024, economic growth will slow down to 3.7 and 3.4%, respectively. Household consumption will increase by just over 4%, supported by declining unemployment, steady growth in income and credit. Fiscal consolidation will result in a weaker growth of public consumption. Export will also have a lower contribution to GDP growth in both years due to the slowdown in external demand. In 2023, trade in services is expected to return to the pre-crisis levels. The contribution of net export to GDP growth will remain negative. RRP funds will continue to stimulate the economy through higher investment, however, their growth is expected to be more moderate than in 2022, when the implementation of the plan starts.

3. Labour Market and Incomes

The COVID-19 containment measures and gradual rebound in economic activity were the major factors determining labour market dynamics in 2021. In March and April the country went through a COVID-19 wave, and the spread of new, more contagious virus variant is expected to reach its peak in October. All this necessitated the extension of the short-term employment support measures until the end of 2021.

In the first half of 2021 employment decreased by 1.2% yoy, largely due to the decline in self-employment in *agriculture*. In about half of the other economic sectors was observed increase in employment, the most significant being in *Information and communication*. The annual average employment is expected to increase by 0.1% yoy in 2021. In 2022–2024 the growth in the indicator is expected to accelerate mainly due to two factors: the exhaustion of COVID 19 negative impact on economy and the expected positive effects of RRP on employment and unemployment in the country. Nevertheless, in 2022 the employment growth is expected be somewhat constrained by possible optimization in the governmental administration jobs, and in 2023 and 2024 – by the unfavourable demographic dynamics.

The unemployment rate dynamics largely corresponds to the expected employment dynamics. The indicator is forecasted to decline from 5.5% in 2021 to 4.4% in 2024. In the last year of the forecast horizon the unemployment rate will be close to the natural rate of unemployment and any further reduction (due to the inflow of funds under the RRP) will be limited and not sustainable (with the end of the inflow of funds under the RRP, the unemployment rate will increase back to its natural level, ceteris paribus).

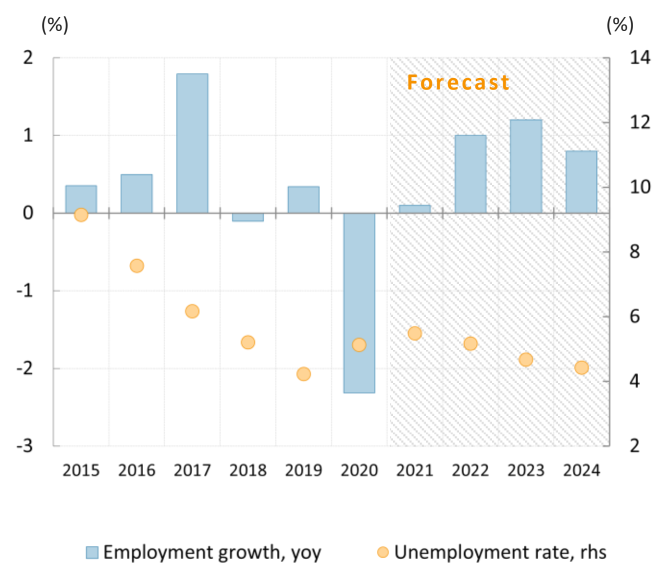
The autumn medium term wage outlook is revised upwards, with more significant adjustments in 2021 and 2022.

Following the development in the first half of the year, the nominal growth rate of compensation per employee for the whole year is estimated to reach 8.8%. The projected acceleration of the indicator is in line previous expectations, but the rate has been revised upwards. The adjustment reflects the strong wage gains in *services* and particularly in *healthcare*, *education* and *public administration* in the first half of the year. Faster than expected recovery in real productivity in the economy will also support the wage increases. Real productivity is expected to went up by 3.9% in 2021 and GDP per employed (at constant prices) to exceed its pre-pandemic level.

The expected significant increase in economic activity and labour demand in the country will contribute to strong wage dynamics over the medium term. In 2022, compensation per employee is estimated to grow by 7.8% consistent with the expected full recovery of the economy and more substantial job creation dynamics. The rate will however remain lower than in the previous year, given the reported high base in 2021, which reflected the recovery from the pandemic. Along with the expected further increase in productivity, prices and improved labour market prospects, compensation per employee growth will remain strong in 2023–2024 at above 7% per annum. Autumn projections include the estimated impact of the RRP and the accumulated effect on wages is estimated to be more profound in 2023–2024.

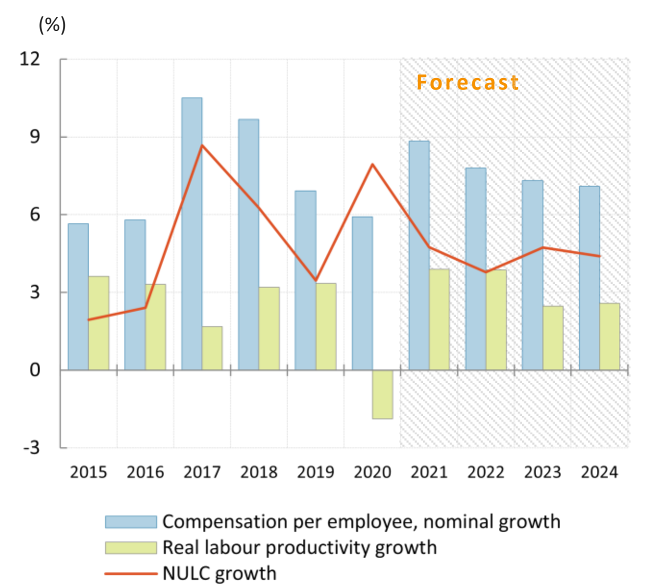
Expectations on real productivity growth have also been revised upwards in 2022–2024, up to 3% (annual average rate). The improved productivity dynamics will partially offset the expected increase in compensation per employee. Thus, the share of compensation of employees in the gross value added will gradually increase, while nominal unit labour costs are estimated to grow by an average of 4–4.5% per annum.

Unemployment and participation rates



Source: NSI, MF

Labour incomes, productivity and unit labour costs (ULC)

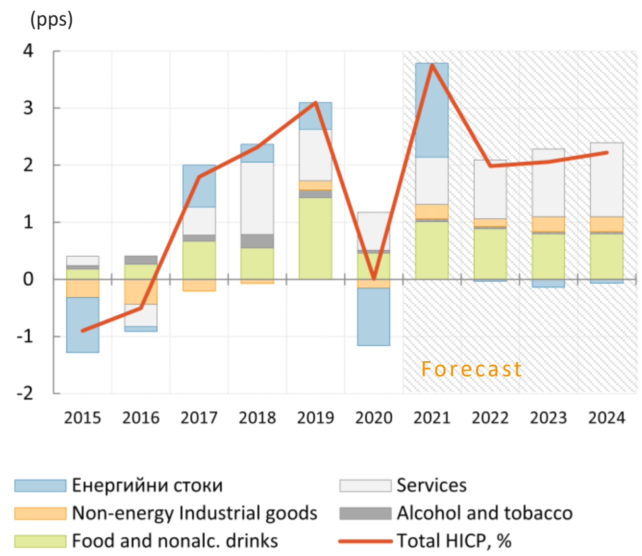


Source: NSI, MF

4. Inflation

Since the beginning of the year, the annual inflation rate in Bulgaria has been accelerating to 2.5% in August (according to HICP). The main factor behind its dynamics was the surge in commodity prices on world markets, and especially those of energy and food. In terms of production costs, this was relatively quickly transferred to the final consumer prices of transport fuels and food products, which increased by 27.5% and 3.3% yoy, respectively, in August. This also had an indirect effect on the increase in the price of transport services, catering, etc. On the other hand, after the significant slowdown in services inflation in July, in August their prices fell by an average of 0.5% yoy, which is associated with the continued slowdown in core inflation to 0.6% yoy.

End-of-period inflation rate, total HICP and contribution by main components



Source: Eurostat, MF

At present, the expectations are for a stronger rise in oil and non-energy commodity prices in 2021 compared to the assumptions in the spring. In addition, the state regulator has hiked the administered prices of natural gas, electricity and heating energy. In this regard, the projected change in consumer prices and the expected contribution by major HICP components has been revised in the current forecast, although reporting data in the first half of the year were very close to the inflation profile expected in the spring forecast. Accordingly, the annual inflation rate is expected to continue to accelerate and reach 3.8% at the end of 2021 (compared to the expected 2.8% in the spring forecast). Energy will largely contribute to this, with prices of transport fuels expected to rise by 24% by December 2021. The food prices increase will also accelerate to 4.4% by the end of the year, not only caused by the growth of relevant international prices, but also the poor harvest due to bad weather conditions in the summer. Services are also expected to make a positive contribution with a price increase of 2.6% as of December. This will be due to increased domestic demand, as well as indirect effects of more expensive fuels and food. The average annual inflation in 2021 is projected to be 2.2%.

The annual average HICP increase in 2022 is projected to be 2.6%, and inflation at the end of the year will decelerate to 2.0%. This will be largely due to the expected dynamics of the international oil price, which will lead to a slight reduction in the prices of transport fuels. By the end of the forecasting horizon, end-of-period inflation is expected to accelerate slightly to 2.2% in 2024. Energy will have a negative contribution due to the expected downward dynamics of international prices, while core inflation will continue to accelerate under the influence of the stronger domestic demand. The average annual inflation by the end of the forecast period will be 2.0–2.1%.

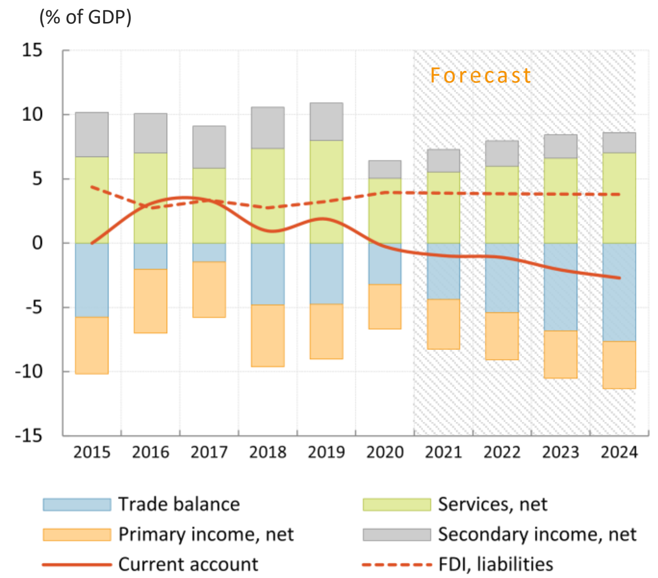
5. Balance of payments

Statistical data for the first seven months of 2021 showed a faster recovery of economic activity globally and thereof higher growth rates of international trade than expected in the spring forecast. The significant increase in domestic demand in the current year and the expected implementation of the National RRP over the forecast period will lead to higher than previously expected import growth. These trends, as well as the revised balance of payments data for the period January 2019 – June 2021 and the latest external assumptions for international prices and external demand are reflected in the current forecast on the external sector of the economy and determine the main differences to the spring one.

The expectations are preserved in 2021 for a significant increase in international prices of most goods and positive terms of trade, i.e. higher export than import prices. However, this will not compensate for the expected stronger real growth in import relative to export and the trade balance is forecasted to deteriorate to 4.4% of projected GDP. Both export and import nominal growth rates are expected to be higher than in the spring forecast. Contrary to the deteriorating balance on goods, forecast on the services surplus is revised upwards, to 5.5% of GDP. Flows on primary and secondary income are expected to recover gradually, as rising repayment on investment income will still offset the expected higher inward transfers, mainly from international institutions (EU) to *general government*. The total deficit on income articles will remain unchanged compared to the previous year (2.1% of projected GDP). The net effect on the current account will be an increase in the deficit compared to 2020 to 1% of GDP, which is also a deterioration of 1.8 pps. compared to the spring forecast.

In 2022 real growth in import of goods will remain higher than that of export, while terms of trade will turn negative. As a result, the trade deficit is expected to widen further to 5.4% of GDP. Receipts from foreign tourists will

Current account components and FDI



Source: BNB, NSI, MF

continue to increase, supporting stronger services surplus, up to 6% of GDP. The incoming grants from the RRP will feed into higher surplus on secondary income and thereof lower overall deficit on income articles. The current account deficit will edge up again, driven entirely by the deterioration in the balance of goods.

In 2023–2024, the nominal growth of import of goods will continue to outpace that of export and will contribute to a further widening in the trade deficit. Export of services will reach and surpass the pre-pandemic level in 2023, driving up the services surplus. The balance of primary income will remain broadly unchanged (as a ratio to GDP), but the surplus on secondary income will edge down in 2024 due to the end of the period for repayment of European funds under the 2014-2020 multiannual financial framework and the gradual launch of projects under the new financial framework. The current account deficit will increase slightly as a ratio to GDP.

Regarding the financial account, the excess of assets over liabilities flows will gradually decrease and in 2024 net financial inflows are expected. The dynamics of liabilities will be determined by the repayment and refinancing of external government debt and the inflow of foreign direct investment. The latter are expected to reach about 3.8–3.9% of GDP annually in the forecast horizon. The overall dynamics of the Balance of Payments implies a stable external position and a comfortable level of international reserves.

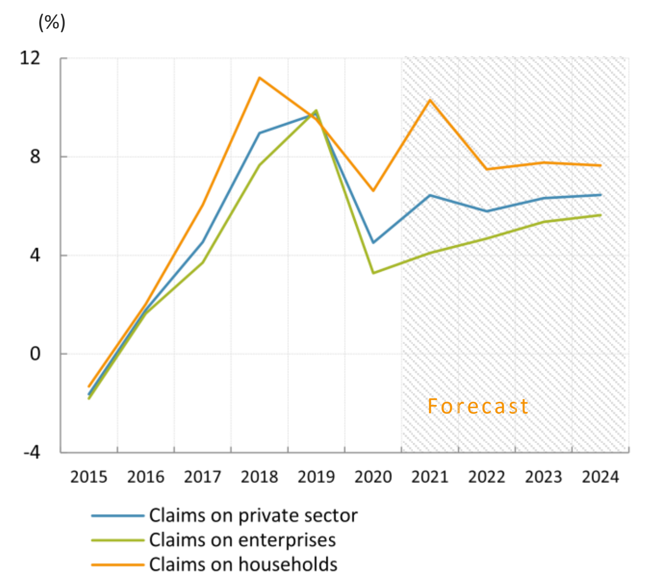
6. Financial Sector

The annual growth of the credit to the private sector accelerated to 7.5% at the end of August. This was the result of higher growth rates of credit to households (up by 11.5% compared with 6.6% at the end of 2020), as well as some positive base effect following the slowdown of private credit, which started in April 2020. Low interest rates contributed to higher demand for consumer loans (up by 9.8%) and loans for house purchase (15.8%), the latter being also influenced by the continuing increase in real estate prices. The stronger demand for loans from households in the second quarter corresponded to the significant increase in private consumption in the period. Loans to non-financial corporations grew at a slower pace (up by 4.2% at end-August compared with 3% at end-2020).

The recent developments led to an upward revision of the private credit forecast for 2021 relative to the spring one. Expected growth rates are higher for both claims on corporations and on households. Credit to corporations will accelerate in line with the expected stronger economic activity. Still its growth will remain restricted by the slow recovery in private investment. As regards households, the expected higher demand for loans will be supported by rising consumption, construction activity and housing market. The annual increase in claims on corporations[1] is projected to be around 4.1%, and in claims on households – 10.3%. Total growth of claims on the private sector in 2021 is expected to be 6.4%, up from 4.4% at the end of 2020.

In 2022 the growth of credit to households is expected to slow down, reflecting the end of the moratorium on due private liabilities to banks, expectations for cooling off of the housing market along with slower growth in the compensation of employees and consumer expenses. It will accelerate again slightly in 2023 in line with the expected higher domestic demand. Loans to non-financial corporations will speed up in 2022–2023, along with the recovery of private investment, supported by the RRP. The projected growth in claims on corporations at the end of 2022 is about 4.7%, and that of claims on households will accelerate to 7.5%. Total claims on the private sector will increase by 5.8 and 6.3% in 2022 and 2023, respectively.

Claims on the private sector



Source: BNB, MF

[1] Data includes non-financial and financial corporations from the Monetary Survey of the Bulgarian National Bank.

In 2024, claims on corporations are expected to increase by 5.6%, and the claims on households – by 7.7%.

Deposits in the banking system will continue to grow at a relatively high pace till the end of 2021, reflecting the still high uncertainty. At the end of 2021 the growth of money supply will accelerate to about 13.3%, up from 10.9% at end-2020. In 2022-2024 the growth rate of money supply will gradually begin to slow down along with the economic dynamics and higher confidence. M3 is expected to increase by 12.5 and 11.3% at the end of 2023 and 2024, respectively.

7. Risks

The presented forecast depends on the development of the epidemic situation both in the country and globally. It is based on the assumption that the spread of the virus will be relatively low and the impact of the pandemic on economic activity will be declining. In case of strong tightening of containment measures, a weaker economic recovery may be observed in 2021. Any deviation from the expected stabilisation of the health situation could also lead to significant deviations from the outlook over the entire forecast horizon.

The risks to the inflation forecast for 2021 and 2022 are currently being assessed in an upward direction. In 2022, the uncertainty about the dynamics of international prices is growing and the probability of a continued rise in international prices increases, with persistent disruption of global supply chains for goods and commodities.

As regards the external environment, the main negative risk stems from persistent supply chain bottlenecks that can spread well into 2022, constraining supply and lowering growth. The development of the COVID-19 pandemic and, consequently, possible tightening/easing of restrictive measures pose both positive and negative risks to the external environment forecast.

Risk in the 2022–2024 period stems also from the expected realisation of the investments under the projects in the RRP and the projects financed by the European funds. Delays in the launch of RRP projects would have a negative impact on GDP growth in 2022.

A technical risk is the expected revision of GDP data, which will be published by the National Statistical Institute on October 22, 2021. The revision will lead to a change in the forecast data series for both nominal GDP and for the dynamics of its components.

MAIN ECONOMIC INDICATORS	ACTUAL DATA*		PROJECTIONS			
	2019	2020	2021	2022	2023	2024
International Environment						
World real GDP [%]	2.8	-3.4	6.0	4.9	3.6	3.4
EU28 real GDP [%]	1.6	-6.2	4.8	4.4	2.3	1.9
USD/EUR exchange rate	1.12	1.14	1.19	1.18	1.18	1.18
Crude oil, Brent [USD, bbl]	64.0	42.3	67.8	67.3	64.1	61.9
Non-energy commodity prices [in USD, %]	-4.2	3.0	24.2	-2.6	0.8	0.8
EURIBOR 3month [%]	-0.4	-0.4	-0.5	-0.5	-0.5	-0.4
Gross Domestic Product						
Nominal GDP [mln BGN]	119 772	118 605	128 164	138 038	145 876	153 798
Real GDP growth [%]	3.7	-4.2	4.0	4.9	3.7	3.4
Consumption	4.7	1.8	4.9	3.6	3.6	3.4
Gross fixed capital formation	4.5	-5.1	1.0	13.7	9.9	6.7
Export of goods and services	3.9	-11.3	10.4	7.8	6.2	5.1
Import of goods and services	5.2	-6.6	11.8	8.8	8.0	6.1
Labour Market and Prices						
Employment growth [SNA, %]	0.3	-2.3	0.1	1.0	1.2	0.8
Unemployment rate [LFS, %]	4.2	5.1	5.5	5.2	4.7	4.4
Compensation per employee [%]	6.9	5.9	8.8	7.8	7.3	7.1
GDP deflator [%]	5.3	3.3	3.9	2.7	1.9	2.0
Annual average HICP inflation [%]	2.5	1.2	2.2	2.6	2.0	2.1
Balance of Payments						
Current account [% of GDP]	1.9	-0.3	-1.0	-1.1	-2.1	-2.7
Trade balance [% of GDP]	-4.7	-3.2	-4.4	-5.4	-6.8	-7.7
Foreign direct investments [% of GDP]	3.2	3.9	3.9	3.8	3.8	3.8
Monetary Sector						
Money M3 [%]	9.9	10.9	13.3	12.5	11.9	11.3
Claims on enterprices [%]	9.9	3.3	4.1	4.7	5.4	5.6
Claims on households [%]	9.5	6.6	10.3	7.5	7.8	7.7

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

Source: IMF, EC, WB, MF, NSI, BNB

8. Alternative Scenario

Under the alternative macroeconomic scenario an increase in the international commodity prices and slower than expected recovery of external demand compared to the baseline scenario is analysed. The shock to the external environment is temporary – slower than projected in the baseline scenario recovery in 2022, followed by an accelerated growth in 2023. An increase in international prices in 2022 is also incorporated in the scenario. Such development is possible if the global production and supply chains remain constrained in the next year. The rise in international commodity prices is likely to feed into higher inflationary expectations, which might in turn lead to the central banks in some countries raising the monetary policy rates. This will be reflected in higher interest rates on the interbank market. Under the alternative scenario the US Federal Reserve is expected to raise the reference interest rate as early as 2022, and the ECB – in 2023. This would lead to a divergence in the monetary policies of the two central banks and thus to the appreciation of the dollar against the euro.

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

	2021	2022	2023	2024
World real GDP (pps)	0.0	-0.5	0.5	0.0
EU real GDP (pps)	0.0	-0.5	0.5	0.0
USD/EUR exchange rate (%)	0.0%	-4.0%	-4.0%	-4.0%
Crude oil, Brent (USD, bbl, %)	0.0%	10.0%	0.0%	0.0%
Metal prices (in USD, %)	0.0%	10.0%	0.0%	0.0%
Prices of agricultural raw materials (in USD, %)	0.0%	10.0%	0.0%	0.0%
Food prices (in USD, %)	0.0%	10.0%	0.0%	0.0%
Non-energy commodity prices (in USD, %)	0.0%	10.0%	0.0%	0.0%
LIBOR 6 m., (pps)	0.0	0.3	0.4	0.4
EURIBOR 3 m., (pps)	0.0	0.0	0.1	0.1

Source: MF

The assumptions for the less favourable development of the external demand will have a negative impact on the country's GDP growth, which will be 0.6 pps lower than the baseline scenario in 2022. Due to the short-term nature of the shock, GDP growth is expected to accelerate again in 2023 and 2024. However, the level of GDP at constant prices in the alternative scenario will remain permanently below the level in the baseline scenario. The change in the external environment will be reflected in lower growth rates of export of goods and services in 2022, which will be followed by a year of accelerated recovery. The increase in commodity prices will result in higher inflation in the country, as measured by the HICP. At the same time, the change in the price of raw materials has a stronger effect on the import deflator, and hence the effect on the GDP deflator in 2022 will be negative. The uncertain external environment, higher costs of raw materials and higher interest rates will limit the investment activity in the country, as the effect will come with a lag compared to the other demand components. The weaker investment activity will dampen the recovery in labour demand and incomes, which in turn will transfer into slower growth of household consumption. The current account balance will follow the trend in foreign trade and will lower compared to the baseline scenario.

A summary of the estimated deviations in key macroeconomic indicators as a result of the changes in the initial assumptions are presented in the following table.

Main macroeconomic indicators (difference from the baseline scenario)

	2021	2022	2023	2024
GROSS DOMESTIC PRODUCT				
GDP level current prices [%]	0.0%	-1.0%	0.4%	0.2%
Real GDP level [pps]	0.0	-0.6	0.1	0.1
Consumption	0.0	-0.4	0.0	0.2
Gross fixed capital formation	0.0	-0.1	-2.5	0.8
Export of goods and services	0.0	-0.9	1.0	-0.2
Import of goods and services	0.0	-0.6	0.2	0.2
LABOUR MARKET AND PRICES				
Employment level, (SNA)[%]	0.0%	-0.3%	-0.3%	-0.3%
Unemployment rate, (LFS) [pps]	0.0	0.2	0.1	0.1
Compensation of empoyees [%]	0.0%	-0.5%	0.1%	0.1%
GDP deflator [pps]	0.0	-0.5	1.4	-0.3
Annual average HICP inflation [pps]	0.0	1.9	0.2	-0.2
BALANCE OF PAYMENTS				
Current account in % of GDP [pps]	0.0	-1.7	-0.3	-0.4

Source: MF