Bulgaria: as good as an 'L' shape

Bulgarian economic activity remains subdued, with the recovery still not clearly in sight. On the other hand, the depth of the fall has also been slightly less dramatic, particularly in industry. That said, unless the government spending speeds up in the remaining half of the year, the economy could shrink in 2020 by more than our 5.0% forecast

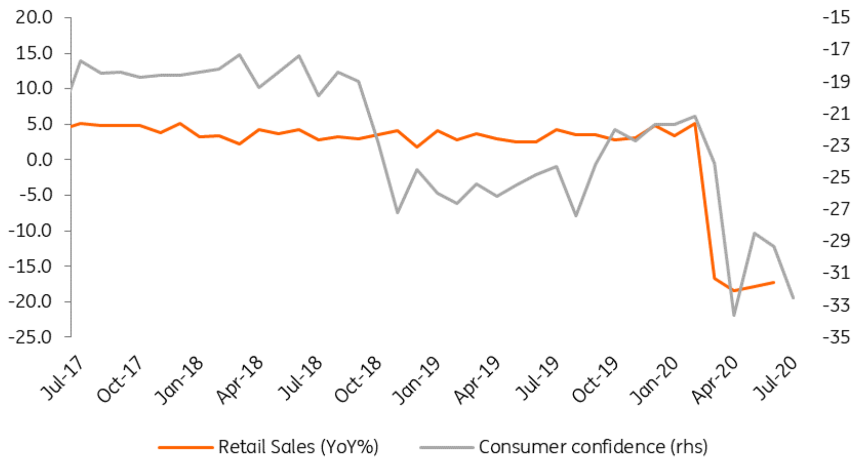
Our outlook for Bulgaria's economy sees growth cautiously picking up despite shaky political ground

Retail sales remaining remarkably stable at the bottom

After the 20% monthly contraction in retail sales back in March, it looks as if things are frozen around that level. Monthly sales remained almost flat in each of the following months, accelerating by only 0.9% in June from May. After the first six months of the year, retail sales are 10.3% below the same period of 2019. The second quarter itself is 15% below the previous quarter and almost 18% below 2Q19.

No matter how we look at it, sales dynamics resemble an L. We'd love to see the 7.2% monthly advance in fuel sales in June as a sign of recovery, but we said the same last month after the 9.5% advance. Now, with the number of Covid-19 infections on the rise again and anti-corruption protests still ongoing, the chances for a rebound in consumer morale are rather bleak.

Consumer confidence not helping



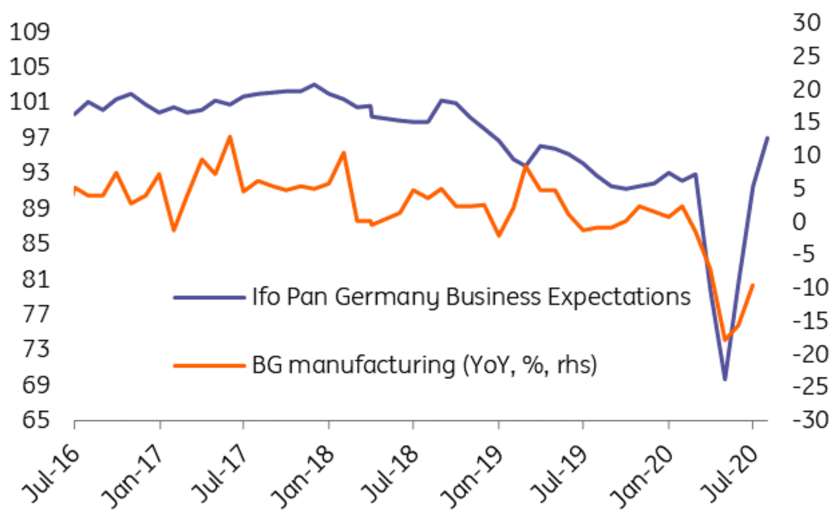
Source: NSI, EC, ING

Industry looking more robust

Industrial output expanded in June by 5.8% compared to May. This might not look impressive compared to the numbers we've seen around Europe but bear in mind that, at its low point in April, industry's monthly contraction was "only" 11.7%.

On the year, total output is still 7.5% below the first six months of 2019, which, by the way, was not a great year for industry. Again, we find some comfort in the stabilising manufacturing sector (+6.0% vs May) which should act as a backstop given its large share in the overall index.

External context is supportive



Source: NSI, EC, ING

Looking forward

Today's retail and industrial data paints a rather weak picture for what we can expect from Friday's second quarter GDP. We have pencilled a 11% contraction compared to the previous quarter which looks slightly on the optimistic side now.

For the full year, unless 2Q GDP is truly shocking, we believe that the 5.0% contraction forecast still looks realistic given the weak activity data but also the government's fiscal expansion planned for the second half of 2020. If it wants to achieve its 3.0% of GDP budget deficit target, the government needs to spend the equivalent of around 4.5% of GDP in the last five months of 2020 which will be growth supportive.

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