

## Bulgaria: Consumption contracts, manufacturing rises

Retail sales contracted by -0.8% quarter-on-quarter, while industrial production bounced back by 3.1% QoQ after a sequential contraction in 4Q18. This bodes well for GDP growth which might benefit from an improvement in net export contribution

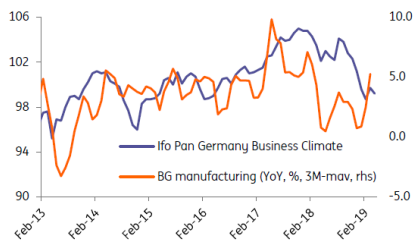


Source: Shutterstock

The main factor behind the contraction in retail sales in 1Q19 was the -4.6% QoQ fall in turnover for non-food items. This could suggest lower imported goods levels.

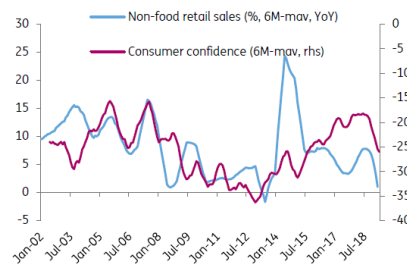
After a -0.3% QoQ contraction in the fourth quarter, the manufacturing sector bounced back by 4.4% QoQ in 1Q19. This suggests a recovery in demand for Bulgarian exports.

**Fig 1 Manufacturing up as external demand stabilises**



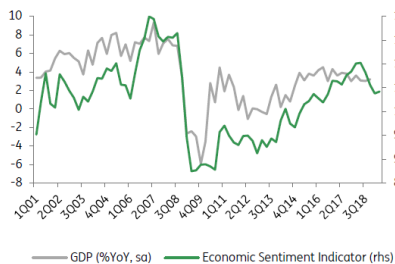
Source: Bloomberg, NSI, ING

**Fig 2 Consumers running out of confidence**



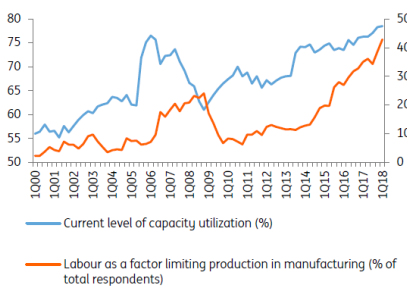
Source: EC, NSI, ING

**Fig 3 Economic sentiment finding a bottom**



Source: EC, NSI, ING

**Fig 4 High level of capacity utilisation, labour shortages**



Source: EC, ING

Despite weakness in the first quarter, April posted a significant rebound in the Economic Sentiment Indicator (ESI). Confidence in the industrial sector acting was the main driver. The construction sector also accelerated in seasonally adjusted terms, by 3.4% QoQ in 1Q19, up from 1.6% in 4Q18.

Still, a high level of capacity utilisation and reported labour shortages in manufacturing are likely to limit growth in the absence of any acceleration in investment and labour market reforms. All in all, there are some upside risks, though limited, to our forecast for the economy to expand by 3.2% YoY in 1Q18, a similar speed as in 2018.