

## Bulgaria: Economic sentiment inches down

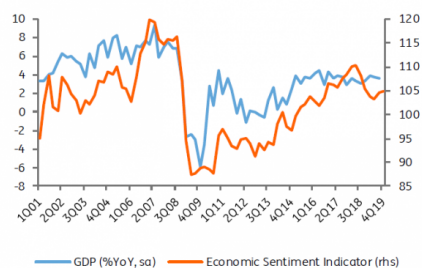
The Economic Sentiment Indicator came in at 104.2 this month versus 105.6 in October, which was the highest in a year. Aside from construction, every component showed a deterioration in confidence



Source: Shutterstock

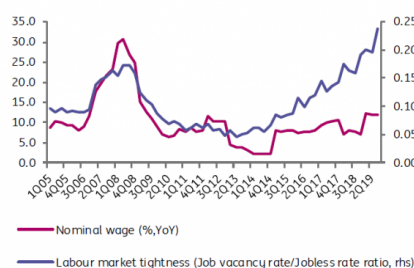
The largest component – industry – which represents 40% of the index, was the main factor driving morale lower. Companies in industry report lower order book levels due to decreased demand from abroad and a build-up in inventories. As a result, they are expecting lower production, employment and selling prices in the coming three months. Better confidence in eurozone industry and signs of bottoming out for the German economy could have a positive lagged effect on the Bulgarian manufacturing sector in the coming months. Bulgarian manufacturers reported a third consecutive drop in capacity utilisation in 4Q19 from the historical peak reached in 1Q19. Hence, only 40% of respondents consider labour shortages as a factor limiting production versus 45% in 4Q18, which was a historic high.

Fig 1 4Q GDP growth likely at similar cruising speed



Source: EC, NSI, ING

Fig 2 Tight labour market to push wages higher



Source: Eurostat, NSI, ING

Despite a pullback in consumer sentiment in November from the one year high reached in the previous month, the fourth quarter is shaping up to be the best quarter of the year for both consumer and overall confidence. At the same time, it should be the worst quarter for industrial confidence since 2Q14. This is in line with our view that robust domestic demand supported by a tight labour market with unemployment at an all-time low (which has pushed wage growth into double digits) is likely to offset weaker external demand for a while.

With no high frequency hard data released for the fourth quarter, so far, the soft data is consistent with our forecast for 3.3% year-on-year GDP growth in 4Q19, which would mean 3.7% GDP growth for the whole year.