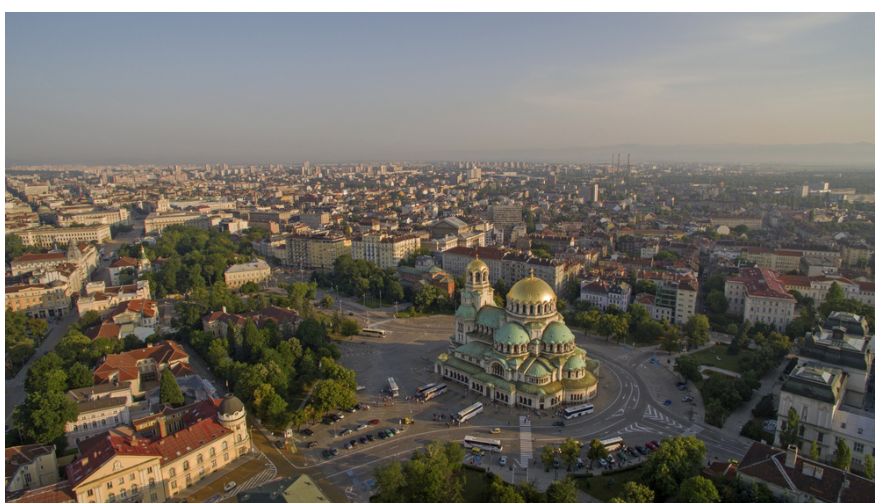


Bulgaria: High growth, but even higher inflation

Bulgaria's GDP accelerated to 3.7% in 2019. But lower growth and stubbornly high inflation could spoil the party in 2020



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

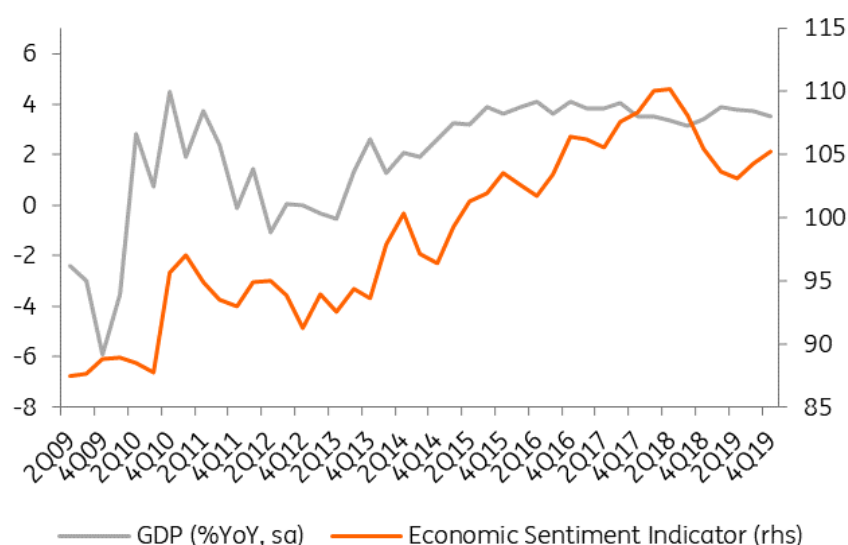
Good growth but...

Bulgarian GDP in the fourth quarter advanced by 0.7% versus the previous one and by 3.5% versus 4Q18. However, there are some signs that make our 3.4% GDP growth forecast for 2020 look slightly too optimistic.

Firstly, gross fixed capital formation contracted quite heavily in the last quarter: -2.1% against 3Q19. Secondly, consumption growth has been slowing down constantly in quarterly terms, to reach a meagre 0.6% in 4Q19.

While for the latter we could reasonably expect a bottoming out in the upcoming period given the recovery in consumer confidence during 2019, the former seems to be on a decreasing path since early 2018. With the government eyeing a balanced budget for 2020 and most of the spending increases channelled social policies, education and healthcare, there is limited scope for a rebound in investments.

Confidence supportive for growth



Source: NSI, ING

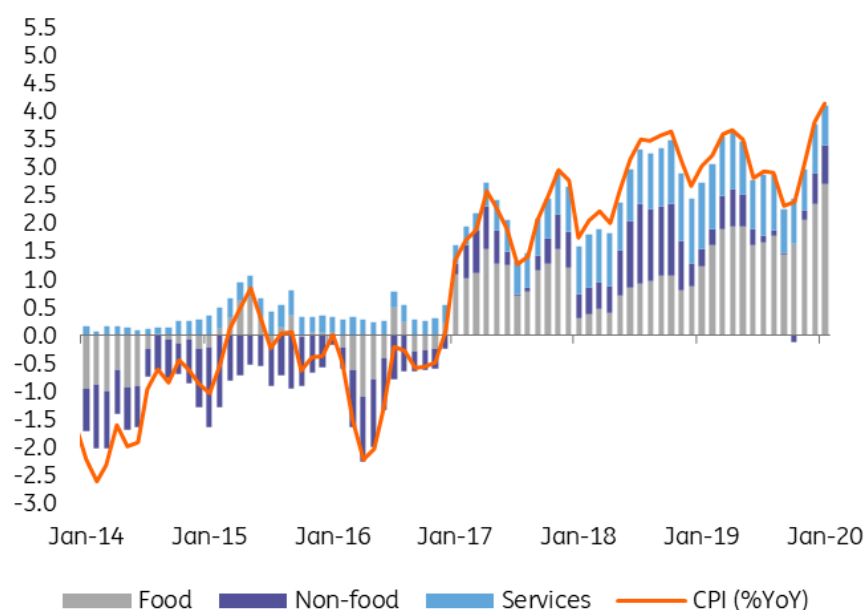
Upbeat inflation

January inflation data released today surprised on the upside, coming in at 4.2% YoY. The main drivers have been food items which accelerated 2.6% versus December 2019 and in particular the vegetables which printed a whopping 11.6% advance - albeit not unusual for winter months.

We see inflationary pressures accumulating in 2020 due to the tight labour market and relatively subdued wage advances in previous years which need to be addressed.

For now, we maintain our average forecast for 2020 inflation at 3.1%, but risks are clearly skewed to the upside.

Inflation breakdown



Source: NSI, ING

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