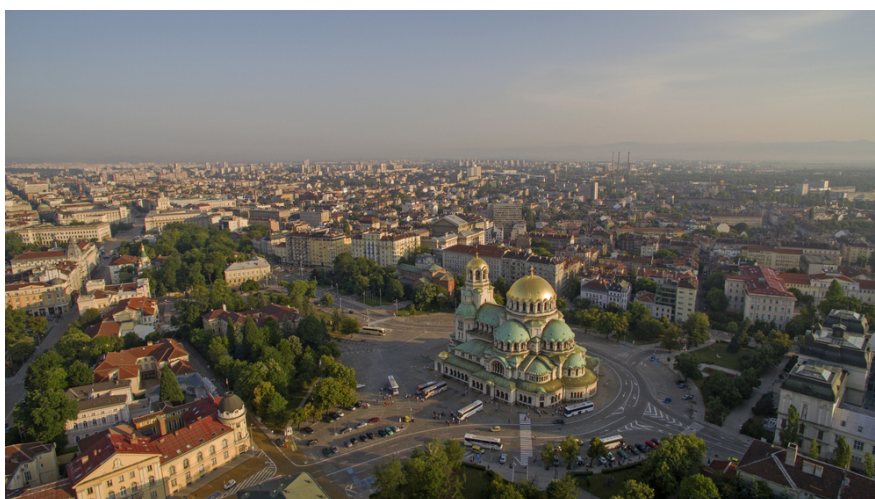


Bulgaria GDP: closing the year with a bang

Bulgaria's GDP contracted by 3.9% in 2020 after showing a higher-than-expected 2.1% expansion in the fourth quarter compared to the previous one. An electoral backdrop, still ample fiscal space and strong carry-over - all bode well for 2021 growth which we revise upwards from 3.3% to 4.1%



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

-3.8%

4Q20 GDP vs 4Q19

As usual, the flash release contains only limited details on some GDP items, and we need to wait until 9 March for more granular information.

At first glance, it seems that the main (and possibly the only) contributor to quarterly growth was the net exports component, as the exports of goods and services increased by 11.3% compared to the previous quarter, while imports expanded by only 1.2%. Despite the hefty public spending concentrated at year-end, fixed investment contracted by 0.6%, though it is likely that private - rather than public - investment, dragged down the average. Somewhat surprising negatively, the

final consumption component has contracted by 7.7%, despite retail sales (our best proxy for private consumption) expanding by 4.6% in the last quarter of 2020.

Outlook for 2021

Given the electoral context with general elections scheduled for early April, we imagine that some increased fiscal largesse could occur in the first quarter. On top of that, the already approved 10% average increase in public wages starting January 2021 and 5% pension increase starting July 2021 should do just enough to keep private consumption afloat as this sector has taken a severe hit in 2020. However, the policy visibility beyond the elections is quite blurred right now, as the fragmented political landscape makes it difficult to picture a post-election alliance.

For now, given the higher-than-expected growth from the fourth quarter of 2020 and the carry-over effect it brings, we upgrade our 2021 GDP growth estimate from 3.3% to 4.1%, while maintaining the 2022 forecast at 3.9%.

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