

## Bulgaria: GDP growth flat in 4Q

After growing by 3.1% year-on-year in the final quarter, 2018 GDP growth looks as though it will slow down to 3.3% from 3.8% in 2017. We expect a similar cruising speed of 3.4% in 2019



Source: Shutterstock

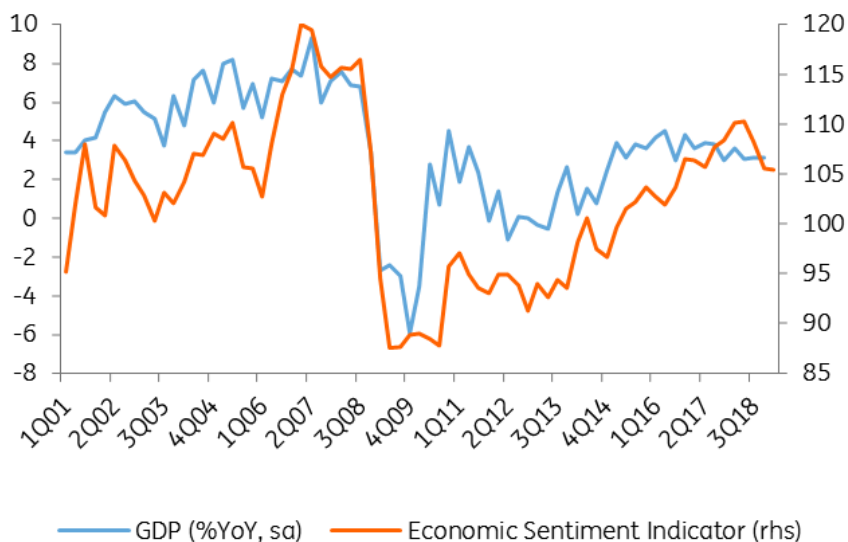
The economy expanded by 0.7% quarter-on-quarter in 4Q18, a similar pace to the previous quarter. Domestic consumption slowed down from 1.4% to 0.2% QoQ, but it was largely offset by a rebound in gross fixed capital investments from a sequential contraction of -1.5% to 0.2% as well as an improvement in net exports.

With two thirds of EU money for the ongoing budgeting period already decided, out of which only one third has already been spent, there is scope to look for an acceleration in investment in 2019. Also, some fiscal stimulus is likely to kick in, as 0.9 percentage points of GDP is allocated in the 2019 budget to public sector wage increases, which would likely reduce the probability of fiscal over performance. For 2019, the government targets a budget deficit of -0.5% of GDP versus a 0.1% surplus in 2018.

Capacity utilisation in manufacturing at 78.5% is significantly above the historical average, which should support further investment, though some companies might be reluctant as 43% of firms say labour shortages are limiting production. Despite weaker consumer expectations over the past five months, consumer intentions to buy big ticket items (cars, house and home improvements)

are rising, suggesting the ultra-accommodative imported monetary policy stance is feeding into the economy.

## Soft data points to a deceleration in 2019



Source: EC, NSI, ING

The economic sentiment index (ESI) has been pointing south over the last couple of quarters as external issues spread to the Bulgarian economy. Still, fiscal and monetary stimulus as well as EU funds should be enough to keep growth prospects quite solid for the current year.