

## Bulgaria: Growth forecasts under review

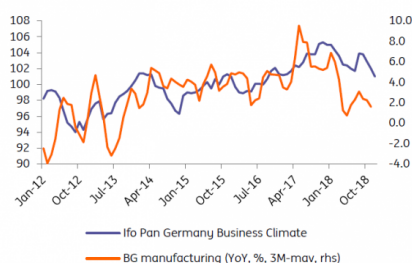
Industrial production shifted into lower gear last year, with growth of just 1.3% YoY after 11 months versus the 3.8% expansion posted in 2017. Retail sales rose 4.6% YoY in January-November versus 3.9% for the whole of 2017. As the spillover lag is closing, we could see the growth picture deteriorate



Source: Shutterstock

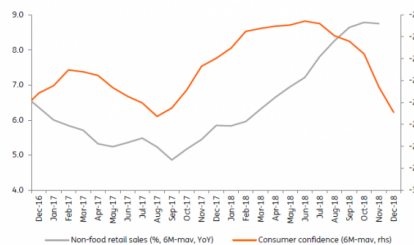
Industrial production growth marginally accelerated in November to 1.6% YoY from 1.4%, driven by the mining industry. But the underlying growth picture is slowing down as suggested by the softening in manufacturing to 1.5% YoY from 2.0%. This is pretty much in line with weaker industrial data from the eurozone in general. For the first 11 months of 2018, the manufacturing industry expanded by 2.6% YoY, less than half the pace of 2017, which stood at 5.7% YoY.

Fig 1 External soft indicators pointing further south



Source: Bloomberg, NSI, ING

Fig 2 Consumers running out of confidence



Source: EC, NSI, ING

On the other hand, domestic demand still seems to be enjoying a strong ride. Retail sales accelerated in November to 5.9% YoY from 5.4%. Less volatile non-food sales were virtually

unchanged at 8.7% YoY, painting a positive picture for domestic demand. January-November non-food turnover was up by 7.9% versus 5.6% in 2017, as a tight labour market drove strong wage growth. However, consumer confidence has weakened recently across the board, despite a mild recovery in December, suggesting that domestic demand is likely to soften going forward despite recently announced wage hikes in the public sector.

2019 is likely to prove more challenging from the external demand perspective although possible fiscal stimulus and an accommodative policy stance, which tracks the ECB, are likely to offset some of the international factors to a certain extent. Our 3.3% GDP growth forecast for 2019 seems a bit on the optimistic side and we are putting it under review with the risk balances skewed to the downside.