

## Bulgaria: Lower cruising speed to be the norm

Bulgaria's economy slowed to 3.1% in 2018 from 3.8% mainly driven by contracting exports. We expect it to expand at a similar speed in 2019



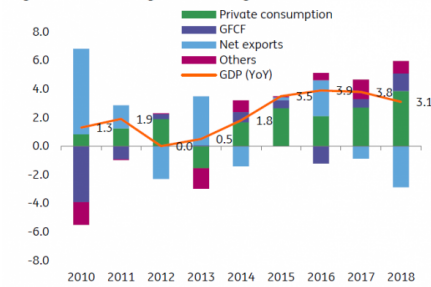
Council of Ministers building, Sofia

The contraction in exports increased the negative contribution of net exports to growth, despite a slowdown in imports.

Notwithstanding the weakness in consumer sentiment, the labour market remains strong and wages are growing in high single digits than in the private sector (+7.1% YoY in 2018). In 2019 public sector employees could see double-digit wage growth as the government allocated around 0.9ppt of GDP from the state budget to increase public sector wages. The government targets for 2019 a -0.5% of GDP budget deficit versus a 0.1% surplus in 2018, a fiscal stimulus coming on top of the lower-for-longer rates imported from ECB, which should support household demand.

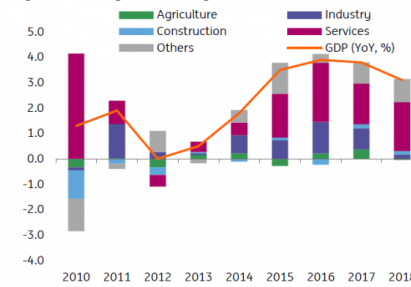
Investments are likely to be the second pillar of economic expansion in 2019 after an acceleration by 6.5% YoY in 2018 from 3.2% in 2017 with 74% of EU money already available. Gross fixed capital formation added 1.2ppt to the 3.1% growth figure.

Fig 1 Domestically driven GDP growth



Source: NSI, ING

Fig 2 Industry affected by lower external demand

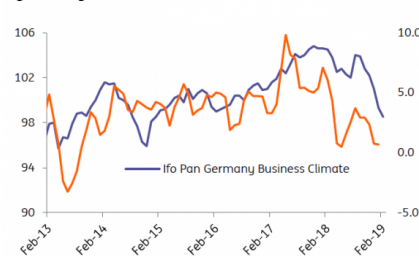


Source: NSI, ING

Purchasing intentions for big ticket items, such as cars, houses and home improvements, jumped at the start of the year and that should keep household consumption at similar levels to 2018 when it accelerated to 6.3% YoY from 4.3% in the previous year. This is somewhat at odds with weaker consumer confidence and a slowdown in non-food retail sales to 4.8% YoY in January versus an average 6.8% YoY growth in 2018. This outlook for big ticket items could be explained by cheap loans and solid job prospects. Private consumption contribution to 2018 GDP growth was 3.9ppt, being responsible for a part of the large negative contribution from net exports.

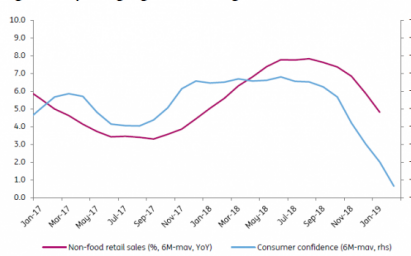
After a contraction in December, the manufacturing sector bounced back in January, by 2.4% YoY. Still, sentiment data in the eurozone's main economies doesn't show clear signs of a rebound.

Fig 3 No good news from abroad



Source: NSI, Bloomberg, ING

Fig 4 Surprising signs of cooling down domestic demand



Source: EC, NSI, ING

Provided eurozone growth finds a new equilibrium, we expect the Bulgarian economy to expand at a similar speed in 2019 as gross fixed capital formation is likely to be supported by the pipeline with EUR8.6bn (c.15% of GDP) EU funds decided, out of which EUR3.1bn is spent so far. Investments are likely to offset household consumption as suggested by weakening consumer confidence over the last eight months. We forecast GDP growth at 3.2% in 2019.