

Snap | 14 November 2018

BULGARIA

Bulgaria: Slower growth, accelerating inflation

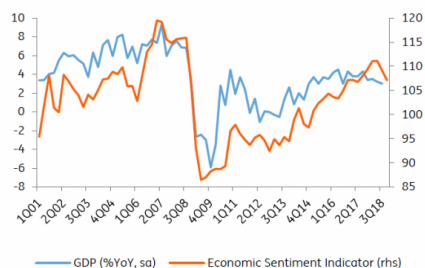
3Q18 flash GDP reading came in at 3.0% QoQ/YoY in line with our forecast, but below the Bloomberg median of 3.2% YoY. CPI accelerated to 3.7% YoY in October, above consensus and ING estimates



The catch-up process is currently in full swing for Bulgaria

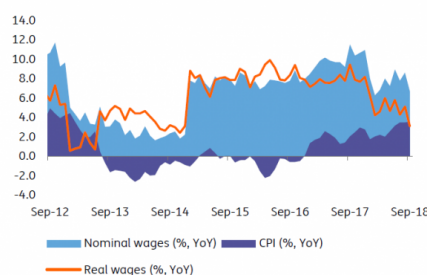
3Q18 sequential deceleration to 0.5% QoQ from 0.8% previously was not a big surprise given the dismal third quarter Eurozone GDP data, especially the reading for Germany which is the main export market for Bulgarian goods. Still, the export of goods and services and consumption are cited as the main contributors to the quarterly expansion. High frequency indicators also suggest a softer growth, with retail sales posting a quarterly deceleration, while industry contracted in the third quarter versus 2Q18. There were weaker Economic Sentiment Index (ESI) readings across the board as all three major components (industry, services and consumer) reported softer confidence in the third quarter which was also a good indication for today's GDP release.

Fig 1 Soft data continue to point south



Source: EC, NSI, ING

Fig 2 Inflation biting into real incomes



Source: NSI, ING

In annual terms, final consumption posted a mild slowdown from 7.7% to 6.9% YoY in the third quarter, as well as investments from 7.0% to 6.2%. Today's 3.0% YoY growth in 3Q18 is consistent with our full-year forecast for 2018 of 3.3%. This is a shift into a lower gear for the growth story compared with last year rather than raising any meaningful concerns.

Soft data continues to point south at the start of the fourth quarter, with ESI printing the lowest reading since Jul-17, despite the improved sentiment for industry, as services and consumer morale turned sour signalling weaker domestic demand, with inflation biting into disposable incomes. In fact, those services surveyed cited weak current and expected demand for the deterioration in sentiment, while for consumers the bleaker outlook for the financial and economic situation was cited as reasons for lower optimism, despite improving labour market prospects.

October CPI surprised to the upside, after posting a sharp 0.7% MoM rise with a few items registering eye-popping monthly jumps such as bread, gas, but also, somewhat surprisingly given the oil price developments during the month, liquid fuels. In fact, our forecast error came mainly on the back of liquid fuel prices.

Given the recent CPI numbers, the ECB's concerns about Bulgaria sustainably meeting the inflation convergence nominal criteria seem to be materialising. After steps taken to join the Banking Union simultaneously with ERM II in 2019, the latest Cooperation and Verification Mechanism (CVM) review mentioning that the EC was "*confident that Bulgaria – if it pursues the current positive trend – will be able to fulfil all the remaining recommendations and thereby the outstanding benchmarks*" could alleviate some worries on institutional convergence. Still, the real convergence process is much slower than for other CEE countries due to structural limitations to potential growth, including a shrinking labour force due to ageing population and migration, but also a slower growth rate in capital accumulation.

Author

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.