

Bulgaria: slowing down and staying there

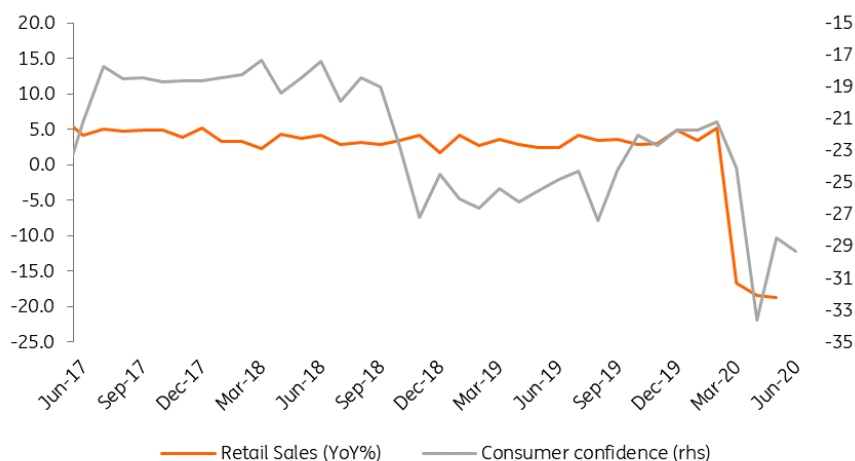
Despite most eurozone and Central and Eastern European economies exhibiting some tentative V-shaped recoveries, May data shows that Bulgarian consumers remained on the defensive while in industry, the contraction continued. We maintain our forecast for a contraction of 5.0% in GDP this year



Source: Shutterstock

Retail sales stable...at the bottom

Bulgaria's retail sales were among the first in the EU to experience a sharp contraction in March, with lockdown measures covering only about half the month. Back then, the fall in sales was 20% from February, one of the biggest contractions in the EU. After seeing the positive surprise from first quarter GDP data (+0.3% quarterly advance) and the relatively small number of Covid-19 infections during the state of emergency, one might have thought that Bulgarian consumers had been overly prudent ahead of the announced medical crisis and that things would get better soon. It didn't really go that way. Retail sales touched the bottom in March and stayed there through April (-2.0% vs March) and May (0.0% vs April) as well.

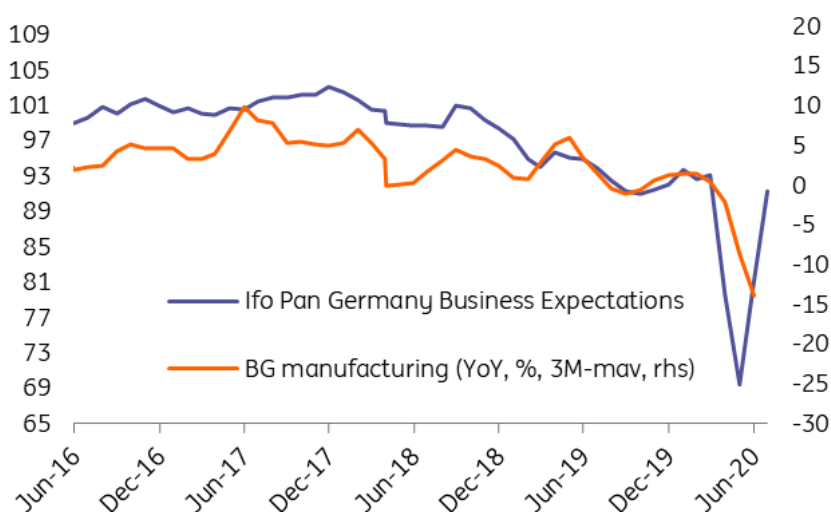


Source: NSI, EC, ING

Looking for signs of recovery, the rise in fuel sales, which increased by 6.5% in May vs April is giving us some hope for June data. Non-food items also accelerated a bit to 2.7% which leaves only the food items (-11.4%) as a drag on the overall May numbers. Therefore, we do expect some visibly better numbers for June. Nevertheless, the overall impact on growth coming from consumption is looking slightly more negative than we initially anticipated.

Industry shows some resilience but recovery is lacking

Industrial production came in soft as well in May, at -0.1% versus April. The overall fall in industry through this crisis (-12% in March-May versus the same period of 2019) was not as deep as in most of the EU countries, but the recovery looks less robust as well. In all fairness, Bulgarian industry was facing difficulties even before this crisis. In 2019 when the economy expanded by 3.4%, industrial production advanced by a meagre 0.6%. In the first quarter of 2020, industry continued to contract (-2.4% vs 1Q19). Hence, the data we are seeing now for May, in fact, looks better than expected. We find some comfort in the stabilising manufacturing sector (+1.1% vs April) which should act as a backstop given its large share in the overall index.



Source: NSI, EC, ING

While the activity level remains somewhat more subdued than expected, the depth of the fall has also not been as dramatic as in other countries. We are therefore maintaining our forecast for a contraction of 5.0% in GDP this year, which is still slightly more optimistic than the market consensus.

Author

Valentin Tataru

Chief Economist, Romania

valentin.tataru@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 <http://www.ing.com>.