

## Bulgaria: slowing down and staying there

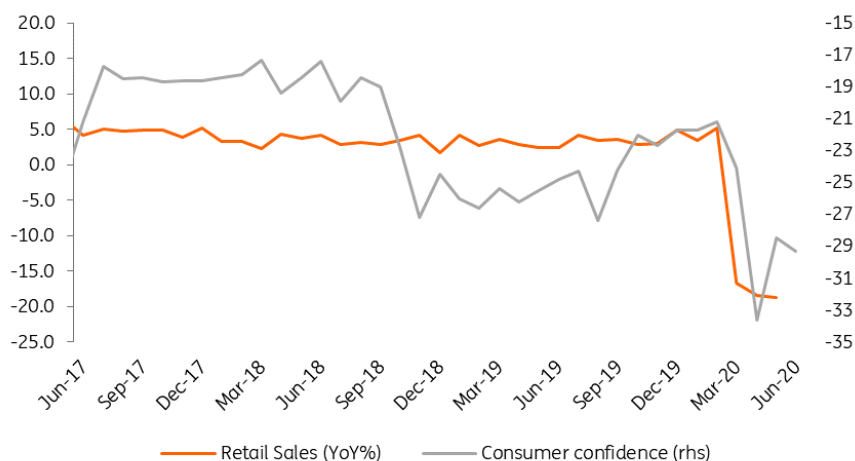
Despite most eurozone and Central and Eastern European economies exhibiting some tentative V-shaped recoveries, May data shows that Bulgarian consumers remained on the defensive while in industry, the contraction continued. We maintain our forecast for a contraction of 5.0% in GDP this year



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.

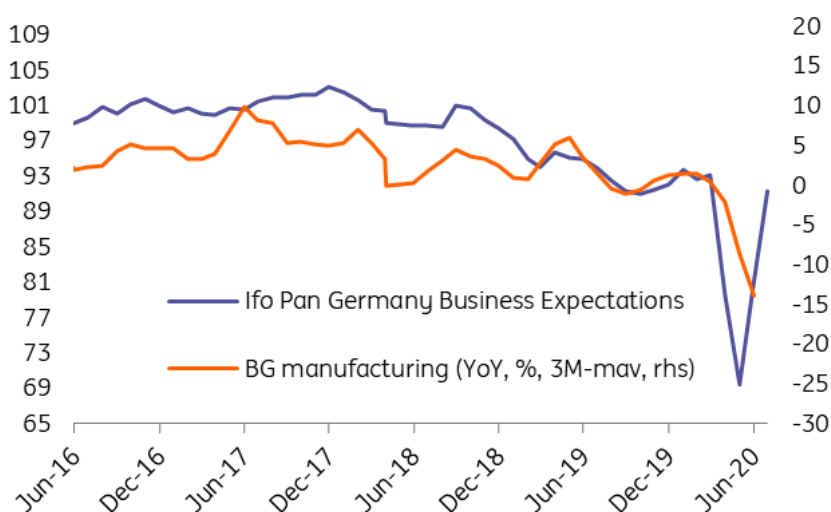


Source: NSI, EC, ING

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.

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