

Bulgaria: Weakness spreading, but don't panic

Domestic demand will likely drive growth in the fourth quarter supported by a robust labour market, but the manufacturing sector posted a sequential contraction in 4Q18

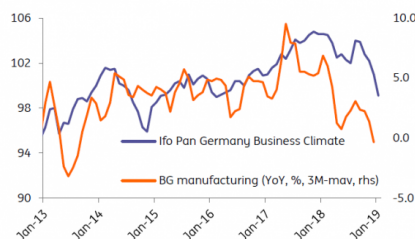


Source: Shutterstock

Industrial production contracted by -1.7% year-on-year in December.

- For the entire year, the slowdown is significant, at 1.0% YoY from 3.8% in 2017.
- The fourth quarter of 2018 also posted a sequential decline of -0.5% QoQ.
- The manufacturing sector printed a second consecutive month of decline, contracting by -1.0% QoQ.
- For the whole of 2018, manufacturing decelerated to 2.0% YoY from 5.7%, as the sector is well integrated in global value chains, reflecting broad weakness in Western Europe.
- Industrial data does not bode well for 4Q18 GDP growth due for release on 14 February.

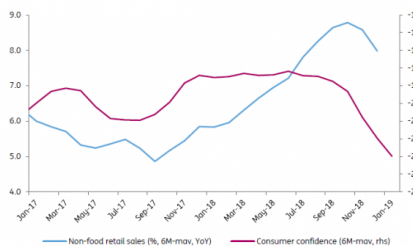
Fig 1 External demand pointing further south



Source: Bloomberg, NSI, ING

Source: EC, NSI, Bloomberg, 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 4Q18 to 1.2% QoQ from 0.8% previously, despite monthly contractions over the last two months after a very strong October.
- For the whole year, retail sales accelerated from 3.9% YoY to 4.5% YoY driven by non-food turnover, which increased by 7.6% versus 5.6% YoY previously.
- High frequency data is pointing to some softening ahead, catching up with consumer confidence, which has been deteriorating since June 2018.

2019 is likely to prove more challenging from an external demand perspective although the fiscal impulse and further room for fiscal stimulus along with an accommodative policy stance -in line with the European Central Bank- are likely to offset the international factors to a certain extent. Hence, our 3.3% GDP growth forecast for 2019 seems a bit on the optimistic side, but we wait for 4Q18 GDP data to review it, given the important statistical carry over effect.