

Bulgarian economy in good shape at mid-year

Shrugging off the political saga, the Bulgarian economy is set to post another quarter of robust growth. But the lack of a government in power may start to impact GDP growth, especially through sub-optimal EU-funds absorption and government spending



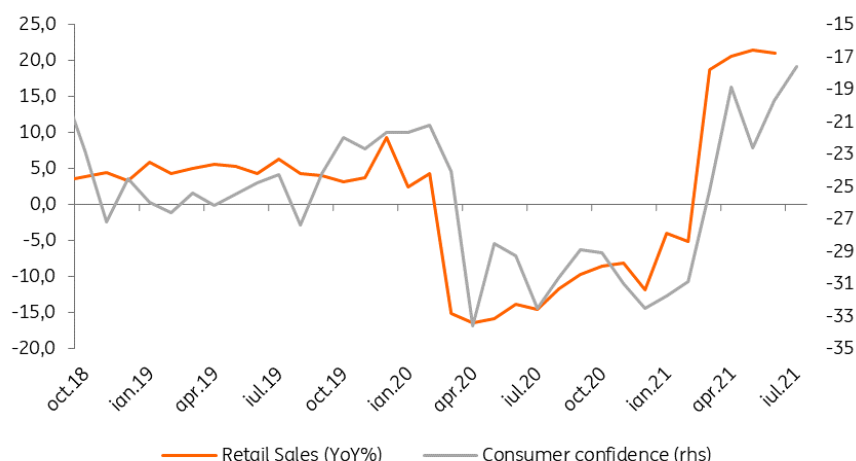
Source: Shutterstock

Retail sales

Bulgaria's economic activity has maintained a steady pace in the second quarter of 2021, benefitting from one of the least restrictive pandemic-related measures in the EU.

As the yearly growth rates are still heavily distorted by base effects and the subsequent re-opening, we prefer to focus on monthly and quarterly seasonally adjusted growth rates. From this perspective, retail sales have expanded almost every month since May 2020, with only one small hiccup in February 2021 when sales contracted by 0.1% versus the previous month.

Confidence flattening at high levels



Source: EC, NSI, ING

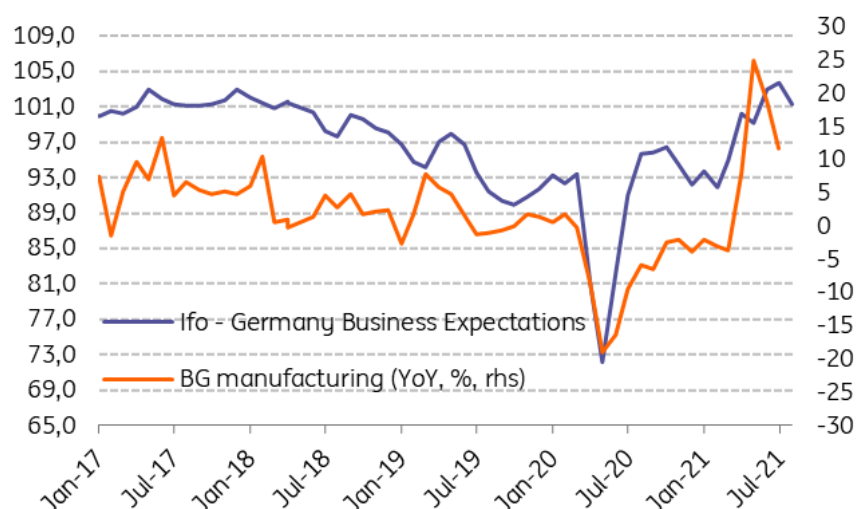
In June alone, sales expanded by 1.4%, taking the quarterly expansion to 4.6%. The main driver remained non-food items which grew by 7.4% over the quarter, most likely boosted by strong sales in the DIY sector. Fuel sales have also expanded by 5.0% over the same period, followed by food items with a 3.3% advance.

Industrial production

Industrial output grew by 2.0% in the second quarter versus the previous one, marking the fourth consecutive quarterly expansion.

The underlying growth structure, however, looks relatively weak, as the manufacturing sector - most important by its weight in the overall index - has only expanded by 0.8% in the second quarter, while in monthly terms, it has, in fact, contracted every month since April. This might indicate that the industrial recovery has reached its limits for now.

No more upside for now



Source: Ifo Institute, NSI, ING

With the [external context](#) not exactly poised for imminent growth, the short-term outlook for the Bulgarian industry in 2H21 should be flat at best.

Another robust GDP print

Although Bulgaria is the last in terms of its vaccination rate in the EU, the number of daily Covid-19 infections has been pretty low over the summer, allowing consumers to enjoy somewhat everyday life. From this perspective, we are minded to be a bit more cautious for the second half of 2021, given the approaching fourth wave of the pandemic, which in correlation with the low vaccination rate might dampen consumer morale again.

Having said that, we should underline that the first half of 2021 was well above most expectations. The second-quarter flash GDP print due 17 August should show a quarterly expansion of around 1.5%, which would be compatible with our above expectations 2021 GDP growth forecast of 5.4%.

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