

# New Europe Economics & Strategy

## Focus Notes: Bulgaria

### Bulgaria: GDP decline in Q1 disappoint expectations of a quick recovery in 2010

- ✓ The Bulgarian national statistics issued the preliminary flash GDP estimate of Q1 on May 12th. GDP recorded another quarter of contraction, albeit the pace of contraction slowed down. GDP declined by 4% yoy in Q1 against 5.9% in Q4. However, the contraction proved out higher than economists' expectations in Bloomberg survey (-3%).
- ✓ On the demand side, the contraction in private consumption slowed to -6.3% yoy in Q1, from -10.5% yoy in the prior quarter. Consumption remains depressed, suffering from a weak labor market, tight credit conditions and the implemented fiscal tightening by the new government.
- ✓ Investment contracted by 15.8% yoy in Q1, following a 35.4% yoy fall in Q4.
- ✓ At the same time, the contribution of net exports to growth improved compared to the previous quarter. Exports growth picked up to 7.6% yoy in Q1, from 0.8% yoy in Q4. Imports declined by a further 4% yoy in Q1 from 20% yoy in Q4.
- ✓ The improvement in the outlook of exports, combined with a relatively high trade openness (exports stood at 50% of GDP in 2009) inspires optimism that net exports would be a positive contributor to growth in 2010, albeit to a lesser extent compared to 2009.
- ✓ From a sectorial point of view, all sectors recorded negative growth rates in Q1. Agriculture recorded the steepest decline (-3.4% yoy). The pace of contraction in the services sector accelerated to 2.2% yoy against 1.7% yoy in Q4. This is evidence of domestic demand still in contraction mode.
- ✓ The worst is already behind for the industrial sector. The contraction in the industrial sector slowed down 1.3% in Q1 against 8.1% yoy in Q4. In fact, industrial production staged its first yearly increase since autumn 2008. Industrial production grew by 1.7% yoy in March against double digit declines throughout last year. This represents a 21.1% mom improvement, which is in line with the improvement in industrial sales.

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- ✓ We reiterate our view expressed in the last New Europe Economics & Strategy that the domestic economy hit a bottom in the last quarter of 2009. Economic activity is set to recover slowly in the coming quarters, so that GDP growth will turn positive in the second half of the year.
- ✓ In view of the above, we maintain our forecast for GDP growth in 2010 to -0.2% yoy, from -0.5% yoy, which was already more bearish than consensus. Our forecast is based on the assumption of a 5% yoy rise of exports and a 1.5% yoy decline in imports, in line with a scenario of still weak domestic demand dynamics. Yet, risks clearly lie to the downside with respect to the latter forecasts. These risks could materialize if the recovery in the exports markets proved to be weaker than expected.
- ✓ EU Commission upgraded its GDP forecast to flat growth in 2010 against a 1.1% contraction in the autumn forecasts. IMF maintains its GDP growth forecast +0.2% for 2010, while the government is about to revise its own forecast to 1.0%, from 0.3% currently.

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