

Bulgaria Business Forecast Report Q1 2015

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Abstracts

Core Views

Bulgaria's debt and deficit will continue to increase over the coming years, having grown considerably in 2014 due to a bank bailout and weak revenue growth. Nevertheless, the country will remain on a sustainable fiscal trajectory due in part to its exceptionally low public load.

Bulgaria's economic recovery will be weak in 2015 as domestic demand remains elusive. Deflation and political uncertainty compound already weak confidence levels among businesses and mean that a sharp bounce back for the economy is unlikely. We are forecasting Bulgaria's current account to return to deficit in 2015 on account of the economy's exposure to the eurozone as both an export market and remittance origination point.

Major Forecast Changes

We have revised down our 2015 and 2016 headline real GDP growth forecasts to 1.9% and 2.4% from 2.5% and 3.2% respectively to reflect weaker than expected demand in key eurozone export partners. We have downgraded our 2014 inflation forecasts for Bulgaria to reflect deflationary pressures which have endured longer than we originally anticipated. For 2015 and 2016, we have revised down year end forecasts to 0.8% and 1.2%, from 1.2% and 2% respectively.

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Minority Coalition: The Least Worst Option

Bulgaria's former Prime Minister Boiko Borisov will preside over a minority government comprising his centre-right GERB party and the Reformist Bloc, itself made up of five small centre-right factions. However, with final coalition talks not set to take place until mid- November, the eventual outcome from the October elections remains uncertain.

Table: Political Outlook

Long-Term Political Outlook

Challenges Remain Despite EU Membership

We expect EU membership to remain key to Bulgaria's long-term political outlook, helping underpin investor sentiment in the country and steady economic growth.

However, we note that despite having already joined the bloc, Bulgaria faces a number of challenges to its business environment and help ensure a more stable economic and political situation over the next ten years.

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Peg To Remain Despite Overvalued Lev

Bulgaria's currency board regime will remain in place over the long term thanks to broad institutional support and a large reserve buffer. As such, the central bank will have no recourse to policy to influence the economy, the lev will remain overvalued, and the government will resort to internal devaluation to raise export competitiveness.

Table: Monetary Policy

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Low Debt Load To Cushion Fiscal Decline

Bulgaria's debt and deficit will continue to increase over the coming years, having spiked considerably in 2014 due to bank bailouts and weak revenue growth.

Nevertheless, the country will remain fiscally sustainable and will continue to be able to meet its debt servicing obligations.

Table: Fiscal Policy

Balance Of Payments

Return To C/A Deficit Unavoidable

Bulgaria's current account will return to deficit in 2015 against a backdrop of dismal external demand from key European export partners. However, the current account deficit will not significantly threaten Bulgaria's external stability, as the country will manage to attract sufficient FDI to cover the shortfall.

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The Bulgarian economy is set to remain on a low growth trajectory over the next decade. Despite ongoing private sector deleveraging we do not expect credit growth to pick-up over the next 10 years, while slower export growth, a weak business environment and a lack of much-needed reforms will weigh on investment and economic growth.

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