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January 25, 2021

**Statement by Mr. Bhalla and Mr. Natarajan on Bulgaria
(Preliminary)
Executive Board Meeting
January 27, 2021**

1. We thank the staff for their detailed report and Mr. Hilbers and Mr. Manchev for the comprehensive Buff. Bulgarian economy was growing at a healthy rate of over 4 percent in the recent years before being hit by the COVID-19 pandemic. Though the economy is recovering, the pace of recovery is slow due to rise in new cases. The sound macroprudential policies followed over the recent years have provided substantial policy space to respond effectively to the crisis. The authorities have provided comprehensive support to mitigate the impact of the crisis. The near-term priority is to weather the immediate socio-economic and health challenges with flexible policies. After the recovery is on track, the policies should address the long-term challenges and aspirations.
2. The economy has contracted in 2020 due to containment measures taken in response to the COVID-19 pandemic. Backed by consumption growth and boost in investment, the economy is expected to rebound in the medium-term. Long-term growth potential can be realized by addressing structural constraints and focusing on human resource development.
3. Strong fiscal policy measures estimated at about 2.4 percent were taken to support health, household, corporates and job retention in 2020. In 2021, the budgeted fiscal support is estimated at 2.5 percent of GDP. Though the fiscal deficit expected to worsen to about 4 percent in 2020 and 2021, it is expected to improve in subsequent years. The support measures in 2021 would be concentrated on health and household support with tangible reduction in support for job retention scheme. The authorities have increased the wages in the public sector to narrow the gap between public and private sectors. *Can the staff comment on the payout these measures - reduction in support for job retention scheme and increase in public sector wages - at this juncture and how it will impact the labor market and the pace of economic revival?*

4. Timely measures by Bulgaria National bank (BNB) have helped to maintain financial stability and credit flow in the system. The sound capital position of the banks can help to absorb the expected deterioration in their asset quality. We commend the authorities for their proactive action and encourage continued supervisory focus. Inflation has declined sharply reflecting a widening output gap and decline in oil prices. The current account surplus has fallen in 2020 due to decrease in tourist arrivals and remittances. However, the external sector is assessed to be strong based on the fundamentals.
5. The staff report brings out the need to address inequality, strengthen Active Labor Market Policies (AMLMP) and build human capital to improve economic opportunities for both individuals and society. It is important to note the authorities' preference for more reforms and investment in education rather than fiscal redistribution to address inequality. Annex V of the staff report on "Public-Private Investment Relationship in EU Member States" provides the findings of panel regression on EU economies which suggests greater impact of public investment in education on medium-term growth albeit with a significant time lag of 8 years. *Can the staff suggest what could be the optimal policy choice for the authorities?*
6. We welcome the authorities' commitment to improving governance by strengthening the judiciary and legal framework against corruption. Finally, we wish the authorities success in their efforts.