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GRAY/21/265

January 25, 2021

**Statement by Mr. Bevilaqua, Mr. Fuentes, and Mr. Coronel on Bulgaria
(Preliminary)
Executive Board Meeting
January 27, 2021**

We thank staff for the report and Messrs. Hilbers and Manchev for their insightful statement. The COVID-19 pandemic interrupted a streak of high economic growth, declining unemployment and improved living standards for Bulgaria. Pre-pandemic performance was supported by prudent policy management that helped strengthen macroeconomic fundamentals, allowing Bulgaria to enter the crisis in a strong fiscal position. However, after successfully containing the spread of the virus, the second wave of COVID-19 cases has challenged domestic conditions adding further uncertainty.

Despite the difficult year, the short- and medium-term outlook remain positive. The sharp contraction of real GDP in 2020 is expected to be followed by a strong rebound in 2021-22 under staff's baseline scenario, based on an active set of mitigation measures, including an effective implementation of the vaccination plan. In addition to the projected rebound in consumption and private investment, available resources under the Next Generation EU (NGEU) funds are envisaged to play a catalytic role in expediting economic recovery by boosting public investment and fostering structural transformation.

Should conditions worsen, we believe the authorities are in a strong enough position to fast-track and scale-up their policy actions to assist vulnerable firms and individuals. We commend the robust policy response to the pandemic through a 2.4 percent of GDP fiscal package. We also welcome the flexibility featured in the 2021 budget to ensure adequate financial support to health spending and assistance to vulnerable population. In this regard, broadening the scope to increase SMEs access and provide relief to liquidity pressures in the corporate sector could help expedite recovery. These actions should be in line with reducing unemployment and curb the

uptick in poverty inequality to limit long-term scarring effects, while bolstering the envisioned post-pandemic rebound.

The Bulgarian economy has proven resilient amidst economic adversity but removing lingering structural bottlenecks is warranted for income convergence with the EU average.

Despite a series of economic setbacks such as the Great Recession, the European debt crisis, and the ongoing COVID-19 pandemic shock, Bulgaria's economy has proven resilient and has continued to successfully transition from a highly centralized-planned economy to a market-based middle-income country. However, to resume these efforts and catch-up with its EU peers, policies should be tilted towards addressing medium-term and structural challenges once the pandemic abates. Some of these challenges are appropriately identified by staff, and include advancing revenue mobilization, improving human capital, and strengthening active labor market policies (ALMPs).

Finally, we commend the Bulgarian authorities for joining the waiting room for the eurozone, the EU's Exchange Rate Mechanism (ERM-II). The Government has successfully delivered results in governance, state-owned enterprises, and the financial sector, including banking supervision and money laundering and CFT, showing full commitment to strong policies. Plans to operationalize the membership in the Single Supervisory Mechanism and the Single Resolution Mechanism in 2021 are critical to strengthen financial supervision. In the meantime, we concur with staff on encouraging supervisors to stand ready to use macroprudential tools to address rising NPLs and safeguarding banks' liquidity and capital position.