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**Statement by Ms. Shortino and Ms. Lyngaas on Bulgaria
(Preliminary)
Executive Board Meeting
January 27, 2021**

We thank staff for the thorough report and Mr. Hilbers and Mr. Manchev for their informative Buff statement. Though the Bulgarian economy's strong economic performance suffered a sharp contraction due to COVID-19, the authorities implemented strong policy measures to contain the initial spread of the pandemic. As Bulgaria now faces a second wave in infections, the near-term priority should be to manage the pandemic's impact on the economy. Medium and long-term challenges – including strengthening potential growth, narrowing the sizeable income gap with the EU, and preparing for eventual euro adoption – will require more comprehensive structural reforms.

Fiscal policy and crisis response. Last spring, the authorities' containment measures led to a sharp GDP contraction. Strong counter-cyclical policy support helped cushion the impact on the labor market – including through the introduction of a job retention scheme, transfers to vulnerable groups, and budget increases for health spending. We concur with staff's recommendations on improving the delivery of these support measures and encourage the authorities to take further steps to relax some eligibility criteria to improve access for small firms and non-standard wage earners to avoid worsening inequality. We agree with staff that the public sector wage increases should also be accompanied by a functional review to improve public employment management. We welcome the authorities' willingness to enhance the transparency and accountability of emergency fiscal spending by conducting ex-post audits of COVID-19 related spending.

Structural reforms. We support the report's emphasis on medium-term structural reforms, including tackling demographic challenges and long-term unemployment by strengthening

active labor market policies and the education system. As the pandemic abates, the authorities should not lose sight of making progress in the areas of governance and corruption, including improving SOE governance in line with OECD guidelines and effectively implementing the new corporate insolvency framework as part of the post-European Exchange Rate Mechanism (ERM II) commitments. *Could staff comment on a timeline for euro adoption?*

Finally, we urge the authorities to consent to the publication of the report.