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

We thank staff for the set of reports on Bulgaria and Mr. Hilbers and Mr. Manchev for their informative staff statement. We broadly agree with the staff report and acknowledge the intentions, agreements, and commitments of the authorities.

**The country, as several of its European peers, has suffered two waves of Covid-19 infections, and despite the authorities' important support, the economy entered a profound contraction and projected GDP for 2020 is around -4.6 percent.** It is expected to rebound to 3.6 percent in 2021, buttressed on the fiscal stimulus, recovery in income and employment, and less uncertainty. The fiscal support for demand and a job retention scheme have kept unemployment low, at around 4.8 percent. The projected current account balance for 2020 is expected to be positive and larger than that of 2018. To deal with the higher expenditure required as a result of the pandemic and the support package to preserve economic activity the budget was increased by 2.5 percent of GDP and, thus, the projected fiscal deficit for 2020 has increased to 3.5 percent of GDP. The authorities agree with staff on supporting economic activity until the recovery is well established. However, the authorities reaffirm their medium-term commitment to fiscal prudence and to achieving the structural deficit target after the pandemic subsides.

**In an uncertain context, the authorities have reacted to the Covid-19 crisis by covering key areas with policy measures.** Health services were enhanced, and workers, employment, and firms were supported. Moreover, to strengthen demand, income support for individuals and transfers to vulnerable groups were delivered, and firms were strengthened with tax deferrals, grants, and loan guarantees. In the 2021 budget adopted in November 2020, health expenditures were increased, as well as corporate expenditures, especially household support, which is more than double that of 2020 at 1.2 percent of GDP, and if well managed, more social protection spending could be delivered. How the pandemic may evolve remains uncertain but risks to the near-term outlook are largely balanced.

**When the Covid-19 pandemic recedes, policies could shift from protecting activities to supporting the recovery and an inclusive and green growth.** Efforts should be made to enhance

the quality of education, particularly digital skills, and to reduce unemployment, inequality, and poverty, but positive results in these areas will take time. The authorities are working to solve high NPLs, an important challenge for the financial sector in the pandemic while enhancing banks' capital and liquidity positions, even though the system remains broadly well-capitalized and liquid. At the same time, the Bulgaria National Bank is centered on synchronizing with the ECB, the Single Supervisory, and the Single Resolution Mechanisms.

**We commend the authorities for joining the European exchange rate mechanism (ERM II) and the banking union in July 2020 amid the pandemic.** These steps, added to inclusive growth policies, will help Bulgaria's income convergence with advanced European countries in the medium term. Furthermore, this will be helped by Next Generation European Union funds to finance investment and reforms, which will represent 13 percent of the current GDP in 2021-26. In this regard, to deal with these funds, as mentioned in the Buff statement, public investment management must be enhanced, particularly project appraisal, multiyear budgeting, procurement procedures, and measures to increase traceability and transparency in the awarding and execution of public contracts.

With these comments, we wish the authorities and people of Bulgaria all the best in their endeavors in these difficult times.