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January 25, 2021

**Statement by Mr. Buissé, Mr. Rozan, and Ms. Gilliot on Bulgaria  
(Preliminary)  
Executive Board Meeting  
January 27, 2021**

*We thank staff for their insightful report and Mr. Hilbers and Mr. Manchev for their interesting Buff statement. The pandemic has hit Bulgaria after years of robust economic performance. In a context of broad uncertainty on the outlook, we broadly share staff's views on the impact of the Covid-19 pandemic, the appropriateness of policy responses put in place by the authorities to reduce the social and economic impact of the crisis, as well as medium term scarring, and the expected recovery in 2021. We associate ourselves with Mr. Poso's statement and would like to offer the following remarks for consideration.*

**We agree with staff that fiscal policy has been able to provide much needed counter-cyclical support. Near-term growth should continue to be supported by this stimulus.** We generally share the assessment made by staff that implementation of the measures can be further enhanced and welcome the pick-up in the rollout of the measures mentioned in the report. The regular review of these supporting measures, and their modification when needed will be useful to ensure a swift and simpler delivery, and we welcome the authorities' intentions in this regard.

**This recovery could be supported by improvements in the social protection system.** The reduction in income inequality and poverty should continue to receive priority attention to help mitigate the social impact of the pandemic and promote a more inclusive growth. In this regard, we found the short analysis of inequality, poverty and social protection presented in Box 4 interesting. It would be very useful going forward to have more details on the options to enhance the efficiency of the social protection system. *Could staff provide more detailed analysis of the review of the level, targeting and composition of social protection spending they are calling for?*

**We welcome the authorities' commitment to fiscal prudence of the medium term, while increasing spending efficiency could prove key to enhance investment and EU fund absorption.** Once output firmly reach its pre-pandemic level, the authorities should implement measures to recreate fiscal buffers. We fully share staff's view that any potential

large public sector wage increases should be preceded by a comprehensive review of public sector employment and wages to enhance fiscal management and preserve support to other key areas including social and health spending. Enhanced domestic revenue mobilization would benefit from the use of the IMF's Administration Diagnostic Assessment Tool, given the sizable VAT compliance gap and the constraints over the tax administration capacity. In light of the significant level of EU funds that Bulgaria will receive in the coming years, including in the context of the NGEU, the improvement of public spending efficiency and effectiveness, in particular of public investment, should remain driven by PIMA TA recommendations.

**We very much welcome the fact that Bulgaria recently joined ERM II and the Banking Union, which are key steps for the integrity of the financial system and the financing of the economy. Going forward, further efforts will be needed to enhance supervision.** We are pleased to note the authorities' commitment to the strengthening of the overall institutional and governance framework including reforms aimed at improving the judiciary, anti-money laundering and anti-corruption frameworks. Despite progress made in the context of Bulgaria's participation in ERM II and future integration into the Euro Area, attention will have to be paid on the issue of NPL and supervision of the insurance sector. In addition, we would have seen merit in more emphasis in the report on the implementation of the AML-CFT and anti-corruption frameworks, and we look forward to further analysis on these issues in the next consultation. Besides, while the Bulgarian Development Bank (BDB) is playing a key role in the banking system, we would have appreciated further analysis on recent developments related to its governance. *Staff's comments would be welcome.* Finally, we share staff's view that more could be done to alleviate pressures on corporate balance sheets. Along with the effective implementation of the new corporate insolvency framework, the transposition of the 2019 EU Directive on preventive restructuring frameworks will be key in accelerating the NPL resolution and reduction.

**We fully support staff's call to implement structural reforms with a clear timeline and objectives to raise potential growth and mitigate demographics factors.** Policy responses to maintaining potential growth and increase employment and income convergence within the EU should be focused on education, training and innovation, and we welcome the authorities' policy priorities in this regard. While improving the quality of education, the Recovery and Sustainability Plan (RSP) currently prepared by the authorities in the context of the NGEU should also seek to reduce skill mismatches, long-term unemployment and foster labor participation of the most vulnerable groups. We will remain attentive to the authorities' progress on Bulgaria's transition to a low carbon economy beginning with the reduction of the carbon footprint of the transport sector mentioned in the national RSP.