

# The World Bank in Bulgaria Country Snapshot



An overview of the World Bank's work in Bulgaria

April 2020

BULGARIA	2019
Population, million	6.9
GDP, current US\$ billion	70.4
GDP per capita, current US\$	10,100
Life Expectancy at Birth, years (Most recent WDI value 2017)	74.8

## At a Glance

- The economy showed strong performance in 2019, with GDP growth reaching 3.4 percent, employment climbing to record highs, and average salaries rising at double-digit rates. Yet, the ongoing pandemic is most likely to drag the economy into a recession in 2020. Limited measures in support of local businesses may prolong the recovery.
- The 2016 Country Partnership Framework (CPF) aims to support the country in two areas: strengthening institutions and investing in people. The six-year program set up a selective engagement, with more ambitious objectives in a few key areas where there is strong government ownership and demand for World Bank Group support.
- The CPF Performance and Learning Review reconfirmed the relevance of the main program areas of engagement, and implementation over the first two years is on track to achieve the program's objectives.

## Country Context

Bulgaria has undergone a significant transformation over the past three decades. It has changed from a highly centralized, planned economy to an open, market-based, upper-middle-income country securely anchored in the European Union (EU). In its initial transition, Bulgaria went through a decade of slow economic restructuring and growth, high indebtedness, and a loss of savings.

However, the advancement of structural reforms starting in the late 1990s, the introduction of the currency board, and expectations of EU accession unleashed a decade of exceptionally high economic growth and improved living standards.

Yet, a number of legacies from that early period, the global economic crisis of 2008, and a period of political instability in 2013–14 undid some of those gains.

In the current period, the ongoing pandemic is most likely to drag the economy into a recession in 2020.

Poverty is projected to increase, given the job losses and rising vulnerabilities associated with the crisis and the possible negative impact of rising minimum wages on employment among the unskilled.

The poor are more vulnerable to health shocks because they often have less access to health care and lower savings to protect them from a financial catastrophe. Additionally, they are more likely to suffer from income losses as a result of quarantines and/or disruptions in economic activity.

Bulgaria will need to adopt bold recovery measures to increase productivity by at least 4 percent per year in order to catch up with average EU income levels and boost shared prosperity.

## The World Bank and Bulgaria

Since the opening of its office more than 28 years ago, the World Bank has developed a sound partnership with Bulgaria.

In its reform efforts, Bulgaria has chosen to engage the World Bank in selective areas of the development agenda. The Government, in its partnership with the World Bank Group (WBG), is promoting policies to address the capacity gap between institutions and to improve service delivery.

The WBG will continue to align its program with the Government's priorities to create space for broader engagement where there is a potential for transformational impact.

### Key Engagement

The partnership with Bulgaria is characterized by knowledge and advisory services, provided through **Reimbursable Advisory Service (RAS)** arrangements and supported by EU funding.

On September 1, 2015, Cyril Muller, the World Bank's Vice President for Europe and Central Asia, and Tomislav Donchev, Bulgaria's Deputy Prime Minister for EU Funds and Economic Policies, signed a second Memorandum of Understanding (MoU) on partnership and support in the implementation of European Structural and Investment Funds for the 2014–20 period.

The current Country Partnership Framework (CPF) for Bulgaria, endorsed by the Board in May 2016, covers a period of six years to coincide with the EU programming cycle. The CPF marks a renewed engagement with Bulgaria, including the first new lending operation since FY11.

The CPF Performance and Learning Review (PLR) reconfirmed the relevance of the program's main areas of engagement, and implementation over the first two years is on track to achieve the program's objectives.

### WORLD BANK PORTFOLIO

45 International Bank for Reconstruction and Development (IBRD) operations, with a total original commitment of roughly \$3.3 billion equivalent, including:

- 15 Adjustment Loans (\$1.73 Billion)
- 25 Investment Projects (\$1.45 Billion)
- 1 Debt Reduction Loan (\$125 Million)
- 4 World Bank–Managed Global Environment Facility (GEF) Grants
- 40 International Finance Corporation projects (completed and ongoing), with total commitments of over \$1.05 billion

The new EU funding program for 2021–27, including the introduction of Enabling Conditions, will require the continued strengthening of the state and its institutions, an area in which the Bulgarian government has expressed interest in continued WBG support.

## Recent Economic Developments

After better-than-expected GDP growth in 2019, the economy is set to plunge into a recession in 2020 due to the toll of the COVID-19 pandemic on exports and domestic activity. GDP is expected to decline by 3.7 percent in 2020.

Social distancing and quarantine measures taken in the country on March 13, as well as disrupted global supply chains, are already having an impact on the real economy.

According to the late March weekly report of the Employment Agency, the sectors that released the most workers in the third week of March are manufacturing (16.6 percent of the newly registered unemployed), trade and repair works (14.3 percent), and hotels and restaurants (8 percent).

Limited measures in support of local business—the most prominent being a 60 percent salary subsidy for workers in affected businesses and liquidity support via a state bank—may prolong the recovery of the real sector.

The fiscal position is most likely to worsen substantially in 2020 due to the impact of lower revenues, automatic fiscal stabilizers, and the unplanned expenditure in response to the pandemic.

Bulgaria does have considerable fiscal space to accommodate the shock, with the expectation that the fiscal deficit will slightly exceed the 3 percent ceiling under the EU's Stability and Growth Pact. A hefty fiscal reserve of 9 percent of GDP as of Jan 31, 2020, can be tapped to limit new borrowing to finance the deficit.

Poverty is projected to reach 6.8 percent in 2020 (at the US\$5.5 per day line). However, income inequality in Bulgaria has been increasing and is the highest in the EU, with the Gini coefficient reaching 40.4 in 2019.

The high level of inequality reflects the relatively low redistributive impact of Bulgaria's fiscal

system. When inequality is seen through the lens of market income, before taxes and transfers are paid, the country's inequality is close to EU averages. However, Bulgaria's system of taxes and transfers is relatively less redistributive than in other countries.

## Economic Outlook

Risks to the outlook stem primarily from the COVID-19 pandemic and the uncertainties surrounding its duration and severity. Bulgaria is heavily exposed to EU economic activity (the EU accounts for 66 percent of exports and 63 percent of imports), and the depth of the recession in the country depends primarily on the scale of the downturn in the EU.

Given that China is the country's second largest non-EU market, its sharp contraction in early 2020 will have both direct and indirect effects on Bulgaria also. The toll on Bulgarian tourism (estimated to contribute some 12 percent of GDP) depends largely on whether the pandemic is contained before the peak summer season.

Risks related to the domestic credit market have recently changed in nature. Concerns about rapidly accelerating credit growth in early 2019 have been replaced by the looming risk of a rising number of nonperforming loans (NPLs) due to the temporary suspension of activity or outright bankruptcies.

Even if the share of banks' NPLs were to shrink by 1.1 percentage point (year-on-year) to 6.5 percent in December 2019, the projected recession in 2020 could rapidly reverse this trend.

In early February 2020, the Parliament passed amendments to the central bank law that paved the way for Bulgaria's participation in the European Exchange Rate Mechanism II. The updated target for accession is July 2020, but the rapidly developing situation in the eurozone due to the pandemic may force its postponement.

## Project Spotlight

### Protecting Bulgaria's Natural Assets



In 2018, the World Bank signed a contract for the provision of RAS to support water resource and flood risk management for the four river basins in Bulgaria.

Preserving the environment and protecting the country's natural assets have been key objectives in the **Country Partnership Framework for Bulgaria**. As a recent World Bank report shows, natural capital accounting goes beyond traditional income measures, such as GDP, to factor the wealth of natural assets into a country's national accounting as a tool for achieving sustainable development.

Since 2016, the World Bank has been partnering with Bulgaria to protect and better manage the country's

natural assets, such as water and air, as well as to adapt to the impacts of climate change. The engagement is characterized by knowledge and advisory services, as well as support for capacity strengthening and communications, provided through Reimbursable Advisory Service (RAS) arrangements that are supported by EU funding under respective operational programs.

Following the EU's strong commitment to act on climate change and with the Bank's knowledge and expertise, the Bulgarian Government developed its National Climate Change Adaptation Strategy and Action Plan (NASAP), which was adopted by the Government in 2019. Through one RAS agreement, the World Bank already contributed to the development of the NASAP. Another three-year RAS Agreement on Air Quality Management supported the development of the National Air Quality Improvement Program (NAQIP) and the National Air Pollution Control Program (NAPCP), which were endorsed by the Council of Ministers in 2019, as well as capacity building at both the national and local levels.

In summer 2018, the World Bank signed a contract for the provision of RAS to support water resource and flood risk management for the four river basins in Bulgaria. Under the contract, the World Bank will provide support for the preparation of draft River Basin Management Plans (RBMPs) and draft Flood Risk Management Plans (FRMPs), in line with the requirements of the EU's Water Framework and Floods Directives.

The most recent engagement, signed in December 2019, aims to support the Government, through the Ministry of the Interior, to increase the strategic planning capacity and efficiency of the national disaster risk management system. Under the contract, the World Bank will support the Government in the following main areas:

- development of a diagnostic and roadmap highlighting the actions needed to strengthen disaster risk management;
- collection of historical damage and loss data and the development of a plan for future collection;
- development of a proposal for a national disaster risk profile of Bulgaria; and
- development of a proposal for a National Disaster Risk Management Plan for Bulgaria.

The "Country Snapshot" is a bi-annual update, highlighting the country's recent developments, economic outlook and major overview of the World Bank's partnership with the country. You can find the latest updates at <http://www.worldbank.org/bulgaria>



#### CONTACTS

Sofia  
(359-2) 969-72-29  
INTERPRED, The World Trade  
Center, 36 Dragan Tsankov  
Blvd  
Sofia, Bulgaria.

#### More about the World Bank in Bulgaria

Website:  
[worldbank.org/en/  
country/bulgaria](http://worldbank.org/en/country/bulgaria)

Data:  
[data.worldbank.org/  
country/bulgaria](http://data.worldbank.org/country/bulgaria)