

The World Bank in Bulgaria Country Snapshot



An overview of the World Bank's work in Bulgaria

April 2017

BULGARIA	2016
Population, million	7.1
GDP, current US\$ billion	51.6
GDP per capita, current US\$	7,239
Gini Coefficient (2012)	36.0
Life Expectancy at birth, years (2014)	74.9

At a Glance

- Bulgaria marked its 10 years of membership in the European Union (EU) with economic growth of 3.4% in 2016, a significant improvement compared to the 2009–14 period.
- There is a strong convergence between the World Bank Systematic Country Diagnostic recommendations and the Government's efforts to accelerate growth and raise living standards.
- The new Country Partnership Framework (CPF) marks a renewed engagement with Bulgaria, including the first new lending operations since FY11. The program sets up a selective engagement, but with more ambitious objectives in a few key areas where there is strong government ownership and demand for World Bank Group (WBG) support.

Country Context

Bulgaria has undergone a significant transformation over the past three decades. It has transformed from a highly centralized, planned economy to an open, market-based, upper-middle-income economy securely anchored in the EU.

In its initial transition to a market economy, the country 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, some legacy issues from the early period of transition, the global economic crisis of 2008, and a period of political instability in 2013–14 undid some of those gains. Now, in its pursuit of boosting growth and shared prosperity, Bulgaria is moving to address these issues.

Today, Bulgaria faces the two interrelated challenges of raising productivity and addressing the country's rapid demographic change. Higher productivity growth is critical to accelerating convergence, as Bulgaria's income per capita is only 47% of the EU average, the lowest in the EU.

Productivity will need to grow by at least 4% per year over the next 25 years for Bulgaria to catch up with average EU income levels and thus boost shared prosperity.

The World Bank and Bulgaria

There is a strong convergence between the World Bank Systematic Country Diagnostic recommendations and the Government's efforts to accelerate growth and raise living standards. Bulgaria is driving its reform program and has chosen to engage the World Bank in selective areas of its development agenda. The Government is promoting policies to address the gap between Bulgaria and the EU in incomes, institutions, and service delivery.

Of the eight policy areas identified in the Government's Reform Program, the Bank's agenda is aligned with selective government demand in four: (i) strengthening the institutional environment; (ii) increasing energy security and resource efficiency; (iii) improving the access to and quality of education; and (iv) reducing poverty and promoting social inclusion.

The WBG will continue to align its program with the Government's objectives in a way that can create space for broader engagement and where there is a potential for transformational impact.

Key Engagement

Building on Bulgaria's achievements, the WBG has adapted its business model to support the country's goal of EU convergence. Its partnership with Bulgaria is therefore based on a flexible framework that takes into account Bulgaria's priorities as an EU member state.

Knowledge and advisory services are increasingly being provided through Reimbursable Advisory Service (RAS) arrangements.

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

WORLD BANK PORTFOLIO

46 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
- 39 International Finance Corporation projects (completed and ongoing), with total commitments of over \$996 million

The new CPF for Bulgaria was endorsed by the Board in May 2016 and covers a period of six years. With Bulgaria as an EU member, the CPF is aligned with the EU programming cycle. The CPF marks a renewed engagement with Bulgaria, including the first new lending operations since FY11. The program sets up a selective engagement, but with more ambitious objectives in a few key areas where there is strong government ownership and demand for WBG support.

The partnership will be reviewed every two years to assess progress and priorities and to recalibrate specific objectives and activities in light of developments and changes. The CPF focuses on two broad areas:

- strengthening institutions for sustainable growth
- investing in people

Under the first area, the CPF objectives are to: i) improve the resilience and stability of the financial sector; ii) strengthen the electricity sector and improve energy efficiency; and iii) better protect natural assets and improve efficiency in the use of resources.

The second focus area, namely investing in people, reflects the shared commitment by the Government and WBG to ensure that the benefits of economic growth accrue to all Bulgarians and provide an opportunity for everyone to contribute to the country's prosperity.

Recent Economic Developments

Similar to 2015, GDP grew by 3.4% in 2016, a significant improvement compared to the 2009–14 period. Exports, supported by strong demand from the EU, expanded at a robust rate and were the key driver of growth. Private consumption continued to improve on the basis of low inflation and favorable labor market conditions. Unemployment declined to a seven-year low (7.6% of the labor force in 2016), as new jobs were created in a number of sectors employing both high- and low-skilled labor.

On account of robust economic growth and an equally strong labor market performance, poverty continued to decline in 2016. Moderate poverty (US\$5/day) and extreme poverty (US\$2.5/day) are estimated to have declined from 14.7 and 5.0% in 2015 to 13.7 and 4.8%, respectively, by the end of 2016. However, income inequality is one of the highest in the EU and has been increasing, as the income of the richest 20% of the population was more than seven times that of the poorest 20% in 2015.

Though declining, unemployment is still high, especially long-term and youth, with high regional variation. Inactivity among certain groups of the population also remains high as a result of an education system with deteriorating quality and rising inequality, and a large number of people remain excluded from economic opportunities, such as the elderly, people living in rural areas, and the Roma. Fiscal accounts recorded a cash surplus of 1.6% of GDP in 2016 compared to a planned deficit of 2%. This was the first surplus since 2008 and was supported by sustained improvements in tax collection.

Economic Outlook

GDP growth is projected to slow to 3.0% in 2017, as the positive contribution of external trade diminishes with oil prices surging and uncertainty in the EU increasing. Household consumption is likely to be the key driver of

growth as labor market and credit conditions improve further. Going forward, the economic recovery is projected to be modest, with growth picking up to 3.2% in 2018 and 3.3% in 2019. Poverty reduction is expected to continue at a modest pace in the near term. Moderate poverty is projected to fall to 13.0% in 2017 and 12.2% in 2018, whereas extreme poverty is projected to fall to 4.3% in 2017 and 4.1% in 2018.

The external current account is expected to continue to be in surplus though decline by 2019. Export growth is projected to be robust, in line with Bulgaria's improved competitiveness on EU markets. Import growth is likely to be affected by higher oil prices and strengthening domestic demand for investment goods.

The fiscal position is likely to weaken slightly in 2017 but improve in the medium term. In 2017, fiscal accounts are set to be in a deficit of 0.6% of GDP (based on the European System of Accounts 2010 methodology) as implementation of EU-funded capital projects accelerates compared to 2016. Strong revenue collection, is likely to support fiscal consolidation in the medium term.

However, limited improvements in the spending efficiency of select sectors could undermine fiscal consolidation plans going forward and limit the potential of public spending to enhance growth.



World Bank's Vice President for Europe and Central Asia Cyril Muller and Bulgaria's Deputy Prime Minister for EU Funds and Economic Policies Tomislav Donchev signing the MOU

Project Spotlight

Water Sector Engagement



Physical construction works of Plovdivtsi Dam wall were completed and the reservoir has begun taking on water.

The quality, efficiency, and effectiveness of essential public service delivery, including water and basic infrastructure, remain below what Bulgarian citizens require if they are to realize convergence in living standards with their EU neighbors.

Bulgarians have almost universal access to improved water in both urban and rural areas, but

water networks need to be upgraded and wastewater collection and treatment systems extended. Pipes are on average 36 years old, many are constructed of asbestos-cement, and close to 60% of the water is non-revenue water. Only 66% of the population is connected to a wastewater collection network, and just 50% to a wastewater treatment plant.

The World Bank currently supports the sustainability of water resources through an ongoing lending operation and past support strategy development in water supply and sanitation and in flood protection. According to the new 10-year strategy for the sector, the rehabilitation and construction of water supply and sewerage networks will require BGN 12 billion (€6 billion). However, EU funds will cover only 30–40% of the total capital investments needed until 2020. The rest will have to come from the central government and the water utilities. This will require improved efficiency and adjusted pricing, ensuring that financing for the water sector is affordable and sustainable.

The World Bank–supported Municipal Infrastructure Development Project responds to the Government’s priorities to rehabilitate and complete construction of water supply and sewerage networks to improve service delivery and reduce health risks, as well as to upgrade wastewater treatment systems in line with EU directives. Two of the eight priority water supply dams (Luda Yana and Plovdivtsi) are included in this project, and a third (Studena) is included for rehabilitation.

Upon completion of this project, it is expected that 170,000 more Bulgarians will benefit from a reliable and quality water supply.



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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>