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 economy securely anchored in the European Union (EU). In its initial transition, 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 the expectation of EU accession unleashed a decade of exceptionally high economic growth and improved living standards.

Yet, some legacies from that early phase, 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 inter-related 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 if Bulgaria is to catch up with average EU income levels and boost shared prosperity.

At a Glance

- Bulgaria marked its 10-year membership in the European Union and 25th anniversary of the opening of the World Bank Office with strong economic expansion. GDP grew by 3.7% per year between 2014 and 2017, a significant improvement compared to the 2009–14 period.

- The 2016 Country Partnership Framework marks a renewed engagement with Bulgaria, but with more ambitious objectives in a few key areas where there is strong government ownership and demand for World Bank Group support.

- Poverty, as measured by the upper-middle-income line of US$5.5 per day (in 2011 purchasing power parity terms) is estimated to have declined from 8.5% in 2015 to 7.5% in 2017. However, income inequality in Bulgaria is the highest in the European Union.
The World Bank and Bulgaria

Since the opening of its office more than 25 years ago, the World Bank has developed a sound partnership with Bulgaria. There is a strong convergence between the recommendations of the Bank’s Systematic Country Diagnostic and the Government’s efforts to accelerate growth and raise living standards. Bulgaria’s reform efforts, in partnership with the World Bank Group (WBG), are promoting policies to address the gap between institutions and 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

Partnership with Bulgaria is characterized by knowledge and advisory services provided through Reimbursable Advisory Service (RAS) arrangements, funded by the Government or EU-funded trust funds.

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 European Structural and Investment Funds for the 2014–20 period.

The new Country Partnership Framework (CPF) for Bulgaria was endorsed by the Board in May 2016 and 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 operations since FY11. The program sets-up selective engagement, with more ambitious objectives in a few key areas.

WORLD BANK PORTFOLIO

45 International Bank for Reconstruction and Development (IBRD) operations, with a total original commitment of roughly US$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

On the eve of Bulgaria’s presidency of the Council of the EU, the World Bank, in partnership with the Prime Minister’s Office and the European Commission, organized a high-level conference of the six Western Balkans heads of state with the goal of identifying meaningful and practical measures to boost connectivity.
Recent Economic Developments

Economic growth remained strong in Bulgaria at 3.6% in 2017, only slightly lower than the 3.9% in 2016. Consumption and investment were the main drivers of growth, while the contribution of net exports was negative in 2017. Consumption was supported by a dynamic labor market, rising wages, and eased financial credit conditions.

Strong domestic demand and higher energy and commodity prices pushed inflation up. After three years of deflation, inflation turned positive to 2.1% in 2017.

The fiscal performance remained positive on the back of improved revenue collection and public investment that was lower than planned. Instead of the planned deficit of 0.6% of GDP, fiscal accounts were balanced for the second year in a row.

The current account surplus narrowed to 3.9% of GDP in 2017, compared to 5.3% in 2016, following the deterioration of the trade balance and lower EU transfers.

Poverty measured using the upper-middle-income class line of US$5.5 per day (in 2011 purchasing power parity [PPP] terms) is estimated to have declined from 8.5% in 2015 to 7.5% in 2017.

However, income inequality in Bulgaria is the highest in the EU and has been increasing over the past several years, as the income of the richest 20% of the population was almost eight times that of the poorest 20% in 2015.

Economic Outlook

GDP growth is expected to remain robust, reaching 3.8% in 2018. Domestic demand will continue to support growth as the expected intensified absorption of EU funds will boost investment, likely outweighing the negative contribution of net exports. Private consumption is expected to continue expanding, thanks to the tight labor market and rising real estate prices in large cities.

Going forward, GDP growth is projected to moderate to 3.6% in 2019 and 2020. Domestic demand should continue to be the driver of growth, with an increasing contribution from investment.

The current account balance is likely to remain in surplus but narrow, as net exports continue to deteriorate due to an expected slowdown in EU growth and projected higher oil and commodity prices.

The fiscal position is likely to weaken slightly in 2018 and 2019, reflecting plans for the expansion of public investment and rising wages and social assistance payments. Strong revenue collection, driven by further improvements in compliance and an increased pension contribution rate in 2018, is likely to support fiscal consolidation in the medium term. However, the lack of improvements in spending efficiency in health, public order, and infrastructure could undermine fiscal consolidation and limit the potential of public spending to enhance growth.

Poverty reduction is expected to continue at a modest pace in the near term. Sustained improvements in employment and wages, as well as recent increases in the minimum pension, should support real incomes and therefore further reductions in poverty. Poverty is projected to fall from 7.5% in 2017, as measured at US$5.5 a day in 2011 PPP, to 7.0% in 2018 and further to 6.3% by 2020.
**Project Spotlight**

**Water Sector Engagement**

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 a 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. 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 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. In anticipation of the importance of water infrastructure, the Government is considering possible ways of going forward. The World Bank supported these efforts by organizing an international Water Security Workshop in Bulgaria in September 2017, which presented international knowledge on the subject and examples of effective water supply rehabilitation efforts.

The World Bank–supported Municipal Infrastructure Development Project responds to the Government’s priorities to: i) rehabilitate and complete construction of water supply and sewerage networks to improve service delivery and reduce health risks, and ii) 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 more reliable and better 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