**At a Glance**

- Bulgaria has gone through a long transition over the past three decades, and the Government now is seeking to accelerate economic growth and catch up with average European Union (EU) income levels.

- 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 being 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 transition period, 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 for 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 the 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 Reform Program, the World Bank program 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.

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 programing cycle. The CPF marks a renewed engagement in 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 priority 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 continued to expand at around 3% per year in the first half of 2016. Economic activity was supported by strong domestic demand that benefited from continuing labor market improvements, low inflation, and an increase in inventories. Household consumption remained strong, as declining unemployment, rising wages, and low inflation boosted real household income. Unemployment declined by close to 2 percentage points year-on-year (to 8.2% in the second quarter of 2016), while new jobs were created in the sectors—such as industry, trade, and tourism—that were the hardest hit during the 2009 crisis and that employ a relatively large share of low-skilled labor, boding well for poverty reduction.

With strong economic growth and positive developments in the labor market, the US$5/day and US$2.5/day poverty rates are estimated to have come down slightly from 15.4 and 5.5%, respectively, in 2014 to 14.5 and 5.0%, respectively, in 2015. Inactivity among certain groups of the population is 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.

Accelerated economic activity and the slow implementation of public investment projects have strengthened Bulgaria’s cash fiscal position. The fiscal surplus in the first seven months of the year was 3.7% of annual GDP. Tax revenues were boosted by strong economic activity and compliance measures, while spending declined due to the slow start of EU-funded capital projects. Government debt increased to 30.3% of GDP in the first quarter of 2016, as the Government issued new debt as part of its medium-term debt strategy. Debt remains the third lowest in the EU.

The external current account was again in surplus in the second quarter of 2016, supported by a further narrowing of the trade balance. Bulgaria exported more investment and consumer goods, especially to the EU, while import growth was modest in line with low oil and commodity prices.

Economic Outlook

GDP growth is projected to slow to 2.7% in 2016, as the impact of the higher absorption of EU funds on public investment and consumption diminishes with the start of the new financing period. Household consumption is likely to continue expanding, while private investment is likely to offset the sharp reduction of EU-funded public investment.

Going forward, the economic recovery is projected to be modest, with growth picking up to 2.9% in 2017 and 3.1% in 2018. Recovery of external demand is likely to be slow as a result of the weakening outlook in emerging markets, lingering geopolitical tensions in the region, and uncertainty related to the United Kingdom’s vote to leave the EU.

Poverty is projected to continue on its gradual downward path in the near term. Poverty at US$2.5/day is expected to decline slightly to 4.8% in 2016, 4.4% in 2017, and 4.1% in 2018, while the US$5/day poverty rate will further fall to 13.8, 13.1, and 12.3%, respectively.

The external current account is expected to continue to be in surplus, although likely decline by 2018. Export growth is expected to slow in response to a weakening outlook in emerging markets. Import growth is likely to be affected by weakening domestic demand for investment goods.

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 are expected to be completed by the end of 2016.

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 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.

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