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 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 expectations of EU accession unleashed a decade of exceptionally high economic growth and improved living standards.

Nevertheless, some legacies from that early period, the 2008 global economic crisis, 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 for Bulgaria to catch up with average EU income levels and thus boost shared prosperity.
The World Bank and Bulgaria

Since the opening of its office 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 recommendations and the Government’s efforts to accelerate growth and raise living standards. Bulgaria is pursuing its reform program and has chosen to engage the World Bank in selective areas of its development agenda, promoting policies to address the gap between Bulgaria and the EU in incomes, institutions, and service delivery.

The WBG will continue to align its program with the Government’s objectives to create space for broader engagement 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, using 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 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, aligned with the EU program cycle. The CPF marks a renewed engagement with Bulgaria, including the first new lending operations since FY11. 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; and 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 the 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

Stronger domestic demand contributed to an acceleration of GDP growth to 3.9 and 4.2% y-o-y in the first and second quarters of 2017, respectively, from 3.4% in 2016. Private consumption continued to improve on the basis of rising incomes, employment, and credit growth. Unemployment declined to an eight-year low (5.9% of the labor force in July 2017). Exports expanded at a robust rate, supported by strong demand from the EU, but imports grew faster.

Improvements in labor market conditions and income growth supported further poverty reduction. 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 7.9% in 2016. However, income inequality in Bulgaria is one of the highest in the EU, as the income of the richest 20% of the population was almost eight times that of the poorest 20% in 2015.

Unemployment has declined significantly, but regional variations and long-term and youth unemployment remain high. Inactivity among certain groups of the population persists, 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 continued to be in surplus in the first half of 2017 despite a slight decline in revenues. Tax and social contribution revenues grew by close to 8% y-o-y on account of the improved economic activity and rise in the pension contribution rate. Non-tax revenues, however, were lower than in 2016 due to lower grants from the EU.

The external current account surplus narrowed somewhat in the first half of 2017 compared to a year ago as the trade deficit expanded.

Economic Outlook

Prospects for 2017 are better than initially expected, with GDP projected to grow at 3.8%. Household consumption is likely to continue expanding on the back of further improvements in labor market and credit conditions. Investment is likely to remain strong in the second half of the year. Going forward, GDP is projected to pick up to 4% in 2019.

Poverty reduction is expected to continue at a modest pace in the near term. Continued improvements in employment and wages, as well as scheduled increases in pensions and minimum wages, should support real incomes and therefore further reductions in poverty among the elderly and working poor. Consequently, poverty at US$5.5 in 2011 PPP is projected to fall to 7.6% in 2017, 7.1% in 2018, and 6.7% in 2019.

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 and higher commodity prices. Import growth is expected to be driven by higher oil prices and strengthening domestic demand for consumer and investment goods.

The fiscal position is likely to weaken slightly in 2017 compared to 2016 but to 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 [ESA] 2010 methodology), as expenditure growth is likely to accelerate by the end of the year due to pension increases in effect since July and the faster pace of implementation of EU-funded capital projects.
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 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. In anticipation of the importance of water infrastructure, the Government is considering possible ways of going forward. The World Bank has 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 water supply rehabilitation efforts.

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