

BULGARIA

Key conditions and challenges

Table 1 2020

Population, million	6.9
GDP, current US\$ billion	67.9
GDP per capita, current US\$	9801.8
International poverty rate (\$ 19) ^a	0.9
Lower middle-income poverty rate (\$3.2) ^a	2.2
Upper middle-income poverty rate (\$5.5) ^a	6.9
Gini index ^a	41.3
School enrollment, primary (% gross) ^b	87.4
Life expectancy at birth, years ^b	75.0

Source: WDI, Macro Poverty Outlook, and official data.

Notes:

(a) Most recent value (2018), 2011 PPPs.

(b) Most recent WDI value (2018).

Bulgaria's economy was hit relatively mildly by the pandemic-induced crisis in 2020, as GDP is forecast to have shrunk by 4.2 percent. Consumption remained relatively unabated as government salary subsidies and pension supplements prevented a more severe loss of income. Yet, slow inoculation rates suggest that pandemic-related risks will remain high until at least Q3, 2021. Going forward, policymakers would need to ensure only gradual withdrawal of fiscal support measures and judicious use of unprecedented amount of EU funds.

Despite robust growth of 3.6 percent on average in the five pre-pandemic years, Bulgaria's real convergence to the average European Union (EU) levels remains slow. The country remains the poorest and the most inequal member of the Union. GDP per capita in PPP terms was just 53 percent of the EU average, poverty was the third highest in the EU, and the Gini coefficient reached 40.8 percent in 2019, illustrating limited redistribution and ineffective social policies. Against rapid aging and population decline, convergence can speed up only if the productivity gap with the rest of the EU shrinks markedly. Bulgaria's growth potential is also undermined by governance and institutional weaknesses, as evidenced by low public confidence in institutions, poor quality of public services and reduced FDI inflows.

The pandemic has exposed deficiencies in a number of public domains, including health care, education, social protection and administrative services. Insufficiency of medical staff, growing divide in education by socioeconomic status, inadequate and poorly targeted social assistance programmes, and slow digitalization of administrative services are among the challenges that the government is yet to address. Expectedly, the pandemic has also resulted in a deterioration of the fiscal stance, as response measures on

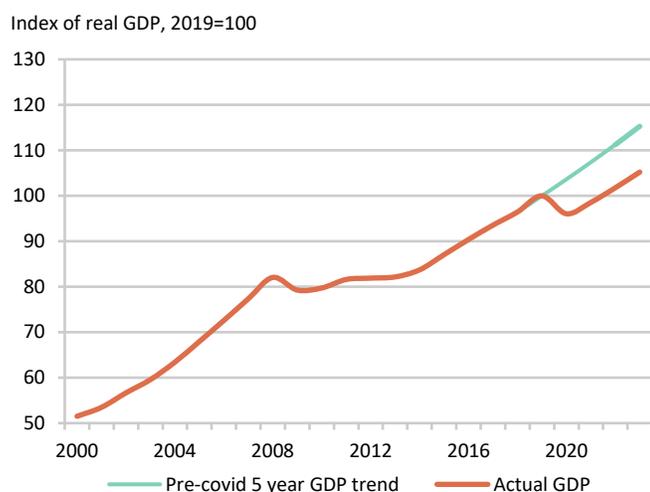
the national budget reached 2.4 percent of GDP. Unwinding some of the measures such as a preferential 9 percent VAT rate for certain goods and services may be challenging. In the recovery phase, the biggest task before policymakers would be to ensure only gradual withdrawal of support measures and optimal use of an unprecedented amount of EU funds, estimated at EUR 29 bn for 2021-2027. Going forward, the country's key development challenge would be its transition onto a faster, more inclusive and greener growth path, including costly decarbonisation of a coal-dependent and highly energy intensive economy.

Recent developments

Economic performance in 2020 was largely driven by the waves of domestic containment measures - the first lockdown between early March and mid-May and the second, less stringent restrictions imposed in late November. Yet, with Bulgaria recording the slowest pace of vaccination in the EU - just 4.4 percent of the population vaccinated until Mar 11 - economic activity is not likely to return to normal before the autumn of 2021.

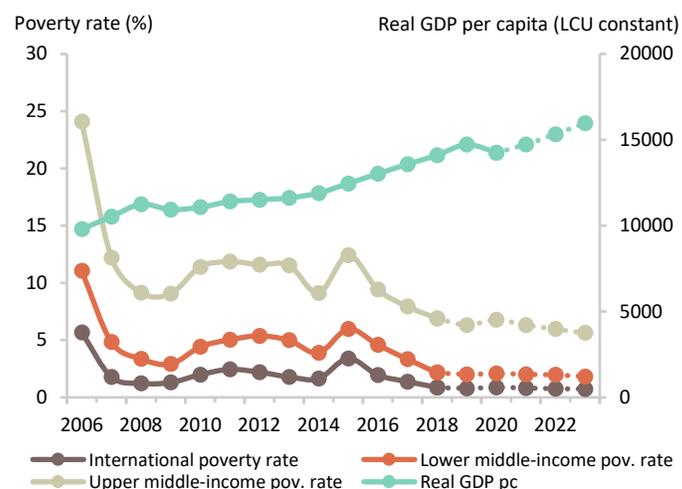
GDP growth in 2020 is estimated at -4.2 percent, as private consumption, which contracted in Q2, bounced back strongly in Q3. Investment shrank notably on escalated uncertainties and savings on public capital spending, used to partly offset the government's response package and automatic fiscal stabilizers. Despite

FIGURE 1 Bulgaria / Poverty rate percentage change and per capita growth



Sources: National Statistical Institute and World Bank.

FIGURE 2 Bulgaria / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

the pandemic-induced crisis, tax and social security revenues increased 1.6 percent nominally, possibly thanks to public sector salary increases and the growth of consumption in most of the year. Notwithstanding reduced capital spending, total expenditure grew by 5.8 percent y/y, due largely to the fiscal support measures. The budget deficit thus reached 3.0 percent of GDP (against 1 percent in 2019), while public debt picked up to estimated 25 percent against 20 percent at end-2019.

The hardest hit sectors remain tourism and related activities. Overnight stays declined by some 56 percent y/y as foreign tourist arrivals fell markedly. This also showed its impact on external balances, as export of services declined by 32 percent y/y. As a result, the current account surplus shrank to 0.1 percent of GDP in 2020.

The imposition of containment measures led to substantial disruptions to work in the form of work stoppages and reduced hours, though this was not reflected in headline unemployment that increased only moderately. Though the government's salary subsidies and pension supplements helped stabilize incomes for some individuals, work disruptions and higher food prices is projected to have led to a moderate

increase in the poverty rate from 6.3 percent in 2019 to 6.8 percent in 2020 using the upper middle income poverty line of US\$5.50 PPP per day.

Outlook

The biggest risks to the outlook stem from the epidemiology of the virus and the government's vaccination program. The latter hinges not only on the availability of vaccines and the organization of a well-paced vaccination process, but also on the population's perceptions towards vaccination. Skepticism against vaccines remains high and may decrease only with a stronger pro-vaccination campaign.

Bulgaria is projected to grow by 2.6 percent in 2021 and reach its pre-crisis (2019) level of real output in 2022. The baseline scenario assumes that vaccination in Bulgaria will gain momentum in Q2 and Q3, which will gradually help restore consumer and business confidence. With expectations of reduced infection rates in the summer and increased inoculation in Bulgaria's main market, the EU, external sales of goods are likely to recover but tourism is expected to remain below pre-crisis levels. Drawdowns on the EU Recovery and Resilience Facility are not expected

before Q4/2021, with limited impact on this year's investment and growth. Even if non-performing loans have risen moderately until December, 2020 (from 6.5 percent a year ago to 7.4 percent) and the banking sector remains well capitalized, NPL levels may pick up more steeply after the current moratorium on bank loan service is lifted.

In addition to the pandemic-related challenges, upcoming general elections in early April also add to the uncertainties. Swift formation of a new government would be a prerequisite for the smooth continuity of fiscal response measures and the restoration of investor confidence as vaccination gains momentum. Delivery on the fiscal consolidation plans also hinges on the outcome of election.

Barring any unforeseen developments with the COVID-19 virus and under the assumption of high vaccination rates, poverty is projected to decline in 2021 to 6.3 percent as a result of an improved economy facilitating favorable labor market conditions and normalized food inflation.

TABLE 2 Bulgaria / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.1	3.7	-4.2	2.6	3.3	3.4
Private Consumption	4.4	5.5	0.2	2.6	2.8	3.1
Government Consumption	5.4	2.0	7.0	0.8	1.1	0.5
Gross Fixed Capital Investment	5.4	4.5	-5.1	3.2	6.3	5.6
Exports, Goods and Services	1.7	3.9	-11.3	7.1	6.4	5.8
Imports, Goods and Services	5.7	5.2	-6.6	6.5	6.0	5.1
Real GDP growth, at constant factor prices	3.5	3.3	-4.3	2.6	3.3	3.4
Agriculture	-2.0	4.1	-5.3	3.4	1.0	0.5
Industry	-1.1	-0.5	-4.6	3.7	4.0	3.9
Services	5.8	4.6	-4.2	2.1	3.2	3.5
Inflation (Consumer Price Index)	2.8	3.1	1.7	3.2	3.3	3.4
Current Account Balance (% of GDP)	1.0	3.0	0.1	1.8	2.5	2.4
Net Foreign Direct Investment (% of GDP)	-1.4	-1.3	-0.7	-1.7	2.1	1.9
Fiscal Balance (% of GDP)	0.1	-1.0	-3.0	-1.9	-1.5	-0.9
Debt (% of GDP)	22.3	20.2	25.3	26.6	26.7	26.0
Primary Balance (% of GDP)	0.8	-0.4	-2.6	-1.7	-1.2	-0.5
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	0.9	0.8	0.9	0.8	0.7	0.7
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	2.2	2.0	2.1	2.0	2.0	1.8
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	6.9	6.3	6.8	6.3	6.0	5.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.

Notes: e = estimate, f = forecast.

(a) Calculations based on ECAPOV harmonization, using 2018-EU-SILC. Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021 to 2023.

(b) Projection using neutral distribution (2018) with pass-through = 0.87 based on GDP per capita in constant LCU.