

The World Bank in Bulgaria Country Snapshot



An overview of the World Bank's work in Bulgaria

October 2019

BULGARIA	2018
Population, million	7.0
GDP, current US\$ billion	65.1
GDP per capita, current US\$	9,272
Gini Index (2018, Eurostat)	39.6
Life Expectancy at Birth, years (Most recent WDI value 2017)	74.8

At a Glance

- After posting higher-than-projected growth of 3.5 percent year-on-year in the first quarter of 2019, GDP expansion slowed to 3.3 percent in the second quarter, reflecting negative signals from the Eurozone and particularly from Bulgaria's major regional markets.
- The 2016 Country Partnership Framework (CPF) aims to support Bulgaria in two areas: strengthening institutions and investing in people. The six-year program set up selective engagement, with more ambitious objectives in a few key areas where there is strong government ownership and demand for World Bank Group support.
- The CPF Performance and Learning Review reconfirmed the relevance of the main areas of engagement, and implementation over the first two years is on track to achieve the program's objectives.

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

Yet, a number of legacies from that early 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 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 still the lowest in the EU.

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

The World Bank and Bulgaria

Since opening its office more than 27 years ago, the World Bank has developed a sound partnership with Bulgaria.

In its reform efforts, Bulgaria has chosen to engage the World Bank in selective areas of the development agenda. The Government, in its partnership with the World Bank Group (WBG), is promoting policies to address the capacity gap between institutions and to improve 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

The partnership with Bulgaria is characterized by knowledge and advisory services provided through Reimbursable Advisory Service (RAS) arrangements, which are supported by EU funding.

On September 1, 2015, Cyril Muller, the World Bank's Vice President for Europe and Central Asia, and Tomislav Donchev, Bulgaria's Deputy Prime Minister for EU Funds and Economic Policies, 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, endorsed by the Board in May 2016, 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 operation since FY11.

On the eve of Bulgaria's first 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 with the six Western Balkan heads of state with

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45 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
- 40 International Finance Corporation projects (completed and ongoing), with total commitments of over \$1.05 billion

the goal of identifying meaningful and practical measures to boost connectivity. This agenda was developed further at the EU-Western Balkans summit that took place in Sofia in May 2018. The Sofia declaration outlined new EU measures for enhanced cooperation, with the World Bank playing an important role in achieving better connectivity in the region.

The new EU funding program for 2021–27, including the introduction of Enabling Conditions, will require the continued strengthening of the state and its institutions, an area in which the Bulgarian Government has expressed interest in continued WBG support.



The World Bank's Vice President for Europe and Central Asia Cyril Muller and Bulgaria's Deputy Prime Minister Tomislav Donchev signing the MoU.

Recent Economic Developments

After posting higher-than-projected growth of 3.5 percent year-on-year (y-o-y) in the first quarter of 2019, GDP expansion slowed to 3.3 percent in the second quarter. The slowdown was widely expected on the back of negative signals from the Eurozone and particularly from Bulgaria's major markets—Germany and Italy. On the demand side, the deceleration in the second quarter was due to slower growth in both exports and consumption.

The employment rate reached a 16-year high of 54.7 percent in the second quarter of 2019, while the jobless rate fell to a low of 4.2 percent. Strong labor demand fed into rapid nominal wage growth, reaching 11–13 percent y-o-y in the first half of the year. The 10 percent rise in the minimum wage and 20 percent salary hike for public school teachers in January contributed to this increase.

Higher inflation likely drove the slowdown of real consumption growth in the first half of 2019. Average annual consumer price index inflation in January–July reached 3.3 percent y-o-y, primarily on the back of rising fuel, food, and regulated utility prices.

Yet, inflation apparently supported fiscal performance. After posting only a marginal surplus of 0.2 percent in 2018, in January–July 2019, the general government budget showed a surplus of 2.8 percent of the official GDP projection.

Strong labor market conditions, including decreasing unemployment rates among the uneducated and high real wage growth among low-productivity sectors, supported a continued improvement in poverty reduction.

Poverty is projected to have declined from 8.5 percent in 2015 to 7.1 percent in 2018 (at the US\$5.5 per day line). However, income inequality in Bulgaria has been increasing and is the highest in the EU, with the Gini coefficient reaching 39.6 in 2018.

Economic Outlook

Growth is expected to remain above the EU average in the medium term. Following a relatively strong first half of 2019, the Bulgarian economy is expected to slow down in the second half of the year and further in 2020.

Growth for all of 2019 is projected at 3.2 percent, with final consumption expected to act as a growth driver in the second half of the year while exports wane.

Consumption will be supported by public sector wage and pension increases, as well as a strong rise in employment and salaries in the real sector. Investment growth is likely to pick up in the second half of 2019 as local elections approach in October and the acquisition of military aircraft is accounted for.

Going forward, investment remains largely dependent on EU funds, which are to pick up as the end of the current program period approaches.

The current account balance is projected to remain in positive territory in the medium term but shrink in 2019 compared to 2018, as exports of goods and services underperform in the second half of the year, not least due to a weaker summer tourist season. After a deterioration of the fiscal balance in 2019 due to unplanned expenditure, the fiscal position is expected to improve in 2020.

Poverty reduction is expected to continue at a modest pace in the near term. Sustained improvements in employment and wages and recent increases in pensions should support real incomes and therefore further reductions in poverty.

Poverty is projected to fall to 6.8 percent in 2019 (as measured at US\$5.5 a day in 2011 purchasing power parity), to 6.4 percent in 2020, and further to 6.0 percent by 2021.

Project Spotlight

Water Sector Engagement



Divers have begun construction work on the rehabilitation of the Studena Dam wall.

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 percent of the water is non-revenue. Only 66 percent of the population is connected to a wastewater collection network, and just 50 percent 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 percent 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 Municipal Infrastructure Development Project is responding 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 reliable and quality water supply.

In summer 2018, the World Bank signed a contract for the provision of RAS to support the development and implementation of plans for river basin and flood management in Bulgaria. Under the contract, the World Bank will provide support to the preparation of draft River Basin Management Plans (RBMPs) and draft Flood Risk Management Plans (FRMPs), in line with the requirements of the EU Water Framework Directive (WFD) and Floods Directive (FD).



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Data:
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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>