

The World Bank in Bulgaria Country Snapshot



An overview of the World Bank's work in Bulgaria

April 2019

BULGARIA	2018
Population, million	7.0
GDP, current US\$ billion	61.7
GDP per capita, current US\$	8,792
Gini Index Most recent value (2014), 2011 PPPs	37.4
Life Expectancy at Birth, years Most recent WDI value (2016)	74.5

At a Glance

- Bulgaria entered 2019 with a strong economic performance. Projected growth² reached 3.1 percent in 2018 year-on-year, though it is expanding at a slower pace compared to 2017.
- The 2016 Country Partnership Framework marks a renewed engagement with Bulgaria. The six-year program sets up a selective engagement, with more ambitious objectives in a few key areas where there is strong government ownership and demand for World Bank Group support.
- Poverty measured by the upper-middle-income line of US\$5.5 per day (in 2011 purchasing power parity terms) is projected to have declined from 8.5 percent in 2015 to 7.1 percent in 2018.
- However, income inequality in Bulgaria is the highest in the European Union.

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, 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 only 47 percent of the EU average, 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 26 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 gaps between institutions and 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 and 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.

The program sets out a selective engagement, with more ambitious objectives in a few key areas where there is strong government ownership and demand for WBG support.

On the eve of Bulgaria's presidency of the Council of the EU, the World Bank, in partnership with

WORLD BANK PORTFOLIO

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 Prime Minister's Office and the European Commission, organized a high-level conference with the six Western Balkans heads of state with 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 high-level regional conference was opened by the World Bank's Chief Executive Officer Kristalina Georgieva.

Recent Economic Developments

Economic growth remained strong in 2018, projected to be 3.1 percent year-on-year (y-o-y), though it is expanding at a slower pace compared to 2017. Growth was driven mainly by private consumption (up 5.7 percent y-o-y), supported by rising wages and cheap credit, as well as renewed investment (up 6.5 percent y-o-y) which benefited from the recovery in EU investment funding.

Headline inflation accelerated to 2.8 percent in 2018 due to higher energy prices, robust domestic demand, and higher unprocessed food prices that reflected a disappointing agricultural year.

Fiscal performance remained positive on the back of improved revenue collection. Fiscal revenues grew by 18.1 percent y-o-y in the first nine months of 2018, thanks to strong economic activity, better compliance, and higher minimum wages. Despite higher public wages that resulted in a 12.4 percent increase in the public wage bill and additional budget resources allocated to police and municipalities, the fiscal accounts remained in surplus at 0.8 percent of annual GDP.

Robust economic growth and a tighter labor market led to a decline in the unemployment rate to 5.2 percent as of end-2018, a post-crisis low. At 73.5 percent as of the third quarter of 2018, the employment rate (for people ages 20–64) also improved. However, the working-age population continued to shrink, constraining the expansion of potential growth. Labor and skill shortages, as well as a rising minimum wage, pushed real wages up, albeit at a slower pace than in 2017.

Poverty measured by the upper-middle-income line of US\$5.5 per day (in 2011 purchasing power parity [PPP] terms) is projected to have declined from 8.5 percent in 2015 to 7.1 percent in 2018. Bulgaria has the most unequal distribution of disposable income in the EU, and inequality has been increasing since 2013. The high level of

inequality reflects the relatively low redistributive impact of Bulgaria's fiscal system.

When inequality is seen through the lens of market income, before taxes and transfers are paid, Bulgaria's inequality is close to EU averages. However, Bulgaria's system of taxes and transfers is relatively less redistributive than in other countries, contributing to a Gini coefficient for disposable income that in 2016 was 40 percent higher in Bulgaria than the EU-28 average.

Economic Outlook

Growth is expected to remain robust over the medium term. GDP will likely expand by around 3 percent in 2019. Domestic demand will continue to be the main driver of growth, supported by a labor market tightening and additional public sector wage increases.

Investment sentiment might be affected by the increasing uncertainty in external markets, but private and public investment should remain strong, supported by low interest rates and EU funding.

Risks to the outlook remain broadly balanced. Weaker growth momentum in Bulgaria's main EU trading partners and a further slowdown in Turkey, mainly through the trade channel, could undermine export growth, while tightening global financial market conditions could increase the cost of lending to the private sector, with negative implications for investment.

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 to 6.9 percent in 2019, as measured at US\$5.5 a day in 2011 PPP, to 6.5 percent in 2020 and further to 6 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% 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 September 2017 that brought together international knowledge on the subject and offered 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 additional 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>