

BULGARIA

Key conditions and challenges

Table 1	2021
Population, million	6.9
GDP, current US\$ billion	77.5
GDP per capita, current US\$	11276.0
International poverty rate (\$1.9) ^a	0.9
Lower middle-income poverty rate (\$3.2) ^a	2.6
Upper middle-income poverty rate (\$5.5) ^a	6.2
Gini index ^a	40.3
School enrollment, primary (% gross) ^b	85.9
Life expectancy at birth, years ^b	74.9
Total GHG Emissions (mtCO ₂ e)	44.6

Source: WDI, Macro Poverty Outlook, and official data.
 a/ Most recent value (2019), 2011 PPPs.
 b/ Most recent WDI value (2019).

Following a stronger-than-projected recovery in 2021, growth is likely to slow down in 2022 given higher inflationary pressures, the war in Ukraine, and supply chain disruptions. Off the back of a decline in 2021, poverty is expected to increase amidst rising food and energy prices. The draft 2022 budget suggests that consolidation will be postponed to 2023 with a continuation of support measures.

The long-term structural challenges facing Bulgaria include negative demographic trends, coupled with institutional and governance weaknesses. Institutional gaps have been mirrored by suboptimal public service delivery, hindering private sector expansion and undermining inclusive growth and shared prosperity. High rates of inequality of opportunity limit access to key public services, constraining the ability of individuals to escape poverty and result in persistently high income inequality. Poverty and inequality are reinforced by inadequacies in the targeting, coverage and generosity of the social security system, limiting its role as a redistributive mechanism and fiscal stabilizer.

The pace of convergence to average EU income levels has been slower than the one observed in other new EU members, and Bulgaria continues to rank last in terms of GDP per capita in PPP in the EU, at 55 percent of the EU average in 2020. Economic growth and convergence to average EU income levels across the NUTS-3 regions – ranging between 24 percent of the EU average in Silistra to 120 percent in Sofia in 2019 – has been increasingly uneven, widening in-country disparities. As a result, some areas are being depopulated at a rapid pace, with the first results of the 2021 census showing the fastest between-census decline of the population since 1985, by 11.5 percent

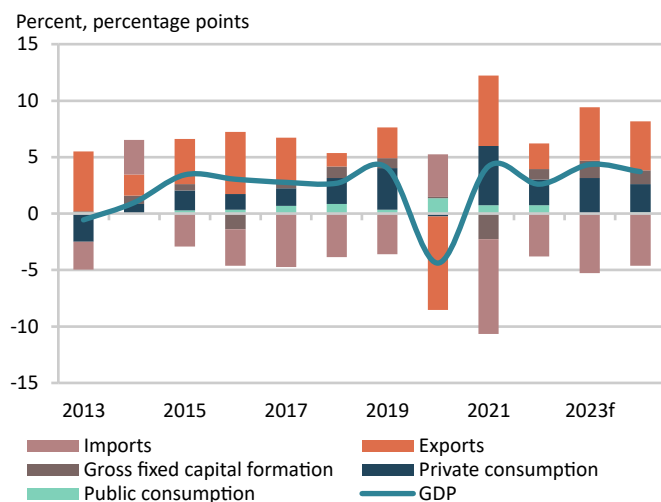
against 2011 to 6.52mn people. Significant outmigration since the start of the transition period, driven by large income gaps and search for better quality of life, has been the main factor behind Bulgaria's rapid loss of population.

Recent developments

According to preliminary data for 2021, GDP growth accelerated to 4.2% though real output is yet to recover to its pre-pandemic level. Final consumption and robust growth of exports were the main drivers of the recovery. Export expansion was outpaced by import growth, leading to widening trade and current account (CA) deficits. Investment, however, continued to decline throughout 2021. The pandemic, combined with a domestic political crisis in most of 2021, increased investors' risk aversion, while the delayed approval of the national Recovery and Resilience Plan put additional drag on public investment. On the supply side, industry, finance and IT were key sectoral drivers of growth.

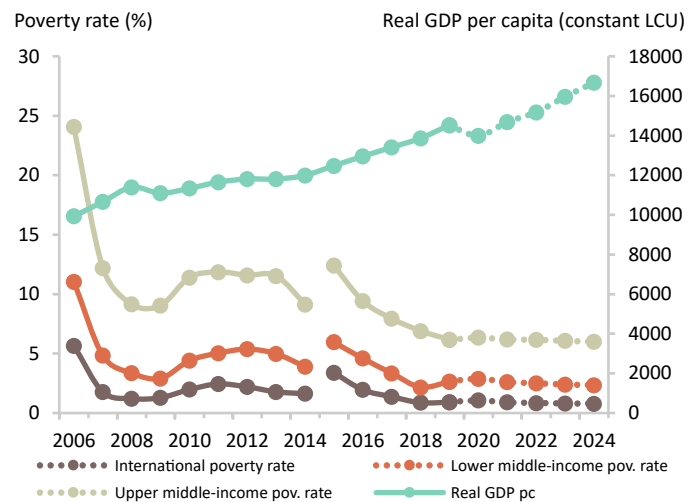
Similar to most European countries, Bulgaria saw a rapid acceleration of inflation since the summer of 2021, reaching 10.0 percent yoy in February 2022. Imported oil price inflation with its second-round effects was the key factor behind the inflationary spike. Effective mid-December, regulated prices of electricity, heating and water were frozen until end-March, 2022, partially cushioning the inflationary shock on households. Businesses, in turn, have been receiving government subsidies for

FIGURE 1 Bulgaria / Real GDP growth and contributions to real GDP growth



Sources: World Bank, Bulgarian National Statistical Institute.

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



Source: World Bank. Notes: see table 2.

electricity costs since October 2021, which has kept many firms afloat despite the energy price spike. Electricity price subsidies are expected to be fiscally neutral, as they will be financed out of profits of the state-owned nuclear power plant.

Despite the boost in fiscal revenues in 2021 (+18.1% yoy) on robust economic growth and inflation, expenditure grew at a similar rate (+17.6%), due primarily to the continued support to businesses and individuals. As a result, the fiscal deficit stood at 2.9% of GDP. The banking sector remained solid, with after-tax profits rising by 74% to BGN 1.42bn in 2021, and non-performing loans inching up modestly, by 1.4pp y/y to 6% as of end-2021.

Amidst the recovery of the economy and continued, albeit more targeted, government support, poverty is projected to have slightly declined from 6.3 percent in 2020 to 6.2 percent in 2021 using the upper middle income poverty line of US\$5.50 per day.

Outlook

The ongoing war in Ukraine has provoked a revision of growth forecasts globally,

with Bulgaria's GDP growth in 2022 revised by 1.2pp against our earlier forecast, to 2.6%. Risks remain tilted to the downside and further downward revisions are likely to follow in case of a prolonged military conflict, or new disruptive Covid waves amidst low vaccination rates. Moreover, the delay in the approval of the national Recovery and Resilience Plan and the operational programmes for EU funds (2021-2027) jeopardizes the government's plan to increase substantially public investment in 2022, further undermining the growth prospects. Over the medium run, growth is expected to be fueled by EU-funded public investment and improved private investor sentiment on the near-term prospect of eurozone entry.

The acceleration of domestic inflation since late 2021 is likely to remain in place at least in H1/ 2022, as energy and food price inflation is exacerbated by the ongoing war in Ukraine. This will result in a further erosion of purchasing power, a likely increase in poverty and a higher fiscal cost, if current measures in support of businesses and individuals are extended beyond Q1.

Overall, the draft 2022 budget suggests that fiscal policy will depart from the

conservative stance adhered to in the past two decades. The fiscal deficit is likely to exceed the government's plan for 4.1% of GDP as the latter rests on a fairly optimistic official growth projection of 4.8%. A government-sponsored accommodation programme for displaced Ukrainian nationals will also weigh on the expenditure side. More than 58 000 Ukrainian nationals have remained in Bulgaria as of March 29, with some 40 000 of them being sheltered at government-subsidised hotel accommodation. In addition, a budget revision - that is likely to boost expenditure further - is already planned for the summer. The CA balance is expected to return to positive territory, albeit remain below 1% of GDP, in 2022-2024.

On a positive note, the political crisis that dominated the national landscape since early 2021 has been overcome, after a four-party coalition took office after the Nov 14, 2021 elections. There are high expectations from the new government to undertake structural reforms in a number of areas, including the judiciary and the control of corruption.

TABLE 2 Bulgaria / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	4.0	-4.4	4.2	2.6	4.3	3.7
Private Consumption	6.0	-0.4	8.0	3.3	4.5	3.6
Government Consumption	2.0	8.3	4.0	4.1	0.3	0.7
Gross Fixed Capital Investment	4.5	0.6	-11.0	5.4	8.5	6.6
Exports, Goods and Services	4.0	-12.1	9.9	3.4	7.1	6.3
Imports, Goods and Services	5.2	-5.4	12.2	5.1	6.9	5.9
Real GDP growth, at constant factor prices	3.7	-4.5	4.2	2.6	4.3	3.7
Agriculture	4.1	-3.3	6.1	1.2	1.8	1.1
Industry	-0.1	-8.2	6.6	2.5	5.2	4.3
Services	5.2	-3.2	3.2	2.7	4.2	3.6
Inflation (Consumer Price Index)	3.1	1.7	3.3	9.3	3.4	2.0
Current Account Balance (% of GDP)	1.9	-0.3	-2.3	0.1	0.9	0.4
Net Foreign Direct Investment (% of GDP)	-2.0	-3.5	-1.3	-1.7	-1.7	-1.7
Fiscal Balance (% of GDP)	-1.0	-2.9	-2.9	-4.4	-3.0	-2.3
Debt (% of GDP)	20.1	24.8	25.1	28.5	28.8	27.2
Primary Balance (% of GDP)	-0.4	-2.4	-2.5	-4.1	-2.6	-2.0
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	0.9	1.1	0.9	0.8	0.8	0.8
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	2.6	2.9	2.6	2.5	2.4	2.3
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	6.2	6.3	6.2	6.2	6.1	6.0
GHG emissions growth (mtCO2e)	-2.7	-3.1	-0.9	-0.9	-0.9	-0.9
Energy related GHG emissions (% of total)	82.7	86.1	85.8	85.5	85.1	84.8

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

a/ Calculations based on ECAPOV harmonization, using 2019-EU-SILC. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.

b/ Projection using neutral distribution (2019) with pass-through = 0.7 based on GDP per capita in constant LCU.