

BULGARIA

Recent developments

Table 1 **2019**

Population, million	7.0
GDP, current US\$ billion	67.9
GDP per capita, current US\$	9732.1
International poverty rate (\$ 19) ^a	1.4
Lower middle-income poverty rate (\$3.2) ^a	3.3
Upper middle-income poverty rate (\$5.5) ^a	7.9
Gini index ^a	40.4
School enrollment, primary (% gross) ^b	89.3
Life expectancy at birth, years ^b	75.0

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

Notes:

(a) Most recent value (2017), 2011 PPPs.

(b) WDI for School enrollment (2017); Life expectancy (2018)

Bulgaria's growth projection for 2020 has been revised upward on better-than-expected outturns of leading indicators and upward revision of eurozone projections. Limited uptake of fiscal response measures may impede the speed of recovery, however. The COVID-19 crisis has exposed the dual need for reform and investment in a number of public domains, yet upcoming elections in the spring of 2021 suggest major reforms are unlikely before mid-2021. Poverty is expected to increase due to the GDP contraction and job losses.

So far, the negative impact of the COVID-19 crisis on the Bulgarian economy has turned out milder than projected. Preliminary data shows that GDP shrank 4.2% y/y in H1 – the sixth smallest contraction in the EU. Whereas industrial production and construction showed signs of recovery in June compared with April-May, y/y declines were still registered. Retail trade continued to decline at double-digit rates y/y in June, likely due to changed consumer behaviour and the marked decline in tourism, as few tourists visited the country. As a result of the COVID-19 shock, both exports and imports declined substantially in April-May but showed visible signs of recovery in June.

The impact on the labour market has been relatively contained to date. The unemployment rate in Q2 grew moderately to 5.9%, up 1.7pp y/y largely due to a smaller-than-expected output contraction and a government's 60% salary subsidy program for distressed businesses. The biggest job losses occurred in manufacturing, tourism and trade.

The country entered the crisis with a strong fiscal position - public debt at 20% of GDP, a budget surplus, and a fiscal reserve of some 9% of GDP. The fiscal surplus was maintained in Jan-Aug 2020, reaching 1.3% of the government-projected GDP, on account of conservative planning of revenues, retention of expenditures, and slow implementation of fiscal response measures, which, however, may hamper the recovery

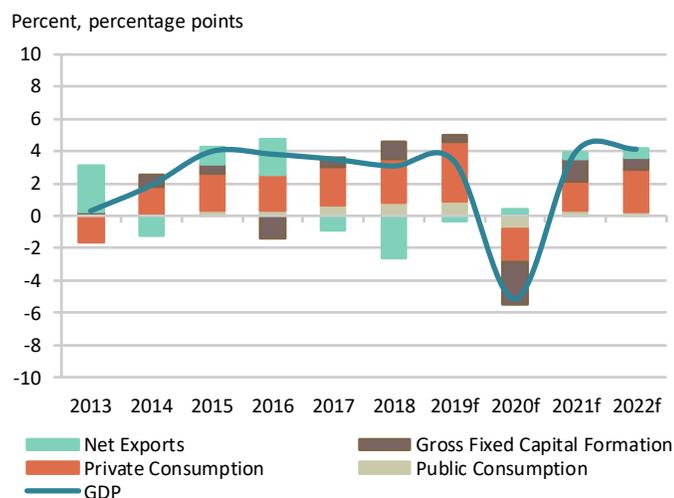
of the economy. In mid-Sep, the country re-entered the international bond market for the first time since 2016 and placed successfully EUR 1.25bn of 10yr bonds and 1.25bn of 30yr bonds at average yields of 0.389% and 1.476%, respectively. The proceeds will be used to finance the projected deficit.

In early July, the country joined the waiting room for the eurozone, the ERM 2, and the European Banking Union (EBU), after fulfilling a list of prior commitments over the last two years. Membership to the EBU will become effective from the beginning of Oct. 2020.

Rapid response household surveys mirror the moderate changes in employment and unemployment with roughly 91% of individuals who were employed prior to the COVID-19 crisis continuing to be employed in June. Of these, 84% worked the same hours or more and 76% earned the same or more. The individuals who reported earning less were more likely to be from middle-income households, higher educated, male, and in the 35-50 age range. Despite limited labor market impacts, more than a third of households reported finding it harder to make ends meet compared with pre-COVID-19. Poorer households, and those with less educated or female household heads were more likely to report issues with making ends meet compounded by inadequate savings and coping mechanisms.

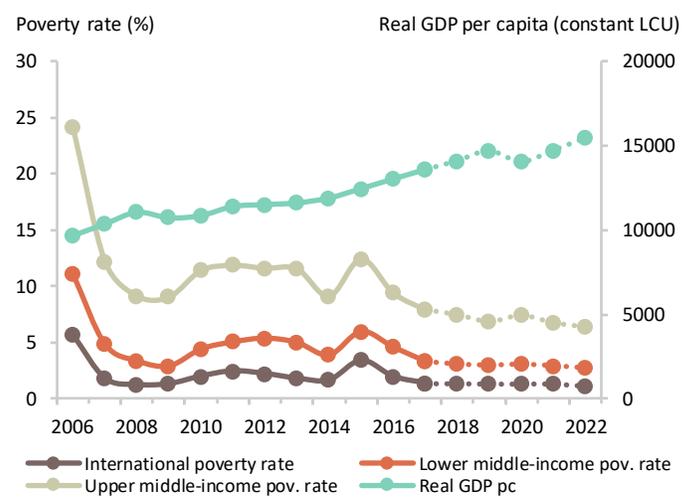
Poverty at the US \$5.5 per day line is expected to increase between 2019 and 2020, reversing a previous trend of sustained, albeit slowing, decreases in poverty since 2016 on rapid growth and favorable labor market conditions.

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.

Outlook

High-frequency indicators suggest that while the Q2 contraction of the economy may have turned out milder than expected, the Q3 recovery appears to have started more slowly. Limited uptake of fiscal response measures may also contribute to a bumpier recovery this year. Our baseline GDP growth forecast has been revised up to -5.1% in 2020, but risks remain tilted the downside.

Both private and public investment are likely to decline substantially in 2020 as private investors remain wary of the recovery prospects, while public investment projects are postponed in an attempt to contain the fiscal deficit. Meanwhile, EU funds for public investment under the anti-crisis Recovery and Resilience Facility are to start being absorbed no earlier than 2021.

Thanks to a good starting position, the fiscal deficit in 2020 will remain relatively contained at 4.1% of GDP, which will increase public debt up to 27.7% of GDP. The COVID-19 crisis has exposed the dual need for reform and investment in key public spheres such as health care and education. Unless reform efforts are urgently directed towards these and other

public sectors, the latter will be increasingly unable to provide services up to expected standards.

Poverty is projected to decline in 2021 as the Bulgarian economy and the economies of main trading partners recover. The recovery in the labor market is likely to be uneven, with a lengthier recovery for individuals in less secure job types. The slow uptake of the government's proposed fiscal package to retain and hire employees and provide support for individuals in non-standard work contracts is likely to further prolong the recovery. Similarly, individuals in vulnerable households may not readily see incomes returned to pre-COVID-19 levels, compounded by concerns surrounding the coverage and adequacy of existing social security systems and the limited uptake of new social measure.

Risks and challenges

Risks to the outlook continue to stem primarily from the uncertainties around the COVID-19 pandemic and its development both domestically and globally. Although the government has declared it would make every effort to avoid a second large-scale lockdown in the country

due to its detrimental effect on business activity, certain branches of the economy (such as sports, culture, hotels and restaurants, entertainment, retail trade, etc.) may experience steeper declines in the autumn-winter period if COVID-19 cases resume their growth. In that case, less stringent measures such as the temporary closure of certain in-door facilities are likely to be imposed, while people voluntarily refrain from consumption of such services on fears of contagion.

The ongoing social unrest in the country also adds to the uncertainties. Daily street protests in major cities requesting the resignation of the government and the Chief Prosecutor on the grounds of corruption and state capture have been ongoing for more than two months. The government has responded with the resignation of several ministers and a proposal for summoning a Grand National Assembly for amendments to the Constitution, but protest rallies have continued. The unrest is likely to escalate with the approach of next general elections in the spring of 2021.

TABLE 2 Bulgaria / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	3.5	3.1	3.4	-5.1	3.9	4.1
Private Consumption	3.8	4.4	5.8	-3.2	2.8	4.0
Government Consumption	4.3	5.3	5.5	-5.1	1.9	1.6
Gross Fixed Capital Investment	3.2	5.4	2.2	-13.8	7.8	4.3
Exports, Goods and Services	5.8	1.7	1.9	-12.9	8.6	4.8
Imports, Goods and Services	7.4	5.7	2.4	-13.4	7.8	4.0
Real GDP growth, at constant factor prices	3.5	3.1	3.4	-5.1	3.9	4.1
Agriculture	9.0	-2.0	3.6	-0.5	0.5	1.0
Industry	3.5	-1.1	2.7	-4.9	4.2	4.1
Services	3.2	4.8	3.6	-5.4	4.1	4.3
Inflation (Consumer Price Index)	2.1	2.8	3.1	2.0	2.3	2.0
Current Account Balance (% of GDP)	3.5	1.4	4.0	3.3	3.7	3.9
Net Foreign Direct Investment (% of GDP)	3.1	1.8	1.8	0.4	1.7	2.1
Fiscal Balance (% of GDP)	0.8	0.1	-1.0	-4.1	-3.0	-2.2
Debt (% of GDP)	25.3	22.3	20.4	27.7	30.7	32.2
Primary Balance (% of GDP)	1.6	0.8	-0.4	-3.5	-2.0	-1.1
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	1.4	1.4	1.3	1.3	1.3	1.1
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	3.3	3.1	3.0	3.1	2.9	2.7
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	7.9	7.5	6.9	7.4	6.8	6.4

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

Notes: e = estimate, f = forecast.

(a) Calculations based on ECAPOV harmonization, using 2017-EU-SILC. Actual data: 2017. Nowcast: 2018-2019. Forecast are from 2020 to 2022.

(b) Projection using neutral distribution (2017) with pass-through = 0.87 based on GDP per capita in constant LCU.