

Responding to the Coronavirus Crisis

Update on Bulgaria (10/07/20)



EBRD Policy Comparator

Financial Sector			Direct support to firms					Payment holidays			Temporary controls		Support to individuals				Increased social benefits			Health	External Assistance
Policy rate reduced	Liquidity increased	Prudential req. loosened	Wage subsidies	Tax/ social sec. contr. deferred	Loan subsidies	Guarantees	Inspections/ audits suspended	Loans	Rent	Utilities	Prices	Exports	Universal transfers	Self-employed	Pensioners	Low income households	Enhanced sick leave	Enhanced unemp. benefits	Public works	Additional spending	(available or negotiated)
*	*	*	*	*		*		*		*			*							*	*

Economic channels of disruption

Private consumption, goods exports, tourism

- Containment measures (a state of emergency was declared on 13 March, and recently extended until 15 July, with a likely further prolongation) is negatively affecting domestic demand, especially spending on social categories and durables (23% of GDP).
- Investment (20% of GDP) fell by ca. 7% y/y in Q1 amid increased uncertainty and bearish market sentiment, while liquidity pressure and disruption of supply chains negatively affected ongoing projects.
- Goods exports (50% of GDP) are decreasing amid the Eurozone recession and disruptions in global trade. In the period of Jan-April exports decreased 4.8%.
- Services exports, especially tourism sector (11% of GDP) is heavily affected. Foreign arrivals have stopped in the period of April and May.
- The country's entry to the ERM2, which seemed likely at first to face a further delay, is now scheduled for July 2020.

Selected crisis impact indicators

EBRD GDP growth outlook 2020: -5%; 2021: 4%;

Q1 GDP growth 2.4% y/y

Economic sentiment (ESI) (June 2020) 72.6 (63.8 in May and 58.3 in April)

Retail sales (March/April/May 2020) -14.6% y/y, -19.9% y/y, -20.4% y/y

Industrial output (March/April/May 2020) -6.8% y/y, -15.9% y/y, -16.1% y/y

Construct. output (March/April/May 2020) -4.1% y/y, -9.8% y/y, -14.4% y/y

Unemployment rate (May 2020) 4.6%, 0.4pp increase from Feb

CPI inflation (May 2020) 1.3% y/y

Crisis response measures to date

Support for firms, healthcare, individuals, and banking sector

- Coverage of 60% of wages in affected sectors until September (1.2% GDP).
- Decrease of VAT rate for hotels and restaurants from 20% to 9% until end-2021.
- Deferral of loan payments for up to 6 m for impacted firms and individuals.
- Capital increase of the Bulgarian Development Bank (BDB) by BGN 700mn (0.6% GDP).
- Coverage of min. wage for every hired registered unemployed for 3 m as of 1 July (BGN 160 mn, 0.1% GDP)
- Grant scheme for medium-sized firms (BGN 200 mn, 0.2% GDP) and state credit guarantee schemes to SMEs through the Fund of Funds (BGN 384 mn, 0.3% GDP)
- Capitalization of 2019 profit in the banking system (BGN 1.6 bn, 1.3% GDP).
- Increase in liquidity by reducing FX exposures of banks (BGN 7bn, 5.7% GDP).
- Cancellation of the increase of the countercyclical capital buffer with effect amounting to BGN 0.7 bn (0.6% GDP).
- The BNB agreed a swap line of EUR 2 bn with the ECB for liquidity support.

Selected crisis response indicators

Crisis response package (% of GDP) Ca. 5%

Amount of normal salary covered (% of salary) 60%

Payment holidays for taxes 3 (only corporate tax)

Payment holidays for loans Up to 6 months

Banking sector liquidity injection (% of GDP) ca. 8% (including FX exposures)

Committed external assistance est. EUR 11.7 bn (EU funds)

Key short-term priorities

Provide liquidity to the economy, particularly SMEs, and revenue support to vulnerable individuals affected by the crisis