



## BULGARIA

### Highlights

- **The economic recovery has been modest so far.** Gross domestic product (GDP) expanded by 3.4 per cent in the first half of 2021, while quarter-on-quarter growth remained negative.
- **The policy response to Covid-19 has been extended with more permanent measures in 2021.** While regional peers continued conditional support measures for employment and company liquidity, the authorities in Bulgaria have also focused on increased resources for pensions and public wages.
- **Reforms in the energy sector continue, with an enhanced focus on renewables.** Liberalisation of the electricity market will be accompanied by the introduction of market-based support for small renewable projects, while administrative barriers to renewables are being removed.

### Key priorities for 2022

- **Efficiently implementing incoming European Union (EU) funds will be critical.** As of mid-October 2021, Bulgaria has submitted its Recovery and Resilience Facility (RRF) plan and is now awaiting assessment by the European Commission. Bulgaria has requested a total of €6.6 billion in grants under the RRF. Political stability would help the country prepare for the next EU budget and adequately direct the allocation of EU funds towards key objectives.
- **Further efforts are needed to improve governance and the rule of law.** Areas that require attention include the anti-money laundering framework, the non-banking financial sector, state-owned enterprises and the insolvency framework, all of which would help the country achieve its target of adopting the euro in January 2024.
- **Moves towards decarbonisation should be stepped up.** Energy sector reforms have lagged those of Bulgaria's peers but the authorities have been considering coal phase-out dates. New opportunities for firms are opening up with the liberalisation of the market and high electricity and gas prices are creating incentives for decarbonisation.

#### Main macroeconomic indicators %

	2017	2018	2019	2020	2021 proj.
GDP growth	2.8	2.7	4.0	-4.4	4.2
Inflation (average)	1.2	2.6	2.5	1.2	2.1
Government balance/GDP	0.8	0.1	-1.0	-2.9	-3.7
Current account balance/GDP	3.3	0.9	1.9	-0.3	0.5
Net FDI/GDP [neg. sign = inflows]	-2.5	-1.3	-2.0	-3.5	-2.7
External debt/GDP	71.8	66.1	61.3	64.6	n.a.
Gross reserves/GDP	45.0	44.6	40.4	50.3	n.a.
Credit to private sector/GDP	49.5	49.8	48.9	51.3	n.a.

### **Covid-19: macroeconomic implications**

**The economy remains below the pre-pandemic level.** After plunging in the second quarter of 2020 (and by 4.4 per cent in the full year 2020), GDP closed some of the gap in the third quarter of 2020. Net exports, private consumption and inventories were the main headwinds to growth in 2020, while investment and government spending held up relatively well. In 2021 the economy failed to expand, as in the first two quarters quarterly GDP growth declined by 0.1 and 0.3 per cent, respectively. Private consumption has been the main driver of growth in 2021, as investments had a sluggish performance, while export growth in the second quarter did not compensate the accelerated growth of imports supported by domestic demand.

**Pressure on government spending has increased.** At the end of July 2021 the budget recorded a 0.6 per cent of GDP surplus for the year to date, lower than the surplus recorded in 2020 and in previous years. Expenditures rose significantly in this period, by 21.4 per cent, on the back of increased social spending and personnel costs. The 2021 budget originally targeted a deficit of 3.9 per cent of GDP, but the current caretaker government has drafted a revision proposing a cash-based deficit of 3.6 per cent of GDP. The revision shifts resources to allow the government to deal with another Covid-19 infection wave in autumn 2021, cover the upcoming pension increase and continue supporting the private sector.

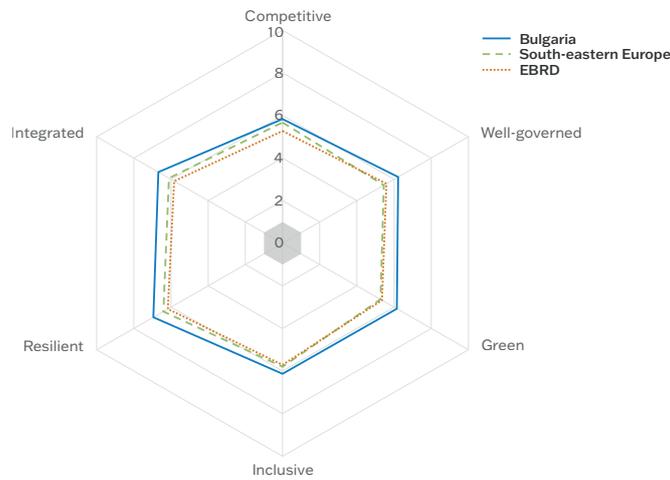
**Inflation has picked up in 2021.** After falling to a low of -0.6 per cent in January 2021, inflation increased to 3.7 per cent year-on-year by August 2021, largely due to higher fuel, gas and electricity prices. The wholesale electricity price on the local exchange reached record highs in August 2021, mainly due to the increase in demand and a more expensive carbon price, prompting some companies to stop production.

**The growth outlook remains favourable but downside risks are strong.** We forecast the economy to expand by 4.2 per cent in 2021 on the back of the expansionary fiscal policy, which is supporting consumption. The main downside risks are a prolonged political stalemate, which could affect the budget execution and EU funds absorption, and the low vaccination rate. The authorities are already preparing for another wave of infections, which could lead to new containment measures. In 2022 the economy should grow by 4.4 per cent, with EU funds expected to support investment.

### **Policy response to Covid-19**

**The policy response in 2021 was mostly concentrated on long-lasting policy changes.** In 2020 the authorities deployed a Covid-19 crisis-response package of about 3 per cent of GDP, centred on the 60/40 scheme covering wages, a decreased value added tax (VAT) rate in the hospitality sector until the end of 2021 and liquidity support through the Bulgarian Development Bank. In 2021 the government extended the 60/40 scheme to help preserve jobs. A pension bonus of about €25 was introduced in autumn 2020, with parliament voting for an increase to €60 from October 2021 until the end of the year. Resources were also shifted towards more permanent increases in spending, such as a 10 per cent increase in public wages and a hike of 12.5 per cent in pensions starting December 2021, on top of an indexation of 5 per cent approved in July 2021.

**Assessment of transition qualities (1-10)**



**Structural reform developments**

**The competition law was updated as a step towards full alignment with EU regulations.**

The amendments to the law came into force at the end of February 2021, transposing the EU directives on European Competition Network Plus (ECN+) and Unfair Trading Practices (UTP). Among the main changes are: introducing a significant impediment of effective competition test in antitrust proceedings; repealing the concept of stronger bargaining power (a rather unclear procedure introduced by Bulgaria in 2015 but not in other EU member states); and stricter deadlines for solving cases by the Commission for Protection of Competition. Other updates this year include measures to address bid rigging and the introduction of a pre-notification contact in merger proceedings.

**Digitalising the judiciary has accelerated.** Due to the outbreak of the Covid-19 pandemic and the need to respect containment measures, the judicial process has been allowed to operate digitally. In July 2020 parliament amended the Civil Procedure Code to introduce online court hearings, including administrative and criminal cases.

**The Energy Act was amended to include support for small renewables and remove indirect administrative barriers.**

The premium model for renewable projects with a capacity between 0.5 MW and 1 MW was proposed in an amendment to the Energy Act in November 2020. The introduction of small renewable projects comes after premiums replaced the feed-in tariffs for projects over 1 MW in 2019 and over 4 MW in 2018. This will support further liberalisation of the energy market and provide stronger incentives to deploy renewable sources. In addition, new renewable projects will not be required to pay a contribution of 5 per cent of future income to the Security of Electricity Supply fund, set up to stabilise the electricity market.

**Competition watchdog CPC approved Eurohold's acquisition of the assets of Bulgarian power company CEZ.**

After a years-long process and the initial CPC ruling against the acquisition in 2019, the process was finalised in early 2021. The European Bank for Reconstruction and Development (EBRD) agreed on a €60 million loan to Eurohold to support the €335 million acquisition and modernisation of the acquired assets, as well as digitalisation and improved governance.

**A new gas interconnection project was launched to link Bulgaria with Serbia.** The project, which was announced in 2018 with construction expected to start by the end of 2021, is in line with the government's plans to ensure energy security and diversify sources. The €85 million connector will be operated by Bulgartransgaz, which, given its regional importance, has received financing from the EU and the European Investment Bank (EIB). This complements another interconnector between the two countries, which became operational in 2021 and is part of the TurkStream pipeline. A notable regulatory change is the introduction of licensing for wholesale natural gas traders.

**The Waste Management Act was updated to include more ambitious recycling targets.** The amendments, which will come into force at the start of 2022, cover increased recycling targets for packaging waste along with a phased schedule within which to reach them. The aim is to recycle 70 per cent of packaged waste by 2030. Moreover, all entities producing packaged waste are now obliged to adhere to the law, while commercial sites need to ensure they have adequate facilities to collect and separate this type of waste.

**Amendments to the law on protection from domestic violence are currently under way.** The changes aim to address the gaps and weaknesses of the current law, such as the lack of effective protection of victims, poor coordination between relevant institutions and insufficient data collection. Domestic violence remains a serious issue in Bulgarian society and the number of cases has increased since the outbreak of the Covid-19 pandemic.

