



## Bulgaria

### Highlights

- **Economic growth is slowing.** Gross domestic product (GDP) growth reached 3.9 per cent in 2022, but momentum waned in the first half of 2023 amid a slowdown in investment and weaker external demand.
- **The new coalition government has committed to far-reaching judicial reform.** It is expected that constitutional amendments will be adopted to reform the Supreme Judicial Council, Office of the Chief Prosecutor and anti-corruption entities.
- **Legislation has been adopted to promote the deployment of renewable energy sources.** A legislative framework for offshore wind energy entered into force in January 2023, and the minimum amount of installed capacity subject to licensing was increased. Other initiatives are also progressing, including to develop a renewable energy storage system.

### Key priorities for 2024

- **Recovery and Resilience Plan (RRP) implementation should be accelerated.** Bulgaria received its first disbursement from the Recovery and Resilience Facility (RRF) at the end of 2022, and the government submitted a second payment request in October 2023. It is important to show tangible progress on the high number of deliverables to which the authorities have committed.
- **Prerequisites for euro adoption should be finalised.** Having made the decision to delay eurozone accession by another year, the authorities should ensure that all necessary reforms and legal requirements are completed by the middle of 2024.
- **Stronger commitment to decarbonising the energy sector is needed.** Although some of the green transition reforms and investments listed in the RRP are ongoing, the energy sector as a whole, particularly the part based on coal production, needs to be transformed more quickly if it is to align with European Union (EU) targets.

#### Main macroeconomic indicators (per cent)

	2019	2020	2021	2022	2023 proj.
GDP growth	4.0	-4.0	7.7	3.9	1.6
Inflation (average)	2.5	1.2	2.8	13.0	8.5
Government balance/GDP	2.1	-3.8	-4.0	-2.9	-2.8
Current account balance/GDP	1.9	0.0	-1.7	-1.4	0.0
Net FDI/GDP [neg. sign = inflows]	-2.0	-4.5	-1.8	-2.5	n.a.
External debt/GDP	61.3	63.3	58.1	52.3	n.a.
Gross reserves/GDP	40.4	50.1	48.7	45.4	n.a.
Credit to private sector/GDP	48.9	51.0	47.9	45.2	n.a.

## Macroeconomic developments and policy response

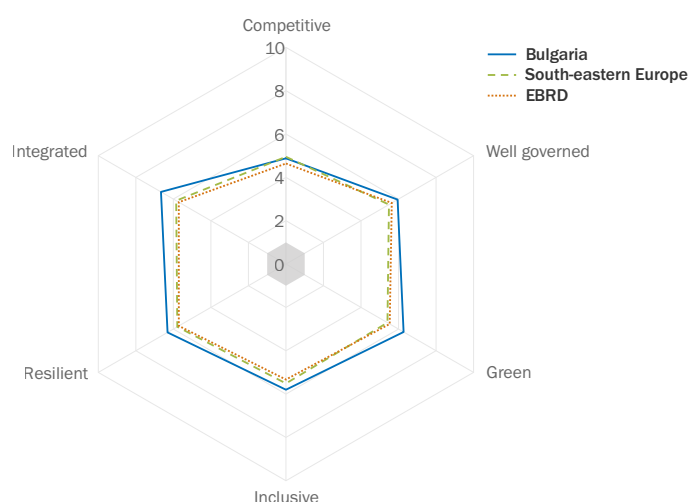
**The economy is slowing considerably.** After expanding by 3.9 per cent in 2022, the economy has been cooling in 2023 amid weaker external demand and a contraction of public spending and investments. In the first half of 2023 GDP grew 2 per cent year on year, thanks to the surprising resilience of private consumption, which increased by 7.2 per cent. Exports recorded a year-on-year decline of 1.3 per cent in the first six months of 2023. Imports, meanwhile, fell 7 per cent on the year in the first half of 2023, leading to a considerable drop in the trade deficit. Raw materials and energy exports slumped in the first few months of 2023 owing to a drop in coal and nuclear electricity production, and to a moderation in market prices, which rendered Bulgarian electricity less competitive. The fall in exports is also reflected in the year-on-year decline of manufacturing since March 2023. After a strong rebound in the second half of 2022, investments slumped again in the first half of 2023.

**Inflation is moderating from a relatively high peak.** Consumer price inflation peaked at 18.7 per cent in September 2022, largely driven by food prices. Inflation had dropped notably to 6.3 per cent by September 2023, with most components on a disinflationary trend, though energy tariffs were raised recently. Nominal wage growth has been strong in the past year and reached 17.3 per cent year on year in the first quarter of 2023, before moderating to 13.1 per cent in the following quarter. Since September 2022, real wage growth has turned positive, supporting household consumption.

**The fiscal deficit is narrowing.** The new parliament adopted a revised 2023 budget in late July that set a government deficit target for the year of just 3 per cent of GDP, well below that set by the provisional government. The administration plans to achieve the lower deficit through better tax collection, measures such as tighter customs and controls obliging firms with more than 100 employees to pay salaries solely through banks. The cash-based budget had recovered to a surplus of 0.3 per cent of GDP by July 2023. Subsidised electricity costs for firms, a key support measure during the energy crisis, have been extended to the end of 2023, but the budgetary cost is expected to be minimal amid lower electricity prices and a contribution from the windfall revenues of state-owned enterprises.

**Lower public spending and weak foreign demand are the main drivers of slower growth.** Considering how the economy performed in the first half of 2023, we forecast GDP growth for the year as a whole at 1.6 per cent. This downturn in growth relative to 2022 is driven by weaker investments and negative net exports, offset by still resilient private consumption. The planned fiscal consolidation will also lead to lower government spending. The economy should rebound by 2.6 per cent in 2024, by our forecasts, supported by lower inflation, the accelerated absorption of EU funds and revived foreign demand. Another energy price shock and the protracted weakness of key trading partners are the main downside risks.

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



## Structural reform developments

**The European Commission has closed the Cooperation and Verification Mechanism (CVM) for Bulgaria.** In June 2023 the authorities reported that the last deliverable from the 2019 evaluation, related to the accountability and criminal liability of the chief prosecutor, had been fulfilled, prompting the closure of the CVM. Nevertheless, Bulgaria will still be monitored through the rule of law mechanism. In addition, the July 2023 report noted, among six recommendations issued, that there had been limited progress compared to last year on addressing high-level corruption and improving the functioning and independence of the Supreme Judicial Council.

**Judicial reforms are advancing, including changes to the constitution.** The new government has agreed to amend some of the constitution's key articles, including those relating to the term and powers of the chief prosecutor and the Supreme Judicial Council, and to introduce term limits for municipal mayors. The National Investigation Service was separated from the Office of the Chief Prosecutor in June 2023 to become an independent structure in the justice system. The Anti-Corruption Commission was split into two entities, an anti-corruption committee and a committee for seizing property, after the anti-corruption law was amended in September 2023. In July 2023 the European Commission's Rule of Law Report reiterated the need for progress on reforming the Supreme Judicial Council, tackling high-level corruption more effectively and applying integrity standards to people in high-level positions.

**Parliament has updated the country's anti-money-laundering framework and public procurement law amid European Commission infringement procedures.** In June and July 2023 the Commission announced that it had opened infringement cases against Bulgaria for the incomplete transposition of the EU Anti-Money-Laundering Directive (2018/843) and for outstanding shortfalls in public procurement legislation. In June 2023 parliament adopted amendments to the Prevention of Money Laundering Act to align the legislation with the latest recommendations of the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL). In addition, the government proposed a series of changes to the Public Procurement Act to align it with RRP commitments and EU law, largely to streamline and safeguard the tendering process.

**Amendments to the insurance bill were adopted as part of requirements for eurozone accession.** In July 2023 and after significant delays, parliament adopted changes to national insurance legislation to align it with EU law. The updated law obliges insurers to compensate clients without delay and to refrain from disputing any claims for accidents abroad that are covered by the European Green Card system. Outstanding reforms needed for euro adoption include legislation on personal bankruptcy, amendments to commercial insolvency law and an update to the Law on the Bulgarian National Bank. The latter proposed law was well received by the European Commission and should be adopted by the parliament by the end of 2023.

**Parliament adopted the act transposing the EU Whistleblowing Directive (2019/1937).** In January 2023, after a delay of more than a year, parliament adopted a bill to transpose EU regulation on the protection of whistleblowers. The act entered into force in May 2023 and obliges firms with more than 50 employees to set up internal whistleblowing channels and procedures by December 2023.

**Adjustments to the energy act were made to enable the deployment of renewable energy sources.** In early 2023 parliament adopted several amendments to legislation regulating the energy sector to stimulate the development of renewable energy sources. The minimum amount of installed capacity subject to licensing was raised from 5 MW to 20 MW. The act also introduced a framework for energy storage, which is critical for balancing an electricity system based on renewable energy. Another important piece of legislation was an act regulating offshore wind development, which entered into force in January 2023 and sets out the deployment of 62 GW of capacity under the contracts-for-difference mechanism.

**Bulgaria aims to double its gas storage capacity while infrastructure is being developed.** Bulgartransgaz, the natural gas transmission and storage system operator in Bulgaria, announced in January 2023 that the capacity of the main gas storage facility in the village of Chiren would be expanded to 1 billion cubic metres. The project will also replace outdated Soviet equipment with American technology and will be completed within two years. In addition, the gas pipeline link to Serbia is now under construction and should be operational by the end of 2023.