Statement by the IMF Staff Representative on Bulgaria
February 7, 2003

This statement provides information since the issuance of the staff report for the second review under the stand-by arrangement for Bulgaria. This information does not change the staff's appraisal in that report.

- Macroeconomic developments continue to be favorable. Industrial production rose by 11 percent year-on-year in November, supporting the view that real GDP growth for the year likely exceeded the 4 percent projected under the program. The unemployment rate continued to fall in December, reaching 16.3 percent or more than 2½ percentage points below the level at the start of 2002. Balance of payments data through October show a continued recovery in exports and an external current account deficit of 1.2 percent of estimated annual GDP, suggesting that the external current account deficit for the year as a whole remained within the projected 4.2 percent of GDP. Inflation in December picked up to 3.8 percent annually from 3.2 percent in November reflecting, in part, higher oil prices.

- Indications are that all performance criteria for end-December were observed. Staff has confirmed that ceilings on contracting and guaranteeing public sector debt have been met; that the floor on the balance of the Fiscal Reserve Account has been exceeded by a comfortable margin; and the end-December performance ceilings on arrears to the state energy companies have been observed. Preliminary data indicate that the general government fiscal deficit for 2002 reached 0.7 percent of GDP, some 0.1 percentage points of GDP below the ceiling. However, the end-December indicative target on social insurance arrears collection was not observed.

- There have been positive developments with regard to structural reform. First, three foreign banks have made indicative offers for the last major state-owned bank, DSK Bank, and the sale remains on track for completion in the first half of 2003. Second, the supreme court has ruled that the privatization of the state telecommunications company (BTC) can go forward as planned, and the sale is now expected to be completed in the first quarter of the year. Finally, the Ministry of Finance has launched a new website which includes monthly data on the consolidated general government budget implementation. This is a positive step toward enhancing fiscal transparency and is line with structural conditionality under the program.

- The authorities have indicated their intention to publish the staff report without deletions.

INTERNATIONAL MONETARY FUND

EXTERNAL RELATIONS DEPARTMENT

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes Review and Approves US$36 Million Tranche Under Stand-By Credit for Bulgaria

The Executive Board of the International Monetary Fund (IMF) today completed the second review of Bulgaria's economic performance under the stand-by credit. The decision will enable Bulgaria to draw SDR 26 million (about US$36 million) from the IMF after February 14.

The two-year Stand-By Arrangement was approved on February 27, 2002 (see Press Release No. 02/12) in a total amount of SDR 240 million (about US$330 million). So far, Bulgaria has drawn SDR 84 million (about US$115 million) under the stand-by credit from the IMF.

Following the Executive Board discussion, Anne Krueger, First Deputy Managing Director and Acting Chair, said:

"Macroeconomic performance has been impressive in Bulgaria since the first program review, despite weak economic conditions in its main trade partners. The authorities' economic program, supported by the Stand-By Arrangement, continues to be centered on the Currency Board, which has been supported by a prudent and flexible fiscal policy and a strict incomes policy. These policies have contributed to robust growth, decelerating inflation, and a stronger-than-programmed external position. Unemployment, while still high, declined significantly in 2002. The authorities have made progress in some critical structural reform areas, including key privatizations in the financial sector, the enactment of the bank bankruptcy law, and increases in household electricity and district heating prices toward cost recovery levels. However, progress has lagged in other important areas, and there have been delays in the completion of privatizations of the state-owned tobacco holding and telecommunication companies.

The authorities' 2003 budget deficit target is appropriate and necessary to maintain macroeconomic stability. However, achieving this target will present challenges. In this context, we welcome the authorities' decision to proceed cautiously with discretionary spending during the first three quarters of the year and to monitor revenue developments monthly. Over the medium term, fiscal policy continues to target a balanced budget, with a lower tax burden and increased social and EU-related spending to be offset by cuts in subsidies and other unproductive spending. To achieve these goals, it is critical that the National Revenue Agency be made operational and that other efforts to strengthen tax administration and collection be increased. On