



BULGARIA

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION—SUPPLEMENTARY INFORMATION

June 14, 2022

Prepared By

European Department

This supplement provides information that has become available since the staff report was issued to the Executive Board on June 3, 2022.

- 1. GDP growth for 2022Q1 was revised down.** It is now estimated at 0.8 percent q/q, instead of 1 percent in the flash estimate, implying a lower carry over effect for the year as whole.
- 2. One of the parties in government left the coalition, heightening political uncertainty.** On June 8, 2022, the leader of There Is Such People Party (TISP) announced that its party was withdrawing from the coalition over disagreements about the 2022 revised budget and foreign policy. Without TIPS's 25 deputies, the government no longer holds a majority in parliament. The three remaining parties vowed to continue as a minority government, but snap elections may eventually need to be called. In any case, policymaking will likely be hampered, and prospects for reforms have dimmed.
- 3. A revised 2022 budget including anti-inflation measures was submitted to parliament.** The draft revised budget is based on an updated macroeconomic framework, includes revised estimates of EU grants, and incorporates new measures to mitigate the impact of inflation in addition to those included in the initial budget. These measures include lower VAT rates for bread, district heating and gas, an exemption of electricity from excise payment, tax breaks for family with children, and pension increases. While the proposed revised budget leaves the fiscal balance target unchanged at 4.1 percent of GDP, staff estimates that the deficit and the cyclically-adjusted deficit could be 0.4 percent of GDP larger than indicated in the staff report if the revised budget is fully implemented. However, with no reduction in public investment, capacity constraints may slow the implementation of projects and limit the increase in the deficit.

Bulgaria: Impact of the Draft Revised Budget on Fiscal Projections
(percent of GDP)

	Staff Report	Revised Projections
Revenue	36.5	36.9
o/w Tax revenue (incl. social contributions)	28.1	27.8
o/w Grants	3.3	4.0
Expenditure	39.4	40.1
o/w Compensation of employees	6.7	6.7
o/w Goods and Services	5.6	5.8
o/w Social spending	16.3	16.7
o/w Capital expenditure	5.3	5.3
Balance	-2.8	-3.2
Cyclically-adjusted balance	-2.6	-3.0

Sources: authorities, and staff estimates.

4. Staff's recommendations to improve the budget composition largely stand.

Notably, the draft revised budget leaves unchanged planned investment, the wage bill, and the contingency reserve. In addition, VAT and excise rate cuts are untargeted and regressive. Other measures, such as the additional support to families with children and pensioners are also insufficiently targeted. The average pension would increase by about a third between June 2022 and October 2022 owing to: (i) a greater increase than in the initial budget, (ii) the permanent incorporation in the pensions of the bonuses that were initially introduced as a temporary response to the pandemic, and (iii) changes in pension calculation. While these measures will improve the adequacy of pensions, their long-term implication for the sustainability of the pension system remains to be assessed. This reinforces the need for a holistic review of the pension system.

5. The thrust of the staff appraisal remains unchanged.