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PRESS RELEASE

Findings of the Regular 2012 Staff Visit to Bulgaria

Sofia, May 10, 2012

An International Monetary Fund (IMF) mission visited Sofia during May 2–9, 2012, to discuss economic developments and government policies with the Bulgarian authorities. At the conclusion of this regular staff visit, Ms. Purfield, IMF Mission Chief for Bulgaria, made the following statement:

"Prudent and decisive policies along with strong buffers ensured Bulgaria's resilience through the global crisis. Complementing the strong policies with higher fiscal buffers will safeguard this resilience going forward. Boosting potential growth by implementing bolder structural reforms is also a priority."

"Growth continues to slow, mostly reflecting external headwinds. Real GDP growth is projected to reach 0.8 percent in 2012 and rise moderately to 1.5 percent in 2013, contingent on euro area growth recovering and much stronger EU funds absorption by Bulgaria. Headline inflation is projected at around 2 percent in 2012. Risks to the outlook, particularly emanating from an intensification of the euro area crisis, remain to the downside."

"Fiscal buffers need to be raised to safeguard resilience. At this juncture, it would be prudent to increase the fiscal reserve, and to avoid steps that would reduce it. Tapping international markets to secure funds to cover both future rollover needs and bolster the reserve would be a good option. A medium-term debt plan would promote a more integrated funding approach going forward."

"Fiscal policy is on track to meet the 2012 fiscal deficit target. Reforms to improve VAT compliance are yielding commendable results. Realizing the targets for EU funds absorption will be critical to support growth now and in the future. With the budget deficit target for 2013 unchanged from 2012, there will be space if there were to be a downturn to permit the fiscal deficit to widen within the Financial Stability Pact limits, provided financing is secured. High unemployment requires greater efforts to expand active labor market programs and social safety nets. These programs could be financed through EU social funds or measures to bring the grey economy into the tax net."

"The recent pension reform will yield substantial savings worth 4 percent of GDP over the medium-term. Building on this momentum and to boost labor market participation, the authorities could also consider linking the retirement age to life expectancy and unifying retirement ages. Steps were also taken to reduce contingent risks to the budget from state-owned enterprises in the transport and energy sectors. Medium-term fiscal pressures related to the health sector will also need to be addressed."

"The banking system remains well capitalized, liquid, profitable, and well supervised. As growth slowed, gross non-performing loans (NPLs) rose in the first quarter of 2012 but their coverage by provisions remains high. Reforming the insolvency framework, including limiting backdated insolvencies, would help resolve the backlog of NPLs."

See <http://www.imf.org/external/country/BGR/index.htm> for details on the continued dialog between the Bulgarian authorities and the IMF.