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PRESS RELEASE

Bulgaria: Statement of the 2012 Article IV IMF Mission

Sofia, October 2, 2012

A mission from the International Monetary Fund (IMF) visited Sofia during September 20 to October 2 to undertake the annual review of the Bulgarian economy. At the end of the visit, Ms. Catriona Purfield, IMF Mission Chief for Bulgaria, made the following statement:

"Strong buffers and steadfast policy implementation have allowed Bulgaria to maintain stability in a challenging environment. However, growth remains weak, unemployment is high, and the economy remains exposed to external risks, particularly from the euro area crisis."

"We project real GDP growth of 1 percent in 2012, due to stronger domestic demand arising from the use of EU structural funds, and rising to 1½ percent in 2013 as exports recover. Headline inflation is expected to average 2½ percent in 2012, due to higher food and fuel prices."

"The 2012 fiscal cash deficit is on track to fall to 1¼ percent of GDP, making substantial progress towards the 2015 target of a balanced budget. Targeting an unchanged budget deficit in 2013 would preserve the credibility of this adjustment that resulted in lower yields on government debt. Within a tight budget envelope it will be necessary to resist pressures for generalized wage increases. Any over performance should be used to boost the fiscal reserve given the temporary impact of the July eurobond issue. However, in the event there were to be a severe downturn, the deficit should be allowed to adjust to the economic cycle."

"Boosting growth and employment will require bolder structural reforms. Higher capital spending (e.g. basic infrastructure) funded by better absorption of EU funds would stimulate growth and tackle infrastructure gaps. Alleviating disincentives to the hiring of young and less skilled workers, active labor market policies, and education reform would improve skills and productivity. Limiting options for early retirement would promote higher labor force participation, which along with health reform, would combat aging costs. Social security contributions under the new single payment system should go directly to pension funds to safeguard their viability."

"Predictable enforcement of private contracts is critical to better the business climate. The backdating of insolvencies is raising risks for all lenders, and ultimately causes higher costs for new borrowers. Changing the insolvency law to, among other things, disallow backdating would largely address this problem. Furthermore, introducing a fast track court approval procedure for pre-agreed reorganization plans and exploring ways to encourage voluntary mechanisms would permit faster and more cost effective debt resolution."

"The banking system is stable, but the low-growth environment is posing challenges. The overall capital adequacy ratio (16.7 percent in June 2012) exceeds the 12 percent mandatory requirement. Strong deposit growth and subdued credit demand have boosted liquidity buffers and reduced external funding. Non-performing loans have continued to rise, reaching a gross rate of 16.9 percent of all loans (June 2012). Banks should be encouraged to actively address non-performing assets by loan restructuring, asset disposals, or write-downs under close monitoring by the Bulgarian National Bank. Strengthening the bank resolution powers

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

For information from the IMF Resident Representative Office in Sofia, please see:
<http://www.fmi.ro/index.php?pid=18&lg=en&mid> and
<http://www.imf.org/external/country/bgr/rr/index.htm>.