RESIDENT REPRESENTATIVE OFFICE OF THE
INTERNATIONAL MONETARY FUND
1, Knyaz Alexander I Square, BNB
Sofia, Bulgaria
Tel. [359 2] 981 4506
Fax [359 2] 981 2524

PRESS RELEASE

Statement at the Conclusion of an IMF Article IV Mission to Bulgaria

Sofia, May 20, 2011

A mission from the International Monetary Fund (IMF) visited Sofia during May 10--20, to undertake the 2011 regular Article IV consultations. Ms. Catriona Purfield, IMF Mission Chief for Bulgaria, made the following statement at the end of the visit:

"The Bulgarian economy has adjusted swiftly following the recent crisis. The challenge going forward will be to accelerate ongoing reforms to recover growth potential, create jobs, raise incomes, and address age-related pressures, while also maintaining and rebuilding buffers with a view to enhance macroeconomic resilience against shocks.

"Exports have rebounded above pre-crisis levels and are expected to propel real GDP growth to 3 percent in 2011, as growth rebalances towards the export sector. This is helping offset weaknesses in domestic consumption stemming from increases in inflation and in precautionary savings in the context of heightened external uncertainty. Imports remain subdued and the current account is moving closer to balance. Higher food and fuel prices are projected to increase inflation (harmonized consumer price index) to 4¼ percent in 2011, before easing to 3 percent in 2012.

"The structural reforms listed in the National Reform Program will be key to lift growth potential. Already, a good start has been made in implementation. Tailoring training and education to employer needs, while strengthening job search services will help tackle unemployment and raise labor productivity over time. Noticeable progress has recently been made in absorbing EU structural funds. The envisaged amendments to the Public Procurement Law are expected to further accelerate the absorption. More predictable contract enforcement will also help improve Bulgaria's reputation as a good destination for foreign direct investments.

"The authorities' proposal of a Financial Stability Pact will send a strong signal of Bulgaria's commitment to prudent fiscal policies, which we endorse. To complement the new framework, a rule that guides expenditures to create savings in upswings should be included in the organic budget law. The government is on track to meet its 2011 budget deficit target. However, it will be important to sustain on-going efforts to counter tax evasion, while refraining from new or *ad-hoc* spending increases to permit timely exit from the excessive deficit procedure. Improving public spending efficiency will create space to reallocate funds towards growth-enhancing education and capital investment spending. While reform of the public administration should continue, it will be important to strengthen the efforts to improve healthcare and make it more cost efficient. Preserving the fiscal reserve and rebuilding it would enhance confidence and counter future shocks. Accelerated privatization would be an important contribution to increased fiscal reserves, which should also be supplemented by increased debt issuance.

"The banking system continues to weather the economic crisis well and banks remain well-capitalized. The capital adequacy ratio at end-March was 17.7 percent (more than twice the EU minimum). As expected, non-performing loans are increasing, albeit at a slower pace, and the trend is projected to reverse in the second half of 2011. We expect lending to begin to recover this year. Credit growth would be facilitated through greater clarity and certainty about the outcome of legal disputes on reposition of collateral, particularly regarding the problem of back dating insolvencies."

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