

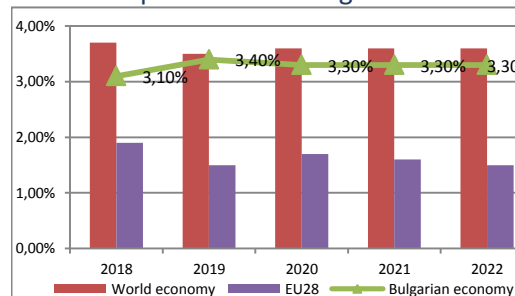
Key messages:

- The uncertainty in international economics and politics poses a significant risk for the small and open Bulgarian economy as it destimulates private investment and may negatively affect export.
- The FC finds a positive trend in the unpredictable budget deficits over the three-year forecast period, but considers that planning surpluses makes it possible to accumulate buffers against potential economic shocks.
- The large deviations between the planned and reported capital cost figures justify the Fiscal Council to recommend that measures should be taken in relation to more accurate capital program planning.

Macroeconomic outlook

The expectations of the government for real growth of the Bulgarian economy are considerably higher than those for the European (EU 28) as the latter slows significantly. The October forecast envisioned real GDP growth of 3.4% but at the end of 2019 a bit higher levels are anticipated. However, the FC considers 3.3% growth in 2020 optimistic compared to 3% projected by the European commission. The level of uncertainty in economics and politics on international levels has risen significantly. Such trend has a strong negative impact on the small and open Bulgarian economy as it destimulates the private investment and poses great risk for export. The growth will be supported mainly by consumption. Consumption is driven by the increase of compensation in the limited labour market and by the low interest rates for household loans. However, both of these factors are volatile, thus the growth expectations could be considered unsteady. Public investments are also expected to rise with the upcoming end of the programming period. There are structural challenges in the economy and the labour market.

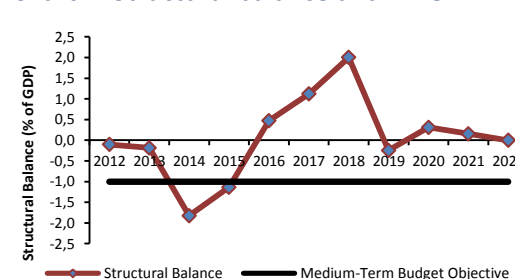
Chart 1: Expected real GDP growth



Short-term fiscal outlook

After three consecutive years of unplanned surpluses, 2019 will end up with a smaller CFP deficit (instead of 2%, expectations are about 1% of GDP). The CFP budget balance on a cash basis as of November 2019 is positive, amounting to BGN 1,300.8 million (1.1 % of forecast GDP) and is formed by an excess of revenues over expenditures under the national budget of BGN 1,640.6 million and a deficit under EU funds of BGN 339.8 million. Transactions in the end of the year generate significant disparities in data on accrual and cash basis and complicate budget balance forecast. Moreover, the planned deficit does not fit in the medium term fiscal policy. In 2019 the positive output gap is expected to reach 0.1%, but the budget balance is negative and the structural deficit amounts to 0.25% of GDP, i.e. talking to a slightly pro-cyclical fiscal policy.

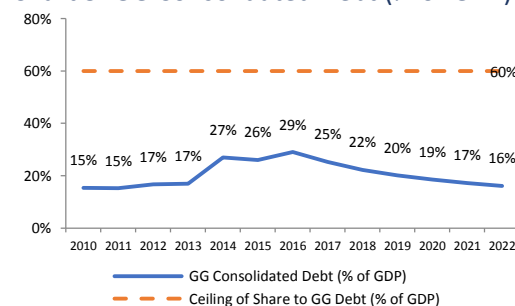
Chart 2: Structural balance and MTO



Medium-term fiscal outlook

Reaching zero CFP balance over the period 2020-2022 is projected. An anti-cyclical fiscal stance is already planned in 2020. Regarding the Structural Balance, a deficit is planned in 2019 amounting to 0.93% of GDP and zero balance budget of GDP for 2020-2021. The medium-term budgetary objective is reaching a balanced budget position in 2020. The government set achievable targets and usually reported over-performance. In this way there is an unused fiscal space. The fiscal risk is low as a whole and the execution is easy to control.

Chart 3: GG Consolidated Debt (% of GDP)



Fiscal framework and national fiscal rules

The requirements of the fiscal rules in the budgetary framework 2020-2022 are respected. The risks of non-compliance are small. The structural budget balance is between -3% and 3%, which is above the MTO of -1%. The share of consolidated debt in GDP is significantly below 60%. The level is expected to fall below 17% in 2022 which means Bulgaria will remain in the top EU countries for this indicator. The General Government expenditure is projected to decrease to 36% of GDP.

Key indicators

		2017	2018	2019 f	2020 f	2021 f	2022 f	Source/notes
Real GDP growth rate	[% y-to-y]	3.5	3.1	3.4	3.3	3.3	3.3	1, 2
Output Gap	[%]	0.0	0.0	0.1	0.1	0.2	0.4	1
GG balance	[% of GDP]	1.1	0.5	-0.2	0.3	0.2	0.1	1, 2
GG debt	[% of GDP]	25.3	22.2	20.1	18.5	17.2	16.1	1, 2
GG structural balance	[% of GDP]	1.1	0.5	-0.25	0.3	0.2	0.0	1, 2
Real GG expenditure growth	[% y-to-y]	6.4	0.9	10.4	4.4	4.3	3.0	1, 3
Discretionary revenue measures	[% of GDP]	0.5	1.0	1.2	0.4	0.4	0.0	1, 3

Sources/notes:
 1 - Ministry of Finance;
 2 - National Statistical Institute
 3 - Fiscal Council
 f - forecast