Bulgaria

Fiscal Council of Bulgaria

Country note, July 2019

Key messages:

- **The expectation of the government for economic growth exceeds 3% of GDP. However, it relies on the trade with the main partners in the EU. These expectations seem too optimistic due to the high uncertainty and risks in that matter.**
- **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.**
- **FC stresses the need for the government to follow anticyclical fiscal policy and improve the quality and accuracy of budget forecasts. Structural reforms in key sectors have to be focused on achieving efficient results.**

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. However, the growth of the economy on Bulgarian level is lagging behind the world. Thus, the convergence towards the EU is slowing down. The main macroeconomic risk is the insecurity linked to the fragile external environment characterized by high uncertainty. The expectations for the approach of negative economic cycle have a de-stimulating effect on private investment and export. The projections for growth in investments are considered overestimated by the FC. There are structural challenges in the economy and the labor market. They will significantly influence the environment in medium-term due to their specifics.

Short-term fiscal outlook

In public finance, fiscal consolidation has been going on in recent years. The planned CFP deficit in 2019 seems illogical since surpluses for 2016 (1.6% of GDP), 2017 (0.8% of GDP), 2018 (0.55% of GDP) were reported while deficit were planned. Moreover, upward trend in the economy exceeding potential in 2019 is anticipated. However, based on preliminary data from MF the expected cash-balance in CFP at the end of April is BGN 2.7 billion surplus (2.3% from GDP). It is generated on the basis of good execution of tax revenue (including minimal increase in collection effectiveness) and failure to meet the planned level of capital expenditures. Thus, it is highly likely a continuity of the trend and positive balance in the end of the year to be observed. 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 (-0.2%) and the structural deficit amounts to 0.3% of GDP, i.e. talking to a slightly pro-cyclical fiscal policy.

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 0.3% of GDP and surpluses of 0.4% of GDP for 2020-2021. The structural balance for 2018 exceeded expectations and reached to 2% of GDP (at 1.1% of GDP in 2017) instead of the expected fiscal expansion of 0.7 percentage points there is a fiscal restriction of 0.9 p. p. The medium-term budgetary objective remains as defined under the MTBF at -1% of GDP. 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.

Fiscal framework and national fiscal rules

The budget framework 2020-2022 is in compliance with the fiscal rules and constraints. The risks of non-compliance are small. 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 projection remains under 40% of GDP. National fiscal rules are usually met. However, particular attention should be paid to the expenditure benchmark rule. The government's assumptions are often changed and thus, the compliance with the rule is not respected.

Chart 1: Expected real GDP growth

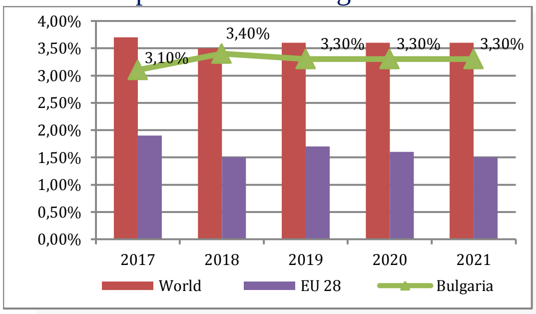


Chart 2: Structural balance and MTO

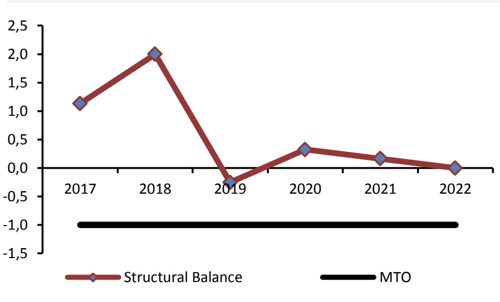
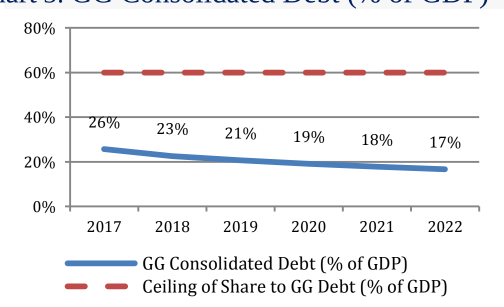


Chart 3: GG Consolidated Debt (% of GDP)



Key indicator forecast

		2017	2018	2019 f	2020 f	2021 f	2022 f	Source
Real GDP growth rate	[% y-to-y]	3.8	3.1	3.4	3.3	3.3	3.3	1, 2
Output Gap	[%]	-0.4	0.0	0.1	0.1	0.2	0.4	1
GG balance	[% of GDP]	1.1	0.5	-0.2	0.4	0.2	0.1	1, 2
GG debt	[% of GDP]	25.6	22.6	20.7	19.1	17.8	16.7	1, 2
GG structural balance	[% of GDP]	1.1	0.5	-0.3	0.3	0.2	0.0	1, 2
Adjusted real GG expenditure growth	[% y-to-y]	6.4	0.9	10.4	4.0	2.1	2.1	3
Discretionary revenue measures	[% of GDP]	0.5	1.1	1.2	0.5	0.4	0.0	3

Sources:

1 - Ministry of Finance;

2 – National Statistical Institute;

3 – Fiscal Council

f – Forecast