

## Key messages:

- **BFS stresses the need for the government to follow anticyclical fiscal policy.**
- **Errors between planned and reported indicators are observed due to underestimations of revenues and overestimation of expenditures. Unplanned surpluses are generated. The quality and accuracy of budget forecasts should be improved.**
- **Failure to meet capital expenditure plans due to delays in the realization of investment projects co-financed under the EU Operational Programmes indicates a serious delay in the absorption of ESIF and a possible risk of losing funds. Some more measures need to be taken to improve PEM.**

## Macroeconomic outlook

The projections for real GDP growth for the period 2019-2021 are lowered. A positive sign of the country's development is that projections for real GDP growth remain well above the expected average growth for the European economy. However, the last forecasts expect a slowdown of the Bulgarian economy compared to the world economy. FC believes some of the estimations such as the output gap are underestimated. There is a decline in the unemployment rate in Bulgaria. It reaches 5.4% - below its historic minimum of pre-crisis levels. It is expected to fall to 4.0% at the end of the period. In order to identify the risk of overheating an in-depth analysis of the labour market is needed. The forecast projects that the dynamics of wages growth will exceed the growth of the labour productivity. The recent data worldwide suggests the upcoming downturn is approaching faster than expected. Thus, it is possible that indicators will be reevaluated.

## Short-term fiscal outlook

Based on preliminary data from MF the expected cash-balance in CFP at the end of November is BGN 2.8 billion surplus (2.6%) even though previous projections foresaw a deficit. It is due to the lower absorption of capital expenditure from the EU funds and better than expected revenue collection. In 2017 the absorbed funds from ESIF are nearly 40% less than planned. Those factors are well within the management and planning capabilities of the government and revenue forecasting needs to be improved. In the case of reported surpluses for 2016 (1.6%), 2017 (0.8%), 2018 (0.55%), while deficit were planned, and the anticipation of an upward trend in the economy exceeding potential in 2019 a CFP deficit is planned again at 0.5% of GDP. The planned deficit does not fit in the medium term fiscal policy.

## Medium-term fiscal outlook

UMTBF for 2019-2021 already projected that this year the output gap will be positive and the structural balance will amount to 0.4% of GDP with a fiscal expansion of 0.7 p. p. The positive output gap is expected to reach 0.3% in 2019, 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. An anti-cyclical fiscal stance is already planned in 2020. No structural balance changes are planned in 2021. This indicates about expansion in the conditions of a slight overheating of the economy in 2019 instead of restriction. The medium-term budgetary objective remains as defined under the MTBF at -1% of GDP, given the lower level of consolidated debt, which is expected to reach 17.7% of GDP at the end of the period. The Fiscal Council believes that fiscal authorities should focus on budget policy towards a reduction in the economic cyclicity, such as increasing structural surpluses and withdrawing resources from the economy, as overheating can have negative consequences.

## Fiscal framework and national fiscal rules

The budget framework for the period 2019-2021 is fully compliant with the fiscal rules and constraints. The share of consolidated debt in GDP is significantly below 60%. The level is expected to fall below 20% in 2020 which means Bulgaria will remain in the top EU countries for this indicator. The GG expenditure projection is below the 40% of GDP limit. For the projection period, it increased to 38% of GDP in 2019 and then again reduced to 35%. Particular attention should be paid to the accurate implementation of the forecast as well as the quality of the information regarding discretionary revenue measures.

Chart 1: Output GAP and Real GDP Growth

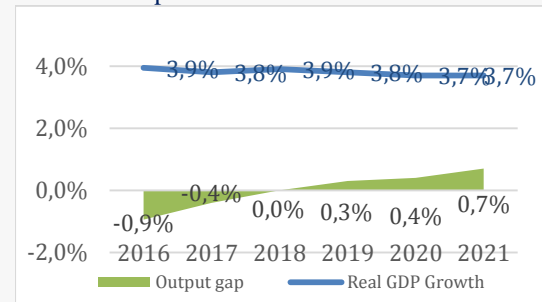


Chart 2: Structural balance and MTO

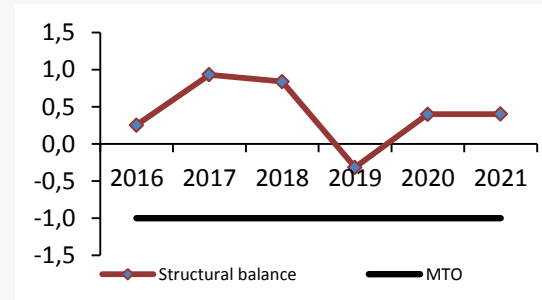
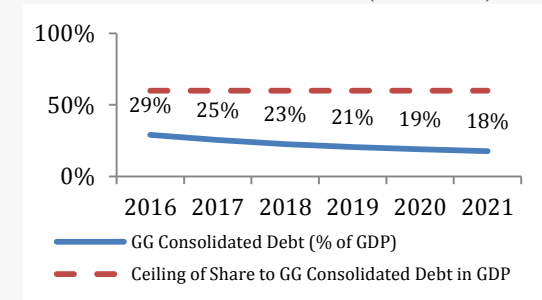


Chart 3: GG Consolidated Debt (% of GDP)



## Key indicator forecast

		2016	2017	2018	2019 f	2020 f	2021 f	Source
Real GDP growth rate	[% y-to-y]	3,9	3,8	3,9	3,8	3,7	3,7	1, 2
Output Gap	[%]	-0,9	-0,4	0,0	0,3	0,4	0,7	1
GG balance	[% of GDP]	0,0	0,9	0,0	0,3	0,5	0,2	1, 2
GG debt	[% of GDP]	29,0	24,8	23,3	22,1	20,7	19,3	1, 2
GG structural balance	[% of GDP]	0,25	1,04	0	0,2	0,3	0,0	1, 2
Adjusted real GG expenditure growth	[% y-to-y]	0,6	2,7	9,9	6,4	4,0	2,1	3
Discretionary revenue measures	[% of GDP]	0,2	0,1	0,6	1,2	0,4	0,4	3

Sources:

- 1 - Ministry of Finance;
  - 2 - National Statistical Institute;
  - 3 - Fiscal Council
- f - Forecast