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Statement by the Hon. **MILEN VELCHEV**,  
Governor of the Bank for **BULGARIA**,  
at the Joint Annual Discussion

**Mr. Chairman,**

**Ladies and Gentlemen,**

I am really honored to address this high level forum. My statement will focus on the significant progress achieved by Bulgaria in the context of the IMF-supported programs. This progress is even more noticeable having in mind the uncertain international environment.

Bulgaria has achieved and maintained macroeconomic stability under three successive Fund-supported programs. Since 1997 real GDP has increased by around 20 percent, inflation has decelerated to single digits, and external public debt has declined from over 100 percent of GDP to below 60 percent. This outcome has been accomplished in the context of a currency-board arrangement supported by prudent fiscal policy and strict income policy for state enterprises. Significant progress has been also achieved in implementing the structural reform agenda under the government program actively supported by the World Bank both in terms of development and financing.

The European Commission recognized the positive developments by stating in its 2001 progress report that Bulgaria had established a satisfactory track record of macroeconomic performance and is close to being a functioning market economy. Based on further positive economic developments since then, we expect this estimate to be upgraded in the forthcoming 2002 progress report. Bulgaria has well advanced in the accession negotiations with the EU. We have already closed 21 out of 30 negotiating

chapters and one more is in the pipeline to be closed soon. There is broad public support and consensus amongst the political spectrum with respect to the EU membership, which is expected at end-2006. There is also broad political support for the maintenance of the CBA, which is a key element of the government's policy framework, until accession to the EU. The second key element of our program is the implementation of a cautious and flexible fiscal stance, and the third one is the acceleration of the structural reform. These key elements of the policy framework have already been incorporated in the Pre-Accession Economic Program developed with the EU and other strategic documents of the Bulgarian government.

Despite the encouraging economic achievements, we are fully aware of the remaining vulnerabilities and the challenging reform agenda. The income gap between Bulgaria and the EU is still large, the unemployment rate is high and the progress of the structural reforms in several areas, including in the energy and transportation sector, is still insufficient. We address these problems more aggressively in the context of our new programs supported by the Fund and the Bank.

Let me focus now on two areas, which are crucial for the success of our reform efforts – fiscal policy and the financial sector. Bulgaria has an excellent track record in implementing fiscal policy that is vital for the sustainability of the CBA. We have demonstrated not only will but also ability for sizable fiscal adjustment. Since 1998 we have kept the budget broadly balanced. The small deficits (below 1 percent of GDP) were entirely due to one-off expenditures to cover the cost of structural reform. We committed to further strengthening of the fiscal position by keeping the budget with a

small surplus in the course of 2002 so far, as a strong policy response to the external risks.

As for the financial sector our main task is to generate the necessary environment that would bring about enhanced credit activity to the private sector and to expedite the full privatization of the financial sector. The results so far are encouraging. Credit to the private sector is expected to increase twofold in 2002 compared to 2000. Over 80 percent of the assets in the banking sector are in private hands and we plan to finalize the process by privatizing the only remaining state-owned bank before the end of the first quarter of 2003. As indicated in the Financial Sector Sustainability Assessment (FSSA), the Bulgarian banking system is generally well supervised, highly capitalized, profitable, and risk-averse. We are strictly implementing the recommendations of the joint World Bank – IMF Financial Sector Assessment Program (FSAP) mission in addressing the remaining vulnerabilities and already using the FSAP in our accession negotiations with the EU.

Finally, I would like to express our satisfaction with the streamlined conditionality under the new program for Bulgaria supported by the IMF with a clear focus on areas that are macro-crucial and with structural conditionality limited to measures that are deemed critical for the success of the program. I consider this a direct result of the initiatives of the Managing Director of the IMF and the President of the WB to streamline conditionality and promote ownership of IMF and WB-supported programs, and strongly recommend moving forward in this direction.

Thank you.