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INTERNATIONAL FINANCE CORPORATION
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INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
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Statement by the Hon. **MILEN VELTCHEV**,
Governor of the Bank for **BULGARIA**,
at the Joint Annual Discussion

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Mr. Chairman, Ladies and Gentlemen,

It is a great honour and a privilege for me to address this year's Annual Meetings of the Governors of the IMF and the World Bank at a time when they celebrate the 60th anniversary of the Bretton Woods conference.

There is little doubt that since their establishment, the two institutions have been playing a prominent role in world history. Over the years, there have been great achievements, there have been some failures and disappointments, too, but one thing is certain – the Fund and the Bank have never failed to provide financial support, policy advice, and technical assistance whenever justifiably needed. I do believe that the staff of both institutions has spared no efforts to facilitate member countries in preventing crises and fighting poverty, while promoting financial stability and sustainable growth.

The merit and efficiency of these respectable institutions could be plausibly illustrated by the crucial role they have played in Bulgaria over the last decade. Comprehensive and deep economic reforms were launched in our country soon after the political changes took place in 1989. The initial conditions along the road to building market economy were extremely unfavorable - Bulgaria was greatly dependent on the COMECON and had a huge external debt burden that was impossible to serve.

After some initial hesitations, stemming from a stop-and-go policy (of a succession of governments with vague economic platforms), since mid-1997 Bulgaria committed to decisive economic reforms, within the framework of a Currency Board Arrangement. Since then, the country has achieved and maintained macroeconomic stability and enhanced economic growth.

To a considerable extent, this success was due to the close cooperation between the Bulgarian authorities and the Bank/Fund expert teams and management.

At present, it is gratifying to point out the fact that since 1997 Bulgaria has achieved a cumulative real GDP growth of about 30%, cutting down inflation to low single-digit levels while maintaining a broadly balanced budget. The results achieved have even greater added value as they were accomplished in a period, when the global economy suffered several crises, including a recession in leading economies, and a growing uncertainty worldwide.

The Bulgarian authorities highly appreciate the recent ex-post assessment (EPA) of the Fund, which scrutinized past developments, but also put into perspective anticipated future policy challenges. The authorities were encouraged by the key message of the EPA report, namely, that most of the possible drawbacks, identified in the case of longer-term program engagement, do not apply to Bulgaria. Some two months ago Bulgaria signed another Stand-by program with the IMF, designed as a low-access, precautionary arrangement which would also serve as an explicit exit from Fund program engagement. The Bulgarian authorities consider such a precautionary program as an adequate exit vehicle, offering a framework that is familiar both internally and externally.

The policy framework under the last arrangements with the Fund has been complemented and further developed by reform programs supported by the World Bank. In 2001, the Bank began to focus its assistance on a series of Programmatic Adjustment Loans aimed at promoting sustainable growth. The shared view that private sector initiatives and entrepreneurship are the major engines of growth provides the key to the successful implementation of current reforms. The strategy during the last several years has been targeted at the divestment of the state's non-infrastructural assets along with the enforcement of financial discipline on the remaining stateowned enterprises. The subsequent stages of the strategy have aimed at unleashing private initiative by establishing a favorable investment environment in order to increase the level of investments and improve the utilization of existing investments.

Building on the successful experience from the last few years, the Bulgarian authorities are fully aware of the challenges ahead, and remain strongly committed to continuing the ambitious reform agenda. However, as the transition to market economy is already completed, the reform agenda has changed as well. Bulgaria is now preparing for its accession to the EU and this year has witnessed remarkable progress along the road to European integration. On June 15, 2004 Bulgaria closed the last remaining negotiation chapters thus allowing the country to sign the treaty next spring and accede to the union in early 2007, as planned. The successful completion of the EU pre-accession negotiations has substantially increased foreign investors' interest in the country. As a result, FDI reached a record high level in 2003, and even more investments are expected as Bulgaria stands out as an attractive investment location not only for its macroeconomic indicators, but also for its highly skilled yet low-cost work force. These features have been recognized by the major rating agencies, some of which recently raised Bulgaria's sovereign rating to investment grade level.

In the medium term, the main challenge that Bulgaria will face is keeping up the momentum and integrating successfully into the EU. In the last month, the Bulgarian authorities adopted a strategy that clearly outlined the intentions of the country with regard to completion of the last stage of integration – the membership of the Economic and Monetary Union. Taking into account the current macroeconomic framework and the results achieved so far, Bulgaria intends to follow a strategy of acceding to the Economic and Monetary Union without undue delay.

In conclusion, I would like to thank the International Monetary Fund and the World Bank management and staff for the continuous support they have provided to my country over the years. I wish both institutions every success in their mission to achieve stability and prosperity in all their member countries.