

Macroeconomic Imbalances – Bulgaria 2013

On 28 November 2012, the European Commission presented its second Alert Mechanism Report (AMR-2013) in accordance with the Regulation (EU) No. 1176/2011 on the prevention and correction of macroeconomic imbalances. The AMR serves as an initial screening device to identify Member States that warrant further in depth analysis into whether imbalances exist or risk emerging. According to Article 5 of Regulation No. 1176/2011, these country-specific “in-depth reviews” should examine the nature, origin and severity of macroeconomic developments in the Member State concerned, which constitute, or could lead to, imbalances. On the basis of this analysis, the Commission concludes whether it considers that an imbalance exists or not, and if so whether it is excessive or not, and what type of follow-up it will recommend to the Council to address to the Member State.

The 2013 in-depth reviews (for Belgium, Bulgaria, Denmark, Spain, France, Italy, Hungary, Malta, the Netherlands, Slovenia, Finland, Sweden and the United Kingdom) were published on 10 April 2013 together with a Commission communication summarising the results. On the basis of the analysis in the In-depth review the Commission concluded that:

BULGARIA is experiencing macroeconomic imbalances, which deserve monitoring and policy action. In particular, the impact of deleveraging in the corporate sector as well as the continuous adjustment of external positions, competitiveness and labour markets deserve continued attention.

More specifically, Bulgaria rapidly built up imbalances during the boom phase that coincided with its accession to the European Union. In a context of catching up, high foreign capital inflows contributed to the overheating of the domestic economy and a booming housing sector. With the onset of the crisis, Bulgaria embarked on a fast process of deleveraging and has taken measures to maintain financial stability. While Bulgaria experienced a quick and important adjustment of its current account, moderate deficits are expected to resume as the economic recovery will lead to higher imports. This will slow down adjustment in the net external indebtedness. To sustain cost competitiveness and export growth, it will be important to ensure that unit labour costs are supported by productivity gains. Non-financial corporate sector indebtedness, including an increase in late payments, suggest that deleveraging pressures are impeding more dynamic economic growth. The low-skilled segment of the labour market seems to have been especially hard-hit by the crisis and warrants close attention. Unemployment has increased sharply, and steps should be taken to prevent unemployment from becoming more structural in nature. Skills mismatches can be seen in emerging labour shortages in some sectors, pointing to a need for a comprehensive package of active labour market, education and regional policies. On the way forward, the challenges for Bulgaria include the need to increase the adjustment capacity of the labour market, to enable smooth corporate sector deleveraging and to avoid re-emergence of unsustainable imbalances.