1. My Bulgarian authorities have asked me to express their gratitude to the staff for its quick response to the profound changes in the economic, political and social situation since the beginning of the year with the proposed Critical Imports Rehabilitation Loan and the CAS Progress Report. The authorities value highly the ongoing policy dialogue with the Bank, which is expected to lead shortly to enhanced financial support concomitantly with the implementation of their stabilization and structural reform program.

2. After the discussion of the CAS for Bulgaria in the Board in April 1996, the situation in the country changed dramatically for the worse. While the previous government initiated serious reforms in the enterprise and banking sector, these proved "too little, too late" and thus did not prevent the virtual collapse of the banking system, unprecedented depreciation of the national currency and hyperinflation. The risks, identified in the CAS of 1996, fully materialized.

3. The Progress Report before us today, takes detailed stock of the recent economic, social and political developments in Bulgaria. In April 1996 it was discussed in detail what had gone wrong in Bulgaria, and what the Bank had failed to do. So, let me now focus on this new opportunity for Bulgaria to make up for the time lost, and for the Bank to increase its role in fostering the transition process. This opportunity is underpinned by three sets of factors: the resolution of the political crisis and the new "reformist majority" in the Parliament; the incipient stabilization of the economy; and the strong reform program, backed by the international community.

4. The changed political landscape. The political crisis that erupted towards the end of 1996 brought the state to near collapse. However, it was diffused decisively by the leadership of President Stoyanov, and democratically. The leadership that the President has shown consistently since he was elected in November 1996, is a new element in the Bulgarian political scene, instilling confidence. The general elections, held on April 19, brought in a clear reform-minded majority with a broad mandate to speed up economic reform and to crack down on corruption and organized crime. Notwithstanding the absolute majority that the ruling coalition will enjoy in Parliament, it initiated political consultations with other parties, aiming at broadening the consensus around three priorities:
political support for the reform package, agreed with the IMF and the Bank, a forceful campaign against organized crime, and preparation for accession to NATO and the European Union. The emerging political practice of consensus seeking based on a clearly defined set of priorities is also a major departure from the recent past, making the expected breakthrough to a functioning market economy in Bulgaria more likely now than ever before.

5. Incipient stabilization. The interim government in office since early February acted aggressively to arrest the crisis, as described in paragraphs 12 to 15 of the Progress Report. As a result the exchange rate stabilized at a 50% appreciated level, as compared to its historically low level in February. The hyperinflation was halted quicker than anticipated with monthly inflation slowing down from 243% in February to an expected 4% in April. The Bulgarian National Bank was able to rebuild its exchange reserves by purchases on the domestic market and borrowing from the Fund and they now stand at US$ 1.1 billion as compared to about US$ 400 million in February. The domestic T-bills interest rate, which is fully market determined, fell precipitously from 18% per month in February to slightly more than 5% last week. This is, perhaps, the clearest evidence of program's credibility and returning public confidence.

The caretaker government has created a solid platform for a jump-start of the next government, expected to be formed around May 19. The continuity of the reform policies will be assured by retaining a number of ministers from the caretaker government in the new cabinet.

6. The reform program. The centerpiece of the Bulgarian stabilization program is the introduction of a Currency Board Arrangement. The objective is to ensure a lasting commitment to stabilization and enforcement of hard-budget constraints throughout the economy. The new monetary arrangement is going to be accompanied by aggressive privatization and enterprise restructuring. The Bulgarian authorities are well aware that the Currency Board can only be sustained and confidence in economic management fully restored on the basis of speedy structural reforms. This accentuates the need for closer collaboration between the World Bank and the authorities, than has been the case so far.

The international financial community has responded rapidly and favorably to the Bulgarian reform program. The official assistance pledged by the IMF, the World Bank, the European Union, EBRD, and bilateral donors such as Japan, United States, Switzerland, Sweden and Canada, provides necessary backing to the ambitious reform program. The response from the private sector has also been strong, as demonstrated by its healthy interest in the Bulgarian privatization program, and the significant portfolio inflows reported for the last two months.

The Bulgarian authorities would greatly welcome if IFC now starts giving priority to stimulating the private sector in Bulgaria and using the investment opportunities that are opening up.

7. The Role of the Bank. Given the conflicting demands to respond swiftly to the crisis in Bulgaria and to put the proposed loan in the context of an updated CAS, there was no time for this Progress report to be discussed with the authorities. However, the main elements of the structural reform program that the Bank will be able to support in the course of 1997 are clear. Therefore, I very much appreciate the proposal by the staff to come back to the Board with an updated CAS, once a broader development strategy has been discussed with the Government (para 3 and 35).

I see the assistance that the Bank can provide for developing a consistent and implementable medium-term framework for Bulgaria as a risk-mitigating tool. Support for the much-needed reforms
has a better chance of being sustained if it is constantly made clear to the public where the current policies lead and what steps are to follow. An updated CAS presented to the Board later this year, discussed with the Government, and fully subscribed by it may be instrumental to this objective.

The Bank should also step up its Economic and Sector Work in Bulgaria, which has suffered in recent years. For instance, a Public Expenditure Review for Bulgaria would be relevant at this point in time, given the increased importance of fiscal prudence in the context of the rigid monetary arrangement such as a Currency Board.

Finally, let me reiterate the appreciation of the Bulgarian authorities for the responsiveness of the Bank and their expectation that a new chapter in the Bulgaria - Bank relations will be opened this year.