

## **Petar Chobanov: Opening of the "Financial Summit 2024"**

Speech by Mr Petar Chobanov, Deputy Governor of the Bulgarian National Bank, at the opening of the "Financial Summit 2024", organised by the Capital newspaper, Sofia, 26 March 2024.

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Ladies and Gentlemen,

Dear colleagues,

Dear friends,

First of all I want to express my sincere gratitude to speak before you on this occasion and to welcome all the participants to this wonderful conference, where we will discuss crucial topics such as growth potential, fintech development, cutting-edge financial and payment service technology and innovation, sustainable investments and digitalization.

Let me start with a brief analysis of the world economic outlook and the macroeconomic prospects ahead of us. On a global level, the economic recovery following the COVID-19 pandemic, alongside with the war in Europe and the Middle East crisis was intertwined with such phenomena as sharp increases in the cost-of-living. The economic recovery as a whole proved to show better-than-expected figures that were mainly supported by the sharper than anticipated decline in global inflation in comparison to its 2022 peaks. Moreover the labour market, registered better resilience with respect to employment and activity, thus favouring the supply side developments in the global economy. A major role in this process was played through the monetary tightening by the key central banks, which had a strong effect on inflation expectations.

On each occasion I always underline the vital importance of a synergetic relation between monetary and fiscal policy – both domestically and internationally. In this line of thought we should always keep eye on the fiscal developments in the major countries and our key trade partners, due to the fact that the current elevated interest rates aimed at fighting inflation should be coupled with adequate fiscal policies, especially in an environment with high public debt and thus the risks on economic growth are expected to be controllable, adaptable and predictable.

According to the supranational estimates (e.g. IMF) the global growth is projected to gravitate around 3.1 percent in 2024 and 3.2 percent in 2025. It should be mentioned that in dynamics the projections for 2024 and 2025 are raised, due to the positive outcomes in the United States and the emerging market as a whole. Furthermore, the fiscal support in China also plays significant role in enhancing the global economic activity.

On the other hand, it should be underlined that the international forecasts for 2024 and 2025 are below the historical 20-year pre-pandemic averages, mainly to the central bank policies of monetary tightening, as well as to the moderation of the fiscal support in contrast to the COVID-19 period. However, on a global level, the inflation seems to moderate itself better than expected in most regions, but at the same time there are still

major supply-side issues. Still, the independent forecasts for the global inflation ahead are being revised in downward direction, pointing to more stable and sustainable economic growth. Having in mind the above mentioned developments, the probability of a hard landing has been greatly reduced, and thus risks to global growth are generally managed.

An important issue is concentrated around the question whether a faster disinflation could lead to further facilitation of the financial environment. Here, the generally unrestrictive fiscal policy has the potential to temporarily produce higher growth, but also to provoke the downside risk of a costly adjustment in mid and longer run, especially with respect to public finance and long-term sustainability. A strong emphasis should be laid on the structural reforms that have a direct effect on productivity, especially with respect to improvements in social safety nets that could lead to positive spillovers. On the downside, the high probability of fresh commodity price shocks interrelated to geopolitical developments — including the political uncertainties in the Red Sea region, coupled with further supply chain distortions would result in further monetary tightening. Here, a special attention should also be placed on the development of the property market worldwide and especially in China which has the potential to obstruct the positive growth improvements.

On a national level, and particularly in the light of our expected Eurozone accession, the immediate challenge is to successfully navigate the final descent of inflation to the EU averages, carefully calibrating fiscal policy in response to core inflation dynamics. Moreover, the effective control on wage and price pressures in Bulgaria, should not be administrative, but organized based on quality data, results and effective tripartite dialogue between the key players.

With inflation declining, the Bulgarian economy would be better prepared to absorb effects of fiscal tightening, which starts the everlasting discussion of fiscal consolidation, prudence and discipline in order to provide for a budgetary capacity and fiscal space in case future shocks are realized. A re-formulation of the fiscal spending priorities is needed, coupled with proactive public debt management, which also includes the huge potential of domestic debt issues. The main political tool for improvement proves to be a series of well-designed and optimally guided structural reforms, particularly in the social sphere that would enhance productivity growth and debt sustainability and at the same time accelerate the economic EU convergence.

Last, but not least there is a clear need of efficient multilateral and international coordination in the sphere of private investments, green sustainable growth and climate change as a whole. The close cooperation in areas of shared interest is crucial for the green energy transition and for building a resilient and sustainable economy. The close supranational cooperation with the EU and OECD has also the potential to improve Bulgaria's performance in such spheres as health, education, AI and investment. This is the path we can overcome the chronic drag on the growth prospects of the national economy – international cooperation in spirit of mutual respect, a strong fiscal framework, focusing on spending discipline, flexible labour market and modernized social safety net mechanisms. The time to act in unison, harmony and accord – business, academia, labour and government – is now.

Thank you for your attention!

