



The World Bank

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UNDERSTANDING THE PAL

1. What is the PAL?

PAL stands for *Programmatic Adjustment Loan*. This program supports the Bulgarian Government's reform program by disbursing funds after the government has undertaken key actions in the implementation of its own strategy to boost economic growth and reduce poverty. Government's program is reflected in a Letter of Development Policy, co-signed by Deputy Prime Minister Vassilev and Minister Veltchev, which will be publicly available. The PAL program is comprised of three loans (PAL 1, PAL 2, and PAL 3) for a total of \$450 million. PAL 1 amounts to \$150 million equivalent, to be disbursed in Euros, with 16 years maturity including a 6 years grace period. The PAL program is a key component of the World Bank Country Assistance Strategy for Bulgaria during 2002-2005.

2. What reforms is the PAL supporting and why?

The PAL that we signed today supports the government's reform program. The reforms focus on private initiative as the main engine of economic growth and employment creation. This involves the creation of an investment climate that encourages private investors and improves productivity, including establishment of a stable legal and regulatory environment, and developing credible institutions such as the judiciary. At the same time, the government realizes that growth alone will not lift certain groups out of poverty. Poverty reduction policies need to be tailored to reach vulnerable groups that have not benefited from the recent improvements in welfare, while reforms in education and health care aim to develop the human capital necessary for a more competitive EU environment.

The PAL program is built around five pillars of reforms to promote private sector-led growth and improved living standards:

- *sustaining structural reforms in the enterprise sector*, with emphasis on the restructuring of the energy, railways, telecommunications, and water sectors;
- *establishing a market-friendly business environment*, focusing on entry and exit policies, regulatory costs, delivery of public services, competition, and judicial reform;
- *deepening the financial sector* addressing the constraints to increased lending by the banking system and the development of financial markets;
- *improving public sector governance*, including implementing the anti-corruption strategy, strengthening local governments, and reforming public administration and judiciary;
- *investing in human capital and strengthening social programs*, focusing on education, health, and pension reforms and social assistance effectiveness.

The PAL program encompasses all of the above areas – but each individual PAL will have specific areas of emphasis. PAL 1 will focus on improvements in the business environment, the restructuring of infrastructure sectors, and deepening of Bulgaria’s financial sector. PAL 2 will emphasize reforms in public administration, the judiciary and anti-corruption. The third PAL will seek to finalize the reforms in the social sector, including in education, health care, pension reform, and improved targeting of social programs.

In accordance with the Bank’s Country Assistance Strategy, the PAL would be supported with additional investment projects financed by the World Bank, including for employment and poverty reduction, better public service delivery, improvements in public administration, and rural development and forestry.

3. What is the expected impact of the PAL program on Bulgaria’s economy and it’s citizens?

The PAL is based on the Government’s medium term economic program. It is aimed at generating sustained private sector-led growth and reducing poverty, while at the same time facilitating the country’s progress towards EU accession. The Government has formulated the following desired outcomes of its program:

- average annual growth rates of 4.5-5 percent during 2002-05;
- reduction of poverty rate by half by 2005 compared to 2001;
- reduction of unemployment rate from 17.5 percent in 2001 to 12-14 percent in 2005;
- substantial progress towards EU accession.

4. Where are the more specific sectoral outcomes described?

In addition the program includes a set of desired outcomes in each of the agreed sectoral reform areas, which are outlined in the Performance Benchmarks attached to the PAL Letter of Development Policy.

5. Where does the money disbursed under PAL go?

The main objective of adjustment programs, such as PAL, is to support structural changes that will enhance efficiency in the allocation of economic resources, economic growth, and sustainable reduction of poverty. These programs provide balance-of-payments support and generate counterpart funds for the budget.

6. More detailed information about PAL is available

The full package of the PAL program is published in English and Bulgarian on the Council of Ministers web site, <http://www.government.bg> and the World Bank Sofia Office web site <http://www.worldbank.bg>.