

Problems and Prospects for the Bulgarian Economy

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Abstract: In the last decades, the Bulgarian economy has undergone significant transformations, especially in the industrial sector that played a leading role among the other sectors. In conditions of command-administrative system, this paradigm defined a structure in which the leading role was played by the branches of the heavy industry. In the transition to market economy, the structure of the national economy underwent radical changes, both in positive and negative aspect.

The purpose of this paper is to analyze the possible situations after the end of the current crisis, to make specific recommendations and to identify opportunities for adaptation of the most important sectors of the national economy.

Key words: transformation, crisis, foreign investment, industry, branch

JEL codes: M10, O10

1. Introduction

Over the last three decades, the Bulgarian national economy has undergone major transformations. They were caused by social, political, and economic factors, lying far beyond our national borders. At the heart of this change was the desire, the possibilities and the ideas for a new distribution and redistribution of the international capital and the elements behind it. In this great battle, our economy was a very small particle. The national economy and its sectors were an organic part of an economic system that had gone bankrupt.

The economy of Bulgaria faced serious challenges during the transition period. It has undergone serious structural changes not only in terms of ownership, but also changes in the market, product, and technological structure.

2. Literature Review

At the beginning of the transition to a market economy, industry played a leading role. The lack of strategies and approaches has led to a process of deindustrialization, which is mainly reflected in the reduction of the relative share of tangible fixed assets used in the creation of gross domestic product in industry. This is also evident from the decrease in the relative share and indicators such as gross output, labor productivity and employed persons (Iliev I., 2004, p. 287).

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Table 1 Indices of GDP, Employment, and Labor Productivity in Industry

| | | | | | | | |
|---|-------|-------|------|------|-------|-------|-------|
| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 |
| Relative share of acquired fixed assets | 8.76 | 7.00 | 3.10 | 4.90 | 3.86 | 7.88 | 4.13 |
| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | |
| Relative share of acquired fixed assets | 4.50 | 2.10 | 4.46 | 4.92 | 4.68 | 6.68 | |
| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 |
| Gross output | 100 | 83.2 | 64.7 | 54.4 | 48.5 | 54.0 | 56.4 |
| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | |
| Gross output | 58.6 | 53.3 | 49.1 | 44.6 | 48.2 | 50.8 | |
| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 |
| Employed persons | 100 | 91.0 | 74.7 | 64.8 | 59.5 | 57.3 | 56.0 |
| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | |
| Employed persons | 55.4 | 53.0 | 50.8 | 46.1 | 43.5 | 41.5 | |
| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 |
| Labor productivity | 100 | 91.4 | 86.6 | 83.9 | 81.5 | 94.2 | 100.7 |
| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | |
| Labor productivity | 105.8 | 100.6 | 96.6 | 96.7 | 110.8 | 122.4 | |

With regard to the first two indicators, the trend is steadily downwards with the smallest values being in 1992, in terms of labor productivity — the same finding applies to 1993. Labor productivity increased rapidly at the end of the period, mainly due to the decline of the employed persons in the industrial sector.

Some of the businesses did not withstand the challenges and were forced to leave the “market game”. Others, however, managed to change owners, to renew their product and technological structure and fully meet the requirements of the new international division of labor.

The restructuring of the industry was also dictated by the loss of the traditional Russian and Arab markets, as well as by the slow entry of Bulgarian companies into the markets of the developed countries due to their high requirements.

The country's full membership in the European Union has highlighted the ability of the Bulgarian companies to endure the competitive pressure and to establish themselves in the Single European market. In addition to the national capital, they had to rely also on external capital for the implementation of these ambitious tasks. It is known that underdeveloped economies are short of funds, which brings to the fore the task of implementing a targeted government policy for economic growth, provision of opportunities for access to pre-accession and accession funds and gradual adaptation to the requirements of the Single European market.

According to the Strategy for Promotion of Investments in the Republic of Bulgaria developed by the Economic Growth Council and outlining the priorities of the country in medium and long term, “the main goal was and remains the increase of competitiveness of the Bulgarian economy and the achievement of stable and sustainable economic growth” (Ivanov D., Nenovski N., & Chobanov P. et al., 2006, p. 30). Such a strategic program must be based more on the sectoral priorities of the national economy along with the development of the infrastructure, improvement of the quality of the workforce, and the regional aspects of investment promotion. Bulgaria is a relatively small country with a small market and a lack of minerals to be attractive to foreign entrepreneurs. In terms of competitiveness, our country is seriously inferior not only to developed countries, but also to a number of developing countries.

The flow of foreign direct investment in this first decade until 1996 can be described as too modest and insignificant from an economic point of view. After the crisis of 1997, an “opening” of the national economy began. An expression of a more modern concept was the Foreign Investment Act developed and adopted in 1997. This act retains the status of a foreign person to acquire property rights and limited real rights over real estate. It is necessary to emphasize here that the legal norm is explicitly preserved, which prohibits a foreign person, including through a branch or a sole trader, to acquire ownership of land. There is a possibility for foreign persons to carry out economic activity in our country as a representative office, branch, joint venture or other legal form.

The act of 1997 took a step forward in liberalizing the foreign investment regime by abolishing the mandatory foreign investment registration regime. However, under the pressure from the International Monetary Fund, in 1998 the legal norms concerning the priority investment projects, the VAT exemption regime, the customs duties and excise duties were repealed. It should be noted that actions of this nature undermine the confidence of foreign investors in the legal environment stability. The national interest must be always upheld, even when putting the relations with international financial institutions to a test.

An expression of a new investment philosophy are the amendments of the first half of 2004, when the very name of the act was changed to the Investment Promotion Act. This normative act marks a turning point in the investment strategy and its corresponding investment policy of the Bulgarian state. For the first time, the division of investors into foreign and national was dropped. The central and local authorities are committed to assist both in attracting investors and in developing programs, projects and regulations related to the promotion of investment activity.

Table 2 Foreign Direct Investment in the National Economy During the Period 1996-2013

| Year | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|-------------|--------|--------|--------|--------|--------|--------|--------|--------|---------|
| FDI (mln €) | 137.3 | 570.2 | 605.1 | 866.0 | 1103.3 | 903.4 | 980.0 | 1850.5 | 2735.9 |
| 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | TOTAL |
| 3152,1 | 6221.6 | 9051.8 | 6727.8 | 2436.9 | 1151.2 | 1330.2 | 1070.3 | 1092.4 | 41986.0 |

After the first decade of the analyzed period, it can be noted that the inflow of foreign direct investment in the national economy, including industry, increased in the second decade (2001-2010). The largest volume of FDI in the country was registered in the year of the country’s accession to the European Union. In 2007, the national economy attracted a little over 9 billion EUR and from today’s point of view this is a historic economic peak in the policy of attracting foreign investment. Of particular interest is the relation with the volume of the Gross Domestic Product.

Table 3 GDP – End-Use Costs – National Level at Constant 2010 Prices (mln BGN)

| Year | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| GDP (mln BGN) | 47 299 | 46 784 | 48 404 | 45 671 | 48 429 | 50 268 | 52 521 | 55 334 | 58 964 | 62 475 |
| Year | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| GDP (mln BGN) | 66 518 | 71 112 | 75 205 | 71 436 | 71 904 | 73 329 | 73 690 | 74 475 | 75 745 | 89 333 |

The economic crisis of 2008-2009 manifested itself on Bulgarian soil in the rapid deterioration of the industrial production, which led to financial constraints in the shattered feedback between the real and financial sectors, undermining the efforts of politicians to find a cure for the situation. In this way, the influence of reality was felt quickly and unambiguously. The industrial production and wholesale trade fell sharply in the fourth quarter of 2008 and continued to decline rapidly in early 2009 in both developed and emerging economies. Sales of capital goods

and durable goods such as cars and electronics on credit declined significantly while inventories of goods began to grow.

Projected on Bulgarian soil this crisis had many dimensions. It should be noted that in the years preceding the onset of the global crisis, the national economy was growing, and in the last three years it fluctuated between 6-7%. Some economic sectors saw a real boom. Among them were construction, real estate, tourism, services, etc. At the same time, the good economic situation was accompanied by record foreign investment flows in the country between 2006-2008. For this period, the fiscal reserve exceeded BGN 8 billion, and the foreign exchange reserve was estimated at over BGN 22 billion.

For this almost twenty-year period, there is a moderate correlation by years between gross domestic product and foreign direct investment (see Table 2 and Table 3). This is evidenced by the Spearman rank correlation coefficient (*Gatev K., (1995), p. 244*):

$$\rho = 1 - \frac{6 \sum d^2}{n(n^2 - 1)} \quad (1)$$

where:

d – difference between the ranks;

n – number of ranked features.

When calculating it, the following result is obtained:

$$\rho = 1 - \frac{2112}{5814} = 1 - 0.363 = 0.637$$

This result only confirms the theoretical concepts about the relation between the GDP growth and the size of FDI.

The period after 2010-2011 was characterized by the gradual overcoming of the “aftershocks” of the financial and economic crisis outbreak. International capital became extremely cautious. The level of attracted foreign direct investment fell, and foreign companies began to withdraw their business activities from the country and move them to neighboring destinations. Two trends can be noted here in both sectoral and regional directions.

The extractive industry sectors are well represented in the foreground; however, they export products with a relatively low share of added value and allow for the export of national income (*Ganchev D. & Naydenov S., 2018, p. 223*).

It is imperative to develop and mostly to implement a strategy for industrialization of our country for a relatively long horizon 2030-2050.

The selection priorities can be optimized depending on the economic situation. Due to a number of factors, mostly of an objective nature, one of the sectors occupying a leading role is that of the *information and communication technologies*. “The country has significant human resources of specialists with higher education trained in more than five higher technical and technological schools. Bulgarian companies export production worth over 1 billion dollar which exceeds 12% of Bulgarian exports” (*Grozdin A., Konarev A., & Shopova A. et al., 2014, p. 59*).

The second priority sector which provides conditions for the development of all others is the *energy sector*. A strategic decision must be made to start the construction of a new nuclear power plant as a possible alternative to a new energy source. This need is exacerbated by the fact that the emissions of thermal power plants are subject to increased control by both the European Commission and the commitments under the Kyoto Protocol to reduce the greenhouse effect in the world. This choice is extremely important for the development of the Bulgarian economy

for several decades to come.

The sector of the food and related industries has a long tradition in our country. This tradition can be found in several important areas:

- Raw material base;
- Personnel potential.

Some authors express the opinion that “for the optimal use of this sector it is necessary to change its structure” (Grozdin A., Konarev A., & Shopova A. et al., 2014, p. 59). It should be noted here that under the European programs the producers of cereals were „favored”, and the other market subjects in the agricultural sector remained neglected. It is imperative to prioritize the production of environmentally friendly products.

The outbreak of the pandemic of late 2019 and early 2020 poses serious challenges. It puts both the world and the national economy to serious tests. During this period, entire sectors such as tourism, hospitality, transport, especially aviation, and a number of other sectors bore the brunt of the already emerging economic crisis. National governments have taken a number of anti-crisis measures aimed at mitigating as far as possible the negative effects of the unprecedented in the world history economic crisis.

The Bulgarian government has also taken a package of measures targeted at various sectors of the national economy and at economic agents affected by the economic crisis. The first package of measures was adopted by the government in March and was mostly aimed at small and medium-sized businesses. Some of the measures were and are controversial both in terms of timeliness, terms and content of some of them, e.g., the possibility for the unemployed to receive loans up to BGN 1,500 under a simplified procedure from commercial banks for a certain period of time, and a measure known as 60/40 in terms of the government’s ability to pay up to 60% of the minimum wage to workers and employees of companies in difficulty and meeting certain criteria.

These measures have been complemented by other administrative measures of the government since the beginning of August 2020. They include measures related to the reduction of indirect taxes on certain goods and services related to the possible easing of the financial situation of the restaurant business, the consumption of certain low-alcohol products such as wine and beer and other similar measures. The distribution of the so called “helicopter” money given to some categories of citizens for a short period of time, payment of certain amounts for child care due to unpaid leave for care for school children on flu vacation, etc. should be also noted here.

The financial resource for overcoming the adverse effects in the amount of EUR 29 billion provided for a relatively long period by the European Commission as part of the European program totaling EUR 750 billion is also to be mentioned.

3. Conclusion

The measures taken must first consider the fact that the current economic crisis is accompanied by an unprecedented pandemic. Never before in the world history or at least in the last two years have two fundamental events been superimposed.

Second, our country is in a state of sharp opposition between the main political forces and the major state institutions, which can lead to an extremely acute political crisis.

Third, the sectoral strategies and policies must take these realities into account. Thus, the necessary reindustrialization has a chance to happen only if programs for the priority areas of the European Union – green economy and digitalization of infrastructure are developed.

Fourth, only new strategies and policies that consider the strongly changed economic environment can lead to foreign investment flows both in industry and in other sectors of the national economy.

Fifth, last but not least, the most important factor in overcoming the current economic and social situation remains the human factor in all its dimensions.

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