

## THE ECONOMY OF BULGARIA AND THE EUROPEAN UNION

(Scientific Conference)

On 25.04.2001 was held a scientific conference, organized by the Institute of Economics at BAS and "Friedrich Ebert" Foundation, aiming to discuss the problems, connected with the accession of Bulgaria to EU, and to search for their solving. A base for the discussion was the publication on the same topic of research team from the Institute of Economics at BAS. At the conference participated scientists from BAS, Economic Academy "D. A. Tzenov" – Svishtov, University of National and World Economy – Sofia, Forest-Technical University – Sofia, representatives of government and non-government organizations, students, public figures.

The Director of the Institute of Economics at BAS *Ph.D. Mitko Dimitrov*, opened the conference. *Pencho Hubchev*, representative of "Friedrich Ebert" Foundation, with which financial support the study is published, greeted the participants. He expressed his satisfaction from the latest publication of the team and the received positive reviews in the country and abroad. *Prof. Dr. Sc. Atanas Atanassov*, scientific secretary of the social sciences at BAS, also greeted the participants. He outlined that the scientific team, which manages for many years already and continuously improves its studies, follows an excellent tradition, searching for the solving of the problems. He recommended to be conducted a dialog between the scientists, working on these problems.

*Corresponding Member Prof. Dr. Sc. Ivan Angelov*, a head of the team, presented key paper on the problems of Bulgaria in the accession period.<sup>1</sup> In the beginning he outlined the main objectives, which the team searched for with this study:

- Reorientation of the forecasts towards the integration processes, in order to see what macroeconomic policy is needed for supporting the integration processes.

- What are the positive and negative effects from the accession of our country to EU.

- Are there other alternatives for the development of Bulgaria.

- Later the speaker focused on a few very important problems.

- The starting positions of Bulgaria for the integration process. In order to draw a clearer picture of the present and what we should want in the future, the author made a comparative analysis on many significant indicators in Bulgaria and in EU, as well as in the countries from CEE: GDP per capita (by purchase ability), labor productivity, average salary, investment norm, foreign direct investments per capita, macroeconomic and microeconomic competitiveness.

- Bigger balancing of the interests of EU and the member – candidates. Three key problems were mentioned on this subject: transfers from the European budget to the accession funds, transition period and the impact between them and the character of the negotiations.

- Net total effects for Bulgaria from its accession to EU.

*Prof. Dr. Sc. Garabed Minassian* and *Prof. Dr. Sc. Alexander Dimitrov* were official opponents to the paper. The first opponent made mostly critical notes on the

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<sup>1</sup> Part of the paper is published separately in "Economic Thought" Journal.

conducted study. According to him there are many issues, which are already known, and there are no recommendations, but the study has a character more of a program product than of a research study. The only forecast ahead is the use of simulation models. He expressed own opinion concerning the deficit of our trade balance, considering it as normal, having in mind the deficits of the trade balances of Poland, the Czech Republic and the other post-socialist countries. More profound attitude to the studied issues had the second opponent – Prof. A. Dimitrov. According to him it is more important to discuss the problems and to hear more opinion on them, than to discuss the publication. The researchers should be distinguished from the governors, and they should suggest different approaches and alternatives. In this connection Prof. A. Dimitrov thinks that this is an achievement of the team and a serious research study, which can be helpful for the governors. According to him Bulgaria has many successes before the war, as well as now. From a political point of view the country is attractive. The approaches and the suggested alternatives can be argued. The fact, that inside EU the interaction between the different countries – members is different, should not be ignored. For example, between Denmark and Sweden it is more strongly expressed. The same refers also to Bulgaria, which keeps closer trade relations with Greece. He expressed an opinion that we should think over whether only the indicators for EU can be a good base for comparison. According to him, the harmonization is not only the achieving of the indicators, but also an inclination in the society to the chosen road. It is risky to make evaluations how EU will develop, since the life can suggest also other approaches and alternatives. EU assigns more to different countries, not to different actions, as it is in the international organizations.

In his speech *Prof. Dr. Sc. Vassil Todorov* drew the attention on the fact that this study has passed the standard two-stage procedure of discussion, and part of it is read in the Headquarters of EU in Brussels, in Vienna and other places in Europe and the reaction is the same – a serious study, interesting and deserving attention, which does not mean indisputable. One of its good sides is that it directs towards thoughts and discussions, puts questions. The speaker desired to discuss one of them – what can be the formula and terms for the accession and the speed of preparation? According to him, the question when we will join EU cannot be discussed outside the context of two more questions:

1. On what formula, i.e. by what rules and under what conditions the accession will be made?

2. With what speed the preparation for the accession will go?

The formula will be determined in Brussels. If the non-economic motives prevail (as was the invitation for starting the negotiations), the accession can happen earlier. Theoretically this is possible, but is not very likely. But then the rules and conditions will not be the same. If in its defining prevail economic reasons (as was till now with the other expansion of EU and as it is for now with the Eastern expansion), our accession will happen later. The formula, known for now, is – EU is a complex system that functions by its own rules and on its own turnovers. We prepare and come closer to them, and when we are ready, we “hitch” to the system and we begin to function as part of it by its rules, on its turnovers and without causing any problems. The “hitching” softens by special mechanisms – transition periods, post-accession funds, etc. By this formula Bulgaria cannot join EU in 2006. With what speed can the

Bulgarian economy come closer to the European one and reduce the distance? There are many scenarios, which sound good, but they are hardly realistic, having in mind the 10-year period before the accession of Greece, Portugal and Spain. It is possible that in 2010 and even after that we will not join EU on this formula. What should we do in this case? One of the scenarios, which is more realistic than the suggestions for 20 or more years of stable economic growth with a speed twice bigger than the average in EU, is the following:

- First, we should not loose the optimism to work and prepare.
- Second, we should not forget that the objectives and motives are before the ways, means and price, i.e. if there are objectives and sufficiently strong motives, then ways and means will be found and the price will be paid by us, as well as by EU.
- Third, after we have worked and we have a progress and if even though the task turns to be unsolvable, at a certain stage the question for its reformulating can be put.

Therefore when we discuss the terms, we should have in mind that before we argue on what is the answer of the task, we should specify its term. With one term the answer is this, with another term it is another. Is it better to join earlier but less prepared or later but better prepared? In political and psychological plan dominates the idea that the sooner the better. In economic plan the answer is not very clear, because for now the emotions often change the "cold" analysis. The question "When is better?" is a matter of political and economic strategy.

In the discussion participated also *Ph.D. Velichka Rangelova*, representative of the Center for Analyses at "Change". She expressed her satisfaction from the newly published book. She presented her opinion for the carried out till now macroeconomic policy, discussing some of its parameters and the interrelation and interdependence between them. She pleaded for a new economic policy in order to stimulate the economic growth in Bulgaria.

In his speech *Bojidar Fotev*, representative of the National Chamber for Business Development, referred to very serious problems concerning the question what are our resources for achieving higher economic growth, focusing on the intellectual potential and the opportunities for strengthening its impact on the economic development. He discussed in details the insufficient use of this resource and the inadequate technological and innovation policy and the missed opportunities. In the future we should count on the intellectual potential in our country, since this can be one of our biggest competitive advantages and Bulgaria can be a center of the technologies in a scientific and technological cooperation in the Balkan region. But for this we have to create the necessary premises – national strategy for development based on our competitive advantages, risk capitals market, project instead of institutional financing. He gave many concrete recommendations concerning deeper interaction between education, science and innovations, patent policy, creation of scientific-technological parks, etc.

*Prof. Stefan Stoilov* shared the imposing opinion that on the attention of the participants of the conference is drawn a complex, realistic view of the problems, connected with the accession to EU, and this can help concentrate the attention on their solving, and not on populism. We should be aware of what is the real, difficult road, which we should follow, and not to accept everything and then think what to do.

Very important is, according to him, to what extent the growth in Bulgaria is a reflection of the realities, in order to see the difficulties and to decide how to overcome them. This could help us in the negotiations, where especially significant are the competence and real evaluation, in order to estimate correctly the opportunities and variants. In this sense he discussed the problems concerning the deindustrialization of the country and outlined the extreme significance of their solving, in order to build a modern economy. He pleaded for a new approach in the industrial policy, since otherwise the delay will be longer.

*Assoc. Prof. I. Iotzov* from the Forest-Technical University referred to many questions concerning the principles of creating a macroeconomic policy and pleaded for giving a chance to the economic subject and not focusing only on the distribution of the ownership. He made an attempt to outline the problems connected with the land and forests, the necessary live environment, in order to develop the municipalities (more particularly to provide them with resources), the acting legislation and legalizing of the juridical subject.

*Corresponding Member Prof. Dr. Sc. Ivan Iliev* agreed with the positive reviews of the study. He drew the attention on the used huge information for our, as well as for the other countries, which allows in a convincing way to see where we are and how to follow the direction, in which we are going. He thinks that the drawn conclusions are serious and very interesting and create a good base for those, who want to work in this field, and for those, who will lead the negotiations. He gave a recommendation more attention to be put on the synchrony between the authors (no matter how difficult it is), on the searching of cohesion between the different elements of the macroeconomic policy.

He drew a special attention on the problems concerning the economic growth and the future competitiveness of the economy. He thinks that these problems cannot be solved only on the base of a study of the macroeconomics without the microeconomics. In order to determine what rates of growth we can expect, we should know how the material base and the production in the different branches will be restructured, i.e. what can be really produced, what is the material base and from here to outline the necessary investments. According to him the rates of growth of GDP in the first years are especially significant and that's why if the Bulgarian economy has reserves, they should be used shortly. In this way can be achieved much better results on the road of the accession and the attracting of foreign investments. This approach should be leading in the development of the macroeconomic policy, i.e. it should support the finding out of internal reserves and their use in short terms.

In the afternoon session a base for the discussions were the speeches of the other authors participating in the study. First took the floor *Ph.D. Tatiana Houbenova-Delissivkova*. Briefly she discussed the conditions, in which the team worked, outlining the necessity for richer information and material base. Further she focused her attention on the development of the money sector and its problems. According to her, despite the presence of a system of arrangements and requirements of EU concerning the accession, the managers of the Bulgarian economy, including BNB, face a considerable opportunity for free decisions and effective actions for achieving the objectives. Concerning the specifics of the Bulgarian practice the most important

parameter, on which we have opportunity for an independent choice for the preparation for accession in the money area for now is the regime of Currency Board. In the pre-accession period the Currency Board can have advantages, as well as disadvantages in the preparation. Her opinion is that the Currency Board can be taken as an inevitably necessary currency regime for medium-term perspective of 3 to 5 years, in condition that its most important effect is confirmed – limiting the domestic inflation and stimulating the inflow of capitals from outside. In a long-term plan the Currency Board can turn to be inexpedient and inadequate for the economy coming together with the level of EU. She supported this statement with arguments.

In her speech *Ph.D. Ivanka Kraininska* discussed the development of our bank sector in the next years. The main factors, which will serve as a “set” environment and will determine to a great extent the positioning of the Bulgarian bank sector in region and national scale are the globalization in the financial area, the necessity for harmonizing our bank normative order with this of EU, the development of the Bulgarian economy and the preparation for our joining EU, as well as the duration of the action of the Currency Board in Bulgaria. Dr. Kraininska, outlining the huge changes in the world financial system, drew a special attention on their impact on the processes, running in the European bank space and the taken measures at over-national level concerning the creation of an integrated financial market. More detailed she discussed the expectations concerning the development of our bank sector in the pre-accession period and the changes in the regulative frame. According to her, the functioning of the trade banks will continue in the conditions of a dynamic environment and risk economic situation, which will create significant adaptation difficulties to the banks in medium-term plan. Her arguments in favor of these expectations are: first, imminent is the post-privatization adaptation of about 80% of the bank sector, second, the new conditions will strongly challenge the less competitive small and medium-sized banks and they will be forced to undertake a consolidation and centralization and/or to fall into the network structures of the big banks, and maybe they can even exit this business. Special attention was put on the opportunities of the bank sector to support the financing of the preparation of the country for membership in EU.

*Ph.D. Vladimir Tzarevski* presented the main evaluations and conclusions, made in the study, for the international economic relations in the period of the transformation in Bulgaria. Bigger attention he put on the forecast for the dynamics of the international economic relations in the pre-accession period. According to him, in the next decade the international economic policy of Bulgaria should be concentrated in a few major directions:

- First, encouraging the export of goods and services in all possible ways, means and mechanisms of the currency and fiscal policy, despite the limitations, imposed by the mechanism of the Currency Board and coming from the engagements, taken on international agreements, as well as in the European integration processes. Specific measures for stimulating the export of agricultural goods are needed, including direct and/or indirect subsidizing. Necessary is also a target state policy concerning the investments in tourism, transport and communications.

- Second, despite the tendencies of import liberalization, in near future a policy of a moderate, flexible and selective protectionism will be needed, mostly concerning the branches, which will be affected by the import liberalization.

- Third, undertaking of measures for stimulating the inflow of foreign investments in the real sector.

- Fourth, effective and purposeful regulating of the credit relations abroad and rational management of the foreign debt.

*Ph.D. Vasil Tzanov* discussed briefly the priorities and instruments of the income policy in the 90s and outlined the social and economic effects from them, namely: increase of the economic inequality and poverty, fragmentation of the labor force, reduction of the consumption, decrease of the propensity to saving, weak binding of the work salary with the labor productivity, stimulation of the informal sector of the economy, the incomes of the population are not a source of inflation. Strong influence on the income policy in the next decade will have mainly two factors: the accession of Bulgaria to EU and the necessity of solving the urgent problems having a long-term character, and more concretely overcoming the crisis in the incomes and eliminating the accumulated negative and economic effects. His vision is that a reformulation of the main priorities in the income policy and creation of adequate mechanisms are needed, insuring the action of the market relations in this area. The most important priorities of the income policy should be: protection of all incomes and their progressive increase in the frames of the available resources (a main priority), struggle with the poverty through developing target active programs and actions, binding of the salaries with the economic and financial results, decentralization and expansion at branch level of the contracting of the salaries.

*Ph.D. Georgi Bankov* spoke about the questions concerning the employment and unemployment policies. Drawing the economic and social environment in Bulgaria, he focused on the main characteristics of the unemployment and the sharpness of this problem. According to him, the decrease of the unemployment, as well as the increase and restructuring of the employment, will be directly dependent on the carried out economic and social policies, i.e. very important is if we will continue with the current model of economic development or we will change it. The future employment and unemployment policies should be directed towards improvement of the quality characteristics, adaptation and flexibility of the labor force, determining the needs for labor force, but on the basis of long-term sector and branch priorities in the economy, closer coordination between the employment and the income policy, faster and effective measures by the state and the institutions on the labor market for preserving and increasing the quality of the human resources, etc. The estimations and recommendations in the "Annual Report for 2000" of the European Commission to a great extent will predetermine our policy in the field of the labor force, employment and unemployment. It should be reckoned with, first, the European legislation, norms, standards and practices, second, the national plan for employment should be based on new attitude of the state towards the problems of the employment and unemployment and should be coordinated with the strategic plans for economic development, third, the resources for restructuring and increasing the employment, as well as turning the

tendencies in the unemployment towards a decrease, are connected with new investment, structural, fiscal, social and other policies.

*Ph.D. Georgi Shopov* expressed his opinion on the problems concerning the income policy, analyzing the increase of the types of incomes in 2000, as well as the approaches to their increase. He noted that the positive sides of the policy are its more sustainable character and the binding of the growth of the minimal salary with the increase of the salary, which “automates” the growth of the minimal salary and takes it out of the field of the accidental marketeering decisions. But the inadequate differences in the mechanisms for actualization of the size of the minimal and deputies’ salaries remain. The state institutions in 2000 used the mechanism of one-time additional payments as an instrument for correcting the negative effects of the higher inflation and of the increase of the individual insurance payments, but the combined influence of the two factors is not compensated sufficiently. Again is observed a time asynchrony in the increase of the incomes, which damages the coordination of the carrying out of the income policy. The relevant differences between the salaries in the real and budget sector decreased, but they remained significant. One of the main problems for the state institutions in the next years will be also the overcoming of the considerable decline in the real incomes of the population.

*Ph.D. Stou Dulev* thinks that the study has many positive qualities, namely: first, the studied problems are very actual and the Institute of Economics should discuss them, second, the study presents very well the institute and gives to those, leading the negotiations, benchmarks and supporting points, and third, it gives to the international community a good material for thinking. He gave two recommendations to the authors. First, to improve the internal integration between the authors and not to allow principle dissensions. Second, to keep the macroeconomic approach, i.e. not to approach technocratically the different types of policies without searching for their interdependence and interaction as elements of the macroeconomic policy. Not only the short-term aspects should be examined, but rather are the different policies subordinated to the strategic goals. He discussed in details the problems of the social policy and its impact on the economic growth. The questions, connected with the labor market and its institutionalization, the activity of the insurance institutes, the social dialog and the equality of the partners should receive a wider base and should be solved through the social and economic policy.

*Ph.D. Vesselin Mintchev* stated that he admires the work of the team. He discussed two problems, stated in the speeches of Dr. V. Tzarevski and Dr. G. Bankov. He expressed his concept on the problems, connected with the structure of the export and import, outlining some unfavorable tendencies. According to him, the one-sided structure of the export is a clear indicator of a weakly developed country. He discussed the dynamics of the foreign investments. He also pleaded for developing a strategy of reintegration of the emigrants.

Ivanka Kraininska, Senior Research Fellow, Ph. D.