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"EUROPE 2020" STRATEGY AND BULGARIA'S ECONOMIC GROWTH

The highlights and targets of "EUROPE 2020" Strategy are presented and scrutinized here, especially the three dimensions of growth – smart, sustainable and inclusive growth and Bulgaria's attitude thereto. The growth factors (sources) in the last two decades are focused, as well as the potential of our country and the efforts to be made to fulfill the strategy and to achieve a long-term economic growth. Some key principal determinants are studied in details, directly related to the set parameters of growth in "EUROPE 2020" Strategy – manufacturing structures, the role of FDI, of exports, R&D costs, etc.

JEL: O12; O40; F41

The economic strategy "EUROPE 2020", adopted on 13 July 2010 by the European Commission (EC) outlines the concepts for development of the European Union (EU) for the forthcoming decade. The new strategy aims at identifying the reasons for the crisis that emerged in the EU and finding ways to prevent its come back. Some of the reasons for the global crisis are considered to be the lack of any long-term vision and development program. Hence the elaboration of the new strategy is of vital importance. It appears that no country could cope alone with the global challenges through single actions.

Via "EUROPE 2020" the EU *target* in the changing world is to prepare the conditions and to achieve a *smart, sustainable and inclusive* growth. These three mutually reinforcing *priorities* should help the EU and the Member States to deliver high levels of employment, productivity and social cohesion. Actually, the Union has *five ambitious objectives*: employment, innovation, climate/energy, education and social inclusion. In each of these areas each Member State should set its own specific national targets, in order to achieve an economic and social progress. The evaluation of the results of meeting such targets could be used to elaborate and apply appropriate *corrective measures* on the EU level.

This is not the first document, outlining the development goals and trends of the Union. One of its main targets for economic and social development is to set up a knowledge society. It was outlined in the Lisbon Strategy' 2000, the latest revisions thereof, the "EUROPE 2010" Strategy, etc. The objective of the new strategy is to avoid the errors made when applying the Lisbon Strategy (2000-2010), making it more specific, more strictly applicable and better aligned with the other EU strategies – the strategy for sustainable development, cohesion and social policies, energy and climate related policies. The key priority in both strategies is to create a new economic model, based on knowledge, low-carbon (green) economy and high employment.

Highlights in the "EUROPE 2020" Strategy

This strategy is aiming at three types of economic growth:[1]

- *Smart growth* - by setting up an economy, based on the utilization of highly-skilled labor, based on knowledge and innovations;
- *Sustainable growth – by* boosting a more environmentally friendly and resource-efficient economy;
- *Inclusive growth* – stimulating the economy with a high level of employment, ensuring social and territorial cohesion.

Europe needs such growth, because of being aware of the current development, due to the global processes, the retarded increase in the competitiveness of EU economy and overcoming the differences with the US and Japanese economy (an issue of the Lisbon Strategy), aggravated additionally by the present global economic crisis. The Strategy envisages sustainable growth, i.e. long-term prospect based on innovations and knowledge economy, human capital development, environment protection, social and regional cohesion.

Five main targets pointed out in the new strategy, should be achieved by EU in the next ten years. As a successor of the Lisbon Strategy, thy all aim at:

- 75% employment rate for men and women aged 20-64 years;[2]
- investing in research and development activities (R&D) 3% of the European GDP;
- meeting the "20/20/20" targets in climate and energy sectors – reducing greenhouse gas emissions, i.e. carbone dioxide by 20% compared to the levels in 1990, increasing the share of renewables by 20% and decreasing the final energy consumption by 20%;
- reducing school drop-out rates below 10%, at least 40% of the young people to have completed secondary or higher education;
- 20 mln. less people threatened by poverty.[3]

The *targets* are *mutually reinforcing*. The higher education level is expected to result in more jobs and less poverty. Higher R&D costs means more innovations, which combined with more efficient resources boost the competitiveness of the economy and creates new jobs.

Seven Flagship Initiatives are identified in pursuit of the targets. Three of them are related to development of innovations, education and digital society, in

[1] See European Commission: EUROPE 2020. A strategy for smart, sustainable and inclusive growth. COM (2010) 2020 final, Brussels, 3 March 2010, http://ec.europa.eu/europe2020/priorities/inclusive-growth/index_en.htm

[2] 75% employment is considered a full employment in the country. In general the EU member states have low employment rate – 69% (for the population aged 20 to 64) against 70% and more in USA and Japan (2009). The employment rate is very low for women - 63% compared to 76% for men and elderly people (aged between 55-64) - 46% against 62% in USA and Japan. Moreover the Europeans work 10% less hours than the employees in USA and Japan.

[3] Even before the crisis EU states had 80 mln. people at risk of poverty, incl. 19 mln. children. About 8% of the working population do not earn enough, to come out of poverty line.

order to enhance the smart growth; two of them refer to sustainable growth, one – to the climate and energy changes and the other – to competitiveness. The remaining two initiatives are associated with the inclusive growth and especially with the agenda for new skills for new jobs and the platform against poverty.

"EUROPE 2020" Strategy suggests to look for the joint targets and practices with the Common Agricultural Policy (CAP).[4] The main achievement of the CAP is a territory and environmentally balanced agriculture. It will affect the three types of growth. The focus here is on increasing the competitiveness of the products via technological knowledge and innovations, revealing the economic potential of the rural areas and overcoming the big differences among them. The green growth in the agri sector and the rural areas is significant for boosting the economic growth and for protecting the environment from destruction.

Due to the current indefinite expectations for outcome of the economic crisis and the uncertain exogenous environment EU foresees a medium-term review of the progress of the implementation of the national targets and subtargets under the "EUROPE 2020 Strategy".[5]

Considering the starting position of the country, the Bulgarian government understands how difficult it is to point out just a few priorities of the economic policy in order to achieve a growth. However both of the latest documents focus on:[6]

- *better infrastructure* – more successful connections with Europe, sustainable and competitive cities, with affordable services and better interlinkage among them and with the less developed areas, conserving and promoting the Bulgarian cultural and historical heritage and natural resources ;
- *competitive youth* – reducing the share of the early drop-outs, increasing the number of young people, university graduates, encouraging young scientists, better job opportunities for the young people in Bulgaria;
- *improved business environment in the EU* – lowest tax burden for the businesses and households within the Union, higher employment rate, more investments (including R&D and innovations), fiscal stability and entering the Euro Area;
- *more confidence in the government institutions and bodies* – efficient

[4] The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future. European Commission. Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. Brussels, 18 November 2010, com (2010) 672 final.

[5] For Bulgaria such document is the recently announced National Reform Program of the R. Bulgaria (2011-2015). It complies with and complements the Convergence Program of the R. Bulgaria (2011-2014), including a macroeconomic scenario until 2015. *See* National Reform Program (2011-2015). Republic of Bulgaria. In pursuance of "EUROPE 2020" Strategy. Alternative 2 (Provisional Alternative). Sofia, 21 March 2011.

[6] See: R. Bulgaria. National Reform Program (2010-2013) Draft. pursuance of "EUROPE 2020" Strategy. Sofia, 3 November 2010, p. 3; National Reform Program (2011-2015)…, p. 8.

judiciary system and guaranteeing the supremacy of law, protecting the interests of the citizens and the businesses, social justice and security.

Both above-mentioned documents treat additional case studies, discussing the control on the implementation of the Strategy, including the political involvement on the different levels (parliament, regional and local authorities), engagement of the social partners and other stakeholders. The monitoring instruments and the opportunities for external evaluation of the National Reform Program are pointed out as well. The eventual contribution of the Structural Funds and the Cohesion Funds are also considered.

Scrutinizing the "EUROPE 2020" Strategy

The successful fulfillment of each strategy requires an in-depth scrutiny prior to its adoption. The advantage in this case is, that the criticism to "EUROPE 2020" has already begun. The "Intereconomics" Magazine opened a forum on such issues.[7]

The opportunities for implementing a certain policy and gaining an economic growth depend on the set specific economic theories. The main growth-related issue, both on the theoretical and on the practical level deals with activating and managing the interaction of the specific growth determinants that would yield a higher added value.[8] But the theoretical aspects are not focused in the strategy at all.

As far as the "EUROPE 2020" Strategy succeeds the Lisbon Strategy, it is important to know their similarities and differences. Both strategies aim at higher international competitiveness, productivity and growth, as well as sustainable development. Their formal similarity is that each of them consists of two parts, the first of which (from Section 1 to section 4) presents their essence, and the second one (section 5) deals with the issues of management and control of their implementation. Unlike the Lisbon Strategy, "EUROPE 2020" confirms to a great extent the interdependence of the national budget policy and the national reform programs and the necessity to increase the pressure on the countries, failing to implement the adopted programs.

The formal difference to the Lisbon Strategy is in the reduced number of the so-called structural indicators in the new strategy, out of the 42 in the former one, and the environment topic is also incorporated along with the above-mentioned 20/20/20 targets. It should be noted however, that the last topic is somehow detached from the main topics in "EUROPE 2020", and the already functioning Sustainable Development Strategy is still in force, in parallel with other target parameters specified by the EC.[9]

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[7] EUROPE 2020 – A Promising Strategy? - Forum. Intereconomics, 2010, N 3, pp. 136-170.

[8] See *Rangelova, R*. The changing determinants of economic growth – theoretical foundations and specific empiric features. – Economic Studies, Institute of Economics, Bulgarian Academy of Sciences 2009, N 2, pp. 3-32.

[9] Due to this reason and due to volume restrictions, the article does not consider the ecological aspects and the aspects for efficient use of resources, related to economic growth. See: Draft, Enegry Strategy of Bulgaria until 2020, draft. Ministry of Economy, Energy and Tourism, 2008, http://www.mee.government.bg/iko/

The advantage of "EUROPE 2020" is the initiated debate on the industrial policy (although it should be a more detailed discussion), in order to make justified conclusions. However it should be taken into consideration, that in fact the new strategy does not suggest any new instruments to reach the set targets, but it is rather limited to intensify the monitoring and the management of the available ones.

Several aspects of "EUROPE 2020" are criticized: the lack of analysis of the failure of the preceding Lisbon Strategy, the lack of real analysis of the financial and economic crisis, as well as the environment-related crisis, the environment-related contradictions, the oppositions in some postulates and parameters and the governance issues in view of implementation of the strategy:[10]

●*the attitude to the Lisbon Strategy* since its announcement has been accompanied with evaluations, contradicting in time and by various authors. The more detailed analysis of its collapse might have contributed to specify adequate parameters and steps for their implementation, but it has not been done.[11] For instance the fact is interesting, that out of the 3% share for the R&D costs in GDP set in "EUROPE 2020" as well as in the Lisbon Strategy, the average EU member-states' share for the public spending is about 1%, just like USA and Japan. The difference is in the contribution of the private investments, made by the businesses, which are expected to spend more in the Member States. Another question is raised by the aim for 75% employment set in the new strategy, without commenting the nature and quality of the created jobs, which were defined in the Lisbon Strategy that they should be at least "more and better".

●*The lack of analysis of the financial and economic crisis* makes it impossible to reconsider the role of public regulations and the capacity of the public authorities and especially the government's role in the economic and social governance. The interrelations among the government, the private sector and the civil society should be re-evaluated. Moreover, the crisis is not over.

● *The lack of analysis of the ecological status* of the Planet until 2020 makes the set parameters unclear, what is more, the EC has been working on these matters in the long run as well.[12]

●*The confrontations among the set targets* shall make it difficult to achieve all the set targets simultaneously, opposing each other under the current trilemma: (a) fiscal consolidation – (b) green investments – (c) care for the welfare of the

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Proekt_En_Strategy.pdf, p. 34; Natuional long-term program for stimulating the use of renewable energy 2005-2015. Energy Efficiency Agency, http://www.zazemiata.org/energy/fileadmin/content/ energy/ resursencenter/ documents legislation/dulgosrochna_programa_vei_2005-2015.pdf

[10] See *Pochet, Ph*. What's Wrong with EU2020? - Intereconomics, 2010, N 3, pp. 141-146.

[11] See: *Pochet, Ph., J. Y. Boulin, C. Dufour* (eds.). Lisbon: A Failed Strategy or Still Relevant for the Future. - In: Transfer, 2009, Vol. 15, N 1, pp. 21-31; *Wyplosz, C*. The Failure of the Lisbon Strategy, VoxEU.org, January 2010.

[12] European Commission. The world in 2025, Rising Asia and socio-ecological transition. EUR 23921, Office for Official Publications of the European Communities. Luxembourg, 2009.

people (under the conditions of the ageing population and increasing public services).[13]

●The last part of "EUROPE 2020" deals with the directives on the implementation of this strategy and the place of each stakeholder – EC, European Council, European Parliament, the civil society, etc. Its interaction with the enforced Stability Pact and growth has also been studied. It is obvious that *the governance and control should* be effected by the Commission. Actually the central role shall be vested on the financial ministers on the national level and on the entire EU level, which should actually coordinate the strategy. Such a solution of the issue is somehow a retreat from recovery of the Economic and Financial Union, which was included in the Lisbon Strategy, whose activity was reinforced by the existence of the Economic Monetary Union and the intention to generate other analogical sectoral unions – on social, ecological issues, etc. Moreover the role of the social partners is limited in this strategy.

Despite the positive attitude to each new idea on consolidating the Member States in meeting the common objectives, such as "EUROPE 2020", the current experience and opportunities should be considered in a realistic way. The failure of the Lisbon Strategy and other programmes ("EU 2010" etc.) warrants a critical look at the EU policy as an economic and a political community. Some authors regard the problems of the Union as a result of the lack of legal capacity and strong political instruments. Another way of scrutiny is related to the blind acceptance of the idea of a free market, ruining especially the economy of the Euro Area. EU has become a political space, where the strong defense of the free market seemed to gain the upper hand without any significant reflection and debate. Apparently EU is driven by qualified technocrats. The third criticism refers to the fact, that the European leaders have not yet overcome their weakness to defend not so much the interests of the states they come from, but rather the common EU interests.[14] Therefore the ideas of "EUROPE 2020" should be scrutinized and reviewed from time to time in order to be carried out.

The implementation of a strategy needs decisions on international and on national level, requiring long-term periods of constant and consistent work. Any significant qualitative changes in key economic areas such as development of the human factor, reforms in the pension and health care system, increase in the efficiency of public administration, changes in the tax system etc. take more time than the standard period of government mandate. This is why the governments in Europe are not particularly inclined to carry out such reforms and even tacitly

[13] And other spheres of the economic and social activities need in-depth discussions and revisions, such as the policies in industry, taxes, transport, trade and employment (incl. green employment), social security, work place quality, etc.

[14] Regarding critic notes on the EU policy see for instance publications at "EU Observer" from 2009 and 2010 and by the Center for European Policy Studies, www.ceps.eu

oppose them because they know that this would not be in their favor. Mechanisms should be found to encourage the policy makers to give priority to longer-term targets, even if it means losing power.

The EU and each country should understand the need of such reforms and moves and they should be implemented firmly and consistently. The dominant attitude is easy to understand, that the economic policy is expected to be associated with the political affiliation of the government members, although in practice their specific actions often do not match this policy.[15] Unfortunately in such cases, most of the analyses are biased in the sense that, due to the prevailing desire to confirm the trend of the government actions, not to analyze the contradictory effects or to discuss alternative solutions. The ruling parties today might not be of pivotal importance in the long run. It is much more significant whether the government and the society are future-oriented and are willing to pursue it and whether the rotating governments with certain mandates carry out a consistent policy, at least within the key parameters.

In the current market economy the governance decisions are complicated and difficult, and the political leaders must select alternative ways with unclear and unsecure consequences. The technical decision-making process involves the use of both quality and quantity criteria, which is not easy at all. The rulers face numerous political alternatives and are compelled to make compromise. However the consequences of the decisions evolve over time, allowing a feedback, which should be taken into consideration.

A lot of policy-makers and experts understand the irreversible measures to achieve certain objectives, but a few governments apply them consistently. Meanwhile the usual government mandate is four years, especially with the implicitly adopted rhythm within such mandate to work extremely hard before new elections, while programs requiring the implementation of structural reforms need much longer periods of time. So some well designed reforms, due to their spontaneous nature and the lack of broad public discussion are not accepted and have less positive effects.

Therefore most of the numerous long-term programmes and strategies, already accepted in various countries, incl. Bulgaria, in practice could be implemented in just a few countries.

Bulgaria's Potential to Implement the "EUROPE 2020" Strategy

The national government supports the necessity of a new policy for the application of "EUROPE 2020" and to establish a more-competitive, innovative, inclusive and environmentally effective economy in Europe.[16]

[15] For instance the low proportional "flat" tax, considered as a right policy instrument, adopted in Bulgaria during the mandate of the Triple Coalition (2005-2009).

[16] See R. Bulgaria. National Reform Program (2010-2013)…, p. 36 and the follow-up document - National Reform Program (2011-2015)…, p. 83. There the Bulgarian Government confirmed the

What is our potential to fulfill successfully "EUROPE 2020"? The answer to this question suggests numerous and profound investigations, beyond the framework of one article. The key macroeconomic issues of the current Bulgarian economic growth model will be commented herein.

The Economic Growth Model in Bulgaria over the Last Two Decades

A long-term economic growth can not be predicted just as a projection of the past. However the development of our country is vital as far as it predestines the characteristic features, the advantages and disadvantages to be considered with special attention on the pursued long-term *smart, sustainable and inclusive* economic growth.

In the last twenty years the economic development of Bulgaria has passed through two periods. The first one was initiated at the beginning of the transition period and lasted until 1997. During this period the transition policy from centrally planned to market economy was slow and inconsistent. It resulted in a total GDP drop down by about 33% (except the years 1994 and 1995)

During the second period the Bulgarian economy enjoyed a dynamic steep growth influenced by the endogenous factors and the favorable exogenous environment since 1998. Between 2000 and 2009, GDP stepped up 1.6 times, reducing the negative trends such as the high unemployment rate and the low real incomes of the people and consumption (see Table 1). The domestic demand is determined as the main vehicle of growth by means of its components – the individual consumption, which was increased 1.74 times (the consumption of the households - 1.68 times) and the government consumption – 2.34 times higher. The highest increase of the domestic demand was registered by the investment expenditures - 3.34 times. It resulted in modification of the GDP structure in favor of those two components – for individual consumption as a share of the consolidated consumption - by 1.5 percentage points and much higher increase in the total gross capital formation, from 18% of GDP in 2000 up to 37.5% in 2008, being more than two times. Due to the crisis at the end of 2009 and the beginning of 2010 the domestic demand dropped down, because the households restricted their expenditures.[17] Regarding the third main component of GDP according to end consumption elements, being the net exports, due to the considerably faster increase in imports compared to exports (respectively 2.55 and 1.96 times) the foreign demand has a negative contribution to the GDP growth during the studied period, and the domestic demand is characterized with a high relative share of imports. In other words, under the more open nature of the Bulgarian economy, the achieved financial stability, Bulgaria's integration into international commodity and

national objectives, defined in the preliminary draft of NRP, which was presented to the EC on 12 November 2010.

[17] The analysis was deliberately limited until the beginning of the economic crisis in Bulgaria, by 2008 incl., aiming to limit steady trends from the past.

financial markets etc., unlike most countries in transition Bulgaria has failed to form an export-led growth model within this period.

Table 1

GDP in Bulgaria according to expenditures for end use, 2000 and 2008

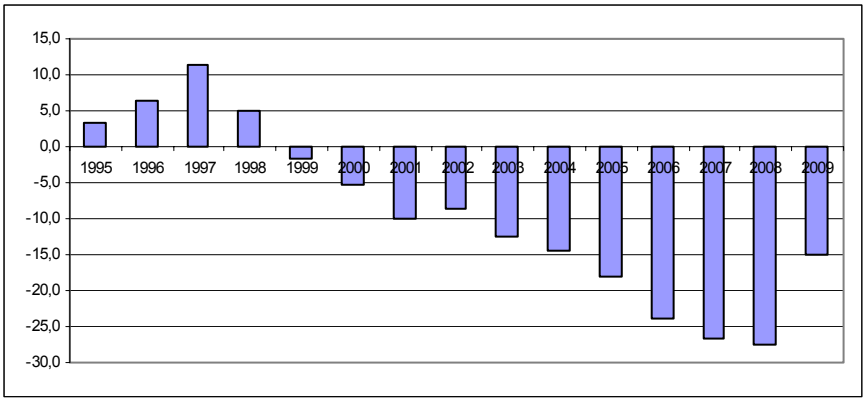
Indicators	GDP - under prices '2000 (mln. BGN)			Structure – under current prices (%)	
	2000	2008	Gain	2000	2008
GDP – total	27 399	43 068	1.57	100.0	100.0
Consumption - total, incl.	23 935	37 542	1.57	*87.3*	*83.0*
Individual consumption, incl.	19 719	34 221	1.74	87.7	89.2
- households	18 620	31 304	1.68	88.7	89.3
- government	2 256	5 279	2.34	10.8	10.3
Collective consumption	2 949	3 389	1.15	12.3	12.1
Gross capital formation - total	4 926	16 477	3.34	*18.0*	*37.5*
Exports of goods and services	13 826	27 056	1.96	50.5	58.2
Imports of goods and services	15 288	38 930	2.55	55.8	58.2
Foreign trade balance	-1462	-11 874		*-5.3*	*-20.5*

Source. NSI.

The attained high rates of economic growth during the last decade are due to the growing deficit of the current account of the balance of payments - from -1.7% in 1999 down to -5.3% in 2000, reaching 27.6% in 2008 (see Figure 1), and especially thanks to the attracted exogenous savings, financing the larger imports of consumer and investment goods and services. In other words, the most important source of growth in the country after 1997 was the inflow of external resources, especially foreign direct investments (FDI).

Figure 1

Bulgaria' foreign trade balance as a percentage of GDP between 1995-2000



Source. NSI.

●*Industries and economic growth*

With the 1.55 times growth in the economy during the decade until 2008 the interest in the structure by economic branches and sectors (see Table 2) is justified. The highest growth is noticed in construction (1.89 times), followed by almost the same figure in finances, operations with real and personal property and business-services (1.84 times), trading, repairing of vehicles and home appliances, i.e. sectors, not related to the concepts of modern technological industrial structure, resulting in labor productivity. Then follow transport and communications (1.74 times increase) in terms of dynamics, and the last group of sectors, having growth above the general growth, is the mining and processing industry, electric, gas and hydro power generation and distribution (1.60 times). The administration, education, healthcare etc., have a lower growth than the average (1.22 times), and there is a drop down in only one sector –agriculture and forestry (0.91 times). Hence the relative share of this sector in GDP was reduced almost two times during the monitored period, and the share of administration, education, healthcare, etc., also dropped down (from 15.5 to 12.4%). The share of mining and processing industries remained the same, and the same refers to trade, transport and communications, and the other sectors (construction, finance and operations with real and personal property and correctives) is increasing.

Table 2

Gain and structure of GDP according to the industrial method, 2000-2008 (%)

Economic sectors and groups by economic activities	2008/2000 - as per prices of 2000	Structure as per current prices	
		2000	2008
Agriculture, forestry, hunting and fishing	0.91	11.9	5.8
Mining and processing industries; Electric, gas and hydro power generation and distribution	1.60	18.7	18.4
Construction Industry	1.89	4.0	7.0
Trading, repairing of vehicles and home appliances; Hotels, hostels and public catering; Transport and communications	1.74	20.6	20.3
Finances, credits, insurances; Operations with real and personal property, business-services	1.84	16.9	19.5
State governance; Education; Healthcare; Other services and NGO activities	1.22	15.5	12.4
Total for the economy	1.55	87.5	83.3
Correctives (taxes minus subsidies on the products)	1.70	12.5	16.7
Gross Domestic Product	1.57	100.0	100.0

Source. NSI.

Central and East European (CEE) countries are aligning their economic structures with the EU-15 states, in a different way. The previous studies show, that Bulgaria is included in a group of countries (together with Lithuania, Latvia and Romania), in which the development of mainly labor-intensive industries has slightly slowed down in the last few years, but the problem is due to the small share of R&D sectors and the share of the sectors with increasing scales of production. These changes in our country are as unfavorable as possible compared to the other states. These trends provide indications for the current and the future potential of Bulgaria. There are also reasonable expectations for increase in the differences in the industrial structure among the Member States in favor of the industrially advanced countries due to their higher potential. Unlike countries like the Czech Republic, Hungary, Slovenia and Slovakia, managing to set up structures, closer to the structures of EU-15 countries, providing them potential for higher competitiveness and efficiency, the other countries, incl. Bulgaria, are unable to achieve it in one or another degree.[18] The most promising potential of GDP growth in Bulgaria are the tourist services according to official sources.

● *The role of FDI on the long-term growth in Bulgaria*

In the beginning of the transition period unlike the other East European countries Bulgaria was not preferred for FDI.[19] Considerable volumes of investment flow were reported in 1998, rising further after 2007 (see Figure 2, left panel). It was due to the influence of a lot of factors such as: favorable international environment, the EU membership, the good legal framework, low tax rates.[20] Such investments definitely contributed to the achieved high economic growth in our country during the last decade (see Figure 2, right panel).

According to the global practice only under certain conditions FDI contribute considerable to the proliferating technological innovations and increasing the productivity. One of these conditions is the distribution of FDI by sectors and branches in the economy. From the point of view of increasing the competitiveness of the economy distribution of FDI in Bulgaria is uneven and unfavorable. The largest share is the investment in real estates – about 22% of all foreign investments in the country, followed by the sector "Financial mediation", including banking and insurance services - over 19% and the processing industry ranks third – 18%. The total share of industry is about 30%,

[18] *Totev, S.* Regional Economic structures and development potential. Research project. Economic Research Institute, BAS, 22 December 2010, pp. 80-81.

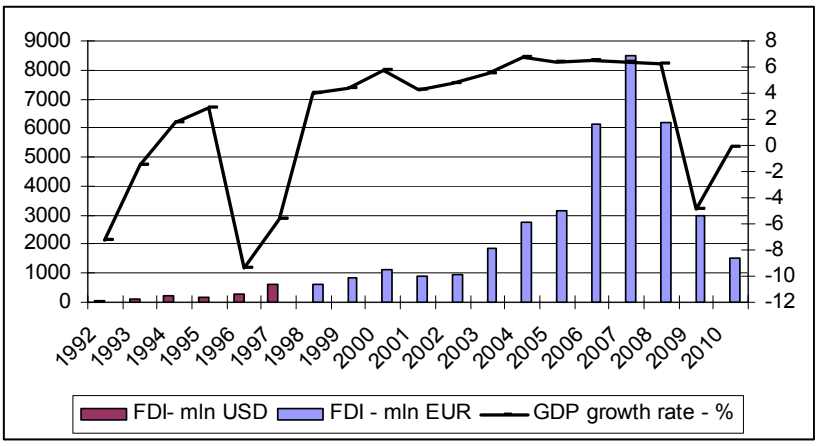
[19] During the late 90-ies for instance in Hungary FDI per capita accounted to about 10 times more than FDI in Bulgaria.

[20] A good analysis of the attracted FDI to Bulgaria in each sector was made by *Ganchev, D.* Foreign Direct Investments for the period between 1992-2008 – conclusions and new challenges. – Economic Alternatives, 2010, N. 2, pp. 40-56.

with the leader – the energy sector. Despite the positive impact of FDI in industry, their quality and distribution by branches and activities are insufficient to help solving the major issues of the national economy. This is an explanation for the changes in the structure of the Bulgarian economy by sectors and by activities, as described in Table 2.

Figure 2

Rate of real GDP and volume of FDI in Bulgaria, 1992-2010



Source: BNB and Eurostat.

In conclusion, the obtained structure of FDI in Bulgaria could be explained with initial economic interests and niches (access to our market, banks etc.), but it is unfavorable for long-term development, especially from the point of view of the targets and changes in the economic growth, set out in "EUROPE 2020". A government policy is required, in order to enhance the investments in promising sectors and hi-tech industries in pursuit of the national targets for development of a competitive economy. The attracting of FDI for development of such industries is bound with another important condition – available qualified specialists in the country and the opportunities for partnership with scientific and academic centers. Therefore the cooperation of the companies with scientific centers in view of innovations, technologies and staffing must be improved.

FDI dropped down considerably after 2008 due to the crisis. Bulgaria is still considered a good destination due to the low taxes and political stability.[21]

[21] Regarding the flat tax introduced in Bulgaria, which is often pointed out as an advantage, some economists warn not to rely so much on this factor, because it is "compensated" with other factors, such as high social security installments, more corruption compared to other EU Members States, high rate of gray economy, administrative bureaucracy, bad infrastructure, etc.

The EU membership and the low labor costs also have a positive impact. Bulgaria is not so much attractive after the oversaturation in the construction, real estate and tourists sectors. Nevertheless opportunities are still available mainly in trade, food industry, logistics and renewable energy sources. In the future the growth in Bulgaria is going to be financed by FDI, but the inflow of FDI shall be less than the previous one (see Table 3).

Table 3

Key indicators of the macroeconomic scenario between 2010 - 2013.

	2009	2010	2011	2012	2013
GDP – current prices (mln. BGN)	68 537	71 726	77 077	82 898	89 484
Real GDP growth (%)	-4.9	0.7	3.6	4.7	5.2
Contributions to the GDP growth (%), incl.:					
Investments	-12.5	-1.1	1.1	1.9	1.9
Consumption	-3.4	-2.8	1.9	2.9	3.8
Net export	10.9	4.5	0.6	0.1	0.5
GDP Deflator (%)	4.1	3.9	3.7	2.7	2.6
Harmonized inflation – average for the period (%)	2.5	3.2	3.7	2.8	2.7
Current account (GDP) (%)	-9.9	-3.3	-3.5	-3.3	-3.4
Trade balance (%)	-11.9	-7.8	-7.6	-8.2	-9.4
Services, net (%)	3.7	5.2.	5.5	5.8	6.2
Income, net (%)	-4.4	-4.3	-4.2	-4.0	-3.7
Current transfers, net (%)	2.7	3.5	2.9	3.1	3.5
Financial and capital account (mln. EUR), incl.	2671	20	3025	3605	2783
Foreign Direct Investments (mln. EUR)	3282	1500	1980	2178	2396
Overall balance (mln. EUR)	-650	-1185	1664	2194	1236

Source. Republic of Bulgaria. National Reform Program (2010-2013), p. 5.

●*Is smart growth possible without science and innovations*?

The problems of the science and technology transfer, converging new knowledge into a useful social product, have become the priority for the economists worldwide in the last 2-3 decades. In the late 1990s it was definitely realized, that the R&D process originated from the domain of the intellectual exercises of elite scientists and has become a valuable social activity, requiring a regulation of the social contract.[22]

Since 1990 in Bulgaria there has been a steep drop down in the beginning, followed by a constant trend to maintain a low relative share of the expenditures for R&D in GDP by the public and the private sector (Figure 3). The following trends have been monitored:

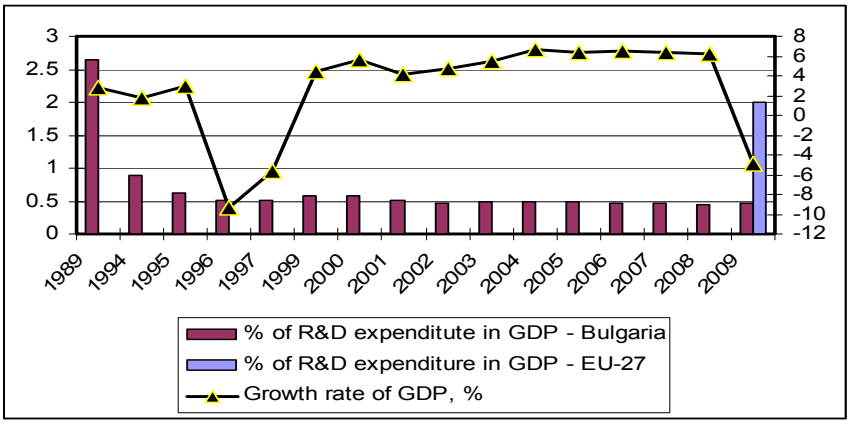
[22] World Economic Outlook: April 2010. IMF. (2010). Rebalancing Growth. Washington, D.C., p. 55.

• Considerable decrease in the share of the general expenditures for R&D (GERD) in GDP from 2.64% in 1989 down to 0.88% in 1994, 0.62% in 1995 and holdback since then at about 0.48% compared to 1.85% for EC-27 and about 1% for the other CEE countries in the last few years (Figure 3, left panel). These relative shares are backed up by quire different absolute values. The relative low share for Bulgaria has been preserved even during the years with high economic growth, being annually over 5.3% GDP growth (Figure 3, right scale);

• Great differences in the level of expenditures for R&D among the various regions within the country - from 0.5% of GDP in the SW region - to 0.16% in the NE region.

Figure 3

Percentage of R&D in GDP and growth rate of GDP, 1989-2009 (%)



Source. Eurostat.

Regarding the investments by the private business in innovations, Bulgaria ranks at one of the last places – according to Eurostat data: just 0.15% of GDP against average 1.17% EC-27 countries and 2.51% for Finland (see Figure 4).

In the Community Innovation Survey and the Innovation Scoreboard Bulgaria has always been in one of the last positions in the sphere of innovation activities. To sum up, the general expenditures for research and development (GERD) in Bulgaria are too low, and GERD in industries and in the small and medium-sized enterprises (SME), including the private sector, are too low. Due to this reason Bulgaria will remain in one of the last positions in the EU.[23] This unattractive position was sustained during the years of high economic growth,

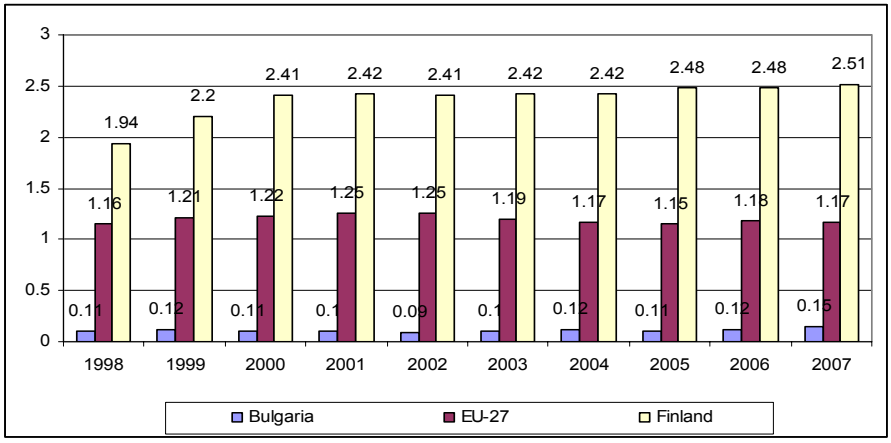
[23] In view of Bulgaria's lagging behind in terns of R&D expenses see *Rangelova, R.* Expenses for R&D and economic growth – International Comparison. – Economic Studies, Institute of Economics, Bulgarian Academy of Sciences, 2007, N 4, pp. 18-53.

showing, that it is not just a matter of opportunities, but the importance of the innovations and human resources are underscored.

Under these circumstances their role is going to be moderate. In the last two decades the numerous governments in Bulgaria, although from different political parties, and with different means have always ignored science and education. The European policy of ever growing investments in research and innovations has no impact in our country. At this stage, even with strong willingness and efforts to change this trend, it will take years to feel the effect thereof. Meanwhile our country shall be lagging behind the average EU level.

Figure 4

R&D expenditures of private businesses (% of GDP)



Source. Eurostat.

According to EC's predictions based on lineal operation, in 2020 Bulgaria' expenditures за R&D might be generated from 0.55% of GDP.[24] Implementing the "EUROPE 2020" Strategy and especially the set national target 2 for Bulgaria - investments in R&D amounting to 1.5% of GDP (according to "EUROPE 2020" - 3%), together with more favorable business-environment, the forecasts for Bulgaria are as follows: [25]

●Due to the low starting position and the lack of criticism on the education, skills, scientific infrastructure, the main share of SME in economy and at the same time comparatively low capacity for investments in R&D and innovations, as well as the expected slow economic recovery from the crisis, the national target for investments in R&D is set on 1.5% of GDP until 2020.

[24] However this method does not take into consideration the country's opportunities to use additional funds for research and innovations under European programs as an EU member state.

[25] See R. Bulgaria. National Reforms Program (2010-2013)…, pp. 14-19.

●The restructuring of the economy to innovations – intensive sectors is expected to result in rapid increase in the funds spent by the private sector on innovations.

●Until 2020 the increased European financing for research and innovations, incl. from the European funds, absorbed in Bulgaria, is going to result in higher total amount of public financing for innovations.

●The lost competitiveness in the sectors with low value added, as well as the forecast for reorientation and restructuring of the economy to innovations intensive sectors, shall compel the private sector to increase promptly the funds spent for R&D and innovations.

In our opinion however, over the last 15 years the domain of expenditures for R&D has been about 0.48%, and in the last 2 years it dropped down due to the current economic crisis, the projections for 1.5% until 2020 are more than optimistic. The intention is to reply in the spirit of "EUROPE 2020", but there is no idea how it should be done, and there is no commitment for such changes, backed up with proper activities, and the policy is not an evidence for any coherence with such an intention.

The usual response of the industrialized economies to the intensification and the competitive pressure, is not related just to changes in the industry, but rather to the increase in the quality of the products in the different branches of industry, meaning specialization in the application of science and technologies in the more intensive segments of the sectors and in the products with a higher value added share. The positions of Bulgaria are rather moderate in terms of the competitive sectors, according to the data on the volume of value added in the not financial high-tech industries compared to other Member States, for instance - in 2006 in Finland - 7298 mln. EUR, Hungary - 3214 mln. EUR, the Czech Republic - 1841 mln. EUR, Bulgaria - just 190 mln. EUR.[26]

Even the aggregate data by sectors and activities in Table 2 show, that the Bulgarian economy is not based on science-intensive industry, but on services and other activities, not requiring science. As a rule the innovations, demonstrate how major sectors of the economy of a country are tuned to the scientific and technical achievements of their time.

A generalizing indicator on the factors of economic growth in a country is the relative share of hi-tech exports of the total exports. Bulgaria disposes of a very small share, indicating a slight increase – of about 1.7% in the late 90^{ies} at about 3.3% as at 2007 compared with EC-27 averagely about 20–17 % (with a slightly downward trend during the last decade). In USA this share is much larger, despite its slight drop - from 30 to 26%, and the same refers to Japan – from 25 to 20%. In CEE countries these shares are increasing, although moderately – in the Czech Republic, for instance from 7.8 ta 12.7%. Only Hungary is an exception, where the

[26] Science, technology and innovation in Europe. Eurostat. Statistical Books, European Commission, 2010 edition, p. 226.

share is high and still increasing – from 19.4 to 20.3%. Two more countries are on the same level as Bulgaria, with increasing shares as well: Poland – from 2.3 to 3.1% and Romania – from 2.8 to 3.8%.

According to the National Strategy on Developing Scientific Research – draft 2009-2019, "in Bulgaria there are not sufficient Bulgarian/multinational companies, willing to develop R&D in the hi-tech domain, also by establishing their own research structures (developing corporate science). Most of the goods and services offered by the national companies are from non-hi-tech production spheres."[27]

The most important factor for the economic growth and especially for the intelligent growth is the available workforce. Depopulating and ageing of workforce in Bulgaria are acute and vulnerable problems, affecting first the dimensions and quality of human resources. One of the negative trends for the lower quality of the education and the workforce in Bulgaria is the intention of the university graduates to emigrate abroad. The Bulgarian young people are some of the most mobile within the EU countries. The resulting asymmetry of the effects of the migration of high skilled staff is expressed in the negative impact of the "brain drain" on the sending country from the point of view of losing the nation's most precious potential.[28]

The above deliberations show the aggravated starting point of our country in the efforts to achieve a smart growth.

●*Regional differences in Bulgaria and inclusive growth*

The economic growth is considered the main driving force for reducing social and regional differences and achieving social cohesion. They are the characteristic features of the *inclusive growth*. This sphere involves a wide range of indicators of the differences in the economic activity, employment (labor market), the incomes of the various social groups, poverty, the developed infrastructure etc. Here we shall present a concise but indicative enough concept on the regional differences by level of development in Bulgaria, according to data on the six statistic areas, provided by the National Statistics Institute (see Figure 5).[29] The average economic development level, measured through GDP per capita, stepped up almost four times between 1995-2008 (left panel), but the difference among the regions is also increasing, measured by means of the variation ratio (right panel). In other words, one could not speak about any cohesion among them. The SW region (with the metropolitan city) is in the best position, followed by the NE and the SE regions, the NW region is in the most unfavorable position.[30]

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[27] See National strategy on development of scientific research, 2009-2019. Draft, by the Council of Ministers, adopted on 12.03.2009 by the Budget and Finance Commission, National Assembly.

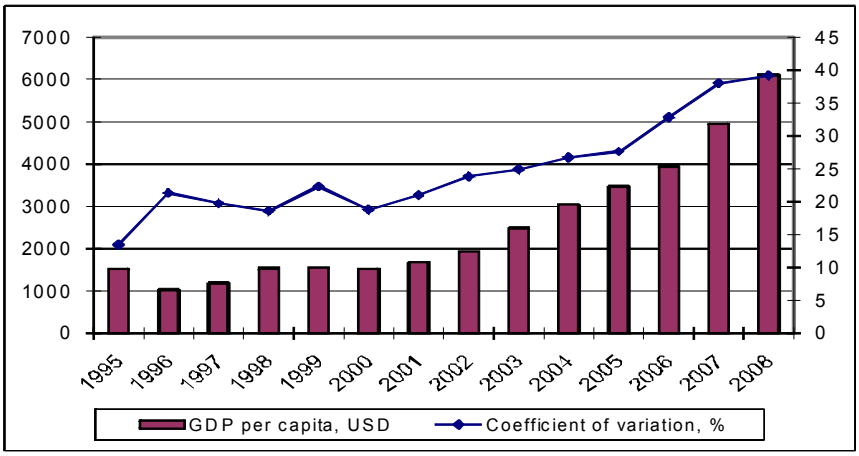
[28] *Makni, V*. The Intellectual Emigration – a two-face effect. Varna, 2010, pp. 71-149.

[29] In EU they are called planning regions. They are: north-west, central north, north-east, south-east, south-west and central south regions.

[30] The differences among the regions according to the macroeconomic development levels call for more unfavorable demographic processes in the poor regions, resulting in rising differences among them.

Figure 5

GDP per capita and coefficient of variation in six regions in Bulgaria, 1995-2008



Source. NSI.

The data show, that in the long run an inclusive growth requires an available interrelation between the applied sector policies (development of agriculture, industry, etc.) and the regional development issues, especially in support of and stimulating the underdeveloped regions by their economic restructuring. Bulgaria's integration in the EU regional policy implies its leading role in the application of the structural policies for impact on the overall development of the country. The development of cross-border cooperation might solve some of the economic problems of the periphery regions in the long-run.

Coming out of the Crisis and Medium-term Development in Bulgaria

CEE countries, incl. Bulgaria, gained a high growth prior to the crisis. However it affected hard the region and although temporarily hampered the course of catching up of the new Member States in the half-way. The recovery is still fluctuating, with great differences among the countries. Now the questions arise: What reforms are required to reach the pre-crisis dynamics? Is a new growth model required for the region? How to achieve a sustainable growth?

Following a 4.9% GDP drop in 2009 pursuant to the government documents, "in 2010 an economic growth of 0.7% is expected, *whereas the domestic sector will be the vehicle of the economic activity*", and too optimistic growth in the post-crisis years (see Table 3).[31] The domestic demand is going to start recovering after 2011.[32]

[31] Actually GDP in 2010, obtained as a sum of quarterly data, stepped up really by 0.2% compared to 2009. See http://www.nsi.bg/EPDOCS/GDP2010q4.pdf

[32] See R. Bulgaria. National Reforms Program (2010-2013)..., p. 5. This document, and the State Budget of the R. Bulgaria for 2011 reflect the government's vision on the outcome of the crisis and

It is assumed, that the continuous restructuring of the industries, related to the current crisis, will result in lower employment in 2010, but with fading reduction rate.[33] It is considered to have a positive impact on the labor productivity, which is going to rise by 4% p.a. until 2013.

It was reported that in 2010 the nominal rate of increase in the labor income of the population was retarded compared to the previous year, and in the next three years this rate should "follow the dynamics of the overall economic activity in the country". The aim of the income policy in the medium run "is to *link their growth with the labor productivity growth and with the capacity of the economy and the budget*".[34] Another question remains open: How such comparatively high rates of GDP growth (from 3.6% in 2011 to 5.2% in 2013) could be achieved based on a higher labor productivity in such short terms and without any considerable changes in creating conditions for development of the businesses? The most notable aspect in the state budget' 2011 is that it is not investment-oriented and it lacks any policy, activating the businesses and respectively leading to a GDP rise.[35]

The reduced deficit on the current account in 2010 is assumed to result from the improved trade balance due to the recovered economies of the main foreign trade partners of Bulgaria (EU Member States), coupled with the less domestic demand. The dynamic development of exports is expected to be more rapid than that of imports, due to the good competitive positions of the local manufacturers (*which they lack* – author's remark, R.R.) and the high investment activity in the past years.

Based on the rather optimistic expectations for the future global and European economic development, the main postulation in the National Reform Program in Bulgaria is: "We expect *a gradual transition to a model of development of the economy, in which export is going to be the key growth factor*; lower economic growth rate, especially for investments; sustainable correction of the external imbalances, as well as a smaller volume of the attracted foreign direct investments."[36]

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the medium-term development plan of the national economy. This point includes some of its basic features and our brief comment thereon.

[33] However it is contrary to the already commented forecast about National Target No. 1 "...until 2020 the employment level is going to rise annually with 0.75 percentage points per year...".

[34] See R. Bulgaria. National Reforms Program (2010-2013)..., p. 6.

[35] Unlike one of the formulated key objectives, within the mandate of the current government, „orienting the public expenditures to stimulating the factors, speeding up the economic growth pursuant to the Lisbon Strategy" the Parliament adopted the Law on the State Budget for 2011, in which instead of increasing the public investments in science, they are reduced down to 0.18 %, i.e. almost two times. The same refers to education. The budget forecasts for the next two years confirm the same levels. There are no texts about science, innovations and quality education.

[36] See R. Bulgaria. National Reform Program (2010-2013)..., p. 4.

The tone in the last announced document from March '2011[37] is changed, especially as far as the external sector is concerned. It is assumed, that "the net exports shall preserve the positive contribution to growth, but it is expected to drop down due to the rising pressure by the domestic demand on imports." It is envisaged, that "the economic growth will be mainly due to recovery of the domestic demand, unlike 2010, when only exports had a positive contribution".[38] Thus the current account deficit is expected to be below 4% of GDP at lower trade deficit and larger transfers, mainly from the EU. The expectations are for higher revenues from tourism and higher export of goods, related to the revenues from transport services, which should contribute to maintain the positive balance on services. In the next 5 years the growth of exports of goods and services is expected to be slower, stabilizing on levels slightly above 7%. According to the government this slow development will be due to the reduction of real growth of exports of goods, while the growth of services is expected to rise moderately during the target period. Under this policy the role and importance of science and innovations are still going to be neglected (and the education is immediately affected thereof) for setting up a competitive economy with a larger share of hi-tech products, and all that refers to the achievement of the so called smart growth (in "EUROPE 2020") and the two other changes referred therein – sustainable and inclusive growth.

The obvious inconsistency of the government and the lack of concept for coming out of the crisis and for the future economic development of Bulgaria in addition to the restrictive policy the impression remains, that the adopted documents reflect rather the willingness, or what is considered to be in the general tone of the EU policy, than the substantiated necessary one.[39] However it predestines our country to come out of the crisis at the same position, as it entered it, without using the accumulated positive aspects from the sustainable macroeconomic policy from the last decade. This will be the basis of the development of Bulgaria until 2020.[40]

●*Is it possible to rely on Bulgaria's export potential for a long-term economic growth?*

The benefits of the export-led growth have been proven long ago and they are evident not only in the inflow of foreign currency and in balancing the

[37] National Reform Program.

[38] See National Reform Program (2011-2015)..., p. 10.

[39] Here the circumstance should be taken into consideration, that the reduction of domestic non-manufacturing and manufacturing costs suppresses domestic demand, and hence – the GDP growth and in general retards the coming out of the recession.

[40] For more details see *Angelov, I.* Post crisis economy of Bulgaria. - Economic Thought, 2010, N 2, pp. 24-50; Strategic aspects of the economic development of Bulgaria until 2020. - Economic Thought, 2009, N 1, pp. 3-25.

finances, but also in the rising productivity, resulting in a cycle of upward spiral of economic development.

In general the growth should be based on domestic and foreign demand. Under the current restrictive policy one could not rely on any growth generated by the domestic demand, *determining over 90% of* GDP gain, and in 2010 – the target growth. The present government considers, that the GDP gain in the next few years shall be due to the increased exports mainly.

Since the beginning of 2010 the exports stepped up considerably in Bulgaria's foreign trade. In June Bulgaria experienced one of the highest increases compared to the other new Member States.[41] The key trade partners are still the Member States, but their relative share is decreasing. This trend has been monitored since the beginning of 2009. In other countries the stocks have been decreased below the demand level and had to be replenished. A major impact was the neighboring large market - Turkey, as well as Sebia and FYR Macedonia. Consequently in the period January - December 2010 the exports rose by 33.2% compared to the same period previous year (by 25.0% for the Member States and 48.5% for the third countries), and the imports – just by 13.5% (11.2% of the EU members EC and 17.1% of the third countries). This trend is expected to continue in the next years, in order to reduce the trade balance deficit and to stabilize the current account deficit at about 3.4% (see Table 3). Is it realistic however to expect the exports of Bulgaria to become a key factor for the economic growth in the next 2-3 years? There are at least several arguments, not confirming such expectations:

1. Despite the achieved growth in exports in 2009 and especially in 2010 the data for the foreign trade balance for the last decade (see Figure 1) hardly give any reason to expect steep and rapid positive changes. The export is not oriented to the main and reliable EU trading partners for the country.

2. The higher exports are mainly due to inputs and materials. We could not rely continuously on exports of inputs and materials and consumer goods, covering about 85% of Bulgaria's product structure. A similar structure depletes our manufacturing and export potential. Meanwhile the share of the hi-tech goods for export reached about 3% compared to the approximately 20% average figure for Europe. The exports structure should be improved considerably in favor of the hi-tech and medium-tech products, needing time and overall structural changes in the production activities, based on innovations.

3. The quantity potential of our exports depends on the manufacturing potential of the economy. The analysis shows, that it is quite restricted, reflecting the fact, that the underdeveloped industries limit the opportunities for export.[42] One of the ways is to improve the manufacturing technologies in

[41] The growth rate is also influenced by the low starting point.

[42] For detailed analysis of the Bulgarian exports facilities, their strong and weak sides, compared to the other EU Members - see www.iki.bas.bg/CVita/angelov/index.htm, Publication N 167.

Bulgaria and to enhance the impact of SMEs therein with the large multinational corporations. Only the creation, introduction and distribution of innovations is of key importance for the successful positioning of the Bulgarian goods and services on the European and world markets.

4. The pegged exchange rate of the BGN under the currency board agreement (since 1 July 1997) also has a negative impact on the exports unlike the flexible foreign currency exchange rate policy of our neighbors and our other competitors.

5. Small open economies like the Bulgarian economy might speed up their development, by seeking foreign markets. In addition to the EU members (where 75% of the trade is domestic) new markets should be found, developing more rapidly than the European ones.

Bulgaria needs many years, resources and consequential policy of catching up development of the export potential compared to the other EU members, considering the circumstance, that these countries are going to continue ahead.

Indispensable Conditions for a Long-term Growth in Bulgaria

In general, "EUROPE 2020" supposes a sustainable long-term growth based on innovations, development of human capital, environmentally friendly and effective economic development, social and regional cohesion. It will be enabled by means of endogenous tools, through which the growth determinants influence each other in order to achieve an overall synergy effect. The question is how to change the current potential of Bulgaria and how to develop it in such a way in order to implement such a strategy?

As indicated above, the state funding is not sufficient at all. The increased investments in R&D should be preceded by meaningful reforms, in order to guarantee, that the funds are not going to be wasted, but the process is transparent. The European programmes of EU structural and cohesion funds might be useful to the businesses, the universities and the research institutes, but they have been absorbed in a rather unsatisfactory way. Unfortunately our country is seriously lagging behind in the materialization of such reforms, but also in the formulation of specific ideas, to create adequate prerequisites for its future development.[43]

[43] In the last decade at least three Bulgarian national research development strategies were proposed, and in 1999 – National Higher Education Development Strategy - Draft. In the Draft of the National Research Development Strategy 2005-2013 it was stated, that there is no aggregate policy in the scientific sphere in the country and it was highlighted the necessity of adopting such a policy. In the next draft however for the period 2009-2019 nothing was mentioned about the important role of science for the strategic development of Bulgaria (see National scientific research development strategy, 2009-2019 ...). Neither of these strategies was accepted to be implemented. The last strategy that appeared on the web site of the ministry of Education, Youth and Science was the National Scientific Development Strategy until 2020 (21 January 2011, 43 p.). It tacitly replaced the previous ones. Like the preceding ones, it has neither been discussed nor adopted by the society. See http://www.minedu.

According to the economic analyses, prepared by the Ministry of Economy, Energy and Tourism for the period 2010–2020 the Bulgarian economy is going to be restructured from low innovation intensity sectors into high innovation intensity sectors. Especially the development of hi-tech products and services is foreseen in the sphere of information technologies, electronic components, machine building, medical and optical technologies, etc. Thus Bulgaria will be able to cope with its large negative trade balance and to reverse this trend into a positive direction. It is definitely the proper way to implement "EUROPE 2020", but the *analyses do not reveal how to effect such a restructuring under the present starting point and how such a major change should be made only within a decade.*

Competent strategic approach, willingness, resources and consistency are quite necessary for the application of the policies regarding the ageing workforce, which is going to hamper the proper socio-economic development of the country; of the increasing requirements to the qualification and the professional skills of the employees, as well as to the quality of education, overcoming the missing link among the universities, science and businesses.

There have not been adopted neither national priorities, nor a national strategy for socio-economic development of Bulgaria and obviously there are no strategies for development of education and science, meeting such priorities. Unlike any other EU Members our country lacks any aggregate policy in the sphere of scientific research, resulting in long-term effects on the development of education, especially the professional and higher education from the point of view of financing, number of employees and students, quality, etc. Such consequences can not be offset in one or two years, even after taking the most efficient decisions. The current macroeconomic policy in this sphere is targeted to rapid and not well premeditated reforms, with long-term effects that might prove to be disastrous**.** The harm that may be caused by wrong or pseudo reforms may not be so terrible, than the piecework and the lack of a national scientific research development strategy – both short-term and long-term.

*

Finally the following conclusions could be made for the development of Bulgaria:

- An operative socio-economic program should be formulated. Our country should stop developing by its own momentum and spontaneously under the influence of exogenous factors mainly; this program should aim at growth, as prescribed in the "EUROPE 2020" strategy, which should be consequently implemented.

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government.bg/opencms/export/sites/mon/left_menu/documents/documentsproject/2011/National_Research_Strategy_2010-2020_proekt.pdf

- As a rule, providing more opportunities for the entrepreneurs and creating new jobs and investing in human capital is much more important, than the increase in the state intervention and the efforts to offset the private initiative. So, the government should work out measures to foster the investments to generate and implement technologies in private businesses. Such measures, applied successfully in other countries, are tax reliefs and preferences for companies, investing in R&D.
- The economic crisis can not be an excuse for disregarding important targets such as “smart, sustainable and inclusive growth”, because such a strategy reflects most adequately the needs for the future development of a country like Bulgaria.
- The only way for success of “EUROPE 2020” in our country for the government is to speed up the reforms in this sphere, to start planning a policy on *smart, sustainable and inclusive growth*. But they should not be reforms for reforms' sake, without considering the opinion of the affected parties (such reforms could entail much more damages), but they should be discussed widely among the government institutions and in public.

4.II.2011