Economic Research Institute
Bulgarian Academy of Scences

Institute for World Economy
Romanian Academy

Bulgaria and Romania: Country Members of the EU, Part of the Global Economy

International Scientific Conference Proceedings

Българска академия на науките
Институт за икономически изследвания

Bulgarian Academy of Sciences
Economic Research Institute

BULGARIA AND ROMANIA: COUNTRY MEMBERS OF THE EU, PART OF THE GLOBAL ECONOMY

INTERNATIONAL SCIENTIFIC CONFERENCE PROCEEDINGS

SOFIA, 2017

International Scientific Conference Proceedings
“Bulgaria and Romania: Country Members of the EU, Part of the Global Economy”

© Съставители	Искра Христова-Балканска, Едуард Маринов, 2017
© Editors	Iskra Christova-Balkanska, Eduard Marinov, 2017
език	английски
Language	English
издание	Първо
Edition	First
графично оформление	Едуард Маринов
Graphic design	Eduard Marinov

The publication should be referred and cited as:

Публикацията следва да бъде цитирана като:

Christova-Balkanska, I. and Marinov, E. (eds). 2017. *International Scientific Conference Proceedings “Bulgaria and Romania: Country Members of the EU, Part of the Global Economy”.* Sofia: ERI-BAS. ISBN 978-954-9313-08-6.

ISBN: 978-954-9313-08-6

ISBN (pdf): 978-954-9313-09-3

TABLE OF CONTENTS

Foreword

The collection of papers in this book represents a documentary log of the results from the International Scientific Conference “Bulgaria and Romania: Country Members of the EU, Part of the Global Economy” held on June 15-16th 2017 at the Economic Research Institute in Sofia, Bulgaria.

The Conference was organized by the International Economics Department of the Economic Research Institute at the Bulgarian Academy of Sciences and the Institute for World Economy at the Romanian Academy within the joint interacademy project “Bulgaria and Romania: Country Members of the EU, Part of the Global Economy”.

The conference brought together esteemed researchers, young scholars, post-doctoral researchers and PhD students that are working on the areas of International Economics and International Finance.

This book contains a total of 27 contributions, divided in four thematic and one poster section. Each paper presents the views of its authors who are completely and solely responsible for the published texts.

Just like the conference itself, the current edition offers an interesting mixture of scientific information, research approaches and achievements. Most of the contributions deal with the problems of the impact of EU policies after the 10 years of EU membership of Bulgaria and Romania, the economic development of the two countries as EU member states, their place in the global world and economy, as well as with some modern advances in international economics.

The editors express their gratitude to the Economic Research Institute for all the help in organizing the Conference, as well as to all participants and authors for their contributions!

From the Editors

Conference scientific committee

Prof. Dr. Iskra Christova-Balkanska (ERI-BAS)
Prof. Dr. Alexander Tasev (ERI-BAS)
Prof. Dr. Mitko Dimitrov (ERI-BAS)
Prof. Dr. Napoleon Pop (IWE-RA)
Prof. Dr. Emilian Dobresku (IWE-RA)
Prof. Dr. Simona Poladian (IWE-RA)
Prof. Dr.Ec.Sc. Rositsa Rangelova (ERI-BAS)
Prof. Dr. Tatiana Houbenova-Delisivkova (ERI-BAS)
Prof. Dr. Emil Panushev (ERI-BAS)
Asst. Prof. Dr. Daniela Bobeva (ERI-BAS)
Asst. Prof. Dr. Irena Zareva (ERI-BAS)

Conference organizing committee

Senior Assist. Prof. Dr. Eduard Marinov (ERI-BAS)
Senior Assist. Prof. Dr. Julia Stefanova (ERI-BAS)
Senior Assist. Prof. Dr. Anton Kostadinov (ERI-BAS)
Diana Dimitrova (ERI-BAS)
Roza Tsvetarska (ERI-BAS)
Olga Nikolova (ERI-BAS)

CHAPTER 1

THE 10 YEARS OF EU MEMBERSHIP OF BULGARIA AND ROMANIA: IMPACT OF EU POLICIES

ROMANIA AND BULGARIA – LESSONS OF FIRST DECADE IN EU AND MID-RUN CHALLENGES

Andrei RADULESCU, PhD[1]

Abstract

The EU integration process was the main catalyst of real European economic convergence in Romania and Bulgaria over the past decades. However, both countries continue to be the laggards in terms of development in 2017, in a period with unprecedented challenges for the EU. In this paper we analyze the convergence of these economies towards the Euro Area (the core of the European Union) during the first decade of EU membership. The results show that Romania and Bulgaria need an improvement of the policy-mix, with focus on structural reforms in order to accelerate the economic convergence and development processes in mid-run. These reforms and the implementation of a balanced policy-mix in the future are imperative, especially in the scenario of multi-speed Europe.

Keywords: EU integration, production function, economic convergence

JEL Classification: E23, E32, F15

Introduction

The European economic integration was the main catalyst of growth and development for both Bulgaria and Romania over the past two decades. The negotiations, the implementation of the acquis communautaire and the entry into the European Union contributed to the improvement of the investors' confidence in these economies, leading to significant capital inflows.

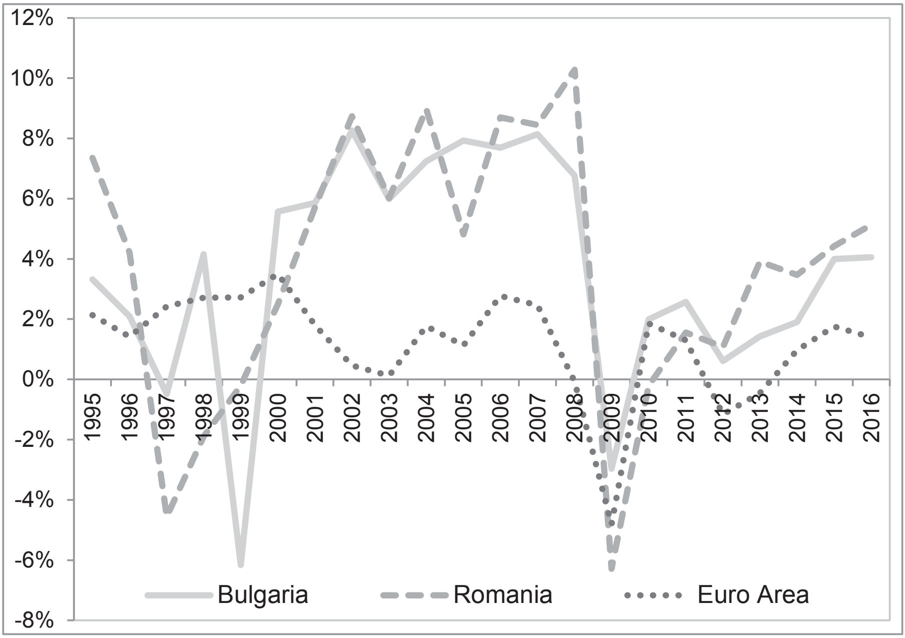
As can easily be noticed from the Figure 1 the GDP/capita (one of the most used indicators for the analysis of the real economic convergence) grew by a pace more than five times the Euro Area average during 2001-2007 in Romania and Bulgaria, a period including the negotiations, the signature of the EU Treaty and the first year as a full member of the European Union for these countries.

This evolution was mainly determined by the massive capital inflows with spill-over effects for the labor factor. However, the total factor productivity did not present positive evolutions in that interval (especially in Bulgaria), given the discontinuity of the structural reforms.

[1] *Senior Economist, Banca Transilvania, Researcher, Institute for World Economy, Romanian Academy, e-mail: andrei.radulescu@btrl.ro; iemradulescu@gmail.com*

Figure 1

The dynamics of the GDP/capita (real, YoY)



Source: AMECO, Eurostat

Both countries were caught by the Great Recession in an overheating stance in 2008, with the current account deficit of 11.8% of GDP in Romania and 22.1% of GDP in Bulgaria, according to the IMF database.

This macroeconomic disequilibrium corroborated with the dependence on the foreign capital flows determined the launch of a very severe macroeconomic adjustment process in these economies, starting 2009, as can be noticed from Figure 1. The fixed investments contracted severely in 2009 and 2010 in these countries, with negative impact for the dynamics of the potential GDP.

At present Bulgaria and Romania are in the post-crisis economic cycle, both economies having already finished the adjustment process, with macroeconomic disequilibria under control and with the potential GDP gradually converging to the pre-crisis levels.

However, both countries present important challenges for the sustainable development, especially in terms of the continuity of the structural reforms. In this context, the establishment of a credible strategy for the entry in the Euro Area may be another important catalyst for the development of these countries in the mid-run.

The aim of this paper is to analyze the real economic convergence process of Romania and Bulgaria towards the Euro Area average during the first decade of EU membership by implementing a Cobb Douglas production function. This analysis may be seen as continuity to the paper of Radulescu (2016).

The rest of the paper has this structure: the methodology is briefly described in the next chapter; the results are presented in the following chapter; the last chapter underlines the main conclusions of the analysis.

Methodology

This paper employs a Cobb-Douglas production function in order to estimate the potential output and the output gap for Romania, Bulgaria and Euro Area. Afterwards, we compute the standard deviation in order to analyze the convergence of the structural and cyclical components of the GDP of these countries towards the Euro Area, the core of the European Union.

The Cobb Douglas production function is expressed in the following relation:

$$\mathbf{Y_t = \alpha \times L_t + (1 - \alpha) \times K_t + TFP_t} \qquad \mathbf{(1)}$$

where Y_t is the real GDP (%, YoY), L_t represents the labor factor (%, YoY), K_t is the capital stock (%, YoY), TFP_t represents the total productivity factor and α is the output elasticity of labor.

The potential GDP can be easily derived from the relation (1), as can be noticed in the following relation:

$$\mathbf{Y_t^* = \alpha \times L_t^* + (1 - \alpha) \times K_t + TFP_t^*} \qquad \mathbf{(2)}$$

where Y_{t^*} is the potential GDP (%, YoY), L_{t^*} represents the potential labor factor (%, YoY), K_t is the capital stock (%, YoY), TFP_{t^*} represents the potential total productivity factor and α is the output elasticity of labor.

In this paper we divide all the elements from the relations (1) and (2) by the capita factor, as the GDP/capita is one of the most used economic indicators in the analysis of the real economic convergence.

As regards the labor factor (L) it was estimated starting from the following relation:

L – labor force * participation rate * (1-unemployment rate) * average number of hours worked (3)

The capital stock (K) was estimated by applying the perpetual inventory method and a depreciation ratio of 5%. The capital stock for the starting year (1995) was considered the level estimated by the paper of Derbyshire et al. (2010).

In this paper we applied a level of the parameter α of 0.65, as also employed by the paper of the European Commission, signed by D'Auria et al. (2010).

The structural component of the GDP/capita was estimated by implementing the Hodrick-Prescott econometric filter, which is based on the following mathematic expression:

$$\mathrm{Min}\sum_{t=1}^{T}(Y_t - Y_t^{*})^2 + \lambda \sum_{t=2}^{T-1}((Y_{t+1}^{*} - Y_t^{*}) - (Y_t^{*} - Y_{t-1}^{*}))^2 \qquad \textbf{(4)}$$

At the end, we computed the standard deviation for the cyclical and structural components of the GDP/capita for Bulgaria and Romania in relation to the levels in the Euro Area.

In this paper we used the econometric software E-Views and the Eurostat and Ameco databases, with annual data for the period 1995-2016.

Interpretation of the results

As can be easily noticed from the Figure 2 the first decade of European Union membership was similar for Romania and Bulgaria in terms of the dynamics of the structural component of the GDP/capita.

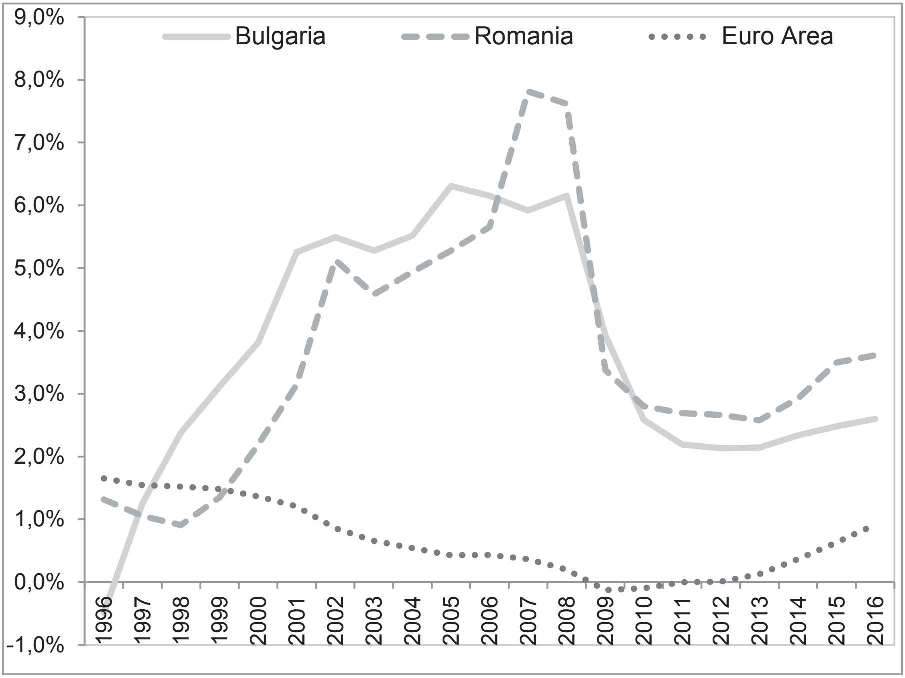
On the one hand, the YoY dynamics of this indicator hit record high YoY levels during 2007-2008, the first years of EU integration and before the incidence of the Great Recession. The EU entry had an important positive impact for the fixed investments and for the capital stock, especially due to the increase of the foreign investments.

For instance in Bulgaria the structural component of the GDP/capita rose by 5.9% YoY in 2007 and by 6.2% YoY in 2008. In Romania this indicator climbed by 7.8% YoY in 2007 and by 7.6% YoY in 2008.

This evolution was mainly determined by the increase of the capital stock component, in Bulgaria by a double digit pace during 2000-2008 (on average by 13.3% YoY), as in this country the credibility in terms of economic policy was higher, due to the peg to the EUR. In Romania the capital stock climbed by 12.5% YoY during 2000-2008, a period including the negotiations process and the first two years of EU membership.

Figure 2

The dynamics of the structural component of GDP/capita (YoY)



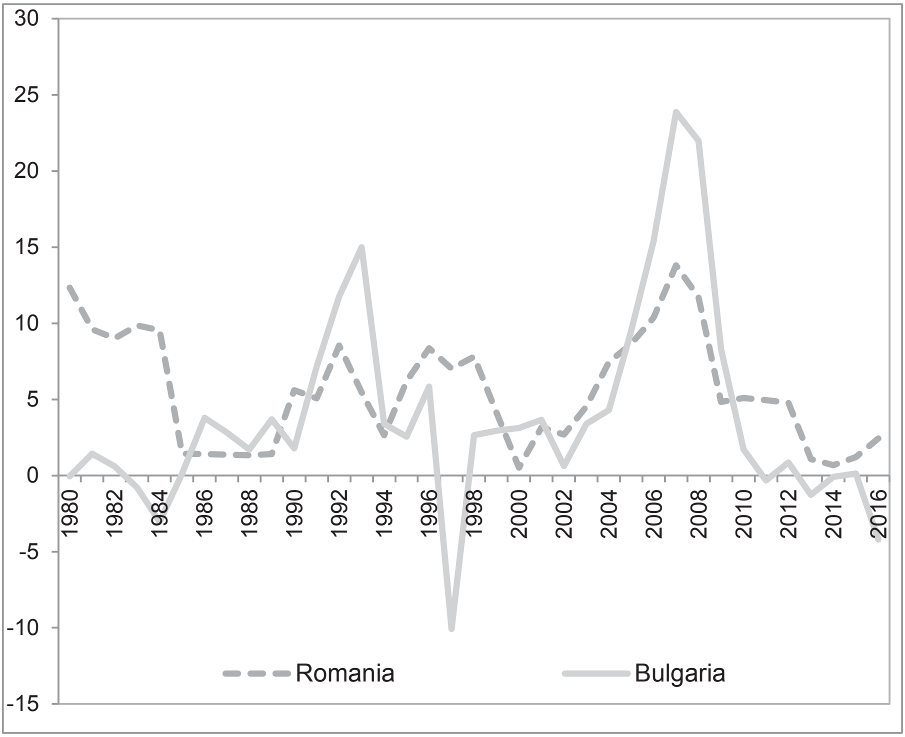
Source: the results of the methodology applied by using data from Eurostat and AMECO

At the same time, as can be noticed from the Figure 2 the speed of real economic convergence of Bulgaria and Romania to the Euro Area average was higher before the incidence of the Great Recession: the differential in terms of the dynamics of the potentail GDP/capita between these countries and the Euro Area hit record high levels during 2006-2008.

However, the dynamics of the potential GDP/capita during the pre-crisis period was not sustainable, either in Romania, or in Bulgaria, as both economies accumulated important macroeconomic disequilibria, as reflected by the Figure 3 (which presents the Investments – Savings differential, as a % of GDP). During 2001-2008 the differential Investments – Savings was around 7.8% of GDP per year in Romania and 10.3% of GDP per year in Bulgaria, according to the IMF database. These macroeconomic disequilibria were financed mainly by the foreign capital flows.

Figure 3

The Investments – Savings differential (% GDP)



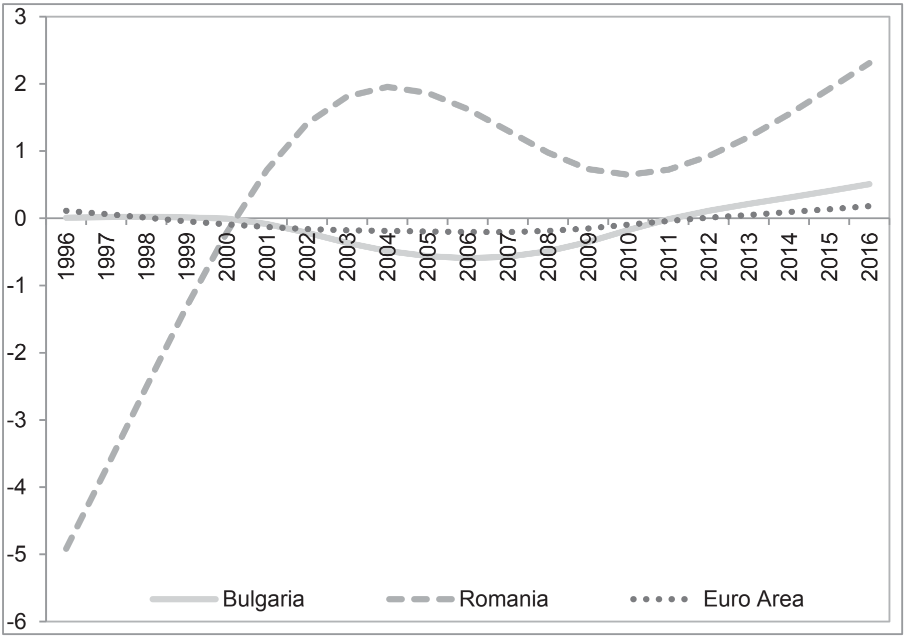
Source: International Monetary Fund database, Spring 2017

After the incidence of the Great Recession these economies adjusted the macroeconomic disequilibria, in a context of massive foreign capital outflows.

In terms of the production function this macroeconomic adjusment determined the improvement of the contribution of the total productivity factor/capita to the potential GDP/capita in these economies starting 2011, as can be easily noticed from Figure 4. The current account disequilibrium was higher in Bulgaria than in Romania before the crisis. However, in Romania the domestic disequilibrium (public finance deficit) was higher than in Bulgaria, which had a more disciplined policy-mix, given the peg of the leva to the euro. At present, both countries present low levels of deficits, but there can be noticed a trend of divergence starting 2016, with Romania accumulating disequilibria and Bulgaria registering surpluses (both domestic and foreign) last year.

Figure 4

The contribution of the total productivity factor/capita to the potential GDP/capita (pp)



Source: estimates based on the methodology described above, using Eurostat and AMECO databases

As can be noticed from Figure 4 the Romanian economy presented a better performance in terms of the contribution of the total productivity factor per capita to the potential GDP per capita during the first decade of EU membership. This evolution was determined by several factors: the increasing role of the IT sector, the high level of the foreign direct investments, the reforms implemented under the financing agreements with the international institutions (starting 2009).

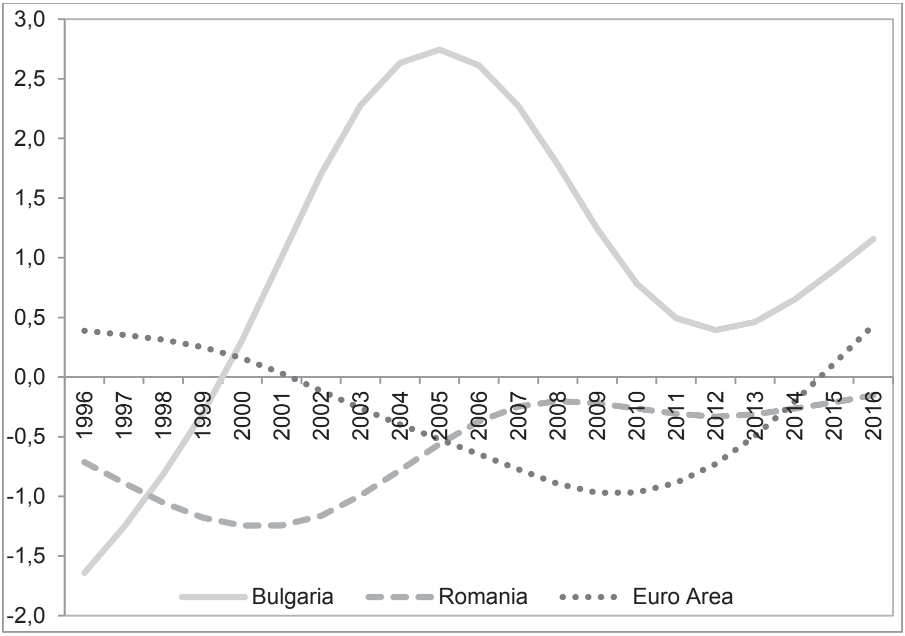
Overall, from the Figure 4 one can notice that, at present, the dynamics of the contribution of the total productivity factor per capita to the potential GDP per capita presents record high levels in both countries, which is a positive sign for the short-term evolution of Romania and Bulgaria.

However, important differences persist between Bulgaria and Romania in terms of the contribution of the labor per capita to the potential GDP per capita, as can be easily noticed from Figure 5. On the one hand, from the point of view of this indicator Bulgaria was converging towards the Euro Area over the past decade. On the other hand, Romania presented a more divergent evolution compared with the

Euro Area since the entry into the European Union. These differences are based on the structural factors of the labor markets, including the technological progress and the migration of the active population.

Figure 5

The contribution of the labour/capita to the potential GDP/capita (pp)



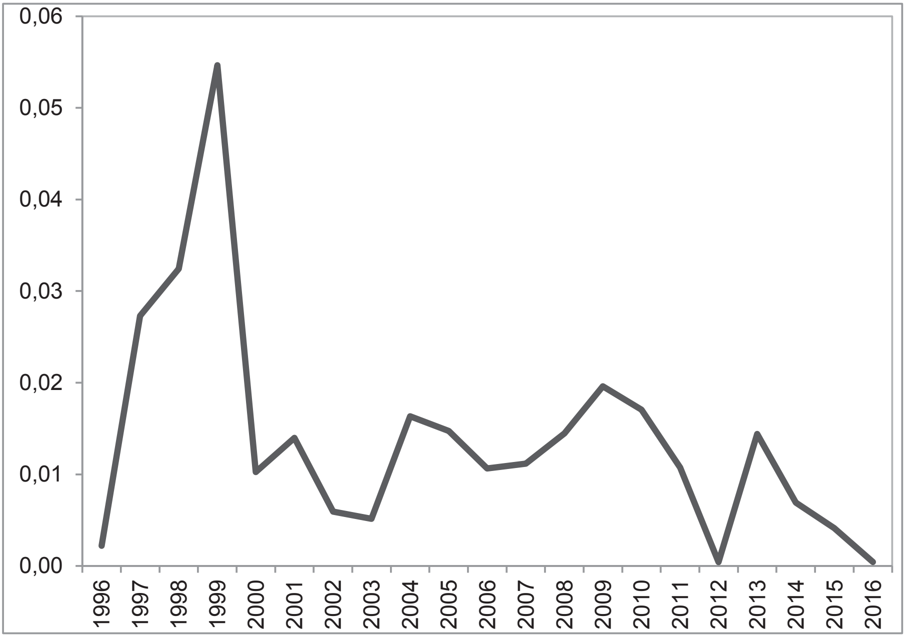
Source: estimates based on the methodology described above, using Eurostat and AMECO databases

Overall, if we compute the standard deviation for the dynamics of the cyclical and structural components of the GDP/capita for Romania and Bulgaria compared with the Euro Area levels there can be noticed that:

1. The convergence of the economic cycles of these economies towards the Euro Area has improved over the past quarters, reaching record high levels; As can be noticed from Figure 6, at present the standard deviation for the cyclical component of the GDP/capita (Bulgaria and Romania vs. the Euro Area) is very low.
2. There are signals of accumulation of a gradual divergence in terms of the potential GDP/capita, due to the differences in terms of structural reforms.

Figure 6

The standard deviation for the cyclical component of GDP/capita (Bulgaria



and Romania vs. the Euro Area)

Source: estimates based on the methodology described above, using Eurostat and AMECO databases

Conclusions

In this paper we analysed the evolution of the real economic convergence process of Romania and Bulgaria towards the Euro Area over the past decade.

Overall, the results show that after a significant adjustment process determined by the incidence of the waves of the Great Recession both Eastern Europe economies resumed the convergence process, but differences persist in terms of structural and cyclical components. For instance, the economic cycles of these countries seem more correlated with the Euro Area cycle at present, with the highest level of convergence in the recent history.

However, differences persist in terms of the pace of structural convergence, which presents a slower pace compared with the pre-crisis period. These differences are determined by the economic policy implemented in these countries, but also by the tehcnological progress, foreign direct invesments and labour migration.

In this context we consider that both countries need to accelerate the implementation of structural reforms in order to diminish the distance compared with the Euro Area.

At the same time, this analysis is relevant for the policy-makers in both economies, as they have to implement countercyclical measures in order to avoid the accumulation of macroeconomic disequilibria in the future. In this respect both countries can borrow each other in terms of successful economic policy measures implemented over the past decade.

In the end we consider that the implementation of measures in both countries in order to intensify the regional economic integration would contribute to the acceleration of the real economic convergence towards the Euro Area.

Last, but not least, the establishment of a credible strategy for the adoption of the euro together with the continuity of the structural reforms (focus on Digital Revolution, Research and Development) and the implementation of a proper policy-mix are factors that would lead to the higher integration with the Euro Area in the mid-run, in our view.

References

AMECO, 2017, *available at:* http://ec.europa.eu/economy_finance/ameco/user/serie/SelectSerie.cfm

Bloomberg database, 2017, *available at:* www.bloomberg.com

D'Auria, F., et al. 2010. The production function methodology for calculating potential growth rates and output gaps. *European Commission Economic Papers*, 420. ISSN 1725-3187 *available at:* http://ec.europa.eu/economy_finance/publications/economic_paper/2010/ecp420_en.htm

Derbyshire, J., B. Gardiner and S. Waights .2010. Estimating the capital stock for the NUTS2 regions of the EU-27. *European Union Regional Policy*, 1. *available at:* http://ec.europa.eu/regional_policy/sources/docgener/work/2011_01_capital_stock.pdf

Dobrescu, E. 2009. Estimating the Total Factor Productivity in Romanian Economy. *Amfiteatru Economic*, 26, pp. 512-521.ISSN 2247-9104

Eurostat, 2017, *available at: http://ec.europa.eu/eurostat*

Hodrick, R. and E.C. Prescott. 1997. Postwar U.S. Business Cycles: An Empirical Investigation. *Journal of Money, Credit and Banking*, 29 (1), pp. 1-16. ISSN 022-2879

International Monetary Fund, 2017, *available at: www.imf.org*

Radulescu, A. 2016. Romania and Bulgaria after one decade in EU – an assessment of the economic performance. *Economy and Business,* volume 10, pp. 537-545, ISSN 1314-7242

World Bank, 2017, *available at: www.worldbank.org*

BULGARIA AND ROMANIA IN THE EU: ECONOMIC PROGRESS IN COMPARATIVE PERSPECTIVE

Rossitsa RANGELOVA, D.Ec.Sc[1]

Grigor SARIISKI, PhD[2]

Abstract

Bulgaria and Romania are two neighboring Eastern European countries. They entered the EU on 1 January 2007. The paper will present an overview of the economic development over the past 10 years in comparative perspective – economic basis before the accession, financial sector, real economy and production factors - investment and human capital, labour market, social sector, foreign trade and external economic relations, including those with countries outside the EU, i.e. in global scale. The aim is to outline in a comparative perspective the contours of how each of these two countries succeeded to adapt to the conditions of the EU and benefit from its membership in it. Good practices and policies in the two countries will be highlighted in order to identify the differences and opportunities to take advantage of them. In addition, the study will attempt to identify the main differences in the recovery process of both economies after the global financial crisis.

Keywords: EU accession, membership benefits, comparative perspective

JEL Classification: B22, J11, J21, P52,

Introduction

Bulgaria and Romania joined the European Union (EU) on the same date, they are two neighboring, formerly socialist countries (with centrally planned economies), who have experienced both the transition to the market economy. It is normal now, 10 years after their accession to the Union to trace their economic progress in comparative terms. This report examines the dynamics of some key macroeconomic, social and demographic indicators for the development of the two countries in the conditions of their EU membership since 2007. The aim is to outline the trends in the monitored processes as well as to obtain a summarized picture - once compared the both countries to each other and once – in comparison to the average of EU-28 countries. The similarities and differences in basic quantitative and qualitative indicators between the two countries are followed in order to define their achievements

[1] *Professor, Economic Research Institute at BAS, r.rangelova@iki.bas.bg*

[2] *Associate Professor, Economic Research Institute at BAS, grigor@sariiski.com*

and failures during this period. These findings may serve as a basis to produce some corrections or confirm the adopted policy in both countries and the EU.

The preparation process

By joining the EU for the countries of Central and Eastern Europe (CEE), including Bulgaria and Romania gained new opportunities for trade, attraction of foreign investment and for absorbing of considerable European funding. The Act of Accession has been subject to many positive expectations, both by the side of the acceding countries and on the side of the old EU Member States, as the Union has thus managed to expand its geopolitical and market influence to the East. The decision for Bulgaria was taken under the influence of the pursuit of a faster expansion of the sphere of influence. Only a few months after the statement that " *Bulgaria is not ready enough to start accession talks*" (on July 16, 1997), the European Commission changed it, and on 13 December 1997, along with the start of negotiations with Hungary, Poland, Estonia, the Czech Republic, Slovenia and Cyprus, the European Council began preparations for negotiations with Lithuania, Latvia, Slovakia, Romania and Bulgaria.[3]

The active position of the candidate countries shows that they are clearly aware of the positives of the forthcoming membership, including free access to the single market, inclusion in the pre-accession programs PHARE, ISPA, SAPARD, and other forms of funding to play considerable role in the process of European integration of the CEE countries. Most economists relied on the convergence effect and, together with the political, institutional and professional efforts of the countries themselves, it will bring to a convergence of income and labor productivity. This is why the candidate countries were ready to partially renounce their national sovereignty and to accept the Council's conditions for significant indirect costs in the accession process. For example, Bulgaria signed a memorandum on the shutting down the Units 3 and 4 of *Kozlodui* nuclear power plant in 2006 (though that according both to EU experts and independent ones the level of safety of the two units is high). The associated costs (for substitution power, storage of the used nuclear fuel etc.) and lost profits are estimated at around EUR 10-12 billion to date.

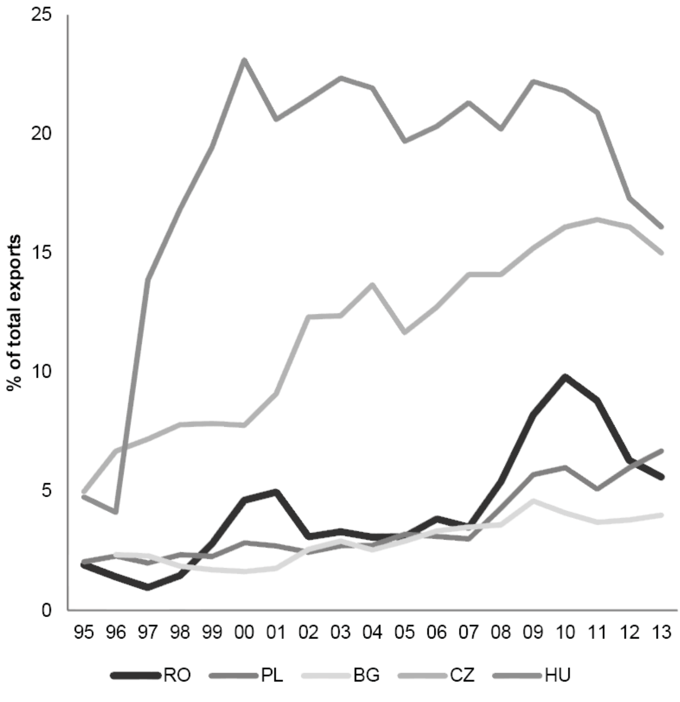
In parallel, Bulgaria (like other candidate countries) is liberalizing its trade regimes, which is leading to a strengthening of the foreign trade with the Union. As expected, in the process of liberalization, Bulgaria and Romania are boosting exports of labor-intensive goods (hence, with small share of added value), since on the one hand, the cheap labor force is the main comparative advantage of both economies and, on the other hand, because of the still low level of gross investment and inflows of foreign direct investment (FDI). Until

[3] The start of the negotiations with these countries was given jointly with Malta (15.02.2000), for which the Council agreed to prepare for negotiations a bit earlier - in April 1995.

recently, this is typical for the Central European countries as well, but the investment flows related to the delocalisation process and wage growth in these countries are changing their comparative advantages. The relatively high investment culture and attitudes of CE entrepreneurs lead to an exaltation of the relocation process, with business agents in the host countries using the accumulated profits and adopted know-how to create and develop their own brands. By this way, the Visegrad countries as well as the Baltic States (to a certain extent) managed to reduce their dependence on the labor-intensive stage of the value-added chain and to start producing and exporting some goods with higher added value (figure 1). The Czech Republic for instance, which was a region with a traditionally high share of services before the collapse of Czechoslovakia, managed to attract hi-quality investments, and during the period of 15 years after 1995, the country tripled the share of high-tech products in the total volume of its exports (up to 15%).

Figure 1

Share of high-tech products in total export volumes



Source: European Commission

This is not the case with Bulgaria and Romania, which, in addition to the lower initial values for high-tech export shares, do not have enough capacity of entrepreneurial culture. Both countries are well-known for their low wage levels and traditionally attract the labor-intensive stages of the production process without being accompanied by reinvestment of profits in the development of their own production lines.

Accession

Bulgaria and Romania acceded to the EU three years later than other CEE countries, with the problems of the two economies being quite similar – poor protection of property rights, weak judicial independence, inefficient use of publicly accumulated resources, etc. In some ways, however, Romania is ahead of us, and although Bulgaria is taking active measures, it is gradually lagging behind by a number of indicators (table 1).

For example, until the year of its accession, the two economies provide a relatively similar degree of *protection of property rights* (the difference is 28 basis points in favor of Romania). In the following years, our northern neighbor manages to maintain and even to improve his ranking on this indicator up to 4.17 in 2010-2011, while Bulgaria reaches a minimum of 3.23, with which the difference between them increases to 94 bps. Throughout the period under review, Romania almost retained its performance on this indicator, while Bulgaria has lagged by 26 bps.

Table 1.

Factors of competitiveness for Bulgaria and Romania, 2006-2015

	Property rights (1.01)		Judicial independence (1.06)		Wastefulness of gov. spending (1.08)		Transparency of gov. policymaking (1.12)		Organized crime (1.15)	
	BG	RO	BG	RO	BG	RO	BG	RO	BG	RO
2006-2007	3.73	4.01	2.52	2.74	2.58	2.54	3.01	2.70	2.98	4.34
2007-2008	3.82	4.13	2.75	3.09	2.65	2.54	3.27	2.81	3.45	4.58
2008-2009	3.92	4.17	2.91	3.29	2.79	2.75	3.37	3.10	3.75	5.01
2009-2010	3.44	4.10	2.90	3.45	2.93	2.58	3.45	3.09	3.74	5.71
2010-2011	3.23	4.17	2.96	3.47	2.99	2.50	3.45	2.91	3.95	5.89
2011-2012	3.29	3.93	2.94	3.11	2.94	2.68	3.36	2.87	3.88	4.91
2012-2013	3.50	3.85	2.88	2.69	2.99	2.48	3.57	3.28	3.87	4.65
2013-2014	3.54	3.94	2.60	2.83	2.97	2.16	3.56	3.67	3.83	4.70
2014-2015	3.47	3.96	2.33	3.46	2.62	2.48	3.26	3.80	3.98	4.14

	Quality of overall infrastructure (2.01)		Effectiveness of anti-mon. policy (6.03)		Exports/GDP, % (10.04)		Cluster development (11.03)		scientists and engineers av. (12.06)	
	BG	RO	BG	RO	BG	RO	BG	RO	BG	RO
2006-2007	2.75	2.56	3.18	3.51	60.80	33.95	2.49	4.78	4.92	4.91
2007-2008	2.73	2.37	3.25	3.73	65.30	32.39	2.88	4.87	4.36	4.61
2008-2009	2.55	2.31	3.38	3.90	63.40	29.30	2.97	3.62	3.72	4.30
2009-2010	2.77	2.37	3.40	3.93	60.50	30.90	2.84	2.88	3.86	4.30
2010-2011	3.07	2.36	3.33	3.82	49.97	31.22	2.81	2.80	3.97	4.31
2011-2012	3.05	2.35	3.28	3.68	56.69	35.69	3.00	2.81	3.75	4.21
2012-2013	3.25	2.83	3.50	3.41	66.56	38.46	3.42	3.12	3.61	3.83
2013-2014	3.54	3.45	3.33	3.56	66.37	39.80	3.33	3.48	3.71	3.64
2014-2015	3.59	3.79	3.37	3.84	69.79	41.90	2.96	3.78	3.59	4.03

Source: World Economic Forum, the Global Competitiveness database

Somewhat related to this indicator is the one of *counteraction to the organized crime* (1.15). The advantage of Romania there is considerable, and in the year of accession (2007) the country leads with 136 bps as the advantage until is retained until 2014-2015 when some lags are reported. So the difference is reduced to 16 bps. However, during the period under consideration, Bulgaria raised this indicator by 100 basis points, while Romania decreased by 20 basis points. Typical for Romania is that it achieves a maximum of 5.89 in 2010-2011, exactly as in the protection of property rights.

Similar dynamics and proportions between the two countries are also observed in other competitiveness indicators, such as *staff qualifications, access to advanced technology*, etc. The overall impression is that, although shortened, the distance between Romania and Bulgaria in most indicators remains in favor of our northern neighbor. More importantly, however Romania advances even in areas where it had some serious lags until accession (for example infrastructure quality). The country also achieves progress in areas where initially it had equal performance with Bulgaria (*capacity for innovation* and *availability of engineers and scientists*). The effect of this overtaking improvement of competitiveness factors can be traced down by the dynamics of the macroeconomic characteristics of the two economies (table 2).

In 2004, Bulgaria and Romania have the same index of GDP per capita (34), which is the lowest among all the then member states (the next is 46 for Latvia and 49 for Lithuania). In the year of accession to EU, the index for

Bulgaria (41) is slightly lower than for Romania (43). During the membership years, Romania accelerates the overtaking process and by 2015 it is 10 percentage points compared to Bulgaria (57% vs. 47%).

Table 2.
Macroeconomic characteristics of Bulgaria and Romania compared to EU-28, 2007-2016

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Index of GDP per capita by PPS, EC(28) = 100										
Bulgaria	41	43	44	45	45	46	46	46	47	..
Romania	43	49	50	52	52	54	55	55	57	..
Gross government debt as a percentage of GDP										
EU-28	57.6	60.7	72.8	78.4	81.1	83.8	85.7	86.7	84.9	83.5
Bulgaria	16.3	13.0	13.7	15.3	15.2	16.7	17.0	27.0	26.0	29.5
Romania	12.7	13.2	23.2	29.9	34.2	37.3	37.8	39.4	38.0	37.6
Total government deficit (-) and surplus (+) - annual data, percentage of GDP										
EU-28	-0.9	-2.5	-6.6	-6.4	-4.6	-4.3	-3.3	-3.0	-2.4	-1.7
Bulgaria	1.1	1.6	-4.1	-3.1	-2.0	-0.3	-0.4	-5.5	-1.6	0.0
Romania	-2.8	-5.5	-9.5	-6.9	-5.4	-3.7	-2.1	-1.4	-0.8	-3.0
Extra-EU28 trade, by Member State, total product, EC(28)=100%										
Bulgaria	0.6	0.7	0.5	0.5	0.5	0.6	0.6	0.6	0.5	0.5
Romania	1.0	1.1	0.8	0.8	0.9	0.8	0.8	0.9	0.8	0.9
Intra-EU28 trade, by Member State, total product, EC(28)=100%										
Bulgaria	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6
Romania	1.4	1.5	1.3	1.4	1.5	1.5	1.5	1.5	1.6	1.7
Employment rate for the age group 20-64*										
EU-28	69.8	70.3	69.0	68.6	68.6	68.4	68.4	69.2	70.1	71.1
Bulgaria	68.4	70.7	68.8	64.7[b]	62.9[b]	63.0	63.5	65.1	67.1	67.7
Romania	64.4	64.4	63.5	64.8	63.8	64.8	64.7	65.7	66.0	66.3

Sources: Eurostat and NSI

The observation give the impression that in the pre-accession period Bulgaria's actions are more focused on preparing for the absorption of EU funds rather than upon increasing the competitiveness of the economy. The administrative capacity of the managing authorities and beneficiaries is improved, the procedures are simplified and accelerated, ex-ante control of the documentation for participation in the EU-funded projects is applied, the public procurement forms are harmonized etc. A Law on Management of the Funds from the European Structural and Investment Funds has been adopted. However, all these actions have no impact on improving the business climate or on the long-term attitudes of business agents in the country. Therefore, the achieved effects are controversial and do not lead to a significant change in the country's potential for quality and sustainable growth.

The latter is clearly shown in the achieved levels of growth rates. During the timespan around the accession (2006-2008), Bulgaria achieved a real GDP average of 6.73%, while the one of Romania for the same period was 7.83%. This difference is all the more impressive given the fact that at that time the FDI inflow to Bulgaria is much more intense. According to the Eurostat data for the period 2003-2008, the average annual volume of incoming investments in Bulgaria is 18.16% of GDP, while the flow to Romania is almost three times smaller (6.75% of GDP). This comparison shows that Romanian environment is more favorable (due to the better functioning of institutions and better protection of investor rights) and it attracts better investment, which in turn leads to a more rapid development of the potential of the Romanian economy. The realization of this potential is evident both from the faster growth rates as well as from the increase in Romanian exports (the ratio of exports to total GDP has increased rapidly from around 30-32% in the accession period to 42% in 2015 .). This is also evident from the increase of the high-tech exports share during the first three years of the membership period (from 4% to 9%).

Monetary policy

This is one of the areas in which the distinction between the two economies is outlined very clearly. The poor basis for the development of the banking sector in Bulgaria - a complete absence of effective banking supervision and unpunished spread of malicious banking practices - has led to a situation where the denial of an independent monetary policy was inevitable. It should be noted that at the beginning of transition period, Romania also experienced its banking crisis, but the reasons for it were different, the intensity of the shock was weaker and the consequences were much smaller than those of the Bulgarian crisis.

In the end, in 1997, Bulgaria adopted the currency board arrangement and thus the country was deprived of the opportunities to impact its economy through the standard monetary policy instruments - amendment of the referent interest rates and minimum reserve ratio, open market purchases, etc. Thus, the central bank is dispossessed of the opportunity to influence money supply and, this decision has adverse consequences to the Bulgarian economy (despite the achieved long-term stability). For example, during the accession period, when the optimistic attitudes and the rising property market caused a real boom in lending, the Bulgarian National Bank did not have any opportunity to cool the process down so this in turn has led to the rapid inclusion of unreliable customers into the banking market. The National Bank of Romania (NBR), on the other hand, was actively managing the process and at the end of 2007 it launched a series of interest rises, so the benchmark monetary policy (BMP) rate reached 10% and thus managed to cool the credit expansion down. The NBR's timely actions are being reflected in the share of bad loans, which at the end of 2016 is two times lower than the one in in Bulgaria (9.6% vs. 18.28%).

The effect of the NBR's active monetary policy after the crisis is pronounced equally, when, as a result of consequent reductions in reference interest rates (twenty-seven to the present), they have reached levels at which the contraction in credit activity has been curbed (now the interest rate on the deposit facility is 0.25%, the credit facility is 3.25% and the base rate is 1.75%.). As a result of the absence of monetary policy, the Bulgarian banking sector overcomes the stagnation in lending a lot more difficult (Sariiski G. and R. Rangelova, 2013, 277-292). For example, in 2014 the loan portfolio of Bulgarian banks declined by 5% and the Romanian banks decreased by 3%. In the next year, the loans in Romania grew by 2.3% and in Bulgaria declined again, albeit at a moderate pace (2.6%).

In parallel, it should be noted that the NBR maintains a stable exchange rate of the national currency against the euro and since 2009 it fluctuates in relatively narrow limits (between 4.35 and 4.55 EUR / RON).

Demographic problems

The economic development depends first of all on the availability and quality of human resources. The lack of human resources impedes this development restricting investment in it. This is why here are briefly described major changes in the human resources development in Bulgaria and Romania during the 10-year period of their membership and integration into the EU.

From 1989 onwards the political and economic transformations in CEE, including Bulgaria and Romania, as well as the accelerated processes of globalization have negatively affected the demographic processes, in particular, the reproductive behavior of people and their international mobility (Rangelova, R., 2006, 85-97). The structure of the population in CEE countries has changed, with the share of the adult population increasing, approaching that of the EU-15. Such demographic changes began much earlier in the Western European countries, but in the 1990s the aging dynamics in the CEE countries was more pronounced. In the long run, the CEE countries faced the challenge of coping with the combination of two major factors: population decline and aging, as seen in developed Western European countries, but in the context of weaker economies and populations with much lower incomes.

By 1989 the number of the population in Bulgaria was almost 9 million, while in 2007 (in the year of the country's entry into the EU) it was already 7,573 million and in 2016 it dropped to 7,154 million, which is about one fifth less. Prior to 1990, the rate of natural population growth was positive, albeit declining, but since then it has been negative, with an annual average of -5.3 ‰ (-7.7 ‰ in 1997). Decreased birth rates in the presence of high mortality have had a stronger impact on population decline than unleashed migration processes. According to NSI data from the Population Census in 2011, the number of the population in the country decreased by 581 750 compared to the 2001 Population Census, and more than two thirds of this decrease (68.9%) was caused by the negative natural growth and less than a third (31.1%) due to external migration. Similarly, the population decreases in Romania - while in 2005 it was 21,382 million, in 2016 it decreased to 19,760 million.

The depth of the demographic crisis in Bulgaria and Romania can be traced in a comparative perspective between the two countries and the EU-28 on average (table 3). According to Eurostat, the total population in the EU-28 is increasing from year to year; by 3.5 ‰ in 2015, including a decrease of -0.3 ‰ in natural growth and an increase of net immigration by 3.7 ‰. The largest relative increase was recorded in Western Europe: Luxembourg (23.3 ‰), Austria (14.4 ‰), Germany (11.8 ‰), Malta (11.7 ‰), Sweden (10.6 ‰), United Kingdom (8.8 ‰) and Denmark (8.4 ‰), etc. The increase comes mainly from net immigration, with Germany even having a negative rate of natural growth. At the same time, the population mainly in the CEE countries declined steadily. In 2015 the largest is the decline in Lithuania (-11.3 ‰), Latvia (-8.7 ‰), Croatia (-8.2 ‰), Bulgaria (-6.7 ‰), Romania (-5.6 ‰), etc. The sharpest decrease in the population is Bulgaria, which shows a constant and significant deterioration of the three indicators by years (total change in number, natural growth and net migration), followed by a similar trend but less pronounced is Romania.

By Eurostat data, the average crude birth rate for the 28 countries in the EU is around 10 ‰. For Bulgaria, it is slightly lower than the EU-28 average and has continued to decline since 2010 (9.2 ‰ in 2015), increasing the gap between them (table 3). The level and dynamics of birth rates in Romania do not differ significantly from that in the EU-28. Among the EU-28 countries, the highest birth rate is observed in Ireland (14 ‰), followed by France (12.4 ‰) and the United Kingdom (12.1 ‰), and lowest – in Portugal (8.3 ‰), followed by Germany, Greece and Italy - 8.5 ‰. In most countries, there is a downward trend over the period considered.

Mortality rates in Bulgaria are highest among the EU countries. In 2015 the mortality rate in the EU-28 is 9.7 ‰, and 15.3 ‰ in Bulgaria. Significantly higher than the EU-28 average is the value of this indicator also in Latvia and Lithuania. The lowest mortality rates are marked in Ireland - 6.4 ‰, and Cyprus - 6 ‰. Mortality among men in Bulgaria (16.1 ‰) is significantly higher than female mortality (14.1 ‰). The mortality rate is much higher in the villages (21.6 ‰) than in the cities (12.7 ‰). There are large differences in mortality in the country, depending on the regions. The lowest is in Sofia, followed by Kardjali, Varna, Blagoevgrad, and the highest is in the poor settlements in the Northwestern region (Vidin, Montana, Vratsa). These regional imbalances further complicate the problems in the country.

Table 3.

Demographic characteristics of Bulgaria and Romania compared to EU-28, 2007-2016

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
					Crude birth rate (per 1 000 persons)					
EU-28	10.7	10.9	10.8	10.7	10.5	10.4	10.0	10.1	10.0	..
Bulgaria	10.0	10.4	10.9	10.2	9.6	9.5	9.2	9.4	9.2	..
Romania	10.3	10.8	10.9	10.5	9.7	10.0	9.4	9.7	10.0	
					Crude mortality rate (per 1 000 persons)					
EU-28	..	..	9.7	9.7	..	..	9.9	..	9.7	..
Bulgaria	14.8	14.5	14.2	14.6	14.7	15.0	14.4	15.1	15.3	..
					Infant mortality rate (per 1 000)					
EU-28	4.4	4.2	4.2	4.0	3.9	3.8	3.7	3.7	3.6	..
Bulgaria	9.2	8.6	9.0	9.4	8.5	7.8	7.3	7.6	6.6	..
Romania	12.0	11.0	10.1	9.8	9.4	9.0	8.9	8.4	7.6	..
					Total fertility rate					
EU-28	1.56	1.61	1.61	1.62	1.59	1.59	1.55	1.58	:	..
Bulgaria	1.49	1.56	1.66	1.57	1.51	1.50	1.48	1.53	1.53	..
Romania	1.45	1.60	1.66	1.59	1.47	1.52	1.46	1.52	1.58	
					Old dependency ratio (per 100 persons)					
EU-28	25.2	25.5	25.8	26.1	26.4	26.9	27.5	28.2	28.8	29.3
Bulgaria	25.5	25.8	26.1	26.5	27.0	27.8	28.5	29.3	30.2	31.1
Romania	21.5	22.6	23.7	23.7	23.7	23.7	23.9	24.3	25.2	25.9
					Life expectancy at birth (years)					
EU-28	79.1	79.4	79.6	79.9	80.2	80.3	80.5	80.9	..	..
Bulgaria	73.0	73.3	73.7	73.8	74.2	74.4	74.9	74.5	..	..
Romania	73.1	73.5	73.7	73.7	74.4	74.4	75.2	75.0	..	..

Sources: Eurostat and National Statistical Institute – Sofia

Among the positive trends can be noted the significantly decreasing infant mortality rate - from 13.2 ‰ in 2002, 9.4 ‰ in 2010 and 6.6 ‰ in 2015. It remains however the highest rate after that for Romania (7.6 ‰) and about twice as high as the EU-28 average (3.6 ‰).

The total fertility rate also shows the weaker position of Bulgaria and Romania compared to the EU-28 average. For most CEE countries the decline in this indicator is even more pronounced.

Old dependency ratio is the basic indicator of population aging in a given country, which means the relative share of people aged 65 and over in total number of population. In this respect, Bulgaria has a higher percentage than the EU-28 average (table 3). For the year 2016, it is 31.1%, or nearly one third of the population. Higher are the shares in Italy (34.3%), Greece (33.1%), Finland

(32.4%), Germany (32%), Portugal %) and Sweden (31.5%).Old dependency ratio in Romania is lower than the average for EU-28.

According to NSI data, the imbalance in the territorial distribution of the population in Bulgaria is exacerbated. The largest is the old dependency ration in Vidin, and the smallest is in the Sofia Capital. The average age of the population in Bulgaria is also growing - from 39.9 years in 2000 to 41.5 years in 2007 and 43.5 years in 2016. The most aging population is again in Vidin, with the average age 47.6 years for 41 years in Sofia.

The life expectancy at birth in the EU-28 is significantly higher than in Bulgaria, slightly increasing until the end of the period under review to 80.9 years, while in Bulgaria it is 74.5 years and in Romania - 75 years, which is nearly 6 years lower. Approximately as low is the life expectancy in Lithuania and Latvia (74.7). Similar is the difference in life expectancy of older people (over 65 years of age): 20 years for the EU-28 on average and 16 for Bulgaria.

Similar processes of marked external migration, leading to a negative migration balance, continue in the two countries - Bulgaria and Romania. As a consequence of the demographic changes, the age structure of the population is deteriorating - the number of working-age population significantly reduces and this in over-working age increases, while maintaining the low percentage of the generation in the under-working age. The demographic crisis not only reduces the workforce but also aggravates its age and professional structure, which limits its entrepreneurship and flexibility. Such a structure increases the burden of the budget with the cost of pensions and medical care for the elderly. Under these demographic conditions, it is difficult to achieve high labor productivity and accelerated catching-up.

The membership of the two countries in the EU itself does not affect long-term negative demographic trends. Depopulation and aging continue at a high rate. Bulgaria and Romania remain with demographic characteristics below the EU-28 average for all major demographic indicators and, in many cases, some of the lowest.

Conclusion

The described parallel development of Bulgaria and Romania in the 10-year EU membership shows both their similarities and their specificity. The two countries remain among the least developed countries in the EU. They do not succeed to cope satisfactory with the challenges of fast catching up economically the average EU-28, with Bulgaria failing to reach even 50% of the average per capita GDP. The deeper and more systematic changes in Romania's economy lead its faster and noticeable progress: its economy is recovering much faster from the crisis; the incomes of the population are growing at a significant rate. The assessments of the monitoring institutions show that the country is progressing with more confidence towards rapprochement with the leading European economies.

References:

Rangelova, R. (2006). Population aging in the countries of Central and Eastern Europe. In: "Population Aging - Realities and Consequences, Policies and Practices", Center for Population Studies at BAS and National Social Security Institute, Sofia, 2006, 85-97.

Sariiski G. and R. Rangelova (2013). Development of banking activity as a factor for economic growth. In: Post-crisis economic development of the EU and Bulgaria. Institute of Economic Studies, BAS. International Scientific Conference, 18 and 19 October 2012, Sofia, GorexPress, 277-292.

World Economic Forum, the Global Competitiveness database.

Internet sources:

Eurostat, http://ec.europa.eu/eurostat/data/database

National Statistical Institute, www.nsi.bg

EU INTEGRATION EFFECTS ON BULGARIAN AND ROMANIAN ECONOMY

Dobrinka STOYANOVA, PhD[1]
Stefan RAICHEV, PhD[2]

Abstract

Bulgaria and Romania became part of EU in 2007 year. Ten years after that the effects of membership are not clear. Crises of 2008 year, immigration problems, long and stable vast unemployment, drop in productivity, mark the debate of EU membership. The lack of clear and decisive evaluation of integration effects, threatens the Bulgarian and Romanian EU future. In this paper is analyzed the effect of 10 years membership on Bulgaria and Romania economy. The paper study dimensions of this effect on key economic indicators. Through analysis of economic growth and labor market effectiveness is made comparison between Bulgarian and Romanian economy. The conclusion in our research point out the positive and negative effects in both country and highlight the critical points for further survey.

Keywords: integration effects, economic growth, labor market effectiveness

JEL Classification: E01, J60

Introduction

The integration processes taking place in Europe over the last few decades are one of the most comprehensive in the world. They undoubtedly have a significant impact on national economies. As part of the fifth stage of EU enlargement, Bulgaria and Romania are also experiencing the consequences of European integration. Both countries become full members of the EU on 1 January 2007 and face a lot of responsibilities and challenges.

This report analyzes the positive and negative effects on the economies of the acceding countries from the accession process. For this purpose, the dynamics of a number of indicators characterizing the development of the national economies of these two countries has been explored and the results are summarized.

As all development indicators cannot be explored, this article aims to analyze the dynamics of the more important macroeconomic indicators - rates of economic

[1] *University of Plovdiv Paisii Hilendarski, 24 tzar Asen str., 4ooo Plovdiv, Bulgaria, bini_stoyanova@abv.bg*

[2] *University of Plovdiv Paisii Hilendarski, 24 tzar Asen str., 4ooo Plovdiv, Bulgaria, stefan1@abv.bg*

growth, foreign investment and unemployment. On the one hand, the analysis includes assessing the dynamics of the macroeconomic development of Bulgaria and Romania by itself, comparing the pre-accession and post-accession period. On the other hand, the development of the national economy is analyzed in a comparative aspect between the two countries through the main macroeconomic indicators.

The methodology of the study includes statistical analysis and evaluation as well as comparative analysis. The effectiveness of Bulgaria's and Romania's participation in the EU has been assessed through a cost-benefit analysis.

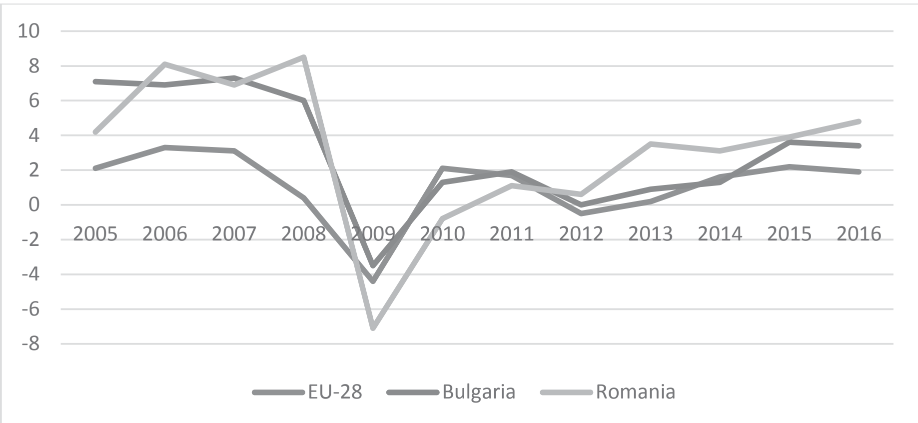
Analysis and results

The global economic and financial crisis, which began in 2008, has brought great challenges to both the global and the European economy. For this reason, in assessing the results of the analysis of the dynamics of macroeconomic indicators in the 10-year membership of Bulgaria and Romania in the EU, it is also necessary to take into account the impact of the crisis.

After the global crisis in Bulgaria and Romania, economic growth is significantly weaker and more volatile, even with negative values (in 2009) (See Figure 1).

Figure 1

Real GDP growth rate in Bulgaria, Romania and EU-28, 2005-2016, %



Source: Eurostat

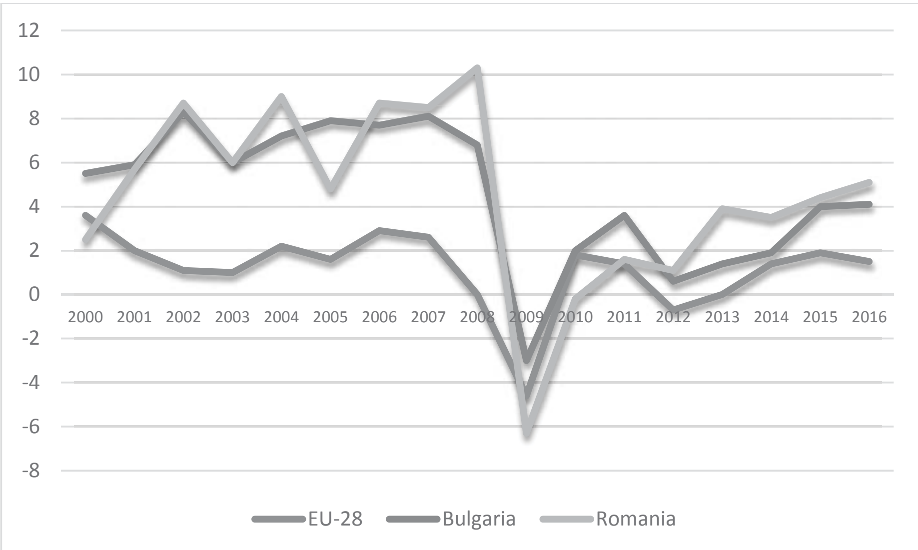
Unstable growth is an obstacle to creating new jobs and stimulating employment. A major factor in reducing unemployment is the stability of economic growth. However, this effect will be realized with some delay, as there is a certain time lag between the rate of GDP growth and its impact on employment and unemployment.

Since 2013, there has been a positive trend for real GDP growth, especially in Romania, where growth in 2016 reached 4.8%. This growth is higher than the European average by 2.9 percentage points over the same period. From Fig. 1 it is clear that in the last 3 years the economic activity in Romania is higher than in Bulgaria, especially in 2016 when the difference between the two countries is 1.4 percentage points. The recovery in the two countries after the economic crisis is apparently faster and more sustainable than most EU countries.

Since the beginning of 2012 Bulgaria has recorded significantly lower scores than Romania in terms of real GDP per capita (See Figure 2). In Bulgaria and Romania, after the crisis, both economic growth and GDP per capita are falling.

Figure 2

Real GDP per capita in Bulgaria, Romania and EU-28, 2000-2016, Real Percentage change on previous year, EUR per inhabitant

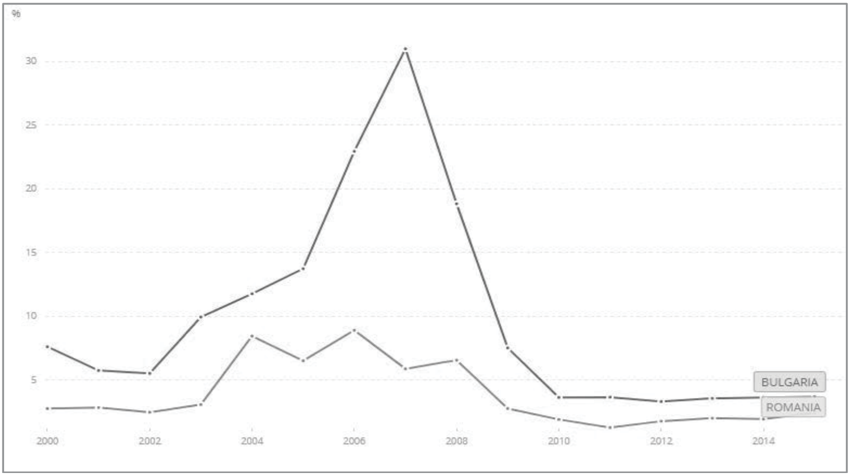


Source: Eurostat

The assessment of the effects of Bulgaria's and Romania's membership is largely related to the change in foreign direct investment. The years preceding the membership of Bulgaria and Romania in the EU marked a significant increase in foreign direct investment, especially in Bulgaria, where the values are extremely high. (See Figure 3).

Figure 3

Foreign direct investment, net inflows (% of GDP), 2000-2015



Source: Worldbank

The results show that the first two years of EU membership proved to be particularly favorable for Bulgaria in terms of inflows of foreign direct investment, but after this period the impact of the global crisis remains a mark on this indicator, which is sharply declining and remains at low levels for last six years. By this indicator, Romania is visibly lagging behind Bulgaria both in the pre-accession period and at the time of accession. This shows that Bulgaria is better able to take advantage of the free movement of capital within the European Union.

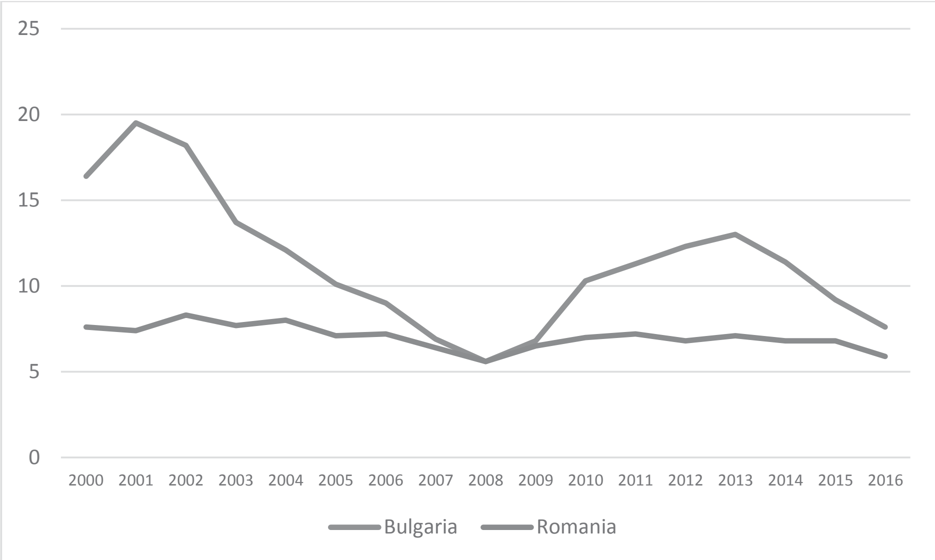
Possible reasons for the weaker interest of foreign investors in the Romanian economy are partly related to the defined problems of the monitoring reports in the judiciary, ineffective fight against corruption, etc. These problems continue to be defined in Bulgaria despite the efforts of several governments to overcome them.

An important aspect of macroeconomic development is the level of **unemployment and employment**. For this reason, a comparative analysis of the dynamics of unemployment in Bulgaria and Romania was used in the pre-accession and EU accession period. The analysis is supported by a review of the more important European employment policies and their impact on national economies.

Unemployment dynamics reveals that the share of people affected by unemployment is lower in Romania than in Bulgaria, both in the pre-accession period and during the European integration. Unemployment rate for 2007 In Romania is 6.4%, while in Bulgaria it is 6.9% and at the end of the period under review - 5.9% respectively in Romania and 7.6% in Bulgaria (See Figure 4)

Figure 4

Unemployment rate in Bulgaria and Romania, 2000-2016, %



Source: Eurostat

Despite the huge impact of the global crisis, the unemployment rate in Bulgaria and Romania after 10 years in the EU is lower than in the years of the pre-accession period. Several of the most important reasons for this situation are, on the one hand, the access of Bulgaria and Romania into the European labor market. The ability of economically active Bulgarians and Romanians to find work in and outside Bulgaria and Romania causes the unemployment rate in the countries to be significantly lower than they would if they were not part of the EU, on the other hand, significantly improved trade and business conditions by foreign firms, which have increased the number of employers in these countries. The fact that better conditions for trade with other EU Member States have helped local businesses and increased their turnover and, consequently, the need for more employment, should not be overlooked.

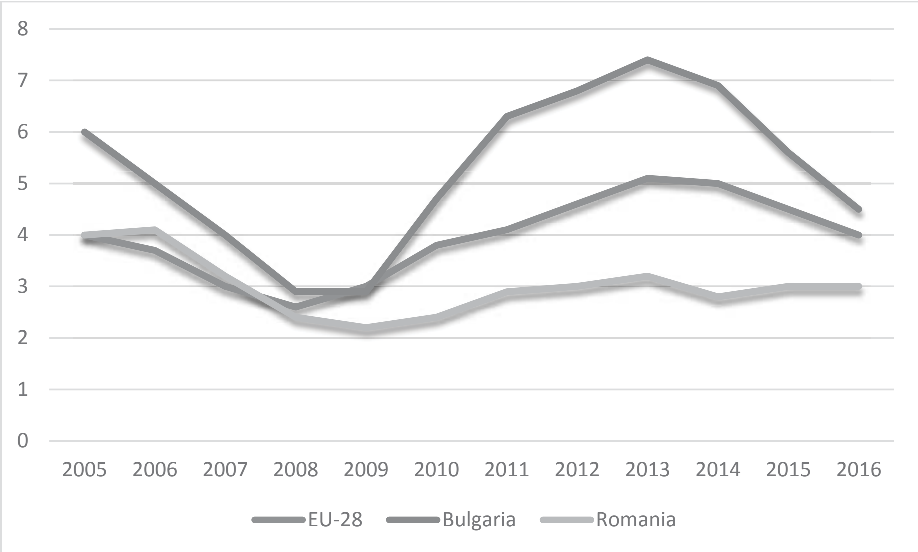
Although at the end of the period under review the unemployment rate has declined, it still remains high and the economy remains below the level of full employment and, accordingly, below its potential.

Sustainable employment recovery has not yet been achieved due to insufficient economic growth and the particularly negative effects of the crisis on vulnerable groups in the labor market (eg youth).

There is a significant share of long-term unemployed (see Figure 5). This highlights the structural nature of unemployment, which shows that labor market policies are not effective enough to activate the most vulnerable groups.

Figure 5

Long-term unemployment rate in Bulgaria, Romania and EU-28, 2005-2016, %



Source: Eurostat

Data on long-term unemployed show that their share in Bulgaria is much higher than Romania and at the European level. Consequently, in Bulgaria the problem of structural unemployment is more serious and this requires the implementation of programs and measures for qualification and re-qualification, as well as reforms in the education system in order to increase the quality of the acquired skills and respectively to increase the employability of the labor force.

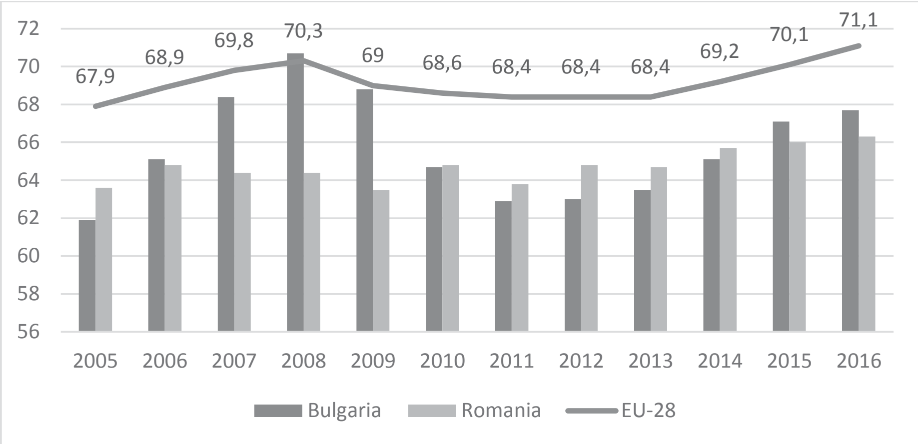
As part of the EU, Bulgaria and Romania align their national employment policies with the common European employment policy.

Within the EU, with the formulation of the "Lisbon Strategy for Employment" (2000-2010), the high target for full employment is set. The next important step is the Europe 2020 strategy. Its goals are:

1) Employment for 75% of people aged 20-64 for the EU-28. In 2016, 67.7% of the population in the surveyed age (at target of 76%) was employed in Bulgaria, and in Romania - 66.3% at the target of 70% (See Figure 6).

Figure 6

Employment rate, age group 20-64, in Bulgaria, Romania and EU-28, 2005-2016, %



Source: Eurostat

The figure shows that both in Bulgaria and Romania the effect of the impact of European employment and labor market policies is favorable to the employment rate, as before accession period when was lower in both countries (in 2006 For Bulgaria is 65.1% and for Romania is 64.8%) compared to the end of the period considered. It is noted that the employment rate in Bulgaria has increased by 2.6 percentage points and in Romania by 1.5 percentage points. By this indicator, Bulgaria has made more progress, but both countries have failed to reach the desired level under this indicator.

2) The second main objective of the Europe 2020 Strategy in the field of employment and the labor market is to reduce the level of early school leavers below 10% for the EU-28 (under 11% for Bulgaria and below 11.3% for Romania). The dynamics of this indicator is reaching 13.8% in 2016 year in Bulgaria at baseline 17.3 % in 2006, and for Romania 18.5% in 2016, compared to 17.9% in 2006. Therefore, for the 10-year period of Bulgaria's membership, Bulgaria has made progress in reducing the level of early school leavers by 3.5 percentage points, unlike in Romania, where there is an increase of 0.6 percentage points.

3) The third main objective of the Europe 2020 Strategy in the field of employment and the labor market is to acquire higher education in at least 40% of 30-34 year olds in the EU-28 (with 36% for Bulgaria and 26.7% for Romania) . In this indicator, both in Bulgaria and Romania, the effects of EU membership are positive, because in Bulgaria the share of higher education graduates has increased by 8.5 percentage points from 25.3% in 2006 to 33.8% in 2016, while Romania managed to achieve an even higher growth of university graduates - 13.2 percentage points, from 12.4% in 2006 to 25.6% in 2016.

These three objectives, set out in the Europe 2020 strategy, must be achieved through a combination of European and national actions. From the commitments made under the Europe 2020 strategy at this stage, Bulgaria and Romania are the closest to the target value of the "higher education" indicator. If the trend remains within the EU by 2020, and in particular in Bulgaria and Romania, the set goals will be realized. The result will be to reduce unemployment, improve human capital and create better employment and growth opportunities. Within Bulgaria and Romania, a National Employment Action Plan (NAP) is also in place. The measures and policies in this plan are linked to the employment objectives of the Europe 2020 strategy.

During the period under review, the potential of macroeconomic stabilization policy to influence unemployment is limited because there is no common fiscal policy within the EU, and in Bulgaria the currency board also limits governmental opportunities. Ant crisis policy of the EU is realized with the capabilities of an expansive monetary policy, mainly linked to quantitative easing. As part of the economic and monetary union, all Member States, together with the European Central Bank (ECB) and the European Commission, work together to restore financial stability through bank support and through affordable loans. However, monetary policy instruments have no direct link to the reduction of unemployment. The creation of new jobs is linked, firstly, with measures leading to economic growth.

Bulgaria, Romania, as well as the other EU member states, draw attention to the implementation of a large-scale public labor market policy to stimulate employment. The implementation of the employment policy is primarily the responsibility of the Member States themselves, assisted by the EU bodies, which coordinates, monitors and supports the financing of national policies in the field. Within the EU, common employment policy objectives are formulated to adapt and turn into national targets for each Member State. Coordination of efforts to achieve better employment outcomes is linked to the creation of the 1997 European Employment Strategy, which aims to create more and better jobs. This strategy is already part of the ten-year strategy for jobs and smart, sustainable and inclusive growth, Europe 2020, whose objectives were presented.

The attempts of national governments to meet the European requirements of labor market policies are directly related to meeting the criteria of European funding. EU funding puts forward and subordinates national efforts on employment. The European Commission provides financial support to national governments to stimulate employment and social inclusion through the following funds:

-**European Social Fund (ESF)** - aimed at funding projects related to improving job skills and job opportunities;

-**EU Programme for Employment and Social Innovation (EaSI)** - aims to stimulate employment, labor mobility and social policies, and brings together three EU programmes: PROGRESS; EURES; Progress Microfinance.

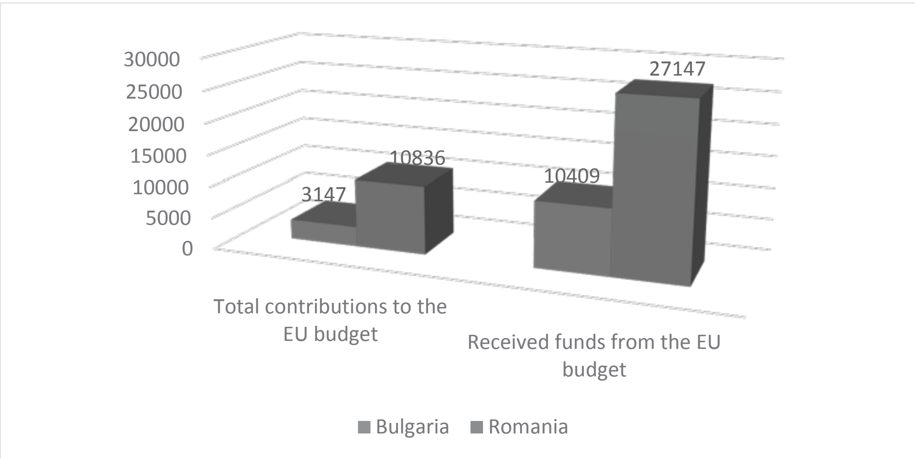
-European Globalization Adjustment Fund (EGF) - Fund provides support to people losing their jobs as a result of major structural changes in world trade patterns due to globalization.

In the new programming period, the problem of unemployment, including youth unemployment, is being discussed in the context of a policy to stimulate private sector investment to help create new jobs. This gives the opportunity to combine labor market policies with the investment capabilities of the so-called Juncker Plan, which was announced by the European Commission in November 2014 and which represents the "Investment Plan of Europe". The plan aims to mobilize available resources to generate additional private investment that stimulates economic growth and helps create new jobs. In order to have a greater impact on unemployment, the Juncker plan should help private investors who are targeting new or expanding existing productions, especially in Member States with higher unemployment.

In this article, the methodology of analysis is also supported by the cost-benefit method to measure the effectiveness of Bulgaria's and Romania's EU membership. The cost-benefit method is applied by comparing the costs that both countries make in the form of contributions to the EU budget and the benefits that actually represent the funds that Bulgaria and Romania receive from the EU budget. In terms of cost-benefit analysis, they are quantified by the amounts spent and received by the countries as a result of their EU membership (See Figure 7).

Figure 7

Total contributions to the EU budget and received funds from the EU budget, 2007-2014, millions of euros



Source: European Commission

The data show that both countries Bulgaria and Romania are beneficiary countries. They receive more money from EU funds than they pay. Bulgaria receives about 3.5 times more money than imports into the EU, while Romania is around 2.6 times. Consequently, for both countries, EU membership brings more benefits than costs.

Conclusions

The assessment of the integration of Bulgaria and Romania into the EU is a complex process with effects that are difficult to measure. The reason is that this ten-year EU membership survey coincides with the emergence of the global economic crisis which marks a strong negative impact on the development of the European economy and in particular on the economies of the countries concerned.

Based on the dynamics of the main macroeconomic indicators (economic growth rate, GDP per capita, unemployment rate, long-term unemployment rate), it can be concluded that in recent years Romania's economy has developed better than Bulgarian's economy. However, Bulgaria also receives a number of benefits from EU membership. First of all, it takes advantage of the free movement of capital within the Union, attracting more direct foreign investment than Romania. In addition, Bulgaria receives more net cash from the European budget (3.5 times) compared to Romania (2.6 times).

The European integration of Bulgaria and Romania is also an opportunity for the implementation of good practices and effective European policies and programs in the sphere of economic and social life.

Acknowledgments

List here those individuals or institutions who provided help during the research, including the financial support (and the source, if appropriate) for the paper **University of Plovdiv Paisii Hilendarski, 24 tzar Asen str., 4ooo Plovdiv, Bulgaria.**

References

Report on the Cooperation and Verification Mechanism January 2016: COM (2016)

Ministry of Finance. 2016. The EU Funds in Bulgaria. Evaluation of the macroeconomic effects of the implementation of the programs co-financed with EU funds, Sofia, Ministry of Finance. Available at https://www.minfin.bg/bg/page/1168

SWD/2015/0400. COMMISSION STAFF WORKING DOCUMENT Member States Investment Challenges available at http://ec.europa.eu/europe2020/pdf/2016/ags2016_challenges_ms_investment_environments_en.pdf

Centre for Liberal Strategies 2017. Bulgaria 10 years in the EU report. Available at: http://www.europarl.bg/resource/static/files/bulgaria-10-years-in-the-eu-report.pdf

European Commission. Eurostat. Data. Database. available at: http://ec.europa.eu/eurostat/data/database

Liapis, P. and M. Tsigas, 1998,"CEEC Accession to the EU: A General Equilibrium Analysis", Economic Research Service/USDA, Agricultural Economics Report no.771, November, Washington DC.

Van Meurs, W., Yannis, A., 2002. "The European Union and the Balkans: From Stabilisation Process to Southeastern Enlargement".

Worldbank. Data. Indicator. available at: http://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS

Baourakis, G., Lakatos, C.,2008, Economic implications of the EU accession of Bulgaria and Romania: a CGE approach. TradeAG, Working Paper 08/1

THE ROADMAP TO EUROZONE, EVOLUTIONS, AND PERSPECTIVES

Simona MOAGĂR-POLADIAN, PhD[1]
George-Cornel DUMITRESCU, PhD[2]
Ion-Alexandru TĂNASEr[3]

Abstract

Among the NMS that acceded to the EU after the year 2004, only five are currently in the Eurozone, namely Slovenia, Slovakia, Estonia, Lithuania, and Latvia. Our paper aims at analysing the steps taken or planned to be made by Bulgaria, and Romania, in their goal to join the Eurozone. Since the adoption of euro entails a complex of measures and favourable economic, political and social circumstances, we will focus our work on four main factors that can be conducive to it: politics; the stance of the national banks, public opinion on the matter, and the nominal convergence criteria status. We based our analysis on both insights from the current literature and statistical data and information provided by relevant institutions from the EU, and the assessed countries, including press releases.

Keywords: Euro, ERM II, Eurozone, Bulgaria, Romania

JEL Classification: E6, E58, F15, G28

Introduction

Since the introduction of the single currency in 1999, first as a virtual currency for cashless payments and accounting purposes and then as banknotes and coins in 2002, the European Union extended to 28 members, and the Eurozone to 19 members (Europa.eu, 2017). The international financial crisis that begun in the USA (as a financial and banking crisis) and spread in the EU as a sovereign debt crisis (Greek crisis) and Eurozone crisis, represented a turning point on the one-way road to euro adoption.

After 2010, the number of Eurosceptics increased significantly especially in the countries of southern, central and eastern Europe that started granting a greater role in the sustainability of the convergence criteria. The crisis changed the way the

[1] *Senior Researcher, The Romanian Academy - Institute for World Economy, smpoladian@gmail.com*
[2] *Senior Researcher, The Romanian Academy - Institute for World Economy, george.cornel@gmail.com*
[3] *Senior Researcher, PhD student, The Romanian Academy - Institute for World Economy, ialexandru.tanase@gmail.com*

adoption of euro was initially planned, regardless the clauses stipulated in the accession treaties urging the membership of the Eurozone as soon as the countries meet the convergence criteria as per the Maastricht Treaty. The crisis tested the foundation of the EU revealing more weaknesses than strong points. Now, both the architects of the Union and the representatives of the candidate states are looking for solutions to consolidate the Eurozone by increasing competitiveness, by harmonisation and by the recognition of the shared values of the European area. The EU should not be an attraction point only during times of economic prosperity. The member states, their citizens and authorities need to understand that the Eurozone should be opened to all the EU members, since the common currency symbol (€), derived from the word Europe indicate stability and security.

Out of the new member states (NMS) that joined the EU after 2004, only five entered the euro area: Slovenia in 2007; Slovakia in 2009; Estonia, in 2011; Latvia in 2014 and Lithuania in 2015.

As the adoption of the single currency is the result of a complex mix of favourable political, social and economic factors and circumstances, our analysis centres on the way the governments, the national banks and the citizens of the surveyed countries perceive and react regarding the adoption of the euro, as a single currency, and also on the degree in which the respective countries meet the nominal convergence criteria as per the Maastricht treaty.

Since the integration in the EU, both Bulgaria and Romania set ambitious targets to join the euro area, but so far none is even in the ERM II, the “waiting room” of the Eurozone.

Since the countries outside the Eurozone seem unwilling to advance a specified date of adopting the single currency, Pierre Moscovici, the European Economic and Financial Affairs Commissioner, declared on the 22nd of May 2017 there is a plan to make the Eurozone framework attractive enough that the outsiders would not be able to refuse (like in the movies). Except for Denmark and Britain, all European Union states are obliged to adopt the euro, but without a clear deadline set for this action (Macdonald and Guarascio, 2017).

Bulgaria

Since joining the EU in January 2007, Bulgaria had among its priorities to maintain the currency board arrangement and create the best conditions for integrating into the euro area.

In November 2007, the Finance Minister Plamen Oresharski declared that Bulgaria aims to meet all the convergence criteria by 2009 and to adopt the euro in 2012.

The Convergence Program for 2010-2012 was adopted during the second term of the Prime Minister (PM) Boyko Borisov. Bulgaria was supposed to enter the ERM II in the first months of the year 2010 so that in 2013 the country adopts the euro (Sikali, 2011). For the governor of the Bulgarian National Bank, Ivan Iskrov "the adoption of the euro was not a privilege, but an obligation that the country has assumed."(Euractiv 2009).

Despite the fact that Bulgaria did not meet the convergence criteria in 2009 (Table 1), struggling still with the effects of the global economic and financial crisis of 2007-2008, the PM Borisov was still a Eurozone enthusiast arguing that his country will take the necessary steps to adhere to the Eurozone at the set deadline (Fox, 2012).

Table 1.

Convergence indicators for the period 2002-2015

Country/year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
HIPC inflation rate	*7,4*	*7,6*	*12,0*	*2,5*	*3,0*	*3,4*	*2,4*	*0,4*	*-1,6*	*-1,1*
Reference value	2,8	2,8	4,1	0,6	1,6	3,0	2,7	1,7	1,3	0,5
Government budget deficit	*1,8*	*1,1*	*1,6*	*-4,1*	*-3,1*	*-2,0*	*-0,3*	*-0,4*	*-5,5*	*-1,7*
Reference value	-3,0	-3,0	-3,0	-3,0	-3,0	-3,0	-3,0	-3,0	-3,0	-3,0
Government debt-to-GDP ratio	*21*	*16,3*	*13*	*13,7*	*15,3*	*15,2*	*16,7*	*17,0*	*27,0*	*26,0*
Reference value	60	60	60	60	60	60	60	60	60	60
Long-term interest rates	*4,18*	*4,54*	*5,38*	*7,22*	*6,01*	*5,36*	*4,50*	*3,47*	*3,35*	*2,49*
Reference value	6,24	6,43	6,24	6,47	6,67	5,79	5,88	4,73	6,68	4,10

Source: Eurostat, 2016. The boxes where the indicators did not fall within the convergence limit are highlighted. Authors` calculations

Excepting the year 2014, when Bulgaria did not meet the convergence criterion regarding the budget deficit (-5.5% of GDP) between 2012 and 2015 the Bulgarian authorities managed to meet the Maastricht criteria.

The lev did not enter ERM II, but since the launch of the euro in 1999, it was linked to the European currency at a fixed rate of 1euro = 1.95 lev through a strictly managed currency board. Bulgaria lost its monetary autonomy in 1997 when the country adopted a currency board arrangement. The only instrument left on hand for the authorities to balance the economy is the state budget (Koyama, 2016). In April 2011, the currency board regime enjoyed the confidence of the Bulgarian citizens and, despite the financial crisis, the population's trust in the National Bank of Bulgaria was good.

At the end of 2010, the Bulgarian authorities reiterated their intention to enter ERM II. The Government hoped that the official request to enter ERM II would be submitted later, in the second half of 2011, based on the estimates that the budget deficit would meet the criterion. The estimates were accurate about the budget deficit in 2011, Bulgaria did not meet the inflation criterion. Joining ERM II was a priority for the center-right government that took the necessary steps to strengthen the fiscal discipline at the end of 2009 and postponed the payments toward the local companies to reduce the budget deficit of 4.1% of GDP (Invest Bulgaria 2011).

In spite his support for the euro, in September 2012, the Bulgarian Prime Minister predicted that divergence would deepen in Europe, as many governments were not ready to swallow the difficult decisions they had to take. Bulgaria postponed the plans to enter the Eurozone amid the deterioration of the economic situation, the uncertainties regarding the future of the single currency block, and the "decisive" change in the public opinion on euro adoption at the beginning of the third year of austerity (Popescu 2012). Simeon Djankov, the Ministry of Finance had seen no benefits in joining the Eurozone, but costs at that moment (Krasimirov 2012).

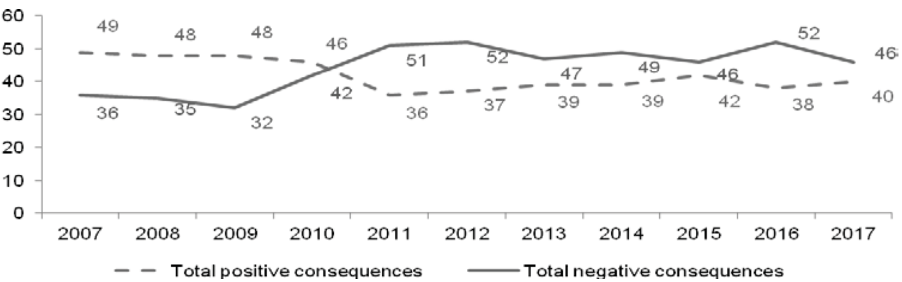
About the target date, in November 2015, the Governor of the Bulgarian National Bank declared in an interview with Bloomberg: " Well, I think the answer to this question is in our Accession Treaty - when all the necessary conditions are fulfilled. This is not yet the case. While the official criteria are well within reach, more remains to be done on the structural front, including by resolving the remaining issues in the state-owned enterprise's sector and ensuring the fiscal sustainability of the health and pension systems". (Bloomberg, 2015).

The Coordinating Council, the body in charge with the preparations for the accession to the Eurozone, was established in 2015. It is led by the finance minister who is the national coordinator for the adoption of the single currency. Other members of the Council are the deputy ministers of finance, economy, foreign affairs, transport, communications and justice, the deputy governor of the Bulgarian National Bank, and a representative of the financial supervision commission.

In the same spirit, in July 2016, the Bulgarian PM Boyko Borisov emphasised that his country would not hurry to adopt the euro (Kaloyanova 2016).

Chart 1

The consequences of the introduction of the euro in Bulgaria (%)



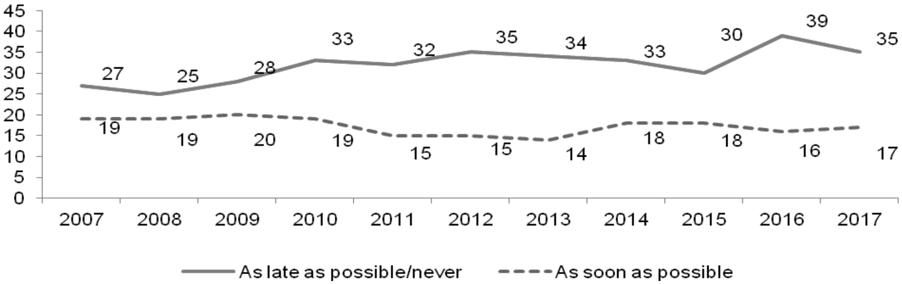
Source: Authors` compilation based on data provided by Eurobarometer, 2016

The chart 1 reveals the fact that the confidence of the Bulgarians in the single currency decreased from the year of accession to the EU to the present, due to the crisis and the hardships of the reforms. The percentage of the Bulgarian citizens that considered adopting euro would have a total positive effect decreased from 49% in 2007 to 40% in 2017. The proportion of pessimists increased from 36% in 2007 to 46% in 2017.

According to a survey by Eurobarometer (2017), the respondents aged 15-24 are more likely to say the consequences for the country would be positive, compared with older age groups (52%, falling to 40% of those aged 55 or over).

Chart 2

The appropriate time to join the Eurozone according to the Bulgarians (%)



Source: Authors` compilation based on data provided by Eurobarometer, 2016

When asked about the accession date to the Eurozone, the Bulgarians tend to become pessimists. From 2007 to 2017, the ratio of people that prefer to postpone adopting euro increased from 27% to 35%, while the proportion of optimists remains the same (17%).

In Table 2 we highlighted the political synergy regarding Bulgaria`s accession the euro area. As we can see from 2009 until the resignation of the Prime Minister Boyko Borisov on 14 November 2016, the Government, the Presidency and the National Bank of Bulgaria were favourable to the Eurozone. The official positions reflected only the need of normalisation of the domestic and Eurozone economies.

We analysed the main Bulgarian institutions, and their attitude towards the integration in the Eurozone, the conclusions being synthesised in Table 2.

Table 2

Pro/Cons adoption of euro of main Bulgarian institutions

Announcem ent	Target year to join	Government		Presidency		National Bank	
		Pro	Against	Pro	Against	Pro	Against
2007	2012	X		X		X	
2009	2013	X		X		X	
2011	2015	X		X		X	

Source: Autors based on available online and literature data

As Table 2 shows, whenever Bulgaria announced favourable steps towards integration, the main institutions had the same positive attitude. In recent years, due to the crisis and a decline in public perception towards the euro the politicians and the bankers have had a more reserved stance.

After becoming Prime Minister for the third time in May 2017, Boyko Borisov reaffirmed that Bulgaria is on the right path to the Eurozone since the convergence criteria are met. In Malta, at a gathering of the European People’s Party stated that “Bulgaria is about to apply for the euro zone waiting room, the ERM II official exchange rate mechanism” (The Sofia Globe 2017).

In light of the last PM statement and taking into account Moscovici`s declaration about “the offer the non-euro countries would not refuse” we expect tho hear good things about the integration of Bulgaria in the Eurozone soon.

Romania

Similar to the other Central and Eastern European countries, since the accession to the European Union, the Romanian authorities have set several target dates for euro adoption, thus confirming the pro-European orientation of the country, but currently, there is no clear date of the integration.

One year before Romania's accession to the EU, the Governor of the National Bank of Romania (NBR), Mugur Isarescu, estimated that the changeover would take place between 2012 and 2014, provided that the gaps between Romania and the Eurozone be closed or at least significantly reduced.

According to the timetable set after the accession to the EU, the financial crisis that started in 2008 made the plan impossible to be finalised, in spite the fact that in 2012, the Government announced that it maintains its the goal of adopting the euro in 2015 by entering ERM II in 2013. Still, in October 2012, NBR`s chief economist Valentin Lazea argued that Romania cannot adopt the European currency as long as its agriculture ratio in the GDP is 6 - 7% and uses between 25 and 30% of the total labour force. He pointed out that “the higher the services ratio in the GDP, the better the chances of adopting the euro” (Ziare.com 2012). In November 2012, Prime Minister Victor Ponta shared the NBR`s Governor opinion that Romania would no longer be able to adhere to the Eurozone in 2015, emphasising the fact that Romania should continue meeting the nominal convergence criteria, especially the budget deficit and inflation (ZiareCom 2012).

In 2013, Governor Mugur Isarescu underlined that to join the Eurozone, Romania needs a period of political calmness. "Assuming that the proposed constitutional amendment will not eliminate the time gap between the parliamentary and local elections on the one hand and the presidential elections, on the other hand, the calmest electoral period would be 2021-2023 (three consecutive years without elections)" (Tempea 2013).

In April 2014, President Traian Basescu argued that "the ambiguity about the adoption of the euro was favourable for Romania, and that he was surprised by the pessimism displayed by both the Government level and the National Bank on this issue”. We would say that the Government and NBR had a cautious stance, being more concerned about the sustainability of the economic indicators comprised in the Maastricht Treaty and Romania`s competitiveness in the EU.

In May 2014, Romania submitted to the European Commission the new convergence program for 2014 - 2017, in which it announced the Brussels officials that joining the euro area "will become a feasible and necessary objective" as of the 1st of January 2019. In the context, Prime Minister Victor Ponta emphasised the need for sustainability in meeting the Maastricht criteria. The governor of the National Bank of Romania sent a realistic message about the Eurozone. He mentioned that no magic wand could get a country in the club overnight. The moment a country integrates into the euro area, the prices would tend to equalise. A citizen from Bucharest would support better a rise in the price of bread since he does not eat too much bread, but 100 kilometres from Bucharest people eat more bread and one need to think about that, stated Mugur Isărescu.

In September 2015, Governor Mugur Isarescu announced that the target of adopting the European currency in 2019 was no longer feasible. To that end, Romania should have entered ERM II at the latest in June 2016. He emphasised the necessity of a national roadmap for setting the accession date. Setting an ambitious target such as joining the Eurozone in 2019 could have a beneficial effect on mobilising the country, but that required a good understanding of the necessary efforts by the politicians, setting clear intermediary deadlines and a broad political and social consensus.

Table 3

Convergence indicators for the period 2002-2015

Country/year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
HIPC inflation rate	*6,6*	*4,9*	*7,9*	*5,6*	*6,1*	*5,8*	*3,4*	*3,2*	*1,4*	*-0,4*
Reference value	2,8	2,8	4,1	0,6	1,6	3,0	2,7	1,7	1,3	0,5
Government budget deficit	*-2,1*	*-2,8*	*-5,5*	*-9,5*	*-6,9*	*-5,4*	*-3,7*	*-2,1*	*-0,8*	*-0,8*
Reference value	-3,0	-3,0	-3,0	-3,0	-3,0	-3,0	-3,0	-3,0	-3,0	-3,0
Government debt-to-GDP ratio	*12,3*	*12,7*	*13,2*	*23,2*	*29,9*	*34,2*	*37,3*	*37,8*	*39,4*	*37,9*
Reference value	60	60	60	60	60	60	60	60	60	60
Long-term interest rates	*7,23*	*7,13*	*7,7*	*9,69*	*7,34*	*7,29*	*6,68*	*5,41*	*4,49*	*3,47*
Reference value	6,24	6,43	6,24	6,47	6,67	5,79	5,88	4,73	6,68	4,10

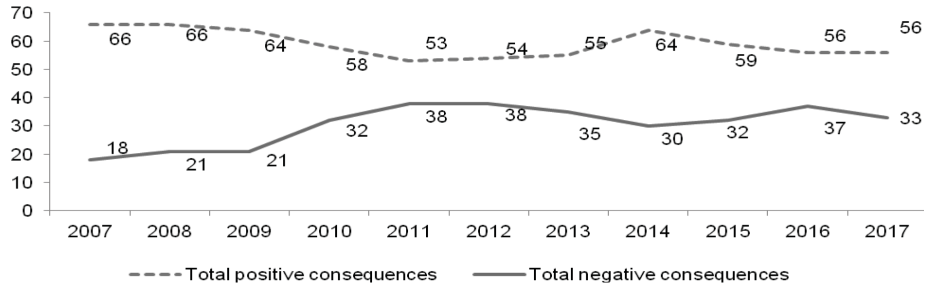
Source: Eurostat, 2016. The boxes where the indicators did not fall within the convergence limit are highlighted. Authors` calculations

Table 3 shows that Romania has been meeting the nominal convergence criteria set by the Maastricht Treaty since the year 2014.

The proportion of Romanians who consider that the introduction of the euro will have total negative consequences is increasing, from 18% in the year of integration in the European Union to 33% in 2017, though in 2017, compared to 2016 there is an improvement or 4 p.p. (Chart 3). The ratio of the ”optimists” also decreased in the same period, from 66% to 56%.

Chart 3

The consequences of the introduction of the euro in Romania (%)

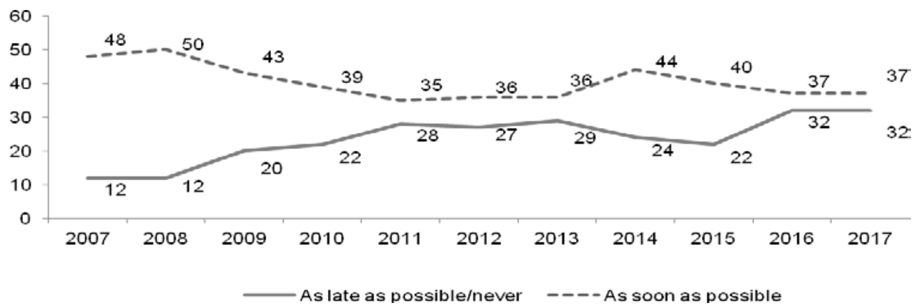


Source: Authors` compilation based on data provided by Eurobarometer, 2016

The same trend is reflected in the opinion of the Romanian citizens about the appropriate moment of joining the euro area. If in 2007 only 12% of the nationals considered the euro to be adopted as late as possible or never, in 2017, their share increased to 32%, a difference of 20 p.p. in just nine years. Even the proportion of Romanians that want the adoption of the euro as soon as possible decreased in the same period from 42% to 37% in 2017.

Chart 4

The appropriate time to join the Eurozone according to the Romanians (%)



Source: Authors` compilation based on data provided by Eurobarometer, 2016

We also analysed the openness degree towards the euro adoption of the Romanian institutions, and the results were synthesised in Table 4.

Table 4

Pro/Cons for adoption of euro of main institutions in Romania

Announce meant	Target year to join	Government		Presidency		National Bank	
		Pro	Against	Pro	Against	Pro	Against
2006	2014	X		X		X	
2012	2015	X		X		X	
2014	2019	X		X		X	

Source: Autors based on available online and literature data

Table 4 reveals a sentiment pro-Eurozone accession in the analysed institutions. However, on the 10th of December 2015, the representatives of the NBR argued that Romania is not ready to join in 2019, on the one hand, and on the other hand, the euro area does not want to accept incompatible states. The Governor underlined that politicians should impose reforms and not set accession dates. Valentin Lazea noted that "Romania would be able to join the euro area as soon as possible provided it is well prepared. (...) Maybe instead of setting a date for accession, it would be better to agree on a roadmap with the necessary reforms and only after implementing a critical mass of them to set a deadline."

At the end of 2016, President Klaus Johannis declared that despite his desire to enter the Eurozone, Romania was in a non-stage about joining the Eurozone. The president emphasised that Romania`s current economic growth of 5% reflects the synergic effect of the monetary policies and the small steps taken in the right direction.

Valentin Lazea underlined in April 2017 that Romania needs to meet additional criteria to be able to accede in the euro club, but joining the Eurozone it is the only alternative. Among the criteria, he mentioned the increase in energy efficiency, the development of agriculture and cultural convergence.

In May 2017, the governor of the National Bank argued that the Eurozone it is not a right place for economies lacking competitiveness. In this respect, he mentioned that Romania needs structural reforms to become more competitive.

The analysed factors reveal a favourable stance of politicians, institutions and citizens toward euro integration. On the nominal side, there is still the problem of the sustainability of the convergence criteria.

The integration in the Eurozone will be a political decision, since neither Romania, nor Bulgaria meet the real convergence criteria, that are more subjective, and include a wide array of indicators.

Conclusions

Bulgaria and Romania had initially favourable attitudes toward a fast accession in the euro area, considering perhaps that placing themselves under the authority ECB would induce a more responsible stance on the way to a complete integration into the EU. For both of them, fighting with the Maastricht convergence criteria proved to be a battle that tempered the enthusiasm of the first years after accession, not to mention the adverse effects of the economic and financial crisis in 2008.

The fact that both countries delayed to entry into the ERM II and ceased announcing a precise timetable for joining the euro area became the norm these days.

Romania and other Central and Eastern European countries want to continue using the monetary policy levers to deal with the economic challenges of fulfilling the nominal and real convergence criteria.

The citizens` appetite for more Europe and joining the Eurozone has been diminished because the promised prosperity within the EU has not fully delivered yet. Moreover, the euro area countries do not show stimulating macroeconomic indicators in last period.

The surveyed institutions in both Romania and Bulgaria were and are favourable to the adoption of the euro, but their approach became more realistic and more correlated with the citizen`s opinions on the matter.

In this context, the leadership of the National Bank of Romania emphasises the importance of establishing a clear roadmap for the accession of our country to the euro area, a document that should have a widespread support at the political level and within the citizens as the expression of national consensus. The decision to join the Eurozone will ultimately be political. The political factor has to weigh very well the advantages and disadvantages of this step. Our leaders have to consider the political and economic evolutions in the euro area, but also in the other non-Eurozone member states and to have a more proactive and not reactive stance to the rapid changes that will take place in the coming years, in light of the Brexit, the elections in Germany and the new world order that emerges after the American elections.

References

Barber, T. (2016). Bulgarian Socialist-backed candidate wins the presidential first round. Financial Times. Available at: https://www.ft.com/content/9c5e128e-a450-11e6-8898-79a99e2a4de6

BCE. (2016). Raport de Convergență. Eurosistemul. Iunie. Available at: https://www.ecb.europa.eu/pub/pdf/conrep/cr201606.ro.pdf?2c4cc232f10de64f1976b9ffda2abc74

Bloomberg. (2015). Bulgaria's Banking Industry Faces Consolidation: Radev. Available at: https://www.bloomberg.com/news/videos/2015-11-18/bulgaria-s-banking-industry-faces-consolidation-radev

Dandashly, A., & Verdun, A. (2016). Euro adoption in the Czech Republic, Hungary and Poland: Laggards by default and laggards by choice. Comparative European Politics.

Daianu, D., Kallay, E., Mihailovici, G., Socol, A. (2016). România și aderarea la zona euro: întrebarea este ÎN CE CONDIȚII! Institutul European din România. STUDII DE STRATEGIE ŞI POLITICI SPOS 2016. Disponibil la: http://www.ier.ro/sites/default/files/pdf/Studiu_euro_SPOS_2016_final_.pdf

Euractiv. (2009). Bulgaria in the eurozone waiting room. Available at: http://www.euractiv.com/section/euro-finance/news/bulgaria-in-the-eurozone-waiting-room/

Euractiv. (2015). Bulgaria says it will start talks to join the euro. Available at: http://www.euractiv.com/section/central-europe/news/bulgaria-says-it-will-start-talks-to-join-the-euro/

Eurobarometer. (2017). Introduction of the euro in the Member States that have not yet adopted the common currency. Available at: http://ec.europa.eu/commfrontoffice/publicopinion/index.cfm/Survey/getSurveyDetail/instruments/FLASH/surveyKy/2157

Europa.eu. (2017). The Euro. Available at: https://europa.eu/european-union/about-eu/money/euro_en

Fox, B. (2012). Bulgaria shelves euro membership plans. Euobserver. Disponibil la: https://euobserver.com/economic/117415

InvestBulgaria. (2011). Bulgaria fit to join euro zone - deputy finance minister. Available at: http://www.investbulgaria.com/infoNews.php?id=688

Johnson, J. (2006). Two-track diffusion and central bank embeddedness: the politics of Euro adoption in Hungary and the Czech Republic. Review of International Political Economy, 13(3), 361-386.

Kaloyanova, M. (2016). Bulgaria not rushing with euro adoption. Available at: http://www.europost.eu/article?id=17304

Koyama,Y. (2016). Prospect of New EU Member States for the Euro Adoption. Disponibil la: http://r-cube.ritsumei.ac.jp/bitstream/10367/7301/1/BKS32_koyama.pdf.

Krasimirov, A. (2012). Bulgaria abandons plans to enter euro zone: WSJ. Reuters. Available at: http://www.reuters.com/article/us-bulgaria-euro-idUSBRE8820K720120903

Macdonald, A., Guarascio., F. (2017). After Brexit, EU plans 'offer you cannot refuse' to expand euro zone: Moscovici. Available at: https://www.reuters.com/article/us-eurozone-future-euro-idUSKBN18J207 .

Markov, A. (2011). Bulgaria puts off Eurozone membership for 2015. BNR Radio Bulgaria. Disponibil la: http://bnr.bg/en/post/100125119/bulgaria-puts-off-eurozone-membership-for-2015

Mitchell, W. (2016). Eurozone Groupthink and Denial on a Grand Scale. World Economic Review, 2016(7), 43-55.

Necula, F. (2012). Ponta: 2015 nu este un reper batut in cuie pentru euro. Ziarecom. Available at: http://www.ziare.com/victor-ponta/premier/ponta-2015-nu-este-un-reper-batut-in-cuie-pentru-euro-1199774

Parlamentul European (2015). Adopting the euro, Convergence criteria and state of play. EPRS. Briefing, July 2015.

Popescu, V. (2012). Bulgaria a îngheţat pe termen nelimitat planurile de adoptare a monedei euro. Mediafax. Available at: http://www.mediafax.ro/economic/bulgaria-a-inghetat-pe-termen-nelimitat-planurile-de-adoptare-a-monedei-euro-10016966

Sakali, C. (2011). The challenges of EMU integration under the global economic crisis: the case of Bulgaria (Vol. 10). IIPPE Financialisation Working Paper No.

Tempea, O. (2013). Isărescu vorbeşte de adoptarea euro de către România peste un deceniu. Mediafax. Available online at: http://www.mediafax.ro/economic/isarescu-vorbeste-de-adoptarea-euro-de-catre-romania-peste-un-deceniu-11756905

The Sofia Globe. (2015). Bulgaria creates council for preparation for euro zone membership. Available at: http://sofiaglobe.com/2015/07/01/bulgaria-creates-council-for-preparation-for-euro-zone-membership/

The Sofia Globe. (2017). GERB leader Borissov: Bulgaria will apply to join euro zone. Available at: http://sofiaglobe.com/2017/03/31/gerb-leader-borissov-bulgaria-will-apply-to-join-euro-zone/

Visvizi, A., & Tokarski, P. (2014). Poland and the euro: Between lock-in and unfinished transition. Society and Economy, 36(4), 445-468.

Ziarecom. (2012). Lazea (BNR): Nu ne putem gandi inca sa adoptam moneda euro. Available at: http://www.ziare.com/bani/euro/lazea-bnr-nu-ne-putem-gandi-inca-sa-adoptam-moneda-euro-1198030

THE IMPACT OF THE REFORM OF THE EU COMMON AGRICULTURAL POLICY ON THE EUROPEAN INTEGRATION: PROBLEMS AND PROSPECTS

Tatiana HOUBENOVA - DELISIVKOVA,
Professor, Dr.[1]

Abstract

The paper analyses the main contemporary challenges to the reform of the Common Agricultural Policy (CAP) of the EU with regard to the international trade agreements under the auspieces of the WTO. The experience with CAP of Bulgaria and Romania since 2007 is discussed on the basis of the main trends of development of the agricultural sector of both countries. Proposals for further CAP reform are discussed servicing the goal of further increasing the potential of the agricultural sector and rural areas by rebalancing of direct support and rural development. Conclusions are drawn for the effects of the reform of the CAP as regards third countries in the context of the EU's participation in the WTO.

Keywords: agricultural policy, agricultural market, agricultural protection agriculture in international trade agreements

JEL Classification: Q13, Q17, Q18, Q170

Introduction

The Common agricultural policy (CAP) has been developed since the start of the European Communities in 1958 in order to achieve common European goals of agricultural development at the expenses of the Community budget through adequate financing instruments and policy tools. Since 2013 the CAP reform has moved the focus from direct subsidies to agriculture (first pillar of the CAP) to the integrated development of the rural economy and to preserve the environment (pillar II of the CAP). Currently, the CAP post2020 reform has been set on the agenda for the policy makers under domestic and external driving forces.

The paper discusses three main aspects of the Common agricultural policy of the EU with regard to its implications for Bulgaria and Romania as EU member states.

[1] *Tatiana HOUBENOVA - DELISIVKOVA, Professor, Dr.Economic Research Institute of BAS, Sofia, email address: stefanovatatiana@gmail.com*

First, the implementation of the CAP reforms has been undertaken on the basis of politically proclaimed goals of economic integration in Europe. The driving forces for the CAP reforms have undergone changes. At the present stage the CAP has reached its transformation from the initial modes of the support for production through price regulation and market organization and protection by the European communities, to the support for agricultural producers and public goods (like infrastructure) in order to meet its major challenges: the growing demand for agricultural products at the Single Market of the EU and to withstand the competition from the global suppliers of agricultural goods.

Second, the comparative study of the main indicators for the EU agricultural production, price indices and income level of labour force involved in the sector are indicative of existing differentiation and segmentation of product and labour market among the EU member states as a consequence of the availability of different factors of agricultural development.

The problems of the divergencies among the EU member states have not been overcome so far. The pending negotiations of the Brexit have made necessary to take account of the future problems which the EU may encounter with its own Budget in order to maintain adequately the common agricultural policy as well as other common policies of the EU.

The case study of development of the agricultural sector in Bulgaria and Romania as member states of EU-28 is indicative of the existing divergencies and similarities of the agricultural development of the national economies. The CAP impact has not contributed much to the economic and social cohesion in Bulgaria and Romania to the EU due to the outflow of labour force and the high competition by the agricultural imports from other EU member states or third countries.

Third, by revealing the reforms of the CAP since 2013 onwards the evolution of the changes of the EU agricultural policy priorities are presented with regard to the future problems and prospects. The critics of the CAP reform have pointed out the common problems of the agricultural sector in the EU member states which have not been overcome so far in spite of the fact that the financing of the CAP by the EU budget has been dominating as a share of the expenditures of the EU budget. The prospects for the future CAP reform post 2020 are on the agenda to be discussed as challenging issues for the domestic policies.

The external driving forces for the Common Agricultural Policy reforms

The Common agricultural policy of the EU has been undergoing a continuing reform process in the last four decades since 1992. If in its early years CAP has supported production subsidies and farmers' income, presently this policy focuses on granting financial support for specific areas of the agricultural production as well as the overall rural development and the environmental protection.

Under the impact of the GATT (General agreements of tariffs and trade) and since 1994 the WTO (World trade organization) there has been a prolonged list of reforms which followed in sequence with the evolution of the European integration as well as in relation to international trade liberalization negotiations' involvement of the EU.[2] The EU has been involved in the globalized policy making for the agriculture which takes place at the WTO and concerns the intersection between international and domestic global pressures. In spite of the global impact of the trade liberalisation the CAP reform process cannot do away from domestic policies and the state of the European economy.

The greater part of studies consider that the CAP reforms have been triggered and shaped by developments in the WTO agricultural trade negotiations (e.g. Daugbjerg and Swinbank, 2011, Garzon, 2006). Throughout the whole Uruguay Round in the GATT in the 1980s, the EU was under severe pressure to reform the CAP. A similar type of pressure, though less severe, emerged in the Doha Round as it became clear that a new Agreement on Agriculture could not be agreed until the EU had given substantial concessions. This was the situation up until December 2008 when Doha Round stalled. During the Global crisis since mid 2007the WTO trade negotiations were delayed. Some authors (Daugberjerg, Swinbank, 2009) consider that the pressure on the CAP vanished as a result of the stalemate in Doha negotiations since 2008 and there was no prospect of a conclusion of the Round. Thus during the crisis times the CAP reform in the EU has become to a greater extent much more dependent on the domestic policies of the EU which have entered times of fiscal consolidation and fiscal restrictions after the European sovereign debt crisis in the EMU countries.

The process of the deepening and enlargement of the European integration has also complicated the involvement of the EU as global actor. After the enlargement the EU is responsible to represent all member–states at the WTO and to make due notifications for the EU trade regime. [3]

---

[2] The European Union (until 30 November 2009 known officially in the WTO as the European Communities for legal reasons) has been a WTO member since 1 January 1995. The 28 member States of the EU are also WTO members in their own right. As a the EU is a single customs union with a single trade policy and tariff the European Commission is in charge by all EU member States to present the member states at almost all WTO meetings.

[3] In the WTO the negotiations to decrease subsidies in general are the focus of the overcoming trade distortion measures. It is accepted that different type of subsidies be identified by "boxes" which are given the colours: green (permitted), amber (slow down — i.e. be reduced), red (forbidden). The more complicated issues of the agricultural sector have been reflected in the difficulties to achieve agreements on the way the subsidies need to be better classified. The Agriculture Agreement has no red box, although domestic support exceeding the reduction

The Agreement on agriculture under the WTO has been largely elaborated between the US and the EU to establish a hierarchy between different types of agricultural supports: on one hand, subsidies considered coupled and trade-distorting and on the other hand, those allegedly decoupled and non- trade-distorting.[4]

The first type of subsidies includes the export subsidies, the market price supports (MPS) linked to administered prices and the domestic subsidies linked to the present level of production or prices, or on inputs and investments: they were put in the "amber box" or subsidies considered to be AMS (Aggregate Measurement of Support) and subject to reductions during the Uruguay Round implementation period (1995-2000).

Another type of subsidies considered fully decoupled or non-trade-distorting, because not linked to an obligation to produce, were put in the "green box" and exempted from reduction.

However, there are partially decoupled subsidies of the" blue box", which are not subject to reduction in the Agreement on Agricultures. They have been put in the new concept of OTDS (overall trade distorting domestic support) which is a concept decided in the WTO Framework Agreement of 31 July 2004 by the Framework Agreement of 31 July 2004 so that these subsidies at national level would be subject to reductions if the Doha Round is concluded on the lines of the Doha Draft.

Thus the Doha trade negotiations at the WTO have become an important external driving force for the CAP reforms as the agricultural trade has become an area of the globally regulated policies at the WTO. Reforms since the early 1990s have been characterised by gradual policy changes in which policy instruments have been altered in order to limit their trade distorting impact and thus make the CAP more WTO compatible through a change of domestic support instruments from price support to decoupled direct farm payments. In general, the reforms have not involved decisions on reducing or phasing out

commitment levels in the amber box is prohibited; and there is a blue box for subsidies that are tied to programmes that limit production.

[4] Before their adhesion to the EU most new Member- States of Central and Eastern Europe did notify in their Notifications for product subsidies (PS AMS) their tax rebates on agricultural fuels together with many other subsidies which by the EU were not notified as treated to be put in the "green box" of the WTO as defined in Annex 2 of the Agriculture Agreement. In order to qualify, green box subsidies must not distort trade, or at most cause minimal distortion. They have to be government-funded (not by charging consumers higher prices) and must not involve price support. They tend to be programmes that are not targeted at particular products, and include direct income supports for farmers that are not related to (are "decoupled" from) current production levels or prices. They also include environmental protection and regional development programmes. "Green box" subsidies are therefore allowed without limits, provided they comply with the policy-specific criteria set out in Annex 2.

agricultural support, but diversified and modified the forms of producers' support and have made steps forward to improved control of spending.of the EU funds for the agricultural sector.

The Doha negotiations' process at the WTO has continued in the present decade. As a result of the 2013 Ministerial Conference an agreement has been reached on the so called "Bali package" of issues of agricultural sector, including a declaration to abolish export subsidies.[5] On the basis of the decisions of the 2015 WTO Nairobi Ministerial Conference, the EU has taken part in the adoption at the WTO of a historically important decision to eliminate agricultural export subsidies and to set disciplines on export measures with equivalent effect. Under this decision, export subsidies will be eliminated by developed countries immediately, except for a handful of agriculture products, while developing countries have longer periods to do so.[6]

The CAP reform of June 2013 is the latest reform in the sequence of series of reforms in the EU.[7] The support of farm products by subsidies and market regulation has been set to be gradually replaced by choosing another trajectory of support provided to individual producers through direct payments. By financing aid for rural development including infrastructure and modernisation in land management and agrobusiness the CAP as a public policy of the EU has the aim to improve the level of agricultural production and the competitiveness of the agricultural sector of the member states of the EU. At the present stage the CAP becomes an essential issue for maintainance of the Europe food security (Debating Europe, 2016) if we take into consideration the role which the CAP historically has played for the EU to achieve self-sufficiency as regards foods and foods security. This goal of the common policy has been preserved and developed and the European Union has never been threatened by becoming dependent on fluctuating imports of foods.

While the EU has reformed profoundly its CAP since 2003 through an alleged full decoupling of its subsidies to notify them in the "green box" at the

---

[5] The 2013 Bali Minisrerial Conference "package" at the WTO involves several important decisions for further trade liberalization including a declaration to reduce all forms of export subsidies and to enhance transparency and monitoring.of trade agreements' implementation.

[6] By eliminating export subsidies, EU and the other developed coiuntries-WTO members delivered a key target of the Sustainable Development Goal on Zero Hunger. It will help to level the playing field for farmers around the world, particularly those in poor countries which cannot compete with rich countries that artificially boost their exports through subsidies.

[7] The CAP reforms of dairy and cereals' markets' regime in the European communities in 1984 and 1988 were triggered by due changes introduced in the Budget of the EC. Further adjustments have been introduced by the CAP reform in 1992 (known as the MacSharry reform), followed by the Agenda-2000 reform in 1999, the Small Farmers Scheme in 2001, the Fischler reform in 2003 (being accompanied also by a series of second stage commodity specific reforms), the sugar policy reform in 2005 and the Health Check reform in 2008 (Ackrill 2005, Ackrill and Kay 2011).

WTO, the US has kept ignoring the Agreement on agriculture's rules and has to the contrary increased its anti-cyclical subsidies. And the present debates in the Congress show that the US is prepared to get rid of its fixed direct payments and to reinforce its crop insurance subsidies, which could hardly be notified in the "green box".

The paradoxes of the regulation and re-regulation of agricultural trade at the international level are controversial and remain an area of academic and political debates. It is clear that irrespective of the type of subsidies that are classified "green" or "blue", they may have trade-distorting impact, if they are increasing in quantity and are not adequately designed as a support for the farmers because they cause marker failures. The structural adjustment of agricultural production is in need of adequately designed policies.

The CAP of the EU has passed a series of reforms that have brought it to a higher degree of conformity with the changing international agreements at the WTO for the trade with agricultural goods. The Common policy needs to improve further based on three main pillars of the reform of agriculture, namely domestic support, market access and export competition.

The CAP reforms have always had some common European goals to be achieved. Nevertheless the divergencies among the EU Member states are substantial and for each member state there are matters of national interest n. In February 2017 the European Commission launched a public consultation on the future of the CAP. On 2nd May 2017 a clear and strong message reached the European Commission: the EU's agricultural policy needs to be radically changed. This is what 258,708 citizens and 600 civil society organisations and businesses told the Commission in the largest EU public consultation on agricultural policy. The CAP reform in the EU has reached a stage of "prisoners' dilemma" according to some authors (Ghinea,ed., 2009) shows that although in the Member States the agricultural policies are targeting some common European objectives, the CAP is under the pressure to encounter the demands for changes in order to support better some national interests. Reforms since the early 1990s have been characterised by gradual policy changes in which policy instruments have been altered in order to limit their trade distorting impact and thus make the CAP more WTO compatible through a change of domestic support instruments from price support to decoupled direct farm payments. The reforms have not involved decisions on reducing or phasing out agricultural support, but enabled improved control of agricultural spending.

The main trends in the structural adjustment of the agricultural production in Bulgaria and Romania in the period 2003-2010

Bulgaria and Romania have started the adaptation of their agricultural sector with regard to joining the Single Market since the start of the association agreements with the EU. On the basis of start of the negotiations for entry in

2000 the preparation for the EU accession made necessary the structural adjustment of their agricultural production in order to comply with the requirements of the CAP after accession.

On the basis of the Eurostat data for the agricultural production in Bulgaria and Romania in 2003-2010 the comparison of the main trends of the structural adjustments in their agricultural sector shows some similarities as well as differences between the two countries.

Table 1

The main indicators for the agricultural production of Bulgaria in 2003-2010

	2003	**2010**	**Change**
Number of holdings	665 550	370 220	-44.4
Total UAA(ha)	2 904 480	3 616 960	24.5
Livestock	1 628 140	1 149 470	-29.4
Number of persons working on farms (regular labour)	1 348 110	738 630	-45.2
Average Area per holding (ha)	4,4	9.8	-123.9
UAA per inhabitant (ha/per person)	0.37	0.48	29.1

Source: Eurostat, 2015

In the period 2003-2010 the agricultural production in Bulgaria and Romania has undergone substantial changes.

The number of farm holdings has been decreased at a higher rate in Bulgaria (-44.4%) compared to Romania (14.4 %). This is a result of the higher rate of concentration of the farming units in a smaller number of entrepreneurs in Bulgaria compared to Romania. Due to this there has been a rising trend of increasing the total utilized arable land in Bulgaria by 24.5% while in Romania this relative change amounts to -4.5%.

The Situation in Romania has been different as regards the indicators for the utilization of arable land and the size of the farm holdings. The average farm in Romania is 3,3 hectares and the number of self employed and hired labourers on small and medium sized farm holdings is big as percentage of the population engaged in agriculture. At the same time there is a significant number of very large farms that consume the greatest portion of agricultural subsidies under the CAP provisions.

As described by a study of the Romanian Centre of European Policies ,” In fact, Romania has two agricultures, without any relation between them and with divergent objectives and requesting different policies: I. Subsistence agriculture – micro-farms which exist for self-consumption (2.6 million households in Romania own under 1 hectare of land). II. Agro-industrial agriculture - made up of farms with hundreds or rather thousands of hectares(9600 households own over 100 hectares).Middle level agriculture is underdeveloped. Middle farms (between 10 and 100 ha) employ only about 12% of Romania's agricultural surface."(Debating Europe, 2009).

The structure of the land ownership in both countries is a prerequisite for the unfavourable result of the CAP subsidies as the larger farm units receive the predominant share of the total sum of subsidies from the CAP. In spite of the fact that the CAP is meant to protect middle-size farms, subsidies tend to concentrate toward larger one. Thus the social goals of CAP as regards the provision of support to the farmers needs to rebalance the policies in order to stimulate small farmers and to provide support to self employed in small and medium-sized firms.

The experience of both countries with the surface-based subsidy distribution in agriculture through the direct payments' system shows that the effects of the subsiies depends on the size of farms. The strong concentration of payments in the category of very large farms is indicative also for the need to rebalance the rules of the CAP in order to support small and medium sized companies.

In both countries great reduction of the agricultural potential has been sustained as regards the number of persons working on the farms. In Bulgaria it has fallen by – 45.2% while in Romania the reduction amounts to -19.4%. Due to the higher degree of segmentation of the land as a result of the restitution of the land ownership in Bulgaria in real size after the start of the transition to market economy, the average area of land per holding (ha) has undergone a radical reduction of -123.9% in the period 2003-2010. In Romania this indicator has been increased by 11.0% which is a consequence also of the smaller reduction of the number of holdings in Romania in the period under review.

However the indicators for the total utilized agricultural area in Bulgaria as measured in ha and as indicator of UAA per person have changed considerably by 24.5% and 29.1% respectively. In Romania the same indicators show a reduction of the total arable agricultural land in ha by -4.5% and measured as used arable area per person – reduced by 3.1% for the same period.This is a result also of the degree of land concentration in Romania in big farms.

Romania has a farm population five times bigger than the average EU level), but the average size of the farm places the country in the opposite extreme, alongside small countries such as Cyprus or Malta. The percentage of the population working in agriculture in Romania is the largest in the EU, but it declined even before accession (from 36% in 2005 to 30% in 2007 of total active population in Romania in 2007). The most important contributing factor to this decline seems to be external emigration, especially to Spain and Italy, made easier by freedom of movement in Europe.

Table 2
The main indicators for the agricultural production of Romania in 2003-2010

	2003	2010	Change
Number of holdings	4 484 890	3 859 040	-14.4
Total UAA(ha)	13 930 710	13 306 130	-4.5
LIvestock	7 248 920	5 444 180	-24.9
Number of persons working on farms(regular labour)	8 883 590	7 156 930	-19.4
Average Area per holding (ha)	3.1	3.4	11.0
UAA per inhabitant (ha/per person)	0.64	0.62	-3.1

Source: Eurostat, 2015

As regards the employment in the agricultural sector for both countries under review there is a reduction of the employed. In Bulgaria the number of persons regularly employed has fallen at higher rate (-45%) as compared to Romania where the same indicator has been decreased by – 19.4%. In both countries this process of reduced employment in the agricultural sector may be explained by the outflow of workers involved in this sector to seek work abroad.

The agricultural sectors of Bulgaria and Romania have been in a rapid process of adjustments to the CAP since 2007 starting from a state of being poorly integrated into the market economy and still undergoing structural transformation to private ownership of the land and emergence of market organization and market competition. During the present programming period the challenges for adjustment to further changes in the CAP will be growing with regard to the greening of direct payments and to implementation issues of the CAP. CAP is in need to become more comprehensive, simplified and easier to apply by further reform.

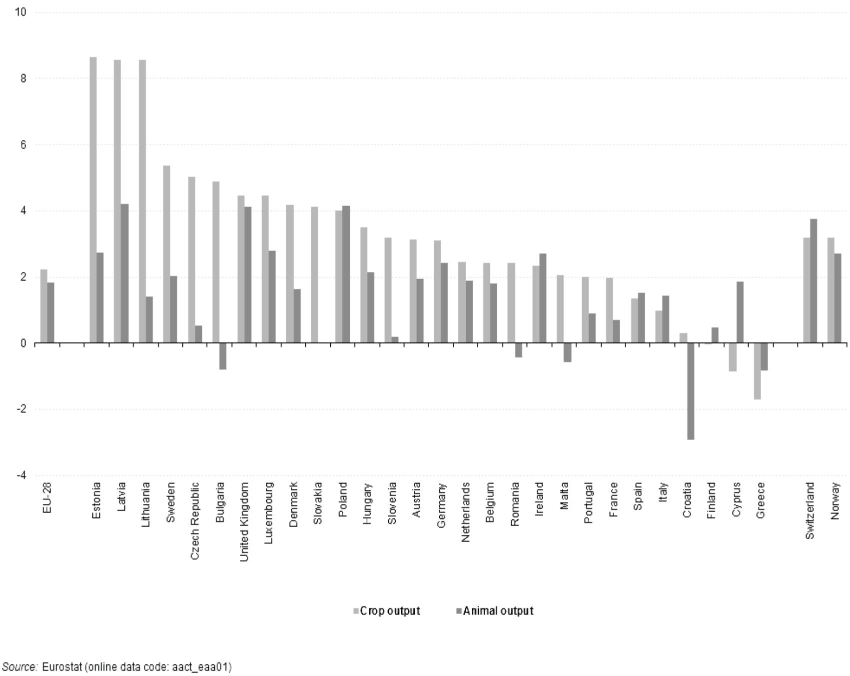
The EU agricultural crop and animal output and value added have been negatively influenced by the Global financial and economic crisis. By the end of 2009 the gross value added of the agricultural sector of the EU not only fell below the level of 2005 but it sustained considerable negative trend. Then the indicators have increased again at a slow rate of growth which has been reduced again since 2014. The changes in the agricultural production are indicative of the challenges in this sector also for both Bulgaria and Romania.

The crop and animal output has developed at a higher rate of change in Bulgaria compared to Romania due to a number of structural differences in the type of farming as well in the reform process. As seen in Fig.1 the changes of the output of agriculture in the period (2005-2015) have been more substantial in Bulgaria compared to Romania. The output of crop production in Bulgaria has risen by nearly 5% annually while the animal production decreased with 0.7% annually

Bulgaria' s agricultural output amounts only to 1 per cent of the total EU-28 output value of agricultural production, while Romania has a share of 4.2 per cent in the EU output of the agricultural industry in 2010 and 3.8 per cent in 2015.

Figure 1

Change in crop output and animal output, 2005–2015 (average annual rate of change, %)



Source: Eurostat 2016.

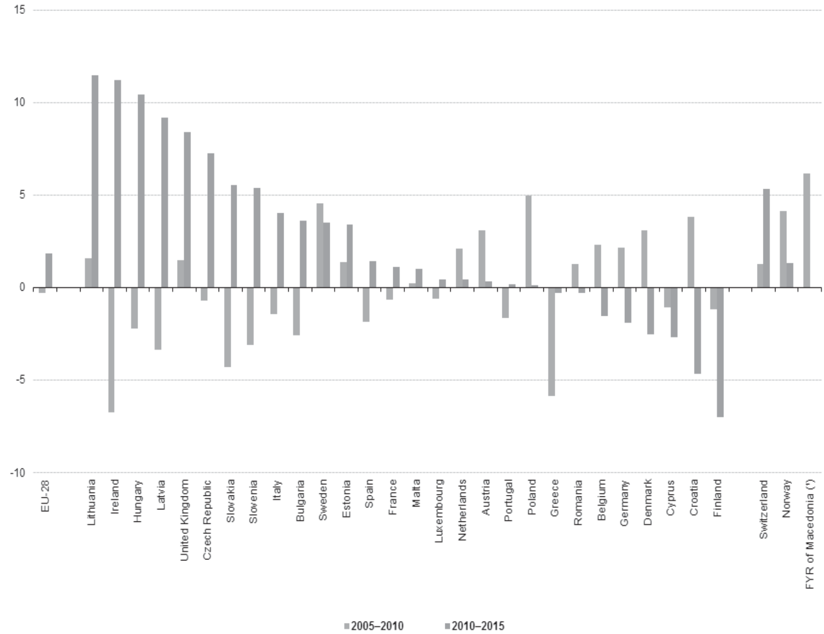
In Romania the crop output has been raised by nearly 4 % annually while the animal output has fallen by 1%. Bulgaria and Romania are among the 5 countries in the EU (including also Croatia, Malta and Greece) whose production of animal output has fallen in 2005-2015 and their imports of meat and meat products has increased.

The changes in the value added of agricultural production are indicative of the vulnerabilities of this sector for both Bulgaria and Romania. (Fig.2).Compared to Romania Bulgaria's data indicate contrasting trends of changing the value added from positive trend for 2005-2010 to negative trend in 2010-2015. Due to a greater dependence on international price fluctuations, number of structural adjustments in the type of farming as well in the reform process in the countries under concern. In 2005-2010 the value added decreased in Bulgaria annually by nearly 3 per cent and then it has risen by nearly 1 %.In Romania the value added is below 1% in 2005-

2010, and in the second period it is below zero.

Figure 2

Change in gross value added of the agricultural sector, 2005–2010 and 2010–2015 (average annual rate of change, %)



(¹) 2010–2015: not available.
Source: Eurostat (online data code: aact_eaa01)

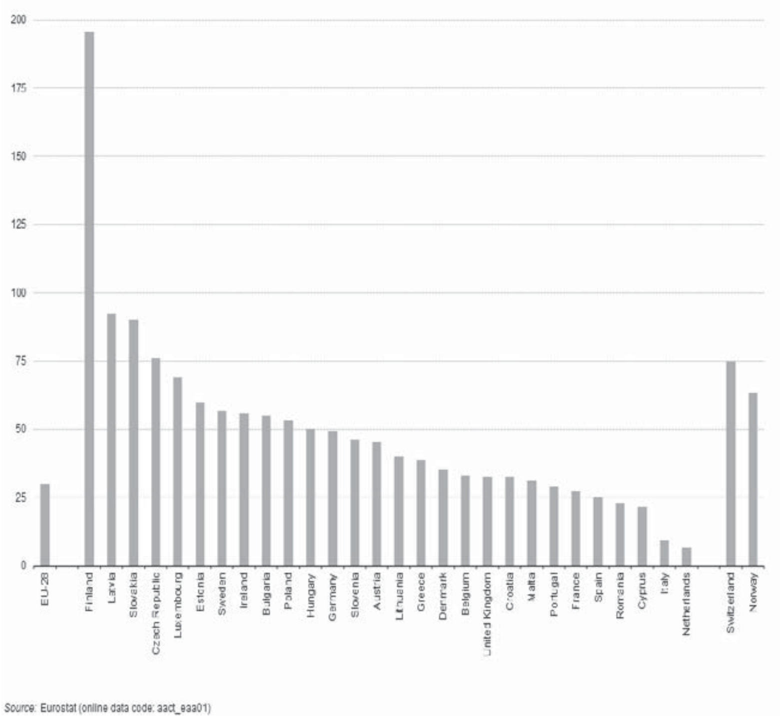
Source: Eurostat 2016.

The comparisons of the data for agricultural subsidies in the EU-28 are indicative for the diversity of the consequences of the CAP on the member states. In 2015, subsidies (after deducting taxes) on products for the agricultural sector were valued at EUR 4.4 billion, while subsidies (less taxes) on production were nearly 10 times this level, at EUR 45.1 billion. Between 2005 and 2015 there was a considerable change in the various types of agricultural subsidies through successive reforms of the CAP: the shift from product to production subsidies was mainly implemented in 2005 and 2006. Product subsidies (less taxes) granted to the agricultural sector in the EU-28 in 2015 were 77.5 % lower than their value 10 years earlier, while the value of production subsidies (less taxes) was almost twice as high

(82.8 % higher) between 2005 and 2015.

Figure 3

Subsidies less taxes in the agricultural sector, 2015 (%, share of value added)

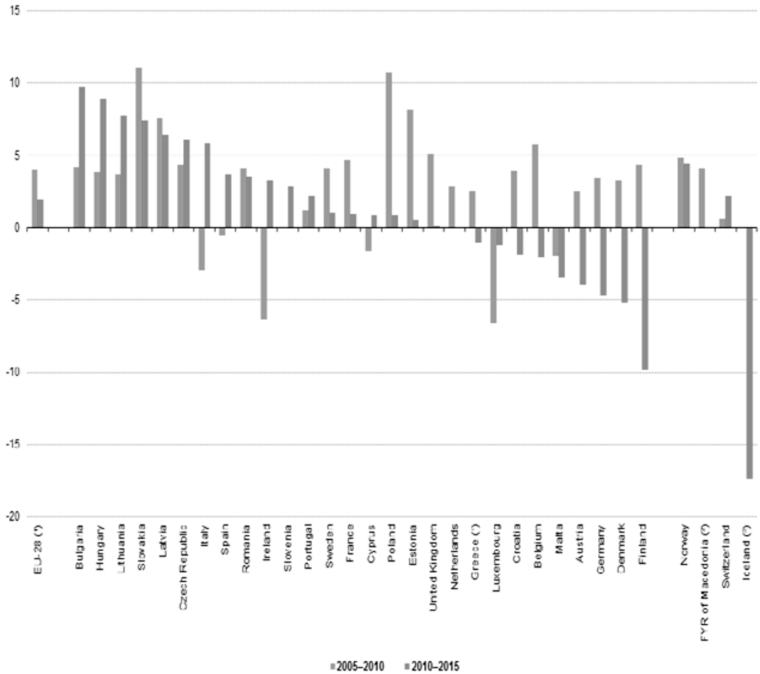


Bulgaria did not have any product subsides (less taxes) in 2005. Since its EU membership Bulgaria has shown a considerably high level of subsidies. Thus, the highest rates of change for production subsidies (less taxes) during the period 2005 to 2015 were recorded in the Netherlands, France and Bulgaria. In half of the EU Member States, production subsidies (less taxes) at least doubled in size during the period under consideration.This is an important outcome of the CAP implementation in Bulgaria.

As seen in Fig3. it is indicative for the state of the production subsidies less taxes in the EU-28 that in spite of the CAP reform the share of the subsidies in per cent from the value added remains for some countries high as the data for 2015 indicate. Bulgaria ranks third by the level of production subsidies less taxes in 2015 after Netherlands and France. Romania presents a case of a country with negative product subsidies and lower average level of production subsidies than the greater part of the EU 28 Member–states in 2015.

Figure 4

Index of income from agricultural activity (indicator A), 2005–2010 and 2010–2015 (average annual rate of change, %)



(¹) Provisional.
(²) 2010–2015: not available.
(³) 2005–2010: not available.
Source: Eurostat (online data code: aact_eaa06)

The index of income in the agricultural sector of Bulgaria(as average rate of annual change in %) has risen for the period 2005-2015 compared to 2005-2010.In Romania this indicator has increased to a lesser degree in 2010-2015 due to the fact that its value was positive also for the period 2005-2010. As a whole the CAP has a positive effect on the level of income in the agricultural sector of both countries.

The internal driving forces of the Common agricultural policy of the EU and the new paths of reforms

Since Bulgaria and Romania have started the EU accession considerable changes have been introduced in the Common agricultural policy of the Union. These changes are undertaken under the pressure of internal and external economic and political factors. The main driving forces of the changes involve the economic challenges of the restructuring of the world agricultural production and trade under the changing conditions of technological changes in agriculture, and natural resources, climate and raised international competition at commodities' markets.

In the last decade the issues of the strategic orientation of the Common agricultural policy have raised their importance.[8] The main objectives of the CAP are historically maintained since 1958: financial support for farmers' incomes, guaranteeing a stable and affordable food supply and promoting the sustainable development of rural space in the European Union. The CAP is one of the success stories of European integration though there have been many controversies about its distributive consequences for the European integration due to the highest share of the EU budget expenditures which it receives through financial instruments annaually, its priorities and the impact of its implementation. The European integration in the agriculture from the very start of the European Community since 1957 is based on the Common agricultural policy. Its specificity to rely on the Budget of the EU for the agricultural development provides for the redistribution of the budget expenditures among the member countries, as well as in targeted directions of development of the CAP in 2014-2020.

Since 2003 the CAP has moved its focus from direct subsidies to agriculture (first pillar of the CAP) to the integrated development of the rural economy and to preserve the environment (pillar II of the CAP).The goals of the CAP remain in compliance with the Treaty of the Functioning of the European Union are as follows: a) to increase agricultural productivity; b) to ensure a fair standard of living for the agricultural community; c) to stabilise markets; d) to assure the availability of supplies; e) to ensure that supplies reach consumers at reasonable prices.[9] The fulfillment of these objectives is combined with the horizontal policy clauses (e.g. on the protection of the environment, consumer protection or animal welfare) in order to achieve sustainable development

Since 2013 the targets set for the implementation of CAP in 2014-2020 has been enriched with wider scope of instruments and priorities as scope of activities including environment, consumer protection, climate and energy targets, etc. The CAP has made possible such policy achievements as turning the EU into a global agricultural producer, as well as achievement of food security, the highest global standards for safe and quality food, minimum standards for the environment, sustainable rural development,

---

[8] The ten priorities of the Juncker Commission (http://ec.europa.eu/priorities/index_en) 3http://ec.europa.eu/eu2020/pdf/COMPLET%20EN%20BARROSO%20%20%20007

[9] The Treaty of the Functioning of the European Union (TFEU), Article 39.

and modernisation of European agricultural practices.

Since 2013 the CAP has moved its focus from direct subsidies to agriculture (first pillar of the CAP) to the integrated development of the rural economy and to preserve the environment (pillar II of the CAP. The new CAP framework applies the sustainable component of financial support (through the Green Direct Payment that are becoming compulsory) and also supports the rural safety nets (emergency support in case of market crises or external shocks). The market support measures are to contribute to enhance market orientation and competitiveness of farmers.(In this context, it should be noted that since January 2015 the "cross-compliance" mechanism is mandatory for Member States and has become more eco-friendly by introducing a new tool: the Green Direct Payments. The Green Direct Payments are mandatory for Member States and must represent 30% of all Direct Payments. Farmers receive Green Direct Payments in case of some mandatory agricultural practices: maintenance of permanent grassland, ecological focus areas and crop diversification.

The Green Direct Payments will enable the Member States to improve their environmental performance through financing more sustainable production methods. Although the new rules are requiring the compliance of some mandatory objectives related to rural areas sustainable development, they still offer Member States the possibility to finance some specific national objectives, adapted to local needs. Such measures (e.g. those funded under the LEADER Axis) are supporting the "bottom-up" rural development. In order to implement this type of financial support for agriculture and rural areas, the Member States benefit from complementary tools: the Farm Advisory System, funds from the European Innovation Partnership and funding for applied research projects to support European farmers to find solutions for the specific problems they face. Moreover, presently, due to its multiple reforms, CAP became capable of responding to external challenges which may have a negative impact on the agricultural sector from the Member States.

The CAP has undergone changes in order to modernize the approaches of better management of different types of risks and to take into account the Sustainable Development Goals and the climate commitments of the Paris Agreement, recently ratified. But there are challenges to the CAP to deliver ambitious international agreements, such as the SDGs and the Paris agreement on climate change.[10]

A set of market measures designed notably to provide a more rapid and sectoral response during economically challenging times, to improve the effectiveness of risk management tools and safety nets, and to strengthen farmers' position in the food chain; have been regarded as new priorities of CAP. The achievement of a more sustainable system of agricultural production, with climate change moving up the agenda is a top environmental priority and technology and investment are presented as key tools to

[10] The Sustainable Development Goals (SDGs), officially known as Transforming our world: the 2030 Agenda for Sustainable Development is a set of 17 "Global Goals" with 169 targets between them. a broader intergovernmental agreement that acts as the Post 2015 Development Agenda (successor to the Millennium Development Goals).

apply in favour of growth.

The main feature of the reforms of CAP has been its evolution from the support for production by product subsidies and price interventions at the Common market to the support for producers. The CAP has been in structural adjustment to meet the challenges of raising the supply of agricultural goods, satisfying the growing demand and providing adequate support for the selfsufficiency of the Common market for agricultural goods and thus raising the employment and income in the agricultural sector and the living standard in the EU member states.

There are several major challenges to the CAP of the EU:1) the growing demand for agricultural products in the context of European Union enlargement; 2) the rising international competition on the side of other agricultural producers from third countries; 3) the problem of the low farm income and 4) the WTO challenges to the EU to reduce the domestic production subsidies to farmers as the one of its main component – the direct payments regime continues to be considered by third countries as distorting trade.

The CAP has constantly evolved both in terms of objectives and of main financing tools (Direct Payments, Rural Development Programmes). If in its early years CAP has supported production subsidies, presently this policy focuses on granting financial support for the European farmers, the sustainable rural development and the environmental protection. Through its financial tools, the CAP has evolved gradually from the support for products to the support for producers in order to meet one of its major challenges.

The CAP has contributed to develop the agriculture as a strategic sector of the EU countries that must continue to provide for the growth of the European economy. The agricultural sector represents 6% of the GDP of the European Union (EU) and the agrifood industry generates annual sales of €1,000bn, or 15% of EU GDP. Agricultural products represent 8% of European exports (€120bn in 2015). In the context of globalised competition, high competitiveness in agricultural and agrifood supply chains have become necessary for the farmers to survive. The agriculture in the EU has contributed so far for the employment as in the EU there are 46 million jobs in the EU agricultural and food industry.

Thus the framework for the CAP in 2014-2020 has embraced a wide scope of EU initiatives and activities which are much in demand both internally and externally in the EU to respond to the pending changes in the world economy. In the light of internal and external challenges the formulated political priorities reflect the specific needs of the agricultural sector and rural development of the EU member states.

The framework of the CAP policy has been considerably restructured. During 2014-2020 a major CAP priority is to reduce the inter-regional development disparities. In order to meet this specific objective the Member States are allowed to select measures adapted to their needs and to manage national programs addressing their specific vulnerabilities (through the co-funding process).(Dragoi,, 2016).

The future reform of CAP for post 2020: challenges and new concepts

As regards the reform of the CAP the pressure from stakeholders especiialy farmers and their associations, has been increased due to the fact that the critics of the

CAP stand firmly in favour of better design of the future CAP in order to avoid the risks of oversimplification of the CAP. The critics of the CAP reform so far stress the necessity of a stable, simple EU agricultural policy that works for farmers, for consumers, for the environment so that the economies of rural areas across Europe can be developed in stead of being abandoned. The farmers underline the issues of efficient usage of resources to invest in innovative production so that they can contribute to one of the biggest challenges over the next decade: the need for increased food production for a growing world population and also to continue the fight against climate change which threatens food production. Uptake of these new technologies need to be increased. EU support and training is essential here and a policy to support adequate broadband infrastructure so that farmers can profit from digital farming. Rural development policies have been acknowledged in the Cork Declaration of the European Council as they are also crucial to support investments, innovation, enhance biodiversity. In addition, the fight against red tape that is stifling innovation in the EU agriculture sector must be cut. The policy makers also have addressed new issues of the CAP in order to open the way for introducing changes in the regulatory framework. The Report of French National Assembly has underlined the need to take into consideration the needs of the farmers and to reconsider the issues of the consumer protection from and against bad practices of the food industries.(French National Assembly, 2017).

The critics of the CAP reform have also underlined the need to stand for stable incomes and economic visibility. As negative trends so far two cases are pointed out: the lack of economic visibility conspicuously absent in the European dairy crisis of recent years and the double standards “second” countdown low rated” products for Central and Eastern Europe.

Both farmers and consumers are in favour of higher rate of real bargaining power in downstream price negotiations with food processors and retailers. Against standartizationthat ruins agricultural product diversity and underestimates consumer protection.

The vision for a stable, sustainable CAP, which maintains both the first and second pillars and direct payments to farmers, is to be ensured for post-2020 CAP of the EU. The CAP post-2020 has to respond better to consumer demands and to over crises of trust in the quality of agricultural products and must be based on economics so that farmers and agri-cooperatives can plan ahead and remain viable.

Tools at farm level are to be developed in the CAP post-2020 to help farmers remain viable and better manage the risks of increasingly volatile markets. For example, risk management measures, insurance, futures markets, stronger measures to manage the market. The future of CAP post 20202 reform will depend on the agreement for the new model of European integration which is debated at present when the Brexit will make necessary. According to A.Mathew (2017):” Brexit is likely to leave a hole in the EU budget of the order of €10 billion, which is around 7% of the €138 billion EU-27 budget (without the UK). If the UK were to leave in early 2019, then funding for the CAP (and other EU programmes) would be in jeopardy in the last two years of the current MFF.”

References

Ackrill,R.W. and A.Kay (2011), Multiple streams approaches to EU policy –making: the 2005 sugar policy reform, Journal of european Public Policy, 18(1), 72-89.

Buckwell, A. et al. 2017. CAP - Thinking Out of the Box: Further modernisation of the CAP – why, what and how? RISE Foundation, Brussels

David Orden, David Blandford and Tim Josling (2011), WTO disciplines on agricultural support, Cambridge University Press.

Daugbjerg, C., A.Swinbank (2009), Ideas, Institutions and Trade: The WTO and the Curious Role of EU Farm Policy in Trade Liberalisation, Oxford,; Oxford University Press, pp.34-56.

Dragoi, A.Em. and A.Ch. Balgar, (2016) Financing the European Agriculture: A Comparative Approach across the Member States, In: Centre for European Studies, Institute for World Economy, Romanian Academy r, No.13, Bucharest ROMANIA. http://www.globeco.ro/wp-content/uploads/vol/split/vol_4_no_1/geo_2016_vol4_no1_art_002.pdf

European Parliament (2016) Research for AGRI Committee - CAP Reform Post-2020 - Challenges in Agriculture, 14-10-2016

Garzon, I. (2006), Reforming the Common Agricultural Policy: History of Paradigm Change, Basingstoke:Palgrave.

Ghinea,Cr.,(ed.)(2009) Debating Europe:Two extremes don't make one right: Romania and the Reform of the Common Agricultural Policy of the EU, Romanian Centre for European policies,Soros Foundation, Romania.

Mathew, A.(2017) CAP – out of the box thinking, March 29, 2017

Swinbank, A.(2012) New direct payments' Scheme: targeting and redistribution in the future CAP,Brussels, European parlia ment, European Parliament's Reference: PE 474.528).

The French National Assembly report number 4471 on the future of the CAP after2020 at http://www.assemblee-nationale.fr/14/europe/rap-info/i4471.asp

COMPARATIVE ANALYSIS OF THE ABSORPTION OF THE RESOURCES FROM THE EUROPEAN STRUCTURAL AND INVESTMENT FUNDS IN BULGARIA AND ROMANIA DURING PROGRAMMING PERIOD 2014 - 2020

Aglika KANEVA, Ph. D.[1]

Abstract

In the paper, the absorption has been examined of the resources from the European structural and investment funds in Bulgaria and Romania during programming period 2014 – 2020 - European regional development fund, European social fund, Cohesion fund, European agricultural fund for rural development (EAFRD), European maritime and fisheries fund (EMFF) and the Youth employment initiative under the ESF until now. A comparative analysis has been made of the absorption of the financing from the European Union Funds in the two countries. The utilization of the funds has been examined under the operational programmes through which the financing from the European Funds is allocated in Bulgaria and Romania. Major trends in the process of the European funds' assimilation have been outlined.

Keywords: Structural and investment funds of the European Union, absorption, operational programmes

JEL Classification: F36.

Introduction

As European Union member states, Bulgaria and Romania receive resources from the structural funds, which support their economic development. For that reason it is important the European funds to be absorbed to the maximum extent possible. Bulgaria and Romania joined together the European Union in 2007. It is of interest to assess the progress in utilization of the financing from the European funds in both countries, as well as to make a comparison between them.

The examination of the extent of absorption from the European structural and investment funds (ESIF) in Bulgaria and Romania during programming period 2014 – 2020 covers European regional development fund (ERDF), European social fund (ESF), Cohesion fund (CF), European agricultural fund for rural development (EAFRD), European maritime and fisheries fund (EMFF) and the Youth employment initiative (YEI) under the ESF. The analysis is made as of 02.2017. In this research, official statistical data of the European Commission have been used.

[1] *Senior Assistant Professor, UNWE, Sofia, e-mail: aglika.kaneva@abv.bg*

1. Comparative analysis of the absorption of the resources from the structural and investment funds in Bulgaria and Romania

Table 1 presents the planned, decided and spent resources under the structural and investment funds of the European Union in Bulgaria and Romania during programming period 2014 – 2020 at 28.02.2017.

The total budget under the structural and investment funds of the European Union for programming period 2014 – 2020, provided to Bulgaria, amounts to 9,877 billion euro. The amount of the resources under the European regional development fund is largest - 3,568 billion euro, the financing under the European agricultural fund for rural development is in the next place by size to the amount of 2,367 billion euro, then follows Cohesion fund of 2,278 billion euro, European social fund with 1,466 billion euro and European maritime and fisheries fund with 0,088 billion euro. When the national co-financing is also added, the sum at disposal under the European funds during the current programming period equals to 11,734 billion euro.

Table 1

Planned, decided and spent resources under the European structural and investment funds in Bulgaria and Romania during programming period 2014 – 2020 as of 02.2017 (billion euro)

Fund	Planned funds			Decided funds	Spent funds
	EU	National co-financing	Total		
Romania					
ERDF	10,726	2,528	13,254	0,951	0,109
ESF	4,668	0,819	5,487	0,166	0,007
CF	6,935	1,758	8,693	0,655	0,05
EAFRD	8,128	0,431	8,559	2,382	0
EMFF	0,168	0,055	0,224	0	0
YEI	0,212	0,019	0,231	0	0
Total	30,837	5,61	36,448	4,154	0,167
Bulgaria					
ERDF	3,568	0,612	4,179	1,81	0,38
ESF	1,466	0,256	1,723	0,6	0,096
CF	2,278	0,402	2,68	0,717	0,084
EAFRD	2,367	0,551	2,918	0,696	0
EMFF	0,088	0,025	0,114	0	0
YEI	0,11	0,01	0,12	0,109	0,008
Total	9,877	1,856	11,734	3,931	0,566

Source: https://cohesiondata.ec.europa.eu

It is noticeable that the European financing which is provided to Romania is of considerably higher value in comparison with the allocated resources for Bulgaria as a whole and by the individual funds. During programming period 2007 – 2014, the total budget under the structural and investment funds for Romania amounts to 30,837 million euro. When the national co-financing is also added, the total amount of the funds at disposal of Romania is 36,448 billion euro.

The decided funds as of March 2017 by the two countries are at close values, respectively 4,154 billion euro by Romania and 3,931 billion euro by Bulgaria. The decided funds on all structural funds by Bulgaria exceed the decided funds by Romania, save for EAFRD, under which the decided funds by Romania are 2,382 billion euro, and by Bulgaria 0,696 billion euro. There are not agreed funds yet in Romania under EMFF and YEI, and in Bulgaria under EMFF.

The resources paid to the beneficiaries from the European funds for programming period 2014 – 2020 in Bulgaria are equal to 0,566 billion euro. The size of the spent resources under the European regional development fund is biggest amounting to 0,38 billion euro, or nearly 70% of the totally spent resources under the structural and investment funds of the European Union. The European social fund comes next with 0,096 billion euro, followed by the Cohesion fund with 0,084 billion euro and the Youth employment initiative with 0,008 billion euro. It should be noted that there are not yet spent resources under the European agricultural fund for rural development and European maritime and fisheries fund.

The spent resources from the European funds in Romania amount to 0,167 billion euro. This sum is over threefold less than the utilization in Bulgaria. Although that the funds provided by the European Union to Romania are of several times higher value than the financing for our country, the absorption at this point is considerably lower. The European financing is absorbed at slower rates in Romania, compared to Bulgaria.

The spent at this point of time financing under every of the funds in Bulgaria also exceeds the utilization in Romania. The absorption in Romania is highest in value under ERDF - 0,109 billion euro. Next come ESF and CF, respectively with 0,007 billion euro and 0,05 billion euro. As of February 2017, in Romania the absorption of EAFRD, EMFF and YEI has not begun yet.

Table 2 shows the ratios of decided to planned funds and spent to planned funds under the structural and investment funds of the European Union in Bulgaria and Romania in programming period 2014 – 2020 at 28.02.2017.

In total, the spent resources from the European funds in Bulgaria amount to 4,8% from the overall budget under the funds. As of February 2017, the highest percent of absorption was that under ERDF - 9,1% in Bulgaria. YEI was in second place with 6,6% absorption, then the European social fund followed with a share of spent funds to total budget of 5,6% and the Cohesion fund with 3,1%. Lower extent of absorption of the resources under the Cohesion fund is noticeable, compared to the other European funds during programming period 2014 – 2020. Most likely this can be explained with the specifics of the projects which are implemented with resources from the Fund. The Cohesion fund provides resources under OP Transport and transport infrastructure and OP Environment. Large infrastructure project are financed in the areas of transport and environment, which are at a considerable amount and are implemented for a longer period of time.

Table 2

Ratios of decided to planned funds and spent to planned funds under the European structural and investment funds in Bulgaria and Romania in programming period 2014 – 2020 at 02.2017 (%)

Fund	Romania		Bulgaria	
	Decided to planned funds	Spent to planned funds	Decided to planned funds	Spent to planned funds
ERDF	7,2	0,8	43,3	9,1
ESF	3	0,1	34,8	5,6
CF	7,5	0,6	26,7	3,1
EAFRD	27,8	0	23,8	0
EMFF	0	0	0	0
YEI	0	0	90,8	6,6
Total	11,4	0,5	33,5	4,8

Source: https://cohesiondata.ec.europa.eu

Both the share of the decided to the planned funds, and the share of the spent to the planned funds are considerably lower for Romania, than in Bulgaria. The ratio of the totally decided to planned funds in Romania is 11,4%, and for Bulgaria - 33,5%. The ratio of spent to planned funds for Romania amounts to 0,5%, or over ninefold less than the index value for Bulgaria. The process of agreeing and absorption of the European funds is slower in Romania, compared to our country. In Romania the share of the spent funds is highest in the budget of ERDF - 0,8%. Then CF follows with 0,6% and ESF with 0,1%.

2. Comparative analysis of the absorption by operational programmes in Bulgaria and Romania

Tables 3, 4, 5 and 6 present the planned, decided and spent funds and the ratios of decided to planned funds and spent to planned funds by operational programs in Bulgaria and Romania during programming period 2014 – 2020 at 28.02.2017 г.

Table 3

Planned, decided and spent funds by operational programmes in Bulgaria in programming period 2014 – 2020 as of 02.2017 (billion euro)

Operational programme	Planned funds			Decided funds	Spent funds
	EU	National co-financing	Total		
National Rural Development – EAFRD	2,367	0,551	2,918	0,696	0
Good Governance – ESF	0,286	0,050	0,336	0,064	0,004
Innovations and Competitiveness – ERDF	1,080	0,191	1,270	0,603	0,144
Regions in Growth – ERDF	1,312	0,231	1,543	0,645	0,057
Science and Education for Smart Growth - ESF/ERDF	0,596	0,105	0,701	0,162	0,005
Environment - ERDF/CF	1,505	0,266	1,770	0,283	0,022
Human Resources Development - ESF/YEI	0,939	0,154	1,092	0,483	0,095
Maritime and Fisheries – EMFF	0,088	0,025	0,114	0	0
SME Initiative – ERDF	0,102	0	0,102	0,102	0,095
Transport and transport infrastructure - ERDF/CF	1,604	0,283	1,888	0,894	0,146

Source: https://cohesiondata.ec.europa.eu

Table 4

Ratios of decided to planned funds and spent to planned funds by operational programmes in Bulgaria in programming period 2014 – 2020 as of 02.2017 (%)

Operational programme	Decided to planned funds	Spent to planned funds
National Rural Development – EAFRD	23,8	0
Good Governance – ESF	18,9	1,2
Innovations and Competitiveness – ERDF	47,5	11,3
Regions in Growth – ERDF	41,8	3,7
Science and Education for Smart Growth - ESF/ERDF	23	0,7
Environment - ERDF/CF	16	1,2
Human Resources Development - ESF/YEI	44,3	8,7
Maritime and Fisheries – EMFF	0	0
SME Initiative – ERDF	100	93,5
Transport and transport infrastructure - ERDF/CF	47,4	7,7

Source: https://cohesiondata.ec.europa.eu

Table 5

Planned, decided and spent funds by operational programmes in Romania in programming period 2014 – 2020 as of 02.2017 (billion euro)

Operational programme	Planned funds			Decided funds	Spent funds
	EU	National co-financing	Total		
Administrative Capacity – ESF	0,553	0,105	0,658	0,123	0,007
Human Capital - ESF/YEI	4,327	0,733	5,059	0,042	0
Large Infrastructure Programme - ERDF/CF	9,419	2,463	11,882	0,655	0,05
National Rural Development – EAFRD	8,128	0,431	8,559	2,382	0
Technical Assistance – ERDF	0,213	0,038	0,251	0,064	0,000425
Competitiveness Programme – ERDF	1,33	0,253	1,583	0,704	0,000186
Integrated Regional Programme – ERDF	6,6	1,531	8,131	0,083	0,016
Maritime and Fisheries – EMFF	0,168	0,055	0,224	0	0
SME Initiative – ERDF	0,1	0	0,1	0,1	0,093

Source: https://cohesiondata.ec.europa.eu

Table 6

Ratios of decided to planned funds and spent to planned funds by operational programmes in Romania in programming period 2014 – 2020 as of 02.2017 (%)

Operational programme	Decided to planned funds	Spent to planned funds
Administrative Capacity – ESF	18,7	1,1
Human Capital - ESF/YEI	0,8	0
Large Infrastructure Programme - ERDF/CF	5,5	0,4
National Rural Development – EAFRD	27,8	0
Technical Assistance – ERDF	25,5	0,2
Competitiveness Programme – ERDF	44,5	0
Integrated Regional Programme – ERDF	1	0,2
Maritime and Fisheries – EMFF	0	0
SME Initiative – ERDF	100	93,1

Source: https://cohesiondata.ec.europa.eu

As it can be seen from Table 3, the financing by the European Union for Bulgaria under the National Rural Development Programme is at largest amount of 2,367 billion euro. It is financed by EAFRD. OP Transport and Transport Infrastructure and OP Environment follow, respectively with 1,604 billion euro and 1,505 billion euro in programming period 2014 – 2020. These operational programmes are financed by funds of ERDF and CF. The budget provided under OP Regions in Growth and OP Innovations and Competitiveness also amounts to considerable sums, which are financed by ERDF. The budget by the individual operational programmes for Romania is of considerably higher values, compared to the analogous programmes for Bulgaria.

Largest amount of spent funds from the European Union in Bulgaria is that under OP Transport and Transport Infrastructure with 0,146 billion euro, OP Innovations and Competitiveness of 0,144 billion euro and OP Human Resources Development and Operational Programme SME Initiative, each with 0,095 billion euro. The absorption is lowest in OP Good Governance to the amount of 0,004 billion euro, at near levels being also the absorption under Operational Programme Science and education for smart growth 2014-2020 of 0,005 billion euro. At this time, in Bulgaria absorption of funds under the National Rural Development Programme и Maritime and Fisheries Programme 2014-2020, has still not begun.

The spent funds under operational programmes in Romania are less than in Bulgaria in absolute terms. The largest amount in Romania is that of the absorbed European financing under Operational Programme SME Initiative of 0,093 billion euro. Large Infrastructure Programme with 0,05 billion euro and Integrated Regional Programme with 0,016 billion euro of spent funds are next in place.

As it can be seen in Table 4, the extent of decided funds under operational programmes in Bulgaria is different. Under Operational Programme SME Initiative, the whole available budget is decided. The share of the decided in the planned funds is also high in Operational Programme Innovation and Competitiveness - 47,5%, Operational Programme Transport and Transport Infrastructure - 47,4%, Operational Programme Human Resources Development 2014-2020 with 44,3% and Operational Programme Regions in Growth with 41,8%. It has to be noted that there are no funds agreed under Maritime and Fisheries Programme in Bulgaria. As a whole, the share of the decided funds in the budget under the operational programmes in Romania is lower, compared to Bulgaria.

The share of spent to planned funds in Bulgaria in programming period 2014 – 2020 is highest in Operational Programme SME Initiative, where 93,5% of the budget under the Programme is paid. Operational Programme Innovation and Competitiveness 2014-2020 comes in next with an absorption rate of 11,3%, followed by OP Human Resources Development with 8,7% and Operational Programme Transport and Transport Infrastructure 2014-2020 with 7,7%. A lower absorption rate, compared to the other operational programmes in Bulgaria, have OP Science and Education for Smart Growth with a share of spent funds to total budget under the programme of 0,7%, as well as OP

Environment and OP Good Governance, each with 1,2%.

The ratio values of spent to planned funds under the operational programmes in Romania are lower in comparison with the achieved results in Bulgaria. In Romania, as well, the highest rate of spent funds is that under Operational Programme SME Initiative of 93,1%. The absorption under Operational Programme Administrative Capacity is 1,1% from the allocated for it budget, and in the other programmes the absorption is below 1% of their budget.

Conclusions

The conclusions which can be made from the analysis of the absorption of resources from the structural and investment funds of the European Union in Bulgaria and Romania in programming period 2014 – 2020, are as follows:

- the funds from the European Union for Romania are over threefold higher than the European financing for Bulgaria in programming period 2014 – 2020. The financing under each of the funds for Romania also exceeds the allocated budget for our country;
- the spent funds from the European structural and investment funds in Bulgaria in programming period 2014 – 2020 amount to 0,566 billion euro. Largest amount of spent funds is the one under the European regional development fund of 0,38 billion euro, or nearly 70% of the totally spent funds, followed by the European social fund with 0,096 billion euro, the Cohesion fund with 0,084 billion euro and the Youth Employment Initiative with 0,008 billion euro.
- in Bulgaria there were not yet spent funds from the European agricultural fund for rural development and European maritime and fisheries fund as of February 2017;
- the spent European funds in Romania are of a much lower value, compared to Bulgaria, as a whole and under the individual funds. The European financing is absorbed at faster paces in Bulgaria, compared to Romania. The highest value of absorption in Romania is that under ERDF to the amount of 0,109 billion euro. Next follows ESF with 0,007 billion euro and CF with 0,05 billion euro.
- the financing under EAFRD, EMFF and YEI is still not being absorbed in Romania;
- the total spent resources from the European structural and investment funds represent 4,8% of the budget under the funds for Bulgaria. The absorption rate is highest under ERDF - 9,1%, followed by YEI with 6,6%, ESF with 5,6% and CF with 3,1%. The considerably lower absorption of the resources under the Cohesion fund most likely is due largely to the specifics of the financed projects. Large infrastructure projects in the area of transport and environment are financed by the

resources of the Cohesion fund, which are at a considerable amount and with longer period of implementation;

- the performance in the absorption of resources under ERDF in Bulgaria and Romania is the best;
- the values of ratios of decided to planned funds and of spent to planned funds are many times lower for Romania than in Bulgaria. This indicates that the agreeing and absorption of the financing from the European funds is slower in Romania, compared to Bulgaria.
- the biggest in size budget for Bulgaria is that under the National Rural Development Programme, OP Transport and Transport Infrastructure and OP Environment in programming period 2014 – 2020, respectively 2,367 billion euro, 1,604 billion euro and 1,505 billion euro;
- the financing allocated under operational programmes for Romania is of considerably higher values, compared to Bulgaria;
- the highest absorption in Bulgaria is under OP Transport and Transport Infrastructure with 0,146 billion euro, followed by OP Innovation and Competitiveness - 0,144 billion euro and Operational Programme SME Initiative and OP Human Resources Development, each with 0,095 billion euro. The smallest amount of spent funds is under OP Good Governance - 0,004 billion euro. There are no spent funds under the National Rural Development Programme and Maritime and Fisheries Programme in Bulgaria;
- the absorbed financing under the individual operational programmes in Romania is of lower value than in Bulgaria in absolute terms. Highest absorption is that under Operational Programme SME Initiative of 0,093 billion euro, Large Infrastructure Programme with 0,05 billion euro and Integrated Regional Programme with 0,016 billion euro;
- the level of decided funds under the individual operational programmes in Bulgaria is higher compared to Romania;
- in Bulgaria, during programming period 2014 – 2020, the ratio values of spent to planned funds from the European Union are highest under OP SME Initiative, where 93,5% of the budget under the Programme are paid. Next come Operational Programme Innovation and Competitiveness 2014-2020 with 11,3%, OP Human Resources Development with 8,7% and Operational Programme Transport and Transport Infrastructure 2014-2020 with 7,7%. Lowest absorption rate, compared to the other operational programmes, is indicated in OP Science and Education for Smart Growth - 0,7%, and OP Environment and OP Good Governance, each with 1,2%;
- the results which are achieved in the funds absorption under the Maritime and Fisheries Programme 2014-2020, the National Rural Development Programme, Operational Programme Science and Education for Smart Growth and OP Good Governance are lower in

comparison with the other operational programmes in Bulgaria during programming period 2014 – 2020;

- the share of spent to planned funds under the operational programmes in Romania is less than the received European financing by the beneficiaries in Bulgaria. In Romania, too, the highest absorption rate is under Operational Programme SME Initiative of 93,1%. The share of spent in planned funds under Operational Programme Administrative Capacity is 1,1%, and under the other operational programmes the absorption is below 1% of the provided budget.

References

https://cohesiondata.ec.europa.eu
http://www.minfin.bg
www.eufunds.bg

THE EUROPEAN UNION CAPITAL MARKETS UNION: REFLECTION ON MAIN POLICY ASPECTS AND METHODOLOGICAL CHALLENGES FOR SME FINANCING

Milan VEMIC, PhD[1]
Julia STEFANOVA, PhD[2]

Abstract
The main purpose of this report is to analyze the EU level progress in overcoming the still fragmented capital markets in the aftermath of the global financial and economic crisis. Secondly, authors reflect on the current initiative for the creation of an EU capital markets union. Finally, the report evaluates the main policy aspects in the creation of a pan-European capital market and proposes a methodological framework for financial optimization of SMEs in facilitating their access to specialized segments of EU stock exchanges in the course of their adjustment to the Capital Markets Union.

Keywords: European financial integration, financial optimization of SMEs

JEL Classification: E69, F21, G15

Introduction

The main challenges after the 2008 crisis are that trading conditions are becoming more complex, while market regulations are lagging behind the realities. As a result, the European Commission undertook a comprehensive review of the capital markets legal framework with a view to enhancing investor confidence, reducing market and systemic risks, boosting the efficiency of financial markets and reducing costs for market participants. The idea of building a Capital Markets Union (CMU) in the EU has been announced in a report by Jean-Claude Juncker (2014), backed by the European Commissioner on Financial Stability, Financial Services and Capital Markets Union Jonathan Hill. In the aftermath of the global economic and financial crisis the banking sector has considerably reduced its funding and increased lending requirements for small and medium-sized (SMEs), start-ups and innovative companies. In times of economic

---

[1] *Professor, Higher Education Institution "Dositej, Belgrade, Serbia*
[2] *Senior Assistant Professor, Economic Research Institute at the Bulgarian Academy of Sciences*

downturn, capital markets can act as alternative sources of equity financing for companies in the form of equity capital and other alternative financial forms of financing.

In 2015 the European Commission adopted the Action Plan on Building a Capital Markets Union (Action Plan) (European Commission, 2015) to support economic convergence and unlocking investments for SMEs, infrastructure and long-term sustainable projects. The purpose of the CMU is to make the financial system more stable, to resist economic shocks, to give SMEs access to diversified sources of finance and to be less dependent on bank lending, with a view to deepening financial integration and enhancing competitiveness (Association for Financial Markets in Europe, 2014). According to analyzes by the European Commission (2015), countries with a predominant share of stock market fund-raising are recovering faster than those dominated by bank lending following recessions. By increasing the level of economic development, the optimal structure of the financial system is in the direction of expanding the role of capital markets. Langfield and Pagano (2015) found that the predominance of the share of the bank sector over that of the stock market correlated with a lower level of GDP. In an integrated theoretical framework, banking and capital markets are complementary components of the financial system. The Action Plan is a continuation of the stated intentions in a report by J.C.Juncker, D.Tusk, M. Draghi, M.Schulz, J.Dijsselbloem (2014) on progress in the EU towards a financial union in order to ensure the unity of the EU within the monetary union by sharing risk with the private sector. The Single Market Strategy, the Single Digital Market Strategy and the Action Plan are the EU documents that form the core of the European reform program which is about to be implemented in close cooperation between the European institutions and the Member States at national, regional and local level. In the Single Market Act (2015), the European Commission outlined the vision of a forthcoming initiative for start-up companies to reduce the administrative burden on them so that Europe becomes an attractive destination for innovations.

The Action Plan contains over 40 measures aimed at laying the foundations for an integrated capital market in the EU by 2019-2020, ensuring financial stability and restoring confidence in the financial markets. The European Commission (2017) reported on public consultation and mid-term review of the CMU the first completed measures so far: 1) adopted package of legislative initiatives for a facilitated, transparent and standardized securitization process for providing additional funding to SMEs; 2) achieving a unified position in the European Commission on updating the Prospectus Directive and ensuring SMEs’ access to EU capital markets; 3) forthcoming proposals for revitalizing EU venture capital and social investments markets; and 4) adoption of a program for the development of national and regional capital markets in the EU.

1. Some Methodological Aspects of SME Financial Optimization in the European Union

As a result of limited market opportunities, limited pricing power and negotiating leverage with suppliers, ill-suited products, competition from large enterprises (LEs) and few customers for most revenues, SMEs have insufficient resources for market expansion. Furthermore, in practical day-to-day operations these business entities portray some of the following characteristics:

- SMEs often use own funds such as profits and depreciation as main sources of finance.
- SMEs minimally use risk capital (venture capital) and many are mostly not aware of this source of finance.
- SMEs increasingly use financial leasing as a form of external capital sources while few of them use the services of factoring and forfeiting companies.
- Interest rates for SMEs are often above average even when risk is not.
- Level of indebtedness does not change the ratio of own versus external capital.
- SMEs are dependent on credit from suppliers who often do not offer sufficient discounts.
- SMEs pay from sources of cash, rarely hold surpluses on interest bearing account.
- SMEs monitor inflows and outflows of cash, but do not plan their budgets cash flows.
- Foreign trade SMEs do not manage their foreign exchange risk positions effectively and are exposed to foreign exchange risks.
- SMEs do not exercise strategic planning/financial planning for longer than one year.
- SMEs usually outsource accounting services as a simple tool for tax liabilities, rarely as a management tool with cost accounting and analysis of fixed and variable costs.

Therefore, the process of SME management including finance heavily relies on own sources for both development and investment and CMU based institutions are often not aware of this target group. Access to long-term bank and other sources is pervasively limited, particularly in less developed economies with only remaining source being EU and national programs. The privatization process has further strengthened the links between banks and companies that have started the process of industrial restructuring. During and after the international financial crisis the share of bank loans and risks of financing have increased and are maintaining high NPLs. NPL ratios also differ greatly from one country to another, higher in EU than US, albeit they tend to be higher for SMEs compared to large enterprises and households, particularly in Eastern and Southern European Member States (European Parliament, 2017). Behind that are significant economic problems, primarily the inability to repay loans as a result of worsening overall financial situation and unfavorable repayment capacity of the entire EU economy, in which most damage is suffered by SMEs. Companies are often not able to repay the principal and the decline in interest rates has not had sufficient influence on the lending process. The total capacity of the monetary authorities to compensate for losses on loans is deteriorating, because the lending risk in investments grows faster than the ability to raise fresh sources of refinancing loans. The main causes of financial problems of SME are the low level of competitiveness, outdated technologies, low labor productivity, inability to productively make use of funds, inability to manage outstanding loans and financial obligations. Many potential borrowers do not have a clear ownership structure, and their reconstruction process has not been completed. Transition to higher SME development stage remains uncertain. Consequently, the CMU should arguably facilitate the development of capital markets and sources of SME finance across the EU.

Funding clearly depends on the development stage, no one can deny that, which is an important distinction of medium in relation to small enterprises. This is illustrated by way of the following Table 1 below:

Table 1

Individual degrees of entrepreneurial development and sources of finance

Degrees of development	Type of finance	Sources of finance	Possible and disposble sources
"Seed" phase	✓ Borrowing	✓ Founders, family	✓ Founders, family, friends
Start-up phase	✓ Credits ✓ Leasing ✓ Venture capital	✓ Suppliers, buyers ✓ Business angels ✓ Start -up funds ✓ Banks ✓ Leasing firms	✓ Development funds ✓ Innovation funds ✓ NGO sector ✓ Suppliers, buyers ✓ CBC
Development phase	✓ Credits ✓ Development capital ✓ Leasing ✓ Factoring	✓ Banks ✓ Investment funds (focused on: ICT, real estate &telecom) ✓ Venture funds ✓ Leasing firms ✓ Factoring firme ✓ State and EU development funds ✓ Savings cooperatives	✓ Development funds ✓ Guarantee funds ✓ Banking sector ✓ EBRD, EIB, KFW, EFSE, RCI, IFIs, ✓ Leasing companies ✓ Regional initiatives and development funds; CBC ✓ Crowdfunding
Change of ownership	✓ Stocks ✓ FDI	✓ Stock exchange ✓ Exit strategy	✓ Cross border M&A equity sources

Source: authors

Obviously, some SMEs would readily increase investment and expand business if able to provide better funding. Facilitating access to finance and improvement of credit environment would support healthy SMEs to expand to other regions, increase volume of both exports and imports to compete successfully and create jobs. If this approach is fostered, involving experience from the EU and other countries, the whole SME sector would contribute more than 50 percent of GDP and serve as a basis of development of leading export-oriented industries. This would make a significant impact on the overall economy and on many local communities.

Dynamic and high growth medium sized enterprises are an exception and these entities are much more able to diversify sources. Although they also don't have sufficient access to capital markets mid-size enterprises have more space to grow in terms of sales revenues and job creation because they are rooted in vibrant local communities and economies and as such they are more sustainable than larger and smaller enterprises. These entities also tend to have both domestic and foreign suppliers and retain them longer than many SEs, LEs and MNEs do. Except for Germany, the Netherlands and Scandinavian countries, there are still not enough qualitatively viable medium enterprises and projects that are able to repay loans and access innovative and alternative sources of finance.

Therefore, in the future period focus should be on assisting SMEs to secure diversified and innovative sources of finance necessary to launch economic recovery and growth through CMU incorporated institutions such as multinational, European and Southeast European investment funds, including pan-European fund of funds. The distinction between the old-fashioned models and new CMU facilitating approaches are portrayed in the next Table 2 below.

Table 2

The old and building CMU momentum for new approaches in SME finance

	Typical old Approaches	Emerging innovative SME finance approaches
EU Commission National Governments Development Banks and Funds	⇨ Lend directly to small clients ⇨ Dictate subsidized interest rates ⇨ Force intermediaries to lend to target groups, or ⇨ Think macroeconomic reforms are sufficient	⇨ Encourage autonomous, catalytic, second-tier institutions acting in capital markets union that can mobilize funds for capitalization, refinance, and institutional development for those retail-level intermediaries that meet performance and reach standards ⇨ Liberalize interest rates within capital markets unions ⇨ Create capital markets union regulations that encourage a range of intermediaries to benefit SMEs ⇨ Create incentives for those intermediaries with the commitment and capacity to provide financial services to target groups across the capital markets union
Funding agencies	⇨ See micro enterprise within a social welfare paradigm ⇨ Design, fund, implement programmes ⇨ Forget the real (productive) sector of economy ⇨ Accept poor performance	⇨ Support the development of national financial systems gravitating to CMU, working for the majority (i.e.SMEs) ⇨ Build appropriate financial instruments and vehicles that respond to large numbers of small intermediaries at different stages of SME development ⇨ Support retail institutions that meet agreed standards of performance and client reach and scale-up, directly and through second-tier and network arrangements

Commercial Banks	⇨ Do not lend to small and micro SME easier profits exists elsewhere ⇨ Ignore or manipulate government controls, and financial market regulation	⇨ Observe SME market and financing opportunities ⇨ Reorganize systems and products to reduce costs and risks of lending to this large and growing client group ⇨ Structure and develop bank-NGO-client credit lines within a capital markets union facilitating SME finance ⇨ Develop and foster commercial bank-LE-SME value chain financing within a capital markets union ⇨ Develop partnerships with credit guarantee schemes
NGOs and Specialized Financial Intermediaries	⇨ Accept donor or popular government ideas ⇨ Fall into social welfare approaches ⇨ Remain satisfied with small direct reach and scale-up	⇨ Develop outreach and role as financial intermediaries ⇨ Develop self-sustaining, self-determined organizations responding to local needs, build relations with LEs ⇨ Restructure businesses and systems to meet performance and improve SME corporate standards ⇨ Incorporate practitioner networks to benefit from mutual accountability, standards, lateral learning and efficient financing mechanisms in capital market union
Low income beneficiaries	⇨ Fail to see self as economic actor and change agent ⇨ Struggle alone to survive ⇨ Fees passive and powerless in changing own conditions or gaining access to finance, information and markets	⇨ Gain access to information on available finance, business and legal services and use them to build income, assets and a voice in decision making ⇨ Build and join organisations that are geared to expanding low income entrepreneurs' economic access and participation in broader markets ⇨ Organise into clusters and area groups for visibility, access and economic power including financing ⇨ Establish relationships with solid financial intermediaries, MEs and LEs, rather than focusing on short-lived subsidies and government assistance

Source: the authors

2. Capital Markets Union in the European Union and Challenges for SME Financing

2.1 Investment Plan for Europe and SMEs

The investment plan for Europe provides € 315 billion to restore economic growth through investment in infrastructure and the real economy by creating jobs, boosting economic growth, competitiveness. By attracting long-term capital from large institutional investors, insurance companies and pension funds the Regulation on long-term investment funds promotes long-term sustainable infrastructure investments for SMEs operating in energy, transport, ICT, etc. By 2017 the greatest share of financing under the European fund for strategic investments (EFSI) is directed to SMEs (about 29%), and in sectoral terms about 24 % of investments go to energy sector, followed by RDI (21%) and digital communications (10%). Total approved EFSI financing in 2017 reached 32 billion euro in the EU while by 2016 the figure reached 100 billion euro. More than 140,000 SMEs are expected to receive funding under this EU initiative. For example, in Romania through the EFSI in 2017, about 2000 Romanian SMEs are expected to received loans for about 32 million euro and to trigger about 319 million euro in investments. In Bulgaria operations approved under EFSI represent total financing volume of 200 million euro which are expected to trigger over 900 million euro in investments.

The share of investments undertaken by insurance companies and pension funds had fallen from 25% of stock market capitalization in the EU in 1992 to around 8% after 2012 due to increased regulatory capital adequacy requirements. One of the measures in the CMU plan envisages adjusting the capital adequacy requirements of the Solvency II Directive to reduce risk weights for certain investments in equities and debt securities issued in relation to investment projects undertaken by long-term investment funds. At the same time, investment funds have increased their share of EU stock markets from less than 10% in the 1990s to over 20% after 2012, but there are still significant constraints on their cross-border operations, such as differences in tax regimes, fees for notifications when establishing presence in another EU country, etc., and these funds are still quite small in size and not sufficiently profitable when compared to US funds.

2.2. Increasing investment opportunities for institutional investors in EU

EU Regulations on European Venture Capital Funds and European Social Entrepreneurship Funds set out the marketing requirements for these funds to institutional and wealthy individuals across the EU. Current proposals for changes to these regulations will allow larger fund managers to set up and manage such funds in the EU and globally (European Commission, 2016). The harmonized framework for these two types of EU funds contributes to economic growth and job creation by mobilizing capitals and directing them to set up, expand and scale up innovative companies, increase investments in R&D, entrepreneurship, innovation and competitiveness. This framework is part of the European Commission's initiative (European Commission, 2016) to increase the share of non-bank financing of the economy and is in line with the Investment Plan for Europe, outlined above. As of April 2016, 70 European venture capital funds and only four European social entrepreneurship funds (in two EU countries, one in France and three in Germany) have been registered by the European Securities Market Authority (ESMA) with total assets under management of 32 million euro. In an impact assessment report the European Commission (2016) identified problems with these funds as small volume of assets they manage, significant costs for establishing presence in a cross-border context, insufficient investor base, inconsistency in the application of the regulatory framework in the member states etc.

Invest Europe (former EVCA) (2017) estimates that around 98% of all European venture capital managers manage venture capital funds below the 500-million-euro threshold set in the Alternative Investment Fund Managers Directive (AIFMD) and benefit from the exceptions provided for in the Directive in these cases. For the period 2011-2015, 316 new venture capital funds have been set up in the EU, with average size of these funds reaching about 50 million euros (while in the US it is about 120 million euros). Among these funds predominate those investing in early stages of company development (194 funds with capital of 8.6 billion euro). As of 2016, around 1,963 equity managers function in Europe, of which 819 manage venture capital funds. The assets under management amount to 548 billion euros, with venture capital funds accounting for up to 10% of these assets. The favorable tax regime for individuals in some countries, such as France and the UK, encourages venture capital investments by highly affluent individuals (high net worth and ultra-high net worth individuals), who, along with business angels, are most active in financing early stages of SME development (European Commission, 2015). Institutional investors prefer to invest in late stages (such as buyouts and mezzanine financing), but avoid venture capital investments in seed and early stages of SME development due to low levels of realized returns from these investments.

According to European Venture Philanthropy Association (2015) for the period 2013-2014, the size of an average European social investment fund is 13.8 million euro and the EU social investment market is estimated at around 10% of venture capital investments, and only 1% of the equity investments market in the EU. Venture capital funds (VCFs) attract investment primarily from equity funds, affluent persons and business angels, as well as from the European Investment Fund (EIF), other public programs at national, regional and European level. Investments of VCFs are directed predominantly to well-established companies in expansion and development stages (over 40% of total venture capital investments). Institutional investors encounter serious difficulties in undertaking cross-border venture capital investments due to insufficient liquidity on this market segment, lack of harmonization in the dissemination of financial information, costs related to investment feasibility analysis, regulatory requirements etc. (European Commission, 2016). Financial regulations place restrictions on investments in assets as infrastructure, equity investments in unlisted companies and unrated bonds. The new rules on occupational pension funds could remove restrictions on long-term investment.

Regarding pension funds' assets to GDP in Bulgaria they are less than 4%, in Poland over 10%, in Hungary about 6% of GDP, and in the Czech Republic more than 4% of GDP (BIS Basel, 2017). Specifically, for Poland and Hungary the high ratio of pension funds' assets to GDP is explained by the fact that these two countries introduced the 2nd pillar pension funds before 2000s and benefited most of the largest amount of accumulated net assets, while Romania introduced the 2-nd pillar last in CEE and has the lowest volume of accumulated assets. Besides, in Romania, the impact of pension funds on the capital market is still insignificant due to the preference of these institutional investors to bank deposits and government bonds in their investment portfolios, and the fact that the 3rd pillar voluntary pension funds are in incipient maturity stage. In CEE there is high weight of investments in fixed-income instruments, while the old member states of the EU (as Great Britain and the Netherlands) the investments in shares is between 49-62%, while the investments in bonds is between 19-39 %.

Data from the Bulgarian Financial Supervision Commission for 2015 show that the assets of the pension funds in Bulgaria reached BGN 9.3 billion (10% of GDP) and in 2016 they further increased to BGN 9.8 billion (or 11% of GDP). In the portfolio of assets, the investment in bonds amounted to BGN 5.1 billion (or 50% of the total assets) and the remainder was in shares. The sectoral breakdown of the investment portfolio of pension fund companies by 2016 is as follows: 51% are public sector securities, 5% in the processing industry and about 24% in the extractive industries. The currency risk in the investment portfolios of the Bulgarian pension funds is minimized as 70% are the euro-denominated securities, 17% are securities denominated in BGN and only 12% are denominated in USD. In addition, pension funds achieved a balanced maturity structure of the managed assets, with 51% in securities maturing over 5 years, 13% between 3-5 years and 29% of securities with a maturity of up to one year. In addition to investment restrictions, Central and Eastern European countries have introduced requirements for the daily adjustment of the value of managed assets to market and for minimum guaranteed returns. According to Chan-Lau (2005), these measures encourage pension funds to adopt strategies close to those of mutual funds with a short-term horizon and encourage 'crowd behavior' as pension funds undertake similar strategy to mutual funds of asset allocation in their investment portfolios, which reduces opportunities for diversification and increases volatility of returns. Hryckeiwicz (2009) proved using a panel of 8 CEE countries 1995-2006 that institutional investors contribute to greater activity on the emerging markets and there is a positive connection between the financial assets owned by institutional investors and the development of the domestic stock market. Also data from 23 OECD countries proved existing connection between institutional investors and capital market development (Aras & Muesluemov, 2006).

2.3. Convergence between SME insolvency regimes and settlement arrangements in the European Union

One of the major issues associated with securities in the EU is that their ownership cannot be legally determined when the issuer and the investor are in different member states. The European Commission proposes uniform rules in view of the increased volume of cross-border securities transactions after the launch of the Target2-Securties in 2015. In 2017, these rules cover all transactions in euro denominated securities and will result in lower processing costs, settlement of securities in central banks and economies of scale. The differences and limitations to the free movement of capital arise from the insufficient application or lack of convergence in the interpretation of the legal basis. In 2016, the European Commission proposed a new approach to trade insolvency and recommended that member states adopt common principles for insolvency procedures and introduce the possibility of a second chance for entrepreneurs. Fragmented market infrastructure, differences in securities legislation and securities settlement services in local and cross-border transactions also create restrictions on the free movement of capital. The Regulation on European market infrastructure and securities depositories will enhance competition and technical compatibility between central depositories and central counterparties in the clearing and settlement of securities. The European Commission is expected to speed up regulatory procedures to remove the remaining restrictions (Giovannini barriers) to the clearing and settlement process. With regard to the organization of trading of government securities on the stock exchange in the second half of 2017 in Bulgaria, the launching of a separate segment is expected. In addition, it is envisaged to create a segment for spot trading of foreign financial instruments through the possibility of settlement of the transactions in the Central Depository and guaranteed market liquidity by a market maker. It is envisaged to establish a direct link between the Government Securities Depository (within the BNB) and the Bloomberg Professional E-bond system. This will create the conditions for the further integration of the country's government securities market with the EU in the context of the future membership of Bulgaria in the Eurozone.

2.4 Improving Access of Innovative, Start-up and Unlisted SMEs to Alternative Forms of Financing

Start-up companies with high growth potential, especially in the high-tech sectors, boost innovation and competitiveness in the EU through a combination of rapid technological development and intensive use of innovative business models. Many of these companies still face a number of administrative constraints, compliance with different legal requirements in 28 member states, and poor access to finance. The variety of non-bank sources to finance start-ups includes peer-to-peer lending, crowd funding, business angel support, etc., these forms being known as sources of online alternative funding (OAF) and they are part of financial and technological innovations (FinTech). FinTech refers to solutions dedicated to the financial sector as asset management, banking, capital markets, insurance, personal finance, capital raising through the use of software technologies. The countries which are less economically developed and characterized by limited domestic demand are less attractive in terms of FinTech potential. According to the European Commission, more than 500 crowd funding platforms operate in the EU. They can be differentiated into platforms for equity investments, debt financing, invoice discounting, hybrid models, etc. For 2015, over 4 billion euro has been raised through these platforms in Europe.

Equity investment platforms can be licensed under the EU Markets in Financial Instruments Directive and be granted passport, while for debt financing platforms there is currently no specially developed regulatory framework. The SME alternative financing market, including crowd funding and peer-to-peer lending, is growing by more than 90% on an annual basis, and by 2015 it has reached 5.4 billion euros, according to the Cambridge Center for Alternative Finance University of Cambridge (2016). Outside the United Kingdom, France (319 million euro), Germany (243 million euro) and the Netherlands (111 million euro) are Europe's leading OAF countries, accounting for 70% of its total funding volume in Europe. Among the OAF, online debt financing is predominant with a share of 2/3 of the total volume, followed by equity and philanthropy forms and investments. In this segment peer-to-peer retail lending has the largest share (366 million euro), followed by business lending (212 million euro). Equity crowd funding comes third (159 million euro) with an annual growth of around 93%. Companies that gain access to these alternative forms of funding are from sectors such as retailing and wholesale, technology, manufacturing, engineering etc. The main sources of capital for these forms of financing are pension funds, mutual funds, banks, etc. Regarding the development of the FinTech segment in Bulgaria, a few banks offer solutions that may be considered innovative in terms of software technology. Crowd funding platforms with eco-focused scope in financing have begun to emerge and currently two such platform operate with a focus on financing social goods and social entrepreneurship. They aim at projects that reduce the negative environmental impacts. There is no specific regulation governing crowd funding finance in Bulgaria which exacerbates the current uncertainties in the sector. Expectations are market growth to rise with boosting level of trust in this kind of business. The low technological maturity in Bulgarian economy and the weak domestic demand coupled with low average income may slow down the development of the FinTech sector. In Romania, the market of alternative financing is expected to grow in the direction of non-banking financial institutions which are currently focusing on financing SMEs and the agricultural sector. As compared to Bulgaria, in Romania crowd funding faces strict regulatory barriers regarding the legal form of platform owners. This is due to past experience with the negative outcomes of a number of Ponzi schemes and there is an existing general mistrust in alternative financing models in Romania.

The main risks to OAF are related to the high rate of corporate bankruptcies, the potential for abuse in the funding platforms, and the lack of regulation or differences in regulatory regimes across countries. OAF transactions remain largely local and the reasons for the lack of cross-border activity are the low level of regulatory harmonization at EU level and the significant diversification of models in a regional aspect. Challenges for this SME financing segment are achievement of long-term sustainability, innovation, transparency, introduction of good practices and credit scoring systems for borrowers in these e-financing platforms. Differences in the regulatory framework and its interpretation lead to significant market fragmentation and pose a challenge to protecting investors in such financial instruments. Important developments in the OAF over the past few years are: 1) institutionalization of these forms of funding; 2) consolidation between the various OAF platforms, including in a cross-border context; 3) internationalization due to the need for economies of scale and expanding the base of investors; 4) emergence of organized secondary markets for securities issued by these platforms (multilateral trading facilities). Business angels are also a very important source of equity capital for seed and start-up finance for SMEs (Hellman, T., & Durufle, G., 2016). According to the European Business Angels Association (2015), seed and start funding funds in 2013 have invested around 5.5 billion euros, focusing their investments in the UK, Spain and France.

The most appropriate funding for the early stage of SME development is via venture capital. European venture capital funds (VCF) averaged around 60 million euro in size (half of the US venture capital funds). In 2013, VCF invested around 6 billion euro in Europe, while in the US, their investment is more than 26 billion euro. By 2016 there was a significant decline in both the volume of venture capital financing and the number of transactions. For 2015, venture capital investments in the EU reached 4.1 billion euros. The main barriers to venture capital investments continue to be market fragmentation, limited VCF size and insufficient diversification of their portfolios, which limits the realization of economies of scale and implies relatively high transaction costs. Over 90% of all VCF managers are concentrated in 8 EU member states (UK, Germany, Sweden, Denmark, Finland, the Netherlands, France and Spain). With the exception of Great Britain (0.799%), venture capital financing in other EU countries is below 0.5% (EU average 0.302% by 2015). The public sector is expected to attract private capital for venture capital investment by setting up funds of funds (FoF) and multinational funds backed by the EU budget. Public funding from COSME and HORIZON 2020 supports venture capital funds for SMEs, with public agencies providing about 35% of venture capital in 2014, followed by pension funds (14%), private individuals (13%) and corporate investors (14%). The European Investment Fund (EIF), through its FoF, also provides about 14% of the total venture capital financing. Another option includes creation of growth funds to promote equity investment in SMEs, with public funding of over 40 billion euro. Tax incentives are expected to encourage equity investment in innovative and start-up SMEs (European Commission, 2016).

Another form of alternative funding in the SME segment is venture debt, which is usually granted to companies that have received venture capital. This type of funding is particularly developed in the US, where about 20% of companies use this form, while in Europe - only 7%, and mostly concentrated in the United Kingdom. For 2007, BVCA (2010) estimates total venture debt to £ 309 million (including £ 137 million in the United Kingdom, £ 105 million in Europe, £ 39 million in Israel, and £ 28 million in the rest of the world), accounting for about 5.8% of the total amount of venture capital in Europe, extended mainly to companies in sectors such as biotechnology and ICT. Venture debt is granted in two forms: venture leasing and venture loans. Companies using venture debt must be in the process of receiving a first round of venture capital financing and have a business plan for servicing the repayment of the venture debt. Only about 28% of all venture debt is granted to companies in the early stages of their development due to the higher technological risk. In order to reduce the risk, these loans are usually disbursed just after a round of venture capital financing to increase the opportunity for the company to repay them (KPMG, 2017).

Disseminating information about SMEs by building links between existing information systems will increase investor interest in SME financing due to greater transparency about their financial status and their credit rating. The ECB is expected to ensure better comparability by standardizing data exchange formats and introducing corporate loans database for the EU by 2018. The European Commission is currently exploring the possibility of building a single pan-European platform for exchange of information and good practices for SMEs on the basis of existing national data exchange systems. Limited market analyzes on SMEs hamper their visibility for investors and further reduce funding opportunities. The introduction of credit scorings will provide information to investors about the creditworthiness of SMEs, but still in Europe about 25% of companies do not have credit rating. Changes in the Transparency Directive are expected to make it easier for SMEs to access market segments of stock exchanges for initial public offerings of securities by removing the requirements for publishing quarterly financial statements and reducing administrative burdens on them.

An important alternative source of funding is the private placement of SME securities, which in 2014 increased by about 40% compared to 2013 and reached 17 billion euro. The International Capital Markets Association (ISMA) published a handbook for pan-European corporate private placements that promotes the use of standardized documentation and the European Commission supports the dissemination of best practices in the field. Private placements offer an alternative for SMEs to publicly issued corporate bonds. The private placement market in Europe is still relatively small with transactions of about 17 billion euro in 2014 but is characterized by lower administrative and regulatory costs and a higher level of confidentiality (European Commission and EIF, 2016). The German private placement market accounts for about 50% of the European market, followed by that of France. The corporate bond market in the EU remains extremely heterogeneous and relatively illiquid. This market is still dominated by large companies with high credit ratings that give these companies the opportunity to issue bonds in large denominations. Between 2012-2015, the corporate bond market in the EU accounted for around 24% of the total corporate debt market in the EU. The size of the corporate bond market relative to the size of the government bond market (for 2016 0,5 % of GDP against 23.2 % of GDP) is fairly small in Bulgaria. The issuance of corporate bonds in Bulgaria is mainly done through private placements where banks play a major role both as issuers and as investors. This method of issuance is associated with limited transparency and has a very restrictive effect on secondary bond market activity as banks, as major investors (holding about 60%) have the practice of investing in corporate bonds and keeping them in their investment portfolios until maturity (similar practice in Poland and Hungary). Due to the weaker development of this market, average maturities are lower than the government securities segment. In Romania the corporate bond market represents about 0,19 % of the GDP and by 2017 includes 10 issues in national currency and 3 issues denominated in euro.

In 2016, the European Commission put forward a proposal to build a pan-European fund of funds (European growth funds) for venture capital and for multinational funds with a planned EU budget of 400 million euro, with the European Commission and the EIF to select managers of these funds (which will also provide contributions to the capital of future funds at the amount of 400 million euro). This program is part of the Investment Plan for Europe, the Action Plan on Building the CMU, the Digital Single Market Strategy and the Single Market Strategy. The resources under the program are provided from InnovFin Equity Facility, EIF equity capital instrument, COSME equity growth instrument and EIF own resources (around 300 million euro, with investment in a single FoF reaching 25% of total planned capital). These funds are expected to invest in a combination of venture capital and social entrepreneurship funds aimed at early (30% of the total invested amount) and later stages of development of the target companies. The establishment of a pan-European FoF will help overcome the constraints such as small average size of accumulated capital in the current European VCF, weak integration of the venture capital market in the EU, absence of private investors in this market, and the difficulties of attracting institutional investors. Greater competition and diversification of venture capital sources will reduce the strong dependence on venture capital provided by the EIF. Through the future pan-European FoF program with a budget of between 800 million and 2 billion euro, it is expected that 4 to 5 FoFs will be set up, which will invest primarily in early stages of the development of SMEs from different sectors of the economy through a balanced diversification approach. One of the FoF will be geographically geared to invest primarily in CEE and emerging venture capital markets.

2.5. Facilitating Improved SME Access to Regulated EU Stock Exchanges

Public listing of SMEs increases their visibility, provides a transparent assessment of their effectiveness and enhances their corporate governance. Regulated stock markets still do not encourage SMEs to list on them due to the high costs of initial public offerings (IPOs), which for transactions below EUR 6 million may reach 10-15% of the respective transaction value. In 2015, of the 23 million small and medium-sized enterprises operating in Europe, only 0.5% were admitted to trading on a regulated market or a multilateral trading system, according to the Federation of European Stock Exchanges (2015). Prospectus requirements have already been harmonized and encourage comparisons, with the European Commission continuing to work towards validating a proportionate disclosure regime for SMEs by updating the Prospectus Directive. In line with the revised MiFID II, markets for SMEs with growth potential will start operating in 2017, which will encourage active listing of these companies and increase the interest of investors in them. These segments of stock exchanges will act as a second-best listing alternative and will be characterized by lower listing requirements and lower costs. The introduction of a consolidated tape for distribution of stock market data as required by MiFID II will facilitate market participants and regulators in gaining information and increasing the transparency of EU capital markets.

In 2016, the adopted Strategy for Development of the Bulgarian capital market, makes an up-to-date overview of the main problems facing it related to the low liquidity due to the withdrawal of foreign investors in 2008, the lack of diversified financial instruments and large volumes of issues to be attractive to large institutional investors. The strategic program of Bulgarian stock exchange (BSE) envisages as a first step the increase of the financial instruments on the stock market by type (i.e. the derivative market, structured instruments), by volume and quality (through corporate governance and higher transparency of the issuers). In order to attract issuers, the strategy provides for legislative changes, modernization of the market infrastructure, and raising the financial literacy of the population. In particular, the legal framework is expected to ease administrative procedures for undertaking corporate actions; to shorten the time limits for registration of securities' issues and to adopt a law on the clearing and settlement of financial instruments. Funding of primary public offerings through EU Operational Programs is encouraged; the introduction of a unified system for submission, dissemination and use of market information by the institutions. In line with the objectives for creating Capital Markets Union in the EU there is currently a project to create a specialized stock market segment for securities trading for start-ups and innovative SMEs without publishing a prospectus at BSE. Regarding Romania, starting from 2015 at the Bucharest stock exchange has been functioning specialized market (AeRO), dedicated to listing of early stage companies as start-ups and SMEs by requiring less reporting obligations but sufficient transparency to motivate investors looking for new investment opportunities. By April 2017 the total turnover realized on AeRo reached 9,8 million euro, the largest being that of listed equities (about 46% of total turnover). Among the long-term priorities of Bucharest stock exchange are simplifying and accelerating listing process, setting up action plan for switching the status from frontier market to more developed emerging market and applying international best practices.

Conclusions

The focus of academia and experts on SME finance in the light of CMU derives both from the spectacular venture capital successes of some European countries such as UK and Finland and from fear that many SMEs with positive net present value proposals may not be able to attract sufficient external sources of finance. Causes for this unease include, among others, the recent international financial crisis that was devastating on SMEs, the lack of well-developed venture capital markets in the EU, and the uncertain potential CMU impact on the availability of credit to European SMEs. This paper analyzed a number of aspects of SME finance, the investors and intermediaries that provide it, including the CMU and the private equity and debt markets in which they operate. Authors observe much of future SME finance through a growth cycle pattern, in which different capital structures such as CMU are optimized at different points in the SME life-cycle, being aware of course that this model does not match the needs of all SMEs and that social enterprises or medium sized enterprises with high growth potential may be an exception to the proposed solutions.

The expected benefits of the CMU can be summarized as follows:

- diversification of sources of financing and increase of economic sustainability, which will reduce the volatility and cyclicality of bank financing.
- potential to mitigate systemic risks by allocation of sources of finance through the banking system and capital markets.
- encouraging competition and boosting economic growth stemming from strong correlation between the depth of capital markets and economic growth (New Financial, 2017).
- reinforcing integration of capital markets, increasing their depth and liquidity, achieving higher levels of cross-border investment and lower transaction costs.

In conclusion, the potential benefits of CMU are expected to be significant, but achieving it will require ларге-сцале institutional changes in administrative, legal, tax aspects, as well as further adaptation of market participants, which may lead to higher costs of compliance with new regulatory requirements and regulatory compliance (AFME, 2016). For small capital markets as the Bulgarian one this initiative is associated with the need for rapid adaptation and acceleration of its development from a very low base of local issuers and investors, development of new financial instruments (crowd-funding, peer-to-peer lending, fin-tech, etc.), building a specialized segment at the stock exchange for trading SMEs securities, enhancing the regional co-operation within Central and Southeastern Europe. Expected regulatory and market changes will inevitably exert considerable pressure on small capital markets in the direction of rapid adaptation to the new realities. Anticipated benefits are through increased liquidity in the market, opportunities for investors to diversify their profits through various forms of investment such as pre-primary public offerings, venture capital, equity capital, private placements, on-line alternative funding platforms, etc. This process implies further improvement of the market infrastructure through regional forms of cooperation as well as improving the business environment and promoting entrepreneurship, strengthening the legal framework and insolvency regimes, simplifying the tax system, enhancing transparency and corporate governance.

References

Aras, G and Muesluemov, A. (2006) Institutional investors and stock market development. A causality study. *ISE Review.* Vol. 8 (29). P.1-14

Association for Financial Markets in Europe (2014). An agenda for capital markets union. CMU policy paper

AFME, Finance for Europe (2016) The benefits of capital markets to high potential EU economies. Analysis of the growth opportunity for capital markets in CEE. Accessed at: https://www.afme.eu/globalassets/downloads/briefing-calls/afme-members-briefing-call-eu11-capital-markets-report-nov-2016.pdf

BIS, Basle (2017). The bond benchmark continues to tip to swaps. Quarterly Review. Accessible at: https://www.bis.org/publ/qtrpdf/r_qt1703h.htm

BVCA (2010) The rise of venture debt in Europe. Accessed at: https://www.bvca.co.uk/Portals/0/library/Files/News/2010/2010_0053_venture_debt_report_may.pdf?ver=2012-05-02-162120-000

Cambridge Center for Alternative Finance University of Cambridge (2016). Sustaining momentum. 2nd European alternative finance industry report. Accessed at: https://www.jbs.cam.ac.uk/fileadmin/user_upload/research/centres/alternative-finance/downloads/2016-european-alternative-finance-report-sustaining-momentum.pdf

European Business Angel Association (2015). Impact invest our gateway forward. Accessed at: http://www.ebanimpact.org/our-gateway-forward-impact-investing-evolving-intelligent-choice-into-both-and/

EVCA (2017). Central and Eastern Europe statistics 2015, Retrieved May 16, 2017, from Gide law firm website:

http://www.gide.com/en/actualites/evca-central-and-eastern-europe-statistics-2015-report

European Commission (2015) Assessing the potential for investment in venture capital and other risk capital fund of funds. Accessed at: https://ec.europa.eu/programmes/horizon2020/en/news/assessing-potential-eu-investment-venture-capital-and-other-risk-capital-fund-funds

European Commission (2015). Action plan on building a capital markets union. COM (2015), 468 final. Accessed on 20th May 2017 at: http://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex%3A52015DC0468

European Commission (2015). Single market act. Accessed on 15th May 2017 at: http://ec.europa.eu/growth/single-market/smact/

European Commission (2016) Impact assessment. Proposal for regulation amending Regulation 345/2013 on EVCF and Regulation 346/2013 on ESEF. Accessed at: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52016PC0461

European Commission (2016) Capital markets union – accelerating reforms. COM (2016) 601 final. Accessed at: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2016:0601:FIN

European Commission (2016) Delivering the single market agenda for jobs, growth and investment. Accessed at: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52016DC0361

European Commission (2016) Call for evidence – EU regulatory framework for financial services. Accessed at: http://ec.europa.eu/finance/consultations/2015/financial-regulatory-framework-review/index_en.htm

European Commission (2016) Europe's next leaders: the start-ups and scale-up initiative. Accessible at: http://ec.europa.eu/growth/tools-databases/newsroom/cf/itemdetail.cfm?item_id=8998

European Commission and European Investment Fund (2016) EU private placement market investment survey. consultation document.

European Commission (2017). Public consultation on the capital markets union. Mid-term review. Accessible at: https://ec.europa.eu/info/sites/info/files/consultation-document_en_0.pdf

European Parliament (2017). Briefing. Non-performing loans in the Banking Union: stocktaking and challenges. Retrieved May 16, 2017, from EU Parliament web site:
http://www.europarl.europa.eu/RegData/etudes/BRIE/2016/574400/IPOL_BRI(2016)574400_EN.pdf

European Venture Philanthropy Association (2015). Corporate social impact strategies – new paths for collaborative growth. Accessed on 17th May 2017 at: http://evpa.eu.com/knowledge-centre/publications/corporate-social-impact-strategies-new-paths-for-collaborative-growth

Federation of European Stock Exchanges (2015). European exchange report. Accessible at: http://www.fese.eu/images/EUROPEAN_EXCHANGE_REPORT_2015.pdf

Financial Supervision Commission (2015). Results of the Activities of Voluntary Pension Insurance Funds. Accessed at: http://www.fsc.bg/bg/pazari/osiguritelen-pazar/statistika/statistika-i-analizi/2015/

Hellman, T., Durufle, G., Wilson, K. (2016) From start-up to scale-up. Examining public policies for the financing of high growth ventures. Accessible at: http://cepr.org/sites/default/files/Wilson%2C%20Karen%20paper.pdf

Hryekiewicz, A. (2009) Pension reform, institutional investor growth and stock market development in the developing countries: does it function? Warsaw. National Bank of Pland.

Juncker, J., Tusk, D., Draghi, M., Dijsselbloem, J. (2014). Completing Europe's Economic and Monetary Union. Accessible at: https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0ahUKEwjD3YK70YjUAhVELo8KHbtmC9cQFgglMAA&url=http%3A%2F%2Fwww.consilium.europa.eu%2Fen%2Feuropean-council%2Fpresident%2Fpdf%2F5-presidents-report-en_pdf%2F&usg=AFQjCNEj9GL7Y0C8R0kdFcbIXGUiczkiqQ

Kelly R., (2011) The performance and prospects of European venture capital. EIF working papers. Accessible at: http://www.eif.org/news_centre/publications/eif_wp_2011_009_EU_Venture.pdf

KPMG Enterprise (2017) Venture pulse Q4. Global analysis of venture funding. Accessible at: https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2017/01/venture-pulse-q4-2016-report.pdf

Langfield, S. and Pagano, M. (2015). Bank bias in Europe: effects on systemic risk and growth. Accessed on 23rd May 2017
at: https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1797.en.pdf?21971652ba3f7c1925aaadb3b5a5ae2f

New Financial (2017). What have the capital market ever done for us? And how could they do it better?. Accessible at: http://newfinancial.eu/wp-content/uploads/2017/03/2017.02-What-have-the-capital-markets-ever-done-for-us-New-Financial-REVISED.pdf

BANKING SUPERVISION IN THE EUROPEAN UNION: NATIONAL POLICIES

Miroslav NEDELCHEV, PhD[1]

Abstract

The dynamics of the banking system poses new challenges to supervisory policies. Building of complex banking structures stays ahead of supervision policies. The transformation of banking groups to transnational business differs from banking supervision, which remains a joint responsibility between national and pan-European supervisors. The effects of the global crisis put on the agenda the question of optimal balancing low cost inspection of national supervisors with the ability to internalize cross-border externalities. The new supervisory architecture in the European Union is the result of a negative assessment of the pre-crisis supervisory regimes in the old Member States.

Keywords: banking system, national supervision authorities, European market

JEL Classification: E58, F15, G21

Introduction

The restructuring of banking system in the European Union is in a qualitative new stage of financial integration, consistent with the new reality, which involves the delegation of powers and the granting of sovereign rights to national governments to meet the objectives of pan-European institutions. Measures to mitigate the effects of the crisis are aimed at preventing situations where bank failures are handled by national governments and citizens. Public expectations are that national supervisory policies contribute to rebuilding confidence in the banking sector, improving cooperation between national supervisors and developing a single regulatory framework for financial services in the European Union.

At the outset of the crisis, the national policies focus on action at local level but, having taken into account their unsatisfactory effects, there is a need for their pan-European implementation. Success was recorded in the monetary policy and in the coordination between the European Central Bank and the national central banks of the EU countries as lender of last resort (Kazandzhieva-Iordanova, 2017).

However, there are a number of weaknesses: Fiscal policy and bank recapitalization are similar in different countries but are conducted independently and

[1] *Senior Assistant Professor, International Economics Department in the Economic Research Institute at BAS, e-mail: miroslavknedelchev@gmail.com*

inconsistently. Competition rules are supranational, but they cannot serve to increase pressure on Member States. Liquidity and solvency crises begin to self-induce (Hubenova-Delisivkova, 2016). The individual actions of illiquid banks undermine collective sovereignty, and counterparts' concerns about default do heighten the unwillingness of private sources to lend to banks. All this requires policies in individual countries to solve at the same time three problems: bank illiquidity, banking recapitalization and economic recession.

Principles of national banking supervision policies

The current model of banking supervision in the European Union must be seen as a consequence of the effects of the global financial crisis and the measures taken to recover it (Posner, 2010). The crisis is also due to the weaknesses in the laws of the member states of the Economic and Monetary Union (Jones, 2009). Determining the nature of the crisis is the extent to which ad hoc attempts are being made to coordinate emergency response measures both at the global level and between European Union countries. Therefore, at the same time as economic reforms are being carried out the financial management of European Union Member States must be reconsidered.

While the European Union banking system is becoming increasingly cross-border, the European institutions responsible for preserving financial stability, including decision-making on financial assistance, remain decentralized (Nieto and Schinasi, 2008). The institutional structure of the European Union for financial management and crisis resolution is built on three principles: decentralization, segmentation and cooperation.

- Decentralization. In crisis management, the decentralization is important for the implementation of national responsibilities by supervisors, central banks, finance ministries, and deposit insurance funds. This principle stems from the legal framework of the financial groups and from the reporting requirements at national level. The European Central Bank and the national central banks involved in the European System of Central Banks have responsibilities and obligations concerning the oversight of payment systems. This includes the function of a lender of last resort, which is also a national responsibility.
- Segmentation. The functions for ensuring financial stability are segmented across sectors. Prudent supervision is exercised by single sector supervisors and national central banks and, in some cases, shared between them. Segmentation leads to differences in the degree of convergence and in the quality of financial supervision. Supervision of banking groups and financial conglomerates is carried out separately for each entity in the group of supervisors that have licensed it. Coordination is achieved through "consolidating" and "coordinating" supervisors, but their powers to revoke decisions by individual authorities are limit. In the euro area, banking supervision and emergency liquidity assistance are the responsibility of the national authorities. In addition, although attempts are made to harmonize some elements of bank deposit and reorganization schemes, they are broadly different in each Member State.

- Cooperation. In order to overcome the potential shortcomings in the exchange of information between national authorities, a number of cooperation structures have been set up to preserve financial stability. They include a wide range of instruments: from legal provisions (such as consolidated supervision) to general forums and memoranda of understanding. However, the effect of the implementation of such memoranda is below expectations, as institutional integration is slower than banking developments. In the established institutional framework, incentives for cooperation are greater when there are systemically important parent banks and a subsidiary for the respective banking markets, especially if the subsidiary is a key to the survival of the whole group.

National banking supervision measures

The analysis of the Basel Committee on the measures implemented by the individual governments finds very little convergence between them (Basel Committee on Banking Supervision, 2010). Generally speaking, national policies are limited to reducing the loss of stakeholder interests to which are accountability the competent authorities and reluctance to share losses in cross-border insolvency.

The main measures to strengthen financial stability include (Paulo, 2011):

- Central Bank actions:

(i) The Central Bank reduces interest rates between 0 and 1%;

(ii) The Central Bank as a last resort lender replaces the interbank market.

- Government actions:

(i) maintenance of financial institutions in difficulty through:

• injecting capital to strengthen the capital base;

• providing guarantees for easier access of banks to financing;

• buying or securing "toxic" assets;

(ii) freezing and limiting assets located in their jurisdictions in order to pay to creditors and depositors of endangered financial institutions;

(iii) providing of a government guarantee and a capital injection into bankrupt financial institutions.

As a result of the lack of a single legal framework for the management of a threatened financial institution, financial stability has been compromised. The mistakes of individual banks grow into bank supervision errors.

Banking supervision in the new reality

The Financial Stability Board defined the principles for cross-border crisis management (2009). They foresee an obligation for national supervisors to draw up a preliminary action plan in a situation of financial crisis. The involvement of national supervisors has been expanded through the setting up of colleges of supervisors whereby each parent bank has to adopt extraordinary plans for the entire financial group, regardless of the scope of its activities and in accordance with the individual national legislations. With the harmonization of restructuring procedures for endangered financial institutions, there is another principle that funding sources are not (as at present) to the detriment of taxpayers. The new supervisory approach provides for restrictive measures for banks that have received state aid to overcome the effects of the crisis. Contrary to the pre-crisis European Union policy aimed at incentives for financial conglomerates, the modern tendencies of the new supervision policy are to break down complex organizational structures and create prerequisites for prudential supervision.

Despite the variety of measures taken the supervision policies of individual country can be summarized to the following (Nedelchev, 2016): capital injections where the shareholder structure changes, and in most cases the state acquires a controlling share of the ownership; restrictions on the payment of dividends; shortening the deadlines for regular reports on the business development of the bank; introducing restructuring requirements; governmental involvement in the management of the bank, most often this being entrusted to the Minister of Finance; limits on the remuneration of executive directors; increasing coverage of Deposit Guarantee Schemes and removing co-insurance; guaranteeing newly issued bank bonds and introducing state guarantees for all bank liabilities.

Despite some advantages such as speed and flexibility, the main shortcoming of supervision policies is the low degree of transparency and breach of the principles of competition. These defects are more visible in cases where the bank operates in more than one country and negotiations with national authorities are needed.

The main reason for the poor results of the rescue operations is the lack of balance between the objectives for intervention by the competent authority in the individual countries (Committee of European Banking Supervisors, 2010). The European Union policy since 2000 to increase competitiveness through the creation of large cross-border groups has caused difficulties in assessing the real situation and the necessary measures. More than one country requires the decision to take into account the impact on the financial stability of other Member States.

Since 2008, an agreement between the European Commission and the European Central Bank, Declaration of a Joint Action Plan of the Eurozone Countries, was approved to eliminate differences in national policies. The plan provides for individual governments to take coordinated action to facilitate bank financing and recapitalization. National governments then adopt specific national plans. However, the European Commission's Directorate-General for Competition must give final judgment on the eligibility of state aid to the banking system and the merger of banks.

Models for banking supervision

There are three main models for supervision policies in the European Union: sector, integrated and oversight organized according to the functional objectives (the Twin Peaks approach) (Apinis et al., 2010).

- Under the sector supervision system, each financial sector (banking, insurance and securities trading) is controlled by a separate authority.

- The integrated supervision refers to cases where a single universal supervisor is responsible for the three financial sectors and covers both prudential supervision and investor protection. Over the last two decades, the pattern of an integrated supervisory system has been increasingly adopted. The leading motive is the emergence of large financial groups operating simultaneously in the banking, insurance and investment sectors (financial conglomerates).
- The Twin Peaks approach is organized by targeting the supervisory objectives - one authority performs prudential supervision, another implements business regulation.

Central bank participation in banking supervision is the following: (a) integrated supervision within the national central bank (for example, in the Czech Republic and Slovakia); (b) an integrated supervisory authority outside the structure of the national central bank (in Estonia, Hungary, Latvia and Poland). Only in Bulgaria bank supervision is carried out on a hybrid model - the Bulgarian National Bank and the Financial Supervision Commission.

National motives and actions to resolve the crisis determine the use of two approaches: territorial and universal. In most cases, the national authorities are trying to reduce losses to stakeholders (depositors and other creditors, taxpayers, deposit insurance funds) through the specific laws of their countries. However, institutional support is needed for financial institutions in which society operates or is a public or quasi-community fund to achieve similarities in the implementation of measures and to make them adequate to national interests. In this connection, public and political pressure is increasing for states to deploy financial resources so as to limit cross-border insolvency and reduce losses for their own taxpayers.

Conclusions

The attitude towards the banking system is influenced by the peaks and downturns in economic development. When its impact on the economy is positive, little attention is paid to the banking system. However, in the emergence of crises, it becomes an important subject of research, followed by the introduction of measures to stabilize it. In such situations, joint action is taken to rescue banks, but the divergence of supervision policies leads to negative results.

Globalization of banking poses a new challenge - a new kind of systemic risk whereby a country's financial instability is transferred to the international financial system. In this connection, there is a real need to increase the soundness of the financial system.

Prior to the 2008, the supervision policies are based on principles involving a large dose of self-regulation through soft legislation - the conclusion of Memoranda of Understanding. The leading role is assigned to the home country supervisory authority, which has to make sure that there is sufficient capital and reserves to cover the risks on its territory. In this way, the financial system is divided into the "center-periphery" principle.

Since 2009 the modern supervisory framework has been constituted in line with new reality. It represents a fundamentally different stage of financial integration through the delegation of sovereign powers to the national authorities to pan-European institutions. The ultimate goal is to prevent new crises and to put public interests at corporate level. The guiding principles provide for the protection of taxpayers' interests, the assumption of all financial consequences by shareholders, the temporary nature of financial intervention, and real opportunities for governments to change management. The restrictive measures introduced for banks receiving state aid during the crisis have led to the breakdown of the financial groups. This is achieved thanks to the requirements of the European Commission for the separation of commercial banking from insurance activities, the separation of investment from commercial banking activities, shrinkage of branch network and the separation of foreign subsidiaries.

The new reality is characterized by a level playing field between home and host supervisors. The modern supervision policy provides ex-ante arrangements for ex-post sharing of losses from cross-border insolvency. By taking measures in this respect, governments must anticipate the second-round effects on the other Member States.

References

Apinis, M., M. Bodzioch, E. Csongrádi, T. Filipova, Z. Foit, J. Kotkas, M. Porzycki, M. Vetrák. 2010. The role of national central banks in banking supervision in selected Central and Eastern European countries. A Case-study on Bulgaria, The Czech Republic, Estonia, Hungary, Latvia, Poland and Slovakia. ECB, Legal Working Paper Series No. 11.

Basel Committee on Banking Supervision. 2010. Report and Recommendations of the Cross-border Bank Resolution Group. BCBS.

Committee of European Banking Supervisors. 2010. CEBS's response to the European Commission's Communication on an EU Framework for Cross-Border Crisis Management in the Banking Sector. CEBS 2009 309.

Hubenova-Delisivkova, T. 2016. Problemŭt za dŭrzhavnite pomoshti za bankite v ES i makroikonomicheskite neravnovesiya: predizvikatelstvata pred bankovata sistema v Bŭlgariya. V: Sledkrizisniyat finansov svyat – stagnatsiya ili radikalna promyana. S.: Izdatelski kompleks - UNSS, s. 69-81.

Jones, E. 2009. Output Legitimacy and the Global Financial Crisis: Perceptions Matter. Journal of Common Market Studies, Vol. 47, No. 5, pp. 1085–1105.

Kazandzhieva-Iordanova, I. 2017. Doktrinata Too Big to Fail i mrezhata za finansova sigurnost. *Narodnostopanski arkhiv*, № 1, s. 15-40.

Nedelchev, M. 2016. New framework of banking supervision in the European Union. Entrepreneurship, Issue 2, pp. 287-300.

Nieto, M., G. Schinasi. 2008. EU Framework for Safeguarding Financial Stability: Towards an Analytical Benchmark for Assessing its Effectiveness. Banco de España Occasional Paper, No. 0801.

Paulo, S. 2011. Europe and the global financial crisis: taking stock of the EU's policy response. Paris: Fondation Robert Schumann.

Posner, E. 2010. Is a European Approach to Financial Regulation Emerging from the Crisis? In: Helleiner, E., S. Pagliari & H. Zimmermann (eds.). Global Finance in Crisis. London: Routledge, pp. 108-120.

CHAPTER 2

THE ECONOMIC DEVELOPMENT OF BULGARIA AND ROMANIA AS EU MEMBER COUNTRIES

STRUCTURAL REFORMS IN EU INDUSTRIES: WITH A SPECIAL FOCUS ON BULGARIA AND ROMANIA

Iskra CHRISTOVA – BALKANSKA, PhD[1]

Abstract

The development of Bulgarian and Romanian industry is analyzed against the backdrop of changes in the importance, practical application and future of industry in the EU .The analysis focuses on the structural changes in Bulgarian and Romanian industry as EU Member States, especially after the 2007-2009 economic crisis. The analysis covers some key assessment criteria, such as the relative share of value added generated by the industrial sector in Romania and Bulgaria, how production evolved, what level of labor productivity has been reached. In the first part, the EU's policies for restructuring the industry at a higher technological level so as to increase the competitiveness of European production on international markets are clarified. In the second part, the changes in the structure of Bulgarian and Romanian industry and its adaptation to the policy of re-industrialization undertaken by the European institutions are analyzed

Keywords: European Integration, European industry, Bulgaria and Romania industries,

JEL Classification: F15, O14

Introduction

Industry (the manufacturing industry and services) is the engine of the European economy. Manufacturing and services are indivisible because the industry is tied to and depends heavily on the services. Significant changes have taken place over the past decades in the EU28 industry sector - the volume of value added in the industry is falling, employment in the industrial sector is decreasing and some of Europe's traditional industrial sectors are losing their importance to the European economy. The difficulties in the European Economic Area are growing because, on the one hand, Europe must maintain its solid industrial base and, on the other hand, the industrial production must be competitive on the international markets.

The purpose of the present report is to reveal the state, development and priorities of Bulgarian and Romanian industries in the context of the modern aspects of the development of the EU industry. The development of Bulgarian and Romanian

[1] *Professor, International Economics Department, Economic Research Institute at the Bulgarian Academy of Sciences, iskbal@bas.bg*

industry is analyzed against the backdrop of changes in the importance, practical application and future of industry in the EU.

The analysis focuses on the structural changes in Bulgarian and Romanian industry as EU Member States, especially after the 2007-2009 economic crisis. The analysis covers some key assessment criteria, such as the relative share of value added generated by the industrial sector in Romania and Bulgaria, how production evolved, what level of labor productivity has been reached, and so on.

In the first part, the EU's policies for restructuring the industry at a higher technological level so as to increase the competitiveness of European production on international markets are clarified. In the second part, the changes in the structure of Bulgarian and Romanian industry and its adaptation to the policy of re-industrialization undertaken by the European institutions are analyzed.

Structural changes to the EU industry

The global financial, economic and sovereign debt crisis in Europe has accelerated the downward trend in the industrial sector. Industrial production in EU countries has declined by 10% and 3 million jobs have been closed. In the aftermath of the crisis, the European industry is expected to quickly reach its production capacity, but it is recovering slowly. At the forefront, the obvious fact stands out that the contraction of the European production capacity is mainly due to the structural problems of the European manufacturing industry, which have grown over time and therefore cannot be resolved within a short period of time. The reasons behind the contraction of industrial production are the lack of fresh investment for European industrial enterprises, compared to the major competitors in Asia, as well as the lagging behind in the introduction of new technologies. Investments in up-to-date equipment, which are of paramount importance for the industrial production sector, are declining in all EU Member States (with the exception of Luxembourg) - from 7% of GDP in 2007 to 5.8% of GDP in 2014. (*Eurostat*)

The shift of the center of gravity in the developed European countries from the industry to the services gives rise to long-standing formal international and academic discussions on the role of industry for the European economy. There is a common understanding that the European economy is *deindustrialized*, without, however, leading to concrete decisions by national and European official institutions for years. Since 2014, concreate steps were undertaken, putting the European industry in the center of the European debate for the EU future industrial development. [2]

The disappearance of jobs in industry is associated with the deepening of the deindustrialization. When a European company opens a subsidiary abroad, besides

---

[2] The following publications appeared: European Commission (2014), "An Integrated Industrial Policy for the Globalisation Era - Putting Competitiveness and Sustainability at Centre Stage", COM (2014) 614. European Commission (2012), "A Stronger European Industry for Growth and Economic Recovery", COM (2012)582 final. European Commission (2014), "For a European industrial renaissance", COM (2014)14/2.

production, it also exports expertise related to the recruitment of highly qualified specialists, as well as its marketing and sales departments. The export of goods and services to overseas markets has a negative impact on the competitiveness of industrialized European economies.

However, the European industry remains competitive and represents a significant part of the value added in the economy. It accounts for 24% of GDP, with 50 million people in the European industry. Although many jobs have been closed down in Europe in the last 10 years and especially during the economic crisis, employment in medium and high-tech manufacturing has grown from 35% in 2008 to 37% in 2015. The relationship between the industrial production and the services is strong because 40% of the jobs in the manufacturing industries depend on the services.

An important indicator of the role of the European industry is the Competitive Industrial Performance Index (CIP[3]) calculated by United Nations Industrial Development Organization (UNIDO). Countries are classified according to CIP in five main groups: *high, high average, medium, low average and low*. Countries, classified in the high part of the scale account for nearly 83% of the global manufacturing industry's added value and more than 85% of the world trade in manufactured goods (*Industrial Development Report* 2016, p.201). Developed EU countries have high value added in the manufacturing industry. Germany ranks first, followed by developed economies such as Japan (with an index of 0.46), South Korea (with an index of 0.442), the United States (with an index of 0.442), China (with an index of 0.366) and Switzerland (with an index of 0.345). At the top part of the ranking are the EU28 Member States from Central Europe, with the good industrial base they have and the production of goods with high and high average added value.

The recovery of the European industry in recent years has given rise to a rapid restructuring of the manufacturing industry. Investments in industry increased by 20% during the 2015-2016 period in the form of attracted foreign direct investment (FDI). FDI in the automotive, machinery and equipment and logistics industries is growing.

Although EU Member States rank first in the CIP, many European companies and small and medium-sized enterprises (SMEs) do not change so quickly as to adapt to a dynamically changing economic and technological environment. A number of European companies and SMEs significantly shrink their production of goods and services due to their difficulty in obtaining financing because of capital market shocks and decreasing bank lending. The restructuring of the European industry on a completely new basis requires significant investments that far outweigh the current financial capabilities of SMEs in particular, which form the basis of European industrial production. At present, only 1.7% of European companies derive new business opportunities from the benefits of the digital economy, while 41% of European businesses do not use any of the

[3] The Competitive Industrial Development Index is a key indicator of long-term sustainable economic growth and allows competitiveness to be ranked. Changes in the value added produced by the manufacturing and export of industrial products determine the industrial competitiveness of the country.

possibilities of the digital economy. About half of European manufacturing companies do not use advanced technologies and do not plan to use them in the near future. (*Reindustrialisation of Europe: Industry 4.0 - Innovation, growth and jobs*, 2015)

It is essential for the EU to introduce digital technology and adopt basic technologies. It is assumed that the introduction of the digital economy increases the economic impact of traditional European industries by 75% due to improving the competitiveness of industrial production. The digital economy and the new business models change the traditional value transfer chains. The new business models facilitate access to international markets by selling specialized and "smart" products and services and increasing funding opportunities for innovative SMEs. The digital economy facilitates the movement of the trade flows and services which accompany export on the international markets.

Europe has a developed industrial production in the field of aerospace, advanced technologies in the manufacturing industry and Internet networks, but lags behind in basic technology (BT) investments that include expansion and advanced production, nanotechnology, biotechnology, micro and macro electronics, photonics and the production of sophisticated and modern materials. Compared to the 2010-2012 period, improvement in all BT sectors is expected by 2020.

The main objective of the EU is to create an environment in which industries can develop favorably by striking a balance between regulatory measures and the freedom to make innovations in the production process.

The European Commission (EC) introduces four main pillars for the restructuring of EU industrial policy. *The first pillar* is building a clear and transparent framework in order to stimulate and increase investment in industries that produce high added value goods. *The second pillar* is the increase in EU exports of goods and the reform of the European Single Market (ESM), as well as the facilitation of European exports to the international markets of third countries. *The third pillar* is the financing of enterprises from public and private funds. *The fourth pillar* is related to structural changes in the industry, based on the improvement of the education and qualification of the workforce. Industry investments are channeled into new, fast-growing, modern industrial activities and industries such as “technologically advanced manufacturing, key enabling technologies, bio base products, clean vehicles and sailing vessels, sustainable construction and raw materials, “smart grids.”

The European Union is introducing a package of measures aimed at improving the competitiveness of the production of industrial enterprises, within both the ESM and the international markets. These policies cover both horizontal programs for the development of European industry and initiatives geared towards specific industries. They are based on three main factors - flexibility, sustainability and innovativeness, without introducing new requirements or restrictive measures.[4]

[4] The main initiatives in this regard are: the adoption of the Investment Plan for Europe; the European Single Market Strategy; the Digital Single Market strategy; the Circular Economy package; the Energy Union; the Capital Markets Union and the New Skills Agenda for Europe.

In order to achieve these objectives, the EU mobilized more than 740 billion euro for investments in key programs. Under the Transparency and Technical Assistance Plan, 315 billion euro is available for investment over a period of 3 years. Under the EU's Research and Innovation Program (Horizon 2020), 80 billion euro of funding is provided for the 2014-2020 period. The Enterprise and SME Competitiveness and Innovation Program (KOSME) has a budget of 2 billion euro. The European Structural and Investment Funds (ESIF) have a total of about 350 billion euro, designated towards supporting Europe's economic development.

A number of EU initiatives are being implemented successfully on the basis of the projected investments in the main industries. The distinctive feature of industrial policy is its restructuring alongside the construction of the Energy Market and the EU Capital Market Union. Sapir and Veugelers emphasize that changes in the European manufacturing industry towards high productivity industries which require a professionally trained workforce penetrate into all industries - even in beverage and textile production which are traditional in Europe. (*Sapir, Veugelers*, 2013).

The structural changes in the European industry reflect changes in the manufacturing sector and the stimulation of the production of high added value products as well as the expansion of the share of services as part of the manufacturing industry, known as the servitisation of manufacturing.

Indicators of the development of the industry in Bulgaria and Romania

Over the past 27 years, the industrial sectors of Bulgaria and Romania have been radically changing under the influence of the social economic transformations in the countries and the privatization of the big structural state-owned enterprises after the beginning of the 1990’s. During this period in both neighboring countries some of the enterprises in the heavy industry lost their importance for the economy, and this process was more pronounced in Bulgaria. A significant number of those employed in the manufacture of base metals and in the steel production industries have lost their jobs. For example, in Bulgaria, the number of employees in the mentioned sectors decreased from 23,000 to 11,000 workers. The closure of heavy industry enterprises and electronics and computer companies has a negative impact on the social and economic situation in a number of regions because there is growing unemployment and the lack of perspective faced by a number of people pushes them towards relocation to a larger city or abroad.

Unlike other Eastern European countries, much of the control of production capacities in Bulgaria remained state-owned until the second half of the 1990’s. The privatization of enterprises during this period was largely uncontrolled and lacked clear rules, which in turn led to the emergence of a “shadow economy”. By the end of 1995, the first wave of mass privatization, which turned out to be more liberal in its essence, unlike that in some Central European countries and Romania, came into effect because the role of the state was reduced. During the mass privatization in Bulgaria through auctions, 69.1 million shares were allocated to 1040 enterprises, or in other words 76.4% of the shares were transferred to privatization funds. About 3 million individuals became shareholders in 81 privatization funds. The remaining half a million were shareholders of enterprises included in the privatization programs. The second wave of privatization was based on investment vouchers that were used in order to make payment in different types of transactions. These included manager-employee buy-outs, centralized auctions of state-owned enterprises and installment payments to pension funds.

In Romania, the privatization of industrial enterprises began after 1992, when about 30% of the shares of 6000 state-owned enterprises were transferred to 5 private privatization funds that accumulated privatization bonds. The remaining 70% of the ownership of the enterprises was transferred to a state privatization fund, which had a mandate to sell 10% of the shares annually.

Between 1990 and 2000, Bulgaria and Romania's industrial share of GDP fell significantly (by around 20% for Bulgaria and by 14% for Romania) due to the restructuring and/or closure of a series of large industrial enterprises producing basic commodities for domestic consumption and for export on international markets. For Romania, these were diesel electric locomotives, electric motors of different power, tractors, and so on. The production of complex machines and equipment, large cranes, forklifts, etc. disappeared from the Bulgarian industrial list. In this respect, both countries began the process of deindustrialization and the loss of sustainable production chains of the horizontal industry.

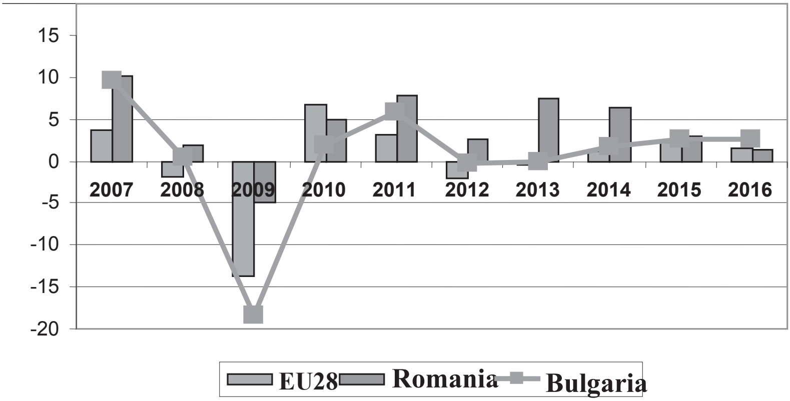
Despite these processes, the industry continues to account for an important share in the GDP of Bulgaria and Romania, compared to its importance for GDP on average for the EU28. The Bulgarian industry produces about 20% of the total gross value added (GVA) for the 2007-2016 period. This percentage is lower compared to the Central European countries and Romania (28.2%).

The European industry shrank by 15.8% during the 2008-2009 period. Bulgaria's industrial production declined by 18.3%. The Romanian industry decreased by 5% and proved to be much more resilient to the external shocks resulting from the weak demand from EU trading partners and the drop in the investment intentions of major European companies. (Fig. 1) In the years following the crisis, the movement of the industrial production index in Romania and Bulgaria is rather hesitant. Romania's industrial production is recovering relatively faster and the rate of increase in production is higher. As of December 2016, the industrial production in Bulgaria reached a 6.95% rise, which has been the highest level reached after the first quarter of 2014. (*NSI*)

In the period 1995-2007, the added value produced by the EU industry grew at a slower rate than that generated by the whole economy, or in other words by 2.9% on average per year vs. 4.7% on average per year for the economy in general. The GVA from the industry as a percentage of the total GVA remains roughly the same for Bulgaria and for Romania, decreasing in Romania between 2012 and 2016. In the period 2007-2016, the GVA generated by the industry decreased overall for the EU28 Member States, while in Bulgaria and Romania it was higher by 5-6%. (Fig. 2)

Figure 1

Industrial production in EU28, Bulgaria and Romania, annual data, 2007-2016

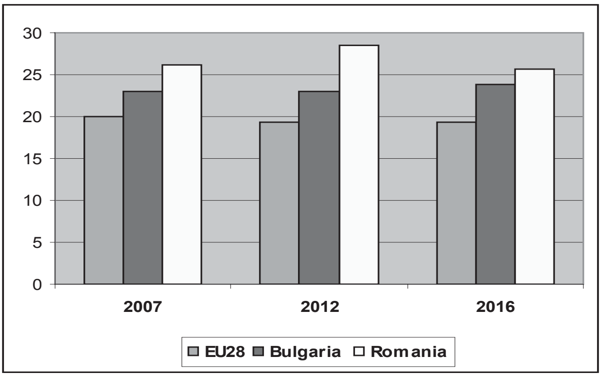


Source: *Eurostat*

In Bulgaria, the industries that produce the most significant share of GVA are the food, beverage, tobacco, chemical, metal, machinery and electronics, textiles and clothing industries (2012). For Romania these are the oil production, coke and nuclear fuel production, metallurgy, food and beverage production, etc. (2011).

Figure 2

Share of Gross value added (GVA) of the industry in the total GVA in EU28, in Bulgaria and in Romania for 2007, 2012, 2016. In %

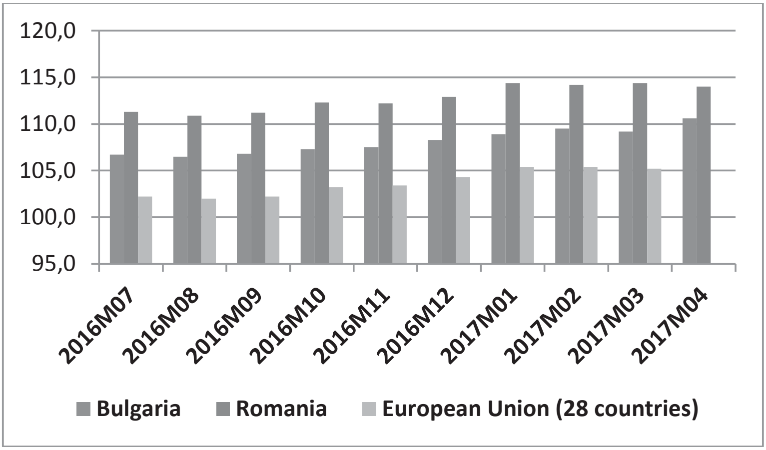


Source: *Own estimations from Eurostat data*

The Producer Price Index (PPI), which expresses net industry output, had been rising for years, but since mid-2008 and over the span of several months it has fallen due to the impact of the economic crisis. Subsequently, the index rose and by 2013 it reached its peak before it fell again in 2016. Since then, prices have increased at a relatively steady rate of around 0.4% per month. (*Eurostat*) The PPI in Bulgaria and Romania shows a positive trend, with the CPI in Bulgaria amounting to more than 3% (April 2017). (Fig. 3)

Figure 3

Producer prices in the industry, the domestic market; monthly data



Source: *Eurostat*

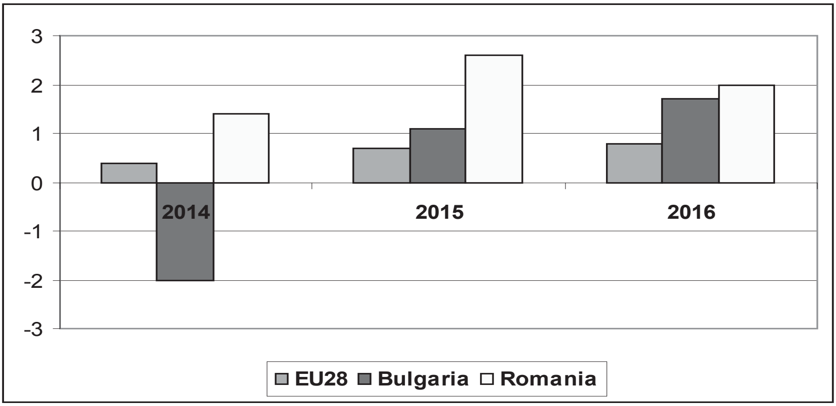
One of the main indicators of industrial development is employment. By the end of 2016, the number of people employed in the economy of Bulgaria (aged 15 and over) grew by 22,200 persons on an annual basis, compared to a growth of 25,300 during the previous quarter of 2016. However, despite the continued growth in the number of the employed in 2016, the data show some slowdown in job creation compared to 2015 and 2014. This is due to the relatively moderate growth rate of 3.2% per year (compared to over 6% before the crisis) and due to reaching the pre-crisis employment rates. By the end of 2016, employees in the Bulgarian industry decrease by about 5.5 thousand people, or in other words by less than 1%. Employment in the industry branches is rather hesitant and the decline may be due to temporary fluctuations rather than a lasting negative trend in the Bulgarian industrial sector. Among the factors influencing the decline in employment in the Bulgarian industry are the lower export earnings in 2016 and the continuing deterioration of the demographic indicators of the Bulgarian population.

According to Eurostat surveys, there is a growing shortage of labor in the Bulgarian industry, as well as in the IT sub-sector, which appears in the item “Creating and disseminating information and creative products; telecommunications”, where jobs were intensively created in the period 2014-2016. During the second quarter of 2016, for the first time since the beginning of the recovery of the labor market after the crisis, there was a decrease in the number of employed in the IT sector by 4.1 thousand, or in other words by 4.4% on an annual basis. (*NSI*)

Employment in Romania's industry is growing on average by just over 2% per year. (Fig. 4) In Romania, the number of employed in the economy is at the same level as in 2006. In the last 10 years 450,000 jobs (2007-2016) in the Romanian manufacturing industry have disappeared. However, the number of workers in the IT sector has increased by 800,000 jobs.

Figure 4

Employment in industry for EU28, Bulgaria and Romania, annual rate of change, 2014-2016



Source: *Eurostat*

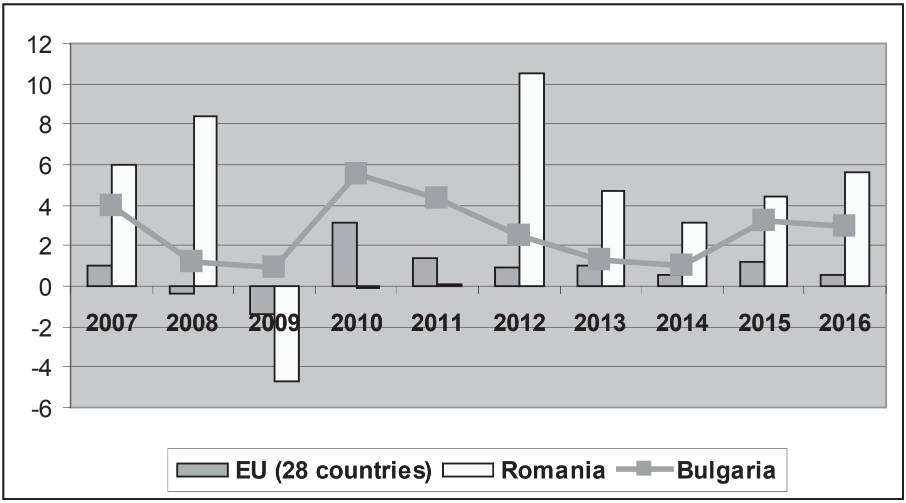
The crisis deepened the differences in labour productivity between the EU Member States. Despite the fact that labour productivity in manufacturing increased after 2007, the slight improvement reflects the fact that the total number of workers decrease much faster, than the decline in the manufacturing output. The period of sustained economic growth (2003 to 2007) did not lead to above average increases in labour productivity growth. This can be explained by factors such as declining investment per employee, slowdown in the rate of technological progress, sluggish reorientation of the economy toward sectors with high productivity, the relatively small size of the EU’s information and communication technology industry as compared with other developed countries, and a stagnating share of R&D expenditure in GDP.

The problem with the European industry is not in the declining production in some traditional sectors of the European industry, but is rather in the low level of investment in fixed capital and the relatively lower degree of introduction of new technologies in industrial production, compared to the main trading partners in Asia.

Between 2007 and 2016, the labour productivity grew sharply in the New EU Member States, with a positive GDP growth rate in Bulgaria and Romania. In Romania, the labor productivity per hour increased in 2007-2008, but it sharply declined in 2009 by more than 1% than that in Bulgaria, and then it eventually recovered after 2012. (Fig.5). In 2016, labor costs per hour in the industry amounted to 26.6 euro in the EU28 and 32.6 euro in the Euro Area, compared to 4.4 euro per hour in the industrial sector of Bulgaria and 5.5 euro per hour in that of Romania. (*Eurostat*)

Figure 5

Labour productivity per hour worked in the industry (ESA 2010) Percentage change on previous period



Source: *Eurostat*

The specialization of Bulgaria and Romania in major industrial production

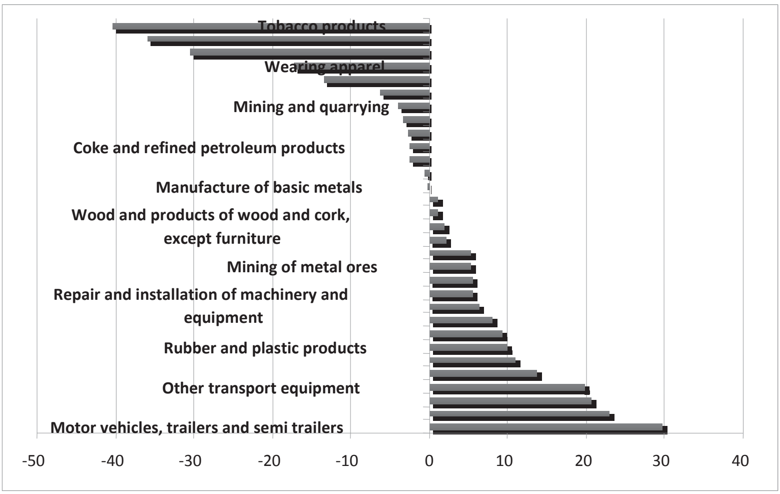
The specialization of Bulgaria is oriented towards the production of food and basic metal products. The comparative advantages in the manufacture of electrical equipment, machinery and equipment and chemical products are preserved. The most significant number of workers is employed in the food and beverage industry, in clothing manufacture and in the manufacture of metal products. Currently, the heavy industry in Bulgaria consists of the mining, metallurgical, electrical and chemical industries and its future development depends on attracting significant investments and on its inclusion in the projects of the Global value chains.

Nearly all sub-industries have a positive development, with the exception of tobacco and automobile production. Metallurgy is the main industrial sub-sector, whose share in the export of industrial products occupies the highest percentage. The import and export of metals and metal products generated a positive trade balance of 1.5 billion euro in 2017. The labor productivity per employee in this sector is 4 times higher than the average productivity of the employed in the total labor productivity of the country. The gross added value created is 3 times higher than that produced in the manufacturing industry. The Bulgarian industry is based on an industry producing products with low and medium value added.

The industries that have been developing in Romania over the past 26 years include oil processing, coal production, nuclear fuel processing and rubber and plastics production, which have grown by 130%. Other sectors that are developing at a moderate pace include the IT sector and the production of electrical machinery and equipment. Branches where production is reduced compared to previous periods and who therefore lose their relative weight for the Romanian economy are metallurgy, metal structures and metal products, road transport equipment, as well as food, beverages and tobacco.

Figure 6

Growth of the EU industrial production by sectors, 2010 to 2016 (%)



***Source**: Eurostat*

The data show that in the European industry the highest positive growth is marked in the sectors “Motor vehicles, trailers and semi-trailers”, “Basic pharmaceutical products and preparations”, “Other transport equipment”, “Computer, electronic, optical products”, etc., while the production of electricity, gas, steam, air conditioning supply, wearing apparel, extraction of crude oil and natural gas, mining of coal and lignite, and especially tobacco products is decreasing. (Fig. 6)

The difference between the structure of the industry in the developed industrial countries of Europe and that of Bulgaria and Romania is obvious. Branches that have a positive trend in Romania, such as oil production and processing, are dying in Europe, while in Bulgaria the production of basic metals and metal products is developing, while in the European industry these industries are limiting their production. The structure of the European industry is oriented towards the development of high-tech industries and the production of goods with high added value, while the industrial sectors of Bulgaria and Romania seem to preserve and follow the legacy of the former industrial structure despite the deindustrialization during the transition period towards a market economy and despite the closure of a number of heavy industry sectors.

The main problems facing Bulgarian and Romanian industry

The European single market is highly selective and the large industrial European companies gain competitive advantages over companies in Bulgaria and Romania, which produce goods with higher unit labor costs and are less competitive. The lack of sufficient investment and the relatively low competitiveness of industrial products make Bulgaria and Romania a market for European industrial products unless adequate measures are taken in order to increase investments of quality in the industry, so that the competitiveness of industrial products can be improved. In both countries, there is insufficient national capital for fixed capital investment and new technologies aimed at modernizing production, making them dependent on FDI inflows.

Major European companies are relocated to Bulgaria and Romania, but strategic investors are few, targeting the development of vertical FDI sectors in order to spread positive impulses towards the more high-tech industries. FDI, however, depend on the business cycle and on economic growth - this became apparent during the economic crisis, when FDI dropped sharply and so far they have not reached their pre-crisis level in Bulgaria and Romania. Consumption supports economic growth in Bulgaria and Romania, but it must be accompanied by investment in production, following the example of the industrial development of the EU Member States from Central Europe.

The main question is: how can Bulgaria and Romania produce goods with high and high average added value and what are the factors that contribute to it? Firstly, there is a need for a strong industrial policy supported by the state and in line with the EU Directive on a new industrial policy. Secondly, fresh investments in industries must be attracted using state-of-the-art technologies. Thirdly, although the labor market is rigid, mechanisms should be put in place in order to limit the emigration of engineers.

Although that, in both Bulgaria and Romania there are productions that enable high-tech communication between machine equipment and its management, but entry into the Industry 4.0 requires input into artificial intelligence, optical and sensing systems and, above all, the digitization of the economy, according the recent EU policy measures. This would allow the introduction of an environmentally friendly and energy-efficient production

Conclusion

. In Bulgaria and Romania, there is still no capacity to build a new industrial structure based on sophisticated optical and technological equipment. The main objectives of the Bulgarian and Romanian industries in the context of adapting the manufacturing industry to the new European industrial policy should be directed towards investment in the industry, in the infrastructure and in the education and qualification of workers. One of the effective approaches is the development of production as part of the overall production process of Global value chains. The concrete steps in this direction make it easier to develop high-tech production that attracts high-quality FDI. The main driver of economic growth is the development of a network of competitive companies of varying sizes in the manufacturing industry.

References

European Commission, (2017) *Industry in Europe, Facts&Figures on competitiveness&innovation*.

European Commission, Fraunhofer, (July 2016), *Study on EU Positioning: An Analysis of the International Positioning of EU Using Revealed Comparative Advantages and the Control of Key Technologies*, Final Report.

European Commission Forum Europe conference (23.06.2015) *Reindustrialisation of Europe: Industry 4.0 – Innovation, growth and jobs*.

Russu C., (2015) *Industrial Specialization of the European Union Member countries*, Economic Insights –Trends and Challenges, Vol. IV (LXVII), 2, p. 63-73.

Industrial Development Report (2016) *The Role of Technology and Innovation in Inclusive and Sustainable Industrial Development*, UN, Industrial Development Organization.

Commission Européenne (2013). *Compétitivité de l'industrie des États membres de l'Union: quelques progrès mais encore de nombreux défis à relever*, 25 septembre, Bruxelles.

DG Enterprise and Industry. (2014). *Task force on Advanced Manufacturing and Clean Production Report*, EU Commission Staff Working Document, March.

DG Enterprise and Industry. (2013). *EU industrial structure 2013, Competing in Global ValueChains*, European Commission, ISSN 1831-3043.

DG Enterprise and Industry. (2011a). *EU industrial structure 2011, Trends and Performance*, European Commission, ISSN 1831-3043.

EU Monitor, European integration. (2013). Europe's reindustrialisation. Deutsche Bank.

Key figures on Europe. (2016). Eurostat.

http://cursdeguvernare.ro/cat/english

Russu C. (2014). Structural Changes Produced in the Romanian Manufacturing Industry in the Last Two Decades, 2nd International Conference 'Economic Scientific Research - Theoretical, Empirical and Practical Approaches'. ESPERA, Bucharest, Romania.

Timmer, M. P. and B. van Ark. (2005). Does information and communication technology drive productivity growth differentials? A comparison of the European Union countries and the United States, Commission communication, Second Implementation Report on the 2003-2005.

DG Enterprise and Industry. (2010). EU Manufacturing Industry: What are the Challenges and Opportunities for the Coming years? Second high-level conference on industrial competitiveness. European Commission. Brussels. 26 April.

Impact of the economic crisis on key sectors of the EU - the case of manufacturing and construction industries. (February 2010). EU Commission, Enterprise and Industry.

Eurostat data manufacturing statistics NACE Rev.2-Statistics. Eurostat.

National Statistical Institute of Bulgaria.

Jaegers, T., D. Amil. (2011). Industrial output in the EU and euro area. An analysis of the industrial production index. Eurostat, Statistics in focus, 36/2011.

Sapir, A., R. Veugelers. (2013). Manufacturing Europe's growth – policies should focus on high end industries driving productivity growth, Bruegel.

Previous papers by the Author on the topic

Christova-Balkanska I. (2011). Changes in the structure of European industry and results for Bulgaria. In: Investments in the future, p. 222 – 230, ISSN 1314-3719.

Christova-Balkanska I. (2015). Structural changes in the industry of the European Union and Bulgaria. Evolution and Future Challenges after the Crises. Volume 7, Issue I, p. 104-125.

BUSINESS ENVIRONMENT IN BULGARIA AND ROMANIA: A COMPARATIVE ANALYSIS

Juliana HADJITCHONEVA, Ph.D.[1]
Angel GEORGIEV, Ph.D.[2]

Abstract

The business environments in Bulgaria and Romania are discussed and analyzed in a comparative aspect. The paper presents an analysis of the factors influencing the businesses. Both quantitative and qualitative methods of research are applied in order to see the picture of the context in recent years.

Keywords: business context, business economics, business studies

JEL Classification: A100, M210, M100, A100, O100

Introduction

Business environment is closely related to competitiveness. It is acknowledged as a determinant of competitiveness. Environmental improvement is aimed at achieving better quality and productivity.

The environment that affects the performance of economic activity is defined as *business environment*. Everything that is outside the company, and might affect it, is *external* business environment (Griffin, 2017). The present paper covers some of the conditions that influence businesses and their development. Generally, these conditions may be political, economic, social, cultural, technological, etc. Society has to create wealth, and it depends on the development of the business environment. Further, it is expected to support productive use and enhancement of investment quality (Porter, 2004). So, a favorable business environment influences the investment activity, the technological development and, the economic growth.

The article aims to present an analysis of the factors influencing the businesses in Bulgaria and Romania taking into account the theoretical perspective and, both type of studies of the business environments, within the framework of the global competitiveness and, specifically purposeful for the present contribution.

Theoretical perspective of the business environment

[1] *New Bulgarian University, e-mail: jhadjitchoneva@nbu.bg*
[2] *New Bulgarian University, e-mail: aivanov@nbu.bg*

Iliev (2014) assumes the business environment as the basic characteristic of modern industry and a basic reference for the process of re-industrialization. Kovatchev (1997) analyses the business environment considering three interrelations. They concern mixed market economy, market mechanism, the institutional aspects of the economic development regulation and management in the context of the current economy.

Business itself as a system for transforming resources into products and services determines the business environment (Worthington and Britton, 2006) as it is shown in Figure 1:

Figure 1

Business' transformation system

Source: Worthington and Britton (2006), p. 5

Business interacts with the environment, and its external and internal factors (Hadjitchoneva, 2015). The external factors represent an environment that exists at two levels: general or contextual, and immediate or operational. The political, economic, social, technological, legal, and ecological contexts, known as *PESTLE* factors, form the macro business environment. Suppliers, competitors, customers, labor market, financial institutions, trade organizations, trade unions are the mezzo business or industry environment. The internal or micro business environment consists of the conditions and forces within the company (Griffin, 2017). The environment influences the whole transformation chain: the suppliers, the inputs, the company, the outcomes, and the customers (Palmer and Hartley, 2012).

The characteristics of the business environment follow different criteria such as degree of stability that depends on the extent to which its factors have sustainable impact on the management; degree of security of the system that depends on the number of risks and threats; degree of predictability of the system's behavior; degree of dynamism and, complexity (Mihailov, 2011).

According to Ivanchevich, Lorenzi and Skinner (1994) the managers should thoroughly analyze the forces of environment in order to fully utilize the resources. Adapting business to the environment is crucial. The adaptation goes through planning, organizing, controlling and managing strategies. Appleby (1991) and, Worthington and Britton (2006) also emphasize the importance of the understanding of the relationship between the business entities and the environment. Marinov, Velev and Geraskova (2009) consider the **political and legal** conditions as an overall political situation, the presence or lack of political stability, the economic legislation and protection of competition, consumers, and the capabilities of the different stakeholder groups. The **economic** conditions consist in the purchasing power of the population, which depends on such factors as current incomes, savings, prices and opportunities for obtaining credits. Palmer and Hartley (2012) note that "*businesses need to keep an eye on indications of a nation's prosperity*"[3] such as gross domestic product (GDP). The **demographic** conditions include population growth, geographical distribution and population mobility, population density, etc. The **natural** conditions are shortage of raw materials, difficult supply of energy and environmental pollution. Innovations are considered to be **technological** developments.

So, businesses need to adapt to the environment, but also have an influence and control over their own environment. Baron (2010) divides the environment into market and non-market, pointing out that some businesses achieve good results in both of them. Market imperfections coexist with *government imperfections* due to the fact that governments and markets may produce wrong decisions. Ivanov and Hadjitchoneva (2014)[4] draw the following conclusions regarding the business environment: "*The sensitivity of the business environment, whatever it means - institutions, policies, human behavior, technological development to globalization, leads to the fact that changes in the environment are becoming more and more difficult to predict. It is even more difficult to manage it, to focus on stimulating economic development, to solve complex tasks such as employment, deployment and stimulation of entrepreneurial activity by facilitating the regulations it has traditionally been subjected to. More generally, this means modifying the overall regulatory framework and improving regulatory regimes so that businesses can more easily and more responsibly take up their own competitiveness on global markets".* How these theoretical points of views can affect the business environment in Bulgaria and Romania?

Business environment within the framework of competitiveness

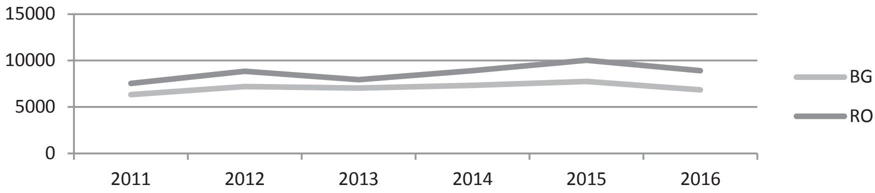
As mentioned above, several key macroeconomic drivers are essential for the influence of the business environment on competitiveness. The GDP in Bulgaria fluctuated less in the period 2011 - 2016. In Romania, there were two GDP peaks in 2012 and 2015. The difference between Bulgaria and Romania is in the scale rather than in the principle. The size of the population should be taken into consideration in tight relation with the GDP performance and its scale. The trends are almost the same. It seems that both countries experience the same demographic and regional problems. Thus, the GDP per capita shows practically

[3] Palmer and Hartley (2012), p. 10
[4] Ivanov and Hadjitchoneva (2014), p. 8

the same picture in both countries (Figure 2). Based on the above data, we can state that the two countries are fully comparable.

Figure 2

GDP per capita (USD)

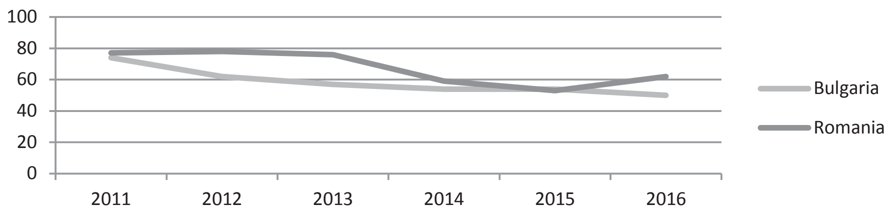


Source: own compilation based on GCI 2011-2017

Bulgaria and Romania are economies in transition classified as efficiency-driven economies by the Global Competitiveness Index (GCI). The overall index of Bulgaria and Romania's competitiveness for the period 2011-2016 is presented in Figure 3[5].

Figure 3

Overall Global Competitiveness Index (GCI) of Bulgaria and Romania for the period 2011-2016



Source: own compilation based on GCI 2011-2017

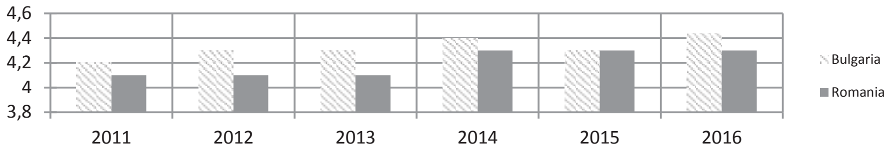
Among the favorable factors of the business environment in Bulgaria is the lowest corporate tax in the European Union[6] and the low operational costs for doing business in the region. Romania reports a significant progress in legislative reforms but they do not lead to impressive progress in its development. Bulgaria and Romania are among the European countries with the highest business investment rate (for non-

[5] Lower number is better.
[6] It is 10 %.

financial corporations)[7]. Their business investment rate is recorded to be above 25 %, precisely at 28.8 % for Bulgaria in 2013 and 27.2 % for Romania in 2014[8]. From 2011 there was a gradual improvement of the overall Bulgarian performance till 2016 and Romanian performance till 2015 evaluated on three pillars including basic requirements, efficiency enhancers and innovation and sophistication factors. The progressive trend could be seen in Figure 3 as rank and 4 as score. The countries have exchanged their rankings during the last two years 2016 and 2017 in the IMD World Competitiveness ranking[9]. In 2017, Bulgaria takes position 49 and Romania – 50[10], but it is difficult to see the drivers for the slightly higher progress of Bulgaria. The direct foreign investments in Bulgaria were increasing up to 2008, then dramatically disappeared after 2008 following the logic of the world financial crisis. The global economic situation influenced the competitiveness performance of both counties.

Figure 4

Overall Score of Bulgaria and Romania of GCI for the period 2011-2016



Source: own compilation based on GCI 2011-2017

The performance of Bulgaria and Romania is relatively better in the second pillar including the efficiency enhancers, then on the first one for the basic requirements. As it could be seen in Figure 5[11], they are both poor performers in the fields of innovation and business sophistication. Both countries perform relatively well considering the scores (see also Figures 6, 7 and 8) for the macroeconomic environment (Bulgaria's score is between 4.9 and 5.6 and Romania's – between 4.5 and 5.53 for the period 2012 – 2016, ranked respectively on position 42 and 28 in 2016) and health and primary education (with scores between 5.8 and 6.0 for Bulgaria and between 5.48 and 5.7 for Romania for the same period). The scores for higher education and training and, the labor market efficiency are moderately high (between 4.2 and 4.64 for Bulgaria and, between 4.0 and 4.45 for Romania). Romania is better performing than Bulgaria regarding

---

[7] It relates the investment of non-financial businesses in fixed assets (buildings, machinery etc.) to the value added created during the production process.

[8] http://ec.europa.eu/eurostat

[9] http://www.imd.org/globalassets/wcc/docs/release-2017/2017-world_competitiveness_ranking.pdf

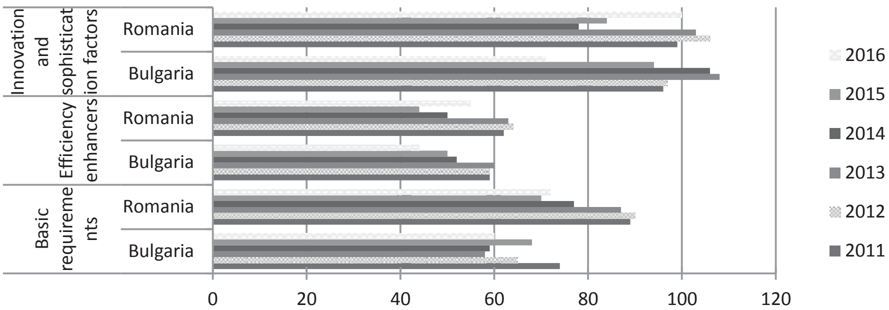
[10] From 61 economies worldwide.

[11] Lower number is better.

the market size (with average score of 4.46 compared to 3.86 for Bulgaria) but worse at the goods market efficiency (with average score of 4.09 against 4.26). As for the technological readiness both countries show a gradual progress (to 5.14 for Bulgaria and to 4.71 in 2016). Both countries are weak at innovation (around 3.0 on average).

Figure 5

Rank by GCI sub-indexes of Bulgaria and Romania for the period 2011-2016

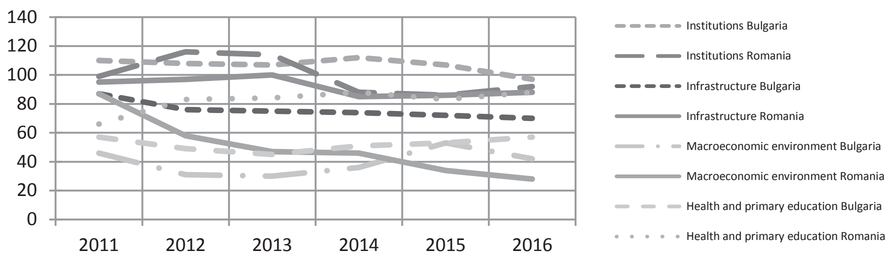


Source: own compilation based on GCI 2011-2017

Other basic obstacles are the institutions and the infrastructure as shown in Figure 6[12].

Figure 6

Rank by GCI basic requirements of Bulgaria and Romania for the period 2011-2016



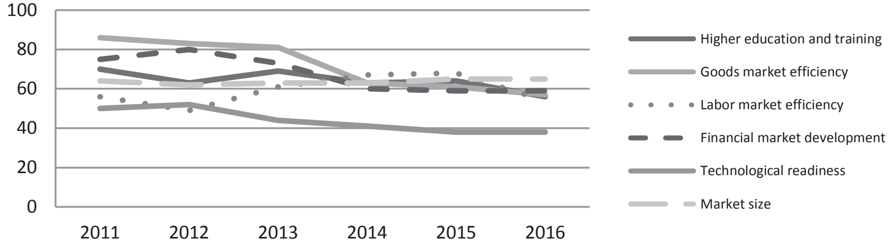
Source: own compilation based on GCI 2011-2017

[12] Lower number is better.

According to the countries' rank, the technological readiness of Bulgaria has had a distinctive advance since 2012, shown in Figure 7[13].

Figure 7

Rank by GCI efficiency enhancers of Bulgaria for the period 2011-2016

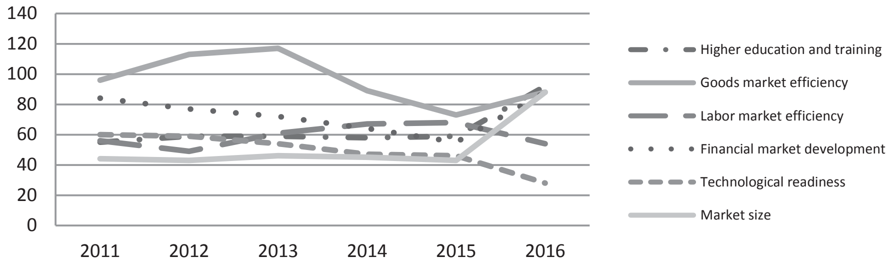


Source: own compilation based on GCI 2011-2017

As for Romania, while the technological readiness and the labor market efficiency marked an improvement in 2016, all the rest efficiently enhancers' factors represent a decline as shown in Figure 8[14].

Figure 8

Rank by GCI efficiency enhancers of Romania for the period 2011-2016



Source: own compilation based on GCI 2011-2017

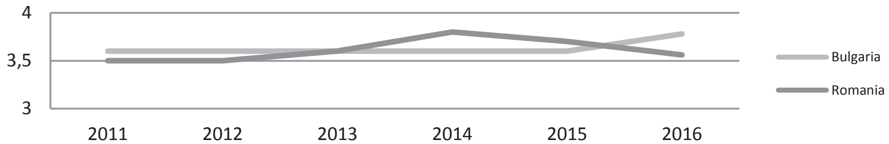
While no progress is noted between 2011 and 2015 for the sophistication of the Bulgarian business, in 2016 an improvement is reported for the first time as shown in Figure 11. The world ranking for economic freedom for Romania is also

[13] Lower number is better.
[14] Lower number is better.

slightly better in comparison with Bulgarian score from 2012 to 2014[15].

Figure 9

GCI business sophistication score of Bulgaria and Romania for the period 2011-2016

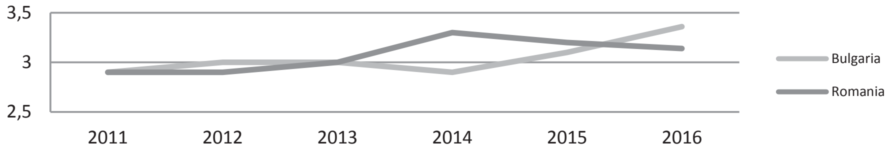


Source: own compilation based on GCI 2011-2017

The innovation trend for Bulgaria has also been progressing since 2014 reaching a higher level than the best Romanian score. The country still keeps the lowest performance in comparison with the rest of the factors assessed. The opposite trend is observed for the Romanian innovation, since 2014 it has been going down to a lower degree compared to the Bulgarian performance in 2016 (see Figure 10).

Figure 10

GCI innovation of Bulgaria and Romania for the period 2011-2016



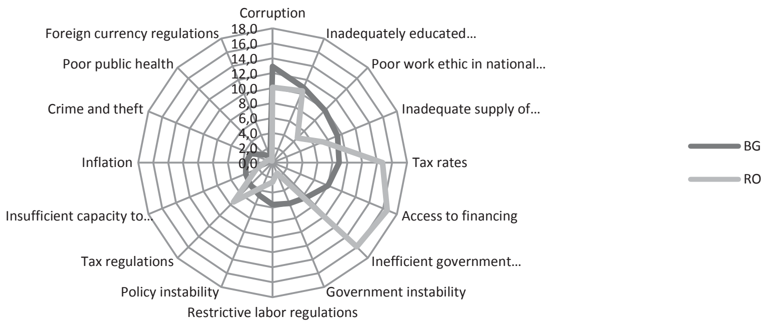
Source: own compilation based on GCI 2011-2017

The first three most problematic factors for doing business in Bulgaria in 2016 identified during the Executive Opinion Survey for the GCI are corruption, inadequately educated workforce and poor work ethics in the national labor force. Factors concerning the infrastructure, tax rates, access to financing and government bureaucracy come next. The corruption has been a major problem during the whole period of the current study followed by the inefficient government bureaucracy and access to financing (except in 2016). Both of them are large obstacles for doing business in Romania in 2016 as it is shown on the next figure.

---

[15] According Fraser Institute at https://www.fraserinstitute.org. No data after 2014 are provided.

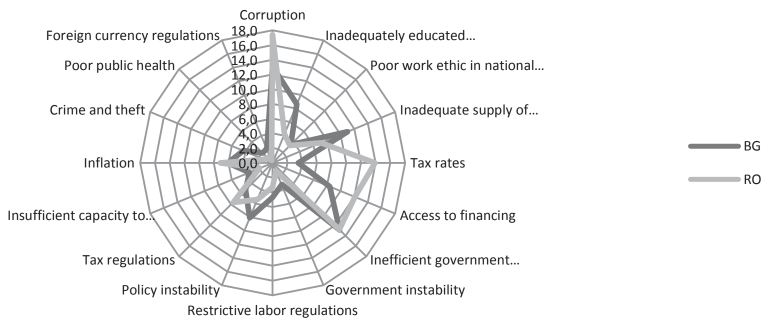
Figure 11
Most problematic factors for doing business in Bulgaria and Romania in 2016



Source: own compilation based on GCI 2011-2017

The corruption was burden number one for Bulgaria and Romania in 2012 as shown in Figure 12. It is continuing to be the biggest disadvantage for Bulgarian business environment while since 2012 Romania has made a progress in this respect.

Figure 12
Most problematic factors for doing business in Bulgaria and Romania in 2012



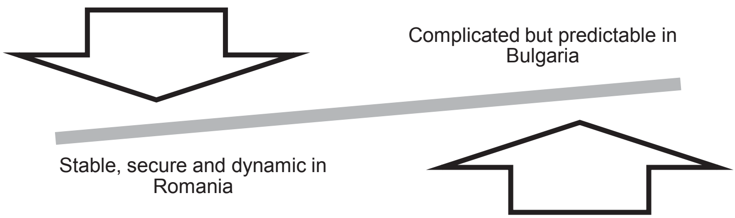
Source: own compilation based on GCI 2011-2017

Our practical approach to the business environment

In the framework of the present research, a questionnaire has been designed aiming at collecting actual and trustful information directly from companies operating both on Bulgarian and Romanian markets[16]. The business environment in Bulgaria is perceived as definitely complicated by 30 % of the companies comparing with 20 % for Romania. It is complicated or rather complicated in Bulgaria for 50 % and in Romania for 60 % of the companies. Exactly 80 % of the respondents rather agree that the Bulgarian environment is stable and predictable. It seems that there is not preponderance for the predictability of the Romanian business environment. The better predictability of the Bulgarian environment could be explained by the fact that 70 % of the companies have been active on the market in Bulgaria for more than 7 years, and 50 % in Romania – for less than 3 years. Thus, the companies in Bulgaria are better acquainted with the context and factors of influences. The Romanian business environment is considered stable by 30 % and rather stable by 50 % of the managers. However, a third of the respondents assume it as certainly stable. It is secure for 30 % and rather secure for 60 %. Still, the Bulgarian context is defined as insecure by 10 % and rather insecure by 30 % of the businesses. 40 % of the respondents assess the environment as less dynamic in Bulgaria versus only 20 % for Romania. On the whole, the Bulgarian business environment seems more complicated, more predictable and less dynamic, whereas the Romanian one is more stable, secure and dynamic. Without doubt, a more dynamic context could be more difficult to predict, as it is the case in Romania. On the other hand, a less stable and secure environment for the businesses is expectedly more complicated.

Figure 13

Characteristics of the Bulgarian and Romanian business environment



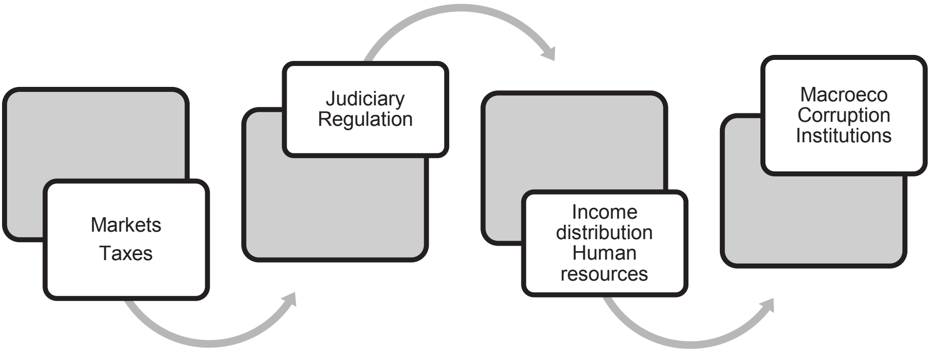
Source: own figure based on data of the survey on business

[16] The online empirical survey was carried out in the period April-May 2017. The companies are operating in the sectors of accommodation and food services activities, administrative and support service activities, transportation and storage, manufacturing, wholesale and retail trade and, other activities.

The most important components of the business environment (BE) for the companies are the markets and the taxes. Judiciary and regulation are also considered to be one of the most important factors. Then come income distribution and human resources. All the components mentioned in the survey including macroeconomic stability, corruption, relations with the public institutions and the refusal of the state to provide regulatory intervention are marked with a total of 80 % of weight in the responses.

Figure 14

Most important components of the BE for the business



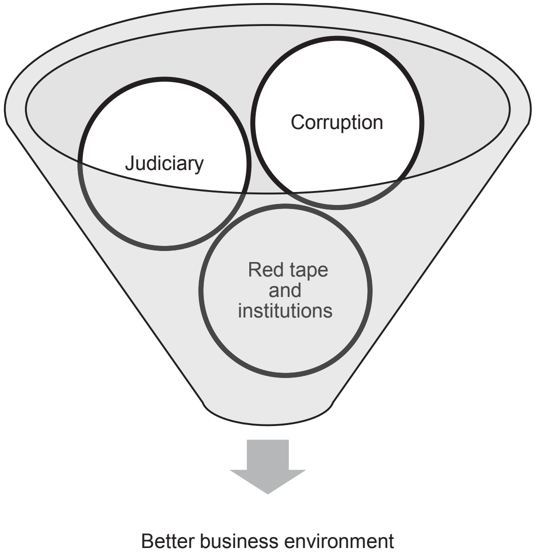
Source: own figure based on data of the survey on business

The corruption and the judiciary both mentioned to be important for the business are recognized as the most problematic factors of the Bulgarian business environment. On the contrary, the social security, the infrastructure and the taxes are favourable for doing business in Bulgaria. Most of the components that are important for the business are favourable factors of the Romanian business context, firstly the judiciary and the income distribution, then the macroeconomic stability, the regulations and the human resources. The markets are among the most favourable ingredients of the business environment in Romania. Problematic are the infrastructure and the refusal of the state to provide regulatory intervention. Thus, Bulgaria has some stronger points concerning the taxes, the social security, the infrastructure and the refusal of the state to provide regulatory intervention, while Romania exceeds in judiciary, corruption, regulation, and markets. Romania slightly predominates when discussing the relations with the public institutions.

The most effective measures for improving the business environment in Bulgaria, according to the respondents, are reducing corruption and administrative burden, and improving judiciary work, as well as the efficiency of the public institutions. The bureaucracy and the efficiency of the public institutions are the main factors that impede the Romanian business.

Figure 15

Most effective measures to improve the BE in Bulgaria and Romania



Source: own figure based on data of the survey on business

Conclusions

On the basis of the results obtained in the above-mentioned surveys and the questionnaires spread among managers and entrepreneurs, the following conclusions can be made:

First, Bulgaria and Romania have many common problems in their business environments and business development. The two countries share approximately similar approaches to the improvement of the business environment. There are small differences between them, which can be ignored, but they have to be systematically studied and analyzed.

Second, the efforts in business environments enhancement are targeted to the European union recommendations and requirements because of the intensive market performance of both countries. That is a challenge for the existing economic culture in the Balkan region.

Third, the business environment has to be changed further in comparison with the level that was achieved in the previous decade. The reason is the high market dynamics and the changed roles of the state and the entrepreneurship in the countries.

Fourth, the business environment needs a more sophisticated approach and methods for its further development, which have to be far from subjective. Both countries need their own monitoring system for business environment study and sophistication.

Acknowledgments

Bulgarian-Romanian Chamber of Commerce and Industry for spreading out the questionnaire to their members operating on both markets, and Founders and managers of companies - respondents in the survey.

References

Appleby R. (1991). *Modern business administration*. 5th ed. London: Pitman. ISBN-13 9780273602828

Baron P. 2010. *Business and Its Environment*. Upper Saddle River: Prentice Hall. ISBN 9780136083924

Griffin R. (2017). *Management*. Boston: Cengage Learning. ISBN 9781305501294

Hadjitchoneva J. (2015). Competitiveness and improvement of the environment for business development. Dissertation. Sofia: NBU

Iliev, J. (2014). The process of reindustrialisation – a strategic challenge to national economy. In: Economic Thought Journal. 6/2014. 3-14. Sofia: ERI-BAS

IMD, 2017. World Competitiveness Ranking 2016-2017, *available at:* http://www.imd.org

Ivanchevich J., P. Lorenzi and St. J. Skinner. (1994). *Management: quality and competitiveness*. Boston: Irwin. ISBN 0256124531

Ivanov A. and J. Hadjitchoneva. (2014). Approaches to study the impact of the business environment on the competitiveness. Business environment in Bulgaria. In: Proceeding Volume I. 6-14. Sofia: Academic Publishing ISBN 9339542320128

Kovatchev A. (1997). Business environment. Veliko Tarnovo: Abagar. ISBN 9544272623

Marinov G., M. Velev и O. Geraskova. (2009). Economy and competitiveness of the entrepreneurial activity. Theoretical and practical aspects. Sofia: Informa intelect. ISBN 9789548492690

Mihailov M. (2011). Analysis of the types of environments for functioning of the organization. Sofia: Academic electronic archive of NBU. *available at: eprints.nbu.bg/936/1/TO3.doc*

Palmer A. and B. Hartley. 2012. *The Business environment*. London: McGraw-Hill. ISBN 9780077130015

Porter M. (2004). Competitive advantage of the nations. Sofia: Klasika i Stil. ISBN 9549964728

Schwab K. (2016). The Global Competitiveness Report 2016-2017. Geneva: World Economic Forum. ISBN-13: 978-1-944835-04-0

Schwab K. (2015). The Global Competitiveness Report 2015-2016. Geneva: World Economic Forum. ISBN-13: 978-92-95044-99-9 ISBN-10: 92-95044-99-1

Schwab K. (2014). The Global Competitiveness Report 2016-2017. Geneva: World Economic Forum. ISBN-13: 978-92-95044-98-2 ISBN-10: 92-95044-98-3

Schwab K. (2013). The Global Competitiveness Report 2013-2014. Geneva: World Economic Forum. ISBN-13: 978-92-95044-73-9 ISBN-10: 92-95044-73-8

Schwab K. (2012). The Global Competitiveness Report 2012-2013. Geneva: World Economic Forum. ISBN-13: 978-92-95044-35-7 ISBN-10: 92-95044-35-5

Schwab K. (2011). The Global Competitiveness Report 2011-2012. Geneva: World Economic Forum. ISBN-13: 978-92-95044-74-6 ISBN-10: 92-95044-74-6

Worthington I. and Ch. Britton. (2006). *The Business Environment*. London: Prentice Hall. ISBN-13 9780273704249

TOURIST DESTINATION BULGARIA ATTRACTIVENESS ANALYSIS

Mariya STANKOVA, PhD[1]
Ivanka VASENSKA, PhD[2]

Abstract

This paper aims to investigate and analyse the attractiveness of destination Bulgaria. Research subject are foreign tour operators and tourists interest towards destination Bulgaria and its attractiveness components. Object of the study are the top ten tourist markets foreign tour operators and tourists attitudes towards Bulgaria's attractiveness as a destination. The later mentioned which include Romania, have been positioned and determined by the Ministry of Tourism (2015) as the ones which generate the highest tourist flows to the destination. Relative to the object and subject in order to achieve the purpose the methodology of the study abides by the system approach and conservative research methods as the results are generated by the factor analysis. Furthermore, with its conceptual staging and established results, the study would be useful for all stakeholders interested in Bulgarian tourism development.

Keywords: global changes in tourism, attractiveness, factor analysis, tourist destination

Introduction

The tourism as a phenomenon in the economy that takes global dimensions and definitely evolves rapidly. Of course, these rates are as much faster as bigger is the achieved economic stability and sustainable development in the regions. At the end of 2015 tourists number in the world exceeded of 1,184 million (UNWTO World Tourism Barometer, 2016), and the registered 9.8% of world GDP - US$7.2 trillion (WTTC, 2015) and represented 45 % of the exports of the least developed countries. Despite the global economic instability, the travel and tourism sector generated every 11th job position on the planet (WTTC, 2015). The tourism industry in the EU generates more than 5 % of the EU GDP (EPRS, 2015). Moreover, EU related tourism sectors reports elaborate tourism contribution to GDP to a much higher percentage – indirect share of tourism is more than 10 % of the European Union's

[1] *Tourism Department, Economics Faculty, SWU "Neoofit Rilski", Bulgaria, e-mail: mzstan@yahoo.com*
[2] Tourism Department, Economics Faculty, *SWU "Neoofit Rilski", Bulgariaq, e-mail: ivankav@abv.bg*

GDP. EU enterprises in industries with tourism related activities, accounted for 9.0 % of the persons employed in the whole non-financial business economy and 21.9 % of persons employed in the services sector (EROSTAT, 2015).Within less than fifty years - the period from 1950 to 2003, the number of the international arrivals in Europe has increased from 25 million to 414 million people and tourist arrivals expectations are to exceed 700 million by 2020 (UNWTO, 2016).

In addition, Bulgaria's tourism sector is also considered particularly important for the national economic development at a regional and local scale. Tourism related activities in 2015 (WTTC, Impact 2016) have provided employment to 11,8 % workers in the country and the total employee in the sector in the country for the last year were 338,500 jobs. According to the World Council of Travel and Tourism (2015) directly employed in the sector were 92,500 jobs (3.1% of total employment) including jobs supported by the industry, which was 11.2% of total employment. The share of the tourism in GDP amounted to 12,9 % in 2015 and of course, it was calculated in millions of revenue in foreign currency from the entering in the country foreign tourist flows as well as revenue generated by the movement of the domestic tourists – 855.8 million BGN about 3.3% of total GDP (WTTC, 2016). Furthermore, after the global economic crisis in 2007-2008 the tourism in Bulgaria slowly recovers its pre-crisis positions. Following political and financial uncertainty, however, the industry faces and terrorist attacks threats. Here arises the question about the state's role and its abilities of interference via various measures in order to encourage and motivate such form and types of tourism, which are of significant importance to destination Bulgaria. Notwithstanding established free market co-relations, the living standard for major part of the population is still down swinging. Simultaneously purposing both tourism investor's support and destination promoting aiming at destination's attractiveness increase targeting foreign as well as domestic tourists.

Review of the literature concerning studied problems and displaying the definitive characteristics of the tourism and the tourist destination

Tourism travel, the tourism product and tourism service in terms of content are determined by the tourist destination intrinsic features to which they relate. Following that, the most common interpretation of the term in the dictionaries is as "an attractive place, which is visited by many tourists". Designated ones elaborate further, describing tourist destination as "city, town or other geographical location, which are developing owing to substantial tourism income and has one or more attractions of visitors' interest."

Definitions of the term tourist destination are found in numerous works of international and Bulgarian authors. We must mention that one of the first authors using the term is Hunt back in the 1970, in a relation to territory attributed image exploration to the destination and its impact on the tourism development. In their combination the specialized scientific articles represent and develop diversity of tourist destinations definitions describing its main elements, functions and governance. Among the leading international researchers working on tourist destinations issues and its management and competitiveness we consider worth mentioning Lickorish, Jefferson, Bodlender, & Jenkins. (1991); Ashworth & Goodall (2012); Heath & Wall (1992); Pierce (1992); Getz (1992); Hu & Ritchie, (1993); Gunn & Var (2002); Laws (1995); Godfrey & Clark (2000); Pike (2004); Howie (2003); Morgan, Pritchard, & Pride (2002); Mazanec, Wöber, & Zins, (2007); Pearce, (2014); Pike, (2015) and many others. The impression remains that in time to the full concept, revealing the development and the specificity of the different types of destinations the term for the tourist destinations undergoes various transformations.

In addition the Bulgarian researchers also contribute to the conceptual apparatus clarifications of relating to tourism and tourist destinations. We must mention the elaborations by Stankova (2011); Рибов, Станкова, Димитров & Гръчка, (2008); Нешев (2003); Маринов (2006); Дъбева, Апостолов, Луканова (2001) where parameters of the tourist resort, tourist complex, tourist location, tourist area, tourist spot and tourist destination have been distinguished. Furthermore, well-known definitions as the one mentioned in the Oxford Advanced Learners Dictionary were observed. Various representation of tourist destination with its diverse geographical area features characteristics, locations particularities are distinguished by their ability to attract tourists; area, towards which people travel or have been sent to. What is more important, tourist destination is considered as a system, whose basic elements can be identified among natural resources, cultural heritage, and infrastructure facilities - general and specialized, the tourism superstructure and equipment, local potential, environmental quality, etc. Moreover, the tourist destinations are places in which tourists are interested. And if a city, town or other geographic location or another territorial delimitation does not possess these elements it shouldn’t be considered as a system and consequently it won’t be visited by tourists.

What is more, terms such as threat, crisis and disaster are often used interchangeably in specialized literature, as well as in everyday life in popular publications. Classifying tourism threats is of a particular importance for their cognitive management, as well as for communication process management and destination attractiveness preservation. Researchers like Selbst (1978); Carter (1991); Faulkner and Russell (1997); Faulkner (1999); Fink & al. (2004) have worked on the topic. Regardless of the opportunities, provided by the other economic sectors experience in planning measurement of disasters and crises management and limitation, tourism is restricted in their application, particularly due to its diversification, human factor dependence and importance tourists attitude regarding threats perception and their correlation destination attractiveness.

The tourist experience in the destination

Tourism is based on purposeful and rational use of tourist resources which are the subject of tourist interest and potentially able to meet tourist’s needs that arise in the process of tourism experience. By default, without tourism resources there is no tourism. Consequently we can sum up that based on tourism resources and tourist sites use for tourism purposes tourism interest and tourism experience arises.

The tourist interest can be observed as a resource obtaining objective information from the tourist, positive emotions and/or potential ability to meet planned specific demand, partial tourist service or tourism product based on certain complex tourist-recreational experience sites of tourist interest. The tourist experience, in turn, is a complex of emotions, positive to a great extent. It can be expressed as mental, physical tourist condition, occurred or reached as a result of tourist services experience. Of course, to provoke tourists' interest, to implement tourist experience and above all, to develop tourism in any region, as first and foremost condition are the tourist recreational resources existence in such region.

As it was mentioned, tourism is viewed as structural economic determinant sector by the state of Bulgaria. On the other hand, the issue of its priority over the years have been expressed differently, even by conflicting opinions, but the topic is still relevant.

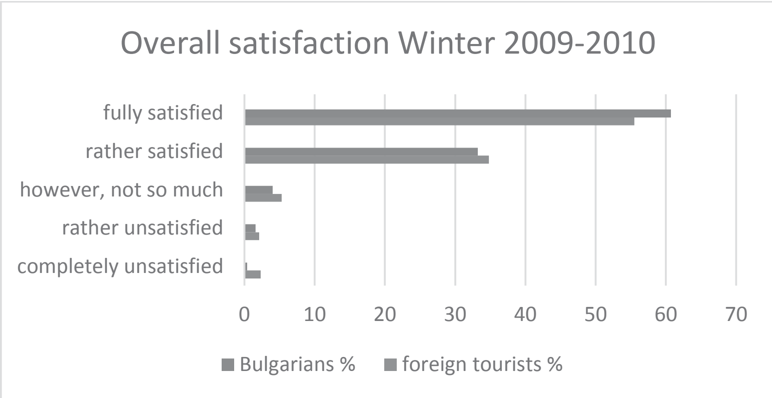
Bulgaria is determined as a dynamic and attractive tourist destination for marine and winter recreation as well as a variety of specialized tourism types. The opportunities for the country to take a leading position on regional and European level are great. Amid the global stagnation in the tourism sector in Bulgaria an increase in the number of international tourists (Ministry of Tourism, 2015) has been reported. Many of the international tourists, perceive Bulgaria as a less familiar, safe tourist place situated close to Western Europe with diversity of partially explored and utilized natural resources. At the same time, attractiveness components clarification is not fully completed in regards to internal structures responsible or involved in the tourism development.

For example, in 2010, a survey done by the Ministry of Economy, Energy and Tourism among 3563 international and 2500 Bulgarian tourist helped establish that supplied services by tourist destination Bulgaria are of high quality and at the same time are highly evaluated by the consumers.

The "satisfaction" index is sustainable over the time. Tourists preferences here are clearly expressed in terms to the winter-ski tourism and respectively to the marine-summer tourism: for 61% of the foreigners and for 11 % of the Bulgarians. One significant part of the foreign (54 %) and domestic tourist (14%), practiced SPA and balneological tourism as well as cultural tourism (international - 41%; local - 19%) and other alternative tourism forms. The attitude of a combination between mass and specialized tourism was retained, but new form of tourism stands out, precisely practicing two types of tourism in the destination. 63 % of the Bulgarians planned their next trip based on a previous experience or consulted with family and friends – 40 % of the cases. One can be impressed by the extremely high overall satisfaction of the tourists – 91 % of the respondents are fully or rather satisfied with their vacation. Their position is considered as evidence tourist destination Bulgaria tourist service is with a good quality and the index "satisfaction" remains sustainable over the time. The review of the analytical data, however, found that if winter season of 2010 satisfaction element has been deduced (Fig.1), then for the summer the assessment is more general and comparative between 2010 and 2009.

Figure 1

Elements of satisfaction



Source: Source: Research and Analysis, Ministry of Tourism, (2010) http://www.tourism.government.bg/bg/kategorii/prouchvaniya-i-analizi/prouchvaniya-i-analizi-za-turizma-v-bulgariya-za-2010-g

Evidently, Ministry's general comprehensiveness and thoroughness of those analysis didn't include destination's attractiveness as an aspect of the research. And when in some areas tourist attractiveness relevant elements were implied they weren't clearly defined. Hence, attractiveness establishment might be achieved by factor analysis, as a technique of multivariate statistical analysis. The result will represent links and interdependence between variables with their variations affecting attractiveness itself.

Methodology

Considering this paper aims, we intend to elaborate an analysis of tourist destination Bulgaria's attractiveness and its representation according to ten, identified as significant generating tourist's European markets.

According to a survey developed by the Ministry of Tourism (2015) for the purposes for tourist destination Bulgaria attractive image promotion ten countries have been identified as major generating markets. Precisely, Greece, Romania, Germany, Russia, Turkey, Serbia, Ukraine, Great Britain, Czech Republic, Sweden. We have listed them correspondingly to the number of tourist visited tourist destination Bulgaria respectively by market. An unified approach has been applied for each market, deliberately structured in a research program comprising of (i) Total study of the tourism demand and travel behaviour, (ii) Qualitative research of the users, (iii) Study on the tourism sector, (iv) Study on journalists and media, (v) Quantitative study of real and potential tourists.

Table 1

Target markets' arrivals Bulgaria

Country	Numbers	Change 14/13 Absolute value	Change 14/13 %
Total number of tourist arrivals in Bulgaria	***6 984 374***	***379 477***	
Greece	963 879	87 396	10,0
Romania	881 089	1 041	0,1
Germany	703 191	29 986	4,5
Russia	645 825	-20 736	-3,1
Turkey	405 440	51 183	14,4
Serbia	287 987	7 834	2,8
Ukraine	262 666	-24 547	-8,5
Great Britain	239 927	-11 535	-4,6
Czech Republic	163 973	13 224	8,8
Sweden	39 644	1 759	4,6

Source: National Statistical Institute, 2014.

Complying with confidentiality note, the data from the European/ World Travel Monitor may be used exclusively within the company's costumer purposes only, for the abovementioned research project. Within our understanding, The Ministry of Tourism is not covered by the confidentiality that's why this paper deals with information from the study on the tourism industry attractive image representations. For each country – generating market in the sample of the government study are included minimum 10 expert interviews of big, medium and small tour operators with a senior employee in charge of Bulgaria, the Black Sea countries and the Eastern Mediterranean. These are based on directions and questionnaire as an instrumentarium.

The methodology of analysis suggests the following clarifications:

1. A literature overview has been made in order to establish the study's theoretical framework, based on researched books, articles, reports on the topic of question.
2. Due to study's specifics, gathering of the necessary data for it is unaffordable of financial terms for a scholar or even group of scholars. Namely public research project data have been applied for our research needs. The research project cited has been funded by the European Regional Development Fund and by Republic of Bulgaria state budget.
3. The scope of the study is a qualitative date research conducted by the Ministry Tourism of the Republic of Bulgaria ten generating markets identified as its key markets. In content terms, the study is influence analysis of destination

attractiveness factors, with accordance tour operator's expert assessment from the ten countries.

4. For each country – generating market, the sample includes a minimum of 10 expert interviews in big, medium and small tour operators with senior employee in charge of Bulgaria market, the countries from the Black Sea and Eastern Mediterranean.
5. The tools, which is used by the Ministry of Tourism in the survey is questionnaire, which is divided into 15 parts and a separate introductory part, presenting relevant market specifics, defined as generating.
6. For research purposes, these practically, conditionally divided parts were analysed and transformed respectively in 14 variables for each of the ten countries: Romania, Turkey, Greece, Serbia, Germany, Czech Republic, Great Britain, Ukraine, Russia and Sweden.

The data used are in percentages. International tour operator's attractiveness perception analysis has been determined with factor component analysis and the Varimax rotation method.

Results

The attraction in the proposal of the tourist destination in the using of SPSS specialized software.

In the conducting of the factor analysis with SPSS are used baseline data at n – 10 conditions, y – 72 variables, which with the introduction of the data are converted into standardized z-variable (with standard deviation = 1) and xi – factor variable – countries from 1 to 10, as follows : x1 – Britain, x2 – Germany, x3 – Greece, x4 – Romania, x5 – Russia, x6 – Serbia, x7 – Turkey, x8 – Ukraine, x9 – Czech Republic, x10 – Sweden.

In the initial stage are included all of the variables, including the dependent ones in order to be their relationship strength to be tested. Upon further analysis on dependent variables, etc. single variables are skipped. The aim is to be determined which variables are highly correlated with each other and are statistically significant their correlations (i.e., the correlation coefficients are at least > 0.3 and larger, with a corresponding coefficient of significance Sig. < 0.5). If there is a variable, which correlates strongly with the dependent variables, but does not correlate with the other independent variables, it is defined as a single variable. All single variables are further removed from the factor analysis.

Table 2

Factor variables

y1 - Spontaneous image associations with Bulgaria	y32 - Assessment of the Bulgaria tourism supply - Proposed spa, balneological and wellness vacations
y2 – Bulgaria Tourism supply	y33 - Insufficient capacity in terms of available options of accommodation - the Black Sea coast
y3 - Bulgaria tourism air-supply	y34 - Insufficient capacity in terms of available accommodations options -The mountains and winter sports resorts

y4 - Merely winter tourism supply Bulgaria	y35 - Product combinations of spa, balneological and wellness with - Black Sea vacations
y5 - Types of vacations marketed for Bulgaria Black Sea	y36 - Product combinations of spa, balneological and wellness with with winter sports vacation
y6 - Types of vacations marketed for Bulgaria for Black Sea cruises	y37 - Product combinations of spa, balneological and wellness with with summer vacation
y7 - Types of vacations - sightseeing tours	y38 - Product combinations of spa, balneological and wellness with with cultural tourism and sightseeing
y8 - Types of vacations - Urban vacations in Sofia	y39 - Product combinations of spa, balneological and wellness with wine tourism
y9 - Types of vacations - winter sports vacation	y40 - Product combinations of spa, balneological and wellness with rural tourism
y10- Types of vacations - summer vacation	y41 - Bulgaria Cost supply - Average Black Sea coast vacations prices in Bulgaria, BGN
y11 - Types of vacations - spa, balneological and wellness	y42 - Bulgaria Cost supply - Average winter sports vacations prices in Bulgaria, BGN
y12 - Most frequently sold types of Bulgarian vacations - Black Sea coast vacations	y43 - Bulgaria Cost supply – Rack rate vacations prices in Bulgaria, BGN
y13 - Most frequently sold types of Bulgarian vacations - Black Sea cruises	y44 - Bulgaria Cost supply – Low prices in Bulgaria, BGN
y14 - Most frequently sold types of Bulgarian vacations - sightseeing tours	y45 - Bulgaria Cost supply – Average vacations prices in Bulgaria, BGN
y15 - Most frequently sold types of Bulgarian vacations - Urban vacations in Sofia	y46 - Bulgaria tourism supply Competitiveness - Black Sea coast vacations
y16 - Most frequently sold types of Bulgarian vacations - winter sports vacations	y47 - Bulgaria tourism supply Competitiveness - winter sports vacations
y17 - Most frequently sold types of Bulgarian vacations - summer vacations	y48 - Bulgaria tourism supply Competitiveness - cultural tourism and sightseeing
y18 - Most frequently sold types of Bulgarian vacations - spa, balneological and wellness vacations	y49 - Bulgaria tourism supply Competitiveness - summer vacations
y19 - Types of products sold in Bulgaria - Supply products	y50 - Bulgaria tourism supply Competitiveness - spa, balneological and wellness vacations
y20 - Types of products sold in Bulgaria - reservations share	y51 - Business partners - Cooperation with Bulgarian partners - Local agencies in Bulgaria
y21 - Bulgaria Business share - Large	y52 - Business partners - Cooperation with Bulgarian partners - Directly with accommodation enterprises
y22 - Bulgaria Business share - Average	y53 - Business partners - cooperation evaluation - Very good
y23 - Bulgaria Business share - Small	y54 - Business partners - cooperation evaluation - Good
y24 - Recent years growth of reservations in Bulgaria -Increased	y55 - Business partners - cooperation evaluation - Average
y25- Recent years growth of reservations in Bulgaria - Remained unchanged	y56 - Business partners - cooperation evaluation – Rather bad
y26 - Recent years growth of reservations in Bulgaria - Declined	y57 - "Bulgarian National Tourism Administration" - Yes
y27 - Bulgaria tourism supply assessment - Black Sea coast	y58 - "Bulgarian National Tourism Administration"- No
y28 - Bulgaria tourism supply assessment - winter sports vacations	y59 - Supporting sales measures - More advertising to consumers
y29 - Bulgaria tourism supply assessment - Landscape and nature	y60 - Supporting sales measures - Financial support for joint advertising campaign
y30 - Bulgaria tourism supply assessment - cultural tourism and sightseeing	y61 - Supporting sales measures - More supply images
y31 - Bulgaria tourism supply assessment - summer holidays options	y62 - Supporting sales measures – More information on supply

In choosing a solution by the main components method (Principal component analysis), are calculated absolute values etc. eigenvalues of the correlation matrix. Usually when the analysis was performed those factor which have their own values > /= 1 were chosen. In cases when the model is not good enough smaller eigenvalues must be chosen. In this case is used the Varimax method loaded in the SPSS.

Results analysis

Correlation matrix in connection with the variables determination was constructed where each variable is highly correlated with another and their correlations are statistically significant. The correlations are assumed to be > 0.3 by factor of importance Sig. < 0.05, using the SPSS and the previously entered output data.

Applying the KMO (Kaiser-Meyer-Olkin Measure of Sampling Adequacy) and Bartlett's test for sphericity values of 0.696 (> 0.5) for KMO and Sig. = 0.006<0.05 for the Bartlett's test were established. The conclusion here was that, the FA is adequate and can be performed.

According to the main components method it is established that the resulting matrix is symmetrical. The determinant is 0.056, it is not 0 and formally the factor analysis can be performed. An object of analysis are only the correlations > 0.5. Their respective levels of significance from the lower half of the table in this case have the significance level of Sig. <0.05. This indicates that these correlations are statistically significant and must be involved in the analysis. The rest of them are insignificant.

In particular, for this sample in terms of the attractiveness of the destination is the highest correlation coefficient between (Table.3):

1. Types of vacations – Spa, Balneological and Wellness
2. Types of vacations –winter sport vacations
3. The most commonly sold types of vacations to Bulgaria – Urban breaks in Sofia
4. Mainly winter tourist supply
5. The most commonly sold types of vacations – Summer vacations
6. Bulgaria tourism supply assessment - Winter sports
7. Bulgaria tourism supply assessment - Landscape and nature
8. Product combinations of spa, balneological and wellness with winter sports vacations
9. Product combinations of spa, balneological and wellness with Summer vacations
10. Product combinations of spa, balneological and wellness with Cultural tourism and sightseeing
11. Product combinations of spa, balneological and wellness with Wine tourism
12. Types of products sold in Bulgaria - Supply products
13. Types of products sold in Bulgaria - reservations share
14. Bulgaria tourism supply assessment - Black Sea coast
15. Bulgaria tourism supply assessment - Winter sports
16. Bulgaria tourism supply assessment - Landscape and nature
17. Bulgaria tourism supply assessment - Culture tourism and sightseeing

18. Bulgaria tourism supply assessment - Offers for spa, balneo and wellness
19. Insufficient capacity in terms of available options of accommodation – Black Sea
20. Insufficient capacity terms of available options for accommodations – The mountains and resorts for winter sports
21. “Bulgarian National Tourism Administration”- no
22. Bulgaria tourism supply Competitiveness - Summer vacations
23. Bulgaria Cost supply - Average Black Sea coast vacations prices in Bulgaria, BGN

Table 3

Rotated Component Matrix[a]

	Components					
	1	2	3	4	5	6
Types of vacations - Urban Sofia vacations	-,034	,644	,325	,239	,604	,042
Types of vacations – summer vacations	-,173	-,034	,247	,352	,721	,389
Types of vacations - spa, balneo and wellness	,285	,008	,087	,017	,920	-,133
Types of vacations – winter sport vacations	,713	,453	,481	-,036	,146	,000
Merely winter tourism supply Bulgaria	,198	,911	-,163	-,038	-,054	-,022
Most frequently sold types of Bulgarian vacations - Urban vacations in Sofia	,079	,735	,063	,487	,145	,337
Most frequently sold types of Bulgarian vacations - summer vacations	-,224	-,496	,068	,325	,147	,646
Bulgaria tourism supply assessment - Winter sports	,499	-,026	,759	,289	-,035	,080
Bulgaria tourism supply assessment - Landscape and nature	-,016	-,048	,970	,153	,151	,012
Product combinations of spa, balneological and wellness with - Black Sea vacations	,047	-,826	,337	,233	-,130	,278
Product combinations of spa, balneological and wellness with - summer vacations	,111	-,108	,059	,977	,027	-,021
Product combinations of spa, balneological and wellness with – wine tourism	,334	-,030	,230	-,013	-,030	,896
Product combinations of spa, balneological and wellness with – cultural tourism and sightseeing	-,239	-,073	,268	,858	,314	,151
Types of products sold in Bulgaria - Supply products	,932	-,003	,161	,029	-,015	,179
Types of products sold in Bulgaria –reservations share	,922	-,274	,064	,103	,002	,162
Bulgaria tourism supply assessment – Black sea coast	,298	-,143	,827	-,085	,216	,260
Insufficient capacity in terms of available options of accommodation - the Black Sea coast	,948	,236	-,012	-,020	,166	,048
Insufficient capacity in terms of available accommodations options - mountains and winter sports resorts	,830	,523	,092	-,028	,133	,053
"Bulgarian National Tourism Administration"- No	,620	,247	-,101	,534	,006	,429
Bulgaria tourism supply Competitiveness - Summer vacations	-,108	,717	,180	-,358	-,378	-,360
Bulgaria Cost supply - Average Black Sea coast vacations prices in Bulgaria, BGN	-,873	,105	-,245	,188	,070	,263

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
a. Rotation converged in 9 iterations.

From the designed factor model (Table.4) represents 6 factors explaining 941.60% of the total sample. Throughout, research consistency suggests a seventh component providing up to 95.832% in total. In other words the first version of the decision suggest that the sixth factors is to be chosen.

Table 4

Component Transformation Matrix

Component dimension	1	2	3	4	5	6
1	,802	,475	,158	,082	,218	,227
2	-,495	,811	,283	-,101	-,060	-,050
3	-,031	-,323	,894	,003	-,127	,281
4	-,049	,061	,020	,967	-,217	-,109
5	-,263	-,083	,065	,210	,931	,089
6	-,196	,041	-,301	,067	-,134	,920

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

In the first factor (F1) the following the parameters were grouped: Types of holidays – Holidays with winter sport – 0,713; Types of products sold in Bulgaria - Supply products - 0,932; Types of products sold in Bulgaria –reservations share - 0,922; Insufficient capacity in terms of available options of accommodation - Black Sea - 0,948; Insufficient capacity in terms of available accommodations options - mountains and winter sports resorts - 0,830; Bulgarian National Tourism Administration”- No - 0.620.

Factor two (F2) were grouped, as follows: Types of vacations - Urban Sofia vacations - 0,644; Mainly winter tourist supply - 0,911; Most frequently sold types of Bulgarian vacations - Urban Sofia vacations - 0,735; Bulgaria tourism supply Competitiveness - Summer vacations.

Factor three (F3) was grouped, as follows: Bulgaria tourism supply assessment – winter sports - 0.759; Bulgaria tourism supply assessment - Landscape and nature - 0.970; Bulgaria tourism supply assessment – Black sea coast - 0.827.

Factor four (F4) was grouped as follows: Product combinations of spa, balneological and wellness with summer vacations - 0.977; Product combinations of spa, balneological and wellness with summer vacations - Cultural tourism and sightseeing - 0.858.

Factor five (F5) was grouped as follows: Types of vacations - summer vacations - 0.604; Types of vacations - spa, balneo and wellness vacations - 0.721.

Factor six was grouped as follows: Most frequently sold types of Bulgarian vacations - summer vacations - 0.646; Product combinations of spa, balneological and wellness with wine tourism - 0.896.

These six factors describe the data used in 941.60 %, so they can be applied instead of the 22 variables. Furthermore, these are nearly orthogonal and do not correlate with each other.

Conclusions and generalizations

We can summarize a conclusion that defines destination Bulgaria attractiveness significant factors to be product combinations of spa, balneological and wellness with summer and winter vacations with cultural and wine tourism. Bulgaria tourism supply Competitiveness is on an average stage, with not enough capacity in terms of available accommodation options on the Black Sea and in the winter resort. With values of influence over the medium stand out large part of Bulgaria tourism supply on nature image representations and reservation's share by product type.

What stands out the most, is that many of the surveyed tour operators of the designated generating markets believe that the current number of tourists, with whom they work, is sufficient and do not require incensement.

However, Bulgaria would increase its attractiveness as destination for winter and summer tourism supplying combined packages of spa, balneo and wellness products or combined with cultural tourism and sightseeing tours Dimitrov (2012).

Finally, the abovementioned survey among tourists and tour operators does not stress on contemporary tourism changes and on existing threats relevant to both destination competitiveness as much as to its attractiveness.

References

Ashworth, G., & Goodall, B. (2012). Ed.. Marketing tourism places (Vol. 2). Routledge.

Carter W. (ed.). (1991). The disaster management cycle Disaster management: a disaster manager's handbook 51 59 Manila, Philippines Asian Development Bank, pp. 51-59, cited in Faulkner, B. (1999). Tourism disasters : towards a generic model. Copyright CRC for Sustainable Tourism Pty Ltd., p. 6-7, Available at: http://www.crctourism.com.au/wms/upload/resources/bookshop/tourism%20disasters.pdf, accessed (13 October 2015)

Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions - Europe, the world's No 1 tourist destination – a new political framework for tourism in Europe /* COM/2010/0352 final */. Available on http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52010DC0352

Дъбева,Т., Апостолов, Н., Луканова, Г. (2001). Хотелиерството в Европа" – категории, локализации, развитие, ИК "Кръг", Варна

Dimitrov, P. (2012). Long-term forecasting of the spa and wellness subsector of the Bulgarian tourism industry. Tourism & Management Studies, (7), 140-148.

European Commission, Eurostat Statistic explained, Tourism Data November 2015. Available on: http://ec.europa.eu/eurostat/statisticsexplained/index.php/Tourism_statistics#Further_Eurostat_information.

EPRS | Tourism and the European Union. Recent trends and policy developments. European Parliamentary Research Service, Author: Maria Juul Members' Research Service September 2015 — PE 568.343. Available on: http://www.europarl.europa.eu/RegData/etudes/IDAN/2015/568343/EPRS_IDA(2015)568343_EN.pdf

Faulkner, B. and R. Russell. (1997) Chaos and complexity in tourism: in search of a new perspective, Pacific Tourism Review, 1 (2), 91-106.

Filipova, M. K. (2015). Relationship between corporate culture and competitive power of the companies in the tourism industry. Tourism & Management Studies, 11(1), 98-103.

Fink, S. (1986) Crisis Management, New York, American Association of Management. cited in Faulkner, B. (1999). Tourism disasters : towards a generic model. Copyright CRC for Sustainable Tourism Pty Ltd., p. 6-7, Available at: http://www.crctourism.com.au/wms/upload/resources/bookshop/tourism%20disasters.pdf, accessed (13 October 2015)

Gearing, C. E., Swart, W. & Var, T. (1974). Establishing measure of touristic attractiveness. Journal of Travel Research, 12 (1), 1-8.

Getz, D. (1992). Tourism planning and destination life cycle. Annals of tourism research, 19(4), 752-770. DOI: 10.1016/0160-7383(92)90065-W.

Gunn, C. A. & Var, T. (2002). Tourism Planning: Basics, Concepts, Cases. Washington: Taylor & Francis.

Godfrey, K., J. Clarke. (2000). The Tourism Development Handbook, London, Continuum.

Heath, E., & Wall, G. (1992). Marketing tourism destinations: a strategic planning approach. Chichester: John Wiley & Sons, Inc.

Howie, Fr. (2003). Managing the tourism destination. Ed. Continuum: London

Hunt, J.D., 1975, Image as a factor in tourism development, Journal of Tourism Research 13(3): 1–7.

Hu, Y. & Ritchie, J. B. (1993). Measuring destination attractiveness: A contextual approach. Journal of Travel Research, 32 (2), 25-34.

Laws, E. (1995). Tourist destination management: issues, analysis and policies. Routledge.

Lickorish, L. J., Jefferson, A., Bodlender, J., & Jenkins, C. L. (1991). Developing tourism destinations: policies and perspectives. Essex: Longman.

Маринов, С. (2006). Маркетингово управление на конкурентоспособността на туристическа дестинация, Славена, Варна, с.252.

Mazanec, J. A., Wöber, K., & Zins, A. H. (2007). Tourism destination competitiveness: from definition to explanation?. Journal of Travel Research, 46(1), 86-95.

Morgan, N., Pritchard, A., & Pride, R. (2002). Destination Branding – Creating the Unique Destination Proposition. Oxford: Butterworth-Heinemann.

Нешев, Т. (2003). Езикови тревоги. Туристически пазар, № 11-12, с. 26

Pearce, D. G. (1992). Tourist organizations. Harlow, eEssex, England: Longman Group UK Ltd.

Pearce, D. G. (2014). Toward an integrative conceptual framework of destinations. Journal of Travel Research, 53(2), 141-153.

Pike, S. (2004). Destination Marketing Organizations. Oxford: Elsevier

Pike, S. (2015). Destination marketing. Routledge.

Research and Analysis, Ministry of Tourism, Available on: http://www.tourism.government.bg/bg/kategorii/prouchvaniya-i-analizi/prouchvaniya-i-analizi-za-turizma-v-bulgariya-za-2010-g

Ritchie, B. W., Dorrell, H., Miller, D., & Miller, G. A. (2004). Crisis communication and recovery for the tourism industry: Lessons from the 2001 foot and mouth disease outbreak in the United Kingdom. Journal of Travel & Tourism Marketing, 15(2-3), 199-216.

Рибов, М., Станкова, М., Димитров, П., Гръчка, Л. (2008). Туристически дестинации. Тракия - М, София.

Selbst, P. (1978) The Containment and Control of Organisational Crises, in Sutherland, J. (ed). Management Handbook for Public Administrators, New York, Van Nostrand.

Stankova, M. Z. (2011). Assessment Management and Analysis of a Tourism Destination. International Journal of Contemporary Economics and Administrative Sciences, 1(1), 65-77.

Stoychev, B. (2013). Concerning the methodology of the Ordo-liberal school, SWU "Neofit Rilski", Blagoevgrad.

UNWTO World Tourism Barometer. (2016). Available on: http://www.unwto.org/facts.

World Travel & Tourism Council (WTTC). (2016). 2016 World Economic Impact Report, Available on: http://www.wttc.org/research/economic-research/economic-impact-analysis/, Copyright @ WTTC 2016.

STATUS OF THE WINE INDUSTRY IN BULGARIA AND ROMANIA – COMMON PROBLEMS, JOINT INITIATIVES AND PERSPECTIVES FOR DEVELOPMENT

Mariya IVANOVA, PhD[1]

Abstract

One can locate a sacredness in the way a winemaker relates to its land, vine and what wine consumption symbolizes. What are the traditions, the contemporary technologies about the wine production in Bulgaria and Romania, how do all these survive through time and what is that something it reveals for each of us? The paper aims to present the way wine production relates to each region's history, place identity, tradition, collective memory. Studied are traditions, production and consumption patterns of wine in Bulgaria and Romania. Presents an analysis of the current status of the both nationals' viticulture and wine industry. They give opportunities for development of viticulture and wine-production. Gave guidelines for developing partnership in to viticulture, winemaking and wine market.

Keywords: wine industry, wine market, swat analysis

JEL Classification: A, M, Q

Introduction

Viticulture and wine are traditional and part of the cultural identity of the people who inhabited Bulgarian and Romanian lands. The first evidence for the development of viticulture and winemaking on these lands is found in the works of Homer and in preserved monuments from the time of the Thracians and the Roman Empire. Romania and Bulgaria are the renowned European producers of quality wines. Indigenous grapes and international varieties flourish here at the same latitude as on Europe's finest wine regions. But in an open global competitive market the Bulgarian and Romanian region wine production companies need to accept the idea of implementing a range of innovative solutions, because should reorganize the concept of presenting a product to the European market. The inovation includes not only the production of quality wines such as new products, but also the preparation and adoption of activitiesq like the reorganization of the business and long-term development vision.

The place of Romania in the world is among the first 15 countries with regard to area under vine and wine production. Economic importance of wine industry in

[1] *Assistant Professor, Administration and Management department, New Bulgarian University, e-mail: maivanova@nbu.bg*

Romania is: over 1 million people make their living out of vine and wine; over 5% of the arable land in Romania is under vine; viticulture holds over 14% within vegetal agricultural production; the wine industry holds a market varying between 350-450 million Euro. But in Bulgaria, market orientation of wine production has not as yet been effectively implemented owing to internal inertia, ignorance and grape procurement problems. Overall the industry has been unable to deliver wines of sufficient and consistent quality, leading to a weakening of the Bulgaria brand and a falling share of international wine markets. Most exporters compete in low price categories without a sustainable cost advantage, generating low mark-ups and thus limiting resources for differentiation.

Bulgarian and Romanian Wineries need to develop better collaborative relations, to develop better management systems and improve the generation of, and responsiveness to, market intelligence. This can most effectively be achieved by choosing an appropriate of cluster organization to help to define a strategy for permanent settlement in the European markets. Cluster mobilize efforts of the participants and facilitate the formulation of marketing strategies, research and implementation of inovativnes solutions in practice. The main development goals are more effective and clearer market-management rules and more competitive wine produtsers through enhancing the reputation of region wines and gaining market share both in the EU and outside. The market globalisation offers new potential as witnessed by the higher wine shares exchanged in the international market. Encouraging signs come from Asian markets (Japan, China, Hong Kong, Taiwan) and by the new producing countries (South Africa, Australia).

State of the wine industry in Bulgaria and Romania

In Bulgaria and Romania, climate, landscape and diversity of soils offer excellent opportunities for viticulture and winemaking. The climate is temperate in almost all their regions with warm summers and relatively cold winters. The amount of annual rainfall is between 470 and 953 l/sq.m. The average temperature sum required for the vine is between 35 and 37°C. Soils are varied - maroon and gray forest soils, humus-carbonate leached black earth and alluvial-meadow, including the deep and shallow sandy soils. They are extremely favorable for the development of the vine, good ripening of the grapes and to produce high-quality red and white wines. Viticulture is practiced both in Bulgaria and Romania in almost the whole country. Only a few high altitude areas do not provide favorable conditions for viticulture. Romania is member of the International Organization of Vine and Wine since 1927 and Bulgaria since 1935.

The area of vineyards

Romania (238,391 km²) is approximately twice as large as Bulgaria (110,994 km²), but area occupied by vineyards is three times less in Bulgaria than in Romania. Romania has an area of 243 kha vineyards in 2012. But currently has 191 kha. Wine grape plantations occupy 82% of the total vineyard area. The vineyards in Bulgaria are only 67 kha. Romania ranks 5th in the area of vineyards in Europe and Bulgaria ranks 9th (see Tab.1). In 2015 the authorities in Bulgaria adopted the Viticulture Program under EU Common Agricultural Policy 2014-2018. As the industry has strong interest in replacing old vine stocks with new plantings, for the 2016-2018 period about 50 million leva from the program will be used to fund 132 such projects, of which 44 was implemented in 2016, 50 to be implemented in 2017, and 34 in 2018 (Boshnakova, 2016).

Table 1

Areas under vines destined for the production of wine grapes, table grapes or dried grapes, in production or awaiting production, in Europian vineyards

kha	2013	2014	2015 (provisional data)	2016 (forecasted data)	2016/2015 Variation
Spain	973	974	974	975	0.8
France	793	789	785	785	0.1
Italy	705	690	682	690	8.2
Portugal	227	221	204	195	-9.0
Romania	192	192	191	191	0.0
Greece	110	110	107	105	-2.0
Germany	102	102	103	102	-0.6
Hungary	56	62	68	68	-0.5
Bulgaria	68	66	67	67	0.5
Russian federation	62	63	63	63	0.0
Austria	44	45	45	46	1.0
Switzerland	15	15	15	15	0.0
Continental total	4038	4005	3976	3978	1.6
Including the EU-28 total	3362	3343	3318	3319	1.0

Source: OIV, OIV Experts, Trade Press (2017)

Bulgaria is divided into five wine-growing region and Romanian wine area is confined to eight wine regions. "Wine-growing region" means an aggregate of territories featuring similar and particular natural conditions, plants of distinctive varietal composition and cultivation techniques, and well-established wine-growing traditions (Wine and Spirit Drinks Act, 2017). Bulgaria wine-growing regions are: Northern (Danubian Plain), Eastern (Black Sea region), Sub-Balkan (Rose Valley), Southern (Thracian Plain) and South-western wine-growing region (Struma Valley). In Romania, divisions of wine are county’s depending on the laws in force, for statistical or regional development. The vineyards are spread across the country, as follows: Sub-Carpathian Vineyards are assembling the collar vineyard in the south of the Southern Carpathians related to Tâmboiesti (Rimnicul Sarat) until the Portile de Fier (Turnu-Severin); Moldavian Vineyards located in the hills and foothills of the Eastern Sub-Carpathians, taking from Timburesti up in northern Moldavian regions Panciu-Odobesti Vineyard;

Dobrogea's Vineyards; North Carpathian Vineyards; Vineyards of the Danube Plainlocated on the plains of the Danube.

The amount of wine production

In 2012, Romania ranks seventh place in the production of grapes and wine - 3.31 million hectoliters. In 2013, Romania had a grape and wine production of about 4 million hectoliters, according to the National Employers of Vine and Wine (PNVV). The main reasons that led to this result are: the new areas planted with vines (30,000 acres) as a result of investments made by SAPARD and National Program Support for the wine sector 2008 - 2013, and rich rainfall this year, with about 15% more than the previous year. In 2016 the World Production is among the lowest in 20 years, yet highly contrasting situations as a consequence of climatic events. World wine production declined by 3% compared with the previous year, falling to 267 mhl in 2016. The statistics from 2011 to 2016 prove the trend: Italy (48.8 mhl) is the leading world producer, followed by France (41.9 mhl) and Spain (37.8 mhl). After two poor harvests, Romania (4.8 mhl) returned to a good level of production. According to data published by the International Organization of Vine and Wine (OIV), Romania is ranked 13, but Bulgaria is ranked 22 among the world's wine producers. During the period under review, the variation in the volume of wine production in Bulgaria is only 1% and for Romania it is 37%. With a share of 2% of the world market, Bulgaria is among the 15 leading countries producing and exporting wine in the world. Successful export industry developed market economies even in the last ten preceding years is a sign of the potential development of its competitiveness. In Bulgaria there are more than 50 wineries and vine factories. Since 2000 the Bulgarian wine industry is 100% private. More than 80% of the produced wine is for export and carry 30% of the proceeds of trade between Bulgaria and the European Union.

Consumption

There is a downward trend in world wine consumption after 2008. World Wine consumption stood at 242 mhl in 2016, having stabilised after the 2008 economic crisis. World wine production in decline of 3% compared with 2015. In Romania, domestic consumption decreased between 2015 and 2016, although it is difficult to monitor Romanian self-consumption by producers. Romania is in the top ten wine consumers worldwide, with 22 to 24 liters per capita in 2008. Romanians currently consumes around 25 liters per enhabitant, down from 27 liters in recent years due to reduced purchasing power, consumed white wines being preferred by Romanian. Registered imports of bottled wines in 2011 amounted to 2,447 thousand liters - a 16% increase over the previous year. The total value of imports during the year was 8,850 thousand US dollars at the average import price of U.S. $ 3.80 per/liter. Over 80% of imports are supplied by the EU. The consumption of wine in Bulgaria is growing. The domestic market consumes between 110 and 120 million liters. The quantities of wine consumed per capita for the past 5 years have increased from 7 to 10 liters, Krasimir Koev (2017), director of the Executive Agency for Vine and Wine (EAVW) told Bloomberg TV Bulgaria. The head of EALV added that wine imports in Bulgaria are below 5%.

Wine Market

Trends in the world wine market

In 2016, wine imports rose to 103.6 mhl9: an increase of 0.9 mhl compared with 2015 worldwide. The 10 main importing countries, which represented 69% of world imports in terms of volume, saw a slight growth of 0.5% in their overall import volume compared with 2015. The top importer in terms of volume is Germany in 2016, despite a fairly substantial decrease in the volumes imported (-5%/2015) yet almost no reduction in the value of the imports (-0.4%/2015). The United States, after having recorded a very significant increase in terms of the value of its imports in 2015, saw a pause in 2016 with more moderate growth in volume (+1%/2015) and in value (+3%/2015). Nevertheless, with over 5 bn EUR imported in 2016, the United States remained the biggest importer in terms of value, while still coming in third in terms of volume after Germany and the United Kingdom. China is becoming the largest market for some leading wine producers. China ranks 5th in wine consumption globally (after the United States, France, Italy and Germany), the world's 5th largest importer of wine by volume, the world's 4th largest importer in value. Wine demand in China is the biggest factor contributing to the growth of wine trade. Growth levels in China are higher than any other market. On the other hand, China ranks second in the world in vineyards, with 847,000 hectares, with Spain and France ahead of it. According to the International Vine and Wine Organization, the area of vineyards continues to grow (with 17 000 hectares between 2015 and 2016), becoming the "main vine-growing area in the world" (24chasa. 2017).

Trends of the Romanian wine market

Romania imported quantities much larger than exports. Romania exported in the first nine months of 2016 year 9,926.7 tons of wine, up by almost 22 % compared to the same period of the previous year when exports totaled 8,145.6 tons. Collections stood at 15.013 million euros in the first nine months of 2016, being 35pct higher compared to the amounts obtained in the same period in 2015, namely 11.126 million euros. The main countries of destination of Romanian wines were Germany, Great Britain, Czech Republic, China and the United States. Romanian wine holds 97% of the domestic market, the rest come from imports. The data from the Ministry of Agriculture shows that Romania imported in 2013 year about 54 529 tons of wine, mainly from Spain, Italy, Bulgaria, Moldova and Germany, an amount almost five times higher than exported. The wine imports have exceeded exports 3.5 times in 2016 and totaled 3,5258.1 tons, also increasing compared to the quantities coming from external markets in 2015. The total annual production is about 500 million euro, of which unorganized market covers over 300 million, leading to a loss of 100 million euros to the Romanian state due to non-taxation (Covnet, 2017).

Trends of the Bulgarian wine market

According to the National Statistical Institute, in 2011 the Bulgarian export of wine amounted to 53 970.9 thousand liters, which is 7.5% more than in 2010, the total value of exported wine rose by 5.3% to 66,482 thousand. Traditionally, the most significant amounts of wine are focused on markets in Russia - 18 763 thousand liters, Poland - 13 897 thousand liters. Larger quantities are also exported to Romania (6445 thousand liters), Czech Republic (4 174 thousand liters) and the UK (2,377 thousand liters). Imports have seen a decline due to the economic slowdown since 2009, but rebounded in late 2012. In 2012 exports slightly decrease by 5 percent in volume (520,000 Hl), while decreasing by 7 percent in value ($58 Mln). Russia remains the main export market by volume, accounting for 31 percent of total exports. Follow Poland and Romania. Winemakers define the market as stable, with minor fluctuations in growth, reported strong demand for the products they offer and customer satisfaction. Trends are established in relation to the effect of investments made in the sector, both in manufacturing techniques, and to protect the products and consumers.

Technologies and innovation

Bulgaria is gradually finding its identity as a modern wine-producing nation, discovering new terroirs, grape varieties and styles. Bulgarian wine is produced from grapes grown in a variety of regions around the country. While traditional wineries in Burgundy, Piedmont or Pfalz source their grapes locally, in Bulgaria ship grapes for many miles before making them into wine. Although this has led to complications in quality control, advances in harvesting machinery and refrigeration have made this a viable alternative to using locally sourced grapes. Larger wine companies are now using this method more and more, and in New World countries such as Chile and New Zealand it is not uncommon for grapes to be trucked for hundreds of miles from vineyard to winery. Technology transfer has a significant influence on the development of companies in the wine industry. The effect of the transfer is estimated on the following criteria: Achieving growth; Market differentiation; Product differentiation. The new technology is unlikely to significantly raise the market share of the companies, but will greatly help to increase their prestige and achievement of minimum cost of production. Determining the degree of obsolescence of wine producers in Bulgaria are extremely critical. The introduction of technology is directly related to the strategic plans of management companies. The results showed significant investments are being made in new equipment and technology, improving product quality and implement expansionary policy both nationally and internationally. Measures and actions are directed towards achieving the requirements of the European market. A review of the data shows the positive assessment to the degree of innovation of the technology. This proves that all appreciate the benefits of technological equipment of production activity and its modernization to achieve strategic business objectives. At the same time there is clear trend of increasing competition as the market for the finished products. This is due to the strong diversification of products, raw materials and other specific characteristics of the sector. Costs of entry are high, but at the expense of the products have a much longer life cycle than other sectors, and some of the companies believe that the development of a new product does not take long time. Overall assessment of the company's potential in the wine industry is good. The predominant trend is that potential in research and development activities is assessed as good. This indicates a positive attitude towards activities aimed at technology transfer, either through the introduction of new technology or utilization of new know-how. Apparently is realizing the strategic need for transfer of technology for the future development of businesses and improve their competitiveness.

Joint initiatives

The geographic location of the Danube, Black Sea and Dobrudzha regions allows for closer cooperation and exchange of experience between wine-growers. Some examples prove the benefits of joint initiatives: A cross-border "Agro Dobrudzha" cluster. A fair of cross-border clusters is held in the fields of agriculture, tourism and innovations in Dobrich. According to the company representative of the Romanian village of Murfatlar, Radu Sanda-Maria (SINOR.bg, 2012), the Romanian wine producers are interested in how their produce would be accepted on the Bulgarian market, and also exchange of experience with local Bulgarian wine producers. Dunube Vinaria, held in Rousse, gathers Bulgarian and Romanian wine specialists and local producers, distributors, representatives of local government and branch organizations, sommelier experts, citizens on both sides of the river. The first festival was held in June 2012. Eurointegration Association - Bulgaria and Partnersten 2000 Association - Romania presented over 25 wineries.

Joint projects funded by the Romania - Bulgaria Cross Border Cooperation Program 2007-2013, co-funded by the European Union through the European Regional Development Fund: "Danube Wine Destinations" - the results are sommelier trainings, training tours in both countries for exchange of experience, good practices and promotion of new opportunities; A trilingual internet site, a wine map; A multimedia travel guide. "The Terraces of the Danube" - the geographic scope of the project in Romania is Constanta, Calarasi, Teleorman and Giurgiu, and in Bulgaria - Silistra, Razgrad and Rousse, as a result of which "local and cross-border business resources, strategies and Development projects, microbiological analyzes and laboratory facilities for small and medium-sized enterprises engaged in viticulture, fruit-growing and fruit trading". The Balkan International Wine Competition and Festival (BIWC 2017) where international wine experts appreciate Balkan wines. Various master classes are held; some of the themes are presented by Romanian representatives.

SWAT Evaluation and outlook of the development of Bulgarian and Romanian viticulture and wine-production

Table 2

SWAT analysis

	Strengths	**W**eaknesses
Bulgaria	Good natural and climatic conditions for viticulture. Presence of the potential of local and introduced varieties. Presence of the wine districts and regions. Available capacity for the production of quality wines. Availability of qualified experts. New modern facilities and modernization of the wineries. Internal Market. Good varietal structure of the vineyards; National chauvinism in the consumption of local wines; Well-develop domestic tourism. External Market. Good varietal structure. The grape varieties used to make quality red wines make up about 56% of the total area; Bulgaria has kept its good name of winemaker in the former socialist countries; The increasing number of foreign tourists in Bulgaria.	Lack of funding in viticulture. Lack of coordination between viticulture and wine producing. Difficulties in vine farms registration. Outdated training programs and research; Failure of the model of good manufacturing practice; Lack of sufficient market orientation in the style of the wines; Insufficient consumer protection and unfair competition; Unorganized production of wines at home. Evidence of the lack of culture of origin and value creation of quality wines; High consumption of high-alcoholic beverages; Underdeveloped culture of wine consumption. Lack of a developed system of marketing and distribution; Lack of a national budget for the promotion of the wine sector; A small number of exporting wineries.
Romania	The Pan-European transport corridors; ports and international airports. Well-developed tourism sector in the region which implies a market of wine products. The SME sector well developed compared to other regions thus provides stability and predictability of economic activity. Flexible workforce, cheap, qualified and available in winemaking because of the tradition in cultivating vines in the region and also because of the new investments in vineyard industry. Romanian low cost of labor and favorable tax regime. Tradition in manufacturing and workmanship of technical capabilities in the vineyard. Potential of Romanian wine and Romanian wine increased demand on international markets.	The knowledge of Romanian wine on Western markets. The presence of foreign investors and saturation opportunities to acquire vineyards. Poor Romanian consumer purchasing power. Deficiency in the marketing investments. High taxes and duties on imported wine. Geographic position which is peripheral to major European centers. Culture of scale wine consumption (house made). Reduced number of foreign investments and their uneven distribution across the wine and vineyards territory at a regional level. Labor migration. Division of agricultural land into small holdings; lead to lower mechanization and low productivity in agriculture. Small spending's on research, development and innovation.

	Opportunities	Threats
Bulgaria	Proven prophylactic effect against many of the "Modern" diseases due to the natural grape antioxidants. Market for environmentally - pure, organic and gourmet products. There is a significant niche in the European and global market for clean and healthy products and functional foods. Consumer demand is directed the quality and boutique wines. Diversifying users' preferences, new market niches, market segmentation. Membership in the European Union. No EU quotas on production table grapes. Incentive policy in the EU wine production with not excise duty. Opportunities for movement and exchange specialists and technology, access to information and markets, wine tourism.	Intense competition from traditional wine-producing countries, and the "new" countries - Chile, South Africa, Australia and others. Climate change. Effects of global warming and drought on the different phases of the growing season of the vine - additional irrigation expensive production. Pollution environment. Environmental cleanliness and health of these products (grape wine) are important criteria for user preferences. Suboptimal EU quotas due to the slow refresh rate of the vine arrays.
Romania	Strong domestic demand for wine. The potential market of 22 million inhabitants. Internationally acclaimed wine quality. Manufacturers increased participation in international competitions as awards are increasing wine prices. The possibility of developing new technology in wine production. Great potential for development of river and sea transport (Danube and Black Sea). The existence of a high productive potential in agriculture, with the largest area cultivated with vineyards. The accelerated trend in concentration of land farms owned by foreign investors. Increasing the number of foreign investments that may cause an increase of competitiveness through technology transfer and innovation. Using the maximum efficiency of European funds from support programs for Romania (42.1 million annually in 2009-2014). Increased international interest for biodiversity, conservation and promotion of Romanian wine markets.	Less expensive labor in other Eastern countries (Ukraine, Moldova). Specialized labor emigrated abroad. Globalization/ integration can marginalize certain sectors of the economy in the Region. High risk of producing natural disasters (floods, landslides, coastal erosion, seismic zone). Reduced capacity of homesteads and farms to compete with EU products

Source: the author

Common problems of both countries

The main problems in wine production are caused by factors such as: Climate change, reducing consumption, reducing vineyards, large-scale global and European competition. The main factors limiting the investment activities of companies in the wine industry in the are the high prices of investment goods, insufficient credit guarantees, high lending rates, high tax, non-recognition of investment as direct costs, lack of bank support, limited purchasing power of the population, difficulty in predicting market conditions and more. Lack of tax incentives for manufacturers, coupled with increasing operating expenses (energy, fuel, insurance burden) may be the basis of neutral attitude toward the possibilities for the presence of a larger market even nationwide. The sector needs funding. One of questions is how to apply modern winemaking technology to small scale wine production. Large-scale wine producers can also adapt because the principals for quality wine production remain the same, and are equally applicable to quality winemaking regardless of size. On the other hand, companies producing wine are actually less vulnerable by importers and also independent of government policy on the protection and promotion of local production. Process of transfer of technology and know-how are highly prioritized, due to complex reasons: the result of the pursuit in an effort to increase the competitiveness of companies in the national and international level such as the establishment of a system for quality control of production, according to certain requirements. Main factor limiting investment is the lack of purposeful policy of the state to promote activities related to technology transfer, the introduction of new equipment and increase the potential of manufacturing enterprises. However, it is reported total desire to enter the European market. According to new EU rules, since January 1, 2016, 14 EU member states apply the new system of planting rights (only for vine varieties, not for table grapes). The new vineyard plantings are limited to existing rights from the national reserve and if producers do not have such rights, no new vineyards can be planted using EU funds. From 2016 onward, new vineyard plantings cannot exceed 1% of actually planted area. For Bulgaria, the limit is set at 80,000 HA for 2016-2030.

Conclusions

Based on the defined problems and opportunities in the SWOT analysis, the both countries have the potential for successful development of wine by the availability of natural resources and a rich catalog of wine and dessert varieties. The negatively influence factors are an economic/business environment, underdeveloped sector, fragmentation of the producers and outdated technologies. The wine sector needs a clear vision to organize manufacturers around the idea of maximizing the benefits of the sector and neutralize threats.

The driving forces or combinations of solutions that can improve the competitiveness of the sector are based on three main "component of success":
•Quality - Ensuring optimal amount high quality seedlings with no viruses using; qualified human resources through providing quality education and opportunities for

practical training; application of research in practice; exchange of technology and specialists; Standards of quality and safety to meet the requirements of the European and global consumers for high standards and consistency of quality, safety and health benefits of food. •Image - Winning optimal market niches thanks to a wide range of products; good marketing and protection of intellectual rights; sustainable quality. Smart decisions for individual advertising campaign of private producers, consistent with current market trends. National advertising policy - Massive and much more effective advertising campaign targeting the overall image of the wine and tourism opportunities in the region. Wine tourism - Developing the economic potential of the combination of natural and historical sites in viticulture and winemaking. •Uniqueness - Market for wine and table grapes unique local varieties vine. Excellent opportunities for selection and wine, combining ancient Thracian traditions with modern technology. Unique blend of local varieties, specific technologies, human resources and soil conditions that contribute to the quality of the produced wines.

The development of wine tourism can provide new opportunities for the tourism industry, wine growers, wine growers, tour operators, wine traders and restaurant owners. There is an opportunity to extend the Bulgarian-Romanian cooperation towards the development of a joint tourist product - tasting of local wines. Visitors to the winery will have the opportunity to learn everything about local wine production - from harvesting to final product and delivery. A partnership between research centers, such as the Center for Vine and Oenology in Murfatlar, the Academy of Agricultural Sciences and Forests and similar institutions in Bulgaria, allows the transfer of innovation. The cooperation and exchange of experience in wine production between Bulgaria and Romania will ensure the competitiveness of wine on European and international markets.

In addition, the following recommendations may be given for development: • Development of a set of measures to encourage foreign and domestic investment (tax preferences for foreign and local investors, improving the business environment). • Active government policy summary measures and programs to increase investment and innovation activity. The analysis of the profile of the entrepreneurs in Bulgaria and Romania can assist policy makers in stimulating an increase and more inclusive participation in the wine industry of various groups. It will also help in crafting policies that are geared towards the specific pain points of the various societal groups as entrepreneurship itself is set to change the social texture of the both countries. For example, Young entrepreneurs have some important strengths including the low opportunity cost of time and stimulating entrepreneurship among them might be particularly effective. The egalitarian participation of women in the winemaking activities guarantees that the economy reaps the benefits of high female labor force participation. • The export of cheap and low quality wines will no expand the market share. Presentation of the new products as co-developed brands, such as Wine from the Danube Region, or the Dobrudja Region, or the Black Sea Region- wine with a character and history are a possibility for new trades. The basis for successful promotion of wine in the target markets should be the creation and promotion of the brand. Constantly providing high quality products, manufacturers, however have to change the philosophy of business and become marketing oriented instead of product oriented. To manage a single brand to be promoted a unified trading house should be established. This trading house should be given power and resources to realize marketing strategy of the brand in foreign markets. The organization of the trading house should have mechanisms to prevent conflict of interests between it and the producers of wine. • The marketing goal is to attract customers by stimulating primary demand - in the education of future buyers.

The use of the cultural heritage of the both countries, along with new technologies, new business concepts and active advertising should be aimed at the promotion of an attractive product that carries the idea of the uniqueness of the wine to create a new segment in the European market. Wine meets the future requirements for clean, healthy and environmentally safe product. Under the fable growth of global consumption and decline in consumption of wines in Europe it is difficult to hope for export as a driving force for national viticulture. The way for development lies in growing of productivity of vineyards, better administration of control of quality. The sector needs a broader access to finance resources, specifically adapted to the context of this kind of business.

References

24chasa. 2017. Beijing becomes the world capital of wine in 2018. *available at:* https://www.24chasa.bg/novini/article/6211762

Boshnakova, M. 2016. Wine Annual Report. *available at: ttps://gain.fas.usda.gov/Recent%20GAIN%20Publications/Wine%20Annual_Sofia_Bulgaria_9-13-2016.pdf*

Covnet. 2017. Romania's wine exports up 22pct in first 9 months of 2016*. available at:* http://govnet.ro/Agriculture/Economics/Romania-wine-exports-up-22pct-in-first-9-months-of-2016

Koev, K. 2017. The consumption of wine in Bulgaria is growing. *available at:* http://www.investor.bg/ikonomika-i-politika/332/a/konsumaciiata-na-vino-v-bylgariia-raste-231486/

OIV Experts. 2017. State of the Vitiviniculture Word Market. *available at:* http://www.oiv.int/public/medias/5287/oiv-noteconjmars2017-en.pdf

SINOR.bg. 2012. Wine producers from North Dobrudja explore our market and seek cooperation with Bulgarian colleagues. *available at:* http://sinor.bg/29196-Vinoproizvoditeli-ot-Severna-Dobrudzha-prouchvat-nashiya-pazar-i-tarsyat-satrudnichestvo-sas-svoi-balgarski-kolegi

Wine and Spirit Drinks Act. Promulgated, State Gazette No. 45/15.06.2012, effective 16.09.2012, amended, SG No.9/26.01.2017. *available at:* https://www.mi.government.bg/library/index/download/lang/bg/fileId/83+&cd=2&hl=de&ct=clnk&gl=bg

CHAPTER 3

BULGARIA AND ROMANIA IN THE GLOBAL WORLD

BULGARIA AND ROMANIA TRADE WITH SUB-SAHARAN AFRICA: A COMPARISON

Eduard MARINOV, PhD[1]

Abstract

The diversification of international markets and the direction towards regions which were neglected and evaded as risky could be a powerful factor in the search for growth acceleration and overcoming recession. The paper aims at summarizing the potential of trade with one such region – Sub-Saharan Africa, by providing an EU comparison of Bulgarian and Romanian trade relations with it. The studies the dynamics of both countries trade with the region for the 2003-2015 period, the place of Sub-Saharan Africa in Bulgarian and Romanian extra-EU trade, the commodity structure and the direction of trade.

Keywords: Sub-Saharan Africa, SSA, Bulgarian International Trade, Romanian International Trade, EU comparison

JEL Classification: F14, F50

Introduction

In recent years a trend is observed for Bulgarian and Romanian exports to expand their value to partners with higher share at the expense of the reduction of exports to countries with a more insignificant presence in the country's international trade relations. Under the current state of deepening liberalization and globalization processes, intensification of trade relations is a main pillar in their strategies for economic development (Nevena Byanova, 2010, p. 266). The concentration of foreign trade with one country or economic community, as is the case with the European Union (EU), determines the dependence of the economy on the economic situation of those main partner countries, which poses a high risk of rapid transmission of (negative) global economic trends in our country (Economic Research Institute, 2016, p. 41). Economic growth will be determined by export opportunities – especially outside the EU, hence any policy to promote exports is fundamental to the growth and stability of the economy in the medium term. In this context a recent study showed that a major part of Bulgarian enterprises which conduct international transactions have the capacity to expand their export without

[1] *Senior Assistant Professor and Secretary of Scientific Research of the International Economics Department within the Economic Research Institute at the Bulgarian Academy of Sciences,* eddie.marinov@gmail.com

extending their production facilities (Nedyalko Nestorov, 2015, p. 24).

Although neglected by both Bulgarian and Romanian researchers and policy makers in the past several decades, Sub-Saharan Africa (SSA) becomes more and more significant to the countries trade relations while the development of trade with the countries in the region has a serious potential in terms of the opportunities which their markets present to Bulgarian and Romanian companies. The importance of Sub-Saharan countries is determined by their increasing role in global politics and economy, as well as by the vast economic potential and natural resources available to these countries.

Bulgarian and Romanian policy towards African countries in general is based on the one hand on the traditionally good relations with some of them, while on the other – on their preferential political and economic relations with the European Union. Important conditions for these countries to overcome their problems are the existence of an established legal and institutional framework, the political stability and inclusive social environment (Julia Stefanova and Zachary Wenner, 2017). The African direction of Bulgarian foreign and economic policy is a part of the country's priorities for its integration into the European structures. Thus both countries are part of the development of trade relations with African countries under the EU Economic Partnership Agreements (EPAs).

Aiming to analyses and summaries the potential trade prospects, the article discusses Bulgarian and Romanian trade with Sub-Saharan Africa in a comparative perspective to the EU. Section 1 analyses the dynamics of trade for the 2003-2015 period and the place of SSA in the international trade relations of the EU and Bulgaria. Section 2 provides a comparison of the commodity structure of trade with SSA. Section 3 defines both counties' place within the EU and among the comparable as size of the economy and as historical links with the region countries of Central and Eastern Europe (CEE). Finally, the conclusion summarizes the main findings and trends and provides some recommendations on the possible policy measures for the utilization of the trade potential of Sub-Saharan markets.

The article analyses the period since 2003, when the new framework for trade relations between the EU and African countries entered into force, up to 2015. All presented data are based on the author's own calculations based on import and export data from the International Trade Center and Eurostat.

Dynamics of trade with Sub-Saharan African countries

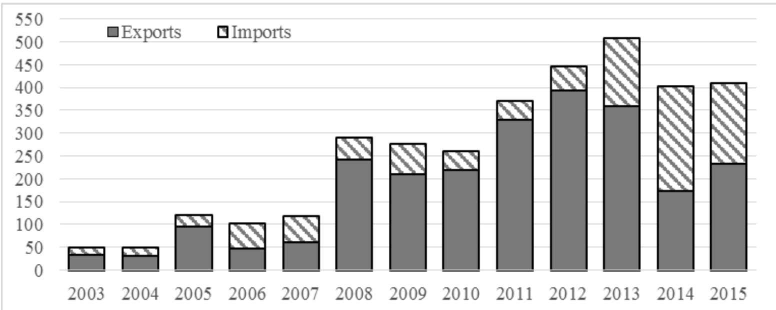
Increase of trade and especially in exports and opening-up towards new markets is a possible alternative for supporting economic growth which could lead to stabilization of the positions in international trade in the current state of globalizing markets and increased international competition. In this perspective Bulgaria should search for opportunities to diversify international trade – not only at the European, but also at other markets (Borislava Galabova and Nedyalko Nestorov, 2016, p. 119). Such potential markets are those in Sub-Saharan Africa. This section analyses the dynamics of trade flows for the 2003-2015 period and the place of SSA in international trade relations - firstly of Bulgaria, then of Romania.

Bulgaria

The total value of trade between Bulgaria and Sub-Saharan Africa in 2015 amounted to 409.8 Million Euro (Figure 1), occupying just 0.8% of the Bulgaria's total and 2.3% of the country's extra-EU trade flows. Throughout the period 2003-2015 exports had a more significant place – in 2015 their value is 233.2 Million and the share of exports to non-EU countries is 2.8%. Imports are considerably less – 177.6 Million in 2015 which is 1.9% of the extra-EU imports of Bulgaria. Until Bulgaria's accession to the EU (up to 2007) trade with Sub-Saharan Africa had a relatively low value – less than 50 Million Euro in 2003 and 2004 and about 100 Million in 2005-2007. Before 2007 both imports and exports had similar values, while later there was a significant increase in exports – nearly 4 times till 2008 and almost 6 times till 2013.

Figure 1

Bulgarian trade with SSA (Million Euro)



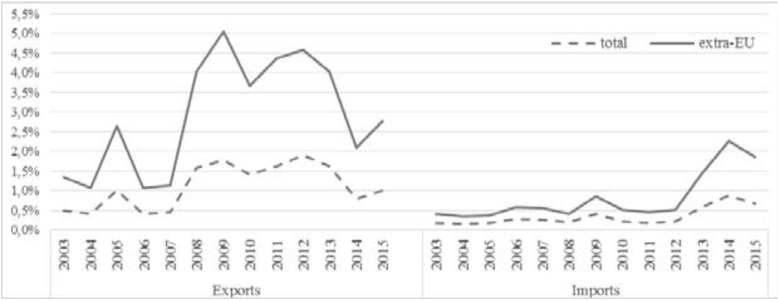
Source: Trade Map, ITC calculations based on UN COMTRADE statistics.

Exploring the dynamics of trade between Bulgaria and the region of Sub-Saharan Africa shows that the global financial crisis has almost no negative impact on it – in 2009 exports decreased by 31.6 Million Euro, but imports increased by 16.7 Million, so that the general decline in trade flows was only 14.8 Million, which is only about 5% of their value in 2008. In 2010, conversely, imports decreased (by 25.5 Million Euro) at the expense of exports, which increased by 10.3 Million, i.e. the decline in trade flows again was about 15 Million. In 2011, both indicators grew – imports minimally (by 0.8 Million Euro), while exports – by 50% (by 108 Million), thus the value of trade flows reached 370.5 Million. A certain decrease in the value of exports is observed in the last two years, while imports are increasing.

In recent decades, Bulgarian trade is mainly directed towards the countries of Western Europe – since 2000, the share of the current 27 other EU members in Bulgaria's trade is always over 55%, reaching 64% in 2015. Trade with SSA as a share of Bulgarian trade with non-EU countries (other than the remaining 27 EU member states) has also seen significant growth – from 0.76% in 2003 to 2.29% in 2015. The increase is greater in imports, mainly due to the lower base value – from 0.41% in 2003 to 1.86% in 2015, while exports increased from 1.34% in 2003 to 2.77 % in 2015 (Figure 2).

Figure 2

Share of SSA in Bulgarian International Trade (%)



Source: Trade Map, ITC calculations based on UN COMTRADE statistics.

After the years of transition towards a market economy the economic relations of Bulgaria with the countries of Africa marked a significant decline. While in 1984 Sub-Saharan countries occupied 4.3% of the total trade flows, at the beginning of the period under review (2003) this share was only 0.3%. In 2003-2015, it has increased almost threefold, and in 2013 it reached almost 1.1%, while in the last two years under review it is 0.83%. In relative values greater increase is observed in imports – from 0.17% in 2003 to 0.67% in 2015, the most significant share being in 2014 – 0.87%. Export growth is by 0.51 percentage points – its share in 2003 was 0.49% and in 2015 – 1.00%, its highest share being observed in 2012 – 1.62%.

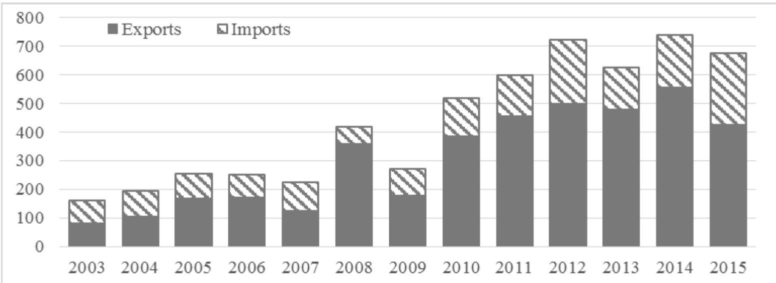
Romania

The total value of trade between Romania and Sub-Saharan Africa in 2015 amounted to 650 Million Euro (Figure 3), occupying just 0.5% of the Romania's total and 2.3% of the country's extra-EU trade flows. Throughout the period 2003-2015 exports had a more significant place – in 2015 their value is 408.5 Million and the share of exports to non-EU countries is 2.8%. Imports are considerably less – 241.5 Million in 2015 which is 1.7% of the extra-EU imports of Bulgaria. Until Romania's accession to the EU (up to 2007) trade with Sub-Saharan Africa had a relatively low value – less than 250 Million Euro. In 2003 both imports and exports had similar values, while later there was a significant increase in exports – nearly two times till 2005, 4 times till 2008 and almost 5 times till 2013.

Exploring the dynamics of trade between Romania and the region of Sub-Saharan Africa shows that the global financial crisis has a significant negative impact on it – in 2009 exports decreased by twice, but imports increased by 50%, so that the general decline in trade flows was nearly 148 Million, which is about 1/3 of their value in 2008. In 2010 both imports and exports increased (by respectively 42 Million and 207 Million Euro), i.e. the increase in trade flows was about double – with 249 Million Euro. In 2011 and 2012, both indicators grew, thus trade flows reached their highest value within the period under review – 701 Million Euro. In 2015 a certain decrease in the value of exports is observed, while imports are increasing.

Figure 3

Romanian trade with SSA (Million Euro)

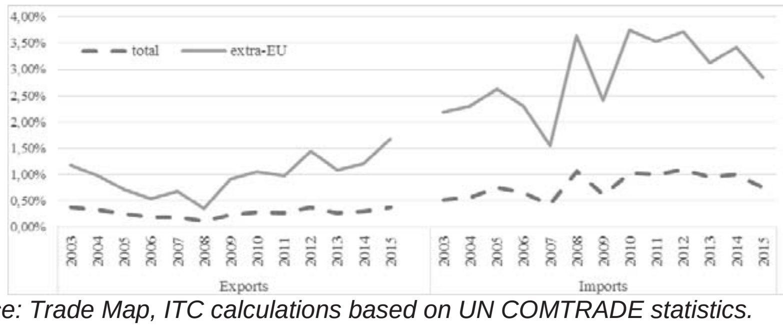


Source: Trade Map, ITC calculations based on UN COMTRADE statistics.

In recent decades, Romanian trade is mainly directed towards the countries of Western Europe – since 2000, the share of the current 27 other EU members in Romania's trade is always over 65%, reaching 75% in 2015. Trade with SSA as a share of Romanian trade with non-EU countries (other than the remaining 27 EU member states) has grown for the period 2003-2015 – up to 2009 it was below 1.5%, and after that it grew to 2.2 – 2.3%. The increase is almost equal both in exports – from 2.19% in 2003 to 2.85% in 2015, and in imports – from 1.19% in 2003 to 1.68% in 2015 (Figure 4).

Figure 2

Share of SSA in Romanian International Trade (%)



Source: Trade Map, ITC calculations based on UN COMTRADE statistics.

In 2003-2015, the share of Sub-Saharan countries in total Romanian trade occupied has slightly increased – from 0.44% in 2003 through 0.7% in 2012 to 0.55% in 2015. In relative values there is no change observed in imports – their share is the same in 2003 and 2015 – 0.38% of Romanian exports, while throughout the period the share was slightly lower (0.25-0.3%). Export growth is by 0.23 percentage points – its share in 2003 was 0.52% and in 2015 – 0.75%, its highest share being observed in 2012 – 1.09%.

Commodity structure of trade

The analysis of the commodity structure of trade helps to define the patterns of supply and demand as well as to identify the potential competitive niches for Bulgarian and Romanian products at Sub-Saharan markets. To utilize the trade potential – not only in Sub-Saharan Africa, but for Bulgarian trade in general, the Bulgarian government has to conduct and support additional measures which could help diversifying the production and producing added value (Ivan Byanov, 2014). This section studies the commodity structure of EU and Bulgarian trade for 2015 as well as the major changes for the 2003-2015 period.

Bulgaria

In 2015 there are 33 product groups (HS, level 2) in which the value of Bulgarian trade with SSA exceeds 1 Million Euro. Over 3/4 of total trade flows are concentrated in the first 7 commodity groups, another 8 have a share of 1-2.5%, while in all the rest the share is under 1% (with a value of under 3.7 Million Euro).

The leading commodity group in Bulgarian trade with Sub-Saharan Africa is „ores, slag and ash" (134.6 Million Euro), followed by „cocoa and cocoa preparations" (53.8 Million Euro), „cereals" (34.9 Million Euro), „animal or vegetable fats and oils and their cleavage products" (29.7 Million Euro), „aluminum and articles thereof" (23 Million Euro), „copper and articles thereof" (16.7 Million Euro) и „nuclear reactors, boilers, machinery and mechanical appliances, parts thereof" (16.4 Million Euro). Among other commodity groups with a more distinct place in trade flows (1-2.5%, 5-10 Million Euro) are „electrical machinery and equipment and parts thereof", „sugars and sugar confectionery", „paper and paperboard; articles of paper pulp, of paper or of paperboard", „tobacco and manufactured tobacco substitutes", „other made-up textile articles; sets; worn clothing and worn textile articles; rags", „coffee, tea, maté and spices", „salt; sulphur; earths and stone; plastering materials, lime and cement" and „vehicles other than railway or tramway rolling stock, and parts and accessories thereof".

In 2015 four commodity groups occupy over 70% of all Bulgarian exports to Sub-Saharan Africa (SSA) – „ores, slag and ash" (85 Million Euro), followed by „cereals" (34.9 Million Euro), „animal or vegetable fats and oils and their cleavage products" (29.7 Million Euro) and „„nuclear reactors, boilers, machinery and mechanical appliances, parts thereof" (16.4 Million Euro). Other major export groups (with a share of 1-4% of Bulgarian exports to the region) are „electrical machinery and equipment and parts thereof" (9.7 Million Euro), „paper and paperboard; articles of paper pulp, of paper or of paperboard" (8.9 Million Euro), other made-up textile articles; sets; worn clothing and worn textile articles; rags" (5.9 Million Euro), „salt; sulphur; earths and stone; plastering materials, lime and cement" (5.3 Million Euro), „plastics and articles thereof" (3.6 Million Euro), „tobacco and manufactured tobacco substitutes" (3.3 Million Euro) and „pharmaceutical products" (2.9 Million Euro).

Almost 4/5 of Bulgarian imports from Sub-Saharan counties are concentrated in just four commodity groups of primary products: „cocoa and cocoa preparations" (53.8 Million Euro), „ores, slag and ash" (49.6 Million Euro), „aluminum and articles thereof" (20.9 Million Euro) and „copper and articles thereof" (15.3 Million Euro). The other commodity groups with a more distinct presence in Bulgarian imports (2-5%, 3-9 Million Euro) are: „sugars and sugar confectionery", „tobacco and manufactured tobacco substitutes", „coffee, tea, maté and spices", „vehicles other than railway or tramway rolling stock, and parts and accessories thereof", „wool, fine or coarse animal hair" and „edible vegetables and certain roots and tubers".

Romania

In 2015 there are 33 product groups (HS, level 2) in which the value of Romanian trade with SSA exceeds 1 Million Euro. Over 3/4 of total trade flows are concentrated in the first 9 commodity groups, another 10 have a share of 1-2.5%, while in all the rest the share is under 1% (with a value of under 3.7 Million Euro).

The leading commodity group in Romanian trade with Sub-Saharan Africa is „vehicles and parts and accessories thereof" (116 Million Euro), followed by „mineral fuels, mineral oils and products of their distillation" (58 Million Euro), „sugars" (56 Million Euro), „ores, slag and ash" (55 Million Euro), „nuclear reactors, boilers, machinery and mechanical appliances, parts thereof" (54 Million Euro), „ships and boats" (53 Million Euro) and „cereals" (43 Million Euro). Among other commodity groups with a more distinct place in trade flows (1-2.5%, 5-10 Million Euro) are „electrical machinery and equipment and parts thereof", „tobacco", „animal and vegetable fats and oils", „articles of iron and steel", „rubber", „soap", "furniture", "oil seeds" and "wood and articles of wood".

In 2015 four commodity groups occupy near 2/3 of all Romanian exports to Sub-Saharan Africa (SSA) – „vehicles and parts and accessories thereof" (110 Million Euro), followed by „ships and boats" (53 Million Euro), „nuclear reactors, boilers, machinery and mechanical appliances, parts thereof" (51 Million Euro) and „cereals" (43 Million Euro). Other major export groups (with a share of 2-6% of Romanian exports to the region) are „electrical machinery and equipment and parts thereof" (24 Million Euro), „animal and vegetable fats and oils" (18 Million Euro), „articles of iron and steel" (16 Million Euro), „mineral fuels, mineral oils and products of their distillation" (14 Million Euro), „soap" (13 Million Euro), „rubber" (12

Million Euro) and “oil seeds” (10 Million Euro).

Almost 4/5 of Romanian imports from Sub-Saharan counties are concentrated in just five commodity groups of primary products: „sugars“ (56 Million Euro), „ores, slag and ash“ (55 Million Euro), „mineral fuels, mineral oils and products of their distillation“ (44 Million Euro), „tobacco“ (22 Million Euro) and “furniture” (11 Million Euro). The other commodity groups with a more distinct presence in Romanian imports (2-3%, 4-8 Million Euro) are: „coffee, tea, maté and spices“, “wood and articles of wood”, „vehicles and parts and accessories thereof“ and „fish and crustaceans, mollusks and other aquatic invertebrates “.

Dynamics

Unlike Romanian trade which is quite stable in terms of its commodity structure, in the 2003-2015 period there are significant changes in the commodity structure of trade, most of them due to the emergence or disappearance of a specific product in Bulgarian trade (imports or exports). With a few exceptions export of the main export commodities is instable – they appear and disappear in Bulgarian exports to individual Sub-Saharan countries in certain years, sometimes with a significant value. The trend for significant fluctuations and sudden appearance and disappearance of certain products in both countries’ trade with Sub-Saharan countries is even more obvious.

Bulgaria’s and Romania’s place in the EU

This section discusses how Bulgaria and Romania rank within the EU regarding trade with Sub-Saharan Africa. For a more complete picture of the country’s place in the EU to be achieved, the second part of the section compares some features of Bulgarian and Romanian international trade with SSA to those of the other EU member states from Central and Eastern Europe.

Rank within the EU

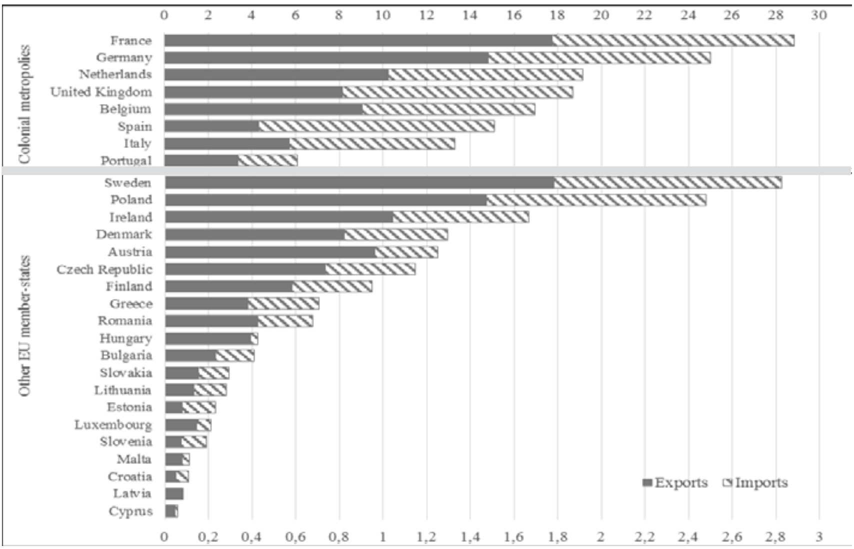
Bulgaria occupies the 19th place among the 28 EU member states in terms of the value of total trade flows with SSA, while Romania is 17th (Figure 7).

Close to the two countries both as value and as a share of EU trade with the region in 2015 are Greece (0.4% of EU 705 Million Euro), Hungary (0.3%, 427 Million), Slovakia (0.2%, 296 Million), Lithuania (0.2%, 280 Million) and Estonia (0.2%, 232 Million). Leaders are the former colonial metropolises – the 8 countries which had colonies in this region account for more than 90% of EU trade with SSA. The greatest value of trade have France (28.8 Billion Euro) and Germany (25 Billion), followed by the Netherlands (19.1 Billion), the UK (18.7 Billion), Belgium (17 Billion), Spain (15.1 Billion), Italy (13.3 Billion) and Portugal (6.1 Billion). If these countries are excluded from the ranking due to their historical ties with the region, Bulgaria is 11th among the remaining 20 EU members, the leaders here being Sweden (2.8 Billion Euro) and Poland (2.5 Billion).

In the 2003-2015 period, trade between Bulgaria and SSA grew nearly 7 times faster than EU trade with the region. For the same period Romania's trade with SSA grew 3 times as fast as EU trade with the region. In the same period Bulgaria is second among all member states regarding the growth rate of trade with SSA countries. First in this respect is Latvia, where, however, the value of trade is very low – just 85 Million Euro in 2015. Bulgaria is followed by the Czech Republic, Lithuania, Slovakia and Poland, but their growth rates are almost twice slower than that of Bulgaria. Romania is 8th in the EU in terms of growth of trade.

Figure 7

EU Member-States trade with SSA (2015)



Note. Since the trade value of the former metropolises is much higher, it is presented above the line in tens of Billions Euro, while the one of other member states is presented under the line in Billions Euro.

Source: Trade Map, ITC calculations based on UN COMTRADE statistics.

Place among other CEE member states

In 2015 the total volume of trade of CEE countries with those from Sub-Saharan Africa amounts to 6.33 Billion Euro, with exports significantly exceeding imports – respectively 3.83 and 2.49 Billion. The share of CEE countries trade with SSA in EU extra-Community trade is relatively low – 4%, but it is much higher in exports than in imports – respectively 4.6 and 3.3% of the value of the corresponding indicator for the

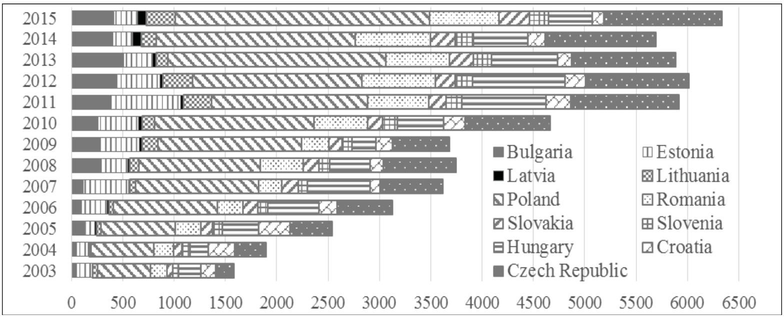
EU-28. It should be noted that the share of SSA in the total trade with Africa is much lower among CEE countries than the EU average – respectively 38 and 53%.

In 2015 the leader among the countries of Central and Eastern Europe in value of trade with Sub-Saharan Africa is Poland (2479 Million Euro), followed by the Czech Republic (1146 Million), Romania (676 Million), Hungary (386 Million), Bulgaria (fifth place, 410 Million), Lithuania (280 Million), Estonia (232 Million), Slovenia (109 Million), Croatia (110 Million) and Latvia (85 Million Euro) (Figure 8).

Poland is the only country that has a relatively significant share of EU-28 trade with SSA – 1.57% in 2015. Poland is the also the leader in exports (1473 Million Euro), followed by the Czech Republic (737 Million), Romania (425 Million), Hungary (394 Million). Bulgaria is fifth with 233 Million, while in other countries the exports have a value of just 50-150 Million Euro. In imports the domination of Poland is even more pronounced (40%). Other countries with a significant share in imports are Romania (14%) and the Czech Republic (10%). Bulgaria is fourth (7%), followed by Estonia, Lithuania and Slovakia (5% each), while last here are Hungary (32 Million Euro) and Latvia (only 7 Million).

Figure 8

CEE countries trade with SSA (Million Euro)



Source: Trade Map, ITC calculations based on UN COMTRADE statistics.

The increase in trade with SSA in the CEE countries is much greater than the EU-28 average (3.8 times for the period 2003-2015). Leader here is Latvia with average annual growth of 22%, followed by Bulgaria (19%), Lithuania (16%), the Czech Republic (14%) and Romania (13%). The leading position in the value of growth is occupied by Poland (1723 Million Euro), followed by the Czech Republic (738 Million), Romania (520 Million) and Bulgaria (361 Million). It is important to note that the enormous growth that was seen in Bulgaria and in some other CEE countries is due largely to the very low base trade value in 2003 (Figure 8).

The impact of the global crisis on CEE countries' trade with Sub-Saharan Africa is weak – in 2009 the value of trade flows decreased by just 68 Million Euro. In some countries the decline was substantial – Hungary (157 Million), the Czech Republic (154 Million) and Romania (148 Million), while in others there is even an increase – Poland (214 Million), Estonia (123 Million). The decline in the value of trade flows is compensated as early as in the next 2010 when it increased by nearly 1 Billion Euro.

Conclusions

Exploring the dynamics of trade between Bulgaria and Romania on one hand and the region of Sub-Saharan Africa on the other shows that the global financial crisis has almost no (negative) impact on it, unlike the countries' accession to the EU in 2007, after which a significant increase in exports is observed. However, there is a certain decline in trade flows in the last years of the period under review for both Bulgaria and Romania.

Sub-Saharan Africa countries have a growing importance in Bulgarian and Romanian trade relations. The growth of trade in Bulgaria is faster – the value of trade with the region increased more than 4 times faster than Bulgaria's overall extra-EU trade flows, while in Romania it increased with 50% faster than the overall trade of the country. The potential of trade with these countries is even greater considering the increasing strongly positive balance of trade both in Bulgaria and Romania. Moreover, an increase in the share of trade with the region is observed, albeit it still occupies an insignificant part of Bulgaria's and Romania's total trade flows.

Both in Bulgaria and in Romania exports to Sub-Saharan Africa are growing faster than imports within the 2003-2015 period. However, while in Romania the region is occupying a growing but relatively unchanged share both in exports and in exports, in Bulgaria exports to SSA are taking a more serious place, while imports are growing faster in relative terms.

Bulgarian exports differ significantly of Romanian – the former are dominated by manufactures while the in the latter prevailing are crude materials. In terms of its commodity structure both Bulgarian and Romanian trade with Sub-Saharan Africa is poorly diversified and is concentrated mainly in a few major groups of goods – for Bulgaria these are mostly raw materials and products with low value added, while in Romanian trade prevail manufactures. Demand for manufactured goods in the region and the success of some Bulgarian and Romanian enterprises exporting such commodities shows a niche for national manufacturers. Unlike in Romania, instability of the commodity structure of Bulgaria trade is observed.

The concentration of the export structure in a limited number of products in both countries is mostly due to the lack of persistent and sustainable trade relations caused by the weak or even non-existing government policy to support Bulgarian and Romanian companies at these markets. Bulgarian and Romanian enterprises do not utilize adequately the wealth in resources of Sub-Saharan countries – imports are also concentrated in a few products (mostly foods and metals) from a limited number of import sources. The strong trend towards major fluctuations as well as the sudden appearance or disappearance of certain commodities in the trade with Sub-Saharan

Africa has a negative impact on both exports and imports.

Bulgaria and Romania have a similar rank within the EU in terms of trade with SSA. If the old colonial metropolises are excluded, Bulgaria takes place exactly in the middle among the other EU member states in terms of trade with Sub-Saharan Africa. Romania on the other hand, although being a bigger economy, is just two places above. Even from this perspective, the share of the countries' of the other 20 countries' trade flows is still very low. However, Bulgaria and Romania are among the EU countries with the fastest growth rates of international trade with Sub-Saharan Africa, albeit minimal in terms of value.

Despite the lower volume of trade compared to Poland, which as the biggest economy under review is the leader among Central and Eastern Europe EU members, Romania and Bulgaria occupy leading positions in trade with Africa on all indicators. Bulgaria is the undisputed leader in terms of growth rates of both imports and exports.

The growing potential of Sub-Saharan Africa together with the good institutional framework provided by the EU trade agreements are a fine basis for the realization of efficient trade policy by the Bulgarian and Romanian governments. This policy should include at the first place the utilization of the most important government function in supporting international trade – to provide information to potential exporters and importers, as well as the conduction of ambitious and most importantly persistent actions to impose Bulgarian and Romanian enterprises on these markets.

Acknowledgments

The paper is realized within project "Possibilities and Perspectives in International Trade Relations between Bulgaria and Sub-Saharan African Countries" with the financial support of the Program for Support of Young Scientists at BAS.

References

Byanov, Ivan. 2014. CAP implementation and its influence on land use, agrarian structure and environment in Bulgaria. *Visnyk of the Lviv University. Series International Relations*. Issue 35/2014, pp. 218–227.

Byanova, Nevena. 2010. Increasing Need of Trade Facilitation in Period of Global Crisis. *In: Bulgaria in the EU*, Union of Scientists in Bulgaria, Veliko Tarnovo: Faber, pp, 265-274.

Economic Research Institute at BAS. 2016. *Annual Report 2016. Economic Development and Policies in Bulgaria: Assessments and Expectations*. Sofia: GorEx Press.

Galabova, Borislava and Nedyalko Nestorov. 2016. Situation and Trends in the Export of Ores, Slags and Ashes. *Science & Technologies Journal*, Volume VI, 2016, Number 7: Social Studies, Stara Zagora: USSZ, pp. 114-119.

Nestorov, Nedyalko. 2015. A Study of International Trade Activity of Bulgarian Enterprises. *In: Innovations: A Driver for Economic Growth – 2015*, Sofia: VUZF, pp. 20-24.

Stefanova, Julia and Zachary Wenner. (2017). Optimal management strategies in small and medium enterprises. *In: Entrepreneurship and enterprise value creation in support of smart, sustainable and inclusive growth in the European Union.* Pennsylvania. IGI Global.

Trade Map. *ITC calculations based on UN COMTRADE Statistics*, available at http://www.trademap.org/, accessed on 1.02.2017.

APPLICATION OF COMMUNICATION TOOLS FOR VIRTUAL MARKETING AMONG BUYERS OF FURNITURE FROM BULGARIA AND ROMANIA

Desislava Baeva, PhD[1]
Svilena Marinova[2]

Abstract

The significant increase of mobility within the European Union, the functioning of Danube Bridge and the developed infrastructure of the Rousse region (Bulgaria) provides an opportunity for territorial local furniture manufacturers to expand their markets to Romania. This motivates them to seek ever wider range communication with Romanian consumers. In the context of aggregation of multinational market, among the various approaches of advertising, Internet takes the place of a leading commercial and marketing channel. The purpose of this article is to determine the effect of individual virtual communication channels in their interaction with Bulgarian and Romanian users based on analysis of similarities and differences in their reactions. The conclusions are based on online surveys. They could be used to create conceptually grounded synergistic model of the virtual tools of the furniture industrial enterprise with a view to modern trends of movement of goods and services in the European Union. The study intends to show a sustainable balance for use of communication tools for virtual marketing among producers and consumers of furniture from Bulgaria and Romania.

Keywords: Virtual instrumentation IMC, online marketing, online survey

JEL Classification: O24, L68, D12

Introduction

The policy of the European Union consists of the establishment of open and competitive digital economy and emphasis of the particular importance of information and communication technologies as a catalyst for the inclusion of all in the information society (e-Inclusion) and to improve the quality of life.

The idea of a **Single European Information Space** aims to provide European citizens with affordable and secure broadband communications with rich and diverse content and digital services. This is where virtual inventory becomes a viable option. Through it advertising of a product immediately reaches many consumers at home

[1] *University of Ruse „Angel Kanchev", e-mail: dbaeva@uni-ruse.bg*
[2] *IvetM – Research Ltd*

and abroad, and is judged by many people, it contributes to the positive aspects of the market mechanisms.

The integrated marketing communications (IMC) are a means of enhancing the competitiveness of a modern manufacturing enterprise. They include various tools developed over the time. In the modern technical and computerized era the manifestation of marketing communications follows consumers and acquires virtual presence. The occurance at a later stage, online marketing communications have their own specific characteristics, feature and scope, but do not replace traditional forms of IMC, and complement and complete them. This necessitates their thorough investigation

Study, made by Jennings (2012), makes it clear that the attention of the online audience is turning toward the Internet channels for receiving information. According to the data provided, 52% of Europeans regularly spend part of their time online. Approximately 36% of European Internet users watch less TV than before, in favor of time spent on the computer; 28% have reduced their purchase of newspapers and magazines, and 17% prefer to listen to their favorite radio online. All this determines a reduction of advertising budgets and limiting the share of electronic and print media on behalf of the Internet as a media.

Consumers all around the world are linked in large and small groups and due to the searching equipment, social networks, sites for shopping and comparing prices in real time, personal spaces, forums, etc. freely communicate with each other, expressing opinions, give assessments, influence the consumer behavior in their community, building or destroying the brand of chain companies.

Stimulating sales in the manufacturing company is mostly a tool of marketing communications, thus implying sales-related initiatives, aimed at provoking a response or reactions that can be measured in terms of a product or service. A more complete definition of the promotion of sales or in other words, the sales promotion, gives prof. D. Doganov: "The promotion of sales is any non-personal mean of the marketing mass communications designed to support advertising campaigns and efforts of the sales staff and aimed to promotion of the end and intermediate buyers to accelerate or induce the purchase of a specific product. It might be directed to all or only to specific audiences - those of the distributors of the good or its buyers" (Doganov, Durankev and Kantardgiev, 2003).

In the context of a bulking multinational single market, Internet takes the place of a leading commercial and marketing channel, because it provides opportunities beyond the capabilities of any other marketing tool and allows the industries, irregardless of their size and financial resources, to reach foreign markets, to communicate with consumers, willing to accept their message and to build relationships with customers, based on a stable feedback. Despite the amenities provided by the online marketing of all industrial companies, from an organizational point of view, cities and industries in the border areas are favored to overcome the distances and language barrier. The advantage is mainly in the production and trade with products intended for end users, as transport and delivery to customers from the neighboring country require less spending, and this affects the competitiveness of companies.

Theoretical aspects

The proper positioning of the virtual tools of integrated marketing communications for the increase of productivity of industrial production is a new and under-explored area. In the past 20 years, the importance of using the Internet as a competitive marketing tool has been recognized by many practitioners and scientists. Whether they are small or large organizations that compete on a regional or international level, Internet is a bridge between the organization and its interested parties. Studies of Herbig (1997) Dutta (1999), Kleynrok (2003) provide an insight into the ways in which commercial organizations can use the Internet. The virtual space is viewed as a good opportunity to optimize processes that exist. (Ivanov 2012)

The **relevance of this development** is determined by the state of stagnation in the furniture industry today and the need to outline guidelines for reaching new markets, and creating synergies between marketing channels that provide Internet for the benefit of this sector.

Object of the study are virtual marketing communications as a means to develop the potential of industrial companies in two neighboring countries.

Subject of the study is the attitude of producers and consumers to the manifestations of direct online marketing and the attitude and willingness of consumers of furniture from Bulgaria and Romania to carry out trade of furniture via Internet.

In this context, the aim of this study is to establish the readiness of Bulgarian and Romanian consumers of furniture to receive communication messages through virtual marketing of the business agents.

Based on the stated objective, the following tasks are formed:

1. To highlight contemporary trends to build an effective and impactful for consumers complex of virtual instruments of integrated marketing communications, needed for furniture industry, aimed at selling to the end user.

2. To determine the effect of individual virtual communication channels in their interaction with Bulgarian and Romanian users, based on an analysis of similarities and differences in their reactions.

The study is based on surveys among Bulgarian and Romanian users of specialized information catalog sites, and a survey among furniture manufacturers in Rousse region.

Research methodology

The methodology of this research is based on descriptive and experimental strategy of positioning the virtual instruments in direct marketing messages. The nature of the ongoing communication research is determined by the specific pursued objectives and tasks, as well as the subjects of communication. Therefore following **approaches** are adopted in order to study the use of virtual tools in integrated communications in industry: survey, consultation, monitoring; use of technical systems (statistic data generated online); expertise; consumer research data and consumers behavior. There are attached the following **methods**: Study of literature in the field of IMC; Empirical study of the relationship between consumer attitudes and furniture manufacturers; Statistical methods for data processing in order to establish a criterion for making a decision about adopting a certain virtual model of marketing communication in the furniture industry.

The consideration of online marketing, as a process included in the activity of the company, and an element of the integrated marketing communications, is based on its core virtual components: site creation, participation in social media and networks, implementation of promotions and online ads, conduct email campaigns (Kotler 2013). Leading by Duncan concept of synergy (Duncan 1995), online marketing should be viewed from two new aspects:

• as part of an integrated system of overall corporate marketing communications;

• as a strategic coordination of its virtual instruments.

The widespread use of new technologies and the opportunities they provide for marketing professionals, lead to a shift of the center of attention on the brand of the company, and from the company itself to the user. Placed in an environment that is flooded with advertising messages - competing for its attention, the recipient (client) becomes the center of the advertising policies of the company. The use of modern communication channels and implementation of bilateral dialogue is often initiated by the user, allowing the creation of personal and long-lasting positive relationships with customers, and attachment and association with the brand. The deliberately building long-term positive relationships with customers, the implementation of personal contact and maintaining close relationships is a so-called relationship marketing. Such an individual approach seems too complicated to implement and has low return, but experts say, sales should not be considered as separate events, but as a long process with successive stages purposefully controlled by industrial enterprises (Timbrell 2012).

The redirected efforts of marketers to create new tactics and techniques, suitable for Internet marketing, create a new conceptual feature, called in the theory a **permission marketing**, whose author is Seth Godin. There are two fundamentally different problems with the advent of information and communication technologies to the marketing. On one hand, the massification, which is a consequence of the quick and easy access to information, and on the other - the amount of profit that is reduced and loyal customers are difficult to find (Godin, 2001, 2013).

Internet is the right environment for successful implementation of permission marketing.This direct communication makes it possible for companies to engage customers in a personal dialogue and build a special relationship with each of them. The problem of "massification" began to shrink and implementation of personal communication process with the customer leads to its commitment and generates loyalty. According to Seth Goudin, the only prerequisite is the respondent voluntarily to give part of his time. Then companies start to build long-term relationships with customers and therefore realize sales.

Considering the relations with business agents in the above-mentioned aspects of relationship marketing and permission marketing, toward the virtual toolbox of online direct marketing, systematized by Kotler al (Kotler, Kartajaya & Setiawan, 2010), while building a virtual presence of the industrial enterprise, using direct sales toward the end user, the element of **creating an electronic shop** should be added..

Although complemented by this new element, the channel of communication does not acquire full completion, in order to ensure its maximum functionality. It is necessary to take into consideration also the offered by Internet additional resources and opportunities for larger audience. This motivates the need to build a conceptually defined compositional model of virtual instruments of IMC in accordance with modern trends for development of Internet technology.

The territorial limitation in the choice of the study scope was the Rousse region in Bulgaria. The motivation is that it is a border city and geographically located near the capital of Romania. There is a land connection in its outskirts - Danube Bridge, providing an opportunity for transportation of goods of furniture manufacturers. Practically the Rousse region has the privileged cultural and territorial opportunity to expand its markets, finding customers in Romania, too.

In considered industrial activities by 2012 were employed more than 307,000 people, of which more than 232 000 people are wrking in Small and medium-sized enterprises. According to the National Strategy for Promotion of Small and Medium Enterprises (SME) 2014 - 2020, published by the Ministry of Economy and Energy in Bulgaria, the sectors of wood and furniture industry, textile and garment have a high degree of specialization and concentration on regional level. According to the strategy of combining regional specialization and density enterprises, Ruse region is suitable for clustering and creating technology parks within sector "Furniture".

Drawing the priority role of the furniture industry in the region, the study focuses on industrial furniture enterprises in Rousse, as this sector traditionally generates a significant proportion of revenues from sales in the area - 51,492 euros, the volume of output for 2015 is estimated to have been € 46,915, while the number employed for the same reference year is 2077 / according to data provided by the NSI, 2016 /, among the largest employers in the municipality of Ruse are the following companies in the furniture industry, "IRIM" Ltd. provides job for 377 people, "Stephanie Style" Ltd with 235 employees, "Apollo Gold" Ltd with 225 and more (ISIS_Ruse_2016-2025).

A study on the impact of virtual instruments in IMC industry could become too complex and time-consuming task, with vague and difficult to verify results, if some additional restrictive conditions are not introduced.

Restrictive conditions **for manufacturers** are the following:

• Companies that are subject to analysis regardless of their size, have to be registered under the Commerce Act in Bulgaria (sole traders, individuals exercising similar activities, unregistered in accordance with legal regulations, but expressed through its presence in the network as furniture manufacturers, are beyond our analysis).

• The companies activity is related to the field of material production, which is positioned in Rousse region, i.e. to be registered in Rousse.region.

• To have submitted in the annual reports to NSI that their main economic activity by CEA 2008 is "Production of furniture."

• To be active and have not filed for bankrupcy, at the time of the study.

Restrictive conditions **for consumers** are:

• Users must have bought furniture over the last five years;

• Qualified for the research are only users who have equal access to all types of advertising channels with updated information. The set of error is 5%, and confidence level - 95%.

The choice of the online survey is set, given the nature of the research topic. It is with polls, studying the opinion of Romanian and Bulgarian consumers who receive advertisements of furniture companies trough minimum of two marketing channels, one of which is the global information network. Three virtual questionnaires are posted on the Internet. Respondents were divided into two groups: The first group consists of Rousse furniture manufacturers, while the second is of consumers of furniture in Bulgaria and Romania. The development of the questionnaire is based on the experience of Bulgarian and foreign experts in the field of marketing research (Gelev 2008), but is consistent with the specificity of the test subjects.

To reach the maximum number of users, links to polls were published in two information sites with catalogs that are visited respectively by Bulgarians and Romanians.

Catalogue sites are Internet resource - sites whose main subject of activity is the collection of catalogs with diverse themes in the network and their systematization and offering for consideration by end users. These sites do not sell goods and they do not have a contractual relationship with companies whose catalogs and brochures are published. Their role is entirely informative, which in turn is an indication of the objective nature of the study. The existence and profitability of this type of sites happens due to the large number of visitors and the publication of advertisements. The link to the survey was promoted several times through the Facebook pages of the aforementioned sites catalogs. The level of responses received was relatively low - on average about 1.48% for Bulgarian consumers and 1.15% for Romanian ones.

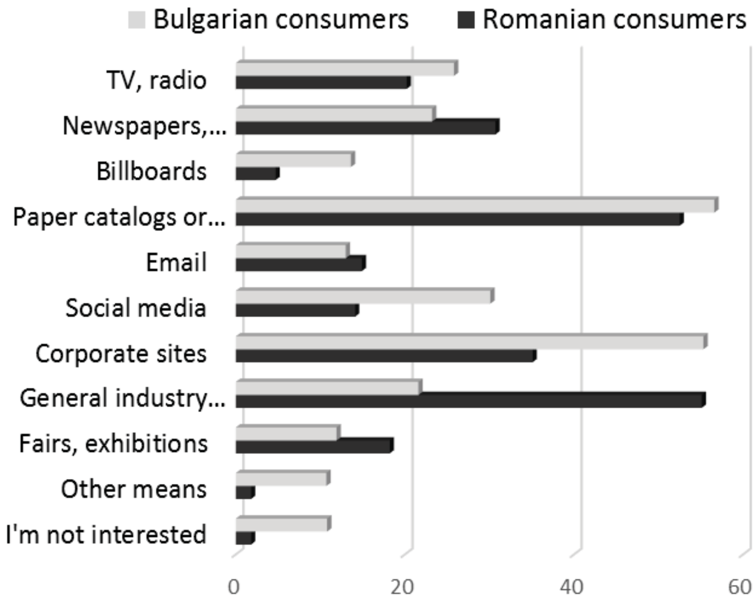
According to a list obtained by the National Statistical Institute, furniture manufacturers in Rousse region were refined,to which by email were sent questionnaires and were held personal talks. The number of respondened producers is high - 77.08%.

Anonymous and voluntary respondents are not obliged to express their opinion on all issues, to achieve maximum credibility and sincerity in filling data.

Results

The results of the research are entered and processed using statistical analysis packages SurveyGizmo Profecional Software, SPSS, and MS Excel 2010. The approaches to data processing are based on developments in statistics (Manov 2002, Mitkov 2011, Pavlov 2006).

Figure 1.
Preferred information channels from Bulgarian and Romanian consumers



Although in the process of approbation was shown that the established model is relevant for the Bulgarian market, as well as for the Romanian one, it is from this scientific, ethnic psychological and sociological point of view, differences that exist between the two groups of users are of interest, for example:

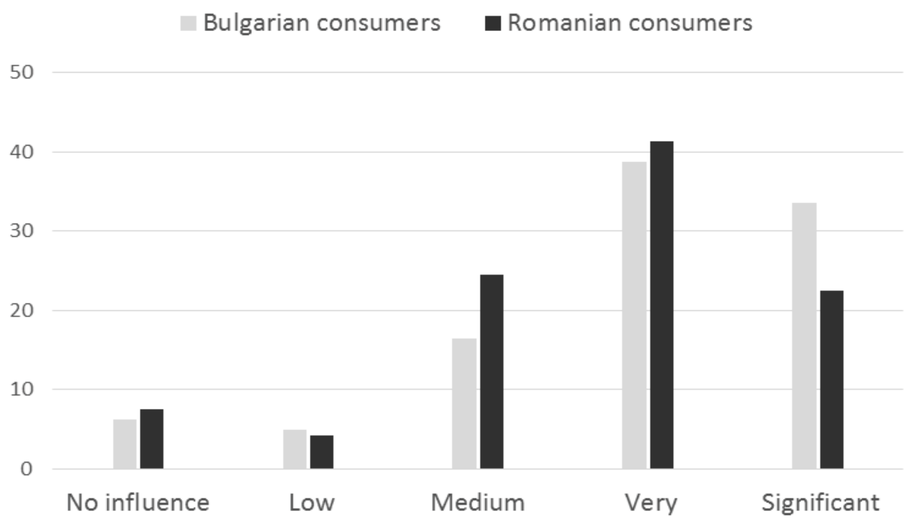
When given the question: "By what advertising channels you meet the current prices and types of furniture offered by companies?" the grouping of answers outline several important differences: while Bulgarian consumers of furniture have confidence and they are informed about current promotions and pricing by social media and networks - Facebook, Twitter, LinkedIn, Svejo, etc.

(30.10 %t) and from companies websites (55.3%), the Romanian consumers find more reliable information publicized by general industry Internet catalogs (55.1%) and by the furniture fairs and exhibitions (18.2%) (fig. nr.1).

According to the trade representatives of furniture companies, called for the purpose of this study experts dealing with the trade of furniture in Bulgaria and Romania, there is a difference in the style preferences of furniture: Romanian consumers are interested in classic furniture ("Baroque" style, "Rustic" style) and more traditional solutions, while in Bulgaria modern and multifunctional furniture is preffered.

From the answers to the question "To what extent the design of furniture in paper brochures or online catalogs influence your choice of a furniture company?", it is clear that the opinions among both groups of users have no significant differences (fig. nr.2).

Figure 2.
Level of influence in choosing the furniture company depending on the design of the furniture.

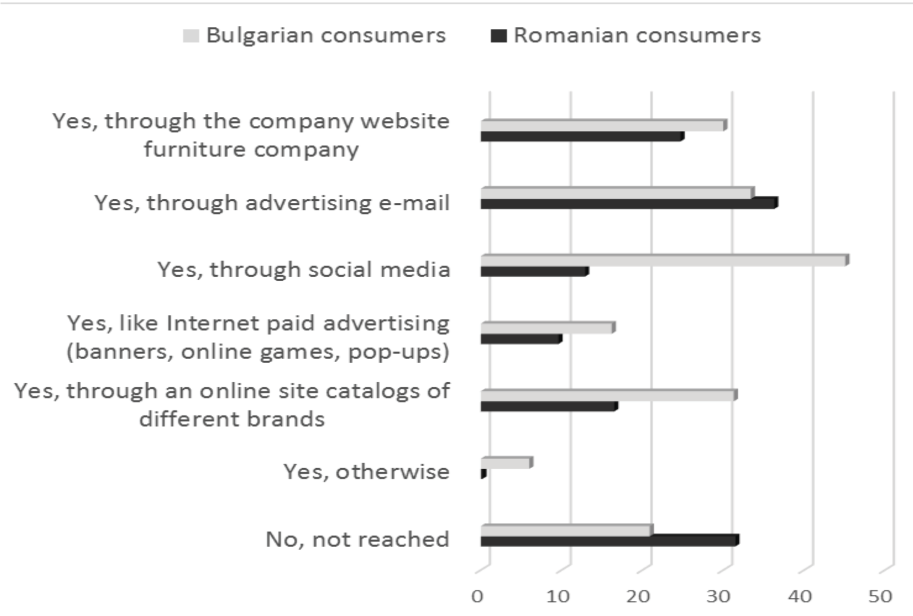


Looking at the virtual marketing communications and the fulfillment of their role (i.e. the delivery of advertising messages), it is observed that the channels through which consumers were informed, are also different, which is most presumably due to national and cultural preferences, and fashion trends (see Fig. 3).

According to the data, Bulgarian customers tend to receive much more intensive adverts via Internet. In Bulgaria, the role of the social media and networks as advertising channels is boosted. 45,1% of Bulgarians admit to have received advertising materials from furniture companies via online media, while only 12.9% of the Romanians admit to have experienced the same.

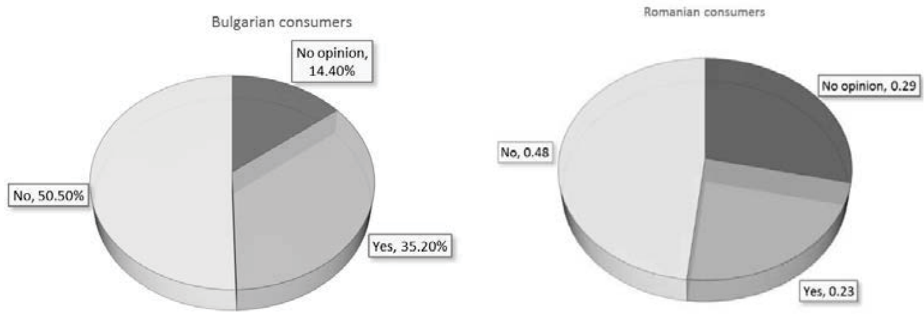
When asked “Would you buy furniture via Internet” – 35,2% of Bulgarians and 23,3% of Romanians answer positively. From the Bulgarian potential customers 14,4% have shown uncertainity on this matter, while this number grew to 28,5% in the case with Romanians.

Figure 3.
Virtual marketing channels used for distribution ofpromotional materials to furniture companies.



Analyses of the surveys and expert opinions prove that the Bulgarian consumer more actively expresses his willingness to carry out purchases in the global network, but still his trust is affected by fears associated with the risk of online payment, fears of supply, poor quality goods, insufficient skills for shopping online, etc. Romanian consumers would like to have a basis for cost and quality comparison of marketed goods. Besides, their willingness to purchase online increases, if they are given the opportunity to see and physically touch the product in advance. This explains the high percentage of Romanian users (31.6%) who prefer to buy furniture from big chain stores for a variety of goods, such as Metro, Praktiker, Carrefour etc. Only 8.3% of Bulgarian respondents believe they are likely to buy furniture from hypermarkets.

Figure 4.
Readiness of Bulgarian (left) and Romanian (right) customers to buy furniture via Internet



Conclusions

Often specialists consider virtual business presence as a separate tendency, which is difficult to correlate with traditional marketing channels, i.e. marketers do not pay attention to the relationship and dependencies that arise between different advertising channels and online corporate presence.

On the other hand, the company virtual tools should not be regarded as a simple sum of the individual parts, but as a single system that dynamically changes under the impact of emerging technologies of modern consumer trends, of short-term and long-term corporate tasks. The aim of this process is to build a positive image of the brand, its differentiation of the competitive market, finding new audiences, etc.

The ability to explore and predict consumer behavior is a key to planning and managing in a constantly changing environment. Users motivate manufacturers to feel responsible not only for the quality of their products and advertising, but also for social and environmental consequences of the production and use of the products.

Surveys and interviews allow the following conclusions about the readiness of Bulgarian and Romanian consumers of furniture to accept the addressed communication messages (through virtual marketing business agents).

1. There are some preferences in the gathering of information among the two groups of consumers, as buyers in Bulgaria are looking for any new and updated information, and consumers of furniture in Romania prefer to inform themselves by comparing offers and proposals of various furniture companies.

2. Regardless of nationality, quality of materials, design of furniture, mobility, versatility and color variety are the most importan factors for the customers. There is a difference in style preferences of furniture: Romanian consumers are interested in classic furniture ("Baroque" style and "Rustic" style), furniture and more traditional solutions, while in Bulgaria preferences are towards modern and multifunctional furniture.

3. National-cultural preferences and fashion trends in the country influence the choice of virtual marketing channels used for distribution of promotional materials of furniture companies. Surveys show that Bulgarian consumers (45.1%) receive advertising messages mainly via Internet, while only 12.9 % of Romanians noted that last year they received an advertising material of a furniture company via Internet networks and media.

The different look and evaluation of the management of virtual tools in integrated communications in the furniture industry of Bulgarian and Romanian producers and consumers shape the prospects of this study, namely - to find a sustainable balance for using different virtual instruments by proposing a system of methodological requirements for their selection and assessment through consistent application of complex strategic solutions for improvement of competitiveness and sales of furniture companies by increasing the effectiveness of direct marketing.

References

Dutta, S., Segev, A., 1999. Business Transformation on the Internet, European Management Journal, Vol. 17, No. 5, pp. 466-476.

Doganov, D., Durankev, B. and Kantardgiev, R., 2003: Integrated marketing communications. Sofia.

Duncan, T., 1995. The Concept and Pocess of Integrated Marketing Communications, Colorado.

Ivanov, A. E. (2012). The Internet‘s impact on integrated marketing communication. Procedia Economics and Finance, 3, 536-542.

ISIS_Ruse_2016-2025. [online] https://www.ruse-bg.eu/uploads/files /Strategii % 20i% 20 Otcheti/ISIS_Ruse_2016-2025.pdf [Accessed 1.03.2017 г.]

Gelev, S., 2000. Marketing Research for marketing decisions, Sofia: Thrace.

Gelev, S. 2008: Marketing Research: Methodology and organization, 2nd ed., Sofia: IM Economy, 2008.

Godin, S., 2001. Permission marketing. Sofia: Focus.

Herbig, P., Hale, B., 1997. Internet: the marketing challenge of the twentieth century, Internet Research, Vol. 7, Iss. 2, pp. 95-100.

Jennings, R., 2012. European Online Marketing Tops 16 Billion in 2012, Forrester Research, Cambridge, [online] Available at: http://www.forrester.com/

European+Online+Marketing+Tops+€16+Billion+In+2012/fulltext/-/E-ES41451 [Accessed 1.03.2017 г.]

Kotler, P., Kartajaya, H., and Setiawan, I. 2010.Marketing 3.0: From products to customers to the human spirit. John Wiley & Sons..

Kotler, P., & Armstrong, G. 2013. Principles of marketing 15th global edition. Pearson

Kleinrock, L., 2010. An Early History of the Internet [History of Communications]. Communications Magazine, IEEE, vol. 48, no. 8.

Manov, A., 2001. Statistics with SPSS (Second Edition), ed. Trakiia -N, S.

Manov, A., 2002. Multivariate statistical methods with SPSS. Sofia: IM "Economy".

Mitkov, A., 2011. Theory of the experiment, Rousse: River Press.

Pavlov, V., 2006. Mathematical methods in economics, Rousse: UI "A. Kanchev ".

Timbrell, N., 2012. Advertising and Promotion in Publishing. [online] Available at: http: //www.brookes.ac.uk [Accessed 1.03.2017 г.]

IMPACT OF GLOBALIZATION ON TOURISM AND ON DEVELOMPENT OF BULGARIAN TOUR OPERATORS

Ventsislava IVANOVA[1]

Abstract

Tourism is narrowly linked to global economic, social, environmental, and political trends. Both the public and private sector set policies that impact global trends in tourism industry. Tour-operators are an essential key in the competitiveness of the travel industry. They influence consumers' behavior and decision-making process when choosing a travel destination or just the perfect place for a holiday. One of the main aims of this paper is to examine tourism globalization trends, as well as globalization's direct and indirect impact on the development of the Bulgarian tour operators. The paper reveals some of the main trends and policies of tour operators in Bulgaria and some insights on how the tourism industry perceives the benefits of globalization nowadays are given.

Keywords: globalization, tourism industry, Bulgarian tour operators, benefits, impact, development

JEL Classification: L83, Z32

Introduction

In the beginning of the XXI century a worldwide process exerts strong impact on the development of humanity and that is globalization. It affects all areas of social activities – policy, economy, international relations, social spheres, culture, ecology and security. Globalization has increased the interdependence between countries, economies and people. It does not involve only giant corporations, but also small and medium sized businesses together with family-run firms. Creation of a global society means that tourism businesses have the ability to operate globally and many have opted for a competitive strategy of internationalization. In tourism, globalization affects the supply and demand side in many ways. The important supply factors are: worldwide acting suppliers, as well as the impact of computerized information and reservation systems; decreasing costs of air travel and the possibilities of having access to destinations with relatively low prices and income levels, as well as relatively low social standards; emerging new destinations. Important demand factors for globalization are: increasing income and wealth; more experienced and knowledgeable tourists.

[1] *PhD student, South-West University Neofit Rilski, Faculty of Economics, ventsislava.ivanova91@gmail.com*

The number of the registered travel agencies in Bulgaria amounts to 2984 (National Tourism Registry, National Statistical Institute) and it includes tour operators, travel agents and mixed tourist businesses. In terms of staff number and annual turnover, Tour operators fall within the category of small and medium size enterprises. Their number is significant in view of the domestic tourism market, increased competition from on-line travel intermediaries and increased sales of tourist services by Internet based suppliers.

The main goal of the Bulgarian tour operators is not just to create a product which to sell to the tourists, but to cause and give rise to unforgettable experiences of the customers, and thus their future holiday choice will be affected by the respective tour operator. Therefore, globalization, the economic, political, social and demographic situation in the country have serious impact on the development of tour operators in Bulgaria - both in positive and negative aspects. This paper aims to present the impact of globalization in Bulgaria and how it affects the development of tour operators in the country.

Literature preview

Globalization has already encompassed to a significant extent world economy and this is expressed in enhanced fluxes of goods, capitals, labor, information and technologies on a world scale. The factors activating this phenomenon are:

- accelerated development of high technologies and scientific-technical progress;
- liberalization of the world market;
- changes in the political system in the respective country.

Globalization has reached its highest extent in the sphere of trade and services. For example, since 1950 to the beginning of the XXI century the world trade with goods and services was increased twice as fast as compared to the growth of the gross domestic product (GDP).

The three major tour operator associations in the U.S. are the National Tour Association (NTA), the United States Tour Operators Association (USTOA), and the American Bus Association (ABA). In Europe, there are the European Tour Operators Association (ETOA), and in the UK, the Association of British Travel Agents (ABTA) and the Association of Independent Tour Operators (AITO). The primary association for receptive North American inbound tour operators is the Receptive Services Association of America (RSAA).

As Marinov and Petrov (2000) explained, there are different kinds of factors, which promote the development of the tourism in the country. Therefore, it could be concluded that there is an existing bilateral relationship between tourism and globalization – on one hand tourism is a result of the product of the globalization, but on the other hand it has very important impact on the distribution of the globalization.

The Ministry of Economy and Energy of Bulgaria in 2014 has developed a Strategy for Sustainable Tourism Development in Bulgaria 2014-2030, which main purpose is to systematize the vision, the strategic objectives, the priorities, the activities whose implementation will lead to establishment of sustainable schemes for development and management of tourism activities in the country.

By analyzing and taking into account the main global trends that have an impact on tourism development in the country, one could distinguish some of the main factors influencing the development and improvement of the activities of the Bulgarian tour operators. Globalization and tourism are directly linked and interdependent, so it is necessary to follow the main trends in the development of the tourism industry and the practical implementation of the changes that are needed to improve the quality of tourism services in the country.

Bulgarian tourism and the impact of globalization

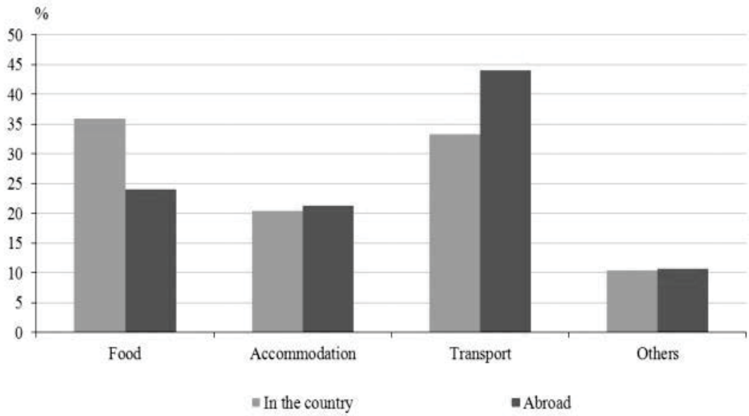
Along with other sectors – such as electronics, software, new materials, aerospace, etc., tourism might be one of the most intensively developing economic sectors of our times. From high society's privilege in the past, it becomes a mass phenomenon. Modern transportation and communication facilities, as well as increased financial possibilities, especially of tourists from wealthier countries “approached” all major and most attractive tourist sites (natural and anthropogenic) to virtually everyone. The naturally inherent in every human curiosity and the desire to visit foreign countries and areas logically translate into a solid motive for the rapid development of all types of travel. This led to the formation of a new type of business – namely, the separation of business tourism as one of the most significant components or subsystems of the tertiary sector in the economies of dozens of countries (USA, France, Italy, Spain, India, Thailand, Greece, etc.).

Observing the tendencies of the international tourist market through the last few years reveals some changes in the behavior of the real and potential tourists. These changes are significant and reflect on all participants of the process of forming and realizing the tourist product – the suppliers of the tourist package, its manufacturers and distributors. In this new situation, new, higher requirements are brought up to the indicators for steadiness, diversity and quality, ensured from the tourism industry (Stankova M., 2004).

Based on tourism satellite accounts, tourist expenditure on products and services in Bulgaria are very satisfying for 2014 (from BGN 6,625 Millions, which is higher than the previous years (National Statistical Institute). But in previous years the tourism sector did not develop so good and then the market has exhibited a downturn in both outbound and inbound travel which can be attributed to the economic recession and low disposable income. As a result, Bulgarians cut on their travel expenditure, spending money on basic components such as transport, accommodation and meals. Bulgarian tourists tend to buy cheap vacations to short-haul or nearby destinations (mostly to neighboring countries) where they can easily travel by car. Upmarket demand for luxury holidays, and cruise trips to exotic destinations have also declined. Nowadays some of these trends still have an impact on the development of tourism.

Figure 1

Structure of the expenditure by type for domestic and outbound tourist trips in first quarter of 2014



Source: www.nsi.bg.

Among the factors and conditions that promote the development of tourism Marinov and Petrov (2000) briefly report:

1) factors of the destination itself;
2) factors related to the regions and countries generating tourism demand;
3) factors that provide the links between the destinations and genetic regions;
4) factors associated with the large number of substitutable competitive destinations according to tourists.

One might find a bilateral relationship between tourism and globalization. Tourism as a mass phenomenon could be presented as a result of products of the globalization (via new ways of transport, communication and information technologies). On the other hand, let’s not forget that it also has a powerful impact on globalization’s distribution. The application of information and communication technologies in the tourist sector lately has been accelerated due to globalization. The enhanced implementation of new information, communication and Internet technologies play a major role in the technological process. New huge opportunities arise for the tourism industry as a result of e-commerce in all its components – manufacturers of tourist products, merchants and consumers. The globalization is a key factor in the radical changes in tourists’ behavior with respect to demand direct tourism towards information orientated activities. The growing applications of destination marketing via the Internet, direct sales and reservations have led to the appearance of the so-called “electronic tourist markets”.

Modern tourism occupies a major place in the electronic markets. The development of websites provides excellent opportunity to submit complete information about a given tourist company to the respective potential clients. The combination of text data, photo and graphic materials in the websites of the tourist companies represents another useful instrument for successful marketing activity. The tourists from different countries still use more different websites in order to organize their trips and holidays and thus we are witnessing a mass tourist invasion in the Internet space.

Tourism may also be viewed as a business in which a community or region chooses to engage (Димитров, П., 2006). Individual tourism businesses conduct a variety of planning activities including feasibility, marketing, product development, promotion, forecasting, and strategic planning. If tourism is a significant component of an area's economy or development plans, regional or community-wide marketing plans are needed to coordinate the development and marketing activities of different tourism interests in the community.

The most significant global trends that will shape the new market environment and the future of Bulgarian tourism in the time period 2020 - 2030 (Strategy for Sustainable Tourism Development in Bulgaria 2014-2030, Ministry of Economic and Energy of Bulgaria) are:

- The fast-growing markets in the Asian region will generate the highest growth in tourists visiting Europe over the next two decades due to an increase in the purchasing power of the population and the share of the middle class in these countries. This requires the development of specialized tourist products tailored to the specific requirements and profile of tourists from these markets – it seems that these tourists are interested in city breaks, cultural tourism, local culture specifics such as authentic customs, folklore and crafts;
- It is needed to advertise Bulgaria as part of a pan-European channel in order to attract tourists from the Asia-Pacific region, which often combine European destinations;
- The aging population in Europe will lead to a change in tourist demand and behavior on European markets. This population, which has both purchasing power and leisure time, has significant market potential. The projections are that the 65+ population will reach 20% in Europe by 2020. This trend points out the following needs:
    1. Development of tourist products suitable for this age category as a combination of specialized types of tourism – balneo-, cultural tourism, eco and rural tourism etc.;
    2. Targeting national advertising to this segment of tourists with a focus on the opportunities the country offers for development of medical tourism by expanding the hotel base with spa and thalassotherapy centers and providing opportunities for tourists from this segment. Taking advantage of the healing properties of Bulgarian mineral waters and healing mud.
- The trend is to increase tourists with impaired mobility and specific needs, which will be approximately 127 million around 2020 and who will need special tourist

services and services to integrate into the tourism industry. It is therefore necessary to build the appropriate infrastructure to facilitate the stay and the movement of these tourists and to develop special tourist products suitable for this segment, with a focus on balneology and opportunities for cultural tourism;

- Tourism demand for specialized tourism forms will continue to increase in the near future worldwide;
- Inland tourism will focus on diversifying tourism products and offering themed tourist products in the field of cultural heritage, modern culture, protected natural areas, spa, balneo and spa tourism, historical, sports, religious tourism, etc.
- The projections are to increase the role of innovation and information technology, which will be a decisive factor in the competitiveness of the tourism industry;
- More and more destinations worldwide invest in the development and promotion of their tourism industry. In the long run, this will lead to a growing competition between Europe as a leading tourist destination and emerging new destinations, mainly in the Asia-Pacific region. Development of tourist products focusing on unique history, culture, traditions and crafts in Bulgaria in order to create competitive advantages;
- The projections are to reduce travel to Europe from 51% in 2012 to 41% in 2030 at the expense of increasing travel to destinations in the rest of the world due to the weaker growth of developed tourist destinations mainly in North and West Europe. However, in regard of absolute number of tourists, Europe will retain its leadership position;
- International journeys will be more evenly distributed among more and more destinations in the world and many of the new trips will be to destinations in Asia, Latin America, Central and Eastern Europe, Africa and the Middle East;
- By region, the largest increase in travel is expected in the Asia-Pacific region, where travel is expected to increase by 331 million and reach 535 million in 2030, an increase of 4.9% on average per year;
- The projections are that the Middle East and Africa will also double the growth of tourist trips as they start from a lower baseline and attract 149 million and 134 million tourists respectively in 2030;
- Long-term climate change can lead to changes in travel and supply of some types of tourism such as winter and summer seasons;
- In the long run, it is necessary to increase the supply and the market share of the specialized forms of tourism in Bulgaria, in order to compensate for any changes in the duration of the sea and winter tourist season.
- Continuation of the growth trend in air travel, as the development of air links will continue to be an important factor for the competitiveness of tourist destinations. The need to expand the airport infrastructure in Bulgaria to meet the growing demand for air travel;
- Active entry of China and India (each with a population of more than 1 billion), Russia and Japan and their promotion as major players in world tourism;
- The reorientation from "service economy" to "economy of experience" highlights

tourist attractions, animation and offering national tourist specifics. An emphasis is placed on the authentic, typically national home of the entire supply chain;
- Increasing competition in the quality of tourism services sector, although service will increasingly internationalize and align with the application of international standards and certificates;

The Strategy for Sustainable Development of Tourism in Bulgaria, with a horizon of 2030, prepares a set of long-term strategies in the field of planning, investment, domestic tourism, surveys, service provision, infrastructure and transport improvement, professional training and qualification of the personnel employed in tourism, the diversification of the tourist product, the restoration and maintenance of existing tourist areas, the improvement and the development of Bulgarian tour operators and improvement of the overall destination image as a tourist destination.

Development of Bulgarian tour operators and the impact of globalization

The tour operator’s role is to provide the best possible prerequisites for a pleasant and unforgettable experience: an attractive idea and description of the product, a successful service process, and a reliable, functioning service system. The challenge of package tourism is that even though the tour operators bundle the experience products, the tourists still use the services offered by multiple individual service providers. Ideally, each module and process in the service delivery system should bring added value to either the service or the experience and the tourists should feel that they are getting added value by not having to pay attention to details, allowing them to focus instead on enjoying their holiday. However, if some part of the package tour product does not provide the promised and expected service to a satisfying degree, it may decrease the overall value of the experience and lead to dissatisfaction. To ensure positive, satisfactory, and value adding experiences, companies must endeavor to control their service process in its entirety, even if they do not have direct control over all parts of it.

Service providers strive for quality tourism experiences, satisfied customers, and delivering value in order to obtain a competitive advantage by engaging consumers and inspiring repurchase intentions and positive word-of-mouth behavior. Thus, ultimately, organizations try to find strategic differentiators to achieve consumer loyalty. Loyalty can be divided into “attitudinal loyalty” referring to intentions and the likelihood to recommend, repurchase, or revisit, and “behavioral loyalty” referring to the actual behavior of customers, which often is important for the companies since it can be directly linked to revenues and profitability.

Nearly 3% of domestic travel including domestic holidays and visits have been organized via travel agencies services as compared to 34 % of Bulgarians taking holidays abroad (Tourism 2009, National Statistical Institute). Decisions to travel are being based primarily on tourists’ previous travel experience (55%), word of mouth recommendation (42%) and Internet-based sites (9%). As a whole, there is not a distinctive pattern of holiday purchases by Bulgarians and they are unlikely to approach tour operators and travel agents and use their services to organize holidays or trips on their behalf.

In a survey conducted by ISC (International Service Check, Mystery shopper approach)[2] applying the 'mystery shopper' approach, tour operators' operations in Bulgaria have been evaluated against the following three criteria:

- Tour operator's practices in selling tourism-related services;
- Tour operator's staff competences and expertise;
- Tour operator's policies to establish and maintain long-term relations with customers.

The more important findings and conclusions of the above survey, which reflect the attitudes of Bulgarian tourists and degree of loyalty to the tour operators are:

- lack of sufficient promotional materials on Tour operator's products and services;
- insufficient information on tourist services and holiday packages including last minute deals/offers;
- poor customer support services;
- Tour operator's staff have insufficient product knowledge and use inadequate sales techniques to promote tourism products and services;
- insufficient knowledge of clients' needs and market demand to provide expert advice on products on offer;
- poor communication with potential customers referencing them to a web site or other information facility;
- provision of limited or no advice on ancillary services such as travel insurance, car hire, terms of payment, etc.;
- poor knowledge of availability/available offers (about 45% of Bulgarian travel agents would ask the customer to call back for more details;
- Influencing clients' decisions through personal preferences for Tour operator's holiday packages and choice of destinations.

The above conclusions reflect the complex customer attitudes toward travel agencies which prove to be rather negative with consumers showing little commitment to standardized tourism packages on offer. Low customer perception which can be attributed to: lack of clear perspective and knowledge of customer needs, preferences and expectations; unawareness of consumer benefits from tourism products and

[2] ISC – International Service Check is a company having more than 10 years of experience in the area of quality assurance in the service industry. It carries out its regular inspections using "The Mystery Shopper" approach. For the purposes of the present study, offices of sample travel agencies around Poland, Romania, the Czech Republic, Slovakia and Bulgaria have been inspected. 26 inspections of 7 travel agencies in Bulgaria have been conducted: Astral Holidays, Bohemia, Compass, Olymptour, ON Travel, Posoka.com, UsitColours.

services; ignorance of consumer intentions that can translate into purchase decisions; poor presentation of specific product features.

The diminishing number of travel agencies and the failure of Alma tour and Ontravel, two of the largest tour operators in Bulgaria is a clear sign of the pressure exerted from the macro environment and the negative impact of changes in consumer behavior which can be attributed to the following factors: ebb in the demand of travel retailer services; uncertainty about the future of travel agencies and their viability; breeching relationships and switching loyalties; growing popularity of on line travel agents and their services; direct on-line bookings and purchases from the Internet, etc.

Main trends which the globalization imposes on tour operators in Bulgaria could be summarized as follows:

- Better quality service and higher degree of customer satisfaction with tourism products and services – engagement with clients and holding their interest by addressing their specific needs for tourist services and meeting customer's expectations for better quality products;
- Product – price differentiation, specialization in niche market segments and maintaining competitive advantage in the long term by developing quality tourist services;
- Developing customer satisfaction schemes in view of three main components: personalized approach and quality service offered to customers; special tools and policies which aim to retain customers and encourage repeat visits or purchases, cooperation in building the so-called consumer "community".
- Implementing on-line business strategy and maintaining long-term customer relationships – this involves accumulation, gathering and dissemination of marketing information; own websites and booking facilities which will help individual tourists to design a trip of their own, choosing from a menu of travel products and services; use of integrated technology for personalized services;
- Sending advertising messages through mobile devices and computers – opportunities for the tour operators to capitalize on "last minute" deals, special offers and other ancillary services;
- Use of modern technology to achieve high efficiency and profitability – suffice to say that even the smallest travel agencies today can benefit from the Internet to handle clients' history files, make immediate reservations, amendments or cancelations, send information on new promotional offers, quote vacation prices and dates of availability;
- Handling complaints effectively – this may be one of the critical aspects of TO activities as it aims at gaining customer loyalty, reestablishing confidence, redresing negative attitudes towards specific products and winning back clients trust;
- Giving the tour operator a competitive edge through adequate staff training and improving staff skills and competences – effective selling is the outcome of successful presentation of product qualities, better value for money of travel offers, better understanding of customers' needs and satisfaction.

The tour operators are faced with a number of new challenges, such as the digitization of dissemination channels, the development of the so called - Economy of sharing, increasing competition from emerging, cheaper destinations in third markets, changing consumer behavior, transition to a knowledge-based economy, demand for quality customer service, the need to attract and retain qualified staff, demographic change and seasonality.

Tourism is one of the most brilliant examples of globalization-driven events, both generators and engines of influences of a different nature, which should be thoroughly analyzed. The globalization processes are transferred and superimposed on different spatial levels, changing substantially the appearance of modern tourism.

Conclusion

Tourism is regarded, except as a factor for the economic development of national and global economy, also as means of activating personal relations emerging during the processes of political, economic and cultural contacts. It may be stated that today Bulgaria as a country, sells on the global market not only its tourist products – the country presents its national values to the world. Tourism today is not only a source of economic advantages, but it is also a significant factor for raising the prestige of a given country and its importance in the eyes of the international community. Good quality service and personalized approach in the buy-sell relationships coupled with the technological advances of e-business, account for a higher degree of customer satisfaction and higher engagement with services provided by the tour operators.

The high level of product diversification in tourism offers opportunities to meet specific clients' needs and secure loyal customers willing to share their positive impressions and satisfaction with tour operators' services, hence to increase their profitability on a long term basis.

Globalization has its positive and negative impact on the development of Bulgarian tour operators. Therefore, it is necessary for the tourism business in Bulgaria to cooperate in establishing the country as a quality tourist destination.

References

Dimitrov, P.(2006), Internation and domestic tourism, SWU Neofit Rilski, Blagoevgrad (in Bulgarian)

Marinov, V., P. Petrov (2000). Challenges facing Bulgarian tourism on the threshold of the 21st century. – Problemi na geografiata, 1–4, Bulgarian Academy of Science Publishing House "Prof. M. Drinov", Sofia. (Bg)

Mystery Shopper Approach, International Service Check, Available at www.internationalservicecheck.com/bg

National Statistical Institute, Available at www.nsi.bg

National tourism registry, Available at http://ntr.tourism.government.bg/Registration.nsf/alltato.xsp

Strategy for Sustainable Tourism Development in Bulgaria 2014-2030

Stankova, M., Mountenu A. (2004), Diversification as a strategy for sustainable customization of tourism, Economics and Management, Volume 3, p.84

Tourism 2009, National Statistical Institute, Available at www.nsi.bg

CHINA'S 16+1 COOPERATION IN THE TOURISM INDUSTRY – AN ANALYSIS OF THE CURRENT STATUS FOR CEE COUNTRIES

Daniel BULIN, PhD[1]
Ion Alexandru TĂNASE[2]

Abstract

Under the 16 + 1 platform, between China and the 16 countries of Central and Eastern Europe, there is stipulated a collaboration also in the tourism industry. Neighboring countries and members of the EU since 2007, Romania and Bulgaria, are to be countries with a high tourism potential, but insufficiently capitalized. In this context, both Romania and Bulgaria, although rather in competition in attracting foreign tourists, incur unprecedented opportunities. We propose in this article a quantitative assessment of the status of the 16 Central and Eastern European countries in terms of competitiveness. We conduct a quantitative research, starting from some dimensions of the tourism competitiveness index calculated by the World Economic Forum.

Keywords: empirical analysis, cluster analysis, competitiveness

JEL Classification: L83, C38, C43

Introduction

The 16 + 1 format is an initiative of the People's Republic of China aimed at intensifying and expanding the cooperation with 11 EU member states and 5 Balkan countries, namely: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia, Macedonia, and focusing on investment, transport, finance, science, education, tourism and culture. Under this initiative, China has defined three potential priority areas for economic cooperation: infrastructure, high technologies and green technologies.

China's Prime Minister announced at the 16th Spring Summit held in Poland, Warsaw, April 2012, a comprehensive initiative on co-operation with 16 Central and Eastern European countries, entitled "China's Twelve Measures to Promote

[1] *Scientific Researcher, The Institute for World Economy – Romanian Academy, daniel.bulin@yahoo.com*
[2] *PhD candidate, The Institute for World Economy – Romanian Academy, ialexandru.tanase@gmail.com*

Friendly Co-operation with Central and Eastern European Countries", representing the 16 + 1 format framework document.

From the point of view of the economic strategy, we can underline the project concerning the corridor between Serbia and Hungary, which is an extremely important logistic line. It includes a high-speed line between Belgrade and Budapest based on Chinese funding. There is more opportunity for China if it uses its new high-speed technology, which is now the most advanced and experienced in the world. Hence, China is building up market and investment links across its borders. The 16 + 1 group is a key area that links the Middle East, Russia and Europe.

The year 2017 marks the sixth year of the 16 + 1 cooperation mechanism. Only six years after the start of the cooperation between China and the 16 Central and Eastern European countries, the results are beginning to be noticed, especially in the development of economic relations and trade.

At the same time, from a geopolitical point of view, the 16 + 1 initiative could represent an essential moment of China's development strategy, but, paradoxically, it is perhaps the least remarked at the moment. Thus, through the two initiatives, OBOR and 16 + 1, a comfortable area of Chinese interest is created, which is in Russia's area of influence. In Central Asia, China's investment is growing rapidly, while Beijing's policy relations are sharpening in that area compared to those with Moscow. Many members of the 16 + 1 initiative are former satellites of the former Soviet Union, which fall into Russia's natural area of interest and influence. And yet, for the first time, China is building a network of ties and interests around Russia, where in the last decades there was an iron curtain under the Soviet Union.

However, there are significant risks in the 16 + 1 strategy, especially the issue regarding the high expectations of China's investment opportunities and the reality itself, which do not seem equal. For all investment promises, analyzes in the region have highlighted that Chinese investment projects that create jobs and green fields are few. The EU and the United States remain the main investors, fact that is unlikely to change in the coming years.

When it comes to China's internal perception concerning the 16 + 1 initiative, it can be said that it is quite critical, highlighting the problems and challenges that the Chinese government encounters in its efforts to develop this initiative in the future. Thus, we can distinguish three main points on this regard (Stanzel, 2016). First, the level of cooperation between Chinese participants and Central and Eastern European countries is not consistent with each country. Only a few, such as Poland, the Czech Republic and Hungary, have so far benefited from Chinese investment. Other member countries, which hope to receive investment, especially for infrastructure projects, are still waiting. On the one hand, this has led to competition between the 16 states for gaining China's attention. Moreover, some states have become more cautious in their cooperation with China. Secondly, the initiative includes 11 EU member states out of the 16, which raises concerns between the EU institutions and other member states. Against this background, the message from the EU leaders reflects the concern that the format could be used by Beijing to "divide and conquer" the EU, and that some Central and Eastern European countries' cooperation with China could undermine their relations with the EU institutions. Obviously, there is an economic aspect: for example, investment agreements with China may not be in line with EU guidelines or undermine EU policy (European Parliament, 2016). But there is also a political issue: in 2016, due to the objections of some member states, the EU declaration on China's legal defeat, in the case of the South China Sea, which has avoided direct reference to China (Emmott, 2016). Out of the 16 states, at least in the case of Hungary and Greece, it seems that governments have become much less critical with Beijing in light of the Chinese investments which they have received in recent years. Third, the "divide and conquer" perception also exists to some extent even within the 16 + 1, where China strengthens bilateral relations with only some of the 16 and gives more attention to them than others. In 2016, the Czech Republic not only that received a Chinese president for the first time, but it was also the first presidential visit of Xi Jinping in any of the Central and Eastern European countries.

In terms of tourism, the 16 + 1 platform has not generated yet anything significant, although China has become in recent years a major investor in the global economy. Furthermore, China is, starting with 2013, the world's largest importer of tourism services. On the other hand, the countries participating in the initiative include tourist destinations with high potential and a significant history in tourism. These aspects are, in our opinion, a determinant factor that can lead to the development of partnership relations under the umbrella of this collaboration. We therefore propose an analysis of the cooperation potential between China and the 16 states involved in the 16 + 1 platform in the field of tourism.

Research Methodology

We aim to analyze and compare the potential of these 16 European countries in the tourism field, starting from the platform's priorities for infrastructure, high technologies and green technologies.

For this, we carried out a quantitative research, starting from the dimensions of the tourism competitiveness index calculated by the World Economic Forum. The analysis will target 7 of the 15 ICT competitiveness pillars, significant to achieve these priorities:

- ICT Readiness
- Air Transport Infrastructure
- Ground and Port Infrastructure
- Tourist Service Infrastructure
- Environmental Sustainability
- Prioritization of Travel & Tourism
- International Openness

The analysis includes 2 stages:

- Empirical data analysis - having the specific objective of observing the position of Romania and Bulgaria in relation to the dimensions concerned, respectively the competitive advantages in the analyzed plan.
- Cluster analysis, with the objective of classifying and grouping relevant clusters for the 16 countries. In order to obtain relevant results and to identify common characteristics of the countries in relation to the target dimensions, we used Ward's hierarchical classification method. As Armeanu et al (2014) show, this method is effective in addressing cluster homogeneity and minimizing variability. The distance was calculated by using CityBlock method, also known as Manhattan. The data analyzed was processed in the Statistica software.

Results and discussion

Empirical Data Analysis

The table below shows the level of selected TTCI (Travel and Tourism Competitiveness Index) components. The World Economic Forum calculates and standardizes values on a scale of 1 - the least performing, to 7 - most performing.

Table 1

Competitiveness pillars values, Travel and Tourism Competitiveness Index, 2017 edition

	ICT	Prioriti-zation	Open-ness	Environ-ment	Air Transport	Ground and Port	Tourist Service
Albania	4.1	4.6	2.4	4.1	2	3.1	3.9
Bosnia and Herzegovina	4.3	3.7	2.4	3.9	1.8	2.5	3.9
Bulgaria	5	4.3	3.9	5	2.4	3.1	5.8
Croatia	5	4.5	4.2	4.7	3	3.9	6.3
Czech Republic	5.6	4.2	4.2	4.9	3.1	4.9	5.1
Estonia	6.1	5.5	3.7	4.9	3	4.4	5.5
Hungary	4.9	4.9	4.2	4.7	3	4.4	4.4
Latvia	5.3	4.5	4	4.9	3.1	4	4.6
Lithuania	5.5	4.3	4	4.4	2.4	4.4	4.4
Montenegro	4.8	4.6	2.4	4.3	3	3.2	5.4
Poland	5.1	4.1	4.1	4.6	2.6	4.3	4.2
Romania	4.7	3.8	3.9	4.4	2.4	2.8	4.4
Serbia	4.8	3.6	2.4	4.2	2.4	2.8	3.9
Slovakia	5.4	4.1	3.9	4.8	1.7	4.2	4.3
Slovenia	5.2	4.8	3.7	5.1	2.5	4.8	5.4
Macedonia	4.6	4.3	2.6	3.7	2.2	3.3	4
AVERAGE	**5.0**	**4.4**	**3.5**	**4.5**	**2.5**	**3.8**	**4.7**

Source: by the authors, according to World Economic Forum data (2017)

ICT Readiness. Regarding the first analyzed indicator, reflecting the capacity and preparation of economies in relation to the new trends in technology and communications, Estonia differentiates itself by having the highest level, with Bosnia and Herzegovina and Albania at the opposite end. Also, 7 of the 16 countries have a higher average, Bulgaria and Croatia have the mean average, while another 7 are below its level, including Romania.

Prioritization of Travel & Tourism. Prioritization of the tourism sector in the analyzed countries reaches a maximum high in Estonia, with 5.5, another 6 countries pointing above the average of 4.4. The other 9 countries register an index lower than the average, and while Bulgaria is close to it, scoring 4.3, Romania is among the last countries, with an index of only 3.8.

International Openness. In relation to the international opening, most of the analyzed countries, 11, including Romania and Bulgaria (3.9 each), are above the 3.5 average, being grouped between 3.7 and 4.2, with the maximum reached by Hungary, Croatia and the Czech Republic. We noticed that the non-EU countries are below average: Macedonia (2.6), Montenegro, Albania, Bosnia and Herzegovina, and Serbia (each with a minimum of 2.4).

Environmental Sustainability. Regarding the environmental dimension of competitiveness, 9 of the analyzed countries are above the average of 4.5, Bulgaria being second (5), after Slovenia (5.1). Instead, Romania is just below the average of 4.4.

Air Transport Infrastructure. In the case of this pillar, a sub performance is observed, with an average of 2.5, respectively by grouping the 16 countries in the range of 1.7-3.1. 8 countries are below the average, including Romania and Bulgaria, both scoring 2.4.

Ground and Port Infrastructure. In the case of land transport and port transport infrastructure, the dispersion of values is slightly higher, from the Czech Republic (4.9) to Bosnia-Herzegovina (2.5). Although 9 of the countries surveyed are above average (3.8), Bulgaria (3.1) and Romania (2.8) record lower results.

Tourist Service Infrastructure. The average value of the sub-index that measures tourism-specific infrastructure capacity is 4.7 and only 6 countries are above this level. Croatia scored a record level of 6.3, Bulgaria's second position level is 5.8. Romania is in the first half of the countries that score below average by 4.4.

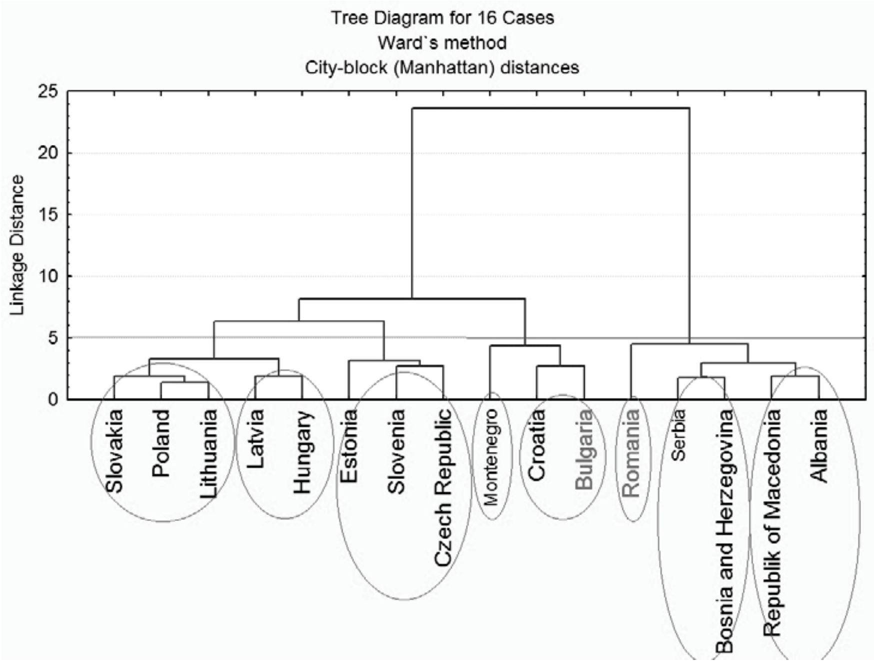
Cluster Analysis

Following the hierarchical cluster analysis, applied on the 16 countries and the 7 selected competitiveness indices, the following results were obtained:

Depending on the aggregation distance we previously set, we can obtain many variants of cluster classifications. For a large linkage distance, one can notice the "breaking up" of the 16 countries into two main subgroups. The first is the European Union countries, to which Montenegro is added, from the second, non-EU states from the 16 platform, plus Romania.

Figure 1

Dendogram



Source: by authors, based on the result obtained through the Statistica software

If we narrow down the gap, we notice that from the first group we can distinguish Montenegro, Croatia and Bulgaria, and thus leaving practically the 8 EU member states out of the total of 10 which joined the EU in 2004 in the first group. With the narrowing of the distance, one can observe the formation, in turn, of more homogeneous clusters, highlighted in the dendogram. The main component and features are illustrated in the following table.

Corroborating the dendogram (see fig.1) with the cluster characteristics, we identify:

- Clusters 1, 2 and 3 - group the most competitive countries, distinguished by tourism-specific competitiveness. Thus, Latvia and Hungary are poorly competitive in tourism-specific infrastructure, while cluster 1 countries are poorly competitive with both sub-indices - tourism infrastructure and sector prioritization.

- Clusters 4 and 6 cover only one country each, Montenegro, respectively Romania. Montenegro is distinguished by its competitiveness on the tourism dimension - tourism infrastructure and the prioritization of the sector, respectively on air transport. Instead, Romania scores favorably only for international openness.

- Cluster 5 includes Bulgaria and Croatia, both countries being competitive in relation to tourism specific infrastructure, technology, international openness and environmental sustainability.

- Clusters 7-8 group the other four countries, without Montenegro, non-EU, and which are the least competitive in regards to any of the 7 sub dimensions analyzed.

Table 2

Clusters members and characteristics

Cluster	Clusters members	Characteristics
1	Slovakia Poland Lithuania	**+ ICT Readiness, International Openness, Ground and Port Infrastructure** - Prioritization of Travel & Tourism, Tourist Service Infrastructure
2	Latvia Hungary	**+ Prioritization of Travel & Tourism, International Openness, Environmental Sustainability, Air Transport Infrastructure, Ground and Port Infrastructure** - Tourist Service Infrastructure
3	Estonia Slovenia Czech Republic	**+ ICT Readiness, International Openness, Environmental Sustainability, Air Transport Infrastructure, Ground and Port Infrastructure, Tourist Service Infrastructure**
4	Montenegro	**+ Prioritization of Travel & Tourism, Air Transport Infrastructure, Tourist Service Infrastructure** - ICT Readiness, International Openness, Environmental Sustainability, Ground and Port Infrastructure
5	Croatia Bulgaria	**+International Openness, Environmental Sustainability, Tourist Service Infrastructure** - ICT Readiness
6	Romania	**+ International Openness** - ICT Readiness, Prioritization of Travel & Tourism, Environmental Sustainability, Air Transport Infrastructure, Ground and Port Infrastructure, Tourist Service Infrastructure
7	Serbia Bosnia – Herzegovina	- International Openness, ICT Readiness, Prioritization of Travel & Tourism, Environmental Sustainability, Air Transport Infrastructure, Ground and Port Infrastructure, Tourist Service Infrastructure
8	Macedonia Albania	- International Openness, ICT Readiness, Environmental Sustainability, Air Transport Infrastructure, Ground and Port Infrastructure, Tourist Service Infrastructure

Source: by the authors, based on research results

Conclusions

The 16 countries that collaborate with China on the 16 + 1 platform are characterized by heterogeneity in terms of tourism competitiveness, as shown by their comparative analysis. EU member countries have a relative superior competitiveness to the others, being in turn differentiated by the level of performance and the level of the tourism specific pillars.

Estonia, Slovenia, the Czech Republic, but also Croatia and Bulgaria, could be China's most attractive partners in developing cooperation relations in the tourism sector. Instead, Serbia, Bosnia and Herzegovina, Macedonia, Albania seem the least likely to be associated in a tourism collaboration program under 16 + 1 platform.

In spite of international openness, Romania needs to improve performance on all other plans. Also, Montenegro, although performs well in terms of tourism, sub-performs on other aspects.

The limits of research are the inclusion in the exclusive analysis of indexes calculated by the World Economic Forum. Hence, the possible future direction of research, in the sense of completing the analysis, could include indicators for assessing the impact of tourism in the 16 countries - contribution to GDP and employment, multiplier effect, sector productivity.

References

Armeanu, D., Istudor, N., Florinel, S. M., & Burca, A. M. 2014. Analysis of the romanian insurance market based on ensuring and exercising consumers'right to claim - *Amfiteatru Economic*, 16(36), 550.

Emmott, R. 2016. EU’s statement on South China Sea reflects divisions, Reuters, a*vailable at: http://www.reuters.com/article/us-southchinasea-ruling-eu-idUSKCN0ZV1TS.*

European Parliament. 2016. One Belt, One Road (OBOR), a*vailable at:*

http://www.europarl.europa.eu/RegData/etudes/BRIE/2016/586608/EPRS_BRI(2016)586608_EN.pdf.

Stanzel, A. 2016. China’s investment in influence: the future of 16+1 cooperation, a*vailable at: http://www.ecfr.eu/publications/summary/chinas_investment_in_influence_the_future_of_161_cooperation7204*

World Economic Forum. 2017. Travel and Tourism Competitiveness Report 2017, *available at: http://reports.weforum.org/travel-and-tourism-competitiveness-report-2017/*

ECOMENICS – THE INCULTURATION OF EUROPEAN ECONOMY IN THE BALKAN COUNTRIES

P. Ciprian BRADU, Phd(c)[1*]
Iustin ALEXANDRU, Phd(c) [2**]
Alexandru TAȘNADI, PhD[3***]

Abstract

Starting from an article on Ecomenics - a search for a new economic philosophy for the XXI century [P.C. Bradu, S.V. Petre, 2016, *pg. 233- 243] - and considering the global context which shows that mankind needs a great transformation [I. Alexandru, P.C. Bradu, A. Tașnadi, 2015, pg. 321-327], the authors try to find an economic doctrine as a solution for the economic issues that Romania and Bulgaria confront with. Both knew in their history the Ottoman domination and the recent communist period; they are also countries with an orthodox majority and with a powerful accent on the traditional and various regional customs. Taking into account these similarities, couldn't Romanians and Bulgarians join forces in search for a common answer to the hardships they face?*

Keywords: economic inculturation, comprehensible methods, inner renewal.

Introduction

After the fall of the Soviet Union and of its vassal rulings within Eastern Europe, in the encyclical "Centesimus annus" (1991), the Holy Father John Paul II was asking himself:

"(…) can it perhaps be said that, after the failure of Communism, capitalism is the victorious social system, and that capitalism should be the goal of the countries now making efforts to rebuild their economy and society? Is this the model which ought to be proposed to the countries of the Third World which are searching for the path to true economic and civil progress?" [IP II, Enciclice, p. 478[4]]

Now, at more than a quarter of century, trying to respond to the question of one of the most influential personalities of the XX[th] century, we may observe that throughout

[1] PhD candidate, *The Bucharest University of Economic Studies and Erasmus Mobility at the Economic Research Institue of Bulgarian Academy of Sciences,* pcbradu@gmail.com

[2] PhD candidate, *The Bucharest University of Economic Studies,* iustin_alex89@yahoo.com

[3] *Professor at The Bucharest University of Economic Studies, relationistul@yahoo.com*

[4] The english translation is taken from the english text of the encyclical published on the official site of The Holy See (w2.vatican.va/content/vatican/en.html).

time, scientists within humanist spectrum tried to develop structural plans for the various social, economic and political issues which confronted humankind along history. These systems established with enthusiasm and led initially by cultural values and human ideals, have had in their vast majority positive effects at the beginning. However, in the absence of a continuous discerning of these systems and led afterwards by own interests and political ones, to the detriment of the common well, they lost on their way the ethical ground on which they were initially set. We may ask: is this also the situation of the European Union? Is its current shaking due to the fact that among its leaders may be persons with values that are different from the principles that inspired the founding fathers?

However, while generating development, some of these structural social, political and economic systems have also shed blood, whether literally or figuratively, most victims being innocent persons trying to defend own cultural values. These persons were in pursuit of freedom, in defense of identity and in search of creative personal or communitarian solutions so as to offer a noble purpose to their life and the life of the community they were part of.

A common cultural feature of these two Balkan countries, Bulgaria and Romania (the latter being considered less Balkan), is the strong valuing of traditions. Although both have passed through the oppression of certain geopolitical and ideological rulings, traditions and customs have resisted with great efforts and human, and material losses. We may speak of a collective respect for various customs and for the cultural patrimony intherited from previous generations. An eloquent example is the maintainance of popular dance. In western countries, this symbol has lost a lot of ground and it is transforming in a global one, displayed within clubs, concerts and special places that are rather accompanied by consumerism than the joy of “playing” together a „horo” (*хоро* - bulgarian), respectively „hora” (romanian). For the participants, the latter means being part in a diversified, impressive and aestethic group which respects and expresses certain regional values and principles in a more communitarian way, whereas the former might be percieved as a more individualistic expression, although it supposes many people.

With regard to the importance and the impact of cultural patrimony, the regreted bulgarian economist, prof. Alexi Danchev, developed and promoted in the last two decades an economic vision that is based on a social capital emanating from a multicultural system [A. Dnachev, 2008, *passim*]. Based on his research to which have adhered other researchers, we may talk about the consolidation of a cultural economic paradigm. Together with two researchers, prof. Danchev addressed the topic “*Preserving cultural heritage in transition economies: A contingent valuation study of Bulgarian monasteries* [S. Mourato, A. Kontoleon, A. Danchev, 2002, *pg. 68-83*]”. The dimensions of a cultural economy includes also praxiological aspects as seen in the desire to consolidate companies through the development of an organizational culture in order to create a proper environment for employees with various cultural backgrounds. These companies, especially the multinational ones, try to adapt in as many markets worldwide that do not lack prevailing cultural characteristics. Thus, observing this phenomenon, Alexi Danchev developed the concept of "Corporate Social Capital" [A. Danchev, 2006, *pg. 953-965*]. The path opened by prof. Danchev influenced also other bulgarian researchers, such as Adelina Milanova [A. Milanova, 2009, *pg. 63-90*; 2016, *pg. 45-58*; A. Milanova and P. Naydenova, 2014, *pg. 617-624*] within The Economic Research Institute of the Bulgarian Academy of Sciences who teaches courses of Cultural Economy at the University of National and World Economy [http://www.unwe.bg/en].

The cultural economy paradigm developed by the above mentioned authors presents a special research interest for us the authors of this article in our quest for developing and promoting a great transformation within the economic paradigm so as to be up to the challenges of the XXIst century [I. Alexandru, P.C. Bradu, A. Tașnadi, 2015, *pg. 321-327*]. The search for a new paradigm has influenced also a collaboration with the purpose of consolidating an economic paradigm called *ecomenics* [P.C. Bradu, S.V. Petre, 2016, *pg. 233-243*]. This is the result of a socio-economic and political research pursuit inspired by the Social Doctrine of The Catholic Church (SDCC) [CDSB, 2007, *passim*, B. Sorge SJ, 2010, *passim*]. This *ecomenic* doctrine wishes to be, as proposes His Eminence, Card. Reinhard Marx, "a third way" in science, between the *liberal individualism* and the *socialist collectivism.* This third way is based on solidarity, social justice and the principle of personality [R. Marx, 2013, *passim*].

Ecomenics and the inculturation phenomena

In shaping this new paradigm – ecomenics – the authors make use of a thorough insight into the Social Doctrine of The Catholic Church. The SDCC is the result of a work and research that spans over more than a century now, one of its first documents being the encyclical *Rerum Novarum* of Pope Leo XIIIth [Leo XIII, 1891, *passim*]. This direction was consolidated in time through the apostolic documents issued starting with Leo XIIIth until the time of completion and application during the papcy of John Paul II [P. de Laubier, 1994, *passim*]. The successors of the latter continued applying these teachings updated to the new social, economic and political global contexts. For Benedict XVI, we can bring in discussion the encyclical *Deus caritas est* that resorts to the SDCC in order to ask for the development of *the civilization of love* and, for the current pontiff, Francis, we have to bring about *Laudato Si'* by which, for the first time, it is exposed a systematic, clear and concise point of view of the Vatican with regard to ecology and sustainability [Benedict XVI, 2005, *passim*; Francisc I, 2015, *passim*]. Another turning point for the revival and accommodation of the evangelic message within the Catholic Church was The Second Vatican Council that gathered bishops from all over the world and participants from various social, religious and political environments. For three years they managed to consolidate a more clear SDCC through the documents *Lumen gentium, Apostolicam actuositatem*, *Gaudium et spes* [CV II, 1999, pg. *41-91, 188-209, 280 - 347*].

All these documents have inspired and strengthened the SDCC [CDSB, 2007, *passim*] which in its turn was a source for scientific research conducted in the social field but also a source for economic projects and views [A.F. Utz, 1993, *passim*].

We have to take into consideration that ecomenics is a doctrinaire concept in course of development and an economic way of thinking for contemporary challenges. It is inspired by the SDCC and it also assimilates another phenomenon within the history of The Catholic Church - the inculturation [CDSB, 2007, *nr. 521-523*]. In this respect, we may ask ourselves: is it not the inculturation of economy a key for a future sustainable succes of the European Union? We bring about this question as we have argued that in the case of Balkan countries (as we spoke about Bulgaria and Romania) the cultural dimension is an important feature to which people adhere and which influences their social, economic and political decisions.

The inculturation process does not suppose the imposing of the most powerful culture or in our case, of the economic systems that works for developed countries and produces wealth. Drawing up from the question of John Paul II that we exposed at the beginning and from a historic insight, we think that we are not wrong in saying that an economic system viable for developed countries would have the same success in the developing ones as it may not fit in the cultural context.

In western countries, under the pressure of globalization, of economic and technological progress or of various nonconformist social perspectives, the cultural resistence is somehow loosing ground. In this context, there is plenty of space for polarization and populism, phenomena that are also in the attention of the World Bank [WBG, 2016, *passim*].

Being in pursuit of the european economic ideal requires also paying attention to the means through which culture expresses in emerging countries, so as to discover the proper solution for the “inculturation” of their economies. But how can we achieve this? We may try to find an answer in the SDCC that succeeded in the inculturation and accomodation of the evangelic message for almost 2000 years in various contexts of culture, civilization, amid various social or economic challenges from all over the world.

The Catholic Church sees two moments when it can realize the inculturation of the christian message. The first resides in the constant effort of making the evangelic message be *comprehensible* and active among persons belonging to a certain culture, through means of effective manifestations that are in the specifi form, language and symbols to that culture. The second moment, complementary to the first one, resides in the effort of renewing from the inside the culture where the Gospel is proposed in order to make an opening towards a holistic view upon the human being, its life and the entire history of mankind [B. Sorge, 2010, *pg.* 99].

Further on, we will extract two facts from these perspectives of applying the inculturation of the evangelic message, an action that represents a challenge for each christian church. We may analogically adapt these facts, i.e. comprehensible methods and inner renewal, in order to obtain extension and stability for the european economy.

a) With regard to comprehensible methods, firstly, we may appreciate the communication efforts that the European Union has made in order to apply economic strategies and projects, especially within the less developed countries. The fact that all official documents are issued in all the languages of the member countries, and not only in one language or in the languages of the most powerful countries, represents an important part of the inculturation process. Also, the accession to democratic representation positions is not subject only to those who are able to express only in their native language, as it is offered financing for translators and technical means for translations everywhere there are debates upon strategies and economic issues regarding the union. This is a simple and clear example of a comprehensible method already successfully apllied by Brussels.

Another essential comprehensible action took is the offering of educational guidlines on the basis of the eight key competences that future european generations need to assimilate so as to build a civil and professional society able to adapt to any changes and evolutions on the future european labor market [CE-EACEA, 2012, *passim*]. Also, this educational perspective favors the freedom of the pupil in finding his or her own vocation and place in the community, according to the talents that he discovers to own, to the competences and skills that he develops and not least, the knowledge and values that he uptakes. And as a evidence that the european „BigBrother" takes into accound the cultural dimension of the members of the union, this dimension is one of the eight educational ones, each competence having a role in the holistic development of future european citizens that also bear a regional identity.

Sensitive situations appear when there is a quest to find comprehensible methods with regard to laws that interfere with cultural values, as is the case of promoting some laws already applied in certain developed european countries, but which interfere with some cultural values from other member countries. Up to date for Romania and Bulgaria are the cases of legalizing same sex marriage, prostitution or various perception regarding abortion and euthanasia, these generating debates that reach natural law, pozitive law, ethic and religious principles within a country.

Thus, comprehensible methods of inculturating some european prespectives aimed at favoring what is believed to be best practice in economics, reach their limits when it comes to cultural specificity of various societies.

b) The dimension that set the ground for the establishment of the European Community was of economic nature, i.e. a european free market. This fact has favored the european progress of the last decades and offered such peace and prosperity to The Old Continent as it has never been in the history of the member countries. This is lasting for more than half of century now.

In order to assure constant peace and prosperity, the social philosophy and economic perspectives of the E.U. need processes of inner renewal, which is a second moment of european economic inculturation. Citizents of the member countries need access to a education that will enable them to better find their identity and their role in society, in the european community and in the international one, given the present global context. Firstly, the renewal should concentrare on making more clear the recent historic truth, as unfortunately Bulgaria and Romania (of course, not only them) have been subject to political interests and ideologies that make some facts unclear and through the manipulation of masses, they generate nationalistic and regional vanities and tensions.

Making facts more clear will enable us also to discover the values of this southeastern European territory from which the european society might benefit. An important value for the present context of immigration crisis would be the hospitality demonstrated by the cohabitation during centuries of various ethnicities in these territories from ancient times. However, although hospitality and filoxenia are representative values in this region, there is also a certain hatred cultivated especially through political discourse, the case being for the relation Romania – Hungary, Bulgaria – Turkey and also when we consider the rroma ethnicity or the syrian refugees. Establishing the historic truth and disseminating it through education is a first step towards an inner renewal so as to promote peace as a key value for the current international context that is verry tensed.

An effective method of inner renewal resides in the Erasmus mobility programs for student, professors and alumni. Mobilities, besides educational and professional development, favor a genuine intercultural exchange leading to a better tie between countries. This exchange allows for mutual appreciation, intake of good practice that will be applied when returning home, and not less, new international projects in various fields of knowledge.

Inculturation through inner renewal is also spread throurgh the E.U. funds that are granted for international projects involving at least two countries. Projects may involve countries that are more or less developed, neighbouring countries or countries that share a common goal; these lead to social and economic progress and strengthen the relations between member countries.

Besides regional economic projects that are financed locally or by the E.U., there are also various collaborations on scientific ground and academic partnerships that are fruitful with regard to the intercultural dialogue. It is also the case of this international conference, meant to create a cultural “bridge of friendship”, that will deepen the insight that we have in the economy of Bulgaria and Romania. Being neighbours, sharing historic resemblences, as it is the case of the 2007 accession, this conference opens ways towards bilateral partnerships.

Conclusions

This paper presented some of our ideas regarding cultural economics in the context of European countries, with an emphasize on Bulgaria and Romania. We consider that this is an important, yet sensitive subject that should be awarded more attention as we have argued that for some countries, including the two mentioned above, the cultural dimension is valued a lot, even when it comes to economics. To make it easier to understand, we can add for example the fact that if for western countries it has become common to see churches becoming secular buildings, even bars or clubs [B. Debut, 2014, *passim*], in the common mentality of Bulgaria and Romania this is something inconceivable.

At a praxiological level, inculturation is supported in these two countries by E.U. or local funds intened for cultural actions and works, but also by various associations, through donations or volunteering, all having the purpose of promoting the national symbols of each country and the exchange of ideas.

Presenting some aspects regarding the cultural dimension of economics, we also draw attention upon the economic inculturation aspect that each international policy or multinational business bear within. To this end, case studies and impact analysis become important tools to consider before taking a step towards new societies and new markets.

As we also introduced the ecomenics perspective, we might say that within, economic inculturation referes to the need of considering social justice, free market, environmental sustainability, personal and economic security in the context of the today globalized world. Disregarding the cultural dimension, we expose ourselves to risks and we create a fertile soil in which conflict, corruption and black market will grow. Not taking into consideration the culture of the societies which the developed countries influence, gives birth to one of the greatest dangers that western countries face today, i.e. tereorism, as was the case when some continental powers sought to gain some influence in shaping the future of countries such as Irak, Libya, Syria.

The ecomenic doctrine and the economic inculturarion try to denounce economic actions that center only on commercial interests without taking into consideration a wider context in which economy is a part. In this respect, ecomenics means acceptance of legitimate interest of each country, each society and individual, drawing from a famous saying of Adam Smith:

" The natural effort of every individual to better his own condition, when suffered to exert itself with freedom and security, is so powerful a principle, that it is alone, and without any assistance, not only capable of carrying on the society to wealth and prosperity, but of surmounting a hundred impertinent obstructions, with which the folly of human laws too often encumbers its operations(...)" [A. Smith, 2011, *pg. 40-41*].

References

Alexandru I., Bradu P. C., Tașnadi A., 2015, *The Great Transformation. The Formulation of New Models*, , ECTAP Journal, Nr. 4/2015 (605), Winter, ASE Publisher, pp. 321-327, ISSN 1841-8678;

Bradu P. C., Petre S. V.*,* 2016, *From Economics to Oikomenics. Searching for a new philosophy*, published in the Volume IV of International conference Communication, Context, Intedisciplinarity, 4th- Edition, (CCI-4), pg. 233- 243, ISBN: 978-606-8624-17-4;

Benedict XVI, 2005, *Deus caritas est*, availble at: http://w2.vatican.va/content/benedict-xvi/en/encyclicals/documents/hf_ben-xvi_enc_20051225_deus-caritas-est.html ;

Consiliul pontifical pentru Dreptate și Pace (The Pontifical Council for Justice and Peace), 2007, *CDSB - Compendiu de Doctrină Socială a Bisericii (Compendium of the Social Doctrine of the Church),* translate L. Farcaș, Publiser Sapientia, ISBN: 978-973-3980-10-5;

CE-Comsia Europeană (European Comision) - Agenția Executivă pentru Învățământ, Audiovizual și Cultură (Executive Agency for Education, Audiovisual and Culture - EACEA), 2012, *Raport Eurydice. Dezvoltarea competențelor cheie în școlile din Europa: provocări și* *oportunități pentru politică(Developing Key Competences in Schools in Europe: Challenges and Opportunities for Policy),* translate V. Șerban, Publisher of National Unit Eurydice Bucharest, , ISBN 978-92-9201-446-9;

CVII - Conciliul Vatican II (Vatican Council II), 1999, *Constituții, decrete, declarații (Constitutions, decrees, statements)*, translate by The Roman Catholic Archdiocese of Bucharest - ARCB, Publisher ARCB, ISBN: 973-9386-16-4;

Danchev Alexi, 2006, *Social capital and sustainable behavior of the firm*, from Industrial Management & Data Systems Journal, Vol. 106 Issue: 7, Published by Emerald Group Publishing Limited, pp. 953-965, ISSN: 0263-5577;

Debut B., 2014, *Churches in England are being converted to bars*, article from Agence France Presss Published in the Buisness Insider Online Journal, availble at: http://www.businessinsider.com/churches-in-england-are-being-converted-to-bars-photos-2014-3;

Francis I, 2015, *Laudato Si'. On care for our common home*, availble at: http://w2.vatican.va/content/francesco/en/encyclicals/documents/papa-francesco_20150524_enciclica-laudato-si.html;

Ioan Paul al II-lea (Jhon Paul II), 2008, *Enciclice (Encyclicals)*, translate by The Roman Catholic Archdiocese of Bucharest - ARCB, Publisher ARCB, ISBN: 978-973-1891-02-6;

de Laubier P., 1994, *Il pensiero sociale della Chiesa cattolica. Un ideale storico cristiano da Leone XIII a Giovani Paolo II (Social thinking of the Catholic Church. A Christian historical ideal from Leo XIII to Jonh Paul II)*, Publisher Massimo, EAN: 9788870309225;

Leon XIII, 1891, *Rerum Novarum. On capital and labor*, availble at: http://w2.vatican.va/content/leo-xiii/en/encyclicals/documents/hf_l-xiii_enc_15051891_rerum-novarum.html ;

Marx R., 2013, *Capitalul: o pledoarie pentru om (Capital: a plea for man)*, translate by S. Toma, Publisher ARCB, ISBN 978-973-1891-69-9;

Milanova A., 2009, *Concept Modelling of the Relation Firm Culture – Social Capital (the example of firms from the Bulgarian economic reality)*, Economic Studies Journal, Issue No 2, Publisher Institute for Economic Research at the Bulgarian Academy pp. 63-90, ISSN: 0205-3292;

Milanova A., Naydenova P., 2014, *The motivation management mechanism through the prims of the corporate culture and the corporate social capital*, Economic and Social Development, 7th International Scientific Conference, pp. 617-624, ISBN 978-953-6125-12-8;

Milanova A., 2016, *The role of the corporate social capital in the new business thinking*, Papers of BAS. Humanities and Social Sciences Journal, Vol 3, Issue No 1, Publisher by Bulgarian Academy of Sciences, pp. 45-58, ISSN 2367-6248;

Murato S., Kontoleon A., Danchev A., 2002, *Perserving cultural heritage in transition economies: a contigent valuation study of Bulgarian monasteries*, from the Volume „Valuing Cultural Heritage. Applying Environomental Valuation Techniques to Historic Buildings, Monuments and Artifacts", edited by Ståle Navrud and Richard C. Ready, Publisher Edward Elgar, pg. 68 - 83, ISBN 1 84064 079 0;

Smith A., 2011, *Avuția națiunilor (Wealth of Nations,)*, Ediția Colecția de Economie (Economic Colection Edition), translate M. Mitarcă, Publica Publisher, ISBN: 978-973-1931-78-4;

Sorge B., 2010, *Introducere în Doctrina Socială a Bisericii (Introduction to the Social Doctrine of the Church)*, traslate M. Pătrașcu, Sapientia Publisher, , ISBN: 978-973-8980-89-1;

Utz A. F., 1993, *Dottrina sociale della chiesa e ordine economico (Church's social doctrine and economic order)*, Dehoniane Publisher, EAN: 9788810404737;

WBG - World Bank Group, 2016, *Polarization and Populism*, World Bank Publisher, ISBN (electronic): 978-1-4648-0753-4.

CHAPTER 4

MODERN ADVANCES IN INTERNATIONAL ECONOMICS

FACTORING AND MARKET POWER OF FIRMS

Galya TASEVA-PETKOVA, PhD[1]

Abstract

The results of the survey confirm that there is a correlation between the market power of firms and the use of factoring. The analysis is based on data from a representative empirical sociological survey among 1000 non-financial enterprises in Bulgaria, with different main activity and size, conducted in the summer of 2015. It can be concluded that factoring is related to the market positions of the companies when they choose a strategy to stimulate sales through a trade credit to customers. When companies prefer an alternative strategy to increase or maintain sales levels, such dependence is not established. Another channel for linking the firm's market power with the use of factoring is through production costs. Raising liquidity as a result of the transfer of receivables to factoring companies enables firms to take advantage of supplier discounts for an advance, immediate or early payments and to increase their market position on the resource market, becoming more desirable customers. This leads to a reduction of the unit costs and the increase of the competitiveness and the market power of the companies on the product market through a decrease in the prices of their production. Lower output prices, on their part, reduce the need to provide trade credit to customers in order to boost sales.

Keywords: trade credit, trade receivables, factoring, market power, Bulgaria

JEL Classification: G30, G32, G39, G23

Introduction

The market power of companies enables them to impose more advantageous sales conditions, such as an advance payment. On the other hand, in the context of economic difficulties and difficulties in the realization of the production, the possibility of sales with deferred payment is an important factor for the market positions of the companies. However, a significant part of the enterprises are experiencing financial difficulties as a result of the freezing of financial resources in receivables. Transferring trade receivables to factoring companies, on an equal basis, expands the capacity of credit sales companies, but also creates a risk of deterioration in customer relationships. The aim of the article is to investigate the existence of a link between the use of factoring by companies in Bulgaria and their market power. The timeliness of this problem is determined by the difficulties experienced by companies in the realization of their

[1] *Senior Assistant Professor, University of National and World Economy and Economic Research Institute – BAS, galya_taseva@abv.bg*

production, the high levels of inter-company indebtedness in Bulgaria and the still low level of use of factoring in the country. In addition, the literature discusses the link between firm market power and trade credit, but there is a shortage of research into the direct dependence between factoring and the market positions of enterprises.

Review of literature

Factoring is a transfer of trade receivables to a factoring company. At first glance, the trade credit decisions precede decisions on the use of factoring. However, there is a claim in the literature on the role of factoring, which gives reason to assume that credit decisions are also determined by the possibility of using factoring. It is generally accepted that the use of factoring leads to an increase in the company's liquidity and deferred sales ability. Emery (1984) points out that the use of trade credit also has some limitations. The amount invested in receivables is limited by the alignment of marginal earnings and marginal lending costs. Trade credit terms offered to customers also depend on additional market imperfections such as transaction costs for making receivables available (factoring costs) and taxation. They have a deterrent effect on trade credit.

There is reason to consider the relationship between the use of factoring and the market power of firms through the prism of the relationship between trade credit and the market power of enterprises. There are analyzes of the relationship between market power and trade credit, whereby suppliers with greater market power provide more funding to their customers because they can exert pressure to repay the liabilities through the threat of stopping supplies. While in the competitive markets the customer has the opportunity to replace the supplier and the effect of the threat of supply disruption is weak (Petersen and Rajan, 1997; MacMillan and Woodruff, 1999; Cunat, 2003).

However, there are also alternative views. When switching to any new supplier, the client must make investment costs to prove his creditworthiness (Fisman and Raturi, 2003). Supplier switching can be too expensive due to existing business relationships or product specifics, due to technological reasons, legal procedures, bargaining costs, research costs, and more. (Cunat, 2003)

There is evidence that the greater the market power of the suppliers, the less trade credit they provide to their customers (Dass, Kale and Nanda, 2010; Fabbri and Klapper, 2008). Large companies that are supposed to have market power do not need the use of trade credit to promote product demand (Blazenko and Vandezande, 2003).

Trade credit is associated with a "push" sales promotion strategy that is best suited to brands that are not well known or to products with low consumer loyalty to the brand. This strategy is to encourage intermediaries to buy and resell to the end customers the output produced by the company, as the most powerful incentive for this is the trade credit.

Brand equity firms have market power and an advantage in dealing with intermediary dealers due to the demand for their output by end-users. For products with high loyalty to the brand, which are preferred by customers before going to the store, a "pull" strategy is recommended. It relies on the advertisement that will directly encourage end-users to search for the product and thus motivate intermediary dealers themselves to buy the production of the manufacturer. This reduces the dependence of manufacturers on traders. Applying the "pull" strategy requires a time-frame and significant, long-term in-kind advertising investment and brand loyalty promotion. (Bhattacharya, 2008)

Granting a trade credit is not always profitable for the supplier as it diverts money from working capital and carries a risk in relation to the client's creditworthiness. In addition, providers with a higher risk are finding it difficult to attract the necessary funding and incur high costs when granting a trade credit, which may be greater than the benefits of increasing sales. The availability of customer choice allows suppliers to sell only to companies that are willing to pay for delivery or whose creditworthiness has sufficient information from previous business relationships (Van Horen, 2007).

But the widespread use of trade credit, even when companies have financial difficulties and therefore have higher costs, selling with deferred payment is the result of its role as a competitive tool. The granting of trade credit to improve competitiveness is particularly relevant for companies that have not yet built a solid market reputation and also for companies located in countries with poor banking sector. Small and young companies and those without access to finance, due to lack of good reputation, are more likely to sell with deferred payment (Van Horen, 2005).

Strong competition on the product market raises the propensity of suppliers to grant trade credit to customers as expanding it reduces the likelihood of switching the supplier to a competitor. There is a number of evidence to suggest that suppliers with relatively weaker market power and, respectively, lower contractual power, which are dependent on customers with a large market power generating a significant share of their profit, are more likely to grant trade credit Van Horen, 2005; Van Horen, 2007; Fabbri and Klapper, 2008; Burkart, Ellingsen and Giannetti, 2007; Wilner, 2000; Fisman and Raturi, 2003).

The positive relationship between customer market power and trade credit is stronger when suppliers are small and risky firms located in countries with undeveloped financial sector or inefficient legislative system (Van Horen, 2007). In countries with weak institutional development, vendors are forced to lend credit to customers with market power.

Van Horen (2007) points out that authorities in developing countries can mitigate the negative effect on companies' finances of late payments in credit sales by supporting the creation of factoring companies. According to him, the ability to quickly recover financial resources invested in receivables accelerates cash flow and limits the devastating effect that trade credit can have on the growth of the firm. Over the last decades, growth and maximizing the value of the firm have established itself as a leading goal of company operations (Nenkov, 2016).

From the review of the theoretical statements, it can be concluded that the relationship between trade credit and market power is two-way. On the one hand, the use of trade credit depends on the relative market power of the participants in commercial transactions, but on the other hand the trade credit itself can serve as a mechanism for improving the market positions of the companies. From this point of view, it can be expected that there is a two-way dependence between the use of factoring and the market power of the firms.

Empirical study of the dependence between the use of factoring and the market power of firms

The analysis is based on data from an empirical sociological survey among a representative sample of 1000 non-financial enterprises in Bulgaria. In the sample are included firms with different main activity*. Data is processed using the SPSS software product. A nonparametric method for x-square analysis was used, with a risk level of α-error of 0.05. The largest share belongs to micro enterprises (with up to 9 employees), which make up two fifths of respondents (40.5%), and the smallest of large enterprises (250 or more employees), which are one tenth 10.2%) of the companies in the sample.

The results of the x-square method reveal statistical dependence (sig = 0.000, Cramer's coefficient = 0.230) between the size of the firms according to the number of employed persons and the use of the services of factoring companies. The share of companies using factoring is higher for companies with more employees. The table shows the two-dimensional distribution of the companies according to the two variables.

Table 1

Two-dimensional distribution of firms by number of employees and use of factoring

	Use factoring	Do not use factoring
1 to 9 employees (micro enterprises)	9 2,2% 11,8% 0,9%	396 97,8% 42,9% 39,6%
From 10 to 49 employees (small enterprises)	15 6,8% 19,7% 1,5%	207 93,2% 22,4% 20,7%
From 50 to 249 employees (medium-sized enterprises)	29 10,7% 38,2% 2,9%	242 89,3% 26,2% 24,2%
250 and more employees (large enterprises)	23 22,5% 30,3% 2,3%	79 77,5% 8,5% 7,9%

Source: Author calculations

** The data in each cell in the table show consistently: 1) number of companies; 2) percentage of companies of the respective size according to the number of employed persons who use, respectively do not use factoring; 3) percentage of companies using or not using factoring, in different sizes according to the number of employees; 4) Percentage of all companies.*

* The research was carried out by the ESTAT agency within the framework of the project "Improving the quality of education and research in the field of business engineering for building a knowledge-based economy (innovation) and finance", with the financial support of the Operational Program "Development of Human Resources "(Contract № BG051PO001-3.3.06-0053), implemented by Higher School of Insurance and Finance and Partner Institute for Economic Research of BAS.

There are reasons to assume that larger companies, which usually have stronger market positions, are more likely to use the services of factoring companies. They also have considerably easier access to these services than small businesses. Factoring companies in the country place requirements on the size of companies' turnover. In confirmation, there is a dependence between factoring and company turnover (sig = 0.000, Cramer's coefficient = 0.180). The table shows the two-dimensional distribution of the companies according to the two variables.

Table 2

Two-dimensional distribution of firms according to their turnover and use of factoring

	Use factoring	Do not use factoring
Up to BGN 100,000	7 2,4% 17,5% 1,0%	290 97,6% 44,2% 41,7%
From BGN 100 001 to 500 000	6 4,2% 15,0% 0,9%	137 95,8% 20,9% 19,7%
From BGN 500 001 to 1 000 000	4 5,6% 10,0% 0,6%	68 94,4% 10,4% 9,8%
From BGN 1 000 001 to 5 000 000	12 13,0% 30,0% 1,7%	80 87,0% 12,2% 11,5%
Over BGN 5 000 000	11 12,0% 27,5% 1,6%	81 88,0% 12,3% 11,6%

Source: Author calculations

** The data in each cell in the table show consistently: 1) number of companies; 2) Percentage of firms at the appropriate intervals, according to their turnover, which use, respectively do not use factoring; 3) percentage of companies using or not using factoring, belonging to the respective intervals, according to the turnover; 4) Percentage of all companies.*

With the increase in the turnover of the companies, the percentage of those who use factoring increases. As mentioned, this reflects the easier access of larger companies to the factoring companies. Otherwise, the higher turnover is the result of a higher share of credit sales (Taseva, 2012). Which means a greater need for working capital. Higher turnover implies more market power and more customers, as a result of which firms are not afraid that the sale of their receivables to suppliers of factoring services could lead to a serious loss of market share.

When firms seek to enter new markets that have no reputation and market power and the products or services they offer are not known, a suitable approach to boosting sales is to provide deferred payment to customers. During the term of the trade credit, the clients can convince themselves of the quality of the offered products and realize the financial benefits of the postponement of the payment. They can shorten the cash flow times, save costs on attracting additional funding to buy resources for production. This makes firms selling on credit more competitive when entering new markets. The results show a statistically significant correlation between the use of factoring and the importance of the development of the company during the last three years of penetration of new markets in the country (Sig. = 0.015, Cramer coefficient = 0.102).

Table 3

Two-dimensionally distributed to firms according to the use of factoring and the importance for the development of the company in the last three years of the penetration of new markets in the country

	Use factoring	Do not use factoring
Great importance	**37 9,8% 48,7% 3,7%**	**341 90,2% 36,9% 34,1%**
Some importance	**23 9,6% 30,3% 2,3%**	**217 90,4% 23,5% 21,7%**
Does not matter	**8 4,8% 10,5% 0,8%**	**159 95,2% 17,2% 15,9%**
It does not apply to the company	**8 3,7% 10,5% 0,8%**	**207 96,3% 22,4% 20,7%**

Source: Author calculations

** The data in each cell in the table show consistently: 1) number of companies; 2) Percentage of companies at appropriate intervals, differentiated according to the importance of penetrating new markets; 3) percentage of companies using or not using factoring; 4) Percentage of all companies.*

The above statements are even more relevant when entering foreign markets. Marinov and Bobeva (2017, p. 65) argue that: "Enterprises that carry out foreign trade (especially exporters) attach great importance to new markets.".

Table 4

Dependencies between the use of factoring and the importance for the company of penetrating new markets outside the country

	Sig.	Cramer coefficient
Penetration of new markets in Europe	**0,000**	**0,201**
Penetration of new markets outside Europe	**0,000**	**0,220**

Source: Author calculations

The following table shows the distribution of enterprises according to the use of factoring and the importance for the development of the company in the last three years of the penetration of new markets outside the country.

Table 5

Two-dimensional distribution of firms according to the use of factoring and the importance for the development of the company over the last three years of the penetration of new markets outside the country

		Use factoring	Do not use factoring
Importance of the penetration of new markets in Europe	Great importance	25 13,9% 32,9% 2,5%	155 86,1% 16,8% 15,5%
	Some importance	22 17,9% 28,9% 2,2%	101 82,1% 10,9% 10,1%
	Does not matter	8 3,5% 10,5% 0,8%	218 96,5% 23,6% 21,8%
	It does not apply to the company	21 4,5% 27,6% 2,1%	450 95,5% 48,7% 45,0%
Importance of penetrating new markets outside Europe	Great importance	25 21,0% 32,9% 2,5%	94 79,0% 10,2% 9,4%
	Some importance	15 15,0% 19,7% 1,5%	85 85,0% 9,2% 8,5%
	Does not matter	9 3,7% 11,8% 0,9%	232 96,3% 25,1% 23,2%
	It does not apply to the company	27 5,0% 35,5% 2,7%	513 95,0% 55,5% 51,3%

Source: Author calculations

** The data in each cell in the table show consistently: 1) number of companies; 2) Percentage of companies at appropriate intervals, differentiated according to the importance of penetrating new markets; 3) percentage of companies using or not using factoring; 4) Percentage of all companies.*

The aforementioned dependencies are also confirmed by the established statistical link between the use of factoring and the export activity of goods and services (sig = 0.000, Cramer coefficient = 0.206). The table 6 shows the two-dimensional distribution of the companies according to the two variables.

Table 6
Two-dimensional distribution of firms according to whether they export goods and/or services and the use of factoring

	Use factoring	Do not use factoring
They export Bulgarian goods and/or services	**31 20,4% 40,8% 3,1%**	**121 79,6% 13,1% 12,1%**
They work mostly on tolling	**0 0,0% 0,0% 0,0%**	**12 100,0% 1,3% 1,2%**
They do not export Bulgarian goods and/or services	**45 5,4% 59,2% 4,5%**	**791 94,6% 85,6% 79,1%**

Source: Author calculations

** The data in each cell in the table show consistently: 1) number of companies; 2) Percentage of companies in the respective groups (differentiated according to the criterion whether they export, work in toll or do not export goods and/or services); 3) percentage of companies using or not using factoring; 4) Percentage of all companies.*

The results show a significantly wider use of factoring among companies selling goods and/or services in foreign markets. In phases of penetration and expansion into foreign markets, firms are exposed to various risks. These include the lack of sufficient information on business partners, differences in culture and the way in which businesses are doing, including currency, law, political, and others types of risk. Risks arise from the fact that usually the deferred payment terms for foreign trade transactions are longer. Among the reasons for this are the higher competition on the international markets and the stronger market positions of the buyer companies. This strengthens the liquidity difficulties for businesses that are forced to commit a longer-term financial resource to finance customer loans. In addition, these deals are for larger amounts, which means freezing significant financial resources for deferred payment sellers. They could use these funds in their business, expand credit sales, and ultimately increase their liquidity and efficiency and improve market positions.

Few companies have enough market power to impose a prepayment on a commercial transaction in order to protect themselves against existing risks. In such a situation, the complex of services offered by factoring companies can contribute to avoiding or mitigating the consequences of the risks accompanying foreign trade. In addition, usually, exporting companies are larger in scale, making it easier for them to access factoring.

In addition, administering export transactions for goods or services is more difficult and expensive for many companies that often do not have enough own capacity to manage these transactions. Suppliers of factoring services have a significantly higher capacity to effectively manage commercial receivables and forced collection if necessary. Moreover, the mere fact that they are debtors to a financial institution causes debtor companies to be more correct payers. From this point of view, factoring is a kind of substitution of market power.

In addition, the wider market and the larger number of customers normally having export companies improve their market positions. This makes them more independent in factoring solutions as it reduces possible adverse effects on potential customer loss as a result of the sale of trade receivables to a factoring company.

The results of the study also show a link between the use of factoring and the importance of expanding the production capacity for the development of the company (Sig. = 0.001, Cramer coefficient = 0.131). Expansion of production capacity also entails an increase in trade credit in order to boost sales and optimally load new production capacities.

Table 7

Two-dimensionally distributed to firms according to whether they use factoring and the importance of the company's development during the last three years of expanding production capacity

	Use factoring	Do not use factoring
Great importance	**36** **12,5%** **47,4%** **3,6%**	**253** **87,5%** **27,4%** **25,3%**
Some importance	**20** **8,0%** **26,3%** **2,0%**	**231** **92,0%** **25,0%** **23,1%**
Does not matter	**4** **3,1%** **5,3%** **0,4%**	**124** **96,9%** **13,4%** **12,4%**
It does not apply to the company	**16** **4,8%** **21,1%** **1,6%**	**316** **95,2%** **34,2%** **31,6%**

Source: Author calculations

** The data in each cell in the table show consistently: 1) number of companies; 2) Percentage of firms at appropriate intervals, differentiated according to the importance of expanding production capacity; 3) percentage of companies using or not using factoring; 4) Percentage of all companies.*

The dependencies shown here show that factoring is related to the market positions of companies when they rely on a strategy to stimulate sales through a trade credit to customers. There is no link between the use of factoring and the implementation of other actions that are important for stimulating sales other than trade credit. Taking action such as "Improving product and service marketing" and "improving the quality of products and services" makes it less necessary to provide trade credit to customers in order to stimulate sales. The limitation of deferred sales reduces in turn the need to use the services of factoring companies. The reasons for this are several. The first is that the need for financial resources to finance the investment in trade receivables and to maintain the liquidity of the supplier company is reduced. Moreover, the smaller volume of commercial receivables makes their administration easier and cheaper for the company. Another reason is that the risk of overdue receivables also decreases.

Table 8

Dependence between the use of factoring and actions to increase sales that are different from trade credit

	Sig.	Cramer coefficient
Improving the quality of products and services	**0,140**	**0,074**
Improving the marketing of products and services	**0,192**	**0,069**

Source: Author calculations

Table 9 presents a two-dimensional distribution of the surveyed firms according to whether they use factoring and the importance for the company's development over the last three years of improving marketing and product and service quality.

Table 9

Two-dimensionally distributed to firms according to whether they use factoring and the importance for the company's development over the last three years of improving marketing and the quality of products and services

		Use factoring	Do not use factoring
The importance of improving the marketing of products and services	**Great importance**	**38 9,1% 50,0% 3,8%**	**380 90,9% 41,1% 38,0%**
	Some importance	**27 7,9% 35,5% 2,7%**	**313 92,1% 33,9% 31,3%**
	Does not matter	**5 5,4% 6,6% 0,5%**	**88 94,6% 9,5% 8,8%**
	It does not apply to the company	**6 4,0% 7,9% 0,6%**	**143 96,0% 15,5% 14,3%**

Importance of improving the quality of products and services	**Great importance**	**43 7,5% 56,6% 4,3%**	**530 92,5% 57,4% 53,0%**
	Some importance	**28 9,8% 36,8% 2,8%**	**258 90,2% 27,9% 25,8%**
	Does not matter	**3 4,7% 3,9% 0,3%**	**61 95,3% 6,6% 6,1%**
	It does not apply to the company	**2 2,6% 2,6% 0,2%**	**75 97,4% 8,1% 7,5%**

Source: Author calculations

** The data in each cell in the table show consistently: 1) number of companies; 2) percentage of companies at appropriate intervals, differentiated according to the importance of improving marketing and product and service quality; 3) percentage of companies using or not using factoring; 4) Percentage of all companies.*

The study also shows the lack of dependence between the use of factoring and the importance of increasing the market share for the company's development (Sig. = 0.081, Cramer coefficient = 0.082). Companies that have made an increase in market share do not need further expansion of credit to customers. It is likely that they have market power that allows them to impose more favorable payment terms on their commercial transactions and / or does not have difficulty in attracting funding from alternative sources that are cheaper than factoring.

Table 10

Two-dimensionally distributed to firms according to whether they use factoring and the importance for the company's development over the last three years of increasing market share

	Use factoring	**Do not use factoring**
Great importance	28 8,9% 36,8% 2,8%	287 91,1% 31,1% 28,7%
Some importance	34 9,2% 44,7% 3,4%	336 90,8% 36,4% 33,6%
Does not matter	7 5,2% 9,2% 0,7%	128 94,8% 13,9% 12,8%

It does not apply to the company	7 3,9% 9,2% 0,7%	173 96,1% 18,7% 17,3%

Source: Author calculations

** The data in each cell in the table show consistently: 1) number of companies; 2) percentage of companies at the appropriate intervals, differentiated according to the importance of increasing market share; 3) percentage of companies using or not using factoring; 4) Percentage of all companies.*

Another channel of influence between the use of factoring and the market power of firms is realized through production costs. There is a statistically correct relationship between the use of factoring and the cost reduction for each unit of production (Sig. = 0.005, Cramer = 0.113). Transferring receivables to a factoring company makes companies more liquid. This allows them to take advantage of the advance or immediate payment discounts offered by their suppliers, to strengthen their position on the resource market and ultimately to reduce their costs of production. In turn, the decline in production costs allows companies to increase their market power on the product market by increasing their competitiveness by lowering product prices. Lower output prices, on their part, reduce the need to provide trade credit to customers in order to boost sales.

Table 11

Two-dimensionally distributed to firms according to whether they use factoring and the importance for the company's development over the past three years of reducing the cost of each unit produced

	Use factoring	Do not use factoring
Great importance	33 10,7% 43,4% 3,3%	274 89,3% 29,7% 27,4%
Some importance	25 9,5% 32,9% 2,5%	238 90,5% 25,8% 23,8%
Does not matter	5 4,1% 6,6% 0,5%	117 95,9% 12,7% 11,7%
It does not apply to the company	13 4,2% 17,1% 1,3%	295 95,8% 31,9% 29,5%

Source: Author calculations

** The data in each cell in the table show consistently: 1) number of companies; 2) Percentage of companies at appropriate intervals, differentiated according to the importance of cost reductions for each unit produced; 3) percentage of companies using or not using factoring; 4) Percentage of all companies.*

Conclusions

The results of the survey confirm that there is a correlation between the market power of firms and the use of factoring. Among the possible explanations for this is that higher market power implies a larger scale of the company and hence easier access to the services of factoring companies in the country. Moreover, stronger market positions reduce the risk of deterioration in customer relationships and loss of market share as a result of the transfer of trade receivables to factoring companies, which also favors the use of factoring.

However, the direction of the link between the market power of companies in the product market and the use of factoring can be the opposite. Companies with sufficient market power may impose more favorable payment terms on their commercial transactions and are not forced to sell on credit, which also reduces their need for factoring.

It can be assumed that the dependence between the use of factoring and the market power of firms is determined to a large extent by the importance of trade credit as a tool of competitiveness. This is confirmed by the established dependencies between the use of factoring by firms and the importance of their development over the last three years of penetrating new markets inside and outside the country, as well as the importance of the development of firms over the last three years of expanding production capacity. There is no link between the use of factoring and action to stimulate sales other than trade credit, such as improved marketing and the quality of products and services.

Another link between the market power of firms and the use of factoring for which the results of the study give rise to acceptance is through the cost of production. Raising liquidity as a result of the transfer of receivables to factoring companies enables firms to take advantage of supplier discounts for an advance, immediate or early payments and to increase their market position on the resource market, becoming more desirable customers . This leads to a reduction of the unit costs and the increase of the competitiveness and the market power of the companies on the product market through a decrease in the prices of their production. Lower output prices, on their part, reduce the need to provide trade credit to customers in order to boost sales.

Acknowledgments

The analysis in the article is based on data from a empirical sociological survey carried out under a project "Improving the quality of education and research in the field of business engineering for building a knowledge-based economy (innovation) and finance", with the financial support of the Operational Program "Development of Human Resources "(Contract № BG051PO001-3.3.06-0053), implemented by Higher School of Insurance and Finance and Partner Institute for Economic Research of the Bulgarian Academy of Sciences

References

Bhattacharya, H., 2008, Theories of trade credit: limitations and applications, Available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1286443

Blazenko, George W. and Kirk Vandezande, 2003, Corporate Holdings of Finished Goods Inventories, Journal of Economics and Business, Vol. 55, pp. 255-266

Burkart, Mike, Tore, Ellingsen, Mariassunta, Giannetti, 2007, What You Sell is What You Lend? Explaining Trade Credit Contracts, Available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=930390

Cunat, Vicente, 2003, Trade Credit: Suppliers as Debt Collectors and Insurance Providers, Available at: http://www.cepr.org/meets/wkcn/6/6620/papers/cunat.pdf

Dass, Nishant, Jayant Kale and Vikram Nanda, 2010, Trade Credit, Relationship-specific Investment, and Product-market Power, Available at: www.efa2010.unicp.net/provide_paper.php?pid=839

Emery, Gary W., 1984, A pure financial explanation for trade credit Journal of Financial and Quantitative Analysis, Vol. 19, No. 3, pp. 271-285

Fabbri, Daniela and Leora Klapper, 2008, Market Power and the Matching of Trade Credit Terms, World Bank, Policy Research Working Paper 4754, Available at: http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2008/10/20/000158349_20081020091817/Rendered/PDF/WPS4754.pdf

Fisman, Raymond and Mayank Raturi, 2003, Does competition encourage credit provision? Evidence from African trade credit relationships, National Bureau of Economic Research, Working Paper 9659, Available at: http://www.nber.org/papers/w9659

Marinov, Edward, Daniela Bobeva, 2017, Synthetic profile of Bulgarian companies trading in Sub-Saharan Africa, Economic Thought, 1, pp. 49 -68

McMillan, J. and Woodruff, C., 1999, Interfirm Relationships and Informal Credit in Vietnam, The Quarterly Journal of Economics, vol. 114, issue 4, pp. 1285-1320

Nenkov, D., 2016, Policy of Growth and Creation of Value in Companies, Economic Studies Journal, vol. 4, pp. 36 -65

Petersen, Mitchell A. and Raghuram G. Rajan, 1997, Trade Credit: Theories and Evidence, Review of Financial Studies, vol. 10, issue 3, pp. 661-691

Taseva, G., 2012, Factors for the Value of Trade Receivables of Bulgarian Non-financial Enterprises, Economic and Social Alternatives, vol. 4, pp. 87-101

Van Horen, Neeltje, 2005, Trade Credit as a Competitiveness Tool: Evidence from Developing Countries, Available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=562410

Van Horen, Neeltje, 2007, Customer Market Power and the Provision of Trade Credit: Evidence from Eastern Europe and Central Asia, World Bank, Policy Research Working Paper 4284, July 2007, Available at: http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2007/07/25/000158349_20070725150007/Rendered/PDF/WPS4284.pdf

Wilner, Benjamin S., 2000, The Exploitation of Relationship in Financial Distress: The Case of Trade Credit, The Journal of Finance, vol. 55, No.1, pp. 153-178

NEGATIVE INTEREST RATE POLICY – THE CONCEPT, STATE OF AFFAIR AND EFFECTS

Edith Mihaela DOBRESCU, PhD[1]

Abstract

The Negative Interest Rate were first introduced by Swiss Banks in decade seven of the last century and were taken as a panacea in the fight against inflation, by the central banks in the current decade of the twenty century, to stimulate lending, to force people to spend, devaluing some coins and fight deflation. In theory, interest rates below zero, discourages saving money and forces people to direct their savings towards consumption, stimulating the economy. Also, when the interest on deposits made at the central bank by commercial banks are negative, commercial banks are forced to invest more, to given cheap credit or they will risk losing money. In this context, negative interest rates operate as a punishment for those people who prefer to keep their money in safe deposits.

Keywords: household saving behavior, a negative interest rate, the reference rate

JEL Classification: E40, E42, E43

Introduction - What is negative monetary interest

A Negative Interest Rate Policy (NIRP) is an unconventional monetary policy instrument whereby target nominal interest rates are set at a negative value below zero percent. [2] Negative monetary interest is only an additional consumer tax, which, in the opinion of many specialists, does not have a significant impact on the real economy and inflation.

During deflationary periods, declining inflation, people and businesses raise money instead of making higher investments and spending. The result is a collapse of aggregate demand, which leads to falling prices and even further, to slowing down or stopping real output, and to rising unemployment. If deflationary forces are strong enough, it is simply necessary to reduce the central bank's interest rate to zero and this may not be sufficient to stimulate lending and lending.

A negative interest rate means that the central bank and the private banks that practice it instead of providing money to deposits made by depositors regularly receive money from depositors in order to keep their deposits with the bank. This is

---

[1] *Romanian Academy – Institute for World Economy, edithdobrescu@gmail.com*

[2] More information on the site-ul http://www.investopedia.com/terms/n/negative-interest-rate-policy-nirp.asp#ixzz42mn74mGz, visit on 13 martie 2016, 14:41

intended to stimulate banks to borrow more money and businesses and individuals to invest, borrow and spend money, rather than paying a fee to keep them safe.

A negative monetary policy rate is an unconventional monetary measure in which a country's national bank uses monetary instruments to stimulate liquidity on the market and to ban money from banks to bring them into consumption and thus increase economic growth. In deflationary times, households and companies tend to save instead of spending. The result is a sharp drop in aggregate demand, which generates a cheaper supply of goods and services, which in turn leads to a collapse of production and high unemployment.

Negative interest in Europe

European Central Bank

In 2014, the European Central Bank (ECB) instituted a negative interest rate, which applies only to bank deposits designed to defeat the Eurozone deflationist spiral.

Czech Republic

The Bank of the Czech Republic has grown its crown sales since December 2015 after announcing the prolongation of the foreign exchange regime and its officials have been discussing the introduction of new measures to strengthen the exchange rate cap. Because the Czech economy is a strong and trustworthy one, and the unconventional stimulus program by the ECB's very low asset and bond purchases weakens the euro, making it unprofitable, investors speculate buying crowns, which makes the Czech currency appreciate And erode the export competitiveness of this country.

Denmark

No other country in the world experienced more time with negative interests than Denmark. Here, apartment prices have risen by more than 50% since 2009. Between February 2015 and February 2016, prices jumped by 12%. After four consecutive years of negative interest, the International Monetary Fund has asked Denmark to give up its negative interest rates to avoid a possible real estate bubble: David Hofman, the head of the IMF mission in Denmark, recommended relaxing the housing market rules and area rules . Housing prices are rising although inflation stagnates and economic growth is weak.

Switzerland

The Swiss government first introduced a negative interest rate regime in the world in the early 1970s to counteract the appreciation of the Swiss franc because of the investors who had purchased this unanimously recognized currency for its stability.

Since January 2015, the Central Bank of Switzerland has announced that it has refused to support the foreign exchange rate cap and introduced negative interest rates on overnight deposits made with it by commercial banks. Since autumn 2015, there is also a strong debate about negative interest rates in the US, where the Federal Reserve could be forced to enter the negative territory of the monetary policy interest forced by the play of other major central banks.

Gradually, banks began to raise interest rates on mortgages to counterbalance the cost of negative interest on deposits with the central bank. Swiss National Bank chairman Thomas Jordan said he did not rule out pushing deeper interest rates into the negative territory and warned that turbulence in Europe could revive the role of the Swiss franc as an active front during the crisis. Asked by Bilanz Magazine, if his institution could take the interest further, Jordan replied: "We went a long way with these negative interests. We are currently following the situation carefully. We can not rule out anything.

Germany

A circular of the Bavarian Savings Banks Association (Sparkassenverband Bayern), which represents the interests of 71 Savings Banks in Bavaria, proposes to member states to adopt defense measures against the ECB's deposit penalties imposed on Eurozone central banks. The document recommends cash accumulation in its own money houses so as to limit the losses generated by storing the cash surplus at the ECB, which is "remunerated" at an interest rate of -0.3%.

Thus, at the request of Sparkassenverband Bayern, the largest public insurance company, Versicherungskammer Bayern, offered a price of EUR 1.5 for the insurance of EUR 1,000, plus the related fee, amounting to 0.1785 % Of the value of deposits, significantly below the "interest" of the ECB, of -0.3%. Analyst Simon Black believes the Bavarian Savings Banks' decision is "a revolution in the financial system, where banks are preparing a rebellion against the central bank."

Especially German savings banks are in an impossible situation: on the one hand, they must have reserves to reduce the risk to customers, and on the other hand, the reserves are penalized if they are deposited with the central bank. Simon Black also highlights a particularly serious problem that can be determined by the implementation of Sparkassenverband Bayern. Cash in circulation is not enough to meet demand, and cash accumulation in Bavarian savings banks will force the ECB either to issue more cash in physical form or to impose capital control measures.

UK

At the beginning of February 2016, HSBC prepared the ground for imposing negative interest on corporate depositors, sending customers notice that the introduction of such a policy was being evaluated.

Romania

The spectacular fall in money market interest rates quickly and inevitably hit interest rates on individual client deposits, with most of the local banks operating in real negative terms in 2016. Although no Romanian bank has posted a nominal (no commission) interest rate, in most cases after the income tax and all commissions have been charged, customers have remained in the account with less money than initially deposited. For example, for a RON deposit of ROL 2,000 over a 12-month period, with interest capitalization, a depositor may lose at least 56 ROL in the worst case. At best, placing savings at the bank brings him 32 lei, according to Finzoom Financial Portal.

The worst offer for deposits for individuals belongs to the Romanian Bank for Loans and Investments (BRCI), a credit institution owned by businessman Dorinel Umbrarescu. Throughout 2016, BRCI posted a nominal interest rate of 0.2% for a deposit of 2,000 lei per year, which provided a return after legal taxation of 3.35 lei, and the total commissions related to the 12 Month they reach 60 lei, so at the due date the client draws a line with a loss of 56.65 lei.

Sweden

In 2009 and 2010, the Central Bank of Sweden and then the Central Bank of Denmark, in 2012, used the negative interest rates to stop the money invested in their bank savings and banking systems.

The Swedish experience with interest below zero shows that they do not work for many years. After four years of experimentation, Sweden chose a real estate bubble. Riksbank, the Swedish central bank, managed to generate inflation, but only on the real estate market. Otherwise, general inflation is close to zero, the Swedish crown strengthens to the desperation of exporters, and economic growth is fragile.

On February 11, 2016, Sweden's central bank cut its key interest rate more aggressively than anticipated, from -0.35% to -0.5%, and announced it is ready to do more to resuscitate inflation despite fears That such measures alter a speculative real estate bubble[3]: "The low inflation will be higher. This increases the risk of weakening confidence in inflation targets and the risk that inflation will not reach where we want, "says a Riksbank statement. Many analysts are afraid that the Swedish bank is left without ammunition in the fight against deflation.

Hungary

The most indebted state in Eastern Europe is the first emerging economy in the world that has pushed its monetary policy interests to negative territory. The official context in which the Central Bank of Hungary introduced ultra-relaxed monetary policy is weak inflation and the weakening of the economy's vulnerability. Hungary has negative interest rates in the context in which its public debt equals 75.5% of GDP, the highest level in Eastern Europe.

The reduction in interest rates has led to a decrease in the yields on bonds issued by the Hungarian government. Many of these bonds are bought by local

[3] Bogdan Cojocaru, *Din nou despre dobânzi negative, bănci, americani şi economie globală: „Este mai rău ca în 2008.”…, in* Ziarul Financiar, 12 februarie 2016, p. 1

banks in a system where the government has an increasing control.

Negative interest in Japan

By the late 1980s Japan had an unprecedented development whose engine was mainly high technology export. The Tokyo Scholarship reached a historic high in 1989, although in the 1970s and 1980s the yen appreciated almost continuously against the US dollar. In the last decade of the last century, the dream is over, and since then the Japanese authorities have unsuccessfully tried to bring the economy back on a sustainable growth path. Everything was attempted during this period, including direct printing for the acquisition of a wide range of financial securities, but not the negative interest rates of monetary policy.

Quantitative relaxation has led to a significant depreciation of the national currency in the years 2013-2015, but the effects have only been seen at the stock market indices and hardly anywhere in the real economy. The increasingly obvious failure of economic policy promoted by Shinzo Abe's government, known as Abenomics, has forced the Bank of Japan to shift its negative interest rate to the list of non-conventional monetary policy instruments. The extraordinary quantitative easing program promoted during the period mentioned by the Bank of Japan (BoJ) did not lead to the stimulation of the real economy activity, where major problems, especially in the industrial sector, are registered, in the conditions of falling external demand. One of the main reasons is the postponement of structural reforms, together with the fiscal stimulus and the monetary easing program.

In December 2015, industrial production and consumption expenditure of Japanese households went down. Moreover, exports remain negative, especially as a result of the considerable slowdown in China's economy. Against this background, in January 2016, the Bank of Japan's Monetary Policy Committee decided by 5 votes in favor and 4 against the reduction in the main monetary policy interest rate to -0.1%, from + 0.1%. Subsequent decreases are not excluded, depending on the evolution of inflation and the economy. The time horizon to reach the 2% inflation target was significantly expanded until mid-fiscal 2017/2018 (Japan's fiscal year begins on April 1 - nn). The new interest rate will apply only to the surplus reserves set up by the commercial banks at the central bank following the new stages of the Quantitative Easing (QE) program, with 0.1% and 0% interest rates for other reserve categories.

The unexpected decision of the Bank of Japan has created an extremely high volatility in the domestic financial market. High exchange rate volatility also recorded, with the national currency depreciating to 121.3 JPY / USD, and yields on 10-year government bonds fell to a new historical low of 0.104%. In spite of the significant yen depreciation against the US dollar in 2013-2015, export performance did not meet expectations, but inflationary pressures on imports have increased.

"The decision shows that the Bank of Japan wants the depreciation of the yen and the further rise in import prices," said Daisuke Karakama, economist at Mizuho Bank in Tokyo. The uncertainty about the effects of Japan's monetary policy remains, however, at a very high level amid investor mistrust. "We do not know if the interest rate will be good for the economy," Mizuho Bank economist added, "because even a negative interest rate success in Europe does not guarantee the same for Japan."

On January 23, 2016, at the Davos Forum, Governor of the Bank of Japan, Haruhiko Kuroda, denied that there are plans to switch to negative interest rates. "The ECB has shown that a combination of QE and negative interest may work," an official from the Bank of Japan said, the only problem being "technical difficulties that have been overcome."

Negative interest in the US

Federal Resident Federal Reserve Chairman Stanley Fischer said at the beginning of February 2016 that negative interests "are in operation longer than I can say I expected in 2012". Citigroup economist Willem Buiter believes that even China could plunge to negative interest rates in 2017.

In the US, the Fed suggested banks, as a precautionary measure, to prepare for the minus interest. This scenario is purely hypothetical and not a prognosis, central bank officials wrote in an informational note released on January 28, 2016. This is the first time that an American government institution asks banks to consider, for the test round The stress of 2016, a scenario with negative tides of treasury bonds.

JPMorgan analysts say the interest rate with the minus could be taken into account by the Fed if there is a danger that the US might enter the recession: "The situation should really become desperate to introduce negative interest. Our financial markets are obviously the largest in the world, and we have a lot of commitments to them and liquidity for a big part of our economy. Endangering financial markets would be a far too drastic effect for the Fed to go in this direction, "said Kim Rupert, an analyst at Action Economics

The worst concerns that these negative interests raise are that they will erode banks' profitability if they do not force customers to bear extra costs, trigger capital outflows from banks and economies, determine people to keep their money at home, or Will block financial markets.

"We think the central banks have plenty of room to look to see how low interest rates can be. Although bank officials are facing many constraints, we think it would be a mistake to underestimate their ability to act and motivate, "JPMorgan analysts write.

Former US Federal Reserve Chairman Alan Greenspan underlined that if the negative interest rate continues, the financial world will be distorted. "I would not say dangerously but clearly unproductive," said the famous American banker in an interview with Bloomberg.

The negative interest rate in Romania

Nearly three-quarters of Romanians would withdraw money from savings in banks if interest rates were negative, more than 17% would start looking for alternative investments - for example, those on the stock exchange, one-third would try to put them elsewhere Sure - Do you know what that would be? - and 10% would spend more, according to a poll conducted by ING Bank in November 2015.[4] However, the low interest rates on bank savings in recent years have not changed the way 65.5% of Romanians save, while only 34.5% of respondents say they have opted for other options, according to the Dutch bank survey . Half of those who changed their behavior say they put less money in bank deposits, 32.5% allotted the same amount, but opted for longer-term savings, while only 15.1% increased the rate saving.

The most important changes in the behavior of Romanians saving at the bank would occur if interest rates on deposits were negative. Thus, almost three-quarters of Romanians would withdraw money from savings accounts if they received less than they deposited. In this situation, 32.4% of Romanians claim to withdraw a significant part of their savings and put their money in a safe place, 9.8% would spend more than before, while 13.2% would Save even more to achieve its goals, and 19.8% would do nothing. At the same time, 17.3% of Romanian respondents would move some of their savings into alternative investments, such as the capital market, while 14.2% would choose this option for most of the money saved, according to the survey (Because respondents were able to choose more variants for the negative interest rate, the total exceeds 100%). The survey was conducted by ING International Survey, with 13,000 consumers consulted in several countries across Europe, but also from the US and Australia for comparison. From Europe, the survey included UK, Austria, Belgium, France, Italy, Germany, Luxembourg, the Netherlands, Spain, Czech Republic, Poland, Romania and Turkey.

BNR Governor Mugur Isarescu believes the local economy will not have negative interest rates: "Negative inflation is temporary, temporary and will return to other figures even in the summer of this year.[5] The second reason is even the excess of liquidity. We will take care not to get negative interest. We hope our signals and bank behavior are reasonable. We will work with all the necessary mechanisms to avoid negative interest. "

Negative interest rate

Theoretically, zero-interest rates reduce borrowing costs for companies and households, increasing demand for investment credits and spending on consumption. Retail banks may choose to internalize the costs associated with negative interest rates by paying these costs, which will have a negative impact on the banks' profits or transfer negative interest costs to small depositors, in which

[4] Marius Oncu, *ING: Aproape trei sferturi dintre români ar retrage bani din bănci dacă dobânzile devin negative,* în Ziarul financiar, 4 decembrie 2015, p. 7

[5] Liviu Popescu, *Isărescu, BNR: Nu cred că vom avea dobânzi negative. Sperăm ca semnalele noastre şi comportamentul băncilor să fie rezonabil,* în Ziarul Financiar, 9 februarie 2016, p. 2

case there is a risk that they To give up their deposits in cash.

In a study by UPS Wealth Management analyst Christopher Swann, he points out that in the first two months of 2016, countries whose economy accounts for nearly a quarter of global GDP have announced they have adopted negative interest rates:[6] Here we include the 16 Eurozone countries, Switzerland and Japan, that is, 18 important countries of the planet. Christopher Swann estimates that there is a 10 percent chance that the Federal Reserve - the US central bank - will impose negative benchmark interest rates over the next 12 months to support economic activity indicators.

According to the negative interest theory, the central banks that have adopted negative interest believe that they can stimulate economic growth in the countries they represent, based on elements of the theory never verified in practice: 1. negative interest has the potential to weaken a nation's currency , Making the exports of the country concerned cheaper, thus more competitive and the inverse - less competitive and more expensive; 2. By lowering government bond yields in the short term, negative rates should increase their long-term attractiveness; 3. Using negative rates to complete quantitative easing. But the brief history of negative rates shows that things do not always go according to theoretical expectations.

Using negative rates to boost bank lending, commercial banks need to become willing to borrow more and / or lower costs. The imposition of negative rates on depositors could mean greater difficulties and costs for other consumers: Swiss and Danish banks have raised the cost of borrowing for homeowners because the negative rates have been introduced. Negative rates should theoretically lead to the depreciation of that currency. After the introduction of negative interest rates in Japan, the yen appreciated by 5.4 percent against the US dollar!

Kit Juckes, an analyst at Société Générale, wonders if the negative interest will lead to a change in the savings behavior of the population and will respond negatively. In the opinion of Juckes, "negative rates can not convince an aging population, with insufficient pensions and health insurance, not to save."

However, the worst criticism of negative interest comes from Swiss investor Marc Faber, who said that "central bank's negative interest policies are a complete failure. It is crazy to give so much power to central bankers, who are just teachers who are trying to target inflation, exchange rates or the amount of money. "

The world economy's situation would have been worse without negative interest, Christine Lagarde, general manager of the International Monetary Fund (IMF) said in an interview on March 18, 2016: "Negative interest rates in Europe and Japan have supported growth World economy and prices. As a result, the financial sector may have to implement new business models. If we had not had negative rates of interest, we would have been in a much worse situation than we are today, inflation would probably have been lower than it is now, and the growth rate of the

[6] Christopher Swann, *The consequences of negative interest rates,* on the site http://www.cnbc.com/2016/02/16

economy would have been lower. It was a good thing to implement the negative interest rates in the current circumstances. "

Joseph E. Stiglitz, Nobel Prize laureate for Economics and professor at Columbia University (USA), said on March 15, 2016, in an article for Project Syndicate that "close to zero interest rates will remain in the long run." If so, then the negative interest rates will be maintained in the long run. And long term in the economy means over 5 years.

William White, senior councilor of the Organization for Economic Cooperation and Development (OECD), warned in an interview that "ultra-reliance on central banks is a threat to the global economy. Negative bailouts and quantitative bids through asset purchases may have unintended side effects such as higher debt to both states and the public. The objective of these policies has changed completely - it is trying to stimulate aggregate demand, but this does not happen in a sustainable way. Negative interest rates erode bank profits, something that is undesirable in current circumstances, when banks should build up capital reserves. Everything is experimental. "

The effects of negative bank interest rates

In the Bank of International Settlements Report IV 2015, the Bank of International Regimes shows that investor confidence in central banks' "healing power" is shrinking, in the context of unsatisfactory economic growth, of rising debt burden and the implementation of negative interest rates in Europe and Japan.[7] A study in the report shows that "if monetary policy bad debts do not reach lending to firms and households, then they lose most of the reason to exist. Negative interest rates on loans will have particularly negative effects on banks' profitability, if no negative interest rates are applied to deposits, and so there are questions about the stability of bank deposits ", where development scenarios are not evaluated Of the financial system in the event of a negative spiral of interest.

In a survey of negative interest effects conducted by ING Bank in the Netherlands in November 2015, 77% of respondents said they would withdraw money from their savings in banks if interest rates were negative. Most would move money to risky investments or keep them in a safe place. While a small part would spend more, a similar percentage would save more. "These are good news for safeners rather than for commercial and central banks," ING Bank said.

The central banks (ECB, Denmark, Switzerland, Sweden, Japan) are negatively affected by either the deposit facility or the main monetary policy rate (eg in Sweden where the repo rate reached -0, 5).[8] The Bank of International Regulations warns that QEs have bad consequences as they perpetuate the search

[7] The full report and related statistical data are at www.bis.org/publ/qtrpdf/r_qt1603.htm

[8] Daniel Daianu, *O lume cu dobânzi ultra-mici; dobânzi negative?,* în Ziarul Financiar, 15 februarie 2016

for yield by keeping interest in an excessively low area ... There are structural conditions in industrialized economies Which explains the rate of interest to the negative area, such as: a) an increase in the degree of saving over time that can be related to demography (aging population), income distribution, increasingly uncertain times; B) the 2008-2013 economic crisis that has brought about a change in investment incentives, and rising uncertainty reduces the propensity for real investment.

William White, senior councilor of the Organization for Economic Cooperation and Development (OECD), warned in an interview that "ultra-reliance on central banks is a threat to the global economy. Negative bailouts and quantitative bids through asset purchases may have unintended side effects such as higher debt to both states and the public. The objective of these policies has changed completely - trying to stimulate aggregate demand, and the truth is that they are not able to do it in a sustainable way. If people thought we were in a period of disinformation, the scene would have been built for a period of robust growth ... Negative interest erodes banks' profits, something that is not desirable in current circum- stances, when banks Have to build capital reserves. Everything is experimental. "

In theory, negative interest rates make cheaper financing and credit, stifling the economy, but penalizing depositors. By introducing negative outflows for deposits, central banks basically charge co-banks that keep their reserves on them. To avoid losses, retail banks would have to either charge customers' deposits or invest their credit reserves, some risky. In countries that already have negative interest rates, few banks have chosen to ask depositors money. Negative interest is associated with a supposedly international monetary war because it represents the extreme phase of monetary policy relaxation by which central banks would force the devaluation of their currencies to protect exports.

In practice, bank negative interest rates have already led to bank losses and less credit availability. Negative interest rates have had particularly negative effects on pension funds and on all those who are trying to save something. Negative interest rates are associated with an international currency war where central banks are trying to devalue their currency to make exports more competitive at international level. Thus, in the context of negative interest and ultra-relaxed monetary policies, the funding costs of some countries have reached the lowest odds in history. We also associate with natural questions that branded economists put: 1. how natural are the natural interest rates? 2. whether they have effective policy rates ?; 3. If the allocation of resources would be appropriate, the natural rate should not be below zero? 4. Should a higher level of inflation (such as 4%, as recommended by Olivier Blanchard and others) not be aimed at redeploying the force of the monetary policy instrument - if real policy rates would be needed negative?[9]

Forcing interest in negative territory has now returned even against central banks. Interest cuts in Europe and Japan put pressure on central bank earnings, a

[9] idem

source of income to cover running costs and profit for some governments. A poll conducted by the prestigious British financial newspaper Financial Times at the level of the foreign exchange reserves managers in 77 central banks shows a shift in the resource allocation strategy, including through the acquisition of high-risk assets.[10] About 80% of respondents said negative interest rates had an impact on reserve management strategies, and nearly 60% said the central bank where they were operating was affected.

Another study, entitled "Profit sharing and loss coverage for central banks" under the auspices of the ECB, shows that "central banks can not enter into insolvency because of their ability to create money, and for this reason They can operate under the conditions of a negative capital. " According to the IMF, central bank reserves were about $ 10.9 trillion at the end of 2015, and 64% of these reserves are denominated in US dollars.

An analysis by Steen Jakobsen, Chief Economist of Saxo Bank's investment bank, shows that the economic environment is characterized by the application of negative interest rates by lack of growth, lack of reforms, lack of productivity and inflation. Now a new trend is consolidating, that of the divergence between the views of political leaders, the IMF recommendations and the actions of the central banks.

Conclusions

Negative interest rates generally disrupt markets, confirming the IMF and rating agency Fitch, who explained that "there is evidence that such policies push some investors to higher-risk assets, but it is too early to see if it is an effect duration“.[11] Negative interest rates lower government bond yields, assets considered safe and preferred, among other things by pension funds. In search of higher yields, such funds now choose more risky assets. "In any case, the risk of unintended consequences seems to go up, as banks, consumers and companies adapt to a more uncertain environment where negative interest rates are more and more common," analysts Fitch adds.

One thing is certain that negative interests are like an experimental drug with uncertain side effects. Analysts estimate that government bonds of $ 9.9 trillion around the world are under zero, which means investors, such as pension funds and insurers, pay governments to keep their money. Then, in order to destroy a traditional way of keeping money - the mattress - the ECB announced it will not print the 500 euro note from 2018 onwards.

A strong blow to the bank shares, after initially continuing downward trajectory, mortgage interest began to grow in Germany and Switzerland. Banks were very reluctant to demand interest on deposits for fear of their customers' reaction.

Negative interest rates are not just taxes imposed on banks' reserves. Fees must

---

[10] Source: Ziarul Bursa, 20 aprilie 2016, p. 1

[11] Bogdan Cojocaru, *Din nou despre dobânzile negative: Taxe ascunse contraproductive şi generatoare de incertitudine în vremuri nesigure,* în Ziarul Financiar, 10 mai 2016

be paid by someone. Banks can pass these fees to depositors by offering lower interest rates for savings or paying commissions for deposits. In any case, depositors will have less revenue to spend on products and services.

References

Daianu, Daniel, O lume cu dobânzi ultra-mici, dobânzi negative?, în Ziarul Financiar, 15 februarie 2016

Dobrescu, Emilian M. (coordonator, coautor), Cartea crizelor. O privire optimistă, control ştiinţific prof. univ. dr. Constantin Roşca şi conf. univ. dr. Liviu Voinea, Bucureşti, Editura Wolters Kluwer, 2010

Dobrescu, Emilian M., Optimistic in crisis concept, în Maliţa Mircea, editor, Nonlinear view on the economic crisis, Bucureşti, Editura Expert, 2011, pp. 95-102

Goldstein, Florian, Soluția crizei – Terminua a Quo, București, Editurile Rao și Bursa, 2015

Rechea, Călin, Sistemul economic bazat pe credit se apropie de sfârșit, în Ziarul Bursa, 8 martie 2016, p. 1

Swann, Christopher, The consequences of negative interest rates, pe site-ul http://www.cnbc.com/2016/02/16/

BITCOIN VIRTUAL CURRENCY

Emilian M. DOBRESCU, PhD[1]

Abstract

Bitcoin is one of the first implementations of the concept called "cryptocurrency" and operates under a distributed database, each transaction is validated through connected nodes without the need of a supervisor as a central bank. Each participant has the opportunity to create a new currency Bitcoin for use in personal way, being rewarded for participating in validation of other virtual currency transactions.The Bitcoin currencies are not real money. These are like the online token that can be traded for goods and services in places that accepts the same way that someone gives someone a dollar that bought a value of a dollar. But unlike the dollar, which has series and number, Bitcoin - it is an electronic convention without registration number or other mechanism that could be used to detect buyers or sellers

Keywords: BCT; Bitcoin, Coin base, virtual currencies, XBT

JEL Classification: E49, E50, E51

Introduction

Bitcoin is a virtual currency built around a complicated cryptographic protocol and a global computer network that supervises and checks what coins have been spent by who. Due to its anonymous character, bitcoin is a popular choice for illegal activities because it is extremely difficult to find out who uses Bitcoin.

Bitcoin appeared in 2009, being - after other authors - the creation of Satoshi Nakamoto, which can be both name and username.[2] Bitcoin is "electronic cash, it's not real, it's just the bearer in our computers" (Andrei Andone, Romanian expert in bitcoin[3]). Bitcoin is transferred between a real money seller and the bitcoin buyer, who can be the same person, with the support of a mediator, usually a trading platform (behind which one or more specialists are also present). To buy bitcoin, you can offer economic goods (goods and services) or another currency - real, this time - in exchange, according to the parity of the day of the transaction. To sell bitcoin is similarly done.

Bitcoin coins are not real money, they are obtained by completing missions (or equations) called "mining". In practice, users use their computers for the trading system,

---

[1] *Professor, Romanian Academy*

[2] Andrei Năstase, *Ce știm și, mai ales, ce nu știm despre Bitcoin, controversata monedă virtuală,* pe site-ul http://adevarulfinanciar.ro/articol/ce-stim-si-mai-ales-ce-nu-stim-despre-bitcoin-controversata-moneda-virtuala/, vizitat pe 5 august 2016, orele 18:12

[3] ZF Live: *Cum funcţionează bitcoin, moneda virtuală şi cât valorează în bani reali?,* 2 decembrie 2016

and in exchange for providing processing power for transactions, they are paid in bitcoin. Bitcoin can buy a range of goods and services from computer games, web services, jewelery, weapons or even cocaine, precisely because bitcoin does not have a registration number, so transactions are protected by anonymity.

Since 2014, the symbols used to represent Bitcoin are BTC, XBT, and the symbol[4]:

₿

The small quantities of bitcoin used as alternative units are: millibitcoin (mBTC), microbitcoin (µBTC) and satoshi - called as a tribute to the bitcoin creator, a satoshi is the smallest amount of bitcoin, representing 0.000.000.01 bitcoins, 1/100.000 .000 of a bitcoin. One millibitcoin equals 0.001 bitcoins, which is a tiny bit of bitcoin. A microbitcoin is equal to 0.000001 bitcoins, which is a millionth of bitcoin.

On October 7, 2014, the Bitcoin Foundation unveiled a plan to apply for an ISO 4217 bitcoin currency code, and referred to BTC and XBT as their preferred candidates.

Who is Craig Wright?

Australian contractor Craig Wright has publicly acknowledged that he is inventor Bitcoin, writes the BBC.[5] Wright also provided technical evidence to support his assertion that he was the "parent" bitcoin. Members of the Bitcoin community and development team have confirmed that it is he who invented one of the most controversial coins in the world.

Craig Wright has revealed his identity to the BBC, the Economist and GQ. After meeting with the BBC, Wright signed digital messages using cryptographic elements developed in Bitcoin's first internships, related to the virtual currency and the "mind" behind it.

Craig Steven Wright is an IT specialist. He graduated from Padua College in Brisbane (Australia) in 1987. He was a computer science professor and researcher at Charles Stuart University, where he also completed a second doctorate. He has worked in IT for several companies, such as OzEmail, K-Mart and the Australian Securities Exchange. He has thought about the architecture for Lasseter Online's first online casino.

Wright was CEO of the Hotwire Preemptive Intelligence Group, which was planning to launch Denariuz Bank, the world's first Bitcoin bank, but faced problems with Australian regulators and abandoned the project. Wright is also the parent of DeMorgan,

[4] Nicolae Sfetcu, *Sistemul financiar Bitcoin,* pe site-ul, https://www.setthings.com/ro/ sistemul-financiar-bitcoin-1/ , vizitat pe 13 ianuarie 2015, orele 20:17

[5] Stan Ștefan, art. citat

and Panopticrypt cyber security company.

In 2015, Newsweek announced that he had "discovered" the creator of Bitcoin's virtual currency as a 64-year-old Japanese-American living near Los Angeles.[6] Then the magazine said he found the mysterious "Satoshi Nakamoto", the person whose name is related to the creation of the coin.

"The discovery" turned out to be a false track, and Dorian Nakamoto (named Satoshi baptism) came to sue Newsweek after saying that his life was completely overwhelmed. In December 2015, a new publication, Wired, claims that Satoshi Nakamoto is a pseudonym used by a 44-year-old Australian cryptologist named Craig Steven Wright: "Wright either invented the bitcoin, whether it is a shining fern Who strongly wants to believe he is the inventor, "writes Andry Greenberg and Gwen Branwen. The Wired Magazine quotes surfaced documents that it claims to reveal talks between Wright and his lawyers, saying: "I've done my best to hide that I've been running Bitcoin since 2009."

Wright's blog has been disabled shortly after the Wired article, and its Twitter account has been completely deleted. According to online profiles that remain online, Wright leads DeMorgan, a Sydney-based company that analyzes "alternative currencies."

Surfing documents and the fact that Wright holds a huge volume of Bitcoin come to support what Wired magazine writes.

Trading levels

In the short run, Bitcoin also appreciated 16% in a single day, trading close to $ 300 per unit hours after San Francisco's Coinbase announcement, which introduced the bitcoin virtual currency to the US market. But the lack of confidence of those who participated in making bitcoin transactions brought back its quote.

In August 2016, 1 bitcoin was traded at a rate of $ 233 to change for $ 730 on December 2, 2016, and the bitcoin market was available for $ 9 billion worth of transactions. Against the backdrop of geopolitical instability, Bitcoin has steadily advanced in recent months in 2016, reaching a level of $ 1,131.15 on Jan. 5, 2017, near the record high of 1,141.16, according to the Coindesk platform. Throughout 2016, the currency advanced by 122%. China and India have been major buyers.[7]

So at the beginning of 2017, bitcoin was very close to its $ 1,163 trading history hit on the Bitstamp European stock exchange in late 2013. Then, on January 10, 2017, 1 bitcoin changed for $ 773.

Theoretically, the bitcoin system allows 12.5 coins to be added to the system every 10 minutes. When Bitcoin reaches the maximum quotes - as shown above - its total bitcoin value in the system is at a maximum of more than $ 16 billion, roughly equivalent to a mid-market share of the British FTSE 100 stock index.

---

[6] Cătălina Apostoiu, *„Vânarea“ misteriosului creator al monedei virtuale Bitcoin a ajuns în Australia,* în Ziarul Financiar, 10 decembrie 2015

[7] Cătălina Apostoiu, *Bitcoin vs aur, inovație vs tradiție. Pe ce ai paria?,* în Ziarul Financiar, 3 ianuarie 2017, p. 3

In 2016, bitcoin was the best performing currency, outpacing by 125% all the growth of coins issued by central banks.[8] Bitcoin has probably been boosted in the past year by increased demand in China amid a 7% yuan annual devaluation in 2016, the worst performance of the Chinese currency in more than 20 years. According to the data, most of the bitcoin transactions are made in China.

The advantages of bitcoin

The bitcoin is used to "move" money globally quickly and anonymously and does not fall under any authority, making it attractive for those who want to escape capital controls like China. It is also attractive for those worried about a cash crisis such as India. "The increasingly tough war on cash and capital controls makes the bitcoin currency a viable, though risky alternative," says Paul Gordon of the UK Digital Currency Association, and co-founder of Quantave, a company that tries to Facilitate institutional investors' access to virtual currency exchanges.

Bitcoin can be used to sell or buy services, products or other currency by downloading an application to your mobile phone or computer. "There is no central site, but windows sites to the bitcoin world. The coin is only on the phone or computer in his own wallet. For example, I offer $ 700 and receive 1 bitcoin in my wallet. Download an application on your phone and create a private key and wallet in your device's memory, "said an experienced user in bitcoin transactions. "I think it is an interesting alternative asset, especially as a means of protecting you against demonetization or other geopolitical factors," said David Moskowitz, CEO of Attores, a platform that uses blockchain technology to execute contracts.

Monda bitcoin was generally characterized by high volatility, and in 2015 and 2016 it gained more stability. The popularity of bitcoin as an alternative asset of refuge is rising among investors because the virtual currency is considered to be less influenced by government regulations and monetary policy changes.[9]

Bitcoin Disadvantages

The total market capitalization of all bitcoin coins in circulation was about 16 billion dollars. But, compared to all other assets, especially gold, shares, real estate, 16 billion means very little.

Although generally characterized by high volatility, the virtual currency has gained more stability over the past two years. The meteoric rise of bitcoin in recent months may be partly due to an imbalance between supply and demand, which may be mitigating in the future. The bitcoin coin was therefore extremely volatile in its history so far, as transactions are often disturbed by hacking scandals across platforms.

---

[8] Cătălina Apostoiu, *Bitcoin sare de 1.000 dolari pentru prima dată în 3 ani,* în Ziarul Financiar, 6 ianuarie 2017, p. 3

[9] Cătălina Apostoiu, *Moneda virtuală bitcoin depăşeşte 900 $ pe fondul riscurilor geopolitice și al majorării dobânzilor în SUA,* în Ziarul Finaniar, 25 decembrie 2016, p.3

The production and intermediation of Bitcoin virtual currency transactions implies a very high consumption of electricity resulting from the cryptographic algorithm processing on which this currency is based so that it could reach, by 2020, a higher electricity consumption than that of a Modern European countries such as Denmark.10 One of the first bitcoin implementations works with a distributed database, each transaction being validated via the connected nodes without the need for a supervisor such as a central bank. Moreover, each participant has the opportunity to create new Bitcoin coins for their personal use, thus being rewarded for participating in the validation of other virtual currency transactions. The recipe used has a disadvantage: the production and the intermediation of the Bitcoin currency transactions implies a very high consumption of electricity resulting from the cryptographic algorithm processing on which this coin is based.

If, at first, the problem of energy consumption was rather theoretical, as more and more individuals and businesses joined the effort to generate as many bitches as possible, energy consumption rose: in the most pessimistic scenario envisaged by Sebastiaan Deetman, the computing systems used to process Bitcoin transactions could reach, by 2020, an electricity consumption of more than 14 GW, equivalent to a modern European country, such as Denmark.

Trading network

The Bitcoin network has a 30,000-fold computing power over the world's top 500 supercomputers, with $ 200 million worth of hardware, and daily security for tran- sitions is one million Dollars, said ZHF Andrei Andone, founder of StartHash[11]: „In order to take control of the network, one should practically invest $ 200 million in equipment and spend $ 1 million a day on conscious energy. Both Bittorin spends each day to secure himself, so the money is not faked or stolen. "

There is a public register that records Bitcoin transactions[12]. A unique solution accomplishes this without any central trusting authority: block chain maintenance is carried out by a network of communication nodes running a Bitcoin software. Transactions of payer form X send Y payloads to payee Z payee on this network with easy-to-use software applications. Network nodes can validate transactions, add them to their copy of the registry, and then send these additions to the registry of other nodes. The block chain is a distributed database; To independently check the property chain of each bithole (sum),

[10] Aurelian Mihai, *Celebra monedă virtuală Bitcoin va consuma în curând mai multă energie electrică decât Danemarca,* pe site-ul http://www.go4it.ro/internet/bitcoin-celebra-moneda-virtuala-va-consuma-in-curand-mai-multa-energie-electrica-decat-danemarca-15187443/, vizitat pe 6 august 2016, orele 12:58

[11] Roxana Roșu, *Andrei Andone, expert Bitcoin: Reţeaua are o putere de calcul de 30.000 de ori mai mare decât cele mai puternice 500 de super-PC-uri din lume,* în Ziarul Financiar, 13 ianuarie 2017

[12] Nicolae Sfetcu, Sistemul financiar Bitcoin, pe site-ul https://www.setthings.com/ro/sistemul-financiar-bitcoin-1/ , vizitat pe 13 ianuarie 2015, orele 20:17

each network node stores its own copy of the block chain. Approximately six times per hour, a new block of accepted block transactions is created, added to the block chain, and quickly published at all nodes. This allows Bitcoin software to determine when a certain amount of Bitcoin has been spent, this being necessary to prevent duplicate spending in a non-centrally supervised environment. Since a conventional register records real banknote transfers or promissory notes that exist besides it, the block chain is the only place where bitcoins can be said to be in the form of unspent transactions.

The property right on bitcoin money assumes that a user can spend bitcoins associated with a specific address. For this, a payer must digitally sign the transaction using the appropriate private key. Without knowing the private key, the transaction can not be signed and the bithoins can not be spent. The network checks the signature using the public key. If the private key is lost, the Bitcoin network will not recognize any other proof of ownership; The currencies thus become unusable, and are actually lost. For example, in 2013 a user said he lost 7,500 bitcoins, worth $ 7.5 million, when he threw a hard drive containing his private key.

A transaction must have one or more entries. For the transaction to be valid, each entry must be an unrelieved output of an earlier transaction. Each entry must be digitally signed. The use of multiple entries corresponds to the use of multiple currencies in a cash transaction. A transaction may also have multiple exits, thus allowing for more payments. A transaction result can be specified as an arbitrary multiple of satoshi. Similarly as in a cash transaction, the amount of entries (coins used to pay) may exceed the amount for payments. In this case an additional exit is used, returning the payer's money. Any satoshi input not booked in the transaction results becomes a transaction fee.

To send money to a bit-bit address, users can click on the links to the web pages; This is done with a temporary bithoin URI scheme using a IANA-registered template. Bitcoin customers, like Electrum and Armory support, support Bitcoin URIs. Mobile clients recognize Bitcoin URIs in QR codes, so the user does not need to manually enter Bitcoin address and quantity. The QR code is generated by user inputs based on the amount of the payment. The QR code is displayed on the screen of the mobile device and can be scanned by a second mobile device.

Bitcoin in the world

Czech Republic

In the summer of 2016, Coinzone, the trading platform for Bitcoin, announced its expansion to the Czech Republic. After the launch in the UK, where the English have appreciated and quickly adopted the new payment method, entering the Czech market means continuing the expansion of Coinzone on European markets. This should, of co-urse, be translated into (another) validation for the now (and very volatile) virtual currency.

Japan

The bitcoin virtual currency reputation was heavily affected by the Mt. Gox - as a result of an attack by which several hundred thousand bitcoins were stolen, and the suspension of Bitstamp transactions, the second largest dollar trading platform.

Romania

At the beginning of 2014, Horea Vuşcan, vice president of the Green Party and contractor, launched BTCxchange.ro, the first trading platform of the virtual bitcoin currency in Romania. Although representatives of several banks around the world considered (and still do) that bitcoin currency investments are risky and volatile, and they are not regulated, Vushan bet that the virtual currency is a future investment. He gave the example of the tremendous rise in the bitcoin, from a few tens of dollars and up to $ 1,200 in one year.

But as a result of the security challenges faced by the world's oldest trading platform, the same quote would drop by half in just a few days. However, BTCxchange.ro enjoyed the first months of success: the Romanians had bought and sold bitcoin (over the BTCxchange.ro platform) worth more than 1.3 million euros in 11 months of the platform's existence. That meant that the 2,200 members had traded over 3,300 bitcoins.

But one year after its existence, BTCxchange.ro knew its end. Vuşcan took the decision to close the platform after a dispute with the company's programmer, Lucian Ivan, who had left the company with the passwords and source codes of the programs. There was a whole scandal, and the bitcoin's reputation was also suffering in Romania, as it had suffered over the past years at international level. Simply, I am not regulated, the coin turns into a speculative game and remains in the anteroom of the revolutionary role it has assumed.

Coinzone was founded in 2014 by Radu Georgescu (founder of GECAD Group and known for the development of companies like Avangate and ePayment), Diwaker Singh and Manuel Heilmann. Coinzone has operations in the United States and Europe, and the development department is in Romania.

Since the summer of 2016, Manuel Heilmann, CEO and co-founder of Coinzone, said: "We are actively focusing on delivering a suitable trading solution for European users to incorporate the functionalities they need, that is, we offer them currency payment instruments Bitcoin translated into local languages. We also provide them with the funds they have in the bank accounts of the users in their classical currencies. "

Like other trading platforms, Coinzone creates a system that can help bitcoin to get out of the unknown area faster. In the Czech Republic, for example, Coinzone is the first provider of integrated bitcoin digital trading services. Thus, retailers and consumers benefit from a secure, easy-to-use platform for accepting and using bitcoin payments. Also, the amounts are immediately converted into the Czech currency thanks to solid partnerships with local bank branches and the money is quickly delivered to the users in the relevant bank accounts, regardless of the amount of the payment.

US

Just in early 2015, it was reported that bitcoin has the first regulated trading platform in the United States, which has, of course, led to a strong appreciation of the virtual currency. San Francisco's Coinbase Company has already announced that it is already providing storage services for bitcoin users and has inaugurated a trading platform, called Lunar, which has the agreement of regulators in half of US states, including California.

Coinbase supporters include the New York Stock Exchange and Spanish bank BBVA, alongside USA financial services company, investment division of the Japanese telecom operator NTT DoCoMo and former Citigroup CEO Vikram Pandit.

Conclusions

Generally, speculative bubbles or monetary potic decisions of some big banks on the planet (US Federal Reserve - Fed, Bank of England, Bank of Japan, Bank of China, etc.) determine the increase in bitcoin value, relative to the dollar.

Rising economic and geopolitical risks have recently pushed bitcoin to a record high, increasing the ability of the virtual currency to compete with gold as a refugee asset. "When the existing monetary system is in trouble, people are turning to bitcoin as they turned to gold in old times," says Bobby Lee, co-founder and CEO of the BTCC .

In the future, bitcoin will definitely become a reference currency for the International Monetary System, like the dollar, the euro, the pound sterling, the French franc, the Japanese yen, or the Chinese yuan, just to quote the main currencies of the present moment. He's already 8 years old and has progressed nicely throughout this time, though few have been the ones who initially bet on the bitcon.

References

Apostoiu, Cătălina, „Vânarea“ misteriosului creator al monedei virtuale Bitcoin a ajuns în Australia, în Ziarul Financiar, 10 decembrie 2015

Apostoiu, Cătălina, Moneda virtuală bitcoin depăşeşte 900 $ pe fondul riscurilor geopolitice și al majorării dobânzilor în SUA, în Ziarul Finaniar, 25 decembrie 2016, p. 3

Apostoiu, Cătălina, Bitcoin vs aur, inovație vs tradiție. Pe ce ai paria?, în Ziarul Financiar, 3 ianuarie 2017, p. 3

Apostoiu, Cătălina, Bitcoin sare de 1.000 dolari pentru prima dată în 3 ani, în Ziarul Financiar, 6 ianuarie 2017, p. 3

Năstase, Andrei, Ce știm și, mai ales, ce nu știm despre Bitcoin, controversata monedă virtuală, pe site-ul http://adevarulfinanciar.ro/articol/ce-stim-si-mai-ales-ce-nu-stim-despre-bitcoin-controversata-moneda-virtuala/, vizitat pe 5 august 2016, orele 18:12

Mihai, Aurelian, Celebra monedă virtuală Bitcoin va consuma în curând mai multă energie electrică decât Danemarca, pe site-ul http://www.go4it.ro/internet/bitcoin-celebra-moneda-virtuala-va-consuma-in-curand-mai-multa-energie-electrica-decat-danemarca-15187443/, vizitat pe 6 august 2016, orele 12:58

Roșu, Roxana, Andrei Andone, expert Bitcoin: Reţeaua are o putere de calcul de 30.000 de ori mai mare decât cele mai puternice 500 de super-PC-uri din lume, în Ziarul Financiar, 13 ianuarie 2017

Sfetcu, Nicolae, Sistemul financiar Bitcoin, pe site-ul https://www.setthings.com/ro/sistemul-financiar-bitcoin-1/ , vizitat pe 13 ianuarie 2015, orele 20:17

Ștefan, Stan, Părintele celei mai controversate monede din lume şi-a dezvăluit identitatea. Cine este Craig Wright, antreprenorul care a lansat Bitcoin şi a schimbat modul în care vedem banii, în Ziarul Financiar, 2 mai 2016

* *, ZF Live: Cum funcţioneză bitcoin, moneda virtuală şi cât valorează în bani reali?, 2 decembrie 2016

HOW GOOD IS CREDIT DEFAULT SWAP MARKET AS A PREDICTOR OF FINANCIAL CRISIS AT CAPITAL MARKETS?

Mariya PASKALEVA[1]

Abstract

This paper explores the informational value of credit default swaps and the extent to which they may be related to financial crisis. After developing a theoretical framework to model the relationship between credit default swap market and capital market, we apply an empirical research which uses logistic regression. Our dataset includes three- panel data (panel 1: Brazil, Russia, China and South Africa; Panel 2 – Germany, France, Belgium and the United Kingdom; Panel 3- Bulgaria, Romania and Turkey) to assess the ability of credit default swaps to predict the crisis. Regarding them as a reflection of credit risk, we find CDS to be a significant indicator explaining the periods proceeding financial crises, especially in developed capital markets.

Keywords: credit risk, developed economies, logistic regression

JEL Classification: G12; G15

Introduction

During the last financial crisis, sovereign credit default swap (CDS) spreads drew a lot of public attention. It may due to the fact that a county's CDS spread is considered to be an indicator of country's sovereign credit risk (OECD, 2012). Given the economic consequences of the 2008 credit crisis and its relation to the CDS market, the question of interest is could it be predicted by the CDS' fluctuations? In this paper, we focus on the sovereign credit default swap market. In the case of sovereign CDS, the country's credit risk should be transferred between CDS buyers and CDS sellers. During the financial crisis and the sovereign debt crisis, many countries have been under pressure to raise funds to finance fast- growing fiscal deficits, so this provoked m investors to insure against losses on holding sovereign debt.

Is it possible an increase in sovereign credit default swap spreads to imply financial destabilization in the near future? Exploring the answer to this question, we have revealed the information value of credit default swap spreads and the

[1] *Ph.D Student, South-West University Neofit Rislki*

extent to which they may be related to the financial crisis, especially for the developed capital markets. The aim of this paper is to investigate the ability of credit default swap spreads' fluctuations to predict the occurrence of a financial crisis at developed and developing stock markets. The hypothesis is that CDS spreads reflect investors' future expectations on the outcome in capital markets. If dependence between the sovereign CDS spreads and capital markets is established, it will have essential implications for investors, regulators and risk-managers. Most crucial, this relationship will have the ability to forecast and potentially to avoid a financial turmoil alike the one in 2008.

The last global economic turmoil has caused extensive damage not only to the European Union country- members, the entire Euro Zone area but to other continents- to stable and growing economies such as BRICS, too. The following countries- Brazil, Russia, China and South Africa- are members of the BRICS economies. We have included them because of their rising importance to the global economy. Their economic growth and stability are assumed to make them the next world economic and financial power. Their resistance to financial crisis, together with a high regional financial integration, has made of BRICS countries an important case exploring the interrelation between crisis prediction and sovereign CDS.

The remainder of the paper is organized as follows: Section 2 reviews relevant literature, Section 3 presents the data and the econometric methodology, Section 4 discusses the results and Section 5 concludes.

Literature Review

The theoretical models about the relationship between CDS spread and the probability of capital market crisis are based on Merton's model. The model of Merton *(Merton (1974))* discloses the interaction between the prices of shares and bonds by showing the presence of positive correlation between them. It also states that if the value of the assets of a specific company drops below the nominal value of its debt it falls into an insolvency. Later this model is further developed by Chan-Lau and Kim *(Chan- Lau, and Kim (2004))* as they accept that sovereign bonds are equivalent of the corporate debt. Based on Merton's model (1974), *Norden and Weber (2004), Pena and Forte (2009***)** research the relationship between sovereign CDS and stock market indexes where they draw the conclusion that capital markets determine the behavior of CDS markets and have a key role during the incorporation of new information. The connection between the two variables is stronger with countries with high- risk spread *(Coronado et al (2011)).* After them, other authors think that the direction of interaction and the degree of correlation between the two financial markets depend on various factors such as time; a high or low degree of credit risk of a government or a corporation *(Fung et al. (2008), Coudert and Gex (2010)).*One of those authors proving the changing cooperation is

Corzo *(Corzo et al (2012)*). He reveals the change upon the dominating role of financial markets during different periods of time. He takes into consideration the fact that CDS are a determining factor in economics with high bankruptcy risk. The information impact and researching transmission mechanism of the credit risk at different markets and throughout separate periods of time is a factor that will help us understand the relative efficiency of markets – developed and developing as well as how changed can be their functioning upon changing market conditions *(Avino (2011)).* In support of Avino's statements, Baciu *(Baciu, O.A. (2014))* examines deviations of the efficiency in 20 European stock exchange markets for the period of 15 years. The results indicate that developed markets are closed to the efficiency than developing markets. One of the distinctive lines between the efficient and inefficient markets is the speed of incorporation of information in the market prices *(Tsenkov, V. (2015)).*

The relationship between credit default swap market and capital markets is observed and analyzed by several authors, but the forecasting ability of credit default swaps has gained importance since the Great Recession 2007- 2008.The periods before crisis should be examined. The idea for studying the predicting ability of sovereign CDS spreads is to identify some specific patterns prior financial turmoil. The purpose is constructing a model that will be able to forecast the probability of crisis at some moment in specific time period. It exists three methodological and theoretical approaches on stock market crisis (Neziri,2009). The first one is more concerned about the effects of crisis on the economy rather than the reasons which caused the turmoil. In historical perspective we shall mark that the formation and the mechanism of distribution of financial crisis is examined by Sachs, Tornel and Velasco *(Sachs, J., Tornel, A., Velasco, A.(1996)).* They examine the consequences of financial destabilizations of separate countries in 1995 and aim to clarify why only some specific developing markets are affected. An idea later Kaminsky and Reinhart *(Kaminsky, G., Reinhart, (1996))* construct their methodology, which is named "signal approach". It contributes to a more precise prediction of specific time periods when a financial crisis will occur. Kaminsky and Lisondo *(Kaminsky, G., Lisondo (1996))* develop a methodology through which they foresee the occurrence of financial collapses with the assistance of main economic indicators: GDP growth, inflation, unemployment, return of stock market indexes, actual interest rate. This paper follows the third approach. To eliminate the main disadvantages of the "signal approach", we use a logistic function to evaluate the effect of the explanatory variable on the probability of the crisis.

Financial crises are preceded by periods in which investors avoid risk. Coudert and Gex *(Coudert, V.,Gex, M.,(2006*)) test the possibility whether the main indexes for risk measurement are able to predict the occurrence of a crisis. They think that the "risk appetite" decreases before crisis. They still mark that the reverse reaction is possible. Crisis may be preceded by a period of strong "risk appetite" during which investors are too optimistic and in this way they create "speculative balloons" at prices of risk assets. The recent mortgage crisis started with the collapse of Bear Stearns is an example of such reaction. The results of their research state that indicators related to risk avoidance foresee the coming of stock exchange crisis.

Based on the principle of the above-mentioned models, Neziri *(Neziri, H.(2009))* study the ability of CDS premiums to foresee the coming of the financial crisis of the capital markets having them as a source of information, reflecting the future expectations of investors at the stock market. To test whether sovereign credit default swaps are leading indicators of financial crisis, Neziri (2009) follows Mishkin and White (2002) definition of stock market crisis as falls in price of an index below some threshold during a specified period of time. His dataset consists of a panel data with 21 emerging markets (Argentina, Brazil, Bulgaria, Chile, China,Colombia, Croatia, Hungary, India, Indonesia, Israel, Malaysia, Mexico, Peru, Philippines, Poland, Russia, South Africa, South Korea, Thailand and Turkey) and reveals that the logistic regression results show that the one month change in a country CDS premium tends to increase one month ahead of a crisis in the stock market. Neziri established that fluctuations in CDS premiums signal trouble in stock markets.

The conclusions of Neziri *(Neziri, H.(2009))* arrived at support the study results of Coudert and Gex *(Coudert, V., Gex,M.,(2006***))** - namely the statement that CDS are reliable indicator of forthcoming crisis on the stock markets.

According to the theoretical researches, economic fundamentals- GDP, inflation, unemployment- are the main causes of the financial turmoil. The macroeconomic fundamentals are not the only leading indicators for upcoming crisis. Financial crises are a phenomenon which is determined by the behavior of investors *(Akerlof, G., Shiller, R. (2009))* by geographic and political characteristics. Accepting CDS as a measure of investment expectations regarding the development of capital markets, we review them as explanatory variable when defining the financial crisis.

Methodology

The data used in this research consists of monthly closing quotes for the indices denominated in Euro for the period 31.10.2009-28.02.2017 of the explored countries and their sovereign CDS spreads. The data has been collected from the database maintained by BRICS Stock Exchange website and from other website sources (www.investing.com; www.yahoofinance.com). For the purpose of this research a database of the respective CDS values is published respectively in the information bulletins of Deutsche Bank. Reviewed is the data of probability of default on the grounds of 5-year CDS spreads, due to the fact that 5-year-old CDSs are the most liquid *(Goldman Sachs CDS 101 FICC, 2009)* with *Recovery Rate= 40 %.*

Subjects of the study are the following countries: *France (CAC 40), Germany (DAX), UK (FTSE 100), Belgium (BEL-20), Bulgaria (SOFIX), Romania (BET), Turkey (BIST 100), Brazil (BOVESPA Index), Russia (MICEX Index), China*

*(SSE Composite), South Africa (FTSE/ JSE Top 40 Index).*Table 1 shows the various countries and their respective indices included in the research.

Table 1

Sample countries and their Indices

	Country	Index Selected	Abbreviation Used
Panel 1	Brazil	BOVESPA Index	BOVESPA
	Russia	MICEX Index	MICEX
	China	SSE Composite	SSE
	South Africa	FTSE/JSE Top40 Index	JSETOP40
Panel 2	Germany	DAX	DAX
	France	CAC 40	CAC
	Belgium	BEL 20	BEL
	United Kingdom	FTSE 100	FTSE
Panel 3	Bulgaria	Sofix Index	Sofix
	Romania	BET	BET
	Turkey	BIST 100	BIST100

Source: Author's classification

Before proceeding to the election of the econometric method, it is necessary to establish stationarity for all of the explored variables: CDS spreads- and countries' indices. One of the used panel unit root tests is the test, developed by Levin, Lin and Chu (2002). The null hypothesis means that Ho: each time series contains a unit root, against the alternative hypothesis H1 : each time series is stationary. The test rejected the null hypothesis against the alternative that all series are stationary at a 5 percent level of significance, so the variables, used in our research are trend stationary.

In order to disclose the CDS' role when forecasting occurrence of capital markets' financial crisis we use logistic regression. We use logistic regression of the type:

$$F(x) = \frac{e^x}{1 + e^x} \qquad (1)$$

The dependent variable is a qualitive variable and the explanatory variable is a quantitative one. The specific periods of crisis are identified by the indicator $crisis_{i,t}$. It is the dependent variable. By the logistic regression, we estimate the crisis probability $crisis_{i,t} = 1$ in a six month time horizon. In order to inspect the presence of crisis for a respective period of time we shall determine maximal value threshold to which the price of a stock exchange index may drop for a certain period of time (*Mishkin and White (2002)).* The crisis probability is intentionally tested at the following three scenarios:

1. Relatively low changes in the price of the indexes (to 10%)

2. Decrease of the value of the index price with about one fourth of its value;
3. Extreme stock exchange collapse – with the decrease of the price index to 40%.

$Crisis_{i,t}$= 1, if ($P_{i,t}$/ $P_{i,t-6}$) -1 <= -0,10 (2)
$Crisis_{i,t}$= 1, if ($P_{i,t}$/ $P_{i,t-6}$) -1 <= -0,25 (3)
$Crisis_{i,t}$= 1, if ($P_{i,t}$/ $P_{i,t-6}$) -1 <= -0,40 (4)

Crisis i,t= 0 otherwise, $P_{i,t}$ is the value of the index in the moment t, $P_{i,t-6}$ is the value of the index during the previous six months. Through this equation we report the fact that the presence of crisis will cause decrease in the value of the index for the previous six months. We develop a model where the dependable variable is *Crisis*$_{i,t}$**,** and the explanatory such is the change in CDS**.** Examined is one-month change with explanatory variable with the aim to check its ability to predict the presence of financial crisis in the following month *(Neziri, H. (2009)).* In this econometric model we use equation expressing logistic regression in order to assess the probability of incurring of financial crisis at stock exchange markets through regressive one-month change in CDS values (see eq.6).

$$\Pr(crisis_{i,t} = 1) = f(\alpha + \beta \Delta \mathrm{CDS}_{i,t-1}) \qquad (5)$$

where α and β are coefficients.

$$\Delta CDS_{i,t-1} = (CDS_{i,t-1} / CDS_{i,t-2}) - 1 \qquad (6)$$

Restrictive conditions of this research are determined in the following aspects:

1. *Time range*-this research is restricted to the time interval from October 2009 until February 2017.

2. *Methodological restrictions* –they are set by the statistical properties of the researched data imposing the application of specific econometric tests and models giving opportunity for the irreflection. The proposed and used methodology does not claim to be the only possible and applicable when inspecting and proving the research thesis of this study.

3. Place restrictions – the analysis and the inspection of the research thesis are concentrated on specific capital and derivate markets.

Due to the aforementioned facts, conclusions drawn from this research do not engage processes and circumstances of other markets of the category of the explored ones.

Empirical Results

For the purpose of the Logit test and our study, we have compiled three panels of countries (see Table 1). For each panel we have calculated the percentage of predicted crisis. On the grounds of the results in table 2 we may state that for the countries of panel 1 there is the lowest percentage of foreseen financial crisis for researched period *(9.09 %).* For countries which are included in panel 2, this indicator is equal to 11.34%. At panel 3, we report *33.8%* of foreseen crisis. Hence, according to these results, the stock markets of the BRICS countries are more stable than the ones of the core European developed countries and the capital markets of the developing Balkan Countries.

Table 2

Number of predicted crisis

Country:	Number of predicted Crisis	Tranquil	% Crisis
Panel 1	9	99	9.09%
Panel 2	11	97	11.34%
Panel 3	23	68	33.8%

Source: Author's calculations

Table 3 reveals ratios and marginal effects of factors that are supposed to affect on the probability of incurrence of financial crisis at capital markets. One-month changes of CDS values for Panel 1, Panel2 and Panel 3 are statistically significant at 5% level of significance. Hence, the predictive ability for our three panel data is proved to be significant. For the first panel (Brazil, Russia, China and South Africa), the regression on the CDS spreads produced the highest value of McFadden R- squared- 0.448291. This means that the changes in CDS have stronger explanatory ability for stock market crashes in the aforementioned countries. For Panel 2- that includes the core European developed markets- R-squared is equal to 0.417528. This confirms the importance of CDS dynamic for European markets, either. The CDS importance is confirmed by the logistic regression results for the Balkans countries (Bulgaria, Romania and Turkey). The R- squared value is almost equal to the ones of the panel 1 and panel 2. Hence, on the ground of the Mc Fadden R- squared values, we may conclude that CDS fluctuation have strong explanatory power for stock markets crisis prediction. One month changes in CDS are statistically significant and they may forecast capital market crashes one month in advance in developed (Panel 1 and Panel 2) and developing (Panel 3) markets. On the grounds of the results stated in table 3 related to the values of CDS, we establish that everywhere one-month changes in the CDS value have a positive sign. On its hand, it corresponds to the fact that at equal other conditions the increase of the value of CDS alarms about the increasing probability of incurrence of financial crisis at capital markets. For panel 1 we observe the following dynamics: if the value of CDS increases with 1% at equal other conditions the probability of incurrence of capital market crisis increases with 1,79%. At panel 2: if the value of CDS increases with 1% at equal other conditions the probability of incurrence of crisis at capital markets is increased with 1.66%, and for panel 3 we observe the following interaction if the value of CDS increases with 1% at equal other conditions the probability of incurrence of crisis at capital markets is increased by 1.303%. The aforementioned results confirm the conclusions after R- squared analysis, i.e changes in the one-month values of CDS have better perspective when predicting the occurrence of financial risk for Panel 1 countries than the other study stock markets. So, CDS premiums are appropriate signals for upcoming turmoil at developed capital markets. But we should mention that CDS dynamic may be a good instrument for credit risk management in emerging markets alike Bulgaria, Romania and Turkey.

Table 3

Logit regressions on stock market crisis prediction:

	Panel (1)		**Panel(2)**		**Panel(3)**	
Independen t variables (t-1):	Coefficient	Marginal Effects	Coefficient	Marginal Effects	Coefficient	Marginal Effects
Constant	-2.548153* [0.281826]		-4.158267* [0.582649]		-4,286259* [0.387516]	
Credit Defalut Swaps	0.582815* [0.384682]	0.002469* [0.00235]	0.506078* [0.367518]	0.003083* [0.00005]	0.264771* [0.098563]	0.0001352* [0.00012]
McFadden R-squared	0.448291		0.417528		0.386254	
LogLikelih	-39.59467		-37.48625		-27.28775	
LR statistic	15.005065		14.077098		11.09563	
P-Value	0.0024		0.0031		0.0138	

Source: Author's calculations
Notes: The value in brackets shows the standard deviation
** significance at 5%; Marginal effects coefficients represent the full value of slope coefficient, calculated on the basis of the results from Logit regression*

Through table 4 we express the probabilities for the occurrence of financial crisis where the dependant variable is $crisis_{i,t}$ and explanatory one is the one-month changes in the values of CDS: *Panel 1* - characterizes with share of accurately predicted crisis in the amount of 17.14% . The change of the six-month value of stock market indexes in interval to 40%, i.e. at financial collapse at capital markets, we have 99.8% predictability of the incurred financial crisis. For the entire researched period 2009-2017 the methodology encloses 9 peaks with significant incurrrence of crisis out of total 108 observations. In the remaining 99 cases the econometric does not enclose such significant peaks of change. The percentage of False Alarms 56.75% can be explained by the fact that the crisis is not a natural condition of capital markets and regardless of indexes' fluctuations they manage to keep their stability. Actually, false alarms are the crisis situations which do not have sufficient power to fall into some of the three levels of significance, i.e. these are mostly proto-crisis conditions of market than actual crisis. As a whole the used logistic regression when calculating the probability of incurring of financial crisis suggests 96.04% accurately classified observations which includes as a rule foreseen crisis as well as the conditions of financial stabilization.

Table 4

Forecasts of crisis probabilities in stock markets:

		Number of predicted crisis	Crisis predicted correctly ***Pr(D|+)***	False Alarm ***Pr(~D|+)***	Sensitivity ***Pr(+|D)***	Specificity ***Pr(-|~D)***	Share of correctly classified obs.
Panel1	**total**	**9**	**43.25%**	**56.75%**	**17.14%**	**78.12%**	**96.04%**
	-0,10	5	11.07%	88.93%	9.35%	87.68%	86.34%
	-0,25	2	28.22%	71.78%	37.54%	91.28%	86.35%
	-0,40	2	99.08%	0.92%	99.57%	99.12%	98.68%
Panel2	**total**	**11**	**41.71%**	**58.29%**	**15.11%**	**68.25%**	**93.07%**
	-0,10	2	10.96%	89.04%	11.75%	69.17%	58.37%
	-0,25	7	78.33%	21.67%	69.38%	96.81%	94.23%
	-0,40	2	69.58%	30.42%	58.27%	75.29%	86.02%
Panel3	**total**	**23**	**30.17%**	**69.83%**	**12.02%**	**54.68%**	**65.27%**
	-0,10	11	27.33%	72.67%	8.29%	94.64%	97.04%
	-0,25	10	17.29%	82.71%	6.41%	97.17%	70.46%
	-0,40	2	38.00%	62.00%	5.381%	91.28%	69.72%

Source: Author's calculations

Notes: *Crisis predicted correctly- number of matches between financial crisis prediction and actually realized one; False Alarms- includes predicted but not realized crisis; Sensitivity- the percentage of probability of one crisis to be predicted, when realized; Specificity- the probability of one financial crisis not to be predicted and not to be realized; share of correctly classified obj. - Includes the percentage of all correctly predicted situations, on the basis of the data used.*

D – Realized crisis; ~D - unrealized crisis; „+-„ Predicted crisis; " – „ –unpredicted financial crisis.

The share of accurately predicted crisis for Panel 2 is 15.11%. At stock market collapse, i.e. at $(P_{i,t}/ P_{i,t-6}) -1 <= -0,40$**,** two numbers of crisis are foreseen, either, of which 69.58% present accurate foreseen crisis. At threshold of 25 % in stock indices value, we observe better predictive ability for CDS spreads of European developed markets that the ones of countries from Panel 1- 78.33 %. For panel 2 the amount of the False Alarms is almost equal to the one in panel 1- 58.29%, i.e. the financial markets are stable and the fluctuations in stock indices value up to 10 % provoke this high false alarms indicator. We shall mark that the share of accurately classified observations is 93.07 which is lower than the value of panel 1, i.e. as a whole the used logistic regression gives higher assessment of the model for panel 1 and panel 2, that represent developed capital markets.

The highest number of predicted crisis is for Bulgaria, Romania and Turkey (Panel 3)- 23 peaks of financial turmoil. The model is characterized with the lowest share of correctly classified observations- 65.27 % and with lowest values of crisis predicted correctly- 30.17%. The high percentage of false alarms- 69.83 % indicates that these emerging markets are unstable, and there is a high risk level some of these proto crisis conditions to transform into a financial crisis. The highest level of correctly classified observations is at threshold of 10 % from stock indices value- 97.04 %. It means that for relatively low stock indices changes, the logistic regression indicates best results for the emerging markets. As a whole the applied method estimates the accurately classified observations in the amount of 65.27 % which is almost 30% lower than those of countries with developed capital markets.

Of the aforementioned we may draw the conclusion that the significance of CDS is increasing and it turns them into a "reliable" measurer of risk for countries with developed capital markets and economies. For them they are indicator whose fluctuations are not only signals of incurring financial collapse but also for periods with ascending market trend. What we should mention is the fact that they are a significant indicator for the emerging markets- Bulgaria, Romania and Turkey. Those results support the conclusions that *Naziri, Coudert and Gex* draw, namely that the fluctuations of CDS predict shocks at capital markets and have significant information value

Conclusions

The idea to study the ability of the one-month changes in the values of CDS to predict the financial crisis in the capital markets was triggered by the growing importance of CDS, and the fact that they were determined as source for the occurrence of the financial meltdown in 2007 *(Oren, B., (2013)).* In order to confirm the research hypothesis through econometric modeling of the CDS return to establish whether the ability of the CDS to foresee the coming of financial crisis at developed capital markets is more significant than in the countries with undeveloped capital market. Based on empirical results the following conclusions may be drawn: CDS effect and CDS predictability are proven as well as their impact on the capital markets is strongly determinative for the developed capital markets- Brazil, Russia, China, South Africa, Germany, France, United Kingdom and Belgium. The crisis transforms CDS into a financial tool which reacts sensitively regarding negative information flows. In such a “prognostic” way the financial markets of developed countries react. This strongly predictive character of CDS for developed capital market is expressed by the significantly higher number of crisis predicted correctly compared to the one of countries with emerging capital markets. Contrary behavior is registered to the countries with emerging stock markets as well as Bulgaria, Romania and Turkey. Regardless of the statistical significance of one- month CDS fluctuations, they still do not reflect entirely the economic situation in the Balkan countries so their changes may not be a good indicator for financial turmoil in the Balkan stock markets.

The implications of the results from our study are that CDS spreads have been proved as instruments that may be used for predicting a default. Investors may be able to use the CDS market as a risk monitoring device, because the one-month changes in CDS spreads have predictive ability prior to default. This type of market behavior is useful for risk managers because through CDS fluctuations they possess a tool for pricing changes in default risk at capital markets, especially for developed ones. This fact may be useful for the investors in most of the BRICS countries and some of the European core economies.

For the future research first and main place shall be for the testing of those dependencies when grouping of larger number of countries of the Balkans in order to establish whether in the entire region CDS changes have lower predicting ability than for the developed capital markets.

Acknowledgments

Thanks to the South West University “Neofit Rislky”- Blagoevgrad, Faculty of Economics.

References

Avino, D., Lazar, E. and Varotto, S. (2011). Which market drives credit spreads in tranquil and crisis periods? An analysis of the contribution to price discovery of bonds, CDS, stocks and options. MPRA paper from University Library of Munich, Germany

Akerlof, G., A., Shiller, R.J. (2009) Animal Spirits: How Human Psychology Drives the Economy, and Why It Matters for Global Capitalism. Princeton University Press

Baciu, O. (2014) Ranking Capital Market Efficiency: The Case of twenty European Stock Markets. Journal of Applied Quantitative Methods vol.9 (3): 24-33

Chan-Lau, Jorge A., and Yoon Sook Kim. (2004). Equity Prices, Credit Default Swaps, and Bond Spreads in Emerging Markets. IMF Working Paper WP/04/27

Coronado, Maria and Corzo, M. Teresa and Lazcano, Laura, (2012) A Case for Europe: The Relationship between Sovereign CDs and Stock Indexes Frontiers in Finance and Economics, Vol. 9, No. 2, 32-63.

Corzo, M.T., Gomez- Biscarri, J., Lazcano, L. (2012) The Co-Movement of Sovereign Credit Default Swaps and Bonds, and Stock Markets in Europe. Available at SSRN: http://ssrn.com/abstract=2000057 or http://dx.doi.org/10.2139/ssrn.2000057

Coudert, Virgine, and Mathieu Gex. (2006).Can risk aversion indicators anticipate financal crises? Banque de France, *Financial Stability* Review 9

Dickey, D. A., Fuller, W.A, (1981) Likelihood ratio statistics for autoregressive time series with a unit root, Econometrica: Journal of the Econometric Society: 1057- 1072

Forte, S. and J.I. Peña (2009) “Credit Spreads: An Empirical Analysis on the informational Content of Stocks, Bonds and CDS” Journal of Banking and Finance, 33: 2013-2025.

Fung, H.G, Sierra, G. E and Yau, J., Zhang, G., (2008) Are the U.S. Stock Market and Credit Default Swap Market Related? Evidence from the CDX Indices, Journal of Alternative Investments: 1-46

Granger, C.WJ., (1969) Investigating causal relations by econometric models and cross-spectral methods, Econometrica: Journal of the Econometric Society: 424- 438.

Hamilton, J. D.(1994), Time Series Analysis, 4th edition, Princeton University press.

Kaminsky, Graciela , and Carmen M. Reinhart. (1996): The Twin Crises: The Causes of Banking and Balance of Payments -Problems. The American economic Review 89: 473-500.

Kaminsky, Graciela , Saul Lizondo, and Carmen M. Reinhart. (1998) Leading Indicators of Currency Crises. IMF Working Paper 97/79

Kendall, M. (1953). The Analysis of Economic Time Series*. Journal of the Royal Statistical Society, Series A, 96*, 11-25.

Kendall, M. G. (1943), The advanced Theory of Statistics, Vol.1, London: Griffin.

Merton, R. C. (1974) On the pricing of corporate debt: The risk structure of interest rates. The Journal of Finance (2): 449- 470

Mishkin, Frederic S., and Eugene N. White. (2002) U.S. Stock Market Crashes and their Aftermath: Implications for Monetary Policy. NBER Working Paper 8992

Neziri, H. (2009) Can Credit Default Swaps Predict Financial Crisis: An Empirical Test On Emerging Markets, Journal of Applied Economic Sciences (1): 125- 136

Norden, L., Weber, M., (2004) Informational efficiency of credit default swap and stock markets: The impact of credit rating announcements, Journal of Banking & Finance 28(11) : 2813-2843

Sachs, Jeffrey, Aaron Tornell, and Andres Velasco. (1996). Financial Crises in Emerging Markets: The Lessons from 1995. Brooking Papers on Economic activity 1

Tsenkov, V. (2015), Crisis influences between developed and developing capital markets - the case of central and eastern European countries. Economic Studies, 3,71-108.

CRUISE INDUSTRY IN THE FOCUS OF TOTAL QUALITY MANAGEMENT

Maksym DIMITROV[1]

Abstract

The cruise industry, and river cruise as a part of it, shows an immense growth over the past years. Nowadays there are many river cruise companies which are providing same "unique" product. The measurement of customer satisfaction has become an important issue for researchers in service marketing and hospitality management. Connected to that many researches in the hospitality industry are focused on the customer's choice and its relation with the quality of the product and services. Referring to that current paper concentrates on customer satisfaction as key element for a company's success on the market by the implementation of the Total Quality Management.

Keywords: river cruise tourism, customer satisfaction, total quality management

Introduction

The cruise industry is the fastest growing sector in the entire tourism market at the beginning of new millennium. The market is still growing, despite the global economic crisis. The number of cruise travelers increased with 38% from 2009 to 2016. For the past year (2016) the total number of cruisers reached the 24.2 million passengers. In 2017 this number is expected to be around 25.3 million (State of the Cruise. Industry Outlook – 2017, CLIA). Cruise tourism refers to the specific type of tourism as it requires large human and financial capital and combines several types of tourism such as recreational tourism, sports tourism, medical tourism, religious tourism, cultural tourism and others.

Tourists mostly take a cruise for leisure purposes rather than point to point transportation (Dowling R.K., 2006). Cruise is a luxury journey on a large ship for pleasure, during which you visit several places. The cruise industry has evolved markedly since the early days of the first passenger ships. This evolution has included excursion voyages, transatlantic travel, the post-war boom, the demise of passenger ships, and the advent of modern cruising (Dowling R.K., 2006).

Large cruise ships (ocean and sea) offer a big choice of activities and facilities on board including spa, gyms, tennis courts, amusement parks and a lot of different types of restaurants and bars. For this reason the large cruise ships are the primary

---

[1] PhD student, Department of tourism, Faculty of Economis, SWU "Neofit Rilsky", Blagoevgrad, Bulgaria, *e-mail:* m.n.dimitrov@gmail.com

tourist destination because the travelers are able to find any kind of activities on board. Consequently the ports of call are considered as a secondary destination. River cruise ships are smaller and the activities and facilities on board are limited to a restaurant and lounge area. Some of them have spa, gym and library. The ports of call are very important and very often are in the role of primary destination.

As a service organization the quality of service has very important role in order to reach excellence of guest satisfaction. This is why providing quality service is the biggest challenge for the hospitality industry. Service quality establishes good relation between the company and the customer. Parasuraman (1994) stated that competing organizations provide the same type of service, but they do not provide the same type of quality. This is why customer satisfaction bring many benefits.

Cruise industry and service quality

Cruise tourism is one of the world's fastest growing tourist activities. In addition to its traditional function of providing transport and accommodation, cruise tourism encompasses a wide range of activities for travelers (UNTWO, 2012). Cruise tourism is a luxurious form of travelling, involving an all-inclusive holiday on a cruise ship of at least 48 hours, according to specific itinerary, in which the cruise ship calls at several ports or cities.

A cruise can be a one-way or a round trip and generally has several ports of call where passengers can come ashore to explore and experience the attractions, activities, culture, nature and shopping of that town, city or region.

According to Davidoff and Davidoff (1994) citied in Dowling (2006) there are five reasons which make cruises attractive to travelers:

1. Passengers have the opportunity to visit a number of places in a short time without the problems associated with the various means of transport;
2. Ships are independent;
3. Ships have a crew whose sole responsibility is to ensure the travelers a comfortable stay;
4. High-quality food is served in an elegant style;
5. Everyone usually begins and finishes vacation on the same day.

As we have different water ways, the types of cruises are divided into (Cruise Tourism: Potential and strategy Study, 2005):

- Ocean voyages – one was passage from one point to another over major body of water. Trans-Atlantic or trans-Pacific are the most common ocean voyages.

- Standard cruises – an open water cruise may be one way or round-trip with several ports of call. These cruises are traditionally vessel-oriented trips in which the ship and all amenities it provides are the main focus of the voyage. The ship is selected based on accommodations, recreation, entertainment and service.

- River cruises – they are closely linked to the culture and heritage of the country being toured. Along the journey, the waterway's villages, town and cities offers particular appeal to scenery buffs and those who enjoy ever changing landscape. Travelers choosing river cruises are interested in and attracted to the destinations as well as the cruising experience.

- Destination and expedition cruises – just as river cruises, based on the destination to be visited. Travelers are attracted by the unique, out of the way, remote or exotic ports of call. These cruises offer the stimulation of exploring new territories while in the company of like-minded travelers.
- Day cruises – typically a cruise experience of 15 hours or less. These cruises may be geared to gambling, whale watching, dinner, etc.

According to Douglas Ward (2007), a river cruise represents life in the slow lane, sailing along at a gentle pace, soaking up the scenery, with plentiful opportunities to explore riverside towns and cities en route. It is a supremely calming experience, an antidote to the pressures of life in a fast-paced world, in surroundings that are comfortable without being fussy or pretentious, with good food and enjoyable company.

The development of river cruise tourism explores new destinations, creates new itineraries and the ship companies are building new ships with improved technical system. According to Thames and Hudson (2007) the choices of destinations of travelers is the culture, climate and political situation. Europe has reach cultural background. Many European countries are attractive because of their history, traditions and sightseeing. Climate in Europe is one the reasons for seasonality of the river cruise tourism. Most of the river cruise companies start the season between the middle of the March and the beginning of April. The weather conditions allow to offer a cruise voyage until the middle of November. Some of the cruise ships, despite the cold weather, continue the season until the end of December. They offer to visit Christmas markets in various European cities. In general political situation in Europe is considered to be normal.

River cruise tourism is developed mostly in European countries such as France, Germany, Austria, Italy, Hungary, Bulgaria, Romania, Serbia and others. The most popular river cruise itineraries are on Rhine, Danube, Elbe, Rhone, Senna rivers. The river cruise are considered as luxury class vessel.

One of the largest operators in the river cruise industry is Viking Cruises. It is a privately owned, company offering river and ocean cruises. Its destination-focused river and ocean itineraries are designed for experienced travelers with an interest in geography, culture and history. It is the parent company of Viking River Cruises and Viking Ocean Cruises.

In 2015, the company began offering ocean cruises on ocean vessels that sail the coasts of Scandinavia and the British Isles, and the waters of the Baltic Sea and the Mediterranean Sea. Viking has a primary sales office in the United States, secondary sales offices in the United Kingdom and Australia, and operational offices in Switzerland.

Viking Cruises was initially founded as Viking River Cruises in 1997. Viking River Cruises expanded into the American market in 2000, establishing U.S. headquarters in Los Angeles, California. Over time, the company has acquired and refurbished additional ships and built new ones. As of 2015, it operates a fleet of 64 ships. The company employs more than 4,000 staff worldwide and it markets its river cruises primarily to English-speaking customers in North America, the United Kingdom and Australia

Viking River Cruises, the river cruise division of Viking Cruises, offers scenic cruising along the rivers of Europe, Russia, China, Southeast Asia and Egypt. Since its 1997 inception, the company has grown to a fleet of 64 river vessels. Viking's European ships have a typical capacity of 190 passengers; its Russian ships' capacity averages just over 200 and its China ship carries up to 246.

Viking itineraries range from eight to 23 days along Europe's Rhine, Main, Danube, Seine, Saône, Rhône, Elbe and Douro Rivers; Russia's Volga and Svir; Ukraine's Dnieper; China's Yangtze; Egypt's Nile and Lake Nasser; Cambodia and Vietnam's Mekong and Myanmar's Irrawaddy. Some voyages, including those in China, Southeast Asia and Egypt and a few in Europe, are "cruise tours," which include both hotel stays and river cruising.

Viking River Cruises is one of the top companies in the cruise industry on following characteristics: cabins/facilities, restaurants/food, service, itineraries/destinations, excursions/activities and value. (Time and Leisure World's Best Awards, 2016). As a response to increased traveler demand for Viking's destination-focused cruises, the company expanded its river offerings in 2015 with the launch of new award-winning Viking Longships and new European itineraries. Since entering the North American market in 2000, Viking has continued to set industry standards with best-in-class river cruise ships, award-winning service, outstanding quality and all-inclusive itineraries offered at a competitive price. Torstein Hagen (chairman of Viking Cruises) stated "As the river cruise market continues to grow, we will never lose sight of the Viking Way of travel – we offer our guests the 'thinking man's cruise,' not the 'drinking man's cruise.' We provide enriching experiences for our guests in every destination, and we do it at a great value."

Providing a good quality is one of the main challenges of Viking Cruises. In the high competitive conditions on the river cruise market the service quality and customer satisfaction is not only an obligation, but also a competitive advantage. Providing a good quality is long and complicated process which includes the involvement of company's employees and at the end has positive results.

The conception of customer satisfaction has its own place in the marketing theory. Many researches has been done in order to find out the importance in the hospitality industry.

For Parasuraman however, focus on quality might be a key to success, but customer satisfaction is a completely different concept from quality of service. In his research, Parasuraman examines satisfaction as a result of the comparison between the expected service and received service, while quality of service presented as a ratio between the desired services and adopted one. Therefore the survey should be created in the way to measure the service quality and customer satisfaction. The results should be systematically analyzed.

The concept of quality in the hospitality and tourism industry, is - "the result of a process involving the legitimate needs of products and services, requirements and expectations of the consumer at an affordable price, in accordance with the quality standards related to the provision of safety and security of tourists, hygiene, accessibility, transparency, authenticity and harmony of tourism activity with the natural and human environment.” (UN WTO, 2003).

Quality as a term and a major distinguishing characteristic of each product or service is the subject of extensive research and development back in the 80-ies of the last century. One of the first researches in this area have been done by Juran, Gosby and Deming. Their studies are oriented to the service technology and service quality. Each of them has contributed to clarify the essence of quality management and above all to achieve a higher quality without the use of additional value. According to International Organization for Standardization quality managements means all activities of the overall management function that determine the quality policy, objectives and responsibilities and implement them by means such as quality planning, quality control, quality assurance and quality improvement within the quality system.

Edvardsson (1988) cited Grönroos (1983) “Service quality as both technical and functional, the first meaning what the customer gets and the latter how the customer receives the service. When a customer assesses service quality, the company’s profile or image acts a “filter”. If a company has a positive image, it is easier to overlook smaller mistakes in its service delivery; to regard them as temporary disturbances”.

Development of quality service requires well defined concept about what the quality is and what customers are expecting as a service quality. A study conducted back in 1985 shows that consumers judge the quality in the field of service with the same general criteria, irrespective of the area of service. Parasuraman, Zeithaml and Berry (1985) combined and summarized these criteria on a scale of 22 questions designed to analyze five dimensions of service quality:

- TANGIBLES - Appearance of physical facilities, equipment, personnel, and communication materials;
- RELIABILITY - Ability to perform the promised service dependably and accurately;
- RESPONSIVENESS - Willingness to help customers and provide prompt service;
- ASSURANCE - Knowledge and courtesy of employees and their ability to convey trust and confidence;
- EMPATHY - Caring, individualized attention the firm provides its customers.

Later in 90th this scale and the five aspects of quality were interpreted by Coyle and Dale (1993), in order to determine is there a discrepancy between the perceptions of customers and those of providers

Many authors speaking of tourism, emphasize the importance of relationships of employees in tourist organizations and potential guests from the moment of arrival until leaving. Actual practice proves that customers create their impressions about the service quality with the first entry to the tourist site, or in many cases even earlier - during their first contact with the representative of the tourism organization. Studies of consumer behavior highlight the importance of satisfaction as a core post the buying period. The reason behind is the fact that if the customer is satisfied with purchase of tourist product or service than the choice would be repeated again. At the same time by positive feedback will achieve the most powerful advertising in the tourism marketing word-of-mouth advertising.

Intentional customer surveys, in their efforts to increase customer satisfaction, have the positive impact. In the marketing practice there are many variations of this type of research, but according Meister and Robideau (1965) it is "reasonable" to implement to the tourism industry three methodological types - the observation, the information security and the subjective judgment. In this combination the methods provide for the conduct of observations, experiments, comparisons of databases, studies of primary information sources, analysis of consumer statements consulting third parties, surveys, interviewing.

Many modern theorists in tourism are supporting the idea that the service quality should be considered by the customer position who as well by the company representative. As a result there is a need for quantifying and assessing the quality of service. Parasuraman offers SERQUAL model which gives the possibility to analyze the quality by identifying discrepancies between these five dimensions, also called "quality spaces". This model became very popular and is used in many studies in different sectors.

Over the past decade, the problem of customer satisfaction in tourism is the subject of special attention and a discussion among scientists and researchers. Today most of the leading companies in tourism not only strive to deliver a product or set of product components, but also ensure a high level of "product quality" and simultaneously a "customer satisfaction". This tendency helps to increase customer loyalty to the company. In conclusion, we can outline several important conclusion about the need to use methodological approaches for identifying, analyzing and improving consumer satisfaction:

- by evaluating the level of satisfaction among hotel guests manager can evaluate the current service quality and how it meets the expectations of consumers;

- from a diagnostic point of view, the establishment of the real situation should indicate more precisely the source of a possible satisfaction among actual and potential users

- understanding client's variable desires and expectations about the tourist product some actions could be in order to improve the existing service.

We should not underestimate the fact that in any moment there could of fully customer satisfaction. As well there is no doubt that high levels of satisfaction is possible, but it requires constant effort and must be maintained constantly to ensure the future prosperity of the organization.

Total quality management in the cruise industry

Total quality management (TQM) is a set of management practices throughout the organization, geared to ensure the organization consistently meets or exceeds customer requirements. TQM places strong focus on process measurement and controls as means of continuous improvement. TQM has become popular in tourism industry. Big number of tourism companies, especially hotels, have integrated the TQM system as the quality became the important factor for hospitality. Godfrey (2000) stated that TQM in hospitality has four main targets: satisfying customers, satisfying staff, increasing revenues and reducing cost. Implementing TQM in the organization would help to competiveness, effectiveness and flexibility. This system involves the entire team in creating good quality product/services.

There are eight principles of total quality management:

1. Customer-focused – guests are the main reason why the company exists;
2. Total employee involvement – the employees are the main distributors of quality;
3. Process-centered – in order to deliver a good quality product/service there should be system which would be focused on each process in providing quality;
4. Integrated system – this is multi-processed structure which creates general structure, mission, principals and policies of the organization;
5. Strategic and systematic approach – there should be strategic and systematic approach in order to achieve an organization's vision, mission, and goals.
6. Continual improvement – this process is helping the organization to become more competitive and more effective.
7. Fast-based decision making - TQM requires that an organization continually collect and analyze data in order to improve decision making accuracy, achieve consensus, and allow prediction based on past history;
8. Communications - effective communications plays a large part in maintaining morale and in motivating employees at all levels. Communications involve strategies, method, and timeliness.

According to Oakland (2003) the principles be applied to each and every level in the organization with an emphasis an integration into business practices and a balance between technical, managerial and people issues.

Total quality management in the cruise industry

Cruise tourism is very specific sector of tourism. River cruises are destination cruises and mostly oriented on the visited places and sites. Therefore customer satisfaction of the river cruises is the evaluation of the overall experience of shore and ship services. Services onboard are including lodging, food and beverage service, entertainment. Shore services are including excursions and tours which are included or optional (for extra cost). It is important to evaluate service on board and on the shore. This is why there are two different questionnaires: Onboard questionnaire and Shore excursion questionnaire. There are handed to each guest two days before departure so the guest could evaluate their experience and express their opinion though the comments.

The structure of the onboard questionnaire is divided into four parts: demographic information of the guest, pre-cruise experience, onboard experience, suggestions. The shore excursion questionnaire includes questions about each activity onboard and tours. The 4-level Likert scale is used to evaluate the experience of the guests: below expectations (1), met expectation (2), above expectation (3), far above expectation (4). In addition to the survey questions, there was a space for comments and suggestions.

The evaluation has been done onboard of MS Viking Prestige on the itinerary “Danube Waltz”. This cruise starts from Passau (Germany) and ends in Budapest (Hungary) with stops in Linz, Melk, Durnstein, Vienna (Austria), Brtislava (Slovakia). In Linz guest are offered to visit by bus Cesky Krumlov (Czech Republic). This one-day excursion gives the opportunity to visit 5 countries in one-week cruise.

The total amount of passengers on the cruise from the 7^{th} till 13 of August 2017 was 185: 90 men and 95 women (Table 1). The average age of the guests is 68 years. Viking Cruises works mostly with English speaking guests: 158 guests from USA, 16 from UK, 11 from Canada.

Table 1

Demographic profile of passengers

	Number of tourists		
Age	**Men**	**Women**	**Total**
40-59	15	17	32
60-79	46	48	94
80-99	29	30	59

Source: Viking Cruises AD

Baby Boomers represent the principal demographic for river cruises and they like having comfortable (if not luxury) accommodation, good food and diversions (from trips ashore to on-board lectures) that are not merely entertaining but also educational.

Out of 185 onboard questionnaires 152 were returned, 4 of them were not completed. The reservation experience 2.94, documentation and ticketing has better result and reached the point of 3.05. Transportation to the ship (including flights arrangements, transfers from airport to the ship) is evaluated with 3.27 points.

The next part in the questionnaire is evaluating all the departments on the ship. The management section includes the evaluation of Captain, Hotel Manager, Program Director, Maître D’hôtel, reception team and Concierge. According to the summarized results (figure 1) the guest satisfaction of the management department received is 89.2% (3.57 points). The kitchen section is evaluated by quality of breakfast, lunch and dinner. The satisfaction is 89.5% (3.58 points). The restaurant section is evaluated by service and care of restaurant and bar staff and it reached 91% (3.64 points). Housekeeping department is evaluated by the service of the stewards and cleanliness of the rooms and the entire ship. The guest satisfaction is 93% (3,72 points).

Figure 1

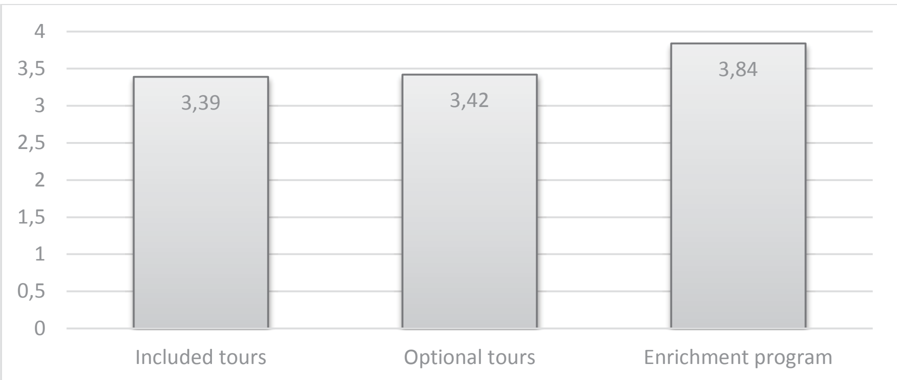
Onboard evaluation by departments

Source: Viking Cruises AD

Only 142 shore excursion questionnaires where returned, 9 of which were not completed. The shore excursion questionnaire is divided into three parts: included excursions, optional excursions (paid) and enrichment program (Figure 2). Every day cruise tourist have at least one included excursion, in most cases it is observational tour of the visited destination. Depends on the port of call, Viking cruises is able to offer up to five optional excursions. The enrichment program includes cultural, historical lectures, life cooking demonstration and musical events and quizzes.

Figure 2

Tours and enrichment program evaluation



Source: Viking Cruises AD

As we can see from the results, the guest satisfaction of the included tours is only 85% (3.39 points). The evaluation of the included tours is 85.5% (3.42 points). The enrichment program shows better result and the guest satisfaction is 96% (3.84 points). One of the main reasons for the lowest percentage of satisfaction on the tours is the fact that the guides are external and they represent the company just during the tour. It the big ports of call it is not possible to have the same guide for each visit and it makes difficult to keep the same high standard of service as it already established onboard. The law of each country requires all the guides to be licensed in order to guide a group of tourists. The satisfaction of the enrichment program is higher. Guests know the team onboard and they spent one week together and the evaluation is often corresponds on the overall impression of the cruise.

Conclusions

Currently river cruise industry is fast growing sector of tourism. River cruising attracts older generation and offers cultural, educational and recreational experience for the tourists. This type of cruising is considered more as destination cruising as there are not many activities onboard. River cruise ships are smaller than ocean (sea) cruise ships because of the specific of navigation: river depth, bridges and locks.

Customer service is very important for successful operation and it has enormous influence on the customer satisfaction and service quality. The weekly survey on MS Viking Prestige shows that the Viking Cruises AG has successfully implemented company standards and their employees have been well trained. The shore excursion survey showed that customer satisfaction with excursions is lower than onboard service. The main reason for different evaluation is the fact that Viking Cruises AG is working in cooperation with local tourist companies in each port of call. The other competitors are using the service of the same legalized tourist agencies. The guides should receive additional training from Viking Cruises AG in order to understand the company standards and apply them during the excursions. In addition to this, it important to take into consideration the age of tourists and the accessibility of visiting tours. In the their comments tourist explained the reason of low satisfaction as “a lot of cobblestones”, “tour guide is walking to fast”, “there were too many steps in the abbey”, “the bus transfer took too long” and etc.

Implementing the main principles of Total quality management in river cruise tourism has direct influence on the final guest satisfaction. It is very important to involve each employee and partners in creating and providing high quality service.

Acknowledgments

This paper would not have been possible without the inspiration and support of Assoc. Prof. Mariya Stankova.

References

Barsky, J.D., 1992, Customer satisfaction in the hotel industry: Meaning and measurement, Hospitality Research Journal, 16, pp.51-73

Berry, L.L., Zeithaml, V.A. and Parasuraman, 1985, Quality counts in service, Business Horizons, p.67

Brida, J.G., Garrido, N., Devesa, M.J.S. (2012). Cruise passengers' satisfaction: Cartagena de Indias. Benchmarking: An International Journal, 19 (1), 52-69.

CLIA (2015), Contribution Cruise Tourism to Economies of Europe, http://www.cliaeurope.eu/images/downloads/reports/Contribution_Cruise_Tourism_to_Economies_of_Europe_2015.pdf

CLIA (2016), State of industry for 2017, www.cliaeurope.eu

Coyle, M.P. and Dale, B.G., 1993, Quality in the hospitaly industry: a study, International Journal of Hospitality Management, 12/2, pp. 141-153

Churchill, J.G.A. and Surprenant, C.,1979, An investigation into the determinants of customer satisfaction, Journal of Marketing Research, 19, pp. 491-504

Dowling R.K. (Ed.), 2006, Cruise ship tourism. Wallingford: GABI

Erto, P., 2000, Statistical estimation of the service quality from customer point of view; the case of broadcasting service, Statistica Applicata, 9, pp. 1-11

Getty, J.M., Thompson, K.N.,1994, A procedure for scaling perceptions of lodging quality, Journal of Marketing Research, 18, pp.75-96

Ghobadian, A., Speller, S. and Jones, M.,1994, Service quality concepts and models, International Journal of Quality and Reliability Management, 11, pp. 43-66

Gronroos C. (1984). A service quality and its marketing implications. European Journal of Marketing. 18 (4).

Gundersen, M.G., Heide, M., Olsson, U.H., 1996, Hotel quest satisfaction among business travelers: What are the important factors?, Cornell Hotel and Restaurant Administration Quarterly, 37/2, pp.72-81

Johns, N. and Tyas, P., 1997, Customer perceptions of service operations: Gestalt, incident or mythology?, Service Industry Journal, 17, pp. 474-488

McColl-Kennedy, J.R. and White, T.J., 1997, Service provider training programs at odds with customer requirements in five-star hotels, The Journal of Service Marketing, 4/11, pp. 249-264

Oliver, R.l.,1988, A cognitive model of the antecedents and consequences of satisfaction decisions, Journal of Marketing Research, November, pp.460-469

Parasuraman, A., Berry, L.L. and Zeithaml, V.A., 1985, A conceptual model of service quality and its implications for future research, Journal of Marketing

Piskar, F., (2009), The Impact of the Quality Management System ISO 9000 on Customer Satisfaction on Slovenian Companies, Available online at http://www.fmkp.si/zalozba/ISSN/1581-6311/5_045-061.pdf

Pizam, A. and Milman, A.,1993, Caution in the use of difference scores in consumer research, Journal of Consumer Research, 19/3, pp. 655-662

Saunders, I.W. and Graham, M.A.,1992, Total quality management in the hospitality industry, Total Quality Management, 3, pp. 243-255

Saleh, F. and Ryan, C., 1991, Analyzing service quality in the hospitality industry using the SERVQUAL model, The Journal of Service Marketing, pp. 324-343

Surenshchandar, G.S. et al., 2002, The relationship between service quality and customer satisfaction – a factor specific approach, Journal of Service marketing, 16/4, pp.363-379 /databases: www.emerald.com/

Ward, D. (2007). Insight Guide to Great River Cruises. Insight Guides. p. 15. ISBN 978-981-258-397-0

Viking Cruises AD, www.vikingcruises.com

Viking Cruises AD, 2016, Internal documentation

Yu, L., 1992, Seeing stars: China's hotel-rating system, Cornell Hotel and Restaurant Administration Quarterly, 33, pp.24-27

CHAPTER 5

POSTER CONTRIBUTIONS

THE EU POLICIES ON MIGRATION

Alina Ligia DUMITRESCU
Institute for World Economy of the Romanian Academy
alinaligia1@yahoo.com

Abstract
The poster shows the priorities of the European Union Agenda on Migration, the methods for restraining the flow of illegal immigrants, which were established in the informal summit in Malta, as well as the measures for a better social integration of refugees, by boosting employment among them. The conclusions on the impact of migration on the European Union member states are shown using a SWOT matrix.

1. The top priorities of the European Agenda on Migration

The migration can be both an opportunity and a challenge for the EU.The European Agenda on Migration is built on *four pillars*:

1. Discouraging illegal immigration;
2. Saving lives and securing the external borders;
3. Strengthening the common policy on asylum;
4. Developing new policies on legal migration and integration.

2. Financing instruments

The migration policy is supported by effective integration policies. Although the entire responsibility lay with the Member States, the European Union can support the national governments, the local authorities and the civil society involved in this complex and lengthy process to stimulate integration and strengthening mutual trust. Funding is provided through the Asylum, Migration and Integration Fund (AMIF), the European Regional Development Fund (ERDF) and European Social Fund (ESF), which play an important role in supporting the EU migration policy.

3. Declaration of the Malta European Council on the external aspects of migration

Given that in *the East Mediterranean route*, the number of arrivals in the last four months of 2016 decreased by 98% over the same period of the last year, the European Commission remains committed to the *EU-Turkey Declaration* (from March 18, 2016) and to the full and non-discriminatory implementation of all aspects of its business and the commitment to continue to support the countries along the route from the Western Balkans. Because of the intensified migration in the *Central Mediterranean route* (over 181,000 people arrived in 2016), the European Union *considers as a priority to include migration issues in the official development assistance to North Africa and sub-Saharan Africa.*

Also, the European Commission will present an *updated action plan for refugees return to their home countries,* for those who do not qualify for asylum and will provide *more operational guidelines* from the EU and the Member States for *a more effective readmission operation based on the existing acquis.*

4. Measures for a better social integration of refugees

According to the Lisbon Strategy, promoting economic migration should be based on an account of the needs of the EU labor markets. The EU view is that stimulating employment is an essential part of the integration of migrants, while the recruitment of migrants is encouraged and the migrant entrepreneurship is supported. According to Community experts, the entrepreneurship is one way to ensure the integration and the economic independence of migrants and the migration can be turned into an opportunity for stimulating economic growth and create new jobs.

In this regard, on September 1, 2016, the European Commission launched the *"Initiative on strengthening the entrepreneurial skills for young migrants"*, which is part of the Action Plan "Entrepreneurship 2020". The action plan aims to facilitate the creation of new businesses and the development of a more favorable business environment for existing entrepreneurs.The target group of this initiative includes nationals of third countries benefiting from staying in the EU (migrants) who can participate in training activities in accordance with applicable law in the host member states. *This initiative focuses on providing information, vocational training and entrepreneurship and on ensuring support for migrants, especially young people, to help them in creating their own business.*

There is much debate at European Union level on the distribution and the redistribution of the number of asylum seekers and refugees and the partial suspension of the *Dublin III Regulations*. In addition, the discussions about next steps, such as refugees access on the labor market and their integration are already on the agenda among social partners and governments in many of the Member States. These initiatives are promoted as an opportunity to address the lack of skills in the labor market in the context of demographic challenges in the EU.

In some countries, labor market access may be granted in certain circumstances, almost immediately, while in others, the waiting period can be up to one year. However, *for the trade unions, the main concern is the compromise granting lower wages, which could help to ease entry into employment of migrants, but the pressure would be exerted on the low paid workers from the domestic labor segme*nts. The Unions have consistently supported *the need to ensure decent work pay for all and to avoid creating poverty traps for refugees or lower income workers.*

Conclusions

The SWOT analysis is used to summarize findings on the impact of migration on the EU. In this respect, there are identified the strengths, the weaknesses, the opportunities and threats of the migration phenomenon to the European Union as a whole and to the Member States.

The SWOT analysis of migration in the European Union

<table>
<tr>
<td>STRENGTHS:

The European Agenda on Migration.
The consolidation of the common policy on asylum.
The initiative for building the entrepreneurial capacity between young migrants as a part of the Action Plan "Entrepreneurship 2020".
The financing instruments:

The Asylum, Migration and Integration Fund (AMIF)
The European Regional Development Fund (ERDF)
European Social Fund (ESF)

</td>
<td>WEAKNESSES:

The lack of proper conditions for receiving a continuous flow of refugees, the insufficient housing capacities for migrants in some Member States, namely the lack of a fully functional institutional framework;
The Increasing social spending on short and medium term, considering that some Member States are confronted with their own "social issues", as high unemployment or increasing poverty.
The legal and linguistic obstacles faced by migrants in some host countries.
The cultural and religious distictions between migrants and the native population.
</td>
</tr>
<tr>
<td>OPPORTUNITIES:

The stimulation of the economic growth by increasing employment.
The creation of new jobs.
Ensuring the sustainability of the social security system by integrating young workforce.
</td>
<td>THREATS:

The spreding terrorism in the EU area.
The increasing extremism among the local population.
The failure of policies to integrate migrants in the EU can increase exponentially the social pressures between the local population and the migrants.
</td>
</tr>
</table>

Source: Author based on literature reviewed

MAIN CHALLENGES FOR SUSTAINABLE RURAL DEVELOPMENT IN ROMANIA

Drăgoi ANDREEA – EMANUELA, PhD., Senior Researcher

Institute for World Economy, Romanian Academy

andreeadragoi@iem.ro

Abstract

As part of the European Union, Romania must align its priorities in the field of rural development with the broader objectives of the Common Agricultural Policy (CAP). After the last reform of CAP, the "greening" process of this common European policy has become a main priority for all the Member States. As consequence, Romania's Rural Development Programmes (RPD) focused on objectives such as: sustainable agricultural practices, environmental protection, promotions of renewable energies. Our paper aims to assess through bought a qualitative and quantitative research if Romania has accomplished a more sustainable rural development in recent years through its implemented RPD. Also, in the final part of our paper we will highlight using a SWOT analysis the main challenges for achieving the sustainable development of Romania's rural areas.

The New European Model of Rural Development

Through the Common Agricultural Policy the member states may finance the rural development implementing National Rural Development Plans covering areas such as: farming and forestry, land use, the management of natural resources and economic diversification in rural communities.

In the European Union, the Common Agricultural Policy has undergone through a "Greening" process in order to promote a more sustainable rural development, environmentally friendly agricultural practices and organic farming.

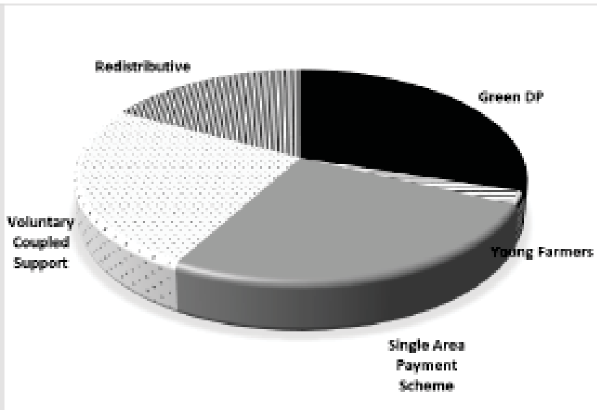
Presently, the European farmers are encouraged through the Green Direct Payments to engage in sustainable farming. Moreover, EU countries can offer specific support in their rural development programmes to conventional farmers wishing to make the switch to organic farming.

Sustainable Rural Development Principles in Romania:

- Correct the over-exploitation or inappropriate use of resources by ensuring that all environmental services are correctly valued (internalize the externalities)
- Establish projects and policies on appropriate levels: national, regional, global – generally with corresponding implementation/ financing mechanisms
- Incorporate institutional development and new technologies
- Reduce risks and vulnerabilities of farming communities:
    - Diversify cropping systems for economic and environmental resilience
    - Weather forecasting to aid planting date and management decisions.
    - Weather and price crop insurance.

The DP are the main tool for supporting sustainable rural practices (the Green Payments) in EU. As a member state, Romania is currently using this tool for supporting both sustainable development in rural areas and Romanian farmers.

Figure 1: The tool of Direct Payments (DP) in EU and Romania (in 2016, %)



Source: Author based on European Commission (2016).

In Romania, the rural development priorities are broken down into "focus areas". For example, the priority on resource efficiency includes focus areas "reducing greenhouse gas and ammonia emissions from agriculture" and "fostering carbon conservation in agriculture and forestry". At least 30% of funding for each RDP must be dedicated to measures relevant for the environment and climate change and at least 5% to LEADER (a programme conceived in order to strengthen the rural economy by encouraging local people to take action at the local level rather than imposing off-the-shelf action on them).

Conclusions

In Romania, from the total population 45% lives in rural areas. Approximately one third of all farms in the EU are found in Romania, with some 3.9 million farm holdings. Increasing competitiveness of the sector and accompanying the restructuring process are key challenges. The Rural Development Programme (RDP) for Romania was formally adopted by the European Commission on 26 May 2015, outlining Romania's priorities for using nearly € 9.5 billion of public money that is available for the 7-year period 2014-2020 (€ 8.1 billion from the EU budget, including € 112.3 million transferred from the CAP direct payments, and € 1.34 billion of national co-funding).

In Romania the RDP aims to promote diversification of the rural economy and creation of new job opportunities to help surplus labour from agricultural sector, and increase rural incomes. Nearly 3 000 projects are supported for setting-up/developing non-agricultural businesses in rural areas. Under the LEADER, Local Action Groups will implement local development strategies, covering 100% of the eligible rural territory. Almost 800 projects will be supported to improve small-scale rural infrastructure, improving living conditions for some 27% of the rural population. They will include investments in local roads, waste water/water supply facilities, crèches, kindergartens, after-schools, and agricultural high schools.

The Romania's new RD Regulation for the period 2014-2020 addresses six economic, environmental and social priorities, and programmes contain clear targets setting out what is to be achieved.

ROMANIA - four biggest RPD measures

€ 2.4 billion allocated to Measure 4 (Investments in physical assets)
€ 1.4 billion allocated to Measure 13 (Payments to areas facing natural or other specific constraints)
€ 1.3 billion allocated to Measure 7 (Basic services and village renewal in rural areas)
€ 1.1 billion allocated to Measure 6 (Farm and business development)

Source: EC (2016)

However, in order to truly achieve a sustainable rural development in Romania, it is necessary, in our opinion, to attract more EU funding especially as regards eco-friendly agricultural practices. In order to strengthen the ecological component of future rural development in Romania, it is appropriate to encourage cooperation between farmers and rural property administrators (especially with regard to ensuring the connectivity of certain environmental protection measures to those related to the protection of rural ecosystems) in parallel with counseling activities providing information on accessing agri-environment payments in Member States.

COMPETITIVENESS PROSPECTS FOR ROMANIA AND BULGARIA. THE IMPACT OF DIGITALIZATION ON LABOUR MARKET

Manuela UNGURU, PhD

Institute of World Economy,

m.unguru@gmail.com

Beyond the boost of competitiveness through enabling productivity gains, the Fourth Industrial Revolution is expected to have a much stronger impact on labour market, compared to the previous three industrial revolutions. The current rapid digitalization is expected to facilitate significant job creation/destruction and an increasing demand for completely new jobs, consequently new skills and qualifications. Policymakers should address challenges arising from mass digitalization, and improve collaborative involvement of a wider range of stakeholders when designing and implementing competitiveness policies.

In this new era of digitalization, countries with relative low digital skills, like Romania and Bulgaria, are certainly disadvantaged in the competitiveness catching-up process. Nevertheless, they still could take advantage of job creation in the short term, as a result of the relocation of labour-intensive activities from countries that are advanced in digitalization.

Redefining Competitiveness in the context of massive digitalization

Various prospective studies estimates converge to the conclusion that *the Fourth Industrial Revolution will lead to major changes in value adding process and will boost competitiveness*.

Digitalization contribution to competitiveness performance goes beyond the direct impact of broad adoption of ICT physical infrastructures. It affects productivity by facilitating the connection of economic agents, reducing transaction costs, facilitating the flow of information, and facilitating market integration in global value chains. It also represents an important stimulus for innovation and technological progress.

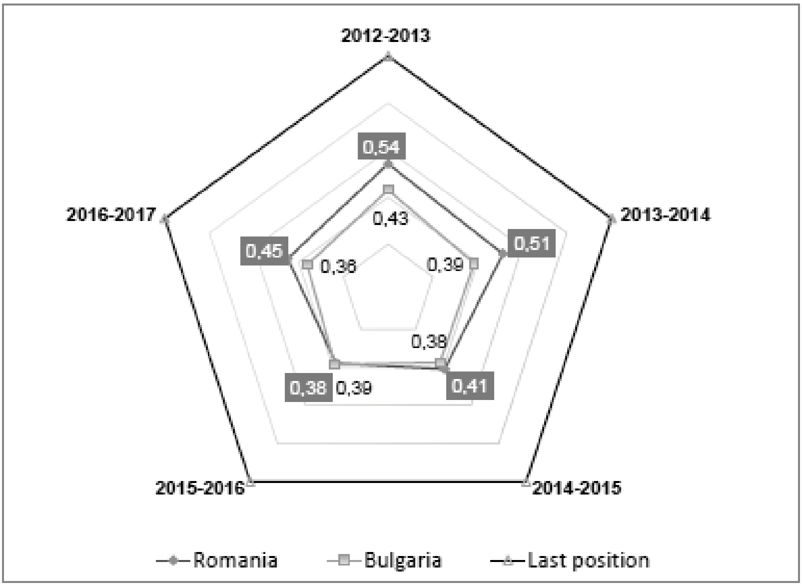
In line with increasing complexity of countries' competitiveness concepts, the approaches used to quantify the competitiveness of economies have evolved continuously, in order to keep up with the dynamics of the determinants of competitiveness, such as the current massive digitalization process. For example, in the last edition of the World Competitiveness Report of the World Economic Forum, WEF takes into account the fact that "countries looking to capitalize on economic gains of ICTs should promote not just access, but also adoption and use of digital networks".

As highlighted in many prospective studies, changing the paradigm in terms of competitiveness determinants will affect the countries in different ways, in direct proportion to the state of development of the economy and the information society of each country.

Where are standing Romania and Bulgaria?

WEF Reports show that Romania and, a bit more, Bulgaria have made certain progress in the global competitiveness hierarchy (Figure 1). Nevertheless, both countries are lagging behind the majority of EU countries remaining in the second stage of development, so-called *Efficiency-driven*, which is two stages below western countries and some central European countries.

Figure 1: Romania and Bulgaria competitiveness: distance from the world leader*)

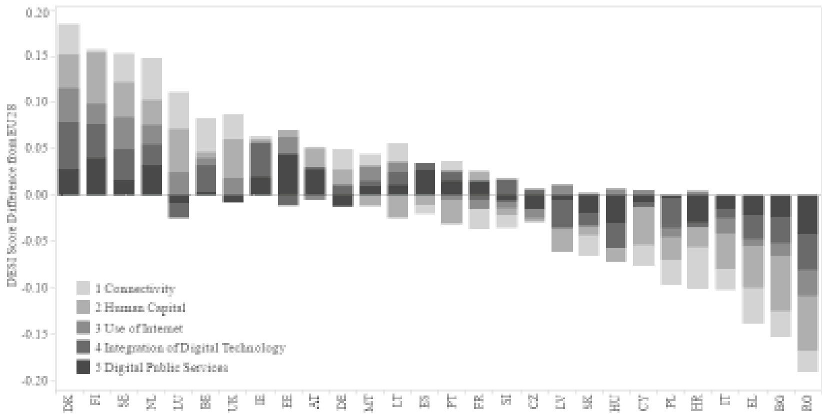


Source: based on various editions of The Global Competitiveness Report (World Economic Forum).

*)Note: the ranks have been rescaled for (0,1] interval, **the lower the values, the higher the competitiveness** (i.e. the values 1 designates the last position)

Digital education continues to be a major obstacle to increasing both Romania's and Bulgaria's competitiveness, especially in the context of the Fourth Industrial Revolution. Furthermore, human capital will not be able to contribute to GDP growth to its full potential, with digital skills being a sine qua non condition for adopting new technologies. DG CONECT digital economy and society index (DESI) places Romania and Bulgaria on the last positions within the EU countries, although the situation by DESI components is not homogeneous (Figure 2).

Figure 2: Digital Economy and Society Index (DESI) 2017: difference from the EU28



Source: based on data from DG Connect (2017)

The low level of digital competences continues to hinder the development of digital economy, despite the important potential resources of IT specialists in these countries. Digital skills seem to be somehow caught in a vicious circle, with a low supply (existing competences) and a low demand (from companies and public administration), although the good physical infrastructure (connectivity) is an advantage.

Possible consequences of digitalisation on the labour market

The impact of digitization on the economy varies depending on the time horizon considered. In the short term, many jobs with repetitive, dangerous or tedious tasks will be taken over by robots; on the other hand, new jobs will emerge in connection with the adoption of new technologies. In the medium to long term, we can talk about the upgrading of qualifications, but also a possible polarization of qualifications, which could result in new forms of unskilled labour.

At the global level, job creation and job destruction balance is expected to be positive (net creation of jobs). The Booz & Company study estimates that a 10% increase in digitalization would result in a 1.02% drop in the unemployment rate, with the largest effect in the emerging economies of East Asia, South Asia and Latin America. On the other hand, job creation in developed economies, such as North America and Western Europe, is expected to be more modest. With digitalization, productivity is improving, some jobs are being replaced by technology, and labour intensive tasks are relocated to emerging markets where labour is cheaper.

From this perspective, Romania and Bulgaria could take advantage of the wage comparative advantage and thus attract some labour intensive activities from more developed countries. However, it is not an ideal business model, nor is it a solution, but rather a short-term, possibly medium-term appeal.

Digitalization also has an impact on labour mobility, facilitating the combination of work and private life. In principle, mobile workplaces can be beneficial for both employees and employers, if additional specifications are included in employment contracts to clearly address the specificities of distance work.

If public policies have so far been particularly concerned to meet the challenges of technical progress with technical solutions, in the future, greater attention should be paid to services, organizational or even social innovations, as well as to the active involvement of a larger range of stakeholders.

Conclusions

Digitalization - including *cloud, big data, mobile, cognitive computing and internet of things* - will play a decisive role in the economic and social developments.

The highlights of the global competitiveness scoreboards and of the DESI measures suggest that digitalization will rather increase the competitiveness disadvantage of Romania and Bulgaria compared to the EU countries, if no progress is made in the digital education and in the usage of online services by population, companies and public administration.

The digitalization impact on the Romanian and Bulgarian labour markets could be positive, but only in the short term, through job creation by relocation of labour intensive activities from more developed economies. Due to the expected major impact on labour market, it is very important to prepare the population to meet new tasks and challenges raised by digitalization and also to help them keeping a high level of motivation.

DEALING WITH NON-PERFORMING LOANS BURDEN IN THE EUROPEAN UNION

Dorina CLICHICI, PhD. Senior researcher III

Institute for World Economy, Romania,

e-mail dorina.clichici2@gmail.com

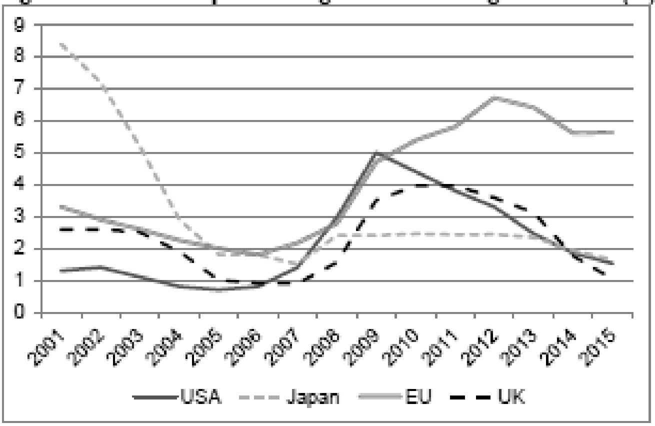
While major developed economies have succeeded to keep under control the problem of non-performing loans (NPLs), the banking sector of the European Union (EU) is struggling to cope with the aftershock of the global financial crisis. The NPLs is one of the main reasons behind the low aggregate profitability of European banks, involving doubts about banks' earnings capacity going forward. Moreover, it affects the effectiveness of the monetary policy transmission mechanism and undermines growth reviving. The paper highlights the size and the peculiarities of the NPL problem in the EU and presents recommendations for dealing with this burden.

The size and extent of the NPL problem in the EU

The global financial crisis has brought to the fore the asset quality issue for banks. Banking sector worldwide is affected by several global economic factors as low crude oil prices that undermine the ability of energy companies to repay bank loans, the economic slowdown in China, trade restraining as a result of provided protectionist policies by governments with a negative impact on growth and employment, low or negative interest rates that are depressing bank profits. While major developed economies have succeeded to keep under control the problem of NPLs, the banking sector of the EU is struggling to cope with the aftershock of the global financial crisis. High levels of NPLs, low profitability and efforts to restore confidence, notwithstanding the steady strengthening of the capital base remain the main problems of the EU banking sector. Moreover, economic growth in the EU remains slow, being a further hurdle for banks. This problem involves doubts about banks' earnings capacity going forward. These challenges affect investors' confidence in banks and limit the ability of the banking sector to contribute to economic recovery. This is reflected in their decreasing share prices. The Stoxx Europe 600 Banks Index has been down from its 2007 level by about 65%. Moreover, while European companies depends significantly on bank loans, NPLs problem affects the effectiveness of the monetary policy transmission mechanism and undermines growth reviving. By contrast, U.S. corporations are less reliant on banks and more on market instruments, especially listed equity. This contributed to a much swifter economic rebound in the U.S. than in the EU in the aftermath of the global financial crisis (European Commission, 2015).

Currently, notwithstanding the steady strengthening of the capital base of European banks[1], NPLs are estimated at 1 trillion euros by the European Banking Authority (EBA) and remain a serious challenge for the European Union. While there are signs of potential improvements, NPLs ratio is still subdued compared to historical figures and other regions (Figure 1).

Figure 1. Bank non-performing loans to total gross loans (%)



Source: WDI Database (2016)

Since 2013, the situation has improved in the EU, mainly due to a contraction of the NPL volume, but also due to the growth in the total volume of credits. However, this rate is highly dispersed in EU countries, ranging from 1% to 47% and remaining over 10% for one third of EU countries in the second quarter of 2016. The ratios of NPLs are especially high for banks from financially stressed member states, which were hit the most by the economic crisis from 2008. Levels of NPLs depends on internal risk management factors, but they are they also affected by the general economic conditions in the local markets. As countries within the EU differ in their economic situation, in local legislation and in regulatory aspects, there is a large variance of NPLs ratios. However, the ratio of 10% is considered "a new normal" in the Central and Eastern Europe banking sector, with stricter capital requirements, a high degree of regulatory

[1] According to EBA, the strengthening of European banks solvency, initiated in 2011, has continued. The common equity tier 1 (CET1) ratio increased by 80 basis points between June 2015 and June 2016, to 13.6%. The main driver for the improvement in banks' capital position was the continuous increase in common equity. In addition, supervisory restrictions on dividends have boosted retained earnings, despite banks' low profitability.

involvement and the ultra-low interest rate environment (Raiffeisen Research, 2016). Amidst a still weak economy all these factors are burdening on banking profitability.
Despite this heterogeneity, bad loans are a problem with an obvious European dimension, because even those countries where banks do not confront with the asset quality issue are susceptible to the contagion effect, both through the financial and the real channels.

Conclusions

Considering the adverse effect of high NPLs on the economy, there is a need for policies to tackle asset quality issues in the EU. NPLs are a problem at multiple levels (EBA, 2016):

- at a micro prudential level,
- at a macro level,
- at consumers' level.

At a micro prudential level high levels of NPLs are burdening banking profitability and efficiency. At a macro level NPLs are associated with stagnant growth as capital is tied up with NPLs and not granting new credits to the real economy. For consumers, NPLs generate a situation of paying interest and fees on an asset that they may eventually not own.
Over the last few years, EU supervisors have taken several steps towards improving balance sheet stability of banks. In 2013, the EBA issued the standards on non-performing exposures and forbearance and provided a common definition for NPLs. It allows national supervisors to assess their level on a comparable basis across the EU. In addition, to contribute to a coordinated approach in evaluating banks' credit portfolios by competent authorities, EBA issued recommendations on asset quality reviews (AQRs) across the European Union, including the work of the Single Supervisory Mechanism (SSM) and its balance sheet assessment. In 2014, EU authorities and the Single Supervisory Mechanism carried out comprehensive reviews of banks' assets for the EU-wide stress test. These efforts brought to a reduction of NPL ratios over the past quarters, but the improvement remain slow and significantly uneven across countries. Outside the EU, there is at present no common definition of NPL, complicating the global analysis of NPLs. Significant improvement in this context will bring the BCBS work on global definition on NPLs. Despite all these alignments of definitions and provisioning rules, there are several drawbacks that affect banks' capacity to deal with NPLs in the EU. These refer to the legal systems, duration of court proceedings and tax regimes. Moreover, banks across the EU are improving their organisational set up to deal with the bad debt resolution, but they have limited options to transfer debt into bad banks. According to EBA this is only legally provided in 15 of the 28 EU countries. Another issue refers to improving the functioning of the

secondary markets though increasing transparency and homogeneity of contracts.

Considering above mentioned, member countries should taken further steps, both at the micro and macro level in order to assure a full repair of the EU banking sector. At the micro level EBA recommends creating separate units within banks, with adequate processes in place to manage bad debt. While at the macro the following actions should be implemented:

- Providing adequate tax incentives to provision for bad debt;
- Supporting a reliable fast insolvency process;
- Supporting a legal and regulatory framework for unambiguous and timely identification of bad debt;
- Setting up structures to manage large portfolios of bad debt outside of banks' balance sheets (asset management companies);
- Enhancing market efficiency by a transparent collateral market to ensure adequate and marketable collateral values and a deep international secondary market for loan portfolios and the ability to securitize such portfolios.

THE NEW ERA OF CHINESE CAPITAL – CHINA'S REPOSITIONING IN THE GLOBAL INVESTMENT LANDSCAPE

Sarmiza PENCEA, PhD
Institute for World Economy, Romanian Academy, Bucharest
pen_sar@yahoo.com

Ana-Cristina BÂLGĂR, PhD(c)
Institute for World Economy, Romanian Academy, Bucharest
anacristinabalgar@gmail.com

Abstract:

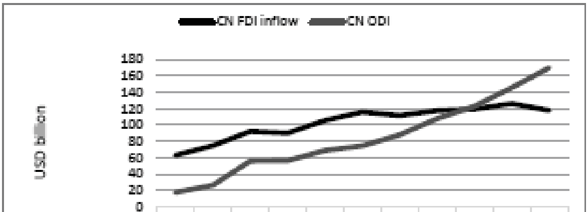
Following the launching of its "go out, go global" policy, China has rapidly become an important source of investment capital for the rest of the world, while its strategic motivations in this regard have progressively evolved from the simple focus on getting access to natural resources, to the conquest of new outlets for local production and, more recently, to the race for new RD&I resources, able to speed up the absorption of high technology, as well as skills and competence building at home. In this new context, our paper aims at scrutinising the leading drivers of Chinese outward direct investments (ODI), the main features and trends of the major Chinese investment waves of the last decade, China's new positioning in the new global changing investment landscape and the consequent opportunities and challenges that might occur for the other countries, mainly European, against this new backdrop.

1. Introduction

For decades, China has been one of the most important foreign direct investments (FDI) receivers, worldwide. FDI inflows have been important levers of the country's economic advancement, helping it industrialize, modernize, develop and become the economic power that it is today. The ample transformations that China has already underwent and its on-going reforms coupled with the recent developments in the global economy, have become incentives and, at the same time, triggers of new and complex mutations in the country's development model, foreign relations, global positioning and international footprint. Meeting both the requirements of its new economic fundamentals and of the internationalization strategy embodied by its "going global" policy of the early 2000s, ***China became an increasingly important global investor in little over one decade:*** its yearly ODI surged from less than USD 2.9 bn. in 2003, to USD 146 bn. by 2015 and to USD 170 bn. by the end of 2016, ***ranking the world's***

second-largest investor after the US (since 2015) and ***the first one in terms of acquisitions***. In 2014 China also became ***a net capital exporter country***, its yearly ODI outstripping FDI inflows for the first time. Both the 2015 and the 2016 years have set new records high for global Chinese investments.

Graphic 1: CN ODI vs. CN FDI inflow



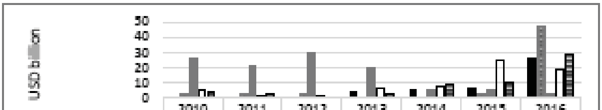
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
CN FDI inflow	63	74,8	92,4	90	105,7	116	111,7	117,6	119,6	126,3	118
CN ODI	17,6	26,5	55,9	56,5	68,8	74,6	87,8	107,8	123,1	145,7	170,1

2. China's ODI: the most significant recent mutations and trends

As China strives to change its investment-and-export-driven development model with a new, innovation-and-services-led one, its outward investment priorities are also shifting:

- Its ***former focus on getting access to the world's sources of energy and natural resources is gradually replaced by a pronounced stress on obtaining access to the world's new technologies, know-how, knowledge and innovation capabilities***, as well as to the world's ***most famous brands and distribution networks***;
- Also, Chinese investors eye a broader range of industries, mostly high tech, while their real estate or infrastructure investments tend to diminish (Graphic 2).

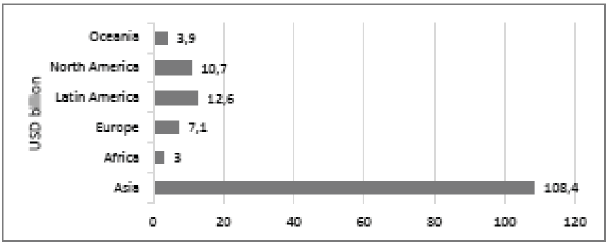
Graphic 2: Chinese ODI by main sectors of activity, 2010-2016



	2010	2011	2012	2013	2014	2015	2016
Internet software	0,3	0,4	0,2	3,5	5,6	6,6	26,7
Chemicals	2,8	1,9	2	0,3	0,2	2	47,6
Traditional energy	26,2	21,5	30	19,5	5	4,9	2,8
Finance	5,1	1,6	1,4	6,2	6,9	25,2	19
Property	3,3	2,2	0,6	2,3	8,4	10	28,8

- China seems ***most interested in acquiring high value-added industrial assets in developed countries*, *especially in Western Europe and North America.*** In 2016, Chinese investments in the US have tripled (to USD 48 bn.) and those in Europe have doubled (to USD 46 bn.). Over half of all Chinese ODI into Europe and the USA took place in the last 3 years.
- ***Chinese interest moved to the European "core economies": the focus on Germany and the UK*** (about 46% of the overall investment) ***mirrors China's keen interest in high technology assets***; Germany saw a ten-fold rise (from USD1.3 bn. in 2015, to USD12.1bn. in 2016) and UK a 130% growth to USD 9 bn. Other major recipients: Finland (USD7.6bn.), Switzerland (USD4.8bn.), Ireland (USD2.9bn.); Central and Eastern European Countries (CEE16)[1] usually get only maximum 10% of the amounts directed to Western Europe, in spite of 16+1 Platform and OBOR strategy (Graphic 3).

Graphic 3: Total Chinese ODI by regions in 2015



- ***The shift towards investments in more sophisticate industries in highly developed countries is reflected in the average value of the deals*** which more than doubled in 2016, year-on-year, in both Europe and North America, to about USD290 million;
- ***Developments in Europe are in stark contrast with those in China, where European ODI continue to drop due to persisting asymmetries in market access;***
- As China's number of takeover deals in Europe and in the USA grow, so do the worries in the targeted countries and the ***number of cancelled contracts***: In 2016, 20 deals in Europe and 10 in the US, cumulating a record USD74bn. amount were cancelled;
- In step with China's shift from large investments in mining or infrastructure to investments in high value-added assets (software, hardware, biotechnology etc.) ***the dominant type of investors by ownership also tends to change from state-owned (SOEs), to privately-owned enterprises (POEs), illustrating a***

[1] The ones in 16+1 Platform (11 EU members plus 5 from former Yugoslavia)

weakening of the traditional government interference in ODI: in 2016, 70% of all the invested amount was dealt by POEs;

- As such, China is also becoming more prudent with its purchases and tends to more carefully search for the best buys;
- On the other hand, ***the Chinese state is still present through its increasingly more coherent investment strategy, its involvement in coordinating Chinese ODI by sector and by country, in accordance with its domestic industrial policy and economic vulnerabilities***. Also, ***China's investment strategy remains strongly intertwined with its geopolitical goals*** as it can be noticed by looking at its most recent initiatives with an international reach (One Belt, One Road/OBOR, AIIB, NDB, and Silk Road Fund).

3. CONCLUSIONS

China's outward investment strategy has been crystalized in time much alike those of Japan and South Korea, which resorted to low-technology manufacturing and exports for decades, before accessing foreign technology, in different ways, and managing to gradually leapfrog all their competitors and position themselves at the forefront of the global high-tech production and services. Trying a similar strategy, China hopes it will get similar results, in terms of climbing the technological ladder, repositioning itself better into the global value chains and, as such, managing to avoid the middle income trap and to join the group of highly developed economies.

The trend of growing Chinese ODI is going to continue, although both the recipient developed countries (for fear of losing strategic technologies and competitiveness) and the Chinese authorities (for fear of sizable capital flight) will try to mitigate it. OBOR and the other associated Chinese initiatives will foster infrastructure investments in developing countries and some low-end industry relocations from China, but their "win-win" promise will be difficult, if not impossible, to be reached under China's present inflexible negotiating terms, and that will imperil the whole strategy.

Western Europe will continue to be primarily targeted, due to its high tech capabilities, less restrictive, less risky environment and its lack of a foreign investment screening mechanism. CEE16 will presumably continue to be under pressure to either break their EU commitments, or accept other trade-offs for Chinese ODI. For all of the EU member states, if not answered, the difficulties of reaching consensus in any matters will be further tapped on by the Chinese investors to their advantage.

International Scientific Conference Proceedings
“Bulgaria and Romania:
Country Members of the EU, Part of the Global Economy”

Българска, първо издание

© Съставители	Искра Христова-Балканска, Едуард Маринов, 2017
Графичен дизайн	Едуард Маринов
Формат	60 / 90 / 16
Печатни коли	19

ISBN 978-954-9313-08-6

This book contains the papers presented at the International Scientific Conference "Bulgaria and Romania: Country Members of the EU, Part of the Global Economy" held at the Economic Research Institute in Sofia on June 15-16 2017.

The Conference was organized by the International Economics Department of the Economic Research Institute at the Bulgarian Academy of Sciences and the Institute for World Economy within the Romanian Academy within the joint project "Bulgaria and Romania: Country Members of the EU, Part of the Global Economy".

This book contains a total of 27 contributions, divided in four thematic and one poster section. Just like the conference itself, the current edition offers an interesting mixture of scientific information, research approaches and achievements. Most of the contributions deal with the problems of the impact of EU policies after the 10 years of EU membership of Bulgaria and Romania, the economic development of the two countries as EU member states, their place in the global world and economy, as well as with some modern advances in international economics.