

Transformation in Bulgaria

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The first part

DEVELOPMENT DURING THE COMMUNIST REGIME

Economic situation I.

- **Centrally planned system**
- **Relatively backward economy**
 - large portion of agriculture vs. small portion of services
 - almost no private sector
 - huge government spendings (subventions)
 - low GDP p.c. compared to developed countries
- **Relatively positive performance** vs. **economic catastrophe in 80's**

Table 1: Economic growth in Bulgaria - gross material product and gross domestic product (estimation based on CIA) in %

	1949-52	1953-57	1958-60	1961-65	1966-70	1971-75	1976-80	1981-85	1986	1987	1988	1989
GMP	8,4	7,8	11,6	6,7	8,8	7,8	6,1	3,7	5,3	4,7	2,4	-0,3
GDP (CIA)						7,5	1,0	0,9	4,8	-1,0	0,9	-0,1

Source: Jeffries, *Socialist Economies and the Transformation to the Market*, 2003

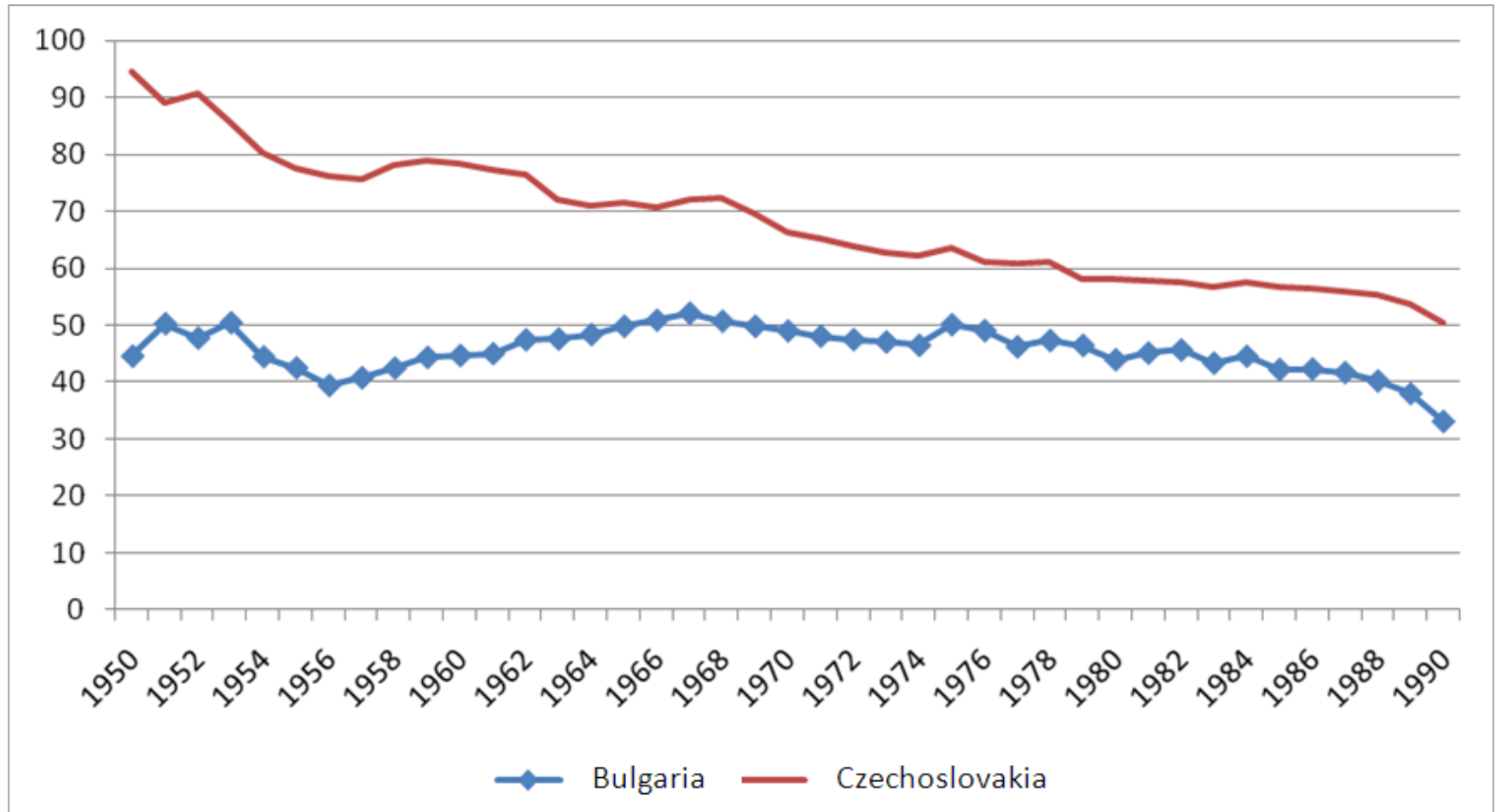
Economic situation II.

- **Unfavourable development in 80's**
 - economic slowdown
 - increasing foreign dept (half in USD, consequences of its monetization)
 - decreasing volume of foreign trade + dependence on COMECON countries
 - lack of basic foods despite the system of rationing
- **Only negligible economic reforms**
 - slightly more competencies for firms in decision-making process
 - certain reduction of mandatory indicators
 - no measures at microeconomic level



Unstable economic situation without any significant reforms as starting point for transformation !

Chart 1: Comparison of GDP p.c. in Bulgaria and Czech Republic (Austria = 100)



Source: Maddison, *Historical Statistics* - <http://www.ggdc.net/maddison/> (11. 10. 2008)

The second part

TRANSFORMATION PERIOD

Political situation

- **Overthrow of Živkov* in 1989**
 - demonstrations vs. internal attempts for the coup
 - *General Secretary of the Communist party since 1954
- **First free elections in 1990 -> Bulgarian socialist party (BSP)**
 - new constitution
 - political pressures and general strike -> fall of the government after few months
- **Unstable political situation until 1997**
 - 1990-1991 interim government with Popov
 - 1991 -1992 Union of Democratic Forces (UDF) + Turkish - Dimitrov
 - 1992-1994 clerk governments until new elections
 - 1994-1997 BSP - Videnov -> economic catastrophe
- **Stabilization after 1997**
 - 1997-2001 UDF -Kostov -> radical reforms
 - 2001-2005 National Movement Simeon II -> **NATO (2004)**
 - 2005- 2009 BSP (coalition with NDSV and MRF) -> **EU (2007)**

Economic reforms after 1990

- **Gradualist approach**

1. Transformation recession 1990-1993
2. Economic recovery 1994-1995
3. Crisis and stabilization 1996-1999
4. Completion of transformation 1999-2004

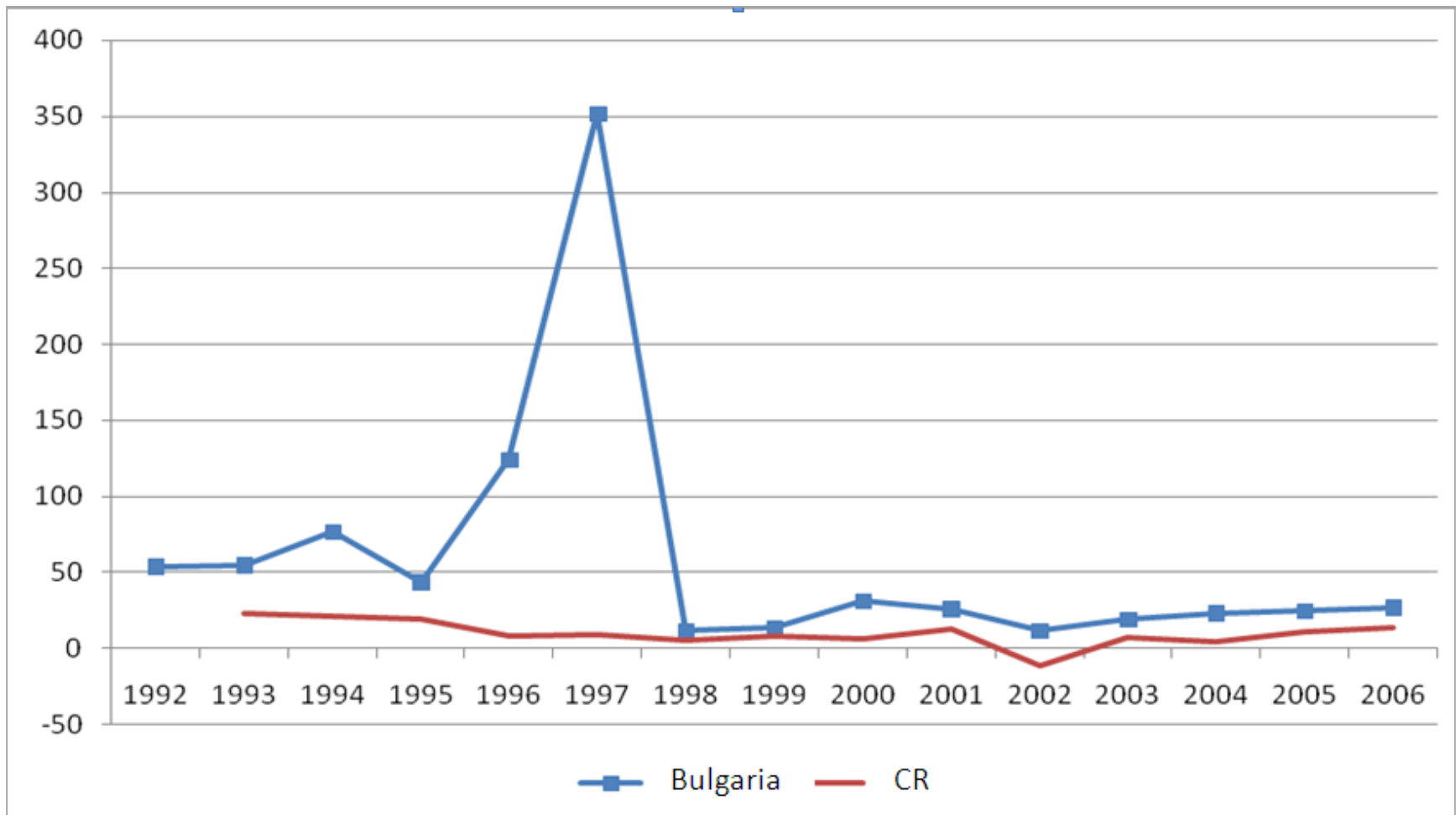
Transformation recession 1990-1993 I.

- **Deep economic crisis**
 - budget deficit, widespread black market, food shortage -> **main tasks of the government**
 - moratorium on foreign loans
- **Institutional changes and reforms**
 - elimination of restrictions on private firms
 - two-tier banking system
 - indexation of wages and pensions
 - gradual price liberalization
- **Informal („wide“) privatisation and corruption**
- **Problems in external sphere**
 - trade deficit, decline of foreign reserves
 - Iraq, Lybia, later on ex Yugoslavia
- **Lack of real economic reforms**

Transformation recession 1990-1993 II.

- **Agreement on calm transition to market economy (1991)**
 - program with quite **radical reforms** from Popov's cabinet, supported by MMF
 - main **tasks**
 - liberalization of prices and interest rates , restrictions on loans + stabilization of standard of living
 - **measures**
 - unification of exchange rate, free floating, devaluation of lev, inner convertibility
 - credit ceiling, high interest rates (in reality: not restrictive policy)
 - elimination of quantitative restrictions in foreign trade
 - fiscal reforms
 - first attempts for small-scale privatisation
 - **outcomes**
 -  of GDP, real wages and foreign trade ;  of unemployment and prices

Chart 2: Development of M2 in Bulgaria and the Czech Republic, 1992-2006 (% change)



Source: European Bank for Reconstruction and Development (EBRD): Selected economic indicators data, <http://www.ebrd.org/country/sector/econo/stats/index.htm> (29. 4. 2009)

Transformation recession 1990-1993 III.

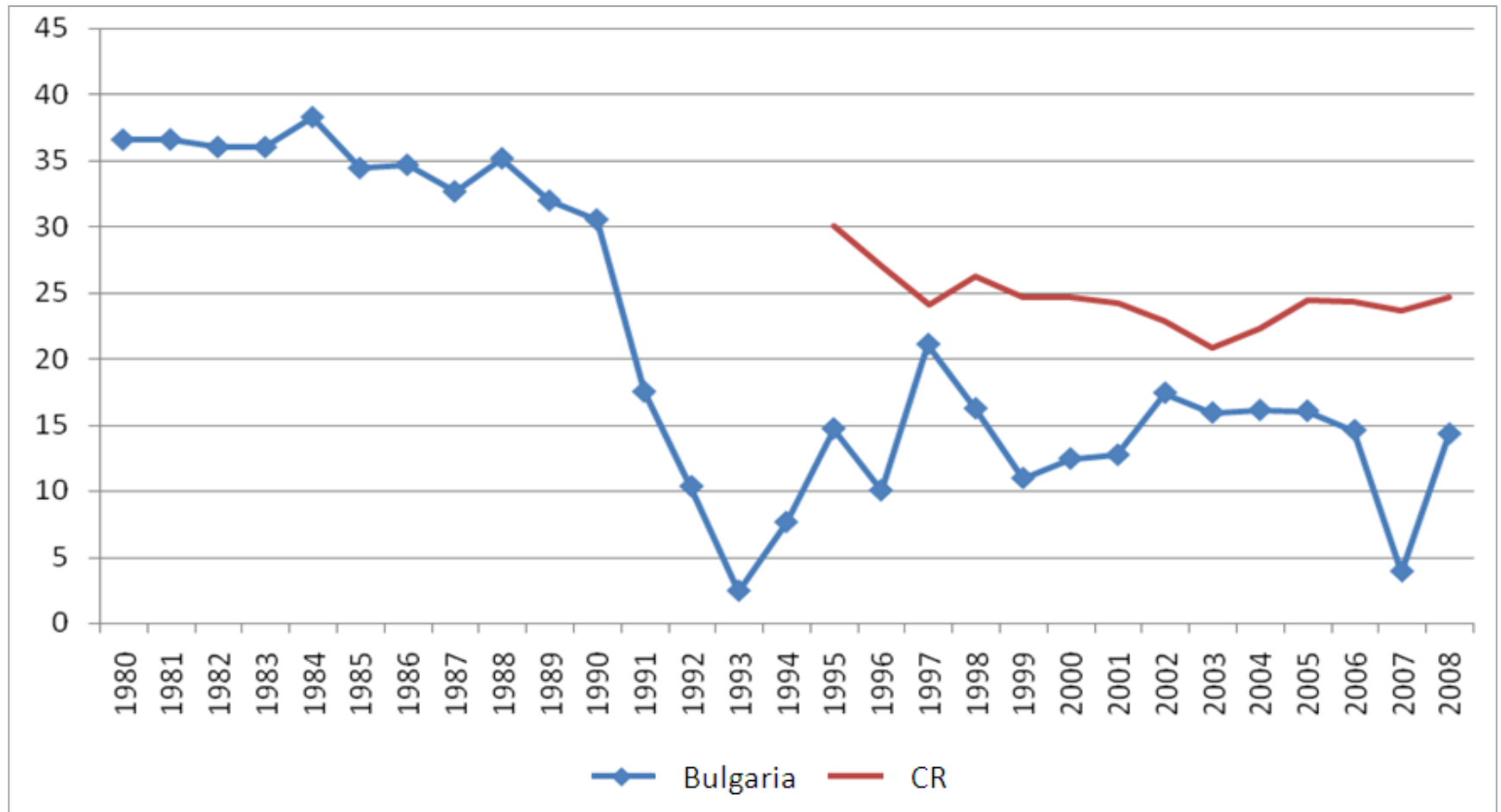
- **Serious problems** with
 - banking sector → support of loss-maker state companies
 - unsustainable policy of CB → dept monetization
 - **fiscal discipline** → deficit, increasing dept
- No progress in **privatization**
- **Lack of restrictive measures + weak position of governments**

Table 2: Government expenditures in Bulgaria (% of GDP)

	1989	1993	Change
Social security	10,4	15,8	5,4
Subventions	15,5	4,8	-10,7
Expenditures on capital	5,5	1,9	-3,6
Total expenditures	61,5	51,2	-10,3

Source: Coricelli: *Macroeconomic Policies and the Development of Markets in Transition Economies*, 1998

Chart 3: National savings in Bulgaria and the Czech Republic, 1980-2008 (% of GDP)



Source: IMF: World Outlook Database, <http://www.imf.org/external/pubs/ft/weo/2011/01/weodata/index.aspx> (12. 7. 2011)

Economic recovery 1994-1995

- **Problems**
 - **foreign dept** - ongoing monetization, agreement with London creditors club
 - **unstable monetary policy** – inflation, devaluation, lack of foreign reserves
 - **unemployment and income inequality**
 - weak position of the **banking sector** + poor regulation
- **Attempts of new government**
 - **increase the role of state** – price regulations, protectionism
 - **privatisation**
- **Positive development** of main indicators (except some surprising facts)

Table 3: Selected statistics of economic environment in Bulgaria and the Czech Republic, 1989-2006

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000-06
Share of administrative prices on CPI												
Bulgaria	100,0	70,0	24,0	16,0	26,0	43,0	46,0	52,0	14,4	15,8	17,2	20-24,7
CR	na	na	27,9	18,3	17,9	18,1	17,4	17,4	13,3	13,3	13,3	10,9-19,7
Tariff returns as % of imports												
Bulgaria	5,3	2,5	2,2	4,5	16,0	15,3	13,5	8,0	9,7	13,9	10,2	8,0-10,6
CR	na	na	na	na	3,5	3,5	2,6	2,6	1,7	1,5	1,2	0,2-1,1

Crisis and stabilization 1996-1999 I.

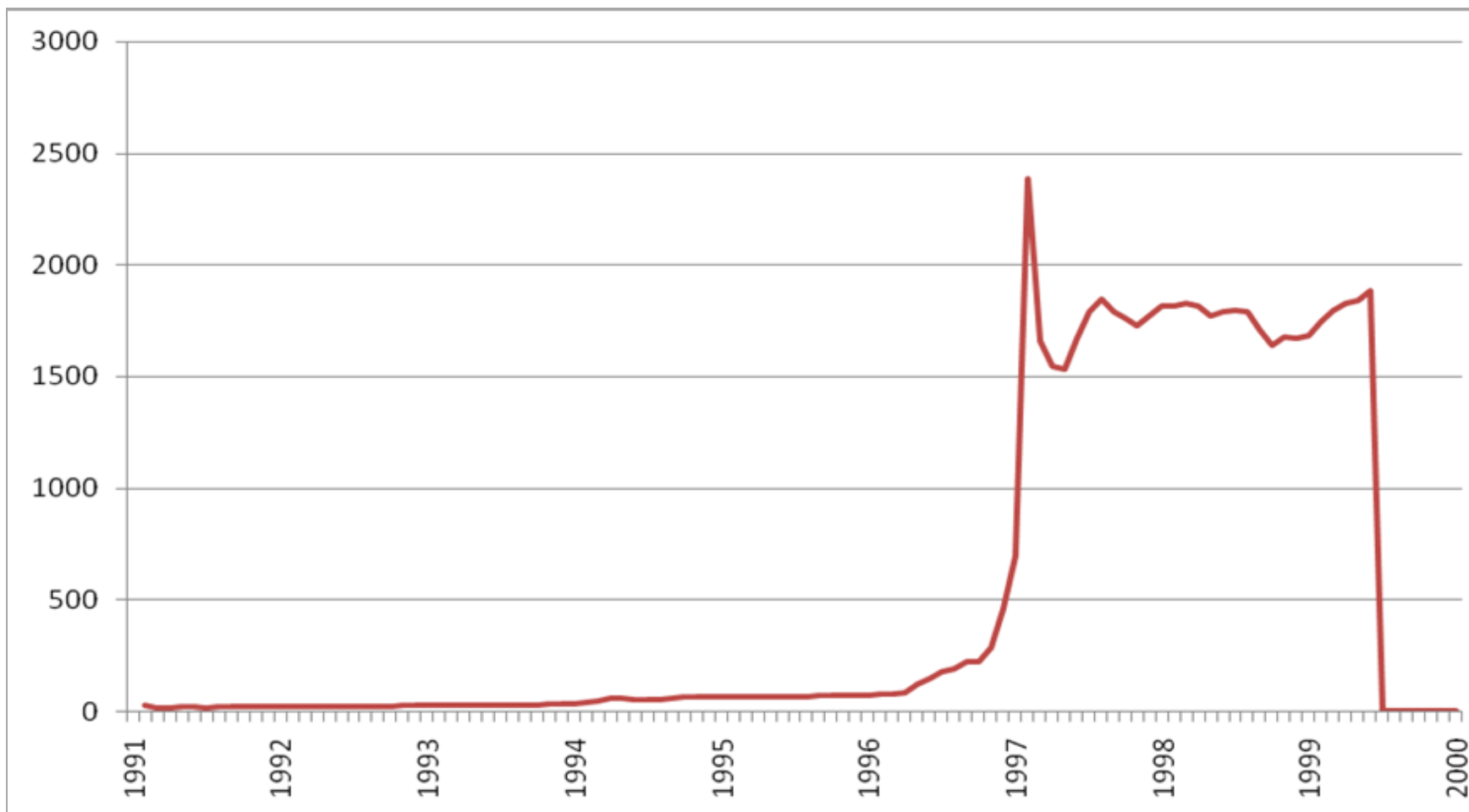
- First steps of CB to crisis already in 1995
- **Dramatic situation in 1996**
 - collapse of fixed exchange rate -> inflation, depletion of foreign reserves, loss of credibility, dollarization
 - problems in financial sector -> bankrupts and bank runs (9 out of 10)
 - fiscal problems -> budget deficit, public debt,

Table 4: Total balance of public finances and central bank's financing, 1992-1997 (% of GDP)

Country	Total budget deficit						Financing by central bank					
	1992	1993	1994	1995	1996	1997	1992	1993	1994	1995	1996	1997
Bulgaria	-5.2	-10.9	-5.8	-6.3	-13.3	-2.6	6.0	11.0	5.5	4.9	14.5	-0.1
CR	-1.2	-1.8	-1.2	-2.1	...	-2.1	-2.4	-1.0	-0.8	0.7
Hungary	-6.9	-8.5	-8.3	-7.1	-3.1	-4.6	16.5	13.2	11.2	7.5	7.3	1.7
Poland	-7.5	-4.0	-2.0	-2.7	-2.5	-2.3	5.2	1.5	1.5	0.1	0.1	0.5

Source: Dabrowski, *Disinflation Strategies and their Effectiveness in Transition Economies*, 2003

Chart 4: Exchange rate of Bulgarian lev to american dollar, 1991-2000 ()



Source: *Bulgarian National Bank*, http://www.bnb.bg/bnbweb/groups/public/documents/bnb_download/s_monthly_exr_en.xls (12. 7. 2011)

Crisis and stabilization 1996-1999 II.

- **Failed stabilization program** as answer
 - monetary restrictions (high interest rates) but debt monetization
-> inflation and increase of debt services
 - support of the **MMF**
- Voucher **privatization** since 1996
 - Only fifth state ownership + low attendance
- Catastrophic econ situation + strikes and conflicts in 1996
- **Peak of the crisis in 1997** ->↓ of GDP and real incomes, ↑ poverty, lack of basic foods, depreciation + resignation of Videnov

Table 5: Real income, 1989-1998 (1990=100)

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Bulgaria	100	61,2	65,9	62,7	55,7	50,8	34,8	29,6	40,2

Source: Stattev, *Bulgarian Economic Transition*, 2001

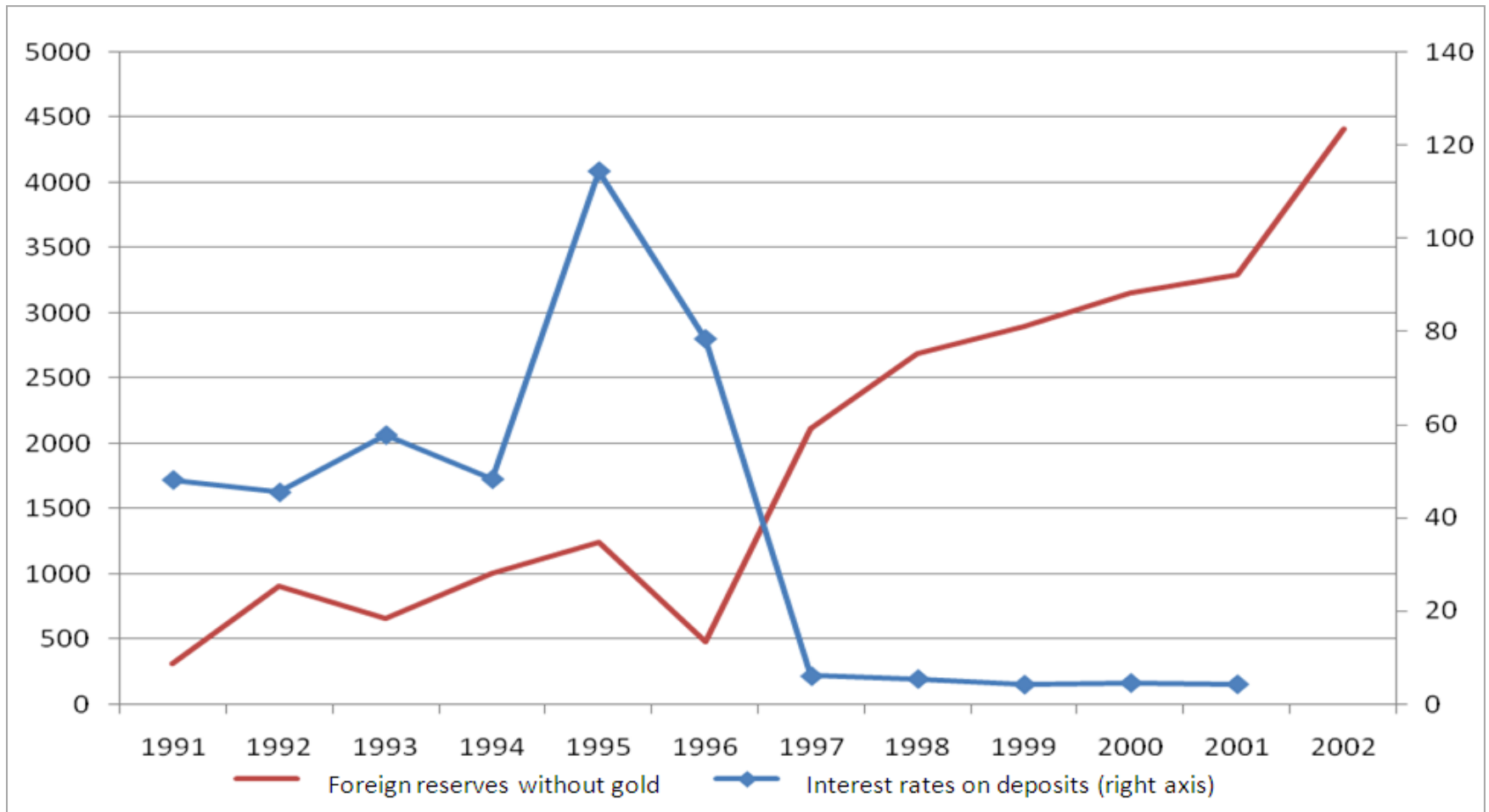
Crisis and stabilization 1996-1999 III.

- **Radical structural program** of new government (1997)
 - currency board (BGN:DEM -> 1000:1, later on euro)
 - mass privatization + liquidation program
 - measures in banking sector
 - reforms of labour market
- **Stabilization** in 1998 ...

Table 6: Privatization procedure in Bulgaria, 1993-2008

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005/8	Total
Number of cases	63	161	318	513	584	1085	1211	590	231	103	118	208	70	5255
% of privatized property	0,4	1,6	1,1	4,1	18,4	4,5	17,0	4,4	1,0	1,2	1,4	2,6	8,0	65,5
Privatization agency and state offices	0,4	1,6	1,1	4,1	3,8	4,5	17,0	4,4	1,0	1,2	1,4	2,6	8,0	50,9
Mass privatization					14,6									14,6
Privatization returns (mil. \$)	72,2	232,8	181,9	418,8	607,6	613,1	1152,9	440,6	178,4	198	268	406		

Chart 5: Foreign reserves in mil. USD (left axis) and interest rates on deposits in % (right axis), 1991-2002



Source: MMF: Database IFS,

Completion of transformation 1999-2004 I.

- Ongoing **economic reforms**
 - price liberalization
 - denomination of the currency (cutting 3 nulls)
 - progress in privatization process
 - recovery of banking sector
- **External relations**
 - elimination of trade barriers + CEFTA, FTA with Turkey, EU (application)
 - Negative consequences of the conflict in Kosovo
- **Encouraging macroeconomic indicators** but **problems** with
 - Deficit of current account
 - Still low volume of foreign trade

Table 7: Exports in USD, 1999 (1989=100)

	Bulgaria	CSR/CR	Hungary	Poland	Romania	Baltic states
Index	60	346	259	187	105	358

Source: Gros, Steinherr, *Economic Transition in Central and Eastern Europe*, 2004

Completion of transformation 1999-2004 II.

- **Continual reforms** also in the new century
 - Privatization (FDI, foreign reserves)
 - Social reforms
 - Integration process with EU
 - Trade liberalization
 - Measures to reduce unemployment
 - Deregulation of prices
 - Legislative changes (commercial code, law of property rights, privatization law...)

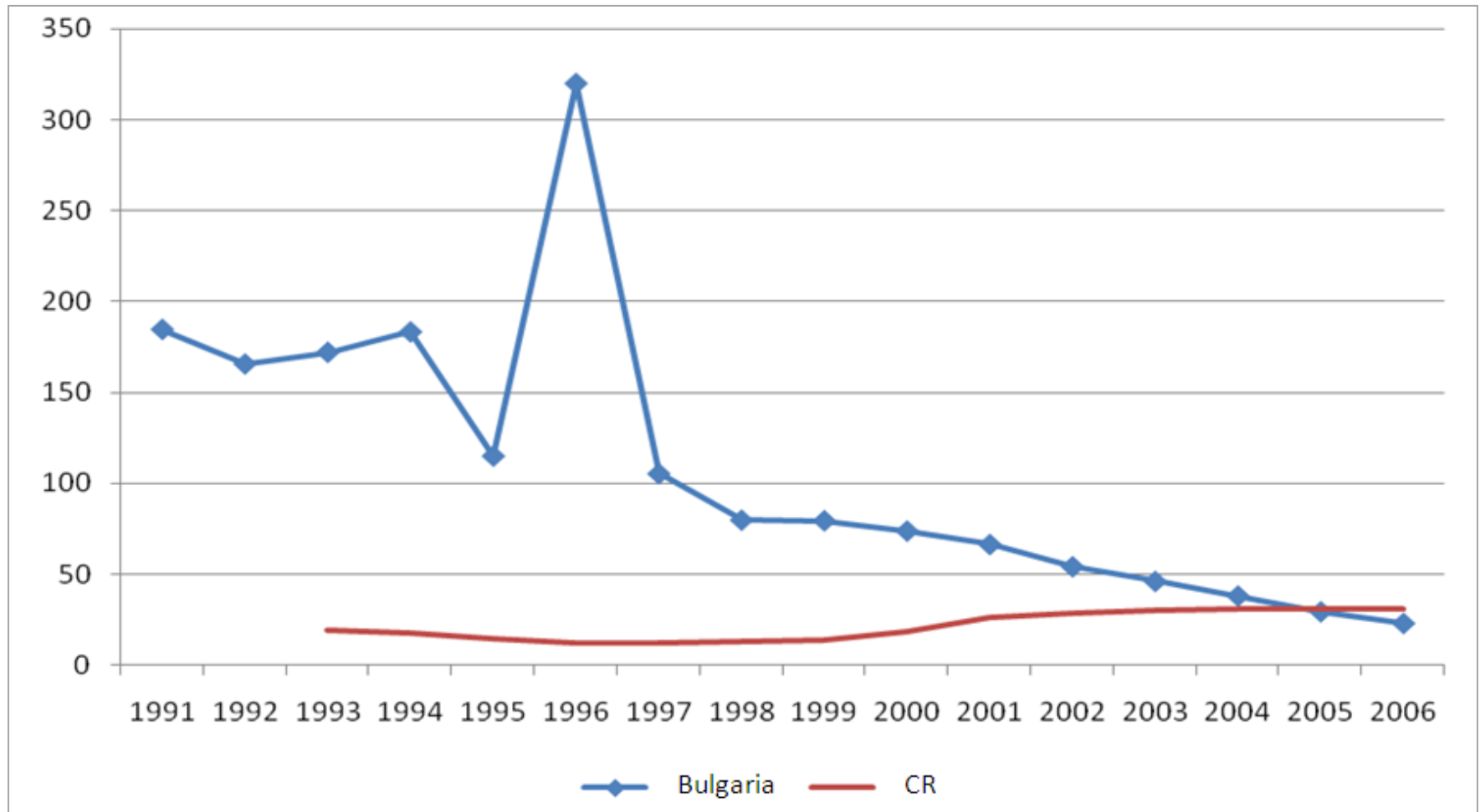
➔ **Stabilized economic situation**, apart from **some problematic indicators**

Table 8: Structural budget balance in Bulgaria and the Czech Republic (% of potential product)

	2001	2002	2003	2004	2005	2006	2007
Bulgaria	0,835	1,233	1,378	2,27	1,932	1,823	0,414
CR	-5,3	-6,117	-6,221	-2,799	-3,513	-2,705	-1,235

Source: MMF, World Outlook Database, <http://www.imf.org/external/pubs/ft/weo/2011/01/weodata/index.aspx> (12. 7. 2011)

Chart 6: Government dept in Bulgaria and the Czech Republic, 1991-2006 (% of GDP)

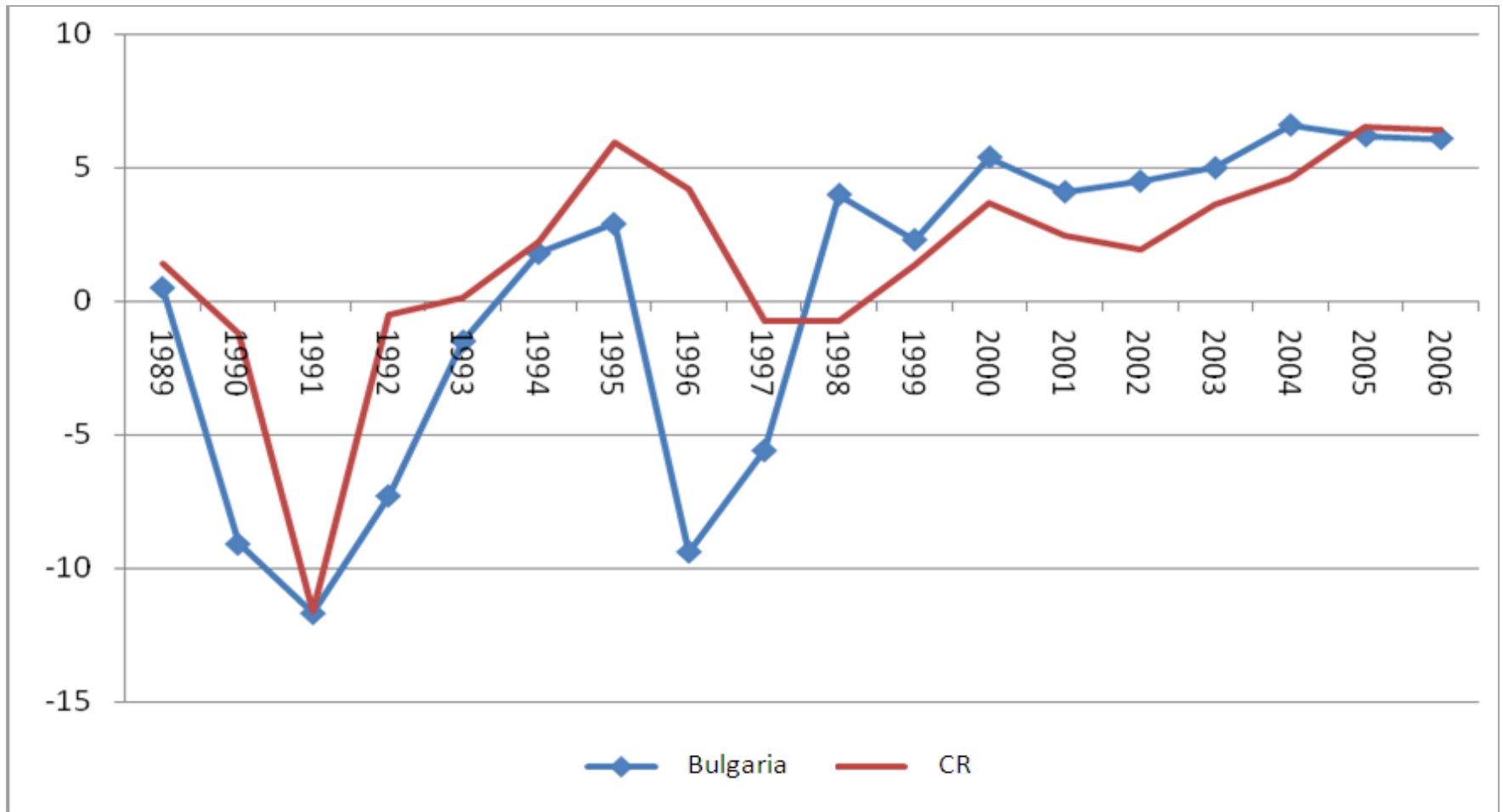


Source: European Bank for Reconstruction and Development (EBRD): Selected economic indicators data, <http://www.ebrd.org/country/sector/econo/stats/index.htm> (29. 4. 2009)

The third part

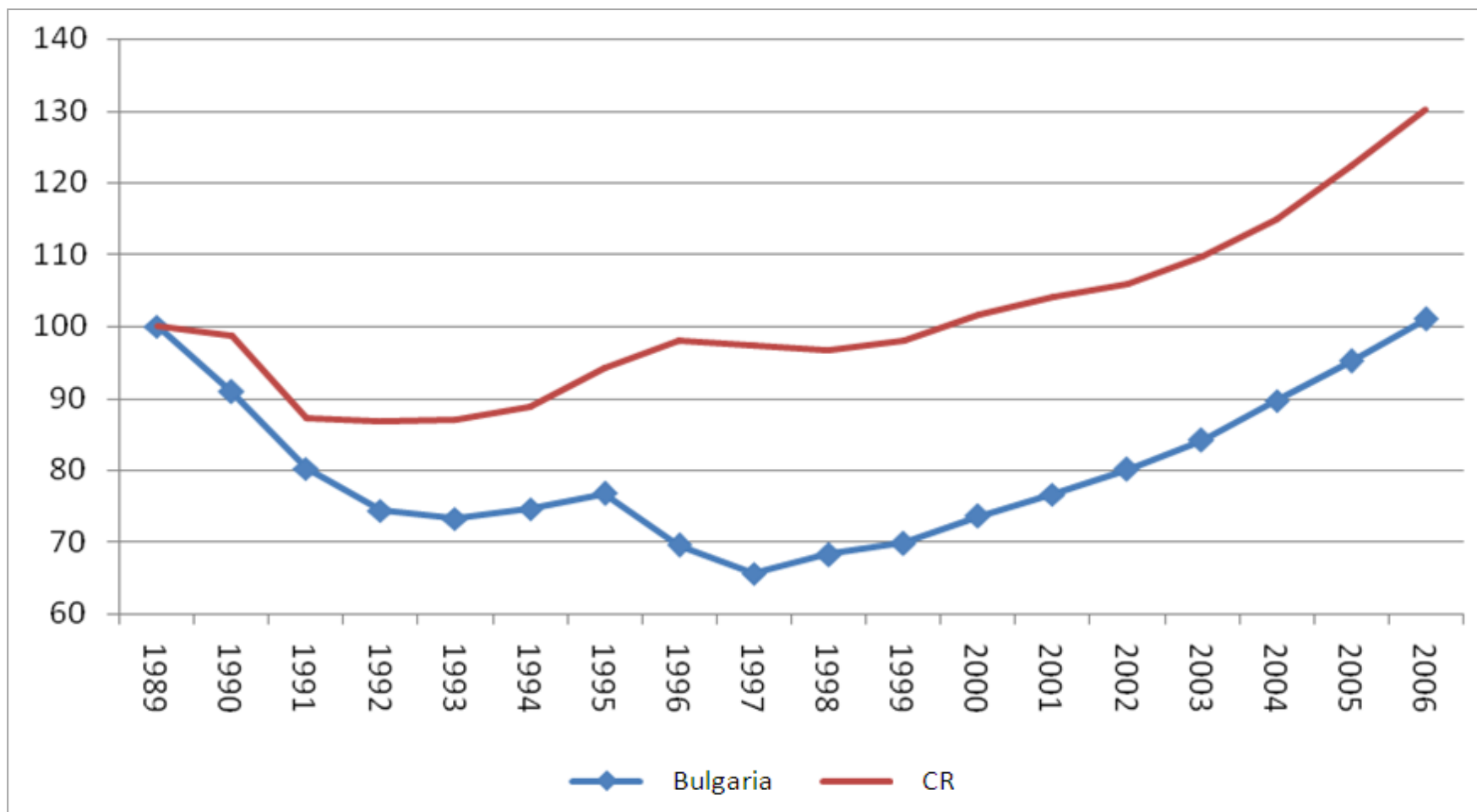
ECONOMIC RESULTS

Chart 7: Economic growth in Bulgaria and the Czech Republic, 1989-2006 (%)



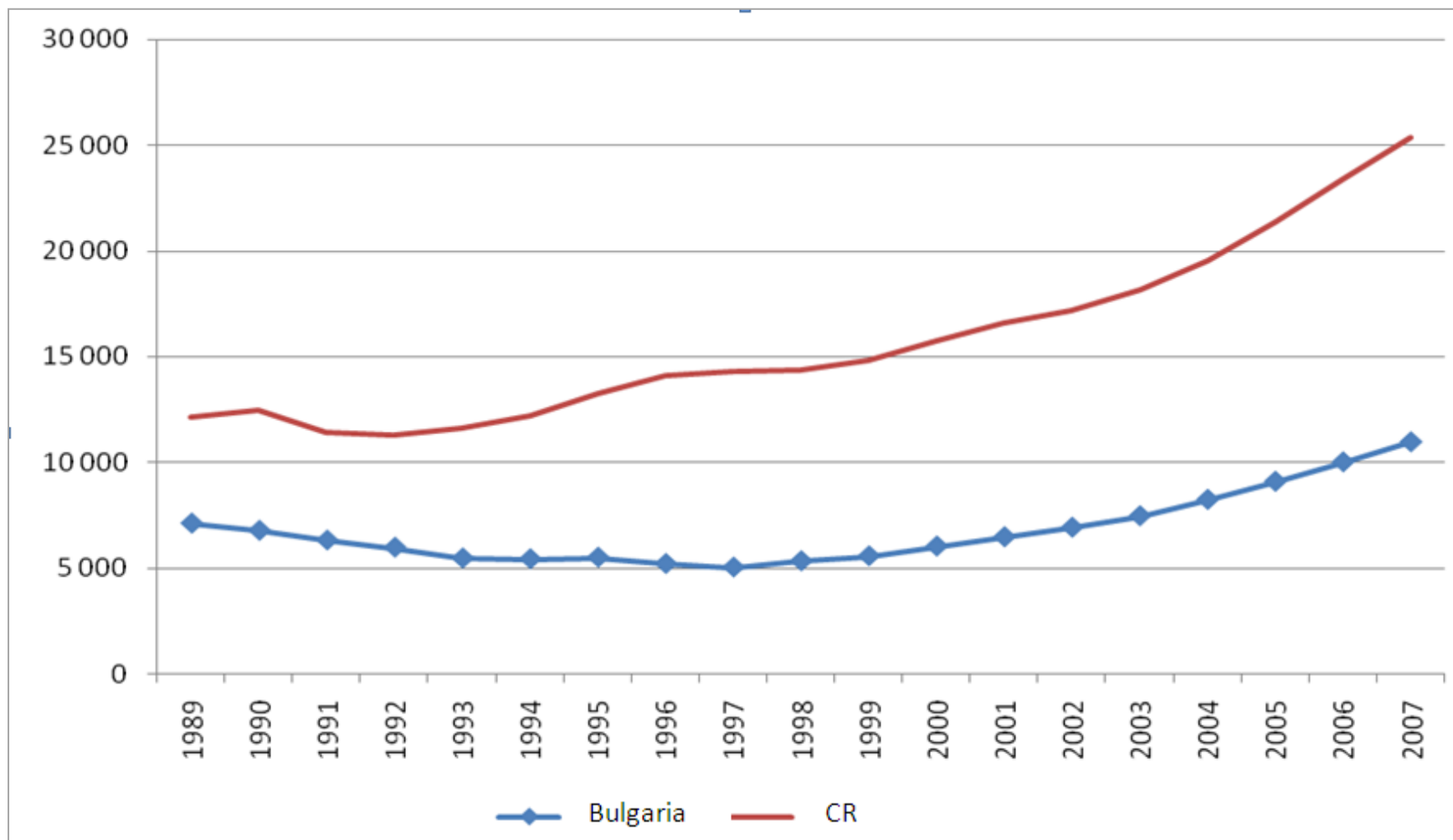
Source: European Bank for Reconstruction and Development (EBRD): Selected economic indicators data, <http://www.ebrd.org/country/sector/econo/stats/index.htm> (29. 4. 2009)

Chart 8: Cumulative development of GDP in Bulgaria and the Czech Republic, 1989-2006 (1989=100)



Source: European Bank for Reconstruction and Development (EBRD): Selected economic indicators data, <http://www.ebrd.org/country/sector/econo/stats/index.htm> (29. 4. 2009)

Chart 9: GDP per capita, 1989-2007 (PPP, current international dollars)



Source: MMF: World Outlook Database, <http://www.imf.org/external/pubs/ft/weo/2011/01/weodata/index.aspx> (12. 7. 2011)

Table 9: Cumulative growth of price level in Bulgaria and the Czech Republic, selected years of 1989-2006 (%)

	1989	1990	1993	1996	2000	2003	2006
Bulgaria	100	126,30	1 723,89	12 225,04	195 451,05	227 241,30	271 762,67
CR	100	109,70	223,79	293,60	373,91	399,54	428,99

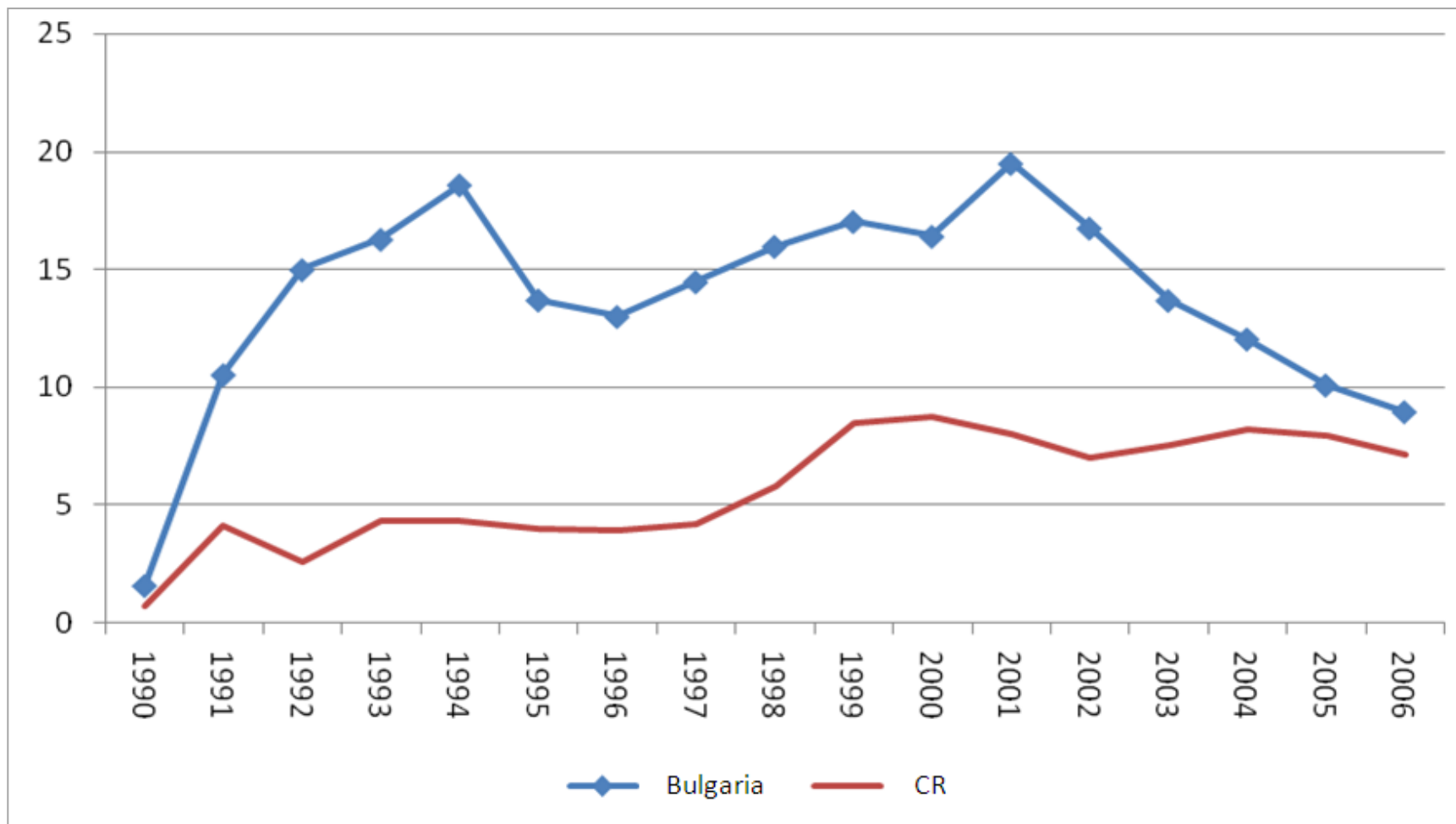
Source: European Bank for Reconstruction and Development (EBRD): Selected economic indicators data, <http://www.ebrd.org/country/sector/econo/stats/index.htm> (29. 4. 2009)

Table 10: Growth of inflation rate, 1990-2006 (annual averages in %)

	1990	1991	1992	1993	1994	1995	1996	1997
CR	9,7	52,0	11,1	20,8	9,9	9,6	8,9	8,4
Bulgaria	26,3	333,5	82,0	73,0	96,3	62,0	123,0	1 082,0
1998	1999	2000	2001	2002	2003	2004	2005	2006
10,6	2,1	4,0	4,7	1,8	0,2	2,8	1,9	2,5
22,2	0,7	9,9	7,4	5,9	2,3	6,1	5,0	7,3

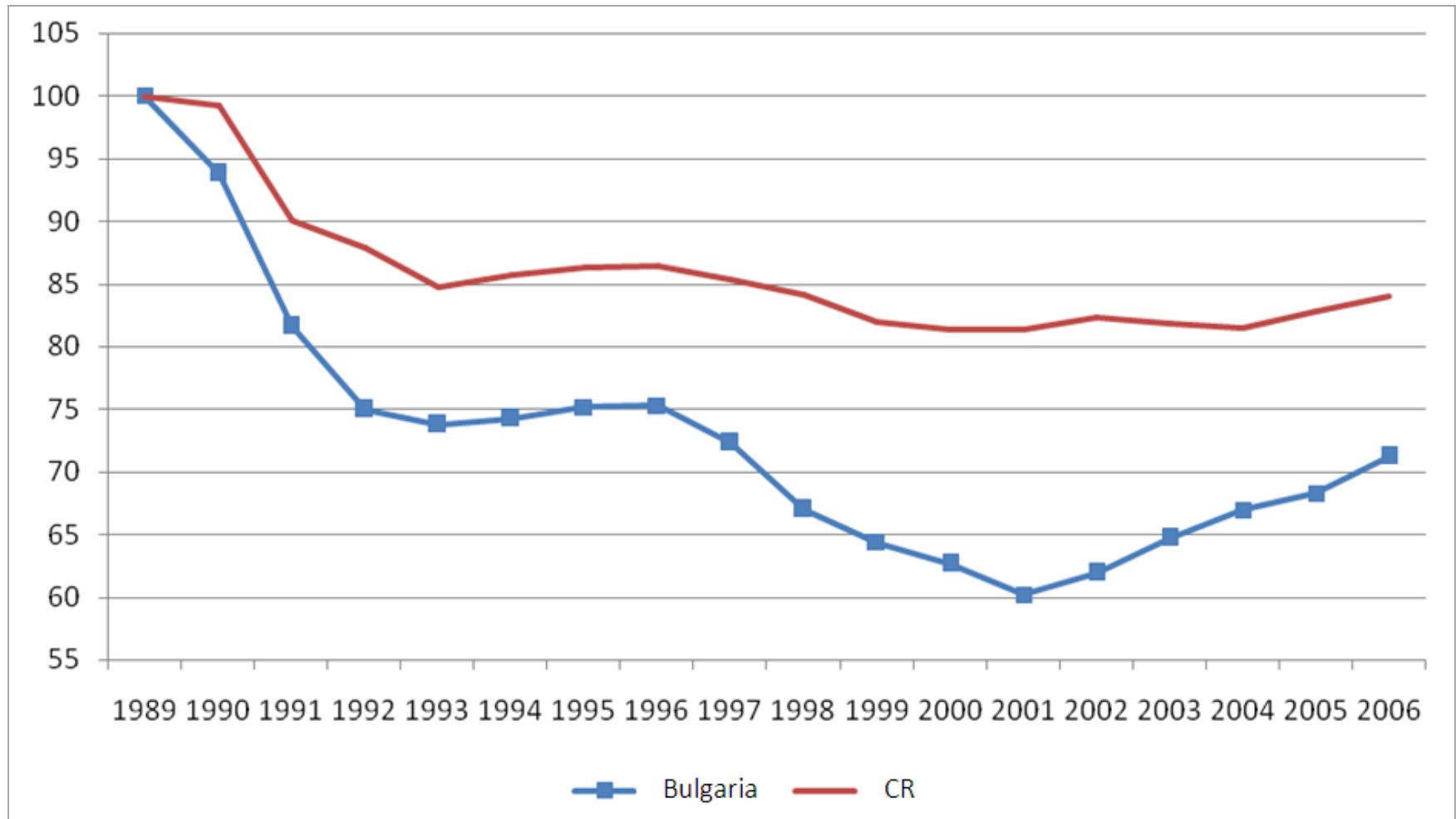
Source: European Bank for Reconstruction and Development (EBRD): Selected economic indicators data, <http://www.ebrd.org/country/sector/econo/stats/index.htm> (29. 4. 2009)

Chart 10: Unemployment rate in Bulgaria and the Czech Republic, 1990-2006 (% of labour force)



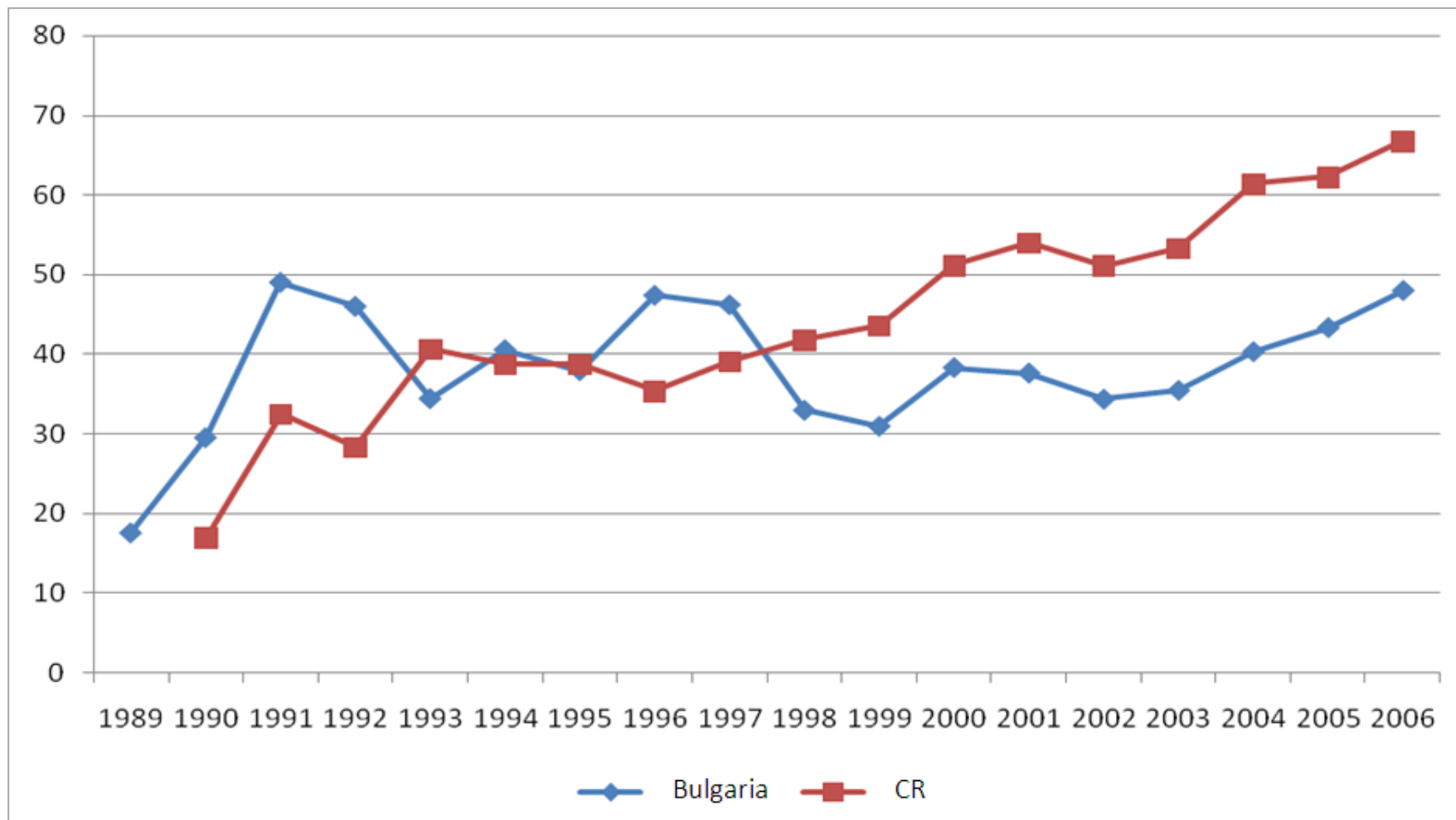
Source: European Bank for Reconstruction and Development (EBRD): Selected economic indicators data, <http://www.ebrd.org/country/sector/econo/stats/index.htm> (29. 4. 2009)

Chart 11: Cumulative change of unemployment rate in Bulgaria and the Czech Republic, 1989-2006 (1989=100)



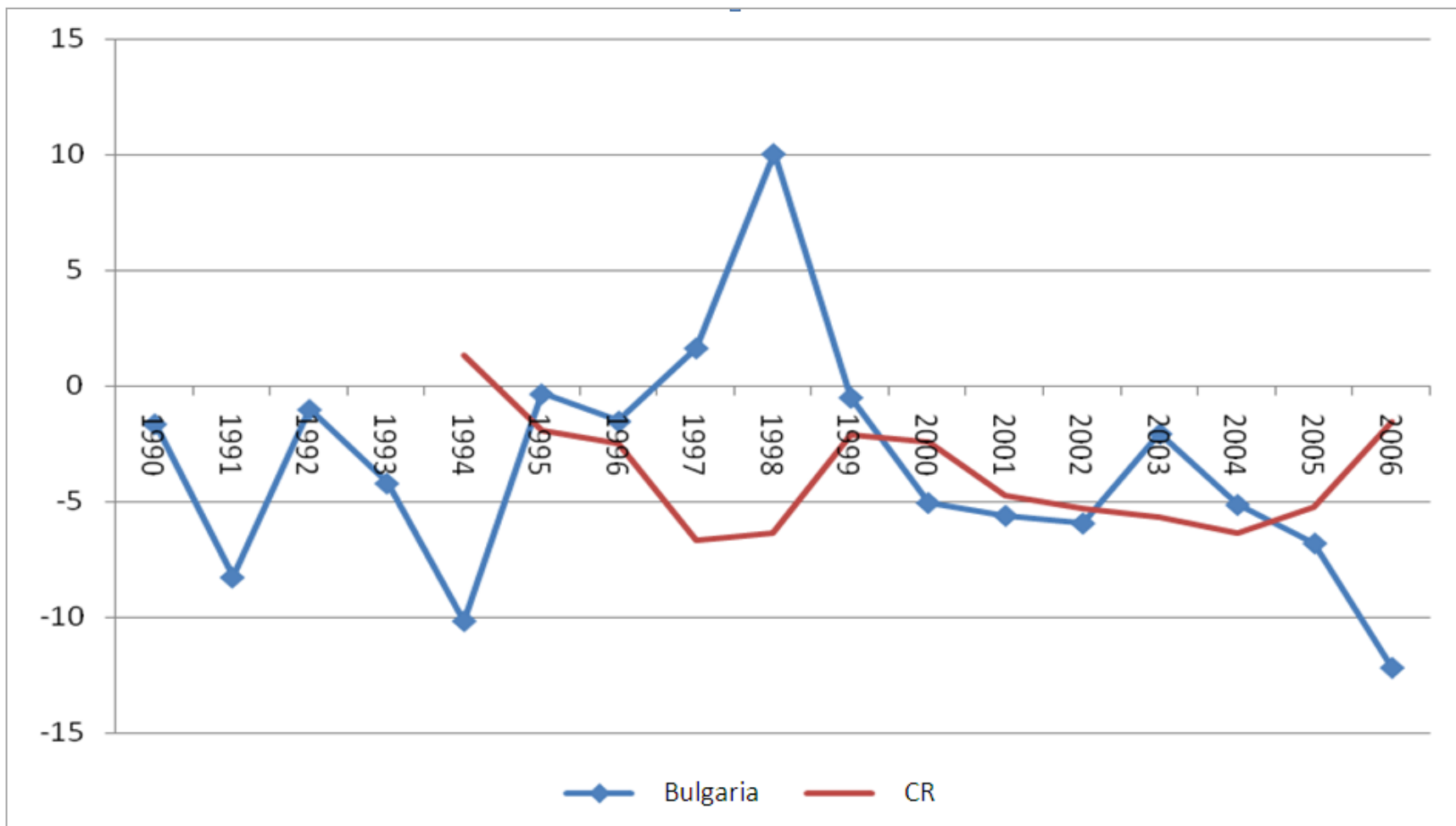
Source: European Bank for Reconstruction and Development (EBRD): Selected economic indicators data, <http://www.ebrd.org/country/sector/econo/stats/index.htm> (29. 4. 2009)

Chart 12: Exports in Bulgaria and the Czech Republic, 1989-2006 (% of GDP)



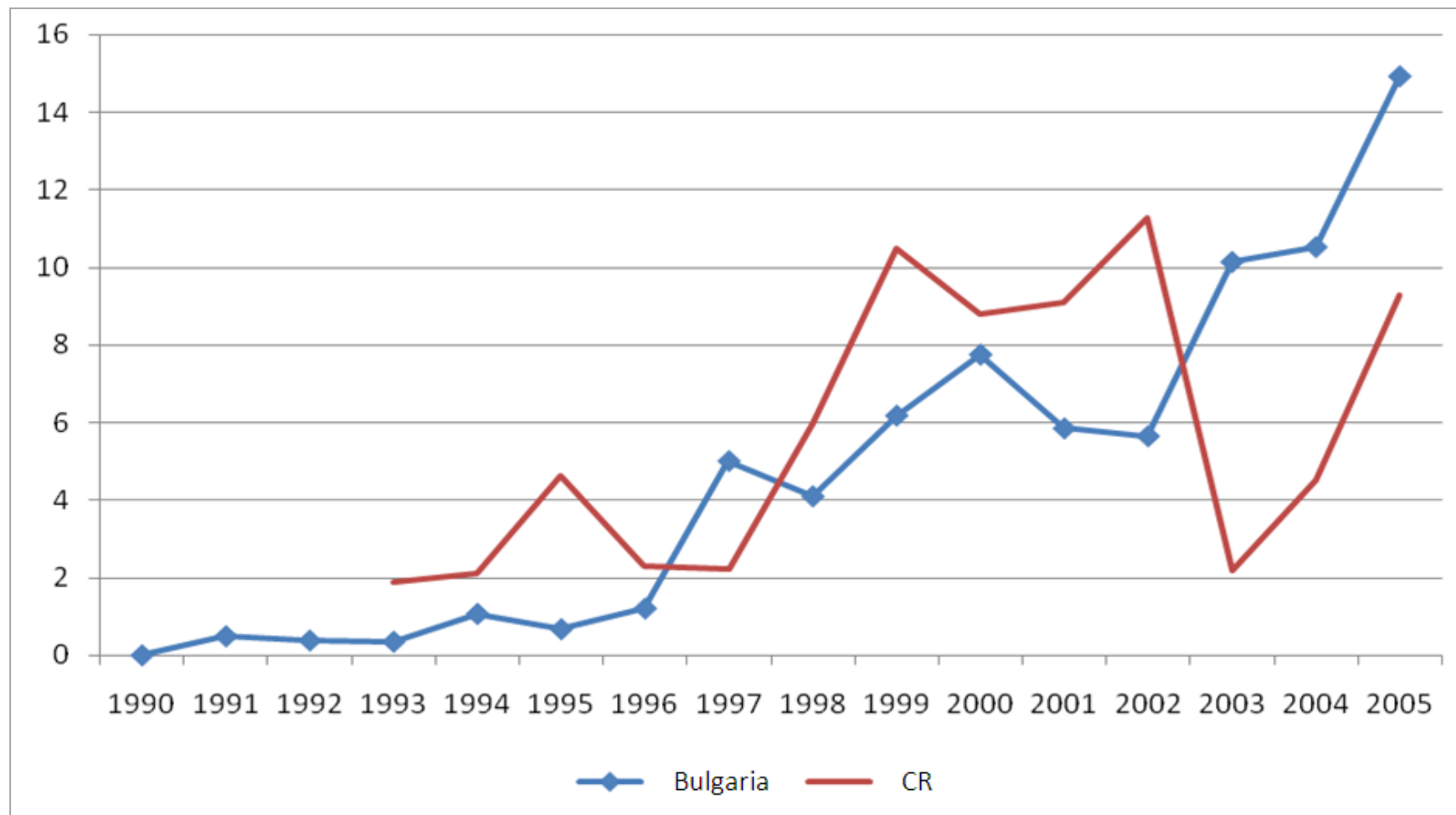
Source: European Bank for Reconstruction and Development (EBRD): Selected economic indicators data, <http://www.ebrd.org/country/sector/econo/stats/index.htm> (29. 4. 2009), own calculation

Chart 13: Development of current account in Bulgaria and the Czech Republic, 1990-2006 (% of GDP)



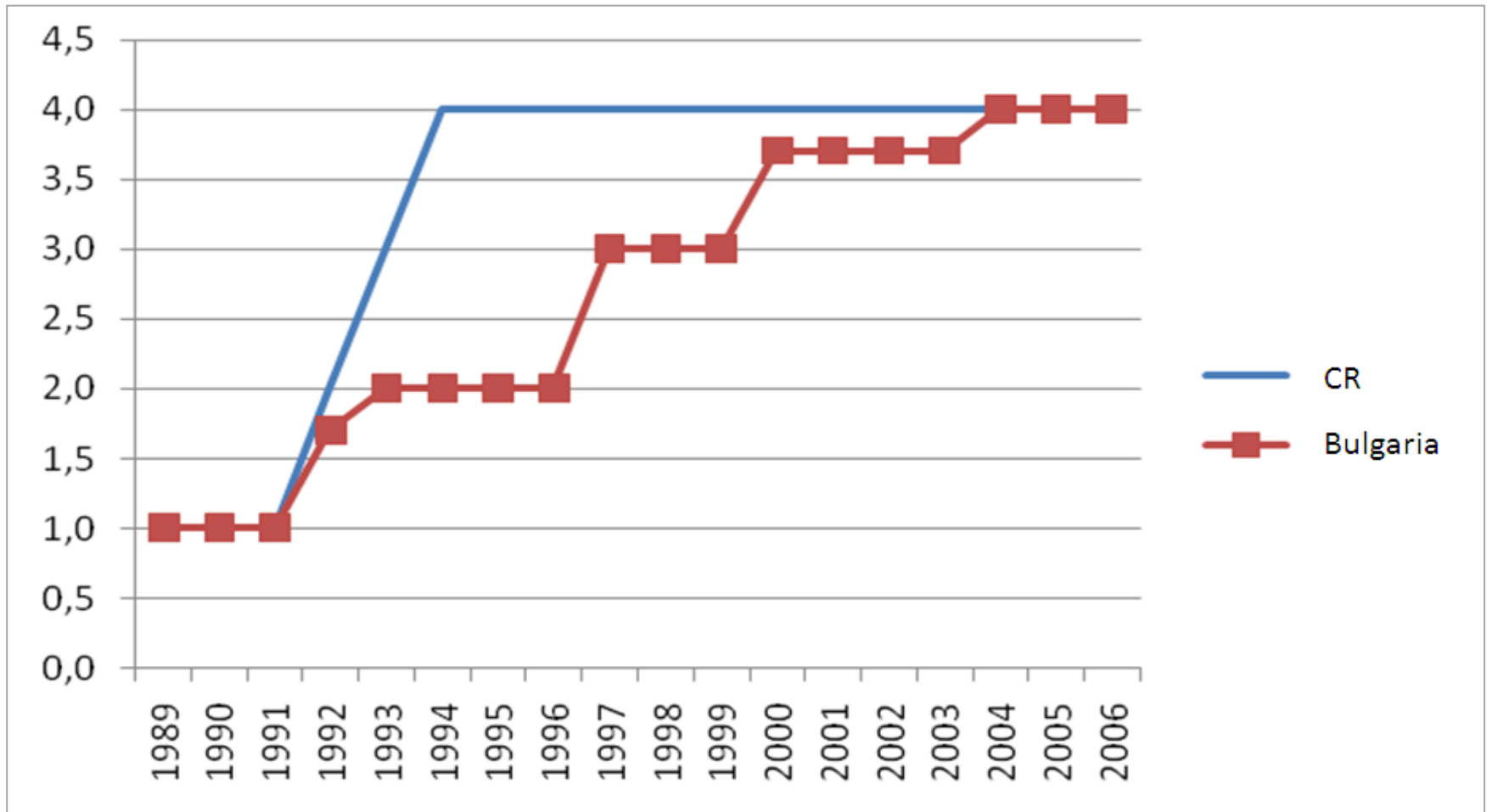
Source: European Bank for Reconstruction and Development (EBRD): Selected economic indicators data, <http://www.ebrd.org/country/sector/econo/stats/index.htm> (29. 4. 2009)

Chart 14: Net inflows of FDI to Bulgaria and the Czech Republic, 1990-2005 (% of GDP)



Source: World Bank (WB): Data , <http://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS>(29. 4. 2009)

Chart 15: EBRD index of large-scale privatisation in Bulgaria and the Czech Republic, 1989-2006



•The index contains values from 1 to 4.3; the higher the value, the closer the country is to developed countries.

Source: European Bank for Reconstruction and Development (EBRD): Selected economic indicators data, <http://www.ebrd.org/country/sector/econo/stats/index.htm> (29. 4. 2009)

Conclusions

- **Gradual economic reforms**
 - insufficient economic reforms
 - slow progress of privatisation
 - lack of monetary and fiscal restrictions
 - populist policy
 - lack of political support for transformation
- **Stabilization**
 - after implementation of **drastic restrictions** and **currency board only in 1997**

Thank you for attention !