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KEY ASPECTS OF SOCIO-ECONOMIC DEVELOPMENT OF BULGARIA OVER THE 2001–2019 PERIOD

Abstract

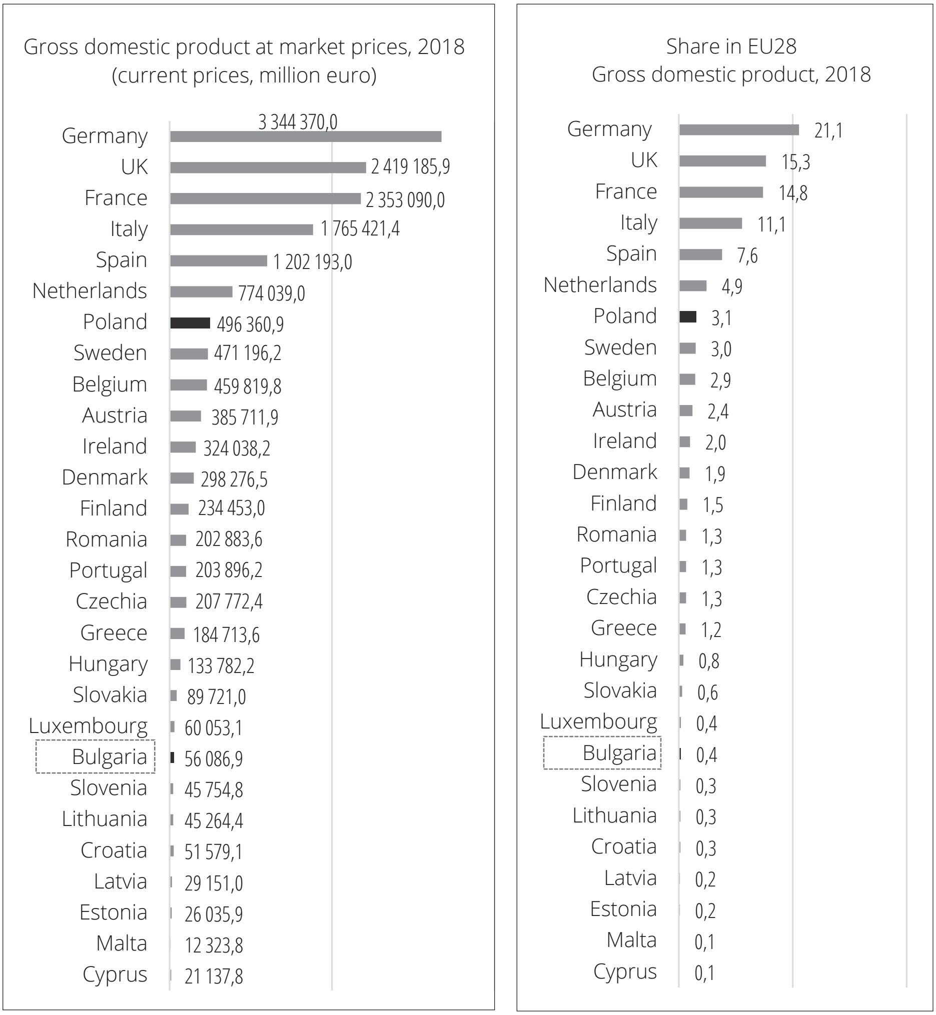
- *Goal* – the aim of the article is to present the Bulgarian economic situation and development for the last 20 years. The observed trends reasons are indicated, the factors are derived and the socio-economic consequences for the country are determined by statistical data analysis on manufacturing, labor resources, education, healthcare, employment, unemployment and income of the Bulgarian population.
- *Research methodology* – standard research methods are used for the article's purposes such as: analysis and synthesis, critical analysis, comparative analysis, inductive and deductive method.
- *Score/results* – as a result of the analysis of the main macroeconomic indicators for Bulgaria, conclusions are reached about the vulnerability of the small economy and the existing risks in its development. At the same time, the available internal reserves are presented, which can be used to balance risks and increase the potential for economic growth.
- *Originality/value* – the article presents the author's vision for the economic development of Bulgaria along with the related problems and opportunities, based on the official statistical information.

Key words: economic development, gross domestic product, healthcare, education, labour resources, employment, unemployment, labour cost.

Bulgaria is an industrial agrarian country with an open market economy, a moderately developed private sector and a small number of operating strategic state-owned enterprises. Bulgaria has been a member of the UN since 1955, the Council of Europe since 1992, NATO since 2004 and the EU since 2007. The country is pursuing a membership in the Eurozone and the Schengen area.

Figure 1. Gross domestic product in the EU, 2018

a) *b)*



Source: Eurostat, https://ec.europa.eu.

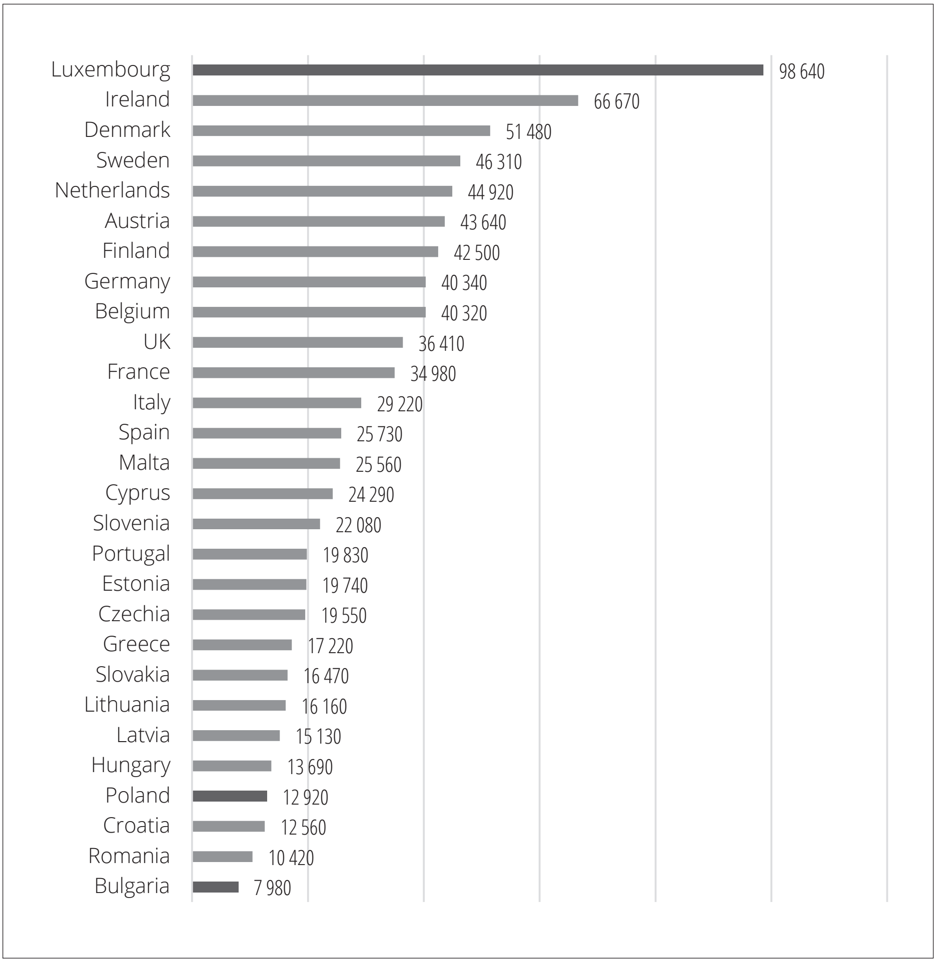
In terms of its economic development, nowadays Bulgaria is in the group of the developing countries. According to data provided by the IMF, the country ranks 74th globally in terms of its GDP (in million US dollars, 2018) and 60th in terms of its GDP per capita (PPP, 2017). In 2018, Bulgaria's GDP was slightly more than 56 billion Euro, which put the country in the second half of the EU28 ranking, at the 21st position among other EU member states (Figure 1a).

Although recognized as a functioning market economy which is successfully reforming and improving its economic development indicators, Bulgaria still remains a small economy with limited capital resources and a rapidly declining working-age population. This renders the country vulnerable and susceptible to foreign economic influences, whose consequences determine the unsatisfactory rates of the economic activity in the country. Bulgaria is thus lagging behind the drivers of economic growth in Europe and remains in the group of the eleven countries whose contribution to the GDP of the EU28 is less than one per cent. In contrast, Poland ranks 7th with a 3.1% contribution to the European GDP and is closer to leaders (Figure 1b).

Unfortunately, in terms of the welfare of the population (GDP per capita), Bulgaria is at the bottom of the EU ranking. While in terms of the nominal GDP, the position of the country is similar to that of Luxembourg (Figure 1a), in terms of the GDP per capita, the situation in the two countries is at the two opposite extremes. Luxembourg is at the top of the ranking of European countries with more than 98,000 Euro per capita, while Bulgaria is at the bottom with only 8,000 Euro per person, i.e. the standard of living in Bulgaria is 12 times as low as that in Luxembourg (Figure 2). This is due to internal as well as to external factors, such as the political and economic calamities in the 1990s, the difficult implementation of structural reforms, the slow processes of liberalization and privatization, the accession of the country to the EU, the global economic crisis, etc.

Bulgaria's membership in the EU largely determines the economic development of the country. Alongside the positive effects of such integration, the need to align the politics and the processes in a number of spheres in social and economic life with those in other EU member states resulted in numerous problems, constraints and adverse effects to the development of many traditional branches of Bulgarian economy. Furthermore, as a result of the free movement of people within the Community there has been an upward trend in emigration, the country thus losing a significant share of its population, i.e. labour resources. All these factors pose serious challenges to Bulgarian economy in terms of manufacturing, employment, education, productivity, competitiveness, and hence, the incomes and the standard of living of Bulgarian citizens.

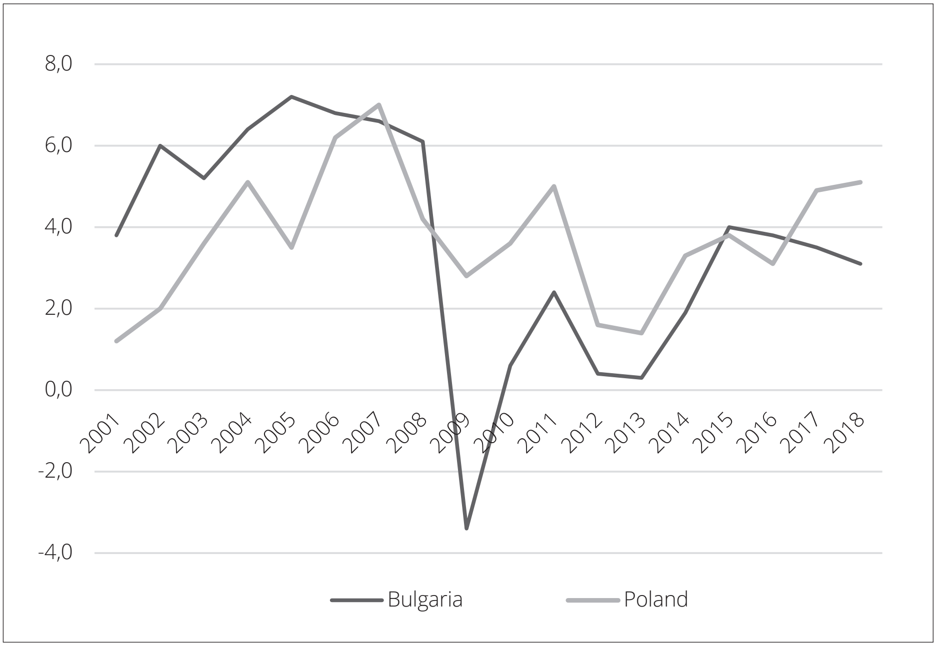
Figure 2. GDP per capita in euro, 2018



Source: Eurostat, https://ec.europa.eu.

From the beginning of the new millennium until the occurrence of the 2008–2009 global crisis, Bulgaria reported high and relatively steady rates in real GDP growth that were approximately 6 to 7%. After a dramatic decline in 2009, Bulgarian economy began to recover slowly and to register positive growth rates, although their values were low and unstable. Similar trends were registered in Poland's GDP, yet, the fluctuations were smaller and there was no real decline in the domestic product (Figure 3). Some of the major reasons for the fluctuations in Bulgarian GDP over the last decade include the residual momentum of the post-economic period and the uncertainty of economic agents who are still very cautious about their expenditures on consumption or investment. The slower growth rate towards the end of the period may be accounted for with the weak GDP growth in the Euro area, as well as with the recession trends in some European countries that are Bulgaria's major business partners.

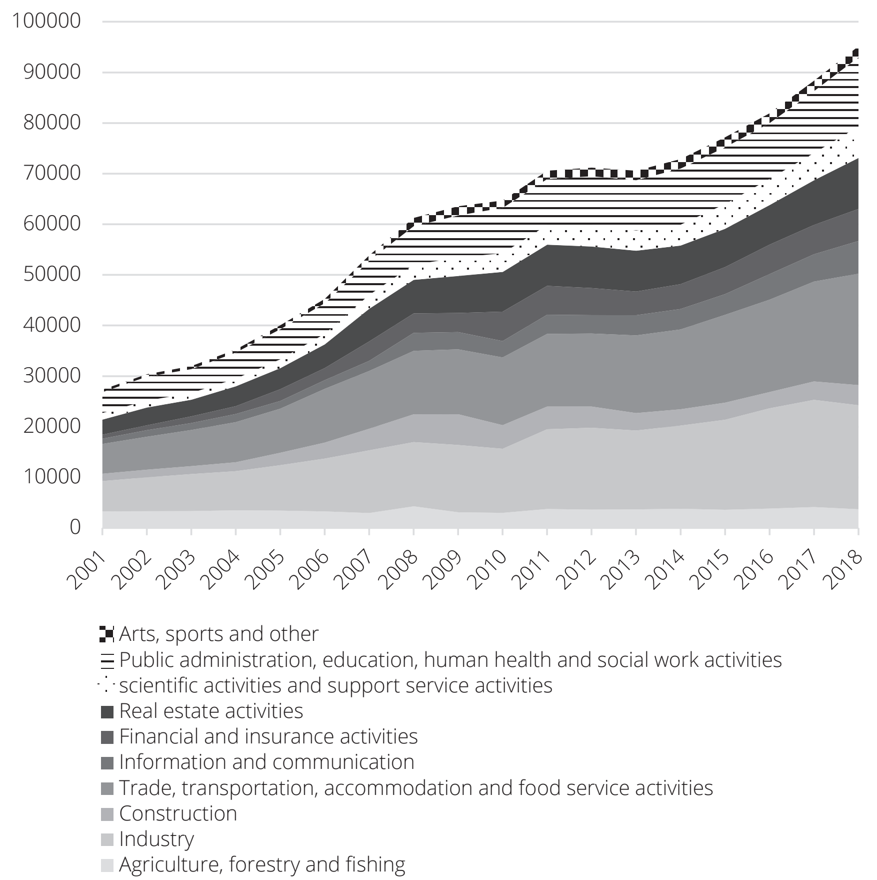
Figure 3. Gross domestic product (previous period = 100)



Source: Eurostat, https://ec.europa.eu.

There were no major changes in the economic structure of the country in the period from 2001 to 2018 (Figure 4), with predominant shares of the industry and the sector of traditional services (retailing, transportation and hospitality), followed by government, education and healthcare, real estate operations, etc. It is worth noting that the contribution of modern services like finance and insurance, generation and distribution of information, professional activities and R&D increased by 9 percentage points during the period. In contrast, the share of agriculture in GDP has become three times as low since 2000 (from 12.1% in 2001 to 3.9% in 2018) and has been standing at 4 to 5% over the last 10 years.

Figure 4. Gross Value Added (current prices, million BGN)



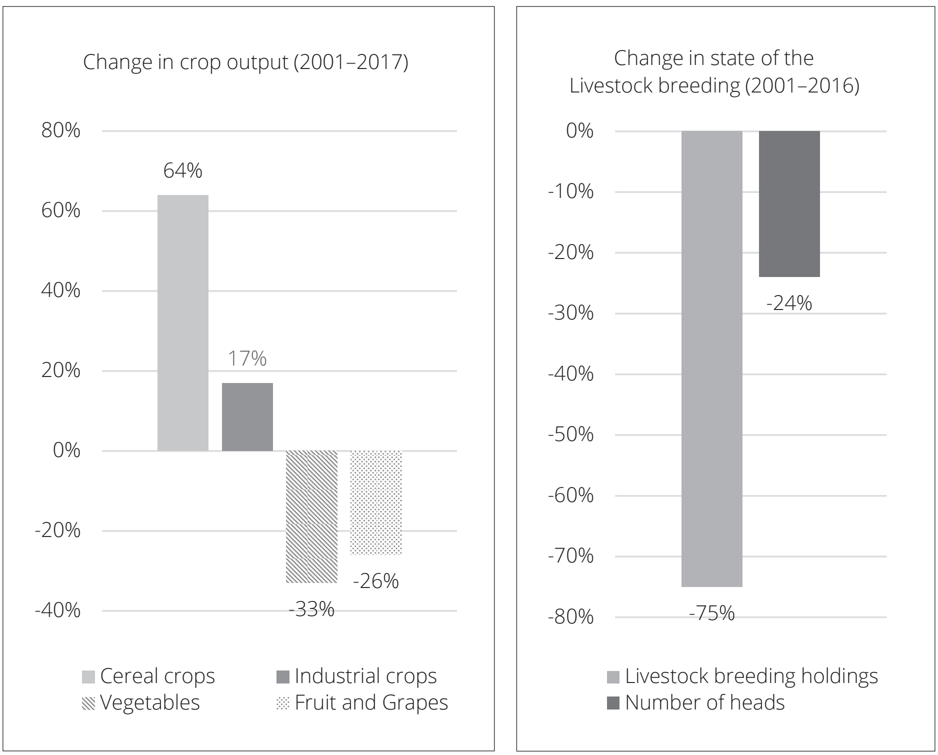
Source: National Statistical Institute, https://www.nsi.bg.

The decline in the contribution of agriculture was accompanied by a shift in the production orientation of the sector. In crop production, the share of cereals grew by 64% (Figure 5a). Possible explanations include the fact that agricultural producers pursued fast return on their investments, as well as certain policies implemented in agriculture, such as tied subsidies, and increased exports, mainly of unprocessed products. In contrast, the production of fruits and vegetables (including grapes) decreased by a third, despite the favourable environmental conditions and the traditions which Bulgaria has in vine growing and wine production. Trends in animal husbandry have been even less favourable (Figure 5b). Due to the low specialization, the large volume of investments required, delayed subsidies and high hygiene requirements of the EU to animal husbandry and meat and dairy production, three quarters of the animal husbandry farms in the country were closed down and the number of the animals kept decreased by 24% [Agrostatistical…, 2018: 37, 39, 204].

The main branches of Bulgarian industry are energy production, chemicals, food processing, mechanical engineering and electronics, etc. The strategic geographical position of the country and its well-developed energy sector render the country an important regional gas hub on the Balkans and in Europe. In 2019, the construction of the Balkan Stream gas pipeline began which will be an export leg of the TurkStream gas pipeline designed to bring natural gas from Russia to Serbia and West Europe via Turkey and Bulgaria.

Figure 5. Agriculture in Bulgaria

a) *b)*

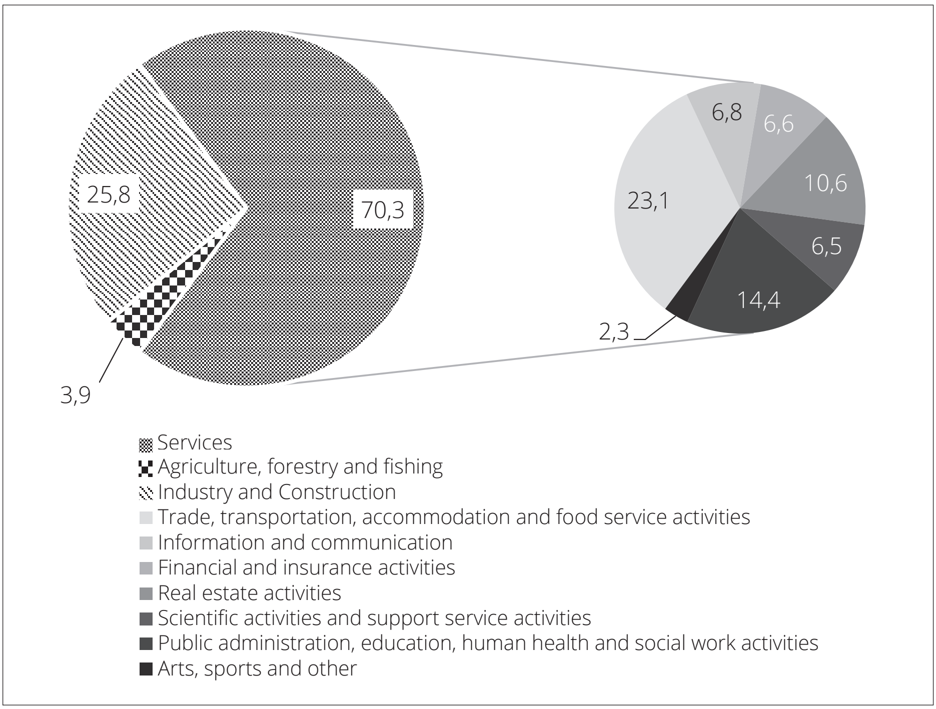


Source: *Agrostatistical reference book 2000–2017*, https://www.mzh.government.bg.

The service sector was generally neglected and identified as a minor economic sector by former socialist countries, including Bulgaria. It was considered to depend on the development of industry and agriculture. The service sector has been developing rapidly since 1989 and currently accounts for the largest contribution to the GDP with a 70% share (Figure 6). The highest contribution is that of traditional branches such as retailing, repair, transportation, communications and hospitality due to the development of private business in those branches, the priority given by the government to the improvement of the road infrastructure, the opportunities for funding a variety of projects with EU grants, etc.

Some of the most rapidly developing services in Bulgarian economy over the last three years are the outsourcing services (Business Process Outsourcing – BPO and IT outsourcing – ITO). Their share in the GDP of the country has been growing rapidly, reaching 5.2% in 2019. Outsourcing services account for 8% of the salary costs in the country and give jobs to 2.4% of the population. Earnings in the sector have become 2.5 times as high. Those figures are predicted to grow in the next years and Bulgaria is expected to remain a major European outsourcing destination.

Figure 6. Gross Value Added in Bulgaria, incl. Services (2018)

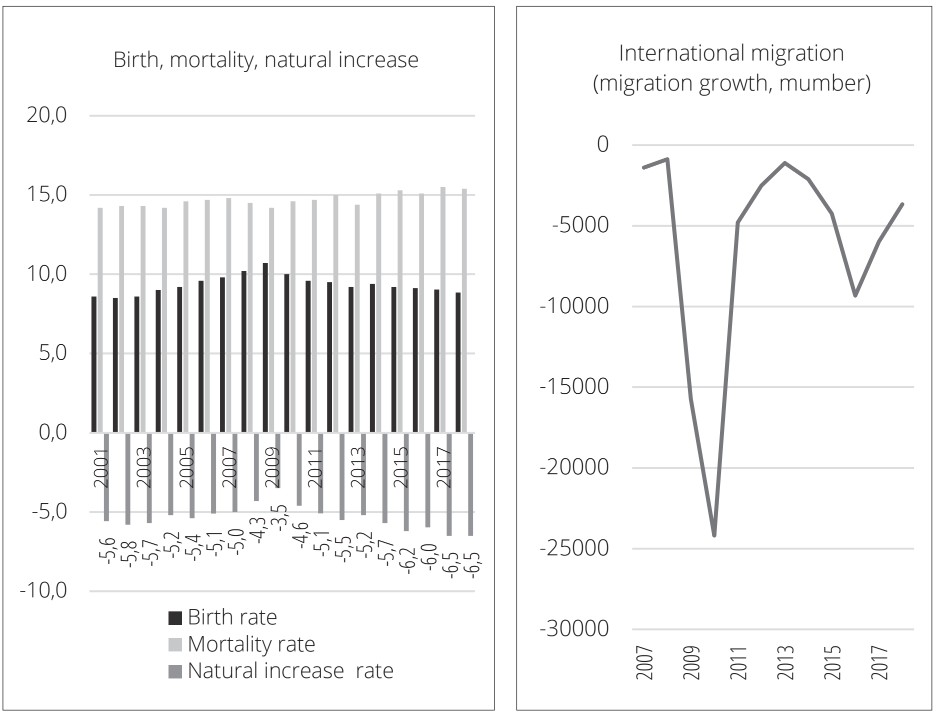


Source: National Statistical Institute, https://www.nsi.bg.

In terms of available l a b o u r r e s o u r c e s, Bulgaria is facing serious difficulty. Q u a l i t a t i v e l y, the shortage of labour resources is accounted for with the severe demographic crisis which the country has been going through over the last years. The major reasons for that crisis include the negative population growth which is due to low birth rates and high death rates and increased external migration. According to data provided by the UN, nine out of the ten countries with most rapidly declining population are countries in Southeastern Europe. The population of Bulgaria is predicted to decrease by a quarter by 2050. The population growth in the country has been negative since 2000, the unfavourable difference between the birth rate and the death rate growing even higher over the last ten years to reach -6.5‰ in 2017 and 2018 (Figure 7a).

Figure 7. Demography and migration in Bulgaria

a) *b)*



Source: National Statistical Institute, https://www.nsi.bg.

In comparison, in 2018, the natural population growth in the EU28 was -0.4‰ and 0‰ in Poland. The values of the external migration indicator are negative, too. After Bulgaria's accession to the EU and in result of newly opened opportunities for working and living in any EU member state, the number of people who have left the country outweighs the number of people who have come to live in Bulgaria. Despite some fluctuations in the values of the population growth, the number of people leaving the country has been growing steadily since the onset of the global economic crisis – from 9.5 thousand people in 2011 to more than 33,000 people in 2018, which is an increase by a factor of 3.5 (Figure 7b).

The quality of labour resources depends on the health of the population and the level of acquired education.

Over the researched period, Bulgaria allocated to healthcare between 4 and 6% of its GDP. Although in real terms that share has been growing each year, the figure is still much lower than the EU28 average, while the relative values fluctuate. Health expenditures in Poland are also below the EU average, yet, in contrast to Bulgaria, their share has remained relatively stable for nearly two decades with a slight upward trend (Figure 8a).

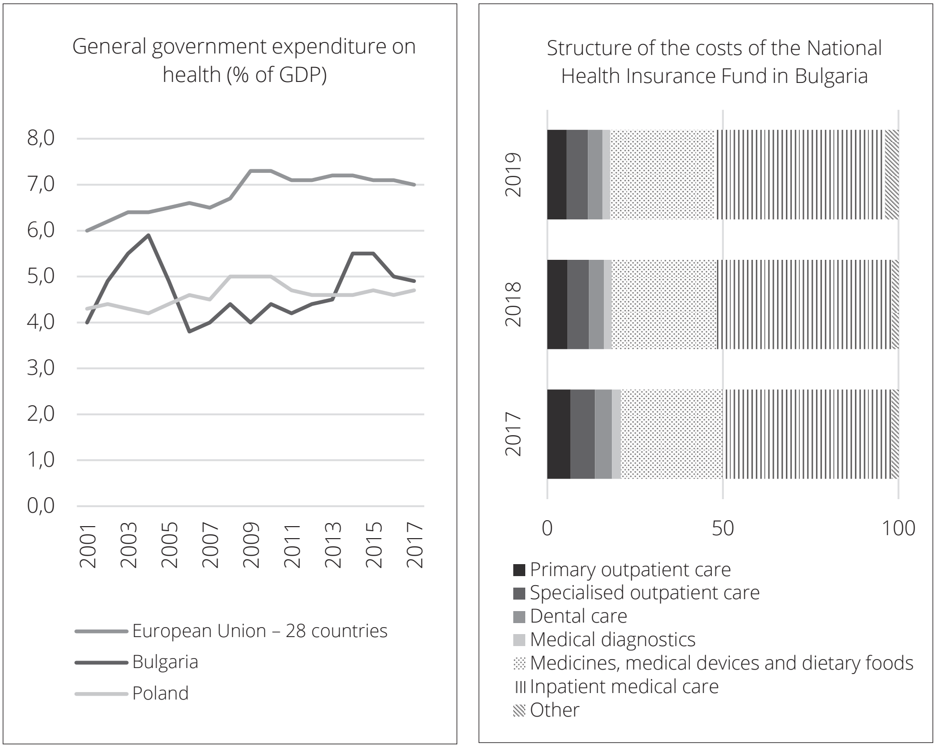
The information available about Bulgaria indicates not only budget constraints, but above all the need to implement a steadier expenditure policy and more functional allocation of resources, a systematized approach to designing a healthcare strategy as well as a new vision in determining the priorities in expending funds on healthcare.

Currently, the largest share of healthcare expenditure is that of hospital care costs, followed by medication costs, while the costs incurred on preventive healthcare and outpatient care are much lower (Figure 8b). The ratio between costs incurred for treatment and preventive care is thus 3:1, nearly half of the funds being expended on the hospital treatment of patients. This means that Bulgarian healthcare system focuses on illnesses and dealing with their consequences, rather than on preventing and diagnosing them. This requires much more funds and leads to negative social and economic consequences.

The share of GDP which is expended on education in Bulgaria amounts to 3 to 4%, the figures fluctuating over time, yet less so than the funds expended on healthcare. In this respect, our country is below the EU average, unlike Poland whose share of GDP expenditure on education is above the EU28 average (Figure 9a). Although there is a downward trend in the relative share of expenditure on education in both countries, there is a marked upward trend in the absolute volume of expended funds.

Figure 8. Healthcare expenditures

a) *b)*



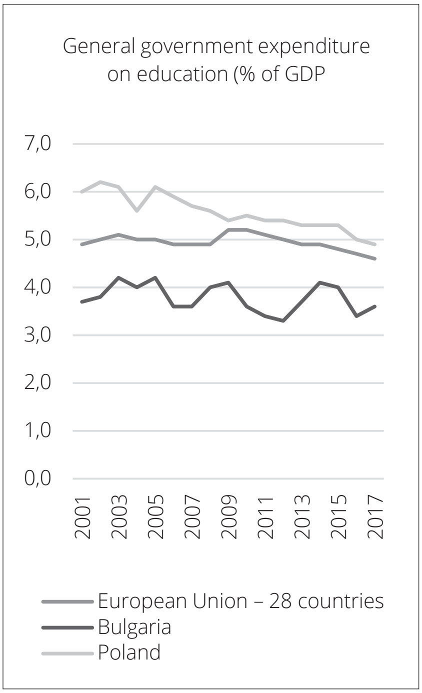
Source: Eurostat, https://ec.europa.eu; National Health Insurance Fund, www.nhif.bg.

Over the analysed period, there was an increase in the financial resources allocated to all levels of the education system in Bulgaria, the greatest share being that for primary and secondary school education. As the chart indicates, the government allocates the highest volume of funds to secondary education, while the shares of funds allocated to primary and higher education are nearly the same (Figure 9b). Hence, the question which follows logically is what the effects of those expenditures are.

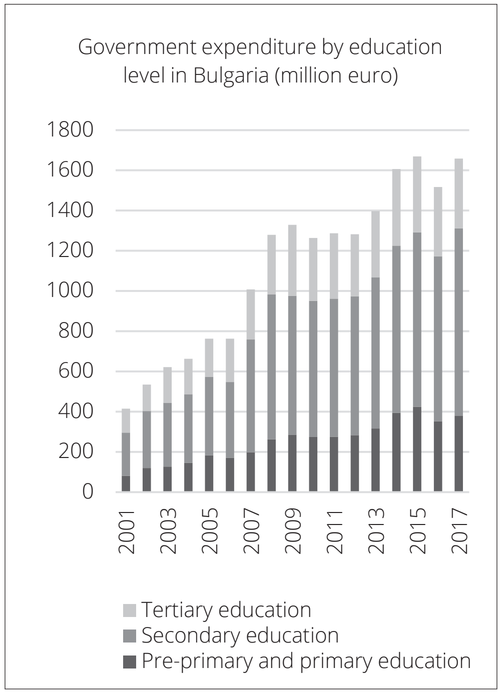
We will next focus on secondary and higher education since their results have a direct impact on the labour market. The absolute and the relative growth in the funds allocated for secondary education imply that expected quantitative and qualitative results should be higher. Unfortunately, the two charts (Figure 10 a, b) indicate quite the opposite trends, i.e. the growing share of costs is accompanied by a declining number of students graduating from school. In terms of quality, obtained results are not promising, either. Data provided by the latest PISA research show that the performance of Bulgarian school students is unsatisfactory and that the country has dropped down in the ranking of the international assessment study.

Figure 9. Education expenditure

a)



b)

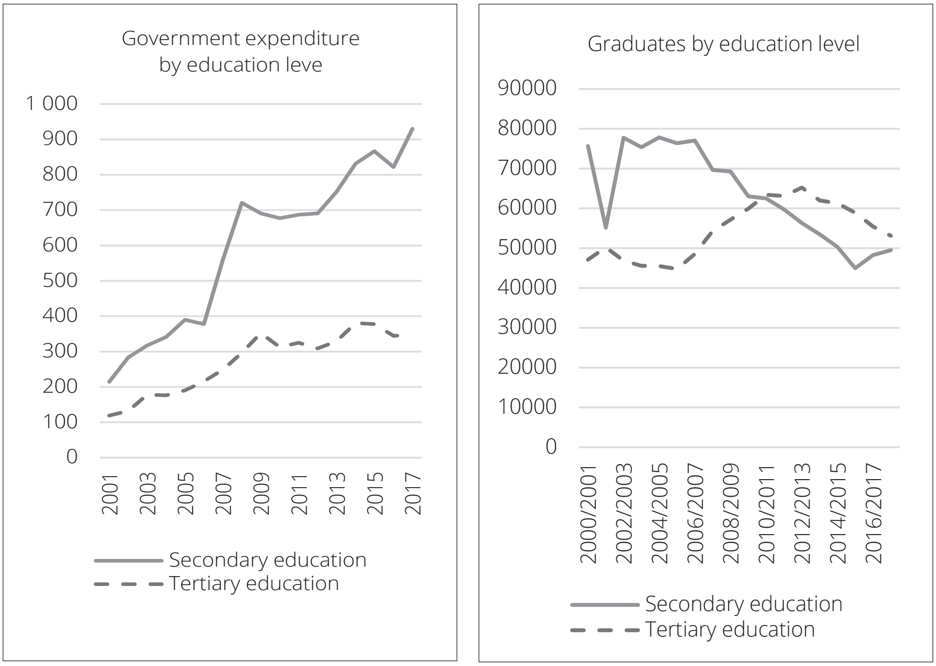


Source: Eurostat, https://ec.europa.eu.

Trends in higher education are similar (Figure 10). The discrepancy between allocated funds and the number of students who graduate from university is smaller, yet, there are other factors which affect obtained results, such as the liberalization of the system, the autonomy of universities, the funding provided from private sources, growing internal and external competition on the education market, etc. Combined with the demographic crisis and the straightforward application of European standards, those factors have had a negative impact on the quality of higher education. In their pursuit to enroll and have enough students, universities have started applying less strict criteria, which renders the education they provide uncompetitive. The information presented in the right chart (b) is eloquent – over the last 7–8 years, the number of students who have graduated from university is higher than that of high school graduates. Hence, the quality of the final education product is gradually deteriorated, which gives rise to another serious issue – the discrepancy between the competencies of young specialists and the needs of the labour market.

Figure 10. Expenditure and Graduates by education level

a) *b)*



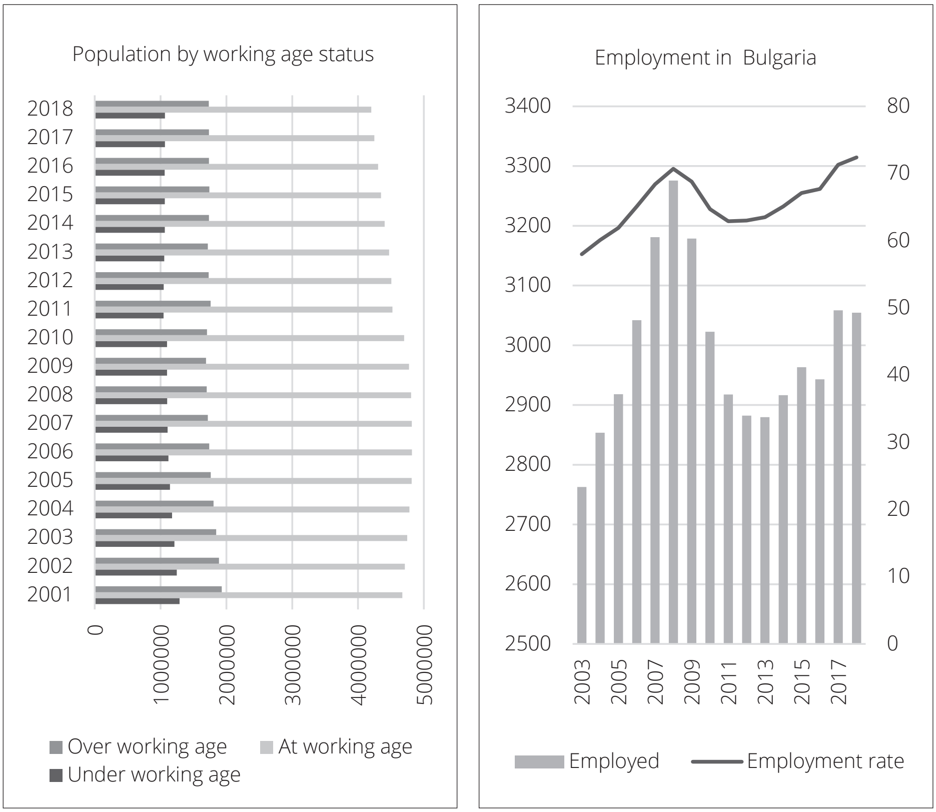
Source: Eurostat, https://ec.europa.eu.

All these findings indicate that public funds are expended on education inefficiently and that we need to adopt urgent measures to modernise the education system, to change the current model of funding and to adapt foreign education models and policies to the characteristics and traditions of education in our country.

The condition and the dynamics of the labour resources in the country are determined by the characteristics of the population we have discussed. Negative trends in the total number of the population directly affect the trends in its labour status. The most adverse impact is that of the declining share of working age people – a marked trend over the last decade (Figure 11a). This implies that the available labour resource which the current state of the economy depends on is declining. Unfortunately, forecasts are not positive, either. Trends in both groups indicate that the population is ageing and labour resources are declining, which reduces the labour potential and the growth opportunities of the country in the long run.

Figure 11. Population by working age status and Employment

a) *b)*



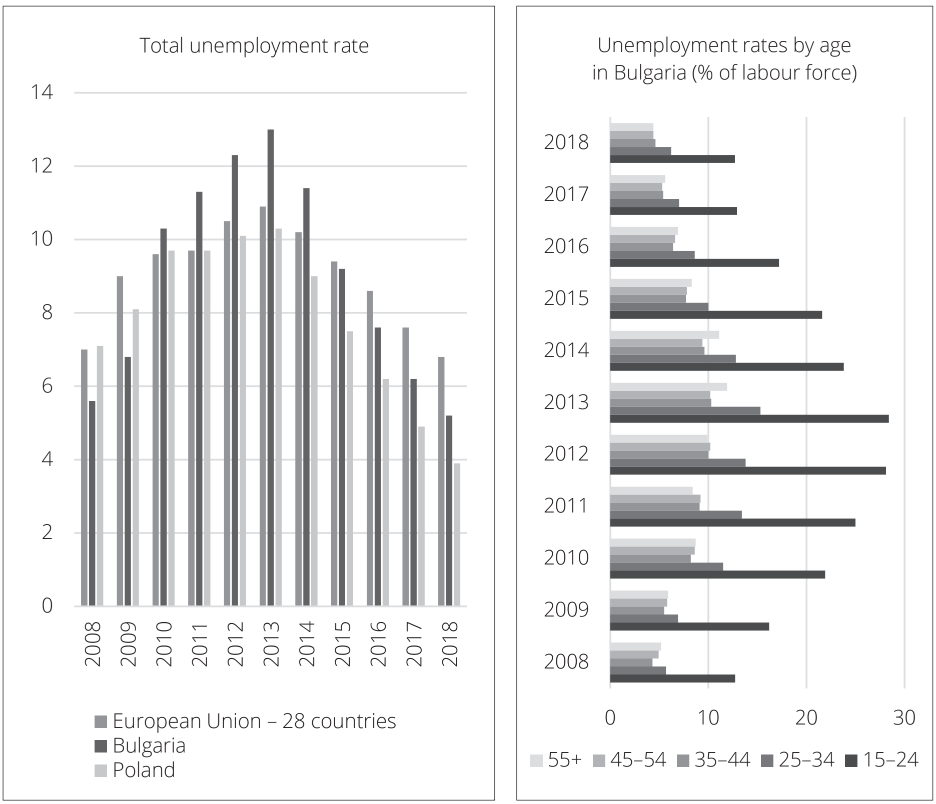
Source: National statistical institute, https://www.nsi.bg

As we know from economic theory, the number of people in or seeking employment is not equal to the total number of the working age population. The percentage of working-age population in Bulgaria is nearly 70%. As the chart shows, the share of people aged between 20 and 64 who have been employed over the researched period ranges between 58% and 71% (Figure 11b). The employment-to-population ratio in Bulgaria is similar to the EU28 average and to that in Poland. We should note that over the last three years the values of the ratio for both countries have nearly equaled the average ratio for the EU. In terms of the absolute number of people in employment in Bulgaria, the chart indicates that the onset of the global economic crisis in 2008 put an end to the steady upward trend in employment that had been registered until then. This was followed by a period of substantial decline when nearly 400,000 people lost their jobs. Employment then started to increase slowly and unsteadily due to the slowly recovering economic activity and the provoked emigration of working-age people.

The increase in employment led to a decline, albeit slow, in unemployment. This is confirmed by the data available for the last few years, and in 2018, the National Employment Agency registered the lowest level of unemployment of 5.2% (Figure 12a).

Figure 12. Unemployment rates

a) *b)*



Source: Eurostat, https://ec.europa.eu; National Statistical Institute, https://www.nsi.bg.

The unemployment figures reflect changes in the domestic and the foreign economic environment over the last decade. The unemployment rate in Bulgaria reached a peak of 13% in 2013 due to the development of the economic crisis and the job losses which followed, thus exceeding the unemployment rate in Poland and the EU28 average. The opposite trend then began, the rates of decline in unemployment in Bulgaria being higher than the average European ones, yet what stood behind those declining values, was, unfortunately, a large number of discouraged Bulgarians who had emigrated abroad.

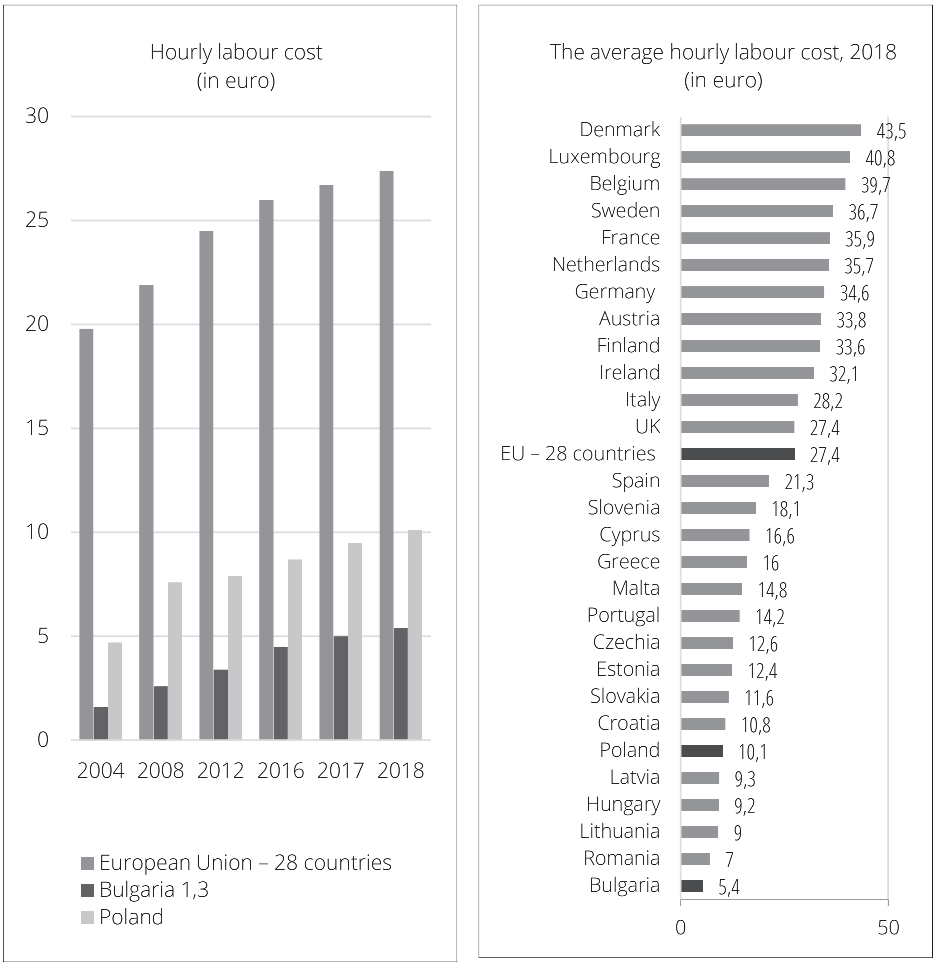
The highest unemployment rate was registered for the 15–24 age group (Figure 12b). In 2012, the unemployment rate for young people was beyond 28%, i.e. one out of every four young people was unemployed. When we add to those figures the number of unemployed people in the next age group, it becomes clear that more than 40% of employable young people aged 15 to 34 were out of employment and therefore represented potential labour emigrants. Despite the overall decline in unemployment over the next years, unemployment among young people remained the highest when compared to the unemployment in the other age groups.

At present, the most serious issue which Bulgaria is facing is long-term unemployment, i.e. the situation in which people are not able to find a job within a year or more. Changes in the long-term unemployment rate follow the trend in the total unemployment-to-population ratio, yet despite the steady decline since 2013, the share of long-term unemployed people in 2018 accounted for more than 50% of all unemployed persons in Bulgaria. Paradoxically, at the same time there has been an overall increase in the demand for labour on the labour market in Bulgaria. Some of the main reasons for that discrepancy include the deteriorating health and education of the population which renders it difficult for unemployed people to find a job that would be suitable for their health condition or qualifications, as well as the unsatisfactory remuneration of labour.

According to data provided by Eurostat, there has been a positive trend in the size of hourly wages in Bulgaria which follows the general trend in labour remuneration in the EU. In the period from 2004 to 2018, the costs per an hour of labour in Bulgaria increased by a factor of 3.4 (Figure 13a). The only country which is ahead of us in terms of this indicator is Romania where the registered increase is by a factor of 3.6. The reason for the registered increase in both countries is the low minimum wage – 1.6 Euro and 1.9 Euro, respectively, while the average minimum wage in the European countries was 19.8 Euro in 2004. Yet, despite that growth, the hourly wage in Bulgaria remains the lowest in the EU (Figure 13b). In 2018, it amounted to 5.4 Euro, which was 5 times as low as the average European minimum wage (27.4 Euro) and 8 times as low as the minimum wage in Denmark (43.5 Euro). This dramatic difference is mainly explained with the productivity of labour. At the same time, we also need to point out the disproportions in the structure of the economy and the development of industries with low profit margins; the high rate of emigration of qualified employees; the high income inequality; the outdated production equipment and the low investment activity as well as certain foreign economic and political reasons.

Figure 13. Hourly labour cost

a) *b)*



Source: Eurostat, https://ec.europa.eu.

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The changes which took place in Bulgaria over the last 30 years determine the dynamic nature of its economic development with numerous upheavals and downturns. Being a small and open economy, Bulgaria is exposed to considerable external risks and threats. The economic environment in the country and the condition of its own resources do not give grounds for much optimism. The biggest problem which we can identify is the loss of national human capital – both in terms of quantity and quality. At the same time, Bulgaria has underexploited resources for developing nearly all types of tourism – sea tourism, mountain tourism, balneology, agricultural tourism, cultural and historical tourism; for developing hi-tech services; for the production and export of consumer products with high value added (for example car manufacturing and the processing industry); for the production of energy and the transportation of fuels, etc. All these factors mitigate the risks Bulgaria is exposed to, but still require adopting urgent and effective measures. Those measures should aim at preserving and developing the human resources, investing in the renovation and expansion of capital resources, reforming some of the major aspects of the government economic policy (for example, the budget, the incomes and the structure of the economy). The implementation of those measures requires joint effort on behalf of all stakeholders (government, employers and employees) in order to raise the potential of the economy and improve its prospects for growth.

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