THE MACROECONOMIC STABILITY OF BULGARIA – GUARANTEE FOR ECONOMIC SECURITY

Assoc. Prof. Dr Anton Marinov

The nature of the economic policy of the state consists of guiding the economic processes through the execution of a set of measures, with which there are achieved the projected goals and tasks and are solved important social issues\(^1\), dealing with tasks, which the market is unable to solve. Its priorities are a reflection of the processes running in the national and world economy.

In pursuing the economic policy and achieving its goals there must be taken into consideration their interrelation and interaction. Occasionally there is a discrepancy between some of the goals, therefore there should be sought the optimal scenario by means of various decisions or constant manoeuvring. Controversies are resolved by preferentially accomplishing the goal, which is currently most threatened. In that case even its partial achievement is considered a success, being the optimum variant.

Macroeconomic stability and economic security are some of the most important goals of the economic policy and elements of the economic environment. There is a direct correlational dependence between them and they overlap partially or completely in certain cases.

1. Theoretical formulations

The idea of economic security was used for the first time in 1971 by the Ministry of International Trade and Industry of Japan. With it there is expressed the dependence of internal economic growth on international relations\(^2\).

According to Prof. Tilcho Ivanov\(^3\) economic security is a component of the complex security of the country and is connected with the way and the quality of social life. He thinks that it consists of two elements - external and internal security. External economic security expresses the two-way connection between the state of international relations and the stability of the the country’s economic development. The internal economic security of the country includes: the place of the country in the international specialization of labour, the use of its comparative advantages, the increase in competitiveness, stable balance of payments, free movement of goods, services, people and capital, maintenance of a national reserve of strategic raw and prime materials, economic growth, increase in the standard of living, increase in productivity, high employment, stable money circulation, balanced state budget, etc.

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1 Стоичкова, Огн., Държавно регулиране на икономическата сигурност, изд. За буквите - о писмене, София, 2008, с. 47.
Prof. Ognyana Stoichkova views economic security\(^4\) as the part of the national security of the country which ensures high enough social, political and defence potential so as to guarantee the stability of economic resources and their use, independence of the economic and social processes of internal and external influences.

According to Assoc. Prof. Stefan Michev and Assoc. Prof. Lidia Velkova\(^5\) among the responsibilities of the state are: the maintenance of statehood and independent development, its own place in: the international division of labour, the specialization, cooperation and international trade, the international financial and bank systems, participation in the major financial and commodity markets, etc. Its purpose is to support and, if necessary, protect those. The present-day version of the notion of “economic security” is complemented with such a characteristic as guaranteed competitiveness of the national economy in the global economic area. An increasing number of researchers come to the conclusion that it is precisely competitiveness that is the most objective and integral criterion of the viability of the market economy under conditions of peace.

Economic security is traditionally viewed as a principal qualitative characteristic of the economic system. It determines the ability of the economic system to maintain normal living and working conditions for the population, to steadily provide resources for the development of the economy, and also to realize consistently the national economic interests. The internal economic security of the country is directly dependent on the active macroeconomic and structural policy of the state. In order to achieve stability of the economic environment and create conditions for economic growth, there must actively and successfully be utilized the tools of the monetary, fiscal and other policies.

Zdravko Marinov\(^6\) views it as the protection of the members of society from economic risks - crises, bankruptcies, unemployment, occupational accidents, etc. The governments of the developed countries work out economic programmes providing relief funds for the needy, upper limits to the prices of consumer goods and services, subsidizing the production of certain goods, etc.

So far opinions on the issue of the definition of economic security vary, although a great number of Bulgarian and foreign scholars have worked on the topic. One of the most widely spread ones is that of the Russian scientist Academician Leonid Abalkin\(^7\), which sums up most of the definitions given here and can be adopted as the working one in the present study. It states that economic security is the most important qualitative characteristic of the economic system, which determines its ability to maintain normal living conditions for the population, sustained provision of resources for economic development and consistent pursuit of national interests. Economic security has a complex inner structure in which there are three important elements:

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7. Абалкин, Л., Лекция в НДК, 22.06.1993, С.
1. **Economic independence** - the ability to control national resources, the attainment of such efficiency level of production and quality of the gross domestic product (GDP) that would guarantee the competitiveness of the national economy and provide the opportunity for equal participation in global trade, including cooperation and exchange of scientific and technical achievements.

2. **Stability of the national economy** - protection of property in all its forms, creation of reliable conditions and guarantees for economic activity and control of the factors, which can destabilize the economy.

3. **Ability for independent development and economic growth** of the national economy - favourable climate for investment and innovation, constant modernization of production, improving the professional, educational and cultural level of the population, etc.

The goal of economic security is maximum prosperity for all members of society.

In order to achieve this goal there are needed macroeconomic stability, economic activity, full employment and an increase in labour productivity, economic growth, environmental protection and foreign economic equilibrium.

The correct estimation of the level of economic security depends on the amount and depth of the information on the current situation, its impact on the sectors of the economy as a whole. It includes an analysis of a set of indicators of an economic system. Among the most important indicators for measuring its level there can be identified the following:

- **economic growth** - the dynamics and structure of national production and national income, the industry structure of the economy and the dynamics of the individual sectors, investment, etc.;
- **characterization of natural resources, the industrial, scientific and technical potential of the country**;
- **characterization of the national economy and its dependence on external factors** - inflation, budget deficit, influence of external economic factors, stability of the national currency, the internal and external debt, etc.;
- **quality of life** - GDP per capita, level of income inequality, provision of goods and services to the population by the state, number of economically active individuals, protection of the environment, etc.

Taken alone, the individual economic indicators as well as their values are of no significance to economic security. What’s important is their impact on the economy. Failure to keep those within acceptable limits results in the formation of negative and destructive tendencies in the economic security of Bulgaria and there arise certain threats.

For instance, as far as **internal threats** are concerned, such indicators are: the **level of unemployment**, the **difference in income between the richest and the poorest**, the **rate of inflation**, etc.

As regards the **external threats**, the following can be identified as indicators: the **maximum allowed amount of national debt**, favourable or unfavourable foreign trade balance, the dependence of the national economy on the importation of foreign technology, components or raw materials, etc.
The criterion of economic security is the ability of the national economy to deal with the threats under critical situations.

The other important element of economic policy is macroeconomic stability (MES). Here, too, the opinions of authors and researchers vary.

According to the neoclassical school macroeconomic stability (MES) comes down to financial stability. Financial stability means low inflation, balanced budget, balanced current account, stable exchange rate, low interest rates, adequate foreign currency reserve.

Macroeconomic stability means maintaining an approximate internal and external equilibrium between supply and demand. Internal equilibrium means: low inflation, low budget deficit, increase in the average salary in accordance with labour productivity, hence rise in consumption following the growth of the gross domestic product. External equilibrium means: moderate deficit of the balance of payments current account, which can be financed with foreign direct investment and low-interest long-term loans; decreasing external debt as percentage of GDP; dynamics of the real exchange rate in conformity with the dynamics of the equilibrium real exchange rate; protection of the local financial markets from great amounts of speculative funds seeking quick profits.

As a result of the policy outlined above, the most important indicators of macroeconomic stability in Bulgaria in the two decades (2000-2020) will be: annual growth rate of GDP, average annual rate of unemployment, average annual rate of inflation - consumer prices, average annual budget deficit - % of GDP, average annual current account deficit - % of GDP, national debt at year end - % of GDP, etc.

The conclusion is that macroeconomic stability aims at the stability of the economy - price stability, high level of employment, positive economic growth and foreign trade balance:

- price stability means non-admission of an increase in prices by over 2-3% annually.\(^9\)
- high level of employment - maintenance of natural unemployment rate (3-6%);
- economic growth - recommended increase of GDP by 3-4% yearly in normal conditions, and after a crisis - by 6-10%. That is the most important task, and its achievement would be a success for the economic policy of any country;
- foreign trade balance - maintaining favourable balance in foreign trade.

Apparently macroeconomic stability is something more than just the smooth functioning of the currency board, as well as every other state of orderliness in a system. It requires continuous effort on the part of numerous branches of economic policy - the fiscal policy, income policy, external debt management, creation of suitable environment for the capital markets. Hasty and uncoordinated actions by individual branches of economic policy can easily harm it, which would lead to risk of macroeconomic crisis and recession.

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\(^{10}\) The increase in the quality of goods and the raising of prices is not considered an increase.
The concept of “economic security” is viewed in two aspects, which are in direct correlational interdependence:

- a concept which can exist independently, can be observed and studied as a process and phenomenon;
- a wider concept, part of which is the concept of “macroeconomic stability”.

It is necessary to prepare and introduce a time plan for achieving the goals of economic security, which for the most part coincide with these of macroeconomic stability.

**Analysis of macroeconomic indicators**

**Table 1**

**Macroeconomic indicators for the period 2005-2010**

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Domestic Product (at current prices)</td>
<td>45,484</td>
<td>51,783</td>
<td>60,185</td>
<td>69,295</td>
<td>68,322</td>
<td>70,474</td>
</tr>
<tr>
<td>GDP per capita (BGN)</td>
<td>5,877</td>
<td>6,726</td>
<td>7,857</td>
<td>9,090</td>
<td>9,007</td>
<td>n/a</td>
</tr>
<tr>
<td>Growth rate of GDP per capita</td>
<td>6.9%</td>
<td>7.1%</td>
<td>7.0%</td>
<td>6.7%</td>
<td>-5.0%</td>
<td>0.9%</td>
</tr>
<tr>
<td>Economic growth (growth of GDP against preceding year)</td>
<td>6.4%</td>
<td>6.5%</td>
<td>6.4%</td>
<td>6.2%</td>
<td>-5.5%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Investments (fixed assets in progress) (thousand BGN)</td>
<td>13,262,517</td>
<td>17,742,863</td>
<td>27,446,562</td>
<td>29,424,189</td>
<td>21,274,280</td>
<td>n/a</td>
</tr>
<tr>
<td>Population</td>
<td>7,718,750</td>
<td>7,679,290</td>
<td>7,640,238</td>
<td>7,606,551</td>
<td>7,563,710</td>
<td>7,504,868</td>
</tr>
<tr>
<td>Employed persons aged 15 - 64 (thousands)</td>
<td>2,945.2</td>
<td>3,071.7</td>
<td>3,208.8</td>
<td>3,306.2</td>
<td>3,204.8</td>
<td>3,010.4</td>
</tr>
<tr>
<td>Coefficients of employment of the population aged 15 - 64</td>
<td>55.8%</td>
<td>58.6%</td>
<td>61.7%</td>
<td>64.0%</td>
<td>62.6%</td>
<td>59.7%</td>
</tr>
<tr>
<td>Unemployed persons aged 15 - 64 (thousands)</td>
<td>333.7</td>
<td>304.6</td>
<td>239.1</td>
<td>198.5</td>
<td>236.7</td>
<td>345.9</td>
</tr>
</tbody>
</table>

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11 In the analysis of macroeconomic indicators there have been used the indicators by which there are measured simultaneously economic security and macroeconomic stability.
12 The Gross Domestic Product (GDP) is a measurement of economic activity defined as the value of all manufactured goods and services less the value of the goods and services used for their production.
13 The computation of the annual rate of change in GDP per capita is done using comparable prices in order to allow for comparisons of the dynamics of economic development both in time, and between economies of different scale. The rate of change in GDP is calculated from indicators in comparable prices, since they represent only changes in volume, i.e. changes in prices do not affect the rate of GDP.
Economic growth

Our national economy was not spared by the global economic crisis. It entered Bulgaria through the export oriented types of production. In the period 2005-2010 there are observed predominantly positive values of the macroeconomic indicators up until 2008. Table 1 shows that for the period under study the economic growth before the crisis decreased by almost 12% and from positive turned into negative. From the forecasted by the National Statistical Institute (NSI) fall in GDP for 2009 (-4.9%) the

| Coefficients of unemployment of the population aged 15 - 64 | 10.2% | 9.0% | 6.9% | 5.7% | 6.9% | 10.3% |
| Coefficient of inequality s80/20 | 5.1 | 7.0 | 6.5 | 5.9 | n/a | n/a |
| Poverty level before social transfers | 44.9% | 41.4% | 40.0% | 38.8% | n/a | n/a |
| Poverty line (BGN/yr) | 1,623.7 | 1,737.4 | 2,548.1 | 3,318.1 | n/a | n/a |
| Income per capita (average) | 2,579 lv. | 2,851 lv. | 3,347 lv. | 3,748 lv. | 3,867 lv. | 3,812 lv. |
| Inflation (avg annual CPI, prec. yr = 100) | 5.0% | 7.3% | 8.4% | 12.3% | 2.8% | 2.4% |
| Budget surplus/deficit (% of GDP) | n/a | n/a | 0.1% | 1.8% | -3.9% | -3.6% |
| National debt (% of GDP) | 27.5% | 21.6% | 17.2% | 13.7% | 14.6% | 16.2% |
| Export of goods and services - mln BGN (in comparable prices of 2005) | 18,438 | 27,777 | 29,474 | 30,371 | 26,963 | 31,344 |
| Import of goods and services (in comparable prices of 2005) (mln BGN) | 25,301 | 37,357 | 40,954 | 42,686 | 33,734 | 35,263 |
| Size of the shadow economy (% of GDP) | 39.7% | 40.4% | 38.2% | 37.1% | 37.5% | 37.7% |

Source: National Statistical Institute and author’s own research.

The ratio of the incomes of the poorest and the richest 20% of the households.

The indicator constitutes the percentage of the individuals (of the entire population), who have equivalent disposable income under a certain poverty line. The poverty line is determined as 60% of the median equivalent net income before the social transfers.

The debt is estimated at face value, the external (foreign) currency liabilities are converted in the national currency by using the market exchange rates at year end (with contracts there apply special rules). That is the debt of sector General Government - Central Government, Local Government and Social Insurance Funds.

Source: BNB, National Statistical Institute, Prof. Dr. F. Schneider.
level of (-5.5%) was reached. The stable positive trend in the development of the economy reversed itself and the latter lapsed into a crisis. During the period of the crisis there was also a political alternation from left to right centrist political administration. The negative trends in the macroeconomic indicators were retained.

There is observed a slow rise in GDP at the end of 2010 as a result of the recovery of the economies of some EU member-states, which are the predominant trade partners of Bulgaria. The growth of the economy came again from the export oriented enterprises of the industrial sector, which produces about one third of the entire added value in Bulgaria. In the second half of 2010 there is observed growth, reaching 33.4% at the end of the same year, which exceeds in value the pre-crisis 2007 - 32.3%. Its shrinkage is strongest in 2009 - by 2%, while with the other two sectors of services and agriculture it is comparatively smaller.

The indicator “Gross Domestic Product per worked hour” gives us a general measure of the productivity of the national economy and its competitiveness. For the period 2005-2010, the productivity of labour per worked hour exhibits an annual average growth by 3.0%, the highest growth rate being observed in 2010 - around 8%.

**Investments**

Investments - this indicator determines the share of investments in total production. The acquisition of capital goods largely determines the future economic development of the state, since the capital reserves of both the physical and the human capital are increased. For the period 2005-2008 the share of investments in GDP shows an ongoing increase: from 29.2% in 2005 to 46.4% in 2007, after which there is observed a decrease in investments in GDP, in 2009 their share being 31.1%, and in 2010 - 24.2%. The average share of investments in GDP for the period 2005-2010 is 34.6%. The majority of investments during the so-called “high period” were attracted by the sectors of “Construction”, “Finance and Trade”, a substantial predominance belonging to real property and construction. Despite the considerable shrinkage of these sectors, the largest sources of investment in 2010 remained countries from the Eurozone such as The Netherlands, Belgium, Cyprus, Greece and Germany.

The investments in research and development (R&D) are of primary importance to the transition to knowledge-based economy, as well as for an increase in labour productivity and for stimulating economic growth. The intensity of R&D, measured as the percentage of R&D cost of GDP, is one of the key indicators for measuring the progress of the European Union (EU) in achieving the aims of the new strategy Europe 2020 for smart, sustainable and inclusive growth. The national aim according to this strategy is for the cost of R&D to reach 1.5% of GDP. In 2009 the investments in R&D grew to 0.53% from 0.47% in 2008, but we still lagged behind substantially from the average value of this indicator for EU-27 - 2.01% in 2009. Research and Development is financed by national and foreign sources, but the biggest source of financing of R&D in 2009 is sector General Government - 60.5% of all sources.

Labour market

Employment is also an important indicator, which has bearing both to economic development and to the quality of life and social inclusion, which are among the main goals of economic security. Following a continued increase in employment in Bulgaria during the period 2005-2008, after 2009 its level begins to go down, and in 2010 the coefficient of employment reaches 59.7% or 4.3 points less than that of 2008. In the first quarter of 2011 the coefficient of employment subsides even more and is 57.3%, and for the second quarter of the same year there is observed a slight rise, reaching 58.2%. By this indicator, in 2010 Bulgaria is behind by 4.5 points from the average value for the European Union. In the period 2009-2010 there is observed a decrease in the difference between the coefficients of employment with men and women, on account of a drop in the employment with men. The reduction in employment after 2008 holds true for all age groups, but it mostly affects individuals aged 25-34. In 2010 the coefficient of employment for this age group is 70.7% and is 7.5 points less than that of 2008. The coefficient of employment differs considerably depending on the degree of education obtained. In 2010 employed are 83.8% of the people with higher education aged 25-64, and for the people of the same age, who have primary or lower education, this percentage is two times as low - 41.2%.

Analyzing the labour market for the period under study it becomes clear that in 2008 the tendency towards a decrease in the unemployment rate turns and it begins to rise. In 2008 unemployment in Bulgaria reaches its lowest level for the past 15 years - 5.7%, in the following year it begins to rise and in 2010 the coefficient of unemployment reaches 10.3%, for the second quarter of 2011 it is already 11.2% or about 370,000 people with an upward trend. Analyzing the data on the monthly unemployment rate it becomes clear that as far back as 2008 the labour market began to reflect the crisis impulses. The rise in unemployment in the past two years is greater with men compared to that with women - the coefficient of unemployment with men increases from 5.5% in 2008 to 10.9% in 2010, and that with women - from 5.8 to 9.5% respectively, which is confirmed also by the data on employment. Although from 2009 onwards the coefficient of unemployment in Bulgaria begins to increase, in the same year it is 2.1 points lower than the average for EU-27, while in August 2011 the trend is already reversed - unemployment in the EU has reached 9.5%, while Bulgaria is among the countries featuring the greatest increase - 11.7%. During the period 2005-2010 the coefficient of youth unemployment (15-24 years) registers the greatest changes in comparison with the other age groups. In 2008 it reaches its lowest level - 12.7%, or 10.5 points lower than that of 2010, where it rises to the alarming 23.2%. The increase in unemployment affects most significantly people with lower education. In 2010 the coefficient of unemployment for individuals with primary or lower education aged 25-64 is 21.7%, for those with secondary education it is 8.3%, and for individuals with higher education - 4.3%.

20 According to data provided by the National Statistical Institute - NSI, www.nsi.bg
21 According to data provided by Eurostat, www.epp.eurostat.ec.europa.eu
Over the years preceding the global financial and economic crisis, when Bulgarian economy was characterized by intense economic growth, the nominal unit labour costs (NULC)\(^{22}\) were going up as a result of the real and nominal convergence.

The decrease in the share of unreported employment in the medium term, as well as the composition effects, connected with the still continuing changes in the structure of employment, will probably exert upward pressure on the average level of salaries. Nevertheless, the increased uncertainty about the global economic situation and the anticipated low inflation in the current period of high unemployment rates and discouragement will most probably limit the growth in salaries in the medium term.

The crisis continues to exert serious influence on the well-being of households, i.e. that is its social cost. Low earnings and shrunk lending reduce consumption, increase indebtedness and bad loans. The observed change in the direction towards a conservative credit policy is a factor, which will not allow households to reach the pre-crisis levels of consumption in the next 2-3 years, while at the same time their indebtedness is increasing.

The inequality in the distribution of income S80/20 assesses the effect of the pursued social policy in respect of the poor strata of the population. In Bulgaria income is distributed too unevenly - the 20% richest people earn 6 times as much as the 20% poorest people in this country. During the period 2005-2008 there are observed no considerable changes in the polarization of the population. This can be explained with the fact that the poverty line keeps going up, while the poverty level is almost preserved for the period under equal other conditions. In other words, there is observed an increase in the incomes of both the rich, and of the poor strata of the population, while the ratio between them remains approximately unchanged.

During the analysis of the income of the population and the poverty line one can see that the difference between those is shrinking over the years of the period under study, which means that there is a general impoverishment of the population, and an even higher rise in poverty in recent years, as well as the emergence of the “working poor” phenomenon.

The largest percentage of poor people consists of those who have been left out of work, which poses serious challenges before the overall welfare of the country. In the analysis of the structure of incomes in the country it becomes clear that the tendency towards an increase in remunerations as part of all incomes is extremely weak, and is at the expense of the income from pensions, which is illogical and leads to future threats to economic security and the pension system. The share of the employed is decreasing, while there is an increase in the share of the unemployed and the pensioners. The forecasts of population statistics for the future are for a permanent growth in the population in post-working age and decline in that in working age. The impoverishment, on the other hand, exerts serious pressure on the demographic growth and is not conductive to the reproduction processes in society, being an extra burden to the pension system, leading to its future indebtedness and collapse.

**Inflation**

The effect of the economic crisis has had a positive impact on the rate of inflation in Bulgaria, which, however, is once again higher than the requirements of the Maastricht criteria\(^23\) by 8% to 1.4% in the different years of the period under study. Besides the fact that it increases faster than the income and worsens the well-being of households, high prices also affect the level of the interest rate on loans, since those influence the risk premium in the country. Under the currency board arrangement, the Bulgarian National Bank (BNB) does not possess the tools to set the base interest rate (BIR), i.e. it is unable to affect the rates of inflation. In that situation there exists the real danger of stagflation, provided that the rate of inflation continues to rise in conjunction with a fall in GDP, which may cause another threat to economic security. The rise in the real income is the only effective approach to overcoming this tendency.

**National debt**

Bulgaria reports a steady decrease in the national debt from 2005 to 2008 and continues to maintain levels of 14.6% for 2009 and 16.2% for 2010, followed only by Luxembourg and Estonia. For the sake of comparison, the average indebtedness of the European Union (EU) in 2009 reaches almost 80% and exceeds the Maastricht criteria by nearly 20%. As a result of the pursued reasonable fiscal policy in latter years and despite the deficits of the past two years, it is expected that Bulgaria would keep its position among the three countries with the lowest national debt, remaining within the limits of 20% of GDP during the next two years. Despite the fact that Bulgaria does not register substantial deviations from the reference values in this indicator, unlike other countries in the Eurozone such as Greece and Ireland, the indicators of the fiscal discipline for the period under study worsened, which lead to postponing our accession to “the waiting room” of the Eurozone.

**Budgetary equilibrium**

For the period under study the budgetary equilibrium of Bulgaria shows a trend that is identical with the majority of the analysed macroindicators - from a surplus - 1.8% of GDP at the end of 2008, it reaches a 3.9% deficit in 2009, and a slight decrease to 3.6% (deficit) at the end of 2010 as a consequence of the restrictive policy of the government. Getting out of the parameters of the criteria for fiscal stability\(^24\), Bulgaria postponed its entry in the waiting room of the exchange rate mechanism II.

**Balance of trade**

The analysis of the data on the trade balance shows an improvement and reduction of the trade deficit from BGN 12,315 bln in 2008 to BGN 3,919 bln in 2010. That

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\(^23\) The rate of inflation must not exceed the limit of 1.5% above the average inflation in the three countries with the highest price stability, measured with the help of the Harmonized Index of Consumer Prices (HICP).

\(^24\) According to Maastricht criteria fiscal stability means a budget deficit, which does not exceed 3% of GDP and public debt under 60% of GDP.
improvement of the balance of trade is expressed in dwindling the deficit from 17.8% of GDP in 2008 to 5.7% in 2010, which is due to the slight rise in export and great reduction of import on account of the economic crisis.

**Shadow economy**

The analysis of the shadow economy shows a decline from 40.4% of GDP in 2006 to 37.5% in 2009 and a slight rise in 2010 - 37.7%, the increase being the result of the restrictive measures of the government in consequence of the economic crisis. For the period under study Bulgaria remains a country with a large shadow economy percentage. It comes third on a list of 37 countries after Latvia and Estonia. In another national survey the share of the shadow economy for 2010 according to the business is 48.6%, while people report an even higher share - 58%. For the period under study the shadow economy in the countries of Europe is at levels averaging 22%, its structure being identical in the various states.

On the one hand, in time of crisis the shadow economy can serve as a buffer and bring benefits and not just downsides, but on the other hand it is a threat to the economic security and development of this country. For that reason the shadow economy must be watched and studied constantly, in order to keep it within admissible limits and pursue adequate economic policy.

### 2. Priorities of Bulgarian Economy

The issue of national economic priorities is complicated, because it is difficult to prove the correctness of the decisions before they have been tested in practice.

Priorities must be identified with the help of objective criteria (the existence of a market, that of comparative economic advantages, competitiveness, productivity, profitability, capital intensity, material intensity, energy intensity, labor-intensive production, science intensity) and provide reference points at the national and industry level. They must be consistent with the long-term development of the country - the full membership of Bulgaria in the European Union and future challenges.

With the current state of the economy the criteria for choosing priorities can be arranged in the following sequence: competitiveness, comparative advantages, opportunities for market breakthroughs and strategic significance. Each one of the indicated criteria may exert specific influence on the choice of structural priorities.

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25 The shadow economy is a legitimate activity with added value, which is done illegally.
26 According to data provided by Prof. Dr Friedrich Schneider of the University in Linz, Austria, cited by the British magazine Economist.
27 The findings are from a country-wide sociological representative survey among employers and employees, which encompasses 3,500 employed aged 15 to 85. The survey has been conducted within the framework of the project “Restriction and prevention of the informal economy”.
29 Василев, Й., “Трансформационни процеси и икономически приоритети” в „Шиви риби“ - стп., и - лов", бр. 4/2006, с. 119-123.
They must be oriented towards the establishment of a restructured, modernized and competitive economy, successfully integrated into the EU and creating conditions for a well-deserved quality of life for Bulgarian citizens.  

According to the Strategy for Overtaking Economic Development the fundamental areas of activity in Bulgaria are: people’s health; education; the acquisition of more and contemporary knowledge; advancement of research and development; structural and technological modernization of the economy; creation of a modern infrastructure; relatively even development of the regions; restriction of the social polarization in society; protection and improvement of the environment; creation of contemporary government and non-government institutions and effective state administration, highly developed non-governmental organizations.

Hence an important task in identifying the priorities is determining the succession of their realization in time.

In the National Strategy for Regional Development of Republic of Bulgaria for the period 2005-2015 there are specified the following priorities of the policy for regional development:

1. Development and modernization of infrastructure.
2. Restructuring of the economic foundation of the regions and creating conditions for its competitiveness based on the knowledge economy.
3. Raising the adaptability of human resources to the requirements of the regional and local labour markets.
4. Urban development and impact on regions threatened with marginalization and accumulation of ecological issues.
5. Development of territorial cooperation.

In establishing the priorities for the future of Bulgaria, a report by Deloitte Bulgaria gives an overview of the competitive advantages and disadvantages of the country in comparison with neighbouring states, because compared to neighbouring countries it does not look so bad with respect to competitiveness, as when compared to economies like the Czech Republic, Poland or Hungary.

According to the above report the competitive advantages of Bulgaria are due to several factors: the labour force, macroeconomic stability, high economic growth rate, membership in NATO and the EU, privatization, the geographical location. The competitive disadvantages are connected with: the investment climate, the underdeveloped infrastructure, the still insufficient quality level of administrative service and the small size of the domestic market. On this ground Bulgaria can have comparative advantages with products in small series,
targeted at narrower market niches, goods and services of average added value - to which the distance to the market is of importance. A list of 13 potential economic industries\(^5\) has been prepared and from those there have been identified three industries, which have been judged to possess the best economic potential and the Bulgarian government must focus its marketing efforts on attracting foreign investment to those - Information and Communication Technology (ICT); Outsourcing (transfer of business processes); Mechanical engineering, electrical engineering and electronics.

The economic priorities and criteria for their identification should be determined by the changes in the development of the economic factors. It is necessary to give precedence to the industries and types of production for the prosperity of which Bulgaria possesses the best conditions. This choice should be based on the specific needs of the economy and also on the significance of the issues, which are to be solved in the medium and long term.

The working out of the priorities must systematically be updated.

To the priorities of the Bulgarian economy there should also be added the goals set in the National Reform Programme 2020\(^6\), which include:

- raising the share of research and development spending to 1.5% in 2020;
- combining the effect of the agreed upon reform of the pension system with achieving the aim of 76% employment among the population aged 20-64;
- improving the indicators in education - reducing the percentage of those who have prematurely left the education system to 11% and increasing the share of those aged 30-34, who have university education - 36% till 2020 respectively.

The goals in the National Reform Programme are in line with the aims set in the strategy Europe 2020 for EU Member States to achieve high levels of employment, productivity and social cohesion.

The European Union has set five ambitious goals - in the area of employment, innovations, education, social cohesion and climate/energy, which must be reached till 2020. Each member state adopted its own national goals in each of these areas.

Investments in infrastructure ought to improve the environment for life and business. The access to quality infrastructure stimulates investment decisions of economic agents and also motivates higher mobility and migration of business, capital and employment. Long-term investment in infrastructure will help overcome regional disproportions and the development of settlements in the country.

The effect in the National Reform Programme for reducing the number of people living in poverty by 260,000 is directly connected with the fulfilment of the goals related to education and employment. The improved educational status as well

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as the wider access to the labour market will raise the opportunities for employment of the riskiest groups of the population - the unemployed, minority groups and disadvantaged people.

The assessment of the priorities of Bulgarian economic policy presents an opinion to Bulgarian authorities for accomplishing economic reforms, bringing the Bulgarian economy closer to the fulfilment of the Maastricht criteria. The government has undertaken an ambitious programme - the development of a solid macroeconomic policy, which has affirmed itself in recent years for the attainment of long-term economic stability.

What is the final balance for the states, which have signed the Maastricht Treaty? Here is the balance on each individual criterion:

**Price stability** - the countries with lowest inflation are Sweden (+0.40%), Malta (+1.3%) and Ireland (+1.7%). Thus the average admissible rate of inflation must not exceed 2.63%. Only 11 of 27 countries meet this requirement, and those with the highest jump in prices are Great Britain, Slovenia and Poland.

**Budget deficit** - here it is not surprising that only just 4 states meet the criterion of maximum 3% of GDP. Two of them even feature a surplus (Estonia and Sweden). The highest deficits go to Ireland (31.3%), Greece (10.6%) and Great Britain (10.3%).

**National debt** - only 14 out of 27 states report public debt of up to 60% of their GDP. Least indebted are Estonia (6.1%), Bulgaria (15%) and Luxembourg (18.5%). Greece (159.10%) is heading the ranks of those with the highest debt, followed by Italy (115.50%), Portugal (110.1%) and Ireland (104.9%). The other states feature debts of under 100%, whereas Holland nearly meets the criterion with 62.7% of GDP.

**Accessibility of loans** - the criterion of the interest rates is determined by the countries with the lowest inflation, Ireland being one of them. However, since the latter is one of those most affected by the financial crisis, interest rates there are greatly over-valued (9.6% for 2011). Therefore Ireland all of a sudden raises sharply the average level of interest rates in Europe (7.57%), which allows 24 out of 27 countries to meet this criterion. The three countries which also fail with respect to this criterion are Greece, Hungary (7.64%) and Portugal. Without the “Ireland” effect more than half of the states in the EU would not meet this indicator.

**Stability of currencies** - all of them meet this criterion because of the absence of devaluation in the past two years.

The situation in Bulgaria for 2011:

- rate of inflation - barely 2%;
- national debt - 15%, etc.

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37 Maastricht Criteria: 1. Price stability - national inflation must not exceed by more than 1.5% the average rate of inflation of the three countries with the lowest inflation in the EU; 2. Accessibility of credit - long-term interest rates must not exceed by more than 2% the average interest rate level of the three countries with the lowest interest rates; 3. Stability of the currency - the national currencies of the countries, which have not adopted the Euro, must not vary by more than 2.25% in relation to the general exchange rate of the Euro (at that time still the Ecu); 4. Stability of public finance: budget deficit lower than 3% of GDP and national debt under 60% of GDP.


39 As at November 2011.
However, very little is needed for it to meet all five criteria, since its budget deficit is 3.1% - the maximum being 3% according to the Maastricht Criteria.

**Conclusion**

Macroeconomic indicators must be analyzed in their totality or else the information on the economic processes will be incomplete and distorted.

The fall in GDP leads to a delay in the rate of inflation, but the difference between the frozen income and the rising prices can lead to further impoverishment and disproportions in comparison with the other EU member states. The effect of the low employment, combined with low income, can only strengthen the positioning of this country among the poorest in the EU.

The analysis of the labour market shows a few negative tendencies - young people find it hard to get included in the labour market and unemployment lasts longer in comparison with the period before the crisis.

An important factor for the successful inclusion of problem groups in the labour market is the rise in the effectiveness of training and qualification programmes. It is a fact that foreign investment is attracted not so much with the help of the low price of the labour of the people employed, but with their high qualification. This requires - regardless of what the ruling government is - to carry out the pressing reforms in the education system, technology and innovations, in order for education to respond to the needs of business.

It is necessary that remuneration be normatively bound to the productivity of labour, as well as the retirement age to life expectancy.

The goals of the economic policy must be aimed at high labour productivity, competitive production, economic growth and raising the well-being of the population.

One of the possible variants for achieving macroeconomic stability and economic security is adherence to the requirements of the pact for financial stability and meeting the Maastricht Criteria.

Foreign investors are worried about the lack of transparency in business relations, the unfair competition and the frequent changes in the normative system.

The government is carrying out its programme for public investment using the available funds in the times of crisis, without exceeding the limits of the state deficit. The topic of the day is the need for the government to consider some incentives for improving and attracting high-tech investment in line with the available quality of human resources in Bulgaria.

Another scenario for achieving macroeconomic stability and economic security is to develop a system of quantitative macroeconomic indicators (indices), allowing for early warning about an impending threat to the national economy and undertaking measures for averting it. Maintaining the level of one indicator must not be at the expense of the others.

The present analysis lets us draw two major conclusions:

1. The economic security of the country should first and foremost guarantee the efficiency of the economy, i.e. it must be defended on the basis of high productivity, product quality, etc.
2. The economic security of the state must be regulated and maintained by the entire system of government institutions, as well as by all structures of the economy. All this necessitates the creation of an effective strategy for economic development with steady growth of GDP, the achievement of full employment, low inflation and fair income distribution. The provision of macroeconomic stability and economic security is a guarantee for the independence of the country, a prerequisite for stability, economic efficiency and improved well-being. All these must be national priority number one. This is a goal all governments around the world are striving to achieve.

THE MACROECONOMIC STABILITY OF BULGARIA—GUARANTEE FOR ECONOMIC SECURITY

Assoc. Prof. Dr Anton Marinov

Abstract

The issues of macroeconomic stability and economic security become ever more topical and are the object of study of many specialists, but their solutions have proven to be difficult. This requires on-going analysis and seeking new ways for their solution.

Macroeconomic stability is achieved through financial stability, low inflation, low unemployment rate, etc. These goals cannot be achieved in the absence of economic security, which is a crucial element of national security.

Economic security is viewed here as one of the most important qualitative characteristics of the present-day economy and as a factor, which guarantees the stable functioning of the economy.

The aim of the present study is, on the basis of an analysis of macroeconomic indicators in Bulgaria, to draw the trends for the development of Bulgarian economy and to prepare measures for maintaining and raising the economic security of this country.

This is one aim all governments around the world are striving to achieve.