

# Macroeconomic Dynamics in Terms of European Integration

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**Summary:** The dynamics of the economic growth in Bulgaria is investigated in the article. The main accent is laid on the comparison of some macroeconomic indicators for Bulgaria and the other member states of EU (like EU 27, EU 15 or EU 10).

In the analyses are outlined relative good positions of Bulgaria according to the dynamics of some indicators in the last years – as the rate of the increase of GDP in comparison with the previous year, the rate of the GDP per capita, the rate of the increase and the relative share of the investments in the GDP, the level of the unemployment.

The preconditions, tendencies and opportunities for retaining of those and improving the positions of the country in other indicators in the next years are deduced and generalized.

**Key words:** economic growth, economic dynamics, comparative characteristics.

**JEL:** E01, O47, O57.

**D**uring the last ten year period Bulgaria has achieved a significant progress in completing the market reforms,

attenuating crisis impulses and conjuncture (short term) instability. The period was also characterized with restoration of the conditions and stabilization of the main sources of economic growth. Altogether this allowed the development of Bulgarian economy, immediately before and after EU accession at the beginning of 2007, to concentrate on three general priorities:

- Maintain macroeconomic stability and stable acceleration of the economic growth;
- Increase of labour productivity and business competitiveness;
- Solving social and environmental problems and creating preconditions for sustainable economic growth<sup>1</sup>.

Achieving these goals is significantly important because they show Bulgaria's ability to become adequate, fully integrated economic partner of the other EU's 26 member-states.

Even though Bulgaria's membership in the Community turned only 2 years, this course of events may project a long-term trend. Some positive indications and isolated predicaments in achieving the first priority can be highlighted in comparison with other member states' major macroeconomic indicators and variables.

<sup>1</sup> These goals are highlighted by experts from the European Commission in the Regular report for Bulgaria's progress in the process of EU accession, October 2004. They have long-term nature and are considered as a present and near future priorities.

## Major Growth Indicators in Bulgaria

In recent times Bulgaria's macroeconomic overview displays tendencies towards balance and steadiness of the realized increases, which rates Bulgaria in a comparatively good position in the EU.

For the last ten years under review, the Bulgarian state succeeded in overcoming the conjuncture instability, inherited from the early years of the Transition and generated by the recession impulses of reforms. Bulgaria's efforts resulted in continuous positive growth, with middle and high rates. For the period 1998-2007 the GDP marks a 5 % average annual increase (exactly 5.06 %). This permits to compensate the lagging in production till 1997, to reverse in an upward trend of growth. The rates for the particular years are largely similar. They fluctuate around the average rate with variations of about 1 % (with the exception of 1999). This relative stability is clearly visible in the last three years, when the economy has been developing with almost no

amplitudes in the growth rates, relative smooth dynamic (Figure 1). In this regard Bulgaria differs from other new EU member states, most of which achieve the highest growth in the EU for the given period, but with unsteady rate, varying in a broader range.

The growth rate of the Bulgarian economy may be summed up as sufficiently high. There are at least two reasons and comparisons in support to this evaluation. Firstly, our rates have retained satisfactory levels in medium-term ten-year horizon. Besides they surpassed two times the average rates of the countries in EU 15 and EU 27 (their rates are around 3 % for 2007)<sup>2</sup>.

Secondly, two important indicators – the chain-weighted GDP rate (in comparison to the previous year) and the rate of GDP per capita, in 2007 show that Bulgaria is in a good position – **7th place** of all 27 EU member states. There are only six new member states from Central and Eastern Europe with transforming economies that show better results (Table 1). For the period 1998-2007

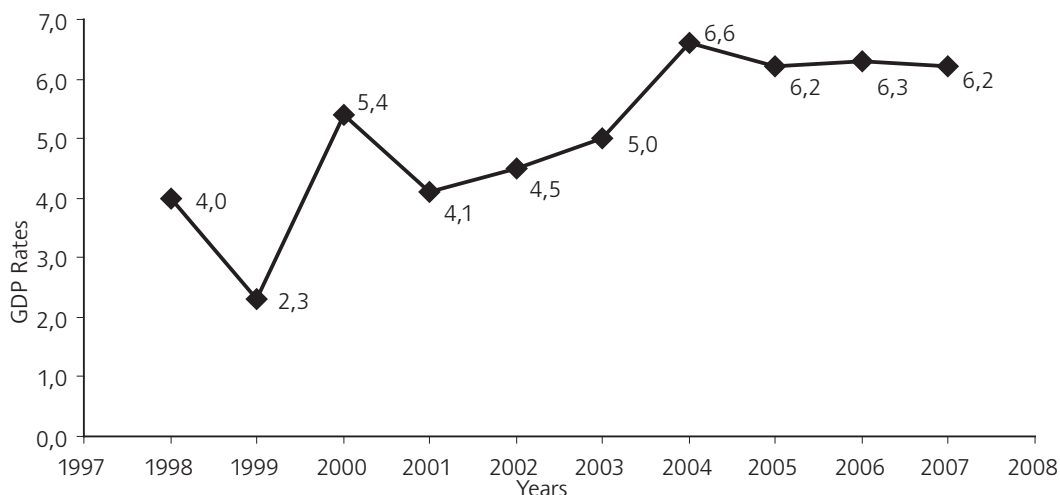


Figure 1. Growth rates in Bulgaria for the period 1998-2007

<sup>2</sup> The growth rate in Bulgaria for the last years surpassed also the average rate of the World Economy, which is 3.7 % in 2007. The information is provided by the World Bank and is available on this web page [www.siteresources.worldbank.org/ECAEX/Resources](http://www.siteresources.worldbank.org/ECAEX/Resources)

Table 1. Highest rates of GDP in EU 27\*

(percent)

Country	GDP Rate for 2007 (previous year = 100)	Average GDP Rate for 1998-2007	GDP rate per capita for 2007
Bulgaria	6.2 (7)	5.06 (4)	6.2 (7)
Estonia	7.1 (4)	7.46 (2)	7.3 (4)
Latvia	10.3 (2)	7.84 (1)	10.9 (1)
Lithuania	8.8 (3)	6.56 (3)	9.4 (3)
Poland	6.5 (5-6)	4.19 (7)	6.6 (5)
Romania	6.0 (8)	4.35 (6)	6.4 (6)
Slovakia	10.4 (1)	4.95 (5)	10.3 (2)
Czech Republic	6.5 (5-6)	3.70 (8)	5.9 (8)

\* The Table includes 8 member states from EU27 with highest rates of economic growth for the period 1998-2007 and 2007. The positioning in the table is made by the author on the base of presented or calculated indices, according to EUROSTAT data (<http://epp.eurostat.ec.europa.eu>).

\*\* The number in parenthesis shows the country's position in the EU 27 rating table.

another indicator – the average annual rate of GDP, places Bulgaria on the **4th place** behind Lithuania, which tops the ranking of highest growth with 7.84 %, Estonia and Latvia.

These macroeconomic results are premised by a number of gradually improving conditions and factors of growth. By the end of the reported period the share of the private sector in the GDP is predominating and reaches more than 80 % and is presented in all legal economic sectors, spheres and branches (to a specific extent). The transformation of state property to private is ending, the intensity of the privatization process and economic restructuring is steady. The tension and the range of loss-making companies in the public sector are being reduced. In addition the productivity, revenues and profits of Bulgarian companies increase together with their investment for expansion and modernization of equipment. The relatively continuous growth of production leads to higher employment levels, higher security of incomes and increased real

earnings. This is due to their moderate nominal increases and low stable levels of inflation.

Under the influence of steady upward dynamics of GDP, the improved functioning of private companies, the efforts and programmes of the government, and the state infrastructural projects, the high unemployment rate in the country has significantly decreased. In 2006 the unemployment rate was 9.1 % of the labour force, while in 2007 only 6.9 % of the labour force were unemployed<sup>3</sup>. This trend is continuing in this year's first nine months and is currently under the average level of unemployment for EU 27, which is around 7 % for September 2008. This indicator ranks Bulgaria near the **average position** of EU member states together with Finland. Several member states from Western and Central Europe register lower results on the labour market and higher coefficients of unemployment, such as – Germany (8.4 %), France (8.3 %), Spain (8.3 %), Greece (8.3 %), Belgium (7.5 %), Slovak Republic (11.1 %), Poland (9.6 %) and Hungary (7.4 %)<sup>4</sup>.

<sup>3</sup> Ref. Statistical Reference Book 2008, National Statistical Institute, page 67.

<sup>4</sup> Data provided by the United Nations Economic Commission for Europe [www.unece.org](http://www.unece.org).

The successful seizure of the raging inflation in the midst of 90s is of high importance for the macroeconomic processes. During the period 1998 – 2007 the annual inflation growth is kept in one-digit levels. For 2007 the rate is 8.4 % (base year – 2006). As other countries register much lower inflation, Bulgaria is on one of the lowest positions. Nevertheless, the success of reducing the two and three-digit rates of inflation, and the stabilization of the inflation processes in the last years should be taken into account. All these results are achieved in the context of high influence of pro-inflation factors, such as high internal demand of goods and deteriorating external influence – increasing world prices of energy sources and higher inflation of partner countries, which traditionally have intensive export to Bulgaria.

### **Expense and Industry Sources of Economic Growth in Bulgaria**

The prerequisites for achieving and maintaining macroeconomic stability without insecure shocks are found in numerous fields of the expense and industry structure of GDP in Bulgaria.

For the last years almost all aggregate expenditures are consecutively increasing and create opportunities for growth. The only issue that remains is the slow growth of export, which cannot reach the rates of import and this results in durable and extensive negative trade balance. The main positive rates are generated by the formation of fixed capital, mainly due to the growth in 2007.

Recently, the investment activity of Bulgarian companies is accelerating (21.7 % growth for

the last year reported and 14.7 % for 2006) which pushes Bulgaria to the top places in EU on relative share of investment in GDP for 2007. This indicator ties Bulgaria with Croatia in the 5th place in EU 27, as both countries record 29.8 % share of investment in GDP<sup>5</sup>. This share notably exceeds (with 8.5 percents points) the EU 27 average, which is 21.3 %. A significant part (nearly 86 %) of fixed assets expenditures are done by the private sector and the expectations are that it will continue to dominate in the present year. Since the investments undertaken lead to expansion and modernization of production capacity, they generate a positive impulse factor on growth with long-term iterative effects and decrease the danger of reverse or deceleration in macroeconomic dynamics. The stable macroenvironment and lively internal demand favour higher efficiency in utilization of production capacity. For example, the average utilization of production capacity in the industry for 2007 is 72.6 % and increases to 74.4 % in July, 2008. Together with the internal investment the foreign direct investments record an increase of 8.5 % and represent 25 396.6 million euro for the last year recorded (according to data from the Bulgarian National Bank). These are only a part of the reasons for the expectations of a lower decrease of the growth rate in the present and coming year – with around one percent point yearly to 5.8 % and 5.6 % in contrast to some pessimistic forecasts for other member states<sup>6</sup>.

Despite the progress in the investment field, some problems that are still unsolved may induce some temporary impediments of growth. For now the return of investments is unsatisfactory, which is indicated in the lower rate of growth (for separate branches, as well as the economy

<sup>5</sup> With only 1-2 per cents higher investment share in GDP are Latvia, Estonia, Romania and Spain.

<sup>6</sup> With exception of Bulgaria, Hungary, Portugal and Romania, all other EU member states forecast considerable decrease of growth rates in 2008 and 2009. These forecasts are based on the tendencies of previous years and do not reflect the outcomes of the Global financial crisis. After taking into account the effects of the crisis the forecast of the Bulgarian economy is additionally corrected in the State Budget's project for 2009 and ultimately resulted in 4.7 % GDP growth.

as a whole) in comparison to the relative parameters and the growth of capital formation. The reasons are the insufficient and partial modernisation, the lag of utilizing the capacity of new equipment, the asymmetrical allocation and increase of investment on different types of fixed assets. In the total costs for fixed assets the share of construction and installation is too high and is still increasing – from around 39 % to more than 47 % for the last reported year<sup>7</sup>. In the same time after consecutive increase the share of expenditures for production equipment, machines and equipment reaches to 45 % from the total costs for fixed assets. There is especially to underline that 37 % from the new machines and equipment are imported, which deters the national production and contributes to the higher increase of the import and ultimately to the negative balance of trade.

The positive dynamics and trends in the investment process are largely influenced by the changes in individual consumption. In the period after 1998 it attained real and permanent growth, and neutralized the major drop of above 50 %.

An underlying factor is the gradual increase of real income – in 2007 salaries increase considerably and their relative share in the total household income increases to almost 47 % (by 40 % in 2006). The incomes from entrepreneurship increase and their relative share reaches to 5.5 %<sup>8</sup>. Consequently, the purchasing power for basic groceries and non-food goods increases. Maintaining the inflation rates in low levels (under 10 % yearly) and recovering the lost trust in the bank system, the consumer credits, and the purchase of costly goods and houses, register an increase. Consequently the final and individual consumption marks a steady growth of 5 % yearly and stimulates mainly the

development of industries, construction and the financial sphere. This contributed to the increase of GDP for 2007 and previous years.

The dynamics of gross value added in economic sectors can outline the branches with the most and stable contribution to the growth of total output. In this regard, the main sources of growth in 2007 are the industry branches which mark a remarkable growth of 14 % (data provided by NSI) in comparison to the previous year. For the last two years the industry registers growth rates, which exceed (in 2007 almost twice) the growth rates in the sphere of services and has a bigger impact on the growth. The growth of industry indicator, according to statistics by the United Nations Economic Commission for Europe, Bulgaria registers 9.2 % growth and ranks third in EU 27, with only the Slovak Republic (with 12.7 %) and Poland (9.6 %) ahead. Most of the other member states realise lower rates, while Italy and Luxemburg mark a drop in industrial production for 2007.

Even though the development of the industry sector is accelerating in overall, and the growth in 2007 is almost twice the rate for 2006, the dynamics of separate industrial branches is neither uniform, nor free of fluctuation. While the realised growth rates in the manufacturing industry (15.4 %) and electricity production (17.2 %) are notable and exceed the rates from previous years, the growth rate in construction (16.9 %) is maintaining its level with almost no changes. The rates in the mining industry are uneven, since for 2007 they record a drop of 5.8 % due to the dissolution and reorganization of some newly-privatised companies in the branch. As a result, most branches develop expansively and the relative share of the whole industry sector

<sup>7</sup> Calculated by the author on the basis of data from the Statistical Reference Book 2008, page 117.

<sup>8</sup> Calculated by the author on the basis of data from the Statistical Reference Book 2008, page 82.

increases from 30.9 % in 2006 to 32.3 % from the gross value added in 2007.

The reasons are mainly in the accelerated development and the increasing share of manufacturing industries, stimulated by the increased purchase of goods by Bulgarian households, the increase in the electricity consumption, which conforms with the increase of production of goods, the sharp entrance of the private sector in electricity distribution. The foreign direct investments concentration in manufacturing industry with almost 35 % and in electricity production with more than 11 % affects the sector. The orientation towards manufacturing industry with 20 % and in production and distribution of electricity, gas and water – with more than 9 % of the increasing investment expenditures of Bulgarians companies for 2007.

The comparative characteristics, the dynamics and tendencies of the macroeconomic indicators, subject to this analysis, define some stabilizing indicators and comparatively good position of the Bulgarian economy in the EU. However the perspectives of growth are influenced by both internal and external conditions and global processes. Taking into account the emerging financial crisis, possibly the growth rate will be reduced, since all member states, including Bulgaria, expect a decrease of investment and export, as a result of the weakened external demand and the deteriorated credit conditions. The specific conditions and good resistance of the economy may lead to lower drop of growth rates, compared with other countries from EU 10. This is inferred by the EU 10 Regular Economic Report of the World Bank, October 2008<sup>9</sup>. **VIA**

<sup>9</sup> The full text of the EU 10 Regular Economic Report, October 2008 is available here: <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT>