

# **Impacts of and experience with EU membership of the countries of Central, Eastern and South - Eastern Europe. Country study on Bulgaria**

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## **Abstract**

*The current paper focuses on the issues Bulgaria faced and is still facing in the process of joining and being a full-fledged member of the European Union in the context of ongoing economic obstacles. By spotlighting on different macroeconomic aspects, the article examines changes and fluctuations of indicators and conducts research in terms of their origins. Thus, by using historic, statistical and comparative approach, the author tries to clarify the impacts and experience with EU membership of the Republic of Bulgaria. That analysis reveals general improvement of internal policy shaping along with a fiscal discipline and the positive influence over the FDI attractiveness of the country. Furthermore, the country is slowly catching up with the GDP per capita standards in the EU while being a net beneficiary of EU funds. Thus, the main conclusion of the current study is that there is an overall positive effect of Bulgaria's EU membership.*

*Keywords:* Bulgaria, EU membership, economy, experience

*JEL Classification:* O52, H12, F59

## **1. Introduction**

Before accounting for the effects Bulgaria is experiencing due to its EU membership, a view back in history would be helpful to reveal the pro-European public expectations in regard to the country's accession.

The long-term pro-European commitment of Bulgaria had been declared before real steps towards integration were taken. Fifteen years after the principal decision to join the European Community, in 2005, Bulgaria signed the treaty to become a part of the EU. The Treaty stated that Bulgaria, along with Romania,

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would either become full-fledged member states as of 1<sup>st</sup> of January 2007 or that accession could be postponed until 2008 at the latest. Such a development of Bulgaria was accompanied by a high rate of public support and trust in the Union. Late in 2006 the final accession date was announced to be the 1<sup>st</sup> of January 2007 and immediately prior to it, the Bulgarian national support for EU membership reached overwhelming rates of 85%. Despite these encouraging numbers, there were mainly two contrasting points of view. The first one reflected a threat – that numerous small producers will appear unable to fulfil the higher requirements of the EU common market. The main concerns were that many of them would be affected both by the duty free import of similar goods from other more competitive EU member states and also by the necessity to fulfil higher EU standards. The other perspective, apparently stronger, was the positive one. As in the pre-accession period, the economic growth and macro environment were stable and allowed operating industries to invest in better technologies, thus meeting the EU requirements. The positive economic developments allowed the pre-accession positive perspective to take over along with the optimism that the EU will pave the way to the common market, providing wider opportunities to entrepreneurs for foreign trade. In addition, the labour market liberalization, promising better work places and attractive remuneration, contributed to those positive expectations and attitudes towards 2007. The positive public anticipation of EU was fed by the EU Operational programmes scheduled to start in 2007, seemingly neglecting the difficulties in absorbing those funds.

## **2. Examination of the impacts of the EU membership.**

### **2.1 Expectations and economic background**

One of the main outcomes of the EU membership which was expected by the Bulgarian society and was broadly proclaimed by the decision-makers in the country during the preparation period was an accelerated socio-economic convergence process in terms of improved living-standards, higher incomes and better institutional framework for the development of competitive enterprises. Thus, the paper will face the research question by approaching aspects of the convergence process. It will examine the economic growth dynamics of Bulgaria for the years of full-fledged membership. An analysis of its compounding elements will stress on their variation during the last four years and will show whether the membership has mitigated the implications of the global crisis to the national economy and social systems or, on the contrary, has accelerated the negative dimensions. For the need of a comparison approach, the dynamics of the 3-year-period prior to the EU accession (2004-2006) will also be used. The pre-accession developments went smoother than the crisis period afterwards, which comprises much higher disproportions and differentiations.

The change of regimes in 1989 was followed by a lack in substitutes of the ex-Soviet external markets and a dramatic shrinkage in foreign trade, non-transparent and contradictory privatization process, weak regulations on the financial market and accumulation of excessive external debt. All those factors led to progressive fall in GDP for the 1989-1997 period which reached its culmination in 1996-1997 resulting in a deep internal economic crisis. From 1998, Bulgaria entered a period of sustainable economic growth mostly due to the stabilization of the Currency Board rules which had a disciplinary effect (Smilov, 2008). However, this was conditioned by the external financial support of the IMF in return of an engagement to introduce a currency board arrangement (CBA) and to follow strict fiscal rules. Regardless of the strong bond between the Bulgarian Lev and the US Dollar at that time, the national government decided to fix the national currency within the CBA to a European one – the German Mark. This step was a logical extension of the country's application for a full-fledged membership in the EU.

## 2.2. Implications on the economic features

Following the previous turbulent decade, one could easily see from *Table 1* below that in the considered pre-accession period (2004-2006), the economy of Bulgaria was growing quite faster than the European Union's. That trend continued after the EU accession in 2007 until the crisis broke out in 2008 and hit the country with a year of delay.

**Table 1. GDP structure of the Bulgarian and the EU economy (2004-2010)**

Period	2004		2005		2006		2007		2008		2009		2010	
	BG	EU (25)	BG	EU (25)	BG	EU (25)	BG	EU (27)	BG	EU (27)	BG	EU (27)	BG	EU (27)
GDP, bin. EUR	20,4	10.530,9	23,3	10.960,4	26,5	11.567,9	30,8	12.390,0	35,4	12.479,0	34,9	11.770,0	36,0	12.268,4
GDP, % change on previous year	6,7	2,5	6,4	1,9	6,5	3,2	6,4	2,9	6,2	0,4	-5,5	-4,2	0,2	1,9
GDP per capita, EUR	2.600	22.900	3.000	23.700	3.400	24.900	4.000	25.000	4.700	25.000	4.600	23.500	4.900	24.500
GDP per capita in Purching Power Standards, % of EU total	33,6	100	35,6	100	36,5	100	40	100	43	100	44	100	43	100
Population, mln. people	7,80	459,3	7,76	461,2	7,71	463,9	7,67	495,3	7,64	497,7	7,6	499,7	7,56	501,1
Final Consumption, % of GDP	88,7	78,9	87,5	79,1	85,4	78,5	85,6	77,6	83,0	78,3	79,5	80,8	77,0	80,5
Final Consumption, % change on previous year	6,8	1,9	5,3	1,9	7,5	2,2	7,2	2,0	2,6	1,0	-7,3	-0,7	-1,1	0,8
Gross Capital Formation, % of GDP	22,7	19,8	27,6	20,1	32,1	21,0	34,1	21,8	37,5	21,4	29,4	18,2	24,9	18,7
Gross Capital Formation, % change on previous year	14,8	4,1	25,9	2,3	21,4	6,7	13,0	6,9	16,3	-2,1	-24,9	-16,8	-14,0	4,2
Exports of goods and services, % of GDP	51,9	35,8	40,5	37,2	61,2	39,6	59,5	40,2	58,2	41,3	47,5	36,6	57,8	40,6
Exports of goods and services, % change on previous year	11,9	7,6	-17,5	5,8	50,7	9,4	6,1	5,5	3,0	1,5	-11,2	-12,4	16,2	10,5
Imports of goods and services, % of GDP	63,4	34,5	55,6	36,4	78,8	39,1	79,2	39,6	78,7	41,0	56,3	35,6	59,7	39,7

Source: Eurostat, Bulgarian National Bank (August, 2011), own calculations

### 2.2.1. GDP per capita variations

This comparatively high economic growth comes as a natural result of the above described stormy background as a catching-up process for Bulgaria,

necessary in order to cut the disparities with the other EU citizens (also very obvious from the comparison of GDP per capita indicator). Comparing the average GDP production in the EU per capita measured in purchasing power with the Bulgarian one, it can be observed that Bulgaria remains below half of the total in the EU, both before and after its accession.

In this regard, for the case of Bulgaria, a certain trend could be outlined. As the economy was dynamically growing in the years before the 2009 crisis, the population in the country decreased while in the EU it expanded, and on the other – the European economy did not mark growth in such a rapid manner, which allowed Bulgaria to catch up with almost 10% (GDP per capita in purchasing power) for six years. Also, the GDP per capita growth was accelerated after the year of EU accession. A contribution to this was the fact that the current crisis affected Bulgaria a year after it slowed down the GDP growth in the leading economies of the EU, which gave an advantage of speeded comparative GDP per capita growth in 2008. Nevertheless, the crisis has been transferred in Bulgaria through the channel of the real sector, which slowed down its implications in the country with a year as compared to its counterparts in the EU. This resulted in a decrease of the GDP per capita in 2009 and a moderate increase in 2010. Despite dynamic developments, this pinpointing indicator still remains the lowest in Bulgaria in comparison with all the other EU member states. Nevertheless, the effects of the EU membership could be estimated as positive in terms of crisis since the companies in the open economy of Bulgaria had rapid access to the internal market of the leading economies in the EU and benefited from their revival in 2010. At the same time, keeping strictly to the parameters of fiscal stability introduced by Brussels, the Bulgarian government managed to upkeep the macroeconomic stability in the country, which prevented any dramatic fall of the indicator.

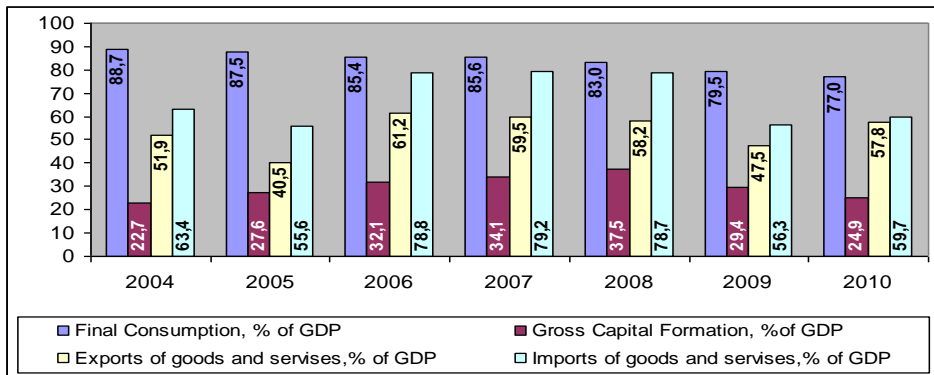
### **2.2.2 GDP by final expenditure**

The first of the considered pre-accession years, 2004 was the seventh in a row marked by a growth in GDP. Both final consumption and exports have had a predominant contribution to the continuation of that trend which lasted until 2008.

*Table 1* and *Graph 1* show the definite and predominant role of final consumption in the expenditure structure of the GDP both before and after EU accession and also both before and after the downturn in 2009; nevertheless, the real values of the indicator began shrinking from then on. In the pre-accession period, consumption was positively influenced by improved labour market conditions, higher activity rates measured by the National Statistical Institute in 2011, increased lending and, as a result - growing disposable financial resources, all these increasing the overall final consumption. In the pre-accession period and in the first years of accession, the indicator was accelerated by both the

increased lending activity of trade banks and the positive expectations of future incomes growth. These influences could be partially related to the EU accession, since consumers were expecting convergence of the labour market and that the possibility to travel and work freely in the EU would increase labour costs in the country and, respectfully, the wages. Additionally, the improved regulation of the financial market which followed the EU accession resulted in higher lending activity of the commercial banks and, at the same time, maintained their stability which was tested during the crisis years.

**Graph 1. Structure of Bulgarian GDP by components (2004-2010)**



Source: Eurostat, Bulgarian National Bank, own calculations

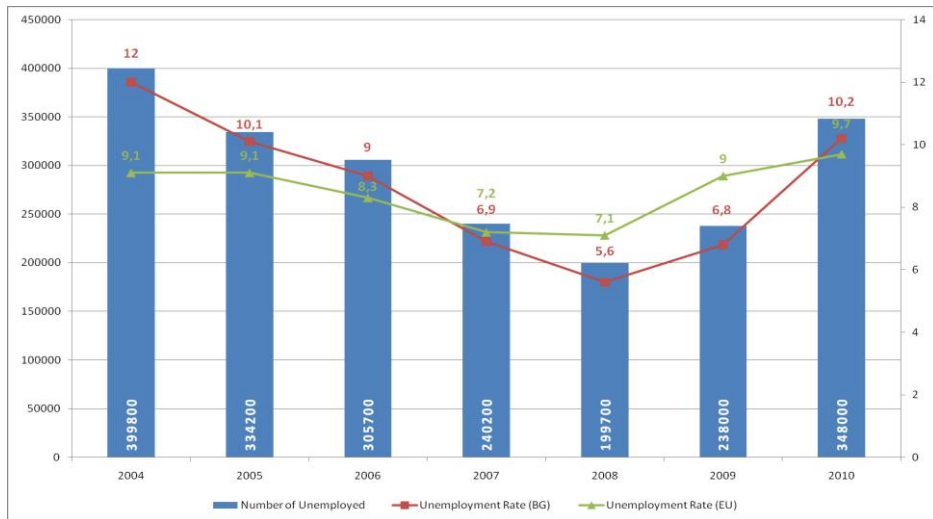
### 2.2.3. Labour market and final consumption

Regarding the dynamics on the labour market in Bulgaria, unemployment rates were decreasing continuously (see *Graph 2*) while economic activity rates were increasing. Activity rates were constantly growing in the pre-accession period and continued growing until the crisis cut them in 2009. Thus, from 2004, the active population grew from 49.7% to 53.8% in 2008, when its growth rate was slowed down and reversed in 2009, reaching 52% in 2010.

The labour market itself, which is traditionally divided due to much higher employment in the private sector, than in the public one, faced dynamic developments following the overall economic trends. Thus, the positive external signals, the stable macro environment in the country, the private sector and its vividly developing construction sub-sector continued to contribute consistently to the decrease of unemployment in the pre-accession period. Nevertheless, in the considered pre-accession period there were certain disparities between the sought and offered qualification in some of the best performing sectors of the dynamically developing economy. That pressed wages upwards, thus increasing production costs for the business generating longer term misbalances and

resulting in their freezing in the crisis years. The real growth of wages accelerated from 2.2% in 2004 to 11.9% in 2007 according to the National Statistical Institute database, followed by the most rapid growth in 2005 and 2007. The 2008 post accession year was still determined by yet high wages growth of above 9% despite the high inflation rates and due to the still present economic activity and labour market convergence in the European Union. Further developments were connected to relatively low growth of wages (3%), followed by a dramatic collapse of -6%.

**Graph 2. Unemployment, Bulgaria and EU (2004-2010)**



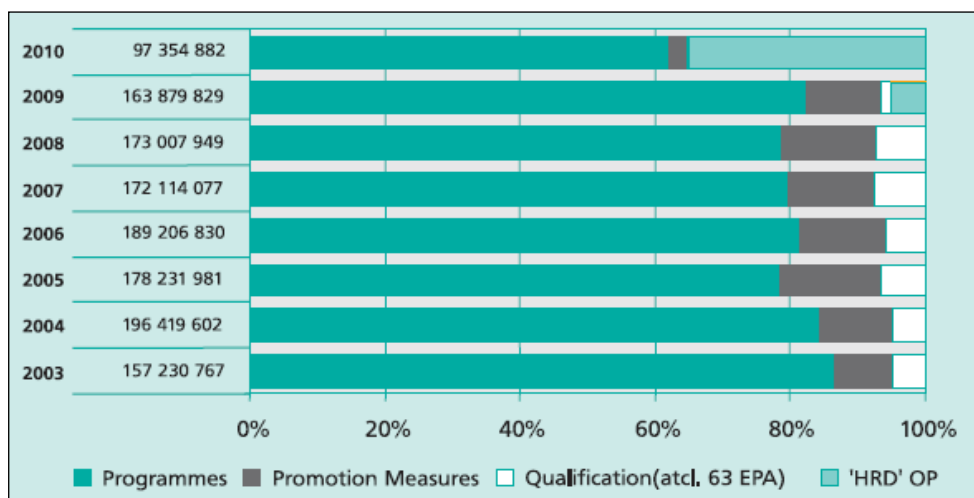
Source: Eurostat, National Statistical Institute, own calculations

In the pre-crisis period, however, the labour productivity lagged behind wages growth, which would have threatened competitiveness of the economy in regard to its EU partners if not for the level of Bulgarian wages remaining sensitively lower than the European. Despite the fact that the unemployment rate in Bulgaria was constantly decreasing, it did not manage to fall below the average European levels until 2007. It reached rates considered almost sanitary and sensitively lower than the average European ones in 2008. In the following years of EU membership, Bulgarian unemployment remained under the average European one, but still following the negative trend of increase in the previous years as a logical market reaction to the overall downturn, which became visible with  $\frac{1}{2}$  to 1 year of delay. Such an influence is explainable by the integration of the Bulgarian labour market within the European one, applying at the same time appropriately for an external EU border migration policy.

The positive pre-accession trends on the labour market decreased the necessity for strong governmental intervention to fight unemployment, leaving

more resources for qualification measures. Their dynamics in the years before and after accession is given in *Graph 3*. In the pre-accession period, there were a trend of decrease in measures and programs for fighting unemployment at the account of qualification trainings, which were gradually increasing in the overall resources spent for active policy on the labour market. Such measures were addressing the disproportion of qualifications, followed by imbalanced growth of wages and labour productivity. In the post-accession period, Bulgaria started to receive external funding for its labour market policy. Due to the late approval of the Operational program “Human Resources Development” in 2007 and the low level of absorbed funding in 2008 (less than 4%) the real positive effect of this financial instrument came after the employment peak in 2008. Thus in 2009-2011, the majority of schemes under the OPHRD started, but essence now was on combating the 10.2% unemployment rate in country and not one solving structural problems of the labour market in Bulgaria.

**Graph 3. Spent resources for means of active labour market policy**



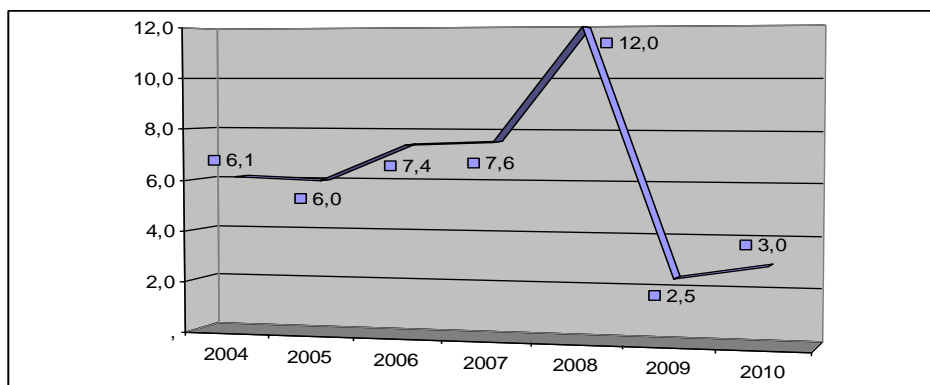
Source: Bulgarian Employment Agency

In this regard, the convergence within the European labour market could be estimated as both positive and negative. In terms of pushing wages upwards towards the European level, a fact which determines solvent domestic consumption, the EU affects the Bulgarian labour market positively. In terms of returning low qualified workers, which were previously integrated but left unemployed on the EU labour market due to the crisis, the effect is negative and pushed unemployment rates upwards. The labour market follows an overall economic revival with half to one year of delay, which makes the precise

estimations of the government and Operational programmes' interventions effects even harder.

To calculate the real growth, inflation rates are very important. What their development is and how the EU accession influenced them is visible in *Graph 4*. It reveals a stable trend of lasting inflation of 6 to 7% in the pre-accession period followed by growth in 2007 due to the convergence effect of the EU accession and increase in prices of determinative goods on international markets. Thus, following the increasing inflation, in 2008, a remarkable increase in prices occurred. EU accession had an important contribution to this since the volatile fluctuations were caused not by the market prices boost but by an increase of excise and administered prices, the first of which was provoked by the EU requirements for convergence. The following two years were marked by a fall in domestic consumption due to the crisis reflection on the labour market and incomes along with reduced credit activity, which immediately pressed inflation downwards. Thus, on the basis of high wages growth in the pre-accession period, and their freezing and even collapse in 2009-2010, despite the lower inflation rates, the perception of diminishing living standards became far more widely experienced among the population in the recent years.

**Graph 4. Annual average inflation rate in Bulgaria**



Source: Eurostat, Bulgarian National Bank

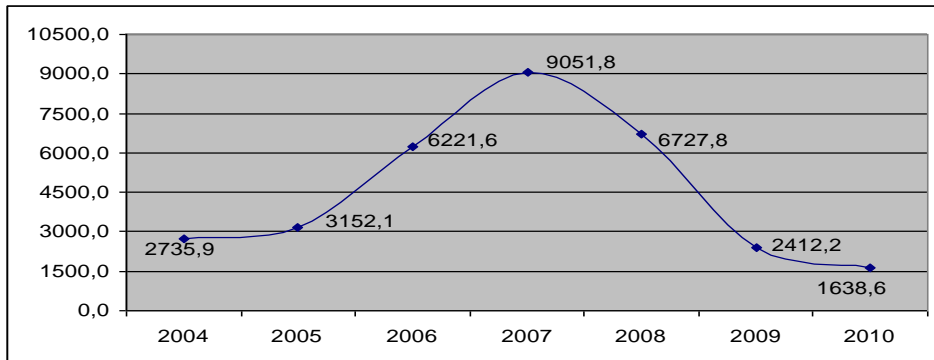
#### 2.2.4. Investments

One of the most dynamically developing and determining indicators of the Bulgarian economy, which to a great extent stands behind the economic growth during the pre-crisis period and, respectively, its downturn afterwards was the inflow of foreign direct investments in the country (*See Graph 5*). The indicator's sensitive increase was already detected in 2006 when it reached about 23% of GDP. While a year before most of the investments were made in the service sector, at the peak of FDI activity they were directed towards industry



(predominantly its compounding construction sub-sector due to its increasing profitability at that time). Thus, in the high period, the construction and real estate market, renting, financial and business services were most attractive for foreign investors. The shape of inverted parabola on *Graph 5* very evidently shows how the foreign investment activity logically reached its peak in the year of EU accession. The explanation includes the high expectations of investors for economic profitability and promising environment. In the post-accession period, for even shorter time investments' volume reached even lower levels. Such a reflux was caused by investors' cautiousness in terms of worldwide collapse of financial markets and funding potential, and also the shrinkage of construction sector in the country, which attracted great volumes of those investments.

**Graph 5. Foreign direct investments in Bulgaria, EUR mln.(2004-2010)**



Source: Bulgarian National Bank

Despite the reduced volumes of FDI in 2010, Bulgaria attracts inflows mainly from the EU. Besides the USA and Russia (ranked 8<sup>th</sup> and 9<sup>th</sup>), the National Investment Agency data shows that countries that were top investors in Bulgaria were ranked as follows: (1) the Netherlands, (2) Austria, (3) Greece (4) the United Kingdom, (5) Germany, (6) Cyprus, (7) Hungary, and (10) Italy. In the pre-accession year 2006, the general investors were more or less the same EU member states. Back then, the ranking order was as follows: (1) Austria, (2) Belgium & Luxembourg, (3) Czech Republic, (4) Germany, (5) Greece, (6) Hungary, (7) Italy, (8) the Netherlands, (9) the UK and (10) the USA. The ranking by countries of origin does not reflect the biggest investors in the country but only the cumulative volume of FDIs. Nevertheless, the shift in it could be explained by the improvement in internal macro and business environment. Another factor is the strategic geographic position which places Bulgaria at the crossroads between EU and EFTA, Russia and Asia, and Turkey

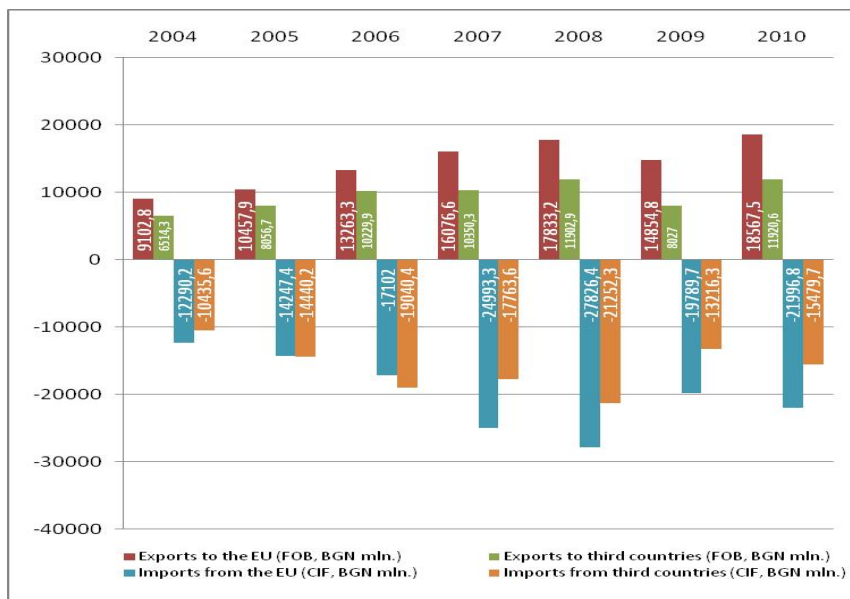
and the Middle East according to Breuss, F., (2001, p. 9). Due to the macro stability and fiscal buffers in the pre-accession period, the establishment of a favourable tax environment was possible. The 10% flat corporate taxation launched in 2008 along with low labour costs, actually the lowest in Central and Eastern Europe provided the country with competitive advantages in the regional aspect. Thus, the EU influence could be found in revealing the positive aspects of FDI flows in a given member state country, thus determining decision makers to improve the business environment, which is crucial in terms of both crisis and boom. Despite the rankings and the advantages or disadvantages in terms of downturn and shrunk of financial resources available, the overall FDI flows decrease and the challenge is to attract as much as possible.

### **2.2.5. External sector**

Nevertheless, the Bulgarian economy has recently faced a modest post-crisis revival, differing in its compound elements from the growth period (2005-2007). Being a small and open economy with high volumes of net export in the overall GDP, the slight revival came as a result of the overwhelming recovery of the main trade partners like Germany (% trade).

In terms of the quickly developing global economic crisis, in 2008, it hit Bulgarian economy by decreasing levels of growth in both the sectors of industry and services and even resulted in their shrinkage in 2009. Due to the lack of projects funding and shrinkage of construction, industry faced a 9% decrease in volume, while services shrunk relatively less – by almost 1% but preserved that trend in 2010 as well, while the external demand for industrial production from major EU partners enlivened industry in 2010. The external sector is particularly important for the Bulgarian economy since it is very small and open, which is also obvious from its share in *Graph 1*. It is considered that if the foreign trade turnover exceeds 80% of the given country's GDP, then it is highly open. For Bulgaria, that index varies above 100% and also, according to the Globalization Index of Ernst & Young Global Limited (2011) measuring the openness of 60 largest countries by GDP, Bulgaria ranks 23<sup>rd</sup>. Thus, it is very important to see which the main trade partners of the country are and more precisely, which could be representative in this context. *Graph 6* reveals that, for the whole considered period, the biggest part of Bulgarian exports were directed towards EU member states. The breakdown of the imports shows that the prevailing part comes from EU as well as from neighbouring countries like Turkey, Bogdanov, L., Ganev, G. and Hristova, A (2006, p. 11).

**Graph 6. Import and export flows by main trade partners (Bulgaria, 2004-2010)**



Source: National Statistical Institute

As a result, in the pre-accession period there was a definite increase of trade balance deficit, reaching over 23% of GDP. In the year of accession, it increased further to 24.3%. In 2009, its percent of GDP started shrinking and faced a dramatic drop in 2010 decreasing to less than 7% of GDP according to the Bulgarian National Bank. The processes that stood behind those fluctuations and dynamics in the pre-accession period, and which led to internal and external concerns in the first years of membership were quite a few. Firstly, due to expectation and realization of EU accession, there was high investment activity and, in 2007, the last barriers before the member states trading fell, which inevitably raised disparities. Also, the positive external environment was unavoidably raising international prices along with strong domestic consumption. All those factors led monitoring institutions conclude that if the FDI flow decreases, the trade balance deficit will be negatively affected and that an external financial aid should be needed. Fortunately, so far, those concerns were proven groundless, since after the decrease in both the current account and trade deficits in 2009, the year 2010 marks an improvement of trade balance. In the last year, the major trade partners of Bulgaria like Germany, Italy and France enjoyed a certain revival which affected Bulgarian exports positively. Nevertheless, some negative factors such as a decrease in domestic demand due to low investment and loan activity which affected imports negatively or the

improvement of trade balance also contributed consistently. Even so, the main sources of remained investments are EU countries like Netherlands, Belgium, Cyprus, Greece, and Germany. The structure of the Bulgarian economy supposes a great importance of the country's external partners. The perspective of becoming a part of an economic and political union and the geographical location could be estimated as positive in that case. Becoming a part of that wide common market was undoubtedly a challenge to all the national players. Nevertheless, joining the European family in a period of economic boom helped them overcome primary adjustment. Furthermore, as a part of that common market in terms of crisis, the country could selectively stick to its "healthier" partners in the Union (like Germany) thus "importing" revival. Such is in progress in the current times of crisis, when the export sector was the one to pull economy upwards.

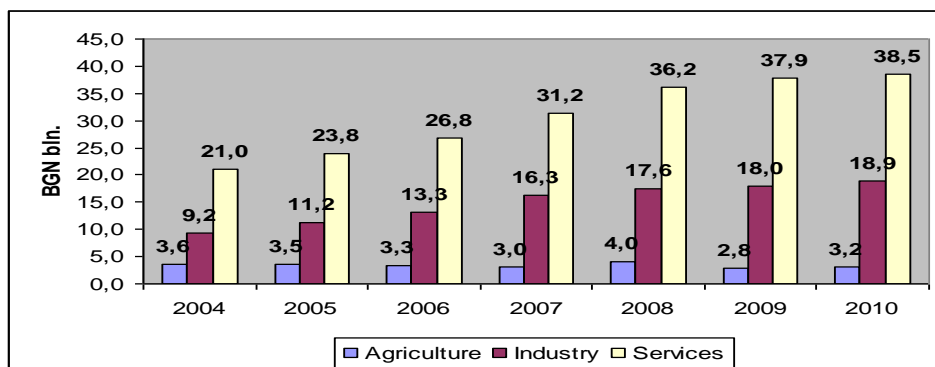
### **2.2.6. Production approach**

In the face of upwards and downwards dynamics of the GDP in the considered pre- and post-accession periods, its structure by sectors also met interesting fluctuations. From *Graph 9* below it becomes obvious that during the whole considered period a predominant part was obtained by the service sector, which is traditional for the contemporary Bulgarian economy. The sector's role was growing during the years, as well as the one industry played, though it remained relatively smaller than the services'. This was unfortunately not valid for agriculture, despite the potential of the sector due to the Bulgarian climate and environment characteristics which are very appropriate for its progress. In the pre-accession and the first years of accession, there was a growth of investments in the sectors within the European pre-accession instruments and cohesion funds. That concerned mainly technological improvement within the SAPARD programme, which aims to intensify labour productivity in the sector, which used to be responsible for the lowest incomes. As a proof, the agriculture, hunting and fishery were constantly decreasing prior to EU accession, when they received certain impetus from the external (EU) funding, which did not remain continuous and, after 2008, the sector started shrinking backwards and reached even a lower part of value added to the economy than the one obtained prior to accession, thus preserving the smallest contribution to the Bulgarian economy.

The implementation of the Single Area Payment Scheme (SAPS) in the Bulgarian agriculture sector brought fresh funding to the sector but, at the same time, created some major disparities and concerns. In 2007, the SAPS was introduced in Bulgaria but the agricultural producers in the country were able to receive only 25% of the amounts available in the other member states. The permitted national top-ups were also not allowed to reach 100%. This method of implementation of SAPS caused further disparities at the level of competitiveness of the Bulgarian agricultural holdings in comparison with the

producers in the other member states. However, the scheme for progressive increase of the SAPS amounts until the end of the current Financial Period of the EU in 2013 would not be implemented afterwards. In the first three years of EU membership, Bulgarian agricultural producers faced substantial financial losses due to the import of cheaper agricultural production from countries outside the EU and, at the same time, they did not have the support of the full SAPS as other member states. Additionally, the current parameters of SAPS are causing some contradictions in the agricultural sector itself as they allow a small number of large agricultural holdings to receive a major part of the available funding and, at the same time, small entities which bring the production variety in the sector receive insufficient amounts.

**Graphic 7. Structure of the value added in the Bulgarian economy by sectors (2004-2010)**



Source: NSI, own calculations

Accompanying the hesitant development of agriculture, the core of economic development remains both the service and the industrial sectors. In the pre-accession period, the service sector produced most of the value added. Impetus for such dynamics was given by both the trading and financial services growth in that period. Big chain stores entered the Bulgarian market at that time. Along with the solvent demand and macro stability, the consumption was also reoriented towards durables rather than natural consumption. In addition, the financial services sub-sector developed fast and well in the period, mostly due to the high credit activity of commercial banks, and the development of the financial market and intermediation due to the high return of investment, and their rich flow related to the positive expectations for economic growth fed by the EU membership.

Industry, on the other hand was the most dynamically developing sector. Its growth in the pre-accession period was influenced positively by the supportive international situation and the Bulgarian high level of openness of the

economy. In the pre-accession plan, the construction sub-sector and, relating to it, production branches faced double digit growth of volumes two years before and the first years of accession. For the real estate vividness prior to 2007 the expectations for major investments due to the accession and the fast and high return of investments in the sector and high prices of both for residential and non-residential units were claimed. It is also worth mentioning that for the growth of the manufacturing sub-structure in the year of accession, the major contribution was provided by internal market sales rather than exports since in 2007 two of the nuclear reactors in NPP “Kozloduy” were closed and that has strongly limited the options for exporting electricity and thus limited the dynamics of industrial exports. On the other hand, the opened market of the EU allowed a high increase in textile exports.

### **2.3. European Union funds and Bulgarian contribution to the EU**

According to the EU membership standard procedures, candidate countries receive pre-accession assistance in order to strengthen economic and social development and to prepare themselves for becoming full-fledged members. The funds transform after accession and become a part of the EU budgeting within the Cohesion and Structural funds, allocated through Operational Programmes and addressing different national areas of intervention through Priority Axes.

In its pre-accession period (and also in 2007 and 2008), Bulgaria collected a budget surplus that reached a peak of 3,4% of GDP in 2006. On the one hand, this trend was positive since such an over-fulfilment of the state budget conserved the stability of the CBA in the country along with the macro stability, creating a supportive internal environment. On the other hand, however, these budget buffers meant preservation from governmental investments in current public goods. Thus, the pre-accession instruments and the structural funds took over the role of seizing the opportunity for unutilized investments mainly in infrastructure.

The middle of 2010 coincides with the middle of 2007-2013 planning period, which is why the Committee on European Affairs and Oversight of the European Funds within the 41<sup>st</sup> National Assembly prepared a report on the current state of absorption of EU funds (both pre-accession and Cohesion/Structural). In accordance to it, there are a few conclusions, based on numbers that could be made with regard to the financial outcomes of Bulgarian EU membership. Within the pre-accession funds, aiming to prepare Bulgaria to absorb Cohesion and Structural Funds, country received funding in three main directions, through the instruments: Phare Program, ISPA Program and SAPARD Program. The three of them addressed the 10 CEE countries applying for EU membership. In the case of Bulgaria, as per the middle of the 1<sup>st</sup> programming period, the country managed to finalize all the projects within the Phare Program until the end of April, 2011. The overall paid out amount

accounts to 958 EUR mln. (87.6% out of overall 1 094 EUR mln., which are contracted and payable).

While Phare supported measures towards economic and political transformation, ISPA Program, on the other hand, addresses the improvement of environment and transport infrastructure. Along with SAPARD, which aims at developing agriculture and rural areas, all the three programs met certain difficulties that have prolonged their implementation until 2010. The overall effect of the ISPA program is expected to reach the amount of the contracted funding, which is 1.47 EUR bn. (89% of the overall ISPA budget). SAPARD Program was successfully closed in 2009 and the total sum absorbed within it reached 448.9 EUR mln., while additional contracts for 192.4 EUR mln. were annulled for various reasons.

All three measures faced numerous irregularities that resulted in delays in their implementation and loss of potential funding. Nevertheless, their characteristic of provided assistance adds their overall sum in the column of net benefit unlike the Cohesion and Structural Funds, which came as a result of the Bulgarian EU membership (related to annual contribution to the EU budget and necessity of national co-financing of the programs themselves).

The results of Operational Programmes in Bulgaria are so far similarly meeting difficulties. They only reach a modest 13.5% actually absorbed funding (*See Table 2*). Infrastructure projects being set as a key government priority faced visible improvement in the last years and a perspective of further ones. Despite the 2009-2010 turmoil in the construction sector, its civil part remained almost unharmed. Thus, the EU accession unlocked a growing increase in transport-related civil engineering output, obvious and tangible for the public as well as for business.

The construction of highways and road reconstruction, bridges, subway, water supply and sewage networks, waste plants are all receiving sound EU funding that result in more and more visible and perceivable results. The Bulgarian territory is crossed by 5 pan-European transport corridors, but the infrastructure was underdeveloped and still needs improvement. In this regard, the biggest (by budget) and best absorbed programmes concern namely transport, environment and regional development.

OP Environment is currently supporting the construction of water supply and sewage networks within 199 contracted projects and amounting to over EUR 1.2 bn. They are expected to reach numerous households and companies all over the country. There are also many “soft” measures like supporting the administrative capacity for better absorption of funds and measures towards the labour market, which are also necessary but not that obvious. Simple calculation (*see Table 2 and Table 3*) shows that the comparison between the paid out funding (within Structural, Cohesion Fund and the required national financing of the Operational programs) is exceeded by the Bulgarian contribution to the EU.

Thus, if one excludes the pre-accession funding amounting to over EUR 2 bn., it appears that Bulgaria must be a net contributor to the EU. Moreover, the cumulative result of Operational programmes is not expected to reach a total of 100% absorption until the end of the current programming period (2007-2013), but the results of investments in infrastructure become more and more tangible, adding value to the country both internally – for its citizens and externally – for interested investors and partners.

**Table 2. Implementation of Operational Programs in Bulgaria, EUR mln**

Operational Program	Overall Budget of the Program			Contracted Funds			Paid Out Funds			
	Total	EU Funded	National co-financing	Total	Grants	%	EU Funding	Total	%	EU Funding
Transport	1999218667,60	1621023469,72	378195197,88	1607994266,68	1072282592,39	63,64	868800618,72	244132409,12	12,21	201014350,81
Environment	1796916901,68	1463305585,97	333611315,60	894212848,87	808103830,81	44,86	655049170,14	157743395,68	8,78	126924587,91
OP Regional Development	1697867966,25	1368187770,32	239880194,94	957648864,84	940118881,20	68,84	799099161,88	237998834,86	14,69	202321033,18
Competitiveness of the Bulgarian economy	1169742878,12	986781,06	173961431,07	586623607,01	428800931,89	36,78	362610791,81	261489064,81	21,88	20013765696,51
Technical Assistance	66698540,77	48193769,70	8504781,07	30361808,86	30351803,76	63,63	25799033,18	8221301,80	14,60	6988108,48
Human Resource Development	1211287006,66	1029693954,96	181693060,58	652154488,71	646392482,23	63,36	549434244,83	136038065,57	11,23	115643710,23
Administrative Capacity	180404448,99	163343781,65	27080887,30	91349840,88	91301966,65	50,61	77606870,69	48240653,27	26,74	41007632,59
<b>Total</b>	<b>8002136397,86</b>	<b>6659429759,42</b>	<b>1342706638,44</b>	<b>4720335725,45</b>	<b>4013150267,93</b>	<b>50,15</b>	<b>3338199691,24</b>	<b>10893863715,11</b>	<b>13,54</b>	<b>907665117,69</b>

Source: Council of Ministers of the Republic of Bulgaria

**Table 3. Bulgarian Contribution to the EU Budget, EUR mln.\***

	2007	2008	2009	2010	Total (2007-2010)
Bulgarian Contribution to the EU Budget	303,7	367,4	380,7	341,7	1 393,5

Source: Ministry of Finance of Bulgaria

\* EUR=1.96 BGN

### 3. Conclusions

Regardless of remaining disparities between Bulgaria and the EU, there is clear evidence in favour of the progress the country has made due to the EU accession.

In addition to the direct effects of EU membership, the overall improvement of internal policy shaping also needs mentioning as a positive effect of the EU accession. To fulfil the EU membership criteria, Bulgaria needed to constantly consider the European Commission's recommendations. In late 2006, the EC ascertains the presence of a functional market economy, and also admitted the country's progress towards implementation of the *acquis* and realization of the four freedoms. Still, there were fields needing further progress like higher protection on the borders with non-EU member states, measures for restructuring monopolies in the energy sector, improvement in environmental



protection and readiness for absorbing EU funds. By pointing out the efforts of the Bulgarian government, the general recommendation was in favour of membership in 2007.

Furthermore, the fiscal discipline effect and impetus for reforms was obvious both in the prior and after accession years. By preserving budget surpluses, thus over fulfilling the Maastricht fiscal criteria for entering the Eurozone until the crisis hit in 2009, Bulgaria also remained macro stable. Reaching a deficit of 3.9% in 2009, the EC opened excessive debt procedure in 2010 but it was decided that stabilization measures were effective and Bulgarian fiscal stability was regained, with which the procedure was closed after a few months (Ganev, G., 2010, p. 10).

Nevertheless, the referent inflation rate value after EU accession was unachievable, and the country remained away even from the Eurozone pre-accession mechanism (ERMII) and still is. General arguments towards such conservatism in Eurozone widening were hardly related to economic factors and rather to internal affairs such as organized crime and corruption. Similarly, the Schengen free travel zone technical requirements were admitted to be covered by Bulgaria in May 2011, but the country, along with Romania, have been denied access so far. The main reasons for not taking a clear decision and without a perspective on that matter were the doubts of the EU Council towards the judicial system effectiveness. Both those examples of Bulgarian deeper integration being obstructed should be interpreted as external pressure for improving internal environment. Since these problems have been standing on the table for years without being solved such an external pressure becomes necessary, which could be considered another positive aspect of the Bulgarian accession.

Secondly, the current analyses reveal the catching up effect of the GDP per capita in the purchasing power which has been present since 2007. Such an effect on income was the result of both the overall global and regional positive economic trend and the labour market liberalization. Thus, the companies operating in Bulgaria were in a position of labour costs increase, pushing wages upwards. However, although the influence on income was positive, it needs much more further progress to reach the medium EU levels.

The effect of liberalization on capital, labour and goods market was to a great extent only accelerated at the time of EU accession. Turning to the statistics, one could easily conclude that the accession itself was a final step on the path previously undertaken by Bulgaria. Especially the trade turnover was largely oriented towards the EU countries much before the real membership took place. That trend continues until the present. An impetus for that was the fixed currency of Bulgaria to the European one.

Another important bond throughout the years was represented by the investments in Bulgaria. In their top period (between 2005 and 2007), most of

their sources came from the European Union as well. Of course, 2005 was a key year for Bulgaria as back then it was decided that it would join the EU in 2007 (alternatively in 2008). Such a decision could not leave international financial markets indifferent and it led to the high increase in financial flows to the country. Of course, not without the expectations of a quick and high rate of profitability, investment decisions were oriented towards the construction sector. The majority of flows came from the EU and that trend was preserved in the crisis and post-crisis investment reflux context. These inflows turned out to be the engine of economic development prior to 2008 as the level of internal savings in the system appeared insufficient to finance growth.

Another financially measurable effect could be found in the equation of EU funds and national contribution to the common budget. By adding the pre-accession funding, the result comes in favour of Bulgaria. Undoubtedly, the future developments in this regard are extremely important since Bulgaria is marking an extremely low level of EU funds absorption, an aspect which requires improvement. However, there is still solid potential of boosting economic activities and growth.

Besides the reform impetus and the internal discipline effect on policies shaping, the most “responsible” segments for Bulgarian economic developments reveal a clear positive influence from the EU accession. There are, of course, some disputable moments within the process. Some of them are politically related, claiming that the government was unable to defend national positions. Examples in that direction are the closure of 2 reactors of NPP “Kozloduy” upon accession, and current issues of negotiations related to the Eurozone and Schengen accession. Also, along with the four freedoms implementation, the labour market was the one to suffer from it, losing a great number of qualified specialists in favour of the EU.

Despite the negative aspects, measurable or immeasurable, the Bulgarian economy is a net beneficiary of EU membership so far. Bearing in mind the geographical position and the type of Bulgarian economy, the option to stay out of the Union seems unimaginable in many ways. Still, the ambitious goal to reach the average EU member standard posts numerous challenges before the country and taking them could only pull Bulgaria forward to positive future developments.

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