



# Economic Effects in Bulgaria within Integration in European Union

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**Abstracts:** The wide interest, application and membership of Bulgaria in European Union (EU) enable to study the economic effects in general terms. In our study we are going to analyze the economic cooperation of Bulgaria before and after membership in EU. We will discuss whether economic cooperation between Bulgaria and EU members increased or decreased after EU membership. This article provides a comprehensive and contemporary comparative analysis of the economic performance, the economic structure and the trade relations between Bulgaria and EU countries, allowing us to detect basic trends and developments. We will compare the economic performance of Bulgaria and other EU members, looking at aggregate figures from integration in EU such as foreign trade, Foreign Direct Investment (FDI), Gross Domestic Product (GDP) and its structure, level of structural unemployment and employment, inflation and level of income.

**Keywords:** European Union membership, Foreign Trade, Foreign Direct Investment, Gross Domestic Product, Unemployment.

## Introduction

The origin of having Europe united and in peace is dating a long time ago, since the period of Napoleon Bonaparte. The forefront of efforts to establish a new structure of peaceful Western Europe, ruins after second World War, that would be based on treaties guaranteeing the rule of law and equality between all countries and citizens living in them.

Basis for the future unification of Europe was laid on 9th of May 1950 by French Minister of Foreign Affairs Robert Schuman and economist Jean Monnet. They developed a plan of the European Coal and Steel Community, known as the Schuman Plan or Plan ECSC Treaty. This proposal was unanimously welcomed by six countries, France,

Germany, Italy, and BENELUX countries (Netherlands, Belgium and Luxembourg). These countries, were founding members of the European Coal and Steel Community, which later on preceded to the European Economic

Community (EEC) and the European Union after that.

One of the most important products of the integration processes is a common internal European Union market.

Towards the creation were concluded agreements, treaties and pacts and such developed through debates and economic integration to the form in which we know it nowadays. Not ideal and it is not in final form yet but its existence for us appears to be justified (Imeri and Bajusova, 2014).

## Methods

The general and main objective of the paper is assessment of the level of development of Bulgaria within the European Union integration. The methodology in this paper does not use any structural model, but it uses available information, databases and publications to compare the stage of development of economic indicators such as Foreign Trade, Gross



Domestic Product (later on GDP), Gross Domestic Product per capita (later on GDP p.c.), Foreign Direct Investment (later on FDI), Unemployment rate and Inflation in Bulgaria within its integration in the European Union. In order to better study the economic growth of Bulgaria we analyzed several macroeconomic indicators such as

the level of unemployment and risk of poverty rate. The implementation of comparison of chosen indicators with other countries as Czech Republic, Hungary, Slovenia and Slovakia are given to get better overview of the issue.

Source data are drawn from the Statistical Database of the European Union (EUROSTAT), Statistical Office of the Republic of Bulgaria, and other relevant world known organizations such as World Bank, UNCTAD, etc. Paper is providing a synthesis of the available sources and for better illustration and clarity will be used rendering methods.

## 1. Research Results

### 1.1 Accession of Republic of Bulgaria to the EU

Since the fall of communism, at the end of 1980s, Bulgaria has expressed interest to integrate into the European Union. The desire of member states to extend to the east and Bulgaria's readiness to become a full member of the EU, was approved by the signing the Association Agreement of the European Union (AAEU) with the European Communities and their Member States on 8 March 1993 and entered into force in 1995.

Pre-EU financial assistance to Bulgaria was designed as well as for other candidate countries (10 countries). EU has increased the amount of financial assistance to Bulgaria in an average of 30% in the period 2004-2006<sup>1</sup>. Bulgaria received 500 million euro a year, equivalent to 2% of its GDP until its full membership in EU. From the PHARE program for the period 1992-2002 were approved 1.35 billion euro, and in 2003 were 94.9 million, which were supplemented with 28 million for cross-border

cooperation. In 2004, from this program was allocated a total of 172.5 million euro and for 2005, 174.9 million euro.

From ISPA program (which started in 2000) for Bulgaria were awarded 104 million euro for year 2000, 106.8 million euro for 2001, 10.6 million euro for 2002, 112.6 million for 2003, 134.8 million euro for 2004 and 134.8 million euro for 2005.

From SAPARD program (opened in 2000) supported agricultural and rural development measures. Bulgaria's allocation from this program for year 2000 were allocated 53 million euro for 2001 54 million euro, for 2002 55.6 million euro, for 2003 56.5 million, and for 2004 and 2005 68 million euro. The total volume of pre-accession assistance available for all programs of Bulgaria in 2006 was around 545 million euro.

The other financial institution that was actively involved in Bulgaria is European Investment Bank (EIB), which provided large loans for projects aimed at helping the transition to a market economy and fulfilling the *acquis*. The activities of the European Investment Bank in Bulgaria started in 1991 and since then the EIB gave over 1 billion euro for the priority projects in the country.

Bulgaria submitted its application for EU membership on 14 December 1995. Bulgaria adopted the first version of its National Programme for the Adoption of the *acquis* (NPAA) in March 1998.

European Commission issued 7 regular and 3 monitoring reports to the Council of Europe, for the progress of Bulgaria and Romania to join the EU. Negotiations with Bulgaria were opened in February 2000. The seventh regular progress report was published on 06 October 2004<sup>2</sup>, that was also the last one. In this report, the Commission gave details on all 31 chapters for the adoption of the *acquis*, and by the end of June 2004 all negotiating chapters were temporarily completed. Commitments made in the negotiations were aimed that Bulgaria together with Romania to join the EU in 2007. Until accession, Bulgaria should continue

<sup>1</sup> European Commission. *Enlargement, Archives, Bulgaria*. Retrieved on 10 October 2013 from the site [http://ec.europa.eu/enlargement/archives/bulgaria/eu\\_bulgaria\\_relations\\_en.htm](http://ec.europa.eu/enlargement/archives/bulgaria/eu_bulgaria_relations_en.htm)

<sup>2</sup> EC, "Regular report, on Bulgaria's progress towards accession", SEC(2004) 1199, 2004.



its preparations, in line with the obligations incurred during the accession negotiations.

European Parliament approved the EU enlargement with Bulgaria and Romania on 13 April 2005 and the Accession Treaty was signed in Luxembourg on 25 April 2005. Bulgaria, together with Romania became a full member on 1 January 2007, the European Union expanded to 27 member countries.

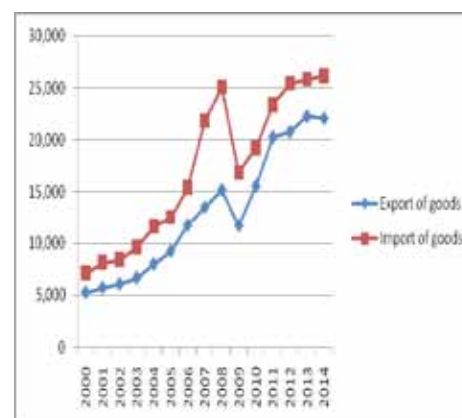
### ***1.2 Economic effects in external trade of Bulgaria from EU membership***

Accession negotiations of Bulgaria with EU had a major impact on the growth of foreign trade. Even before joining the EU, the largest foreign partners were members of the EU. In 2014, major export partners of Bulgarian goods were members of the EU with 58.4%, and that: Germany 10%, Romania 8%, Greece 7.2%, Belgium 3.7%, Spain 2.6%, France 4%, Italy 8.5%, and Turkey 9.4%. Main exported products in 2012 are: machinery and transport equipment (16.7%), and chemicals (8.3%).

On the other hand, in 2014, mostly was imported, also from EU members, with 58.6%, including: Russian Federation 20.8%, Germany 11.1%, Greece 6%, Italy 6.6%, Romania 6.5%, Turkey 4.6 %, Spain 4.4%, and in 2012 was imported mostly: machinery and transport equipment (24%) and chemicals (11.5%).

Exports of goods from 2000 to 2014, was constantly on rise, except in 2009, when the crisis started in the EU, and fell by about 23%. Bulgaria registered the highest export value of its goods in its history in 2014, 22 billion euro. Export growth of goods and services from 2000 to 2014 was about 400 percent.

As shown in figure 1, exports of goods were growing for these 12 years, as well as imports, except in 2009 when it decreased by about 32.7%. Highest value of imports of goods and services, Bulgaria has registered in 2014, 26.2 billion euro. A characteristic for foreign trade of Bulgaria for this entire period, in fact from 2000 to 2014, is that it was in deficit, and the record reached in 2008, with 9.9 billion euro (Eurostat, 2014).



Source: International Trade, EUROSTAT

**Figure 1** Export and Import of goods in Bulgaria from 2000 to 2014 (in millions of euro)

### ***1.3 Foreign direct investments, GDP and their structure in Bulgaria***

Bulgaria, similar to other eastern European countries, survived rapid economic growth during the decade of transition from central planning economy to a free market economy.

Similarly, as in other countries that joined the EU in 2004 and 2007, also in Bulgaria, economic development was achieved during the last twelve years. Membership in EU, NATO<sup>3</sup> and a potential candidate in the Organization for Economic Cooperation and Development-OECD, heavily affected on the continuity of increasing foreign direct investments and to the growth of real GDP.

Foreign direct investments played a major role in the growth of GDP and standard of living. As shown in figure 2 the highest value of FDI in Bulgaria was during the year of joining the EU in 2007, with 12.4 billion USD, and the lowest in 2001, with 808 million dollars<sup>4</sup>. The value of FDI of Bulgarian companies that have invested in other countries was highest in 2008, 765 million USD, and the lowest in 2004, actually negative 206 million USD.

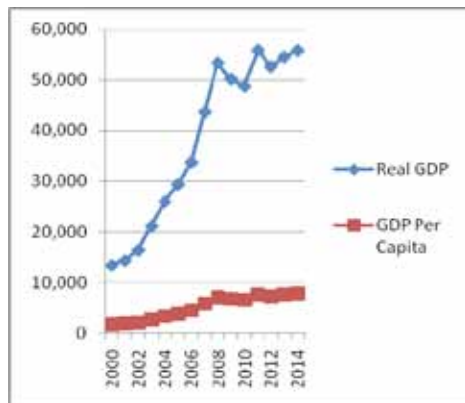
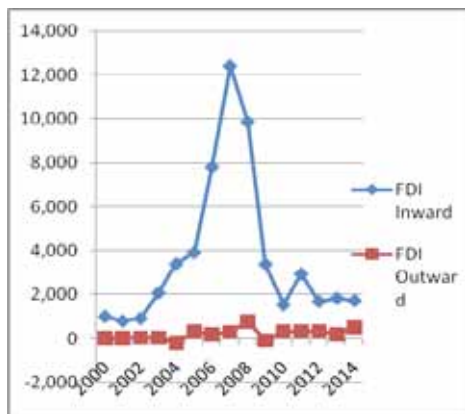
<sup>3</sup> On the 2nd April 2004, Bulgaria along with Estonia, Latvia, Lithuania, Romania, Slovakia, and Slovenia officially joined NATO.

<sup>4</sup> The source of data on FDI and GDP are taken from UNCTAD.



Real GDP was 13 billion USD in 2000, and increased by four times more in 2014, 55 billion USD. The highest value of GDP was achieved in 2014, 55.7 billion USD. GDP per capita grew by about 4 times, from 1669 USD in 2000 to 7775 USD in 2014 that was also the highest for this period.

FDI in Bulgaria, as a percentage of GDP were low, and reached the top in 2007, 28%. The highest percentage of FDI as a share of GDP to Bulgarian companies in other countries was reached in 2008, 1.5 percent.



Source: GDP and FDI Database, UNCTAD

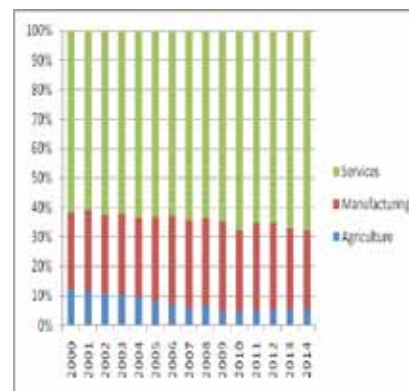
Figure 2 FDI and GDP in Bulgaria during 2000-2014 (in millions of US\$ and per capita)

Based on the above data on FDI, we can distinguish three periods for the last twelve years. The first period was 2000-2002, when FDI was constant to some degree, but the relatively low level of around 1 billion USD.

Once the prospects of joining the EU became much clearer, this was a great incentive for potential investors to realize their investments in the country. After 2003, foreign direct investments in the country have increased rapidly, reaching more than 12 billion USD in 2007. From the financial crisis in Europe is the third period 2010-2014, when foreign direct investments were 1.5 to 2 billion USD. FDI was mainly in real estate; renting and business activities; mining and quarrying; transport, storage and communications and fishing.

The advantages of investing in Bulgaria<sup>5</sup> are: the low cost of registering a company, cheap labor force, low taxes, favorable investment legislation, etc. The main investors in the period 1996-2014<sup>6</sup> were: the Netherlands (7 billion euro), Austria (6 billion euro), Greece (3.6 billion euro), the UK (2.6 billion euro), Germany (2.4 billion euro), Cyprus (2.1 billion euro), Russia (1.9 billion euro), and Switzerland, USA and Italy (by 1.6 billion euro).

The GDP economic structure of Bulgaria varied a lot during the period 2000 to 2014, especially in agriculture, where it decreased from 12% in 2000 to 5% in 2014. Services represent the dominant industry, taking over 60 percent of GDP (see Chart 1 below).



Source: World Development Indicators, World Bank.

Chart 1 Structure of GDP in Bulgaria from 2000 to 2012 (in percent)

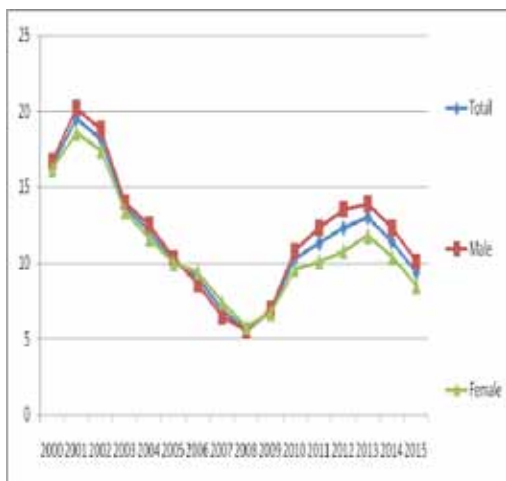
5 Invest Bulgaria Agency. *Bulgaria's advantages*. Retrieved on 20.02.2016, from the site <http://www.investbulgaria.com/BulgarianInvestmentIncentives.php>.

6 Invest Bulgaria Agency. *General Presentation and Brochures*. Retrieved on 01.03.2016, from the site <http://www.investbg.government.bg/en/pages/general-presentation-and-brochures-212.html>



**1.4 Level of unemployment and structural employment in Bulgaria**

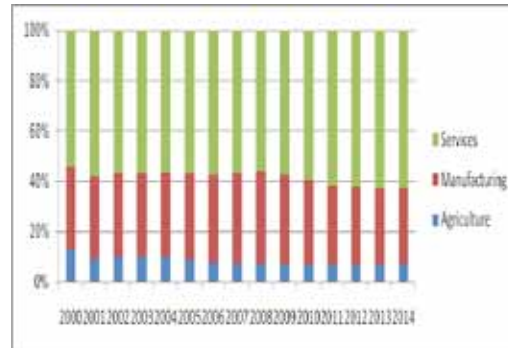
Unemployment in Bulgaria can be analyzed in three periods: before the accession process 2000-2002, then until the beginning of the financial crisis in Europe 2003-2008, and from the financial crisis until 2014. Before starting with the process of accession, Bulgaria was faced with high unemployment, which on average was about 18 percent. Starting with the accession process affected to the increase of FDI, and also in reducing unemployment, which reached 5.6 percent in 2008. Unemployment rate from 2009 increased due to the financial crisis in the European Union until 2013 and then started to drop again.



Source: Unemployment rate database, EUROSTAT

Figure 3 Unemployment level in Bulgaria, by sex and age from 2000 to 2014 (in percent)

In Bulgaria, the number of employees in the agricultural sector decreased by 5.4 percent from 2000 to 2014. On the other hand, employment in services grew by 8.7 percent, from 54.1 percent in 2000 to 62.8 percent in 2014, while the number of employees in manufacturing has decreased very slightly, by 2.7 percent, from 33 percent in 2000 to 30.3 percent in 2014.



Source: Employed by economic activity, database, World Bank, <http://data.worldbank.org/country/bulgaria>

Chart 2 Level of employment in Bulgaria according to economic activities from 2000 to 2014 (in percent)

**1.5 Level of Inflation in Bulgaria**

The rate of inflation in Bulgaria before joining the EU it was very high. In recent years there have been dramatic changes in the rate of inflation, not only in Bulgaria, but globally. In 2008, after the global financial crisis began, prices were climbing at an annual rate of about 5% and about 4.4% in Bulgaria. But less than a year later, prices year to year have increased by about 1% and 0.2% in Bulgaria according to CPI<sup>7</sup> measure.

What was staying behind those big changes of inflation? In mid-2008, the record high oil prices have lifted transport costs, the food, through growth in commodity prices in stores and higher household bills for energy.

Prices also depend on the economic cycle. That was shown in the second half of 2008, corresponding to the decline in economic activity. Furthermore, countries such as Slovenia, Cyprus, Malta and Slovakia, which have adopted the euro since 2002, on average are less developed than the countries that changed their currencies in the first round. This means that the process of real convergence is still in progress, and as a consequence we have higher inflation.

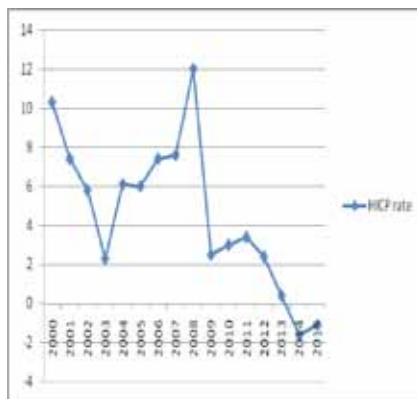
But, by early 2009, the price of crude oil declined, losing two thirds of its value in just

7 CPI – Consumer Price Index.



six months. The global recession started, which means that demand for fuel declined for the needs of factories and transportation, both for goods and for workers (Imeri, 2015).

According to the EUROSTAT data for the period 2000 - 2015, the highest rate of HICP<sup>8</sup> was in 2008, 12 percent, actually that was the highest inflation rate registered for the period 2000-2015, and the lowest rate negative 1.6 percent was registered in the last year, 2014.



Source: HICP, EUROSTAT

Figure 4 HICP in Bulgaria for the period 2000-2015 (in percent)

### 1.6 Level of income in Bulgaria

For measurement of monetary poverty the European Council in December 2001, in Laeken, Brussels, established common European statistical indicators of poverty and social exclusion, known as the Laeken indicators, as a composite of 18 common European indicators.

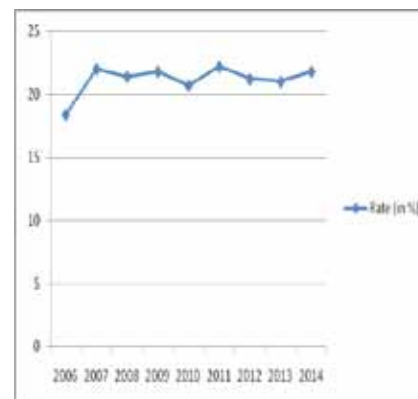
Laeken most important indicators of poverty and social exclusion are:

1. Risk of poverty rate,
2. Risk of poverty line,
3. Quintile's share of income (S80/S20),
4. Gini coefficient, and
5. Relative gap average exposure of risk of poverty.

<sup>8</sup> The HICPs (the Harmonized Index of Consumer Prices) are economic indicators constructed to measure the changes over time in the prices of consumer goods and services acquired by households. The HICPs give comparable measures of inflation in the euro-zone, the EU, the European Economic Area and for other countries including accession and candidate countries. They are calculated according to a harmonised approach and a single set of definitions. They provide the official measure of consumer price inflation in the euro-zone for the purposes of monetary policy in the euro area and assessing inflation convergence as required under the Maastricht criteria.

The primary data source since 2003 is *European Union Statistics of Income and Living Conditions* (EU-SILC), which is based on the regulations and is funded by the European Commission. EU SILC is multi-dimensional tool, focused on revenue, but includes also housing, material poverty, labor, health, demography, education, in order to study the multi-dimensional approach of social exclusion.

EU SILC was launched at different times<sup>9</sup> and in Bulgaria started to be implemented in 2006 and in Romania in 2007. In Bulgaria the level of people at risk of poverty is much higher than in the Czech Republic, Slovakia, Slovenia and Hungary, and so it belongs to the group of countries with most exposed people. Bulgarian citizens with average incomes less than 60% in 2014 were 21.8 percent. This level increased by 0.8 percentage point compared to 2013, when were actually 21 percent of the total population living below the poverty line. According to SILC, the lowest rate of people at risk of poverty was before joining the EU, in 2006, 18.4 percent.



Source: Income and living conditions of households, Figure 5 At-risk-of-poverty rate by poverty threshold, after social transfers in Bulgaria from 2006 to 2014 in percent (covering all ages, both genders) EUROSTAT, EU-SILC

<sup>9</sup> 2003: Belgium, Denmark, Ireland, Greece, Luxembourg, Austria and Norway (total of 7 countries). 2004: 7 countries plus Estonia, Spain, France, Italy, Portugal, Finland, Sweden and Iceland (total 15 countries). 2005: 15 countries plus the Czech Republic, Germany, Cyprus, Latvia, Lithuania, Hungary, Malta, Netherlands, Poland, Slovenia, Slovakia and the United Kingdom (total 27 countries). 2007: 27 countries plus Bulgaria, Romania, Switzerland and Turkey (total 31 countries). 2010: 31 countries plus Croatia (total 32 countries).



The value of the income quintile share was relatively volatile over the whole period, from 2000 to 2014. The highest rate was in 2007, 7 and the lowest in 2003, 3.6 percentage points. In 2014, the income quintile share was 6.8 percentage points, which means that 20% of the population where having on average 6.8 times higher revenue, comparing to the population with the lowest income.

Bulgaria has higher level of concentration of income, comparing to Slovakia, Czech Republic, Slovenia and Hungary, countries that entered EU in 2004. The gap between the incomes of rich and poor remained the same in 2014 35.4 percent, comparing to the one year earlier. Household incomes were best allocated before joining the EU in 2003, 24 percent, and worst allocated in 2008, 35.9 percent.

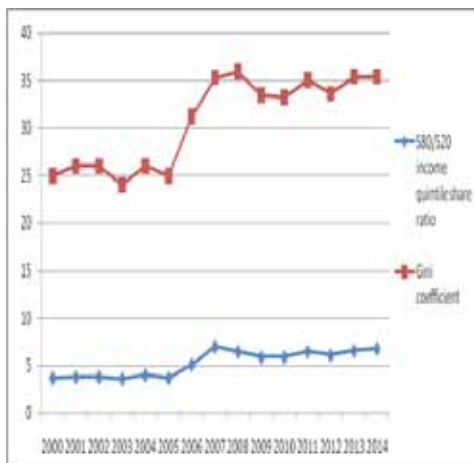


Figure 6 Inequality of income distribution in Bulgaria from 2000 to 2014, (in percent)

Source: Income and living conditions, EUROSTAT

**Conclusion and recommendation**

One of the main goals for economic integration of the member states of the EU is common progress through the expansion of the European common market, by increasing competition in goods, services and factors of production, as well as long-term economic growth. The economic effects of integration of Bulgaria in EU led to drastic growth of exports of goods and services from 2000 to 2014 by

about 400 percent, with small decrease in 2009. The FDI grew rapidly also during the period of membership in EU and afterwards. Seal GDP in 2012 comparing to 2000 has grown to four times, 55 billion US\$. GDP per capita grew by about 4 times, from 1669 USD in 2000 to 7775 USD in 2014 that was also the highest for this period. The unemployment rate in Bulgaria was much higher than in the Czech Republic, Slovakia and also much higher than in Slovenia for the period from 2000 to 2014. The integration in EU, brought to decrease in unemployment rate, until 2008, reaching lowest rate 5.6%, and after that the country was affected by the global financial and economic crisis, therefore the number of unemployment was increasing every year and in 2013 was the highest since integration in EU with 13% unemployment rate.

The effect in economic sectors was that the number of employees in the agricultural sector has declined steadily and on the other side the number of employees in services was growing. The highest rate of HICP after EU membership reached in 2008, by about 12%.

Bulgaria belongs to the group of countries with the most exposed persons at risk of poverty from the member countries of the Organization for Economic Cooperation and Development and EU members. Bulgaria from implementation of EU-SILC in 2005, the lowest rate of people at risk of poverty reached only before joining the EU, in 2006, 18.4 percent, and after that was increasing and the average for coming years was 21 percent of its citizens at risk of poverty after social transfers with average incomes below 60% from the country’s average. The government needs to try harder to decrease the number of the risk of poverty of the people living in the more affected regions. Bulgaria has higher level of concentration of income by 35.4% in 2014, comparing to Slovakia, Czech Republic, Slovenia and Hungary.

The recommendation for other researchers is to analyze the correlation between economic growth and risk of poverty. Because as it can be seen from the data provided in this paper, the risk of poverty remains the same, actually higher than the period before entering EU.



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