



Republic of Bulgaria  
ECONOMIC  
AND SOCIAL COUNCIL

**OPINION**

**of**

**THE ECONOMIC AND SOCIAL COUNCIL**

**on**

**STRATEGIC PRIORITIES FOR THE BULGARIAN ECONOMY  
WITHIN THE EUROPE 2020 STRATEGY**

**(elaborated on the initiative of the President of the Republic of  
Bulgaria)**

The President of the Republic of Bulgaria recommended (by means of letter with issuance № 02-00-59 of 15.07.2010) to the Economic and Social Council to elaborate and approve by 30 September 2010 an opinion on the following topic:

**“Strategic priorities for the Bulgarian Economy within the Europe 2020 Strategy”**

The President of the Economic and Social Council assigned the elaboration of the opinion to the Commission on Economic Policy.

Mr Bozhidar Danev, Member of ESC from the group of the representatives of employer organisations at the national level, was appointed rapporteur on this opinion.

Ms Silvia Todorova, Director of Direction “Industrial Development” at the Bulgarian Chamber of Commerce and Dr. Teodor Atanasov, University of Sofia, were invited to participate in the preparation of the opinion.

The project of the opinion was approved by the extended meeting of the Commission held on 20 September 2010.

At their Plenary Session, held on 30 September 2010, the Economic and Social Council approved this opinion.

## INTRODUCTION:

1. Bulgarian society, political forces, and expert communities unanimously agree that **twenty years of transition to a functioning market economy, democratic institutions and rules have not brought about effective structural reforms in Bulgaria's economy** and the areas related to it. The prospects for long-term sustainable development are threatened by both inherited and newly arising economic problems, deepening imbalances, and powerful impediments to economic growth. They have their greatest impact at times of economic recession and entail low competitiveness, continuing severe social disturbances, imbalances in the rights and obligations of different social groups and ethnic communities.

**2. There is no continuity in government at the political level. There is no control on the implementation and the correlation of national strategies and policies. There is little cohesion and development in setting targets and using measures.**

The institutions have generated over 163<sup>1</sup> fundamental strategic documents, programs and plans with little systematic coordination among them. No attention is paid to controlling their implementation, bringing them up to date when needed, and optimizing them for subsequent periods.

3. The adoption of a National Program for Development "Bulgaria 2020" should be used by competent state authorities, civil society and social partners for the following purposes:

- consolidation and implementation of short-term measures for economic recovery, taking into consideration the fragile, unsteady, and USA and EU's delayed recovery from the crisis;
- identification of the major problems, imbalances, and limitations to sustainable growth of the national economy, as well as that of strong sides and development potential;
- the adoption and performance of attainable national targets, priorities, facilitating mechanisms, instruments, and resources;
- development of a mechanism of continuous assessment, inspection, and evaluation of the progress in attaining national targets.

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<sup>1</sup> According to the data presented at [www.strategy.bg](http://www.strategy.bg), run by the Administration of the Bulgarian Council Ministers. A review of current strategic documents at the national level has been made as of 31 August 2010 their termination date being pointed out. The documents (altogether 163 of them) are grouped in 22 categories.

## MAIN CONCLUSIONS

4. When the Bulgarian economy was affected by the recession during the first half of 2009 this exposed its high sensitivity to global financial and economic perturbations as well as the reasons for this:

- accumulated macroeconomic imbalances<sup>2</sup> and deformations in the branch structure;
- openness of the economy and the high dependency on the inflow of direct foreign investments;
- other social factors such as the low level of competitiveness and limited consumption rate;
- problems in the business environment and the regulatory framework;
- deficiencies in the rule of law and the general sense of security;
- increase in discomfiting social and ethnic discourses;
- low efficiency in Bulgaria's integration in the European Union.

**5. The economic growth over the last 13 years has taken place at the expense of “unhealthy” development, low quality of direct foreign investment, erroneous energy policies, high corporate indebtedness<sup>3</sup> and perpetuation of the imbalances connected to the limited purchasing power of the population.**

6. There are many **unrealized opportunities, potentials, advantages and multipliers of economic growth and development**. These are the reasons for the adoption of the **responsible national strategic objective to reach 60% GDP purchasing power parity per capita (GDP PPP per capita) of the average for EU-27 by 2020**. This objective can be attained subject to the following conditions:

- carrying out of necessary reforms and using Bulgaria's natural advantages;
- realization of major priorities and reforms, guaranteeing sustainable, inclusive and intelligent growth;

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<sup>2</sup> "Bulgarian Economy in the Global Financial Crisis: Problems, Challenges and Opportunities", Opinion of the Economic and Social Council of the Republic of Bulgaria, elaborated at its own initiative with rapporteur Bozhidar Danev, ESC/2/008/2009 r.

<sup>3</sup> "Indebtedness of the Companies from the Non-Financial Sector of Bulgarian Economy", annual analyses of the Bulgarian Industrial Association for financial years 1997-2008, Source: [www.bia-bg.com](http://www.bia-bg.com).

- reforms in the administrative framework, including the regulatory framework, radical improvement of the rule of law and security.

For the sake of expediency the National Program for Development “Bulgaria 2020” should take place at **two stages: first, by the end of 2013, sustainable and balanced growth should be reached by overcoming imbalances and restructuring the economy; second, by 2020, 60% GDP PPP per capita of the average for the EU should be reached by innovative growth.**

Both stages should be governed by another crucial imperative – the limitations and opportunities for “green” sustainable development, maximum decarbonization of the economy, and the adoption of a low-carbon growth model at the lowest possible relative economic costs and socially acceptable conditions.

7. The priorities for the attainment of this main objective within the following 10 years should include: **restructuring the economy, investment in transportation and energy infrastructures, changes in the business climate, increasing the quality of working conditions and the qualification of employees, introducing adequate educational reforms.** The main instruments for the realization of these priorities are: reform in the branch structure of the economy so as to achieve production with high value added and utilization of the innovation potential of separate branches, decarbonization of the economy, overcoming the acutest cases of social and ethnic disturbances and imbalances, as well as following a course of long-term clever growth.

8. Without targeted investments in an open, competitive infrastructure, without reforming the business and legal environments – it will be very unlikely to achieve long-term improvement in regional development, employment, and a general increase in income and productivity, as well as to sort out major social problems, including the integration of different ethnic communities. The major challenge to increasing productivity in Bulgaria is the need for **radical change in the current state of competences, skills, qualification and education of the workforce**, branch restructuring, emphasis on quality employment, increasing wages, and strengthening research and development. All other priorities and objectives, sector policies, including agriculture, tourism, ICT and other high technology sectors are directly dependent on serious reforms in the management, infrastructure and development of human resources.

9. The National Program for Development “Bulgaria 2020” should be adopted with **maximum consensus among politicians and experts. The discussion and adoption of the Program by the National Assembly will endow it with statutory character and will guarantee its implementation and correct supervision.**

## SHORT-TERM PROSPECTS FOR ECONOMIC RECOVERY

10. The economic and social development of Bulgaria is far below average levels in the EU. **With respect to all key criteria our country ranks last or penultimate, including total productivity (performance), development and quality of life.**<sup>4</sup>

GDP purchasing power parity per capita (GDP PPP per capita) has risen by 52% since 1998 reaching in 2008 41% of the EU-27 average, and expected to decline to 40% in 2010. Despite this rise the difference is still considerable even in comparison to the performance of Member States that have recently joined the European Union.

11. The consequences of the 2009 financial crisis resemble the economic and social shocks experienced by Bulgarians in the beginning of the transition period in 1990-1991 and during the crisis of 1996-1997. The resulting recession affected productivity and employment. In 2009 the GDP PPP per capita of an employed person declined by 2.2%, while the brut value added declined by 6.9%.<sup>5</sup> The share of unemployed or discouraged workers<sup>6</sup> increased to 17% during the first six months of 2010. The unemployment rate is increasing among young people,

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<sup>4</sup> Structural indicators for the period 2000-2010 prepared by Eurostat, which track the progress towards the targets of the Lisbon Strategy:

[http://epp.eurostat.ec.europa.eu/portal/page/portal/structural\\_indicators/indicators/short\\_list](http://epp.eurostat.ec.europa.eu/portal/page/portal/structural_indicators/indicators/short_list)

- GDP per capita in PPS, 2008 – 43 (at EC-27=100) – 27-th place;
- Labour productivity per person employed, 2008 - 38.8 – 27-th place;
  
- Youth education attainment level – in total; share of youths at the age of 20-24 years of age, who have completed the full course of secondary education, 2008 - 83.7 – 12-th place;
- Gross domestic expenditure on research and development (GERD), 2008 r. – 0.49% - 25-th place;
- Comparative price levels (EC-27 = 100), 2009 – 52.7 – 27-the place;
- Business investment, 2008 – 28.1 – 1-st place;
- Employment rate, 2009 – 62.6% - 15-th place;
- Employment rate of older workers aged between 55 and 64 years of age, 2009 – 26.1% - 14-th place;
- Social cohesion – at-risk-of-poverty rate, 2008 – 21.4%, - 25-the place;
- Unemployment (12 and more months of unemployment rate as a percentage of the total population), 2008 – 3% - 13-th place;
- Employment – variation of employment rates between region within the country, 2007 – 7.1% - 14-th place (out of 20);
- Greenhouse gas emissions, Kyoto base year, for 2008-2012, 2008 r. – 55.4;
- Energy intensity of the economy, 2008 – 944.16 gross inland consumption of energy per 1000 Euros of the country's GDP – 27-the place;
- Volume of freight transport relative to GDP, 2008 – 120.7.

<sup>5</sup> National Statistical Institute, information on the GDP, indicators for “Labour productivity, employment rates, and hours worked.”

<sup>6</sup> Estimated by relating the officially registered unemployed and the discouraged workers monitored by the National Statistical Institute to the total workforce (the aggregate of economically active persons and discouraged workers).

and, surprisingly, among people with higher education. The relative number of poor people and people living in social exclusion is also increasing. Moreover, the economic crisis brings about moral impoverishment and a shift in the value system of whole social layers.

**12. In 2009 Bulgaria suffered the negative consequences of the global financial crisis which were borne entirely by businesses, the employed, and other social groups.** No large-scale necessary measures were undertaken to counteract crisis processes, including those agreed by the National Council for Tripartite Cooperation, the mechanisms and procedures of state aid were also not used,<sup>7</sup> etc. **Between the beginning of 2009 and the first half of 2010 the informal economy sector has grown by 15-18%.**

13. Despite the fact that Bulgaria's export showed recently a trend to partial recovery, the economic growth in important sectors, such as tourism, agriculture, manufacture, services, consumption, and investment, remains at exceptionally low levels. During the 1-st and 2-nd trimester of 2010 GDP suffered a second decline. The expectations for a minimal growth of the GDP according to the amended state budget for 2010, are too optimistic.

14. The cuts in public investment, including those envisioned by the 2011 draft budget – amounting to almost 50%, impact not only public expenditure but also public revenue, consumption, and keep short economic growth.

**15. The first and foremost task of short-term economic policy is to create the necessary conditions for overcoming the current recession and preserving the financial stability of the country.**

## **MAJOR PROBLEMS AND IMPEDIMENTS TO ECONOMIC DEVELOPMENT BY 2020.**

**16. The branch structure of Bulgarian economy is deformed,**<sup>8</sup> specializing in sectors with low value added, including overinvestment and large share of real property, construction and development, and financial intermediacy. These deformations are worsened by the development of the mining industry and high energy-consuming industries, the fact that a very large number of workers are employed in the service sector – commerce and security (in total over 50% of all employed people). These structural deformations are also related to the process of gradual deindustrialization in many sectors of the economy: manufactures are

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<sup>7</sup> Unlike countries like France and Germany Bulgaria does not use mechanisms for financial aid to businesses. Cf. State Aid Register of the European Commission - [http://ec.europa.eu/competition/state\\_aid/register/](http://ec.europa.eu/competition/state_aid/register/)

<sup>8</sup> Analysis of the current state and prospects before the economy of Bulgaria, Project „Development and implementation of an information system for the evaluation of workforce competences according to branches and regions,” financed Operative Program Human Resources Development and ESF № BG051PO001-2.1.06, BIA, July 2010.

being shut down, investments and expenditure on Research and Development is reduced. A recent example of this is the insolvency of the steel manufacturing plant “Kremikovtsi” which is expected to entail considerable negative effects on the country’s export, the industrial pressure on other sectors, and the employment rate.<sup>9</sup> There are insufficient internal sources of investment and economic growth, also due to the fact that the areas that Bulgarian industry specializes in are high energy-consuming, have very low productivity and value added (manufacture of clothes, underwear, and shoes), or are based on natural resources that are exported without much processing.

17. Another fundamental deficiency observed throughout the transition period is **the orientation of Bulgarian value chains predominantly outside of the country**. Various target factors contribute to this process:

- globalization,
- low and inefficient education and training of the workforce,
- economic integration,
- material destruction of a great part of the industrial structure in the beginning of the transition period,
- chronic decapitation of sectors with high value added: the machine, electro-technological, electronic, and chemical industries,
- destroying the potential of agriculture,
- specific monetary policy,
- the continuing malpractice of using base prices of energy resources as a social instrument, etc.

Transferring value added abroad is achieved by means of the high prices of imported energy resources and the low cost of electricity in Bulgaria, the transfer prices of a significant part of exported goods, tax and duty evasion, manipulation of public procurement tenders and concession regimes, low levels of reinvested profits, inefficient privatization and property swaps, specific direction of the assets and debts of commercial banks abroad, currency rates.

18. **The infrastructure of Bulgarian financial and the bank systems is outdated and underdeveloped**. Banks in Bulgaria enjoy an established regulatory comfort and face practically no social pressure or any requirements on part of consumers. Due to erroneous forecasts about future economic processes there is an increase in unserviced loans (of businesses and individuals). The devaluation of the assets which are used as security for such loans creates new risks for the system and indirectly brings about an increase in banks’ service fees. The lack of public investments boosts the demand for bank loans and hence their price.

19. There are significant differences between the internal price levels in Bulgaria and EU-27. The process of bringing Bulgarian prices in line with those of the

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<sup>9</sup> Every job in Kremikovtsi is industrially related to 18 other jobs in the overall Bulgarian economy.

other Member States is slowed down by the pressure on wages due to the enormous reserve of unemployed and discouraged workers,<sup>10</sup> the low qualification of the workforce, tax evasion, as well as restrictive monetary policy imposed by the Monetary Board. The relatively low cost of labour and some of the tariffs for electricity create an economic environment that does not stimulate innovations and speedy technological optimisation. **The small difference between the cost of qualified labour and low-quality labour leads to low quality of life and low productivity.** The functioning of this economy **discloses basic macroeconomic imbalances**, including the low price of qualified labour and a focus on “strategic” competitive advantages of low cost labour.

20. The problems of the judicial system and its low efficiency, as well as the resultant upsurge in crime as there are too few effective convictions and imposed penalties, create an overall sense of social and economic insecurity. Public trust in the state is deteriorating, foreign investments are pushed away, specific manufacture costs are increasing. The inefficient control on adjudication, slow legal proceedings in commercial and employment disputes, as well as the inefficient enforcement of contracts and protection of property rights, encourages informal employment, the informal economy and a high-level of lawbreaking. **There is also a beneficial environment for corporate and individual profiteering, for anti-competitive practices, and economic monopolization.**

Constantly changing rules and double standards concerning different social strata, as well as ignoring the principle of equality before the law, are strong motivating factors for corruption and deceit.

21. **There is no efficient method for controlling the quality and performance of public procurement contracts**, which is an indicator for the existence of corruption on national, state, corporate and municipal level.

The technical aspects of public procurement assignments, including those addressed to the banking system, are formulated imprecisely and no expenditure or fee ceilings are negotiated with the assignees. 38% of public procurement procedures<sup>11</sup> are carried out in the most non-transparent way – by means of private agreements. Billions of public funds are spent inefficiently every year: in 2008 the total amount of fiscal resources allocated through public procurement are over BGN 7.3 billion, in 2009 – over BGN 10.4 billion, by 13 September 2010 – over BGN 2.4 billion.<sup>12</sup>

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<sup>10</sup> Cf. Analysis of the starting state and trends in the labour market and the workforce, Project „Development and implementation of an information system for the evaluation of workforce competences according to branches and regions,” financed Operative Program Human Resources Development and ESF № BG051PO001-2.1.06, BIA, July 2010.

<sup>11</sup> “SME access to public procurement”, survey carried out by the Bulgarian Industrial Association as a part of a project initiated by the “Friedrich Ebert Stiftung,” 2010.

<sup>12</sup> Annual Report on the Activity of the Public Procurement Agency for 2008 and 2009 [www.aop.bg](http://www.aop.bg); statistical information from the Public Procurement Register. The number of concluded contracts is 17292 in 2008, 15371 in 2009, and 10135 in 2010.

22. Bulgarian national practice almost never uses the **instrument of public-private partnership (PPP)** as an opportunity to mobilize private investors. Two main areas provide favourable conditions for using private capital and investors for PPPs at the national and municipal level:<sup>13</sup>

- building infrastructure, e.g. for transportation and energy production, hospitals, cemeteries, administrative and utility infrastructure, etc.

or

- assignment of rights (outsourcing) and provision of services – postal services, serving of official documents, regulation regimes, registration with the traffic police, etc.

**The fees collected from individuals and businesses for using outsourced services should not be higher than those charged previously by national or local authorities.** This should remain as essential and irrevocable condition underlying public-private partnerships.

**23. When effecting commercial transactions with businesses and in their relations with national revenue and social security services the state and the municipalities do not function as business entities. Existing deformations in national legislation do not allow certain forms of legal action to be undertaken against the state and the municipalities – which is undemocratic and distorts the business climate in the country.**

**24. Bulgaria needs to create a long-term policy within the context of the European Union and to form its own position on key aspects of common European policies.** For example, the allocation of funds under EU Common Agricultural Policy (CAP) is in deed a form of state aid and presents an instance of contradiction between the legal principles and instruments at the EU and national levels. Despite the unfavourable conditions in which Bulgarian farms operate, their produce remains competitive on the international market. If CAP is amended and given the existing natural advantages in Bulgaria, the production of organic products and bio foods can become a major part of Bulgaria's future export.

During the period preceding accession and after 2007 Bulgaria did not succeed in negotiating a participation share in common European policies commensurate to that of other recently acceded Member States. A characteristic example for

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<sup>13</sup> Challenges before public-private partnerships, rapporteur Bozhidar Danev, Vienna Economic Forum Meeting 25-26 April 2010, Sofia.

this is the smaller amount of the European funds<sup>14</sup> directed to Bulgaria in comparison to other Member States of the last two EU enlargements.

**25. The efficiency of the state administration is insufficient.** This is indicated by the extent of absorption of EU funds. No more than 20% of the funding under Operational Programmes has been negotiated while the average absorption for the EU is 27%. In most new Member States the percentages are: 52.3% for Estonia, 48.7% for Malta, 46.3% for Hungary, 42.2% for Slovenia, 42.3% for Cyprus, 36.9% for Latvia, 35.4% for Lithuania.<sup>15</sup>

The experience and good practices of Member States that have joined the EU prior to Bulgaria are not used, for instance a know-how on absorbing EU funds, problems with direct foreign investments, deformation of branch and other economic structures, qualification of human resources. The creation of an electronic government as a powerful measure against corruption was delayed by almost a decade.

**26. There are considerable barriers to entrepreneurship.** According to the Index of Economic Freedom of the Heritage Foundation and Wall Street Journal, Bulgaria currently rank 75-th of 179 monitored states (in 2009 it occupied the 56-th place). This fall-back reflects the fact that important reforms have been put on hold. The indicators for “governmental expenditure,” “freedom of corruption,” and “investment freedom” show worse results. There is no improvement in the indicator for “property rights.” **Economic freedom in Bulgaria is facing three major challenges: high state and municipal expenditure, inefficient administration, unprotected property rights and corruption.**

**27. The share of “frozen” national assets is enormous:**

- geostrategic situation;
- considerable share of non-cultivated land.

The basic infrastructure is underdeveloped and ill-maintained, i.e. transport, energy, communications, irrigation, treatment of waste and waste waters, etc. With respect to the overall potential, the pre-transition achievements, and the **considerable share of non-cultivated land**, the production of agricultural and cattle production remains very low. This contributes to chronic export deficits, restricts the supply of sufficient, quality raw materials for food production, tourism and related industries such as chemical and machine production.

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<sup>14</sup> Discussion “Europe Day – Inside and Outside,” organized by BIA, 14 April 2009, [http://bia-bg.com/files/Plugchieva\\_vaprozi\\_140409.doc](http://bia-bg.com/files/Plugchieva_vaprozi_140409.doc).

<sup>15</sup> „Cohesion policy: Strategic report 2010 on the implementation of the programmes 2007-2013”, European Commission, DG Regional Policy, March 2010, [http://ec.europa.eu/regional\\_policy/policy/reporting/cs\\_reports\\_en.htm](http://ec.europa.eu/regional_policy/policy/reporting/cs_reports_en.htm)

28. One of the major deficiencies and impediments to economic development is **the current state of infrastructure**: transport – railways, ports, roads; communication – ADSL; irrigation, etc. The main transportation corridors in the country are not yet completed so that the favourable geostrategic situation may be capitalized on. There are no alternative or direct connections northwards (bridges on the Danube River), westwards (railway connection with the Republic of Macedonia, motorway to Serbia), southwards; modern internal road system, especially through the Balkan Mountains; high-speed railway connections; expanding the capacity of the main ports; Sofia Airport, etc.<sup>16</sup>

29. **Energy policy**. Despite the constant improvement **the energy intensity of Bulgarian economy is extremely high**: about 40-50% above the average in EU-27, estimated as total consumption in tons of oil equivalent per GDP PPP. The low initial levels of energy intensity are combined with expectations for sharp rise in electricity prices. The factors for this increase are the coming into force of long-term non-commercial contracts for buying electricity from modernized lignite-using power stations, or buying at high prices from renewable energy sources (RES), the inclusion of greenhouse gas emission quotas in final purchase prices, possible denial to thermal power stations to trade their emission quotas after 2013 for higher state income, delayed launch and/or taking off line of more reactors in Belene and Kozlodui NPPs.<sup>17</sup>

There is still a **considerable delay in Bulgaria's performance of its EU-imposed obligation to liberalize its energy market**. The Commission even launched an infringement procedure on this ground. The energy policy is also at the heart of branch structural deformations of Bulgarian economy, including also: attracting "low-quality" foreign investments stimulating the export of national income, the high monopolization of the market, delayed introduction of EU regulations, construction of energy inefficient public and private housing stock, etc.

30. The industry, energy engineering (large fossil fuel burning installations) and the regional ecological infrastructure (wastewater plants, systems and facilities to treating household, industrial, and hazardous waste), **are delaying their performance of mandatory EU rules on the protection of the environment which have already been integrated in national legislation**.

31. The share of innovative enterprises is very low. According to NSI in 2008 they are only 23.9%, i.e. 29.2% in the industrial sector and 16.3% in the services sector. Thus, there are too few innovative enterprises that could become strong factors for economic growth.

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<sup>16</sup> Concept for developing transport infrastructure in Bulgaria for the period 2005-2015, BIA, January 2006.

<sup>17</sup> Low-carbon energy economy, BIA, May 2010.

32. Despite the attempts to reform the system of R&D and innovation in the context of the Lisbon Strategy, Bulgarian economy still ranks last on the innovation scale,<sup>18</sup> according to the index of global competitiveness, with the least number of registered patents, both in the country and broad, per million citizens in EU. According to data provided by the Ministry of Economy, Energy and Tourism (MEET), innovative industries in Bulgaria account for merely 26% of the overall value added, as opposed to 46% in EU-27. Bulgaria is chronically lagging behind and is usually in the end of the line of EU countries when expenditure on R&D and its intensity are measured. In 2008 expenditure for R&D in Bulgaria has been approximately 0.5% of the GDP, while in EU-27 the average number is 1.9%. The highest share of R&D expenditure is that of the state – 58.3%,<sup>19</sup> owing mainly to the activity of public scientific institutes and organizations. At the same time the expenses of the private sector are 31%, that of universities and teaching hospitals is 9.6%, and of NGOs – about 1.1% of the total expenditure on R&D.

33. Bulgaria occupies one of the top places in Europe in **population ageing** (increase in the number of people over the age of 65). This presents enormous challenges to the labour market, social security and protection, healthcare, social services, and generates a need for constantly growing social transfers. Despite the improved birth rate over the last years (10.7 per one thousand in 2009), the number of women in reproductive is decreasing. The over reproduction among certain ethnic communities in the context of continuing marginalization generates large numbers of persons exposed to social risks. The high emigration rates, the decreasing number of economically active persons, the ageing process, and the tendencies for change in the ethnical proportions of Bulgarian society lead to decline in the education and qualification structure of Bulgarian workforce, put great pressure on the labour market, and cause imbalances in the financial stability of the major pillars of the solidarity social security system.

34. There is a clear tendency for **lower qualification and decreasing quality of workforce** – population ageing, lack of modern education and competences corresponding to market demands (for knowledge, skills, professional experience, attitudes, and motivation), the high rate of school dropouts.(ref) There is also a decline in the quality of higher education.<sup>20</sup> No Bulgarian university is included in the Top 500 Universities in the World ranking. Most

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<sup>18</sup> Analysis of the opportunities and trends in the technological development of Bulgarian enterprises, Project „Development and implementation of an information system for the evaluation of workforce competences according to branches and regions,” financed Operative Program Human Resources Development and ESF № BG051PO001-2.1.06, BIA, July 2010.

<sup>19</sup> Statistical Overview – Bulgaria 2009, National Statistical Institute, 2010, Section IV: Research and Development.

<sup>20</sup> Analysis of the education and professional qualification structure of employed workforce at the national, sector and regional level, Project „Development and implementation of an information system for the evaluation of workforce competences according to branches and regions,” financed Operative Program Human Resources Development and ESF № BG051PO001-2.1.06, BIA, August 2010.

university graduates acquire economic or administrative qualification. Bulgaria has over 50 accredited schools offering higher education but the quality of teaching and the academic standards in many of them are low.

Important consequences of Bulgaria's opening up to the world and the democratization of the country are the deterioration of the country's educational infrastructure over the last decades and the leakage of qualified workforce – also known as “brain drain.” Young Bulgarians are attracted by foreign universities and institutes to study there and after they graduate they find work abroad.

35. There are an enormous number of statistically monitored **discouraged persons**, including illiterate persons with very low education and qualification. These groups are the main “reserve” of the informal economy for branches demanding workers with little qualification and education – some services, construction, textile and clothes industries, agriculture, etc. This mechanism contributes to the overall pressure wage dynamics, also in other sectors of the economy characterised by relatively higher wages.

A considerable part of discouraged workers are of Roma ethnic origin and many of them use social benefits (for themselves and for their children) as their major source of income.

36. The replication of “**ethnic discourse**”<sup>21</sup> **social distortions in public structures** led to deterioration in the morality and work ethics of the population. **Vandalism is not an isolated phenomenon in economics as well as in households. The state and the public media have abdicated from their function to educate and cultivate the nation** – to teach people how to preserve the environment and to convey to them fundamental living habits, for example.

37. What is very important is to hastily launch a complex of institutional, legal and economic instruments for the encouragement and coercion of discouraged groups to obtain education, qualification, and eventually employment. The immediate targets of this initiative should be a radical increase in the number of persons who enrol and graduate from elementary, primary and secondary schools, who acquire professional qualification as well as key competences, such as knowledge of foreign languages, professional experience, specific skills, work ethics and general culture and self-discipline. This situation should be recognized as a **fundamental social challenge** and it should be either successfully resolved or seriously addressed by the end of 2020.

**38. A disquieting amount of controversy between political powers, social groups, and ethnic communities has been observed over the last years.**

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<sup>21</sup> The term “discourse communities” here denotes communities which differ from the rest of society in their way of life, public goals, attitudes, declared or implied conventions, rules and hierarchies.

Therefore, it is very likely that political, social, and expert consensus with respect to the major strategies for economic growth and development priorities will be hard to achieve when the Programme “Bulgaria 2020” is adopted and implemented.

## **POTENTIAL ADVANTAGES AND STRENGTHS**

39. Bulgaria has a number of major advantages that can be developed and utilized in the mid-term and long-term run. When combined with other advantages and proactive state policies, with the support of businesses and civil society, they can help the country become an attractive investment destination on a regional scale:

- low national debt, direct taxes, and budget interest rates, which can be maintained with reasonable fiscal management and a stable financial and bank system;
- geostrategic situation of Bulgaria which can be capitalized on by developing the transport infrastructure and transport connections, as well as creating new opportunities and conditions for fast development of dormant regions;
- significant potential of agriculture and cattle breeding, as well as creating new opportunities for developing food production and related industries;
- considerable economic reserves from formalizing the informal sector of the economy;
- diversified production of electricity and still relatively low price of the electricity mix as compared to average price levels in the EU (subject to re-negotiating long-term contracts with modernized fossil-fuel power stations and assignment of emission rights on part of the state);
- potential for development of low-carbon economy: rapid decrease in carbon intensity by undertaking measures for energy efficiency, sustainable urban and road planning, new nuclear and hydroelectric capacities, biomass and biogas utilization, geothermal sources, small-scale energy production, home and industrial gasification, etc.
- opportunity for better and more efficient absorption of EU funds: Structural Funds, Cohesion Fund, European Agricultural Fund for Rural Development and European Fisheries Fund;
- huge governmental investment resource from assigned amount units (AAU) under the Kyoto Protocol, which by 2012 will exceed EUR 2 billion. There tradable European greenhouse emissions quotas (EUA) for the period 2013-2020, which are at the disposal of Bulgarian businesses and the state and the

revenue from them should be invested in packages of priority projects for carbon-neutral or low-carbon technologies with highest return rate on a competitive unsubsidized market of electricity.

- unutilized natural, geographic, and historical heritage for sustainable eco-effective expansion of the main segments of the tourism industry: exploratory sea and mountain tourism, cultural and historical tourism, spa tourism, rural tourism, hunting tourism, etc.; these opportunities may be exploited by increasing the quality of marketing specialization in higher-price categories, extending seasonal employment, increasing the value added and investments in sustainable agriculture and basic infrastructure;

- opportunity for increasing employment (construction of infrastructure, agriculture, services, social services and healthcare, including within the framework of the European Single Market), reducing poverty and boosting ethnic integration by improving the scope of education, literacy, and professional qualification among the large group of unemployed and discouraged persons;

- opportunity for launching a proactive, persistent policy and campaigns that seek to inform the world about Bulgaria and create a positive image of the country in the international community, political milieus, influential circles, investors and financial institutions.

## **MAIN VISIONS AND STRATEGIC OBJECTIVES FOR ECONOMIC DEVELOPMENT BY 2020.**

40. The character, rate and sources of economic growth as well as the routes to radical increase in productivity are crucial issues that should be considered in order to create a **proactive strategy for national development and improving competitiveness**.

Bulgaria can use as models (or analogous countries) Estonia and Slovakia because of the similarity in scale, the use of monetary and fiscal policy (accession to the Eurozone), the necessity for catch-up economic growth with respect to that of the EU, the initial problems, the efficiency of implemented policies, the instruments used, the achievements, and the good practices. Bulgaria should also measure its progress to the overall dynamics, productivity and concrete achievements of neighbouring countries: Turkey, Greece, Romania, Serbia, and Macedonia.

41. The main short-term **target of Bulgarian economic policy by 2013** is the creation of favourable environment for rapid fundamental changes in the current economic structure so as to achieve smart, sustainable and inclusive growth. The attainment of such type of growth is only possible if there is constant and considerable catch-up growth in total and factor productivity of labour, if there is massive private and public high-return investment in infrastructure and main

capital, including at the expense of increasing the national and government guaranteed debt to 30% of the GDP, if there is a significant increase in qualification and productivity of the invested labour, speeding up of innovation, and integration in the overall economic strategy of the model of sustainable low-carbon development. In case of success, **by the end of the period there will be favourable conditions for achieving an acceptable quality of life by most Bulgarians, for strengthening the rule of law, correct implementation of legislation, and security for both citizens and businesses, for relative overcoming of the acutest social differences and imbalances, including the working poor, pensioners, and the vulnerable groups on the labour market, for solving the chronic problems of education, employment and healthcare.**

42. The adequate allocation of existing resources as well as the effective and transparent investment of public and private capital should be aimed at improving the competitiveness, the productivity, and the utilization of growth potentials, comparative advantages and strong sides, and at eliminating or restricting the impact of the main impediments to growth. At the same time, the lack of available capital, including the current state and specificity of the financial and credit systems, the insufficient amount of internal savings, the opportunities for monetary and fiscal policy restricted by the rules imposed by the Monetary Board and the EU, the high indebtedness of the private sector, places the initial focus on attracting foreign investment and encouraging export and thus cause a rise in employment, wages, and consumption.

43. The adopted strategic targets, as well as the priorities, mechanisms and instruments used for their realization, should reflect the national vision for development and specific action. They should also be sufficiently ambitious so as to address and resolve the identified major problems, including the most important divergences from the average economic and social level of the EU-27 states, the analogous countries, and immediate competitors. Strategic targets should be complemented by adopted basic sector policies and programmes, as well as by specific decomposed, measurable indicators and national targets for development in compliance with the selected key development priorities.

**44. Reaching GDP PPP per capita exceeding 60%<sup>22</sup> of the average for the EU by 2020 is a realistic minimal target**, acceptable from the point of view of the necessary productivity, economic development and consumption. **This target is attainable provided that Bulgarian economy grows by an average of at least 5% per year** at an optimistic 1.5% for the EU, and respectively by more than 5% if the percentage for the EU proves to be higher. A basic benchmark in

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<sup>22</sup> It should be noted that the Bulgarian government has not yet issued an official forecast or set of objectives concerning the growth of GDP for the period until 2020. The accessible official and non-official strategic documents differ greatly with respect to the predicted values. The project for energy strategy of June 2010 predicts a very low average annual growth for the period 2010-2020 amounting to merely 3%. Actuary reports on the so called measures for long-term sustainability of the pension system of June 2010 predict approximately 4.5-5% growth for the same period.

this case may be the increase rate of the GDP which should at least exceed 2.5-3 times the average long-term real growth of EU-27 (EU-28 with the Republic of Croatia). **Reaching an acceptable level of convergence at about 70% GDP PPP per capita of EU-27 can be accepted as an attainable strategic target for social and economic development by 2015.**

45. The lack of clear goals or official planning for GDP increase puts in question the feasibility of any preliminary estimations and the formulation of any national targets in the framework of “Europe 2020.”

46. **Bulgaria’s top five targets**(ref)<sup>23</sup> in the context of the Strategy “Europe 2020,” formulated at the preliminary consultations in functional team 31, are the following (for the sake of comparison the targets of the Strategy “Europe 2020” are also provided in parenthesis):

Target 1: 76% of the 20-64 year-olds to be employed (75%).

Target 2: Investment in R&D equal to 1.4-2% of the GDP (3%).

Target 3: Climate change and energy:

- 51% reduction of total greenhouse gas emissions in 2020 in comparison to 1988.<sup>24</sup> (20% reduction or even 30% in case of an additional unilateral agreement of the EU is undertaken).<sup>25</sup>

- 16% (20%) energy from RES in brut ultimate energy consumption by 2020, including 10% energy from RES in the overall consumption of energy in transportation.

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<sup>23</sup> Eurostat shows on its website a set of eight “headline indicators” used to measure the five headline targets of the Europe 2020 Strategy. According to this data, for 2008 Bulgaria has made the following progress: employment rate by gender, age group 20-64 – 68.8% (2009 data); gross domestic expenditure on R&D share of the country’s GDP – 0.49%; greenhouse gas emissions, base year 1990 – 62.6% (the common European goal by 2020 being 80%); share of renewables in gross final energy consumption – 9.8% (the national goal by 2020 being 16% and common European goal by 2020 being 20%) for comparison the national goals of the Czech Republic is 13%; Cyprus – 13%; Luxembourg – 11%; Hungary – 13%; Malta – 10%; the Netherlands – 14%; Poland – 15%; Slovakia – 14%; Great Britain – 15%; energy intensity of the economy – 944.19 kgpe per EUR 1000 GDP (average European level being 167.11); Early leavers from secondary education and training – 14.7% (2009); Early leavers from higher education and training – 27.9% (2009);

<sup>24</sup> The quoted value is estimation on the basis of commitments under the Climate-Energy Package. An official national goal will be presented to the European Commission.

<sup>25</sup> The Report on the participation of Bulgaria in the EU decision making process during the first half of 2010 and the country’s priorities during Belgium’s EU presidency during the second half of 2010, presented to the National Assembly on 02 September 2010 formulates the goal of “reducing emissions of greenhouse gases by 20% as compared to 1990.

- 50% (20%) reduction of energy intensity per GDP by 2020 to 456 tpe/ M€05 as compared to 913.3 tpe/ M€05 for 2005, respectively increase in energy efficiency by 25% (20%), i.e. reduction by more than 5 million tpe, primary energy as compared to the Basis scenario for development by 2020 pursuant to the Energy Strategy of the Republic of Bulgaria of June 2010 (project).

Target 4: Share of early school dropouts 11% (under 10%) and at least 36% (40%) of younger generations completing third-level education.

Target 5: Reduction of the number of poor people in Bulgaria – 20% less by 2020 (20 million fewer people in or at risk of poverty and social exclusion).

47. The exceptionally ambitious target to achieve employment of 76% of the people between 20 and 64 calls for fundamental reforms of the labour market, including developing flexible forms of employment and security, improving the quality of the educational and qualification structure of the workforce, radical reforms of remuneration, which should be based on the productivity of labour, and excellent efficiency of the policies and measures for ethnic integration and inclusion. This target along with Target 5, concerning the reduction of the share of people who face the risk of poverty, fall under the common framework of policies and measures directed at overcoming the general social (also ethnic) disturbances and their acutest discourse forms and manifestations.

48. The wide scope of Target 2 – funding of R&D at the amount of 1.4-2% of the GDP defines the average value of the indicator for 2020 as 1.7%. Formulated in this way the target can be understood as ambitious and attainable only under certain conditions, including encouraging of investment on part of the private sector, and realization of well planned and scheduled measures, as well as involving both public and private resources.

49. In order to perform its obligation to formulate national targets for the realization of the Europe 2020 Strategy, by 2010 Bulgaria will have to declare to the European Commission national quantity restrictions within the framework of sustainable “green” growth. Regardless of the adopted development strategy, rate of economic growth and consumption, in 2020 Bulgaria will have to maintain the level of greenhouse emissions the same as in 2005 (about 71 million tpe). This is a little less than 50% of the country’s greenhouse emissions in 1988 – a peak year for Bulgarian economy – which under the Kyoto Protocol was accepted for the county’s base year.

50. The outlined scenarios, the expenses for reducing greenhouse gases, the evaluations of the impact of the basic emission models used by the European Commission in the climate-energy legislative package, define in advance the unofficial goal for the Republic of Bulgaria to reduce its greenhouse emissions by 2020 as compared to 1988. The common objective of EU-27 is to reduce greenhouse gases by an average of 20% as compared to 1990. **This gives our**

**country the first place in the world in mandatory emission restrictions concerning greenhouse gases** and defines a framework for radical decrease of the carbon intensity of the economy, expressed as the quantity of greenhouse gases per GDP (the so called “disentanglement of the economic growth from the increase in greenhouse emissions”).

51. The following step involves an official confirmation of additional measurable targets and self-restrictions within the framework of the national programme for reform for improving the energy intensity by 50% in 2020 as compared to current levels (EU – 20%), share of RES in overall energy consumption – 16% (EU – 20%). Current share of liquid bio-fuels and RES in transport in Bulgaria is 10%.

52. The objectives to improve the energy intensity by 50% in 2020 as compared with current levels and to increase the energy efficiency by 25% may be defined as totally unrealistic. The respective values, included in the Project for Energy Strategy of June 2010, are based on an indicator for energy intensity which is calculated as gross internal consumption tpe per 1 million Euros GDP, at prices from 2005. A significant decline in total and ultimate energy consumption is expected by 2020 – 17.3% and 6.5% respectively. Moreover, a significant improvement of the ratio between gross and ultimate consumption is expected: from 48-52% in 2005-2010 to 58% in 2020 (as compared to starting ratio of 64% for the EU).

53. The GDP for 2020, expected by the Energy Strategy of June 2010, is EUR 34.7 billion (EUR 30.5 billion for 2015) and the one in the base and target scenario differ considerably from the main model used by the European Commission – GNP of over EUR 49 billion at prices of 2005 and average annual growth of 5.8% for the period 2010-2020. The project for Energy Strategy relies on a limited growth of 3% (2.6% for the period 2005-2010 and 3% for 2010-2015) as the easiest way to achieve the considerably restrictive climate goals imposed by the EU.

54. The official adoption of the main estimations on which the Energy Strategy is based and undertaking policies and measures for their systematic implementation will put the national economy and consumption in exceptionally difficult position. For example, the energy consumption per capita in 2020 should remain the same as in 2007 – 1.27 tpe per capita.(ref) Initial mean level for the EU-27 in 2007 is 2.34 tpe per capita, for Greece – 1.97 tpe per capita, Germany – 2.56 tpe per capita, Estonia – 2.26 tpe per capita, Turkey – 1 tpe per capita. Respectively the gross energy consumption per capita in Bulgaria in 2020 will decrease to 2.2 tpe per capita from 2.6 tpe per capita in 2005-2007.<sup>26</sup> The initial mean level for EU-27 in 2007 is 3.65 tpe per capita, respectively for Greece – 2.8 tpe per capita, Germany – 4.15 tpe per capita, Estonia – 4.5 tpe per capita, and Turkey – 1.46 tpe per capita.

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<sup>26</sup> Tons of petroleum equivalent per capita.

55. This means a dramatic decrease in ultimate energy consumption of households which in 2007 reaches 270 kgpe per capita (47%) as compared to 575 kgpe per capita on average in EU-27. **Long-term energy poverty** is expected even at modest growth rates of the GDP and consumption. At the same time, the project for Energy Strategy contains the goal to increase the share of RES beyond 18.8% when the national commitment under the Climate-Energy Package is 16%. This will additionally increase the price of the total energy mix and the burden on businesses and the population.

56. It can be safely concluded that adopting the so called target energy scenario will radically decrease the opportunities for sustainable growth of national GDP, for expanding consumption, for investment in energy-consuming industries such as the production of cement, construction iron,<sup>27</sup> etc., for the sustainable development of other sectors, for realizing the potential of tourism, export, agriculture, etc. The concessions envisioned in the Climate-Energy Package, including an additional contingent of free national quotas for trading with greenhouse emissions (EUA), the possibility to derogate the distribution of free national quotas for fossil-fuel power stations, increasing the limit for emission in the non-tradable sector by about 20% as compared to 2005 – all these concessions cannot compensate for the negative consequences, the combined effect of which exceeds manifold the envisioned preferences.<sup>28</sup>

57. EU's possible **unilateral commitment to a 30% cut in total greenhouse emissions** will additionally decrease drastically the potential of economic growth and consumption. The social and economic cost of new even more ambitious objectives will increase and they should be planned and scheduled in due course. The preliminary analysis shows the necessity approximately of 70% of greenhouse gases as compared to the levels of 1988, i.e. about 50 million tons CO<sub>2</sub> equivalent in 2020. The parallel and imminent increase of energy efficiency, the share of RES, the realization of carbon-neutral or low-carbon energy alternatives (NPP, small scale energy production, gasification, urban and transport planning, construction and heat insulation, tec.) will not eliminate the necessity for shutting down a part of the energy capacities, including employment in coal mining, the dramatic increase in energy prices and the expenses of businesses and individuals.

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<sup>27</sup> A proactive strategy for massive investment necessitates maximal elimination of the import of necessary input resources, including urgent modernization of the steel production of Kremikovtsi. Several estimations show that the yearly availability of scrap iron in Bulgaria exceeds 1.5 million tons and could provide material for sufficient existing and modernized capacities.

<sup>28</sup> Part of the effect of these preferences should be directed to gratis financing of projects for reducing emissions in developing countries which currently show higher levels that what is already achieved by the national economy, including the levels of consumption and competitiveness.

58. This calls for an urgent reconsideration of the project for National Energy Strategy. Inhibitions concerning carbon-neutral nuclear energy production should be abandoned. Preliminary research should be made of the possibilities for increasing the capacities of NPPs (Beleno NPP as well as 7<sup>th</sup> and 8<sup>th</sup> reactor of Kozloduy NPP). The objectives for increasing the ratio between ultimate energy consumption and gross energy consumption (total energy efficiency) should be revisited. RES should be developed for national use, etc.

## **KEY PRIORITIES OF THE NATIONAL ECONOMY, MAIN STRUCTURAL REFORMS AND MECHANISMS FOR THEIR IMPLEMENTATION**

59. An urgent reconsideration of the efficiency of the adopted anti-crisis measures is needed. It should be combined with competent assessment of their performance and favourable external conditions. This approach can help evaluate the external conditions and prepare a national budget and a tax system that are adequate to the situation and the country's long-term prospects. It can lead Bulgaria to an advantageous starting point in the process of smart, sustainable and inclusive growth.

If the problems with the revenue part of the national budget become more dangerous in 2011, a budget board should be instituted.<sup>29</sup> By means of a Budget Board Act of the National Assembly fluctuations may be limited to 3% of the balance of national revenue and expenditure.

60. In the course of preparing the National Programme for Development "Bulgaria 2020" and during the following year it is necessary to build a **common coordinating mechanism** which among other things should be responsible for reviewing all fundamental national strategic documents<sup>30</sup> and decide whether they are up-to-date, relevant, applicable, and in line with the general guidelines of the Europe 2020 Strategy. It is important to assess their cohesion and coherence including with respect to framework conditions: expected rise in the GDP, inflation, budget deficit as well as other basic macroeconomic indicators. Before the adoption of the National Programme for Development "Bulgaria 2020" it is necessary to carry out a preliminary preparation for quick revision, cancellation of old and inapplicable documents, so that a limited number of strategies and concepts are used to frame the development and management of reforms within the period 2014-2020.

61. *The first major priority* should be the initiation and execution of **the basic set of administrative and legislative reforms** aiming to optimize public administration – its structures and functions, the regulatory framework, and guarantee the rule of law, security and foreseeability, including:

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<sup>29</sup> Proposal of the Bulgarian Industrial Association – Union of Bulgarian Business of 2009, part of the package of anti-crisis and post-crisis measures.

<sup>30</sup> The total number exceeds 250. Only the currently effective documents on the so called "sustainable development" are over 80.

- expeditious completion of the electronic government by mid-2011 using the example of Estonia and in compliance with the Bulgarian Electronic Management Act, including: requiring from businesses to submit reports to only one institution and administrative sharing of the data by other governmental institutions, electronic issuance of certificates, creating the electronic cadastre, electronic versions of the Property Register, tender procedures, including public procurement tenders, using the new identity cards for electronic identification (by integrating in them an electronic signature chip, for example) recognized by public administration;
- revision of the structure and functions of ministries, including their powers to issue permits, administer regimes and control the application of legislation instead of executive governmental agencies; elimination of units with overlapping functions;
- **decentralization of the functions and optimization of the number of municipalities** with a view to increasing the administrative and financial capacity; fundamental revision of the legislative framework encouraging the concentration of means, activities and administrative services in the capital which lead to deindustrialization and depopulation of other municipalities and parts of the country; amendments to the procedures for collecting local taxes aiming to provide legal background to financial decentralization;
- gradual decrease of the redistributive role of the national budget by 2013 up to 40% of the real GDP; limiting public financing in exchange for attracting foreign private capital;
- **decrease of the number of Members of the National Assembly (following the necessary constitutional amendments) as well as that of the Members of Municipal Councils;**
- reduction of market distortions by strengthening antitrust and competition law and the methods of its implementation;
- assigning to private entities public activities and functions (outsourcing);
- harmonizing the procedures; eliminate unnecessary complications; improving efficiency and control of funds absorbed under operational programmes; increasing the amount of advance payments to 35%<sup>31</sup> from the funding of Operational Programme “Development of the Competitiveness of the Bulgarian Economy” and Operational Programme “Development of Human Resources,” which will reduce the pressure on beneficiaries to use loan financing;

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<sup>31</sup> Discussion “Europe Day – Inside and Outside,” organized by BIA, 14 April 2009, [http://bia-bg.com/files/Plugchieva\\_vaprozi\\_140409.doc](http://bia-bg.com/files/Plugchieva_vaprozi_140409.doc).

- instituting a limited number of units and stipulating strict and transparent procedures for public procurement, concessions, property swaps, public-private partnership, and disposal with public property and right;
- **limiting regulative regimes**; bringing the amounts charged as administrative fees in line with the actual costs incurred in the process of providing the services; appointing a governmental structure (the Administration of the Council of Ministers, an independent unit, or another unit) to supervise the implementation of the Limiting of Administrative Regulation and Administrative Control Over Economic Activity Act (LARACOEAA);
- **revoking illegally imposed procedures and fees at the national and the municipal levels**;
- revising specialized legislation and introducing the principle of “tacit agreement” in the Administrative Procedure Code (APC);<sup>32</sup>
- undertaking urgent amendments to legislation concerning the accreditation capacities of governmental bodies evaluating compliance; strengthening and developing such bodies;
- modernizing bank infrastructure and introducing instant payment mechanisms, i.e. executing payments to multiple accounts by using a single payment order, etc.
- reaching consensus and amending legislation in order to guarantee property rights, the enforcement of contracts, speedy and simplified insolvency proceedings;
- taking necessary measures for reducing the informal sector of the economy, which increased by 15-18% as a consequence of the financial crisis; this should be achieved through increasing the sanctions, including the criminal sanctions, and impose them on all citizens alike, regardless of whether they belong to risk groups or not; serious sanctions should also be introduced for administrative officers who default or delay in performing their main professional functions; legislation against vandalism and plundering public and private property should also be strengthened;
- consistent implementation of policies for effective reducing of administrative barriers and obstacles to businesses; special consideration should be made that such policies are also undertaken at the municipal level;

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<sup>32</sup> “Tacit agreement” should be regulated as an instance of exception in specialized legislation.

- revising all key statutory requirements regulating beyond respective EU regulations and directives;
- providing favourable regulatory environment for encouraging fair competition and facilitating businesses to enter the market, to develop innovative concepts, conduct R&D, function efficiently as SMEs, and engage in competitive initiatives;
- facilitating SMEs' access to and participation in public procurement procedures subject to the relevant national, European and global standards.

**62. The opportunities offered by admissible state aid should be utilized optimally** – especially in combination with resources extended by EU funds, efficient public-private partnerships and attracted foreign investment. There is imminent necessity for radical improvement of the efficiency of public expenditure, reduction of administrative burdens and simplification of regulations. The selection of beneficial short-term and long-term priorities and the realization of potential growth factors depend to a large extent on the preservation of taxation and social insurance rates, smart fiscal restrictions eliminating useless and inefficient expenditure, radical improvement of collectability of tax payments and social insurance contributions, urgent reforms in social insurance systems linking the rights and benefits to actual and regular contribution, and thus increasing the motivation of both insurers and insured. Other factors for increasing economic growth include: restricting the possibilities to abuse the system, undertaking administrative reforms and providing fair business environment, speeding up the realization of projects, eliminating unnecessary restrictions, and better utilization of EU funds.

*63. The second priority* – a multiplier and accelerator of economic growth in mid-term perspective (to 2014) and to 2020 should be the investment in transport infrastructure, including speeding up of project preparedness: expropriation and administrative procedures in order to compile a project reserve for future implementation, improvement of efficiency and redistribution of a reasonable amount of EU funds. The completion of major transport connections and the reconstruction of the national road network link Bulgarian economy with the European Common Market as well as with neighbouring countries, and opens up new possibilities for large-scale investment in areas such as logistics, industry, agriculture, tourism. Regional development in Bulgaria and overcoming serious territorial disproportions at the economic and social level will not be possible without focused investment in infrastructure and enhanced realization of priority national and regional projects.

*64. The third priority* is to clarify the greater picture behind implemented reforms and **introducing cardinal changes in the education system**. This should be the groundwork on which future clever growth based on knowledge and innovation may build. Simultaneously with restructuring professional education and qualification there is a need for change in the educational content and

curriculum. Student should be directed to sectors, professions and competences supported by serious investment and providing opportunities for long-term growth and competitiveness on the European Common Market such as RES, energy efficiency, thermal insulation, health and social care (the so called “white” professions), and services. Major risk groups on the labour market with low qualification and little education (certain unemployed, discouraged persons, convicts, etc.) should be compelled to attend literacy, language, and basic competences courses. Shift of focus in the area of higher education from humanities to technical disciplines and exact sciences. Guaranteeing wide access to quality education, boarding and semi-boarding schools where student spend the whole day. Raising the social status and remuneration of teachers and create prerequisites for attracting highly competent professionals. They should all meet certain basic requirements such as excellent command of written and oral Bulgarian language, knowledge of English or another foreign language, high competence in mathematics, technology and other sciences or scholarships.

The basic unit of society is the family, therefore there is a necessity for encouraging family policies in education and consumption, including initiatives for reducing energy consumption, increasing energy efficiency of family residences, etc.

For the benefit of socially vulnerable parts of the population there should be **voluntary boarding schools for children**. Provisions should be made for deprivation of social benefits in case of unwillingness to participate in such programmes. Mechanisms such as “education against social exclusion” and “education against poverty” should also be used. Only thus can the young members of such groups be taken out of their adverse micro-cultural context and integrated into Bulgarian society at large.

Birth rate in ethnic minorities is considerable although many families are unable to take care of their offspring. Therefore, they mostly depend on the system of social benefits. A possible solution to this problem, which can guarantee such families income as well as education, is the legal regulation of commercial surrogacy and turning it into economic stimulus and profession.

65. *The fourth priority* concerning the economic growth during the whole period is investment in carbon-free and low-carbon energy, energy efficiency, and RES predominantly for private use:

- complete transparency with respect to research, reasoning, planning and realisation of large energy, including nuclear energy, projects, i.e. economic returns, prices of energy supply after realization as compared to alternative RES and energy efficiency, carbon (emission) intensity as compared to investment and exploitation expenses;

- reforms in the policy for generating electricity and thermal energy using **RES for predominantly private use**, resulting in partial energy independence of facilities such as hotels, restaurants, etc.
- speedy realization of key energy-related projects with maximum share of private investment;
- liberalization and de-monopolization of the energy sector while preserving competitive and powerful structures that have gained considerable advantage on the European energy market; creation of electricity exchange;
- reforming the pricing of electricity and thermal energy; terminating the practice of using the price of energy as a social instrument and starting to perform social functions by means of social benefits;
- liberalization of the natural gas market, diversification of natural gas supply, supply systems, and supply sources, including by building liquefied gas and regasification terminals;
- expansion of the natural gas supply system with a view to optimising supply, decreasing carbon-dependence and radical expansion of consumption;
- implementation of a large-scale programme for the improvement of the energy efficiency of public and private building;
- applying to the European Commission for a derogation procedure in applying the Emissions Trading Directive and transferring quotas to thermal power stations during the period 2013-2020.
- transparency in allocation of free quotas when setting up new installations;
- urgent making contracts for the sale of emission rights under the Kyoto Protocol (AAUs) which could lead to income at the amount of at least EUR 1 billion – a measure already undertaken by other countries such as The Czech Republic, Slovakia, Poland, etc.
- reconsidering the function of the Ministry of Environment and Waters as an organ for national environmental policy and supervision of controlling agencies, not of businesses – maximal decentralization of controlling and licensing competences and transferring them to Regional Inspectorates for Environment and Waters, Basin Directorates, and the Executive Environmental Agency; the purpose of this should be to increase the effectiveness of control and create an opportunity for individual acts to be appealed before the Minister of Environment and Waters;

- decentralization of the issuance of complex permits after the issuance of building permit; participation of representatives of the branch organizations in the supervision of the licensing process and issuance of opinions under Environment Impact Assessment;
- cancellation of all statutory requirements in the area of ecology demanding stricter restrictions than those imposed by the European Union;
- revision of the system for utilization of widespread types of waste (packing, discarded machinery and electronics, old tyres, etc.) waste utilization organizations should compete with each other for profit or form unified transparent organizations assuming collective responsibility for managing respective types of waste on behalf of respective manufacturers or importers of goods.

66. *The fifth priority* is the **restructuring of Bulgarian economy**. Bulgarian economy should be redirected to technological modernization of traditional industries, increasing the share of medium- and high technology products and their export. Other sectors with high value added as well as a high overall intensity of innovation should be promoted. Therefore, it should redirect its limited resources and the admissible state aid away from mining and sectors paying low wages. The greater value added generated by sectors (such as pharmacology, machine production, electronics, automotive industry, information technology, etc.) can partially compensate the expected decrease in direct foreign investment.

**Attracting foreign investments should be done on a priority basis – favouring innovative and high technology industries with high value added which increase the country’s export potential and create high quality jobs with sustainable employment.** This can be achieved by means of reforming thoroughly the policy of attracting different classes of investors and the extent of aid they receive from the state. Investment is needed for example in industries like the **deep processing of export resources** like refined and non-refined copper, vegetable oils, cereals, etc., **interdisciplinary industries** blending fields like optics and electronics, nanotechnology and chemistry, etc. Changes should be made in the Regulation for Implementation of the Encouragement of Investment Act in order to stimulate investment with high quality in industries with high degree of processing and realizing high value added, high technology and competitive industries.

Fast restructuring of the agricultural sector based on the advantages of the enormous potential for developing high technology agriculture drawing upon the example of the Netherlands and Israel. Gradual restructuring of tobacco industry in other labour-intensive agricultural industries.

67. Arable land and the unutilized potential of cattle breeding is the capital that has remained frozen the longest in Bulgaria due to erroneous policy, realization of foreign interests, and deficiency of managerial and strategic acumen of the political elite. It is necessary to introduce working models, conditions and stimuli for the consolidation of land, increasing the percentage of arable land, heightening the technological level, diversification of production and crops, deep-processing. **Optimization of the use of agricultural land by imposing special taxes on owners who fail to use their land or by introducing other market mechanisms.** The realization of potential strengths along with investments in infrastructure may in the long run prevent the economic degeneration and depopulation of important regions in Bulgaria.

68. It is necessary to **connect economic growth with the realization of an expansive export strategy**, creating favourable conditions for priority investment in the technological modernization of industries with significant export potential especially on new developing markets such as China, India, and Russia, eliminating major impediments to growth and development of export sectors of the extraction and processing industries, tourism, agriculture, development of transport and import-replacement industries. It is necessary to provide for a flexible banking system and access to suitable alternative financing for innovative and expanding businesses.

69. *The sixth priority* is related to a group of measures that should complement the effect of those listed above. They address employment, social inclusion, the increase of wages, social payments, and the reduction of poverty. The forthcoming rise in employment (mainly following 2012-2013), including the rise in employment of workers with low qualification and education, some of them even illiterate, should be supported by adequate reforms using stimuli, sanctions, coercion, state funding and private investment. It is necessary to launch efficient and effective programmes for the integration of ethnic communities (especially the Roma community) and for social inclusion – partially supported by EU funding. Respecting the fundamental rights and freedoms, as part of the convergence process and opening to the European common labour market, use should be made of the opportunities provided by agencies for part-time employment, flexible working hours, qualification and employment companies. Income policy at the national, sector and company level should realize a considerable rise in the level of wages as a result of the increasing competitiveness, productivity, restructuring towards a higher value added, and the creation of more jobs of higher quality.

70. During the second part of the period (2014-2020) the basic investment priorities of the preceding period should be continued, including the focus on transport infrastructure, interconnecting Bulgarian regions with the economy of the Common Market, carbon-free and low-carbon energy production and transport, energy efficiency and RES, export, tourism, and agriculture.

71. *The seventh major priority* is related to the complete utilization of the opportunities for clever growth. Changes in the business environment, improvement of regulations, basic infrastructure, the education and qualification system, the parallel gradual rise in real wages closely linked to the productivity and ongoing restructuring of economy sectors, may provide the environment for an increasing self-generated need for innovation and investments in high technology and R&D.

72. This should form the groundwork for the development of an economy of knowledge **increasing expenditure on research and development by massive public and private investments in knowledge-related sectors, high technology, ICT, ADSL access, and the development of the electronic government**. The realization of this is requires the creation of the necessary starting conditions and favourable incentives by means of well-devised reforms and proactive innovation strategy which should be adopted and implemented during the first part of the period. Bulgaria should participate actively in the initiatives of the European Commission in the area of R&D (framework programmes, joint programmes, etc.) in the are of key and newly developed technologies (nanotechnology, new materials, biotechnology). It should use the instruments offered by the European Investment Bank for guaranteeing loans and sharing liability, etc. There should be a total reconsideration of intentions and policies, imposed by foreign institutions, concerning the liquidation of national research centres, including the Bulgarian Academy of Sciences, following the example of part of the countries from the former Soviet block. The increase in the efficiency of investment, including the increasing share of the private sector, should be accompanied by restructuring, reforming the ratio between fundamental and applied research, testing implementation and commercial use of scientific findings, consolidation of research centres and development of an integrated system: university-research-business.

#### **“BULGARIA 2020:” PREPARATION, APPROVAL, REVIEW OF THE RISKS, CHANGES AND PROGRESS IN ACHIEVING THE OBJECTIVES**

73. It is necessary to provide sufficient amount of time and access to the National Programme for Development “Bulgaria 2020” prepared by functional team 31, organisation of the public consultative process, subsequent submission for approval to the 41<sup>st</sup> National Assembly. The discussion, approval and adoption of the National Programme for Development “Bulgaria 2020” by the National Assembly will give the Programme statutory character. This will also be the case with respect to supervising its implementation. The National Assembly will determine a clear and transparent mechanism for regular inspection and reporting before the Assembly and the European Commission on the advancement of the Programme. National progress reports on specific topics should provide assessment of the risks, changes in the environment, and achievements in the main priority areas.

**INSTRUMENTS FOR THE ACHIEVEMENT OF THE OBJECTIVES OF THE NATIONAL PROGRAMME FOR DEVELOPMENT “BULGARIA 2020”**

<b>Instrument</b>	<b>Objective</b>	
<b>Review and adoption of the National Programme for Development “Bulgaria 2020” by resolution of the National Assembly</b>	Giving a statutory character of the Programme and providing a reliable mechanism for supervising its performance and guaranteeing accountability	
<b>Appointment of a “budget board” as of 2011</b>	Reducing budget problems, providing for a foreseeable business environment	
<b>Revision of the main national strategic documents</b>	Coordinated and consistent implementation of national policies	
<b>Development of electronic government by 2011</b>	Facilitating the business environment, reducing the possibility for corruption	
<b>Optimization of the structure of public institutions</b>	Reducing bureaucracy and dilated administration	
<b>Decentralization of the functions and optimization of the number of municipalities</b>	Sustainable regional growth	
<b>Reduction of the number of Members of the National Assembly and the Town Councils</b>	Reducing bureaucracy, commensurate consumption of goods and services produced by the nation	
<b>Assignment to the private sector of public activities and functions (outsourcing)</b>	Optimizing administration increasing the quality of services for businesses and individuals	
<b>Targeted development of Bulgarian transport and communication infrastructure, including by means of a loan from the World Bank and increasing national debt to 30% of the GDP</b>	Providing transport and logistical connection to neighbouring countries, capitalizing on the geostrategic situation of Bulgaria and providing conditions for competitive growth	
<b>Liberalization and de-monopolization of the electricity market</b>	Providing for free and fair competition, stopping the possibility for energy prices to be used as a social instrument	
<b>Liberalization of the natural gas market and expanding the distribution system</b>	Optimization of supplies, increasing the country’s energy diversification, reducing carbon-dependence, expanding household use	
<b>Sale of emission rights under the Kyoto Protocol (AAU)</b>	Realizing income which can be used for the purposes of energy efficiency	
<b>Policy for the development of RES heat and electricity production for private use</b>	Relieving the country’s energy network, diversification of energy sources, providing partial energy independence	

<b>Policy for targeted attraction of foreign investment in high technology and interdisciplinary industries</b> by changing the priority economic sectors for investment (Regulation for Implementation of the Investment Encouragement Act)	Increasing the competitiveness of the Bulgarian economy, providing for investment in R&D, jobs and high-qualification employment	
<b>Voluntary boarding school education for children (education against social exclusion)</b>	Bringing children from certain social groups out of their adverse cultural environment and providing for their social inclusion and demarginalization	
<b>Turning surrogacy into an economic instrument for integration</b>	Social and economic inclusion, education and bringing out of adverse civilization and ethnic models, social integration	
<b>Restructuring of the tobacco industry into other labour-intensive agricultural industries</b>	Due to the gradual decline of this industry this restructuring may provide employment for the population and thus prevent poverty in whole sectors and regions	
<b>Development of high technology agriculture</b>	Capitalization on agricultural land as a resource for organic farming, increasing the export of bio products and higher wages for the workers engaged in this sector	

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