

3.2 Bulgaria

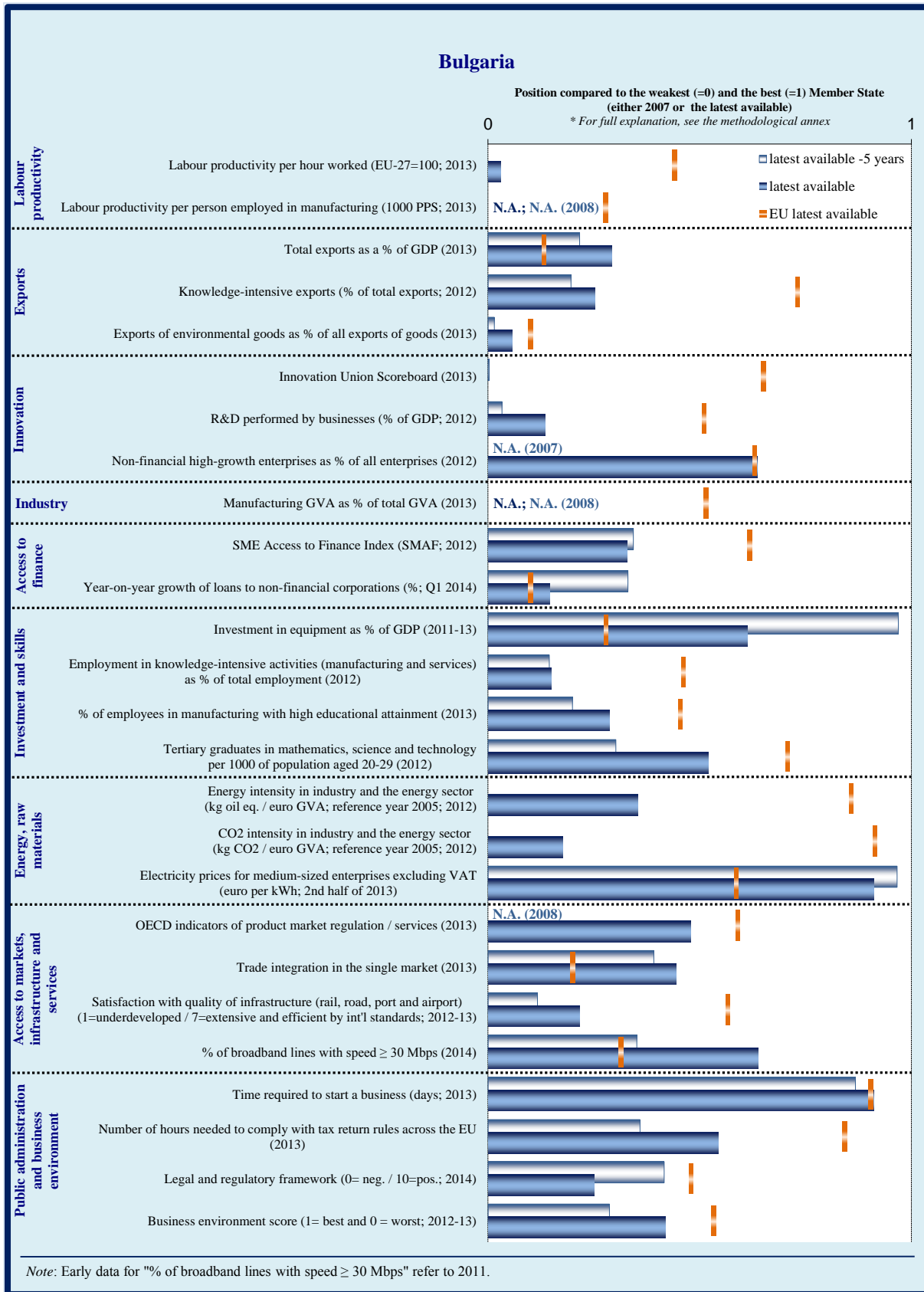
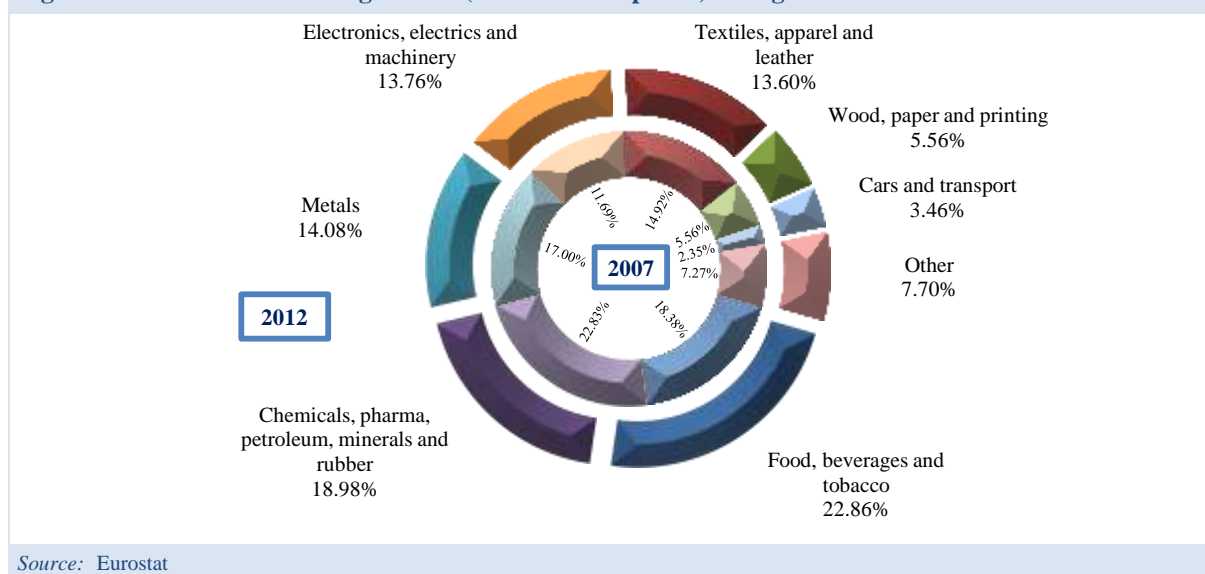


Figure 3.2.1: Manufacturing sectors (GVA at basic prices) - Bulgaria

Source: Eurostat

3.2.1 Introduction and performance

Bulgarian industry is still characterised by low productivity and a low level of innovation. Doing business has become slightly easier, but Bulgaria's improved ranking on this score (to 58th from 66th in 2013), ⁽¹⁾ mostly due to a decline in other countries' performance.

Although Bulgarian companies enjoy a fixed 10% flat tax rate, they still underinvest in research and innovation. The tax incentive seems not to have increased investment in these activities. In recent years, economic growth has been hampered by political instability due to early general elections and three governments. The risk of political instability remains. ⁽²⁾

The Commission's 2014 spring forecast ⁽³⁾ for annual growth was 1.7% in 2014 and 2.0% in 2015. Economic growth has not yet recovered to pre-crisis levels. Prices are forecast to fall by 0.8% in 2014. Private consumption fell by 2.3% in 2013 after a 3.7% rise in 2012. This was partly compensated by public consumption growth of 2.5% in 2013 (after a 0.5% fall in 2012).

The economy depends on gas imports from Russia. Manufacturing accounted for 22.3% of the gross

⁽¹⁾ Doing Business 2014, "Understanding Regulations for Small and Medium-sized Enterprises", The World Bank and International Finance Corporation

⁽²⁾ Several motions of no-confidence were discussed.

⁽³⁾ http://ec.europa.eu/economy_finance/eu/forecasts/

value added, and construction 9.7% in 2013. ⁽⁴⁾ The production of medium-high technology sector has been growing relatively robustly (3.8% on average) between 2005 and 2011 ⁽⁵⁾. However, the increase in high-tech has been weaker (1.9%). ⁽⁶⁾

The share of chemicals and pharmaceuticals, classified as a high value-added sector, shrank from 22.0% (2008) to less than 15.7% (2011), whereas metals, which account for a large proportion of primary raw material exports increased from 11.5% (2008) to 17.6% (2011).

3.2.2 Access to finance and investment

The payment of arrears by public authorities improved in 2013, partly through the implementation of the late payments directive. The 2013 budget provided for arrears of EUR 67 million to be paid. ⁽⁷⁾ In addition, since July 2013 the 30-day limit for refunding is checked monthly, which has reduced delays. ⁽⁸⁾

⁽⁴⁾ Eurostat 2014..

⁽⁵⁾ Eurostat – Statistics in focus, 1/2013, High-technology and medium-high technology industries main driver of EU-27's industrial growth:

http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-SF-13-001/EN/KS-SF-13-001-EN.PDF

⁽⁶⁾ Decrease in low-tech (-1.4% while for EU-27 it was only -0.7%).

⁽⁷⁾ As modified by the National Assembly on 25/7/2013. On 30 June 2014 the remaining arrears were EUR 170 million.

⁽⁸⁾ 2014 Revision of National Reform programme – Europe 2020, Ministry of Finance, April 2014

Bulgaria's ranking for obtaining credit improved by 12 places (to 28th in 2014 from 40th in 2013), while its legal rights index rose by 1 point to 9 out of 10, and the coverage of the public credit registry increased from 56.3% of adults to 61.0%.⁽⁹⁾

The government has emphasised the need of the banking sector to play a more active role to help firms access European funds.⁽¹⁰⁾ Already the loan guarantees of European structural funds have helped small and medium-sized enterprises (SMEs) to improve their access to bank lending.

Bulgaria performs better than the EU average on the banks' willingness to provide loans, with only 10.4 % of respondents indicating a decline in 2013 against 24.6 % for the EU as a whole.⁽¹¹⁾

However, the banking sector has problems with SME lending, as loan losses are relatively high.⁽¹²⁾ In addition, venture capital investments are almost non-existent.⁽¹³⁾ Venture capital investments (supported by EU structural funds) have helped to kindle entrepreneurial activity, in particular in information and communications technology. There is potential to further expand venture capital investments, including to other high-growth sectors.

Despite many encouraging signs, overall bank lending to the economy has not increased, and effective policies have not been implemented. At the same time, many SMEs do not consider commercial banks as their main source of finance and work mainly on the basis of own capital. There are few alternative financing instruments available, and further development of business angel and venture capital financing is needed.

3.2.3 Innovation and skills

There are many innovative SMEs active in manufacturing and in knowledge-intensive services

although they have not been able to increase their share of the economy's gross value added. Bulgaria's innovation performance increased until 2010 but has been falling since. Its performance relative to the EU has declined from 44 % in 2011 to 33 % in 2013.⁽¹⁴⁾ The share of SMEs introducing product or process innovations, and marketing or organisational innovations, and of employment in fast-growing innovative firms, is well below the EU average. Cooperation between research institutions and businesses could be considerably improved. Innovation activities, including patent registration, lack support. European and public funding is being channelled to a technology park project that aims to facilitate technology transfer.

To improve the skills base, a national coalition for e-skills has been launched, with support from businesses.⁽¹⁵⁾ Further, in a strategy for developing higher education from 2014 to 2020, published for discussion, the government indicated a need for a better match between the needs of the labour market and education, particularly university education.⁽¹⁶⁾

Provision of higher education is being updated with European Social Fund support, involving 50 higher education institutions. The goal is to introduce new specialisation programmes that better match business needs, revising bachelor degrees to combine general content with practical training. However, the number of universities is high in relation to the total population, and in many cases their provision of degrees does not seem to evolve in line with labour market needs.

3.2.4 Energy, raw materials and sustainability

The economy is the most energy-intensive in the EU, with low energy and resource efficiency. The government is reviewing alternatives to energy imports from Russia, although Bulgaria has no access yet to energy supplies from the North Sea or the Gulf countries. A new-generation nuclear power plant is being planned.⁽¹⁷⁾ The alternative, adding capacity to

⁽⁹⁾ Doing Business 2014

⁽¹⁰⁾ Council of Ministers, 29/5/2014:

<http://www.government.bg/cgi-bin/cms/vis/vis.pl?s=001&p=0213&n=778&g=>

⁽¹¹⁾ Eurobarometer on Access to finance (2013),

http://ec.europa.eu/enterprise/policies/finance/files/2013-smes-dema_en.xlsx

⁽¹²⁾ European Payment Index 2013, White paper, Intrum Justitia

⁽¹³⁾ EVCA, Eurostat (2012),

<http://epp.eurostat.ec.europa.eu/tgm/download.do?sessionid=9ea7d07d30dbf98df67298c14d2fbfcb2b3869471d5.e34MbxSaxaSc40LbNiMbxNb38Se0?tab=table&plugin=0&language=en&pcode=tin00141>

⁽¹⁴⁾ 2014 Innovation Union Scoreboard.

⁽¹⁵⁾ <http://basscom.melontech.com/>

⁽¹⁶⁾ Publication by Ministry of Education and Science for public comments on 28/5/2014:

<http://www.minedu.government.bg/?h=downloadFile&fileId=5859>

⁽¹⁷⁾ A referendum was held in 2013 with 60.6% of votes in favour of development of a new nuclear power plant, however the participation being only 20.22%, it was not

existing nuclear plants, has not been introduced either. The energy infrastructure acts as a brake for energy imports. Ensuring competition in energy markets, increasing renewable energy production and increasing energy efficiency would help to face these challenges. ⁽¹⁸⁾

The cost to businesses of getting an electricity supply decreased from 340.7 % of income per capita to 320.0 %, but this was not enough secure a better ranking than 135th. ⁽¹⁹⁾ The number of steps needed and time they take could be reduced. Requiring electricity providers to reduce energy consumption by providing incentives for energy efficiency has produced results in many Member States and could be considered in Bulgaria. European structural funds could be further used to improve the energy efficiency of buildings and to reduce energy costs.

Construction of a modern water and wastewater infrastructure for urban areas of more than 10 000 inhabitants also needs to improve. As one of the services provided by public authorities to businesses, this forms part of the proposal for the use of European structural funds. ⁽²⁰⁾

The government is revising the current waste management fee system, introducing the polluter pays principle. Until now fees have been based on firm size, not on the volume of waste produced. This has not provided incentives for resource efficiency and waste reduction.

3.2.5 Access to markets, infrastructure and services

Bulgarian exports are estimated to have grown again in 2013, (8.9 %), after falling by 0.4 percentage points in 2012. The export growth forecast for 2014 is 4.9%. However, slow procedures and the high costs of exporting deter full use of Bulgaria's geographical position as a potential trade hub between the EU and Eastern Partnership countries, including the Balkans, Turkey, Russia and Caucasus.

More efficient and cost-effective customs services would help to accelerate trade and support economic growth as well as fighting tax fraud and tax evasion. This requires appropriate information technology, combined with more efficient monitoring technology and appropriate infrastructure along external borders. This is crucial as about 28 % of all counterfeit products that have been prevented from entering the single market are being confiscated at Bulgarian borders. ⁽²¹⁾ It would seem that further efforts are needed to prevent counterfeit goods entering the EU internal market.

The conditions for international trade improved in 2013, with less time taken and fewer documents needed. Bulgaria's ranking improved from 93rd to 79th. ⁽²²⁾ Clear improvement has been made in costs per container for export, which fell by 11%. This is a better performance than in Romania, but still behind Greece or Turkey.

There is a need to improve rail, road and water transport further, so as to reduce transport costs and increase efficiency.

The national railways is likely to be reorganised and partially sold off, because it is unable to repay its loans. Discussions about details are being held with foreign operators, without clearly expressed overall strategy. The effect of all this on railway operations remains unclear. ⁽²³⁾

The government has chosen improved transport connectivity and access to markets as one of its priorities for the European structural and investment funds. Improvements in regional transport infrastructure would also help to develop tourism. ⁽²⁴⁾

⁽²¹⁾ European Commission.

⁽²²⁾ Doing business 2014.

⁽²³⁾ <http://bdz.bg/novina.php?id=2209285>

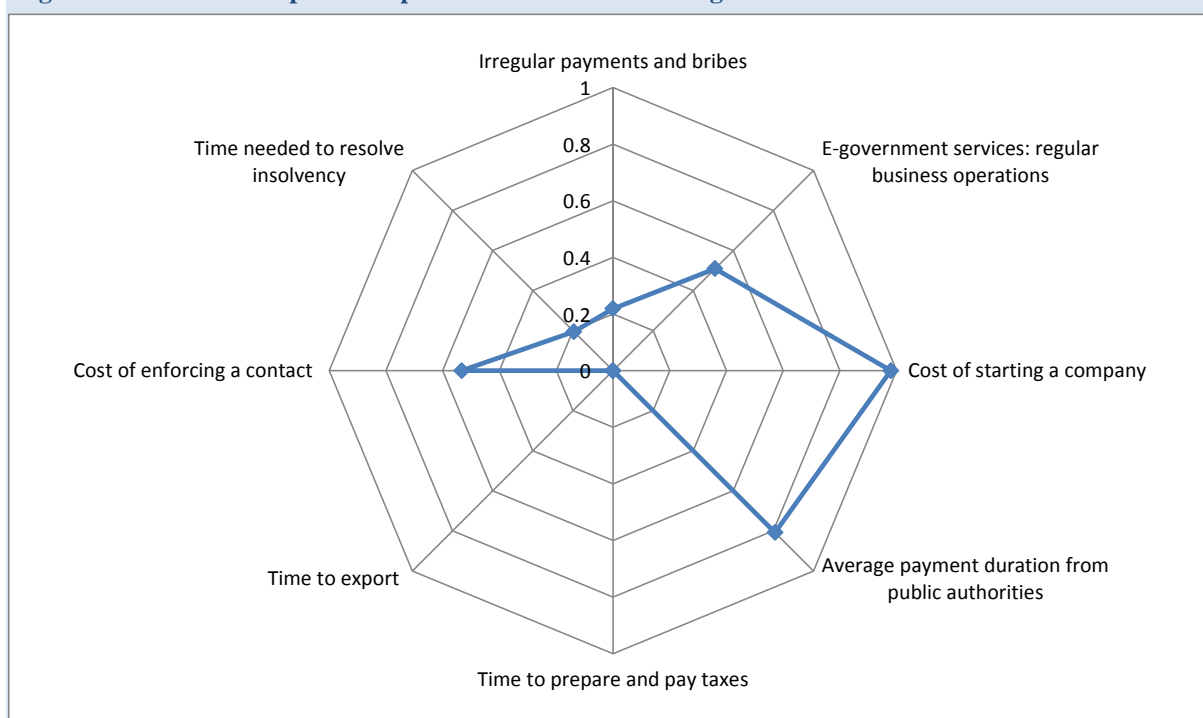
⁽²⁴⁾ Ministry of Regional Development, draft OP "Regions in Growth", May 2014

valid (required equivalent to previous referendum participation rate or 62,53%).

⁽¹⁸⁾ See "Assessment of the 2014 national reform programme and convergence programme for Bulgaria", SWD(2014)403.

⁽¹⁹⁾ Doing Business 2014

⁽²⁰⁾ Ministry of Environment and Water management, May 2014, OP draft ref. CCI 2014BG16M1OP002

Figure 3.2.2: Overall profile of public administration - Bulgaria

Note: Values have been scaled so that the best observation (Member State) gets 1 and the worst gets 0.

Source: World Bank Doing Business; Intrum Justitia; OECD; World Economic Forum; European Commission

3.2.6 Public administration and business environment

Efforts to enhance the quality of public administration continue but the fragmented approach adopted and a lack of policy commitment have limited their effectiveness. Implementing proposed simplification packages and success in making e-government fully operational and interoperable would improve the business environment. Currently the difficulties are considerable, as institutional shortcomings and lacking administrative capacity seriously hamper competitiveness. ⁽²⁵⁾

The government has taken some measures to reduce the administrative burden and to move towards smart regulation. However, the overall effectiveness of government remains well below the EU average. It is still redrafting rules on conducting regulatory impact assessments, in particular to assess the likely impact on enterprises and employment. ⁽²⁶⁾

Further progress has been made in some areas. Bulgaria's ranking for handling construction permits improved from 123th to 118th, ⁽²⁷⁾ and the number of procedures involved fell from 21 to 18, while the cost fell from 294 % of per capita income to 223 %. Its ranking property registration improved by six places (to 62nd); the number of procedures declined by one to seven; and processing time fell to 14 days.

In the 2014 country-specific recommendations the Council ⁽²⁸⁾ urged Bulgaria to improve the quality and independence of the judicial system and to fight corruption more effectively as Bulgaria has made only limited progress in these areas.

Major improvements to help entrepreneurs could be made in resolving insolvency. A one place rise to 92th position in Doing Business 2014 is most likely due to a slight improvement in the recovery rate, at 32.6 cents to the dollar, from 31.7 the previous year. The time taken is still 3.3 years and it still costs 9% of the estate.

⁽²⁵⁾ See "Assessment of the 2014 national reform programme and convergence programme for Bulgaria", SWD(2014)403

⁽²⁶⁾ Expert group set in February 2014, and seminar on Impact assessment practices organised on 17/6/2014.

⁽²⁷⁾ Doing Business 2014

⁽²⁸⁾ Council Recommendation on Bulgaria's 2014 national reform programme and delivering a Council opinion on Bulgaria's 2014 convergence programme.

3.2.7 Conclusions

Manufacturing should become more efficient and shift to products with higher value added, e.g. by processing rather exporting raw materials, and to enable genuine synergies between businesses and research institutions and academia. The level of innovation in the value chain is low and so is support for innovation activities, including patent registration.

Stakeholders, including the government, businesses, and research institutions need to find effective mechanisms to agree on priorities, coordinate the required policies, and take action on education, on supporting innovation, and on research priorities to steer the economy towards activities with higher value added.

Due to insufficient administrative capacity, progress in improving public administration has been slow, and in some areas non-existent. The government has identified full introduction of e-government services as the key to reducing the administrative burden on companies and the public; those already developed have to become interoperable. However, so far no results have been delivered.

Local government reform has not progressed and it seems that central support would be needed in many areas, in particular for public procurement, and for building e-government services. Corruption perceptions remain high and increased use of e-government would help to combat corruption at all levels of administration.

To ensure investment in innovation and growth, further improvements in access to finance will be needed, and alternatives to bank lending should be further explored.

Competition in the transport and energy sectors would be facilitated by restructuring the state-owned companies. This would promote private investment, growth and employment. In addition, energy efficiency could be improved considerably.