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COMPETITIVENESS OF THE BULGARIAN ECONOMY 2007

With the partnership of CSD this year Bulgaria was included for the second time in the world's oldest and most comprehensive annual report on competitiveness, the IMD World Competitiveness Yearbook 2007 – published without interruption since 1989 by IMD (International Institute for Management Development). Bulgaria's competitiveness was covered and ranked together with 54 other leading world economies. The annual rankings are a respected source of information for large international investors, but they also provide highlights to the public and policy-makers on the strengths and the weaknesses of the Bulgarian economy by focusing on four main factors: economic performance; government efficiency; business efficiency; and infrastructure—in science and technology, human capital, health, and education.

This year Bulgaria came 41st on the scoreboard, surpassing Italy, Romania, Ukraine, Turkey, Poland, and Croatia among others. The position is an achievement in its own right, considering that the country is measured up against the champion nations setting the trends in the world economic competition. Still, there are two pieces of bad news. First, Bulgaria has not progressed compared to its last year ranking, in contrast to similar countries, such as Italy and Romania, which have moved with five–six positions up the scale. Second, the decline of the business efficiency component against last year's index is a cause for serious concern.

Bulgarian business competitiveness in decline

In 2007 Bulgaria has largely kept its position compared to the previous year, but its **business efficiency has declined**. From the 42nd place that Bulgaria occupied in 2006, it has fallen to 54th place in terms of business efficiency. Meanwhile, the country's overall economic performance has improved. With regard to infrastructure Bulgaria now ranks 41st.

MAIN CHALLENGES

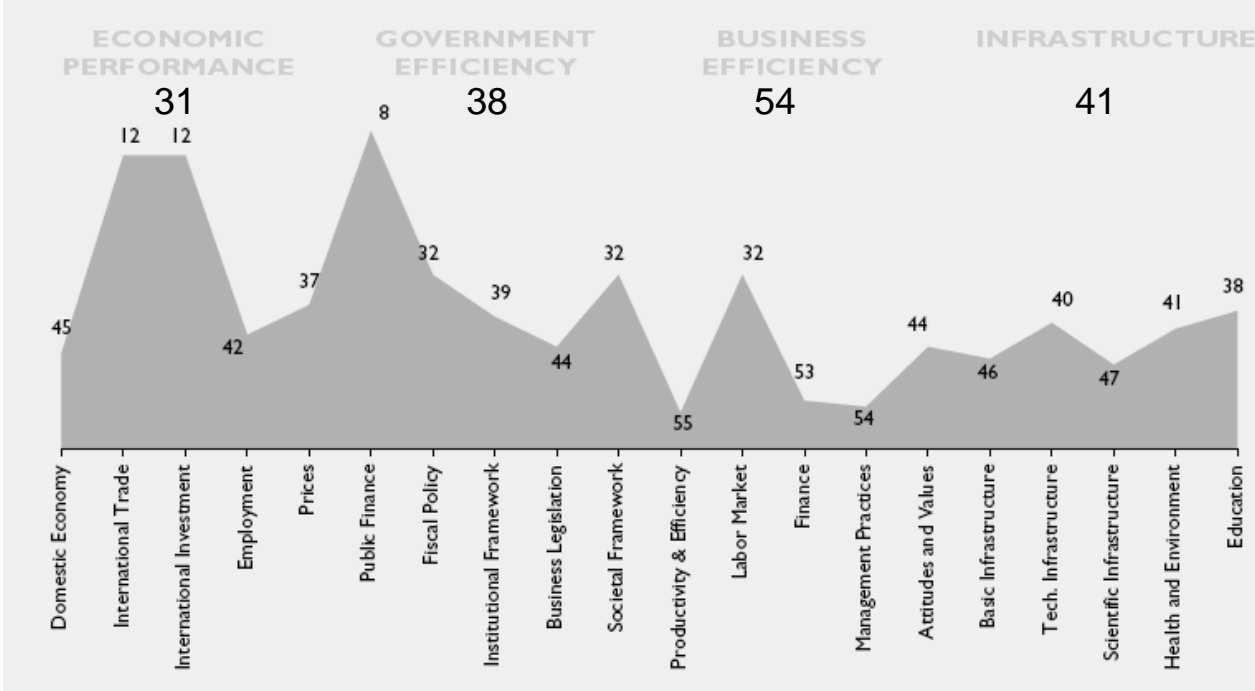
For a second year in a row the world competitiveness report has recommended that Bulgaria takes **urgent measures to meet the following challenges:**

- Improve business environment and corporate governance.
- Promote the competitiveness of private businesses.
- Enhance efficiency and productivity.
- Improve basic infrastructure and increase R&D expenditure.
- Improve healthcare and environmental protection.
- Encourage innovation, high-tech export and technological cooperation.
- Reduce administrative discretion, bureaucracy and corruption.

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This trend raises special concerns since business, compared to the government sector, is supposedly better and faster in adapting to competitive pressures and market fluctuations. Therefore, special focus should be put on microeconomic policies designed to improve the business environment, which are defined as the main short-term challenge to Bulgaria’s competitiveness. These policies should prioritize reduction of administrative discretion, bureaucracy and corruption, strengthening personal security and the protection of private property rights, accelerating investment in infrastructure and energy efficiency, promoting innovation, and human capital development through employee training, increasing worker motivation, etc. The competitiveness report highlights **corporate governance** as a key area in that respect. Bulgaria needs to work on business ethics, adherence to regulations and contracts, management attitudes towards investment in technology and innovation, expenditures on personnel training, effective marketing, and, not least, companies should further explore the opportunities for stock market financing of investment. This year’s analysis of business efficiency has largely relied on a survey among the managers of leading Bulgarian businesses. Their current estimates on local competitiveness might reflect certain short-term pessimism caused by increasing competitive pressure from both the European and world markets, but despite this some implicit problems remain unresolved, most notably – labor productivity.

Competitiveness Landscape, Bulgaria 2007 ranks 41st among 55 Leading Economies



Source: World Competitiveness Yearbook, IMD, 2007

Despite the above mentioned faults, some **competitive advantages of Bulgarian business** in 2007 should be emphasized. Key recent improvements are labor force growth, increased labor remuneration, and the reduction of unit labor costs. The major advantages remain the same – relatively low remuneration of management and in service professions, and a low overall **labor cost**. However, they are not sufficient grounds for prosperity in the long run and could do little to ameliorate the negative effect of the poor total private sector productivity or the skill shortages in some key sectors.

Challenges to policy makers

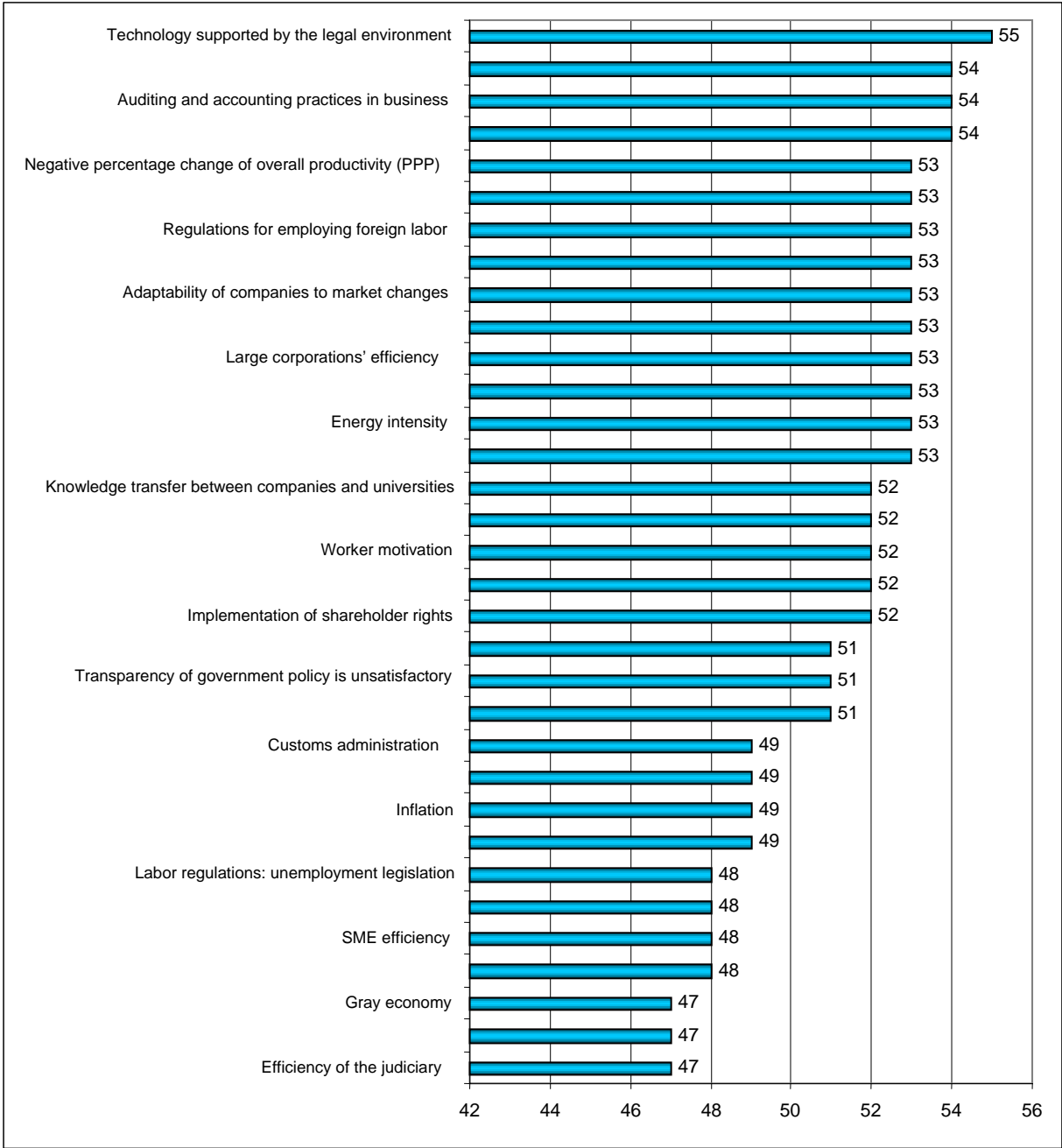
Of all counts, last year Bulgaria ranked highest in government efficiency. The country has roughly preserved this position from last year (going slightly down—from 37th to 38th place in 2007). However, government efficiency is not exceptionally high in a comparative perspective and it should still be regarded as an area that needs improvement, particularly given the numerous business sector weaknesses.

Bulgaria's advantages are mainly in its **macroeconomic indicators**. In contrast to previous years, though, they do not comprise low inflation or low consumer prices (Bulgaria has dropped by 6 positions in this respect due to the relatively high inflation in 2006), but international investment and employment, the central government budget surplus, export of goods and services, short-term interest rates, **low corporate tax**, the decrease of the state debt, and tourism receipts. Macroeconomic strengths, however, should be analyzed with caution as they conceal some serious microeconomic drawbacks, for instance the **minimal share of high technologies in the structure of local employment and exports, the low added value of tourist services and the fact that foreign investment is concentrated in real estate**. Bulgaria lags considerably behind the rest of the new EU Member States in microeconomic reforms aiming to improve the environment for doing business.

Although in the short term the most pressing problems seem to be related to the management practices and efficiency of private business, the major long-term **challenge** is the improvement of **human capital**. Both the government and at a certain stage the private sector bear their share of responsibility for its development. Bulgaria needs to achieve adequate education attainment, match skills to labor market demand, and boost labor productivity. Efforts should be made, so that the educational system more adequately meets the needs of business and employers, including stepping up continuous employee training. The overall policy of improving human capital should be paralleled by local and sectoral policies to promote entrepreneurship and innovation in order to increase the added value of goods and services. The Bulgarian government still fails to place top priority on human capital development, innovation and entrepreneurship, although the EU has a number of long-running financial instruments and institutions in place to that effect.

Among the **lingering problems** that the government has not managed to resolve throughout 2007 are: persistent **bureaucratic and regulatory barriers** to companies both in the manufacturing and service sectors, and on the labor market; **the gray economy and unfair competition; corruption**; some roadblocks to a smoothly functioning customs administration; the low availability of **skilled labor**; competent senior managers and finance skills not readily supplied through the education system; the lack of resolve to pass legislation promoting the use of **new technologies** and the meager business R&D expenditures (as percentage of GDP). One acute issue is the adequacy and efficiency of energy infrastructure, as Bulgaria's economy continues to be **among the most energy-intensive** in Europe (53rd place in the chart of 55 nations). All these challenges could be met only through extensive in-depth analysis and sound knowledge of the domestic economy, on which adequate microeconomic policies need to be built. Macroeconomic stability should be preserved, but it will not be sufficient for ensuring Bulgaria's growing competitiveness in the long run. Economic policy on both macro and micro level should be more sustainable, predictable and long-range in order to enable companies to plan their expenditures based solely on market risks.

Competitiveness of the Bulgarian Economy 2007: Main Drawbacks (Rank among the 55 Economies)



Source: World Competitiveness Yearbook, IMD, 2007

Strengths and Weaknesses of the Bulgarian Economy

Strengths	Weaknesses
<ul style="list-style-type: none"> <input type="checkbox"/> Economic stability <input type="checkbox"/> Low corporate taxes <input type="checkbox"/> Growth of consumer goods export <input type="checkbox"/> Growth of foreign direct investment flows and tourism receipts <input type="checkbox"/> Employment growth <input type="checkbox"/> Decrease of government debt <input type="checkbox"/> Budget surplus <input type="checkbox"/> Remuneration of management <input type="checkbox"/> Reduction of unit labor costs in the manufacturing sector <input type="checkbox"/> Remuneration in service professions <input type="checkbox"/> Investment in telecommunications as percentage of GDP <input type="checkbox"/> Internet costs 	<ul style="list-style-type: none"> <input type="checkbox"/> Current account deficit <input type="checkbox"/> Inadequate regulation on goods, services and the labor market <input type="checkbox"/> Gray economy and unfair competition <input type="checkbox"/> Inefficient customs <input type="checkbox"/> Productivity and efficiency of businesses (both large corporations and SMEs) <input type="checkbox"/> Poor availability of skilled labor, senior managers, finance skills; poor worker motivation <input type="checkbox"/> Finance management and corporate debt <input type="checkbox"/> Substandard management practices <input type="checkbox"/> Energy-intensive economy <input type="checkbox"/> Insufficient support for new technologies and low R&D expenditures by companies <input type="checkbox"/> Health infrastructure <input type="checkbox"/> Quality of life <input type="checkbox"/> The educational system does not meet the needs of a competitive economy