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THE COMPETITIVENESS OF THE BULGARIAN ECONOMY 2006

Bulgaria's position in the world oldest and most comprehensive annual report on the competitiveness the World Competitiveness Yearbook 2006 of IMD (International Institute for Management Development) was presented several days before the European Commission report on Bulgaria's readiness for accession. With the partnership of the Center for the Study of Democracy this year Bulgaria was included for the first time in the report, issued since 1989. The report ranks and analyzes how 61 selected economies create and sustains the competitiveness of their enterprises. It stands out among reputed international ratings with the predominance of more reliable statistical data over the qualitative (survey) data. The rating uses 312 indicators covering a broad spectrum of competitiveness, classified in four major groups: economic performance, business efficiency, infrastructure and government efficiency.

The report sets several important issues regarding the competitiveness of the Bulgarian enterprises and the Government responsibilities in this context. Bulgaria takes 47th place among the 61 economies in this elite club. Although this rank may seem low, it should be noted that the Bulgarian inclusion in the World Competitiveness Yearbook 2006 is already an evidence of the country's positive economic development. Bulgaria is ranked ahead of economies such as Turkey, Brazil, Mexico, Russia, Argentina, Italy, Romania, Poland and Indonesia.

Main recommendations:

IMD's World Competitiveness Yearbook 2006 highlights the areas, in which Bulgaria urgently needs to implement adequate measures in order to improve its position:

- Investments in infrastructure and energy efficiency;
- Encouragement of innovations and high-technology export;
- Implementation of long-term national policy for development of human capital, and focusing on the reforms in healthcare and education sectors;
- Resolving the chronic problems with the administrative discretion, red tape barriers in front of the business and corruption.

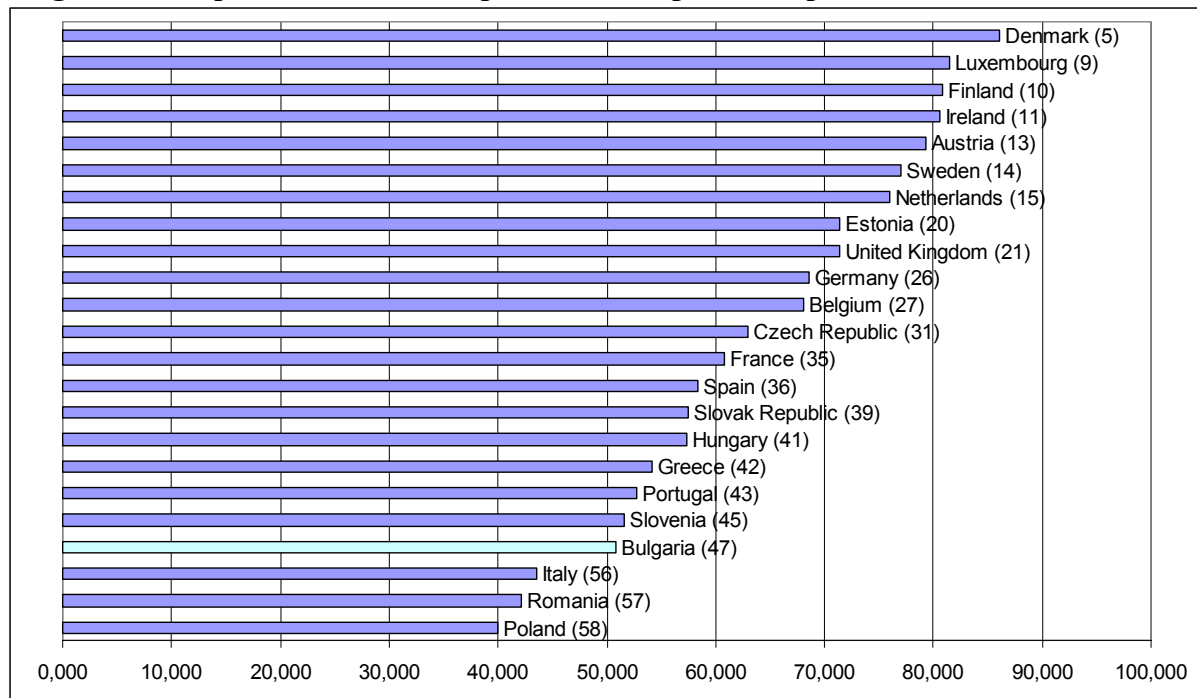
Challenges to the business sector

The report shows that the increase of the Bulgarian competitiveness is to a larger degree merit of the Government, than the firms themselves. This is not only surprising, but also alarming, since the enterprises will be the ones subjected to the higher competitive pressure of the European single market. On the other hand this situation is favorable since government efficiency is more difficultly achieved and the firms are more flexible in terms of adapting to

the new environment by increasing the quality of corporate governance and use of new technologies.

According to the business the quality of the corporate governance is still low in spheres such as the marketing, management of the personnel – motivation and qualification of human resources, the ethical business relations, audit and accounting practices, and protection of shareholders’ rights. The indicators related to the Bulgarian stock exchange as a source of funding are the lowest in this group.

Bulgarian Competitiveness in Comparative European Perspective



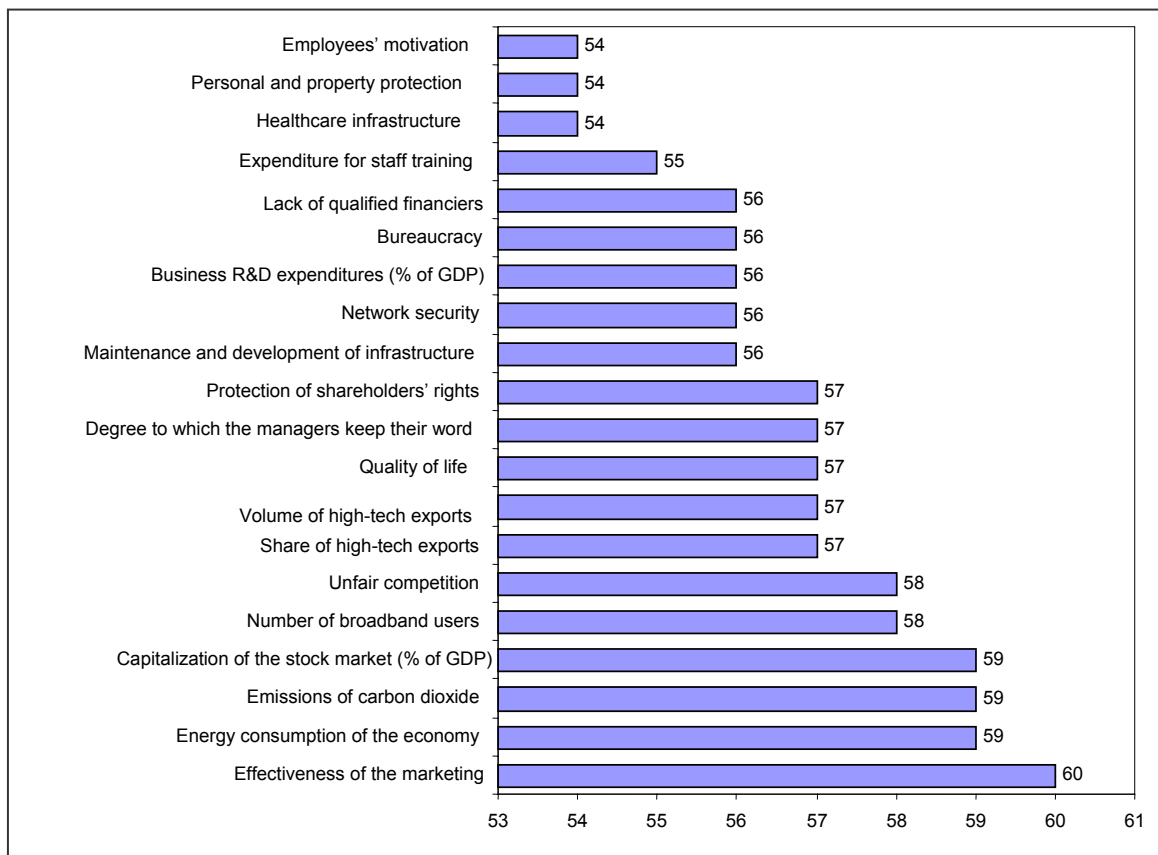
Source: IMD, World Competitiveness Yearbook 2006

The low labor cost still remains Bulgaria’s major competitive advantage (we are ranked second among all participants in terms of unit labor cost reduction). It is however accompanied by two considerable weaknesses of the economy. The first one is the low total productivity (Bulgaria is ranked 52nd among 61 economies) and the deficit of required by the investors specialists. The Bulgarian business also takes one of the last places regarding R&D expenditures (56th place), share of high-technology export (57th place) and currant account deficit (49th place).

Challenges to policymakers

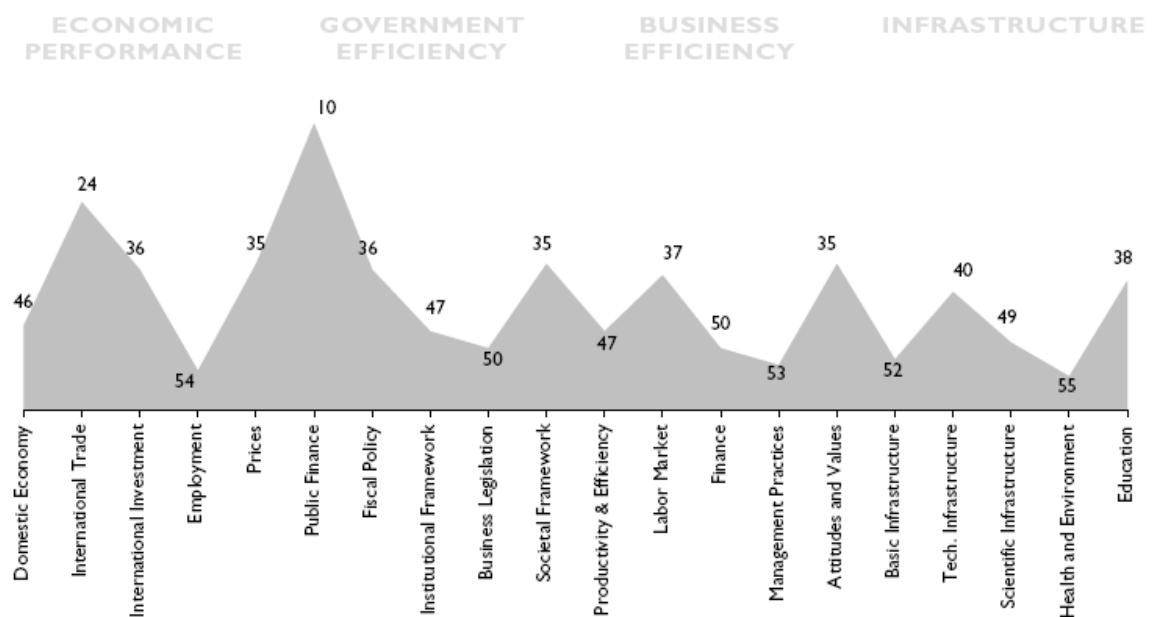
Bulgaria ranks higher due to the overall ineffectiveness of some leading economies regarding the government policy. Bulgaria’s advantages surprisingly are not the low inflation (we are placed 52nd) and the decrease of unemployment (53rd place). According the report they are rather in the spheres of state governance, particularly the low corporate tax (second place after Ireland), the balanced budget (6th place), and the decrease of the state debt (5th place). The administrative and regulative barriers in front of the business however remain high. The unfair competition, grey economy, tax evasion, corruption, lack of effective legal proceedings and property protection are among the major competitive constrains of the Bulgarian economy.

Competitiveness of the Bulgarian Economy 2006: Critical Areas of Lagging Behind (rank among the 61 economies)



Source: IMD, World Competitiveness Yearbook 2006

Competitiveness Landscape, Bulgaria



Source: IMD, World Competitiveness Yearbook 2006

More information can be found at: www.csd.bg and <http://www.imd.ch/wcc/>