

# BUSINESS CLIMATE AND PRECONDITIONS FOR REVIVING THE BULGARIAN INDUSTRY

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**Abstract:** *The inadequate economic policy in 90's brings to destruction of basic sectors of the Bulgarian industry. Bulgaria is one of European's countries mostly engaged with deindustrialization process. Nowadays we have to pay more attention to high technological sectors in industry which are based upon theoretical and practical knowledge that by its side is based of enormous investments in science. The condition of Bulgarian industry needs to focus urgently towards inculcating innovations and investments for increasing the enterprise competitiveness. The introducing innovations needs special attention nowadays because the rapidly speed of changes. The world had gone through the industrial time to the age of knowledge. In the fast developing global environment the strategic advantage can be brought by leaders of changes and the only way for that is by introducing innovations. An important role for the long term competitiveness of the Bulgarian economy has the increasing level of innovative enterprises which produce and inculcate new products and processes and the participation of the country in the global high technological manufacture. The reviving of the Bulgarian industry is connected with building new high-tech enterprises and a good example for that is Trakia economic zone (Plovdiv region, Bulgaria).*

**Keywords:** innovations, technology, crisis, economics, management, industry

## 1. Introduction

The crisis is a widely held view and its indications affect different aspects of the financial, social, spirit life of the nation. First of all when we talk about crisis it's important to accent not only to the consequences of its manifestation but also to the opportunities for overcoming. The careful analysis of the crisis nature in Bulgaria and the mass of its acts force to introducing the next limitations according the theme:

-as a small country with poor developed and strongly open economy, Bulgaria cannot be isolated by the world financial – economic crisis;

-the human resources – a factor for industrial growth and overcoming the crisis.

The Republic of Bulgaria is a small country in Southeastern Europe, located in the east part of the Balkan peninsular. Its uniqueness is hidden in the balanced combination of incredible nature, Black sea strip of wonderful beaches, beautiful mountains for summer and winter tourism, rivers and so on. But besides all these natural resources Bulgaria is a country with poorly developed economy and is far behind the economics of other countries in the European Union.

To receive a total explicit idea of the level of Bulgarian's economic development in accordance with the global standards and the vulnerable level toward outside economic treats it can be used the level of competitive power. According the macro-economic competitive power stranded on the World economic forum for 2008-2009 Bulgaria takes 76<sup>th</sup> place by 134 countries in this research and a last place in the EU. But Bulgaria takes better position and shows *a positive economic growth* according the data from the last World economic forum 2016-2017. According data of the same forum the index of internet web readiness Bulgaria is on 68<sup>th</sup> place from 134 countries. This means that in front our countries are all the participants and candidates in the EU, the countries of OPEC /organization of the petroleum exported countries/ but also around 30-35 poorly developed countries from Africa, South Asia, Latin America. In comparison in the World economic forum in 2016-2017 Bulgaria takes 57<sup>th</sup> place and proves *a better economic environment* in the country.

The aggregated index for competitive power is calculated based upon 85 analytical macro and micro economics indexes. According some of the micro ratio especially on the company's level Bulgaria is classified between 100<sup>th</sup> and 120<sup>th</sup> place of all 134 countries (incl. quality of business functioning, quality of company's management, technological level of manufacture, an assimilation speed for new

technologies, employee qualification and fluctuation etc.). This is a very serious reason for anxiety.

Bulgaria still poorly utilizes the advantages of the global process for raising the national competitive power, realizing an economic structural reorganization and modernization of the technical manufacture. This situation is determined by the action of different factors some of which are: decreasing the general economic potential of the country, the technical level of effectiveness of the national manufacture in times of reforms, the specification of the national economic development till 1989 and so on.

Especially in this moment of reorganization and reforms the world and Bulgaria meet the real global economic crisis that puts new records in all its acts. The current economic crisis is very important because it leded the country till the edge of the economic shock, providing its citizens with new stress and unclear conditions. Nowadays subject is the decrease of the national domestic product, mass bankruptcies and unemployment, lowering the life level of the nation.

The global financial crisis worsens the conditions that were reached for labor market development in the first decade of 21 century. The country was hit hard by the crisis; it broke the relative balance of the stock markets, it leded to commerce contraction and to investment restrictions. The decrease of investments, commerce and real economy reflected to the labor markets and a considerable shrinkage in labor search and unemployment enhancement. The economic and political leaders tried to fight with the challenges using packages of programs and restrictions. Their research is necessary to clear the adequacy, effectiveness and timeliness of the actions in the short and long run.

The negative crisis influences over the employment in a world scale and in Europe in private reflect over the employment decrease and raising the unemployment as well as in intensifying the structure misbalances standing out the instability of separate groups on the labor market – youths, middle-aged people, and lowly qualified workers.

In Europe the crisis measures a loss of more than 1.9 mln working places just for the end of first three months in 2011 that reflects to decrease of the employment with 1.3% yearly based. This is the biggest decrease in employment after 1995. The flowing down in GDP with 4.8% for the end of the second three-months in 2011 because of the manufacture and service compression leads to decrease of the number of employee as the number of man - hours.

In Europe the crisis from 2008 in its extent and depth has a different display. For some of Eastern European countries it's more considerable and brings back their economic and social

development with years, deletes their efforts and achievements from the transition period and the years of participation in EU. In countries like Bulgaria the crisis started later. The population of the country still remembers the big economic crisis of the 90s, *the high unemployment level, the mass poorness and insecurity, the various strata of society*. The most significant unemployment decrease is in Baltic countries, Spain and Ireland. The unemployment reduction corresponds with the strong compression of the economic activity. The most evident is the reduction in the countries with biggest decrease in the economic activity and the number of employed (Lithuania, Estonia, Latvia, Ireland and Spain). Totally for the EU-27 the unemployment reached 9.5% in January 2012 as it has a lot varieties in different countries: from two-digits for Latvia (22,9 %), Spain (18,8 %) and other 5 countries (Ireland, Slovakia, Hungary, Portugal and France) to the lowest levels in Holland (4,2%), Austria (5,2%) and round 10 countries with unemployment level between 6-9%, incl. Bulgaria (8,1%).

#### The Bulgarian crisis influenced summary at the next fields:

- Lowering the economic growth rate and limited market search;
- In the real sector – manufacture compression with strongest attitude in building, metallurgy, machine-building, chemical and textile industries;
- In the financial sector – instability and collapse in the stock exchange;
- In the bank sector – restrictions in crediting through compression of the mortgage and consumer credits, slowing down the temps of crediting the private sector, raising the interests.

- Decrease in investment exportation;
- Increase in unemployment;
- Raising the food prices, etc.

#### Prognosis

- As a whole in Europe the decrease in economic growth in 2014 is 1.9% in prognosis by the International Monetary Fund drop till 1.5% on average.
- In 2016 is expected bigger decrease in economic growth that will contribute to the Central and Eastern Europe. It's expected raising the inflation in short-term but slacken the pace in long-term because of the reduction in supply and demand.
- In Bulgaria the reduction of growth rates will be weaker but is expected decrease of revenues by taxes (VAT, corporation tax and others) that will reflect over budget expenses and budget surplus.
- It will decrease the money float by Bulgarian emigrants to Bulgaria.
- The treats for Bulgaria are connected with the existence of additional factors like corruption, weaknesses in the judgment system, bad infrastructure.
- The Bulgarian economic dependence of outside resources exposes it to risk, instability and more expensive outside resources.
- By one side is expected rise in service price but without better the quality.
- Enhancement of the deficit of budget balance that now is fulfilled by outside credits, euro funds etc.

#### Positive points of view by the crisis

- As a whole the stability of the financial system is based upon the currency board. This is a condition for stability of the bank system. The crisis forced banks to balance the crediting that is useful for the bank system. The crisis stimulated these

institutions to renovate the service packages and restructure their portfolio. This forces the bank competitiveness that is a positive for the whole system.

- The increased inflation by other side leads to convergence in price level with that in the EU.
- In the real sector positive effects are the lack of non-elastic companies and compressions of additional costs in stimulating the more effective labor.
- A positive tendency is the reduction in petrol prices and gas crisis that stimulates developing the opportunities of alternative energy sources.
- It's found new opportunities for stimulating the agriculture because of the price raising.

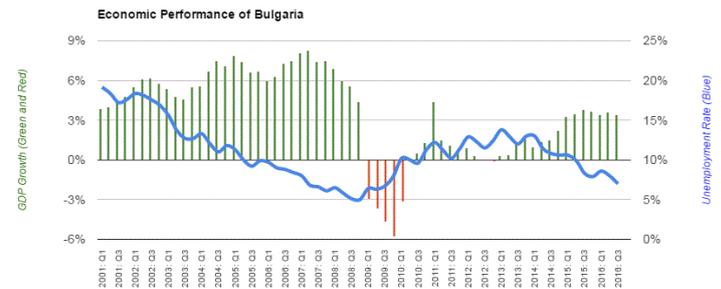


Fig. 1 Positive indicators for the Bulgarian economy: high GDP growth and falling unemployment

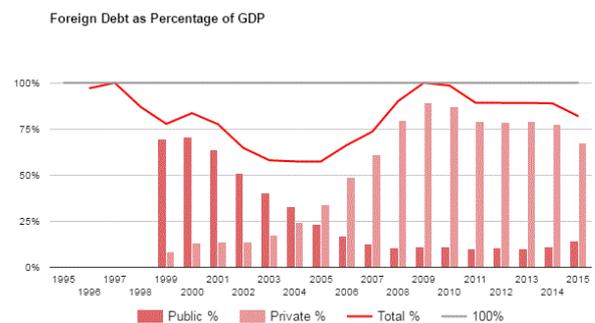


Fig. 2 Negative indicators for the Bulgarian economy: levels of foreign debt are at the same levels as during the last financial crisis, of 1996

## 2. Undertaken anti - crisis measures in macro and micro level till the end of 2017

- Decrease to minimum the cash bank ratio and increase of the credit resource;
- Changes in BNB in the regulations for capital adequacy and for the evaluation of client's solvent;
- Bank promotions for deposits, fund extraction that are not in the bank system – around 200 mln.lv.;
- A coordination between the system for prudential supervision of credit institutions and the one in EU;
- Force the activity of BNB for credit development for SMEs and enhancement of the sum for credit guarantee;
- When gathering euro funds to be provided bigger advance for financial compensations;
- Budget financing of projects in education, health care, ecology;
- Strengthen the financial supervision and control;
- Decrease in ministry expenses till 70% of the stipulated ones;

- Redistribution of the social dues as the country takes 12% of all the payments;
- Funds for unemployed, young families who would like to buy a house and raising the children additional payments;
- Creating conditions for temporary employment, temporary release and saving the working places;
- Creating stimulus for employers who hire released workers.

### 3. Propositions

- Preparing a plan of the EU for reinforcing the credit inflow in the region, broaden the range of anti-crisis measures of Central and Eastern Europe;
- Elaboration of new credit products, enhancement of the market transparency;
- Decrease of the insurance charge;
- Increase in the export crediting;
- Marking priority fields in the expenses in every ministry;
- Reducing the period for VAT refund;
- Increase the expenses for advertisement in tourism
- Increase in public investments, opening new working places;
- Improvement of the organization for structure funds absorption, fighting with the misappropriations;
- Accent over applying the legislation and especially the normative acts.

### 4. Conclusion

The review of the crisis effects over the labor markets and applied policies for reducing the negative effects give opportunity for the next generalizations:

1. In accordance with the crisis duration the labor market reacts with actions following short term and long term scenario. The short term scenario includes measurements for stable employment (flexible working time and labor organization, different training opportunities and social defense) and including unemployed people (programs for temporary employment, public-investment projects and training of unemployed). However these actions lose their meaning in long term crisis periods. In accordance with this the long term actions must begin in time.

2. The programs with long term impact are forced toward improving the competitiveness (through integrated education, technical help and support for the small and medium-sized enterprises); improving the services in the system for qualification and teaching; making better the forming, training and employment of the human capital and flexibility of the system for unemployed defense. The applying of such programs and policies leads to new quality of the human resources and their organization that will enable the faster after crisis economic reconstruction and abilities for reaching better development in long term periods.

3. On the background of the European practice, the Bulgarian labor market remains stable but this is as a consequence of the later crisis development in the country. The short term measures for minimizing the crisis effects over the labor market include a wide range of measurements and programs that are improved their effectiveness in the European practice. A matter of fact is their contribution to the retaining a moderate level of unemployment in Bulgaria in accordance with the EU.

4. Trakia Economic Zone (TEZ) is one of the biggest economic projects in Bulgaria, a public-private partnership that includes six major industrial zones in the region of Plovdiv.

Together the zones in TEZ have attracted over 1.2 billion euro of fixed-capital investments.

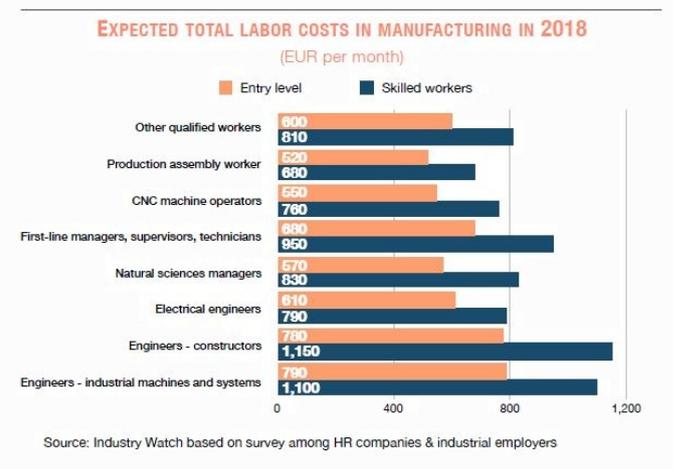


Fig. 3 Expected total labor costs in manufacturing in 2018

5. The elaboration of development programs is an obligation and responsibility not only to the government but also of the social partners, the civil community and the science potential of the country.

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