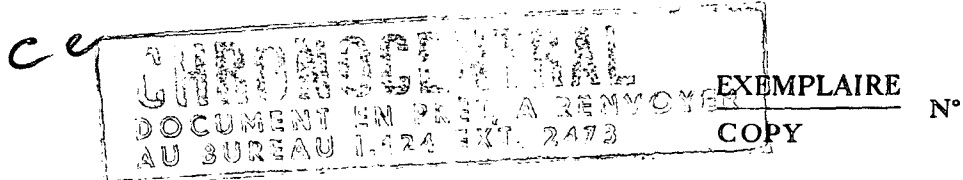


CONSEIL DE L'ATLANTIQUE NORD
NORTH ATLANTIC COUNCIL



N A T O R E S T R I C T E D

ORIGINAL: ENGLISH
5th October, 1973

ADDENDUM to
DOCUMENT
AC/127-D/434

ECONOMIC COMMITTEE

THE ECONOMY OF BULGARIA

Addendum to Document AC/127-D/434, dated 7th May, 1973

Introduction

The above-mentioned report on Bulgaria's economy covers the economic development and policy during the planning period of 1966-1970 as well as the trend developments during the current Five Year Plan.

However, due to the latest information obtained after the completion of the report some adjustments of the original text and the tables are required.

At present, the overall picture of Bulgaria's economy and economic policy is as follows:

Compared with the period of 1961-1965 Bulgaria succeeded in accelerating her economic growth in 1966-1970. On the other hand, the speed of the industrial development was further reduced during these years, just as in 1961-1965.

From the planning figures for the current Five Year Plan period it can be expected that the growth curve will flatten with regard to both the overall economy and especially the industrial sector. The results in 1971 and 1972 confirm this prognosis.

During the period of observation from 1966 until the first half-year of 1973 Bulgaria's economic policy was marked by the fact that different measures and methods were applied during a relatively short period. The economic reform aiming at a complete modernization of the former planning system, for instance, was replaced by re-centralization and the latter again by de-centralization or concentration concepts. It is interesting in this connection that Bulgaria's varied economic policy reflects any changes of the economic policy in the COMECON area and especially in the USSR. It cannot be attributed primarily to Bulgaria's own initiative or inclination to experiment.

N A T O R E S T R I C T E D

ADDENDUM to
AC/127-D/434

-2-

Ad Part I of the Report

The discernible reduced speed of Bulgaria's economic development raises the question about existing or possible future problems of growth.

Although Bulgaria has only a small raw material basis - apart from agricultural raw material - this fact cannot theoretically be regarded as an impediment to growth, considering the intensified integration within the COMECON; on the contrary, Bulgaria's industry which is still in the developing stage can only gain from the planned specialization process within the COMECON. The growing dependence on the USSR and the other Soviet bloc countries involved in this process is not a matter of discussion for Bulgaria's economic leadership.

Although there are no problems of economic growth under the raw material aspect, these problems are becoming apparent in the democratic development and in connection with the necessary provision of manpower.

Between 1950 and 1972 the birth rate decreased from 25.2 to 15.4 per 1,000 inhabitants. Since the death rate does not decrease to the same extent it can be expected that there will be a further decline in the natural growth of the population if the population policy measures continue to fail.

The very minor increase of the population in the productive age over the years has resulted in an unsatisfactory increase in the number of employees. Although the situation in the industrial sector was more favourable than in other economic branches the manpower influx showed a downward trend. Moreover, a lack of skilled workers and specialists required for the progressing division of labour, the introduction of modern technologies and modern management has been sensibly felt. Thus the present and future manpower situation already keeps the speed of industrialization within visible limits.

Another problem of growth is due to the fact that as a result of the industrialization process the increasingly varied requirements can only be met by allocating more capital and by producing cost-consciously and in accordance with the demand. Therefore since 1966 all measures of economic policy - no matter in which policy phase - have been aimed at making higher profits, creating more capital, investing effectively, increasing the production and meeting market requirements to an optimum degree.

However, apart from some partial success the economic development until mid-1973 showed that these measures did not contribute to stimulate the development process.

Irrespective of the fact that in Bulgaria's so-called "improved economic mechanism" only market economy elements but not market economy mechanisms have been introduced, the reasons for the unsatisfactory solution are the following:

During the reform phase of 1966-1968 and during the re-centralization phase of 1969-1970 the authorities did not wait for the relatively slow effect of their economic interference. The enterprises as the theatre of operation of each concept was impaired in their possibilities of development. Measures to make higher profits and create more capital overlapped partly with measures in the credit and investment sector. The planning methods had not substantially improved when central planning was resumed during the re-centralization phase.

However, the period of observation has been too short for a complete assessment of the de-centralization or concentration phase which started in 1971.

Due to the establishment of a new management authorized to take far-reaching decisions and to the concentration of capital in the economic organizations merged into blocs it was to be expected that, at least in the long run, Bulgaria's objectives would be more effectively realized. However, the radius of action of the management was limited by the substantial extension of the functions and rights of the Committee for State Control in 1972 and the extended control tasks of the national bank which came into force on 1st January, 1973. Moreover, the mergers into blocs within Bulgaria's economy will probably render more difficult any flexible adaptation of the production to changing market conditions. The scientific normative planning can hardly be regarded as an equivalent to an effective market mechanism.

It cannot be excluded that initial negative experience such as economic results below planning targets induced the Bulgarian economic leadership to change the organization at the level of both the economic unions and the enterprises at the beginning of 1973. However, such changes seem to have had unfavourable effects on industrial production.

ADDENDUM to
AC/127-D/434

-4-

Due to Bulgaria's very high export trade dependence, foreign policy directives and trends play an essential rôle in the discussions on growth problems. A growing interest in western know-how and modern technologies is therefore becoming apparent in Bulgaria. Bulgaria furthermore intends to reduce western imports by increasing co-operation with the west. Bulgaria's economic leadership considers this as a way of rapidly improving the productivity of labours. Sofia hopes that it will be possible later on to reduce the cost level which is still high and to contribute to an adjustment of the differences of cost within the COMECON. It was especially discernible at the beginning of this year that Bulgaria prefers forms of co-operation vis-à-vis the west which would not result in the participation of foreign capital in Bulgarian enterprises, in joint ownership of the means of production and in a partition of profits. The ideal co-operation is considered to consist in long-term agreements between a Bulgarian and a western enterprise. Under such agreements the western enterprise provides know-how, modern technologies, licences, patents, sometimes also high quality machines and equipment - if possible on a credit basis. The credits are paid back with co-operation products.

This form of co-operation was designed in Sofia on the lines of the Soviet model. According to latest information Bulgaria's economic leadership also shares Moscow's negative attitude concerning the establishment of "mixed companies" in their country.

An optimistic estimate of Bulgaria's foreign trade activities in this direction shows that Bulgaria might become an attractive trading partner on western markets as well as within the COMECON in the long run. A precondition for this is, however, that Bulgaria continues her present policy and concentrates on the improvement of internationally competitive industrial branches and products.

Under the aspect of economic growth problems Sofia's efforts to achieve scientific and technical progress play a special rôle.

Parallel to industrial and agro-industrial concentrations research and cadre training centres have been established which led to a concentration of the research and teaching potential. It is the aim of this measure centrally to implement complex research tasks in co-operation with the Academy of Sciences and the University of Sofia. The research centres within the economic units, on the other hand, are only concerned with tasks of applied research.

Although the guiding principles for Bulgaria's research work are emanating from the research division of the COMECON Committee for Co-operation in planning the national interest is nevertheless predominant. As a result of the research work Bulgaria hopes to gain important impulses for speeding up industrialization, for a solution of the problem manpower/productivity of labour and, last not least, for perfect planning as a guarantee for continuous economic growth.

Ad Parts II and III of the Report

In realization of the growth problems described and in view of Bulgaria's present long-term economic and research policy Sofia has not excluded a slowing down of economic growth between 1971 and 1975. Therefore the planning targets have been set realistically. However, the development during the current Five Year Plan period even lagged behind these targets. The speed of growth was reduced to an extent not expected by the Bulgarian economic leaders and this is an indication of difficulties.

The unsatisfactory results were not shown in the report on the fulfilment of the Plan for 1971. Although price adjustments came into force on 1st January, 1971 the prices on which the published rates of growth and the absolute values were based were not given and it was stated that the planning targets - except in agriculture - had been reached. One year later, however, Bulgaria admitted other results in the official statistics.

According to the report on the fulfilment of the plan, for 1971 the rate of growth of the produced material net product was 9.4% compared with 1970 (Plan: 9%). The official statistics, on the other hand, showed an increase of the produced material net product of 7% on a fixed price basis and a decrease of 1.2% at current prices. According to the report on the fulfilment of the plan, it could be assumed that this decrease was due to the price adjustments. However, detailed data in the official statistics concerning accrual and utilization of the material net product call such an assumption into question.

- The reduced value of the produced material net product in 1971 compared with 1970 is only due to the fact that in the sector trade and commerce the figure indicated was 42% below that for 1970. The structure of the accrual of the material net product at fixed prices, on the other hand, shows for the trade sector the same percentage as for 1970; this

ADDENDUM to
AC/127-D/434

-6-

means that, based on fixed prices, a growth similar to that of the material net product - i.e. 7% - should have been achieved also in the trade sector. From these differences in the official data it could be concluded that in this sector price reductions have been extremely important but this is not confirmed by any official or unofficial data, press reports or references.

- The utilized material net product increased according to the official statistics (at fixed 1970 prices) only by 1.6% compared with 1970 - thus considerably slower than the produced net product. This different speed of growth would be explainable in case of an overall favourable economic development if exports had increased more rapidly than imports. However, the actual development in the foreign trade sector was just the opposite in 1971.
- Also on the basis of fixed 1970 prices the accumulation decreased by about 12% in 1971 compared with 1970; capital investments could be increased by only 1.7% during this period.

In view of these findings the various contradictions have to be attributed to economic difficulties and growing losses in Bulgaria's economy.

The data on fulfilled planning targets shown in the report on the fulfilment of the plan for 1971 also require correction, such as - to mention only some of them -

1. Increase of industrial gross production:
 - according to the plan fulfilment report + 9.5% without indicating the price basis;
 - according to official statistics + 4.6% at current prices, + 9% at fixed prices.

The difference between the latter data can be explained by price reductions.

2. Increase of agricultural gross production:

- according to the plan fulfilment report + 3.1% (target 7.1%);
- according to official statistics + 4.6% at current prices, + 2% at fixed prices.

The difference indicates higher purchase prices.

3. Increase of house building (calculation based on the number of completed sq.m of housing space):

- according to the plan fulfilment report + 18.7%;
- according to official statistics + 8.7%

4. Increase of gross investments:

- according to plan fulfilment report + 5% (target + 4.7%);
- according to official statistics at prices on 1st January, 1971 + 1.7%

At fixed 1970 prices about + 4%. Considering the Five Year Plan target - 20,000 to 21,000 million Lewa - gross investments lagged behind the planned annual average by about 13%.

On account of this experience press reports on the plan fulfilment in 1972 have to be regarded with reserve. It is true that Bulgaria's economic leadership frankly admits that the industrial growth decreased last year compared with 1970 and 1971, but they emphasize that the rate of growth of the industrial gross production of 8.3% was still higher than the planning target of 7.7%. However, there is no reminder in the press that the planned increase of industrial gross production had been corrected after the establishment of the plan for 1972 and had been raised from 7.7% to 9%. Measures of rationalization and additional tasks which allegedly had to be fulfilled served as arguments for the raised planning target. The provisional result shows that this project could be realized to a very minor extent only.

The economic difficulties which have to be assumed because of the various discrepancies between the data on economic development are confirmed by information referring especially to the second half of 1972. The Bulgarian press frequently criticized, for instance, the lack of working morale and

ADDENDUM to
AC/127-D/434

-8-

discipline, the higher fluctuation and the unsatisfactory performance of the economic units. Moreover, at the end of the year it was additionally stressed that growing inefficiency in the investment sector, such as the non-observation of construction plans and very slow completion of important projects led to a decline in all fields of investment in 1972.

It seems that in the agricultural sector developments in 1972 were somewhat better than in 1971, although the targets have not been reached either. Among the reasons were also unfavourable weather conditions, but bad organization in the employment of manpower, agricultural machines and vehicles played an important rôle.

The reduced growth in the production sector as well as supply difficulties in other COMECON countries were not without effect on the development of Bulgaria's foreign trade operations. As in 1971, imports increased more rapidly than exports in 1972, so that the active trade balance dropped by about 20% compared with 1971. The overall foreign trade volume was also below the planning target.

Considering the development trend noted in 1971 and 1972 the few planning targets published by the Bulgarian leadership for 1973 appear too optimistic. This applies especially to the planned rate of growth of industrial gross production (9.9%) and agricultural gross production (7.4%). Up to now there are no signs from which it could be concluded that the preconditions for the realization of this year's economic targets have improved. On the contrary, it can be seen that Bulgaria's economy will have to bear new burdens. The introduction of the five-day week requires a more rapid increase of the productivity of labour than up to now. The same can be said in connection with the wage increases, higher social expenditures and the reduction of consumer prices to prevent an inflationary disequilibrium on the domestic market.

In view of the economic development within the current Five Year Plan up to now it can hardly be expected that the planning targets will be reached until the end of 1975. On the other hand an accelerated growth after 1975 does not appear impossible. This, however, would require that:

- measures in a certain economic policy sector will not be hampered or even abolished by measures in another sector,
- the difficulties of transition connected with the concentration have been overcome and that no new difficulties will be created by changes of economic policy.

NATO,
1110 Brussels.