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ECONOMIC COMMITTEE

RECENT ECONOMIC TRENDS IN BULGARIA: SUMMARY REPORT

Note by the Chairman

The attached summary report examines economic trends in Bulgaria in 1976. It has been prepared in the light of available published data and information received from delegations.

2. Similar reports on the other East European countries will appear from time to time during 1977.

(Signed) J. BILLY

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This document includes: 1 Annex

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RECENT ECONOMIC TRENDS IN BULGARIA: SUMMARY REPORT

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RECENT ECONOMIC TRENDS IN BULGARIA: SUMMARY REPORT

A. INTRODUCTION

1. Comparatively viewed, 1976 was a mediocre year for the COMECON economies as a whole, and Bulgaria was no exception. This holds true, both in terms of self-imposed goals (Section I) and actual performance of aggregate and industrial variables compared with that of recent years (Sections II/III). Not merely was the 1976 Plan underfulfilled in all but very few sectors, but the economy also showed a clearly decelerating trend, with the exception of gross fixed investment. Although the persistent lack of statistics makes it difficult to pinpoint the precise cause of this slowdown, reportedly, the first six months' results were well in line with the annual Plan targets; but then a decline started in the third quarter which worsened in the final months of the year (Table A).

TABLE A. Quarterly trends of NMP and Industrial Production  
(1976 rates of growth over 1975 corresponding periods)

	<u>NMP</u>	<u>Industrial production</u>	<u>Foreign Trade turnover</u>
(1) First six months	9.0%	9.0%	n.a.
(2) First three quarters	n.a.	8.2%	9.3%
(3) 1976 aggregate	7.0%	8.0%	8.4%
(4) Annual Plan	<u>9.0%</u>	<u>9.2%</u>	<u>n.a.</u>

Source: (1) Le Monde, Dossiers et documents, "L'année économique et sociale, 1976: l'espoir decu", p.73  
(2) BIS, Press Review, 12.1.77  
(3) and (4) Table B, over

B. PLAN IMPLEMENTATION

2. Annual Plan: In sharp contrast with 1975, all but a few indicators of the still expanding Bulgarian economy fell short of the initial Plan provisions (Table B). Factors responsible for the 2% below-target Net Material Product (NMP) result include a substantial gap persisting between planned and realized growth in construction and the overall failure to meet the ambitious industrial target despite some sectoral success. The final results could have been even poorer had not the transport industry partially offset the limited performance of the

other production sectors.

3. Five-Year Plan: The 1976 performance casts doubt on the feasibility of the Seventh FYP 1976-1980 which provides for a 7.7% annual average growth. As shown in Table 1 (at Annex), the Bulgarian planners had in mind a rapid upturn for 1976 so that lower annual growth rates would suffice for 1977-1980. After the 1976 results, either the original 1977-1980 planned slowdown will in fact take place, which will prevent FYP fulfilment, or this trend will be countered by boosted 1977-1980 target. The Bulgarian leadership seemsto have selected the second option, setting 1977 targets generally higher than both the 1976 results and the 1976-1980 planned yearly average (Table 2 at Annex). If the 1977 Plan were fulfilled, the 1978-1980 average annual target would be once again more or less co-ordinated with the FYP provisions. However, there will be no possibility for further lowering of targets in the last years of the current Plan and tight annual plans are to be expected until 1980.

TABLE B. 1976 Annual Plan Implementation  
(Rates of Growth and Fulfilment Indexes)

	<u>Plan</u>	<u>Actual</u>	<u>Fulfilment index</u> (actual/plan x 100)
<u>A. Macroeconomic variables</u>			
NMP	9.0	7.0	98.2
Gross fixed investment	4.4	11.0 <sup>a</sup>	106.3 <sup>a</sup>
Consumption (total)	7.5	6.3	98.9
Social consumption	8.2	6.7	98.6
Retail trade	7.8	7.3	99.5
Foreign trade turnover	over 8.4	8.4	underfulfilled
Per capita real income	4.8	4.4	99.6
Labour productivity	8.8	7.0	98.3
<u>B. Sectoral variables</u>			
Agricultural output	5.0	3.1	98.2
Industrial output	9.2	8.0	98.9
Construction	8.0	4.4	91.7
Transport (goods)	10.0	16.7	106.1

<sup>a</sup> Preliminary rough estimate

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C. MACROECONOMIC TRENDS

4. Given the structure of the Bulgarian national accounts, it is not possible to give an aggregate expenditure breakdown of NMP in current monetary units (leva)(1). Such a breakdown is only given to the UN, but the time lag is so wide that those data are useless for current analysis(2). Nevertheless, the trends of certain aggregates may be reconstructed, utilizing the information provided by the UN, the Bulgarian Statistical Yearbook and the annual rates of growth disclosed by the Bulgarian media when assessing Plan implementation (Table 3 at Annex).

5. Net Material Product: Last year, Bulgarian NMP exceeded fifteen million leva, but its growth rate was the lowest experienced since 1971, when - as in 1976 - it amounted to some 7% (Table C). According to official sources, the entire growth was due to increased labour productivity. This is certainly a positive feature; nevertheless, this productivity was accelerated through an unusually high, far above Plan, investment volume. However, the productivity growth (7%) not only was substantially below Plan average (8.8%), but also showed a marked decline over the 1975 level (8.7%). Nevertheless, this increase in productivity can be considered as substantial.

TABLE C. Growth Rates in Aggregate Variables 1973-1976

	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
Net Material Product	8.1	7.8	9.0	7.0
Gross fixed investment	7.2	8.1	8.2	11.0 <sup>a</sup>
Consumption	7.0	7.6	n.a.	6.3
Foreign trade turnover	13.6	24.2	23.8	8.4
Labour productivity	11.0	5.8	8.7	7.0
Per capita real income	8.5	4.9	5.6	4.4

<sup>a</sup> Preliminary rough estimate

6. Consumption: The growth of total consumption was the lowest ever recorded hitherto in the 1970s. This is probably the outcome of a sluggish increase in real per capita income (the weakest since 1971). Nevertheless, retail sales - which represent the overwhelming part of personal consumption - were

(1) 1 ZUS = 0.96 leva

(2) For the latest figures available on NMP breakdown into personal and social consumption, net fixed capital formation, increase in stocks, losses and balance of trade, see UN Yearbook of National Account Statistics 1975, New York, 1976 p.147

up by 7.3%, i.e. 0.5% less than planned, but 1% more than total consumption. This would lead one to assume a very slow upturn in consumption other than personal. But public consumption increased by 6.7%, i.e. more than total consumption (6.3%). The reconciliation of these figures is impossible on the basis of data so far disclosed by the Bulgarian authorities.

7. Investment: Gross fixed investment in 1976 amounted to 5.5 billion leva, a sharp overfulfilment of the Plan target and the sole exception to the generally slackened pace of growth of macroeconomic variables. Even if such overfulfilment is more a rule than an exception, the 1976 growth rate reported at 11% was by far the highest in the seventies, and probably motivated the planners to raise 1977 investments to unprecedented levels. As to the composition of investment, the only data released by official sources were that 54% was used for reconstruction, modernization and expansion of existing productive capacity. This was a far cry from the Plan target, which required 55% to be earmarked for modernization and reconstruction alone, and an additional 20% for expansion of already existing capacity. (No other information is available on the utilization of the remaining part of the investment.)

8. Manpower: The demographic growth rate was 0.67% (Population 1976: 8.71 million). Bulgarian population of working age (15-64 years) was 5.847 million in 1975 and around 5.863 million in 1976 (average growth rate in 1976-1980: 0.27%). The number of students in all educational establishments remained 17% of the population. So far, no serious labour shortage seems to exist, although signs of bottlenecks have started appearing as a consequence of the depletion of agricultural manpower reserves on the one hand, and scarcity of skilled labour on the other.

D. SECTORAL TRENDS

9. Agriculture: As a result of very good harvests and yields for wheat and barley and of good performance in other crops (sugar beets, tomatoes, grapes, potatoes, apples and tobacco), the farm sector in 1976 grew at the rate of 3.1%, a reasonably good performance, although much lower than planned. There is little doubt that the planners were over-optimistic in projecting a 5% growth rate in 1976; they were certainly influenced by the 7% increase of 1975, which was merely a recovery after the previous two years' disasters (Table D). Among the reasons for such optimism was the agricultural reform programme decided upon at the 1968 Party CC Plenum and vigorously started in 1970 with the creation of 133 "Agro-industrial complexes". These concentrated state and collective farms into much larger units with two goals in view: (1) redistributing the productive tasks (e.g. all hogs to one unit, all corn to another), and (2) giving the farms direct control over their own processing facilities. By the end of last year, for example, 25% of all

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agro-industrial complexes had acquired their own canning factories for fruits and vegetables.

TABLE D. Sectoral Rates of Growth (at constant prices)  
1973 - 1976

	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
Industry	9.3	8.5	9.9	8.0
Agriculture	1.3	-1.9	7.0	3.1
Construction	8.5	8.1	5.7	4.4
Transport	n.a.	n.a.	n.a.	16.7

10. Contrary to initial declarations, as a result of this merger process, the state and collective farms began to lose their identity: by the end of 1975, 83 agro-industrial complexes (or more than half the total) had abolished the autonomy of the individual farms. Together with the development of agro-industrial complexes, so-called "industrial-agricultural complexes" (1973) and "scientific production complexes" (1974) began to emerge. Both entities are forms of agricultural concentration, the former with industrial activities and the latter with research purposes as the main goal (1). The merger process culminated in August, 1976, with the establishment of the National Agro-industrial Complex, under the aegis of the Ministry of Agriculture and the Food Industry. This nation wide organization is intended to take over management of the country's agriculture, food industry and related activities.

11. Industry: The industrial growth rate in 1976 recorded its lowest increase so far in the seventies. Despite the slow-down, an 8% growth rate can only be considered negative if compared with the ambitious 9.2% target set by the planners. All the main branches of industry show underfulfilment of different magnitudes, as shown in Table E.

TABLE E. Industrial Performance of Selected Branches in 1976  
Rates of Growth

	<u>Plan</u>	<u>Actual</u>
Machine building	14.4	13.0
Chemical industry	13.4	5.3
Building materials	13.1	8.1
Light industry	9.0	5.3
Food industry	9.0	7.7

(1) Further information on this variety of "complexes" can be found in RFER, 14th February, 1977

Some of these results are not surprising. Underfulfilment in the light industry could well reflect below Plan per capita income and consumption increases. Poor results in the building material sector go hand in hand with a drastic downward trend in the construction activities.

12. Among the industries which fared well in 1976, the following are to be mentioned: tractors, electric trucks, motor trucks, electrical and metallurgical products and computer products; the last being the pride of the regime. Nevertheless, some high output increases ( +34.3% in computers) reflect, in reality, a low base for measuring growth. As to the energy sub-sector, the only information so far disclosed by the Bulgarian authorities refers to electric power production, which rose from 25.2 billion kWh in 1975 to 27.7 billion in 1976, a growth rate of 9.9%. As the annual Plan target was not disclosed, it is impossible to state whether such a performance was in line with its provisions. However, it is above the average FYP target, set at 9.1 %.

13. Construction: In 1976, this sector showed the weakest sectoral implementation index: 4.4 % increase (Plan : 8 %), which is the lowest growth rate attained since 1971. These poor results are all the more surprising as investment expenditure in this sector was far above the Plan and construction accounts generally for between 45% and 50% of gross fixed investment. Completed construction work (valued at 2.17 billion leva) included projects such as cellulose and paper plant, artificial silk plant and road construction. As for the housing sub-sector, 63,000 apartments were constructed, with a reported increase of 6,000 over 1975. This is still far below the level needed to attain the planned 420,000 apartments in 1976-1980.

14. Transport: The sectoral results of freight transport were very positive; the fulfilment index being 106.1. However, the causes of such an upturn are not clarified by the data so far released.

#### E. FOREIGN TRADE

15. Trade Turnover: The growth of foreign trade turnover last year dropped from 24.2% in 1974 and 23.8% in 1975 to 8.4%, the lowest rate in this decade. This contraction was probably the result of an attempt to reduce the trade balance deficit, which had already reached disquieting levels in 1974 (-475 million leva) and 1975 (-696 million leva). Exports to socialist countries rose by 14.9% and imports by 10.2%, (as compared with a planned increase of 22.6% in total turnover), whereas exports to non-socialist countries rose by 13.1% and imports declined by 15.3%. The total



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effect was, therefore, to reduce the imbalance substantially(1), but at the price of reducing dramatically the volume of trade, (no Plan data were disclosed for trade with non-socialist countries).

16. Hard Currency Indebtedness: The cut in imports from non-socialist countries and the parallel increase in exports contributed to diminishing the rate of increase of the hard currency debt(2), estimated at around \$1.8-2.0 billion at end 1975 and \$2.3 billion at end 1976 (Table 4 at Annex). This makes Bulgaria one of the most heavily indebted COMECON countries, after Poland.

As shown in Table F below, the hard currency indebtedness is growing much faster than exports to the industrial West so that the Bulgarian debt was, in 1976, a record six and a half times as much as the value of exports to OECD countries. Such a level of foreign debt certainly represents a major constraint for the economy as a whole and could undermine the country's capability to obtain further financing facilities in the West.

TABLE F. Bulgarian Exports and Indebtedness to Hard Currency Countries. (Million current dollars 1970, 1974 - 1976)

	<u>Exports to Industrial West(1)</u>	<u>Indebtedness to Industrial West(2)</u>	<u>Indebtedness % ratio(2)/(1)</u>
1970	226	700	310
1974	352	1,200	341
1975	318	1,800	566
1976	(350) <sup>a</sup>	2,300	(657) <sup>a</sup>

<sup>a</sup> Directorate rough estimate

- (1) The balance of trade deficit was probably down to around 200 million leva. A.T., "Les resultats économiques de la Bulgarie en 1976", in Le Courrier des pays de l'Est, February, 1977, Table pp. 27-29, offers the following estimates of Bulgarian foreign trade (in million leva): Exports to Socialist countries, 4115; Imports from Socialist countries, 4133; Exports to capitalist countries, 1001; Imports from capitalist countries, 1189; Total exports, 5116; Total imports, 5322.
- (2) Tourism receipts probably helped to reduce the growth rate of the foreign debt. The Bulgarian authorities are putting increasing emphasis on this activity as a source of foreign exchange. Unfortunately, quantitative information on last year's results in this respect are not yet available.

E. CONCLUSIONS AND PROSPECTS

17. The general picture of the Bulgarian economy in 1976, as outlined in this paper, is not particularly bright despite the fact that actual rates of growth were all much higher than the average of COMECON economies (+7% in NMP, +8% in industrial production, and +3.1% in agricultural output). Moreover, the welfare of the population continued to improve last year, despite very substantial investment rates. Indeed, food products, clothing and other staple commodities showed increases, varying from a minimum of 2% to a maximum of 14%, (with automobile sales up 7.9%).

18. Nevertheless, there are at least three major reasons to pass a negative judgement on last year's performance. First, the very concept of Net Material Product is so devised as to include only the fastest growing sectors of the economy and those where productivity gains are highest. Indeed, it excludes the greatest part of services - such as education and health - whose growth rates are usually the most sluggish in the whole economy. Therefore, a 7% growth in NMP is less - sometimes much less - than equivalent to a 7% growth in Net National Product (Western concept)(1). Second, the 1976 performance showed wide sectoral Plan underfulfilment which means that major mistakes were certainly made in the Plan-building phase. This impression is supported by the otherwise hardly explainable re-shuffle of June, 1976 at ministerial level and in the higher ranks of the bureaucracy, followed this February by the dismissal of the Minister for Foreign Trade. Third, the 1976 results are symptomatic of a decreasing trend in growth rates, which the planners were not able to foresee, but which, in part, can be attributed not to errors, but to external circumstances, such as increasing prices of imported raw materials, including Soviet oil or the need to check the growing trade imbalance and foreign indebtedness.

19. However, planners again established very ambitious goals in order to make 1977 a catch-up year after the slack of 1976. These targets, though, have little probability of being achieved, in view of the old and new obstacles to development such as deterioration of terms of trade; growing hard currency indebtedness; unsatisfactory labour productivity - even if concealed by spurious nominal gains stemming from high additions in capital per worker; a certain lack of competence in management, fostered by Party nepotism; and finally, certain manpower constraints. To overcome these hindrances, much more than increased Soviet aid and widening intra-bloc integration would be required.

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(1) Net National Product (NNP) equals GNP minus depreciation allowances.

TABLES AND CHART

- TABLE 1 - Consequences of 1976 performance on Five-Year Plan 1976-1980. Annual average rates of growth.
- TABLE 2 - 1977 Plan and residual targets until 1980. Annual average rates of growth.
- TABLE 3 - Main aggregates of the Bulgarian economy. Million current leva, 1971-1976.
- TABLE 4 - Eastern Europe: Net hard currency debt. Billion US \$.
- CHART 1 - New structure of the agro-food sector in Bulgaria.

TABLE 1

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Consequences of 1976 performance on Five-Year Plan 1976-1980  
Annual average rates of growth

	<u>1976-80</u> <u>(Plan)</u>	<u>1977-80 Residual targets</u>	
		<u>(Plan)</u>	<u>(After 1976 performance)</u>
NMP	7.7	7.4	7.9
Gross fixed investment	7.6	8.4	6.8
Retail sales	7.0	6.8	6.9
Foreign trade turnover	9.9	n.a.	more than planned
Per capita real income	3.7	3.4	3.5
Labour productivity	7.7	7.4	7.8
Industrial output	9.2	9.2	9.5
Agricultural output	3.7 <sup>a</sup>	n.a.	more than planned

<sup>a</sup> Five-Year average over previous Five-Year average

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TABLE 2

1977 Plan and residual targets until 1980  
Annual average rates of growth

	<u>1976-80</u> <u>(Plan)</u>	<u>1976</u> <u>(Actual)</u>	<u>1977</u> <u>(Plan)</u>	<u>1978-80</u> <u>Residual</u> <u>annual</u> <u>targets</u>
NMP	7.7	7.0	8.2	7.8
Gross fixed investment	7.6	11.0 <sup>b</sup>	10.6	5.5
Retail sales	7.0	7.3	7.0	6.9
Foreign trade turnover	9.9	8.4	n.a.	n.a.
Per capita real income	3.7	4.4	4.5	3.2
Labour productivity	7.7	7.0	8.1	7.8
Industrial output	9.2	8.0	9.2	9.6
Agricultural output	3.7 <sup>a</sup>	3.1	4.0	n.a.

<sup>a</sup> Five-Year average over previous Five-Year average

<sup>b</sup> Preliminary rough estimate

TABLE 3

Main aggregates of the Bulgarian economy  
Million current leva, 1971-1976

	<u>Consumption</u>	<u>Gross fixed investment</u>	<u>Foreign trade turnover</u>	<u>NMP</u>
1971	7,974	3,609	5,033	10,411
1972	8,490	3,953	5,609	11,242
1973	9,100	4,236	6,372	12,148
1974	9,800	4,578	7,916	13,093
1975	n.a.	4,953 <sup>a</sup>	9,798 <sup>a</sup>	14,271 <sup>a</sup>
1976	n.a.	5,500 <sup>a</sup>	10,621 <sup>a</sup>	15,270 <sup>a</sup>

<sup>a</sup> Preliminary

Source: 1971-1974: Bulgarian Statistical Yearbooks. Data for 1975-1976 are calculated on the base of reported annual rates of growth

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TABLE 4

Eastern Europe: Net-Hard Currency Debt

	Billion US \$			
	<u>1970</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
Total Net Debt of which:	<u>6.5</u>	<u>18.2</u>	<u>29.0</u>	<u>39.1</u>
USSR	1.9	5.0	10.0	14.0
Poland	0.8	3.9	6.9	10.0
East Germany	1.0	2.8	3.8	4.8
Romania	1.2	2.6	3.0	3.3
Hungary	0.6	1.5	2.1	2.6
Czechoslovakia	0.3	1.1	1.5	2.1
Bulgaria	0.7	1.2	1.8	2.3
Portion held by Commercial Banks in the West(1)(2) of which:	0.5	6.4	15.3	20.6(3)
USSR	n.a.	-0.1	4.7	7.0
Poland	n.a.	1.7	3.4	4.4

- (1) Data include net East European liabilities in Western domestic currencies as well as Eurocurrencies. The data series is inconsistent because of reporting changes over time. The 1970 data represent net liability positions vis-à-vis reporting banks in Belgium, France, Germany, Italy, the Netherlands, Sweden, Switzerland, and the United Kingdom. The 1974 data also include reporting vis-à-vis banks in Luxembourg, Canada, Japan, and the US. Yearend data for 1975 and for the third quarter of 1976 include positions vis-à-vis offshore branches of US banks.
- (2) Estimated. Incomplete reporting from Swiss, Canadian, US and Japanese banks precludes a precise breakout of net liabilities by individual East European country.
- (3) As of 30th September, 1976.

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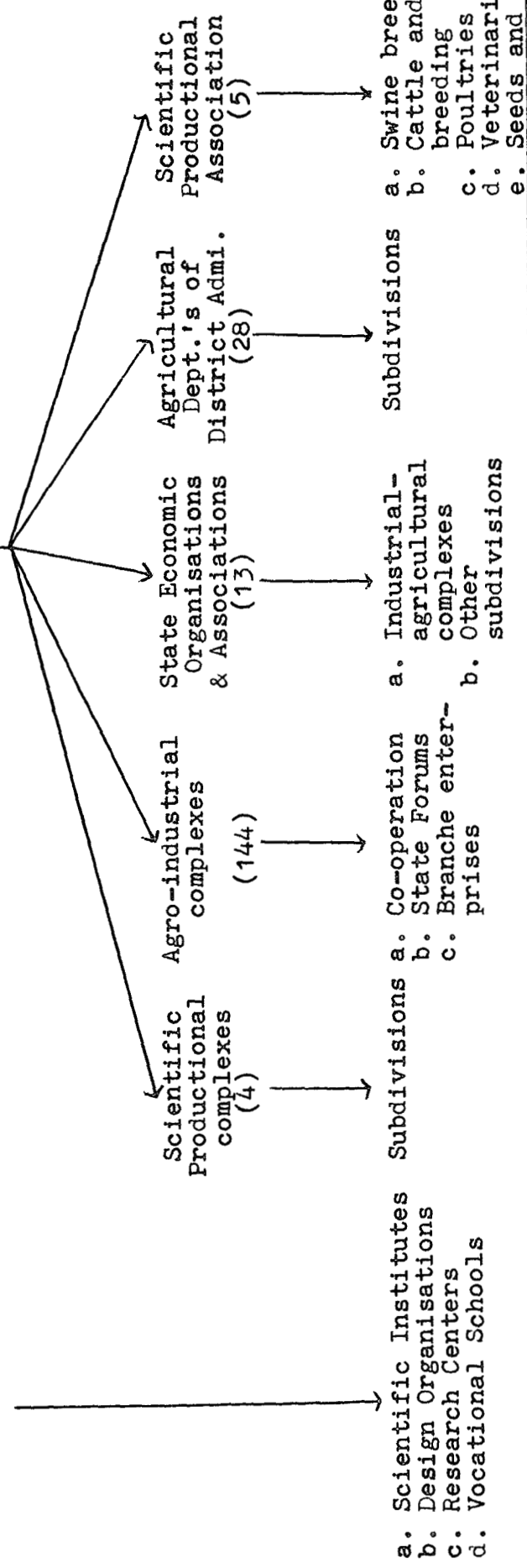
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CHART 1. NEW STRUCTURE OF THE AGRO-FOOD SECTOR IN BULGARIA  
MINISTRY OF AGRICULTURE AND THE FOOD INDUSTRY

NATIONAL AGRO-INDUSTRIAL COMPLEX

AROUND 200 AUTONOMOUS ECONOMIC ORGANIZATIONS

25 SUBDIVISIONS



FIRST LEVEL OF MANAGEMENT  
SECOND LEVEL OF MANAGEMENT  
THIRD LEVEL OF MANAGEMENT

Source: The data at the base of the above graph are drawn from Radio Free Europe Research, RAD Background Report/34, 14th February, 1977

Note: The National Agro-Industrial Complex represents:

- 27% of National Income
- 29% of Gross National Product
- 32% of Exports
- 45% of Goods for the home market

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