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SUB-COMMITTEE ON SOVIET ECONOMIC POLICY

ECONOMIC REVIEW OF INDIVIDUAL EASTERN EUROPEAN COUNTRIES

B U L G A R I A

Draft Report to the Committee of Economic Advisers

Note by the Chairman

Having completed, by the middle of 1965, the examination of economic developments in each of the Eastern European countries, the Sub-Committee began a second series of reviews with a meeting on Czechoslovakia(1). In this new series, a session held on 27th April, 1967(2) was devoted to Bulgaria.

2. As instructed by the Sub-Committee, the Economic Directorate has prepared the attached draft summary report on the Bulgarian economy and trade policy for the attention of the Committee of Economic Advisers which, in accordance with the established procedure, may wish to forward it to the Council.

3. This draft will be put on the Agenda of the next meeting of the Sub-Committee.

(Signed) A. VINCENT

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OTAN/NATO,  
Paris (16e).

- (1) C-M(67)1  
(2) For a record of this meeting, see AC/89-D/57(Draft)  
(3) AC/89-R/89, Item I(2)(i).

NATO CONFIDENTIAL

ECONOMIC REVIEW OF INDIVIDUAL EASTERN EUROPEAN COUNTRIES

B U L G A R I A

Draft Report to the Committee of Economic Advisers

The present report on Bulgaria's economy, established in the light of a meeting of experts in April 1967, is intended to bring up to date the previous report submitted to the Council in 1965(\*). It describes briefly progress made in the implementation of the economic reforms, as well as the main developments in the domestic economy and in the country's external economic relations.

I. REFORM OF THE ECONOMIC SYSTEM

2. Bulgaria is, with Albania and Rumania, one of the less developed countries of Eastern Europe(1). While the two latter countries do not seem to have felt the need for relaxing their system of central planning, Bulgaria has embarked on economic reforms. Although her planners have given a lot of thought to them, it seems that their intentions in this respect were reinforced by the example of the USSR. However, when it came to implement the reforms, delays occurred. The first decision to overhaul the system of planning and management was taken at the eighth Party Congress in November 1962, but it was only in December 1965 that a complete and official description of the measures envisaged was published. It was then announced that experiments would be carried out in selected enterprises. In his report to the ninth Party Congress in November 1966, Prime Minister Zivkov indicated that the reforms were still in the initial period of application and did not hide that obstacles would have to be overcome in order to apply them throughout the economy. At the same time, the Bulgarian leaders committed themselves to do so and the reforms are now being pushed ahead at a faster pace than before.

3. The economic reforms show the following general characteristics:

- the decentralisation of decision making to "economic associations", which are expected to take over most of centralised planning from the national planning agencies, to conduct business with the individual enterprises on the basis of contracts, and thus largely determine the degree of the individual enterprise's autonomy;

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- a strengthening of economic incentives by establishing closer ties between wages and the enterprises' performance. Wages will be in future made up of two components: a large state-guaranteed portion and a variable incentive part which will depend on the contribution to total production by the individual worker;
- a price system with three categories: fixed, variable and free. The prices of means of production and essential consumer goods will be determined by the State. Prices for the remaining products will be determined either by the enterprises within a limit fixed by the State, by contracts between enterprises within maximum and minimum prices fixed by the State or freely negotiated between the producer and the trade organizations(2);
- changes in the centrally planned targets that are mandatory for the enterprise coupled with greater emphasis on net value added and the rate of profitability as main success indicators.

4. The Bulgarian leaders want to avoid the economic reforms going out of hand; they have kept essential tools of control which might be used at the first signs of economic disequilibrium.

## II. INTERNAL ECONOMIC TRENDS

5. Bulgaria's economy has expanded rapidly over the past decade. According to Bulgarian statistics(3), national income increased on the average by 9.7% per year during the planning period of 1956-1961 and during the period 1961-1965, although the planned figure of 9.8% could not be reached, a rate of 6.5% was achieved, one of the highest in Eastern Europe. In 1966, the growth rate reached 11%(4), which led the Bulgarian planners to raise from an original 7% to 8.5% their target for the period 1966-1970(5).

6. Whether this goal will be reached will depend to a large extent on the developments in industry, which, after the rapid growth of the last ten years - 15.9% during the period 1956-1961 and 11% during 1961-65 - now accounts for about 47% of the net material product. In spite of some slowing down in the pace of expansion at the end of 1966(6), the increase in industrial production last year reached 12.2% and Bulgarian planners are aiming at a further increase of 11.3% this year and about the same rate, or even a slightly higher one, for the whole period 1966-1970. Industrial production will, of course, depend on the rate of progress in labour productivity(7). For 1967, a considerable fall in the growth of employment is planned(8), whereas labour productivity should almost double(9). This, of course, implies that the required investment, and in particular modern equipment from abroad, is available. In 1966 the rise in industrial employment, mainly of unskilled labour, exceeded the plan and correspondingly labour productivity lagged behind what was scheduled. It is uncertain, however, whether this development represents a valid indication for the future.

7. Agricultural production grew more slowly than industrial output and its results were very uneven: an average of 5.7% in 1956-1960 and 3.2% in 1961-1965. A rate of 5.4% is foreseen for the period 1966-1970. Last year, agriculture showed exceptionally good results. There was an increase by 15%, a figure all the more impressive because 1965 was a bad year(10). However, this achievement is entirely due to an increase of 20% in crop output(11). Given in particular the influence of climatic conditions, it is difficult to deduce from it that the plan for the coming years will be fulfilled.

8. In spite of the intensive collectivisation of agriculture, private plots represent a growing part of the arable land (over 10% in 1966) and enter for a significant share in total output: 15% for grain, over 30% for livestock and even higher figures for potatoes, meat, eggs and honey(12).

9. The growth rate of investment in the Bulgarian economy has been very uneven in past years(13). In 1966, the growth of total investment reached 24%(14), mostly, it seems, owing to large imports of machinery(15) from abroad, financed by credits. In these capital outlays, the state sector had the lion's share (16) whereas investment by agricultural co-operatives hardly rose at all(17). There has also been a shift in investment towards trade and services(18) and it seems that in the period 1966-1970 there will be an increase of fixed outlays in industry and a decline in agriculture(19). For 1967, the growth of investment has been planned at about 14%(20).

### III. EXTERNAL ECONOMIC RELATIONS

10. The rapid growth of the Bulgarian economy was greatly facilitated by the expansion of foreign trade from 1955 to 1965. The trade turnover (imports + exports) has increased on the average by 15.5% per year since 1964, and the growth rate was 19% in 1966. The rise was faster over the past ten years for trade with Western countries (27%) than for trade with Communist countries (10%). Bulgaria conducts about 74% of her trade with these latter countries and, although this percentage has decreased somewhat over the past years(21), it is still by far the highest of any of the Eastern European countries(22).

11. The USSR alone accounts for over 50% of Bulgaria's trade(23). Her trade turnover with Bulgaria has risen by 14% as an annual average during the period 1961-1966 and, although some decline in the growth rate may be expected, agreements between the two countries aim at a further increase - the fastest in Eastern Europe - to some 10% a year through 1970. A treaty of Friendship, Co-operation and Mutual help signed in Sofia on 12th May, 1966, for a period of 20 years provides for closer economic co-operation between the Soviet Union and Bulgaria, who is to be even more closely tied to the industrial nucleus of COMECON.

12. Bulgaria is deriving considerable benefit from membership of COMECON. She is, therefore, not resisting - as some other member countries do - the existing plans for closer co-operation and integration in COMECON. Long-term agreements with other COMECON countries assure Bulgaria's economy of outlets for products which otherwise would become difficult to sell somewhere else. 95% of Bulgaria's machinery exports(24) unsellable in the industrialised countries of Western Europe, go to COMECON countries, in particular to the Soviet Union, Czechoslovakia and the Soviet zone of Germany. Plans for the period 1966-1970 provide for a particularly marked increase in trade with Rumania.

13. Given these prospects, there are obviously limits to the expansion of economic relations between Bulgaria and the Free World. In 1966 Bulgaria's trade deficit with OECD countries rose to \$163.2 million. In relation to her size and volume of trade, her total indebtedness is one of the highest in the Communist world: over \$300 million at the end of 1966, the largest part of it to be repaid within five years. At the end of 1966, outstanding credits granted by NATO countries alone to Bulgaria amounted to \$285 million, of which \$37.5 million were long-term credits. In spite of this Bulgaria seems to be anxious to avoid going over to a system of bi-lateral balancing of trade with Western industrial countries and she continues to accept from them imports of modern equipment. She has already concluded several arrangements for joint undertakings with Western firms in order to be assured of technical know-how and at the same time of an outlet for products in the West. She has also shown some interest in co-operation with international economic bodies, such as GATT and FAO.

14. Receipts from tourism somewhat offset Bulgaria's trade deficit. They are reported to have reached \$40 million in 1965, about half of which was in hard currencies, and they may continue to increase in the future. The flow of tourists into Bulgaria not only helps the balance of payments of this country, but at the same time it involves many personal contacts with the local population and cannot fail to have an impact on its political outlook, in particular in giving it a truer picture of living conditions abroad.

#### IV. CONCLUSIONS

15. In short, the Bulgarian economy (by contrast with the note of caution included in the previous report submitted to the Council)(\*), has continued to expand at a rapid rate and it is planned to maintain a fast pace of expansion in future years. The economic reforms now implemented may after a transitional period assist in achieving this. The economic progress of Bulgaria, has, however, depended largely on foreign trade and foreign credits. Bulgaria has

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maintained close economic relations with the USSR and co-operation with the COMECON, while obtaining credits for imports of modern equipment from the West, and, in spite of her heavy indebtedness, she intends to continue to do so in the future.

16. In their economic policy towards Bulgaria, Western countries should probably discount the possibility of significantly loosening the ties - both of a political and economic nature - of this country with Soviet Russia. At the same time it cannot be denied that the flow of tourists, in addition to providing Bulgaria with foreign exchange, has probably made a psychological impact on the local population. Also, the West has an economic interest in developing trade with Bulgaria which provides an outlet for its industrial exports and is committed to large repayments of Western credits. On the other hand, Western countries should be careful not to over-play their hands in matters of credits to the point where the credit worthiness of Bulgaria might be in danger. In developing economic relations with Bulgaria, care should also be taken not to damage the legitimate interests of Western countries, especially those which are still in the course of development.

17. With these qualifications, Western countries should consider favourably the interest that might be derived from Bulgaria's entering into contact with international economic organizations of the free world. They should take such steps as they feel to be appropriate with a view to expanding trade with Bulgaria and to facilitate the access of Bulgarian products to their markets. Joint projects between Bulgarian enterprises and Western firms should also be encouraged. As was already emphasised in the previous report, Western countries should pursue an economic policy flexible enough to allow them to exploit any opportunity that future economic developments in Bulgaria may offer, and with this end in view should continue to follow such developments closely.

Footnotes referred to in AC/89-WP/218

- (1) GNP per head in 1964 using calculated exchange rate:  
Bulgaria = 690 dollars  
Rumania = 680 dollars  
Source: Joint Economic Committee, Congress of the USA  
1966, Part IV.
- (2) The proportion of products falling into each of these categories has not been fixed. In Czechoslovakia, whose price system has largely served as a model for the Bulgarian price reform, the ratio between fixed, variable and free prices is 64:29:7.
- (3) Pre-publication text of the Economic Survey of Europe in 1966, ECE Geneva, Table 30.
- (4) Against 9% planned.
- (5) In 1967, national income is scheduled to increase by 9%.
- (6) 1966 compared with 1965: I quarter: 14.6%, II quarter: 14.0%, III quarter: 10.1%, IV quarter: 9.0%.
- (7) Growth rates over the past years: 1961 = 9.3%, 1962 = 7.9%, 1963 = 4.1%, 1964 = 7.4%, 1965 = 6.2%, 1966 (Plan) = 6%, actual = 4.5%.
- (8) Plan 1966: 4.3%; actual: 7.4%; Plan 1967: 2.3%.
- (9) 1966: 4.5%, Plan 1967: 8.3%.
- (10) 1963: 2.6%, 1964: 11.4%, 1965: 1.8%.
- (11) 1963: 4.6%, 1964: 10.3%, 1965: - 1.5%.
- (12) Potatoes: 27.3%, meat: 32.2%, eggs: 48.3%, honey (50.5%)  
Source: Statistický ročník 1965.
- (13) 1962: 4.5%, 1963: 14.4%, 1964: 10.2%, 1965: 8.1%.
- (14) In the State sector investment even shot up by 29%.
- (15) The share of machinery and equipment in total investment rose to 48.5% in 1966.
- (16) 86.5% in 1965 (including non-agricultural co-operatives).  
Percentage increase over preceding year: 1962 = 9.3%,  
1963: 18.2%, 1964 = 11.0%, 1965 = 9.5%, 1966 = 29%.

- (17) Share in total investment outlays in 1965 = 13.5%.  
Percentage changes over preceding year. 1962 = -15.2%,  
1963: -3.0%, 1964: 5.8%, 1965: 5.8%.
- (18) Trade (annual changes) 1962 = 18.1%, 1963 = 1.9%, 1964 = 24.5%,  
1965 = 14.6% at current prices.  
Services (annual changes) 1962 = -6.1%, 1963 = 12.4%,  
1964 = 15.0%, 1965 = 22.5% at current  
prices.
- (19) Industry: 1961-64 = 46.5%, 1966 -70 = 52.4%  
Agriculture: 1961-64 = 26.0%, 1966 -70 = 18.4%.
- (20) As a percentage of GNP, gross fixed investment at estimated  
factor cost in constant prices amounted to 23.7% in 1950-54,  
27.7% in 1955-59 and 41.5% in 1960-63. Source: Joint  
Economic Committee, US Congress 1966, Part IV.
- (21) 1963: 79%, 1964: 75%.
- (22) Czechoslovakia: 68.6%, Zone Germany: 70.4% Hungary: 64.9%,  
Poland: 60.4%, Rumania: 60.6%, Soviet Union: 62.3% in 1965.
- (23) Share in total exports: 1960 = 53.7%, 1961 = 50.8%,  
1962 = 50.2%, 1963 = 53.4%, 1964 = 53.1%, 1965 = 52.2%,  
Share in total imports: 1960 = 45.6%, 1961 = 53.4%  
1962 = 56.3%, 1963 = 53.5%, 1964 = 52.7%, 1965 = 49.9%.
- (24) The share of machinery in total exports was 25.2% in 1966 and  
is planned to reach 37% in 1970.