ECONOTIMES: IS BULGARIA A EUROPEAN SUCCESS STORY OR CRISIS WAITING TO HAPPEN?

- 25.09.2018

Novinite (25 September 2018)

Its been a rollercoaster year for Bulgaria. The country kicked 2018 off by holding the EU Presidency from January until June, and winning plaudits from European Commission President Jean-Claude Juncker, who called it a success story worthy of joining the Schengen Zone.

However, the second half of the year hasnt seen quite such clear sailing. With the country languishing at the bottom of the EU for GDP, median wage and corruption, foreign direct investment (FDI) has all but collapsed and deep-seated structural problems have begun to surface – all of which indicate Bulgaria may well turn into Europes next political and economic crisis.

Papering over the cracks

On the surface of things, Bulgaria appears to have made significant progress since its accessionto the EU over a decade ago. Before 2007, living standards in the country were just 34% of the EU average; by 2016, they had jumped up to 53%. Unemployment is down to just 5.7% of the populace than in Belgium or France. The Bulgarian economy has also shown impressively steady improvement; income grows faster, at over 10% per annum, than almost any other country in the EU, while GDP continues to increase by nearly 4% host of promising signs which seem to back up Bulgarian Prime Minister Boyko Borisovs claim that Bulgaria has some of the best conditions in Europe for doing business.

Closer inspection, however, reveals the problems lurking underneath. Despite this apparent progress, Bulgaria remains the poorest nation in the EU, while its citizens take home the lowest average wage (per month) of any country in the bloc. Even the encouraging unemployment figures can be explained away by the mass exodus of skilled young Bulgarian professionals; more Bulgarians now work abroad than in their home country. Thanks to this brain drain, there may be enough jobs for everyone, but industries across the board face a daunting skill deficit.

Perhaps most concerningly of all, Bulgarias much-vaunted economic growth has been largely bolstered by EU funding. The country was earmarked for billion of European aid between 2014 and 2020, cash injections which account for over half of the annual growth rate. With that source of revenue soon to tail off, its difficult to see how the country will be able to maintain the growth which has masked its substantial problems until now.

One culprit: corruption

Chief among those failings is the widespread corruption that pervades the countrys political, judicial and business spheres. According to Transparency International, Bulgaria is more corrupt than any other nation in the EU, bleeding 15% of GDP into the grey (or informal) economy, preventing the nation from realizing its full potential.

While neighboring Romania, which joined the EU at the same time as Bulgaria, has imprisoned scores of high-ranking officials and even unseated a prime minister in the last decade, Bulgarian authorities have taken a lackadaisical approach to tackling the countrys endemic corruption □□□□ have occasionally been hostile to efforts to bring it out into the open, as in the case of two journalists who were recently arrested by Bulgarian authorities while investigating high-level graft in connection with the distribution of EU funding.

Whats more, the countrys anti-corruption institution BORKOR has shown itself reluctant to take on high-profile cases, preferring the lower-hanging fruit of petty offenders. This inability □□□ unwillingness □□□ tackle corruption at its highest level led the European Commission to labelBORKOR fragmented and largely ineffective in its latest report. Indeed, the US State Department has gone so far as to call the Bulgarian judiciary the least trusted institution in the country.

Inhospitable environment for overseas investment

This climate of uncertainty and distrust has put a damper on foreign direct investment (FDI) in Bulgaria. Prior to its accession to the EU in 2007, FDI totaled □□ billion and comprised 28% of GDP. In the ten years since, it has taken a nose dive to just □□□□ billion and a mere 2% of GDP. In the first six months of 2018, FDI fell by a startling 49.5%.

Overseas investors are also wary of receiving unfair treatment from the country compared to domestic companies. The energy sector is a particularly stark illustration of this disparity; since 2013, all three of Bulgarias electricity distributors (EVN from Austria and Energo-Pro and CEZfrom the Czech Republic) have filed arbitration claims against the government. CEZ is even facing fresh aggravation this year as it tries to offload its assets to a private Bulgarian entity, only to find the government intervening once again.

This inhospitable environment, along with pervasive corruption and a dearth of skilled workers, has gradually made Bulgaria an unattractive business proposition for Western investors. Countries such as Russia, with a narrower range of trading partners and ulterior motives of increasing their influence in Bulgaria □□□□□ picked up some of the slack. Russian investment in Bulgarian real estate amounts to around □□□□ billion, while PM Borisov has performed an astonishing about-face on a proposed nuclear power plant relying on Russian technology. Just six years after calling the Belene plant the corruption scheme of the century, Borisov seems determined to resurrect the deal, to the confusion of international media and the consternation of EU leaders.

Honeymoon period is over

Until now, politicians both inside and outside Bulgaria could point to the countrys impressive economic growth rate as evidence of its seamless assimilation into the EU. However, the very funding which facilitated that growth is on the cusp of drying up while Sofia has yet to resolve its deep-seated issues.

With its strategic location between east and west, Bulgaria has the potential to become a hotbed of investment activity. The realization of such a dream, however, will require robust anti-corruption measures, strict law enforcement for all members of society, an even playing field for foreign companies, and legislative reforms to provide more impetus for overseas investment. A failure to enact such changes will likely see Sofia becoming the latest sick man of the European Union.

https://www.novinite.com/articles/192301/EconoTimes%3A+Is+Bulgaria+a+European+Success+Story+or

---

Kaynak/Source: