

# **EU membership and Economic Development – Bulgaria vs. Western Balkan countries**

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## **Bulgarian “shortcut” to membership**

Similarly to other Balkan countries, initiating transition process in the early 1990s aiming to join the European Union (EU), Bulgaria had to completely reform institutions and the overall economic and political system inherited from the period of the pure “Soviet-type” socialism. Facing severe internal political turbulences between pro-EU and anti-EU forces and economic instability, Bulgarian governments in the first decade of the 21<sup>st</sup> century enjoyed strong political support of the EU. It was reflected not only through financial injections, but through providing technical expertise to reforms. Fourteen years after the accession (2007), which has been considered by many authors as relatively premature given the level of economic and institutional development (McKee et al., 2007) and fueled by the geopolitical situation, it is a rational to assess the effects of the Bulgarian EU membership. The case of Bulgaria is particularly interesting for at least two reasons. For other Balkan countries, that have “informally frozen” EU negotiations, it could provide answer to the question whether “shortcut membership” could be also a shortcut for the economic and political convergence. As for the Bulgaria itself, it examines whether the country surpassed chronic inability to catch up with developed economies, as explained by Ganev (2019).

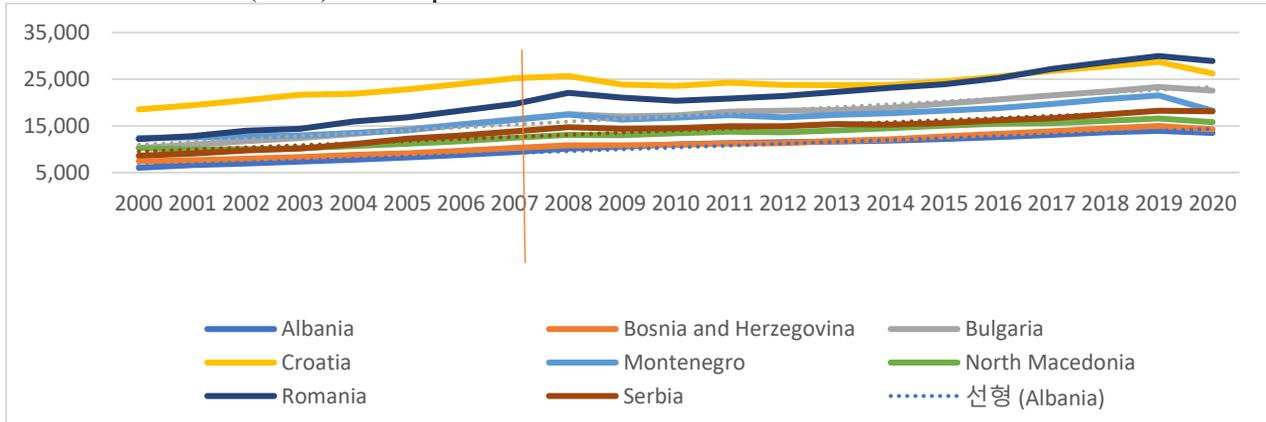
The analysis focuses on development of the main macroeconomic indicators including GDP, employment, exports, inequality, quality of institutions, etc. using historic and comparative approach. It covers comparative trends in Western Balkan (WB) EU candidate countries – Serbia, Bosnia and Herzegovina, Albania, Montenegro and North Macedonia, considered as a control group, with an attempt to simulate counterfactual - a scenario of Bulgaria remaining outside the EU. Additionally, trends in Romania that entered the EU jointly with Bulgaria (2007), and Croatia that entered the EU in 2013 will be considered.

## **Solid macroeconomic improvements – clear benefit of the EU accession**

Macroeconomic stability is a real legacy of the Bulgarian EU accession. Just a brief analysis of the main aggregates confirmed that the integration process brought significant economic benefits and the macroeconomic stability (Yorgova, 2011). Unemployment fell, solid investments inflow enabled GDP to grow at a higher pace if compared to the neighbors, while deficit of the current account balance turned into positive zone. Trade grew strongly from the early 2000s through EU membership and beyond: exports and imports of goods and services increased from 78% to 124% of GDP over 2000-2019 (OECD, 2021). If GDP growth is considered, Bulgaria surpassed most of the CEE countries achieving average growth of 3.22% over the period 2009-2019. Only Romania showed better performance (3.61% in average). GDP growth more than doubled over the period 2000-2020. Only Romania surpassed the average growth of Bulgarian economy, whereas Serbia

and Albania grew at comparable pace, although from the very low base. Gap between Bulgaria and Balkan countries average including Croatia notably widened over the observed period (Graph 1).

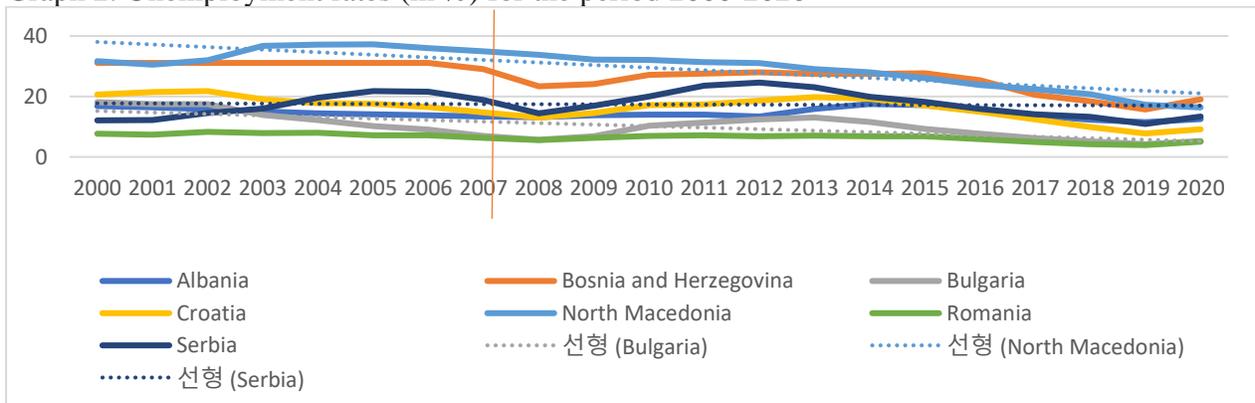
Graph 1. Gross Domestic Product in constant prices (in ths USD), purchasing power parity; international USD (2017) for the period 2000-2020



Source: IMF World Economic Outlook database

Unemployment fell from around 18.1% in 2000 to 6.9% in the year of accession (2007). After increase recorded after the global crisis (2009-2010), it reduced again and stabilized around satisfying 5% over the last three years. It is comparable to Romania and Croatia with rates of around 5% and 9% respectively. Further labour market policy progress in Bulgaria will strongly depend on the opportunity for greater inclusion of the Roma population. Other WB countries are lagging recording double digit unemployment rates (Graph 2).

Graph 2. Unemployment rates (in %) for the period 2000-2020

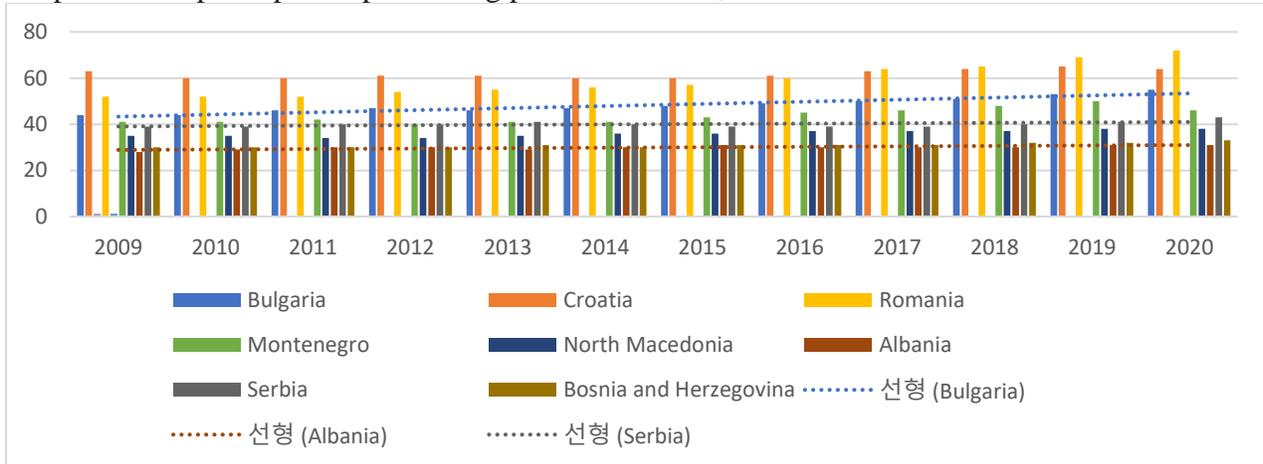


Source: IMF World Economic Outlook database

Discrepancy in real income average has been reducing over the last two decades surpassing 50% of the average of 5 mostly developed EU economies (Ganev, 2019), whereas exports showed significant improvements. Income convergence analysis shows that the gap between Bulgaria and the European Union is slowly but steadily closing. If the GDP per capita in purchasing power standards is considered, we could notice two trends. Firstly, gap between Bulgaria and the EU-27 is slowly reducing. Share of Bulgarian GDP per capita in the EU-27 increased from 44% in 2009

to 55% in 2020. Meanwhile, gap between Bulgaria and other Balkan countries has been notably widened. For the comparative purpose, share of Serbian GDP increased by 4 percentage points accounting for 43% of the EU-27 GDP, whereas Croatia remained stable amounting to 64% of the EU-27 average. Among the observed countries, only Romania showed better performances increasing from 52% in 2009 to 72% in 2020. However, EU average is still far away. Under the baseline scenario, using the average growth rates for the period since 2000, of 3.7 per cent for Bulgaria and 1.7 per cent for the EU, the country could achieve the average GDP per capita in the EU in about 30 years' time (Milatovic and Szczurek, 2019).

Graph 3. GDP per capita in purchasing power standards, EU-27=100\*

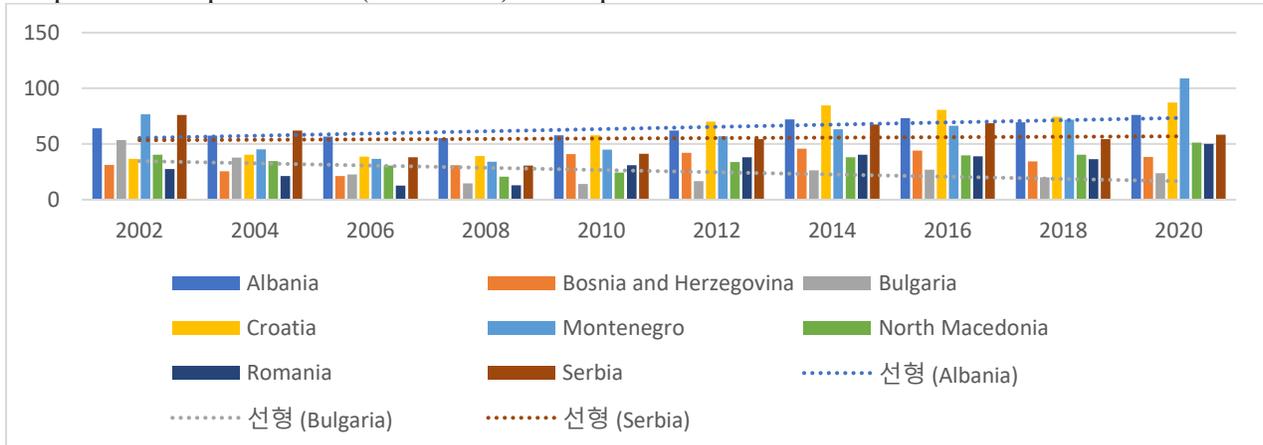


Source: Eurostat

\*EU-27 refers to 27 members of the EU after Brexit (2020)

Finally, another indicator of the macroeconomic stability refers to public debt. In Bulgaria, we could see notable deleveraging trend during the pre-accession period. Due to credible fiscal policy, public debt fell from 53.4% of GDP in 2002 to 22.6% in 2007, remaining relatively stable up to 2020 (23.8%). Public sector indebtedness is considerably higher comparing other observed countries including Romania and Croatia (Graph 4). It is symptomatic that unlike other Balkan countries, Bulgaria achieved growth without deteriorating its fiscal position.

Graph 4. Gross public debt (% of GDP) in the period 2002-2020



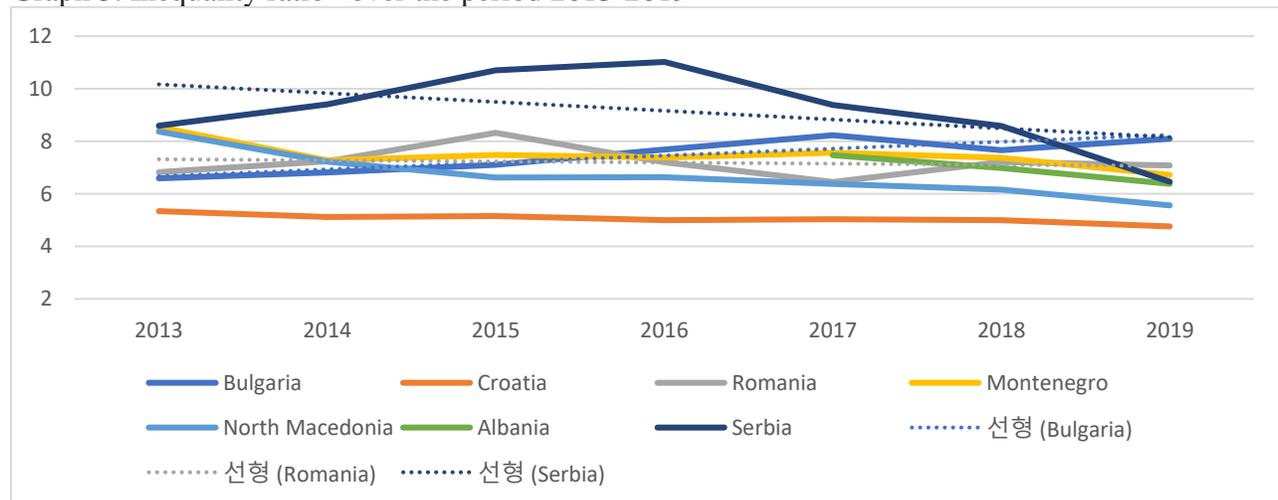
Source: IMF World Economic Outlook database

## Economic growth does not equal sustainable development - unresolved systemic issues remained

Despite the above elaborated economic progress that brought convergence particularly visible over the years just before and after the formal accession, it should be noticed a huge space for progress in terms of good governance and quality of institutions. Bulgarian economy is more similar to the Balkan countries rather than an average EU member state, proving that progress in “soft” indicators did not correlate with EU integration process. This analysis highlights 4 (internal) issues relevant the short and medium-term policy perspective.

**1. Rising inequalities.** Although certain level of inequalities is persistent to market economies, the case of Bulgaria confirms that the lack of fiscal redistribution increased inequalities. Ever since the entering EU, inequality dramatically increased being convincingly higher than in any European country. The ratio of total income received by the 20 % of the population with the highest income to that received by the 20 % of the population with the lowest income amounts to 8.1 considerably higher than in Romania being the 2<sup>nd</sup> worst (7.1), and significantly below the EU-27 average of 5.0. Inequality trends in Bulgaria are deteriorating over the last 7 years, whereas being relative stable in other Balkan countries (Graph 5.). Such high inequalities have negative impact on future growth perspectives additionally undermining confidence in political institutions (Hallaert, 2020) and representing a potential “social bomb”.

Graph 5. Inequality ratio\* over the period 2013-2019

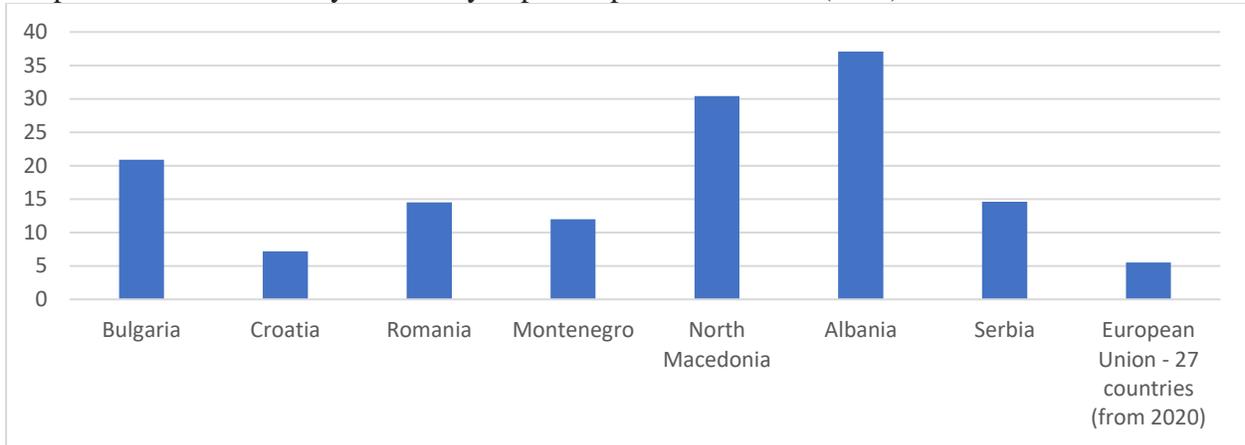


Source: Eurostat, \*The ratio of total income received by the 20 % of the population with the highest income (top quintile) to that received by the 20 % of the population with the lowest income (lowest quintile)

**2. Poverty issues.** Poverty is another social problem which could undermine growth opportunities. It represents another issue that EU candidate countries need to take care themselves as the EU integration have almost nothing to do with systematic poverty reduction. In the case of Bulgaria, just the opposite could be noticed. Namely, relative poverty increased over the period 2007-2018 being 3.6 times higher than in the EU. It is particularly high for youth and pensioners. One out of 4 elderly persons are at persistent risk of poverty, 2.5 times higher than in the EU (Hallaert, 2020). Despite of improving trends, share of severely

materially deprived people in Bulgaria amounts to around 20%, lower than in other EU neighboring members – Romania and Croatia, but also than in other regional peers – Serbia and Montenegro (Graph 6).

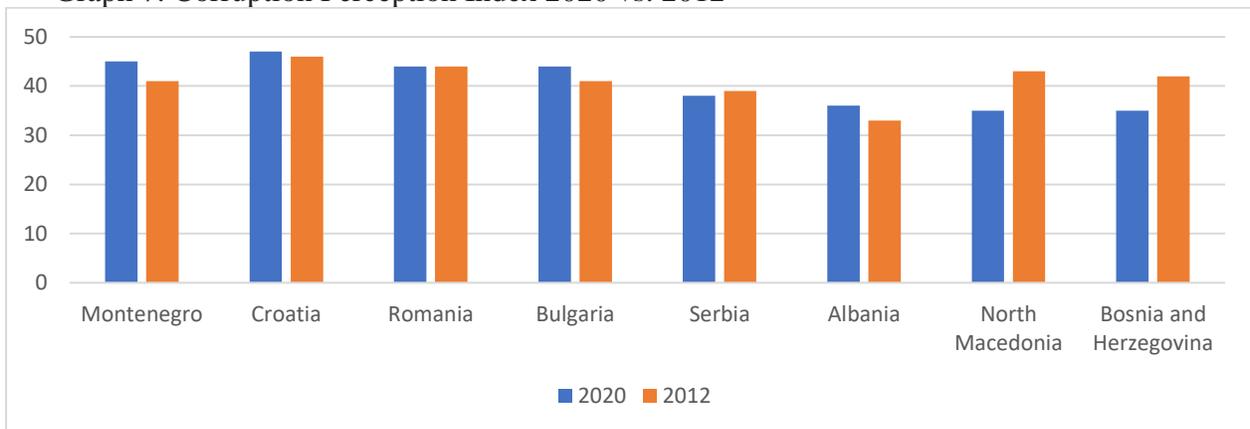
Graph 6. Share of severely materially deprived persons in 2019 (in %)



Source: Eurostat

**3. Institutions and corruption.** As per Corruption Perception Index (CPI), Bulgaria holds the last place among the EU member countries, whereas ranked 74<sup>th</sup> out of 180 analysed countries worldwide. The fact that almost no progress has been made since 2012 brings more concerns. EU membership did not help Bulgaria to surpass other Balkan countries so far (Graph 7). In line with that, Milatovic and argued that Bulgaria made a small progress with respect to quality of institutions (Milatovic and Szczurek, 2019). According to OECD methodology assessing quality of institutions, Bulgaria scores 5.9, dramatically below the OECD peers (8.1.).

Graph 7. Corruption Perception Index 2020 vs. 2012

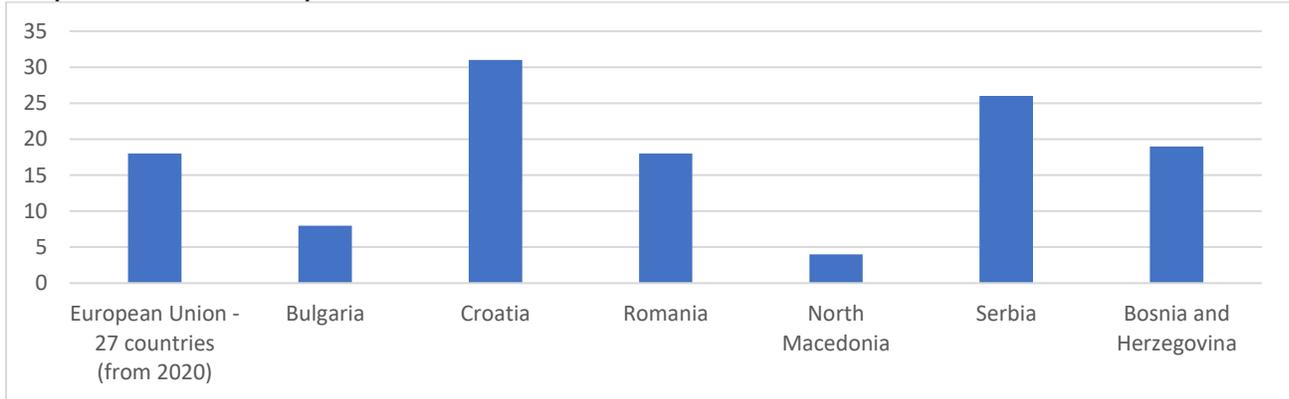


Source: Transparency International CPI, 2019

**4. Private sector development barriers and weak innovation capacities.** Corruption and weak rule of law are preventing private sector development *per se*. Additionally, lack of available skilled workforce and technological backwardness present serious issues for the development of the SME sector. According to the share of e-commerce sales, with a share of 8% Bulgaria performs better only comparing to North Macedonia (4%), whereas all other both EU and WB

countries have better performances (Graph 8). The similar situation could be observed in terms of research and development spending and innovation spending of the enterprises. It seems like in the case of Bulgaria years of access to the EU structural funds and investment inflows resulted in relatively modest transfer of knowledge failing to increase innovation capacities of the economy.

Graph 8. Share of enterprises with e-commerce sales of at least 1% turnover



Source: Eurostat

## Concluding remarks – WB development perspective

Although the EU accession including the membership is a firmly political process, it has important economic consequences. Results of the research indicate that despite of clearly positive impact that EU membership had on the Bulgarian economy, status of the EU member does not guarantee improvement in all aspects of sustainable development. Unlike widespread expectations that harmonization of the national legislative to the Acquis Communautaire results with improved quality of institutions as an important component of sustainable development perspectives, the case of Bulgaria may be a good reason to challenge this assumption. Over the last two decades Bulgaria recorded significant economic growth surpassing regional peers and showed convergence tendencies to catch up with the rest of the EU. However, it failed to achieve progress in “soft” development indicators recording even lower results if compared to the non-EU countries WB countries.

In the case of Bulgaria, the EU integrations were not correlated with improvement of the rule of law, tackling inequality or strengthening innovation capacities. In order to continue catching-up processes and reach sustainable development goals, Bulgaria will therefore need to mobilise internal resources and make additional efforts in conducting structural reforms. This is an important lesson for other WB countries trying to unblock the EU negotiations believing that the membership will be a solution for their deep social imbalances. Increasing governance capacities as well as creating conditions for sustainable and equitable economic development must be coupled with structural reforms that should go beyond EU membership criteria.

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