

Some Issues Confronting Bulgarian Economy

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Info Articles

Abstract

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This study examines the economic development of Bulgaria over the medium term. A comparison is made with 2008, which preceded the Global Financial and Economic Crisis. The Bulgarian economy is also analyzed in a comparative manner with the other 12 Central and Eastern European countries, which represent the last wave of EU enlargement. The Bulgarian economy slows down its growth rate, there is a lag behind the average for other countries, with the main factors of growth unfavorable. There is no adequate economic policy to address structural problems.

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Introduction

The 2009 Global economic and financial crisis has shown the imbalances and unpreparedness of the economies of the CEE countries. It has affected the trajectory of economic growth and has worsened the growth potential over the medium term. The Bulgarian economy has been also affected by the global crisis, with real growth reaching its pre-crisis levels in 2013. The nearly nine years after the 2009 crisis allowed to analyze Bulgaria's economic development and outline the main problems. In this study, we are addressing the period after the Global Crisis until the second quarter of 2018. Comparison with the pre-crisis 2008 by some indicators was made. The Bulgarian economy is also viewed in a comparative perspective with the other 12 CEE countries, which are the last wave of EU enlargement.

The sources of information are Eurostat and the National Statistical Institute of Bulgaria, data are available at the beginning of October 2018. The methodology used includes analysis of graphical and tabular data sets, comparative empirical analysis, revealing main trends, risk analysis of economic development. The study argues that the prospects for economic development are negative, economic growth slows down and there is a lag compared to the other 12 CEE countries.

The main research tasks aimed at proving the thesis are:

- Examining economic growth in a comparative perspective,
- Analysis of structure and value added growth,
- Analysis of the structure and growth of GDP on demand,
- Analysis of the productivity of labor and labor costs,
- Revealing the main trends in inflation,
- Employment analysis.

These tasks define the main parts of the exhibition, which begins with a brief review of the literature on the subject.

Brief review of the literature

Economic growth in Bulgaria and its relationship to the financial sector are addressed in the book by Mihailova (2015)¹. The author identifies major growth issues and opportunities to overcome them. The problems facing the financial sector at EU level as well as possible solutions for the economies of the CEE countries are presented in Miteva (2015)². State aid can be a useful tool in pursuing investment policy and in support of growth, but there are a number of requirements for its implementation.

In a series of publications, Dimitar Chobanov addresses the problems facing the economic development of Bulgaria. Chobanov (2014)³ examines the state of the Bulgarian economy and its readiness to join the Eurozone. Chobanov (2015)⁴ analyzes economic growth. The author sets out the necessary conditions for achieving non-inflationary economic growth in Bulgaria.

Hristozov (2018)⁵ presents the discussion on the preservation of the currency board arrangement in Bulgaria. The author points out the importance of the currency board arrangement on economic development and looks at the possible outcomes of this monetary regime. Dimitrova (2018)⁶ looks at the economic and fiscal developments of the CEE countries. The author analyzes the fulfillment of the Maastricht criteria and the readiness of the countries to join the Eurozone.

¹ See Mihailova G. (2015), "Banking efficiency and economic growth under the currency board in Bulgaria", University of National and World Economy, Sofia, 151 pages.

² See Miteva D. (2015), "The State Aid Financing as an Alternative to the EU Financial Sector," in "The Post-Crisis Financial World - Stagnation or Radical Change," UNWE, pp. 30-36.

³ See Chobanov D. (2014), "The Adoption of the Euro in Bulgaria - Current Development" in "The Economy of Bulgaria and the European Union - Contemporary Challenges and Approaches to Solutions", UNWE, Sofia, pp. 191-198

⁴ See Chobanov D. (2015), "Money, Inflation and Economic Activity - Is It Possible Non-Inflationary Growth of the Bulgarian Economy" in "Demarage or slowdown in economy and finance. Following the example of the EU and Bulgaria ", UNWE, Sofia, pp. 85-90.

⁵ See Hristozov Y. (2018), "Discussion on keeping or removal of the currency board in Bulgaria for the past twenty years" in "Monetary Regimes. 20 Years of Currency Board in Bulgaria", Monetary Research Center, Sofia, pp. 107-123

⁶ See Dimitrova I. (2018), "The Road to Eurozone. Comparative Analysis of the Maastricht Criteria Fulfillment by the CEE Countries" in "Economic Lessons, Perspectives and Challenges from the Balkans", Monetary Research Center, Sofia, pp. 77-87

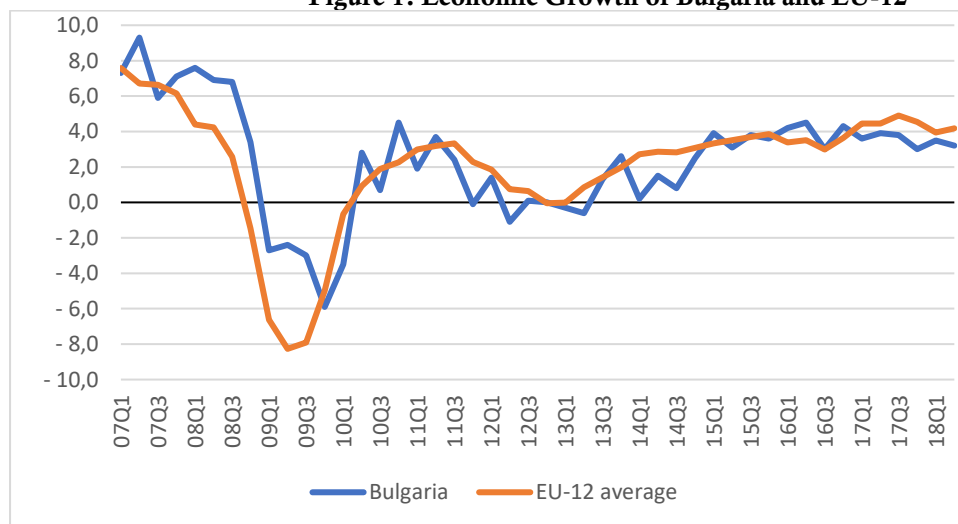
Economic Growth in a Comparative Perspective

In this part of the survey we will compare economic growth in Bulgaria and in the EU-12. Growth opportunities in Bulgaria are heavily degraded, especially on the part of production. Negative trends are observed in both main factors - labor and capital. Employment declines as a number of people employed, and investment does not increase over a long period of time. This leads to the danger of overheating the economy even at current growth rates of 3%, with overheating as a major pro-inflationary factor. We are lagging behind rates of economic growth from our major competitors. Looking at the thirteen countries that last joined the EU in the second quarter of 2018, our growth of 3.2% was higher than that of the Czech Republic and Croatia. For comparison, just before the Global Crisis, we were second in growth in the second quarter of 2008, with Romania alone ahead of us.

Figure 1 shows Bulgaria's economic growth and the average for the other 12 newcomers, which we have dubbed the EU-12. On the basis of this data, we can say that since the beginning of 2017 our economic growth is consistently lower than the average growth of our competitors (the average growth of the other 12 CEE countries). And since the beginning of 2011, from 30 quarters in 23 of them we have had a lower growth than the average of our competitors.

For comparison, immediately before and in the first quarters of the Global Crisis there is a period of 8 consecutive quarters, in which we have a higher growth than the average of our competitors.

Figure 1. Economic Growth of Bulgaria and EU-12⁷



Source: Eurostat, own calculations

Looking at annual growth, from 2011 to 2017, with the only exception of 2016, our economic growth is lower than our competitors' average, with the cumulative lag behind for 2011-2017 of this average amount to 4%. Our average annual growth rate is 2.2%, surpassing only Croatia, Cyprus and Slovenia by this indicator. Average growth for the remaining 12 countries is 2.7%. Therefore, we are lagging behind in GDP growth by the countries with which we have to compete over the last 7 years. We also lag behind the growth of production (supply, gross value added). Although before the crisis we were second, after Romania, in the second quarter of 2018 we are growing by 2.9%, outpacing only the Czech Republic and Croatia. Production growth in the second quarter of 2018 is the lowest in the last 10 quarters. Looking at the annual value-added data, the cumulative abandonment of our competitors' average is 3.6% over the period 2011-2017.

⁷ Growth is compared to the same quarter of previous year, non-seasonally adjusted

Structure and growth of value added (supply)

In this part of the study, we will deepen the value added analysis.

Table 1 Structure of value added at constant prices in 2010 (% of GVA)

Year	Agriculture, Forestry and Fishing	Industry	Construction	Trade, transport, hotels and restaurants	Information and telecommunications	Financial and Insurance activities	Real estate
2008	5,7	22,2	8,3	19,0	5,1	6,4	11,6
2013	4,5	22,0	6,5	21,1	5,4	7,6	11,9
2014	4,7	21,9	6,2	21,0	5,4	7,5	11,8
2015	4,2	22,2	6,2	21,6	5,3	7,1	11,9
2016	4,3	22,7	5,6	21,3	6,0	7,4	12,2
2017	4,1	22,5	5,7	21,2	5,7	7,5	12,9

Source: NSI

Comparison at constant prices makes it possible to highlight structural changes. The share of agriculture falls, regardless of the considerable funds allocated to it. Before the crisis, it held 5.7% of the value added, while in 2017, this share falls to 4.1%. A decline has also been seen in construction in comparison to the years before the crisis - from 8.3 to 5.7%. The share of trade, transport and hospitality, financial and insurance activities and real estate operations is growing. The share of industry remained relatively constant, with a slight increase compared to the year before the crisis. If we conditionally define the as manufacturing/material sectors of agriculture, industry and construction, their share in 2008 was 36.2%, while in 2017 it decreased to 32.3%.

Table 2 Real sector growth

Year	Agriculture, Forestry and Fishing	Industry	Construction	Trade, transport, hotels and restaurants	Information and telecommunications	Financial and Insurance activities	Real estate
2011	0,6	6,7	-3,4	2,9	12,4	-3,6	-0,2
2012	-7,4	1,3	-6,0	-0,6	-3,1	-4,5	2,7
2013	3,3	2,2	1,3	4,2	2,0	-7,2	-2,0
2014	4,8	1,1	-3,1	0,9	0,8	-0,4	0,5
2015	-6,8	4,4	2,8	6,1	1,3	-1,5	4,0
2016	5,3	5,9	-6,8	2,2	16,7	7,4	5,7
2017	-0,1	3,0	5,9	3,0	-0,9	5,0	9,4
Average	-0,2	3,5	-1,4	2,7	4,0	-0,8	2,8
Standard Deviation	4,8	2,0	4,4	2,0	6,8	4,8	3,6

Source: NSI

Growth by sector is unstable after 2011. and most of them are characterized by high fluctuations measured with the standard deviation. This high volatility indicates that growth is unsustainable and can easily turn to the negative part of the scale, i.e. in decline. Some exception is the industry, which has a growth rate of 3.5% on average over the period 2011-2017. This favorable trend for the industry is about to break in 2018, and for the first two quarters it is showing low and declining growth rates respectively from 1.9% and 0.5%. In three of the reviewed sectors there were negative average rates of change: agriculture, construction and financial and insurance activities (in which the growth rate was relatively high in the last two years, as opposed to the beginning of the period).

Highest growth has the "Creation and dissemination of information, creative services and telecommunications" sector, which is relatively low as a share, and can not play a role as a driver of growth.

Structure and growth of demand (GDP on the expenditures method)

After analyzing the value added, which presents the development in terms of supply, we will also focus on GDP on the demand side.

Table 3 Structure of demand at constant prices in 2010 (% of GDP)

	Final Consumption	Households Consumption	Gross Fixed Capital Formation	Exports	Imports
2008	81,2	64,1	32,0	50,0	66,6
2011	80,4	63,5	20,8	55,4	57,2
2012	81,9	65,3	21,2	56,5	60,4
2013	79,7	63,1	21,1	61,5	62,4
2014	80,4	64,0	21,5	62,5	64,8
2015	80,5	64,4	21,3	63,8	65,9
2016	80,0	64,1	19,1	66,4	66,3
2017	80,7	64,9	19,2	66,7	68,6

Source: NSI and own calculations

A relatively constant share is seen in final consumption, household consumption, and to a certain extent in imports, despite a slight increase in 2017. The largest decrease is recorded in investments, which from 32% in 2008 to 19.2% in 2017. This is one of the main unfavorable factors regarding the growth potential in the medium and long term as the capital formation process encounters difficulties. The highest increase is recorded in exports, which from 50% of GDP in 2008 to 66.7% in 2017. This is also the result of the large accumulated investments before the 2009 crisis, which allow to increase the competitiveness of the economy, hence the export.

Table 4 Real GDP growth and its main demand-side components

	GDP	Consumption	Households Consumption	Gross Fixed Capital Formation	Exports	Imports
2011	1,9	2,0	2,0	-4,4	12,6	9,9
2012	0,0	2,0	2,9	1,8	2,0	5,5
2013	0,9	-1,9	-2,5	0,3	9,6	4,3
2014	1,3	2,2	2,7	3,4	3,1	5,2
2015	3,6	3,8	4,3	2,7	5,7	5,4
2016	3,9	3,3	3,5	-6,6	8,1	4,5
2017	3,8	4,3	4,5	3,2	5,8	7,5
Average	2,2	2,2	2,5	0,1	6,7	6,0
Standard deviation	1,5	1,9	2,2	3,7	3,4	1,8

Source: NSI and own calculations

The lowest fluctuation, measured by standard deviation, and with relatively high growth rates for the period 2011-2017, has the imports. Exports show the highest average growth rates over the period, but there is a greater fluctuation, making it more unstable. This is also reflected in the real decline of 2.3% in the second quarter of 2018, when the trade balance was negative at BGN 422 million, with a positive trade balance of BGN 654 million in the same quarter of the previous year. Trade balance has been negative over the past three quarters. If such values are also observed over the coming quarters, they will be a sign of unfavorable balance of payments and economic development.

The dynamics of investments is the most unfavorable. Their growth is characterized by the highest fluctuations, with its average value being the lowest and practically zero. Over the past two quarters, there has been higher investment growth, which is a favorable trend, but has to be in place for several years to

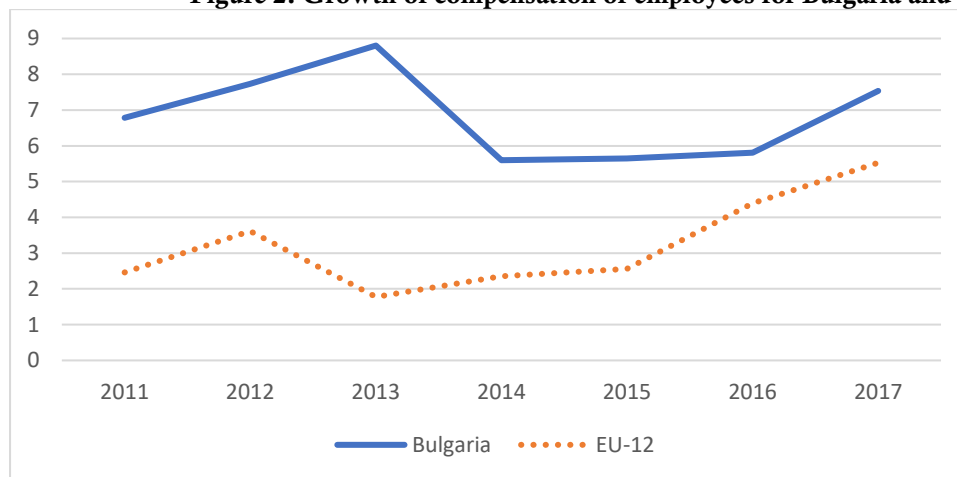
catch up and overcome decapitalisation in the economy.

Households consumption has accelerated over the past 3 years and is one of the factors contributing the most to growth. In the last two quarters its growth is 7.1% and 8.6%, which is a signal of overheating the economy. This development is combined with high import growth and a drop in exports, which is an adverse signal for the competitiveness of the economy.

Labor and productivity costs

In this part of the analysis we will use Eurostat data on compensation of employees, unit labor costs and labor productivity. Their comparison is important for assessing the competitiveness of the economy.

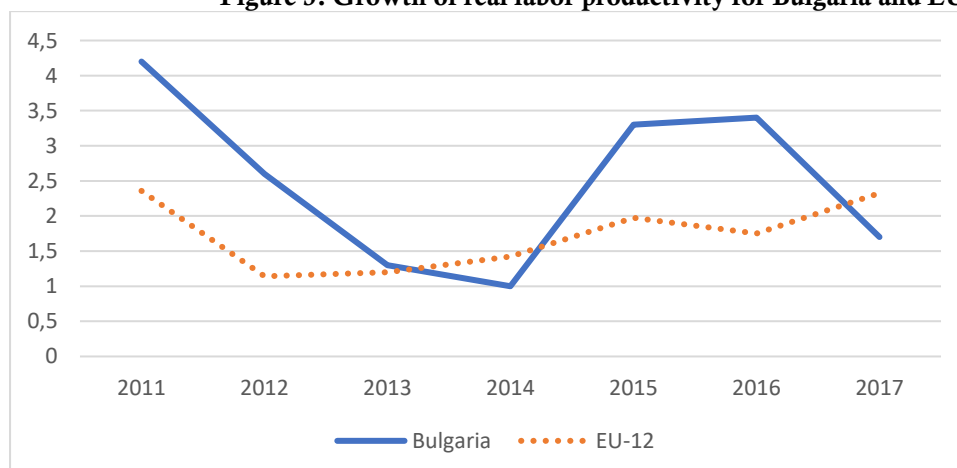
Figure 2. Growth of compensation of employees for Bulgaria and EU-12



Source: Eurostat, own calculations

The annual growth of compensation of employees exceeds the average for other countries during the whole period 2011-2017. The cumulative increase in the indicator in Bulgaria is 58.9%, which is the highest for all countries concerned and may lead to a deterioration in competitiveness. The cumulative increase in the average for other countries is 25%. The average annual growth rate in Bulgaria is 6.8%, while for the other countries it is 3.2%. Two countries report an annual average decline - Cyprus by 1% and Croatia by 0.2%. In the last year of the period we are fifth in this indicator (7.5%), the highest in Romania - 13.8%. Compensation of employees, as a measure of wages, is growing at our highest rates compared to our competitors, which is in contrast to the relatively lower GDP growth and can aggravate competitiveness. Additional indicators need to be considered to deepen the analysis.

Figure 3. Growth of real labor productivity for Bulgaria and EU-12



Source: Eurostat, own calculations

The dynamics of the indicator growth rate of real labor productivity per employee is relatively

favorable. For most of the period, growth in Bulgaria exceeds the average for the other countries under review. The cumulative increase in the indicator in Bulgaria is 18.8%, lagging behind in comparison to Romania with 36% and Latvia with 20.1%. The cumulative increase in the EU-12 average was 12.8%. Bulgaria's average annual growth rate is 2.5%, lagging behind Romania with 4.5% and Latvia with 2.6%. Very close to us are Poland and Lithuania with 2.4%. The EU-12 average is 1.7%. It is worth noting the fact that in 2017 we are showing relatively low on this indicator, with only 1.7% growth, which is below the average of 2.3%, ranking us 9th in the 13 countries. Lithuania recorded the highest growth of 4.4%, followed by Romania by 4.2%. Data for 2017 is preliminary and subject to revision, but if confirmed, it will be a negative signal for the development of the economy and competitiveness.

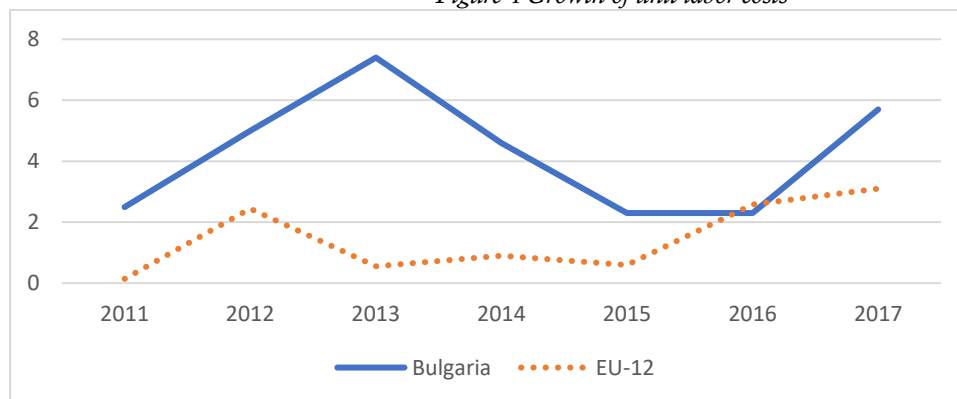
Table 5: Labor productivity (EUR thousand)

	2011	2012	2013	2014	2015	2016
Bulgaria	9,3	9,7	10,1	10,5	12,0	12,6
Czech Republic	24,6	23,9	23,8	23,9	25,2	25,7
Estonia	23,0	23,7	24,7	25,7	25,6	27,4
Croatia	19,8	19,1	20,0	20,4	21,4	22,1
Cyprus	34,5	34,3	33,8	33,6	33,6	34,2
Latvia	15,1	16,2	16,5	16,3	16,7	17,4
Lithuania	14,2	14,5	14,4	16,0	16,8	17,7
Hungary	19,9	19,1	20,2	20,7	21,4	21,2
Malta	28,1	29,8	31,7	33,1	38,1	38,7
Poland	21,1	20,6	20,6	21,5	21,7	21,5
Romania	12,6	12,6	13,9	14,6	14,0	15,2
Slovenia	30,6	29,8	30,2	32,1	32,7	34,1
Slovakia	22,3	23,2	21,9	21,5	22,6	23,1
EU-12	22,2	22,2	22,6	23,3	24,2	24,9

Source: Eurostat, own calculations

Labor productivity is measured as the gross added value of an employee in thousands of EUR. It refers to enterprises from the whole economy without those from the financial sector. Bulgaria ranks last with 12.6 thousand euros per employee, with an average of 24.9 thousand euros. The index for us at the beginning of the period is 42% of the average, reaching 50.7% in 2016. This is an average value for countries with which we compete most and the gap with other EU countries is even more significant. Expected last but one for this indicator is Romania, with the difference to its level of productivity being slightly reduced - from € 3.3 thousand in 2011 to € 2.6 thousand in 2016.

Figure 4 Growth of unit labor costs



Source: Eurostat, own calculation

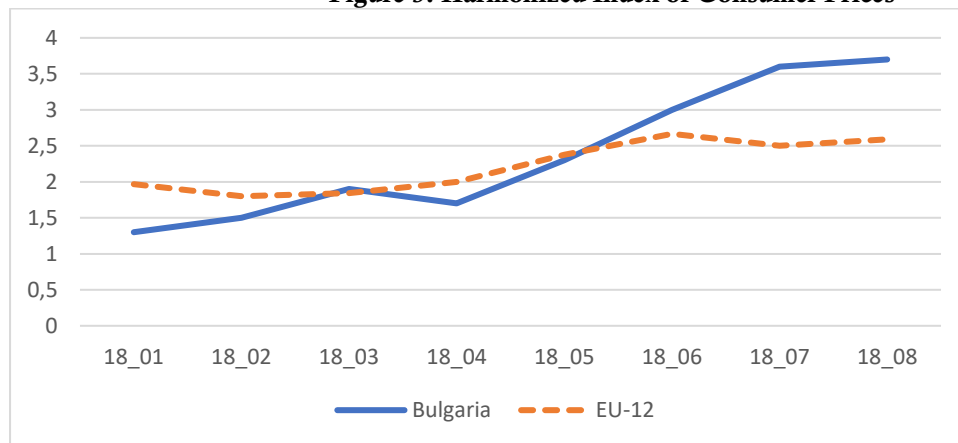
Labor costs increased significantly over the period considered. The indicator for Bulgaria is above the EU-12 average over the whole period. The cumulative increase in the indicator in Bulgaria is highest for all the countries under consideration, it is 33.7%, while for the EU-12 it is 10.7%. The average annual labor

cost increase is 4.2%, followed by Latvia with 3.9%, Estonia with 3.6% and Lithuania with 3.5%. The EU-12 average is 1.5%. With an average negative change in labor costs, Croatia has -1.6% and Cyprus -1.3%.

Inflation

It is also necessary to look at the dynamics of inflation as it accelerated and questioned the implementation of the Maastricht criterion for price stability in 2018.

Figure 5: Harmonized Index of Consumer Prices



Source: Eurostat

We are considering the change in the harmonized index of consumer prices compared to the same month of the previous year, ie. annual inflation. Inflation accelerates sharply this year, with the Harmonized Index of Consumer Prices, which is used for international comparisons, in August, annual inflation is 3.7%, with only Romania having higher inflation than we within the EU. By comparison, in January 2018, we were ranked 10th in terms of inflation from the 13 countries concerned, with lower inflation than we had only Cyprus, Croatia and Malta. After May 2018, inflation outpaced the average for the other 12 countries, with the gap gradually increasing.

We also need to look at some components of inflation in a comparative perspective. Annual food inflation in August was 2.5%, with only 4 of the countries under review reported higher inflation. January inflation is 0.6%, with only two countries having lower inflation in our country. Therefore, the food trend is also deteriorating. The annual inflation rate for transport services in August 2018 is 5.2%, with only Slovakia having higher inflation of 10.2%. In January 2018, the indicator was 1.7% and ranked fourth in the highest inflation rate in the countries concerned. The communications sector is generally with negative inflation, as this situation has been observed throughout 2017 and January this year. Inflation is then positive and reaches 1.8% in August 2018, ranking us first with Romania. In January 2018, there was a negative inflation of -0.6%, with 6 countries having higher inflation than us. Inflation in the "Restaurants and Hotels" sector in August 2018 was 12.2%, which ranks us first in the countries under review. The second is Lithuania with 5.4%. At the beginning of the year, inflation is 2.4% and 9 countries have higher inflation than we are.

Inflation in the Energy group is 9.7% in August, with 4 countries with higher inflation than we are, but the indicator will further increase with the October 1 rallies. At the beginning of the year, inflation was 4.6%, with 3 countries having higher inflation than ours. Service inflation by mid-2017 is negative, but then accelerated, averaging 5.9% this August 2018, which ranks first among the highest inflation. At the beginning of the year inflation was 1.8% and there are 8 countries with higher inflation than we are. Overall inflation of 3.7% did not account for higher bread prices, which will continue to grow. In view of the imminent rise in gas, steam and water prices, in the coming months inflation will exceed 5%. This significantly increases the social cost, especially for the most vulnerable groups, and requires urgent government measures to offset them. Other factors for rising inflation are the structural problems of the labor market and the pressure to raise wages that lead to a rise in the cost of production. Value added, which reflects supply in the economy, slows down its growth, while consumption and imports that reflect demand are growing at a higher pace. Higher demand also leads to rising inflation.

Employment

There are also some negative employment trends that will be addressed in this part of the analysis.

Table 6: Employment in Bulgaria and EU-12

	2008Q2 (ths.)	2017Q2 (ths.)	2018Q2 (ths.)	18/17 (%)	18/08 (%)	18/08 (ths.)
Bulgaria	3 372	3 172	3 157	-0,5	-6,4	-215
Czech Republic	5 003	5 197	5 289	1,8	5,7	286
Estonia	655	654	667	2,0	1,7	11
Croatia	1 777	1 633	1 671	2,4	-5,9	-106
Cyprus	384	381	402	5,7	4,8	18
Latvia	1 074	892	910	2,0	-15,3	-164
Lithuania	1 432	1 363	1 371	0,6	-4,3	-61
Hungary	3 843	4 420	4 475	1,2	16,4	632
Malta	156	206	217	5,7	39,0	61
Poland	15 689	16 496	16 566	0,4	5,6	876
Romania	9 119	8 323	8 477	1,8	-7,0	-642
Slovenia	990	955	984	3,0	-0,6	-6
Slovakia	2 405	2 527	2 556	1,2	6,3	151

Source: Eurostat, own calculations

Note: Data for Romania and Malta are for the first quarter of the respective years due to a lack of data for the second quarter of 2018.

The employment trends are unfavorable. There are not enough people to work for. In the second quarter of 2018 there was a negative signal regarding the number of employed, decreasing by 0.5% (15 thousand) compared to the same quarter of the previous year, while in all other countries there was an increase. The number of people employed on a yearly basis is steadily rising in the period from the beginning of 2014 (the only exceptions are the third and fourth quarters of 2016), and if this trend is constantly changed, this will lead to additional labor market tensions. The comparison with pre-crisis 2008 (second quarter) shows a drastic drop in employment by 215,000 (6.4%), which greatly reduces the growth potential. In seven countries there is an increase in employment compared to 2008. A larger decrease in the number of employed compared to 2008 is observed only in Romania, and in percentage terms the decrease is higher in Latvia and Romania.

Table 7: Youth employment (15-24 years) in Bulgaria and EU-12

	2008Q2 (ths.)	2017Q2 (ths.)	2018Q2 (ths.)	18/17 (%)	18/08 (%)	18/08 (ths.)
Bulgaria	266	151	130	-14,2	-51,1	-136
Czech Republic	372	285	268	-5,8	-28,0	-104
Estonia	65	50	56	13,3	-13,5	-9
Croatia	143	132	115	-12,6	-19,5	-28
Cyprus	35	26	31	15,9	-11,8	-4
Latvia	129	65	59	-8,7	-54,1	-70
Lithuania	126	103	95	-8,2	-24,8	-31
Hungary	242	303	296	-2,3	22,4	54
Malta	26	23	25	10,0	-1,2	0
Poland	1 450	1 148	1 162	1,2	-19,8	-288
Romania	734	461	497	7,6	-32,3	-237
Slovenia	95	70	74	5,3	-22,2	-21
Slovakia	218	165	162	-1,5	-25,7	-56

Source: Eurostat, own calculations

Note: Data for Romania and Malta are for the first quarter of the respective years due to a lack of data for the second quarter of 2018.

In the second quarter of 2018 the decline in youth employment deepened and the number of employed decreased by 22,000 compared to the same period of the previous year, which is the highest decrease compared to the countries we are considering. In percentage terms, the decrease is also the highest and is by 14.2%. This is the second consecutive quarter of decline and may be the beginning of a negative trend in this indicator. Comparison with pre-crisis 2008 (second quarter) shows a drastic drop in the number of employees by 136 thousand (51.1%), which greatly reduces the growth potential. The number of young people employed is twice as low as pre-crisis 2008, which is the result of discouragement and emigration, but is a very worrying signal for future development. This trend is also characteristic for the other countries under consideration, with Hungary only showing an increase compared to pre-crisis 2008. The decline of youth employment in Bulgaria is one of the highest. A larger decrease in the number of employed youth compared to 2008 is observed only in Poland and Romania, and in percentage terms, the decrease is higher only in Latvia.

Conclusions

The detailed overview of key economic indicators conducted in this study allows to highlight a number of problems facing the Bulgarian economy. Comparison of growth in a similar group of countries is one of the main indicators used in an investment decision. This is a measure of the return on the economy. The Bulgarian economy fails to achieve high growth rates that will contribute to sustainable convergence towards the EU averages. Our lagging behind our major competitors is evidence of problems with the business environment further discouraging foreign investment, which is at critically low levels. Conclusions on the structure and behavior of key sectors that create added value are unfavorable. They have unstable dynamics, and we can not distinguish any of them as a sustainable growth driver in the post-2011 period. An exception is the industry, but in 2018 there is an unfavorable development and the growth rates are approaching 0. Drivers of demand growth are consumption and exports, but negative signals are seen in recent quarters. Exports declined in the second quarter of 2018, while household consumption grew by 8.6%, indicating imbalances and jeopardizing the competitiveness of the economy as it also combines with high growth in imports. Unstable dynamics and subdued investment growth limit potential growth over the medium term, requiring higher growth in recent quarters to stay for several years to catch up and overcome decapitalisation in the economy.

The competitiveness of the Bulgarian economy deteriorates in two main directions. First, we seriously abandon labor productivity and last but not least with 50% of the average productivity of the rest. Second, the compensation of the employees and the unit labor costs are increasing in our country at the highest pace than all the countries concerned. In the positive direction of competitiveness, real labor productivity, which is growing at a relatively high rate in comparison with other countries, is acting in a positive direction, but on this indicator we fall back on Romania and Latvia. In 2017, real labor productivity growth slowed down to 1.7%, while unit labor cost growth accelerated to 5.7%. Keeping such a trend can be seen as a sign of worsening competitiveness. Inflation has a pronounced upward trend, and the value of 3.7% in August will be exceeded, and it is hard to predict how much, but in the coming months we could see more than 5% inflation - rates not seen before the crisis.

In some of the examined sectors and commodity groups we have the highest inflation from the countries we compare - services, communications, restaurants and hotels. Inflation is a result of the convergence process, but also from emerging and existing imbalances - structural labor market problems, higher demand growth than supply, and lack of real competition in certain market segments. If inflation exceeds 5%, inflationary momentum and pressure for indexation of wages, pensions, social payments to compensate for the loss of purchasing power will be created. Severely unfavorable employment trends are observed, as is the case for all employed but, to a greater extent, for young people. In the second quarter of the year there was a drop in total employment compared to the same period in 2017 by 0.5% or 15 thousand, with an increase in all other countries. Compared to 2008, we are experiencing a significant decline in employment (by 215,000), being again at the top of this negative ranking. In the second quarter of 2018, the decline in youth employment increased, and the number of employed fell by 22,000 (14%) over the same period of the previous year, which is the highest decline compared to the countries we are considering. Compared to pre-crisis 2008, the number of employed youths decreased by 2 times, which is a very worrying trend for the future development, with one of the highest decreases compared to the other newcomers to the EU.

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