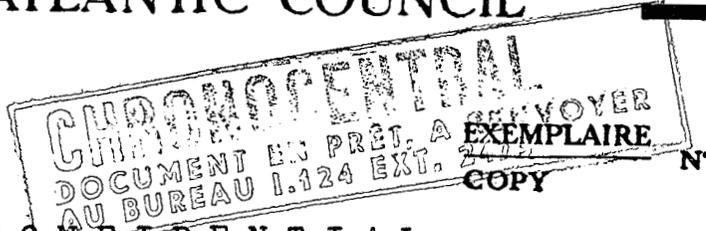


CONSEIL DE L'ATLANTIQUE NORD
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N A T O C O N F I D E N T I A L

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AC/127-WP/368

ECONOMIC COMMITTEE

ECONOMIC REVIEW OF EASTERN COUNTRIES: BULGARIA

Note by the Chairman

The attached paper is based on the Summary and Conclusions of the report AC/127-D/434 submitted by the German Delegation, and on the views and suggestions put forward during the discussion of the document on 12th October by experts from capitals and members of the Economic Committee.

2. The Economic Committee may wish to consider whether or not this paper should be sent to the Council.

(Signed) Y. LAULAN

This document consists of: 9 pages
plus Annex of: 3 pages

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N A T O C O N F I D E N T I A L

BULGARIA: ECONOMIC REVIEW

Report by the Economic Committee(1)

SUMMARY

1. In contrast to the period 1961-1965, Bulgarian economic growth reflected an overall economic upturn 1966-1970. During the latter period, however, the country's rate of industrial production showed a further decline, paralleling the trend between 1961-1966. This is partly due to the slow progress made in implementing labour-intensive policies - the manpower shortage is acute in Bulgaria - and partly to inadequate capital investment. Despite much talk of economic reform, the various experiments with recentralization and decentralization have not shown satisfactory results in the growth figures; indeed overall growth during 1972 was again weak and largely below expectations, even taking into account the downward-revised targets of the current Five Year Plan. Bulgaria's trade with the West did not become significant until the late 1950s. This share peaked in 1966, after which it regressed and appears to be continuing this trend during the current Plan, although total volume will increase. Licensing and the establishing of mixed enterprises abroad have been actively pursued, but no serious attempts have been made to attract foreign capital to Bulgaria, and there have been relatively few of the production co-operation arrangements with the West which have been developed elsewhere inside COMECON.

2. The short-term prospects do not appear very encouraging: the relatively few Plan targets for 1973 released by the Bulgarians would seem over-confident in terms both of industrial growth (+9.9%) and agriculture (+7.4%). Of particular concern to the Bulgarian leaders is the need for greater labour productivity coupled with increased wage levels, social expenditure, and at least, the freezing or lowering of consumer prices. All this emerged from the long Zhivkov report delivered at the December 1972 Central Committee Plenum. Much depends on the close support of the USSR whether or not the Plenum decisions can really be implemented, especially in one of the key sectors stressed by

(1) A more detailed report on the subject is being issued as AC/127-D/434(Revised)

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Zhivkov, the supply of goods and services. The wage increases announced for 1973 will extend to about 70% of all workers. The special allowances for heavy duty and night workers have already been granted. In terms of foreign trade, recent figures quoted by Bulgarian Deputy Foreign Trade Minister Lukanov indicate that Bulgaria's foreign trade will continue to be dominated by the COMECON partners, primarily the USSR. In 1972 the "non-Socialist" share of foreign trade amounted to only 20%. With the developing countries accounting for around a further 7%, the Western share totalled a mere 13%. This means that the Soviet share - at 55% currently, is four times larger than the combined total of Bulgaria's trade with the developed Western countries. That this trend is continuing, is confirmed by Mr. Lukanov's statement that the 60% target for the Soviet percentage of the trade total is "still valid".

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DECLASSIFIED/DECLASSIFIEE - PUBLIC DISCLOSED/MISE EN LECTURE PUBLIQUE

BULGARIA: ECONOMIC REVIEW

1. The present Five Year Plan period (1971-1975) once again reflects the fundamental economic dominance of the Soviet Union. Although this situation is politically rooted, it should be noted that to a large extent it remains an economic necessity. Bulgaria needs credits, and the Soviet Union is willing to grant them; Bulgaria needs equipment and the USSR has been ready to supply it together with specialists and technical documentation; additionally, Bulgaria has, hitherto, had relatively little to sell in exchange, but the USSR appears willing to take anything that is offered.

2. The Soviet market remains the safest customer for the still unattractive products of Bulgarian industry, and, conversely, the natural riches of the USSR are the indispensable source supplying Bulgaria's ever-growing need for power and raw materials.

3. Plan figures for the present Plan period indicate a flatter growth curve for the economy in general and for industry in particular. The 1971/1972 results seem to confirm this forecast. From January, 1966 to July, 1973, Bulgaria's economic policies were characterized by a series of divergent measures and methods, introduced in an attempt to revitalize output and modernize the economic system. For example, economic reform measures geared towards the basic overhaul of the original planning system were replaced, after a relatively short period, by recentralization efforts. These, in turn, were followed by a decentralization approach. In this connection, it is noteworthy that Bulgaria's divergent patterns of economic policy faithfully reflected changes of such policy within COMECON, especially in the Soviet Union, whose formula Bulgaria closely emulates. There is little evidence to suggest that the changing trends in economic policy can be attributed essentially to Bulgaria's initiative or desire for experimentation. The overall picture for 1972 was one of weakened growth - except for agriculture - largely below expectation, even taking into account revised Five Year Plan targets. The general breakdown looked as follows:

National Income: up 7% compared with 8.4% (1971) and 7.8% (1970);

Industrial Output: up 5.9% below average (see para. 15)

Agriculture: up 4.8% compared with 3.1% (1971) and 4% (1970);

Foreign Trade: way below anticipation. Turnover was 10.5% (Plan 13.6%) compared with 11.6% (1971) and 12.7% (1970);

Real Income of the population was reported as 4.2% - a slightly faster rate than expected.

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Demography and Labour

4. One salient reason for the ongoing decline in Bulgarian economic growth lies in the problems of implementing labour-intensive policies because of the manpower shortage. Although the labour situation in the industrial sector is somewhat more favourable than in other sectors, the overall manpower figures reflect a downward trend. This raises serious problems as Bulgaria strives to create an economy based on increasing specialization and the introduction of modern technology and planning techniques.

5. Between 1950-1972, the Bulgarian birth rate decreased from 25.2 to 15.4 births per 1000 inhabitants. With a mortality rate declining at a slower rate, a continuing downturn in the natural growth of the population can be assumed, failing more successful population growth measures. The population at present totals approximately 8.6 million.

6. In order to increase the birth rate, the Bulgarian Government has introduced several generous financial incentives, including a five-fold increase in the grant, given on the birth of a first child; bigger monthly allowances for each child; 300 days paid leave for a mother just before and after the birth, instead of 120 days previously, and easier home loans for families with young children.

Investment, Growth and Prices

7. During 1971-1972, contrary to Five Year Plan targets, the evolution of investments reflected a stagnation trend which could well continue through the period 1973-1974. Of the approximately 21 million leva allocated for investment during the aggregate Plan period, so far only approximately 7 million have been invested; gross investments trail the planned average by around 13%.

8. Whilst the decline in the investment sector during 1971-1972 may be partially ascribed to the problems of implementing reorganizational measures in the Bulgarian economy in that period and to restrictive policies, investment growth during 1971 was surprisingly low compared with 1970 (+1.7%: +1.4%). The ongoing decline in investments during 1972 (-9% compared with 1971) indicates continuing inefficiency reflected in supply bottlenecks, slow completion of capital projects and planning errors.

9. Analysis of investment funds utilized during 1972 shows very minor increases for the agricultural and industrial sectors over 1971 (agriculture: +1.4%; industry: +1.8%).

10. Under current Plan provisions, approximately 5 billion leva (i.e. some 25% of total investments) are to be allocated to sectors

other than material production in order to boost overall living standards. However, investments for this purpose were severely curtailed in 1972 (-25% compared with 1971).

11. Price adjustments were introduced in Bulgaria in January, 1971. It should be noted that variations in price levels together with conflicting Bulgarian data make it difficult to compare accurately the 1971-1970 results. The Plan fulfilment report for 1971 gave a growth rate for the net material product of 9.4% compared with the 1970 Plan figure (9%). By contrast, official Bulgarian statistics show a 7% upturn at fixed prices and a downturn at current prices. On the basis of the Plan report, this decline might be attributed to price adjustments: however, this assumption is challenged by the detailed available statistics on accumulation and utilization of the net material product. Such contradictions would tend to reflect continuing economic difficulties and losses in Bulgaria.

12. In 1971, the share of industrial production in the net material product at current prices (adjusted in 1971) was 50.8%, that of agriculture 23.7%. The extent to which these figures have been affected through price reductions in the industrial sector, and through increased purchase prices in the agricultural sector, may be seen when they are compared with the corresponding share percentages calculated at fixed prices, i.e. industry: 56% and agriculture: 16%.

13. The nominal income of the working population (on an average annual basis) in 1971-1972 increased by about 2%: real per capita wages in 1971-1972 may well have increased as much as 4.2% as a result of higher social benefits. Savings reflect the same growth rate as for the nominal income.

14. Economic problems which must be assumed as a result of serious discrepancies in official data on Bulgaria's economic development tend to be confirmed by information in the Bulgarian press relating to the second half of 1972. Criticism is frequent, for example, of poor labour morale and discipline as well as of irregular and, in general, unsatisfactory performance of industrial plants. In addition, there was some admission at the end of 1972 that increased inefficiency in the investment sector, especially in the non-completion of capital construction projects, had produced a decline across the entire investment sector during 1972.

Industry

15. Lack of data clarification (see para. 11) means that press reports on the 1972 Plan fulfilment must be assessed with caution. Indeed, official statements concede that industrial growth in 1972 showed a decline compared with the two previous years, although they stress that the growth rate for gross industrial

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output - 8.3% - was still higher than the Plan target of 7.7%. What is not mentioned, however, is that this Plan target was amended after the 1972 Plan had been fixed, and was boosted from 7.7% to 9%. Official explanations for this belated revision remain vague and point to new rationalization techniques being introduced as well as additional industrial projects which must be completed.

16. A keynote in the current campaign against low industrial productivity and against low-labour income was struck by Bulgarian Party leader Zhivkov at a Central Committee meeting in December, 1972. It came in a speech in which he announced an unexpected programme for a dramatic increase in the minimum wage and a series of other benefits for the low-paid.

17. Officially, the new programme is merely "an unfolding of the Party's consistent policy of improving living standards". In fact it amounts to a great leap forward in the minimum wage. In addition to the underlying need for a revitalized industrial output through increased material incentive, some observers see the move as Bulgaria's belated response to the Polish riots in December 1970 which produced a new-look for workers' wages all over Eastern Europe; it has also been seen as an attempt to close the gap of living standards between Bulgaria and its COMECON allies. Miners and others doing particularly hard work receive increases of up to 20%. A five-day week of 42½ hours is slowly being introduced. Peasants are to be granted the same conditions as workers during the recent Plan period.

18. As additional labour incentives, apart from the minimum wage increases to be introduced during 1973, the Bulgarian Government has announced improved public health and welfare facilities. Housing construction is to be accelerated and the services sector is to be greatly improved. Such measures are unlikely to be implemented, however, before the end of the current Five Year Plan.

Agriculture

19. Apparently, developments in the agricultural sector during 1972 were rather better than for 1971 (+4.8%) although the Plan target (6%) was not reached. The reasons for this are manifold, but include unfavourable weather as well as poor organization of manpower and farm equipment.

20. The 1972 grain harvest produced almost 8 million tons, a figure likely to be reached in 1973 also. Fodder grain output remains low, and efforts are being made during the current Plan period to boost fodder yields at the expense of bread grains; the fodder target is 4.6 million tons, i.e. 35% more than the average yields during the previous Plan period.

Foreign Trade

21. Reduced growth in the production sector together with supply difficulties in other COMECON countries had some impact on Bulgaria's foreign operations in 1972. As in 1971, imports increased more rapidly than exports last year, so that the active trade balance dropped by around 20% compared with 1971. The overall foreign trade volume was also below the Plan target.

22. Recently issued trade figures show that once again, Bulgarian foreign trade is completely dominated by its COMECON partners, primarily the USSR. In 1972, the Western share of foreign trade amounted to a mere 13%; the Soviet share (55%) is consequently four times larger than the combined total of Bulgaria's trade with the developed Western countries.

23. These figures must be seen against the background of the early sixties, when commerce with the West was expanding rapidly. In 1965 for example, the West accounted for nearly 20% of Bulgaria's foreign trade and the Soviet bloc's share dropped to around 73%. Since then, however, a major reorientation has occurred, and the West's share has dropped considerably. Apart from the important factor of Bulgaria's integration within the COMECON special programme, the downward trend has clearly been due to the inability of Bulgaria to achieve a corresponding increase in its sales to the West, thus producing a rapidly rising trade deficit.

24. Italy has now outstripped the Federal Republic of Germany as Bulgaria's chief Western trading partner. Italian-Bulgarian trade last year amounted to \$150 million. The German share was \$160 million, but this figure included "trilateral transactions". Switzerland, France, Britain and Austria follow. The Bulgarians do not apparently seek what they describe as an "absolute balance" in their Western trade, but if during a longer period, the Western partners are unwilling to make sufficient efforts to buy Bulgarian products, their sales to Bulgaria will sooner or later be adversely affected.

Outlook

25. In view of economic developments described above for 1971 and 1972, the relatively few Plan targets issued by the Bulgarians for 1973 would appear optimistic. This applies especially to the planned growth rate of gross production in the industrial (9.9%) and agricultural (7.4%) sector.

26. So far, there are few signs that the preconditions for implementation of the 1973 targets have been created. On the contrary, it would seem that, internally, Bulgaria will have to face new burdens. The recent introduction of a five-day week

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will call for a rapid boost in labour productivity and there is no certainty that the "differentiated pay hikes" now being gradually introduced will be fully acceptable to Bulgaria's labour force as a whole.

27. It would now seem that current Plan targets will not be reached before the end of the Five Year Plan period. A post-1975 upturn is not, however, excluded, but this will call for the elimination of problems created by the industrialization process. This will mean greater capital allocation, more cost-conscious production, more effective investments and a generally stable economic policy, goals which the leadership has striven for since 1966.

28. Externally, the trade pattern is likely to reflect a further increase in the Soviet share, with the 60% target for the Soviet percentage of Bulgaria's foreign trade still considered "valid".

29. Bulgaria is seeking joint ventures with Western companies, but will rule out Western equity participation. Recently, Deputy Trade Minister Lukanov states that decision-making over enterprises must be in the hands of the Bulgarians, and that there is no intention to follow the Yugoslavs or Hungarians in providing for joint ownership in any form.

30. The Bulgarians envisage three main forms of co-operation: firstly, delivery of complete plants, for example, on the basis that 30% of the equipment is produced in Bulgaria under guidance of the Western partner, who would also take part of the product turned out by the factory located in Bulgaria. Secondly, the erection of a plant by a Western company in Bulgaria with the latter paying for the investment by delivering to the partner the products of the new plant. Finally, the "classical co-operation" formula - the joint manufacturing of a product with the Bulgarian side providing parts or components for machines or manufactures produced not in Bulgaria, but in the West or on a third market. It would appear that the Bulgarians favour the second formula most.

31. Clearly, the Bulgarians are keen to promote Western trade in this direction. In the long run, Bulgaria might well become an attractive trade partner for the West in the COMECON framework, but this will call for considerable qualitative improvements of its products and greater flexibility in the management of foreign trade.

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TABLE I
POPULATION ANALYSIS

	<u>1965</u>	<u>1971</u>
	(Thousands)	
(a) <u>Total</u> (at end of year)	<u>8 230</u>	<u>8 557</u>
Urban	3 826	4 680
(b) <u>Working age group</u>		
Males 16-59		
Females 16-54	<u>4 787</u>	<u>4 979</u>
(c) <u>Birth rate</u> (per 1000)	15.3	15.9
(d) <u>Death rate</u> (per 1000)	8.1	9.1
(e) <u>Natural growth</u> (per 1000)	7.2	6.2
(f) <u>Employment by sector</u> (thousands)		
Industry	954	1 183
Building	224	311
Agriculture(1)	214	311
Transport etc.	180	234
Trade	200	268
Other branches	423	556

(1) Forestry included

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TABLE II

ECONOMIC PROFILE OF BULGARIA

Selected Data on Growth

	<u>1970</u>	<u>1971(1)</u>	<u>1966-1970</u>	<u>Plan</u>
	(%)		(average)	<u>1971-1975</u>
				(average)
(a) <u>Main indicators</u>				
Net material product	7.0	7.0	8.6	7.7-8.4
Gross industrial output	8.2	9.0	10.9	9.2-9.9
Gross agricultural output	4.0	2.0	3.4	3.2-3.7
Investments	10.2	1.7	12.3	8.4-9.2
Real per capita income	4.8	3.8	5.9	4.6-5.4
(b) <u>Distribution of net material product(2)</u>				
	<u>1970</u>		<u>1971</u>	
	(million leva)			
<u>Consumption</u>				
Personal	7,184	(68%)	7,591	(74.6%)
Other	294	(2.8%)	382	(2.8%)
<u>Accumulation</u>	3,069	(29.2%)	2,710	(25.4%)
<u>TOTAL</u>	<u>10,511</u>		<u>10,683</u>	
(c) <u>Net material product (current prices: million leva)</u>				
	<u>1970</u>		<u>1971</u>	
	10,527		10,411	
(d) <u>Contribution to net material product (%)</u>				
	<u>1970</u>		<u>1971</u>	
Industry and building	57.8		60.0	
Agriculture and forestry	22.6		23.7	
Transportation and communications	6.9		7.3	
Trade and other sectors	12.7		9.0	

(1) Provisional

(2) Annual prices: not identical with current prices

TABLE III
TOTAL BULGARIAN FOREIGN TRADE

Year	Total	Exports	Imports	Share of noncommunist countries	
				Exports	Imports
(in millions of foreign exchange leva)					
1959	1,224.4	546.5	677.9	13.2	21.1
1960	1,408.7	668.6	740.1	16.1	16.1
1961	1,554.4	775.2	779.2	16.4	16.5
1962	1,822.0	903.9	918.1	17.5	17.2
1963	2,067.7	975.8	1,091.9	17.9	17.6
1964	2,389.2	1,146.2	1,243.0	20.3	24.4
1965	2,753.6	1,375.7	1,377.9	20.6	25.8
1966	3,256.5	1,526.9	1,729.6	23.6	30.5
1967	3,545.2	1,706.1	1,839.1	22.2	25.9
1968	3,975.0	1,889.7	2,085.3	21.3	23.3
1969	4,146.2	2,099.5	2,046.7	20.8	20.3
1970	4,486.8	2,344.5	2,142.3	20.7	23.8
1971	5,007.7	2,551.3	2,456.4	20.6	22.5

TABLE IV
TRADE WITH THE DEVELOPED WEST

Year	Total	Exports	Imports	Share in total Bulgarian turnover		
				Total	Exports	Imports
(in millions of foreign exchange leva)						
1956	78.9	35.6	43.1	12.2	10.0	14.7
1960	185.1	83.5	101.6	13.2	12.5	13.7
1965	524.7	217.9	306.8	19.1	15.9	22.3
1968	669.9	285.1	384.8	16.9	15.1	18.5
1969	612.0	308.6	303.9	14.8	14.7	14.8
1970	743.0	333.6	409.4	16.6	14.2	19.1
1971	769.6	351.8	417.8	15.3	13.8	16.8