

CONSEIL DE L'ATLANTIQUE NORD
NORTH ATLANTIC COUNCIL

EXEMPLAIRE
COPY

N° 171

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

ORIGINAL: ENGLISH
20th March, 1975

WORKING PAPER
AC/127-WP/421(Revised)

ECONOMIC COMMITTEE

BULGARIA: ECONOMIC REVIEW 1973-1974

Note by the Chairman

Attached is the revised version of AC/127-WP/421, which takes account of the various comments and amendments from the German, United Kingdom and the United States Delegations.

2. Unless further comments are forthcoming by 15th April, it is proposed to submit this document to the Council.

(Signed) J. BILLY

NATO,
1110 Brussels.

This document includes: 1 Annex

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

BULGARIA: ECONOMIC REVIEW 1973-1974

Draft Report by the Economic Committee

INTRODUCTORY COMMENT

1. Any economic evaluation of Bulgaria must take account of the fact that the country's close ties with the Soviet Union constitute the basis and guiding precept of its policies in all spheres, military, political and economic. As soon as a conflict of interests with Moscow threatens, Bulgaria's own interests must take second place.

2. Bulgaria itself regards its bilateral relations with the Soviet Union as a kind of special relationship within the Warsaw Pact and COMECON. Of all COMECON countries Bulgaria appears to have the least reservations with regard to Soviet aspirations for hegemony. This attitude probably has its roots in historical factors (e.g. the liberation of Bulgaria from Turkish rule in 1878 by the Russians), as well as in the ethnic and linguistic background. It is e.g. noteworthy that some 12,000 Bulgarian workers are currently in the USSR - primarily in the lumber and pulp industry - at a time when the Bulgarian economy continues to suffer from a labour shortage. In any case there are signs that the Bulgarian public does not disapprove its country's close ties with the Soviet Union.

3. The current five-year plan period (1971-1975), as with previous plans, again reflects the fundamental economic dominance of the Soviet Union. Although this situation is mainly 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, particularly food products and consumer goods.

4. 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.

SUMMARY OF REVIEW

5. Contrasted with the period 1961-1965, Bulgarian economic growth reflected an overall economic upturn during 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 was partly due to the slow progress made in implementing labour extensive policies - the manpower shortage is acute in Bulgaria - and partly to inadequate investment capital. Although there has been much said on economic reform, the various experiments with recentralisation and decentralisation have failed to show satisfactory results in the growth figures; indeed, overall growth in 1972 proved to be 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, although total volume has and will continue to increase.

6. Bulgaria's economy during 1973, by contrast, appeared to have one of the highest growth rates within COMECON, the national income rising by an estimated 8 %. Factors contributing to this upturn include increased investment and wage hikes. Performance slackened in agriculture and, on a lesser scale, in construction; nevertheless, as a whole, the economy met or surpassed planned rates of growth. A key problem area remains the chronic labour shortage, affecting all branches of the economy, and especially the agricultural sector, although low labour productivity remains also of great concern to the régime (see paragraph 8). Clearly, Bulgaria will pursue its integration policies with the USSR and COMECON - the latter already claims some 80% of Bulgaria's trade, but it is likely that trade with the West will progress as Bulgaria seeks aid and equipment outside COMECON not available from its Eastern partners. Finally, Bulgaria appears to have suffered less than other East European countries through the energy crisis. Nevertheless, some shortages have occurred, petrol prices have soared, and 1974 was declared by the Central Committee as the "year of maximum economy of fuels, power and raw materials".

7. The planning data for 1974 show that Bulgaria's leaders hoped for the continuing dynamic growth of 1973. The plan targets - apart from an anticipated real income boost of only 5% - were all higher than the growth rates reached in 1973. The target was for an 11% increase in gross industrial output which would have required an increase in labour productivity of at least 9% and investments of around 13%. Agricultural output was to grow by 5%, and at least a 10% growth was planned for the net material product. With its stable price levels ensured, the

retail trade turnover was planned to continue its growth at last year's pace, i.e. 8.5% while the planned growth rate of trade with the Communist bloc was around 17% (1973: +12.7%). However, data released for 1974 intimate that in 1974 at least national income, industrial production, capital investment and probably labour productivity were below plan.

8. During 1973 and into 1974, the Bulgarian economy continued to receive the usual high degree of attention from the Party leadership. The State Council produced one of the most sharply critical documents issued in recent times on violations of the rules governing reporting on economic activities, and outlined measures to be taken to ensure discipline in the economy. In May 1974, a joint Party and state document was issued setting forth basic principles for non-material incentives. The document dealt with methods to be utilized in order to secure greater productivity from the labour force in all sectors. To achieve greater flexibility in economic organization, new regulations were issued in April 1974 permitting a much wider variety of state economic organizations. Nevertheless, stricter control and greater discipline in the economic sector will probably characterise 1975 without, however, any guarantee that this will really contribute to improving labour productivity - the main concern of the Bulgarian Communist Party's national conference held in March 1974. This goal, as Zhivkov indeed intimated, will probably only be reached by economic measures more far-reaching than those suggested by the above-mentioned Party-state document.

9. After relatively modest targets and achievements in 1971 and 1972, the 1973 plan targets were rather more ambitious. This seemed even more so for 1974. Evidently, the aim for 1974 was to make up for what was lost in the first years of the plan, thus preparing the way for aggregate fulfilment in 1975. It is uncertain whether this aim will now be achieved (see Annex).

10. A comparison of the original 1974 plan figures with the actual reported achievements indicates that the national income, industrial production, capital investment and probably labour productivity were below target. Nevertheless, reported increases for 1974 of 7.5% in national income, 8.5% in industrial production and 5% in per capita real income are respectable accomplishments, indicating substantial progress during the year. Agriculture, however, suffered a severe setback from the drought (see Annex).

Outlook

11. In the light of this situation, the outlook for 1975, the final plan year, might seem more hopeful. It is interesting to note that the 1975 plan figures more closely coincide with the 1974 actual achievements than the unrealistic 1974 plan. Nevertheless, it is too early to state whether the 1971-1975 plan target for industrial growth will be met. The increase required in 1975 would be about 9.4%; the annual plan anticipates an upturn of only around 8% in 1975. However, it seems highly unlikely that five-year plan targets for overall economic growth will be attained, as expressed in terms of national income increases. One reason for this is the poor agricultural performance. While details on losses caused by the 1974 agricultural drought are not available, it is becoming increasingly clear that these losses were severe. The shortfall in grain alone is assessed at 1 to 1.5 million tons. Part of the justification offered for the 9.3% increase proposed in the 1975 plan is that the 1974 base will be even lower than that for 1973 so that normal moisture during 1975 would of itself contribute substantially to the increase. However, precipitation so far during the winter does not suggest a very encouraging 1975 season.

12. Ultimately, a key factor in the successful implementation of current plan targets remains increased labour productivity. The appropriate consequences appear to have been drawn in the 1974 plan (planned growth rate of 9%), after some degree of success was reached in this sector during 1973 (+8%).

13. Efforts to achieve improved labour morale and discipline, a controlled inflow of workers into industry and wage hikes as an incentive for extra effort had some impact during 1973. Nevertheless an additional prerequisite for further improvement of labour productivity would appear to be larger imports of high quality investment goods from the West than planned since COMECON appears unable to satisfy Bulgaria's growing import requirements.

14. Externally Bulgaria remains one of the most conservative of COMECON countries. Although direct foreign investment is not allowed in Bulgaria, it does wish to expand foreign relations and has enacted various decrees and regulations which provide for increased economic co-operation with foreign firms, for example, licensing and joint production arrangements. Presumably the régime wishes to preserve and stretch hard currency reserves by repayment from production. Of course, it is not merely lack of hard currency reserves which make Bulgaria seek joint production accords, but also its inability to generate acceptable exports to pay for imports. These accords often have the

inbuilt advantage of easy access to Western markets for the resultant products of the joint venture. To hasten the evolution of its domestic economy, Bulgaria prefers to purchase complete manufacturing processes rather than the products themselves. It is also interested in exploring the feasibility of third country joint co-operative ventures.

15. Finally it should be remembered that no other country within COMECON has such a high foreign trade dependence on the USSR, and that ultimately Moscow continues to play a dominating rôle in every aspect of Bulgarian economic development. While on paper the USSR will permit COMECON as an institution to direct Bulgaria's further economic evolution, Sofia will almost certainly attempt to achieve integration as fast as possible under Soviet directions, and thus serve as the ongoing model of an ideal socialist state in Eastern Europe.

MAIN REPORT

16. Any consideration of the Bulgarian economic situation is complicated first, by the inavailability, questionable quality and general unreliability of statistics and other information, and, second, by the tyranny of the five-year, annual and supplementary plans. Plans are expected to be rigidly adhered to in all sectors and it is in the name of meeting plan objectives that Ministries and enterprises juggle figures and make economically unjustifiable and inexplicable decisions. Despite these factors it is possible to make a number of observations about the present economic situation in Bulgaria.

17. Although plan figures for the present sixth five-year plan indicate a flatter growth curve for the economy in general and for industry in particular, in 1973 Bulgaria met or surpassed planned performance levels in the bulk of the key economic sectors, agriculture excepted. National income as a whole showed an estimated upturn of 8% over 1972, led by industrial output which increased by 10.6%. By contrast, the reported agricultural production upswing was 3%, well below the planned 7.4% boost, this in spite of the second best wheat harvest on record.

18. The plan adopted in December 1973 by the Council of Ministers for 1974 appeared more ambitious than for 1973. It calls for a 10% boost in national income, 11% in industrial production, 9.5% in labour productivity and 13% in industrial services (see Annex for 1974 results). The plan for the farm sector was fixed, however, at 5%, reflecting the ongoing problems encountered in agriculture, due partially to labour shortages, an inadequate investment level, and the usual relative neglect compared with the industrial sector. In fact, farm output was even below that of 1973 (see paragraph 10 and Annex).

AC/127-WP/421(Revised)

-7-

19. Investments in the industrial sector will total roughly 50% of the 4.5 billion leva(1) slated for capital investment in Bulgaria during 1974. Despite the statistically impressive gains, Bulgarian industry still has considerable problems to resolve: these include the perennial labour shortages, obsolete plant and equipment, unused production capacity, uncertain management, etc. In other words, Bulgaria certainly has its fair share of those problems generally characteristic of socialist economies. Nevertheless, and taking into account revised five-year plan targets, the overall picture for 1973 was of improved growth over 1972 - except for agriculture, with 1974 planned to be even more ambitious. The 1973 breakdown looked as follows:

National Income: up 8% compared with an estimated 7%
for both 1972 and 1971.

Industrial Output: up 10.6% compared with 8.3% (1972) and
8.9% (1971).

Agriculture: up 3.1% compared with 4.8% (1972) and
3.1% (1971).

Foreign Trade: up 13.2% overall compared with 11.4%
(1972) and 11.6% (1971).

Real per capita
Income of the
population: up by 7.9% compared with 7% (1972) and
4.3% (1971).

Demography and Labour

20. One salient reason for the below-plan figures in 1973 and 1974 (see Annex) has been the problem of implementing labour extensive policies because of the manpower shortage. Although the labour situation in the industrial sector is more favourable than in other sectors, the overall manpower figures reflect a downward trend: in the previous planning period the number of workers and employees in the economy increased by an average of only 1%. During the present plan period an even smaller increase is anticipated (0.8% to 1% annually). A continuation of this trend will almost certainly adversely affect Bulgaria's industrial development in the next plan session. This raises serious problems as Bulgaria strives to create an economy based on increasing specialization and the introduction of modern technology and planning techniques.

(1) Official exchange rate \$1 = leva 0.97

21. The problem of labour shortages is so acute that a recent National Party Conference was devoted solely to methods of increasing labour productivity. Aside from bonuses and appeals for a greater work effort, the need for wider utilization of up-to-date labour saving machinery and equipment has gained increasing recognition, and Bulgaria will doubtless look in part to the West in future to supply such equipment (see Foreign Trade).

22. Between 1950-1972, the Bulgarian birth rate decreased from 25.2 to 15.9 per 1,000 inhabitants, and is likely to decrease further to around 15.4 by the end of 1974. If the present trend continues, a birth rate of about 14 per 1,000 inhabitants can be expected by 1990. Comprehensive measures to counter this trend by granting family allowances and bonuses for larger families have not shown any perceptible success hitherto. The present population totals around 8.6 million.

National Income, Investment and Wages

23. In 1973, gross capital investment reportedly showed a 9% increase over 1972. Taking into account inflationary price developments in the West and continuing inefficiency in the Bulgarian investment sector, it must be assumed however that targets were only partially met. This assumption derives especially from the 1974 official report which criticises lagging construction projects: "the construction programme as a whole remains unfulfilled". Projects completed during 1973 were said to be worth 3,700 million leva, a figure which indicates that the volume of incompleted projects has increased.

24. Information suggests that despite continuing heavy investment in 1973, some projects even considered essential could not be put into operation. For example, the Devnya industrial complex near Varna, which when completed will be one of the largest producers of soda ash in the world, operates currently at a very reduced level due partly to construction bottlenecks and labour shortages. The Bulgarian construction industry must compete for the limited manpower available along with the farming sector. It is also frustrated by poor planning and preliminary arrangements, inadequate co-ordination among the Ministries, economic organizations and district people's councils involved, and sub-standard building materials. Housing construction also fell considerably short of planned goals in certain districts during 1973 and the estimated construction shortfall for 1974 is assessed at 54,000 housing units.

AC/127-WP/421(Revised)

-9-

25. The figures given by the report for living standards are on the whole positive and reflect the fact that 1973 was the year when many of the provisions of the December 1972 Central Committee Plenum were implemented. Nominal wages were said to have increased by 3.8% and real income by 7.9%, exceeding the planned upturn of 6.5%, although it might be more realistic to evaluate the real per capita increase in income at about 5% despite the upturn in the minimum wage. Savings reflect the same type of growth as for nominal income. Retail goods turnover was apparently over-fulfilled during 1973. An increase of 8.6% at comparable prices was reported compared with the planned 7.4%.

26. During the current five-year plan period, efforts are being made to incorporate overall price formation and planning into the central "normative" system. It is also intended to make additional changes in factory prices. The goal of Bulgarian economists to adjust national prices to those prevalent on the international market would appear to contradict the promised goal of price stability during the current planning period. Price reductions in 1973 for various consumer goods will probably be offset by price hikes on goods coming within the "luxury" category.

27. Finally, 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 data contained in the official press relating to the second half of 1973. Criticism is frequent, for example, of poor labour morale and discipline as well as of irregular, and in general, unsatisfactory performance of industrial plans. In order to boost morale and, concurrently, productivity, early in 1973 the Government introduced several reforms directed at improving the standard of living of workers which included pay increases, a gradual reduction in the working week to five days and an extension of health and welfare facilities. In 1974 incomes rose on the average of 5%, making the average annual income 1,145 leva (\$1,110) and it is proposed that this figure be increased by a further 4.3% in 1975. Additionally, in part to meet the "inflation factor", higher old age pensions are being introduced from June 1974 together with a revision of pensions paid to workers and employees until 1970. It is also planned that by the end of 1975 only farmers, teachers, medical workers and certain tradesmen will be working more than a five day week. At the same time, the Government announced the repeal of the policy of exporting better quality foods and consumer goods at the expense of the domestic market. Reports from Sofia, however, suggest that there continues to be few quality fruits and vegetables available and that the quality of other consumer goods has not noticeably risen.

28. With an average annual growth rate in gross industrial output of 15.9%, Bulgaria headed the COMECON countries during the period 1956-1960, but yielded this spot to Rumania in 1961. Nevertheless, there would still appear to be some accelerated growth. The average rate in the period 1961-1965 was 11%, for 1966-1970 10.6%; by the end of the current plan period it should still be about 8%.

Industry

29. The directives for the current five-year plan aim at developing those industrial sectors in particular which will allow technical standards to rise most quickly and guarantee output of sufficient quality to prove competitive on world markets. The domestic raw material base is to be widened (see Energy) with the main stress being given to development of the mineral oil industry, chemical and rubber industries and the metal working sector.

30. The results for 1973 suggest that Bulgaria succeeded in achieving a more rapid expansion by boosting national income (NMP) by 8%. The leading rôle in this development was held by gross industrial production with an increase of 10.6% over 1972, a percentage last reached in 1967. The largest increase, 18.6%, was reported by the machine building sector (plan: 20%) whereas the chemical industry with 11.1% seriously lagged behind the plan target of 22%. Official data attribute 80% of the rise in gross industrial production to an upturn in labour productivity (+8% over 1972).

31. It seems likely, however, that an equally if not more important contributory factor was played by structural sectorial adjustments, e.g. greater encouragement of energy production and of heavy industry. In addition, industrial growth was positively influenced by a substantially increased investment. Nevertheless, industrial output figures in 1974 were below plan with +8.5% (plan +11%). This may be partly attributed to price increases in the investment sector, but also certainly to the drop in labour productivity (+6% instead of the targeted +9.5%).

32. Not much has been reported in 1973 and 1974 on the impact of the programme announced in December 1972 by Zhivkov to introduce a dramatic increase in the minimum wage (see paragraph 25) and a series of other benefits for the low paid. However, it is known that efforts have been made to improve the availability of foodstuffs, especially fish, meat and eggs, and to boost the output of durables. In addition to the underlying need for a revitalised industrial output on a more than transient basis via increased material incentive, some observers see the move as Bulgaria's belated response to the

AC/127-WP/421(Revised)

-11-

Polish riots of December 1970 which started the trend towards a new look for workers' wages throughout Eastern Europe. It has also been seen as an attempt to close the gap of living standards between Bulgaria and its more developed COMECON partners such as the GDR, Poland and Czechoslovakia.

Agriculture

33. Bulgaria's agricultural sector continues to grow at an unsatisfactory pace, reflected by the November 1973 plenum on agricultural output and the subsequent high level personnel changes in the Ministry of Agriculture. The amalgamation of the country's farm sector into less than 170 units has reportedly created some degree of socio-economic dislocation, resulting in continued shortfalls in meat and dairy production.

34. The most acute problem area, however, remains the critical shortage of agricultural workers, reflected yet again in 1973 by the incomplete harvest gathering and the poorly co-ordinated distribution of fruit and vegetables in the domestic market.

35. For a number of years the country's agriculture has lagged way behind expectations. For example, in 1970 at the end of the last plan period, the production level was only 18.5% (at fixed prices) above the 1965 figure, whereas a planned increase of 25% to 30% had been hoped for. In 1973, a growth rate of 7.4% (at current prices) was announced, whereas only 3% was attained. Factors contributing to this low increase included bad weather and the usual poor organization, but also inadequate maintenance, shortage of spare parts and long repair periods for machinery.

36. Although efforts have been made to enlarge the usable agricultural area and to increase hectare yields, 1974 crop results will hardly exceed the level of 1973. Also, the results of the first half year in stock-farming should by no means be spectacular. Therefore, on the whole, an increase in gross agricultural production of 2% to 2.5% (plan: + 5.4%) was expected for 1974. The serious drought in 1974 has even endangered this forecast (Annex).

37. Bulgaria's response hitherto has been towards additional mechanisation, modernisation of its agro-industrial complexes, higher output of fertilizers and measures to boost productivity. The programme to achieve total integration of agricultural units with industrial enterprises (already operative in the sugar industry) is also being implemented.

38. Peasants are being given larger plots on which to grow vegetables, and considerable encouragement is being given for them to raise livestock privately. Increased fertilizer output has been frustrated, however, by the world-wide shortages in phosphates and potash which have affected Bulgaria also.

Defence

39. In general terms, Bulgaria has a far-reaching dependence militarily on the Soviet Union. It has no armaments industry of its own, its armed forces being equipped entirely with weaponry and equipment from the USSR. Again, the Bulgarian navy is virtually integrated into the Soviet navy in the Black Sea. Starting in 1968, the Bulgarian armed forces initiated a modernisation programme, with extensive purchases of more sophisticated equipment beginning in 1969. Bulgaria no longer publishes national defence expenditure data, but it is believed that the current re-equipment programme will be terminated essentially by the end of 1975. It is further believed that the share of defence expenditure in the estimated GNP will remain at the low figure of 3.1% until the end of the current plan period.

Research and Development

40. During the current plan period, considerable research is underway especially in the fields of electronics and biophysics, the latter two areas having been assigned to Bulgaria within the specialization framework of COMECON. Of particular interest to the West are Bulgaria's ambitious plans in the field of electronic data processing, whereby a major part of the country's economy should be operated by data centres by 1975. In addition, in co-operation with its COMECON partners, Bulgaria aims at developing by the end of 1975, an automatic system of transportation control, one aim of which will be to compute the optimum distribution of freight between rail and road. Although Bulgaria receives the bulk of its aid and know-how from the USSR in its R&D programmes, it is also seeking high technology from such countries as France, FRG and Japan in order rapidly to double output in its electronic industry.

The Energy Crisis

41. Recent global shortages of petroleum and raw materials have had a relatively mild impact on the Bulgarian economy compared with certain other European countries. The USSR, through trade accords, supplies Bulgaria with roughly 90% of its petroleum needs until the end of 1975, although a proportion of this is Middle East oil obtained on Soviet account. If this proportion is excluded, then the amount of purely Soviet oil supplied would average at roughly 70%. Since 1970, the Soviet oil share in total oil deliveries to Bulgaria has declined. Bulgarian statistics estimate deliveries as follows: 1970: 83.5%; 1971: 76.9%; 1972: 76.8%. Reports suggest that the USSR supplied additional oil in 1974 to build up Bulgaria's reserves, so that 1974 figures could be higher than usual.

AC/127-WP/421(Revised)

-13-

42. Nevertheless, cutbacks in oil deliveries from the Arab countries did result in some shortages in late-1973 and early-1974. Petrol prices, for example, were hiked 100% in February 1974 and to conserve fuel, and for some time days of rest were staggered throughout Bulgaria's districts.

43. Bulgaria has some reserves of low grade coal, although its lignite deposits are insufficient to meet future domestic needs, especially in the power plants. Aid is actively being sought in exploring the potential of oil fields in the Danubian plain north of Pleven in the Black Sea shelf areas, although no major deposits have yet been located. In recognition of likely short-term energy problems, however, the Central Committee has declared 1974 "the year of maximum economy of fuels, power and raw materials".

Foreign Trade

44. Bulgaria's overall foreign trade increased by 13.2% in 1973 (1972: 11.4%). Trade with COMECON showed a 12.7% upturn in 1973 (1972: 13.9%) and there is no doubt, on the basis of available trade figures, that Bulgaria's foreign trade is completely dominated by its Eastern partners, especially the USSR. Currently, Bulgaria's trade with the other COMECON countries is between 78% to 80% of its total foreign trade. In 1973 the Western share of foreign trade amounted to a mere 14.9%; the Soviet share (54.3%) is consequently almost four times larger than the combined total of Bulgaria's trade with the developed Western countries.

45. 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 taken place, 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 creating a rising trade deficit.

46. Nevertheless, in 1973 Bulgaria appears to have sharply boosted its trade with the Western industrialised countries. This is reflected in preliminary Bulgarian data that the upturn in 1973 in trade with both Western and Third World countries was over 18% (1972: 2.6%). The combined share of both areas in Bulgaria's total trade turnover was about 21% (1972: 19.8% of which 14% for the Western countries). Naturally, some portion of the increased trade with the West is accounted for by increased prices, rather than merely higher volume.

47. Although Bulgaria's aim is to increase trade relations with the Soviet bloc, imports of machinery and equipment from the West are expected to grow. In view of the large planned developments in the chemical engineering, electronic and precision engineering industries it is highly improbable that all stages of production could be achieved by using only plant, equipment and machinery of COMECON origin; moreover, the expansion and modernisation of the consumer goods industry and/or agriculture should add to the demand for Western goods. Sofia will also still have to rely on sophisticated equipment of Western origin for the development of its engineering industries. Nevertheless, Bulgaria's indebtedness to the NATO countries remains the second lowest within COMECON (behind Hungary) and reports suggest that the Bulgarians intend to maintain this situation. Nevertheless, Bulgaria had a debt service ratio in 1973 of nearly 23%, thus placing its above all its East European partners. In other words, Bulgaria is in a poor position, although perhaps only temporarily, as regards its ability to service its debt.

48. It is interesting to note that Bulgaria's export production has moved away from agricultural goods and towards a "specialization" in industrial production, especially machine building and metal processing. In 1973, these two areas of specialization provided 37.4% of the production growth rate in state industry as a whole, although their share of Bulgaria's total industrial production is only 23%.

Tourism

49. Bulgaria's tourist industry continues to boom and has become an important source of hard currency. In 1973, 3.35 million foreigners visited Bulgaria, approximately a 7% increase over 1972: of these, approximately 1.7 million came from the West, the rest from Communist countries. Foreign currency earnings from tourism for 1973 are estimated at \$161.3 million (1972: \$146 million).

50. On 1st November, 1974 Bulgaria revalued its "tourist" rate of exchange by slightly more than 25%, bringing it much closer to the "commercial rate". Officials at the National Bank have apparently intimated that earlier this year 30 of Bulgaria's missions in Western countries were requested to carry out a survey of over 100 goods and services. After the figures were averaged and compared with prices of "comparable" Bulgarian items it was concluded that Bulgarian goods were underpriced by 25%, hence the revaluation by 25%. However, it is not felt that package tours sold abroad in local currencies will reflect the revaluation and will remain constant or increase only slightly.

AC/127-WP/421(Revised) -15-

TABLE I - POPULATION ANALYSIS

	<u>1965</u> (Thousands)	<u>1972</u>
(a) Total (at end of year)	<u>8,230</u>	<u>8,575</u>
Urban (%)	46.5	55.7
(b) <u>Working age group</u>		
Males 16 to 59		
Females 16 to 54	<u>4,787</u>	<u>5,022</u>
(c) <u>Birth rate</u> (per 1,000)	15.3	15.3
(d) <u>Death rate</u> (per 1,000)	8.1	9.8
(e) <u>Natural growth</u> (per 1,000)	7.2	5.5
(f) <u>Employment by sector</u> (1,000)		
Industry	954	1,200
Building	224	315
Agriculture(1) (socialized sector)	214	358
Transport, etc.	180	240
Trade/commerce	200	283
Other branches	423	586

(1) Forestry included

TABLE II - ECONOMIC PROFILE OF BULGARIA
PERCENTAGE GROWTH OF SELECTED INDICATORS

	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973(1)</u>	<u>1974(2)</u>	<u>1971-1975(3)</u>
(a) <u>Net material product</u>	12.5	7.0	7.0	8.7	10.0	7.7-8.4
Industrial production	8.2	9.0	8.3	10.6	11.0	9.2-9.9
Agricultural production	4.0	2.0	4.8	3.0	5.0	3.2-3.7
Capital investment	10.2	4.0	9.4	8.8	13.0	8.4-9.2
Labour productivity	6.9	0.0	3.5	8.0	9.0	7.6
Labour force	1.2	1.7	0.5	0.2	-	-
Real per capital income	4.8	4.2	7.0	7.9	5.0	4.6-5.9

- (1) Estimated
(2) Planned
(3) Average

(b) Distribution of net material product(1)

	<u>1971</u>	<u>1972</u>
	(million leva)	
<u>Consumption</u>		
Personal	7,678 (69.5%)	8,377 (70.2%)
Other	295 (3.7%)	333 (3.8%)
<u>Accumulation</u>	2,772 (26.8%)	3,060 (26.0%)
TOTAL	<u>10,745</u>	<u>11,770</u>

(c) Net material product (current prices: million leva)

<u>1971</u>	<u>1972</u>	<u>1973</u> (estimated)
10,411	11,242	12,254

(d) Contribution to net material product (%)

	<u>1971</u>	<u>1972</u>
Industry and building	60.0	59.6
Agriculture and forestry	23.1	22.8
Transportation and communications	7.3	7.4
Trade and other sectors	9.6	10.2

(1) Absolute figures at annual prices, not identical with current prices

TABLE III - TOTAL BULGARIAN FOREIGN TRADE 1955-1975
(millions of foreign exchange leva)

	Total Turnover	Import	Export	Trade Balance
1955	568.8	292.4	276.4	- 16.0
1960	1,408.7	740.1	668.6	- 71.5
1965	2,753.6	1,377.9	1,375.7	- 2.2
1966	3,256.5	1,729.6	1,526.9	-202.7
1967	3,545.2	1,839.1	1,706.1	-133.0
1968	3,975.0	2,085.3	1,889.7	-195.6
1969	4,146.2	2,046.7	2,099.5	+ 52.8
1970	4,486.8	2,142.3	2,344.5	+202.2
1971	5,033.2	2,479.9	2,553.3	+ 73.4
1972	5,609.2	2,772.2	2,837.0	+ 64.8
1973	6,352.6(1)	3,156.2(1)	3,196.4(1)	+ 40.2(1)
1974	7,500.0(2)	3,739.0(3)	3,761.0(3)	+ 22.0(3)
1975	8,625.0(3)	4,304.0(3)	4,321.0(3)	+ 17.0(3)

- (1) Preliminary figures
- (2) Plan
- (3) Estimated

TABLE IV - FOREIGN TRADE STRUCTURE 1965-1975 (% OF TOTAL TURNOVER)

	1965	1970	1971	1972	1973(2)	1974(3)	1975(5)
Socialist countries	76.8	77.8	78.5	80.2	79.3	78.6	77.5
COMECON(1)	73.0	74.4	75.1	78.1	77.2	-	-
USSR	51.5	53.0	53.6	54.3	53.3	-	-
Other socialist countries	3.8	3.4	3.4	2.1	2.1	-	-
Western countries	19.1	16.6	15.3	14.0	14.6		
Developing countries	4.1	5.6	6.2	5.8	6.1	21.4(4)	22.5(4)

- (1) Without Cuba until 1971; from 1972, including Cuba
- (2) Preliminary data
- (3) Plan
- (4) Due to increasing world market prices and growing import requirements (high-quality investment goods): the share of the Western industrialized countries is assessed at 14.6% (1973) and 16.0% (1975)
- (5) Estimated

ASSESSMENT OF 1974 RESULTS

SUMMARY

1. The Ministry of Information and Communications on 1st February published a report on the fulfilment of the 1974 United Social and Economic Plan. As is customary for the periodic reports of this nature, the information is usually given in the form of percentages of increase for vaguely defined, incomplete, and incompatible categories. The result defies detailed analysis and rational comparison. Even comparison of the plan and fulfilment is severely limited by the fragmentary information given.
2. The Ministry's report states "According to the basic indices, the United Social and Economic Plan was fulfilled successfully". However, the figures contained in the report fail to support that claim. National income, industrial production, agricultural production and capital investment were below the levels set for the 1974 Plan approved by the National Assembly in December 1973 (see attachment). Despite this fact, the report still claims that the plan for industrial production was fulfilled by 100.6%. This could only be accurate if official, but unpublicised, adjustments were made in the plan subsequent to parliamentary approval.
3. It would also appear that labour productivity fell considerably below the 9.5% increase called for in the plan. Labour productivity in industry was up only 6% and in agricultural production it must have been a minus figure. With these results in the two largest segments of the economy, it appears very unlikely the 9.5% increase was achieved. But even if the 1974 plan was not fulfilled, the report claims very substantial progress during the year except in the field of agriculture. Increases of 7.5% in national income and 8.5% in industrial production are certainly respectable. Ninety-seven percent of the increase in national income is attributed to labour productivity, which indicates considerable success in capital investment in machines and technology. In addition, per capita real income reportedly met the plan, while retail trade exceeded it. It is interesting to note that the 1975 Plan figures more closely coincide with the 1974 actual achievements than the unrealistic 1974 Plan.
4. The most serious blot on the 1974 performance is in the field of agricultural production. The GOB has carefully avoided making public details on the losses caused by the 1974 drought. It is, however, becoming increasingly clear that these losses were severe. The shortfall in grain alone is estimated at 1 to 1.5 million tons. Bulgaria as a result has had to "borrow" from its socialist neighbours as well as make

ANNEX to
AC/127-WP/421(Revised)

-2-

substantial purchases in the West. Part of the justification offered for the 9.3% increase proposed in the 1975 Plan is that the 1974 base will be even lower than that for 1973 so that normal moisture during 1975 would in and of itself contribute substantially to the increase. However, precipitation thus far during the winter bodes ill for the 1975 season.

5. The report makes no mention of inflation. Admittedly, Bulgaria, with its dependence on the Soviet Union for basic materials and its relatively low trade with the industrial west, was largely insulated from rampant inflation in 1974. However, Bulgaria is not immune from these external pressures, although it is not possible from this vantage point to assess the effects. The reported doubling of Soviet oil prices effective 1st January, 1975 (there has been no local confirmation as of yet) will certainly have a highly inflationary effect on the Bulgarian economy. Internally, the wage increases, increased pensions, and decreased work week in 1974 would supposedly have been offset by increased productivity, but that is also difficult to assess with any accuracy.

SPECIFICS

I. Industry

6. Industrial production increased 8.5% in 1973, over-fulfilling the plan by 0.6%. The Ministries of Electronics and Electrical Technology, Agriculture and Food Industry, Internal Trade and Services, and Forests and Protection of the Environment achieved the greatest overfulfilment. Economic organizations in the field of communications, electronics, machine-building for heavy chemical industry, tobacco products and furniture were the best performers, while the enterprise for the Devnya chemical complex, as well as enterprises in automotive production, glass and fine ceramics, and building ceramics and materials failed to meet the plan.

7. It is interesting to note that the Ministry of Agriculture and Food Industry could meet the industrial portion of its plan despite the general agricultural setbacks. The efforts of certain enterprises such as tobacco processing were apparently sufficient to make the ministry a leader. It is also interesting that the much-publicised Devnya complex failed to meet its plan, perhaps as a result of delays and difficulties initiating production and bringing it up to capacity. Also, the general situation in the chemical industry led to high-level shake-ups at mid-year.

8. Labour productivity reportedly increased by 6% contributing 75% of the growth in manufacturing production. Production costs decreased by 1% and considerable economies in raw and other materials as well as fuels and power were realised.

II. Living Standards of the Population

9. Real income per capita increased by 5% and average wages rose by 3%, while 300,000 pensioners received higher pensions, and 1.5 million workers began five-day work weeks. Retail trade (at comparable prices) increased by 9.5% and the number of people in retail trade increased by 11,500 or by 8.5%. The sale of meat rose 11.3%, meat products by 9.9%, and fresh fruit by 14.1%, while other food products increased by smaller amounts. The sale of durable goods was also up; electric washing machines by 31.5%, vacuum cleaners 26%, automobiles 28.6% and bicycles 35.3%. Still the demands for a number of items could not be met and many enterprises failed to provide goods in the quality and variety contracted for.

10. Despite substantial gains claimed here, the living standard leaves much to be desired. At least temporary, local shortages of basic food items continue to exist, in effect a kind of rationing where prices are maintained at a relatively low-level. More luxurious food items such as fresh fruits and vegetables out of season or tropical fruits are often difficult to find as well as being very expensive. Although sales of durable goods may be rising substantially percentagewise, the actual volume remains low because of shortages and exorbitant prices. Housing, by the government's own admission, remains a particular problem with no solution in sight.

III. Agriculture and Forestry

11. Because of the drought, total agricultural production was "slightly less" than in 1973. Maize and industrial crops were most severely affected. Production of barley, tomatoes, peppers and potatoes, however, increased over 1973, and the numbers of livestock (with the exception of poultry) increased, as did milk, egg and wool production. Another 51,800 hectares were reforested during the year.

12. The success in increasing the numbers of livestock also contributes to the agricultural problem because of the shortage of forage. Recently the BCP and GOB have been conducting a campaign to encourage increased fodder production in order to forestall reductions in the numbers of livestock as farmers try to compensate for fodder shortages.

ANNEX to
AC/127-WP/421(Revised)

-4-

IV. Construction

13. Although construction at mid-1974 was reported as being 0.4% below plan, according to the current report the plan was exceeded for 1974 by 0.5%, an increase in construction in 1974 of 10% over 1973. Completion of projects of "particularly great importance" to the national economy (apparently such projects as the Kozlodui nuclear power plant, Devnya complex, etc.) exceeded the plan by 5.9% and the plan for the completion of industrial construction as a whole was exceeded by 4.9%. Housing construction, on the other hand, was underfulfilled although construction worth 337 million leva was completed, which was 11.4% higher than in 1973 and 44,462 new dwellings were finished.

V. Transport

14. Freight transport increased in volume by 15.8% in 1974, exceeding the plan by 2.8%. Passenger transport was up 7.1%, with air travel increasing by 26.1%. Labour productivity increased as follows: railway transport, 3.3%; domestic highway transport 6.6%; sea transport 21.3%; river transport 10.3%; and air transport 13.9%.

VI. Communications

15. Sixty-eight new post and telegraph offices were opened and 74,725 telephones and 416 telex lines installed. Telephone service between Sofia and all East German cities was automated and Sofia's service with Budapest and Warsaw was semi-automated.

VII. Foreign Economic Relations

16. Specialisation and co-operation with the Socialist countries, and particularly the Soviet Union continued. Bulgaria also is enlarging its "participation in the joint construction of capacities for raw materials on Soviet soil". Foreign trade increased by 23.6% during 1974. The relative share of machines and equipment in exports increased from 38.9% to 40%. The export of digital computers quadrupled and of chemicals more than doubled, while the export of consumer goods decreased. Imports of raw materials, mostly from the Socialist countries and particularly the Soviet Union included hard and liquid fuels, iron ore and ferrous metals, rubber, timber, cellulose, paper, cotton, and wool. More consumer goods were also reportedly imported.

17. Over 3,800,000 tourists visited Bulgaria in 1974, an increase of 570,000 over the preceding year.

18. No breakdown was made in the increase in trade with Socialist countries and capitalist countries. The 1974 Plan called for an increase in trade with Socialist countries of 17%. Also no breakdown is given for exports and imports, so that a substantial part of the reported 23.6% increase may reflect the increased costs Bulgaria has to pay for Western industrial products. Bulgaria is apparently running substantial deficits in its trade with Western developed countries.

VIII. Comment on the 1975 Plan

19. The current targets for 1975 provide for an increase of the net industrial product of 9% and of gross agricultural output by 9.3%. It seems unlikely that this planned hike in the agricultural sector will be attained or, therefore, that national income targets will be reached. Foreign trade for 1975 is scheduled to increase by a relatively low 9%. It must also be assumed that inflationary price increases in the West together with the new pricing system for Soviet crude deliveries in 1975 will no longer be as extensively absorbed by subsidies as previously. Consequently, industrial taxes and consumer prices are bound to increase.

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

APPENDIX to
ANNEX to
AC/127-WP/421(Revised)

<u>Category</u>	<u>1974 Plan</u>	<u>1974 Reported Fulfilment</u>	<u>1975 Plan</u>
National Income	10% increase	7.5% increase	9.0% increase
Labour Productivity	9.5% increase	(97% of increase in national income attributed to labour productivity; 6% in industry)	8.1% increase
Industrial Production	11.0% increase	8.5% increase	8.0% increase
Agricultural Production	5.0% increase	(Decreased by unspecified percentage)	9.3% increase
Capital Investment	4.5 billion leva	3.9 billion leva	4.6 billion leva
Per Capital Real Income	5.0% increase	5.0% increase	4.3% increase
Retail commodity circulation	8.5% increase	9.7% increase	7.1% increase

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