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"Bulgarian common sense rejects [socialist principles], nor will they now or ever find favorable soil in Bulgaria."
— Ivan Vazov, *Under the Yoke* (1889)

Bulgaria's economy began a deep and prolonged collapse in 1989, exactly one hundred years after the noted Bulgarian novelist Ivan Vazov published his stirring novel opposing the tyranny of the Ottomans and warning of the mistaken road of socialism. The 1989 collapse was partially a reflection of the external political upheavals among Bulgaria's trading partners in Eastern Europe, which were rejecting socialist principles. But it was also a reflection of the weaknesses imbedded in the economy after 30 years of central planning. Political instability within Bulgaria, market reforms, and attempts at privatization contributed further to economic uncertainty resulting in a continued output decline. The almost thirty percent fall in real Gross Domestic Product ("GDP") over the period 1989-1992 left approximately one-half million workers unemployed, and many more underemployed in this country of approximately nine million people.

This paper examines the reasons for the collapse of the macroeconomy, sketches the initial reforms and privatization programs, and assesses the capacity of the social safety net to deal with the inevitable economic dislocations. The years 1989-92 are critical not only for the formation and nurturing of the democratic movement in Bulgaria, but also as a period of popular support for reform (as a theoretical construct), in a cathartic recoil against the old system. The ultimate unraveling of this support, leading to anti-reform backlash movements, can be understood by examining Bulgaria's particular historical conditions, which made the costs of reform much greater than anyone dared to predict. Before addressing these main issues, Bulgaria's economic history is briefly reviewed.

I. Overview of the Bulgarian Economy

Bulgaria's economy remained largely agricultural for the first half of the 20th century. Peasants owning small plots of land accounted for 80 percent of

Bulgaria's population in 1900, and this changed little over the next fifty years (Pundeff 1992:67). After the Second World War, Bulgaria's economy was rapidly industrialized through state-mandated Five Year Plans, and trade relations became consolidated within the Council for Mutual Economic Assistance ("CMEA" or "Comecon"). Labor and investment resources were channeled, Soviet-style, away from agriculture and into new specialized industries — machinery, consumer goods, chemicals, iron, steel, and later, electronics. Significant economic growth took place during the four decades of communist rule. However, this growth was in some senses cancerous; much of it was not productive given Bulgaria's resource constraints, and ultimately led to environmental degradation and economic collapse.

According to Ognian Pishev (1991:108), economic advisor to the Union of Democratic Forces ("UDF") and ambassador to the United States, Bulgaria's economy did not develop in an efficient manner: The commodity structure of Bulgarian industry is defined not by the comparative advantages it possesses, but by the interests of its largest market, the Soviet Union. However, by having chosen such an unsaturated market, and one with such low demands on quality, competitiveness in Western markets is inevitably lost.

The close connection with the USSR was tenaciously courted by former communist ruler Todor Zhivkov, who reputedly wanted to make Bulgaria a republic of the USSR, with the countries sharing a "common circulatory system" (Pundeff 1991:104).

By 1990, Bulgaria's per capita GDP stood at about $2,250 (*Table 1*). Compared to other countries within the Eastern European bloc, Bulgaria's average income in 1990 exceeded Poland's and Romania's, but fell short of what was achieved in Czechoslovakia, Yugoslavia, and Hungary. Compared to its bordering neighbors to the south, Bulgaria's standard of living was less than half that in Greece, but 40 percent higher than in Turkey.[1] Bulgaria had the highest life expectancy of any Eastern European country. With a relatively small land mass but small population, population density is one of the lowest in Eastern Europe at 81 persons per square kilometer.

At the time of the Soviet collapse, Bulgaria's Gross Domestic Product was derived 52 percent from industry, 31 percent from services, and only 18 percent from agriculture (World Bank 1995). During the 1980s, industrial output had grown by 4.6 percent per year and services by 1.3 percent. Agricultural output, however, declined by almost three percent per year during this decade (World Bank 1992:231-33). Agricultural productivity had slowed since the late 1960s, a fact which led to a series of reforms (Boyd 1990). In 1979, a New Economic Mechanism ("NEM") allowed for greater decentralization and price incentives, but even this could not turn the tide in agriculture. Not surprising, rural areas lost population; while less than half of Bulgaria's population lived in urban areas in 1965, over two-thirds did by 1990 (World Bank 1992:279).

In the 1980s, exports to CMEA countries accounted for two-thirds of Bulgaria's exports. The bulk of these (around three-fourths) went to the USSR (World Bank 1991:1:15). Bulgaria's exports to socialist countries (a slightly broader group than just CMEA) consisted mainly of investment goods (63 percent), foodstuffs (13 percent), and consumer goods (11 percent), with other sectors playing minor roles, as shown in *Table 2*. Within the CMEA, Bulgaria became a specialized producer of electronic equipment. In exchange, Bulgaria imported from socialist countries mainly investment goods and fuels, mineral, and metals (each on average accounting for 43 percent of total imports from socialist countries). Bulgaria's dependence on the CMEA market, and within that market, on investment goods exports, made it particularly vulnerable when the economies of the CMEA system all plunged into depression during 1990-92.

In terms of Bulgaria's growing trade with non-socialist countries, a significant share of exports was accounted for once again by sales of investment goods (34 percent) and fuels, minerals, and metals (27 percent). Significant also were exports of foodstuffs (9 percent), and a variety of other products. Bulgaria imported from non-socialist countries mostly investment goods (25 percent) and fuels, minerals, and metals (33 percent), this latter item becoming ever more important as Bulgaria sought to break its dependence on Soviet oil by developing ties with Iraq, Kuwait, Libya and others. This strategy also hurt Bulgaria in the 1990s, as the Gulf War left Bulgaria owed oil by these countries under various commodity trading schemes, but unable to receive it.

Despite the early successes in raising per capita income, by the 1980s Bulgaria's economy remained tightly linked to the highly inefficient CMEA trading bloc. Commodity exports and imports were valued at an astounding 80 percent of Bulgaria's GDP in 1989. CMEA countries could not pay for Bulgaria's exports in "hard" (convertible) currencies, and accepted Bulgaria's industrial exports because Bulgaria would accept their raw materials. This system was highly inefficient, in that distorted input and output prices led to systematic misallocations of resources throughout the trading bloc. The resulting stagnation in productivity reduced living standards which ultimately contributed to the growing movement for political and economic reform.

II. Macroeconomic Collapse in 1989-92

The macroeconomic decline which began in 1989 and deepened into 1990-92 can be traced to internal and external forces which took shape in the mid-1980s. Foremost among these was the decline in the value of exports, the rise in the value of imports, the surge in foreign indebtedness, and the consequent explosion in debt servicing demands. The inability to service these debts created a credit freeze which paralyzed the economy over the period 1990-92.

Reliable estimates of the value of trade are difficult to construct for several reasons. First, CMEA trade is recorded using administered ruble prices, rather than world market prices. This seriously distorts the real value of trade, and in the case of CMEA trade, presents a bias which overestimates Bulgaria's exports.[2] Second, trade data with non-CMEA countries denominated in the local currency (the lev) underestimates the dollar value of trade since the lev was consistently overvalued. The trade data presented here were constructed by The World Bank (1991).

As illustrated in *Figure 1*, Bulgaria's commodity trade with CMEA countries resulted in trade deficits up until 1988 and 1989. This reflected Bulgaria's dependence on imported Soviet oil in the early 1980s. These trade deficits were partially offset, however, by positive net sales of services to CMEA countries. This reflected Bulgaria's growing popularity as a tourist destination on the Black Sea. Nevertheless, the current account deficit within the CMEA was negative for most of the 1980s.[3] In the late 1980s this situation reversed itself, with Bulgaria actually achieving surpluses in commodity trade with CMEA countries, primarily through a reduction in the value of imports and continued strong exports of goods and services to CMEA countries. While the decline in CMEA imports in the late 1980s produced an impressive trade surplus, it held the seeds for disaster on another trade front.

There is an important connection between CMEA and non-CMEA trade. Soviet oil was both an input used to carry out production and a raw material to be processed for re-export. The decline in availability of Soviet oil in the latter part of the 1980s created a shortage of raw material for re-export.

Thus the external cause of the 1989 collapse can be traced to Bulgaria's declining exports to non-CMEA nations (also shown in *Figure 1*). While Bulgaria enjoyed trade surpluses with this group in the early 1980s, a large trade deficit emerged in the middle of this decade. Bulgaria's current account deficit spiraled from \$85 million in 1985 to \$1.3 billion by 1989. Initially Bulgaria was able to finance this deficit with loans from abroad. Bulgaria's foreign debt soared from \$3.2 billion to \$9.2 billion over 1985-89 (World Bank 1991:1:157). By early 1992, the foreign debt had risen further to \$12.2 billion (Engelbrekt 1992:37), or approximately \$1,300 per person.[4]

The resulting shortage of hard currency needed to service this debt created supply bottlenecks, owing to the lack of imported raw materials, spare parts, and equipment. As a consequence, real GDP declined by 3.3 percent in 1989, the first decline in forty years. Sales of services bore the brunt of this decline.

—Deepening Recession in 1990-91

The situation grew worse in 1990 and 1991, with declining economies of CMEA countries, a recession in the West, the Iraq invasion of Kuwait, and a worsening credit crunch internationally. In March of 1990, facing the loss of international reserves, and rapidly declining export revenues, Bulgaria's government suspended principal payments on its foreign debt, and later extended this to interest payments

as well. Immediately Bulgaria became a black sheep in the international lending community, and even short-term credits relating to trade were withdrawn.

Both domestically and internationally, the Bulgarian economy was overly tied to an inefficient trading system.[5] By market standards, the Bulgarian currency was greatly overvalued, causing balance of payments deficits. Therefore, one of the first reforms began in May 1990, when the government decided to correct price distortions in the international sector. The program entailed a substantial devaluation of the lev into a multi-tiered currency system. For commercial transactions, the lev was devalued by 250 percent, from two leva per dollar at the end of 1989 to seven leva per dollar by May 1990 (World Bank 1991:vi).[6] The currency reform program was, with hindsight, too little, too late, given other events. And it created new destabilizing problems.

Devaluations tend to ignite inflation, by driving up prices for imports as well as domestically produced goods. At the same time, the government budget deficit had mushroomed from 1.5 percent of GDP in 1989 to 9.5 percent of GDP in 1990, causing greater monetization. It was no surprise that by the end of 1990 inflation had surged, from 3.2 percent in 1989 to 27.3 percent in 1990 and was heading toward 234 percent in 1991 (*Table 3*).

The sizeable devaluation in mid-1990 was not enough to counteract other international events which were decimating Bulgaria's export industries. The Iraqi invasion of Kuwait in August of 1990 led to severe reductions in oil imports from these countries at the very time oil from the former Soviet Union was similarly curtailed. Bulgaria's imports of crude oil declined steadily from 10.1 million tons in 1989 to 6.2 million in 1990 and 4.7 million in 1991. Bulgaria had also provided some \$2.4 billion in export-financing loans to developing countries (Pishev 1991:109). These were in arrears, further hurting Bulgaria's ability to buy needed inputs. Iraq, for example, owed Bulgaria \$1.3 billion in March 1990.

These events deepened the sharp economic dislocations taking place within Bulgaria. GDP declined by 9.9 percent in 1990, and another 13.5 percent in 1991. The main impact was felt in the industrial sector, whose production fell by 12.5 percent in 1990 and 18.6 percent in 1991 (*Table 3*).[7] Most of this decline can be traced to the international sector, as exports of goods and services dropped more than 60 percent over the period 1989-91.

Domestically, the government was unable to hold on. In the midst of a general strike and mass demonstrations, the coalition government led by Andrei Lukanov resigned at the end of 1990. It was replaced by a government led by Dimitar Popov.

III. The Economic Reforms of February 1991

The new Popov government almost immediately began carrying out a comprehensive stabilization and reform program in February 1991. These reforms were made possible by the groundwork laid in the previous year, when in

September Bulgaria was admitted to the International Monetary Fund and the World Bank. These institutions provided financial support as well as technical assistance.[8]

The collapse of the Bulgarian economy was caused by many interrelated factors. Its correction would be difficult and long term. A World Bank mission to Bulgaria in the summer of 1990 listed six institutional and policy reforms needed for Bulgaria to begin the transition to a market economy (The World Bank 1991:I:65):

1. Decontrol prices;
2. Promote internal and external competition;
3. Privatize a large share of state enterprises;
4. Provide incentives to managers of state enterprises;
5. Establish functioning labor and capital markets; and
6. Establish a safety net for the poor.

The progress of reform and privatization was sporadic, with mixed results in the short term. This is not surprising or unusual given the difficult political situation and the magnitude of the adjustments required. A brief summary of the political and economic reforms over 1989-92 is contained in *Table 4*. It is beyond the scope of this paper to deal with each issue in depth. Economic stabilization and structural reforms will be addressed in these sections before considering issue 6 (the safety net) in greater detail in Section IV.

—Economic Stabilization

The traditional "shock" therapy begun in February 1991 consisted of constraining demand by cutting the budget deficit, reducing government subsidies, reducing real wages, raising interest rates, and sharply devaluing the lev. At the same time, supply incentives were to be created by removing internal and external price distortions, lowering trade barriers,[9] developing markets, dismantling monopolies, and privatizing land and other state controlled assets. As in Poland and elsewhere, the short-run costs of this transition were greatly underestimated.

Over 90 percent of producer and consumer prices were freed from controls in February 1991 (with only a few exceptions in essential foods, public transportation, and temporarily on energy). In order to stabilize the international sector, the multi-tiered exchange rate system was replaced with a single, floating exchange rate. The floating rate quickly depreciated 150 percent on commercial transactions (from about 7 lev/$ to about 18 lev/$). Not surprisingly, domestic inflation spiked in the hyperinflation range as these pricing impacts were multiplied throughout the economy.[10]

To curb inflation, interest rates were allowed to rise (up to 52 percent annually by mid-year), and tight monetary constraints were imposed.

Concomitantly, the budget deficit was targeted for substantial reduction to only 3.5 percent of GDP (although this target was missed by a broad mile). On the strength of these projections, however, Bulgaria was able, in April 1991, to gain relief on its official debts by a rescheduling at the Paris Club (an informal group of major creditor governments). Most of Bulgaria's debt, however, upwards of 80 percent, was owed to private commercial banks (Engelbrekt 1992b:39), which did not reschedule at this time.

The idealism of the macroeconomic goals set forth in February 1991 soon ran up against the realism of the economic environment and external factors, many of which were discussed above. The recession was far worse than expected, and thus projected budget revenues were far off the mark. Expenditures were also sharply higher for social programs as were subsidies for energy prices in the early part of the year. The reform movement began to stall as the initial impacts were felt, and entrenched bureaucracies resisted the reform process.

In October new parliamentary elections were held. For the first time a non-communist, Filip Dimitrov, was able to form a government of the Union of Democratic Forces Party ("UDF") in a coalition with the Turkish Movement for Rights and Freedoms Party ("MRF").

—Policy Reversal in 1992

The austerity program continued under the new government for the first half of 1992. State enterprises cut employment, government subsidies were substantially reduced, real wages were cut substantially, and the inflation rate moderated to only two percent a month by mid-1992. In addition, legislation implementing privatization of large state enterprises was passed in April.

However, in mid-1992 the political coalition between the UDF and MRF began to unravel. The MRF, which suffered a diaspora in 1989, again found themselves bearing the brunt of the economic dislocations. The economic consequences of stabilization, for example, caused real income per capita in dollar terms to fall by more than 50 percent since 1989. While stabilization caused pain, the expected gain in structural terms had yielded little. Not surprisingly, the MRF pushed for less austerity and more government aid. Others, both inside and outside the UDF, became highly critical of the slow pace of privatization. President Zhelev himself became publicly critical of the government in August.

These criticisms led to an apparent reversal of macroeconomic policy. In the second half of 1992 the budget deficit grew rapidly, the government's strict wage policy was relaxed, and inflation began to climb. This short-term change stemmed the decline in real GDP to only 6.1 percent in 1991 (compared to over 13 percent in 1991). This smaller decline was not enough to save the Dimitrov government, however, which failed to win a vote of confidence in October and stepped down.[11]

—Structural Reforms, 1991-92

As indicated previously, price liberalization took place in February 1991. Concurrently, Bulgaria began dismantling its international trade restrictions. Tariffs on imports were simplified to just five rates, with the average tariff rate lowered substantially to just 18 percent by 1992 (Center for International Economics 1992).[12] Most non-tariff barriers were removed on a wide range of products. Export subsidies were removed as were most licensing systems.

These price and trade reforms provided the needed incentives for a hoped-for supply response. Exports of goods and services, for example, rose by 22 percent in 1992. However, while the legal and institutional mechanisms began to be put into place for transforming the economy to a market system, the transformation itself became slowed by political and technical constraints in the sectors discussed below.

—Agriculture

The Law on Ownership and Usage of Farmland ("Land Law") was adopted February 22, 1991. It was intended to restore land to the original 1946 owners (Grosser 1992; Engelbrekt 1992a,b,c,d; Ash 1992; Nikolaev 1991, 1992; Brooks, *et al.* 1991). Several restrictions applied: a maximum of 20 hectares could be returned (30 hectares in hilly regions), and the land could not be sold for three years. The intention of these restrictions was to encourage the leasing of land to voluntary cooperatives which could achieve economies of scale. About 1.7 million persons filed claims for an estimated 5.6 million hectares of arable land by August 4, 1992, the deadline for filing claims.

Land restitution was to be carried out by the National Land Council (and its successor, the Ministry of Agriculture). Conflicts immediately delayed issuing appropriate regulations, much less the implementation of these regulations. By mid-1992, only 12 percent of former owners had received restitution (Agency for Economic Coordination and Development 1992:11). By the end of 1992, according to government sources, 460,000 hectares of land had been returned to previous owners in the most straightforward cases.

Problems with other claims include the loss of farmland, changes in quality or use of land, surveying difficulties, the intentional destruction of records, and not the least, bureaucratic delay in the municipal land commissions (still populated by the old guard). Nikolaev (1992:3) reported that members of the nomenklatura toured the countryside, discouraging former owners from reclaiming their land on the threat of exorbitant taxes. He also reported that managers of existing state cooperatives physically prevented workers from leaving, in one case with the use of a tank.

—Medium and Large Size Enterprises

The privatization of medium and large scale state enterprises proceeded even more slowly. By the summer of 1991 "there had not been even the slightest trace of any legal commercial system discernable in the country" (Agency for Economic Coordination and Development 1992:2). The law creating an Agency of Privatization was only passed in April 1992, and the Agency then did not begin work until September.

The Agency was made responsible for privatization of companies whose book values exceeded ten million leva (U.S.$420,000).[12] The initial steps involved hiring foreign consultants to advise particular industrial sectors in preparation for restructuring and direct auction to the highest bidder. Bulgaria resisted the use of vouchers to transfer ownership of state assets, preferring instead to attract new foreign capital. In addition to auctions, workers were able to buy into their companies via Employee Share Ownership Plans ("ESOPs"), as well as managers via buy-outs or buy-ins ("MBOs" or "MBIs") (Valencia 1992). While the selection of foreign consultants continued, only one small company (worth $26,500) was sold during the first four months of 1993 (Reuter 1993).

—Small Businesses

The privatization of small businesses was to have spear-headed the institutional reform process (Agency for Economic Coordination and Development 1992:8). By June 1991, the sale of state-owned retail shops and gasoline stations had been completed. Auctions of additional assets were ceased in July, however, when these sales were questioned due to lack of accountability, lack of consistency, and lack of legal authority. Adjudication of restitution claims also delayed the privatization process.

In the formation of new businesses, more than 180,000 small businesses were registered by the end of 1991, half of these single-worker firms in the service and retail sectors (Engelbrekt 1992:80). However, due to a plethora of bureaucratic delays and supply constraints, many of these were not able to start operation.

—Foreign Investment

In May 1991, a foreign investment law passed, but it was perceived as being highly restrictive (Wyzan 1992). While it allowed for full repatriation of profits and dividends, it set a minimum investment amount of $50,000 to prevent speculation. In addition, it prevented foreigners from owning land, timber and waterways. This discouraged foreign participation in the very areas that might be of greatest interest (agricultural products and by-products).

A far more liberal foreign investment law superseded this in January 1992. Foreigners were still prohibited from buying land, but they were allowed to lease land for up to 70 years. Foreign investors were otherwise accorded the same protection as Bulgarian nationals with few exceptions.

Despite the more liberal law on foreign investments, little foreign investment was attracted. By the end of 1992, estimates were that between $100 million and $300 million of foreign investment had entered the country, mostly of Turkish and Greek origin engaged in joint trading companies (Reuter 1993:6).

One consequence of the slow pace of reform was a continued high unemployment rate. We turn now to the social safety net for those hurt by these economic dislocations.

IV. The Social Safety Net

Bulgaria began the transition to a market economy with a strong social infrastructure. The population was generally healthy and educated, and access to services was well-distributed. Owing in part to the underpricing of key sector inputs (especially human resources), this level of service delivery was achieved relatively cheaply during the centrally planned period. However, the economic collapse, and the ensuing economic and political reforms, fundamentally challenged the social sectors. New services were required (*e.g.*, employment services, social assistance), while existing service delivery systems needed to be restructured. Political decentralization implied the development of new funding mechanisms. And the economic dislocation increased demand for welfare programs, as more Bulgarians fell into poverty. Not surprisingly, Bulgaria found it difficult to meet these challenges during a time of shrinking public and private resources.

— Unemployment

Increased unemployment was the most visible social impact of the reforms. Under a centrally planned system, unemployment was theoretically non-existent. School leavers were assigned jobs, and these jobs were theirs until retirement (barring extreme misbehavior such as absenteeism or theft). In times of falling output, wages simply declined. As part of the restructuring and development of a labor market, firms were allowed to shed workers, and were removed of their obligations to school leavers. In December 1989, an unemployment insurance scheme was initiated and funding was also provided for programs for the unemployed.

In response to the lack of sales, firms indeed shed labor. By the end of 1992, 236,000 workers (out of a labor force of 3.3 million) had received unemployment benefits, and the estimated unemployment rate was 17.5 percent. Another 347,000 registered as unemployed but did not qualify for benefits.

Whether the latter persons were "unemployed" in the strictly technical sense is unlikely, as many were not actively looking for jobs. As Bulgaria did not conduct regular labor force surveys during this period, the number of unemployed in the standard, western sense of the word is unknown. Clearly some of those registered as unemployed found work in the private sector, as all surveys show a high rate of growth in this sector. Nonetheless, for a country used to cradle-to-grave guaranteed income, the uncertainty engendered by the reform process was traumatic.

Although funding was provided for programs to assist the unemployed retrain or develop job search skills, few effective programs were developed as Bulgaria had scant expertise in this area. With foreign assistance, government services began reaching more of the unemployed, and a small private training sector began to develop. Construction and commercial skills were particularly in demand in the private sector.

— Welfare Programs

Bulgaria's social welfare programs also underwent major changes. In the centrally planned economy, social welfare programs were primarily oriented to providing long-term care (nursing homes and orphanages). One social worker was assigned to each of the roughly two hundred municipalities. The dislocation caused by the transition necessitated a dramatic increase in staff, and new programs to provide cash transfers to households in need. The government developed and sent to Parliament for approval a comprehensive Social Welfare Act, which provided a universal monthly cash benefit to all poor households. All households with a monthly income below a minimum would be entitled to a cash benefit to bring the household income up to the minimum level. The minimum income was adjusted for household size and composition according to a set of formulas, so that the minimum for a household of two adults and four children is roughly three and one-half times the minimum for a single individual. All adults in the household had to be working or registered with the local labor office for a family to qualify. Limitations were placed on property ownership and on financial assets for qualification. In order not to discourage labor supply, the working poor whose total household income was below the minimum were entitled to exclude 25 percent of their labor income for purposes of benefit calculation.

Social assistance programs were financed from general revenues. Despite the budget squeeze during this period, expenditures on social assistance were allowed to almost double in real terms. Staffing increased ten-fold, and about 10 percent more were scheduled to be added in 1993.

— Social Security

Bulgaria's social security system provides pensions to retirees and the disabled, and short-term benefits covering absence from work due to accidents or illness. Expenditures rose sharply after 1989, primarily as a result of early retirement programs. Social security spending as a share of total government spending rose from 16 percent in 1989 to a dramatic 33 percent by 1991 (The World Bank 1995).

These programs were offered in an attempt to reduce unemployment. There is no evidence that they achieved that goal, as employers did not replace retirees with new entrants. However, the pension dependency burden (the number of pensioners per contributor) rose from 0.56 to a staggering 0.87 in the early 1990s, and was projected to reach a one-to-one ratio before the end of the decade. Revenues did not increase, despite a large increase in the payroll tax funding this system. This is because few taxes were collected from the private sector, and state sector employment declined. As a result, the average pension fell by 70 percent relative to the average wage. While the bulk of pensioners owned housing or other assets which could be sold or rented in order to survive, many were hard hit by this loss in income.

The problem of old-age income security and poverty was not solvable easily. A major system reform was required, as Bulgaria's aging population would continue to put pressure on system revenues even if the economy had recovered. While the 1992 Pension Reform Act rolled back many of the early retirement programs, the system is not sustainable fiscally. Bulgaria's average retirement age (53 years) was much too low to achieve fiscal solvency. In addition, private savings for old-age income replacement needed to be encouraged. The development of a regulatory framework for private pension systems was particularly important.

V. Conclusions

Economic reforms are often highly disruptive in the short and long run, and this was no exception in Bulgaria's case. Because Bulgaria is a small country, highly dependent on external trade, the disintegration of CMEA economies had perhaps its most serious impact on Bulgaria. Official statistics note that exports to CMEA countries fell by 61 percent, and imports fell by 67 percent. Real output declined by 11 percent in 1991, and registered unemployment rose steadily from 3.2 percent in the first quarter of 1991 to 17.5 percent by the last quarter of 1992. The Bulgarian standard of living, in nominal dollar terms, declined from $2,830 per capita in 1989 to $1,360 per capita by 1992.[13] By almost any measure, the Bulgarian economy was in its most serious crisis since World War II.

The Bulgarian reform program should be given high marks for the idealism of the February 1991 "shock therapy." However, it achieved far less than its

original goals. While some of this is due to domestic political upheaval during 1989-92, there were other factors beyond Bulgaria's control: the deepening recession caused by loss of export markets and the financial and commodity impacts of the war in the Persian Gulf. Later, the international sanctions placed against Serbia in 1992 disrupted Bulgaria's vital transport links through the former Yugoslavia. As a consequence, Bulgaria's economy continued to decline in 1993, before beginning modest positive growth in 1994.

The privatization of Bulgarian official assets and the creation of a dynamic private sector proceeded extremely slowly. Nevertheless, there was some progress: The private sector's share of real GDP grew from just 2 percent in 1990 to 25 percent in 1992, and officially accounted for at least 14 percent of all employment by that time (the real figure is no doubt higher, as data collection on private activities was primitive). In agriculture, the private sector accounted for half of all output in 1992. Meanwhile, government subsidies, as a percentage of real GDP, declined from 16 percent in 1990 to just 2 percent in 1992. While registered unemployment was high, activity rates were high also, as households struggled in the growing "informal" or "grey" economy to earn extra cash. Trading activities became popular, such as small service operations (coffee and sandwich stands) for example. By all accounts, income distribution, which was relatively equal under central planning, widened during this time.

The 1989-92 period in Bulgaria provides a particularly painful illustration of the costs associated with restructuring a moribund command economy. Despite the economic calamities, the Bulgarian people appeared initially able to accept stoically the price that had to be paid for reform. The famous queues of the centrally planned period virtually disappeared, as prices generally began to reflect market forces. The widespread availability of consumer goods was bittersweet for many Bulgarians, however, as these items were now unaffordable on their low real wages.

As one writer of this period noted, "Bulgaria seems poised between the moral fact of its new freedom and the brute reality of its material crisis. Brute reality, at this moment, looks overwhelming, a Sisyphean weight on the mountain of democratic uplift." (Hoffman 1993:354) The little evidence of crime, malnutrition, or severe poverty during this early period underscores the widespread support for reform on principal. Nevertheless, the lack of sufficient structural reform in actuality — or with sufficient speed to allay the growing distrust and resentment of the masses — sowed the seeds for the fall of the Dimitrov government in late 1992. In following years the deepening social unrest and its worst manifestations — crime, corruption, violence — were its borne fruits.

Notes

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1. All of these comparisons are tenuous because of measurement problems in general, and special problems due to administered prices in command economies. For a discussion of issues in the use of Bulgarian statistics, see Minassian (1992).

2. CMEA-administered prices tended to over-value industrial prices, and undervalue raw material and energy prices (World Bank 1991:1:14).

3. The current account is the sum of merchandise trade, services, and transfers in the balance of payments.

4. As of 1989, the largest creditors (and amounts owed) to the Bulgarian Foreign Trade Bank were: Germany ($1,753 million), Japan ($1,619 million), United Kingdom ($1,038 million), Austria ($1,026 million), CMEA ($663 million), and France ($554 million). Bulgaria also owed smaller amounts contracted by other Bulgarian banks (World Bank 1991:1:158).

5. For example, Bulgarians enjoyed highly subsidized energy prices which were three-four times less than in other countries. One consequence of this was a degradation of the environment since consumers were not paying the true cost of energy production (including external costs).

6. The official exchange rate went from 0.81 lev/$ to 2.97 lev/$, an increase of 267 percent.

7. Early estimates of the decline in Bulgaria's economy were greatly overstated, at 11.8 percent for 1990 and 22.9 percent for 1991.

8. Bulgaria received from the World Bank a Structural Adjustment Loan of $250 million and a Technical Assistance Loan of $17 million.

9. However, quantitative bans and export taxes were placed on a range of agricultural and industrial export items to ensure adequate domestic supplies of certain essential products (Grosser 1992:133).

10. Monthly inflation was 123 percent in February and 51 percent in March. It dropped to 2.5 percent in April and 0.8 percent in May, before surging again in June (5.9 percent) due to energy price rises (Grosser 1992:129).

11. Following this, the UDF and BSP struggled unsuccessfully for several months to put together a coalition, since neither side wanted to call for early elections. Finally, the minority MRF party was able to put forward a compromise candidate, Lyuben Berov (not an MRF member) to become Prime Minister.

12. There were five tariff rates (5 percent, 10 percent, 15 percent, 25 percent and 40 percent) in July 1992.

13. Smaller companies were to be privatized by the appropriate ministries.

14. It is important to bear in mind that this measured decline does not reflect purchasing power parity estimates. Since not all of Bulgaria's economy is traded, the fall in value of the lev overstates the decline in living standards.

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Table 1

Basic Indicators for Bulgaria and Selected European Countries, 1990

Country	Population (Millions) Mid-1990	Area (000's of Sq. kms.)	Population Density (Persons Per Sq. Kms.)	GNP Per Capita ($) 1990	Life Exp. at Birth (Years) 1990
Turkey	56	779	79	1,630	67
Poland	38	313	121	1,690	71
Yugoslavia	24	256	94	3,060	72
Romania	23	238	97	1,640	70
Czechoslovakia	16	128	125	3,140	72
Hungary	11	93	118	2,780	71
Greece	10	132	76	5,990	77
Bulgaria	9	111	81	2,250	73

Source: World Development Report (1992).

Table 2

Average Composition of Bulgaria's Exports and Imports 1985-89[1]

	Socialist Countries[2]		Non-Socialist Countries	
	Exports (%)	Imports (%)	Exports (%)	Imports (%)
Investment goods	63	43	34	25
Fuels, minerals, and motels	4	43	27	33
Foodstuffs	13	0	9	2
Raw materials	0	3	6	12
Consumer goods	11	4	7	5
Agricultural goods	2	2	6	8
Chemicals	3	3	7	12
Other	3	2	5	3
Total[3]	100%	100%	100%	100%

Source: Constructed from data in The World Bank (1991:I:150-51).

[1] These data were compiled by The World Bank on the basis of shipments rather than balance of payments data.

[2] Includes CMEA countries plus Albania, China, Democratic Kampuchea, the Democratic People's Republic of Korea, The Fao People's Democratic Republic and Yugoslavia.

[3] Components may not add to 100 percent due to rounding.

Table 3
Economic Decline in Bulgaria, 1989-92

	1989	1990	1991	1992	Cumulative % Change 1989-92
Growth Rate of Real GDP (%)	-2.5	-9.9	-13.5	-6.1	-28.7
Agriculture	-5.0	-3.7	7.7	-7.7	-9.1
Industry	1.0	-12.5	-18.6	-7.0	-33.1
Services	-9.2	-6.1	-11.3	-3.3	-26.9
Growth rates of $ value of:					
Exports of Goods and Services[1]	-11.8	-26.8	-40.5	21.5	-53.3
Imports of Goods and Services[1]	-0.3	-17.6	-47.0	25.4	-45.4
Inflation Rate (GDP deflator - %)	3.2	27.3	233.8	64.7	622.3
Ave. Exchange Rate (Leva/$)	1.8	2.2	12.4	19.2	1,029.4
GNP Per Capita (U.S.$)	2,830	2,180	1,510	1,360	-56.8
Unemployment Rate (end of 4thQ-%)	-	1.6	12.5	17.5	-
Fiscal deficit (as % of GDP)	1.5	9.5	14.9	4.6	-
Current Account (as % of GDP)	-3.5	-8.3	-0.9	-4.0	-

Sources: The World Bank (1995, 1993:7 and 1992:2,16, and *Table 8* annex).

[1] Non-factor services.

Table 4
Political and Economic Reforms in Bulgaria, 1989-92

1989

November Todor Zhivkov, who had held power for 35 years, is replaced as Communist Party leader and Chairman of the State Council by Peter Mladenov.

December Mass demonstrations; National Assembly approves constitutional reform which removes communist political monopoly.

1990

February New government of Andrei Lukanov, Bulgarian Socialist Party ("BSP") installed. BSP is the former Communist Party.

April Peter Mladenov elected to Presidency by National Assembly.

June First multiparty election to National Assembly. BSP holds power in coalition cabinet

September Bulgaria joins International Monetary Fund ("IMF"), thereby becoming eligible for balance of payments loans and providing a strong incentive for economic reforms.

December Andrei Lukanov's government resigns in the midst of a general strike and mass demonstrations. Replaced by government of Dimitar Popov.

1991

February Major economic reforms enacted. Price controls removed (except on energy) and demonopolization programs begun; first land restitution law enacted (but implementation delayed); a unified floating exchange rate created; tight monetary policy to control inflation leads to high interest rates.

May Law on foreign investment enacted; it was later replaced by a more liberal law in January 1992.

July Reform process slows as new constitution adopted; parliament blocks small business privatization program, worried that nomenklatura would seize ownership.

October National Assembly elections; the first non-communist goverment is narrowly created in November by Filip Dimitrov (UDF) as Prime Minister, in an informal coalition with the Turkish Movement for Rights and Freedoms ("MRF"). Of 240 seats, UDF won 110, BSP won 106, and MRF won 24.

December Small business restitution begins.

1992

January Zhelev re-elected President in first direct voting by population. More liberal foreign investment law enacted to attract foreign capital inflows.

April Privatization law enacted. The law created an Agency for Privatization to carry out the sale of medium- and large-size companies. The Agency was not fully constituted until August, however, and did not begin work until September.

October Dimitrov government falls in crisis over economic policy and foreign affairs; the MFR, trade unions, the business lobby, and the mass media objected to austerity measures. In December Lyuben Berov becomes new Prime Minister.

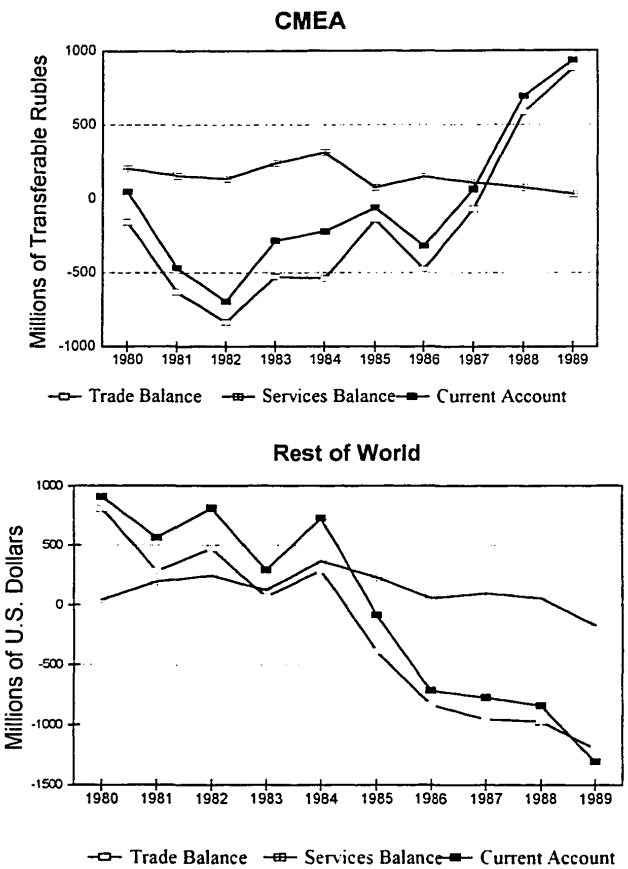
Table 5
Measures of Structural Reform in Bulgaria, 1990-92

	1990	1991	1992[1]
Real export growth per year (%)	-27	-28	10
Private sector share of GDP (%)	2	15	25
Private sector share of employment (%)	6	10	14
Private sector share of agriculture (%)	29	35	50
Government subsidies (% of GDP)	16	4	2

Source: The World Bank (1993:39).

[1] Estimated.

Figure 1
Bulgaria's Trade with CMEA and Rest of World, 1980-89



Source: The World Bank (1991).

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