

OPPORTUNITIES TO ENHANCE THE ECONOMIC POTENTIAL OF BULGARIA UNDER THE EUROPEAN STRUCTURAL FUNDS

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Abstract

Bulgarian economic integration to EU structures continued to deepen over the past decade. However, the country is facing new challenges in relation to adapt towards the requirements of the highly competitive European Single Market. In the first part of the study, we analyse the limits of Bulgarian economic development and the difficulties that arose after the economic crisis in the process of catch up. The long lasting period of low economic growth hindered the efforts to update the macroeconomic indicators and to approach the standard of economic development and sustainability of the EU Central European countries. In the second part the analysis deals with EU structural funds effects on Bulgarian economic development and growth in comparison with other EU Central European countries. We try to underline the effects of EU Structural funds to promote the economic integration of Bulgaria and to enhance the potential for economic development and catch up. Data have been collected from articles, books, National statistical institute of Bulgaria, Eurostat, Bulgarian National Bank and others.

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Key words: European integration, Macroeconomic development of Bulgaria, FDI, EU Structural funds

Economic development of Bulgaria: challenges for the future

Bulgarian economy has gone through impressive changes during the economic reforms from a centrally planned to market economy. The transition to market economy has been very difficult and the country went through different stages of political, economic and social instability. Bulgarian monetary and fiscal policies guided the country's economic activity to the private sector development, which thus became the central point of economic shocks. The applied monetary policies created uncertainty in the Bulgarian economy and finance, and the country

experienced a severe banking crisis in 1995-1996, which had an extremely negative impact on the economic development of the country. The adoption of the Currency board (July 1st 1997) created a stable framework for the strengthening of the economy and the financial sector.

In line with Currency board arrangements, Bulgaria held strict financial discipline. The budget surplus has amounted to 3% of the GDP. Financial discipline allowed tax cuts, aimed at attraction of investments into the economy from local and foreign investors, as well as for the easing of tax burden on the population. The lack of monetary policy under the Currency board was compensated by the accumulation of foreign reserves in the Bulgarian National Bank (BNB), which were a buffer against the occurrence of liquidity crisis and other external shocks.

Banks' credits provided to enterprises, contributed for the increase of production and job creation in the economy. Credits channeled towards households led to the expansion of domestic consumption. The increase in domestic demand most likely had an impact on the rise in inflation, and this led to the real currency appreciation of the Bulgarian lev (BGN) against the Euro (EUR).

In 2005-2008, the economic boom was accompanied by an increase in foreign trade volumes, as imports exceeded that of exports. As a result, the trade balance deficit deepened. GDP growth, the increased consumption, the investments activities and the lower taxes worsened the current account balance and export competitiveness deteriorated. The external deficit of the Bulgarian current account balance increased to double digit number as a percentage of GDP before the economic crisis. The current account balance deficit was higher than the „needed“ level that could explain the catching up process to the other EU countries. The cohesion of Bulgarian economy to the EU economic level remained the most important goal in the process of Bulgaria's integration to the EU.

The high current account balance deficit was covered by the inflows of foreign direct investments (FDIs). Consequently, up until the end of the 90s, the interest of the foreign investors towards investments in Bulgaria remained low. Since 2002, FDIs entries in Bulgaria started to be important like volumes and augmented in line with the domestic consumption, which increased by 6.4% and contributed to the GDP growth.

The limitation of the budget deficit and the domestic debt was a priority for Bulgarian economic policies, compared to expansionary fiscal policies applied by some other countries of Central and Eastern Europe. „In several EU CEE countries expansionary fiscal policies boosted ahead GDP growth and led to significant structural budget deficits in 2007“ (ECB Monthly Bulletin, July 2010, p.86).

Similarly, before the crisis, the economies of Baltic EU states has grown rapidly, often at unsustainable rates, which led to the widening of the production gap with other EU developed countries. The EU new member states (EUNMS) experienced different cross countries economic and social variations. It was due to the divergence in economic cycles of the EUNMS and the accumulated macroeconomic imbalances during the years, which varied from country to country. This fostered the deepening of internal and external imbalances among the EU countries.

During the pre crisis period, Bulgaria experienced a period of a very rapid accumulation of imbalances. The main concerns about Bulgarian macroeconomic stability came from the augmenting of the current account balance deficit and the increase of domestic credit. FDIs entries contributed to the overheating of the economy and to the sustained increases of fixed asset prices, as well as to the growth of bank credits toward enterprises and individuals.

The impact of the economic crisis on Bulgaria was severe, as it was across the EU countries. The process of deleveraging of the EU banks (after the bankruptcy of Lehman Brothers) led to the sharp contraction in the cross borders foreign capital inflows. As a result, the financial conditions of the credit policies of Bulgarian banks tightened and the cost of financing for enterprises and citizens increased.

During the crisis (2008-2009), the economic situation in Bulgaria significantly deteriorated, as the credit growth was nearly nil, coupled with the sharp contraction in FDIs. Respectively, number of enterprises lost their access to easy fresh financial resources and as a result the inter industries indebtedness rose. The Bulgarian industrial production decreased sharply. As a consequence of the shrinking of the domestic demand, and given the high import content of some export oriented industries, at the end of 2009, Bulgarian import also decreased. In Bulgaria, in Romania and in the EU Baltic states the fall in imports by far exceeded the decline in exports, which gave some positive contribution to the net export to economic growth.

The considerable decline of Bulgarian GDP growth in 2009 was driven by the sizeable fall in the aggregate demand. The inflation rate declined rapidly and thus the overheating pressures of the economy before the crisis slowed. The implementation of monetary policies, both in the beginning and in response of the crisis, contributed to the widening of economic differences between the EU Central European countries. Especially, „Bulgaria had a very limited scope to respond to crisis shocks because an independent monetary policy was impossible to be implemented due to the Currency board.“ (Economic Monthly Bulletin, July 2010, p.94)

Because of the high degree of openness of the Bulgarian economy, the impact of the export was important for the explanation of economic crisis impact on the economic growth and development. Bulgaria saw its export declined, however the Currency board regime was a barrier against the sharp depreciation of the nominal exchange rate, and as a result the parity between the Bulgarian lev (BGN) against the euro distorted.

The differences in the exchange rates regimes across EU Central European countries could explain the impact of foreign trade on nominal exchange rates. In fact, EU Central European countries, which are applying flexible exchange rate regimes, saw their nominal exchange rate fell not so sharply. As a consequence, between the 3rd quarter of 2008 and the 3rd quarter of 2009, Hungary, Poland and Romania saw their export to contract not so abruptly. By contrast, in Bulgaria and in the Baltic countries the exports declined sharply. Thus, „the rather sharp real depreciation may have helped countries with flexible exchange rate regimes to contain the decline in their exports“ (ECB Monthly Bulletin July 2010, p.90)

Fiscal measures like cutting expenditure and raising the collection of taxes were applied in Bulgaria (and in the Baltic States - Estonia and Lithuania) in 2009 with the purpose to contain the budget deficits' rise.

Table 1. Bulgarian main macroeconomic indicators

Indicators*	2008	2009	2010	2011	2012	2013	2014
Real sector							
Real GDP growth (%)	6.2	-5.5	0.4	1.7	0.7	0.9	1.7
Inflation (HICP) average %	12.3	2.5	2.9	4.2	3.0	0.9	-1.4
Unemployment rate (%)	5.6	6.8	9.2	10.4	11.4	11.8	10.7
Foreign sector							
Current account deficit (% of GDP)	-23.1	-8.9	-1.4	0.1	-1.1	2.1	0.0
Trade Balance % of GDP	-20.6	-8.2	-7.5	-5.4	-8.5	-5.9	-6.9

*Annual percent change

Source: NSI, BNB, *World economic outlook: Recovery strengthens, remain uneven, April 2014, IMF*, p.54

The economic crisis influenced negatively the potential for an economic recovery in Bulgaria, much more than in the other EU Central European countries. The construction building and the industrial output remained depressed. The slowdown in real GDP growth was due to the contraction of the retail trade and the weak external and internal demand of Bulgarian production. In the period after the crisis the real GDP growth was lower, reaching only twice, levels above 1%, otherwise it was hovering around 0.4-0.7%. Banks' credits supply remained at their minimum level. Because of the decline in the international non oil commodity prices and the continuation of the remaining low prospective for strong European economic recovery, the annual inflation rate in Bulgaria started to decline. The average annual rate of inflation declined from 1.0% in May 2013 to - 2.1% in February 2014, and in the first trimester of 2014, it started to recover a little standing at -1.3% (April 2014). (Convergence Report June 2014, p. 96) The deflation rate was reflecting a still negative output gap, depressed demand, weak bank credit and negative external price developments among other factors determining the economic slowdown in Bulgaria.

In the post crisis period, the current account deficit as a percentage of the GDP fluctuated above and below 0 % in contrast to the pre-crisis period when the current account deficit reached double digits. This was mainly due to weaker exports, with the exception of 2013. Also some important infrastructure projects continued to be implemented.

Unemployment increased sharply, and remained 2 fold higher than the pre crisis level. The unemployment was even higher than the contraction of the industrial production. The most affected by labour places disappearance have been low-skilled and young workers in 2013.

Despite the significant structural imbalances and the weak economic recovery, Bulgaria succeeded to increase the export ahead, which fact had a positive impact

on the economic growth of the country. Some expectations remained that the boost of exports will give an impetus to economic growth in Bulgaria, given that the economic situation in EU countries started to ameliorate.

Convergence or divergence of Bulgarian economy and competitiveness

One of the main goals of Bulgaria in its way to integrate the EU structures is continuing to be the acceleration of the economic convergence with the other EU countries as well the enhancing of the competitiveness.

In the short-term, factors like movements in nominal exchange rate, changes in food prices and prices of strategic energy resources may temporarily divert inflation trends that support the convergence of prices. Some of the structural factors, like trade liberalisation, competition in product markets may have also similar effects. However, not all inflationary differences might be consistent with the changes in competitiveness and external stability in the medium term. This process was fueled by the inappropriate expectations and actions of economic agents or by inadequate economic policies. Looking the price convergence, consumer price inflation in Bulgaria had been volatile, ranging from 0.4% to 12.0% on an annual basis over the past ten years. The increase in inflation in 2004-08 reflected the adjustment in administered prices. The increase in inflation was reflected by the appreciation of the nominal exchange rate. The harmonisation of excise duties with EU levels exacerbated the occurrence of external supply shocks and increased demand pressures. The sharp fall in inflation after 2009 was a result of the lowering of commodity prices and the contraction in economic activity. However, the easing of commodity price pressures combined with weak internal and external demand resulted in the gradual decline in inflation in 2013 and the fall in deflation.

In the medium term, for most of the EU NMS, the real convergence inside and outside the euro area will continue to be a determining factor for the economic strategy and policies applied. The rate of convergence of incomes, increased domestic demand than GDP and the exchange rate regime are significant determinants of the price level of the dynamics of convergence of prices.

Some of the Central and Eastern European countries were successful in their economic development, as Estonia, which established itself as a leader in the region, and as Poland, which attracted FDIs of quality and restructured its industrial base. Despite that Bulgaria integrated the EU structures since years, the country continued to lag substantially behind the other EU NMS in the process of catching up. According the report on „European Catch up Index 2014“¹, Bulgaria was on the bottom of the overall ranking amongst the EU member states, as well as in four categories of the index. „In some indicators of quality of life, the country is lagging even behind neighboring candidate countries. Bulgaria

¹ The Catch-Up Index measures the performance of 35 countries, comprising the EU Member States, and the candidate and potential candidate countries, across four categories: Economy, Quality of Life, Democracy and Governance.

occupied 29th position among 35 countries in the ranking by overall score, sliding one notch down in comparison to the 2011 index.“

Economy was the category where the country performed well in relative terms and occupied the 28th position. According to the indicator „the level of government debt“, Bulgaria was second ranking after Estonia. The worst ranking was for energy efficiency, with a score of 35. Regarding the processes in Europe, the index registered the economic crisis effects and outlined the possible groups of countries in a Europe of „different economic speeds“. The most lagging behind Member States were Bulgaria and Romania.

This confirmed the tendency for the accelerating economic divergence between the West, the Central European and the Southeastern European EU countries expressed in economic standard, accumulation of wealth, innovations, etc. Despite some positive signals, for Bulgaria it will be really difficult to overcome all the accumulated unbalances and to approach the GDP per capita level of Portugal, as it was the case already for Estonia, Slovakia and Poland. However, the level of income of the mentioned group of countries was only half of the Portuguese level.

The catch-up process in Bulgaria was accelerated after the EU integration; however the incomes are continuing to be far from those even in CEE countries. The Catch up Index showed clearly the divergence between the economic and the social development of EU countries. GDP per capita of Bulgaria was the lowest compared with that of other EU Central European countries. Romania's GDP per capita increased after 2007. (Fig.1)

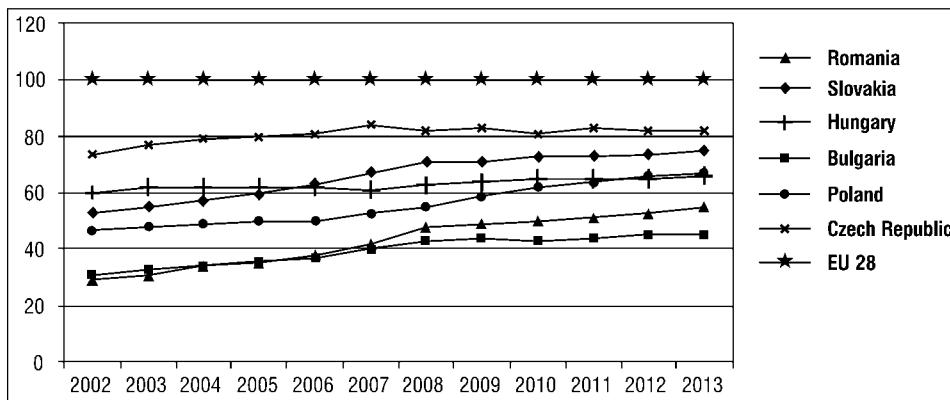


Fig. 1. GDP per capita in PPS, EU 28 = 100

Source: Eurostat Statistics

From another side, the catch-up and the convergence process could not be considered as an automatic result of the integration of Bulgaria in the EU. Despite the efforts of Bulgaria to struggle against the low level of economic development and catch up, the transformation of Bulgarian economy towards a competitive economy will need time and this process will depend of a number of economic and political factors. Bulgaria is continuing to be in the need to enhance the

standard of living, to modernise the level of production, to ameliorate the training of workforce and their professional realisation, to insure the financing of the economy and to invest in R&D innovation industries.

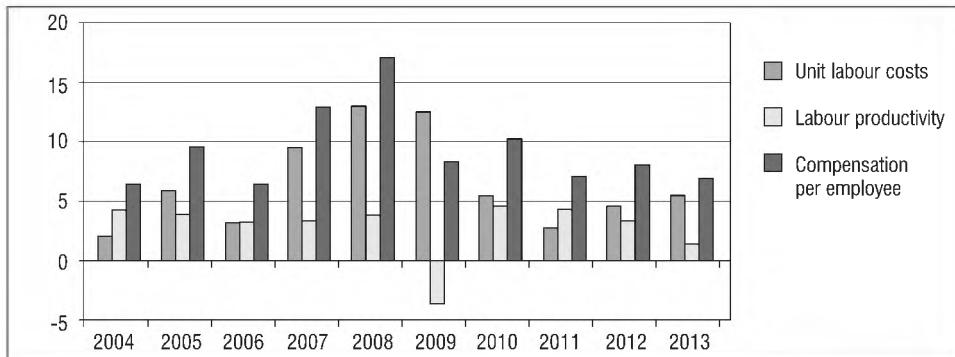


Fig. 2. Unit Labour Costs (ULC), Labour productivity, whole economy, Compensation per employee, whole economy of Bulgaria, annual percentage change

Source: ECB. Convergence Report June 2014, p.110. National Statistical Institute

Unit labour costs (ULC) are one of the indicators describing country competitiveness. On a permanent basis, it is known that labour costs should not increase faster than labour productivity. After 2007, ULC increased significantly in Bulgaria, and then started to decrease. In 2010, the ULC growth was moderate. Labour costs and ULC growth had slowed down in 2012-2013. Their decrease was especially in the segment of tradable goods of Bulgarian economy. Nevertheless, wage growth remained somewhat higher than productivity, most notably in the service sector. „The higher growth could be harmful for cost competitiveness going forward, particularly as wage pressure in the nontradable sector can be transmitted to the tradable sector and increase overall price levels or squeeze profit margins.“ (Macroeconomic Imbalances - Bulgaria 2014 p.17)

Compared with other EU Central European countries, the increase of wages in Bulgaria appeared high, even when they were adjusted towards the productivity growth. While the wage rates appeared to growth, the starting position of salaries was very low. „The average hourly labour costs in EU 28 (excluding agriculture and public administration) were estimated to be €23.7 and €28.4 in the euro area (EA17). These average masked significant differences between EU Member States, with the lowest hourly labour costs was recorded in Bulgaria (€3.7), and in Romania (€4.6). In purchasing power standards, wages in Bulgaria amount to 37% of the EU average, at par with Romania.“ (Eurostat data)

The lower hourly labour costs in Bulgaria seemed to reflect a competitive position compared to other higher-wages EU countries. Despite that the labour productivity increased during the recent years, it remained the lowest amongst other EU countries, with nominal GDP per capita amounted to 20% of the EU

average, or 45%, when it was adjusted for purchasing power standards (PPS). Also, Bulgarian external competitiveness might be helped by having the still-lowest wage level in the EU in 2013.

The ULC increase did not seem to strongly affect the competitiveness, because of the impact of other counter balancing factors. The wage growth was not due to the achievement of labor market equilibrium, but it was a consequence of the dismissal of workers over 2009-2011. The disequilibrium of the economy was manifested by the high unemployment. Some signs appeared that probably in the future, wage levels would most likely to converge towards the EU average, if productivity levels also started to ameliorate and to converge.

Other indicators, having an impact on the external competitiveness appeared more favourable like the increase of global market shares of Bulgarian export. And these events suggested that perhaps the rise in ULC was compensated by non-cost factors, like the favourable export prices trends on the world markets. „Non-cost factors reconciled the gains in market shares and the losses in cost competitiveness. The ULC-deflated real effective exchange rate (REER) of Bulgaria appreciated. The export was likely not affected by the competitiveness factors, because Bulgaria maintained its market shares in the years after the economic crisis.

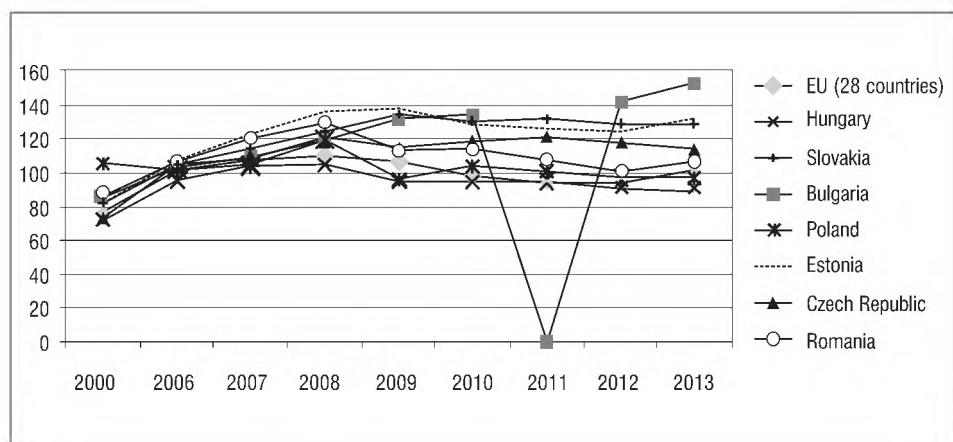


Fig. 3. Real effective exchange rate - 37 trading partners of Bulgaria, Romania, Estonia and CEEC. (2005=100)

Source: Eurostat

The equilibrium real exchange rate (ERER) appreciation (price level convergence) was a natural consequence of the economic catch-up. The changes in the real exchange rate (RER) depended on monetary policy and on the exchange rate levels. The real effective exchange rates (REER) (according OECD measures) measure the international prices and cost competitiveness. It is an indicator capturing broad macroeconomic imbalances in the exchange rate and prices or costs and over the medium term provides a comprehensive

assessment of the international pressures on domestic firms in respect of costs (prices). Since the beginning of 2009, the REER improvement, deflated by HICP, continued. The rate of the REER in 2010 indicated 0% compared to EU27 and 3.3% real depreciation to the CEE countries (BG Competitiveness Review, 2011, p. 9)

EU Funds in Bulgaria

The macroeconomic development and the process of catching up with other EU countries are directly linked with the amelioration of the conditions for the ever further expanding opportunities for the absorption of the financing under the European Structural and Investment Funds (EUSIF). They are an important instrument for the financing of economic development at macroeconomic and at regional level. EUSIF financial assistance is similar to the Marshall plan for Western European countries, after World War II.

The principles of cohesion and solidarity were written into the EU Treaties and constituted two of the most important pillars for the integration of EU countries. The EU structural policies aimed to reduce the disparities between regions and to create conditions for better employment, for cohesion, economic development, social inclusion and equal opportunities for people. The EU Cohesion policy should support the implementation of the investment programs for economic recovery and the creation of jobs for high qualified people. The European Cohesion policy was build on the basis of partnership principle, which implied the full involvement of social partners in the EU structural funds' management.

Five main Funds are functioning in order to promote the economic development across EU28, for the accomplishment of the main goals of Europe 2020.² The European Regional Development Fund is used by the beneficiaries for investments, oriented towards the reduction of economic and social unbalances between the different regions. The investments are for buildup of funds for the implementation of infrastructure projects, and for the providing of basic services, as part of the development of European industries, transport, energy, education and others.

The aim of EU Social Fund is to promote employment, labour mobility, combating poverty and indebtedness. The Cohesion fund is used to support European transport networks, the economic development of regions and countries with a GINI coefficient less than 90% of EU average. The mentioned Funds form the European Structural and Investment Funds (ESI Funds), which are commonly regulated under the Common Provisions Regulation Rule. The figure shows the breakdown of ESI Funds, with the special focus on the Cohesion Policy. Together with Romania and the EU new member states (NMS), Bulgaria is eligible under this Fund.

² The European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund. The European Agricultural Fund for Rural Development (EAFRD) is part of the Common Agricultural Policy (CAP).

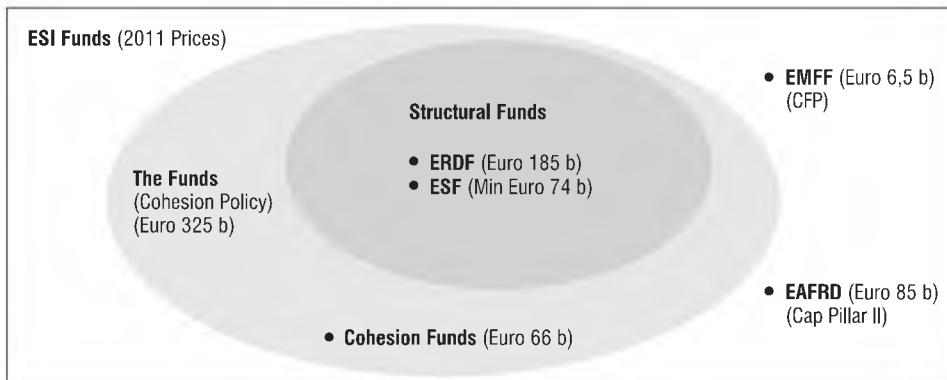


Fig.4. ESI Funds 2014-2020

Source: European Regional Development Fund

For the period 2014-2020 financing under the European Structural and Investment Funds amount to EUR 416,5 billion. The funding only under the Cohesion Policy (ERDF and ESF) is EUR 325 billion. (Fig.4)

The total budget for the cohesion policy in 2014-2020 under EUSIF is 1.3 % higher, compared to 2007-2013. However, if this financing is adjusted by price level movements and changes in the long term, the allocated sums for the recent period (2014-2020) reveal to be with 8.5 % lower. (Jedlicka J., Rzentalarzewska K., March 2014)

For the implementation of EU goals, determined by the use of the EU SFI, EU defined 274 regions, according to their population. Three categories of regions were identified: a) less developed regions (GDP per capita less than 75% of the EU 28 average); b) transition regions (GDP per capita between 75% and 90% of EU 28 average); c) more developed regions (GDP per capita greater than the EU28 average). The funding for each region depends upon its classification, with more financing being made available for the less favored and developed regions. The Bulgarian regions are classified in the first group, because even the GDP per capita of the most developed South west region was less than the EU average.

Taking into account the fact that in absolute figures the largest amount of funding has been allocated to convergence regions (less developed regions), SFs can be regarded as a major financial input to narrow the economic and social gap between advanced and less developed regions.

As an important part of EU's cohesion policy, EU Structural Funds (SFs) counterbalance regional disparities by investments in regions and countries lagging behind in their economic development and performance. In order to respond to the requirements of EU Cohesion policy, two types of regional financing facilities

Pillar II - Rural Development Policy. The European Maritime and Fisheries Fund (EMFF) is part of Common Fisheries Policy.

have been introduced. The financing under the SF Convergence Objective (CON) is covering regions with GDP per capita below 75% of the EU average with the purpose to accelerate the economic development in these regions. The financing under the Regional Competitiveness and Employment Objective (RCE) comprises all other EU regions, which GDP per capita is above this threshold and the aim is to reinforce the competitiveness, the employment and the attractiveness of the mentioned group of regions.“ (http://ec.europa.eu/regional_policy/)

While the SF is part of the EU budget, the spending of this funding is based on the system of shared responsibility between regions, national governments and the European Commission.

The funds are channelled through the Operational Programmes (OPs) that cover the policy priorities selected by respective countries and/or regions.

Depending on the country's specific administrative structure and the degree of centralisation at regional policy-making, the OPs can be formulated at the level of NUTS 1 or NUTS 2 regions, or also at country level. For the period 2014-2020 EC simplified the process and enhanced the supervision over the distribution of funds in a way to complement effectively the EU aims and goals. The Common Strategic Framework was introduced In order to achieve the policies' goals towards Europe 2020 for a smart, sustainable and inclusive economic growth.

Operational programs consist of priority axes which correspond to their thematic goals that have been written in the Agreements between the partners. Each priority axis corresponds to one or more investment priority. „In 2000-2006 investment in research and innovation under the EUSIF reached EUR17.9 billion or 10% of the total SF budget. The committed SF funding under RTDI priorities in EU27 for 2007-2013 amounted to EUR42.6 billion, constituting 16.3% of all available funds. It is important to notice that convergence regions increased their share of research and innovation in SF budgets on average by 12% (compared to about 8% for RCE regions between both periods. (Regional Innovation Scoreboard 2014, Enterprise and Industry, EC, p. 24)

The launch of the Operational programs was difficult in Bulgaria, because of the lack of experience and of the need to qualify well formed and adequate administrative and legal capacities. Projects began to be implemented in Bulgaria in early 2009.

Bulgaria has absorbed only 19% of the allocated funds in 2007-2013. In 2011 and 2012 the use of funds had increased in Bulgaria, because it was necessary to demonstrate a more convincing behavior during the negotiation of the new EU funds allocations for 2014-2020. The absorption of EU structural and cohesion funds in Romania increased in 2013 and reached 33.7% utilization of funds by the end of December 2013.

Up to 31.12.2014 the implementation of the OP was finalised with relatively good results. The contracted payments under OP Transport were EUR 2.017 billion and the received payments from EU were 72.98% from the contracted. The OP Environment receives around 40% of the contracted sums of EUR 2.853 billion. OP Regional Development opted for 104% of the contracted sums and received

from EU 59.04%. A good implementation and a covering of the spent money can be seen in OP Competitiveness with 81% of received sums from EU. The same high financing from EU was received under the OP Human resources. (Table 2)

Table 2. Bulgaria Operational Programs' implementation as of 31.12.2014. in Euro

Operational Program from	Program budget			Contracted		Payments		Received payments EC (EU part)	
	Total	EU Funding	National co funding	Total	%*	Total	%*	From EC	%*
OP Transport (billion EUR)	2.003	1.624	0.380	2.017	100.66	1.418	70.76	1.186	72.98
OP Environment (billion EUR)	1.801	1.466	0.334	2.853	158.44	1.366	75.84	0.578	39.40
OP Regional Development (billion EUR)	1.601	1.361	0.240	1.659	103.62	1.234	77.06	0.804	59.04
OP Competitiveness (billion EUR)	1.162	0.988	0.174	1.199	103.15	0.910	78.24	0.799	80.92
OP Technical Assistance (billion EUR)	0.057	0.048	0.008	0.061	107.26	0.044	78.73	0.032	66.09
OP Human Resources (billion EUR)	1.214	1.032	0.182	1.275	105.04	1.018	83.83	0.857	83.10
OP Administrative capacity (billion EUR)	0.181	0.154	0.027	0.205	113.13	0.144	79.57	0.112	72.94
Total SCF (billion EUR)	8.019	6.674	1.346	9.268	115.58	6.133	76.48	4.368	65.45
Rural development (billion EUR)	3.168	2.552	0.616	3.305	104.34	2.386	75.31	1.859	72.83
OP Fisheries (billion EUR)	0.096	0.072	0.024	0.104	107.42	0.053	54.88	0.040	55.88
Total Agricultural funds (billion EUR)	3.264	2.625	0.640	3.409	104.43	2.439	74.71	1.899	72.37
Total (billion EUR)	11.284	9.298	1.985	12.677	112.35	8.572	75.97	6.267	67.40

* % of implementation

Source: EU Structural funds. <http://www.eufunds.bg/en/page/31>

The initial experience of the implementation of the Structural and Cohesion Funds in Bulgaria revealed a number of difficulties, related with the need of the improvement of the coordination and the administrative capacities. The Government was late with the preparation of the strategic documents, which were supposed to regulate the presentation of good projects. Thus the application for funding has been postponed. The lack of well trained specialists, who was acquainted with the EU funds regulations, was also a default. The irregularities in the tendering and certain bad practices were due to the lack of control from the management authorities. Some of the projects have been unapproved by the European Commission.

For 2014 - 2020, the funding under EU SIF allocated to EU Central European countries 6³, amounted to EUR 167 billion. Over the half of the total EU funds was supposed to be invested in CEE-6. During the recent period, the funding of CEE-6 will be with 11% higher in comparison with 2007-2013.

Since 2012, the Czech Republic and Slovakia (CEE-6) succeeded to reach the economic performance of some old member states (namely Greece and Portugal). If the potential of EU funds is fully utilised, Poland and Hungary will have the potential to surpass the struggling economies of the southern periphery of the Eurozone by 2020. Romania, Bulgaria have a longest path ahead on their economic convergence. If they overcome all the obstacles from the 2007-2013 period in the utilization of EUSIFs money, by 2020 they might achieve the same level of economic performance as the current leaders among the CEE-6.

Poland will receive from the EU funds EUR 77.6 billion between 2014 and 2020, which is the largest amount among all the EU member states. Romania and Bulgaria, as least EU developed members, will receive lower total amounts of EU funds than they should have been. However, both countries will also receive financial assistance under other European programs, such as the Common Agriculture Policy.

An expectation for the deepening of collaboration and strengthening of economic relations of Bulgaria and Romania is the EU cross-border co-operation programme, launched in 2007. The main idea of the cross border programs is that borders are limiting the implementation of joint projects for the management of territories and are affecting economic, social and cultural exchanges between countries. The eligible areas in Bulgaria and Romania are characterised by marginality and isolation from the economic and decision-making centres in EU. The programme is expected to have a significant impact on economic development, the environment and mobility in the cross-border regions in both countries.

In the best case, the effective absorption of the allocated amounts of money will raise the economic and social potential of Bulgaria on a completely upper level, with the expectation that the differences with the most developed EU CEE countries will slowly diminish.

A satisfying absorption level of EU funds in Bulgaria should contribute for a faster convergence and improvement of the economic stagnation. However, the increase in economic growth may be successful only if European funds are used

³ CEE6 - Czech Republic, Slovakia, Hungary, Romania, Croatia, Poland.

effectively for investments in export oriented economic sectors. According to the estimations during 2014-2020 budgeting period EU funds should contribute to economic growth from 0.3% to around 0.8% on average, depending on the amount of funds allocated and the current stage of country's development. The EU funds should have bigger impact on less developed countries (such as Bulgaria and Romania) and smaller influence on more developed countries (such as Czech Republic). If the countries are successful in the utilization of EU funds, the differences of economic development between the countries should steadily diminish.

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