

We need to take a closer look at the lessons from our own economic history

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The reported growth of 3.4% on an annual basis for the first quarter is indicative of the economy's strong start of the year despite the increased uncertainty caused by the snap parliamentary elections in March. The expectations of the business and households for April and May are close to the highest values observed after 2008 and indicate that the economic activity will gain momentum in the second quarter. The growth acceleration in the second half of the year will be supported also by tourism, which, after last year's very strong results, is about to register new serious growth, judging by the early sales so far. Infrastructure construction too will support the GDP growth, as the delay of the projects financed with EU funds is being gradually overcome. The free fiscal space that can be used for increase of the costs of the public sector for the purpose of growth acceleration has practically increased further since the beginning of the year, because the actual growth and the inflation turned out to be higher than the budget projections and will facilitate better results in terms of revenues from taxes and fees than the budgeted ones. All this, according to the economists of UCB, shows that the economy is on its way to reach its highest point in 2018, when we expect the actual GDP growth to get close to 4%. The economic recovery of CEE 5¹ is a little ahead of that in Bulgaria. At the same time, however, the growth of the Bulgarian economy is better-balanced, in terms of contribution of the various components of the final demand to the growth, and what is more important – it is not at the expense of increase of the current account deficit and the indebtedness, which is already observed in some countries from the region. All this creates a favourable opportunity for economic policy architects to direct all their attention and resources to the factors that limit the economy unfolding its full potential and to what is necessary to maintain and even accelerate the economic growth in comparison with the levels already achieved. Here, however, I would like to pay attention to something else. If we look at the economic history of the country in the period after 1989, we will see several episodes in which the growth in Bulgaria and catching up with the incomes of the developed economies is very well-paced, similarly or sometimes even better than in the most successful CEE economies in terms of income convergence. Unfortunately, in the past three decades Bulgaria went through several crises too, the most severe of which were those in 1996-1997 and 2008–2009, and here we should probably include some less apocalyptic events such as the case with Corporate Commercial Bank for example. Most of the CEE countries went through critical periods too, and often the reasons for that were identical. It should be noted that the most successful CEE economies in terms of income convergence differ from Bulgaria in several aspects. Of course, depending on what definition of crisis we will apply, the result will vary, but in the common case there is the impression that the crises in the Bulgarian economy were more frequent than in some of the best CEE countries in the course of catching up. Also, probably many of you will agree that the crises that the Bulgarian economy went through were often more severe and more lasting than those in the most successful developing economies in the CEE. The recovery of the Bulgarian economy took more time and was more painful. Maybe the most important thing is that the irreversible losses of a potential economic growth that were caused by those crises in Bulgaria were among the greatest in the region. Here I mean the decrease in the quality and quantity of

¹ CEE 5 includes Bulgaria, Czech Republic, Slovakia, Hungary and Romania.

labour resources as a result of the intensified emigration provoked by the crises. Why is all that important? It is important because if the crises are less, and if, whenever they occur, we overcome them less painfully and most importantly with less losses of potential future growth, then the process of income convergence will be faster. All this shows that along with the need to think about what measures are necessary for accelerated GDP growth, today we have to think also about how we can prevent any new crises similar to those the economy has already went through. Of course, crises are part of capitalist economy and are hard to predict. None of us here in this hall knows whether the next crisis is more than a decade away or is just around the corner. That is why the second important thing is that we should think about what is necessary to make the crises less painful, with the economy adapting faster to the new conditions and with the recovery processes happening faster. The third thing, which about a country like Bulgaria is maybe even the most important one, is that we should think about what rules and institutions are needed so as to prevent the economy from loss of potential. In other words, what do we need in order to limit the decrease in the quality and quantity of labour resources as a result of intensified emigration provoked by crises.