



THE IMPACT OF GLOBAL FINANCIAL AND ECONOMIC CRISIS ON THE ECONOMY OF BULGARIA

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SUMMARY:

The deepening of the crisis and its negative consequences are felt more and more evidently in Bulgaria. Typical for Bulgaria is that the crisis is financial and economic crisis there. The market shrinking and decrease of industry and trade have inevitably resulted in delay of investments and foreign capital flows in the country. Crisis in Bulgaria came later, suggesting and its later recovery. The Bulgarian economy is a strong correlation with Europe and the sooner the recovery started in the EU, the smaller will be the risks to our country.

INTRODUCTION

Global financial and economic crisis has had a strong influence on the development of the economies of individual countries. The decline in major world economies continues.

The economy enters a recession like many EU countries recorded negative growth in 2009. According to estimates of the EBRD, the economies of Central and Eastern Europe is expected to shrink by an average of 6.3% this year. Foreseen in 2010 global economic growth to increase. For Eurozone countries provides downturn of 2009 from 4.1% to 4.8%, but for 2010 improved by a decrease of 0.3% of zero growth.

Overall, the EU's budget deficit significantly increased from 0.7% of GDP in 2007 to 6% in the year and is expected in 2010 to reach 7%. Typical for Bulgaria is that the crisis is not financial and there is an economic crisis. According to report of European Commission Bulgaria is one of the few Member States which are stable against the victims of the global crisis and recession. Our country preserves a good economic dynamics of growth and financial stability. This of course does not mean that Bulgaria is not affected by the global crisis. Beginning of the economic crisis in 2007 coincided with a period of rapid economic growth in Bulgaria, driven primarily by good investment activity. External environment plays a major role for development of economics.

Deepening the crisis and its negative effects are felt more and more tangibly in our country. According to the National institute of Statistics in Bulgaria is considered several consecutive decline in GDP compared to previous quarters - by 1,6% in the last quarter of last year, with 5% for the first quarter of this year and by 4,8% in the second quarter of 2009. After this sequence decline in GDP is considered that an economy has entered a recession.

RECESSION IS A FACT IN BULGARIA.

Shrinking market and the decline in production and marketing invariably lead to a slowdown of investment and the inflow of foreign capital into the country. According to data of the BNB foreign direct investment decreased to 17% of gross domestic product (GDP) in mid-2009 compared to 29% at the end of 2007. Under the conditions of such an uncertain economic environment, investors reassess the investment plans and make reallocation of investment funds. This leads to postponement of some projects, to delay other and limitation to third in volume of investment. Decrease in foreign funding is reflecting negatively on the current account the balance of payments.

In terms of the dwindling export markets part of the foreign producers are faced with the need for rapid restructuring, cost reduction and efficiency gains by shifting to productions, replacing the imports. In this respect, our country has many advantages:

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- EU membership,
- proximity to European markets,
- a stable exchange rate, which is tied to the euro,
- lower production costs.

After the first effects of the crisis on the global economy began to gradually change the structure of Bulgarian exports - increasing the share of consumer goods part of the expense of raw materials used for intermediate consumption in the manufacturing process.

Changing geographical structure of exports and imports are the main external factors that make up trends in the transport sector. The geographic location of Bulgaria in Southeastern Europe strengthens its position as a natural distribution center in the Balkans. Integration processes in Europe and the emergence of a number of economic, political and environmental problems require joint efforts to overcome them.

The countries of European Union are gradually established as a major trading partner of Bulgaria, leading to a corresponding shift in traffic flows. The transport is sector of the economy, which is a mirror of trade. A transaction can not be done without it. After the last year the trade exchange has fallen by 30%, with much reduced turnover and transport.

How can we characterize the current situation in Bulgaria ?

- Political stability;
- Financial stability - Monetary Board, in recent years until 2009 budget surplus of more than 3 percent, but this and the next two years is a reduction of about - 2.5%;
- Strategic geographic location;
- Liberalized access to markets;
- The lowest corporate income tax: 10% from 2007.;
- 10 percent "flat tax" on personal income since 2008.;
- Low operating costs;
- Reducing the social security burden, the State is a third scheme insurer 8:10:12;
- Incentives to encourage investment.

The main macroeconomic indicators that enable assessment of Bulgaria's economy are shown in Table. 1.

In the second quarter GDP fell by 4.9 % over the same period the previous year, data from the National Statistical Institute. The decrease in GDP for the first half of the year over the corresponding period of 2008 to 4.2%. During the second quarter of 2009, GDP amounted to 8.371 billion euros at current prices. Per capita accounted for 1 102 euros from the value of the indicator.

Table. 1

Macroeconomic indicators: Bulgaria						
Indicator	Measure	2007	2008	2009*	2010*	2011*
Population	million	7.6	7.6	7.6	7.5	7.5
GDP	billion Euro	28.9	34.1	32.8	31.0	32.3
Real GDP growth	% rate	6.2	6.0	-6.3	-2.0	3.8
GDP per capita	Euro	3782	4485	4328	4123	4310
Individual consumption	% real rate	5.1	4.5	-7.9	-5.6	-0.5
Investment in fixed capital	% real rate	21.7	20.4	-26.9	-12.1	-2.0
Exports of goods and services	% real rate	5.2	2.9	-12.3	-3.8	4.3
Imports of goods and services	% real rate	9.9	4.9	-19.5	-6.1	-1.5
Average annual inflation	%	7.6	11.9	2.3	2.2	3.5
Monthly wage (nominal)	Euro	220	268	238	224	231
Unemployment	%	6.9	6.3	12.0	16.0	15.7
Budget deficit (-) / surplus (+)	% GDP	3.5	3.0	-2.5	-3.0	-3.0
Balance on current account	billion Euro	-7.3	-8.6	-3.6	-2.6	-2.7
Balance on current account	% GDP	-25.1	-25.3	-11.0	-8.0	-7.6
Foreign direct investment, net	billion Euro	8.3	5.7	2.3	1.9	1.8
Foreign direct investment, net	% GDP	28.7	16.7	6.9	6.0	5.5
Currency reserves	billion Euro	11.9	12.7	8.9	8.3	10.1
Exchange rate at end of period	BGN/USD	1.43	1.33	1.43	1.40	1.40
Exchange rate at end of period	BGN/EUR	1.96	1.96	1.96	1.96	1.96

Note: *) estimates

Source: BNB, NSI

In the first half of 2009 inflation reached 0.6% and is lower than the results in previous years. Throughout 2009, inflation is expected to increase to 2-3% per year, inflation figures is directly related to fuel prices on world markets.

The development of demographic processes in the country are crucial not only for the formation of the number and structure of the population but also of labor resources, which underpin social and economic development.

At the end of 2008 the permanent population of Bulgaria was 7 606 551 people. For one year as a result of negative natural growth and the negative balance of foreign migration population decreased by nearly 33 700 people, or 0.4% over the previous year. In the general population, women are the majority of it (51.6%). In the cities they live 5 407.1 thousand, or 71.1% of the population and in the villages - 2 199.5 thousand, or 28.9%. The process of aging of the population continue, which naturally leads to an increase of the indicator to its mean age. Now the average age of the population of the country is 41.7 years. The process of aging occurs in both the villages and in cities, villages in the average age of the population is higher than that in cities - respectively 45.4 and 40.1 years.

Global financial and economic crisis requires need to businesses restructure and refocus its resources (financial, manpower, etc.) to a real and profitable industries and services. The average salary for half of 2009 is 301.02 euro, which recorded growth of 14% over the same period of 2008.

In current times of economic crisis, Bulgaria maintained its currency board, binding national currency with the euro at a fixed rate. The Board was introduced in July 1997 by the International Monetary Fund after serious financial crisis of 1996 - 1997, which will be remembered by the numerous bankruptcies of

banks, by 311% inflation and depreciation of the euro at 600%. It is the system enable the country to quickly stabilize.

The economic crisis and recession led to the necessity of an urgent and immediate action to offset the negative impact and reduce damage from the crisis on the economy.

Bulgaria has provided three packages of measures that aim to reduce the negative effects of global crisis in the Bulgarian economy.

- 1. The Economic Activity Package** - which aim to increase investment activity;
- 2. The Market Flexibility Package** - aims to increase income;
- 3. The Social Networks Flexibility Package** - are associated with the provision of opportunities for security and flexibility of labor markets.

CONCLUSION

Crisis in Bulgaria came later, suggesting and its later recovery. The Bulgarian economy is a strong correlation with Europe and the sooner the recovery started in the EU, the smaller will be the risks to our country.

If the projections come true, that at the beginning of next year will start out of the crisis in the European economy can expect in the second quarter of 2010 and the restoration of the Bulgarian economy. There are first signs of recovery in the developed Western countries.

Each country should actively fight against the global economic and financial crisis. Individual measures and actions are not give effect, as the economies of individual countries are interlinked. That is why national measures must be part of international efforts aimed primarily at overcoming the economic crisis.

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