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MACROECONOMIC ENVIRONMENT OF AGRARIAN ACTIVITY IN BULGARIA

This article analyzes the external and internal factors that have led to the formation of a specific unfavorable macroeconomic environment for the agrarian activity in this country. A particular attention is attributed to inflation, exchange rate, and interest rate, which have aggravated to a very great extent this environment. It brings forward the necessity of an advent of positive economic changes for which radical measures have been recommended to the economic environment of the industrial branch itself.

JEL: Q10; Q18

The macroeconomic environment exercises fundamental influence on the overall economic and social condition of the country. It influences both the industrial branch environment and the microenvironment, where agro-economic relations come into existence and agricultural units come to life and function.

During the transition period the macroeconomic environment is characterized by a certain state (condition) and changes, which directly or indirectly have created certain conditions and prerequisites for the formation and capitalization of the economic environment for agricultural activity and for the agricultural units.

Immediately after the political events in 1989 the economy of the country fell into a new environment due to the crude changes in the external and internal conditions. Decreasing rates of development were inherited from the 80s and 90s due to exhausted opportunities for economic growth with the means and methods of planning and organization of exploitation of the state property at that time. The economic community CMEA fell apart. Bulgaria was a member country of this community and the economic strategy of its development depended on it. The country lost its longtime partners in both exports and imports. A moratorium on foreign debt payments was introduced, which in 1990 stood at 127% of the GDP.¹ Agreements were concluded with the IMF and the World Bank, which enabled the country to obtain financing opportunities, but that was accompanied by additional monetary debt obligations. Conditions for a "black" economy were created, which by expert estimates accumulated a product amounting between 20% and 50% of the GDP.² Legal regulations for privatization and restitution were introduced, which predestined ineffective ways of their introduction during the period that followed. Their many amendments and changes attest to it.

These fundamental factors and conditions laid the foundations and the beginning of the economic reform, the shaping of the respective economic environment for practical activity, including the one in agriculture. They have

¹ See A review of the Agrarian Policy. Bulgaria, OECD, Sofia, 2000, p. 43.

² Ibid., p. 64.

influenced, in positive as well as in negative directions, both stimulating and hampering its formation and development. We can indicate that the positive influence could come from the privatization of the land and the means of production which, all other conditions equal, form in principle a more effective private property. But, as it was already mentioned, the way of their introduction into the rural economy did not permit the positive influence to be confirmed and set in motion quickly and effectively.

We can indicate as factors at work in negative direction the disintegration of the foreign economic relations, the unilateral declaration of the moratorium on foreign debt payments, the liquidation of the economic image of the country and later led to payment of the huge debt on both the old and the new credits, spreading "black" economy, which also led to blood-letting of the rural economy. We can judge about these negative influences from one of the most synthetic indicators - the size and the dynamics of the GDP created by the rural economy. In US Dollars worth it decreased from 10790 million in 1989 to 1819 million in 1999, i.e. 5.93 times.³

The embargo on Yugoslavia, the war of its decomposition and the war in Kosovo had, to a certain extent, also an additional negative influence - great losses were incurred resulting mainly from the loss of markets and the increase of transportation costs on exports and imports. Still another hampering influence - the lack of alignment in the pace between the formation of the private sector in the country and in the rural economy. The entrepreneurs in the sector still do not have partners at the needed level - private entrepreneurs in the other sectors, connected with it (industry, trade, services etc.). Indicative is the fact that the share of the private sectors in the GDP in the rural economy and in the national economy is correspondingly 98.52% and 57.10%. This also helps the "black" economy. It creates an opportunity for the formations of monopolistic or criminal type to control the entrance and the exit of agricultural units. These formations expropriate a great part of the income of the producers and, all other conditions equal, turn their production into a less profitable, unprofitable or in most cases a losing one.

With these influences of the most global foundations of macroeconomic environment we can suggest that, despite some positive prerequisites, it has created conditions for deformation of its economic environment of agricultural activity during the transition period. This may be confirmed or rejected after an analysis of the major components of the macroeconomic environment.

Inflation

The economic reform began in 1991 with the liberalization of prices and trade, introduction of the floating exchange rate and partial convertibility of the Lev. The incompatibility of these measures with the rate and substance of the structural reform led to an increase of the budget deficit reaching 1323.47 million US Dollars in 1993, which was financed by the Bulgarian National Bank (see Table 1).

³ Ibid., p. 196.

Table 1

Macroeconomic indicators of the economy in Bulgaria

No	Item	Unit	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
1	Exchange rate	Lv/USD	3,0	16,678	23,339	27,648	54,247	67,168	175,82	1676,50	1760,39	1,849
2	Inflation											
	-Year end	%	150,6	473,70	91,30	63,90	121,90	32,90	310,80	578,00	1,00	6,20
	-Average/yr.	%	123,8	338,50	91,10	72,80	96,00	62,00	123,00	1082,00	22,30	6,6
3	Interest rate											
	-Monthly	%	5,61	3,78	4,72	4,94	6,05	4,64	11,33	6,99	5,29	4,66
	-Basic/year	%		57,10	61,10	60,90	86,60	65,20	262,80	74,10	5,40	4,75
4	Budget deficit (+ -)	USD/mil.	-286,33	-36,73	-524,19	-1323,47	-630,36	738,36	-1033,07	-119,78	+127,17	+116,39
5	Payment account (+ -)	USD/mil.	-860,00	-76,90	-360,50	-1098,00	-31,90	-25,60	+81,8	+426,7	-251,1	-663,3
6	Trade balance (+ -)	USD/mil.	+81,53	+733,66	-546,23	-1036,09	-199,38	-302,95	-183,74	+7,71	-711,04	-1482,21
7	Investments	USD/mil.	3264,17	1485,64	1869,25	1575,06	1552,30	1874,04	1525,46	1410,03	1924,65	2214,55
	-e.g. in Rural economy	USD/mil.	319,83	109,47	84,75	42,10	28,45	43,02	31,68	35,15	54,67	51,78
8	Unemployment total	persons	650079	419123	576893	626141	488442	423773	490800	534100	556100	610500
9	Ext. debt	USD/mil.	11049,6	12247,1	13805,7	11338,0	10148,0	9101,6	9760,2	10259,5	10259,5	10104,7
10	GDP/Rural economy	USD/mil.	656,70	1242,00	976,00	1039,00	1089,00	1621,00	1369,00	2394,00	2262,00	1819,00

Source: Statistical Yearbook, 1990 - 1999; Annual reports of the Bulgarian National Bank, 1990 - 1999; Statistical Handbook, 2000; Economic reform and industrial policy. Confederation of Independent Syndicates in Bulgaria, 1999; A review of the agrarian policy - Bulgaria, OECD, 2001.

This provoked a crisis in the currency market in 1994 and a growth of inflation. The slight revival of the economy in the following two years gradually slowed its pace but the debt of the state sector reached a destabilizing level. A collapse of the banking and financial systems followed. Two downfalls of the GDP followed (10 % in 1996 and 7% in 1997) and a new devaluation of the Lev, which provoked a sharp increase of inflation. Its average yearly size reached 1028% in 1997 (see Table 1). The currency board, introduced in July 1997 stopped the inflation, which in 1998 was 22.30% and in 1999 - 60% (see Table 1).

The inflation during the period under investigation also imposed changes on the economic environment for agricultural activity in several directions. The inflation exercised a strong impact on the size, dynamics and the structure of personal consumption, before all, by means of consumer prices. This holds true also of the prices of the agricultural products, influenced by the purchasing prices, despite state intervention at the beginning of the investigated period.

The increase of prices of the consumer goods, all other conditions equal, has cut the real income of the population and has provoked absolute impoverishment of 20% of the population and another 30% are on the edge of calorie nutritional famine.⁴ The real income has decreased also by reason of the restrictive policy in the field of the nominal income (salaries, wages, other types of remuneration, pensions, scholarships, extra pays etc.). It was imposed by reason of the budget deficit and the negative current account in most of the years of the period under consideration. In 1997 the income of the population fell to 36% of the 1990 level,⁵ while the real income in 1999 as compared to 1992 hardly reached 62.3%.⁶ The sharp fall of the income also lowered the purchasing capacity of the population as regards most foodstuffs produced on the agricultural farms (see Table 2). The decrease is most strongly noticeable with most of the foodstuffs of basic daily consumption like fresh milk, yoghurt, cheese, butter, apples, bread, yellow cheese, sausages, eggs and poultry. Thus the standard of living of the population was hit hard. The only exception was the purchasing power for some vegetables, objects of natural exchange. Some increase of the purchasing power was noticeable for 1999 but for most animal products it was twice as low as compared to 1990. The diminished purchasing power of the population cut the consumption of food products (see Table 3). The consumption of animal products drastically fell in comparison with 1990 - fresh milk down to 16%, meat - down to 32%, fruits - 43.72%, vegetables 53.03%. This inadequate nutrition has had inevitably a strong impact on the health condition of the people.

⁴ See Savov, St. The Bulgarian economy in the conditions of monetary board (state and tendencies). – Economic Thought, 1998, N 2, p. 5.

⁵ See A Review of the Agrarian Policy. Bulgaria, OECD, Sofia, 2000, p. 59.

⁶ Household Budgets in Bulgaria. NSI, 1999, p. XII.

Table 2

Purchasing power of the population in Bulgaria

Quantities of goods that can be bought by the yearly total average income of one person	Unit	1990	1999	1999/1990, %
1. Bread	Kg	6204	2682	43,23
2. Rice	Kg	2386	1404	58,84
3. Dry beans	Kg	1599	927	57,97
4. Potatoes	Kg	3372	3129	92,79
5. Tomatoes	Kg	2001	2146	107,25
6. Cucumbers	Kg	1763	1747	99,09
7. Peppers	Kg	1903	2590	136,10
8. Apples	Kg	3409	1458	42,77
9. Grapes	Kg	2443	2030	83,09
10. Fresh milk	Kg	9400	2731	29,05
11. Yoghourt	Kg	6743	1688	25,03
12. Cheese	Kg	1010	478	47,37
13. Yellow cheese	Kg	723	305	42,18
14. Pork	Kg	565	335	59,29
15. Poultry	Kg	943	520	55,14
16. Salami	Kg	787	483	61,37
17. Sausages	Kg	380	191	50,26
18. Eggs	Pcs	23861	12517	52,45
19. Sugar	Kg	2068	2003	96,86
20. Butter	Kg	567	256	45,15

Source: Statistical Yearbook of R. Bulgaria, 1994, p. 74; 1999, p. 108.; Statistical handbook, 2000, p. 77.

Table 3

Average consumption of basic food products per person of the population in Bulgaria

Products	Unit	1990	1999	1999/1990, %
1. Bread and paste products	Kg	194,6	144,1	74,04
2. Meat	Kg	77,8	24,9	32,00
3. Fresh milk	L	194,5	31,8	16,35
4. Eggs	pcs.	239,0	137,0	57,32
5. Fruits	Kg	98,8	43,2	43,72
6. Vegetables	Kg	113,7	60,3	53,03
7. Dry beans	Kg	2,8	4,0	142,86

Source: Statistical Yearbook of R. Bulgaria, 1991, p. 87; 1999, p. 104.

The fallen consumption of food products per person is accompanied by an absolute diminution of the population, which decreases the total volume of the consumed goods bought from the market. The growing unemployment acts in the same sense and limits the solvency of the population. Consequently the demand for these goods in the market has gone down. The process is accelerated by the drive for production earmarked for self-sufficiency. The share of the income from the "household economy" in rural areas was between 33.7% in 1990 and 54.1% in 1995.⁷ A tendency of the contraction of the demand for goods produced in agriculture and food industry has come into being. Because of the method, already mentioned, of introduction of the land reform and privatization in agriculture, the production of most agricultural products sharply decreased in the period under study (see Table 4). Thus the production of wool in comparison to 1990 plunged to 28.77%, alfalfa hay - to 35.80%, oriental tobacco to 45.62%, grapes - 50.86%, grain to 63.02%, livestock to 63.45, eggs - 67.07%. This is a serious blow to the processing industry. A part of this industry has ceased to function altogether, while the surviving part uses import raw materials.

Table 4

Production of basic agricultural products in R. Bulgaria

Products	Unit	1990	1999	1999/1990 (%)
1. Grain	Th. Tons	8216,4	5178,0	63,02
2. Beans	Th. Tons	22,7	23,8	104,53
3. Sunflower seed	Th. Tons	388,5	610,0	156,99
4. Oriental tobacco	Th. Tons	56,5	25,8	45,62
5. Vegetables	Th. Tons	1565,1	1319,0	84,27
6. Potatoes	Th. Tons	432,7	566,0	128,48
7. Alfalfa-hay	Th. Tons	1494,5	535,0	35,80
8. Natural hay	Th. Tons	499,7	515,0	103,06
9. Fruits	Th. Tons	1677,2	672,0	40,06
10. Grapes	Th. Tons	731,3	372,0	50,86
11. Slaughter cattle/ live weight	Th. Tons	1272,3	807,3	63,45
12. Milk	Th. Liters	2384,9	1655,2	69,40
13. Wool	Th. Tons	27,8	8,0	28,77
14. Eggs	Th. Pieces	2460,0	1650,0	67,07

Source: Statistical yearbook of R. Bulgaria, 1991, p. 234, 235, 236, 241, 242; 1999, p. 203, 204, 205, 209, 210; Areas, yields and production of agricultural crops. NSI, 2000, p. 10-14, 14-15.

⁷ Household Budgets in Bulgaria, 1990, p. 24; 1985 - 1993, p. 17; 1994, p. 18; 1995, p. 18; 1996, p. 18; 1997, p. 18; 1998, p. 30; 1999 - source NSI.

Imports have increased several-fold (Table 5), so the blow is multidirectional - on the agriculture itself, on the processing industry and on the population. This, on its part, directly deteriorates the balance of foreign trade, as the imports of raw materials and food for nutrition of the population grow, while the GDP of both the rural economy and the national economy diminish.

Table 5

Imports of agricultural products in R. Bulgaria (thousand tons)

Products	1992	1992 = 100	
		1998	%
1. Live animals	0,2	0,8	400,00
2. Meat.	3,1	75,2	2425,80
3. Milk, milk products, eggs, honey, animal products	5,5	18,2	330,90
4. Vegetables and plants	10,8	43,1	399,10
5. Fruits	61,7	80,8	130,90
6. Cereals	21,2	46,0	216,98
7. Oil seeds and fruits, other seeds, fodder	5,7	15,3	268,40
8. Fats and oils	13,4	29,2	217,91
9. Foodstuffs from cereals	2,9	10,3	355,17
10. Foodstuffs from vegetables and fruits	18,0	31,4	174,44
11. Other kinds of foodstuffs	4,9	19,2	391,84
12. Tobacco and substitutes	23,3	12,7	54,51

Source: Statistical Yearbook of R. Bulgaria, 1995, p. 314 - 315; 1996, p. 256 - 257; 1997, p. 249; 1998, p. 260 - 261; 1999, p. 257.

The imports under the conditions of the transition exercise a negative influence also on the Bulgarian agricultural growers, who are not prepared for the suggested competition and are either pushed out of the market, or suffer losses when selling their products.

The analysis made shows that the inflation during the investigated period, despite the partially introduced protective mechanisms of the state, deformed the market of agricultural products and the part of the economic environment for agricultural activity - supply of and demand for these products.

The inflation has an impact also on the prices of the import resources in the agricultural production: it pushes them up, and at its high rate the inflation renders their purchase either impossible or ineffective. From 1990 to 1997 these prices incessantly grew at a very high pace. In 1997 in comparison to 1991 the increase hit a record - from 48-fold for electricity to 780-fold for tractors (see Table 6). The real dynamics of prices of import resources show a smaller growth if prices are in dollars at an average year rate of exchange (see Table 7).

Consequently, as there is a great demand for input resources, their supply to the market is accompanied by very high prices formed by the inflation, because the basic means of production were destroyed with the liquidation of the collective farms and the privatization of the state farms, while those that remain are morally and physically worn out. It has laid the conditions and the prerequisites for distortion of these specific parts of the economic environment of agricultural activity (supply of and demand for means of production). At the background of the unfinished structural reform, the influence of inflation on forming a normal economic environment remains in force, as under certain conditions the inflation may grow again under the impact of the slowdown of the structural reform.⁸

Table 6

Dynamics of the prices of manufacturers of input resources in agriculture
(1991 = 100)

	1992	1993	1994	1995	1996	1997
1. Bran	178,61	292,05	402,78	513,98	1663,13	13577,83
2. Groats	182,20	207,36	323,57	394,97	917,27	7021,62
3. Combined fodder	152,60	273,89	412,82	597,35	1657,16	17930,38
4. Fodder grinders	104,18	165,56	324,91	545,83	1385,63	21538,56
5. Gasoline (petrol)	137,91	212,09	370,90	450,21	1398,56	17355,21
6. Diesel fuel	148,59	201,53	356,01	430,95	13782,61	15505,37
7. Trailers	147,40	186,15	330,24	504,25	1082,19	28228,49
8. Mineral oils	180,33	242,26	496,73	628,86	1301,02	13975,43
9. Cement	147,38	170,60	312,67	494,55	1146,18	15943,34
10. Bricks	153,30	217,34	423,56	480,35	1061,26	9619,79
11. Electricity	93,21	105,94	150,22	202,12	480,72	4804,02
12. Tractors	253,31	444,24	606,04	1390,54	5055,93	78094,76
13. Trucks	226,65	313,35	681,76	1065,66	5064,97	38190,85
14. Ploughs	100,93	166,09	285,09	584,17	1651,91	28260,20
15. Seed drills	100,56	140,16	202,12	402,58	824,51	11897,93
16. Fertilizers	157,34	154,55	313,78	473,51	1239,13	10521,78
17. Tractor sprayers	143,19	109,32	202,79	590,44	1184,67	14777,61
18. Soil cutters	150,05	210,28	438,99	734,66	1214,47	18664,84
19. Plant protection chemicals	222,64	372,40	572,47	648,08	1304,64	19279,74

Source: Data from NSI. The data are up to and including 1997. After 1997 it is impossible to make comparison due to changes in statistical methods.

⁸ See *Kantchev, Iv.* Microeconomic environment, agrarian policy and production structures in agriculture during the transition period. Sofia, UNWE, 1998, p. 12.

Table 7

The level and the dynamics of producers' prices of input resources in agriculture

Type of resource	Unit price	1991	1992	1993	1994	1995	1996	1997 г.	1997/1991, %
Tractors	USD/ pc.	1208,3	2193,9	3248,0	2256,3	4175,6	5803,5	9413,4	779,04
Trucks	USD/ pc.	6410,4	10413,4	12154,0	13465,8	16976,6	30843,2	24421,9	380,97
Trailers	USD /pc.	286,6	302,8	322,8	291,6	359,2	294,6	807,1	281,61
Ploughs	USD/ pc.	211,6	151,8	212,6	185,8	307,1	332,0	596,4	281,92
Seed drills	USD/ pc.	1196,9	862,7	1015,0	745,4	1197,4	937,4	1420,6	118,69
Tractor sprayers	USD/ pc.	1042,6	1070,1	689,6	651,5	1529,8	1173,3	1536,9	147,41
Soil cutters	USD/ pc.	260,8	280,6	331,8	352,8	476,2	300,9	485,6	186,19
Fodder grinders	USD/ pc.	282,9	211,3	283,4	283,2	383,8	372,4	607,9	214,82
Combined fodder	USD/ t	71,8	78,5	118,9	91,3	106,5	113,0	128,4	178,83
Fertilizers	USD/ t	260,2	293,5	243,4	251,6	306,2	306,3	273,1	104,96
Plant protection	USD/ t	1302,8	2078,8	2935,5	2297,9	2095,3	1659,1	2505,5	192,32
Gasoline (petrol)	USD/ t	292,2	288,8	375,0	333,9	326,9	388,2	497,6	170,29
Diesel fuel	USD/ t	234,1	249,3	285,5	256,8	250,7	306,5	362,1	154,68
Mineral oils	USD/ t	581,7	751,8	852,65	890,3	909,0	718,9	810,9	139,40
Cement	USD/ t	23,8	25,1	24,5	22,9	29,2	25,9	37,8	158,82
Bricks	USD/ 1000 pcs	29,6	29,5	38,9	38,6	35,3	29,8	28,4	95,94
Electricity	USD/ Kwh	0,023	0,015	0,014	0,010	0,011	0,010	0,011	47,93

Source: Data from NSI. The data are up to and including 1997. After 1997 it is not possible to make comparison due to the changes in statistical methods.

Exchange rate

The fixed exchange rate was abolished after 1990 and under the influence of inflation this resulted in a vehement increase, reaching 1760.39 Leva for one USD in 1998 (see Table 1). In fact under the influence of the "free" market forces the Lev devalued 578 times by the end of the period. A certain stabilization of the Lev was observed in 1992 - 1995 with three peaks of local devaluation in the period - the beginning of 1992, the summer of 1992 and March of 1994.⁹ This stabilization, however, "is due almost entirely to the stabilization of the economy".¹⁰

⁹ Kantchev, Iv., Op. cit., p. 5.

¹⁰ Ibid., p. 6.

The currency regime of a monetary board after 1977 in Bulgaria "is a more strict and safer version of currency fixing".¹¹ In principle, the dosaged regulation of the exchange rate offers opportunities for stimulation of local producers and of the economic activity".¹²

However, in the transition period, the Bulgarian Lev was, in some smaller intervals, underrated and in some larger intervals was overvalued. All other conditions equal, its overvaluation has a negative impact on exports, decreases the export competitive power and stimulates imports. The local production is hampered in this way. And vice-versa, the under-valuation of the Lev stimulates exports and makes imports stagnate, which influences favorably the local production. There are inferences that even in the time of the currency board the nominal quotation of the currency differs from its real purchasing power of the Lev and the over-valued local currency influences negatively the competitiveness of exports.¹³ The reason for overvaluation of the Lev is interpreted by "higher inflation in comparison to the reserve currency", which diminishes the competitive power of the Bulgarian exports".¹⁴

The fluctuation of the currency rate in the transition period influences also the economic environment of the agricultural activity. The exchange rate has helped deform the economic environment mainly in the area of foreign trade in agricultural goods. The overvaluation of the Lev together with the restrictions on exports during the greater part of the investigated period contributed to the deformation of the market environment, the supply of and demand for agricultural goods, thus hampering its capitalization (Table 8).

Table 8

Exports from and imports of agricultural products in Bulgaria (in mil. USD)

Item	1991	1992	1993	1994	1995	1996	1997	1998	1999
1.Exports	751,6	1029,0	764,0	915,0	1119,4	890,6	701,9	689,8	624,4
2.Imports	195,5	383,6	414,4	462,2	399,9	372,6	428,3	382,6	337,6
3.Balance	556,1	645,4	349,6	452,8	719,5	518,0	273,6	307,2	286,8

Source: Data from the Review of the agrarian policy. Bulgaria. OECD, Sofia, 2000, p. 205.

¹¹ See *Minassyan, G.* Икономиката на България в края на XX век: съгласуване на цели и инструменти. С., Фондация "Свободна инициатива", 1999, p. 10.

¹² *Ibid.*, p. 10.

¹³ See *Savov, St.* Why an export orientation of the economic growth in Bulgaria is necessary. UNWE Scientific works, Vol. 1, 1999, p. 86.

¹⁴ *Minassyan, G.* Op. cit., p. 10 – 11.

The exports of the agricultural goods after 1991 grew hesitantly at the beginning, matching the hesitant manifestation of the currency stabilization, but after 1996, even after the adoption of the currency board, it began to decrease, which is an evidence of ineffective processes in the production. The imports of the same goods at the beginning grew, due to tariff facilitations, after which they kept their volume, despite the partial protective mechanisms implemented during the recent years. To a certain extent this decreases the competitive power of the agricultural producers, as it pushes them out of the home market. Even though the balance between the exports and imports was in favor of exports, it grew hesitantly in the first half of the period and after that, in the second half, it decreased hesitantly. These hesitations had an additional negative impact on the macroeconomic environment.

It can be presumed that the exchange rate influences the purchasing prices of the agricultural products. A study of the problem shows that in 1992 - 1997 "there was no long term link between the purchasing prices of the agricultural products and the exchange rate"¹⁵.¹⁵ The reason for this is the state regulation of trade in agricultural goods (pressure on the purchasing prices and restriction on trade).

Interest rate

The period of 1990 - 1997 was characterized by a high-interest rate, which interacted strongly with the inflation due to the monetary policy, carried out (see Table 1). It is natural that the interest rate hampered the financing of production with credit money resources. Due to the lower return on investments in agriculture the difficulties were very big, because the producers were not in a position to cover rapidly the high interest rates on the credits by the income from resources put into operation. We can ascertain that the tendency could not be overcome. This can be judged from the nine-fold fall of investments in the rural economy from 1990 to 1997 (see Table 1).

The regime of the currency board after 1997 sharply increased the interest rates, as the exchange rate was fixed and the demand for credits was weak. It can be assumed that the low interest rates will have a favorable impact on the investment activity in agriculture as well. The level of interest rates, however, was not formed by the market, as a result of competition and changes in the structure of the production sector. In addition, the negative interest rate on deposits hampers and does not stimulate saving of the free money resources of the economic structures, sets a sluggish credit supply from the commercial banks, as they input a large part of their money resources in state

¹⁵ See *Ivanova, N., G. Lingard, F. Dowson*. Analysis of the influence of microeconomics on the rural economy. Problems and perspectives of the Bulgarian agriculture on the threshold of the XX century. Sofia, 1998, p. 39.

bonds. The negative influence of this process in the banking system on the agriculture was aggravated by the absence of specialized credit institutions, with the exception of the State Fund "Agriculture", but it has no typical banking functions.

The conclusion, that can be drawn, is that the interest rates during the investigated period have created conditions and prerequisites for a negative impact on the already formed economic environment for the agricultural activity. The slight increase in investment activity after 1997 (see Table 1) was a symptom of a slow overcoming of the noted tendency.

The negative tendencies in exports, imports and trade balance, budget deficit, current payments account (Table 1) as well as the complicated interaction and interdependence between them have, in an indirect way, negatively influenced the formation of the economic environment of the agricultural activity. In their situation, as it occurs, the state does not possess the needed resources for direct, or even indirect, influence for substantial positive changes in the economic environment. That is why despite the stabilizing role of the currency board, the GDP created in the rural economy in 1999 in US Dollars decreased and reached a slightly bigger size of the 1995 figure (see Table 1).

A change is needed

The stabilization, resulting from the implementation of the currency board, will not by itself lead to positive economic changes in agriculture. Radical changes are necessary in the economic environment of the sector itself. However, they would not be feasible and effective, if the present extremely liberal approach of the state policy in the rural economy is not overcome, without which the capitalization of the economic environment for the farms to operate is impossible.

Several objective circumstances, which will have a substantial importance in the future, should be taken into account in this respect, in the time of change of sectoral economic environment.

First, the undergoing and accelerating differentiation of ownership in the agriculture of the highly developed countries (USA, Canada, EU, Australia) result in changes in the scale of big, medium, and small farming, in favor of the bigger farms. The big farms get the ever growing niches both within the countries and in the communities. Their criteria for effective production are imposed through the markets by means of prices. A struggle is on for elimination of barriers to the free movement of agricultural goods in the international market (quotas, subsidies, protective duties, fees, nontariff restrictions). The policy of big farms has been gradually imposed. Because of this, the fragmentation of the land ownership in Bulgaria, and the still not started process of amalgamation, may impede and render

impossible a great part of the changes in the sectoral economic environment in view of creating competitive farms. The scale of land ownership, its territorial dispersion and hence the size of the farms, if they remain as they presently are, will hold back the capitalization of the environment and of the farms in the future.

Second, the disrupted ties with the processing enterprises, a great part of them liquidated, and the practical impossibility of the farms to participate in cooperatives, because of lack of sufficient and appropriate assets, make them strongly vulnerable to pressure from the very big arsenal of mechanisms and means of sapping their income by structures occupying their entrances and exits. The lack of equivalence in the market will persist, which is a serious obstacle to capitalization.

Third, the general economic condition of the country has been crucial during the last years and still is. The forecasts of optimal economic growth do not come true. The restraining influence of this fact will be manifested in two respects. The development of industry and services will not be on that level, which, all other conditions equal, gives an impetus to the development also of the rural economy. In addition the state will not be able to allocate the necessary means for the development of agriculture in the ways this is done in the developed countries - chiefly in the share of support of the producers.

Fourth, the continuation of the currency board is imperative because the economic development is based on crisis, as was pointed out earlier. Under the conditions of a currency board, the implemented restrictive policy for continuation of financial stability of the country, diminishes the opportunities for correcting the extremely liberal approach in the management of the economy, and the rural economy in particular.

Fifth, the specific peculiarities of the agricultural production, which are objective and cannot be eliminated, also will exercise a retaining effect on capitalization of the environment, because here its course is slower as compared with the one in industry and services.

Sixth, the lack of long-term state strategy on the development of agriculture will have a negative impact on its entire development, as the action of free market mechanisms in a not yet constructed market environment leads to chaos. There is no such country in the world with a developed agricultural production, in which it functions on its own only under the influence of free market mechanisms. The experience of these countries shows that without a strong institutional intervention a successful build up of competitive farms is impossible. The literal implementation of the principles of the free market at the entrance and the exit of the agricultural sector leads to serious unfavorable consequences.

The institutional intervention by the state, in the creation of conditions for the development of agriculture in Bulgaria, will meet resistance due to several causes. *First*, in the political and power circles a notion still persists that the state regulation and support are identified with the administrative compulsory management and total subsidizing. *Second*, the existence of tremendous speculative, and of unclear origin, capital, having lobbies on different levels of the state administration, and being invested in monopolistic structures, occupying the entrance and the exit of agricultural production, will be hardly done away with, because of its ability of rapid transformation.

Despite the presence of retaining factors, the active regulatory (defensive and stimulating) role of the state in the rural economy is particularly necessary. Not well sustained, from the economic point of view, are the positions of authors who, only on the basis of the criteria of increase or decrease of production of concrete agricultural products, arrive at the conclusion that "the results of the implementation of the scenarios of the Common Agricultural Policy (of the countries of EC - my remark, L. P.), are more unfavorable than those of the world prices", and that they are "disappointing"¹⁶ or that on the basis of only the competitive power of exports, conclusions are drawn for the incompatibility of the export oriented strategy in the area of exports with a protectionist trade regime.¹⁷ An evidence attesting to this is the fact that in Bulgaria, during the validity of the Law for defence of agricultural producers, there was a considerable improvement of the general economic indicators of the rural economy, and after the full liberalization of internal and foreign trade they became aggravated (see table 9). On the basis of such conceptions and not in conformity with the conditions of the crisis in the country it was recommended to the Bulgarian government that: "less protectionism is needed as regards foreign trade, especially for primary agricultural products";¹⁸ "in order that the Bulgarian agricultural goods and food be more competitive on the international markets they must rely on subsidies domestic and foreign";¹⁹ the strategic grain reserve must be reduced to minimal quantities or be disbanded";²⁰ "The Bulgarian government must abstain from sudden investments of any agricultural product in the market".²¹

¹⁶ See *Mishev, Pl. and others*. Regulation of the Bulgarian agriculture in the transition period. - Икономика и управление на селското стопанство, 2000, N 1, p. 12.

¹⁷ See Strategy for the development of the agriculture and food security of Bulgaria МЗГАР, FAO, 1999, p. 160.

¹⁸ *Ibid.*, p. 167.

¹⁹ *Ibid.*, p. 166.

²⁰ *Ibid.*, p. 176.

²¹ *Ibid.*, p. 176.

Table 9

Size and dynamics of the production value, the gross added value, the net added value and the net income in the rural economy* (1994 = 100)

Indicators	Unit	1994		1995		1996		1997		1998		1999**	
		value	%	value	%	Value	%	value	%	value	%	value	%
1. Production value (gross production)	Million USD	1862,0	100	2698,1	144,9	1978,5	106,3	3363,3	180,6	2981,9	160,1	2889,6	155,2
2. Gross added value	Million USD	955,0	100	1507,1	157,8	1047,2	109,6	1969,9	206,3	1665,4	174,4	1098,4	115,01
3. Net added value	Million USD	595,0	100	926,4	155,7	600,2	100,9	1190,0	200,0	984,3	165,4	1001,5	168,3
4. Net income of all employed in the rural economy	Million USD	433,9	100	819,1	188,8	563,1	129,8	1120,3	258,2	978,7	225,6	1006,8	232,03
5. Net income of households employed in the rural economy	Million USD	255,4	100	645,6	252,8	453,6	177,6	1021,4	399,9	821,7	321,7	842,5	329,8

Source: Agrarian report - 1999, Ministry of Agriculture and Forestry, p. 48, 109; Agrarian report - 2000, MAF, p. 81.

* The value is calculated in USD by the respective average year rate.

** The services, the processing and the less important activities are not included.

The institutional intervention of the state in the regulation of the sectoral economic environment must be effected in conformity with the following principles: *First*, formation and provision of market environment, in which competitive farms will emerge and solidify. *Second*, ensuring support relevant to the economic environment to persons, willing to establish farms and having proved their project effectiveness, to the already established and functioning perspective farms, as well as aligning the state of agriculture with the requirement of the EU membership.

This requires: A skillful usage of protective mechanisms at importing agricultural products and means of production; application of stimulating measures at exportation; introduction of internal regulative purchasing prices of delivered agricultural products and prices of means of production; direct support by subsidies to the agricultural producers; easy credits for those producers.

Two fundamental reasons necessitate the regulative approach - to overcome the crisis in the Bulgarian agriculture and to prepare it for the membership of the country in the EU by a step-by-step adaptation to the Common Agriculture Policy practiced in the Union. Having in mind the circumstances, that the policy of support of agriculture in EU, reformed in conformity with the present and the future state of agriculture in member countries and with contractual agreements with the World Trade Organization, the agricultural policy in Bulgaria, until its accession into the Union, must draw on the experience from the first stages of its introduction in these countries. This is necessitated by the present crucial situation of the agricultural produce in this country, which is comparable with the situation of the countries of Western Europe after the Second World War. This is the way for the Bulgarian agriculture to be ready, after the country becomes a member of EU, to put into practice its contemporary and future agrarian policy.

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