

Economic Policy Review

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In the issue

First Anniversary of Bulgarian Government

Institute for Market Economics is a winner of a 2006 Templeton Freedom Award



Introduction

A little over a year ago, the Institute of Market Economics sent a letter to the newly elected Prime Minister (Stanishev). In this letter, taking into account the specific structure of state government, we suggested principles and actions in the field of economic policy that would enable the government to cope with different tasks in order to increase the well-being of society and to overcome obstacles of contemporary state governance without destroying confidence between the coalition partners.

Obviously the government has decided to do the opposite of what we suggested. The positive changes, as far as they exist, are based on a foreign pressure – from European Commission,

IMF, companies with violated rights and public opinion.

During the last year we examined closely the economic policy and offered suggestions and solutions regarding different aspects of economic policy including:

1. a reduction of the tax burden
2. broadened economic freedom
3. amelioration of the effectiveness of state governance

Saving the fundamental structure of our previous letter, today we attempt to analyze what the government has done and what remains to be done in the field of economic policy as well as all kinds of specific domains with direct or indirect relations to economic policy.

Status Quo

The Bulgarian economic reforms (1993-1997) have one specific feature – thanks to egoism and the subjective choices of different governments in country, the possibilities of people and companies to live better, as in the other countries, was destroyed.

Economically and statistically it appears that:

the Bulgarian economy doesn't take advantage of its potential for economic growth

Accumulation of capital costs too much time

The net creditors of the Bulgarian economy are relatively insignificant

From 1998 and particularly from 2001, the tax burden over these net creditors has increased sharply.

From the table below we can see that the aggregate growth of GDP in Bulgaria is two or three times smaller than other European countries.

What is more important? If Bulgaria is to catch up with the economic reforms, as the new European members have already done, economic growth still can be achieved

The Major areas of reforms are:

- Decrease of the tax burden
- Pension reform
- Health care
- Social activities

GDP and growth per capita

Country	GDP per capita 1991 (\$)	GDP growth per capita (1991-2003), % average value
Slovenia (1992)	8 710,6	1,05
Litva	3 218,5	-0,49
Macedonia	2 764,9	-0,72
Poland	2 771,9	3,68
Rumania	1 484,2	0,19
Sarbia/MonteNegro (1996)	1 709,5	1,5
Latvia	3 245,6	0,74
Estonia	3 534,6	1,34
Bulgaria	1 586,9	0,48
Hungary	4 287,6	1,56
Slovakia	3 637,1	1,05
Croatia	4 538,4	0,4
Czech Republic	4 681,5	0,82

Source: World Bank



Legislating

Negative outcomes:

The number of permanent parliamentary commissions, respectively costs, have increased;

Some of the bills which go into parliament are not publicly available;

Some of the bills are not accompanied by the required bylaw justification;

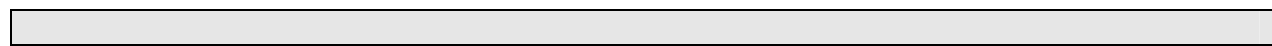
Bill justifications where available are not based on a cost-benefit analysis principle at all;

There is neither an institution nor practice to conduct a regulatory impact assessment in the pre-adoption phase of the legislation process;

The “State Gazette” is still not available on Internet; it is in fact possible to buy an electronic copy, but at the prohibitive price of 6,010 lv. (about EUR 3,000) / year.

Positive outcomes:

In general there is nothing to be lined up here with just a single exception: not long ago the Council of Ministers expressed its willingness to introduce a better regulation principle in terms of conducting regulatory impact assessment on a regular basis; however, this has not yet happened



Public administration

The country faces great challenges to achieve the necessary quality of administration and administrative services and at the same time, to find its place in the common European process of applying the principles of effectiveness, transparency and accountability of governance.

On the verge of the accession of Bulgaria to the European Union (EU), the pace of the reforms in the state administration is still unsatisfactory.

Bottlenecks in state administration:

- In the last few weeks electronic and printed media have published new data regarding the continuously increasing growth of the state administration. For

the period of the 2000 to the present, the number of employees has increased by 50,000. Currently the central authority employs 136,000 people and half a million are employed in budgetary maintenance. For the first six months of 2006 alone, the state administration increased dramatically.

2006

January	132 166
February	133 633
March	135 263
April	136 098
May	136 169

- The Ministry of State Administration and Administrative Reform continuously talks about optimizing the state administration to at least 10%. But unfortunately the situation is completely different. It comes as a result that while in 2005 the state administration increased by 10%, through 2006 the ministry will struggle to decrease the state administration by the same amount (10%). This is ridiculous. All attempts by the ministry will lead to a zero consequence.
- In 2005, 35 new structures were established – the major question is what they will do to create a more effective public administration? There is no truthful answer.
- In 2005, only half of the educational funds were used. This is absolutely insufficient. The qualification of the state administration is one of the major problems of public services. The government should take crucial measures establishing effective administrative structures and attaining high-quality administrative service delivery that focuses on citizens and business. Nevertheless, it is important to mention that there is essential difference between education qualification and working literacy - this is practically, acquired knowledge and skills.
- With the objective of facilitating the citizens and businesses, the Ministry of State Administration and Administrative Reform offered services by using an “electronic signature”. Electronic

signatures and electronic documents have become more widely used. This innovation is both necessary and beneficial to users but unfortunately, at the present moment there are obstacles to its proper implementation and utilization.

- Only 7% of new employees are hired on a competitive basis. In order to achieve higher transparency and openness, the national authorities should increase hiring on a competitive basis between all prospective applicants.

The major areas of optimization and development

- Achieve not a larger, but better organised and effective state administration
- Avoid overlapping structures and functions
- Merge or remove structures where possible and appropriate
- Develop of a user-friendly e-government
- Enhance transparency and integrity in the state administration
- Optimisation and overall availability of presented public information via the unification of the Register of Administrative structures and acts of executive authorities with that of civil servants into a single administrative register
- Implement effective and efficient training programs

Our suggestion

Some executive authorities are bodies of the central state administration and some are established to regulate and control. We suggest the implementation of the “requirement of existence” for all of public institutions which are funded by the state budget. This means that all public institutions must prove their existence. Existence must hold up on a report of the activities and represent a clear plan of future activities, methods and ways to achieve them. On the one hand, this is the most efficient way to fulfil the expectations of society for transparency and openness, and on the other, to provide

justification of the transferred funds granted by the state budget. Through these actions, wasteful

public institutions and programs will be either privatized or broken off.

Privatization

The present government's policy during the last year can be characterized as refraining from any actual action in terms of privatization. There have been no major deals suggesting that the privatization of "Bulgartabak" holding would be implemented anytime in the near future. The strong interest by the Turkish party (Movement for Rights and Liberty) as well as by other coalition members prevents the sale of the holding. The only deal that could be finished in the short-term is for the "Varna" power plant.

According to the Ministry of Finance, between August 2005 and June 2006 the privatization receipts data reached around EUR 109 million resulting from previous deals. The Privatization Agency data suggests that the ratio of privatized assets to the number of assets subject to

privatization and to total assets is 91% and 60% respectively in 1995 prices. The government intends to privatize companies in the sectors of energy, transport, machinery, and production and trade of special items however, it has neglected to include hospitals, schools, land, forests, dams, infrastructure that could and should be privatized.

The real activity in the area of privatization is the sale of minor stakes which is actually the final stage of selling already privatized companies. One should take into consideration the positive fact that some of these deals were done through the stock exchange thus favoring the transparency of the procedure and reaching the highest price. The principles of privatization: transparency, equal treatment of participants, speed, and efficiency could be realized if the political will exists.

Budget and taxation

The main aspects of tax policy are the reduction of personal income tax, reduction of payroll tax by 6 percentage points, increasing of excise duties on oils, alcoholic beverages and cigarettes, and increasing the tax base for real estate resulting in a higher tax obligation and a higher waste fee. The overall effect of these changes is higher tax revenues. In 2006, the corporate income tax rate did not decrease but changes were made concerning the fixed assets depreciation and taxation of some expenditure. The zero tax rate on reinvested earnings was not implemented.

The heaviest burden is applied to labor¹ and in 2006 the rate has been between 29% to 43% for gross wages of EUR 81.8 and EUR 715.8 respectively while in 2005 the rates were 33% and 46%. As a result of the progressive personal income tax and regressive payroll tax, those who have an average income pay the highest rates

while those with low and high income pay relatively less.

Corporate income taxes were kept unchanged at 15% while taxation on dividends was 7%. Currently, there are at least 7 countries taxing the corporate profit with lower rates. There is a zero tax on reinvested earnings in Estonia; the tax rate is 9% in Montenegro and 12.5% in Ireland. Consumption is taxed by a 20% value added tax as well as excise duties on some items. The VAT rate is one of the highest throughout Europe and 15 countries have a lower rate. The excise duties rates are still relatively low but are increased every year.

The overall tax burden is too high but the government does not have the intention to reduce it anytime in the near future according to official documents. Moreover, some ruling coalition officials have suggested that the direct tax rates should be frozen due to the VAT collection problems arising from EU accession. Therefore, the tax burden will continue to be high.

At the same time the possibility for tax reduction actually exists as a result of consolidated budget surpluses. It happened in 2005 and will happen

¹ Labor taxation includes personal income tax and payroll tax

again in 2006. The available budget data up until the middle of the year implies that the over-fulfillment of revenues would be at least EUR 613.5 million consequently resulting in a surplus of 3% of the GDP. This money could have been

used for the entire abolishment of the personal income or corporate tax, a higher reduction in payroll tax or a combination of the two. It did not happen and as a result the opportunity to actively encourage the economy was missed. Thus the real economic growth will again be near 5% while double digit growth remains nothing more than wishful thinking.

The dynamics of the fiscal reserve are determined to a growing extent more by the budget surplus (public savings) than by privatization. Its utilization during this one year period could be characterized as prudent as its main function was the prepayment of public debt. As a result, the size and the ratio of public debt to GDP as well as the cost of servicing decreased. The fiscal reserve amounts at EUR 2.6 billion as of the end of June 2006.

Budget expenditures' effectiveness continues to be low and one should note the increase of their total size and of particular groups. The promised optimization of the number and activities of administration and budget servants as a whole virtually did not happen. The government continues to fulfill functions typical for the private sector instead of withdrawing from them. The quality of public services' remains a significant problem because it remains the same or worsens thus forcing people to search for alternative suppliers and reducing their willingness to pay taxes.

To conclude, tax and budget policies during the last year could be directed to encouraging the economic activity however this did not happen. The main determinants for this were in part due to the advice of external institutions like the International Monetary Fund but to larger extent due to the lack of political will among the ruling majority to implement real tax reform.

Payroll taxes

Government policy concerning the payroll tax could be supported. Reducing pension contributions by 6 percentage points and increasing the share of insurance in the private pension fund (capital-based) from 3% to 4% of wage is a positive development. Still, the payroll tax is one of the highest in Europe leading to high taxation of labor and discouraging persons to supply their labor as well as employers to hire them formally. It is still too early to make assessments of the lower rate effects (the available data are for only six months) but the long-term influence will undoubtedly be positive.

In 2006, there was a suggestion for the budget to pay half of the employers' contribution which is equal to 35% of total contribution. This would be positive however it could threaten the stability of state pension system in longer-term because the revenues would reduce relative to expenditures. The direction that should be followed is to increase the share of the second pillar (in individual accounts on capital basis). According to the Institute for Market Economics estimations, the contribution in private pension fund should reach at least 8% of insurance income to provide enough for retired persons.

The introduction of so-called "Silver fund" collecting 50% of privatization revenues and 10% of budget surpluses would be a step forward. The accumulation of funds should last for 10 years and after that it should be utilized for covering state pension system deficits. Money would be invested similar to the fiscal reserve in liquid low-risk securities.

The state pension system should cover minimum needs of every person while the regular pension should be funded by the capital-based system. This is the only sustainable way to reduce the contributions in the long term providing enough income to people.

The overall insurance tax rate is still too high at level of 36% in 2006. It is unfavorable for the economic development and searching ways for reducing it is necessary. The pay-as-you-go model should be changed and the number of risks compulsory for insurance in state system should be decreased. There are many successful examples from all over the world where the withdrawal of the state leads to positive results. The task of the government is to apply this practice in Bulgaria.

Social Policy

The social policy of the current government can be characterized with several tangible measures. Unfortunately, most of them lead to increased spending from the state budget without any significant reforms in social welfare system. These measures can be summarized as follows:

1. Maternity leave compensations have increased, as well as the duration of these payments – from 135 to 315 days. Also, a “birth encouragement policy” has been started, the first measure of which was introducing selective determination of monthly child allowances (for the first child it is 18 leva², for each child after – it increases by 11.1%). The policy envisaged that child allowance payment be increased in 2007.

As we have said many times, the family allowances, as written in the Bulgarian law, are in case the family does not have the means to survive. This way, according to the state, social solidarity is put in place, i.e. someone who has low or no income should receive help to raise their child. Therefore, we cannot claim that this policy aims at encouraging births at all but supports the family in need. This is not the case in Bulgaria however. Certain groups with lower income or incomes earned in the informal sector have incentives to participate in the system for many years and thus the number of recipients never decreases and the monthly payment is miserable.

What should be done?

We should be aware that wherever there is assistance in cash payments from the state, there will always be problems. Administration problems, lack of efficient control over recipients, and lack of incentives of participants to go out of the system are among the most widespread issues that need to be solved. Therefore reducing the tax burden, especially the social security contributions, will have a significant positive effect on the economy. This means increased economic activity, more jobs and increased incomes. And that means greater possibilities for raising a child. Of course, there will always be people with low incomes

resulting from any number of reasons, a lack of education for example. State policy however, should not encourage these people to receive child allowances.

2. Imposing of a limited time for receiving welfare cash payments benefits by unemployed has been introduced. It was set at 18 months.

This change will lead to positive developments if actually put into practice. The change does not harm the rights of participants and at the same time puts limits for long-term participation.

We have always claimed that lack of a time limit for welfare benefits does not stimulate seeking employment and leaving the system, does not allow the state to cut its expenditures and creates a culture of dependence. Future steps for reform should be transferring the labor market intermediation from the state to private companies.

3. Unemployment benefit payment has been increased. The minimum was set from 80 to 90 leva (90 leva is 46 euro) and the maximum amount rose from 140 to 160 leva (82 euro). There are plans for a future increase in 2007 by attaching unemployment benefits to the statutory minimum wage in the country.

As we have already said, before increasing any payment one should first reform the system.

4. There is an idea of imposing a requirement to work before receiving benefits.

The idea has been in the air for some time. We fully support it and hope it will be put into practice.

As a summary, we can say that it is time to make general reforms and the system should help only those that are in temporary need.

² 18 leva is 9.2 euro.

Labour Market

1. The statutory minimum wage has been increased to 160 leva (82 euro) or roughly 6.7%.

At first sight, this change appears positive, especially for low-income people, but in practice there are various negative effects. Among them we can point out that: (a) it imposes an additional burden on state budget, but the real costs will be born by the business sector; (b) a statutory minimum wage impedes the free labour negotiations between the employer and employee; (c) minimum wage and its growth create a higher risk of unemployment because when the marginal costs per worker rises and the marginal revenues remain constant or fall then the employer will simply hire fewer workers and thus the employment levels will be lower than the case when there are not such wage restrictions; (d) minimum wage is harmful for low productivity workers, for young people who wish to start working, for some disabled persons and, in fact, for the most vulnerable social groups.

In sum, the labour minister should halt further increases and promote the abolishment of minimum wage. If this does not happen our only hope is that the finance minister should categorically stop any request for increase and push for its decrease.

2. Budget sector salaries have been increased by 6% since July 1st, 2006. Since the increase is not the result of higher labour productivity in the state sector, we think that this hampers ordinary citizens' rights that finance this change. The increase in salaries, when combined with state administration growth and additional privileges of "civil service," make it more difficult to justify a tax reduction. This in

turn, hampers the economic growth and increase of incomes in the private sector.

3. Since February 2006, compulsory "labour accident" insurance has been introduced. It is paid by the employers in risky production sectors. During the discussions to impose the insurance, the government failed to present any estimation on how this insurance will improve the working conditions and decrease work-related incidents or what will be the costs for the employers. The negative effects of such regulation could be the misreporting of incidents, additional influence that respective regulating bodies will have over employers which can lead to corruption practices, increased costs that can lead to the opposite results i.e. the lowering of work safety standards, and in the long-term perspective the employers will try to transfer higher costs to consumers.

4. The social minister proposed that the state budget pays part of the social security contribution currently paid by the employer. This means that the tax burden on labour will decrease. Using the budget surplus for such effective tax decrease will stimulate economic growth.

5. The social minister insists on implementing a special formula for the regulated wage increase in the economy. It is intended to compensate for abolishing minimal seniority bonuses. The formula will be recommended for the private sector but nevertheless it shows the mistrust of the government towards market forces in wage formation.

As a summary, the labour policy of current government shows that it has no intention to withdraw and rely on market forces and therefore we will hardly see any significant positive developments that we strongly need.

Education

The most "significant" change during the first year of this government has been the increase of teachers' salaries. Despite initial declarations from both the Ministers of Education and Finance that there is no money for this, the

teachers' union leader managed, as written in textbooks, to raise the teachers' pay by 4% as of January 2006 with an additional 6% as of July 2006.

The discussion about educational reform varies from increasing expenditures up to 8% of the GDP to change in methodology for wage

formation of teachers, introducing of qualifications for teachers (junior teacher, teacher, senior teacher and master teacher) and accepting the subjective evaluation of school directors when promoting teachers.

Generally, we can say that most of the discussed ideas for reforms make sense and will lead to quality improvement, and particularly:

1. Introducing of differentiated payment of teachers
2. Promise to cut teachers' number to 5,000 by September 2006
3. Promise to close unnecessary schools
4. Decentralisation of schools

5. Change in universities' financing by the state

The most important change in the Ministry of Education proposals is considering the introduction of a voucher system. In fact, many of the above said changes are a consequence or characteristic of this system. We strongly hope that factors that previously impeded the introduction of voucher system in schools will have no effect this time.

We understand that changing and reforming the educational system is very difficult but there is no time to waste if we want to provide a high quality education for our children.

Regulations

Negative outcomes:

1. Although the BULSTAT Act, which introduced the use of just one company identification number, has come into power, most of the legal persons are still obliged to provide tax, security and customs numbers. The software in various state and municipal bodies still works in accordance with the pre-adoption principles; the forms that have to be filled out require in most cases all three (or four) numbers even for newly registered companies;
2. According to the latest Cabinet press release, moving the company registration from the court to the Registry Agency within the Ministry of Justice will not be completed at least until January 07 or perhaps even as late as October 07. The final deadline for turning the company registration from a legal into an administrative procedure was previously set by the government by October 06;
3. According to the newly adopted Trade Registry Act, fees are to be paid for providing the information, as well as for the access to information itself;
4. An Administrative-procedural code passed through the Parliament and thus a

“silence is refusal” principle was introduced.

5. Amendments in the Telecommunication Law put all cable operators under the obligation to install their cables under the ground in areas where the population exceeds 3,000 inhabitants; A conducted study by the Institute for Market Economics showed that the costs for the society caused by this particular regulation go far beyond the potential benefits;
6. The absolute number of notaries, as well as their location is limited by law – one notary for every 10,000 inhabitants;
7. The prices for their services, which according to mere market logic are supposed to be freely negotiable, are administratively set instead by decree of the Council of Ministers;
8. Advertising notary services is prohibited by law;
9. Amendments in the Law on National Enlightenment (it is kind of strange that something like that still exists as a norm) introduced for every child under school age, a one-year compulsory kindergarten attendance;
10. The extent to which the state intervenes in the production and trade of tobacco goods has not changed over the period; that is probably the most blatant direct interference into an economic activity, which even allows certain officials to

control a wide area of personal decisions like voting;

11. The Council of Ministers is still in charge of controlling the prices of cigarettes produced in Bulgaria as well as imported ones.

12. Price floors – geodesists

13. Architects:

Index of regulation in the field of liberal professions – Institute for Advanced Studies, Vienna

	Architects	Engineers
Germany	4.5	7.4
Austria	5.1	5
Italy	6.2	6.4
Finland	1.4	1.3
The Netherlands	0	1.5
Sweden	0	0
Ireland	0	0
UK	0	0

Source: [Economic impact of regulation in the field of liberal professions in different Member States](#)

14. According to the Index of Economic Freedom of the World (The Fraser Institute, Canada), government interference into the labor market in Bulgaria has not decreased over the past year;

15. According to the annual Doing Business Report of the World Bank, Bulgaria ranks on the 62nd place; perhaps even worse is its' position in the following fields:

- Starting a business – 80th place;
- Licensing – 118th place;
- Labor market regulations – 90th place;

16. According to the Index of Economic Freedom (composed by The Heritage Foundation/Wall Street Journal) the overall situation in Bulgaria has generally worsened over the last year; especially unfavorable is the evaluation of the indicator “government interference in the economy” (On a five point scale where 1 represents low interference and 5 represents high interference, Bulgaria scored 4.)

Positive outcomes:

1. On 10.08.05, the BULSTAT Act came into power; newly registered companies obtain just one identification number (BULSTAT), instead of three (tax, social security and customs);
2. Steps have been made toward the liberalization of the drug market; one can now own an drug-store without being an educated dispenser;
3. According to the Index of Economic Freedom (The Fraser Institute) a positive tendency has been registered in business regulations in terms of fewer burdens for starting businesses;
4. A Trade Registry Act passed the Parliament; it introduces better practices in the field of company registration and access to public information.

Transport sector

Negative outcomes:

1. The government does not intend to privatize the Bulgarian State Railways (BSR); the company incurs substantial losses every year; it has not been able to break even for years;

2. The national company “Railway infrastructure” is still property of the state and is being managed inefficiently;
3. There is a great delay in all of the significant infrastructure projects, including Sofia Airport and Danube Bridge 2;

4. The concession of the “Trakya” highway is an excellent example of how not to contract out activities;
5. No concession contract has been signed yet for the civil airport in Rousse (Straklevo village);

State owned companies sustaining losses	Losses accumulated in 2003 and 2004 (thousands lv.)
1. Port of Bourgas	5 307
2. Port of Varna	856
3. Port complex Lom	93
4. Maritime Bulgare (Navibulgar)	26 974
5. DP TSV	2 690
6. Railway infrastructure	16 989
7. Bulgarian State Railways	28 369
8. TDKC Rousse	77
9. TDKC Bourgas	132
10. TDKC Stara Zagora	69
Total loss (thousands lv.)	81 556
Net loss (thousands lv.)	38 990

Source: [Ministry of Transport](#)

6. No concession contracts have yet been signed for the following terminals: Lom, Rousse-West, Vidin-North, Ferryboat complex Vidin, Vidin-Center, Rousse-East, the airport in Gorna Orjahovitsa, Sofia Central Railway Station, Plovdiv Railway Station and others;
7. Navigation Maritime Bulgare (Navibulgar) and Bulgarian River Shipping have not yet been privatized;

8. A huge amount of infrastructure projects have been launched without any publicly available calculations and analyses to what extent or if they would be able to justify the invested budget money at all;
9. An amendment has been introduced into the Law on Automobile Transportation, which has put a ban on operations of transport providers using vehicles older than 4 years;
10. European railway companies will not be allowed to work as internal operators in Bulgaria until at least 2012. This measure is necessary because Bulgarian State Railways are unable to compete with West European operators, which is in fact very true but is at the same time by no means a good reason for protecting it; just the opposite – privatize it.
11. The following companies owned by the Ministry of Transport regularly incur losses and thus need to be privatized:

Positive outcomes:

1. Low-cost air carriers were allowed to participate in the market;
2. Concession procedures have been completed for the following terminals: Balchic, Ferry boat Silistra, Svistof and Orjahovo;
3. Some of the planned concession and privatization procedures have successfully begun;
4. The completion of the concession procedures for the ports of Varna and Bourgas are in progress.

“Europe”

Six to seven years ago, everybody considered the EU accession as a process of covering the so called economic criteria – a convergence of income and trade, an achievement to a state of “an active market economy” and the

competitiveness level that would sustain the tension of a would-be Common Market.

After 2004, especially after the referendum in Holland and France, the situation seemed to have changed. Nowadays, referring Bulgaria and Romania the criteria for membership are – particularly towards Bulgaria – foremost in the policy realm rather than in economics.

There are many reasons for this but here are some that could be considered beyond the reasonable control of the Bulgarian citizens and government:

- The general unfavourable light/attitude towards EU enlargement;
- The grasp of Brussels' estrangement as well as of the EU executive and legislative setting;
- The anti-global behaviour of the old member-states.

As well, we have to include the constellation in the country. In the current situation, the Bulgarian government has had the opportunity to focus not on the application of the European minimum legislative requirements but to follow up on the best examples, including the praxis of the new member-states.

It turned out that the government was unable to do this. The following brief review of Bulgarian government policy is an example of the most ineffective and expensive models of politics and regulations ever applied in member-states, which continues to march on.

Conclusion

In February 2006 the World Bank repeated a recommendation that we made to the Prime Minister a year ago. Namely, it was specified "in order to improve governance and the financial responsibilities in the public sector, the government must simplify overcomplicated legislative and regulatory frames and completely enforce the new frames of fiscal accounting..."

The government won't take any advice.

Bulgaria seemed to be the worst in the legal, judicial and regulations fields in comparison to all other countries from New Europe, including the Balkans.

This means that the legal and regulatory environments are the most complicated and inefficient, i.e. there is lack of institutional ability in applying legal politics and norms. The World Bank came to this conclusion not through the poll but by exploring objective measurement. The most important indicator is the use of a measure called "contract-intensive money"; the correlation between the clearing operations and

broad money well known by economists as M2. The reason for measurements is that when the fulfilment of the agreement is effective and cheap, people then feel self-reliant and easy go to the clearing settles. But when it doesn't work people use "cash" and barter. Referring to this indicator, Bulgaria is worse not only in comparison to EU new member-states but also when compared to Romania, Macedonia, Russia, Ukraine, Uzbekistan, Armenia, Belarus, Albania and Georgia. Only regarding some indicators – the adjudication in bankruptcy/insolvency proceedings – particular countries such as Poland, Slovakia, Romania and Slovenia perform worse than Bulgaria. Nevertheless, the overall level of the institutional reform in Bulgaria is equal to the quality of the reform in the EU new member-states but for the period of 1996. If this is a valid observation, the average period of a single reform is estimated at nine or ten years.

From a human point of view, the only reason the Prime Minister ought to feel awkward about taxing people is that they live in the worst settled country in East Europe.

Institute of Market Economics, Bulgaria (www.ime.bg/en)

Krassen Stanchev, Svetla Kostadinova, Dimitar Chobanov, Adriana Mladenova, Veliko Dimitrov, Metodi V. Metodiev

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For comments and recommendations: svetlak@ime.bg

Contacts: Phone/Fax: (+359 2) 952 62 66, 952 35 03