

## BULGARIA IN THE EUROPEAN UNION CHALLENGES AND PROSPECTS SHARING EXPERIENCE with TURKEY

15 NOVEMBER 2007, Thursday

Economic Policy Research Foundation of Turkey (TEPAV)

TEPAV Building 3rd Floor

TOBB ETÜ Campus Söğütözü Cad. No:43, Ankara



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## **BULGARIA IN THE EUROPEAN UNION CHALLENGES AND PROSPECTS SHARING EXPERIENCE with TURKEY**

**09.00 09.30**

Registration  
Welcoming tea & coffee

**09.30 10.30**

### **Opening remarks:**

Mr. Güven SAK, TEPAV Managing Director  
Mr. Yaşar YAKIŞ, Former Minister of Foreign Affairs of Republic of Turkey,  
Chairman of the Parliamentary EU Harmonization Committee  
Mrs. Gergana GRANCHAROVA, Minister for EU Affairs of Republic of Bulgaria

**10.30 12.00**

### **Bulgarian Transformation from centralised economy to market economy**

Presentations by: Mrs. Antonina Stoyanovska, Mr. Vladimir Pavlov

### **Harmonization with EU acquis and structural reform process**

Presentations by: Mr. Evgueniy Ivanov

Q&A

**12.00 13.00 - Luncheon**

**13.00 14.00**

### **First steps of Bulgaria as an EU country**

Presentations by: Mrs. Svetla Kostadinova, Mrs. Ulyana Bogdanska,  
Mrs. Dimana Sadonkova

### **What are the challenges in EU-Turkey Relations?**

Presentations by: Mr. H. Baha Karabudak

Q&A







Mrs. Ulyana BOGDANSKA, Deputy Director for EU Affairs, Ministry of Foreign Affairs

Mrs. Dimana SADONKOVA, Head of Department, Ministry for Regional Development

Mrs. Antonina STOYANOVSKA, Managing Director, Business Development Foundation

Mrs. Svetla KOSTADINOVA, Executive Director, Institute for Market Economics

Date: November 15 2007

During the meeting sessions, Managing Director of Business Development Foundation Mrs. Antonina Stoyanovska and Member of the Board of the National Association for Foreign Relations, Mr. Vladimir Pavlov made presentations on Bulgarian transformation from centralized economy to market economy. Mr. Evgueniy Ivanov, Executive Director of Confederation of Employers and Industrialists in Bulgaria explained how structural reform took place in the country as well as the difficulties that private sector faced during the implementation of EU acquis.

Mrs. Svetla Kostadinova who is the Executive Director of Institute for Market Economics in Bulgaria drew the attention to the transformation of the country along with Mrs. Ulyana Bogdanska, Deputy Director for EU Affairs from Ministry of Foreign Affairs of Bulgaria. Head of Department, Mrs. Dimana Sadonkova Ministry for Regional Development brought up the cross-border cooperation opportunities between Turkey and Bulgaria. Mr. H. Baha Karabudak from TEPAV addressed the concluding remarks. Mr. Karabudak talked about the challenges of Turkey- EU relations and priorities of Turkish economy in the line with second generation reforms.





Opening Remarks by

**Güven Sak**

Good morning, it is a great pleasure for us to see you in TEPAV today and this for the first time that we are discussing about Bulgaria in TEPAV. I hope that it is going to be a beginning for us to look more to our western neighbors because up until now in TEPAV we have been working on regional integration projects.

We have been focusing on projects to improve trade relations between Turkey and its neighbors but we are basically focusing on the partners in the east up until now. Especially in the Middle East we have been working in Iraq, in Syria. We have some chamber development projects, in Palestine we have a chamber development project and we also have a business association network between Israel, Palestine and Turkey that we are trying to operate.

Hopefully from now on we will also have a look at to our western neighbors. In Bulgaria and in Romania, in fact in all the Black Sea countries, FDI flow from Turkey is significant now growing. We would like to talk about the regional integration projects since this reflects how we are looking at the issue, because Turkish business communities are strong enough and would like to diversify their activities into the region beyond the borders of Turkey.

Turkey stands as Bulgaria's biggest trading partner, but there is significant room for improvement here. More than 10 percent of Bulgarian exports were headed for Turkey in 2006 and more than 6 percent of its imports came from Turkey as well. Although a significant portion of Turkey's investment goes for Bulgaria, the concrete figures are much lower than the potential. Turkish private sector is looking further to develop business opportunities and at TEPAV as an organization that is basically funded by the Turkish business community we are looking for opportunities, viable options in the immediate neighborhood. So I hope that it is going to be a beginning for us so I think that we could talk more I also hope that you know you have had a very fast accession process into the EU because we here believe that or I can say in this way we are on the side of Turkey who believe that EU transformation of Turkey or the EU accession process is very beneficial for the transformation of the Turkish economy. Therefore, we would like to share your experiences today we are going to hear more about the transformation of the Bulgarian economy. We are still in a transformation process and you are still in a transformation process.

At our university, TOBB University of Economics and Technology which is a university again founded by the Union of Chambers and Commodity Exchanges, we are trying to develop some policy training programs for government officials both in Turkey and also in the region depending on the our experiences. That means our mistakes in the past regarding the transformation process just to train the officials in the Central Asia, in the Middle East about how this transformation process could move forward.

Maybe we could also talk more and try to device programs together regarding the characteristics of Bulgarian transformation process. There are significant similarities between the structures of the two economies. The estimated growth rate for 2006 for both countries stood precisely at 6.1%. GDP per capita levels are similar, and unemployment is a significant concern for both countries alike. I believe that there are some many issues that we could do together between Bulgaria and Turkey. So let me welcome you here and I hope that it is going to start a truthful cooperation. We have very good relations with Bulgarian Embassy and with Mr. Ambassador. I hope that it is going to start with our partnership, with our relationship. We can build fruitful cooperation in the years to come.





## Opening Remarks by

### **Yaşar Yakış**

I'm very pleased to be here among you and also welcome her Excellency Grancharova, the EU Minister of Bulgaria and also her delegation. We're very pleased that Bulgaria volunteered to corporate on this very important subject for us. I would like to congratulate TEPAV for this initiative because it's a very timely initiative.

The reason why I'm all the more pleased is that experience of Bulgaria is very relevant for Turkey for several reasons. One of the reason is that the social fabrics of our society, of our population is very closed each other. Secondly, Bulgaria's experience is most recent one in accession process and third we're as neighboring countries enjoy excellent relations. Actually the presence of Turkish speaking Bulgarians in your country was in the recent past cause problem of contention and confrontation between two countries. Now it has become an excellent bridge. So with the wisdom of good rulers and good decision makers something which is a bone of contention transformed into an excellent vehicle to strengthen the relations in all fields.

Another subject that has to be underlined is that Bulgaria's accession to the European Union made the border between EU and Turkey longer because our border with EU was confined to our border Greece. Now with the addition of our border with Bulgaria, our border with the EU has become longer.

Another point is that with Romanian and Bulgarian accession to the European Union, EU has reached the coast of the Black Sea. This is another important fact together with their membership to NATO and the Black Sea is becoming also a NATO sea with all difficulties that involves. Because the international states of the Black Sea are established by the international agreements, there is in the region stability now and we would not like to see that this international status undergo any change.

Regarding the corporation and the benefits of the corporation, I knew from my first experience that Bulgaria conducted the negotiations in an excellent manner. It was very quick and successful. Not only in this corporation with the EU but in with other international organization as I mentioned few moments ago to her Excellency the minister, in her corporation to the UNDP. It was mentioned by the UNDP that Bulgaria was the most successful country that corporate with the UNDP and the country that utilize the UNDP money in the most proper way. So, these successful experiences will guide us and I'm very grateful to the Bulgarian government for having accepted to corporate with us and I would like to thank once more her Excellency the minister for having spare time to come all the way here. For the next time, I suggest her Excellency to come by road and I will keep her to my company on her way. By that way, she will be able to see a little bit of the rural areas in Turkey which gives a better idea of what Turkey consists of.

But next forthcoming occasions TEPAV may also think to organize this type of meetings not in Ankara or Istanbul but in remote areas so that our Bulgarian friends see the other side of Turkey and the difficulties that we encounter in these areas and why Turkey's accession process is likely different from the other countries. We know that there are a lot of difficulties that Turkey's membership causes to the EU. We are aware of our discrepancies; we are determined to eliminate these discrepancies with or without accession process.



So the reforms that we are trying to carry out are not solely meant to become a member of the EU but to improve the standards of Turkish people. So we are going to do our best and the road map was issued in April this year to indicate what we are going to do until the end of 2013. This is a road map that covers the period between 2007-2013. Even if certain chapters of negotiations are not to be opened and certain others could be open but not to be closed, Turkey will continue its way in carrying out these reforms. If at the end for one reason or other there are difficulties in admitting Turkey to the EU, the reforms that we achieved by that time will remain asset for us and Turkey will continue its way. This is also the philosophy of the road map that we had prepared.

These reforms are meant to raise the standard of life in Turkey to enlarge the area of implementation of fundamental rights and freedoms and to create more transparent market economy to eliminate all possible types of corruptions.

The difficulties that are raised from time to time by certain political leaders in the EU countries are not welcomed by majority of the Turkish public opinion. However, I'm not as much alarmed by these statements as many people are. Because by the time Turkey will reach the threshold of joining to the EU; we don't know whether his Excellency Sarkozy, of course we wishing healthy and long life, will still be in the post of the presidency of the Republic of France and her Excellency Angela Merkel who is still leading CDU in Germany, we don't know whether she will be in power in Germany. We don't know what type of political landscape will prevail in the international arena at that time. We don't know what role Turkey could assume in this international political environment and we don't know whether Turkish public opinion would still be interested to join the EU at that time. Without knowing all these things we should not be alarmed by political leaders' statements. Hence, Turkey should be able to look beyond the horizon and utilize the accession process. This is what we are trying to do. And I would like to welcome you once more Mrs. Grancharova and thank you once more for having spare time to share your experience with us.



Mrs. Gergana GRANCHAROVA, Minister for EU Affairs of Republic of Bulgaria

## **BULGARIA IN THE EUROPEAN UNION FIRST RESULTS AND CHALLENGES SHARING EXPERIENCE WITH TURKEY**

**Your excellences,  
Dear colleagues,  
Ladies and gentlemen,**

I am greatly honoured by the opportunity to address you at this prestigious conference.

The accession to the European Union was in itself one of the greatest challenges for my country. Now that we have already achieved this goal we should not forget the old Bulgarian proverb which says "There is nothing more difficult than fulfilled aspirations". Let me be a bit more metaphorical. After a long and sometimes painful accession process, Bulgaria has met the membership criteria and thus has climbed to the top of the staircase reaching a new stage in our development. Now we have to face the particularly challenging phase of adaptation to the new life-style required by our new position on the international stage. The history of the past enlargements shows that the first couple of years after the EU accession turn out to be the most difficult ones for the new member states, preceding times of rapid economic growth.

**In this respect it is now that we really access the positive role of the process of negotiation and preparation of Bulgaria for EU membership.** With the help and also scrutiny of the European Commission and the member states, we have carried out large-scale reforms of the judicial system, the public administration, the public health and social welfare systems. We have adopted an entirely new procedural legislation in criminal and administrative justice. Further on we have undertaken a series of serious economic reforms aiming at the stabilization of the Bulgarian economy.

In the efforts we have made in the course of our preparation for the EU membership we have achieved a serious progress on two parallel tracks. The first and most essential track encompasses the concrete reforms in Bulgaria and their implementation on the ground. The second track is related to the legislative and technical conduct of the accession negotiations themselves. The latter was determined to a great extent by the first.

**All these measures have greatly facilitated the political and economic integration of my country in the European Union after the date of our accession. Without them the new duties and responsibilities would hardly have been manageable.**

As in the panels to come some excellent experts are going to have presentations, I will not enter into details concerning the political and economic advantages and challenges arising from the EU membership for Bulgaria. I would just like to underline the fact that the basic aspirations of Bulgaria in its new capacity of an EU member state are related to **optimizing the benefits and opportunities our membership offers us for the sake of speeding the socio-economic development of our country.** As a member of the European Union Bulgaria is already a part of a vast internal market of over 500 million citizens, which equals to enormous economic advantages. This will allow us to assert the role of Bulgaria as an important part of a politically and economically integrated European Union.

**The European Union, however, is not just about bringing benefits to its members.** It also requires serious contributions from each individual member state. In this respect Bulgaria is striving to





play a constructive role in the enlarged Union and to be a reliable partner. **We are actively participating in the processes of drafting and application of EU policies.** Important priority in our European agenda is the proactive role of Bulgaria in shaping the common foreign and security policy, promoting the external dimension of energy policy and deepening the cooperation in the area of justice, freedom and security. Applying the EU standards on human rights, border controls and visa policy definitely increases the security of all member states and enlarges the EU area of justice and freedom.

**Let me now touch upon some of the most challenging new policies of the European Union which will have important implications for the Union and the same time which are related to Turkey.**

With every expansion the EU gains new neighbours and a slightly different perspective on its relations with the outside world. The accession of Bulgaria and Romania to the EU has brought forward the need to develop an **European regional approach towards the Black sea region.** This region occupies a strategic position between the new borders of the EU, Eastern Europe, the Caucasus, Central Asia and the Middle East. It provides a wide scope for cooperation with clear added value in crucial areas such as the fight against organized crime, energy and economic cooperation.

In this respect **Bulgaria has welcomed the initiative of the German presidency to bring into a single framework and enhance the visibility of the initiatives in the Black sea region.** Our interests lie in developing a regional cooperation based on the principles, values and standards of the European processes of integration. The objective is to develop cooperation within the Black Sea region and between the region as a whole and the EU.

**Two other interrelated EU initiatives** which are going to require the engagement of Bulgaria as a member state and which will have important consequences for the region are the development of an **European energy agenda** and **the EU Environment Policy.** In March this year, the EU agreed a clear energy policy based on common targets - to reduce greenhouse gas emissions, to increase the use of renewable energy and to increase energy efficiency. It will be implemented through a common Action Plan, leading to an integrated European energy market and a common EU voice in international relations. The new Reform Treaty will enshrine the principle of energy solidarity, and we are developing the mechanisms to ensure that it works in practice.

The EU has also in this respect given political support to a number of key energy network projects. The European Union has acknowledged the establishment of a 4<sup>th</sup> gas supply corridor as an essential part of Europe's, as well as the countries' of this region, drive for diversification. Bulgaria welcomes outcome of the Conference entitled "Turkey and the EU: Together for a European Energy Policy" held in Istanbul in June this year, and in particular the **Joint Statement** to the effect that **Turkey and the EU pledge to co-ordinate their energy market policies and practices, taking into account the relevant EU legal provisions, and to jointly undertake to further develop and enhance energy relations with the key energy producers in the region.**

**One final remark on the EU policies which are of a special interest to Bulgaria as a new EU member state and an external border of the Union.** The European Commission has circulated on May, 16<sup>th</sup> 2007 two Communications on the Global Approach to Migration to Eastern and South-Eastern Regions Neighbouring the European Union and the Circular Migration and Mobility Partnerships Between the European Union and Third Countries. In this way the EU strives to propose ways to integrate legal migration opportunities into the Union's external policies in order to develop a balanced partnership with third countries adapted to specific EU Member States' labour market needs. **An efficient management of migration flows provides a big challenge for the EU and in particular for the member states**

**that are external border for the Union.**

**I would also like to pay a special attention to the subtitle of the present conference “Sharing Experience with Turkey”.** It is exactly in this respect that I am happy the present venue has come into existence. Every state and its citizens benefit from having neighbours that are stable democracies and prosperous market economies. In the globalising world of today no country is capable of solving the existing transboundary problems alone. Bulgaria is no exception. We are part of the region of South Eastern Europe and as such the welfare of our neighbouring country is of a high importance for us. **That is why we are always ready to share our experience with the EU applicant countries and thus to help them avoid our mistakes and benefit from our positive experience.**

Moreover, Bulgaria is among the member states of the European Union that are most supportive of the on-going process of enlargement towards the South East European applicant countries. **We are pleased that the text concerning the introduction of additional accession criteria for the applicant countries was not involved in the new Reform Treaty of the European Union.**

**Enlargement is one of the most powerful policy tools of the European Union.** It has helped transform Central and Eastern European countries to modern, well-functioning democracies. It has also inspired tremendous reforms in Turkey, Croatia and the Western Balkans. Therefore the European Union should not put an end to this process. On the contrary, it has to invest efforts in extending the peace, stability, prosperity, democracy, human rights and the rule of law across Europe via the accession process. This is the most important political commodity the EU can export.

Now, that the EU is about to have a new Reform Treaty which will contribute to improving the efficiency of the decision-making procedures in the Union and will facilitate the functioning of an Union of 27 member states, the EU will solve to a great extent some of its most pending institutional issues. **Reaching a solution to the institutional reforms opens the way for a more effective and stronger Union which is capable of responding to the needs of the European citizens and to the challenges of the global environment.** At the international stage the EU is no more regarded as a purely trading partner. It is more and more evolving as a global player with a strategic value in a multitude of domains. The EU is active in all areas that pose the greatest challenges to society in the 21<sup>st</sup> century raging from international terrorism and climate change, to HIV/AIDS, and resolving the world's most entrenched conflicts.

**Let me close my remarks** by saying once again how happy I am to be here today. I am convinced that similar forums should be paid due attention as they provide an excellent **opportunity for exchange of experience and at the same time could further contribute to the development of our bilateral relations.**

Both Bulgaria in particular and the European Union as a whole are well conversant of the fact that as a result of its combined strategic, economic and population potential, Turkey can make a major contribution to the regional and international stability. Europe needs a stable, democratic and prosperous Turkey which shares our values, policies and standards. Turkey's role could be indispensable as far as the dialogue between the EU and the Islamic world is concerned. Therefore, it is also a special challenge for **Bulgaria as an EU member state which is an immediate neighbouring country for Turkey, to try to strengthen the ties between the European Union and Turkey. We do wish a democratic and reliable Turkey to be our ally in the 21<sup>st</sup> century.**



1

## **PARTNERSHIP PRINCIPLE AND ROLE OF NGOs IN ACCESSION PROCESS**

Antonina Stoyanovska  
Foundation for Entrepreneurship Development





## PARTNERSHIP

### MAIN PRINCIPLE AIMING AT:

- 1
    - Increasing Transparency
    - Improving Accountability
    - Strengthening the methods of dialogue and consultations
    - Improving the management culture of governmental institutions
- 

## NGO ROLE

- 2
    - Policy formulation
    - Development of legislation
    - Programming, management, monitoring and evaluation of programmes/projects
    - Implementation of best EU practices –role model
    - Provision of information/ training on accession issues
- 

## LEVELS AND PARTNERS

3

### LEVELS

- International
- National
- Regional
- Local
- Micro Level- Company

### PARTNERS

- Government
  - Social Partners
  - Local Authorities
  - Ngos
- 

## NGOS IN BULGARIA

4

- Registered – appr. 3000 foundations and 12,000 associations
  - More than 4000 listed in the Central Register
  - Appr. 4000 submitted annual financial reports - reference for number of active NGOs in the country
- 

## LEGAL BASE

5

- Constitution
- Laws
- Key strategic documents
- A Charter on the Relations between the State and the NGOs - a basis for partnership between civic organizations and state institutions, including issues related to the adoption, implementation, and monitoring of public policies

## NGOs AND POLICY FORMULATION

6

- **Participation in WG to Negotiation Chapters**
  - **Participation in NDP and OP – 26 NGOs**
  - **Members of OP Monitoring Committees**
  - **National Economic and Social Council** - an Economic and Social Council (2001) has been established as a consultative body and permanent institutional frame of the social dialogue and platform to express the opinion of the civil society with respect to the social and economic policy of the country
  - **Social Dialogue**
  - **Regional Development Councils**
  - **Consultative Councils (NCHRD, ASME, MoEW, etc)**
- 

## NGOs AT LOCAL LEVEL

7

- Correlation between NGO development and capacity for utilisation of pre-accession assistance
  - 44% of municipalities without NGOs registered determine it as a hurdle for applying to pre accession assistance
  - Only 15% of local authorities that have not consulted projects with community succeeded in the application process – civil forums
  - SAPARD - incl the partnership and public discussions as evaluation criteria
- 

## NGOs AND POLICY IMPLEMENTATION

**A lot of the tasks of government bodies are subcontracted, i.e.:**

8

- Development of plans and strategies
  - Programmes monitoring and evaluation
  - Management of the projects - implementation of VET for adults is sub-contracted to accredited training organisations selected after a tendering procedure
  - Co-financing
  - Provision of information – EIC, BIC, radio, TV programmes, bulletines, web-pages, trainings
- 

## PROBLEMS TO PARTNERSHIP

9

- Lack of information
- Lack of mechanisms for effective dialogue
- Lack of information on NGO sector – very dynamic
- New technologies?????
- Lack of capacity - *work in all these consultative bodies requires substantial resources – i.e.1 of the employer's organisations commented that they have to provide experts for 126 different consultative bodies (councils, supervisory committees, working groups)*

## CRITICAL ISSUES

10

- ## MONITORING AND EVALUATION

12

- ## CRITICAL ISSUE

13

## LESSONS LEARNED

14

- Need for additional capacity building for NGOs, in order to ensure their effective participation - nearly 18 MEUR through grants allocated in the period 2000-2005
- Need to develop capacity of public authorities in order to apply adequate methods of public involvement
- Need to strengthen the transfer of best practices and networking
- Need for better access of NGOs to Pre-accession instruments and Structural funds

2

# FROM CENTRALIZED ECONOMY TO MARKET ECONOMY

Vladimir Pavlov  
November 2007

Foundation for Entrepreneurship  
Development







## Outlook

1

- Economic reforms;
- Transition to market economies/risks and opportunities;
- Increased integration of the economies;
- Increased competition;
- Increased labour market flexibility;
- Increased productivity;
- Restructuring of financial institutions.

## SMEs, the backbone of the economy

2

- 99% of total number of Bulgarian enterprises;
- 79% of employment;
- 75% of the turnover of private enterprises;
- 61% of the value added of private enterprises;
- 57% of the fixed tangible assets of private companies;
- 67% of the investments in fixed tangible assets of private companies;

## SMEs, the backbone of the economy (2)

3

- 54% of the export;
- 73% of the import of the private business;
- 55% of all SMEs are in “Trade and repair” sector;
- 90% of the total number of SMEs are microfirms;
- 78% of private enterprises productivity.

## Priorities

4

- Simplification of administrative and regulatory procedures.
- Improvement of Financial services.
- Improvement of SME competitiveness.
- European and Global Market Integration.

## Institutions

5

### I. Governmental

- EAPSME (since 2004)
  - SMA Agency, since 1997;
  - SME ACT, since 1994;
- Invest Bulgaria Agency
- Bulgarian Agency for Export Insurance
- Employment Agency

### II. NGOs

- Business Associations (branch, sectorial, regional).
- Business support organizations – information, advise, consultancy, training.
- Think-tank groups:
  - Center for Study of Democracy*
  - Center for Economic Development*
  - Institute for Market Economy*
  - Foundation for Entrepreneurship Development*



## Business Support Networks

6

- Bulgarian Chamber of Commerce and Industry
  - Bulgarian Industrial Association
  - Joint Opportunities for Business Support
  - Bulgarian Association of Regional Development Agencies
  - Euro Info Centres
  - European Innovation Center
  - Business incubators, technological and innovation centers
- 

## Targeted SMEs preparation for the Single European Market

7

- Requirement of the Euromarket
  - International Quality Standards
  - Introduction of New Products and Services
  - The Environmental Norms
  - Consumer protection
  - Innovations
  - ICT
  - Electronic Trade
- 

## Project Financing

8

### PHARE/EC

- Support of the competitiveness
- Development of Clusters
- Quality Standards in Food Industry
- HR Development
- Business Incubators
- Consultancy Grant Schemes

### National

- Creation of Competitive Start Ups (Project 100)
  - Support for innovative firms
- 

## Programmes and Strategies

9

- OP “Development of Competitiveness of Bulgarian Economy 2007-2013”
- National Strategy for SME 2007-2013
- National Innovation Strategy
- National Strategy on Clusters Development



FROM CENTRALIZED ECONOMY TO MARKET ECONOMY

Vladimir Pavlov / Foundation for Entrepreneurship Development

# **BULGARIA IN THE EUROPEAN UNION SHARING EXPERIENCE WITH TURKEY**

Evgeni Ivanov – Ambassador of Bulgaria to the EU

(1993 -1997)

Ankara, 15 November, 2007





## Copenhagen Criteria – precondition of highest relevance

1

### Applicable:

- Before
  - During
  - After
- the negotiations for membership

## Copenhagen Criteria – precondition of highest relevance

2

### Compliance monitored by:

- The European Commission
- The Member States
- The European Parliament

3

## Copenhagen Criteria – precondition of highest relevance

- Political Decision or Due Diligence?

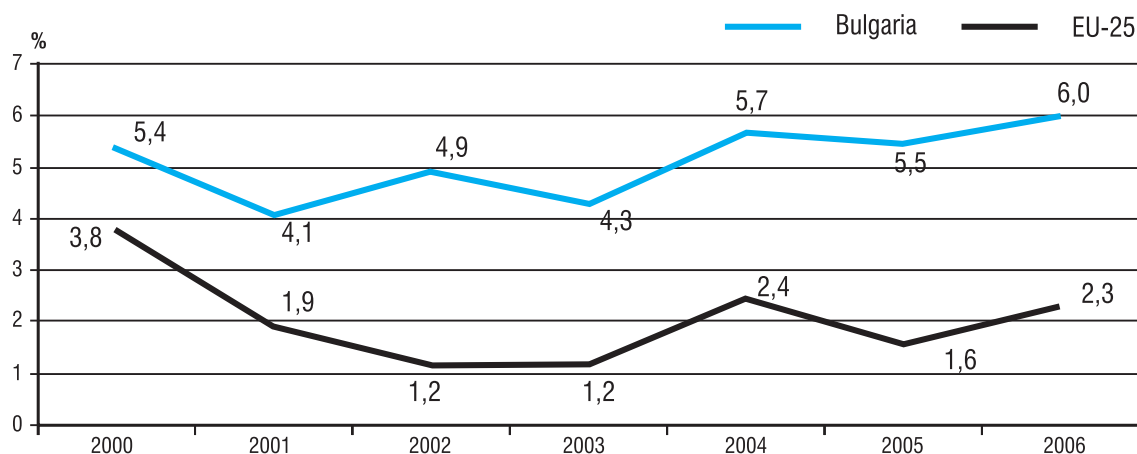
4

## Bulgaria in the EU

- Major trends after the official integration

5

## Real GDP Growth



Bulgaria has been experiencing real growth rates much higher than the EU-25 average



## Bulgaria's Economic and Business Priorities

6

- Improve the quality and quantity of physical and human capital and strengthen investment and trade integration with the EU;
  - Deepen labor market adjustment, implement labour market reforms, create employment, rationalize the social protection system;
  - Implement institutional reforms, reduce the complexity of regulatory regimes, introduce a rule-based system, and improve judiciary functioning;
  - Sustain macroeconomic stability and implement prudent macroeconomic policies as preconditions for achieving high growth rates and avoiding risks.
- 

### Improve the quality and quantity of human and physical capital

7

- The education system reform is expected to improve the quality of human capital through:
    - *improving the efficiency and effectiveness of public expenditures for education,*
    - *moving towards financing the educational results,*
    - *expanding the role of private education providers,*
    - *modernization of curricula.*
  - The education system reform should address the skills mismatch and should be oriented at providing demand driven education services.
  - The quality of transport network should be improved with high priority being placed on the road system for long distance international traffic and reform of maritime ports as they are essential to international trade and integration with the EU;
  - Transparent and competitive procurement rules should be adopted for all related civil works.
- 

### Sustain macroeconomic stability and prudent macroeconomic policies

8

#### **In order to sustain its macroeconomic stability as a prerequisite for economic growth and targeted early Euro adoption Bulgaria will have to:**

- Continue implementing prudent macroeconomic policies, including restrictive fiscal policy thanks to which the two fiscal Maastricht criteria have already been met;
- Address the short-term and medium-term risks, associated with the widening external current account deficit, rapid growth of credit to the private sector and rapid expansion of private external debt;
- Strengthen banking supervision to guarantee compliance with prudential regulations;
- Meet all Maastricht criteria for joining the European Economic and Monetary Union as soon as possible.



■ BULGARIA IN THE EUROPEAN UNION SHARING EXPERIENCE WITH TURKEY

■ Evgeni Ivanov – Ambassador of Bulgaria to the EU (1993 -1997)

## 9

### Major Lesson

- Other candidate countries are not competitors – they are partners in arms

## Bulgaria in 2007

Svetla Kostadinova  
Institute for Market Economics  
[www.ime.bg](http://www.ime.bg)







## Institute for Market Economics (IME)

- 1
- Non-governmental organization, established in 1993
  - IME analyzes current political and macroeconomic developments
  - IME provides advice to the government and private agencies, investment banks, local and foreign investors
  - IME conducts company analyses
  - IME provides case studies on individual enterprises and sectors

## Major Moments

- 2
- Fall of communism – November 10, 1989
  - Currency Board introduction – June 10, 1997
  - NATO Accession – March 29, 2004
  - EU Accession – January 1, 2007
  - Euro adoption – target - 2010, most likely after 2011

Table 4.2: GDP growth and labor participation rates (population age 15-64 years), percent in 2006

3

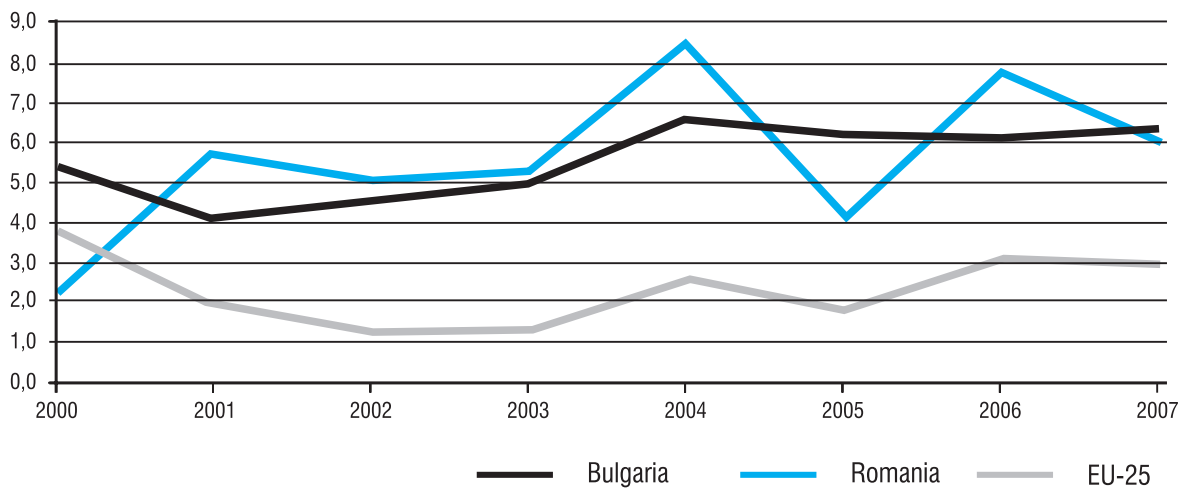
|                                                     | Bulgaria | Romania | Estonia | Czech Rep. | Hungary | Poland | Slovak Rep. | EU15    |
|-----------------------------------------------------|----------|---------|---------|------------|---------|--------|-------------|---------|
| GDP, average annual growth in 2000-2006             | 5,6      | 5,5     | 9,1     | 4,0        | 4,8     | 3,6    | 4,6         | 1,8     |
| Per capita GDP (dollars), at PPP, 2005              | 9223     | 8785    | 16414   | 18341      | 16825   | 12994  | 16041       | 29332*  |
| LFP rate                                            | 64,5     | 63,6    | 72,4    | 70,3       | 62,0    | 63,4   | 68,6        | 71,6    |
| Employment rate:                                    |          |         |         |            |         |        |             |         |
| Male                                                | 58,6     | 58,8    | 68,1    | 65,3       | 57,3    | 54,5   | 59,4        | 66,0    |
| Female                                              | 62,8     | 64,6    | 71,0    | 73,7       | 63,8    | 60,9   | 67,0        | 73,5    |
| Youth (15-24)                                       | 54,6     | 53,0    | 65,3    | 56,8       | 51,1    | 48,2   | 51,9        | 58,4    |
| Older workers(55-64)                                | 23,2     | 24,0    | 31,6    | 27,7       | 21,7    | 24,0   | 25,9        | 40,1    |
| Hours worked per week of full-time employment**     | 39,6     | 41,7    | 58,5    | 45,2       | 33,6    | 28,1   | 33,1        | 45,3    |
| Average exit age from the labor force (years), 2005 | 41,4     | 41,3    | 41,5    | 42,7       | 41,0    | 42,9   | 41,6        | 41,9    |
| Average exit age from the labor force (years), 2005 | 60,2     | 63,0    | 61,7    | 60,6       | 59,8    | 59,5   | 59,2        | 61,1(e) |
| Harmonized unemployment rate**                      | 9,0      | 7,7     | 5,9     | 7,1        | 7,5     | 13,8   | 13,4        | 7,4     |
| Male                                                | 8,6      | 6,5     | 6,2     | 5,8        | 7,2     | 13,0   | 12,3        | 6,5     |
| Female                                              | 9,3      | 9,0     | 5,6     | 8,8        | 7,8     | 14,9   | 14,7        | 8,4     |
| Youth(15-24)                                        | 19,5     | 16,3    | 12,0    | 17,5       | 19,1    | 29,8   | 26,6        | 16,1    |
| Long-term unemployment rate***                      | 5,0      | 4,3     | 2,8     | 3,9        | 3,4     | 7,8    | 10,2        | 3,1     |

Notes: (e) - estimate; \*unweighted average for EU15 countries; \*\*spring 2006; \*\*\*aged 15-74; \*\*\*\*population 15+ unemployed 12 months and over as a percentage of the total active population

Source: Eurostat online database; IMF online database; OECD 2006.

4

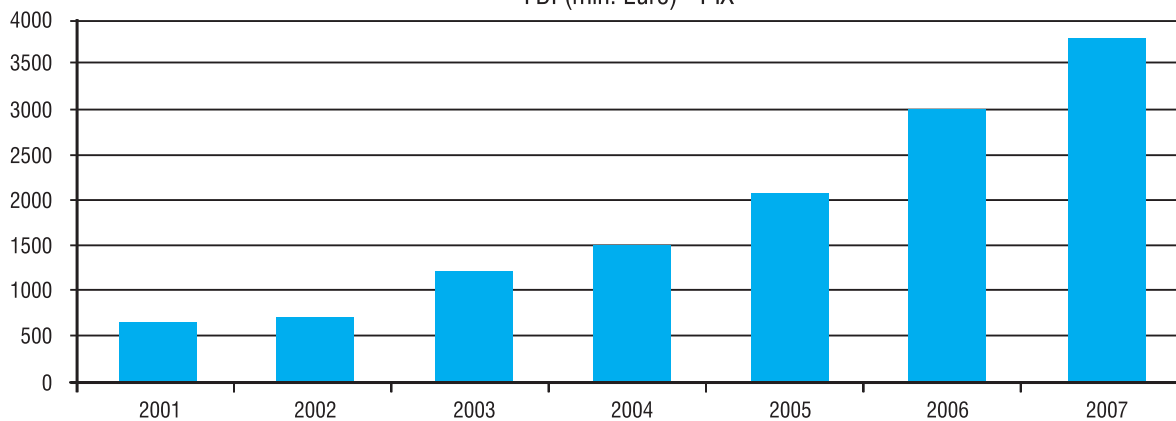
### GDP growth (%)



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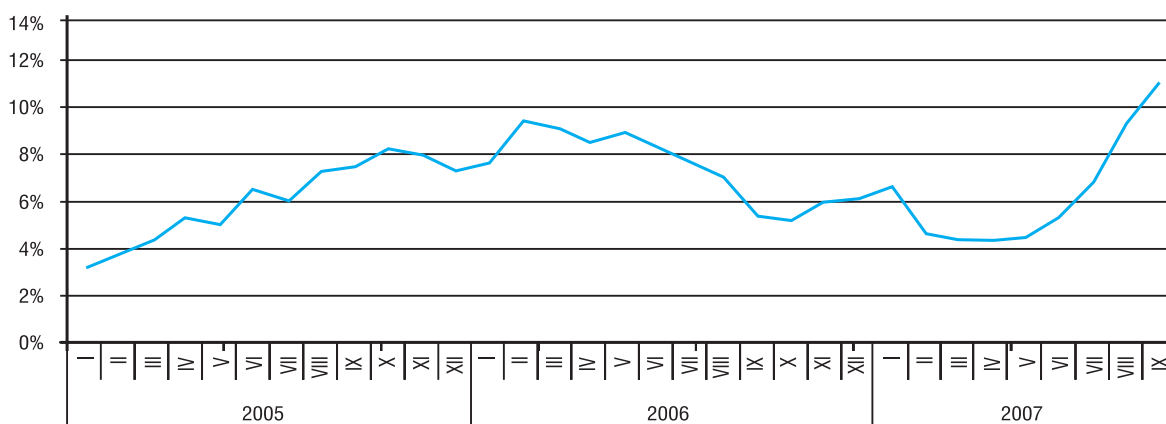
### Investments

FDI (mln. Euro) - I-IX



6

### Harmonized index of consumer prices (annual change, %)

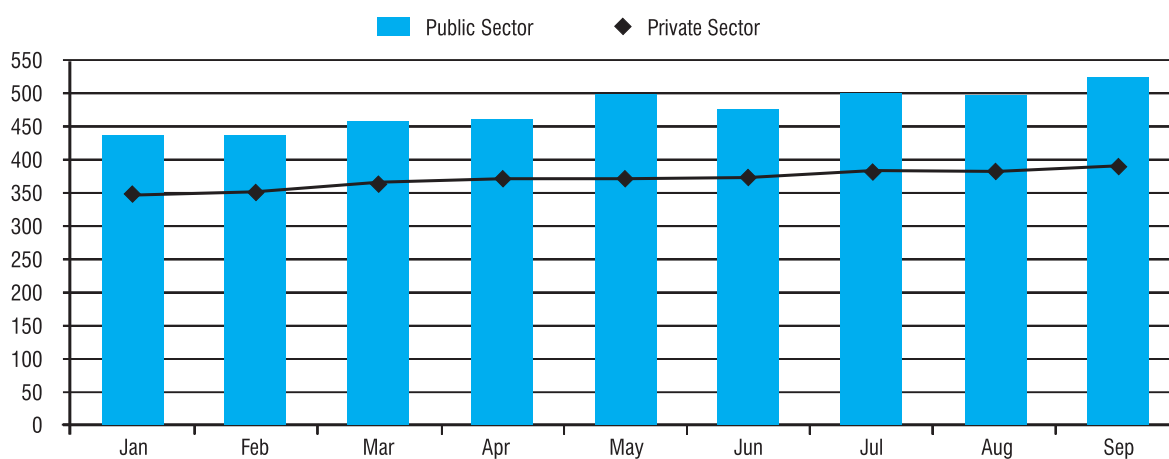




■ Bulgaria in 2007

■ Svetla Kostadinova Institute for Market Economics (www.ime.bg)

7



8

Unemployment rate (%), September

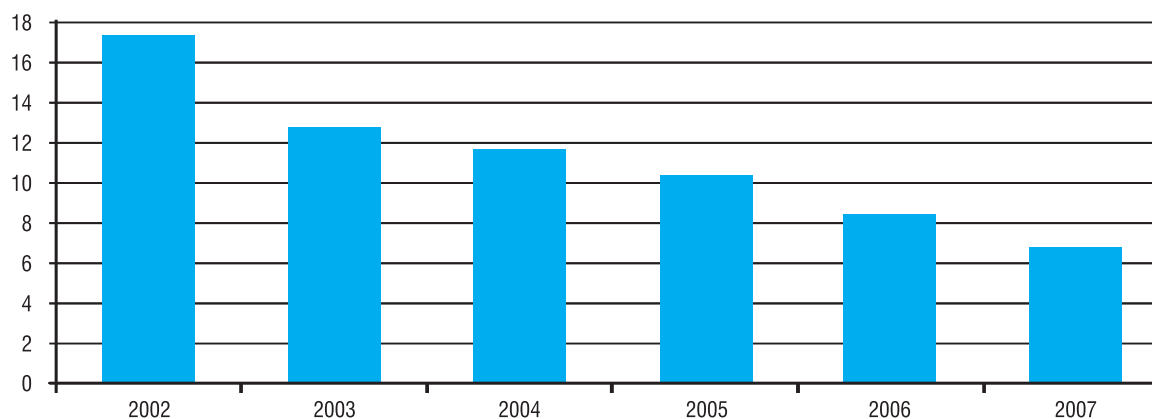
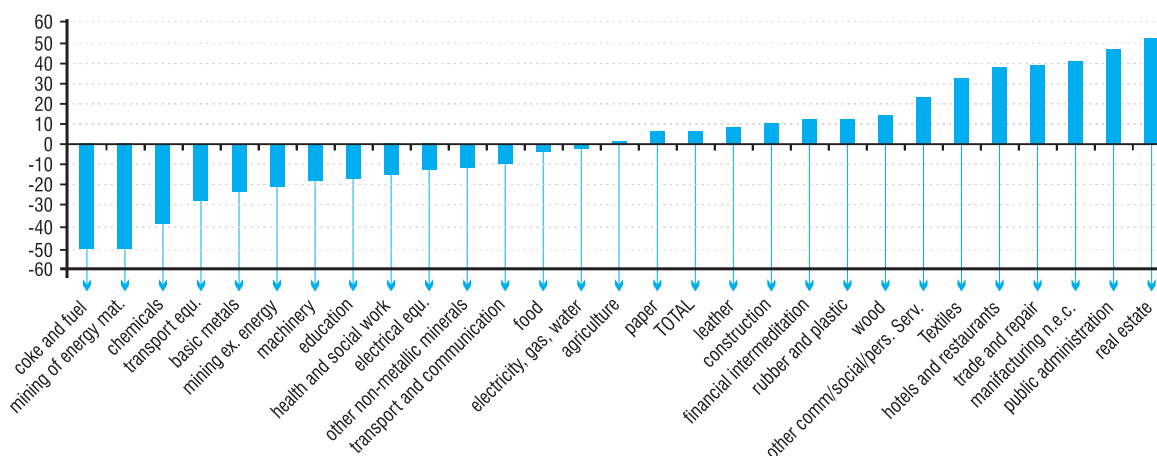


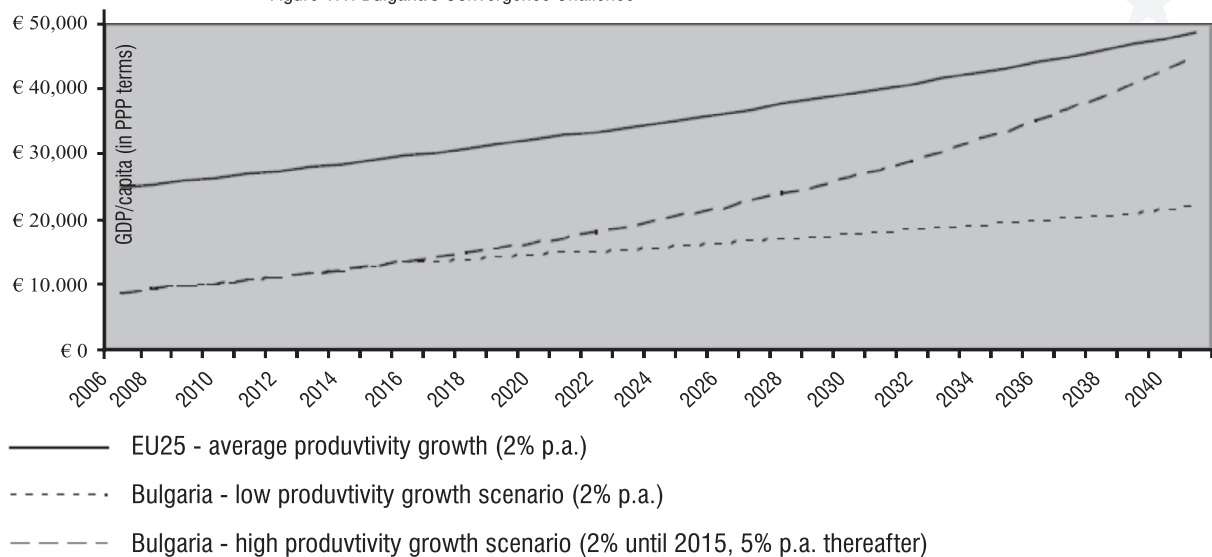
Figure 2,6 : Cumulative Employment Growth by Sector in 2000-2005, % Source: NSI, Bank staff calculations.

9



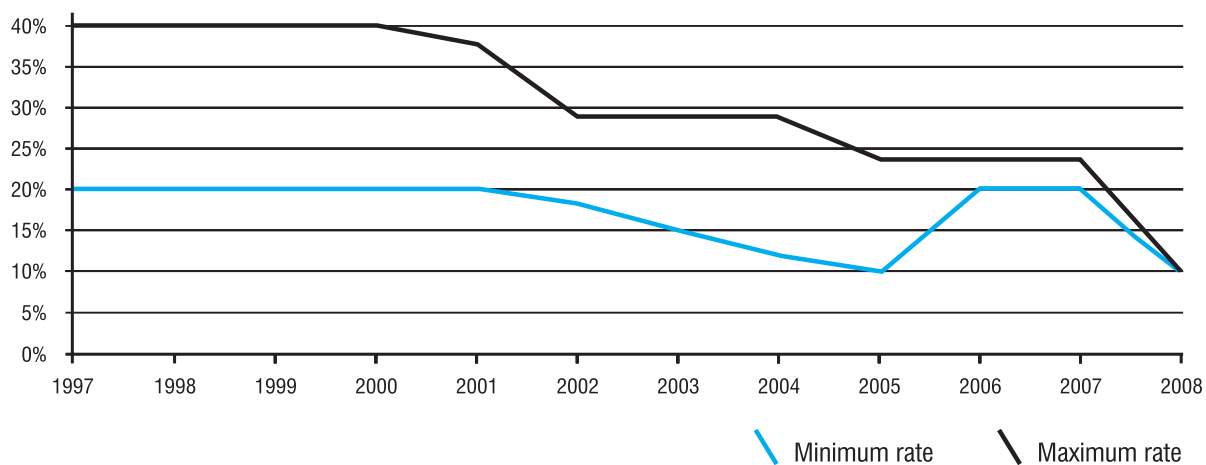
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Figure 1.1: Bulgaria's Convergence Challenge



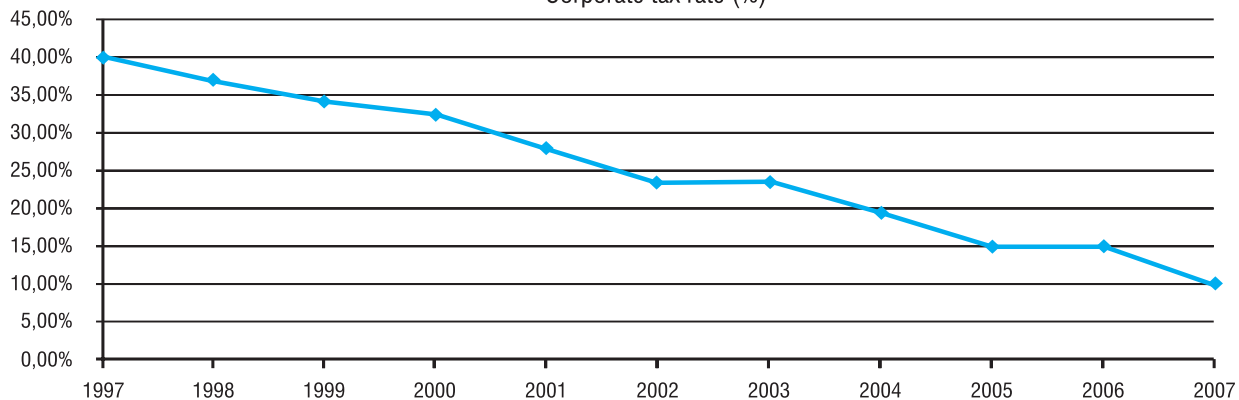
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Income tax rates (%)



12

Corporate tax rate (%)

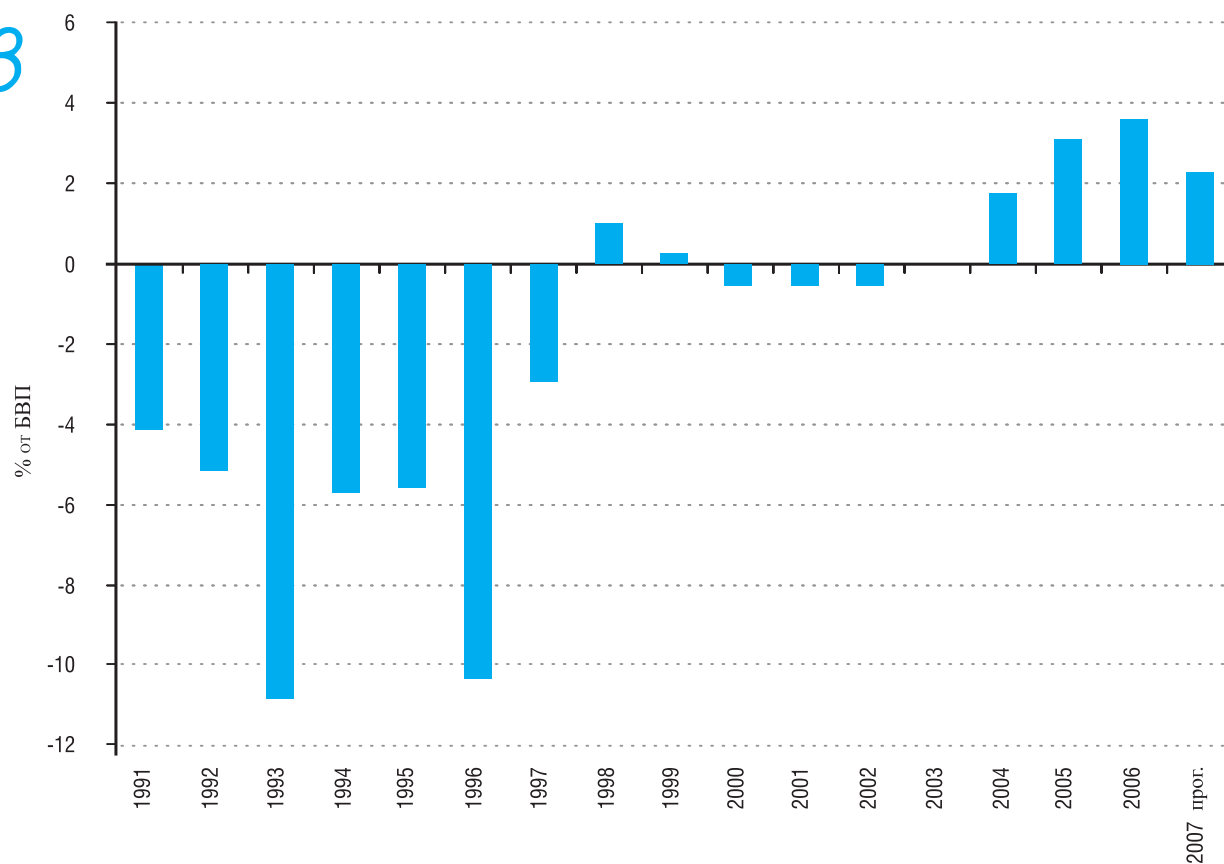




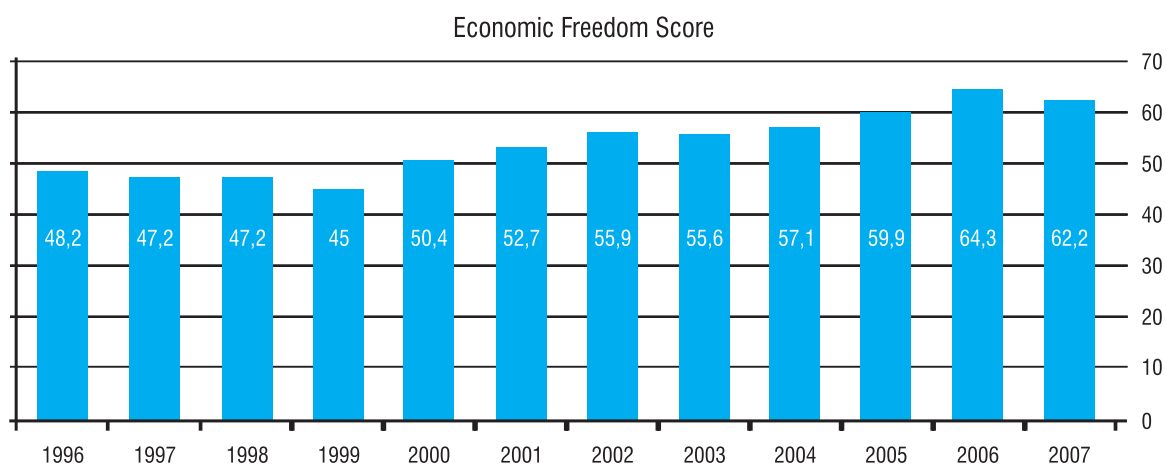
■ Bulgaria in 2007

■ Svetla Kostadinova Institute for Market Economics (www.ime.bg)

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Contacts: Sofia, Bulgaria  
Website: [www.ime.bg](http://www.ime.bg)  
Email: [svetla@ime.bg](mailto:svetla@ime.bg)

5

## **BULGARIA IN THE EUROPEAN UNION FIRST RESULTS AND CHALLENGES**

Mrs. Ulyana Bogdanska



**Your excellences,  
Dear colleagues,  
Ladies and gentlemen,**

I have the pleasure and privilege to address you today on the occasion of the present conference **“Bulgaria in the European Union”** and thus to share with you the first results and challenges following the accession of Bulgaria to the European Union.

The accession to the European Union was awaited with hope and expectations by the Bulgarian nation. A nation-wide-consensus existed among Bulgarians on the issue of EU membership. Therefore January, 1<sup>st</sup> 2007 was celebrated as a national holiday of the fulfilled aspirations. Now, almost a year later, Bulgaria has already started to make first analysis of the outcome of its EU membership so far. Certainly, alongside with the opportunities for my country, created by our EU membership, there are also responsibilities and challenges that Bulgaria has to face in its new capacity.

***Let me first start with the advantages of the EU membership for Bulgaria and the first results that my country has already achieved in this respect.***

**The membership perspective proved to be a driving force for the modernization of our state and society.** Thus on the threshold of its fulfilled EU membership Bulgaria had already conducted some of the most painful reforms. The Bulgarian economy had largely been integrated into the European economy. Our preparation for EU accession helped us achieve macroeconomic stability and robust economic growth, falling unemployment rates and rising living standards, record amount of foreign direct investments and improved credit ratings.

**Let me illustrate my words with some figures.** For 2006, the annual GDP growth in real terms was 6.1%. The unemployment rate in the country is steadily decreasing. By the end of the first half of 2007, the unemployment rate was 7.4%. A strict fiscal policy continues to be pursued, with the budget surplus for 2006 amounting to 3.2% of GDP. Bulgaria is the only country in Europe with budget surplus. The projected and realized income in the state revenue exceeds the expenditure.

Since January, 1<sup>st</sup> Bulgaria has become an integral part of a strong and growing European economy. The act of accession of Bulgaria to the European Union has offered to my country new opportunities for growth and development. The political stability and predictability, reinforced by the EU membership serve as a guarantee that the investment climate in Bulgaria will continue to improve. In the last several years Bulgaria has attracted a great deal of investors' attention with foreign direct investments amounting to EUR 4,1 billion of GDP in 2006 and will reach higher level in 2007.

**As to the current financial situation Bulgaria has achieved a significant progress in terms of improving its absorption capacity for EU structural funds.** Shortly before accession the Ministerial council adopted a National Strategic Reference Framework for the period 2007-2013, which was approved by the European Commission. Our country will receive EUR 6,853 billion from the Structural Funds and the Cohesion Fund. Accession to the EU and access to the financial instruments present an unprecedented opportunity to use sizeable resources for acceleration of the convergence process, continuing the reforms and increasing investment in modernisation of the Bulgarian economy. These tasks will be achieved through the seven operational programmes (OP). At this stage, the European Commission has granted formal approval to OP “Human resource development 2007-2013”, OP “Administrative Capacity 2007-2013” and OP “Development of the Competitiveness of the Bulgarian

Economy 2007-2013". The call for project proposals under these programmes is now opened, and the idea is to have contracts on the projects concluded by the end of the year.

Nevertheless we are well aware that the financial support provided by the European funds does not diminish the responsibility of the government to deliver favourable legislative and policy environment, as well as adequate co-funding. Therefore we intend to encourage the entrepreneurship through better regulation, timely implementation of the internal market legislation and the promotion of small and medium size enterprises.

**The accession process of Bulgaria has also created a large number of political opportunities for my country.** For as it is well known in the modern system of international relations the relative importance of a country is to a large extent function of its position as a member of international alliances and organizations. This is even truer as far as the position of small and medium sized countries is concerned. With its accession to the European Union Bulgaria has obtained an added value in terms of the weight of its stance on the world stage. *(A clear token thereof was the solution of the drama with the Bulgarian nurses liberated after 8-year-detention in Libya due to an expression of the European solidarity. Thus Bulgaria has received a proof for the increased capacity of its foreign policy démarches which is granted by the very fact of belonging to the European family.)*

Further on with the act of accession to the European Union **Bulgaria has assumed an entirely new role in the institutional framework of the Union.** In this respect Bulgaria strives to contribute to the institutional reforms of the European Union aiming at an improved efficiency of the decision-making processes in the Union. We share the view that the European Union is more than just an economic union. Political integration and political solidarity are equally important. Only a functioning European Union could evolve to be a really important actor in the global affairs and could serve as a guarantee for long-lasting security and stability on the European continent.

The recent political agreement on the future Reform Treaty of the EU reassures us that the setback of the failed referenda on the European Constitution has been overcome and that the Union will very soon have in place an improved and adequate institutional framework.

**The EU membership has, nevertheless, apart from its positive aspects, provided new challenges for Bulgaria.**

In the medium term, the Government's principal task is to fulfil the criteria required for **adoption of the single European currency**, the euro. Bulgaria has expressed its intention to apply for participation in the Exchange Rate Mechanism II (ERM II) at the earliest possible date. We are implementing the Convergence Program of the Republic of Bulgaria for the period 2006-2009. Our goal is to reach the level required by the membership criteria in the Economic and Monetary Union. Bulgarian currency is pegged to the EURO and our country is considered to be closer to adopting the EURO than many of the new member states. At this point, Bulgaria meets four of the five Maastricht criteria, viz. the criteria in respect of long-term interest rates, the budget deficit, the exchange rate, and the ratio of the government debt to the gross domestic product. The only challenge regarding the fulfilment of the convergence criteria remains the inflation rate, which for the time being exceeds the reference value of the relevant Maastricht criterion. According to the Convergence Programme and the country's present fiscal policy, sustainable compliance with this criterion is to be achieved in the medium term.

Another challenge for Bulgaria is the implementation of the National Plan for **adoption of the Schengen legislation** and of the Strategy and Action Plan for Integrated Border Control. We are striving to adopt the Schengen second generation information system by the end of 2009 to join the Schengen zone by 2011.



Among the most serious challenges for Bulgaria in short term are our commitments undertaken in the accession process, namely, **the abolishment of the restrictions imposed on the internal market** concerning the free movement of workers, the export of agricultural products and the provision of air transport services.

One of the most sensitive issues in this respect is the **restricted access for Bulgarian workers to the labour markets** in some EU member states. We acknowledge the sovereign right of each and every member state to apply restriction measures on the basis of our Accession Treaty but we underline the fact that there are absolutely no economic reasons for the application of such measures regarding Bulgarian citizens. We hope that these restrictions are to be abolished in short terms.

On June, 27<sup>th</sup> 2007 the European Commission presented its first report on the **Cooperation and Verification Mechanism for Bulgaria** which includes 6 benchmarks in the field of judicial system reform, fight against corruption and organized crime. The Commission has acknowledged the significant progress made by Bulgaria in this regard and has invited the other member states to provide technical support for Bulgaria by attaching foreign experts and advisors to Bulgarian ministries and other administrative bodies. Following the report of the Commission Bulgaria drafted a plan for concrete measures in all 6 problematic fields, which aims at deepening the positive trends.

Another major challenge for Bulgaria is the necessity of an improved coordination of economic policies within the **renewed Lisbon strategy**. In line with this strategy we have adopted a National Reform Program for the period 2007 – 2009 which sets the ground for meeting the Lisbon goals. In the next three years we will focus our economic agenda on maintaining the macroeconomic stability, which includes continuation of the structural reforms in all sectors of the economy and the pursuit of prudent fiscal policy.

**At the administrative level**, the main challenge so far has been our effective participation at all levels of the EU decision-making process applying the principles of decentralization and optimization of procedures.

**In conclusion, I would like to underline the consistent political support of Bulgaria for the EU integration of its neighbors.** We have proven our readiness to assist all the other SEE countries in their efforts to make progress on the way to their EU accession. Notwithstanding the fact that the European Union itself needs the ongoing reform process in order to improve the efficiency of its decision-making mechanism, it is the Bulgarian stance that the Union should continue to conduct the “open doors policy” in terms of its enlargement.

In this respect the EU membership of Bulgaria and Romania was an important sign for the European perspective of SEE. The successful reform process in Bulgaria and Romania demonstrated the advantages of the EU model of development, a model which brings stability, security and prosperity. This serves as a strong incentive for the countries in the region to commit themselves to the political and economic goals of the European Union. Bulgaria will continue to support our neighbours and their efforts to meet the demands of membership so that they could resolve the existing problems before their accession. We have signed a memoranda on cooperation in the European and Euro-Atlantic integration area with all countries from see. The current Bulgarian chairmanships of the Central European Initiative and the South-East European Cooperation Process focus on consolidating the region and enhancing the regional cooperation in close interaction with the European Union. Only the successful integration in the European Union would be a guarantee for stability and prosperity for the region and for my country as an imminent part of it.

# **EUROPEAN TERRITORIAL COOPERATION PROGRAMMES CROSS BORDER CO-OPERATION BULGARIA-TURKEY**

” Territorial Cooperation Management” Department  
Directorate General  
“Programming of the regional development”  
MRDPW





## JOINT PROGRAMMING DOCUMENT 2004-2006

1

### PRIORITY 1. Cross-Border Infrastructure

- Construction of road Malko Tarnovo – Border Crossing checkpoint with Turkey – BG
- Rehabilitation of Road I-7 Yambol-Elhovo - BG
- Restoration of the Ekmekçizade Caravanserai In Edirne – TR

## JOINT PROGRAMMING DOCUMENT 2004-2006

2

### PRIORITY 2. Protection, improvement and management of the Environment

- Capacity Improvement for Flood Forecasting in the BG-TR CBC Region
- Promotion of sustainable development in the Strandja/Yıldız Mountain area
- Integrated Grant Scheme for a sustainable development in the border region between Bulgaria and Turkey

## JOINT PROGRAMMING DOCUMENT 2004-2006

3

### PRIORITY 3. People to people actions

Starting from 2003 External Border Initiative, 2004 and 2005 Joint small project fund

#### BUDGET OF THE PROGRAMME

|           | 2004      | 2005       | 2006       |
|-----------|-----------|------------|------------|
| Bulgaria  | 3 000 000 | 5 000 000  | 7 000 000  |
| Turkey    | 3 000 000 | 5 000 000  | 7 000 000  |
| TOTAL (€) | 6 000 000 | 10 000 000 | 14 000 000 |

## THE PERIOD 2007-2013

### BULGARIA ACTIVELY PARTICIPATES IN THE ELABORATION OF FIVE BILATERAL OPERATIONAL PROGRAMMES AND THREE MULTILATERAL OPERATIONAL PROGRAMMES FOR EUROPEAN TERRITORIAL COOPERATION

4

- INTERNAL BORDERS OF EUROPEAN UNION: BETWEEN BULGARIA AND GREECE, AND BETWEEN BULGARIA AND ROMANIA,
- EXTERNAL BORDERS OF EUROPEAN UNION : BETWEEN BULGARIA AND TURKEY, BETWEEN BULGARIA AND FYROM, AND BETWEEN BULGARIA AND SERBIA.
- MULTILATERAL PROGRAMMES
  - CBC BLACK SEA BASIN JOINT OPERATIONAL PROGRAMME 2007-2013 and
  - OP EUROPEAN TERRITORIAL COOPERATION SOUTH EAST EUROPE (SEE) 2007-2013
  - INTERREG IV-C

## EXTERNAL BORDERS OF EUROPEAN UNION

5

BULGARIA – TURKEY IPA CROSS-BORDER PROGRAMME  
2007-2013

## ELIGIBLE AREA OF BULGARIA-TURKEY 2007-2013 PROGRAMME

6

**NUTS III:** 3 DISTRICTS: YAMBOL, BURGAS, HASKOVO (BG)  
2 PROVINCES: KIRKLARELI, EDIRNE (TR)

MAP OF THE ELIGIBLE AREA



### TERRITORY (KM2)

TOTAL: 29 033 KM2  
BULGARIA: 16 636.9 KM2  
TURKEY: 12 396 KM2

### POPULATION

TOTAL: 1 561 517  
BULGARIA: 830 917  
TURKEY: 731 067

## PRIORITY AXES AND AREAS OF INTERVENTIONS OF BULGARIA-TURKEY 2007-2013 PROGRAMME

7

**PRIORITY AXIS 1** – SUSTAINABLE ECONOMIC AND SOCIAL DEVELOPMENT

**PRIORITY AXIS 2** – IMPROVEMENT OF THE QUALITY OF LIFE  
**PRIORITY AXIS 3** – TECHNICAL ASSISTANCE

### PROGRAMME BUDGET 2007-2009

| Priority   | Community Funding |       | National Public Funding | Total Funding | Co- financing rate (%) |
|------------|-------------------|-------|-------------------------|---------------|------------------------|
|            | a                 |       | b                       | c=a+b         |                        |
| Priority 1 | 4016938           | 40 %  | 708872                  | 4725811       | 85 : 15                |
| Priority 2 | 5021173           | 50 %  | 886089                  | 5907262       | 85 : 15                |
| Priority 3 | 1004235           | 10 %  | 177218                  | 1181452       | 85 : 15                |
| TOTAL      | 10042346          | 100 % | 1772179                 | 11814525      | 85 : 15                |



## MANAGING, IMPLEMENTING AND CONTROLLING ENTITIES OF OP CBC BULGARIA-TURKEY 2007-2013

8

- **MANAGING AUTHORITY**  
MINISTRY OF REGIONAL DEVELOPMENT AND PUBLIC WORKS, BULGARIA
- **TURKISH NATIONAL AUTHORITY**  
TUTKISH COOPERATION AND DEVELOPMENT AGENCY (TİKA)
- **CERTIFYING AUTHORITY**  
MINISTRY OF FINANCE, BULGARIA, "NATIONAL FUND" DIRECTORATE
- **AUDIT AUTHORITY**  
MINISTRY OF FINANCE, BULGARIA, "AUDIT OF EC FUNDS" DIRECTORATE
- **JOINT TECHNICAL SECRETARIATE WITH ANTENNAE**  
LOCATED IN BULGARIA AND TURKEY

9

## MULTILATERAL OPERATIONAL PROGRAMMES FOR EUROPEAN TERRITORIAL COOPERATION

CBC BLACK SEA BASIN JOINT OPERATIONAL PROGRAMME 2007-2013

TOTAL BUDGET – **17 MILLION EUR**

## MULTILATERAL OPERATIONAL PROGRAMMES FOR EUROPEAN TERRITORIAL COOPERATION

10



**ELIGIBLE AREA:** 10 COUNTRIES

**BULGARIA:**  
NORTH-EST AND SOUTH-EST REGIONS

**TURKEY:**  
NUTS II REGIONS OF ISTANBUL, TEKİRDAĞ, KOCAELİ, ZONGULDAK, KASTAMONU, SAMSUN, AND TRABZON

ROMANIA, GREECE, RUSSIA, UKRAINE, MOLDOVA, GEORGIA, ARMENIA, AZERBAIJAN

## PRIORITY AXES AND AREAS OF INTERVENTIONS

11

- **PRIORITY AXIS 1:** CROSS BORDER SUPPORT TO PARTNERSHIP FOR ECONOMIC DEVELOPMENT BASED ON COMMON RESOURCES
- **PRIORITY AXIS 2:** NETWORKING RESOURCES AND COMPETENCIES FOR ENVIRONMENTAL PROTECTION AND VALORIZATION
- **PRIORITY AXES 3:** CULTURAL AND EDUCATIONAL INITIATIVES FOR THE ESTABLISHMENT OF A COMMON CULTURAL ENVIRONMENT IN THE BASIN
- **PRIORITY AXES 4:** TECHNICAL ASSISTANCE

7

**Setting the Priorities Right  
for Turkish Economy:**  
Time for Second Generation Reforms

H. Baha Karabudak  
Ankara, 15 November 2007





## Framework

1

- **2001-2007: We have jumpstarted the economy**
    - Successful completion of first generation reforms
  - **After 2007: We know our objective**
    - Sustaining economic growth
  - **Task: Second generation reforms**
    - Completely different reform process
    - Very high coordination need
  - **Global turbulence could be a leitmotif**
    - Is there a storyline for TR?
- 

## Economic Policy Research Foundation of Turkey (TEPAV)

2

- Established in 2004, with the support of the Union of Chambers and Commodity Exchanges of Turkey (TOBB)
  - Independent, non-partisan think tank in Ankara
  - Focuses on economic policy, competitiveness, governance and stability.  
[www.tepav.org.tr](http://www.tepav.org.tr)
- 

## Where are we now?

3

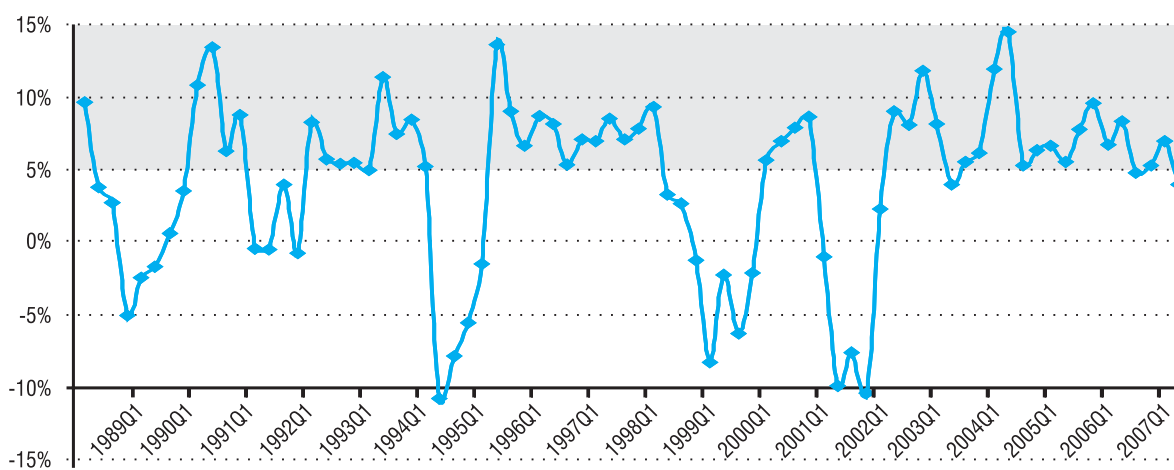
- Successful completion of first generation reforms
  - Started in 1983: Stop-over in 1990s
  - Restarted in 2001:
    - Jumpstarted the economy after 2001
    - Macroeconomic stability, global integration, productivity gains, rapid growth
  - Stalled in 2006
- Election results and Turkey's transformation
  - A sign of support for globalization, EU membership and reforms?
  - Transformation process has asymmetric effects

## Turkey's recent growth performance

4

- Rising productivity has been the major cause of growth
- Average annual growth rate of productivity has been 7,5% between 2002 and 2006
- Sustaining productivity growth will be the new objective

### Real GDP growth rate y-o-y percentage change (1988-2007)



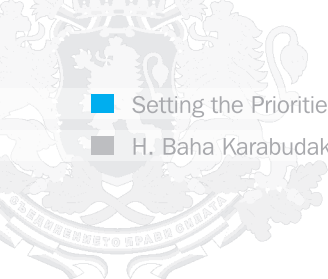
## Is the growth inclusive? – middle class seems to grow

5

|                                                       | 1999 | 2003 | 2006 |
|-------------------------------------------------------|------|------|------|
| <b>Automobile sales (in thousands)</b>                | -    | 359  | 622  |
| <b>White good sales (in millions)</b>                 | 4    | 3    | 5,5  |
| <b>Airline passengers (in millions)</b>               | 30   | 34   | 59   |
| <b>Mobile Phone Network subscribers (in millions)</b> | -    | 26,6 | 51,4 |
| <b># of people getting House Loans (thousands)</b>    | 14   | 43   | 460  |
| <b>Consumer credit + credit cards (billion YTL)</b>   | -    | 12,8 | 67,7 |

Source: ODD, TURKBESD, DHYMI, TBB



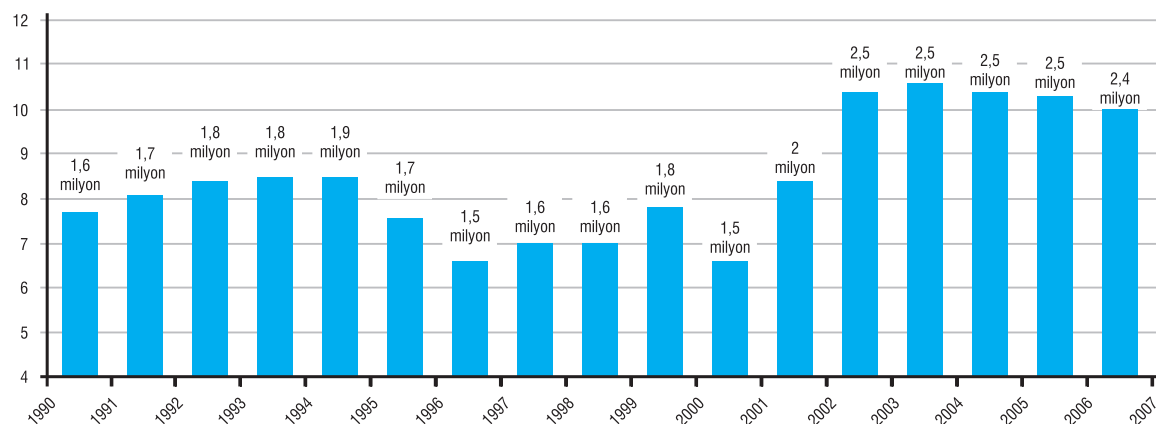


## Or is the growth exclusive (1)? – 2.5 million unemployed

6

Unemployment rate in Turkey (1990-2006)

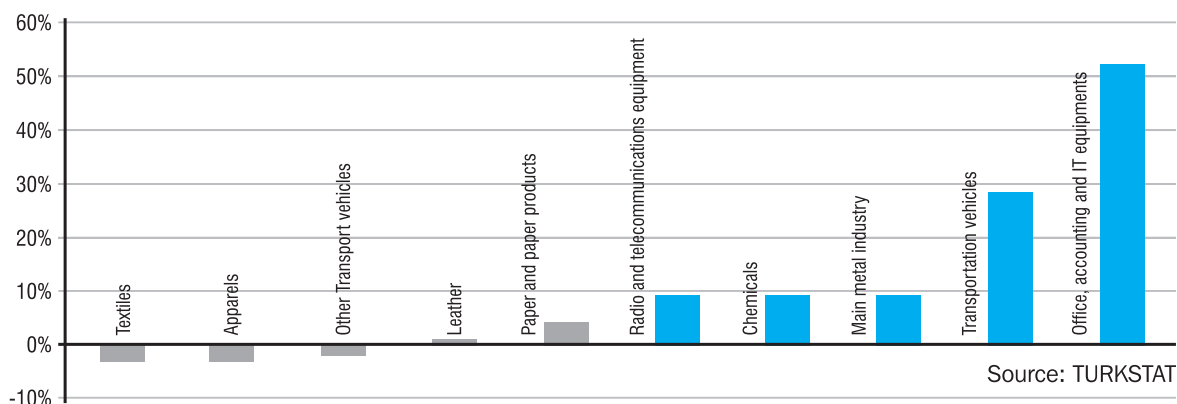
Source: Turkstat 2007



## Or is the growth exclusive (2)? – some sectors are in trouble

7

Average annual growth rates in some manufacturing sub-sectors (2002-2006)



Source: TURKSTAT

## Pillars of recent strong economic growth

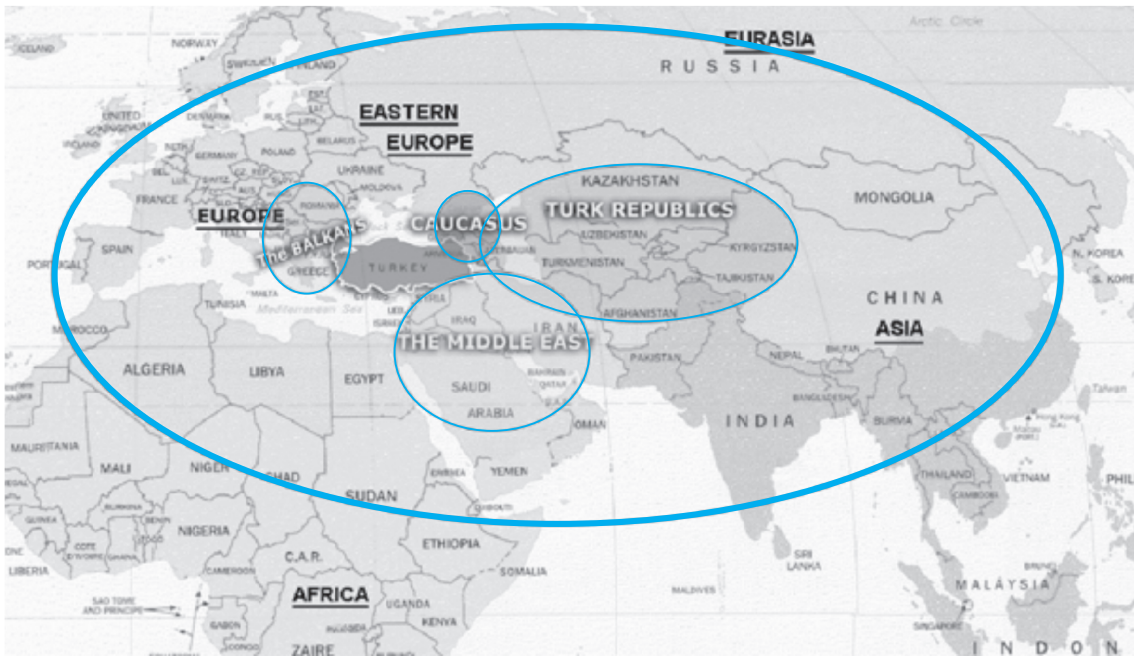
8

- **First pillar:** First generation reform process after 2001 crises —"binary rules"—new rules for an old economy.
  - Fiscal discipline
  - Central bank independence
  - Strong monetary policy
  - Banking system reform after a banking crisis
- **Second pillar:** Favorable global economic conditions
- **Now:** First pillar has lost relevance; second pillar has shaken.
- **Question:** Will Turkey decouple itself from unfavorable global economic conditions?

## Turkey's global storyline:

9

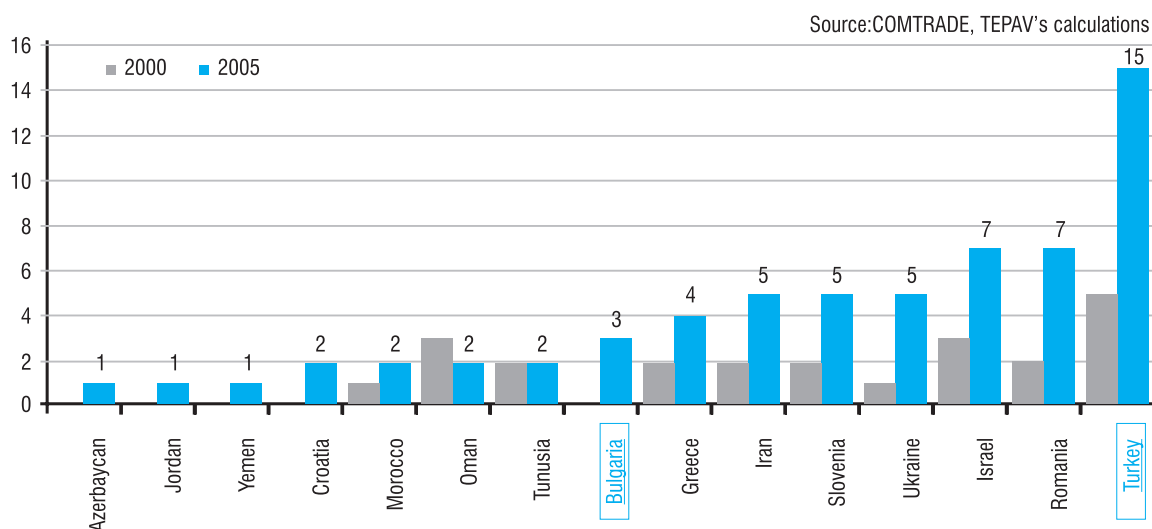
- An investment hub, with access to markets of 1 billion people.
- Two centers of growth: the strongest private sector and institutional infrastructure between EU and China

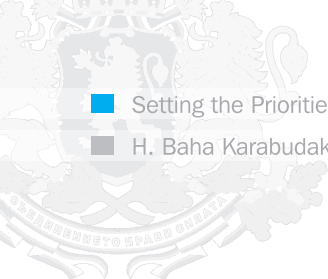


## Turkish economy becomes increasingly diversified in the region in terms of markets..

10

Number of export destinations with a volume over 1 billion USD



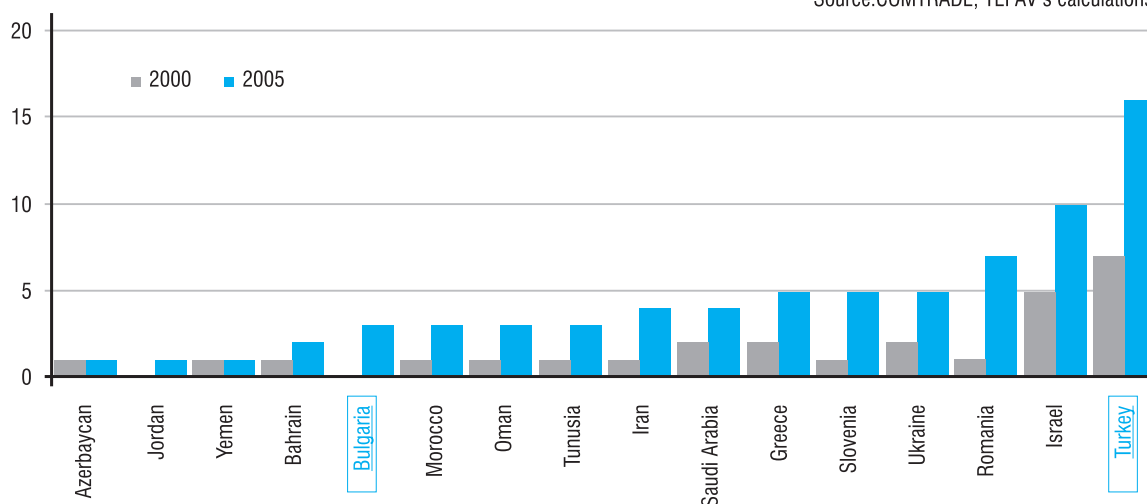


## Turkish economy becomes increasingly diversified in the region in terms of production..

11

Number of export items with a volume over 1 billion USD  
(SITCrev2 classification in 2 digits)

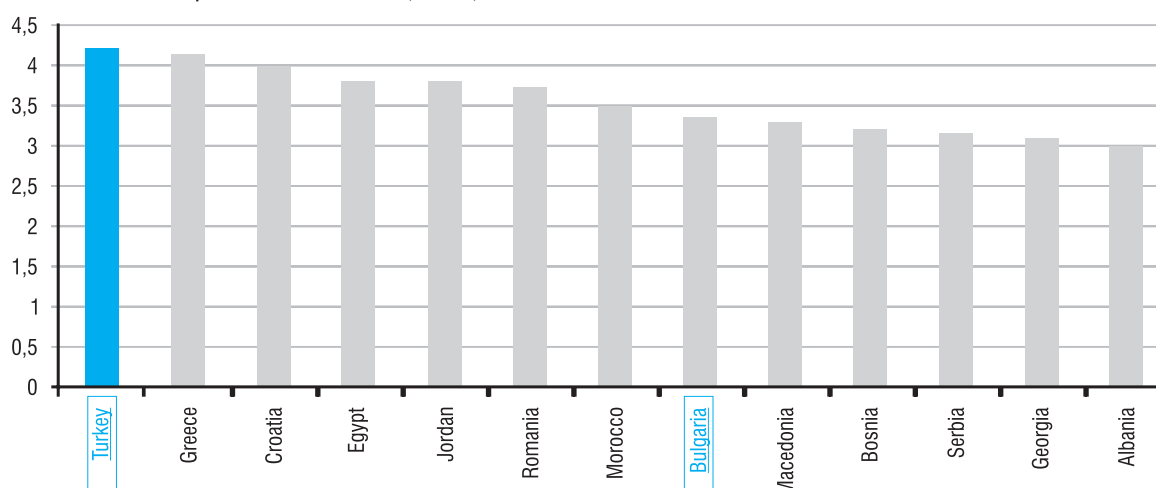
Source: COMTRADE, TEPAV's calculations



## The most sophisticated private sector in the region

12

Business sophistication index, WEF, 2006

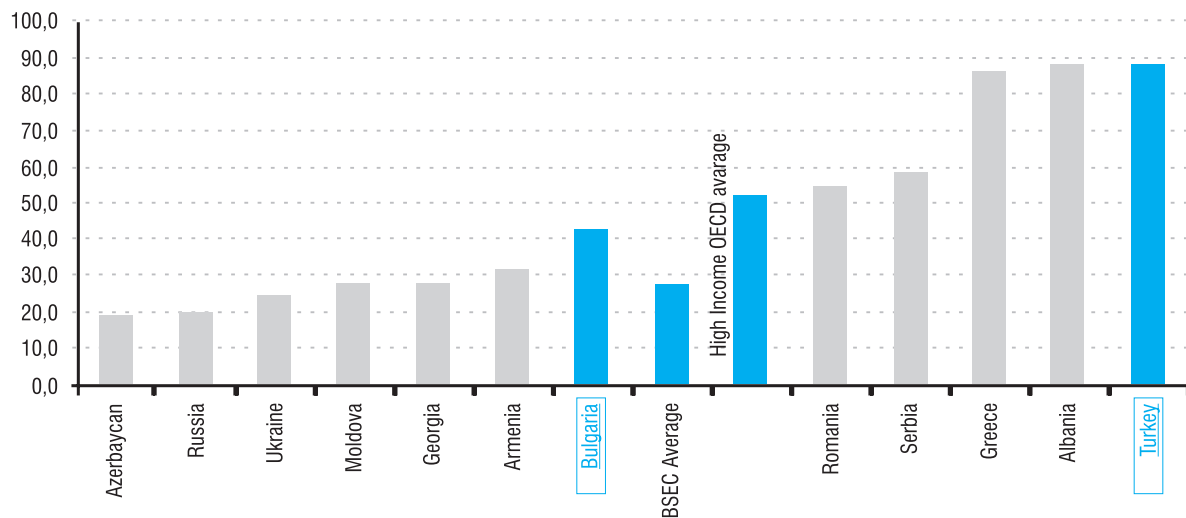


Local supplier quality / quantity; Production process sophistication; Marketing skills; Access to international markets; Nature of competitive advantage; Existence of value chain; Customer sophistication;

## Role of chambers in private sector development

13

- Turkish business sector became a stakeholder in decision making process during the first-generation reform period.
- Its involvement is necessary for the sustainability of the second generation reform process
- Implications for our neighbours???



14

## Can Turkey deliver the new story?

- **Yes, but Turkey has to complete her own transformation: “second generation reform process”**
  - From rule change to institutional change.
  - Very different from the previous one
- **New requirements**
  - Program need
  - Coordination need
  - Consensus-building need
  - Communication strategy need
- **Political power shift**
  - Will it help us focus or cause digression?



## Second generation reforms: New objectives; new program

15

- Turkey could successfully normalize its economy.
  - Hence, today's objectives have to be different from yesterday's.
- There is a need for a brand new program+ discipline
  - This will be AKP's first program.

|                          | First generation reforms                                                                                                                                                        | Second generation reforms                                                                                                                                                                                                                                                                            |
|--------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Objectives</b>        | <ul style="list-style-type: none"><li>• Restoring growth</li><li>• Reducing inflation</li></ul>                                                                                 | <ul style="list-style-type: none"><li>• Sustaining growth</li><li>• Maintaining macroeconomic stability</li><li>• Increasing international competitiveness</li><li>• Fostering social development</li></ul>                                                                                          |
| <b>Reform strategies</b> | <ul style="list-style-type: none"><li>• Changing macroeconomic rules</li><li>• Reducing the scale and scope of the state</li><li>• Reducing protectionism and statism</li></ul> | <ul style="list-style-type: none"><li>• Strengthening the institutional infrastructure of a market economy</li><li>• Reforming education, health, social security and other public services</li><li>• Building strategic coordination mechanisms for competitiveness of the private sector</li></ul> |

Source: TEPAV (2007), Naim (1994), Navia ve Velasco (2002)

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## Contentious reform areas – consensus building need

- Current reform agenda is more complex.
- Contentious issues untouched before 2007 (judiciary, education, health, social security)
  - Need for consensus building
  - New constitution

|                     | First generation reforms                                                                                                                                                                                                                                     | Second generation reforms                                                                                                                                                                                                                                                                                                      |
|---------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Reform areas</b> | <ul style="list-style-type: none"><li>• Drastic budget cuts and tax reform</li><li>• Price liberalization (incl. Exchange rate</li><li>• Trade and foreign investment liberalization</li><li>• Private sector deregulation</li><li>• Privatization</li></ul> | <ul style="list-style-type: none"><li>• Labor market reform</li><li>• Public administration reform</li><li>• Decentralization</li><li>• Judicial reform</li><li>• Upgrade regulatory capacities</li><li>• Sectoral restructuring</li><li>• Education reform</li><li>• Health reform</li><li>• Social security reform</li></ul> |

## Conclusion: It is doable

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### Time for second generation reforms:

- Changing or strengthening the institutional basis of the Turkish economy is the task to
  - Sustain a more equitable/inclusive growth process
  - Become more resilient to external shocks

### Pros and Cons: Can Turkey do it?

- Need for a proof: Look at the achievements of the near past
- A note of caution: Political power shift is tiring and distracting
- EU process could be an anchor – but that's a different story and distracting, too.

**Turkey needs to focus on second generation reforms.**

## Main economic indicators of Bulgaria and Turkey

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| Conclusion: It is doable                        | Bulgaria, 2005 | Turkey, 2005    |
|-------------------------------------------------|----------------|-----------------|
| Consumer price index (2000 = 100)               | 5.04%          | 8.18%           |
| Current account balance (% of GDP)              | -12.00%        | -6.30%          |
| Exports                                         | 18 billion USD | 77 billion USD  |
| GDP (current US\$)                              | 27 billion USD | 363 billion USD |
| Imports                                         | 21 billion USD | 110 billion USD |
| Manufactures exports (% of merchandise exports) | 59.30%         | 81.50%          |
| Manufactures imports (% of merchandise imports) | 65.30%         | 68.70%          |
| Population, total                               | 7,740,000      | 72,065,000      |

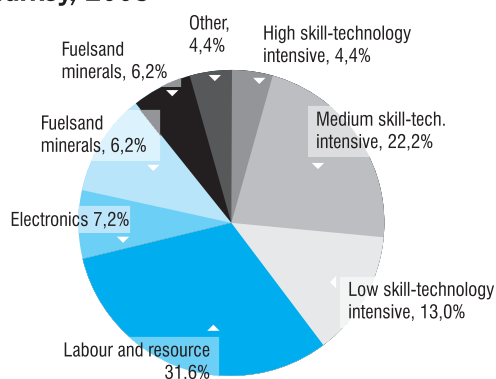
Source: World Development Indicators

## Export structures

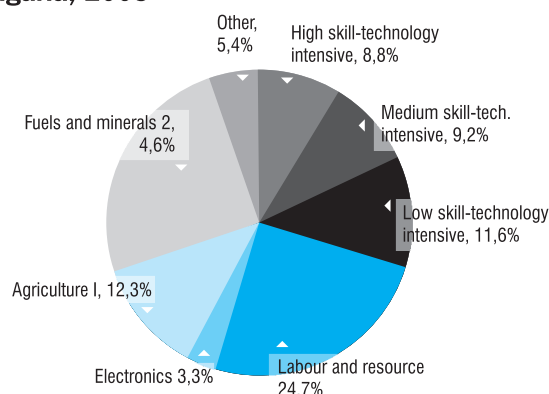
Source: UNIDO , COMTRADE Database, TEPAV

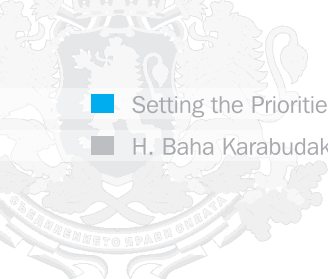
19

### Turkey, 2005



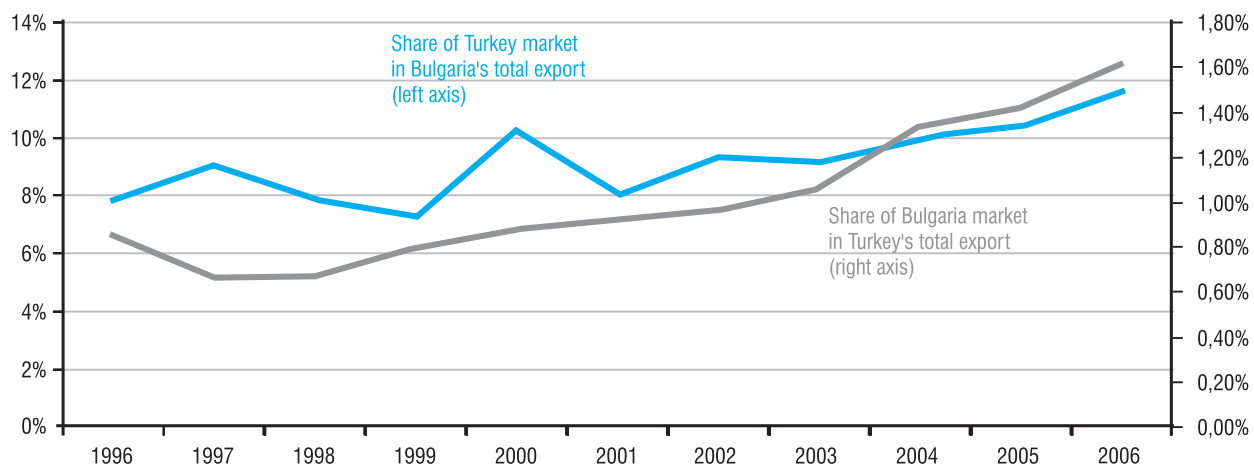
### Bulgaria, 2005





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## Bilateral trade between Bulgaria and Turkey is expanding



Source: COMTRADE Database,



**Economic Policy Research Foundation of Turkey (TEPAV)** is an independent, non-partisan and non-governmental research foundation based in Ankara, Turkey. TEPAV was established in 2004 with a trust fund endowed by the Union of Chambers and Commodity Exchanges of Turkey (TOBB). TEPAV has three research institutes.

Economic Policy Research Institute (EPRI) is the first research institute established by TEPAV in 2004. After 2004, the Economic Stability Institute (ESI), whose goal is to monitor economic developments both in Turkey and in the international area and to contribute to ongoing stabilization efforts pursued by the government and other institutions by analyzing their policies and practices, was established in 2006. The same year, the International Policy Research Institute (IPRI) was also established within TEPAV.

TEPAV's fundamental task is to contribute evolving political, economic and academic debates shaping Turkey's future orientation. It provides original, evidence-based and policy-oriented research that helps to build the institutional framework required to successfully complete the process of transition that Turkey has embarked upon.

Policy recommendations that come out of TEPAV's research are intended to assist the decision-makers in restructuring the Turkish private sector that will pave the way for Turkey's integration into the European Union as well as the global marketplace. Its vision is based on the ideals of a decentralized, democratic and market-based Turkey that is fully integrated into the international system.

Research programs of **Economic Policy Research Institute** (EPRI) are organized into three major areas: Economic Policy Studies, Governance Studies and Foreign Policy Studies.

The Economic Studies Program of EPRI conducts policy oriented research in a wide range of areas (investment climate, industrial policy, and impact assessment) pertaining to the competitiveness of Turkish private sector. Through highly rigorous research, Economic Policy Program aims to provide both technically correct and administratively applicable policy options for the decision makers of private and public sectors.

The Foreign Policy Studies Program of EPRI aims to formulate foreign policy alternatives which will contribute to the ongoing economic transformation process of Turkey. The Program, accepting that the modern international political relations cannot be separated from economy-related issues, seeks to provide interdisciplinary, solution-focused and policy-oriented foreign policy alternatives. The Program has a special focus on the EU-Turkey integration process. The political developments in the United States, Middle East, Eurasia and Cyprus, which can create external conditionalities for the ongoing economic transformation of Turkey, are also closely monitored by the Program.

The Governance Studies Program seeks to contribute to structuring of sound public administration and fiscal management systems in Turkey. Recognizing the importance of capacity building at both central and local levels, the Governance program conducts research and conducts capacity building projects in the areas of fiscal monitoring, transparency, strategic management, regional development and sectoral decentralization policies.





**Stability Institute** has two fundamental tasks. The first task is to inform the public by monitoring and analyzing macroeconomic policies about price stability, financial stability, public finances and growth-employment. The second task is to develop projects and to pursue studies regarding the stability issues of Turkey.

**International Policy Research Institute** aims to contribute to the formation of Turkish foreign policy making through monitoring global political dynamics and changes and trends in international system. In this context, it follows wide range of issues from regional developments to global changes. IPRI attaches utmost importance to produce detached, to the point, cutting edge analysis and relevant policy recommendations to policy makers, as well as informing general public about international developments and their affects on Turkey's external relations.