

Bulgaria elections, economy & the Green Deal (GD) – The Big Picture

KRASSEN STANCHEV, SOFIA UNIVERSITY AND THE INSTITUTE FOR
MARKET ECONOMICS (STANCHEV@IME.BG)

Outcome of July 11th general elections

No clear winner, the stake – [see](#)

This time government is likely elected to be elected, but there is a high probability that, rather sooner than on time, the country will go for another general election

Two major outcomes thus far

1. NO CHANGE in flat tax system = +
2. NO CHANGE IN THE RULE LW = - (?)
3. REPUTATION IS BACK AS ECONOMIC FACTOR = +

The tax system (then, 1998, and now - 2021) AND OTHER COSTS OF DOING BUSINESS

THEN: 75% of businesses “contra” Flat Tax reforms, see: [Needs for Deregulation of the Tax Systems in Central Europe: A Comparative Study of Bulgaria, Poland and Slovakia](#)

NOW – reform had been proven success: [FLAT TAX IN BULGARIA: History, Introduction, Results, Sofia, IME, 2016](#)

[FROM ALL EU MEMBERS, ONLY IN BULGARIA TRANSNATIONAL COMPANIES FULLY COMPLY WITH RAX RULES, AS FOUND BY EUROPEAN PARLIAMENT GREENS](#)

- [No change in taxes on labor, arbitrarily determined Minimum Wage \(MW\), and Unit Labor Costs \(UCL\) go up – by 4.9% in 2020-2021](#)
- High costs of public procurement (6% of GDP) – [see](#)
- High direct costs of the “Transfer Society” ([see](#)) – perhaps: 5-6% of GDP (2 times the Corporate Income Tax – CIT - revenue)

OUTCOMES:

1. Negligible inward FDI.
2. Depopulation, large chunks of internal migration and job-related commuting; Sofia – national and the only metropolitan area.
3. **Transfer Society & Servile State (if you have a business idea, line up for a government privilege).**
4. **“Power trading” – misuse of law to redistribute economic value**

Evidence and impacts of “power trading” – read examples in the press

1. 3,500 publications in 2019, plus a draft bill (2017) and Action Plan (submitted to DG Energy in 2021) to repeal the PPAs with the “American” TPPs Maritza East 1 & 3.
 - Large **industrial values at risk**
 - **Restriction of most innovative segments** of the power sector
 - **Same in the mining industry**, and this is not only DPM
 - Potentially **high stranded and sunk costs**
 - **Limiting GD options** to make a difference
2. 12 year campaign to restrict the operations of DPM, plus 17-volumes-case against DPM in the prosecution.
3. March 2021 Decree on Water Usage: 250 WPP (not the state-owned) are at risk of freezing operations

Macroeconomic standpoint: the likely impact of the Green Deal and “Recovery” subsidies

- The 2013-2019 economic growth is half of its rate of the pre-2008 decade,
- Job creation and investment growth is 1/10 of the pace before the 2009-2010 recession,
- while productivity grows at 30% slower pace than before that recession
- 2020 FDI is about 1/20 in comparison to 2004-2008

GD will have a negative impact on the costs of inputs and ULC

New taxes and penalties for non-compliance are likely

The 2020-2021, and the next years will increase political competition for subsidised benefits, as well as,

Inevitably, will increase the temptation for opportunistic decisions and allocations.

Some evident mining industry positive impact of the regional economies

- In the regions of mining industry, the average monthly wages (MoW) are above the national average and close to this salary in Sofia (BGN 1,554) – in 2018.
- And in Chelopech and Pirdop - significantly above the Sofia one, respectively BGN 2,178 and BGN 1,796.
- In 2018 Municipality of Trun, where an investor in gold mining was expelled in a referendum in 2016, the MoW is BGN 529. (Currently, even Penkyovski Manastir Foundation cannot raise BGN 9-10K to maintain this unique structure.)
- Aurubis, DPM, Asarel-Medet and KCM are the largest and most transparent contributors to social causes in the country

Some evidence...

In 2020, the average monthly salary **in the districts** of Sofia, Plovdiv and Pazardzhik increased compared to the mentioned 2018, respectively 1 201 to 1 443 BGN in Sofia district, Plovdiv region - from 1,121 to 1,282 members, and in Pazardzhik - from 913. at BGN 1,172.

The subcontractors of non-ferrous metallurgy enterprises also enjoy positive side effects on the income of their employees. In 2019, the salaries of those working in them are about BGN 800, i.e. 70-80% of the gross average monthly salary for the respective district.

In 2019, **Krumovgrad attracts 12% new residents**, more than the city of Sofia.

Despite the negative effects of the pandemic on employment, in 2020 Kardzhali district has the lowest unemployment rate in the country - 3.8%.

What can be done?

- 20 to 40% of the “green” resource of the Bulgaria’s Recovery Plan (about EUR1.8 billion) could be easily invested for boosting private off-grid electricity production and consumption which will improve the environment, reduce electricity bills overtime and improve the environment.
- The off-grid private solutions (the respective article of the Renewables Directive had to be implemented by mid-2021) can be subsidized in a transparent and just manner if the Plan helps the disadvantaged regions of the country which are also the poorest regions of the Union where the demographic situation is extremely alarming.
- In some of those regions, this is the extractive sector that shapes the local economy.

What can be done (?) – CO2 recycling and Black Sea Sulphur-hydrogen “Circular ECONOMY” 1/2

There are projects by BAS (the Institute of Engineering Chemistry - IEC) and University of Mining and Geology (UMG) to recycle and store CO2

The Plan should pay attention to EU - “geographical location” argument and boost the patented technology for electricity and cleaning of the Black Sea production of electricity from hydrogen sulfide, a technology developed by the **Institute of Engineering Chemistry of BAS and Rokon Research Center AD**. For 15 years they have been conducting detailed research and laboratory experiments.

The positive effect of the technology is that simultaneously with the production, the flora and fauna of the sea is also being restored.

What can be done (?) – CO2 recycling and Black Sea Sulphur-hydrogen “Circular ECONOMY” 2/2

Raw materials to produce fertilizers (sulfur) are obtained and the hydrogen sulfide from the sea serves as a backup for the entire energy system of the country - including nuclear power plants, wind, and solar power plants.

Moreover, the technology allows for greater mobility than the gas-fired power plants and ensures independence from energy imports”, he added. **The potential of the hydrogen sulphide plant is equal to 10% of EU energy consumption (including the UK) for 40 years.”**

What can be done – repeal or postpone the implementation of Water Usage Decree amendments

- It makes little sense imposing restrictions on such renewable subsector as WPPs.
- They contribute to roughly 5% of the total power sector output.
- Value at risk has never been calculated before the Decree was amended and it still remains a key task to study and evaluate the stranded costs.