

A testing ground for international financial institutions

Executive summary

At the end of 1989 Bulgaria, along with the rest of the Eastern European countries, began a transition from a central planning model to a free market economy. At the time authorities discussed several alternative options for implementing this radical change, but it was generally accepted that there was no other way forward, and that all reforms must be undertaken immediately.

Over the next few decades the International Monetary Fund (IMF) and the World Bank, which Bulgaria joined in 1990, would become the main influencers of the country's fate. These two institutions, controlled by the world's richest countries, have long been subject to doubts that the policies they implemented would be in the interests of Bulgaria. The decision-making principle at the IMF and the World Bank is 'one dollar – one vote'. The mechanism 'one state – one vote' is more democratic and would provide for a greater degree of equality among nations; unfortunately this is not the one the international financial institutions (IFIs) have adopted.

The two organisations influence processes within countries by granting loans with lower than market average interest rates, but under conditions which invariably have a neoliberal agenda: privatisation of state-owned enterprises, concessions (including public services), liberalisation, financial discipline. One of the first requirements they impose is the liberalisation of prices, including those of essential goods.

After 1990 the story of macroeconomic policy in Bulgaria is the story of its relationship with the IMF. And reforms in individual sectors followed the guidelines of the World Bank.

Until 1996 successive governments tried to pursue an independent policy. Some of the recommendations of the IFIs have been implemented, but concerns about rising social tension led to postponing, or ignoring, requests. Privatisation for instance is moving slowly. Because of this not all tranches of money (included signed agreements) have been released, and contracts are terminated unilaterally.

Other prescriptions have been implemented – agricultural cooperatives were liquidated, which led to a collapse in agricultural production and a spike in unemployment, especially among minority groups. The first mass lay-offs of workers were from plants and enterprises from the periphery of the country, followed by larger production structures. To make way for private capital, and seemingly in the name of 'equal opportunity', state-owned enterprises were required to pay higher taxes. Wage income crashed by 66.7%.

From 1997 to 2007 Bulgarian governments adhered strictly to the recommendations of the IMF and the World Bank. A currency board was implemented, which restricted the possibility of governmental influence on monetary and economic policy. Trade unions also accepted the board, but only under the condition that its effects would be assessed a year later and adjusted. This demand remains unfulfilled.

The agreement between the IMF and the government of Ivan Kostov contains **187 measures**. Major structuring enterprises were privatised or shut down according to a list drawn up by IMF and World Bank experts. The conditions are so detailed that the list even includes holiday facilities at the National Social Security Institute. According to a Deputy Prime Minister from the caretaker government, all

government decisions were first discussed with IMF representatives. The true government of Bulgaria no longer resides in Sofia, but in Washington. Not against the will, but rather with the full cooperation of Bulgarian authorities.

Changes have been radical, and there is virtually no sector in which the interference of the IFIs is not visible. Efforts in the social sector were aimed at reducing expenditure. The newly created 'unemployment' fund, quite generous at first, has fulfilled its purpose – some workers and employees voluntarily left state-owned enterprises, now it's time to cut expenses for the unemployed and relieve employers. The fund contribution has been lowered, and is now split between employee and employer. Social payments have been limited. There had been pressure for many years to exclude most families from receiving child benefits, leaving only the most vulnerable, which finally succeeded and, despite a negative reaction from the public, the measure was implemented.

Also part of this period were plans for the creation of a second pension pillar – private and mandatory (currently this measure is under review because of the controversial results of the activity of private pension funds). An end was put to public and universal (in terms of volume of service) healthcare. Healthcare reforms are a priority for the World Bank, and Bulgaria was a testing ground for the institution's pilot project. The education system was restructured – hundreds of educational institutions closed down, predominantly in smaller settlements. Illiteracy, previously almost eliminated, is on the rise again as children drop out of school.

These findings are by none other than the World Bank itself, which seems unpleasantly surprised by the effects of its activity.

After the accession of Bulgaria to the EU in 2007, the place of the IMF and the World Bank was taken by

the European Commission. But the guidelines of external influence remain within the same frame. Liberalisation and privatisation are progressing. The European Commission even pressed Bulgaria to eliminate the possibility of post-privatisation control of former state-owned enterprises, even though many of their new owners have not yet paid for them in full.

In its annual recommendations, the European Commission routinely includes a reduction and elimination of the minimum social security income and freezing of the minimum wage, even though income from labour in Bulgaria remains the lowest in the whole EU.

Of course, the IMF and the World Bank have not retreated fully. The IMF monitors internal processes and continues to offer advice to the government and particular ministers. Even in its last report from May 2015, recommendations could be found that were swiftly adopted by Bulgarian authorities.

The World Bank now has a different role. It has shifted from a creditor to a source of expertise. The analysis and reports that it prepares for the government are of major importance. On the basis of World Bank analysis, national strategies are being written and adopted in various aspects of public life. They are quite costly for Bulgarian citizens – not only in terms of the price paid to the World Bank (*the drawing up of the water strategy alone is 3.5 mln Levs, almost 1.75 mln Euros*), but also of the results, as reform only has one direction: minimising the capacity of the state for intervention and reinforcing private capital, regardless of the social price.

The result of nearly 25 years of following the policies of the IMF and the World Bank – and most recently the European Commission – is that while Bulgaria is one of the most financially stable

European countries, it is also one of the poorest in the EU and among those with the highest social inequality levels. In addition Bulgaria suffered a huge depopulation – 1,600,000 less Bulgarian citizens were registered in the 2011 census than in 1985. The economy is strongly dependent on transfers from emigrated Bulgarians to their families in the country. The loss of population is one of the most important indicators of the direction in which a country is developing, along with the lowest incomes and high poverty levels. The IFIs are beginning to recognise the mistakes in some of their recommendations, but there are still no visible changes. The hegemony of neoliberal policies and austerity measures in Bulgaria is still unshakable, no matter what the next government will be.

The options put before the Bulgarian people are similar to those Henry Ford offered to his customers. He guaranteed the company could manufacture automobiles in any colour the customer desired, “as long as it’s black”. What is needed is democratisation, greater transparency and general change in the policies of the IFIs. Bulgarian citizens already know that black is not the only choice.



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