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OECD accession and the Bulgarian economy

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Bulgaria's European Union accession marked a key step in its economic development and institutional convergence to Western economies. The next phase in this convergence is joining the Organization for Economic Cooperation and Development (OECD), commonly viewed as the "club of developed economies."

This policy brief investigates some of the main economic effects connected to OECD accession, particularly for countries comparable to Bulgaria, such as OECD members from Eastern Europe. For countries with lower pre-accession institutional quality—such as the Visegrád group before they entered the EU— OECD accession leads to persistent improvements in rule of law, control of corruption, and regulatory quality. These findings bode well for Bulgaria, whose recent indicators for control of corruption, and the rule of law are lower than the corresponding Visegrád levels before the OECD accession of these countries. Accession is thus expected to bolster Bulgaria's institutional quality.

Beyond institutional convergence, there are also positive effects on trade volumes, particularly in countries, such as the Visegrád group and the Baltic states, that share historical and economic similarities with Bulgaria. Although the OECD does not explicitly reduce trade costs between members, higher quality institutions indirectly help expand trade. Bulgaria, with its distinct comparative advantages, is likely to benefit from such growth in trade.

Regarding Foreign direct investment (FDI) flows, Eastern European countries that joined the OECD before entering the EU, like those in the Visegrád group, saw notable FDI increases. These are likely linked to institutional improvements. In contrast, nations that entered the EU first, such as Slovenia and the Baltic states, did not experience significant FDI growth after OECD accession. Still, there appear to be additional reputational benefits, even when measurable institutional gains are limited.

In sum, our assessment is that accession to the OECD may lead to gains for Bulgaria in terms of improved institutional quality and increased trade and foreign direct investment. Therefore, maintaining governmental commitment to achieving OECD standards is the main policy recommendation of this brief.

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Bulgaria has been on a path of economic development aimed at convergence towards the level of institutional quality of the industrialized economies in Western Europe and North America. The European Union (EU) accession process (via meeting the Copenhagen criteria for membership) has been an important milestone in that development path. Accession to the Organization for Economic Cooperation and Development (OECD) is the next (and final) step in the process of institutional convergence.

In addition to the "fundamental" institutional convergence achieved via the OECD accession process, the OECD is broadly viewed as the ``club of developed economies''. This means that there are also potential reputational benefits from accession vis-a-vis international investors.

In this policy brief we take a deeper look at some of the expected economic effects from accession to the OECD, particularly for countries comparable to Bulgaria. We first provide a brief introduction to the OECD accession process followed by an assessment of the effects on institutional quality, trade volumes and foreign-direct investment flows.

The OECD Accession Process

The OECD – a brief introduction

The OECD was founded in 1961 as a successor to the Organization for European Economic Cooperation which was created to distribute the aid of the Marshall plan in the aftermath of World War II. Its headquarters are in Paris where its over 300 inter-governmental committees meet to shape a variety of economic policies.

Today most economists know the OECD as a source of extensive databases on a group of nations known as being the most economically developed in the world. However, the organization's remit goes far beyond that. Its main goal is to harmonize and promote institutional best practices, to support economic development of the 38 member nations and their partner nations.[1]

It may thus be more accurate to see the OECD (as it sees itself) as an "inclusive policy network" to advance its legal instruments, standards and norms around the world. The areas in which it has had and continues to have important influence include combating corruption, tax information sharing, liberalization of capital movements, and governance of multinational corporations. Knowing that the nation you trade with or buy financial securities from has policies aligned with yours is key for less friction and better understanding in financial and trade relations between partner nations.

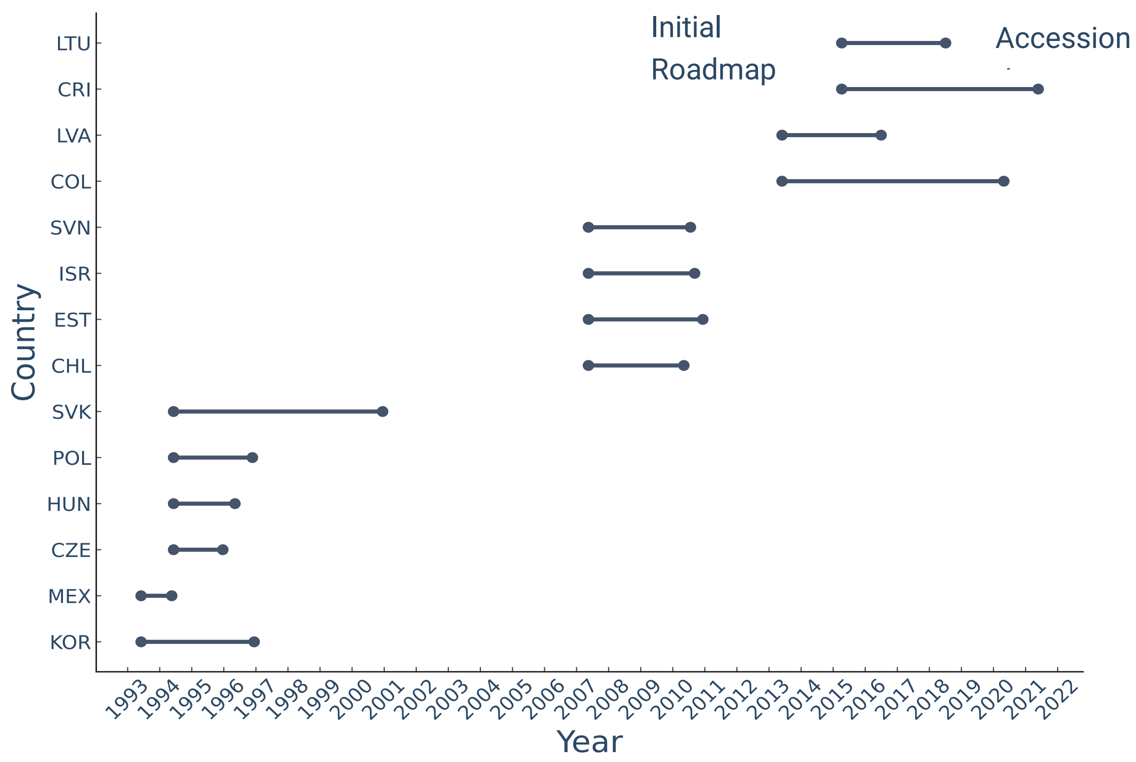
Bulgaria and the accession process

The OECD expands in waves and at present eight countries are engaged in the process.[2] Bulgaria began cooperating with the OECD in the 1990s but first expressed interest in joining in 2007.[3] In January of 2022 the OECD council opened accession discussions with Bulgaria which led to a first three-year "roadmap" in June 2022. The roadmap was approved by the OECD council initiating 25 technical reviews by various committees.[4] This marks the start of the accession process. In November 2022, Bulgaria additionally submitted an 'Initial memorandum' or self-assessment on the consistency of its institutional framework with OECD best practices.

The Bulgarian Ministry of Foreign Affairs (MFA) roadmap lists the step-by-step activities under the areas of cooperation and the associated ministries involved in carrying out the required steps. The commitment of Bulgaria in joining the OECD can be indicated by the number of ministries involved in the Interagency Coordination Mechanism (ICM)

[1] OECD regularly consults with non-members Brazil, China, India, Indonesia and South Africa as well as with supra-national organizations such as the European Union.
[2] In addition to Bulgaria, Argentina, Brazil, Croatia, Indonesia, Peru, Romania, and Thailand are applying to join.
[3] https://www.mfa.bg/en/bg-oecd/bg
[4] Example committees include on trade, investment, bribery, corporate governance, pensions, competition. See appendix at https://one.oecd.org/document/C/MIN(2022)22/FINAL/en/pdf

1. OECD accession process since 1990



specially created for the process of negotiations and preparatory activities for accession – 15 ministries and 12 agencies and commissions (including the Bulgarian National Bank and the National Statistical Institute).[5] More precisely, the MFA has stated that "accession to the Organization for Economic Co-operation and Development (OECD) is among the main foreign policy priorities" of Bulgaria.[6]

The OECD roadmap document states that the accession steps take place in a confidential setting.[7] Clearing any single committee is not sufficient for formal accession. All 25 committees must be cleared, and the timeline for accession may be quite different depending on the peculiarities in a country's institutional framework and its ability to achieve quick convergence to OECD best practices. For example, Colombia took 4 years to clear the trade committee while Lithuania found acceptance in only 6 months.[8]

Figure 1 summarizes the OECD accession process in the previous accession waves by plotting the timelines between initial roadmap and formal accession dates for the countries that have joined the OECD since 1990. The average time from roadmap to accession date is 3.5 years. However, there is substantial dispersion. For example, it took Slovakia and Colombia more than 6 years from roadmap to formal accession date.

Accession to the OECD is, therefore, similar in many ways to the accession to the EU. EU members may thus have already made progress on

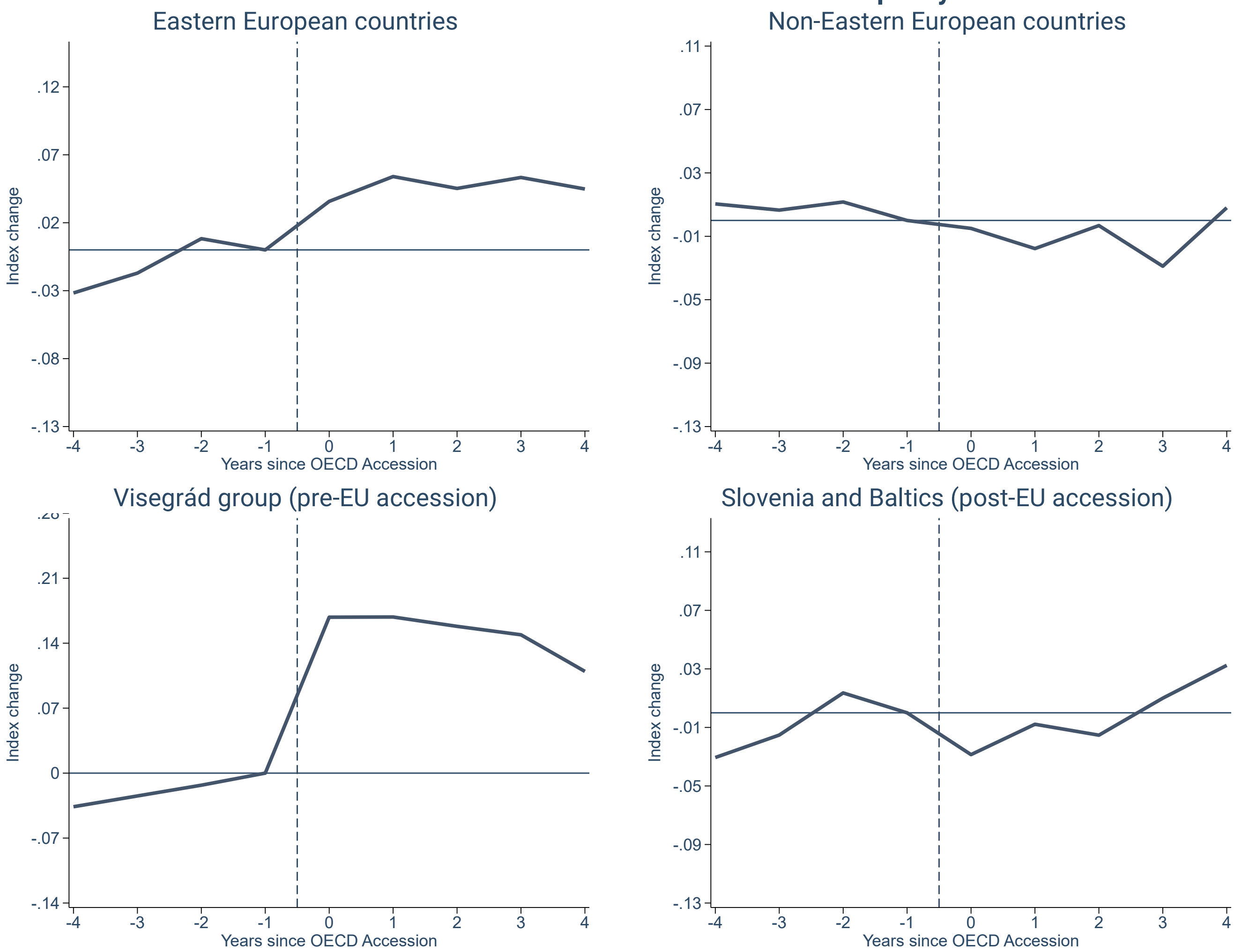
[5] The Ministry of Finance, the Ministry of Economy and Industry, and the Ministry of Innovation and Growth are most involved but also represented are the Ministry of Tourism, the Ministry of Justice. See the list under the roadmap link at https://www.mfa.bg/en/bg-oecd/bg/preparation or see https://www.mfa.bg/en/bg-oecd/contacts

[6] https://www.fsc.bg/en/organization-for-economic-co-operation-and-development-oecd/

[7] Nevertheless, some committee proceedings are publicized and one example is the digital policy committee which in November 2024 concluded that "Bulgaria's policies and practices are aligned with OECD best policies and practices … in the area of digital policy". See https://one.oecd.org/document/DSTI/DPC/ACS(2024)5/FINAL/en/pdf

[8] This information is based on the OECD Market Openness reviews of Lithuania and Colombia after the accession of these countries to the Organization.

2. Effects of OECD accession on institutional quality index.



Source. World Bank Worldwide Governance Indicators (WGI) and own calculations.

aligning policies that are more acceptable to the OECD committees. The flipside of a faster accession process to the OECD, however, is that potentially a smaller value added is achieved after the formal accession is enacted.

Effects on Institutional Quality

Methodological notes

We use data on institutional quality from the World Bank Worldwide Governance Indicators database.[9] This database is one of the premiere sources of data on national institutional quality and perceptions of governance quality. It combines governance measurements produced by several institutions, including several development banks, the Economist intelligence unit, Freedom house, Transparency international and others. These measurements are aggregated into 6 indicators, including: Voice and accountability; Regulatory quality; Political stability and absence of violence; Rule of law; Government effectiveness; and Control of corruption. We further aggregate the 6 indicators into one common indicator. We use these indicators to examine how they change over time after a country accedes to the OECD relative to other countries that do not change their accession status in the same period.[10] In our analysis we focus on the sample of countries, which have acceded to the OECD since 1990, as well as Bulgaria, Romania, and Croatia. The Eastern European countries that have acceded to the OECD in this period includes the Visegrád group (Czechia, Hungary, Poland, and the Slovak Republic) as well

[9] https://www.worldbank.org/en/publication/worldwide-governance-indicators
[10] This type of analysis is known as an event study. See also Wolff, Yotov, Nilsen, and Nenov (BCEA Policy Brief No. 02/2023).

as Slovenia and the Baltic states. As Figure 1 shows, the Visegrad group joined the OECD prior to joining the EU (in 2004), while Slovenia and the Baltic states (Lithuania, Latvia, and Estonia) joined the OECD after joining the EU (also in 2004).

Analysis

Figures 2 shows the effects pre- and post-OECD accession on the combined institutional quality index. The top row shows the effects for the Eastern European countries (Visegrad group + Slovenia and the Baltic States) in the left-hand panel, as well as the Non-Eastern European countries (South Korea, Israel, Chile, Costa Rica, Colombia, and Mexico) in the right-hand panel. For Eastern European countries OECD accession is followed by a persistent increase in the aggregated institutional quality index. The bottom row of Figure 2 further focuses on these countries by separately examining the Visegrád group and Slovenia and the Baltic States. As the Figure shows, the effects on institutional quality for the Eastern European countries are concentrated in the Visegrád group of countries. For these countries the institutional quality index increases by around 0.15 index points. This translates directly into a similar average increase average across the 6 broad indicators for institutional quality of the World Bank Governance Indicators. Figures A1-A6 in the Appendix show the pre- and post-OECD accession effects for each separate indicator. These figures further clarify that the main effects post-OECD accession materialize in the Control of Corruption, Rule of Law, Voice and Accountability and Regulatory quality indices.

The large one-time increase in institutional quality in the year of accession can be interpreted as OECD accession serving as a type of ``quality assurance” for the institutional reforms implemented by a country in previous years. In addition, the fact that the effects are concentrated in the Visegrád group compared to Slovenia and the Baltic states is most likely due to the former group acceding to the OECD prior to EU membership, with the latter group acceding to the OECD post EU membership. Since EU membership already contributes to improvements in institutional quality there is a smaller possible added effect from OECD accession for a country that has already joined the EU rather than for a country that has not joined the EU. For example, in the year immediately prior to OECD accession Slovenia and the Baltic states have an average index value for Rule of Law of 0.98 compared to 0.23 for the Visegrád group. Similarly for Control of Corruption Slovenia and the Baltic states have an average index value of 0.75 in the year before OECD accession compared to 0.14 for the Visegrád group.

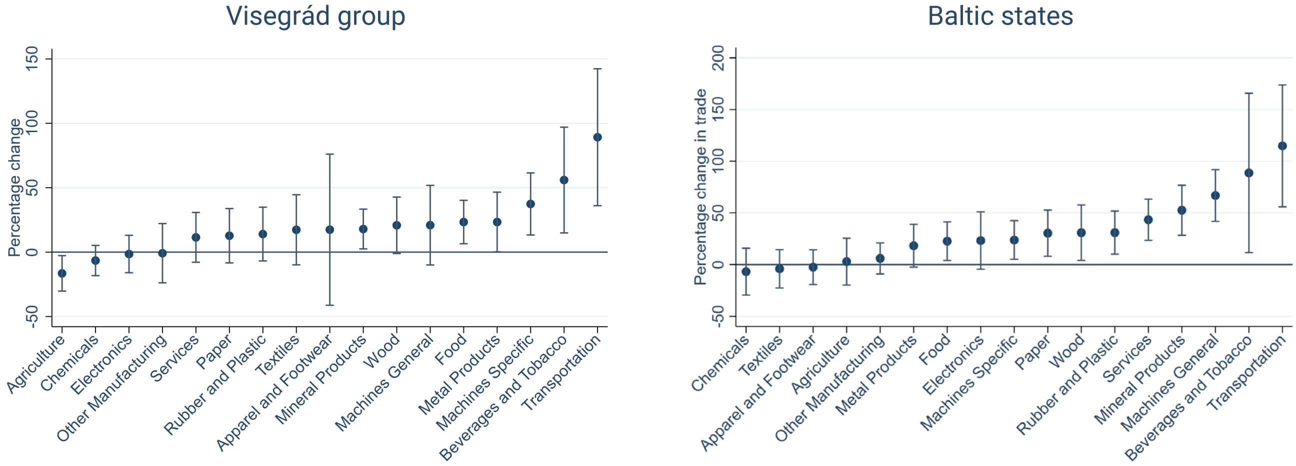
Effects on Trade Flows

Unlike the World Trade Organization (WTO), the OECD is not a international trade treaty-based organization, and it does not wield direct policy influence on trade, such as mandating trade agreements or negotiating trade policies. However, the OECD may play an indirect role in shaping the conditions under which trade can thrive by implementing its objectives and initiatives to promote stable economic policies, improved transparency, regulatory cooperation, reduced barriers to economic integration, and global open markets.[11] Thus, perhaps not surprisingly and also due to the large share that the OECD members take in the global trade system, the impact of the OECD on trade has been of interest to both academics and policy makers and quantifying these effects remains a subject of academic debate.

In a highly cited paper, Rose[12] argues that the OECD had a very large positive effect on its members’

[11] OECD (2023), OECD & WTO (2024)
[12] Rose (2005)

3. Effects of OECD accession on sectoral trade flows for Eastern European countries.



Source. International Trade and Production Database for Estimation (ITPD-E) and own calculations. Note: Sectors are ranked by their estimated OECD effect.

trade.[13] This result is surprising and has been under scrutiny in the academic literature because of its very large magnitude and because it implies that the OECD has been more successful in promoting trade than the WTO and its predecessor, the General Agreement on Tariffs and Trade (GATT), which were specifically designed to promote international trade among their members.

Most recently, Stefanova, Bandarkar and Yotov[14] offer a more nuanced view of the OECD effects on members' trade. Specifically, using new and disaggregated data from the United States International Trade Commission[15] and capitalizing on improved estimation methods,[16] they conclude that, overall, membership in the OECD did not lead to increased international trade among its members. However, they also provide evidence that OECD membership has moderately promoted members' trade in certain sectors, e.g., 'Food', 'Beverages and Tobacco', 'Wood', Paper', and 'Rubber and Plastic'.

The most important result from this analysis in relation to Bulgaria's accession to the OECD is the finding that OECD membership led to increased trade for the countries in the Visegrád group and even stronger positive trade effects for the Baltic states. Figure 3 shows these sectoral estimates of OECD membership on trade volumes among the OECD members. The main conclusion from these figures is that the OECD has been successful in stimulating trade in many sectors for these two groups, significantly exceeding the OECD average. For both groups, the trade-promotion effects have been quite strong in the 'Beverages and Tobacco' (56-89%), 'Machinery' (37-67%), and especially in 'Transportation', where trade flows about doubled for each group after joining the OECD.

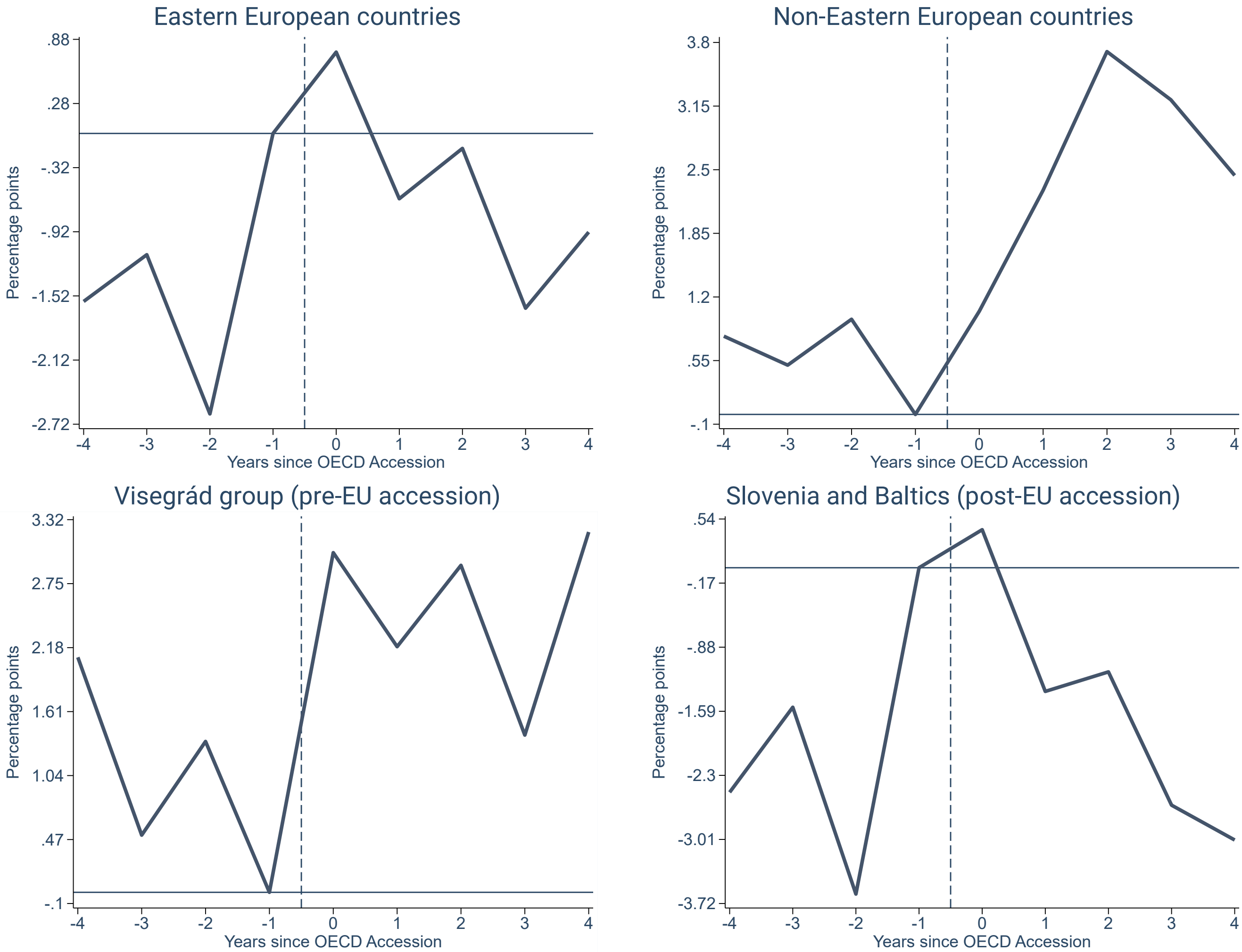
Given the lack of explicit OECD objectives and initiatives to directly decrease the bilateral trade costs among its members, and consistent with our earlier findings for improved institutional quality after joining the OECD, the trade-promotion OECD effects for the Visegrád group and the Baltic states should be attributed to indirect channels and OECD initiatives such as signaling lowering uncertainty, economic stability, improved institutional quality, transparency, and regulatory cooperation.

Effects on Capital Flows

In addition to trade flows, the size and direction of financial flows is another important indicator of integration with other nations. Our analysis of

[13] Specifically, Rose finds that "membership in the OECD boosts trade by over 50%, holding other things constant, an amount that is both robust and economically and statistically significant." (p. 682).
[14] Stefanova, Bandarkar, and Yotov (2025)
[15] Borchert et al. (2021, 2022)
[16] Larch et al. (2024)

4. Effects of OECD accession on foreign direct investment.



Source. IMF and own calculations.

capital flows follows the same methodology as the analysis of institutional quality. We use data from the International Monetary Fund (IMF) for the nations successfully attaining accession to the OECD since 1990 as well as Bulgaria, Romania, and Croatia. We examine gross capital inflows and outflows, and normalize them by the country's GDP.[17]

We also pay particular attention to foreign direct investment (FDI), as they are of particular interest to policy-makers, since they reflect more considered, "permanent" decisions seeking control of a firm and are thus less likely to be reversed. In addition, FDI has been shown to promote productivity growth via spillover effects.[18]

Analysis

Figure 4 shows the effects on FDI pre- and post-OECD accession for different groups of accession countries.[19] The figure shows that non-Eastern European nations exhibit a large rise in FDI relative to GDP inflows following OECD accession (top-right panel of Figure 4). The non-Eastern European states also show a rise in gross inflows to GDP following OECD accession, see Figure A7 in the Appendix. When we examine within the Eastern European group, Visegrád group of states have a

[17] Gross inflows represent foreign purchases of domestic financial assets and include (inward) foreign direct investment (FDI), gross portfolio investments and other investments. Similarly, gross outflows represent a country's purchases of foreign financial assets and include the same categories as gross inflows.
[18] See Ahn, et al. (2024) and references therein. FDI flows also tend to be better measured compared to other financial asset flows.
[19] See the Appendix for effects on gross capital inflows and outflows. The data on these flows is too noisy to draw any systematic conclusions apart from the broad trends for FDI being also present in the gross capital inflows data. Overall, the results from the analysis of capital flows are mainly suggestive as standard errors are not included.

strong positive burst in FDI after OECD accession (bottom-left panel of Figure 4), especially compared against Slovenia and the Baltic States. These results are consistent with the differential effects on institutional quality and suggest that improvements in institutional quality from OECD accession may impact FDI flows. The strong FDI effects for non-Eastern European countries without a measurable increase in institutional quality, on the other hand, suggest that there are additional reputational and signalling effects from OECD accession.

Main conclusions

The OECD accession process bears many similarities to EU accession as it aims to achieve institutional quality convergence to an OECD ``average”. On the other hand, institutional quality is a critical driver of sustained long-run economic growth.[20] In our analysis we find a strong persistent positive effects on institutional quality from OECD accession for countries with lower initial institutional quality indicators, such as the (pre-EU accession) Visegrád group. These effects are particularly strong for the indicators of rule of law, control of corruption, regulatory quality, and voice and accountability. These findings should be welcomed as good news for Bulgaria. As of 2022 the county has index scores on Control of Corruption, Rule of Law and Voice and Accountability of, respectively, -0.16, -0.11, and 0.29. All of these values are actually lower than in the pre-EU accession year of 2006. They are also lower than the average for the Visegrád group pre-OECD accession. Therefore, based on the results from the analysis of effects on institutional quality, the OECD accession process should be expected to improve the institutional quality indicators of Bulgaria to an important degree.

Overall, there are also positive effects on trade volumes for Eastern European countries joining the OECD. Given the lack of explicit OECD objectives and initiatives to directly decrease the bilateral trade costs among its members, these effects should be attributed to indirect institutional channels. Since such institutional channels are also very important for the Bulgarian economy and given certain historical and economic similarities between Bulgaria and some of the Visegrád and Baltic states, we anticipate that the OECD may also lead to increased trade for Bulgaria, especially in the sectors where our economy has a pronounced comparative advantage.

Finally, our analysis suggests that the Visegrád group of Eastern European nations and non-Eastern European nations have seen an increase in foreign direct investment following OECD accession. On the other hand, Eastern European nations who had already entered the EU, such as Slovenia and the Baltic states, did not enjoy significant increases in FDI. These results are consistent with the differential effects of OECD membership on institutional quality on pre- vs. post-EU accession of Eastern European states and suggest that improvements in institutional quality from OECD accession may impact FDI flows. The strong FDI effects for non-Eastern European countries without a measurable increase in institutional quality, on the other hand, suggest that there may be additional reputational effects from OECD accession.

In sum, our conclusion is that accession to the OECD may lead to gains for Bulgaria in terms of improved institutional quality and increased trade and FDI. It is important to note, however, that OECD accession is still uncertain given the accession criteria and process. As discussed already, the accession process can take some time between the initial roadmap date and the final accession date, due to country-specific particularities with respect to specific institutions (e.g. trade, rule-of-law, etc.). On the other hand, delayed accession may be interpreted as bad news (bad reputational signal) given stated commitment to achieving it, especially vis-à-vis Romania and Croatia, which started the accession process at the same time as Bulgaria. Therefore, our main policy

[20] Acemoglu, Johnson, and Robinson (2005).

recommendation is the maintenance of continued commitment on the side of the Bulgarian government to ensure timely accession to the OECD.

The Appendix to this policy brief is available at: cea.egov.bg

The Council for Economic Analyses provides independent analyses and opinions on specific issues concerning the state of the Bulgarian economy, the challenges and risks facing it, as well as possible policies and recommendations to address them.

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