

**Seminar on the Promotion of  
Foreign Direct Investment to  
Southeastern Europe**

**Bulgaria**

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**Ministry of Foreign Affairs of Japan  
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## **REPUBLIC OF BULGARIA**

### **REPORT FOR: BULGARIAN MACROECONOMIC STABILITI AND FOREIGN INVESTMENT**

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#### **1. Transition to market economy.**

In the first quarter of 1997, Bulgaria signed a new agreement with International Monetary Fund with which marked the introduction of a currency board (July 1997) and a set of an austere and radical new measures for policy reforms.

The German mark was properly chosen as reserve currency and the Bulgarian lev pegged to it. Compared to the macroeconomic indicators` value from the beginning of 1997, the currency board policy resulted in considerable decrease of inflation, increased credibility of the national currency and reduced interest rate

The economy started to recover in 1998 as the year was marked by events favourable impact on market reforms, e.g. the three-year IMF agreement and the accession to CEFTA. In 1998 all prices except for household power consumption and industrial central heating utilities were liberalized. Bulgaria achieved financial stabilization, 3,5% real GDP growth and 1% end year inflation. Important steps were taken in the areas of privatization, banking sector reforms, agricultural liberalization. Fiscal policy was prudent as the general government budget deficit was limited to 0,9% of GDP, and income policy for state owned enterprises was implemented strictly. Structural reforms were continued in a wide front. Privatization was accelerated, recording the highest level of sale of state assets in Bulgaria`s history. Liberalization of agricultural sector was continued consistently with the government program for structural reform. The trade and pricing polices were fully liberalized and the state control on prices of agricultural and food products was eliminated. A system of licensing helped the development of grain market.

In 1999 (during the Kosovo crisis) all direct transport corridors from Bulgaria to the EU passing trough Yugoslavia were affected. Traffic on the Danube River was blocked. The total direct losses for Bulgaria amounted to USD 95 mln. Even so the real GDP reached 2,4%, and the inflation was 6.2%. The external current account deficit was contained to an estimated 5.2% of GDP, for the full year as exports recovered after midyear. Confidence in the Bulgarian national currency remained strong, with gross official reserves at USD 3,2 bln and the fiscal reserve account at USD 1,4 bln. At end – 1999.

The economic changes in Bulgaria continued in 2000 when was the invitation to start accession negotiations with the EU in December 1999 and their initiations in March 2000.

The macroeconomic results in 2000 – 5,8% real GDP growth and inflation close to 11,4% well addressed the companies` needs for medium and long term planning. The positive changes continued in 2001. The economic growth was 4,0%, and inflation close to 4,8%. Budget deficit was the lowest in the region: 0,9%. In 2001 Bulgaria realized record gross capital formation: 20,4%. The real GDP from June 2001 to June 2002 is 5,3% and Bulgaria is among the leaders in CEE.

By the end of 2001 79,5% of the state assets, which are subject to privatization, were privatized. The cumulative value of all foreign direct investments in Bulgaria reached USD 4,618 in 2001. About 80% of them have been generated during the period 1997 – 2001.

The investment climate has been improved by positive changes in the tax legislation. In terms of income tax and corporate tax rates Bulgaria has become to the most competitive location in CEE. The highest bracket for the personal income tax has been dropped to 29%. Since 1 January the corporate tax rate is 15%. VAT refund period has been reduced from 4 to 3 month.

**“Bulgaria is a market economy”**, says the EU Commission in its regular 2002 report.

## 2. Industrial structure

### Structure of Gross Value Added (close to GDP)

Economic sectors	%
Agriculture and forestry	14.5
Industry	27.8
Services	57.7
<b>Total:</b>	<b>100.0</b>

Source: National Statistical Institute, 2001

### Structure of Output by Industrial Sub-sectors

Industrial sub-sectors	%
Mining	5.4
Foods, beverages and tobacco	18.4
Textile, leather and clothing	6.2
Wood products	1.2
Pulp, paper products; publishing	3.3
Chemicals, chemical products, fibres, rubber and plastic products	9.1
Basic metals except casting	10.1
Metal products, machinery and equipment, casting	7.8
Electrical and optical equipment	3.4
Transport equipment	1.3
Electricity, gas and water supply	14.6
Non-metal mineral products	3.3
Others	5.2
<b>Total:</b>	<b>100.0</b>

Source: National Statistical Institute, 2001

Sectors which were most attractive to foreign companies during the transitional period and in 2001.

### Foreign direct investment inflow by sectors and by years in USD m

Nr	Sector	2001	Total by sectors
1.	Petroleum, chemical, rubber and plastic products	11.5	289.8
2.	Mineral products (cement, glass,...)	19.4	249.2
3.	Telecommunications	177.4	229.6
4.	Metallurgy	37.2	139.7
5.	Mechanical products	16.6	120.6
6.	Food products	42.9	118.8
7.	Wood products, paper	5.3	105.6
8.	Textile and clothing	33.7	90.5
9.	Electrical eng., electronics, computers and communication equipment	27.0	73.0
10.	Construction	18.8	44.3
11.	Leather and leather products	0.2	22.1
12.	Electricity, gas and water	0.8	19.5

## 3. Socio-economic infrastructure and goods market

## Power Generation

The power engineering has been designated for a strategic sector in Bulgaria over many decades. In 2000 the power plants produced 40,927 million kWh electric power including:

- Nuclear Power Plant (NPP) -18,178 million kWh (44.4% of the total output);
- Thermal Power Plants (TPP) -19,791 million kWh (48.4% of the total output);
- Hydropower Plants (HPP) and Pumped Storage Hydro-Power Plants (PSHPP) – 2,958 million kWh (7.2% of the total output).

The total installed generating capacities in Bulgaria are 13 183 MW, out of which:

- in TPP -6 553 MW (49.7%);
- in NPP -3 760 MW (28.5%);
- in HPP and PSHPP – 2,870 MW (21.8%).

Main directions of the current reform in the electricity sector are:

- implementation of clear regulatory rules;
- privatization of some HPP, TPP, electricity distributing companies, etc.;
- implementation of the competitive market model;

reconstruction of the existing capacities and building new ones through attracting investors.

## Transportation

Based on its geographical disposition, transport system, infrastructure, warehouses, customs system, experience and labour force, Bulgaria has a good potential for future logistics development. The road infrastructure of Bulgaria comprises of more than 37,000 km roads, 416 km of which are highways. There are 6,500 km of developed railways, more than 64% of which are electrified.

The main Bulgarian ports are Bourgas and Varna. Both of them serve over 60% of the foreign trade of Bulgaria.

The Danube River is the international water road of the country.

There are 5 international airports in Bulgaria: Sofia, Varna, Bourgas, Plovdiv and Gorna Oriahovitsa (the latter is used mainly as a cargo airport).

## Access to large consumer market

Bulgaria has a great access to large consumer markets. Bulgaria has access to consumer markets of EU CEFTA Other OECD countries<sup>1</sup>, Balkan countries<sup>2</sup>, CEFTA and others.

## Territorial structure of export and import:

Region	Export 2001		Import 2001		Turnover 2001	
	USD mln	%	USD mln	%	USD mln	%
EU	2793.7	54.8	3574.4	49.4	6368.1	51.7
EFTA	64.8	1.3	90.3	1.3	155.1	1.3
Other OECD countries <sup>1</sup>	731.3	14.3	569.1	7.9	1300.4	10.5
Balkan countries <sup>2</sup>	368.0	7.2	42.9	0.6	410.9	3.3
CEFTA countries	247.0	4.8	550.3	7.6	797.3	6.5
CIS and Baltic (former USSR) countries	298.2	5.9	1714.2	23.7	2012.4	16.3
Other countries	596.2	11.7	688.7	9.5	1284.9	10.4
<b>TOTAL</b>	<b>5099.2</b>	<b>100</b>	<b>7229.9</b>	<b>100</b>	<b>12329.1</b>	<b>100</b>

## Bulgaria has preferential market access:

### (Free trade agreements with:)

- WTO membership from 1996
- European Union Association Agreement, signed in 1993
- EFTA Agreement from 01/07/1993
- CEFTA member from 01/01/1999
- Free Trade Area with Turkey from 01/01/1999
- Free Trade Agreement with Macedonia from 01/01/2000
- Free trade agreements signed with Lithuania (08/05/2001), Israel (08/06/2001), Croatia (04/12/2001) and Estonia (11/12/2001), completed negotiations with Latvia

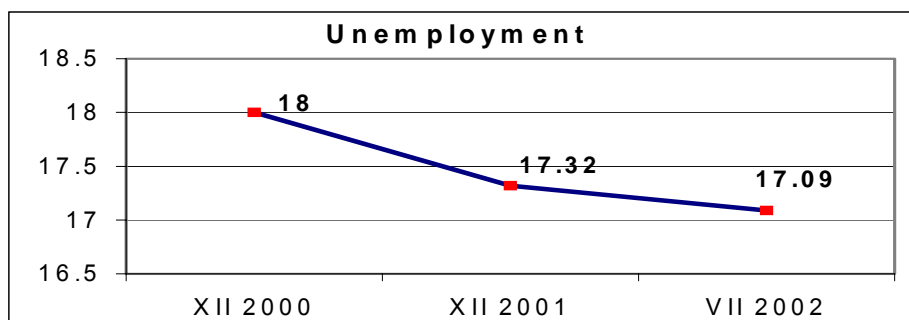
<sup>1</sup> Incl. Australia, Canada, New Zealand, USA, Turkey, Japan

<sup>2</sup> Incl. Macedonia, Croatia, Albania, Yugoslavia, Bosnia and Herzegovina

### 3. Labour market

The unemployment in July 2002 is 17.09%, high but less than in 2001, and 2000.

*Dynamic of unemployment per month:*



*Labour cost ratio (average monthly salary USD), by sectors:*

Sectors	Labour cost ratio (average monthly salary USD)
<b>Total</b>	128
Agriculture, forestry and fishing	92
Mining and quarrying	208
Manufacturing	120
Electricity, gas and water supply	219
Construction	99
Trade repairing activities	118
Hotels and restaurants	80
Transport and communications	148
Financial intermediation	245
Real estate, renting and business activities	140
Public administration; compulsory social security	168
Education	120
Health and social work	115
Other community, social and personal service activities	115
State organizations	129

- There are 2 labour unions in Bulgaria

#### **Bulgaria education**

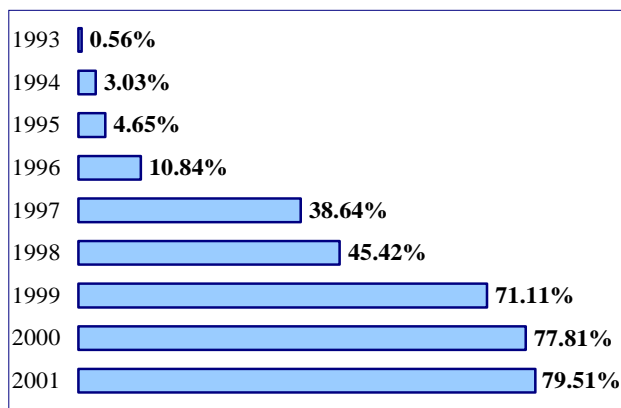
- Bulgaria's secondary education is among the best in the world: 5th in the world in sciences, 11th in mathematics (World Bank and The Economist ranking)
- Bulgarians rank second in international IQ tests (MENSA International)
- Bulgarians are among the top university students worldwide (2nd in the world in SAT scores)
- Many students abroad
- Excellent labour quality

### 4. Industrial policy

## Privatization

About 52.5 % of the assets of the state-owned enterprises, representing 79.5% of the assets subject to privatisation, have been privatised by the end of 2001, as displayed in the next figure.

The sale of the large enterprises in the major branches (chemistry, metallurgy, the military-defence complex, machine building) has been almost completed. The enterprises, which are still not denationalised, had until recently a monopoly status in infrastructure branches like energy, communications, and railway transport.



The privatisation process is regulated by the Law on Privatisation and Post-Privatisation Control (LPPPC), which came into effect on 23 March 2002. It abrogated the old privatisation law, which has been in force since 1992. A new Regulation on Tenders was adopted on 5 March 2002. The other regulations issued in line with the old law shall be effective in case they do not contradict the provisions of the new one.

The changes in the privatisation legislation concentrate the sale process mainly through the Privatisation Agency for the purpose of making it more transparent and effective.

## Anti-monopoly policy measures

The new Law on Protection of Competition came into force on 12.05.1998 repealing the Law on Protection of Competition from 1991. The main objective of the Law is to secure protection and good conditions for the expansion of competition and free initiative in the economic activities, in order to make them main regulators of the market economy in Bulgaria.

The Law provides protection against:

- agreements, decisions and coordinated practices;
- misuse of a monopolistic and dominating position on the market;
- concentration of economic activities and unfair competition;
- other actions which may result in prevention, restriction or breach of competition.

The Law applies to all enterprises that carry out activities in Bulgaria, including the enterprises with foreign investment.

Pursuant to the Law on Protection of Competition “enterprise” means any natural person, legal person or entity pursuing activities on the relevant market, regardless of the particular legal form.

### Commission for the Protection of Competition

The Commission may permit:

- preliminary equalization of the general terms for enterprises which offer contract’s conclusion by applying general terms as provided for in the law;
- state aids designated to:
  1. accelerate the economic development in regions with low living standard or unemployment above the average for the country;
  2. promote the economic growth in particular economic activities or regions as provided for in the law;
  3. support the implementation of projects that are of significant importance for the country or to surmount considerable difficulties in Bulgaria’s economy;
  4. state aids monitoring of the countries with which Bulgaria has established monitoring for state aids.
- concentration of economic activity as provided for in the Law;
- exemption of the prohibited acts as set forth in the Law.