

Bulgaria: On the Up and Up

Bulgaria has had much to celebrate in the last three years. According to figures published by the Central Bank, GDP growth weighed in at 5.8% in 2000, 4% in 2001 and 4.2% in 2002, comfortably outpacing economic expansion in western Europe. Over the same period, annual inflation fell from 11.4% to 3.8%, while foreign exchange reserves expanded from \$3.5 billion to \$4.7 billion, with total external debt falling from \$11.2 billion to \$10.9 billion.

If these macroeconomic trends provide an impressive testimony to the progress that Bulgaria has made towards EU accession planned for 2006 or 2007, then so too have the giant strides that have been taken in accelerating the country's transition into a flourishing market-based economy. According to the Bulgarian Economic Forum (BEF), by the end of 2002 about 53.5% of the long-term assets of state-owned enterprises had been transferred to private ownership. If those assets that are not earmarked for privatization are excluded from the calculations, this share rises to 81%. As the BEF adds, "about 99% of the agricultural lands and 92% of forest areas have been returned to their former owners."



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FDI into Bulgaria peaked at more than \$1 billion in 2000.

Bulgaria's strong performance twinned with the speed with which the economy has been freed from state ownership has not been lost on influential external analysts. Most significantly, as far as Bulgaria's credibility with international investors are concerned, the ratings agency Standard & Poor's (S&P) announced in May that it was upgrading its sovereign rating on Bulgaria from BB+ to BBB- with a stable outlook. At the same time, S&P reported that "the upgrade is supported by the continued reduction in Bulgaria's general government debt burden, improved liquidity, and the lasting credibility of the government's fiscal policy. Marked gains in productivity and competitiveness have aided strong export increases, which together with high investment growth, has sustained one of the best growth performances in Europe. There has also been progress on a number of structural reforms."

Inflows of FDI set to rise

Productivity and efficiency is expected to improve still further in 2003 and 2004 as a by-product of an accelerating flow of inward investment. FDI into Bulgaria peaked at more than \$1 billion in 2000, before dipping to \$813 million in 2001 and \$458 million in 2002 as the fragility of the global economic environment took its toll. However, according to a presentation delivered at this year's EBRD meeting by Nikolay Vassilev, Deputy Prime Minister and Economy Minister, total FDI flows are expected to rebound sharply this year and beyond. Vassilev explained that this would partially reflect the privatization of key assets such as DSK Bank in the financial services sector, the telecom company BTC, and seven electricity companies, but he added that the energy sector alone is

expected to attract investment of some \$1.4 billion over the coming three years.

Investors looking at the potential of Bulgaria, added Mr. Vassilev, are attracted by the country's key geographical location at the heart of a southeastern European market of some 560 million people. They are also drawn to Bulgaria by a very liberal regulatory and tax environment, with profits taxed at a maximum rate of 23.5% but at zero in those regions suffering from high unemployment. The maximum rate of income tax, meanwhile, is just 29%, which

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Selected Economic Indicators

	1998
GDP, US\$ billion	12.2
GDP per capita, US\$	1,484
Real GDP growth rate, %	3.5
Annual inflation rate, %	1
Annual unemployment rate, %	12.2
Average monthly gross salary, US\$	106.5
Current account balance, US\$ million	-61.4
Gross external debt stock, US\$ billion	10.9
Foreign exchange reserves, US\$ billion	3
Foreign direct investment, US\$ million	620

In 2002, some 3 million tourists over the age of 16 visited Bulgaria, an increase of 8.6% from 2001, while total revenues generated from international tourism expanded by almost 6%.

compares very favorably with a number of other southeastern European jurisdictions. Another competitive advantage offered by Bulgaria, added Mr. Vassilev, is that the cost of labor – which averages about Eu144 per month – remains exceptionally low.

Increasing flows of FDI are especially good news for local companies such as Chronika, a Sofia-based accounting, auditing and consultancy company that was formed in 1994 and is now acting as the Bulgarian advisor on landmark schemes such as the Sofia International Airport project. Chronika is also working on behalf of a number of US investors that are eyeing the potential of the Bulgarian market. While its business may be thriving, it is probably not representative of the broader private sector, according to Pavlina Kalcheka, a Director at Chronika's Sofia headquarters. She says that while the operating environment in Bulgaria has improved conspicuously in recent years, there are still a number of structural inefficiencies that frustrate the growth of investment. Bureaucracy remains a stubborn problem, she says, adding that although the tax regime looks favorable on paper, in practice the fact that tax and other laws can be changed once or twice a year continues to deter would-be private sector investors. "We are seeing some very big projects, especially in the transportation and energy sectors," she says. "But it is mainly being initiated by the European Union rather than by private sector investors. You can't attract investors by just lowering taxes – much more needs to be done to address the problem of excessive bureaucracy."

The Potential of Tourism and IT

Nevertheless, it is clear that a number of industries are successfully attracting new investment to Bulgaria. Take tourism as an example, which has expanded progressively over the last three years. In 2002, some 3 million tourists over the age of 16 visited Bulgaria, an increase of 8.6% from 2001, while total revenues generated from international tourism expanded by almost 6%. There is plenty of room for further growth in the sector. As a spokesperson for the Ministry of Tourism explains, Bulgaria is able to attract year-round tourism, with the ski centers increasingly popular with winter vacationers and the coastal resorts on the Black Sea growing in importance as a low-cost alternative for western European visitors in the summer. "Hotels and infrastructure on the Black Sea coast and in the ski resorts are attracting some big investment," says the Ministry's spokesperson. "We also see potential in alternative areas such as eco-tourism."

Another area that has clear growth potential is the IT and Communications sector. Although there are more than 1100 companies operating in the IT sector in Bulgaria, Internet usage, for example, remains relatively low with just 600,000 registered users in 2002 out of a population of almost 8 million. Investor interest in the Bulgarian IT sector was evident from the attendance figures at the 2002 technical fair at Plovdiv, which attracted 2259 exhibitors from 42 countries.

Written by Phil Moore Designed by www.dotCOMMS.net

Bulgaria: Total GDP (\$m) - 16 228 for 2002; forecast for 2003 - 19 421; Real GDP growth (annual % change) - 3.0; GDP per head (\$) - 2,130; Inflation (average annual % change in CPI) - 6.0; Industrial production (annual % change) - 7.4; unemployment rate (% of labour force) - 16.4; Money supply, M2 (annual % change) - 19.8; Foreign exchange reserves (\$m) - 3.663; government expenditure (% of GDP) - 40.5; Budget balance (% of GDP) - -0.9; Total foreign debt (% of GDP) - 62.9;

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Current account balance (\$m) - -859; merchandise exports (\$m) - 5 495; Real GDP growth (annual % change) - 3.0; Money supply, M2 (annual % change) - 19.8; Foreign exchange reserves (\$m) - 3.663; Total GDP (\$m) - 16 228

icators

1999	2000	2001	2002
12	12	13.6	15.5
1,499	1,479	1,710	1,970
2.4	5.8	4	4.2
6.2	11.4	4.8	3.8
16	18.1	17.5	16.3
109.4	112.1	115.9	131.4
-651.7	-703.7	-842.2	-677.4
10.9	11.2	10.6	10.9
3.2	3.5	3.6	3.7
818.8	1001.5	812.9	458

Source: Bulgarian Economic Forum

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