

# Republic of Bulgaria |

## Investment climate

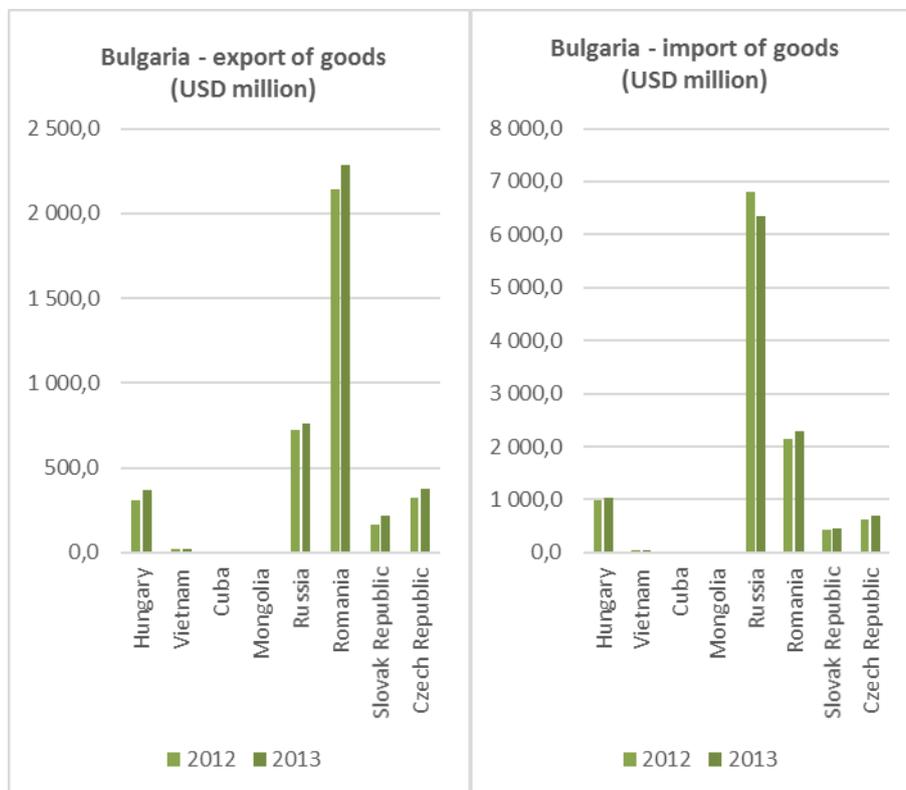
The World Bank Doing business report 2015<sup>1</sup> ranks Bulgaria 38<sup>th</sup> among the world's most attractive countries for doing business, slightly lowering its position compared to the previous year (36<sup>th</sup> in 2014). In 2014, the Economist Intelligence Unit (EIU)<sup>2</sup> listed Bulgaria 10<sup>th</sup> in its regional rating of business-environment attractiveness among other eastern European countries; Bulgaria climbed one position compared to 2013.

All in all, in recent years, Bulgarian government was successfully implementing a number of measures to control budget deficit and sovereign debt, improve financial figures, reduce inflation and tackle corruption. In the opinion of the EIU, the issues of independent rule of law still remain the country's 'weakest link'.

Bulgaria retains its fiscal attractiveness. Advance corporation tax as well as personal income tax dwell at 10% (the lowest tax rates in the EU). Fiscal stability combined with a low level of tax rates are key drivers for attracting investments and creating grounds for economic growth. Operating costs for businesses in Bulgaria are also the lowest in the EU. Businesses are relieved of VAT for two years, where equipment is imported for investment projects with a price tag over EUR 5 million, and where at least 50 jobs are created. The country offers 5% dividend tax (0% for EU citizens) and competitive wages – an average wage reached BGN 827.67 (EUR 423.18) at the end of 2014.

International rating agencies recognize the country's somewhat stable financial position. Bulgaria possesses the following credit ratings: Moody's – Baa2; Fitch – BBB-; S&P – BB+.

## Trade and economic relations with other member states of the Bank<sup>3</sup>



Area 110 993 sq km  
 Population (2014) ■ 7.2 million  
 Unemployment (2014) ▼ 11.4%  
 GDP (2014) ▲ \$ 55.7 billion  
 GDP growth rate (2014) ▲ 1.7%  
 Inflation (2014) ▼ -1.5%  
 Average annual exchange rate (2014)  
 ■ 1.96 BGN/1 EUR  
 Sovereign debt (2014) ▲ 27.6% GDP  
 FDI inflow (2014) ▲ \$ 2.0 billion  
 FDI outflow (2014) ▼ \$ 0.4 billion

### Main industries:

- energy production, tourism
- transport, IT
- food processing
- pharmaceuticals
- health-care products
- textiles
- chemicals

### National development bank:

- Bulgarian Development Bank

### Bulgarian bank closely cooperates with:

- EIB, EBRD, CEB
- BSTDB, KfW, NIB
- Eximbank Hungary

### Participation in IDBs (share in authorized capital):

- World Bank Group – IBRD (0.27%), IFC (0.22%)
- IMF (0.28%), CEB (1.14%)
- EIB (1.18%), EBRD (0.81%),
- BSTDB (13.50%), IBEC (7.56%)

### Exports / imports (2014):

▲ \$ 37.8 billion / ▲ \$ 38.2 billion

### Exports / imports, Bulgaria's share (2013):

- Hungary 1.2% / 3.0%
- Vietnam 0.1% / 0.1%
- Cuba 0.0% / 0.0%
- Mongolia 0.0% / 0.0%
- Russia 2.6% / 18.5%
- Romania 7.7% / 6.7%
- Slovak Republic 0.7% / 1.3%
- Czech Republic 1.3% / 2.0%

<sup>1</sup>Source: World Bank Group - Doing Business 2015.

<sup>2</sup>Source: Economist Intelligence Unit, Slovakia: Business environment ranking summary, April 2015.

<sup>3</sup>Source: UNCTAD.

## Economic development forecast

GDP growth reached 1.7% at the end of 2014. Real GDP is also estimated<sup>4</sup> to grow by 1.7% in 2015. Then it will speed up to an average of 3.2% in 2016-2019 owing to growing internal demand, capital investments and exports.

Consumer price index continued shrinking throughout 2014 as a result of fall in raw material prices and weak domestic demand. Deflation at the end of 2014 reached 1.5%. In 2015 inflationary pressure will increase due to stronger domestic demand and expected increase in controlled energy prices, which is vital for cutting losses of the country's energy production sector. However, moderate growth of wages and lending will limit pressure on prices. An average annual inflation is estimated at 0.5% in 2015, while in 2016-2019 it will reach, on average, a 3% per annum.

National currency rate remains fixed against euro<sup>5</sup> and will continue doing so until Bulgaria enters the Eurozone. Depreciation of euro against US dollar, which resulted in a similar trend for Bulgarian lev (average annual exchange rate in 2014 amounted to 1.47 BGN/1 USD, annual average exchange rate in 2015 is estimated at 1.88 BGN/1 USD), will help to boost exports of Bulgarian goods to markets beyond the Eurozone.

Despite growing trade deficit, current account surplus reached USD 0.5 billion in 2014 (0.9%). Due to low global energy prices and fiscal consolidation that restrain imports, current account surplus will grow to 1.2% GDP in 2015 before returning to deficit in 2016. Current account deficit will remain relatively low within 2016-2019 and reach on average 1.4%GDP per annum.

New budget plan adopted by Bulgarian government at the end of April 2015 aims at reducing budget deficit from 3% in 2014 to 1.5% GDP by 2018.

## Banking sector

Total assets of Bulgaria's banking system reached BGN 85.1 billion at the end of December 2014 (EUR 43.5 billion). The banking system demonstrated relatively high liquidity levels and solid financial figures. Liquid assets of credit institutions amounted to BGN 22.2 billion (EUR 11.4 billion), the amount of overdue debt (90 days and over) reached 9.4%.

In 2014, the Bulgarian National Bank (BNB) reported a decline in lending activities in nearly all economic sectors with the exception of only five industries – agriculture, extraction, energy, administration, culture and sports. Agriculture accounted for the largest growth in lending activities – the total amount of disbursed loans at the end of 2014 reached BGN 1.55 billion (EUR 0.79 billion). Sports, culture and entertainment accounted for the total of BGN 268.6 million (EUR 137.3 million) of disbursed loans. Extraction and administration accounted for BGN 287.6 million (EUR 147.0 million) and BGN 470.7 billion (EUR 240.7 million) of the total loans respectively disbursed in 2014. In energy sector the total amount of lending reached BGN 1.28 billion (EUR 0.65 billion).

The BNB forecasts a growing demand for mortgages and consumer loans on the part of households to satisfy their current needs. At the same time, corporate lending will experience a weak growth. Banks' high liquidity levels, low interbank rates as well as general decline in lending volumes will lead to lower interest rates both for loans and for deposits.

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<sup>4</sup>Source hereinafter if not mentioned otherwise: Economist Intelligence Unit, ViewsWire, May 2015; Business Monitor International, Bulgaria - Country Risk Report, Q2 2015.

<sup>5</sup> Since 2002 the exchange rate of Bulgarian lev has been fixed against euro and amounts to 1.95583 BGN/1 EUR