

country essentials

Summer 2014

coface

Bulgaria



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Country Risk Assessment

The Country Risk Assessment for Bulgaria is B, while the Business Climate is rated A4.

Strengths and weaknesses of the Bulgarian economy

Bulgarian economy slowed sharply in 2013. Increased European demand supported growth, but the export industry remains weak.

High unemployment led to social tensions that are exacerbated by political instability.

The Bulgarian economy remains vulnerable to external shocks and shows a lack of progress on governance issues.

However, Bulgaria's public finances are sound with low public debts. The economy is supported by a resilient banking sector and a comparatively cheap labour force.

The country's attractiveness is also guaranteed by the pegging of the Bulgarian lev to the euro by a currency board since 1997.

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GENERAL INFORMATION

Bulgaria has been a member of the EU since 2007. Its location on the Balkan Peninsula, directly on the Black Sea, provides key strategic support for foreign trade and tourism. The construction of planned pipelines will also give the country an increased standing as a gas transit country.

Form of government:	Parliamentary Republic		
Administrative organisation:	28 districts		
Area:	110,993.6 km ²		
Population:	7,364,570; density: 66 inhabitants/km ²		
Official language:	Bulgarian		
Local currency:	1 Bulgarian Lev (BGN) = 100 Stotinki 1 BGN = 0,507 EUR		
Capital:	Sofia	1,271,743	inhabitants
Major cities and population:	Plovdiv	366,779	inhabitants
	Varna	346,644	inhabitants
	Burgas	206,038	inhabitants
	Ruse	164,202	inhabitants
	Stara Zagora	138,272	inhabitants
	Pleven	113,636	inhabitants
Ethnic groups:	84% Bulgarians, 9% Turks, 5% Roma, 2% other (Russians, Armenians, Jews, Tartars, Greeks)		
Religion:	76% Bulgarian-Orthodox Christians, 10% Muslims, 1% Roman Catholic, 2% Protestants		
Natural resources:	Bauxite, coal, copper, zinc, lead, timber		
Most important sectors:	Agriculture, machinery construction, steel, textiles,		
Membership in international organisations:	EU, UNO, IAEA, WTO, IMF, World Bank, Council of Europe, CEI, NATO, OSCE, BSEC (Black Sea Economic Cooperation), ICC, UNIDO		

RISK ASSESSMENT

Coface
Country
Assessment

B

Growth sustained by domestic demand

Bulgaria's economy has slowed sharply in 2013 due to low household consumption in a context of high unemployment (12.9% in September 2013) and sluggish credit growth since 2010.

In 2014, the revival of private spending and of European demand (60% of exports) will support growth.

The social movements, which began in February 2013, led to the cancellation of the electricity price rises adopted by the previous government (+13.8% in July 2012). Meanwhile, the government moved to increase social spending which will support household income. Moreover, private workers remittances (7% of GDP) will remain stable after growing by 15% in 2013. The government plans to abolish taxes on fuel for the agricultural sector (6% of GDP), which is expected to continue performing well compared with the other sectors. To a lesser degree, copper mining (10% of exports of goods) will benefit from increased European demand.

Private investment is expected to recover in 2014, reflecting Russian investment in the South Stream gas pipeline (540km of the network on Bulgarian territory) and from better absorption of the EU Cohesion Fund. Bulgaria has in fact one of the lowest absorption rates in Europe (40%). Bulgarian companies are also expected to resume their investments after having built up sufficient precautionary savings. Their bank deposits represent 19% of GDP in 2013 against 15% for Hungary and 10% for Romania.

Finally, inflation will increase in 2014 in line with dynamic domestic demand. However, a further fall in electricity prices cannot be ruled out after the Energy Minister's announcements in late 2013, which could limit the price rises.

Sound fiscal management and external accounts in surplus

The public finances are still prudently managed. However, in mid 2013, parliament adopted a measure to increase fiscal deficit from 1.3% to 2.0% in response to the social unrest. But the public debt

remains low. More sustained growth in 2014 should make it possible to contain the budget deficit.

Regarding the external accounts, the current account balance is expected to remain in surplus in 2014. The balance of goods will post a deficit (8% of GDP), but the deficit has fallen appreciably since 2009 (12% of GDP) in a context of more sustained European demand. Moreover, expatriate workers' remittances and improved absorption of European structural funds will help to meet the deficit. Meanwhile, foreign direct investments will benefit from the projects related to the South Stream gas pipeline, as many investors want to take advantage of low Bulgarian labour costs. For example, in 2012, the Chinese company GWN established a plant in the north of the country for the production of 50,000 vehicles for the United Kingdom and Italy (production planned for 2015).

The country's attractiveness is also guaranteed by the pegging of the Bulgarian lev to the euro by a currency board, since 1997. This is the most rigid form of fixed exchange rate, with no allowance for fluctuation, each unit of national currency must be tied to its euro equivalent. Foreign exchange reserves, equal to 8 months of exports, appear to be adequate.

Early parliamentary elections could be held in 2014

Protests began in February 2013 against electricity price rises and have forced the Boiko Borissov's government (GERB) to quit. The May parliamentary elections have led to the formation of a weak centre-right coalition. The alliance between the Bulgarian Socialist Party (BSP) and the Movement for Rights and Freedoms (MRF) actually holds only 120 of the 240 parliamentary seats, so it needs the tacit support of the nationalist Ataka party. But the protests are continuing with demands for the resignation of a coalition dependent on the extreme right and which had to face two no-confidence votes in October 2013. Though the next parliamentary elections are not scheduled until May 2017, the holding of early elections seems possible in 2014.

Meanwhile, adoption of the Ataka motion to extend the ban on land sales to foreign investors violates European principles. The constitutional court is, however, expected to invalidate the resolution, thus avoiding the country EU financial sanctions.

FOREIGN TRADE & ECONOMIC KEY DATA

Bulgaria's Top Trading Partners

Imports in MEUR	2010	2011	2012	2013 (p)
EU 27	11,256	13,899	12,444	12,784
Russia	3,127	4,127	4,434	4,066
Germany	2,237	2,536	2,370	2,284
Italy	1,418	1,672	1,414	1,595
Romania	1,341	1,616	1,401	1,417

Exports in MEUR	2010	2011	2012	2013 (p)
EU 27	9,469	12,604	12,158	11,215
Germany	1,659	2,355	2,126	2,371
Turkey	1,317	1,733	1,958	1,695
Italy	1,511	1,761	1,764	1,634
Romania	2,772	1,933	1,674	1,468

(p) preliminary

Source: Eurostat.

Economic Key Data

Key Data	2011	2012	2013 (e)	2014 (f)
GDP growth (%)	1.8	0.8	0.6	1.6
Inflation (yearly average) (%)	3.4	2.4	1.8	2.7
Budget balance (in % of GDP)	-2.0	-0.5	-2.0	-1.8
Current account (in % of GDP)	0.1	-1.3	1.1	0.3
Public debt (in % of GDP)	15.4	17.6	18.5	19.0

(e) estimate

(f) forecast

Source: Coface.

Top 5 sectors 
IT
Pharmacy
Telecommunications
Electricity, gas and water supply
Outsourcing

Flop 5 sectors 
Wholesale trade
Construction
Retail trade
Agriculture
Manufacture

Insolvencies in 2013

The contraction of private consumption which creates nearly 2/3 of Bulgarian GDP influenced the situation for companies directly. Bulgaria recorded the highest increase in insolvencies in the whole CEE region – in 2013 there were 834 insolvent companies, an increase of 39% on the year before. Besides the decrease in demand entrepreneurs also suffered from indebtedness, insufficient programmes supporting business activities and in general difficult access to credit.

The sector breakdown makes the insolvency overview even more serious – all sectors crucial for the economy were impacted significantly by rising insolvencies. Indeed, decreased consumer confidence affected the wholesale and retail trade sectors and as a next step in the chain, manufacturing in particular started to experience demand and payment problems. The good agricultural year was not compensation enough however for companies active in this sector, and their position is confirmed in the list of Flop 5 sectors.

Top sectors are sectors with the lowest insolvency ratios, flop sectors are those with the highest insolvency rate.

Insolvency procedures

Insolvency is not regulated by a separate law in Bulgaria. The relevant regulations can be found in the fourth section of the Commercial Code, which was amended in 2003 to accelerate insolvency proceedings and improve the impartial settlement of creditors' claims. Insolvency proceedings are handled by the responsible insolvency court, and

may be initiated by either the insolvent undertaking, a creditor, tax authorities or, if the debtor is in liquidation - from the liquidator. This judgement will generally order the cessation of business operations and the sale of the estate in insolvency. An undertaking's insolvency or overindebtedness is established by a judgement to open insolvency proceedings. This decision must be recorded in the "Trade Register" under the Ministry of Justice.

Creditors must then register their outstanding debts within a specific period (old receivables: within one month after the publication of the judgement to open insolvency proceedings; new receivables, unless they have been settled by the date the debtor has been declared insolvent). Receivables registered after this date or not registered at all expire.

The creditors and the insolvent company may agree on a reorganisation plan during the proceedings. If this plan is approved by the court, the bankruptcy proceedings will be suspended and the undertaking can resume its business activities. If no plan is proposed, then the court will announce the insolvency of the company. This information must be recorded in the "Trade Register".

The final phase of the insolvency procedure is to allocate the collected amount. If the collected amounts are not sufficient to settle all of the obligations, receivables secured with a pledge or mortgage and receivables by reason of which the lien is exercised will be prioritized.

In general, insolvency procedures in Bulgaria are difficult and slow.

CHECKLIST FOR BUSINESS OPERATIONS

The following table summarizes relevant information for investors and exporters.

Corporate law	<ul style="list-style-type: none"> ■ Minimum capital for a stock company: BGN 50,000 ■ Minimum capital for a limited liability company: BGN 2
Tax law	<ul style="list-style-type: none"> ■ Foreign corporations may be registered for VAT purposes ■ 10% corporate tax ■ 20% VAT ■ Reduced rates: 8% and 5% (reduced rates) ■ No VAT on exported goods ■ 10% flat income tax for individuals
Investments	<ul style="list-style-type: none"> ■ Equal treatment of Bulgarian and foreign investors ■ Foreign investors may establish any legal form of business entity ■ Ownership up to 100% of Bulgarian companies is possible
Foreign exchange	<ul style="list-style-type: none"> ■ No restrictions within EU
Labour law	<ul style="list-style-type: none"> ■ Minimum wage 2013: BGN 340 (approx. EUR 172) ■ Average wage 2013: BGN 758 (approx. EUR 384) ■ Termination of contracts requires notice depending on the duration of employment ■ No work permit required for EU citizens and foreign executives
Customs	<ul style="list-style-type: none"> ■ Bulgaria is a member of the EU
Travel and residence	<ul style="list-style-type: none"> ■ No restrictions for EU citizens ■ Residence permit for stays of more than three months

Corruption

Bulgaria was 77th in the International Corruption Perceptions Index 2013. In comparison, Germany was ranked 12th and Austria was ranked 26th.

The Corruption Perceptions Index is issued by Transparency International, and lists countries according to the perceived level of public sector corruption. This perception is based on surveys of managers and experts, and related solely to the public sector.

The Doing Business Index issued by the World Bank (www.doingbusiness.org) expresses the ease

of doing business in a particular country. In this ranking, Bulgaria was ranked 58th in 2014 and has lost one rank compared to the previous year. Germany and Austria were rated 21st and 30th, respectively.

This index consists of ten different sub-indexes that determine whether laws or other regulations exist in certain areas and whether or how they are applied. For example, the subcategories deal with the payment of taxes, hiring of staff and the founding and closing of companies.

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