



BULGARIA - NEW FACE IN EUROPE

With an area of 110,910 sq. km (42,822 sq. miles) and a population of 7 718 550 inhabitants **Bulgaria** is one of the small countries in Europe. If we consider the gross added value of its economy, 59% of GAV come from the service sector, 29% from industry and 12% from agriculture. It is worth noting that 15 % of the population are University graduates. The country is a member of NATO and the WTO, and on the 1st January 2007 it is expected to join the European Union.

In 1991, Bulgaria chose the road to a rapid and radical economic reform. The country had to cope with grave problems and its major objectives were to curb inflation, slow down the decline of economy, achieve relative stability of the national currency and encourage private sector rapid annual growth. Macro-economic stabilization and structural reform were the key elements of economic reform.

In 1995 Bulgaria has applied for EU membership and in 1998 the Commission has prepared the first Regular Report on Bulgaria's progress towards accession. Since that time a period of economic revival and resumption of growth followed which led to unparalleled economic parameters in comparison to the preceding years.

A number of traditional industries such as building materials, textiles, leather, clothing, wood products, chemicals, metal products, casting, transport equipment, food and beverage, mechanical engineering gradually began to regain their place in the national economy, and by introducing European standards to the manufacturing process reached high quality of products. New sectors have rapidly developed due to the world industrial development and nowadays Bulgaria emerges as a preferred knowledge and skill base for leading edge ICT product development, systems integration, projects and outsourcing. Although traditional, the tourist sector made overwhelming strides ahead and competes to offer one of the best destinations together with world-famous Greek and Turkish resorts. Telecommunications are also making a fast progress and today we have three mobile operators, which cover almost the whole of Bulgaria.

Eight years after the First Progress Report, in its **Comprehensive monitoring report on the state of preparedness for EU membership of Bulgaria and Romania** for the year 2005, the European Commission concluded that Bulgaria complied with the criterion of being a functioning market economy, and the continuation of the current pace of its reform path should enable Bulgaria to cope with competitive pressure and market forces within the Union. The country "continued to show relatively favourable economic developments". Real GDP growth, which is 5.6% for Bulgaria, "was strong in 2004 and this trend broadly continued in the first half of 2005. Inflation remained fairly low in Bulgaria". The 2005 report showed that "considerable progress has been made" in several areas, such as privatisation of state-owned enterprises and the liberalisation of telecommunications in Bulgaria.



"Figure-clad", the economic growth speaks for itself. In 2005 **GDP** more than doubled and reached USD 26 648,2 compared to 1996 (USD 10 368). GDP real growth rose from /-9,4/ in 1996 to 5,5 in 2005

The **export** of goods and services has increased gradually through the years, from EURO 499 million in 1996 to EURO 13 041 million in 2005, the real growth percentage being 7,2. **Import** has also increased about four times - from EURO 450 million to EURO 16 590,9 million, which is the result of activation in international trade and relations.

Astonishing progress was made regarding **inflation**: in 1998 it was 18,7% and fell down to 5,0% in 2005.

Unemployment rate fell to 11,46% in 2005, whereas in 1998 it was 12,17%, and through the year it has surpassed 15% in some periods.

An outstanding performance can be noticed in the **industrial sales** pace: in 2001 there was a 2,9% increase, which in 2005 soar to 53,9% increase (as a basis is taken the year 2000). **Industrial manufacturing** marks also significant progress with 52,3% increase in 2005 compared to 2000.

Personal income rose from EURO 732 in 1998 to EURO 1 235 in 2005. It is worth mentioning that the greatest increase can be attributed to work salaries. Income from savings rose also to a great extent.

As a consequence of the increased income the **average expenditure per capita** almost doubled during the period 1998 - 2005. The depositing capacity of the population also increased twice.

Foreign Direct Investments reached EURO 2 727 million in 2004 in comparison to EURO 605 million in 1998. After a slowdown of the FDI inflow in 2005, the year 2006 is expected to be quite successful again, as the amount of the FDIs for the period January-May 2006 is nearly EURO 1 200 million. This is due to macroeconomic stability and the stability of the financial sector that Bulgaria reached. Another factor is the higher interest rates in our country in comparison to the interest rates internationally. Worth noting are investments made by: Knauf (Austria), Solvay (Belgium), Lindner (Germany), Nestle (Switzerland), Sisecam (Turkey), Lifton Industries (Great Britain), Umicore (Belgium), Billa (Austria), Miroglio (Italy), Rollmann (Germany). All of them are success stories which can be found on the web site of the Invest Bulgaria Agency (<http://investbg.government.bg>).

According to the Bulgarian International Business Association, sustaining macroeconomic stability, coupled with a sound financial sector, improvement of the investment climate, elimination of administrative barriers, and simplification of licensing procedures will foster the increase of capital inflow to Bulgaria.

Despite of its small size, Bulgaria has struck outstanding economic results on its way for EU membership preparation. During the transitional period it has achieved significant outcomes that it can boast with, thanks to its own merits:

- Highly-skilled, multilingual workforce
- Stable and predictable business and political environment



- The lowest operational costs and tax rates in a Europe
- 15 % corporate income tax rate (2007 expected rate: 12 %)
- VAT exemption on equipment imports for investment projects over EURO 5 million
- Annual depreciation rate of 30% for machinery & equipment, 50% for new equipment used in entirely new investment or expansion and 50% for software and hardware
- Acquisition of land and property through Bulgarian registered company with 100% foreign ownership
- Fast administrative services through InvestBulgaria Agency
- 58 treaties for avoidance of double taxation
- 56 agreements on mutual protection and promotion of foreign investment
- Excellent climate, natural scenery, food and hospitality

** Figures are taken from the web sites of the Ministry of Economy and Energy and the National Statistical Institute.*

The project "Bulgaria - New Face in Europe" is funded within the implementation of the Communication Strategy for the Accession of Bulgaria to the European Union.

Additional information on all aspects related to the accession process of Bulgaria to the EU can be found on the following internet sites:

www.evroportal.bg and www.mfa.government.bg



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