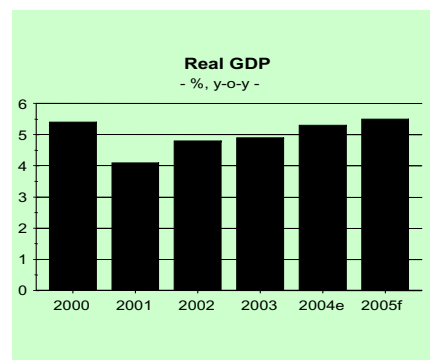


Bulgaria

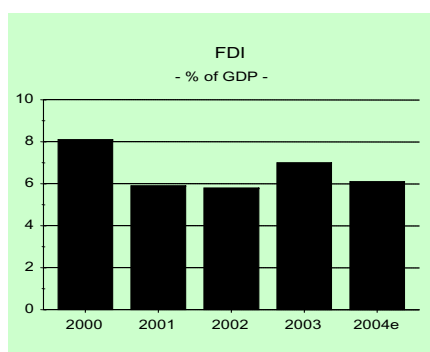
Political situation

- ▶ Following the withdrawal of 10 deputies of the reform wing "New Time" in March the government, consisting of the Simeon II National Movement (SNM) and the Movement for Rights and Freedoms MRF, has no majority in parliament. Tensions within the government persist, for example concerning the pace of reforms. Next parliamentary elections in summer 2005. Bulgaria expected to join EU in 2007.



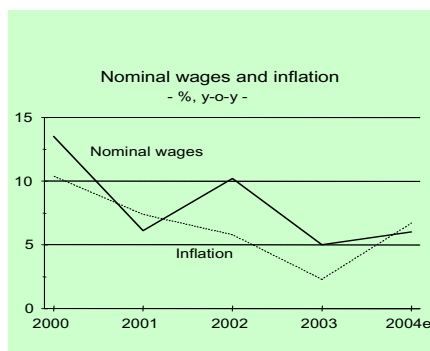
Domestic economy

- ▶ Robust economic growth, driven mainly by investment. In 2005 GDP likely to accelerate further in view of recovery on foreign sales markets.
- ▶ In spite of the currency board recurrent surges in inflation increases: Predominantly responsible are hikes in administered prices as well as higher oil prices. Tight fiscal policy and the robust economic activity are helping to keep budget deficits low.
- ▶ The economic structure is dominated by the service sector (share of GDP 60 %), followed by industry, which generates 21 % of GDP, and agriculture (13 % of GDP).
- ▶ Economic restructuring is making progress. Delays in privatization of enterprises of strategic importance due to politic and legal interventions.



External sector

- ▶ EU is by far the most important trading partner.
- ▶ Currency board detrimental to international competitiveness. Appreciation of the lev in real terms fueling high current account deficit. The negative balance is, however, financeable, being almost fully covered by foreign direct investment. Extremely high influx of foreign direct investment relative to GDP.
- ▶ Exchange rate: currency board with euro as anchor currency



BULGARIA	2001	2002	2003	2004e	2005f
Population (m)	8.2	8.2	8.2	8.2	8.2
GDP (US\$ bn)	13.6	15.5	19.9	24.5	26.7
GDP per capita (US\$)	1,661	1,894	2,425	2,983	3,258
GDP change in % (real)	4.1	4.8	4.9	5.3	5.5
Inflation in % (annual average)	7.4	5.8	2.3	6.7	5.5
Budget balance in % of GDP	-0.6	-0.9	-0.4	-0.5	-0.4
Merchandise exports (US\$ bn)	5.1	5.7	7.4	9.2	10.4
Merchandise imports (US\$ bn)	6.7	7.3	9.9	12.1	14.2
Current account balance (US\$ bn)	-0.8	-0.7	-1.6	-1.7	-1.8
Current account balance in % of GDP	-5.9	-4.5	-8.0	-6.9	-6.7
Foreign direct investment (US\$ bn)	0.8	0.9	1.4	1.5	1.3
Foreign direct investment in % of GDP	5.9	5.8	7.0	6.1	4.9
Gross foreign debt (US\$ bn)	10.6	11.1	12.2	13.0	14.2
Foreign debt in % of exports *	134	129	113	98	93
Foreign exchange reserves (US\$ bn)	3.3	4.4	6.3	6.8	7.4
Import cover (months) *	4.3	5.3	5.7	5.1	4.9
Exchange rate year-end (Bulgarian lev per EUR)	1.95	1.95	1.95	1.95	1.95
Exchange rate annual average (Bulgarian lev per EUR)	1.96	1.96	1.96	1.96	1.96
* goods, services and income					e = estimate; f = forecast

Bulgaria

Basic conditions for foreign investors

General legal system:

Free-market oriented legislation. Implementation of standardized EU legislation envisaged by 2006. The segments investment law, commercial law and privatization law do not differentiate between local and foreign investors.

Possible company structures/minimum capital requirement:

Joint stock company (Bulgarian: AD)/50,000 lev, private limited company (Bulgarian: OOD)/5,000 lev, limited commercial partnership (Bulgarian: KD), commercial partnership limited by shares (Bulgarian: KDA), general commercial partnership, individual proprietorship, branch and representative office. One-man private limited company (Bulgarian: EOOD) and one-man-joint stock company (Bulgarian: EAD) possible.

Permissible holding:

Up to 100 %. Foreign investors may participate in privatization by acquiring shares through the Bulgarian Privatization Agency (internet address: www.priv.government.bg) as well as through the various ministries and local authorities by public tender and auction.

Approval/establishment procedures:

Investment possible in almost all economic sectors. Commercial register entry. Application of a company identification number at BULSTAT (statistical department) and registration with the tax and social insurance departments.

Capital contribution:

Foreign investors can bring in financial or real capital. Financial capital in lev or in other convertible currency. Real capital (machinery, technical equipment, patents, licenses, know-how) for investment projects of minimum 5m euro are exempt from VAT.

Land/real estate acquisition:

Foreign individuals and legal persons may acquire real estate including agricultural areas only via a Bulgarian legal person. Commercial register entry required.

Qualification of labor force:

Well-trained engineers and skilled labor. Official languages: Bulgarian, German, English, Russian.

Labor costs (per hour worked, national average):

1.46 euro (industry and service sector, estimation, 2003). Compared with EU: 19.65 euro, Germany: 25.98 euro.

Wage level/personnel costs:

Statutory monthly minimum wage:	120 lev.
Average monthly gross wage:	297 lev.
Average monthly net wage:	216 lev.

Besides the basic wage, there are also additional benefits and perks, such as commissions and bonuses. Employees of foreign companies expect to earn more.

Average monthly gross wage (compared with Germany/EU, 2003):

152 euro (Germany: 2,460 euro, EU: 2,396 euro).

Social security contributions:

Employer's contribution: 32.2 % of gross wages

(21.75 % pension scheme, 0.7 % work injury fund, 4.5 % health insurance, 3 % unemployment fund, 2.25 % health fund).

Employee's contribution: 10.5 % of gross wages

(6.75 % pension scheme, 0.5 % work injury fund, 1.5 % health insurance, 1 % unemployment fund, 0.75 % health fund).

Legal forms to protect foreign investments:

Foreigners in the Republic of Bulgaria Act (State Gazette No. 153/23.12.1998), amended, SG No. 70/1999.

Agreement with European Union:

Association agreement since February 1, 1995. All 30 chapters of the legislation are already provisionally closed. Accession treaty signed in June 2004. Target: Membership in 2007.

Profit and capital repatriation:

Free for foreign investors after taxes.

Taxation (without application of bilateral agreements):

Income tax: 12-29 % (progressive tariff, tax free amount: 120 lev).
Corporation tax: 19.5 % (since January 1, 2004). From January 1, 2005 reduction to 15 % envisaged.
VAT: 20 % (standard rate), 5 % in the tourism sector; no VAT on export goods.
Withholding tax: 15 % (on dividends, interest and rents).

Customs tariff:

The customs law from January 1, 2002 conforms largely with the standards of the Harmonized System (HS) of the European Union. Duty-free export of commercial goods into the European Union. Free trade agreement with CEFTA (Romania and Croatia) and EFTA countries. Customs preferences with Albania, Estonia, Israel, Latvia, Lithuania and Macedonia as well as in the framework of the stability pact for South-east Europe. Further free trade agreements exist with Bosnia and Herzegovina, Serbia and Montenegro. WTO member since December 1996.

Special economic zones:

Since 1987 six duty-free zones exist in Ruse and Vidin (Danube ports with connection to the Rhine-Main-Danube channel), Burgas (Black Sea port), Plovdiv, Svilengrad (border to Turkey) and Dragoman (border to Serbia).

Tax concessions for foreign investors:

Corporation tax concessions in the free trade zones. Government subsidies for use of modern methods of production, modernization measures and creation of new jobs. Real capital imports for investment projects of minimum 5m euro are exempt from VAT. A draft law plans further concessions depending on the amount of the investment.

Foreign exchange regulations:

The Bulgarian lev is pegged to the euro at a rate of 1,95583 lev = 1 euro (Currency Board). The Bulgarian currency is fully convertible. Foreign and domestic legal persons and individuals may open bank accounts in local currency and in foreign exchange at their own disposal.

Inflow of foreign direct investment (gross, 2003): 1,200m euro

Main countries of origin:

Hungary (29.2 %), Greece (17.4 %), Netherlands (16.1 %), Switzerland (9.5 %), Italy (6.7 %), Austria (5.4 %), Cyprus (4.5 %).

Main sectors:

Financial sector (36 %), manufacturing industry (19.7 %), wholesale and retail trade (17.7 %) and transport and communications (15.1 %).

Forthcoming privatizations:

In the sectors energy (power supplier), shipbuilding, transport and telecommunications. More than 80 % of the state-owned enterprises are already privatized. Visit internet address: www.priv.government.bg for current privatization offers.

Contact address:

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