COUNTRY ESSENTIALS
BULGARIA

Summer 2015

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Overview

The Coface Country Essentials offer a concise and clearly structured overview of country economic facts.

The most important facts for 18 countries in Central and Eastern Europe include the most recent risk overview and our Coface country risk assessment.

You receive a general information on the country ranging from major cities to natural resources and most important sectors. This is followed by our risk assessment giving a general overview on the economic and political situation and the strength and weaknesses of the country. The next chapter focuses on the key facts: top trading partners and economic data like GDP growth, inflation or public debt. The insolvency part shows you the top and flop sectors, information on the development of insolvencies and the procedure.

Last but not least we provide you with a checklist for business operations and the latest corruption and doing business index data. If you need further information your will find a list of our contacts in the region.

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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:	7,202,198; density: 65 inhabitants/km^2	
Official language:	Bulgarian	
Local currency:	1 Bulgarian Lev (BGN) = 100 Stotinki	
Capital:	Sofia 1,271,743 inhabitants	
Major cities and population:	Plovdiv Varna Burgas Ruse Stara Zagora Pleven	366,779 inhabitants 346,644 inhabitants 206,038 inhabitants 164,202 inhabitants 138,272 inhabitants 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

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The recovery is not yet on the agenda

2015 is expected to be the sixth consecutive year of weak growth. The economy has not yet finished paying for the excesses of the period before the 2009 crisis. Debt reduction is continuing and credit has not yet taken off again. Domestic demand will slow. Public investment will be affected by the exhaustion of funds provided under the 2007-2013 European structural funds programme, while those due under the 2014-2020 programme will be delayed, especially as Brussels is critical of the tendering policy. Private investment will suffer from the credit squeeze caused by the bankruptcy of the country's fourth biggest bank, which is causing the other institutions to step up their caution. The decisions of business leaders, like those of households, will also be marked by a lack of confidence. Exports, diversified with cereals, sunflower seed, tobacco, clothing, medicines, machinery, copper, steel, electricity and refined oil, are expected to be the most dynamic area of growth. However, their growth will be moderate because the main markets (Germany, Romania, Italy, Greece and Turkey) will post weak growth. Tourism revenues could suffer from the scarcity of Russian visitors on the coast of the Black Sea.

Costly bank rescue

The public deficit increased in 2014, especially because of the banking crisis. In June 2014, as a consequence of the disturbing rumours circulating on the Internet, customers of the Corporate Commercial Bank (KTB) and of the First Investment Bank rushed to withdraw their money from the country's 4th and 3rd largest banks. The authorities had to immediately put in place a line of credit intended to increase the banks' liquidity and restore confidence. KTB, at which 2/3 of the assets were revealed as doubtful (these were said to be loans granted to companies belonging to the majority shareholder), has to be liquidated. At first, depositors will have to be reimbursed at an estimated cost of 4.3% of GDP, of which only half can be paid from the deposit guarantee fund. The local banks, whose capital is often owned by people linked to the political sphere, have paid high interest rates on deposits in order to compete with the subsidiaries of Austrian, Hungarian and Italian groups, but to the detriment of their financial soundness. The resources necessary for rescuing them have been borrowed, sharply pushing up debt, the burden of which, nonetheless, remains weak. The new government is determined to stop the deterioration of the public accounts. Its task will be difficult in view of the deficit of the publicly owned businesses (electricity, railways, post office...) and inefficient tax collection. The squeeze is not expected to be too rapid, because the current prime minister had to leave power in 2013 against a background of popular discontent provoked by electricity price increases, while the previous government lasted only briefly.

Considerable foreign investments

The trade deficit (about 7% of GDP) and the revenue deficit, due to dividend repatriations by foreign investors and to interest payments on foreign debt are largely offset by income from tourism and remittances by the large number of emigrants who left the country for the west after the opening of the borders, as well new foreign direct investments, which amount to 100% of GDP. This helps to top up the foreign exchange reserves and to ensure the credibility of the lev's pegging to the euro since 1997. Despite bank deleveraging, external debt still amounts to nearly 100% of GDP. However, nearly half of it is made up intra-group loans in the context of foreign direct investments.

The political instability is not conducive to reform

Following the October 2014 elections, Boiko Borissov, who was already prime minister in 2013, heads a centre-right pro-European government based on his party, Citizens for the European Development of Bulgaria (GERB), the reformist block, Alternative for Bulgaria Renaissance and the Patriotic Front. The coalition has 137 seats out of 240, which should enable him to carry out budgetary reform. However, the coalition is not a monolith. The last two elections were brought forward following the break-up of the coalition in power. The fight against corruption and organised crime, the modernisation of the judiciary and the administration, the clean up of the banking landscape, which have made little progress since the country joined the EU in 2007, with a change of government after each election, will be more difficult to carry out because of the collusion of politics and business. Unlike the previous and transitory government formed by the socialist party and that of the Turkish minority (15% of the votes), the current one is affirming its European roots. However, the ties, cultural (Orthodox Christianity), economic (energy) and financial (through the banks), with Russia will remain.

RISK ASSESSMENT

Strength
Fixed exchange rate against the euro (1 euro = 1.96 lev)
Diversified production base
Low production costs
Many tourist attractions

Weaknesses
Political instability
Corruption and organised crime
Ineffective legal system
Weakness of the banking sector
Lack of skilled manpower
Shrinking population

FOREIGN TRADE & ECONOMIC KEY DATA

Bulgaria's Top Trading Partners

Imports in MEUR	2011	2012	2013	2014
EU	13,899	12,444	15,423	16,121
Russian Federation	4,127	4,434	4,782	3,979
Germany	2,536	2,370	2,794	3,208
Italy	1,672	1,414	1,922	1,840
Romania	1,616	1,401	1,721	1,784

Exports in MEUR	2011	2012	2013	2014
EU	12,604	12,158	13,350	13,782
Germany	2,355	2,126	2,741	2,657
Turkey	1,733	1,958	2,004	2,073
Italy	1,761	1,764	1,925	1,980
Romania	1,933	1,674	1,720	1,749

Source: National Statistical Institute

Economic Key Data

Key Data	2012	2013	2014 (e)	2015 (f)
GDP growth (%)	0.5	1.1	1.4	0.8
Inflation (yearly average) (%)	2.4	0.4	-1.6	0.6
Budget balance (in % of GDP)	-0.5	-1.2	-3.6	-3.3
Current account (in % of GDP)	-0.7	2.2	1.7	1.9
Public debt (in % of GDP)	18.0	18.3	25.0	26.0

(e) estimate
(f) forecast
Source: Coface

INSOLVENCY

Top 5 sectors
Information service activities
Fishing
Pharmaceuticlas
Manufacture of chemicals and chemical products
Sewerage

Flop 5 sectors
Wholesale trade, except of motor vehicles and motorcycles
Retail trade, except of motor vehicles and motorcycles
Real estate activities
Construction of buildings
Specialised construction activities

Bulgaria's Biggest Insolvencies in 2014

	Company Name	Sector	No. of Employees	Total Debt EUR	Town
1.	HOLDING ROADS	construction/infrastructure	23	72,220,490	Sofia
2.	VARNA TOWERS	construction	10	39,504,456	Targovishte
3.	PATNI STROEZHI	construction	172	38,934,877	Plovdiv
4.	MACANTHONY REALTY INTERNATIONAL CONSTRUCTION 2	Real estate/construction	0	18,981,200	Sofia
5.	MACANTHONY REALTY INTERNATIONAL CONSTRUCTION 1	Real estate/construction	0	13,424,480	Sofia

Regarding the Bulgarian law the insolvency proceedings are applied only to legal enterprises. Insolvency proceedings are applied for trader who is insolvent or over-indebtedness.

According to Bulgarian law, there are two different proceedings: Liquidation procedure and Insolvency procedure.

Liquidation procedure

This is a procedure for terminating/closing the company. In this situation the company has enough assets to cover all its debts. If during the procedure the liquidator finds out that the company cannot settle its entire debts, he is obliged to initiate an insolvency procedure.

The duration of liquidation procedure is 6 months. In order to collect its receivables the creditor has to lodge a claim to the liquidator and also to give the claim in the Trade Register for publishing.

Insolvency procedure

The insolvency procedure is initiated when the debtor has not enough assets to cover his demandable debts. It can be initiated with a claim for insolvency by the debtor itself; by the debtor's creditors; by the tax authorities; by the liquidator, if the debtor is in liquidation procedure.

The court fees in this procedure are constant and they do not depend on the debt amount. Usually the court fees are paid from the debtor's estate, but if it is not sufficient, the creditor has to pay them in order to start the procedure.

The court has to decide in two weeks term whether to start the procedure or not (usually the court does not decide in such short term, since there is not enough time to go through the entire debtor's documentation and it is necessary to order a court expertise).

With issuing the court decision for starting the insolvency procedure this information is published immediately in the Trade Register. The court assigns an assignee in insolvency to represent and rule the company during the insolvency procedure. The court determines one month period for all creditors to lodge their claims. If the creditor misses this term, he has one last chance - another 2 months after the expiration of the initial 30-days period. If the creditor misses this period too, he could not participate in the procedure and

INSOLVENCY

the receivable become uncollectible - it should be writen-off.

With the decision the court may or may not stop debtor's activity - it depends on whether there is a risk the debtor to damage its creditors by decreasing his assets.

The insolvency procedure stops all other court procedures and lawsuits against the company.

The assignee should make a list of all lodged claims. This list has to be published in the Trade Register and there is a possibility to be disputed by the creditors if they do not agree with it. The assignee should present to the judge a statement on every single dispute. The final decision about the list with creditors belongs to the court. If there are no disputes, the court approves the list.

The debtor or the assignee may offer a recovery plan, which aims to save the company and take it out from the bad financial situation. This plan has to be approved by the creditors. This instrument is used very rarely because usually the debtor's financial situation is too bad and recoveries are quite impossible.

If it was not proposed a plan, the court announces the insolvency of the company and this information is immediately published in the Trade Register. At the same time the court ceases debtor's activity, distrains all his assets and property, dismisses the control authorities of the company. The assignee should encash all debtor assets. Usually the assignee organizes several auctions in order to sell debtor's property. These auctions are not successful every time and often the property is sold for less money than its real cost.

The final phase of the insolvency procedure is to allocate the collected amounts. The order for satisfaction is as follows:

1. The secured receivables (these which are secured with pledge or mortgage);
2. The receivables on which the creditor has right to hold debtor's property;
3. The costs for the insolvency procedure;
4. The receivables of the employees (based on labor contracts);
5. The allowance which debtor owes due to the law;
6. The receivables of the Tax authorities;
7. The receivables which were arised after starting the insolvency procedure;
8. All other receivables which rised before the insolvency procedure.

If the collected amounts are not enough to settle all of the debts, the receivables in points 3 to 8 are allocated proportionally.

If the court determines the fees for the procedure and no one from the creditors pays them in one year period, the court will rule a decision with which stops the procedure and liquidates the company (the company will be erased from the Trade Register and will not exist anymore).

The insolvency procedure as a whole is very difficult, slow and sometimes it may take years to be finished (average time of the procedure is between 5 and 10 years).

The main aims in the insolvency proceedings are to ensure fair satisfaction of the creditors and a possibility for rescuing the debtor's company from the financial collapse. The main interests which are protected during the procedure, are those of the creditors, debtor and its workers and employees.

Insolvency procedure in Bulgaria is extremely slow and not effective. This is the main reason why the companies which are insolvent de facto are several times more than the companies whose insolvency is acknowledged by the court. The insolvency proceedings can take years and it is never sure that the creditor will collect his receivables furthermore it is sure that the creditor will waste more money in this procedure.

CHECKLIST FOR BUSINESS OPERATIONS

The following table summarizes relevant information for investors and exporters.

Corporate law	■ Minimum capital for a stock company: BGN 50,000 ■ Minimum capital for a limited liability company: BGN 2
Tax law	■ 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	■ 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	No restrictions within EU
Labour law	■ 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	Bulgaria is a member of the EU
Travel and residence	■ No restrictions for EU citizens ■ Residence permit for stays of more than three months

Corruption

Bulgaria was 69th in the International Corruption Perceptions Index 2014. In comparison, Germany was ranked 12th and Austria was ranked 23rd.

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.

Doing Business

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 38th in 2015 and made a big jump of 20 places compared to the previous year (58th). Germany and Austria were rated 14th and 21st, 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.

CONTACTS COFACE

Coface Austria & Coface Central Europe

Stubenring 24 - 1010 Vienna
T. +43 (1) 515 54-0 - F. +43 (1) 512 44 15
www.coface.at

Coface Albania
serviced by Coface Croatia

Avenija Dubrovnik 46/III - 10 000 Zagreb
T. +385 (1) 469 75 00 - F. +385 (1) 469 75 75
www.coface.hr

Coface Belarus
serviced by Coface Russia

1st Tverskaya-Yamskaya str., 23, bld. 1 - 125047 Moscow
T. +7 (495) 785 57 10 - F. +7 (495) 785 76 24
www.coface.ru

Coface Bosnia & Herzegovina
serviced by Coface Croatia

Avenija Dubrovnik 46/III - 10 000 Zagreb
T. +385 (1) 469 75 00 - F. +385 (1) 469 75 75
www.coface.hr

Coface Bulgaria

42 Petar Parchevich str. - 1000 Sofia
T. +359 (2) 821 37 35 - F. +359 (2) 820 71 50
www.coface.bg

Coface Croatia

Avenija Dubrovnik 46/III - 10 000 Zagreb
T. +385 (1) 469 75 00 - F. +385 (1) 469 75 75
www.coface.hr

Coface Czech

I.P. Pavlova 5 - 120 00 Prague
T. +420 246 085 411 - F. +420 246 085 429
www.coface.cz

Coface Estonia
serviced by Coface Latvia

Berzaunes iela 11a - 1039 Riga
T. +371 (6) 732 34 60 - F. +371 (6) 782 03 80
www.coface.lv

Coface Hungary

Tüzoltó utca 57 - 1094 Budapest
T. +36 (1) 299 20 70 - F. +36 (1) 887 03 25
www.coface.hu

Coface Latvia

Berzaunes iela 11a - 1039 Riga
T. +371 (6) 732 34 60 - F. +371 (6) 782 03 80
www.coface.lv

Coface Lithuania

Vilniaus str. 23-3 - 01402 Vilnius
T. +370 (5) 279 17 27 - F. +370 (5) 279 17 54
www.coface.lt

Coface Macedonia
serviced by Coface Croatia

Avenija Dubrovnik 46/III - 10 000 Zagreb
T. +385 (1) 469 75 00 - F. +385 (1) 469 75 75
www.coface.hr

Coface Moldova
serviced by Coface Romania

39 Calea Floreasca - Et. 2-4 - District 1 - 014453 Bucharest
T. +40 (21) 231 60 20 - F. +40 (21) 231 60 22
www.coface.ro

Coface Montenegro
serviced by Coface Serbia

Bulevar Oslobodjenja 111 - 11000 Belgrade
T. +381 (11) 397 60 51 - F. +381 (11) 397 09 75
www.coface.rs

Coface Poland

Al. Jerozolimskie 136 - 02 305 Warsaw
T. +48 (22) 465 00 00 - F. +48 (22) 465 00 55
www.coface.pl

Coface Romania

39 Calea Floreasca - Et. 2-4 - District 1 - 014453 Bucharest
T. +40 (21) 231 60 20 - F. +40 (21) 231 60 22
www.coface.ro

Coface Serbia

Bulevar Oslobodenja 111 - 11000 Belgrade
T. +381 (11) 397 60 51 - F. +381 (11) 391 09 75
www.coface.rs

Coface Slovakia

Soltésovej 14 - 81108 Bratislava
T. +421 (2) 6720 16 44 - F. +421 (2) 6241 03 59
www.coface.sk

Coface Slovenia

Slovenceva ulica 22 - 1000 Ljubljana
T. +386 (1) 425 90 65 - F. +386 (1) 425 91 30
www.coface.si

Coface Ukraine

4 B. Gmyri Str., of. 10 - 02140 Kyiv
T. +380 (44) 585 31 60 - F. +380 (44) 585 31 60
www.coface.ua

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