2000 Country Reports on Economic Policy and Trade Practices
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BULGARIA

Key Economic Indicators

(Billions of U.S. dollars unless otherwise indicated)

	1998	1999	2000 1/
Income, Production and Employment:			
Nominal GDP	12.3	12.4	12.9
Real GDP Growth (pct)	3.5	2.4	4.5
GDP by Sector:2/			
Agriculture	2.3	1.9	N/A
Manufacturing	3.1	2.9	N/A
Services	5.5	6.1	N/A
Per Capita GDP (US$)	1,484	1,510	1,600
Labor Force (000s)	3,619	3,598	3,658
Unemployment Rate (pct) 3/	12.2	13.8	18
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	10.1	5.3	N/A
Consumer Price Inflation	1.0	6.2	6
Exchange Rate (Leva/US$ annual average) 4/			
Official	1,760	1.8	1.8
Parallel	N/A	N/A	N/A
Balance of Payments and Trade:			
Total Exports FOB	4.2	4.0	4.5
Exports to U.S. (US$ millions) 5/	219	200	198
Total Imports CIF	5.0	5.5	5.8
Imports from U.S. (US$ millions) 5/	115	103	114
Trade Balance	-0.8	-1.5	-1.3
Balance with U.S. (US$ millions) 5/	104	97	84
External Public Debt	10.2	10	10.4
Fiscal Deficit/GDP (pct)	-.9	.9	1.5
Current Account Balance/GDP (pct)	-.5	-5.4	-4.5
Debt Service Payments/GDP (pct)	9.7	7.9	9.8
Gold and Foreign Exchange Reserves	3.1	3.2	3.4
Aid from U.S. (US$ millions) 6/	41.4	39.8	63.4
Aid from All Other Sources (Euro millions) 7/	N/A	50.5	250

1/ 2000 figures are annualized GOB estimates based on 6 to 9 months of data, unless otherwise stated.

2/ Sectoral GDP data is unavailable, but gross value added by sector is provided for 1998 and 1999.

3/ Annual average.

4/ In July 1999, the currency was redenominated replacing 1000 old leva with one new lev. Although the average lev/dollar exchange rate has been 2.04 during the first half of 2000, the government has not revised its projected 2000 exchange rate.

5/ For January to June 2000, exports (free alongside ship basis) to the United States were $ 99 million; imports (customs value) amounted to $ 57 million. Source: U.S. Department of Commerce.

6/ Both USAID and DOD provided assistance. For Fiscal 2000, USAID assistance includes $32 million in seed money, primarily for economic restructuring, democracy building, support for the social sector, and improving laws and law enforcement. For Fiscal 2000, total DOD assistance is projected at $6.8 million. For Fiscal 1999, total DOD assistance totaled $10.4 million ($5.7 million in Fiscal 1998).

7/ Assistance provided by the European Union. The Phare program extended 865.5 million Euro between 1989-1999. EU assistance in 2000 includes two new programs: Instrument for Structural Policies for Pre-Accession (ISPA) providing 100 million Euro and Special Accession Program for Agriculture and Rural Development (SAPARD) providing 52 million Euro.

1. General Policy Framework

Since April 1997 Bulgaria has been led by a reform-minded government, the Union of Democratic Forces (UDF). The UDF has enjoyed a solid majority in Parliament, which has facilitated implementation of a far-reaching program of economic reform. Following a severe economic crisis in 1996 and early 1997, the Bulgarian government and the International Monetary Fund (IMF) devised a stabilization program centered on a currency board arrangement.

The program has succeeded in stabilizing the economy. Inflation was cut from nearly 600 percent in 1997 to only 6.2 percent in 1999. Official reserves rebounded from $400 million in January 1997 to $3.2 billion at the end of 1999. Prudent fiscal policy has limited budget and current deficits. In 1999, the government ran a budget deficit of 1 percent of GDP, a figure expected to rise slightly to 1.5 percent of GDP in 2000. Rating agencies have upgraded Bulgaria’s credit rating in recent years (Moody’s Investors Service to B2 and Standard and Poors to B+). Foreign investment inflows rose to a record $783 million in 1999.

The economy as a whole grew by 2.4 percent in 1999, despite the negative impact of the Kosovo crisis. Economic growth, particularly in Bulgaria’s private sector, has not been rapid enough to prevent a rise in unemployment, which reached 18 percent in 2000. However, the Bulgarian government projects sustained economic growth of four to five percent annually over the next few years. In addition, the true size of the economy is as much as 20 to 30 percent larger than that reported by official statistics, which do not include the informal or shadow economy.

With two-way trade in goods and services accounting for over 90 percent of GDP, Bulgaria is very sensitive to changes in the world economy and global prices. Over half of Bulgaria's trade is directed toward Western and Central Europe.

Bulgaria's currency board arrangement (CBA) provides that the Bulgarian National Bank (BNB) must hold sufficient foreign currency reserves to cover all domestic currency (leva) in circulation, including the leva reserves of the banking system. BNB can only refinance commercial banks in the event of systemic risk to the banking system.

Bulgaria's association agreement with the European Union (EU) took effect January 1, 1994, and Bulgaria began EU accession negotiations in 2000. A bilateral investment treaty with the United States took effect in July 1994.

2. Exchange Rate Policy

Bulgaria redenominated the currency on July 5, 1999, replacing 1000 old leva (BGL) with one new lev (BGN). Until January 1, 1999, the CBA fixed the exchange rate at 1000 old leva to one German mark. Since then, the lev has been pegged to the euro at the rate of 1,955.83 old leva (now 1.95583 new leva) per euro. The Bulgarian National Bank (BNB) sets an indicative daily Dollar rate (based on the dollar/euro exchange rate) for statistical and customs purposes, but commercial banks and others licensed to trade on the interbank market are free to set their own rates.

Most commercial banks are licensed to conduct currency operations abroad. Companies may freely buy foreign exchange for imports from the interbank market. Bulgarian citizens and foreign persons may also open foreign currency accounts with commercial banks. Foreign investors may repatriate 100 percent of profits and other earnings; however, profits and dividends derived from privatization transactions in which Brady bonds were used for half the purchase price may not be repatriated for four years. Capital gains transfers appear to be protected under the revised Foreign Investment Law; free and prompt transfers of capital gains are guaranteed in the Bilateral Investment Treaty. A permit is required for hard currency payments to foreign persons for direct and indirect investments and free transfers unconnected with import of goods or services.

Bulgaria liberalized its foreign currency laws effective January 1, 2000. Bulgarian and foreign citizens may take up to BGN 5,000 ($2,200) or an equivalent amount of foreign currency out of the country without declaration. Regulations allow foreign currency up to BGN 20,000 ($8,700) to be exported upon written declaration. Transfers exceeding BGN 20,000 must have the prior approval of the BNB. Foreigners are permitted to export as much currency over the foreign currency equivalent of BGN 20,000 as they have imported into Bulgaria without prior approval.

3. Structural Policies

The government has implemented legal reforms designed to strengthen the country's business climate. Bulgaria has adopted legislation on foreign investment and secured lending, and is also making significant strides in regulation of the banking sector and the securities market. However, many businesspersons contend that unnecessary licensing, administrative inefficiency and corruption continue to hinder private business development. The government has completed a review of licensing regimes and eliminated about 100 of these requirements in 2000.

In 1998, Bulgaria reached agreement with the IMF on a three-year program of far-reaching structural reforms, particularly the privatization of state-owned enterprises (SOEs). In June 1999, the government satisfied its commitment to privatize or commence liquidation of a group of 41 of the largest loss-making SOEs, including the national airline. The privatization process has commenced for a number of large enterprises, including the Bulgarian Telecommunications Company, the state insurance company (DZI), the regional state-owned airline (Hemus Air), a tobacco manufacturer (Bulgartabak), and others. As of June 2000, the GOB had sold approximately 82 percent of state assets destined for privatization. All banks except the State Savings Bank have either been sold or are in the privatization process.

Bulgaria taxes value added, profits and income, and maintains excise and customs duties. In 1999 government reduced the Value Added Tax by two percentage points to 20 percent and the profits tax for large businesses by 3 percentage points to 27 percent. In 2000 the profits tax for large businesses was further reduced by two percentage points, the amount of non-taxable income for individuals was increased and voluntary VAT registration for businesses with turnover from BGN 50,000 to BGN 75,000 was introduced. The government intends to further reduce taxes on profits and personal incomes and social security insurance contributions beginning in 2001.

4. Debt Management Policies

Bulgaria’s democratically-elected governments inherited an external debt burden of over $10 billion from the Communist era. In 1994, Bulgaria concluded agreements rescheduling official ("Paris Club") debt for 1993 and 1994, and $8.1 billion of its commercial (“London Club”) debt. As of July 2000, gross external debt amounted to $10.2 billion and the Bulgarian government projects that debt will reach $10.4 billion by the end of 2000. While debt to commercial creditors accounted for 55 percent of the total external debt, debt to official multilateral and bilateral creditors stood at 39 percent. Debt service in 2000 will total approximately 9.8 percent of GDP and 20 percent of exports, but will rise after 2000. The Bulgarian government has asked Paris Club creditors to swap official debt for infrastructure and environment projects.

Under the Extended Fund Facility (EFF), the IMF is providing credits of about $814 million through 2001. In September 2000, the Fund approved the release of $68 million, bringing total disbursements to Bulgaria to about $610 million. The government has sought additional external financing from the World Bank, the European Union, and other donors. By September 2000, World Bank lending to date comprises 23 projects for a total value of $1.4 billion. In 1999, the World Bank disbursed a second FESAL of $100 million and approved an Agricultural Structural Adjustment Loan worth $75 million. In 2000, the World Bank approved an Environment and Privatization Support Adjustment Loan of $50 million, Health Sector Reform Loan of $63 million and an Education Modernization Loan of $14 million.

5. Significant Barriers to U.S. Exports

Bulgaria acceded to the World Trade Organization in 1996. Bulgaria acceded to the WTO Plurilateral Agreement on Civil Aircraft and committed to sign the Agreement on Government Procurement, though it has not yet done so. Bulgaria "graduated" from Jackson-Vanik requirements and was accorded unconditional Most Favored Nation treatment by the United States in October 1996.

Bulgaria’s association agreement with the European Union phases out industrial tariffs between Bulgaria and the EU while U.S. exporters still face duties. This has created a competitive disadvantage for some U.S. companies, such as soda ash exporters. In July 2000 a bilateral agreement between the EU and Bulgaria came into force, reducing duties on some EU farm products to zero. In July 1998 Bulgaria joined the Central European Free Trade Area (CEFTA). Over the following three years, tariffs on 80 percent of industrial goods traded between CEFTA countries will be eliminated. A free trade agreement with Turkey took effect in January 1999. A free trade agreement with Macedonia entered into force in January 2000.

In 1999 and 2000 average Bulgarian import tariffs were reduced significantly, and the government has committed to a further round of reductions in average most-favored- nation tariff rates in January 2001. However, tariffs in areas of concern to U.S. exporters, including poultry legs and other agricultural goods and distilled spirits, are still relatively high. Overall, tariffs on industrial products range from zero to 35 percent and from about zero to 74 percent for agricultural goods. In December 1998 Parliament revoked exemption from value-added tax (VAT) and customs duties for capital contributions in kind valued at over $100,000. In the past, some investors have reported that high import tariffs on products needed for the operation of their establishments in Bulgaria were a significant barrier to investment.

The U.S. Embassy has no complaints on record that the import license regime has negatively affected U.S. exports. Licenses are required for a specific, limited list of goods including radioactive elements, rare and precious metals and stones, certain pharmaceutical products and pesticides. Armaments and military-production technology and components also require import licenses and can only be imported by companies licensed by the government to trade in such goods. Trade in dual-use items is also controlled.

Customs regulations and policies are sometimes reported to be cumbersome, arbitrary and inconsistent. Problems cited by U.S. companies include excessive documentation requirements, slow processing of shipments and corruption. Bulgaria uses the single customs administrative document used by European Community members.

The State Agency on Standardization & Metrology is the competent authority for testing and certification of all products except pharmaceuticals, food and telecommunications equipment. The testing and certification process requires at least one month. This agency shares responsibilities for food products with the Ministries of Agriculture and Health. The responsible authority for pharmaceuticals is the National Institute for Pharmaceutical Products in the Ministry of Health, which establishes standards and performs testing and certification and is also responsible for drug registration. Approval for any equipment interconnected to Bulgaria's telecommunications network must be obtained from the State Telecommunications Commission. The 1999 Law on Protection of Consumers and Rules of Trade regulates labeling and marking requirements. Labels must contain the following information in Bulgarian: quality, quantity, ingredients, certification authorization number (if any), and manner of storage, transport, use or maintenance.

Bulgaria is making an effort to harmonize its national standards with international standards. Bulgaria is a participant in the International Organization for Standardization and the International Electrotechnical Commission. Bulgaria is in the process of harmonizing 1,757 of its standards to European standards, in anticipation of joining the European Union. As of September 18, 2000, all domestic standards on safety, on protection of human life and health and on consumer and environmental protection will no longer be mandatory. The major requirements for the safety of products will be regulated in ordinances to be issued by the separate ministries and will comply with the respective EU directives. By 2001 all current standards are expected to be replaced by adoption of all applicable European Union standards.

All imports of goods of plant or animal origin are subject to European Union phytosanitary and veterinary control standards , and relevant certificates should accompany such goods. However, Bulgarian authorities have modified their national regulations to accept U.S. Department of Agriculture certificates.

As in other countries aspiring to membership in the European Union, Bulgaria's 1998 Radio and Television Law requires a "predominant portion" of certain programming to be drawn from European-produced works and sets quotas for Bulgarian works within that portion. However, this requirement will only be applied to the extent "practicable." Foreign broadcasters transmitting into Bulgaria must have a local representative, and broadcasters are prohibited from entering into barter agreements with television program suppliers.

Foreign persons cannot own land in Bulgaria because of a constitutional prohibition, but foreign-owned companies registered in Bulgaria are considered to be Bulgarian persons. Foreign persons may acquire ownership of buildings and limited property rights, and may lease land. Local companies where foreign partners have controlling interests must obtain prior approval (licenses) to engage in certain activities: production and export of arms/ammunition; banking and insurance; exploration, development and exploitation of natural resources; and acquisition of property in certain geographic areas.

There are no specific local content or export-performance requirements nor specific restrictions on hiring of expatriate personnel, but residence permits are often difficult to obtain. In its Bilateral Investment Treaty with the United States, Bulgaria committed itself to international arbitration in the event of expropriation, investment, or compensation disputes.

Foreign investors complain that tax evasion by private domestic firms combined with the failure of the authorities to enforce collection from large, often financially precarious, state-owned enterprises places the foreign investor at a real disadvantage.

In June 1999 Parliament adopted a new law on procurement replacing the 1997 Law on Assignment of Government and Municipal Contracts. This legislation defines terms and conditions for public orders and aims for increased transparency and efficiency in public procurement. However, bidders still complain that tendering processes are frequently unclear and/or subject to irregularities, fueling speculation on corruption in government tenders. U.S. investors have also found that in general neither remaining state enterprises nor private firms are accustomed to competitive bidding procedures to supply goods and services to these investors within Bulgaria. However, tenders organized under projects financed by international donors have tended to be open and transparent.

6. Export Subsidies Policies

The government currently applies no export subsidies. However, a 1995 law gave the State Fund for Agriculture the authority to stimulate the export of agricultural and food products through export subsidies or guarantees. The government does provide concessionary finance to agricultural producers for purchase of equipment and farming inputs.

7. Protection of U.S. Intellectual Property

Bulgarian intellectual property rights (IPR) legislation is generally adequate, with modern patent and copyright laws and criminal penalties for copyright infringement. Bulgarian legislation in this area is considered to be among the most modern in Central and Eastern Europe. In March 2000 amendments to the Law on Copyright and Neighboring Rights extended copyright protection to 70 years, and introduced a new neighboring right for film producers, provisional measures to preserve evidence of IPR infringement and special border measures. In September 1999 Parliament passed a series of laws on trademarks and geographical indications, industrial designs and integrated circuits.

Until recently, Bulgaria was the largest source of compact-disk and CD-ROM piracy in Europe and was one of the world's leading exporters of pirated goods. For this reason, Bulgaria was placed on the U.S. Trade Representative's Special 301 Priority Watch List in January 1998. In 1998 enforcement improved considerably with the introduction of a CD-production licensing system. In recognition of the significant progress made by the Bulgarian government in this area, the U.S. Trade Representative removed Bulgaria from all Watch Lists in April 1999.

Bulgaria is a member of the World Intellectual Property Organization (WIPO) and a signatory to the following agreements: the Paris Convention for the Protection of Intellectual Property; the Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcast Organizations; the Geneva Phonograms Convention; the Madrid Agreement for the Repression of False or Deceptive Indications of Source of Goods; the Madrid Agreement on the International Classification and Registration of Trademarks; the Patent Cooperation Treaty; the Universal Copyright Convention; the Bern Convention for the Protection of Literary and Artistic

Works; the Lisbon Agreement for the Protection of Appellations of Origin and their International Registration; the Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purpose of Patent Protection; the Nairobi Treaty on the Protection of the Olympic Symbol, the International Convention for the Protection of New Varieties of Plants; the Vienna Agreement Establishing an International Classification of the Figurative Elements of Marks; the Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks; the Strasbourg Agreement Concerning the International Patent Classification; and the Locarno Agreement Establishing an International Classification for Industrial Designs. On acceding to the WTO, Bulgaria agreed to implement the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) without a transitional period.

Pharmaceuticals manufacturers note that Bulgaria has not introduced data exclusivity or supplementary patent protection in line with the Agreement on TRIPS and the EU Association Agreement. The industry further claims that drug pricing and reimbursement procedures are not transparent. These companies also report that enforcement of patent rights for their products is ineffective. The Bulgarian government has also proposed amendments strengthening protection for pharmaceutical tests.

Software piracy continues to be a problem, although an industry legalization campaign which began in 1999 has made dramatic gains against unauthorized software. Local software industry representatives report that, with good cooperation from Bulgarian law enforcement authorities, the campaign has brought the piracy rate down to approximately 80 percent of the market. Thanks to improvements in enforcement and the legal regime, audiovisual piracy has decreased dramatically since 1998.

U.S. industries report that lack of effective judicial remedies for infringement of intellectual property rights is a barrier to investment. U.S. companies have also cited illegal use of trademarks as a barrier to the Bulgarian market.

8. Worker Rights

a. *The Right of Association:* The 1991 Constitution provides for the right of all workers to form or join trade unions of their choice. This right has apparently been freely exercised. Estimates of the unionized share of the work force range from 30 to 50 percent. There are two large trade union confederations, the Confederation of Independent Trade Unions of Bulgaria and Podkrepa, which between them represent the overwhelming majority of unionized workers.

The 1986 Labor Code recognizes the right to strike when other means of conflict resolution have been exhausted, but "political strikes" are forbidden. Workers in essential services (military, police, energy, health-care, post services, and judiciary) are also subject to a blanket prohibition from striking. However, Podkrepa has complained that a 1998 law denying workers the right to appeal government decisions on the legality of strikes is unconstitutional and violates an ILO convention. The Labor Code's prohibitions against antiunion discrimination include a 6-month period of protection against dismissal as a form of retribution. There are no restrictions on affiliation or contact with international labor organizations, and unions actively exercise this right.

b. *The Right to Organize and Bargain Collectively:* The Labor Code institutes collective bargaining on the national and local levels. The legal prohibition against striking by key public sector employees weakens their bargaining position; however, these groups have been able to influence negotiations by staging protests and engaging in other pressure activities without going on strike. Labor unions have complained that while the legal structure for collective bargaining was adequate, many employers failed to bargain in good faith or to adhere to concluded agreements. Labor observers viewed the government's enforcement of labor contracts as inadequate. The backlog of cases in the legal system delayed redress of workers' grievances. The same obligation of collective bargaining and adherence to labor standards prevails in the export processing zones.

c. *Prohibition of Forced or Compulsory Labor:* The constitution prohibits forced or compulsory labor. As of September 2000 construction battalions in the armed forces have been terminated.

d. *Minimum Age of Employment of Children:* The Labor Code sets the minimum age for employment at 16, and 18 for dangerous work. The Ministry of Labor and Social Welfare (MLSW) is responsible for enforcing these provisions. Child labor laws are enforced well in the formal sector, but some observers believe that children are increasingly exploited in certain industries and by organized crime. Observers estimate that between 50,000 and 100,000 children under 16 are illegally employed in Bulgaria. Underage employment in the informal and agricultural sectors is believed to be increasing as collective farms are broken up and the private sector continues to grow.

e. *Acceptable Conditions of Work:* The national monthly minimum wage equates to approximately $40. Delayed payment of wages continues to be a problem with certain employers in Bulgaria. The constitution stipulates the right to social security and welfare aid assistance for the temporarily unemployed, although in practice such assistance is often late. The Labor Code provides for a standard workweek of 40 hours with at least one 24-hour rest period per week. The MLSW is responsible for enforcing both the minimum wage and the standard workweek. Enforcement has been generally effective in the state sector (although there are reports that state-run enterprises fall into arrears on salary payments to their employees if the firms incur losses), but is weaker in the emerging private sector. The MLSW is responsible for enforcing the national labor safety program, with standards established by the Labor Code. The constitution states that employees are entitled to healthy and non-hazardous working conditions. Under the Labor Code, employees have the right to remove themselves from work situations that present a serious or immediate danger to life or health without jeopardizing their continued employment. In practice, refusal to work in such situations would result in loss of employment for many workers. A 1999 law mandated that employers establish joint employer/labor committees to monitor health and safety issues.

f. *Rights in Sectors with U.S. Investment:* Conditions do not significantly differ in the few sectors with a U.S. presence.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

(Millions of U.S. dollars)

Category		Amount
Petroleum		1
Total Manufacturing		21
Food & Kindred Products	(1)	
Chemicals & Allied Products	0	
Primary & Fabricated Metals	(1)	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		0
Finance/Insurance/Real Estate		0
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		22

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.