**1999 Country Reports on Economic Policy and Trade Practices**
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# BULGARIA

## Key Economic Indicators

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

| | 1997 | 1998 | 1999 1/ |
|---|---|---|---|
| *Income, Production and Employment:* | | | |
| Nominal GDP | 10.2 | 12.3 | 12.2 |
| Real GDP Growth (pct) | -6.9 | 3.5 | 1.5 |
| GDP by Sector: | | | |
| Agriculture | 2.4 | 2.3 | N/A |
| Manufacturing | 2.6 | 3.1 | N/A |
| Services | 4.1 | 5.5 | N/A |
| Per Capita GDP (US$) | 1,224 | 1,484 | 1,494 |
| Labor Force (000s) | 3,735 | 3,573 | 3,570 |
| Unemployment Rate (pct) 2/ | 14.0 | 12.2 | 14.7 |
| *Money and Prices (annual percentage growth):* | | | |
| Money Supply Growth (M2) | 362.1 | 10.1 | N/A |
| Consumer Price Inflation | 578.6 | 1.0 | 3.6 |
| Exchange Rate (Leva/US$ annual average) 3/ | | | |
| Official | 1,682 | 1,760 | 1.8 |
| Parallel | 1,750 | N/A | N/A |
| *Balance of Payments and Trade:* | | | |
| Total Exports FOB | 4.94 | 4.29 | 3.72 |
| Exports to U.S. (US$ millions) 4/ | 172 | 219 | N/A |
| Total Imports CIF | 4.93 | 5.0 | 4.74 |
| Imports from U.S. (US$ millions) 4/ | 104 | 115 | N/A |
| Trade Balance 5/ | 0.01 | -0.71 | -1.02 |
| Balance with U.S. (US$ millions) 4/ | 68 | 104 | N/A |
| Current Account Balance/GDP (pct) | 4.3 | -3.1 | -5.6 |
| External Public Debt | 9.8 | 10.2 | 10.3 |
| Debt Service Payments/GDP (pct) | 8.8 | 9.7 | 6.6 |
| Fiscal Deficit/GDP (pct) | 3.0 | (1) | 1.6 |
| Foreign Exchange Reserves and Gold | 2.6 | 2.9 | 3.3 |
| Aid from U.S. (US$ millions) 6/ | 34.1 | 45.0 | 70.4 |
| Aid from All Other Sources | N/A | N/A | N/A |

1/ 1999 figures are GOB estimates based on 6 to 9 months of data. GDP as measured in U.S. dollars declined between 1998 and 1999 due to changes in the exchange rate. Sectoral GDP data is unavailable, but gross value added by sector is provided for 1997 and 1998.

2/ Annual average.

3/ In July 1999, the currency was redenominated replacing 1000 old leva with one new lev.

4/ For January to August 1999, exports (free along ship basis) to the U.S. were $129 million; imports (customs basis) from the U.S. amounted to $72 million. Source: U.S. Department of Commerce.

5/ 1997 trade flows are recorded at the time of border crossing while 1998 and 1999 trade flows are recorded at the date of customs clearance.

6/ Both USAID and DOD provided assistance. For FY99, total DOD assistance totaled $13.35 million ($9.2 million in FY98).

*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 quickly succeeded in stabilizing the economy. The triple digit inflation of 1996 and early 1997 gave way to a consumer price increase of only 1 percent for all of 1998. Official reserves rebounded from $400 million in January 1997 to $2.6 billion at the end of 1998. Moody's Investors Service upgraded Bulgaria's credit rating to B2. However, unemployment has stayed high, despite a growing private sector. The government ran a budget surplus of 1 percent in 1998, but the budget is projected to shift into deficit in 1999.

Following declines in GDP in both 1996 and 1997, the economy as a whole grew by 3.5 percent in 1998. However, GDP growth began to slow down in the second half of 1998, influenced by weak external markets for traditional industrial exports and lags in restructuring state-owned industry. 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. The Kosovo crisis has cost Bulgaria about $90 million in direct economic losses, principally through disruptions to transport on the Danube River and overland through Yugoslavia.

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 hopes to begin 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 U.S. 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.

Only some of the commercial banks are licensed to conduct currency operations abroad. Companies may freely buy foreign exchange for imports from the interbank market. Companies are required to repatriate, but no longer to surrender, earned foreign exchange to the central bank. 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 will liberalize its foreign currency laws effective January 1, 2000. After that date, Bulgarian and foreign citizens may take up to BGN 5,000 ($2,700) or an equivalent amount of foreign currency out of the country without declaration. Regulations allow foreign currency up to BGN 20,000 ($11,110) to be exported upon written declaration. Transfers exceeding BGN 20,000 must have the prior approval of the BNB.

*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.

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. It also sold the Neftochim refinery to a Russian oil company and is due to sell a majority stake in the telecommunications monopoly, the Bulgarian Telecommunications Company, to a Greek/Dutch consortium. As of September 1999, the GOB had sold approximately 70 percent of state assets destined for privatization.

Bulgaria taxes value added, profits and income, and maintains excise and customs duties. In 1999, the GOB reduced the Value Added Tax by 2 percentage points to 20 percent and the profits tax for large businesses by 3 percentage points to 27 percent. The draft 2000 budget, approved by the Council of Ministers, envisions a further 2 percentage point reduction in the profits tax for large businesses and voluntary VAT registration for businesses with turnover from BGN 50,000 (USD 28,000) to BGN 75,000 (USD 42,000).

*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 1999, gross external debt amounted to $9.6 billion, but the Bulgarian government projects that debt will increase to $10.3 billion by the end of 1999 (84 percent of GDP). Debt service in 1999 will total approximately 7 percent of GDP and 22 percent of exports, but will rise after 2000.

Under the three-year Extended Fund Facility (EFF) concluded in 1998, the IMF is providing credits of about $864 million. As of November 1999, about $360 million was released in five equal tranches of $72 million. Another 7 tranches will be made available quarterly through May 2001, subject to IMF reviews of Bulgarian adherence to the program. The government has sought additional external financing from the World Bank, the European Union, and other donors. The World Bank disbursed a Financial and Enterprise Sector Adjustment Loan (FESAL) of $100 million in 1998 and disbursed a second FESAL of similar value in December with Bulgaria. In September 1999, the World Bank approved an Agricultural Structural Adjustment Loan worth $75 million for Bulgaria.

*5. Significant Barriers to U.S. Exports*

Bulgaria acceded to the World Trade Organization in December 1996. Bulgaria also acceded to the WTO Plurilateral Agreement on Civil Aircraft and committed to sign the Agreement on Government Procurement. Bulgaria "graduated" from Jackson-Vanik requirements and was accorded unconditional MFN 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. exporters, such as soda ash exporters. The association agreement improved reciprocal market access to certain farm products. 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 will enter into force in January 2000.

In January 1999, average Bulgarian import tariffs were reduced significantly and a five percent import surcharge was eliminated ahead of schedule. 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 about five to 40 percent and from about five to 70 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 served as 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. A one percent customs clearance fee was abolished in January 1998.

The Committee 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. The Committee on Standardization 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.

All imports of goods of plant or animal origin are subject to phytosanitary and veterinary control, and relevant certificates should accompany such goods. Under a November 1999 ordinance governing official Bulgarian veterinary treatment of imported animals, meat, and animal products, Bulgaria will accept imported meat and poultry products only from plants approved for export by competent authorities in the country of origin.

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.

*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. In September 1999, Parliament passed a series of laws on trademarks and geographical indications, industrial designs and integrated circuits. A Law for the Protection of New Types of Plants and Animal Breeds was adopted in September 1996. Parliament is expected to approve additional legislation in the near future extending copyright protection to 70 years, and introducing a new neighboring right for film producers, provisional measures to preserve evidence of IPR infringement and special border measures. The Bulgarian government has also proposed amendments strengthening protection for pharmaceutical tests. U.S. companies have cited illegal use of trademarks as a barrier to the Bulgarian market.

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 subject to 24-hour plant surveillance. CD manufacturers must also submit a copy of an agreement with the copyright holder before starting production. 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 Berne 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; and the International Convention for the Protection of New Varieties of Plants. On acceding to the WTO, Bulgaria agreed to implement the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) without a transitional period.

*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 1992 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 (primarily military and police) 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. Many observers argue that the practice of shunting minority and conscientious-objector military draftees into construction battalions that often carry out commercial construction and maintenance projects is a form of compulsory labor. Bulgaria has announced plans to phase out its military construction battalions under its ongoing Plan 2004 reform and reorganization, but it is unclear when this will take place. In the meantime, Bulgaria recently established a conscientious objector program that provides for alternative civilian national service.

*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 US$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 **--** 1998

(Millions of U.S. Dollars)

| Category | | Amount |
|---|---|---|
| Petroleum | | 1 |
| Total Manufacturing | | 20 |
| 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 | | 21 |

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

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