



Bulgaria

Economic state and investment opportunities

April, 2014



- Macroeconomic situation and prospects
- Investment legislation and incentives
- Policies aiming at improving the investment climate
- Swiss – Bulgarian economic relations



Macroeconomic situation and prospects





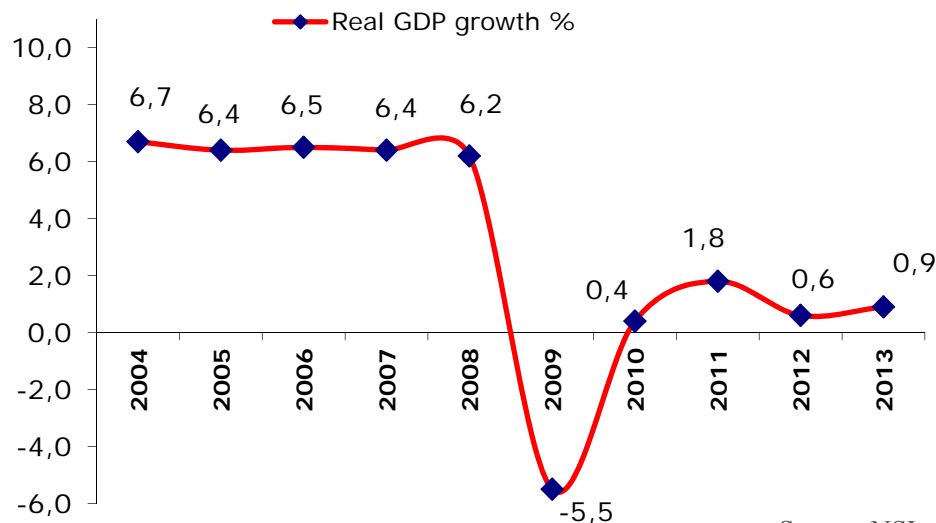
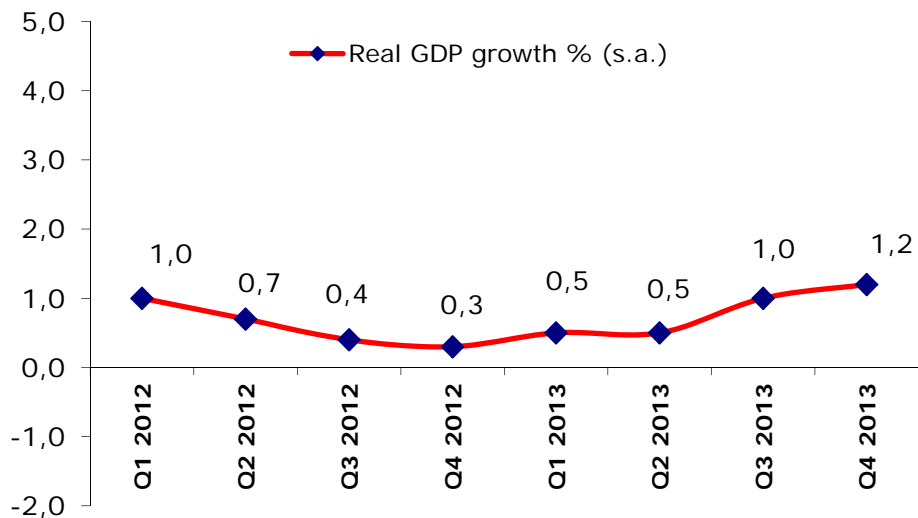
Why invest in Bulgaria:

- Financial and economic **stability**, despite internal and external shocks on the economy;
- **Prudent** fiscal policy;
- **Decreasing** macroeconomic imbalances;
- **Stable** financial system supporting real sector growth;
- **Lower** administrative burden;
- More **Competition**;
- **Dialogue** with the business.





Economic growth:

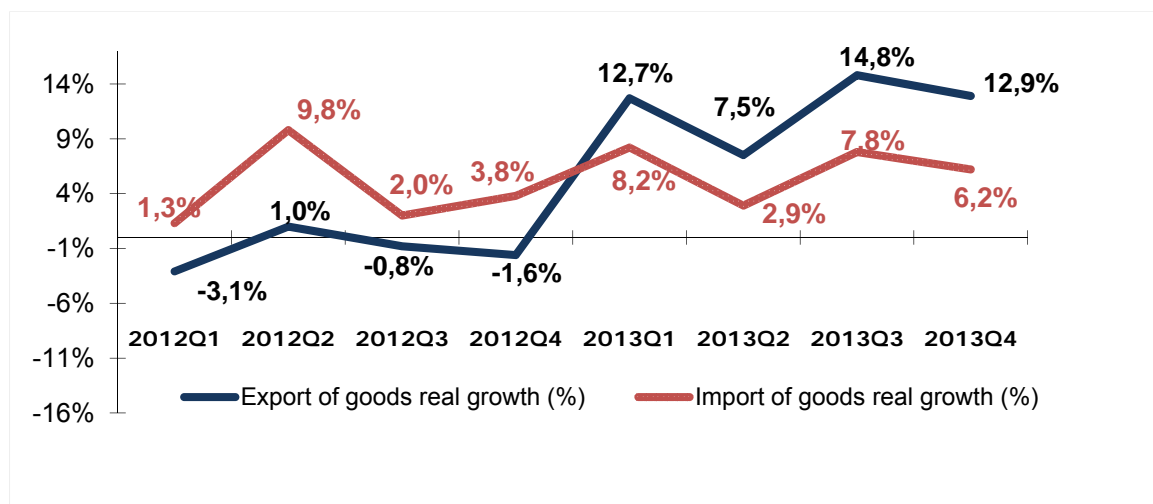
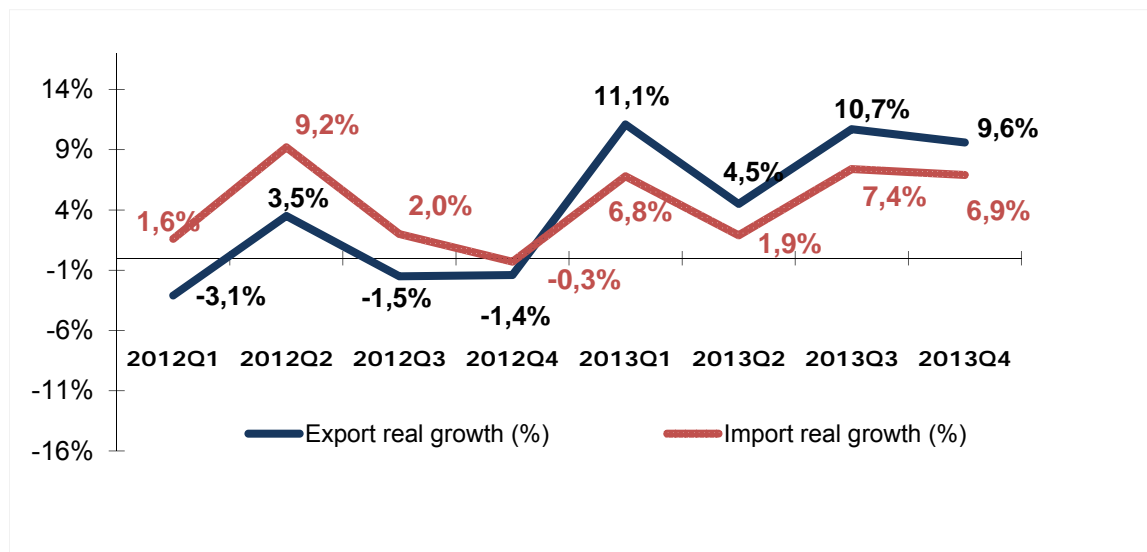


Source: NSI

- **Gradual revival of the Bulgarian economy.**
- **According to preliminary regular NSI data 2013 real GDP growth is 0,9% yoy.**
- **Gross value added in main economic activities increased.**
- **The growth in Q4 accelerated to 1,2% yoy (s.a. data).**
- **Positive contribution came from external demand.**
- **Final consumption is still weak, most of the negative contribution due to households consumption.**



Economic growth:



Source: NSI, seasonal adjusted data

- **Strong demand from Bulgarian main trading partners was a key driver for the economic growth.**
- **Import growth was mainly driven by the increased demand for export-oriented industries.**
- **Real growth rate of exports in 2013 exceeded that of imports.**
- **Annual real growth rate of exports for 2013 reached 8.9%, while imports 5.7% changing the reverse trend from 2012.**

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Economic growth:

GDP real growth, % (EC expectations)	2014	2015
Autumn 2013 forecast	1,5	1,8
Winter 2014 forecast	1,7	2,0

Source: European Commission

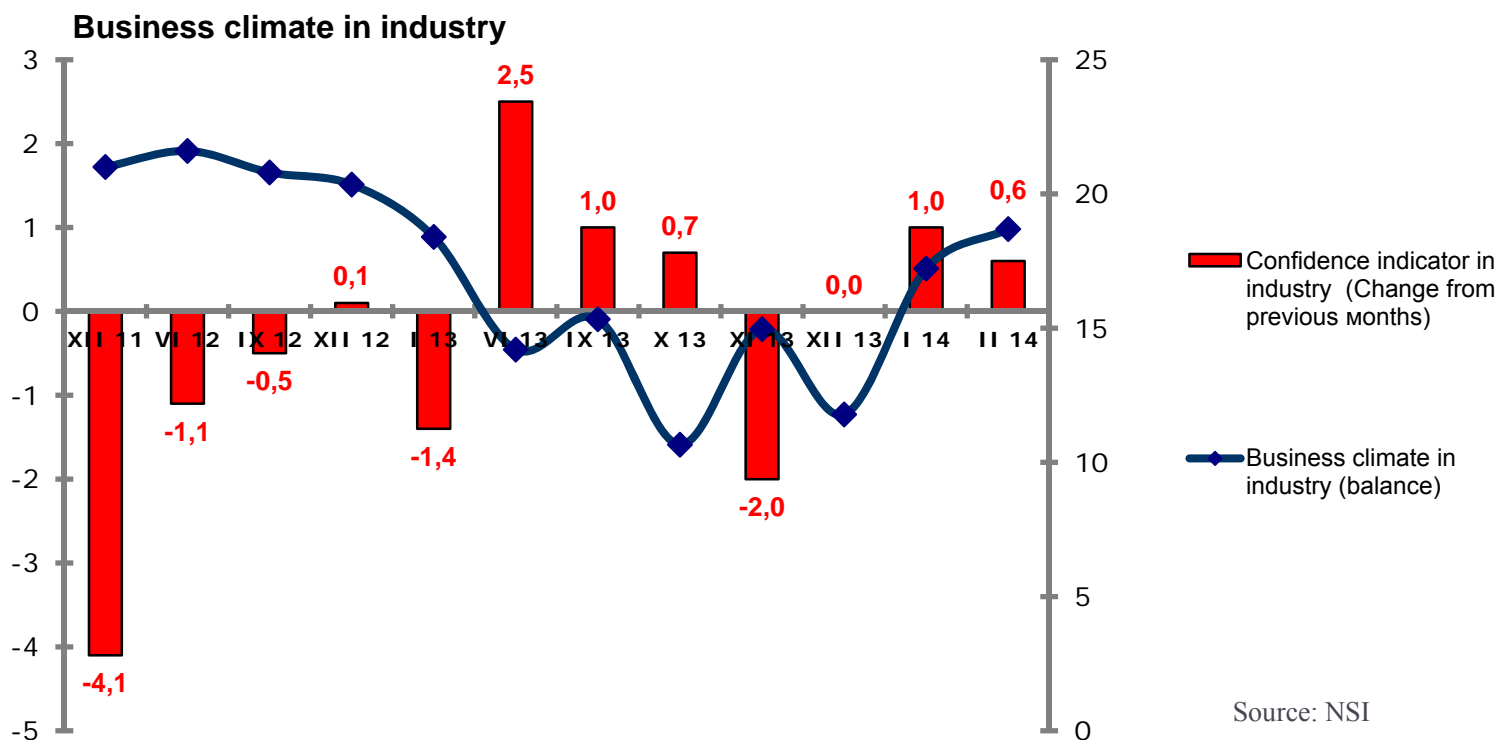
Comparison of GDP forecasts, (yoy,%)	2007	2008	2009	2010	2011	2012	2013
NSI - real GDP change	6,4	6,2	-5,5	0,4	1,8	0,6	0,9
EC - Autumn forecast	6,3	6,5	-5,9	-0,1	2,2	0,8	0,5
IMF - Autumn forecast	6	6,3	-6,5	0	2,5	1	0,6

Source: European Commission, IMF, NSI

- **Real GDP growth is expected to reach 1.8% in 2014 supported by the recovery of domestic demand.**
- European Commission Winter Prognosis published at the end of Feb. 2014 revised expectations for the economic growth 2014-2015.



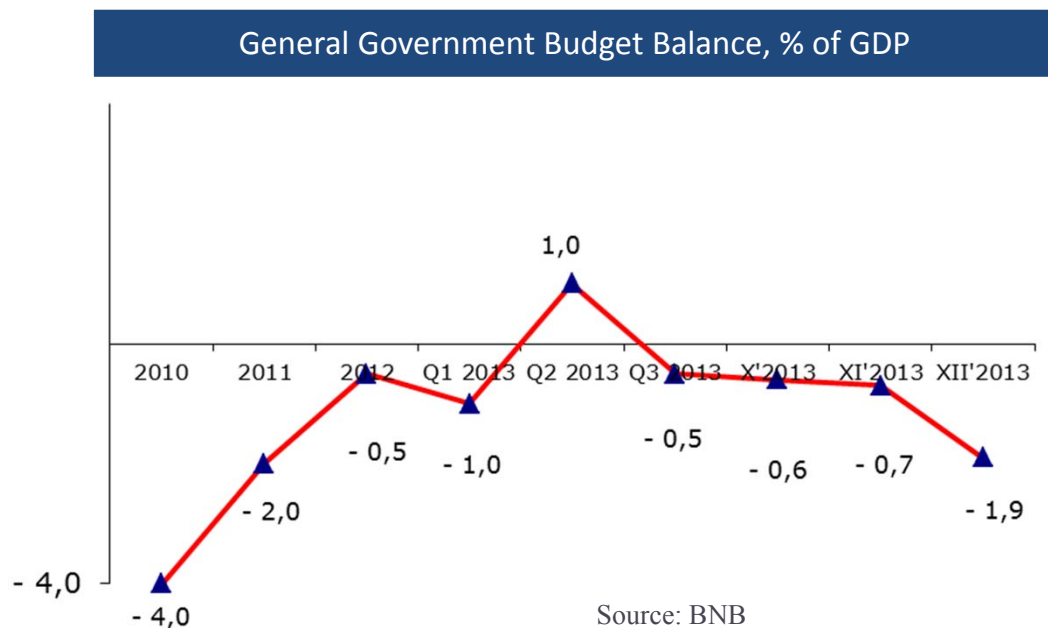
Economic growth:



- Since the beginning of the year the total business climate indicator increases. In the month of January 2014 the index rose by 4.6 points on a monthly basis due to more favorable expectations in the following sectors: industry, construction, retail trade and services. In March 2014 the index rose by 1.2 percentage points due to the improved business climate in construction and retail.
- In recent months, gradually rises and the indicator of confidence in the industry.



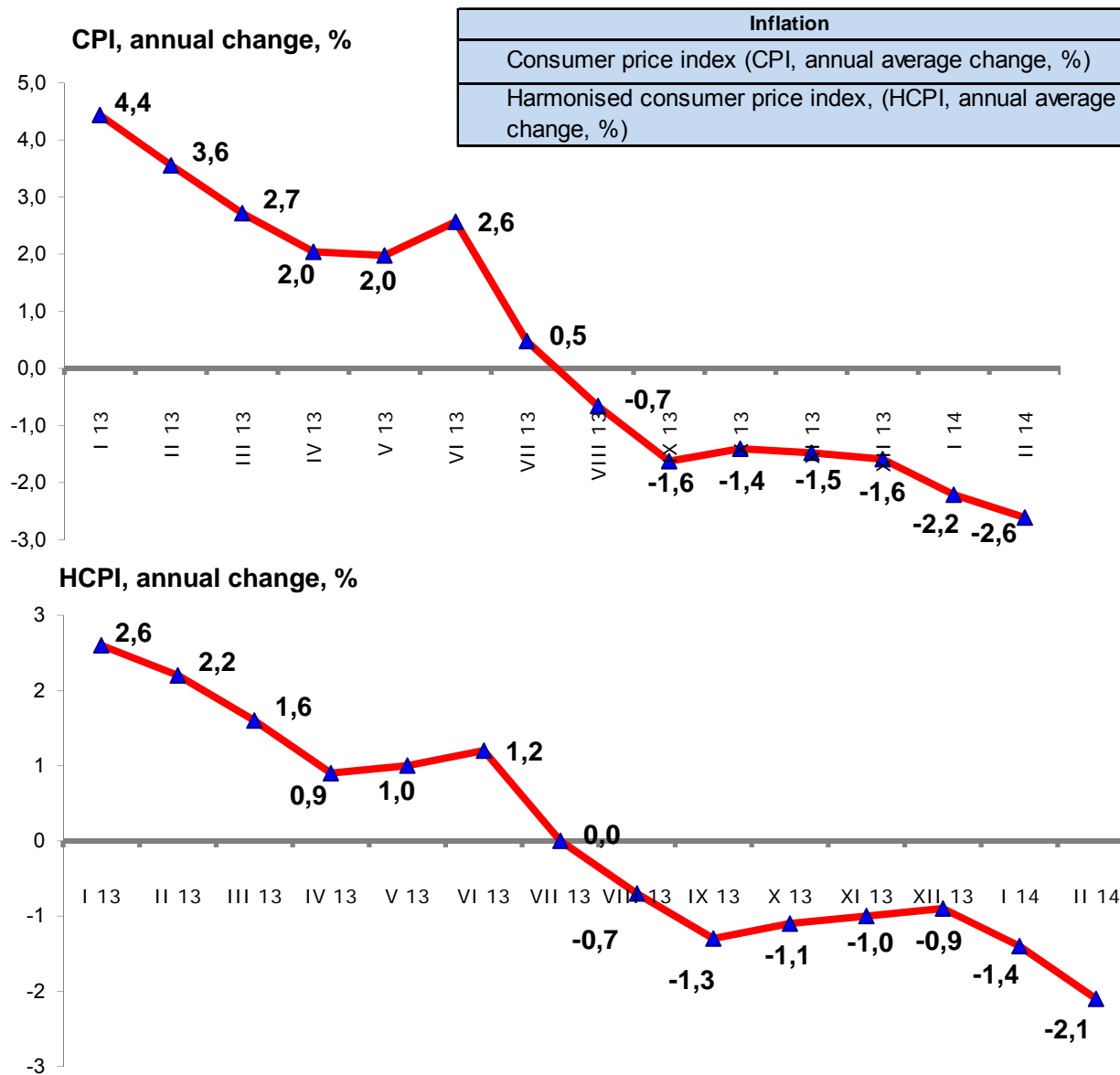
Budget balance (cash and accrual basis):



- The preliminary data on the budget execution confirms that the General government deficit at end-2013 was below the 2% threshold, **amounting to 1.9% of GDP.**
- Currently Bulgaria is among the EU Member States **not being subject to EDP.**
- At the end of Q3 2013 government debt (Maastricht criteria) is 17.4% of GDP.
- Positive current account is mainly due to a better balance of foreign trade and high external transfers, which are mostly from EU funds.



Consumer prices dynamics:



Inflation	2009	2010	2011	2012	2013
Consumer price index (CPI, annual average change, %)	2,8	2,4	4,2	3,0	0,9
Harmonised consumer price index, (HCPI, annual average change, %)	2,5	3,0	3,4	2,4	0,4

Source: NSI

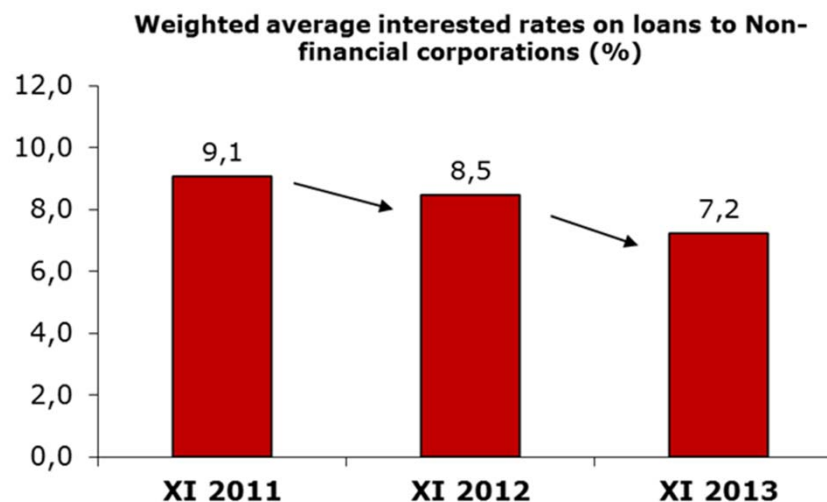
- According to preliminary data, the inflation rate as of January 2014 stood at -1.3%
- The consumer prices increase is expected to accelerate somewhat toward the end of 2014.
- Main factors for deflation are international markets trends, change of some administrative domestic prices (electricity and heat) and still low domestic demand influencing the dynamics of prices in the non-tradable sector (mainly services in the internal market).
- Negative trends in inflation have the impact of lower costs for basic resources in some industries.

Source: NSI



Stable financial sector:

- The Currency board arrangement remained among the main factors contributing to financial stability;
- International reserves ensure more than adequate coverage of monetary base (162.7% as of end-January 2014);
- Bulgarian banking system preserved high capital and liquidity standards with 16.9% capital adequacy ratio and 27.1% liquid assets ratio, while net profit reached BGN 585 mln at the end of 2013;
- Banks' risk assets are adequately covered;
- Domestic savings remained the main source of funding for local banks as total deposits grew by 9.4% yoy in 2013;
- Credit to the private sector remained subdued (0.2% yoy as of end-December 2013) as credit demand is still low due to the unfinished process of deleveraging of the private sector.





Stable financial system:

PURPOSE I:

To ensure the stability of the banking system and provide cheaper resources for economic recovery

PURPOSE II:

To encourage funding from alternative sources

- Capital Market Development

Privatization of the Bulgarian Stock Exchange;

- International financial institutions

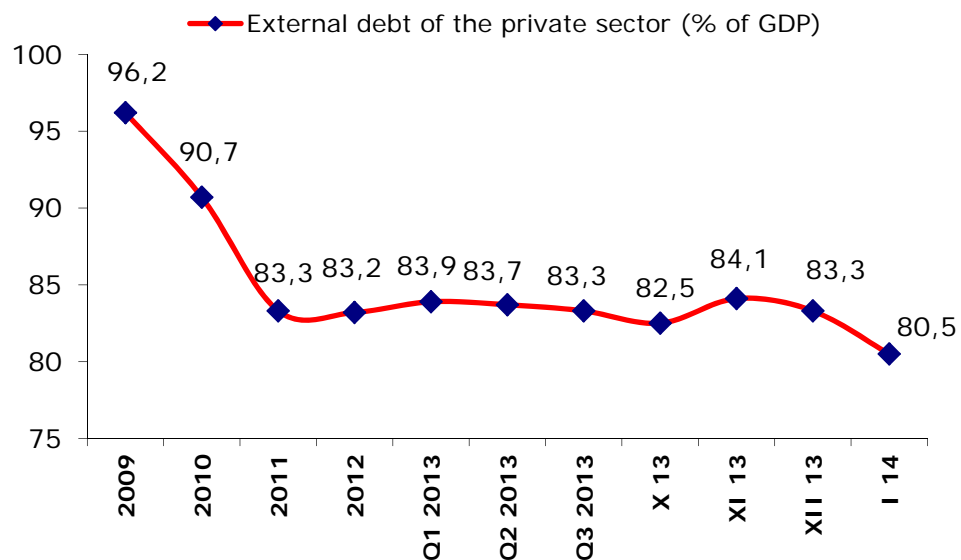
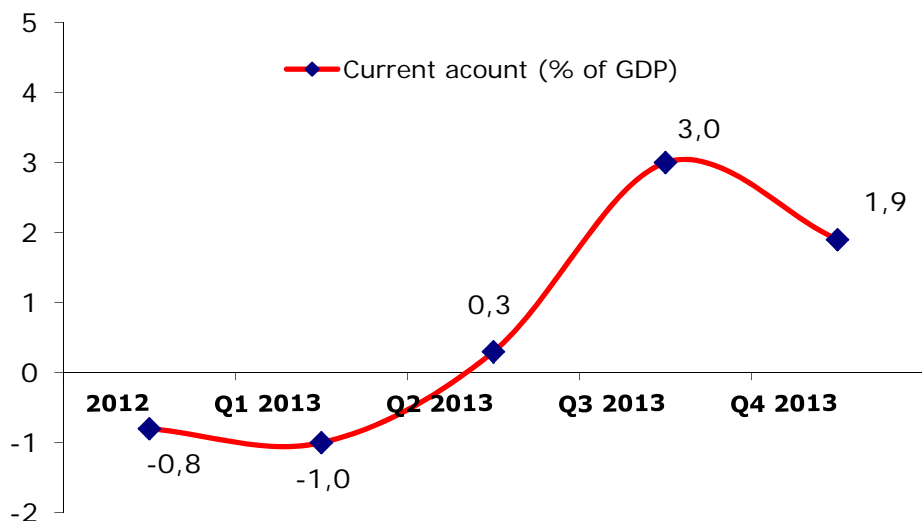
Agreements to provide technical assistance for reforms;

- Bulgarian Development Bank

Developing and Implementing new Customized products.



Current account:



- Positive current account is mainly due to a better balance of foreign trade and high external transfers, which are mostly from EU funds.
- Fiscal reserves at the end of 2013 were 4.68 billion BGN - above the statutory minimum.



Consumer prices dynamics: energy industrial prices

Electricity prices for industrial consumers, 2 000 MWh < Consumption < 20 000 MWh, Kilowatt/hour, euro, All taxes and levies included	2009S1	2009S2	2010S1	2010S2	2011S1	2011S2	2012S1	2012S2	2013S1	2013S2
Bulgaria	0,0716	0,0700	0,0690	0,0719	0,0700	0,0710	0,0761	0,0839	0,0841	0,0757
Estonia	0,0664	0,0686	0,0802	0,0866	0,0862	0,0873	0,0923	0,0967	0,1087	0,1078
Hungary	0,1321	0,1429	0,1172	0,1172	0,1195	0,1242	0,1150	0,1212	0,1176	0,1206
Poland	0,0982	0,1027	0,1040	0,1048	0,1060	0,0970	0,1001	0,1040	0,0978	0,0926
Romania	0,0878	0,0854	0,0857	0,0866	0,0900	0,0931	0,0921	0,0975	0,1154	0,1036
Turkey	0,0854	0,0851	0,0973	0,0997	0,0825	0,0803	0,0906	0,1028	0,1046	n.a.

Electricity prices for industrial consumers, 2 000 MWh < Consumption < 20 000 MWh, Kilowatt/hour, euro, Excluding taxes and levies	2009S1	2009S2	2010S1	2010S2	2011S1	2011S2	2012S1	2012S2	2013S1	2013S2
Bulgaria	0,0588	0,0578	0,0568	0,0588	0,0574	0,0582	0,0624	0,0688	0,0691	0,0620
Estonia	0,0507	0,0501	0,0546	0,0604	0,0616	0,0632	0,0640	0,0671	0,0773	0,0766
Hungary	0,1083	0,1125	0,0919	0,0919	0,0917	0,0874	0,0857	0,0903	0,0877	0,0895
Poland	0,0761	0,0794	0,0803	0,0809	0,0811	0,0742	0,0767	0,0797	0,0748	0,0706
Romania	0,0734	0,0714	0,0716	0,0694	0,0703	0,0703	0,0730	0,0670	0,0761	0,0706
Turkey	0,0699	0,0696	0,0796	0,0815	0,0678	0,0660	0,0741	0,0840	0,0854	n.a.

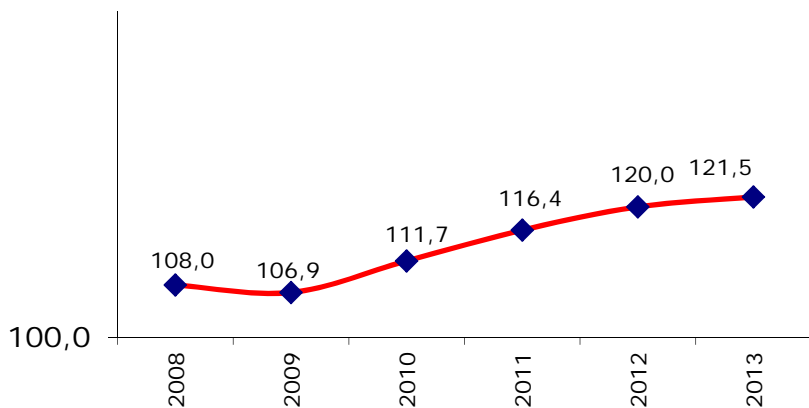
Source: Eurostat

Comparative energy prices for industrial consumers regarding main competitors in attracting investors.

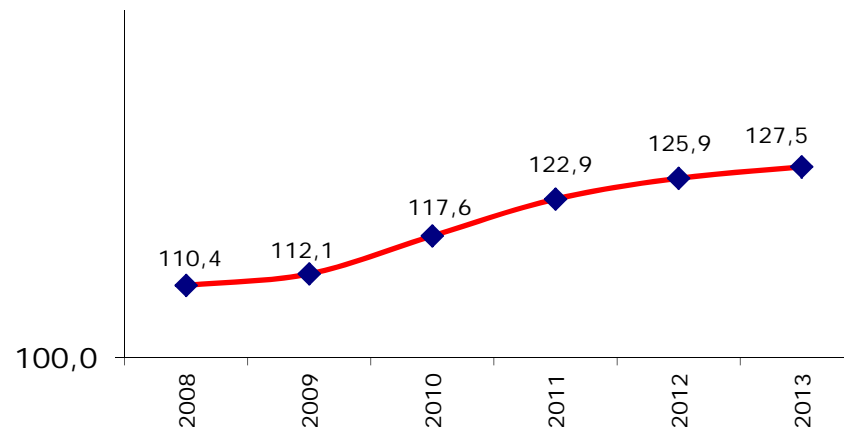


Labour market and productivity: Positive trends in labor productivity

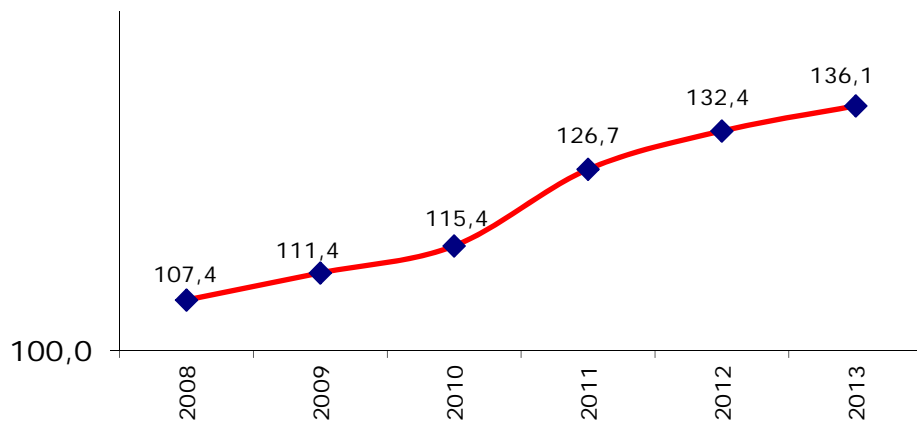
GVA per person employed, physical volume index, 2005=100,%



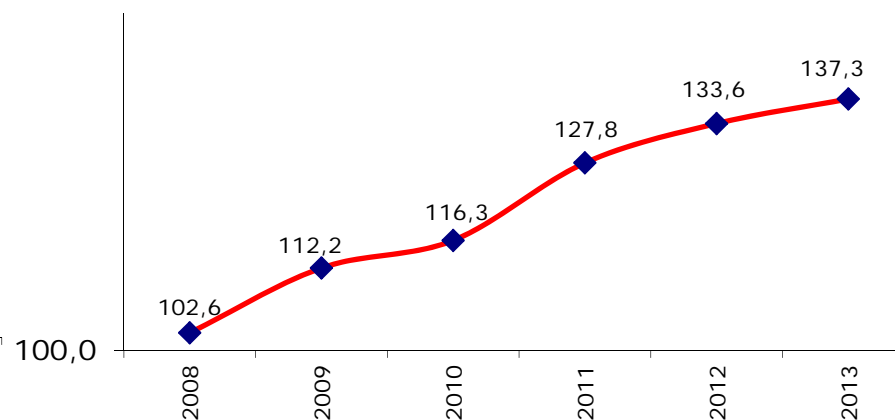
GVA per hour worked, physical volume index, 2005=100,%



GVA per person employed, Physical volume index in the Industrial sector, 2005=100,%



GVA per hour worked in the Industrial sector, Physical volume index, 2005=100,%

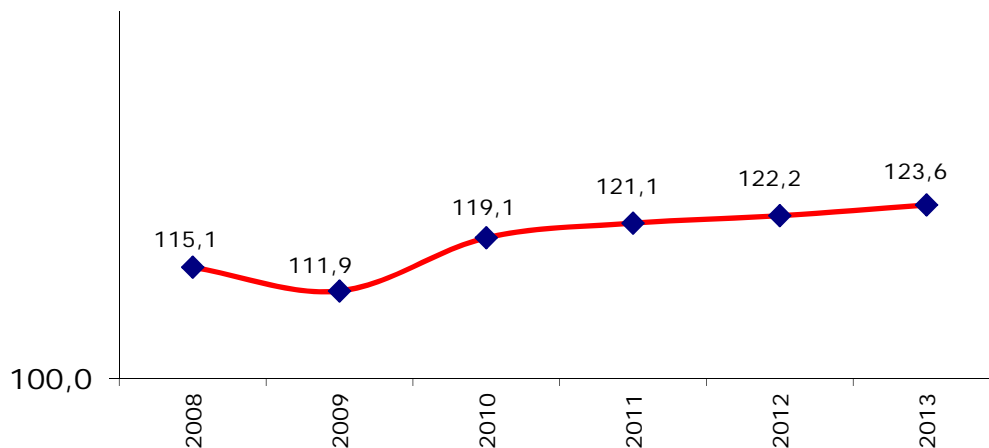


Source: NSI



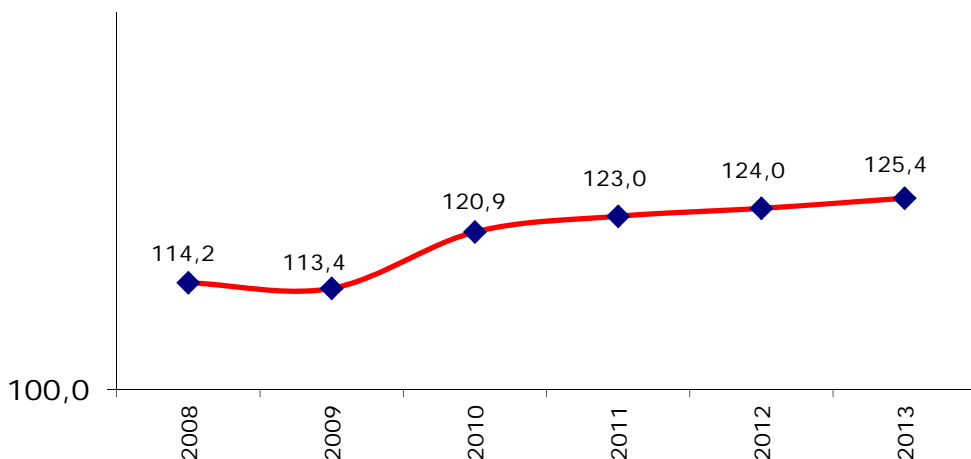
Labour market and productivity: Positive trends in labor productivity in service sector

◆ GVA per person employed, Physical volume index in the service sector, 2005=100,%



According to preliminary data for the fourth quarter of 2013 the level of labor productivity is highest in the service sector.

◆ GVA per hour worked, Physical volume index in the service sector, 2005= 100,%





Labour market: wages and salaries

Labour costs per hour in euro, breakdown by economic activity in 2013	Business economy	Industry	Construction	Services
Bulgaria	3,7	3,4	2,8	4,1
Estonia	9,3	9,1	9,9	9,4
Czech Republic	10,4	10,2	9,5	10,9
Romania	4,7	4,7	3,8	5,1
Hungary	7,8	8,0	6,2	7,9
Poland	7,4	7,6	6,4	7,5

Source: Eurostat

Labor costs in Bulgaria are lower than in key competitors for attracting investments.



Sustainable and low level of taxes:

- Tax levels will remain unchanged:
 - VAT **20%**
 - Corporate income tax **10%**
 - Accommodation provided in hotels and similar establishments **9%**
 - Individual income tax **10%**
 - Income from sole proprietor business **15%**
 - Income from dividends and liquidation shares **5%**
 - Income of foreign legal entities **10%**
 - Tax expenditures **10%**
 - Tax on interest income on deposits in commercial banks will decrease from:



2014	8%
2015	6%
2016	4%

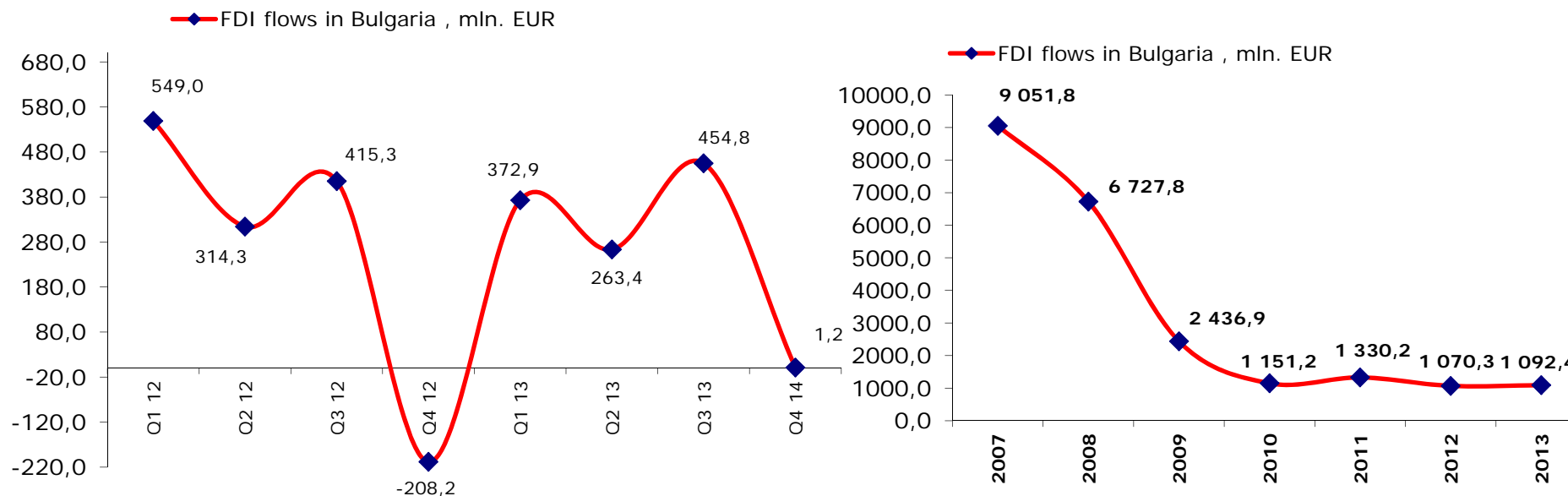


Tax rates in the EU:

Country	Income Tax (%)		Social Security (%)		VAT (%)
	Corporate	Individual	Employer	Employee	
Bulgaria	10	10	17.9-18.5	12.9	20
Serbia	15	10-20	16.9	16.9	20
Romania	16	16	28.45	16.5	24
Hungary	10/19	16	28.5	18.5	27
Czech Rep.	19	22	34	11	21
Poland	19	18/32	22.14	13.7	23
Turkey	20	15-35	27	15	18
Slovakia	23	19-25	34.8	13.4	20
UK	23	0-45	13.8	12	20
Italy	27.5	23-43	30	10	21
Spain	30	24, 75-52	29.9	6.35	21
Germany	30-33 (effective)	14-45	19.7	20.6	19
France	33.33	5.5-41	50	20	19.6



Foreign direct investments in Bulgaria:

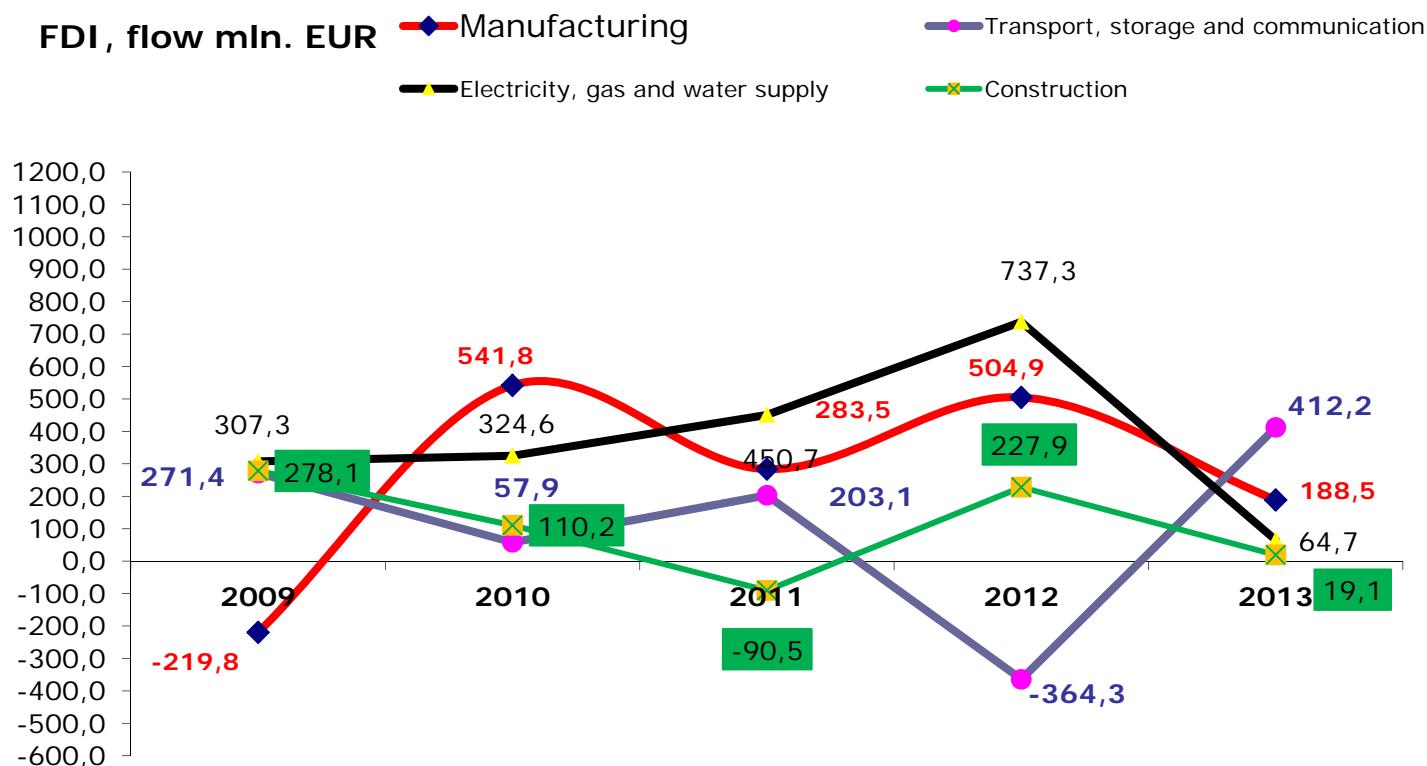


Source: BNB, *Preliminary*, last revision data, as of 17 March 2014

FDI total flow for 2013 is 1092,4 mln. EUR. The biggest investor in Bulgaria still remains Netherlands with almost 815,2 mln. EUR (75% of total 2013 FDI flow), Germany with 135,5 mln. EUR (12,4%), Czech Republic - 80,7 mln. EUR (7,4%), Russia -75,9 mln. EUR (6,9%), Luxemburg - 59,2 mln. EUR (5,4%)



Foreign direct investments in Bulgaria:



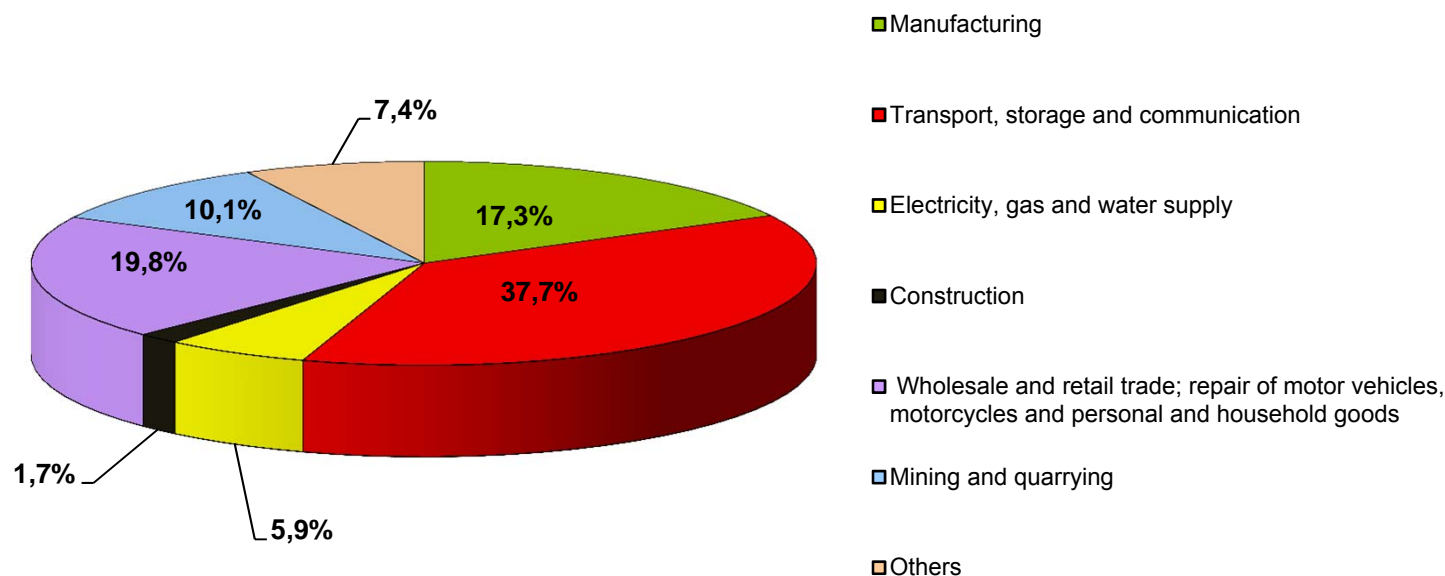
Source: BNB, Preliminary data

Positive trends in FDI flows for 2013 occur in manufacturing, transport, storage and communication. The biggest flows are in telecommunications.



Foreign direct investments in Bulgaria:

Structure of FDI flow in Bulgaria, 2013



Source: BNB, Preliminary data

The biggest share of 2013 FDI flow is in transport, storage and communication (37,7% of total FDI flow), wholesale and retail trade – takes 19,8% and Manufacturing – 17,3%. Approximately 10% of 2013 FDI flow in Bulgaria is in “Mining and quarrying”.



Foreign direct investments in Bulgaria:

Structure of FDI flow in Bulgaria, 2013

FDI stock by country	as of 2013-Q3	Share	Ranking list
Total in mln. EUR	38 768,1	100,0%	
Netherlands	7 802,2	20,1%	1
Austria	5 620,5	14,5%	2
Greece	2 776,5	7,2%	3
United Kingdom	2 185,6	5,6%	4
Cyprus	2 167,5	5,6%	5
Germany	2 140,5	5,5%	6
Russia	1 759,5	4,5%	7
Luxembourg	1 670,3	4,3%	8
Switzerland	1 208,4	3,1%	9
Hungary	1 069,4	2,8%	10
United States	984,8	2,5%	11
France	984,6	2,5%	12
Spain	882,6	2,3%	13

- The biggest share of FDI stock is in real estate, renting and business activities – 20,2% of total
- 17% are in Financial intermediation
- Manufacturing – 17,1%
- Wholesale and retail trade; repair of motor vehicles – 14,1%
- Construction - 7,7%
- Transport, storage and communication – 11,5%

Source: BNB, Preliminary data

FDI stock in Bulgaria amounts to 38,7 bln. EUR at the end of Q3 2013. Austria takes 3-rd place in the ranking list of top investors in Bulgaria with over 5,62 bln. EUR.



Expectations for the Bulgarian economy:

Macroeconomic indicators (expectations)	2014	2015	2016
GDP (mln. BGN)	81 582	85 728	90 516
GDP real growth (%)	1,8	2,9	3,4
Average annual inflation (HCPI, %)	1,8	2,1	2,2
Current account (% of GDP)	-0,2	-0,6	-1,2
FDI (% of GDP)	4,1	4,1	4,2
Budget balance (% of GDP)	-1,8	-1,5	-1,1

Investment legislation and incentives





Incentives under the Investment Promotion Act (IPA):

Equal treatment of Bulgarian and foreign investors.

Incentives for investors in the following sectors:

- Manufacturing;
- Services sector including:
 1. high-tech activities in the field of ICT,
 2. R&D,
 3. outsourcing of business processes,
 4. activities of head offices,
 5. education,
 6. human health care,
 7. warehousing and support activities for transportation, accounting and auditing,
 8. architecture and engineering.





Legal framework for investing in Bulgaria:

Criteria – Number of jobs created (+ Investment value)

Region or Sector	Class B	Class A
General case: Manufacturing industry	€1m 100 jobs	€2m 150 jobs
General case: Services sector	€0.25m 100 jobs	€0.5m 150 jobs
In municipalities with unemployment rate equal or more than the country average	10 jobs	25 jobs
High-tech activities in the manufacturing industry for the entire country	10 jobs	25 jobs
High-tech activities in the service sector such as: - ICT and computer technologies - R&D - activities of head offices - education - human health care - accounting and auditing - architecture and engineering	25 jobs	50 jobs



Legal framework for investing in Bulgaria:

Investment incentives:

- Information services;
- Shortened administrative procedures:
the central and local government authorities will provide administrative services shortened with $\frac{1}{3}$ of the time period established by the law;
- Financial support of up to 25% for the vocational training for obtaining professional qualifications;
- Reimbursement of labor costs paid by the employer;
- Transfer of ownership rights or establish a limited ownership right over property (private state or private municipal property) without a tender.





Legal framework for investing in Bulgaria:

Investment incentives:

- Consulting and individual administrative services.
- Financial support for construction of technical infrastructure elements to the borders of the project site, needed for implementation of one or more investment projects.

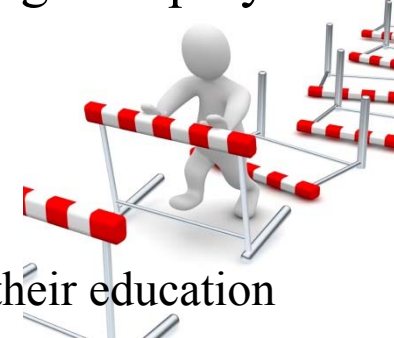


Legal framework for investing in Bulgaria:

Investors that hire people through the National Employment Agency get the following advantage:

Covering up to 1 year minimum salary and reimbursement of social/health care security for employing people through Employment Agency in eligible categories:

- Unemployed up to 29 years of age without time of service
- Unemployed up to 29 years with reduced working capacity
- Young people from social institutions who have completed their education
- Unemployed with permanently reduced working capacity
- Unemployed – single parents (adoptive parents) or mothers (adoptive mothers) with children up to 3 years of age
- Unemployed women over 50 years of age and men over 55 years of age



Policies aiming at improving the investment climate





- Government policy ensuring a **predictable investment** environment;
- Improving the business and investment environment through **timely payments to business**;
 - Entering the cash accounting scheme: the provider can pay the **VAT due after it has been paid** for the delivery.
- **Decreasing administrative burden**: Three packages with 300 measures;
- Reducing costs for the business by improving the **single payment account** for taxes and social security contributions.





Improving investment climate:

- Public investment program "Growth and Sustainable Development of the Regions": **Reducing regional disparities**, improving infrastructure and providing a better living environment;
- Stimulating **development of venture capital and private equity**, including through the Bulgarian Development Bank and its **new products**.
- Promoting **Extrajudicial methods** to resolve dispute resolution
- Stimulating development of **business incubators and entrepreneurship centers**;



Policies aiming at improving the investment climate



Improving investment climate:

- Programs focused on start-ups;
- Starting the process or **reindustrialization** and stimulating investments in **innovation**;
- More transparency and competition, promoting **rules for public procurement**;
- More effective **consumer protection**.

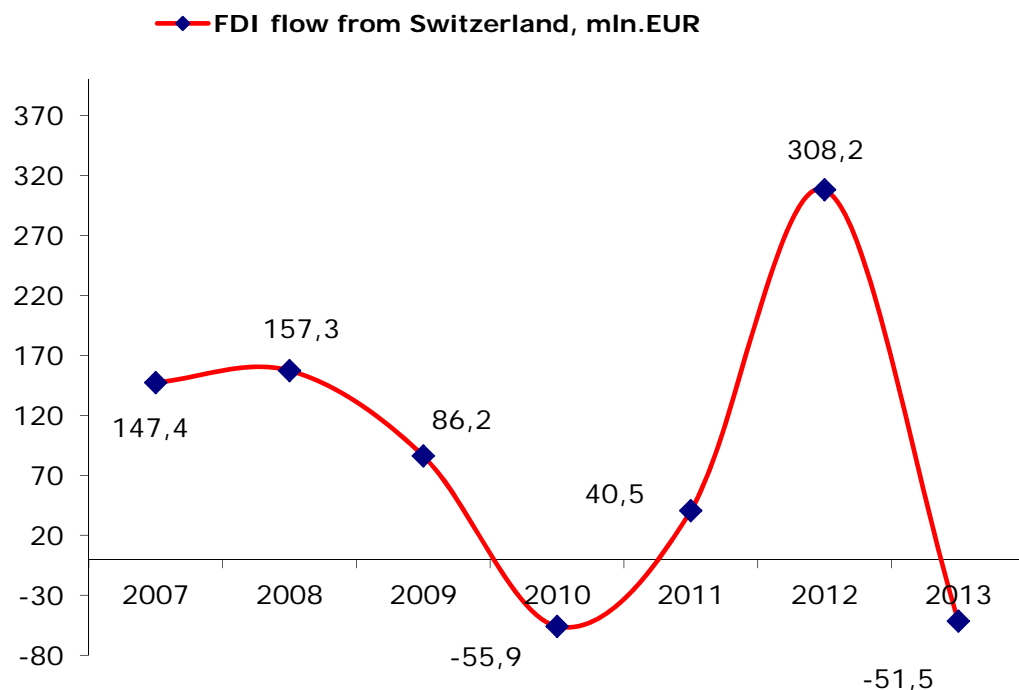


Swiss – Bulgarian trade relations





Foreign direct investments in Bulgaria:



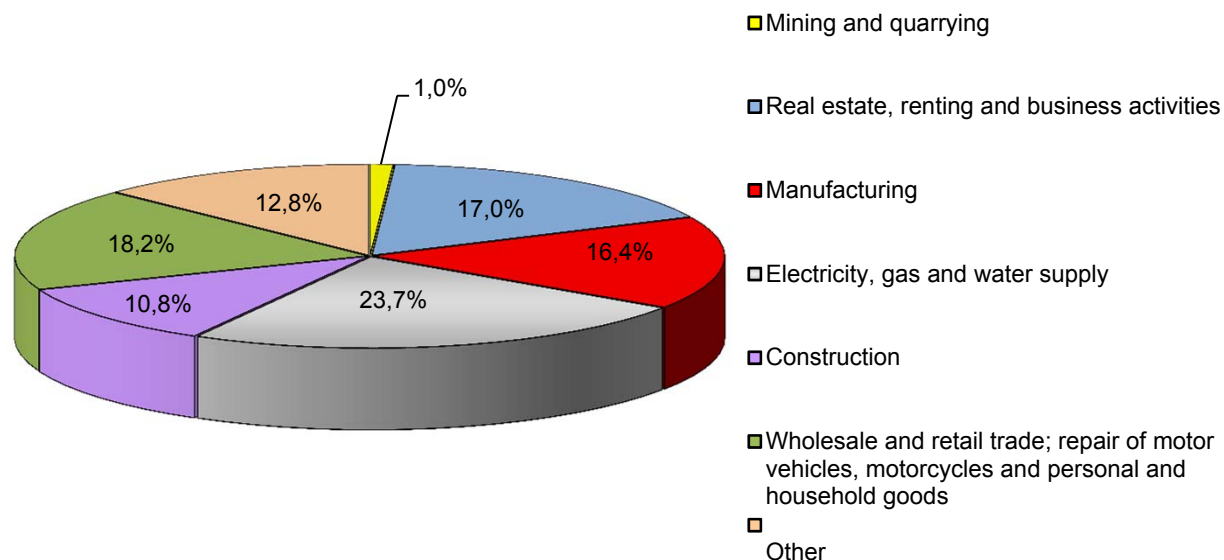
Source: BNB, Preliminary data

FDI flows from Switzerland are still volatile compared to 2007 – 2008 period. 2013 FDI flow from Switzerland is negative and amounts to (-51,5) mln. EUR while in 2008 it was 157.3 mln. EUR. Most of the FDI annual flows from Switzerland traditionally are in “Real estate, renting and business activities”, services, tourism, light and heavy industry, electricity.



Foreign direct investments in Bulgaria:

FDI stock from Switzerland at the end of Q3 2013

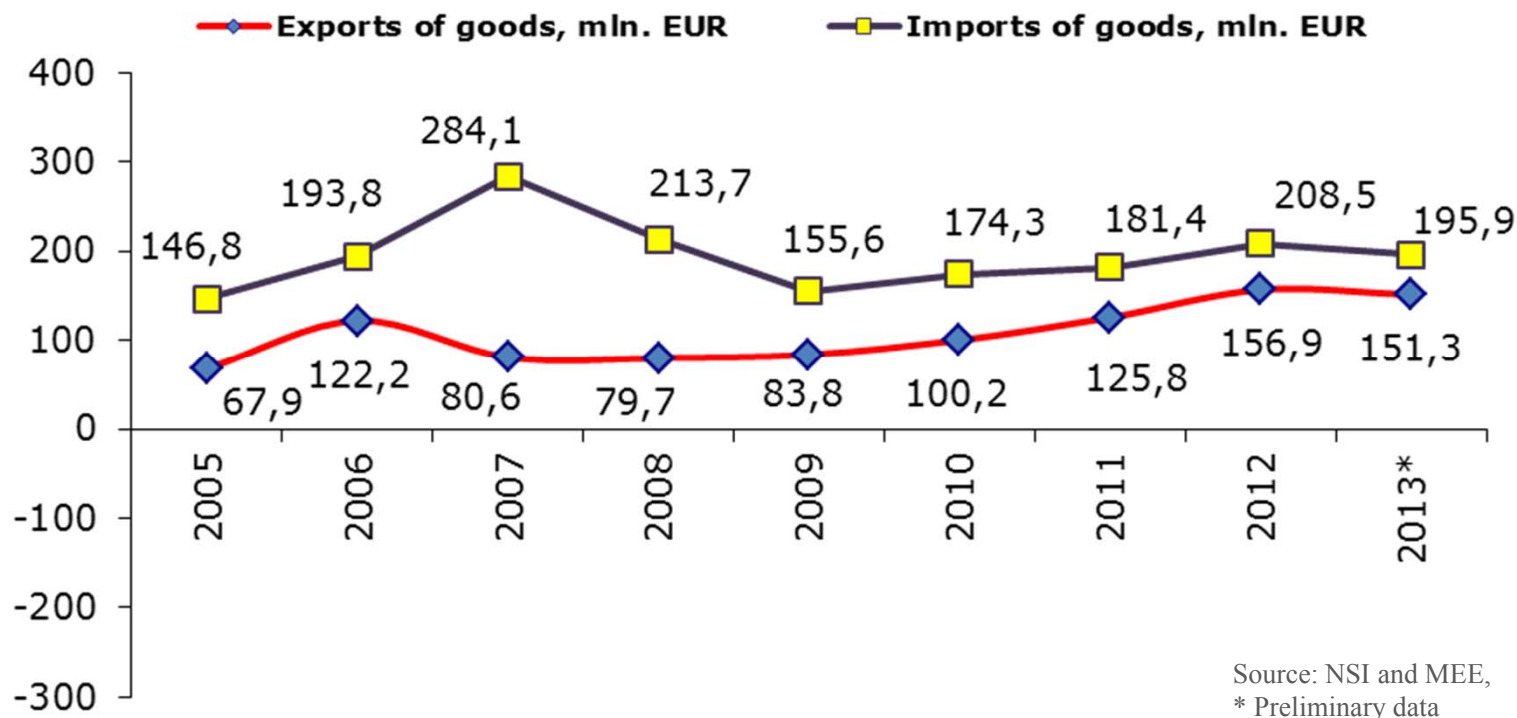


Source: BNB

The largest part of FDI stock from Switzerland at the end of Q3 2013 is in “Electricity, gas and water supply” - 23,7% of total. Investments in wholesale and retail trade; repair of motor vehicles, personal and household goods are 18,2% from total Switzerland FDI stock. “Real estate, renting and business activities” takes 17% share. FDI stock in manufacturing are 16,4% of total at the end of Q3 2013. Almost 11% of FDI from Switzerland are in construction. At the end of 2013 FDI stock from Switzerland amounts to 1 120.7 mln. EUR.



Trade relations with Switzerland:



Leading commodities in **exports** to Switzerland in 2012 are **silver** (23.4%), **gold** (8.7%), **metal sheets of copper** (7.4%), equipment for electric circuits (7.1%) clothes for men - suits, jackets, pants and sports clothing. Exports from Bulgaria to Switzerland amounted to **157 mln. EUR**, while imports from Switzerland is **208.5 mln. EUR**. Leading commodities in imports from Switzerland in 2012 are: medicaments (29.5%), industrial parts, boilers and appliances, as well as account books and office materials. Exports from Switzerland in 2013 amounts to 151,3 mln. EUR. (preliminary data), while imports amounts to 195.9 mln. EUR.

Why you should invest in Bulgaria?

- **Strategic geographic location**
- **The lowest taxes in EU**
- **Competitive labor costs compared to EU - average**
- **Lower electricity prices for industry compared to main competitors.**
- **No currency risk and stable financial system**
- **Currency board = low transaction costs**
- **Started administrative reform in order to shorten procedures, cut expenses and ease business**
- **There is a lot of unused capacity in obtaining regional competitive advantages**
- **The main drive of growth is expected to come from external demand and slow recovery of internal demand**



Why you should invest in Bulgaria?

The aggregate measure of competitiveness is the complex expression of general economic conditions and interrelated factors such as: stable financial system, gross government debt, stable fiscal policy, national policies for encouraging business and investments, etc.



Thank you
for your attention!

