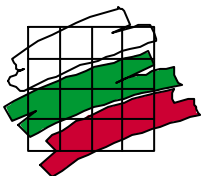


BUSINESS SURVEY SERIES

THE BULGARIAN ECONOMY IN 1995

ANNUAL REPORT



**AGENCY FOR ECONOMIC
COORDINATION & DEVELOPMENT**

1, Levski Str., 1000 Sofia, Bulgaria

I. THE BULGARIAN ECONOMY IN 1995; TRENDS AND PROSPECTS

1.1. THE WORLD ECONOMY IN 1995

According to the preliminary IMF and ECE (Economic Commission for Europe) estimates, GDP growth ran at a 3.7% rate, with the developed countries contributing about 2.5% (the USA - 2.9%, Japan - 0.5%, Germany - 2.1%, France - 2.9%, Italy - 2 and Great Britain - 2.7%). The developing countries continued accelerated growth hitting a 6 percent increase in 1995. Growth was fastest in the Asia-Pacific Region and lowest in Latin America due to the financial crisis and economic decline in Mexico. Regional economic growth in Central and Eastern Europe is said to have run at 4 - 4.5%. GDP in the former GDR registered the highest growth rate of about 7%. The CIS economies suffered a decline of minus 6.6% in the first six-month period of 1995. The Baltic States, too, followed a downward trend of economic development registering a - 1.7% decrease over the same period.

Growth in Western Europe, which is of particular importance from the point of view of the Bulgarian economy, was mainly due to a rise in almost all components of aggregate demand (inventories excluded). Private (domestic) consumption, fixed capital investments and exports registered the highest rise while government consumption and import recorded only a slight increase. Despite the favourable economic conditions unemployment rates in Western Europe remained at relatively high levels of over 10% of the labour force. Unemployment remained rampant in Spain (22.5%), Finland (17.6), Ireland (14.5%), Turkey (12.0) and France (11.6). The same upward trend in unemployment has begun to affect the German economy. By contrast, unemployment rates in the USA and Japan recorded relatively modest levels of 5.6% and 3.1% respectively.

High unemployment was the cost the Western economies had to pay to maintain low inflation in 1995. Price growth rates in Western Europe fluctuated within the narrow range of 2.8% and 3%. Inflation in the USA ran at practically the same levels while inflation rates in Japan were trimmed to almost zero and even negative levels. In contrast to the other OECD member-countries, price inflation in Turkey

soared to a record high of 129.3% in the first quarter of 1995, dropping down to 86.6% in the second one.

As compared to late 1994, the developed market economies turned to less restrictive monetary policies designed to lower short- and long-term interest rates - an instrument employed by Germany and the USA. By mid-1995 the discount rate in Japan had hit a record low of 0.5%. Most West European countries witnessed a trend towards reductions in the nominal levels of interest rates, thus producing dynamic patterns further reinforced by the Bundesbank. Furthermore, cutbacks in budget deficits made it possible for the Western economies to maintain low interest rates. As a result, OECD member-countries registered an increase in money supply within the bounds of nominal GDP growth stabilizing money velocity.

The average deficit in the countries belonging to the so-called „industrialized centre“ of the world economy is expected to amount to about 4.8%, or by one percentage point lower as compared to 1994. The budgets of the USA and Japan ran even smaller deficits of 2 and 3% respectively. However, the ideological controversy between the Congress and President Clinton over the federal deficit and Medicare expenditures has not been settled yet and will require further efforts and certain compromise on the part of the Clinton administration.

The progress made by the USA and Europe in the sphere of monetary and fiscal policies has important conceptual and institutional implications. As far as Europe is concerned, the fulfillment of the Maastricht convergence criteria and the creation of Emu are top priorities. As for the USA, the budgetary crisis was provoked by the Republicans and their demand to reduce the federal deficit via severe cutbacks in social security expenditures. By contrast, Japan has been stimulating its economy and supporting the banking sector by carrying out an open expansionary fiscal policy over the last four years.

The restrictive fiscal policies, implemented in Western Europe, have serious consequences for regional economic growth. As a result, GDP growth rates in the region are expected to slow down slightly. This, however, may prove an acute problem for the Western economies because unemployment cannot be reduced by growth rates going below the 2.5% mark, as ECE estimates suggest. Under these

conditions, any further stimulation of both economic growth and investments will require additional reductions in interest rates. Fears of an inflation speedup, coupled with Germany's necessities for vast amounts of foreign capital which will offset the expenditures on the economic transformation of the Eastern German provinces (in the first six-month period of 1995 the country ran a \$ 7.4bn balance of payments deficit reaching the hefty amounts of \$18 - 19bn throughout the same year), will limit considerably the possibilities for economic maneuvers.

Bad credits, a pressing problem mainly for the banking system in Japan, proved to be another monetary policy restraint. Another problem was the instability of the capital markets in Japan and the Far East as well as the drastic changes in the exchange rates of the major currencies - the US dollar, the Japanese Yen and the Deutsche mark. 1995 was marked by a sudden change in the share of the major world capital markets as US capital markets (where the volume of the securities quoted throughout 1995 increased by 35% against a 6% decrease in Japan) took the upper hand. Judging by the market volume/GDP ratio, capital markets are best developed in Switzerland, followed by Great Britain, the USA, Sweden and the Netherlands.

As trade relations between Western and Eastern Europe strengthened, world trade exchange in 1995 outstripped GDP growth rates. According to preliminary data the volume of world export increased by 26.8% (including export in the developed market economies by 31%, export in the transition economies by 23.3%, export in the Central and East European economies by 31.1% and the developing countries reporting a scant 9.3%). The USA excluded, the developed market economies registered trade surpluses, which is just another fact favouring economic growth in this country group. The same is true for their current trade balance.

As a whole, most leading forecast offices are optimistic about the world economy in 1996. Despite some restricting factors having to do with pressures accumulated in the financial system as well as further reductions in budget deficits and government expenditures, economic growth in the developed market economies is expected to accelerate to 2.6% (OECD forecasts) or maintain a level of 2.4 - 2.5% (IMF). IMF forecasts show that economic growth in the developing countries is to increase to a 6.3% level.

The industrialized „centre“ of the world economy is expected to report another speedup in growth rates with Japan in the lead, registering an increase in GDP growth by about 2% (OECD) or 2.2% (IMF). The major macroeconomic policy instruments which will guarantee higher growth rates and revive the economy amount to low interest rates, low exchange rate of the Japanese Yen as well as a special package of fiscal measures including tax-rate reductions, a rise in government investment and other incentives. Inflation in Japan as well as in all OECD member-countries is anticipated to record a slight increase.

Forecasts concerning economic growth in Germany, Greece and Turkey, which are important export markets for Bulgarian producers, are optimistic, too. Italy and Austria are expected to report an insignificant growth decline. Recent data indicate that 1995 was a tough year for the German economy, registering a continuous industrial production decline. Further reductions in interest rates are expected to give another boost to the country's economic activity. According to IMF estimates, the world economy is expected to grow by 4.1%.

1.2. THE TRANSITION ECONOMIES IN 1995

As has already been pointed out, the Central and East European (CEE) economies performed successfully in 1995. GDP growth in the region as a whole amounted to 4.4 - 4.5%, including the Visegrad countries - 4.5%, the eight South European countries in transition (Albania, Bulgaria, Romania and the five former Yugoslavian republics) - 4%. Former GDR excluded, economic growth was highest in Poland (6 - 6.5%) and lowest in FYROM (-4%). Decline-stricken, the CIS economies as a whole, reported just another drop of 4.6% in 1995. Industrial production in Ukraine tumbled by 11-12%. Late 1995 saw a slowdown in Polish production dynamics as well as a certain pick-up in CIS output.

A most plausible explanation for both the different rates of growth and different pace of economic reform amounts to the concept of „the economic growth centres“. The geographic location to the healthy, steady and dynamic EU economy is a decisive factor stimulating economic growth, foreign direct investment and the pace of market-oriented transformations. We can, therefore, conclude that the lifting

of the embargo on former Yugoslavia, which isolated artificially the Balkans from the European economic community has shifted the focus from the Visegrad countries to the Balkan economies in transition, producing new dynamic patterns of trade exchange and accelerated growth rates.

As for Central and Eastern Europe, all countries shared a common feature: domestic demand including investment, consumption (real wage rise) and import outstripped the other economic variables. Bulgaria, however, followed the opposite trend due to reductions in government consumption and investment, as caused by a high primary budget surplus, low levels of savings and investment, BGL depreciation and a trade surplus, considerable foreign debt payments and restricted foreign direct investments.

According to ECE data, Bulgaria is the East European country most heavily burdened with domestic and foreign debt payments amounting to 10% of GDP, followed by Hungary whose debt payments cover about 8% of the country's GDP. This is the basic reason for both maintaining a high primary budget surplus and domestic demand shrinkage.

As compared to the other Central and East European countries (the CIS excluded), investments in Bulgaria recorded their relatively lowest level due to the instability of the monetary system. While investments in Poland and the Slovak Republic increased by 21% in 1995, Bulgaria is still suffering a decline. On the other hand, it is the only East European nation (perhaps Slovakia, too) registering a trade surplus coupled with a rise in GDP in 1995.

On the supply side, industrial production was the key factor for maintaining a relatively steady economic dynamics. Within the industrial branches, investment goods and intermediate production followed accelerated rates of growth while final consumption sectors lagged behind due to the strong export competitiveness of the developed market economies.

The economic revival in Eastern Europe led to reductions in the jobless rate. The relative share of the unemployed officially registered in all the 12 Central and East European countries dropped from 13.6% in 1994 to 13% on average in 1995. As investments and real wages in Hungary, Romania and Bulgaria followed the slowest

rates of growth, employment rise in these countries can, therefore, be attributed to the labour-intensive industries. Compared to the Central and East European countries, unemployment in the CIS and the Baltic states hit even lower levels (5-6% of the labour force).

The prevailing trend in the CEE as well as in the group of the countries in transition as a whole has been towards reducing inflation rates. Nevertheless, the rate of money supply growth as a rule outstrips nominal GDP increase. One of the reasons for this is the influx of short-term speculative capital due to the positive interest rate differential between the transition economies and the international financial markets. In order to neutralize the inflationary potentials of any foreign exchange component rise in the money supply, the different countries have resorted to sterilized operations in the open market, increase in the minimum required reserves or to some other measures aimed at reducing budget deficits.

All CEE countries, with the exception of the Czech Republic, are still facing up to the problem of budget deficit cutbacks. Any further expenditure reductions in these countries are hardly possible due to economic, social and political reasons. Which is why efforts are mainly directed to raising taxation rates and improving tax collectibility. In many CEE countries the upper limit of the taxation progressive scale amounts to 65 - 70% (e.g. Hungary and Poland). According to ECE experts, further improvement of tax collectibility is a more reliable way to reduce budget deficits. The relative level of the budget deficit in the CEE countries is expected to register a considerable drop over the 1996-1997 period.

Banks with negative capital and vast amounts of bad credits are the next item on the agenda and will be one of the main economic concerns for all Central and East European countries and the CIS. Programmes aimed at the restructuring and recapitalization of the banking system as well as at improving financial discipline are under way in all transition economies. At the same time the share of the private sector in industrial production, trade and finance has gone on the increase.

Despite the trade deficit in all CEE countries (as due to the outstripping growth rate of imports), growth in the transition economies is predominantly export-led. Export in Albania (54.5%), Croatia (51.7%), Poland (38.7%) and the Slovak Re-

public (34.6%) followed excessively fast rates of volume growth in 1995. According to preliminary ECE estimates, trade among CEE countries in 1995 was characterized by a number of features:

First, the increase in the dollar value of exports was higher than the increase in the export volume due to the dollar's depreciation against the yen and the mark and the cyclical price increase of some goods exported by the East European countries and the CIS. The prices of oil, gas and oil products, for example, went up by about 15-20% while those of metals and chemicals by 40-50% on a seasonally-adjusted basis in the first half of 1995.

Second, ever since the onset of the economic reforms there was a notable upswing in trade among the East European countries in 1995. Intra-East European trade, however, followed different dynamics with some countries registering significant acceleration of growth. Unfortunately, Bulgaria is still an exception to this trend but the free-trade agreements with Slovakia and the Czech Republic are expected to give the country's foreign trade further impetus.

Third, the commodity structure of the foreign trade of the East European and CIS member countries is characterized by a rising relative share of intermediate manufactures. This fact reflects the cyclical demand growth of the West European economies. Also, the share of exports of the labour-intensive industries (textiles, clothing, shoes, etc.) increased. There is, too, a rise in the share of exported goods produced as piecework or as a result of cooperative links.

Fourth, a successfully implemented macroeconomic stabilization programme is usually coupled with a real-term appreciation of the national currencies and deteriorating trade balances.

The trade deficit of the CEE countries and foreign debt servicing led to an increase in the net foreign debt of the 12 countries from \$82.6bn in late-1994 to \$85bn in mid-1995. The net foreign debt of the CIS countries has, too, gone on the increase. Due to the high positive interest rate differential, the volume of their foreign exchange reserves has, none the less, risen. The foreign exchange reserves/monthly import ratio in the CEE countries improved from 3.3 to 3.4. A similar trend affected the economies of the CIS countries and the Baltic states.

A great deal of progress was made towards the institutionalization of the integration processes between Eastern Europe and the EU. Almost all CEE countries, Bulgaria included, as well as some of the Baltic states submitted officially their membership application to the EU. The European integration community, in its turn, published the White Paper in May 1995 which highlights the EU integration strategies in the preparation of each applicant's accession to EU markets meeting the requirements set by the European Council at the Essen Summit in December 1994.

1.3. THE BULGARIAN ECONOMY IN 1995

MAJOR MACROECONOMIC TRENDS

The 2.5% rise in GDP in 1995 was a turning point in the economic developments in the country since the onset of the reform in 1991. It is indicative of the higher degree of adjustability of the major Bulgarian producers to the requirements of the international markets. On the other hand, GDP growth in Bulgaria followed considerably lower rates than growth in the world economy (3.7%), the developing countries (6%) and CEE (4-4.5%). The low degree of capacity utilization and relatively high unemployment level given, the Bulgarian economy has brighter prospects of growth.

The possibilities for accelerated growth are related to three interdependent factors at work: better use of the resources available, attraction of foreign investments and further stimulus to innovation (technology transfer). Any progress along these lines means a higher efficiency of the market mechanisms and state regulation, i.e. consolidation of the gains of the economic reform and fine tuning of policy targets and instruments.

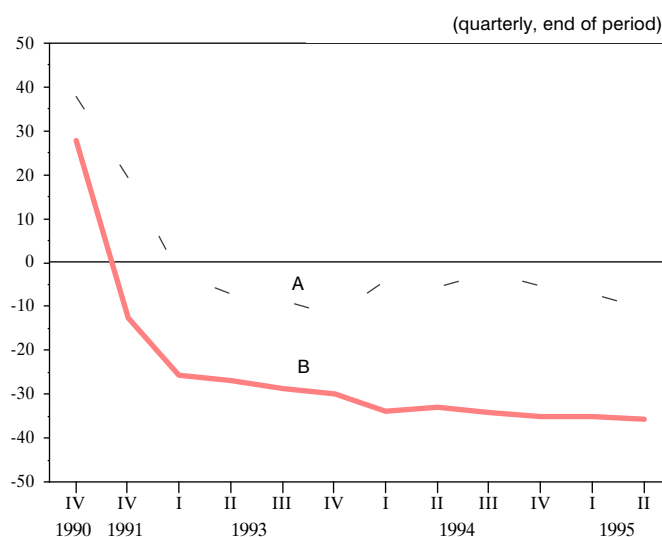
Graph 1 shows the country's transition from command to a market economy. The extent to which market and command (non-monetary, direct) economic mechanisms determine the allocation of resources are gauged along the vertical axis. The „command“ regime is given values from 0 - 50% while the market one fluctuates within the 0 - -50% range. The „transition“ is viewed as a change in the structure of the reserves an economic system has, i.e. a switch from a reserve „portfolio“ dominated by inventories to a portfolio prevailed by money assets. The transition has

been evaluated in two ways by measuring the money supply as a whole and by including the leva component only.

From the standpoint of the theory of the fuzzy sets, the Bulgarian economy performed unambiguously under the conditions of the command regime at the end of 1990. Generally speaking, it was the price liberalization in 1991 that pushed the economy to a market model of behaviour. A closer look on the second way of gauging will reveal that despite the liberalization and partial convertibility of the national currency, economic agents continued to respond in the well-known „command“ way to transactions carried out in national currencies throughout 1991. The allocation of resources was governed by administrative controls over the volumes offered and not by changes in relative prices under hard budget constraints.

Two parallel processes have come to the fore since 1991. The first one is illustrated by curve B and reflects the evolutionary adjustment of economic agents' behaviour to the rules of the market. From the point of view of the the leva-based economy, curve A highlights the course of transition in a much narrower aspect. The dynamics of curve B reveals that the economy has shifted to a market regime of functioning. While, rather unstable, curve A approximates the „mixed“ mode of behaviour. If we take into consideration the foreign currency deposits of households and firms outside the banking system as well as stockpiling left out of the official statistical publications, we can then assert that the leva-based economy is practically in a state of hysteresis, i.e. a constant chaotic switch from command to a market regime and vice versa.

Bulgarian transition's dynamics



A Deviation from 50% of the inventories/money supply ratio reduced by the volume of foreign currency deposits

B Deviation from 50% of the inventories/money supply ratio
Fig. 1

Source: NSI, BNB, AECD

A tenable conclusion then amounts to the fact that the transition to a market economy is only possible through integration to the world market, the international monetary system and the prevailing price structures in the international markets. The system of banking and other financial structures (finance and broking houses, investment funds, general and life insurance companies, pension funds) as well as the centralized mechanisms of regulation and supervision do not guarantee the stability of real and nominal interest rates (dividends), the exchange rate and the purchasing power of the lev, all of them indispensable for the irreversible replacement of the command mechanisms with monetary instruments of resource allocation. This type of economic transition checks the country's growth potentials. It is also the main reason for the relatively slower growth of the Bulgarian economy as compared to the CEEC group as a whole.

These circumstances given, the increase in external demand and export growth have proved the driving force of the Bulgarian economy. A stable export-led model of economic growth is characterized by a number of factors: outstripping export growth, trade surplus plus a correlation between export and investment dynamics. On the other hand, export is supposed to propel labour productivity, diminish the labour- and energy -intensity of production, raise the share of industries with a high value added rate as well as accelerate innovation and technology transfer.

In this respect the economy has been affected by adverse processes over the past few years. Investments in 1991, 1992, 1993, 1994 and the first six-month period of 1995 have contracted as percentage of GDP, amounting to 22.6, 19.9, 14.2, 8.5 and 7.0% respectively. If even, the final 1995 estimates are higher against the first quarter figures, investment activity intensity is less than sufficient. Savings reveal a similar picture. They amounted to 16.2, 4.9, 8.9 and 7.5% respectively over the same period. The comparison of investment and savings figures indicates that domestically -generated savings have grown into the main hindrance to investment. A basic reason amounts to the lack of substantial foreign financing and large foreign debt payments.

On the supply side, export growth was brought about by increased capacity utilization. Relying on ECE estimates of Bulgarian export over the last ten years, we can therefore assume that the economy is utilizing 50-60% on average of the physi-

cal capacities in the export industries. With some industries, however, the indicator has approximated full utilization. It implies that in the next couple of years any export growth is impossible without a parallel acceleration of investments.

Intensified investment activity requires larger volumes of foreign and domestic savings. Domestic savings are, in turn, a function of the confidence in the Bulgarian lev and financial institutions as well as of the level of the real interest rate on deposits and the yield of the financial instruments implemented. The inflow of foreign savings is dependent on the agreements reached with international financial institutions and foreign investors' confidence in the Bulgarian banking system. Apparently, the unstable banking sector, negative real interest rate on deposits, high interest rate differential between deposits and credits and the absence of agreements with international financial institutions account for the insufficient amounts of savings and the sluggishness of investment activity.

On the other hand, the preliminary 1995 data point to a 9.7% improvement of labour productivity in terms of the value added in state industrial enterprises. The increase of this indicator offset the rise in the lev's real appreciation rate, retaining the competitiveness of Bulgarian industrial production. Having in mind the increasing share of exports of the energy- and capital-intensive industries, the existing export structure is far from favourable. Nevertheless, there has already been a tendency towards export revival in machine building, engineering and some other high-tech sub-branches.

The stabilization and acceleration of economic growth are the key macroeconomic issues. In a broader sense, macroeconomic stabilization is only possible on the basis of a steady and accelerated growth, i.e. maintaining optimal growth at an „acceptable“ rate of inflation. Problems related to both supply and demand hinder the full utilization of resources.

In an international aspect, the problems connected with demand arise over the limited access of Bulgarian goods to the international markets, the adjustability of export to the cyclical changes in the world economy as well as the changes in the lev's real exchange rate. Bulgaria's accession to CEFTA and WTO as well as the ongoing negotiations for relieved trade terms with the CIS countries are important

steps towards export expansion. As experience in 1995 indicates, the lev's depreciation rate should move within the bounds of the inflation rate (upper limit) adjusted with the changes in labour productivity (lower limit), taking into account the interest rate differential between the Bulgarian lev and the major Western currencies as well as the current account dynamics.

Domestic demand presents even a greater problem. As has already been said, it is in respect to domestic demand that the Bulgarian economy differs from the other Central and East European economies due to the systematically contracting domestic market, as brought about by the disadvantages of the economic mechanisms applied. The problem is ultimately reduced to the inefficiency of the banking system in the transformation of savings into profitable investments (credits). The inefficiency of the financial system has two major aspects - government debt and the accumulation of bad credits.

From the point of view of the budget deficit/government expenditures ratio, as ECE data suggest, Bulgaria ranks first among the CEE countries. Given a primary budget surplus, the deficit has been solely generated by government debt servicing. If we assume that the primary budget surplus is, for instance, equal to foreign debt payments, the deficit then is only due to government debt servicing.

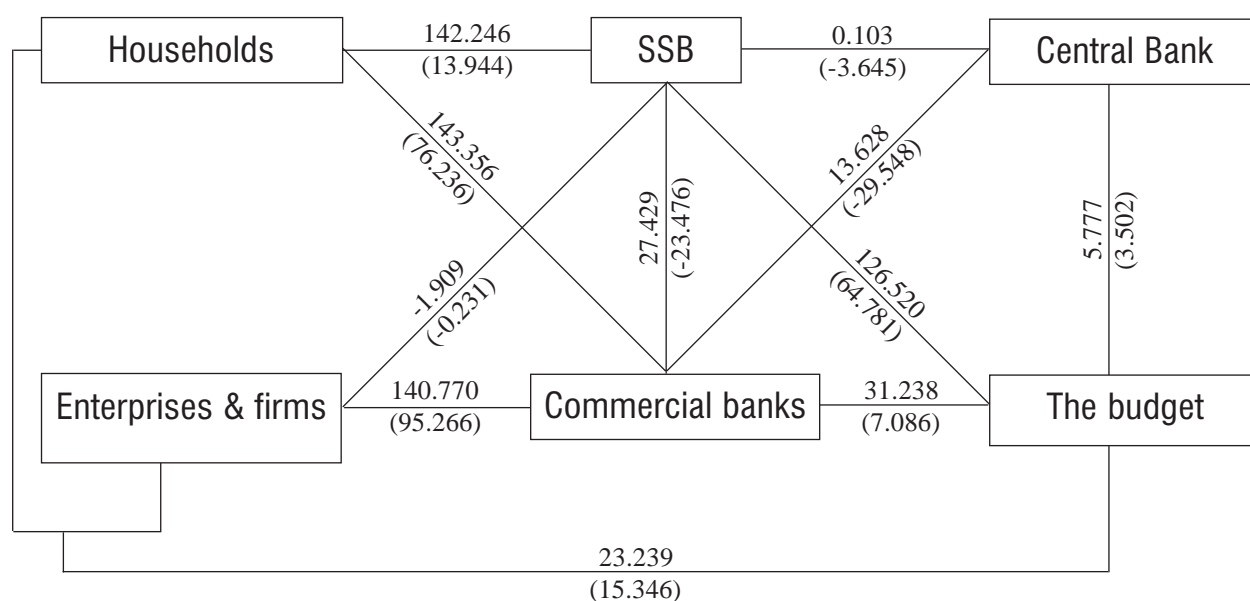
As graph 2 clearly shows, the State Savings Bank (SSB) is the main state creditor, covering 68% of the net government debt plus another 15% extended indirectly through refinancing commercial banks, which in turn invest in government securities. The price of the credit extended by the SSB amounts to the average interest rate on deposits while revenues follow the level of the BIR (base interest rate). The difference between the two interest rate levels throughout 1995 amounted to a minimum 2 percentage points on a monthly basis. It implied that government finance suffered a fake-loss of 3.3bn leva due to the bank financing of the budget, or BGL40bn annually as a lower estimate. If we assume that part of this sum had been injected back into the budget as profit tax, the loss would have again approximated the overall consolidated government budget deficit in 1995. The fake-loss was just another example of the inefficiency of the banking system, as caused by the incompetent financial markets and high transaction costs. The direct consequence

was a shrinkage of government consumption and investment, i.e. a substantial part of the domestic market which in some developed market economies accounts for 40-50% of GDP.

NET AMOUNTS OUTSTANDING AND FLOWS OF CREDITS AND DEPOSITS

/as at October 31st,1995/

/in bn leva/



Net amounts as at October 31st,1995.

Net flows (in brackets) indicate the change in amounts outstanding over the December 31st 1994 - October 31st 1995.

Fig. 2

As has already been pointed out, the SSB has covered about 80% of the net government debt directly or indirectly. Moreover, it is a state-guaranteed institution accumulating resources at a lower interest rate and its depositors are risk-free. On the contrary, government finance attracts resources at a rate close to the BIR, taking into account the risk prevailing in the banking sector as a whole. At the same time, vast government debt amounts were accumulated as a result of the partial servicing of bad credits through bad debt bonds. Thus, paying a positive risk premium, the government has taken a considerable part of commercial banks' risk. These circumstances given, the banking system has taken additional risk leading to larger vol-

umes of non-performing credits and decapitalization of the sector due to the inefficient supervision on the part of the Central Bank. In the short-term, the only possible solution to the problem is a more restricted monetary policy.

Under high-risk circumstances, the implementation of monetary restrictions of different intensity is related to a high differential between the interest rate on deposits and that on credits. The former surpassed the latter by 40-50% in end-1995. Because assets are supposed to at least keep their real value, the interest rate on bank loans follow the track of inflation as a lower limit. A high interest rate differential given, it implies a positive interest rate on loans and a negative one on deposits. It was the above-mentioned processes that outlined the trend at work throughout the second half of 1995.

As a result, savings and investments registered lower levels. Given the low utilization of capacities and workforce, the autonomous contraction of investments will lead to a multiple shrinkage of domestic demand, i.e. investment restriction will be worthwhile only under an overheated economy.

The trends above-described should also be analyzed from the point of view of the international flows of capital. Over the past five or six years a special segment of the international market of short-term speculative capital has been oriented towards the emerging markets (the new industrial countries in Latin America, Asia, Europe and the group of the transition economies). Investors' strategies in almost all countries rely on the stabilizing effect of monetary policies (high interest rates coupled with a restricted depreciation of the national currencies) creating possibilities for a profitable interest arbitrage. In particular, the inflow of short-term liquidities in hard currency poses a basic monetary problem for policy makers in practically all CEE countries.

Graph 3 illustrates the comparative dynamics of the spot rates (current exchange rate) and the forward rate, i.e. the rate at which no profitable speculative operations are possible, relying on the interest rate differentials between the different currencies. Therefore, continuous and considerable deviations of the spot rate from the forward rate should not be registered if we have effectively functioning foreign exchange markets. The graph, however, points to continuous and substantial dis-

crepancy between the two variables. Theoretically, over periods when the forward rate exceeds the spot rate profits from long leva positions are possible. And vice versa, when the spot rate exceeds the forward one short positions are profitable. (The practical aspects of the problem are discussed at length in AECD Analytical Survey for the first six-month period of 1995). Thus, long leva positions are related to the deceleration of inflation and short positions to its acceleration. In this sense, the trends at work after September 1995 are quite alarming.

If we go back to graph 1, we can explain why the ratio between leva stock and the total amount of foreign exchange and commodity reserves approximates 1 - the non-speculating economic agents cover against foreign exchange risk and inflation, forming leva positions. The lack of confidence is mainly triggered by the unsteady inflation rates and unpredictability of interest arbitrage. A similar situation would favour better informed economic agents, in particular holders of short-term speculative resources in and outside the country.

The following macroeconomic interdependencies have shaped the economic picture in Bulgaria: on the one hand, these are the incompetent credit and capital markets in which the state as a major debtor does not enjoy a zero-risk premium. Due to credit rationing, the same structure tears apart the link between the price of credit extended to borrowers and the risk involved. As a result, the mathematical expectations of profits in commercial banks are low, even negative. In order to avoid the collapse of the system, fiscal and monetary policies redirect risk to tax-payers, depositors and the budget-financed economic and social sectors through inflation and reduction in budget expenditures below the social optimum. The non-speculat-

The foreign exchange rate and the forward rate

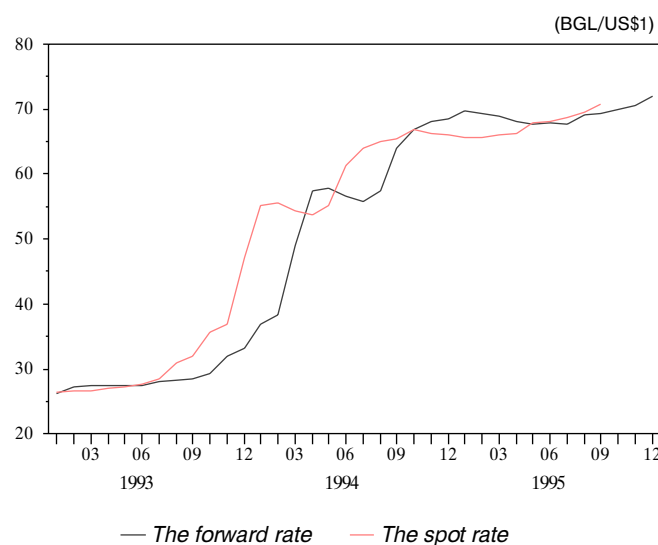


Fig. 3

Източник: БНБ, АИПР

ing economic agents respond by taking a covered leva position, i.e. they hedge against financial authorities. The outcome is a negative sum game for almost all players - government finance, the banking system and the real sector.

1.4. CONCLUSIONS AND ECONOMIC PROSPECTS OVER THE 1996-1998 PERIOD

1.4.1. Macroeconomic Policy

In practice, government debt is a key macroeconomic policy issue. The problem doesn't amount to the crowding-out effect on the private sector in resource allocation. It involves the complex process of bridging over the distortions in interest rate structures, as reflected in the inadequate incorporation of the risk premium. The ultimate results are negative interest rates on bank deposits, inflation, low savings rate, insufficient investments and continuously contracting domestic demand and production. A solution can be provided by reversing the patterns - first, by adopting a well balanced interest rate structure and bringing down government debt expenditures to an „acceptable“ level; second, by targeting monetary policy at limiting the possibilities for deliberate speculation and third, by stimulating domestic demand via socially optimal government expenditures and investment growth.

In the long-run, the logical solution to the problem has to do with the pace and stage of the market reform as part of the formation of a „complete“ system of competitive markets. In the short-run, however, „fully market“ solutions cannot be provided, for the majority of problems have been generated by the distorted and inert market structures functioning in the transition economies. Under these circumstances only second-best solutions are feasible.

A solution to the problem should therefore be sought along the following lines:

First, eliminating the unnecessary intermediaries between primary savings and debt financing. Setting an interest rate differential between the interest rate on deposits (other than BIR) at the SSB and the yield of government securities in order to avoid the transfer of high interest payments on the part of the budget to the private banking sector. The structure of the SSB's assets should be limited by

housing and real sector credits as well as investments in government securities. To this we can add the Central Bank, directly or indirectly, which in turn becomes the single lender of the last resort.

Second, a change in the interest rate structure of financial markets is a must. Lombard credits (collateralised by government securities) should be extended by BNB at an interest rate close to the average interest rate on the state-guaranteed deposits at the SSB. On the contrary, non-collateralised refinancing should be based on the BIR. Thus, the Central Bank will have to adopt an interest rate policy which is closer to the proviso that the Lombard interest rate should approximate the lower estimate of credit. In regard to the high risk already accumulated by commercial banks, the difference between the lower estimate and the average interest rate level should be considerably higher than that in the developed market economies.

As a result, we should differentiate between two levels of interest rates. The first one, presupposing a zero or a very low risk premium, includes in an ascending order: the interest on SSB deposits, government securities dividend and the Lombard interest rate. As for the second level, its lower estimate is the BIR while interest on loans to the riskiest borrowers from the non-banking sector comprise its upper estimate. The interest rates at the interbank market should therefore fluctuate between the two levels.

Financing the state by paying a risk-free or a very low risk premium and the private sector by taking into account average risk will surmount major distortions in the financial markets and contribute to the sustained macroeconomic stabilization effort.

Third, from the point of view of the government debt, it implies a partial switch from a short leva position to a long position, i.e. launching government debt instruments in hard currency. Thus, depositors are guaranteed that foreign exchange stability and low inflation are among the government's main concerns. On the contrary, a continuous covered leva position by depositors will require the accumulation of leva-denominated assets which will have an anti-inflationary effect. Technically speaking, this practice will relieve the burden of debt servicing, for the interest (dividend) paid by the government excludes foreign exchange and inflation-

ary risk. The conclusions made are further confirmed by the comparative analysis of foreign and domestic debt servicing as well as by the common practice in a number of emerging markets countries. In a still broader perspective, provided Bulgaria is given credit rating, the country will be able to attract direct resources at the international capital markets.

Fourth, despite improved government debt servicing, savings growth won't be sufficient to offset the growing necessities for investment, as due to the decapitalization accumulated in the Bulgarian economy. The attraction of capital from international financial institutions on acceptable terms or as a result of another stand-by agreement with the IMF will only accelerate investment processes. In this sense, the stand-by agreement is not only a means to stabilize the exchange rate and curb inflation. It can be viewed as an additional instrument which will sustain the positive trends at work in 1995 and provide steady export-led growth.

Furthermore, pursuant to the Bulgarian Europe Agreement and as long as the country has a stabilization programme coordinated with the IMF, it can use additional resources to improve its balance of payments. A higher credit rating will foster the attraction of capital from the international credit and capital markets.

Fifth, changes in fiscal and monetary policies should run parallel. Provided risk is largely mishandled by the banking system, purely quantitative restrictions and the mechanic adjustment of the interest rate to the rate of inflation produce little effect. BNB's reserves and refinancing policies are of crucial importance. The continuous decrease in the level of the minimum required reserves since May 1995 as well as the changes in their structure are the monetary „prerequisites“ for the accelerated inflation rate and depreciation of the lev in the second half of 1995.

Instead, it is advisable to maintain the structure and level of bank reserves at their April level applying a refinancing policy based on clear-cut criteria and the instruments provided by the Law on BNB and the Law on Banks and Credits as well as the Central Bank's sub-normative regulations. Such a policy will lead to a deceleration of inflation and a parallel drop in the interest rate.

Sixth, the measures above-mentioned will stimulate the overall growth of domestic savings and domestic demand due mainly to investments. As experience

in the other CEE countries shows, such changes in demand structure are as a rule connected with positive changes in production, particularly with the revival of the industries producing investment goods. The full utilization of physical capital and skilled work force, however, requires additional allocation of resources in the form of technology transfer. Foreign direct investments due to cash privatization are the key policy instrument. Foreign direct investments are, in fact, an inflow of foreign savings which will only increase the capability of the economy to generate more investments. In particular, without additional resources from the privatization of suitable state enterprises with the participation of strategic foreign investors, the State Fund for Reconstruction and Development will be practically unusable due to a depletion of the free resources. This, in turn, will narrow down the possibilities of the government to carry out an effective structural policy.

Seventh, the accomplishment of mass privatization and the establishment of a firmer financial discipline in the state sector will have important macroeconomic consequences. To this we can add the new draft programme aimed at the stabilization of the banking system. A draft triggered by the distorted link between the risk and the yield of the financial instruments which is ultimately caused by the discrepancies between the market as an instrument for balancing personal interests and the prevailing state ownership under the conditions of an improperly defined relation between owners and agents.

The regulation of such financial institutions as insurance companies, pension and social security funds, etc. will gain in importance. The adoption of obligatory proportions in the structure of their assets, including a mandatory share of government securities, will alleviate the burden of additional government debt financing.

Eighth, further efforts should be directed to Bulgaria's accession to the WTO and CEFTA. Also, the bilateral negotiations for eased export terms on the CIS markets should be brought to a close.

The constructive dialogue with the EU, emphasizing the necessity for an improved and well-coordinated macroeconomic policy as well as the harmonization of the Bulgarian legislation with the *acquis communautaire* should continue to be the guiding line of economic policies.

1.4.2. ECONOMIC PROSPECTS OVER THE 1996-1998 PERIOD

As has already been pointed out, the period following the onset of the radical economic liberalization in 1991, has been characterized by an instability of the nascent Bulgarian market economy. Against this largely distorted picture any slight changes in the economic policies of the government, the Central Bank or even unexpected changes in the world economy may cause unproportionally heavy consequences. That is why, forecasts concerning growth, inflation, savings and investments in the Bulgarian economy bear the character of a conditional mathematical expectation, i.e. options which are only possible provided there is no deviation from a certain type of economic policy.

Most foreign and domestic forecasts point to a 3% growth of real GDP in Bulgaria in 1996. AECD analysts forecast a GDP growth of 3, 3.5 and 4.5% in 1996, 1997 and 1998 respectively. It is imperative for economic growth in Bulgaria to transcend the 3%-barrier, for foreign debt servicing absorbs 2.5 - 3% of GDP. Only growth over the 3%-benchmark would guarantee a steady rise in incomes, consumption, savings and investments.

Export growth and a stable trade surplus are the driving forces behind the growth forecasted. Export revenues should go on the increase because of the substantial future foreign debt payments in the period considered.

Such a dynamics of the Bulgarian economy can be only supported by a relatively high rate of domestic savings (over 10% of GDP). It implies that solutions to the problems outlined should be sought along the lines of : the budget deficit, rigid BNB's reserves policy, the existing or slightly appreciated real lev's exchange rate, regulation of the capital markets including the establishment of a national stock exchange as well as along the line of a steady development of secondary capital markets which are expected to emerge right after the accomplishment of the first stage of mass privatization.

It is noteworthy that all AECD forecasts are conditioned on the fact that another stand-by agreement with the IMF will have to be reached as late as September 1996. They also rely on the further solidification of the relations between

Bulgaria and the other international financial institutions and an increasing inflow of foreign direct investments.

The violation of any of these conditions in both national and international aspect will cause wide discrepancies between the real indicators and forecasts. Particularly, the absence of additional foreign financing (e.g. from the IMF or foreign direct investments) will push the lev's exchange rate, savings, investments and domestic demand on the downswing. It will also accelerate inflation. Export growth and a stable trade surplus will only partially offset the shrinkage of investment and domestic demand. Given a substantial decapitalization in the export branches, this may even lead to a collapse of the supply-side due to the uncompensated amortization of fixed assets. Also, we should bear in mind that a trade surplus may sometimes produce a negative effect. An outflow of domestic savings, it restricts investment opportunities in Bulgaria and makes growth largely dependent on changes in the world markets.

The verification of the above-mentioned forecasts and, what is more important, the maintenance of the upward trend in production depend on strictly coordinated and properly administered economic policies. Undoubtedly, external factors (export expansion, agreements with international financial institutions, increasing inflow of foreign direct investments) together with a less expensive government debt servicing will be of crucial importance.

However, changes are also possible in a positive perspective. A macroeconomic policy targeted at the recovery of domestic demand, the favourable economic climate on the Balkans and the expectation that the CIS countries will surmount the continuous decline in production can also lay the ground for an economic growth that is close or slightly above the average world growth, i.e. about 4-5% in 1996 and 4.5-6% in the 1997-1998 period. In this case, however, the possibilities for maintaining a trade surplus and a balance of payments surplus simultaneously will be more limited.

□

II. DYNAMICS OF MACROECONOMIC INDICATORS INFLATION

2.1. INFLATION

In 1995 CPI plunged to its lowest level since the economic reform outset in February 1991. The monthly fluctuations in price dynamics were weaker too. In January - October 1995 the coefficient of variation dropped by 16 percentage points relative to the same period of 1994.

The strongest influence on CPI in 1995 was exerted by the prices of services, and of those goods which had to make up for their slower growth in 1994. Given the 29.5% increase of CPI over the first ten months, the prices of services rose by 54.8%, and of non-food items - by 33.6%. The growth in food prices amounted to 19.4% only.

The stable exchange rate contributed to sustaining the price level of imports, and prevented them from turning into a pro-inflationary factor.

The dynamics of PPI changed radically since mid-1994. It began to parallel the CPI, turning into a pro-inflationary factor. Although both indexes do not follow

one and the same monthly dynamics, econometric estimates indicate that differences are offset with a lag of 1 month, and even disappear in the base indices.

Producer price changes were mainly induced by the exchange rate dynamics and the wage bill. Producer prices reflected exchange rate fluctuations with a lag of 1 month. In 1995 the wage bill growth had a weaker impact on producer prices due to the lower rate of compensations for inflation.

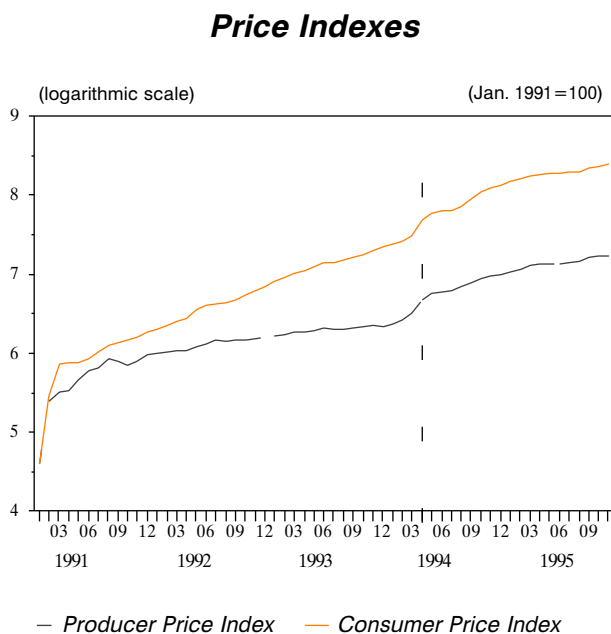


Fig. 1

Source: NSI, AECD

The price of electricity, which was kept at its March 1994 level for a whole year and thus fell far behind the overall price level, became a pro-inflationary factor in 1995. It underwent two shock increases: 47% in March 1995, and 25% in September 1995.

There were two main anti-inflationary factors in 1995: the stable exchange rate and the low household incomes.

2.2. INCOMES AS AN INEVITABLE NOMINAL ANCHOR

The second powerful inflationary shock in April 1994 pushed the real average wage below its April 1991 level.

The comparison with the real wage level in the first reform months is by no means arbitrary. There have been long-standing speculations that the initial price hike and the „shock therapy“ were overheated, inducing an overshooting effect in the economy. The second plunge of incomes down to their April-May 1991 level indicates that economic stabilization may be achieved only at a low level of average real incomes, which corresponds to the low level of labour productivity, efficiency and technology, as well as to the irrational distribution of resources in the economy.

The second argument in favour of the restrictions applied in early 1991 is related to the heavy burden of government debt on the economy. The servicing of foreign and domestic debts requires accumulation of resources at the expense of higher taxes and low wage, pension, and social expenditures.

Incomes policy was refashioned at the start of each reform year. However, from 1992 till

March 1994 it virtually allowed full compensation for inflation. The schedule for wage bill regulation in enterprises with over 50% government stake and for indexation in

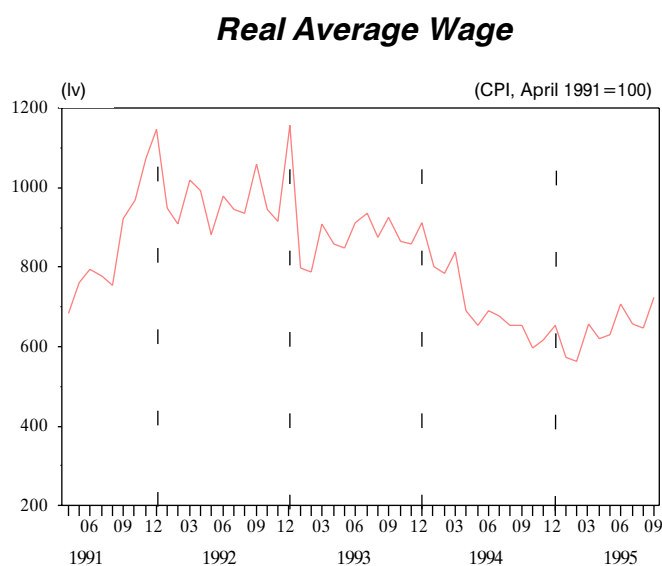


Fig. 2

Source: NSI, AECD

budget-financed organizations in 1994 allowed 68% compensation for year-end cumulative inflation. In 1995 compensations covered 95% of the expected consumer price growth.

Real Wage Index

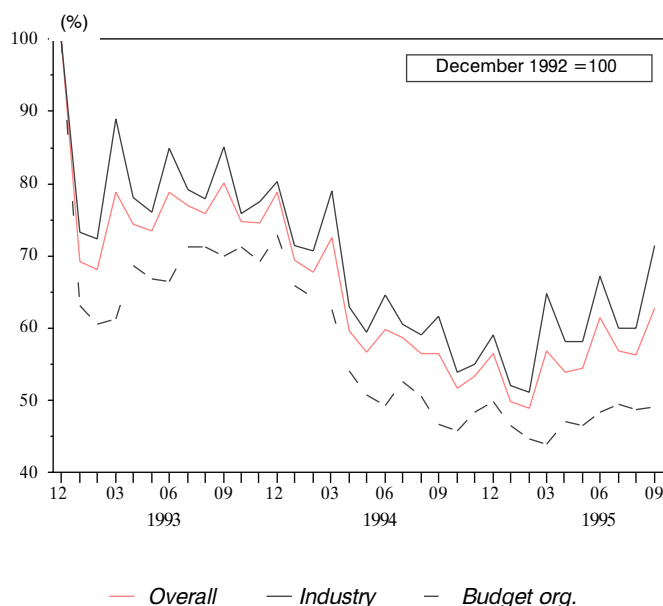


Fig. 3

Source: NSI, AECD

Relative Wage of Government Employees

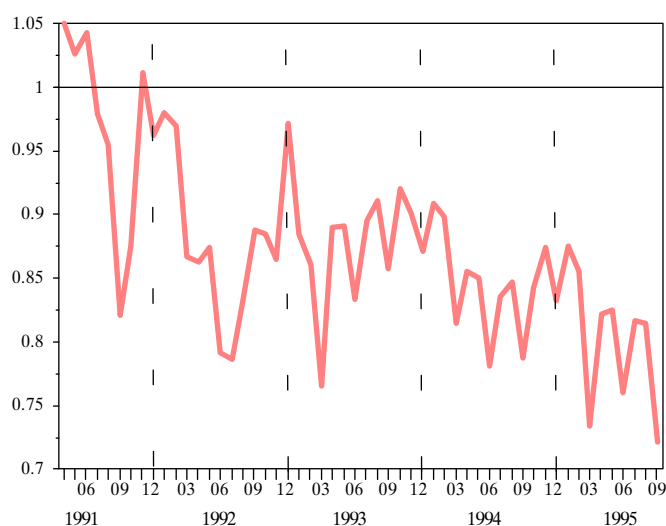


Fig. 4

Source: NSI, AECD

Policy restrictions hit hardest the budget-financed incomes, which are the factor pushing the average incomes in the country downwards. In 1995 relative wages in the budget-financed sector dropped far behind the average real wage, and in the future will create a strong pressure for increases.

Incomes policy is an extremely powerful influence on fiscal policy and the budget deficit. High budget-paid compensations till April 1994 changed the direction by sectors of the net financial flows which pass through the government budget. They were channelled from the banking sector towards the budget, and from the budget towards the households (the non-banking sector) and the external sector, i.e. the banking sector financed the high social and external expenditures of the budget. Since mid-1994 the direction of these flows was reversed, and now they run from the households to the budget, and from the budget to the banking and the external sectors.

The change in the direction of the financial flows through the budget, caused by the restrictive incomes policy, allowed a sustained primary surplus which could cover part of government debt payments.

The structure of savings in the economy changed in the last two years. Sustaining a high primary surplus, the budget partly displaced households as a saver. Shrinking real incomes¹ in 1994-1995 reduced both household consumption and rate of saving.

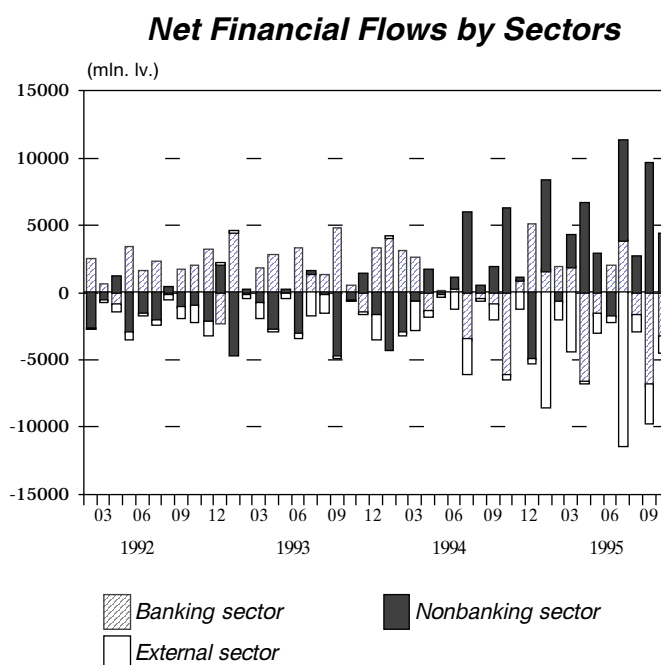


Fig. 5

Source: IMF, AECD

Ratio of the primary surplus to GDP and interests

	1991	1992	1993	1994	1995*
Primary surplus as % of GDP	2.4	0.92	-2.00	6.84	na
Primary surplus as % of interest expenditures	35.6	13.9	-	52.5	51.5

* In the nine-month period of the year

Source: MF, AECD

The strict servicing of government debt which exceeds 100% of GDP, requires huge financial resources at given periods. The government has not yet got access to the international financial markets, and cannot attract voluntary foreign financing. The opportunities for domestic financing by issuing government securities in the necessary volumes are not guaranteed. The new government debt may, at certain times, even be sold with extreme difficulty, at a high yield, and a high risk

¹ Assessed on the basis of household surveys.

Real Consumption and Real Income Indices

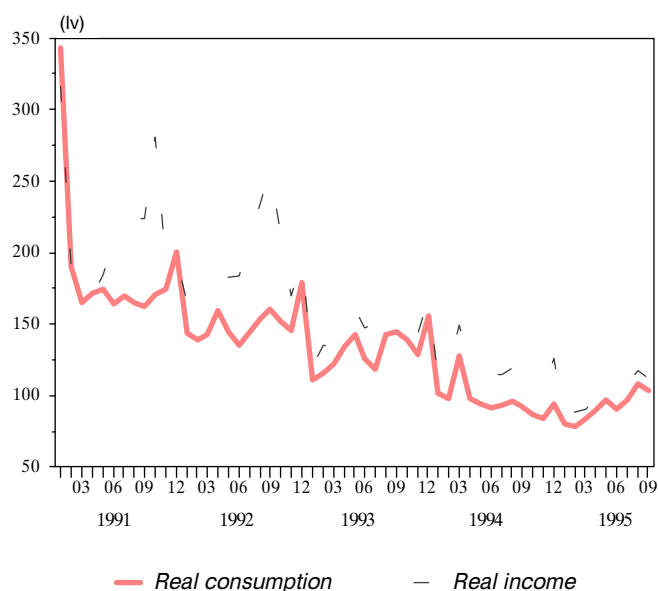


Fig. 6

Source: NSI, AECD

premium. The unstable domestic financial market is characterized by a high share of short-term credit. The share of short-term credit in the domestic government debt issued to finance the budget grew from 17.2% in end-1992 to 38.2% in end-1994, and to 44.3% in October 1995.

It is inevitable to sustain a restrictive incomes policy when the government budget is constantly burdened with new expenditures. The fiscal policy objective in early 1991 was to restrict, and in the following

years end government intervention in the economy. Nevertheless, government sector subsidies to sustain fixed prices still exist. The government assumes debts of state-owned enterprises and banks. 1996 is expected to witness new financial pressures on budget expenditures with the aim to save the banking system as a whole.

The increase of tax rates would not lead to proportionally higher revenues. On the contrary, given the prevailing opinion that existing taxes are excessive, the new increase of tax rates would only encourage total tax evasion. The ineffective tax collection methods result from the shortcomings of the tax system, mainly of the lack of correlation between the actual tax revenues and the tangible budget expenditures.

The need for a sustained high primary surplus disagrees with the constant pressures for new budget expenditures. Bailing out state-owned enterprises and banks, the government budget cannot fulfil its social and administrative functions and is thus forced to pursue restrictive incomes and social policies.

2.3. EXCHANGE RATE STABILITY

The exchange rate emerged as the second nominal anchor despite early-year expectations and the formal maintaining of the floating rate regime.

In the wake of the new forex market crisis in September 1994, the BNB toughened its restrictions on commercial banks. This created problems with their leva liquidity in October and November 1994, forcing them to sell foreign currency. Apart from stabilizing the exchange rate, the larger currency supply, together with the raised base interest rate, produced a positive interest differential in favour of leva deposits, which was an additional boost to the leva.

The positive interest differential induced a currency inflow into the country. The first nine months of 1995 produced 600.3 mn USD surplus in the balance of payments (a sizable increase on previous years). For the first time since the reform outset surpluses were registered in both the current and capital accounts of the balance of payments, which allowed BNB to increase its gross reserves by 431.9 mn USD for the nine-month period of 1995.

The capital account in the nine-month period of 1995 ran a surplus of 272.7 mn USD, enhanced by the inflow of unidentified capital worth 198.2 mn USD. Due to the considerable reduction of financing from international financial institutions, the inflow of medium- and long-term capital dwindled sizably. Direct foreign investment grew from 44.3 mn USD in the nine-month period of 1994 to 85.4 mn USD in the same period of 1995. The largest growth in foreign investment was registered in the first quarter of the year, plunging below the relative 1994 figures in the second and third quarters of 1995.

The inflow of foreign currency due to the trade surplus, and mostly to speculative capital, stabilized the exchange rate. The disappearance of the positive interest differential would most probably induce capital outflow and BGL depreciation.

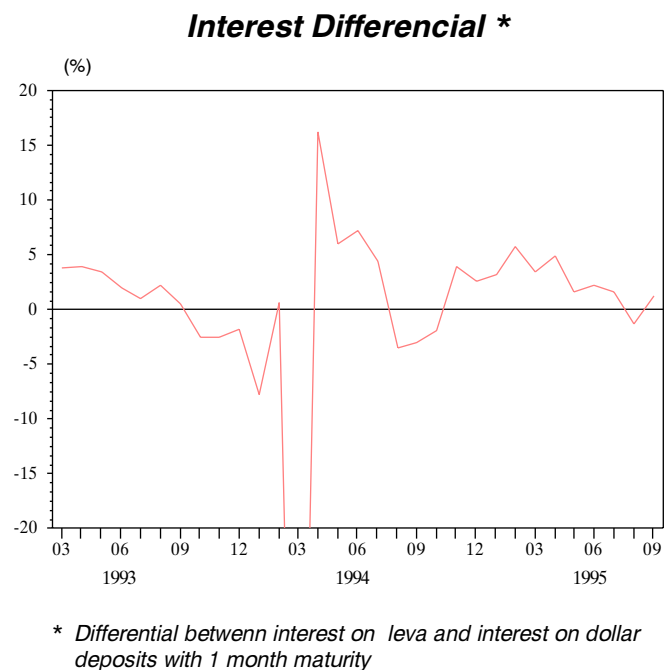


Fig. 7

Source: BNB, AECD

2.4. EASING THE MONETARY POLICY

Structure of Quasi - Money

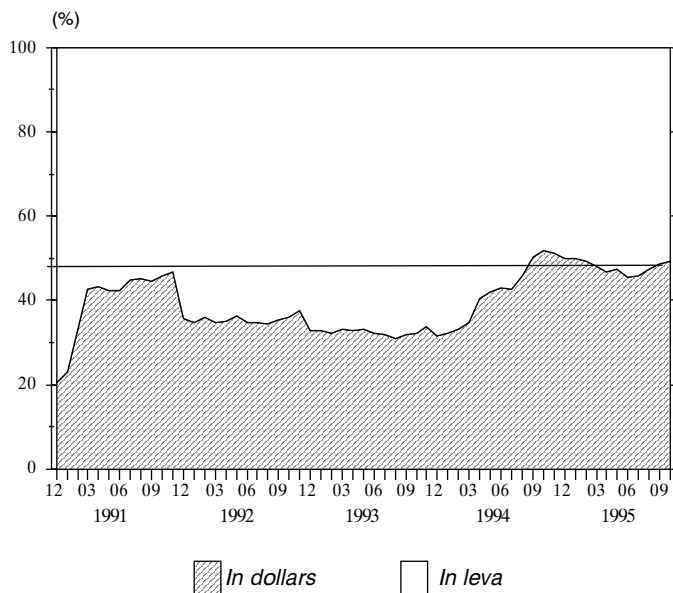


Fig. 8

Source: BNB, AECD

Structure of Broad Money

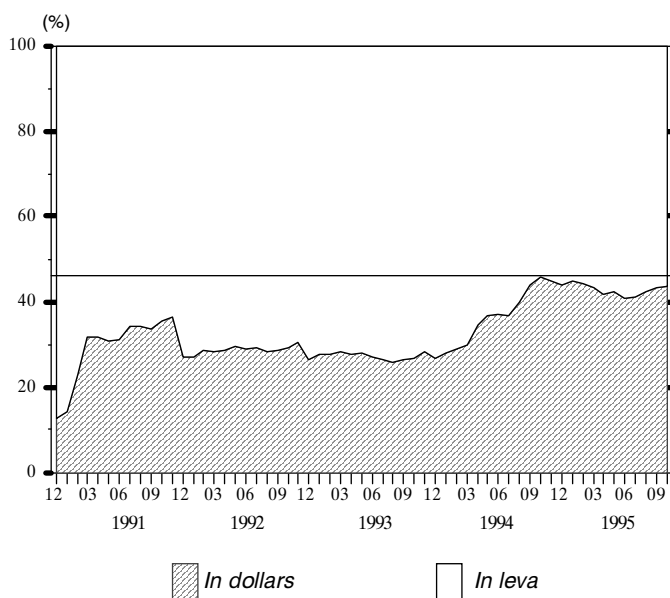


Fig. 9

Source: BNB, AECD

In 1995 the government began to ease economic policy restrictions. Unlike 1991, when the slackening of restrictive economic policies began with the introduction of incomes indexation and wage bargaining, in 1995 the slackening² began from monetary policy on the understanding that credit is a vital stimulus for economic growth. Uncollateralized commercial bank refinancing by BNB increased since the turn of the year, and the base interest rate was quickly reduced since April 1995. In August it plunged to 34% from the initial level of 72% in March.

The inflow of foreign currency in the country stabilized the exchange rate and increased the control over the money supply, half of which is created by foreign currency savings.

The money multiplier stabilized regardless of the dynamics of its two constituent ratios.

² In July 1994 BNB changed its monetary policy instruments by removing the credit ceilings for commercial banks, and raising their required reserves to 10%. The replenishment of required reserves and the increased demand for leva in late 1994 led to sales of foreign exchange.

The value of the money multiplier is in inverse proportion to the two ratios: first, the ratio of money in circulation to deposits, and second, the ratio of bank reserves to deposits. The two ratios went on the increase in March 1995, thus reducing the money multiplier. The dynamics of the first ratio is related to incomes indexation, particularly in the budget-financed sector. The second ratio depends on the level of commercial bank reserves.

The increase in required reserves from July 1994 till April 1995 was an effective measure for reducing the over-liquidity in the banking sector and easing its pressure on the exchange rate. The relaxed monetary constraints resulted in growing excess reserves of the commercial banks. To keep bank liquidity under control, BNB should limit commercial bank refinancing and thus boost trade with deposits on the interbank money market.

Given the relative stability of the money multiplier, the dynamics of the money supply depended exclusively on the movement of BNB reserve money.

Together with commercial bank refinancing, the Central Bank participation as net buyer of foreign currency helped accelerate the growth in reserve money. Purchases

The Money Multiplier *

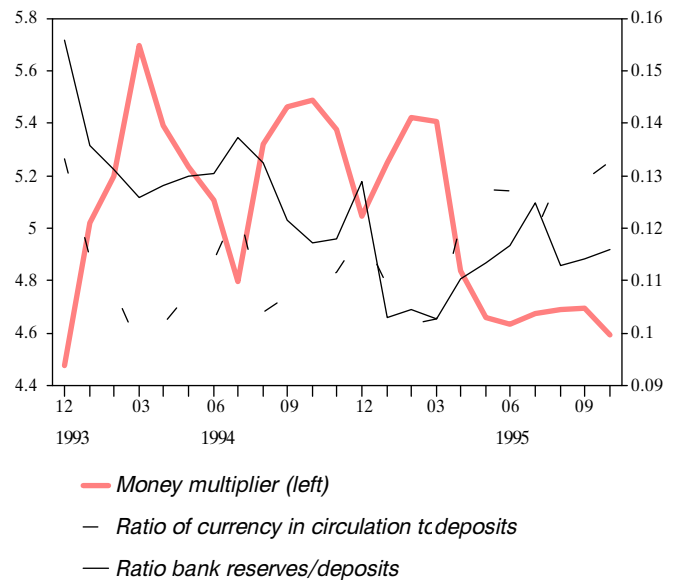


Fig. 10

Source: BNB, AECD

Overall and Minimum Reserves

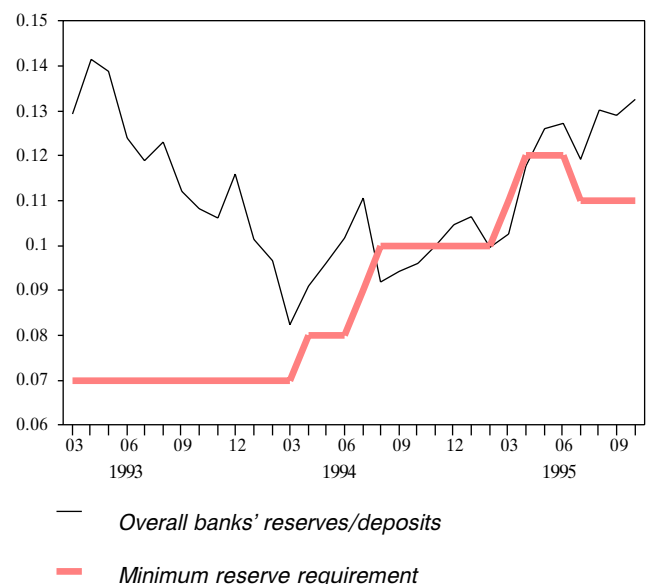


Fig. 11

Source: BNB, AECD

of foreign currency were not sterilized by adequate Central Bank operations.

Monetary Aggregates

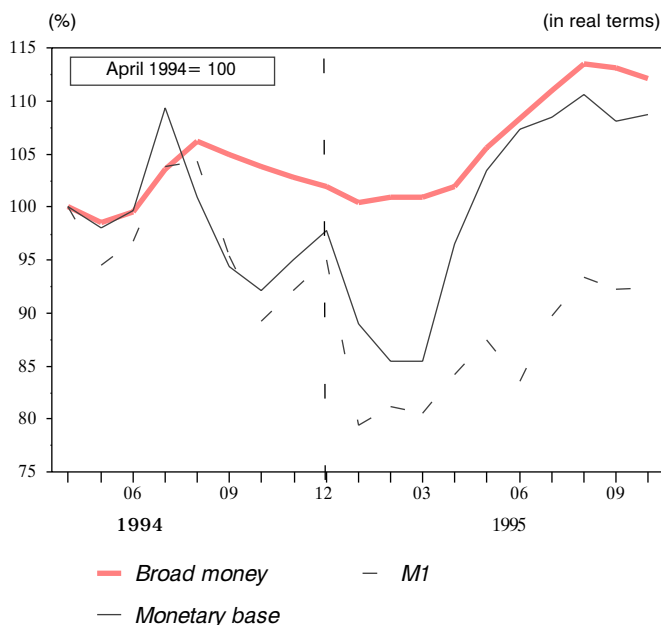


Fig. 12

Source: BNB, AECD

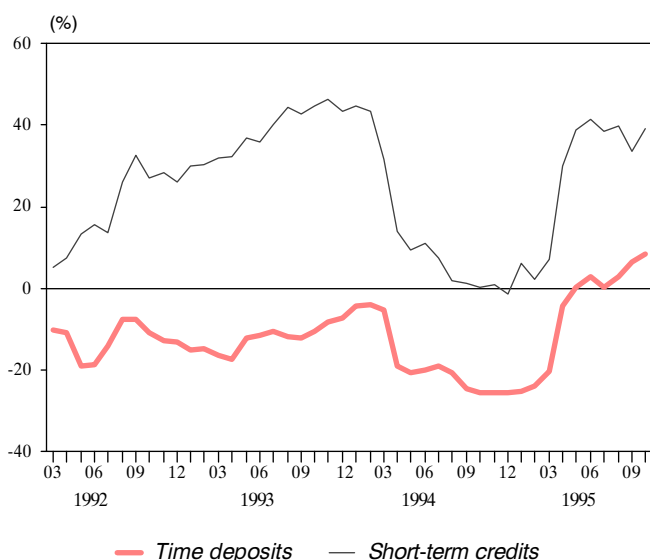
The lowering of the base interest rate was followed by a reduction in nominal interest rates on credits and deposits. However, the main principles in previous years were still observed: sustained positive interest rate on credits and a considerable spread from interests on deposits. In 1995 interests on deposits turned positive for the first time since the reform outset.

There are three distinct stages in the dynamics of savings in 1995.

Leva deposits grew while foreign currency deposits dwindled from October

1994 till April 1995, indicating the exhaustion of the currency substitution process. The second stage - from April till July 1995 - witnessed simultaneous rises in both leva (due to positive interest rates) and foreign currency deposits. The third stage which began in July 1995 has not yet concluded. Real-term leva deposits have been falling, while dollar deposits have been rising at higher rates - the same development occurred in the pre-crisis period in January 1994 and was overcome in October 1994 with great difficulty. The

Real Interest Rates *



* Interest on time deposits is deflated by the consumer price index, interest on short-term credit is deflated by the producer price index

Fig. 13

Source: BNB, AECD

positive interest differential in favour of leva deposits almost disappeared after the reduction of the base interest rate to 34%.

The structure of extended credits also changed. The more relaxed monetary policy stance pushed real-term leva credits up, but the strongly positive real interest rate kept them below their 1994 level.

The share of long-term leva credits in the banking system shrank from 35% in end-1994 to 10% in end-1995, reflecting the structure of deposits (80% of which are up to 1-month).

Foreign currency credit grows faster, but the dynamics of short-term credits is not so distinct as in leva credit. The ratio of interest rates make dollar credit more attractive than leva credit. On the other hand, dollar credit is used by banks as hedging against BGL depreciation. The higher growth rates of dollar credits correspond to the dynamics of dollar deposits as well.

The reorientation of savers and creditors to the US dollar signals expectations for BGL depreciation. The surplus reserves of commercial banks and their refinancing by BNB create conditions for leva overliquidity, which may be offset by BGL depreciation and inflation acceleration in forthcoming months.

Deposits

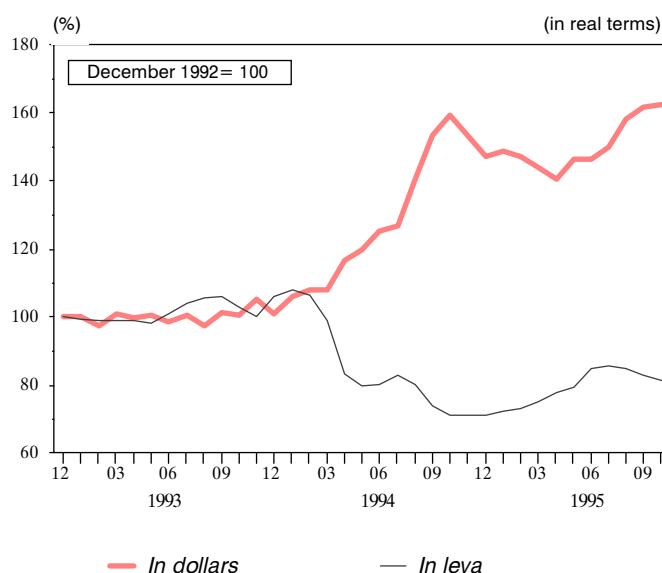


Fig. 14

Source: BNB, AECD

Domestic Credit

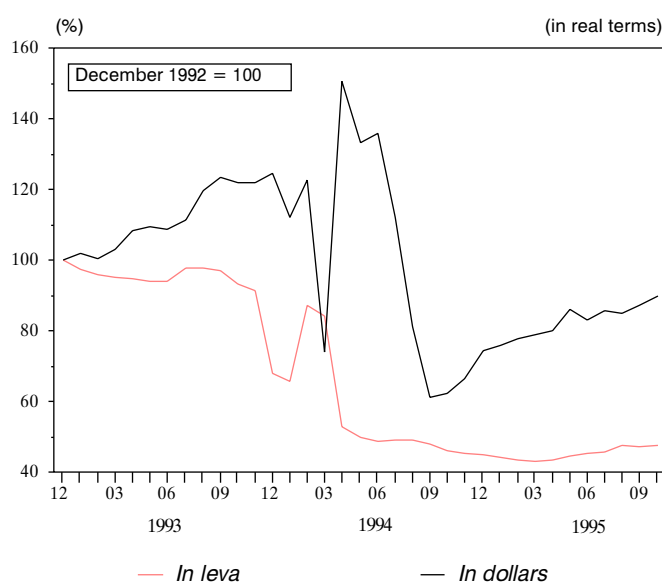


Fig. 15

Source: BNB, AECD

2.5. THE STATE-OWNED SECTOR

Real GDP growth in 1995 is expected to amount to 2.5%. Statistics indicates a continuing decline in consumption and investment, so that GDP growth will result from the positive trade balance.

Preliminary data on output point to a 7% increase in the material sector and a 5% rise in industry. The public sector increased by a bare 1% while the private sector by over 50%. Chemicals and oil processing (16.1%), power generation (10.1%), ferrous metallurgy (8.9%), electronics and engineering (6%) followed the most dynamic patterns of growth.

Unit Labour Cost in Industry

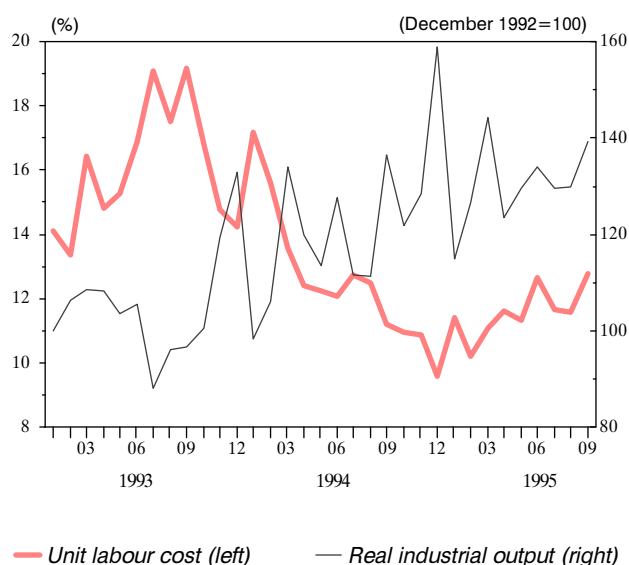


Fig. 16

Source: NSI, AECD

Registered growth over two consecutive years exceeds short-term fluctuations, and obviously, is not influenced by conjunctural factors only.

Exports were a major growth factor in 1994 and 1995, driven by BGL depreciation in 1994 and the sustained low unit labour costs in 1995.

The dynamics of domestic sales turnover in the nine-month period of 1995 resulted in 21.4% increase in exports and 72 mn USD trade surplus.

For the first time since the reform outset statistical estimates show an increase in machinery, devices and electric equipment exports. Nevertheless, the high concentration of exports is sustained: the five largest commodity groups account for some 65.1% of overall exports.

Export structure underwent certain changes in 1995. The share of non-precious metals declined by 3.6 percentage points, dropping second to chemical products, whose share increased by 3.1 percentage points. The relative share of the products of vegetable origin rose by 4.4%.

In the nine-month period of 1995 imports for domestic consumption grew by 21% relative to the same period of 1994. The relative imports share of mineral products increased by some 2% - from 39.8% to 41.6%. A considerable rise in ore imports - over 12-fold - was registered. Chemical product imports grew sizably by 82%.

Due to their structure, the increase in exports induced a parallel rise in raw material imports, which does not allow an excessive trade surplus.

The opportunities for output increase, induced by the growth in exports, are realized through better utilization of production capacities in industry. In the third quarter of 1995 it amounted to 63% on average, compared to 57% in end-1993³. The extensive growth on the basis of the existing production capacities is severely restricted. Given the lack of investment and technological renovation, the 63% level may become the ceiling of capacity utilization.

The positive aspect of this type of growth is growing employment and declining unemployment. The real wage drop was another factor for the stabilization of state-sector employment. The number of state-sector employed in 1995 steadied at 1.9 million. The total number of employed in the economy exceeded 3 million, reaching its end-1991 level.

The stabilization of the number of state-sector employed was rooted in the simultaneous increase in the number of recruitals (seasonal workers excluded) and the drop in the number of layoffs. New employment in the nine-month period of 1995 grew by 13.9% relative to the same period in 1994, while the number of layoffs fell by 15.8% resp. The number of layoffs due to limits to production plunged by half. The intensity of labour shedding fell to 3% in the nine-month period of 1995 relative to 5.5% in the same period of 1994.

The downward trend in unemployment began in mid-1994, plunging towards its end-1992 level. The increased number of job vacancies in employment agencies indicates a relative improvement of the labour market situation.

³ „Current Business Situation“, National Statistical Institute, Sofia, September 1995.

The output pickup and improved indicators in the real sector did not influence the current financial position of the state-owned sector. The 1994 decline in net losses on a year earlier resulted from the passing of the Act on settlement of non-performing credits extended to state-owned enterprises till 1990, and the remission of interest on them. This improved the return on sales without changing their negative sign. At the end of the nine-month period of 1995 non-financial state-owned enterprises registered 18.2 bn leva in net losses.

Current Financial Position of State-owned Non-financial Enterprises

(end of the period)

	1993	1994	3m.95	6m.95	9m.95
<i>Coefficient of current liquidity</i>	0.75	0.74	0.77	0.77	0.75
<i>Working capital per 1 lv. sales</i>	-0.11	-0.11	-0.37	-0.19	-0.14
<i>Inventory turnover (days)</i>	40.59	32.15	32.17	31.71	30.53
<i>Period of receivables collection (days)</i>	60.34	63.68	57.64	65.51	63.99
<i>Return on sales (%)</i>	-10.56	-4.02	-4.98	-3.88	-2.68

Apart from the increase in inventory turnover, which was rooted in the decline of unwanted finished goods inventories since 1994, there were no changes in the remaining current financial ratios. The low coefficient of current liquidity indicates that enterprises cannot meet their current liabilities on a regular basis, and that higher economic activity is concurrent with growing arrears in payables. The relatively long period of receivables collection does not correspond to the short-term nature of liabilities.

The increase in quasi-fiscal deficits is the price for the output revival in 1994 and 1995. Current net lending creates difficulties in the financing of current business activity. The 1995 credit expansion was largely caused by the slackening of BNB policy. This resulted in some 15% increase in leva credit to the state-owned and private sectors in June-December. A sizable rise was also registered in the share of credit arrears. Statistical estimates indicate that bad credits are characteristic of both the state-

owned and private sectors of the Bulgarian economy. The change in ownership does not involve a change in the behaviour of economic agents as long as the general economic framework preserves the soft budget constraints for all economic agents.

Several conclusions should be made:

- There is no change in the behaviour of state-owned enterprises, obviously as a result of the slowdown in the structural reform;

- One and the same branch structure is reproduced in the economy. Output and export growth are largely fuelled by energy-intensive branches (chemical industry, ferrous and non-ferrous metallurgy), which are indirectly subsidized through low electricity prices;

- Real growth in 1994 and 1995 was quite lower than generated deficits in the economy. This would probably induce higher inflation in 1996. Inflation wipes off part of accumulated debt, making the debt burden more bearable, and there lies its stabilizing role.

2.6. THE RESCUE OF THE BANKING SYSTEM

Losses generated in the state-owned sector had a disastrous impact on public finance and the banking system.

Commercial banks operating on the domestic market cannot follow conservative policies, confined to extending only guaranteed credits. They assume the risk of servicing proven insolvent clients for two main reasons: either because they were state-owned enterprises, or because they were private firms using the guarantees or working only with state-owned enterprises. The banks solve bad credit problems using BNB refinancing and the inflow of household savings. Over the ten-month period of 1995 commercial bank claims to the non-government sector rose by 75 bn leva, while their rate of collectibility declined.

The passing of the Bad Credits Act had a positive impact on the liquidity of commercial banks regardless of their complaints that the low government securities yield was disastrous. The government serviced its bad-credit bonds debt on a regular basis unlike enterprises, which did not settle their debts at all. Part of the problem of low bond yields might have been avoided, if the Bad Credits Act did not include

certain restrictions, viz. minimum selling prices set by BNB, and the requirement that the bond-bearer bank buys the bad-debt bonds when they are used in privatization deals. Unlike enterprises which would not repay their bad debts at all, the government is a strict payer on bad-debt bonds, injecting large resources in the banking system four times annually. In 1994 liquid injections were one of the reasons for the exchange rate destabilization.

1995 began with the rescue operation for two large banks - Economic Bank and Mineralbank - which involved the writing off of their debt to BNB and the State Savings Bank (SSB). The government securities issued in June replaced leva and dollar-denominated bad-credit bonds, as well as bad-debt bonds of state-owned enterprises issued before the Bad Credits Act. The value of the new bonds, which bear interest equal to the base interest rate for the period, amounted to 58 bn leva. They were used by the two banks to settle their debt to BNB and SSS, which, in turn, pardoned the interest on refinancing worth 6.6 bn leva. This operation improved the situation of both banks temporarily, without covering their losses. However, it had a grave impact on the budget deficit, due to the 11 bn leva interest payments on bad-debt bonds at the year-end and BNB's refusal to contribute the budgeted profit remittance.

Commercial Bank Situation*

(in bn leva)

	December 1994	October 1995
<i>Credit arrears</i>	60.9	90.6
- leva	43.4	59.9
- foreign currency	17.5	30.7
<i>Legal provisions</i>	104.4	139.3
<i>Equity</i>	17.8	34.2
- provisions	22.9	24.9
- profits	-16.4	-14.6
<i>Uncollateralized credit</i>	86.6	105.1

* Bulbank excluded

Source: BNB

To get a more realistic picture of the commercial bank situation, the assets and liabilities of Bulbank were not included in the aggregate balance, since they are different in quality. As at the end of October 1995, arrears in commercial bank leva

credit amounted to 59.9 bn leva or 46% of total leva credit. Arrears in foreign currency receivables amounted to 30.7 bn leva or 26% over the same period. For the same period of 1994 the share of credit arrears in total leva credit reached 45%, and in foreign currency credit - 21%.

If commercial banks abided by BNB's Regulation No.9 on the creation of legal provisions, at the end of October they should have earmarked 139 bn leva for that purpose. In actual fact, the banks' equity, including their provisions, amounted to 34 bn leva at the end of October. In this way, the real decapitalization of banks reached 105 bn leva at the end of October, compared to 86.6 bn leva in end-1994.

2.7. PRIVATIZATION

At the end of 1994 the National Assembly extended the list of privatization methods for state-owned and municipal enterprises, easing the conditions for management and employee buy-outs in particular. This raised the number of privatization decisions and deals in 1995 relative to end-1994. The total number of privatization deals doubled. 41%⁴ of concluded deals involved management and employee buy-outs.

The privatization process involves mainly municipally-owned enterprises. By the end of 1994 the concluded deals for municipal enterprises or their divisions reached 78.4% of all privatization deals, while in November 1995 their share rose to 82.0%. The share of small-scale enterprises predominates the classification of concluded deals according to their fixed assets. In November 1995 the share of concluded deals for enterprises with assets worth up to 70 mn leva was 93.8%, from 70 to 200 mn leva - 4.4%, from 200 to 500 mn leva - 1.4%, and over 500 mn leva - 0.4%⁵.

The prevailing share of municipal enterprises in the privatization process reflected on the structure of their new ownership. Their main buyers are Bulgarian natural persons and firms.

⁴ *Report of the Director of the Agency of Privatization (December 1995).*

⁵ *Report of the Director of the Agency of Privatization (December 1995).*

Privatized Enterprises According to their New Ownership

(%)

	December 1994	October 1995
<i>Bulgarian natural and legal persons</i>	88	91.9
<i>Employees</i>	5	6.8
<i>Foreign natural and legal persons</i>	3	1.3

Source: Current Business Situation, NSI

The nature of the privatization as a process involving mainly small-scale municipal ownership makes it possible to assess the rate and scale of privatization by the number of concluded deals. The most important indicators of the process are the number of employed and the value of privatized fixed assets. Taking the end-1993 figures as baseline, in October 1995 state-owned enterprises with privatization decisions accounted for 10.9% (8.6% in December 1994) of employed⁶ and 9.4% (6.6% in December 1994) of fixed assets⁷ in the base period. However, the indicators of the share of employed and the value of fixed assets should be reassessed due to the low share of concluded deals. Thus, in November 1995 the number of employed in privatized state-owned enterprises amounted to 1.2% of base-period employment (0.9% in December 1994), while the share of fixed assets dropped to 1.8% (0.7% in December 1994).

The East European experience suggests that cash privatization is a slow process, and mass privatization gives an opportunity for accelerating the overall privatization process. The mass privatization programme in Bulgaria is expected to start in early 1996, and cover some 20% of fixed assets in the state-owned sector.

Privatization is economically significant when it changes the behaviour of privatized enterprises towards functioning under hard budget constraints. The analysis of the privatization process in the other post-socialist countries shows that en-

⁶ The estimate covers only employment in the state-owned sector which amounted to 2148055 in December 1993.

⁷ The base-period value of fixed assets used is 1200 bn leva.

terprises privatized by employee/management buy-outs or voucher schemes do not change their behaviour. Only self-generated private firms or state-owned firms sold to strategic investors change their mode of functioning.

Foreign investors participated in 14 large privatization deals since the privatization onset in 1993 till November 1995⁸. In four deals the government preserved the 30% vetoing interest, while in six deals the new owner assumed the debt of the privatized enterprise.

The 1996 privatization programme foresees a higher rate of privatization and the conclusion of 467 deals for state-owned enterprises with expected revenues of 20.9 bn leva.

□

⁸ *Report of the Director of the Agency of Privatization (December 1995).*

III. REFORM IN THE AGRICULTURAL SECTOR

The completion of the land reform emerges as one of the main problems of the agricultural sector in Bulgaria. It should find its legislative, and then practical, solution in the quickest and most effective way possible.

The May 1995 amendments to the Law on Ownership and Use of Agricultural Land (LOUAL) did not change its essence and rationale, but influenced the land reform itself. The law's provisions became more complicated, frustrating the work of land reform agencies both directly and as a result of the ensuing rulings of the Constitutional Court.

One of the LOUAL amendments which directly influences the pace of the land reform is the provision for voluntary partition of restituted land before the drawing of land division plans. Its objective was to speed up the process of ownership restitution by bypassing the long legal proceedings. The changes in the number of inheritors in the last 40 years make voluntary partition almost impossible, creating two problems: first, the complication and temporary slowdown of the process of drawing land division plans; second, voluntary partition and subsequent litigations.

It is difficult to assess whether the process of land restitution was accelerated or stalled by the provision for voluntary partition. According to data from the Ministry of Agriculture and Food Industry (MAFI), applications for voluntary partition were received from 1314 out of some 5000 territories in the country, while the overall number of legalized voluntary applications amounted to 195000. On the estimate of the „Land and landed property“ Department, 50 % of partition agreements are imperfect.

The process of land ownership restoration continued in 1995 as well.

Relative to the same period in 1994, the share of restitution decisions issued under Article 27, paragraph 1 and based on endorsed land division plans and cadastral sketches given increased by 13.1%, reaching 31.1% (1678,2 Ha) of land specified for restitution.

Title deeds were issued for 3731500 Ha, or 69.1% of land specified for restitution. Relative to the same period in 1994, this increase amounts to 11.8%.

The expected new amendments and addenda to LOUEL will influence the land reform by prolonging it. Together with the existing macroeconomic parameters, the essence of LOUEL, the chosen procedure, and the ensuing overall slowdown of land ownership restoration resulted in:

- absence of real land owners, and the implementation of short-term strategies by farmers;
- deteriorating qualities of land;
- sharp decline in investment in output and factors of production;
- situation favouring the long and difficult process of establishing the new relations on land use.

The agrarian and land reforms influence the structure of agricultural production. The ratio of plant-growing to stock-breeding continued to shift in favour of the former throughout 1995.

According to data of MAFI, arable land amounted to 4474500 Ha in 1995. The increase in uncropped and non-arable land continued, reaching 14.4% of arable land in 1995 (642700 Ha). This is 45400 Ha above the 1994 figure. Part of uncropped area is in mountainous or semi-mountainous regions where some 90 % of farm land is not cultivated.

The cost of fertilizers, irrigation, pesticides, machinery and the end product has a decisive impact on production structure.

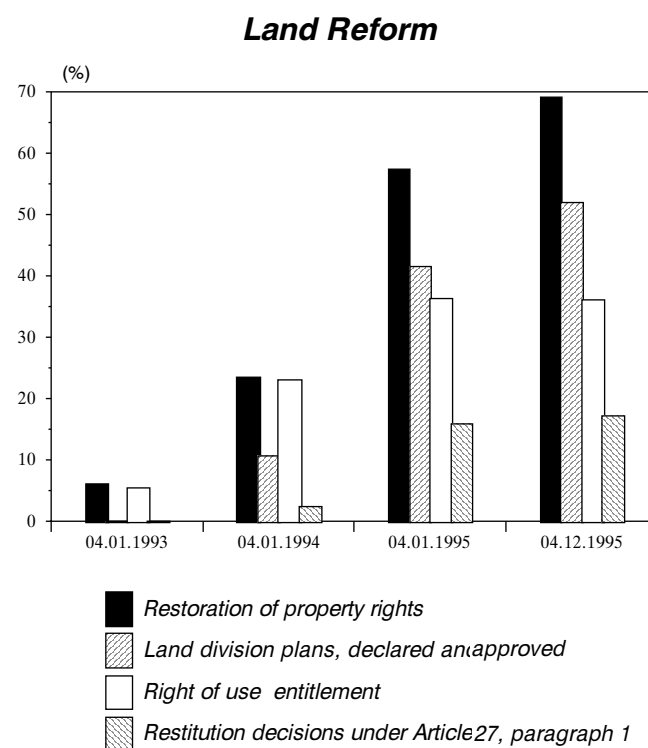
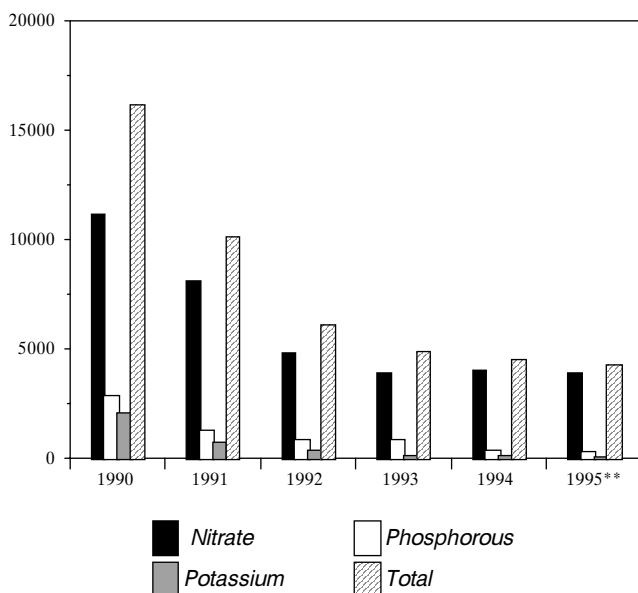


Fig. 1

Source: NSI, MAFI

Fertilizers in Current Use*

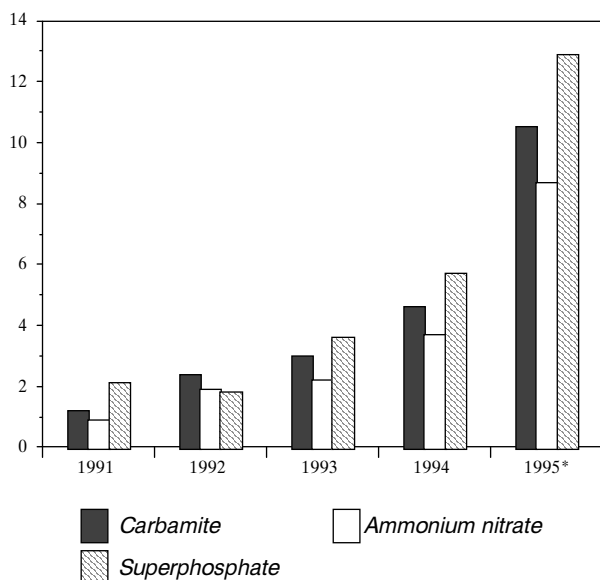


* In active substance per 1000 ha arable land
 ** Preliminary data

Fig. 2

Source: NSI, MAFI, AECD

Prices of Fertilizers



* Preliminary data

Fig. 3

Source: NSI, MAFI, AECD

Area under industrial crops (sunflower in particular), leguminous plants and other vegetables increased in 1995. In response to the consumer-protection policy and the ban on grain exports, area under grain crops decreased. Area under perennial crops also declined by 12400 Ha.

Regional statistics indicates that the necessary agro-technical requirements for alternation of crops are often disregarded. Together with the diminishing use of fertilizers, this trend upsets the balance of nutrient elements in the soil and reduces its fertility. The large area under sunflower - in some regions exceeding 50% of area under crops - is a major reason for the deteriorating soil fertility. This will require serious measures and additional investment in the future, in order to reach and sustain a definite soil fertility level.

The amount of artificial fertilizers used declines in both relative (per 0,1 Ha) and absolute terms. At the end of 1995 fertilizer prices increased almost twice relative to their

average prices in 1994. The prices of potassium fertilizers, which are not locally produced, followed the exchange rate of the USD.

Preliminary data of MAFI suggest higher yields of some crops relative to 1994.

The maize harvest and autumn sowing continued in December 1995. One-sixth of the area prepared for sowing was subject to pre-sowing fertilization. As at 07.12.1995 97% (1066700 Ha) of projected area was sown with wheat, and 84% (269000 Ha) - with barley. Relative to the same period of 1994, area under wheat amounted to 110%, and area under barley - to 90%.

The share of area under crops and output in the private sector fluctuated between 80 and 98%.

Average Agricultural Yield

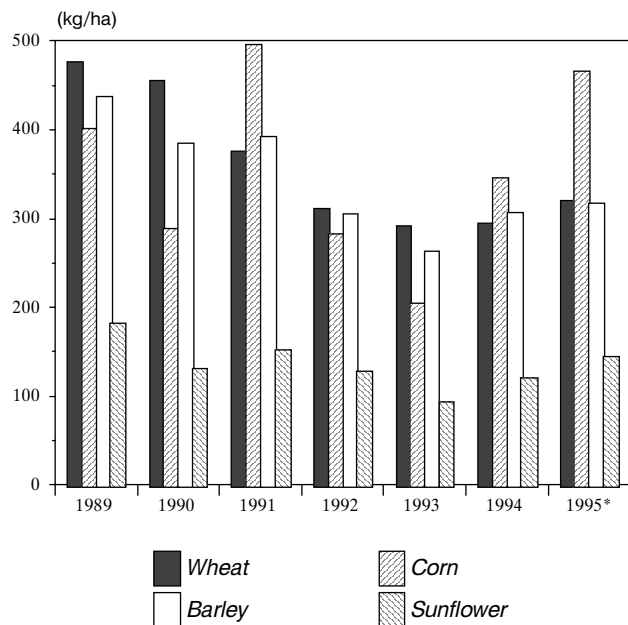


Fig. 4

Source: MAFI

Share of private farms in the production of basic crops, 5 May 1995

Crops	Area /in hundred Ha/	Co-operatives and associations		Private farmers		Private farms total councils %	Other, incl liquidation	
		Ha	%	Ha	%		Ha	%
Wheat	1014.2	757	75	130	13	88	127.3	12
Barley	314.8	232.3	74	47.1	15	89	67.2	11
Maize grain	86.5	56.6	65	24	3	67	42	4
Sunflower	212.6	182.3	86	16	8	94	9.5	4
Sugar-beet	7.1	5.8	83	0.6	9	89	0.7	10
Potatoes	11.6	2	17	9.4	81	98	0.1	1

Source: MAFI, NSI

The number of animal units sharply declined after the onset of the agrarian reform and the ensuing changes. Due to the specific nature of the branch (the longer period of emergence and development) its recovery will be very slow, and it will hardly reach the pre-reform output level. This is determined by several economic and financial factors: the prices of fodder, the cost of production, declining domestic demand, and limited access to export markets.

The relative share of private stock-breeding farms is substantial. As at 01.11.1995 70% of cows, 94% of sheep, 60% of pigs, 75.2% of poultry, and all goats were raised in private farms. 1995 witnessed a general upward trend in the heads of pigs and poultry.

The problems of private stock-breeders are rooted in the need to provide fodder supplies at reasonable prices, ensure the necessary conditions for stock-breeding in accordance with the veterinary and sanitary norms, and gain access to markets for animal produce.

Animals Raised in Private Farms

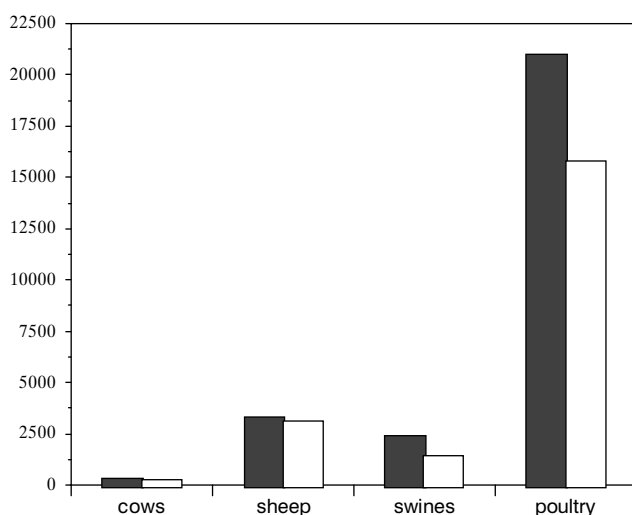


Fig. 5

Source: MAFI, NSI

In 1995 the prices of basic inputs in agricultural production again grew at a faster rate than prices at farm-gate. Relative to 1994, in 1995 unit costs of wheat and maize increased more than two-fold, whereas the rise in their purchasing prices amounted to 25%-45% of the 1994 level. The increase in the purchasing price of sunflower slightly exceeds the increase in unit costs. At the same time, there was a considerable spread between purchas-

ing and commodity-market prices of basic agricultural products. In the period September-December 1995 the price of wheat at the commodity exchange was 1.2 to 2 times higher than its purchasing price. In December the price of wheat at the commodity exchange fluctuated between 8000 and 10000 lv per ton, or 129 USD/ton on

average. Over the same period the price ratios for maize rose from 1.3 to 1.95, and for sunflower - from 1.3 to 1.8. These figures clearly indicate the draining of farmers' incomes and their redistribution in favour of traders.

Animal products also followed the downward trend in the share of agricultural products in the retail price of end products. For instance, 150 g fodder are needed for the production of 1 egg, bringing production costs to 2 lv., and the minimum retail price - to 5 lv. The average price of cow's milk amounted to 16 lv/kg, while the average minimum retail price reached 25 lv/kg.

Despite the balancing tendency, domestic and international prices of agricultural products still differ. In December 1995 the bulk of deals in the European market were concluded at an average price of 180-200 USD/ton. In Bulgaria the price of wheat at the commodity exchange amounted to 130-140 USD/ton compared to 147 USD/ton average price of export wheat grain. Maize was traded at 100-110 USD/ton at the Sofia exchange, compared to 166 USD/ton in Rotterdam. The higher demand for maize and barley resulted from the relative stabilization in stock-breeding and the reduction in the area under these crops.

Agrarian and food exports in the nine-month period of 1995 accounted for 16% of foreign trade, inducing a decline of 2-8% relative to the previous two years.

The trend for larger agricultural and food exports compared to imports was sustained in the nine-month period of 1995. Imports of this kind fell 2.6 times below exports, amounting to 6.5% of total imports for the nine-month period of 1995 - their lowest level for the last three years (1994 - 7.7%, 1993 - 7.1%, 1992 - 8%).

Tobacco and manufactured tobacco substitutes together with beverages and spirits again registered the largest shares in the 1995 export list of agricultural and food products, as regulations on the export of tobacco and tobacco products was fully lifted in the same year. Grain exports registered an almost 10-fold increase - from 1.3% in the nine-month period of 1994 to 12.7% in the same period of 1995 as a result of the MAFI policy in that sphere (export quota of 550000 tons of wheat and 200000 tons of flour; export ban as of 20.07.1995). A slight rise was evident in the share of oilseeds, fat and oils. A sizable decline was recorded in the export of live animals, milk and dairy products.

Major commodity groups in agro-food trade
(% in overall exports/imports of agro-food products)

Customs Tariff Chapters	9m.92	9m.93	9m.94	9m.95
exports				
1. Live animals	14.1	7.3	7.8	2.9
2. Meat and edible offal	9.3	4.9	4.5	3.5
3. Milk and dairy products	8.2	6.1	5.2	3.5
4. Vegetables	6.8	3.8	4.8	4.5
5. Fruit	2.4	2.5	9.3	4.4
6. Grain	7.0	2.1	1.3	12.7
7. Oilseeds and fruit	3.5	4.4	1.9	2.4
8 Fat and oils	1.9	5.6	2.8	4.9
9. Fruit and vegetable preparations	6.4	8.8	5.1	4.8
10. Beverages and spirits	10.6	15.7	15.5	16.6
11. Tobacco and manufactured tobacco substitutes	22.5	26.6	26.7	28.3
imports				
1. Live animals	1.4	2.0	0.9	0.8
2. Meat and edible offal	0.2	4.8	4.8	6.4
4. Milk and dairy products	2.2	3.9	4.9	5.3
4. Vegetables	0.9	0.8	2.5	2.5
5. Fruit	4.7	8.2	11.0	11.2
6. Grain	0.5	3.6	1.6	2.2
7. Oilseeds and fruit	1.2	1.2	1.4	1.6
8. Fat and oils	2.7	3.6	1.6	6.1
9. Vegetable and fruit preparations	2.7	3.9	2.4	3.1
10. Beverages and spirits	12.9	7.6	6.6	7.6
11. Tobacco and manufactured tobacco substitutes	28.6	14.9	15.0	4.7

Source: NSI, AECD

Overall, unit prices in dollar terms fell compared to 1994. Most of all, this relates to fruit, tomatoes (fresh and canned), raw and unprocessed tobacco, and wines from fresh grapes.

Export fees, registration, the licensing regime, bans, quotas, and special import duties were the main tools for regulating the foreign trade regime in 1995.

98 commodities were subject to registration in 1995 (rising from 76 to 131 from 1992 through 1995), and 19 products - to licensing (rising from 13 to 24 in the same period).

Export bans on wheat, barley, and sunflower were actively imposed in 1994-1995 in order to secure the national balances. The export ban on agricultural

products ensures reasonable prices for local consumers, but not for producers who gradually lose interest in raising agricultural products for which there is an export ban.

Special import duties were introduced in trade with agricultural products, which were levied on fresh tomatoes, cucumbers, gherkins, green peppers, onion, garlic, cabbage, potatoes, dessert grapes, water melons, apples, peaches, and nectarines.

A characteristic feature of the regulation of Bulgarian foreign trade with agricultural products is the very complex and always changing system of regulation, which is often illogical, inaccessible as information, and unclear to farmers themselves. In the following year it should be improved to protect the interests of Bulgarian farmers and upgrade the mechanisms of regulation.

In June 1995 the National Assembly voted the Law on protection of agricultural producers (LPAP), which sets far-reaching and diverse objectives:

- to ensure credits to agricultural producers for technical and technological investments;
- to guarantee protective purchasing prices of some basic agricultural products;
- to encourage the export of agricultural products;

Each of these objectives needs to be specified and tied down to a mechanism for implementation.

The conditions for preferential credits to agricultural producers stipulated in LPAP are quite general, and are based on a 1-year programme for development of the agricultural sector. The main condition is that preferential credits should be extended to prospective, often long-term investments, evaluated on the basis of a long-term programme for development.

Another unclear issue in LPAP is the regulation of markets for separate agricultural products. The policy of EU member states favours the use of specific mechanisms for regulation of specific markets. Thus, meat and milk production are regulated by quotas, and wheat production - by guaranteed minimum purchasing prices. In practice, LPAP aims at regulating the entire range of agricultural produc-

tion and its financing. This is a very difficult task, and in the proposed form - even impossible to achieve.

Tax concessions, which are extended to all agricultural producers, may remain the only effective provision of LPAP. They comprise three instances:

- The incomes of natural persons from the sale of agricultural production are exempt from income tax for a period of 5 years after the enforcement of the Law;
- The profits of legal persons from the sale of agricultural products are exempt from profits tax for a period of 5 years after the enforcement of the Law;
- VAT-exempt are: land tillage services provided by cooperatives with own machinery to their members on their land; cultivation and harvesting production of that land with the exception of land outside the cooperative; transfer of ownership on bread or fodder grain paid in kind as rent or part of rent; limited real rights on land with the exception of building rights.

With the help of these tax concessions income is retained by producers and production units, without, however, conditioning their rational allocation. Macroeconomic parameters only can indicate whether these resources will be immediately used for consumption or be invested.

The impact of LPAP will be felt in 1996, but the tendency to subsidize each and every producer regardless of the economic criteria, which emerged in late 1995, will result in inefficient allocation of otherwise limited financial resources of value for the national economy.

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IV. FOREIGN TRADE RELATIONS

4.1. EUROPEAN INTEGRATION

The European Union (EU) had to face many complex and crucial strategic issues in 1995. The recent expansion of the Union (to include Austria, Finland and Sweden as of 1 January 1995) put forward the problems of EU priorities and objectives. The Community which was set up by six founding members and later expanded to 15 members, is facing the dilemma of its further development - stronger integration or expansion of the EU. The Association Agreements with Bulgaria, Romania, Slovakia and the Czech Republic enforced on 1 February 1995 (for Poland and Hungary - on 01.02.1994) also raised many questions. The Europe Agreements invalidated the existing Interim Agreements on trade and related matters which were enforced on 01.03.1992 for Poland, Hungary and the Czech Republic, on 01.05.1993 for Romania, and on 31.12.1993 for Bulgaria. This step in EU relations with its associated members has both practical and symbolic weight. First and foremost, it is a formal confirmation of the process which began with the signing of the Association Agreements with Central and East European states, a process which may lead to full EU membership. The coming into force of the Europe Agreements sets a specific timetable not only of the trade, but of all its other aspects - political dialogue, labour mobility, setting up and providing services, settlements, capital operations, competition, harmonization of legislation, economic, financial and cultural cooperation. This initiates the liberalization of not only trade, i.e. the free movement of goods, but also the gradual attainment of the other three freedoms - free movement of people, services and capital.

4.1.1. The Integration of Eastern Europe

The White Paper of the European Commission was a very important stage in the preparation of associated Central and East European members for their integration into the EU market. The White Paper was devised in accordance with the decisions of the European Council conference in Essen in December 1994. It out-

lines the general framework of EU legislation on the union market. This is an element of the much wider-range strategy for admission of Central and East European states into the EU adopted at the Essen conference. The White Paper outlines the EU understanding of the minimum required degree of achievement (minimum volume of adoption of 'acquis communautaire'), needed for the functioning of the union market. The Paper is not part of the negotiating process on the association, but rather an instrument for supporting the efforts of Central and East European states (CEES) to be incorporated in the internal market of the Union. The White Paper does not pose new requirements to associated members. The Europe Agreements, which have already entered into force, aim at creating a free-trade zone between the EU and associated members. They have the specific task of achieving 'acquis communautaire' in the key spheres. Within the EU, the internal market is the main device for cashing in on the integration process. In this sense, the White Paper expands and accelerates the process negotiated in the Europe Agreements.

Structural dialogue is a key element of the strategy for CEES preparation for full membership. Part of it was the joint meeting of the EU Foreign Ministers' Council and the foreign ministers of associated members in Luxembourg in April 1995 to discuss the role of the White Paper in the overall process of preparation for integration , as well as issues of regional cooperation. The clearest manifestation of structural dialogue, however, was the participation of CEES delegations at the European Council conference in Cannes (26-27 June 1995) chaired by France. This was the first EC conference of the 15 member states after the EU expansion of 01.01.1995, the first conference since Jacques Santer took over as chairman of the European Commission, and the first to bring together 26 European leaders from the West and the East. It was a huge step forward in Europe's development. The summit meeting of the EU gave an indication of the nature of discussions among the 26 and the structure of the future united Europe. One tangible outcome of the CEES meeting was the 5-year package of financial aid for these countries. Their eventual full membership will be also discussed after the Intergovernmental conference in 1996. The report of the chairman of the Deliberation Group highlights two main groups of issues to be raised at the conference - the better functioning of the EU, and the

funding to meet both internal and external challenges such as the next EU expansion, which, the report says, is a moral imperative and at the same time a great chance for Europe. This considerable challenge requires an adequate response at the Intergovernmental conference in 1996, as well as respective amendments to the EU Treaty. The latter are expected to tackle the functioning of the Union as a whole and of its institutions, and the decision-making process in particular. The forthcoming expansion of the EU will be very different from the past. Unlike before, when it involved market economies, now the countries in question are transitional economies at a different stage of development which accounts for their political, economic, and social diversity. The success of the Intergovernmental conference will determine the success of the future expansion.

4.1.2. Convergence Criteria

The compliance with the convergence criteria is decisive for Bulgaria's equal-footing participation in the EU and its future full membership. The Maastricht Treaty outlines four monetary and fiscal criteria for future members of the European economic and currency union. They are rather a compromise result of the negotiations on the new structuring of the Union, and are thus open to various interpretations. Generally, they boil down to the following:

- Countries included in the economic and currency union should display a high degree of price stability. Under the convergence criteria protocol, this means that the rate of inflation should not exceed the average for the three best performing member-states by over 1.5 percentage points.

- The convergence criterion for „tolerable public finance“ gives a precise definition of the „non-standard“ budget which should be avoided: 3% for the ratio of the planned or real budget deficit to GDP at market prices, and 60% for the ratio of government debt to GDP at market prices.

- The criterion for exchange rate stability states that member-states should have observed the European currency mechanism for at least the last two years without obvious tensions. The increased range of exchange rate fluctuations from 2.25 to 15% left open the issue of the real reference rate against which to gauge rate

deviations by countries. In October 1994 the EU Council recommended the observation of the initial agreements, thus rejecting the 15% range of fluctuation.

- The criterion for interest rate convergence was defined in the sense that the long-term nominal interest rate should not rise more than 2 percentage points over the average for the three member-states with most stable prices. The correlation of the long-term nominal interest rate and the rate of inflation is calculated by a special correlation coefficient, varying from 0.14 for Italy to 0.61 for France.

Article 109 of the Maastricht Treaty suggests that the convergence requirement should take into account the level of market integration, current balances, wages and other price indices. The introduction of such general economic criteria was advocated by the British cabinet in the spring of 1995. It insisted on „structural convergence“ at the next stage of integration. The criteria were based on four key conditions:

- The annual economic growth of member-states should not deviate by more than 1.5% from the long-term rate, calculated as the annual average for the last ten years. This criterion should have synchronized the business cycles of the countries accepted into the Union.

- The unemployment level in a given country should not exceed the average EU level more than 2%. This condition required the synchronization of business situations and unemployment structures in the countries under integration.

- The deficit of the current balance should not exceed 2% of GDP. This condition was aimed against export flows reduction by eliminating the possibility for depreciation.

- The competitive edge of each country against Germany should not decline by more than 10% as of February 1987 when the last substantial restructuring was made. These criteria should guarantee that only the countries with balanced exchange rates over a relatively long period will be admitted into the EU.

These requirements set the basis for a new debate and the introduction of real economic criteria for full EU membership. They will inevitably influence the attitude of member-states towards EU expansion at the forthcoming Maastricht III intergovernmental conference, including the issue of Bulgaria's full membership.

4.1.3. Bulgaria and the European Union

Bulgarian policy of integration with the EU should take into account the international agreements reached in Copenhagen, Corfu, Essen, Cannes, and Madrid, the link between the progress in stabilization and the possibility for full EU membership, the need for further elaboration of the agreement structure and internal normative basis to facilitate the adjustment of the Bulgarian economy to the Maastricht convergence criteria.

The Memorandum of the Bulgarian government on the application for full EU membership states that „Bulgarian membership in the European Union is a strategic objective, responding to national interests. It will consolidate the outcome of democratic reforms in 1990s, gain political recognition for their success, and be an important factor for the country’s economic development.“

The active integration of Bulgaria into European economic structures was the key objective of the negotiations for the Bulgarian Europe Agreement (BEA) signed on 08.03.1993, in force since 01.02.1995. The main aims of BEA are:

- creating a climate of confidence and stability as a basis of economic and political reforms;
- consolidating the foundations of the new European architecture;
- creating an adequate climate for development of trade and investment;
- assisting the transition from a state-run to market economy and the more active participation in the international division of labour;
- granting financial assistance and adjusting European aid to the priorities outlined during the consultations prior the signing of the BEA.

From the viewpoint of its material range, since its coming into force in 1995 BEA regulates a vast circle of activities, extending far beyond the limits of traditional trade and economic agreements. It devotes special attention to the objectives of cooperation in industry (incl. investment, agriculture and the agro-industrial sector, the energy sector, transport, communications, regional development and tourism, Article 72, part VI). Financial cooperation with EU members, regulated in part VIII of BEA, is of particular importance for overcoming the economic and social effects of Bulgaria’s structural adjustment.

A condition sine qua non of BEA is the success of the political and social reform in Bulgaria. It is related to the irreversibility of the democratic process, and the stabilization of the economy, viewed as restoring its natural long-term growth rate. As an agreement, BEA has a „dynamic and evolutionary structure“. It is not a substitute for full EU membership. The aim of the Agreement is to help the country in its difficult transition to a market economy.

In order to meet the BEA objectives, economic restructuring in Bulgaria should be directed towards establishing a market economy with a large private sector by means of consolidating the institution of ownership and raising the efficiency of economic management. The onset of privatization (both cash and mass) is a key to the success of this process, together with a more efficient domestic investment policy, the outlining and implementation of industrial policy and the related export-boosting policy, a more active foreign investment policy, the setting up of the market economy institutions etc.

Examining the Bulgarian economy in 1995, it is still characterized by an unstable institutional structure, i.e. the rules for coordinating the activity of economic partners are unclear and changing. Also, the institutional changes are necessarily related to changes in the organizational structure of government administration and the economy, as well as to changes in branch and regional aspects. The changes in institutional and organizational terms are rarely synchronous. As a result, key macroeconomic parameters which are usually constant or change slowly and in the anticipated direction, become unstable and unpredictable in the context of transition. Therefore, apart from the traditional stabilization aims, transitional economic policy should control and synchronize the changes in institutional and organizational aspect, i.e. intentionally create a market economy within which economic agents are able to coordinate their activities in a rational way.

Economic policy in Bulgaria as an associated member of EU, should conform to the evolution and the main characteristics of the West European model of industrial policy, to the „rules of the game“ in the Common European market, and to the national strategy for the type of market economy to emerge at the end of transition. Examining the market model in the EU countries, restructuring in Bulgaria

can be directed towards „programming“ social-economic evolution to build a society dominated by the middle class, achieve a secured social minimum and key social benefits taking global resource limitations into account.

After the BEA enforcement and the official Bulgaria application for EU membership, the policy of economic restructuring in Bulgaria should conform to the already clear political and economic criteria of the Commission of the EU with regard to associated member states. Those mainly related to the economic restructuring and adjustment to European requirements are:

- functioning market economy and ability to endure the pressure of free competition within the Union;
- ability of the country to assume and carry out its obligations as an EU member („acquis communautaire“);
- acceptance by the associated members of the aims pursued by the political, economic and currency union.

It should be noted that these criteria directly bear on the international competitiveness of Bulgarian industry, the difference in the „per capita GDP“ indicator, and generally, the economic stability of the country.

The EU criteria, including those outlined in the „White Paper“, are largely compatible with the long-term policy objectives of restructuring in Bulgaria. However, some conflict points have emerged between short-term and strategic objectives. The difficulties in restructuring require, at certain points, provisional measures, some of which partially disagree with the liberal aims of the EU.

The transition from centrally-planned to a market economy proved to be extremely difficult, time-consuming and expensive. What economic instruments and resources does the government have at hand to pursue the policy of restructuring and intensify adjustment and integration into the European institutions?

The **first** mandatory condition is to take into consideration the existing economic structure and gradually adjust it to the requirements of world economy, the aim being a more active participation in the international division of labour in view of the relative advantages of the country. It is obvious that the branch structure of the Bulgarian economy is a product of a certain model of industrialization and use

of industrial technology for over three decades. It generated industries with high costs of energy and raw materials, resulting in high energy-and resource-intensive unit costs and large imports of inputs. The breaking-up of this model by changing the production structure is a process of slow and painful adjustment of this structural imbalance. It may last long due to the inertia of production structures, especially upon reaching a definite economic level, crisis in the economy and insufficient financial resources.

The **second** condition requires legislative and institutional granting of real ownership rights to autonomous economic units, most of which are private owners. In the first place, this relates to the privatization (cash and mass) of state-owned enterprises in industry, construction, trade, services, and finance. The bulk of land, real estate and other trade assets will also become private property. The slow economic restructuring of ownership in 1995 aggravated one of the main problems in the Bulgarian economy. The hope is pinned on the mass privatization scheduled to start in early 1996. It should create legally responsible economic agents and competitive environment, as well as motivate „human capital“ for active participation in the process.

Parallel to the privatization process, the remaining state-owned sector needs to consolidate the strategic control functions of the state (government policy to end the decapitalization of state-owned enterprises and banks and prevent new losses), as well as create incentives the managers and employees in the state-owned sector to raise their efficiency.

The **third** important condition is to adjust the structure of the Bulgarian economy to the Copenhagen requirements for realistic investment policy. At present, the investment situation in the economic sectors is influenced by the negative trends in both domestic financing and foreign investment. Domestic financing is at a very low level, both in terms of intra-firm and budget financing. The problem for attracting foreign investment to the country has been quite topical since Bulgaria's association to EU. The insufficient inflow and unfavourable branch orientation of foreign investments in 1995 may be attributed to the new trends in international investment policy (from horizontal multi-sectoral structures to vertical ones with closed production circle), as well as to the domestic investment climate.

The **fourth** condition which is a key requirement for Bulgaria's integration into the EU, is to devise a nationally-responsible industrial policy. In addition to activating the market and competition mechanisms, the restructuring of production requires the elaboration and implementation of an industrial policy. It should take into account the present state and orientation of the West European industrial model related to the finalizing of the single market project and the liberalization of world trade (Article 130 of the EU Treaty provides for quicker adjustment of industry to structural changes and innovations, creating a favourable environment for initiative and activity in small-and medium-scale businesses, supporting cooperation between enterprises, encouraging the better utilization of industrial potentials, activating the R&D policy), as well as the existing industrial basis.

There are two alternative forms of industrial policy in Bulgaria. The first one is related to short-term economic prospects and refers mainly to the utilization and improvement of the potential of existing branches using a number of routine measures for export encouragement, and channelling investment to viable and prospective industries. The second one, which may be characterized as dynamic or even aggressive, should, as early as this year, address the challenges of international competition and seek active involvement in the international division of labour by developing competitive industries based on comparative advantages and potentials for penetration of new markets. Bulgaria's efforts for integration into European structures require large-scale technological upgrade and adjustment of existing production capacities to EU technological standards to begin as early as the start of 1996. This is a decisive factor for the country's future full membership in the EU as an equal-basis partner.

The **fifth** condition is the encouragement of R&D which is a basic factor of economic growth. Apart from determining the competitive strength of individual companies and separate branches, it underlies the economic, strategic and political positions of the country. EU practice indicates that the increase in production efficiency is conditional on R&D and a comprehensive innovation policy. R&D raises labour efficiency and lower unit costs, thus increasing profits, reducing costs and rearranging the „scale“ of different factors of production. In 1995, and possibly in 1996, the Bulgarian economy will have limited potentials to stimulate these two

important spheres. Authorized government bodies should carefully use the PHARE programme and its possibilities in 1996-1999. The success of Bulgarian claims for transfer of resources into the R&D sector will expand the opportunities for recovery and higher efficiency of the severely restricted research potential. In this way, Bulgaria will gain insight into EU policy of R&D which, under the Maastricht treaty, is aimed at reducing the resource-intensiveness of R&D, improving the coordination of national programmes and preventing redundant aspects, ensuring the rational and efficient use of available resources. At the same time, it is necessary that Bulgaria receives more detailed information, and even access to the ESPRIT, BRITE, RACE and JET programmes. They should be complemented with the market-oriented EUREKA programme which is based on interdisciplinary research, rejection of red-tape structures, and national participation in financing.

The **sixth**, but not last, condition is the legislative basis of economic restructuring and its harmonization with EU legislation. EU experience indicates that the implementation of the liberalization measures envisaged in BEA is impossible without the adjustment of the Bulgarian legislation to the so-called *acquis communautaire*. What is more, its compatibility with the key European requirements is a mandatory condition for the emergence of markets and the success of the market economy. Regardless of the choice of priorities according to concrete economic interests and needs, the analysis of current legislation in view of BEA requirements induces the following conclusion:

Current Bulgarian legislation is still incomplete. The restructuring of the national economy requires the adjustment of many bills to the European standards (the Law on Competition, the development of the normative basis of state ownership management, legislation on securities and investment activity on the capital markets, the freedom of instituting natural persons, legislation on government orders, etc). BEA aims at creating a free-trade zone between Bulgaria and EU, i.e. free movement of goods. Bulgarian legislative activity should aim at ensuring the other freedoms in Bulgarian-EU relations. BEA sets the ground rules for providing these freedoms, i.e. freedom of movement of people, services, capital, and payments (the latter a new freedom provided by the Maastricht treaty).

An important aspect when determining the priorities and spheres of harmonization of Bulgarian and EU legislations is the forthcoming intergovernmental EU conference in 1996. It should be noted that one of its aims is to amend the Maastricht treaty. The main changes are expected to concern institutions and their role in decision-making. Due attention should also be paid to the efforts for expanding the range of spheres regulated by the Union, i.e. further transfer of „sovereignty“ from the member-states to the Union, mainly within the second (foreign policy and defense) and third tier (cooperation in internal affairs and justice) of the Treaty. Therefore, Bulgaria should harmonize its legislation not only with the existing EU legislation, but also with the anticipated changes.

Bulgaria faces serious problems in view of its association, and eventual full membership in the EU. Under the BEA, a mechanism for coordinating the entire process of European integration was devised in 1995. Central to it is the Government Committee on European Integration headed by the Bulgarian Prime Minister. The Committee includes 12 government representatives. Its main aim is to outline and direct Bulgarian government policy vis-a-vis the EU, carefully monitor the process of integration in view of changes in the Union and the national characteristics of transition. This body is also responsible for coordinating the activity of government administration together with EU agencies. The Coordination Commission on European integration at deputy ministerial level is very important to the organizational mechanism of Euro-integration. It monitors the operative activity of all ministries and institutions, of working groups which prepare expert opinions on the key problems of the integration process. The third tier in the structure of the existing organization is the Secretariat on European integration, whose main function is to assist the Government Committee in its policy of integration into European structures.

4.2. THE YUGO EMBARGO

Decree No.226/28.11.1995 of the Council of Ministers lifted trade restrictions on the former Yugoslav republics involved in the Yugo-crisis, preserving those on arms exports. The lifting of the embargo was in compliance with the two UN Resolutions of 22.11.1995. It, however, does not eliminate the detrimental impact of the

war on bilateral trade.

The officially declared minimum losses of Bulgaria for the period July 1992 - July 1995 amounted to 8 492 million USD. They resulted from the strict observance of sanctions against former Yugoslavia. The country has officially demanded compensation from the UN. The issue is expected to be raised before the Security Council as well.

Bulgaria may seek compensation for its embargo losses in two ways:

First, by participation of Bulgarian firms and organizations in the recovery of war-torn regions - in construction, trade, providing labour. Second, by finding mechanisms for indirect, though partial, compensation with the help of the international community.

Bulgaria has taken part in multi-lateral and international forums on the implementation of the Dayton peace agreement, which raise hopes for the country's participation in the recovery works. The last session of the Bulgarian-Yugoslav commission for economic and scientific cooperation provided the relative agreements on bilateral trade and economic links. Both countries resumed bank settlements in convertible currency, regular air and river links. The bilateral documents signed - the trade agreements, and the agreements on mutual protection of investment and lifting double taxation, and on mutual granting of most-favoured nation status, regulate the basic principles of bilateral trade, interbank agreements, and legislative harmonization.

During the embargo period, Bulgarian firms submitted over 18 000 applications to the UN Committee on Sanctions, some 12 000 of which were satisfied. 90% of transactions were carried out by private Bulgarian companies.

Before the embargo, bilateral trade between Bulgaria and Yugoslavia amounted to some 360 million USD. After its enforcement, the figures were as follows: 130 mn USD in 1993, 157 mn USD in 1994, 60 mn USD in October 1995. Oil-processing, chemical and textile plants, exporters of tobacco products, suppliers of construction materials, foodstuffs, sanitary materials, and pharmaceutical enterprises have chances for trade with Yugoslavia. Bulgaria may also supply the peacekeeping contingent of NATO and Russia in Bosnia.

IT is very important to revive production cooperation. Before the embargo, 80% of Bulgarian trade was realized with Serbia and Montenegro. Production links extended over electric truck industry, mechanical engineering, chemical and textile industries. Cooperation with these two Yugo-republics accounted for 30% of trade turnover. Before the embargo, Bulgaria exported 420 electric cars there annually.

In former Yugoslavia itself cooperation and mutual supplies are disrupted. Bulgaria may successfully help in that direction - to take over cooperation with Bosnia, Croatia and Slovenia from Serbia and Montenegro. There is a common interest for signing a free-trade zone agreement. We should be aware of the fact that the new export-import regime of Yugoslavia imposes minimum duties on imports of raw materials and semi-manufactured goods - 2%, and 30% on luxury goods.

The lifting of the Yugo-embargo raised the issue of the construction of a second bridge over Danube. The project will get 450 mn USD credits from the EU in case its construction begins by the end of March 1996. It should not be questioned since these projects are approved by the European institutions and are part of the arrangement for the East-West transport corridors.

The main problem for the new market niche at the national level is that the accounts of the Yugoslav Federation in foreign banks are still frozen. Their total value is estimated at some 1 bn USD and should be split among the republics. According to the Serbian finance minister, new Yugoslavia claims to be successor to the old Federation and its assets, all the more that it should pay off 4 bn USD in external debts.

Another obstacle is the high transport fees which the Union Republic of Yugoslavia (URY) introduced to increase revenues. The toll on the Belgrade-Nis highway amounts to 210 DM for automobiles, and 1800 DM for TIR trucks. The Bulgarian side should demand the lifting of those fees or the introduction of similar tolls for Bulgarian roads and ports. By the end of 1995 URY issued 10 000 transport licences for bilateral trade, and 5000 for transit. Another 20 000 licences are expected to be signed. The insufficient number of border checkpoints is impeding trade, and reveals the need for the opening of new checkpoints.

During the term of the embargo, some 300 Yugoslav firms acted as Bulgar-

ian legal persons. After it was lifted, they will most probably continue to work in Bulgaria due to the settlement difficulties in URY. The preserved branches of Western firms in URY are expected to resume active work; Toyota, for instance, is planning to build a plant in Belgrade, the French Alcatel company will modernize the telephone network, while Siemens has made offers in the electricity sector. Note that foreigners may get the control parcel of enterprise shares only by special permission of the Yugoslav government.

Bulgarian firms have the possibility to supply the military contingent in Bosnia. 20 large companies have already applied to the Ministry of Trade for supply licences. There is an agreement for Yugoslav assistance to Bulgarian firms participating in Bosnia's recovery programme which will receive a total of 5 bn USD from international institutions.

The revival of joint ventures will help expand bilateral trade. Balkankar, Kremikovtsi and Stomana-Pernik have already signed contracts with Yugoslav firms. Agreements were reached on the revival of joint ventures in energy generation and electrical engineering, as well as mutual electricity supplies after URY joins the Balkan energy ring. Both countries declared their wish to further liberalize bilateral trade whose volume is expected to reach 500 mn USD in 1996. Their relative lack of assets and resources depleted by transition and the Yugo-conflict remain as restrictive factors.

4.3. FOREIGN TRADE

Foreign trade disequilibria accumulated by the beginning of 1990s began to be eliminated with the onset of economic reform in Bulgaria and the market orientation of foreign trade. The last five years marked a period of export reorientation, certain withdrawal of the most important Bulgarian markets in Central and Eastern Europe, and attempts at gaining larger access to the West European and non-European markets. At the same time, the share of the hitherto largest export group - machinery and foodstuffs - began to decline, the share of light industry exports sustained its level, while the share of metals, chemicals and fuels increased sizably. Parallel changes in both regional and commodity structure of exports substantially influenced their volume and growth. Exports dynamics became unstable, „sinusoi-

dal“, with a very weak upward trend in 1994 and the nine-month period of 1995.

For the January-November 1995 period Bulgaria's foreign trade balance is positive overall (31.8 bn leva), 12.5 bn of which in trade with Central and East European states, and 10.3 bn in trade with the OECD area. Preliminary figures indicate that in dollar terms the foreign trade surplus exceeded 500 mn USD in 1995.

The share of energy resources, machinery, transport vehicles, chemicals, metals, textile materials and paper products in Bulgarian imports did not fall substantially in the last five years. Import reorientation raised the importance of Western Europe and non-European countries, without, however, diminishing the significance of Central and Eastern Europe to a great extent. The considerably weaker changes in the commodity and regional structure of imports underlay the normal increase in its volume. Decline and stagnation occurred as late as 1994 and the nine-month period of 1995.

The unstable exports dynamics and increase in imports, especially in the first three reform years, exacerbated the problem of balanced foreign trade. The trade deficit declined as late as 1994; the nine-month period of 1995 registered surplus with a tendency for balanced foreign trade by the end of the year.

The main outcome of foreign trade restructuring in Bulgaria in the last five years is the optimum proportions and balance of the regional structure of trade. By the end of 1995 Western European countries accounted for over 37% of Bulgarian exports, Central and Eastern Europe - for about 33%, and non-European countries - for about 30%. The share of Western Europe in Bulgarian imports exceeds 44%, of Central and Eastern Europe - over 37%, and of non-European countries - about 19%.

The main problem of Bulgarian foreign trade in perspective is to achieve a stable increase across all regions, and thus cover the whole necessary volume of imports, facilitate the balancing of payments and the stabilization of the foreign exchange rate, as well as ensure foreign debt servicing. The implementation of this aim is conditional on the transition to the investment stage of economic reform which should form the optimum commodity structure of exports depending on production capacities, the country's comparative advantages, and the demands of major foreign trade partners.

4.3.1. Bulgarian trade with Western Europe

The integration of Austria, Sweden and Finland into the European Union practically removed all grounds to view the West European region as consisting of two separate economic communities (EU and EFTA). Western Europe should be regarded as a single partner in terms of Bulgarian foreign trade, all the more that Norway and Island, which have not yet joined the EU, are quite insignificant as foreign trade partners, while Switzerland, which is more important, still does not influence the general structure of Bulgarian foreign trade with its larger EU partners. Thus the EU becomes synonymous with the Western European region, and the analysis of foreign trade with EU is tantamount to reviewing foreign trade with Western Europe.

Volume, Dynamics, Balance

Bulgarian trade with Western Europe underwent a very intensive increase in 1990-1992. Compared to 1991, it grew more than two-fold (from some 1.4 bn USD to over 2.9 bn USD) in 1992 alone. Foreign trade growth was sustained in the next period (1992-1994), but at lower rates - up to some 3.2 bn USD in 1994 (or by 2.5% relative to 1993).

Available data for the first three quarters of 1995 justify anticipations for a further increase (by 3.5-4 bn USD, i.e. a higher growth rate than in 1993 and 1994) in Bulgarian foreign trade with Western Europe.

Bulgarian exports to Western Europe grew two-fold in 1992 compared to 1991 - from some 650 mn USD to nearly 1.3 bn USD. In 1993 they declined to about 1.2 bn USD (down 10%), but the rise to over 1.5 bn USD in 1994 offset this fall.

Preliminary data for the first three quarters of 1995 suggest no further increase in exports (from 1.7 to 2 bn USD) is expected by the end of the year.

Similar to exports, Bulgarian imports from Western Europe in 1992 exceeded the 1991 level more than twice - from 770 mn USD to nearly 1.7 bn USD. In 1993 the increase reached 1.9 bn USD (up 16%). A noticeable decline to about 1.6 bn USD (down 15%) followed in 1994.

Data for the first three quarters of 1995 suggest we should expect a certain increase in imports by the year-end (1.7-2 bn USD) relative to 1994.

Bulgarian foreign trade balance with the Western European area was steadily negative for decades, so that the modest 120 mn USD deficit in 1991 may be interpreted as an improvement. In 1992 and 1993, however, it again deteriorated to deficits of about 400 and 700 mn USD due to the slower dynamics of exports compared to imports. The reversal in exports and imports dynamics in 1994 again improved the trade balance, reducing the deficit to 100 mn USD. The favourable trend continued in 1995 as well. The second and third quarters of 1995 registered the first instance of trade surplus with Western Europe for decades.

The importance of Western Europe

The rapid increase in Bulgarian foreign trade with the West European area and the parallel decline in trade with Central and Eastern Europe during 1990-1992 corrected decades-long imbalances and balanced the importance of these two areas as key trade partners. From 9.7% in 1990, the relative share of Western Europe grew to 35.2% in 1992 (31.1% in exports and 37.1% in imports) against 37.7% for Central and Eastern Europe (39.2% in exports and 36.3% in imports).

The balancing process continued in the next two years, but at lower rates since the decline in trade with Central and Eastern Europe has been dampening. The relative share of Western Europe in Bulgarian foreign trade reached 38.4% in 1994 (36.6% in exports and 40.2% in imports) against 39.5% for Central and Eastern Europe (37.3% in exports and 41.8% in imports).

The new development in the first three quarters of 1995 was that Bulgarian exports to Western Europe exceeded exports to Central and Eastern Europe (40% compared to 33.5%). Imports to Central and Eastern Europe predominate slightly - 42.9% relative to 41.2% for Western Europe. These ratios will probably change slightly by the end of 1995, but the basic balance of the share of both areas as trade partners will be preserved.

The growing importance of Western Europe in Bulgarian foreign trade signals a significant change in the role of this area as a market for different commodity export groups, and as source of imports.

Depending on the relative share of Western Europe in total exports by commodity groups in the last four years, they may be classified as follows:

a) commodity groups, in which Western Europe accounts for over 2/3 of their Bulgarian exports. These are footwear, leather and leather products, art.

b) commodity groups, in which Western Europe accounts for about 2/3 of their Bulgarian exports - textiles.

c) commodity groups, in which the share of Western Europe is between 1/2 and 2/3 of their Bulgarian exports - wooden, glass, ceramic products, furniture and other manufactured goods.

d) commodity groups, in which the share of Western Europe is between 1/3 and 1/2 of their Bulgarian exports - animal products, plant products, metals, products of electronic engineering.

e) commodity groups, in which Western Europe accounts for about 1/2 of their Bulgarian exports - chemical products, plastics, rubber products, pulp and paper products, products of mechanical engineering.

f) commodity groups, in which the share of Western Europe falls below 1/3 of their Bulgarian exports - foodstuffs, fuels and minerals, transport vehicles and spare parts.

The above classification indicates that the regional restructuring of Bulgarian exports to Western Europe in recent years is relatively easier in those commodity groups which had low or medium share in Bulgarian exports in the past. Commodity groups which topped the Bulgarian export list until recently - mechanical engineering and food products - still preserve their major markets outside Western Europe.

In turn, depending on the relative share of Western Europe in total imports by commodity groups in the last four years, they may be classified as follows:

a) commodity groups, in which Western Europe accounts for over 2/3 of Bulgarian imports. These are products of electrical engineering, textile and textile materials, footwear, furniture and other manufactured and consumer goods, fat and oils.

b) commodity groups, in which Western Europe accounts for about 2/3 of Bulgarian imports - mechanical engineering products, chemical and paper products.

c) commodity groups, in which the share of Western Europe is between 1/2 and 2/3 of Bulgarian imports - transport vehicles, plastics, rubber, furs, glass and

ceramic products.

d) commodity groups, in which Western Europe accounts for about 1/2 of Bulgarian imports - animal products.

e) commodity groups, in which the share of Western Europe is about 1/3 of Bulgarian imports - plant and wooden products.

f) commodity groups, in which the share of Western Europe is below 1/3 of Bulgarian imports - foodstuffs, fuels and minerals, metals.

Clearly, the regional restructuring of Bulgarian imports towards Western Europe in the last four years covers the second largest commodity group - mechanical engineering products, as well as manufactured and consumer goods, chemicals, etc. Central and Eastern Europe remains the main supplier of the largest import group - fuels and metals, while non-European countries are the largest supplier of food and plant products.

Trade with Western Europe by countries

The dynamics of Bulgarian foreign trade with most Western European countries (Germany, Italy, Greece, Belgium, Spain, Austria, Finland) registered an upward trend in 1991-1992, downward trend in 1993, and a new upward trend in 1994. In most cases, decline was due to the fall in exports in 1993. In 1994, however, the higher increase in exports offset the decrease in imports, raising the trade balance. Trade with Great Britain and Switzerland grew until 1993, then relatively declined in 1994, while trade with Sweden follows a steady downward trend since 1992. On the other hand, trade with France and the Netherlands steadily increased in 1991-1994, and trade with Denmark sustained its level after a large increase in 1992.

Trade with most Western European countries increased from two to three times overall in 1991-1994 (2.07 for France, 2.32 for Belgium, 2.38 for Finland, 2.57 for Germany, 2.58 for Italy, 2.64 for Denmark, 2.93 for the Netherlands). Trade with Greece grew more substantially (5.18 times), while the rise in trade with Austria (1.1 times), Great Britain (1.35 times), Sweden (1.49 times), and Spain (1.89 times) was moderate. Only trade with Switzerland declined in 1994 to 70% of its 1991 level.

The unstable dynamics and varying growth of trade by countries in Western Europe rearranged the scale of Western European countries as trade partners of

Bulgaria. Highest growth was registered in the share of trade with Greece (from 6.9% in 1991 to 16.2% in 1994), followed by trade with Germany (24.4% - 28.2%), Italy (14.4% - 16.7%), the Netherlands (4.2% - 5.5%), etc. Considerable decline was registered in the share of trade with Great Britain (from 11.5% to 7% in 1991-1994), Austria (11.3% to 5.6%), Switzerland (7.7% to 2.4%) etc. In this way Germany and Italy preserved their leading position among Bulgarian trading partners in Western Europe, Greece climbed from seventh to third place, Great Britain and Austria fell one place each to fourth (together with France) and fifth place, followed by the Netherlands, Belgium etc.

In the first three quarters of 1995 the dynamics of Bulgarian trade with Western Europe preserved its two main characteristics from the previous four-year period: unstable and uneven growth by countries. However, there is an overall upward trend.

The arrangement of Bulgaria's main trade partners did not change relative to 1994. Germany, Italy, Greece, France, Great Britain, the Netherlands, and Austria continue to be Bulgaria's largest trading partners in Western Europe.

Depending on the trade balance in 1991-1994, Bulgarian trade partners in Western Europe may be classified as follows:

a) countries, with which Bulgaria registers sizable trade balance and sustained trade deficit: Germany (from -200 to -300 mn USD), and Austria (from -70 to -90 mn USD).

b) countries, with which Bulgaria registers low balance of trade (from 5 to -30 mn USD) and sustained trade deficit: France, Great Britain, Denmark, Finland, Sweden, Switzerland.

c) countries, with which Bulgaria registers sustained trade surplus of 5 to over 100 mn USD: Greece, Italy, and Spain.

d) countries, with which Bulgaria registers fluctuating trade balance, with relatively low surpluses and deficits (from 3 to 50 mn USD): Belgium, the Netherlands.

The first three quarters of 1995 did not bring any substantial changes to Bulgaria's overall trade balance with its Western European partners. The largest

deficits were again registered in trade with Germany and Austria. Small deficits were registered in trade with France, the Netherlands, Denmark, Sweden, Finland, Switzerland. The largest surpluses were again registered in trade with Italy, Greece, Spain. Positive but low balances characterized trade with Great Britain and Belgium. However, there is a clear downward trend in large deficits.

The above data indicate that the general trend for improved and balanced trade with Western Europe in the last two years follows the scheme of „deficits with a group of trade partners which are offset by surpluses with another group of trade partners“. Improved and balanced trade with the region as a whole did not result from improved and balanced trade with all, or at least most, countries in the area. Therefore, one of the most serious problems of Bulgarian foreign trade is to improve or balance the high deficits in its trade with Germany and Austria by increasing exports to these countries.

Commodity structure of trade with Western Europe

In 1992-1994 the dynamics of Bulgarian exports to Western Europe by commodity groups was markedly unstable. Most commodity groups were characterized by falling export volumes in 1993 relative to 1992, followed by increase in 1994. Moreover, most export volumes by commodity groups in 1994 exceeded the 1992 level. Only animal and plant product exports did not reach their 1992 volume.

In five commodity groups, however, export growth was stable throughout 1991-1994: footwear, textiles, leather and leather products, fat and oils, products of mechanical engineering. Two groups registered steady export decline: foodstuffs, transport vehicles and spare parts.

As a result of the exports dynamics by commodity groups, chemical products, wooden products, textiles, footwear, metals and machinery increased their relative share in overall exports. The share of animal and plant products, foodstuffs, fuels, transport vehicles, furniture, and other manufactured and consumer goods in exports declined. The share of plastics, rubber, pulp and paper products, and glass and ceramic products remained almost unchanged.

We should note that the relative shares of export commodity groups did not change substantially (3.5 percentage points maximum for metals), preventing any

strong tendency for export restructuring. The arrangement of groups in 1994 was almost identical to 1992: the share of metals was largest (23.1%), followed by textiles (15%), chemical products (11.8%), and mechanical engineering (9.3%). Fuels and minerals (6.4%) replaced foodstuffs (5.3%), and footwear (4.6%) replaced animal and plant products.

The dynamics of Bulgarian exports to Western Europe by commodity groups remained unstable and uneven in the first three quarters of 1995. Nevertheless, certain stabilization is evident in the relative shares of most commodity groups. The share of foodstuffs and plant products continues its downward trend, while the share of chemical products is increasing. However, this did not change the arrangement of the leading commodity groups.

Unlike exports, the dynamics of Bulgarian imports from Western Europe by commodity groups in 1992-1994 was much more stable. Steady increase was registered in the share of mechanical engineering products, metals, wooden products, paper, glass, ceramic, animal and plant products, fat and oils, and steady decline - in the share of transport vehicles, footwear, fuels, and food imports. The growth in imports of textiles and textile materials, chemical products, plastic and rubber, furniture and other manufactured and consumer goods was unstable similar to the decline in imports of electrical engineering products.

As a result of the dynamics of imports by commodity groups, mechanical engineering products, textiles and textile materials, chemical products, metals, plastic and rubber, paper, animal and plant products, furniture etc. increased their relative share in total imports. The share of transport vehicles, electrical engineering products, fuels, foodstuffs and footwear declined.

Similar to exports, the relative shares of import commodity groups did not change substantially, preventing any substantial changes in their arrangement. In 1994 the share of mechanical engineering products was largest (26.1%), followed by textiles and textile materials (15.1%), chemical products (13.6%), transport vehicles (9.2%), metals (5.4%), paper products (4.9%), plastic and rubber (4.6%), products of electrical engineering and foodstuffs (3.6%) etc.

The dynamics of Bulgarian imports from Western Europe by commodity groups

became more unstable in the first three quarters of 1995 compared to the previous three years. Nevertheless, certain stabilization is evident in the relative shares of most commodity groups. Mechanical engineering products ceased to occupy the first place due to the decline in their relative share. The share of chemical products is increasing. They replace textiles and textile materials (which drop third) in the second place. The share of metals, paper products, plastic and rubber grew, while the share of transport vehicles, footwear and foods continued to decline.

Commodity structure and trade balance

The last four years witnessed the emergence of certain ratios in Bulgarian foreign trade with Western Europe by commodity groups, which strongly influence the overall balance of trade. Bulgaria is a net exporter to Western Europe of the following seven groups: animal products, plant products, leather and leather products, wooden products, footwear, glass and ceramic products, metals. The country is net importer from Western Europe of other seven commodity groups: fat and oils, chemical products, plastic and rubber, pulp and paper products, products of mechanical engineering, transport vehicles, products of electrical engineering. In the last four years Bulgaria's position as net exporter or importer was changing in four of the major commodity groups: foodstuffs, fuels, textiles and textile materials, furniture, and other manufactured and consumer goods.

The deficit in Bulgarian foreign trade with Western Europe in machinery, chemical products, and pulp and paper products is rooted in the correlation between the production and technological potential of the partners in each of these commodity groups. Thus we can expect that the import of these goods in the shorter and longer term will hardly be offset by the respective exports, so that this trade ratio will induce a negative trade balance. Therefore, commodity groups with positive trade balance for Bulgaria will be increasingly important for the steady improvement and balancing of Bulgarian foreign trade with Western Europe. In the last four years trade with metals, where exports exceed imports 3-4 times, contributed most to the improvement and balancing of Bulgarian foreign trade. Second in contribution is trade in footwear, where the export/import ratio has been improving. Third ranks trade in foodstuffs and fuels, where Bulgaria again turned net exporter to Western

Europe in 1994 and the nine-month period of 1995. Unfortunately, in four commodity groups trade ratios with Western Europe were unstable in the last four groups. These are: animal products where the balance has been steadily deteriorating; plant products where the balance deteriorated till 1994 and improved in 1995; textiles and textile materials, furniture and other manufactured and consumer goods, where the balance has been changing its sign.

The less the commodity groups with positive balance in Bulgarian foreign trade with Western Europe (even with exports largely exceeding imports), the more uncertain the balancing of overall trade. Vice versa, the more the commodity groups (even with exports moderately exceeding imports), the better the prospects for balancing overall trade. In this sense, Bulgaria should not give up using the existing production and export potential in stock-breeding, plant-growing, light and food industry.

4.3.2. Bulgarian trade with Central and East European countries

The economic reform and transition to a market economy inevitably led to the restructuring of Bulgarian foreign trade. Its rapid orientation towards Western European and non-European countries reduced the importance of Central and East European countries (CEEC) which were Bulgaria's main trade partners for years. However, CEEC (similar to Bulgaria) have overcome economic isolation and are still undergoing reorientation. Some of them like the Czech republic, Slovakia, Hungary and Poland formed their own economic grouping - the Visegrad group. Former Yugoslavia was torn by war until recently, and the trade embargo on its republics had an extremely negative impact on Bulgaria's trade with Central and Western Europe since this was the shortest and economically efficient route for transporting goods.

In 1992-1994 and the nine-month period of 1995 trade with CEEC followed the general trends of Bulgarian foreign trade: decline in the value of trade, negative trade balance etc., but with certain peculiarities.

Volume, Dynamics, Balance

In 1992 the volume of Bulgarian trade with these countries amounted to 3160 mn USD, increased by 5.7% in 1993 to reach 3350.7 mn USD, and then dropping by 3.9% on a year earlier to 3219.3 mn USD. Although the dynamics of trade volume

varies in direction, there is a gradual upward trend overall.

The analysis of nine-month data for 1995 by quarters corroborate that conclusion. The value of trade volumes by quarters is as follows: 580.8 mn USD in the first, 574.6 mn USD in the second, and 646.9 mn USD in the third. The volume of trade in the fourth quarter may be the largest.

The relative share of trade with CEEC within overall Bulgarian foreign trade gradually increased in the surveyed period. The nine-month period of 1995 (relative share 34.7%) is an exception to that, but figures rose slightly quarter on quarter. The increase was largely due to the quicker growth of imports from these countries.

In 1993 Bulgarian exports to CEEC fell 1.18 times relative to 1992 (1307.5 mn USD against 1538.2 mn USD in 1992). In 1994 they rose 1.2 times on a year earlier, reaching 1524.1 mn USD.

Preliminary data for the first three quarters of 1995 suggest we can expect a weak exports increase in 1995 as a whole compared to 1994.

Bulgarian imports from CEEC in 1993 grew 1.3 times relative to 1992 - from 1621.8 mn USD to 2043.2 mn USD. In 1994 imports declined 1.2 times on a year earlier, reaching 1695.2 mn USD.

Bulgarian imports from CEEC amounted to 292 mn USD in the first quarter of 1995, rose slightly to 298.6 mn USD in the second, and again increased to 301.4 mn USD in the third. Nine-month data for 1995 indicate that imports from CEEC will slightly fall in the year as a whole compared to 1994.

In the first three years of the surveyed period (1992-1994) Bulgarian trade balance with CEEC was negative, amounting to -83.6 mn USD in 1992, -735.7 mn USD in 1993, and -171.1 mn USD in 1994. The reversal in export/import dynamics in 1994 improved the trade balance relative to 1993. This trend was sustained in the first three quarters of 1995, generating trade surplus in the third quarter. There are excellent prospects for balancing Bulgarian trade in 1995, but fuels imports from CEEC will be of great importance.

The importance of CEEC

The surveyed period is characterized by the diminishing importance of CEEC compared to past decades when they were Bulgaria's main trade partners. In 1994,

however, the sharp decline in trade with CEEC began to dampen and the countries began to re-open their markets to each other, so that the relative share of the CEEC area amounted to 35.7% in exports and 40.3% in imports, coming close to the level of trade with Western Europe.

In the first three quarters of 1995 the relative shares of CEEC in Bulgarian exports and imports sustained almost equal levels, which will probably characterize 1995 as a whole.

Trade with Central and Eastern Europe by countries

The dynamics of trade with CEEC is unstable and uneven.

Exports to Russia, Ukraine, former Yugoslavia, Slovenia, Bosnia and Herzegovina, Croatia, Poland and Hungary declined, while exports to Lithuania, Latvia, Estonia, Byelorussia, Moldova, Georgia, Armenia and Macedonia increased. We should note the sharp growth of exports to Georgia and Armenia, indicative of still empty market niches in the region although the value of exports is too small. Exports to three of CEEC - Albania, Slovakia and the Czech republic - fell in 1993, and slightly increased in 1994.

The main feature of exports in the surveyed period is their large volume in 1993, reflecting on the imports from each of CEE countries. For most CEE countries, imports in 1993 increased, followed by a fall in 1994 on a year earlier. Imports from former Yugoslavia and Romania declined steadily. The dynamics of imports from Albania and Poland was unstable (downward in 1993 and upward in 1994). Imports from Slovakia and the Czech republic were relatively stable.

The unstable dynamics and changing volume of trade re-arranged the role and significance of separate CEE countries in Bulgarian foreign trade. The relative share of Russia and the Ukraine (the main trade partners of the country for decades) declined in 1992-1994. The shares of the other traditional CEE partners - Poland, Romania, Hungary, Slovakia and the Czech republic - also decreased, although at a slower rate. The relative share of Macedonia grew to second highest after Russia. The shares of Lithuania, Latvia, Estonia, Slovenia, Bosnia and Herzegovina, and Croatia were relatively stable, but low. Russia, the Ukraine, former Yugoslavia and Macedonia have emerged as the most important Bulgarian trade partners in the CEE area.

In the nine-month period of 1995 the relative shares of separate CEE countries sustained their 1994 levels, and no change is expected for 1995 as a whole. The lifting of the embargo may increase the relative share of former Yugoslavia in the fourth quarter of 1995.

Commodity structure of trade with CEEC

The slowdown of the economic reform, and the unsettled economic relations of Bulgaria with CEEC induced deep changes in the commodity structure of trade with this area. The dynamics of exports to CEEC was unstable (with small exceptions). A steady increase in exports characterized only few commodity groups:

- animal fat and plant oils;
- chemical products;
- timber and wooden products;
- pulp, paper, cardboard;
- precious stones and metals.

It should be noted that the growth rate of exports in only two groups (which, however, were traditional for these markets until recently) was lower in 1994 compared to 1993, while their value was lower than in 1992. They are:

- mechanical engineering products;
- transport vehicles.

The relative shares of commodity groups changed as a result of their export dynamics. The share of foodstuffs was the largest - 27.5% in 1994, increasing to 29.7% in the third quarter of 1995. These figures indicate that the group is restoring (although slowly) its key position in Bulgarian exports to CEEC. The second largest relative share in Bulgarian exports to CEEC belongs to chemical products. It peaked in 1993 over the surveyed period (19.6%). The increase in chemical exports is a good chance to win positions in CEE markets for the production of a sector which has good prospects for development in Bulgaria. The products of chemical industry steadily replace mechanical engineering exports at third place. Over the whole surveyed period the exports volume, resp. the relative share of these products, fell steadily from 18.8% in 1992 to 17.6% in 1993 and 13.2% in 1994, following a quite rapid downward trend. The export of mineral products and fuels ranks fourth in the

structure of Bulgarian trade with CEEC. Over the surveyed period quite diverse commodity groups increased their export share:

- animal fat and plant oils;
- plastic and rubber;
- timber and wooden products;
- pulp, paper and cardboard;
- footwear etc.

The relative export share of transport vehicles plunged sharply in 1992-1994. The decline may be attributed to the low competitive power of Bulgarian products on one hand, and the opening of CEE markets and their orientation to Western Europe on the other.

In the first three quarters of 1995 the dynamics of Bulgarian exports to CEEC by commodity groups was unstable and uneven. However, there is a certain stabilization of the relative shares of separate groups.

The dynamics of imports from CEEC is unstable. It is even in only four commodity groups, registering rising imports:

- animal products;
- foodstuffs;
- leather and leather products;
- footwear, headwear etc.

The import dynamics declines in another four groups:

- cement, plaster, ceramic and glass products;
- mechanical engineering products;
- optics, appliances, equipment, apparatus;
- furniture, lighting devices, toys etc.

The unstable dynamics of imports from CEEC determine the changes in relative shares by commodity groups. The large volume of imports in 1993 was mainly due to imported mineral products and fuels from the CEE area. It was these products that had the biggest share in imports over the whole surveyed period, followed by metals and metal products. It should be noted that these two commodity groups have an extremely low share in Bulgarian exports to CEEC, largely determin-

ing the negative trade balance. 1995 registered a slight increase in their relative share in imports, which is expected to exceed the 1994 level. Chemical products have the third largest share in imports. Having in mind that their exports rose at a higher rate than imports, this commodity group has potential for reducing the Bulgarian trade deficit vis-a-vis CEEC. The relative import share of mechanical engineering products and transport vehicles declined sizably. Higher relative import shares were registered in:

- animal products;
- plant products;
- foodstuffs;
- paper and cardboard;
- timber etc.

The relative shares of some commodity groups changed in the nine-month period of 1995. However, the import structure and the contribution of each group did not change considerably. No substantial alterations should be expected by the end of 1995.

□

V. FOREIGN INVESTMENT IN BULGARIA

5.1. GENERAL TRENDS IN VOLUME AND STRUCTURE

1995 saw a downward trend in foreign direct investment /FDI/ to Bulgaria. The investments made throughout 1995 amounted to 101.154 mn USD. The reduction registered totalled 132.85 mn USD and was partly compensated for by a considerable increase in both indirect investments (32 mn USD) and the so-called „other investments“ (100 mn USD); or total investment amounting to 233.154 mn USD. Plus, the investments contracted on privatization projects totalling another 50 mn USD. Thus the volume of investments to Bulgaria in 1995 had totalled almost 284 mn USD by the end of the year.

Foreign Direct Investment, 1991-1995

(as at 15 December 1995)

<i>Year</i>	<i>Number</i>	<i>Size in USD</i>	<i>Percentage of total volume</i>
<i>1991</i>	<i>33</i>	<i>14 128 702</i>	<i>2.66</i>
<i>1992</i>	<i>38</i>	<i>50 727 798</i>	<i>9.56</i>
<i>1993</i>	<i>606</i>	<i>130 357 825</i>	<i>24.58</i>
<i>1994</i>	<i>2279</i>	<i>234 003 217</i>	<i>44.12</i>
<i>1995</i>	<i>1850</i>	<i>101 153 553</i>	<i>19.07</i>
<i>Total</i>	<i>4806</i>	<i>530 371 096</i>	<i>100.00</i>

Note: Calculation on the basis of data on registered investments according to date of registration at the Ministry of Finance.

The structure of foreign investment by branches remained largely unaffected by changes in 1995. Some unfavourable trends also persisted. The size of foreign investment in telecommunications, agriculture and power generation remained negligible.

Foreign Direct Investment, by branch
(percentage of total)

(as at 15 December 1995)

<i>Branch</i>	<i>Relative share</i>
<i>Industry</i>	37.0
<i>Transportation</i>	21.0
<i>Trade</i>	19.5
<i>Construction</i>	5.5
<i>Other</i>	17.0
Total	100.0

Source: Foreign Investment Agency

The branch structure of foreign investment in Bulgaria differs considerably from that in the countries of Central and Eastern Europe. Notwithstanding the disparate branch configurations, available data reveal the following trends:

Firstly. Foreign investment share in transportation in Bulgaria is larger than that in the other countries. This is primarily owing to the strategic geographical situation of the country. Transportation proves to be one of the most attractive branches for foreign investment.

Secondly. Foreign investment share in manufacturing is smaller in comparison to all other Central and Eastern European countries. This is basically attributable to the slow pace of restructuring, privatization and the establishment of joint-ventures in the Bulgarian industry. The industrial sector is still largely intact by foreign investment.

Thirdly. Trade is still one of the major investment-attracting sectors in the structure of FDI in Bulgaria.

Throughout 1995 no significant repositioning in the structure of foreign investment inflows by country occurred. German investments accounted for 38.2% of total investment though this was a sign of the token size of other countries' investments rather than due to their substantial increase in 1995. The investment inflow from the Federal Republic of Germany almost sustained its previous year volume of about 200 mn USD.

The investment flows from Greece registered positive changes towards a considerable increase in 1995 and thus Greece emerged as the fourth largest country by total volume of investments in Bulgaria. This was mainly due to the increase of capital of already established companies with Greek participation.

On the whole, the slump in the volume of foreign direct investment was a result of the negligible number of new deals whereas new investment inflows came predominantly in the form of additional investments in previously established companies with foreign participation.

Foreign Direct Investment, by country

(as at 15 December 1995)

Country	Number	Volume in USD	Percentage of total volume
<i>Germany</i>	221	204 282 571	38.52
<i>Switzerland</i>	77	41 645 923	7.85
<i>Belgium</i>	64	40 768 143	7.69
<i>Greece</i>	781	36 543 708	6.89
<i>USA</i>	147	32 327 398	6.10
<i>The Netherlands</i>	63	31 977 526	6.03
<i>Austria</i>	159	26 009 771	4.90
<i>Great Britain</i>	97	23 224 400	4.38
<i>CIS (USSR)</i>	317	13 484 078	2.54
<i>France</i>	67	11 665 257	2.20
<i>Other</i>	2814	69 442 321	12.90
Total	4806	530 371 096	100.00

The strong concentration of invested capital in a relatively small number of companies remained dominant. As little as 70 companies had invested more than 1 mn USD each. Foreign firms registered with initial capital at the minimum required still prevail in the country. By the end of 1995, 3 543 direct investments each amounting to less than 1000 USD have been made.

The average size of FDI in Bulgaria is very small. This is attributed to both the insignificant in number large investments and the domestic investment climate in the country favouring small foreign investments. Finding unaccomplished market institutions and low efficient economic control the first foreign investments in the country

were made mostly by natural persons and small foreign trading companies. In practice they opened bank accounts in foreign currencies to pay for the import and export of consumer goods rather than invest capital in property. This trend is still persistent. The risk of small investments in trade is practically negligible. That's why, from the point of view of foreign investors, small and medium-term investments in branches profitable in the short-term are preferable in an investment-risk country like Bulgaria.

Foreign Direct Investment, by volume

(as at 15 December 1995)

Size in USD	Number in USD	Volume	Percentage of total volume
<i>0 - 1000</i>	3543	1 588 186	0.30
<i>1 000 - 10 000</i>	742	2 056 591	0.39
<i>10 000 - 100 000</i>	331	11 688 665	2.20
<i>100 000 - 1 million</i>	120	38 818 346	7.32
<i>more than 1 million</i>	70	476 219 307	89.79
Total	4806	530 371 096	100.00

5.2. FACTORS INFLUENCING FOREIGN INVESTMENT IN 1995

External factors:

- The war in former Yugoslavia sustained its negative repercussions on the estimation of investment risks in Bulgaria and at the same time discouraged both investments from overseas countries (such as USA, Canada, Japan) and large investments in high-tech and resource-intensive branches. So far the war has been a major constraint to foreign investors.

- The recovery of the developed countries from recession encouraged the export of capital investment and merchandise while competition among countries seeking to attract foreign investment was prone to intensify.

Internal factors:

On the whole, the social and economic environment in 1995 was much more favourable than in 1994, yet the level of attracted investment in 1994 was not sustained in 1995.

- Domestic political stability had a mixed effect on the attracting of foreign investment. It took a certain period of time to accomplish both the natural reshuffle of high-ranking officials and the changes in the administration structures following the transfer of executive power as well as to carry out analyses of the achievements so far and to outline the various branch-development strategies. During that time both local authorities and foreign investors embarked on a wait-and-see policy and were slow to take any decisions.

- A major problem is the availability of investment projects. Those on offer are either insufficient in number or differ from the branch orientation of demand.

- The economic stabilization of the country fell short of generating the expected foreign investors' interest as the sluggish restructuring and the destabilization of the banking system were holding back potential investors.

- The onset of voucher privatization was the key factor influencing the pace of foreign investment flows to Bulgaria. The time-consuming organization of the process, the drawing-up of the list of companies designated for mass and cash privatization as well as the uncertainties in the future of state-owned enterprises considerably deferred privatization and the conclusion of the deals in progress. This is the primary reason for the slowdown in investment-attracting.

1995 saw neither reversals in the principal factors exerting influence on investment decision-making, i.e. labour cost, costs of production and the level of skills and qualification, nor major improvements in infrastructure.

The attitude of foreign investors already operating in Bulgaria is also an important factor shaping the country's image as an investment host-country.

According to foreign investors, the most competitive advantages of Bulgaria in FDI-attracting are the availability of cheap and skilled labour force, the vast market opportunities and the competitiveness of certain industrial branches (notably mechanical engineering and metal processing, construction, textile and knitwear industry and food industry). Bearing in mind the opinion of foreign investors, the expected investments in Bulgaria may come under the following three categories:

- competition-reaction investment - when the foreign investor achieves greater competitiveness through a decrease in production costs in the investment host-

country;

- market-seeking investment;
- investment making use of the comparative technological advantages of the local economy.

Large and established investors in the industrial sector are still the most critical of the investment climate in the country whereas the attitude of small and medium-size companies investing in trade and services is definitely positive when estimating the local business environment.

Key obstacles to foreign investors

<i>Imperfection, ambiguity and instability of existing legislation</i>	39.5%
<i>Unfavourable business environment (lack of incentives for production activities, unshaped markets, weak production linkage)</i>	11.4%
<i>Clumsy bureaucracy, obstacles by state and local administration</i>	1.0%
<i>High import duties on machinery and equipment, customs import restrictions, constant changes in the customs regulations</i>	10.8%
<i>Underdeveloped financial market, backward banking system</i>	10.3%
<i>Crime and racketeering</i>	7.6%
<i>Other</i>	9.4%

According to an opinion poll among companies with foreign participation carried out in November and December 1995 by NSI and commissioned by the Foreign Investment Agency, 35.2% of them did not plan to undertake sequential investments in Bulgaria whereas 31.2% of them would not recommend their partners and affiliates to invest in the country.

The estimates of the Foreign Investment Agency show that the total value of foreign companies' investment commitments in Bulgaria in 1996 is approximately 1.2 bn USD, allocated for as follows:

- Cash privatization - 389.5 mn USD;
- Credits and portfolio investments - 370 mn USD;
- Concessions - 384 mn USD;

- Increase of capital and greenfield investments - 62 mn USD;
- Joint-ventures - 17 mn USD.

Foreign investors are primarily interested in the large chemical enterprises, coal-mining industry, gasification, telecommunications and mechanical engineering, i.e., in those branches not yet appropriated for liberalization, privatization or joint-ventures. The major problem of foreign investment attracting to Bulgaria lies in the structural discrepancy between the projects' demands of the foreign investors and the availability of attractive assets on offer by the respective government authorities. In other words, there is no supply for what is in demand.

5.3. FOREIGN INVESTMENT IN PRIVATIZATION PROGRAMMES

Foreign investments in privatization programmes in Bulgaria have amounted to 348 mn USD so far, 159 mn USD of which have been appropriated for paying the purchase price of the deal. The remaining 189 mn USD have been additional negotiated investments, and most of them had already been made. In addition, foreign investors' commitments to take responsibility for previously incurred debt obligations totalling 17.2 mn USD and 141.6 mn Leva should also be considered.

Three big privatization deals had been concluded for the first 10 months of 1995 (till 3 November) and the negotiated additional investments had totalled 48 mn USD while the debt obligations assumed had amounted to 12.9 mn USD and 33.9 mn Leva.

The greater part of the privatization deals has been contracted by the Privatization Agency, accounting for 99% of all investment in privatization programmes. The Ministry of Industry has concluded 3 privatization deals with foreign investors (1 of them in 1995).

Most importantly, privatization has played a crucial role in attracting foreign investment to Bulgaria accounting for nearly two-thirds of investment flows as at 30 October 1995. However, FDI in privatization is way below the expected in view of the availability of attractive asserts in the country. More than 330 large companies and enterprises with reasonably attractive assets are open for privatization by the Privatization Agency but most of them still await potentially interested bidders.

This fact is primarily owing to the generally low foreign interest in Bulgaria as an investment location though other factors should also be taken into consideration.

A number of uncertainties related to the mass privatization scheme have so far exercised restraining effect on investments from international companies. It is hard to expect that foreign investors would risk investing money in market privatization before both the final lists of state companies to be sold through voucher privatization and the percentage of shares available for vouchers and for cash are known.

Foreign investors committed to participate in cash privatization, immediately turn away as they understand that the companies they are interested in had been transferred to the list for mass privatization since the government institutions do not make clear to them that six months only after the public offerings close, the shares obtained could be offered freely for sale at the Stock Market by their holders. Thus, a secondary liquidity market will boost following the onset of mass privatization, allowing potential foreign investment funds to acquire stakes in the companies quoted. As it is well known, their practice is to make predominantly portfolio investments.

Certain obstacles arise from the cash privatization scheme allowing the co-existence of several vendors of state-owned companies. This stipulation additionally complicates procedures and, on the one hand, creates further confusions for the potential foreign investors and, on the other hand, raises the cost of the privatization process and hampers its co-ordination and control. The latter is due to the requirement for the establishment of special divisions within the respective Ministries and Committees even for a minimum number of sales.

At present there is no information made publicly available by the various institutions about the enterprises and companies offered for sale (except for the Privatization Agency and probably, to a certain extent, of the Sofia Municipal Privatization Agency). The lack of such a publicity can hardly give rise to an effective demand hence the unavoidable negative effect on the number of concluded deals and the level of their purchase prices.

Certain managers driven by purely personal considerations, quite frequently mislead foreign investors who owing to their lack of familiarity with the national legal

regulations and privatization procedures may contact directly the management of the company in question instead of the respective government authority. If such cases occur foreign investors customarily receive incomplete and/or false information about the state of the enterprise they are interested in buying, some of them conduct negotiations with unauthorised persons whereas others are overtly put off by the management of those companies that ultimately may force the investors to pull away. The insistence on the inclusion in the post-privatization contracts of a clause providing for the preservation of the management of the enterprise for a certain period of time after its acquisition may lead to the same negative effect.

The practice, whereat after the adoption by the National Assembly of the Privatization Programme for the respective year, additional lists of state-owned companies to be excluded from the process are tabled for approval, also affects adversely FDI attracting in privatization.

Since the privatization of large enterprises in key industries has to be sanctioned by the government in advance, the fate of those ones which have attracted the interest of strategic investors who had promptly submitted their letters of intent has to be decided upon without delay.

The Privatization Agency as the specialized government body responsible for the conduct of negotiations and the effectuating of those enterprises' contingent sale should be the first to determine the expedience of their privatization in any particular case, and to this end, it should also table a well-grounded proposal for approval by the Council of Ministers.

The process of finalizing of each particular privatization deal needs also more transparency. It is advisable, e.g., to set deadlines for each of its stages (especially when both the legal analysis and the assets' evaluation of the enterprises on offer are concerned) which are to be made known to all potential buyers. As Bulgaria faces strong competition from the other Central European countries in attracting FDI flows, each protracting of privatization procedures or non-transparent sales of companies may force those investors who have already set Bulgaria as a target in their investment programmes to reorient towards other rival countries.

Further acceleration of sales procedures for the enterprises that have at-

tracted large strategic investors of name holding a considerable share of the international market in the respective branches is of utmost importance. In addition to the undeniably favourable economic effect on the respective enterprise, this would also serve as the best advertisement of Bulgaria as an investment-conducive country before the international business circles. Each large Transnational Corporation /TNC/ entering the Bulgarian market generates more confidence and triggers the interest of other large and small companies, including that of its competitors. As a rule, such a TNC is served by a no less influential bank which, if the privatised enterprise shows enhanced market performance, may well advise its other clients to take advantage of the competitive investment-conducive environment in Bulgaria. And ultimately, in the process of realization of the contracted investment commitments the investor may resort to the services of subcontractors who in the course of the work may in their turn examine the investment opportunities in the country.

Privatization will continue to play a crucial role in FDI attracting until the private sector becomes dominant in the national economy not only as a percentage of GDP but also in the total size of fixed assets of the enterprises. That's why the future increase of the volume of all foreign investments in Bulgaria will depend on the speeding up of privatization.

5.4. FOREIGN INVESTMENT IN JOINT-VENTURES

84 joint-ventures between state-owned companies and foreign firms were formed in the period 1990 - 1995. Foreign joint-stock capital in the joint-ventures with foreign and state participation totalled 93 310 272 USD.

35 of all registered companies with foreign and state participation were registered with the minimum allowed initial capital (i.e., 50 000 Leva for a limited liability company and 1 mn Leva for a public limited company). These facts come to show that not only the number but also the volume of joint-stock capital of these companies is a major reason for concern. The capital of the joint-ventures in Bulgaria is nominal, in most of the cases no additional investments are made and their business activities are far from being monitored by the government authorities.

Joint-Ventures in Bulgaria, by year of registration

Year	Number of registered joint-ventures
<i>Before 1991</i>	17
1991	13
1992	20
1993	15
1994	16
1995	3
Total:	84

Source: Foreign Investment Agency

Foreign participation in joint-ventures is distributed by country as follows:

1. *Russia* - 12 joint-ventures;
2. *Greece* - 7 joint-ventures;
3. *Germany* - 5 joint-ventures;
4. *Austria* - 5 joint-ventures;
5. *Great Britain* - 5 joint-ventures;
6. *Switzerland* - 3 joint-ventures;
7. *The Netherlands* - 3 joint-ventures.

Registered joint-ventures by foreign companies are two each from France, Italy, USA, Turkey and the Ukraine and one each by companies from the Czech Republic, Poland, Finland, Wales, Canada, Belgium, Australia, etc.

The following joint-ventures were registered in 1995:

■ **In the Ministry of Agriculture and Food Industry** - two joint-ventures:

- „*Vinamor*“ *Ltd.* and
- „*Marlin-Varna*“ *Ltd.*

with total initial capital of 275 052 USD.

■ **The Ministry of Industry** registered the increase of capital of the following 4 joint-ventures:

- „*Aculab*“ *Plc.*, with foreign stake amounting to 599 909 USD;
- „*Digicom*“ *Ltd.*, with foreign stake amounting to 11 229 458 USD;
- „*Delvi-P*“ *Plc.*, with foreign stake amounting to 1 133 834 USD and

- „Vinocap“ Ltd., with foreign stake amounting to 101 325 USD.

■ **In the Committee on Energy:**

- „Triada“ Plc, with joint-stock capital amounting to 75 758 USD.

In certain branches (like agriculture and power generation) the prevailing trend is to establish joint-ventures with minority foreign participation. This practice may be a matter of policy considerations of the respective Ministries albeit one of the most serious reasons for the small number of joint-ventures with state and foreign participation. As a rule, foreign investors in Bulgaria seek to gain overall control of the enterprise that can be secured by the acquisition of the major stake in it. That kind of policy is largely determined by both the unstable economic situation in the country and the frequent staff changes in the management of the enterprises.

Registered Joint-Ventures, by registering state institution

<i>State institution</i>	<i>Number</i>	<i>Average foreign investor's participation (percentage)</i>	<i>Total size of foreign stake (USD)</i>
<i>Committee on Energy</i>	7	1.4	504 248
<i>Post and Telecommunications Committee</i>	4	50.9	131 976
<i>Committee for Tourism</i>	14	62.2	1 334 233
<i>Ministry of Transportation</i>	17	76.5	24 996 016
<i>Ministry of Industry</i>	28	61.0	60 541 102
<i>Ministry of Agriculture and Food Industry</i>	14	49.4	5 802 697
<i>Total:</i>	84	-	93 310 272

Source: Foreign Investment Agency

The overwhelming majority of joint-ventures in the **Ministry of Industry** were set up in knitwear industry, mechanical engineering and coal and ore-mining. Stakes amounting to less than 500 000 USD each are prevailing. Most of the registered joint-

ventures in the industrial sector are with majority foreign participation. Only 4 joint-ventures registered an increase of capital in 1995.

No joint-ventures have been registered so far in the **Ministry of Trade and Foreign Economic Co-operation** primarily owing to the fact that foreign investors consider privatization in the branch as more advantageous. Moreover, the capital assets of trading companies are normally smaller thus enabling each newly privatized firm to start operating with less invested capital.

The leading foreign investors to participate in joint-ventures are the following:

1. *Navan Resources (The Netherlands)*, with 22 666 666 USD participation in „Bimac“ Plc joint-venture;

2. *UFII (Switzerland)*, with 17 760 607 USD participation in „Incoms Electronica-UFII“ Ltd. joint-venture;

3. *SIEMENS (Germany)*, with 14 972 610 USD participation in „Digicom“ Ltd. joint-venture;

4. *INTERLICHTER (Hungary, Russia and the Slovak Republic)*, with 12 262 355 USD participation in a joint-venture with „Bulgarian River Navigation“ Plc.

In comparison with the other Central and Eastern European countries, it appears that joint-ventures are not a prevalent channel for foreign investment flows to Bulgaria. Thus, for example, more than 21 000 joint-ventures operate in Hungary, almost 6 000 in the Czech Republic, etc.

The establishment of joint-ventures with local companies remains the form most foreign investors favour for initial investment in a country largely unknown in the investment community. In exceptional cases only, a foreign investor is willing to buy a given enterprise before he had established business connections with it, provided, he is familiar with the nature of production and the company's performance potential.

Joint-ventures are seen as a principal form for FDI-attracting and a major step towards privatization in the countries of Central and Eastern Europe. The fact that joint-ventures allow the preservation of state participation for a relatively long period of time is seen as their principal advantage for a host-country in transition.

Throughout that period of preservation the enterprise will keep on operating and stabilizing, gradually enhancing its performance and competitiveness and ultimately, it will easier attract potential buyers. However, the lack of transparency in the establishment of joint-ventures and the absence of competition may lead to serious doubts in the effectiveness of that form of FDI inflows.

The reasons determining the inefficient and slow process of setting-up joint-ventures are the following:

Firstly. The procedures for the establishment of joint-ventures are lengthy and unclear. As a result negotiations drag on, lucrative offers are not taken into consideration, registered joint-ventures close down. Consequently, foreign investors start viewing that form of investment as a less attractive, leading to a decline in the total volume of FDI inflows. Hence, it can be asserted that the total foreign investment inflow in the country is small primarily due to the insignificant number and capital of joint-ventures. In that relation, the need for a new general regulatory framework setting out the process of the establishment of joint-ventures is imperative. An investment-generating procedure should guarantee competition and the consideration of more than one offer upon the establishment of joint-ventures, it should also provide for the various Ministries and Committees not to seize the prerogatives of the companies' management during the conduct of negotiations as well as set fixed deadlines for all offers to be considered.

Secondly. Legislation imposing import duties and taxes on non-cash contributions is currently abolished in all Central and Eastern European countries but Bulgaria. These legal barriers render the country a less competitive location for long-term investment in manufacturing. Since non-cash contributions are not exempt from duty, foreign investors and their local partners have no incentives to import machines and transfer production technologies to their joint-ventures thus narrowing the prospects for technological restructuring and additional investment in the joint-ventures. Consequently, the new foreign investors in the country lose their interest in manufacturing wherein investment would both open many new jobs and increase local production capabilities, and turn to trading companies where the investment opportunities are much more favourable.

Rough estimates show that purchased machinery and equipment account for up to 52% of the non-cash contributions of foreign legal persons in joint-ventures with state participation. Budget revenues do not justify the implementation of such a policy since it affects adversely the attraction of real foreign investment flows to the Bulgarian enterprises and deprives the budget of profits tax and other tax-revenues considerably exceeding revenues from duties. That is to say, that even from a point of view of fiscal policy, the existence of such legal barriers is indefensible.

Thirdly. According to information provided by foreign investors, certain Ministries impose restrictions on the share-size of foreign participation in a joint-venture, alleging that the foreign partner would acquire a majority-ownership in a strategic production enterprise, a presumption that hardly corresponds to realities.

Fourthly. According to information provided by foreign investors, there are too many instances when the executive managers of Bulgarian state-owned enterprises unreasonably turn down economic projects apparently beneficial to their respective companies due to their apprehension that the foreign partner would spoil the firm's privatization along the „Debt equity swap“ scheme.

Fifthly. The institutional framework regulating the joint-ventures with state-owned enterprises, for the establishment of which a special sanction by the Council of Ministers is required, represents another major problem. The lack of a single body authorized to conduct negotiations and take decisions on each project seriously curtails the opportunities for the setting-up of joint-ventures in the most attractive and key enterprises. It is necessary, the Council of Ministers to create or authorize a special body within its administration to carry out these activities. Thus, the accomplishment of some priority projects generating large volumes of investment in the state-owned companies normally supervised by the Council of Ministers will receive further impetus.

5.5. INVESTMENT IN THE BANKING AND FINANCIAL SPHERES

1995 saw an upward trend in foreign direct investment in the banking and financial sectors. New banks and bank branches with foreign participation were established and started operating.

Large foreign participation is registered in the following commercial banks: the Bulgarian-Russian Investment Bank (foreign participation registered as a complete investment package amounting to 9.3 mn USD), the Sofia branch of Raiffeisen Zentralbank (9.08 mn USD), the joint-stock capital of Banque Nationale de Paris / BNP/ and Drezdner Bank in their mutually shared branch in Sofia (7.5 mn USD); the local branch of the Ionian Bank (3.0 mn USD) etc.

The remaining investment in the sphere comprises founders' blocks of stocks and shares in investment funds and in financial and broking houses as well as shares owned by foreign citizens.

Foreign direct investment in the sector is distributed in 11 banks and bank branches altogether.

The major part, that is, 67.2% of all foreign investment in the banking sphere were realized in 1995; 29.68% - in 1994 and the remaining 3.29% - in 1993.

Most foreign banks functioning in Sofia do not intend to directly participate in privatization schemes or investment projects other than bank-associated ones. They are neither willing to offer the complete range of banking services to their clients nor to set up a network of branch offices in the country and attract deposits from companies and citizens. Their efforts are directed at facilitating predominantly their foreign clients in the contacts with local companies as well as at financing export operations to Bulgaria and some individual investments in the local economy.

Individual banks take advantage of the existing differential between interest rates on deposits in foreign currency in Bulgaria and in other countries. Under the insufficient control over their business activities and with an accurately weighted risk those banks achieve profitability way above the average of their central offices.

Along with foreign and joint-stock banks and foreign banks' branches, several foreign investment funds as the Bulgarian-American Investment Fund /BAIF/, CARESBAC and EUROMERCHANT BALKAN FUND operate in Bulgaria.

The largest both in volume and diversity of investment and credit activities is BAIF. 20 mn USD of investments have been approved since the registration of the fund and 7 mn USD out of them had already been put into projects in over 400 individual companies. The sum had been allocated as follows: 2.8 mn USD invested

in the acquisition of shares and stakes in local companies and the remaining 4.2 mn USD granted as credits.

CARESBAC invests mostly in small and medium-size firms producing and/or processing agricultural goods.

In view of the fact that EUROMERCHANT BALKAN FUND was incorporated a year ago, the best part of 1995 passed in solving its organisational matters. Nonetheless, the fund is prepared to invest in the beginning of 1996 about 3 mn USD in the banking sphere and in new projects in manufacturing.

□

SUPPLEMENT

RELATIVE SHARE OF WESTERN EUROPE IN TOTAL BULGARIAN EXPORT BY COMMODITY DIVISION

(%)

	1992	1993	1994	1st qt 1995	2nd qt 1995	3rd qt 1995
Meat and meat preparations	27.0	44,9	40,3	54,5	57,9	38,0
Vegetables and vegetable preparations	41.2	44,3	36,0	30,3	19,4	28,6
Animal and vegetable oils and fats	20.4	10.4	14.7	5.2	6.4	27.6
Food, beverages and tobacco	17.9	17.1	14.5	17.9	13.4	12.6
Mineral fuels	27.7	23.5	24.0	6.7	14.7	19.0
Chemicals	30.5	24.8	33.2	34.8	37.9	33.7
Plastics, rubber and manufactures thereof	33.8	29.9	34.4	36.9	35.9	34.7
Leather and leather manufactures	39.3	55.4	69.8	87.0	82.4	68.3
Timber and woodwork	46.5	20.7	51.9	60.9	58.6	62.8
Pulp, paper and paperboard	46.0	37.5	34.5	36.8	38.7	29.0
Textile fibres and manufactures thereof	60.6	62.6	64.1	66.7	65.2	68.4
Footwaear, hats, etc.	72.0	82.2	75.7	82.4	67.8	85.2
Manufactures of plaster, cement, glass-and chinaware	43.8	52.8	49.7	61.5	62.8	55.4
Precious stones and metals	98.7	95.3	95.0	97.9	99.4	98.8
Base metals and manufactures thereof	42.2	27.9	42.8	47.3	53.3	51.3
General industrial machinery and equipment , and machine parts	21.3	25.7	32.7	39.8	41.4	38.5
Vehicles	14.4	15.9	13.2	13.5	34.6	13.8
Optical machinery, apparatus and appliances	31.3	32.3	37.1	47.9	57.1	51.4
Arms and ammunitions	2.3	4.8	0.0	8.1	66.7	25.0
Furniture, lighting fixtures, toys, etc.	51.7	52.3	46.8	55.4	64.4	70.3
Works of art	69.3	83.3	66.7	89.8	41.7	30.0

Source: NSI

table 1

RELATIVE SHARE OF WESTERN EUROPE IN TOTAL BULGARIAN IMPORT BY COMMODITY DIVISION

(%)

	1992	1993	1994	1st qt 1995	2nd qt 1995	3rd qt 1995
Meat and meat preparations	60.8	53.1	41.9	62.4	47.7	45.1
Vegetables and vegetable preparations	21.3	27.0	32.3	43.2	32.2	31.1
Animal and vegetable oils and fats	69.3	48.4	63.0	82.9	69.2	70.7
Food, beverages and tobacco	36.8	32.1	23.2	25.0	23.3	41.0
Mineral fuels	13.6	8.6	2.7	2.7	3.5	4.2
Chemicals	60.3	49.6	64.0	67.9	61.8	67.1
Plastics, rubber and manufactures thereof	49.9	60.5	57.2	51.8	56.6	58.5
Leather and leather manufactures	54.8	50.2	51.0	36.6	55.1	52.6
Timber and woodwork	23.1	21.8	28.8	37.8	47.7	36.2
Pulp, paper and paperboard	64.0	60.5	67.2	67.5	55.3	65.9
Textile fibres and manufactures thereof	68.6	64.6	74.7	79.1	74.9	73.7
Footwear, hats, etc.	86.1	76.1	78.2	86.3	81.6	84.6
Manufactures of plaster, cement, glass-and chinaware	55.6	57.8	65.0	57.0	62.6	59.8
Precious stones and metals	80.8	99.7	82.9	53.6	78.0	48.9
Base metals and manufactures thereof	23.1	20.4	31.6	34.6	30.8	31.3
General industrial machinery and equipment , and machine parts	56.2	59.0	69.9	64.4	65.1	63.7
Vehicles	54.4	52.3	61.7	69.8	64.6	59.4
Optical machinery, apparatus and appliances	77.4	71.3	76.3	79.9	79.8	78.0
Arms and ammunitions	1.4	69.6	55.6	37.1	10.0	30.0
Furniture, lighting fixtures, toys, etc.	67.4	74.3	74.8	75.6	65.8	69.1
Works of art	35.5	50.0	0.0	0.0	100.0	0.0

Source: NSI

table 2

**RELATIVE SHARE OF WEST EUROPEAN COUNTRIES
IN BULGARIAN EXPORT**

(%)

	1991	1992	1993	1994	1st qt 1995	2nd qt 1995	3rd qt 1995
Germany	4.8	7.6	6.6	8.5	8.3	7.6	9.7
Italy	2.7	5.8	5.9	7.3	8.2	9.7	7.0
Greece	2.2	4.6	6.2	7.4	6.7	7.9	6.4
Great Britain	1.9	3.1	3.1	2.6	2.5	2.5	2.6
France	1.4	2.6	2.6	2.6	3.0	2.3	2.7
Belgium	0.9	3.0	1.2	2.0	1.8	1.0	1.0
Netherlands	0.9	1.6	1.5	2.2	1.9	1.8	2.3
Spain	0.5	0.6	0.5	0.9	2.7	2.1	1.7
Denmark	0.2	0.4	0.3	0.3	0.2	0.3	0.4
Portugal	0.1	0.1	0.3	0.1	0.2	0.0	0.1
Ireland	0.0	0.0	0.0	0.0	0.1	0.0	0.0
Luxemburg	0.0	0.0	0.1	0.1	0.0	0.0	0.0
Austria	1.0	1.2	1.1	1.3	0.9	0.7	0.8
Switzerland	1.6	1.5	1.1	0.5	0.4	0.7	1.1
Sweden	0.5	0.4	0.4	0.4	0.3	0.2	0.6
Finland	0.3	0.4	0.2	0.3	0.2	0.1	0.2
Norway	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Iceland	0.0	0.0	-	0.0	-	0.0	0.0
Liechtenstein	0.0	0.0	0.1	0.0	0.2	0.8	1.3

Source: NSI

table 3

RELATIVE SHARE OF WEST EUROPEAN COUNTRIES IN BULGARIAN IMPORT

(%)

	1991	1992	1993	1994	1st qt 1995	2nd qt 1995	3rd qt 1995
Germany	7.0	12.0	10.9	13.2	14.2	12.3	14.4
Italy	4.2	4.9	4.3	5.6	6.6	6.0	6.5
Greece	0.9	5.6	3.3	5.0	5.6	5.9	6.0
Great Britain	3.6	2.5	5.5	2.8	2.6	2.4	2.6
France	2.1	2.4	2.3	2.8	3.4	2.9	3.5
Belgium	0.9	1.1	0.9	1.2	1.3	1.2	1.6
Netherlands	1.1	1.6	1.6	2.0	2.1	2.4	2.6
Spain	0.5	0.4	0.3	0.6	0.6	0.6	0.6
Denmark	0.3	0.5	0.5	0.6	0.5	0.6	0.6
Portugal	0.2	0.1	0.1	0.1	0.1	0.2	0.1
Ireland	0.0	0.1	0.1	0.1	0.0	0.1	0.1
Luxemburg	0.0	0.0	0.1	0.1	0.0	0.0	0.0
Austria	4.7	3.1	2.5	3.0	3.1	3.2	3.7
Switzerland	2.1	1.4	4.4	1.4	2.3	1.6	1.8
Sweden	0.5	1.0	0.7	0.7	1.4	0.7	1.1
Finland	0.5	0.4	0.5	1.1	1.1	1.2	1.1
Norway	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Iceland	0.0	0.0	0.0	0.0	0.0	-	0.0
Liechtenstein	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: NSI

table 4

DYNAMICS OF BULGARIA'S FOREIGN TRADE WITH WESTERN EUROPE BY COMMODITY DIVISION

(volume indices in US\$, 1992 = 100)

	EXPORT			IMPORT		
	1992	1993	1994	1992	1993	1994
Продукти от животински произход	100	90	93	100	252	245
Продукти от растителен произход	100	51	72	100	183	262
Животински и растителни мазнини и масла	100	110	110	100	147	187
Хранително-вкусови стоки	100	89	85	100	88	58
Минерални продукти, горива	100	99	104	100	68	15
Химически продукти	100	92	134	100	99	105
Пластмаси, каучук, изделия от тях	100	85	114	100	142	127
Кожи и кожени изделия	100	139	157	100	111	133
Дървен материал, изделия от дърво	100	62	145	100	163	194
Целулоза, хартия, картон	100	75	117	100	104	132
Текстилни материали, изделия от тях	100	102	120	100	92	124
Обувки, шапки и др.	100	122	126	100	63	60
Изделия от цимент, гипс, керамика, стъкло	100	99	112	100	132	167
Скъпоценни камъни, благородни метали	100	118	89	100	5882	59
Неблагородни метали, изделия от тях	100	74	136	100	101	154
Машиностроителна продукция	100	102	125	100	104	129
Транспортни средства	100	71	59	100	99	82
Оптика, прибори, инструменти, апарати	100	98	144	100	113	95
Оръжия, муниции	100	17	0	100	533	333
Мебели, осветителни тела, играчки и др.	100	89	106	100	159	135
Произведения на изкуството	100	375	50	100	100	0

Source: NSI

table 5

RELATIVE SHARE OF COMMODITY DIVISIONS IN BULGARIAN EXPORT TO WESTERN EUROPE

(%)

	1992	1993	1994	1st qt 1995	2nd qt 1995	3rd qt 1995
Meat and meat preparations	5.0	5.1	4.0	1.8	4.5	2.1
Vegetables and vegetable preparations	7.1	4.1	4.4	2.6	2.3	5.8
Animal and vegetable oils and fats	0.2	0.3	0.2	0.3	0.1	0.2
Food, beverages and tobacco	7.2	7.2	5.3	4.7	3.7	4.8
Mineral fuels	7.1	7.9	6.4	1.4	3.3	4.5
Chemicals	10.2	10.6	11.8	15.7	16.6	11.5
Plastics, rubber and manufactures thereof	3.6	3.4	3.5	5.3	4.1	3.1
Leather and leather manufactures	1.2	2.0	1.7	1.8	1.6	1.5
Timber and woodwork	2.1	1.5	2.6	2.2	2.3	2.7
Pulp, paper and paperboard	1.7	1.4	1.7	1.8	2.5	1.7
Textile fibres and manufactures thereof	14.5	16.7	15.0	16.2	13.8	17.7
Footwaeear, hats, etc.	4.2	5.7	4.6	3.9	2.4	5.5
Manufactures of plaster, cement, glass-and chinaware	2.1	2.3	2.1	2.6	2.9	2.7
Precious stones and metals	1.3	1.7	1.0	0.1	0.6	0.5
Base metals and manufactures thereof	19.6	16.4	23.1	26.5	25.6	20.7
General industrial machinery and equipment , and machine parts	8.6	9.8	9.3	9.3	10.2	10.4
Vehicles	1.6	1.3	0.8	1.2	0.8	1.1
Optical machinery, apparatus and appliances	0.3	0.4	0.4	0.7	0.5	0.5
Arms and ammunitions	0.0	0.0	0.0	0.0	0.0	0.0
Furniture, lighting fixtures, toys, etc.	2.1	2.1	1.9	1.7	2.5	2.9
Works of art	0.0	0.1	0.0	0.0	0.0	0.0

Source: NSI

table 6

RELATIVE SHARE OF COMMODITY DIVISIONS IN BULGARIA'S IMPORTS FROM WESTERN EUROPE

(%)

	1992	1993	1994	1st qt 1995	2nd qt 1995	3rd qt 1995
Meat and meat preparations	0.6	1.4	1.6	1.8	1.3	1.1
Vegetables and vegetable preparations	0.8	1.3	2.2	2.3	1.4	1.0
Animal and vegetable oils and fats	0.4	0.5	0.8	0.8	0.8	0.8
Food, beverages and tobacco	6.3	4.8	3.6	2.6	2.7	3.9
Mineral fuels	14.5	8.5	2.2	1.3	1.9	2.0
Chemicals	12.9	11.0	13.6	16.6	15.0	15.8
Plastics, rubber and manufactures thereof	3.6	4.5	4.6	5.0	5.8	6.4
Leather and leather manufactures	0.8	0.8	1.1	0.7	1.2	1.1
Timber and woodwork	0.2	0.3	0.4	0.4	0.6	0.6
Pulp, paper and paperboard	3.7	3.3	4.9	5.2	6.3	7.3
Textile fibres and manufactures thereof	12.1	9.6	15.1	16.1	17.1	15.4
Footwear, hats, etc.	2.9	1.6	1.7	2.2	1.9	1.8
Manufactures of plaster, cement, glass-and chinaware	1.0	1.2	1.7	1.4	2.5	1.8
Precious stones and metals	0.3	15.0	0.2	0.0	0.1	0.0
Base metals and manufactures thereof	3.5	3.0	5.4	5.2	6.1	6.6
General industrial machinery and equipment , and machine parts	20.0	18.0	26.1	21.9	22.4	22.7
Vehicles	11.2	9.6	9.2	10.9	6.2	6.2
Optical machinery, apparatus and appliances	3.8	3.7	3.6	3.7	4.4	3.6
Arms and ammunitions	0.0	0.1	0.1	0.0	0.1	0.0
Furniture, lighting fixtures, toys, etc	1.3	1.8	1.8	1.7	2.3	2.0
Works of art	0.0	0.0	0.0	0.0	0.0	0.0

Source: NSI

table 7

EXPORT/IMPORT RATIO IN BULGARIA'S TRADE WITH WESTERN EUROPE BY COMMODITY DIVISION

(%)

	1992	1993	1994	1st qt 1995	2nd qt 1995	3rd qt 1995
Meat and meat preparations	6.08	2.18	2.31	0.88	3.76	1.93
Vegetables and vegetable preparations	6.67	1.88	1.82	1.00	1.70	5.92
Animal and vegetable oils and fats	0.43	0.32	0.25	0.31	0.11	0.28
Food, beverages and tobacco	0.90	0.91	1.33	1.58	1.42	1.24
Mineral fuels	0.39	0.56	2.66	0.94	1.82	2.30
Chemicals	0.62	0.58	0.80	0.83	1.17	0.74
Plastics, rubber and manufactures thereof	0.77	0.46	0.69	0.94	0.74	0.49
Leather and leather manufactures	0.8	0.8	1.1	0.7	1.2	1.1
Timber and woodwork	7.69	2.95	5.75	5.00	3.71	4.90
Pulp, paper and paperboard	0.36	0.26	0.32	0.29	0.41	0.23
Textile fibres and manufactures thereof	12.1	9.6	15.1	16.1	17.1	15.4
Footwear, hats, etc.	1.14	2.21	2.38	1.54	1.32	3.15
Manufactures of plaster, cement, glass-and chinaware	1.63	1.22	1.10	1.57	1.20	1.54
Precious stones and metals	3.49	0.07	5.28	—	6.33	20.00
Base metals and manufactures thereof	4.39	2.27	3.89	4.45	4.37	3.19
General industrial machinery and equipment , and machine parts	0.33	0.33	0.32	0.37	0.48	0.46
Vehicles	0.11	0.08	0.08	0.09	0.13	0.17
Optical machinery, apparatus and appliances	0.07	0.06	0.10	0.17	0.11	0.13
Arms and ammunitions	2.00	0.1	0.0	0.00	0.00	1.00
Furniture, lighting fixtures, toys, etc.	1.21	0.68	0.95	0.90	1.13	1.43
Works of art	4.00	15.00	—	—	—	—

Source: NSI

table 8

DYNAMICS OF BULGARIA'S TRADE WITH CEEC BY COMMODITY DIVISION

(volume indices in US\$, 1992 = 100)

	EXPORT		IMPORT	
	1993	1994	1993	1994
Meat and meat preparations	26.0	53.9	255.7	498.4
Vegetables and vegetable preparations	47.8	131.6	91.6	336.8
Animal and vegetable oils and fats	311.6	344.2	77.8	159.3
Food, beverages and tobacco	93.4	116.1	116.7	134.7
Mineral fuels	56.8	92.0	134.9	112.4
Chemicals	197.9	156.6	198.5	96.9
Plastics, rubber and manufactures thereof	81.5	111.5	91.1	95.2
Leather and leather manufactures	77.2	41.9	102.5	152.5
Timber and woodwork	182.3	250.0	180.8	141.3
Pulp, paper and paperboard	117.6	257.6	128.6	115.5
Textile fibres and manufactures thereof	82.1	81.2	120.1	113.4
Footwear, hats, etc.	60.6	104.5	126.1	152.2
Manufactures of plaster, cement, glass-and chinaware	56.2	88.1	96.4	86.6
Precious stones and metals	200.0	700.0	66.7	66.7
Base metals and manufactures thereof	72.5	78.6	121.0	101.2
General industrial machinery and equipment , and machine parts	80.7	69.8	100.1	58.8
Vehicles	55.0	33.3	108.2	65.4
Optical machinery, apparatus and appliances	73.2	137.5	72.7	37.9
Arms and ammunitions	19.7	0.0	3.2	3.2
Furniture, lighting fixtures, toys, etc.	97.8	148.9	90.6	56.3
Works of art	0.0	0.0	0.0	0.0

Source: NSI

table 9

RELATIVE SHARE OF CEEC IN BULGARIA'S FOREIGN TRADE

(%)

COUNTRY	EXPORT			IMPORT		
	1992	1993	1994	1992	1993	1994
Russia	17.1	13.6	7.9	22.8	27.6	21.5
Ukraine	3.7	3.2	3.0	4.9	5.5	4.1
Lithuania, Latvia, Estonia	0.1	0.2	0.3	0.1	0.3	0.2
Belarus, Republic of Moldova	0.7	0.9	0.9	0.6	0.6	0.7
Georgia, Armenia	0.0	0.3	0.2	0.0	0.1	0.1
FYR	4.4	3.5	3.3	1.3	0.1	0.0
The FYR of Macedonia	4.0	6.3	9.3	0.8	1.7	3.0
Slovenia, Bosna and Herzegovina, Croatia	1.9	0.8	1.1	0.2	0.3	0.3
Albania	1.3	1.0	1.4	0.1	0.0	0.0
Poland	0.8	0.7	0.4	0.7	0.6	1.2
Romania	2.8	2.4	1.5	2.4	2.3	1.9
Hungary	0.7	0.6	0.5	0.6	0.4	0.7
Czech Republic, Slovakia	0.8	0.6	0.7	1.6	1.3	1.9
Total	39.2	35.1	35.7	36.3	42.9	40.3

Source: NSI

table 10

RELATIVE SHARE OF CEEC IN BULGARIA'S FOREIGN TRADE

(%)

COUNTRY	EXPORT			IMPORT		
	1st qt	2nd qt	3rd qt	1st qt	2nd qt	3rd qt
Russia	7.8	9.1	11.2	23.5	23.7	21.6
Ukraine	3.3	3.0	4.5	2.4	3.4	3.7
Lithuania, Latvia, Estonia	0.4	0.3	0.3	0.2	0.1	0.3
Belarus, Republic of Moldova	0.9	0.8	1.6	0.7	0.7	0.7
Georgia, Armenia	0.1	0.5	1.3	0.3	0.2	0.3
FYR	1.9	1.2	1.4	0.0	0.0	0.0
The FYR of Macedonia	9.1	9.0	9.0	3.2	4.2	5.0
Slovenia, Bosna and Herzegovina, Croatia	1.6	0.5	0.3	0.2	0.3	0.4
Albania	1.7	1.3	1.0	0.0	0.0	0.0
Poland	0.4	0.4	0.4	0.5	0.7	0.6
Romania	1.8	2.1	2.0	1.4	1.0	1.3
Hungary	0.5	0.4	0.4	0.7	0.9	1.2
Czech Republic, Slovakia	0.6	0.5	0.5	1.8	1.7	1.9
Total	31.6	30.1	35.0	35.5	37.9	37.8

Source: NSI

table 11

DYNAMICS OF BULGARIA'S TRADE WITH CEEC BY COMMODITY DIVISION

(volume indices in US\$, 1992 = 100)

	EXPORT		IMPORT	
	1993	1994	1993	1994
Meat and meat preparations	26.0	53.9	255.7	498.4
Vegetables and vegetable preparations	47.8	131.6	91.6	336.8
Animal and vegetable oils and fats	311.6	344.2	77.8	159.3
Food, beverages and tobacco	93.4	116.1	116.7	134.7
Mineral fuels	56.8	92.0	134.9	112.4
Chemicals	197.9	156.6	198.5	96.9
Plastics, rubber and manufactures thereof	81.5	111.5	91.1	95.2
Leather and leather manufactures	77.2	41.9	102.5	152.5
Timber and woodwork	182.3	250.0	180.8	141.3
Pulp, paper and paperboard	117.6	257.6	128.6	115.5
Textile fibres and manufactures thereof	82.1	81.2	120.1	113.4
Footwaear, hats, etc.	60.6	104.5	126.1	152.2
Manufactures of plaster, cement, glass-and chinaware	56.2	88.1	96.4	86.6
Precious stones and metals	200.0	700.0	66.7	66.7
Base metals and manufactures thereof	72.5	78.6	121.0	101.2
General industrial machinery and equipment , and machine parts	80.7	69.8	100.1	58.8
Vehicles	55.0	33.3	108.2	65.4
Optical machinery, apparatus and appliances	73.2	137.5	72.7	37.9
Arms and ammunitions	19.7	0.0	3.2	3.2
Furniture, lighting fixtures, toys, etc.	97.8	148.9	90.6	56.3
Works of art	0.0	0.0	0.0	0.0

Source: NSI

table 12

RELATIVE SHARE OF COMMODITY DIVISIONS IN BULGARIA'S TRADE WITH CEEC

(%)

	EXPORT			IMPORT		
	1992	1993	1994	1992	1993	1994
Meat and meat preparations	3.5	1.1	1.9	0.4	0.7	1.8
Vegetables and vegetable preparations	5.1	2.8	6.8	0.6	0.4	1.9
Animal and vegetable oils and fats	0.3	1.0	1.0	0.2	0.1	0.3
Food, beverages and tobacco	23.5	25.4	27.5	1.5	1.4	1.9
Mineral fuels	12.1	8.0	11.2	55.8	58.5	59.9
Chemicals	8.5	19.6	13.5	5.5	8.5	5.1
Plastics, rubber and manufactures thereof	4.0	3.8	4.5	3.1	2.2	2.8
Leather and leather manufactures	0.9	0.8	0.4	0.2	0.2	0.3
Timber and woodwork	0.4	0.8	1.0	0.6	0.9	0.9
Pulp, paper and paperboard	1.1	1.5	2.8	1.8	1.8	1.9
Textile fibres and manufactures thereof	4.3	4.1	3.6	2.8	2.6	3.1
Footwear, hats, etc.	1.3	0.9	1.4	0.1	0.1	0.2
Manufactures of plaster, cement, glass-and chinaware	1.7	1.1	1.5	0.7	0.5	0.6
Precious stones and metals	0.0	0.0	0.0	0.0	0.0	0.0
Base metals and manufactures thereof	7.1	5.9	5.6	11.0	10.4	10.7
General industrial machinery and equipment , and machine parts	18.8	17.5	13.2	7.5	5.9	4.2
Vehicles	5.4	3.5	1.8	6.0	5.1	3.8
Optical machinery, apparatus and appliances	0.4	0.3	0.5	0.4	0.2	0.1
Arms and ammunitio	0.5	0.1	0.0	1.2	0.0	0.0
Furniture, lighting fixtures, toys, etc.	1.2	1.4	1.8	0.4	0.3	0.2
Works of art	0.0	0.0	0.0	0.0	0.0	0.0

Source: NSI

table 13

RELATIVE SHARE OF COMMODITY DIVISIONS IN BULGARIA'S TRADE WITH CEEC

(%)

	EXPORT 1995			IMPORT 1995		
	1st qt	2nd qt	3rd qt	1st qt	2nd qt	3rd qt
Meat and meat preparations	1.1	1.7	1.2	1.3	1.3	1,3
Vegetables and vegetable preparations	5.3	4.6	3.6	0.6	0.5	0,5
Animal and vegetable oils and fats	2.7	1.1	0.4	0.1	0.1	0.0
Food, beverages and tobacco	20.0	25.6	29.7	2.1	1.0	1.4
Mineral fuels	15.0	12.6	14.9	55.7	50.7	48.0
Chemicals	15.2	15.2	13.9	6.8	7.0	6.6
Plastics, rubber and manufactures thereof	7.0	6.9	5.3	4.7	4.1	4.7
Leather and leather manufactures	0.2	0.1	0.1	0.6	0.7	0.3
Timber and woodwork	0.7	1.1	0.9	0.6	0.7	1.1
Pulp, paper and paperboard	0.9	4.3	3.2	2.8	5.2	4.3
Textile fibres and manufactures thereof	3.4	3.9	3.4	3.8	4.3	4.0
Footwaeear, hats, etc.	0.9	1.3	1.0	0.1	0.1	0.0
Manufactures of plaster, cement, glass-and chinaware	1.2	1.6	1.9	1.0	1.2	1.2
Precious stones and metals	0.0	0.0	0.0	0.0	0.0	0.0
Base metals and manufactures thereof	9.2	6.2	6.5	11.2	14.1	16.4
General industrial machinery and equipment , and machine parts	12.2	10.5	11.2	5.8	5.7	6.3
Vehicles	2.8	1.6	1.6	2.1	1.9	2.8
Optical machinery, apparatus and appliances	0.8	0.4	0.3	0.3	0.1	0.5
Arms and ammunitions	0.0	0.0	0.0	0.0	0.6	0.0
Furniture, lighting fixtures, toys, etc.	1.3	1.3	1.0	0.3	0.8	0.7
Works of art	0.0	0.0	0.0	0.0	0.0	0.0

Source: NSI

table 14

MACROECONOMIC SUMMARY TABLE

	UNITS	1996	1997	1998
GROWTH AND INFLATION				
GDP current prices	bn leva	1112.9	1385.0	1676.5
-investments	bn leva	122.4	152.3	184.4
-consumption	bn leva	943.6	1173.4	1418.5
GDP real growth	percent	3.0%	3.5%	4.5%
-investments			2.8%	1.0%
-consumption			-2.8%	1.7%
Consumer price index				
- average	percent	29.0%	23.0%	18.0%
- end of period	percent	25.0%	21.0%	15.0%
Implicit GDP deflator	percent	23.2%	20.2%	15.8%
BALANCE OF PAYMENTS				
	ml USD			
Current account		192.1	214.5	210.4
Trade balance		599.3	636.2	685.2
exports		5209.2	5469.7	5754.1
imports		4609.9	4833.5	5068.9
Services (net)		-407.2	-421.7	-474.8
Receipts		1663.3	1764.8	1859.9
Payments		2070.5	2186.4	2334.6
of which interest due		593.0	575.1	635.1
Capital account *		191.0	145.0	-72.0
Medium and long term loans (net)		-215.0	-70.0	-293.0
disbursements		190.0	215.0	255.0
amortization due		405.0	285.0	548.0
Export credits extended (net)		278.0	20.0	21.0
Foreign direct investment		180.0	195.0	200.0
Other capital		-50.0	0.0	0.0
Official BOP support (G-25)		69.0	0.0	0.0
Overall balance		452.1	359.5	138.4
Financing		-452.1	-359.5	-138.4
Change in BNB reserves (increase -)		-359.1	-297.5	1.6
Obligations deferred*		3.0	3.0	3.0
Use of IMF credit (net)*		-96.0	-65.0	-143.0
Official reserves (incl.gold)		2156.1	2450.5	2445.9
(in months of imports)		4.3	4.6	4.3
(% of GDP)				
Current account		1.35%	1.44%	1.35%
Non-interest current account		5.52%	5.31%	5.41%

continues on next page

FISCAL SECTOR				
Domestic debt - end of 1995.				
- base interest rate	bn leva	252.4	329.0	376.1
- bad loans obligations - 1/2 base interest rate	bn leva	24.3	23.1	23.1
- bad loans obligations denominated in dolars - LIBOR	ml USD	971.1	976.8	976.8
Interest expenditures	bn leva	120.5	129.1	132.1
- internal debt	% of GDP	7.8	6.5	5.3
- external debt	% of GDP	3.0	2.8	2.6
Interest expenditures	% of GDP	10.8	9.3	7.9
Primary surplus	bn.leva	70.0	82.1	91.0
-% of GDP		6.3	5.9	5.4
Overall deficit	bn leva	50.5	47.1	41.1
-% от БВП		4.5	3.4	2.5
FINANCING				
external	bn leva	-26.1	-11.7	-19.8
internal	bn leva	76.6	58.8	60.9
-bank	bn leva	68.9	40.0	35.0
-non-bank	bn leva	7.7	7.1	6.2
MONETARY SECTOR				
Broad money	bn leva	851.1	897.6	1241.1
Net foreign assets	bn leva	-47.6	-17.9	-18.5
Net internal assets	bn leva	898.7	915.5	1259.5
Domestic credit				
Government	bn leva	396.3	436.3	471.3
Non Government	bn leva	502.4	479.2	788.2
Other assets (net)	bn leva	0.0	0.0	0.0
Base interest rate				
- average	percent	31%	25%	20%
- end of period	percent	27%	23%	17%
Interest on FX deposits	percent	7%	6%	6%
Fisher criteria		0.2	0.2	0.1
Exchange rate				
average	leva per USD	78.2	93.1	107.4
end of period	leva per USD	85.4	100.7	114.0
Reserve money	bn leva	179.2	187.1	256.1
Multiplicator		4.75	4.8	4.8
IMPLICIT FINANCIAL FLOWS				
Domestic savings	bn leva	133.5	180.0	234.7
Foreign savings	bn leva	14.9	13.5	-7.7
Current account	bn leva	-15.0	-20.0	-22.6
Investments	bn leva	-133.4	-173.5	-204.4

* IMF estimation

Macroeconomic forecast were made at the end of November 1995 and will be regularly updated.

Source: AECD, BNB, IMF, NSI

table 15

CONTENTS

I. THE BULGARIAN ECONOMY IN 1995; TRENDS AND PROSPECTS	1
1.1. THE WORLD ECONOMY IN 1995	1
1.2. THE TRANSITION ECONOMIES IN 1995	4
1.3. THE BULGARIAN ECONOMY IN 1995 MAJOR MACROECONOMIC TRENDS	8
1.4. CONCLUSIONS AND ECONOMIC PROSPECTS OVER THE 1996-1998 PERIOD	16
1.4.1. Macroeconomic Policy	16
1.4.2. Economic Prospects Over the 1996-1998 Period	20
II. DYNAMICS OF MACROECONOMIC INDICATORS INFLATION	22
2.1. INFLATION	22
2.2. INCOMES AS AN INEVITABLE NOMINAL ANCHOR	23
2.3. EXCHANGE RATE STABILITY	26
2.4. EASING THE MONETARY POLICY	28
2.5. THE STATE-OWNED SECTOR	32
2.6. THE RESCUE OF THE BANKING SYSTEM	35
2.7. PRIVATIZATION	37
III. REFORM IN THE AGRICULTURAL SECTOR	40
IV. FOREIGN TRADE RELATIONS	49
4.1. EUROPEAN INTEGRATION	49
4.1.1. The Integration of Eastern Europe	49
4.1.2. Convergence Criteria	51
4.1.3. Bulgaria and the European Union	53
4.2. THE YUGO EMBARGO	59
4.3. FOREIGN TRADE	62
4.3.1. Bulgarian trade with Western Europe	64
4.3.2. Bulgarian trade with Central and East European countries	72
V. FOREIGN INVESTMENT IN BULGARIA	78
5.1. GENERAL TRENDS IN VOLUME AND STRUCTURE	78
5.2. FACTORS INFLUENCING FOREIGN INVESTMENT IN 1995	81
5.3. FOREIGN INVESTMENT IN PRIVATIZATION PROGRAMMES	84
5.4. FOREIGN INVESTMENT IN JOINT-VENTURES	87
5.5. INVESTMENT IN THE BANKING AND FINANCIAL SPHERES	92
SUPPLEMENT	95

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